KENTUCKY RETIREMENT SYSTEMS

Annual Report June 30, 1996

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

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KENTUCKY RETIREMENT SYSTEMS
Perimeter Park West
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Frankfort, Kentucky 40601

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

Pamala S. Johnson
General Manager
Phone 502-564-4646
FAX# 502-564-5656

MEMORANDUM

TO: Members of the Board of Trustees
Frank W. Burke, Chair
Randy J. Overstreet, Vice Chair
John J. Balbach
Larry C. Conner
E. B. "Gene" Drake
John E. King
Cattie Lou Miller
Walter J. Pagan
Robert S. Peters

FROM: Pamala S. Johnson, General Manager

DATE: November 21, 1996

SUBJECT: Annual Report for Fiscal Year Ending June 30, 1996

As directed by KRS 61.645, I present the Annual Report for the fiscal year ended June 30, 1996. The four sections of the report provide financial information, actuarial information, investment information and other statistical information. Appropriate certifications from an independent accounting firm and 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 legislative personnel, state libraries and other interested parties.

Pamala S. Johnson

Pamala S. Johnson
General Manager

INTRODUCTION

by
Pamala S. Johnson, General Manager

Members of the Retirement Systems,

This report represents a full and complete disclosure of the financial and actuarial status of the Kentucky Employees Retirement System, County Employees Retirement System and State Police Retirement System.

CONTENTS

The pages that follow this introduction provide an introduction to the Board, management and organization of the retirement systems.

The **Financial Section** is an exact copy of the audit report prepared by Charles T. Mitchell Company. This report is included in accordance with Kentucky Revised Statute 61.645(12).

The **Actuarial Section** consists of copies of the actuarial report compiled by the firm of William M. Mercer, Inc., containing the information necessary to determine the adequacy of funding and the systems' liabilities is included in the same format as presented to the Board. Only detailed statistical tables were omitted for space reasons.

The **Investment Section** provides information on the retirement systems' investments. Included are portfolio summaries for the retirement systems and the Insurance Fund. Also included is a table showing performance over the past five fiscal years.

The **Statistical Section** provides statistical information on membership, types of payments selected, retirement payments, key financial and actuarial data, source and use of funds and administrative expenses during the 1995-96 fiscal year, as well as historical data in some cases.

INVESTMENTS

The rate of return for the total fund based on market value was 17.6% for the fiscal year. The rate of return includes appreciation of assets as well as interest and dividend income received throughout the year. This figure should not be confused with the indicated yield based on market value of 3.65% shown in the portfolio summary for all systems combined in the Investment Section of this report. Indicated yield projects the yield of the portfolio forward into the future. It only includes interest and dividends that are projected to be received from securities owned as of June 30, 1996. The indicated yield is calculated based on interest income projected to be received from fixed income investments during the next year and dividends projected to be received from dividend-paying stocks during the next year.

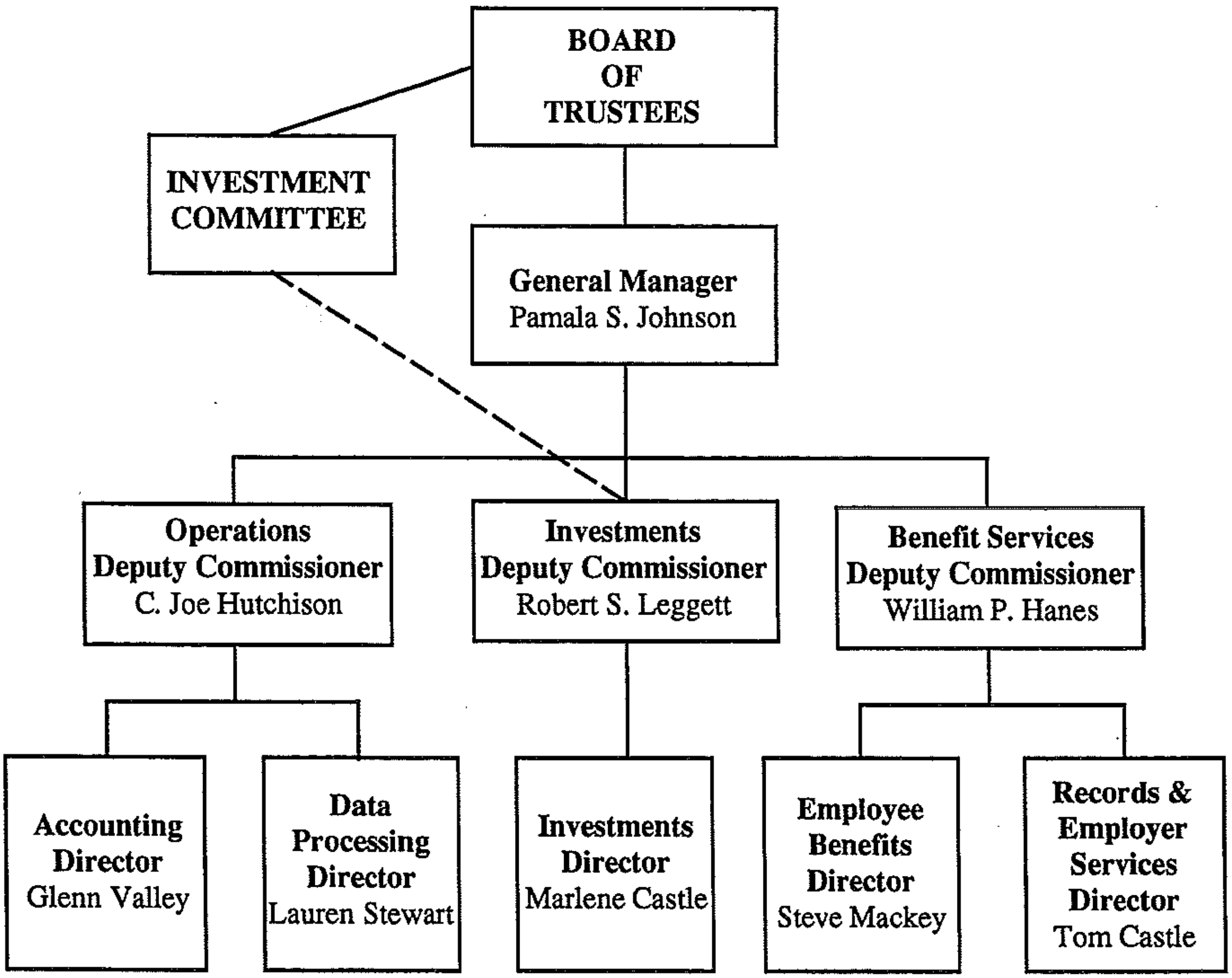
LEGISLATIVE CHANGES

The 1996 General Assembly enacted a bill to establish an automatic cost of living adjustment (COLA) for retirees and beneficiaries of the Kentucky Employees Retirement System, County Employees Retirement System and State Police Retirement System.

Senate Bill 103, sponsored by state Senator Fred Bradley, established an annual COLA based on the average increase in the Consumer Price Index for all urban consumers for the calendar year preceeding the beginning of the fiscal year, not to exceed 5%. The first COLA, a 2.8% increase, was given August 1, 1996. Each subsequent COLA will be applied July 1. The General Assembly reserved the right to suspend the COLA. The General Assembly elected to pay the actual cost of each COLA by an increase in subsequent employer contribution rates.

BOARD OF TRUSTEES

Kentucky Retirement Systems Organizational Chart



CONTRACTUAL ARRANGEMENTS

ACTUARIAL SERVICES:

William M. Mercer, Inc.
1500 Meidinger Tower
Louisville, KY 40202

ASSET MANAGEMENT:

Mercer Investment Consulting, Inc.
10 South Wacker Drive
Chicago, IL 60606

AUDITING SERVICES:

Charles T. Mitchell Company
201 West Main Street
Frankfort, KY 40601

CUSTODIAN OF SECURITIES:

Farmers Bank & Capital Trust
Farmers Bank Plaza
Frankfort, KY 40601

LEGAL SERVICES:

Stoll Keenon & Park
307 Washington Street
Frankfort, KY 40601

REAL ESTATE CONSULTANT:

Saylor Property Capital, Inc.
Five Peidmont Center, Suite 710
Atlanta, GA 30305

INVESTMENT COUNSELORS:

Alliance Capital Management
1345 Avenue of the Americas
New York, NY 10105

ANB Investment Management
One North LaSalle Street, Suite 600
Chicago, IL 60690

Heitman Advisory Corporation
180 North LaSalle Street, Suite 3600
Chicago, IL 60601

Investment Counselors of Maryland
803 Cathedral Street
Baltimore, MD 21201

Lincoln Capital Management Company
200 South Wacker Drive Suite 2100
Chicago, IL 60606

National Asset Management Corp.
101 South Fifth Street
Louisville, KY 40202

TCW Realty Advisors
865 South Figueroa Suite 1800
Los Angeles, CA 90017

The Yarmouth Group, Inc.
Swiss Bank Tower
10 East 50th Street
New York, NY 10022

Weaver C. Barksdale & Associates, Inc.
30 Burton Hills Boulevard Suite 550
Nashville, TN 37215

KENTUCKY RETIREMENT SYSTEMS

Financial Section

Annual Report June 30, 1996

FINANCIAL SECTION
INTRODUCTION

The Retirement Systems assets are held in trust for the purpose of providing retirement benefits many years in the future. Since these benefits are guaranteed by Kentucky law to each eligible participant, it is the responsibility of the Board of Trustees to see that the systems are soundly funded and that all investments, receipts, payments and expenses are fully accounted for.

To assure that proper accounting methods are being used, the Board generally contracts with a private accounting firm to perform an independent audit of the assets and liabilities of the three systems. The audit for the fiscal year ended June 30, 1996, was performed by the firm of Charles T. Mitchell Co.

The Retirement Systems elected to implement the provisions of Governmental Accounting Standards Board (GASB) Statement No. 25, "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans," in the 1996 audit. These provisions necessitated a change from reporting investments at "book value" to reporting certain investments at "fair value." This change results in a significant increase in the value of assets on June 30, 1996.

In addition to the annual audit, other procedures are employed to insure the safety of the systems' assets. Each year a surprise audit is conducted by the internal auditor of the securities' custodian. Adequate bonding arrangements are in force for those individuals who have access to securities, and the General Manager is under a special fidelity bond. A plan is in place and tested regularly to ensure that the systems assets are protected and programs can be continued in the event of natural disasters.

An exact copy of the audit opinion of Charles T. Mitchell Co., follows along with copies of the audited financial statements and accompanying notes. The financial statements were completed in accordance with the requirements set forth in the National Council on Government Accounting, Statement 1, as adopted in Statement 1 of the Governmental Accounting Standards Board. This statement requires that financial statements be presented on an accrual basis and stipulates that certain disclosures be included in the notes to financial statements.

KENTUCKY EMPLOYEES RETIREMENT SYSTEM,
COUNTY EMPLOYEES RETIREMENT SYSTEM,
STATE POLICE RETIREMENT SYSTEM, AND
KENTUCKY RETIREMENT SYSTEMS
INSURANCE FUND

AUDITED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS
June 30, 1996

Charles T. Mitchell Company
Certified Public Accountants
201 WEST MAIN, P.O. BOX 698
FRANKFORT, KENTUCKY 40601
TELEPHONE - (502) 227-7395
TELECOPIER - (502) 227-8005

CTM

DON C. GILES, C.P.A.
WILLIAM G. JOHNSON, JR., C.P.A.
LARRY T. WILLIAMS, C.P.A.
JAMES CLOUSE, C.P.A.
CHARLES F. WHELAN, C.P.A.

CHARLES T. MITCHELL, C.P.A.
CONSULTANT

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Kentucky Employees Retirement System
Frankfort, Kentucky

We have audited the accompanying statement of net plan assets of the Kentucky Employees Retirement System, a component unit of the Commonwealth of Kentucky, as of June 30, 1996 and the statement of changes in net plan assets for the year then ended. These component unit financial statements are the responsibility of the Kentucky Employees Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kentucky Employees Retirement System, at June 30, 1996, and the changes in its net plan assets for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note C to the financial statements, the System implemented Governmental Accounting Standards Board Statement No.25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans."

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedules of funding progress and employeer contributions, included on pages 10 through 12 and the footnotes thereto on page 13, are supplemental disclosures under Governmental Accounting 'Standards Board statement No. 25. This supplementary information is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Charles T. Mitchell Co.
September 14, 1996

KENTUCKY EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF NET PLAN ASSETS
June 30, 1996

	Hazardous Employees	Non-Hazardous Employees	1996 Total
ASSETS			
Cash and short-term investments			
Cash	$ 11,413	$ 420,681	$ 432,094
Short-term investments	32,072,063	369,520,814	401,592,877
Total cash and short-term investments	32,083,476	369,941,495	402,024,971
Receivables			
Investments - accounts receivable	889,582	24,323,595	25,213,177
Interest receivable	351,582	14,890,012	15,241,594
Accounts receivable	1,492,026	12,806,443	14,298,469
Total receivables	2,733,190	52,020,050	54,753,240
Investments at fair value			
Corporate and government bonds	16,072,829	808,759,754	824,832,583
Common stocks	86,396,933	2,095,902,257	2,182,299,190
Mortgages	4,447,423	208,301,694	212,749,117
Real estate	7,404,341	177,838,361	185,242,702
Total investments at fair value	114,321,526	3,290,802,066	3,405,123,592
Total assets	149,138,192	3,712,763,611	3,861,901,803
LIABILITIES			
Investment - accounts payable	5,043,423	191,228,468	196,271,891
Accounts payable	692,135	7,490,495	8,182,630
Total liabilities	5,735,558	198,718,963	204,454,521
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$143,402,634	$3,514,044,648	$3,657,447,282

(A schedule of funding progress for each plan is presented on pages 10 and 11.)

The accompanying notes are an integral part of these financial statements.

KENTUCKY EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF CHANGES IN NET PLAN ASSETS
For the Year Ended June 30, 1996

	Hazardous Employees	Non-Hazardous Employees	Total
ADDITIONS			
Contributions			
Employer	$ 14,420,406	$ 99,296,569	$ 113,716,975
Member	6,018,572	62,914,448	68,933,020
Total contributions	20,438,978	162,211,017	182,649,995
Investment income			
Net appreciation in fair value of investments	34,061,650	1,008,944,726	1,043,006,376
Interest	2,812,753	83,479,751	86,292,504
Dividends	1,810,074	45,132,092	46,942,166
Real estate operating income (net)	457,972	10,026,323	10,484,295
Investment income	39,142,449	1,147,582,892	1,186,725,341
Less investment expense	431,420	12,398,826	12,830,246
Net investment income	38,711,029	1,135,184,066	1,173,895,095
Total additions	59,150,007	1,297,395,083	1,356,545,090
DEDUCTIONS			
Benefit payments	2,863,903	155,542,681	158,406,584
Refunds	875,997	6,608,852	7,484,849
Administrative expenses	155,708	2,128,109	2,283,817
Other deductions (net)	5,935,196	36,688,569	42,623,765
Total deductions	9,830,804	200,968,211	210,799,015
Net increase	49,319,203	1,096,426,872	1,145,746,075
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS			
Beginning of year	94,802,757	2,447,885,584	2,542,688,341
Adjustments to net assets	(719,326)	(30,267,808)	(30,987,134)
End of year	$143,402,634	$3,514,044,648	$3,657,447,282

The accompanying notes are an integral part of these financial statements.

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

NOTE A. Summary of Significant Accounting Policies

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

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

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

The System was created by the Kentucky General Assembly pursuant to the provisions of KRS 61.515. The System's administrative budget and employer contribution rates are subject to approval by the Kentucky General Assembly. Employee contribution rates are set by statute and may be changed only by the Kentucky General Assembly.

Expense Allocation - The System, the County Employees Retirement System, and the State Police Retirement System are collectively administered by the Kentucky Retirement Systems. Administrative and investment expenses of the Kentucky Retirement Systems are allocated in proportion to the number of active members participating in each plan and the carrying value of plan investments, respectively.

NOTE B. Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at June 30, 1996, the date of the latest actuarial valuation:

Number of Members	Non-Hazardous Position Employees	Hazardous Position Employees	Total
Retirees and beneficiaries receiving benefits	19,468	502	19,970
Terminated plan members - vested	2,416	68	2,484
Terminated plan members - non-vested	8,901	321	9,222
Active plan members	47,145	3,452	50,597
Total	77,930	4,343	82,273
Number of participating employers			354

NOTE B. Plan Descriptions and Contribution Information (Continued)

Non-Hazardous Employees Pension Plan

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

Contributions - For the year ended June 30, 1996, plan members were required to contribute 5% of their annual creditable compensation. The State was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the year ended June 30, 1996, the State contributed 8.56% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 1996 was 8.75% of creditable compensation. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

Hazardous Employees Pension Plan

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

Contributions - For the year ended June 30, 1996, plan members were required to contribute 7% of their annual creditable compensation. The State was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the year ended June 30, 1996, the State contributed 17.97% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 1996 was 18.05% of creditable compensation. Administrative costs of Kentucky Retirement Systems are financed through employer contributions and investment earnings.

NOTE C. Change in Accounting Principles

During 1996, the System elected an early adoption of the provisions of Governmental Accounting Standards Board Statement No. 25, "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans." The provisions of this statement require restatement of prior year balance for the effect of changing from reporting certain investments at amortized cost to reporting investments at fair value. The effect of the change in accounting principles on the beginning net assets held in trust for pension benefits for System as previously reported was a decrease of $30,987,134.

NOTE D. Cash and Short-Term Investments

During 1996, the System elected an early adoption of the provisions of Governmental Accounting Standards Board Statement No. 28, "Accounting and Financial Reporting for Securities Lending Transactions." The provisions of this statement require that cash received as collateral on securities lending transactions and investments made with that cash be reported as assets on the financial statements. In conjunction with the adoption of Governmental Accounting Standard No. 28, the System has reclassified certain other investments, not related to the securities lending program, as short-term. Cash and short-term investments consist of the following:

Cash collateral	$ 432,075
Miscellaneous cash	19
Repurchase agreements purchased with cash collateral	84,136,277
Other repurchase agreements	317,456,600
Total	$402,024,971

NOTE E. Investments

The Board of Trustees of the System give priority to the investment of funds in obligations considered to improve the industrial development and enhance the economic welfare of the Commonwealth. The Board enters into contracts with investment managers who use the following guidelines and restrictions in the selection and timing of transactions as long as the security is not prohibited by the Kentucky Revised Statutes.

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

Fixed Income Investments - Publicly traded bonds are to be selected and managed to assure an appropriate balance in quality and maturities consistent with the current market and economic conditions. Investment may be made in any debt instrument issues by the U.S. Government or an agency of the U.S. Government.

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

Equity Real Estate - Investments may be made for the purpose of creating a diversified portfolio of income-producing properties with moderate to low levels of risk.

Mutual Fund Investments - Investments may be made in mutual funds which hold common stocks or fixed income securities.

Cash Equivalent Securities - The following short-term investment vehicles, excluding commercial paper which requires specific purchase approval by the Investment Committee of Kentucky Retirement Systems, are considered acceptable:

- Securities Purchased Under Agreement to Resell - Repurchase agreements which are collateralized by U.S. Government securities.
- U.S. Government Issues - All obligations of the U.S. Government and its agencies.

NOTE E. Investments (Continued)

The System's investments are categorized below to give an indication of the level of risk assumed by the System at June 30, 1996. Category 1 includes investments that are either insured or registered or for which the investments are held by The System or its agent in the System's name. Category 2 included uninsured and unregistered investments that are held by the broker's or dealer's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the System's name. There were no Category 3 investments held by the System.

Investments - Categorized	Category 1	Category 2	Carrying Amount	Market Value
U.S. Government Securities:				
Not on securities loan	$ 455,881,846	$	$ 456,641,483	$ 455,881,846
Loaned for securities collateral	8,424,666		8,424,666	8,424,666
Corporate bonds	284,676,071		281,928,944	284,676,071
Corporate stocks	2,182,299,190		1,299,041,758	2,182,299,190
Mortgages	212,749,117		209,264,316	212,749,117
Repurchase agreements		317,456,600	317,456,600	317,456,600
Subtotal	$3,144,030,890	$317,456,600	$2,572,757,767	$3,461,487,490
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities			70,030,704	70,030,704
Corporate bonds			5,819,297	5,819,297
Repurchase Agreements			84,136,277	84,136,277
Real Estate Investment			211,588,625	185,242,701
Total Investments			$2,944,332,670	$3,806,716,469

NOTE F. Securities Lending Transactions

Kentucky Revised Statute Section 61.650 and 386.020(2) permit the System to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The System's custodial bank lends securities of the type on loan at year-end for collateral in the form of cash or other securities of 102 percent. Securities lent for cash collateral are presented as unclassified above in the schedule of custodial credit risk; securities lent for securities collateral are classified according to the category for the collateral. At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The contract with the System's custodial bank requires it to indemnify the System as follows:

- If the bank fails to make a reasonable determination of the creditworthiness of any borrower to whom loans are made and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with either (i) securities identical to the loaned securities, or (ii) cash, in an amount equal to the market value of the loaned securities on the business day such securities or cash is credited to the account, and shall credit the account with all monies and other distributions paid upon such loaned securities (or the cash equivalent thereof) which are not returned by such borrower.

NOTE F. Securities Lending Transactions (Continued)

- If the bank makes a reasonable determination of the creditworthiness of any borrower to whom loans are made but fails to properly perform its mark-to-market obligations and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with securities identical to loaned securities or cash, in an amount equal to the sum of (i) the difference between the amount of the collateral the bank should have received pursuant to the securities borrowing agreement and the amount of collateral actually received, (ii) five percent of the market value of the loaned securities on the business day such securities or cash is credited to the account, and (iii) all monies and other distributions paid upon such loaned securities (or cash equivalent thereof) which are not returned by such borrower.

- If the bank makes a reasonable determination of the creditworthiness of any borrower to whom loans are made and properly performs its mark-to-market obligations hereunder and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with securities identical to loaned securities or cash, in an amount equal to the sum of (i) five percent of the market value of the loaned securities on the business day such securities or cash is credited to the account, and (ii) all monies and other distributions paid upon such loaned securities (or the cash equivalent thereof) which are not returned by the borrower.

All securities loans can be terminated on demand by either the System or the borrower, although the average term of the loans is one day. Cash collateral is invested in securities which are permitted for investment by state statute and Board policy, which at year-end has a weighted-average maturity of ten days for its regular account and forty days for its index account. The System cannot pledge or sell collateral securities received unless the borrower defaults.

NOTE G. Risks of Loss

The System is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Under the provisions of the Kentucky Revised Statutes, the Kentucky Board of Claims is vested with full power and authority to investigate, hear proof, and to compensate persons for damages sustained to either person or property as a result of negligence of the agency or any of its employees. Awards are limited to $100,000 for a single claim and $250,000 in aggregate per occurrence. Awards and a pro rata share of the operating cost of the Board of Claims are paid from the fund of the agency having a claim or claims before the Board.

Claims against the Board of Trustees of Kentucky Retirement Systems or any of its staff as result of actual or alleged breach of fiduciary duty are insured with a commercial insurance policy. Coverage provided is limited to $5,000,000 with a deductible amount of $25,000. Defense costs incurred in defending such claims will be paid by the insurance company. However, the total defense cost and claims paid shall not exceed the total aggregate coverage of the policy.

Claims for job-related illnesses or injuries to employees are insured by the state's self-insured workers compensation program. Payments approved by the program are not subject to maximum limitations. A claimant may receive reimbursement for all medical expenses related to the illness or injury and up to sixty-six and two-thirds percent (66⅔%) of wages for temporary disability. Each agency pays premiums based on three years' claims experience and number of covered employees. Claims experience is weighted seventy percent (70%) and number of employees is weighted thirty percent (30%). Expectations of current and future obligations are also factored into the premium calculations.

Only claims pertaining to workers' compensation have been filed during the past three fiscal years. There were no claims which were appealed to the Kentucky Workers Compensation Board.

NOTE H. Contingencies

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

NOTE I. 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 income tax law.

Non-Hazardous	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)
June 30, 1991	$ 1,872,900,026	$ 2,240,157,219	$ 367,257,193
June 30, 1992**	2,293,534,024	2,458,102,471	164,568,447
June 30, 1993	2,508,761,584	2,619,150,115	110,388,531
June 30, 1994	2,637,660,362	2,809,545,625	171,885,263
June 30, 1995	2,872,020,193	3,112,989,384	240,969,191
June 30, 1996	3,237,983,129	3,295,362,361	57,379,232
Hazardous			
June 30, 1991	$ 40,314,905	$ 48,453,928	$ 8,139,023
June 30, 1992**	60,948,297	67,088,459	6,140,162
June 30, 1993	76,447,953	84,620,961	8,173,008
June 30, 1994	91,388,625	102,504,650	11,116,025
June 30, 1995	111,793,345	127,862,904	16,069,559
June 30, 1996	137,312,448	120,042,122	(17,270,326)

** Asset valuation method was changed from book value to a five-year average of market to book values - June 30, 1992 valuation.

Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
0.836	$ 967,501,340	0.380
0.933	1,069,968,940	0.154
0.958	1,079,322,020	0.102
0.939	1,121,481,440	0.153
0.923	1,231,383,460	0.196
0.983	1,232,974,460	0.047

0.832	$ 63,857,657	0.128
0.909	71,781,200	0.086
0.903	80,655,200	0.101
0.892	75,686,614	0.147
0.874	88,657,986	0.181
1.144	85,933,543	(0.201)

EMPLOYER CONTRIBUTIONS

NON-HAZARDOUS

Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 1991	$ 72,078,850	$ 67,992,196	0.943
June 30, 1992	81,852,624	76,840,839	0.939
June 30, 1993	93,469,287	80,122,545	0.857
June 30, 1994	97,120,293	80,936,678	0.833
June 30, 1995	105,406,424	93,882,993	0.891
June 30, 1996	107,885,265	99,296,569	0.920

HAZARDOUS

Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 1991	$ 9,367,918	$ 9,277,504	0.990
June 30, 1992	10,803,071	10,421,095	0.965
June 30, 1993	14,154,988	10,445,950	0.738
June 30, 1994	13,517,451	10,600,435	0.784
June 30, 1995	15,931,840	13,698,600	0.860
June 30, 1996	15,511,004	14,420,406	0.930

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

	Non-Hazardous	Hazardous
Valuation Date	June 30, 1996	June 30, 1996
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Closed	Level Percent Closed
Amortization Period - Each Benefit Improvement	30 years - Commencing with 1990 Valuation	30 years - Commencing with 1990 Valuation
Actuarial Assumptions:		
Investment Return	8.25%	8.25%
Projected Salary Increases	6.50%	6.50%

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
County Employees Retirement System
Frankfort, Kentucky

We have audited the accompanying statements of net plan assets of the County Employees Retirement System, a component unit of the Commonwealth of Kentucky, as of June 30, 1996 and the statement of changes in net plan assets for the year then ended. These component unit financial statements are the responsibility of the County Employees Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the County Employees Retirement System, at June 30, 1996, and the changes in its net plan assets for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note C to the financial statements, the System implemented Governmental Accounting Standards Board Statement No.25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans."

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedules of funding progress and employeer contributions, included on pages 23 through 25 and the footnotes thereto on page 26, are supplemental disclosures under Governmental Accounting Standards Board Statement No. 25. This supplementary information is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Charles T. Mitchell Co.
September 14, 1996

COUNTY EMPLOYEES RETIREMENT SYSTEM
STATEMENTS OF NET PLAN ASSETS
June 30, 1996

	Hazardous Employees	Non-Hazardous Employees	1996 Total
ASSETS			
Cash and short-term investments			
Cash	$ 63,159	$ 194,248	$ 257,407
Short-term investments	106,388,817	385,171,136	491,559,953
Total cash and short-term investments	106,451,976	385,365,384	491,817,360
Receivables			
Investments - accounts receivable	4,651,627	16,314,612	20,966,239
Interest receivable - year end	1,925,908	6,244,953	8,170,861
Accounts receivable - year end	5,612,688	18,859,357	24,472,045
Accounts receivable - alternate plan	4,112,315	4,863,504	8,975,819
A/R - alternate plan - year end	282,960	324,375	607,335
Total receivables	16,585,498	46,606,801	63,192,299
Investments at fair value			
Bonds	88,920,374	273,222,092	362,142,466
Common stocks	456,124,114	1,639,717,615	2,095,841,729
Mortgages	25,797,074	81,390,663	107,187,737
Real estate	35,870,238	119,030,639	154,900,877
Total investments at fair value	606,711,800	2,113,361,009	2,720,072,809
Total assets	729,749,274	2,545,333,194	3,275,082,468
LIABILITIES			
Investment - accounts payable	28,508,921	88,415,960	116,924,881
Accounts payable	1,511,746	4,971,755	6,483,501
Total liabilities	30,020,667	93,387,715	123,408,382
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$699,728,607	$2,451,945,479	$3,151,674,086

(A schedule of funding progress for each plan is presented on pages 23 and 24.)

The accompanying notes are an integral part of these financial statements.

COUNTY EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF CHANGES IN NET PLAN ASSETS
For the Year Ended June 30, 1996

	Hazardous Employees	Non-Hazardous Employees	Total
ADDITIONS			
Contributions			
Employer	$ 35,951,348	$ 95,660,478	$ 131,611,826
Member	14,855,633	57,702,044	72,557,677
Total contributions	50,806,981	153,362,522	204,169,503
Investment income			
Net appreciation in fair value of investments	192,603,233	707,162,428	899,765,661
Interest	13,513,968	44,746,256	58,260,224
Dividends	9,828,958	34,929,987	44,758,945
Real estate operating income (net)	2,093,876	6,855,703	8,949,579
Investment income	218,040,035	793,694,374	1,011,734,409
Less investment expense	2,385,784	8,441,531	10,827,315
Net investment income	215,654,251	785,252,843	1,000,907,094
Total additions	266,461,232	938,615,365	1,205,076,597
DEDUCTIONS			
Benefit payments	29,625,883	79,455,516	109,081,399
Refunds	968,999	7,975,454	8,944,453
Administrative expense	272,161	2,945,029	3,217,190
Other deductions (net)	12,382,174	25,240,005	37,622,179
Total deductions	43,249,217	115,616,004	158,865,221
Net increase	223,212,015	822,999,361	1,046,211,376
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS			
Beginning of year	478,924,330	1,643,982,397	2,122,906,727
Adjustment to net assets	(2,407,738)	(15,036,279)	(17,444,017)
End of year	$699,728,607	$2,451,945,479	$3,151,674,086

The accompanying notes are an integral part of these financial statements.

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

NOTE A. Summary of Significant Accounting Policies

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

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

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

Expense Allocation - The System, the Kentucky Employees Retirement System, and the State Police Retirement System are collectively administered by the Kentucky Retirement Systems. Administrative and investment expenses of the Kentucky Retirement Systems are allocated in proportion to the number of active members participating in each plan and the carrying value of plan investments, respectively.

NOTE B. Plan Descriptions and Contribution Information

Membership of each plan consisted of the following at June 30, 1996, the date of the latest actuarial valuation:

Number of Members	Non-Hazardous Position Employees	Hazardous Position Employees	Total
Retirees and beneficiaries receiving benefits	16,208	1,961	18,169
Terminated plan members - vested	2,254	85	2,339
Terminated plan members - non-vested	13,519	220	13,739
Active plan members	66,273	6,281	72,554
Total	98,254	8,547	106,801
Number of participating employers			1,012

Non-Hazardous Employees Pension Plan

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

Contributions - For the year ended June 30, 1996, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 1996, participating employers contributed 8.94% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 1996 was 8.94% of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

Hazardous Employees Pension Plan

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

Contributions - For the year ended June 30, 1996, plan members were required to contribute 7% of their annual creditable compensation. The State was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 1996, participating employers contributed 18.21% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 1996 was 18.21% of creditable compensation. Administrative costs of KRS are financed through employer contributions and investment earnings.

NOTE C. Change in Accounting Principles

During 1996, the System elected an early adoption of the provisions of Government Auditing Standards Board Statement No. 25, "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans." The provisions of this statement require restatement of prior year balance for the effect of changing from reporting certain investments at fair value. The effect of the change in accounting principle on the beginning net assets held in trust for pension benefits for System as previously reported was a decrease of $17,444,017.

NOTE D. Cash and Short-Term Investments

During 1996, the System elected an early adoption of the provisions of Governmental Accounting Standards Board Statement No. 28, "Accounting and Financial Reporting for Securities Lending Transactions." The provisions of this statement require that cash received as collateral on securities lending transactions and investments made with that cash be reported as assets on the financial statements. In conjunction with the adoption of Governmental Accounting Standard No. 28, the System has reclassified certain other investments, not related to the securities lending program, as short-term. Cash and short-term investments consist of the following:

Cash collateral	$ 257,407
Repurchase agreements purchased with cash collateral	50,123,815
Other repurchase agreements	441,436,138
Total	$491,817,360

NOTE E. Investments

The Board of Trustees of the System give priority to the investment of funds in obligations considered to improve the industrial development and enhance the economic welfare of the Commonwealth. The Board enters into contracts with investment managers who use the following guidelines and restrictions in the selection and timing of transactions as long as the security is not prohibited by the Kentucky Revised Statutes.

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

Fixed Income Investments - Publicly traded bonds are to be selected and managed to assure an appropriate balance in quality and maturities consistent with the current market and economic conditions. Investment may be made in any debt instrument issues by the U.S. Government or an agency of the U.S. Government.

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

Equity Real Estate - Investments may be made for the purpose of creating a diversified portfolio of income-producing properties with moderate to low levels of risk.

Mutual Fund Investments - Investments may be made in mutual funds which hold common stocks or fixed income securities.

Cash Equivalent Securities - The following short-term investment vehicles, excluding commercial paper which requires specific purchase approval by the Investment Committee of Kentucky Retirement Systems, are considered acceptable:

- Securities Purchased Under Agreement to Resell - Repurchase agreements which are collateralized by U.S. Government securities.

- U.S. Government Issues - All obligations of the U.S. Government and its agencies.

Investments (Continued)

The System's investments are categorized below to give an indication of the level of risk assumed by the System at June 30, 1995. Category 1 includes investments that are either insured or registered or for which the investments are held by The System or its agent in the System's name. Category 2 included uninsured and unregistered investments that are held by the broker's or dealer's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the System's name. There were no Category 3 investments held by the System.

Investments - Categorized	Category 1	Category 2	Carrying Amount	Market Value
U.S. Government Securities:				
Not on securities loan	$ 185,061,442	$	$ 185,205,254	$ 185,061,442
Loaned for securities collateral	3,494,967		3,494,967	3,494,967
Corporate bonds	128,398,755		127,528,388	128,398,755
Corporate stocks	2,095,841,728		1,343,293,198	2,095,841,728
Mortgages	107,187,737		104,169,527	107,187,737
Repurchase agreements		441,436,138	441,436,138	441,436,138
Subtotal	$2,519,984,629	$441,436,138	$2,205,127,472	$2,961,420,767
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities			41,720,482	41,720,482
Corporate bonds			3,466,820	3,466,820
Repurchase agreements			50,123,815	50,123,815
Real estate investments			172,835,706	154,900,878
Total Investments			$2,473,274,295	$3,211,632,762

NOTE F. Securities Lending Transactions

Kentucky Revised Statute Sections 61.650 and 386.020(2) permit the System to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The System's custodial bank lends securities of the type on loan at year-end for collateral in the form of cash or other securities of 100 percent. Securities lent for cash collateral are presented as unclassified on the preceding page in the schedule of custodial credit risk; securities lent for securities collateral are classified according to the category for the collateral. At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The contract with the System's custodial bank requires it to indemnify the System as follows:

- If the bank fails to make a reasonable determination of the creditworthiness of any borrower to whom loans are made and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with either (i) securities identical to the loaned securities, or (ii) cash, in an amount equal to the market value of the loaned securities on the business day such securities or cash is credited to the account, and shall credit the account with all monies and other distributions paid upon such loaned securities (or the cash equivalent thereof) which are not returned by such borrower.

NOTE F. Securities Lending Transactions (Continued)

- If the bank makes a reasonable determination of the creditworthiness of any borrower to whom loans are made but fails to properly perform its mark-to-market obligations and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with securities identical to loaned securities or cash, in an amount equal to the sum of (i) the difference between the amount of the collateral the bank should have received pursuant to the securities borrowing agreement and the amount of collateral actually received, (ii) five percent of the market value of the loaned securities on the business day such securities or cash is credited to the account, and (iii) all monies and other distributions paid upon such loaned securities (or cash equivalent thereof) which are not returned by such borrower.

- If the bank makes a reasonable determination of the creditworthiness of any borrower to whom loans are made and properly performs its mark-to-market obligations hereunder and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with securities identical to loaned securities or cash, in an amount equal to the sum of (i) five percent of the market value of the loaned securities on the business day such securities or cash is credited to the account, and (ii) all monies and other distributions pain upon such loaned securities (or the cash equivalent thereof) which are not returned by the borrower.

All securities loans can be terminated on demand by either the System or the borrower, although the average term of the loans is one day. Cash collateral is invested in securities which are permitted for investment by state statute and Board policy, which at year-end has a weighted-average maturity of ten days for its regular account and forty days for its index account. The System cannot pledge or sell collateral securities received unless the borrower defaults.

NOTE G. Risks of Loss

The System is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Under the provisions of the Kentucky Revised Statutes, the Kentucky Board of Claims is vested with full power and authority to investigate, hear proof, and to compensate persons for damages sustained to either person or property as a result of negligence of the agency or any of its employees. Awards are limited to $100,000 for a single claim and $250,000 in aggregate per occurrence. Awards and a pro rata share of the operating cost of the Board of Claims are paid from the fund of the agency having a claim or claims before the Board.

Claims against the Board of Trustees of Kentucky Retirement Systems or any of its staff as result of actual or alleged breach of fiduciary duty are insured with a commercial insurance policy. Coverage provided is limited to $5,000,000 with a deductible amount of $25,000. Defense costs incurred in defending such claims will be paid by the insurance company. However, the total defense cost and claims paid shall not exceed the total aggregate coverage of the policy.

Claims for job-related illnesses or injuries to employees are insured by the state's self-insured workers compensation program. Payments approved by the program are not subject to maximum limitations. A claimant may receive reimbursement for all medical expenses related to the illness or injury and up to sixty-six and two-thirds percent (66⅔%) of wages for temporary disability. Each agency pays premiums based on three years' claims experience and number of covered employees. Claims experience is weighted seventy percent (70%) and number of employees is weighted thirty percent (30%). Expectations of current and future obligations are also factored into the premium calculations.

Only claims pertaining to workers' compensation have been filed during the past three fiscal years. There were no claims which were appealed to the Kentucky Workers Compensation Board.

NOTE H. Contingencies

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

NOTE I. 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 income tax law.

Non-Hazardous	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)
June 30, 1991	$ 1,066,228,951	$ 1,223,941,294	$ 157,712,343
June 30, 1992**	1,349,505,389	1,386,316,882	36,811,493
June 30, 1993	1,549,218,273	1,558,370,044	9,151,771
June 30, 1994	1,680,890,826	1,748,933,823	68,042,997
June 30, 1995	1,901,448,617	1,935,154,223	33,705,606
June 30, 1996	2,237,808,033	2,083,374,317	(154,433,716)
Hazardous			
June 30, 1991	$ 329,998,054	$ 430,397,412	$ 100,399,358
June 30, 1992**	385,533,519	475,661,521	90,128,002
June 30, 1993	436,462,436	521,560,003	85,097,567
June 30, 1994	492,463,946	581,410,418	88,946,472
June 30, 1995	552,679,443	668,421,698	115,742,255
June 30, 1996	642,220,505	694,942,156	52,721,651

** Asset valuation method was changed from book value to a five-year average of market to book values - June 30, 1992 valuation.

Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
0.871	$ 805,043,800	0.196
0.973	967,040,640	0.038
0.994	1,107,476,940	0.008
0.961	1,050,987,720	0.065
0.983	1,167,668,400	0.029
1.074	1,137,192,560	(0.136)
0.767	$ 139,653,414	0.719
0.811	149,474,543	0.603
0.837	170,391,529	0.499
0.847	183,410,686	0.485
0.827	205,738,571	0.563
0.924	211,638,457	0.249

EMPLOYER CONTRIBUTIONS

NON-HAZARDOUS

Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 1991	$ 51,120,281	$ 56,861,267	1.112
June 30, 1992	76,879,731	66,844,437	0.870
June 30, 1993	97,679,466	86,394,130	0.885
June 30, 1994	92,697,117	83,583,039	0.902
June 30, 1995	102,404,519	88,922,215	0.868
June 30, 1996	101,665,015	95,660,478	0.941

HAZARDOUS

Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 1991	$ 20,948,012	$ 20,542,002	0.981
June 30, 1992	24,065,401	22,305,069	0.927
June 30, 1993	31,471,315	28,836,513	0.916
June 30, 1994	33,912,636	30,576,794	0.902
June 30, 1995	37,691,306	32,959,064	0.874
June 30, 1996	38,539,363	35,951,348	0.933

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

	Non-Hazardous	Hazardous
Valuation Date	June 30, 1996	June 30, 1996
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent Closed	Level Percent Closed
Amortization Period - Each Benefit Improvement	30 years - Commencing with 1990 Valuation	30 years - Commencing with 1990 Valuation
Asset Valuation Method -	Five-year Average of Market to Book Value	Five-year Average of Market to Book Value
Actuarial Assumptions:		
Investment Return	8.25%	8.25%
Projected Salary Increases	6.50%	6.50%

Charles T. Mitchell Company

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CHARLES T. MITCHELL, C.P.A.
CONSULTANT

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
State Police Retirement System
Frankfort, Kentucky

We have audited the accompanying statements of net plan assets of the State Police Retirement System, a component unit of the Commonwealth of Kentucky, as of June 30, 1996 and the statement of changes in net plan assets for the year then ended. These component unit financial statements are the responsibility of the State Police Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State Police Retirement System, at June 30, 1996, and the statements of net plan assets and changes in net plan assets for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 4 to the financial statements, the Systems implemented Governmental Accounting Standards Board Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans."

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedules of funding progress and employeer contributions, included on pages 35 and 16 are supplemental disclosures under Governmental Accounting Standards Board Statement No. 25. This supplementary information is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Charles T. Mitchell Co.

September 14, 1996

STATE POLICE RETIREMENT SYSTEM
STATEMENTS OF NET PLAN ASSETS
June 30, 1996

	ASSETS
Cash and short-term investments	
Cash	$ 29,419
Short-term investments	18,898,377
Total cash and short-term investments	18,927,796
Receivables	
Investments - accounts receivable	1,744,090
Interest receivable - year end	1,119,198
Accounts receivable - year end	648,501
Total receivables	3,511,789
Investments at fair value	
Bonds	60,036,971
Common stocks	161,056,990
Mortgages	15,361,415
Real estate	12,761,606
Total investments	249,216,982
Total assets	271,656,567
LIABILITIES	
Investment - accounts payable	13,426,091
Accounts payable	431,495
Total liabilities	13,857,586
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$257,798,981

(A schedule of funding progress for each plan is presented on page 35.)

The accompanying notes are an integral part of these financial statements.

STATE POLICE RETIREMENT SYSTEM
STATEMENT OF CHANGES IN NET PLAN ASSETS
For the Year Ended June 30, 1996

ADDITIONS	
Contributions	
Employer	$ 7,089,072
Member	2,456,616
Total contributions	9,545,688
Investment income	
Net appreciation in fair value of investments	80,696,257
Interest	5,803,169
Dividends	3,530,514
Real estate operating income (net)	713,612
Investment income	90,743,552
Less investment expense	867,903
Net investment income	89,875,649
Total additions	99,421,337
DEDUCTIONS	
Benefit payments	13,710,726
Refunds	30,541
Administrative expense	44,363
Other deductions (net)	4,606,294
Total deductions	18,391,924
Net increase	81,029,413
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
Beginning of year	180,382,514
Adjustment to net assets	(3,612,946)
End of year	$257,798,981

The accompanying notes are an integral part of these financial statements.

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

A. Summary of Significant Accounting Policies

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

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

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

The System was created by the Kentucky General Assembly pursuant to the provisions of KRS 61.515. The System's administrative budget and employer contribution rates are subject to approval by the Kentucky General Assembly. Employee contribution rates are set by the statute and may be changed only by the Kentucky General Assembly.

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

B. Plan Description and Contribution Information

Membership of the plan consisted of the following at June 30, 1996, the date of the latest actuarial valuation:

Number of Members	Hazardous Position Employees
Retirees and beneficiaries receiving benefits	625
Terminated plan members - vested	8
Terminated plan members - non-vested	72
Active plan members	1,002
Total	1,707
Number of participating employers	1

State Police Retirement System

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

B. Plan Description and Contribution Information (Continued)

State Police Retirement System (Continued)

Contributions - For the year ended June 30, 1996, plan members were required to contribute 7% of their annual creditable compensation. The State was required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. For the year ended June 30, 1996, the State contributed 21.78% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 1996 was 23.05% of creditable compensation. Administrative costs of Kentucky Retirement System are financed through employer contributions and investment earnings.

NOTE C. Change in Accounting Principles

During 1996, the System elected to an early adoption of the provisions of Governmental Accounting Standards Board Statement No. 25, "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans." The provisions of this statement require restatement of prior year balance for the effect of changing from reporting certain investments at amortized cost to reporting investments at fair value. The effect of the change in accounting principle on the beginning net assets held in trust for pension benefits for System or previously reported was a decrease of $3,612,946.

NOTE D. Cash and Short-Term Investments

During 1996, the System elected an early adoption of the provisions of Governmental Accounting Standards Board Statement No. 28, "Accounting and Financial Reporting for Securities Lending Transactions." The provisions of the statement require that cash received as collateral on securities lending transactions and investments made with that cash be reported as assets an the financial statements. In conjunction with the adoption of Governmental Accounting Standard No. 28, the System has reclassified certain other investments, not related to the securities lending program, as short-term. Cash and short-term investments consist of the following:

Cash collateral	$ 29,419
Repurchase agreements purchased with cash collateral	5,728,667
Other repurchase agreements	13,169,710
Total	$18,927,796

NOTE E. Investments

The Board of Trustees of the System give priority to the investment of funds in obligations considered to improve the industrial development and enhance the economic welfare of the Commonwealth. The Board enters into contracts with investment managers who use the following guidelines and restrictions in the selection and timing of transactions as long as the security is not prohibited by the Kentucky Revised Statutes.

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

Investments (Continued)

Fixed Income Investments - Publicly traded bonds are to be selected and managed to assure an appropriate balance in quality and maturities consistent with the current market and economic conditions. Investment may be made in any debt instrument issues by the U.S. Government or an agency of the U.S. Government.

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

Equity Real Estate - Investments may be made for the purpose of creating a diversified portfolio of income-producing properties with moderate to low levels of risk.

Mutual Fund Investments - Investments may be made in mutual funds which hold common stocks or fixed income securities.

Cash Equivalent Securities - The following short-term investment vehicles, excluding commercial paper which requires specific purchase approval by the Investment Committee of Kentucky Retirement Systems, are considered acceptable:

- Securities Purchased Under Agreement to Resell - Repurchase agreements which are collateralized by U.S. Government securities.

- U.S. Government Issues - All obligations of the U.S. Government and its agencies.

The System's investments are categorized below to give an indication of the level of risk assumed by the System at June 30, 1996. Category 1 includes investments that are either insured or registered or for which the investments are held by The System or its agent in the System's name. Category 2 included uninsured and unregistered investments that are held by the broker's or dealer's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the System's name. There were no Category 3 investments held by the System.

Investments - Categorized	Category 1	Category 2	Carrying Amount	Market Value
U.S. Government Securities:				
Not on securities loan	$ 32,784,337	$	$ 32,802,570	$ 32,784,337
Loaned for securities collateral	575,200		575,200	575,200
Corporate bonds	21,512,962		21,413,342	21,512,962
Corporate stocks	161,056,990		93,270,366	161,056,990
Mortgages	15,361,416		15,151,443	15,361,416
Repurchase agreements		13,169,710	13,169,710	13,169,710
Subtotal	$231,290,905	$ 13,169,710	$176,382,631	$244,460,615
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities			4,768,247	4,768,247
Corporate bonds			396,224	396,224
Repurchase agreements			5,728,667	5,728,667
Real estate investments			14,870,695	12,761,606
Total Investments			$202,146,464	$268,115,359

NOTE F. Securities Lending Transactions

Kentucky Revised Statute Section 61.650 and 386.020(2) permit the System to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The System's custodial bank lends securities of the type on loan at year-end for collateral in the form of cash or other securities of 100 percent. Securities lent for cash collateral are presented as unclassified on the preceding page in the schedule of custodial credit risk; securities lent for securities collateral are classified according to the category for the collateral. At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The contract with the System's custodial bank requires it to indemnify the System as follows:

- If the bank fails to make a reasonable determination of the creditworthiness of any borrower to whom loans are made and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with either (i) securities identical to the loaned securities, or (ii) cash, in an amount equal to the market value of the loaned securities on the business day such securities or cash is credited to the account, and shall credit the account with all monies and other distributions paid upon such loaned securities (or the cash equivalent thereof) which are not returned by such borrower.

- If the bank makes a reasonable determination of the creditworhiness of any borrower to whom loans are made but fails to properly perform its mark-to-market obligations and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with securities identical to loaned securities or cash, in an amount equal to the sum of (i) the difference between the amount of the collateral the bank should have received pursuant to the securities borrowing agreement and the amount of collateral actually received, (ii) five percent of the market value of the loaned securities on the business day such securities or cash is credited to the account, and (iii) all monies and other distributions paid upon such loaned securities (or cash equivalent thereof) which are not returned by such borrower.

- If the bank makes a reasonable determination of the creditworthiness of any borrower to whom loans are made and properly performs its mark-to-market obligations hereunder and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with securities identical to loaned securities or cash, in an amount equal to the sum of (i) five percent of the market value of the loaned securities on the business day such securities or cash is credited to the account, and (ii) all monies and other distributions paid upon such loaned securities (or the cash equivalent thereof) which are not returned by the borrower.

All securities loans can be terminated on demand by either the System or the borrower, although the average term of the loans is one day. Cash collateral is invested in securities which are permitted for investment by state statute and Board policy, which at year-end has a weighted-average maturity of ten days for its regular account and forty days for its index account. The System cannot pledge or sell collateral securities received unless the borrower defaults.

NOTE G. Risks of Loss

The System is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Under the provisions of the Kentucky Revised Statutes, the Kentucky Board of Claims is vested with full power and authority to investigate, hear proof, and to compensate persons for damages sustained to either person or property as a result of negligence of the agency or any of its employees. Awards are limited to $100,000 for a single claim and $250,000 in aggregate per occurrence. Awards and a pro rata share of the operating cost of the Board of Claims are paid from the fund of the agency having a claim or claims before the Board.

Claims against the Board of Trustees of Kentucky Retirement Systems or any of its staff as result of actual or alleged breach of fiduciary duty are insured with a commercial insurance policy. Coverage provided is limited to $5,000,000 with a deductible amount of $25,000. Defense costs incurred in defending such claims will be paid by the insurance company. However, the total defense cost and claims paid shall not exceed the total aggregate coverage of the policy.

Claims for job-related illnesses or injuries to employees are insured by the state's self-insured workers compensation program. Payments approved by the program are not subject to maximum limitations. A claimant may receive reimbursement for all medical expenses related to the illness or injury and up to sixty-six and two-thirds percent (66⅔%) of wages for temporary disability. Each agency pays premiums based on three years' claims experience and number of covered employees. Claims experience is weighted seventy percent (70%) and number of employees is weighted thirty percent (30%). Expectations of current and future obligations are also factored into the premium calculations.

Only claims pertaining to workers' compensation have been filed during the past three fiscal years. There were no claims which were appealed to the Kentucky Workers Compensation Board.

NOTE H. Contingencies

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

NOTE I. 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 income tax law.

STATE POLICE RETIREMENT SYSTEM
SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
For The Year Ended June 30, 1996

Non-Hazardous	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age Normal (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
June 30, 1991	$150,818,074	$170,009,955	$19,191,881	0.887	$33,539,600	0.572
June 30, 1992**	187,791,011	182,996,056	(4,794,955)	1.026	36,140,857	(0.133)
June 30, 1993	200,320,968	191,653,594	(8,667,374)	1.045	36,369,643	(0.238)
June 30, 1994	205,320,509	206,763,310	1,442,801	0.993	36,783,743	0.039
June 30, 1995	217,504,443	241,690,631	24,186,188	0.900	38,955,271	0.621
June 30, 1996	237,515,346	244,540,812	7,025,466	0.971	34,698,957	0.202

** Asset valuation method was changed from book value to a five-year average of market to book values - June 30, 1992 valuation.

EMPLOYER CONTRIBUTIONS

Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 1991	$6,315,507	$6,038,636	0.956
June 30, 1992	7,072,766	6,193,359	0.876
June 30, 1993	7,943,130	6,113,532	0.770
June 30, 1994	8,033,569	6,081,367	0.757
June 30, 1995	8,484,458	6,874,327	0.810
June 30, 1996	7,998,110	7,089,072	0.886

SUPPLEMENTARY INFORMATION

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

	HAZARDOUS
Valuation Date	June 30, 1996
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent Closed
Amortization Period - Each Benefit Improvement	30 years - Commencing with 1990 Valuation
Asset Valuation Method - Started with 1992 Valuation	Five-year Average of Market to Book Value
Actuarial Assumptions:	
Investment Return	8.25%
Projected Salary Increases	6.50%

Charles T. Mitchell Company

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CHARLES F. WHELAN, C.P.A.

CHARLES T. MITCHELL, C.P.A.
CONSULTANT

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Kentucky Retirement Systems Insurance Fund
Frankfort, Kentucky

We have audited the accompanying statement of postemployment healthcare net plan assets of the Kentucky Retirement Systems Insurance Fund, a component unit of the Commonwealth of Kentucky, as of June 30, 1996 and the statement of changes in postemployment healthcare net plan assets for the year then ended. These component unit financial statements are the responsibility of the Kentucky Retirement Systems Insurance Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kentucky Retirement Systems Insurance Fund, at June 30, 1996, and the changes in postemployment healthcare net plan assets for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note C to the financial statements, the System implemented Governmental Accounting Standards Board Statement No. 26, "Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans."

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedules of employee contributions and funding progress, included on pages 47 through 54 and the footnotes thereto on page 55, are supplemental disclosures under Governmental Accounting Standards Board statements No. 25 and 26. This supplementary information is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Charles T. Mitchell Co.
September 14, 1996

	KERS HAZARDOUS	KERS NON-HAZARDOUS
ASSETS		
Cash and short-term investments		
Cash	$ 3,837	$ 14,427
Short-term investments	6,702,460	25,951,906
Total cash and short-term investments	6,706,297	25,966,333
Receivables		
Investments - accounts receivable	14,171	56,317
Interest accounts receivable - year end	284,165	1,188,365
Accounts receivable - year end	512,449	3,170,037
Total receivables	810,785	4,414,719
Investments, at fair value		
Bonds	15,826,312	63,684,712
Common stocks	9,320,546	37,858,220
Mortgages	4,112,312	17,409,649
Total investments	29,259,170	118,952,581
Total assets	36,776,252	149,333,633
LIABILITIES		
Investment - accounts payable	1,424,469	5,356,258
Accounts payable - year end	11,176	47,994
Total liabilities	1,435,645	5,404,252
NET ASSETS - POSTEMPLOYMENT HEALTHCARE BENEFITS	$35,340,607	$ 143,929,381

(A schedule of funding progress for each plan is presented on pages 47 through 54.)

The accompanying notes are an integral part of these financial statements.

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND
STATEMENT OF POSTEMPLOYMENT HEALTHCARE PLAN NET ASSETS
June 30, 1996

CERS HAZARDOUS	CERS NON-HAZARDOUS	STATE POLICE	TOTAL 1996
$ 7,084	$ 12,134	$ 3,020	$ 40,502
10,961,207	20,924,409	5,001,660	69,541,642
10,968,291	20,936,543	5,004,680	69,582,144
21,909	45,661	10,404	148,462
473,740	941,692	237,967	3,125,929
1,155,993	2,657,439	391,902	7,887,820
1,651,642	3,644,792	640,273	11,162,211
26,005,914	50,748,160	12,661,192	168,926,290
16,386,239	29,989,895	8,074,860	101,629,760
7,111,089	13,865,086	3,630,161	46,128,297
49,503,242	94,603,141	24,366,213	316,684,347
62,123,175	119,184,476	30,011,166	397,428,702
2,630,183	4,505,110	1,121,130	15,037,150
30,485	72,318	9,426	171,399
2,660,668	4,577,428	1,130,556	15,208,549
$59,462,507	$ 114,607,048	$28,880,610	$382,220,153

	KERS Hazardous	KERS Non-Hazardous
ADDITIONS		
Employer contributions	$ 5,931,007	$ 36,690,182
Investment income		
Net appreciation in fair value of investments	2,702,840	13,701,973
Interest	1,576,493	6,483,569
Dividends	209,678	853,168
Other income		
Investment income	4,489,011	21,038,710
Less investment expense	192,008	790,063
Net investment income	4,297,003	20,248,647
Total additions	10,228,010	56,938,829
DEDUCTIONS		
Healthcare premiums subsidies	666,830	17,425,418
Net increase	9,561,180	39,513,411
NET ASSETS HELD IN TRUST FOR POSTEMPLOYMENT HEALTHCARE BENEFITS		
Beginning of year	25,053,690	102,238,561
Adjustment to net assets	725,737	2,177,409
End of year	$35,340,607	$ 143,929,381

The accompanying notes are an integral part of these financial statements.

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND
STATEMENTS OF CHANGES IN POSTEMPLOYMENT HEALTHCARE PLAN NET ASSETS
June 30, 1996

CERS Hazardous	CERS Non-Hazardous	State Police	Total
$12,381,700	$ 25,234,550	$ 4,603,921	$ 84,841,360
5,535,789	10,090,646	2,964,285	34,995,533
2,659,678	4,553,067	1,327,329	16,600,136
369,635	672,530	178,910	2,283,921
	616,175		616,175
8,565,102	15,932,418	4,470,524	54,495,765
328,618	632,503	163,405	2,106,597
8,236,484	15,299,915	4,307,119	52,389,168
20,618,184	40,534,465	8,911,040	137,230,528
4,972,448	10,665,886	1,791,071	35,521,653
15,645,736	29,868,579	7,119,969	101,708,875
42,640,388	82,813,551	21,200,195	273,946,385
1,176,383	1,924,918	560,446	6,564,893
$59,462,507	$ 114,607,048	$28,880,610	$382,220,153

Under the provisions of Kentucky Revised Statute Section 61.701, the Board of Trustees of Kentucky Retirement Systems (KRS) administers the Kentucky Retirement Systems Insurance Fund. The statutes provide for a single insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the three pension funds administered by Kentucky Retirement Systems: (1) Kentucky Employees Retirement System (KERS); (2) County Employees Retirement System (CERS); and (3) State Police Retirement System (SPRS). KRS maintains separate accounting records for five insurance funds which also includes hazardous duty members of the Kentucky Employees and County Employees Retirement Systems. The assets of the various insurance funds are commingled for investment purposes. Legal counsel has advised there is no statutory authority to use the assets of one insurance fund to pay the liabilities of another insurance fund. The following notes apply to the various funds included in the Kentucky Retirement Systems Insurance Fund in aggregate.

A. Summary of Significant Accounting Policies

Basis of Accounting - The Fund's financial statements are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Premium payment are recognized when due and payable in accordance with terms of the plan.

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

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

The Fund was created by the Kentucky General Assembly pursuant to the provisions of KRS 61.701. The Fund's administrative budget and employer contribution rates are subject to approval by the Kentucky General Assembly.

B. Plan Descriptions and Contribution Information

Hospital and medical contracts in force consisted of the following at June 30, 1996, the date of the latest actuarial valuation:

	Single	Couple and Family	Parent +	Medicare Regular	Medicare High
KERS Non-Hazardous	3,133	645	143	1,872	9,780
KERS Hazardous	143	123	19	24	211
CERS Non-Hazardous	2,289	566	97	1,802	6,241
CERS Hazardous	447	990	126	17	342
SPRS	139	321	38	2	181
Totals	6,151	2,145	423	3,717	16,755

NOTE B. Hospital and Medical Benefits

Plan Description - The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from the Kentucky Employees Retirement System, the County Employees Retirement System, and the State Police Retirement System (Systems). The Fund and members receiving benefits pay prescribed portions of the aggregate premiums paid by the Fund. For the year insurance premiums withheld from benefit payments to members of the Systems approximated $10,343,000 and $86,000 for KERS and KERS hazardous, respectively, $8,487,000 and $380,000 for CERS and CERS hazardous, respectively, and $91,000 for SPRS. The Fund pays the same proportion of hospital and medical insurance premiums for the spouse and dependents of retired hazardous members killed in the line of duty. As of June 30, 1996, the Fund had 29,191 retirees for whom benefits were available.

The allocation of insurance premiums paid by the Fund and amounts withheld from members' benefits is based on years of service with the Systems, as follows:

Years of Service	Percent Paid by Insurance Fund	Percent Paid by Member Through Payroll Deduction
20 or More	100%	0%
15 - 19	75%	25%
10 - 14	50%	50%
4 - 9	25%	75%
Less Than 4	0%	100%

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

In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within twenty years. Increases will commence with the 1997 valuation and adjustments will be made every other valuation year to coincide with the valuation used by the General Assembly to establish employer contribution rates for the biennium.

NOTE C. Change in Accounting Principles

During 1996, the System elected an early adoption of the provisions of Governmental Accounting Standards Board Statement No. 26, "Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans." The provisions of this statement require restatement of prior year balance for the effect of changing from reporting certain investments at amortized cost to reporting investments at fair value. The effect of the change in accounting principles on the beginning net assets held in trust for pension benefits for System as previously reported was a decrease of $6,564,893.

NOTE D. Cash and Short-Term Investments

During 1996, the System elected an early adoption of the provisions of Governmental Accounting Standards Board Statement No. 28, "Accounting and Financial Reporting for Securities Lending Transactions." The provisions of this statement require that cash received as collateral on securities lending transactions and investments made with that cash be reported as assets on the financial statements. In conjunction with the adoption of Governmental Accounting Standard No. 28, the System has reclassified certain other investments, not related to the securities lending program, as short-term. Cash and short-term investments consist of the following:

Cash collateral	$ 40,502
Repurchase agreements purchased with cash collateral	7,886,691
Other repurchase agreements	61,654,951
Total	$69,582,144

NOTE E. Investments

The Board of Trustees of the System give priority to the investment of funds in obligations considered to improve the industrial development and enhance the economic welfare of the Commonwealth. The Board enters into contracts with investment managers who use the following guidelines and restrictions in the selection and timing of transactions as long as the security is not prohibited by the Kentucky Revised Statutes.

Equity Investments - Investments may be made through the use of an S & P 500 Index Fund in common stocks of publicly traded corporations.

Fixed Income Investments - Publicly traded bonds are to be selected and managed to assure an appropriate balance in quality and maturities consistent with the current market and economic conditions. Investment may be made in any debt instrument issues by the U.S. Government or an agency of the U.S. Government.

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

Cash Equivalent Securities - The following short-term investment vehicles, excluding commercial paper which requires specific purchase approval by the Investment Committee of Kentucky Retirement Systems, are considered acceptable:

- Securities Purchased Under Agreement to Resell - Repurchase agreements which are collateralized by U.S. Government securities.

- U.S. Government Issues - All obligations of the U.S. Government and its agencies.

NOTE E. Investments (Continued)

The System's investments are categorized below to give an indication of the level of risk assumed by the System at June 30, 1995. Category 1 includes investments that are either insured or registered or for which the investments are held by The System or its agent in the System's name. Category 2 included uninsured and unregistered investments that are held by the broker's or dealer's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the System's name. There were no Category 3 investments held by the System.

Investments - Categorized	Category 1	Category 2	Carrying Amount	Market Value
U.S. Government Securities:				
Not on securities loan	$ 76,806,742	$	$ 77,494,541	$ 76,806,742
Loaned for securities collateral	695,110		695,110	695,110
Corporate bonds	84,314,476		84,989,648	84,314,476
Corporate stocks	101,629,759		61,744,901	101,629,759
Mortgages	46,128,300		47,784,268	46,128,300
Repurchase agreements		61,654,952	61,654,952	61,654,952
Subtotal	$309,574,387	$ 61,654,952	$334,363,420	$371,229,339
Investments - Not Categorized				
Investments held by broker-dealers under securities loans				
U.S. Government Securities			6,564,475	6,564,475
Corporate bonds			545,484	545,484
Repurchase agreements			7,886,691	7,886,691
Total Investments			$349,360,070	$386,225,989

NOTE F. Securities Lending Transactions

Kentucky Revised Statute Sections 61.650 and 386.00 (2) permit the System to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The System's custodial bank lends securities of the type on loan at year-end for collateral in the form of cash or other securities of 100 percent. Securities lent for cash collateral are presented as unclassified on the preceding page in the schedule of custodial credit risk; securities lent for securities collateral are classified according to the category for the collateral. At year-end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System. The contract with the System's custodial bank requires it to indemnify the System as follows:

- If the bank fails to make a reasonable determination of the creditworthiness of any borrower to whom loans are made and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with either (i) securities identical to the loaned securities, or (ii) cash, in an amount equal to the market value of the loaned securities on the business day such securities or cash is credited to the account, and shall credit the account with all monies and other distributions paid upon such loaned securities (or the cash equivalent thereof) which are not returned by such borrower.

NOTE F. Securities Lending Transactions (Continued)

- If the bank makes a reasonable determination of the creditworthiness of any borrower to whom loans are made but fails to properly perform its mark-to-market obligations and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with securities identical to loaned securities or cash, in an amount equal to the sum of (i) the difference between the amount of the collateral the bank should have received pursuant to the securities borrowing agreement and the amount of collateral actually received, (ii) five percent of the market value of the loaned securities on the business day such securities or cash is credited to the account, and (iii) all monies and other distributions paid upon such loaned securities (or cash equivalent thereof) which are not returned by such borrower.

- If the bank makes a reasonable determination of the creditworthiness of any borrower to whom loans are made and properly performs its mark-to-market obligations hereunder and such borrower fails to return loaned securities pursuant to the securities borrowing agreement, the bank shall within one business day credit the System's account with securities identical to loaned securities or cash, in an amount equal to the sum of (i) five percent of the market value of the loaned securities on the business day such securities or cash is credited to the account, and (ii) all monies and other distributions paid upon such loaned securities (or the cash equivalent thereof) which are not returned by the borrower.

All securities loans can be terminated on demand by either the System or the borrower, although the average term of the loans is one day. Cash collateral is invested in securities which are permitted for investment by state statute and Board policy, which at year-end has a weighted-average maturity of ten days for its regular account and forty days for its index account. The System cannot pledge or sell collateral securities received unless the borrower defaults.

NOTE G. Contingencies

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

KERS Non-Hazardous	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Targeted Rate (b)	Unfunded AAL (UAAL) (b-a)
June 30, 1991	$ 41,572,585	$ 767,745,792	$ 726,173,207
June 30, 1992	53,045,314	943,076,826	890,031,512
June 30, 1993	63,686,402	1,100,308,587	1,036,622,185
June 30, 1994	80,315,367	1,341,024,064	1,260,708,697
June 30, 1995	102,238,501	1,348,616,865	1,246,378,364
June 30, 1996**	138,382,213	1,127,128,023	988,745,810

KERS Hazardous			
June 30, 1991	$ 4,976,750	$ 36,928,258	$ 31,951,508
June 30, 1992	9,420,312	58,626,869	49,206,557
June 30, 1993	13,987,173	77,552,696	63,565,523
June 30, 1994	18,768,166	103,588,614	84,820,448
June 30, 1995	25,053,690	113,557,236	88,503,546
June 30, 1996**	34,263,992	95,266,115	61,002,123

** Asset valuation method was changed from book value to a five year average of market to book values. - June 30, 1996 valuation.

KENTUCKY RETIREMENT SYSTEMS INSURANCE FUND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
For The Year Ended June 30, 1996

Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
0.054	$ 967,501,340	0.751
0.056	1,069,968,940	0.832
0.058	1,079,322,020	0.960
0.060	1,121,481,440	1.124
0.076	1,231,383,460	1.012
0.123	1,232,974,460	0.802
0.135	$ 63,857,657	0.500
0.161	71,781,200	0.686
0.180	80,655,200	0.788
0.181	75,686,614	1.121
0.221	88,657,986	0.998
0.360	85,933,543	0.710

CERS Non-Hazardous	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Targeted Rate (b)	Unfunded AAL (UAAL) (b-a)
June 30, 1991	$ 28,301,162	$ 580,755,815	$ 552,454,653
June 30, 1992	37,240,080	745,836,230	708,596,150
June 30, 1993	47,845,958	904,633,735	856,787,777
June 30, 1994	65,174,505	1,144,860,603	1,079,686,098
June 30, 1995	82,813,551	1,217,880,223	1,135,066,682
June 30, 1996**	110,203,861	1,011,215,398	901,011,537

CERS Hazardous			
June 30, 1991	$ 14,119,582	$ 242,256,994	$ 228,137,412
June 30, 1992	19,715,821	296,069,227	276,353,406
June 30, 1993	26,407,914	339,624,307	313,216,393
June 30, 1994	34,340,390	406,278,197	371,937,807
June 30, 1995	42,640,389	462,012,992	419,372,603
June 30, 1996**	57,332,380	375,444,348	318,111,968

** Asset valuation method was changed from book value to a five year average of market to book values. - June 30, 1996 valuation.

SCHEDULE OF FUNDING PROGRESS
For The Year Ended June 30, 1996

Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
0.049	$ 805,043,800	0.686
0.050	967,040,640	0.733
0.053	1,107,476,940	0.774
0.057	1,050,987,720	1.027
0.068	1,167,668,400	0.972
0.109	1,137,192,560	0.792
0.058	$ 139,653,414	1.634
0.067	149,474,543	1.849
0.078	170,391,529	1.838
0.085	183,410,686	2.028
0.092	205,738,571	2.038
0.153	211,638,457	1.503

SCHEDULE OF FUNDING PROGRESS
For The Year Ended June 30, 1996

SPRS	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Targeted Rate (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
June 30, 1991	$ 8,931,544	$ 74,163,248	$65,231,704	0.120	$33,539,600	1.945
June 30, 1992	11,717,956	88,407,634	76,689,678	0.133	36,140,857	2.122
June 30, 1993	14,285,479	95,290,099	81,004,620	0.150	36,369,643	2.227
June 30, 1994	17,410,672	110,193,139	92,782,467	0.158	36,783,743	2.522
June 30, 1995	21,200,195	118,995,732	97,795,537	0.178	38,955,271	2.511
June 30, 1996**	27,809,267	101,132,886	73,323,619	0.275	34,698,957	2.113

** Asset valuation method was changed from book value to a five year average of market to book values. - June 30, 1996 valuation.

EMPLOYER CONTRIBUTIONS

KERS
NON-HAZARDOUS

Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 1991	$ 17,124,774	$ 16,179,115	0.945
June 30, 1992	21,078,388	17,735,103	0.841
June 30, 1993	33,674,847	18,101,290	0.538
June 30, 1994	35,102,369	27,082,676	0.772
June 30, 1995	38,788,579	34,378,689	0.886
June 30, 1996	38,838,695	36,690,182	0.940

KERS
HAZARDOUS

Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 1991	$ 3,940,017	$ 3,782,266	0.960
June 30, 1992	4,838,053	4,265,949	0.882
June 30, 1993	5,952,354	4,269,097	0.717
June 30, 1994	5,608,304	4,370,216	0.779
June 30, 1995	6,613,886	5,632,584	0.852
June 30, 1996	6,410,642	5,931,007	0.930

EMPLOYER CONTRIBUTIONS

CERS NON-HAZARDOUS

Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 1991	$ 11,109,604	$ 10,031,146	0.903
June 30, 1992	15,279,242	11,309,658	0.740
June 30, 1993	26,136,456	13,802,160	0.528
June 30, 1994	24,803,310	22,277,276	0.898
June 30, 1995	27,556,974	23,773,207	0.863
June 30, 1996	26,837,744	25,234,550	0.940

CERS HAZARDOUS

Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 1991	$ 7,136,289	$ 6,531,848	0.915
June 30, 1992	8,475,207	7,081,351	0.836
June 30, 1993	10,785,784	8,473,695	0.786
June 30, 1994	11,609,896	10,452,184	0.900
June 30, 1995	13,023,252	11,299,170	0.868
June 30, 1996	13,396,714	12,381,700	0.920

EMPLOYER CONTRIBUTIONS

SPRS
HAZARDOUS

Year Ended	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 1991	$ 3,159,554	$ 2,789,669	0.883
June 30, 1992	3,642,998	2,999,385	0.823
June 30, 1993	5,131,757	2,921,685	0.569
June 30, 1994	5,201,221	3,767,140	0.724
June 30, 1995	5,535,544	4,463,969	0.806
June 30, 1996	4,930,722	4,603,921	0.930

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

	Non-Hazardous	Hazardous
Valuation Date	June 30, 1996	June 30, 1996
Actuarial Cost Method	Targeted Rate	Targeted Rate
Asset Valuation Method - Started with 1996 Valuation	Five-year Average of Market to Book Value	Five-year Average of Market to Book Value
Actuarial Assumptions:		
Investment Return	8.25%	8.25%
Projected Salary Increases	6.50%	6.50%

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CONSULTANT

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL STRUCTURE BASED ON AN AUDIT OF COMPONENT UNIT FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Kentucky Retirement Systems
Frankfort, Kentucky

We have audited the financial statements of the Kentucky Employees Retirement System, the County Employees Retirement System, the State Police Retirement System, and the Kentucky Retirement Systems Insurance Fund (the "Kentucky Retirement Systems") as of and for the year ended June 30, 1996, and have issued our report thereon dated September 14, 1996.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

In planning and performing our audit of the financial statements of the Kentucky Retirement Systems for the year ended June 30, 1996, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of Kentucky Retirement Systems is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Contributions and other revenues
- Retirement benefits and other expenses
- Investments
- Member demographics

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal controls structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended for the information of the Board of Trustees, management and the Commonwealth of Kentucky Auditor of Public Accounts. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Charles T. Mitchell Co.

September 14, 1996

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Kentucky Retirement Systems
Frankfort, Kentucky

We have audited the financial statements of the Kentucky Employees Retirement System, the County Employees Retirement System, the State Police Retirement System, and the Kentucky Retirement Systems Insurance Fund (the "Kentucky Retirement Systems") as of June 30, 1996 and for the year then ended, and have issued our report thereon dated September 14, 1996.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Kentucky Retirement Systems is the responsibility of the Kentucky Retirement Systems' management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Kentucky Retirement Systems' compliance with certain provisions of laws and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, the Kentucky Retirement Systems complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Kentucky Retirement Systems had not complied, in all material respects, with those provisions.

This report is intended for the information of the Board of Trustees, management, and the Commonwealth of Kentucky Auditor of Public Accounts. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Charles T. Mitchell Co.
September 14, 1996

KENTUCKY RETIREMENT SYSTEMS

Actuarial Section

Annual Report June 30, 1996

ACTUARIAL SECTION
INTRODUCTION

An actuarial valuation is a mathematical means of determining liabilities (the cost of benefits guaranteed each member) and the adequacy of the assets and income of the systems. It is a way of looking into the future, based on past experience, to determine if the contributions being paid by the employee and employer, combined with projected investment income, are sufficient to pay the benefits guaranteed to retirees and current members.

Because pension plans, such as those administered by Kentucky Retirement Systems, must necessarily be oriented toward long-range goals, rather than short term receipts and expenses, the actuarial valuation provides the information that the Board of Trustees needs to make sound judgements on investment decisions. The Board must consider not only the systems' ability to pay current retirees' benefits, but also to pay benefits for all future retirees.

The Board's actuarial consultant, the firm of William M. Mercer, Inc., has performed the actuarial valuations which follow. The following pages represent a copy of the June 30, 1996 valuation, less statistical data too lengthy to include in this report. William M. Mercer, Inc., also conducted the five-year experience study upon which current actuarial assumptions are based. The actuarial assumptions used in these valuations were adopted by the Board of Trustees in November 1995.

The benefits of the systems are funded in accordance with KRS 61.565 which requires that normal costs be funded as a percentage of payroll and that unfunded liabilities be amortized over a 30-year period. The medical insurance benefits are funded in accordance with KRS 61.702.

November 6, 1996

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

Members of the Board:

The fortieth annual actuarial valuation of the Kentucky Employees Retirement System, the thirty-seventh annual actuarial valuation of the County Employees Retirement System, and the thirty-eighth 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, 1996.

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. Adequate provision is being made for the funding of the Actuarial Accrued Liabilities of the Kentucky Employees Retirement System, the County Employees Retirement System, and the State Police Retirement System as required by the Kentucky Revised Statutes, as appropriate funding rates have been established by the Board for this purpose.

Respectfully Submitted,
WILLIAM M. MERCER, INCORPORATED

By Stephen A. Gagel
Stephen A. Gagel, F.S.A.

/cga

FORTIETH ANNUAL ACTUARIAL VALUATION

JUNE 30, 1996

KENTUCKY EMPLOYEES RETIREMENT SYSTEM

FRANKFORT, KENTUCKY

SECTION I

INTRODUCTION

The results of the fortieth annual actuarial valuation of the Kentucky Employees Retirement System are presented in this report. The actuarial valuation was made on the basis of the data provided by the System as of June 30, 1996.

The purpose of the actuarial valuation is to determine the actuarial condition of the Retirement System and the rate of employer contributions for the ensuing fiscal year required to support the System.

The plan provisions utilized in this valuation are described in the Summary of Principal Plan Provisions beginning on page K-44. The basis of funding, as defined in KRS 61.565, provides that the actuarial valuation method is uniform for all benefits provided by the System. The Entry Age Normal Actuarial cost method has been used for all benefits as explained on page K-2. KRS 61.565 provides that each employer participating in the System shall contribute an amount equal to the Normal Cost contribution rate, and an amount sufficient to amortize the Unfunded Actuarial Accrued Liability over 30 years using the level-percentage-of-payroll method. This is the standard used herein to determine whether the funding of the System is adequate.

The actuarial valuation results are based upon the employee census and asset data supplied by the office of the System, and upon the actuarial assumptions as stated on page K-6.

SECTION II

ACTUARIAL CONSIDERATIONS

Description of Actuarial Methods

The actuarial valuation is the means by which the contingent liabilities and contribution rates of a retirement system are evaluated and determined. It provides a guide to the System to the financing required during years of active service to accumulate the funds needed to provide member's benefits. It also makes it possible to estimate beforehand the cost of proposed changes in the System so that action can be taken in the light of the cost consequences.

The methods of valuation are prescribed by KRS 61.565. The Entry Age Normal Cost Method was used to determine costs of all benefits with the exception of the retiree medical insurance benefit. Under this method the employer's contribution to the retirement system consists of Normal Cost, a payment to fund the Unfunded Actuarial Accrued Liability, medical insurance, and administrative expenses. The Normal Cost represents the contribution (as a level percent of payroll) that completely funds benefits at retirement if made from a person's entry into employment until his retirement. The Actuarial Accrued Liability represents the sum of money and investments that would be held in the fund if the retirement system had been in effect since the date each member was first employed. The payment to fund the Unfunded Actuarial Accrued Liability is the amount necessary to amortize this liability over 30 years using the "level-percentage-of-payroll" method. Under the "level-percentage-of-payroll" method, the amortization payment is an amount which remains constant as a percentage of payroll over the 30 years. The initial 30 year period began with the 1990 valuation. In each subsequent valuation, any change in Unfunded Actuarial Accrued Liability is identified and established as a separate amortization base with a 30 year funding period beginning with that valuation. The change in Unfunded Actuarial Accrued Liability established as a separate base in each valuation will include changes attributable to experience gains and/or losses over the prior year, as well as changes attributable to benefit improvements and revisions in actuarial assumptions and funding methods.

The medical insurance contribution rate was originally determined in the 1987 valuation as the level percent of payroll necessary to fund projected medical insurance premiums over the next sixteen years (taking into account the level of reserves in the Insurance Fund). Beginning in 1988, this rate was increased each year by a percentage amount needed to reach the Entry Age Normal funding rate within a 20 year period measured from 1987. This was continued through the 1992 valuation. In the 1992 valuation, an acceleration of the scheduled increases in the medical insurance contribution rate was recommended where possible. This acceleration in these rates was coupled with a deferral of future increases until the time of the next experience study, unless there was a deterioration in the funded position of the medical premium benefit in which case the rate levels were to be reviewed to redetermine an appropriate current funding level, or unless recommended contributions are not made in the prior year, in which case the shortfall would be spread over future years through an increase in the contribution rate. This continued through the 1995 valuation. Effective with the 1996 valuation, a new medical insurance funding policy was adopted by the Board. Under this revised policy, the medical insurance contribution rate for the 1996 valuation was set equal to the 1995 rate plus any reduction in the retirement and administrative expense rates between the 1995 and 1996 valuations (but in no event to be less than the 1995 medical insurance contribution rate). Beginning with the 1997 valuation, the medical insurance contribution rate is to be increased at the start of each biennium (coincides with valuations in odd numbered years) by the percentage amount necessary to raise this medical insurance rate to the full Entry Age Normal Cost Method contribution rate by the year 2016. In computing the full Entry Age Normal Cost Method contribution rate, liabilities are to be developed based on actuarial assumptions in use in the current valuation (as adjusted from time to time due to experience studies) and actuarial value of assets based on the same 5-year market to book value average method as employed for the retirement benefit valuation. This represents a change in the actuarial value of assets for the medical contribution rate valuation from book value as used prior to the 1996 valuation.

The amount of the administrative expense was based on the budgeted amount for the twelve months following the date of the valuation, as allocated between Hazardous position and Non-Hazardous position employees.

Actuarial Assumptions

Since the actuarial valuation involves estimates of benefits payable in the future, it is necessary that assumptions be made as to the interest earnings, rates of mortality, withdrawal, retirement, and disability, and the rate at which salaries will increase. In addition, an assumption must be made relative to increases in medical insurance premium rates in order to value the liability for the medical insurance benefit. It is desirable that the actuarial assumptions be reviewed periodically to see whether past experience and probable future experience justifies the continued use of these actuarial assumptions. Such a study was performed subsequent to the 1995 actuarial valuation and new actuarial assumptions were adopted by the Board for use in the 1996 and subsequent actuarial valuations, until such time as another experience study is performed. This valuation reflects assumptions based on the 1995 experience study. Actuarial assumptions used for hazardous position employees are similar to actuarial assumptions adopted for the State Police Retirement System (with the exception of the rate of retirement). The actuarial assumptions as used in this valuation are described beginning on page K-6.

Actuarial Value of Assets

The actuarial value of assets is determined in the following manner for the Retirement Fund:

1. Determine the ratio of the market value of Retirement Fund assets to book value as of the current valuation date and the four preceding valuation dates (but not using any valuation dates prior to June 30, 1989). All asset values include accrued investment income and member and employer contribution receivables, and exclude member refunds and investment expenses payable.

2. Determine the average ratio of market to book value as of these valuation dates.

3. Apply this average ratio to the book value (as adjusted for accrued investment income and member and employer contribution receivables, and member refunds and investment expenses payable) as of the current valuation date to derive valuation assets.

For the Insurance Fund, the revision in the asset valuation method was deferred until the 1996 valuation. Prior to that time, the actuarial value of assets continued to be determined based on the book value of the assets in that fund as of the valuation date adjusted for any receivables and/or payables.

The different asset valuation methods for the Retirement Fund and the Insurance Fund for the 1990 through 1995 valuation were a result of the following:

1. There was separate book and market value information for the Insurance Fund under all systems dating only from July, 1992. So it was not possible to use the same averaging method for the Insurance Fund as used for the Retirement Fund until sufficient years of separate information was developed.

2. The magnitude of assets to liabilities for the Insurance Fund was such that the method of valuing assets would only negligibly affect valuation results. Also, given the method then in use for transitioning into higher medical premium contribution rates over future years, the asset valuation method used for the Insurance Fund was not as critical as the asset valuation method used for the Retirement Fund.

However, effective with the 1996 valuation, there is now sufficient historical information to allow use of the same asset valuation method for the Insurance Fund as that used for the Retirement Fund since 1990. Accordingly, the Board adopted this change in asset valuation method for the Insurance Fund effective with the 1996 valuation.

The following tables show derivation of valuation assets for the Retirement Fund and the Insurance Fund as of the current valuation:

RETIREMENT FUND - NON HAZARDOUS			
Valuation Date	**Book Value**	**Market Value**	**Ratio**
June 30, 1996	2,679,637,955	3,514,044,648	131.13878%
June 30, 1995	2,447,885,584	3,025,239,596	123.58583%
June 30, 1994	2,299,325,031	2,586,932,571	112.50835%
June 30, 1993	2,185,895,811	2,591,588,544	118.55956%
June 30, 1992	2,014,998,203	2,385,564,675	118.39041%
Average Ratio			120.83659%
Valuation Assets (Average Ratio x Current Book Value)			3,237,983,129

RETIREMENT FUND - HAZARDOUS			
Valuation Date	**Book Value**	**Market Value**	**Ratio**
June 30, 1996	115,637,173	143,402,634	124.01084%
June 30, 1995	94,802,757	111,369,232	117.47468%
June 30, 1994	78,203,372	84,691,892	108.29698%
June 30, 1993	65,477,196	74,363,956	113.57230%
June 30, 1992	51,848,488	67,592,928	130.36625%
Average Ratio			118.74421%
Valuation Assets (Average Ratio x Current Book Value)			137,312,448

INSURANCE FUND - NON HAZARDOUS			
Valuation Date	**Book Value**	**Market Value**	**Ratio**
June 30, 1996	129,710,411	143,929,381	110.96209%
June 30, 1995	102,238,561	110,001,728	107.59319%
June 30, 1994	80,315,368	78,972,626	98.32816%
June 30, 1993	63,686,402	67,246,036	105.58932%
June 30, 1992	53,045,314	58,856,305	110.95477%
Average Ratio			106.68551%
Valuation Assets (Average Ratio x Current Book Value)			138,382,213

INSURANCE FUND - HAZARDOUS			
Valuation Date	**Book Value**	**Market Value**	**Ratio**
June 30, 1996	32,325,283	35,340,607	109.32807%
June 30, 1995	25,053,690	26,483,148	105.70558%
June 30, 1994	18,768,167	18,263,437	97.31071%
June 30, 1993	13,987,174	14,498,535	103.65593%
June 30, 1992	9,420,313	10,737,953	113.98722%
Average Ratio			105.99750%
Valuation Assets (Average Ratio x Current Book Value)			34,263,992

Note: Book and market values reflect accrued investment income and member and employer contribution receivables, member refunds and investment expenses payable.

A. STATEMENT OF ACTUARIAL ASSUMPTIONS

(1) Mortality:

(a) Active & retired lives - 1983 Group Annuity Mortality Table, plus a pre-retirement duty death rate of .0005 per year for hazardous duty employees.

(b) Disabled lives - Social Security Administration Disability Mortality Rates - Actuarial Study No. 75 (current rates used by PBGC for disabled lives receiving Social Security).

(2) Disablement - Graduated rates based on 1995 experience study.

(3) Termination of employment - Graduated select (non-hazardous only) and ultimate rates based on 1995 experience study.

(4) Retirement - Non-Hazardous:

Age	Retirement Rate
55-57	.03
58-59	.04
60-61	.05
62	.25
63-64	.10
65	.50
66-67	.20
68	.25
69	.40
70 & Over	1.00

At age 55-64 in lieu of the age related rate, 20% 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 60.

(5) Marital status

(a) Percentage married - 100%.

(b) Age difference - Males are assumed to be 3 years older than their spouses.

(6) Dependent children - For hazardous position employees under duty related death benefits, it is assumed that the employee is survived by 2 dependent children, each age 6.

(7) Investment return - 8.25% per year, net of investment related expenses, compounded annually.

(8) Compensation progression - 6.50% per year, compounded annually.

(9) Retiree Medical Insurance - It was assumed that future retirees would select medical coverage in the same proportion that current retirees have selected coverage. Monthly premium rates were assumed to be as follows:

Plan Type	Rate in Effect on Valuation Date
Single	$175.50
Family	365.54
Parent Plus	212.46
Couple	319.86
Medicare	89.90
High Option	162.05

In determining the target Entry Age Funding rate in valuations beginning with 1996, it was assumed that medical premiums would grow at the following annual rates:

Years	Medical Increase
1996 - 2005	10%
2006 - 2010	9%
2011 - 2015	8%
Thereafter	7.5%

The assumed rate of growth in number of retirees receiving medical insurance was based on assumed retirement and mortality patterns used throughout the valuation.

(10) Missing data - For those active members with incomplete data, the following assumptions were made:

- If reported salary was zero or blank, then monthly salary was assumed to be $700
- If reported age was blank, then assume current age equal to age 18 plus years of service reported

(11) Members with Multiple Service Records - For active members with service in more than one system, the liability has been valued as follows:

- Service under all systems is aggregated for purposes of determining benefit eligibility.
- Future service is projected only under the system in which the member is currently active.
- The actual benefit under each system is determined based only on service (past and projected future service, if applicable) under that system.
- The liability is determined under each system based on the actuarial assumptions used for the system in which the member is currently active. This liability is then included in the valuation of the system in which the service has been earned (or is projected to be earned).

For inactive members with service in more than one system, the benefit attributable to the service under each system is determined, and the liability for that benefit is then included in the valuation of the system in which the service was earned.

B. SAMPLE RATES FOR NON-HAZARDOUS POSITION EMPLOYEES*

(1) Annual Rates of Mortality:

	Active Mortality		Disabled Mortality	
Age	Males	Females	Males	Females
25	0.05%	0.03%	4.83%	2.63%
30	0.06%	0.03%	3.62%	2.37%
40	0.12%	0.07%	2.82%	2.09%
50	0.40%	0.16%	3.83%	2.57%
55	0.61%	0.25%	4.82%	2.95%
60	0.92%	0.42%	6.03%	3.31%

(2) Annual Rates of Decrement:

Age	Disablement	Ultimate Termination
25	0.033%	2.40%
30	0.039%	2.40%
40	0.105%	2.00%
50	0.423%	1.60%
55	0.794%	1.20%
60	1.395%	0.20%

(3) Select Rates of Termination:

Years of Service	Select Termination
1	25.0%
2	8.0%
3	5.0%
4	4.0%
5	3.5%

(4) Compensation Progression:

Age	Rate of Annual Increase	Compensation at Normal Retirement as Percentage Of Current Annual Compensation
25	6.50%	1,241.6%
30	6.50%	906.2%
40	6.50%	482.8%
50	6.50%	257.2%
55	6.50%	187.7%
60	6.50%	137.0%

*Sample rates for hazardous position employees are included in the State Police Retirement System valuation.

TABLE I
KENTUCKY EMPLOYEES RETIREMENT SYSTEM
RETIREMENT AND INSURANCE FUND
DETERMINATION OF CONTRIBUTION RATE - JUNE 30, 1996

UNFUNDED ACTUARIAL ACCRUED LIABILITY - RETIREMENT FUND			
		Percent *	
Total Actuarial Accrued Liability	$ 3,415,404,483	270.29%	
Assets at Actuarial Value	3,375,295,577	267.12%	
Unfunded Actuarial Accrued Liability	$ 40,108,906	3.17%	
Contribution - Payment on Unfunded Actuarial Accrued Liability	$ 3,975,341	0.31%	
NORMAL COST - RETIREMENT FUND			
Retirement Benefits	$ 94,067,334	7.44%	
Disability Benefits	9,287,446	0.73%	
Withdrawal Benefits (Vested and Refund of Contributions)	8,201,720	0.65%	
Survivor Benefits	6,492,813	0.51%	
Total Normal Cost	$ 118,049,313	9.33%	
Less: Employee Contributions	64,169,576	5.08%	
Normal Cost - State	$ 53,879,737	4.25%	
TOTAL ANNUAL EMPLOYER COST - RETIREMENT AND INSURANCE FUND			
Non-Hazardous Duty Cost			
Normal Cost	$ 47,120,878	3.98%	**
Payment on Unfunded Actuarial Accrued Liability	4,777,489	0.40%	**
Administrative Expense	4,954,890	0.42%	**
Group Hospital and Medical Insurance Premiums	48,429,216	4.09%	**
Total Annual Cost	$ 105,282,473	8.89%	**
Hazardous Duty Cost			
Normal Cost	$ 6,758,859	8.50%	***
Payment on Unfunded Actuarial Accrued Liability	(802,148)	(1.01%)	***
Administrative Expense	276,552	0.35%	***
Group Hospital and Medical Insurance Premiums	7,975,273	10.03%	***
Total Annual Cost	$ 14,208,536	17.87%	***
Based on estimated annual salaries			
* Total	$ 1,263,602,604		
** Non-Hazardous Position Employees	$ 1,184,088,420		
*** Hazardous Position Employees	$ 79,514,184		

TABLE II
KENTUCKY EMPLOYEES RETIREMENT SYSTEM
RETIREMENT FUND
CLASSIFICATION OF ACTUARIAL LIABILITIES AND COSTS - JUNE 30, 1996

	Non-Hazardous Position Employees	Hazardous Position Employees	Total
ACTUARIAL ACCRUED LIABILITY			
Active Members			
Retirement Benefits	$ 1,636,346,300	$ 79,926,567	$ 1,716,272,867
Disability Benefits	97,220,733	4,936,056	102,156,789
Withdrawal Benefits (Vested and Refund of Contributions)	62,921,455	669,930	63,591,385
Survivor Benefits	103,761,516	4,103,079	107,864,595
Total - Actives	$ 1,900,250,004	$ 89,635,632	$ 1,989,885,636
Inactive Members			
Retired Members and Beneficiaries	$ 1,363,720,900	$ 29,506,287	$ 1,393,227,187
Vested Retirement	25,124,050	640,187	25,764,237
Vested Membership	6,267,407	260,016	6,527,423
Total - Inactives	$ 1,395,112,357	$ 30,406,490	$ 1,425,518,847
Total Actuarial Accrued Liability	$ 3,295,362,361	$ 120,042,122	$ 3,415,404,483
UNFUNDED ACTUARIAL ACCRUED LIABILITY			
Total Actuarial Accrued Liability	$ 3,295,362,361	$ 120,042,122	$ 3,415,404,483
Less Actuarial Value of Assets	3,237,983,129	137,312,448	3,375,295,577
Unfunded Actuarial Accrued Liability	$ 57,379,232	$ (17,270,326)	$ 40,108,906
NORMAL COST			
Retirement Benefits	$ 84,160,299	$ 9,907,035	$ 94,067,334
Disability Benefits	8,210,125	1,077,321	9,287,446
Withdrawal Benefits (Vested and Refund of Contributions)	7,824,585	377,135	8,201,720
Survivor Benefits	5,829,688	663,125	6,492,813
Total Normal Cost	$ 106,024,697	$ 12,024,616	$ 118,049,313
Less Employee Contributions	58,903,819	5,265,757	64,169,576
Total Normal Cost - State	$ 47,120,878	$ 6,758,859	$ 53,879,737
ACCRUED BENEFIT LIABILITY *			
Total	$ 2,201,794,256	$ 88,514,445	$ 2,290,308,701

* Present value of accrued benefits deferred to normal retirement date.

TABLE III
KENTUCKY EMPLOYEES RETIREMENT SYSTEM
UNFUNDED ACTUARIAL ACCRUED LIABILITY - RETIREMENT FUND - JUNE 30, 1996

Date Established	Amount of Base on Date Established	Amount of Base on Current Valuation Date	Amortization Payment	Source of Base
Non-Hazardous Position Employees				
6/30/1990	$ 256,534,456	$ 296,101,979	$ 17,133,645	Cumulative unfunded actuarial accrued liability set up as initial base under revised funding policy (30 year level percent of payroll method)
6/30/1991	103,692,389	117,264,291	6,601,628	Experience gains/losses for 7/1/90 to 6/30/91
6/30/1992	(212,448,599)	(235,034,000)	(12,893,025)	Experience gains/losses for 7/1/91 to 6/30/92; Retiree COLA's; Asset valuation method change
6/30/1993	(57,917,315)	(62,593,363)	(3,350,372)	Experience gains/losses for 7/1/92 to 6/30/93; State contribution shortfall
6/30/1994	59,519,052	62,755,272	3,281,912	Experience gains/losses for 7/1/93 to 6/30/94; Retiree COLA's; State contribution shortfall
6/30/1995	65,659,241	67,458,638	3,451,049	Experience gains/losses for 7/1/94 to 6/30/95
6/30/1996	(188,573,585)	(188,573,585)	(9,447,348)	Experience gains/losses for 7/1/95 to 6/30/96; Revised actuarial assumptions; Correction of pension allocation for members in pay status with both non-hazardous and hazardous service in KERS
Total	$ 26,465,639	$ 57,379,232	$ 4,777,489	
Hazardous Position Employees				
6/30/1990	$ (366,782)	$ (423,354)	$ (24,497)	Cumulative unfunded actuarial accrued liability set up as initial base under revised funding policy (30 year level percent of payroll method)
6/30/1991	8,515,857	9,630,465	542,166	Experience gains/losses for 7/1/90 to 6/30/91
6/30/1992	(2,222,347)	(2,458,605)	(134,869)	Experience gains/losses for 7/1/91 to 6/30/92; Retiree COLA's; Asset valuation method change
6/30/1993	1,873,766	2,025,046	108,393	Experience gains/losses for 7/1/92 to 6/30/93; State contribution shortfall
6/30/1994	2,736,468	2,885,258	150,890	Experience gains/losses for 7/1/93 to 6/30/94; Retiree COLA's; State contribution shortfall
6/30/1995	4,677,834	4,806,030	245,867	Experience gains/losses for 7/1/94 to 6/30/95
6/30/1996	(33,735,166)	(33,735,166)	(1,690,098)	Experience gains/losses for 7/1/95 to 6/30/96; Revised actuarial assumptions; Correction of pension allocation for members in pay status with both non-hazardous and hazardous service in KERS
Total	$ (18,520,370)	$ (17,270,326)	$ (802,148)	

TABLE IV KENTUCKY EMPLOYEES RETIREMENT SYSTEM INSURANCE FUND DETERMINATION OF ENTRY AGE CONTRIBUTION RATE - JUNE 30, 1996			
	Non-Hazardous Position Employees	**Hazardous Position Employees**	**Total**
ACTUARIAL ACCRUED LIABILITY			
Active Members	$ 766,274,395	$ 66,661,567	$ 832,935,962
Inactive Members			
Retired Members	$ 326,594,950	$ 21,026,444	$ 347,621,394
Beneficiaries	764,136	6,335,209	7,099,345
Vested Retirement	33,494,542	1,242,895	34,737,437
Vested Membership	0	0	0
Total - Inactives	$ 360,853,628	$ 28,604,548	$ 389,458,176
Total Actuarial Accrued Liability	$ 1,127,128,023	$ 95,266,115	$ 1,222,394,138
UNFUNDED ACTUARIAL ACCRUED LIABILITY			
Total Actuarial Accrued Liability	$ 1,127,128,023	$ 95,266,115	$ 1,222,394,138
Less Actuarial Value of Assets	138,382,213	34,263,992	172,646,205
Unfunded Actuarial Accrued Liability	$ 988,745,810	$ 61,002,123	$ 1,049,747,933
NORMAL COST			
Gross Normal Cost	$ 63,978,450	$ 11,049,158	$ 75,027,608
Less Employee Contributions	0	0	0
Net Normal Cost - State	$ 63,978,450	$ 11,049,158	$ 75,027,608
Estimated Annual Salaries	$ 1,184,088,420	$ 79,514,184	$ 1,263,602,604
TOTAL ANNUAL EMPLOYER COST			
Contribution Amount			
Normal Cost	$ 63,978,450	$ 11,049,158	$ 75,027,608
Payment on Unfunded Actuarial Accrued Liability	49,535,176	3,056,145	52,591,321
Total Annual Cost	$ 113,513,626	$ 14,105,303	$ 127,618,929
As Percent of Payroll			
Normal Cost	5.40%	13.90%	5.94%
Payment on Unfunded Actuarial Accrued Liability	4.18%	3.84%	4.16%
Total Annual Cost	9.58%	17.74%	10.10%
INSURANCE FUND SHORTFALL			
Full Entry Age Funding Level	9.58%	17.74%	10.10%
Current Funding Allocation	4.09%	10.03%	4.46%
Additional to Pick Up By 2016	5.49%	7.71%	5.64%
Expected Increase in Insurance Fund Rate in 1997 Valuation	0.18%	0.29%	N/A

TABLE V
KENTUCKY EMPLOYEES RETIREMENT SYSTEM
UNFUNDED ACTUARIAL ACCRUED LIABILITY - INSURANCE FUND - JUNE 30, 1996

Date Established	Amount of Base on Date Established	Amount of Base on Current Valuation Date	Amortization Payment	Source of Base
Non-Hazardous Position Employees				
6/30/1996	$ 988,745,810	$ 988,745,810	$ 49,535,176	Cumulative unfunded actuarial accrued liability set up as initial base under revised funding policy (30 year level percent of payroll method)
Total	$ 988,745,810	$ 988,745,810	$ 49,535,176	
Hazardous Position Employees				
6/30/1996	$ 61,002,123	$ 61,002,123	$ 3,056,145	Cumulative unfunded actuarial accrued liability set up as initial base under revised funding policy (30 year level percent of payroll method)
Total	$ 61,002,123	$ 61,002,123	$ 3,056,145	

TABLE VI
KENTUCKY EMPLOYEES RETIREMENT SYSTEM
BENEFIT PAYMENT PROJECTIONS

RETIREMENT FUND PAYMENT PROJECTIONS

Plan Year	Non-Hazardous Position Employees	Hazardous Position Employees	Total
7/1/1996 to 6/30/1997	168,891,000	3,959,000	172,850,000
7/1/1997 to 6/30/1998	172,668,000	4,289,000	176,957,000
7/1/1998 to 6/30/1999	177,611,000	4,768,000	182,379,000
7/1/1999 to 6/30/2000	184,351,000	5,214,000	189,565,000
7/1/2000 to 6/30/2001	191,948,000	5,768,000	197,716,000
7/1/2001 to 6/30/2002	201,185,000	6,322,000	207,507,000
7/1/2002 to 6/30/2003	212,266,000	7,227,000	219,493,000
7/1/2003 to 6/30/2004	223,992,000	8,116,000	232,108,000
7/1/2004 to 6/30/2005	238,438,000	9,247,000	247,685,000
7/1/2005 to 6/30/2006	255,393,000	10,540,000	265,933,000

INSURANCE FUND PAYMENT PROJECTIONS

Plan Year	Non-Hazardous Position Employees	Hazardous Position Employees	Total
7/1/1996 to 6/30/1997	22,940,000	1,492,000	24,432,000
7/1/1997 to 6/30/1998	25,545,000	1,673,000	27,218,000
7/1/1998 to 6/30/1999	28,577,000	1,916,000	30,493,000
7/1/1999 to 6/30/2000	32,245,000	2,189,000	34,434,000
7/1/2000 to 6/30/2001	36,339,000	2,527,000	38,866,000
7/1/2001 to 6/30/2002	41,047,000	2,892,000	43,939,000
7/1/2002 to 6/30/2003	46,552,000	3,391,000	49,943,000
7/1/2003 to 6/30/2004	52,595,000	3,956,000	56,551,000
7/1/2004 to 6/30/2005	59,761,000	4,636,000	64,397,000
7/1/2005 to 6/30/2006	68,194,000	5,431,000	73,625,000

Projected benefit payments reflect future actual experience consistent with actuarial assumptions used in current annual valuation. No provision has been included for future cost-of-living adjustments in retirement benefit amounts, but insurance fund payments do reflect future medical inflation rates consistent with the valuation assumption. There has not been any assumption made as to the number of future new entrants who may enter the plan, nor has any provision been made for any change in the basic benefit structure of the plan.

TABLE VII KENTUCKY EMPLOYEES RETIREMENT SYSTEM RETIREMENT FUND ACTUARIAL BALANCE SHEET - JUNE 30, 1996		
ACTUARIAL ASSETS		
Fund Assets at Actuarial Value (Plus Refunds and Expenses Payable) *		$ 3,419,120,099
Actuarial Present Value of Future Member Contributions		797,887,661
Actuarial Present Value of Future Employer Contributions		
For Normal Costs	$ 640,313,620	
For Unfunded Actuarial Accrued Liability	40,108,906	
Total		$ 680,422,526
Total Actuarial Assets		$ 4,897,430,286
ACTUARIAL LIABILITIES		
Actuarial Present Value of Future Benefits		
Inactive Members:		
Retired Members and Beneficiaries	$ 1,393,227,187	
Vested Retirement	25,764,237	
Vested Membership	6,527,423	
Total - Inactive		$ 1,425,518,847
Actuarial Present Value of Future Benefits		
Active Members:		
Retirement Benefits	$ 2,859,986,783	
Disability Benefits	212,823,887	
Withdrawal Benefits (Vested and Refund of Contributions)	169,697,685	
Survivor Benefits	185,578,562	
Total - Active		$ 3,428,086,917
Refunds and Expenses Payable		$ 43,824,522
Total Actuarial Liabilities		$ 4,897,430,286
ACCRUED BENEFIT LIABILITY **		
Total		$ 2,290,308,701
Notes		
* Values as of June 30, 1996		
Market value of assets:	Non-Hazardous	$ 3,514,044,648
	Hazardous	$ 143,402,634
	Total	$ 3,657,447,282
Actuarial value of assets:		$ 3,375,295,577
Member's Contribution Account:		$ 654,342,602
** Present value of accrued benefit deferred to normal retirement date.		

TABLE VIII KENTUCKY EMPLOYEES RETIREMENT SYSTEM INSURANCE FUND ACTUARIAL BALANCE SHEET - JUNE 30, 1996		
ACTUARIAL ASSETS		
Fund Assets at Actuarial Value (Plus Refunds and Expenses Payable) *		$ 172,705,375
Actuarial Present Value of Future Member Contributions (Note: All Future Member Contributions Credited Against Retirement Fund)		0
Actuarial Present Value of Future Employer Contributions		
For Normal Costs	$ 976,899,616	
For Unfunded Actuarial Accrued Liability	1,049,747,933	
Total		$ 2,026,647,549
Total Actuarial Assets		$ 2,199,352,924
ACTUARIAL LIABILITIES		
Actuarial Present Value of Future Benefits		
Inactive Members:		
Retired Members and Beneficiaries	$ 354,720,739	
Vested Retirement	34,737,437	
Vested Membership	0	
Total - Inactive		$ 389,458,176
Actuarial Present Value of Future Benefits Active Members:		$ 1,809,835,578
Refunds and Expenses Payable		$ 59,170
Total Actuarial Liabilities		$ 2,199,352,924
Notes		
* Values as of June 30, 1996		
Market value of assets:	Non-Hazardous	$ 143,929,381
	Hazardous	$ 35,340,607
	Total	$ 179,269,988
Actuarial value of assets:		$ 172,646,205

TABLE IX KENTUCKY EMPLOYEES RETIREMENT SYSTEM ACCOUNTANT'S INFORMATION - RETIREMENT FUND - JUNE 30, 1996 GASB DISCLOSURE INFORMATION			
	Non-Hazardous Position Employees	**Hazardous Position Employees**	**Total**
NUMBER OF MEMBERS			
Inactive Members			
Retired Members	16,319	434	16,753
Beneficiaries	3,149	68	3,217
Vested Retirements	2,416	68	2,484
Vested Membership	8,901	321	9,222
Total Inactive Members	30,785	891	31,676
Active Members			
Vested Members	30,916	2,071	32,987
Nonvested Members	16,229	1,381	17,610
Total Active Members	47,145	3,452	50,597
Total Members	77,930	4,343	82,273

TABLE X KENTUCKY EMPLOYEES RETIREMENT SYSTEM ACCOUNTANT'S INFORMATION - INSURANCE FUND - JUNE 30, 1996 INFORMATION REQUIRED UNDER GASB STATEMENT NO. 12				
		Non-Hazardous Position Employees	**Hazardous Position Employees**	**Total**
NUMBER OF MEMBERS				
Contracts in Force - Retirees and Dependents				
(1) Single; Pre-Medicare	- 100% Paid	1,942	88	2,030
	- 75% Paid	265	15	280
	- 50% Paid	170	28	198
	- 25% Paid	119	12	131
	- 0% Paid	637	0	637
(2) Family; Pre-Medicare	- 100% Paid	114	45	159
	- 75% Paid	11	1	12
	- 50% Paid	7	0	7
	- 25% Paid	5	2	7
	- 0% Paid	4	0	4
(3) Parent +; Pre-Medicare	- 100% Paid	84	15	99
	- 75% Paid	3	1	4
	- 50% Paid	3	2	5
	- 25% Paid	5	1	6
	- 0% Paid	48	0	48
(4) Couple; Pre-Medicare	- 100% Paid	420	64	484
	- 75% Paid	39	2	41
	- 50% Paid	24	7	31
	- 25% Paid	19	2	21
	- 0% Paid	2	0	2
(5) Medicare Regular	- 100% Paid	65	0	65
	- 75% Paid	241	3	244
	- 50% Paid	433	12	445
	- 25% Paid	430	9	439
	- 0% Paid	703	0	703
(6) Medicare High Option	- 100% Paid	4,810	147	4,957
	- 75% Paid	1,394	19	1,413
	- 50% Paid	1,313	30	1,343
	- 25% Paid	659	14	673
	- 0% Paid	1,604	1	1,605
Vested Retirements		2,416	68	2,484
Vested Membership		8,901	321	9,222
Active Members		47,145	3,452	50,597
UNFUNDED MEDICAL BENEFIT OBLIGATION				
Medical Benefit Obligation				
Retirees, Beneficiaries and Vested Terminated Members		$ 360,853,628	$ 28,604,548	$ 389,458,176
Active Members		766,274,395	66,661,567	832,935,962
Total Medical Benefit Obligation		$ 1,127,128,023	$ 95,266,115	$ 1,222,394,138
Net Assets at Actuarial Value		$ 138,382,213	$ 34,263,992	$ 172,646,205
Unfunded Medical Benefit Obligation		$ 988,745,810	$ 61,002,123	$ 1,049,747,933
NOTE: Medical Benefit Obligation based on Entry Age Normal Actuarial Cost Method				

SECTION III

RESULTS OF THE 1996 ACTUARIAL VALUATION

Determination of Contribution Rate

The rate of contribution by the State required to provide 30 year amortization of the Unfunded Actuarial Accrued Liability under the level-percentage-of-payroll method, the employer share of the Normal Cost, medical insurance and the expenses of administration, is shown in Table I. The required contribution is expressed both in dollars and as a percentage of the estimated annual State payroll as of June 30, 1996.

The actuarial methods applied to determine the Normal Cost for the year commencing July 1, 1996 are described on page K-2. 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 employee contributions. A breakdown of actuarial liabilities and costs between Hazardous and Non-Hazardous position employees appears in Table II for the Retirement Fund and Table IV for the Insurance Fund. A breakdown of the total Unfunded Actuarial Accrued Liability into the amortization amounts by year is shown in Table III for the Retirement Fund and Table V for the Insurance Fund. Table VI has been included to show an estimate of projected payouts from the funds over the next 10 years based on current plan provisions and actuarial assumptions.

Actuarial Balance Sheet

Table VII is the actuarial balance sheet of the Kentucky Employees Retirement System as of June 30, 1996 for the Retirement Fund. Table VIII is the actuarial balance sheet for the Insurance Fund. The "actuarial balance sheet" displays the fundamental relationship between actual assets, future contributions, and future benefits. The asset side of the balance sheet is comprised of actual fund assets plus the actuarial present value of future contributions on behalf of current members. The actuarial present values of all projected benefit payments to present active and inactive members make up the balance sheet liabilities.

Accountant's Information

Table IX contains additional information needed to comply with GASB disclosure requirements for the Retirement Fund.

Table X contains information needed to comply under GASB Statement No. 12 relative to the Insurance Fund.

SECTION IV

COMMENTS AND CERTIFICATION

Comments

For the Retirement Fund, the total Actuarial Accrued Liability has increased from $3,240,852,288 on June 30, 1995 to $3,515,404,483 on June 30, 1996. The Unfunded Actuarial Accrued Liability has decreased from $257,038,750 to $40,108,906. Total actuarial value of assets as of June 30, 1996 was equal to $3,375,295,577. The Unfunded Actuarial Accrued Liability decreased from 21.69% to 3.17% as a percentage of annual payroll and decreased from 7.9% to 1.2% as a percentage of the Actuarial Accrued Liability in the year ended June 30, 1996.

For the Insurance Fund, the total Actuarial Accrued Liability has decreased from $1,462,174,101 on June 30, 1995 to $1,222,394,138 on June 30, 1996 (largely due to the revision in actuarial assumptions). The Unfunded Actuarial Accrued Liability has decreased from $1,334,881,910 to $1,049,747,933. Total actuarial value of assets as of June 30, 1996 was equal to $172,646,205. The Unfunded Actuarial Accrued Liability decreased from 91.3% to 85.9% as a percentage of the Actuarial Accrued Liability in the year ended June 30, 1996.

The change in contribution rate between the 1995 and 1996 valuations is a function of actual plan experience since the last valuation. A formal gain and loss analysis would identify the portion of the contribution rate change attributable to each element of plan experience and benefit change. However, undertaking such an analysis would be extremely time consuming and expensive. In lieu of the formal analysis, we have estimated the impact of the various components of gain and loss based on changes in statistical averages of each group. The following table shows the results of this computation:

	Non-Hazardous Position Employees	**Hazardous Position Employees**
June 30, 1995 Contribution Rate	8.89%	17.87%
Change in Payment Percentage Due to Covered Payroll Experience	(0.02%)	(0.06%)
Investment Return	(0.75%)	(0.35%)
Salary Increases	0.08%	(0.01%)
Decrements Experience*	0.10%	0.24%
Actuarial Assumptions Change (Retirement Fund)	(0.47%)	(0.81%)
Change in Insurance Fund Rate	0.94%	2.57%
Change in Administrative Expense Rate	0.01%	0.02%
Correction to Non-Hazardous/ Hazardous Retiree Benefit Split	0.11%	(1.60%)
June 30, 1996 Contribution Rate	8.89%	17.87%

* Includes mortality, disability, termination of employment and retirement experience.

The annual State contribution rate required to provide the Normal Cost, 30 year amortization of the Unfunded Actuarial Accrued Liability under the level-percentage-of-payroll method, and pay administrative expenses for Non-Hazardous position employees was determined at 4.80%. An additional 4.09% is required to fund medical insurance for retirees, bringing the required contribution up to 8.89%. This equals the current 8.89% budgeted contribution rate. Therefore, it is our opinion that the contribution rate beginning July 1, 1997 should remain at the current 8.89% level, and we so recommend.

The annual State contribution rate required to provide the Normal Cost, 30 year amortization of the Unfunded Actuarial Accrued Liability under the level-percentage-of-payroll method, and pay administrative expenses for Hazardous position employees was determined at 7.84%. An additional 10.03% is required to fund medical insurance for retirees, bringing the required contribution up to 17.87%. This equals the current 17.87% budgeted contribution rate. Therefore, it is our opinion that the contribution rate beginning July 1, 1997 should remain at the current 17.87% level, and we so recommend.

The recommended contribution rates are based on current statutory benefits. The budgeted contribution rates will again be reviewed in the June 30, 1997 valuation.

The following table shows the total Actuarial Accrued Liability, the Unfunded Actuarial Accrued Liability, percent unfunded and the growth of the invested assets relative to retirement related benefits at selected intervals since the inception of the System.

KENTUCKY EMPLOYEES RETIREMENT SYSTEM - RETIREMENT FUND					
July 1 of Year Shown	Total Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Percent Unfunded	Actuarial Value of Assets*	Increase in Assets
1956	$ 16,200,000	$ 16,200,000	100.0%	$ 0	$ 0
1961	49,201,024	31,670,465	64.4%	17,530,559	4,479,508
1966	127,889,238	72,137,125	56.4%	55,752,113	9,085,814
1971	185,075,453	59,614,477	32.2%	125,460,976*	18,353,116
1975	296,343,758	77,434,549	26.1%	218,909,209*	26,529,526
1976	387,214,910	130,838,120	33.8%	256,376,790*	37,467,581
1977	446,255,236	149,511,331	33.5%	296,743,905*	40,367,115
1978	507,324,915	168,497,917	33.2%	338,826,998*	42,083,093
1979	592,095,113	202,676,662	34.2%	389,418,451*	50,591,453
1980	710,126,703	249,770,835	35.2%	460,355,868*	70,937,417
1981	692,160,395	164,735,129	23.8%	527,425,266	67,069,398
1982	810,250,589	195,803,691	24.2%	614,446,898	87,021,632
1983	862,291,959	152,196,081	17.7%	710,095,878	95,648,980
1984	1,016,088,830	201,535,007	19.8%	814,553,823	104,457,945
1985	1,104,429,988	169,949,215	15.4%	934,480,773	119,926,950
1986	1,245,083,143	166,635,243	13.4%	1,079,353,421	144,872,648
1987	1,384,259,808	120,259,389	8.7%	1,264,000,419	184,646,998
1988	1,561,743,738	135,687,336	8.7%	1,426,056,402	162,055,983
1989	1,734,607,903	145,998,805	8.4%	1,588,609,098	162,552,696
1990	2,055,489,412	256,167,674	12.5%	1,799,321,738	210,712,640
1991	2,288,611,147	375,396,216	16.4%	1,913,214,931	113,893,193
1992**	2,525,190,930	170,708,609	6.8%	2,354,482,321	441,267,390
1993	2,703,771,076	118,561,539	4.4%	2,585,209,537	230,727,216
1994	2,912,050,275	183,001,288	6.3%	2,729,048,987	143,839,450
1995	3,240,852,288	257,038,750	7.9%	2,983,813,538	244,764,551
1996	3,415,404,483	40,108,906	1.2%	3,375,295,577	391,482,039
*Includes capitalized appreciation of investments.					
**Change in asset valuation method effective in this valuation from book value to a five year average of market to book values.					

The following table shows the total Actuarial Accrued Liability, the Unfunded Actuarial Accrued Liability, percent unfunded and the growth of the invested assets relative to medical premium benefits since 1990.

KENTUCKY EMPLOYEES RETIREMENT SYSTEM - INSURANCE FUND					
July 1 of Year Shown	Total Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Percent Unfunded	Actuarial Value of Assets*	Increase in Assets
1990	$ 719,493,806	$686,770,874	95.5%	$ 32,722,932	$ N/A
1991	804,674,050	758,124,715	94.2%	46,549,335	13,826,403
1992	1,001,703,695	939,238,069	93.8%	62,465,626	15,916,291
1993	1,177,861,283	1,100,187,708	93.4%	77,673,575	15,207,949
1994	1,444,612,678	1,345,529,145	93.1%	99,083,533	21,409,958
1995	1,462,174,101	1,334,881,910	91.3%	127,292,191	28,208,658
1996**	1,222,394,138	1,049,747,933	85.9%	172,646,205	45,354,014
*Includes capitalized appreciation of investments.					
**Change in asset valuation method effective in this valuation from book value to a five year average of market to book values.					

Certification

On the basis of the actuarial assumptions given and the data furnished by the General Manager of the Kentucky Employees Retirement System, it is certified that the actuarial valuation has been made by the use of accepted actuarial principles and that adequate provision is being made for the funding of future benefits.

Certified by:

Stephen A. Gagel

Stephen A. Gagel, F.S.A.

November 6, 1996

Date

Peer Reviewed by:

Jeannette Moermond

Jeannette Moermond

November 6, 1996

Date

William M. Mercer, Incorporated
1500 Meidinger Tower
Louisville Galleria
Louisville, Kentucky 40202
(502) 561-4500

SECTION VI

SUMMARY OF PRINCIPAL PLAN PROVISIONS

Effective Date

The state of Kentucky established the Kentucky Employees Retirement System in July, 1956. The plan benefits have been improved several times, most recently as of August 1, 1990.

Plan Year

A plan year is a twelve month period beginning on July 1.

Final Compensation

Final compensation is the average salary during the five highest paid fiscal years. If the months of service credit during the highest five year period is less than forty-eight, one or more additional fiscal years shall be used.

Service

Service means the sum of prior service and current service as defined below:

(a) Prior service is credited for regular full-time employment of at least 100 hours of work per month with a participating agency before July 1, 1956. In some instances prior service credit is granted for time spent in the military.

(b) Current service is obtained for regular full-time employment which averages at least 100 hours of work per month with participating agencies after July 1, 1956. Current service credit may be granted for military service and educational leaves if special criteria are met.

(c) Service is increased by unused sick leave, up to a maximum of six months, for purposes of computing eligibility and the amount of benefits.

Eligibility

Any state department, board, or agency shall participate in the System when directed to do so by the Executive Order of the Governor. Membership in the system consists of:

(a) all persons who become employees of a department after such department first participates,

(b) all persons who are employees on the date a department first participates and who elect within thirty days to become members and make contributions,

(c) all persons who are employees of any credit union whose membership is limited to state government employees,

(d) all persons who were professional staff employees of the Council on Public Higher Education or the Higher Education Assistance Authority and were making contributions to the system on the effective date of their respective Executive Order and filed a written election to continue in the System,

(e) all persons who were professional staff employees of the Kentucky Authority for Educational Television on or after July 1, 1974,

(f) members of the General Assembly and Constitutional officers of the General Assembly serving during the January, 1960 session or thereafter, and

(g) officers and employees of the General Assembly and their assistants if employed by the General Assembly during the January, 1960 session and thereafter, but only after serving during six sessions of the General Assembly.

Normal Retirement Date

A member may elect to retire upon: (1) attaining age 65 for non-hazardous positions, or attaining age 55 for hazardous positions, and (2) having contributed to the System. Upon completion of 27 years of service credit, 15 of which are current service for non-hazardous positions, or completion of 20 years of service credit for hazardous positions, a member may elect to retire with an unreduced benefit.

Early Retirement Date

A member may elect to retire before the normal retirement date at any time after: (1) for non-hazardous positions, attainment of age 55 and completion of 60 months of service credit at least 12 of which are current, or at any age after 25 years of service, or (2) for hazardous positions, attainment of age 50 and completion of 15 years of service credit.

Normal Retirement Benefits

For non-hazardous positions, upon attainment of age 65 and completion of 48 months of service, of which 12 months are current service, a monthly benefit equal to 1.97% of the member's final compensation multiplied by his service will be payable. For hazardous positions, a monthly benefit equal to 2.49% of the member's final compensation multiplied by his service will be payable upon attainment of age 55 and completion of 60 months of service of which 12 months are current service. A member, with less than 48 months for non-hazardous positions or 60 months for hazardous positions, who retires on or after the normal retirement date is entitled to a retirement allowance which pays the actuarial equivalent of twice the member's accumulated contributions for life.

Early Retirement Benefits

A member who elects early retirement is entitled to a monthly benefit reduced for each month by which the early retirement date precedes the first date on which the member would qualify for an unreduced benefit. If a non-hazardous position employee has 27 or more years of service credit, 15 of which are current, or a hazardous position employee has 20 or more years of service credit, an unreduced benefit is payable.

Minimum Benefit

The normal retirement benefit for members with 10 or more years of service, at least one of which is current service, shall not be less than $512 per year.

Disability Benefits

A member with 60 months of service, 12 of which must be current service, is entitled to a retirement allowance computed in the same manner as the normal retirement benefit with service and final compensation determined as of the disability date. Service credit shall be added on to total service for the period from the last day of paid employment to the 65th birthday (55th for members in a hazardous position) up to a maximum of service credited to the last day of paid employment. Except for members with 25 or more (20 or more for hazardous) years of service on the last day of paid employment, the maximum combined service credit (total service and added service) shall not exceed 25 years (20 years for hazardous members). For non-hazardous position employees with 25 or more years of service credit, additional years of service credit will be added up to a maximum combined limit of 30, or actual service if greater. For hazardous position employees with 20 or more years of service credit, actual service will be used.

A member in a hazardous position who is disabled in the line of duty is entitled to a retirement benefit of not less than 25% of the member's final monthly rate of pay plus 10% of his final monthly rate of pay for each dependent child. The maximum dependent child's benefit is 40% of the member's final monthly rate of pay. A partial disability benefit may be payable to hazardous employees if the disability is not total and permanent. The disability will be reduced to a rate determined by the Board.

Death Benefits

If a member dies prior to retirement, but after 60 months of service, 12 of which are current and who is a contributing member, or after 12 years of service, one of which is current and who is not a contributing member, or after 48 months service if the member is age 65 or over, a benefit will be payable to the beneficiary based on the member's age, years of service and final compensation at the date of death. The benefit will be equal to the amount payable had the employee retired and elected a joint and 100% survivorship payment form.

If a member in a hazardous position dies in the line of duty and has a spouse as beneficiary, a $5,000 lump sum payment will be made and a benefit of 25% of the member's final monthly rate of pay will be payable until death or remarriage. If the member in a hazardous position dies in the line of duty and has a dependent as beneficiary, a lump sum payment of $10,000 will be made. Monthly payments shall be made for each dependent child equal to 10% of the member's final monthly rate of pay, but not greater than 40% of the member's final monthly rate of pay. The beneficiary of a hazardous duty member with 5 or more years of service, one of which is current, may elect a death benefit computed in the same manner as a non-hazardous employee using 2.49% rather than 1.97%.

Upon the death of a retired member, who had a minimum of 48 months of service credit, a death benefit of $2,500 is payable.

Optional Forms of Payment

Joint and survivor annuities which provide a reduced benefit for the life of the member, with the benefit at the same or at a further reduced rate continuing after the member's death until the death of the designated beneficiary may be elected by the member prior to retirement. Other optional forms include a life annuity with 10, 15 or 20 years of payments guaranteed and a Social Security adjustment with or without survivor rights.

Contributions

Members contribute 5% of gross compensation (7% for hazardous positions). On each June 30, interest is credited at the rate to be determined by the Board on the accumulated contributions the member had in his account on the previous June 30. Upon termination a member may withdraw the contributions with interest, but will be entitled to no benefit payments.

Medical Insurance

Recipients of a retirement benefit may elect to participate in a voluntary hospital/medical group insurance plan for themselves as well as any beneficiaries or dependents. The cost of participation for any beneficiaries or dependents is borne by the retiree (except that dependents of hazardous position employees and legislators will have the same percentage paid by the system as the member). The retirement system will pay a portion of the cost of participation for the retiree based on years of service credit as follows:

Less than 4 years	0%
4 - 9 years	25%
10 - 14 years	50%
15 - 19 years	75%
20 or more years	100%

If a hazardous member is disabled in the line of duty, the retirement system will pay 100% of the cost of the member, spouse and eligible dependents. If a hazardous member is killed in the line of duty, the retirement system will pay 100% of the cost of the beneficiary and eligible dependents as long as they remain eligible for a monthly benefit payment.

Increase in Retirement Allowances

Effective August 1, 1996, and on July 1 of each year thereafter, a recipient of a retirement allowance shall have his retirement allowance increased by the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year as published by the federal Bureau of Labor Statistics, not to exceed five percent (5%). In determining the annual employer contribution rate, only the cost of increases granted as of the most recent valuation date shall be recognized. The benefits of this subsection as provided on August 1`, 1996 and thereafter shall not be considered as benefits protected by the inviolable contract provisions of KRS 61.692, 16.652, and 78.852. The General Assembly reserves the right to suspend or reduce the benefits conferred in this subsection if in their judgment the welfare of the Commonwealth so demands.

THIRTY-SEVENTH ANNUAL ACTUARIAL VALUATION

JUNE 30, 1996

COUNTY EMPLOYEES RETIREMENT SYSTEM

FRANKFORT, KENTUCKY

SECTION I

INTRODUCTION

The results of the thirty-seventh annual actuarial valuation of the County Employees Retirement System are presented in this report. The actuarial valuation was made on the basis of the data provided by the System as of June 30, 1996.

The purpose of the actuarial valuation is to determine the actuarial condition of the Retirement System and the rate of employer contribution for the ensuing fiscal year as required to support the System.

The plan provisions utilized in this valuation are described in the Summary of Principal Plan Provisions beginning on page C-44. The basis of funding is defined in KRS 61.565 and provides that the actuarial valuation method would be uniform for all benefits provided by the System. The Entry Age Normal Actuarial cost method has been used for all benefits. KRS 61.565 provides that each employer participating in the System shall contribute an amount equal to the Normal Cost contribution rate, and an amount sufficient to amortize the Unfunded Actuarial Accrued Liability over 30 years using the level-percentage-of-payroll method. This is the standard used herein to determine whether the funding of the System is adequate.

The actuarial valuation results are based upon the employee census and asset data supplied by the office of the System, and upon the actuarial assumptions as stated on page C-6.

SECTION II

ACTUARIAL CONSIDERATIONS

Description of Actuarial Methods

The actuarial valuation is the means by which the contingent liabilities and contribution rates of a retirement system are evaluated and determined. It provides a guide to the System to the financing required during years of active service to accumulate the funds needed to provide members' benefits. It also makes it possible to estimate beforehand the cost of proposed changes in the System so that action can be taken in the light of the cost consequences.

The methods of valuation are prescribed by KRS 61.565. The Entry Age Normal Cost Method was used to determine costs of all benefits with the exception of the retiree medical insurance benefit. Under this method the employer's contribution to the retirement system consists of Normal Cost, a payment to fund the Unfunded Actuarial Accrued Liability, medical insurance, and administrative expenses. The Normal Cost represents the contribution (as a level percent of payroll) that completely funds benefits at retirement if made from a person's entry into employment until his retirement. The Actuarial Accrued Liability represents the sum of money and investments that would be held in the fund if the retirement system had been in effect since the date each member was first employed. The payment to fund the Unfunded Actuarial Accrued Liability is the amount necessary to amortize this liability over 30 years using the "level-percentage-of-payroll" method. Under the "level-percentage-of-payroll" method, the amortization payment is an amount which remains constant as a percentage of payroll over the 30 years. The initial 30 year period began with the 1990 valuation. In each subsequent valuation, any change in Unfunded Actuarial Accrued Liability is identified and established as a separate amortization base with a 30 year funding period beginning with that valuation. The change in Unfunded Actuarial Accrued Liability established as a separate base in each valuation will include changes attributable to experience gains and/or losses over the prior year, as well as changes attributable to benefit improvements and revisions in actuarial assumptions and funding methods.

The medical insurance contribution rate was originally determined in the 1987 valuation as the level percent of payroll necessary to fund projected medical insurance premiums over the next sixteen years (taking into account the level of reserves in the Insurance Fund). Beginning in 1988, this rate was increased each year by a percentage amount needed to reach the Entry Age Normal funding rate within a 20 year period measured from 1987. This was continued through the 1992 valuation. In the 1992 valuation, an acceleration of the scheduled increases in the medical insurance contribution rate was recommended where possible. This acceleration in these rates was coupled with a deferral of future increases until the time of the next experience study, unless there was a deterioration in the funded position of the medical premium benefit in which case the rate levels were to be reviewed to redetermine an appropriate current funding level, or unless recommended contributions are not made in the prior year, in which case the shortfall would be spread over future years through an increase in the contribution rate. This continued through the 1995 valuation. Effective with the 1996 valuation, a new medical insurance funding policy was adopted by the Board. Under this revised policy, the medical insurance contribution rate for the 1996 valuation was set equal to the 1995 rate plus any reduction in the retirement and administrative expense rates between the 1995 and 1996 valuations (but in no event to be less than the 1995 medical insurance contribution rate). Beginning with the 1997 valuation, the medical insurance contribution rate is to be increased each year by the percentage amount necessary to raise this medical insurance rate to the full Entry Age Normal Cost Method contribution rate by the year 2016. In computing the full Entry Age Normal Cost Method contribution rate, liabilities are to be developed based on actuarial assumptions in use in the current valuation (as adjusted from time to time due to experience studies) and actuarial value of assets based on the same 5-year market to book value average method as employed for the retirement benefit valuation. This represents a change in the actuarial value of assets for the medical contribution rate valuation from book value as used prior to the 1996 valuation.

The amount of the administrative expense was based on the budgeted amount for the twelve months following the date of the valuation as allocated between Hazardous position and Non-Hazardous position employees.

Actuarial Assumptions

Since the actuarial valuation involves estimates of benefits payable in the future, it is necessary that assumptions be made as to the interest earnings, rates of mortality, withdrawal, retirement, and disability, and the rate at which salaries will increase. In addition, an assumption must be made relative to increases in medical insurance premium rates in order to value the liability for the medical insurance benefit.

It is desirable that the actuarial assumptions be reviewed periodically to see whether past experience and probable future experience justifies the continued use of these actuarial assumptions. Such a study was performed subsequent to the 1995 actuarial valuation and new actuarial assumptions were adopted by the Board for use in the 1996 and subsequent actuarial valuations, until such time as another experience study is performed. This valuation reflects assumptions based on the 1995 experience study. Actuarial assumptions used for hazardous position employees are similar to actuarial assumptions adopted for the State Police Retirement System (with the exception of the rate of retirement). The actuarial assumptions as used in this valuation are described beginning on page C-6.

Actuarial Value of Assets

The actuarial value of assets is determined in the following manner for the Retirement Fund:

1. Determine the ratio of the market value of Retirement Fund assets to book value as of the current valuation date and the four preceding valuation dates (but not using any valuation dates prior to June 30, 1989). All asset values include accrued investment income and member and employer contribution receivables, and exclude member refunds and investment expenses payable.

2. Determine the average ratio of market to book value as of these valuation dates.

3. Apply this average ratio to the book value (as adjusted for accrued investment income and member and employer contribution receivables, and member refunds and investment expenses payable) as of the current valuation date to derive valuation assets.

For the Insurance Fund, the revision in the asset valuation method was deferred until the 1996 valuation. Prior to that time, the actuarial value of assets continued to be determined based on the book value of the assets in that fund as of the valuation date adjusted for any receivables and/or payables.

The different asset valuation methods for the Retirement Fund and the Insurance Fund for the 1990 through 1995 valuations were a result of the following:

1. There was separate book and market value information for the Insurance Fund under all systems dating only from July, 1992. So it was not possible to use the same averaging method for the Insurance Fund as used for the Retirement Fund until sufficient years of separate information were developed.

2. The magnitude of assets to liabilities for the Insurance Fund was such that the method of valuing assets would only negligibly affect valuation results. Also, given the method then in use for transitioning into higher medical premium contribution rates over future years, the asset valuation method used for the Insurance Fund was not as critical as the asset valuation method used for the Retirement Fund.

However, effective with the 1996 valuation, there is now sufficient historical information to allow use of the same asset valuation method for the Insurance Fund as that used for the Retirement Fund since 1990. Accordingly, the Board adopted this change in asset valuation method for the Insurance Fund effective with the 1996 valuation.

The tables below show derivation of valuation assets for the Retirement Fund and the Insurance Fund as of the current valuation:

RETIREMENT FUND - NON HAZARDOUS			
Valuation Date	**Book Value**	**Market Value**	**Ratio**
June 30, 1996	1,873,025,147	2,451,945,479	130.90831%
June 30, 1995	1,643,982,397	2,012,950,197	122.44354%
June 30, 1994	1,489,589,016	1,648,810,946	110.68898%
June 30, 1993	1,361,119,578	1,590,519,119	116.85374%
June 30, 1992	1,193,610,120	1,390,358,216	116.48345%
Average Ratio			119.47560%
Valuation Assets (Average Ratio x Current Book Value)			2,237,808,033

RETIREMENT FUND - HAZARDOUS			
Valuation Date	**Book Value**	**Market Value**	**Ratio**
June 30, 1996	540,588,422	699,728,607	129.43833%
June 30, 1995	478,924,330	580,787,809	121.26922%
June 30, 1994	437,372,661	481,281,456	110.03922%
June 30, 1993	402,326,890	464,975,104	115.57147%
June 30, 1992	361,281,420	425,167,270	117.68313%
Average Ratio			118.80027%
Valuation Assets (Average Ratio x Current Book Value)			642,220,505

INSURANCE FUND - NON HAZARDOUS			
Valuation Date	**Book Value**	**Market Value**	**Ratio**
June 30, 1996	104,059,383	114,607,048	110.13620%
June 30, 1995	82,813,551	88,091,626	106.37344%
June 30, 1994	65,174,505	63,265,088	97.07030%
June 30, 1993	47,845,958	50,160,842	104.83820%
June 30, 1992	37,240,080	41,375,867	111.10574%
Average Ratio			105.90478%
Valuation Assets (Average Ratio x Current Book Value)			110,203,861

INSURANCE FUND - HAZARDOUS			
Valuation Date	**Book Value**	**Market Value**	**Ratio**
June 30, 1996	53,521,190	59,462,507	111.10087%
June 30, 1995	42,640,388	45,875,990	107.58812%
June 30, 1994	34,340,389	33,777,689	98.36140%
June 30, 1993	26,407,913	27,868,125	105.52945%
June 30, 1992	19,715,820	22,283,740	113.02467%
Average Ratio			107.12090%
Valuation Assets (Average Ratio x Current Book Value)			57,332,380

Note: Book and market values reflect accrued investment income and member and employer contribution receivables, member refunds and investment expenses payable.

A. STATEMENT OF ACTUARIAL ASSUMPTIONS

(1) Mortality:

(a) Active & retired lives - 1983 Group Annuity Mortality Table, plus a pre-retirement duty death rate of .0005 per year for hazardous duty employees.

(b) Disabled lives - Social Security Administration Disability Mortality Rates - Actuarial Study No. 75 (current rates used by PBGC for disabled lives receiving Social Security).

(2) Disablement - Graduated rates based on 1995 experience study.

(3) Termination of employment - Graduated select (non-hazardous only) and ultimate rates based on 1995 experience study.

(4) Retirement - Non-Hazardous:

Age	Retirement Rate
55-57	03
58-59	04
60-61	05
62	25
63-64	10
65	50
66-67	20
68	25
69	40
70 and Over	1.00

At age 55-64 in lieu of the age related rate, 20% 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.

(5) Marital status

(a) Percentage married - 100%.

(b) Age difference - Males are assumed to be 3 years older than their spouses.

(6) Dependent children - For hazardous position employees under duty related death benefits, it is assumed that the employee is survived by 2 dependent children each age 6.

(7) Investment return - 8.25% per year, net of investment related expenses, compounded annually.

(8) Compensation progression - 6.50% per year, compounded annually.

(9) Retiree Medical Insurance - It was assumed that future retirees would select medical coverage in the same proportion that current retirees have selected coverage. Monthly premium rates were assumed to be as follows:

Plan Type	Rate in Effect on Valuation Date
Single	$175.50
Family	365.54
Parent Plus	212.46
Couple	319.86
Medicare	89.90
High Option	162.05

In determining the target Entry Age Funding rate in valuations beginning with 1996, it was assumed that medical premiums would grow at the following annual rates:

Years	Medical Increase
1996 - 2005	10%
2006 - 2010	9%
2011 - 2015	8%
Thereafter	7.5%

The assumed rate of growth in number of retirees receiving medical insurance was based on assumed retirement and mortality patterns used throughout the valuation.

(10) Missing data - For those active members with incomplete data, the following assumptions were made:

- If reported salary was zero or blank, then monthly salary was assumed to be $700
- If reported age was blank, then assume current age equal to age 18 plus years of service reported

(11) Members with Multiple Service Records - For active members with service in more than one system, the liability has been valued as follows:

- Service under all systems is aggregated for purposes of determining benefit eligibility.
- Future service is projected only under the system in which the member is currently active.
- The actual benefit under each system is determined based only on service (past and projected future service, if applicable) under that system.
- The liability is determined under each system based on the actuarial assumptions used for the system in which the member is currently active. This liability is then included in the valuation of the system in which the service has been earned (or is projected to be earned).

For inactive members with service in more than one system, the benefit attributable to the service under each system is determined, and the liability for that benefit is then included in the valuation of the system in which the service was earned.

B. SAMPLE RATES FOR NON-HAZARDOUS POSITION EMPLOYEES*

(1) Annual Rates of Mortality:

	Active Mortality		Disabled Mortality	
Age	Males	Females	Males	Females
25	0.05%	0.03%	4.83%	2.63%
30	0.06%	0.03%	3.62%	2.37%
40	0.12%	0.07%	2.82%	2.09%
50	0.40%	0.16%	3.83%	2.57%
55	0.61%	0.25%	4.82%	2.95%
60	0.92%	0.42%	6.03%	3.31%

(2) Annual Rates of Decrement:

Age	Disablement	Ultimate Termination
25	0.033%	2.40%
30	0.039%	2.40%
40	0.105%	2.00%
50	0.423%	1.60%
55	0.794%	1.20%
60	1.395%	0.20%

(3) Select Rates of Termination:

Years of Service	Select Termination
1	25.0%
2	8.0%
3	5.0%
4	4.0%
5	3.5%

(4) Compensation Progression:

Age	Rate of Annual Increase	Compensation at Normal Retirement as Percentage Of Current Annual Compensation
25	6.50%	1,241.6%
30	6.50%	906.2%
40	6.50%	482.8%
50	6.50%	257.2%
55	6.50%	187.7%
60	6.50%	137.0%

*Sample rates for hazardous position employees are included in the State Police Retirement System valuation.

TABLE I
COUNTY EMPLOYEES RETIREMENT SYSTEM
RETIREMENT AND INSURANCE FUND
DETERMINATION OF CONTRIBUTION RATE - JUNE 30, 1996

UNFUNDED ACTUARIAL ACCRUED LIABILITY - RETIREMENT FUND			
		Percent *	
Total Actuarial Accrued Liability	$ 2,778,316,473	209.83%	
Assets at Actuarial Value	2,880,028,538	217.52%	
Unfunded Actuarial Accrued Liability	$ (101,712,065)	(7.69%)	
Contribution - Payment on Unfunded Actuarial Accrued Liability	$ (3,730,090)	(0.28%)	
NORMAL COST - RETIREMENT FUND			
Retirement Benefits	$ 117,935,517	8.91%	
Disability Benefits	10,808,346	0.82%	
Withdrawal Benefits (Vested and Refund of Contributions)	9,404,521	0.71%	
Survivor Benefits	7,890,661	0.60%	
Total Normal Cost	$ 146,039,045	11.04%	
Less: Employee Contributions	69,225,635	5.23%	
Normal Cost - State	$ 76,813,410	5.81%	
TOTAL ANNUAL EMPLOYER COST - RETIREMENT AND INSURANCE FUND			
Non-Hazardous Duty Cost			
Normal Cost	$ 61,530,303	5.46%	**
Payment on Unfunded Actuarial Accrued Liability	(7,132,121)	(0.63%)	**
Administrative Expense	5,208,396	0.46%	**
Group Hospital and Medical Insurance Premiums	37,857,775	3.36%	**
Total Annual Cost	$ 97,464,353	8.65%	**
Hazardous Duty Cost			
Normal Cost	$ 15,283,107	7.74%	***
Payment on Unfunded Actuarial Accrued Liability	3,402,031	1.72%	***
Administrative Expense	841,179	0.43%	***
Group Hospital and Medical Insurance Premiums	17,365,682	8.80%	***
Total Annual Cost	$ 36,891,999	18.69%	***
Based on estimated annual salaries			
* Total	$ 1,324,056,780		
** Non-Hazardous Position Employees	$ 1,126,719,480		
*** Hazardous Position Employees	$ 197,337,300		

TABLE II COUNTY EMPLOYEES RETIREMENT SYSTEM RETIREMENT FUND CLASSIFICATION OF ACTUARIAL LIABILITIES AND COSTS - JUNE 30, 1996			
	Non-Hazardous Position Employees	**Hazardous Position Employees**	**Total**
ACTUARIAL ACCRUED LIABILITY			
Active Members			
Retirement Benefits	$ 1,163,814,114	$ 350,997,982	$ 1,514,812,096
Disability Benefits	77,653,766	10,334,797	87,988,563
Withdrawal Benefits (Vested and Refund of Contributions)	41,981,601	4,416,479	46,398,080
Survivor Benefits	74,954,092	11,873,329	86,827,421
Total - Actives	$ 1,358,403,573	$ 377,622,587	$ 1,736,026,160
Inactive Members			
Retired Members and Beneficiaries	$ 702,010,332	$ 315,810,927	$ 1,017,821,259
Vested Retirement	16,187,854	1,171,416	17,359,270
Vested Membership	6,772,558	337,226	7,109,784
Total - Inactives	$ 724,970,744	$ 317,319,569	$ 1,042,290,313
Total Actuarial Accrued Liability	$ 2,083,374,317	$ 694,942,156	$ 2,778,316,473
UNFUNDED ACTUARIAL ACCRUED LIABILITY			
Total Actuarial Accrued Liability	$ 2,083,374,317	$ 694,942,156	$ 2,778,316,473
Less Actuarial Value of Assets	2,237,808,033	642,220,505	2,880,028,538
Unfunded Actuarial Accrued Liability	$ (154,433,716)	$ 52,721,651	$ (101,712,065)
NORMAL COST			
Retirement Benefits	$ 93,510,068	$ 24,425,449	$ 117,935,517
Disability Benefits	9,482,780	1,325,566	10,808,346
Withdrawal Benefits (Vested and Refund of Contributions)	7,814,496	1,590,025	9,404,521
Survivor Benefits	6,657,364	1,233,297	7,890,661
Total Normal Cost	$ 117,464,708	$ 28,574,337	$ 146,039,045
Less Employee Contributions	55,934,405	13,291,230	69,225,635
Total Normal Cost - State	$ 61,530,303	$ 15,283,107	$ 76,813,410
ACCRUED BENEFIT LIABILITY *			
Total	$ 1,332,800,428	$ 508,366,647	$ 1,841,167,075

* Present value of accrued benefits deferred to normal retirement date.

TABLE III
COUNTY EMPLOYEES RETIREMENT SYSTEM
UNFUNDED ACTUARIAL ACCRUED LIABILITY - RETIREMENT FUND - JUNE 30, 1996

Date Established	Amount of Base on Date Established	Amount of Base on Current Valuation Date	Amortization Payment	Source of Base
Non-Hazardous Position Employees				
6/30/1990	$ 93,672,421	$ 108,120,324	$ 6,256,274	Cumulative unfunded actuarial accrued liability set up as initial base under revised funding policy (30 year level percent of payroll method)
6/30/1991	61,472,822	69,518,765	3,913,698	Experience gains/losses for 7/1/90 to 6/30/91
6/30/1992	(125,111,651)	(138,412,265)	(7,592,743)	Experience gains/losses for 7/1/91 to 6/30/92; Asset valuation method change
6/30/1993	(28,358,370)	(30,647,929)	(1,640,461)	Experience gains/losses for 7/1/92 to 6/30/93
6/30/1994	59,026,195	62,235,615	3,254,736	Experience gains/losses for 7/1/93 to 6/30/94; Retiree COLA's
6/30/1995	(35,766,009)	(36,746,179)	(1,879,861)	Experience gains/losses for 7/1/94 to 6/30/95
6/30/1996	(188,502,047)	(188,502,047)	(9,443,764)	Experience gains/losses for 7/1/95 to 6/30/96; Revised actuarial assumptions; Correction of pension allocation for members in pay status with both non-hazardous and hazardous service in KERS
Total	$ (163,566,639)	$ (154,433,716)	$ (7,132,121)	
Hazardous Position Employees				
6/30/1990	$ 68,584,978	$ 79,163,433	$ 4,580,713	Cumulative unfunded actuarial accrued liability set up as initial base under revised funding policy (30 year level percent of payroll method)
6/30/1991	29,934,803	33,852,856	1,905,814	Experience gains/losses for 7/1/90 to 6/30/91
6/30/1992	(12,941,304)	(14,317,092)	(785,378)	Experience gains/losses for 7/1/91 to 6/30/92; Asset valuation method change
6/30/1993	(7,291,213)	(7,879,880)	(421,778)	Experience gains/losses for 7/1/92 to 6/30/93
6/30/1994	1,854,577	1,955,416	102,262	Experience gains/losses for 7/1/93 to 6/30/94; Retiree COLA's
6/30/1995	24,831,672	25,512,186	1,305,152	Experience gains/losses for 7/1/94 to 6/30/95
6/30/1996	(65,565,268)	(65,565,268)	(3,284,754)	Experience gains/losses for 7/1/95 to 6/30/96; Revised actuarial assumptions; Correction of pension allocation for members in pay status with both non-hazardous and hazardous service in KERS
Total	$ 39,408,245	$ 52,721,651	$ 3,402,031	

TABLE IV
COUNTY EMPLOYEES RETIREMENT SYSTEM
INSURANCE FUND
DETERMINATION OF ENTRY AGE CONTRIBUTION RATE - JUNE 30, 1996

	Non-Hazardous Position Employees	Hazardous Position Employees	Total
ACTUARIAL ACCRUED LIABILITY			
Active Members	$ 776,501,645	$ 221,463,621	$ 997,965,266
Inactive Members			
Retired Members	$ 207,225,631	$ 135,225,499	$ 342,451,130
Beneficiaries	108,142	16,631,581	16,739,723
Vested Retirement	27,379,980	2,123,647	29,503,627
Vested Membership	0	0	0
Total - Inactives	$ 234,713,753	$ 153,980,727	$ 388,694,480
Total Actuarial Accrued Liability	$ 1,011,215,398	$ 375,444,348	$ 1,386,659,746
UNFUNDED ACTUARIAL ACCRUED LIABILITY			
Total Actuarial Accrued Liability	$ 1,011,215,398	$ 375,444,348	$ 1,386,659,746
Less Actuarial Value of Assets	110,203,861	57,332,380	167,536,241
Unfunded Actuarial Accrued Liability	$ 901,011,537	$ 318,111,968	$ 1,219,123,505
NORMAL COST			
Gross Normal Cost	$ 92,396,320	$ 23,331,968	$ 115,728,288
Less Employee Contributions	0	0	0
Net Normal Cost - State	$ 92,396,320	$ 23,331,968	$ 115,728,288
Estimated Annual Salaries	$ 1,126,719,480	$ 197,337,300	$ 1,324,056,780
TOTAL ANNUAL EMPLOYER COST			
Contribution Amount			
Normal Cost	$ 92,396,320	$ 23,331,968	$ 115,728,288
Payment on Unfunded Actuarial Accrued Liability	45,139,777	15,937,091	61,076,868
Total Annual Cost	$ 137,536,097	$ 39,269,059	$ 176,805,156
As Percent of Payroll			
Normal Cost	8.20%	11.82%	8.74%
Payment on Unfunded Actuarial Accrued Liability	4.01%	8.08%	4.61%
Total Annual Cost	12.21%	19.90%	13.35%
INSURANCE FUND SHORTFALL			
Full Entry Age Funding Level	12.21%	19.90%	13.35%
Current Funding Allocation	3.36%	8.80%	4.17%
Additional to Pick Up By 2016	8.85%	11.10%	9.18%
Expected Increase in Insurance Fund Rate in 1997 Valuation	0.22%	0.37%	N/A

TABLE V
COUNTY EMPLOYEES RETIREMENT SYSTEM
UNFUNDED ACTUARIAL ACCRUED LIABILITY - INSURANCE FUND - JUNE 30, 1996

Date Established	Amount of Base on Date Established	Amount of Base on Current Valuation Date	Amortization Payment	Source of Base
Non-Hazardous Position Employees				
6/30/1996	$ 901,011,537	$ 901,011,537	$ 45,139,777	Cumulative unfunded actuarial accrued liability set up as initial base under revised funding policy (30 year level percent of payroll method)
Total	$ 901,011,537	$ 901,011,537	$ 45,139,777	
Hazardous Position Employees				
6/30/1996	$ 318,111,968	$ 318,111,968	$ 15,937,091	Cumulative unfunded actuarial accrued liability set up as initial base under revised funding policy (30 year level percent of payroll method)
Total	$ 318,111,968	$ 318,111,968	$ 15,937,091	

TABLE VI COUNTY EMPLOYEES RETIREMENT SYSTEM BENEFIT PAYMENT PROJECTIONS			
RETIREMENT FUND PAYMENT PROJECTIONS			
Plan Year	**Non-Hazardous Position Employees**	**Hazardous Position Employees**	**Total**
7/1/1996 to 6/30/1997	89,733,000	33,916,000	123,649,000
7/1/1997 to 6/30/1998	93,771,000	34,636,000	128,407,000
7/1/1998 to 6/30/1999	98,205,000	35,432,000	133,637,000
7/1/1999 to 6/30/2000	103,435,000	36,191,000	139,626,000
7/1/2000 to 6/30/2001	110,342,000	37,143,000	147,485,000
7/1/2001 to 6/30/2002	118,604,000	39,452,000	158,056,000
7/1/2002 to 6/30/2003	128,122,000	42,891,000	171,013,000
7/1/2003 to 6/30/2004	139,095,000	46,270,000	185,365,000
7/1/2004 to 6/30/2005	151,722,000	50,012,000	201,734,000
7/1/2005 to 6/30/2006	166,498,000	55,078,000	221,576,000
INSURANCE FUND PAYMENT PROJECTIONS			
Plan Year	**Non-Hazardous Position Employees**	**Hazardous Position Employees**	**Total**
7/1/1996 to 6/30/1997	15,234,000	6,672,000	21,906,000
7/1/1997 to 6/30/1998	17,682,000	7,341,000	25,023,000
7/1/1998 to 6/30/1999	20,554,000	8,152,000	28,706,000
7/1/1999 to 6/30/2000	23,956,000	9,062,000	33,018,000
7/1/2000 to 6/30/2001	28,004,000	10,073,000	38,077,000
7/1/2001 to 6/30/2002	32,717,000	11,431,000	44,148,000
7/1/2002 to 6/30/2003	38,228,000	13,101,000	51,329,000
7/1/2003 to 6/30/2004	44,707,000	14,979,000	59,686,000
7/1/2004 to 6/30/2005	52,313,000	17,105,000	69,418,000
7/1/2005 to 6/30/2006	61,399,000	19,676,000	81,075,000

Projected benefit payments reflect future actual experience consistent with actuarial assumptions used in current annual valuation. No provision has been included for future cost-of-living adjustments in retirement benefit amounts, but insurance fund payments do reflect future medical inflation rates consistent with the valuation assumption. There has not been any assumption made as to the number of future new entrants who may enter the plan, nor has any provision been made for any change in the basic benefit structure of the plan.

TABLE VII COUNTY EMPLOYEES RETIREMENT SYSTEM RETIREMENT FUND ACTUARIAL BALANCE SHEET - JUNE 30, 1996		
ACTUARIAL ASSETS		
Fund Assets at Actuarial Value (Plus Refunds and Expenses Payable) *		$ 2,907,570,447
Actuarial Present Value of Future Member Contributions		865,818,973
Actuarial Present Value of Future Employer Contributions		
For Normal Costs	$ 911,383,346	
For Unfunded Actuarial Accrued Liability	(101,712,065)	
Total		$ 809,671,281
Total Actuarial Assets		$ 4,583,060,701
ACTUARIAL LIABILITIES		
Actuarial Present Value of Future Benefits		
Inactive Members:		
Retired Members and Beneficiaries	$ 1,017,821,259	
Vested Retirement	17,359,270	
Vested Membership	7,109,784	
Total - Inactive		$ 1,042,290,313
Actuarial Present Value of Future Benefits		
Active Members:		
Retirement Benefits	$ 2,942,679,837	
Disability Benefits	219,104,099	
Withdrawal Benefits (Vested and Refund of Contributions)	169,474,946	
Survivor Benefits	181,969,597	
Total - Active		$ 3,513,228,479
Refunds and Expenses Payable		$ 27,541,909
Total Actuarial Liabilities		$ 4,583,060,701
ACCRUED BENEFIT LIABILITY **		
Total		$ 1,841,167,075
Notes		
* Values as of June 30, 1996		
Market value of assets:	Non-Hazardous	$ 2,451,945,479
	Hazardous	$ 699,728,607
	Total	$ 3,151,674,086
Actuarial value of assets:		$ 2,880,028,538
Member's Contribution Account:		$ 546,013,662
** Present value of accrued benefit deferred to normal retirement date.		

TABLE VIII COUNTY EMPLOYEES RETIREMENT SYSTEM INSURANCE FUND ACTUARIAL BALANCE SHEET - JUNE 30, 1996		
ACTUARIAL ASSETS		
Fund Assets at Actuarial Value (Plus Refunds and Expenses Payable) *		$ 167,639,043
Actuarial Present Value of Future Member Contributions (Note: All Future Member Contributions Credited Against Retirement Fund)		0
Actuarial Present Value of Future Employer Contributions		
For Normal Costs	$ 1,483,679,428	
For Unfunded Actuarial Accrued Liability	1,219,123,505	
Total		$ 2,702,802,933
Total Actuarial Assets		$ 2,870,441,976
ACTUARIAL LIABILITIES		
Actuarial Present Value of Future Benefits		
Inactive Members:		
Retired Members and Beneficiaries	$ 359,190,853	
Vested Retirement	29,503,627	
Vested Membership	0	
Total - Inactive		$ 388,694,480
Actuarial Present Value of Future Benefits Active Members:		$ 2,481,644,694
Refunds and Expenses Payable		$ 102,802
Total Actuarial Liabilities		$ 2,870,441,976
Notes		
* Values as of June 30, 1996		
Market value of assets:	Non-Hazardous	$ 114,607,048
	Hazardous	$ 59,462,507
	Total	$ 174,069,555
Actuarial value of assets:		$ 167,536,241

TABLE IX COUNTY EMPLOYEES RETIREMENT SYSTEM ACCOUNTANT'S INFORMATION - RETIREMENT FUND - JUNE 30, 1996 GASB DISCLOSURE INFORMATION	Non-Hazardous Position Employees	Hazardous Position Employees	Total
NUMBER OF MEMBERS			
Inactive Members			
Retired Members	14,208	1,813	16,021
Beneficiaries	2,000	148	2,148
Vested Retirements	2,254	85	2,339
Vested Membership	13,519	220	13,739
Total Inactive Members	31,981	2,266	34,247
Active Members			
Vested Members	33,802	3,635	37,437
Nonvested Members	32,471	2,646	35,117
Total Active Members	66,273	6,281	72,554
Total Members	98,254	8,547	106,801

TABLE X COUNTY EMPLOYEES RETIREMENT SYSTEM ACCOUNTANT'S INFORMATION - INSURANCE FUND - JUNE 30, 1996 INFORMATION REQUIRED UNDER GASB STATEMENT NO. 12				
		Non-Hazardous Position Employees	**Hazardous Position Employees**	**Total**
NUMBER OF MEMBERS				
Contracts in Force - Retirees and Dependents				
(1) Single;	` 100% Paid	1,001	393	1,394
Pre-Medicare	- 75% Paid	389	33	422
	- 50% Paid	269	13	282
	- 25% Paid	180	8	188
	- 0% Paid	450	0	450
(2) Family;	- 100% Paid	66	427	493
Pre-Medicare	- 75% Paid	17	10	27
	- 50% Paid	13	5	18
	- 25% Paid	11	1	12
	- 0% Paid	2	0	2
(3) Parent +;	- 100% Paid	32	115	147
Pre-Medicare	- 75% Paid	4	4	8
	- 50% Paid	5	7	12
	- 25% Paid	3	0	3
	- 0% Paid	53	0	53
(4) Couple +;	- 100% Paid	292	530	822
Pre-Medicare	- 75% Paid	49	9	58
	- 50% Paid	65	6	71
	- 25% Paid	43	2	45
	- 0% Paid	8	0	8
(5) Medicare Regular	- 100% Paid	48	4	52
	- 75% Paid	180	4	184
	- 50% Paid	513	6	519
	- 25% Paid	613	3	616
	- 0% Paid	448	0	448
(6) Medicare High Option	- 100% Paid	2,237	277	2,514
	- 75% Paid	877	28	905
	- 50% Paid	1,395	26	1,421
	- 25% Paid	817	9	826
	- 0% Paid	915	2	917
Vested Retirements		2,254	85	2,339
Vested Membership		13,519	220	13,739
Active Members		66,273	6,281	72,554
UNFUNDED MEDICAL BENEFIT OBLIGATION				
Medical Benefit Obligation				
Retirees, Beneficiaries and Vested Terminated Members		$ 234,713,753	$ 153,980,727	$ 388,694,480
Active Members		776,501,645	221,463,621	997,965,266
Total Medical Benefit Obligation		$ 1,011,215,398	$ 375,444,348	$ 1,386,659,746
Net Assets at Actuarial Value		$ 110,203,861	$ 57,332,380	$ 167,536,241
Unfunded Medical Benefit Obligation		$ 901,011,537	$ 318,111,968	$ 1,219,123,505
NOTE: Medical Benefit Obligation based on Entry Age Normal Actuarial Cost Method				

SECTION III

RESULTS OF THE 1996 ACTUARIAL VALUATION

Determination of Contribution Rate

The rate of contribution by the participating Agencies required to provide 30 year amortization of the Unfunded Actuarial Accrued Liability under the level-percentage-of-payroll method, the employer share of the annual Normal Cost, medical insurance and the administrative costs of the System is shown in Table I. The required contribution is expressed both in dollars and as a percentage of the estimated payroll of the participating Agencies as of June 30, 1996.

The actuarial methods applied to determine the Normal Cost for the year commencing July 1, 1996 are described on page C-2. 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 actuarial liabilities and costs between Hazardous and Non-Hazardous position employees appears in Table II for the Retirement Fund and Table IV for the Insurance Fund. A breakdown of the total Unfunded Actuarial Accrued Liability into the amortization amounts by year is shown in Table III for the Retirement Fund and Table V for the Insurance Fund. Table VI has been included to show an estimate of projected payouts from the funds over the next 10 years based on current plan provisions and actuarial assumptions.

Actuarial Balance Sheet

Table VII is the actuarial balance sheet of the County Employees Retirement System as of June 30, 1996 for the Retirement Fund. Table VIII is the actuarial balance sheet for the Insurance Fund. The "actuarial balance sheet" displays the fundamental relationship between actual assets, future contributions, and future benefits. The asset side of the balance sheet is comprised of actual fund assets plus the actuarial present value of future contributions on behalf of current members. The actuarial present values of all projected benefit payments to present active and inactive members make up the balance sheet liabilities.

Accountant's Information

Table IX contains additional information needed to comply with GASB disclosure requirements relative to the Retirement Fund.

Table X contains information needed to comply under GASB Statement No. 12 relative to the Insurance Fund.

SECTION IV

COMMENTS AND CERTIFICATION

Comments

For the Retirement Fund, the total Actuarial Accrued Liability has increased from $2,603,575,921 on June 30, 1995 to $2,778,316,473 on June 30, 1996. The Unfunded Actuarial Accrued Liability has decreased from $149,447,861 to $(101,712,065). Total actuarial value of assets as of June 30, 1996 was equal to $2,880,028,538. The Unfunded Actuarial Accrued Liability decreased from 12.07% to (7.69%) as a percentage of annual payroll and decreased from 5.7% to (3.7%) as a percentage of the Actuarial Accrued Liability in the year ended June 30, 1996.

For Insurance Fund, the total Actuarial Accrued Liability has decreased from $1,679,893,225 on June 30, 1995 to $1,386,659,746 on June 30, 1996 (largely due to the revision in actuarial assumptions). The Unfunded Actuarial Accrued Liability has decreased from $1,554,439,285 to $1,219,123,505. Total actuarial value of assets as of June 30, 1996 was equal to $167,536,241. The Unfunded Actuarial Accrued Liability decreased from 92.5% to 87.9% as a percentage of the Actuarial Accrued Liability in the year ended June 30, 1996.

The change in contribution rate between the 1995 and 1996 valuations is a function of actual plan experience since the last valuation. A formal gain and loss analysis would identify the portion of the contribution rate change attributable to each element of plan experience and benefit change. However, undertaking such an analysis would be extremely time consuming and expensive. In lieu of the formal analysis, we have estimated the impact of the various components of gain and loss based on changes in statistical averages of each group. The following table shows the results of this computation:

	Non-Hazardous Position Employees	**Hazardous Position Employees**
June 30, 1995 Contribution Rate	8.65%	18.69%
Change in Payment Percentage Due to Covered Payroll Experience	(0.02%)	(0.21%)
Investment Return	(0.64%)	(0.98%)
Salary Increases	(0.04%)	0.09%
Decrements Experience*	0.02%	0.29%
Actuarial Assumptions Change (Retirement Fund)	(0.42%)	(1.23%)
Change in Insurance Fund Rate	1.00%	2.47%
Change in Administrative Expense Rate	0.02%	(0.01%)
Correction to Non-Hazardous/ Hazardous Retiree Benefit Split	0.08%	(0.42%)
June 30, 1996 Contribution Rate	8.65%	18.69%
* Includes mortality, disability, termination of employment and retirement experience.		

The annual contribution rate required by the participating Agencies to provide the Normal Cost, 30 year amortization of the Unfunded Actuarial Accrued Liability under the level-percentage-of-payroll method, and pay administrative expenses for Non-Hazardous position employees is 5.29%. An additional 3.36% is required to fund medical insurance for retirees, bringing the required contribution up to 8.65%. This equals the current 8.65% budgeted contribution rate. Therefore, it is our opinion that the contribution rate beginning July 1, 1997 should remain at the current 8.65% level, and we so recommend.

The annual contribution rate required by the participating Agencies to provide the Normal Cost, 30 year amortization of the Unfunded Actuarial Accrued Liability under the level-percentage-of-payroll method, and pay administrative expenses for Hazardous position employees is 9.89%. An additional 8.80% is required to fund medical insurance for retirees, bringing the required contribution up to 18.69%. This equals the current 18.69% budgeted contribution rate. Therefore, it is our opinion that the contribution rate beginning July 1, 1997 should remain at the current 18.69% level, and we so recommend.

The recommended contribution rates are based on current statutory benefits. The budgeted contribution rates will again be reviewed in the June 30, 1997 valuation.

The following table shows the total Actuarial Accrued Liability, the Unfunded Actuarial Accrued Liability, percent unfunded and the growth of the invested assets relative to retirement related benefits at selected intervals since the inception of the System.

COUNTY EMPLOYEES RETIREMENT SYSTEM - RETIREMENT FUND					
July 1 of Year Shown	Total Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Percent Unfunded	Actuarial Value of Assets*	Increase in Assets
1960	$ 5,602,131	$ 4,737,680	84.6%	$ 864,451	$ 864,451
1965	12,510,487	6,897,273	55.1%	5,613,214	1,255,742
1971	40,305,948	16,885,927	41.9%	23,420,022*	4,850,170
1975	85,322,085	24,467,454	28.7%	60,854,631*	11,704,780
1976	128,824,236	50,089,614	38.9%	78,734,622*	17,879,991
1977	152,900,347	52,474,756	34.3%	100,425,591*	21,690,969
1978	175,194,867	50,394,913	28.8%	124,799,954*	24,374,363
1979	213,834,377	60,742,472	28.4%	153,091,905*	28,291,951
1980	266,018,621	75,787,680	28.5%	190,230,941*	37,139,036
1981	260,872,162	27,101,917	10.4%	233,770,245*	43,539,304
1982	306,087,531	20,552,642	6.7%	285,534,889	51,764,644
1983	340,705,763	0	0.0%	343,155,769	57,620,880
1984	421,336,269	15,148,838	3.6%	406,187,431	63,031,662
1985	463,618,532	0	0.0%	478,043,221	71;855,790
1986	535,948,094	0	0.0%	603,815,800	125,772,579
1987	678,442,760	0	0.0%	727,730,727	123,914,927
1988	829,346,323	0	0.0%	839,578,635	111,848,169
1989	1,113,868,548	35,815,913	3.2%	1,078,052,635	238,473,739
1990	1,432,323,666	162,257,399	11.3%	1,270,066,267	192,013,632
1991	1,654,338,706	258,111,701	15.6%	1,396,227,005	126,160,738
1992**	1,861,978,403	126,939,495	6.8%	1,735,038,908	338,811,903
1993	2,079,930,047	94,249,338	4.5%	1,985,680,709	250,641,801
1994	2,330,344,241	156,989,469	6.7%	2,173,354,772	187,674,063
1995	2,603,575,921	149,447,861	5.7%	2,454,128,060	280,773,288
1996	2,778,316,473	(101,712,065)	(3.7%)	2,880,028,538	425,900,478

*Includes capitalized appreciation of investments.

**Change in asset valuation method effective in this valuation from book value to a five year average of market to book values.

The following table shows the total Actuarial Accrued Liability, the Unfunded Actuarial Accrued Liability, percent unfunded and the growth of the invested assets relative to medical premium benefits since 1990.

COUNTY EMPLOYEES RETIREMENT SYSTEM - INSURANCE FUND					
July 1 of Year Shown	**Total Actuarial Accrued Liability**	**Unfunded Actuarial Accrued Liability**	**Percent Unfunded**	**Actuarial Value of Assets***	**Increase in Assets**
1990	$ 700,151,838	$670,720,901	95.8%	$ 29,430,397	$ N/A
1991	823,012,809	780,592,065	94.8%	42,420,744	12,989,807
1992	1,041,905,457	984,949,556	94.5%	56,955,901	14,535,157
1993	1,244,258,042	1,170,004,170	94.0%	74,253,872	17,297,971
1994	1,551,138,800	1,451,623,905	93.6%	99,514,895	25,261,023
1995	1,679,893,225	1,554,439,285	92.5%	125,453,940	25,939,045
1996	1,386,659,746	1,219,123,505	87.9%	167,536,241	42,082,301

*Includes capitalized appreciation of investments.

**Change in asset valuation method effective in this valuation from book value to a five year average of market to book values.

Certification

On the basis of the actuarial assumptions given and the data furnished by the General Manager of the County Employees Retirement System, it is certified that the actuarial valuation has been made by the use of accepted actuarial principles and that adequate provision is being made for the funding of future benefits.

Certified by:

Stephen A. Gagel

Stephen A. Gagel, F.S.A.

November 6, 1996

Date

Peer Reviewed by:

Jeannette Moermond

Jeannette Moermond

November 6, 1996

Date

William M. Mercer, Incorporated
1500 Meidinger Tower
Louisville Galleria
Louisville, Kentucky 40202
(502) 561-4500

SECTION VI

SUMMARY OF PRINCIPAL PLAN PROVISIONS

Effective Date

The state of Kentucky established the County Employees Retirement System in July, 1958. The plan benefits have been improved several times, most recently as of August 1, 1990.

Plan Year

A plan year is a twelve month period beginning on July 1.

Final Compensation

Final compensation is the average salary during the five highest paid fiscal years. If the months of service credit during the highest five year period is less than forty-eight, one or more additional fiscal years shall be used.

Service

Service means the sum of prior service and current service as defined below:

(a) Prior service is credited for regular full-time employment of at least 100 hours of work per month with a participating agency before July 1, 1958. In some instances prior service credit is granted for time spent in the military.

(b) Current service is obtained for regular full-time employment which averages at least 100 hours of work per month with participating agencies after July 1, 1958. Current service credit may be granted for military service and educational leaves if special criteria are met.

(c) Employers may elect to purchase up to 6 months additional service credit based on an employee's unused sick leave.

Eligibility

Any county or political subdivision or instrumentality, including school boards or urban county government may participate in the System upon approval by the Board. Membership in the system consists of:

(a) all persons who become employees of a county after such county first participates,

(b) all persons who are employees on the date a county first participates and who elect within thirty days to become members and make contributions.

Membership does not include employees of a county who are members of some other state, county, or local retirement system, supported in whole or in part by public funds.

Normal Retirement Date

A member may elect to retire upon: (1) attaining age 65 for non-hazardous positions, or attaining age 55 for hazardous positions, and (2) having contributed to the System. Upon completion of 27 years of service credit, 15 of which are current service for non-hazardous positions, or completion of 20 years of service credit for hazardous positions, a member may elect to retire with an unreduced benefit.

Early Retirement Date

A member may elect to retire before the normal retirement date at any time after: (1) for non-hazardous positions, attainment of age 55 and completion of 60 months of service credit at least 12 of which are current, or at any age after 25 years of service, or (2) for hazardous positions, attainment of age 50 and completion of 15 years of service credit.

Normal Retirement Benefits

For non-hazardous positions, upon attainment of age 65 and completion of 48 months of service, of which 12 months are current service, a monthly benefit equal to 2.20% of the member's final compensation multiplied by his service will be payable. For hazardous positions, a monthly benefit equal to 2.50% of the member's final compensation multiplied by his service will be payable upon attainment of age 55 and completion of 60 months of service of which 12 months are current service. A member, with less than 48 months for non-hazardous positions or 60 months for hazardous positions, who retires on or after the normal retirement date is entitled to a retirement allowance which pays the actuarial equivalent of twice the member's accumulated contributions for life.

Early Retirement Benefits

A member who elects early retirement is entitled to a monthly benefit reduced for each month by which the early retirement date precedes the first date on which the member would qualify for an unreduced benefit. If a non-hazardous position employee has 27 or more years of service credit, 15 of which are current, or a hazardous position employee has 20 or more years of service credit, an unreduced benefit is payable.

Disability Benefits

A member with 60 months of service, 12 of which must be current service, is entitled to a retirement allowance computed in the same manner as the normal retirement benefit with service and final compensation determined as of the disability date. Service credit shall be added on to total service for the period from the last day of paid employment to the 65th birthday (55th for members in a hazardous position) up to a maximum of service credited to the last day of paid employment. Except for members with 25 or more (20 or more for hazardous) years of service on the last day of paid employment, the maximum combined service credit (total service and added service) shall not exceed 25 years (20 years for hazardous members). For non-hazardous position employees with 25 or more years of service, additional years of service credit will be added up to maximum combined limit of 30, or actual service if greater. For hazardous position employees with 20 or more years of service credit, actual service will be used.

A member in a hazardous position who is disabled in the line of duty is entitled to a retirement benefit of not less than 25% of the member's final monthly rate of pay plus 10% of his final monthly rate of pay for each dependent child. The maximum dependent child's benefit is 40% of the member's final monthly rate of pay. A partial disability benefit may be payable to hazardous employees if the disability is not total and permanent. The disability will be reduced to a rate determined by the Board.

Death Benefits

If a member dies prior to retirement, but after 60 months of service, 12 of which are current and who is a contributing member, or after 12 years of service, one of which is current and who is not a contributing member, or after 48 months service if the member is age 65 or over, a benefit will be payable to the beneficiary based on the member's age, years of service and final compensation at the date of death. The benefit will be equal to the amount payable had the employee retired and elected a joint and 100% survivorship payment form.

If a member in a hazardous position dies in the line of duty and has a spouse as beneficiary, a $5,000 lump sum payment will be made and a benefit of 25% of the member's final monthly rate of pay will be payable until death or remarriage. If the member in a hazardous position dies in the line of duty and has a dependent as beneficiary, a lump sum payment of $10,000 will be made. Monthly payments shall be made for each dependent child equal to 10% of the member's final monthly rate of pay, but not greater than 40% of the member's final monthly rate of pay. The beneficiary of a hazardous duty member with 5 or more years of service, one of which is current, may elect a death benefit computed in the same manner as a non-hazardous employee using 2.50% rather than 2.20%.

Upon the death of a retired member, who had a minimum of 48 months of service credit, a death benefit of $2,500 is payable.

Optional Forms of Payment

Joint and survivor annuities which provide a reduced benefit for the life of the member, with the benefit at the same or at a further reduced rate continuing after the member's death until the death of the designated beneficiary may be elected by the member prior to retirement. Other optional forms include a life annuity with 10, 15 or 20 years of payments guaranteed and a Social Security adjustment with or without survivor rights.

Contributions

Members contribute 5% of gross compensation (7% for hazardous positions). On each June 30, interest is credited at the rate to be determined by the Board on the accumulated contributions the member had in his account on the previous June 30. Upon termination a member may withdraw the contributions with interest, but will be entitled to no benefit payments.

Medical Insurance

Recipients of a retirement benefit may elect to participate in a voluntary hospital/medical group insurance plan for themselves as well as any beneficiaries or dependents. The cost of participation for any beneficiaries or dependents is borne by the retiree (except that dependents of hazardous position employees and legislators will have the same percentage paid by the system as the member). The retirement system will pay a portion of the cost of participation for the retiree based on years of service credit as follows:

Less than 4 years	0%
4 - 9 years	25%
10 - 14 years	50%
15 - 19 years	75%
20 or more years	100%

If a hazardous member is disabled in the line of duty, the retirement system will pay 100% of the cost of the member, spouse and eligible dependents. If a hazardous member is killed in the line of duty, the retirement system will pay 100% of the cost of the beneficiary and eligible dependents as long as they remain eligible for a monthly benefit payment.

Increase in Retirement Allowances

Effective August 1, 1996, and on July 1 of each year thereafter, a recipient of a retirement allowance shall have his retirement allowance increased by the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year as published by the federal Bureau of Labor Statistics, not to exceed five percent (5%). In determining the annual employer contribution rate, only the cost of increases granted as of the most recent valuation date shall be recognized. The benefits of this subsection as provided on August 1`, 1996 and thereafter shall not be considered as benefits protected by the inviolable contract provisions of KRS 61.692, 16.652, and 78.852. The General Assembly reserves the right to suspend or reduce the benefits conferred in this subsection if in their judgment the welfare of the Commonwealth so demands.

THIRTY-EIGHTH ANNUAL ACTUARIAL VALUATION

JUNE 30, 1996

STATE POLICE RETIREMENT SYSTEM

FRANKFORT, KENTUCKY

SECTION I

INTRODUCTION

The results of the thirty-eighth annual actuarial valuation of the State Police Retirement System are presented in this report. The actuarial valuation was made on the basis of the data provided by the System as of June 30, 1996.

The purpose of the actuarial valuation is to determine the actuarial condition of the Retirement System and the rate of employer contribution for the ensuing fiscal year as required to support the System.

The plan provisions utilized in this valuation are described in the Summary of Principal Plan Provisions beginning on page S-34. The basis of funding is defined in KRS 61.565 and provides that the actuarial valuation method would be uniform for all benefits provided by the System. The Entry Age Normal Actuarial cost method has been used for all benefits. KRS 61.565 provides that each employer participating in the System shall contribute an amount equal to the Normal Cost contribution rate, and an amount sufficient to amortize the Unfunded Actuarial Accrued Liability over 30 years using the level-percentage-of-payroll method. This is the standard used herein to determine whether the funding of the System is adequate.

The actuarial valuation results are based upon the employee census and asset data supplied by the office of the System, and upon the actuarial assumptions as stated on page S-6.

SECTION II

ACTUARIAL CONSIDERATIONS

Description of Actuarial Methods

The actuarial valuation is the means by which the contingent liabilities and contribution rates of a retirement system are evaluated and determined. It provides a guide to the System as to the financing required during years of active service to accumulate the funds needed to provide members' benefits. It also makes it possible to estimate beforehand the cost of proposed changes in the System so that action can be taken in the light of the cost consequences.

The methods of valuation are prescribed by KRS 61.565. The Entry Age Normal Cost Method was used to determine costs of all benefits with the exception of the retiree medical insurance benefit. Under this method the employer's contribution to the retirement system consists of Normal Cost, a payment to fund the Unfunded Actuarial Accrued Liability, medical insurance, and administrative expenses. The Normal Cost represents the contribution (as a level percent of payroll) that completely funds benefits at retirement if made from a person's entry into employment until his retirement. The Actuarial Accrued Liability represents the sum of money and investments that would be held in the fund if the retirement system had been in effect since the date each member was first employed. The payment to fund the Unfunded Actuarial Accrued Liability is the amount necessary to amortize this liability over 30 years using the "level-percentage-of-payroll" method. Under the "level-percentage-of-payroll" method, the amortization payment is an amount which remains constant as a percentage of payroll over the 30 years. The initial 30 year period began with the 1990 valuation. In each subsequent valuation, any change in Unfunded Actuarial Accrued Liability is identified and established as a separate amortization base with a 30 year funding period beginning with that valuation. The change in Unfunded Actuarial Accrued Liability established as a separate base in each valuation will include changes attributable to experience gains and/or losses over the prior year, as well as changes attributable to benefit improvements and revisions in actuarial assumptions and funding methods.

The medical insurance contribution rate was originally determined in the 1987 valuation as the level percent of payroll necessary to fund projected medical insurance premiums over the next sixteen years (taking into account the level of reserves in the Insurance Fund). Beginning in 1988, this rate is being increased each year by a percentage amount needed to reach the Entry Age Normal funding rate within a 20 year period measured from 1987. This was continued through the 1992 valuation. In the 1992 valuation, an acceleration of the scheduled increases in the medical insurance contribution rate was recommended where possible. This acceleration in these rates was coupled with a deferral of future increases until the time of the next experience study, unless there was a deterioration in the funded position of the medical premium benefit in which case the rate levels were to be reviewed to redetermine an appropriate current funding level, or unless recommended contributions are not made in the prior year, in which case the shortfall would be spread over future years through an increase in the contribution rate. This continued through the 1995 valuation. Effective with the 1996 valuation, a new medical insurance funding policy was adopted by the Board. Under this revised policy, the medical insurance contribution rate for the 1996 valuation was set equal to the 1995 rate plus any reduction in the retirement and administrative expense rates between the 1995 and 1996 valuations (but in no event to be less than the 1995 medical insurance contribution rate). Beginning with the 1997 valuation, the medical insurance contribution rate is to be increased at the start of each biennium (coincides with valuations in odd numbered years) by the percentage amount necessary to raise this medical insurance rate to the full Entry Age Normal Cost Method contribution rate by the year 2016. In computing the full Entry Age Normal Cost Method contribution rate, liabilities are to be developed based on actuarial assumptions in use in the current valuation (as adjusted from time to time due to experience studies) and actuarial value of assets based on the same 5-year market to book value average methods as employed for the retirement benefit valuation. This represents a change in the actuarial value of assets for the medical contribution rate valuation from book value as used prior to the 1996 valuation.

The amount of the administrative expense was based on the budgeted amount for the twelve months following the date of the valuation

Actuarial Assumptions

Since the actuarial valuation involves estimates of benefits payable in the future, it is necessary that assumptions be made as to the interest earnings, rates of mortality, withdrawal, retirement, and disability, and the rate at which salaries will increase. In addition, an assumption must be made relative to increases in medical insurance premium rates in order to value the liability for the medical insurance benefit.

It is desirable that the actuarial assumptions be reviewed periodically to see whether past experience and probable future experience justifies the continued use of these actuarial assumptions. Such a study was performed subsequent to the 1995 actuarial valuation and new actuarial assumptions were adopted by the Board for use in the 1996 and subsequent actuarial valuations, until such time as another experience study is performed. This valuation reflects assumptions based on the 1995 experience study. The actuarial assumptions as used in this valuation are described beginning on page S-6.

Actuarial Value of Assets

The actuarial value of assets is determined in the following manner for the Retirement Fund:

1. Determine the ratio of the market value of Retirement Fund assets to book value as of the current valuation date and the four preceding valuation dates (but not using any valuation dates prior to June 30, 1989). All asset values include accrued investment income and member and employer contribution receivables, and exclude member refunds and investment expenses payable.

2. Determine the average ratio of market to book value as of these valuation dates.

3. Apply this average ratio to the book value (as adjusted for accrued investment income and member and employer contribution receivables, and member refunds and investment expenses payable) as of the current valuation date to derive valuation assets.

For the Insurance Fund, the revision in the asset valuation method was deferred until the 1996 valuation. Prior to that time, the actuarial value of assets continued to be determined based on the book value of the assets in that fund as of the valuation date adjusted for any receivables and/or payables.

The different asset valuation methods for the Retirement Fund and the Insurance Fund for the 1990 through 1995 valuations were a result of the following:

1. There was separate book and market value information for the Insurance Fund under all systems dating only from July, 1992. So it was not possible to use the same averaging method for the Insurance Fund as used for the Retirement Fund until sufficient years of separate information were developed.

2. The magnitude of assets to liabilities for the Insurance Fund was such that the method of valuing assets would only negligibly affect valuation results. Also, given the method then in use for transitioning into higher medical premium contribution rates over future years, the asset valuation method used for the Insurance Fund was not as critical as the asset valuation method used for the Retirement Fund.

However, effective with the 1996 valuation, there is now sufficient historical information to allow use of the same asset valuation method for the Insurance Fund as that used for the Retirement Fund since 1990. Accordingly, the Board adopted this change in asset valuation method for the Insurance Fund effective with the 1996 valuation.

The tables below show derivation of valuation assets for the Retirement Fund and the Insurance Fund as of the current valuation:

RETIREMENT FUND - NON HAZARDOUS			
Valuation Date	**Book Value**	**Market Value**	**Ratio**
June 30, 1996	191,834,195	257,798,981	134.38635%
June 30, 1995	180,382,515	227,154,505	125.92934%
June 30, 1994	173,754,936	198,164,329	114.04217%
June 30, 1993	169,070,558	202,753,319	119.92231%
June 30, 1992	158,977,890	198,369,414	124.77799%
Average Ratio			123.81283%
Valuation Assets (Average Ratio x Current Book Value)			237,515,346

INSURANCE FUND - NON HAZARDOUS			
Valuation Date	**Book Value**	**Market Value**	**Ratio**
June 30, 1996	25,737,968	28,880,610	112.21014%
June 30, 1995	21,200,195	23,031,079	108.63617%
June 30, 1994	17,410,671	17,375,799	99.79971%
June 30, 1993	14,285,480	15,277,331	106.94307%
June 30, 1992	11,717,956	13,200,175	112.64913%
Average Ratio			108.04764%
Valuation Assets (Average Ratio x Current Book Value)			27,809,267

Note: Book and market values reflect accrued investment income and member and employer contribution receivables, member refunds and investment expenses payable.

A. STATEMENT OF ACTUARIAL ASSUMPTIONS

(1) Mortality:

(a) Active & retired lives	-	1983 Group Annuity Mortality Table, plus a pre-retirement duty death rate of .0005 per year.
(b) Disabled lives	-	Social Security Administration Disability Mortality Rates - Actuarial Study No. 75 (current rates used by PBGC for disabled lives receiving Social Security).
(2) Disablement	-	Graduated rates based on 1995 experience study.
(3) Termination of employment	-	Graduated rates based on 1995 experience study.
(4) Retirement	-	60% will retire as soon as eligible for unreduced benefits and balance will continue to age 55.
(5) Marital status		
(a) Percentage married	-	100%.
(b) Age difference	-	Males are assumed to be 3 years older than their spouses.
(6) Dependent children	-	For duty related death benefits, it is assumed that the employee is survived by 2 dependent children, each age 6.
(7) Investment return	-	8.25% per year, net of investment related expenses, compounded annually.
(8) Compensation progression	-	6.50% per year, compounded annually.

(9) Retiree Medical Insurance - It was assumed that future retirees would select medical coverage in the same proportion that current retirees have selected coverage. Monthly premium rates were assumed to be as follows:

Plan Type	Rate in Effect on Valuation Date
Single	$175.50
Family	365.54
Parent Plus	212.46
Couple	319.86
Medicare	89.90
High Option	162.05

In determining the target Entry Age Funding rate in valuations beginning with 1996, it was assumed that medical premiums would grow at the following annual rates:

Years	Medical Increase
1996 - 2005	10%
2006 - 2010	9%
2011 - 2015	8%
Thereafter	7.5%

The assumed rate of growth in number of retirees receiving medical insurance was based on assumed retirement and mortality patterns used throughout the valuation.

(10) Missing data - For those active members with incomplete data, the following assumptions were made:

- If reported salary was zero or blank, then monthly salary was assumed to be $1,713

- If reported age was blank, then assume current age equal to age 18 plus years of service reported

(11) Members with Multiple Service Records

- For active members with service in more than one system, the liability has been valued as follows:

  . Service under all systems is aggregated for purposes of determining benefit eligibility.

  . Future service is projected only under the system in which the member is currently active.

  . The actual benefit under each system is determined based only on service (past and projected future service, if applicable) under that system.

  . The liability is determined under each system based on the actuarial assumptions used for the system in which the member is currently active. This liability is then included in the valuation of the system in which the service has been earned (or is projected to be earned).

  For inactive members with service in more than one system, the benefit attributable to the service under each system is determined, and the liability for that benefit is then included in the valuation of the system in which the service was earned.

B. SAMPLE RATES

(1) Annual Rates of Mortality:

Age	Active Mortality* Males	Active Mortality* Females	Disabled Mortality Males	Disabled Mortality Females
25	0.05%	0.03%	4.83%	2.63%
30	0.06%	0.03%	3.62%	2.37%
40	0.12%	0.07%	2.82%	2.09%
50	0.40%	0.16%	3.83%	2.57%
55	0.61%	0.25%	4.82%	2.95%
60	0.92%	0.42%	6.03%	3.31%

*Plus 0.05% duty death rate prior to retirement.

(2) Annual Rates of Decrement:

Age	Disablement	Ultimate Termination
25	0.042%	3.04%
30	0.050%	3.38%
40	0.132%	1.50%
50	0.530%	0.00%
55	0.992%	0.00%
60	1.743%	0.00%

(3) Compensation Progression:

Age	Rate of Annual Increase	Compensation at Normal Retirement as Percentage Of Current Annual Compensation
25	6.50%	661.4%
30	6.50%	482.8%
40	6.50%	257.2%
50	6.50%	137.0%

TABLE I STATE POLICE RETIREMENT SYSTEM RETIREMENT AND INSURANCE FUND DETERMINATION OF CONTRIBUTION RATE - JUNE 30, 1996			
UNFUNDED ACTUARIAL ACCRUED LIABILITY - RETIREMENT FUND			
			Percent *
Total Actuarial Accrued Liability	$	244,540,812	750.81%
Assets at Actuarial Value		237,515,346	729.24%
Unfunded Actuarial Accrued Liability	$	7,025,466	21.57%
Contribution - Payment on Unfunded Actuarial Accrued Liability	$	408,420	1.25%
NORMAL COST - RETIREMENT FUND			
Retirement Benefits	$	3,791,141	11.64%
Disability Benefits		213,865	0.65%
Withdrawal Benefits (Vested and Refund of Contributions)		318,477	0.98%
Survivor Benefits		221,653	0.68%
Total Normal Cost	$	4,545,136	13.95%
Less: Employee Contributions		2,261,265	6.94%
Normal Cost - State	$	2,283,871	7.01%
TOTAL ANNUAL EMPLOYER COST - RETIREMENT AND INSURANCE FUND			
Normal Cost	$	2,283,871	7.01%
Payment on Unfunded Actuarial Accrued Liability		408,420	1.25%
Administrative Expense		241,983	0.74%
Group Hospital and Medical Insurance Premiums		5,725,857	17.58%
Total Annual Cost	$	8,660,131	26.58%
* Based on estimated annual salaries of	$	32,570,292	

TABLE II STATE POLICE RETIREMENT SYSTEM RETIREMENT FUND CLASSIFICATION OF ACTUARIAL LIABILITIES AND COSTS - JUNE 30, 1996		
ACTUARIAL ACCRUED LIABILITY		
Active Members		
Retirement Benefits	$	85,944,113
Disability Benefits		2,370,708
Withdrawal Benefits (Vested and Refund of Contributions)		727,897
Survivor Benefits		2,995,344
Total - Actives	$	92,038,062
Inactive Members		
Retired Members and Beneficiaries	$	152,333,943
Vested Retirement		104,146
Vested Membership		64,661
Total - Inactives	$	152,502,750
Total Actuarial Accrued Liability	$	244,540,812
UNFUNDED ACTUARIAL ACCRUED LIABILITY		
Total Actuarial Accrued Liability	$	244,540,812
Less Actuarial Value of Assets		237,515,346
Unfunded Actuarial Accrued Liability	$	7,025,466
NORMAL COST		
Retirement Benefits	$	3,791,141
Disability Benefits		213,865
Withdrawal Benefits (Vested and Refund of Contributions)		318,477
Survivor Benefits		221,653
Total Normal Cost	$	4,545,136
Less Employee Contributions		2,261,265
Total Normal Cost - State	$	2,283,871
ACCRUED BENEFIT LIABILITY *		
Total	$	199,736,351
* Present value of accrued benefits deferred to normal retirement date.		

TABLE III
STATE POLICE RETIREMENT SYSTEM
UNFUNDED ACTUARIAL ACCRUED LIABILITY - RETIREMENT FUND - JUNE 30, 1996

Date Established	Amount of Base on Date Established	Amount of Base on Current Valuation Date	Amortization Payment	Source of Base
6/30/1990	$ 8,982,071	$ 10,367,454	$ 599,902	Cumulative unfunded actuarial accrued liability set up as initial base under revised funding policy (30 year level percent of payroll method)
6/30/1991	9,963,656	11,267,760	634,341	Experience gains/losses for 7/1/90 to 6/30/91
6/30/1992	(24,502,117)	(27,106,935)	(1,486,978)	Experience gains/losses for 7/1/91 to 6/30/92; Retiree COLA's; Asset valuation method change
6/30/1993	(3,706,436)	(4,005,681)	(214,408)	Experience gains/losses for 7/1/92 to 6/30/93; State contribution shortfall
6/30/1994	10,380,135	10,944,533	572,366	Experience gains/losses for 7/1/93 to 6/30/94; Retiree COLA's; State contribution shortfall
6/30/1995	22,729,292	23,352,190	1,194,651	Experience gains/losses for 7/1/94 to 6/30/95
6/30/1996	(17,793,855)	(17,793,855)	(891,454)	Experience gains/losses for 7/1/95 to 6/30/96; Revised actuarial assumptions
Total	$ 6,052,746	$ 7,025,466	$ 408,420	

TABLE IV STATE POLICE RETIREMENT SYSTEM INSURANCE FUND DETERMINATION OF ENTRY AGE CONTRIBUTION RATE - JUNE 30, 1996		
ACTUARIAL ACCRUED LIABILITY		
Active Members	$	47,726,613
Inactive Members		
Retired Members	$	46,119,252
Beneficiaries		7,050,285
Vested Retirement		236,736
Vested Membership		0
Total - Inactives	$	53,406,273
Total Actuarial Accrued Liability	$	101,132,886
UNFUNDED ACTUARIAL ACCRUED LIABILITY		
Total Actuarial Accrued Liability	$	101,132,886
Less Actuarial Value of Assets		27,809,267
Unfunded Actuarial Accrued Liability	$	73,323,619
NORMAL COST		
Gross Normal Cost	$	3,575,364
Less Employee Contributions		0
Net Normal Cost - State	$	3,575,364
Estimated Annual Salaries	$	32,570,292
TOTAL ANNUAL EMPLOYER COST		
Contribution Amount		
Normal Cost	$	3,575,364
Payment on Unfunded Actuarial Accrued Liability		3,673,440
Total Annual Cost	$	7,248,804
As Percent of Payroll		
Normal Cost		10.98%
Payment on Unfunded Actuarial Accrued Liability		11.28%
Total Annual Cost		22.26%
INSURANCE FUND SHORTFALL		
Full Entry Age Funding Level		22.26%
Current Funding Allocation		17.58%
Additional to Pick Up By 2016		4.68%
Expected Increase in Insurance Fund Rate in 1997 Valuation		0.21%

TABLE V
STATE POLICE RETIREMENT SYSTEM
UNFUNDED ACTUARIAL ACCRUED LIABILITY - INSURANCE FUND - JUNE 30, 1996

Date Established	Amount of Base on Date Established	Amount of Base on Current Valuation Date	Amortization Payment	Source of Base
6/30/1996	$ 73,323,619	$ 73,323,619	$ 3,673,440	Cumulative unfunded actuarial accrued liability set up as initial base under revised funding policy (30 year level percent of payroll method)
Total	$ 73,323,619	$ 73,323,619	$ 3,673,440	

TABLE VI
STATE POLICE RETIREMENT SYSTEM
BENEFIT PAYMENT PROJECTIONS

RETIREMENT FUND PAYMENT PROJECTIONS

Plan Year	Total
7/1/1996 to 6/30/1997	15,180,000
7/1/1997 to 6/30/1998	15,287,000
7/1/1998 to 6/30/1999	15,291,000
7/1/1999 to 6/30/2000	15,478,000
7/1/2000 to 6/30/2001	15,934,000
7/1/2001 to 6/30/2002	16,821,000
7/1/2002 to 6/30/2003	17,966,000
7/1/2003 to 6/30/2004	18,734,000
7/1/2004 to 6/30/2005	20,113,000
7/1/2005 to 6/30/2006	21,349,000

INSURANCE FUND PAYMENT PROJECTIONS

Plan Year	Total
7/1/1996 to 6/30/1997	2,313,000
7/1/1997 to 6/30/1998	2,518,000
7/1/1998 to 6/30/1999	2,736,000
7/1/1999 to 6/30/2000	3,002,000
7/1/2000 to 6/30/2001	3,323,000
7/1/2001 to 6/30/2002	3,738,000
7/1/2002 to 6/30/2003	4,230,000
7/1/2003 to 6/30/2004	4,713,000
7/1/2004 to 6/30/2005	5,371,000
7/1/2005 to 6/30/2006	6,046,000

Projected benefit payments reflect future actual experience consistent with actuarial assumptions used in current annual valuation. No provision has been included for future cost-of-living adjustments in retirement benefit amounts, but insurance fund payments do reflect future medical inflation rates consistent with the valuation assumption. There has not been any assumption made as to the number of future new entrants who may enter the plan, nor has any provision been made for any change in the basic benefit structure of the plan.

TABLE VII STATE POLICE RETIREMENT SYSTEM RETIREMENT FUND ACTUARIAL BALANCE SHEET - JUNE 30, 1996		
ACTUARIAL ASSETS		
Fund Assets at Actuarial Value (Plus Refunds and Expenses Payable) *		$ 240,446,266
Actuarial Present Value of Future Member Contributions		26,084,724
Actuarial Present Value of Future Employer Contributions		
For Normal Costs	$ 26,410,642	
For Unfunded Actuarial Accrued Liability	7,025,466	
Total		$ 33,436,108
Total Actuarial Assets		$ 299,967,098
ACTUARIAL LIABILITIES		
Actuarial Present Value of Future Benefits		
Inactive Members:		
Retired Members and Beneficiaries	$ 152,333,943	
Vested Retirement	104,146	
Vested Membership	64,661	
Total - Inactive		$ 152,502,750
Actuarial Present Value of Future Benefits		
Active Members:		
Retirement Benefits	$ 129,778,617	
Disability Benefits	4,792,130	
Withdrawal Benefits (Vested and Refund of Contributions)	4,397,500	
Survivor Benefits	5,565,181	
Total - Active		$ 144,533,428
Refunds and Expenses Payable		$ 2,930,920
Total Actuarial Liabilities		$ 299,967,098
ACCRUED BENEFIT LIABILITY **		
Total		$ 199,736,351
Notes		
* Values as of June 30, 1996		
Market value of assets:		$ 257,798,981
Actuarial value of assets:		$ 237,515,346
Member's Contribution Account:		$ 28,917,671
** Present value of accrued benefit deferred to normal retirement date.		

TABLE VIII STATE POLICE RETIREMENT SYSTEM INSURANCE FUND ACTUARIAL BALANCE SHEET - JUNE 30, 1996		
ACTUARIAL ASSETS		
Fund Assets at Actuarial Value (Plus Refunds and Expenses Payable) *		$ 27,818,693
Actuarial Present Value of Future Member Contributions (Note: All Future Member Contributions Credited Against Retirement Fund)		0
Actuarial Present Value of Future Employer Contributions		
For Normal Costs	$ 46,097,973	
For Unfunded Actuarial Accrued Liability	73,323,619	
Total		$ 119,421,592
Total Actuarial Assets		$ 147,240,285
ACTUARIAL LIABILITIES		
Actuarial Present Value of Future Benefits		
Inactive Members:		
Retired Members and Beneficiaries	$ 53,169,537	
Vested Retirement	236,736	
Vested Membership	0	
Total - Inactive		$ 53,406,273
Actuarial Present Value of Future Benefits Active Members:		$ 93,824,586
Refunds and Expenses Payable		$ 9,426
Total Actuarial Liabilities		$ 147,240,285
Notes		
* Values as of June 30, 1996		
Market value of assets:		$ 28,880,610
Actuarial value of assets:		$ 27,809,267

TABLE IX STATE POLICE RETIREMENT SYSTEM ACCOUNTANT'S INFORMATION - RETIREMENT FUND - JUNE 30, 1996 GASB DISCLOSURE INFORMATION NUMBER OF MEMBERS	
Inactive Members	
Retired Members	579
Beneficiaries	46
Vested Retirements	8
Vested Membership	72
Total Inactive Members	705
Active Members	
Vested Members	739
Nonvested Members	263
Total Active Members	1,002
Total Members	1,707

TABLE X STATE POLICE RETIREMENT SYSTEM ACCOUNTANT'S INFORMATION - INSURANCE FUND - JUNE 30, 1996 INFORMATION REQUIRED UNDER GASB STATEMENT NO. 12			
NUMBER OF MEMBERS			
Contracts in Force - Retirees and Dependents			
(1) Single;	- 100% Paid		134
Pre-Medicare	- 75% Paid		4
	- 50% Paid		1
	- 25% Paid		0
	- 0% Paid		0
(2) Family;	- 100% Paid		127
Pre-Medicare	- 75% Paid		0
	- 50% Paid		1
	- 25% Paid		0
	- 0% Paid		0
(3) Parent +;	- 100% Paid		37
Pre-Medicare	- 75% Paid		0
	- 50% Paid		1
	- 25% Paid		0
	- 0% Paid		0
(4) Couple;	- 100% Paid		191
Pre-Medicare	- 75% Paid		2
	- 50% Paid		0
	- 25% Paid		0
	- 0% Paid		0
(5) Medicare Regular	- 100% Paid		0
	- 75% Paid		0
	- 50% Paid		2
	- 25% Paid		0
	- 0% Paid		0
(6) Medicare High Option	- 100% Paid		173
	- 75% Paid		4
	- 50% Paid		2
	- 25% Paid		1
	- 0% Paid		1
Vested Retirements			8
Vested Membership			72
Active Members			1,002
UNFUNDED MEDICAL BENEFIT OBLIGATION			
Medical Benefit Obligation			
Retirees, Beneficiaries and Vested Terminated Members		$	53,406,273
Active Members			47,726,613
Total Medical Benefit Obligation		$	101,132,886
Net Assets at Actuarial Value		$	27,809,267
Unfunded Medical Benefit Obligation		$	73,323,619
NOTE: Medical Benefit Obligation based on Entry Age Normal Actuarial Cost Method			

SECTION III

RESULTS OF THE 1996 ACTUARIAL VALUATION

Determination of Contribution Rate

The rate of contribution by the State required to provide 30 year amortization of the Unfunded Actuarial Accrued Liability under the level-percentage-of-payroll method, the employer share of the Normal Cost, medical insurance and the expenses of administration, is shown in Table I. The required contribution is expressed both in dollars and as a percentage of the estimated annual State payroll as of June 30, 1996.

The actuarial methods applied to determine the Normal Cost for the year commencing July 1, 1996 are described on page S-2. 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 employee contributions. A breakdown of actuarial liabilities and costs between Hazardous and Non-Hazardous position employees appears in Table II for the Retirement Fund and Table IV for the Insurance Fund. A breakdown of the total Unfunded Actuarial Accrued Liability into the amortization amounts by year is shown in Table III for the Retirement Fund and Table V for the Insurance Fund. Table VI has been included to show an estimate of projected payouts from the funds over the next 10 years based on current plan provisions and actuarial assumptions.

Actuarial Balance Sheet

Table VII is the actuarial balance sheet of the Kentucky Employees Retirement System as of June 30, 1996 for the Retirement Fund. Table VIII is the actuarial balance sheet for the Insurance Fund. The "actuarial balance sheet" displays the fundamental relationship between actual assets, future contributions, and future benefits. The asset side of the balance sheet is comprised of actual fund assets plus the actuarial present value of future contributions on behalf of current members. The actuarial present values of all projected benefit payments to present active and inactive members make up the balance sheet liabilities.

Accountant's Information

Table IX contains additional information needed to comply with GASB disclosure requirements relative to the Retirement Fund.

Table X contains additional information needed to comply under GASB Statement No. 12 relative to the Insurance Fund.

SECTION IV

COMMENTS AND CERTIFICATION

Comments

For the Retirement Fund, the total Actuarial Accrued Liability has increased from $241,690,631 on June 30, 1995 to $244,540,812 on June 30, 1996. The Unfunded Actuarial Accrued Liability has decreased from $24,186,188 to $7,025,466. Total actuarial value of assets as of June 30, 1996 was equal to $237,515,346. The Unfunded Actuarial Accrued Liability decreased from 76.92% to 21.57% as a percentage of annual payroll and decreased from 10.0% to 2.9% as a percentage of the Actuarial Accrued Liability in the year ended June 30, 1996.

For the Insurance Fund, the total Actuarial Accrued Liability has decreased from $118,995,732 on June 30, 1995 to $101,132,886 on June 30, 1996 (largely due to the revision in actuarial assumptions). The Unfunded Actuarial Accrued Liability has decreased from $97,795,537 to $73,323,619. Total actuarial value of assets as of June 30, 1996 was equal to $27,809,267. The Unfunded Actuarial Liability decreased from 82.2% to 72.5% as a percentage of the Actuarial Accrued Liability in the year ended June 30, 1996.

The change in contribution rate between the 1995 and 1996 valuations is a function of actual plan experience since the last valuation. A formal gain and loss analysis would identify the portion of the contribution rate change attributable to each element of plan experience and benefit change. However, undertaking such an analysis would be extremely time consuming and expensive. In lieu of the formal analysis, we have estimated the impact of the various components of gain and loss based on changes in statistical averages of each group. The following table shows the results of this computation:

June 30, 1995 Contribution Rate	26.58%
Change in Payment Percentage Due to Covered Payroll Experience	0.27%
Investment Return	(1.76%)
Salary Increases	(0.05%)
Decrements Experience*	(0.11%)
Actuarial Assumptions Change (Retirement Fund)	(1.76%)
Change in Insurance Fund Rate	3.37%
Change in Administrative Expense Rate	0.04%
June 30, 1996 Contribution Rate	26.58%
* Includes mortality, disability, termination of employment and retirement experience.	

The annual State contribution rate required to provide the Normal Cost, 30 year amortization of the Unfunded Actuarial Accrued Liability under the level-percentage-of-payroll method, and pay administrative expenses is 9.00%. An additional 17.58% is required to fund medical insurance for retirees, bringing the required contribution up to 26.58%. This equals the current 26.58% budgeted contribution rate. Therefore, it is our opinion that the contribution rate beginning July 1, 1997 should remain at the current 26.58% level, and we so recommend.

The recommended contribution rates are based on current statutory benefits. The budgeted contribution rates will again be reviewed in the June 30, 1997 valuation.

The following table shows the total Actuarial Accrued Liability, the Unfunded Actuarial Accrued Liability, percent unfunded and the growth of the invested assets relative to retirement related benefits at selected intervals since the inception of the System.

STATE POLICE RETIREMENT SYSTEM - RETIREMENT FUND					
July 1 of Year Shown	Total Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Percent Unfunded	Actuarial Value of Assets*	Increase in Assets
1958	$ 1,450,000	$ 1,450,000	100.0%	$ 0	$ 0
1963	4,553,258	2,008,476	44.1%	2,544,782	619,167
1968	9,079,139	3,288,103	36.2%	5,791,036	789,709
1971	11,828,727	2,441,888	20.6%	9,386,839*	1,339,726
1974	17,737,434	3,179,448	17.9%	14,557,986*	1,935,105
1975	23,182,081	6,169,445	26.6%	17,012,636*	2,454,650
1976	28,693,129	8,231,367	28.7%	20,461,762*	3,449,126
1977	34,561,413	10,436,161	30.2%	24,125,252*	3,663,490
1978	49,950,102	21,440,957	42.9%	28,509,145*	4,383,893
1979	55,391,206	21,487,985	38.8%	33,903,221*	5,394,076
1980	67,580,562	26,663,397	39.5%	40,917,165*	7,013,944
1981	71,526,728	23,296,425	32.6%	48,230,303	7,313,138
1982	78,713,172	21,383,042	27.2%	57,330,130	9,099,827
1983	81,944,546	16,187,460	19.8%	65,757,086	8,426,956
1984	91,180,668	16,200,151	17.8%	74,980,517	9,223,431
1985	99,269,825	14,253,583	14.4%	85,016,242	10,035,725
1986	105,559,951	8,892,252	8.4%	96,667,699	11,651,457
1987	111,541,989	1,347,385	1.2%	110,194,604	13,526,905
1988	120,128,367	0	0.0%	120,998,549	10,803,945
1989	134,550,773	3,200,220	2.4%	131,350,553	10,352,004
1990	154,007,622	8,982,071	5.8%	145,025,551	13,674,998
1991	170,009,955	1 9,191,881	11.3%	150,818,074	5,792,523
1992**	182,996,056	0	0.0%	187,791,011	36,972,937
1993	191,653,594	0	0.0%	200,320,968	12,529,957
1994	206,763,310	1,442,801	0.7%	205,320,509	4,999,541
1995	241,690,631	24,186,188	10.0%	217,504,443	12,183,934
1996	244,540,812	7,025,466	2.9%	237,515,346	20,010,903
*Includes capitalized appreciation of investments.					
**Change in asset valuation method effective in this valuation from book value to a five year average of market to book values.					

The following table shows the total Actuarial Accrued Liability, the Unfunded Actuarial Accrued Liability, percent unfunded and the growth of the invested assets relative to medical premium benefits since 1990.

STATE POLICE RETIREMENT SYSTEM - INSURANCE FUND					
July 1 of Year Shown	**Total Actuarial Accrued Liability**	**Unfunded Actuarial Accrued Liability**	**Percent Unfunded**	**Actuarial Value of Assets***	**Increase in Assets**
1990	$ 64,784,801	$ 58,268,284	89.9%	$ 6,516,517	$ N/A
1991	74,163,248	65,231,704	88.0%	8,931,544	2,415,027
1992	88,407,634	76,689,678	86.7%	11,717,956	2,786,412
1993	95,290,099	81,004,620	85.0%	14,285,479	2,567,523
1994	110,193,139	92,782,467	84.2%	17,410,672	3,125,193
1995	118,995,732	97,795,537	82.2%	21,200,195	3,789,523
1996**	101,132,886	73,323,619	72.5%	27,809,267	6,609,072
*Includes capitalized appreciation of investments.					
**Change in asset valuation method effective in this valuation from book value to a five year average of market to book values.					

Certification

On the basis of the actuarial assumptions given and the data furnished by the General Manager of the State Police Retirement System, it is certified that the actuarial valuation has been made by the use of accepted actuarial principles and that adequate provision is being made for the funding of future benefits.

Certified by:

Stephen A. Gagel

Stephen A. Gagel, F.S.A.

November 6, 1996

Date

Peer Reviewed by:

Jeannette Moermond

Jeannette Moermond

November 6, 1996

Date

William M. Mercer, Incorporated
1500 Meidinger Tower
Louisville Galleria
Louisville, Kentucky 40202
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SECTION VI

SUMMARY OF PRINCIPAL PLAN PROVISIONS

Effective Date

The state of Kentucky established the State Police Retirement System in July, 1958. The plan benefits have been improved several times, most recently as of August 1, 1991.

Plan Year

A plan year is a twelve month period beginning on July 1.

Final Compensation

Final compensation is the average salary during the five highest paid fiscal years. If the months of service credit during the highest five year period is less than forty-eight, one or more additional fiscal years shall be used.

Service

Service means the sum of prior service and current service as defined below:

(a) Prior service is credited for regular full-time employment of at least 100 hours of work per month with a participating agency before July 1, 1958. In some instances prior service credit is granted for time spent in the military.

(b) Current service is obtained for regular full-time employment which averages at least 100 hours of work per month with participating agencies after July 1, 1958. Current service credit may be granted for military service and educational leaves if special criteria are met.

(c) Service is increased by unused sick leave, up to a maximum of six months, for purposes of computing eligibility and the amount of benefits.

Eligibility

The Bureau of State Police shall participate in the System. Membership in the system consists of:

(a) all regular full-time officers of the Kentucky State Police who are entitled to exercise the powers of police officers,

(b) no person who is age 31 or over shall be eligible to become an employee of the Kentucky State Police.

Normal Retirement Date

A member may elect to retire upon attaining age 55 and having contributed to the System. Upon completion of 20 years of service credit, 15 of which are current service, a member may declare the normal retirement date to be some date prior to age 55.

Early Retirement Date

A member may elect to retire before the normal retirement date at any time after attainment of age 50 and completion of 15 years of service credit.

Normal Retirement Benefits

A monthly benefit equal to 2.50% of the member's final compensation multiplied by his service will be payable upon attainment of age 55 and completion of 60 months of service of which 12 months are current service. A member who retires on or after the normal retirement date with less than 60 months of service is entitled to a retirement allowance which pays the actuarial equivalent of twice the member's accumulated contributions for life.

Early Retirement Benefits

A member who elects early retirement is entitled to a monthly benefit reduced for each month by which the early retirement date precedes the first date on which the member would qualify for an unreduced benefit. If a member has 20 or more years of service credit (15 of which are current), an unreduced benefit is payable.

Disability Benefits

A member with 60 months of service, 12 of which must be current service, is entitled to a retirement allowance computed in the same manner as the normal retirement benefit with service and final compensation determined as of the disability date. Service credit shall be added on to total service for the period from the last day of paid employment to the 55th birthday up to a maximum of service credited to the last day of paid employment. Except for members with 20 or more years of service on the last day of paid employment, the maximum combined service credit (total service and added service) shall not exceed 20 years. For members with 20 or more years of service credit, actual service will be used. The retirement benefit shall not be less than 25% of the member's final monthly rate of pay for those disabled in the line of duty. Ten percent of final monthly rate of pay for each dependent child is also payable if disability occurs in line of duty. The maximum dependent child's benefit is 40% of the member's final monthly rate of pay. A partial disability benefit may be payable if the disability is not total and permanent. The disability will be reduced to a rate determined by the Board.

Death Benefits

If a member dies prior to retirement, but after 60 months of service, 12 of which are current and who is a contributing member, or after 12 years of service, one of which is current and who is not a contributing member, a benefit will be payable to the beneficiary based on the member's age, years of service and final compensation at the date of death. The benefit will be equal to the amount payable had the employee retired and elected a joint and 100% survivorship payment form.

If a member dies in the line of duty and has a spouse as beneficiary, a $5,000 lump sum payment will be made and a benefit of 25% of the member's final monthly rate of pay will be payable until death or remarriage. If the member dies in the line of duty and has a dependent as beneficiary, a lump sum payment of $10,000 will be made. Monthly payments shall be made for each dependent child equal to 10% of the member's final monthly rate of pay, but not greater than 40% of the member's final monthly rate of pay. The beneficiary of a member with 5 or more years of service, one of which is current, may elect a death benefit computed in the same manner as a non-hazardous employee under KERS and CERS, using 2.50% rather than the non-hazardous benefit rate.

Upon the death of a retired member, who had a minimum of 48 months of service credit, a death benefit of $2,500 is payable.

Optional Forms of Payment

Joint and survivor annuities which provide a reduced benefit for the life of the member, with the benefit at the same or at a further reduced rate continuing after the member's death until the death of the designated beneficiary may be elected by the member prior to retirement. Other optional forms include an annuity with 10, 15 or 20 years of payments guaranteed and a Social Security adjustment with or without survivor rights.

Contributions

Members contribute 7% of gross compensation until age 55. On each June 30, interest is credited at the rate to be determined by the Board on the accumulated contributions the member had in his account on the previous June 30. Upon termination a member may withdraw the contributions with interest, but will be entitled to no benefit payments.

Medical Insurance

Recipients of a retirement benefit may elect to participate in a voluntary hospital/medical group insurance plan for themselves as well as any beneficiaries or dependents. The retirement system will pay a portion of the cost of participation for the retiree and dependents based on years of service credit as follows:

Less than 4 years	0%
4 - 9 years	25%
10 - 14 years	50%
15 - 19 years	75%
20 or more years	100%

If a member is disabled in the line of duty, the retirement system will pay 100% of the cost of the member, spouse and eligible dependents. If a member is killed in the line of duty, the retirement system will pay 100% of the cost of the beneficiary and eligible dependents as long as they remain eligible for a monthly benefit payment.

Increase in Retirement Allowances

Effective August 1, 1996, and on July 1 of each year thereafter, a recipient of a retirement allowance shall have his retirement allowance increased by the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year as published by the federal Bureau of Labor Statistics, not to exceed five percent (5%). In determining the annual employer contribution rate, only the cost of increases granted as of the most recent valuation date shall be recognized. The benefits of this subsection as provided on August 1, 1996 and thereafter shall not be considered as benefits protected by the inviolable contact provisions of KRS 61.692, 16.652, and 78.852. The General Assembly reserves the right to suspend or reduce the benefits conferred in this subsection if in their judgment the welfare of the Commonwealth so demands.

KENTUCKY RETIREMENT SYSTEMS

Investment Section

Annual Report June 30, 1996

INVESTMENT SECTION
INTRODUCTION

The Kentucky Employees Retirement System, County Employees Retirement System and State Police Retirement System were created to provide retirement benefits to employees of both state and local government agencies in Kentucky. Charged with the responsibility of investing the assets to attain this goal, the members of the Board of Trustees follow a policy of preserving capital, while seeking means of enhancing revenues and protecting against losses in any particular investment area.

The Board invests the assets of the systems with the goal of paying benefits from investment income and decreasing unfunded liabilities. The Board recognizes its fiduciary duty not only to invest the funds in formal compliance with the Prudent Man Rule, but also to manage the funds in continued recognition of the basic long term nature of the systems. In order to maintain quality while maximizing the long range return, the Board diversifies the investment of the assets among classes of securities. The Board has set these objectives:

> Long-Term: The total assets of the systems should achieve a return measured over two market cycles (estimated to be six to ten years) which exceeds the rate of inflation for the period, as measured by the National Consumer Price Index, by at least 4%.
>
> Short-Term: The returns of the particular asset classes of the managed funds of the systems, measured on a year-to-year basis, should exceed the returns achieved by comparable unmanaged market indices.

In accomplishing these goals, the Board contracts for the services of professional and experienced advisors. The Board also contracts with the firm of William M. Mercer Investment Consulting, Inc. to provide services in the allocation of assets, selection of investment managers, and the review of performance of the managers.

In addition to these contracted advisors, the Investment Division manages an Index Equity Fund of selected common stocks. The aim of this fund is to perform as well as or better than the Standard & Poor 500 Stock Index.

Because the hazardous and nonhazardous groups within the systems have specific financial needs, the investment information is presented for each group separately.

WILLIAM M.
MERCER

November 21, 1996

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

Members of the Board:

On June 30, 1996, Kentucky Retirement Systems completed its sixth full fiscal year under the investment structure that was established in 1990. During the fiscal year, the Retirement Systems Fund, excluding the Insurance Fund, increased $1.1 billion to $7.0 billion. During this same period, the Insurance Fund grew from $294 million to $371 million. Both the Retirement Fund and the Insurance Fund benefited from strong investment performance.

The economy throughout fiscal 1996 exhibited steady growth and low inflation. Although fears of an economic slowdown were fueled by several major employers announcing layoffs at the end of the 1995 calendar year, these fears were dispelled in the first and second quarters of 1996 as 1.5 million new jobs were created. Volatility characterized the markets throughout the fiscal year as investors grappled for meaning in every economic indicator.

During fiscal year 1996, the stock market exhibited strong performance, as evidenced by the 26.0% gain in the S&P 500 Index. During this time period, active managers were able to remain competitive with their indexed counterparts, as reflected by the 26.0% median of the Mercer Equity Universe. Value managers modestly outpaced growth managers during the first three-quarters of the fiscal year. However, in the second quarter of 1996, growth managers handily outperformed value styles and ended the fiscal year with higher returns. Large capitalization stocks outperformed smaller capitalization issues.

Long interest rates fell dramatically in the fourth quarter of 1995, then rebounded in the first half of 1996 to end the fiscal year in roughly the same position as when they started. This volatility dampened performance in the fixed income arena. However, active managers generally cushioned their portfolios from this volatility, as evidenced by the median fixed income manager's outperforming the broad bond indices. The Lehman Brothers Aggregate Bond Index returned 5.0% during the fiscal year, while the median manager achieved a return of 5.3%.

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Chicago, IL 60606-7485

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The Retirement Funds benefited from this market environment, earning a return of 17.6% during the fiscal year. This surpassed the Reference Index and the Mercer Composite Universe median, which both returned 16.6%. Continuous overweighting in equities relative to the target allocation contributed to the Fund's outperformance, as all five equity managers posted gains in excess of 20.0%. The Insurance Fund's fiscal year return of 10.3% lagged the Mercer Composite median by 70 basis points, largely due to cash, but outpaced the Reference Index by 10 basis points.

As of June 30, 1996, the allocation of the Retirement Funds' assets was as follows:

	Target Asset Allocation	*Allocation at Market Value*	*Allocation at Book Value*
Equities	55.0%	63.6%	51.5%
Fixed Income	25.0%	20.4%	26.5%
Real Estate	10.0%	5.0%	7.5%
Cash	10.0%	11.0%	14.4%

The allocation to the Insurance Fund on June 30, 1996 was as follows:

	Target Asset Allocation	*Allocation at Market Value*	*Allocation at Book Value*
Equities	27.5%	27.4%	18.5%
Fixed Income	62.5%	56.0%	63.1%
Cash	10.0%	16.6%	18.4%

Following an Asset and Liability Modeling Study conducted by Mercer, the Board of Trustees revised the asset class target allocations and acceptable ranges for both the Retirement Funds and the Insurance Fund. This change was prompted by several factors. Within the Retirement Funds, the allocations were altered slightly in order to benefit from added diversification. Additionally, the cash equivalents were redeployed to market fixed income, providing a better match to the sensitivity of the liabilities. These changes are expected to improve the funded status while not significantly affecting the Retirement Fund under more pessimistic market conditions.

The change in the Insurance Fund's asset allocation stemmed from the Board's desire to improve the funded position. Mercer reported that although the equity exposure increased from 27.5% to 70%, the risks associated with the increased exposure were offset by the expected (potential) improvement in the funded status.

The revised investment structure went into effect in the third quarter of 1996. Below is a table outlining the revised investment target:

Retirement Fund	*Previous Target Allocation*	*New Target Allocation*
Large Cap Equity	50.0%	55.0%
Small Cap Equity	5.0	10.0
Short Term Fixed Income	5.0	5.0
Market Fixed Income	20.0	22.0
Real Estate	10.0	5.0
Cash	10.0	3.0
Expected Return	9.8	10.3

Insurance	*Previous Target Allocation*	*New Target Allocation*
Large Cap Equity	27.5%	50.0%
Small Cap Equity	0.0	20.0
Market Fixed Income	62.5	25.0
Cash	10.0	5.0
Expected Return	9.8	10.6

Mercer monitors the programs' progress toward their goals during each calendar quarter and also monitors each manager on a quarterly basis. A formal report is presented to the Board annually in April. We are pleased to report that, in our opinion, the performance of both the Retirement Systems and Insurance Fund were satisfactory relative to their goals during fiscal year 1996.

Given the additional funding of the small cap allocation that occurred during the third quarter and the pending implementation of changes to the existing real estate portfolio, Mercer recommends no additional changes. Furthermore, Mercer recommends no changes in investment managers at this time. We remain confident that by adhering to the investment program, Kentucky's Retirement Systems' goals will be achieved over the long term.

Respectively submitted,

WILLIAM M. MERCER INVESTMENT CONSULTING, INC.

Kris Ford

Kristine L. Ford, CFA
(312) 902-7707

KENTUCKY RETIREMENT SYSTEMS

PERFORMANCE BY CLASS
1992 THROUGH 1996

The following chart shows performance by class for the past five fiscal years.

YEAR	STOCKS	BONDS	REAL ESTATE	SHORT TERM	TOTAL PORTFOLIO
1992	13.705%	13.982%	-2.592%	5.119%	11.668%
1993	16.028%	12.060%	-1.757%	3.484%	12.252%
1994	.831%	-.846%	5.581%	3.767%	1.051%
1995	25.689%	11.042%	4.002%	5.759%	18.973%
1996	**25.965%**	**5.009%**	**1.332%**	**5.898%**	**17.637%**

KENTUCKY RETIREMENT SYSTEMS
REAL ESTATE INVESTMENTS

FULLY-OWNED PROPERTIES:

Capital Center, Raleigh, NC
Danville Manor, Danville, KY
Big Sandy Village, Pikeville, KY
East Lake Apartments, Marietta, GA
Perimeter Park West, Building A, Frankfort, KY
Racquet Club Apartments, Lexington, KY
Tempe Industrial Center, Tempe, AZ

PROPERTIES PARTICIPATED IN:

Heitman Fund I:

OCP Industrial Properties, Orlando, FL
Oakwood Mall, Enid, OK
Villa Marina Center, Marina Del Rey, CA
6400 Shafer Court, Rosemont, IL
One Financial Plaza, Minneapolis, MN
Water Tower Place, Chicago, IL
Towne Mall, Elizabethtown, KY
East Ohio Building, Cleveland, OH

Heitman Fund II:

ARAMARK Tower, Philadelphia, PA
Rutherford B. Hayes Building, Crystal City, VA
McKinley Mall, Hamburg, NY
West America, Sacramento, CA
Lloyd Center Mall, Portland, OR
Blue Ash Business Properties, Blue Ash, OH
Congressional Place, Long Beach, CA
MN-TX Business Center, Eden Prairie, MN
MIL-HREF Properties, Milwaukee, WI
Bank of America Plaza, Reno, NV
Old Capitol Center, Iowa City, IO
Midway Mall, Sherman, TX
I-5/Jamboree Business Center, Tustin, CA

Heitman Fund III:

Chester A. Arthur Building, Washington, DC
MIW Properties, MN, MI, IL, IN, WI
Kinnard Financial Center, Minneapolis, MN
Griffin Towers, Santa Ana, CA
1818 Market Street, Philadelphia, PA
Madison Heights Business Park, Madison Heights/ Troy/Novi, MI
Towne Square North/Towne Square Mall/ Owensboro, KY/
University Mall, Carbondale, IL
One Corporate Plaza, Blue Ash, OH
Honey Creek Square, Terre Haute, IN
Eastwood Mall, Niles, OH

Heitman Fund V:

Doral Pointe Apartments, Miami, FL
Sarasota Square Mall, Sarasota, FL
WST Industrial Buildings, Sacremento, CA
Oak View Mall, Omaha, NE
Coronada Center, Albuquerque, NM
Rosemont Apartments, Las Colinas, TX

Other Heitman Investments:

Genessee Valley Center, Flint, MI
California Land Venture (Residential Land Development—Various California Counties)
Westside Pavilion, Los Angeles, CA
Sarasota Square Mall, Sarasota, FL
Windsor Building, Chicago, IL
One O'Hare Centre, Rosemont, IL
Corporate Plaza, Louisville, KY
Ontario Place, Chicago, IL
University Mall, Tampa, FL
Mill Creek Center, Flint, MI
Global Building, Chicago, IL

The Yarmouth Group, Inc.

Willowbrook Mall, Houston, TX
Scottsdale Fashion Square, Scottsdale, AZ

TCW Realty Advisors

921 Ardmore Ave., Itasca, IL
Sammamish Highland Center, Seattle, WA
Inglewood Plaza, Seattle, WA
Merritt, Howard County, MD
7465 Candelwood Road, Howard County, MD
Hammond Ferry Road, Baltimore, MD
O'Donnell Business Park, Kent, WA
San Fernando Business Center, San Fernando, CA
West Oaks Mall, Houson, TX
Holmdel Towne Center, Holmdel, NJ
Coral Plaza, Brentwood, CA
Pine Lake Village Center, Seattle, WA
6940 San Tomas, Howard County, MD
Cutter Mill Road, Great Neck, NY
8155 Stayton Drive, Jessup, MD
Imperial Center East-JV, Brea, CA
Loehmann's Plaza-Lakegrove, Lakegrove, NY
Portola Plaza, Mission Viejo, CA
Trabuco Hills Plaza, Mission Viejo, CA

KENTUCKY RETIREMENT SYSTEMS
PORTFOLIO SUMMARY: JUNE 30, 1996
NONHAZARDOUS STATE EMPLOYEES (KERS)

FIXED INCOME

DESCRIPTION	CORPORATES	GOVERNMENTS	MORTGAGES	SHORT TERM	TOTAL
Par Value	$271,726,794.42	$414,066,920.00	$212,246,624.16	$287,606,904.71	$1,185,647,243.29
% of Par Value	23%	35%	18%	24%	100%
Book Value	$274,922,931.88	$438,328,386.94	$204,867,506.28	$287,606,904.71	$1,205,725,729.81
% of Book Value	23%	36%	17%	24%	100%
Market Value	$277,637,472.10	$437,465,154.58	$208,301,693.99	$287,606,904.71	$1,211,011,225.38
% of Market Value	23%	36%	17%	24%	100%
Potential Gain or Loss	$ 2,714,540.22	$ -863,232.36	$ 3,434,187.71	$ .00	$ 5,285,495.57
Indicated Annual Income	$ 19,599,751.17	$ 30,115,904.80	$ 15,353,692.96	$ 15,492,194.23	$ 80,561,543.16
Current Yield -- Book Value	7.13	6.87	7.49	5.39	6.68
-- Market Value	7.06	6.88	7.37	5.39	6.65
Yield to Maturity -- Market Value	6.81	6.49	7.37	5.34	6.44
Average Coupon	7.21	7.27	7.23	5.39	6.79
Average Maturity (Years)	8.51	6.93	23.25	.08	8.55

REAL ESTATE

BOOK VALUE/ COST	MARKET VALUE	POTENTIAL GAIN OR LOSS	INDICATED INCOME	CURRENT YIELD ON COST	CURRENT YIELD ON MARKET
$203,682,100.77	$177,838,360.87	$-25,843,739.90	$10,112,552.84	4.96	5.69

COMMON STOCK

NO. OF SHARES	BOOK VALUE/ COST	MARKET VALUE	POTENTIAL GAIN OR LOSS	INDICATED INCOME	CURRENT YIELD ON COST	CURRENT YIELD ON MARKET
43,119,987	$1,246,452,182.65	$2,103,343,170.40	$856,890,987.75	$44,157,830.44	3.54	2.10

TOTAL PORTFOLIO

TYPE	BOOK VALUE	PCT.	MARKET VALUE	PCT.	INDICATED INCOME	INDICATED YIELD ON BOOK	INDICATED YIELD ON MARKET
Corporates	$ 274,922,931.88	10%	$ 277,637,472.10	8%	$ 19,599,751.17	7.13	7.06
Governments	$ 438,328,386.94	17%	$ 437,465,154.58	13%	$ 30,115,904.80	6.87	6.88
Mortgages	$ 204,867,506.28	8%	$ 208,301,693.99	6%	$ 15,353,692.96	7.49	7.37
Short Term	$ 287,606,904.71	11%	$ 287,606,904.71	8%	$ 15,492,194.23	5.39	5.39
Real Estate	$ 203,682,100.77	8%	$ 177,838,360.87	5%	$ 10,112,552.84	4.96	5.69
Common Stock	$1,246,452,182.65	46%	$2,103,343,170.40	60%	$ 44,157,830.44	3.54	2.10
Total Portfolio	$2,655,860,013.23	100%	$3,492,192,756.65	100%	$134,831,926.44	5.08	3.86

KENTUCKY RETIREMENT SYSTEMS
PORTFOLIO SUMMARY: JUNE 30, 1996
HAZARDOUS STATE EMPLOYEES (KERS-H)

FIXED INCOME

DESCRIPTION	CORPORATES	GOVERNMENTS	MORTGAGES	SHORT TERM	TOTAL
Par Value	$6,290,697.23	$6,920,240.00	$4,522,346.75	$29,849,695.13	$47,582,979.11
% of Par Value	12%	15%	10%	63%	100%
Book Value	$6,369,405.31	$7,373,883.46	$4,396,809.32	$29,849,695.13	$47,989,793.22
% of Book Value	13%	15%	10%	62%	100%
Market Value	$6,395,368.44	$7,363,432.56	$4,447,423.39	$29,849,695.13	$48,055,919.52
% of Market Value	13%	15%	10%	62%	100%
Potential Gain or Loss	$ 25,693.13	$ -10,450.90	$ 50,614.07	$ .00	$ 66,126.30
Indicated Annual Income	$ 447,480.17	$ 507,514.10	$ 328,369.60	$ 1,605,453.48	$ 2,888,817.89
Current Yield -- Book Value	7.03	6.88	7.47	5.38	6.02
-- Market Value	7.00	6.89	7.38	5.38	6.01
Yield to Maturity -- Market Value	6.78	6.46	7.39	5.37	5.91
Average Coupon	7.11	7.33	7.26	5.38	6.07
Average Maturity (Years)	8.46	7.36	23.45	.08	4.47

REAL ESTATE

BOOK VALUE/ COST	MARKET VALUE	POTENTIAL GAIN OR LOSS	INDICATED INCOME	CURRENT YIELD ON COST	CURRENT YIELD ON MARKET
$7,906,523.96	$7,404,340.89	$-502,183.07	$459,226.70	5.81	6.20

COMMON STOCK

NO. OF SHARES	BOOK VALUE/ COST	MARKET VALUE	POTENTIAL GAIN OR LOSS	INDICATED INCOME	CURRENT YIELD ON COST	CURRENT YIELD ON MARKET
1,831,271	$58,472,422.45	$86,749,398.21	$28,276,975.76	$1,782,842.65	3.05	2.06

TOTAL PORTFOLIO

TYPE	BOOK VALUE	PCT.	MARKET VALUE	PCT.	INDICATED INCOME	INDICATED YIELD ON BOOK	INDICATED YIELD ON MARKET
Corporates	$ 6,369,405.31	6%	$ 6,395,368.44	4%	$ 447,480.71	7.03	7.00
Governments	$ 7,373,883.46	6%	$ 7,363,432.56	5%	$ 507,514.10	6.88	6.89
Mortgages	$ 4,396,809.32	4%	$ 4,447,423.39	3%	$ 328,369.60	7.47	7.38
Short Term	$ 29,849,695.13	26%	$ 29,849,695.13	21%	$1,605,453.48	5.38	5.38
Real Estate	$ 7,906,523.96	7%	$ 7,404,340.89	5%	$ 459,226.70	5.81	6.20
Common Stock	$ 58,472,422.45	51%	$ 86,749,398.21	62%	$1,782,842.65	3.05	2.06
Total Portfolio	$114,368,739.63	100%	$142,209,658.62	100%	$5,130,887.24	4.49	3.61

KENTUCKY RETIREMENT SYSTEMS
PORTFOLIO SUMMARY: JUNE 30, 1996
NONHAZARDOUS COUNTY EMPLOYEES (CERS)

FIXED INCOME

DESCRIPTION	CORPORATES	GOVERNMENTS	MORTGAGES	SHORT TERM	TOTAL
Par Value	$94,315,027.36	$129,139,780.00	$83,066,792.54	$347,346,079.77	$653,867,679.67
% of Par Value	14%	20%	13%	53%	100%
Book Value	$95,390,841.15	$136,496,928.21	$78,905,279.66	$347,346,079.77	$658,139,128.79
% of Book Value	14%	21%	12%	53%	100%
Market Value	$96,218,952.88	$136,352,055.77	$81,390,663.49	$347,346,079.77	$661,307,751.91
% of Market Value	15%	21%	12%	52%	100%
Potential Gain or Loss	$ 828,111.73	$ -144,872.44	$ 2,485,383.83	$ .00	$ 3,168,623.12
Indicated Annual Income	$ 6,741,323.23	$ 9,392,603.06	$ 5,975,944.48	$ 18,668,057.53	$ 40,777,928.30
Current Yield -- Book Value	7.07	6.88	7.57	5.37	6.20
-- Market Value	7.01	6.89	7.34	5.37	6.17
Yield to Maturity -- Market Value	6.78	6.50	7.34	5.36	6.04
Average Coupon	7.15	7.27	7.19	5.37	6.24
Average Maturity (Years)	8.48	6.63	23.43	.08	5.55

REAL ESTATE

BOOK VALUE/ COST	MARKET VALUE	POTENTIAL GAIN OR LOSS	INDICATED INCOME	CURRENT YIELD ON COST	CURRENT YIELD ON MARKET
$133,405,774.14	$119,030,639.50	$-14,375,134.64	$6,906,439.74	5.18	5.80

COMMON STOCK

NO. OF SHARES	BOOK VALUE/ COST	MARKET VALUE	POTENTIAL GAIN OR LOSS	INDICATED INCOME	CURRENT YIELD ON COST	CURRENT YIELD ON MARKET
34,244,021	$1,054,157,117.83	$1,645,750,554.23	$591,593,436.40	$34,204,858.81	3.24	2.08

TOTAL PORTFOLIO

TYPE	BOOK VALUE	PCT.	MARKET VALUE	PCT.	INDICATED INCOME	INDICATED YIELD ON BOOK	INDICATED YIELD ON MARKET
Corporates	$ 95,390,841.15	5%	$ 96,218,952.88	4%	$ 6,741,323.23	7.07	7.01
Governments	$ 136,496,928.21	7%	$ 136,352,055.77	6%	$ 9,392,603.06	6.88	6.89
Mortgages	$ 78,905,279.66	4%	$ 81,390,663.49	3%	$ 5,975,944.48	7.57	7.34
Short Term	$ 347,346,079.77	19%	$ 347,346,079.77	14%	$18,668,057.53	5.37	5.37
Real Estate	$ 133,405,774.14	7%	$ 119,030,639.50	5%	$ 6,906,439.74	5.18	5.80
Common Stock	$1,054,157,117.83	58%	$1,645,750,554.23	68%	$34,204,858.81	3.24	2.08
Total Portfolio	$1,845,702,020.76	100%	$2,426,088,945.64	100%	$81,889,226.85	4.44	3.38

KENTUCKY RETIREMENT SYSTEMS
PORTFOLIO SUMMARY: JUNE 30, 1996
HAZARDOUS COUNTY EMPLOYEES (CERS-H)

FIXED INCOME

DESCRIPTION	CORPORATES	GOVERNMENTS	MORTGAGES	SHORT TERM	TOTAL
Par Value	$31,511,179.99	$41,452,760.00	$26,377,156.58	$94,090,058.39	$193,431,154.96
% of Par Value	16%	21%	14%	49%	100%
Book Value	$31,857,825.71	$43,672,784.32	$25,264,247.19	$94,090,058.39	$194,884,915.61
% of Book Value	16%	23%	13%	48%	100%
Market Value	$31,897,170.14	$43,632,368.77	$25,797,072.93	$94,090,058.39	$195,416,670.23
% of Market Value	16%	22%	14%	48%	100%
Potential Gain or Loss	$ 39,344.43	$ -40,415.55	$ 532,825.74	$ .00	$ 531,754.62
Indicated Annual Income	$ 2,205,665.63	$ 2,981,107.96	$ 1,886,108.55	$ 5,059,381.16	$ 12,132,263.30
Current Yield -- Book Value	6.92	6.83	7.47	5.38	6.23
-- Market Value	6.91	6.83	7.31	5.38	6.21
Yield to Maturity -- Market Value	6.75	6.46	7.32	5.38	6.10
Average Coupon	7.00	7.19	7.15	5.38	6.27
Average Maturity (Years)	8.48	6.83	23.60	.08	6.10

REAL ESTATE

BOOK VALUE/ COST	MARKET VALUE	POTENTIAL GAIN OR LOSS	INDICATED INCOME	CURRENT YIELD ON COST	CURRENT YIELD ON MARKET
$39,429,932.09	$35,870,237.83	$ -3,559,694.26	$2,106,649.80	5.34	5.87

COMMON STOCK

NO. OF SHARES	BOOK VALUE/ COST	MARKET VALUE	POTENTIAL GAIN OR LOSS	INDICATED INCOME	CURRENT YIELD ON COST	CURRENT YIELD ON MARKET
9,665,989	$295,333,269.91	$457,842,456.58	$162,509,186.67	$9,643,786.76	3.27	2.11

TOTAL PORTFOLIO

TYPE	BOOK VALUE	PCT.	MARKET VALUE	PCT.	INDICATED INCOME	INDICATED YIELD ON BOOK	INDICATED YIELD ON MARKET
Corporates	$ 31,857,825.71	6%	$ 31,897,170.14	5%	$ 2,205,665.63	6.92	6.91
Governments	$ 43,672,784.32	8%	$ 43,632,368.77	6%	$ 2,981,107.96	6.83	6.83
Mortgages	$ 25,264,247.19	5%	$ 25,797,072.93	4%	$ 1,886,108.55	7.47	7.31
Short Term	$ 94,090,058.39	18%	$ 94,090,058.39	14%	$ 5,059,381.16	5.38	5.38
Real Estate	$ 39,429,932.09	7%	$ 35,870,237.83	5%	$ 2,106,649.80	5.34	5.87
Common Stock	$295,333,269.91	56%	$457,842,456.58	66%	$ 9,643,786.76	3.27	2.11
Total Portfolio	$529,648,117.61	100%	$689,129,364.64	100%	$23,882,699.86	4.51	3.47

KENTUCKY RETIREMENT SYSTEMS
PORTFOLIO SUMMARY: JUNE 30, 1996
STATE POLICE (SPRS)

FIXED INCOME

DESCRIPTION	CORPORATES	GOVERNMENTS	MORTGAGES	SHORT TERM	TOTAL
Par Value	$21,137,101.67	$30,220,300.00	$15,634,323.23	$13,169,710.09	$80,161,434.99
% of Par Value	26%	38%	20%	16%	100%
Book Value	$21,365,113.83	$31,995,198.94	$15,151,443.29	$13,169,710.09	$81,681,466.15
% of Book Value	26%	39%	19%	16%	100%
Market Value	$21,464,232.82	$31,968,189.39	$15,361,415.54	$13,169,710.09	$81,963,547.84
% of Market Value	26%	39%	19%	16%	100%
Potential Gain or Loss	$ 99,118.99	$ -27,009.55	$ 209,972.25	$ .00	$ 282,081.69
Indicated Annual Income	$ 1,500,672.57	$ 2,204,598.46	$ 1,131,487.22	$ 710,698.28	$ 5,547,456.53
Current Yield -- Book Value	7.02	6.89	7.47	5.40	6.79
-- Market Value	6.99	6.90	7.37	5.40	6.77
Yield to Maturity -- Market Value	6.74	6.51	7.38	5.40	6.56
Average Coupon	7.10	7.30	7.24	5.40	6.92
Average Maturity (Years)	8.06	7.28	23.12	.08	9.39

REAL ESTATE

BOOK VALUE/ COST	MARKET VALUE	POTENTIAL GAIN OR LOSS	INDICATED INCOME	CURRENT YIELD ON COST	CURRENT YIELD ON MARKET
$14,870,694.67	$12,761,606.22	$-2,109,088.45	$722,182.22	4.86	5.66

COMMON STOCK

NO. OF SHARES	BOOK VALUE/ COST	MARKET VALUE	POTENTIAL GAIN OR LOSS	INDICATED INCOME	CURRENT YIELD ON COST	CURRENT YIELD ON MARKET
3,338,192	$93,705,044.86	$161,623,928.19	$67,918,883.33	$3,417,938.81	3.65	2.11

TOTAL PORTFOLIO

TYPE	BOOK VALUE	PCT.	MARKET VALUE	PCT.	INDICATED INCOME	INDICATED YIELD ON BOOK	INDICATED YIELD ON MARKET
Corporates	$ 21,365,113.83	11%	$ 21,464,232.82	8%	$1,500,672.57	7.02	6.99
Governments	$ 31,995,198.94	17%	$ 31,968,189.39	12%	$2,204,598.46	6.89	6.90
Mortgages	$ 15,151,443.29	8%	$ 15,361,415.54	6%	$1,131,487.22	7.47	7.37
Short Term	$ 13,169,710.09	7%	$ 13,169,710.09	5%	$ 710,698.28	5.40	5.40
Real Estate	$ 14,870,694.67	8%	$ 12,761,606.22	5%	$ 722,182.22	4.86	5.66
Common Stock	$ 93,705,044.86	49%	$161,623,928.19	64%	$3,417,938.81	3.65	2.11
Total Portfolio	$190,257,205.68	100%	$256,349,082.25	100%	$9,687,577.56	5.09	3.78

KENTUCKY RETIREMENT SYSTEMS
PORTFOLIO SUMMARY: JUNE 30, 1996
INSURANCE FUND
ALL SYSTEMS COMBINED

FIXED INCOME

DESCRIPTION	CORPORATES	GOVERNMENTS	MORTGAGES	SHORT TERM	TOTAL
Par Value	$82,492,140.00	$71,747,130.26	$48,817,926.86	$61,654,951.91	$264,712,149.03
% of Par Value	31%	27%	19%	23%	100%
Book Value	$84,989,648.31	$78,189,651.28	$47,784,268.40	$61,654,951.91	$272,618,519.90
% of Book Value	31%	29%	18%	22%	100%
Market Value	$84,314,476.27	$77,501,852.46	$46,128,299.61	$61,654,951.91	$269,599,580.25
% of Market Value	31%	29%	17%	23%	100%
Potential Gain or Loss	$ -675,172.04	$ -687,798.82	$-1,655,968.79	$ .00	$ -3,018,939.65
Indicated Annual Income	$ 5,904,504.43	$ 5,582,722.14	$ 3,254,851.56	$ 3,341,698.39	$ 18,083,776.52
Current Yield -- Book Value	6.95	7.14	6.81	5.42	6.63
-- Market Value	7.00	7.20	7.06	5.42	6.71
Yield to Maturity -- Market Value	6.84	6.81	7.12	5.42	6.55
Average Coupon	7.16	7.78	6.67	5.42	6.83
Average Maturity (Years)	9.66	13.39	25.61	.08	11.38

COMMON STOCK

NO. OF SHARES	BOOK VALUE/ COST	MARKET VALUE	POTENTIAL GAIN OR LOSS	INDICATED INCOME	CURRENT YIELD ON COST	CURRENT YIELD ON MARKET
2,092,971	$61,744,900.83	$101,629,758.85	$39,884,858.02	$2,320,603.62	3.76	2.28

TOTAL PORTFOLIO

TYPE	BOOK VALUE	PCT.	MARKET VALUE	PCT.	INDICATED INCOME	INDICATED YIELD ON BOOK	INDICATED YIELD ON MARKET
Corporates	$ 84,989,648.31	27%	$ 84,314,476.27	23%	$ 5,904,504.43	6.95	7.00
Governments	$ 78,189,651.28	23%	$ 77,501,852.46	21%	$ 5,582,722.14	7.14	7.20
Mortgages	$ 47,784,268.40	14%	$ 46,128,299.61	12%	$ 3,254,851.56	6.81	7.06
Short Term	$ 61,654,951.91	18%	$ 61,654,951.91	17%	$ 3,341,698.39	5.42	5.42
Common Stock	$ 61,744,900.83	18%	$101,629,758.85	27%	$ 2,320,603.62	3.76	2.28
Total Portfolio	$334,363,420.73	100%	$371,229,339.10	100%	$20,404,380.14	6.10	5.50

KENTUCKY RETIREMENT SYSTEMS
PORTFOLIO SUMMARY: JUNE 30, 1996
ALL SYSTEMS COMBINED

FIXED INCOME

DESCRIPTION	CORPORATES	GOVERNMENTS	MORTGAGES	SHORT TERM	TOTAL
Par Value	$424,980,800.67	$621,800,000.00	$341,847,243.26	$772,062,448.09	$2,160,690,492.02
% of Par Value	20%	30%	16%	36%	100%
Book Value	$429,906,117.88	$657,867,181.87	$328,585,285.74	$772,062,448.09	$2,188,421,033.58
% of Book Value	20%	30%	15%	35%	100%
Market Value	$433,613,196.38	$656,781,201.07	$335,298,269.34	$772,062,448.09	$2,197,755,114.88
% of Market Value	20%	30%	15%	35%	100%
Potential Gain or Loss	$ 3,707,078.50	$ -1,085,980.80	$ 6,712,983.60	$ .00	$ 9,334,081.30
Indicated Annual Income	$ 30,494,893.31	$ 45,201,728.38	$ 24,675,602.81	$ 41,535,784.68	$ 141,908,009.18
Current Yield -- Book Value	7.09	6.87	7.51	5.38	6.48
-- Market Value	7.03	6.88	7.36	5.38	6.46
Yield to Maturity -- Market Value	6.80	6.49	7.36	5.36	6.28
Average Coupon	7.18	7.27	7.22	5.38	6.57
Average Maturity (Years)	8.48	6.88	23.32	.08	7.37

REAL ESTATE

BOOK VALUE/ COST	MARKET VALUE	POTENTIAL GAIN OR LOSS	INDICATED INCOME	CURRENT YIELD ON COST	CURRENT YIELD ON MARKET
$399,295,025.63	$352,905,185.31	$-46,389,840.32	$20,307,051.30	5.09	5.75

COMMON STOCK

NO. OF SHARES	BOOK VALUE/ COST	MARKET VALUE	POTENTIAL GAIN OR LOSS	INDICATED INCOME	CURRENT YIELD ON COST	CURRENT YIELD ON MARKET
92,199,460	$2,748,120,037.70	$4,455,309,507.61	$1,707,189,469.91	$93,207,257.47	3.39	2.09

TOTAL PORTFOLIO

TYPE	BOOK VALUE	PCT.	MARKET VALUE	PCT.	INDICATED INCOME	INDICATED YIELD ON BOOK	INDICATED YIELD ON MARKET
Corporates	$ 429,906,117.88	8%	$ 433,613,196.38	6%	$ 30,494,893.31	7.09	7.03
Governments	$ 657,867,181.87	12%	$ 656,781,201.07	9%	$ 45,201,728.38	6.87	6.88
Mortgages	$ 328,585,285.74	6%	$ 335,298,269.34	5%	$ 24,675,602.81	7.51	7.36
Short Term	$ 772,062,448.09	14%	$ 772,062,448.09	11%	$ 41,535,784.68	5.38	5.38
Real Estate	$ 399,295,025.63	7%	$ 352,905,185.31	5%	$ 20,307,051.30	5.09	5.75
Common Stock	$2,748,120,037.70	53%	$4,455,309,507.61	64%	$ 93,207,257.47	3.39	2.09
Total Portfolio	$5,335,836,096.91	100%	$7,005,969,807.80	100%	$255,422,317.95	4.79	3.65

KENTUCKY RETIREMENT SYSTEMS

Statistical Section

Annual Report June 30, 1996

STATISTICAL SECTION
INTRODUCTION

This section presents statistical information about the retirement systems. Some of this information is in the form of graphs which illustrate trends in membership and benefits. Information is presented as of June 30, 1996, though some of the information is inclusive of all activity since the inception of the systems.

RETIREMENT PAYMENTS

Table 1 shows average monthly benefits being paid based on years of service credit. Tables 2, 3 and 4 show the benefits paid by each system under the options selected by the members or beneficiaries. These tables do not include dependent children, reemployed members or members whose payments ceased during the year due the option selected or death.

Members who have accounts in the Kentucky Employees Retirement System, County Employees Retirement System, State Police Retirement System, Kentucky Teachers' Retirement System or Legislators Retirement Plan may have their accounts combined at the time of retirement to determine eligibility for benefits and the salary to be used in calculating those benefits. Each system then pays a benefit based on actual service in the system. For this reason, a member may benefit from even a small amount of service in one of these systems. However, these small payments from a particular system, while part of the member's larger total benefit, tend to distort the statistics presented here.

In addition, the monthly benefits shown include all living retirees or beneficiaries who were drawing a payment from the systems during the year. Nearly 16,500 recipients (44%) are over age 70, and there are hundreds of accounts on which benefits have been paid for more than 20 years. Since benefit factors and salaries were lower years ago, these also contribute to a lower "average" benefit.

Following are some statistics on those members who retired in fiscal year 1995-96. The averages are based on those members retiring during the fiscal year--KERS: 1,127, CERS: 1,344 and SPRS: 39--but does not include members who took a lump sum payment or members who died.

SYSTEM	AVERAGE FINAL COMP.	AVERAGE MO. BENEFIT	SERVICE RANGES/% OF RETIREES			
			Under 20	20-25	25-30	30+
KERS	$28,430	$ 966.93	49%	17%	22%	12%
CERS	$20,967	$ 689.82	62%	21%	13%	4%
SPRS	$43,946	$2,115.83	18%	23%	49%	10%

The following table provides a comparison of retirees in the three systems based on years of service at the time of retirement. Table 1 indicates the average monthly benefits for these same service ranges.

SERVICE RANGES IN YEARS/PERCENTAGE OF RETIREES

	UNDER 2	2-5	6-10	11-15	16-20	21-25	26-30	31-35	35+
KERS	2%	4%	17%	19%	17%	15%	13%	9%	4%
CERS	2%	5%	26%	24%	16%	14%	8%	4%	2%
SPRS	1%	2%	4%	3%	8%	32%	35%	14%	1%

Table 5 presents a county-by-county summary of total retirement payments over the fiscal year. The retired payroll exceeded $1 million in 56 counties last year and over $266 million to the state of Kentucky. This gives an indication of the importance of retirees' income to their communities and shows that a majority of retirees remain in Kentucky.

DISABILITY RETIREMENTS

During the fiscal year 1995-96, there were 628 applications for disability retirement. Of those, 427 or 68% were approved for disability retirement. The figures in Tables 2, 3 and 4, show that 4,231 or 11% of the current 37,833 recipients are drawing a disability benefit. Disability recipients are subject to an annual medical and financial review.

MEMBERSHIP

Table 6 provides a picture of the membership of the three systems and the change over time. The County Employees Retirement System continues to grow. Following are the membership totals for the systems, showing the numbers of members in hazardous positions. These figures include all member and beneficiary accounts at June 30, 1996, and will exceed the number of members and beneficiaries indicated in Tables 2, 3 and 4, because retired member accounts whose payments have ceased are included (such as retired reemployed members, discontinued disability retirees, hazardous members whose 10 Year Certain payments have ceased or members deceased since January 1).

	ACTIVE	INACTIVE	RETIRED	TOTAL
KERS	46,818	13,246	19,047	79,111
KERS-HAZARDOUS	3,425	685	511	4,621
CERS	65,957	18,934	15,824	100,715
CERS-HAZARDOUS	6,233	489	1,852	8,574
SPRS	992	165	599	1,756
TOTAL	**123,425**	**33,519**	**37,833**	**194,777**

FINANCIAL AND ACTUARIAL STATISTICS

Tables 7, 8 and 9 provide a compilation of important information about each system drawn from the Auditor's and Actuary's reports. These tables provide a summary of assets and liabilities and show the determination of the current employer contribution rates. Five years of historical data is given .

SOURCE AND USE OF FUNDS

Table 10 provides a breakdown of each dollar, its source and where it is spent, since the inception of the retirement systems.

ADMINISTRATIVE EXPENSE

Table 11 provides a five-year history of administrative expenses.

TABLE 1
ANALYSIS OF MONTHLY RETIREMENT BENEFITS
AS OF JUNE 30, 1996
AVERAGE MONTHLY BENEFIT IN DOLLARS PER YEARS OF SERVICE

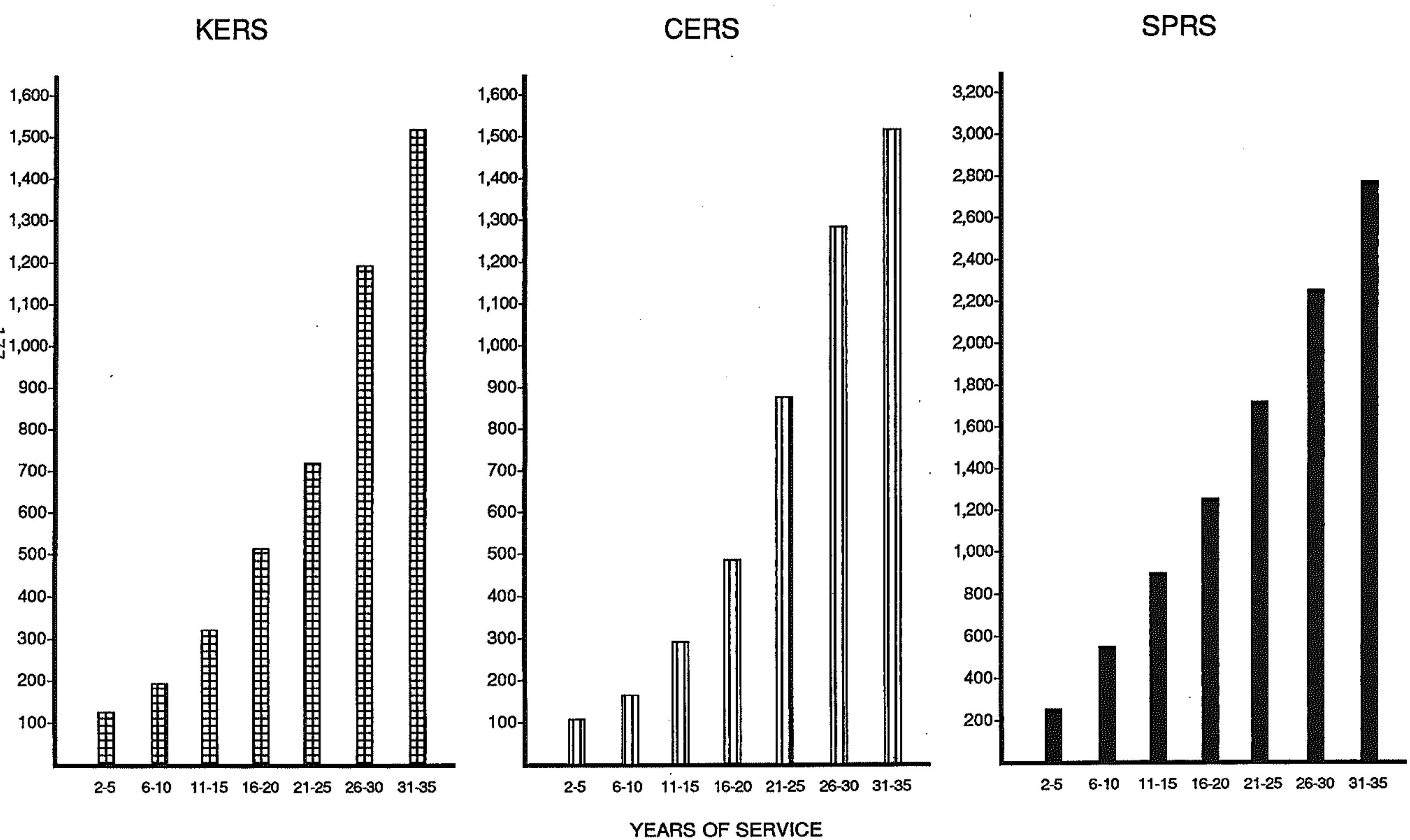

TABLE 2
KENTUCKY EMPLOYEES RETIREMENT SYSTEM
RETIREMENT BENEFITS BY PLAN
FOR THE PERIOD ENDING JUNE 30, 1996

	NUMBER OF CASES	TOTAL	AVERAGE	MONTHLY BENEFITS LOW	HIGH
NORMAL					
Basic	2,197	$ 1,114,194.55	$ 507.14	$ 1.17	$4,626.76
Life--10 Years Certain (Member)	628	331,964.81	528.60	1.50	5,339.30
Life--10 Years Certain (Beneficiary)	44	24,876.85	565.38	11.84	2,291.53
10 Years Certain	4	1,389.98	347.49	175.11	660.07
Life--15 Years Certain (Member)	91	63,484.80	697.63	17.35	3,748.07
Life--15 Years Certain (Beneficiary)	20	9,484.27	474.21	85.22	1,167.00
Survivorship 100% (Member)	589	294,784.52	500.48	2.86	4,073.83
Survivorship 100% (Beneficiary)	467	169,140.66	362.18	2.51	3,697.13
Pop-Up	238	175,439.88	737.14	6.68	4,543.33
Pop-Up (Basic)	15	20,448.97	1,363.26	192.87	4,320.28
Survivorship 66 2/3% (Member)	181	132,195.14	730.35	8.83	3,224.67
Survivorship 66 2/3% (Beneficiary)	77	29,272.51	380.16	24.78	2,166.09
Survivorship 50% (Member)	340	243,468.04	716.08	1.26	4,392.84
Survivorship 50% (Beneficiary)	207	69,918.86	337.77	28.25	1,673.50
Social Security Basic--Under 62	10	10,778.37	1,077.83	413.21	2,024.16
Social Security Survivorship--Under 62	11	14,538.69	1,321.69	504.20	2,603.89
Social Security Survivorship--Over 62	8	9,365.65	1,170.70	638.51	2,160.36
TOTALS AND AVERAGES	5,127	$ 2,714,746.55	$ 529.50	$ 1.17	$5,339.30
EARLY					
Basic	4,038	$ 2,421,215.18	$ 599.60	$ .82	$4,243.38
Life--10 Years Certain (Member)	1,433	807,550.58	563.53	1.65	3,730.55
Life--10 Years Certain (Beneficiary)	53	30,365.94	572.94	44.98	2,284.00
10 Years Certain	1	2,270.47	2,270.47	2,270.47	2,270.47
Life--15 Years Certain (Member)	261	180,443.83	691.35	.53	2,753.93
Life--15 Years Certain (Beneficiary)	29	16,865.81	581.57	48.77	2,573.01
Life--20 Years Certain (Member)	156	122,865.13	787.59	14.44	3,022.64
Life--20 Years Certain (Beneficiary)	8	6,943.89	867.98	142.05	2,064.06
Survivorship 100% (Member)	1,212	766,077.83	632.07	2.83	5,342.34
Survivorship 100% (Beneficiary)	449	177,620.13	395.59	17.74	3,937.96
Pop-Up Option	749	718,200.79	958.87	1.53	3,908.31
Pop-Up (Basic)	38	42,464.32	1,117.48	40.40	4,151.14
Survivorship 66 2/3% (Member)	436	543,620.36	1,246.83	11.90	4,684.49
Survivorship 66 2/3% (Beneficiary)	91	42,322.53	465.08	39.36	1,627.60
Survivorship 50% (Member)	661	682,032.54	1,031.81	8.60	4,851.17
Survivorship 50% (Beneficiary)	196	61,390.67	313.21	6.75	1,549.18
Social Security Basic--Under 62	829	996,727.79	1,202.32	5.47	3,998.75
Social Security Survivorship--Under 62	481	759,895.24	1,579.82	3.99	4,137.37
Social Security Survivorship--Over 62	422	373,385.77	884.80	3.27	4,224.30
TOTALS AND AVERAGES	11,543	$ 8,752,258.80	$ 758.23	$ .53	$5,342.34
DISABILITY					
Basic	581	$ 343,203.89	$ 590.71	$ 4.42	$2,534.41
Life--10 Years Certain (Member)	243	140,263.30	577.21	3.88	1,654.75
Life--10 Years Certain (Beneficiary)	60	40,922.93	682.04	162.88	1,914.09
10 Years Certain (Member)	1	593.73	593.73	593.73	593.73
10 Years Certain (Beneficiary)	1	864.54	864.54	864.54	864.54
Life--15 Years Certain (Member)	55	37,420.92	680.38	109.49	2,069.66
Life--15 Years Certain (Beneficiary)	39	24,332.65	623.91	199.16	1,318.76
Life--20 Years Certain (Member)	72	46,301.87	643.08	2.79	2,131.69
Life--20 Years Certain (Beneficiary)	37	28,200.65	762.17	150.24	1,309.72
Survivorship 100% (Member)	214	111,741.46	522.15	66.68	1,987.42
Survivorship 100% (Beneficiary)	325	132,943.55	409.05	6.52	2,841.05
Pop-Up	152	92,686.03	609.77	4.45	1,764.05
Pop-Up (Basic)	2	1,949.12	974.56	900.59	1,048.53
Survivorship 66 2/3% (Member)	45	31,624.91	702.77	1.57	1,921.86
Survivorship 66 2/3% (Beneficiary)	43	14,147.05	329.00	5.15	1,112.05
Survivorship 50% (Member)	111	71,708.92	646.02	103.39	3,310.88
Survivorship 50% (Beneficiary)	90	21,387.57	237.63	1.84	765.17
Social Security Basic--Under 62	45	50,361.91	1,119.15	136.92	2,683.96
Social Security Survivorship--Under 62	26	25,088.25	964.93	15.86	1,849.79
Social Security Survivorship--Over 62	13	5,340.44	410.80	49.81	1,167.28
TOTALS AND AVERAGES	2,155	$ 1,221,083.69	$ 566.62	$ 1.57	$3,310.88
DEATH BEFORE RETIREMENT					
Life Annuity	531	$ 266,565.77	$ 502.00	$ 2.41	$3,129.23
In Line of Duty Spousal Benefit	1	395.19	395.19	395.19	395.19
5 Years Certain	71	59,163.04	833.28	35.87	2,741.29
10 Years Certain	110	81,219.99	738.36	55.71	2,943.63
Social Security Basic--Under 62	1	324.58	324.58	324.58	324.58
Social Security Basic--Under 60	19	7,163.39	377.02	17.48	1,039.54
TOTALS AND AVERAGES	733	$ 414,831.96	$ 565.93	$ 2.41	$3,129.23
SYSTEM TOTALS AND AVERAGES	**19,558**	**$13,102,921.00**	**$669.95**	**$ .53**	**$5,342.34**

Not included in totals are payments to 10 dependent children of disabled or deceased hazardous duty members.

TABLE 3
COUNTY EMPLOYEES RETIREMENT SYSTEM
RETIREMENT BENEFITS BY PLAN
FOR THE PERIOD ENDING JUNE 30, 1996

	NUMBER OF CASES	TOTAL	AVERAGE	MONTHLY BENEFITS LOW	HIGH
NORMAL					
Basic	2,403	$ 754,982.26	$ 314.18	$ .41	$4,964.88
Life--10 Years Certain (Member)	772	237,127.00	307.15	12.85	3,528.42
Life--10 Years Certain (Beneficiary)	51	14,923.08	292.60	15.12	946.72
10 Years Certain (Member)	19	37,914.83	1,995.51	21.47	4,491.65
10 Years Certain (Beneficiary)	2	6,838.38	3,419.19	3,277.72	3,560.66
Life--15 Years Certain (Member)	101	31,868.09	315.52	30.66	1,627.52
Life--15 Years Certain (Beneficiary)	22	6,319.89	287.26	63.68	1,219.08
Life--20 Years Certain	5	8,429.83	1,685.96	836.75	2,342.82
Survivorship 100% (Member)	597	213,114.55	356.97	4.99	3,588.70
Survivorship 100% (Beneficiary)	321	76,464.07	238.20	8.55	2,521.95
Pop-Up	289	161,471.69	558.72	1.99	3,542.47
Pop-Up (Basic)	8	5,562.55	695.31	38.35	2,956.90
Survivorship 66 2/3% (Member)	166	123,946.01	746.66	32.34	4,241.61
Survivorship 66 2/3% (Beneficiary)	48	14,135.68	294.49	25.03	1,300.99
Survivorship 50% (Member)	263	191,716.30	728.95	35.34	4,102.87
Survivorship 50% (Beneficiary)	105	25,833.93	246.03	36.97	1,539.39
Social Security Basic--Under 62	8	14,415.38	1,801.92	896.51	3,224.88
Social Security Survivorship--Under 62	16	21,927.84	1,370.49	35.16	2,659.42
Social Security Survivorship--Over 62	37	41,740.82	1,128.13	.06	2,882.49
TOTALS AND AVERAGES	5,233	$ 1,988,732.18	$ 380.03	$ .06	$4,964.88
EARLY					
Basic	3,697	$ 1,461,223.37	$ 395.24	$ 3.52	$4,365.60
Life--10 Years Certain (Member)	1,406	502,103.41	357.11	2.54	3,058.81
Life--10 Years Certain (Beneficiary)	52	15,969.58	307.10	4.75	1,302.86
10 Years Certain	27	72,153.77	2,672.36	1,352.24	5,130.84
Life--15 Years Certain (Member)	321	167,093.45	520.54	6.98	3,277.76
Life--15 Years Certain (Beneficiary)	28	10,324.26	368.72	55.06	1,524.31
Life--20 Years Certain (Member)	189	143,141.08	757.36	30.91	3,608.33
Life--20 Years Certain (Beneficiary)	9	6,954.62	772.73	47.26	2,795.57
Survivorship 100% (Member)	1,044	538,918.86	516.20	2.21	4,066.35
Survivorship 100% (Beneficiary)	244	75,684.37	310.18	7.01	1,682.33
Pop-Up	989	897,587.09	907.57	4.48	5,536.26
Pop-Up (Basic)	46	44,729.86	972.38	67.38	2,164.43
Survivorship 66 2/3% (Member)	299	297,800.11	995.98	44.38	3,985.50
Survivorship 66 2/3% (Beneficiary)	37	12,416.61	335.58	63.46	1,105.44
Survivorship 50% (Member)	502	447,232.83	890.90	24.66	3,591.39
Survivorship 50% (Beneficiary)	87	24,441.41	280.93	30.99	1,375.76
Social Security Basic--Under 62	314	307,851.05	980.41	.29	3,901.75
Social Security Survivorship--Under 62	408	602,910.59	1,477.72	26.16	4,294.07
Social Security Survivorship--Over 62	142	86,027.56	605.82	.20	3,160.64
TOTALS AND AVERAGES	9,841	$ 5,714,563.88	$ 580.68	$ .20	$5,536.26
DISABILITY					
Basic	615	$ 314,857.23	$ 511.96	$ 5.28	$2,211.93
Life--10 Years Certain (Member)	253	127,804.30	505.15	21.77	2,615.11
Life--10 Years Certain (Beneficiary)	68	29,441.74	432.96	35.45	1,272.06
10 Years Certain	6	9,087.00	1,514.50	944.97	2,105.67
Life--15 Years Certain (Member)	66	41,568.94	629.83	61.97	1,629.87
Life--15 Years Certain (Beneficiary)	34	16,039.22	471.74	54.30	1,204.21
Life--20 Years Certain (Member)	85	49,932.75	587.44	4.45	1,709.95
Life--20 Years Certain (Beneficiary)	28	13,354.65	476.95	33.81	1,813.45
Survivorship 100% (Member)	246	129,809.49	527.68	11.15	1,534.26
Survivorship 100% (Beneficiary)	187	68,998.79	368.97	50.61	1,309.36
Pop-Up	179	108,002.59	603.36	50.51	2,236.82
Pop-Up (Basic)	3	2,525.60	841.86	485.48	1,299.79
Survivorship 66 2/3% (Member)	44	29,276.65	665.37	69.55	1,505.50
Survivorship 66 2/3% (Beneficiary)	20	6,294.01	314.70	28.34	866.42
Survivorship 50% (Member)	104	65,607.43	630.84	6.02	2,121.72
Survivorship 50% (Beneficiary)	43	8,662.20	201.44	58.36	474.32
Social Security Basic--Under 62	30	24,369.96	812.33	129.00	2,886.15
Social Security Survivorship--Under 62	24	29,284.57	1,220.19	48.98	2,926.25
Social Security Survivorship--Over 62	5	1,869.65	373.93	60.26	1,031.06
TOTALS AND AVERAGES	2,040	$ 1,076,786.77	$ 527.83	$ 4.45	$2,926.25
DEATH BEFORE RETIREMENT					
Life Annuity	325	$ 110,553.30	$ 340.16	$ 12.86	$2,373.15
In Line of Duty Spousal Benefit	1	711.35	711.35	711.35	711.35
5 Years Certain	102	61,243.45	600.42	41.16	4,264.29
10 Years Certain	127	62,746.19	494.06	28.48	2,820.86
Social Security Basic--Under 60	7	3,548.77	506.96	42.13	1,554.01
TOTALS AND AVERAGES	562	$ 238,803.06	$ 424.91	$ 12.86	$4,264.29
SYSTEM TOTALS AND AVERAGES	**17,676**	**$9,018,885.89**	**$510.23**	**$ .06**	**$5,536.26**

Not included in totals are payments to 111 dependent children of disabled or deceased hazardous duty members.

TABLE 4
STATE POLICE RETIREMENT SYSTEM
RETIREMENT BENEFITS BY PLAN
FOR THE PERIOD ENDING JUNE 30, 1996

	NUMBER OF CASES	TOTAL	AVERAGE	MONTHLY BENEFITS LOW	HIGH
NORMAL					
Basic	7	$ 8,663.76	$1,237.68	$ 113.46	$2,607.13
Life--10 Years Certain (Member)	8	16,392.14	2,049.01	611.14	4,475.39
10 Years Certain (Member)	1	353.79	353.79	353.79	353.79
Life--15 Years Certain (Member)	1	381.85	381.85	381.85	381.85
Life--20 Years Certain (Member)	2	5,661.92	2,830.96	2,688.60	2,973.32
Survivorship 100% (Member)	24	43,817.19	1,825.71	101.18	3,987.42
Survivorship 100% (Beneficiary)	5	5,717.75	1,143.55	551.02	2,579.18
Pop-Up Option	3	5,509.50	1,836.50	1,039.33	3,314.14
Survivorship 66 2/3% (Member)	7	15,923.58	2,274.79	1,614.37	3,104.69
Survivorship 66 2/3% (Beneficiary)	2	2,621.14	1,310.57	869.34	1,751.80
Survivorship 50% (Member)	12	24,017.65	2,001.47	1,044.22	3,724.77
Survivorship 50% (Beneficiary)	5	4,219.32	843.86	581.99	1,105.15
Social Security Survivorship--Over 62	19	34,667.52	1,824.60	158.17	3,410.48
TOTALS AND AVERAGES	96	$ 167,947.11	$1,749.44	$ 101.18	$4,475.39
EARLY					
Basic	28	$ 58,006.28	$2,071.65	$ 161.26	$3,846.64
Life--10 Years Certain (Member)	15	34,652.83	2,310.18	1,514.09	3,608.62
10 Years Certain (Member)	3	6,780.24	2,260.08	19.42	3,494.37
Life--15 Years Certain (Member)	5	10,957.63	2,191.52	1,359.29	3,805.39
Life--20 Years Certain (Member)	14	26,497.66	1,892.69	408.58	2,566.35
Survivorship 100% (Member)	53	100,269.43	1,891.87	210.99	4,246.13
Survivorship 100% (Beneficiary)	2	3,975.92	1,987.96	1,836.67	2,139.25
Pop-Up	86	161,016.52	1,872.28	57.16	3,531.57
Pop-Up (Basic)	4	12,625.70	3,156.42	2,345.49	4,260.32
Survivorship 66 2/3% (Member)	31	70,448.90	2,272.54	1,256.28	4,095.01
Survivorship 66 2/3% (Beneficiary)	1	1,038.35	1,038.35	1,038.35	1,038.35
Survivorship 50% (Member)	29	52,564.88	1,812.58	141.86	5,010.96
Survivorship 50% (Beneficiary)	1	927.36	927.36	927.36	927.36
Social Security Basic--Under 62	29	60,066.64	2,071.26	201.87	3,166.44
Social Security Survivorship--Under 62	129	272,796.74	2,114.70	212.43	3,859.62
Social Security Survivorship--Over 62	20	36,167.77	1,808.38	305.97	3,287.41
TOTALS AND AVERAGES	450	$ 908,792.85	$2,019.53	$ 19.42	$5,010.96
DISABILITY					
Basic	11	$ 11,283.22	$1,025.74	$ 328.88	$1,589.21
Life--10 Years Certain (Member)	1	1,370.97	1,370.97	1,370.97	1,370.97
10 Years Certain (Member)	1	1,396.53	1,396.53	1,396.53	1,396.53
Life--15 Years Certain (Member)	1	1,450.04	1,450.04	1,450.04	1,450.04
Life--20 Years Certain (Member)	2	1,831.52	915.76	509.77	1,321.75
Life--20 Yeas Certain (Beneficiary)	1	2,517.13	2,517.13	2,517.13	2,517.13
Survivorship 100% (Member)	11	12,477.71	1,134.33	65.15	2,499.48
Survivorship 100% (Beneficiary)	5	6,655.11	1,331.02	885.45	2,285.68
Survivorship 50% (Member)	1	1,720.40	1,720.40	1,720.40	1,720.40
Social Security Basic--Under 62	1	1,775.58	1,775.58	1,775.58	1,775.58
Social SecuritySurvivorship--Under 62	1	2,185.84	2,185.84	2,185.84	2,185.84
TOTALS AND AVERAGES	36	$ 44,664.05	$1,240.66	$ 65.15	$2,517.13
DEATH BEFORE RETIREMENT					
Life Annuity	16	$ 16,585.45	$1,036.59	$ 87.38	$2,335.21
10 Years Certain	1	996.62	996.62	996.62	996.62
TOTALS AND AVERAGES	17	$ 17,582.07	$1,034.23	$ 87.38	$2,335.21
SYSTEM TOTALS AND AVERAGES	**599**	**$1,138,986.08**	**$1,901.47**	**$19.42**	**$5,010.96**

Not included in totals are payments to 18 dependent children of disabled or deceased members.

TABLE 5
RETIREMENT PAYMENTS BY COUNTY

Jefferson	$49,642,621	Harlan	$ 1,396,035	Pendleton	$ 734,584
Franklin	$33,937,337	Bell	$ 1,379,624	Webster	$ 718,982
Fayette	$13,946,097	Johnson	$ 1,300,694	Breckinridge	$ 707,274
Warren	$ 6,915,775	Trigg	$ 1,252,968	Casey	$ 701,515
Daviess	$ 6,050,716	Logan	$ 1,222,969	Allen	$ 686,795
Kenton	$ 5,445,179	Grayson	$ 1,203,044	Livingston	$ 683,346
Christian	$ 5,424,744	Clark	$ 1,202,829	Simpson	$ 668,248
Shelby	$ 5,308,484	Caldwell	$ 1,200,318	Washington	$ 650,763
Pulaski	$ 4,667,726	Carter	$ 1,176,045	Metcalfe	$ 629,194
McCracken	$ 4,475,243	Lincoln	$ 1,118,620	Lee	$ 626,561
Hardin	$ 3,833,753	Knott	$ 1,098,427	Wolfe	$ 623,314
Madison	$ 3,786,529	Muhlenberg	$ 1,093,580	Powell	$ 616,074
Anderson	$ 3,600,531	Montgomery	$ 1,048,453	Trimble	$ 591,641
Hopkins	$ 3,199,644	Perry	$ 1,048,336	Lewis	$ 580,259
Oldham	$ 3,140,692	Adair	$ 1,018,690	Lawrence	$ 557,642
Boyd	$ 2,982,770	Breathitt	$ 1,007,646	Butler	$ 550,352
Boyle	$ 2,847,080	Larue	$ 995,175	Magoffin	$ 528,466
Campbell	$ 2,842,417	Ohio	$ 953,921	McCreary	$ 503,840
Calloway	$ 2,834,158	Marion	$ 953,379	Green	$ 500,613
Henderson	$ 2,792,373	Bath	$ 942,271	Ballard	$ 469,603
Bullitt	$ 2,661,046	Harrison	$ 912,578	Fulton	$ 461,670
Barren	$ 2,548,664	Taylor	$ 910,218	Leslie	$ 459,165
Pike	$ 2,390,874	Wayne	$ 906,669	McLean	$ 448,304
Laurel	$ 2,326,507	Knox	$ 892,305	Jackson	$ 436,911
Boone	$ 2,294,341	Letcher	$ 887,335	Monroe	$ 415,180
Woodford	$ 2,273,576	Russell	$ 885,771	Owsley	$ 401,119
Scott	$ 2,144,993	Greenup	$ 852,384	Carlisle	$ 383,893
Mercer	$ 2,131,549	Lyon	$ 852,128	Edmonson	$ 383,035
Graves	$ 2,081,234	Garrard	$ 832,853	Cumberland	$ 370,626
Whitley	$ 1,994,500	Fleming	$ 827,910	Nicholas	$ 370,274
Rowan	$ 1,993,050	Morgan	$ 819,852	Crittenden	$ 368,796
Marshall	$ 1,883,487	Union	$ 817,734	Martin	$ 345,973
Floyd	$ 1,834,973	Meade	$ 802,817	Menifee	$ 344,294
Owen	$ 1,794,130	Estill	$ 801,440	Bracken	$ 321,017
Henry	$ 1,740,702	Todd	$ 796,631	Hancock	$ 312,946
Nelson	$ 1,707,290	Hart	$ 790,540	Clinton	$ 311,173
Clay	$ 1,583,324	Carroll	$ 788,797	Gallatin	$ 304,705
Jessamine	$ 1,514,538	Rockcastle	$ 766,069	Elliott	$ 277,661
Grant	$ 1,499,276	Spencer	$ 747,873	Hickman	$ 257,350
Bourbon	$ 1,480,207	Mason	$ 737,432	Robertson	$ 102,728

PAYMENTS TO RETIREES LIVING IN OTHER STATES
$12,929,147

TOTAL PAYMENTS FOR FISCAL YEAR ENDING JUNE 30, 1996
$279,129,523

TABLE 6
MEMBERSHIP GROWTH
6/30/80 through 6/30/96

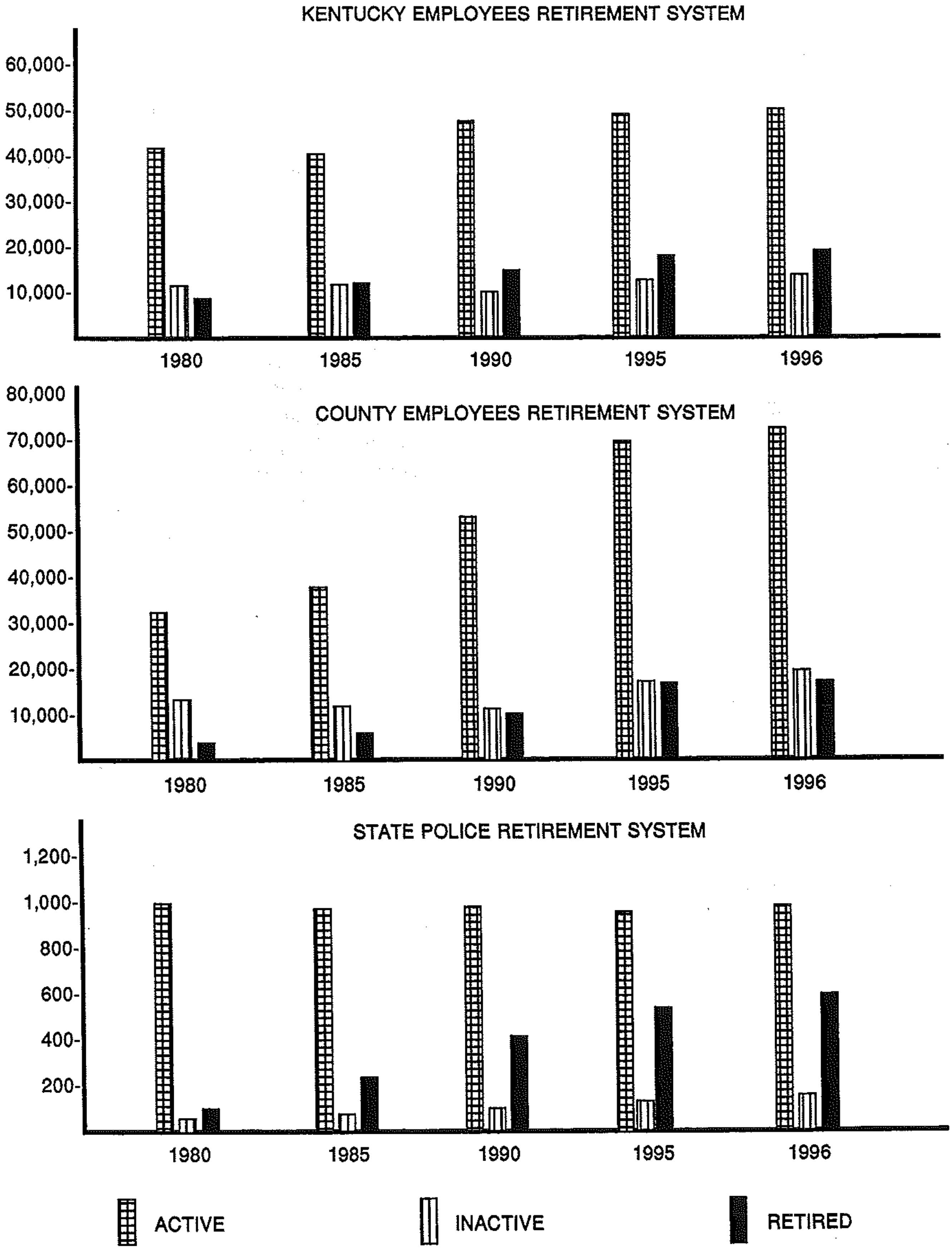

TABLE 7
KENTUCKY EMPLOYEES RETIREMENT SYSTEM
FINANCIAL AND ACTUARIAL STATISTICS

FINANCIAL STATISTICS	6/30/92	6/30/93	6/30/94	6/30/95	6/30/96
Total Assets	$2,072,356,055	$2,269,585,643	$2,407,992,392	$2,573,798,482	*$3,861,901,803
Investment Income	$ 106,061,993	$ 105,909,575	$ 101,235,035	$ 125,760,059	**$1,186,725,341
Total Retirement Payments	$ 110,034,282	$ 119,619,683	$ 129,799,939	$ 144,364,718	$ 158,406,584
Total Refund Payments	$ 6,451,752	$ 6,749,192	$ 7,902,704	$ 7,820,401	$ 7,484,849
ACTUARIAL STATISTICS:					
Total Assets at Actuarial Value	$2,354,482,321	$2,585,209,537	$2,729,048,987	$2,983,813,538	$3,375,295,577
Total Accrued Liability	$2,525,190,930	$2,703,771,076	$2,912,050,275	$3,240,852,288	$3,415,404,483
Unfunded Past Service Liability	$ 170,708,609	$ 118,561,539	$ 183,001,288	$ 257,038,750	$ 40,108,906
Percent Unfunded	6.8%	4.4%	6.3%	7.9%	1.2%
Accrued Benefit Liability	$1,576,337,372	$1,702,993,305	$1,859,518,636	$2,169,885,915	$2,290,308,701
Estimated Annual Salaries	$1,065,985,572	$1,094,395,992	$1,115,206,380	$1,184,917,776	$1,263,602,604
Contribution for Unfunded Past Service Liability	$ 8,652,449	$ 6,759,902	$ 10,129,368	$ 14,059,439	$ 3,975,341
Medical Benefit Obligation	$1,001,703,695	$1,177,861,283	$1,444,612,678	$1,462,174,101	$1,222,394,138
Insurance Fund Assets (Book)	$ 62,465,626	$ 77,673,575	$ 99,083,533	$ 127,292,191	$ 172,646,205
Percent Unfunded	93.8%	93.4%	93.1%	91.3%	85.9%
ACTUARIAL COST-NONHAZARDOUS:					
Normal	9.32%	9.43%	9.32%	9.14%	8.98%
Past Service	.84%	.62%	.91%	1.19%	.40%
Administrative	.38%	.38%	.37%	.41%	.42%
Hospital/Medical Insurance	3.12%	3.13%	3.15%	3.15%	4.09%
TOTAL COST	13.66%	13.56%	13.75%	13.89%	13.89%
CONTRIBUTION RATES-NONHAZARDOUS:					
Member	5.00%	5.00%	5.00%	5.00%	5.00%
Employer	***8.66%	***8.66%	8.56%	****8.75%	8.89%
TOTAL RATES	13.66%	13.66%	13.56%	13.75%	13.89%
ACTUARIAL COST-HAZARDOUS:					
Normal	16.62%	16.56%	16.39%	16.00%	15.50%
Past Service	.46%	.60%	.82%	1.08%	-1.01%
Administrative	.40%	.40%	.38%	.33%	.35%
Hospital/Medical Insurance	7.38%	7.41%	7.46%	7.46%	10.03%
TOTAL COST	24.86%	24.97%	25.05%	24.87%	24.87%
CONTRIBUTION RATES-HAZARDOUS:					
Member	7.00%	7.00%	7.00%	7.00%	7.00%
Employer	***17.55%	***17.86%	17.97%	****18.05%	17.87%
TOTAL RATES	24.55%	24.86%	24.97%	25.05%	24.87%

*As required by GASB Statement No. 25 implemented 6/30/96, assets are shown at Fair Value. Prior fiscal years were shown at Book Value.

**GASB Statement No. 25 also requires that investment income include net appreciation in Fair Value.

***The contribution rate shown is the rate adopted by the Board of Trustees. The actual employer rates paid by state agencies were 7.65% for nonhazardous employees and 15.05% for hazardous employees in accordance with provisions in the state budget.

****The contribution rate shown is the rate adopted by the Board of Trustees. The actual employer rates paid by state agencies were 8.56% for nonhazardous employees and 17.97% for hazardous

TABLE 8
COUNTY EMPLOYEES RETIREMENT SYSTEM
FINANCIAL AND ACTUARIAL STATISTICS

FINANCIAL STATISTICS:	6/30/92	6/30/93	6/30/94	6/30/95	6/30/96
Total Assets at Book Value	$1,558,427,245	$1,767,918,632	$1,931,896,031	$2,128,819,130	*$3,275,082,468
Investment Income	$ 73,386,287	$ 73,074,069	$ 72,862,036	$ 91,233,982	**$1,011,734,409
Total Retirement Payments	$ 64,992,604	$ 72,607,003	$ 82,690,680	$ 96,419,226	$ 109,081,399
Total Refund Payments	$ 5,829,864	$ 5,373,355	$ 8,169,994	$ 8,873,491	$ 8,944,453
ACTUARIAL STATISTICS:					
Total Assets at Actuarial Value	$1,735,038,908	$1,985,680,709	$2,173,354,772	$2,454,128,060	$2,880,028,538
Total Accrued Liability	$1,861,978,403	$2,079,930,047	$2,330,344,241	$2,603,575,921	$2,778,316,473
Unfunded Past Service Liability	$ 126,939,495	$ 94,249,338	$ 156,989,469	$ 149,447,861	$ 0
Percent Unfunded	6.8%	4.5%	6.7%	5.7%	0%
Accrued Benefit Liability	$1,196,294,816	$1,347,836,822	$1,528,093,078	$1,711,848,465	$1,841,167,075
Estimated Annual Salaries	$ 994,447,776	$1,074,056,004	$1,156,134,504	$1,238,568,216	$1,324,056,780
Contribution for Unfunded Past Service Liability	$ 6,464,013	$ 5,259,804	$ 8,487,434	$ 8,378,186	$ 0
Medical Benefit Obligation	$1,041,905,457	$1,244,258,042	$1,551,138,800	$1,679,893,225	$1,386,659,746
Insurance Fund Assets (Book)	$ 56,955,901	$ 74,253,872	$ 99,514,895	$ 125,453,940	$ 167,536,241
Percent Unfunded	94.5%	94.0%	93.6%	92.5%	87.9%
ACTUARIAL COST-NONHAZARDOUS:					
Normal	10.69%	10.78%	10.68%	10.65%	10.46%
Past Service	.22%	.09%	.37%	.20%	-.63%
Administrative	.55%	.54%	.53%	.44%	.46%
Hospital/Medical Insurance	2.36%	2.36%	2.36%	2.36%	3.36%
TOTAL COST	13.82%	13.77%	13.94%	13.65%	13.65%
CONTRIBUTION RATES-NONHAZARDOUS:					
Member	5.00%	5.00%	5.00%	5.00%	5.00%
Employer	8.82%	8.82%	8.82%	8.94%	8.65%
TOTAL RATES	13.82%	13.82%	13.82%	13.94%	13.65%
ACTUARIAL COST-HAZARDOUS:					
Normal	15.57%	15.82%	15.69%	15.47%	14.74%
Past Service	3.28%	2.86%	2.90%	3.45%	1.72%
Administrative	.31%	.31%	.29%	.44%	.43%
Hospital/Medical Insurance	6.33%	6.33%	6.33%	6.33%	8.80%
TOTAL COST	25.49%	25.32%	25.21%	25.69%	25.69%
CONTRIBUTION RATES-HAZARDOUS:					
Member	7.00%	7.00%	7.00%	7.00%	7.00%
Employer	18.47%	18.49%	18.46%	18.21%	18.69%
TOTAL RATES	25.47%	25.49%	25.46%	25.21%	25.69%

*As required by GASB Statement No. 25 implemented 6/30/96, assets are shown at Fair Value. Prior fiscal years were shown at Book Value.
**GASB Statement No. 25 also requires that investment income include net appreciation in Fair Value.

TABLE 9
STATE POLICE RETIREMENT SYSTEM
FINANCIAL AND ACTUARIAL STATISTICS

FINANCIAL STATISTICS:	6/30/92	6/30/93	6/30/94	6/30/95	6/30/96
Total Assets at Book Value	$159,420,001	$170,188,992	$175,677,762	$182,371,313	*$271,656,567
Investment Income	$ 8,430,390	$ 8,239,832	$ 7,664,863	$ 9,195,173	**$ 90,743,552
Total Retired Payments	$ 9,372,766	$ 10,220,001	$ 11,146,563	$ 12,525,984	$ 13,710,726
Total Refund Payments	$ 35,421	$ 39,772	$ 44,452	$ 19,135	$ 30,541
ACTUARIAL STATISTICS:					
Total Assets at Actuarial Value	$187,791,011	$200,320,968	$205,320,509	$217,504,443	$237,515,346
Total Accrued Liability	$182,996,056	$191,653,594	$206,763,310	$241,690,631	$244,540,812
Unfunded Past Service Liability	$ 0	$ 0	$ 1,442,801	$ 24,186,188	$ 7,025,466
Percent Unfunded	0.0%	0.0%	0.7%	10.0%	2.9%
Accrued Benefit Liability	$154,375,127	$165,774,200	$181,983,533	$194,845,017	$199,736,351
Estimated Annual Salaries	$ 31,285,572	$ 30,600,684	$ 30,950,088	$ 31,442,040	$ 32,570,292
Contribution for Unfunded Past Service Liability	$ 0	$ 0	$ 93,823	$ 1,205,336	$ 408,420
Medical Benefit Obligation	$ 88,407,634	$ 95,290,099	$110,193,139	$118,995,732	$101,132,886
Insurance Fund Assets (Book)	$ 11,717,956	$ 14,285,479	$ 17,410,672	$ 21,200,195	$ 27,809,267
Percent Unfunded	86.7%	85.0%	84.2%	82.2%	72.5%
ACTUARIAL COST:					
Normal	15.25%	15.67%	15.28%	14.84%	14.01%
Past Service	-.79%	-1.28%	.30%	3.83%	1.25%
Administrative	.27%	.25%	.26%	.70%	.74%
Hospital/Medical Insurance	14.11%	14.14%	14.21%	14.21%	17.58%
TOTAL COST:	28.84%	28.78%	30.05%	33.58%	33.58%
CONTRIBUTION RATES:					
Member	7.00%	7.00%	7.00%	7.00%	7.00%
Employer	***21.84%	***21.84%	21.78%	****23.05%	26.58%
TOTAL RATES	28.84%	28.84%	28.78%	30.05%	33.58%

*As required by GASB Statement No. 25 implemented 6/30/96, assets are shown at Fair Value. Prior fiscal years were shown at Book Value.
**GASB Statement No. 25 also requires that investment income include net appreciation in Fair Value.
***The contribution rate shown is the rate adopted by the Board of Trustees. The actual employer rates paid by the Kentucky State Police was 19.57% in accordance with provisions in the state budget.
****The contribution rate shown is the rate adopted by the Board of Trustees. The actual employer rates paid by the Kentucky State Police was 21.78% in accordance with provisions in the state budget.

TABLE 10

KENTUCKY RETIREMENT SYSTEMS
STATEMENT OF SOURCE AND USE OF FUNDS
BY SYSTEM SINCE INCEPTION THROUGH JUNE 30, 1996

BREAKDOWN PER DOLLAR						TOTAL AMOUNTS				
KERS	CERS	SPRS	KERS-H	CERS-H		KERS	CERS	SPRS	KERS-H	CERS-H
					SOURCE OF FUNDS					
$ .23	$ .26	$ .18	$.33	$.23	Member Contributions	$1,035,835,158.26	$ 688,787,064.37	$ 59,172,555.60	$ 49,996,305.99	$173,601,524.82
.25	.30	.23	.35	.37	Employer Contributions	1,106,770,398.38	787,067,821.23	75,085,007.73	53,130,807.57	278,241,807.99
.37	.30	.43	.22	.26	Investment Income	1,634,941,176.19	794,735,699.45	138,331,981.84	33,583,352.63	200,272,340.71
.00	.00	.00	.00	.00	Special Appropriation	1,864,578.48	187,810.16	506,100.14	30,318.35	39,452.86
.00	.00	.00	.00	.02	Alternate & Term. Participation	230,360.40	11,769,768.99	.00	3,740,98	18,683,089.44
.15	.14	.16	.10	.12	Other Receipts	637,465,808.95	355,428,153.83	52,095,449.21	16,790,793.43	90,777,683.57
$1.00	$1.00	$1.00	$1.00	$1.00	TOTAL SOURCES	$4,417,107,480.66	$2,637,976,318.03	$325,191,094.52	$153,535,318.95	$761,615,899.39
					USE OF FUNDS					
$ .61	$ .71	$ .59	$ .75	$ .71	Invested Assets	$2,679,637,955.38	$1,873,025,146.73	$191,834,195.30	$115,637,173.39	$540,588,421.72
.31	.20	.35	.14	.23	Retirement Payments	1,347,415,616.46	535,258,726.59	114,444,941.00	21,603,901.36	173,382,305.39
.03	.04	.01	.04	.02	Refunds	136,794,338.47	88,324,631.22	2,549,338.19	5,854,885.22	13,089,266.21
.05	.04	.04	.06	.04	Interest to Members	213,418,560.25	109,575,893.14	14,497,708.38	8,908,630.67	29,026,486.74
.00	.01	.01	.01	.00	Administration of Prof. Services	39,476,688.07	31,753,625.02	1,864,911.65	1,527,730.34	5,508,666.29
.00	.00	.00	.00	.00	Other Disbursements	364,322.03	38,295.33	.00	2,997.97	20,753.04
$1.00	$1.00	$1.00	$1.00	$1.00	TOTAL USES	$4,417,107,480.66	$2,637,976,318.03	$325,191,094.52	$153,535,318.95	$761,615,899.39

KERS-H= Hazardous
CERS-H= Hazardous

TABLE 11
KENTUCKY RETIREMENT SYSTEMS
ADMINISTRATIVE EXPENSE
BY FISCAL YEAR

	1991-92	1992-93	1993-94	1994-95	1995-96
PERSONNEL COSTS:					
Salaries & Fringe Benefits	$2,857,136.01	$3,009,894.08	$3,196,712.55	$3,269,293.87	$3,762,151.48
CONTRACTUAL SERVICES:					
Auditor	$ 22,145.00	$ 21,118.00	$ 47,621.56	$ 23,050.00	$ 19,525.00
Actuary	47,767.00	42,950.00	45,705.00	46,854.00	52,400.00
Legal Services	92,729.83	76,513.67	44,728.69	61,843.87	58,743.75
Medical	62,728.97	71,733.54	84,702.10	106,397.57	89,819.17
Investment Consultant	55,000.00	40,000.00	56,098.00	73,746.81	137,000.00
Real Estate Consultant				72,333.17	63,825.10
Security Custody & Banking Services	162,215.87	182,489.34	273,675.36	299,110.08	352,923.60
Investment Advisors	3,252,869.65	3,516,025.30	3,675,077.50	4,005,095.27	3,817,016.80
Miscellaneous	0.00	572.00	342.00	495.00	495.00
TOTAL	$6,552,592.33	$6,961,295.93	$7,424,662.76	$4,688,925.77	$4,591,748.42
OPERATING EXPENSES:					
Postage & Freight	$ 320,829.38	$ 284,364.41	$ 365,484.93	$ 330,192.65	$ 335,898.00
Utilities	29,683.56	31,847.41	53,070.76	46,295.76	48,018.93
Telephone	38,743.05	68,108.93	50,558.15	45,751.51	50,704.03
Travel	32,723.24	34,958.23	29,370.50	32,353.84	44,612.14
Printing & Duplicating	47,113.25	97,305.83	55,133.41	64,580.16	97,987.84
Maintenance-Equipment	64,253.76	48,523.86	61,663.94	58,940.36	42,885.08
Maintenance-Bldg. & Grnds.	1,063.32	1,228.90	320.84	1,021.04	668.95
Laundry	584.62	1,696.17	2,582.59	2,040.17	1,205.44
Assessed Car Rental	4,457.04	5,105.19	3,526.72	1,093.91	935.22
Supplies-Office	29,097.93	33,795.37	14,949.50	32,471.82	22,537.53
Supplies-Data Processing	38,806.81	40,555.50	25,550.49	39,904.99	90,980.25
Rental-Building	193,550.04	371,040.00	374,311.43	376,447.09	374,835.09
Rental-Data Processing	10,506.13	7,055.14	8,943.97	14,390.09	11,385.21
Rental-Office Equipment	14,974.68	26,764.67	17,850.28	28,779.52	21,282.60
Insurance	56,011.00	49,488.10	52,044.25	52,125.00	54,807.50
Bonds	1,776.25	1,776.25	0.00	1,776.25	1,776.25
Dues & Subscriptions	4,105.02	5,206.35	7,437.95	8,652.70	8,202.31
Employee Training Expense	11,673.27	12,436.16	14,421.11	16,199.86	13,977.96
Miscellaneous	3,506.56	16,538.44	8,369.07	8,165.45	6,710.08
Photo Supplies (Micrographics)	13,484.24	46,298.60	5,300.41	15,895.19	17,710.13
Furniture Office Equipment	2,968.75	5,434.59	714.59	9,285.90	3,093.94
Lease Purchase Office Equipment	77,294.88	77,294.88	83,736.12	70,853.64	.00
Conference Expenses	3,620.50	1,415.00	2,058.00	5,317.50	4,347.50
TOTAL	$1,000,827.28	$1,268,237.98	$1,237,399.01	$1,262,534.40	$1,254,561.98
Capital Outlay	24,646.00	95,506.14	151,931.47	195,065.56	154,601.81
TOTAL ADMINISTRATIVE EXPENSE	**$7,578,065.61**	**$8,325,040.05**	**$8,813,993.24**	**$9,415,819.60**	**$9,763,063.69**

DISTRIBUTION OF COST BY SYSTEM

	1991-92	1992-93	1993-94	1994-95	1995-96
Kentucky Employees Retirement System	$3,760,236.16	$3,996,019.22	$4,124,776.92	$4,277,034.06	$4,436,283.67
County Employees Retirement System	*3,621,557.56	4,135,879.90	4,498,042.18	4,939,349.10	5,123,732.24
State Police Retirement System	196,271.90	193,140.93	191,174.14	199,436.44	203,047.78
	$7,578,065.61	$8,325,040.05	$8,813,993.24	$9,415,819.60	$9,763,063.69

*CERS portion of administrative expense, excluding investment fees, is greater than 50%. Inclusion of investment fees changed the distribution. KERS portfolio is larger and, thus, has higher fees.