KENTUCKY TEACHERS' Retirement System

KTRS

Serving Kentucky Teachers
— Since 1940 —

COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the fiscal year ended June 30, 2014

Teachers' Retirement System of the State of Kentucky

The 74th Comprehensive Annual Financial Report

A Component Unit of the Commonwealth of Kentucky
Fiscal Year Ended June 30, 2014

Kentucky Teachers' Retirement System
479 Versailles Road
Frankfort, Kentucky 40601-3800

GARY L. HARBIN, CPA
Executive Secretary

This report was prepared by the Teachers' Retirement System staff.

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Kentucky Teachers' Retirement System

2014

Introductory Section

Chairperson's Letter

Teachers' Retirement System of the State of Kentucky

GARY L. HARBIN, CPA
Executive Secretary

December 15, 2014

Dear Members:

On behalf of the Board of Trustees and staff, I am pleased to present this Comprehensive Annual Financial Report of the Teachers' Retirement System of the State of Kentucky for the year ending June 30, 2014, the 74th year of operation of the System. The accompanying reports from the independent auditor and the consulting actuary substantiate the financial integrity and the actuarial soundness of the system.

KTRS closed the 2013-2014 fiscal year with $18.7 billion net assets. The active membership totaled 73,407 and the retired membership was 48,576 with annual annuity and medical insurance benefits of $1.9 billion.

The Board of Trustees is totally committed to managing the retirement system funds in a prudent, professional manner. Every effort will be made to ensure that the system continues to operate in a fiscally sound manner. Present and future members of the system deserve to be able to avail themselves of the best possible retirement as authorized by statute.

We appreciate the support and cooperation extended by the Governor and the Legislature. This cooperation allows the system to not only meet current challenges but to also make timely provisions for the future.

The Board of Trustees pledges to continue to administer the affairs of the Kentucky Teachers' Retirement System in the most competent and efficient manner possible.

Sincerely,

Tom Shelton

Dr. Tom Shelton
Chairperson
Board of Trustees

Letter of Transmittal

Teachers' Retirement System of the State of Kentucky

December 15, 2014

Honorable Steven L. Beshear, Governor
Commonwealth of Kentucky
Capitol Building
Frankfort, Kentucky

Dear Governor Beshear:

It is my pleasure to submit the 74th Comprehensive Annual Financial Report of the Teachers' Retirement System of the State of Kentucky, a Component Unit of the Commonwealth of Kentucky, for the fiscal year ended June 30, 2014. State law provides the legal requirement for the publication of this report; in addition, an annual audit and an annual actuarial valuation of the retirement system are also required. Kentucky Teachers' Retirement System (KTRS) has produced an annual report that will provide you, the General Assembly, and the general public, with information necessary to gain a better understanding of KTRS.

This report has been prepared in conformity with the principles of governmental accounting and generally accepted accounting principles. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with KTRS management. To the best of our knowledge and belief, the enclosed data is accurate in all material aspects and reported in a manner designed to present fairly the financial position and results of operations of KTRS for the year ended June 30, 2014. Discussion and analysis of net position and related additions and deductions is presented in Management's Discussion and Analysis beginning on page 15.

Management is responsible for maintaining a system of internal controls to establish reasonable assurance that assets are safeguarded, transactions are accurately executed and financial statements are fairly presented. There are limits inherent in all systems of internal control based on the recognition that the costs of such systems should be related to the benefits to be derived. Management believes the System's controls provide this appropriate balance. The system of internal controls includes policies and procedures and an internal audit department that reports to the Executive Secretary and the Governance and Audit Committee of the Board of Trustees.

Profile of KTRS

KTRS began operations on July 1, 1940 as a cost-sharing multiple-employer defined benefit plan. The primary purpose of the plan is to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state. KTRS is a blended component unit of the Commonwealth of Kentucky. The plan is described in the notes to the basic financial statements on page 24. Also, the summary of the plan provisions starting on page 97 is useful in understanding benefit and contribution provisions. The population of KTRS membership is stated in the preceding chairperson's letter.

Each year an operating budget is prepared for the administration of the retirement system. The budget is approved by the Board of Trustees and submitted to the Kentucky General Assembly for legal adoption. The KTRS investment earnings fund the administrative budget appropriations.

Major Initiatives

The System continually seeks opportunities to better serve its membership. During the past year, KTRS has continued work on several major initiatives concerning funding and cost containment for retiree health care, the investment program, and information technology.

Implementation of the "Shared Responsibility" Solution for Funding Retiree Health Care and Careful Management of Medical Insurance Costs

June 30, 2014 marked the end of the fourth year of the six year phase in of the "shared responsibility" solution for pre-funding retired teacher health care. The Board of Trustees and Staff are very pleased to report that $3.1 billion in actuarial liability has been eliminated from the retired teacher health care plan through implementation of this solution. Another $1.9 billion savings in actuarial liability was accomplished through careful management of health care costs. Thus, since implementing "shared responsibility" and other cost control measures, more than $5 billion in actuarial accrued liability has been eliminated from the KTRS Medical Insurance Fund.

The Governor and Legislative leaders have commended Kentucky's education community for their strong leadership and hard work in developing and implementing the solution. Constituent groups representing retired teachers, active teachers, school boards, school superintendents, and the state, all worked on the consensus funding solution. The solution provides that all the groups share in the solution by investing a little more now to receive substantial returns later. After two years, and $3.1 billion in savings by converting to a pre-funded plan, the "shared responsibility" solution is truly a significant accomplishment on the road to retirement security for current and future retired teachers.

The Board of Trustees of KTRS regularly reviews the health care plan to contain costs and maintain a meaningful benefit for retired teachers. The move to Medicare Advantage, now in our ninth year, continues to be stable and financially feasible for our members and the KTRS medical plan.

Some recent cost saving initiatives include moving the KTRS sponsored Medicare drug plan to an insured Employer Group Waiver Prescription Drug Plan with a commercial wrap in the drug coverage gap to achieve the greatest amount of federal subsidies for 2014. Additionally, KTRS joined the KY Rx Coalition in 2012, which is spearheaded by the University of Kentucky. By joining the coalition, KTRS will achieve annual savings through leveraging greater prescription purchasing power and deeper drug discounts. As an added benefit, a dedicated staff of pharmacists with the KY Rx Coalition can help each member with their prescriptions and how to maximize their prescription dollars.

In the past year, KTRS undertook cost containment measures including self-funding the prescription drug portion of the MEHP and seeking competitive bids for the Medicare Advantage program resulting in premium reductions of more than $17 million for plan year 2015. Other cost containment measures involved the elimination of the future risk of adverse selection with Medicare eligible spouses of retired teachers and assisting those retirees and their spouses who were Medicare eligible, but under the normal Medicare age, to join the Medicare plan achieving future savings for our members, the KTRS retiree medical plan, and the Commonwealth of Kentucky. KTRS continues utilizing the industry best practice of a high performance formulary with the Medicare Eligible retiree drug plan. The high performance formulary greatly incentivizes participants to use lower cost brand and generic alternatives when clinically appropriate.

The Board contracted with Edumedics for disease management services for Medicare Eligible retirees with diabetes, hypertension, hyperlipidemia, and other co-morbidity diseases. The Board of Trustees has been studying chronic disease management for several years and selected Edumedics to implement the disease management program. Edumedics is a Kentucky based company spun out from the University of Louisville.

Edumedics will be educating retirees with these diseases about nutrition, drug regime, exercise, and other matters. These educational efforts will be ongoing with routine face-to-face checkups with participating retirees. Edumedics will monitor adherence to a nutrition and wellness plan developed by the participating retiree, the retiree's physician, and Edumedics. This effort will increase over the next two years and thereafter the Board will likely expand this program to other chronic diseases.

KTRS is efficient, effective, and always working to improve the retirement security of Kentucky's teachers. Eliminating more than $5 billion in liability helps the financial condition of the Commonwealth and eases burdens on taxpayers.

Investment Program

For the twelve month period ended June 30, 2014, KTRS's investment program produced a total return of 18.1%. This ranked in the top 23% of returns for pension funds with over $1 billion in assets. During the period including the last five years, KTRS's investment returns rank in the top

24%. Moreover, during the last thirty years, KTRS investment returns have averaged 9.5%, which is consistent with the long-term assumed rate of return of 7.5%.

Because of KTRS's focus on fundamental value and risk control, it was able to continue a multiyear program of broadening the portfolio's diversification. KTRS also continued to implement changes to the investment program based upon an asset liability modeling study and an analysis of the shared responsibility solution for funding retiree health care. These ongoing efforts are a continuation of a disciplined investment process and long term focus on retirement security. This focus has generated exceptionally stable returns through the System's history and we have every confidence that it will do so in the future. KTRS's investment program continues to be recognized as a leader in the public pension community for governance structure, trustee education, and cost effectiveness.

Information Technology

KTRS staff has continued working on a multi-year project planning, designing, and constructing a new information technology system known as the "Pathway System." The selected vendor who was authorized by the Board to build and install the new system has been working with staff on-site at KTRS since September 2011. The focus of work has been developing and constructing the first major component of the new system. On July 15, 2013, member enrollment, employer reporting, service credit purchases, and related accounting functions, was put into production. The implementation was highly successful. In January 2015, new modules for member benefits, insurance, and retiree payroll will go into production. To date, more than 80% of the overall project has been completed and work has been proceeding according to schedule and within budget.

The objective of the Pathway System is to streamline retirement processes and improve staff efficiency in providing services to retirees and active members. In developing the Pathway System, KTRS is redesigning and improving office processes and ultimately will be applying new web-based technologies to these processes. This will increase staff productivity, provide seamless member account management, and simplify future system modifications. As KTRS continues to implement changes under the Pathway System, we expect that the new technology will help the System better serve its membership.

Economic Condition

The economic condition of the System is based primarily on investment earnings. The Investment Section of this report starting on page 55 contains asset allocations, strategic target ranges for investments, discussion of the current year market environment and historical performance schedules among others.

The investment portfolio experienced a growth in value during the 2013-2014 fiscal year as the portfolio's market value increased from $16,597,563,301 to $18,527,307,235. The increase in value of the portfolio and of the overall market was primarily due to improvements in the financial markets and realized capital gains. This increase was supported with investment income that included interest income and dividends. Employer and employee contributions also provided significant income to the portfolio.

Investment income, including appreciation of asset values, net of investment expenses, for the 2013-2014 fiscal year was $2,875,609,844. The major contributing factor of the positive return from the System's investment portfolio resulted from the net appreciation in fair value of investments in the amount of $2,485,340,596. Another major contributor to income in the amount of $217,790,015 was the result of interest income. Other income, net of expenses, of $172,479,233 was generated from dividends, rent and securities lending.

According to the KRS 161.430 the KTRS Board of Trustees has the responsibility to invest the assets of the System. The Board of Trustees delegates investment authority to the Investment Committee. The Investment Committee works closely with experienced investment counselors and the System's professional staff in evaluating and selecting investment allocations.

The investment objectives of the Board of Trustees are to ensure that funds shall be invested solely in the interest of its members and their beneficiaries and that investment income shall be used for the exclusive purpose of providing benefits to the members and their beneficiaries, while making payment of reasonable expenses in administering the Plan and its Trust Funds. The investment program shall also provide a reasonable rate of total return with major emphasis being placed upon the protection of the invested assets. While the entire portfolio earned a total return of positive 18.1% in 2013-14, the portfolio's ten-year annualized rate of return is 7.2% and the twenty-year annualized rate of return is 8.2%.

KTRS annuities have a bolstering impact on the Commonwealth of Kentucky's economy, as approximately 92% of retired teachers reside within the state. Total benefits (retirement, medical...etc.) paid during the fiscal year were approximately $1.9 billion.

Funding

Based on recommendations of the Board of Trustees, the General Assembly establishes by statute the levels of contribution that are to be made by members and employers to fund the liabilities of the system. Each year, an independent actuary performs a valuation to determine whether the current levels of contribution will be sufficient to cover the cost of benefits earned by members.

Since fiscal year 2008, the state has not paid the recommended annual employer contribution necessary to pre-fund the benefit requirements of members of the retirement system as determined by the actuary. Over this period of time, because of the failure to fund, the state's annual employer contributions have grown significantly from $60.5 million (Fiscal Year 2009) to $502.4 million (Fiscal Year 2017). The following schedule details the growth of the additional annual employer contributions payable by the state:

Fiscal Year	Cumulative Increase as a % of Payroll	Cumulative Increase of Annual Retirement Appropriations Payable by the State
2009	1.88	60,499,800
2010	2.46	82,331,200
2011	3.59	121,457,000
2012	5.81	208,649,000
2013	7.27	260,980,000
2014	8.02	299,420,000
2015	10.42	386,400,000
2016	12.97	487,400,000
2017	13.80	502,372,000

(Source: KTRS Report of the Actuary on the Annual Valuation Prepared as of June 30, 2014).

The Board has always taken action as required by state law and recommended annual employer contributions payable by the state that would ensure that the state meets the contractual obligations to members.

The latest actuarial valuation was for the period ending June 30, 2014. This report reflects the System's actuarial value of assets totaling $16.2 billion and actuarial determined liabilities totaling $30.2 billion. The funded ratio of actuarial assets to liabilities is 53.6%, which is an increase from the previous year and is primarily due to market appreciation of investments. The actuary reports: "…In our opinion, the System is not being funded on an actuarially sound basis since the actuarially required contributions are not being made by the employer. If contributions by the employer to the System continue to be less than those required, the assets are expected to become insufficient to pay promised benefits. Assuming that contributions to the System are made by the employer from year to year in the future at the rates recommended on the basis of the successive actuarial valuations, the continued sufficiency of the assets to provide the benefits called for under the System may be safely anticipated…."

Annual required employer contributions for the defined benefit plan are provided in the Schedule of Employer Contributions (on page 43). After the 2014 employer contributions there remains a net pension obligation of $956,614,166 (as detailed on page 87). Annual required employer contributions for the Medical Insurance Fund are provided in the schedule of employer contributions (on page 44). The 2014 employer shortfall of contributions created a net OPEB obligation of $1,503,952,786 (as detailed on page 112).

KTRS Medical Insurance Plan

The shared responsibility solution for funding retiree health care, which went into effect on July 1, 2010, provides a method of pre-funding retiree health care over a 30 year period. The System believes that the shared responsibility solution for funding retiree health care will help insure the retirement security of the state's teachers. An actuarial valuation of the Medical Insurance Plan for the fiscal year ended June 30, 2014 indicated that the fund has an unfunded liability of $3.1

billion. The funded ratio of actuarial assets to liabilities is 15.9%, which is trending upward from past years. The actuary reports: "…if the State contributions to the Medical Insurance Fund are increased to the planned levels, the Retiree Medical Plan will begin to operate in a more actuarially sound basis. Assuming that required contributions to the Medical Insurance Fund are made by the employer from year to year in the future at the levels required on the basis of the successive actuarial valuations, the actuarial soundness of the Medical Insurance Fund to provide the benefits called for under the Retiree Medical Plan will improve…."

Additionally, the System believes continued steps must be taken to realize true cost containment through legislation on both the state and national levels. KTRS will continue to take measures to contain costs and increase revenues to the Medical Insurance Plan or may adjust coverage to meet existing revenues.

Professional Services

Professional consultants are appointed by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of the KTRS. Certifications from the Board's External Auditor and Independent Actuary are enclosed in this report. The System's consultants who are appointed by the Board are listed on pages 46, 47, and 74 of this report.

National Recognition

The System was honored by two national professional organizations in regard to the administration of the retirement program.

GFOA Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Teachers' Retirement System of the State of Kentucky for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2013. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. KTRS has received the Certificate of Achievement for the last twenty-six consecutive years (fiscal years ended 1988-2013). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

PPCC Achievement Award

The Public Pension Coordinating Council (PPCC) awarded a Certificate of Achievement to the Teachers' Retirement of the State of Kentucky for 2014 for implementing and maintaining high professional standards in administering the affairs of the System. The award is based on compliance with principles judged to underlie exemplary retirement system achievements in the areas of benefits, actuarial valuation, financial reporting, investments and disclosure, and are widely acknowledged to be marks of excellence in the public pension industry.

In 2014, for the third consecutive year, KTRS was not awarded the PPCC Certificate of Achievement for funding. Failure to qualify for the award reflects the employer's continued underfunding of KTRS's retirement annuity plan.

The PPCC is a coalition of three national associations that represent public retirement systems and administrators. Combined, these associations serve retirement systems that provide pension coverage for most of the nation's 16 million employees of state and local government. The associations that form the PPCC are the National Association of State Retirement Administrators; the National Council on Teacher Retirement; and the National Conference on Public Employee Retirement Systems.

NCTR Executive Committee

Gary L. Harbin is the Past-President of the National Council on Teacher Retirement (NCTR). NCTR is a national, nonprofit organization whose mission is to promote effective governance and benefits administration in state and local public pension systems in order that adequate and secure retirement benefits are provided to educators and other plan participants. NCTR membership includes 69 state, territorial, local and university pension systems with combined assets in excess of $2 trillion, serving more than 18 million active and retired teachers, non-teaching personnel and other public employees.

Public Sector HealthCare Roundtable

Mr. Harbin also serves on the Board of Directors and as President of the Public Sector HealthCare Roundtable. The Roundtable is a national coalition of public sector health care purchasers that was formed to ensure that the interests of the public sector were properly represented during the formulation and debate, and now implementation of the Patient Protection and Affordable Care Act. Membership in the Roundtable is open to any statewide, regional or local governmental unit that provides health care coverage for public employees and retirees.

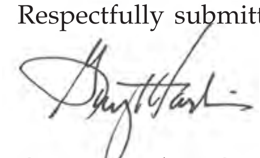
Acknowledgements

The preparation of this report reflects the combined efforts of the KTRS staff, under the leadership of the Board of Trustees. The report is intended to provide complete and reliable information that serves as a basis for making management decisions and for determining compliance with legal provisions. It is also used to determine responsible stewardship of the assets contributed by KTRS members and their employers.

This report is located at the KTRS web address www.ktrs.ky.gov, and is made available to all employer members of the System whose cooperation continues to contribute significantly to our success, and who form the vital link between KTRS and its active members.

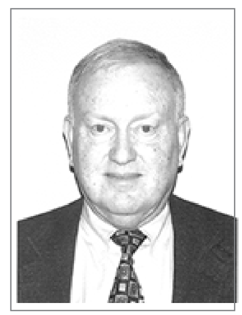
KTRS management and staff are committed to the continued operation of an actuarially sound retirement system. Your support is an essential part of this commitment, and we look forward to working with you.

Respectfully submitted,



Gary L. Harbin, CPA

Board of Trustees



Kentucky Teachers' Retirement System
479 Versailles Road
Frankfort, Kentucky 40601-3800

ADMINISTRATIVE STAFF

GARY L. HARBIN, CPA
Executive Secretary

ROBERT B. BARNES, JD
General Counsel and
Deputy Executive Secretary
Operations

J. ERIC WAMPLER, JD
Deputy Executive Secretary
Finance & Administration

PAUL L. YANCEY, CFA
Chief Investment Officer

PROFESSIONAL CONSULTANTS

ACTUARY

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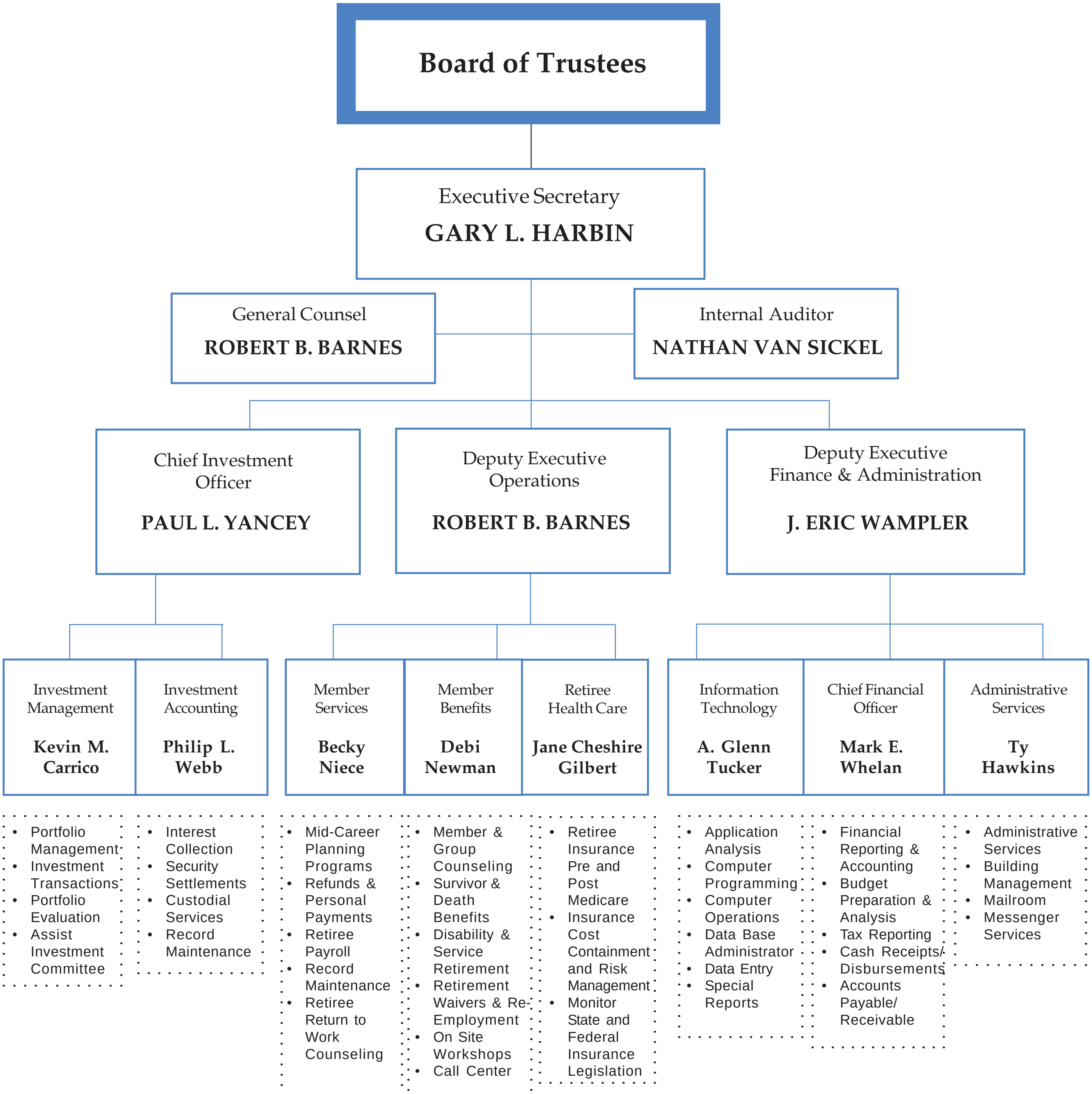
3550 Busbee Parkway, Suite 250
Kennesaw, GA 30144

AUDITOR

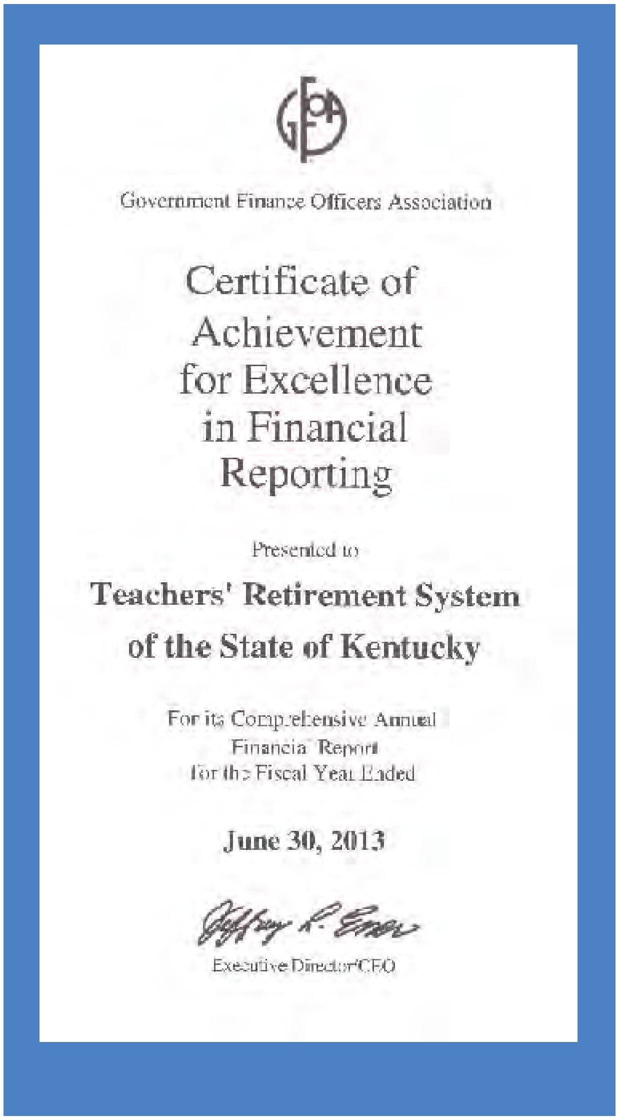
Kentucky Auditor of Public Accounts
209 St. Clair Street
Frankfort, KY 40601

** See pages 77 and 82 of the Investment Section for investment consultants.*

Kentucky Teachers' Retirement System
Organizational Chart



GOVERNMENT FINANCIAL OFFICERS ASSOCIATION (GFOA)



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Teachers' Retirement System of the State of Kentucky

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2013

Executive Director/CEO

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Teachers' Retirement System of the State of Kentucky. The KTRS has received the Certificate of Achievement for the last twenty-six consecutive years (fiscal years ended 1988-2013).

PUBLIC PENSION COORDINATING COUNCIL
PUBLIC PENSION STANDARDS

PPCC

Public Pension Coordinating Council

Public Pension Standards

2014 Award

Presented to

Kentucky Teachers' Retirement System

In recognition of meeting professional standards for
plan design and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of state Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle

Alan H. Winkle
Program Administrator

The Public Pension Coordinating Council awarded a Certificate of Achievement to the Teachers' Retirement System of the State of Kentucky for 2014 for implementing and maintaining high professional standards in administering the affairs of the System. The award is based on compliance with principles judged to underlie exemplary retirement system achievements in the areas of benefits, actuarial valuation, financial reporting, investments and disclosure and are widely acknowledged to be marks of excellence for retirement systems. It represents the highest standards of excellence in the public pension industry.

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Kentucky Teachers' Retirement System

2014

Financial Section

ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

Board of Trustees
Kentucky Teachers' Retirement Systems
Frankfort, Kentucky

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Kentucky Teachers' Retirement Systems, a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Kentucky Teachers' Retirement Systems basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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WWW.AUDITOR.KY.GOV

Board of Trustees
Kentucky Teachers' Retirement Systems

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Kentucky Teachers' Retirement Systems, a component unit of the Commonwealth of Kentucky, as of June 30, 2014 and the changes in fiduciary net position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Reporting Entity

As discussed in Note 1, the financial statements present only the Kentucky Teachers' Retirement Systems, and are not intended to present fairly the financial position of the Commonwealth of Kentucky, or the results of its operations in conformity with accounting principles generally accepted in the United States of America.

GASB 67

As discussed in Note 2 to the financial statements, during the year ended June 30, 2014, the Kentucky Teachers' Retirement System adopted Governmental Accounting Standards Board Statement 67, Financial Reporting for Pension Plans. Our opinion is not modified with respect to this matter.

Comparative Financial Statements

The financial statements of Kentucky Teachers' Retirement Systems for the year ended June 30, 2013, were audited by other auditors whose report dated December 16, 2013, stated that the fiduciary net position as of June 30, 2013 and changes in fiduciary net position for the year then ended were in conformity with accounting principles generally accepted in the United States of America. The financial statements for the year then ended, were audited by other auditors whose report, dated December 16, 2013, expressed an unmodified opinion on those statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (pages 19 through 21) and the Schedule of Changes in Net Pension Liability (page 49-50), Schedule of Net Pension Liability (page 50), Schedule of Employer Contributions (page 50) Schedule of Investment Returns (page 51), Medical Insurance Schedule of Funding Progress and Schedule of Employer Contributions (page 51-52), and Life Insurance Schedule of Funding Progress and Schedule of Employer Contributions (page 52) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economical, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures did not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Kentucky Teachers' Retirement System's basic financial statements. The additional supporting schedules (pages 53 through 54) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Administrative Expenses, Schedule of Professional Services and Contracts, and Schedule of Contracted Investment Management Expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Administrative Expenses, Schedule of Professional Services and Contracts, and Schedule of Contracted Investment Management Expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

The Introductory, Actuarial, Investment, and Statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 15, 2014 on our consideration of the Kentucky Teachers' Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kentucky Teachers' Retirement Systems internal control over financial reporting and compliance.

Respectfully submitted,

Adam H. Edelen
Auditor of Public Accounts

December 15, 2014

TEACHERS' RETIREMENT SYSTEM OF THE STATE OF KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of The Teachers' Retirement System of the State of Kentucky (Kentucky Teachers' Retirement System, KTRS, System, or Plan) financial performance provides an overview of the defined benefit and medical insurance plans' financial year ended June 30, 2014. Please read it in conjunction with the respective financial statements, which begin on page 22.

USING THIS FINANCIAL REPORT

Because of the long-term nature of the defined benefit retirement annuity plan, and the medical and life insurance plans, financial statements alone cannot provide sufficient information to properly reflect the ongoing perspective of the System. The Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position (on pages 21-25) provide information about the activities of the defined benefit retirement annuity plan, medical insurance plan, life insurance plan and the tax-sheltered annuity plan as a whole. The Kentucky Teachers' Retirement System is the fiduciary of funds held in trust for its members.

The Required Supplementary Information includes historical trend information about the funded status of the defined benefit retirement annuity plan. The Supporting Schedules section includes historical trend information about the actuarial funded status of the medical insurance and life insurance plans from a long-term, ongoing plan perspective and the progress made in accumulating sufficient assets to pay benefits and insurance premiums when due. The Schedules of Employer Contributions present historical trend information about the required contributions of employers and the contributions made by employers in relation to the requirement. These schedules provide information that contributes to understanding the changes over time in the funded status of the plans.

KENTUCKY TEACHERS' RETIREMENT SYSTEM AS A WHOLE

In the fiscal year ended June 30, 2014, Kentucky Teachers' Retirement System's combined fiduciary net position increased by $2,107 million - from $16,613.4 million in 2013 to $18,720.4 million in 2014. In 2012, the combined net position totaled $15,229 million. The following summaries focus on fiduciary net position and changes in fiduciary net position of Kentucky Teachers' Retirement System's defined benefit retirement annuity plan, medical insurance plan, life insurance plan and other funds.

Summary of Fiduciary Net Position
(In Millions)

Categories	Defined Benefit Plan			Medical Insurance Plan			Life Insurance Fund		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
Cash & Investments	$ 18,426.8	$ 16,549.7	$ 15,123.6	$ 536.2	$ 456.5	$ 344.9	$ 89.7	$ 88.8	$ 91.1
Receivables	310.5	173.0	133.4	12.4	16.8	16.3	1.1	1.1	1.1
Capital Assets	11.5	9.2	6.8						
Total Assets	18,748.8	16,731.9	15,263.8	548.6	473.3	361.2	90.8	89.9	92.2
Total Liabilities	(656.2)	(623.1)	(466.7)	(12.6)	(59.6)	(22.5)			
Net Position	$ 18,092.6	$ 16,108.8	$ 14,797.1	$ 536.0	$ 413.7	$ 338.7	$ 90.8	$ 89.9	$ 92.2

*TOTALS	2014	2013	2012
Cash & Investments	$ 19,052.7	$ 17,095.0	$ 15,559.6
Receivables	324.0	190.9	150.8
Capital Assets	11.5	9.2	6.8
Total Assets	19,388.2	17,295.1	15,717.2
Total Liabilities	(668.8)	(682.7)	(489.2)
Net Position	$ 18,719.4	$ 16,612.4	$ 15,228.0

* *Other Funds consisting of the 403(b) Tax Shelter Plan, the Excess Benefit Fund and the Losey Scholarship fund had a combined plan net position of $1.0 million for year ended 2014, and .9 million for years ended 2013 and 2012.*

TEACHERS' RETIREMENT SYSTEM OF THE STATE OF KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS

The fiduciary net position of the defined benefit retirement annuity plan increased by 12.3 percent ($18,092.6 million compared to $16,108.8 million) and in 2012, the fiduciary net position of the defined benefit plan totaled $14,797.1 million. The increases are primarily due to improvements in market conditions which resulted in a net investment income increase of $.8 billion more than 2013. The 2014 amount was $2.5 billion more than 2012. The defined benefit retirement annuity plan assets are restricted to providing monthly retirement allowances to members and their beneficiaries. Fiduciary net position of the medical insurance plan increased by 29.6 percent ($536.0 million compared to $413.7 million) primarily due to contributions from members and employers exceeding insurance expenses due to legislation passed in 2010. This compares to 2012 where fiduciary net position of the medical insurance fund totaled $338.7 million. Plan assets are restricted to providing hospital and medical insurance benefits to members and their spouses.

Summary of Changes in Fiduciary Net Position

(In Millions)

Categories	Defined Benefit Plan 2014	2013	2012	Medical Insurance Plan 2014	2013	2012	Life Insurance Fund 2014	2013	2012
ADDITIONS									
Member Contributions	$ 305.0	$ 304.7	$ 309.8	$ 135.2	$ 119.8	$ 100.3	$	$	$
Employer Contributions	563.3	568.2	557.3	157.7	166.6	174.0	1.0	1.7	1.7
Net Investment Income (loss)	2,803.2	2,039.9	309.7	67.7	30.7	(4.0)	4.6	0.7	6.4
Other Income				4.9		3.8			
TOTAL ADDITIONS	3,671.5	2,912.8	1,176.8	365.5	317.1	274.1	5.6	2.4	8.1
DEDUCTIONS									
Benefit Payments	1,654.4	1,570.7	1,482.9				4.7	4.6	4.4
Refunds	25.5	22.1	19.5						
Administrative Expense	7.9	8.4	7.8	1.1	1.3	1.2			
Insurance Expenses				242.1	240.9	229.0			
TOTAL DEDUCTIONS	1,687.8	1,601.2	1,510.2	243.2	242.2	230.2	4.7	4.6	4.4
Increase (Decrease) in Net Position	$ 1,983.7	$ 1,311.6	$ (333.4)	$ 122.3	$ 74.9	$ 43.9	$ 0.9	$ (2.2)	$ 3.7

*TOTALS

	2014	2013	2012
ADDITIONS			
Member Contributions	$ 440.2	$ 424.5	$ 410.1
Employer Contributions	722.0	736.5	733.0
Net Investment Income	2,875.5	2,071.3	312.1
Other Income	4.9		3.8
TOTAL ADDITIONS	$ 4,042.6	$ 3,232.3	1,459.0
DEDUCTIONS			
Benefit Payments	$ 1,659.1	$ 1,575.3	1,487.3
Refunds	25.5	22.1	19.5
Administrative Expense	9.0	9.7	9.0
Insurance Expenses	242.1	240.9	229.0
TOTAL DEDUCTIONS	$ 1,935.7	$ 1,848.0	1,744.8
Increase (Decrease) in Net Position	$ 2,106.9	$ 1,384.3	$ (285.8)

* *Other Funds consisting of the 403(b) Tax Shelter Plan, the Excess Benefit Fund and the Losey Scholarship fund had a combined plan net position of $1.0 million for year ended 2014, and .9 million for years ended 2013 and 2012.*

TEACHERS' RETIREMENT SYSTEM OF THE STATE OF KENTUCKY
MANAGEMENT'S DISCUSSION AND ANALYSIS

DEFINED BENEFIT RETIREMENT ANNUITY PLAN ACTIVITIES

Retirement contributions are calculated by applying a percentage factor to salary and are paid monthly by each member. Members may also pay contributions to repurchase previously refunded service credit or to purchase various types of elective service credit.

In 2014, employer contributions totaled $563.3 million, a net decrease of $4.9 million from the prior fiscal year. The decrease was due to declining amortization payments from the State on prior benefit improvements. In 2013, employer contributions increased $10.9 million compared to the prior fiscal year due to an increased amount needed from the State to match contributions made by members.

In 2014, the System experienced an increase in net investment income compared to the previous year ($2,803.2 million compared to $2,039.9 million). For 2012, net investment income totaled $309.7 million. The increase in the fair value of investments is mainly due to favorable market conditions for the year ended June 30, 2014. Total deductions in 2014 increased $86.6 million. The increase was caused principally by an increase of $83.7 million in defined benefit payments. Members who were drawing benefits as of June 2014 received an increase of one and one-half percent to their retirement allowances in July 2014. Also, there was an increase of 1,170 members and beneficiaries on the retired payroll as of June 30, 2014.

OTHER POST EMPLOYMENT BENEFIT ACTIVITIES

During the 2014 fiscal year, the medical insurance plan member contributions increased $15.4 million and employer contributions decreased $8.9 million from fiscal year 2013. The member contributions increased primarily due to the implementation of the Shared Responsibility Plan beginning July 1, 2010 which includes increased contributions from active and retired members, employers and the state. The employer contributions decreased due to less transition funding paid by the State as the Shared Responsibility Plan phases in until the 2016 fiscal year.

Net investment income increased $37 million from $30.7 million in 2013 to $67.7 million in 2014. In 2012, net investment income totaled a negative $4 million.

The life insurance plan has an actuarial valuation conducted independently from the defined benefit plan. Total life insurance benefits paid for 2014, 2013, and 2012 were $4.7, $4.6, and $4.4 million respectively.

HISTORICAL TRENDS

Accounting standards require that the Statement of Fiduciary Net Position present asset values at fair value and include only benefits and refunds due plan members and beneficiaries and accrued investment and administrative expenses as of the reporting date. Information required according to new accounting standards regarding the funded status of the defined benefit retirement annuity plan is presented in Note 4 of the financial statements. The blended discount rate mandated by the new accounting standards result in a lower funding level when compared to the actuarially determined funded levels reported in past years. The Schedule of Employer Contributions is provided in the Required Supplementary Information.

The actuarial funding of the medical insurance and life insurance plans is provided in the Schedule of Funding Progress presented in the Required Supplementary Information. The asset value, stated in the Schedule of Funding Progress, is determined by the System's independent actuary. The actuarial accrued liability is calculated using the entry age cost method. Although the medical insurance plan continues to have a large unfunded actuarial liability, the current obligations are being met by current funding. Effective July 1, 2010 the Shared Responsibility Plan for funding retiree health benefits requires members, retirees, participating employers and the state to make contributions for pre-funding retiree medical benefits. Annual required contributions of the medical insurance plan are provided in the Schedule of Employer Contributions presented in the Required Supplementary Information and a shortfall of employer contributions has resulted in an accumulated net Other Post Employment Benefit obligation of $1,503,952,786 as of June 30, 2014.

STATEMENT OF FIDUCIARY NET POSITION
As of June 30, 2014

	Defined Benefit Plan	Medical Insurance Plan	Life Insurance Plan	Other Funds	TOTAL
ASSETS					
Cash	$ 63,110,212	$ 2,954,897	$ 487,301	$ 52,939	$ 66,605,349
Prepaid Expenses	70,971	20,000			90,971
Receivables					
Contributions	40,339,941	7,059,521	110,926		47,510,388
Due From Other Trust Funds	1,177,057				1,177,057
State of Kentucky	54,812,142	2,983,504	65,549		57,861,195
Investment Income	44,000,029	1,152,675	939,004	2,146	46,093,854
Investment Sales Receivable	169,491,434	1,227,111			170,718,545
Other Receivables	653,721				653,721
Total Receivables	310,474,324	12,422,811	1,115,479	2,146	324,014,760
Investments at Fair Value (See Note 5)					
Short-Term Investments	784,994,421	112,371,006	2,755,752	468,433	900,589,612
Bonds and Mortgages	3,242,639,057	21,234,589	86,494,824	243,188	3,350,611,658
Equities	11,266,188,790	300,857,011		205,506	11,567,251,307
Alternative Investments	643,890,290	4,251,239			648,141,529
Real Estate	733,045,846				733,045,846
Additional Categories	1,233,210,529	94,456,754			1,327,667,283
Total Investments, at fair value	17,903,968,933	533,170,599	89,250,576	917,127	18,527,307,235
Invested Security Lending Collateral	459,645,254				459,645,254
Capital Assets, at cost net of accumulated depreciation of $3,393,372 (See Note 2)	11,495,190				11,495,190
Total Assets	18,748,764,884	548,568,307	90,853,356	972,212	19,389,158,759
LIABILITIES					
Accounts Payable	1,815,576	4,059,733	780	8	5,876,097
Due to Other Trust Funds		1,145,785	29,606	1,665	1,177,056
Insurance Claims Payable		120,992			120,992
Revenues Collected in Advance		3,624,881			3,624,881
Investment Purchases Payable	194,733,439	3,621,466			198,354,905
Obligations Under Securities Lending	459,645,254				459,645,254
Total Liabilities	656,194,269	12,572,857	30,386	1,673	668,799,185
NET POSITION-RESTRICTED FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS:	$ 18,092,570,615	$ 535,995,450	$ 90,822,970	$ 970,539	$ 18,720,359,574

The combining statement of "Fiduciary Net Position - Other Funds" is presented on page 25.
The accompanying notes are an integral part of these financial statements.

STATEMENT OF FIDUCIARY NET POSITION
As of June 30, 2013

	Defined Benefit Plan	Medical Insurance Plan	Life Insurance Plan	Other Funds	TOTAL
ASSETS					
Cash	$ 26,650,916	$ 6,879,174	$ 226,483	$ 68,943	$ 33,825,516
Prepaid Expenses	125,364	147,000			272,364
Receivables					
Contributions	38,461,507	9,771,489	22,945		48,255,941
Due From Other Trust Funds	1,300,238				1,300,238
State of Kentucky	31,975,561	3,350,147	69,683		35,395,391
Investment Income	48,247,677	1,375,970	1,039,330	1,607	50,664,584
Investment Sales Receivable	52,391,569	2,348,249			54,739,818
Other Receivables	656,500				656,500
Total Receivables	173,033,052	16,845,855	1,131,958	1,607	191,012,472
Investments at Fair Value (See Note 5)					
Short-Term Investments	796,485,774	56,915,874	1,907,900	541,819	855,851,367
Bonds and Mortgages	3,093,270,830	64,728,260	86,715,442	238,626	3,244,953,158
Equities	10,102,552,862	243,022,751		120,315	10,345,695,928
Alternative Investments	540,739,121	1,255,715			541,994,836
Real Estate	642,611,173				642,611,173
Additional Categories	882,969,785	83,487,054			966,456,839
Total Investments, at Fair Value	16,058,629,545	449,409,654	88,623,342	900,760	16,597,563,301
Invested Security Lending Collateral	464,229,713				464,229,713
Capital Assets, at cost net of accumulated depreciation of $2,536,306 (See Note 2)	9,249,324				9,249,324
Total Assets	16,731,917,914	473,281,683	89,981,783	971,310	17,296,152,690
LIABILITIES					
Accounts Payable	1,513,830	4,058,236			5,572,066
Due to Other Trust Funds		1,275,206	24,425	607	1,300,238
Insurance Claims Payable		137,000			137,000
Revenues Collected in Advance		49,373,905			49,373,905
Investment Purchases Payable	157,366,066	4,771,571			162,137,637
Obligations Under Securities Lending	464,229,713				464,229,713
Total Liabilities	623,109,609	59,615,918	24,425	607	682,750,559
NET POSITION-RESTRICTED FOR PENSION AND OTHER POST-EMPLOYMENT BENEFITS:	$ 16,108,808,305	$ 413,665,765	$ 89,957,358	$ 970,703	$ 16,613,402,131

The combining statement of "Fiduciary Net Position - Other Funds" is presented on page 26.
The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Fiscal Year Ended June 30, 2014

	Defined Benefit Plan	Medical Insurance Plan	Life Insurance Plan	Other Funds	TOTAL
ADDITIONS					
Contributions					
State of Kentucky	$ 483,330,289	$ 105,441,052	$ 839,681	$	$ 589,611,022
Other Employers	79,995,960	52,247,362	166,410	80,000	132,489,732
Member	304,981,620	135,190,891			440,172,511
Total Contributions	868,307,869	292,879,305	1,006,091	80,000	1,162,273,265
Other Income					
Recovery Income		4,879,981			4,879,981
Investment Income/(Loss)					
Net Appreciation/(Depreciation) in Fair Value of Investments	2,422,760,237	61,300,016	1,244,808	35,535	2,485,340,596
Interest	207,296,849	7,146,893	3,336,961	9,312	217,790,015
Dividends	179,227,537	5,237		3,172	179,235,946
Rental Income, Net	29,245,271				29,245,271
Securities Lending, Gross Earnings	2,708,225		197	77	2,708,499
Gross Investment Income/(Loss)	2,841,238,119	68,452,146	4,581,966	48,096	2,914,320,327
Less: Investment Expense	(37,177,750)	(711,083)	(9,062)	(93)	(37,897,988)
Less: Securities Lending Expense	(812,413)		(59)	(23)	(812,495)
Net Investment Income/(Loss)	2,803,247,956	67,741,063	4,572,845	47,980	2,875,609,844
Total Additions	3,671,555,825	365,500,349	5,578,936	127,980	4,042,763,090
DEDUCTIONS					
Benefits	1,654,375,700		4,692,000	127,564	1,659,195,264
Refunds of Contributions	25,461,843				25,461,843
Insurance Expenses		242,070,531			242,070,531
Administrative Expense	7,955,972	1,100,133	21,324	580	9,078,009
Total Deductions	1,687,793,515	243,170,664	4,713,324	128,144	1,935,805,647
Net Increase(Decrease)	1,983,762,310	122,329,685	865,612	(164)	2,106,957,443
Net Position - Restricted for Pension and Other Postemployment Benefits					
Beginning of Year	16,108,808,305	413,665,765	89,957,358	970,703	16,613,402,131
End of Year	$ 18,092,570,615	$ 535,995,450	$ 90,822,970	$ 970,539	$ 18,720,359,574

The "Combining Statement of Changes in Fiduciary Net Position - Other Funds" is presented on page 26.
The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Fiscal Year Ended June 30, 2013

	Defined Benefit Plan	Medical Insurance Plan	Life Insurance Plan	Other Funds	TOTAL
ADDITIONS					
Contributions					
State of Kentucky	$ 486,936,783	$ 129,586,274	$ 1,392,223	$	$ 617,915,280
Other Employers	81,296,663	36,990,170	288,272	140,000	118,715,105
Member	304,738,728	119,795,780			424,534,508
Total Contributions	872,972,174	286,372,224	1,680,495	140,000	1,161,164,893
Other Income					
Recovery Income		34,976			34,976
Investment Income/(Loss)					
Net Appreciation/(Depreciation) in Fair Value of Investments	1,601,781,093	25,431,394	(2,822,147)	(18,885)	1,624,371,455
Interest	254,918,477	5,822,532	3,496,517	9,684	264,247,210
Dividends	184,104,556	20,949		1,507	184,127,012
Rental Income, Net	30,059,686				30,059,686
Securities Lending, Gross Earnings	3,077,116		390	3	3,077,509
Gross Investment Income/(Loss)	2,073,940,928	31,274,875	674,760	(7,691)	2,105,882,872
Less: Investment Expense	(33,143,497)	(556,039)			(33,699,536)
Less: Securities Lending Expense	(923,168)				(923,168)
Net Investment Income/(Loss)	2,039,874,263	30,718,836	674,760	(7,691)	2,071,260,168
Total Additions	2,912,846,437	317,126,036	2,355,255	132,309	3,232,460,037
DEDUCTIONS					
Benefits	1,570,722,924		4,614,718	114,632	1,575,452,274
Refunds of Contributions	22,059,094				22,059,094
Insurance Expenses		240,931,618			240,931,618
Administrative Expense	8,377,003	1,275,206	24,425	607	9,677,241
Total Deductions	1,601,159,021	242,206,824	4,639,143	115,239	1,848,120,227
Net Increase(Decrease)	1,311,687,416	74,919,212	(2,283,888)	17,070	1,384,339,810
Net Position - Restricted for Pension and Other Postemployment Benefits					
Beginning of Year	14,797,120,889	338,746,553	92,241,246	953,633	15,229,062,321
End of Year	$ 16,108,808,305	$ 413,665,765	$ 89,957,358	$ 970,703	$ 16,613,402,131

The "Combining Statement of Changes in Fiduciary Net Position - Other Funds" is presented on page 27.
The accompanying notes are an integral part of these financial statements.

Combining Statement of Fiduciary Net Position
As of June 30, 2014
Other Funds

	403(B) Tax Shelter	Supplemental Benefit Fund	Losey Scholarship	TOTAL
Assets				
Cash	$	$ 52,940	$	$ 52,940
Receivables				
Investment Income			2,145	2,145
Investments at Fair Value				
Short Term Investments	377,268		91,165	468,433
Bonds and Mortgages			243,188	243,188
Equities			205,506	205,506
Total Investments	377,268		539,859	917,127
Total Assets	377,268	52,940	542,004	972,212
Liabilities				
Accounts Payable	3		5	8
Due to Other Trust Funds	99	435	1,131	1,665
Net Position - Restricted for Pension and Other Post-Employment Benefits	$ 377,166	$ 52,505	$ 540,868	$ 970,539

Combining Statement of Changes in Fiduciary Net Position
For the Fiscal Year Ended June 30, 2014
Other Funds

	403(B) Tax Shelter	Supplemental Benefit Fund	Losey Scholarship	TOTAL
Additions				
Contributions				
Other Employers	$	$ 80,000	$	$ 80,000
Investment Income/(Loss)				
Net Appreciation/(Depreciation) in Fair Value of Investments			35,535	35,535
Interest	234		9,078	9,312
Dividends			3,172	3,172
Securities Lending,Gross			77	77
Gross Investment Income/(Loss)	234		47,862	48,096
Less Securities Lending Expense			(23)	(23)
Less Investment Expense	(38)		(55)	(93)
Total Additions	196	80,000	47,784	127,980
Deductions				
Benefits	13,986	95,578	18,000	127,564
Administrative Expense	63	435	82	580
Total Deductions	14,049	96,013	18,082	128,144
Net Increase (Decrease)	(13,853)	(16,013)	29,702	(164)
Net Position - Restricted for Pension and Other Post-Employment Benefits				
Beginning of Year	391,019	65,518	511,166	970,703
End of Year	$ 377,166	$ 52,505	$ 540,868	$ 970,539

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

Combining Statement of Fiduciary Net Position
As of June 30, 2013
Other Funds

	403(B) Tax Shelter	Supplemental Benefit Fund	Losey Scholarship	TOTAL
Assets				
Cash	$	$ 68,943	$	$ 68,943
Receivables				
Investment Income			1,607	1,607
Investments at Fair Value				
Short Term Investments	391,095		150,724	541,819
Bonds and Mortgages			238,626	238,626
Equities			120,315	120,315
Total Investments	391,095		509,665	900,760
Total Assets	391,095	68,943	511,272	971,310
Liabilities				
Due to Other Trust Funds	76	425	106	607
Net Position - Restricted for Pension and Other Post-Employment Benefits	$ 391,019	$ 68,518	$ 511,166	$ 970,703

Combining Statement of Changes in Fiduciary Net Position
For the Fiscal Year Ended June 30, 2013
Other Funds

	403(B) Tax Shelter	Supplemental Benefit Fund	Losey Scholarship	TOTAL
Additions				
Contributions				
Other Employers	$	$ 140,000	$	$ 140,000
Investment Income/(Loss)				
Net Appreciation/(Depreciation) in Fair Value of Investments			(18,885)	(18,885)
Interest	448		9,236	9,684
Dividends			1,507	1,507
Securities Lending,Gross			3	3
Gross Investment Income/(Loss)	448		(8,139)	(7,691)
Less Securities Lending Expense				
Less Investment Expense				
Total Additions	448	140,000	(8,139)	132,309
Deductions				
Benefits	14,260	80,372	20,000	114,632
Administrative Expense	76	425	106	607
Total Deductions	14,336	80,797	20,106	115,239
Net Increase (Decrease)	(13,888)	59,203	(28,245)	17,070
Net Position - Restricted for Pension and Other Post-Employment Benefits				
Beginning of Year	404,907	9,315	539,411	953,633
End of Year	$ 391,019	$ 68,518	$ 511,166	$ 970,703

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

NOTES TO FINANCIAL STATEMENTS

Note 1: Description of Retirement Annuity Plan

A. REPORTING ENTITY

The Teachers' Retirement System of the State of Kentucky (KTRS) was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. KTRS is a cost-sharing multiple-employer defined benefit plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the state.

KRS 161.250 provides that the general administration and management of KTRS, and the responsibility for its proper operation, is vested in a board of trustees. The board of trustees consists of the chief state school officer, the State Treasurer, and seven elected trustees. Four of the elected trustees are active teachers, two are not members of the teaching profession, and one is an annuitant of the retirement system.

B. PARTICIPANTS

As of June 30, 2014 a total of 208 employers participated in the plan. Employers are comprised of local school districts, Department of Education Agencies, universities, the Kentucky Community and Technical College System, and other educational organizations. The State under GASB No. 67 is recognized as a non-employer contributing entity providing the employer matching contributions for members employed by the local school districts and regional educational cooperatives.

According to KRS 161.220 " . . . any regular or special teacher, or professional occupying a position requiring certification or graduation from a four (4) year college or university . . . " is eligible to participate in the System. The following illustrates the classifications of members:

	2014	2013
Active contributing members:		
Vested	48,836	48,620
Non-vested	24,571	26,211
Inactive members, vested	7,762	7,194
Inactive members, non-vested	27,689	22,848
Retirees and beneficiaries currently receiving benefits	48,576	47,406
Total members, retirees, and beneficiaries	**157,434**	**152,279**

C. BENEFIT PROVISIONS

For Members Before July 1, 2008:

Members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or

2.) Complete twenty-seven (27) years of Kentucky service.

Non-university members receive monthly payments equal to two percent (2%) (service prior to July 1, 1983) and two and one-half percent (2.5%) (service after July 1, 1983) of their final average salaries for each year of credited service. Non-university members who became members on or after July 1, 2002 will receive monthly benefits equal to two percent (2%) of their final average salary for each year of service if, upon retirement, their total service is less than ten (10) years. New members after July 1, 2002 who retire with ten (10) or more years of total service will receive monthly benefits equal to two and one-half percent (2.5%) of their final average salary for each year of service, including the first ten (10) years. In addition, non-university members who retire July 1, 2004 and later with more than thirty (30) years of service will have their multiplier increased for all years over thirty (30) from two and one-half

Note 1: Description of Retirement Annuity Plan continued . . .

percent (2.5%) to three percent (3%) to be used in their benefit calculation.

University employees receive monthly benefits equal to two percent (2%) of their final average salary for each year of credited service.

The final average salary is the member's five (5) highest annual salaries except members at least age fifty-five (55) with twenty-seven (27) or more years of service may use their three (3) highest annual salaries. For all members, the annual allowance is reduced by 5% per year from the earlier of age 60 or the date the member would have completed 27 years of service. The minimum annual service allowance for all members is $440 multiplied by credited service.

For Members On or After July 1, 2008:

Members become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, members must either:

1.) Attain age sixty (60) and complete five (5) years of Kentucky service, or

2.) Complete twenty-seven (27) years of Kentucky service, or

3.) Attain age fifty-five (55) and complete ten (10) years of Kentucky service.

The annual retirement allowance for non-university members is equal to: (a) one and seven tenths percent (1.7%) of final average salary for each year of credited service if their service is 10 years or less; (b) two percent (2.0%) of final average salary for each year of credited service if their service is greater than 10 years but no more than 20 years; (c) two and three tenths percent (2.3%) of final average salary for each year of credited service if their service is greater than 20 years but no more than 26 years; (d) two and one half percent (2.5%) of final average salary for each year of credited service if their service is greater than 26 years but no more than 30 years; (e) three percent (3.0%) of final average salary for years of credited service greater than 30 years.

The annual retirement allowance for university members is equal to: (a) one and one-half percent (1.5%) of final average salary for each year of credited service if their service is 10 years or less; (b) one and seven tenths percent (1.7%) of final average salary for each year of credited service if their service is greater than 10 years but no more than 20 years; (c) one and eighty five hundredths percent (1.85%) of final average salary for each year of credited service if their service is greater than 20 years but less than 27years; (d) two percent (2.0%) of final average salary for each year of credited service if their service is greater than or equal to 27 years.

The final average salary is the member's five (5) highest annual salaries except members at least age fifty-five (55) with twenty-seven (27) or more years of service may use their three (3) highest annual salaries. For all members, the annual allowance is reduced by 6% per year from the earlier of age 60 or the date the member would have completed 27 years of service.

Other Benefits:

The System provides post-employment medical benefits to retirees as fully described in Note 8. The System also provides disability benefits for vested members at the rate of sixty percent (60%) of the final average salary. A life insurance benefit, payable upon the death of a member, is $2,000 for active contributing members and $5,000 for retired or disabled members.

Cost of living increases are one and one-half percent (1.5%) annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

Note 2: Summary of Significant Accounting Policies

A. BASIS OF ACCOUNTING

The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching are recognized in the fiscal year due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

B. CASH

KTRS has seven cash accounts. At June 30, 2014, the retirement annuity cash account totaled $34,981,587, the employer control cash account totaled $27,413,166 and the administrative expense fund cash account was $715,459 for a total of $63,110,212 as carrying value of cash in the defined benefit plan. The medical insurance trust cash account totaled $2,921,118 and the medical insurance claims cash account totaled $33,779 for a total of $2,954,897 as carrying value of cash in the medical insurance plan. The life insurance plan cash account totaled $487,301 and the excess benefit fund cash account contained $52,939. Therefore, the carrying value of cash was $66,605,349 and the bank balance was $64,193,257 and funds controlled by the Commonwealth of Kentucky of $4,612,451. The variance is primarily due to outstanding checks and items not processed by the bank on June 30, 2014.

C. CAPITAL ASSETS

Capital assets are recorded at historical cost less straight-line accumulated depreciation. The classes of capital assets are furniture and equipment, the KTRS office buildings and land. Furniture and equipment are depreciated over an average useful life of five (5) years. The office buildings are depreciated over forty years. The Pathway System will be capitalized and amortized or depreciated over ten years. The Pathway System will replace KTRS's legacy computer system and be KTRS's primary line of business information technology system. As of June 30, 2014, the project to build and implement the Pathway System was approximately sixty-five percent (65%) complete.

D. INVESTMENTS

Plan investments are reported at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller. Short-term securities are carried at cost, which approximates fair value. Fixed income and common and preferred stocks are generally valued based on published market prices and quotations from national security exchanges and securities pricing services. Real estate is primarily valued based on appraisals performed by independent appraisers. Alternative investments such as private equity, timberland, and other additional categories are valued using the most recent general partner statement of fair value based on independent appraisals, updated for any subsequent partnership interests' cash flows.

Purchase and sales of debt securities, equity securities, and short-term investments are recorded on the trade date. Real estate equity transactions are recorded on the settlement date. Upon sale of investments, the difference between sales proceeds and cost is reflected in the statement of changes in fiduciary net position. Investment expenses consist of investment manager and consultant fees along with fees for custodial services.

E. COMPENSATED ABSENCES

Expenses for accumulated vacation days and compensatory time earned by the System's employees are recorded when earned. Upon termination or retirement, employees of the System are paid for accumulated vacation time limited to sixty (60) days and accumulated compensatory time limited to two hundred-forty (240) hours. As of June 30, 2014 and 2013 accrued compensated absences were $1,058,460 and $979,037.

F. RISK MANAGEMENT

Destruction of assets, theft, employee injuries and court challenges to administrative policy are among the various risks to which the System is exposed. In order to cover such risks the System carries appropriate insurance policies such as fire and tornado, employee bonds, fiduciary liability, worker's compensation and equipment insurance.

G. OTHER RECEIVBLES

KTRS allows qualified purchases of service credit to be made by installment payments not to exceed a five (5) year period. Revenue is recognized in the initial year of the installment contract agreement. The June 30, 2014 and 2013 installment contract receivables were $653,721 and $656,500.

H. USE OF ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United

Note 2: Summary of Significant Accounting Policies continued . . .

States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

I. INCOME TAXES

The defined benefit plan is organized as a tax-exempt retirement plan under the Internal Revenue Code. The tax sheltered annuity plan is no longer continued and will be fully terminated when all lifetime annuities have expired. The System's management believes that it has operated the plans within the constraints imposed by federal tax law.

J. RECENT PRONOUNCEMENTS

In June 2011, the GASB issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. GASB Statement No. 63 provides financial reporting guidance relative to deferred outflows of resources, a consumption of net assets by KTRS that is applicable to a future reporting period, and deferred inflows of resources, an acquisition of net assets by KTRS that is applicable to a future reporting period. GASB Statement No. 63 incorporates deferred outflows and inflows of resources into the definitions of the required components of the residual measure, renaming such measure as net position, rather than net assets. The provisions of GASB Statement No. 63 are effective for fiscal periods beginning after December 15, 2011 (the fiscal year ended June 30, 2013) and did not have a significant impact on the Systems' financial statements.

In April 2012, GASB issued Statement No. 65, Items Previously Reported as Assets and Liabilities. This pronouncement clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. GASB Statement No. 65 is effective for fiscal years beginning after December 15, 2012 (the fiscal year ended June 30, 2014) and did not have a significant impact on the System's financial statements.

GASB Statement No. 67 which was adopted during the year ended June 30, 2014, addresses accounting and financial reporting requirements for pension plans. The requirements for GASB No. 67 require changes in presentation of the financial statements, notes to the financial statements, and required supplementary information. Significant changes include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB No. 67 did not significantly impact the accounting for accounts receivable and investment balances. The total pension liability, determined in accordance with GASB No. 67, is presented in Note 4 and in the Required Supplementary Information.

K. RECLASSIFICATIONS

Due to the implementation of GASB No. 67, certain 2013 amounts have been reclassified in conformity with the 2014 presentation regarding the amount paid by the State as a non-employer contributing entity on the Statement of Changes in Fiduciary Net Position.

Note 3: Contributions and Funds of the System

A. CONTRIBUTIONS

Contribution rates are established by Kentucky Revised Statutes. Non-university members are required to contribute 11.355 percent of their salaries to the System; university members are required to contribute 9.375 percent of their salaries. KRS 161.565 allows each university to reduce the contribution of its members by 2.215 percent; therefore, university members contribute 7.16 percent of their salary to KTRS. For members employed by local school districts, the State, as a non-employer contributing entity, contributes 13.105 percent of salary for those who joined before July 1, 2008 and 14.105 percent for those who joined thereafter.

Other participating employers are required to contribute the percentage contributed by members plus an additional 3.25 percent of members' gross salaries.

The member and employer contributions consist of retirement annuity contributions and other post-employment benefit contributions to the medical and life insurance plans. The member post-employment medical contribution is 2.25 percent. The employer post-employment medical contribution is .75 percent of member gross salaries. Also, after July 1, 2010 employers (other than the state) contribute 1.5 percent of members' salaries and the state contributes the net cost of health insurance premiums for new retirees after June 30, 2010 in the non-Medicare eligible group. If a member leaves covered employment before accumulating five (5) years of credited service, accumulated member contributions to the retirement annuity plan plus interest are refunded upon the member's request.

B. FUNDS OF THE SYSTEM

Teacher Savings Fund

This fund was established by KRS 161.420(2) as the Teacher Savings Fund and consists of contributions paid by university and non-university members. The fund also includes interest authorized by the Board of Trustees from the Guarantee Fund. The accumulated contributions of members that are returned upon withdrawal or paid to the estate or designated beneficiary in the event of death are paid from this fund. Upon retirement, the member’s contributions and the matching state contributions are transferred from this fund to Allowance Reserve Fund, the fund from which retirement benefits are paid.

State Accumulation Fund

This fund was established by KRS 161.420(3) as the State Accumulation Fund and receives state appropriations to the Retirement System. The state matches an amount equal to members’ contributions. State appropriations during the year are based on estimates of members’ salaries. At year-end when actual salaries are known, the required state matching is also realized by producing either a receivable from or a payable to the State of Kentucky.

Allowance Reserve Fund

This fund was established by KRS 161.420(4) as the Allowance Reserve Fund, the source for retirement, disability, and survivor benefits paid to members of the System. These benefits are paid from the retired members’ contributions until they are exhausted, at which time state matching contributions are used to pay the benefits. After an individual member’s contributions and the state matching contributions have been exhausted, retirement benefits are paid from monies transferred from the Guarantee Fund.

Guarantee Fund

This fund was established by KRS 161.420(6) as the Guarantee Fund, to collect income from investments, state matching contributions of members withdrawn from the System, and state matching contributions for cost of living adjustments (COLAs). In addition, it receives money for which disposition is not otherwise provided. This fund provides interest to the other funds, benefits in excess of both members’ and state matching contributions, monies for administrative expenses of the System, and deficiencies not covered by the other funds.

Administrative Expense

This fund was established by KRS 161.420(1) as the Expense Fund. Investment income transferred to this fund from the Guarantee Fund is used to pay the administrative expenses of the System. Administrative expenses are allocated among the funds based on benefits paid.

Note 4: Net Pension Liability of Employers

A. NET PENSION LIABILITY OF EMPLOYERS

The net pension liability (i.e., the retirement system's liability determined in accordance with GASB No. 67 less the fiduciary net position) as of June 30, 2014 is shown below.

Net Pension Liability of Employers
(In thousands)

Fiscal Year Ending June 30	Total Pension Liability A	Plan Fiduciary Net Position B	Employers Net Liability (A-B)	Plan Fiduciary Net Position as a % of Total Pension Liability (B/A)	Covered Payroll C	Net Pension Liability as a % of Covered Payroll [A-B/C]
2014	$ 39,684,776	$ 18,092,571	$ 21,592,205	45.6%	$ 3,443,138	627.1%

B. SUMMARY OF ACTUARIAL ASSUMPTIONS

A summary of the actuarial assumptions as of the latest actuarial valuation is shown below.

Valuation Date	6/30/2013
Actuarial cost method	Entry Age
Actuarial Assumptions:	
Investment rate of return	7.50%, net of pension plan investment expense, including inflation.
Projected salary increases	4.00 - 8.20%, including inflation
Inflation rate	3.50%
Municipal Bond Index Rate	4.35%
Single Equivalent Interest Rate	5.23%

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2011 and the next experience study is scheduled to be conducted in 2016.

C. TARGET ALLOCATION

The long-term expected real rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	45.0 %	6.4 %
Non U.S. Equity	17.0	6.5
Fixed Income	24.0	1.6
High Yield Bonds	4.0	3.1
Real Estate	4.0	5.8
Alternatives	4.0	6.8
Cash	2.0	1.5
Total	100.0	

Note 4: Net Pension Liability of Employers continued ...

D. DISCOUNT RATE

The discount rate used to measure the total pension liability was 5.23%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2036 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035 and a municipal bond index rate of 4.35% was applied to all periods of projected benefit payments after 2035. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

The following table presents the net pension liability of the System, calculated using the discount rate of 5.23%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.23%) or 1-percentage-point higher (6.23%) than the current rate:

(in thousands)	**1% Decrease (4.23%)**	**Current Discount Rate (5.23%)**	**1% Increase (6.23%)**
System's net pension liability	$ 27,122,640	$ 21,592,157	$ 17,027,992

June 30, 2013 is the actuarial valuation date upon which the TPL is based. The TPL as of June 30, 2013 was determined using a discount rate of 5.16% which was based on a municipal bond index rate as of that date equal to 4.27%. An expected TPL is determined as of June 30, 2014 using standard roll forward techniques. The roll forward calculation adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year and then applies the assumed interest rate for the year. The final TPL as of June 30, 2014 reflects that the assumed municipal bond index rate increase from 4.27% to 4.35%, resulting in a change in the SEIR from 5.16% to 5.23%. The impact of this change in the discount rate is a change in assumptions that is added to the expected TPL to determine the final TPL as of June 30, 2014.

Note 5: Deposits With Financial Institutions and Investments (Including Repurchase Agreements)

A. LEGAL PROVISIONS FOR INVESTMENTS

The following disclosures are meant to help the users of KTRS' financial statements assess the risks KTRS takes in investing member funds. The Board of Trustees and the Investment Committee are guided by asset allocation parameters that the Board approves through its powers as defined in KRS 161.430.

KTRS administers a retirement annuity trust fund and a health insurance trust fund in accordance with state and federal law. KTRS provides service and disability retirement benefits, death and survivor benefits, health insurance benefits, and life insurance benefits for Kentucky public education employees and their beneficiaries. The trust funds managed by KTRS shall be referred to collectively as the "retirement system" unless the context requires a specific reference to a particular fund.

The asset allocation parameters for the retirement annuity trust fund are set forth in Title 102, Chapter 1:175, Section 2 and Section 3 of the Kentucky Administrative Regulations as follows:

- There shall be no limit on the amount of investments owned by the retirement annuity trust fund if the investments are guaranteed by the United States government.
- Not more than thirty-five percent (35%) of the assets of the retirement annuity trust fund at fair value shall be invested in corporate debt obligations.
- Not more than ten percent (10%) of the assets of the retirement annuity trust fund at fair value shall be invested in foreign debt.
- Not more than sixty-five percent (65%) of the assets of the retirement annuity trust fund at fair value shall be invested in common stocks or preferred stocks.
- Not more than twenty-five percent (25%) of the assets of the retirement annuity trust fund at fair value shall be invested in a stock portfolio designed to replicate a general stock index.
- Not more than thirty percent (30%) of the assets of the retirement annuity trust fund at fair value shall be invested in the stocks of companies domiciled outside of the United States; any amounts so invested shall be included in the sixty-five percent (65%) limitation for total stocks.
- Not more than ten percent (10%) of the assets of the retirement annuity trust fund at fair value shall be invested in real estate. This would include real estate equity, real estate lease agreements, and shares in real estate investment trusts.
- Not more than ten percent (10%) of the assets of the retirement annuity trust fund at fair value shall be invested in alternative investments. This category may include private equity, venture capital, timberland, and infrastructure investments.
- Not more than fifteen percent (15%) of the assets of the retirement annuity trust fund at fair value shall be invested in any additional category or categories of investments. The Board of Trustees shall approve by resolution such additional category or categories of investments.

The asset allocation parameters for the health insurance trust fund are set forth in Title 102, Chapter 1:178, Section 2 of the Kentucky Administrative Regulations as follows:

- In order to preserve the assets of the health insurance trust fund and produce the required rate of return while minimizing risk, assets shall be prudently diversified among various classes of investments.
- In determining asset allocation policy, the investment committee and the board shall be mindful of the health insurance trust fund's liquidity and its capability of meeting both short and long-term obligations.

Note 5: Deposits With Financial Institutions and Investments (Including Repurchase Agreements) continued . . .

B. CASH AND CASH EQUIVALENTS

For cash deposits and cash equivalents, custodial credit risk is the risk that, in the event of a bank failure, the retirement system's deposits may not be returned to the system. The retirement system's total cash balance held at J.P. Morgan Chase Bank in noninterest-bearing accounts on June 30, 2014 was $64,193,257. In addition to these funds, an amount of $4,612,451 represents funds transferred to and controlled by the Commonwealth of Kentucky.

On November 9, 2010, the FDIC issued a Final Rule implementing Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides for unlimited insurance coverage of noninterest-bearing transaction accounts. Beginning December 31, 2010, through December 31, 2012, all noninterest-bearing transaction accounts are fully insured, regardless of the balance of the account, at all FDIC-insured institutions. Therefore, all cash balances were fully insured by the FDIC through December 31, 2012. Beginning January 1, 2013, all cash balances at J.P. Morgan Chase Bank were insured up to $250,000 and the remaining balances fully collateralized with securities held by the Federal Reserve Bank of New York in the name of the Commonwealth of Kentucky-Teachers' Retirement.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

a. uncollateralized,
b. collateralized with securities held by the pledging financial institution, or
c. collateralized with securities held by the pledging financial institution's trust department or agent

but not in the depositor-government's name.

As of June 30, 2014, the retirement system's cash balance in the amount of $64,193,257 was not exposed to custodial credit risk since this amount was fully insured by the FDIC limit of $250,000 and the remaining balances collateralized with securities valued at $155,641,514.

C. INVESTMENTS

All of the retirement system's assets are invested in short-term and long-term debt (bonds and mortgages) securities, equity (stock) securities, real estate, alternative investments, and additional categories as permitted by regulation. These assets are reported at fair value.

Investments are governed by the Board of Trustees' policies while the Board of Trustees and the Investment Committee shall execute their fiduciary responsibilities in accordance with the "prudent person rule", as identified in KRS 161.430 (2)(b). The prudent person rule establishes a standard for all fiduciaries, to act as a prudent person would be expected to act, with the "care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims."

The following chart represents the fair values of the investments of the Kentucky Teachers' Retirement System for June 30, 2014.

Note 5: Deposits With Financial Institutions and Investments (Including Repurchase Agreements) continued . . .

Schedule of Investments Comparison
Retirement Annuity Trust

	Fair Value June 30, 2014	Fair Value June 30, 2013
Money Market Fund	$ 828,490,897	$ 766,566,559
STIFF (BNYM)	965,082	2,284
Commercial Paper		34,560,147
Total Cash Equivalents	**829,455,979**	**801,128,990**
U.S. Government	754,145,490	650,217,435
Agency Bonds	97,373,643	146,127,074
Mortgage Backed Securities	126,831,928	180,378,637
Asset Backed Securities	84,761,591	41,175,017
Commercial Mtg Backed Securities	149,223,291	210,980,212
Collateralized Mtg Obligations	18,382,246	41,523,706
Municipal Bonds	472,846,382	460,132,862
Corporate Bonds	1,625,812,498	1,449,689,955
Total Fixed Income	**3,329,377,069**	**3,180,224,898**
International Equity	3,868,325,879 *	2,676,211,485
U.S. Equity	7,398,068,417	7,426,461,692
Total Equities	**11,266,394,296**	**10,102,673,177**
Real Estate Equity	733,045,846	642,611,173
Total Real Estate Equity	**733,045,846**	**642,611,173**
Private Equity	457,408,593	343,259,092
Timberland	186,481,696	197,480,029
Total Alternative Investments	**643,890,289**	**540,739,121**
Opportunistic Credit	501,000,040	477,554,833
Corporate Bonds	336,434,902	307,715,989
Corporate Loans	295,017,173	
International Bonds	100,725,256	91,778,981
PPIP	33,158	4,859,928
U.S. Equity		1,060,054
Total Additional Categories	**1,233,210,529**	**882,969,785**
TOTAL INVESTMENTS	**$ 18,035,374,008**	**$ 16,150,347,144**

** FY 2014 reflects reclassification in the amount of $335,347,004 in cross-listed equities from the FY 2013 U.S. Equity category to the International Equity category.*

Note 5: Deposits With Financial Institutions and Investments (Including Repurchase Agreements) continued . . .

Schedule of Investments Comparison
Health Insurance Trust

	Fair Value June 30, 2014	Fair Value June 30, 2013
Money Market Fund	$ 71,124,623	$ 54,722,377
STIFF (BNYM)	9,009	
Total Cash Equivalents	**71,133,632**	**54,722,377**
Agency Bonds	12,505,055	32,292,470
Asset Backed Securities	704,344	9,360,161
Corporate Bonds	8,025,190	23,075,629
Total Fixed Income	**21,234,589**	**64,728,260**
Global Equities	300,857,011	243,022,751
Total Equities	**300,857,011**	**243,022,751**
Private Equity	4,251,239	1,255,715
Total Alternative Investments	**4,251,239**	**1,255,715**
Opportunistic Credit	5,421,045	23,840,109
Corporate Bonds	64,614,031	59,360,240
Corporate Loans	24,421,678	
U.S. Equity		286,705
Total Additional Categories	**94,456,754**	**83,487,054**
TOTAL INVESTMENTS	**$ 491,933,225**	**$ 447,216,157**

Custodial Credit Risk

Custodial Credit Risk for an investment is the risk that, in the event of the failure of counterparty, the retirement system will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the retirement system,and are held by either:

a. the counterparty or
b. the counterparty's trust department or agent, but not in the System's name.

The cash reserve of the retirement system is primarily maintained in high quality short term investments through the Dreyfus Institutional Cash Advantage Fund. This Fund invests in a diversified portfolio of high quality, short-term debt securities and the Fund is rated AAA by S&P, Moody's, and Fitch, Inc. The Fund's portfolio is structured within the confines of Rule 2a-7 under the Investment Company Act of 1940, as amended. Commercial paper, U.S. Treasury and agency obligations, certificates of deposit, bankers' acceptances, repurchase agreements, time deposits, etc. are all permissible investments within this Fund.

Whenever repurchase agreements are ordered by KTRS under the terms of Master Repurchase Agreements with various brokers, the terms are dictated by KTRS. The repurchase agreements and their supporting collateral are held by the custodial agent's correspondent bank in an account identified by the custodian's name and KTRS' nominee name. This account is unique to KTRS. The Master Repurchase Agreements require that the supporting collateral have a fair value of at least 102 percent of the value of the repurchase agreements.

As of June 30, 2014, cash collateral reinvestment securities acquired through securities lending for the retirement annuity trust fund by KTRS's custodian, who is also the lending agent/counterparty, amounted to $459,645,254 related to $447,453,523 securities lent consistent with the lending agreement with the custodian. (Please refer to a following section entitled Securities Lending.)

Note 5: Deposits With Financial Institutions and Investments (Including Repurchase Agreements) continued . . .

Interest Rate Risk

Interest rate risk on investments is the possibility that changes in interest rates will reduce the fair value of the retirement system's investments. In general, the longer the period until an investment matures, the greater the risk of a negative impact on fair value resulting from changes in interest rates.

As of June 30, 2014, the retirement annuity trust and health insurance trusts had the following investment fair values and weighted average maturities:

Retirement Annuity Trust

Investment Type	Fixed Income	Additional Categories	Average Maturity (years)
U.S. Government	$ 754,145,490	$ 1,177,622	6.09
Agency	97,373,642		8.08
MBS	126,831,929	1,359,834	13.90
CMO	18,382,246		20.98
ABS	84,761,591		10.61
CMBS	149,223,291	412,772	22.62
Muni	472,846,382	51,342,159	12.40
Corporate Bonds	1,625,812,498	378,919,993	7.37
Corporate Loans		280,295,048	5.59
TOTAL	**$ 3,329,377,069**	**$ 713,507,428**	**8.58**

Health Insurance Trust

Investment Type	Fixed Income	Additional Categories	Average Maturity (years)
Agency	$ 12,505,055	$	9.00
ABS	704,344		1.12
Corporate Bonds	8,025,190	64,614,031	6.15
Corporate Loans		24,421,678	5.75
TOTAL	**$ 21,234,589**	**$ 89,035,709**	**6.35**

In addition to the above securities, the System held short-term cash investments in the Dreyfus Institutional Cash Advantage Fund and STIF, held at the Bank of New York Mellon, with a total fair value of $900,589,611 and had a weighted average maturity of forty-seven (47) days. Average maturity is used as a measure of a security's exposure to interest rate risk due to fluctuations in market interest rates. Mortgage-backed securities and collateralized mortgage obligations are typically amortizing investments with an average life and interest rate risk significantly less than suggested by the legal maturity. Mortgage-backed securities, which are generally pre-payable, and other callable bonds are subject to adverse changes in average life in response to market interest rate changes. The schedule above reflects only the legal maturity of all such bonds.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed by using the effective duration or option adjusted methodology to quantify the risk of interest rate changes. This methodology takes into account optionality on bonds and scales the risk of price changes on bonds depending upon the degree of changes in rates and the slope of the yield curve. The control of interest rate risk is not set forth in a particular policy; however, the retirement system manages interest rate risk in practice by establishing appropriate benchmarks for its various portfolios.

Note 5: Deposits With Financial Institutions and Investments (Including Repurchase Agreements) continued . . .

Mortgage-backed securities are securities representing pass-through interests in the cash flows from pools of mortgage loans on single-family or multi-family residential properties. All of the mortgage-backed securities owned by the retirement system were securitized and are guaranteed by Fannie Mae, Freddie Mac, or GNMA. The average life of a mortgage-backed security depends upon the level of prepayments experienced in the underlying pool of loans. Market interest rates are a primary determinant of prepayment levels. Lower than anticipated market rates generally lead to higher than anticipated prepayments and a shorter average life; higher than anticipated market rates generally lead to lower than anticipated prepayments and a longer average life. The retirement system held $126.8 million in mortgage-backed securities as of June 30, 2014. The retirement system also held $1.36 million in mortgage backed securities under additional categories in which securities were held by a limited partnership fund.

Collateralized mortgage obligations are bonds that are collateralized by whole loan mortgages, mortgage pass-through securities or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes in accordance with a collateralized mortgage obligations established payment order. The System held $18.4 million in collateralized mortgage obligations as of June 30, 2014.

Asset-backed securities are bonds or notes backed by loan paper or accounts receivables originated by banks, credit card companies, or other credit providers, and are considered to be moderately sensitive to changes in interest rates. The originator of the loan or accounts receivable paper sells it to a specially created trust, which repackages it as securities. Asset-backed securities have been structured as pass-throughs and as structures with multiple bond classes. The retirement annuity trust held $84.8 million, and the health insurance trust held $0.7 million in asset backed securities as of June 30, 2014.

Commercial mortgage-backed securities are securities representing interests in the cash flows from pools of mortgage loans on commercial properties. The interests in a securitized pool of loans are generally divided into various tranches based upon planned payment order and level of seniority. The retirement system's commercial mortgage-backed securities investments consist of highly rated relatively senior tranches. The average maturity of the retirement system's commercial mortgage-backed securities holdings in the schedule above reflects the legal maturity of those holdings. Most of the tranches held are earlier in the planned payment order than the legal maturity suggests. The retirement system held $149.2 million in commercial mortgage-backed securities investments as of June 30, 2014. The retirement system also held $0.4 million in commercial mortgage-backed securities under additional categories in which securities were held by a limited partnership fund.

Note 5: Deposits With Financial Institutions and Investments (Including Repurchase Agreements) continued . . .

Credit Risk

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The following schedules list KTRS's fixed income investments fair values (net of cash equivalents) according to credit ratings as of June 30, 2014:

Retirement Annuity Trust

Rating	Bonds & Mortgages	Additional Categories	Total	%
U.S. Government	$ 754,145,490	$ 1,177,622	$ 755,323,112	18.68
AAA	408,865,144	19,179,372	428,044,516	10.59
AA	836,708,356	28,449,417	865,157,773	21.40
A	716,807,164	28,249,897	745,057,061	18.43
BBB	592,306,613	27,997,543	620,304,156	15.34
BB	12,201,750	225,581,496	237,783,246	5.88
B	4,390,000	267,907,115	272,297,115	6.74
CCC		16,663,956	16,663,956	.41
Not Rated	3,952,552	98,301,010	102,253,562	2.53
TOTAL	**$ 3,329,377,069**	**$ 713,507,428**	**$ 4,042,884,497**	**100.00** %

Health Insurance Trust

Rating	Bonds & Mortgages	Additional Categories	Total	%
AAA	$ 704,344	$	$ 704,344	0.64
AA	17,528,705		17,528,705	15.90
A	3,001,540		3,001,540	2.72
BBB		2,981,562	2,981,562	2.70
BB		39,598,778	39,598,778	35.91
B		40,639,994	40,639,994	36.85
CCC		1,285,017	1,285,017	1.17
Not Rated		4,530,358	4,530,358	4.11
TOTAL	**$ 21,234,589**	**$ 89,035,709**	**$ 110,270,298**	**100.00** %

Total fair value of the retirement annuity trust's fixed income portfolio was $4,042,884,497 on June 30, 2014. The health insurance trust's fixed income portfolio was valued at $110,270,298. The rating system used in the above charts is the Standard and Poor's rating system. For securities where a Standard and Poor's rating is not provided, another nationally recognized system is used and translated to the Standard and Poor's rating system.

In addition to the above categories, the retirement annuity trust held $829,455,979 in short term investments through the Dreyfus Institutional Cash Advantage Fund. The health insurance trust held $71,133,632 in the Dreyfus Institutional Cash Advantage Fund. The credit risk associated with this Fund is minimal as the securities held are required to maintain the highest possible short-term credit ratings by Moody's and Standard & Poor's. In addition, investments in US Government and Agency securities are also highly rated securities since they are backed by the US Government. Notation is made that the ratings of securities is subject to change due to circumstances and thereby may have a lower rating than when first purchased.

Note 5: Deposits With Financial Institutions and Investments (Including Repurchase Agreements) continued . . .

The retirement annuity trust fund's policy on credit rating is set forth in 102 KAR 1:175 and reads as follows:

"A fixed income investment shall be rated at the time of purchase as investment grade by at least one (1) of the major rating services. A private placement debt investment shall be subject to the same credit qualifications as each fixed income investment. The fixed income investment portfolio as a whole shall maintain an average rating of investment grade by at least one (1) of the major rating services."

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Losses from credit risk are heightened if a significant portion of resources are invested with a single issuer. Per Administrative Regulation 102 KAR 1:175, the retirement annuity trust fund is subject to the following policies regarding single issuers of fixed income and equity securities:

"Unless the issuer is the United States Government or a government sponsored enterprise (GSE), the amount invested in the securities of a single issuer shall not equal more than five (5) percent of the assets of the system."

"The System's position in a single stock shall not exceed two and one-half (2.5) percent of the System's assets. The system's position in a single stock shall not exceed five (5) percent of the outstanding stock for that company unless the investment is part of a venture capital program."

KTRS has not invested greater than five percent (5%) of the retirement annuity trust fund's assets at fair value in any single issuer and is in compliance with investment policy.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. As of June 30, 2014, the retirement system's exposure to foreign currency risk consisted of $4,480,096,776 and $170,622,695 in the retirement annuity trust and health insurance trust funds respectively.

The following tables represent the fair values of investments that are subject to foreign currency as a result of cash contributions to each portfolio manager:

Retirement Annuity Trust

Commingled Funds	
Rogge Global Int'l Fixed Income	$ 110,758,215
Baillie Gifford Intrntl EAFE	847,561,410
Baring All Country World ex US	524,421,742
BlackRock ACWI EX-US IMI	492,783,364
UBS All Country World ex US	590,937,938
Alternative Funds	
KKR & Co. European Fund III	70,201,067
Oaktree European Principal Fund III	14,226,029
ADRs (Equities)	538,960,837
Cross-Listed Equities	810,401,671
Bonds (Fixed Income)	355,643,065
Additional Categories (Fixed Income)	85,848,897
Additional Categories (Opportunistic)	38,352,541
TOTAL	**$ 4,480,096,776**

Health Insurance Trust

Commingled Funds	
Medical Ins. Black Rock Fund B	$ 152,151,446
Bonds (Fixed Income)	995,820
Additional Categories (Fixed Income)	15,226,662
Additional Categories (Opportunistic)	2,248,767
TOTAL	**$ 170,622,695**

Note 5: Deposits With Financial Institutions and Investments (Including Repurchase Agreements) continued . . .

The following tables reflect the various foreign currencies associated with the System's investments in the funds outlined previously:

Retirement Annuity Trust

Currency	Fair Value
Australian Dollar	$ 136,454,041
Bermudian Dollar	100,864,681
Brazilian Real	62,502,090
British Pound Sterling	591,287,332
Canadian Dollar	361,992,659
Cayman Islands Dollar	94,019,482
Chilean Peso	10,213,576
Chinese Yuan	126,579,813
Colombian Peso	1,006,904
Czech Crown	227,828
Danish Krone	64,451,325
Dominican Peso	316,624
Egyptian Pound	292,968
Euro	1,204,979,461
Hong Kong Dollar	96,422,178
Hungarian Forint	769,830
Indian Rupee	82,342,797
Indonesian Rupiah	8,371,568
Israeli New Shekel	38,642,187
Japanese Yen	481,918,833
Jersey Pound	98,043,908
Jordanian Dinar	2,228,116
Liberian Dollar	1,263,485
Malaysian Ringgit	16,016,496
Mexican Peso	41,032,533
Netherlands Antillean Guilder	73,009,281
New Zealand Dollar	4,849,666
Norwegian Krone	28,744,042
Panamanian Balboa	30,071,768
Peruvian Nuevo Sol	7,784,546
Philippine Peso	1,041,540
Polish Zloty	5,426,782
Riyal	436,267
Russian Ruble	32,148,567
Singapore Dollar	42,224,890
South African Rand	20,022,097
South Korean Won	97,537,400
Swedish Krona	159,537,086
Swiss Franc	270,035,331
Taiwan Dollar	59,932,051
Thai Baht	5,542,255
Turkish Lira	14,009,911
UAE Dirham	519,600
Uruguayan Peso	269,506
Various	4,713,475
TOTAL	**$ 4,480,096,776**

Health Insurance Trust

Currency	Fair Value
Australian Dollar	$ 8,606,643
Bermudian Dollar	272,301
Brazilian Real	3,290,956
British Pound Sterling	23,901,098
Canadian Dollar	16,485,624
Cayman Islands Dollar	1,553,816
Chilean Peso	487,491
Chinese Yuan	83,740
Colombian Peso	304,008
Czech Crown	76,529
Danish Krone	1,674,370
Egyptian Pound	93,450
Euro	42,259,571
Hong Kong Dollar	8,804,980
Hungarian Forint	66,462
Indian Rupee	2,210,388
Indonesian Rupiah	832,314
Israeli New Shekel	664,515
Japanese Yen	22,717,105
Liberian Dollar	234,150
Malaysian Ringgit	1,287,425
Mexican Peso	1,550,954
New Zealand Dollar	269,100
Norwegian Krone	1,115,426
Panamanian Balboa	4,030
Peruvian Nuevo Sol	6,376
Philippine Peso	320,814
Polish Zloty	521,532
Riyal	134,199
Russian Ruble	1,231,985
Singapore Dollar	1,671,168
South African Rand	2,415,831
South Korean Won	5,235,194
Swedish Krona	3,568,456
Swiss Franc	9,343,348
Taiwan Dollar	4,298,631
Thai Baht	796,469
Turkish Lira	558,149
UAE Dirham	163,205
Various	1,510,892
TOTAL	**$ 170,622,695**

Note 5: Deposits With Financial Institutions and Investments (Including Repurchase Agreements) continued . . .

The majority of foreign investments are held in commingled funds managed by Rogge Global Partners, UBS Global Asset Management, Baillie Gifford, Baring Asset Management, and Black Rock. In addition to the commingled funds investing in foreign securities, the retirement annuity trust fund held $538,960,837 associated with foreign interests in American Depositary Receipt investments. These American Depositary Receipts are securities that are issued by a U.S. bank in place of the foreign stock shares held in trust by that bank, thereby facilitating the trading of foreign shares in U.S. markets. American Depositary Receipts are denominated in U.S. currency. Also, the cross listed equities, in the amount of $810,401,671, represent securities domiciled in foreign countries, but are listed and traded on U.S. exchanges. Other foreign securities and investments consisted of debt securities and alternative investment opportunities. Foreign holdings, including investment receivables/payables, that were not readably identifiable to a specific country were listed in the "various" category pertaining to currency type.

The retirement annuity trust fund's policy regarding foreign equities is that not more than thirty percent (30%) of the assets of the retirement annuity trust fund at fair value shall be invested in the stocks of companies domiciled outside of the United States. Any amounts so invested shall be included in the sixty-five percent (65%) limitation for total stocks per 102 KAR 1:175 Section 2(e).

D. SECURITIES LENDING

Section 161.430 of the Kentucky Revised Statutes empowers the Board of Trustees with complete fiduciary responsibility for the funds of the retirement system. The retirement system operates a securities lending program in which it temporarily lends securities to qualified agents in exchange for a net fee and high quality collateral. U.S. Government and agency securities, selected domestic bonds, and domestic and international stocks are the types of securities that are lent. The retirement system's custodian, The Bank of New York Mellon, acts as lending agent in exchanging securities for collateral. The collateral has a value of not less than 102% of the fair value of the lent securities plus any accrued, unpaid distributions. The collateral may consist of cash, marketable U.S. Government securities, and select marketable U.S. Government agency securities approved by the retirement system.

Securities lending transactions are accounted for in accordance with GASB Statement No. 28 Accounting and Financial Reporting for Securities Lending Transactions, which established standards of accounting and financial reporting for securities lending transactions. During the fiscal year ended June 30, 2014, only the retirement annuity trust fund had securities lending transactions. The following section details the net income earned in the retirement annuity trust fund from securities lending for the fiscal year ended June 30, 2014:

Item	2014 Earnings	2013 Earnings
Gross Earnings (Interest and Fees)	$ 285,931	$ 600,782
Gross Borrower Rebates	2,422,568	2,476,727
Bank Fees	(812,495)	(923,168)
Net Earnings	**$ 1,896,004**	**$ 2,154,341**

Cash collateral is invested in short-term obligations fully guaranteed by the United States Government or select Government agencies and Government Repurchase Agreements with qualified agents. The retirement system cannot pledge or sell collateral securities received unless the borrower defaults. The lending agent (Bank of New York Mellon) also indemnifies the retirement system from any financial loss associated with a borrower's default and collateral inadequacy.

As of June 30, 2014, the loan average days to maturity in the retirement annuity trust fund was one (1) days and the weighted average investment maturity of cash collateral investments was one (1) days. At fiscal year end, the retirement annuity trust fund had no credit risk exposure to borrowers, since the amounts the retirement annuity trust fund owes the borrowers exceeds the amounts the borrowers owe the retirement annuity trust fund and there were no losses resulting during the period.

Security lending programs can entail interest rate risk and credit risk. The retirement system minimizes interest rate risk by limiting the term of cash collateral investments to several days.

Note 5: Deposits With Financial Institutions and Investments (Including Repurchase Agreements) continued . . .

The credit risk is controlled by investing cash collateral in securities with qualities similar to the credit worthiness of lent securities.

The following table presents the fair values of the underlying securities, and the value of the collateral pledged at June 30, 2014:

Type of Securities Lent	Fair Value	Cash & Non-Cash Collateral Value Received
Fixed Income	$ 255,446,359	$ 264,235,048
Equities	192,007,164	195,410,206
TOTAL	**$ 447,453,523**	**$ 459,645,254**

Note 6: Retirement Plan for Employees of the System

Full-time employees of Kentucky Teachers' Retirement System (KTRS) participate in either KTRS or Kentucky Employees Retirement System. Both plans are multiple-employer cost sharing defined benefit retirement annuity plans. All KTRS employees in positions requiring a four-year degree are covered under KTRS. The contribution rates and required employer matching are the same as state agency employers in the System. These rates, the plan description and funding policy are fully disclosed in the notes to the financial statements.

The System's annual required contributions for KTRS employee members for the fiscal years 2014, 2013, and 2012 were $656,152, $574,432, and $533,378 respectively. KTRS contributed one hundred percent (100%) of the required contribution each year.

All other KTRS employees are covered under the Kentucky Employee Retirement System (KERS) in the Non-Hazardous Employees' Pension Plan. 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. Per KRS 61.565(3), contribution rates shall be determined by the Board on the basis of an annual actuarial valuation. Rates may be amended by the Board as needed. The System's administrative budget and employer contribution rates are subject to the approval of the Kentucky General Assembly. Employee contribution rates are set by the statute and may be changed only by the Kentucky General Assembly.

Members of KERS who joined prior to July 1, 2008, are required to contribute five percent (5%) of their annual creditable compensation for the fiscal years 2014, 2013, and 2012 and members who joined on or after July 1, 2008 contribute an additional one percent (1%). As the employer, KTRS is required to contribute the annual actuarially determined rate of the creditable compensation (or the rate approved by legislators). The approved rate for the fiscal years 2014, 2013, and 2012 were 26.79 percent, 23.61 percent, and 19.82 percent and the System's annual required contributions to KERS were $365,610, 331,989, and $350,869 respectively. KTRS contributed one hundred percent (100%) of the required contributions for each year.

KERS issues a publicly available financial report that may be obtained by writing Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124.

Note 7: Other Funds

A. 403(B) TAX-SHELTERED ANNUITY PLAN

Plan Description

KTRS has, in prior years, administered a salary deferral program as permitted by section 403(b) of the Internal Revenue Code. Under this program members were able to voluntarily defer a portion of their compensation within the limits established by the applicable laws and regulations. However, the System's Board of Trustees determined that the cost of providing the necessary services to assure the System of continuing compliance with these laws and regulations was not economically feasible due to the limited participation in the program by the System's members. The Board decided, therefore, to discontinue offering the program as of April 30, 1997. Members who were not receiving annuities from their account as of April 30, 1997, were able to transfer their respective accounts directly into other tax-sheltered plans on a tax-free basis. As of June 30, 2014, the twelve members who are receiving annuities will continue to receive distributions according to the terms of their respective elections.

B. SUMMARY OF SIGNIFICANT POLICIES

Basis of Accounting

The Tax-sheltered Annuity Plan financial statements are prepared using an accrual basis of accounting. Contributions are no longer being accepted into the plan; therefore, there are no receivables to be recognized.

Method Used to Value Investments

The short-term investments are reported at cost, which approximates fair value.

C. SUPPLEMENTAL BENEFIT FUND

The Supplemental Retirement Benefit Fund is a qualified governmental excess benefit arrangement as described in Section 415 of the Internal Revenue Code. In accordance with KRS 161.611 and KRS 161.420(8), KTRS is authorized to provide a supplemental retirement benefit fund for the sole purpose of enabling the employer to apply the same formula for determining benefits payable to all members of the retirement system employed by the employer, whose benefits under the retirement system are limited by Section 415 of the Internal Revenue Code of 1986, as amended from time to time. Funding of benefits payable under this fund are provided by the state, as employer, and are segregated from funds that are maintained by KTRS for payment of the regular benefits provided by the retirement system.

D. JUNITA LOSEY SCHOLARSHIP BEQUEST

Junita Losey, a retired teacher, designated KTRS as a residuary beneficiary of her estate and expressed a desire that KTRS establish a scholarship program for Kentucky students studying to be teachers. Ms. Losey died in 1997 and thereafter her estate provided a scholarship bequest to KTRS. The scholarship bequest has at all times been segregated from funds that are maintained by KTRS for payment of the regular benefits provided by the retirement system. The Scholarship Committee of the System's Board of Trustees meets each December to consider scholarship standards and administration of the scholarship bequest.

Note 8: Medical Insurance Plan & Post-Employment Benefits

A. PLAN DESCRIPTION

In addition to the retirement annuity plan described in Note 1, Kentucky Revised Statute 161.675 requires KTRS to provide access to post-employment healthcare benefits for eligible members and dependents. The KTRS medical plan is funded by employer and member contributions. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

The KTRS medical plan is funded by employee contributions to an account established pursuant to 26 U.S.C. sec. 401(h). Additional funding is derived from the Kentucky Teachers' Retirement System insurance trust fund that went into effect on July 1, 2010. The insurance trust fund provides a trust separate from the account established pursuant to 26 U.S.C. sec. 401(h). The insurance trust fund includes employer and retired member contributions required under KRS 161.550 and KRS 161.675(4)(b).

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS medical plan offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. KTRS retired members are given a supplement to be used for payment

Note 8: Medical Insurance Plan & Post-Employment Benefits continued . . .

of their health insurance premium. The amount of the member's supplement is based on a contribution supplement table approved by the KTRS Board of Trustees. The retired member pays premiums in excess of the monthly supplement. The Commonwealth of Kentucky bears risk for excess claims expenses that exceed the premium equivalents charged for the Kentucky Employees Health Plan. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

At June 30, 2014, KTRS insurance covered 37,275 retirees and 7,031 dependents. There are 208 participating employers and 73,407 active members contributing to the medical plan.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The KTRS medical plan financial statements are prepared using the accrual basis of accounting. Member contributions and employer matching are recognized in the fiscal year due.

Healthcare premiums charged to retired members are recognized when due and any premiums collected in advance are recognized as a liability.

Method Used to Value Investments

Since the investments are all short-term investments they are reported at cost, which approximates fair value.

C. CONTRIBUTIONS

The post-employment medical benefit provided by KTRS is financed on a pre-funded basis beginning July 1, 2010 with the implementation of the "Shared Responsibility" legislation. In order to fund medical benefits, active member contributions are matched by the state at .75% of members' gross salaries. Members contributed 1.75% of gross payroll to the KTRS medical plan and beginning July 1, 2010 the contribution increases incrementally to 3.75% by July 1, 2015 under the Shared Responsibility Plan. Also, the premiums collected from retirees and investment income contributes to funding the plan. The KTRS medical plan received bond proceeds of $152,400,000 in fiscal year 2013 in funding from the state, which was contributed to the insurance trust fund. This transitional funding and increased contributions are for the 2013 and 2014 fiscal years.

D. FUNDED STATUS AND FUNDING PROGRESS

The funded status of the Medical Insurance Plan as of the most recent actuarial valuation date is as follows:

Schedule of Funding Progress
(In thousands)

Valuation Year Ending June 30	Actuarial Value of Assets A	Actuarial Accrued Liabilities B	Unfunded Actuarial Accrued Liabilities (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll C	UAAL as a % of Covered Payroll [B-A/C]
2014	$ 508,913	$ 3,194,689	$ 2,685,776	15.9%	$ 3,486,327	77.0%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedule of employer contributions present trend information about the amounts contributed to the plan by employers in comparison to the Annual Required Contribution, an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The Annual Required Contribution represents a level of

Note 8: Medical Insurance Plan & Post-Employment Benefits continued . . .

funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Significant actuarial methodologies and assumptions employed as of the June 30, 2014 valuation date include the following:

Actuarial Cost Method	Actuarial Value of Assets	Assumed Inflation Rate	Investment Rate of Return	Amortization Method	Remaining Amortization Period
Entry Age	Market value of assets	3.50%	8.00%	Level percent of pay, open	30 years

Medical Trend Assumption	Pre-Medicare	Medicare
Fiscal Year Ending 6/30/2014	7.75%	5.75%
Fiscal Year Ending 6/30/2015	6.75%	5.50%
Ultimate Trend Rate	5.00%	5.00%
Year of Ultimate Trend Rate	2020	2018

Note 9: Life Insurance Plan

A. PLAN DESCRIPTON

KTRS administers the Life Insurance Plan as provided by KRS 161.655 to provide life insurance benefits to retired and active members. This benefit is financed by actuarially determined contributions from the 208 participating employers. The benefit is $5,000 for members who are retired for service or disability, and $2,000 for active contributing members.

B. SUMMARY OF SIGNIFICANT POLICIES

Basis of Accounting

The Life Insurance Plan financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized in the fiscal year due.

Method Used to Value Investments

Life Insurance Plan investments are reported at fair value. The short-term securities are carried at cost, which approximates fair value. Fixed income is generally valued based on published market prices and quotations from national security exchanges and securities pricing services.

C. CONTRIBUTIONS

To finance the life insurance benefit a portion of the employer contribution rate is directed to the plan as recommended by the KTRS's actuary. The contribution rate of active members' payroll recommended by the actuary was .03% for fiscal year 2014 and .05% for fiscal year 2013.

Note 9: Life Insurance Plan continued . . .

D. FUNDED STATUS AND FUNDING PROGRESS

The funded status of the Life Insurance Plan as of the most recent actuarial valuation date is as follows:

Schedule of Funding Progress
(In Thousands)

Valuation Year June 30	Actuarial Value of Assets A	Actuarial Accrued Liabilities B	Unfunded Actuarial Accrued Liabilities (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll C	UAAL as a % of Covered Payroll [B-A/C]
2014	$ 96,130	$ 97,354	$ 1,224	98.7%	$ 3,486,327	0.04%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The required supplementary schedules following the notes to the financial section contain more actuarial information. Significant actuarial methodologies and assumptions employed as of the June 30, 2014 valuation date include the following:

Actuarial Cost Method	Actuarial Value of Assets	Assumed Inflation Rate	Investment Rate of Return	Projected Salary Increases	Amortization Method	Remaining Amortization Period
Entry Age	Market value of assets	3.50%	7.50%	4.00%	Level percent of pay, open	30 years

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in the Net Pension Liability
(In Thousands)

Change in the Total Pension Liability	2014
Total pension liability	
Service Cost	$ 1,002,338
Interest	1,956,610
Benefit changes	
Difference between expected and actual experience	
Changes of assumptions	(353,043
Benefit payments	(1,654,376)
Refunds of contributions	(25,462)
Net change in total pension liability	926,067
Total pension liability - beginning	38,758,709
Total pension liability - ending (a)	$ 39,684,776
Plan Net Position	
Contributions - State of Kentucky	$483,330
Contributions - Other Employers	79,996
Contributions - Members	304,982
Net investment income	2,803,248
Benefit payments	(1,654,375)
Administrative expense	(7,956)
Refunds of contributions	(25,462)
Net change in plan net position	1,983,763
Plan net position - beginning	16,108,808
Plan net position - ending (b)	$ 18,092,571
Net pension liability - ending (a) - (b)	**$ 21,592,205**

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Required Supplementary Information continued . . .

NOTE 1
Schedule of Changes in the Net Pension Liability

The total pension liability contained in this schedule was provided by the System's actuary, Cavanaugh Macdonald Consulting, LLC. The net pension liability is measured as the total pension liability less the amount of the fiduciary net position of the System.

Changes of Benefit Terms. None

Changes of assumptions. In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2011. In the 2011 valuation, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In the 2011 valuation, the Board adopted an interest smoothing methodology to calculate liabilities for purposes of determining the actuarially determined contributions.

Schedule of Net Pension Liability
(In Thousands)

	2014
Total pension liability	$ 39,684,776
Plan net position	18,092,571
Net pension liability	$ 21,592,205

Ratio of plan net position to total pension liability	45.59%
Covered-employee payroll	$ 3,443,138
Net pension liability as a percentage of covered-employee payroll	627.11%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of Employer Contributions
(In Thousands)

Fiscal Year Ended June 30	Covered Payroll	Actual Employer Contributions	Actuarially Determined Employer Contributions	Annual Contribution Excess (Deficiency)	Actual Contributions as a Percentage of Covered Payroll
2005	$ 2,703,430	$ 383,777	$ 383,777	$	14.20 %
2006	2,859,477	406,107	406,107		14.20
2007	2,975,289	434,890	494,565	(59,675)	14.62
2008	3,190,332	466,248	563,789	(97,541)	14.61
2009	3,253,077	442,550	600,283	(157,733)	13.60
2010	3,321,614	479,805	633,938	(154,133)	14.44
2011	3,283,749	1,037,936	678,741	359,195	31.61
2012	3,310,176	557,340	757,822	(200,482)	16.84
2013	3,310,710	568,233	802,985	(234,752)	17.16
2014	3,443,138	563,326	823,446	(260,120)	16.36

Required Supplementary Information continued . . .

NOTE 2
Schedule of Employer Contributions

The required employer contributions and percent of those contributions actually made are presented in the schedule.

NOTE 3
Actuarial Methods and Assumptions

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of the schedule:

Actuarial Cost Method	Amortization Period	Remaining Amortization Period	Asset Valuation Method	Inflation	Salary Increase	Ultimate Investment Rate of Return*
Entry Age	Level percentage of payroll, open	30 Years	5-year smoothed market	3.50%	4.00 to 8.20%, including inflation	7.50 percent, net of pension plan investment expense, including inflation

**The actuarially determined contribution rates are determined using the interest smoothing Methodology adopted by the Board.*

Schedule of Investment Returns

	2014
Annual money weighted rate of return, net of investment expense	17.95%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Medical Insurance Plan – Schedule of Funding Progress
(In Millions)

Valuation Year June 30	Actuarial Value of Assets A	Actuarial Accrued Liabilities (AAL) B	Unfunded Actuarial Accrued Liabilities (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll C	UAAL as a % of Covered Payroll [(B-A)/C]
2008	$ 185.9	$ 6,434.5	$6,248.6	2.9%	$3,190.3	195.9%
2009	229.1	6,454.7	6,225.6	3.5	3,253.1	191.4
2010	241.2	3,206.8	2,965.6	7.5	3,321.6	89.3
2011	294.8	3,423.1	3,128.3	8.6	3,451.8	90.6
2012	338.7	3,594.5	3,255.8	9.4	3,479.6	93.6
2013	412.2	3,521.1	3,108.9	11.7	3,480.0	89.3
2014	508.9	3,194.7	2,685.8	15.9	3,486.3	77.0

The amounts reported in this schedule of funding progress do not include assets or liabilities for the defined benefit or life insurance plans, nor are the assets and liabilities of the tax-sheltered annuity plan included.

Required Supplementary Information continued . . .

Medical Insurance Plan – Schedule of Employer Contributions

Valuation Year June 30	Annual Required Contribution (ARC) (A)	Actual Employer Contribution (B)	Retiree Drug Subsidy Contribution (C)	Total Contribution (B) + (C)	Percentage of ARC Contribution [(B) + (C)]/(A)
2008	$ 395,282,164	$ 148,954,644	$ 11,911,565	$160,866,209	40.7%
2009	467,312,904	164,480,119	13,611,748	178,091,867	38.1
2010	457,054,117	158,765,496	14,614,285	173,379,781	37.9
2011	477,723,070	188,453,929	280,585	188,734,514	39.5
2012	470,217,067	177,450,206	297,639	177,747,845	37.8
2013	186,725,823	166,611,420		166,611,420	89.2
2014	159,583,400	162,568,395		162,568,395	101.9

Life Insurance Plan – Schedule of Funding Progress

(In Thousands)

Valuation Year June 30	Actuarial Value of Assets A	Actuarial Accrued Liabilities (AAL) B	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll C	UAAL As a % of Covered Payroll [(B-A)/C]
2008	$ 77,658	$ 84,265	$ 6,607	92.2%	$ 3,190,332	0.21%
2009	84,703	90,334	5,631	93.8	3,253,077	0.17
2010	87,905	92,091	4,186)	95.5	3,321,614	0.13
2011	88,527	88,088	(439)	100.5	3,451,756	(0.01)
2012	92,241	91,398	(843)	100.9	3,479,567	(0.02)
2013	94,863	94,325	(538	100.6	3,480,066	(0.02)
2014	96,130	97,354	1,224	98.7	3,486,327	0.04

The amounts reported in this schedule of funding progress do not include assets or liabilities for the defined benefit or medical insurance plans, nor are the assets and liabilities of the tax-sheltered annuity plan included.

Life Insurance Plan – Schedule of Employer Contributions

Valuation Year June 30	Annual Required Contribution (ARC) (A)	Actual Employer Contribution (B)	Percentage of ARC Contributed (B) / (A)
2008	$ 1,914,199	$ 5,411,249	282.7%
2009	1,498,076	5,455,473	364.2
2010	1,992,969	1,966,826	98.7
2011	1,725,878	1,668,822	96.7
2012	1,732,831	1,684,711	97.2
2013	1,739,908	1,680,495	96.6
2014	1,044,959	1,006,091	96.3

ADDITIONAL SUPPORTING SCHEDULES

Schedule of Administrative Expenses
Year Ended June 30, 2014

Expense	Amount
Salaries	$ 5,618,962
Other Personnel Costs	580,643
Professional Services and Contracts	454,940
Utilities	98,565
Rentals	26,001
Maintenance	117,847
Postage & Related Services	402,543
Printing	141,762
Insurance	171,229
Miscellaneous Services	117,450
Telecommunications	32,736
Computer Services	107,393
Supplies	63,561
Depreciation	857,066
Travel	43,963
Dues & Subscriptions	45,865
Miscellaneous Commodities	10,317
Furniture, Fixtures, & Equipment not Capitalized	107,743
Compensated Absences	79,423
Total Administrative Expenses	**$ 9,078,009**

Schedule of Professional Fees
Year Ended June 30, 2014

Professional	Nature of Service	Amount
Cavanaugh Macdonald Consulting	Actuarial Services	$ 239,307
Mountjoy Chilton Medley	Auditing Services	39,000
Auditor of Public Accounts	Auditing Services	49,995
International Claim Specialist	Investigative Services	480
Ice Miller	Attorney Services	26,333
Reinhart, Boerner VanDeuren	Attorney Services	4,256
Stoll, Keenon, and Ogden	Attorney Services	112
Peritus	Communications	95,457
Total Professional Services and Contracts		**$ 454,940**

Additional Supporting Schedules continued . . .

Schedule of Contracted Investment Management Expenses
Year Ended June 30, 2014

	Pension	Medical	Total
Equity Managers			
Baillie Gifford	$ 2,946,160	$	$ 2,946,160
Baring Asset Management, Inc.	2,408,105		2,408,105
Black Rock	222,724	158,797	381,521
GE Asset Management	800,000		800,000
Todd-Veredus Asset Management LLC	1,358,058		1,358,058
UBS Global Asset Management	2,914,577		2,914,577
Wellington Management Company	3,063,448		3,063,448
Total Equity Managers	13,713,072	158,797	13,871,869
Fixed Income Managers			
Fort Washington Investment Advisors	175,713		175,713
Galliard Capital Management	266,027		266,027
Total Fixed Income Managers	441,740		441,740
Real Estate	4,198,106	11,507	4,209,613
Additional Categories	5,979,828	271,398	6,251,226
Alternative Investments	9,290,433	209,039	9,499,472
Custodian			
The Bank of New York Mellon	353,749	10,392	364,141
Consultant			
Hewitt Ennis Knupp, Inc.	358,850		358,850
Bevis Longstreth	54,553		54,553
George Philip	33,056		33,056
Total Consultants	446,459		446,459
Legal & Research			
Reinhart Boerner Van Deuren	2,237		2,237
Wolters Kluwer	8,254		8,254
Ice Miller	79,848		79,848
Total Legal & Research	90,339		90,339
Other			
Administrative and Operational (includes Personnel)	2,664,024	49,950	2,713,974
Total Contracted Investment Management Expenses	**$ 37,177,750**	**$ 711,083**	**$ 37,888,833**

Kentucky Teachers' Retirement System

2014

Investment Section

REPORT ON INVESTMENT ACTIVITY

This report is prepared by the Investment staff of the Kentucky Teachers' Retirement System.

Mr. Paul L. Yancey, CFA
Chief Investment Officer

Mr. Philip L. Webb
Director of Investment Accounting

INVESTMENT COMMITTEE

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Chairperson

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Vice-Chairperson

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Dr. Tom Shelton
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Ms. Ruth Ann Sweazy
Member

Mr. Bevis Longstreth
Investment Advisor to KTRS Investment Committee

Mr. George Philip
Investment Advisor to KTRS Investment Committee

EXECUTIVE INVESTMENT STAFF

Mr. Gary L. Harbin, CPA
Executive Secretary

Mr. Paul L. Yancey, CFA
Chief Investment Officer

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An Aon Company

December 1, 2014

To the members of the Board of Trustees and participants of the Teachers' Retirement System of Kentucky:

The KTRS investment program continued to perform exceptionally well in the fiscal year ended June 30, 2014, producing a total return of 18.1%. This exceeded the policy benchmark return of 17.6% and ranked in the top 23% of returns in a peer group universe of 77 public pensions with over $1 billion in assets. The performance was driven by a relatively high weighting in U.S. and international equities, which performed extremely well, as well as strong relative performance generally within the fund's various asset classes.

The markets' strong, relatively steady, performance was underpinned by consistent monetary support from the Federal Reserve and a continuing, if modest, global economic recovery. One hiccup in the uptrend, in the summer of 2013, followed the Federal Reserve's initial comments about a future reduction in monetary stimulus. Another came in early 2014 when monetary stimulus actually began to be scaled back in coincidence with a harsh winter in the U.S. Economic growth temporarily stalled in early 2014. After both minor setbacks, markets quickly resumed their positive performance.

The system's public equity exposure, which totaled 63.2% of assets at June 30, 2014, returned 25.2%. Domestic equities returned 26.3% versus 24.7% for the S&P 1500 Index. International equities returned 22.9% versus 22.3% for the MSCI All Country World (ex-U.S.) Index.

Fixed income returns were lower at 4.8% but exceeded the benchmark Barclays Government/Credit Index return of 4.3%. Exposure to fixed income continued to decline, from 21.3% of assets a year earlier to 19.9% on June 30, 2014, as the relative attractiveness of the asset class continued to deteriorate.

Less traditional investment strategies, including real estate, private equity, and alternative credit strategies rose to 14.6% of assets over the fiscal year, up from 13.1% a year earlier. Returns were generally strong across the various strategies and contributed meaningfully to overall performance.

A sound investment philosophy and implementation through a robust professional process are the keys to a successful program. We believe the consistently strong relative returns achieved over the past several years evidence the soundness of the system's philosophy, asset allocation strategy, and execution. We are grateful to be a part of the process. We would like to express that gratitude to the Board of Trustees, Investment Committee, and investment staff for their continuing confidence.

Respectfully,

Patrick J. Kelly, CFA, CAIA
Partner

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RETIREMENT ANNUITY TRUST FUND

INVESTMENT POLICY SUMMARY

The KTRS Board of Trustees has a statutory obligation to invest the members' assets in a manner consistent with the fiduciary standards set forth in the "prudent person rule." Consistent with these fiduciary standards, the board has recognized certain principles that guide investment–related decisions. First, the board will preserve the long-term corpus of the fund. Second, the board will seek to maximize total investment return within prudent risk parameters. Third, the board will act in the exclusive interest of the members and beneficiaries of the System. This broad summary is a reference point for management of retirement assets and outlines the investment philosophy and practice of KTRS.

INVESTMENT OBJECTIVES

KTRS invests the members' funds in several diverse classes of assets, including equities, bonds and real estate. This diversification helps us earn the highest possible long-term rate of return within appropriate risk levels. In turn this enables us to pay guaranteed benefits to members and their beneficiaries at the lowest possible cost to participating employers and the taxpayers that fund them. Generally, the retirement system's liabilities will not be paid for as many as 30-40 years. Therefore, as a long-term investor, KTRS holdings can withstand some short-term volatility. The retirement annuity trust fund's long-term investment objective is to achieve an annualized rate of return of 7.5%.

RISK CONTROLS

The KTRS investment program faces various risks; however, the primary risk to KTRS is that the assets will not support liabilities over long periods of time. In order to control this risk and any other risks, the board has taken the following steps on an ongoing basis:

- Actuarial valuations are performed each year to evaluate the funding objectives of the retirement system. In addition, every ten years an external audit of the actuary is conducted to ensure that the assumptions made and calculation methods used are resulting in properly computed liabilities of the System.
- Asset/liability studies are conducted approximately every five years. These studies ensure that the portfolio design is structured to meet the liabilities of the retirement system.
- The KTRS Investment Committee adopts, and regularly reviews, detailed investment strategies for implementation of the investment policy.

ASSET ALLOCATION

Operating within relevant regulatory limitations, the retirement system's investment consultant, on an annual basis, presents to the Investment Committee for approval target percentages and ranges for the retirement system's various asset classes. Annually approved asset allocation parameters serve to balance the retirement system's liquidity requirements, volatility tolerance, and return requirements to meet both short-term and long-term obligations. The retirement system's assets are diversified across a variety of asset classes, investment management styles, and individual securities in order to reduce volatility and enhance the potential of the investment portfolio to achieve the retirement system's long-term goals.

Asset allocation decisions for pension plans are highly dependent on the unique characteristics of a particular plan. Factors such as liability requirements, the level of funding, and statutory investment restrictions are important considerations within the context of the asset allocation decision making process. Consequently, asset allocations may differ markedly between various pension plans due to their unique circumstances.

The information below shows the retirement system's asset allocation by fair value as of June 30, 2014, and June 30, 2013, as well as the target and strategic range for each asset class for fiscal year 2014.

Retirement Annuity Trust

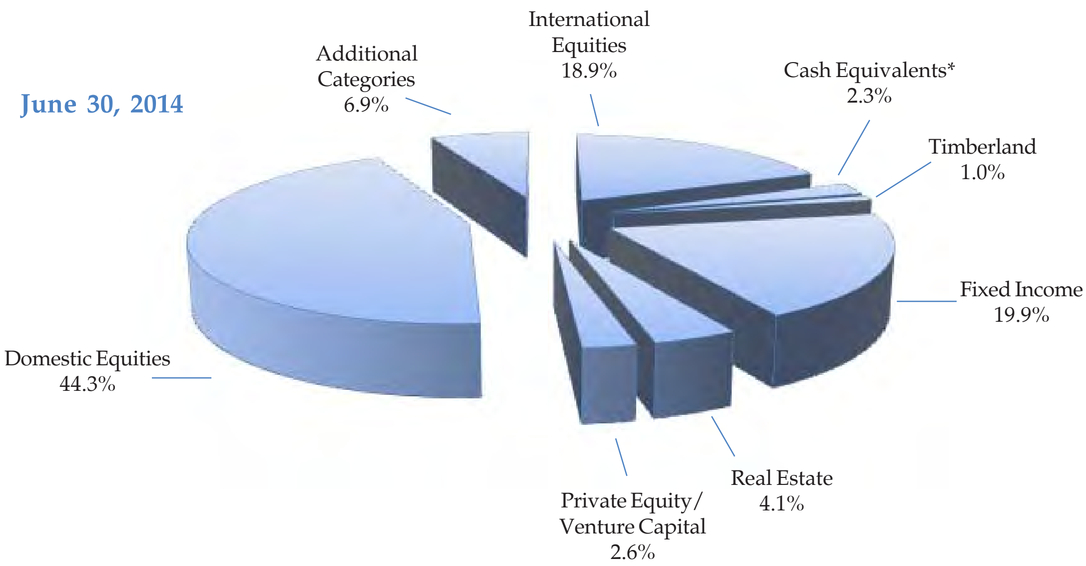
	June 30,2014*	%	June 30,2013 **	%
Cash Equivalents***	$ 420,338,047	2.3	$ 386,683,234	2.4
Fixed Income	3,594,965,963	19.9	3,434,080,377	21.3
Domestic Equities	7,982,520,773	44.3	7,511,572,763	46.5
International Equities	3,411,422,169	18.9	2,698,774,335	16.7
Real Estate	733,045,846	4.1	642,611,173	4.0
Private Equity	457,408,593	2.6	343,259,092	2.1
Timberland	186,481,696	1.0	197,480,029	1.2
Additional Categories	1,248,651,062	6.9	935,376,476	5.8
TOTALS	**$ 18,034,834,149**	**100.0**	**$ 16,149,837,479**	**100.0**

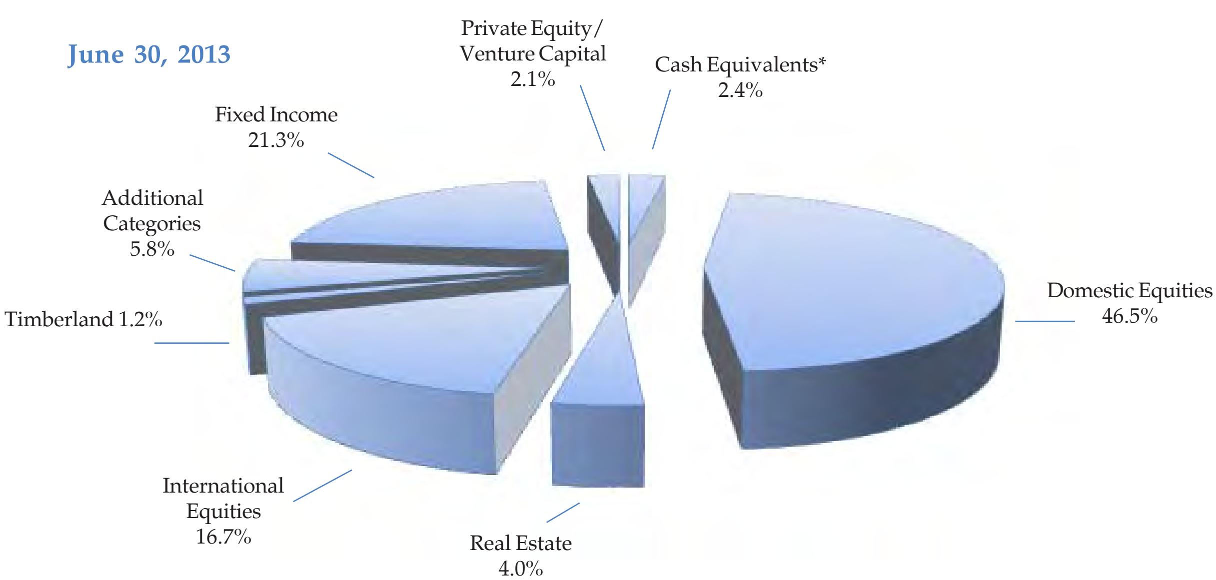
* *Includes Life Insurance Trust values of $89,250,576, Tax Shelter Annuity value of $377,268, and 401(h) value of $41,237,374.*

** *Includes Life Insurance Trust values of $88,623,343, Tax Shelter Annuity value of $391,095, and 401(h) value of $2,193,497.*

*** *Reflects only cash balances not allocated to other asset classes. Uninvested cash balances allocated to various asset classes are represented in the respective asset classes.*

Distribution of Investments
Retirement Annuity Trust**
Fair Values





* Reflects only cash balances not allocated to other asset classes. Uninvested cash balances allocated to various asset classes are represented in the respective asset classes.

** Includes Life Insurance Trust values.

Strategic Weightings by Asset Class

Asset Class	Regulatory Limits (Mkt Value)	Strategic Range (Mkt)	Target (Mkt)	6/30/2014 (Mkt)**
Cash		1 - 3%	2.0%	**2.3%**
Fixed Income		16 - 22	19.0	**19.9**
Government/Agency/Other	Unlimited			10.1
Corporate	35%			9.8
Equity	65%	58 - 65	62.0	**63.2**
Domestic Large Cap		34 - 44	39.0	38.0
Domestic Mid Cap		1 - 5	3.0	3.8
Domestic Small Cap		1 - 3	2.0	2.5
International***	30%	15 - 21	18.0	18.9
Real Estate	10%	3 - 7	5.0	**4.1**
Alternative Investments*	10%	2 - 8	5.0	**3.6**
Additional Categories	15%	4 - 10	7.0	**6.9**
TOTAL			**100.0%**	**100.0%**

* Includes private equity, venture capital, timberland, and infrastructure investments.
** Starting with 7/2008, Cash is only the unallocated cash balance. Manager cash balances will be included with the asset type of the managers investments.
*** As of 6/30/14, 18.2% of Total International Equities was invested in Emerging Markets.

PORTFOLIO RETURNS

For the fiscal year, the retirement annuity trust fund's portfolio generated a total return of 18.1%, exceeding the policy benchmark return of 17.6%. Domestic equities returned 26.3% versus 24.7% for the Standard & Poor's 1500 Index, while international equities returned 22.9% versus 22.3% for the MSCI All Country World (Ex-US) Index. Fixed income investments outperformed, returning 4.8% versus 4.3% for the Barclays Government/Credit Index. Less traditional asset classes such as real estate, private equity, timberland, and alternative credit are beginning to contribute meaningfully to total return as those programs are expanded.

The table below details historical performance for the retirement annuity trust fund and its component asset classes for the period ended June 30, 2014. The retirement annuity trust fund's returns were generated by the Segal Rogers Casey performance reporting system using a time-weighted rate of return calculation based upon the modified Dietz methodology.

Portfolio Returns continued ...

	1 Yr(2)	3 Yr(2)	5 Yr(2)	10 Yr(2)	20 Yr(2)
Total Fund					
KTRS	18.1	11.3	13.7	7.2	8.2
Policy Index (1)	17.6	11.0	13.3	-	-
Equities					
Domestic Equities	26.3	16.8	19.4	8.3	10.2
S & P Blended Index (3)	24.7	16.5	19.2	8.0	9.9
International Equities (4)	22.9	7.4	12.9	-	-
MSCI AC World (Ex US)	22.3	6.2	11.6	-	-
Total Equities	25.2	14.3	17.7	7.7	9.9
Fixed Income					
Total Fixed Income	4.8	5.0	6.3	5.8	6.6
Barclays Govt/Credit Index	4.3	4.1	5.1	4.9	6.2
Real Estate					
Non-Core Real Estate	21.6	18.3	-	-	-
NCREIF Index	11.2	11.3	-	-	-
Core Real Estate	13.8	12.7	7.5	-	-
NCREIF ODCE	12.8	12.5	10.0	-	-
Triple Net Lease Real Estate	6.6	7.7	7.8	8.6	9.0
CPI plus 2%	4.1	3.9	4.1	4.4	4.4
Alternative Investments					
Private Equity (5)	18.6	12.2	15.5	-	-
Timberland	-1.0	3.2	2.3	-	-
NCREIF Timberland Index	9.9	6.7	3.3	-	-
Cash					
Cash (Unallocated)	0.1	0.1	0.1	2.0	3.2
90 Day Treasury Bill	0.0	0.1	0.1	1.6	2.8
Additional Categories					
High Yield					
High Yield Bond Fund	11.0	9.1	-	-	-
B of A Merrill Lynch High Yield Master II	11.8	9.3	-	-	-
Alternative Credit					
KTRS Credit Fund	14.1	-	-	-	-
Special Situations Fund	15.1	5.8		-	-
Oaktree Opportunities Fund	11.2	-	-	-	-
AG Select Partners Adv Fund	-	-	-	-	-
B of A Merrill Lynch High Yield Master II	11.8	9.3		-	-
Shenkman Capital Mgmt	6.6	-	-	-	-
Highbridge Pr Str III	8.6	-	-	-	-
Golub Pearls 11	-	-	-	-	-
Oaktree Eur Dislocation Fund	-	-	-	-	-
Marathon Eur Cr Opp Fund	-	-	-	-	-
S & P LSTA Leverage Loan Index	5.6	-	-	-	-
Non-US Dollar Fixed Income					
Rogge Global Intl Fixed Income	10.0	-	-	-	-
Barclays Global Aggregate ex USD 25% EUR 25% JPY Index	9.5	-	-	-	-

(1) Prior to July 1, 2008, KTRS did not benchmark overall fund performance. Effective July 1, 2008, the Board of Trustees approved a Policy Index which represents the returns of appropriate benchmarks for the various asset classes weighted by the mid-point of the strategic range for the current fiscal year.

(2) Annualized

(3) Total Domestic Equity is benchmarked to a S & P Blended Index. Total domestic equity was benchmarked to the S & P 500 through the fiscal year ending 6/30/2007. As of 7/1/2007, domestic equity is benchmarked to the S & P 1500 Index since the System's domestic stock mix is most comparable to this index.

(4) As of 06/30/14 18.2% of Total International Equities were invested in emerging markets.

(5) For a period of five years private equity investments will be benchmarked against their own returns. The primary reason for this is that these investments have a minimum investment horizon of ten years and there is no market benchmark that would be expected to track these types of assets in their early years. Beginning five years after the first capital call, investments in this class shall be benchmarked versus theS & P 500 plus 3%, which is the System's long-term expected return for this asset class.

SCHEDULE OF INVESTMENT RETURNS - RETIREMENT ANNUITY TRUST

2014	Annual Rate of Return Net of Investment Expense	17.95%

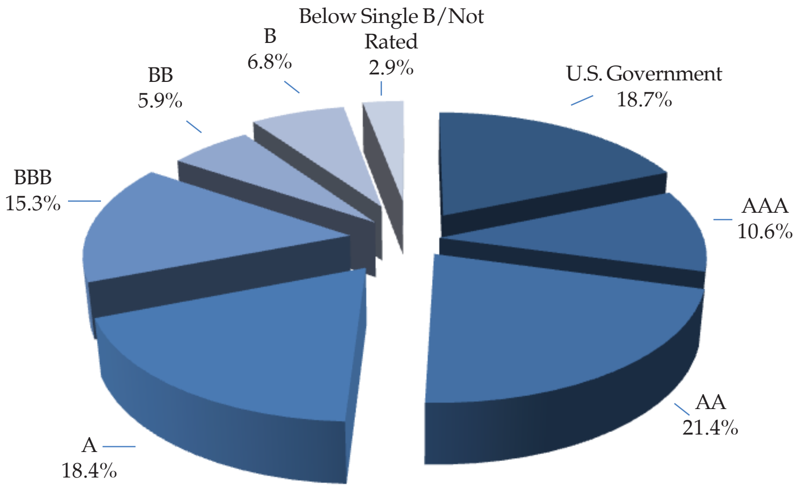
FIXED INCOME INVESTMENTS

As of June 30, 2014, the retirement annuity trust fund had approximately $3.59 billion, 19.9% of total assets, in the fixed income category of investments. The retirement annuity trust fund's fixed income investments maintained the average investment grade rating required by administrative regulation as of June 30, 2014.

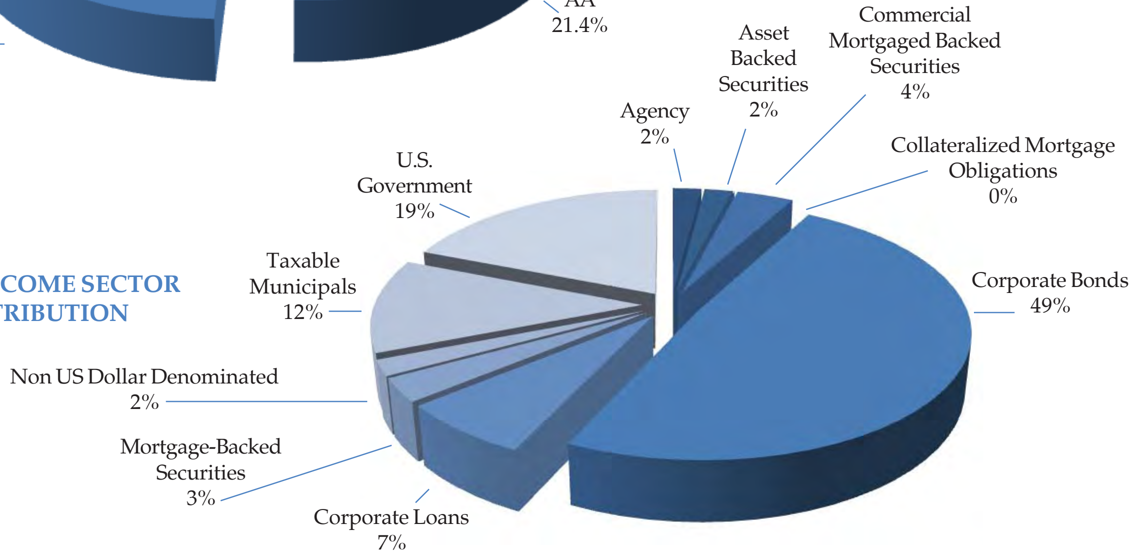
In addition, the retirement annuity trust fund had $1.25 billion, 6.9% of total assets, in other debt related investments under a regulatory provision which allows for up to 15% of assets in "additional categories of investments" approved by the Board of Trustees. Investments under this authorization included a high yield bond portfolio, an international fixed income portfolio, and a syndicated bank loan portfolio. Also under this provision are several alternative credit portfolios including a multi - strategy opportunistic credit portfolio as well as distressed debt and specialty lending funds.

The credit quality distribution for the retirement annuity trust fund is illustrated below. This chart includes the fixed income category of investments as well as the high yield bond, international fixed income, and the syndicated bank loan portfolios included in "additional categories of investments". Also illustrated below is the distribution of fixed income assets by sector, again including the high yield bond, international fixed income, and the syndicated bank loan portfolios held under "additional categories of investments".

FIXED INCOME QUALITY DISTRIBUTION



FIXED INCOME SECTOR DISTRIBUTION



FIXED INCOME MARKET OVERVIEW

The retirement annuity trust fund's investment grade fixed income portfolios returned 4.8% for the fiscal year ending June 2014. This compares favorably to the trust fund's fixed income benchmark, the Barclays U.S. Government / Credit Index, which returned 4.3%. The outperformance was driven by the system's overweighting in corporate bonds which outperformed government bonds by a substantial margin.

Yields on benchmark U.S Treasuries ended fiscal year 2014 largely unchanged from the close of the previous year. It was hardly uneventful in the rates markets, however, as rates were pushed higher throughout the first half of the year and then drifted back down during the second half. As was the case in fiscal 2013, market participants were focused mainly on the development of the Federal Reserve's monetary policy, but additional factors seemed to have a significant influence on the level of interest rates as the year progressed.

Shortly before the beginning of fiscal year 2014, in May 2013, the Federal Reserve surprised the markets by suggesting that it may start to "taper" its program of purchasing U.S. Treasuries and mortgage backed securities earlier than market participants were expecting. The market adjusted to this new guidance by pushing interest rates sharply higher, causing a substantial selloff in U.S. Treasuries and, to a lesser extent, investment grade fixed income in general as the fiscal year began.

The move higher in interest rates was exacerbated by stronger than expected GDP reports in the first two quarters of the fiscal year. The economy grew by 4.5% in the quarter ended September 2013 and 3.5% in the quarter ended December 2013. These were the second and fifth strongest quarters of GDP growth since June 2006. The robust growth was driven by a significant increase in personal consumption as healthcare and medical procedure expenditures were pulled forward ahead of the rollout of the Affordable Care Act. The yield on 10 year U.S. Treasuries rose from 2.13% at the start of the fiscal year to 3.03% on December 31, 2013, just six months later.

The quick and substantial rise in longer term interest rates, along with unusually cold winter weather, curtailed growth in the quarter ending March 2014. GDP fell 2.1% from the previous quarter, the worst performance since the financial crisis in early 2009. The effects of tighter monetary policy and higher interest rates were especially felt in interest sensitive areas of the economy such as housing. Year over year home price appreciation slowed from 13.3% in June 2013 to 3.7% by the end of fiscal year 2014. The volume of mortgage loan applications for home purchases fell 29% from its peak when rates had bottomed in April 2013. U.S. Treasury rates responded to the slower growth by reversing course, with short rates falling modestly and longer term rates falling sharply.

Despite the slow quarter, the Federal Reserve continued with its pace of tapering asset purchases, a process it started in December 2013 and is expected to complete in October 2014. The decision was well received by market participants, and proved to be the correct course of action. GDP rebounded in the fourth quarter of the fiscal year growing 4.2% on the back of a significant inventory build and catch up from economic activity that was delayed due to the previous quarter's poor weather.

Despite the bounce back in GDP growth, long term interest rates continued their decline while short term rates remained relatively stable causing the term structure to flatten. Market participants' anticipation of the Federal Reserve raising the Federal Funds rate supported shorter term rates while tighter monetary policy lessened the threat of future inflation and caused long term rates to fall. The spread between 30 year U.S. Treasuries and 2 year U.S. Treasuries narrowed to 290 basis points at fiscal year end from 359 basis points at the end of December 2013. By fiscal year end, U.S. Treasury rates had fallen to levels close to where they were at the beginning of the fiscal year. Shorter term rates finished slightly higher and long term rates slightly lower than when the year began in June 2013. Meanwhile, the strength of the economy over the course of the fiscal year proved to be a good environment for corporate bonds. The yield on the Barclay's Investment Grade Long Corporate Index fell from 5.19% to 4.57% as risk premiums shrank consistently throughout the fiscal year.

With U.S. Treasury rates and risk premiums on corporate bonds both near the low end of their historical range, investment grade fixed income is an asset class with moderately unfavorable risk / reward characteristics and below average upside potential. The retirement system continues to adjust the structure of its fixed income portfolio to control risk and maintain required liquidity. Specifically, the retirement system continues to increase exposure to nontraditional debt-related investments, reduce exposure to investment grade fixed income, and limit interest rate risk.

EQUITY INVESTMENTS

As of June 30, 2014 the retirement annuity trust fund's public equity investments had a fair value of $11.39 billion, representing 63.2% of total assets. Strong equity returns over the fiscal year prompted several rebalancing sales to reduce equity exposure back to target levels and to raise cash to fund pension benefits. The retirement annuity trust fund divides its public equity into two broad categories: domestic and international.

The domestic portfolio had a fair value of $7.98 billion as of June 30, representing 44.3% of total assets. This is a $470 million increase over last year despite rebalancing sales. The benchmark for the domestic portfolio is the S&P 1500. The S&P 1500 is made up of three well known component indices based upon market capitalization: the S&P 500 large cap, S&P 400 mid cap, and the S&P 600 small cap. The retirement annuity trust fund's domestic equity holdings are comprised of eleven portfolios. Three of the portfolios are internal passively managed index portfolios benchmarked to the S&P 500, 400, and 600. The other eight portfolios are managed externally by four different asset managers, with each portfolio representing a specific strategy and measured against an appropriate benchmark. The collective array of portfolios provides diversification by capitalization, manager, style, and strategy.

The fair value of the international equity holdings as of June 30, 2014 was $3.41 billion, representing 18.9% of total assets, up from 16.7% a year earlier. The benchmark for international equities is the Morgan Stanley Capital International All Country World Index ex US (MSCI ACWI ex US), which represents the markets of 22 developed countries and 23 emerging market countries. Five external asset managers manage the retirement annuity trust fund's international equities, one of which is a passively managed international index fund. The retirement annuity trust fund plans to continue increasing the international equity exposure during the coming fiscal year.

EQUITY MARKET OVERVIEW

Stocks rallied steadily throughout fiscal year 2014. The upward trend was fairly consistent starting in October after a moderate first quarter. This strong, steady rise saw few hiccups, with the most pronounced setback coming in late January to early February 2014. Returns of domestic stocks as measured by the S&P 1500 and Russell 2000 were 24.7% and 23.6%, respectively. Within the S&P 1500, small (S&P 600) and mid-cap (S&P 400) stocks were up 25.5% and 25.2%, while the large-cap S&P 500 was up 24.6%. Non-U.S. stocks also performed very well on the year, but with higher volatilities. The Morgan Stanley Capital International (MSCI) All Country World (ex-U.S.) Index returned 22.3%. The MSCI Emerging Markets Index was up 14.7%, showing strong returns across international markets.

The domestic markets were propelled by rising housing prices and stronger consumer confidence in the first half of the fiscal year. Despite rumors to the contrary, in September the FOMC announced it would not reduce the pace of its monthly bond buybacks, better known as quantitative easing. This kept key interest rates low and markets rallied. Political infighting, however, kept stock prices in check in the first half of the year, primarily in September and October. There was political stalemate over a Federal Funding Bill, primarily over the funding allocation to be given to the Affordable Care Act. Without a bi-partisan resolution, this may have caused a government shutdown of most federal programs, resulting in thousands of people being furloughed from their jobs nationwide. Additionally, there were heated debates over the soaring national debt. A decision had to be made to raise the federal debt limit. Without a higher debt ceiling, the federal government would have had to default on select payment obligations, possibly sending the markets into a tailspin. While the looming government shutdown and possible defaults accounted for a pullback in the market, this pullback was relatively short lived as politicians ultimately reached an agreement on the budget issues. The markets rallied strong to finish out the first half of the fiscal year with the S&P 500 posting a gain of 16.3% for the first two quarters.

The second half of the fiscal year continued an upward trend domestically, as stocks rallied on better employment data and continued signs of strength in the manufacturing sector. Consumer confidence was also at favorable levels. Manufacturing was primarily led by a jump in the housing market. Rising employment numbers coupled with low borrowing costs were the main drivers of the housing market. Stocks did see a significant pullback at the end of January which was primarily attributed to the brutal winter. The cold winter coupled with higher than average snowfall took a bite out of retail sales and consequently lowered manufacturing numbers. This proved to be a minor bump in the road however, as consumer confidence remained undeterred and continued to rise. As a result, the equity markets rallied steadily in the second half, finishing the fiscal year at all-time highs. Another attribute of the strong equity market was the historically low volatility the markets experienced.

Internationally, there was a similar story as the European Central Bank (ECB) and the Bank of Japan (BOJ) continued quantitative easing programs. The MSCI EAFE and ACWI ex US posted similar returns to the US markets in the first half of the fiscal year. European markets stabilized with the ECB's bond purchase program and the UK saw strong rises in their housing market. Asia continued to experience a favorable reaction to QE. Japan started slower than the rest of Asia, but rallied strong due to concerted efforts to devalue the Yen and boost its export economy. As a result, their manufacturing numbers saw heavy gains bolstering the economy as a whole.

In the second half of the fiscal year emerging markets rallied as China announced the issuance of several new IPOs. This showed confidence in their stabilizing economy. Europe and Japan also continued to post gains on the heels of their respective low interest rate environments and their improving housing and manufacturing markets.

In summary, we experienced a very strong equity market for the fiscal year. Small and mid-cap domestics were technically the drivers, but domestic and international large caps also enjoyed double digit gains on the year. Having been buoyed by monetary stimulus over the past couple of years, markets are wary going forward of any potential reduction or elimination of that stimulus. This, coupled with rising valuations in the market and growing geopolitical tension, may give some investors pause for the coming year. On the other hand, FOMC Chair Janet Yellen has already announced continued use of accommodative monetary policy that will keep rates low in the near future and consumer confidence seems undeterred by most external factors.

REAL ESTATE

The retirement annuity trust fund's real estate investments had a fair value of $733.0 million as of June 30, 2014, representing 4.1% of total assets. The retirement annuity trust fund's investments in real estate are intended to provide attractive long-term returns, generate reliable cash flow, and provide diversification, thereby reducing the volatility of the overall investment portfolio.

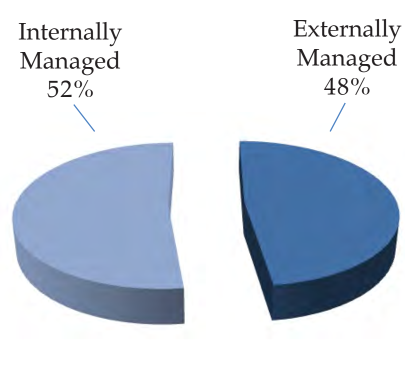
The retirement annuity trust fund's real estate exposure is currently provided through seven portfolios. The retirement annuity trust fund maintains an internally managed portfolio of directly owned properties under long-term lease agreements with high credit quality tenants. The retirement annuity trust fund is also invested in a commingled real estate fund (PRISA Fund), which is managed by Prudential Real Estate Investors. This fund is a core real estate equity fund which invests primarily in existing income-producing properties with strong cash flows and the potential for capital appreciation. The fund is diversified across several property types including office, retail, industrial, apartment, self-storage and hotel.

Additionally, the retirement annuity trust fund is invested in five real estate limited partnerships: Carlyle Realty Partners VI, Blackstone Real Estate Partners VII, Rockwood Capital Real Estate Fund IX, TA Realty Associates Fund X, and AG Net Lease Realty Fund III. Going forward, investment staff will continue to opportunistically add to the annuity trust fund's real estate investments.

REAL ESTATE OVERVIEW

Demand for commercial real estate remained strong during the fiscal year as investors sought both higher yields than those offered by other asset classes and the potential upside created by improving supply/demand factors. Property rents are expected to grow from 2.0% to 3.5% during the year due to improving fundamentals which include: a strengthening economy, falling vacancies, low financing rates, and moderate levels of new construction activity. Due to the run-up in prices of prime properties located in gateway markets, many investors are now focusing on non-core assets located in secondary markets.

Real Estate Investments
$733.0 Million Fair Value
As of June 30, 2014



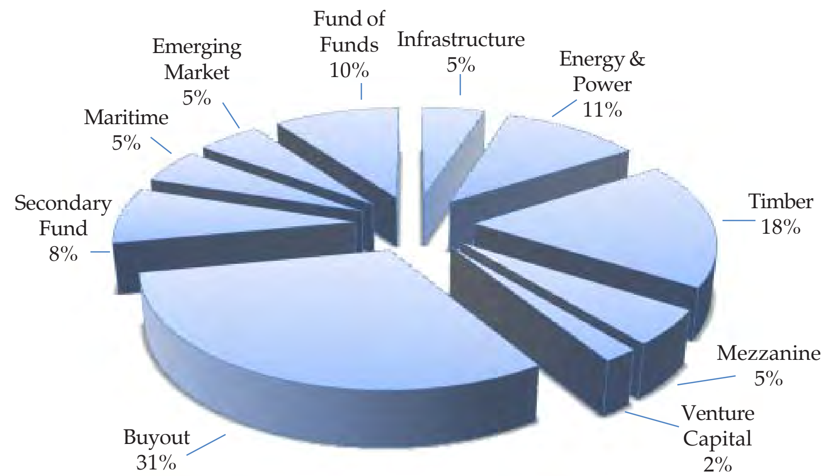
One factor that has energized the real estate markets is the increase in lending activity. Commercial and multi-family loan originations are at their highest levels in six years. According to the Mortgage Bankers Association, an estimated $280 billion in new loans was originated in 2013, up from $244 billion the previous year. In conjunction with this increase in lending, a tremendous volume of existing commercial and multi-family mortgage loans will be rolling off the books in coming years, with approximately $330 billion maturing in 2014 and another $981 billion expected to mature between 2015 and 2017. As borrowers look to recapitalize this maturing debt, both equity and mezzanine debt investors will have ample opportunities to provide financing at attractive levels.

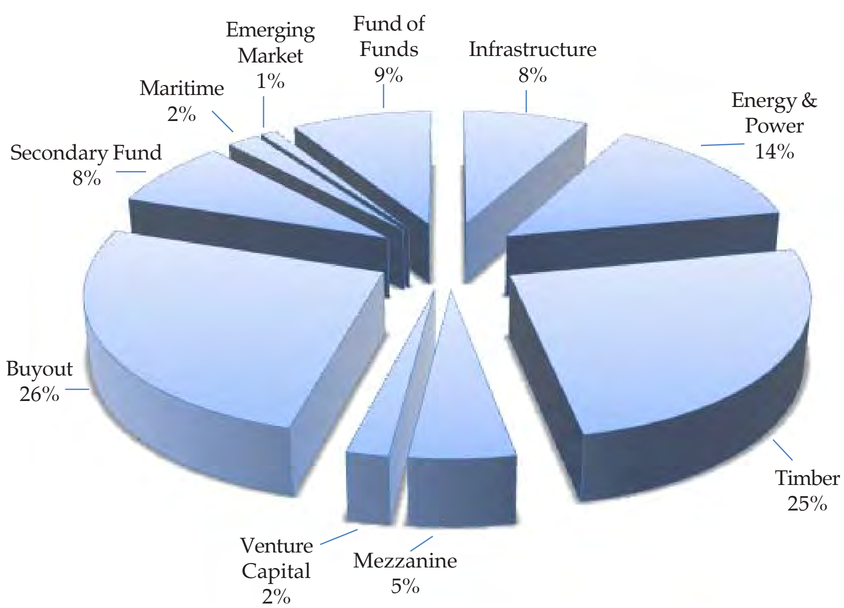
Investor demand for real estate investments should remain strong over the next year due to the sector's solid income yields and improving fundamentals. Interest rates are expected to remain low over the upcoming year while demand for property space continues to grow, providing a favorable environment for lower vacancy rates, higher rents, and competitive returns.

ALTERNATIVE ASSETS

As of June 30, 2014, the retirement annuity trust fund had committed $1.095 billion to alternative investments and had funded $679 million of those commitments. The percentage of the retirement annuity trust fund's portfolio in alternative assets was 3.6%. The retirement annuity trust fund's current alternative asset portfolio consists of private equity investments and timberland.

Alternative Assets Committed $1.095 Billion as of June 30, 2014





Alternative Assets Funded $679 Million as of June 30, 2014

PRIVATE EQUITY

The retirement annuity trust fund has exposure to venture, buyout, infrastructure, energy, mezzanine and several other private equity sectors via participation in limited partnerships as well as investments in funds of funds. The retirement annuity trust fund is in the early stages of its private equity investment program, which it intends to grow with a disciplined plan of commitments over the next several years. The retirement annuity trust fund looks to diversify its private equity portfolio by firm, country, strategy, and vintage year. Vintage year diversification is achieved by building out the portfolio with disciplined levels of commitments over time. A commitment to any given partnership shall not exceed 20% of the partnership's total commitments.

The Board and staff understand that private equity (along with many other forms of alternative assets) are illiquid and have a long-term holding period. When added to a portfolio with other publicly traded assets, this asset class can help to diversify and reduce risk for the retirement annuity trust fund's overall portfolio while enhancing returns. Private equity returns for the first several years of a partnership's life are routinely negative due to the J-curve effect. Positive returns are typically realized only several years into a partnership's existence, during the harvesting period.

PRIVATE EQUITY MARKET OVERVIEW

The private equity markets continue to be positively affected by the strong public equity markets. Strength in the public equity markets enabled older vintage funds to shed many of their portfolio companies either through a sale or an IPO. This return of capital has encouraged investors, especially on the institutional side to continue to increase their allocation to alternative investments, including private equity. However, fundraising continues to remain challenging for all but the top tier funds.

The bifurcation in the private equity market continues with the top tier funds raising capital much easier than less desirable funds. This should, over the long term, provide a shakeup in this space as the weaker firms are forced to exit. The past fiscal year has also seen a large amount of buyout funds returning to the marketplace with mixed results. We continue to see more opportunity in the middle market space and in other niche areas such as energy, infrastructure, distressed credit, and emerging markets. Additionally, the stress in the European markets should continue to present investment opportunities in the private equity space over the next fiscal year.

TIMBERLAND

In addition to private equity, the retirement annuity trust fund has invested in timberland in the alternative asset class. As of June 30, 2014 the retirement annuity trust fund owns approximately 73,000 acres of timberland outright, has a 7.15% interest in a commingled fund that holds approximately 98,000 acres of timberland and is a member of a joint venture that purchased an interest in approximately 124,000 acres of timberland located across seven southern states. Timberland is, by nature, a long term investment as our anticipated time horizon in this asset category is generally a minimum of ten to fifteen years. Timberland provides valuable diversification, current income, and a hedge against inflation. Due to the low correlation of returns with other asset classes, timberland investments should lower the overall volatility of the retirement annuity trust fund's portfolio. Timberland should earn real returns comparable to traditional equity investments with volatility between equities and fixed income over the long-term.

The retirement annuity trust fund diversifies its timberland investments by geography, species of trees, and maturity of timber stands. Investment returns from timberland are primarily driven from net cash flow generated from the sale of trees (referred to as stumpage sales) and capital appreciation from the biological growth of the trees. Both of these return factors depend to some degree upon the direction of forest commodity prices (paper goods and lumber products). There can also be gains from the timely sale of timberland from the conversion of timberland into higher and better uses, such as vacation property sales.

TIMBERLAND MARKET OVERVIEW

An increase in construction activity during the year provided support to lumber prices as the U.S. housing market continues to steadily rebound. Demand from China softened somewhat over the past year as their economic growth has slowed. However, demand for hardwood has remained strong and as a result, hardwood pulpwood and hardwood sawtimber prices have moved to levels well above their long-term trend lines. Transaction activity in the

North America timberlands space is picking up momentum, which is a positive sign for a sustained recovery in timberland prices.

The forest products industry is seeking to increase its use of existing assets and add capacity in order to meet current and expected product demand, a welcome development for timberland owners and further evidence that markets for timber products are improving. In the U.S. South, prices for all products continued to strengthen, although some species at a slower pace than others. Despite the usual pricing volatility associated with late spring and early summer, market fundamentals have continued to be strong.

RETIREMENT ANNUITY TRUST
PORTFOLIOS
FAIR VALUES *
June 30, 2014

Internally Managed

Cash Equivalents		
Cash Collections Fund (Unallocated)	$	420,338,047
Fixed Income		
Intermediate Bond Fund		903,853,177
Broad Market Bond Fund		656,009,896
Long Term Bond Fund		530,521,107
Internal Bond Fund		367,876,859
Life Insurance Trust		89,250,576
Tax Shelter Fund		377,267
Equity		
S & P 500 Stock Index Fund (Large Cap)		2,674,052,873
S & P 400 Stock Index Fund (Mid Cap)		369,830,139
S & P 600 Stock Index Fund (Small Cap)		259,503,908
Converted Equity Holdings		4,303,142
Real Estate		
Internally Managed Fund		382,542,197
Subtotal		6,658,459,188

Externally Managed

Fixed Income		
Galliard Capital Management		535,942,448
Ft. Washington Broad Market		511,134,634
Domestic Equity		
Todd Asset Management (Large Cap Core)		1,321,587,395
UBS (Large Cap Value)		1,053,855,212
GE Asset Management (Large Cap Growth)		711,928,370
Wellington (Large Cap Core)		616,936,214
Wellington (Mid Cap Core)		315,532,711
Todd Asset Management Opportunity Fund		306,837,942
UBS (130/30)		177,464,526
Wellington (Small Cap Core)		170,688,341
International Equity		
Baillie Gifford EAFE Alpha		858,783,524
Todd Asset Management International		834,105,006
UBS All Country World ex US		610,033,944
Baring All Country World ex US		527,320,034
BlackRock All Country World ex US IMI		493,949,410
Todd Asset Management International Intrinsic Value		87,230,251
Real Estate		
Prudential PRISA Fund		223,183,257
Blackstone Partners VII, LP		41,935,778
The Realty Associates Fund X		33,550,648
Carlyle Realty Partners VI		31,821,452
Rockwood Capital Real Estate Fund IX		18,109,844
AG Net Lease Realty Fund III, LP		1,902,669

Externally Managed continued ...

Alternative Investments		
Molpus Woodlands Group Lake Superior Timberlands LLC		101,664,498
KKR & Co European Fund III		70,201,067
Molpus Seven States LLC		57,028,605
Alinda Infrastructure Fund II		44,390,951
Riverstone/Carlyle E & P Fund IV		33,217,261
Ft. Washington Fund VI		33,180,145
Hellman & Friedman Fund VII		32,670,143
NGP Natural Resources X, LP		32,183,738
Hancock Bluegrass LLC - Oregon		27,788,593
Lexington Capital Partners Fund VII		19,989,023
Landmark Equity Partners Fund XIV, LP		19,305,809
KKR & Co Fund 2006		19,175,706
Chrysalis Venture Fund III		18,944,406
J. P. Morgan Maritime Fund		17,917,553
Riverstone E & P Fund V		15,161,443
Ft. Washington Fund V		14,621,971
Oaktree European Principal Fund III		14,226,029
Stepstone Pioneer Capital Fund III, LP		13,556,822
Oaktree Mezzanine Fund III		11,971,475
Audax Mezzanine Fund III		11,433,600
Actis Global Fund IV		10,967,792
APAX VIII, LP		7,929,973
Audax Private Equity Fund IV, LP		7,030,126
Landmark Equity Partners Fund XV, LP		4,505,775
Carlyle Global Financial Services Partners II		3,690,622
Ft. Washington Fund VIII		581,426
CapitalSouth Partners Fund III		555,737
Additional Categories		
Fort Washington High Yield Bond Fund		320,156,739
Marathon KTRS/Credit Fund LP		277,608,701
Shenkman Capital Management		263,576,820
Avenue Special Situations Fund VI		111,561,330
Rogge Global International Fixed Income		100,725,256
Golub Capital Pearls 11, LLC		63,159,049
Marathon European Credit Opp Fund II		33,731,503
Oaktree Opportunities IX, LP		33,508,417
Highbridge Principal Strategies III		31,722,781
AG Select Partners Advantage Fund		8,246,270
Oaktree European Dislocation Fund, LP		4,621,038
AG GECC PPIF, LP		33,158
Subtotal	**$**	**11,376,374,961**
TOTAL ASSETS	**$**	**18,034,834,149**

* *Detailed information concerning the market values of all KTRS investments is available upon request.*

Investment Summary
Fair Value – Retirement Annuity Trust*
June 30, 2014

Type of Investment	Fair Value 07/01/13	Acquisitions	Appreciation (Depreciation)	Sales Redemptions, Maturities & Paydowns	Fair Value 06/30/14
Cash Equivalents	$ 800,978,300	$ 4,457,688,600	$ -	$ 4,429,302,100	$ 829,364,800
Fixed Income	3,179,986,300	2,917,329,700	38,124,700	2,806,306,800	3,329,133,900
Real Estate	642,611,200	88,488,500	23,972,100	22,026,000	733,045,800
Alternative	540,739,200	175,148,100	41,996,200	113,993,200	643,890,300
Equities	10,102,552,800	2,805,808,600	2,254,541,600	3,896,714,200	11,266,188,800
Additional Categories	882,969,700	692,687,400	65,369,500	407,816,100	1,233,210,500
TOTAL	**$ 16,149,837,500**	**$ 11,137,150,900**	**$ 2,424,004,100**	**$ 11,676,158,400**	**$ 18,034,834,100**

* *Includes Life Insurance Trust values of $89,250,576, Tax Shelter Annuity value of $377,267, and 401(h) value of $41,237,374.*

Contracted Investment Management Expenses
Fiscal Year 2013-14
(in thousands)

Investment Counselor Fees	Assets Under Management	Expense	Basis Points [1]
Equity Manager(s)	$ 8,086,253	$ 13,713	
Fixed Income Manager(s)	1,047,077	442	
Real Estate	350,504	4,198	
Additional Categories	1,248,651	5,980	
Alternative Investments [2]	643,890	9,290	
TOTAL	$ 11,376,375	$ 33,623	29.6
Other Investment Services			
Custodian Fees [3]	$ 18,035,374	$ 354	0.2
Consultant Fees		446	0.3
Legal & Research		90	0.0
Other Administrative and Operational		2,664	1.5
TOTAL	**$ 18,035,374**	**$ 3,554**	**2.0**
GRAND TOTAL		**$ 37,177**	**20.6**

(1) – One basis point is one hundredth of one percent or the equivalent of .0001.
(2) – Private equity fees are either withheld from the Fund operations or paid by direct disbursement, depending on contract terms.
(3) – Includes J. Losey Scholarship Fund.

Schedule of Contracted and Administrative Investment Expenses
Retirement Annuity Trust
June 30, 2014

INVESTMENT COUNSELOR FEES

EQUITY MANAGERS		
Baillie Gifford	$	2,946,160
Baring Asset Management, Inc.		2,408,105
GE Asset Management		800,000
Todd-Veredus Asset Management LLC		1,358,058
UBS Global Asset Management		2,914,577
Wellington Management Company		3,063,448
BlackRock		222,724
Total Equity Managers	**$**	**13,713,072**
FIXED INCOME MANAGERS		
Fort Washington Investment Broad Market		175,713
Galliard Capital Mangement		266,027
Total Fixed Income Managers	**$**	**441,740**
REAL ESTATE		
Prudential PRISA		1,551,710
Angelo Gordon Net Lease Fund III		129,986
Blackstone Partners Fund VII, L.P.		745,513
Carlyle Realty Partners Fund VI, L.P.		746,918
Carlyle Realty Partners Fund VII, L.P.		57,534
Rockwood Capital Real Estate Fund IX, L.P.		583,788
TA Realty Associates Fund X, L.P.		382,657
Total Real Estate Managers	**$**	**4,198,106**
ADDITIONAL CATEGORIES		
Angelo Gordon Select Partners Advantage Fund		26,584
Avenue Capital Special Situations Fund VI, L.P.		854,665
Fort Washington Investments High Yield		626,443
Golub Capital - Pearls 11, LLC		193,866
Highbridge Principle Strategies Fund III, L.P.		278,595
Marathon Credit Fund		2,153,091
Marathon European Credit Fund II		136,651
Marathon Legacy Securities PPIP		2,785
Oaktree European Dislocation Fund, L.P.		58,567
Oaktree Opportunities Fund IX, L.P.		471,420
Rogge Global International Fund		240,384
Shenkman Capital		936,777
Total Additional Category Managers	**$**	**5,979,828**
ALTERNATIVE INVESTMENTS		
Actis Global Fund IV, L.P.		499,000
Alinda Core Fund III, L.P.		185,366
Alinda Infrastructure Fund II, L.P.		367,370
APAX Fund VIII, L.P.		415,747
Audax Mezzanine Fund III, L.P.		284,571
Audax Private Equity Fund IV, L.P.		105,675
Capital South Fund III, L.P.		-
Carlyle Global Finacial Services Fund II, L.P.		672,399
Chrysalis Fund III, L.P.		427,342
Fort Washington Fund V, L.P.		98,964
Fort Washington Fund VI, L.P.		247,000
Fort Washington Fund VIII, L.P.		48,113
Hancock Bluegrass LLC Oregon		222,822
Hellman and Friedman Fund VII, L.P.		548,105
JP Morgan Maritime Fund , L.P.		524,742
KKR Fund 2006, L.P.		78,455
KKR European Fund III, L.P.		497,544
Landmark Equity Partners Fund XIV, L.P.		375,000
ALTERNATIVE INVESTMENTS continued ...		
Landmark Equity Partners Fund XV, L.P.		424,315
Lexington Capital Partners Fund VII, L.P.		239,298
Molpus Lake Superior Michigan		766,830
Molpus Lake Superior Hiwassee		65,875
Molpus Seven States		546,311
NGP Natural Resources Fund X, L.P.		319,266
Oaktree European Principal Fund III, L.P.		375,858
Oaktree Mezzanine Fund III, L.P.		375,000
Stepstone Partners Fund III, L.P.		195,217
Riverstone/Carlyle Energy and Power Fund IV, L.P.		164,423
Riverstone Energy and Power Fund V, L.P.		219,825
Total Alternative Managers	**$**	**9,290,433**

ADMINISTRATIVE AND OPERATIONAL EXPENSES

CUSTODIAN		
The Bank of New York Mellon		353,749
Total Custodian Fees	**$**	**353,749**
CONSULTANT		
Hewitt EnnisKnupp + Associates		358,850
Bevis Longstreth		54,553
George Philip		33,056
Total Consultant Fees	**$**	**446,459**
LEGAL & RESEARCH		
Reinhart Boerner Van Deuren		2,237
Wolters Kluwer		8,254
Ice Miller		79,848
Total Legal & Research	**$**	**90,339**
OTHER		
Other Administrative and Operational (includes Personnel, Subscription services, etc…)		2,664,024
Total Other Administrative and Operational	**$**	**2,664,024**
TOTAL INVESTMENT EXPENSES	**$**	**37,177,750**

Ten Largest Stock Holdings Ranked [1] [2]
by Fair Value
June 30, 2014

Rank	Description	Fair Value	Percentage of Equities
1	Apple Inc	211,831,798	2.460
2	JP Morgan Chase	101,866,859	1.183
3	Wells Fargo & Co	94,439,125	1.096
4	Exxon Mobil Corp	89,301,247	1.037
5	Qualcomm Inc	87,166,411	1.012
6	Gilead Sciences	86,274,654	1.002
7	Chevron Corp	79,825,189	0.927
8	Citigroup Inc	78,453,622	0.911
9	Schlumberger Ltd	73,009,281	0.848
10	Pepsico Inc	72,335,828	0.840

Top Ten Fixed Income Holdings [2]
by Fair Value
June 30, 2014

Rank	Description	Maturity	Coupon	Par Value	Fair Value	Percent of Fixed Income
1	U S Treasury	10/15/2016	0.630	75,000,000	75,076,500	2.255
2	U S Treasury TIPS	4/15/2016	0.130	55,825,000	61,532,188	1.848
3	U S Treasury	9/30/2017	0.630	55,375,000	54,687,243	1.643
4	U S Treasury	4/30/2018	0.630	50,290,000	49,103,659	1.475
5	U S Treasury Bonds	8/15/2023	6.250	31,900,000	42,078,014	1.264
6	U S Treasury	11/30/2015	0.250	30,980,000	30,993,321	0.931
7	U S Treasury Bonds	8/15/2029	6.130	22,000,000	30,707,160	0.922
8	U S Treasury	5/31/2015	0.250	30,000,000	30,037,500	0.902
9	U S Treasury	6/30/2020	1.880	26,000,000	25,975,560	0.780
10	U S Treasury	3/31/2017	1.000	23,180,000	23,317,689	0.700

(1) Includes only actively managed separate accounts.
(2) Detailed information concerning these values along with book values and cost of all KTRS investments is available upon request.

Transaction Commissions Fiscal Year 2013-2014

COMPANIES	SHARES TRADED	COMMISSIONS	COMMISSION PER SHARE	% OF TOTAL
Academy Securities, Inc.	27,649	$ 967.73	$ 0.035	0.04 %
Allen & Co	700	382.20	0.546	0.02
B. Riley & Co. LLC	18,614	651.49	0.035	0.03
Barclays	779,804	34,366.53	0.044	1.44
Barclays Capital, London	14,789	318.31	0.022	0.01
Bay Crest Partners, LLC	400	14.00	0.035	0.00
BB & T Capital Markets	6,100	213.50	0.035	0.01
Blair, William & Co	126,546	4,643.80	0.037	0.19
BMO Capital Markets	94,892	4,760.05	0.050	0.20
BNP Paribas Securities Bond	15,208	537.28	0.035	0.02
BNY ConvergEX Group	1,400	49.00	0.035	0.00
Brean Murray, Carret & Co., LLC	11,525	403.38	0.035	0.02
BTIG	189,705	7,787.10	0.041	0.33
Burke & Quick Partners LLC	4,040	141.40	0.035	0.01
Cabrera Capital	2,540	88.90	0.035	0.00
Canaccord Genuity, Inc.	92,083	3,229.72	0.035	0.14
Cantor Fitzgerald & Co	46,533	1,124.34	0.024	0.05
CIBC Worldmarket	23,510	822.86	0.035	0.03
Citigroup Global	342,471	37,118.33	0.108	1.56
ConvergEx - Algos	19,501,259	97,470.30	0.005	4.09
ConvergEx - FS	1,570,165	23,689.98	0.015	0.99
ConvergEx ADR Conversions	3,310,550	118,697.31	0.036	4.98
Cowen & Co	50,487	8,955.06	0.177	0.38
Credit Agricole Securities	99,075	3,457.31	0.035	0.15
Credit Research & Trading LLC	27,911	1,197.41	0.043	0.05
Credit Suisse Sec. LLC	2,223,098	60,670.45	0.027	2.55
Cuttone & Co Inc	8,066	288.82	0.036	0.01
D A Davidson & Co	700	24.50	0.035	0.00
Deutsche Bank	463,266	36,404.24	0.079	1.53
Drexel Hamilton LLC 3	26,224	917.86	0.035	0.04
Evercore Group LLC	2,260	79.10	0.035	0.00
FBR Capital Markets	9,500	332.50	0.035	0.01
Fig Partners, LLC	81,840	2,571.30	0.031	0.11
First Kentucky Securities Corp	584,600	17,538.00	0.030	0.74
Freidman Billings	48,720	1,705.21	0.035	0.07
GFI Securities LLC	1,300	45.50	0.035	0.00
Goldman Sachs	1,744,538	69,381.60	0.040	2.91
Imperial Capital	12,700	571.50	0.045	0.02
Instinet	67,524	1,364.88	0.020	0.06
Investment Tech Grp Transition	41,174,306	401,213.95	0.010	16.83
Investment Technology Grp	16,767,580	241,556.47	0.014	10.13
ISI Group	2,271,997	63,848.84	0.028	2.68
J.J.B. Hilliard, W.L. Lyons	2,225,709	66,771.27	0.030	2.80
Janney Montgomery Scott Inc	65,820	2,305.16	0.035	0.10
Jefferies & Co.	375,291	20,919.41	0.056	0.88
JMP Securities	23,790	832.65	0.035	0.03
Jones & Associates	19,385	829.64	0.043	0.03
JP Morgan & Chase	696,953	24,805.84	0.036	1.04
Keefe Bruyette & Woods	115,710	4,953.06	0.043	0.21
Keybanc Capital	75,400	3,468.66	0.046	0.15
King, CL, & Associates, Inc.	4,650	165.75	0.036	0.01
Knight Equity Markets	29,300	1,031.76	0.035	0.04
Lazard Freres & Co.	1,768,320	53,049.60	0.030	2.23
Leerink Swann & Co.	25,885	1,521.07	0.059	0.06
Lexington Investment Co.	191,400	5,742.00	0.030	0.24
Liquidnet Inc	14,265,435	142,628.34	0.010	5.98
Liquidnet Inc - Transition	13,297,700	99,732.85	0.008	4.18

Transaction Commissions continued . . .

COMPANIES	SHARES TRADED	COMMISSIONS	COMMISSION PER SHARE	% OF TOTAL
Longbow Securities LLC	200	7.00	0.035	0.00
Loop Capital Markets, LLC	1,170	39.70	0.034	0.00
MacQuarie Securities Inc	37,744	695.86	0.018	0.03
Merrill Lynch	4,924,017	109,542.82	0.022	4.60
Merrill Lynch ADR Conversions	409,781	12,293.43	0.030	0.52
Merrill Lynch, Pierce, Fenner	37,712	15,400.42	0.408	0.65
Mischler Financial Group Inc	3,310	115.85	0.035	0.00
Mizuho Securities, USA	20,445	715.58	0.035	0.03
MKM Partners	7,450	260.75	0.035	0.01
Morgan Keegan	1,190,500	35,715.00	0.030	1.50
Morgan Stanley	414,118	19,631.61	0.047	0.82
Morgan Stanley Smith Barney-Huntington	1,224,200	36,726.00	0.030	1.54
Morgan Stanley Smith Barney-Louisville	1,661,450	49,843.50	0.030	2.09
Morgan Stanley Smith Barney-Northern KY	1,648,000	49,440.00	0.030	2.07
National Financial Services Corp	1,700	59.50	0.035	0.00
OTA Limited Partners	16,010	609.46	0.038	0.03
Pacific Crest Securities	2,060	272.10	0.132	0.01
Pershing LLC	85,390	2,988.66	0.035	0.13
Piper Jaffray	111,425	8,944.97	0.080	0.38
Pulse Trading	88,162	881.62	0.010	0.04
R W Baird	300,704	10,523.10	0.035	0.44
Raymond James & Assoc	3,106,239	94,486.05	0.030	3.96
RBC Capital Markets	201,936	7,157.44	0.035	0.30
Rosenblatt Securities LLC	400	18.00	0.045	0.00
Ross Sinclaire & Assoc	202,320	6,069.60	0.030	0.25
Sanford C Bernstein	272,223	3,405.82	0.013	0.14
Scotia Capital, USA	14,080	497.27	0.035	0.02
SG AMERICAS SECURITIES	5,300	238.50	0.045	0.01
Sidoti & Company LLC	4,050	141.75	0.035	0.01
Simmons & Co	14,150	495.25	0.035	0.02
State Street Global	24,040	1,081.80	0.045	0.05
Stephens Inc.	53,780	1,896.01	0.035	0.08
Sterne, Agee & Leach	37,160	1,369.80	0.037	0.06
Stifel, Nicolaus & Co	1,448,747	76,513.60	0.053	3.21
Stifel, Nicolaus & Co-Louisville	199,100	5,973.00	0.030	0.25
Suntrust Robinson	63,240	2,298.13	0.036	0.10
Susquehanna Brokerage	1,480	66.60	0.045	0.00
Telsey Advisory Group LLC	186,207	6,517.34	0.035	0.27
The Benchmark Company LLC	14,700	661.50	0.045	0.03
The Seaport Group	53,705	69.11	0.001	0.00
UBS/Paine Webber Securities	558,817	10,460.66	0.019	0.44
UBS/Paine Webber-Louisville	1,131,610	33,948.30	0.030	1.42
Wachovia / First Clearing Corp	3,840	134.40	0.035	0.01
Wedbush Morgan Securities	21,770	815.95	0.037	0.03
Weeden & Co	2,491,557	76,081.80	0.031	3.19
Wells Fargo Securities, LLC	222,843	16,637.71	0.075	0.70
Wunderlich Securities Inc	8,265	3,293.58	0.398	0.14
TOTAL	**147,554,030**	**$ 2,383,394.97**	**$ 0.02**	**100%**

The acquisition of initial public offerings (IPOs)represented a portion of small capitalization stock purchases. IPOs usually have a high commission rate; however, the security issuers and not the investors pay the commissions. In 2013-14, the retirement annuity trust fund bought small capitalization IPOs that generated $324,724 in commissions. Although these commissions were not paid by the retirement system, they resulted from the retirement annuity trust fund's investment activities and are included in the total commissions of $2,383,395. Typical stock transactions occur at lower commission rates than IPO transactions, frequently $.03 per share or less. Investment companies usually provide investment research for brokerage clients.

PROXY VOTING AND CORPORATE BEHAVIOR

The System regularly votes proxy statements associated with its equity ownership. The positions assumed by the System are intended to represent the financial interests of the membership. The Board of Trustees has adopted a policy that directs the staff not to subjugate the financial concerns of the System to social or political protests. At the same time, the System expects the companies in which it acquires stock to be solid corporate citizens that abide by federal, state, and local laws. The Board has adopted the following position on corporate behavior:

The Board's stated fiduciary duty is to obtain the highest return for the Fund commensurate with acceptable levels of risk. This implies that non-financial considerations cannot take precedence to pure risk/return considerations in the evaluation of investment decisions. However, action taken by the Fund as a shareowner can be instrumental in encouraging action as a responsible corporate citizen by the companies in which the Fund has invested.

The Board expects the managements of the companies whose equity securities are held in the Fund's portfolio to conduct themselves with propriety and with a view toward social considerations. A level of performance above minimum adherence to the law is generally expected. If any improper practices come into being, the Board expects corporate management to move decisively to eliminate them and effect adequate controls to prevent recurrence.

On the other hand, the Board does not intend to supplant the duties which are the responsibility of federal or state regulatory agencies, such as the Equal Employment Opportunity Commission, the Environmental Protection Agency, the Occupational Safety and Health Agency, the Nuclear Regulatory Commission, the Securities and Exchange Commission, and others which are covered by the laws of the United States Government or the State of Kentucky.

Should satisfaction of the Board's criteria by any company not be adequate, the Board will consider what action to take, which may include, but not be limited to, correspondence with the company, meetings with company officials, sponsoring of shareholder resolutions or, as a last resort, liquidation of the System's holdings in the company, if the sale is consistent with sound investment policy.

SECURITY LENDING

The System operates a security lending program in which it temporarily lends securities to qualified agents in exchange for a net fee and high quality collateral. U.S. Government and agency securities and select stocks and bonds are the types of securities loaned. The System's custodian, The Bank of New York Mellon, acts as lending agent in exchanging securities for collateral. The collateral, at the time of the loan, has a value of not less than 102% of the market value of the lent securities plus any accrued, unpaid distributions. The collateral consists of cash, marketable U.S. Government securities, and selected marketable U.S. Government agency securities approved by the System.

Cash collateral is invested in short term obligations fully guaranteed by the United States Government or select Government agencies and Government Repurchase Agreements with qualified agents. The System cannot pledge or sell collateral securities unless the borrower defaults. The lending agent also indemnifies the System from any financial loss associated with a borrower's default and collateral inadequacy. The weighted average maturity of cash collateral investments is typically two days. The System has no credit risk exposure to borrowers, since the amounts the System owes borrowers exceeds the amounts the borrowers owe the System.

Security lending programs can entail considerable interest rate risk and credit risk. The System has structured its program to minimize these two main categories of risk. The interest rate risk is managed, as mentioned above, by limiting the term of cash collateral investments to several days. The credit risk is controlled by investing cash collateral in securities with qualities similar to the creditworthiness of lent securities.

KENTUCKY INVESTMENTS

The retirement system is always cognizant of its significant role in the Commonwealth's economy. Over $1.6 billion in benefits are distributed to members and annuitants living in Kentucky annually. Approximately $300 million of the retirement annuity trust fund's investments directly impact the Commonwealth. These investments include: commercial real estate; bonds issued by public agencies of the Commonwealth and those of local municipalities; pools of single-family mortgages in Kentucky; financing for multi-family housing, and; investments in companies which have an impact on the Commonwealth's economy but receive earnings from global operations. Fiduciary duty requires that investments be made solely for the benefit of the retirement system's members and annuitants. Investments which benefit the Commonwealth's economy are made only when fully consistent with this fiduciary duty.

PROFESSIONAL SERVICE PROVIDERS

Investment Consultant
Hewitt EnnisKnupp, Inc.

Investment Custodian
The Bank of New York Mellon

Fixed Income Managers
Galliard Capital Management
Ft. Washington Investment Advisors

Domestic Equity Managers
Todd Asset Management LLC
UBS Global Asset Management
Wellington Management Company
GE Asset Management

International Equity Managers
Todd Asset Management LLC
UBS Global Asset Management
Baring Asset Management, Inc.
Baillie Gifford
BlackRock Institutional Trust Company

Real Estate Managers
Prudential Real Estate Investors
Carlyle Realty Partners
Blackstone Real Estate Partners
Rockwood Capital Real Estate
TA Associates Realty
Angelo Gordon & Co.

Alternative Investment Managers
Molpus Woodlands Group
Hancock Natural Resources Group
Kohlberg Kravis Roberts & Co.
Chrysalis Ventures
Ft. Washington Private Equity Investors
Alinda Capital Partners, LLC
Riverstone Holdings, LLC
CapitalSouth Partners
Landmark Partners
Lexington Partners
Oaktree Capital Management
Stepstone Pioneer Capital
Audax Group
J.P. Morgan Asset Management
Hellman & Friedman Capital Partners
Natural Gas Partners
Apax Partners
Actis LLP
Carlyle Global Partners

Additional Categories Investment Managers
Avenue Capital Group
Marathon Asset Management
Ft. Washington Investment Advisors
Oaktree Capital Management
Shenkman Capital Management, Inc
Rogge Global Partners
Highbridge Principal Strategies, LLC
Angelo Gordon & Co.
Golub Capital

Attorney
Ice Miller LLP

HEALTH INSURANCE TRUST FUND

INVESTMENT POLICY SUMMARY

The statute that created the health insurance trust fund on July 1, 2010, KRS 161.677, obliges the Board to "manage the assets of the fund in the same general manner in which it administers the retirement funds, except that the asset allocation may differ and separate accounting and financial reporting shall be maintained for the trust fund." KRS 161.430, which governs the investment of funds for the retirement funds, requires that members' assets be managed in a manner consistent with fiduciary standards set forth in the "prudent person rule." Subject to this statute, administrative regulation 102 KAR 1:178 establishes investment policies for the health insurance trust fund. This regulation requires the Board and Investment Committee to prudently diversify assets and to consider the fund's "liquidity and its capability of meeting both short and long-term obligations" in setting asset allocation policy.

Due to an imbalance of required distributions over contributions early in the fund's existence, liquidity needs have dominated investment policy. This will evolve as contribution rate increases provided in statute improve cash flow in future years. As near-term liquidity needs recede in importance, the focus will increasingly be on establishing an investment policy which achieves the required rate of return and matches the health insurance liability.

INVESTMENT OBJECTIVES

The definitive objective of the health insurance trust fund is to provide for beneficiaries' health insurance benefit obligations, both short and long-term. In support of this objective, investment policy will be designed, on an ongoing basis, to: (1) meet all liquidity needs, (2) achieve the actuarially assumed 8.0% rate of return over the long-term, and (3) do so within appropriate risk levels.

RISK CONTROLS

Any investment program faces various risks; as with the retirement funds, the primary risk is that the assets will not support liabilities over the long-term. Risk control measures for the health insurance trust fund mirror those of the retirement annuity trust fund, but are customized to reflect the fund's unique liability. Primary risk control measures include the following steps:

- Actuarial valuations are performed each year to evaluate the funding objectives of the health insurance trust fund. Every ten years an external audit of the actuary is conducted to ensure that the assumptions made and calculation methods used are resulting in properly computed liabilities of the fund.

- Asset/liability studies are conducted approximately every five years. These studies ensure that the portfolio design is structured to meet the liabilities of the fund.

- In accordance with administrative regulation 102 KAR 1:178, which governs investment policies for the fund, the KTRS Investment Committee adopts and regularly reviews an asset allocation policy designed to meet the fund's needs.

ASSET ALLOCATION

As of June 30, 2014, the health insurance trust fund had approximately $491.9 million in total assets. This included $20.1 million in cash and $67.6 million in short-term high quality bonds for liquidity purposes. This trust fund also had $65.4 million in high yield bonds, $300.9 million in a global stock index fund, $4.3 million in private equity investments, $28.2 million in bank loans, and $5.4 million in alternative credit funds.

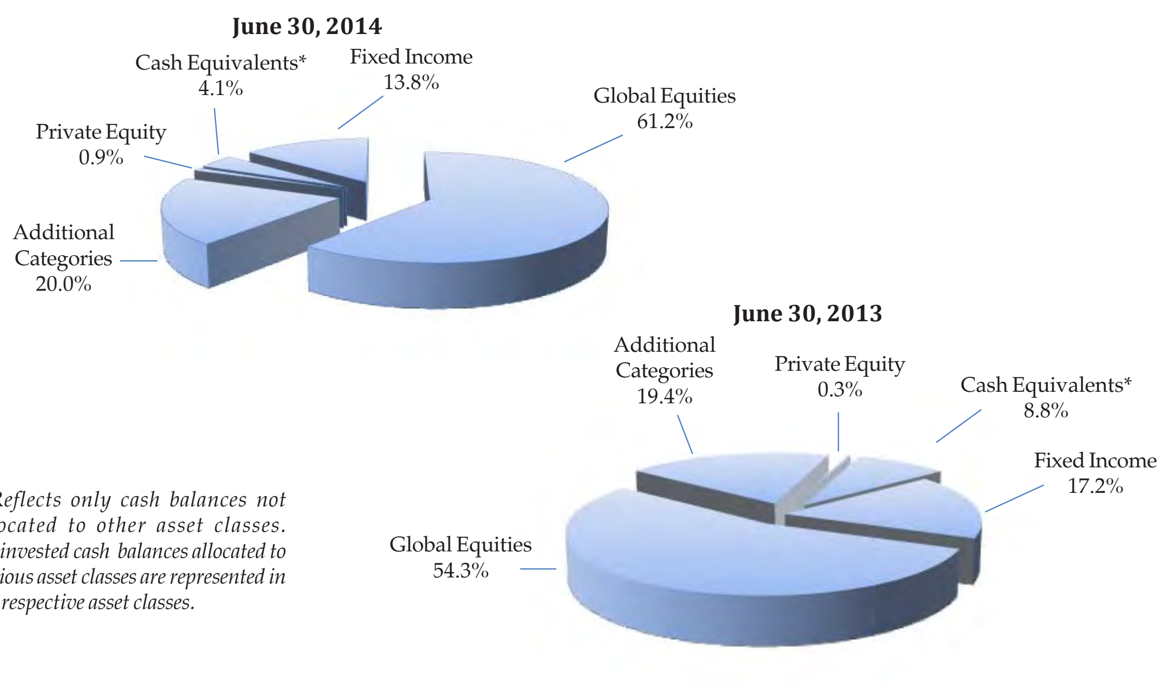
Asset allocation will be adjusted annually by the Investment Committee to reflect changing liquidity needs and actuarial funding status. Due to upcoming contribution rate increases enacted in statute, liquidity needs are expected to decline in coming years while funding status improves. The information below shows the health insurance trust fund's asset allocation by market value as of June 30, 2014 and June 30, 2013.

Health Insurance Trust

	June 30,2014	%	June 30,2013	%
Cash Equivalents*	$ 20,149,704	4.1	$ 39,455,381	8.8
Fixed Income	67,647,915	13.8	76,930,328	17.2
Global Equities	300,857,011	61.2	243,022,751	54.3
Additional Categories	99,027,356	20.0	86,551,982	19.4
Private Equity	4,251,239	0.9	1,255,715	0.3
TOTALS	**$ 491,933,225**	**100.0**	**$ 447,216,157**	**100.0**

* *Reflects only cash balances not allocated to other asset classes. Uninvested cash balances allocated to various asset classes are represented in the respective asset classes.*

Distribution of Investments Health Insurance Trust Fair Values



* *Reflects only cash balances not allocated to other asset classes. Uninvested cash balances allocated to various asset classes are represented in the respective asset classes.*

HEALTH INSURANCE TRUST

PORTFOLIO RETURNS

For the fiscal year, the health insurance trust fund's portfolio returned 15.5%. The fund's global equities returned 23.8% versus 23.4% for the MSCI All Country World IMI Index. A short-term bond fund held for liquidity purposes returned 0.8%. A high yield bond fund returned 11.0% versus 11.8% for its benchmark.

Due to a necessary focus on liquidity needs early in the fund's existence and rapidly evolving asset allocation as its funding mechanism is implemented, no policy benchmark has yet been established. Returns were generated by the Segal Rogers Casey performance reporting system using a time-weighted rate of return calculation based upon the modified Dietz methodology.

	1 Yr(1)	3 Yr(1)	5 Yr(1)	10 Yr(1)	20 Yr(1)
Total Fund					
KTRS Health Insurance Trust	15.5	7.9	-	-	-
Equities					
Global Equities	23.8	10.8	-	-	-
MSCI AC World IMI	23.4	10.4	-	-	-
Fixed Income					
Internal Bond Fund	0.8	0.6	-	-	-
90 Day Treasury Bill	0.0	0.1	-	-	-
Alternative Investments					
Private Equity(2)	17.6	-	-	-	-
Additional Categories					
High Yield					
High Yield Bond Fund	11.0	9.3	-	-	-
B of A Merrill Lynch High Yield Master II	11.8	9.3	-	-	-
Alternative Credit					
Shenkman Capital Management	7.3	-	-	-	-
Highbridge Principal Strategies	8.6	-	-	-	-
Marathon European Credit Opportunties	-	-	-	-	-
S & P LSTA Leverage Loan Index	5.6	-	-	-	-
Cash					
Cash(Unallocated)	0.1	0.1	-	-	-
90 Day Treasury Bill	0.0	0.1	-	-	-

(1) Annualized.

(2) For a period of five years private equity will be benchmarked against their own returns. The primary reason for this is that these investments have a minimum investment horizon of ten years and there is no market benchmark that would be expected to track these types of assets in their early years. Beginning five years after the commitment date, investments in this class shall be benchmarked versus the S & P 500 plus 3%, which is the System's long-term expected return for this asset class.

SCHEDULE OF INVESTMENT RETURNS - HEALTH INSURANCE TRUST

2014	Annual Rate of Return Net of Investment Expense	15.38%

HEALTH INSURANCE TRUST
PORTFOLIOS
FAIR VALUES *
June 30, 2014

Internally Managed

Cash Equivalents		
Cash Collections Fund (Unallocated)	$	20,149,704
Fixed Income		
Internal Bond Fund		67,647,915
Subtotal	**$**	**87,797,619**

Externally Managed

Global Equities		
BlackRock Fund B		300,857,011
Alternative Investments		
Ft. Washington Fund VII		2,238,277
Actis Global Fund IV		1,095,879
Landmark Equity XV		750,961
Ft. Washington Fund VIII		166,122
Additional Categories		
Fort Washington High Yield Bond Fund		65,430,375
Shenkman Capital Management		28,175,936
Highbridge Principal Strategies III		3,172,278
Marathon European Credit Opp Fund II		2,248,767
Subtotal	**$**	**404,135,606**
TOTAL ASSETS	**$**	**491,933,225**

* *Detailed information concerning these fair values of all KTRS investments is available upon request.*

Investment Summary
Fair Value – Medical Insurance Trust
June 30, 2014

Type of Investment	Fair Value 06/30/13	Acquisitions	Appreciation (Depreciation)	Sales Redemptions, Maturities & Paydowns	Fair Value 06/30/14
Cash Equivalents	$ 54,722,400	$ 253,265,800	$ -	$ 236,854,600	$ 71,133,600
Fixed Income	64,728,200	34,163,400	(175,800)	77,481,200	21,234,600
Equities	243,022,800	-	57,905,000	70,800	300,857,000
Alternative	1,255,700	3,069,000	479,600	553,100	4,251,200
Additional Categories	83,487,100	60,737,000	3,091,200	52,858,500	94,456,800
TOTAL	$ 447,216,200	$ 351,235,200	$ 61,300,000	$ 367,818,200	$ 491,933,200

Health Insurance Trust Fund
Contracted Investment
Management Expenses
Fiscal Year 2013-14
(in thousands)

Investment Counselor Fees	Assets Under Management	Expense	Basis Points [1]
Equity Manager(s)	$ 300,857	$ 159	
Fixed Income Manager(s)			
Real Estate		12	
Additional Categories	99,027	271	
Alternative Investments [2]	4,251	209	
TOTAL	**$ 404,135**	**$ 651**	16.1
Other Investment Services			
Custodian Fees	491,933	$ 10	0.2
Consultant Fees			0.0
Legal & Research			0.0
Other Administrative and Operational		50	1.0
TOTAL	**$ 491,933**	**$ 60**	**1.2**
GRAND TOTAL		**$ 711**	**14.5**

1 - One basis point is one hundredth of one percent or the equivalent of .0001.
2 - Accrual of fees payable as of June 30, 2014
3 - Private equity fees are either withheld from the Fund operations or paid by direct disbursement, depending on contract terms.

Schedule of Contracted and Administrative Investment Expenses
Health Insurance Trust Fund
June 30, 2014

INVESTMENT COUNSELOR FEES

EQUITY MANAGERS	
BlackRock	158,797
Total Equity Managers	**$ 158,797**
REAL ESTATE	
Carlyle VII	11,507
Total Real Estate	**$ 11,507**
ADDITIONAL CATEGORIES	
Highbridge Principal Strategies Fund III,L.P.	27,859
Fort Washington Investmetns High Yield	124,836
Marathon European Credit Fund II	9,110
Shenkman Capital	109,593
Total Additional Category Managers	**$ 271,398**
ALTERNATIVE INVESTMENTS	
Actis Global Fund IV, L.P.	50,000
Alinda Core Fund III, L.P.	37,073
Fort Washington Fund VII, L.P.	37,500
Fort Washington Fund VIII, L.P.	13,747
Landmark Fund XV ,L.P.	70,719
Total Alternative Managers	**$ 209,039**

ADMINISTRATIVE AND OPERATIONAL EXPENSES

CUSTODIAN	
The Bank of New York Mellon	10,392
Total Custodian	**$ 10,392**
LEGAL & RESEARCH	
Ice Miller	-
Total Legal & Research	**$ -**
OTHER	
Other Administrative and Operational (includes Personnel, Subscription services, etc…)	49,950
Total Other	**$ 49,950**
TOTAL INVESTMENT EXPENSES	**$ 711,083**

HEALTH INSURANCE TRUST PROFESSIONAL SERVICE PROVIDERS

Investment Consultant
Hewitt EnnisKnupp, Inc.

Investment Custodian
The Bank of New York Mellon

Additional Categories Managers
Ft. Washington Investment Advisors
Shenkman Capital Management, Inc
Highbridge Principal Strategies, LLC
Marathon Asset Management

Global Equity Manager
BlackRock Institutional Trust Company

Alternative Investment Managers
Ft. Washington Private Equity Investors
Actis LLP
Landmark Partners

Attorney
Ice Miller LLP

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Kentucky Teachers' Retirement System

2014

Actuarial Section

Cavanaugh Macdonald

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December 12, 2014

Board of Trustees
Teachers' Retirement System of the
State of Kentucky
479 Versailles Road
Frankfort, KY 40601-3800

Members of the Board:

Section 161.400 of the law governing the operation of the Teachers' Retirement System of the State of Kentucky provides that the actuary shall make an actuarial valuation of the System. We have submitted the results of the annual actuarial valuation prepared as of June 30, 2014. While not verifying the data at source, the actuary performed tests for consistency and reasonability. The combined member and state contributions for the fiscal year ending June 30, 2017 required to support the benefits of the System are as follows:

Group	Combined Member and State Contribution Requirement
University members hired before July 1, 2008	34.97%
University members hired on or after July 1, 2008	35.97%
Non-University members hired before July 1, 2008	37.93%
Non-University members hired on or after July 1, 2008	38.93%

These rates represent an increase since the previous valuation in the Pension required employer contribution rate of 0.63% of payroll for the fiscal year ending June 30, 2017. In addition, there has been a net decrease in the expected state special appropriation from 2.90% to 2.70%, or 0.20% of payroll and no change in the amount required for life insurance benefits. Therefore, the net impact on the required increase in the total employer contribution rate is 0.83% of payroll.

For the fiscal year ending June 30, 2017, in addition to the State statutory contribution rates and the state special appropriation, there is a required increase in the employer contribution rate of 13.80%; 0.83% from this valuation and 12.97% from the previous valuation.

The financing objective of the System is that contribution rates will remain relatively level over time as a percentage of payroll. The promised benefits of the System are included in the actuarially calculated contribution rates which are developed using the entry age normal cost method.

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December 12, 2014
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Five-year market related value of plan assets is used for actuarial valuation purposes. Gains and losses are reflected in the unfunded accrued liability that is being amortized by regular annual contributions as a level percentage of payroll within a 30-year period, on the assumption that payroll will increase by 4.0% annually. The assumptions recommended by the actuary and adopted by the Board are reasonably related to the experience under the System and to reasonable expectations of anticipated experience under the System.

We have prepared the trend information shown in the Schedule of Funding Progress in the Financial Section of the Annual Report and Schedule A, Schedule B, Schedule C, Solvency Test and Analysis of Financial Experience shown in the Actuarial Section of the Annual Report.

The valuation reflects that a portion of the annual required contributions to the fund from 2005 to 2010 were allocated to the Medical Insurance Fund and are being repaid over time. A pension obligation bond was issued August 26, 2010 and was used to repay the balances of a substantial portion of the loans previously made to the Medical Insurance Fund. No additional contributions were allocated during the 2014 fiscal year.

Since the previous valuation, the Board has adopted a funding policy, which is shown in Schedule H of the Report. In addition, the valuation interest smoothing methodology which was utilized in the previous valuation will no longer be used to determine the discount rate. The assumed discount rate will be 7.50%, which was the ultimate investment rate of return in the previous valuation.

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience in performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement system and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the System.

Future actuarial results may differ significantly from the current results presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Since the potential impact of such factors is outside the scope of a normal annual actuarial valuation, an analysis of the range of results is not presented herein.

In our opinion, the System is not being funded on an actuarially sound basis since the actuarially required contributions are not being made by the employer. If contributions by the employer to the System continue to be less than those required, the assets are expected to become insufficient to pay promised benefits. Assuming that contributions to the System are made by the employer from year to year in the future at rates recommended on the basis of the successive actuarial valuations, the continued sufficiency of the assets to provide the benefits called for under the System may be safely anticipated.

Respectfully submitted,

Edward A. Macdonald, ASA, FCA, MAAA
President

Edward J. Koebel, EA, FCA, MAAA
Principal and Consulting Actuary

Report of Actuary on the Valuation
Prepared as of June 30, 2014
Section I - Summary of Principal Results

1. For convenience of reference, the principal results of the valuation and a comparison with the results of the previous valuation are summarized below (dollar amounts in thousands):

Valuation Date	June 30, 2014	June 30, 2013
Number of active members	73,407	74,831
Annual salaries	$ 3,486,327	$ 3,480,066
Number of annuitants and beneficiaries	48,576	47,406
Annual allowances	$ 1,684,852	$ 1,608,659
Assets		
Market value	$ 18,092,571	$ 16,108,808
Actuarial value	$ 16,174,199	$ 14,962,758
Unfunded actuarial accrued liability	$ 14,010,205	$ 13,854,474
Funded Ratio	53.6 %	51.9 %
Amortization period (years)	30	30

Contribution Rates for University Members

Valuation Date	June 30, 2014		June 30, 2013	
For Fiscal Year Ending	June 30, 2017		June 30, 2016	
	Members hired before 7/1/2008	Members hired on or after 7/1/2008	Members hired before 7/1/2008	Members hired on or after 7/1/2008
Pension Plan:				
Normal	12.270 %	12.270 %	12.290 %	12.290 %
Accrued liability	22.700	23.700	22.050	23.050
Total	34.970 %	35.970 %	34.340 %	35.340 %
Member	7.625 %	7.625 %	7.625 %	7.625 %
State (ARC)	27.345	28.345	26.715	27.715
Total	34.970 %	35.970 %	34.340 %	35.340 %
Life Insurance Fund:				
State	0.030 %	0.030 %	0.030 %	0.030 %
Medical Insurance Fund:				
Member	2.775 %	2.775 %	2.775 %	2.775 %
State Match	2.775	1.775	2.775	1.775
Total	5.550 %	4.550 %	5.550 %	4.550 %
Total Contributions	40.550 %	40.550 %	39.920 %	39.920 %
Member Statutory	10.400 %	10.400 %	10.400 %	10.400 %
State Statutory	13.650	13.650	13.650	13.650
Required Increase	13.800	13.800	12.970	12.970
State Special	2.700	2.700	2.900	2.900
Total	40.550 %	40.550 %	39.920 %	39.920 %

Contribution Rates for Non-University Members

Valuation Date	June 30, 2014		June 30, 2013	
For Fiscal Year Ending	June 30, 2017		June 30, 2016	
	Members hired before 7/1/2008	Members hired on or after 7/1/2008	Members hired before 7/1/2008	Members hired on or after 7/1/2008
Pension Plan:				
Normal	16.720 %	16.720 %	15.810 %	15.810 %
Accrued liability	21.210	22.210	21.490	22.490
Total	37.930 %	38.930 %	37.300 %	38.300 %
Member	9.105 %	9.105 %	9.105 %	9.105 %
State (ARC)	28.825	29.825	28.195	29.195
Total	37.930 %	38.930 %	37.300 %	38.300 %
Life Insurance Fund:				
State	0.030 %	0.030 %	0.030 %	0.030 %
Medical Insurance Fund:				
Member	3.750 %	3.750 %	3.750 %	3.750 %
State Match	3.750	2.750	3.750	2.750
Total	7.500 %	6.500 %	7.500 %	6.500 %
Total Contributions	45.460 %	45.460 %	44.830 %	44.830 %
Member Statutory	12.855 %	12.855 %	12.855 %	12.855 %
State Statutory	16.105	16.105	16.105	16.105
Required Increase	13.800	13.800	12.970	12.970
State Special	2.700	2.700	2.900	2.900
Total	45.460 %	45.460 %	44.830 %	44.830 %

2. The valuation includes only the assets and liabilities associated with the pension plan. The valuation of the Medical Insurance Fund and the Active and Retired Life Insurance Benefits will be prepared separately.

3. Comments on the valuation results as of June 30, 2014 are given in Section IV and further discussion of the contribution levels is set out in Sections V and VI.

4. Schedule B shows the development of the actuarial value of assets. Schedule D of this report outlines the full set of actuarial assumptions and methods employed in the current valuation. Since the previous valuation, the Board has adopted a funding policy, which is shown in Schedule H of the Report. In addition, the valuation interest smoothing methodology which was utilized in the previous valuation will no longer be used to determine the discount rate. The assumed discount rate will be 7.50%, which was the ultimate investment rate of return in the previous valuation.

5. Provisions of the System, as summarized in Schedule F, were taken into account in the current valuation. There have been no changes since the previous valuation.

Section II - MEMBERSHIP DATA

1. Data regarding the membership of the System for use as a basis of the valuation were furnished by the Retirement System office. The following table shows the number of active members and their annual salaries as of June 30, 2014 on the basis of which the valuation was prepared.

Group	Number	Annual Salaries ($1,000's)
University Full Time hired before 7/1/2008	2,235	$ 158,132
University Full Time hired after 7/1/2008	1,172	57,918
University Part Time hired before 7/1/2008	31	1,452
University Part Time hired after 7/1/2008	66	1,667
Non-University Full Time hired before 7/1/2008	43,827	2,653,054
Non-University Full Time hired after 7/1/2008	12,562	537,383
Non-University Part Time hired before 7/1/2008	6,911	51,444
Non-University Part Time hired after 7/1/2008	6,603	25,277
TOTAL	73,407	$ 3,486,327

The table reflects the active membership for whom complete valuation data was submitted. The results of the valuation were adjusted to take account of inactive members and members for whom incomplete data was submitted.

2. The following table shows the number and annual retirement allowances payable to annuitants and beneficiaries on the roll of the Retirement System as of the valuation date.

The Number and Annual Retirement Allowances of Annuitants and Beneficiaries on the Roll as of June 30, 2014

Group	Number	Annual Retirement Allowances[1] ($1,000's)
Service Retirements	42,308	$ 1,536,273
Disability Retirements	2,641	74,947
Beneficiaries of Deceased Members	3,627	73,632
TOTAL	48,576	$ 1,684,852

[1] *Includes cost-of-living adjustments effective through July 1, 2014.*

3. Table 1 of Schedule G shows a distribution by age and years of service of the number and annual salaries of active members included in the valuation, while Table 2 shows the number and annual retirement allowances of annuitants and beneficiaries included in the valuation, distributed by age.

Section III - ASSETS

1. As of June 30, 2014 the market value of Pension Plan assets for valuation purposes held by the System amounted to $18,092,570,615. This value excludes assets in the Medical Insurance Fund, the 403(b) Program Reserve Fund, and the Life Insurance Fund, which are not included in the assets used for Pension Plan valuation purposes.

2. The five-year market related value of Pension Plan assets used for valuation purposes as of June 30, 2014 was $16,174,199,191. Schedule B shows the development of the actuarial value of assets as of June 30, 2014.

3. Schedule C shows the receipts and disbursements for the year preceding the valuation date and a reconciliation of the asset balances for the Pension Plan.

Section IV - COMMENTS ON VALUATION

1. Schedule A of this report contains the valuation balance sheet which shows the present and prospective assets and liabilities of the System as of June 30, 2014. The valuation was prepared in accordance with the actuarial assumptions and the actuarial cost method, which are described in Schedule D and Schedule E.

2. The valuation balance sheet shows that the System has total prospective liabilities of $16,977,257,916 for benefits expected to be paid on account of the present active members. The liability on account of benefits payable to annuitants and beneficiaries amounts to $18,389,363,616 of which $801,066,667 is for special appropriations remaining to be made toward funding minimum annuities, ad hoc increases and sick leave allowances granted after 1981. The liability for benefits expected to be paid to inactive members and to members entitled to deferred vested benefits is $286,908,616. The total prospective liabilities of the System amounts to $35,653,530,148. Against these liabilities, the System has present assets for valuation purposes of $16,174,199,191. When this amount is deducted from the total liabilities of $35,653,530,148, there remains $19,479,330,957 as the present value contributions to be made in the future.

3. The employer's contributions to the System consist of normal contributions and accrued liability contributions. The valuation indicates that employer normal contributions at the rate of 12.27% of payroll for University and 16.72% of payroll for Non-University are required.

4. Prospective normal employer and employee contributions have a present value of $5,469,126,099. When this amount is subtracted from $19,479,330,957, which is the present value of the total future contributions to be made by the employer, there remains $14,010,204,858 as the amount of future unfunded accrued liability contributions.

Section V - CONTRIBUTIONS PAYABLE UNDER THE SYSTEM

1. Section 161.540 of the retirement law provides that each university member contribute 10.400% of annual salary to the System and each non-university member contribute 12.855% of annual salary. Of this amount, for each university member, 2.775% is paid to the Medical Insurance Fund for medical benefits and for each non-university member, 3.75% is paid to the Medical Insurance Fund for medical benefits. The remainder, 7.625% for university members and 9.105% for non-university members, is applicable for the retirement benefits taken into account in the valuation.

2. Section 161.550 provides that the State will match a portion of the member contributions and contribute a supplemental 3.25% of members' salaries towards discharging the System's unfunded obligations. Additional contributions are made to the Medical Insurance Fund as required under 161.550(3).

3. Therefore for university members, 10.875% of the salaries of active members who become members before July 1, 2008 and 11.875% of the salaries of active members who become members on or after July 1, 2008 is funded by statute or supplemental funding for the Pension Plan and Life Insurance Fund. For non-university members, 12.355% of the salaries of active members who become members before July 1, 2008 and 13.355% of the salaries of active members who become members on or after July 1, 2008 is funded by statute or supplemental funding for the Pension Plan and Life Insurance Fund. Of these amounts, 0.03% of payroll will be allocated to the Life Insurance Fund. Based on the results of the valuation, an additional 13.80% of payroll for both university and non-university will be required in order to maintain the amortization of the unfunded liability of the Pension Plan within a 30-year period. An additional special appropriation of 2.70% of total payroll will be made by the

State. Therefore, the total required employer contribution rate to the Pension Plan is 27.345% for university members who become members before July 1, 2008 and 28.345% for university members who become members on or after July 1, 2008. The total required employer contribution rate to the Pension Plan is 28.825% for non-university members who become members before July 1, 2008 and 29.825% for non-university members who become members on or after July 1, 2008. The total member and employer contribution rates to the Pension Plan are shown in the following table.

Contribution Rates by Source
University

	Members hired before 7/1/2008	Members hired on or after 7/1/2008
Member		
Statutory Total	10.400 %	10.400 %
Statutory Medical Insurance Fund	(2.775)	(2.775)
Contribution to Pension Plan	7.625 %	7.625 %
Employer		
Statutory Matching Total	10.400 %	10.400 %
Statutory Medical Insurance Fund	(2.775)	(1.775)
Supplemental Funding	3.250	3.250
Subtotal	10.875 %	11.875 %
Life Insurance	(0.030) %	(0.030) %
Additional to Maintain 30-Year Amortization	13.800	13.800
Special Appropriation	2.700	2.700
Contribution to Pension Plan	27.345 %	28.345 %
Total Contribution to Pension Plan	34.970 %	35.970 %

Contribution Rates by Source
Non-University

	Members hired before 7/1/2008	Members hired on or after 7/1/2008
Member		
Statutory Total	12.855 %	12.855 %
Statutory Medical Insurance Fund	(3.750)	(3.750)
Contribution to Pension Plan	9.105 %	9.105 %
Employer		
Statutory Matching Total	12.855 %	12.855 %
Statutory Medical Insurance Fund	(3.750)	(2.750)
Supplemental Funding	3.250	3.250
Subtotal	12.355 %	13.355 %
Life Insurance	(0.030) %	(0.030) %
Additional to Maintain 30-Year Amortization	13.800	13.800
Special Appropriation	2.700	2.700
Contribution to Pension Plan	28.825 %	29.825 %
Total Contribution to Pension Plan	37.930 %	38.930 %

4. The valuation indicates that normal contributions at the rate of 12.27% of active university members' salaries and 16.72% of active non-university members' salaries are required. The difference between the total contribution rate and the normal rate remains to be applied toward the liquidation of the unfunded actuarial accrued liability. This accrued liability rate is 22.70% for university members hired before July 1, 2008, 23.70% for university members hired on and after July 1, 2008, 21.21% for non-university members hired before July 1, 2008, and 22.21% for non-university members hired on and after July 1, 2008. These rates include special appropriations of 2.70% of payroll to be made by the State. These rates are shown in the following table.

Actuarially Determined Contribution Rates

Rate	Percentage of Active Members' Salaries			
	UNIVERSITY		NON-UNIVERSITY	
	Members hired before 7/1/2008	Members hired on or after 7/1/2008	Members hired before 7/1/2008	Members hired on or after 7/1/2008
Normal	12.27 %	12.27 %	16.72 %	16.72 %
Accrued Liability *	22.70	23.70	21.21	22.21
Total	34.97 %	35.97 %	37.93 %	38.93 %

** Includes special appropriations of 2.70% of payroll to be made by the State.*

5. Since the previous valuation, the Board adopted a funding policy, shown in Schedule H of this report. This policy states that the unfunded liability determined as of this valuation, known as the "legacy unfunded liability" will be amortized over a closed 30 year period. New sources of unfunded liability each year after June 30, 2014 will be amortized over closed 20 year periods. The unfunded actuarial accrued liability (legacy unfunded liability) amounts to $14,010,204,858 as of the valuation date. Accrued liability contributions at the rates in the table above are sufficient to amortize the unfunded actuarial accrued liability over a 30-year period, based on the assumption that the payroll will increase by 4.0% annually.

Section VI - COMMENTS ON LEVEL OF FUNDING

1. Our calculations indicate that the contribution rates shown in the previous section will be sufficient to cover the benefits of the System, the annual 1.5% increases in the allowances of retired members and beneficiaries, and the liabilities for minimum annuities, ad hoc increases and sick leave allowances granted after 1981.

2. The valuation indicates that the present statutory contribution rates, supplemental funding and special appropriations, if continued at the current level percentage, along with an additional required contribution of 13.80%, not currently provided in statute, are sufficient to meet the cost of benefits currently accruing and provide for the amortization of the unfunded actuarial accrued liability over a period of 30 years. However, as existing special contributions expire, the statutory contributions or supplemental funding will be required to increase as an equal percentage of payroll, in order to amortize the unfunded liability within a period of 30 years.

3. During the 2005 through 2010 fiscal years, a portion of the contributions required for the pension fund were allocated as loans to the Medical Insurance Fund for Stabilization Funding. Beginning with the 2009 fiscal year, contributions have also been allocated as loans for non-single subsidy funding. Payments are being made to repay these loans. In August 2010, a pension obligation bond was issued with proceeds used to fully repay the loans for the Stabilization Funding. Beginning with the 2011 fiscal year, there have been no further loans for Stabilization Funding. In addition, there were no loans for single-subsidy funding for fiscal years 2013 or 2014. The table on the following page shows the amounts borrowed, annual payments and remaining balances for the non-single subsidy funding as of June 30, 2014:

Medical Insurance Fund
Stabilization Funding

FISCAL YEAR	LOAN AMOUNT	ANNUAL PAYMENT	BALANCE AS OF JUNE 30, 2014
2008/2009	$ 8,400,000	$ 1,228,900	$ 5,084,887
2009/2010	9,200,000	1,345,200	6,451,844
2010/2011	10,700,000	1,564,500	8,460,286
2011/2012	12,300,000	1,798,700	10,747,650
TOTAL	**$ 40,600,000**	**$ 5,937,300**	**$ 30,744,667**

4. There are no excess assets or contributions available to provide additional benefits, and there is a cumulative increase in the required employer contribution of 13.80% of payroll for the fiscal year ending June 30, 2017, as shown in the following table:

VALUATION DATE	FISCAL YEAR	INCREASE	CUMULATIVE INCREASE	AMOUNT
June 30, 2004	June 30, 2007	0.11%	0.11%	$ 3,174,600
June 30, 2005	June 30, 2008	1.21	1.32	38,965,900
June 30, 2006	June 30, 2009	0.56	1.88	60,499,800
June 30, 2007	June 30, 2010	0.58	2.46	82,331,200
June 30, 2008	June 30, 2011	1.13	3.59	121,457,000
June 30, 2009	June 30, 2012	2.22	5.81	208,649,000
June 30, 2010	June 30, 2013	1.46	7.27	260,980,000
June 30, 2011	June 30, 2014	0.75	8.02	299,420,000
June 30, 2012	June 30, 2015	2.40	10.42	386,400,000
June 30, 2013	June 30, 2016	2.55	12.97	487,400,000
June 30, 2014	June 30, 2017	0.83	13.80	520,372,000

In addition, as existing special contributions expire, the statutory contributions or supplemental funding will be required to increase as an equal percentage of payroll, in order to amortize the legacy unfunded liability within 30 years. Any further benefit improvements must be accompanied by the entire additional contributions necessary to support the benefits.

Section VII - ANALYSIS OF FINANCIAL EXPERIENCE

The following table shows the estimated gain or loss from various factors that resulted in an increase of $155,730,786 in the unfunded accrued liability from $13,854,474,072 to $14,010,204,858 during the year ending June 30, 2014.

Analysis of Financial Experience

(Dollar amounts in thousands)

ITEM	AMOUNT OF INCREASE/ (DECREASE)
Interest (7.68%) added to previous unfunded accrued liability	$ 1,064,024
Expected accrued liability contribution	(332,765)
Contributions allocated to the Medical Insurance Fund (MIF) for Stabilization Funding during 2013/2014 fiscal year with interest	0
Repayment of prior year's MIF Stabilization Funding with interest	(6,165)
Experience:	
Valuation asset growth	(913,255)
Pensioners' mortality	42,234
Turnover and retirements	(177,990)
New entrants	49,210
Salary increases	(190,240)
Amendments	0
Assumption changes*	620,678
Method changes	0
Total	**$ 155,731**

** Change from interest smoothing methodology to 7.50% annual assumed rate of return.*

Section VIII - ACCOUNTING INFORMATION

1. Governmental Accounting Standards Board (GASB) has issued Statement No. 67 which replaces Statement 25 for plan years beginning after June 15, 2013. The information required under GASB 67 was issued in a separate report. The following information is provided for informational purposes and for disclosure in the financial statements of the employer under GASB 27. The following is a distribution of the number of employees by type of membership.

Number of Active and Retired Members as of June 30, 2014

GROUP	NUMBER
Retirees and beneficiaries currently receiving benefits	48,576
Terminated vested employees entitled to benefits but not yet receiving benefits	7,762
Inactive non-vested members	27,689
Active plan members	73,407
Total	157,434

2. The schedule of funding progress is shown below.

Schedule of Funding Progress

(Dollar amount in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)* (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a) /c)
6/30/2009	$ 14,885,981	$ 23,400,426	$ 8,514,445	63.6%	$ 3,253,077	261.7%
6/30/2010	14,851,330	24,344,316	9,492,986	61.0	3,321,614	285.8
6/30/2011**	14,908,138	25,968,692	11,060,554	57.4	3,451,756	320.4
6/30/2012	14,691,371	26,973,854	12,282,483	54.5	3,479,567	353.0
6/30/2013	14,962,758	28,817,232	13,854,474	51.9	3,480,066	398.1
6/30/2014***	16,174,199	30,184,404	14,010,205	53.6	3,486,327	401.9

* *Funding method Projected Unit Credit prior to 6/30/2011*
Funding method Entry Age Normal 6/30/2011 and after.
** *Reflects change in assumptions and methods.*
*** *Reflects change in assumption.*

3. The information presented above was determined as part of the actuarial valuation at June 30, 2014. Additional information as of the latest actuarial valuation follows.

Valuation date	06/30/2014
Actuarial cost method	Entry age
Amortization method	Level percent of pay, closed
Remaining amortization period	30 years
Asset valuation method	5-year smoothed market

Actuarial Assumptions:
Investment rate of return*
7.50%
Projected salary increases**
4.00 - 8.20%

Cost-of-living adjustments
1.50% Annually

**Includes price inflation at 3.50%*
***Includes wage inflation at 4.00%*

Schedule of Employer Contributions

Fiscal Year Ended June 30	Annual Required Contributions	Actual Employer Contributions	Percentage Contributed
2009	$ 600,282,735	$ 442,549,935	74%
2010	633,938,088	479,805,088	76
2011	678,741,428	1,037,935,993*	153
2012	757,822,190	557,339,552	74
2013	802,984,644	568,233,446	71
2014	823,446,156	563,326,249	68

** Includes Pension Obligation Bond proceeds of $465,384,165.*

4. Following is the calculation of the annual pension cost and net pension obligation for the fiscal year ending June 30, 2014. Since KTRS is a cost sharing multi employer pension plan, GASB Statement 27 does not require the participating employers to disclose this information.

Annual Pension Cost and Net Obligation for Fiscal Year Ending June 30, 2014

(a)	Employer annual required contribution	$ 823,446,156
(b)	Interest on net pension obligation	52,412,161
(c)	Adjustment to annual required contribution	38,367,910
(d)	Annual pension cost: (a) + (b) - (c)	$ 837,490,407
(e)	Employer contributions made for fiscal year ending June 30, 2014	563,326,249
(f)	Increase (decrease) in net pension obligation: (d) - (e)	$ 274,164,158
(g)	Net pension obligation beginning of fiscal year	682,450,008
(h)	Net pension obligation end of fiscal year: (f) + (g)	$ 956,614,166

Trend Information

YEAR ENDING	ANNUAL PENSION COST (APC)	PERCENTAGE OF APC CONTRIBUTED	NET PENSION OBLIGATION (NPO)
June 30, 2012	$ 763,914,684	73%	$ 436,123,560
June 30, 2013	814,559,894	70	682,450,008
June 30, 2014	837,490,407	67	956,614,166

SCHEDULE A

VALUATION BALANCE SHEET
SHOWING THE PRESENT AND PROSPECTIVE ASSETS AND LIABILITIES
AS OF JUNE 30, 2014
(Dollar amount in thousands)

ACTUARIAL LIABILITIES

(1)	Present value of prospective benefits payable on account of present active members		
	- Service retirement benefits	$ 15,860,700	
	- Disability retirement benefits	744,709	
	- Death and survivor benefits	138,806	
	- Refunds of member contributions	233,043	
	Total		$ 16,977,258
(2)	Present value of prospective benefits payable on account of present retired members, beneficiaries of deceased members, and members entitled to deferred vested benefits		
	- Service retirement benefits	$ 17,017,825	
	- Disability retirement benefits	716,654	
	- Death and survivor benefits	654,885	
	Total		$ 18,389,364
(3)	Present value of prospective benefits payable on account of inactive members and members entitled to deferred vested benefits		$ 286,908
(4)	TOTAL ACTUARIAL LIABILITIES		$ 35,653,530

PRESENT AND PROSPECTIVE ASSETS

(5)	Actuarial value of assets	$ 16,174,199
(6)	Present value of total future contributions = (4)-(5)	19,479,331
(7)	Present value of future member contributions and employer normal contributions	5,469,126
(8)	Prospective unfunded accrued liability contributions = (6)-(7)	14,010,205
(9)	TOTAL PRESENT AND PROSPECTIVE ASSETS	$ 35,653,530

Schedule A continued ...

Solvency Test

(dollar amounts in millions)

Valuation Date	(1) Active Member Contributions	(2) Retirants And Beneficiaries	(3) Active Members (Employer Financed Portion)	Valuation of Assets	Portion of Accrued Liabilities Covered by Assets (1)	(2)	(3)
6/30/2009	$ 3,042.3	$ 14,309.9	$ 6,048.2	$ 14,886.0	100%	83 %	0%
6/30/2010	3,196.3	15,010.4	6,137.6	14,851.3	100	78	0
6/30/2011	3,325.7	15,557.9	7,085.1	14,908.1	100	74	0
6/30/2012	3,415.2	16,472.2	7,086.4	14,691.4	100	68	0
6/30/2013	3,514.4	17,716.4	7,586.4	14,962.8	100	65	0
6/30/2014	3,629.7	18,676.3	7,878.4	16,174.2	100	67	0

SCHEDULE B

Development of Actuarial Value of Assets as of June 30, 2014

(1)	Actuarial Value of Assets Beginning of Year		$ 14,962,758,316
(2)	Market Value of Assets End of Year		18,092,570,615
(3)	Market Value of Assets Beginning of Year		16,108,808,305
(4)	Cash Flow		
	a.	Contributions	868,307,869
	b.	Benefit Payments	1,679,837,543
	c.	Administrative Expense	7,955,972
	d.	Net: (4)a - (4)b - (4)c	(819,485,646)
(5)	Investment Income		
	a.	Market total: (2) - (3) - (4)d	2,803,247,956
	b.	Assumed Rate	7.50%
	c.	Amount for Immediate Recognition: [(3) x (5)b] + [(4)d x (5)b x 0.5]	1,177,429,911
	d.	Amount for Phased-In Recognition: (5)a - (5)c	1,625,818,045
(6)	Phased-In Recognition of Investment Income		
	a.	Current Year: 0.20 x (5)d	325,163,609
	b.	First Prior Year	191,479,441
	c.	Second Prior Year	(160,195,981)
	d.	Third Prior Year	363,670,625
	e.	Fourth Prior Year	133,378,916
	f.	Total Recognized Investment Gain	853,496,610
(7)	Actuarial Value of Assets End of Year: (1) + (4)d + (5)c + (6)f		16,174,199,191
(8)	Difference Between Market & Actuarial Values: (2) - (7)		$ 1,918,371,424
(9)	Rate of Return on Actuarial Value:		13.96%

SCHEDULE C

PENSION PLAN ASSETS
Summary of Receipts & Disbursements*
(Market Value)

	For the Year Ending June 30, 2014	June 30, 2013
Receipts for the Year		
Contributions		
Members	$ 304,981,620	$ 304,738,728
Employers	563,326,249	568,233,446
Total	868,307,869	872,972,174
Net Investment Income	2,803,247,956	2,039,874,263
Total	3,671,555,825	2,912,846,437
Disbursements for the Year		
Benefit Payments	1,654,375,700	1,570,722,924
Refunds to Members	25,461,843	22,059,094
Miscellaneous, including expenses	7,955,972	8,377,003
Total	1,687,793,515	1,601,159,021
Excess of Receipts over Disbursements	1,983,762,310	1,311,687,416
Reconciliation of Asset Balances		
Asset Balance as of the Beginning of the Year	16,108,808,305	14,797,120,889
Excess of Receipts over Disbursements	1,983,762,310	1,311,687,416
Asset Balances as of the End of the Year	$ 18,092,570,615	$ 16,108,808,305
Rate of Return	18.1%	14.1%

* *Excludes assets for Medical Insurance Fund, the 403(b) Program Reserve Fund and the Life Insurance Fund.*

SCHEDULE D
Outline of Actuarial Assumptions and Methods

The assumptions and methods used in the valuation were selected based on the actuarial experience study prepared as of June 30, 2010, submitted to and adopted by the Board on September 19, 2011.

ULTIMATE INVESTMENT RATE OF RETURN: 7.5% per annum, compounded annually.

SALARY INCREASES: Representative values of the assumed annual rates of future salary increases are as follows and include inflation at 3.50% per annum:

Age	20	25	30	35	40	45	50	55	60	65
Annual Rate	8.10%	7.20%	6.20%	5.50%	5.00%	4.60%	4.50%	4.30%	4.20%	4.00%

SEPARATIONS FROM SERVICE: Representative values of the assumed annual rates of death, disability, withdrawal, service retirement and early retirement are as follows:

MALES: Annual Rate of . . .

			WITHDRAWAL			RETIREMENT	
			SERVICE				
AGE	DEATH	DISABILITY	0 - 4	5 - 9	10+	Before 27 Years of Service	After 27 Years of Service*
20	0.012%	0.01%	9.00%				
25	0.015	0.01	9.00	3.00%			
30	0.020	0.02	9.00	3.00	3.00%		
35	0.035	0.05	10.00	3.25	1.75		
40	0.046	0.09	10.00	4.00	1.40		
45	0.058	0.18	11.00	4.00	1.50		17.0%
50	0.074	0.33	9.00	4.00	2.00		17.0
55	0.124	0.55	12.00	3.50	2.50	5.5%	35.0
60	0.244	0.70	12.00	3.50	2.50	13.0	24.0
62	0.324	0.70	12.00	3.50	2.50	15.0	25.0
65	0.480	0.70	12.00	3.50	2.50	21.0	26.0
70	0.821	0.70	0.00	0.00	0.00	100.0	100.0

**Plus 10% in year when first eligible for unreduced retirement with 27 years of service.*

Schedule D continued ...

FEMALES: Annual Rate of . . .

AGE	DEATH	DISABILITY	WITHDRAWAL SERVICE 0 - 4	WITHDRAWAL SERVICE 5 - 9	WITHDRAWAL SERVICE 10+	RETIREMENT Before 27 Years of Service	RETIREMENT After 27 Years of Service*
20	0.007%	0.01%	7.00%				
25	0.008	0.02	8.50	4.00%			
30	0.010	0.04	9.00	4.00	1.65%		
35	0.017	0.08	9.00	3.75	1.85		
40	0.024	0.14	8.50	3.25	1.50		
45	0.037	0.32	7.50	3.25	1.25		15.0%
50	0.055	0.42	9.50	3.50	1.75		15.0
55	0.103	0.56	11.00	4.00	2.00	6.0%	35.0
60	0.201	0.85	11.00	4.00	2.00	14.0	30.0
62	0.263	0.85	11.00	4.00	2.00	12.0	25.0
65	0.390	0.85	11.00	4.00	2.00	22.0	30.0
70	0.672	0.85	0.00	0.00	0.00	100.0	100.0

**Plus 10% in year when first eligible for unreduced retirement with 27 years of service.*

DEATHS AFTER RETIREMENT: The RP-2000 Combined Mortality Table projected to 2020 using scale AA (set back one year for females) is used for death after service retirement and beneficiaries. The RP-2000 Disabled Mortality Table (set back seven years for males and set forward five years for females) is used for death after disability retirement. Mortality improvement is anticipated under these assumptions as recent mortality experience shows actual deaths are approximately 4% greater for healthy lives and 5% greater for disabled lives than expected under the selected tables. Representative values of the assumed annual rates of death after service retirement and after disability retirement are shown below.

ASSETS: Five-year market related actuarial value, as developed in Schedule B. The actuarial value of assets recognizes a portion of the difference between the market value of assets and the expected actuarial value of assets, based on the ultimate assumed valuation rate of return of 7.50%. The amount recognized each year is 20% of the difference between market value and expected actuarial value.

EXPENSE LOAD: None.

PERCENT MARRIED: 100%, with females 3 years younger than males.

LOADS: Unused sick leave: 2% of active liability.

Annual Rate of Death After . . .

AGE	SERVICE RETIREMENT MALE	SERVICE RETIREMENT FEMALE	DISABILITY RETIREMENT MALE	DISABILITY RETIREMENT FEMALE
45	0.1161%	0.0745%	2.2571%	1.1535%
50	0.1487	0.1100	2.2571	1.6544
55	0.2469	0.2064	2.6404	2.1839
60	0.4887	0.4017	3.2859	2.8026
65	0.9607	0.7797	3.9334	3.7635
70	1.6413	1.3443	4.6584	5.2230
75	2.8538	2.1680	5.6909	7.2312
80	5.2647	3.6066	7.3292	10.0203
85	9.6240	6.1634	9.7640	14.0049
90	16.9280	11.2205	12.8343	19.4509
95	25.6992	17.5624	16.2186	23.7467

SCHEDULE E

Actuarial Cost Method

1. The valuation is prepared on the projected benefit basis, under which the present value, at the interest rate assumed to be earned in the future (currently at 7.50%), of each active member's expected benefit at retirement or death is determined, based on his age, service, sex and compensation. The calculations take into account the probability of a member's death or termination of employment prior to becoming eligible for a benefit, as well as the possibility of his terminating with a service, disability or survivor's benefit. Future salary increases and post-retirement cost-of-living adjustments are also anticipated. The present value of the expected benefits payable on account of the active members is added to the present value of the expected future payments to retired members and beneficiaries and inactive members to obtain the present value of all expected benefits payable from the System on account of the present group of members and beneficiaries.

2. The employer contributions required to support the benefits of the System are determined following a level funding approach, and consist of a normal contribution and an accrued liability contribution.

3. The normal contribution is determined using the "entry age normal" method. Under this method, a calculation is made to determine the uniform and constant percentage rate of employer contribution which, if applied to the compensation of the average new member during the entire period of his anticipated covered service, would be required in addition to the contributions of the member to meet the cost of all benefits payable on his behalf.

4. The unfunded accrued liability is determined by subtracting the present value of prospective employer normal contributions and member contributions, together with the current actuarial value of assets held, from the present value of expected benefits to be paid from the System.

SCHEDULE F

Summary of Main System Provisions as Interpreted for Valuation Purposes

The Teachers' Retirement System of the State of Kentucky was established on July 1, 1940. The valuation took into account amendments to the System effective through June 30, 2014. The following summary describes the main benefit and contribution provisions of the System as interpreted for the valuation.

1 - DEFINITIONS

"Final average salary" means the average of the five highest annual salaries which the member has received for service in a covered position and on which the member has made contributions or on which the public board, institution or agency has picked up the member contributions. For a member who retires after attaining age 55 with 27 years of service, "final average salary" means the average of the three highest annual salaries.

2 - BENEFITS

Service Retirement Allowance for Members Before 7/1/2008
Condition for Allowance

- Completion of 27 years of service or attainment of age 55 and 5 years of service.

Amount of Allowance

- The annual retirement allowance for non-university members is equal to:
  - (a) 2.0% of final average salary multiplied by service before July 1, 1983, plus
  - (b) 2.5% of final average salary multiplied by service after July 1, 1983.
  - (c) For individuals who become members of the Retirement System on or after July 1, 2002 and have less than 10 years of service at retirement, the retirement allowance is 2.0% of final average salary multiplied by service. If, however, they have 10 or more years, they receive a benefit percentage of 2.5% for all years of service up to 30 years.
  - (d) For members retiring on or after July 1, 2004, the retirement allowance formula is 3.0% of final average salary for each year of service credit earned in excess of 30 years.

The annual retirement allowance for university members is equal to 2.0% of final average salary multiplied by all years of service.

Schedule F continued ...

For all members, the annual allowance is reduced by 5% per year from the earlier of age 60 or the date the member would have completed 27 years of service.

The minimum annual service allowance for all members is $440 multiplied by credited service.

Service Retirement Allowance for Members on and after 7/1/2008
Condition for Allowance

- Completion of 27 years of service, attainment of age 60 and 5 years of service or attainment of age 55 and 10 years of service.

Amount of Allowance
The annual retirement allowance for non-university members is equal to:

- 1.7% of final average salary if service is 10 years or less.
- 2.0% of final average salary if service is greater than 10 years and no more than 20 years.
- 2.3% of final average salary if service is greater than 20 years but no more than 26 years.
- 2.5% of final average salary if service is greater than 26 years but no more than 30 years.
- 3.0% of final average salary for years of service greater than 30 years.

The annual retirement allowance for university members is equal to:

- 1.5% of final average salary if service is 10 years or less.
- 1.7% of final average salary if service is greater than 10 years and no more than 20 years.
- 1.85% of final average salary if service is greater than 20 years but less than 27 years.
- 2.0% of final average salary if service is greater than or equal to 27 years.

For all members, the annual allowance is reduced by 6% per year from the earlier of age 60 or the date the member would have completed 27 years of service.

Disability Retirement Allowance
Condition for Allowance

- Totally and permanently incapable of being employed as a teacher and under age 60 but after completing 5 years of service.

Amount of Allowance

- The disability allowance is equal to the greater of the service retirement allowance or 60% of the member's final average salary. The disability allowance is payable over an entitlement period equal to 25% of the service credited to the member at the date of disability or five years, whichever is longer. After the disability entitlement period has expired and if the member remains disabled, he will be retired under service retirement. The service retirement allowance will be computed with service credit given for the period of disability retirement. The allowance will not be less than $6,000 per year. The service retirement allowance will not be reduced for commencement of the allowance before age 60 or the completion of 27 years of service.

Benefits Payable on Separation from Service

- Any member who ceases to be in service is entitled to receive his contributions with allowable interest. A member who has completed 5 years of creditable service and leaves his contributions with the System may be continued in the membership of the System after separation from service, and file application for service retirement after the attainment of age 60.

Life Insurance

- A separate Life Insurance fund has been created as of June 30, 2000 to pay benefits on behalf of deceased KTRS active and retired members.

Death Benefits
A surviving spouse of an active member with less than 10 years of service may elect to receive an annual allowance of $2,880 except that if income from other sources exceeds $6,600 per year the annual allowance will be $2,160.

A surviving spouse of an active member with 10 or more years of service may elect to receive an allowance which is the actuarial equivalent of the allowance the deceased member would have received upon retirement. The allowance will commence on the date the deceased member would have been eligible for service retirement and will be payable during the life of the spouse.

Schedule F continued ...

If the deceased member is survived by unmarried children under age 18 the following schedule of annual allowances applies:

Number of Children	Annual Allowance
1	$ 2,400
2	4,080
3	4,800
4 or more	5,280

The allowances are payable until a child attains age 18, or age 23 if a full-time student.

If the member has no eligible survivor, a refund of his accumulated contributions is payable to his estate.

Options

In lieu of the regular Option 1, a retirement allowance payable in the form of a life annuity with refundable balance, any member before retirement may elect to receive a reduced allowance which is actuarially equivalent to the full allowance, in one of the following forms:

Option 2. A single life annuity payable during the member's lifetime with payments for 10 years certain.

Option 3. At the death of the member his allowance is continued throughout the life of his beneficiary.

Option 3(a). At the death of the beneficiary designated by the member under Option 3, the member's benefit will revert to what would have been paid had he not selected an option.

Option 4. At the death of the member one half of his allowance is continued throughout the life of his beneficiary.

Option 4(a). At the death of the beneficiary designated by the member under Option 4, the member's benefit will revert to what would have been paid had he not selected an option.

Post-Retirement Adjustments

The retirement allowance of each retired member and of each beneficiary shall be increased by 1.50% each July 1.

3- CONTRIBUTIONS

Member Contributions

University members contribute 7.625% of salary to the Retirement System. Non-university members contribute 9.105% of salary to the Retirement System. Member contributions are picked up by the employer.

SCHEDULE G
Table 1: Age - Service Table
Distribution of Active Members as of June 30, 2014
by Age and Service Groups

Attained Age	0 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	>= 35	TOTAL
24 & under	1,204								1,204
Total Pay	30,306,197								30,306,197
Avg. Pay	25,171								25,171
25 to 29	5,580	1,434							7,014
Total Pay	193,970,612	67,358,025							261,328,637
Avg. Pay	34,762	46,972							37,258
30 to 34	2,781	5,186	1,217						9,184
Total Pay	92,513,906	256,970,385	66,796,986						416,281,277
Avg. Pay	33,266	49,551	54,887						45,327
35 to 39	1,898	2,496	4,429	863	1				9,687
Total Pay	56,555,071	124,293,536	256,631,937	54,675,650	53,340				492,209,534
Avg. Pay	29,797	49,797	57,944	63,355	53,340				50,811
40 to 44	5,052	1,716	2,366	4,050	747	16			13,947
Total Pay	80,379,772	83,794,962	135,195,300	259,149,673	49,078,966	163,529			607,762,202
Avg. Pay	15,910	48,832	57,141	63,988	65,701	10,221			43,577
45 to 49	1,458	1,205	1,432	1,995	2,861	691	7		9,649
Total Pay	33,919,137	60,198,868	82,097,312	126,497,133	194,503,113	48,070,745	176,601		545,462,909
Avg. Pay	23,264	49,958	57,331	63,407	67,984	69,567	25,229		56,531
50 to 54	1,071	794	1,103	1,293	1,454	1,789	327	3	7,834
Total Pay	23,600,498	40,049,425	63,071,897	81,900,405	99,886,590	128,070,681	23,619,195	138,015	460,336,706
Avg. Pay	22,036	50,440	57,182	63,341	68,698	71,588	72,230	46,005	58,761
55 to 59	1,476	467	746	1,030	1,109	919	451	66	6,264
Total Pay	23,836,597	22,197,101	43,680,065	66,568,849	75,368,014	69,124,953	36,616,202	4,867,334	342,259,115
Avg. Pay	16,149	47,531	58,552	64,630	67,960	75,218	81,189	73,747	54,639
60 to 64	1,996	463	446	655	626	534	138	116	4,974
Total Pay	26,390,926	18,546,024	26,950,845	42,661,444	45,836,673	41,747,171	10,565,625	10,334,994	223,033,702
Avg. Pay	13,222	40,056	60,428	65,132	73,222	78,178	76,563	89,095	44,840
65 & over	2,062	532	213	254	220	203	69	97	3,650
Total Pay	18,463,630	14,329,380	11,856,787	16,552,947	16,366,985	15,093,672	6,003,364	8,679,755	107,346,520
Avg. Pay	8,954	26,935	55,666	65,169	74,395	74,353	87,005	89,482	29,410
Total	24,578	14,293	11,952	10,140	7,018	4,152	992	282	73,407
Total Pay	579,936,346	687,737,706	686,281,129	648,006,101	481,093,681	302,270,751	76,980,987	24,020,098	3,486,326,799
Avg. Pay	23,596	48,117	57,420	63,906	68,551	72,801	77,602	85,178	47,493

Average Age: 44.1 **Average Service: 10.7**

Schedule G continued ...

Table 2: Number of Retired Members and Beneficiaries and their Benefits by Age as of June 30, 2014

Attained Age	Number of Members	Total Annual Benefits	Average Annual Benefits
49 & Under	829	$ 10,522,724	$ 12,693
50 - 54	1,217	44,794,025	36,807
55 - 59	4,222	173,283,069	41,043
60 - 64	10,080	391,957,441	38,885
65 - 69	12,149	441,374,364	36,330
70 - 74	8,076	279,210,994	34,573
75 - 79	5,073	162,581,658	32,048
80 - 84	3,409	97,645,359	28,643
85 - 89	2,174	55,087,542	25,339
90 & Over	1,347	28,394,502	21,080
TOTAL	48,576	$ 1,684,851,678	$ 34,685

Average Age: 68.7 Average Age at Retirement: 55.7

Table 3: Schedule of Retirants, Beneficiaries and Survivors Added to and Removed from Rolls

	ADD TO ROLLS		REMOVED FROM ROLLS		ROLLS END OF YEAR			
Fiscal Year	Number	Annual Allowances (Millions)	Number	Annual Allowances (Millions)	Number	Annual Allowances (Millions)	Increase In Annual Allowances	Average Annual Allowance
2005	2,644	$ 105.1	1,036	$ 18.9	37,346	$ 973.1	9.7%	$ 26,058
2006	2,266	121.1	1,115	20.0	38,497	1,074.2	10.4	27,902
2007	2,050	82.1	1,041	20.7	39,506	1,135.6	5.7	28,746
2008	2,183	90.6	950	19.4	40,739	1,206.8	6.3	29,623
2009	2,351	96.2	1,040	22.7	42,050	1,280.3	6.1	30,447
2010	2,105	93.7	1,021	21.8	43,134	1,352.2	5.6	31,348
2011	2,133	98.9	848	17.7	44,419	1,433.4	6.0	32,270
2012	2,513	111.2	838	19.4	46,094	1,525.2	6.4	33,089
2013	2,303	105.7	991	22.2	47,406	1,608.7	5.5	33,934
2014	2,146	99.6	976	23.4	48,576	1,684.9	4.7	34,685

Schedule H

Board Funding Policy

Introduction

Pursuant to the provisions of KRS 161.250, the Board of Trustees ("Board") of the Kentucky Teachers' Retirement Systems ("KTRS") is vested with the responsibility for the general administration and management of the retirement system. The Board may adopt procedures necessary to conduct the business of the retirement system as needed. The applicable provisions of the Kentucky Revised Statutes ("state law") shall control if any inconsistency exists between state law and this policy.

Background

State law provides that the retirement benefits promised to members of KTRS are "…an inviolable contract of the Commonwealth…." (KRS 161.714.) To satisfy this solemn commitment, the Commonwealth of Kentucky ("state") is required to pay annual retirement appropriations necessary to fund the benefit requirements of members of the retirement system. All employers participating in KTRS are responsible for paying the fixed employer contribution rate set forth in state law. However, the state-as plan guarantor-is solely responsible for paying the additional annual retirement appropriations necessary to keep the retirement system actuarially sound and able to satisfy the contract with members to provide promised benefits. (KRS 161.550(6).)

Since fiscal year 2008, the state has not paid the recommended annual retirement appropriations necessary to pre-fund the benefit requirements of members of the retirement system as determined by the actuary. Over this period of time, because of the failure to fund, the state's annual retirement appropriations have grown significantly from $60.5 million (Fiscal Year 2009) to $487 million (Fiscal Year 2016). The following schedule details the growth of the annual retirement appropriations payable by the state:

	Cumulative Increase as a % of Payroll	Cumulative Increase of Annual Retirement Appropriations Payable by the State
2009	1.88	$ 60,499,800
2010	2.46	82,331,200
2011	3.59	121,457,000
2012	5.81	208,649,000
2013	7.27	260,980,000
2014	8.02	299,420,000
2015	10.42	386,400,000
2016	12.97	487,400,000

(Source: KTRS Report of the Actuary on the Annual Valuation Prepared as of June 30, 2013).

The Board has always taken action as required by state law and recommended annual retirement appropriations payable by the state that would ensure that the state meets the contractual obligations to members. This policy confirms the Board's process for recommending annual retirement appropriations payable by the state and the primary actuarial assumptions and methodologies associated with calculating the annual retirement appropriations. Other related actuarial assumptions and methodologies not listed in this policy are reported in annual valuations, the most recent experience study, or resolutions adopted by the Board.

1. Annual Retirement Appropriations Payable by the State: In each biennial budget request, the Board will recommend annual retirement appropriations payable by the state to meet the benefit requirements of the members of the retirement system. The annual retirement appropriations payable by the state are the sum of the fixed employer contribution rate set by state law and the additional annual retirement appropriations necessary to fund the benefit requirements of members of the retirement system. (KRS 161.550.) The recommended additional annual retirement appropriations payable by the state are calculated by the Board's actuary based upon the results of an annual valuation preceding the beginning of each biennium. (KRS 161.400.)

Section H: Board Funding Policy continued ...

2. Calculation of Annual Retirement Appropriations Payable by the State: The Board will recommend annual retirement appropriations payable by the state, which-if paid-will meet the benefit requirements of the members of the retirement system consistent with generally accepted actuarial principles. Based upon technical advice from the Board's actuary, the Board hereby adopts the following principles for calculating the recommended annual retirement appropriations payable by the state:

   - Use the Entry Age Normal actuarial cost method;
   - Use a five-year asset smoothing method;
   - Use a thirty-year closed period to amortize legacy unfunded liability ("legacy unfunded liability" is that unfunded liability recognized as of the valuation prepared for June 30, 2014);
   - Use a twenty-year closed period to amortize new sources of unfunded liability ("new sources of unfunded liability" is that unfunded liability consisting of all benefit changes, assumption and method changes, and experience gains and/or losses that have occurred since the previous valuation); and
   - Reach a 100 percent minimum funded ratio within the thirty-year closed amortization period.

The Board also recognizes that, from time to time, the state may desire to contribute lump sum payments toward satisfaction of unfunded liability rather than amortization of the debt. Total unfunded liability is published in every annual valuation of the retirement system and KTRS will work with the state to develop reasonable and appropriate plans for receipt of lump sum payments toward the satisfaction of unfunded liability.

This policy will be reviewed regularly and amended or revised as necessary.

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Kentucky Teachers' Retirement System

2014

Actuarial Section

Report of the Actuary on the Annual Valuation of the Retiree Medical Plan and the Life Insurance Plan

Cavanaugh Macdonald

CONSULTING, LLC

The experience and dedication you deserve

December 12, 2014

Board of Trustees
Teachers' Retirement System of the State of Kentucky
479 Versailles Road
Frankfort, KY 40601-3800

Members of the Board:

Governmental Accounting Standards Board Statements No. 43 and 45 require the Teachers' Retirement System of the State of Kentucky (the System) to conduct actuarial valuations of the System's retiree medical and other post-employment benefit plans. This report covers the Retiree Medical Plan funded by the Medical Insurance Fund (MIF) and OPEB liabilities related to the Life Insurance Plan funded by the Life Insurance Fund (LIF). Cavanaugh Macdonald Consulting, LLC (CMC) has submitted the results of the annual actuarial valuation prepared as of June 30, 2014. While not verifying the data at source, the actuary performed tests for consistency and reasonability.

The valuation indicates a total annual required contribution of 6.00% of active member payroll for the MIF payable for the fiscal year ending June 30, 2015 is required to support the benefits of the Kentucky Employees' Health Plan (KEHP) and the Medicare Eligible Health Plan (MEHP). Of this amount, 2.27% of payroll is estimated to be paid by University members and 3.00% of payroll is estimated to be paid by all other members, leaving 3.73% and 3.00% respectively, as the remaining annual required contribution. This annual required contribution reflects the actuarial value of assets of the MIF and an 8.00% discount rate for valuing liabilities.

The initial per capita costs of health care and the rates of health care inflation used to project the per capita health care costs have been revised since the previous valuation to reflect recent experience.

The Life Insurance Plan valuation indicates a total annual required contribution of 0.03% of active member payroll payable for the fiscal year ending June 30, 2017 is required to support the benefits of the LIF. This annual required contribution reflects the actuarial value of assets of the LIF and a 7.50% discount rate for valuing liabilities.

The promised benefits of the Retiree Medical and Life Insurance Plans are included in the actuarially calculated contribution rates which are developed using the entry age normal actuarial cost method. Five-year market related value of plan assets is used for actuarial valuation purposes. Gains and losses are reflected in the unfunded accrued liability that is being amortized by regular annual contributions as a level percentage of payroll within a 30-year period, on the assumption that payroll will increase by 4.00% annually. The assumptions recommended by the actuary and adopted by the Board are in aggregate reasonably related to the experience under the Retiree Medical and Life Insurance Plans and to reasonable expectations of anticipated experience under the Retiree Medical and Life Insurance Plans and meet the parameters for the disclosures under GASB 43 and 45.

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Board of Trustees
December 12, 2014
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CMC has prepared the trend information shown in the Schedule of Funding Progress in the Financial Section of the Annual Report and Section VII shown in the Actuarial Section of the Annual Report.

This is to certify that the independent consulting actuaries are members of the American Academy of Actuaries and have experience in performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the Retiree Medical and Life Insurance Plans and on actuarial assumptions that are internally consistent and reasonably based on the actual experience of the plans.

Future actuarial results may differ significantly from the current results presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Since the potential impact of such factors is outside the scope of a normal annual actuarial valuation, an analysis of the range of results is not presented herein.

In our opinion, if the State contributions to the Medical Insurance Fund continue to increase to the planned levels, the Retiree Medical Plan will begin to operate in an actuarially sound basis. Assuming that required contributions to the Medical Insurance Fund are made by the employer from year to year in the future at the levels required on the basis of the successive actuarial valuations, the actuarial soundness of the Medical Insurance Fund to provide the benefits called for under the Retiree Medical Plan will improve.

Respectfully submitted,

Eric Gary, FSA, FCA, MAAA
Senior Actuary

Alisa Bennett, FSA, EA, FCA, MAAA
Principal and Senior Actuary

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Report of Actuary on the Annual Valuation of the Retiree Medical and Life Insurance Plans
Prepared as of June 30, 2014
Section I - Summary of Principal Results

1. For convenience of reference, the principal results of the valuation and a comparison with the results of the previous valuation are summarized below (dollar amounts are in thousands):

Valuation Date	June 30, 2014	June 30, 2013
Number of active members	73,407	74,831
Annual salaries	$ 3,486,327	$ 3,480,066
Number of deferred vested members	5,188	4,910
Number of annuitants in medical plans	37,275	36,777
Number of spouses and beneficiaries in medical plans*	7,031	7,053
Total	44,306	43,830
Assets:		
Market value	$ 535,995	$ 413,666
Actuarial value	$ 508,913	$ 412,185
Unfunded actuarial accrued liability	$ 2,685,776	$ 3,108,888
Amortization period (years)	30	30
Discount rate	8.00%	8.00%

* *Spouses of post-65 retirees, as well as surviving spouses of deceased retirees on or after July 1, 2002, pay 100% of the full contribution. 100% of the full contribution for non-Medicare eligible dependents is paid through a combination of payments from beneficiaries and the State.*

Medical Insurance Fund Contribution Rates for University Members

Valuation Date	June 30, 2014		June 30, 2013	
Contribution For Fiscal Year Ending	June 30, 2015		June 30, 2014	
	Members hired before 7/1/2008	Members hired on or after 7/1/2008	Members hired before 7/1/2008	Members hired on or after 7/1/2008
Normal	1.79 %	1.79 %	1.92 %	1.92 %
Accrued liability	4.21	4.21	4.88	4.88
Total	6.00 %	6.00 %	6.80 %	6.80 %
Member	2.27 %	2.27 %	1.75 %	1.75 %
Employer (ARC)	2.27	1.27	1.75	0.75
State (ARC)	1.46	2.46	3.30	4.30
Total	6.00 %	6.00 %	6.80 %	6.80 %

Medical Insurance Fund Contribution Rates for School District Employees (Non-Federal)

Valuation Date	June 30, 2014		June 30, 2013	
Contribution For Fiscal Year Ending	June 30, 2015		June 30, 2014	
	Members hired before 7/1/2008	Members hired on or after 7/1/2008	Members hired before 7/1/2008	Members hired on or after 7/1/2008
Normal	1.79 %	1.79 %	1.92 %	1.92 %
Accrued liability	4.21	4.21	4.88	4.88
Total	6.00 %	6.00 %	6.80 %	6.80 %
Member	3.00 %	3.00 %	2.25 %	2.25 %
Employer (ARC)	2.25	2.25	1.50	1.50
State (ARC)	0.75	0.75	3.05	3.05
Total	6.00 %	6.00 %	6.80 %	6.80 %

Medical Insurance Fund Contribution Rates for Other Employees

Valuation Date	**June 30, 2014**		**June 30, 2013**	
Contribution For Fiscal Year Ending	June 30, 2015		June 30, 2014	
	Members hired before 7/1/2008	Members hired on or after 7/1/2008	Members hired before 7/1/2008	Members hired on or after 7/1/2008
Normal	1.79 %	1.79 %	1.92 %	1.92 %
Accrued liability	4.21	4.21	4.88	4.88
Total	6.00 %	6.00 %	6.80 %	6.80 %
Member	3.00 %	3.00 %	2.25 %	2.25 %
Employer (ARC)	3.00	2.00	2.25	1.25
State (ARC)	0.00	1.00	2.30	3.30
Total	6.00 %	6.00 %	6.80 %	6.80 %

Life Insurance Fund
(dollar amounts in thousands)

Valuation Date	**June 30, 2014**	**June 30, 2013**
Number of active members	73,407	74,831
Annual salaries	$ 3,486,327	$ 3,480,066
Number of vested former members	4,113	3,839
Number of retirees in Life Insurance Plan	44,855	43,845
Assets:		
Market value	$ 90,823	$ 89,957
Actuarial value	$ 96,130	$ 94,863
Unfunded actuarial accrued liability*	$ 1,224	$ (538)
Amortization period (years)	30	30
Discount rate	7.50%	7.50 %

Contribution for fiscal year ending	**June 30, 2017**	**June 30, 2016**
Normal	0.03 %	0.03 %
Accrued liability	0.00	0.00
Total	0.03 %	0.03 %

** Includes liability for death in active service. This amount could be segregated from the OPEB liability and assets could be split for active and post-employment purposes. However, since this could be administratively burdensome and since death in active service liabilities can be considered de minimis, it is acceptable to consider the entire liability an OPEB liability under GASB 43 and 45.*

2. The valuation indicates combined member, employer, and State contributions of 6.00% of active member payroll would be sufficient to support the current benefits of the Retiree Medical Plan and State contributions of 0.03% of active member payroll would be sufficient to support the current benefits of the Life Insurance Plan. Comments on the valuation results as of June 30, 2014 are given in Section IV and further discussion of the contribution levels is set out in Sections VI and VII.

3. Since the previous valuation, the initial per capita costs of health care and the rates of health care inflation used to project the per capita health care costs have been revised to reflect recent experience.

Report of Actuary on the Annual Valuation of the Retiree Medical and Life Insurance Plans continued ...

4. There were no changes in benefit provisions since the last valuation. However, the health insurance plan designs have changed for eligible retirees. The changes are summarized below.

- The Kentucky Employees' Health Plan (KEHP), the self-insured plan for active employees and non-Medicare eligible retirees administered by the Commonwealth of Kentucky, has made the following changes for plan year 2015:
    - The new medical plan administrator is Anthem Blue Cross Blue Shield.
    - The new prescription drug plan administrator is CVS/caremark and changes were made to the prescription drug formulary.
    - Out-of-pocket maximums are now tracked separately for medical and prescription drug coverage. Prescription drug coverage is now capped.
    - The LivingWell PPO plan has lowered co-pays for mental health and allergy injections.

- The MEHP, the plan for Medicare eligible retirees administered by KTRS, has made the following changes for plan year 2015:
    - The new medical plan administrator is UnitedHealthcare (UHC), and a number of enhancements were made to the medical plan.
    - The prescription drug plan is now self-funded.

Section II - MEMBERSHIP DATA

1. Data regarding the membership of the Retiree Medical and Life Insurance Plans for use as a basis of the valuation were furnished by the System's office. The following tables summarize the membership of the System as of June 30, 2014, upon which the valuation was based. Detailed tabulations of the data are given in Schedule F.

Active Members as of June 30, 2014

Group	Number	Annual Salaries ($1,000's)
University Full Time hired before 7/1/2008	2,235	$ 158,132
University Full Time hired after 7/1/2008	1,172	57,918
University Part Time hired before 7/1/2008	31	1,452
University Part Time hired after 7/1/2008	66	1,667
Non-University Full Time hired before 7/1/2008	43,827	2,653,054
Non-University Full Time hired after 7/1/2008	12,562	537,383
Non-University Part Time hired before 7/1/2008	6,911	51,444
Non-University Part Time hired after 7/1/2008	6,603	25,277
TOTAL	73,407	$ 3,486,327

The table reflects the active membership for whom complete valuation data was submitted. The results of the valuation were adjusted to take account of inactive members and members for whom incomplete data was submitted.

2. The following tables show the number of retired members and their beneficiaries receiving health care as of the valuation date as well as average ages.

Retirees Receiving Health Benefits as of June 30, 2014

	Under Age 65	Age 65 and Over	TOTAL
Number	13,163	24,112	37,275
Average Age	60.4	73.9	69.1

Spouses Receiving Health Benefits as of June 30, 2014

	Under Age 65	Age 65 and Over	TOTAL
Number	2,990	4,041	7,031
Average Age	59.2	75.3	68.5

3. The Retiree Medical Plan valuation also includes 5,188 deferred vested members eligible for health care at age 60.

Section III - ASSETS

1. As of June 30, 2014 the market value of MIF assets held by the Retiree Medical Plan amounted to $535,995,450 and the market value of LIF assets held by the Life Insurance Plan amounted to $90,822,970.

2. The five-year market related value of MIF assets used for valuation purposes as of June 30, 2014 was $508,913,385 and the five-year market related value of LIF assets used for valuation purposes as of June 30, 2014 was $96,130,349. Schedule B shows the development of the actuarial value of assets as of June 30, 2014.

3. Schedule C shows the receipts and disbursements for the year preceding the valuation date and a reconciliation of the asset balances for the MIF and the LIF.

Section IV - COMMENTS ON VALUATION

1. Schedule A of this report outlines the results of the actuarial valuation. The valuation was prepared in accordance with the actuarial assumptions and the actuarial cost method, which are described in Schedule D.

2. The valuation shows the Retiree Medical Plan has an actuarial accrued liability of $1,422,833,776 for benefits expected to be paid on account of the present active membership, based on service to the valuation date. The liability on account of deferred vested members amounts to $24,300,513. The liability on account of benefits payable to retirees and covered spouses amounts to $1,747,554,616. The total actuarial accrued liability of the Retiree Medical Plan amounts to $3,194,688,905. Against these liabilities, the Retiree Medical Plan has present assets for valuation purposes of $508,913,385. When this amount is deducted from the actuarial accrued liability of $3,194,688,905, there remains $2,685,775,520 as the unfunded actuarial accrued liability for the Retiree Medical Plan.

3. The normal contribution is equal to the actuarial present value of benefits accruing during the current year. The normal contribution for the Retiree Medical Plan is determined to be $62,262,315, or 1.79% of payroll.

4. The valuation shows that the Life Insurance Plan has an actuarial accrued liability of $16,330,423 for benefits expected to be paid on account of the present active membership, based on service to the valuation date. The liability on account of deferred vested members amounts to $2,034,372. The liability on account of benefits payable to retirees amounts to $78,989,251. The total actuarial accrued liability of the Life Insurance Plan amounts to $97,354,046. This amount includes liability for death in active service. The liability for death in active service could be segregated from the OPEB liability and assets could be split for active and post-employment purposes. As this could be administratively burdensome and, as death in active service liabilities can be considered de minimis, it is acceptable to consider the entire liability an OPEB liability under GASB 43 and 45. Against these liabilities, the Life Insurance Plan has present assets for valuation purposes of $96,130,349. When this amount is deducted from the actuarial accrued liability of $97,354,046, there remains $1,223,697 as the unfunded actuarial accrued liability for the life insurance plan.

5. The normal contribution is equal to the actuarial present value of benefits accruing during the current year. The normal contribution for the life insurance plan is determined to be $1,078,937, or 0.03% of payroll.

Section V - DERIVATION OF EXPERIENCE GAINS AND LOSSES

1. Actual experience will never (except by coincidence) coincide exactly with assumed experience. It is assumed that gains and losses will be in balance over a period of years, but sizable year to year fluctuations are common. Detail on the derivation of the experience gain (loss) for the year ended June 30, 2014 is shown below ($1,000's).

	EXPERIENCE GAIN/(LOSS) OF THE:	MEDICAL INSURANCE FUND	LIFE INSURANCE FUND
(1)	UAAL* as of 6/30/2013	$ 3,108,888	$ (538)
(2)	Normal cost from last valuation	66,891	1,052
(3)	Expected employer contributions	236,800	1,024
(4)	Interest accrual: [(1) + (2) - (3)] x interest**	235,118	(38)
(5)	Expected UAAL before changes: (1) + (2) - (3) + (4)	3,174,097	(548)
(6)	Change due to plan amendments	0	0
(7)	Change due to new actuarial assumptions	0	0
(8)	Change due to claims experience	(533,866)	0
(9)	Expected UAAL after changes: (5) + (6) + (7) + (8)	$ 2,640,231	$ (548)
(10)	Actual UAAL as of 6/30/2014	$ 2,685,776	$ 1,224
(11)	Total gain/(loss): (9) - (10)	(45,545)	(1,772)
	(a) Contribution shortfall and investment loss	409	3,254
	(b) Experience gain/(loss) (11) - (11a)	$ (45,954)	$ (5,026)
(12)	Accrued liabilities as of 6/30/2013	$ 3,521,073	$ 94,325
(13)	Experience gain/(loss) as percent of actuarial accrued liabilities at start of year (11b) / (12)	(1.3%)	(5.3%)

* *Unfunded Actuarial Accrued Liability*
** *Interest is 8.0% for the Medical Insurance Fund and 7.5% for the Life Insurance Fund*

Section VI - CONTRIBUTIONS PAYABLE UNDER THE PLANS

1. Sections 161.420 and 161.550 of the Kentucky Revised Statutes provide the amounts employers and the State are required to contribute to the Medical Insurance Fund. These contribution amounts vary by fiscal year, date of membership, and employee type.

Employer Percentage of Payroll Contributions Made to Medical Insurance Fund

Fiscal Year Ending	UNIVERSITY EMPLOYEES: Members hired before 7/1/2008	UNIVERSITY EMPLOYEES: Members hired on or after 7/1/2008	SCHOOL DISTRICT EMPLOYEES (Non-Federal)*: Members hired before 7/1/2008	SCHOOL DISTRICT EMPLOYEES (Non-Federal)*: Members hired on or after 7/1/2008	OTHER EMPLOYEES: Members hired before 7/1/2008	OTHER EMPLOYEES: Members hired on or after 7/1/2008
2015	2.270 %	1.270 %	2.250 %	2.250 %	3.000 %	2.000 %
2016 and Later	2.775	1.775	3.000	3.000	3.750	2.750

** In addition to the amounts contributed by School Districts on behalf of Non-Federal employees, the State contributes 0.75%.*

For the fiscal year ending June 30, 2015, member contributions will be 2.27% for University employees and 3.00% for all other members. CMC recommends employer and State contributions of the required amount of 3.73% of payroll for University employees and 3.00% of payroll for all other members. The State is scheduled to contribute 0.03% of salary to the Life Insurance Fund for the fiscal year ending June 30, 2016. CMC's valuation indicates a contribution of 0.03% for the fiscal year ending June 30, 2017 is required to sufficiently support the benefits of the life insurance plan.

Required Contribution Rates
For Fiscal Year Ending June 30, 2015
Medical Insurance Fund

Normal	1.79 %
Accrued liability	4.21
Total	6.00 %

	UNIVERSITY EMPLOYEES: Members hired prior 7/1/2008	UNIVERSITY EMPLOYEES: Members hired on or after 7/1/2008	SCHOOL DISTRICT EMPLOYEES (Non-Federal): Members hired prior 7/1/2008	SCHOOL DISTRICT EMPLOYEES (Non-Federal): Members hired on or after 7/1/2008	OTHER EMPLOYEES: Members hired prior 7/1/2008	OTHER EMPLOYEES: Members hired on or after 7/1/2008
Member	2.27 %	2.27 %	3.00 %	3.00 %	3.00 %	3.00 %
Employer (ARC)	2.27	1.27	2.25	2.25	3.00	2.00
State (ARC)	1.46	2.46	0.75	0.75	0.00	1.00
Total	6.00 %	6.00 %	6.00 %	6.00 %	6.00 %	6.00 %

Required Contribution Rates
Life Insurance Fund
For Fiscal Year Ending June 30, 2017

Normal	0.03 %
Accrued liability	0.00
Total	0.03 %
Member	0.00 %
State (ARC)	0.03
Total	0.03 %

2. The valuation indicates that a total normal contribution of 1.79% of payroll is required to meet the cost of benefits currently accruing under the Retiree Medical Plan and 0.03% of payroll is required to meet the cost of benefits currently accruing under the Life Insurance Plan. The difference between the total contribution and the normal contribution remains to be applied toward the liquidation of the unfunded actuarial accrued liability. This accrued liability payment is 4.21% of payroll for the Retiree Medical Plan and 0.00% of payroll for the Life Insurance Plan.

3. The unfunded actuarial accrued liability amounts to $2,685,775,520 for the Retiree Medical Plan and $1,223,697 for the Life Insurance Plan as of the valuation date. An accrued liability contribution of 4.21% of payroll for the Retiree Medical Plan and 0.00% of payroll for the Life Insurance Plan is sufficient to amortize the unfunded actuarial accrued liabilities over a 30-year period, based on the assumption that the payroll will increase by 4.00% annually.

Section VII - COMMENTS ON LEVEL OF FUNDING

1. The System's monthly contribution for retirees who opt into the Retiree Medical Plan is based upon date of hire, date of attaining age 65, and years of service at retirement. Additionally, beneficiary contributions may vary by date of hire, date of attaining age 65, years of service at retirement, plan election, Medicare eligibility, and tobacco use. Beneficiary contributions for dependents are targeted to be 100% of the cost of expected claims for spouses age 65 and older. Historically, this target has been achieved. 100% of the full cost for non-Medicare eligible dependents is paid through a combination of payments from beneficiaries and the State. Current employer and State contributions have been determined to be insufficient to fund the cost of the benefits to be provided. Benefits for university, school district (non-Federal), and other members are identical, although active employee contributions collected from university, school district (non-Federal), and other members differ. A listing of active member Retiree Medical Plan contributions by fiscal year, date of membership, and employer type is provided in Schedule E.

2. This valuation provides the contributions required to fund the Retiree Medical Plan in an actuarially sound manner and to ensure the future solvency of the Medical Insurance Fund. For University employees a member contribution of 2.27% of payroll together with employer and State contributions of 3.73% of payroll are required to meet the cost of benefits currently accruing and provide for the amortization of the unfunded actuarial accrued liability over a period of 30 years. For the remaining membership, a member contribution of 3.00% of payroll together with employer and State contributions of 3.00% of payroll is required to meet the cost of benefits currently accruing and provide for the amortization of the unfunded actuarial accrued liability over a period of 30 years.

Section VIII - ACCOUNTING INFORMATION

1. Governmental Accounting Standards Board Statements 43 and 45 set forth certain items of required supplementary information to be disclosed in the financial statements of the Retiree Medical and Life Insurance Plans and the employer.

Number of Active and Retired Members in Medical Plan as of June 30, 2014

GROUP	NUMBER
Retirees currently receiving health benefits	37,275
Spouses of retirees currently receiving health benefits	7,031
Terminated employees entitled to benefits but not yet receiving benefits	5,188
Active plan members	73,407
Total	**122,901**

Number of Active and Retired Members in Life Insurance Plan as of June 30, 2014

GROUP	NUMBER
Retirees	44,855
Terminated employees	4,113
Active plan members	73,407
Total	**122,375**

Schedule of Funding Progress [1]
Medical Insurance Fund
(Dollar amount in thousands)

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITIES (AAL)	UNFUNDED AAL (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A % OF COVERED PAYROLL
	A	B	(B-A)	(A/B)	C	[(B-A)/C]
6/30/2009 [2]	$ 229,103	$ 6,454,733	$ 6,225,630	3.5 %	$ 3,253,077	191.4%
6/30/2010 [3]	241,224	3,206,806	2,965,582	7.5	3,321,614	89.3
6/30/2011 [4]	294,819	3,423,149	3,128,330	8.6	3,451,756	90.6
6/30/2012	338,746	3,594,540	3,255,794	9.4	3,479,567	93.6
6/30/2013	412,185	3,521,073	3,108,888	11.7	3,480,066	89.3
6/30/2014	508,913	3,194,689	2,685,776	15.9	3,486,327	77.0

[1] *Actuarial cost method of Projected Unit Credit prior to 6/30/2011 and Entry Age Normal 6/30/2011 and after.*
[2] *Reflects change in participation assumptions and plan design.*
[3] *Reflects change in discount rate to 8.0%, change in plan design and updating medical trend.*
[4] *Reflects change in decrement assumptions and updating medical trend.*

Schedule of Funding Progress [1]
Life Insurance Fund
(Dollar amount in thousands)

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITIES (AAL)	UNFUNDED AAL (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A % OF COVERED PAYROLL
	A	B	(B-A)	(A/B)	C	[(B-A)/C]
6/30/2009	$ 84,703	$ 90,334	$ 5,631	93.8 %	$ 3,253,077	0.17%
6/30/2010	87,905	92,091	4,186	95.5	3,321,614	0.13
6/30/2011	88,527	88,088	(439)	100.5	3,451,756	(0.01)
6/30/2012	92,241	91,398	(843)	100.9	3,479,567	(0.02)
6/30/2013	94,863	94,325	(538)	100.6	3,480,066	(0.02)
6/30/2014	96,130	97,354	1,224	98.7	3,486,327	0.04

[1] *Actuarial cost Method of Projected Unit Credit prior to 6/30/2011 and Entry Age Normal 6/30/2011 and after.*

2. The information presented in the required supplementary schedules was determined as part of the actuarial valuation at June 30, 2014. Additional information as of the latest actuarial valuation follows.

Valuation Date	Actuarial Cost Method	Amortization Method	Remaining Amortization Period	Asset Valuation Method	Actuarial Assumptions: Investment Rate of Return*	Actuarial Assumptions: Investment Rate of Return*
06/30/2014	Entry age	Level percent of pay, open	30 years	Market value of assets	8.00%-Retiree Medical Plan	7.50%-Retiree Life Insurance Plan

Medical Trend Assumption	Pre-Medicare**	Medicare
Fiscal Year Ending 6/30/2015	7.75 %	5.75 %
Fiscal Year Ending 6/30/2016	6.75 %	5.50 %
Ultimate Trend Rate	5.00 %	5.00 %
Year of Ultimate Trend Rate	2020	2018

* *Includes price inflation at 3.50%.*
***Alternate trend rates were used for Medicare Part B premiums and are disclosed in Schedule D.*

Schedule of Employer Contributions
Medical Insurance Fund

FISCAL YEAR ENDING	ANNUAL REQUIRED CONTRIBUTION (ARC)	ACTUAL EMPLOYER CONTRIBUTION	RDS CONTRIBUTION	TOTAL CONTRIBUTION	PERCENTAGE OF ARC CONTRIBUTED
	(A)	(B)	(C)	(B) + (C)	[(B) + (C)]/(A)
6/30/2009	$ 467,312,904	$ 164,480,119	$ 13,611,748	$ 178,091,867	38.1%
6/30/2010	457,054,117	158,765,496	14,614,285	173,379,781	37.9
6/30/2011	477,723,070	188,453,929	280,585	188,734,514	39.5
6/30/2012	470,217,067	177,450,206	297,639	177,747,845	37.8
6/30/2013	186,725,823	166,611,420	0	166,611,420	89.2
6/30/2014	159,583,400	162,568,395	0	162,568,395	101.9

Schedule of Employer Contributions
Life Insurance Fund

FISCAL YEAR ENDING	ANNUAL REQUIRED CONTRIBUTION (ARC)	ACTUAL EMPLOYER CONTRIBUTION	PERCENTAGE OF ARC CONTRIBUTED
	(A)	(B)	(B) / (A)
6/30/2009	$ 1,498,076	$ 5,455,473	364.2%
6/30/2010	1,992,969	1,966,826	98.7
6/30/2011	1,725,878	1,668,822	96.7
6/30/2012	1,732,831	1,684,711	97.2
6/30/2013	1,739,908	1,680,495	96.6
6/30/2014	1,044,959	1,006,091	96.3

3. Following is the calculation of the Annual OPEB Cost (AOC) and the Net OPEB Obligation (NOO) for the fiscal year ending June 30, 2014. As the Retiree Medical and Life Insurance Plans are cost-sharing multiple-employer plans, GASB Statement 45 does not require the participating employers to disclose this information

Annual OPEB Cost and Net OPEB Obligation
for the Medical Insurance Fund for Fiscal Year Ending June 30, 2014

(a) Employer Annual Required Contribution	$ 159,583,400
(b) Interest on Net OPEB Obligation	117,574,804
(c) Adjustment to Annual Required Contribution	80,322,070
(d) Annual OPEB Cost: (a) + (b) - (c)	$ 196,836,134
(e) Employer Contributions for Fiscal Year 2014	162,568,395
(f) Increase in Net OPEB Obligation: (d) - (e)	$ 34,267,739
(g) Net OPEB Obligation at beginning of Fiscal Year	1,469,685,047
(h) Net OPEB Obligation at end of Fiscal Year: (f) + (g)	$ 1,503,952,786

Trend Information for the Medical Insurance Fund

Fiscal Year Ending	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation (NOO)
6/30/2009	$ 469,492,218	37.9 %	$ 525,816,306
6/30/2010	461,942,516	37.5	814,379,040
6/30/2011	485,294,173	38.9	1,110,938,699
6/30/2012	480,545,219	37.0	1,413,736,073
6/30/2013	222,560,394	74.9	1,469,685,047
6/30/2014	196,836,134	82.6	1,503,952,786

Annual OPEB Cost and Net OPEB Obligation for the Life Insurance Fund for Fiscal Year Ending June 30, 2014

(a) Employer Annual Required Contribution	$ 1,044,959
(b) Interest on Net OPEB Obligation	(604,962)
(c) Adjustment to Annual Required Contribution	(417,164)
(d) Annual OPEB Cost: (a) + (b) - (c)	857,161
(e) Employer contributions for Fiscal Year 2014	1,006,091
(f) Increase in Net OPEB Obligation: (d) - (e)	(148,930)
(g) Net OPEB Obligation at beginning of Fiscal Year	(8,066,159)
(h) Net OPEB Obligation at end of Fiscal Year: (f) + (g)	$ (8,215,089)

Trend Information for the Life Insurance Fund

Fiscal Year Ending	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation (NOO)
6/30/2009	$ 1,416,656	385.1%	$ (7,535,867)
6/30/2010	1,817,516	108.2	(7,685,177)
6/30/2011	1,546,950	107.9	(7,807,049)
6/30/2012	1,551,065	108.6	(7,940,695)
6/30/2013	1,555,031	108.1	(8,066,159)
6/30/2014	857,161	117.4	(8,215,089)

SCHEDULE A

RESULTS OF THE VALUATION AS OF JUNE 30, 2014
(Dollar amounts in thousands)

		Medical Insurance Fund	Life Insurance Fund
PAYROLL		$ 3,486,327	$ 3,486,327
ACTUARIAL ACCRUED LIABILITY			
Present value of prospective benefits payable in respect of:			
(a)	Present active members	$ 1,422,834	$ 16,331
(b)	Present terminated vested members	24,301	2,034
(c)	Present retired members and covered spouses	1,747,554	78,989
(d)	Total actuarial accrued liability	$ 3,194,689	$ 97,354
PRESENT ASSETS FOR VALUATION PURPOSES		508,913	96,130
UNFUNDED ACTUARIAL ACCRUED LIABILITY		$ 2,685,776	$ 1,224
CONTRIBUTIONS		Fiscal Year Ending June 30, 2015	Fiscal Year Ending June 30, 2017
	Normal	1.79%	0.03%
	Accrued Liability	4.21	0.00
	Total	6.00%	0.03%
	Member	2.95%	0.00%
	Employer (ARC)	2.23	0.00
	State (ARC)	0.82	0.03
	Total	6.00%	0.03%

MEDICAL INSURANCE FUND
Solvency Test
(Dollar amounts in millions)

Valuation Date	(1) Active Member Contributions	(2) Retirants And Beneficiaries	(3) Active Members (Employer Financed Portion)	Valuation Assets	Portion of Accrued Liabilities Covered by Assets (1)	(2)	(3)
6/30/2009	n/a	$ 3,203.7	$ 3,251.0	$ 229.1	n/a	7 %	0 %
6/30/2010	n/a	1,948.6	1,258.2	241.2	n/a	12	0
6/30/2011	n/a	1,910.1	1,513.1	294.8	n/a	15	0
6/30/2012	n/a	2,046.7	1,547.9	338.7	n/a	17	0
6/30/2013	n/a	2,001.8	1,519.3	412.2	n/a	21	0
6/30/2014	n/a	1,771.9	1,422.8	508.9	n/a	29	0

Schedule A continued ...

LIFE INSURANCE FUND
Solvency Test
(Dollar amounts in millions)

Valuation Date	(1) Active Member Contributions	(2) Retirants And Beneficiaries	(3) Active Members (Employer Financed Portion)	Valuation Assets	Portion of Accrued Liabilities Covered by Assets (1)	(2)	(3)
6/30/2009	n/a	$ 72.0	$ 18.4	$ 84.7	n/a	100%	69%
6/30/2010	n/a	74.4	17.7	87.9	n/a	100	76
6/30/2011	n/a	72.2	15.9	88.5	n/a	100	103
6/30/2012	n/a	75.2	16.2	92.2	n/a	100	105
6/30/2013	n/a	78.1	16.2	94.9	n/a	100	104
6/30/2014	n/a	81.0	16.3	96.1	n/a	100	93

SCHEDULE B

DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS
MEDICAL INSURANCE FUND
AS OF JUNE 30, 2014

(1)	Actuarial Value of Assets Beginning of Year		$ 412,184,887
(2)	Market Value of Assets End of Year		$ 535,995,450
(3)	Market Value of Assets Beginning of Year		$ 413,665,765
(4)	Cash Flow		
	a.	Contributions	$ 292,879,305
	b.	Benefit Payments	237,190,550
	c.	Administrative Expense	1,100,133
	d.	Net: (4)a - (4)b - (4)c	$ 54,588,622
(5)	Investment Income		
	a.	Market total: (2) - (3) - (4)d	$ 67,741,063
	b.	Assumed Rate	8.00%
	c.	Amount for Immediate Recognition: [(3) x (5)b] + [(4)d x (5)b x 0.5]	35,276,806
	d.	Amount for Phased-In Recognition: (5)a - (5)c	$ 32,464,257
(6)	Phased-In Recognition of Investment Income		
	a.	Current Year: 0.20 x (5)d	$ 6,492,851
	b.	First Prior Year	370,219
	c.	Second Prior Year	0
	d.	Third Prior Year	0
	e.	Fourth Prior Year	0
	f.	Total Recognized Investment Gain	$ 6,863,070
(7)	Actuarial Value of Assets End of Year: (1) + (4)d + (5)c + (6)f		$ 508,913,385
(8)	Difference Between Market & Actuarial Values: (2) - (7)		$ 27,082,065
(9)	Rate of Return on Actuarial Value:		9.59%

Schedule B continued ...

DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS
LIFE INSURANCE FUND
AS OF JUNE 30, 2014

(1)	Actuarial Value of Assets Beginning of Year		$	94,863,265
(2)	Market Value of Assets End of Year		$	90,822,970
(3)	Market Value of Assets Beginning of Year		$	89,957,358
(4)	Cash Flow			
	a.	Contributions	$	1,006,091
	b.	Benefit Payments		4,692,000
	c.	Administrative Expense		21,324
	d.	Net: (4)a - (4)b - (4)c	$	(3,707,233)
(5)	Investment Income			
	a.	Market total: (2) - (3) - (4)d	$	4,572,845
	b.	Assumed Rate		7.50%
	c.	Amount for Immediate Recognition: [(3) x (5)b] + [(4)d x (5)b x 0.5]		6,607,781
	d.	Amount for Phased-In Recognition: (5)a - (5)c	$	(2,034,936)
(6)	Phased-In Recognition of Investment Income			
	a.	Current Year: 0.20 x (5)d	$	(406,987)
	b.	First Prior Year		(1,226,477)
	c.	Second Prior Year		0
	d.	Third Prior Year		0
	e.	Fourth Prior Year		0
	f.	Total Recognized Investment Gain	$	(1,633,464)
(7)	Actuarial Value of Assets End of Year: (1) + (4)d + (5)c + (6)f		$	96,130,349
(8)	Difference Between Market & Actuarial Values: (2) - (7)		$	(5,307,379)
(9)	Rate of Return on Actuarial Value:			5.35%

SCHEDULE C

MEDICAL INSURANCE FUND
Summary of Receipts & Disbursements
(Market Value)

	For the Year Ending June 30, 2014	June 30, 2013
RECEIPTS FOR THE YEAR		
Contributions		
Members Statutory	$ 74,329,798	$ 58,440,844
Payment by Retired Members	60,861,093	61,354,936
TOTAL MEMBERS	135,190,891	119,795,780
Employer/State Statutory Contributions	73,088,414	60,076,444
State Statutory - Transition Fund/KEHP	84,600,000	106,500,000
General Fund Surplus	0	0
Allotment from Pension Fund	0	0
TOTAL EMPLOYER	157,688,414	166,576,444
GRAND TOTAL	292,879,305	286,372,224
Recovery Income	4,879,981	34,976
Medicare D Receipts	0	0
Net Investment Income	67,741,063	30,718,836
TOTAL	365,500,349	317,126,036
DISBURSEMENTS FOR THE YEAR		
Refunds to Members	0	0
Administrative Expense	1,100,133	1,275,206
Medical Insurance Expense	242,070,531	240,931,618
TOTAL	243,170,664	242,206,824
Excess of Receipts over Disbursements	122,329,685	74,919,212
RECONCILIATION OF ASSET BALANCES		
Asset Balance as of the Beginning of the Year	413,665,765	338,746,553
Excess of Receipts over Disbursements	122,329,685	74,919,212
Asset Balance as of the End of the Year	$ 535,995,450	$ 413,665,765

Schedule C continued ...

LIFE INSURANCE FUND
Summary of Receipts & Disbursements
(Market Value)

	For the Year Ending June 30, 2014	June 30, 2013
RECEIPTS FOR THE YEAR		
Contributions		
Members	$ 0	$ 0
State	1,006,091	1,680,495
TOTAL	1,006,091	1,680,495
Net Investment Income	4,572,845	674,760
TOTAL	5,578,936	2,355,255
DISBURSEMENTS FOR THE YEAR		
Benefit Payments	4,692,000	4,614,718
Refunds to Members	0	0
Medical Insurance Payments	0	0
Miscellaneous, including expenses	21,324	24,425
TOTAL	4,713,324	4,639,143
EXCESS OF RECEIPTS OVER DISBURSEMENTS	865,612	(2,283,888)
RECONCILIATION OF ASSET BALANCES		
Asset Balance as of the Beginning of the Year	89,957,358	92,241,246
Excess of Receipts over Disbursements	865,612	(2,283,888)
Asset Balance as of the End of the Year	$ 90,822,970	$ 89,957,358

SCHEDULE D
Statement of Actuarial Assumptions and Methods

The rates of retirement, disability, mortality, termination, and salary increases used in the valuation were selected based on the actuarial experience study prepared as of June 30, 2010, submitted to and adopted by the Board on September 19, 2011. The rates of future participation, health care cost trend rates, and expected plan costs were determined by the actuary based on plan experience.

Valuation Date: June 30, 2014

Discount Rate: 8.0% per annum, compounded annually for Medical Insurance Fund.
7.5% per annum, compounded annually for Life Insurance Fund.

Schedule D continued ...

Health Care Cost Trend Rates: Following is a chart detailing trend assumptions.

Annual Trend Rate

Fiscal Year Ended	Medicare Part B	Under Age 65	Age 65 and Over
2015	0.76 %	7.75 %	5.75 %
2016	3.93	6.75	5.50
2017	5.78	6.25	5.25
2018	5.42	5.75	5.00
2019	5.63	5.25	5.00
2020	5.56	5.00	5.00
2021	5.49	5.00	5.00
2022	5.55	5.00	5.00
2023	5.39	5.00	5.00
2024	5.12	5.00	5.00
2025 and beyond	5.00	5.00	5.00

Age Related Morbidity: For retirees ages 65 and older, per capita health care costs are adjusted to reflect expected health care cost changes related to age. The increase to the net incurred health care claims is assumed to be:

Participant Age	Annual Increases
65 – 69	3.0 %
70 – 74	2.5
75 – 79	2.0
80 – 84	1.0
85 - 89	0.5
90 and over	0.0

For the retiree health care liabilities of those under age 65, the current premium charged by the Kentucky Employees' Health Plan (KEHP) is used as the base cost and is projected forward using the healthcare trend assumption. No implicit rate subsidy is calculated or recognized as the implicit rate subsidy is deemed the responsibility of the KEHP.

Retiree Medical Plan Costs: Assumed per capita health care costs were based on past experience and trended based on the assumptions. Following are charts detailing retiree per capita assumptions. These amounts include medical, drug, and administrative costs and represent the amount that KTRS pays as the full contribution amount. The amounts include medical and drug costs. An additional $6.58 per month is paid to the Department of Employee Insurance (DEI) and is not included in the under age 65 costs listed below. For retirees ages 65 and older, the average costs shown are normalized to age 65 and then age adjusted in calculating liabilities.

Under Age 65 (KEHP) Full Costs as of January 1, 2015

Fiscal Year	LivingWell CDHP	LivingWell PPO	Standard PPO	Standard CDHP
Single	$ 689.28	$ 708.56	$ 665.40	$ 650.92
Parent Plus	950.62	1,007.46	946.88	913.28
Couple	1,282.84	1,543.58	1,451.56	1,406.14
Family	1,432.06	1,716.92	1,615.30	1,566.20
Family C-R	795.64	851.66	800.28	777.90

Schedule D continued ...

Average Monthly KTRS Full Costs & Contributions

Calendar Year	Under Age 65 (KEHP) Contributions	Age 65 & Over (MEHP) Full Costs	Age 65 & Over (MEHP) Contributions
2004	$ 293	$ 274	$ 274
2005	412	288	288
2006	461	315	315
2007	458	283	283
2008	484	278	278
2009	545	301[1]	285
2010	594	373[1]	342
2011	626	289	289
2012	622	270[2]	270
2013	635	294[2]	290
2014	679	290[2]	290
2015	669	240[2]	240

1 *Under GASB 43 and 45, cost reductions for the amount of the Medicare Part D Retiree Drug Subsidy cannot be taken into account in the gross cost calculations.*

2 *2,105 current benefit recipients are assumed to be not eligible for premium-free Medicare Part A benefits. For these individuals, the full cost of coverage is, on average, $581 per month. It is assumed 21% of current benefit recipients under the age of 65 who were hired prior to 4/1/1986 and left covered employment prior to 4/1/1996 will not be eligible for premium-free Medicare Part A benefits. All active members are assumed to have begun contributing to Medicare as of 4/1/1986 and are assumed eligible for premium-free Medicare Part A benefits.*

Current Retiree Medical Plan Participation: Actual census data and current plan elections (including waivers) provided by the System were used for those retirees currently participating in the Retiree Medical Plan. Current participants are assumed to maintain their current Retiree Medical Plan coverage until they are no longer eligible.

Anticipated Retireee Medical Plan Participation: The assumed annual rates of health care plan participation for future retirees are as follows:

Member Participation*

Years of Service	Entered KTRS Before 7/1/2002	Entered KTRS After 6/30/2002	Entered KTRS After 6/30/2008
5-9.99	23%	9%	Not Eligible
10-14.99	45	23	Not Eligible
15-19.99	68	41	41%
20-24.99	93	59	59
25-25.99	93	81	81
26-26.99	93	86	86
27 or more	93	93	93

* *Members retiring from deferred vested status are assumed to participate at 50% of the corresponding rate listed.*

Anticipated Retiree Medical Plan Elections: The assumed rates of plan election for future retirees participating in the KEHP plans are provided in the following table. As the assumed plan election rates are estimates and actual results may be materially different, this assumption will need to be revised as experience evolves.

LivingWell CDHP	LivingWell PPO	Standard PPO	Standard CDHP
32%	51%	10%	7%

Schedule D continued ...

Spouse Coverage in Medical Plans: Actual census data and current plan elections were used for spouses (including beneficiaries) of current retirees. For spouses of future retirees, 20% of future retirees are assumed to cover their spouse, with females 3 years younger than males.

Disabled Dependent Children: The liability associated with disabled dependent children was determined to be de minimis and was therefore excluded from this valuation.

Withdrawal Assumption: It is assumed 30% of future vested members who terminate elect to withdraw their contributions while the remaining 70% elect to leave their contributions in the plan in order to be eligible for a benefit at their retirement date.

Payroll Growth: 4.00% per annum, compounded annually.

Price Inflation: 3.50% per annum, compounded annually.

Affordable Care Act (ACA): The impact of the Affordable Care Act (ACA) was addressed in this valuation. Review of the information currently available did not identify any specific provisions of the ACA that are anticipated to significantly impact results. While the impact of certain provisions such as the excise tax on high-value health insurance plans beginning in 2018 (if applicable), mandated benefits and participation changes due to the individual mandate should be recognized in the determination of liabilities, overall future plan costs and the resulting liabilities are driven by the assumed rate of health care inflation (i.e., trend). The trend assumption forecasts the anticipated increase to initial per capita costs, taking into account health care cost inflation, increases in benefit utilization, government-mandated benefits, and technological advances. Given the uncertainty regarding the ACA's implementation (e.g., the impact of excise tax on high-value health insurance plans, changes in participation resulting from the implementation of state-based health insurance exchanges), continued monitoring of the ACA's impact on the Retiree Medical Plan's liability will be required.

Asset Valuation Method : Five-year market related actuarial value, as developed in Schedule B. The actuarial value of assets recognizes a portion of the difference between the market value of assets and the expected actuarial value of assets, based on the ultimate assumed valuation rate of return. The amount recognized each year is 20% of the difference between market value and expected actuarial value. The ultimate assumed valuation rate of return is assumed to be 8.00% for the Medical Insurance Fund and 7.50% for the Life Insurance Fund.

Actuarial Cost Method: The valuation is prepared on the projected benefit basis, under which the present value, at the interest rate assumed to be earned in the future, of each active member's expected benefit at retirement or death is determined, based on his/her age, service, and gender. The calculations take into account the probability of a member's death or termination of employment prior to becoming eligible for a benefit, as well as the possibility of his/her terminating with a service, disability or survivor's benefit. The present value of the expected benefits payable on account of the active members is added to the present value of the expected future payments to retired members and beneficiaries and deferred vested members to obtain the present value of all expected benefits payable from the System on account of the present group of members and beneficiaries.

The employer contributions required to support the benefits of the System are determined following a level funding approach, and consist of a normal contribution and an accrued liability contribution.

The normal contribution is determined using the "entry age normal" method. Under this method, a calculation is made to determine the uniform and constant percentage rate of employer contribution which, if applied to the compensation of the average new member during the entire period of his/her anticipated covered service, would be required in addition to the contributions of the member to meet the cost of all benefits payable on his/her behalf.

The unfunded accrued liability is determined by subtracting the present value of prospective employer normal contributions and member contributions, together with the current actuarial value of assets held, from the present value of expected benefits to be paid from the System.

Separation From Service: Representative values of the assumed annual rates of salary increases, death, disability, withdrawal, service retirement and early retirement are as follows:

Schedule D continued ...

MALES: Annual Rate of . . .

AGE	SALARY*	DEATH	DISABILITY	WITHDRAWAL SERVICE 0 - 4	5 - 9	10+	RETIREMENT Before 27 Years of Service	After 27 Years of Service*
20	8.10%	0.012%	0.01%	9.00%				
25	7.20	0.015	0.01	9.00	3.00%			
30	6.20	0.020	0.02	9.00	3.00	3.00%		
35	5.50	0.035	0.05	10.00	3.25	1.75		
40	5.00	0.046	0.09	10.00	4.00	1.40		
45	4.60	0.058	0.18	11.00	4.00	1.50		17.0%
50	4.50	0.074	0.33	9.00	4.00	2.00		17.0
55	4.30	0.124	0.55	12.00	3.50	2.50	5.5%	35.0
60	4.20	0.244	0.70	12.00	3.50	2.50	13.0	24.0
62	4.10	0.324	0.70	12.00	3.50	2.50	15.0	25.0
65	4.00	0.480	0.70	12.00	3.50	2.50	21.0	26.0
70	4.00	0.821	0.70	0.00	0.00	0.00	100.0	100.0

* *Includees inflation at 3.5% per annum.*
** *Plus 10% in year when first eligible for unreduced retirement with 27 years of service.*

FEMALES: Annual Rate of . . .

AGE	SALARY*	DEATH	DISABILITY	WITHDRAWAL SERVICE 0 - 4	5 - 9	10+	RETIREMENT Before 27 Years of Service	After 27 Years of Service**
20	8.10%	0.007%	0.01%	7.00%				
25	7.20	0.008	0.02	8.50	4.00%			
30	6.20	0.010	0.04	9.00	4.00	1.65%		
35	5.50	0.017	0.08	9.00	3.75	1.85		
40	5.00	0.024	0.14	8.50	3.25	1.50		
45	4.60	0.037	0.32	7.50	3.25	1.25		15.0%
50	4.50	0.055	0.42	9.50	3.50	1.75		15.0
55	4.30	0.103	0.56	11.00	4.00	2.00	6.0%	35.0
60	4.20	0.201	0.85	11.00	4.00	2.00	14.0	30.0
62	4.10	0.263	0.85	11.00	4.00	2.00	12.5	25.0
65	4.00	0.390	0.85	11.00	4.00	2.00	22.0	30.0
70	4.00	0.672	0.85	0.00	0.00	0.00	100.0	100.0

* *Includees inflation at 3.5% per annum.*
** *Plus 10% in year when first eligible for unreduced retirement with 27 years of service.*

Schedule D continued ...

Deaths After Retirement: The RP-2000 Combined Mortality Table projected to 2020 using scale AA (set back one year for females) is used for death after service retirement and beneficiaries. The RP-2000 Disabled Mortality Table (set back seven years for males and set forward five years for females) is used for death after disability retirement. Mortality improvement is anticipated under these assumptions as recent mortality experience shows actual deaths are approximately 4% greater for healthy lives and 5% greater for disabled lives than expected under the selected tables. Representative values of the assumed annual rates of death after service retirement and after disability retirement are shown below:

Annual Rate of Death After . . .

	Service Retirement		Disability Retirement	
Age	MALE	FEMALE	MALE	FEMALE
45	0.1161%	0.0745%	2.2571%	1.1535%
50	0.1487	0.1100	2.2571	1.6544
55	0.2469	0.2064	2.6404	2.1839
60	0.4887	0.4017	3.2859	2.8026
65	0.9607	0.7797	3.9334	3.7635
70	1.6413	1.3443	4.6584	5.2230
75	2.8538	2.1680	5.6909	7.2312
80	5.2647	3.6066	7.3292	10.0203
85	9.6240	6.1634	9.7640	14.0049
90	16.9280	11.2205	12.8343	19.4509
95	25.6992	17.5624	16.2186	23.7467

SCHEDULE E
Summary of Main Plan Provisions as Interpreted for Valuation Purposes

ELIGIBILITY FOR ACCESS TO RETIREE MEDICAL COVERAGE

Service Retirement: For employees hired prior to July 1, 2008, Retiree Medical Plan coverage eligibility is attained when an employee retires, which is possible after the completion of 27 years of service or attainment of age 55 and 5 years of service. For employees hired on or after July 1, 2008, employees may retire after the completion of 27 years of service, the attainment of age 55 and 10 years of service, or the attainment of age 60 and 5 years of service, but must complete a minimum of 15 years of service to be eligible for Retiree Medical Plan coverage.

Disability Retirement: Disabled employees hired prior to July 1, 2008 with at least 5 years of service, who are totally and permanently incapable of being employed as a teacher, are eligible for Retiree Medical Plan coverage. Disabled employees hired after July 1, 2008 must have 15 years of service to be eligible for Retiree Medical Plan coverage.

Survivors: Spouses of employees who die in service while eligible to retire, as well as survivors of service and disabled retirees, are eligible for Retiree Medical Plan coverage.

Termination: For employees hired prior to July 1, 2008 and who terminated with at least 5 years of service, Retiree Medical Plan coverage eligibility is attained at age 60. For employees hired on or after July 1, 2008 and who terminated with at least 15 years of service, Retiree Medical Plan coverage eligibility is attained at age 60.

Schedule E continued ...

COVERED MEMBER MEDICAL PLAN CONTRIBUTIONS

Under Age 65 Retiree Shared Resonsibility Contribution: Effective July 1, 2010, retirees under the age of 65 began a three-year phase-in of the Shared Responsibility Contribution. This contribution reduces the applicable amount of the full contribution provided by the System to retirees, by adjusting the Shared Responsibility Contribution amount by 100% less the appropriate percentage from the Retiree Percentage Contribution table on the following page. Effective July 1, 2012, the full Shared Responsibility Contribution equals the Standard Medicare Part B premium paid by retirees ages 65 and older.

Under Age 65 Shared Responsibility Contribution Timeline

Effective Date	Medicare Part B Monthly Cost	Formula	Shared Responsibility Contribution
July 1, 2010	$ 110.50	(1/3 x $110.50)	$ 37.00
January 1, 2011	115.40	(1/3 x 115.40)	39.00
July 1, 2011	115.40	(2/3 x 115.40)	77.00
January 1, 2012	99.90	(2/3 x 99.90)	66.00
July 1, 2012	99.90	99.90	99.90
January 1, 2013	104.90	104.90	104.90
January 1, 2014	104.90	104.90	104.90
January 1, 2015	104.90	104.90	104.90

Retiree Years of Service Percentage Contribution: Retirees contribute the following percentages based on years of service at retirement, which are then applied to the Retiree Contribution Rate Basis:

Retiree Percentage Contribution

Years of Service	Hired before 7/1/2002 (age 65 on 12/31/2004 or earlier)	Hired before 7/1/2002 (age 65 on 1/1/2005 or earlier)	Hired after 6/30/2002 and before 7/1/2008	Hired after 7/1/2008 or later
5 - 9.99	30%	75%	90%	Not Eligible
10 - 14.99	20	50	75	Not Eligible
15 - 19.99	10	25	55	55%
20 - 24.99	0	0	35	35
25 - 25.99	0	0	10	10
26 - 26.99	0	0	5	5
27 or more	0	0	0	0

Retiree Contribution Rate Basis
Effective January 1, 2015

Tier Elected	LivingWell CDHP	LivingWell PPO	Standard PPO	Standard CDHP	Ages 65 and Older (MEHP)
Single	$ 641.30	$ 628.58	$ 617.42	$ 637.94	$ 240.00
Parent Plus	641.30	641.30	641.30	641.30	240.00
Couple	641.30	641.30	641.30	641.30	240.00
Family	641.30	641.30	641.30	641.30	240.00
Family C-R	641.30	641.30	641.30	641.30	240.00

Schedule E continued ...

Under Age 65 Retiree Plan Cost Contribution: A contribution according to the table below is required to be paid by retirees under the age of 65 based upon the plan elected:

Under Age 65 Plan Cost Contribution*
Effective January 1, 2015

Tier Elected	LivingWell CDHP	LivingWell PPO	Standard PPO	Standard CDHP
Single	$ 47.98	$ 79.98	$ 47.98	$ 12.98
Parent Plus**	309.32	366.16	305.58	271.98
Couple**	641.54	902.28	810.26	764.84
Family**	790.76	1,075.62	974.00	924.90
Family C-R**	154.34	210.36	158.98	136.60

* *Does not include the additional contribution required to be paid by retirees under the age of 65 who smoke ($40 for Single or Family Cross-Reference, and $80 for Parent Plus, Couple or Family).*
** *Contribution for Parent Plus, Couple, Family and Family Cross-Reference tiers is offset by the State Under Age 65 Spouse/Dependent Subsidy.*

The Under Age 65 Plan Cost Contribution is reduced by subtracting the State Under Age 65 Spouse/Dependent Subsidy multiplied by 100% less the appropriate percentage in the Retiree Percentage Contribution table on the previous page, from the Under Age 65 Plan Cost Contribution.

State Under Age 65 Spouse/Dependent Subsidy
Effective January 1, 2015

Tier Elected	LivingWell CDHP	LivingWell PPO	Standard PPO	Standard CDHP
Parent Plus**	$ 186.34	$ 138.18	$182.60	$212.00
Couple**	353.56	389.30	522.28	514.86
Family**	452.78	432.64	636.02	624.92
Family C-R**	76.36	57.38	81.00	108.62

Spouse Contributions: 100% of the full cost for non-Medicare eligible dependents is paid through a combination of payments from beneficiaries and the State. Spouses of post-65 retirees, as well as surviving spouses of deceased retirees on or after July 1, 2002, pay 100% of the full contribution. Spouses of active members who died while eligible to retire prior to July 1, 2002, are provided the same subsidy by KTRS that would have been provided to the retiree for the lifetime of the spouse, or until remarriage. Spouses of active members who die while eligible to retire July 1, 2002, and later, pay 100% of the full contribution.

Surviving Spouse Contribution
Effective January 1, 2015
Under Age 65 (KEHP)

Tier Elected	LivingWell CDHP	LivingWell PPO	Standard PPO	Standard CDHP	Age 65 & Over (MEHP)
Single	$ 695.86	$ 715.14	$ 671.98	$ 657.50	$ 240.00
Parent Plus	957.20	1,014.04	953.46	919.86	n/a

Schedule E continued ...

System Retiree Medical Plan Contributions: The System Contribution Rate Basis is determined annually by KTRS; and the full cost is projected based on historical claims data. For retirees, the following percentages are based on years of service at retirement and are then applied to the System Contribution Rate Basis:

Percentage of System Contribution Rate Provided to Retirees

Years of Service	Age 65 & Over and Covered Before 1/1/2005	Age 65 & Over and Covered Before 12/31/2004	Entered KTRS After 6/30/2002 and Before 7/1/2008	Entered KTRS After 6/30/2008
5 - 9.99	70%	25%	10%	Not Eligible
10 - 14.99	80	50	25	Not Eligible
15 - 19.99	90	75	45	45%
20 - 24.99	100	100	65	65
25 - 25.99	100	100	90	90
26 - 26.99	100	100	95	95
27 or more	100	100	100	100

System Contribution Rate Basis
Effective January 1, 2015
Under Age 65 (KEHP)

Tier Elected	LivingWell CDHP	LivingWell PPO	Standard PPO	Standard CDHP	Ages 65 and Older (MEHP)
Single	$ 641.30	$ 628.58	$ 617.42	$ 637.94	$ 240.00
Parent Plus	641.30	641.30	641.30	641.30	240.00
Couple	641.30	641.30	641.30	641.30	240.00
Family	641.30	641.30	641.30	641.30	240.00
Family C-R	641.30	641.30	641.30	641.30	240.00

Active Member Retiree Medical Plan Contributions: Actively employed members make payroll contributions to the Medical Insurance Fund based upon the following schedule:

Active Member Percentage of Payroll Contribution Made to Medical Insurance Fund

	UNIVERSITY EMPLOYEES		SCHOOL DISTRICT EMPLOYEES (Non-Federal)		OTHER EMPLOYEES	
Fiscal Year Ending	Hired Before 7/1/2008	Hired on or After 7/1/2008	Hired Before 7/1/2008	Hired on or After 7/1/2008	Hired Before 7/1/2008	Hired on or After 7/1/2008
2015	2.270 %	2.270 %	3.000 %	3.000 %	3.000 %	3.000 %
2016 & Later	2.775	2.775	3.750	3.750	3.750	3.750

Schedule E continued ...

Life Insurance Plan Benefits:
(1) Effective July 1, 2000, the Teachers' Retirement System shall:

(a) Provide a life insurance benefit in a minimum amount of five thousand dollars ($5,000) for its members who are retired for service or disability. This life insurance benefit shall be payable upon the death of a member retired for service or disability to the member's estate or to a party designated by the member on a form prescribed by the retirement system; and

(b) Provide a life insurance benefit in a minimum amount of two thousand dollars ($2,000) for its active contributing members. This life insurance benefit shall be payable upon the death of an active contributing member to the member's estate or to a party designated by the member on a form prescribed by the retirement system.

Note: Members employed on a substitute or part-time basis and working at least 69% of a full contract year in a single fiscal year will be eligible for a life insurance benefit for the balance of the fiscal year or the immediately succeeding fiscal year under certain conditions. For non-vested members employed on a substitute or part-time basis, the life insurance benefit is provided if death occurs as the result of a physical injury on the job. For vested members employed on a substitute or part-time basis, death does not have to be the result of a physical injury on the job for life insurance benefits to be provided.

SCHEDULE F
Table 1 – Service Table
Distribution of Active Members as of June 30, 2014 by Age and Service Groups

Attained Age	0 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	>= 35	TOTAL
24 & under	1,203	1							1,204
Total Pay	30,289,473	16,724							30,306,197
Avg. Pay	25,178	16,724							25,171
25 to 29	5,580	1,434							7,014
Total Pay	193,970,612	67,358,025							261,328,637
Avg. Pay	34,762	46,972							37,258
30 to 34	2,781	5,186	1,217						9,184
Total Pay	92,513,906	256,970,385	66,796,986						416,281,277
Avg. Pay	33,266	49,551	54,887						45,327
35 to 39	1,898	2,496	4,429	863	1				9,687
Total Pay	56,555,071	124,293,536	256,631,937	54,675,650	53,340				492,209,534
Avg. Pay	29,797	49,797	57,944	63,355	53,340				50,811
40 to 44	5,052	1,716	2,366	4,050	747	16	3		13,950
Total Pay	80,379,772	83,794,962	135,195,300	259,149,673	49,078,966	163,529	4,440		607,766,642
Avg. Pay	15,910	48,832	57,141	63,988	65,701	10,221	1,480		43,568
45 to 49	1,458	1,205	1,432	1,995	2,861	691	4		9,646
Total Pay	33,919,137	60,198,868	82,097,312	126,497,133	194,503,113	48,070,745	172,161		545,458,469
Avg. Pay	23,264	49,958	57,331	63,407	67,984	69,567	43,040		56,548
50 to 54	1,071	794	1,103	1,293	1,454	1,789	327	3	7,834
Total Pay	23,600,498	40,049,425	63,071,897	81,900,405	99,886,590	128,070,681	23,619,195	138,015	460,336,706
Avg. Pay	22,036	50,440	57,182	63,341	68,698	71,588	72,230	46,005	58,761
55 to 59	1,476	467	746	1,030	1,109	919	451	66	6,264
Total Pay	23,836,597	22,197,101	43,680,065	66,568,849	75,368,014	69,124,953	36,616,202	4,867,334	342,259,115
Avg. Pay	16,149	47,531	58,552	64,630	67,960	75,218	81,189	73,747	54,639
60 to 64	1,996	463	446	655	626	534	138	116	4,974
Total Pay	26,390,926	18,546,024	26,950,845	42,661,444	45,836,673	41,747,171	10,565,625	10,334,994	223,033,702
Avg. Pay	13,222	40,056	60,428	65,132	73,222	78,178	76,563	89,095	44,840
65 & over	2,062	532	213	254	220	203	69	97	3,650
Total Pay	18,463,630	14,329,380	11,856,787	16,552,947	16,366,985	15,093,672	6,003,364	8,679,755	107,346,520
Avg. Pay	8,954	26,935	55,666	65,169	74,395	74,353	87,005	89,482	29,410
Total	24,577	14,294	11,952	10,140	7,018	4,152	992	282	73,407
Total Pay	579,919,622	687,754,430	686,281,129	648,006,101	481,093,681	302,270,751	76,980,987	24,020,098	3,486,326,799
Avg. Pay	23,596	48,115	57,420	63,906	68,551	72,801	77,602	85,178	47,493

Average Age: 44.1 **Average Service: 10.7**

Schedule F continued ...

Table 2 – Total Active Member Valuation Data

Valuation Date	Number	Annual Payroll	Annual Average Pay	Percentage Increase in Average Pay
6/30/2014	73,407	$ 3,486,326,799	$ 47,493	2.12 %
6/30/2013	74,831	3,480,066,406	46,506	1.51
6/30/2012	75,951	3,479,567,004	45,813	1.33
6/30/2011	76,349	3,451,756,288	45,210	3.97
6/30/2010	76,387	3,321,614,223	43,484	1.51
6/30/2009	75,937	3,253,076,600	42,839	1.43

Table 3 – Eligible Deferred Vested Members
as of June 30, 2014
Medical Insurance Fund
Male & Female Demographic Breakdown

Attained Age	Number of Males	Number of Females	Total Number
Under 30	1	13	14
30-34	65	352	417
35-39	158	549	707
40-44	220	648	868
45-49	194	670	864
50-54	209	647	856
55-59	187	581	768
60 & Over	219	475	694
Total	**1,253**	**3,935**	**5,188**

Table 3 – Eligible Deferred Vested Members
as of June 30, 2014
Life Insurance Fund
Male & Female Demographic Breakdown

Attained Age	Number of Males	Number of Females	Total Number
Under 30	3	17	20
30-34	52	335	387
35-39	122	476	598
40-44	178	542	720
45-49	151	545	696
50-54	164	515	679
55-59	157	450	607
60 & Over	103	303	406
Total	**930**	**3,183**	**4,113**

Schedule F continued ...

Table 4 – All Retirees & Spouses Receiving Health Care Benefits as of June 30, 2014
Male & Female Demographic Breakdown

Attained Age	Number of Males	Number of Females	Total Number
Under 40	3	24	27
40-44	19	57	76
45-49	63	211	274
50-54	371	975	1,346
55-59	1,348	3,236	4,584
60-64	3,110	6,736	9,846
65-69	3,615	6,918	10,533
70-74	2,720	4,344	7,064
75-79	1,843	2,704	4,547
80-84	1,185	1,865	3,050
85-89	625	1,240	1,865
90-94	244	579	823
95-99	47	170	217
100	3	24	27
101	1	6	7
102	1	6	7
103	0	9	9
104	0	3	3
105 & Over	0	1	1
Total	**15,198**	**29,108**	**44,306**

Table 5 – Retirees, Beneficiaries and Survivors Added To and Removed From Rolls *
Medical Insurance Fund

Fiscal Year Ending June 30	Number of Members Added to Rolls	Number of Spouses** Added to Rolls	Total Number Added to Rolls	Number of Members Removed from Rolls	Number of Spouses** Removed from Rolls	Total Number Removed from Rolls	Number of Members on Rolls at the End of the Year	Number of Spouses** on Rolls at the End of the Year	Total Number on Rolls at the End of the Year
2009	1,777	640	2,417	887	510	1,397	33,481	6,808	40,289
2010	1,710	555	2,265	876	529	1,405	34,315	6,834	41,149
2011	1,770	629	2,399	1,052	541	1,593	35,033	6,922	41,955
2012	1,996	702	2,698	1,029	616	1,645	36,000	7,008	43,008
2013	1,853	664	2,517	1,076	619	1,695	36,777	7,053	43,830
2014	1,663	638	2,301	1,165	660	1,825	37,275	7,031	44,306

* *Reflects members, spouses, and beneficiaries participating in a health care plan.* ** *Includes spouses, beneficiaries, and surviving spouses.*

Schedule F continued ...

Table 6 – Retirees, Beneficiaries and Survivors Added To and Removed From Rolls *
Life Insurance Fund

Fiscal Year Ending June 30	Number Added to Rolls	Life Insurance Benefit ($1,000's)	Number Removed from Rolls	Life Insurance Benefit ($1,000's)	Number on Rolls at the End of the Year	Life Insurance Benefit ($1,000's)	Increase in Life Insurance Benefit	Average Life Insurance Benefit
2009	1,949	$ 9,745	769	$ 3,845	38,958	$ 194,790	3.12%	$ 5,000
2010	1,799	8,995	806	4,030	39,951	199,755	2.55	5,000
2011	2,025	10,125	858	4,290	41,118	205,590	2.92	5,000
2012	2,364	11,820	880	4,400	42,602	213,010	3.61	5,000
2013	2,195	10,975	952	4,760	43,845	219,225	2.92	5,000
2014	1,964	9,820	954	4,770	44,855	224,275	2.30	5,000

** The life insurance benefit is payable upon the death of only members retired for service or disability. Numbers do not include life insurance benefits payable upon the death of an active contributing member.*

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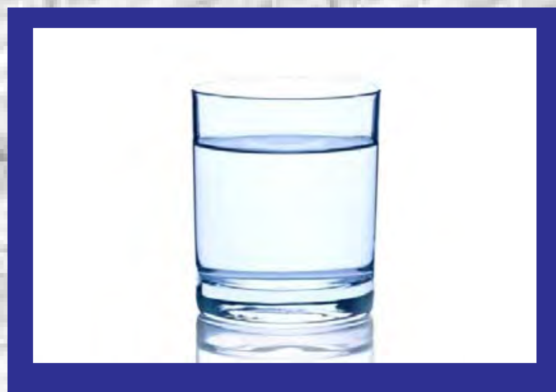
Kentucky Teachers' Retirement System

2014



Actuarial Section

Additional Report on

GASB Statement Number 67

Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

December 11, 2014

Board of Trustees
Teachers' Retirement System
of the State of Kentucky
479 Versailles Road
Frankfort, KY 40601-3800

Members of the Board:

Presented in this report is information to assist the Teachers' Retirement System of the State of Kentucky (KTRS), in meeting the requirements of the Governmental Accounting Standards Board (GASB) Statement No. 67. This report has been prepared as of June 30, 2014 (the Measurement Date) to assist KTRS in better understanding the requirements of GASB 67 and to identify the information to be provided by KTRS's actuary, Cavanaugh Macdonald Consulting (CMC).

The annual actuarial valuation used as a basis for much of the information presented in this report was performed as of June 30, 2013. The valuation was based upon data, furnished by the Executive Secretary and KTRS staff, concerning active, inactive and retired members along with pertinent financial information.

To the best of our knowledge, this report is complete and accurate. The necessary calculations were performed by, and under the supervision of, independent actuaries who are members of the American Academy of Actuaries with experience in performing valuations for public retirement systems.

The calculations were prepared in accordance with the principles of practice prescribed by the Actuarial Standards Board, and, in our opinion, meet the requirements of GASB 67.

The actuarial calculations were performed by qualified actuaries according to generally accepted actuarial procedures and methods. The calculations are based on the current provisions of the System, and on actuarial assumptions that are, individually and in the aggregate, internally consistent and reasonably based on the actual experience of the System. In addition, the

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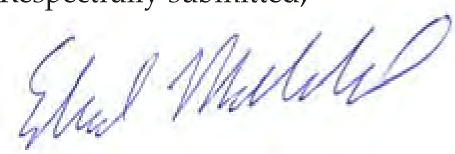
calculations were completed in compliance with the laws governing the System. The undersigned are members of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

These results are only for financial reporting and may not be appropriate for funding purposes or other types of analysis. Calculations for purposes other than satisfying the requirements of GASB 67 may produce significantly different results. Future actuarial results may differ significantly from the current results presented in this report due to such factors as changes in plan experience or changes in economic or demographic assumptions.

Respectfully submitted,



Edward A. Macdonald, ASA, FCA, MAAA
President

Edward J. Koebel EA, FCA, MAAA
Principal and Consulting Actuary

REPORT OF THE ANNUAL GASB STATEMENT NO. 67 REQUIRED INFORMATION FOR THE TEACHERS' RETIREMENT SYSTEM OF THE STATE OF KENTUCKY PREPARED AS OF JUNE 30, 2014

Section 1: Introduction

The Governmental Accounting Standards Board issued Statement No. 67 (GASB 67), "Financial Reporting For Pension Plans", in June 2012. GASB 67's effective date is for plan years beginning after June 15, 2013. This report, prepared as of June 30, 2014 (the Measurement Date), presents information to assist the Teachers' Retirement System of the State of Kentucky (KTRS), in meeting the requirements of GASB 67. Much of the material provided in this report is based on the data, assumptions and results of the annual actuarial valuation of KTRS as of June 30, 2013. The results of that valuation were detailed in a report dated December 6, 2013.

GASB 67 replaces GASB 25, and represents a significant departure from the requirements of that older statement. GASB 25 was issued as a funding friendly statement that required pension plans to report items consistent with the results of the plan's actuarial valuations, as long as those valuations met certain parameters. GASB 67 basically separates accounting from funding by creating disclosure and reporting requirements that may or may not be consistent with the basis used for funding the System.

GASB 67 requires us to determine the Total Pension Liability (TPL) utilizing the Entry Age Normal actuarial funding method. If the valuation date at which the TPL is determined is before the measurement date, as is the case here, the TPL must be rolled forward to the measurement date. The Net Pension Liability (NPL) is then set equal to the rolled forward TPL minus the System's Fiduciary Net Position (FNP) (basically the market values of assets) as of the Measurement Date. The benefit provisions recognized in the calculation of the TPL are summarized in Schedule B. The development of the roll-forward of the TPL is shown in the table on page 144.

Among the assumptions needed for the liability calculation is a Single Equivalent Interest Rate (SEIR) as described by GASB 67. To determine the SEIR, the FNP must be projected into the future for as long as there are anticipated benefits payable under the plan's provisions applicable to the membership and beneficiaries of the System on the Measurement Date. We have projected future employer contributions to be made based on the amounts required by statute. Although the KTRS Board of Trustees adopted a funding policy, shown in Schedule E, on December 16, 2013, the State has not funded the actuarially determined contributions since 2009. On this basis, if the FNP is not projected to be depleted at any point in the future, the long term expected rate of return on plan investments expected to be used to finance the benefit payments may be used as the SEIR.

If, however, the FNP is projected to be depleted, the SEIR is determined as the single rate that will generate a present value of benefit payments equal to the sum of the present value determined by discounting all projected benefit payments through the date of depletion by the long term expected rate of return, and the present value determined by discounting those benefits after the date of depletion by a 20-year tax-exempt municipal bond (rating AA/Aa or higher) rate. Our calculations indicated that the FNP is projected to be depleted, so a bond rate is used in the determination of the SEIR. On this basis, we have determined that a discount rate of 5.23 percent meets the requirements of GASB 67.

The sections that follow provide the results of all the necessary calculations, presented in the order laid out in GASB 67 for note disclosure and Required Supplementary Information.

Section 2: Financial Statement Notes

The material presented herein will follow the order presented in GASB 67. Paragraph numbers are provided for ease of reference.

Paragraphs 30(a) (1)-(3): The information required is to be supplied by the System.

Paragraph 30(a) (4): The data required regarding the membership of the KTRS were furnished by the System office. The following table summarizes the membership of the System as of June 30, 2013, the actuarial valuation date.

Membership

	Number
Retirees And Survivors Currently Receiving Benefits	47,406
Terminated Vested Employees Entitled To But Not Yet Receiving Benefits	7,194
Inactive Non-vested Members	22,848
Active Members	74,831
TOTAL	152,279

Paragraphs 30(a)(5)-(6) and Paragraphs 30(b)-(f): The information required is to be supplied by the System.

Paragraphs 31(a) (1)-(4): The information is provided in the following table. As stated on the previous page, the Net Pension Liability (NPL) is equal to the Total Pension Liability (TPL) minus the Fiduciary Net Position (FNP). That result as of June 30, 2014 is presented in the table below ($ thousands).

	Fiscal Year Ending 6/30/2014
Total Pension Liability (TPL)	$ 39,684,776
Fiduciary Net Position (FNP)	18,092,619
Net Pension Liability (NPL)	$ 21,592,157
Ratio of FNP to TPL	45.59%

Paragraph 31(b) (1)(a)-(f): This paragraph requires information regarding the actuarial assumptions used to measure the TPL. The set of actuarial assumptions utilized in developing the TPL are outlined in Schedule C. The total pension liability was determined by an actuarial valuation as of June 30, 2013, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.50 percent
Salary increases	4.00 - 8.20 percent, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation
Municipal Bond Index Rate	4.35%
Single Equivalent Interest Rate	5.23%

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a set back of 1 year for females.

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period July 1, 2005 - June 30, 2010 adopted by the Board on December 19, 2011.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by KTRS's investment consultant, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	2.0%	1.5%
Total	100.0%	

Section 2: Financial Statement Notes continued ...

Discount rate. The discount rate used to measure the total pension liability was 5.23 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and that Employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members until the 2036 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2035 and a municipal bond index rate of 4.35 percent was applied to all periods of projected benefit payments after 2035. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

Paragraph 31(b) (1) (g): This paragraph requires disclosure of the sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the System, calculated using the discount rate of 5.23 percent, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.23 percent) or 1-percentage-point higher (6.23 percent) than the current rate ($ thousands):

(in thousands)	**1% Decrease (4.23%)**	**Current Discount Rate (5.23%)**	**1% Increase (6.23%)**
System's net pension liability	$ 27,122,640	$ 21,592,157	$ 17,027,992

Paragraph 31(c): June 30, 2013 is the actuarial valuation date upon which the TPL is based. The TPL as of June 30, 2013 was determined using a discount rate of 5.16% which was based on a municipal bond index rate as of that date equal to 4.27%. An expected TPL is determined as of June 30, 2014 using standard roll forward techniques. The roll forward calculation adds the annual normal cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year and then applies the assumed interest rate for the year. The final TPL as of June 30, 2014 reflects that the assumed municipal bond index rate increased from 4.27% to 4.35%, resulting in a change in the SEIR from 5.16% to 5.23%. The impact of this change in the discount rate is a change in assumptions that is added to the expected TPL to determine the final TPL as of June 30, 2014. This procedure is shown in the following table:

TPL Roll-Forward
(in thousands)

(a)	TPL as of June 30, 2013	$ 38,758,709
(b)	Entry Age Normal Cost for the Year July 1, 2013 - June 30, 2014	1,002,338
(c)	Actual Benefit Payments (including refunds) for the Year July 1, 2013 - June 30, 2014	1,679,838
(d)	Expected TPL as of June 30, 2014 = [(a) x (1.0516)] + (b) - [(c) x (1.0258)]	$ 40,037,819
(e)	Change in Assumptions (Discount Rate from 5.16% to 5.23%)	(353,043)
(f)	Final TPL as of June 30, 2014 = (d) + (e)	$ 39,684,776

Section 3: Required Supplementary Information

There are several tables of Required Supplementary Information (RSI) that need to be included in the System's financial statements:

Paragraphs 32(a)-(c): The required tables are provided in Schedule A.

Paragraph 32(d): The money-weighted rates of return required are to be supplied by the System.

Paragraph 34: In addition the following should be noted regarding the RSI:

Changes of benefit terms. None

Changes of assumptions. In the 2011 valuation and later, the expectation of retired life mortality was changed to the RP-2000 Mortality Tables rather than the 1994 Group Annuity Mortality Table, which was used prior to 2011. In the 2011 valuation, rates of withdrawal, retirement, disability and mortality were adjusted to more closely reflect actual experience. In the 2011 valuation, the Board adopted an interest smoothing methodology to calculate liabilities for purposes of determining the actuarially determined contributions.

Methods and assumptions used in calculations of actuarially determined contributions. The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine contribution rates reported in the most recent year of that schedule:

Actuarial Cost Method	Amortization Method	Remaining Amortization Period	Asset Valuation Method	Inflation	Salary Increase	Ultimate Investment Rate of Return*
Entry Age	Level percent of pay, open	30 years	5-year smoothed market	3.50%	4.00 to 8.20 percent, including inflation	7.50 percent, net of pension plan investment expense, including inflation

**The actuarially determined contribution rates are determined using the interest smoothing methodology adopted by the Board*

Schedule A
Required Supplementary Information
Schedule of Changes in the Net Pension Liability
GASB 67 Paragraph 32(a)
(In Thousands)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Pension Liability										
Service Cost	$ 1,002,338									
Interest	1,956,610									
Benefit Changes	0									
Difference Between Expected and Actual Experience	0									
Changes of Assumptions	(353,043)									
Benefit Payments	(1,654,376)									
Refunds of Contributions	(25,462)									
Net Change in Total Pension Liability	926,067									
Total Pension Liability-Beginning	38,758,709									
Total Pension Liability-Ending (a)	$ 39,684,776									
Plan Net Position										
Contributions-State of KY	$ 483,330									
Contributions-Other Employers	79,996									
Contributions-Member	304,982									
Net Investment Income	2,803,249									
Benefit Payments	(1,654,376)									
Administrative Expense	(7,956)									
Refunds of Contributions	(25,462)									
Other	0									
Net Change in Plan Net Position	1,983,763									
Plan Net Position - Beginning	16,108,808									
Plan Net Position - Ending (b)	$ 18,092,571									
Employers' Net Pension Liability - Ending (a) - (b)	$ 21,592,205									

Schedule A: Required Supplementary Information continued ...

Schedule A
Required Supplementary Information
Schedule of Net Pension Liability
GASB 67 Paragraph 32(b)
(In Thousands)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Pension Liability	$ 39,684,776									
Plan Net Position	18,092,571									
Net Pension Liability	$ 21,592,205									
Ratio of Plan Net Position to Total Pension Liability	45.59 %									
Covered-Employee Payroll	$ 3,443,138									
Net Pension Liability as a Percentage of Covered-Employee Payroll	627.11 %									

Schedule A
Required Supplementary Information
Schedule of Employer Contributions
GASB 67 Paragraph 32(c)
(In Thousands)

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Covered-Employee Payroll	$ 3,443,138	$ 3,310,710	$ 3,310,176	$ 3,283,749	$ 3,321,614	$ 3,253,077	$ 3,190,332	$ 2,975,289	$ 2,859,477	$ 2,703,430
Actual Employer Contributions	$ 563,326	$ 568,233	$ 557,340	$ 1,037,936	$ 479,805	$ 442,550	$ 466,248	$ 434,890	$ 406,107	$ 383,777
Actuarially Determined Employer Contributions	823,446	802,985	757,822	678,741	633,938	600,283	563,789	494,565	406,107	383,777
Annual Contribution Excess (Deficiency)	$ (260,120)	$ (234,752)	$ (200,482)	$ 359,195	$ (154,133)	$ (157,733)	$ (97,541)	$ (59,675)	$	$
Actual Contributions as a Percentage of Covered-Employee Payroll	16.36%	17.16%	16.84%	31.61%	14.44%	13.60%	14.61%	14.62%	14.20%	14.20%

Schedule B

Summary of Main Benefit Provisions

The Teachers' Retirement System of the State of Kentucky was established on July 1, 1940. The valuation took into account amendments to the System effective through June 30, 2013. The following summary describes the main benefit and contribution provisions of the System as interpreted for the valuation.

1 - DEFINITIONS

"Final average salary" means the average of the five highest annual salaries which the member has received for service in a covered position and on which the member has made contributions or on which the public board, institution or agency has picked up the member contributions. For a member who retires after attaining age 55 with 27 years of service, "final average salary" means the average of the three highest annual salaries.

2 - BENEFITS

Service Retirement Allowance for Members Before 7/1/2008
Condition for Allowance

- Completion of 27 years of service or attainment of age 55 and 5 years of service.

Amount of Allowance

- The annual retirement allowance for non-university members is equal to:
  - (a) 2.0% of final average salary multiplied by service before July 1, 1983, plus
  - (b) 2.5% of final average salary multiplied by service after July 1, 1983.
  - (c) For individuals who become members of the Retirement System on or after July 1, 2002 and have less than 10 years of service at retirement, the retirement allowance is 2.0% of final average salary multiplied by service. If, however, they have 10 or more years, they receive a benefit percentage of 2.5% for all years of service up to 30 years.
  - (d) For members retiring on or after July 1, 2004, the retirement allowance formula is 3.0% of final average salary for each year of service credit earned in excess of 30 years.

The annual retirement allowance for university members is equal to 2.0% of final average salary multiplied by all years of service.

For all members, the annual allowance is reduced by 5% per year from the earlier of age 60 or the date the member would have completed 27 years of service.

The minimum annual service allowance for all members is $440 multiplied by credited service.

Service Retirement Allowance for Members on and after 7/1/2008
Condition for Allowance

- Completion of 27 years of service, attainment of age 60 and 5 years of service or attainment of age 55 and 10 years of service.

Amount of Allowance

- 1.7% of final average salary if service is 10 years or less.
- 2.0% of final average salary if service is greater than 10 years and no more than 20 years.
- 2.3% of final average salary if service is greater than 20 years but no more than 26 years.
- 2.5% of final average salary if service is greater than 26 years but no more than 30 years.
- 3.0% of final average salary for years of service greater than 30 years.

The annual retirement allowance for university members is equal to:

- 1.5% of final average salary if service is 10 years or less.
- 1.7% of final average salary if service is greater than 10 years and no more than 20 years.
- 1.85% of final average salary if service is greater than 20 years but less than 27 years.
- 2.0% of final average salary if service is greater than or equal to 27 years.

For all members, the annual allowance is reduced by 6% per year from the earlier of age 60 or the date the member would have completed 27 years of service.

Section B: Summary of Main Benefit Provisions continued ...

Disability Retirement Allowance
Condition for Allowance

- Totally and permanently incapable of being employed as a teacher and under age 60 but after completing 5 years of service.

Amount of Allowance

- The disability allowance is equal to the greater of the service retirement allowance or 60% of the member's final average salary. The disability allowance is payable over an entitlement period equal to 25% of the service credited to the member at the date of disability or five years, whichever is longer. After the disability entitlement period has expired and if the member remains disabled, he will be retired under service retirement. The service retirement allowance will be computed with service credit given for the period of disability retirement. The allowance will not be less than $6,000 per year. The service retirement allowance will not be reduced for commencement of the allowance before age 60 or the completion of 27 years of service.

Benefits Payable on Separation from Service

- Any member who ceases to be in service is entitled to receive his contributions with allowable interest. A member who has completed 5 years of creditable service and leaves his contributions with the System may be continued in the membership of the System after separation from service, and file application for service retirement after the attainment of age 60.

Life Insurance

- A member who has completed 5 years of creditabA separate Life Insurance fund has been created as of June 30, 2000 to pay benefits on behalf of deceased KTRS active and retired members.

Death Benefits

A surviving spouse of an active member with less than 10 years of service may elect to receive an annual allowance of $2,880 except that if income from other sources exceeds $6,600 per year the annual allowance will be $2,160.

A surviving spouse of an active member with 10 or more years of service may elect to receive an allowance which is the actuarial equivalent of the allowance the deceased member would have received upon retirement. The allowance will commence on the date the deceased member would have been eligible for service retirement and will be payable during the life of the spouse.

If the deceased member is survived by unmarried children under age 18 the following schedule of annual allowances applies:

Number of Children	Annual Allowance
1	$ 2,400
2	4,080
3	4,800
4 or more	5,280

The allowances are payable until a child attains age 18, or age 23 if a full-time student.

If the member has no eligible survivor, a refund of his accumulated contributions is payable to his estate.

Options

In lieu of the regular Option 1, a retirement allowance payable in the form of a life annuity with refundable balance, any member before retirement may elect to receive a reduced allowance which is actuarially equivalent to the full allowance, in one of the following forms:

Option 2. A single life annuity payable during the member's lifetime with payments for 10 years certain.

Option 3. At the death of the member his allowance is continued throughout the life of his beneficiary.

Option 3(a). At the death of the beneficiary designated by the member under Option 3, the member's benefit will revert to what would have been paid had he not selected an option.

Option 4. At the death of the member one half of his allowance is continued throughout the life of his beneficiary.

Option 4(a). At the death of the beneficiary designated by the member under Option 4, the member's benefit will revert to what would have been paid had he not selected an option.

Section B: Summary of Main Benefit Provisions continued ...

Post-Retirement Adjustments

The retirement allowance of each retired member and of each beneficiary shall be increased by 1.50% each July 1.

3- CONTRIBUTIONS

Member Contributions

University members contribute 7.625% of salary to the Retirement System. Non-university members contribute 9.105% of salary to the Retirement System. Member contributions are picked up by the employer.

Schedule C

Statement of Actuarial Assumptions and Methods

Investment Rate of Return: 7.50% per annum, compounded annually.

Salary Increases: Representative values of the assumed annual rates of future salary increases are as follows and include inflation at 3.50% per annum:

Age	20	25	30	35	40	45	50	55	60	65
Annual Rate	8.10%	7.20%	6.20%	5.50%	5.00%	4.60%	4.50%	4.30%	4.20%	4.00%

Separations From Service: : Representative values of the assumed annual rates of death, disability, withdrawal, service retirement and early retirement are as follows:

MALES: Annual Rate of . . .

			WITHDRAWAL			RETIREMENT	
			SERVICE				
AGE	DEATH	DISABILITY	0 - 4	5 - 9	10+	Before 27 Years of Service	After 27 Years of Service*
20	0.012%	0.01%	9.00%				
25	0.015	0.01	9.00	3.00%			
30	0.020	0.02	9.00	3.00	3.00%		
35	0.035	0.05	10.00	3.25	1.75		
40	0.046	0.09	10.00	4.00	1.40		
45	0.058	0.18	11.00	4.00	1.50		17.0%
50	0.074	0.33	9.00	4.00	2.00		17.0
55	0.124	0.55	12.00	3.50	2.50	5.5%	35.0
60	0.244	0.70	12.00	3.50	2.50	13.0	24.0
62	0.324	0.70	12.00	3.50	2.50	15.0	25.0
65	0.480	0.70	12.00	3.50	2.50	21.0	26.0
70	0.821	0.70	0.00	0.00	0.00	100.0	100.0

**Plus 10% in year when first eligible for unreduced retirement with 27 years of service.*

Section C: Statement of Actuarial Assumptions and Methods continued ...

FEMALES: Annual Rate of . . .

AGE	DEATH	DISABILITY	WITHDRAWAL			RETIREMENT	
			SERVICE				
			0 - 4	5 - 9	10+	Before 27 Years of Service	After 27 Years of Service*
20	0.007%	0.01%	7.00%				
25	0.008	0.02	8.50	4.00%			
30	0.010	0.04	9.00	4.00	1.65%		
35	0.017	0.08	9.00	3.75	1.85		
40	0.024	0.14	8.50	3.25	1.50		
45	0.037	0.32	7.50	3.25	1.25		15.0%
50	0.055	0.42	9.50	3.50	1.75		15.0
55	0.103	0.56	11.00	4.00	2.00	6.0%	35.0
60	0.201	0.85	11.00	4.00	2.00	14.0	30.0
62	0.263	0.85	11.00	4.00	2.00	12.0	25.0
65	0.390	0.85	11.00	4.00	2.00	22.0	30.0
70	0.672	0.85	0.00	0.00	0.00	100.0	100.0

**Plus 10% in year when first eligible for unreduced retirement with 27 years of service.*

Deaths After Retirement: The RP-2000 Combined Mortality Table projected to 2020 using scale AA (set back one year for females) is used for death after service retirement and beneficiaries. The RP-2000 Disabled Mortality Table (set back seven years for males and set forward five years for females) is used for death after disability retirement. Mortality improvement is anticipated under these assumptions as recent mortality experience shows actual deaths are approximately 4% greater for healthy lives and 5% greater for disabled lives than expected under the selected tables. Representative values of the assumed annual rates of death after service retirement and after disability retirement are shown below:

Annual Rate of Death After . . .

AGE	SERVICE RETIREMENT		DISABILITY RETIREMENT	
	MALE	FEMALE	MALE	FEMALE
45	0.1161%	0.0745%	2.2571%	1.1535%
50	0.1487	0.1100	2.2571	1.6544
55	0.2469	0.2064	2.6404	2.1839
60	0.4887	0.4017	3.2859	2.8026
65	0.9607	0.7797	3.9334	3.7635
70	1.6413	1.3443	4.6584	5.2230
75	2.8538	2.1680	5.6909	7.2312
80	5.2647	3.6066	7.3292	10.0203
85	9.6240	6.1634	9.7640	14.0049
90	16.9280	11.2205	12.8343	19.4509
95	25.6992	17.5624	16.2186	23.7467

ASSETS: Market Value

EXPENSE LOAD: None.

PERCENT MARRIED: 100%, with females 3 years younger than males.

LOADS: Unused sick leave: 2% of active liability

Schedule D

Actuarial Cost Method

1. The valuation is prepared on the projected benefit basis, under which the present value, at the interest rate assumed to be earned in the future, of each active member's expected benefit at retirement or death is determined, based on his age, service, sex and compensation. The calculations take into account the probability of a member's death or termination of employment prior to becoming eligible for a benefit, as well as the possibility of his terminating with a service, disability or survivor's benefit. Future salary increases and post-retirement cost-of-living adjustments are also anticipated. The present value of the expected benefits payable on account of the active members is added to the present value of the expected future payments to retired members and beneficiaries and inactive members to obtain the present value of all expected benefits payable from the System on account of the present group of members and beneficiaries.

2. The employer contributions required to support the benefits of the System are determined following a level funding approach, and consist of a normal contribution and an accrued liability contribution.

3. The normal contribution is determined using the "entry age normal" method. Under this method, a calculation is made to determine the uniform and constant percentage rate of employer contribution which, if applied to the compensation of the average new member during the entire period of his anticipated covered service, would be required in addition to the contributions of the member to meet the cost of all benefits payable on his behalf.

4. The unfunded accrued liability is determined by subtracting the present value of prospective employer normal contributions and member contributions, together with the current actuarial value of assets held, from the present value of expected benefits to be paid from the System.

Schedule E

Board Funding Policy

Introduction

Pursuant to the provisions of KRS 161.250, the Board of Trustees ("Board") of the Kentucky Teachers' Retirement Systems ("KTRS") is vested with the responsibility for the general administration and management of the retirement system. The Board may adopt procedures necessary to conduct the business of the retirement system as needed. The applicable provisions of the Kentucky Revised Statutes ("state law") shall control if any inconsistency exists between state law and this policy.

Background

State law provides that the retirement benefits promised to members of KTRS are "…an inviolable contract of the Commonwealth…." (KRS 161.714.) To satisfy this solemn commitment, the Commonwealth of Kentucky ("state") is required to pay annual retirement appropriations necessary to fund the benefit requirements of members of the retirement system. All employers participating in KTRS are responsible for paying the fixed employer contribution rate set forth in state law. However, the state-as plan guarantor-is solely responsible for paying the additional annual retirement appropriations necessary to keep the retirement system actuarially sound and able to satisfy the contract with members to provide promised benefits. (KRS 161.550(6).)

Since fiscal year 2008, the state has not paid the recommended annual retirement appropriations necessary to pre-fund the benefit requirements of members of the retirement system as determined by the actuary. Over this period of time, because of the failure to fund, the state's annual retirement appropriations have grown significantly from $60.5 million (Fiscal Year 2009) to $487 million (Fiscal Year 2016). The following schedule details the growth of the annual retirement appropriations payable by the state:

Section E: Board Funding Policy continued ...

	Cumulative Increase as a % of Payroll	Cumulative Increase of Annual Retirement Appropriations Payable by the State
2009	1.88	$ 60,499,800
2010	2.46	82,331,200
2011	3.59	121,457,000
2012	5.81	208,649,000
2013	7.27	260,980,000
2014	8.02	299,420,000
2015	10.42	386,400,000
2016	12.97	487,400,000

(Source: KTRS Report of the Actuary on the Annual Valuation Prepared as of June 30, 2013).

The Board has always taken action as required by state law and recommended annual retirement appropriations payable by the state that would ensure that the state meets the contractual obligations to members. This policy confirms the Board's process for recommending annual retirement appropriations payable by the state and the primary actuarial assumptions and methodologies associated with calculating the annual retirement appropriations. Other related actuarial assumptions and methodologies not listed in this policy are reported in annual valuations, the most recent experience study, or resolutions adopted by the Board.

1. Annual Retirement Appropriations Payable by the State: In each biennial budget request, the Board will recommend annual retirement appropriations payable by the state to meet the benefit requirements of the members of the retirement system. The annual retirement appropriations payable by the state are the sum of the fixed employer contribution rate set by state law and the additional annual retirement appropriations necessary to fund the benefit requirements of members of the retirement system. (KRS 161.550.) The recommended additional annual retirement appropriations payable by the state are calculated by the Board's actuary based upon the results of an annual valuation preceding the beginning of each biennium. (KRS 161.400.)

2. Calculation of Annual Retirement Appropriations Payable by the State: The Board will recommend annual retirement appropriations payable by the state, which-if paid-will meet the benefit requirements of the members of the retirement system consistent with generally accepted actuarial principles. Based upon technical advice from the Board's actuary, the Board hereby adopts the following principles for calculating the recommended annual retirement appropriations payable by the state:

   - Use the Entry Age Normal actuarial cost method;
   - Use a five-year asset smoothing method;
   - Use a thirty-year closed period to amortize legacy unfunded liability ("legacy unfunded liability" is that unfunded liability recognized as of the valuation prepared for June 30, 2014);
   - Use a twenty-year closed period to amortize new sources of unfunded liability ("new sources of unfunded liability" is that unfunded liability consisting of all benefit changes, assumption and method changes, and experience gains and/or losses that have occurred since the previous valuation); and
   - Reach a 100 percent minimum funded ratio within the thirty-year closed amortization period.

The Board also recognizes that, from time to time, the state may desire to contribute lump sum payments toward satisfaction of unfunded liability rather than amortization of the debt. Total unfunded liability is published in every annual valuation of the retirement system and KTRS will work with the state to develop reasonable and appropriate plans for receipt of lump sum payments toward the satisfaction of unfunded liability.

This policy will be reviewed regularly and amended or revised as necessary.

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Kentucky Teachers' Retirement System

2014

Statistical Section

This section of the Kentucky Teachers' Retirement System Comprehensive Annual Financial Report (KTRS CAFR) presents detailed information as a context for understanding the information in the financial statements, note disclosures, and required supplementary information regarding the System's overall financial health.

CONTENTS

Defined Benefit Plan
Past Ten Fiscal Years

Additions by Source

Year	Employer Contributions	Member Contributions	Net Investment Income	Total Additions to Plan Net Position
2014	$ 563,326,249	$ 304,981,620	$ 2,803,247,956	$ 3,671,555,825
2013	568,233,446	304,738,728	2,039,874,263	2,912,846,437
2012	557,339,552	309,729,924	309,696,252	1,176,765,728
2011	1,037,935,993	302,262,819	2,760,972,224	4,101,171,036
2010	479,805,088	297,613,965	1,509,785,381	2,287,204,434
2009	442,549,935	293,678,564	(2,020,682,522)	(1,284,454,023)
2008	466,247,782	291,423,948	(909,083,525)	(151,411,795)
2007	434,890,469	269,687,864	2,063,878,767	2,768,457,100
2006	410,920,969	258,464,856	717,308,002	1,386,693,827
2005	388,346,438	247,024,518	946,070,556	1,581,441,512

Deductions by Type
(Including Benefits by Type)

Year	Service Retirants	Disability Retirants	Survivors	Life Insurance*	TOTAL Benefits	Refunds	Administrative Expense	Total Deductions to Plan Net Position
2014	$ 1,563,634,993	$ 73,501,441	$ 17,239,266	$	$ 1,654,375,700	$ 25,461,843	$ 7,955,972	$ 1,687,793,515
2013	1,484,132,938	69,808,291	16,781,695		1,570,722,924	22,059,094	8,377,003	1,601,159,021
2012	1,401,380,816	65,297,491	16,260,858		1,482,939,165	19,549,073	7,762,880	1,510,251,118
2011	1,326,033,698	60,950,214	15,551,801		1,402,535,713	17,325,387	7,322,739	1,427,183,839
2010	1,249,272,057	57,782,651	14,754,062		1,321,808,770	15,310,680	8,830,054	1,345,949,504
2009	1,184,075,934	54,562,038	14,342,435		1,252,980,407	15,208,419	8,165,757	1,276,354,583
2008	1,105,078,345	51,842,271	14,048,485		1,170,969,101	15,965,083	7,551,936	1,194,486,120
2007	1,040,003,417	48,863,876	13,671,586		1,102,538,879	14,822,827	7,351,846	1,124,713,552
2006	972,018,057	46,750,585	12,943,639	3,894,000	1,035,606,281	12,834,222	6,839,859	1,055,280,362
2005	902,863,420	44,070,071	12,585,248	3,852,800	963,371,539	10,975,941	6,652,673	981,000,153

* *Life Insurance Plan valued separately-- see page 153.*

Changes in Plan Net Position

Year	Total Additions to Plan Net Position	Total Deductions to Plan Net Position	Changes in Plan Net Position
2014	$ 3,671,555,825	$ 1,687,793,515	$1,983,762,310
2013	2,912,846,437	1,601,159,021	1,311,687,416
2012	1,176,765,728	1,510,251,118	(333,485,390)
2011	4,101,171,036	1,427,183,839	2,673,987,197
2010	2,287,204,434	1,345,949,504	941,254,930
2009	(1,284,454,023)	1,276,354,583	(2,560,808,606)
2008	(151,411,795)	1,194,486,120	(1,345,897,915)
2007	2,768,457,100	1,124,713,552	1,643,743,548
2006	1,386,693,827	1,055,280,362	331,413,465
2005	1,581,441,512	981,000,153	600,441,359

Medical Insurance Plan
Past Ten Fiscal Years

Additions by Source

Year	Employer Contributions	Member Contributions	Recovery Income	Net Investment Income	Total Additions to Plan Net Position
2014	$ 157,688,414	$ 135,190,891	$ 4,879,981	$ 67,741,063	$ 365,500,349
2013	166,576,444	119,795,780	34,976	30,718,836	317,126,036
2012	173,966,623	100,346,070	3,781,222	(3,989,202)	274,104,713
2011	188,241,202	84,147,337	493,312	8,334,296	281,216,147
2010	158,761,433	63,805,573	14,618,348	12,312,999	249,498,353
2009	164,408,037	58,688,767	13,683,830	11,296,280	248,076,914
2008	148,929,322	55,402,830	11,936,887	8,128,179	224,397,218
2007	113,233,784	53,099,678	10,337,338	6,722,080	183,392,880
2006	89,319,498	51,697,167	6,117,979	6,804,286	153,938,930
2005	79,022,562	51,576,031		6,507,537	137,106,130

Deductions by Type
(Including Benefits by Type)

	Insurance Benefit Expense					
Year	Under Age 65	Age 65 & Over	Administrative Expense	Total Insurance Benefits Expense	Refunds*	Total Deductions to Plan Net Position
2014	$ 136,963,208	$ 105,107,323	$ 1,100,133	$ 243,170,664	$	$ 243,170,664
2013	142,170,438	98,761,180	1,275,206	242,206,824		242,206,824
2012	156,228,181	72,746,945	1,201,629	230,176,755		230,176,755
2011	145,544,405	80,890,958	1,186,029	227,621,392		227,621,392
2010	136,702,152	100,675,376		237,377,528		237,377,528
2009	123,819,475	81,037,647		204,857,122		204,857,122
2008	107,437,450	71,838,765		179,276,215	10,014	179,286,229
2007	104,828,254	69,400,843		174,229,097	5,834	174,234,931
2006	102,970,290	66,660,106		169,630,396	5,143	169,635,539
2005	82,186,847	64,233,482		146,420,329	9,072	146,429,401

**Refunds are netted against member contributions beginning fiscal year 2009.*

Changes in Plan Net Position

Year	Total Additions to Plan Net Position	Total Deductions to Plan Net Position	Changes in Plan Net Position
2014	$ 365,500,349	$ 243,170,664	$ 122,329,685
2013	317,126,036	242,206,824	74,919,212
2012	274,104,713	230,176,755	43,927,958
2011	281,216,147	227,621,392	53,594,755
2010	249,498,353	237,377,528	12,120,825
2009	248,076,914	204,857,122	43,219,792
2008	224,397,218	179,286,229	45,110,989
2007	183,392,880	174,234,931	9,157,949
2006	153,938,930	169,635,539	(15,696,609)
2005	137,106,130	146,429,401	(9,323,271)

Life Insurance Plan

Past Eight Fiscal Years

Additions by Source

Year	Employer Contributions	Net Investment Income	Total Additions to Plan Net Position
2014	$ 1,006,091	$ 4,572,845	$ 5,578,936
2013	1,680,495	674,760	2,355,255
2012	1,684,711	6,450,022	8,134,733
2011	1,668,822	3,094,776	4,763,598
2010	1,966,826	5,383,644	7,350,470
2009	5,455,473	5,282,958	10,738,431
2008	5,411,249	6,321,491	11,732,740
2007	5,022,137	(3,413,537)	1,608,600

Deductions by Type
(Including Benefits by Type)

Year	Life Insurance	Total Deductions to Plan Net Position
2014	$ 4,692,000	$ 4,713,324
2013	4,614,718	4,639,143
2012	4,397,281	4,420,167
2011	4,120,000	4,141,511
2010	4,148,511	4,148,511
2009	3,694,000	3,694,000
2008	4,003,000	4,003,000
2007	4,245,000	4,245,000

Changes in Plan Net Position

Total Additions to Plan Net Position	Total Deductions to Plan Net Position	Changes in Plan Net Position
$ 5,578,936	$ 4,713,324	$ 865,612
2,355,255	4,639,143	(2,283,888)
8,134,733	4,420,167	3,714,566
4,763,598	4,141,511	622,087
7,350,470	4,148,511	3,201,959
10,738,431	3,694,000	7,044,431
11,732,740	4,003,000	7,729,740
1,608,600	4,245,000	(2,636,400)

Distribution of Active Contributing Members as of June 30, 2014

By Age

Age	Male	Female
20-24	235	969
25-29	1,556	5,458
30-34	2,266	6,918
35-39	2,414	7,273
40-44	2,533	11,417
45-49	2,169	7,477
50-54	1,898	5,936
55-59	1,523	4,741
60-64	1,297	3,677
65 & over	1,090	2,560
TOTAL	**16,981**	**56,426**

By Service

Years of Service	Male	Female
Less than 1	1,185	6,403
1-4	3,981	13,002
5-9	3,453	10,843
10-14	2,807	9,148
15-19	2,467	7,672
20-24	1,684	5,326
25-29	1,034	3,125
30-34	262	732
35 or more	108	175
TOTAL	**16,981**	**56,426**

Principal Participating Employers
Current Year and Nine Years Ago

	2014			2005		
	Covered Employees	Rank	Percentage of Total System	Covered Employees	Rank	Percentage of Total System
Jefferson County Schools	10,255	1	13.48%	9,646	1	13.06%
Fayette County Public Schools	4,580	2	6.02	3,889	2	5.26
Boone County Schools	1,872	3	2.46	1,470	3	1.99
Hardin County Schools	1,343	4	1.77	1,270	4	1.72
Kenton County Schools	1,327	5	1.74	1,126	5	1.52
Bullitt County Schools	1,318	6	1.73	1,031	10	1.40
Warren County Schools	1,262	7	1.66	1,054	9	1.43
Oldham County Schools	1,192	8	1.57	988	11	1.34
Daviess County Schools	1,103	9	1.45	1,054	8	1.43
Madison County Schools	1,101	10	1.45	1,061	7	1.44
All Other*	50,716		66.67	51,289		69.42
TOTAL (208 Employers)	76,069		100.00%	73,878		100.00%

** In 2014, "all other" consisted of:*

Type	*Number*	*Employees*
Local School Districts	*163*	*44,608*
Higher Education	*6*	*4,023*
State Agencies	*15*	*1,640*
Regional Coops	*8*	*340*
Other	*6*	*105*
TOTAL	*198*	*50,716*

KTRS Schedule of Participating Employers
School Districts: County Schools

1. Adair
2. Allen
3. Anderson
4. Ballard
5. Barren
6. Bath
7. Bell
8. Boone
9. Bourbon
10. Boyd
11. Boyle
12. Bracken
13. Breathitt
14. Breckinridge
15. Bullitt
16. Butler
17. Caldwell
18. Calloway
19. Campbell
20. Carlisle
21. Carroll
22. Carter
23. Casey
24. Christian
25. Clark
26. Clay
27. Clinton
28. Crittenden
29. Cumberland
30. Daviess
31. Edmonson
32. Elliott
33. Estill
34. Fayette
35. Fleming
36. Floyd
37. Franklin
38. Fulton
39. Gallatin
40. Garrard
41. Grant
42. Graves
43. Grayson
44. Green
45. Greenup
46. Hancock
47. Hardin
48. Harlan
49. Harrison
50. Hart
51. Henderson
52. Henry
53. Hickman
54. Hopkins
55. Jackson
56. Jefferson
57. Jessamine
58. Johnson
59. Kenton
60. Knott
61. Knox
62. Larue
63. Laurel
64. Lawrence
65. Lee
66. Leslie
67. Letcher
68. Lewis
69. Lincoln
70. Livingston
71. Logan
72. Lyon
73. Madison
74. Magoffin
75. Marion
76. Marshall
77. Martin
78. Mason
79. McCracken
80. McCreary
81. McLean
82. Meade
83. Menifee
84. Mercer
85. Metcalfe
86. Monroe
87. Montgomery
88. Morgan
89. Muhlenberg
90. Nelson
91. Nicholas
92. Ohio
93. Oldham
94. Owen
95. Owsley
96. Pendleton
97. Perry
98. Pike
99. Powell
100. Pulaski
101. Robertson
102. Rockcastle
103. Rowan
104. Russell
105. Scott
106. Shelby
107. Simpson
108. Spencer
109. Taylor
110. Todd
111. Trigg
112. Trimble
113. Union
114. Warren
115. Washington
116. Wayne
117. Webster
118. Whitley
119. Wolfe
120. Woodford

KTRS Schedule of Participating Employers *(continued)*
School Districts: City Schools

1. Anchorage
2. Ashland
3. Augusta
4. Barbourville
5. Bardstown
6. Beechwood
7. Bellevue
8. Berea
9. Bowling Green
10. Burgin
11. Campbellsville
12. Caverna
13. Cloverport
14. Corbin
15. Covington
16. Danville
17. Dawson Springs
18. Dayton
19. East Bernstadt
20. Elizabethtown
21. Eminence
22. Erlanger-Elsmere
23. Fairview
24. Fort Thomas
25. Frankfort
26. Fulton
27. Glasgow
28. Harlan
29. Hazard
30. Jackson
31. Jenkins
32. Ludlow
33. Mayfield
34. Middlesboro
35. Murray
36. Newport
37. Owensboro
38. Paducah
39. Paintsville
40. Paris
41. Pikeville
42. Pineville
43. Raceland
44. Russell
45. Russellville
46. Science Hill
47. Silver Grove
48. Somerset
48\. Southgate
50. Walton-Verona
51. West Point
52. Williamsburg
53. Williamstown

Universities & Community/ Technical Colleges

1. Eastern Kentucky
2. Kentucky State
3. Morehead State
4. Murray State
5. Western Kentucky
6. Kentucky Community & Technical College System

State of Kentucky/ Other Organizations

1. Education and Workforce Development Cabinet
2. Legislative Research Commission
3. Finance and Administration Cabinet

Other Organizations

1. Education Professional Standards Board
2. Kentucky Education Association
3. Kentucky Academic Association
4. Kentucky Educational Development Cooperative
5. Kentucky High School Athletic Association
6. Kentucky School Boards Association
7. Kentucky Valley Educational Cooperative
8. Northern Kentucky Cooperative for Educational Services
9. Ohio Valley Educational Cooperative
10. West Kentucky Education Cooperative
11. Green River Regional Education Cooperative
12. Central Kentucky Special Education Cooperative
13. Southeast South-Central Educational Cooperative

Number of Payments in United States

119	ALABAMA	8	NEW JERSEY
1	ALASKA	17	NEW MEXICO
86	ARIZONA	40	NEW YORK
36	ARKANSAS	246	NORTH CAROLINA
102	CALIFORNIA	2	NORTH DAKOTA
56	COLORADO	586	OHIO
9	CONNECTICUT	27	OKLAHOMA
7	DELAWARE	29	OREGON
1,063	FLORIDA	51	PENNSYLVANIA
247	GEORGIA	0	RHODE ISLAND
5	HAWAII	180	SOUTH CAROLINA
7	IDAHO	9	SOUTH DAKOTA
94	ILLINOIS	855	TENNESSEE
664	INDIANA	183	TEXAS
14	IOWA	25	UTAH
33	KANSAS	1	VERMONT
43	LOUISIANNA	148	VIRGINIA
16	MAINE	38	WASHINGTON
28	MARYLAND	103	WEST VIRGINIA
18	MASSACHUSETTS	28	WISCONSIN
40	MICHIGAN	1	WYOMING
19	MINNESOTA		
50	MISSISSIPPI		
75	MISSOURI		
6	MONTANA		
8	NEBRASKA		
21	NEVADA		
5	NEW HAMPSHIRE		

Distribution of Retirement and Medical Payments Worldwide

As of June 30, 2014

Number of Payments Outside United States

7	DIST COLUMBIA	1	ENGLAND
3	MILITARY APO	1	PHILIPPINES
1	AUSTRALIA	1	SWEDEN
1	BARBADOS	1	SWITZERLAND
5	CANADA		

TOTALS

Number of Out of State Payments	**5,470**
Out of State Payments	**$148,464,568**
Number of Payments	**49,856**
Amount of Payments	**$1,816,125,586**

Distribution of Retirement and Medical Payments Statewide as of June 30, 2014

County Name	Total Payments	Number of Recipients	County Name	Total Payments	Number of Recipients
Adair	$ 6,925,893	199	Laurel	22,589,262	631
Allen	6,440,822	174	Lawrence	5,231,066	147
Anderson	7,691,376	216	Lee	2,691,803	80
Ballard	4,613,421	126	Leslie	5,473,467	148
Barren	15,070,047	404	Letcher	11,901,603	336
Bath	4,231,605	128	Lewis	6,408,833	178
Bell	13,873,400	382	Lincoln	10,647,715	284
Boone	34,614,035	867	Livingston	3,233,784	90
Bourbon	7,203,947	200	Logan	9,676,713	267
Boyd	19,985,505	524	Lyon	3,907,255	105
Boyle	17,077,351	451	Madison	50,567,450	1,329
Bracken	3,811,808	100	Magoffin	6,428,112	176
Breathitt	8,371,099	248	Marion	6,463,603	187
Breckinridge	6,867,160	178	Marshall	13,474,756	361
Bullitt	17,187,449	429	Martin	4,877,716	140
Butler	3,560,428	101	Mason	7,293,246	199
Caldwell	6,768,176	187	McCracken	26,532,985	708
Calloway	24,090,369	649	McCreary	7,248,989	208
Campbell	27,368,619	687	McLean	4,106,341	111
Carlisle	1,589,726	48	Meade	7,086,605	173
Carroll	2,981,501	81	Menifee	2,115,473	69
Carter	13,011,273	377	Mercer	8,715,093	257
Casey	5,671,520	164	Metcalfe	3,750,944	101
Christian	19,688,721	535	Monroe	5,530,340	159
Clark	12,144,662	343	Montgomery	11,949,069	321
Clay	10,787,010	276	Morgan	6,501,047	184
Clinton	5,284,797	148	Muhlenberg	11,715,321	295
Crittenden	2,305,528	74	Nelson	14,775,172	393
Cumberland	3,502,004	96	Nicholas	2,012,143	57
Daviess	40,512,111	1,077	Ohio	7,044,003	199
Edmonson	3,660,503	101	Oldham	18,212,692	438
Elliott	2,204,946	69	Owen	3,131,627	83
Estill	5,193,497	144	Owsley	4,061,170	116
Fayette	106,597,756	2,890	Pendleton	4,735,761	137
Fleming	6,118,058	175	Perry	13,722,088	375
Floyd	19,598,061	563	Pike	29,233,788	824
Franklin	27,206,750	889	Powell	4,751,288	125
Fulton	2,697,225	74	Pulaski	25,220,219	730
Gallatin	951,914	25	Robertson	786,833	23
Garrard	7,041,269	185	Rockcastle	7,135,145	189
Grant	6,936,366	169	Rowan	17,329,787	479
Graves	15,289,313	408	Russell	8,302,597	225
Grayson	9,703,562	266	Scott	14,598,196	391
Green	4,300,995	115	Shelby	17,057,564	440
Greenup	13,894,337	377	Simpson	6,063,999	165
Hancock	2,927,283	78	Spencer	5,440,122	135
Hardin	31,703,302	829	Taylor	10,952,056	318
Harlan	14,874,100	414	Todd	3,190,730	96
Harrison	7,466,847	204	Trigg	6,322,545	182
Hart	5,234,091	136	Trimble	2,068,824	54
Henderson	15,888,232	417	Union	4,235,548	122
Henry	6,698,084	188	Warren	58,496,633	1,590
Hickman	1,457,783	40	Washington	3,930,197	109
Hopkins	17,073,864	457	Wayne	8,331,428	228
Jackson	4,631,682	144	Webster	4,777,432	138
Jefferson	279,811,109	6,581	Whitley	24,432,161	679
Jessamine	12,729,141	356	Wolfe	4,081,862	119
Johnson	12,974,195	345	Woodford	10,673,898	289
Kenton	34,162,691	909			
Knott	8,567,431	246	**Total in Kentucky**	**$ 1,667,661,018**	**44,386**
Knox	9,573,100	283			
Larue	6,036,069	148			

Growth in Annuitants
as of June 30, 2014

Fiscal Year	Service Retirees	Disabilities	Beneficiaries of Retired Members	Survivors	Eligible to Retire
2005-06	33,618	2,039	1,631	495	531
2006-07	34,462	2,086	1,722	466	549
2007-08	35,550	2,155	1,778	468	554
2008-09	36,684	2,209	1,837	448	559
2009-10	37,607	2,284	1,915	435	567
2010-11	38,705	2,379	2,003	430	584
2011-12	40,107	2,478	2,126	444	596
2012-13	41,255	2,582	2,207	432	601
2013-14	42,581	2,641	2,304	429	596

Schedule of Annuitants by Type of Benefit
as of June 30, 2014

Amount of Monthly Benefit ($)	Number of Annuitants	Type of Benefit*				
		1	2	3	4	5
1 - 500	3,519	2,506	19	382	185	316
501 - 1,000	2,734	2,089	170	6	413	0
1,001 - 1,500	3,038	2,228	295	2	589	0
1,501 - 2,000	3,666	2,928	410	1	459	0
2,001 - 2,500	5,424	4,690	611	10	402	0
2,501 - 3,000	8,636	7,809	643	18	326	0
3,001 - 3,500	7,542	6,797	276	3	187	0
3,501 - 4,000	5,150	4,520	128	2	147	0
4,001 - 4,500	3,349	2,996	56	4	81	0
4,501 - 5,000	2,063	1,767	21	0	44	0
5,001 & OVER	3,430	2,925	12	1	67	0
TOTAL**	**48,551**	**41,255**	**2,641**	**429**	**2,900**	**316**

*Type of Benefit
1-*Normal Retirement for Age & Service*
2-*Disability Retirement*
3-*Survivor Payment - Active Member*
4-*Beneficiary Payment - Retired Member*
5-*Disabled Adult Child*

*** Retirees in waiver program are not included.*

Schedule of Annuitants by Option Selected
as of June 30, 2014

Amount of Monthly Benefit ($)	Option Selected*							
	1	2	3	4	5	6	7	None
1 - 500	1,831	414	289	58	6	421	120	380
501 - 1,000	1,443	329	225	112	9	329	211	76
1,001 - 1,500	1,481	314	290	145	10	398	305	95
1,501 - 2,000	1,939	397	343	152	10	470	266	89
2,001 - 2,500	2,567	515	486	201	5	880	540	230
2,501 - 3,000	4,290	869	680	218	10	1,430	836	303
3,001 - 3,500	3,943	835	527	230	11	1,103	802	91
3,501 - 4,000	2,643	536	420	159	8	787	551	46
4,001 - 4,500	1,696	323	297	111	5	473	422	22
4,501 - 5,000	1,049	227	160	88	8	287	236	8
5,001 & OVER	1,750	307	362	167	16	422	400	6
TOTAL	**24,632**	**5,066**	**4,079**	**1,641**	**98**	**7,000**	**4,689**	**1,346**

Option selected:
1 - Straight-life annuity with refundable balance
2 - Period certain benefit and life thereafter
3 - Joint-survivor annuity
4 - Joint-survivor annuity, one-half benefit to beneficiary
5 - Other payment - special option
6 - Joint-survivor annuity with "pop-up" option
7 - Joint-survivor annuity, one-half benefit to beneficiary with "pop-up" option

Defined Benefit Plan
Average Benefit Payments for the Past Ten Years
By Years of Service Credit

Retirement Effective Dates	00-4.99	05-9.99	10-14.99	15-19.99	20-24.99	25-29.99	30>=	TOTAL
07/01/2004 TO 06/30/2005								
Average monthly benefit	$187	$528	$906	$1,488	$1,978	$2,892	$3,860	**$2,883**
Average final average salary	$4,353	$3,511	$3,647	$4,055	$4,182	$4,602	$5,275	**$4,724**
Number of retired members	55	98	107	106	145	811	875	**2,197**
07/01/2005 TO 06/30/2006								
Average monthly benefit	$202	$473	$1,019	$1,493	$2,037	$2,998	$4,063	**$2,827**
Average final average salary	$4,106	$3,253	$4,052	$4,117	$4,317	$4,721	$5,490	**$4,773**
Number of retired members	44	105	106	132	145	689	604	**1,873**
07/01/2006 TO 06/30/2007								
Average monthly benefit	$178	$514	$930	$1,559	$2,136	$3,140	$4,263	**$2,900**
Average final average salary	$4,102	$3,346	$3,590	$4,228	$4,537	$4,970	$5,758	**$4,916**
Number of retired members	48	113	90	109	193	534	514	**1,577**
07/01/2007 TO 06/30/2008								
Average monthly benefit	$199	$524	$1,117	$1,658	$2,276	$3,279	$4,319	**$2,984**
Average final average salary	$3,816	$3,066	$4,215	$4,412	$4,612	$5,067	$5,786	**$5,017**
Number of retired members	50	130	112	150	169	557	615	**1,831**
07/01/2008 TO 06/30/2009								
Average monthly benefit	$200	$573	$1,005	$1,725	$2,436	$3,368	$4,496	**$2,941**
Average final average salary	$4,617	$3,942	$3,873	$4,686	$4,983	$5,278	$5,960	**$5,164**
Number of retired members	72	168	137	115	217	505	585	**1,824**
07/01/2009 TO 06/30/2010								
Average monthly benefit	$185	$525	$1,104	$1,700	$2,427	$3,468	$4,670	**$3,222**
Average final average salary	$3,654	$3,637	$4,124	$4,508	$4,974	$5,383	$6,102	**$5,316**
Number of retired members	28	133	98	103	242	442	601	**1,647**
07/01/2010 TO 06/30/2011								
Average monthly benefit	$149	$519	$1,225	$1,781	$2,513	$3,621	$4,827	**$3,240**
Average final average salary	$3,570	$3,640	$4,423	$4,825	$5,184	$5,574	$6,235	**$5,392**
Number of retired members	45	157	144	112	242	544	617	**1,854**
07/01/2011 TO 06/30/2012								
Average monthly benefit	$175	$507	$1,170	$1,897	$2,613	$3,674	$4,726	**$3,148**
Average final average salary	$3,292	$3,759	$4,307	$4,898	$5,219	$5,605	$6,109	**$5,331**
Number of retired members	45	197	146	162	303	778	569	**2,200**
07/01/2012 TO 06/30/2013								
Average monthly benefit	$161	$475	$1,186	$1,963	$2,781	$3,811	$5,162	**$3,149**
Average final average salary	$3,362	$3,660	$4,498	$4,956	$5,518	$5,799	$6,632	**$5,476**
Number of retired members	44	234	156	154	294	685	447	**2,014**
07/01/2013 TO 06/30/2014								
Average monthly benefit	$192	$484	$1,270	$2,068	$2,797	$3,847	$5,362	**$3,126**
Average final average salary	$4,148	$3,677	$4,751	$5,364	$5,600	$5,902	$6,860	**$5,589**
Number of retired members	56	211	161	145	258	678	344	**1,853**
Ten Years Ended June 30, 2014								
Average monthly benefit	**$184**	**$510**	**$1,111**	**$1,751**	**$2,499**	**$3,406**	**$4,494**	**$3,042**
Average final average salary	**$3,966**	**$3,592**	**$4,202**	**$4,638**	**$5,082**	**$5,283**	**$5,935**	**$5,169**
Number of retired members	**487**	**1,546**	**1,257**	**1,288**	**2,298**	**6,223**	**5,771**	**18,870**

Medical Insurance Plan
Average Insurance Premium Supplements for the Last Ten Years
By Years of Service Credit

Retirement Effective Dates	00-9.99	10-14.99	15-19.99	20>=	TOTAL
07/01/2004 to 06/30/2005					
Average monthly supplement	$ 138	$ 214	$ 305	$ 395	
Number of retired members	36	70	93	1,768	1,967
07/01/2005 to 06/30/2006					
Average monthly supplement	$ 161	$ 242	$ 362	$ 487	
Number of retired members	28	49	106	1,440	1,623
07/01/2006 to 06/30/2007					
Average monthly supplement	$ 146	$ 261	$ 363	$ 490	
Number of retired members	29	53	80	949	1,111
07/01/2007 to 06/30/2008					
Average monthly supplement	$ 163	$ 261	$ 378	$ 512	
Number of retired members	36	61	104	952	1,153
07/01/2008 to 06/30/2009					
Average monthly supplement	$ 168	$ 298	$ 414	$ 563	
Number of retired members	26	64	103	1,329	1,522
07/01/2009 to 06/30/2010					
Average monthly supplement	$ 151	$ 339	$ 435	$ 621	
Number of retired members	32	73	103	1,276	1,484
07/01/2010 to 06/30/2011					
Average monthly supplement	$ 167	$ 312	$ 439	$ 597	
Number of retired members	30	32	109	1,360	1,531
07/01/2011 to 06/30/2012					
Average monthly supplement	$ 164	$ 302	$ 433	$ 579	
Number of retired members	29	81	121	1,568	1,799
07/01/2012 to 06/30/2013					
Average monthly supplement	$ 80	$ 227	$ 367	$ 499	
Number of retired members	29	90	104	1,373	1,596
07/01/2013 TO 06/30/2014					
Average monthly supplement	$ 52	$190	$335	$484	
Number of retired members	15	82	100	1,227	1,424

Summary of Fiscal Year 2013-2014

Retiree Sick Leave Payments

ACTUARIAL RATE

Grand total members retiring		2,228
Total members receiving sick leave payments		1,548
Total amount of sick leave payments @ 11.355% contribution rate	$	19,692,958
Average payment per retiree	$	12,722
Total increase in final 3/5 average salary base	$	5,433,667
Average increase in final average salary	$	3,510
Total service credit of 1,548 retirees		38,938
Average service credit of 1,548 retirees		25.15

ANTICIPATED LIFETIME PAYOUT OF ADDITIONAL ANNUITY

Actuarial cost of sick leave as salary credit	$	45,174,969

Funding of Additional Payments

Member contributions 9.105% x $19,692,958 =	$ 1,793,044
Employer contributions 12.305% x $19,692,958 =	2,423,218
Total Contributions	$ 4,216,262
DEFICIT:	
Anticipated additional payout	$ 45,174,969
Less total contributions	4,216,262
Subtotal unfunded debt	40,958,707
Less current year appropriation	4,440,300
TOTAL DEFICIT (overpayment)*	$ 36,518,407

* *NOTE: Actuarial factors used for sick leave calculations changed effective July 1, 1998. Sick leave deficits are amortized over 20 year periods.*

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