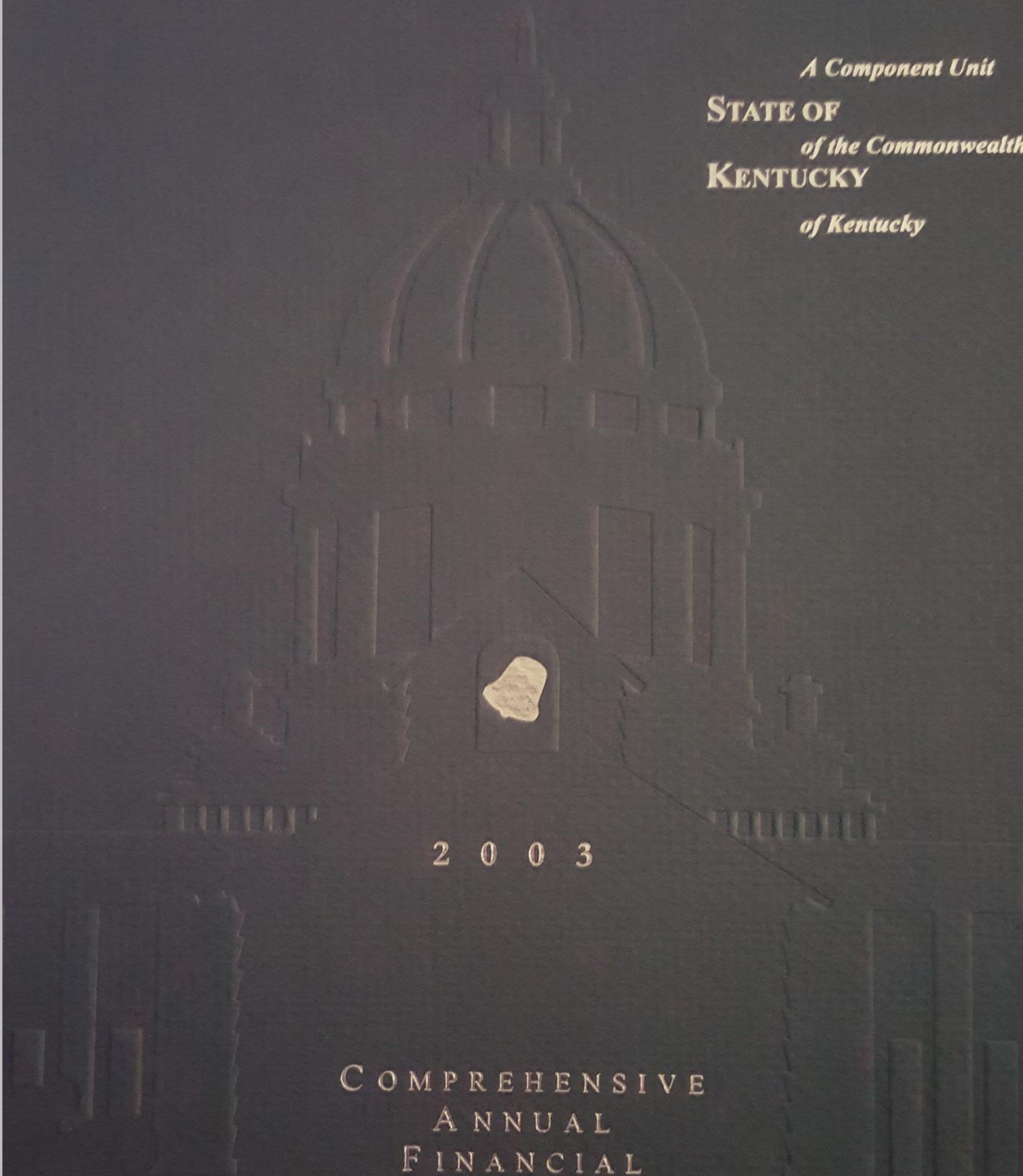
Teachers' Retirement System

A Component Unit of the Commonwealth of Kentucky

STATE OF KENTUCKY



2003

Comprehensive Annual Financial Report

for the fiscal year ended June 30, 2003

Teachers' Retirement System of the State of Kentucky

The 63rd Comprehensive Annual Financial Report

A Component Unit of the Commonwealth of Kentucky
Fiscal Year Ended June 30, 2003

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

GARY L. HARBIN
Executive Secretary

This report was printed on recycled paper.

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

INTRODUCTORY SECTION

FINANCIAL SECTION

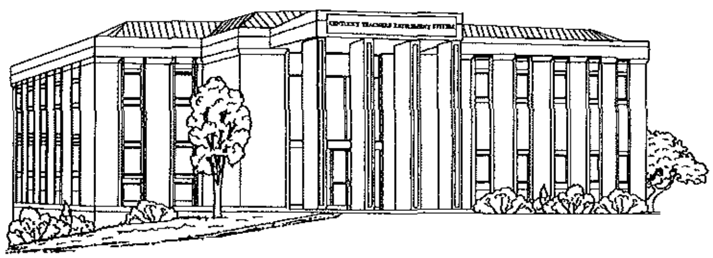
INVESTMENT SECTION

ACTUARIAL SECTION

STATISTICAL SECTION

INTRODUCTORY SECTION

Chairperson's Letter
Teachers' Retirement System of the State of Kentucky



December 10, 2003

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, 2003, the 63rd 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 2002-2003 fiscal year with $12.2 billion in assets. The active membership totaled 71,097 and the retired membership was 34,708 with an annual payroll of $819 million.

The Board of Trustees is totally committed to managing the retirement system funds in a prudent, professional manner. The retirement system is justly proud of the funding level that the system has achieved. Every effort will be made to insure 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.

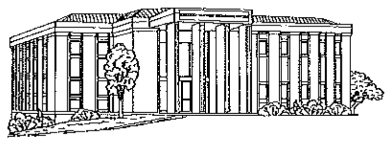
The Board of Trustees pledges to continue to administer the affairs of the Kentucky Teachers' Retirement System in the most competent and efficient manner possible.

Sincerely,

Virginia Murrell

Virginia Murrell
Chairperson
Board of Trustees

Letter of Transmittal



Teachers' Retirement System of the State of Kentucky

Honorable Ernie Fletcher, Governor
Commonwealth of Kentucky
Capitol Building
Frankfort, Kentucky 40601-3800

December 10, 2003

Dear Governor Fletcher:

It is my pleasure to submit the 63rd 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, 2003.

State law provides the legal requirement for the publication of this report and in addition requires an annual audit of the retirement system.

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 the Teachers' Retirement System.

This Report Consists of Five Sections:

❖ The Introductory Section contains the Board Chairperson's letter, this letter of transmittal, Board of Trustees information, a list of consultants used by the System, and the organizational chart.

❖ The Financial Section contains the opinion of the independent accountants, management's discussion and analysis, financial statements and required supplementary schedules.

❖ The Investment Section presents investment and portfolio performance. This includes the policies, summary, and profile of the System's holdings.

❖ The Actuarial Section contains the certification from Mellon Consultants (the consulting actuary service) as well as the results for the System's actuarial valuation.

❖ The Statistical Section contains various information on the System's membership, both active and retired. A listing of all participating KTRS employers is also presented in this section.

Accounting System and Reports

This report has been prepared in conformity with the principles of governmental accounting and reporting as established by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. This report was prepared by the Kentucky Teachers' Retirement System comptroller's section. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with KTRS. KTRS believes the data, as presented, is accurate in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of KTRS as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of KTRS' financial affairs have been included. Discussion and analysis of net assets and related additions and deductions is presented in the MD&A beginning on page 15.

The accrual basis of accounting is used to record the assets, liabilities, revenues, and expenses of the System. Revenues of the System are taken into account when earned without regard to the date of collection, and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Fixed assets are recorded at cost and depreciated over the estimated useful lives of the assets.

In developing and evaluating KTRS' accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. We believe that KTRS' internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Revenues

The reserves needed to finance retirement and other member benefits are accumulated through the collection of member, employer or state contributions as well as income derived from the investment of reserve funds. Total additions (contributions and net investment income) for the fiscal year were $1,113.1 million for the defined benefit plan, while the additions to the medical insurance plan and the tax-sheltered annuity plan were $135.3 million and $19.2 thousand respectively. The overall contribution rates remain the same. However, 2.25% of payroll was assigned to the medical insurance plan rather than the defined benefit plan. As of April 30, 1997, the tax-sheltered annuity plan no longer accepts contributions.

Expenses

The primary purpose of a retirement system relates to the purpose for which it was created, the payment of benefits. These payments, along with refunds of contributions to terminated employees, insurance benefits of retired teachers, and the cost of administering the system, comprise the total expenses. The total expenses of the tax-sheltered annuity plan were $47.4 thousand, consisting solely of benefit payments. The total expenses of the medical insurance plan were $115.9 million. The amount is primarily composed of health insurance premiums and actual medical expenses. As detailed below, the defined benefit plan incurred a total of $833.4 million in expenses:

EXPENSES	(MILLIONS)
Benefits	$ 817.1
Refunds	9.9
Administration	6.4

Pension benefits paid to retirees and beneficiaries increased $77.7 million bringing total benefit payments to $833.4 million. Refunds of contributions paid to former members upon termination of employment increased from $9.2 million to $9.9 million. Administrative expense decreased slightly by $0.3 million, or 4.5%, due primarily to less spending for actuarial consulting fees and other restrictive measures.

Investments

The investment portfolio's earnings represent a substantial financial contribution to the System. Income from investments provides most of the funds used in paying member annuities. The investment portfolio experienced significant growth during the 2002-03 fiscal year. The portfolio's par value increased from $12,252,386,835 to $12,408,854,843. The growth of the portfolio primarily was due to investment income that included realized capital gains. Employer and employee contributions also provided significant income to the portfolio.

Investment earnings, including appreciation of asset values, net of investment expenses for the 2002-03 fiscal year were $545,962,995. The majority of earnings from the System's investment portfolio was generated in interest income earned on investments in the amount of $276,523,950. The second largest earnings component, $142,549,161 was the result of net appreciation in fair value of investments. Other income of $131,009,066 was generated from dividends, rent and securities lending.

According to KRS 161.430 the KTRS Board of Trustees has the authority to invest the assets of the System. The Board of Trustees, generally, delegates investment authority to an Investment Committee that is comprised of two Trustees and the System's Executive Secretary. The Investment Committee works closely with experienced investment counselors, who are contracted by the Board of Trustees, and the System's professional staff in evaluating and selecting investments.

Funding

Based on recommendations of the Board of Trustees, the General Assembly establishes the levels of contribution by statute 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.

The latest actuarial valuation was for the period ending June 30, 2003. This report reflects the System's assets, based on modified market value; totaled $13.9 billion and the liabilities totaled $16.6 billion. The actuary determined that the existing levels of contribution by members and employers would be sufficient to fund all of the System's liabilities within a reasonable period of time. The report concludes that the System is operating on an actuarially sound basis. Assuming that employer contributions continue in the future at rates recommended on the basis of the successive actuarial valuations, the actuary states that the continued sufficiency of the retirement fund to provide the benefits called for under the System may be safely anticipated.

KTRS Medical Insurance Plan

KTRS health care costs keep escalating at a much faster clip than revenue growth in the Medical Insurance Plan. Last year, basic doctor/hospital costs and the cost of medications (prescription drugs) rose about 10.4%. An actuarial valuation of the Medical Insurance Plan for the fiscal year ended June 30, 2002, indicated that the fund has an unfunded liability of $2.8 billion. The KTRS 2002-2004 biennial budget requested additional funding from the Commonwealth, but due to difficult economic times, these funds were not available.

Effective January 1, 1999 KTRS retirees and dependents under the age of 65 have their health insurance provided by plans managed by the Kentucky Personnel Cabinet. Under this arrangement, KTRS provides a monthly supplement to assist the retiree and their dependents in purchasing their health insurance. Retirees 65 and over remain in the plan administered by KTRS. These retirees also receive a supplement for the cost of their coverage.

The System realizes that these means alone will not solve the medical insurance funding crisis. Additional steps must be taken through legislation on both the state and national levels in order for true cost control to result. Meanwhile, KTRS will address the problem by taking measures to contain costs and by increasing revenues to the insurance fund, adjusting coverage to meet existing revenues, or a combination of the two.

Legislative Update

Significant legislation affecting the Kentucky Teachers' Retirement System (KTRS) was passed during the 2002 session of the Kentucky General Assembly. A summary of the major legislative changes follows:

Field of Membership Expansion

Effective July 1, 2002, persons performing substitute and part-time teaching services became members of the Kentucky Teachers' Retirement System. This provision made these persons eligible for some important retirement benefits and allows them to earn fractional service credit. Before July 1, 2002, these positions did not contribute to KTRS. In addition, bringing them into the field of membership will provide additional funding to the retirement system. This provision did not apply to personnel employed in University positions.

New Retired Teacher Program

July 1, 2002 also marks the date under which retired members were permitted to return to work on a full-time or part-time basis and start a second retirement account with the retiree continuing to receive his/her retirement annuity. A limited number of retirees (4%) were allowed to return to full-time employment. Employers are not limited on the number of part-time employees they can hire. Retired members in the old 100-day program were allowed to remain in the program until June 30, 2007 and now contribute toward a second retirement account. This provision did not apply to personnel employed in University positions.

Service Purchase Reform

The Kentucky Revised Statutes pertaining to out-of-state and military service purchases was amended effective July 1, 2002 to require the member to pay the full actuarial cost when purchasing these types of service credit.

Changes to the Retirement Multipliers

The retirement factor (multiplier) for each year of service was changed for all members joining the system after July 1, 2002. The new legislation provided that individuals who became a member after July 1, 2002 will earn a retirement multiplier of 2% for each year of service if, upon retirement, their total service is less than ten years. New members who retire with ten or more years of total service would be entitled to a retirement multiplier of 2.5% for each year of service, including the first ten years.

In addition, as of July 1, 2004 retirees with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3%.

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. A certification from the certified public accountant and actuary are enclosed in this report. The system's consultants who are appointed by the Board are listed on pages 8 and 43 of this report.

Our Gratitude

Mr. Robert Conley of Paintsville retired from the Board of Trustees effective June 30, 2003. His service began in 1988 and since 1991 he has served as Vice Chairman of the Investment Committee. He has also worked at improving the retired teacher health insurance program.

Ms. Barbara Sterrett of Lexington retired from the Board of Trustees effective July 1, 2003. Ms. Sterrett began her service in 1990 and had the longest tenure of any current active teacher trustee on the Board upon her retirement. She served as Vice Chairperson of the Board, as Chairperson of the Legislative Committee, on the Personnel Committee, on the Administrative Appeals Committee and the Scholarship Committee.

Mr. Conley and Ms. Sterrett were most dedicated members of the Board of Trustees and worked to protect the System as well as provide benefits for the active and retired members. We wish the Conleys and the Sterretts many happy and productive years.

National Recognition

The System was honored by three 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, 2002. 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. The KTRS has received the Certificate of Achievement for the last fifteen consecutive years (fiscal years ended 1988-2002). 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 awarded a Certificate of Achievement to the Teachers' Retirement System of the State of Kentucky for 2003 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.

The PPCC is a coalition of the four major public pension organizations in the nation. These include the National Association of State Retirement Administrators, The National Council on Teacher Retirement, the National Conference on Public Employees Retirement Systems, and Government Finance Officers Association.

GASB Certificate of Recognition

The Governmental Accounting Standards Board awarded the Teachers' Retirement System of the State of Kentucky a Certificate of Recognition for the early implementation of GASB 34. KTRS incorporated GASB 34 beginning with their June 30, 2001 annual report.

Acknowledgments

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

This report is being mailed to all employer members of the System who form the link between KTRS and its members. Their cooperation continues to contribute significantly to the success of KTRS. Hopefully, the employers and their employees will find this report both informative and helpful.

KTRS is totally 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 a good relationship in the future.

Respectfully Submitted,

Gary L. Harbin, CPA
Executive Secretary

BOARD OF TRUSTEES

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

ADMINISTRATIVE STAFF

GARY L. HARBIN, CPA
Executive Secretary

C. JOE HUTCHISON, MBA, CPA
Deputy Executive Secretary

STUART A. REAGAN, CFA
Chief Investment Officer

PROFESSIONAL CONSULTANTS

ACTUARY

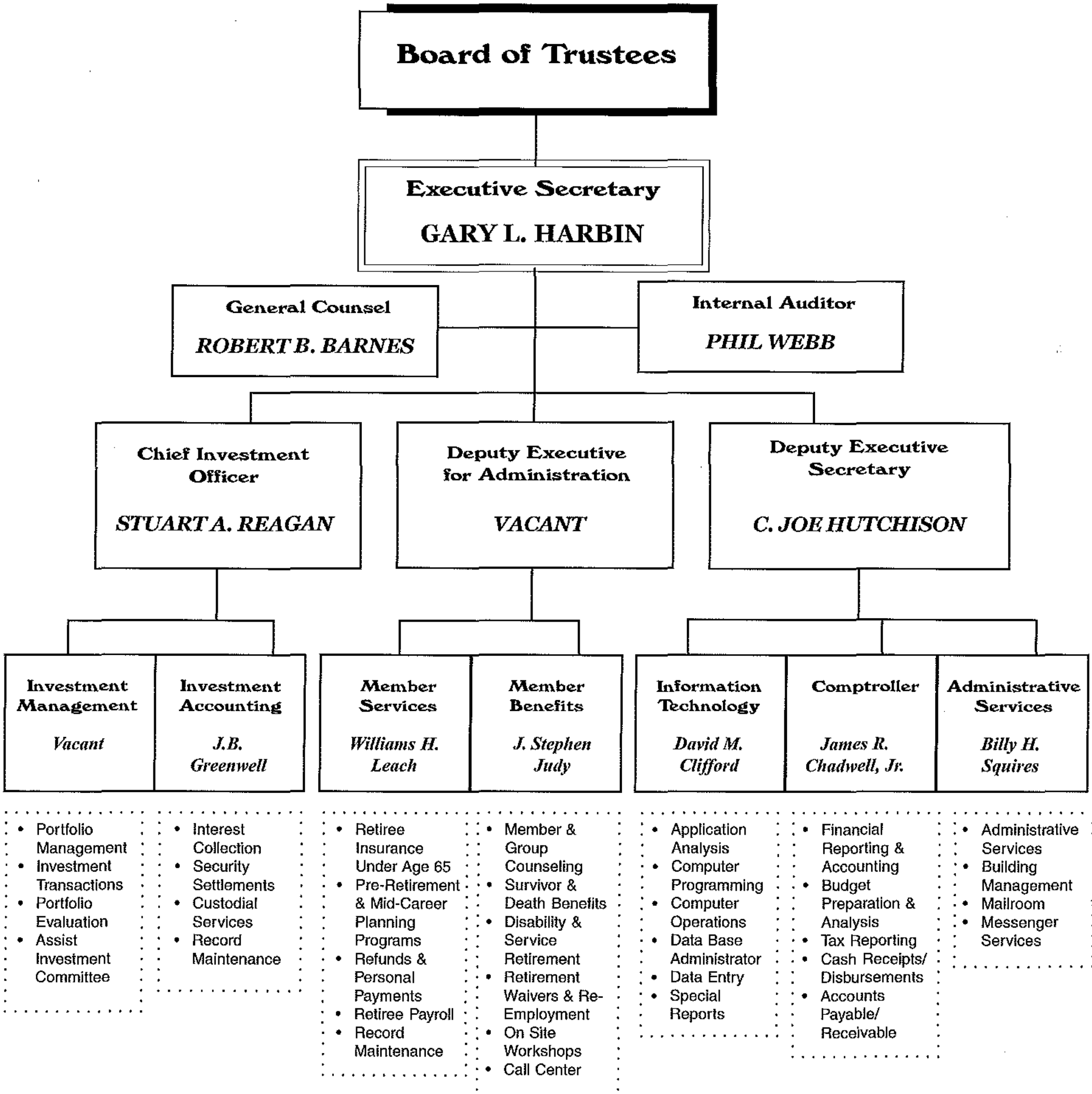
Mellon Consulting Actuaries, Inc.
Suite 1900
200 Galleria Parkway NW
Atlanta, Georgia 30339

AUDITOR

Charles T. Mitchell, LLP
201 West Main Street
P.O. Box 698
Frankfort, Kentucky 40601

* *See page 43 of the Investment Section for investment consultants.*

KTRS Organizational Chart



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, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

GOVERNMENT FINANCIAL OFFICERS ASSOCIATION (GFOA)

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 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 fifteen consecutive years (fiscal years ended 1988-2002).

Public Pension Coordinating Council
Public Pension Standards
2003 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

PUBLIC PENSION COORDINATING COUNCIL PUBLIC PENSION STANDARDS

The Public Pension Coordinating Council awarded a Certificate of Achievement to the Teachers' Retirement System of the State of Kentucky for 2003 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.

Certificate of Recognition

Presented to

Teachers' Retirement System of Kentucky

For
Early Implementation of GASB 34

The implementation of Statement 34 results in better financial information to a government's taxpayers, governing board, and other financial statement users. Early implementation of Statement 34 is a testament to your professional leadership, initiative, and commitment to improving public accountability.

Fiscal Year Ended 6/30/01

Tom Allen
GASB Chairman

GASB 34

The Governmental Accounting Standards Board awarded the Teachers' Retirement System of the State of Kentucky a Certificate of Recognition for the early implementation of GASB 34. KTRS incorporated GASB 34 beginning with their June 30, 2001 annual report.

FINANCIAL SECTION

Charles T. Mitchell Company, LLP
Certified Public Accountants
DON C. GILES, C.P.A.
WILLIAM G. JOHNSON, JR., C.P.A.
JAMES CLOUSE, C.P.A.
BERNADETTE SMITH, C.P.A.
KIM FIELD, C.P.A.
GREG MIKLAVCIC, C.P.A.
....
CHARLES T. MITCHELL, C.P.A.
CONSULTANT

CTM
201 WEST MAIN, P.O. BOX 698
FRANKFORT, KENTUCKY 40602-0698
TELEPHONE (502) 227-7395
TELECOPIER (502) 227-8005
HTTP://WWW.CTMCPA.COM

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Teachers' Retirement System of the State of Kentucky
Frankfort, Kentucky

We have audited the accompanying statements of plan net assets of the Teachers' Retirement System of the State of Kentucky as of June 30, 2003 and 2002 and the related statements of changes in plan net assets for the years then ended. These component unit financial statements are the responsibility of the Teachers' Retirement System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the plan net assets of the Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky, at June 30, 2003 and 2002 and the changes in its plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 5, 2003 on our consideration of the Teachers' Retirement System of the State of Kentucky's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 15-18 are not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

The financial section supporting schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of the System's management. Such schedules as of and for the year ended June 30, 2003 have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Charles T. Mitchell Co.

December 5, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of Kentucky Teachers' Retirement System's financial performance provides an overview of the defined benefit and medical insurance plans' financial year ended June 30, 2003. Please read it in conjunction with the respective financial statements, which begin on page 19.

USING THIS FINANCIAL REPORT

Because of the long-term nature of a defined benefit pension plan and medical insurance plan, financial statements alone cannot provide sufficient information to properly reflect the plan's ongoing plan perspective. The Statement of Plan Net Assets and Statement of Changes in Plan Net Assets (on pages 19-20) provide information about the activities of the defined benefit plan, medical 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 Schedule of Funding Progress (on pages 32-33) includes historical trend information about the actuarially funded status of each plan from a long-term, ongoing plan perspective and the progress made in accumulating sufficient assets to pay benefits and insurance premiums when due. The Schedule of Employer Contributions (on pages 32-33) presents historical trend information about the annual 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, 2003, Kentucky Teachers' Retirement System's combined plan net assets increased by $299.1 million – from $11,909.5 million to $12,208.6 million. The following summaries focus on plan net assets and changes in plan net assets of Kentucky Teachers' Retirement System's defined benefit plan, medical insurance plan and the tax-sheltered annuity plan.

Summary of Plan Net Assets (In Millions)

Categories	Defined Benefit Plan 2003	Defined Benefit Plan 2002	Medical Insurance Plan 2003	Medical Insurance Plan 2002	403(b) Tax Shelter 2003	403(b) Tax Shelter 2002	TOTAL 2003	TOTAL 2002
Cash & Investments	$12,705.8	$12,255.8	$ 170.4	$ 149.4	$ .6	$ .6	$12,876.8	$12,405.8
Capital Assets	3.6	3.8					3.6	3.8
Receivables	113.8	106.6	3.1	4.5			116.9	111.1
Total Assets	$12,823.2	$12,366.2	$ 173.5	$ 153.9	$ .6	$ .6	$12,997.3	$12,520.7
Total Liabilities	(780.7)	(603.4)	(8.0)	(7.8)			(788.7)	(611.2)
Plan Net Assets	$12,042.5	$11,762.8	$ 165.5	$ 146.1	$ .6	$ .6	$12,208.6	$11,909.5

Summary of Changes In Plan Net Assets (In Millions)

Categories	Defined Benefit Plan 2003	Defined Benefit Plan 2002	Medical Insurance Plan 2003	Medical Insurance Plan 2002	403(b) Tax Shelter 2003	403(b) Tax Shelter 2002	TOTAL 2003	TOTAL 2002
ADDITIONS								
Member's Contributions	$ $233.4	$224.4	$ 50.7	$ 46.2			$ 284.1	$ 270.6
Employer's Contributions	341.1	303.5	77.2	95.3			418.3	398.8
Investment Income (net)	538.6	(520.2)	7.4	6.1			546.0	(514.1)
TOTAL ADDITIONS	$ 1,113.1	$ 7.7	$ 135.3	$ 147.6			$1,248.4	$ 155.3
DEDUCTIONS								
Benefit Payments	817.1	739.4					817.1	739.4
Refunds	9.9	9.2					9.9	9.2
Administrative Expense	6.4	6.7	3.7	3.5			10.1	10.2
Insurance Expenses			112.2	101.5			112.2	101.5
TOTAL DEDUCTIONS	$ 833.4	$ 755.3	$ 115.9	$ 105.0			$ 949.3	$ 860.3
Increase (Decrease) in Plan Net Assets	$ 279.7	$(747.6)	$ 19.4	$ 42.6			$ 299.1	$ (705.0)

Plan net assets of the defined benefit plan increased by 2.4% ($12,042.5 million compared to $11,762.8 million). The increase is primarily due to gains in investment income; $538.6 million compared to $(520.2) million, due to more favorable investment market conditions in general. These assets are restricted to providing monthly retirement allowances to members and their beneficiaries.

Plan net assets of the medical insurance plan increased by 13.3% ($165.5 million compared to $146.1 million) due primarily to an increase in covered payroll. Plan assets are restricted to providing hospital and medical insurance benefits to members and their spouses.

Defined Benefit Plan Activities

Member contributions increased $9 million. Retirement contributions are calculated by applying a percentage factor to salary and are paid in monthly by each member. Members may also pay contributions to repurchase previously refunded service credit or to purchase various types of elective service credit.

Employer contributions totaled $341.1 million; a net increase of $37.6 million over fiscal year 2001-2002 contributions. An increase in covered payroll generated an overall increase in employer contribution of $19.5 million.

Net investment income increased $1,058.8 million ($538.6 million gain at June 30, 2003 as compared to a $520.2 million loss at June 30, 2002). The increase in the fair value of investments is mainly due to more favorable market conditions for the year ended June 30, 2003 as opposed to the year ended June 30, 2002. This can be illustrated as follows:

(In Millions)	2003	2002
Depreciation in fair value of investments – June 30	$ (361.5)	$ (479.3)
Appreciation in fair value of investments – June 30, prior year	479.3	(471.7)
Net appreciation in fair value of investments	117.8	(951.0)
Net income (net of investment expense)	409.4	409.1
Net gain on sale of investments	11.4	21.7
Investment Income (net) – June 30	$ 538.6	$ (520.2)

Program deductions in 2002-2003 increased $78.1 million. The increase was caused principally by an increase of $77.7 million in benefit payments. Members who were drawing benefits as of June 2002 received an increase of 2.9% to their retirement allowances in July 2002. Also, there was an increase of 1,237 members and beneficiaries on the retired payroll as of June 30, 2003.

Medical Insurance Plan Activities

During the 2002-2003 fiscal year, member contributions increased $4.5 million and employer contributions decreased by $18 million over fiscal year 2002-2003. The member contribution increased due to an increase in the amount of covered payroll. The employer contribution was based on a 3% allocation of employer contributions as compared to 4% for fiscal year 2001-2002.

Program deductions increased $11 million explained almost totally by an increase in payment of insurance expenses of $10.7 million. The monthly premiums and medical/prescription claims increased for all retirees coupled with an increase of 1,073 in the number of retirees receiving premium subsidies.

Net investment income increased $1.3 million. This is due solely to the recognition of interest income. Since all investments for the Medical Insurance Plan are short term in nature, the recognition of appreciation in fair value is not feasible. This can be illustrated as follows:

(In Millions)	2003	2002
Appreciation in fair value of investments – June 30,	$ 0	$ 0
Appreciation in fair value of investments – June 30 prior year	0	0
Net appreciation in fair value of investments	0	0
Net income (net of investment expense)	7.4	6.1
Net gain on sale of investments	0	0
Investment Income (net) – June 30	$ 7.4	$ 6.1

HISTORICAL TRENDS

Accounting standards require that the statement of plan net assets state asset value at fair value and include only benefits and refunds due plan members and beneficiaries and accrued investment and administrative expenses as of the reporting date. Information regarding the actuarial funding status of the defined benefit plan and the medical insurance plan is provided in the Schedule of Funding Progress (on pages 20-21). 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 projected unit credit cost method.

In the past, the defined benefit plan has experienced improvement year to year in its funding position with more than adequate assets to meet pension obligations. The 2002-2003 fiscal year reveals a decline in funding position due to declining financial markets and an increase in actuarial liability. Even under these adverse conditions, the defined benefit plan continues to be well funded.

The medical insurance plan is not as vulnerable to adverse market conditions since its assets are all short term in nature and less likely to experience huge fluctuations. Although, the plan continues to have a large unfunded actuarial liability, the current obligations are being met by current funding.

Annual required contributions of the employers and contributions made by the employees in relation to the required contributions are provided in the Schedule of Employer Contributions (on pages 20-21). This schedule indicates that employers are generally meeting their responsibilities to provide resources to the plans.

Statement of Plan Net Assets
As of June 30, 2003 and 2002

	Defined Benefit Plan		Medical Insurance Plan		403(b) Tax Shelter		TOTAL	
	2003	2002	2003	2002	2003	2002	2003	2002
ASSETS								
Cash	$ 1,736,195	$ 4,039,040					$ 1,736,195	$ 4,039,040
Prepaid expenses	197,229	155,281					197,229	155,281
Receivables								
Contributions	28,749,028	22,621,280	$ 3,112,990	$ 4,530,557			31,862,018	27,151,837
State of Kentucky	20,462,340	12,762,611					20,462,340	12,762,611
Investment income	62,412,661	61,535,867			$ 6,850	$ 6,578	62,419,511	61,542,445
Investment sales receivable	418,766	8,572,715					418,766	8,572,715
Installment account receivable	1,734,891	1,080,132					1,734,891	1,080,132
Other receivables	4,114	15,045					4,114	15,045
Total receivables	113,781,800	106,587,650	3,112,990	4,530,557	6,850	6,578	116,901,640	111,124,785
Investments, at fair value (See Note 4)								
Short term investments	662,209,877	849,681,878	170,455,643	149,402,725	84,480	115,397	832,750,000	999,200,000
Bonds and mortgages	5,042,133,967	4,627,536,878			505,781	503,281	5,042,639,748	4,628,040,159
Common stock	5,864,486,294	5,842,308,336					5,864,486,294	5,842,308,336
Real estate	358,280,904	338,130,190					358,280,904	338,130,190
Total Investments	11,927,111,042	11,657,657,282	170,455,643	149,402,725	590,261	618,678	12,098,156,946	11,807,678,685
Invested security lending collateral	776,713,902	593,934,649					776,713,902	593,934,649
Capital assets, at cost net of accumulated depreciation of $1,374,742 (See Note 2)	3,633,640	3,801,657					3,633,640	3,801,657
Total assets	12,823,173,808	12,366,175,559	173,568,633	153,933,282	597,111	625,256	12,997,339,552	12,520,734,097
LIABILITIES								
Liabilities								
Accounts payable	1,064,850	1,068,422	358,061				1,422,911	1,068,422
Treasurer's unredeemed checks	28,396	36,344					28,396	36,344
Insurance claims payable			7,664,801	7,879,932			7,664,801	7,879,932
Compensated absences payable	637,734	593,240					637,734	593,240
Unearned insurance premium receipts			8,936	8,042			8,936	8,042
Revenues collected in advance	873	142,071	260				1,133	142,071
Investment purchases payable	2,220,223	7,603,513					2,220,223	7,603,513
Obligations under securities lending	776,713,902	593,934,649					776,713,902	593,934,649
Total liabilities	780,665,978	603,378,239	8,032,058	7,887,974			788,698,036	611,266,213
Net assets held in trust for pension benefits	$12,042,507,830	$11,762,797,320	$ 165,536,575	$146,045,308	$ 597,111	$ 625,256	$12,208,641,516	$11,909,467,884

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

Statement of Changes in Plan Net Assets
For the Years Ended June 30, 2003 and 2002

	Defined Benefit Plan		Medical Insurance Plan		403(b) Tax Shelter		TOTAL	
	2003	2002	2003	2002	2003	2002	2003	2002
ADDITIONS								
Contributions								
Employer	$ 341,132,900	$ 303,521,106	$ 77,235,407	$ 95,261,407			$ 418,368,307	$ 398,782,513
Member	233,429,797	224,361,453	50,718,084	46,184,010			284,147,881	270,545,463
Total contributions	574,562,697	527,882,559	127,953,491	141,445,417			702,516,188	669,327,976
Investment income								
Net appreciation (depreciation) in fair value of investments	142,546,371	(929,287,361)			$ 2,790	$ 2,503	142,549,161	(929,284,858)
Interest	269,115,819	288,438,013	7,391,671	6,142,817	16,460	17,954	276,523,950	294,598,784
Dividends	99,217,149	95,029,241					99,217,149	95,029,241
Rental income, net	31,207,052	29,207,465					31,207,052	29,207,465
Securities lending, gross earnings	9,811,225	15,177,118					9,811,225	15,177,118
Gross investment income	551,897,616	(501,435,524)	7,391,671	6,142,817	19,250	20,457	559,308,537	(495,272,250)
Less investment expense	(4,119,182)	(4,244,935)					(4,119,182)	(4,244,935)
Less securities lending expense	(9,226,360)	(14,534,035)					(9,226,360)	(14,534,035)
Net investment income	538,552,074	(520,214,494)	7,391,671	6,142,817	19,250	20,457	545,962,995	(514,051,220)
Total additions	1,113,114,771	7,668,065	135,345,162	147,588,234	19,250	20,457	1,248,479,183	155,276,756
DEDUCTIONS								
Benefits	817,064,668	739,445,182			47,395	51,746	817,112,063	739,496,928
Refunds of contributions	9,951,410	9,146,820	7,808	6,066			9,959,218	9,152,886
Insurance expenses			112,173,662	101,487,266			112,173,662	101,487,266
Administrative expense	6,388,183	6,677,819	3,672,425	3,491,649			10,060,608	10,169,468
Total deductions	833,404,261	755,269,821	115,853,895	104,984,981	47,395	51,746	949,305,551	860,306,548
Net increase (decrease)	279,710,510	(747,601,756)	19,491,267	42,603,253	(28,145)	(31,289)	299,173,632	(705,029,792)
Net assets held in trust for pension benefits								
Beginning of year	11,762,797,320	12,510,399,076	146,045,308	103,442,055	625,256	656,545	11,909,467,884	12,614,497,676
Ending of year	$ 12,042,507,830	$ 11,762,797,320	$ 165,536,575	$ 146,045,308	$ 597,111	$ 625,256	$12,208,641,516	$11,909,467,884

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

Notes to Financial Statements
Years Ended June 30, 2003 and 2002

Note 1: Description of 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 established to provide pension benefit plan coverage for local school districts and other public educational agencies in the state.

B. PARTICIPANTS

As of June 30, 2003 a total of 202 employers participated in the plan. Employers are comprised of 176 local school districts, 20 Department of Education Agencies and other educational organizations, 5 universities and also the Kentucky Community and Technical College System.

According to KRS 161.220 "... any full-time 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:

Active contributing members:	2003	2002
Vested	38,961	37,955
Non-vested	32,136	16,220
Inactive members, vested	5,478	5,995
Retirees and beneficiaries currently receiving benefits	34,708	33,457
Total members, retirees and beneficiaries	**111,283**	**93,627**

C. BENEFIT PROVISIONS

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 27 years of Kentucky service.

Note 1: Description of Plan continued . . .

Participants that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university members receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. University employees receive monthly benefits equal to two (2) percent of their final average salary for each year of credited service. University employees receive monthly benefits equal to two (2) percent 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 for members at least age 55 with 27 or more years of service may use their three (3) highest annual salaries. New members (including second retirement accounts started) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service is less than ten years. New members after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years. In addition, members who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation.

The system also provides disability benefits for vested members at the rate of sixty (60) percent 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 (1.5) percent annually. Additional ad hoc increases, and any other befit 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 three cash accounts. At June 30, 2003, the pension cash account totaled $56,318, the administrative expense fund cash account was $64,957 and the life insurance cash account totaled $1,614,920; therefore, the carrying value of cash was $1,736,195 and the corresponding bank balance was $4,577,496. The variance is primarily due to outstanding checks and items not processed by the bank on June 30, 2003.

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 to seven years. The office buildings are depreciated over forty years.

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

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.

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 plan net assets.

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 450 hours and accumulated compensatory time limited to 200 hours. As of June 30, 2003 and 2002 accrued compensated absences were $637,734 and $593,241.

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 RECEIVABLES

KTRS now allows qualified purchases of service credit to be made by installment payments not to exceed a five year period. Revenue is recognized in the initial year of the installment contract agreement. The June 30, 2003 and 2002 installment contract receivables were $1,734,891 and $1,080,132.

H. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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.

Note 3: Contributions and Reserves

A. CONTRIBUTIONS

Contribution rates are established by Kentucky Revised Statutes. Members are required to contribute 9.855% of their salaries to the System. University members are required to contribute 8.375% of their salaries. KRS 161.580 allows each university to reduce the contribution of its members by 2.215%; therefore, university members contribute 6.16% of their salary to KTRS.

The Commonwealth of Kentucky is required to contribute 13.105% of salaries for its non-university members and 13.84% of salaries for university members.

The member and employer contributions consist of pension contributions and post-retirement contributions. The post-retirement contribution .75% finances KTRS' retiree medical insurance plan. In addition to the .75% contribution, employers and the Commonwealth contribute 2.25% to the medical insurance plan.

If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee contributions plus interest are refunded to the employee upon the member's request.

B. RESERVES

Member Reserve

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 Unallocated Reserves. 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 Benefit Reserves, the fund from which retirement benefits are paid.

Employer Reserve

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. The analysis of fiscal years 2003 and 2002 has resulted in a receivable (under-appropriation) from the state for fiscal years 2003 and 2002.

Benefit Reserve

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

Note 3: Contributions and Reserves continued . . .

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 Unallocated Reserves.

Unallocated Reserve

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 Reserve

This fund was established by KRS 161.420(1) as the Expense Fund. Monies transferred to this fund from Unallocated Reserves are used to pay the administrative expenses of the System.

Life Insurance Reserve

This fund was established pursuant to the provisions of KRS 161.655 to provide a life insurance benefit to retired and active members of the Kentucky Teachers' Retirement System. This benefit is financed by KTRS employer contributions that are actuarially determined.

Note 4: Deposits With Financial Institutions and Investments (Including Repurchase Agreements)

A. Summary of Investments

The following disclosures are meant to help the users of KTRS's financial statements assess the risks KTRS takes in investing public funds. The Board of Trustees and the Investment Committee are guided by asset allocation parameters that the Board approves through its powers defined in KRS 161.430. The parameters as outlined in Title 102, Chapter 1.175, Section 2 of the Kentucky Administrative Regulations are as follows:

- There shall be no limit on the amount of investments owned by the System that are guaranteed by the U.S. Government.
- Not more than thirty-five percent (35%) of the assets of the System at book value shall be invested in corporate debt obligations.
- Not more than sixty percent (60%) of the assets of the System at book value shall be invested in common stocks or preferred stocks. Not more than twenty-five percent (25%) of the

assets of the System at book value shall be invested in a stock portfolio designed to replicate a general, United States stock index.

- Not more than ten percent (10%) of the assets of the System at book value shall be invested in real estate. This would include real estate equity, real estate lease agreements, mortgages on real estate that are not guaranteed by the U.S. Government, and shares in real estate investment trusts.
- Not more than one percent (1%) of the assets of the System at book value shall be invested in venture capital investments, providing at least seventy-five percent (75%) of such investments must be in-state.
- Not more than ten percent (10%) of the assets of the System at book 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 chart on the following page represents the fair values of the investments of the Kentucky Teachers' Retirement System for June 30, 2003.

The KTRS bank balance consists of cash totaling $4,577,496 which is fully insured or collateralized with securities by KTRS or its agent in the entity's name.

B. Securities Lending

Section 161.430 of the Kentucky Revised Statutes empowers the Board of Trustees with complete fiduciary responsibility for the funds of the System. The 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 and selected domestic stocks and bonds are the types of securities that are lent. The System's securities sub-custodian, The Bank of New York, acts as lending agent in exchanging securities for collateral. The collateral 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 received unless the borrower defaults. The lending agent also indemnifies the System from any financial loss associated with a borrower's default and collateral inadequacy. As of June 30, 2003, the weighted average maturity of cash collateral investments was one day. At fiscal year end, the System has no credit risk exposure to borrowers, since the amounts the System owes the borrowers exceeds the amounts the borrowers owe the System.

Note 4: Deposits With Financial Institutions and Investments (Including Repurchase Agreements) continued . . .

Schedule of Investments

		June 30, 2003		June 30, 2002
Short Term Investments				
Repurchase Agreements	$	832,750,000	$	999,200,000
Total Short Term Investments	$	832,750,000	$	999,200,000
Bonds and Mortgages				
U.S. Government Obligations				
Treasury Notes & Bonds	$	1,470,166,548	$	1,213,862,044
Agencies		1,142,583,581		1,091,248,715
GNMA (Single Family)		109,998,128		160,478,011
Other Miscellaneous		194,454,418		184,891,868
Total U.S. Government Obligations	$	2,917,202,675	$	2,650,480,638
Corporate Bonds				
Industrial	$	716,793,926	$	657,606,628
Finance		1,072,531,279		991,087,047
Utility Bonds (Except Telephone)		139,274,389		125,744,818
Telephone Bonds		121,055,802		123,346,419
Railroad Obligations		0		108,360
Total Corporate Bonds	$	2,049,655,396	$	1,897,893,272
Other Fixed Income Investments				
FHA and VA Single Family Mortgages	$	113,900	$	214,685
Project Mortgages (FHA & GNMA)		47,863,253		52,398,595
State and Local Government Issues		27,804,524		27,052,969
Total Other Investments	$	75,781,677	$	79,666,249
Total Bonds and Mortgages	$	5,042,639,748	$	4,628,040,159
Stocks	$	5,864,486,294	$	5,842,308,336
Real Estate	$	358,280,904	$	338,130,190
Total Investments	$	12,098,156,946	$	11,807,678,685

This schedule does not include $776,713,902 securities lending collateral.

Note 4: Deposits With Financial Institutions and Investments (Including Repurchase Agreements) continued . . .

C. Summary of Categorized Investments

The following chart categorizes KTRS's investments, which gives an indication of the level of risk assumed by KTRS at June 30, 2003. Category 1 includes investments that are insured or registered or for which the securities are held by KTRS' custodial agent in KTRS' name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in KTRS' name. Category 3 includes securities purchased by and held by the System's custodial agent. The agent loans securities owned by the System with the simultaneous receipt of cash collateral for the loaned securities. Cash collateral is reinvested in accordance with the System's securities lending agreement. All securities purchased with cash collateral are segregated by the custodial agent and held in the name of KTRS.

Included in Category 1 are individual repurchase agreements which are ordered by KTRS under the terms of master repurchase agreements with various qualified brokers. The terms of these master repurchase agreements 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 market value of at least 100% of the value of the repurchase agreements. Also, listed among the Other Government Guaranteed Fixed Income Investments are mortgages which are either securitized or unsecuritized, but all are insured through various Federal or State Agencies (FHA, GNMA, VA).

Summary of Categorized Investments
as of June 30, 2003

	Total Fair Value
Investments - Category 1	
Repurchase Agreements	$ 832,750,000
U.S. Government Obligations	$ 2,178,455,406
Corporate Bonds	2,049,549,660
State and Local Government Issues	27,804,524
Common Stocks	5,852,229,570
Investments - Category 3	
Securities Lending Short-Term Collateral Repurchase Agreements	$ 776,713,902
SUBTOTAL	$ 11,717,503,062
Investments - Not Categorized	
Investments held by broker dealers under securities loans with cash collateral	
U.S. Government Obligations	$ 743,272,384
Corporate Bonds	105,736
Common Stocks	12,256,724
Other Government Guaranteed Fixed Income Investments	$ 43,452,038
Real Estate	358,280,904
TOTAL	$ 12,874,870,848

Note 5: Medical Insurance Plan & Post-Employment Benefits

A. PLAN DESCRIPTION

In addition to the required pension benefits described in Note 1, Kentucky Revised Statute 161.675 allows KTRS to provide post-retirement healthcare benefits to members and dependents. To be eligible for medical benefits, the member must have retired either for service or disability, attain age 55 with 5 years of Kentucky service or had 27 years of Kentucky service.

The KTRS self-insured plan is limited to KTRS members and spouses at least the age of 65. All KTRS members under the age of 65 are offered commercial insurance through a state insurance purchasing pool administered by the Kentucky Personnel Cabinet. The Personnel Cabinet's primary function is to negotiate contracts with health plans to obtain the best price for persons covered. KTRS members were given a supplement to be used for payment of their health insurance premium. The amount of the member's supplement was based on the member's service credit and age. Premiums over the monthly supplement are paid by the member. The system bears no risk for excess claims expenses under the commercial insurance coverage.

KTRS members and spouses at least age 65 in the KTRS self-insured plan are also given a supplement based on service credit. Members with 20 or more years of service received the highest supplement.

At June 30, 2003, KTRS insurance covered 27,754 retirees and 6,274 dependents.

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Medical Insurance 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 is fair value.

C. CONTRIBUTIONS

The post-retirement healthcare provided by KTRS is financed on a pay-as-you-go basis. In order to fund the post-retirement healthcare benefit, one and five tenths percent (1.5%) of the gross annual payroll of all active members is contributed. One-half (1/2) of this amount is derived from member contributions and one-half (1/2) from state appropriation. Also, the premiums collected from retirees as described in the plan description help meet the medical expenses of the plan.

Note 5: Medical Insurance Plan & Post-Employment Benefits continued . . .

Since medical expenses have skyrocketed in the last decade, it has become increasingly difficult to meet the expenses of the retiree health insurance program. To fund the plan, the state legislature has approved additional funding of 2.25% of payroll from the employer matching contribution to the Medical Insurance Plan.

D. INCURRED BUT NOT REPORTED CLAIMS LIABILITIES

July 1, 1991 KTRS became self-insured assuming all liability for post-retirement healthcare costs. Effective January 1, 1997, insurance plan participants under age 65 were offered insurance through a state purchasing pool. KTRS recognizes estimates of liabilities for self-insured unpaid claims that have incurred (both reported and unreported) using the development method. This method uses past observed patterns of time between the date the claim is incurred and the date the claim is paid to estimate incurred claims from available paid claim information. The following schedule shows the change in the claims and liability and the claims activity for the years ended June 30, 2003 and 2002.

	Fiscal Year 2003	Fiscal Year 2002
Beginning Unpaid Claims Liability	$ 7,879,932	$ 6,300,100
Claims Incurred		
Current Year	113,003,765	99,923,619
Increase (Decrease) in Prior Years	(830,103)	1,563,647
Total Incurred Claims	$ 112,173,662	$ 101,487,266
Claims Paid		
Current Year	$ 106,297,426	$ 94,180,836
Prior Years	6,091,367	5,726,598
Total Payments	$ 112,388,793	$ 99,907,434
Ending Unpaid Claims Liability	$ 7,664,801	$ 7,879,932

E. ADMINISTRATIVE EXPENSES

The total administrative expenses of $3,672,425 are processing fees paid to third party administrators.

Note 6: 403(b) Tax-Sheltered Annuity Plan

A. 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, 2003, the forty-five 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 is fair value. A bond is reported at fair market value.

Required Supplemental Schedule
Defined Benefit Plan
Schedule of Funding Progress
(dollar amounts in millions)

VALUATION YEAR JUNE 30	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITIES	UNFUNDED ACTUARIAL ACCRUED LIABILITIES (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A % OF COVERED PAYROLL
	a	b	(b-a)	(a/b)	c	[(b-a)/c]
1998	$ 10,370.6	$ 11,516.6	$ 1,146.0	90.0%	$ 1,973.7	58.1 %
1999	11,958.6	12,288.2	329.6	97.3	2,041.4	16.1
2000	12,759.6	13,330.4	570.8	95.7	2,133.7	26.8
2001	13,299.2	14,642.1	1,342.9	90.8	2,213.8	60.7
2002	13,588.8	15,695.6	2,106.8	86.6	2,313.7	91.1
2003	13,863.8	16,594.8	2,731.0	83.5	2,497.7	109.3

The amounts reported in this schedule of funding progress do not include assets or liabilities for post-employment healthcare benefits, nor are the assets and liabilities of the tax-sheltered annuity plan included.

Required Supplemental Schedule
Defined Benefit Plan
Schedule of Employer Contributions
(dollar amounts in millions)

FISCAL YEAR ENDED JUNE 30	ANNUAL REQUIRED CONTRIBUTIONS	PERCENTAGE CONTRIBUTED
1998	$ 294.3	100%
1999	288.5	100
2000	311.3	100
2001	262.8	100
2002	284.8	100
2003	322.0	100

Required Supplemental Schedule
Medical Insurance Plan
Schedule of Funding Progress
(dollar amounts in millions)

VALUATION YEAR JUNE 30	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITIES	UNFUNDED ACTUARIAL ACCRUED LIABILITIES (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A % OF COVERED PAYROLL
	a	b	(b-a)	(a/b)	c	[(b-a)/c]
2000	$ 54.0	$ 2,202.0	$ 2,148.0	2.5%	$ 2,133.7	100.7%
2001	103.4	2,531.0	2,427.6	4.1	2,213.8	109.7
2002	146.0	2,806.0	2,660.0	5.2	2,313.7	114.9
2003	165.5	2,886.0	2,720.5	5.7	2,497.7	108.9

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

Required Supplemental Schedule
Medical Insurance Plan
Schedule of Employer Contributions
(dollar amounts in millions)

FISCAL YEAR ENDED JUNE 30	ANNUAL REQUIRED CONTRIBUTIONS	PERCENTAGE CONTRIBUTED
2000	$ 48.9	100%
2001	92.4	100
2002	95.3	100
2003	77.2	100

Notes to Required Supplementary Information

Note 1: Description of Schedule of Funding Progress

Defined Benefit Plan

The schedule of Funding Progress summarizes the actuarial value of the System's assets and actuarial accrued liability as of June 30, 2003, and each of the preceding five years. The data presented in the schedule were obtained from the System's independent actuary's annual valuation report for each year presented. Of note, the actuarial report published in this annual report is for June 30, 2003.

Expressing the actuarial value of assets as a percentage of the actuarial accrued liabilities provides an indication whether the system is becoming financially stronger or weaker. Generally, the greater the percentage, the stronger the retirement system. Trends in unfunded actuarial accrued liabilities and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liabilities as a percentage of annual covered payroll aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the retirement system.

Medical Insurance Plan

The schedule of Funding Progress summarizes the actuarial value of the System's assets and actuarial accrued liability as of June 30, 2003 and each of the preceding three years. The data presented in the schedule were obtained from the System's independent actuary's annual valuation report for each year presented.

Expressing the actuarial value of assets as a percentage of the actuarial accrued liabilities provides an indication whether the system is becoming financially stronger or weaker. Generally, the greater the percentage, the stronger the plan. Trends in unfunded actuarial accrued liabilities and annual covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liabilities as a percentage of annual covered payroll aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

Note 2: Actuarial Methodologies and Assumptions

Defined Benefit Plan

A. Methodologies

The promised benefits of the System are included in the actuarially calculated contribution rates, which are developed using the unit credit actuarial cost method with projected benefits. The actuarial value of assets was determined using the method illustrated in the Actuarial Value of Assets table. 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 using a five (5) year smoothed market approach.

Actuarial Value of Assets

(1)	Actuarial Value of Assets on June 30, 2002	$ 13,588,847,348
(2)	2002/2003 Net Cash Flow	
	a. Contributions	555,476,765
	b. Disbursements	823,057,980
	c. Net Cash Flow (2)a - (2)b	(267,581,215)
(3)	Expected Investment Return [(1) x .075] + [(2)c x .0375]	1,009,129,258
(4)	Expected Actuarial Value of Assets on June 30, 2003 (1) + (2)c + (3)	14,330,395,389
(5)	Market Value of Assets on June 30, 2003	11,997,349,662
(6)	Excess of Market Value over Expected Actuarial Value (5) - (4)	(2,333,045,727)
(7)	20% Adjustment towards Market Value .20 x (6)	(466,609,145)
(8)	Actuarial Value of Assets on June 30, 2003 (4) + (7)	$ 13,863,786,244

B. Assumptions

Significant actuarial assumptions employed by the actuary for the funding purposes as of June 30, 2003, the most recent updated actuarial information include:

- Assumed Inflation Rate 4.0%
- Assumed Investment Rate 7.5%
- Assumed Projected Salary Increases 4.0 - 8.1%
- Assumed Post Retirement Benefit Increase 1.5%

Note 2: Actuarial Methodologies and Assumptions continued . . .

Medical Insurance Plan

A. Methodologies

The actuarial value of assets is determined by using the market value as provided by KTRS. Compliance with applicable current or future accounting standards may require use of different actuarial methods or assumptions. For purposes of estimating the amortization, a 4.0% salary scale is used.

B. Assumptions

Significant actuarial assumptions employed by the actuary for the funding purposes as of June 30, 2003, the most recent updated actuarial information include:

*	Assumed discount rate	7.5%
*	Assumed plan asset return rate	7.5%
*	Assumed pre-Medicare benefit cost trend rate	9.0%
*	Assumed post-Medicare benefit cost trend rate	13.5%
*	Assumed ultimate cost trend rate	5.0%
*	Assumed ultimate cost trend rate achieved	2011

Supporting Schedule 1

Schedule of Administrative Expenses
Year Ended June 30, 2003

ADMINISTRATIVE EXPENSES	YEAR ENDED JUNE 30, 2003
Salaries	$ 4,592,603
Other Personnel Costs	276,668
Professional Services & Contracts	290,425
Utilities	50,065
Rentals	14,926
Maintenance	149,957
Postage & Related Services	268,209
Printing	128,469
Insurance	73,926
Miscellaneous Services	113,969
Telecommunications	31,975
Computer Services	65,795
Supplies	36,107
Depreciation	186,982
Travel	32,136
Dues & Subscriptions	22,499
Miscellaneous Commodities	5,985
Furniture, Fixtures, & Equipment not Capitalized	2,993
Compensated Absences	44,494
TOTAL ADMINISTRATIVE EXPENSES	**$ 6,388,183**

Supporting Schedule 2

Schedule of Contracted Investment Management Expenses
Year Ended June 30, 2003

FIXED INCOME MANAGERS		
Invesco-National Asset Management Corporation	$ 378,484	
Todd Investment Advisors	401,492	
Total Fixed Income Managers		$ 779,976
EQUITY MANAGERS		
UBS Global Asset Management Corporation	$ 530,000	
Invesco-National Asset Management Corporation	661,864	
Todd Investment Advisors	405,401	
Wellington Management Company	1,279,808	
Total Equity Managers		$ 2,877,073
CUSTODIAN		
Farmers Bank		$ 417,133
CONSULTANT		
Becker, Burke Associates		$ 45,000
TOTAL CONTRACTED INVESTMENT MANAGEMENT EXPENSES		$ 4,119,182

Supporting Schedule 3

Schedule of Professional Fees for Year Ended June 30, 2003

PROFESSIONAL	NATURE OF SERVICE	YEAR ENDED JUNE 30, 2003
Charles T. Mitchell Company, LLP	Auditing Services	$ 37,000
Mellon Contsulting	Actuarial Services	155,255
Milliman USA	Actuarial Services	50,000
International Claim Specialist	Investigative Services	2,166
Farmers Bank	Banking Services	21,629
FileNet	Computer Design Services	24,375
	TOTAL	$ 290,425

Charles T. Mitchell Company, LLP
Certified Public Accountants
DON C. GILES, C.P.A.
WILLIAM G. JOHNSON, JR., C.P.A.
JAMES CLOUSE, C.P.A.
BERNADETTE SMITH, C.P.A.
KIM FIELD, C.P.A.
GREG MIKLAVCIC, C.P.A.
....
CHARLES T. MITCHELL, C.P.A.
CONSULTANT

CTM
201 WEST MAIN, P.O. BOX 698
FRANKFORT, KENTUCKY 40602-0698
TELEPHONE (502) 227-7395
TELECOPIER (502) 227-8005
HTTP://WWW.CTMCPA.COM

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Trustees
Teachers' Retirement System of the State of Kentucky
Frankfort, Kentucky

We have audited the general purpose financial statements of Teachers' Retirement System of the State of Kentucky, a component unit of the Commonwealth of Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated December 5, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance
As part of obtaining reasonable assurance about whether Teachers' Retirement System of the State of Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting
In planning and performing our audit, we considered Teachers' Retirement System of the State of Kentucky's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Charles T. Mitchell Co.

December 5, 2003

INVESTMENT SECTION

REPORT ON INVESTMENT ACTIVITY

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

Mr. Stuart A. Reagan, CFA
Chief Investment Officer

Mr. Benny Greenwell, CPA
Director of Investment Accounting

OVERVIEW

The Board of Trustees of the Teachers' Retirement System annually appoints an Investment Committee consisting of two Board members and the Executive Secretary. This Committee acts on behalf of the Board, subject to its approval, in all matters concerning investments. In compliance with the Kentucky Revised Statutes, the Board of Trustees has adopted an "Investment Policy" which it reviews periodically. The investment objectives of the Board of Trustees are as follows:

1. The funds of the Teachers' Retirement System of the State of Kentucky shall be invested solely in the interest of its members and their beneficiaries. Investment income shall be used for the exclusive purpose of providing benefits to the members and their beneficiaries and making payment of reasonable expenses in administering the Plan and its Trust Funds.

2. The specific objective of the investment program shall be the investment of the Fund's assets in securities which shall provide a reasonable rate of total return with major emphasis being placed upon the protection of the invested assets. When investments are acquired, current income together with prospects for capital appreciation shall be weighed in regard to the long range needs of providing benefits to members and their beneficiaries. Short term fluctuation in the market value of the Fund's assets shall be considered as secondary to the long-term objectives and needs of the System.

Within the Kentucky Revised Statutes and pertinent policies, the Board of Trustees and the Investment Committee shall execute their fiduciary responsibilities in accordance with the "prudent man rule", as identified in KRS 161.430 (2)(b). Investment activities shall be conducted, "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man 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 responsibility for investing the assets of the System is clearly assigned to the Board of Trustees.

INVESTMENT COMMITTEE

MR. EARLE V. POWELL
Chairman

MR. ROBERT M. CONLEY
Vice-Chairman

MR. GARY L. HARBIN, CPA
Ex-Officio Member, Executive Secretary

EXECUTIVE INVESTMENT STAFF

MR. GARY L. HARBIN, CPA
Executive Secretary

MR. STUART A. REAGAN, CFA
Chief Investment Officer

PROFESSIONAL CONSULTANTS

Investment Advisors
Fixed Income and Equity Managers
Todd Investment Advisors
101 South Fifth Street
National City Towers, Suite 3160
Louisville, Kentucky 40202

Invesco-National Asset Management
400 West Market Street
Suite 2500
Louisville, Kentucky 40202

Equity Managers
UBS Global Asset Management
UBS Tower
One North Wacker Drive
Chicago, Illinois 60606

Wellington Management Company
75 State Street
Boston, Massachusetts 02109

Investment Consultant
Becker, Burke Associates, Inc.
Suite 1000
221 North LaSalle Street
Chicago, Illinois 60601

Investment Custodian/Subcustodian
Farmers Bank & Capital Trust Co.
Farmers Bank Plaza
Frankfort, Kentucky 40601

The Bank of New York
One Wall Street
New York, New York 10286

INVESTMENT CONSULTANT'S STATEMENT

Becker, Burke Associates served as Investment Consultant to the Kentucky Teachers' Retirement System during the 2002-03 fiscal year as it has in several previous years. Becker Burke Associates is familiar with the operation of the System's investment program as well as its performance. The investment program of the Retirement System is operated in a prudent manner that reflects a desire to preserve capital while maximizing returns. The assets of the Retirement System are assigned to various portfolios in order to diversify the System's investments and take advantage of opportunities in various asset classes and sectors. The System gravitates toward relatively conservative holdings in each asset class. The overall effect of diversification is to minimize risk. The manner in which the Retirement System operates and its investment results are commensurate with other risk-averse institutional investors in similar regulatory environments.

Edmund M. Burke

Edmund M. Burke
President
Becker, Burke Associates
September 12, 2003

ASSET ALLOCATION

The Board of Trustees and the Investment Committee are guided by asset allocation parameters that the Board approves through its powers defined in KRS 161.430. The asset allocation limits complement the investment principles used by the Board and Committee regarding security, diversification, high return, and liquidity. The asset allocation policy is adopted by the Board of Trustees and approved in the form of administrative regulation. The asset allocation parameters are structured in order to maximize return while at the same time provide a prudent diversification of assets and preserve the capital of the Teachers' Retirement System. The Board is interested in assuming secure investments that will provide long term growth to the fund. The Board does not arbitrarily compromise security in order to enhance the prospects of return. The Investment Committee and the Board are mindful of the fund's liquidity and its capability at meeting both short and long term obligations. Asset allocation parameters follow:

1. There will be no limit on the amount of investments owned by the System that are guaranteed by the U.S. Government.
2. Not more than 35% of the assets of the System at book value shall be invested in corporate debt obligations.
3. Not more than 60% of the assets of the System at book value shall be invested in common stocks or preferred stocks. No more than 25% of the assets of the System at book value shall be invested in a stock portfolio designed to replicate a general, U.S. stock index.
4. Not more than 10% of the assets of the System at book value shall be invested in real estate. This would include real estate equity, real estate lease agreements, mortgages on real estate that are not guaranteed by the U.S. Government, and shares in real estate investment trusts.
5. Not more than 1% of the assets of the System at book value shall be invested in venture capital investments providing at least 75% of such investments must be in-state.
6. Not more than 10% of the assets of the System at book value shall be invested in any additional category or categories of investments. The Board shall approve by resolution such additional category or categories of investments. Within this parameter, the Board approved a provision in 1999-2000 that permits limited ownership of foreign equities. The System may acquire equity in large capitalization companies whose stock is traded in the U.S., but the companies are domiciled in select foreign countries. Foreign exposure is limited to 1.2% of the System's assets at book value.

The asset allocation of investments at market value was somewhat different at the beginning of the fiscal year than it was on June 30, 2003. In addition, the market value allocation of assets through the dynamics of the securities markets is different than the book value allocations. During the 2002-03 fiscal year, the market value of the stock position decreased slightly from 49% to 48% of assets. The portion of the portfolio in Government securities increased from 22% to 24%. The cash position decreased during the year from 8% of assets to 7%. The real estate equity position remained a relatively small portion of the System's portfolio at approximately 3%.

The Kentucky Revised Statutes require the Board of Trustees to employ experienced investment counselors to advise it on investment related matters. Todd Investment Advisors was employed during 2002-03 as the System's principal investment counselor, providing assistance in the management of $2.3 billion of stocks and bonds. Invesco-National Asset Management, UBS Global

Asset Management, and Wellington Management Company also were retained during the 2002-03 fiscal year to provide investment counseling services. Invesco-National Asset Management assisted in the management of approximately $1.1 billion in bonds, as well as managing about $817 million in equity investments. UBS Global Asset Management, formerly Brinson Partners, was responsible for managing approximately $487 million in equities, and Wellington Management Company managed about $785 million in equities. In addition to monitoring the investment counselors, the in-house investment staff managed about $5.7 billion of fixed income and equity assets. All of the investment firms, while specializing in particular asset classes or sectors, are required to work within the same broad objectives, portfolio constraints, and administrative guidelines. Four investment counselors plus an in-house staff provide the Board of Trustees with a diversification of management that is appropriate for a $12.1 billion fund. The Farmers Bank & Capital Trust Company, located in Frankfort, Kentucky, was retained in 2002-03 as the Custodian of Securities with the Bank of New York serving as a sub-custodian.

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.

FINANCIAL ENVIRONMENT

In the fiscal year ended June 30, 2003, the stock market struggled to find stability and a platform for renewed growth after a long and painful bear market. From its peak on March 24, 2000 to an apparent trough on October 9, 2002, the S&P 500 declined 49%. In a volatile twelve-month period, the S&P 500 finished virtually unchanged with a return of 0.3% as the market faced an uncertain economy and geopolitical tensions culminating in war in Iraq. In a positive development, the technology heavy NASDAQ Composite Index, which had suffered an even more severe collapse than the S&P 500, was up 10.9% over the fiscal year. Growth stocks, which had declined the most in the bear market, generally outperformed value stocks, possibly portending stronger economic growth ahead. In another reversal, smaller-capitalization stocks, which had held up relatively well during the sharpest declines, generally underperformed large capitalization stocks. The S&P 400 Mid Cap Index declined 0.7%, while the S&P 600 Small Cap Index declined 3.6%.

The stock market's action reflected an economy still struggling to recover healthy, sustainable growth in the aftermath of the excesses in the late 1990s, the September 11, 2001 terrorist attacks, and weakened consumer and business confidence. Gross domestic product, adjusted for inflation, grew 2.3% over the fiscal year compared to 2.2% in the previous twelve months. During the months of late 2002 and early 2003, rising oil prices and concerns over imminent war with Iraq put a damper on the economy. The commencement of the conflict in March and relatively quick fall of the Iraqi regime caused oil prices to decline and some of the uncertainties to dissipate. Declining interest rates supported the economy over the fiscal year by keeping the housing market strong and fueling a massive wave of mortgage refinancing. While consumer spending held up relatively well, capital spending by businesses remained weak due to excess capacity in many industries and geopolitical and economic uncertainties. With the economy remaining too weak to generate job growth, the unemployment rate rose from 5.8% to 6.4%. The substantial slack in the economy led core inflation, as measured by the Consumer Price Index excluding the volatile food and energy components, to decline to 1.5% over the fiscal year, down from 2.3% over the previous twelve months. Corporate profits were generally weak over the first half of the fiscal year, but showing improvement by the spring of 2003.

Interest rates continued their remarkable long-term decline over the fiscal year as the economic recovery sputtered in an environment burdened with overcapacity and geopolitical concerns. The Federal Reserve fought the weakness by lowering the federal funds rate from 1.75% to 1.00% by June 30, 2003. Despite the weakness, lower credit quality bonds sharply outperformed higher quality bonds. This was a reversal from the previous fiscal year and possibly a harbinger of better economic times ahead. The Lehman Government/Credit Index returned a remarkable 13.1% for the fiscal year. BBB-rated bonds, the lowest quality in the Index, returned 17.9%.

With a return of 13.1% for the Lehman Government/Credit Index, bond market returns were extraordinarily strong in a low inflation environment for the third consecutive year. A notable trend over the year was a strong recovery by lower credit quality corporate bonds after poor relative performance in the previous year. By the end of the fiscal year, with interest rates at forty-five year lows, the outlook for future bond market returns looked less than promising. In addition to low existing yields, economic and financial market indicators signaling a strong economy ahead threatened the bond market outlook, which could lead to rising interest rates and declining bond prices.

PORTFOLIO CHARACTERISTICS

At year's end, the System's entire stock portfolio, exclusive of the stock index fund, could be characterized as high quality and diversified. The KTRS portfolio, as measured by beta, was approximately as risky as the Standard & Poor's 500 Index. Beta is a measure of the volatility in price of a particular stock or portfolio compared to the volatility of the index. The beta of the KTRS portfolio at the end of the fiscal year was 1.01. The KTRS portfolio registered a price-earnings multiple that was lower than the index. The price-earnings ratio for the portfolio at the end of the fiscal year was 20.2, compared to 23.5 for the index. Two factors attesting to the high quality of the portfolio were the high rate of growth in both earnings per share and dividends per share. The average earnings growth rate over the past five years for the KTRS stock portfolio was 9.60%. The average dividend growth rate for the past five years of the KTRS portfolio was 7.5%. At the end of the 2002-03 fiscal year, the yield level for the KTRS portfolio stood at 1.8%, which was slightly higher than the index yield level of 1.7%.

The stock position, apart from the stock index fund, began the 2002-03 fiscal year by being 29% of assets at market value, and by year-end, it constituted 27% of assets. In dollars, the value of the stock position decreased from approximately $3.4 billion to about $3.3 billion in 2002-03. The stock index fund represented another $2.6 billion that was invested in stocks at year end. Stock selections during 2002-03 affected a variety of market sectors. At the end of 2002-03, the sector weightings in the KTRS stock portfolio were similar to those of the Standard & Poor's 500 Index. The greatest differences were underweightings by KTRS in the consumer discretionary and consumer staples sectors and overweightings in the industrial and energy sectors.

On June 30, 2003, the System's entire bond portfolio had a duration of 5.7 years. Its yield to maturity was 3.1%. The average coupon rate for the holdings was 5.9%. As of June 30, 2003, the effective maturity of the fixed income portfolio was 8.4 years. The maturities of fixed income investments will generate cash for the fund in future years. Approximately 77% of the fixed income investments, including short term cash equivalents, will mature by the end of 2015, about 12 years. This will assist the System in meeting retirement fund obligations as well as permit it to assume new investments.

PORTFOLIO RETURNS

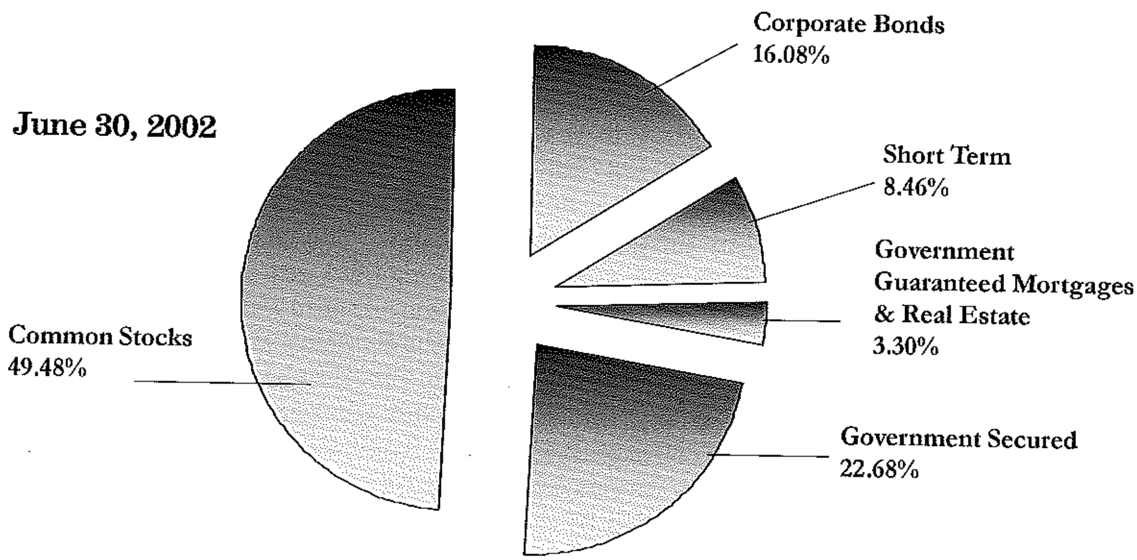
The investment portfolio experienced growth in book values and its market value during the 2002-03 year. The market value of the portfolio increased $290.5 million to a total of $12.1 billion at year-end. The book value of the fund increased $172.8 million during the year. The System accumulated in excess of $431 million of investment income during 2002-03; this investment income total excludes monies earned but not received by the end of the fiscal year. The income resulted from interest, dividends, rental income, lending income, and gains.

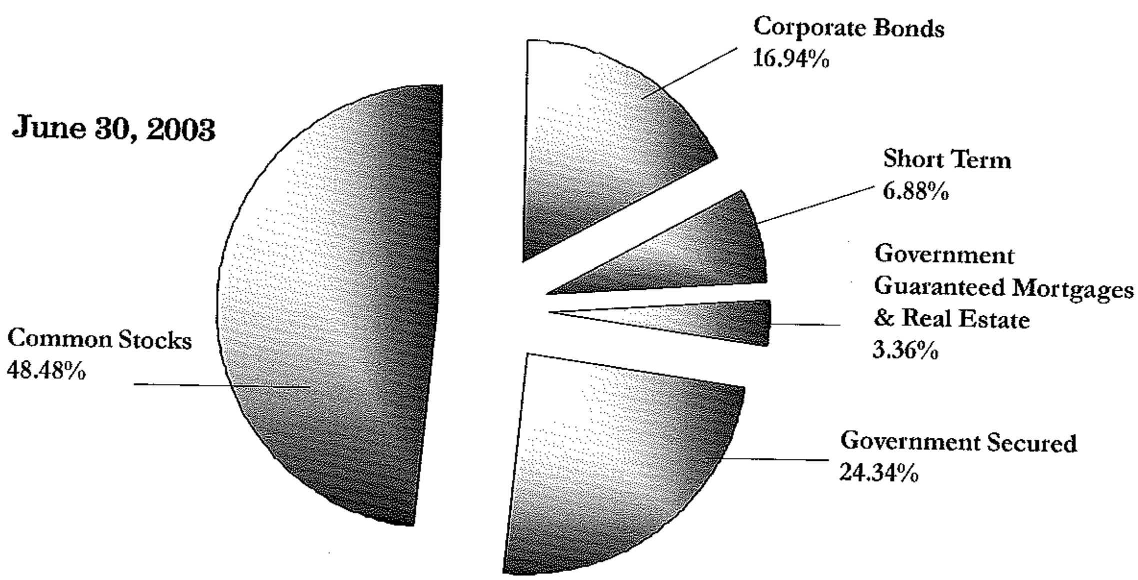
For the 2002-03 fiscal year, the total return earned by the System's stock position is slightly less than the return generated by the Standard & Poor's 500 Stock Index. The KTRS stock position earned a total return of (1.1)% in 2002-03, while the stock index earned (0.3)%. The ten year annualized return for the years 1994 through 2003 was 10.4% for the System's stock position and 10.0% for the stock index. The System's bond position earned a ten year annualized total return of 7.5%. This is slightly better than the 7.4% return earned by the Lehman Brothers Government/Credit Index. In 2002-03, the System's bonds earned a total return of 12.4%, while the Lehman Brothers Index earned 13.1%. The entire portfolio earned a total return of 4.8% in 2002-03. The portfolio's ten year annualized rate of total return was 8.2%. The total return of the portfolio over ten years more than kept up with the rate of inflation and provided real growth. In 2002-03, the Consumer Price Index registered an inflation rate of 2.1%. The ten year annualized rate is 2.4%. The System conforms to "AIMR Performance Presentation Standards" in calculating portfolio returns.

The charts that follow this narrative graphically display the growth that is discussed in the preceding paragraphs. Following the charts is a summary description of investments held at June 30, 2003. The System annually produces a detailed investment report that is available on request.

Distribution of Investments

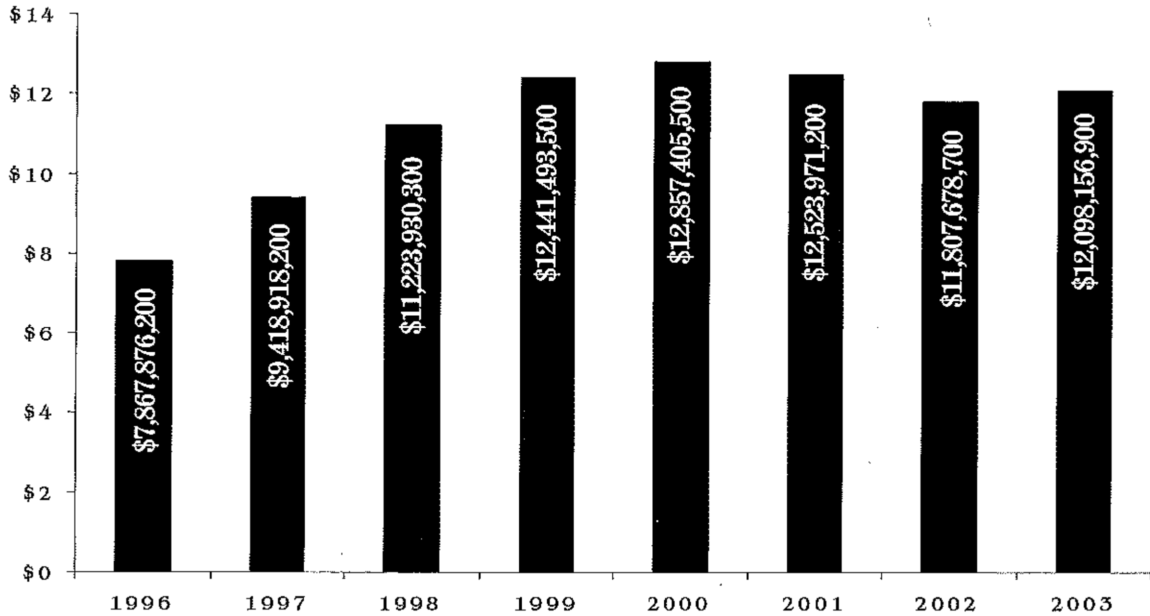
Market Values





Investment Portfolio Growth

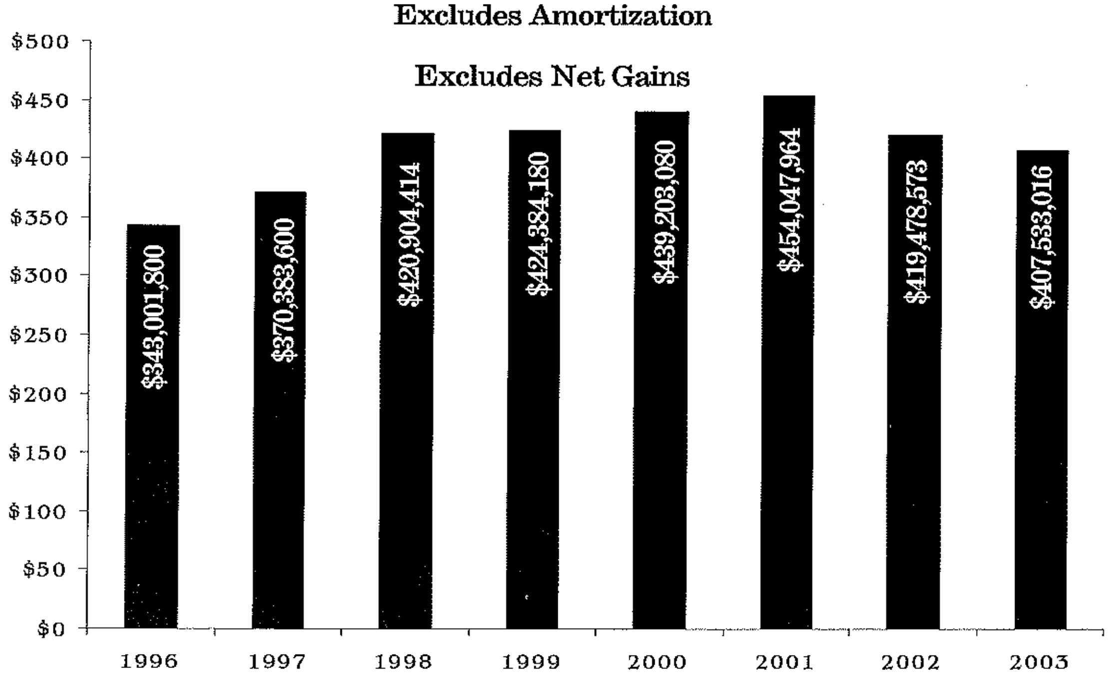
Market Values



Investment Income Growth

Excludes Amortization

Excludes Net Gains



Total Return on KTRS Investments*

Percentages

Fiscal Year	Standard & Poor's 500 Index	KTRS Stocks	Lehman Brothers Govt./Credit Bond Index	KTRS Bonds	Consumer Price Index	KTRS Cash Collection Fund	KTRS Real Estate	KTRS Total Portfolio
1993-94	1.4	2.2	(1.5)	(0.9)	2.5	3.6	7.2	0.7
1994-95	26.1	25.3	12.8	12.7	3.0	6.3	10.1	16.9
1995-96	26.0	25.3	4.7	4.3	2.8	6.0	11.6	13.5
1996-97	34.7	33.1	7.8	7.8	2.3	5.8	8.8	19.6
1997-98	30.2	29.2	11.3	11.6	1.7	6.1	9.7	19.4
1998-99	22.8	22.0	2.7	2.3	2.0	5.3	9.7	11.5
1999-00	7.3	3.6	4.3	4.9	3.7	5.8	9.9	4.1
2000-01	(14.8)	(8.9)	11.1	10.9	3.3	6.0	9.5	(0.7)
2001-02	(18.0)	(14.5)	8.3	9.5	1.1	2.5	6.0	(4.1)
2002-03	0.3	(1.1)	13.1	12.4	2.1	1.5	9.3	4.8
Three Year Annualized Rate	(11.2)	(8.3)	10.8	10.9	2.1	3.3	8.2	(0.1)
Five Year Annualized Rate	(1.6)	(0.5)	7.8	7.9	2.4	4.2	8.9	3.0
Eight Year Annualized Rate	9.3	9.7	7.8	7.9	2.4	4.9	9.3	8.2
Ten Year Annualized Rate	10.0	10.4	7.4	7.5	2.4	4.9	9.2	8.2

* *Teachers' Retirement System of the State of Kentucky has prepared and presented this report in compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS). AIMR has not been involved with the preparation or review of this report.*

Investment Summary

Fair Market Value

06/30/2003

Type of Investment	Fair Value 07/01/02	Acquisitions	Appreciation (Depreciation)	Sales Redemptions, Maturities & Paydowns	Fair Value 06/30/03
Short Term	999,200,000	35,602,499,400	50,600	35,769,000,000	832,750,000
Fixed Income	4,628,040,200	1,133,979,300	299,205,700	1,018,585,500	5,042,639,700
Equities	6,180,438,500	1,642,865,100	(156,707,100)	1,443,829,300	6,222,767,200
TOTAL	11,807,678,700	38,379,343,800	142,549,200	38,231,414,800	12,098,156,900

Contracted Investment Management Expenses

($ Thousands) as of 06/30/2003

	Assets Under Management	Expenses	Basis Points *
INVESTMENT MANAGER FEES			
Fixed Income Managers	$ 1,061,042	$ 378	3.6
Equity Managers	2,088,822	2,472	11.8
Balanced Manager	2,316,751	807	3.5
TOTALS	$ 5,466,615	$ 3,657	6.7
OTHER INVESTMENT SERVICES			
Custodian Services	$ 12,098,157	$ 417	0.3
Investment Consultant		45	
TOTAL		$ 462	
GRAND TOTAL		$ 4,119	3.4

* One basis point is one-hundreth of one percent or the equivalent of .0001.

Transaction Commissions

06/30/2003

COMPANIES	SHARES TRADED	COMMISSIONS	COMMISSION PER SHARE
ADAMS HARKNESS & HILL	88,100	3,673.00	0.0417
ADVEST	1,173,000	48,739.00	0.0416
AG EDWARDS	1,194,500	49,423.00	0.0414
ARCHIPELAGO LLC	181,300	2,719.50	0.0150
B TRADE SERVICES	31,430	420.45	0.0134
BANC OF AMERICA SECURITIES	381,439	47,786.95	0.1253
BEAR STEARNS	459,700	22,958.00	0.0499
BERNSTEIN SANFORD & CO	166,700	7,257.00	0.0435
BOENNING & SCATTERGOOD	566,900	17,093.00	0.0302
BRANDT ROBERT	47,100	1,413.00	0.0300
BRIDGE TRADING CO	47,300	713.00	0.0151
C S FIRST BOSTON	2,901,000	151,582.00	0.0523
CANTOR FITZGERALD	184,500	7,139.00	0.0387
CAPITAL INSTITUTIONAL SERVICES	8,800	230.00	0.0261
CIBC OPPENHEIMER WORLDMARKET	451,200	20,229.00	0.0448
CITIGROUP GLOBAL MARKETS	143,300	4,743.00	0.0331
COWEN & CO	437,300	18,778.00	0.0429
CUTTONE & CO	48,700	1,461.00	0.0300
DEUTSCHE MORGAN	6,186,782	359,876.10	0.0582
DRESDNER KLEINWORT	3,000	150.00	0.0500
EURO BROKERS	499,600	12,637.00	0.0253
FIDELITY CAPITAL MARKETS	38,500	1,155.00	0.0300
FIRST ALBANY CORP	171,300	6,584.00	0.0384
FIRST TENNESSEE BANK	27,900	1,395.00	0.0500
FLAGSTONE SECURITIES	38,400	1,920.00	0.0500
FOX-PITT KELTON INC	54,300	2,681.00	0.0494
FREIDMAN BILLINGS	168,300	16,964.00	0.1008
GARBAN INTERCAPITAL	13,000	650.00	0.0500
GERARD KLAUER MATTISON	74,700	2,415.00	0.0323
GOLDMAN SACHS	5,469,462	194,854.48	0.0356
HARBORSIDE SECURITIES	7,100	142.00	0.0200
HEFLIN & CO	363,500	14,565.00	0.0401
HOEFER & ARNETT INC	3,400	170.00	0.0500
HOWE BARNES INVESTMENTS	49,000	3,155.00	0.0644
INSTINET	572,100	13,357.50	0.0233
INVESTMENT TECHNOLOGY	20,905,749	453,285.02	0.0217
ISI GROUP	1,442,234	59,374.36	0.0412
J P MORGAN CHASE & CO	508,300	17,291.00	0.0340
JANNEY MONTGOMERY	7,300	365.00	0.0500
JEFFERIES & CO	2,389,894	98,697.70	0.0413
JEROME P DUNLEVY	10,400	416.00	0.0400
JJB HILLIARD WL LYONS	1,318,925	54,560.25	0.0414
JMP SECURITIES	85,700	4,285.00	0.0500
JONES & ASSOCIATES	368,100	15,270.00	0.0415
K V EXECUTION SERVICE	196,000	5,320.00	0.0271
KEEFE BRUYETTE & WOODS	164,800	8,062.00	0.0489
KENNY & CO	79,200	2,376.00	0.0300
KNIGHT SECURITIES	574,600	9,935.00	0.0173
LAZARD FRERES & CO	3,370,800	150,602.00	0.0447
LEERINK SWANN & CO	28,800	1,424.00	0.0494
LEGG MASON WOOD WALKER	1,193,200	51,264.00	0.0430
LEHMAN BROTHERS	3,397,300	114,605.00	0.0337

Transaction Commissions continued . . .

COMPANIES	SHARES TRADED	COMMISSIONS	COMMISSION PER SHARE
LEXINGTON INVESTMENT CO	855,000	35,460.00	0.0415
LYNCH JONES & RYAN INC	17,500	875.00	0.0500
MCDONALD INVESTMENTS	25,400	1,270.00	0.0500
MERRILL LYNCH	17,630,839	583,494.35	0.0331
MIDWEST RESEARCH	12,300	615.00	0.0500
MKM PARTNERS	54,200	1,984.00	0.0366
MOORS & CABOT	2,600	130.00	0.0500
MORGAN KEEGAN & CO	1,010,400	48,105.00	0.0476
MORGAN STANLEY DEAN WITTER	5,577,538	220,381.72	0.0395
NEEDHAM & CO INC	1,400	70.00	0.0500
OTA LIMITED PARTNERS	44,900	2,116.00	0.0471
PAINE WEBBER INC	5,463,130	233,116.20	0.0427
PERSHING & CO	5,200	260.00	0.0500
PRUDENTIAL SECURITIES	1,530,600	62,176.00	0.0406
PULSE TRADING	19,500	435.00	0.0223
R W BAIRD	130,300	6,443.00	0.0494
RAYMOND JAMES & ASSOCIATES	2,838,141	117,483.05	0.0414
RBC DAIN RAUSCHER INC	551,200	27,226.00	0.0494
RYAN & BECK	79,000	6,396.00	0.0810
SANDLER O'NEILL	147,000	7,290.00	0.0496
SCHWAB CHARLES & CO	777,100	18,203.00	0.0234
SMITH BARNEY SALOMON	3,196,866	133,216.64	0.0417
SPEAR LEEDS & KELLOGG	880,137	10,813.37	0.0123
STANDARD & POORS	726,400	29,056.00	0.0400
STATE STREET BROKERAGE	94,000	3,160.00	0.0336
STEPHENS INC	62,000	3,100.00	0.0500
STIFEL NICOLAUS & CO	22,200	1,110.00	0.0500
SUNTRUST ROBINSON HUMPHREY	22,400	1,120.00	0.0500
SUSQUEHANNA BROKERAGE	35,950	953.75	0.0265
THOMAS WEISEL PARTNERS	300,500	15,025.00	0.0500
TULLET & TOKYO LIBER	63,200	3,160.00	0.0500
U S BANCORP PIPER JAFFRAY	165,300	16,991.00	0.1028
WACHOVIA	1,349,200	54,908.00	0.0407
WARBURG SEC UBS DILLON READ	367,800	15,686.00	0.0426
WEDBUSH MORGAN SECURITIES	240,100	12,005.00	0.0500
WEEDEN & CO	2,725,612	116,154.48	0.0426
WELLS FARGO SECURITIES	27,300	1,365.00	0.0500
WILSHIRE ASSOCIATES	62,600	2,027.00	0.0324
WIT SOUNDVIEW	830,800	31,474.00	0.0379
TOTAL	106,239,528	3,911,015.87	0.0368

The over-the-counter commission rate on medium to large capitalization stocks is assumed to be $0.05 per share. 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 2002-03, the System bought small capitalization IPOs that generated $161,346.00 in commissions. Although these commissions were not paid by the Retirement System, they resulted from the System's investment activities and are included in the total commissions of $3,911,015.87. Typical stock transactions occur at lower commission rates than IPO transactions, frequently $.04 per share. Investment companies usually provide investment research for brokerage clients. On occasion, investment companies direct third party research to active clients. The Retirement System received third party research through Merrill Lynch. Trading commissions of $362,149.69 were associated with third party research obligations. The primary research providers were: Bloomberg, Capital Management Science, CRA/Rogers Casey, and Vestek.

Schedule of Investments

as of June 30, 2003

Investment		Par Value* or Remaining Principal Balance	Market Value	Percentage of Market Value
Repurchase Agreements		832,750,000.00	832,750,000.00	6.88
Total Short Term		832,750,000.00	832,750,000.00	6.88
Treasury Notes and Bonds		1,248,185,000.00	1,470,166,547.91	12.15
Agencies		1,038,467,895.73	1,142,583,580.55	9.44
GNMA (Single Family)		104,438,791.24	109,998,128.37	0.91
Collateralized Mortgage Obligations		34,260,891.34	35,376,516.99	0.29
Treasury Strip Bonds		178,170,080.00	159,077,901.44	1.32
Total U.S. Government Obligations		2,603,522,658.31	2,917,202,675.26	24.11
Industrials		645,185,650.52	716,793,925.63	5.92
Finance		996,940,602.20	1,072,531,279.04	8.87
Utility Bonds (Except Telephone)		128,450,000.00	139,274,389.10	1.15
Telephone Bonds		106,946,000.00	121,055,802.20	1.00
Total Corporate Bonds		1,877,522,252.72	2,049,655,395.97	16.94
FHA & VA Single Family Mortgages		92,625.12	113,900.21	0.00
Project Mortgages (FHA & GNMA)		34,246,256.27	47,863,252.70	0.40
State and Local Government Issues		23,110,000.00	27,804,524.10	0.23
Total Other Fixed Income		57,448,881.39	75,781,677.01	0.63
Subtotal (Fixed Income)		5,371,243,792.42	5,875,389,748.24	48.56
Real Estate Equity		365,158,408.33	358,280,903.80	2.96
Total Real Estate Equity		365,158,408.33	358,280,903.80	2.96
Common Stocks	93,197,043 Shares	3,636,670,232.46	3,090,935,254.97	25.55
Small Cap Stocks	12,868,199 Shares	190,325,638.77	175,880,520.80	1.46
Stock Index	83,277,674 Shares	2,845,456,771.47	2,597,670,518.24	21.47
Total Stocks	189,342,916 Shares	6,672,452,642.70	5,864,486,294.01	48.48
Subtotal (Equity)		7,037,611,051.03	6,222,767,197.81	51.44
Total Investments		12,408,854,843.45	12,098,156,946.05	100.00

* In this asset display, par value represents the redemption value of bonds and the cost value of equities. Market value is a volatile measure that changes daily and represents the approximate transaction value of an investment on a particular day--in this case June 30, 2003. Detailed information concerning these values along with book values and cost values of all KTRS investments is available on request.

ACTUARIAL SECTION

Mellon Human Resources & Investor Solutions

December 5, 2003

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, 2003. While not verifying the data at source, the actuary performed tests for consistency and reasonability. The valuation indicates that combined member and State contributions at the rate of 20.90% of university members' salaries and 23.86% of non-university members' salaries are sufficient to support the benefits of the System. We are recommending that an additional 0.28% of the contribution towards the Medical Insurance Fund and 0.52% of the contribution towards the Life Insurance Fund be allocated to the Retirement System in order to maintain the amortization of the unfunded liability of the Pension Plan within a 30-year period. Therefore, we recommend that the contribution to the Life Insurance Fund be reduced from 0.69% to 0.17% and the contribution to the Medical Insurance Fund be reduced from 2.80% to 2.52%.

The valuation takes into account the effect of amendments to the System enacted through the 2003 Session of the Legislature.

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 unit credit actuarial cost method with projected benefits. 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 in the aggregate reasonably related to the experience under the System and to reasonable expectations of anticipated experience under the System and meet the parameters for the disclosures under GASB 25 and 27.

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.

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.

In our opinion the System is operating on an actuarially sound basis. 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 retirement fund to provide the benefits called for under the System may be safely anticipated.

Respectfully submitted,

Edward A. Macdonald, ASA, MAAA, FCA
Principal, Consulting Actuary

Report of Actuary on the Valuation

Prepared as of June 30, 2003

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 (all dollar amounts are $1,000's):

Valuation Date	June 30, 2003		June 30, 2002	
Number of active members	71,097		54,175	
Annual salaries	$ 2,497,731		$ 2,313,663	
Number of annuitants and beneficiaries	34,708		33,457	
Annual allowances[1]	$ 846,449		$ 776,476	
Assets				
Market value	$ 11,997,350		$ 11,734,029	
Actuarial value	$ 13,863,786		$ 13,588,847	
Unfunded actuarial accrued liability	$ 2,730,995		$ 2,106,726	
Amortization period (years)	30		30	
Contribution rates:	**University**	**Non-University**	**University**	**Non-University**
Pension Plan:				
Normal	14.29 %	18.06 %	14.44 %	18.22 %
Accrued liability[2]	6.61	5.80	5.63	4.81
Total	20.90 %	23.86 %	20.07 %	23.03 %
Member	7.625 %	9.105 %	7.625 %	9.105 %
State (ARC)	13.275	14.755	12.445	13.925
Total	20.90 %	23.86 %	20.07 %	23.03 %
Life Insurance Fund:				
State	0.17 %	0.17 %	0.69 %	0.69 %
Medical Insurance Fund:				
Member	0.75 %	0.75 %	0.75 %	0.75 %
State Match	0.75	0.75	0.75	0.75
State Additional	1.02	1.02	1.30	1.30
Total	2.52 %	2.52 %	2.80 %	2.80 %
Total Contributions:				
Member Statutory	8.375 %	9.855 %	8.375 %	9.855 %
State Statutory	11.625	13.105	11.625	13.105
State Special[2]	3.59	3.59	3.56	3.56
Total	23.59 %	26.55 %	23.56 %	26.52 %

[1] *Includes cost-of-living adjustments effective through the valuation date.*

[2] *Includes special appropriation of $89,659,000 for the fiscal year ending June 30, 2004 and $82,479,500 for the fiscal year ending June 30, 2003 as a percentage of payroll.*

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2. The valuation indicates that combined member and State contributions at the rate of 20.90% of salaries for university members and at 23.86% for non-university members are sufficient to support the benefits of the System. We also recommend that 0.17% be contributed by the state to the Life Insurance Fund and 2.52% combined member and state contributions be made to the Medical Insurance Fund. Comments on the valuation results as of June 30, 2003 are given in Section IV and further discussion of the contribution levels is set out in Sections V and VI.

3. Since the previous valuation, the method of determining liabilities has been changed to include a load of 1% to estimate the impact of unused sick leave on future retirement benefits. Schedule D of this report outlines the full set of actuarial assumptions and methods employed in the current valuation.

4. The valuation takes into account the effect of amendments to the System enacted through the 2003 Session of the Legislature. 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, 2003 on the basis of which the valuation was prepared.

Group	Number	Annual Salaries ($1,000)
Men	17,107	$ 690,341
Women	53,990	1,807,390
Total	71,097	2,497,731

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.

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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, 2003

Group	Number	Annual Retirement Allowances[2] ($1,000)
Service Retirements	30,121	$ 771,235
Disability Retirements	1,857	39,897
Beneficiaries of Deceased Members[1]	2,309	32,539
Total	34,287	843,671

[1] *In addition, there are 421 beneficiaries entitled to term-certain only annuities totaling $2,778,185 annually.*

[2] *Includes cost-of-living adjustments effective through the valuation date.*

Section III - ASSETS

1. As of June 30, 2003 the market value of Pension Plan assets for valuation purposes held by the System amounted to $11,997,349,662. 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 valuation purposes.

2. The five-year market related value of Pension Plan assets used for valuation purposes as of June 30, 2003 was $13,863,786,244. Schedule B shows the development of the actuarial value of assets as of June 30, 2003.

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, Medical Insurance Fund and the Life Insurance Fund.

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Section IV - COMMENTS ON VALUATION

1. Schedule A of this report outlines the results of the actuarial valuation (amounts are $1,000's). 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 that the System has an actuarial accrued liability of $7,265,457 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 benefits payable to annuitants and beneficiaries amounts to $9,130,787 of which $690,734 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 $198,537. The total actuarial accrued liability of the System amounts to $16,594,781. Against these liabilities, the System has present assets for valuation purposes of $13,863,786. When this amount is deducted from the actuarial accrued liability of $16,594,781, there remains $2,730,995 as the unfunded actuarial accrued liability.

3. The normal contribution rate is equal to the actuarial present value of benefits accruing during the current year divided by the annual active members' payroll. The normal contribution rate is determined to be 14.29% of payroll for university members and 18.06% for non-university members.

Section V - CONTRIBUTIONS PAYABLE UNDER THE SYSTEM

1. Section 161.540 of the retirement law provides that each university member will contribute 8.375% of his annual salary to the System and each non-university member will contribute 9.855% of salary. Of this amount, 0.75% is paid to the Medical Insurance Fund for medical benefits leaving 7.625% for university members and 9.105% for non-university members applicable for the retirement benefits taken into account in the valuation.

2. Section 161.550 provides that the State will match the member contributions and contribute an additional 3.25% of members' salaries towards discharging the System's unfunded obligations. The System was amended as of June 30, 2000 to allow the Board to allocate up to a maximum of the entire 3.25% to the Medical Insurance Fund. For the fiscal 2004/2005 fiscal year, we recommend that the Board allocate 1.02% to the Medical Insurance Fund leaving 2.23% to be contributed towards the Pension Plan.

3. Therefore, 9.855% of active university members' salaries and 11.335% for active non-university members is statutorily funded by the state for the Pension Plan and Life Insurance Fund. Of this amount, 0.17% of payroll will be allocated to the Life Insurance Fund. An additional appropriation of $89,659,000, or 3.59% of total payroll will be made by the State. The total employer contribution rate to the Pension Plan is, therefore, 13.275% for university members and 14.755% for non-university members. The total member and employer contribution rates to the Pension Plan are shown in the following table.

Total Contribution Rates to Pension Plan

Source	University	Non-University
Member	7.625 %	9.105 %
State	13.275	14.755
Total	20.90 %	23.86 %

4. The valuation indicates that normal contributions at the rate of 14.29% of active university members' salaries are required to meet the cost of benefits currently accruing. The normal rate for non-university members is 18.06%. 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 6.61% for university members and 5.80% for non-university members. These rates include special appropriations of $89,659,000 or 3.59% of payroll to be made by the State for the fiscal year ending June 30, 2004. These rates are shown in the following table.

ACTUARIALLY DETERMINED CONTRIBUTION RATES

	PERCENTAGE OF ACTIVE MEMBERS' SALARIES	
Rate	University	Non-University
Normal	14.29 %	18.06 %
Accrued Liability*	6.61	5.80
Total	20.90 %	23.86 %

* *Includes special appropriations of $89,659,000 or 3.59% of payroll to be made by the State for the fiscal year ending June 30, 2004.*

5. The unfunded actuarial accrued liability amounts to $2,730,995,000 as of the valuation date. Accrued liability contributions at the rate of 6.61% of active university members' payroll and 5.80% of non-university members' payroll are sufficient to amortize the unfunded actuarial accrued liability over the 30 year period commencing June 30, 2003, based on the assumption that the payroll will increase by 4.0% annually.

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Section VI - COMMENTS ON LEVEL OF FUNDING

1. The benefit percentage for non-university members is 2.0% for service accrued through July 1, 1983 and 2.5% for service accrued after that date. However, for members who join the System on or after July 1, 2002 and retire with less than 10 years of service, the benefit percentage is 2.0%. For members who retire on or after July 1, 2004, the benefit percentage for service earned in excess of 30 years will be 3.0%. The total net contribution rate is 23.86% of payroll for non-university members. For university members the benefit percentage is 2.0% for all service and the contribution rate is 20.90%. Our calculations indicate that these contribution rates 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 and special appropriations, if continued at the current level percentage, are sufficient to meet the cost of benefits currently accruing and provide for the amortization of the unfunded actuarial accrued liability over a reasonable period of time. Therefore, as special contributions decrease, the statutory contributions will be required to increase in order to amortize the unfunded liability.

3. The System has been operating on an actuarially sound basis. However, there are no excess assets or contributions available to provide additional benefits. In addition, as special contributions decrease, the statutory contributions will be required to increase in order to amortize the unfunded liability. Any further benefit improvements should be accompanied by the 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 $624,269,000 in the unfunded accrued liability from $2,106,726,000 to $2,730,995,000 during the year ending June 30, 2003.

ITEM	Amount of Increase/ (Decrease)
Interest (7.50%) added to previous unfunded accrued liability	$ 158,004
Accrued liability contribution	(112,805)
Experience:	
Valuation asset growth	466,609
Pensioners' mortality	39,501
Turnover and retirements	7,748
New entrants	59,034
Salary Increases	(64,318)
Method changes	70,496
Amendments	0
Assumption changes	0
TOTAL	$ 624,269

(Dollar amounts in thousands)

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Section VIII - ACCOUNTING INFORMATION

1. Governmental Accounting Standards Board Statements 25 and 27 set forth certain items of required supplementary information to be disclosed in the financial statements of the System and the employer. One such item is a distribution of the number of employees by type of membership, as follows:

Number of Active and Retired Members as of June 30, 2003

GROUP	NUMBER
Retirees and Beneficiaries currently receiving benefits	34,708
Terminated employees entitled to benefits but not yet receiving benefits	5,478
Active Plan Members:	71,097
TOTAL	**111,283**

2. Another such item is the schedule of funding progress as shown below.

Schedule of Funding Progress (Dollar amount in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	(UAAL as a Percentage of Covered Payroll ((b-a) /c)
06/30/98 *	$ 10,370,595	$ 11,516,619	$ 1,146,024	90.0 %	$ 1,973,749	58.1%
06/30/99	11,958,584	12,288,231	329,647	97.3	2,041,463	16.1
06/30/00 **	12,759,636	13,330,418	570,782	95.7	2,133,743	26.8
06/30/01 ***	13,299,161	14,642,129	1,342,968	90.8	2,213,772	60.7
06/30/02	13,588,847	15,695,574	2,106,726	86.6	2,313,663	91.1
06/30/03	13,863,786	16,594,781	2,730,995	83.5	2,497,731	109.3

* *Reflects changes in interest rate and salary increase assumptions.*
** *Reflects change in asset valuation method and System amendments.*
*** *Reflects change in decremental assumptions.*

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3. The information presented in the required supplementary schedules was determined as part of the actuarial valuation at June 30, 2003. Additional information as of the latest actuarial valuation follows.

Valuation Date	06/30/2003
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay, open
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 - 8.10%
Cost-of-Living Adjustment	1.50% Annually
*Includes Inflation at	4.00%

TREND INFORMATION

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (NPO)
June 30, 2001	$ 262,791,748	100%	$0
June 30, 2002	284,794,710	100%	$0
June 30, 2003	322,046,968	100%	$0

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SCHEDULE A
Results of the Valuation
Prepared as of June 30, 2003
($1,000)

1.	**ACTUARIAL ACCRUED LIABILITY**		
	Present value of prospective benefits payable in respect of:		
	(a) Present active members:		
	• Service retirement benefits	$ 6,834,831	
	• Disability retirement benefits	244,557	
	• Death and survivor benefits	46,121	
	• Refunds of member contributions	139,948	
	Total		$ 7,265,457
	(b) Present inactive members and members entitled to deferred vested benefits:		198,537
	(c) Present annuitants and beneficiaries:		
	• Service retirement benefits	$ 8,435,201	
	• Disability retirement benefits	369,133	
	• Death and survivor benefits	326,453	
	Total		9,130,787
	(d) Total actuarial accrued liability		$ 16,594,781
2.	**PRESENT ASSETS FOR VALUATION PURPOSES**		13,863,786
3.	**Unfunded Actuarial Accrued Liability** [(1) MINUS (2)]		$ 2,730,995

		UNIVERSITY	NON-UNIVERSITY
4.	**NORMAL CONTRIBUTION RATE**		
	(a) Actuarial present value of benefits accruing annually	$ 21,097	$ 424,499
	(b) Annual payroll of active members	$ 147,664	$ 2,350,066
	(c) Normal contribution rate [4(a) divided by 4(b)]	14.29%	18.06%

Solvency Test

(in millions of dollars)

Aggregate Accrued Liabilities For

Fiscal Year	(1) Active Member Contributions	(2) Retirants and Beneficiaries	(3) Active Members (Employer Financed Portion)	Valuation Assets
1998	$ 1,967.2	$ 5,680.4	$ 3,869.0	$ 10,370.6
1999	2,051.1	6,291.7	3,945.4	11,958.6
2000	2,128.4	7,183.4	4,018.6	12,759.6
2001	2,215.5	8,037.0	4,389.6	13,299.2
2002	2,303.3	8,816.9	4,576.4	13,588.8
2003	2,413.9	9,329.3	4,851.6	13,863.8

	Fiscal Year	(1)	(2)	(3)
Portion of Accrued Liabilities Covered by Assets	1998	100 %	100 %	70 %
	1999	100	100	92
	2000	100	100	86
	2001	100	100	69
	2002	100	100	54
	2003	100	100	44

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SCHEDULE B
Development of June 30, 2003
Actuarial Value of Assets

1.	Actuarial Value of Assets on June 30, 2002	$ 13,588,847,348
2.	2002/2003 Net Cash Flow	
	a. Contributions	555,476,765
	b. Disbursements	823,057,980
	c. Net Cash Flow (2)a - (2)b	(267,581,215)
3.	Expected Investment Return [(1) x .075] + [(2)c x .0375]	1,009,129,256
4.	Expected Actuarial Value of Assets on June 30, 2003 (1) + (2) c + (3)	14,330,395,389
5.	Market Value of Assets on June 30, 2003	11,997,349,662
6.	Excess of Market Value over Expected Actuarial Value (5) - (4)	(2,333,045,728)
7.	20% Adjustment towards Market Value .20 x (6)	(466,609,145)
8.	Actuarial Value of Assets on June 30, 2003 (4) + (7)	$ 13,863,786,244

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

	For the Year Ending June 30, 2003	June 30, 2002
RECEIPTS FOR THE YEAR		
Contributions		
Members	$ 233,429,797	$ 224,361,453
Employers	322,046,968	284,794,710
Total	$ 555,476,765	$ 509,156,163
Net Investment Income	537,286,820	(521,014,197)
TOTAL	$ 1,092,763,585	$ (11,858,034)
DISBURSEMENTS FOR THE YEAR		
Benefits Payments	$ 813,102,868	$ 735,234,382
Refunds to Members	9,955,112	9,146,820
Medical Insurance Premium	0	0
Miscellaneous, including expenses	6,384,481	6,677,819
TOTAL	$ 829,442,461	$ 751,059,021
EXCESS OF RECEIPTS OVER DISBURSEMENTS	$ 263,321,124	$ (762,917,055)
RECONCILIATION OF ASSET BALANCES		
Asset Balance as of the Beginning of the Year	$ 11,734,028,537	$ 12,496,945,592 **
Excess of Receipts over Disbursements	263,321,124	(762,917,055)
Asset Balance as of End of the Year	$ 11,997,349,661	$ 11,734,028,537

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

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

	For the Year Ending			
		June 30, 2003		June 30, 2002
RECEIPTS FOR THE YEAR				
Contributions				
Members	$	50,718,085	$	46,184,011
Employers		77,235,407		95,261,407
Total	$	127,953,492	$	141,445,418
Net Investment Income		7,391,671		6,142,817
TOTAL	$	135,345,163	$	147,588,235
DISBURSEMENTS FOR THE YEAR	$	0	$	0
Benefits Payments		4,106		6,066
Refunds to Members		112,173,662		101,487,266
Medical Insurance Premium		3,676,128		3,491,649
Miscellaneous, including expenses	$	115,853,896	$	104,984,981
TOTAL				
EXCESS OF RECEIPTS OVER DISBURSEMENTS	$	19,491,267	$	42,603,253
RECONCILIATION OF ASSET BALANCES				
Asset Balance as of the Beginning of the Year	$	146,045,308	$	103,442,055
Excess of Receipts over Disbursements		19,491,267		42,603,253
Asset Balance as of End of the Year	$	165,536,575	$	146,045,308

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

	For the Year Ending			
		June 30, 2003		June 30, 2002
RECEIPTS FOR THE YEAR				
Contributions				
Members	$	0	$	0
Employers		19,085,931		18,726,396
Total	$	19,085,931	$	18,726,396
Net Investment Income		1,265,254		799,703
TOTAL	$	20,351,185	$	19,526,099
DISBURSEMENTS FOR THE YEAR				
Benefits Payments	$	3,961,800	$	4,210,800
Refunds to Members		0		0
Medical Insurance Premium		0		0
Miscellaneous, including expenses		0		0
TOTAL	$	3,961,800	$	4,210,800
EXCESS OF RECEIPTS OVER DISBURSEMENTS	$	16,389,385	$	15,315,299
RECONCILIATION OF ASSET BALANCES				
Asset Balance as of the Beginning of the Year	$	28,768,783	$	13,453,484
Excess of Receipts over Disbursements		16,389,385		15,315,299
Asset Balance as of End of the Year	$	45,158,168	$	28,768,783

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SCHEDULE D

Outline of Actuarial Assumptions and Methods

The assumptions and methods used in the valuation were selected by the Actuary based on the actuarial experience investigation as of June 30, 2000 and adopted by the Board of Trustees on December 17, 2001.

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 4.0% 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%	4.70%	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 . . .					
AGE	DEATH	DISABILITY	WITHDRAWAL	SERVICE RETIREMENT*	EARLY RETIREMENT
20	.003 %	.01 %	8.65%		
25	.010	.01	8.95		
30	.016	.02	6.46		
35	.032	.04	4.49		
40	.048	.08	3.21		
45	.064	.18	2.12	15.00 %	
50	.104	.33	2.33	15.00	
55	.216	.55	3.00	25.00	4.00%
60	.375	.87		20.00	
62	.438	1.03		28.00	
65	.566			40.00	
70				100.00	

* *It is also assumed that an additional 20% will retire in the first year eligible for unreduced benefits if before age 60.*

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FEMALES: Annual Rate of . . .					
AGE	DEATH	DISABILITY	WITHDRAWAL	SERVICE RETIREMENT*	EARLY RETIREMENT
20	.002 %	.03%	7.16 %		
25	.007	.03	8.34		
30	.014	.04	6.30		
35	.026	.07	4.08		
40	.044	.14	2.61		
45	.055	.26	1.92		
50	.066	.42	2.02	15.00%	
55	.085	.64	2.50	30.00	5.00 %
60	.122	.91		25.00	
62	.137	1.05		25.00	
65	.159			35.00	
70				100.00	

** It is also assumed that an additional 25% of women will retire in their first year of eligibility if before age 60.*

Deaths After Retirement: Representative values of the assumed annual rates of death after service and disability retirement are as follows:

Annual Rate of Death After . . .

	Service Retirement		Disability Retirement	
Age	MALE	FEMALE	MALE	FEMALE
45	.2%	.1%	5.1%	4.5%
50	.3	.2	5.1	4.5
55	.5	.2	5.1	4.5
60	.9	.4	5.1	4.5
65	1.7	.7	5.1	4.5
70	2.8	1.4	5.1	4.5
75	4.2	2.6	5.1	4.5
80	6.5	4.4	7.8	6.1
85	10.0	7.5	12.3	10.5
90	15.5	12.8	19.1	17.6
95	21.9	21.1	29.2	28.8

Actuarial Method: Unit Credit Actuarial Cost Method with projected benefits. Actuarial gains and losses are reflected in the unfunded actuarial accrued liability.

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 assumed valuation rate of return. 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: 1% of active liability

Refund: 1% of active liability

COLA Feature: 12% of withdrawal liability (if deferred annuity is greater than the contribution account)

Survivor Benefits: 3.5% of disability liability.

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SCHEDULE E

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, 2003. The following summary describes the main benefit and contribution provisions of the System as interpreted for the valuation.

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.

BENEFITS

Service Retirement Allowance

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 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.
(d) 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.

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 actuarial equivalent factors 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 the greater of:

a) $440 multiplied by credited service, or

b) For a member who has attained age 60 at retirement, $900.00

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.

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.

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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.

CONTRIBUTIONS

Member Contributions

University members contribute 8.375% of salary of which 7.625% is contributed to the Retirement System and 0.75% is contributed to the Medical Insurance Fund. Non-university members contribute 9.855% of salary of which 9.105% is contributed to the Retirement System and 0.75% is contributed to the Medical Insurance Fund. Member contributions are picked up by the employer.

Schedule of Active Member Valuation Data

Fiscal Year	(1) Number of Active Members	(2) Total Annual Payroll	(3) Average Annual Pay	(4) % Increase (Decrease) in Average Pay
1997	51,297	$ 1,925,047,000	$ 37,527	2.8%
1998	51,677	1,973,749,000	38,194	1.8
1999	51,983	2,041,463,000	39,272	2.8
2000	53,002	2,133,743,000	40,258	2.5
2001	53,570	2,213,772,000	41,325	2.7
2002	54,175	2,313,663,000	42,707	3.3
2003	71,097	2,497,731,000	35,131	(17.7)

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

	Add to Rolls		Remove from Rolls		Rolls End-of-Year	
Fiscal Year	Number	Annual Allowances (Millions)	Number	Annual Allowances (Millions)	Number	Annual Allowances (Millions)
1997	2,383	$ 62.9	976	$ 11.6	26,284	$440.8
1998	2,500	66.7	1,040	13.4	27,744	494.1
1999	2,415	73.9	998	13.9	29,161	554.0
2000	2,462	79.2	1,008	14.1	30,615	619.2
2001	2,410	77.0	1,128	16.5	31,897	679.8
2002	2,577	86.2	1,063	16.8	33,408	749.2
2003	2,252	86.7	1,015	16.9	34,645	819.0

Fiscal Year	% Increase in Annual Allowances	Average Annual Allowances
1997	13.2	$ 16,771
1998	12.1	17,809
1999	12.1	19,000
2000	11.8	20,226
2001	9.8	21,311
2002	10.2	22,425
2003	9.3	23,641

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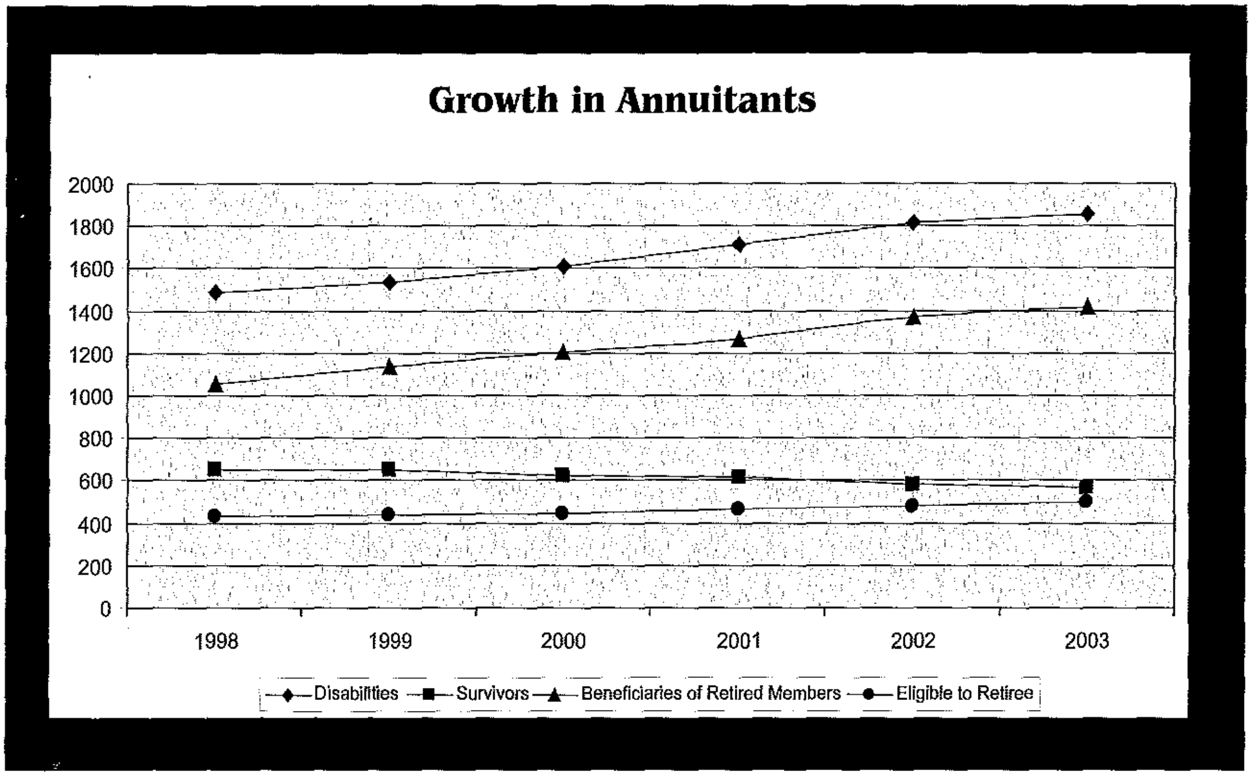
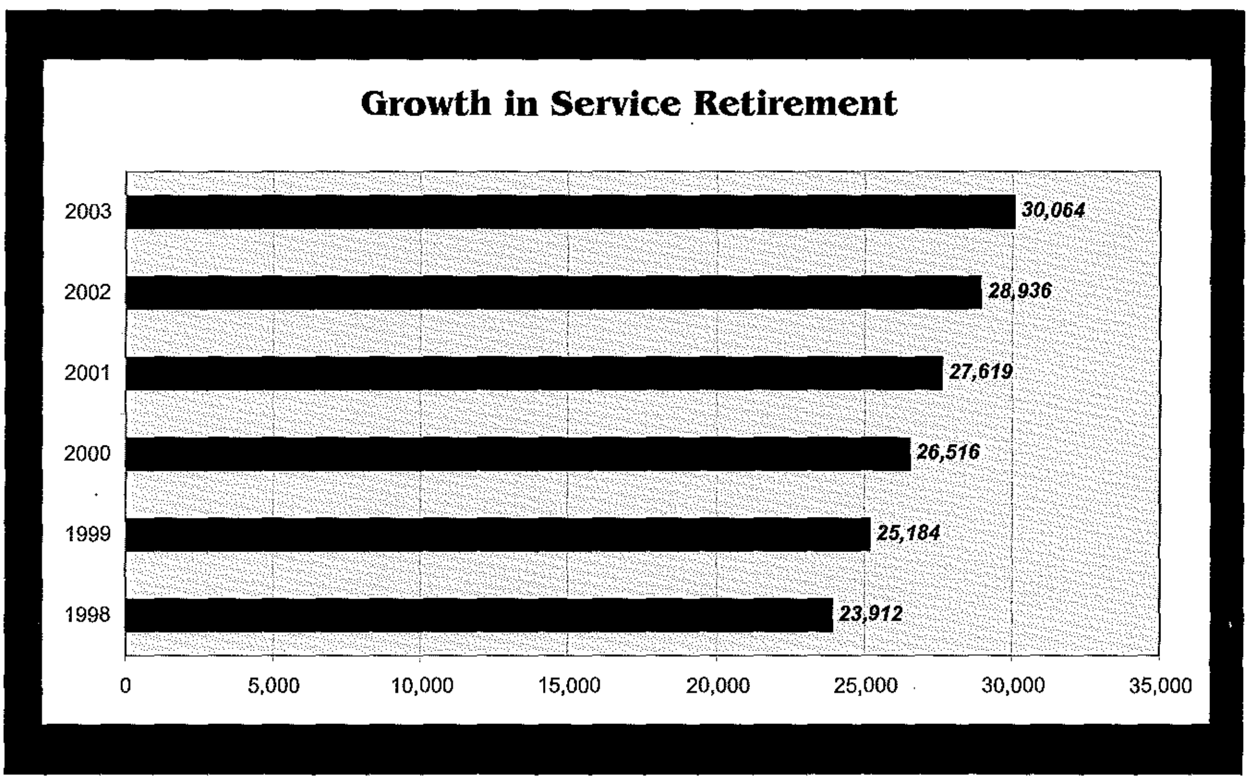
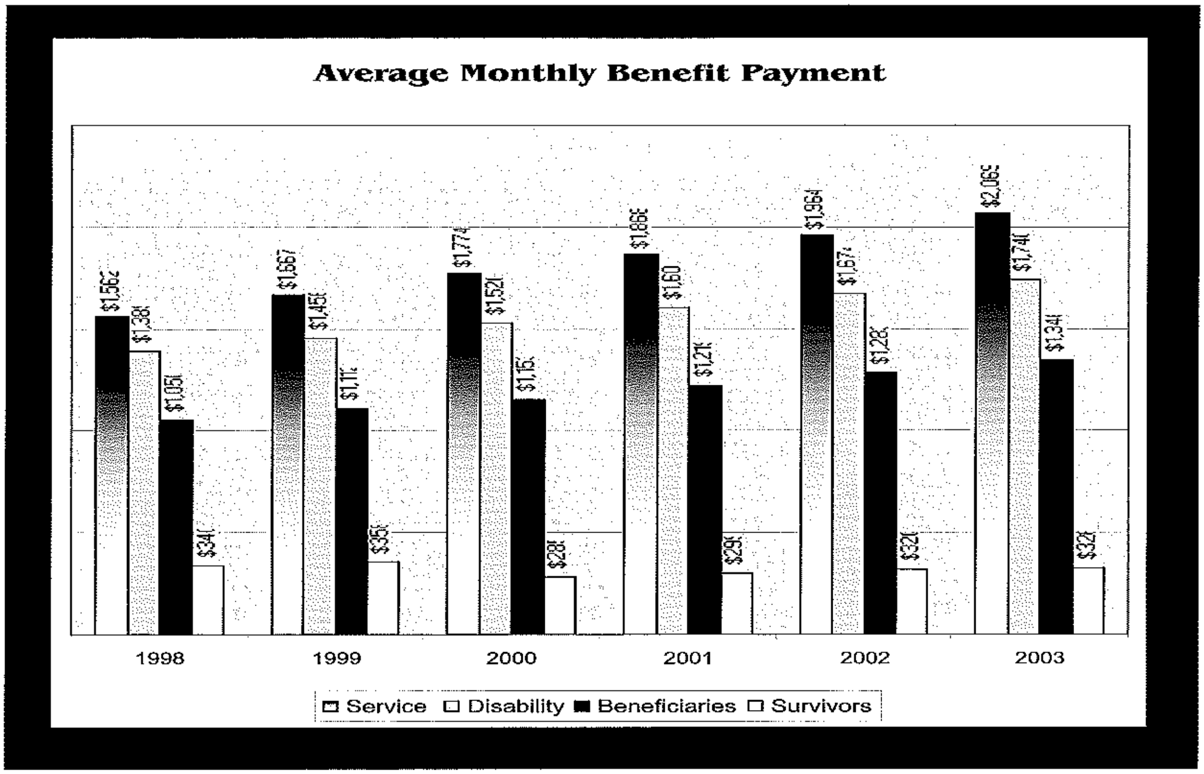
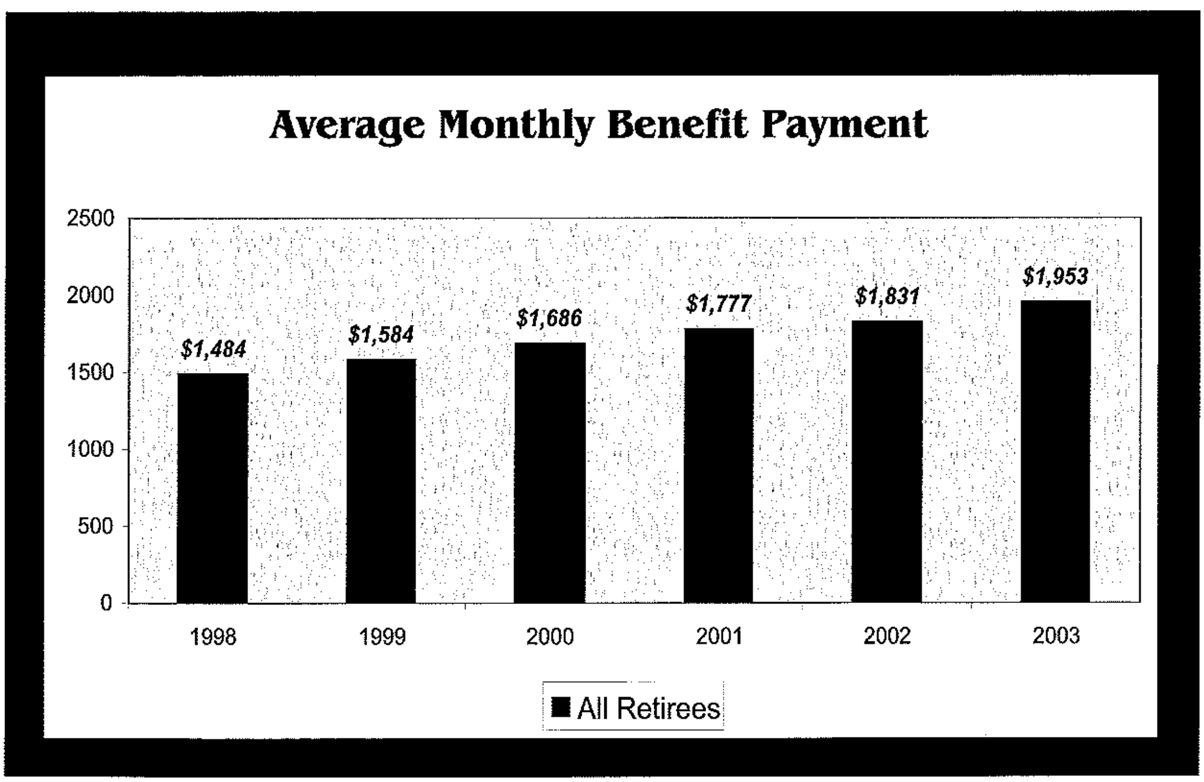
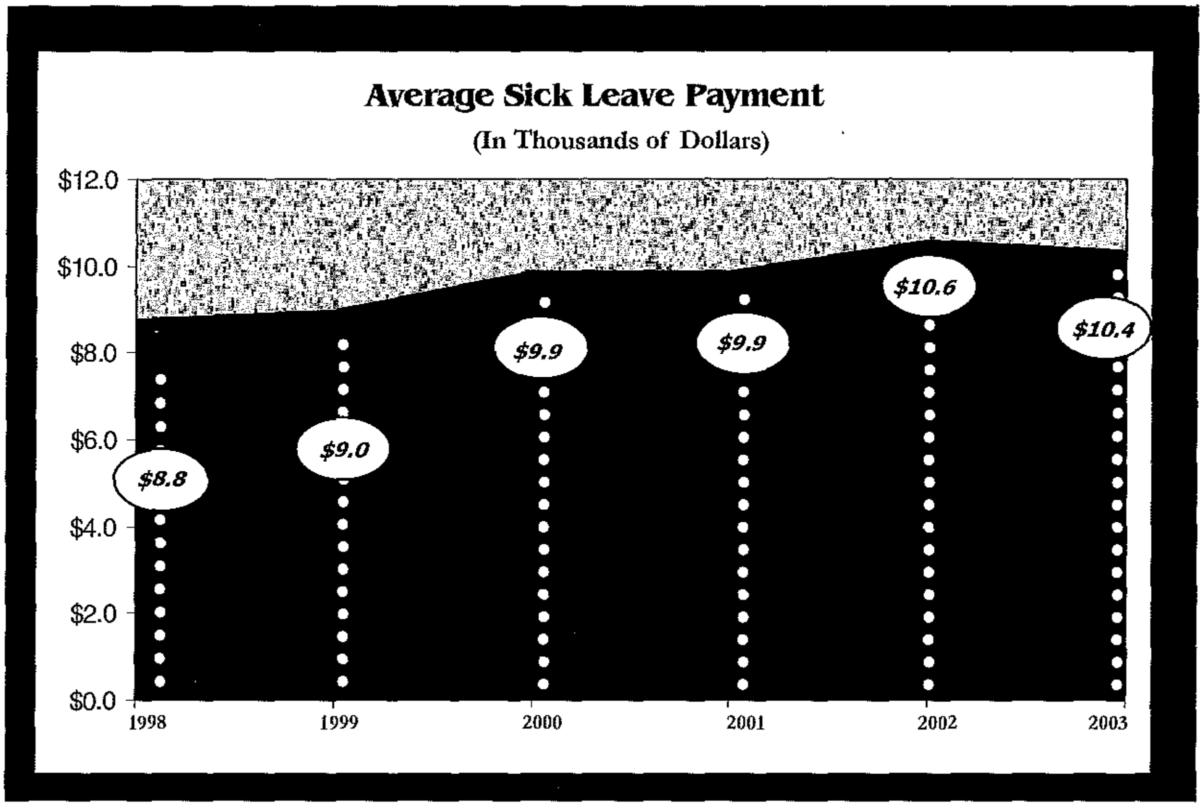
STATISTICAL SECTION

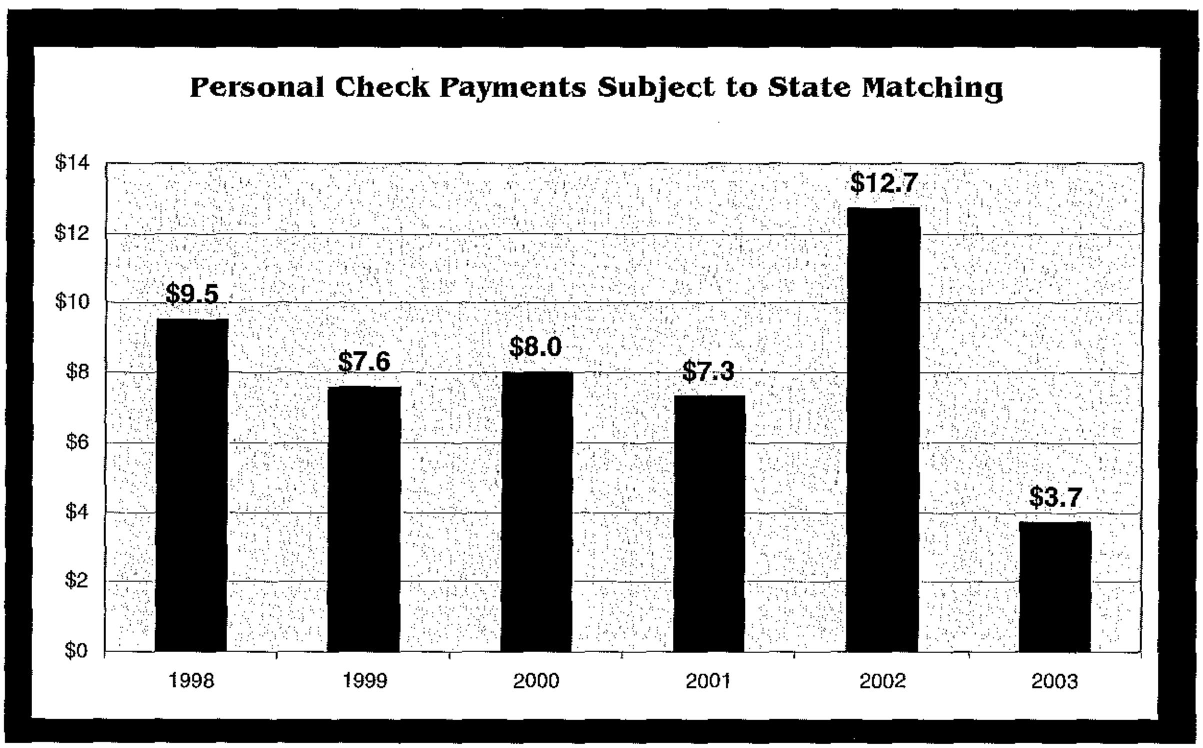

Growth in Annuitants
2000
1800
1600
1400
1200
1000
800
600
400
200
0
1998
1999
2000
2001
2002
2003
Disabilities
Survivors
Beneficiaries of Retired Members
Eligible to Retiree


Growth in Service Retirement
2003
2002
2001
2000
1999
1998
30,064
28,936
27,619
26,516
25,184
23,912
0
5,000
10,000
15,000
20,000
25,000
30,000
35,000

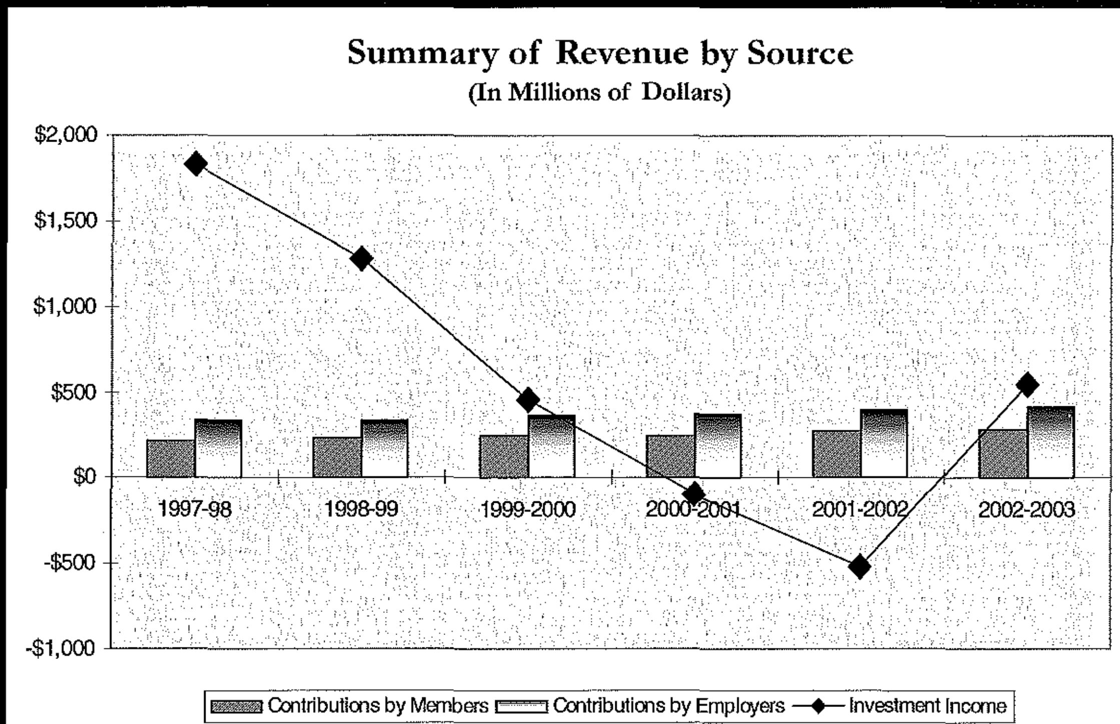

Average Monthly Benefit Payment
$1,667
1998
1999
2000
2001
2002
2003
Service
Disability
Beneficiaries
Survivors


Average Monthly Benefit Payment
2500
2000
1500
1000
500
0
$1,484
$1,584
$1,686
$1,777
$1,831
$1,953
1998
1999
2000
2001
2002
2003
All Retirees





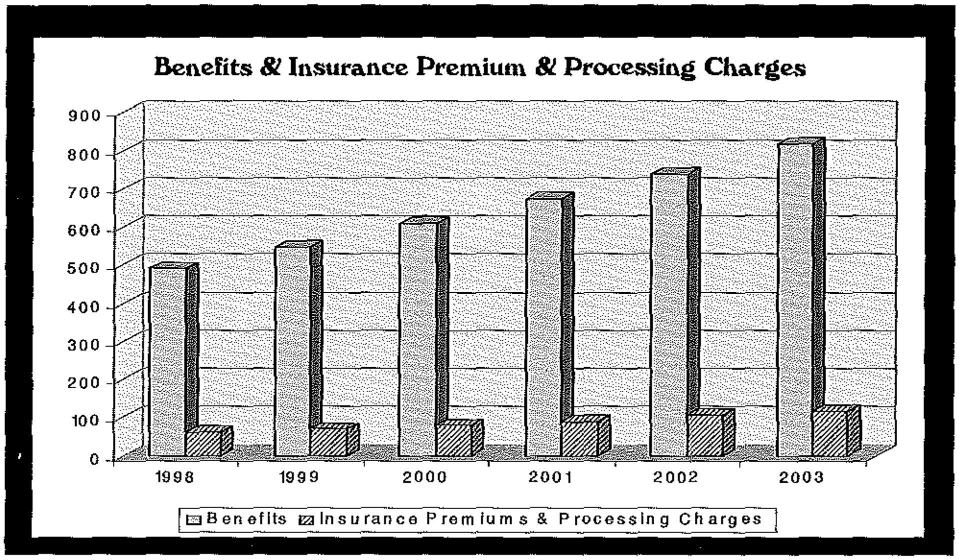
* Legislation enacted July 1, 2002, requires that the member purchasing service credit for out-of-state service or military service also pay the required matching. These purchases are not reflected in this graph.

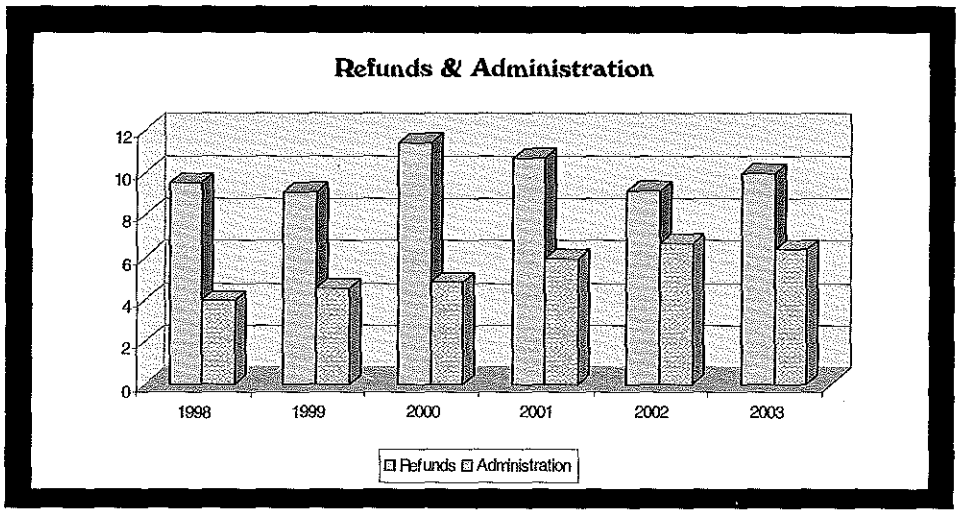


Summary of Revenue by Source

YEAR	CONTRIBUTIONS BY MEMBERS	CONTRIBUTIONS BY EMPLOYERS Dollars	CONTRIBUTIONS BY EMPLOYERS % of Covered Payroll	INVESTMENT INCOME	TOTAL
1997-98	$ 218,147,253	$ 329,493,235	16.85 %	$ 1,833,833,069	$ 2,381,473,557
1998-99	229,327,245	334,712,004	16.40	1,277,114,068	1,841,153,317
1999-00	239,542,127	360,233,457	16.88	458,000,877	1,057,776,461
2000-01	248,720,484	372,537,868	16.83	(99,579,273)	521,679,079
2001-02	270,545,463	398,782,513	17.24	(514,051,220)	155,276,756
2002-03	284,147,881	418,368,307	16.75	545,962,995	1,248,479,183

Summary of Expenses by Type
(In Millions of Dollars)





YEAR	BENEFITS	INSURANCE PREMIUMS & PROCESSING CHARGES	REFUNDS	ADMINISTRATION
1997-98	$ 491,442,664	$ 62,586,420	$ 9,525,548	$ 3,997,314
1998-99	547,385,965	70,354,071	9,089,605	4,522,908
1999-00	609,422,333	80,363,492	11,438,790	4,859,623
2000-01	674,042,865	88,155,912	10,679,136	5,950,036
2001-02	739,496,928	104,978,915	9,152,886	6,677,819
2002-03	817,112,063	115,853,895	9,959,218	6,388,183

Schedule of Benefit Expenses by Type

Year Ended	Service Retirants	Disability Retirants	Survivors	Life Insurance	Refunds
June 30, 1994	$ 286,963,990	$ 15,188,244	$ 6,962,111	$ 2,085,691	$ 6,690,665
June 30, 1995	321,855,622	17,328,942	7,483,006	1,898,670	8,528,796
June 30, 1996	359,085,382	19,661,323	7,834,903	2,178,939	8,418,031
June 30, 1997	399,493,437	21,775,003	8,204,891	2,123,959	33,319,583*
June 30, 1998	456,467,869	24,305,495	8,375,394	2,293,906	9,525,548
June 30, 1999	509,873,252	26,464,287	8,718,626	2,329,800	9,089,605
June 30, 2000	568,598,419	29,148,420	9,322,582	2,350,600	11,438,790
June 30, 2001	627,693,740	32,233,070	10,005,656	4,110,400	10,679,136
June 30, 2002	690,785,876	35,947,786	10,532,466	4,210,800	9,152,886
June 30, 2003	763,146,477	38,744,454	11,259,332	3,961,800	9,959,218

* Includes benefit and refund expenses of the tax-sheltered annuity plan.

Summary of State Match and Supplemental Appropriations for Member Contributions to Teachers' Retirement System

Fiscal Year	Total Member Contributions	Employer/ Federal Payments	Required State Match Contributions	Required Supplemental Appropriation	Required Sick Leave Payments	Total State Appropriation	(Deficit) Surplus State Funding
1944-48	3,184,178		3,184,178			3,039,017	(145,160)
1948-52	4,951,458		4,951,458			5,090,848	(139,390)
1952-56	7,267,163		7,267,163			6,494,102	(773,062)
1956-60	14,970,961		14,970,961			14,963,272	(7,689)
1960-64	25,945,897		25,945,897			25,938,763	(7,134)
1964-68	49,957,299	2,042,014	47,915,285			45,317,694	(2,597,591)
1968-72	82,922,869	6,044,865	76,878,005			80,091,951	3,213,946
1972-76	120,349,350	8,019,216	112,330,134			111,665,685	(664,449)
1976-80	189,072,371	12,044,186	177,028,185	75,010,028		256,784,030	4,745,817
1980-84	272,744,772	16,334,937	256,409,836	109,622,111	5,197,234	378,667,011	7,437,831
1984-88	413,932,416	21,417,604	392,514,811	141,251,827	13,341,243	515,932,177	(31,175,706)
1988-92	602,399,432	119,352,211	483,347,221	133,545,987	28,978,117	634,358,200	(11,537,557)
1992-96	756,817,769	154,296,351(2)	602,521,418	213,030,177	53,308,591	854,138,311	(14,751,875)
1996-97	206,462,720	41,264,724	165,197,996	58,543,960	24,728,591	243,977,468	(4,493,079)
1997-98	211,161,650	41,757,997	169,403,653	59,838,776	18,480,413	253,962,432	6,239,590
1998-99	217,872,677	42,658,177	175,214,500	61,828,816	see (1)	240,946,421	3,903,105
1999-00	228,456,973	45,356,991	183,099,982	65,189,042		251,615,023	3,325,999
2000-01	232,984,317	43,818,800	189,165,517	67,154,519		255,140,180	(1,179,856)
2001-02	248,592,121	46,687,129	201,904,992	71,913,789		262,236,026	(11,582,756)
2002-03	255,424,091	53,100,647	202,323,444	74,046,940		268,670,655	(7,699,729)

(1) The state appropriations for the 2001-2002 year's sick leave deficit will be amortized over a 15-year period. The sick leave deficit is not included in the 2002-2003 under-appropriation calculation.

(2) Beginning with the 1988-89 fiscal year, the Department of Education and the state universities were responsible for matching their members' contributions with the state reimbursing the respective agencies in their normal budget appropriation.

Summary of Fiscal Year 2002-2003
Retiree Sick Leave Payments

ACTUARIAL RATE

Grand Total Members Retiring		1,851
Total members receiving sick leave payments		1,444
Total amount of sick leave payments @ 9.855% contribution rate	$	15,083,592.97
Average payment per retiree	$	10,445.70
Total increase in final average salary base	$	3,985,743.15
Average increase in FAS	$	2,760.21
Total service credit of retirees		39,141.42
Average service credit of retirees		27.11
AVERAGE YEARLY ANNUITY	$	1,772.61
AVERAGE MONTHLY ANNUITY	$	147.72
ANTICIPATED LIFETIME PAYOUT OF ADDITIONAL ANNUITY	$	32,222,337.62

Funding of Additional Payments

Member contributions 9.855% x Sick Leave Payment	$	1,486,488.09
State Contributions 13.105% x Sick Leave Payment		1,976,704.86
TOTAL Member-State Contributions	$	3,463,192.95
DEFICIT		
Anticipated additional payout	$	32,222,337.62
Less total member & state contributions		3,463,192.95
Subtotal unfunded debt		28,759,144.67
Less current year appropriations	$	3,668,400.00
TOTAL DEFICIT	$	**25,090,744.67** *

* The sick leave deficit for June 30, 2003 will be amortized over a tewnty year period.

Distribution of Retirement Payments Worldwide

As of June 30, 2003

98	Alabama
2	Alaska
56	Arizona
25	Arkansas
86	California
45	Colorado
10	Connecticut
6	Delaware
2	District of Columbia
771	Florida
144	Georgia
4	Hawaii
3	Idaho
59	Illinois
414	Indiana
10	Iowa
22	Kansas
26	Louisianna
7	Maine
24	Maryland
13	Massachusetts
27	Michigan
12	Minnesota
47	Mississippi
53	Missouri
5	Montana
4	Nebraska
12	Nevada
4	New Hampshire
13	New Jersey
14	New Mexico
31	New York
143	North Carolina
5	North Dakota
425	Ohio
19	Oklahoma
18	Oregon
21	Pennsylvania
1	Rhode Island
77	South Carolina
0	South Dakota
542	Tennessee
135	Texas
11	Utah
1	Vermont
109	Virginia
23	Washington
56	West Virginia
15	Wisconsin
3	Wyoming

Additional Distribution Outside USA

4	CANADA
1	MILITARY APO
1	SWITZERLAND
2	MEXICO
1	PHILIPPINES

TOTAL: Number of Out of State Payments 3,662
TOTAL: Out of State Payments .... $ 60,225,022
TOTAL: Number of Payments 32,105
GRAND TOTAL: Amount of Payments .... $ 812,992,633

Distribution of Retirement Payments Statewide

as of June 30, 2003

County Name	Total Payments	Number of Recipients
Adair	$3,412,471	158
Allen	2,980,768	130
Anderson	2,946,783	137
Ballard	1,737,842	74
Barren	7,369,161	322
Bath	2,301,685	108
Bell	7,195,373	344
Boone	13,083,705	519
Bourbon	3,288,770	144
Boyd	10,181,690	427
Boyle	6,398,610	279
Bracken	1,286,409	56
Breathitt	4,741,767	215
Breckinridge	2,962,563	129
Bullitt	7,667,384	290
Butler	1,748,161	80
Caldwell	2,621,013	123
Calloway	10,701,648	463
Campbell	11,840,686	470
Carlisle	753,392	36
Carroll	1,213,190	56
Carter	5,775,658	266
Casey	2,619,083	133
Christian	9,485,311	407
Clark	5,355,983	236
Clay	5,250,499	243
Clinton	2,380,972	104
Crittenden	1,189,277	57
Cumberland	1,391,852	59
Daviess	18,396,950	775
Edmonson	1,365,641	62
Elliott	988,970	55
Estill	2,068,064	102
Fayette	45,277,723	1,887
Fleming	2,567,962	116
Floyd	10,963,827	495
Franklin	12,773,356	657
Fulton	1,298,256	56
Gallatin	391,666	17
Garrard	2,642,784	119
Grant	2,755,029	112
Graves	6,269,451	266

Distribution of Retirement Payments Statewide

as of June 30, 2003 continued . . .

County Name	Total Payments	Number of Recipients
Grayson	4,332,777	191
Green	2,078,341	95
Greenup	6,921,433	288
Hancock	1,359,847	58
Hardin	12,671,051	540
Harlan	7,854,491	344
Harrison	3,682,548	164
Hart	2,740,697	117
Henderson	6,762,751	288
Henry	2,935,170	134
Hickman	790,975	35
Hopkins	8,218,353	357
Jackson	2,202,119	113
Jefferson	124,501,282	4,779
Jessamine	4,660,468	207
Johnson	6,773,552	290
Kenton	14,520,393	609
Knott	4,044,297	192
Knox	5,023,023	223
Larue	3,118,383	117
Laurel	9,218,471	415
Lawrence	2,340,995	109
Lee	1,271,500	73
Leslie	2,619,020	129
Letcher	7,059,897	302
Lewis	3,396,833	151
Lincoln	5,103,757	219
Livingston	1,422,658	73
Logan	4,698,054	221
Lyon	1,815,330	77
Madison	21,928,369	860
Magoffin	2,882,353	136
Marion	2,810,969	122
Marshall	6,044,676	257
Martin	1,983,362	99
Mason	3,334,725	140
McCracken	12,537,892	523
McCreary	3,840,849	166
McLean	1,823,100	75
Meade	2,829,861	105
Menifee	1,020,965	53
Mercer	3,912,695	195

Distribution of Retirement Payments Statewide
as of June 30, 2003 continued . . .

County Name	Total Payments	Number of Recipients
Metcalfe	2,086,672	90
Monroe	3,098,905	145
Montgomery	4,261,345	181
Morgan	2,842,577	132
Muhlenberg	5,280,258	228
Nelson	6,117,421	253
Nicholas	1,129,220	47
Ohio	3,360,985	151
Oldham	7,272,298	287
Owen	1,178,283	59
Owsley	2,091,566	92
Pendleton	2,591,616	106
Perry	6,454,523	302
Pike	16,660,652	737
Powell	2,044,317	89
Pulaski	11,889,780	533
Robertson	348,570	18
Rockcastle	3,209,507	152
Rowan	8,809,551	374
Russell	3,769,694	171
Scott	5,337,017	213
Shelby	6,220,623	260
Simpson	2,669,400	124
Spencer	1,943,136	72
Taylor	4,854,573	212
Todd	1,824,136	88
Trigg	2,823,255	126
Trimble	1,046,403	36
Union	2,277,167	102
Warren	26,810,570	1,137
Washington	2,187,415	98
Wayne	4,423,275	190
Webster	2,249,157	107
Whitley	10,166,209	479
Wolfe	2,334,334	104
Woodford	4,373,534	185
Total in Kentucky	**$ 752,767,611**	**32,105**

School Districts Electing to Pay for Sick Leave

Under KRS 161.155(8) for Fiscal Year 2002-2003

County School District	Number of Members	Total Additional Compensation
Adair	7	$88,354.56
Allen	5	75,301.57
Anderson	9	59,129.28
Ballard	5	55,398.98
Barren	7	95,036.11
Bath	3	38,029.23
Bell	10	89,847.49
Boone	18	214,386.72
Bourbon	4	64,235.61
Boyd	9	107,475.08
Boyle	5	39,878.23
Bracken	3	19,240.60
Breathitt	6	54,872.74
Breckinridge	11	123,814.21
Bullitt	25	219,946.23
Butler	6	94,209.75
Caldwell	6	45,144.99
Calloway	10	83,810.26
Campbell	12	105,693.43
Carlisle	5	53,566.30
Carroll	8	66,740.24
Carter	13	141,213.61
Casey	7	74,314.87
Christian	34	342,292.64
Clark	16	106,331.41
Clay	16	92,621.30
Clinton	7	41,315.48
Crittenden	4	47,744.70
Cumberland	5	40,082.80
Daviess	16	182,825.15
Edmonson	3	26,043.33
Elliott	4	31,877.21
Estill	6	47,926.42
Fayette	90	1,129,872.66
Fleming	4	41,589.64
Floyd	16	133,442.84
Franklin	13	107,066.15
Fulton	6	25,903.91
Gallatin	2	6,443.53
Garrard	2	7,453.88

School Districts Electing to Pay for Sick Leave
Under KRS 161.155(8) for Fiscal Year 2002-2003 continued . . .

County School District	Number of Members	Total Additional Compensation
Grant	4	52,485.43
Graves	8	84,979.10
Grayson	14	140,889.60
Green	5	93,713.96
Greenup	7	71,777.98
Hancock	3	32,817.46
Hardin	24	334,741.67
Harlan	10	69,828.11
Harrison	9	115,387.93
Hart	11	122,011.68
Henderson	9	90,820.19
Henry	1	4,198.48
Hickman	3	20,610.45
Hopkins	16	192,553.51
Jefferson	244	3,036,622.96
Jessamine	16	135,935.37
Johnson	6	89,936.36
Kenton	17	251,102.48
Knott	12	94,540.13
Knox	7	70,653.47
Larue	2	33,772.71
Laurel	21	158,513.13
Lawrence	5	59,298.63
Lee	1	2,152.61
Leslie	2	9,962.36
Letcher	11	112,022.23
Lewis	4	51,361.24
Lincoln	5	77,943.88
Livingston	5	15,898.13
Logan	5	57,715.07
Madison	13	114,425.08
Magoffin	7	59,703.81
Marion	7	90,437.13
Marshall	10	112,739.21
Martin	6	29,511.93
Mason	9	97,032.97
McCracken	17	191,149.79
McCreary	8	38,868.80
McLean	5	46,622.32
Meade	5	50,717.61

School Districts Electing to Pay for Sick Leave

Under KRS 161.155(8) for Fiscal Year 2002-2003 continued . . .

County School District	Number of Members	Total Additional Compensation
Menifee	2	8,093.56
Mercer	3	15,727.65
Metcalfe	5	60,647.99
Monroe	4	46,655.19
Montgomery	8	58,072.06
Morgan	7	57,600.82
Muhlenberg	13	146,706.22
Nelson	6	80,121.97
Nicholas	3	10,522.37
Ohio	2	7,303.90
Oldham	17	194,643.93
Owen	2	10,538.61
Owsley	2	29,078.64
Pendleton	1	15,608.52
Perry	14	159,832.27
Pike	30	294,973.41
Powell	7	38,855.41
Pulaski	16	111,778.90
Rockcastle	6	57,243.33
Rowan	11	125,630.23
Russell	1	16,356.67
Scott	13	126,304.61
Shelby	7	41,718.51
Simpson	11	132,097.52
Spencer	1	10,460.27
Taylor	3	25,937.90
Trigg	7	38,876.11
Trimble	4	37,215.43
Union	6	23,006.90
Warren	19	199,338.61
Washington	4	47,219.59
Wayne	5	44,791.27
Webster	2	19,984.48
Whitley	6	44,918.20
Wolfe	1	11,899.85
Woodford	9	102,433.78

School Districts Electing to Pay for Sick Leave

Under KRS 161.155(8) for Fiscal Year 2002-2003 continued . . .

City School District	Number of Members	Total Additional Compensation
Anchorage	3	33,619.28
Ashland	5	56,841.51
Augusta City	2	9,866.06
Barbourville	2	19,285.84
Bardstown	6	57,219.88
Beechwood	1	999.29
Bellevue	3	62,869.61
Berea	3	39,569.86
Bowling Green	6	28,818.68
Burgin	1	8,867.68
Campbellsville	2	12,707.15
Caverna	1	6,841.10
Cloverport	1	6,686.96
Corbin	4	32,816.64
Covington	16	157,456.72
Danville	4	30,890.30
Dawson Springs	1	19,412.99
Dayton	5	52,110.30
Elizabethtown	3	37,167.94
Erlanger-Elsmere	3	27,449.01
Fairview	1	15,970.37
Fort Thomas	5	13,202.53
Frankfort	5	76,996.75
Fulton	1	9,195.23
Glasgow	7	91,135.57
Harlan	1	3,728.97
Harrodsburg	4	41,607.41
Hazard	5	32,105.53
Jackson	1	9,916.49
Jenkins	1	4,261.39
Ludlow	2	20,176.45
Mayfield	1	17,892.03
Middlesboro	6	59,272.45
Murray	3	25,173.12
Newport	5	68,216.84
Owensboro	16	152,496.59
Paducah	6	55,734.25
Paintsville	4	28,470.01
Paris	4	39,523.39
Pikeville	3	38,177.07
Pineville	1	201.93
Providence	7	64,136.88
Russell	4	45,171.18
Russellville	2	8,408.42
Science Hill	1	31,143.18
Somerset	3	14,132.73
Walton-Verona	1	17,864.33
West Point	1	4,170.47
Ohio Valley	1	5,491.83
Total For All Districts	1,444	$ 15,083,592.97

Schedule of KTRS Annuitants by Type of Benefit as of June 30, 2003

Amount of Monthly Benefit ($)	Number of Annuitants	Type of Retirement* 1	2	3	4	5
1 - 200	1,379	599	10	482	54	234
201 - 400	1,140	992	8	35	105	0
401 - 600	1,124	902	24	18	180	0
601 - 800	1,186	819	154	0	213	0
801 - 1,000	1,481	1,107	126	0	248	0
1,001 - 1,200	1,972	1,633	124	0	215	0
1,201 - 1,400	1,951	1,641	141	0	169	0
1,401 - 1,600	1,987	1,720	151	1	115	0
1,601 - 1,800	2,156	1,809	204	1	142	0
1,801 - 2,000	2,714	2,340	260	9	105	0
Over 2,000	17,555	16,502	657	24	372	0
TOTALS	34,645	30,064	1,859	570	1,918	234

***Type of Retirement**

1 - *Normal Retirement for Age & Service*
2 - *Disability Retirement*
3 - *Survivor Payment - Active Member*
4 - *Beneficiary Payment - Retired Member*
5 - *Mentally Disabled Child*

Distribution of Active Contributing Members as of June 30, 2003

By Age

Age	Male	Female
20-24	738	2,787
25-29	1,954	6,391
30-34	2,105	7,231
35-39	1,932	6,434
40-44	1,860	6,707
45-49	2,343	8,014
50-54	2,787	8,607
55-59	1,982	4,864
60-64	904	1,910
65-69	339	660
Over 70	163	386
TOTAL	17,107	53,990

By Service

Years of Service	Male	Female
Less than 1	3,772	10,998
1-4	3,684	12,390
5-9	3,128	9,752
10-14	2,060	6,874
15-19	1,523	5,475
20-24	1,044	3,683
25-29	1,226	3,561
30-34	564	1,142
35 or more	106	114
TOTAL	17,107	53,990

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

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. Harrodsburg
30. Hazard
31. Jackson
32. Jenkins
33. Ludlow
34. Mayfield
35. Middlesboro
36. Monticello
37. Murray
38. Newport
39. Owensboro
40. Paducah
41. Paintsville
42. Paris
43. Pikeville
44. Pineville
45. Providence
46. Raceland
47. Russell
48. Russellville
49. Science Hill
50. Silver Grove
51. Somerset
52. Southgate
53. Walton-Verona
54. West Point
55. Williamsburg
56. Williamstown

KTRS Schedule of Participating Employers *(continued)*

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

State of Kentucky

1. Education and Humanities Cabinet
2. Labor Cabinet*
3. Legislative Research Commission*
4. Workforce Development Cabinet
5. Cabinet for Families and Children*

Other Organizations

1. Christian County Health Department*
2. Education Professional Standards Board
3. Kentucky Education Association President
4. Kentucky Academic Association
5. Kentucky Association of School Administration
6. Kentucky Educational Development Cooperative
7. Kentucky High School Athletic Association
8. Kentucky School Boards Association
9. Kentucky Valley Educational Cooperative
10. Northern Kentucky Cooperative for Educational Services
11. Ohio Valley Educational Cooperative
12. West Kentucky Education Cooperative
13. Green River Regional Education Cooperative
14. Central Kentucky Special Education Cooperative

* *According to Kentucky Revised Statue 161.607(1), any member of the Kentucky Teachers' Retirement System who entered employment covered by the Kentucky Employees Retirement System, the State Police Retirement System, or the County Employees Retirement System prior to July 1, 1976, may retain membership in the Teachers' Retirement System instead of joining the new system. These organizations have members who are in this category. Once these members retire, the organization will no longer be considered a KTRS participating employer.*