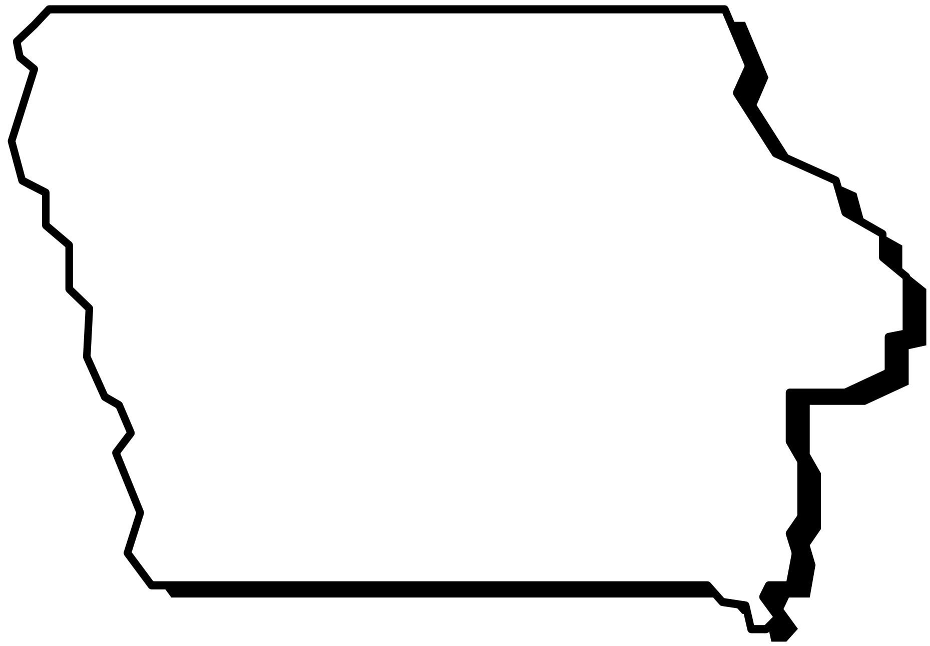
IPERS



IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

A Division of the Iowa Department of Personnel, State of Iowa

Comprehensive Annual Financial Report
A Pension Trust Fund of the State of Iowa
For the Year Ended June 30, 2002

Iowa Public Employees' Retirement System

A Division of the Iowa Department of Personnel, State of Iowa

Comprehensive Annual Financial Report
A Pension Trust Fund of the State of Iowa
For the Year Ended June 30, 2002

Prepared By:
Iowa Public Employees' Retirement System

Mollie K. Anderson, Director
Iowa Department of Personnel

For More Information

Write to IPERS at:

Iowa Public Employees' Retirement System
PO Box 9117
Des Moines IA 50306-9117

E-mail IPERS at:

info@ipers.org

Visit our Web site at:

www.ipers.org

Visit in person at:

7401 Register Drive, Des Moines, IA

Or call one of the numbers listed below:

General:

Local ....**(515) 281-0020**

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Office Hours
8:00 A.M. - 4:30 P.M.
Monday through Friday

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FOR THE FISCAL YEAR 2002

Fiscal Year 2002 Highlights:

Membership:

Active Membership	158,467
Retired Membership	71,715

Contributions:

Employee	$ 185,788,496
Employer	278,682,745
Buy-backs/Buy-ins	4,983,334

Distributions:

Benefits Paid	$ 705,767,690
Refunds Paid	37,915,199

Investments:

Net Investment Income/(Loss)	$ (772,386,353)
Investment Rate of Return	-4.94%

Funding:

Net Assets Held in Trust for Pension Benefits	$14,874,419,194
Actuarial Present Value of Total Projected Benefits <u>or</u> Total Liabilities	$20,936,398,551

Introduction

Certificate of Achievement

Letter of Transmittal

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Iowa Public Employees' Retirement System

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2001

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

Thomas J. Vilsack
GOVERNOR

Sally J. Pederson
LT. GOVERNOR

IPERS

December 13, 2002

To the Governor and the General Assembly of the State of Iowa:

We are pleased to present the 49th comprehensive annual financial report of the Iowa Public Employees' Retirement System (IPERS or System) for the fiscal year ended June 30, 2002. This report is intended to provide readers with financial, actuarial, investment, and membership information in a single publication. This report also fulfills the requirements set forth in Iowa Code section 97B.4(4), as enacted by 2001 Iowa Acts, chapter 68, section 9.

This transmittal letter provides a brief overview of the status of the System. A more thorough discussion of the System's activities and financial status is presented in the following sections of this report. The report is divided into six sections:

- The Introduction contains the Certificate of Achievement, this transmittal letter, and identification of the Investment Board, administrative staff, consultants, and investment managers.
- The Financial section contains a letter expressing the opinion of our independent auditor, the Auditor of State, management's discussion and analysis, the financial statements, notes to the financial statements, and required supplementary information and supporting schedules.
- The Actuarial section contains a letter expressing the opinion of our actuarial firm, Milliman USA, and the results of its annual actuarial valuation.
- The Investments section includes information on the Fund's asset allocation and performance and the Investment Policy and Goal Statement.
- The Statistical section includes historical information on the System's assets, membership, and financial and investment results.
- The Plan Summary contains significant data pertaining to the System's membership and an overview of the retirement program.

Plan History:

IPERS was established by the Legislature on July 4, 1953 to replace the Iowa Old-Age and Survivors' Insurance System (IOASI). Effective July 4, 1953, all current public employees who had been IOASI contributors were given the option of transferring their contributions to IPERS for service credit in IPERS (prior service) or taking refunds of their IOASI contributions. At the same time, the Legislature elected to include Iowa's public employees in the federal Social Security plan retroactive to 1951. Prior to enactment of the 1953 legislation, public employees were not covered under Social Security.

Initially, the IPERS plan was a money purchase system in which contributions made by members and their

Iowa Public Employees' Retirement System
7401 Register Drive ■ P.O. Box 9117 ■ Des Moines, IA 50306-9117 ■ Phone 515-281-0020 ■ 800-622-3849
Benefits FAX 515-281-0053 ■ Legal & Investments Management FAX 515-281-0045 ■ Operations Fax 515-281-0055
info@ipers.org ■ www.ipers.org

employers were used to calculate benefits. Today, IPERS is a defined benefit plan in which benefits are based on a member's years of service, high three-year average covered wage, and a formula multiplier. Four or more years of service are required to qualify for the "high three" formula. A vested member with less than four years of service receives benefits computed on a money purchase basis.

Structure and Governance:

Senate File 497 (2001 Iowa Acts, chapter 68) was enacted to make IPERS more effective, efficient, and responsive in fulfilling its responsibilities to members and other stakeholders. Included in that Act were changes in membership and additional responsibilities for the IPERS Investment Board in areas of actuarial consultant oversight and providing input to IPERS' budget program. The Investment Board was named as the Trustee for the System.

A Benefits Advisory Committee (BAC) was established, and administrative rules adopted to provide the basic governance rules for that Committee. In July 2002, the Transition Benefits Advisory Committee was replaced by the permanent Benefits Advisory Committee, which commenced operations by electing voting members and adopting a Statement of Responsibilities and Expectations. The Benefits Advisory Committee is currently working with IPERS staff to develop legislative proposals and assist with implementation of the IPERS Strategic Plan.

Effective July 1, 2002, the Director of the Iowa Department of Personnel was appointed by the Governor to serve as IPERS' Acting Chief Executive Officer, pending completion of a job search and hiring of a permanent CEO.

Member Services:

For most members, the IPERS benefits they receive will constitute only a portion of their retirement income. IPERS benefits are designed so that, when they are combined with a member's Social Security benefits and individual savings, the member will enjoy an adequate retirement income. Because a member's retirement income is derived from three separate sources, the need for financial planning actually begins years before retirement. Over the years, IPERS has become better aware of our members' need for additional assistance in their retirement planning.

The most important service that IPERS provides to our retirees is the accurate and timely payment of benefits. At fiscal year end, IPERS provided monthly payments to over 71,000 members. More than 82% of these payments were paid via electronic funds transfer (EFT), which ensures that the monthly benefit is in the recipient's account on the day that it is payable. Since 1992, EFT has been IPERS' preferred method of distribution.

During the year, IPERS' benefits staff prepared over 74,000 benefit estimates, fielded over 83,000 phone calls and provided on-site preretirement counseling to over 3,650 members. The staff also provided multiple off-site retirement seminars for members, mostly at employer locations around the state, reaching over 2,100 members. Over 4,300 individual preretirement counseling sessions were held at those off-site visits as well.

The ability to purchase membership service is an area of continuing importance to our members. Over 2,600 buy-back/buy-in applications were received, with over 800 members purchasing service credit.

The System also provides a number of publications which are aimed at meeting the informational needs of members, retirees, and employers. The System provides a handbook, *Retirement Planning Guidelines*, to members to explain the retirement program. The *Employer Handbook* is a comprehensive resource on IPERS' procedures and reporting requirements for covered employers. In addition, employers are informed of current events through a quarterly newsletter, *The Latest Word*. IPERS also publishes a biannual newsletter for its retirees, *Pensioners' Post*, and a biannual newsletter, *Inside IPERS*, for active members. The newsletters are intended to keep members and retirees apprised of developments that affect them, their benefits, and IPERS. These publications and certain other forms can be downloaded from our web site for use by our IPERS members.

Benefit Improvements:

During the 2001 session, the General Assembly passed many technical corrections, but also approved several small but important enhancements designed to continue the multi-year process of making IPERS competitive with its public retirement plan peers. Some of these changes included:

- Providing a new benefit option for Special Service (essentially various public safety personnel) members. This "level income payment option" permits Special Service members to receive a relatively level income both before and after age 62 when benefits from both IPERS and Social Security are combined. In general terms, this option provides a higher monthly income from IPERS prior to age 62 and requires a permanent reduction after age 62, when the member becomes eligible for Social Security.
- Permitting certain members whose three-year average salary is adversely affected by employer-mandated reductions in hours of employment (temporary mandatory leaves of absence) to make contributions to IPERS to restore the three-year average salary.
- Reducing the period a member has to be out of covered employment to 30 days to qualify for a refund following termination.
- Raising the earnings threshold (the amount a retired member under age 65 can earn in covered employment without reducing his or her IPERS retirement allowance) from $14,000 to $30,000.
- Authorizing the merger of pension plans of public waterworks and water utilities into IPERS.
- Providing substantial improvements in portability by authorizing rollover distributions to a greater variety of tax-qualified plans, and authorizing rollovers from a variety of tax-qualified plans into IPERS for making service purchases. Related amendments greatly expanded the types of service credit authorized for purchase under IPERS, including service with private employers.

Major Initiatives:

- **Internet**. IPERS is developing an Internet web site for employers. In conjunction with this project, IPERS has formally introduced a structured project management system and new web technologies. With the assistance of consultants, both the planning and design phases of the project have been completed. Current plans are to utilize the Internet reporting system for reporting wages and demographics in a pilot group of employers, and if results are positive, to move into a phased implementation for all employers in the next few fiscal years. In addition, IPERS has introduced an expanded and redesigned Web site at ipers.org containing separate areas for members, employers, information, and resources.

- **Electronic Document Management Systems**. IPERS is also making significant progress on its implementation of a comprehensive electronic document management system. An integrated document management system was installed and pilot projects were successfully completed by the end of FY 2002. The anticipated start date for preparing stored and archived documents for scanning was September 2002, the anticipated start date for scanning the stored backfile is December 2002, and this day forward scanning of all received mail will be mid-FY 2003.

- **Securities Monitoring and Litigation Services**. IPERS successfully concluded a search for a firm to provide securities litigation monitoring services beyond those currently provided by IPERS' custodial bank, and to provide expert advice, counsel, and litigation-related services, if IPERS chooses to file securities litigation. IPERS selected the firm of Barrack, Rodos & Bacine, based in Philadelphia, Pennsylvania. IPERS and the Barrack firm are in the process of developing a securities litigation policy to help identify those situations in which it will consider filing as a plaintiff in such litigation, as opposed to passive participation as a class member.

- **Benchmarking Study**. IPERS has, as part of its Strategic Plan, hired Cost Effectiveness Measurement, Inc. to perform a benchmarking study comparing IPERS' benefits and services to those of its peers. This will greatly benefit IPERS in making data driven strategic planning decisions, and the development of appropriate improvement plans.

Internal Revenue Service (IRS) Matters:

- **Private Letter Ruling Requests.** IPERS has received a private letter ruling indicating that, in most instances, the in-service disability benefits paid to Special Service members under Iowa Code section 97B.50A are exempt from federal income tax. IPERS is still waiting for the IRS to rule on its private letter ruling request relating to the Qualified Benefits Arrangement enacted at Iowa Code Section 97B.49I. The Qualified Benefits Arrangement was enacted to provide IPERS with flexibility in dealing with the IRS' limits on benefit amounts payable under tax-qualified plans like IPERS. Increases in the IRS limits have lessened the immediate need for this ruling, but it is hoped that the IRS will be able to issue its ruling shortly.

- **Determination Letter Request.** In September 2002, IPERS filed a request for a favorable ruling from the IRS with respect to its status as a plan qualified under Internal Revenue Code section 401(a). This ruling request will cover amendments made in the 2000-01 and 2001-02 legislative sessions (primarily Senate File 497 and House File 2532, discussed above), and various amendments to IPERS administrative rules.

Social Security Ruling Request. IPERS, as administrator of the Section 218 Agreement between the State of Iowa and the Social Security Administration (the contractual agreement by which Social Security coverage is extended to Iowa governmental employees), asked the Social Security Administration for assistance in implementing an amendment to Iowa Code section 97C. The intent of the amendment was to permit employers to provide both IPERS and Social Security coverage to part-time elected officials. Currently, the interplay between the Iowa Code chapter 97B, Iowa Code chapter 97C (the Social Security enabling act), and the 218 Agreement causes a part-time elected official who elects IPERS coverage to be excluded from Social Security coverage. The Social Security legal staff is preparing a response to IPERS' request for assistance, including its request for retroactive relief for erroneous coverage decisions.

Financial Highlights:

Total Net Assets

Total net assets held in trust for pension benefits decreased from $15,928,547,166 on June 30, 2001 to $14,874,419,194 on June 30, 2002. These assets consist of capital assets owned by IPERS and investment portfolio assets.

Investment Portfolio Assets

At the close of fiscal year 2002, IPERS' net investment portfolio assets had a fair value of $14,854,018,390. The change in fair value represents a decrease of $1,058,895,464 from the $15,912,913,854 net investment asset fair value as of June 30, 2001. The decrease in net investment portfolio asset fair value is attributable to two factors. The first factor is that employer and employee contributions to IPERS no longer fully fund the benefit payments, member refunds and administrative expenses of the System; funds must regularly be drawn from the investment portfolio to help meet these obligations. This draw down of investment assets is typical for a mature pension system, where investment earnings are expected to supplement employer and employee contributions in meeting liabilities. For the year ended June 30, 2002 employee and employer contributions totaled $469,454,575 while total member benefits paid equaled $743,682,889 (*regular monthly benefits, refunds, COLA, and FED*). The resulting $274,228,314 contribution shortfall was funded with investment portfolio earnings. The second factor contributing to the decrease in net investment portfolio assets was the System's negative fiscal year 2002 investment return, which is more fully addressed below.

Investment Results

The major equity market correction in fiscal year 2001 was followed in fiscal year 2002 by unprecedented terrorist attacks on the United States and numerous corporate accounting scandals. These events resulted in a crisis of confidence among investors and drove the equity markets to record low levels. The total return on investments for the fiscal year ended June 30, 2002 was a -4.94%. The total return on investments for the ten-year period ending June 30, 2002 was 9.64%. While IPERS' ten year return continues to benefit from the strong capital market performance of the most recent decade, it should be anticipated, as has been shown in the last two years, that the strong performance of institutional portfolios during the 1990's may not be sustainable at such high levels in the future.

Revenues

The System is funded through a combination of member contributions, employer contributions, and investment income. In general, total contributions are 9.45% of employees' covered wages. Most employers contribute at a rate of 5.75% and most employees at a rate of 3.7%. Employees engaged in certain special service occupations (e.g., law enforcement, fire safety, and similar protection occupations) contribute at a higher rate as required by statute, as do their employers. Revenues from employer and employee contributions, excluding buy-back/buy-in contributions, totaled $464,471,241 for fiscal year 2002, a 4% increase from the prior fiscal year. Buy-back/buy-in contributions for the year amounted to $4,983,334, a 32% increase from the prior year. Net investment income/(loss) for fiscal year 2002 was $(772,386,353), an improvement of $216,803,947 over the prior year.

Revenues
($ millions)

Source	2002	2001	% Change
Employee Contributions	$ 185.8	$ 178.9	4
Employer Contributions	278.7	268.3	4
Buy-backs/Buy-ins	5.0	3.8	32
Net Invest. Income/(Loss)	(772.4)	(989.2)	22
Total	$(302.9)	$(538.2)	44

Expenses

Expenses are incurred primarily for the purpose for which IPERS was created, namely the payment of benefits to retirees. Included in the total expenses for the fiscal year were benefit payments and refunds totaling $743,682,889. This amount increased 12% from the prior fiscal year and represented 99% of the total fund expenditures. The total number of members receiving monthly benefits as of June 30, 2002 was 71,715, a net increase of 3,012 over the pervious year. The average monthly retirement benefit, including the November dividend payment, increased to $760.

Expenses
($ millions)

Type	2002	2001	% Change
Benefits	$705.8	$624.2	13
Refunds	37.9	42.1	(10)
Administrative	7.6	7.3	4
Total	$751.3	$673.6	12

All administrative expenses for the System are paid from the IPERS Trust Fund. The administrative budget is submitted to the Legislature annually for formal approval. Those administrative expenses totaled $7,581,105 for fiscal year 2002, a 4% increase from last year.

The System retains two investment consultants and several investment managers to assist the Investment Board and Administration in carrying out their fiduciary duties by providing advice to the System and investing the System's assets. For the fiscal year, IPERS' investment management expenses were $37,634,731, an 11.6% decrease from last year. The decrease is attributable to lower fees earned by investment managers (due mainly to lower asset values), and a reduction in the number of investment managers utilized by the System. Also, for several managers that earned performance fees in fiscal year 2002, the magnitude of their outperformance over their respective market benchmarks was lower than in fiscal year 2001. IPERS' performance fee structures allow investment managers to share in the financial gains of their outperformance while IPERS retains the great majority of such gains.

In addition to the appropriations process described above for administrative expenses, state law limits the amount which can be expended annually for investment management expenses to .40 of 1% of the total fund's fair value. For fiscal year 2002, the System expended .25% of the total fund's quarterly average fair value for investment management expenses, well below the maximum allowed.

Funding

The ultimate test of whether a system such as IPERS is financially sound is whether it can pay all of its promised benefits as they come due. The achievement of this goal can only be judged over a long period of time. The annual valuation of the System's assets and liabilities by IPERS' actuary provides the best current estimate of the System's funding status, but even this has its limitations. The actuarial valuation for funding purposes at June 30, 2002 reflects an unfunded actuarial liability of $1,255,445,086. This represents the difference between the actuarial accrued liability of $16,868,559,185 and the actuarial value of net assets of $15,613,114,099. During the fiscal year, the unfunded actuarial accrued liability increased by $814,490,511 from the preceding fiscal year's ending balance. This increase is the net impact of experience losses on both the actuarial value of assets and on liabilities. The System's amortization period for the unfunded actuarial liability increased from 39 years to an infinite number of years, meaning that the level of periodic payments to reduce this liability that are possible under current statutory contribution rates will not be sufficient to pay off the unfunded actuarial liability. This situation does not jeopardize the security of IPERS' members' benefit payments for the next several years.

Future Prospects:

Although IPERS continues to be a well-funded system, as reflected in its 92.6% funded ratio (ratio of actuarial assets to actuarial liabilities), the new "infinite" period required to pay off the System's unfunded actuarial liability will necessitate changes to the statutory contribution rates, to IPERS' plan design, or to both. The System's actuarial consultant, in tandem with its investment consultant, will conduct in fiscal year 2003 an in-depth and long-term asset/liability study to determine what contribution rates will be necessary to support the current plan design, as well as some options for altering plan design should such a course be deemed desirable. Any such changes will require amendment of IPERS' Iowa Code provisions, and will thus also require concurrence of the Iowa General Assembly.

It is expected that, over the long term, the investment earnings of the System's assets will continue to meet or exceed the actuarially assumed earnings rate. IPERS' employees are dedicated to the prudent investment and safeguarding of the System's assets and providing the highest possible level of service to members and retirees. These are and will remain our first priorities.

Accounting System and Internal Control:

The financial statements included in this report are the responsibility of IPERS Administration and have been prepared in accordance with U.S. generally accepted accounting principles for governmental accounting and reporting as pronounced or adopted by the Governmental Accounting Standards Board and the Financial Accounting Standards Board. IPERS Administration is also responsible for maintaining an internal accounting control system designed to provide reasonable assurance that transactions are executed in accordance with Administration's general or specific authorization and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles.

Independent Audit:

The Auditor of State is required by Iowa Code chapter 11 (2001) to audit annually all departments of the State. The accompanying financial statements of the System have been audited by the Auditor of State in accordance with U.S. generally accepted auditing standards, state law, and Government Auditing Standards. The Auditor's report is contained in the Financial section of this report.

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 Iowa Public Employees' Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2001. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both U.S. generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments:

The preparation of this report is the result of the combined effort of the System's staff. It is intended to provide complete and accurate information concerning the activities and results of the System's operations. This report is being provided to the Governor and to covered employers. Copies are available to members and other interested persons through the IPERS web site or upon request.

Sincerely,

Mollie K. Anderson, Director
Iowa Department of Personnel

Kathy S. Comito
Chief Investment Officer

Greg Cusack
Chief Benefits Officer

Gregg A. Schochenmaier, General Counsel
Manager, Legal and Communications

Leon J. Schwartz
Chief Operations Officer

IPERS INVESTMENT BOARD

As of June 30, 2002

From left to right: Mollie K. Anderson; Joanne L. Stockdale; Bruce G. Kelley, Chairperson;

Representative Dolores M. Mertz; Thomas D. Whitson; Janet L. Adams;

Michael A. Logan, Vice Chairperson; and Senator Sheldon Rittmer.

Not pictured: Mary Kay Williams

Investment Board

The Investment Board of IPERS was created by state statute to oversee the investment activity of the System. The Board's role is to establish and approve policy relating to the investment of the Trust Fund assets. The Investment Board holds public meetings regularly to review investment performance and to formalize investment policy with the Administration.

Six of the Board members are appointed by the Governor and must by statute include:

- One retired member of the System.
- One active member who is an employee of a school district, area education agency, or merged area school.
- One active member who is not an employee of a school.
- One executive of a domestic life insurance company.
- One executive of a state or national bank operating within the State.
- One executive of an industrial corporation located within the State.

The Director of the Iowa Department of Personnel serves as an ex officio, nonvoting member. The two remaining members are from the State Legislature. The President of the Senate appoints a member of the Senate and the Speaker of the House appoints a member of the House. The term for a Board member appointed by the Governor is six years.

IPERS Investment Board

Bruce G. Kelley
EMC Insurance Companies, Des Moines
Term Expires 2007
Chairperson

Michael A. Logan
Retired Teacher, Coralville
Term Expires 2004
Vice Chairperson

Senator Sheldon Rittmer
State Senator, DeWitt

Representative Dolores M. Mertz
State Representative, Ottosen

Janet L. Adams
Teacher, Webster City
Term Expires 2005

Mary Kay Williams
Appanoose County Treasurer, Moravia
Term Expires 2007

Joanne L. Stockdale
Northern Iowa Die Casting, Lake Park
Term Expires 2005

Thomas D. Whitson
People's National Bank, Council Bluffs
Term Expires 2003

Mollie K. Anderson
Director, Iowa Department of Personnel, Des Moines
(ex officio, nonvoting member)

Administration

IPERS' primary purpose is to provide a strong and secure retirement income for Iowa's former and current public employees. The activities of the Administration are designed to accomplish this purpose and include the following:

- Providing counseling services and retirement information to active and retired members.
- Providing retirement and death benefits to members and beneficiaries of the System.
- Providing refunds to members, which may be placed in other retirement vehicles.
- Administering the benefits of the Iowa Old-Age and Survivors' Insurance System.
- Administering the Teacher's Retirement Allowance Law.
- Collecting employer and employee contributions in accordance with state law and IPERS' administrative rules.
- Providing recommendations to the Governor and General Assembly relative to plan design adjustments, including appropriate benefit enhancements.
- Overseeing the investment of the System's funds in accordance with the Investment Policy and Goal Statement adopted by the Investment Board.

Iowa Department of Personnel
IPERS Division

Mollie K. Anderson ♦ Director

Investment Policy and Administration

Kathy S. Comito ♦ Chief Investment Officer

Membership and Benefit Administration

Greg Cusack ♦ Chief Benefits Officer

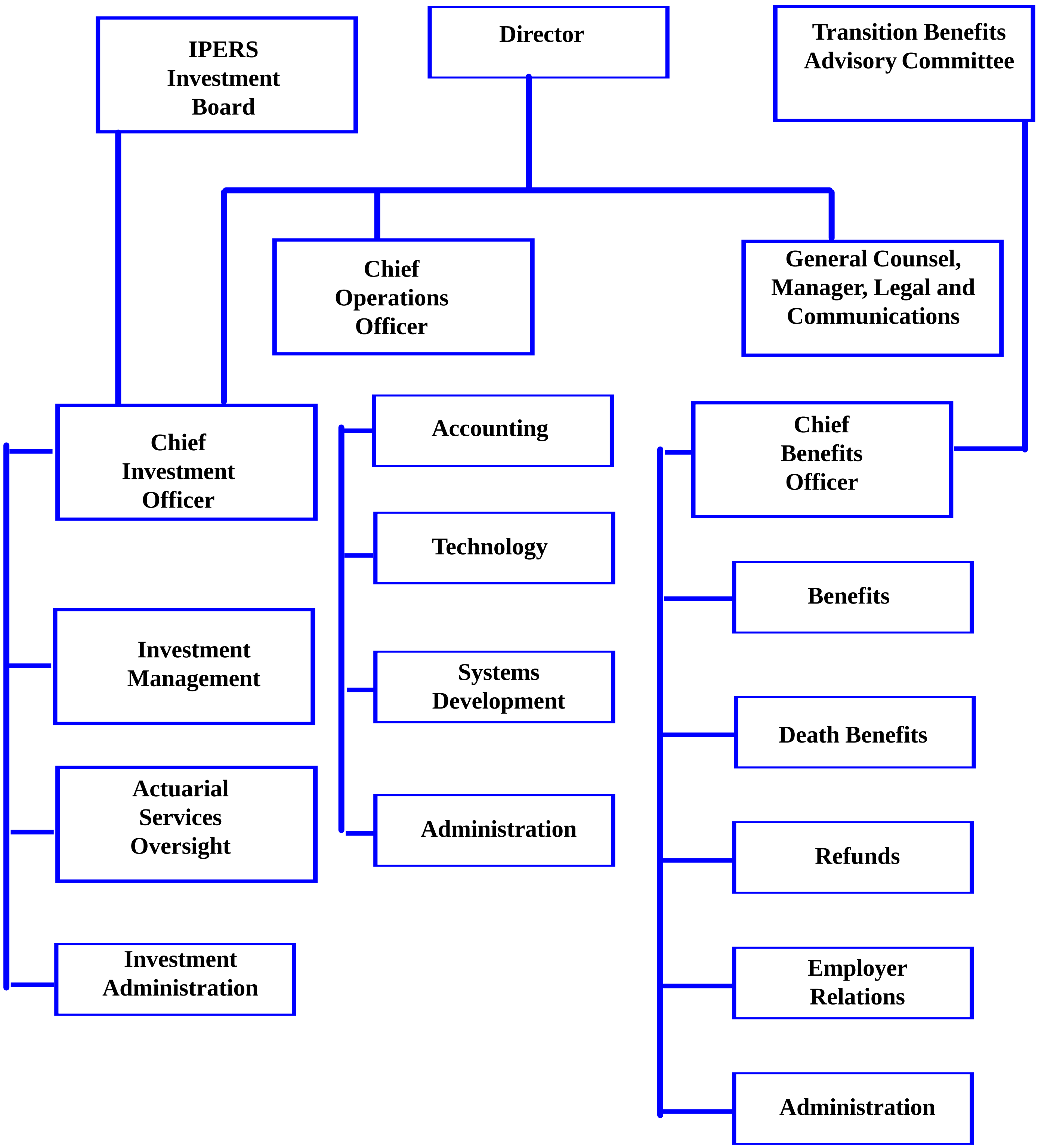
Operations

Leon J. Schwartz ♦ Chief Operations Officer

Legal & Communications

Gregg A. Schochenmaier ♦ General Counsel, Manager, Legal and Communications

Iowa Department of Personnel
IPERS Division



Professional and Consulting Services

To assist the Investment Board and Administration in carrying out their fiduciary duties, the System has hired an actuarial consulting firm, external legal counsel, and two investment consulting firms.

The actuarial consulting firm chosen by the System is responsible for:

- Certifying the adequacy of the contribution rates used by the System.
- Measuring and reporting the assets and liabilities of the System.
- Reviewing and analyzing trends in the System's membership and actuarial assumptions.

The external legal counsel chosen by the System is responsible for:

- Assisting periodically in the review and analysis of tax and benefit-related matters.
- Providing advice to the staff on state and federal legislation and regulations.

The investment consulting firms chosen by the System are responsible for:

- Preparing asset allocation studies for the System.
- Reviewing periodically the performance of the Fund.
- Assisting in the screening and selection of investment managers.
- Providing support in the development and implementation of the System's Investment Goals, Objectives, and Policies.

ACTUARY
Milliman USA, Inc. - Omaha, NE

LEGAL COUNSEL
Ice Miller Legal & Business Advisors - Indianapolis, IN

INVESTMENT CONSULTANTS
Wilshire Associates Inc. - Santa Monica, CA
(General)

The Townsend Group - Cleveland, OH
(Real Estate)

The Treasurer of the State of Iowa, with assistance from Investment staff, has hired a master custodian. The master custodian for the Fund is responsible for:

- Maintaining safe custody of the assets owned by the System.
- Settling trades in accordance with instructions from the System.
- Collecting in a timely manner the income due the System.
- Providing periodic reports summarizing the investment activity of the System's assets.

MASTER CUSTODIAN
Mellon Trust Company - Everett, MA

Investment Managers

The Investment Board and Investment staff have selected a variety of investment management firms to execute the investment strategies of the System. Managers are given full discretion to direct and manage the investment of the assets allocated to their accounts in accordance with applicable federal and state regulations and their executed contracts.

The investment managers chosen by the System are responsible for:

- Investing the funds allocated to them in accordance with their contracts, the Investment Policy and Goal Statement, and applicable statutes.
- Reporting periodically to the Investment staff and Investment Board on matters such as performance, market conditions, and compliance with their contracts.

DOMESTIC EQUITY
Dresdner RCM Global Investors LLC
San Francisco, CA

J. P. Morgan Investment Mgmt., Inc.
New York, NY

Mellon Capital Management Corp.
San Francisco, CA

Wellington Trust Company, N.A.
Boston, MA

INTERNATIONAL EQUITY
Barclays Global Investors, N.A.
San Francisco, CA

Putnam Institutional Management
Boston, MA

Schroder Investment Mgmt. North America Inc.
London, England

TACTICAL
Mellon Capital Management Corp.
San Francisco, CA

PRIVATE EQUITY/DEBT
Pathway Capital Management, LLC
Irvine, CA

GLOBAL FIXED INCOME
BlackRock Financial Management, Inc.
New York, NY

Heitman Capital Management
Chicago, IL

J. P. Morgan Investment Mgmt., Inc.
New York, NY

Mellon Capital Management Corp.
San Francisco, CA

Oaktree Capital Management, LLC
Los Angeles, CA

Western Asset Management Co.
Pasadena, CA

REAL ESTATE
AEW Capital Management
Boston, MA

Heitman Capital Management
Chicago, IL

INVESCO Realty Advisors
Dallas, TX

PMRealty Advisors
Newport Beach, CA

RREEF America, L.L.C.
Chicago, IL

TA Realty Corporation
Boston, MA

UBS Realty Investors LLC
Hartford, CT

CASH
Mellon Bond Associates, L.L.P.
Pittsburgh, PA

Financial

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Statement of Changes in Plan
Net Assets

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Supplementary Information

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Richard D. Johnson, CPA
Auditor of State

Warren G. Jenkins, CPA
Chief Deputy Auditor of State

Independent Auditor's Report

To Mollie K. Anderson, Director of the Iowa Department of Personnel:

We have audited the accompanying statement of plan net assets of the Iowa Public Employees' Retirement System (IPERS) as of June 30, 2002 and 2001, and the related statement of changes in plan net assets for the years then ended. These financial statements are the responsibility of IPERS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements present the financial position and the changes in financial position of only that portion of the financial reporting entity of the State of Iowa that is attributable to the transactions of IPERS. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2002 and 2001 and the changes in financial position and cash flows, where applicable, for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of IPERS at June 30, 2002 and 2001, and the changes in plan net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 3 to the financial statements, for the year ended June 30, 2002, IPERS adopted Governmental Accounting Standards Board Statement Number 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2000 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audits of the aforementioned financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

We did not audit the data included in the actuarial, investments, statistical and plan summary sections and, accordingly, express no opinion thereon.

The report on IPERS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts in accordance with Government Auditing Standards will be issued under separate cover. 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.

RICHARD D. JOHNSON, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 6, 2002

Management Discussion and Analysis

This discussion and analysis of the Iowa Public Employees' Retirement System provides an overview of the retirement system's financial activities for the fiscal year ended June 30, 2002. It is intended to be used in conjunction with the transmittal letter on page 7 and IPERS' financial statements and notes, which begin on page 27 of this report.

Financial Highlights

- IPERS' plan net assets held in trust for pension benefits decreased by $1.1 billion during fiscal year 2002. At June 30, 2002, plan assets (including capital assets of $4.4 million) totaled $15.7 billion exceeding total liabilities of $843.5 million, resulting in net assets held in trust for pension benefits of $14.9 billion.

- Covered payroll, upon which both employee and employer pension contributions are calculated, increased by $193.4 million over last fiscal year and totaled $4.7 billion. Employer and employee contributions both increased by 3.9% totaling $278.7 million and $185.8 million respectively.

- Adverse market conditions continued in this fiscal year but net investment loss fared better than in fiscal year 2001. Net investment loss, after all investment-related expenses, was $772.4 million in fiscal year 2002 compared to a loss of $989.2 million in the previous fiscal year. Investment management expenses declined from $42.6 million for the fiscal year ended June 30, 2001 to $37.6 million for the fiscal year ended June 30, 2002.

- Total revenues for the year resulted in a negative impact to the fund of $302.9 million compared to a negative impact of $538.1 million in the previous fiscal year.

- Pension benefits to members increased by $81.5 million while refunds to members decreased by $4.2 million. Payments to members totaled $743.7 million.

- Administrative expenses totaled $7.6 million for the fiscal year ended June 30, 2002, as compared to $7.3 million for the fiscal year ended June 30, 2001, an increase of $0.3 million.

Using this Financial Report

This Comprehensive Annual Financial Report reflects the activities of the Iowa Public Employees' Retirement System as reported in the Statement of Plan Net Assets (see page 27) and Statement of Changes in Plan Net Assets (see page 28). These Statements are presented on an accrual basis and reflect all trust activities as incurred. The notes to the financial statements are an integral part of the financial statements and include additional information not readily evident in the statements themselves. The required supplementary information and other schedules following the notes to the financial statements provide historical and additional detailed information considered useful in evaluating the condition of the plan. See the Actuarial Section of this report for a detailed discussion of funding status.

Analysis of Plan Net Assets

Tables 1 and 2 on the pages that follow present condensed summaries of plan net assets and a breakdown of the changes to the net assets with comparison to the last fiscal year.

IPERS total net assets at June 30, 2002 were $14.9 billion having declined $1.1 billion from the previous fiscal year-end balance. The decrease is largely, but not entirely, due to the depreciation in fair value of investments from unfavorable market conditions.

Table 1

Plan Net Assets **Fiscal Years Ending June 30,**	**2002**	**2001**	**Increase/ (Decrease) Amount**	**Increase/ (Decrease) Percent**
Cash and Investments at Fair Value	$15,320,512,439	$16,968,867,718	$(1,648,355,279)	(9.7%)
Receivables	392,994,612	606,816,756	(213,822,144)	(35.2%)
Capital Assets	4,426,405	4,359,014	67,391	1.6%
Total assets	15,717,933,456	17,580,043,488	(1,862,110,032)	(10.6%)
Total liabilities	843,514,262	1,651,496,322	(807,982,060)	(48.9%)
Total Plan Net Assets	$14,874,419,194	$15,928,547,166	$(1,054,127,972)	(6.6%)

A large percentage, 97.1% of total assets, is made up of investments held to provide retirement, survivor, and disability benefits to qualified members and their beneficiaries. Other assets, including cash and cash equivalents, receivables from member and employer contributions, receivables from investment-related transactions, and capital assets comprise less than 3% of total assets. Total assets declined by $1.9 billion, or 10.6% from the previous fiscal year.

Total liabilities in Table 1 represent current liabilities and do not reflect the actuarial liabilities discussed in the actuarial section of this report. These current liabilities consist primarily of amounts owed for investment-related transactions, amounts owed to members or their beneficiaries, and amounts owed to contractors and vendors. Total liabilities decreased by $808 million, or 48.9%, from the previous fiscal year, due in large part to fewer outstanding investment-related transactions.

Table 2

Changes in Plan Net Assets **Fiscal Years Ending June 30,**	**2002**	**2001**	**Increase/ (Decrease) Amount**	**Increase/ (Decrease) Percent**
Additions				
Employer contributions	$ 278,682,745	$ 268,315,094	$ 10,367,651	3.9%
Employee contributions & buy-back/in	190,771,830	182,724,093	8,047,737	4.4%
Net investment income (loss)	(772,386,353)	(989,190,300)	216,803,947	21.9%
Miscellaneous	67,800	64,810	2,990	4.6%
Total Additions	(302,863,978)	(538,086,303)	235,222,325	43.7%
Deductions				
Benefits and refunds	743,682,889	666,333,274	77,349,615	11.6%
Administrative expense	7,581,105	7,264,447	316,658	4.4%
Total Deductions	751,263,994	673,597,721	77,666,273	11.5%
Increase (Decrease) in Plan Net Assets	$(1,054,127,972)	$(1,211,684,024)	$157,556,052	13.0%

The decline in plan net assets is due to both economic conditions, as reflected in the negative investment income of $772.4 million, and the continuing increase in benefits paid out as compared to contributions received. Benefits and refunds of $743.7 million exceeded contributions, buy-backs, and buy-ins of $469.5 million, by $274.2 million. This compares to the $215.3 million by which benefit and refund payments exceeded contributions in the prior fiscal year. This excess of benefits paid relative to contributions received is characteristic of a mature pension plan such as IPERS. The investment rate of return for the fiscal year was -4.94%. The total fund's annualized rate of return over the last three, five and ten years was 0.79%, 6.48% and 9.64% respectively. (See also the Investment Section of this report beginning on page 55.)

The following table contains the fiscal year performance of each asset class, benchmark, and the Fund's actual asset allocation as of June 30, 2002.

Table 3

Asset Class	Return	Benchmark	Allocation
Domestic Equity	-17.43%	-16.62%	26.6%
International Equity	-7.74%	-8.23%	15.6%
Global Fixed Income	7.73%	7.71%	40.4%
Tactical	-8.40%	-7.55%	5.0%
Private Equity/Debt	-22.70%	-15.24%	5.7%
Real Estate	8.25%	7.08%	6.4%
Short-Term Cash	2.87%	2.66%	0.3%
Total Fund	-4.94%	-4.52%	100.0%

Total administrative expenses in the fiscal year ended June 30, 2002 were $7.6 million of which $4.4 million, or 58%, represent salaries and benefits. (See also Schedule 4, Schedule of Administrative Expenses, page 39.)

Contacting System Financial Management

This financial report is designed to provide the Investment Board, our membership, contributors, taxpayers, and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Iowa Public Employees' Retirement System, PO Box 9117, Des Moines, IA, 50306-9117.

BASIC FINANCIAL STATEMENTS

Iowa Public Employees' Retirement System

Exhibit A

Statement of Plan Net Assets
June 30, 2002 and 2001

	2002	2001
Assets:		
Cash and cash equivalents	$ 56,264,350	$ 114,191,694
Contributions receivable	36,713,231	39,220,096
Accrued interest and dividends	40,151,723	42,359,790
Receivable for investments sold	230,657,381	383,465,133
Foreign exchange contracts receivable	82,341,442	141,771,737
Miscellaneous receivable	3,130,835	- 0 -
Total	449,258,962	721,008,450
Investments at fair value (note 3)	15,264,248,089	16,854,676,024
Capital assets (note 5)		
Depreciable assets - net of accumulated depreciation	3,926,405	3,859,014
Nondepreciable assets - land	500,000	500,000
Total Assets	$15,717,933,456	$17,580,043,488
Liabilities:		
Accounts payable and accrued expenses	$ 26,781,707	$ 29,953,473
Payable for investments purchased	650,504,238	826,859,908
Rebates and collateral payable	75,848,132	655,080,961
Foreign exchange contracts payable	90,380,185	139,601,980
Total Liabilities	843,514,262	1,651,496,322
Net assets held in trust for pension benefits (note 10)	$14,874,419,194	$15,928,547,166

(See Schedule of Funding Progress on page 36.)

See notes to financial statements.

Exhibit B

Iowa Public Employees' Retirement System
Statement of Changes in Plan Net Assets
Years Ended June 30, 2002 and 2001

	2002	2001
Additions:		
Contributions:		
Employer contributions	$ 278,682,745	$ 268,315,094
Employee contributions	185,788,496	178,876,729
Buy-back/buy-in contributions	4,983,334	3,847,364
Total contributions	469,454,575	451,039,187
Investments:		
Interest	309,350,602	471,887,614
Dividends	83,941,693	80,717,280
Real estate and private equity/debt	71,497,842	75,617,154
Tactical	19,229,089	22,743,769
Net appreciation (depreciation) in fair value of investments	(1,222,306,044)	(1,602,178,006)
Security lending income	18,891,542	37,846,439
Other	777,015	776,030
Investment income (loss)	(718,618,261)	(912,589,720)
Investment management expense	37,634,731	42,597,049
Security lending expense	16,133,361	34,003,531
Net investment income (loss)	(772,386,353)	(989,190,300)
Miscellaneous income	67,800	64,810
Total additions (decrease)	(302,863,978)	(538,086,303)
Deductions:		
Benefit payments	705,767,690	624,259,449
Member and employer refunds	37,915,199	42,073,825
Administrative expense	7,581,105	7,264,447
Total deductions	751,263,994	673,597,721
Net increase (decrease)	(1,054,127,972)	(1,211,684,024)
Net assets held in trust for pension benefit beginning of year	15,928,547,166	17,140,231,190
Net assets held in trust for pension benefit end of year (note 10)	$14,874,419,194	$15,928,547,166

See notes to financial statements.

Notes to the Financial Statements
June 30, 2002 and 2001

(1) Reporting Entity

IPERS, a public employee retirement system within the Department of Personnel, State of Iowa, was created by the Iowa Legislature. IPERS is an integral part of the primary government of the State of Iowa and accordingly, has been included as a pension trust fund in the Iowa Comprehensive Annual Financial Report (CAFR) as well as having its own stand-alone Comprehensive Annual Financial Report. Copies of the State's CAFR can be obtained from the Department of Revenue and Finance.

For financial reporting purposes, IPERS considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with IPERS is such that exclusion would cause IPERS financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of IPERS to impose its will on that organization, or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on IPERS. IPERS has no component units which meet the Governmental Accounting Standards Board criteria.

(2) Plan Description

Administration - IPERS is a cost-sharing, multiple-employer defined benefit public employee retirement system. Administrative expenses are appropriated each year by the Iowa Legislature and paid from the Trust Fund.

Plan Membership - IPERS membership is mandatory for most state, county, and local public employees, employees of school districts, and for certain elected officials. Membership is optional for some individuals, including the members of the Iowa Legislature. Members of other retirement systems supported by Iowa public funds are excluded from membership.

	June 30, 2002	June 30, 2001
Employer members:		
City	1,323	1,298
County	477	472
School	394	397
State	21	25
28E Agencies	21	20
Utilities	82	81
Other	128	129
Total	2,446	2,422
Employee members:		
Current retirees and beneficiaries	71,715	68,703
Inactive vested	34,792	32,295
Active vested plan members	115,987	115,352
Active nonvested plan members	42,480	39,258
Inactive nonvested	63,436	63,810

Plan Benefits – IPERS benefits are established under Iowa Code Chapter 97B and administrative rules thereunder. The following brief description of IPERS is provided for general information purposes only. Members should refer to the Plan agreement for more comprehensive information.

Pension Benefits – A member may retire at age 65 (or any time after reaching age 62 with 20 or more years of covered employment) and receive monthly benefits without an early retirement adjustment.

A member is entitled to benefits without an early retirement adjustment if the member's years of service plus the member's age at the member's last birthday equals or exceeds 88. (This applies only if these qualifications are met on the member's first month of entitlement to benefits.)

A member's monthly retirement allowance will be reduced by .25% for each month that the member's first month of entitlement precedes the date the member would have first retired with a normal retirement allowance based on the member's actual age and years of service at the first month of entitlement.

Disability and Death Benefits - A vested member who is awarded federal Social Security or federal Railroad Retirement disability benefits because of a disability is eligible to claim IPERS benefits regardless of age. Disability benefits are unreduced for age if the member is less than age 65. A vested special service member may apply for in-service or ordinary disability retirement benefits at any age.

When a member dies after retirement, the availability of death benefits depends on the benefit option selected by the member at the time of retirement. If a member dies before retirement, the beneficiary will receive a lifetime annuity or a lump sum cash payment which is the greater of the actuarial present value of the member's accrued benefit or a calculated formula. If a member leaves covered employment and applies for a refund, a lump sum cash payment will be made based upon the member's accumulated contributions. Vested members requesting a refund also receive a portion of their accumulated employer contribution.

Vested Membership - A member who leaves covered employment after completing at least four years of covered service has vested rights to IPERS benefits, provided the member lives to the retirement age 55 and does not withdraw the member's accumulated contributions. A member who leaves covered employment before completing at least four years of service, but who leaves the accumulated contributions in the System, receives vested rights to IPERS benefits at age 55.

Funding Requirements - Member and employer contribution rates are established by statute. In general, IPERS members contribute 3.70% and employers contribute 5.75% of the covered wage base. The contributions are remitted by participating employers. Certain members and employers engaged in law enforcement, fire safety, and protection occupations contribute at higher rates as shown in the table below. Wages are covered up to the federal limit of $170,000 through December 31, 2001. The covered wage limit increased to the new federal limit of $200,000 effective January 1, 2002.

CONTRIBUTION RATES IN EFFECT JULY 1, 2001 - JUNE 30, 2002

	Employee	**Employer**	**Total**
Regular	3.70%	5.75%	9.45%
Sheriffs/Deputy Sheriffs (County) / Airport Firefighters	5.50%	8.25%	13.75%
Protection Occupations*	6.20%	9.29%	15.49%

* Protection Occupations: City Marshals/Police or Firefighters in towns under 8,000 population, State Conservation Peace Officers, State Correctional Officers, Airport Safety Officers, DOT Peace Officers, Fire Prevention Inspector Peace Officers, and State Airport Security Officers.

(3) Summary of Significant Accounting Policies

A. Basis of Accounting

IPERS' financial statements have been prepared using the accrual basis of accounting in conformity with the U.S. generally accepted accounting principles as applied to government units. Revenues are recognized when they are earned and become measurable. Expenses are recognized when the liability is incurred. As such, plan member contributions are recognized in the period in which the contributions are due. Employers' contributions are recognized when due and the employer has made a formal commitment to provide contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

During the year ended June 30, 2002, IPERS adopted Statement No. 34 of the Governmental Accounting Standards Board "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments." Adoption of this Standard had no material impact on IPERS' Financial Statements.

B. Cash and Cash Equivalents

For the purpose of financial reporting, cash and cash equivalents represent cash and money market investments with an original maturity of three months or less held by the System's administration and cash allocated to the System's investment managers for investment.

C. Foreign Exchange Contracts

The System enters into forward foreign exchange contracts to minimize the short-term impact of foreign currency fluctuations on the asset and liability positions of foreign investments. The gains or losses on these contracts are included in income in the period in which the exchange rates change.

D. Investments

IPERS is authorized to execute the investment of moneys to meet the Investment Policy and Goal Statement established by the Investment Board, in accordance with the "Prudent Person" mandate of Iowa Code § 97B.7.

All investments are reported at fair value. The determination of fair value is generally based on published market prices and quotations from major investment brokers. Investments not having quoted market prices have been valued based on yields and maturities currently available on comparable securities of similar issue. Fair values for real estate, private equity/debt partnerships, and direct real estate investments are based on periodic assessments or appraisals of the underlying investments. Futures contracts are valued daily with the resulting adjustment recorded as realized gains/losses arising from the daily settlement of the variation margin.

The System has no investment in any specific stock or bond issues of any commercial or industrial organization other than the U.S. government and its instrumentalities whose fair value exceeds five percent of the net assets available for benefits.

IPERS' domestic bank deposits held throughout the year and at year end were entirely covered by Federal depository insurance or by the State Sinking Fund.

The System participates in the securities lending program operated by the State's custodian bank as authorized by the Code of Iowa. The custodian bank is responsible for operating the program and is permitted to lend any of the securities it holds in custody to broker-dealers and other entities in exchange for collateral. The custodian bank is permitted to accept collateral in the form of cash in U.S. dollars, U.S. government securities, or irrevocable letters of credit. A borrower is required to initially deliver collateral in an amount equal to 102% of the fair value of any U.S. securities lent and 105% of the fair value of any non-U.S. securities lent. Borrowers are required to provide additional collateral any time the value of the collateral drops below 100% of the value of the security lent plus accrued interest income.

At year end the System had $323,483 in credit risk exposure to borrowers because the amounts they owed the System exceeded the amount the System owed them on 19 separate loans. Additional collateral was provided the next business day, eliminating this exposure. The contract with the custodian bank requires it to indemnify the System if a borrower fails to return the securities on loan, or fails to return all of the income attributable to securities on loan. The securities lending contract does not allow the System to pledge or sell any collateral securities unless the borrower defaults. As of June 30, 2002, the System had securities on loan, including accrued interest income, of $74,192,193 against collateral with a total value of $75,142,884.

The majority of securities loans are open loans, i.e. one day maturity, where the rebate rate due the borrower is renegotiated daily. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral received from borrowers is invested in a cash collateral investment pool which is managed by the custodian bank in accordance with investment guidelines established by the custodian and reviewed by the System. The investment guidelines do not require a matching of investment maturities with loan maturities, but do establish minimum levels of liquidity and other investment restrictions designed to minimize the interest rate risk associated with not matching the maturity of the investments with maturity of the loans.

The table below presents IPERS' investment portfolio as of June 30, 2002 and 2001 summarized according to asset class.

Asset Class	June 30, 2002	June 30, 2001
Domestic Equity	$ 3,962,620,257	$ 4,588,259,855
International Equity	2,302,089,401	2,244,738,148
Global Fixed Income	6,382,078,843	6,479,016,098
Tactical	748,883,319	812,765,951
Real Estate	944,571,936	885,270,327
Private Equity/Debt	848,012,546	1,189,214,008
Securities Lending Collateral Pool	75,991,787	655,411,637
Total	$15,264,248,089	$16,854,676,024

IPERS' investments are categorized in the following chart to give an indication of the level of credit risk assumed by IPERS at June 30, 2002. Category 1 includes registered securities that are held by the custodian bank in IPERS' name. Federal reserve book entry and depository securities are included in this category. All investments of the retirement system meet the criteria of Category 1 except for securities on loan with brokers for cash collateral and investments in mutual and commingled funds, real estate funds, and limited partnerships, which, by their nature, are not required to be categorized. Investments in the Short-Term Investment Funds (STIF) are held in an SEC registered pooled fund which is managed by the Custodian. The fair value of the position in the pool equals the value of the pool shares. A summary of investments as of June 30, 2002 and 2001 follows:

Investment	June 30, 2002	June 30, 2001
Category 1:		
Domestic Equity	$ 1,767,603,908	$ 2,148,915,726
International Equity	1,025,293,717	867,873,499
Global Fixed Income	3,342,301,181	2,683,227,273
Foreign Currency	2,660,050	1,642,496
Subtotal	6,137,858,856	5,701,658,994
Not categorized:		
Securities on Loan with Brokers	74,192,193	660,966,897
Investment in Mutual & Commingled Funds	7,272,241,987	7,730,065,984
Investment in Short-Term Investments Funds (STIF)	1,716,643	185,691,210
Investment in Real Estate	855,899,020	812,554,551
Investment in Private Equity/Debt	846,347,603	1,108,326,751
Securities Lending Collateral Pool	75,991,787	655,411,637
Total Investments	$15,264,248,089	$16,854,676,024

E. Capital Assets

The purchase of a building and land in November 1999 was recorded at cost including the costs of acquisition and remodeling. The building is being depreciated using the straight-line method and a useful life of 39 years. Land, a nonexhaustible asset, is not depreciated. Other capital assets consist primarily of office furniture and data processing equipment. All purchased equipment is recorded at cost. Depreciation on equipment is computed using the straight-line method based on estimated useful lives ranging from three to ten years.

F. Compensated Absences

Expenses related to accumulated vacation and sick leave earned by IPERS employees are recorded when earned.

G. Operating Lease - Lessor

IPERS leases 14,400 square feet of the building acquired in November 1999, to Data Input Services, Inc., an Iowa corporation. The lessor pays all operating expenses directly associated with its occupancy. In addition, the lessor pays a proportionate share of common operating expenses.

All rental income is categorized as miscellaneous income. The following table is a schedule by year of future rental income under the lease, in excess of one year as of June 30, 2002.

Year Ending June 30,

Year	**Rental Income**
2003	$ 72,000
2004	72,000
2005	42,000
Total	$ 186,000

Total rental income for the year ended June 30, 2002 totaled $67,800.

(4) Contributions Required and Contributions Made

On an annual basis, a valuation of the liabilities and reserves of the IPERS Trust Fund is performed by IPERS’ actuarial consultant in accordance with Iowa Code § 97B.4(4)“d,” as enacted in 2001 Iowa Acts, chapter 68, section 9, in order to determine the amount of contributions required. In addition, based upon the IPERS Investment Board’s adoption of the actuarial methods and assumptions of the valuation, IPERS certifies the contribution rate determined thereby as the rate necessary and sufficient for members and employers to fully fund the benefits and retirement allowances being credited for service under Iowa Code chapter 97B.

The Iowa statutes provide that most IPERS members shall contribute 3.70% of pay and employers shall contribute 5.75%, for a total of 9.45%. Certain employers and employees in special risk occupations contribute at a higher rate as required by statute. The valuation is performed to determine whether that rate will be sufficient to fund the future benefits expected to be paid by the System within the guidelines established in the IPERS funding policy (maximum amortization period of 30 years). The statutory rate is first applied to fund the normal cost rate. The remaining contribution rate is used to amortize the unfunded actuarial accrued liability as a level percentage of payroll. The current valuation results indicate that the statutory rate results in an amortization period exceeding the funding policy maximum amortization period of 30 years. Specifically, the amortization period increased to an infinite number of years to pay off the System’s unfunded accrued actuarial liability, based on the current statutory contribution rates. The System remains within the parameters of the funding policy, which states that consideration be given to increasing statutory contribution rates, if the amortization period exceeds 30 years in at least three years in any five consecutive year period. Although statutory contribution rates are not required to be increased at this time, the System, in consultation with its actuary, is studying contribution rate and plan design changes to bring the System back in to actuarial balance under the funding policy.

For the fiscal year ended June 30, 2002, the actuarially determined contribution requirement for employers was $272,755,644 or 5.75% of covered payroll. The actuarially determined contribution requirement for employees for the same time period was $175,512,328 or 3.70% of covered payroll. The actual amount of contributions made by employers and employees during the fiscal year ended June 30, 2002, was $278,682,745 and $185,788,496 respectively.

Total required contributions for the years ended June 30, 2002, 2001 and 2000, were $448,267,972, $429,992,021 and $412,535,150 respectively. All required contributions were made for all three fiscal years. See also Supplementary Schedule 2.

(5) Capital Assets

A summary of capital assets as of June 30, follows:

	2002	2001
Land	$ 500,000	$ 500,000
Building and Improvements	3,748,182	3,561,556
Furniture, Fixtures & Equipment	1,993,828	2,670,187
Less Accumulated Depreciation	(1,815,605)	(2,372,729)
Net depreciable-assets	3,926,405	3,859,014
Total	$4,426,405	$4,359,014

Depreciation expense for the year ended June 30, 2002 was $450,206.

(6) Litigation & Contingencies

IPERS is party to various lawsuits or threatened lawsuits. It is the opinion of Administration that the ultimate liability arising from such litigation and threats of litigation will not have a material effect on the financial statements.

(7) Commitments

At June 30, 2002, IPERS had commitments to fund an additional $840,869,711 to various private equity/debt partnerships and real estate investment managers.

(8) Location of Historical Trend Information

Historical trend information related to the pension plan is presented on Schedules 1 and 2 accompanying these financial statements. The information is presented to enable the reader to assess the progress made by IPERS in accumulating sufficient assets to pay pension benefits as they become due.

(9) Pension and Retirement Benefits

The System is a participating employer in IPERS, which is a cost-sharing, multiple-employer defined benefit public employees' retirement system designed to provide retirement, disability and death benefits to members and beneficiaries. Iowa Code § 97B.11 establishes the contribution provisions of the plan.

State statute requires contributions of 3.70% by the employee and 5.75% by the employer. Certain employers and employees in special risk occupations contribute at a higher rate as required by statute. Wages are covered up to the federal limit of $170,000 through December 31, 2001. The covered wage limit increased to the new federal limit of $200,000 effective January 1, 2002. The System's contribution to IPERS for the years ended June 30, 2002, 2001, and 2000, were $234,549, $207,134, and $179,686, respectively, equal to the required contributions for each year.

(10) Net Assets Held in Trust for Pension Benefits

Following is a summary of the net assets held in trust for each of the designated categories:

	General Membership	Special Service Group 1*	Special Service Group 2**	FED Reserve***	Total
Balance at June 30, 2001	$14,745,271,490	$223,740,662	$388,507,203	$571,027,811	$15,928,547,166
Additions:					
Contributions	438,138,396	9,358,902	21,957,277	--	469,454,575
Investment and misc. income	(680,591,340)	(10,501,418)	(18,365,039)	(25,226,025)	(734,683,822)
Amt allocated to FED Reserve	--	--	--	--	--
Deductions:					
Benefit payments, refunds, administration, and investment expenses	713,050,161	6,047,630	10,618,705	1,292,222	731,008,718
FED payments	--	--	--	57,890,007	57,890,007
Transfer for Conservation Officers	(9,137,443)	--	9,137,443	--	--
Balance at June 30, 2002	$13,780,630,942	$216,550,516	$390,618,179	$486,619,557	$14,874,419,194

* Includes Sheriffs, Deputies and Airport Firefighters

** Includes all other public safety members

***Favorable Experience Dividend

SUPPLEMENTARY INFORMATION

Schedule 1

Schedule of Funding Progress

Fiscal Year	Net Actuarial Value of Assets	Actuarial Accrued Liability	Percentage Funded	Unfunded Actuarial Accrued Liability (UAAL)	Annual Covered Payroll[1]	UAAL as a % of Covered Payroll
1997	$ 10,112,976,077	10,774,216,472	93.86%	$ (661,240,395)	3,640,257,177	(18.16)%
1998	11,352,674,142	11,907,220,417	95.34%	$ (554,546,275)	3,908,471,056	(14.19)%
1999	12,664,031,437	13,053,655,753	97.02%	$ (389,624,316)	4,086,572,426	(9.53)%
2000	14,145,141,535	14,471,650,757	97.74%	$ (326,509,222)	4,365,451,325	(7.48)%
2001	15,112,424,729	15,553,379,304	97.16%	$ (440,954,575)	4,550,180,113	(9.69)%
2002	15,613,114,099	16,868,559,185	92.56%	$(1,255,445,086)	4,743,576,424	(26.47)%

[1] Annual covered payroll is the payroll subject to contributions to IPERS according to the covered wage limit of $170,000 through December 31, 2001. The covered wage limit increased to the new federal limit of $200,000 effective January 1, 2002.

ACTUARIAL ASSUMPTIONS AND METHODS: The information presented in the required supplemental schedules was determined as part of the annual actuarial valuations. Additional information as of the latest actuarial valuation follows:

Actuarial cost method	Entry age normal
Asset valuation method	Expected value at the valuation date plus 25% of the difference between the market value and expected value
Amortization method	Open period, level percent of pay
Amortization period	Infinite (Open Method)
Investment rate of return	7.50%
Projected salary increases	4.0 – 18.5% depending upon members age and service
Mortality tables	RP-2000 Healthy Annuitant Table with adjustments
Inflation rate	3.50% for prices, 4.0% for wages

See accompanying independent auditor's report.

Schedules of Employer and Employee Contributions

Schedule 2

Schedule of Employer Contributions
Last Six Fiscal Years

Fiscal Year	Actuarial Recommended Employer Contribution Rate	Covered Payroll	Employer Contributions Required	Employer Contributions Made	Excess of Contributions Made Over Contributions Required	Employer Contributions Made as a % of Covered Payroll[1]
1997	5.750%	$ 3,640,257,177	209,314,788	214,967,348	5,652,560	5.91%
1998	5.750	3,908,471,056	224,737,086	227,772,773	3,035,687	5.83
1999	5.750	4,086,572,426	234,977,914	244,933,066	9,955,152	6.00
2000	5.750	4,365,451,325	251,013,451	253,271,051	2,257,600	5.80
2001	5.750	4,550,180,113	261,635,357	268,315,094	6,679,737	5.90
2002	5.750	4,743,576,424	272,755,644	278,682,745	5,927,101	5.87

Schedule of Employee Contributions
Last Six Fiscal Years

Fiscal Year	Actuarial Recommended Employee Contribution Rate	Covered Payroll	Employee Contributions Required	Employee Contributions Made	Excess of Contributions Made Over Contributions Required	Employee Contributions Made as a % of Covered Payroll[1]
1997	3.700%	$ 3,640,257,177	134,689,516	143,311,565	8,622,049	3.94%
1998	3.700	3,908,471,056	144,613,429	151,848,515	7,235,086	3.89
1999	3.700	4,086,572,426	151,203,180	163,288,710	12,085,530	4.00
2000	3.700	4,365,451,325	161,521,699	168,847,367	7,325,668	3.87
2001	3.700	4,550,180,113	168,356,664	178,876,729	10,520,065	3.93
2002	3.700	4,743,576,424	175,512,328	185,788,496	10,276,168	3.92

[1] In general, employer and employee contributions made as a percentage of covered payroll will exceed the normal statutory rates of 5.75% for employers and 3.70% for employees because of the higher contribution rates for employers and employees engaged in certain law enforcement, fire safety, and protection occupations.

See accompanying independent auditor's report.

Schedule 3

Iowa Public Employees' Retirement System
Investment Income by Specific Source
Years Ended June 30, 2002 and 2001

	2002	2001
Interest income - short term	$ 2,269,435	$ 5,677,304
Interest income on bonds	307,081,167	466,210,310
Dividend income	83,941,693	80,717,280
Real estate funds	87,040,416	80,874,519
Private equity/debt funds	(15,542,574)	(5,257,365)
Tactical funds	19,229,089	22,743,769
Security lending income	18,891,542	37,846,439
Other income	777,015	776,030
Investment income	503,687,783	689,588,286
Gain (loss) on investments	(1,316,917,668)	(1,464,250,536)
Currency gain (loss)	94,611,624	(137,927,470)
Net appreciation (depreciation) in fair value of investments	(1,222,306,044)	(1,602,178,006)
Investment income (loss)	$(718,618,261)	$(912,589,720)

See accompanying independent auditor's report.

Iowa Public Employees' Retirement System
Schedule of Administrative Expenses
Years Ended June 30, 2002 and 2001

Schedule 4

	2002	2001
Personnel:		
Salaries & wages	$4,424,590	$3,583,467
Travel	60,285	59,163
Professional and technical services:		
Professional	1,001,164	575,707
Actuary	93,459	91,028
Computer support services	540,226	1,352,252
Auditing	60,483	55,314
Communications:		
Telephone	147,349	163,725
Printing	121,911	195,107
Other expenses:		
Office supplies	454,966	450,486
Utilities	51,286	53,360
Depreciation	450,206	402,801
Repairs	37,876	113,826
Rent	1,382	50,068
Miscellaneous	135,922	118,143
Total administrative expenses	$7,581,105	$7,264,447

See accompanying independent auditor's report.

Iowa Public Employees' Retirement System

Schedule 5

Schedule of Investment and Consulting-Related Expenses
Years Ended June 30, 2002 and 2001

	2002	2001
J.P. Morgan Investment Management, Inc.	$ 119,767	$ 279,640
Mellon Capital Management	229,792	262,973
RCM Capital Management	2,145,643	2,619,158
Wellington Trust Company, N.A.	3,389,856	6,420,011
TOTAL DOMESTIC EQUITY	**5,885,058**	**9,581,782**
Black Rock, Inc.	865,900	574,125
J.P. Morgan Investment Management, Inc.	803,584	1,287,733
Mellon Bond Associates	456,813	414,511
Mellon Capital Management	215,769	327,747
Miller, Anderson & Sherrerd	(74,234)	831,104
Oaktree Capital Management	2,039,730	2,170,574
Western Asset Management Company	1,545,369	1,596,334
TOTAL GLOBAL FIXED INCOME	**5,852,931**	**7,202,128**
Baring International Investment Ltd.	----	40,723
Mellon Capital Management	2,033,594	2,616,364
Mellon Capital GTAA	611,506	1,153,995
TOTAL TACTICAL	**2,645,100**	**3,811,082**
Barclays EAFE & CDA	206,314	215,322
Schroder Capital Management International	3,511,141	3,365,722
Barclays Global Investors - Alpha Tilt	4,110,449	4,356,010
Putnam	521,237	454,324
TOTAL INTERNATIONAL EQUITY	**8,349,141**	**8,391,378**
RREEF Reit	519,873	354,771
RREEF IMA	1,233,616	1,739,016
AEW	43,315	128,299
Copley	51	12,740
Heitman/JMB	276,765	452,740
Invesco	1,081,734	3,683,607
TA Associates	6,468,727	1,062,973
UBS Brinson	1,909,838	2,012,172
PMRealty	152,303	----
TOTAL REAL ESTATE	**11,686,222**	**9,446,318**
Pathway Capital Management	1,634,988	1,486,353
Warburg, Pincus Counsellors, Inc.	17,627	1,097,608
TOTAL PRIVATE EQUITY/DEBT	**1,652,615**	**2,583,961**
The Townsend Group	132,000	132,000
Wilshire Associates, Inc.	239,000	239,000
TOTAL INVESTMENT CONSULTANT FEES	**371,000**	**371,000**
Mellon Trust Company	434,499	483,279
Treasurer of State	20,689	36,557
TOTAL CUSTODY EXPENSES	**455,188**	**519,836**
Investment Staff Expenses	625,433	593,837
Miscellaneous Expenses	112,043	95,727
TOTAL OTHER INVESTMENT EXPENSES	**737,476**	**689,564**
TOTAL INVESTMENT EXPENSES	**$37,634,731**	**$42,597,049**

See accompanying independent auditor's report.

Actuarial

Actuary's Certification Letter

Comparative Statistics

Actuarial Balance Sheet

Active Membership Statistics

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November 20, 2002

We have performed an actuarial valuation of the Iowa Public Employees' Retirement System (System) as of June 30, 2002. An actuarial valuation is prepared annually in accordance with Iowa Code § 97B.61 using the actuarial assumptions adopted by the System and reflecting the applicable statutory laws in effect at that date. The primary purposes for performing the valuation are:

- to evaluate the sufficiency of the statutory contribution rate structure to fund the benefits expected to be paid to members in the future and to determine if the Plan's funding meets the criteria set out in the funding policy established by IPERS.
- to evaluate the funded status of the System and disclose various asset and liability measures as of June 30, 2002.
- to analyze and report on trends in System contributions, assets, and liabilities over the past several years.

The benefit provisions and actuarial methods reflected in this report are unchanged from last year's report, with one exception. This report reflects the movement of members working as "Conservation Officers" from the general membership to Special Services Group 2, effective July 1, 2002. The assumptions used in this valuation have changed from those used last year. Based on the results of the 1998-2001 Experience Study and our recommendations, the Investment Board adopted a new set of actuarial assumptions in September, 2002. The more significant changes in the actuarial assumptions are listed below:

- Change to the RP-2000 Mortality Table, with age adjustments as appropriate.
- Decrease in the assumed interest rate credited on contribution balances from 5.50% to 4.25%.
- Change in the assumption that vested members will elect a refund from an age-based to a service-based assumption.

Other minor changes were made in the "ultimate" retirement rates and the termination of employment rates for general members. The following assumptions for Special Services members were also changed: retirement, termination of employment, mortality and election of refund by vested members.

The actuarial valuation results provide a "snapshot" view of the System's financial condition on June 30, 2002. The results reflect net unfavorable experience for the past plan year as demonstrated by an unfunded actuarial liability (UAL) that was higher than expected, after taking into account the increase due to the new actuarial assumptions. The UAL on June 30, 2002 is $1,255 million as compared to an expected UAL of $588 million. The unfavorable experience was the net impact of an experience loss of $409 million on the actuarial value of assets and $258 million on System liabilities.

The System's normal cost rate (cost allocated to the current year of service worked by active members) this year is 9.03%, which represents an increase from the normal cost rate in the 2001 valuation of 8.93% largely due to the change in assumptions. With the normal cost rate at its current level, only a small part of the total contribution rate is available to fund the UAL.

The significant increase in the UAL, coupled with the increase in the normal cost rate (which effectively reduces the payment to the UAL), has created a situation where the amortization period is infinite (UAL cannot be amortized). This is analogous to a mortgage or loan where the payment is not large enough to pay the interest on the outstanding debt. Consequently, the amount of the debt increases each year. In such a situation, even if all actuarial assumptions are met in future years, the current statutory contribution rate of 9.45% will not be sufficient to provide all of the future benefits promised to current members.

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In 1998, legislation was passed to create the Favorable Experience Dividend (FED) reserve. The law provides that a portion of the favorable actuarial experience, if any, in subsequent years may be transferred to the FED reserve. Legislation passed in 2000 capped the FED reserve at ten years of expected payouts at the maximum level. Based on the results of the June 30, 2002 valuation, favorable actuarial experience did not occur for the System and, therefore, there is no transfer to the FED reserve. The current FED reserve is projected to be sufficient to make the maximum potential payment of 3% times years retired for the next five years (including the January 2003 payment), plus a reduced payment in the sixth year, if all assumptions are met in future years. The FED calculations are based on pure market value of assets so investment experience is fully reflected in each valuation. This has the potential to change the remaining years of payment from year to year.

Contribution Rate

The Iowa statutes provide that most IPERS members (general members who represent 96.5% of total active members) shall contribute 3.7% of pay and employers shall contribute 5.75%, for a total of 9.45%. The Special Service groups contribute at an actuarially determined rate that changes each year.

IPERS adopted its Funding Policy in 1996. The purpose of the Funding Policy is to provide a basis for the evaluation of the System's funded status and to provide a set of safeguards to help ensure the financial solvency of the System. The Funding Policy defines the term "fully funded" to mean the current actuarial value of assets plus the present value of future expected contributions is equal to or greater than the present value of future benefit payments. There is an additional requirement that the amortization period not exceed 30 years in order for the System to be "fully funded".

One of the purposes of the actuarial valuation is to determine whether the contribution rate for the general membership will be sufficient to fund the future benefits expected to be paid by the System within the guidelines established in IPERS' Funding Policy. The statutory contribution rate is first applied to fund the normal cost rate. The remaining contribution rate is used to amortize the unfunded actuarial liability (UAL) as a level percentage of payroll, which in turn determines the amortization period. As a result, the remaining amortization period varies with each actuarial valuation. Because the normal cost rate for the general membership (9.03%) is so close to the statutory contribution rate of 9.45%, the remaining 0.42% of payroll available for payment toward the UAL is very small. Based on the current UAL amount and amortization payment, the amortization period is infinite. In order for the System to be "fully funded" in the current valuation (the amortization period to be 30 years), the contribution rate for the current year would have increased 1.01% to 10.46% of payroll. However, this rate could only remain stable (level) if all actuarial assumptions, including a 7.5% rate of return on the actuarial value of assets, are met each year in the future, which is unlikely to occur.

When the current assets plus the present value of future expected contributions are not equal to the present value of future benefits for the current membership, the System is not in "actuarial balance". IPERS' Funding Policy provides a set of criteria to assist in deciding whether an increase in the contribution rate should be considered. If either of the following occurs in at least three of any five consecutive years, the Funding Policy recommends a contribution increase be considered:

(1) the normal cost rate is within 0.50% of the statutory contribution rate of 9.45% (which first occurred in the 2002 valuation).

(2) the amortization period exceeds 29 years (which it did for both the 2001 and 2002 valuations).

Based on the Funding Policy alone, there would be no action taken to increase contribution rates as a result of the 2002 valuation. However, based upon a number of factors discussed in the following paragraphs, we recommend action be taken now.

Although the determination that the System is not in "actuarial balance" is based on the assumption that actual experience in the future will unfold exactly as predicted by the actuarial assumptions, it almost certainly will not. Experience gains/losses will occur from year to year, particularly with respect to investment return. Because IPERS utilizes an asset smoothing method, investment experience greater/less than the assumed rate of return of 7.5% is spread over a number of years. As a result, there is currently a difference between actuarial and market value of assets of $1.2 billion, excluding the FED reserve. Given the amount of unrecognized or deferred actuarial investment loss (actual

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investment returns below the assumed rate of 7.5%) and the volatility of the current market, it is likely there will be actuarial losses on the investment return assumption over the next few years. As the deferred actuarial investment loss is recognized over the next few years, it will exacerbate the funding shortfall first manifested in this year's report.

Given the current normal cost rate, the unfunded actuarial liability, and the amount of the unrecognized actuarial investment loss, we believe some type of additional contributions will be necessary in the future. While it is in the System's best interest for additional contributions to be made sooner instead of later, we recognize the budget and planning considerations of raising contribution rates. There are at least four choices:

Option 1: "Wait and See". The System could wait a few years and see if future experience unfolds to offset the recent negative experience.

Option 2: "Immediate Change in Contribution Rates". This option would make an immediate one-time change in the current contribution rates, based solely on information in the current valuation.

Option 3: "Temporary Increase". This option would implement an immediate increase in contribution rates to infuse additional dollars into the System as soon as possible, while recognizing that additional changes to contribution rates, benefit plan design or both will likely be necessary.

Option 4: "Further Study". This option would study the long term funding of the System, including various results based on capital market assumptions, to determine what change in the contribution structure, if any, is necessary.

Given the extremely small difference between the normal cost rate and the statutory rate, coupled with the significant amount of deferred actuarial investment loss of $1.2 billion, we do not believe Option 1 is the best choice. Time is not likely to resolve the long term funding issues.

The fact that the System is not in actuarial balance does not create an immediate funding concern for the System. System assets are sufficient to make future projected benefit payments for many years. The shortfall between assets and liabilities that is indicated by this year's valuation is a long term funding issue. Given the infrequent adjustment of contribution rates in the past, we believe the possibility of increasing contribution rates is a serious matter and one of interest to many different parties. Based on this valuation report alone, there is insufficient information for us to recommend the precise, permanent revision to the current contribution structure. Therefore, even though it infuses additional contribution dollars into the System immediately, Option 2 is not our recommended approach.

However, it is in the System's best interest for additional contributions to be made sooner instead of later. Furthermore, the earlier additional contributions are made, the lower the cost will be. Option 3 would increase the System's funding immediately but recognize that further adjustments will be necessary.

As mentioned earlier there is inadequate information available at this time to recommend new fixed contribution rates. Given the long term nature of the issue, there is adequate time to study the situation thoroughly and make the best possible decision. Future investment experience will have a dramatic impact on the contribution needs of the System so various possibilities need to be modeled to determine the range of probable outcomes. If a change is to be made to the contribution rates, it is in everyone's best interest for the new contribution rate structure to be adequate so rates will not have to be adjusted again in the short term. Therefore, our recommendation would be to select Option 3 and Option 4 or Option 4 alone.

IPERS plans to complete an Asset/Liability Study during fiscal year 2003. We recommend the long term funding issue and the determination of a new contribution rate structure be studied as an extension of that project. This approach will provide more sophisticated modeling techniques, based on statistical analysis and capital market assumptions, which will assist in quantifying the shortfall of the current contribution rate under various scenarios. It will also reflect potential changes in the future demographics of the active membership and possible changes in benefit plan design, which are also important parts of the System's long term funding.

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Actuarial Value of Net Assets

For financial statement purposes, the System's assets are reported at current fair values. For actuarial purposes, the assets are valued using a technique which dampens the volatility in the fair value. Specifically, the assets are valued at their expected value at the valuation date (based on the assumed rate of investment return) plus 25% of the difference between the fair value and the expected value on the valuation date. Based on this methodology, there was an actuarial loss on assets due to the partial recognition of investment losses from the current and prior periods. Between June 30, 2001 and June 30, 2002, the actuarial value of assets increased by $501 million. This represented an approximate rate of return of 4.8% as compared to the actuarial assumed rate of 7.5%. The resulting actuarial loss was $409 million.

Liabilities

Three different measurements of liabilities are shown on the following page. Each liability measurement is used for a different purpose. Therefore, the relative importance of the measurement will depend on the perspective of the person using the information. From an actuarial viewpoint, the actuarial balance sheet liability and the actuarial liability are the most critical because, along with the actuarial value of assets, they ultimately determine whether the statutory contribution rate for the System is sufficient to provide the current benefit structure. The other liability figure is valuable because it provides a useful comparison of assets and liabilities.

- Actuarial Balance Sheet Liability is the present value of all future benefits. This liability is calculated based on **both future payroll projections** and **service credits to retirement or other separation from service**. It represents the present value of all benefits expected to be paid to all current System members (retired, active and deferred vested) in the future.

- Actuarial Liability is the portion of the present value of future benefits (actuarial balance sheet liability) that will not be paid by future normal costs. It is also defined as the portion of the actuarial balance sheet liability allocated by the actuarial cost method to service before the valuation date.

- Liability for Accrued Benefits is used only for informational purposes. It does **not** impact the contribution rate or amortization period for the System. This liability represents the present value of benefits earned to date, based on **service and salary as of June 30, 2002.** The liability for accrued benefits can be used as a measure of the funded status of the System, since it more closely represents the amount required to pay all accrued benefits if the fund were to liquidate on the measurement date. In a well funded System, the expectation would be that the assets would be equal to or exceed the liability for accrued benefits, as is true for IPERS.

The net changes in System liabilities between June 30, 2002 and June 30, 2001 are summarized below:

	June 30, 2002	June 30, 2001	Change
Actuarial Balance Sheet Liability	$20,936,398,551	$19,313,637,119	8.4%
Actuarial Liability	16,868,559,185	15,553,379,304	8.5%
Liability for Accrued Benefits	13,155,173,862	12,233,187,712	7.5%

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Experience

Numerous factors contributed to the change in the Systems' asset, liabilities and remaining amortization period for the unfunded actuarial liability between June 30, 2001 and June 30, 2002. The components are examined in the following discussion.

Actuarial gains (or losses) result from actual experience that is more (or less) favorable than anticipated based on the actuarial assumptions. These "experience" (or actuarial) gains or losses are reflected in the UAL and are measured as the difference between the expected unfunded actuarial liability and the actual unfunded actuarial liability, taking into account any changes due to assumption or benefit provision changes. Overall, the System experienced a net actuarial loss of $667 million. The change in the unfunded actuarial liability between June 30, 2001 and 2002 is shown below (in millions):

Unfunded Actuarial Liability, June 30, 2001	$ 441
• Expected change in UAL due to amortization payment	3
• Investment (gain)/loss	409
• Liability (gain)/loss from actual experience	258
• Benefit enhancements	3
• Change in actuarial assumptions	141
Unfunded Actuarial Liability before FED transfer, June 30, 2002	$1,255
• FED Transfer	0
Unfunded Actuarial Liability after FED transfer, June 30, 2002	$1,255

Solvency Test

A short-term solvency test, which is one means of determining a system's progress under its funding program, compares the plan's present assets with: 1) active member contributions on deposit; 2) the liabilities for future benefits to present retirees; and (3) the pension benefit obligation for service already rendered by active members. In a system that has been following the level percent of payroll financing discipline, the obligation for active member contributions on deposit (Item 1) and the liabilities for future benefits to present retired lives (Item 2) will be fully covered by present assets with the exception of rare circumstances. The obligation for service already rendered by active members (Item 3) will be fully or partially covered by the remainder of present assets. Absent any significant benefit changes, if the system has been using level cost financing, the funded portion of Item 3 usually will increase over a period of time.

Solvency Test Last Ten Fiscal Years

Actuarial Valuation	Active Member Contributions (1)	Retirees and Beneficiaries (2)	Active Members Employer Financed Portion (3)	Actuarial Value of Assets	Portions of Liabilities Covered by Assets (1)	(2)	(3)
2002	$2,626,787,528	$6,207,351,544	$6,085,044,806	$15,613,114,009	100%	100%	100%
2001	2,519,313,788	5,448,405,616	5,782,943,236	15,112,424,729	100%	100%	100%
2000	2,382,209,851	4,906,082,319	5,335,750,045	14,145,141,535	100%	100%	100%
1999	2,155,591,553	4,414,919,917	4,820,813,078	12,664,031,437	100%	100%	100%
1998	2,012,398,849	3,866,369,340	4,448,899,695	11,352,674,142	100%	100%	100%
1997	1,933,363,854	3,366,088,472	4,027,315,316	10,112,976,077	100%	100%	100%
1996	1,797,120,005	3,076,721,751	3,881,257,078	8,975,396,251	100%	100%	100%
1995	1,679,791,138	2,517,031,712	2,579,784,695	7,574,159,776	100%	100%	100%
1994	1,649,551,000	2,232,336,187	2,308,964,035	6,926,678,212	100%	100%	100%
1993	1,515,557,000	2,206,710,587	2,154,408,522	6,365,169,296	100%	100%	100%

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Summary

IPERS, like most retirement plans in the United States (both public and private) is feeling the impact of nearly three years of record low market returns. This, coupled with negative demographic experience and a recent change in actuarial assumptions that increased liabilities, significantly increased the unfunded actuarial liability (UAL) of the System. For most members, IPERS is funded by a fixed (statutory) contribution rate of 9.45%. Given the small 0.42% difference between the 9.45% statutory rate and the 9.03% normal cost rate (cost allocated to the current year of service worked by active members), the increase in the unfunded actuarial liability this year resulted in an infinite amortization period. Despite the unfavorable experience on both the asset and liability side, the System remains nearly 93% funded. If the contribution rate were determined in this year's valuation with an amortization period of 30 years (which is the requirement in IPERS' Funding Policy for the System to be "fully funded"), the contribution rate would be 10.46% of payroll. However, this implicitly assumes all assumptions are met in the future, including a 7.5% rate of return on the actuarial value of assets.

The System faces challenges similar to other large retirement systems. Like most large Systems, IPERS uses an asset smoothing method. This methodology delays recognition of investment gains and losses on a fair (market) value basis. If there is a net deferred actuarial investment gain, the actuarial value of assets will be less than the fair value and the funded status will improve in the future if experience follows the assumptions. On the other hand, if there is a net deferred actuarial investment loss, the actuarial value of assets will be greater than the fair value, and the funded status will deteriorate over time if experience follows the assumptions. The current deferred actuarial investment loss for IPERS is $1.2 billion. Absent market returns significantly in excess of 7.5% in the next few years, the deferred loss will flow into the actuarial value of assets and be recognized in the actuarial valuation process. They will be reflected as experience losses, with a resulting increase in the unfunded actuarial liability. Potentially the UAL could double over the next five years.

The small portion of the total contribution rate that is used to pay down the unfunded actuarial liability exacerbates the situation with the deferred actuarial investment loss. Currently, only 0.42% of payroll is available for payment toward the UAL. With the expectation that additional losses will flow through to the actuarial value of assets, causing the UAL in future years to increase, it appears nearly impossible for the System to be able to pay off the UAL over any reasonable time period without an increase in future contributions. Earlier in this report, we outlined our recommendation with respect to the current funded status and contribution rates. As the System's actuary, we recommend the long term funding of the System be studied, beginning with the Asset/Liability Study scheduled for fiscal year 2003. There is sufficient time to thoroughly analyze the contribution requirements of the System over the long term, taking into consideration the probabilities of different investment returns in the future, potential changes in the demographics of the active members, and possible benefit design changes. Any change in the benefit or contribution rate structure of IPERS is an extremely important decision and we believe all resources available should be used to provide the decision makers with adequate information. Milliman USA intends to be an active participant in this process.

In performing the valuation, we have relied upon membership and financial data reported to us by the System. We did not verify the accuracy of the information but did review it for reasonableness in relation to the data submitted for previous years. All of the information in the Actuarial section of this report has been provided by Milliman USA, Inc. We also provided the information that was used in the Schedule of Funding Progress located in the Financial section.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted principles and practices which are consistent with the principles prescribed by the Actuarial Standards Board (ASB) and the Code of Professional Conduct and Qualification Standards for Public Statements of Actuarial Opinion of the American Academy of Actuaries.

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

OFFICES IN PRINCIPAL CITIES WORLDWIDE

Actuarial computations presented in this report are for purposes of evaluating the funding the System and for reporting under accounting standards. Determinations for purposes other than this may be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes.

In conclusion, on the following page we present comparative statistics and actuarial information on both the June 30, 2002 and June 30, 2001 valuations. All figures shown include the general membership and the two special service groups.

Respectfully Submitted,

Milliman USA, Inc.

I, Patrice A. Beckham, am a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Patrice Beckham

Patrice A. Beckham, F.S.A.
Consulting Actuary

OFFICES IN PRINCIPAL CITIES WORLDWIDE

COMPARATIVE STATISTICS
JUNE 30, 2002

	June 30, 2002	June 30, 2001	% Chg
SYSTEM MEMBERSHIP			
1. Active Membership			
- Number of Members	158,467	154,610	2.5
- Projected Payroll for Fiscal Year	$5,090M	$4,691M	8.5
- Average Annual Salary	$32,119	$30,341	5.9
2. Inactive Membership			
- Number of Vested Deferred Members	34,792	32,295	7.7
- Number of Nonvested Members	63,436	63,810	(0.6)
3. Retired Membership			
- Number of Retirees/Beneficiaries	71,715	68,703	4.4
- Average Annual Retirement Benefit	$9,091	$8,221	10.6
ASSETS AND LIABILITIES			
1. Net Assets (excluding FED reserve)			
- Fair Value	$14,388M	$15,358M	(6.3)
- Actuarial Value	$15,613M	$15,112M	3.3
2. Projected Liabilities			
- Retired Members	$6,207M	$5,448M	13.9
- Inactive Members	$426M	$407M	4.7
- Active Members	$14,303M	$13,459M	6.3
Total Liability	$20,936M	$19,314M	8.4
3. Actuarial Liability	$16,869M	$15,553M	8.5
4. Unfunded Actuarial Liability	$1,255M	$441M	184.6
5. Funded Ratio (Actuarial Value Assets/Actuarial Liability)	92.56%	97.16%	(4.7)
SYSTEM CONTRIBUTIONS			
1. Required Contribution Rate*	9.45%	9.45%	0.0
2. Normal Cost Rate	9.03%	8.93%	1.1
3. Years Required to Amortize Unfunded Actuarial Liability	Infinite	39 years	N/A

M = ($)Millions
* Contribution for certain special groups (3.6% of the membership) are not fixed at 9.45% but are actuarially determined each year.

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Actuarial Assumptions and Methods

1. Rate of Interest/Investment Rate of Return - 7.50% per annum, compounded annually.

2. Rate of Crediting Interest on Contribution Balances - 4.25% per annum, compounded annually.

3. Inflation rate of 3.50%.

4. Payroll Growth 4.0% per year

5. Rate of Salary Increase

Annual Percentage Rate of Increase

Age	Years 0-1	Year 2	Year 3	Years 4-5	Years 6-7	Years 8-10	Years 11-15	Years 16-20	Years 21+
22	18.5%	12.5%	8.5%	8.0%	7.5%	6.0%	5.5%	5.0%	4.9%
27	15.5	10.0	8.3	7.0	6.5	6.0	5.5	5.0	4.9
32	14.8	9.8	8.0	7.0	6.5	6.0	5.5	5.0	4.9
37	14.7	9.8	8.0	7.0	6.3	6.0	5.5	5.0	4.9
42	14.7	9.2	8.0	7.0	6.2	6.0	5.5	4.9	4.9
47	14.2	9.0	8.0	7.0	6.2	5.5	5.2	4.8	4.2
52	13.3	8.3	6.9	7.0	6.2	5.5	5.0	4.5	4.2
57	12.5	7.7	6.9	7.0	5.7	5.5	4.6	4.5	4.2
57	10.9	7.1	6.7	6.0	4.5	4.5	4.5	4.5	4.0

6. Rates of Mortality - Assumed mortality rates vary depending upon the member's age. Mortality rates are based on the RP-2000 Healthy Annuitant for inactives and the RP-2000 Employee Table for actives with adjustments to better reflect actual experience. Rates for selected ages are shown below.

Annual Mortality Rates

Active			Inactive		
Age	Male	Female	Age	Male	Female
20	0.036%	0.019%	55	0.612%	0.290%
25	0.038	0.020	60	0.900	0.492
30	0.050	0.024	65	1.487	0.851
35	0.084	0.039	70	2.457	1.377
40	0.114	0.060	75	4.217	2.297
45	0.162	0.094	80	7.204	3.760
50	0.229	0.143	85	12.280	6.251
			90	19.977	10.730

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7. Rate of Employment Termination

Annual Percentage Rate of Termination

Males:

Age	Years 0-1	Year 2	Year 3	Years 4-6	Years 7-8	Years 9+
22	33.0%	25.0%	22.0%	9.9%	8.8%	6.6%
27	23.1	14.5	12.1	9.9	8.8	6.6
32	19.8	14.5	11.0	7.5	5.5	3.9
37	19.6	14.0	11.0	7.5	5.0	3.3
42	19.6	14.0	11.0	7.5	5.0	2.5
47	19.6	13.0	9.9	7.5	5.0	2.0
52	17.6	11.0	7.7	7.5	5.0	2.0
55+	16.5	11.0	5.5	7.5	5.0	2.0

Females:

Age	Years 0-1	Year 2	Year 3	Years 4-6	Years 7-8	Years 9+
22	33.0%	25.0%	22.0%	11.0%	9.9%	5.5%
27	27.5	17.0	14.0	11.0	9.9	5.5
32	24.8	17.0	14.0	10.6	7.2	5.0
37	19.8	15.0	14.0	10.6	6.6	3.6
42	19.8	15.0	14.0	8.8	6.1	3.1
47	19.8	13.0	14.0	8.3	5.0	2.5
52	19.8	13.0	14.0	8.3	5.0	2.5
55+	19.8	13.0	14.0	8.3	5.0	2.5

8. Rates of Disablement

	Annual Percentage Rate	
Age	Males	Females
27	0.02%	0.02%
32	0.02	0.02
37	0.04	0.03
42	0.07	0.05
47	0.14	0.09
52	0.33	0.22
57	0.63	0.39
62	0.90	0.62

9. Withdrawal Rate of Member Accounts

Years of	Annual Percentage Rate	
Service	Males	Females
5	39%	30%
10	34	27
15	29	20
20	24	15
25	20	10
30+	15	5

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10. Retirement Rates

Early Retirement with Reduced Benefits

Age	Annual Percentage Rate
55-59	5%
60	10
61	15
62	25
63 - 64	20

Normal Retirement[1]

	Annual Percentage Rate	
Age	1st year of eligibility	Thereafter
55 – 56	20%	10%
57 – 59	20	20
60	25	25
61	35	30
62	50	40
63	35	30
64	35	35
65	30	45
66	20	20
67 – 68	15	15
69	15	35
70+	100	100

[1]Eligibility for normal retirement is rule of 88, age 62 with 20 years of service, or age 65.

Terminated vested members are assumed to retire at age 62.

11. Age of Spouses For Joint and Survivor Retirees - The male of the couple is assumed to be three years older than the female.

Actuarial Cost Method - The actuarial cost method employed in the current valuation of the System is called the "Entry Age Normal Cost Method." Under this method, the actuarial present value of each member's projected benefit is allocated on a level percentage basis over the member's compensation between the entry age of the member and the assumed exit ages. Under this method, a total contribution rate is determined which consists of two parts: (i) the normal cost rate; and (ii) the contribution rate necessary to fund the unfunded actuarial accrued liability.

Actuarial Value of Net Assets - For actuarial purposes, assets are valued at the expected value at the valuation date plus 25% of the difference between the market value and the expected value on the valuation date. Under this method, the expected value of assets is defined as the prior year's actuarial value increased by the System's net receipts and disbursements and the assumed investment rate of return.

The actuarial assumptions were developed both from the experience of the System and from standard actuarial sources, based on a three-year experience study (1998–2001) conducted by Milliman USA, Inc. The actuarial assumptions resulting from the study were first utilized in the June 30, 2002 actuarial valuation.

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ACTUARIAL BALANCE SHEET
JUNE 30, 2002

ASSETS

Actuarial value of assets	$15,613,114,099
Present value of future normal costs	4,067,839,366
Present value of future contributions to amortize the unfunded actuarial liability	1,255,445,086
Total Net Assets	$20,936,398,551

LIABILITIES

Present Value of Future Benefits	
Retired Members and Beneficiaries	
Annuity benefits being paid and contingent payments upon death	$ 6,207,351,544
Active Members	
Retirement benefits	12,423,377,424
Death benefits	196,059,344
Termination benefits	1,016,364,336
Disability benefits	667,583,903
Inactive Members	
Retirement allowances & death benefits for vested members	402,649,460
Accumulated employee account balances for nonvested members	23,012,540
Total Liabilities	$20,936,398,551

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ACTIVE MEMBERSHIP STATISTICS
FOR 10 YEARS ENDING JUNE 30, 2002

Active Member Statistics

Fiscal Year Ending June 30	Total Actives	Percent Change	Average Covered Wage	Average Age	Average Service Credit
1993	136,409	1.4	22,604	43.9	10.6
1994	141,423	3.7	22,968	44.2	10.7
1995	144,912	2.5	23,322	44.1	10.8
1996	147,431	1.7	25,218	44.2	11.0
1997	147,736	0.2	26,055	44.6	11.5
1998	148,917	0.8	26,767	44.7	11.5
1999	152,440	2.4	27,322	44.8	11.4
2000	153,039	0.4	29,032	44.8	11.6
2001	154,610	1.0	30,341	45.0	11.5
2002	158,467	2.5	32,119	45.2	11.3

Analysis of Change in Membership

Fiscal Year Ending June 30	Beginning Members	Additions	Retired	Died	Other Terminations	Ending Members
1993	134,485	17,065	6,086	102	8,953	136,409
1994	136,409	17,529	2,330	572	9,613	141,423
1995	141,423	17,346	4,138	114	9,605	144,912
1996	144,912	17,514	3,133	224	11,638	147,431
1997	147,431	16,288	3,820	191	11,972	147,736
1998	147,736	17,606	3,079	285	13,061	148,917
1999	148,917	18,503	3,642	250	11,088	152,440
2000	152,440	18,698	2,139	256	15,704	153,039
2001	153,039	13,534	1,567	113	10,283	154,610
2002	154,610	19,247	3,680	138	11,572	158,467

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Investments

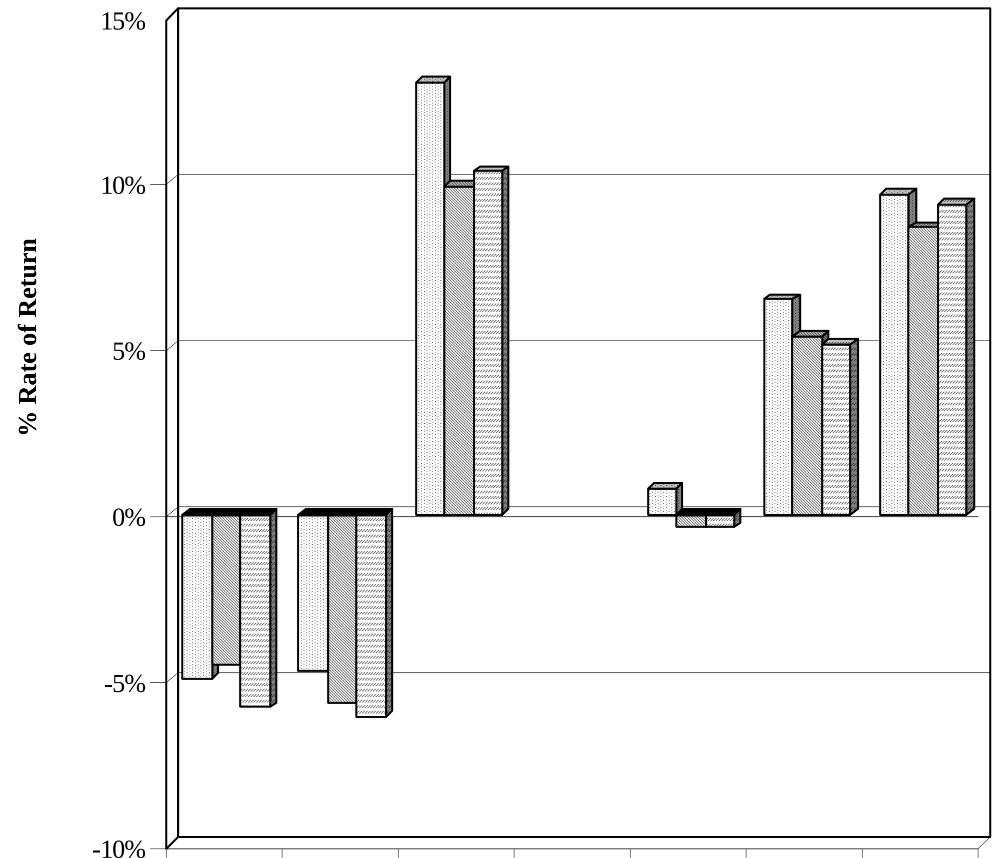
Investment Overview

Investment Results

Investment Policy And Goal Statement

Annualized Investment Performance Summary

For the periods ended June 30



	2002	2001	2000		3 yr	5 yr	10 yr
IPERS' Portfolio *	-4.94%	-4.73%	13.05%		0.79%	6.48%	9.64%
Policy Benchmark **	-4.52%	-5.68%	9.88%		-0.35%	5.37%	8.65%
Large Public Fund Median ***	-5.82%	-6.10%	10.34%		-0.40%	5.13%	9.34%

* Net of Fees
** A passively-managed benchmark comprised of market indices, and weightings of same, reflective of IPERS' asset allocation targets.
*** TUCS Public Funds Greater than $1 Billion.

Investment Overview

Investment returns play an important role in the funded status of the IPERS Trust Fund. The IPERS Investment Board has adopted an Investment Policy and Goal Statement, the objective of which is to benefit the members of the System by maximizing the total rate of return on investments within prudent risk parameters. The System's overall investment performance goal is to achieve an annualized rate of return which, when combined with the required employer and employee contributions to the System, will meet or exceed the benefits and administrative funding requirements of the System. In addition, specific investment return objectives are adopted by the Investment Board for the Trust Fund in total and for each asset class. Please see the Investment Policy and Goal Statement at the end of this Investments section for a listing of these investment return objectives.

The System's investments are managed by professional investment management firms and partnerships based upon statutory investment authority, the investment policies adopted by the IPERS Investment Board and detailed service contracts. The System's staff coordinates and monitors the investment of the Trust Fund's assets and assists the Investment Board in the formulation and implementation of investment policy and long-term investment strategy.

The IPERS net investment portfolio fair values reported in this Investments section and used as the basis for calculating investment returns differ from those shown in the Financial section of this report. The values used in this section are the appropriate basis for investment return calculation, and are net of all investment receivables, payables and securities lending collateral.

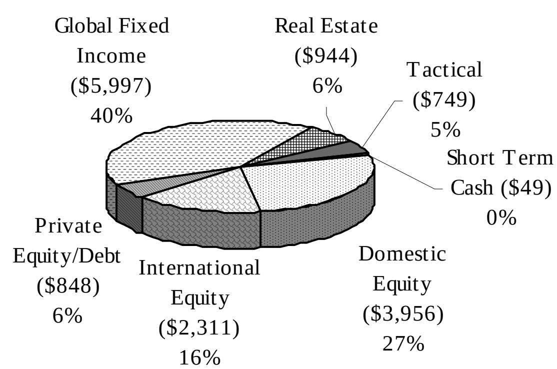
The Importance of Asset Allocation and Diversification

Asset allocation is a process designed to construct an optimal long-term asset mix which achieves a specific set of investment objectives. Each year the IPERS Investment Board adopts an Investment Policy and Goal Statement that describes the System's investment objectives and establishes the System's asset allocation policy as designed to meet those objectives. The asset allocation policy is adopted to provide for diversification of assets in an effort to maximize the investment return to the System consistent with prudent levels of market and economic risks. Of all the components of investment policy formulation, the determination of asset allocation policy is the most important decision in the investment process.

Allocation of IPERS' Investments

As of June 30, 2002

(Assets in Millions)



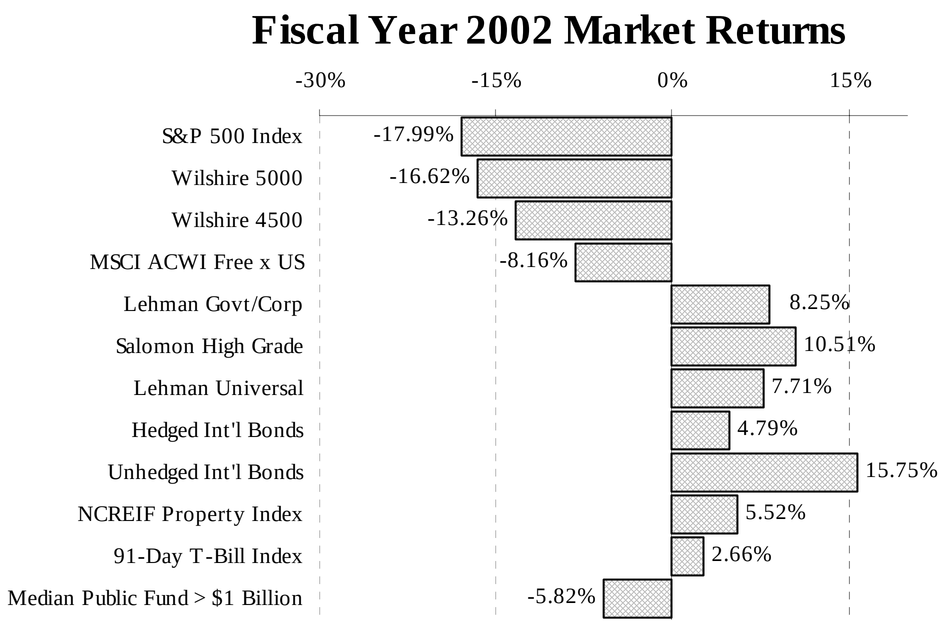
In addition to asset class diversification, the System also seeks to diversify the investment portfolio by investment management styles. The success of a particular investment style tends to be cyclical. For example, "growth" stock investing may outperform "value" stock investing for several quarters, or perhaps several years, until the trend is reversed. By utilizing several investment management firms with a variety of investment styles, the investment performance of the Fund is not dependent upon the success of one particular investment style.

The System also requires its investment managers to diversify their portfolios at the security level. Managers are required to diversify across sectors, industries, and individual securities. The System develops specific investment guidelines for each manager that control the risk of high concentrations in a particular sector, industry, or security.

Overall, diversification of the System's assets among various asset classes, investment management styles, and individual securities enhances the potential to achieve a greater rate of return while minimizing the risk of negative returns caused by adverse short-term changes in the capital markets.

Capital Markets Commentary

Capital markets reflected a lack of investor confidence in fiscal year 2002. Equity markets in the United States and abroad performed poorly as investors worried about terrorism, corporate accounting fraud, and lower corporate earnings in a slower-paced world economy. In contrast to the equity markets, fixed-income investments performed well in fiscal year 2002 due largely to an environment of low inflation and greater demand from investors seeking refuge from the losses in the equity markets. Real estate also demonstrated the value of income-producing investments, providing attractive positive returns in an otherwise bleak year.



The U.S. equity market, as measured by the Wilshire 5000 Index, returned -16.6% for the fiscal year, its worst performance on a fiscal year basis since the index was created in 1971. In terms of style and capitalization, value stocks greatly outperformed growth stocks, and small capitalization stocks outperformed large capitalization stocks in fiscal year 2002, as shown in the table below.

Wilshire Style Index	FY Return
Large Growth	-21.6%
Large Value	-13.9%
Small Growth	-25.4%
Small Value	3.6%

All sectors of the Wilshire 5000 Index turned in negative returns for fiscal year 2002. The worst performing sectors were Utilities (-34.1%), Technology (-32.9%) and Capital Goods (-27.5%), while the best performing sectors were Transportation (-2.9%), Finance (-5.4%) and Energy (-8.9%).

Returns to U.S. investors from international stocks were better than returns on U.S. stocks in fiscal year 2002 due largely to the decline in the U.S. dollar. The MSCI All Country World Free ex-U.S. Index, a performance benchmark for equities of non-U.S. companies located in developed countries, returned -8.2% for the fiscal year ended June 30, 2002. European stocks lost 7.7% over the fiscal year, due also to the slowing global economy and a weakening U.S. dollar. Stocks of companies in the Pacific Basin performed even worse, losing 13.5% over the fiscal year, as the Japanese economy continued to show signs of weakness and the slower U.S. economy impacted export-dependent Asian countries. Emerging markets stocks gained 1.3% in fiscal year 2002 due to low interest rates and stable crude oil prices over the period.

The fixed income market generated another year of solid performance in fiscal year 2002. The September 2001 terrorist attacks, the continuation of the economic recession, and the combination of corporate accounting fraud and corporate defaults all contributed to create a flight to quality from stocks to fixed income securities. Fixed income markets also benefited from low inflation and the Federal Reserve’s accommodative monetary policy during the fiscal year. As measured by the Lehman Brothers Universal Index, the fixed income market returned 7.7% for the one-year period ended June 30, 2002. The U.S. Treasury sector, especially the longer maturity Treasury bonds, performed very well during the fiscal year as investor appetite for safe investments helped drive up prices on these securities. Overall, Treasuries returned 8.5% for the fiscal year, with longer maturity Treasuries and the Treasury Inflation Protected Securities (TIPS) returning 9.1% and 8.8%, respectively. Among the credit sectors, mortgages performed well, generating a return of 9.0%, while corporate securities returned 7.5%. The high yield market underperformed relative to the rest of the market, generating a return of 1.6% due to credit concerns and a high level of defaults. Non-U.S bonds hedged into the U.S. dollar returned 4.8% for the fiscal year. Unhedged non-U.S. bonds produced a return of 15.8% over the fiscal year as the dollar weakened over the time period.

The U.S. commercial real estate market also provided positive returns in fiscal year 2002 due mainly to stable operating income from properties. Property values slightly decreased in all of the major property types (with the exception of apartments) during the year. The NCREIF Property Index, a commonly cited measure of privately traded commercial real estate values and income, returned 5.5% for the one-year period ended June 30, 2002. Publicly traded real estate securities (REITS) performed particularly well during fiscal year 2002, with the Wilshire Real Estate Investment Trust Index posting an annual return of 16.1% for the fiscal year.

Private equity investment valuations were hammered downward due to the continued implosion of the technology and telecommunications sectors and a poor economy overall in fiscal year 2002. Venture capital investments were especially hard hit by the sharp decline in valuations for technology stocks in fiscal year 2002. According to *Venture Economics* the average annual return on venture capital funds for the fiscal year was -27%. Private equity investments in buyout strategies also fared poorly as telecommunication investments were written off and valuations for most sectors continued to decline in the uncertain economic environment. *Venture Economics'* data indicates that buyout funds produced an average annual return of -11.4% for fiscal year 2002. The overall private equity asset class, as measured by *Venture Economics* data, produced a return of -16.5% in fiscal year 2002.

Investment Portfolio Assets

At the close of fiscal year 2002, IPERS' net investment portfolio assets had a fair value of $14,854,018,390.[1] The change in fair value represents a decrease of $1,058,895,464 from the $15,912,913,854 net investment asset fair value as of June 30, 2001. The decrease in net investment portfolio asset fair value is attributable to two factors. The first factor is the continued fact that employer and employee contributions to IPERS no longer fully fund the benefit payments, member refunds and administrative expenses of the System; funds must regularly be drawn from the investment portfolio to help meet these obligations. This draw down of investment assets is typical for a mature pension system, where investment earnings are expected to supplement employer and employee contributions in meeting liabilities. The second factor contributing to the decrease in net investment portfolio assets was the System's negative fiscal year 2002 investment return, which is more fully addressed below.

Investment Results

IPERS posted a total portfolio investment return of -4.9% for the fiscal year ended June 30, 2002. This return lagged the -4.5% return of IPERS' "policy benchmark," a set of market indices and weightings reflecting IPERS' target asset class allocations. The underperformance of the Fund relative to the policy benchmark was the result of valuation writedowns in the private equity portfolio and a lag in the domestic equity portfolio's one-year return vs. its Wilshire 5000 benchmark. However, the Fund's -4.9% total investment return for the fiscal year exceeded the -5.82% median return of the Trust Universe Comparison Service ("TUCS") universe of public pension funds with assets greater than $1 billion.

[1] Based on fair value of the total investment portfolio at June 30, 2002 and June 30, 2001, net of all investment receivables, payables and securities lending collateral. Although these values are the appropriate basis for calculation of investment returns, they differ from the "Investments at fair value" shown in the Financial section of this report, which are reported using GASB Statement No. 28 financial statement standards.

IPERS' strongest return for the fiscal year was provided by its real estate portfolio at 8.3%, followed by the global fixed income portfolio at 7.7%. The weakest returns were from the private equity portfolio at -22.7%, and the domestic equity portfolio at -17.4%. For the five years (annualized) ending June 30, 2002, IPERS' total fund return of 6.5% exceeded both the policy benchmark return of 5.4% and the TUCS large public fund universe median return of 5.13%. IPERS' ten-year annualized return of 9.6% also outpaced both the policy benchmark return of 8.7% and the TUCS large public fund median return of 9.3%. IPERS' investment returns, net of fees, for the total portfolio and for each asset class over various periods are shown in the following table. For comparison purposes, the benchmark for each asset class is also shown.

Time-weighted Rates of Return for periods ended June 30, 2002[a]

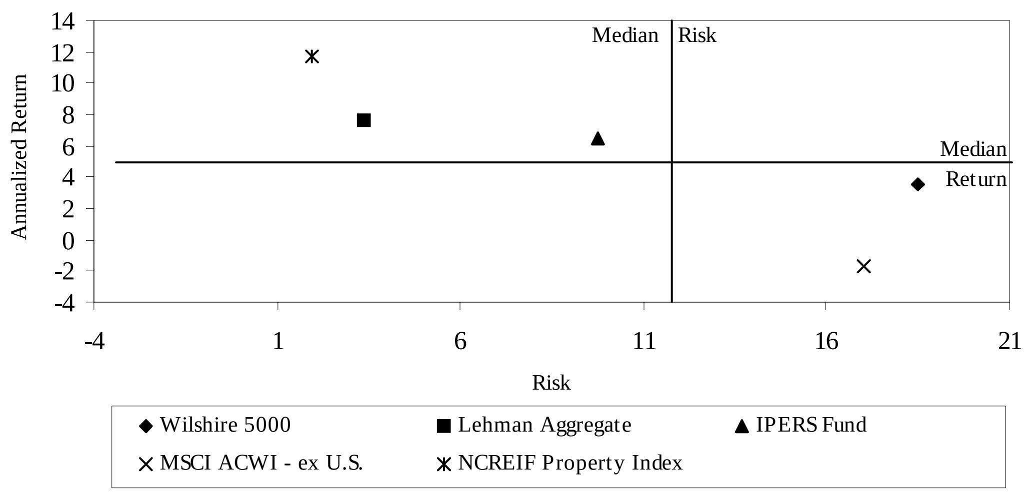
		Annualized Returns		
Asset Class	**1-Year**	**3-Year**	**5-Year**	**10-Year**
Total Fund				
IPERS	-4.94%	0.79%	6.48%	9.64%
Policy Benchmark[b]	-4.52	-0.35	5.37	8.65
CPI + 3%	4.08	5.68	5.34	5.52
Actuarial Interest Rate	7.50	7.50	7.50	7.50
TUCS Public Funds >$1 Billion Universe Median	-5.82	-0.40	5.13	9.34
Domestic Equity				
IPERS	-17.43	-7.27	4.85	11.69
Wilshire 5000	-16.62	-8.22	3.57	11.05
International Equity				
IPERS	-7.74	-4.74	-0.52	5.02
Custom Benchmark	-8.23	-6.16	-3.25	4.87
Global Fixed Income				
IPERS	7.73	7.66	7.32	7.66
Custom Benchmark	7.71	7.72	7.34	7.23
Tactical				
IPERS	-8.40	-2.77	5.41	10.45
Custom Benchmark	-7.55	-2.86	5.31	9.97
Private Equity/Debt[c]				
IPERS	-22.70	-1.95	7.77	15.43
Wilshire 5000 + 3%	-15.24	-5.49	7.91	16.39
Real Estate				
IPERS	8.25	10.78	11.47	5.08
CPI + 6%	7.08	8.68	8.34	8.52
Short-Term Cash[d]				
IPERS	2.87	4.95	5.22	N/A
US Treasury Bills	2.66	4.67	4.84	N/A

[a] All returns are calculated in accordance with AIMR standards. 3-year, 5-year and 10-year returns are annualized.
[b] As of June 30, 2002 the Policy Benchmark consists of: 28% Wilshire 5000, 15% MSCI ACWI x US, 34% Lehman Universal, 3% Salomon Cash Pay High Yield, 5% Tactical custom benchmark, 10% Wilshire 5000 + 3%, and 5% CPI + 6%.
[c] Private Equity/Debt portfolio returns and benchmark returns are calculated using an Internal Rate of Return (IRR) methodology in accordance with AIMR standards.
[d] Starting in Fiscal Year 2000, Short-Term Cash returns exclude miscellaneous income.

The total return an investment portfolio achieves over the long term is largely determined by the level of risk or volatility that the investor is willing to accept. In general, the greater the volatility of returns, the higher the return has to be to compensate the investor for accepting that volatility. A pension fund's willingness to accept additional risk is often the result of its need to achieve or maintain an actuarially sound system. Given the disparities in funding levels which exist among pension funds, it is often difficult, if not impossible, to make a meaningful comparison of their returns.

The graph below provides a comparison of IPERS' investment risk/return characteristics for the last five years against a universe of large public pension funds. The vertical line represents the median level of risk (standard deviation of returns) experienced by this universe of funds. The horizontal line represents the median rate of return earned by this same group of funds. IPERS' risk/return characteristics are plotted on the same graph along with selected market indices. As shown in the graph, the return on IPERS' investments for the five years ended June 30, 2002 was higher than the median large public pension fund return, and this higher return was earned with significantly less risk than the median large public pension fund over this same time period.

Risk vs Total Return
Public Funds Larger Than $1.0 Billion
5 Years Ended June 30, 2002



	Annualized Return	Risk (Standard Deviation)
IPERS Total Fund	6.48%	9.74%
Median Fund	5.13	11.58
Wilshire 5000	3.57	18.49
Lehman Aggregate	7.57	3.38
MSCI ACWI – ex U.S.	-1.70	17.00
NCREIF Property Index	5.52	1.97

Domestic Equity

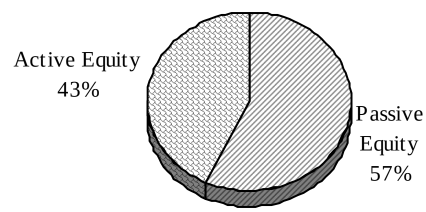
At June 30, 2002, 27% of IPERS' total portfolio was invested in domestic equities. The total net fair value of the domestic equity portfolio was $3,956,054,233. The portfolio is widely diversified across various equity market sectors and industries and has highly diversified financial characteristics and risk factors which influence the overall return.

The domestic equity portfolio has two components:

Passive Equity **-** the passive component is divided into large cap and small-mid cap strategies for management purposes and consists primarily of investments in commingled index funds, index futures, and short-term securities. The return objective for each strategy is to track, within a certain range, the returns of a broad market index. The passive component is designed to add diversity to the overall portfolio while complementing the active investment styles of IPERS' other domestic equity portfolios. The passive component constitutes an efficient, low cost investment strategy that offsets much of the volatility associated with active management.

Domestic Equity Portfolio

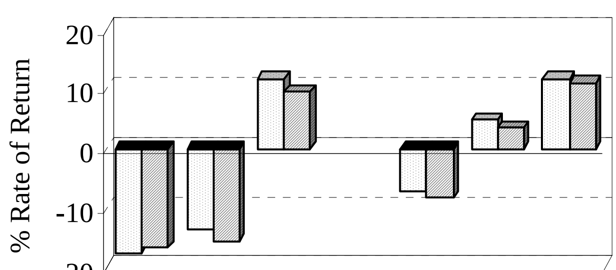
June 30, 2002



Active Equity - a portfolio consisting primarily of large capitalization stocks. For management purposes, the portfolio is divided among separate strategies that focus on different investment styles: a value portfolio which focuses on companies undervalued relative to their prospective dividend and earnings growth; a growth portfolio which focuses on companies whose earnings are expected to grow at rates exceeding that of the general economy; and a core portfolio that seeks to add value across all sectors through stock selection. Each investment strategy is expected to exceed an appropriate style benchmark over a full market cycle.

Domestic Equity Performance Summary

For the Periods ended June 30



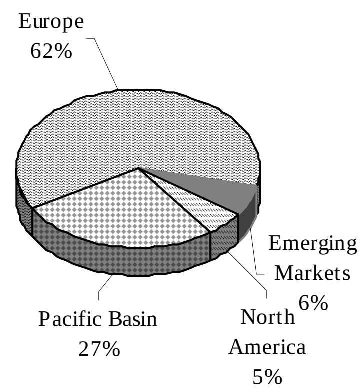
	2002	2001	2000		3 yr	5 yr	10 yr
IPERS' Portfolio *	-17.43	-13.54	11.68		-7.27	4.85	11.69
Wilshire 5000	-16.62	-15.34	9.52		-8.22	3.57	11.05

* Net of Fees

The U.S. stock market posted a second consecutive year of significantly negative returns during the year ended June 30, 2002. For the fiscal year IPERS' domestic equity portfolio posted a -17.4% return compared to -16.6% for the Wilshire 5000 Index. For the five-year period ended June 30, 2002 the domestic equity portfolio has earned an annualized return (net of fees) of 4.9% versus 3.6% for the Wilshire 5000 Index.

International Equity

International Equity Portfolio
June 30, 2002



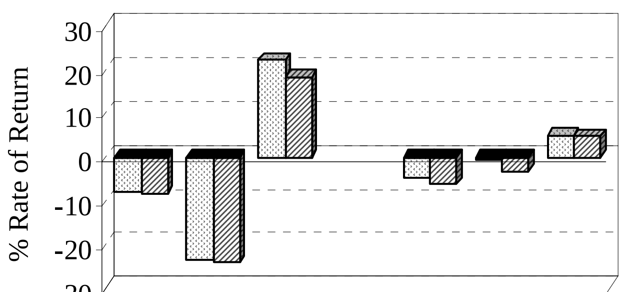
At June 30, 2002 the international equity portfolio had a net fair value of $2,310,875,613, representing 16% of the total IPERS portfolio. IPERS' international equity portfolio is comprised primarily of common stocks or equity commingled funds, foreign exchange contracts and cash, and is widely diversified across many regions, countries, industries, and securities.

The international equity portfolio has three primary components:

Active Equity **-** a diversified portfolio consisting primarily of equity securities issued by foreign companies in developed countries. For purposes of investment management a regional approach is used to invest in these international markets. The portfolio's performance objective is to exceed the return of the Morgan Stanley Capital International All Country World Index ex-U.S.

Passive Equity **-** a passively managed diversified portfolio comprised of commingled index fund investments in Canadian and developed European countries' corporate equity securities. The objective of the portfolios is to track the performance of the Morgan Stanley Capital International Canada and Europe Indices, respectively.

International Equity Performance Summary
For the Periods ended June 30



	2002	2001	2000		3 yr	5 yr	10 yr
IPERS' Portfolio *	-7.74	-23.25	22.10		-4.74	-0.52	5.02
Custom Benchmark	-8.23	-23.92	18.36		-6.16	-3.25	4.87

* Net of Fees

Global Emerging Markets - an actively managed diversified portfolio consisting primarily of equity securities issued by companies in countries which are small and immature by developed market standards. Over time these markets are expected to experience growth rates well in excess of developed markets. Consequently investments in emerging markets provide opportunities for higher portfolio returns. Furthermore, low correlation between returns of emerging markets and developed markets can serve to reduce total risk in the international equity portfolio.

IPERS' international equity portfolio returned -7.7% during fiscal year 2002 compared to -8.2% for the benchmark. For the five-year period ended June 30, 2002 this portfolio has outperformed its benchmark earning an annualized return of -0.5% versus -3.3% for the benchmark.

Global Fixed Income

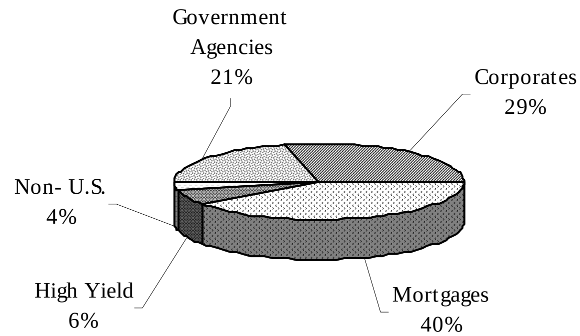
The total IPERS fund asset allocation target for fixed income is 37%. IPERS' Global Fixed Income portfolio was approximately 40% of the total fund assets at fiscal year end. The total return for the Global Fixed Income portfolio for the year ended June 30, 2002 was 7.7%, matching the Lehman Brothers Universal Index return of 7.7%. The Global Fixed Income portfolio fair value was approximately $5,996,686,039 and the average bond rating for the portfolio was AA.

The overall fixed income investment strategy continues to focus on high quality securities that have low default risk and yet provide a high rate of return. IPERS participates in most major fixed income sectors and is managed through three different strategies:

Active Bond - a diversified portfolio of fixed income securities utilizing cash and cash equivalents, forward foreign exchange contracts, currency options, financial futures, government and government agency bonds, Eurobonds, non-dollar bonds, non-convertible preferred stock, options on fixed income instruments, mortgage-backed bonds, corporate bonds, commercial mortgage backed securities, private placement corporate bonds, and asset-backed securities. The portfolio is expected to have interest rate sensitivity similar to the benchmark, be diversified by industry, sector, and individual security, and exceed the return on the Lehman Brothers U.S. Universal Index by 75 basis points, net of fees, on an annualized basis over 3-5 year time periods.

Global Fixed Income Portfolio

June 30, 2002

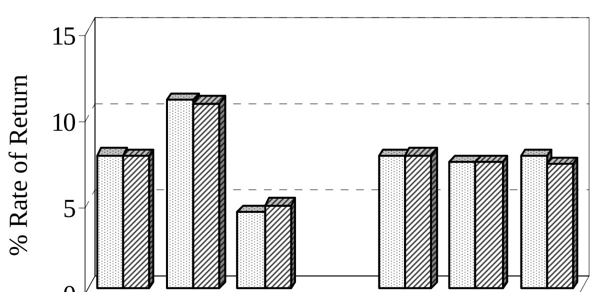


Passive Bond - a passively managed diversified portfolio comprised of investments in commingled funds which are designed to emulate or index the Lehman Brothers Aggregate Bond Index.

High Yield - a strategy utilizing a bottom-up fundamental research approach in selecting U.S. and Canadian companies that consistently outperform the Salomon Brothers' Cash Pay High Yield Bond Index over a full market cycle. This fund is intended to add a risk-controlled portfolio management process to emphasize higher income than can be achieved with strictly investment grade securities.

Global Fixed Income Performance Summary

For the Periods ended June 30



	2002	2001	2000		3 yr	5 yr	10 yr
IPERS' Portfolio*	7.73	10.91	4.42		7.66	7.32	7.66
Custom Benchmark	7.71	10.77	4.81		7.72	7.34	7.23

* Net of Fees

Although the returns for the bond market were strong it was a volatile year. The impact of the terrorist attacks, the economic recession and corporate credit issues were mixed in with an accommodative monetary policy and a few signs of economic recovery. IPERS' portfolio was well positioned along the yield curve and benefited from the changes that took place during the year. The portfolio also benefited by having a tactical overweight position in the mortgage sector, as mortgages performed very well during the year. A tactical overweight position in corporate bonds detracted from the overall portfolio performance, as a high level of defaults and improper corporate accounting practices curtailed this sector's performance. In addition to matching the one year benchmark return, the portfolio return has also matched the five year benchmark return of 7.3% and has a ten year return of 7.7% versus the ten year benchmark return of 7.2% as of June 30, 2002.

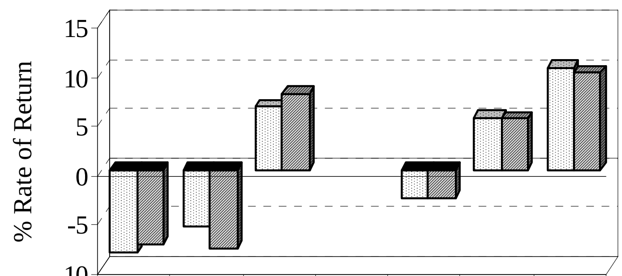
Tactical Asset Allocation

IPERS' tactical asset allocation (TAA) portfolio is designed to take advantage of short-term discrepancies in valuation between capital markets. IPERS' TAA manager allocates investments between stocks, bonds and cash based upon the relative value of each asset class. By making tactical shifts in the asset mix as risk premiums change, the TAA manager seeks to take advantage of mispriced markets. IPERS' TAA strategy is utilized in both domestic and global markets.

The fair value of the TAA portfolio was $748,883,319 on June 30, 2002, which represented 5% of IPERS' total assets. The TAA portfolio underperformed for the year ended June 30, 2002 earning -8.4% versus -7.6% for the benchmark. Over longer time periods IPERS' TAA portfolio has outperformed its benchmark, earning 5.4% versus 5.3% for the five years ended June 30, 2002, and 10.5% versus 10.0% for the ten years ended June 30, 2002.

Tactical Asset Allocation Performance Summary

For the Periods ended June 30



	2002	2001	2000		3 yr	5 yr	10 yr
IPERS' Portfolio *	-8.40	-5.72	6.44		-2.77	5.41	10.45
Custom Benchmark	-7.55	-7.95	7.77		-2.86	5.31	9.97

* Net of Fees

Private Equity/Debt

At June 30, 2002 IPERS' private equity/debt portfolio had a fair value of $848,012,545, representing 5.7% of the total IPERS portfolio. The long-term objective of the private equity/debt portfolio is to achieve a rate of return that exceeds the returns available in the public equity markets. The System seeks to minimize the risk associated with the asset class by investing in a variety of top-tier partnerships with different investment styles and objectives. The portfolio is also diversified by industry focus, geographic location, and most importantly, time, which means that capital is committed to partnerships over the full course of the business cycle and not concentrated in any one year.

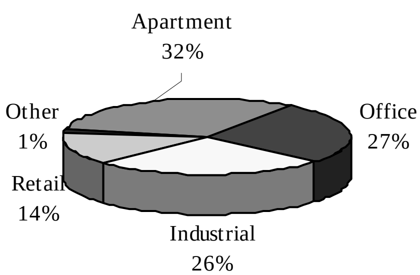
The long-term performance objective for the private equity/debt portfolio is to exceed the return of the Wilshire 5000 Index, calculated on an internal rate of return (IRR) basis, by three percentage points on an annualized basis. The private equity/debt portfolio returned -22.7% in fiscal year 2002 versus -15.2% for its benchmark. In terms of a longer, historical perspective, the private equity/debt portfolio has provided an annualized IRR of 14.3% since its inception in 1985 versus its return objective of 16.1%. While the since-inception IRR provides an indication of the historical performance of private equity/debt investments, it should be noted that the return number includes the performance of many newer partnerships which generally produce negative returns in the first year or two of their existence. Furthermore, the historical return does not fully reflect the evolution that has occurred in the implementation of IPERS' private equity/debt strategy. For example, in 1993 the IPERS Investment Board determined that the selection of private equity partnerships was best left to a professional management firm, rather than having IPERS staff and the Board attempt to evaluate and select these complex investments. The decision to give full investment discretion to a management firm has proven successful to date, with investments selected by the manager since 1993 producing an internal rate of return of 21.7%, well in excess of the manager's return objective of 17% over that time period.

Real Estate

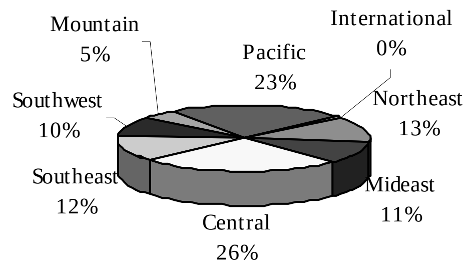
At June 30, 2002, $944,571,936, or approximately 6.4% of IPERS' total portfolio at fair value, was invested in various real estate properties, commingled funds, partnerships, and publicly traded real estate investment trusts (REITs). In order to mitigate risk the real estate portfolio is diversified by both geographic location and property type, as shown in the following charts. The total net return for the real estate portfolio for the fiscal year was 8.3% compared to 7.1% for the portfolio's benchmark (CPI + 6%). The IPERS real estate portfolio's positive return was attributable almost exclusively to operating income, as appreciation of property values was flat and cash distributions from sales of properties were negligible.

Real Estate Portfolio
June 30, 2002

By Property Type



By Property Location



Investments in Iowa

Iowa Code § 97B.7 authorizes IPERS to invest the moneys of the Trust Fund in accordance with the Investment Policy and Goal Statement adopted by the Investment Board and subject to the Prudent Person rule. Section 97B.7 also directs that, where consistent with the aforementioned standards, IPERS will invest "...in a manner that will enhance the economy of the state, and in particular, will result in increased employment of the residents of the state." At June 30, 2002 the System held investments of $850,552,043 in Iowa based companies as well as in stocks and bonds of companies with significant operations in the state of Iowa (as shown in the table below).

Asset Class	Iowa Based Companies	Companies with Iowa Operations	Total Investment Amount
Equity	$9,879,165	$750,404,052	$760,283,217
Fixed Income	36,357,836	53,830,990	90,188,826
Private Equity/Debt	80,000		80,000
Total	$46,317,001	$804,235,042	$850,552,043

Schedule Of Brokerage Commissions Paid
Year Ended June 30, 2002

Brokerage Firms	Shares Traded	Dollar Volume of Trades	Commissions: Dollar Amount	Commissions: Average Per Share	Commissions: As a % of Dollar Volume of Trades
Goldman Sachs	49,531,438	$ 457,388,707	$ 1,005,347	$ 0.020	0.22 %
Merrill Lynch Pierce Fenner Smith Inc.	112,319,847	439,607,092	617,981	0.006	0.14
Morgan Stanley & Company, Inc.	48,635,559	329,406,476	605,063	0.012	0.18
Frank Russell Securities, Inc.	21,412,861	255,223,197	514,809	0.024	0.20
Credit Suisse First Boston Corporation	21,240,531	248,995,378	481,287	0.023	0.19
Salomon Smith Barney	107,626,960	211,234,844	404,266	0.004	0.19
Warburg Dillon Read LLC	50,348,242	202,946,916	323,774	0.006	0.16
Bear Stearns	19,299,952	176,772,349	271,354	0.014	0.15
UBS Painewebber Inc	265,392,674	104,394,700	255,628	0.001	0.24
Lehman Brothers Inc.	59,923,847	170,477,782	218,485	0.004	0.13
Deutsche Bank	7,743,129	129,413,326	212,788	0.027	0.16
J P Morgan Securities, Inc.	240,837,797	59,049,471	106,646	0.000	0.18
ABN Amro	5,082,282	58,154,990	96,619	0.019	0.17
Investment Technology Groups	4,566,070	137,338,608	90,583	0.020	0.07
S G Cowen Securities Corporation	1,094,020	49,798,813	53,780	0.049	0.11
BancBoston Robertson Stephens	1,117,348	26,048,921	51,381	0.046	0.20
Bernstein Sanford & Co.	3,640,266	37,515,461	51,141	0.014	0.14
Montgomery Securities	1,082,446	39,277,835	48,887	0.045	0.12
Hoare Govett Securities, Ltd.	6,883,190	16,814,120	48,638	0.007	0.29
James Capel Seurities	8,103,012	21,691,444	43,346	0.005	0.20
Bridge Trading Co.	1,090,299	25,822,772	42,728	0.039	0.17
Robert Fleming & Company, Ltd	10,704,400	14,249,480	41,802	0.004	0.29
Prudential Securities, Inc.	799,700	26,095,427	40,090	0.050	0.15
Cazenove & Company	3,342,600	16,122,568	36,676	0.011	0.23
Jefferies & Company, Inc.	719,199	20,963,624	34,649	0.048	0.17
Others (Including 143 Brokerage Firms)	297,488,298	535,189,392	833,969	0.003	0.16
TOTALS	1,350,025,967	$ 3,809,993,694	$ 6,531,717	$ 0.005	0.17 %

INVESTMENT POLICY AND GOAL STATEMENT

The following excerpt from the Iowa Public Employees' Retirement System's Investment Policy & Goal Statement, as adopted by the IPERS Investment Board in September 2001, includes all Policy text but excludes the addenda referenced in the Policy.

I. INTRODUCTION - IPERS' PURPOSE AND PRINCIPLES

The Iowa Public Employees' Retirement System (IPERS) was established in 1953, and is governed by Iowa Code chapter 97B. Since its creation, IPERS' activities have been directed toward fulfilling the foundational purpose of the System, as described in § 97B.2:

> "...to promote economy and efficiency in the public service by providing an orderly means for employees, without hardship or prejudice, to have a retirement system which will provide for the payment of annuities, enabling the employees to care for themselves in retirement, and which will improve public employment within the state, reduce excessive personnel turnover, and offer suitable attraction to high-grade men and women to enter public service in the state."

IPERS is administered by the Director of the Department of Personnel, through a chief investment officer, chief benefits officer, and other full-time staff. The investment activities are governed by an Investment Board, and the underlying principle which governs these activities is the "prudent person" rule. In the formulation of this investment policy and goal statement, a primary consideration of the Investment Board and staff has been their awareness of the stated purpose and investment principle. IPERS' investment activities are designed and executed in a manner that will fulfill these goals. The investment policy and the individual strategies will be periodically reviewed to ensure that they conform to §§ 97B.2 and 97B.7.

The Investment Board designates the chief investment officer as its primary representative in the execution of the System's investment program. Additionally, the Board supports the retention and development of sufficient investment staff and the provision of such other resources as are required in order to ensure the thorough oversight and administration of each investment program undertaken by the System.

II. INVESTMENT GOAL STATEMENT

In accordance with the above described purpose and statutory citations, the following investment goals are adopted:

A. The investment activities are designed and executed in a manner that serves the best interests of the members and beneficiaries of the System.

B. The investment activities are designed to provide a return on the portfolio that, when coupled with the periodic contributions of the membership and employers, will meet or exceed the benefit funding requirements of the plan over time. Of primary consideration is the maintenance of funding which is adequate to provide for the payment of the plan's actuarially determined liabilities over time.

C. The long-term performance expectations for the total fund after the deduction of management fees are as follows:

   1. Performance which exceeds the rate of inflation, as determined by the Consumer Price Index (CPI), by at least 300 basis points (3%).

   2. Performance which exceeds the 750 basis point (7.5%) assumed actuarial annual rate of interest.

   3. Performance which meets or exceeds IPERS' total fund policy return, which is defined as a passively managed benchmark comprised of the target asset allocations to, and appropriate indexes for, each asset class.

   4. Performance which exceeds the median risk-adjusted return of a universe of large public funds.

III. INVESTMENT POLICY STATEMENT

IPERS' investment policies are structured to maximize the probability that the investment goals will be fulfilled. All investment policy decisions shall include liquidity and risk considerations that are prudent and reasonable under the circumstances that exist over time. IPERS' investment policies will evolve as the internal conditions of the fund and the capital markets environments change.

A. Asset Allocation Policy

The System adopts and implements an asset allocation policy that is predicated on a number of factors, including:

1. The actuarially projected liability stream of benefits and its cost to both covered employees and employers.

2. The relationship between the current and projected assets of the plan and the plan's projected liabilities.

3. Expectations regarding short-term and long-term capital market returns and risks.

4. Historical returns and risks of the capital markets.

5. The perception of future economic conditions, including inflation and interest rate assumptions, and their impacts on the System's assets and liabilities.

This policy is adopted to provide for diversification of assets in an effort to maximize the investment return to the System consistent with market and economic risk. Asset allocation identifies the classes of assets the System will utilize and the percentage each class represents of the total fund.

Each asset class selected for the IPERS portfolio serves a specific role in maximizing the total return and controlling overall risk, as follows:

Domestic Equities	Long-term return
International Equities	Long-term return, diversification
Global Tactical Asset Allocation	Return greater than the strategic asset allocation based on near-term market outlook
Global Fixed Income	Stable return relative to domestic equities, income
High Yield Bonds	Long-term return greater than global fixed income, diversification, income
Equity Real Estate	Diversification, income
Private Equity/Debt	Long-term return greater than public equities

Due to the fluctuation of market values, positioning within a specified range is acceptable and constitutes compliance with the policy. It is anticipated that an extended period of time may be required to fully implement the asset allocation policy and that periodic revisions may be effected to the allocation over time. In the absence of suitable opportunities within a specific market, the funds shall be directed to the other components within the ranges specified. The Investment Board and staff will regularly monitor and assess the actual asset allocation versus the policy targets and evaluate any variations considered significant.

	% of Portfolio at Market		
	Target	Minimum	Maximum
Equity Component			
Public Market			
Domestic Equities	28	23	33
International Equities	15	10	20
% Public	43	--	--
Private Market			
Equity Real Estate	5	3	7
Private Equity/Debt	10	7	13
% Private	15	--	--
% Equity	58	50	66
Fixed Income Component			
Global Fixed Income	34	30	38
High Yield Bonds	3	2	4
% Fixed Income	37	32	42
Global Tactical Asset Allocation	5	3	7
Cash[1]	0	0	5
Total	100%		

[1] Cash, for purpose of applying target and range, is limited to funds available prior to distribution to investment managers and the amount reserved to pay near-term benefits and administrative costs.

B. Portfolio Component Definitions and Performance Expectations

IPERS will utilize the following portfolio components and performance expectations, net of investment management fees, to fulfill the asset allocation targets and total fund performance goals established elsewhere in this document. Where performance objectives are stated as expectations "over a full market cycle," such cycles are defined as generally three to five years in length, although capital market conditions may on occasion result in significantly longer or shorter cycles.

1. Domestic Equities

A portfolio of common stocks, stock index funds, equity commingled funds, American Depository Receipts, convertible securities, derivatives and cash. The portfolio will seek to outperform the Wilshire 5000 Index over a full market cycle. The sub-components of this portfolio will be as follows:

a. Passive Equity - A highly diversified equity portfolio which is designed to emulate or index the equity market, experiences low turnover, and is fully invested in the market except during periods of rebalancing.

b. Active Equity - A diversified equity portfolio utilizing large, medium and/or small capitalization stocks with moderate to high turnover, and a cash position which typically does not exceed 5%. This portfolio may be divided into separate core, growth and value components for the purpose of management. Relevant performance benchmarks will be chosen for each component.

2. International Equities

A diversified international investment portfolio of common stocks, equity commingled funds, closed-ended or open-ended country funds, Global, American or International Depository Receipts (GDRs, ADRs, IDRs), convertible securities, government debt instruments, foreign exchange contracts, and/or cash issued under the laws of selected foreign countries, territories or their political subdivisions. The portfolio may be divided into separate regional and currency components for the purpose of management. The portfolio's performance is expected to exceed that of the Morgan Stanley Capital International (MSCI) All-Country World Index ex-U.S. ("ACWI ex-U.S.") over a full market cycle. The portfolio will consist of one or more of the following:

a. Passive Equity - A highly diversified equity portfolio which is designed to emulate or index the international equity market or a portion thereof, experiences low turnover, and is fully invested in the market except during periods of rebalancing.

b. Active Equity - A diversified international equity portfolio, which may have up to 10% in cash, 10% in nonequity securities and 10% in convertible securities. The portfolio may be divided into separate regional components for the purpose of management. Relevant regional performance indexes will be chosen for each component.

c. Global Emerging Markets - A diversified portfolio consisting of cash and equity and non-equity securities of countries that are generally considered to be emerging or developing by international financial markets and institutions generally, including the World Bank and the International Monetary Fund.

3. Global Tactical Asset Allocation

A portfolio utilizing domestic and international stocks and/or stock index funds, bonds and/or bond index funds, cash and derivatives, to add value by actively shifting assets among the eligible asset classes and countries based upon the Manager's near-term perception of market and economic conditions. The portfolio may be divided into separate domestic and global components for the purpose of management. The performance of each component is expected to exceed by at least 100 basis points (1%) annually that of a passively managed benchmark comprised of the target asset allocation to and appropriate indexes for each asset class. Overall, the portfolio performance is expected to exceed by at least 100 basis points (1%) over a full market cycle that of a customized benchmark weighted 80% for the domestic component benchmark and 20% for the global component benchmark.

4. Global Fixed Income

A diversified portfolio of fixed income strategies and investments with the objective of outperforming the Lehman Brothers U.S. Universal Index by 50 basis points (0.50%) annually over a full market cycle. The portfolio will utilize passive and active investment strategies. The portfolio will consist of the following types of fixed-income investments: domestic and international bonds, government and government agency securities (including municipal and sovereign securities, if appropriate), bond index funds, corporate bonds, mortgage-backed and asset-backed securities, commercial mortgages and commercial mortgage-backed securities. Fixed income managers may utilize private placement structures, derivatives, foreign exchange contracts, financial futures, currency options, Eurobonds, cash and cash equivalents in the management of their respective portfolios. International bonds are considered to be a sector of the global fixed income market. Fixed income managers pursuing active strategies will be permitted to make limited tactical investments in international bonds (including bonds issued in emerging markets) and high yield bonds.

5. High Yield Bonds

The System will have a strategic allocation to a diversified portfolio of high yield corporate bonds. The portfolio will emphasize investments in fixed income securities rated BB+ and below by S&P (or equivalent at another major rating agency). The objective of the portfolio is to outperform the Salomon Cash Pay High Yield Bond Index by 100 basis points (1%) annually over a full market cycle.

6. Equity Real Estate

A diversified portfolio of real estate equity and participating/convertible debt interests in the form of private market commingled real estate fund participations, separate accounts and co-investments, and publicly-traded investments in real estate operating companies, real estate investment trusts and limited partnerships. The annualized long term return objective for the real estate portfolio is to exceed the CPI by 600 basis points (6%). (See Addendum C, Tab V)

7. Private Equity/Debt

Participation in investment vehicles which finance early stage and later stage companies prior to going public, vehicles investing in leveraged buyouts and turn-arounds of existing companies, and other equity and debt oriented non-traditional investments. This portfolio may also include publicly traded securities received in distributions from private equity partnerships that are temporarily held pending liquidation. The long term return objective for this component is to exceed the Wilshire 5000 Index by 300 basis points (3%) on an internal rate of return basis. (See Addendum D, Tab VI)

8. Cash

A portfolio comprised of the Custodian bank's Short Term Investment Fund (STIF) and an actively managed enhanced cash portfolio. The return objective of the STIF is to exceed the rate of return of the Merrill Lynch 91-Day Treasury Bill Index, while preserving principal. The return objective of the active enhanced cash component of the cash portfolio is to exceed the rate of return on the Merrill Lynch 91-Day Treasury Bill Index by 75 basis points (0.75%) annually over a full market cycle.

C. Investment Management Policy

To achieve optimum performance results in concert with diversification of its assets, IPERS will select and utilize an external investment manager to manage each of its portfolio accounts, except as stated otherwise elsewhere in this policy. The System will also utilize the services of investment management consultants for the purpose of performance review, asset allocation studies, manager selection screening, and topical studies.

1. Manager/Consultant Utilization and Selection

The selection of the managers and consultants is accomplished in accordance with Iowa Executive Order Number 50, dated January 12, 1983, superseded by Executive Order Number 60, which provides each State of Iowa agency the authority to solicit and select professional service providers and execute and monitor state professional service contracts pursuant to the policies and procedures established by the Department of Revenue and Finance. The System will procure manager and consultant services with adequate attention to the principles of competition and reasonableness of costs, and will wherever feasible compensate the external managers through the use of performance fees.

Each investment manager and consultant functions under a formal contract which delineates their responsibilities and the appropriate performance expectations. A formal set of investment guidelines and investment administrative requirements for each investment manager and consultant exists as an addendum to this document.

2. Manager/Consultant Discretion

The investment managers shall have full discretion to direct and manage the investment and reinvestment of assets allocated to their accounts in accordance with this document, applicable federal and state statutes and regulations, and the executed contracts. Further, the investment managers shall have full discretion to establish and execute trades through accounts with one or more securities broker/dealers as the managers may select. The investment managers will attempt to obtain the "best available price and most favorable execution" with respect to all of the portfolio transactions. In accordance with this principle, broker/dealers with an office in Iowa will be given an opportunity to compete for various transactions.

The Board and staff will consider the comments and recommendations of the managers and consultants in conjunction with other available information in making informed, prudent decisions.

3. Manager Evaluation

The investment managers under contract with the System will meet periodically with the Investment Board and/or staff for the purpose of reviewing the investment activities of their assigned portfolio, its performance, the investment strategy which governs its management and the marketplace in which it exists. Such meetings may be conducted at the offices of the investment firms. A detailed discussion of IPERS' manager evaluation policies and procedures is provided in the IPERS Manager Monitoring and Retention Policy. (See Addendum B, Tab IV)

D. Cash Management Policy

Management of cash, which is generated by contributions, investment income and proceeds of sales and maturities, shall emphasize the maximization of return within parameters of the System's liquidity and capital preservation requirements. The allocation of cash between STIF and other short-term investment vehicles will be the responsibility of the System's staff. Cash allocated for investment by the investment management firms is managed in accordance with the guidelines established in the contractual agreement with each firm. Due to the fluid nature of the capital markets, cash allocation decisions shall be made by the staff consistent with the Board's investment policies and will be periodically reviewed with the Investment Board.

E. Currency Management Policy

In order to control and manage the underlying currency exposure of its international portfolio, the System has adopted the following currency management objectives:

1. Protect international asset values during periods of dollar strength.

2. Participate in currency returns during periods of dollar weakness.

IPERS' currency policy is to manage the non-dollar portion of the global fixed income allocation against a 100% hedged benchmark and may allow its non-dollar equity managers to hedge on a selective basis for the protection of the asset values. The System will not manage currency as a separate asset class or enter into speculative currency positions (i.e., currency positions greater than 100% or less than 0% of the underlying asset exposure) in its portfolio, except as it relates to specific cross-hedging activity which may be permitted in certain investment manager guidelines.

F. Custody

The Treasurer of the State of Iowa is the custodian and trustee of the Fund. The Treasurer will hold the System's assets in a custody/record keeping account in a master custody bank located in a national money center and in the international sub-custodian banks under contract to the custodian bank. A formal written agreement shall be established between the Treasurer of State and any third party custodian. The custodian bank agreement shall be reviewed periodically by the staff and Investment Board and is incorporated herein. (See Addendum E, Tab VII)

G. Securities Lending

The Investment Board may authorize the execution of a "Securities Lending Program" which will be conducted in accordance with Iowa Code § 12.8. A formal written agreement shall be established between the Treasurer of the State of Iowa and the lending agent(s) stipulating the terms of the program. The agreement(s) will be reviewed with the Investment Board and staff and will be incorporated herein. (See Addendum F, Tab VIII)

H. Proxy Voting

IPERS acknowledges that proxies are a significant and valuable tool in corporate governance and therefore have economic value. The System commits to managing its proxy voting rights with the same care, skill, diligence, and prudence as is exercised in managing its other valuable assets. As responsible fiduciaries, the System's staff, its designated voting agents, its investment managers, and the trustees or agents of the System's collective, common or pooled fund investments will exercise their proxy voting rights in the sole interest of the System's members and in accordance with the applicable statutes.

The voting rights of individual stocks directly owned by the System will be exercised by the staff, its designated voting agents, or, at staff's discretion, by selected investment managers. Votes will be cast in accordance with the "prudent person" standards delineated in Iowa Code § 97B.7 and the following policies in the priority order listed:

1. The staff, or its designated agent, shall evaluate each proxy proposal and vote in the manner most beneficial to the long-term earnings of the fund.

2. Where feasible, the effect of proposals on any Iowa-based employment of specific companies will be taken into consideration in voting proxies and tenders.

3. The staff, or its designated agent, will cast abstention votes on proposals related to social responsibility issues where such proposals involve insignificant economic impact.

The voting rights of individual stocks held in any collective, common or pooled fund will be exercised by the trustees or agents of said fund in accordance with their own proxy voting policies, upon the determination by the System that such proxy policies are generally consistent with IPERS' proxy voting policy and statutory mandates.

I. Commission Recapture and Soft Dollar Policy

The System encourages, but does not require, certain of its active equity managers to direct brokerage transactions to commission recapture brokers to the extent these brokers can provide best execution. Best execution is defined as achieving the most favorable price and execution service available, bearing in mind the System's best interests, and considering all relevant factors. The System will monitor on an ongoing basis the services provided by the commission recapture brokers so as to assure that the investment managers are securing the best execution of the fund's brokerage transactions.

All rebates or credits from commissions paid by the System's investment managers to the commission recapture brokers will be realized in cash and remitted directly to the fund. It is the System's policy to refrain from using soft dollar credits to acquire products or services to be used in the internal administration of the fund. If the generation of soft dollar credits is unavoidable in certain instances, the System will make a best effort to have the credits converted to cash and remitted directly to the fund, and failing such conversion will regularly monitor the manager's expenditure of soft dollar credits to ensure an appropriate relationship to the management of their IPERS accounts.

J. Derivatives Policy

Certain of the System's investment managers may be permitted through their individual investment guidelines to use derivative instruments. Derivatives are contracts or securities whose returns are derived from the returns of other securities, indices or derivatives. While this definition includes the most common type of derivative, collateralized mortgage obligations (which typically comprise a portion of the System's fixed income portfolio), it is also intended to include (but not be limited to) futures, forwards, options, options on futures, swaps, swaptions, etc. The System's managers are not permitted to utilize derivatives for speculative purposes (for example, by taking a position greater than 100% or less than 0% of underlying asset exposure), but may use them to efficiently access desired markets and to control and manage portfolio risk. Examples of appropriate applications of derivative strategies include hedging interest rate and currency risk, maintaining exposure to a desired asset class while effecting asset allocation changes, duration risk management, and augmenting index fund performance through index arbitrage.

K. Social Investing

As fiduciaries, the IPERS Investment Board, staff and investment managers must perform their duties for the exclusive benefit and in the best economic interest of the System's members and beneficiaries. The System will therefore oppose the investment policies or strategies which seek to promote specific social issues or agendas through investment or divestment of IPERS' assets. To act otherwise could be construed as a violation of fiduciary duty and could endanger the System's tax-exempt status.

IV. RESPONSIBILITIES OF THE INVESTMENT BOARD AND STAFF

Successful management and oversight of IPERS' investment activities require the Investment Board and staff to have specific responsibilities, as outlined below:

A. Statutory Responsibilities

1. The Board shall annually adopt an Investment Policy and Goal Statement which is consistent with Iowa Code §§ 97B.7 and 97B.8.

2. The Board shall at least annually conduct a review of the general policies and procedures utilized by the System in administering the investment program.

3. The Board shall at least annually conduct a public meeting to review the policies and the investment performance of the fund.

B. Operational Responsibilities

1. Upon recommendation of the staff or of individual Board members, the Board shall periodically and as necessary adopt changes to the Investment Policy and Goal Statement, including the asset allocation policy targets and portfolio component definitions.

2. The Board shall approve changes to the actuarial interest rate assumption, as may be periodically recommended by staff.

3. The Board shall review the specific types and proportions of assets being utilized in implementing the overall policy, as established by the staff (e.g., the proportion of mortgage bonds within the Global Fixed Income portfolio).

4. The Board shall periodically review the cash allocation schedule as implemented by the staff, whereby available funds are channeled to specific investment portfolios and managers.

5. The Board shall approve the engagement of investment managers, and the solicitation of proposals for additional managers as recommended by the staff. The staff shall have the authority to terminate, amend or rebid contracts with existing managers. Staff shall inform the Board in advance whenever practical of its decision to terminate a manager.

6. The Board shall approve the engagement and termination of consultants, the solicitation of proposals for new consultants and the rebid of contracts with existing consultants. The staff shall have the authority to amend contracts with existing consultants.

7. The Board shall annually review the general provisions of the System's investment management contracts.

8. If the chief investment officer, any investment officer or any IPERS attorney is in possession of information which would lead a reasonable person familiar with such matters to conclude that an investment or a commitment to an investment, or a decision to engage or terminate a contracted service provider, contradicts the fiduciary duties of the party or parties having the final authority to take such actions, it is the Board's expectation that the issue will be placed on a Board meeting agenda for review.

9. The Board shall hold public meetings to review the investment performance of the fund, to hear presentations from a portion of the System's investment managers, and to effect its statutory and operational responsibilities.

10. To maintain and strengthen the investment management of the System:

    a. The Board and staff shall participate in conferences/seminars related to the investment activities of public and private institutional investors.

    b. The staff, and as appropriate the Board, shall meet periodically with the investment managers of the fund at the firms' offices to review and clarify investment or administrative issues related to the management of the portfolio.

c. The staff, and as appropriate the Board, shall participate in investor meetings conducted by the various managers of the fund.

These activities shall be conducted in compliance with Iowa Code chapter 68B, the “Iowa Public Officials Act.”

C. Administrative Responsibilities

1. The Board shall meet annually, and may meet more often, to review its investment policies. Future meeting dates shall be set by members of the Board at the end of each meeting.

2. At the first meeting in each fiscal year, the voting Board members shall elect a chair and vice-chair.

3. Advance notice of time, date, tentative agenda, and place of each Board meeting shall be given in compliance with Iowa Code chapter 21.

4. Parties wishing to present items for the Board’s next meeting agenda shall file a written request with IPERS at least five business days prior to the meeting. The Board may take up matters not included on its agenda.

5. Five Board members eligible to vote shall constitute a quorum. A simple majority vote of the full voting membership shall be the vote of the Board.

6. In the event that it should become necessary to fill the chief investment officer position, the Board may consult with, and make hiring recommendations to, the Director of the Department of Personnel.

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Statistical

Average Benefit Payments for
Last Ten Years for Retirees

New Retirees by Employer Group

Average Benefit Payments
by Retirement Date

Schedule of Retired Members
by Type of Benefit

Membership Statistics

Additions by Source

Deductions by Type

Growth of Net Investment Portfolio Assets

Annualized Investment Performance Summary

AVERAGE BENEFIT PAYMENTS FOR LAST TEN YEARS FOR RETIREES AS OF JUNE 30, 2002								
	Years of Credited Service							
Fiscal Year	0-5	6-10	11-15	16-20	21-25	26-30	30+	Total
1993								
Number of Retirees	*	11,649	10,074	9,248	7,055	6,038	9,018	53,082
Average Monthly Benefit		$86	$176	$281	$413	$596	$697	$342
Average Years of Service		7.61	13.26	18.28	23.20	28.54	36.09	19.85
1994								
Number of Retirees	*	11,798	10,166	9,466	7,279	6,274	9,311	54,294
Average Monthly Benefit		$89	$185	$295	$435	$633	$755	$366
Average Years of Service		7.55	13.37	18.29	23.22	28.54	35.93	19.91
1995								
Number of Retirees	*	10,302	10,356	10,082	8,189	6,314	11,341	56,584
Average Monthly Benefit		$89	$179	$293	$440	$639	$822	$401
Average Years of Service		7.04	12.61	17.55	22.52	27.70	35.39	19.08
1996								
Number of Retirees	*	11,574	11,566	8,948	7,189	5,805	12,872	57,954
Average Monthly Benefit		$119	$206	$330	$475	$672	$837	$428
Average Years of Service		8.31	13.29	18.28	22.75	27.44	33.91	20.24
1997								
Number of Retirees	*	12,254	10,600	10,317	8,323	5,892	12,514	59,900
Average Monthly Benefit		$116	$268	$391	$554	$776	$1,009	$503
Average Years of Service		7.54	13.39	18.33	23.24	28.13	35.04	20.38
1998								
Number of Retirees	*	12,477	10,734	10,531	8,609	6,327	13,428	62,106
Average Monthly Benefit		$122	$276	$408	$581	$840	$1,113	$548
Average Years of Service		7.51	13.39	18.34	23.23	28.15	34.92	20.57
1999								
Number of Retirees	*	12,820	10,880	10,733	8,910	6,681	14,251	64,275
Average Monthly Benefit		$132	$301	$445	$633	$929	$1,232	$609
Average Years of Service		7.47	13.38	18.35	23.25	28.17	34.82	20.69
2000								
Number of Retirees	*	13,001	11,049	10,941	9,305	7,037	15,303	66,636
Average Monthly Benefit		$134	$308	$461	$662	$979	$1,325	$652
Average Years of Service		7.52	13.36	18.33	23.22	28.13	34.67	20.87
2001								
Number of Retirees	*	13,317	11,201	11,057	9,654	7,422	16,014	68,665
Average Monthly Benefit		$138	$318	$479	$696	$1,029	$1,402	$692
Average Years of Service		7.51	13.36	18.35	23.24	28.17	34.64	20.98
2002								
Number of Retirees	3,435	10,090	11,266	11,218	10,151	7,965	17,558	71,683
Average Monthly Benefit	$75	$165	$330	$502	$737	$1,096	$1,538	$760
Average Years of Service	4.53	8.50	13.36	18.36	23.24	28.15	34.57	21.27

*Previously included in the 0-10 Years of Credited Service group.

NEW RETIREES BY EMPLOYER GROUP AS OF JUNE 30, 2002									
Fiscal Year	City	County	School	State	Utility	28 E Agency	Township and Cemetery	Other	Total
1993									
Number of Retirees	352	549	1,747	794	*	*	*	92	3,534
Avg Monthly Benefit	$514	$503	$734	$787				$574	$684
Avg Credited Service.	17.98	18.17	23.47	23.07				18.28	20.70
1994									
Number of Retirees	223	296	1,471	246	*	*	*	94	2,330
Avg Monthly Benefit	$581	$545	$843	$672				$648	$754
Avg Credited Service	18.48	18.81	24.38	19.22				18.94	22.34
1995									
Number of Retirees	431	601	2,002	635	*	*	*	469	4,138
Avg Monthly Benefit	$667	$638	$891	$875				$408	$774
Avg Credited Service	19.18	19.37	24.15	21.38				15.21	21.50
1996									
Number of Retirees	378	452	1,707	490	*	*	*	106	3,133
Avg Monthly Benefit	$657	$585	$864	$832				$699	$788
Avg Credited Service	18.65	18.29	23.04	20.36				18.43	21.25
1997									
Number of Retirees	489	539	2,006	667	*	*	*	119	3,820
Avg Monthly Benefit	$684	$639	$1,049	$1,031				$853	$935
Avg Credited Service	19.21	18.24	24.66	22.88				19.82	22.60
1998									
Number of Retirees	431	601	2,002	635	*	*	*	469	4,138
Avg Monthly Benefit	$667	$638	$891	$875				$408	$774
Avg Credited Service	19.18	19.37	24.15	21.38				15.21	21.50
1999									
Number of Retirees	401	611	2,193	621	*	*	*	158	3,984
Avg Monthly Benefit	$789	$787	$1,184	$1,146				$1,054	$1,072
Avg Credited Service	18.86	19.54	24.14	21.92				21	22.42
2000									
Number of Retirees	513	654	2,607	659	*	*	*	208	4,641
Avg Monthly Benefit	$714	$745	$1,236	$1,180				$998	$1,091
Avg Credited Service	17.53	18.29	24.38	21.75				19.28	22.16
2001									
Number of Retirees	486	689	2,177	660	*	*	*	216	4,228
Avg Monthly Benefit	$767	$806	$1,181	$1,232				$1,133	$1,078
Avg Credited Service	18.35	18.25	22.86	21.75				20.61	21.29
2002									
Number of Retirees	506	688	3,024	1,077	31	170	1	2	5,499
Avg Monthly Benefit	$911	$884	$1,504	$1,626	$1,709	$1,385	$453	$409	$1,393
Avg Credited Service	18.94	18.42	25.24	25.45	24.95	21.54	40.25	12.37	23.73

*Amount included in column entitled Other

AVERAGE BENEFIT PAYMENTS BY RETIREMENT DATE FOR RETIREES AS OF JUNE 30, 2002								
	Years of Credited Service							
Fiscal Year	0-5	6-10	11-15	16-20	21-25	26-30	30+	Total
Prior to 1/1/76:								
Number of Retirees	80	420	456	364	233	144	422	2,119
Average Monthly Benefit	$64	$122	$282	$347	$421	$492	$556	$337
Average Years of Service	5.15	8.44	13.31	18.09	23.00	27.93	38.24	19.88
Between 1/1/76 and 6/30/82:								
Number of Retirees	380	1,202	1,405	1,103	926	600	1,103	6,719
Average Monthly Benefit	$53	$130	$290	$371	$468	$608	$710	$383
Average Years of Service	4.63	8.58	13.29	18.34	23.15	27.95	36.04	19.19
Between 7/1/82 and 6/30/86:								
Number of Retirees	374	1,218	1,381	1,354	978	835	1,256	7,396
Average Monthly Benefit	$60	$153	$305	$425	$569	$753	$904	$477
Average Years of Service	4.57	8.56	13.45	18.27	23.26	28.24	34.46	19.61
Between 7/1/86 and 6/30/90:								
Number of Retirees	346	1,476	1,767	1,928	1,497	991	2,281	10,286
Average Monthly Benefit	$72	$156	$306	$435	$601	$792	$1,005	$545
Average Years of Service	4.55	8.57	13.39	18.33	23.09	28.00	33.89	20.69
Between 7/1/90 and 6/30/96:								
Number of Retirees	896	2,442	2,984	3,173	2,909	2,138	4,508	19,050
Average Monthly Benefit	$74	$164	$305	$478	$695	$1,002	$1,301	$678
Average Years of Service	4.44	8.49	13.40	18.34	23.31	28.10	34.48	21.32
Between 7/1/96 and 6/30/00:								
Number of Retirees	922	2,325	2,239	2,230	2,292	2,032	4,975	17,015
Average Monthly Benefit	$79	$183	$376	$613	$888	$1,380	$1,944	$1,012
Average Years of Service	4.52	8.43	13.25	18.47	23.26	28.31	34.51	22.17
Between 7/1/00 and 6/30/02:								
Number of Retirees	437	1,007	1,034	1,066	1,316	1,225	3.013	9,098
Average Monthly Benefit	$105	$210	$457	$752	$1,089	$1,577	$2,330	$1,310
Average Years of Service	4.47	8.41	13.40	18.47	23.32	28.14	34.29	23.35
Total as of June 30, 2002:								
Number of Retirees	3,435	10,090	11,266	11,218	10,151	7,965	17,558	71,683
Average Monthly Benefit	$75	$165	$330	$502	$737	$1,096	$1,538	$760
Average Years of Service	4.53	8.50	13.36	18.36	23.24	28.15	34.57	21.27
IOASI Retirees*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	32
Average Monthly Benefit	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$111

*Recipients receiving benefits calculated under the Iowa Old-Age and Survivors' Insurance System (IOASI) are identified separately.

Schedule of Retired Members by Type of Benefit

Amount of Monthly Benefit	Number of Retirees	Type of Retirement*						
		A	B	C	D	E	F	G
$ 1-200	13,876	9,705	3,132	585	442	12	0	0
201-400	17,549	13,445	2,763	715	623	3	0	0
401-600	9,726	6,800	2,021	478	424	3	0	0
601-800	6,538	4,422	1,470	296	343	7	0	0
801-1,000	5,763	4,319	960	216	267	1	0	0
1,001-1,200	3,662	2,697	674	101	190	0	0	0
1,201-1,400	2,766	2,006	550	105	102	2	0	1
1,401-1,600	2,554	1,991	416	67	75	2	0	3
1,601-1,800	2,066	1,782	203	32	45	2	2	0
1,801-2,000	1,941	1,804	70	32	29	3	3	0
Over 2,000	5,274	5,120	100	33	19	1	1	0
Totals	71,715	54,091	12,359	2,660	2,559	36	6	4

***Type of Retirement**

A – Normal Retirement for Age and Service
B – Early Retirement
C – Survivor Payment – normal, early, or disability retirement
D – Disability Retirement
E – Survivor Payment – Death in Service
F – Duty Disability Retirement – Protection Class
G – Nonduty Disability Retirement – Protection Class

Amount of Monthly Benefit	Number of Retirees	Option Selected**						
		1	2	3	4	5	6	Misc.***
$ 1-200	13,876	5,540	2,469	1,981	1,434	2,355	43	54
201-400	17,549	7,964	3,180	1,684	2,099	2,561	45	16
401-600	9,726	3,828	1,973	940	1,680	1,262	43	0
601-800	6,538	2,409	1,330	535	1,450	750	64	0
801-1,000	5,763	1,857	1,279	506	1,432	629	60	0
1,001-1,200	3,662	1,044	899	334	949	372	64	0
1,201-1,400	2,766	759	539	190	887	316	75	0
1,401-1,600	2,554	624	531	211	780	337	71	0
1,601-1,800	2,066	481	391	189	634	315	56	0
1,801-2,000	1,941	411	327	206	590	313	94	0
Over 2,000	5,274	1,098	848	769	1,168	936	455	0
Totals	71,715	26,015	13,766	7,545	13,103	10,146	1,070	70

**See summaries on Page 92

***Consists of benefits available under previous laws.

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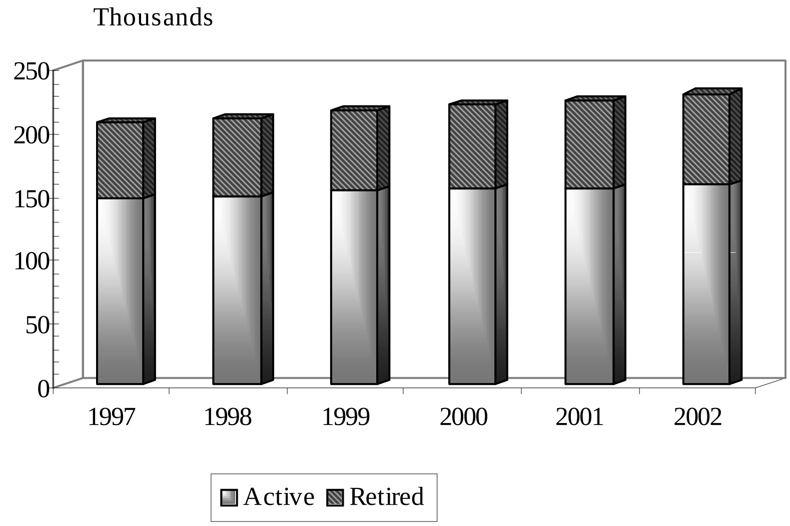
MEMBERSHIP STATISTICS

Special Statistics Last Six Fiscal Years						
	Number of					
Fiscal Year	Retired Members	Active Members	Total Additions	Total Deductions	Total Investments	Total Net Assets
1997	59,900	147,736	$2,324,514,873	377,650,932	12,356,344,733	11,533,968,923
1998	62,106	148,917	2,590,045,940	431,115,031	14,882,880,303	13,692,899,832
1999	64,275	152,991	2,118,491,246	485,815,069	16,572,854,855	15,325,576,009
2000	66,681	154,612	2,419,877,009	605,221,828	18,358,625,668	17,140,231,190
2001	68,703	154,610	(538,086,303)	673,597,721	16,854,676,024	15,928,547,166
2002	71,715	158,467	(302,863,978)	751,263,994	15,264,248,089	14,874,419,194

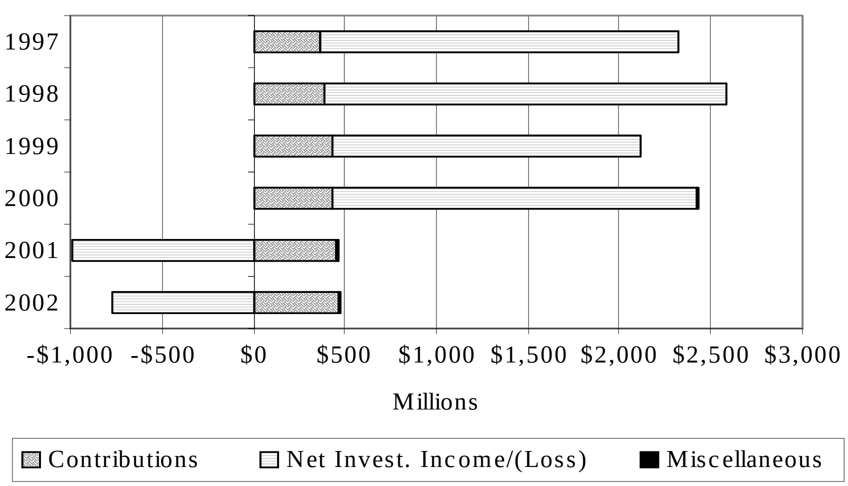
IPERS Membership by Status

1997 - 2002

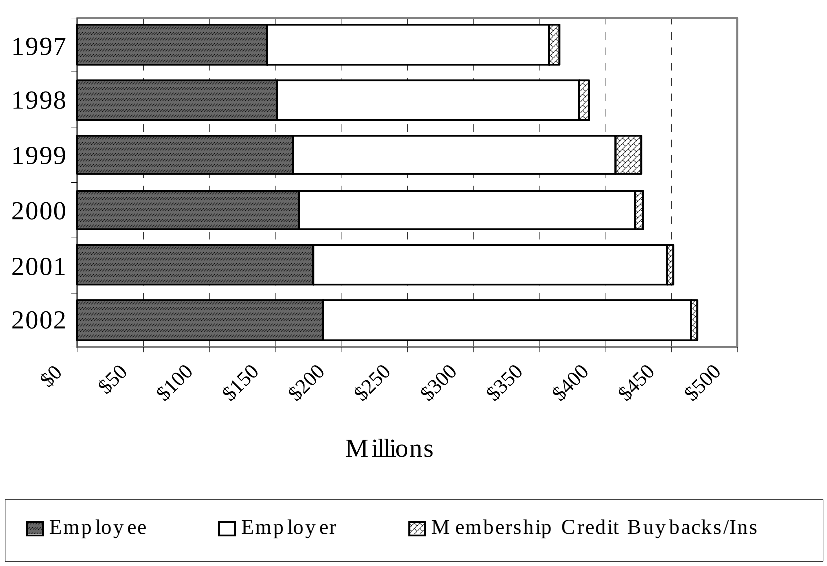


Additions by Source Last Six Fiscal Years						
	Contributions					
Fiscal Year	Employee	Employer	Membership Credit Buybacks/Ins	Net Investment Income/(Loss)	Miscellaneous Income	Total
1997	$ 143,311,565	214,967,348	6,638,079	1,959,597,881	--	2,324,514,873
1998	151,848,515	227,772,773	7,581,962	2,202,842,690	--	2,590,045,940
1999	163,288,710	244,933,066	19,169,871	1,691,099,599	--	2,118,491,246
2000	168,847,367	253,271,051	7,295,195	1,990,366,366	97,030	2,419,877,009
2001	178,876,729	268,315,094	3,847,364	(989,190,300)	64,810	(538,086,303)
2002	185,788,496	278,682,745	4,983,334	(772,386,353)	67,800	(302,863,978)

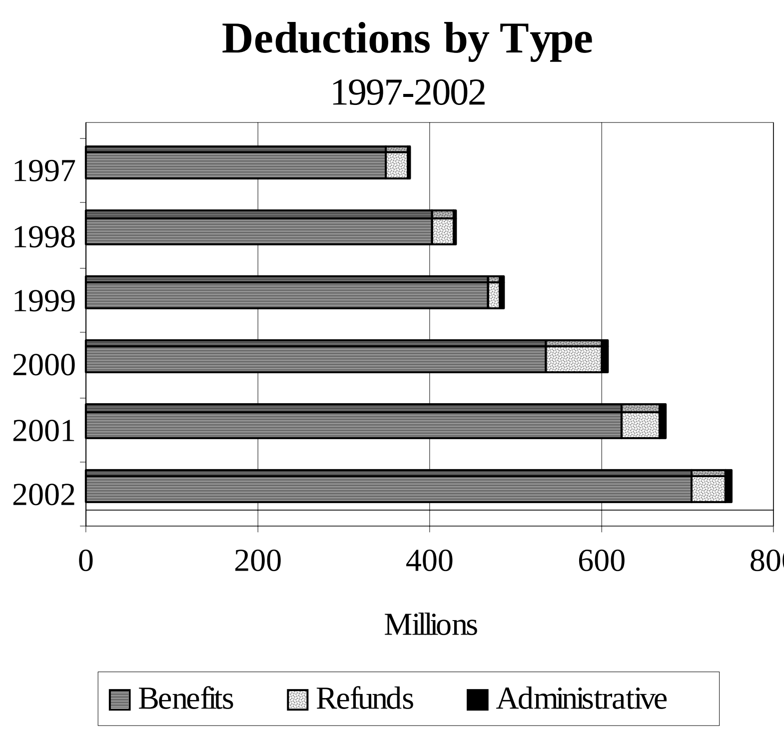
Additions by Source
1997 - 2002



Contributions by Source
1997 - 2002

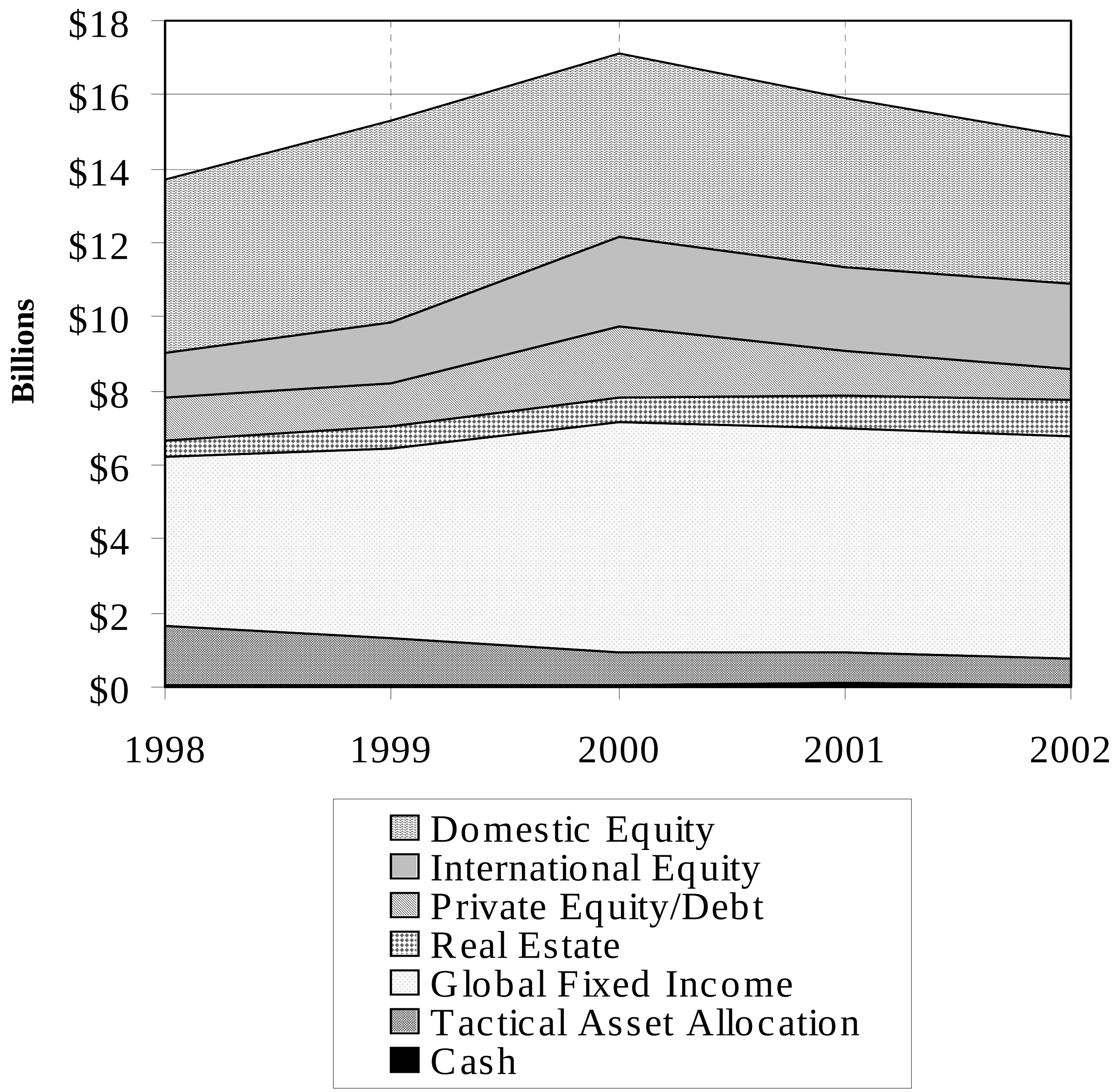


Deductions by Type Last Six Fiscal Years				
Fiscal Year	Benefits	Refunds	Administrative Expenses	Total
1997	$ 348,536,733	25,285,487	3,828,712	377,650,932
1998	402,544,698	24,557,597	4,012,736	431,115,031
1999	466,752,949	14,442,111	4,620,009	485,815,069
2000	533,747,215	65,608,628	5,865,985	605,221,828
2001	624,259,449	42,073,825	7,264,447	673,597,721
2002	705,767,690	37,915,199	7,581,105	751,263,994



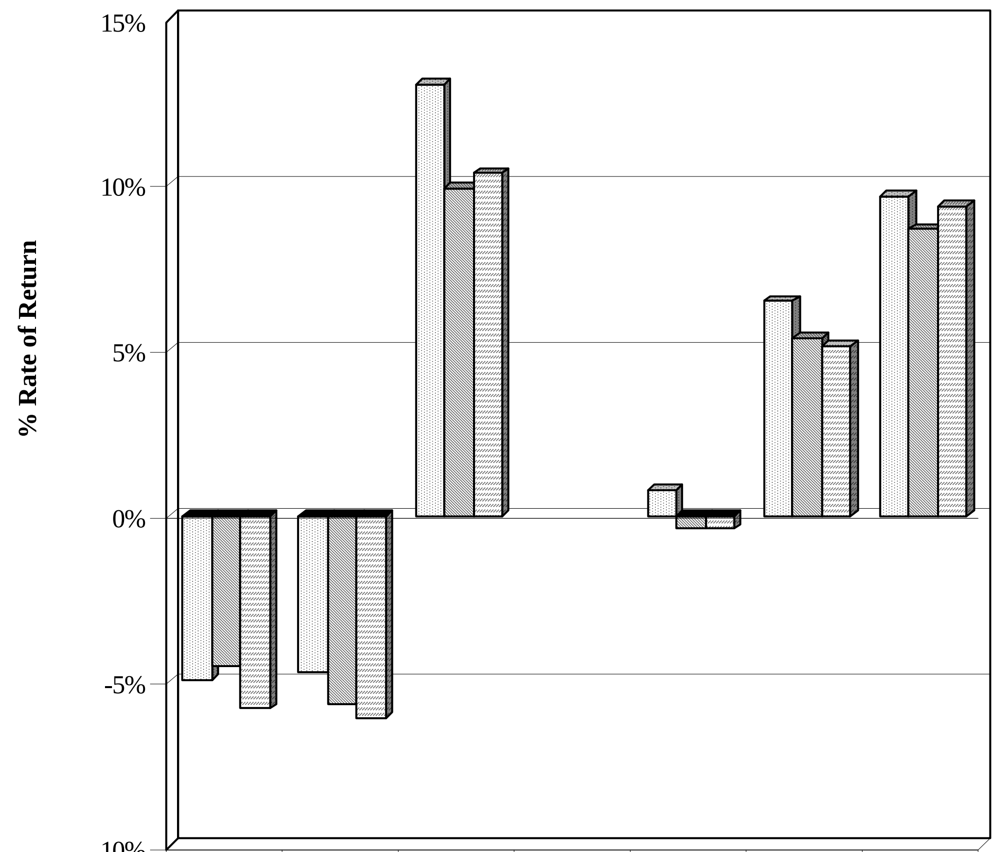
Growth of Net Investment Portfolio Assets

Five Year Historical Summary



Annualized Investment Performance Summary

For the periods ended June 30



	2002	2001	2000		3 yr	5 yr	10 yr
IPERS' Portfolio *	-4.94%	-4.73%	13.05%		0.79%	6.48%	9.64%
Policy Benchmark **	-4.52%	-5.68%	9.88%		-0.35%	5.37%	8.65%
Large Public Fund Median ***	-5.82%	-6.10%	10.34%		-0.40%	5.13%	9.34%

* Net of Fees
** A passively-managed benchmark comprised of market indices, and weightings of same, reflective of IPERS' asset allocation targets.
*** TUCS Public Funds Greater than $1 Billion.

Plan Summary

Membership

Buy-backs/Buy-ins

Contributions

Vesting

Refunds

Benefits

Distribution of IPERS Benefit Payments in Iowa Counties

IPERS Benefit Payments

Membership and Employer Information*
For the Fiscal Year Ended June 30

Membership

Retired Members	2002	2001
All Retired Members	71,715	68,703
Average Years of Service	21	21
Average Monthly Benefit	$760	$692
Current Year Member Retirements	5,499	4,228
Average Years of Service	24	21
Average Monthly Benefit	$1,393	$1,078
Retired Reemployed**	5,387	5,095
Active Members	158,467	154,610
Inactive Vested	34,792	32,295
Inactive Nonvested	63,436	63,810
Total Membership	328,410	319,418

* Varies by calendar quarter.
**Retired reemployed are included in the number of retired members.

Employer

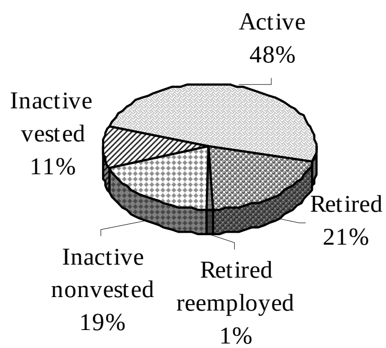
	2002		2001	
Employer Type	**Number of Entities**	**Covered Wages**	**Number of Entities**	**Covered Wages**
City	1323	$ 581,251,857	1298	$ 548,496,697
County	477	718,807,198	472	683,870,786
School	394	2,239,730,792	397	2,135,613,497
State	21	942,736,391	25	932,153,518
28E Agencies	21	235,798	20	245,678
Utilities	82	39,171,825	81	36,674,726
Other	128	221,642,563	129	213,125,212
Total	2446	$4,743,576,424	2422	$4,550,180,114

Membership

Participation in IPERS is mandatory for most employees of the State of Iowa and its political subdivisions, including public school systems, except for those employees covered by another retirement system, other than Social Security, supported in whole or in part by public contributions. Membership is optional for the members of the Iowa General Assembly and certain other individuals.

At June 30, 2002, there were 158,467 active members employed by 2,446 public employers actively contributing to the System. The number of active employees increased by 2.5% from June 30, 2001. The chart below, "Membership Profile," provides further information on the composition of the members for fiscal year 2002.

Membership Profile
June 30, 2002



Buy-backs/Buy-ins

Under certain circumstances, members may restore (buy back) previously refunded member service or may purchase (buy in) IPERS service credit for public employment elsewhere. The cost of purchasing service is determined by the system's actuary. There are federal limitations on how much service credit a member may purchase annually.

Contributions

IPERS accumulates the resources necessary to meet its responsibilities by collecting mandatory contributions from employees and employers and by investing those funds. Contributions continue throughout covered employment. The majority of employers contribute at a rate of 5.75% and employees at a rate of 3.7%. Certain employers and employees in special risk occupations contribute at a slightly higher rate as required by statute. The table "Contribution Rates & Maximums" on the following page reflects the current contribution rates for employers and employees. For calendar year 2002, contribution rates were based on the federal wage ceiling of $200,000.

Contribution Rates & Maximum Covered Wages				
IPERS	**Employee Rates**	**Employer Rates**	**Total Rate**	**Maximum Covered Wages**
Regular 07/01/01 to 06/30/02	3.70%	5.75%	9.45%	IRC § 401(a)(17) Compensation Limit**
Special Subgroups **1)** Sheriffs/Deputy Sheriffs (County) and Airport Firefighters 07/01/01 to 06/30/02	5.50%	8.25%	13.75%	IRC § 401(a)(17) Compensation Limit**
2) Protection Occupations* 07/01/01 to 06/30/02	6.20%	9.29%	15.49%	IRC § 401(a)(17) Compensation Limit**

*Protection Occupations: City Marshals/Police or Firefighters in towns under 8,000 population, State Conservation Peace Officers, State Correctional Officers, Airport Safety Officers, DOT Peace Officers, and Fire Prevention Inspector Peace Officers.
**$200,000 for calendar year 2002.

Vesting

Vesting entitles a member to receive IPERS benefits at some point in the future. While the requirements for vesting have changed over time, in general a member vests after completing four years of service or after attaining the age of 55, regardless of the termination date or length of service.

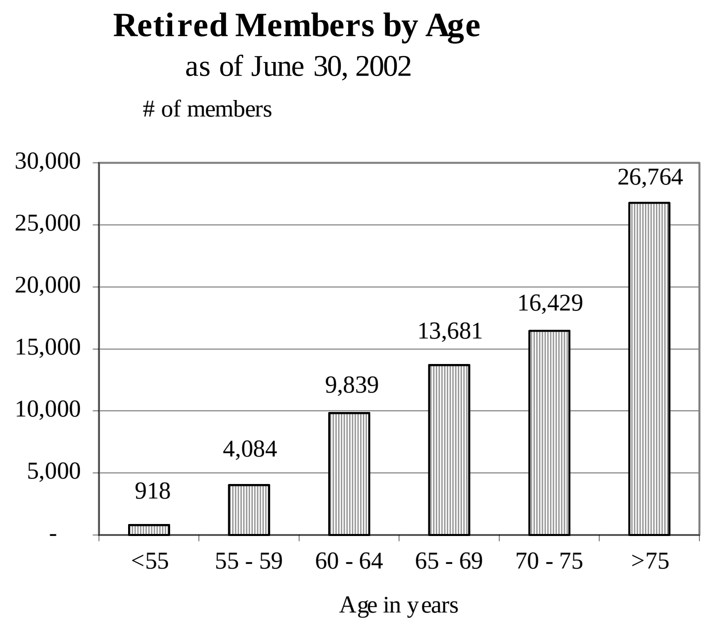
Refunds

An IPERS member who terminates public employment for any reason may request a full refund of the member's accumulated contributions. Vested members requesting a refund also receive a portion of their accumulated employer contributions. Acceptance of the refund automatically terminates IPERS membership and all claims to future benefits. Refunds expenses in fiscal year 2002, totaled $37,915,199.

Benefits

Retirement Ages

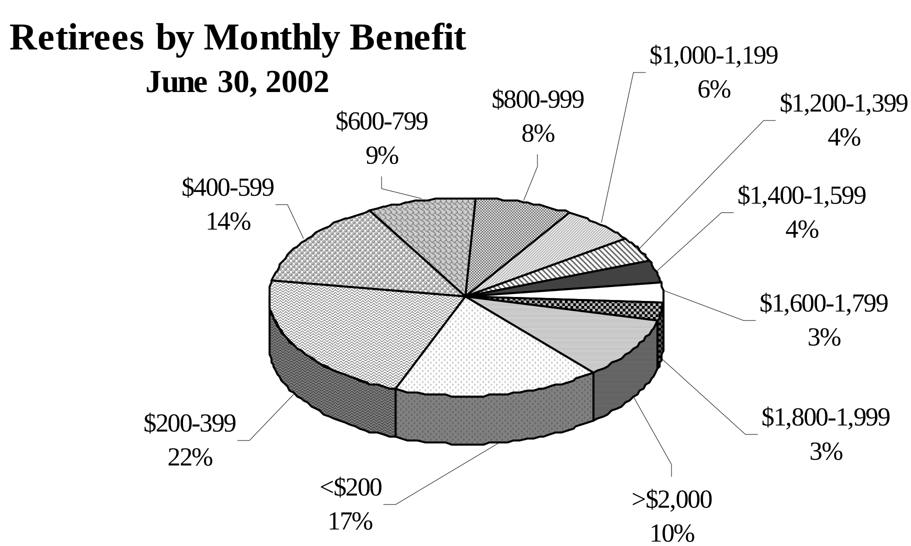
To receive full retirement benefits, an IPERS member must retire at or after "normal retirement age" with 30 or more years of service. Normal retirement is the first of the month in which the member turns 65, the first of the month in which the member turns 62 if the member has 20 years of membership service, or the first of the month in which the member's age and years of service when combined equal 88. A vested member who is awarded federal Social Security or federal Railroad Retirement disability benefits, but who has not reached normal retirement age, is eligible for IPERS benefits, unreduced for age, regardless of the length of service. A member can take retirement as early as age 55, but benefits will be reduced if the member's retirement precedes the normal retirement date. At the close of fiscal year 2002, a total of 71,715 IPERS and Iowa Old-Age and Survivors' Insurance System (IOASI) members were receiving pension benefits. The following graph provides a breakdown of the number of retirees in various age groups.



Benefit Amounts

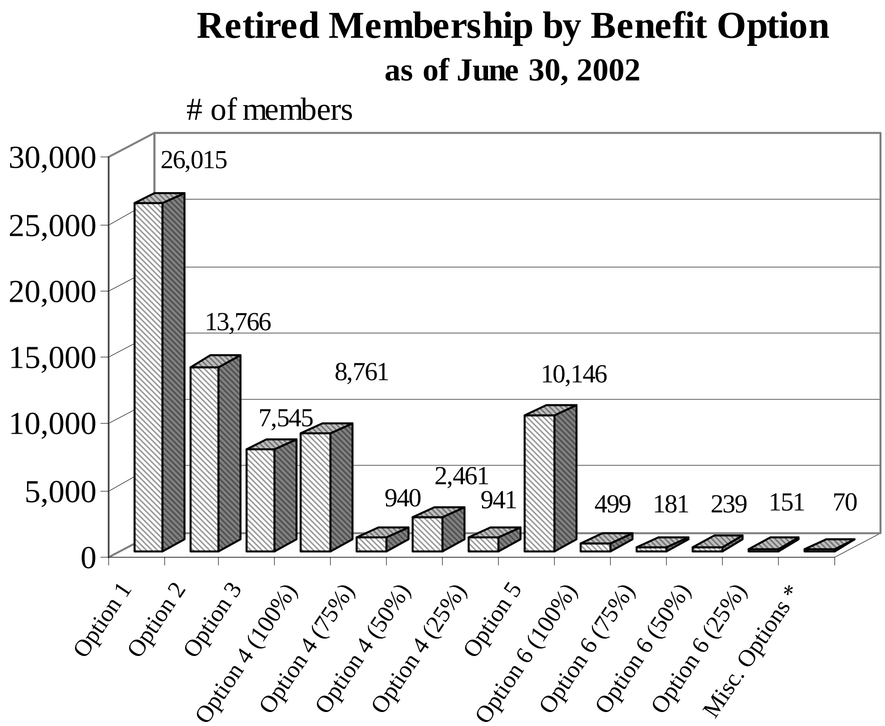
For all present retirees, the monthly IPERS benefit check averages $760. For members retiring in fiscal year 2002, the average benefit was $1,393. The average member retired with 24 years of service. The chart below provides a statistical breakdown of benefit levels received by retirees. The amount of the benefit depends upon the number of years of credited service and the "three-year average covered wage." Other determining factors are the member's age at retirement, the years of prior service credit, and the option selected by the retiree. An IPERS member who retires under option two at age 65 with at least 10 years of service is assured a minimum benefit of $50 per month.

Under the "high three" formula, full benefits are based upon 30 years of service and retirement at the "normal retirement age." Years of prior service can be credited toward the 30 years. Benefits will be prorated downward for members who have less than 30 years or who retire before their normal retirement age. Four or more years of service are required to qualify for the "high three" formula benefit. A vested member with less than four years receives benefits computed on a money purchase basis. For regular class members, years of service beyond 30 will earn 1% for each year through 35 years, thereby increasing the maximum possible benefit to 65% of a member's highest three-year average covered wage.



Benefit Options

Upon retirement, an IPERS member may choose from six benefit options. Each of the six options provides a lifetime benefit for the IPERS member. The amount and availability of survivor monthly benefits or a lump sum death benefit vary according to the option selected.



*Consists of benefits available under previous laws

Option 1 - A member receives a lifetime monthly benefit. At retirement, the member specifies a lump sum death benefit amount, in $1,000 increments, to be paid to a designated beneficiary upon the death of the member. The death benefit cannot exceed the member's accumulated contributions. The death benefit cannot lower the monthly benefit as calculated under Option 2 by more than 50%.

Option 2 - A member receives a lifetime monthly benefit. When the member dies, the designated beneficiary receives a lump sum refund of the excess, if any, of the member's accumulated contributions minus the amount of all retirement benefits paid to the member prior to death.

Option 3 - A member receives the maximum lifetime monthly benefit. No payment is made to a beneficiary upon the member's death.

Option 4 - A member receives a lifetime monthly benefit actuarially reduced to provide for a lifetime monthly benefit to the contingent annuitant upon the member's death. The age of the contingent annuitant determines the cost of the lifetime payments to the member based on actuarial tables. The contingent annuitant can receive 100%, 75%, 50% or 25% of the member's monthly benefit. This amount is subject to restriction if the contingent annuitant is not the member's spouse and is more than ten years younger than the member.

Option 5 - A member receives a lifetime benefit with a ten-year guarantee. If the member dies before ten full years (120 monthly payments are made), the member's designated beneficiary will receive a monthly benefit for the remainder of the ten years. If the beneficiary should die before the ten years expire, the beneficiary's estate will receive a commuted lump sum settlement. If the member designates more than one beneficiary, payments will be made in a lump sum only. Members who have attained age 90 as of the first month of entitlement are not allowed to select this option.

Option 6 – The member receives a reduced monthly benefit so that a lifetime monthly benefit may be provided after the member's death to the person named by the member as the contingent annuitant. In addition, the monthly amounts are also reduced to pay for a pop-up feature. The pop-up feature provides that if the contingent annuitant dies before the member, the member's benefit will pop back up to what it would have been under IPERS Option 2, and death benefits may be payable to the member's designated beneficiary if certain conditions are met.

Dividend Payments

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, certain lump sum "dividend" payments are authorized. For retirees that began benefits prior to July 1990, a guaranteed dividend is included with a member's regular November benefit payment. Post June 1990 retirees received a Favorable Experience Dividend (FED) with their January benefit payment. The FED payment is based upon the actuarial soundness of the system along with the retiree's annual benefit and number of years retired. FED payments are not guaranteed. In November 2001, the dividends paid totaled $22,282,087 and the January 2002 FED totaled $57,890,007.

Death Benefits

A. Preretirement Death Benefits - If an IPERS member dies before retirement, the member's designated beneficiary may receive a lump sum cash payment based on the greater of the following two formulas:

1. Death benefit = The actuarial present value of the member's accrued benefit as of date of death

2. $$\text{Death benefit} = \text{Member's accumulated contributions} + \left[\text{Member's highest year of covered wage} \times \frac{\text{Years of Membership service}}{\text{30 years*}} \right]$$

*The denominator is 22 for sheriffs, deputy sheriffs, and airport firefighters. It is 23 for all other special service occupations.

If the member's designated beneficiary is a sole individual, the beneficiary will be offered the choice between receiving a lump sum or a lifetime annuity.

B. Postretirement Death Benefits - If an IPERS member dies after retirement, payment is made to the beneficiary according to the option selected by the member at the time of retirement. For fiscal year 2002, death benefits paid to beneficiaries or to the estates of deceased nonretired and retired members totaled $19,114,701.

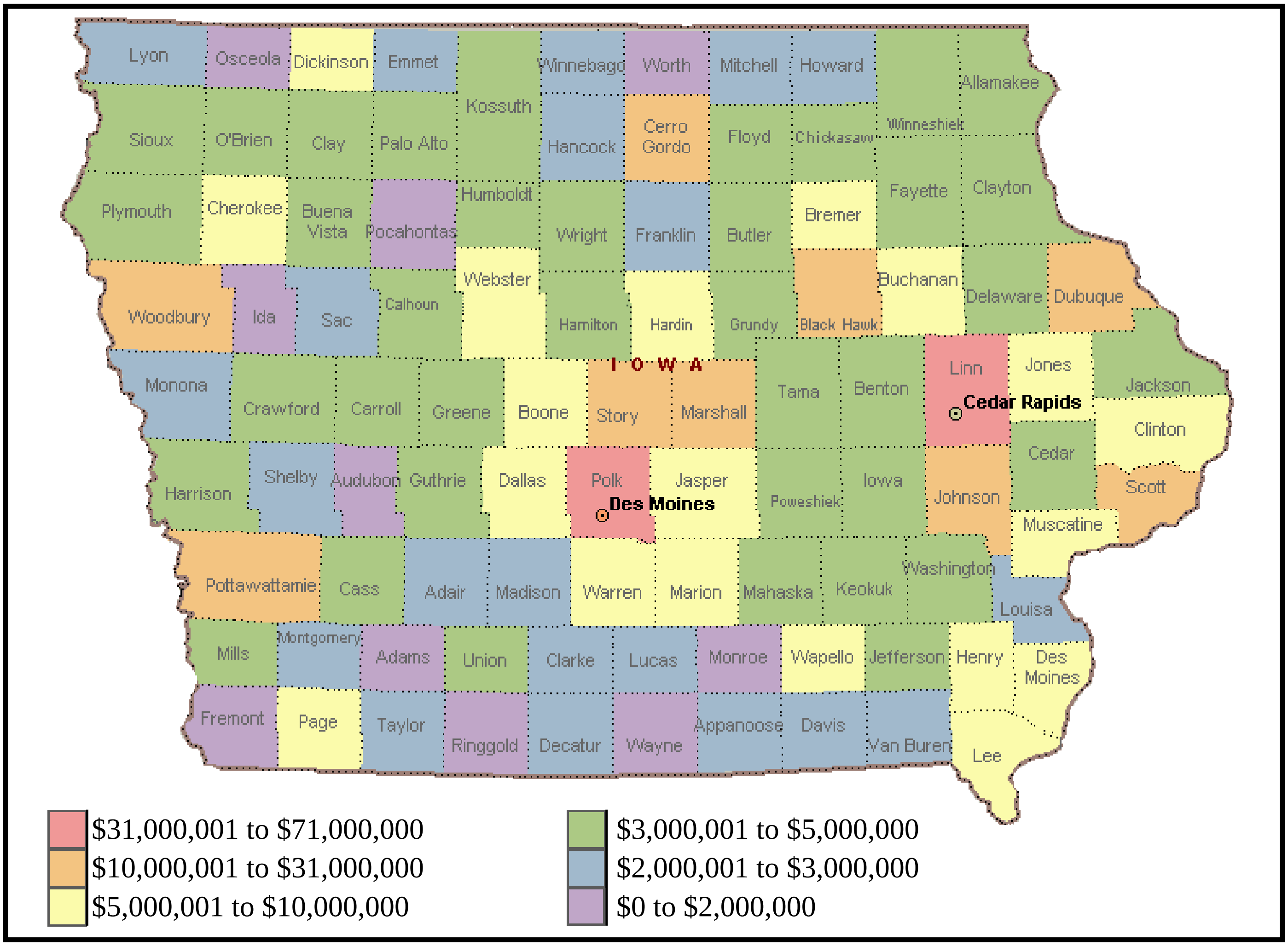
Distribution of IPERS Benefit Payments in Iowa Counties
as of June 30, 2002

COUNTY	AMOUNT	AVERAGE	PAYEES
Adair	$ 2,202,269	$ 8,342	264
Adams	1,195,393	7,201	166
Allamakee	3,551,134	9,036	393
Appanoose	2,710,674	7,926	342
Audubon	1,645,455	7,346	224
Benton	4,373,342	7,754	564
Black Hawk	24,572,867	9,636	2550
Boone	7,505,558	8,903	843
Bremer	5,271,682	8,845	596
Buchanan	6,341,434	9,085	698
Buena Vista	4,339,462	8,644	502
Butler	3,363,060	7,988	421
Calhoun	3,266,574	8,291	394
Carroll	3,455,774	8,112	426
Cass	4,152,509	8,873	468
Cedar	3,669,622	8,950	410
Cerro Gordo	11,622,330	10,267	1132
Cherokee	5,012,705	9,081	552
Chickasaw	3,261,486	9,824	332
Clarke	2,011,392	7,562	266
Clay	3,984,410	8,738	456
Clayton	4,399,986	8,397	524
Clinton	8,617,223	9,377	919
Crawford	4,234,789	8,822	480
Dallas	7,946,247	8,665	917
Davis	2,135,085	7,680	278
Decatur	2,182,726	7,374	296
Delaware	4,106,740	9,026	455
Des Moines	9,163,852	10,182	900
Dickinson	6,214,253	10,605	586
Dubuque	12,379,817	9,694	1277
Emmet	2,734,202	9,237	296
Fayette	4,928,875	8,587	574
Floyd	4,426,382	9,127	485
Franklin	2,561,233	8,235	311
Fremont	1,897,527	7,714	246
Greene	3,005,655	7,533	399
Grundy	3,297,282	8,433	391
Guthrie	3,618,556	8,636	419
Hamilton	4,970,501	9,862	504
Hancock	2,738,361	8,891	308
Hardin	6,362,695	9,000	707
Harrison	3,154,778	8,216	384
Henry	5,087,581	8,787	579
Howard	2,702,670	8,979	301
Humboldt	3,254,656	8,702	374
Ida	1,498,980	7,848	191
Iowa	3,014,218	8,213	367
Jackson	3,977,746	8,357	476
Jasper	7,557,194	9,273	815

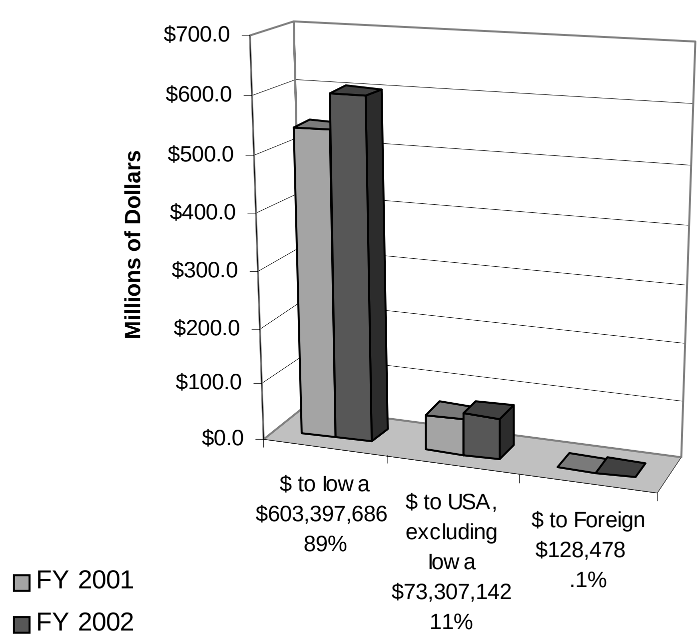
COUNTY	AMOUNT	AVERAGE	PAYEES
Jefferson	$ 3,551,571	$ 9,446	376
Johnson	13,821,520	8,731	1583
Jones	5,084,564	9,722	523
Keokuk	3,021,773	8,211	368
Kossuth	3,477,134	8,543	407
Lee	7,881,662	10,066	783
Linn	35,133,192	10,614	3310
Louisa	2,743,497	9,269	296
Lucas	2,410,437	7,877	306
Lyon	2,017,706	8,442	239
Madison	2,906,495	8,625	337
Mahaska	4,399,261	8,887	495
Marion	5,330,676	8,855	602
Marshall	10,290,141	9,163	1123
Mills	4,348,525	8,645	503
Mitchell	2,912,210	8,565	340
Monona	2,622,224	8,626	304
Monroe	1,887,248	7,549	250
Montgomery	2,896,543	7,643	379
Muscatine	6,971,077	8,858	787
O’Brien	3,406,232	8,091	421
Osceola	1,137,405	7,153	159
Page	5,237,544	8,744	599
Palo Alto	3,199,530	8,332	384
Plymouth	4,645,664	8,765	530
Pocahontas	1,901,990	8,306	229
Polk	70,072,722	10,234	6847
Pottawattamie	13,043,257	9,277	1406
Poweshiek	3,944,822	9,132	432
Ringgold	1,882,895	8,047	234
Sac	2,382,911	7,712	309
Scott	24,772,946	11,225	2207
Shelby	2,962,214	8,463	350
Sioux	4,365,904	7,909	552
Story	20,066,714	10,600	1893
Tama	4,127,739	9,013	458
Taylor	2,027,131	8,174	248
Union	3,778,022	8,160	463
Van Buren	2,629,333	8,268	318
Wapello	8,688,939	9,580	907
Warren	8,948,917	9,812	912
Washington	4,690,864	7,766	604
Wayne	1,915,294	7,310	262
Webster	8,378,811	8,952	936
Winnebago	2,608,593	8,695	300
Winneshiek	4,464,860	8,966	498
Woodbury	19,192,598	10,728	1789
Worth	1,812,078	8,754	207
Wright	3,725,359	8,604	433

Total Iowa Benefit Payments $603,397,686

IPERS Benefit Payments
as of June 30, 2002



PAYMENT SUMMARY



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