Iowa Public Employees' Retirement System

1953 50th ANNIVERSARY 2003

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, 2003

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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, 2003

Prepared By:
Iowa Public Employees' Retirement System

Donna M. Mueller, Chief Executive Officer
Iowa Public Employees' Retirement System

For More Information

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Monday through Friday

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Fiscal Year 2003 Highlights:

Membership:

Active Membership	159,353
Retired Membership	74,336

Contributions:

Employee	$ 185,430,574
Employer	287,523,555
Buy-backs/Buy-ins	12,031,207
Transfer From Another Pension Plan	8,879,964

Distributions:

Benefits Paid	$ 736,330,878
Refunds Paid	35,591,323

Investments:

Net Investment and Securities Lending Income	$ 814,807,727
Investment Rate of Return	5.59%

Funding:

Net Assets Held in Trust for Pension Benefits	$15,403,200,907
Actuarial Present Value of Total Projected Benefits or Total Liabilities	$22,108,936,178

Introduction

Certificate of Achievement

Letter of Transmittal

Administration

Investment Board

Benefits Advisory Committee

Professional and Consulting Services

Investment Managers

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, 2002

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

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

Thomas J. Vilsack
GOVERNOR

Sally J. Pederson
LT. GOVERNOR

IPERS

Donna Mueller
CHIEF EXECUTIVE OFFICER

December 15, 2003

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

We are pleased to present the 50th comprehensive annual financial report of the Iowa Public Employees' Retirement System (IPERS, System, or Plan) for the fiscal year ended June 30, 2003. 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).

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 administrative staff, Investment Board, Benefits Advisory Committee, 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 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:

House File 534 (2003 Iowa Acts, section 170 et seq.) created IPERS as an independent agency within the Executive Branch of State government. The change became effective July 1, 2003. Prior changes implemented to make IPERS more effective in fulfilling its fiduciary responsibilities laid the groundwork for the change and continue in the new structure. Those changes included the designation of the Investment Board as Trustee and the establishment of a Benefits Advisory Committee, composed of representatives of various employee and employer constituent groups.

In January 2003, Donna Mueller began serving as IPERS' first, permanent Chief Executive Officer, replacing Mollie Anderson who had been appointed to serve as Acting Chief Executive Officer pending the hiring of a permanent CEO.

The establishment of IPERS as an independent agency resulted in most of IPERS' staff becoming covered under the State's collective bargaining agreement. Some exceptions include IPERS' Chief Executive Officer and IPERS' managers and supervisors. Implementation of the collective bargaining agreement will be ongoing.

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 74,000 members. More than 84% 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 86,000 phone calls and provided on-site preretirement counseling to over 3,300 members. The staff also provided multiple off-site retirement seminars for members, mostly at employer locations around the state, reaching over 1,900 members. Over 4,100 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 2,700 buy-back/buy-in applications were received, with over 1,400 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.

Legislation:

In 2002-2003, the Iowa Legislature limited its IPERS-related legislation to matters involving the establishment of IPERS as an independent agency and further defining the term and the compensation method for the Chief Executive Officer. As indicated previously, this is the culmination of a long-term effort to make IPERS more efficient, more effective, and more responsive to its members and other stakeholders.

Major Initiatives:

- **Internet**. IPERS successfully implemented an interactive Internet application for employers, formally called IPERS Connection Online (ICON). This application allows employers to enter quarterly wage information, update member demographics, update employer demographics, and provide access to various reports regarding wage data. A pilot project was conducted with a group of 30 employers in April 2003 giving IPERS the chance to work out procedural and technical issues in a controlled manner. Once these issues were overcome, the feedback from the pilot group of employers was very positive. They liked the new system and indicated it was very user friendly. Reporting of second quarter (April-June) wages via ICON was opened up to a larger group of employers with almost 90 taking advantage of this opportunity. IPERS will invite all remaining employers to utilize the new system beginning with third quarter 2003 wage reporting.

- **Electronic Document Management Systems**. An Electronic Document Management System (EDMS) manages the creation, storage, modification, retention, and disposition of documents. IPERS implemented an EDMS in fiscal year 2003, under budget and on schedule.

  IPERS' EDMS provides disaster recovery, increases security, improves customer service, reduces the number of misplaced documents, and provides a single point of access for documents. Over four million images have been added to the EDMS in fiscal year 2003. Approximately 300,000 electronic folders have been created to hold the images. These folders hold the images that were contained in the existing physical folders, beneficiary forms from the last decade, and a majority of the incoming documents. The electronic folders can be viewed using the personal computer located on each employee's desk.

  Conversion of paper documents to electronic images will continue in fiscal year 2004. In addition, increased integration between the legacy computer system and the EDMS will be accomplished. Existing forms will also be reviewed in preparation for future direct electronic inclusion into the EDMS. Work processes are being reviewed and electronic document routing will be automated when practical.

- **Securities Litigation and Monitoring Services**. IPERS has retained the services of Barrack, Rodos & Bacine, based in Philadelphia, Pennsylvania to provide expert legal advice and counsel in class action securities litigation cases. The Barrack firm has assisted IPERS in developing a Securities Litigation Policy. To date, the Barrack firm has not identified any cases that meet the standards set forth in the Securities Litigation Policy for IPERS to pursue on its own, or cases in which to file a petition for lead plaintiff status.

The Barrack firm also was hired to help improve monitoring and protection of IPERS' interests in prior and newly filed securities class action litigation, from the filing of proofs of claim throughout the final recovery of IPERS' respective share in settlement and judgment proceeds. Barrack has developed a customized online claims monitoring and reporting system for IPERS. This system can be used to track and to generate reports on class action litigation throughout the nation, and to track IPERS' interest in such litigation, including possible losses, pending claims, and recoveries on claims. Barrack's assistance has greatly improved IPERS' ability to fulfill its fiduciary obligations in the area of securities class action litigation.

- **Benchmarking and Other Strategic Initiatives.** Cost Effectiveness Measurement, Inc. (CEM) provided IPERS with the results of the first benchmarking study on benefit administration that was completed for FY 2002. IPERS is pleased to note that it ranked the third lowest in costs among its peers and in the middle in terms of services. Areas for improvement included mass communications and surveying member satisfaction on more services. The CEM study is conducted annually and the information not only provides important data on IPERS' effectiveness and efficiency, but also plays an important part in ongoing strategic planning efforts.

  IPERS has also launched additional strategic initiatives including completion of the Iowa Excellence Survey (based on Malcolm Baldrige National Quality Award criteria), and development of an agency-wide performance plan that is required by the Iowa Accountable Government Act. The IPERS Benefits Advisory Committee has obtained the services of Segal Company of Englewood, Colorado to analyze various issues of general and strategic interest to public pension plans relating to delivery of member benefits and services, plan design, and other special concerns. Improved strategic planning and thinking are critical to IPERS' success in rapidly changing economic and political environments that offer both challenges and opportunities.

Internal Revenue Service (IRS) Matters:

- **Private Letter Ruling Request.** On October 2, 2002, IPERS received a favorable letter ruling on the Qualified Benefits Arrangement enacted at Iowa Code section 97B.49I. This arrangement and ruling allows IPERS to pay benefits in excess of the limits imposed by Internal Revenue Code section 415 without a negative impact on the plan's tax-qualified status.

- **Determination Letter Request.** In September 2002, IPERS filed an application for a new determination letter with the IRS. On September 29, 2003, the IRS issued a favorable ruling with respect to IPERS' status as a plan qualified under Internal Revenue Code section 401(a) for legislation and rule changes enacted subsequent to its prior determination letter.

Social Security Ruling Request. Pursuant to House File 534 (2003 Iowa Acts, sections 170 et seq.) IPERS continues as the 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). In 2002, IPERS requested advice from the Social Security legal staff on how to implement certain amendments to Iowa Code section 97C. The purpose of the amendments was to permit, but not require, Iowa's governmental employers to provide both IPERS and Social Security coverage to part-time elected officials. The Social Security response was favorable and will permit an employer-by-employer implementation of such dual coverage.

Financial Highlights:

Total Net Assets

Total net assets held in trust for pension benefits increased from $14,874,419,194 on June 30, 2002 to $15,403,200,907 on June 30, 2003. These assets consist of capital assets owned by IPERS and investment portfolio assets. An overview and analysis of IPERS' financial activities for the fiscal year ended June 30, 2003 is in the Management Discussion and Analysis in the Financial section of this report.

Investment Portfolio Assets

At the close of fiscal year 2003, IPERS' net investment portfolio assets had a fair value of $15,375,270,292. The change in fair value represents an increase of $521,251,902 from the $14,854,018,390 net investment asset fair value as of June 30, 2002. The increase in net investment portfolio asset fair value is primarily attributable to two factors. The first, and largest, factor contributing to the increase in net investment asset fair value was the positive investment portfolio return of 5.59%, as more fully addressed below. A second factor that increased the net investment portfolio asset fair value was the fact that buy-back/buy-in contributions had a $7,047,873, or 141%, increase from the amount received in fiscal year 2002.

Employer and employee contributions to IPERS continue to less than 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, 2003 employee and employer contributions totaled $484,985,336 while total member benefits paid equaled $771,922,201 (*regular monthly benefits, refunds, COLA, and FED payments*). The resulting $286,936,865 contribution shortfall was funded with investment portfolio earnings.

Investment Results

The crisis of confidence among investors that drove the equity markets to record low levels in 2002 began to subside somewhat in 2003. Investors in search of yield returned to the markets with an appetite for risk that had not been present in the market for the last two years.

The total return on the System's investment portfolio for the fiscal year ended June 30, 2003 was 5.59%. The total return on investments for the ten-year period ending June 30, 2003 was 9.16%. 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. For fiscal year 2003, revenues from employer and employee contributions, excluding buy-back/buy-in contributions, totaled $472,954,129, a 2% increase from the prior fiscal year.

Buy-back/buy-in contributions for the year amounted to $12,031,207, a 141% increase from the prior year. Net investment and securities lending income for fiscal year 2003 was $814,807,727, an improvement of $1,587,194,080 over the prior year.

Revenues ($ millions)

Source	2003	2002	Increase (Decrease)
Contributions	$ 473.0	$ 464.5	$ 8.5
Buy-backs/Buy-ins	12.0	5.0	7.0
Transfer from another pension plan	8.9	--	8.9
Net Invest. and Securities Lending Income/(Loss)	814.8	(772.4)	1,587.2
Total	$1,308.7	$(302.9)	$ 1,611.6

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 $771,922,201. This amount increased 4% 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, 2003 was 74,336, a net increase of 2,621 over the previous year. The average monthly retirement benefit, including the November dividend payment, increased to $796.

Expenses ($ millions)

Type	2003	2002	Increase (Decrease)
Benefits	$736.3	$705.8	$30.5
Refunds	35.6	37.9	(2.3)
Administrative	8.0	7.6	0.4
Total	$779.9	$751.3	$28.6

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 $8,041,113 for fiscal year 2003, a 5% 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 $29,908,131, a 20.5% decrease from last year. The decrease is attributable to lower fees earned by investment managers (due mainly to lower asset values). IPERS' performance fee structures allow investment managers to share in the financial gains of their outperformance against appropriate market benchmarks. The performance fee structure allowed IPERS to retain the great majority of all gains generated for fiscal year 2003. 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 2003, the System expended 0.21% 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, 2003 reflects an unfunded actuarial liability of $1,866,898,949. This represents the difference between the actuarial accrued liability of $17,987,374,960 and the actuarial value of net assets of $16,120,476,011. During the fiscal year, the unfunded actuarial accrued liability increased by $611,453,863 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 remained at 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 89.62% funded ratio (ratio of actuarial assets to actuarial liabilities), the "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, conducted 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 require concurrence of the Iowa General Assembly. The Administration has communicated the findings of the asset/liability study to the appropriate legislative committee, and plans to work closely and cooperatively with the Governor and the General Assembly in implementing Iowa Code changes designed to return the System to actuarial balance while continuing to provide a high level of service and value to the IPERS membership.

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 to 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 (2003) 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, 2002. 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,

Donna M. Mueller
Chief Executive Officer

Kathy S. Comito
Chief Investment Officer

Greg Cusack
Chief Benefits Officer

Leon J. Schwartz
Chief Operations Officer

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

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

Donna M. Mueller ♦ Chief Executive Officer

Investment Policy and Administration

Kathy S. Comito ♦ Chief Investment Officer

Membership and Benefit Administration

Greg Cusack ♦ Chief Benefits Officer

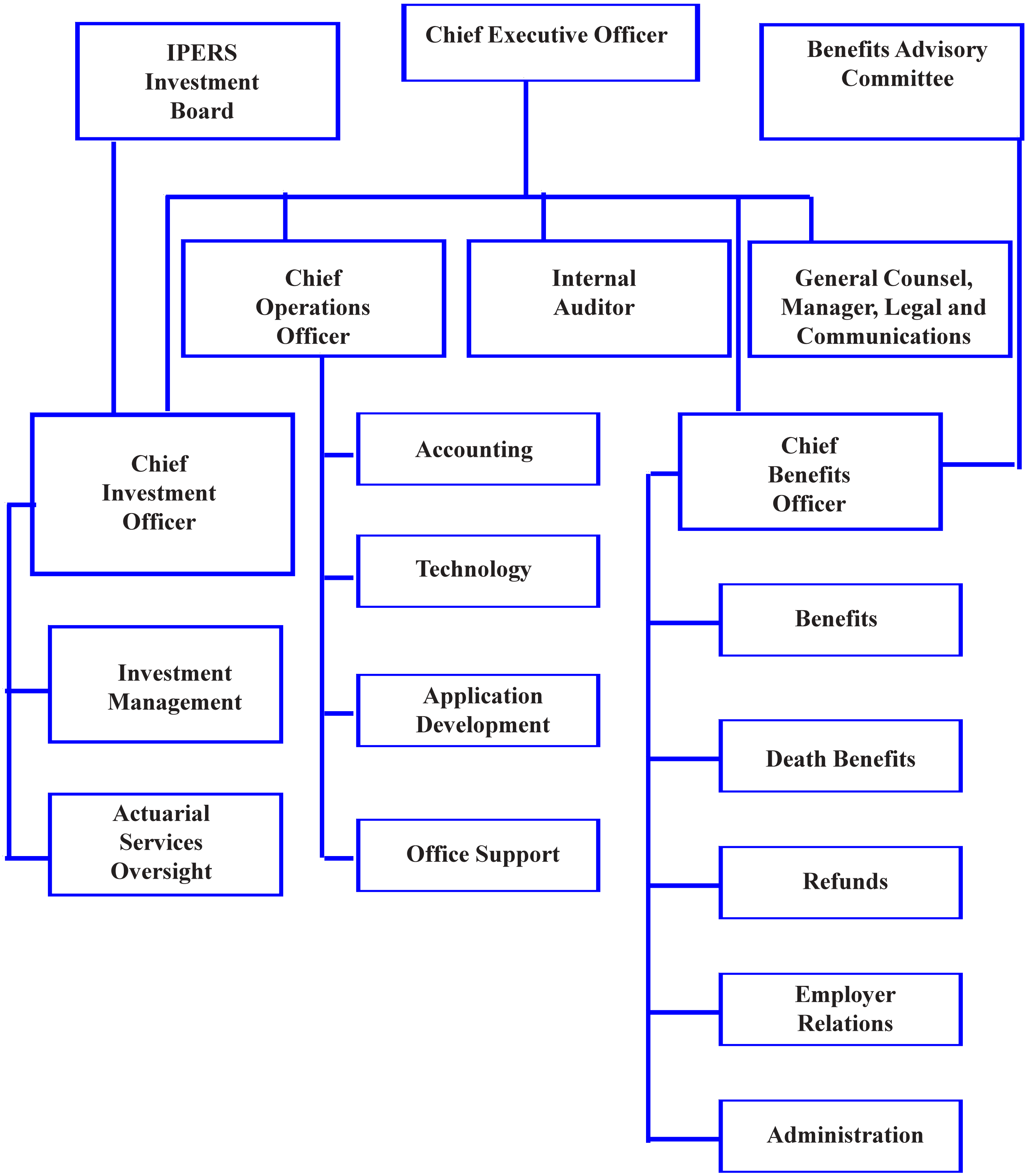
Operations

Leon J. Schwartz ♦ Chief Operations Officer

Legal & Communications

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

Iowa Department of Personnel
IPERS Division



IPERS INVESTMENT BOARD

From left to right: David O. Creighton, Sr.; Senator John P. Kibbie;

Michael A. Logan, Vice Chairperson; Lana J. Dettbarn;

Joanne L. Stockdale; Senator Mark Zieman;

Treasurer Michael L. Fitzgerald; and Bruce G. Kelley, Chairperson

Not pictured: Representative Jeff Elgin and Representative Pam Jochum

Investment Board

The Investment Board of IPERS was created by state statute to establish policies and hire professional service contractors for the investment and actuarial programs of the System. The Investment Board holds public meetings regularly to review actuarial findings and investment performance, and to formalize policies with the Administration.

The Investment Board consists of eleven members, including seven voting members and four nonvoting members. The voting members are as follows:

- Three public members, appointed by the Governor, who are not members of IPERS and who each have substantial institutional investment experience or substantial institutional financial experience.
- Three members, appointed by the Governor, who are members of IPERS: one must be an active member who is an employee of a school district, area education agency, or merged area; one must be an active member who is not an employee of a school; and one must be a retired member of IPERS.
- The Treasurer of State.

The nonvoting members of the Investment Board are two State Representatives (one appointed by the Speaker of the Iowa House of Representatives and one by the Minority Leader of the Iowa House) and two State Senators (one appointed by the Majority Leader of the Iowa Senate and one by the Minority Leader of the Iowa Senate).

The term for an Investment Board member appointed by the Governor is six years. Gubernatorial appointees are subject to confirmation by the Iowa Senate.

IPERS Investment Board

as of June 30, 2003

Voting Members

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

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

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

David O. Creighton, Sr.
The Bryton Companies, West Des Moines
Term Expires 2009

Lana J. Dettbarn
Teacher, Bluegrass
Term Expires 2005

Treasurer Michael L. Fitzgerald
State Treasurer, Des Moines

Vacancy
Noneducation IPERS Member
Term Expires 2007

Nonvoting Members

Senator John P. Kibbie
State Senator, Emmetsburg

Senator Mark Zieman
State Senator, Postville

Representative Jeff Elgin
State Representative, Cedar Rapids

Representative Pam Jochum
State Representative, Dubuque

Benefits Advisory Committee

The Benefits Advisory Committee of IPERS was created by state statute to consider and make recommendations to both IPERS and the General Assembly concerning the services provided to members and the benefits, benefits policy, and benefit goals, provided under the Iowa Code. The Benefits Advisory Committee holds monthly public meetings at which all aspects of benefits policies and member services are openly discussed.

The Benefits Advisory Committee is comprised of representatives of constituent groups concerned with the System, and includes representatives of all major employer groups, as well as representatives of major active and retired member associations. While the constituent groups are generically named by statute, each association designates its representative to the Committee.

Of the members who comprise the committee, nine members are full voting members. The members of the committee elect the voting members of the committee from the membership of the committee. The Governor's appointee representing the State is automatically a voting member, and the voting members also elect a public member, who cannot be a member of the System. Of the nine voting members of the committee, four represent covered employers, four represent the varied membership of the system, and one is the public member. Terms are for three years.

IPERS Benefits Advisory Committee

as of June 30, 2003

Chairperson
Lowell Dauenbaugh

Vice Chairperson
Dr. Gene Gardner

Employer Associations

Iowa Association of Counties -- Jim Maloney*
Iowa Association of Community College Trustees -- Dr. Gene Gardner
Iowa Association of School Boards -- Len Cockman*

Iowa League of Cities -- Andi Stewart*
State of Iowa -- Mollie Anderson*

Active, Vested and Retired Member Associations

American Federation of State, County and Municipal Employees -- Lewis Washington*
Association of Chiefs of Police -- Roger Muri
Iowa State Education Association -- Lowell Dauenbaugh*

IPERS' Improvement Association -- Janie Garr
Retired School Personnel Association -- Walt Galvin*
Sheriffs and Deputy Sheriffs Association -- Bill Sage*
State Police Officers' Council -- Deanna McCallum

Employer/Member Associations

School Administrators of Iowa -- Dr. Gaylord Tryon

Public Member

Dr. Marc Haack* -- University of Iowa

*Voting Member

IPERS BENEFITS ADVISORY COMMITTEE

Dr. Gene Gardner
Vice Chairperson

Lowell Dauenbaugh
Chairperson

From left to right: Roger Muri; Andi Stewart; Mollie Anderson; Lewis Washington;
Walt Galvin; Donna Mueller, IPERS' CEO; Jim Malony; Janie Garr; Len Cockman; and Dr. Gaylord Tryon
Not pictured: Dr. Marc Haack; Deanna McCallum; and Bill Sage

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 plan and securities monitoring 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 plan 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 external securities monitoring counsel chosen by the System is responsible for:

- Monitoring security class action litigation across the nation.
- Filing claims against class action settlements.
- Serving as counsel for IPERS when IPERS seeks to serve as lead plaintiff in federal or state court.

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

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

SECURITIES MONITORING COUNSEL
Barrack, Rodos & Bacine - Philadelphia, PA

INVESTMENT CONSULTANTS
Wilshire Associates Inc. - Santa Monica, CA (General)
The Townsend Group - Cleveland, OH (Real Estate)

The Treasurer of the State of Iowa has hired a master custodian for the Fund that 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
The Bank of New York - New York, NY

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.

As of June 30, 2003

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

Emerging Markets Management, L.L.C.
Arlington, VA

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

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

TA Realty Corporation
Boston, MA

UBS Realty Investors LLC
Hartford, CT

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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

David A. Vaudt, CPA
Auditor of State

Independent Auditor's Report

To the Members of the
Iowa Public Employees' Retirement System Investment Board:

We have audited the accompanying statement of plan net assets of the Iowa Public Employees' Retirement System (IPERS) as of June 30, 2003 and 2002, 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the 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, 2003 and 2002, and the changes in its financial position and its 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, 2003 and 2002, and the changes in plan net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

Management Discussion and Analysis on pages 26 through 29 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. 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 conducted 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, 2001 (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.

David A. Vaudt

DAVID A. VAUDT, CPA
Auditor of State

Warren Jenkins

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 2, 2003

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, 2003. It is intended to be used in conjunction with the transmittal letter beginning on page 7 and IPERS' financial statements and notes, which begin on page 30 of this report.

Financial Highlights

- IPERS' plan net assets held in trust for pension benefits increased by $529 million during fiscal year 2003. On June 30, 2003, total plan assets (including capital assets of $4.2 million) totaled $18 billion, exceeding total liabilities of $2.6 billion, resulting in net assets held in trust for pension benefits of $15.4 billion. Plan net assets have not yet returned to the fiscal year 2001 level of $15.9 billion, due primarily to investment results in the sustained bear market environment of the last three years.

- Covered payroll, upon which both employee and employer pension contributions are calculated, increased by $137 million, 3%, over last fiscal year and totaled $4.9 billion. Employer and employee contributions also increased, in total, by 3%. These increases represent a slow down, in comparison to fiscal year 2002 that saw a 4% increase in covered wages and contributions.

- Investment market conditions improved in the second half of this fiscal year, resulting in an increase in plan net assets for the first time since fiscal year 2000. The net investment and securities lending income, after all investment-related expenses, was $814.8 million in fiscal year 2003 compared to a loss of $772.4 million in fiscal year 2002 and a loss of $989.2 million in fiscal year 2001. Investment management expenses continue their decline from $42.6 million for fiscal year 2001, to $37.6 million for fiscal year 2002, to $29.9 million for the current fiscal year 2003. These decreases are primarily a result of the lower investment portfolio values upon which the investment managers' base fees are calculated.

- Total revenues, contributions, investment, and other income, resulted in a positive impact to the fund of $1.3 billion in fiscal year 2003 compared to the negative impacts to the fund of $302.9 million in fiscal year 2002 and $538.1 million in fiscal year 2001. The dramatic increase in fiscal year 2003 revenues is primarily due to positive net investment income of $814.8 million compared to net investment income of negative $772.4 million for fiscal year 2002 and negative $989.2 million for fiscal year 2001.

- Pension benefits to members increased by $30.6 million continuing the trend experienced in the previous two fiscal years. Refunds to members continued its decreasing trend, experiencing a reduction of $2.3 million. Payments to members, in the form of monthly pensions, refunds, and other benefits, totaled $771.9 million in fiscal year 2003.

- Administrative expenses totaled $8 million for fiscal year 2003, as compared to $7.6 million for fiscal year 2002, and $7.3 million for fiscal year 2001. Over the three fiscal years, administrative expenses have run consistently at 0.05% of the value of plan net assets.

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 30) and Statement of Changes in Plan Net Assets (see page 31). 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. Investments in the Financial Section are presented at fair value. See the Actuarial Section of this report for a detailed discussion of the actuarial value of assets and liabilities and the 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 plan net assets with comparison to the previous two fiscal years.

IPERS plan net assets at June 30, 2003 are $15.4 billion, having increased $529 million from the prior year's fiscal year-end balance.

Table 1

Plan Net Assets (Dollar values expressed in thousands)			**2003/2002 Inc/(Dec)**		**2002/2001 Inc/(Dec)**
June 30	**2003**	**2002**	**Percent**	**2001**	**Percent**
Cash and investments at fair value	$17,309,229	$15,320,512	13.0%	$16,968,867	(9.7%)
Receivables	646,253	392,995	64.4%	606,817	(35.2%)
Capital assets	4,171	4,426	(5.8%)	4,359	1.5%
Total assets	17,959,653	15,717,933	14.3%	17,580,043	(10.6%)
Total liabilities	2,556,452	843,514	203.1%	1,651,496	(48.9%)
Plan Net Assets	$15,403,201	$14,874,419	3.6%	$15,928,547	(6.6%)

A large percentage, 95.6% 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 5% of total assets. Total plan net assets increased by 3.6% in fiscal year 2003, ending two years of decline that had been largely the result of investment losses during the 2000-2002 bear market.

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, including the value of collateral due back to borrowers of securities at the conclusion of security lending transactions, amounts owed to members or their beneficiaries, and amounts owed to contractors and vendors. Total liabilities increased from fiscal year 2002 to 2003 by $1.7 billion as compared to a decrease of $808 million between fiscal years 2001 to 2002, due in large part to fluctuations in the loaned securities volume. These increased liabilities are more than offset by the increase in assets held as collateral by IPERS, as reflected in the securities lending collateral pool line item in the Statement of Plan Net Assets. (See Statement of Plan Net Assets, page 30 and Footnote 3, page 34.)

Table 2

Changes in Plan Net Assets **(Dollar values expressed in thousands)** **Fiscal Years Ended June 30,**	**2003**	**2002**	**2003/2002 Inc/(Dec) Percent**	**2001**	**2002/2001 Inc/(Dec) Percent**
Additions					
Contributions & buy-backs/ins	$484,985	$469,454	3.3%	$451,039	4.1%
Net investment and securities lending income (loss)	814,808	(772,386)	205.5%	(989,190)	21.9%
Transfer from another pension plan	8,880	0	---	0	---
Miscellaneous	72	68	5.9%	65	4.6%
Total Additions	$1,308,745	$(302,864)	532.1%	$(538,086)	43.7%
Deductions					
Benefits and refunds	771,922	743,683	3.8%	666,333	11.6%
Administrative expense	8,041	7,581	6.1%	7,265	4.3%
Total Deductions	779,963	751,264	3.8%	673,598	11.5%
Increase (Decrease) in Plan Net Assets	$528,782	$(1,054,128)	150.2%	(1,211,684)	13.0%

Just as declines in plan net assets in fiscal years 2001 and 2002 were primarily due to investment market conditions, so was the increase in assets experienced from the end of fiscal year 2002 to the end of fiscal year 2003. Benefits and refunds paid out continue to exceed contributions received by $287 million, $274 million, and $215 million for fiscal years 2003, 2002, and 2001, respectively. This excess of benefits and refunds paid relative to contributions received is characteristic of a mature pension plan such as IPERS. The investment rate of return for the current and two preceding fiscal years are 5.59%, -4.94% and, -4.73% respectively. (See the Investment section of this report beginning on page 57 for further information on rates of return.)

The following table contains the fiscal year performance of each asset class, benchmark, and the Fund's actual asset allocation as of June 30, 2003.

Table 3

Asset Class	Return	Benchmark	Allocation
Domestic Equity	1.49%	1.28%	29.7%
International Equity	-4.91%	-4.19%	15.4%
Global Fixed Income	12.31%	11.51%	37.2%
Tactical	3.52%	6.33%	5.1%
Private Equity/Debt[1]	-1.22%	5.57%	6.1%
Real Estate	7.54%	8.45%	6.0%
Short-Term Cash	2.32%	1.53%	0.6%
Total Fund	5.59%	6.34%	100.0%

[1] Private Equity/Debt portfolio returns and benchmark returns are calculated using an Internal Rate of Return (IRR) methodology in accordance with AIMR standards.

Total administrative expenses for the past three fiscal years have been $8.0 million, $7.6 million and $7.3 million, respectively. (See Schedule 4, Schedule of Administrative Expenses, page 43.)

Contacting System Financial Management

This financial report is designed to provide the Plan Sponsor, the Investment Board, the Benefits Advisory Committee, 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 and distributes. If you have any questions about this report or need additional financial information, you may contact the Iowa Public Employees' Retirement System by e-mail at info@ipers.org or by mail at P.O. Box 9117, Des Moines, IA, 50306-9117.

BASIC FINANCIAL STATEMENTS

Exhibit A

Iowa Public Employees' Retirement System
Statement of Plan Net Assets
June 30, 2003 and 2002

	2003	2002
Assets:		
Cash and cash equivalents	**$ 134,308,691**	**56,264,350**
Receivables		
Contributions receivable	34,712,124	36,713,231
Accrued interest and dividends	37,872,500	40,151,723
Receivable for investments sold	512,229,707	230,657,381
Foreign exchange contracts receivable	58,272,090	82,341,442
Miscellaneous receivable	3,166,409	3,130,835
Total receivables	**646,252,830**	**392,994,612**
Investments at fair value		
Global fixed income	6,156,093,244	6,382,078,843
Domestic equity	4,566,685,854	3,962,620,257
International equity	2,362,533,708	2,302,089,401
Real estate	916,346,316	944,571,936
Private equity/debt	933,919,173	848,012,546
Tactical fund	776,815,156	748,883,319
Securities lending collateral pool	1,462,527,044	75,991,787
Total investments	**17,174,920,495**	**15,264,248,089**
Capital assets (note 5)		
Depreciable assets - net of accumulated depreciation	3,671,355	3,926,405
Nondepreciable assets - land	500,000	500,000
Total capital assets	**4,171,355**	**4,426,405**
Total Assets	**17,959,653,371**	**15,717,933,456**
Liabilities:		
Accounts payable and accrued expenses	20,057,191	26,781,707
Payable for investments purchased	1,016,125,419	650,504,238
Rebates and collateral payable	1,461,997,765	75,848,132
Foreign exchange contracts payable	58,272,089	90,380,185
Total Liabilities	**2,556,452,464**	**843,514,262**
Net assets held in trust for pension benefits (note 11)	**$15,403,200,907**	**14,874,419,194**

(See Schedule of Funding Progress on page 40.)
See notes to financial statements.

Iowa Public Employees' Retirement System

Exhibit B

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

	2003	2002
Additions:		
Contributions		
Employer contributions	$ 287,523,555	278,682,745
Employee contributions	185,430,574	185,788,496
Buy-back/buy-in contributions	12,031,207	4,983,334
Total contributions	**484,985,336**	**469,454,575**
Investments		
Interest	268,984,511	309,350,602
Dividends	93,319,070	83,941,693
Real estate and private equity/debt	58,218,028	71,497,842
Tactical	10,921,873	19,229,089
Net appreciation (depreciation) in fair value of investments	408,036,182	(1,222,306,044)
Other	951,011	777,015
Investment management expense	(29,908,131)	(37,634,731)
Net Investment income (loss)	**810,522,544**	**(775,144,534)**
Securities Lending Income		
Security lending income	22,283,963	18,891,542
Security lending expense	(17,998,780)	(16,133,361)
Net securities lending income	**4,285,183**	**2,758,181**
Other Sources		
Transfer from another pension plan (note 6)	8,879,964	0
Miscellaneous non-investment income	72,000	67,800
Total other sources	**8,951,964**	**67,800**
Total additions (decrease)	**1,308,745,027**	**(302,863,978)**
Deductions:		
Benefit payments	736,330,878	705,767,690
Member and employer refunds	35,591,323	37,915,199
Administrative expense	8,041,113	7,581,105
Total deductions	**779,963,314**	**751,263,994**
Net increase (decrease)	**528,781,713**	**(1,054,127,972)**
Net assets held in trust for pension benefit beginning of year	14,874,419,194	15,928,547,166
Net assets held in trust for pension benefit end of year (note 11)	**$15,403,200,907**	**14,874,419,194**

See notes to financial statements.

Notes to the Financial Statements
June 30, 2003 and 2002

(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 may be obtained from the Iowa Department of Administrative Services.

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, 2003	June 30, 2002
Employer members:		
City	1,309	1,323
County	465	477
School	392	394
State	21	21
28E Agencies	22	21
Utilities	80	82
Other	128	128
Total	2,417	2,446
Employee members:		
Current retirees and beneficiaries	74,336	71,715
Inactive vested	39,158	34,792
Active vested plan members	120,658	115,987
Active nonvested plan members	38,695	42,480
Inactive nonvested	65,050	63,436

Plan Benefits – IPERS benefits are established under Iowa Code Chapter 97B and administrative rules thereunder. Chapter 97B and the administrative rules are the official Plan documents. The following brief description of

IPERS is provided for general information purposes only. Members should refer to the Plan documents 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 also 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.

Refunds - 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 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 $200,000.

CONTRIBUTION RATES IN EFFECT JULY 1, 2002 - JUNE 30, 2003

	Employee	Employer	Total
Regular	3.70%	5.75%	9.45%
Sheriffs/Deputy Sheriffs (County) / Airport Firefighters	5.37%	8.05%	13.42%
Protection Occupations*	6.04%	9.07%	15.11%

* 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, State Airport Security Officers, and County Conservation Peace 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.

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 requirements of 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 plan 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 Treasurer of State and 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 $496,323 in credit risk exposure to borrowers because the amounts they owed the System exceeded the amount the System owed them on 13 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, 2003, the System had securities on loan, including accrued interest income, of $1,399,148,909 against collateral with a total value of $1,460,646,484.

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.

IPERS' investments are categorized in the following chart to give an indication of the level of credit risk assumed by IPERS at June 30, 2003. 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 that 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, 2003 and 2002 follows:

Investment	June 30, 2003	June 30, 2002
Category 1:		
Domestic Equity	$ 1,572,218,372	$ 1,767,603,908
International Equity	961,973,086	1,025,293,717
Global Fixed Income	2,255,798,017	3,342,301,181
Foreign Currency	1,786,021	2,660,050
Subtotal	4,791,775,496	6,137,858,856
Not categorized:		
Securities on Loan with Brokers	1,399,148,909	74,192,193
Investment in Mutual & Commingled Funds	7,569,780,506	7,272,241,987
Investment in Short-Term Investments Funds (STIF)	197,663,004	1,716,643
Investment in Real Estate	820,520,253	855,899,020
Investment in Private Equity/Debt	933,505,283	846,347,603
Securities Lending Collateral Pool	1,462,527,044	75,991,787
Total Investments	$17,174,920,495	$15,264,248,089

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 equipment 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 fiscal year of future rental income under the lease.

Year Ending June 30,

Year	Rental Income
2004	$ 72,000
2005	42,000
Total	$ 114,000

Total rental income for the year ended June 30, 2003 totaled $72,000.

(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," 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 contribute 3.70% of pay and most employers contribute 5.75% of pay for a total of 9.45%. Certain employers and employees in special risk occupations contribute at a higher rate as required by statute. The annual actuarial valuation is performed to determine whether the statutory 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. The statutory rate is first applied to fund the normal cost. The remaining contribution rate is used to amortize the unfunded actuarial accrued liability as a level percentage of payroll. The System's funding policy provides for a maximum amortization period of 30 years in order for the System to be considered "fully funded," and further establishes guidelines indicating when the System should consider requesting statutory contribution rate increases.

The current valuation results indicate that, under the current statutory rate, the amortization period for the System's unfunded actuarial accrued liability exceeds the funding policy maximum of 30 years. Specifically, the System's unfunded actuarial accrued liability cannot be amortized based on the current statutory contribution rate. Following the guidelines set forth in the funding policy, the system will request a legislative increase in the statutory contribution rate. Although the System has sufficient resources to make benefit payments for many years, the system is not in actuarial balance so long as the unfunded actuarial accrued liability cannot be amortized. An increase in the statutory rate can restore actuarial balance.

For the fiscal year ended June 30, 2003, the statutorily established contribution requirement for employers was $280,663,263 or 5.75% of covered payroll. The statutorily established requirement for employees for the same time period was $180,600,709 or 3.70% of covered payroll. The actual amount of contributions made by employers and employees during the fiscal year ended June 30, 2003, was $287,523,555 and $185,430,574 respectively.

Total required statutory contributions for the years ended June 30, 2003, 2002, and 2001 were $461,263,972, $448,267,972 and $429,992,021 respectively. All these required contributions were made for all three fiscal years.

(5) Capital Assets

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

	2003	2002
Building and Improvements	$ 3,748,182	$ 3,748,182
Less Accumulated Depreciation Bldg/Improvements	(334,846)	(239,091)
Furniture & Equipment	572,246	1,993,828
Less Accumulated Depreciation Furn/Equip	(314,227)	(1,576,514)
Land (Non-depreciable)	500,000	500,000
Total capital assets	$ 4,171,355	$ 4,426,405

Depreciation expense for the year ended June 30, 2003 was $247,633.

(6) Transfer From Another Pension Plan

This reflects assets transferred to IPERS to fund accrued actuarial liabilities assumed by IPERS from the active, inactive vested, and retired participants of the Cedar Rapids Water Works Retirement System, pursuant to Iowa Code section 97B.42C. Section 97B.42C authorizes the merger of a municipal water utility or waterworks retirement system created under Iowa Code chapter 412 with and into the Iowa Public Employees' Retirement System on mutually agreeable terms and conditions.

(7) 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.

(8) Commitments

At June 30, 2003, IPERS had commitments to fund an additional $777,851,145 to various private equity/debt partnerships.

(9) 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.

(10) 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. Wages are covered up to the federal limit of $200,000. The System's contribution to IPERS for the years ended June 30, 2003, 2002, and 2001, were $249,678, $234,549, and $207,134, respectively, equal to the required contributions for each year.

(11) 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, 2002	$13,780,630,942	$216,550,516	$390,618,179	$486,619,557	$14,874,419,194
Additions:					
Contributions	440,606,268	9,450,398	22,897,463	--	472,954,129
Service purchase	11,588,742	113,975	328,490	--	12,031,207
Transfer from another pension plan	8,879,964	--	--	--	8,879,964
Investment and misc. income	782,395,180	12,490,428	22,729,669	27,172,581	844,787,858
Total Additions	**1,243,470,154**	**22,054,801**	**45,955,622**	**27,172,581**	**1,338,653,158**
Deductions:					
Benefit payments	695,862,307	5,895,422	9,002,366	--	710,760,095
FED payments	--	--	--	25,570,783	25,570,783
Member and employer refunds	31,869,433	1,110,782	2,611,108	--	35,591,323
Admin & invest expense	35,565,856	485,622	935,772	961,994	37,949,244
Total Deductions	**763,297,596**	**7,491,826**	**12,549,246**	**26,532,777**	**809,871,445**
Balance at June 30, 2003	**$14,260,803,500**	**$231,113,491**	**$424,024,555**	**$487,259,361**	**$15,403,200,907**

* 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
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)%
2003	16,120,476,011	17,987,374,960	89.62%	$(1,866,898,949)	4,881,100,238	(38.25)%

(1) Annual covered payroll is the amount of wages subject to contributions to IPERS not to exceed the federal covered wage limit in effect at the time the wages are paid. Beginning January 1, 2002, the federal limit has been $200,000.

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	30 years* (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.

*Governmental Accounting Standards Board Statement Number 25 states that, until fiscal year 2006, the maximum acceptable amortization period for the total unfunded actuarial liability is 40 years. After that, the maximum acceptable amortization period is 30 years. IPERS funding policy provides for a maximum amortization period of 30 years.

Schedule of Employer Contributions

Schedule 2

Schedule of Actuarially Required Employer Contributions
Last Six Fiscal Years

Fiscal Year	Actuarially Required Contributions	Total Employer Contributions	Percentage Contributed
1998	$ 227,772,773	$ 227,772,773	100.0%
1999	244,933,066	244,933,066	100.0%
2000	253,271,051	253,271,051	100.0%
2001	268,315,094	268,315,094	100.0%
2002	278,682,745	278,682,745	100.0%
2003	289,772,054	287,523,555	99.2%

The difference between the Actuarially Required Contributions and actual contributions made is due entirely to statutory contribution requirements that differ from the actuarially required contribution rate.

See note 4 for additional information on actuarial valuation.

See accompanying independent auditor's report.

Schedule 3

Iowa Public Employees' Retirement System
Investment Income by Specific Source
Years Ended June 30, 2003 and 2002

	2003	2002
Interest income - short term	$ 9,385,092	$ 2,269,435
Interest income on bonds	259,599,419	307,081,167
Dividend income	93,319,070	83,941,693
Real estate funds	75,237,963	87,040,416
Private equity/debt funds	(17,019,935)	(15,542,574)
Tactical funds	10,921,873	19,229,089
Security lending income	22,283,963	18,891,542
Other income	951,011	777,015
Investment income	454,678,456	503,687,783
Gain (loss) on investments	288,006,686	(1,316,917,668)
Currency gain (loss)	120,029,496	94,611,624
Net appreciation (depreciation) in fair value of investments	408,036,182	(1,222,306,044)
Investment income (loss)	$862,714,638	$(718,618,261)

See accompanying independent auditor's report.

Iowa Public Employees' Retirement System

Schedule 4

Schedule of Administrative Expenses
Years Ended June 30, 2003 and 2002

	2003	2002
Personnel:		
Salaries & wages	$4,899,752	$4,424,590
Travel	104,875	60,285
Professional and technical services:		
Professional	882,037	1,001,164
Actuary	144,442	93,459
Computer support services	514,736	540,226
Auditing	62,978	60,483
Communications:		
Telephone	186,800	147,349
Printing	86,202	121,911
Other expenses:		
Supplies	512,069	454,966
Utilities	54,363	51,286
Depreciation	247,633	450,206
Repairs	146,613	37,876
Rent	1,266	1,382
Miscellaneous	197,347	135,922
Total administrative expenses	**$8,041,113**	**$7,581,105**

See accompanying independent auditor's report.

Schedule 5

Iowa Public Employees' Retirement System
Schedule of Investment and Consulting-Related Expenses
Years Ended June 30, 2003 and 2002

	2003	2002
J.P. Morgan Investment Management	$ 105,355	$ 119,767
Mellon Capital Management	140,514	229,792
Dresdner RCM Global Investors	2,001,036	2,145,643
Wellington Trust Company, N.A.	1,752,679	3,389,856
TOTAL DOMESTIC EQUITY	**3,999,584**	**5,885,058**
BlackRock Financial Management, Inc.	805,216	865,900
J.P. Morgan Investment Management	645,334	803,584
Mellon Bond Associates	162,197	456,813
Mellon Capital Management	127,406	215,769
Miller, Anderson & Sherrerd	0	(74,234)
Oaktree Capital Management	2,405,379	2,039,730
Western Asset Management Company	1,327,072	1,545,369
TOTAL GLOBAL FIXED INCOME	**5,472,604**	**5,852,931**
Mellon Capital Management	1,255,316	2,645,100
TOTAL TACTICAL	**1,255,316**	**2,645,100**
Barclays Global Investors	3,818,962	4,316,763
Schroder Capital Management International	2,612,302	3,511,141
Putnam Institutional Management	474,758	521,237
Emerging Markets Management	167,898	0
TOTAL INTERNATIONAL EQUITY	**7,073,920**	**8,349,141**
RREEF REIT	733,215	519,873
RREEF	2,836,142	1,233,616
AEW Capital Management	92,970	43,315
Copley	0	51
Heitman/JMB	126,517	276,765
INVESCO	1,552,055	1,081,734
TA Associates	553,972	6,468,727
UBS Realty	2,928,288	1,909,838
PM Realty	177,200	152,303
TOTAL REAL ESTATE	**9,000,359**	**11,686,222**
Pathway Capital Management	1,798,322	1,634,988
Warburg, Pincus Counsellors	0	17,627
TOTAL PRIVATE EQUITY/DEBT	**1,798,322**	**1,652,615**
The Townsend Group	132,000	132,000
Wilshire Associates	239,000	239,000
TOTAL INVESTMENT CONSULTANT FEES	**371,000**	**371,000**
Custodial Bank Fees	122,247	434,499
Treasurer of State	22,841	20,689
TOTAL CUSTODY EXPENSES	**145,088**	**455,188**
Investment Staff Expenses	684,321	625,433
Miscellaneous Expenses	107,617	112,043
TOTAL OTHER INVESTMENT EXPENSES	**791,938**	**737,476**
TOTAL INVESTMENT EXPENSES	**$29,908,131**	**$37,634,731**

See accompanying independent auditor's report.

Actuarial

Actuary's Certification Letter

Comparative Statistics

Actuarial Balance Sheet

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December 2, 2003

We have performed an actuarial valuation of the Iowa Public Employees' Retirement System (System) as of June 30, 2003. An actuarial valuation is prepared annually in accordance with Iowa Code § 97B.4(4)(d) 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, 2003.
- to analyze and report on trends in System contributions, assets, and liabilities over the past several years.

The benefit provisions, actuarial assumptions and actuarial methods reflected in this report are unchanged from last year's report.

The actuarial valuation results provide a "snapshot" view of the System's financial condition on June 30, 2003. The results reflect net unfavorable experience for the past plan year as demonstrated by an unfunded actuarial liability (UAL) that was higher than was expected, based on actuarial assumptions. The UAL on June 30, 2003 for all membership groups covered by IPERS is $1.867 billion as compared to an expected UAL of $1.340 billion. The unfavorable experience was the net impact of an experience loss of $402 million on the actuarial value of assets and $125 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 9.06%, which represents a small increase from the normal cost rate in the 2002 valuation of 9.03%. With the normal cost rate at its current level, only a small part of the total contribution rate is available to fund the UAL. As was the case last year, the amortization period is infinite (the UAL cannot be amortized with the current contribution rate if all assumptions are met in the future). 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.

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, 2003 valuation, favorable actuarial experience did not occur for the System and, therefore, there is no transfer to the FED reserve. Given expected payout levels and no future transfers to the reserve, the current FED reserve is projected to be sufficient to make payments for the next eight years (including the January 2004 payment), plus a reduced payment in the ninth year, if all assumptions are met in future years. The FED calculations are based on pure market value of assets so past investment experience is fully reflected in each valuation. This has the potential to change the remaining years of payment from year to year.

December 2, 2003
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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, 2002 and June 30, 2003, the actuarial value of assets increased by $507 million. This represented an approximate rate of return of 4.9% as compared to the actuarial assumed rate of 7.5%. The resulting actuarial loss was $402 million.

Liabilities

Three different measurements of liabilities are shown below. 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, 2003.** 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, 2003 and June 30, 2002 are summarized below:

	June 30, 2003	June 30, 2002	Change
Actuarial Balance Sheet Liability	$22,108,936,178	$20,936,398,551	5.6%
Actuarial Liability	17,987,374,960	16,868,559,185	6.6%
Liability for Accrued Benefits	14,337,988,064	13,155,173,862	9.0%

OFFICES IN PRINCIPAL CITIES WORLDWIDE

Experience

Numerous factors contributed to the change in the Systems' assets, liabilities and remaining amortization period for the unfunded actuarial liability between June 30, 2002 and June 30, 2003. 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 $527 million. The change in the unfunded actuarial liability between June 30, 2002 and 2003 is shown below (in millions):

Unfunded Actuarial Liability, June 30, 2002	$ 1,255
• Expected change in UAL due to amortization payment	+ 85
• Investment (gain)/loss	+ 402
• Liability (gain)/loss from actual experience	+ 125
• Benefit enhancements	+ 0
• Change in actuarial assumptions	+ 0
Unfunded Actuarial Liability <u>before</u> FED transfer, June 30, 2003	$ 1,867
• FED Transfer	+ 0
Unfunded Actuarial Liability <u>after</u> FED transfer, June 30, 2003	$ 1,867

Contribution Rate

The Iowa statutes provide that most IPERS members (general members who represent 96% of total active members) shall contribute 3.7% of pay and employers shall contribute 5.75%, for a total of 9.45%. The remaining 4% of the active members, 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 (9.06%) is so close to the statutory contribution rate of 9.45%, the remaining 0.39% 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 resulting contribution rate would increase by 1.71% to 11.16% of payroll. This rate is determined based on the snapshot of the System taken on the valuation date, June 30, 2003, and applies only for the fiscal year beginning July 1, 2004. The rate necessary for the System to continue to be "fully funded" in future years will change each year as the deferred actuarial investment losses are recognized and other experience (both investment and demographic) impacts the System. The Asset/Liability Study completed earlier this year indicated that, in order to reach a 30 year amortization of the UAL by 2014 (and not to exceed that limit thereafter), a contribution rate of 13.25% effective July 1, 2005 would be necessary. This is a better long term estimate of the level of contributions necessary to fund the System in accordance with the Funding Policy.

December 2, 2003
Page 4

When the current actuarial value of 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 occurred in both the 2002 and 2003 valuations).

(2) the amortization period exceeds 29 years (which has occurred in the 2001, 2002, and 2003 valuations).

Based on the criteria in the Funding Policy, consideration should be given to increasing the statutory contribution rate.

The Asset/Liability Study completed in September 2003 confirmed the long term funding concerns for IPERS. Based on capital market assumptions developed by Wilshire Associates, stochastic modeling was performed over a thirty year period. The results indicated that, absent changes in benefits or contributions, there is about a 75% probability that the System's funded ratio would steadily decline and the actuarial contribution rate (based on 30 year amortization of any UAL) would steadily increase.

Given the current normal cost rate, the unfunded actuarial liability, and the amount of the deferred actuarial investment loss, we believe some type of additional contributions or change in benefit structure (or both) will be necessary in the future to meet the standard set out in IPERS' Funding Policy. The Asset/Liability Study submitted to IPERS in September, 2003 provided several alternatives for both contribution increases and/or changes in the benefit structure. There are many other alternatives which could address the long term funding concerns of IPERS.

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. However, as the results of the Asset/Liability Study indicated, time is not likely to resolve the long term funding issues. It is in the System's best interest for changes in contributions or benefits to be made sooner instead of later. Furthermore, by making the changes earlier, they will be less severe.

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)
2003	$2,717,148,747	$6,713,971,820	$6,543,779,001	$16,120,476,011	100%	100%	100%
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%

Summary

IPERS, like most retirement plans in the United States (both public and private) is feeling the impact of three years of record low market returns. This, coupled with negative demographic experience and a change in actuarial assumptions in 2002 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 (0.39%) difference between the 9.45% statutory rate and the 9.06% normal cost rate (cost allocated to the current year of service worked by active members), the unfunded actuarial liability cannot be amortized. Despite the unfavorable experience on both the asset and liability side, the System remains nearly 90% 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 11.16% of payroll. This rate is determined based on the snapshot of the System taken on the valuation date, June 30, 2003, and applies only for the fiscal year beginning July 1, 2004. The rate necessary for the System to continue to be "fully funded" in future years will change each year as the deferred actuarial investment losses are recognized and other experience (both investment and demographic) impacts the System. The Asset/Liability Study completed earlier this year indicated that, in order to reach a 30 year amortization of the UAL by 2014 (and not to exceed that limit thereafter), a contribution rate of 13.25% effective July 1, 2005 would be necessary. This is a better long term estimate of the level of contributions necessary to fund the System in accordance with the Funding Policy.

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 decline over time if experience follows the assumptions. The current deferred actuarial investment loss for IPERS is $1.204 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.

December 2, 2003
Page 6

The small portion of the total contribution rate that is used to pay the unfunded actuarial liability exacerbates the situation with the deferred actuarial investment loss. Currently, only 0.39% 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.

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.

We also hereby certify that the assumptions and methods used for determining the funding requirements used in the preparation of the disclosure information under GASB Statement 25 meet the parameters imposed by the Statement.

Actuarial computations presented in this report are for purposes of evaluating the funding of 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, 2003 and June 30, 2002 valuations. All figures shown include the general membership and the two special service groups. The membership counts reflect the data as of June 30, appropriate for valuation purposes, and may differ from other reporting numbers.

Respectfully Submitted,

Milliman USA, Inc.

I, Patrice A. Beckham, F.S.A., 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, 2003

	June 30, 2003	June 30, 2002	% Chg
SYSTEM MEMBERSHIP			
1. Active Membership			
- Number of Members	159,310	158,467	0.5
- Projected Payroll for Fiscal Year	$5,090M	$5,090M	0.0
- Average Salary	$31,950	$32,119	(-0.5)
2. Inactive Membership			
- Number of Vested Deferred Members	35,375	34,792	1.7
- Number of Nonvested Members	68,929	63,436	8.7
3. Retired Membership			
- Number of Retirees/Beneficiaries	74,128	71,715	3.4
- Average Annual Retirement Benefit	$ 9,399	$ 9,091	3.4
ASSETS AND LIABILITIES			
1. Net Assets (excluding FED reserve)			
- Fair Value	$14,916M	$14,388M	3.7
- Actuarial Value	16,120M	15,613M	3.2
2. Projected Liabilities			
- Retired Members	$6,714M	$6,207M	8.2
- Inactive Members	450M	426M	5.6
- Active Members	14,945M	14,303M	4.5
- Total Liability	22,109M	20,936M	5.6
3. Actuarial Liability	$17,987M	$16,869M	6.6
4. Unfunded Actuarial Liability	$1,867M	$1,255M	48.8
5. Funded Ratio			
(Actuarial Value Assets/Actuarial Liability)	89.62%	92.56%	(-3.2)
SYSTEM CONTRIBUTIONS			
1. Statutory Contribution Rate*	9.45%	9.45%	0.0
2. Normal Cost Rate	9.06%	9.03%	0.3
3. Years Required to Amortize Unfunded Actuarial Liability	Infinite	Infinite	N/A

M = ($)Millions

* Contribution for certain special groups (3.8% of the membership) are not fixed at 9.45% but are actuarially determined each year.

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Actuarial Assumptions and Methods for General Membership

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
62	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]

Age	Annual Percentage Rate 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
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, 2003

ASSETS

Actuarial value of assets	$16,120,476,011
Present value of future normal costs	4,121,561,218
Present value of future contributions to amortize the unfunded actuarial liability	1,866,898,949
Total Net Assets	$22,108,936,178

LIABILITIES

Present Value of Future Benefits	
Retired Members and Beneficiaries	
Annuity benefits being paid and contingent payments upon death	$ 6,713,971,820
Active Members	
Retirement benefits	13,030,007,323
Death benefits	200,015,935
Termination benefits	1,021,696,663
Disability benefits	693,285,998
Inactive Members	
Retirement allowances & death benefits for vested members	420,221,861
Accumulated employee account balances for nonvested members	29,736,578
Total Liabilities	$22,108,936,178

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Investments

Investment Overview

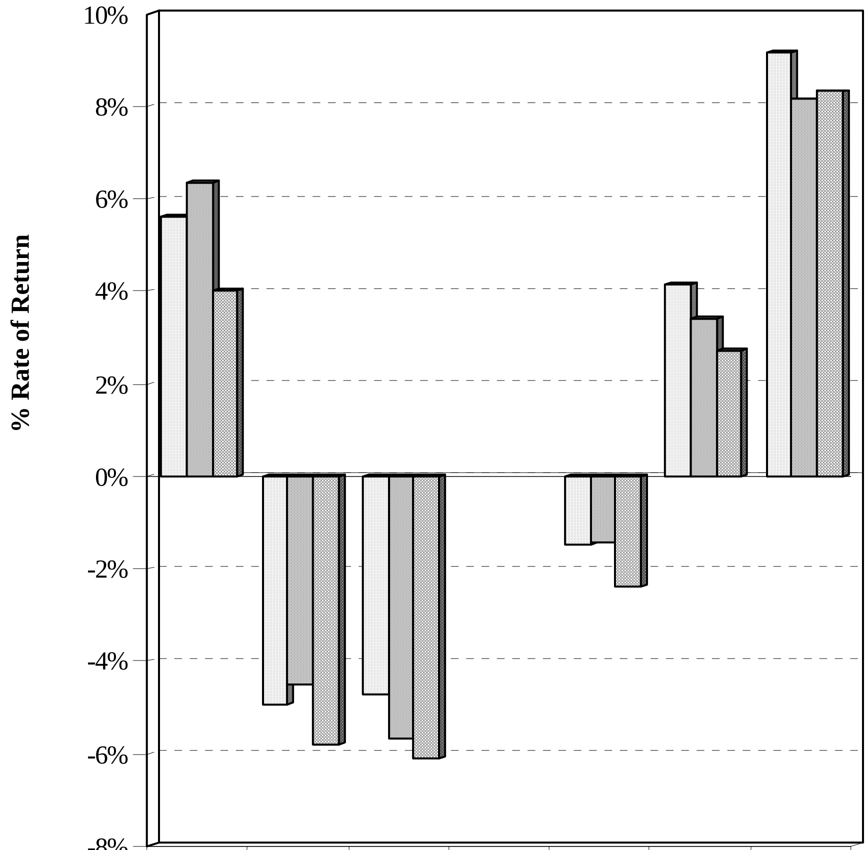
Investment Results

Investment Policy and Goal Statement

This section was prepared by IPERS' Investment Staff.

Annalized Investment Performance Summary

For the periods ended June 30



	2003	2002	2001		3 yr	5 yr	10 yr
IPERS' Portfolio *	5.59%	-4.94%	-4.73%		-1.48%	4.12%	9.16%
Policy Benchmark **	6.34%	-4.52%	-5.68%		-1.43%	3.41%	8.13%
Large Public Fund Median ***	4.02%	-5.82%	-6.10%		-2.38%	2.71%	8.30%

* Net of Fees
** A passively-managed benchmark comprised of market indices, and weightings of same, reflective of IPERS' asset allocation targets.
*** Trust Universe Comparison Service's 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 in which IPERS invests. Please see the Investment Policy and Goal Statement at the end of this section for a listing of these investment return objectives.

The System's investments are managed by professional investment management firms based upon statutory investment authority, the investment policies adopted by the IPERS Investment Board and a detailed service contract with each manager. 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 policies and long-term investment strategy.

The IPERS net investment portfolio fair values reported in this 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 industry standard basis for investment return calculation, and are net of all investment receivables, payables and securities lending collateral.

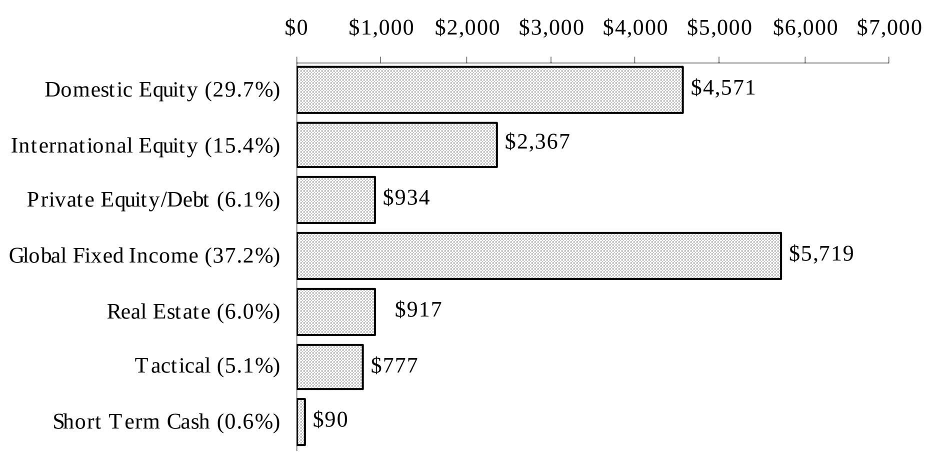
The Importance of Asset Allocation and Diversification

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.

Summary of Investments by Asset Class

As of June 30, 2003

(Fair Value in Millions)



Of all the components of investment strategy formulation, the determination of asset allocation targets is the most important decision.

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 that trend is inevitably reversed for a subsequent period. By utilizing several investment management firms with a variety of investment styles, the investment performance at the total Fund level is not dependent upon the success of one particular investment style.

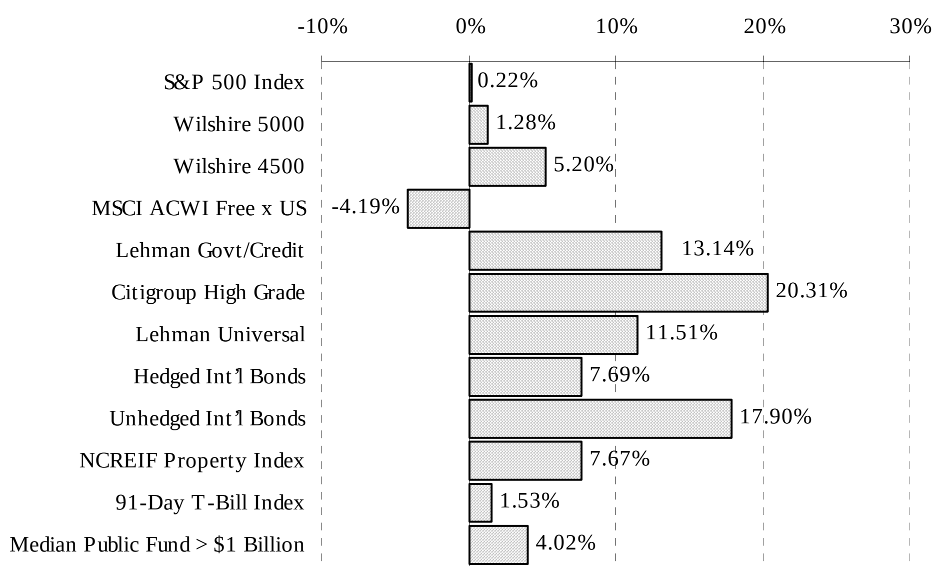
The System also requires its investment managers to diversify their portfolios at the security level. Managers are required to diversify across sectors, industries, and individual securities. The System develops specific contractual investment guidelines for each manager that control the risk of high 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 over time while minimizing the risk of negative returns caused by adverse short-term changes in the capital markets.

Capital Markets Commentary

Capital markets remained very volatile in fiscal year 2003, reflective of the high degree of investor uncertainty that existed during the period. On the whole, U.S. equity markets managed to end the fiscal year with a slight positive return, but it was a very bumpy ride getting there. International equity markets were also volatile, but the end result was not as pleasant, with the major international equity indices producing negative returns for the fiscal year. Fixed income and real estate investments continued to provide solid positive performance in fiscal year 2003, helping well-diversified investors to offset the poor performance of equities during the period. The negative return of private equity investments continued to reflect a market struggling to adapt to a slower pace of economic growth.

Fiscal Year 2003 Market Returns



The U.S. equity market, as measured by the Wilshire 5000 Index, returned 1.3% for the fiscal year, its first positive return for a fiscal year since fiscal year 2000. In terms of style, growth stocks outperformed value stocks, but in terms of capitalization, there was no clear trend in fiscal year 2003, as shown in the table below.

Wilshire Style Index	FY Return
Large Growth	2.2%
Large Value	-0.3%
Small Growth	2.6%
Small Value	-0.5%

Healthcare was the best performing sector of the Wilshire 5000 Index in fiscal year 2003, with a return of 9.6%. The Information Technology sector (up 7.3%) and Telecommunications (up 6.0%), two sectors that suffered greatly in the "post-bubble" period of the last three years, turned in surprising performance that may signal growing confidence in an economic recovery. The worst performing sectors were Materials (down 10.1%), Consumer Staples (down 6.1%) and Industrials (down 4.8%).

Returns to U.S. investors from international stocks were generally negative in fiscal year 2003, reflecting the concern regarding economic growth and inflation/deflation in Europe and the impact of the SARS epidemic in the Pacific Basin. 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 -4.2% for the fiscal year ended June 30, 2003. European stocks lost 5.2% over the fiscal year, due mainly to concerns about the prospects for slower growth, while stocks of companies in the Pacific Basin performed even worse, losing 9.6% over the period, following the SARS epidemic. Emerging markets stocks defied the trend, and produced a gain of 7.0% in fiscal year 2003.

Returns for the fixed income market were very strong for fiscal year 2003. The first half of the fiscal year predominantly reflected an environment of low consumer confidence, a sluggish economy and the prospect of war. This extended the flight to quality bonds that occurred during fiscal year 2002. However, by the start of the second half of the fiscal year, investors seemingly saw the economy begin to stabilize and began searching for higher yielding assets in the historically low interest rate environment. Both the corporate and high yield bond sectors benefited from this situation. For the fiscal year, the high yield sector had a return of 24.8%, while the corporate sector returned 15.6%. Unhedged non-U.S. bonds produced a return of 17.9% over the fiscal year as the dollar weakened over the time period. Hedged non-U.S. bonds returned 7.7%. Overall, Treasuries returned 12.0% for the year, with Treasury Inflation Protected Securities (TIPS) returning 15.4% and longer maturity Treasuries returning 5.1%. As measured by the Lehman Brothers Universal Index, the fixed income market generated a return of 11.5% for the fiscal year ended June 30, 2003.

The U.S. commercial real estate market also provided positive returns in fiscal year 2003, due entirely to stable operating income from properties. Property values decreased in most of the major property types (with the exception of apartments and retail) during the year. The NCREIF Property Index, a commonly cited measure of privately traded commercial real estate values and income, returned 7.7% for the one-year period ended June 30, 2003. Publicly traded real estate securities (REITS) produced slightly positive returns in fiscal year 2003, with the Wilshire Real Estate Investment Trust Index posting an annual return of 3.7% for the fiscal year.

Private equity investment valuations were a mixed bag in fiscal year 2003. Venture capital investments continued to suffer write-downs and write-offs as venture capitalists continued to "right-size" their portfolios to concentrate on those companies they believe have a decent chance of surviving a slower paced economy. According to *Venture Economics* the average annual internal rate of return on venture capital funds for the fiscal year was -27%. Private equity investments in buyout strategies fared much better in fiscal year 2003. *Venture Economics'* data indicates that buyout funds produced an average annual internal rate of return of 2.6% for fiscal year 2003.

The overall private equity asset class, as measured by *Venture Economics* data, produced a return of -6.9% in fiscal year 2003.

Investment Portfolio Assets[1]

At the close of fiscal year 2003, IPERS' net investment portfolio assets had a fair value of $15,375,270,292. The change in fair value represents an increase of $521,251,902 from the $14,854,018,390 net investment asset fair value as of June 30, 2002. The increase in net investment portfolio asset fair value is mostly attributable to two factors. The first, and largest, factor contributing to the increase in net investment asset fair value was the positive investment portfolio return of 5.59%, which is more fully addressed below. A second factor affecting the net investment portfolio asset fair value was the fact that buy-back/buy-in contributions had a $7,047,873, or 141%, increase from that received in fiscal year 2002.

Investment Results

IPERS posted a total portfolio investment return of 5.59% for the fiscal year ended June 30, 2003. This return exceeded the 4.02% median return of the Trust Universe Comparison Service ("TUCS") universe of public pension funds with assets greater than $1 billion. The Fund's return also exceeded its objective of providing an investment return at or above the rate of inflation (as measured by the Consumer Price Index, or "CPI") plus 3%; that objective was 5.45% for fiscal year 2003. However, the Fund's 5.59% return lagged the 6.34% 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 underperformance relative to their benchmarks of the international equity, tactical asset allocation, real estate and private equity portfolios. The Investment Board and staff have undertaken corrective actions in these portfolios to reduce the level of future underperformance. The Fund's return also lagged on a one-year basis the 7.50% return assumed in the System's actuarial projections.

IPERS' strongest return for the fiscal year was provided by its fixed income portfolio at 12.31%, followed by the real estate portfolio at 7.54%. The weakest returns were from the international equity portfolio at -4.91%, and the private equity portfolio at -1.2%.

For the five years ending June 30, 2003, IPERS' total fund return of 4.12% annualized exceeded both the policy benchmark return of 3.41% and the TUCS large public fund universe median return of 2.71%. IPERS' ten-year annualized return of 9.16% also outpaced both the policy benchmark return of 8.13% and the TUCS large public fund median return of 8.30% and outpaced the other objectives of exceeding the 7.50% annualized actuarial return assumption and CPI plus 3% (5.47% annualized). 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.

[1] Based on fair value of the total investment portfolio at June 30, 2003 and June 30, 2002, net of all investment receivables, payables and securities lending collateral. Although these values are the appropriate industry standard 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.

Time-weighted Rates of Return for periods ended June 30, 2003[a]

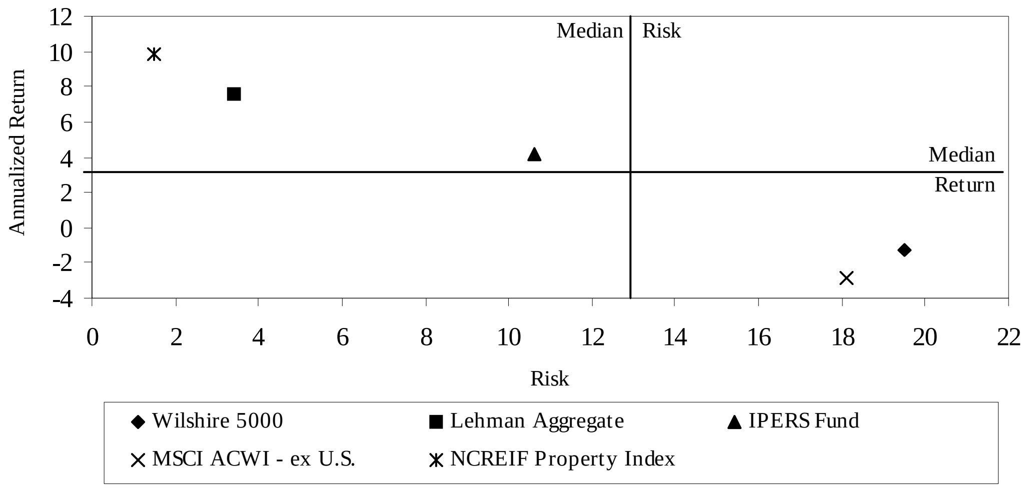
Asset Class	Annualized Returns 1-Year	3-Year	5-Year	10-Year
Total Fund				
IPERS	5.59%	-1.48%	4.12%	9.16%
Policy Benchmark[b]	6.34	-1.43	3.41	8.13
CPI + 3%	5.45	5.25	5.49	5.47
Actuarial Interest Rate	7.50	7.50	7.50	7.50
TUCS Public Funds >$1 Billion Universe Median	4.02	-2.38	2.71	8.30
Domestic Equity				
IPERS	1.49	-10.18	-0.11	10.34
Wilshire 5000	1.28	-10.58	-1.30	9.54
International Equity				
IPERS	-4.91	-12.35	-1.32	3.47
Custom Benchmark	-4.19	-12.54	-2.35	2.39
Global Fixed Income				
IPERS	12.31	10.30	7.71	7.63
Custom Benchmark	11.51	9.98	7.53	7.20
Tactical				
IPERS	3.52	-3.67	1.39	9.14
Custom Benchmark	6.33	-3.36	2.24	9.07
Private Equity/Debt[c]				
IPERS	-1.22	-17.67	0.90	16.63
Wilshire 5000 + 3%	5.57	-8.21	2.15	15.20
Real Estate				
IPERS	7.54	9.54	9.50	8.41
CPI + 6%	8.45	8.25	8.49	8.47
Short-Term Cash[d]				
IPERS	2.32	3.75	4.51	N/A
US Treasury Bills	1.53	3.34	4.07	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, 2003 the Policy Benchmark consists of: 28% Wilshire 5000, 15% MSCI ACWI x US, 34% Lehman Universal, 3% Citigroup High Yield Cash Pay, 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 over long time periods 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 funding. 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 that follows provides a comparison of IPERS' investment risk/return characteristics for the last five years against the TUCS universe of public pension funds with assets greater than $1 billion. 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, 2003 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 Greater Than $1.0 Billion
5 Years Ended June 30, 2003

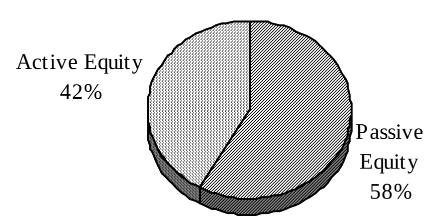


	Annualized Return	Risk (Standard Deviation)
IPERS Total Fund	4.12%	10.60%
Median Fund	2.71	12.63
Wilshire 5000	-1.31	19.50
Lehman Aggregate	7.54	3.39
MSCI ACWI – ex U.S.	-2.81	18.10
NCREIF Property Index	9.79	1.51

Domestic Equity

At June 30, 2003, 29.7% of IPERS' total portfolio was invested in domestic equities. The total net fair value of the domestic equity portfolio was $4,571,440,034. 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.

Domestic Equity Portfolio
June 30, 2003



The domestic equity portfolio has two components:

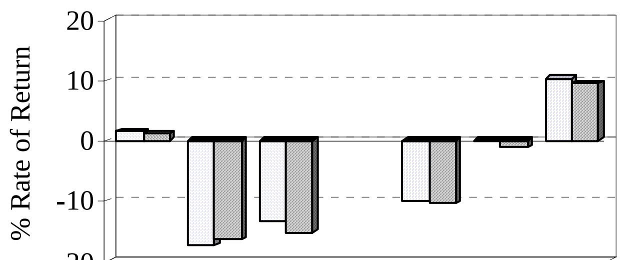
Passive Equity - the passive component is divided into large cap and small-mid cap strategies for management purposes and consists primarily of investments in commingled index funds, index futures, and short-term securities. The return objective for each strategy is to track, within a certain range, 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.

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.

The U.S. stock market rebounded during the year ended June 30, 2003. For the first time in three fiscal years the IPERS' domestic equity portfolio posted a positive return of 1.49% compared to 1.28% for the Wilshire 5000 Index. For the five-year period ended June 30, 2003 the domestic equity portfolio has earned an annualized return (net of fees) of -0.11% versus -1.30% for the Wilshire 5000 Index.

Domestic Equity Performance Summary

For the Periods ended June 30



	2003	2002	2001		3 yr	5 yr	10 yr
IPERS' Portfolio *	1.49	-17.43	-13.54		-10.18	-0.11	10.34
Wilshire 5000	1.28	-16.62	-15.34		-10.58	-1.30	9.54

* Net of Fees

International Equity

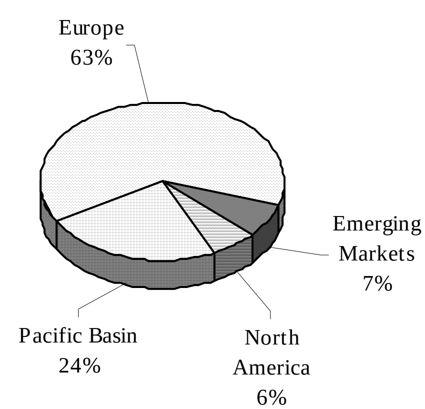
At June 30, 2003 the international equity portfolio had a net fair value of $2,367,475,633, representing 15.4% of the total IPERS portfolio. IPERS' international equity portfolio is comprised primarily of common stocks or equity commingled funds, foreign exchange contracts and cash, and is widely diversified 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.

International Equity Portfolio

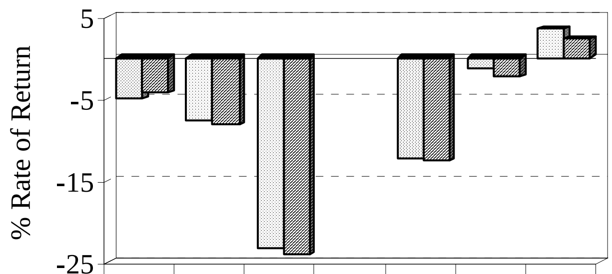
June 30, 2003



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



	2003	2002	2001		3 yr	5 yr	10 yr
IPERS' Portfolio *	-4.91	-7.74	-23.25		-12.35	-1.32	3.47
Custom Benchmark	-4.19	-8.23	-23.92		-12.54	-2.35	2.39

* 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 -4.9% during fiscal year 2003 compared to -4.2% for the benchmark. For the five-year period ended June 30, 2003 this portfolio has outperformed its benchmark earning an annualized return of -1.3% versus -2.4% for the benchmark.

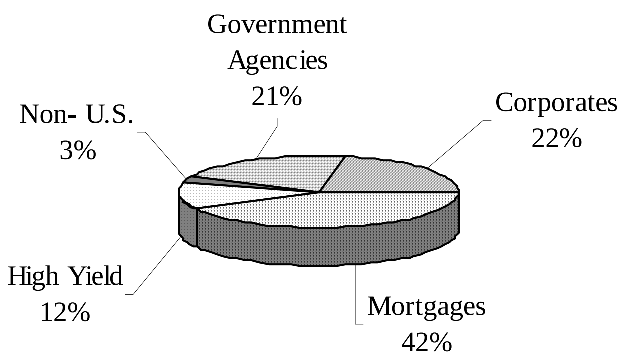
Global Fixed Income

The total IPERS Fund asset allocation target for fixed income is 37.0%. At fiscal year end, IPERS' Global Fixed Income portfolio was 37.2% of the total fund assets. The total return for the Global Fixed Income portfolio for the year ended June 30, 2003 was 12.3%, exceeding the Lehman Brothers Universal Index return of 11.5%. The Global Fixed Income portfolio fair value was $5,719,190,879 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:

Global Fixed Income Portfolio

June 30, 2003



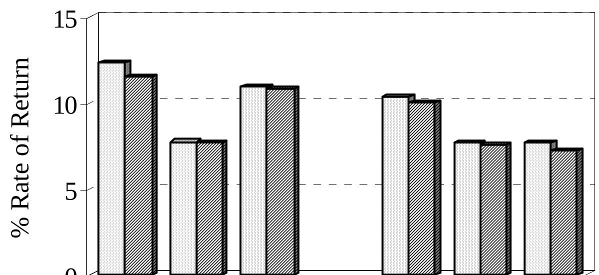
<u>Active Bond</u> - a diversified portfolio of fixed income securities utilizing cash and cash equivalents, forward foreign exchange contracts, currency options, financial futures, government and government agency bonds, Eurobonds, non-dollar bonds, non-convertible preferred stock, options on fixed 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.

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 Citigroup High-Yield Cash-Pay Capped Index by 100 basis points, net of fees, 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



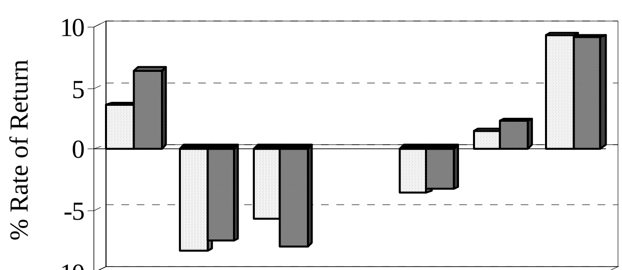
	2003	2002	2001		3 yr	5 yr	10 yr
IPERS' Portfolio *	12.31	7.73	10.91		10.30	7.71	7.63
Custom Benchmark	11.51	7.71	10.77		9.98	7.53	7.20

* Net of Fees

The overall bond market returns were strong for the year. U.S. Treasuries rallied early during the fiscal year as the economy continued to struggle and the threat of war confronted the United States. The credit sectors of the market followed with strong results as the economy stabilized and investors began to search out higher yields in a low interest rate environment. IPERS' portfolio benefited from its allocation to high yield securities as this segment of the market returned 24.8% for the year. A tactical overweight to corporate bonds throughout the year also benefited the portfolio as corporate earnings stabilized and investors took advantage of the large yield advantage over safer assets such as U.S. Treasuries. These strategies led to IPERS' portfolio generating a return of 12.3% for the fiscal year versus the benchmark return of 11.5%. The portfolio has also outperformed on a five and ten-year basis, returning 7.7% and 7.6%, respectively, versus the benchmark returns of 7.5% and 7.2%, as of June 30, 2003.

Tactical Asset Allocation Performance Summary

For the Periods ended June 30



	2003	2002	2001		3 yr	5 yr	10 yr
IPERS' Portfolio *	3.52	-8.40	-5.72		-3.67	1.39	9.14
Custom Benchmark	6.33	-7.55	-7.95		-3.36	2.24	9.07

* Net of Fees

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 $776,815,156 on June 30, 2003, which represented 5.1% of IPERS' total assets. The TAA portfolio underperformed for the 1-year, 3-year, 5-year and since inception time periods as of June 30, 2003. The 1-year performance was 3.5% versus 6.3% for the benchmark.

Private Equity/Debt

At June 30, 2003 IPERS' private equity/debt portfolio had a fair value of $933,919,473, representing 6.1% of the total IPERS portfolio. From the inception of the private equity/debt portfolio in 1985 through June 30, 2003, the System has committed $2,525,584,846 to one hundred and thirteen partnerships. Of that total, $777,851,145 remains to be called for investment. During the fiscal year, IPERS committed $169,636,700 to five new partnerships.

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.

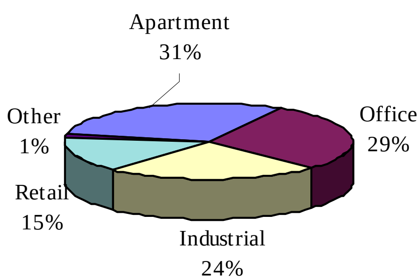
The long-term performance objective for the private equity/debt portfolio is to exceed the return of the Wilshire 5000 Index, calculated on an internal rate of return (IRR) basis, by three percentage points on an annualized basis. The private equity/debt portfolio returned -1.2% in fiscal year 2003 versus 5.6% for its benchmark. In terms of a longer, historical perspective, the private equity/debt portfolio has provided an annualized IRR of 13.8% since its inception in 1985 versus its return objective of 15.7%. 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 should be delegated 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 18%, well in excess of the manager's return objective of 10.9% over that time period.

Real Estate

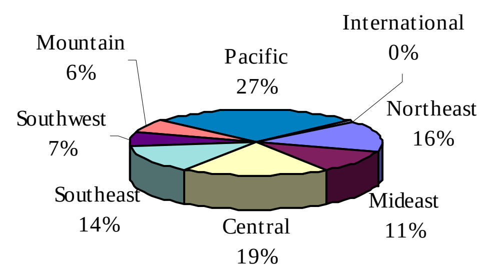
At June 30, 2003, $916,718,296, or 6.0% of IPERS' total portfolio at fair value was invested in various real estate properties, commingled funds, partnerships, and publicly traded real estate investment trusts (REITs). In order to mitigate risk the real estate portfolio is diversified by both geographic location and property type, as shown in the following charts. The total net return for the real estate portfolio for the fiscal year was 7.5% compared to 8.5% for the portfolio's benchmark (CPI + 6%). Operating income remained strong in fiscal year 2003, as property values slightly decreased and cash distributions from sales of properties were negligible.

REAL ESTATE PORTFOLIO
June 30, 2003

By Property Type



By Property Location



Investments in Iowa

Iowa Code § 97B.7A 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.7A 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, 2003 the System held investments of $931,769,350 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	$8,877,042	$813,792,239	$822,669,281
Fixed Income	10,139,485	96,465,584	106,605,069
Private Equity/Debt	2,495,000		2,495,000
Total	$21,511,527	$910,257,823	$931,769,350

Schedule Of Brokerage Commissions Paid

Year ended June 30, 2003

BROKERAGE FIRMS	Commissions: Amount Paid (USD)	Average Per Share	Percent of Total Commissions Paid for Period
Merril Lynch Pierce Fenner & Smith	$ 753,939	$ 0.010	13.64%
Goldman, Sachs & Co	663,768	0.034	12.01%
Lehman Brothers Inc	513,547	0.011	9.29%
UBS Securities LLC	443,660	0.004	8.03%
Morgan Stanley Co Inc	432,577	0.004	7.83%
Credit Suisse First Boston	360,625	0.003	6.53%
Bear Stearns Securities Corp.	269,747	0.024	4.88%
Citigroup Global Markets Inc	233,340	0.012	4.22%
Deutsche Banc Securities Inc	212,628	0.005	3.85%
JP Morgan Securities Inc	141,195	0.006	2.55%
Salomon Brothers Inc	139,137	0.001	2.52%
Wachovia Securities LLC	79,137	0.041	1.43%
Sanford C. Bernstein & Co, Inc, LLC	65,299	0.029	1.18%
Credit Lyonnais Securities	53,749	0.000	0.97%
Banc of America Securities LLC	53,432	0.048	0.97%
Investment Technology Group	52,602	0.016	0.95%
ABN Amro Securities LLC	41,714	0.014	0.75%
Macquarie Equities London	40,785	0.008	0.74%
RBC / Dain Rauscher Inc	40,098	0.046	0.73%
Frank Russell Securities Inc	40,018	0.032	0.72%
J B WERE and Son Ltd	38,153	0.012	0.69%
HSBC Investment Bank PLC	30,593	0.010	0.55%
Soundview Technology Group	26,824	0.033	0.49%
Jefferies & Company, Inc	26,169	0.048	0.47%
CLSA LTD	24,130	0.002	0.44%
Others (Including 158 Brokerage Firms)	749,418	0.003	13.57%
TOTALS	$ 5,526,284	0.003	100%

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 June 2003, 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 a division of the Department of Personnel, and is administered through a chief executive officer, 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.7A.

The primary duties of the Investment Board are to establish policy, review its implementation, and approve the retention of service providers in matters relating to the investment of IPERS assets and the actuarial evaluation of the System's assets and liabilities. The Investment Board shall be the trustee of the IPERS fund. The chief investment officer is responsible for the administration of the investment program pursuant to the policies of the Board. 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, value, and risk-controlled components for the purpose of management. Relevant performance benchmarks will be chosen for each component. Active domestic equity managers are expected to outperform their respective performance benchmarks by at least 100 basis points (1%), net of fees, over a full market cycle.

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 and 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 non-equity 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. Active international equity managers are expected to outperform their respective performance benchmarks by at least 100 basis points (1%), net of fees, over a full market cycle.

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. Active global emerging markets equity managers are expected to outperform their respective performance benchmarks by at least 100 basis points (1%), net of fees, over a full market cycle.

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%), net of fees, 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 over a full market cycle. The portfolio will utilize passive and active investment strategies. Active global fixed income managers are expected to outperform their respective performance benchmarks by at least 50 basis points (0.50%), net of fees, over a full market cycle. 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 Citigroup High-Yield Cash-Pay Capped Index by 100 basis points (1%), net of fees, 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 net of fees 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 net of fees 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 net of fees 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 net of fees 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 25, dated June 4, 2002, and the provisions of the Accountable Government Act, 2001 Iowa Acts, chapter 169, sections 5, 6, and 7 (new Iowa Code section 8.47 and amended section 8.52, respectively), and the administrative rules adopted thereunder. 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-based 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/dealer 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. Implementation of cash management strategies shall be the responsibility of staff consistent with the Board's investment policies and will be annually 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 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. The Treasurer shall consult with the Board prior to selecting the master custody 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 Treasurer to conduct a "Securities Lending Program" 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) The securities lending program will be annually reviewed by the Board, and the ongoing operation of such program shall be subject to periodic reauthorization by the Board.

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 held in any separate account, or any collective, common or pooled fund will be exercised by the manager, trustees or agents of said account or fund in accordance with their own proxy voting policies, upon the review and determination by the System that such proxy policies fulfill the above-stated 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 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.

L. Securities Litigation Policy

The Investment Board shall adopt a policy concerning the System's involvement in and monitoring of securities litigation. (See Addendum I, Tab XI.)

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.7A and 97B.8A.

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

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

4. With the approval of the Board, the Treasurer of State may conduct a program of lending securities in the IPERS portfolio.

5. The Board shall review and approve, prior to the execution of a contract, the hiring of each investment manager and investment consultant outside of state government.

6. The Board shall select the actuary to be employed by the System, and shall adopt the mortality tables, actuarial methods and assumptions to be used by the actuary for the annual valuation of assets.

7. The Chief Executive Officer will consult with the Board prior to employing a Chief Investment Officer.

8. The Board shall be involved in the performance evaluation of the Chief Investment Officer.

9. The Chief Executive Officer shall consult with the Board on the budget program for the System.

10. The Treasurer of State shall consult with the Board prior to selecting any bank or other third party for purposes of investment asset safekeeping, other custody, or settlement services.

11. The Board shall consist of seven voting members and four non-voting members as required by Iowa Code section 97B.8A. Four voting members of the Board shall constitute a quorum.

12. Staff shall provide advance notice to the public of the time, date, tentative agenda and place of each Board meeting in compliance with Iowa Code chapter 21.

B. Operational Responsibilities

1. Upon recommendation of the staff, consultants, 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 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).

3. 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.

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

5. The Board shall approve the termination of consultants and the solicitation of proposals for consultants. The staff shall have the authority to amend or renew contracts with existing consultants.

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

7. If the chief executive officer, 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.

8. 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.

9. 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. Future Board 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. 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.

Statistical

Membership Summary

Special Statistics

Average Benefit Payments for Last Ten Years for Retirees

New Retirees by Employer Group

Average Benefit Payments by Retirement Date

Schedule of Benefit Expenses by Type of Benefit

Schedule of Retired Members by Type of Benefit

Active Membership Statistics

Additions by Source

Deductions by Type

Growth of Net Investment Portfolio Assets

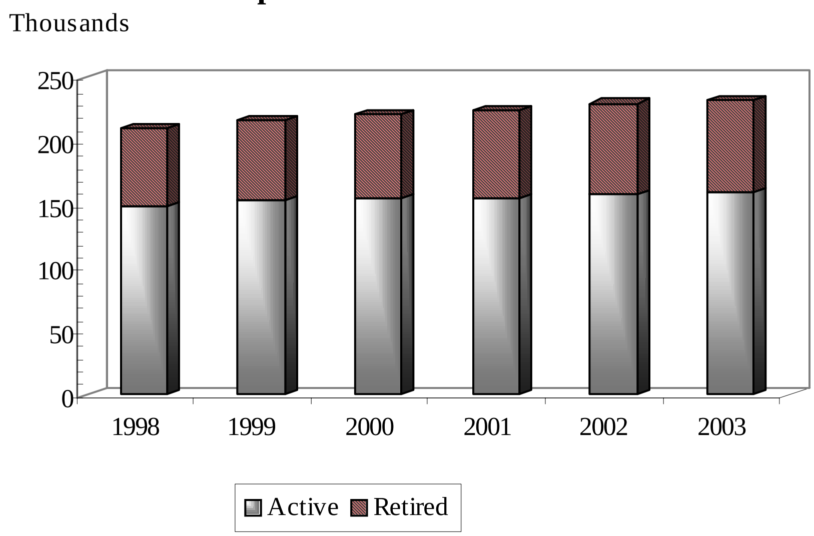
Annualized Investment Performance Summary

MEMBERSHIP SUMMARY

Special Statistics Last Six Fiscal Years						
	Number of					
Fiscal Year	Retired Members	Active Members	Total Additions	Total Deductions	Total Investments	Total Net Assets
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
2003	74,336	159,353	1,308,745,027	779,963,314	17,174,920,495	15,403,200,907

IPERS Membership by Status

For the periods ended June 30



AVERAGE BENEFIT PAYMENTS FOR LAST TEN YEARS FOR RETIREES AS OF JUNE 30, 2003								
	Years of Credited Service							
Fiscal Year	0-5	6-10	11-15	16-20	21-25	26-30	30+	Total
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
2003								
Number of Retirees	3,652	10,509	11,464	11,402	10,485	8,326	18,472	74,310
Average Monthly Benefit	$80	$169	$337	$518	$765	$1,139	$1,611	$796
Average Years of Service	4.49	8.49	13.37	18.37	23.27	28.18	34.51	21.32

*Previously included in the 6-10 Years of Credited Service group.

NEW RETIREES BY EMPLOYER GROUP AS OF JUNE 30, 2003									
Fiscal Year	City	County	School	State	Utility	28 E Agency	Township and Cemetery	Other	Total
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
2003									
Number of Retirees	558	715	2,562	640	19	217	1	0	4,712
Avg. Monthly Benefit	$801	$830	$1,278	$1,266	$1,426	$1,178	$62	$0	$1,148
Avg. Credited Service	17.51	17.63	22.38	20.21	24.68	19.17	9	0	20.65

*Amount included in column entitled Other

AVERAGE BENEFIT PAYMENTS BY RETIREMENT DATE FOR RETIREES AS OF JUNE 30, 2003								
	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	62	352	378	299	185	123	345	1,744
Average Monthly Benefit	$62	$120	$280	$345	$423	$490	$556	$336
Average Years of Service	5.15	8.43	13.32	18.05	22.99	27.90	38.49	19.89
Between 1/1/76 and 6/30/82:								
Number of Retirees	343	1,092	1,269	990	840	551	1,008	6,093
Average Monthly Benefit	$53	$130	$290	$371	$467	$611	$711	$384
Average Years of Service	4.64	8.57	13.30	18.35	23.13	27.96	35.95	19.21
Between 7/1/82 and 6/30/86:								
Number of Retirees	347	1,153	1,306	1,297	950	806	1,186	7,045
Average Monthly Benefit	$59	$153	$304	$425	$569	$751	$906	$478
Average Years of Service	4.56	8.56	13.48	18.27	23.28	28.23	34.53	19.67
Between 7/1/86 and 6/30/90:								
Number of Retirees	330	1,218	1,381	1,354	978	835	1,256	7,352
Average Monthly Benefit	$72	$156	$304	$435	$601	$791	$1,005	$547
Average Years of Service	4.58	8.58	13.43	18.34	23.16	28.03	34.00	20.76
Between 7/1/90 and 6/30/96:								
Number of Retirees	853	2,388	2,908	3,121	2,885	2,116	4,465	18,736
Average Monthly Benefit	$75	$163	$305	$479	$694	$1,002	$1,302	$682
Average Years of Service	4.44	8.51	13.40	18.35	23.31	28.15	34.48	21.41
Between 7/1/96 and 6/30/00:								
Number of Retirees	883	2,316	2,251	2,226	2,285	2,025	4,968	16,954
Average Monthly Benefit	$80	$183	$373	$613	$887	$1,379	$1,944	$1,013
Average Years of Service	4.52	8.44	13.25	18.47	23.27	28.32	34.52	22.21
Between 7/1/00 and 6/30/03:								
Number of Retirees	834	1,780	1,631	1,606	1,892	1,742	4,263	13,748
Average Monthly Benefit	$110	$214	$455	$759	$1,117	$1,611	$2,360	$1,267
Average Years of Service	4.35	8.38	13.37	18.43	23.37	28.20	34.20	22.48
Total as of June 30, 2003:								
Number of Retirees	3,652	10,509	11,464	11,402	10,485	8,326	18,472	74,310
Average Monthly Benefit	$80	$169	$337	$518	$765	$1,139	$1,611	$796
Average Years of Service	4.49	8.49	13.37	18.37	23.27	28.18	34.51	21.32
IOASI Retirees*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	26
Average Monthly Benefit	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$114

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

Schedule of Benefit Expenses by Type of Benefit*								
Fiscal Year	Number of Retirees	Normal Retirement for Age and Service	Early Retirement	Survivor Payment (normal, early, or disability retirement)	Disability Retirement	Survivor Payment (Death in Service)	Duty Disability Retirement (Protection Class)	Nonduty Disability Retirement (Protection Class)
2003	74,336	$570,327,217	$94,103,140	$16,453,301	$20,963,183	$469,783	$194,138	$153,412

*Trend data is being accumulated for a six-year period. This table does not include lump sum payments.

Schedule of Retired Members by Type of Benefit as of June 30, 2003

Amount of Monthly Benefit	Number of Retirees	Normal Retirement for Age and Service	Early Retirement	Survivor Payment (normal, early, or disability retirement)	Disability Retirement	Survivor Payment (Death in Service)	Duty Disability Retirement (Protection Class)	Nonduty Disability Retirement (Protection Class)
$ 1-200	14,361	9,610	3,681	595	457	18	0	0
201-400	17,312	12,774	3,167	744	622	5	0	0
401-600	9,779	6,618	2,232	493	429	7	0	0
601-800	6,696	4,403	1,609	328	348	8	0	0
801-1,000	5,890	4,283	1,079	249	276	3	0	0
1,001-1,200	3,854	2,788	756	114	194	2	0	0
1,201-1,400	2,952	2,108	614	114	105	7	1	3
1,401-1,600	2,727	2,086	470	78	82	3	2	6
1,601-1,800	2,255	1,902	252	42	50	2	4	3
1,801-2,000	2,130	1,939	115	40	30	3	3	0
Over 2,000	6,380	6,030	277	42	25	3	3	0
Totals	74,336	54,541	14,252	2,839	2,618	61	13	12

Retired Members by Option**

Amount of Monthly Benefit	Number of Retirees	Opt 1	Opt 2	Opt 3	Opt 4	Opt 5	Opt 6	Misc.***
$ 1-200	14,361	5,580	2,651	2,171	1,458	2,345	108	48
201-400	17,312	7,642	3,250	1,730	2,082	2,485	107	16
401-600	9,779	3,795	2,020	946	1,687	1,232	99	0
601-800	6,696	2,424	1,384	560	1,457	757	114	0
801-1,000	5,890	1,891	1,305	519	1,443	624	108	0
1,001-1,200	3,854	1,077	955	360	965	386	111	0
1,201-1,400	2,952	804	575	218	906	327	122	0
1,401-1,600	2,727	660	565	230	794	357	121	0
1,601-1,800	2,255	525	430	195	654	325	126	0
1,801-2,000	2,130	445	367	227	611	336	144	0
Over 2,000	6,380	1,292	1,052	897	1,268	1,078	793	0
Totals	74,336	26,135	14,554	8,053	13,325	10,252	1,953	64

**See definitions of Options on Page 98
***Consists of benefits available under previous laws.

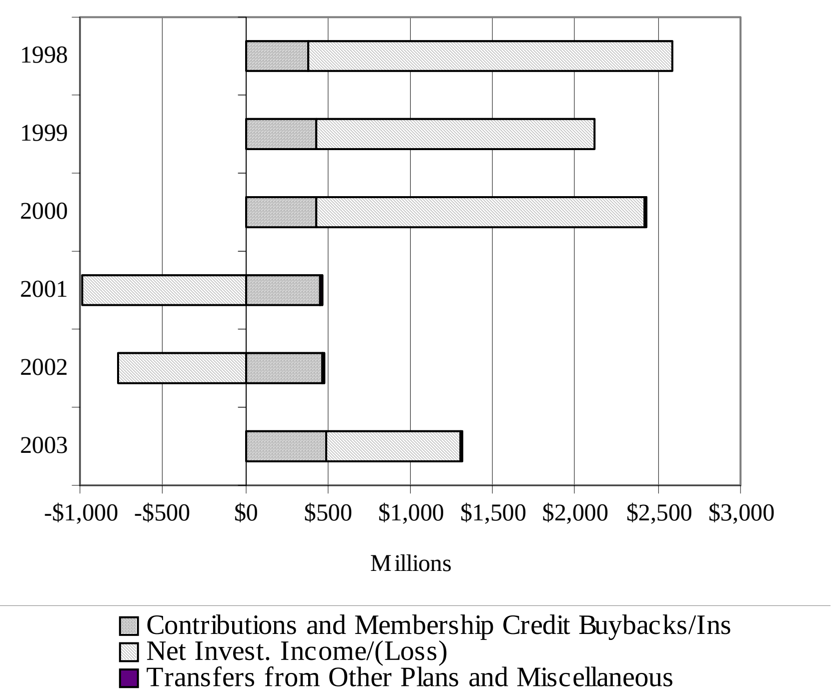
ACTIVE MEMBERSHIP STATISTICS
FOR 10 YEARS ENDING JUNE 30, 2003

Active Member Statistics					
Fiscal Year Ending June 30	Total Actives	Percent Change	Average Covered Wage	Average Age	Average Service Credit
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
2003	159,353	0.6	29,652	44.7	11.4

Analysis of Change in Membership						
Fiscal Year Ending June 30	Beginning Members	Additions	Retired	Died	Other Terminations	Ending Members
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
2003	158,467	17,130	3,657	153	12,434	159,353

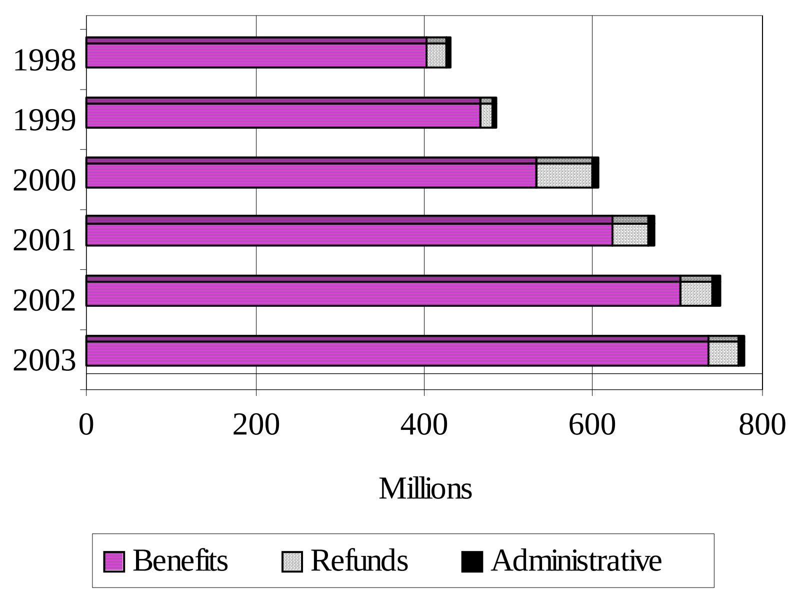
Additions by Source Last Six Fiscal Years						
Fiscal Year	Contributions	Membership Credit Buybacks/Ins	Net Investment Income/(Loss)	Transfer From Another Pension Plan	Miscellaneous Income	Total
1998	$ 379,621,288	7,581,962	2,202,842,690	--	--	2,590,045,940
1999	408,221,776	19,169,871	1,691,099,599	--	--	2,118,491,246
2000	422,118,418	7,295,195	1,990,366,366	--	97,030	2,419,877,009
2001	447,191,823	3,847,364	(989,190,300)	--	64,810	(538,086,303)
2002	464,471,241	4,983,334	(772,386,353)	--	67,800	(302,863,978)
2003	472,954,129	12,031,207	814,807,727	8,879,964	72,000	1,308,745,027

Additions by Source
For the periods ended June 30



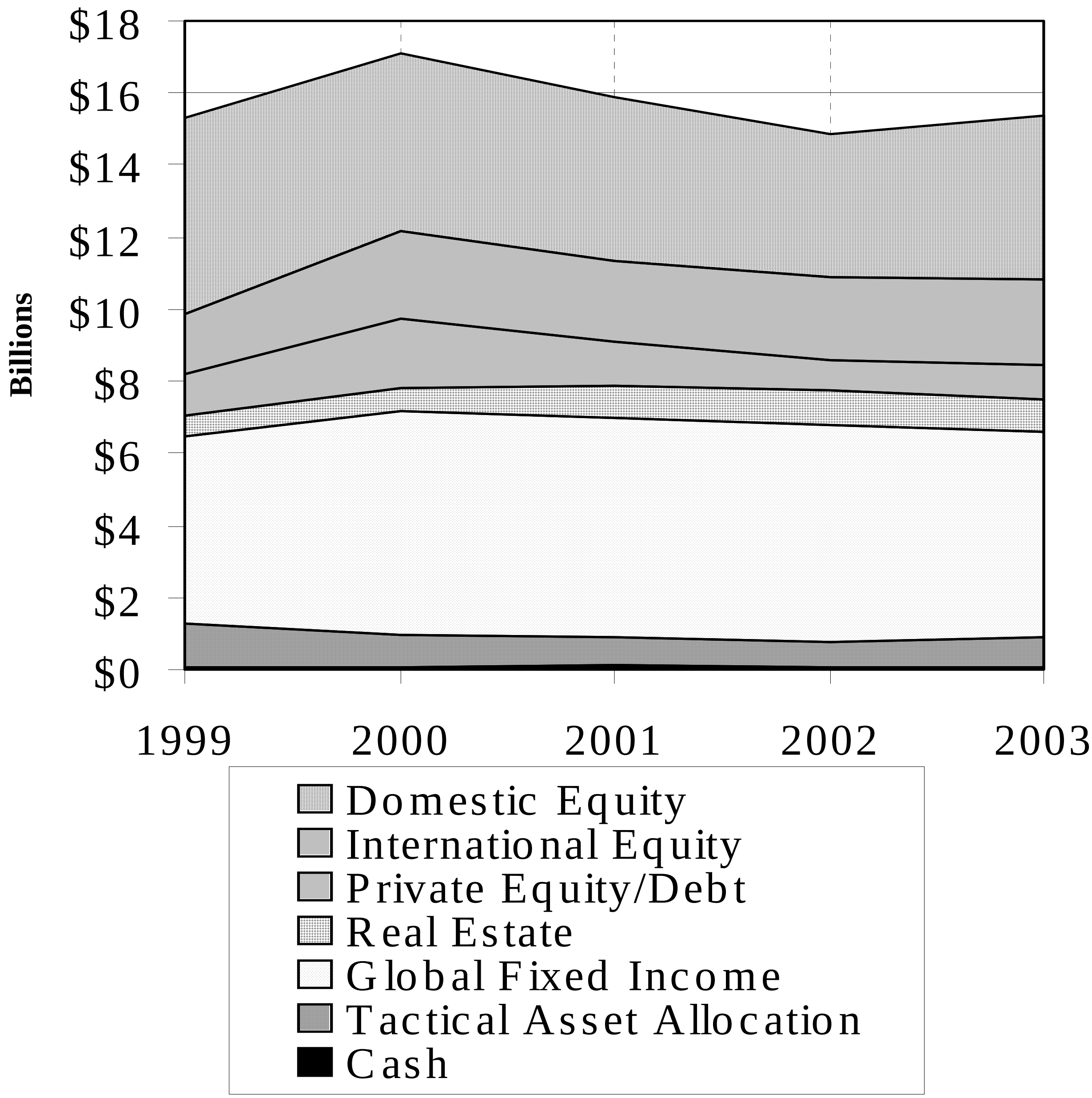
Deductions by Type Last Six Fiscal Years				
Fiscal Year	Benefits	Refunds	Administrative Expenses	Total
1998	$ 402,544,698	24,557,597	4,012,736	431,115,031
1999	466,752,949	14,442,111	4,620,009	485,815,069
2000	533,747,215	65,608,628	5,865,985	605,221,828
2001	624,259,449	42,073,825	7,264,447	673,597,721
2002	705,767,690	37,915,199	7,581,105	751,263,994
2003	736,330,878	35,591,323	8,041,113	779,963,314

Deductions by Type
For the periods ended June 30



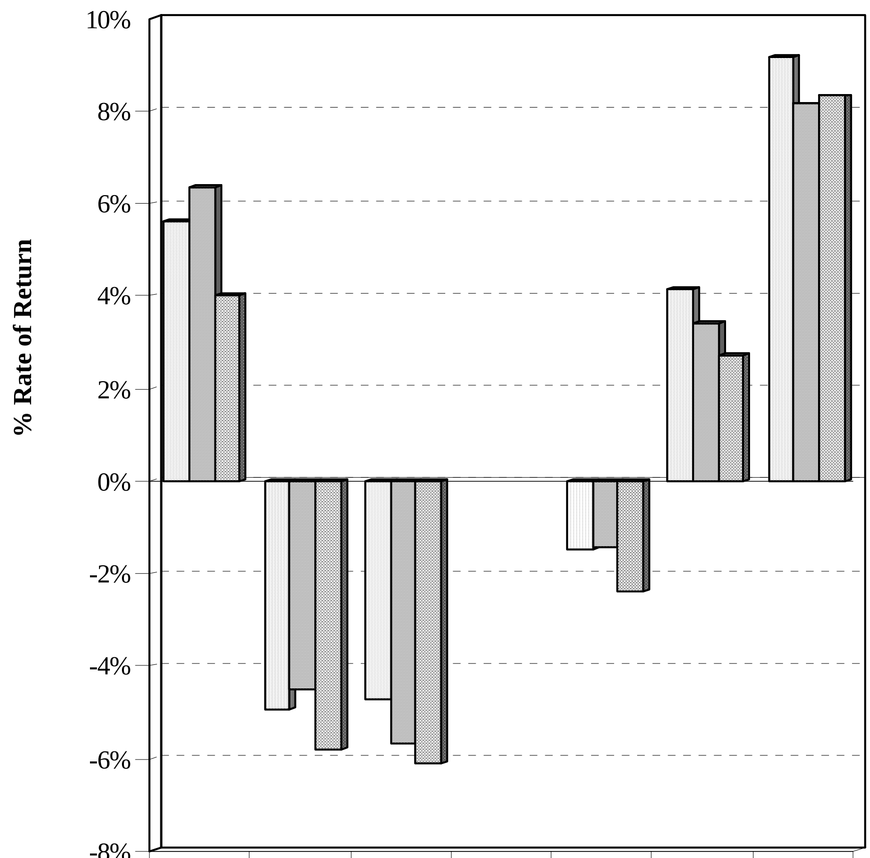
Growth of Net Investment Portfolio Assets

Five Year Historical Summary as of June 30



Annualized Investment Performance Summary

For the periods ended June 30



	2003	2002	2001		3 yr	5 yr	10 yr
IPERS' Portfolio *	5.59%	-4.94%	-4.73%		-1.48%	4.12%	9.16%
Policy Benchmark **	6.34%	-4.52%	-5.68%		-1.43%	3.41%	8.13%
Large Public Fund Median ***	4.02%	-5.82%	-6.10%		-2.38%	2.71%	8.30%

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

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Plan Summary

Membership

Buy-backs/Buy-ins

Contributions

Vesting

Refunds

Benefits

Distribution of IPERS Benefit Payments in Iowa Counties

Distribution of IPERS Benefit Payments Outside of Iowa

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

Membership

Retired Members	**2003**	**2002**
All Retired Members	74,336	71,715
Average Years of Service	21	21
Average Monthly Benefit	$796	$760
Current Year Member Retirements	4,712	5,499
Average Years of Service	21	24
Average Monthly Benefit	$1,148	$1,393
Retired Reemployed**	6,179	5,387
Active Members	159,353	158,467
Inactive Vested	39,158	34,792
Inactive Nonvested	65,050	63,436
Total Membership	337,897	328,410

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

Employer

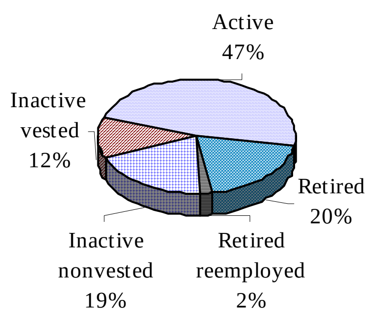
	2003		**2002**	
Employer Type	**Number of Entities**	**Covered Wages**	**Number of Entities**	**Covered Wages**
City	1,309	$ 619,391,535	1,323	$ 581,251,857
County	465	764,583,573	477	718,807,198
School	392	2,273,151,408	394	2,239,730,792
State	21	955,474,503	21	942,736,391
28E Agencies	22	272,305	21	235,798
Utilities	80	41,872,921	82	39,171,825
Other	128	226,353,993	128	221,642,563
Total	2,417	$4,881,100,238	2,446	$4,743,576,424

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, 2003, there were 159,353 active members employed by 2,417 public employers actively contributing to the System. The number of active employees increased by 0.6% from June 30, 2002. The chart below, "Membership Profile," provides further information on the composition of the membership for fiscal year 2003.

Membership Profile
June 30, 2003



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 service 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 2003, 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 07/01/02 - 06/30/03	3.70%	5.75%	9.45%	IRC § 401(a)(17) Compensation Limit**
Special Subgroups **1)** Sheriffs/Deputy Sheriffs (County) and Airport Firefighters 07/01/02 - 06/30/03	5.37%	8.05%	13.42%	IRC § 401(a)(17) Compensation Limit**
2) Protection Occupations* 07/01/02 - 06/30/03	6.04%	9.07%	15.11%	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, Fire Prevention Inspector Peace Officers, and County Conservation Peace Officers.
**$200,000 for calendar years 2002 and 2003.

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 2003, totaled $35,591,323.

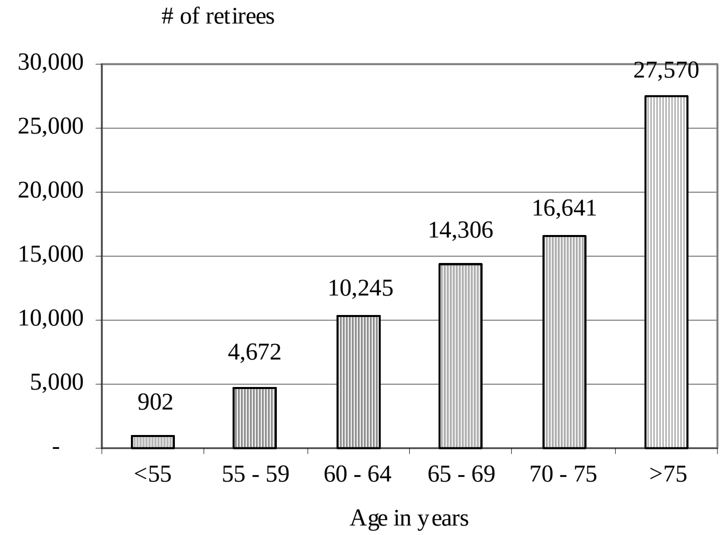
Benefits

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 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 2003, a total of 74,336 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.

Retired Members by Age

as of June 30, 2003

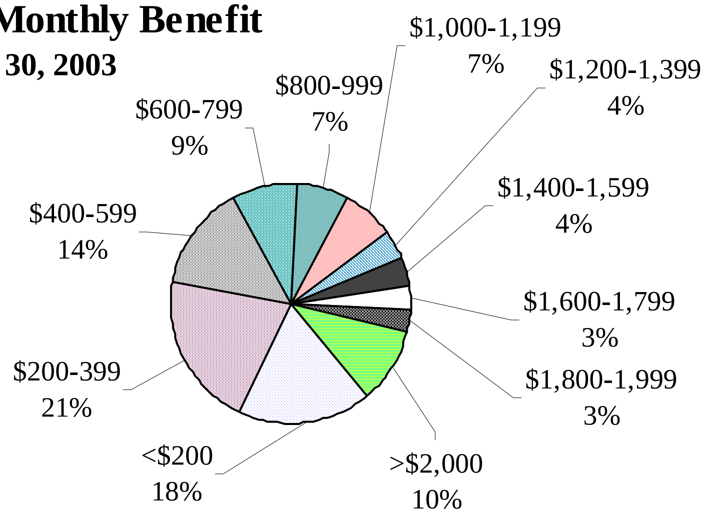


Benefit Amounts

For all present retirees, the monthly IPERS benefit check averages $796. For members retiring in fiscal year 2003, the average benefit was $1,148. The average member retired with 21 years of service. The chart below provides a statistical breakdown of benefit levels received by retirees. The amount of the benefit depends primarily 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.

Retirees by Monthly Benefit

June 30, 2003

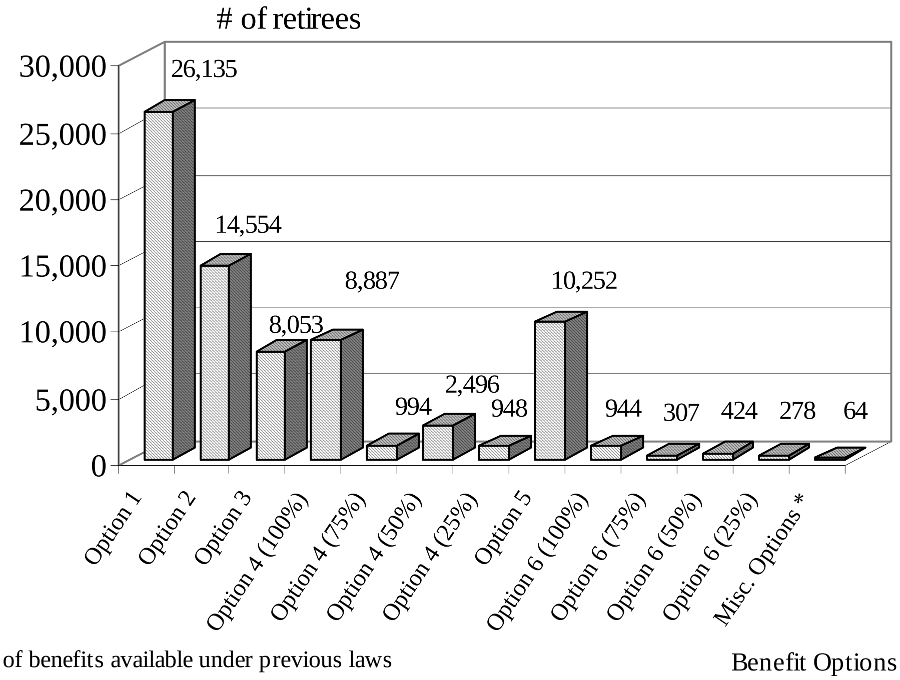


Under the "high three" formula, full benefits are based upon 30 years of service and retirement at the "normal retirement age." Years of prior service can be credited toward the 30 years. Benefits will be prorated downward for members who have less than 30 years or who retire before their normal retirement 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.

Retired Membership by Benefit Option
as of June 30, 2003



*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 2002, the dividends paid totaled $20,835,973 and the January 2003 FED totaled $25,570,783.

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

*Effective July 1, 2002, the denominator is 22 for all 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.

C. For fiscal year 2003, death benefits paid to beneficiaries or to the estates of deceased nonretired and retired members totaled $17,857,785.

Distribution of IPERS Benefit Payments in Iowa Counties as of June 30, 2003

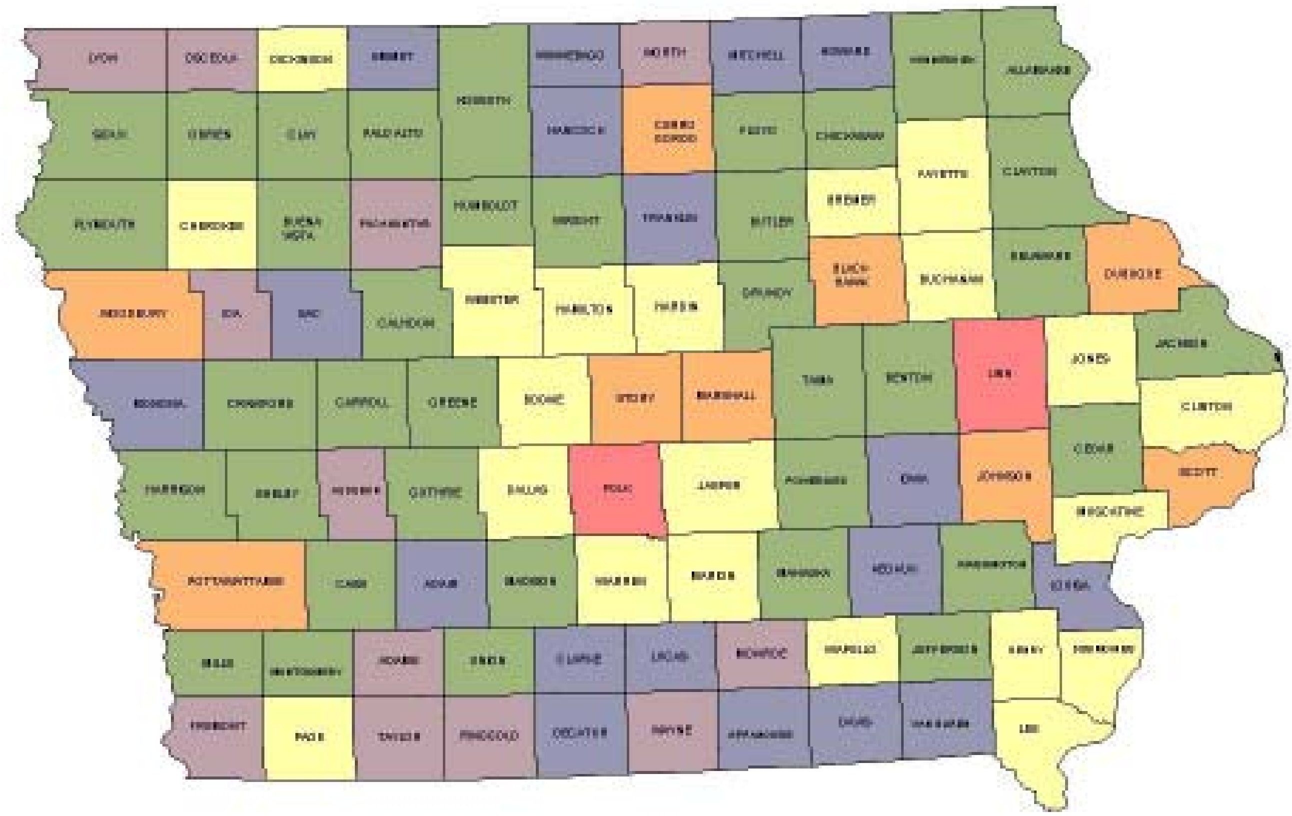
COUNTY	AMOUNT	AVERAGE	PAYEES
Adair	$ 2,103,914	$ 8,155	258
Adams	1,196,232	7,339	163
Allamakee	3,683,073	8,896	414
Appanoose	2,955,085	8,371	353
Audubon	1,715,323	7,590	226
Benton	4,555,611	7,774	586
Black Hawk	26,091,799	10,086	2,587
Boone	7,574,770	8,954	846
Bremer	6,095,593	9,569	637
Buchanan	6,300,555	9,079	694
Buena Vista	4,448,050	8,688	512
Butler	3,560,264	8,280	430
Calhoun	3,278,891	7,997	410
Carroll	3,619,529	8,189	442
Cass	4,084,001	8,598	475
Cedar	3,723,679	8,762	425
Cerro Gordo	12,158,510	10,518	1,156
Cherokee	5,292,479	9,640	549
Chickasaw	3,447,010	9,821	351
Clarke	2,186,194	8,037	272
Clay	4,212,835	9,040	466
Clayton	4,709,328	8,852	532
Clinton	9,199,283	9,735	945
Crawford	4,260,646	8,913	478
Dallas	8,634,646	9,285	930
Davis	2,283,736	7,768	294
Decatur	2,274,175	7,581	300
Delaware	4,451,935	9,392	474
Des Moines	9,478,757	10,314	919
Dickinson	6,533,606	10,962	596
Dubuque	13,188,223	9,953	1,325
Emmet	2,806,647	8,967	313
Fayette	5,000,374	8,504	588
Floyd	4,343,686	8,956	485
Franklin	2,663,205	8,323	320
Fremont	1,950,039	7,617	256
Greene	3,004,487	7,346	409
Grundy	3,346,950	8,367	400
Guthrie	3,891,683	8,885	438
Hamilton	5,148,097	10,035	513
Hancock	2,731,852	8,591	318
Hardin	6,528,849	9,018	724
Harrison	3,366,490	8,523	395
Henry	5,384,047	8,914	604
Howard	2,623,435	8,328	315
Humboldt	3,245,155	8,585	378
Ida	1,585,068	8,299	191
Iowa	2,945,239	7,939	371
Jackson	4,036,317	8,154	495
Jasper	8,102,439	9,443	858

COUNTY	AMOUNT	AVERAGE	PAYEES
Jefferson	$ 3,622,753	$ 9,434	384
Johnson	15,557,763	9,452	1,646
Jones	5,427,610	9,886	549
Keokuk	2,989,589	7,888	379
Kossuth	3,416,999	8,294	412
Lee	7,917,926	10,023	790
Linn	39,503,339	11,424	3,458
Louisa	2,977,266	9,859	302
Lucas	2,527,284	8,153	310
Lyon	1,972,110	8,149	242
Madison	3,014,996	8,590	351
Mahaska	4,429,628	8,601	515
Marion	5,459,868	8,736	625
Marshall	10,483,595	9,319	1,125
Mills	4,459,130	8,830	505
Mitchell	2,991,369	8,747	342
Monona	2,490,875	8,114	307
Monroe	1,926,825	7,995	241
Montgomery	3,002,123	7,778	386
Muscatine	7,630,668	9,261	824
O’Brien	3,184,466	7,673	415
Osceola	1,263,016	8,201	154
Page	5,243,303	8,753	599
Palo Alto	3,218,583	8,107	397
Plymouth	4,736,404	8,820	537
Pocahontas	1,876,306	8,158	230
Polk	76,709,031	10,759	7,130
Pottawattamie	13,567,628	9,249	1,467
Poweshiek	4,302,862	9,374	459
Ringgold	1,938,833	7,914	245
Sac	2,399,410	7,429	323
Scott	25,902,353	11,361	2,280
Shelby	3,071,578	8,392	366
Sioux	4,452,660	8,096	550
Story	21,212,600	10,991	1,930
Tama	4,462,698	9,336	478
Taylor	1,986,445	7,852	253
Union	4,096,811	8,625	475
Van Buren	2,599,921	7,975	326
Wapello	8,754,418	9,434	928
Warren	9,762,254	10,180	959
Washington	4,767,868	7,740	616
Wayne	1,989,382	7,341	271
Webster	8,963,595	9,260	968
Winnebago	2,724,316	8,760	311
Winneshiek	4,891,264	9,281	527
Woodbury	19,538,340	10,718	1,823
Worth	1,735,078	8,632	201
Wright	3,804,620	8,647	440

Total Iowa Benefit Payments $634,959,550*

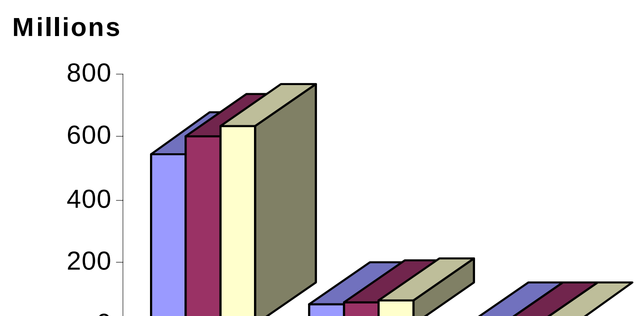
*Unaudited FY ’03 Numbers

IPERS Benefit Payments in Iowa Counties
as of June 30, 2003



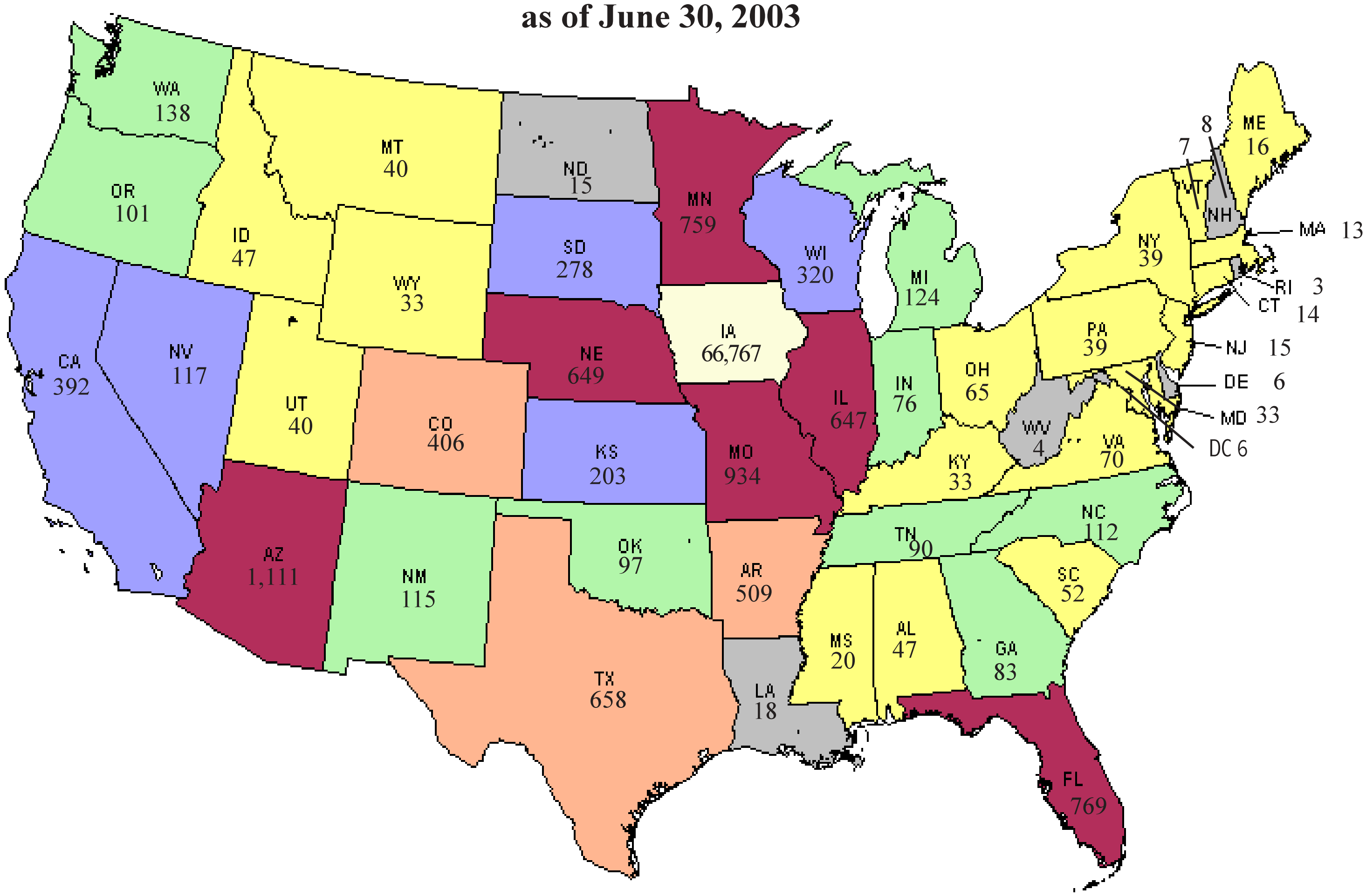
- $31,000,001 to $77,000,000
- $10,000,001 to $31,000,000
- $5,000,001 to $10,000,000
- $3,000,001 to $5,000,000
- $2,000,001 to $3,000,000
- $0 to $2,000,000

Benefit Payment Summary



	$ to Iowa	$ to Other States	$ to Foreign Countries
FY 2001	541,633,959	63,119,137	103,761
FY 2002	603,397,686	73,307,142	128,478
FY 2003	634,959,550	78,721,965	117,160

Distribution of IPERS Benefit Payments Outside of Iowa
as of June 30, 2003



States are displayed with the number of recipients and are color coded by amount.

- $6,000,001 to $10,000,000
- $3,000,001 to $6,000,000
- $1,000,001 to $3,000,000
- $500,001 to $1,000,000
- $100,001 to $500,000
- $23,001 to $100,000

Recipients outside the continental US include:

Hawaii-10
Alaska-11
Armed Forces Europe-3
Armed Forces Pacific-2
Australia-1
Canada-4
France-1
Germany-2
Greece-1
Guam-2
Lebanon-1
Mexico-3
Philippines-1
Sweden-1