IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

IPERS

2004

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Pension Trust Fund of the State of Iowa for the Year Ended June 30, 2004

COMPREHENSIVE ANNUAL FINANCIAL REPORT
A PENSION TRUST FUND OF THE STATE OF IOWA
FOR THE YEAR ENDED JUNE 30, 2004

PREPARED BY
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

DONNA M. MUELLER, CHIEF EXECUTIVE OFFICER

FOR MORE INFORMATION

WRITE TO IPERS AT:
Iowa Public Employees' Retirement System
P.O. Box 9117
Des Moines, IA 50306-9117

VISIT OUR WEB SITE AT:
www.ipers.org

E-MAIL IPERS AT:
info@ipers.org

VISIT IN PERSON AT:
7401 Register Drive
Des Moines, Iowa

OR CALL ONE OF THE NUMBERS LISTED BELOW:
Local 515-281-0020
Toll-free 1-800-622-3849

OFFICE HOURS
8 A.M. – 4:30 P.M.
Monday through Friday

Fiscal Year 2004 Highlights

Membership:	
Active Members	160,034
Retired Membership	76,961
Contributions:	
Employee	$ 192,807,978
Employer	298,923,667
Buy-backs/Buy-ins	14,903,466
Distributions:	
Benefits Paid	$ 792,866,773
Refunds Paid	36,430,011
Investments:	
Net Investment and Securities Lending Income	$ 2,177,265,218
Investment Rate of Return	13.78%
Funding:	
Net Assets Held in Trust for Pension Benefits	$ 17,249,916,851
Actuarial Present Value of Total Projected Benefits or Total Liabilities	$ 23,356,182,725

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Iowa Public Employees' Retirement System

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2003

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

President

Executive Director

Thomas J. Vilsack
GOVERNOR
Sally J. Pederson
LT. GOVERNOR

IPERS
Donna M. Mueller
CHIEF EXECUTIVE OFFICER

December 15, 2004

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

I am pleased to present the Comprehensive Annual Financial Report of the Iowa Public Employees' Retirement System (IPERS, System, or Plan) for the fiscal year ended June 30, 2004. 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 IPERS. A more thorough discussion of IPERS' activities and financial status is presented in the following sections of this report. The report is divided into six sections:

1. The **Introduction** contains the Certificate of Achievement for Financial Reporting from the Government Finance Officers Association, this transmittal letter, and identification of IPERS' administrative staff, Investment Board, Benefits Advisory Committee, consultants, and investment managers.

2. 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 financial statements, required supplementary information, and other supplementary information.

3. The **Investments** section includes information on the IPERS Trust Fund's asset allocation, investment performance, investment professionals who provide service to IPERS, and the Investment Policy and Goal Statement.

4. The **Actuarial** section contains a letter expressing the opinion of our actuarial consultant, Milliman USA, and the results of its annual actuarial valuation.

5. The **Statistical** section includes historical information on the System's assets, membership, and financial and investment results.

6. The **Plan Summary** contains significant data pertaining to the System's membership and an overview of the retirement program.

Please note that membership numbers used in the Actuarial section differ from those used in other sections. Because the Actuarial section reflects projections of future costs, member deaths that occur during the last month of the fiscal year are not counted in the active or retired membership numbers. However, because there is a financial obligation for some of these members, they are included in the active or retired membership numbers in the Financial, Statistical, and Plan Summary sections.

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
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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. Before enactment of the 1953 legislation, public employees were not covered under Social Security.

Initially, IPERS 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

IPERS and the IPERS Trust Fund are established in Iowa Code Chapter 97B. The Iowa Legislature and the Governor, as creators of the plan, are the plan sponsors. The Code establishes IPERS as an independent agency within the Executive Branch of state government.

The Investment Board is designated the Fund's trustee. The Investment Board sets investment policy and oversees the actuarial program. There are seven voting members, the Treasurer of State and six gubernatorial appointments confirmed by the Senate. Legislative leadership appoints the four non-voting legislative members.

The Benefits Advisory Committee was established to advise IPERS and the General Assembly on benefits and services. The Committee selects its own members from constituent groups representing employers and members.

IPERS is administered through the Chief Executive Officer, Donna M. Mueller, and her staff.

MEMBER AND EMPLOYER SERVICES

IPERS is designed as a core retirement benefit for public employees that, when combined with social security benefits and individual savings, will provide an adequate retirement income. Most public employees in Iowa become members of IPERS when they start employment with a covered employer, which includes schools, state agencies, counties, cities, townships, and other public employers. Public employees not covered by IPERS are judges, peace officers in the Iowa Department of Public Safety, police and fire personnel in cities with populations over 8,000, and university and community college personnel who elect other coverage.

Of a membership totaling 340,044, there are 160,034 active members currently employed and contributing to IPERS. Member services provided to this group include benefit education and pre-retirement counseling.

During the year, IPERS' benefits staff fielded 89,875 phone calls and answered 3,859 e-mails. Staff prepared 78,248 benefit estimates. More than 10,000 members received group and individual benefit education and preretirement counseling. Members submitted 2,713 applications to buy service credit, and 1,652 members made service purchases.

At the end of the fiscal year, IPERS had 76,961 members who were retired. The most important service IPERS provides to retirees is accurate and timely payment of benefits. IPERS paid more than 87 percent of these payments 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, EFTs have been IPERS' preferred method of distribution.

A team of compliance officers provides training and technical assistance to employers to encourage voluntary compliance with IPERS' requirements. The team provides training twice a year for personnel who are responsible for wage reporting. The team also provides training on legislative and procedural changes during the year.

Members and employers have access to information electronically and in print. The IPERS Web site contains news and announcements, member and employer publications, forms, and a benefit estimator. Users viewed 851,658 pages on IPERS' Web site during the fiscal year, downloading 210,813 forms and publications.

The IPERS Plan Summary is available for viewing, downloading, and printing on the Web site. Members may also request a hard copy of the Plan Summary. Twice a year IPERS publishes and directly mails to members newsletters that include information about benefits, plan changes, and other developments.

Employers enrolled in IPERS' Connection Online (ICON), a system that provides for online wage reporting, can also receive messages, publications, and other materials through the system. Employers receive quarterly newsletters and a handbook of procedures and reporting requirements.

LEGISLATION

The Iowa Legislature and Governor determine the Plan benefits and regular membership contribution rates. The Legislature meets annually between January and May. In 2004, the Iowa Legislature passed and the Governor signed a bill making changes to the Plan and streamlining administration.

Changes in the 2004 legislation included:

- Establishing an early retirement benefit for sheriffs and deputy sheriffs paid for by higher contributions shared equally by employees and employers.
- Moving airport firefighters from Special Services group 1 to Special Services group 2.
- Eliminating payment of benefits retroactive to a date that precedes the application date.
- Eliminating service credit for members on unpaid leave (other than under the Family Medical Leave Act and military leave qualifying under the Uniformed Services Employment and Reemployment Rights Act).
- Requiring that lump sums be paid in lieu of small monthly annuities.
- Requiring cashouts of small, inactive accounts.
- Reducing the time before licensed health care professionals in some public hospitals can return to work after retirement.
- Continuing a provision that allows a member to replace contributions lost as a result of an employer-initiated reduction in force, including those lost by reduced hours when "bumped" from a position by another employee facing layoff.
- Increasing monitoring to stop wage manipulation as a means to increase benefits.

- Allowing IPERS to charge a fee to cover the administrative costs of issuing paper benefit checks beginning in July 2005.
- Eliminating a provision that allowed inactive members to become eligible for vested member benefits merely by reaching age 55.

To address the increasing unfunded actuarial liability, IPERS requested, but did not receive, a contribution rate increase for regular members, who make up approximately 96 percent of the total membership. The bill, which passed the House of Representatives, did not make it out of committee in the Senate.

MAJOR INITIATIVES

Accessibility. IPERS is committed to increasing member and employer accessibility to IPERS information and staff members. The following projects reflect this initiative.

Employer E-Business. Employers' use of ICON has continued to grow. ICON allows employers to use the Internet to enter quarterly wage reports, update employee and employer information, receive debit and credit memos by e-mail, view past wage reports, and provide auditors easy access to information. At the end of the fiscal year, 766 employers were enrolled in ICON, and 602 employers reported wages using ICON. This compares to the previous year when 198 employers were enrolled and 89 reported wages electronically.

Unclaimed Funds Search. IPERS developed an Internet feature that allows the public to search online for unclaimed funds. These accounts have been inactive for at least a year and IPERS has no current address for these members.

Accountability. A central value at IPERS, accountability to members, employers, policymakers, and the public must be demonstrated through action. During the fiscal year, significant action was taken in two areas—fiscal accountability and safeguarding IPERS' technology infrastructure.

Contribution Rate Increase to Address the Increasing Unfunded Actuarial Liability. During fiscal year 2004, the Benefits Advisory Committee and IPERS' administration carried out a comprehensive effort to educate members, employers, and policymakers of the significance of IPERS' unfunded actuarial liability, which increased to $2.18 billion as of June 30, 2004. The effort culminated in a resolution from the Benefits Advisory Committee calling for a phased-in contribution rate increase, and a bill that passed the House, but did not move in the Senate.

Technology Infrastructure Security and Risk Control. IPERS relies on information technology to fulfill its responsibilities, including paying nearly 77,000 annuitants each month. Uninterrupted service is essential to paying pensions on time, accurately recording contributions, estimating benefits, and providing other services to members and employers. During fiscal year 2004, IPERS began moving its main information technology equipment from the Capitol Complex to the IPERS building. By consolidating equipment and staff in one facility, IPERS can better manage staff and resources, control humidity and temperature, improve fire prevention, and control access to these essential systems.

Achievement. During the fiscal year, IPERS continued making efforts to reduce costs and improve performance, as reflected in the following:

Benchmarking and Performance Evaluation. During fiscal year 2004, Cost Effectiveness Measurement, Inc. (CEM) completed a benchmarking study on benefits administration for the prior year. IPERS ranked second-lowest in administrative costs among its peers and in the upper third in terms of services. Areas for improvement included providing members online access to their accounts. IPERS also conducted an "Iowa Excellence" self-assessment, reviewing practices against Baldrige standards for best practices for government agencies.

Plan Changes. Most provisions of the legislation passed in 2004 had an effective date of July 2004. The legislation affected IPERS members and changed administrative practices. Timely implementation of the law changes required IPERS administration to communicate the changes to members and employers, redesign business processes, reprogram computer systems, and work with employers to change contribution rates and reporting requirements before the end of the fiscal year.

FINANCIAL HIGHLIGHTS

Total Net Assets. Total net assets held in trust for pension benefits increased from $15,403,200,907 on June 30, 2003 to $17,249,916,851 on June 30, 2004. 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, 2004 is in *Management's Discussion and Analysis* in the Financial section of this report.

Investment Portfolio Assets. At the close of fiscal year 2004, IPERS' net investment portfolio assets had a fair value of $17,229,666,017. The change in fair value represents an increase of $1,854,395,725 from the $15,375,270,292 net investment asset fair value as of June 30, 2003. The largest factor contributing to the increase in net investment asset fair value was the positive investment portfolio return of 13.78 percent, which is more fully addressed below.

As in previous years, employer and employee contributions to IPERS only partially 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 drawdown 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, 2004, employee and employer contributions totaled $506,635,111 while total member benefits paid equaled $829,296,784 (regular monthly benefits, refunds, COLA, and FED payments). The resulting $322,661,673 contribution shortfall was funded with investment portfolio earnings.

Investment Results. As evidence of a global economic recovery began to build in 2003, investors' despair gave way to optimism in the market. All the major equity indices posted double-digit positive returns for the year ended June 30, 2004. The Japanese public equity market provided a 46.2 percent return for the one-year period, which led all the major equity markets.

The total return on the System's investment portfolio for the fiscal year ended June 30, 2004 was 13.78 percent. The total return on investments for the 10-year period ended June 30, 2004 was 10.27 percent. While IPERS' 10-year return continues to benefit from the strong capital market performance of the late 1990s, it is not anticipated that such high levels of returns will be attainable over the next 10 years.

Revenues. The System is funded through a combination of member contributions, employer contributions, and investment income. Contributions for regular IPERS members, who make up approximately 96 percent of all membership, are 9.45 percent of employees' covered wages. Employers contributed at a rate of 5.75 percent and employees at a rate of 3.70 percent, which represents about a 60/40 split. Employees engaged in certain Special Service occupations (e.g., law enforcement, fire safety, and similar protection occupations) and their employers contributed at a higher rate as determined by the actuary.

For fiscal year 2004, revenues from employer and employee contributions, excluding buy-back/buy-in contributions, totaled $491,731,645, a 4 percent increase from the prior fiscal year. Buy-back/buy-in contributions for the year amounted to $14,903,466, a 24 percent increase from the prior year. Net investment and securities lending income for fiscal year 2004 was $2,177,265,218, an improvement of $1,362,457,491 over the prior year.

Expenses. Expenses are incurred primarily for the purpose for which IPERS was created—the payment of benefits to retirees. Included in the total expenses for the fiscal year were benefit payments and refunds totaling $829,296,784. This amount increased 7 percent from the prior fiscal year and represented 99 percent of the total fund expenditures.

The total number of annuitants receiving monthly benefits as of June 30, 2004 was 76,961. The net increase of 2,625 during fiscal year 2004 was similar to the increase during fiscal year 2003. The average monthly retirement benefit, including the November and January dividend payments, increased from $796 to $833.

All administrative expenses for the System are paid from the IPERS Trust Fund. The administrative budget is submitted to the Legislature annually for authorization of spending. Those administrative expenses totaled $7,959,601 for fiscal year 2004, a 1 percent decrease from last year.

The System retains two investment consultants and multiple investment managers to assist the Investment Board and Administration in carrying out their fiduciary duties by providing capital markets and portfolio advice to the System and investing the System's assets. For the fiscal year, IPERS' investment management expenses were $31,224,356, a 4.4 percent increase from last year. The small increase is attributable to several factors. Rising market values generally lead to increased investment management expenses because managers' fees are partially based on assets under management. In some cases, IPERS paid higher fees because market values increased during the fiscal year. However, IPERS also utilizes performance-based fee structures for many of its investment managers, and these arrangements provided for lower fees in fiscal year 2004 for several underperforming managers in domestic equity and high yield bonds, and higher fees for international equity and fixed income managers who outperformed. Another factor impacting investment management expenses is that IPERS eliminated its global tactical asset allocation strategy in fiscal year 2004, which reduced expenses relative to fiscal year 2003.

In addition to the appropriations process described above for administrative expenses, state law limits the amount that can be expended annually for investment management expenses to 0.40 percent of the Fund's total net investment portfolio fair value. For fiscal year 2004, the System expended 0.19 percent of the portfolio's total quarterly average fair value for investment management expenses, well below the maximum allowed. The 0.19 percent expended for investment management expenses in fiscal year 2004 also represents a decrease from the 0.21 percent expended in fiscal year 2003.

Revenues ($ millions)

Source	2004	2003	Increase (Decrease)
Contributions	491.7	473.0	18.7
Buy-backs/buy-ins	14.9	12.0	2.9
Transfers from another pension plan	0	8.9	(8.9)
Net Invest. and Securities Lending Income	2,177.3	814.8	1,362.5
Total	$2,683.9	$1,308.7	$1,375.2

Expenses ($ millions)

Type	2004	2003	Increase (Decrease)
Benefits	792.9	736.3	56.6
Refunds	36.4	35.6	.8
Administrative	8.0	8.0	0.0
Total	$837.3	$779.9	$57.4

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 funded status. The actuarial valuation for funding purposes at June 30, 2004 reflects an unfunded actuarial liability of $2,176,468,067. This represents the difference between the accrued actuarial liability of $19,128,410,606 and the actuarial value of net assets of $16,951,942,539.

During the fiscal year, the unfunded actuarial liability increased by $309,569,118 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, but it does signal a need to revise the System's contribution rates and/or future benefit levels in order to return to a fully funded status.

FUTURE PROSPECTS

Although IPERS continues to be a well-funded system, as reflected in its 88.6 percent funded ratio (the ratio of actuarial assets to actuarial liabilities), the percentage has been decreasing. IPERS' actuary projects that employer contributions are 90.9 percent of what they should be. The proportion of the contributions available for payment on the unfunded actuarial liability has been decreasing due to increasing normal costs. Even with investments continuing to meet actuarially assumed earnings, the funded percentage is expected to continue its downward movement without contribution rate increases.

IPERS' Funding Policy requires the amortization period not to exceed 30 years. The "infinite" period required to pay off the System's unfunded actuarial liability necessitates changes to the statutory contribution rates, the plan design, or both. The Iowa Legislature must change IPERS' Iowa Code provisions to make changes to the plan design and/or contribution rates for the regular membership. IPERS' Benefits Advisory Committee advocates an increase in contribution rates while preserving benefits.

IPERS' boards and employees are dedicated to prudent investment and safeguarding the System's assets. This, along with providing the highest possible level of service to members and retirees, is and will remain IPERS' first priority.

ACCOUNTING SYSTEM AND INTERNAL CONTROL

The financial statements included in this report are the responsibility of the IPERS management. The statements 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 the 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

IPERS received a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada (GFOA) for its Comprehensive Annual Financial Report for the fiscal year that ended June 30, 2003. In order to receive 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 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 under the direction of the management and CEO, who are responsible for the content of the report.

The report is intended to provide complete and accurate information concerning the activities and results of the System's operations. This report is provided to the Governor, legislative leadership, IPERS board members, and state fiscal staff in the Executive and Legislative branches. Employers and IPERS members are advised of its availability online, and they may request a printed copy. Copies are also filed with the State Library of Iowa. All other interested persons may obtain the report through the IPERS Web site or upon request.

Sincerely,

Donna M. Mueller
Chief Executive Officer

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:

- Providing counseling services and retirement information to active and retired members.
- Providing retirement and death benefits to members and beneficiaries.
- 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 on plan design adjustments.
- Overseeing the investment of the System's funds in accordance with the Investment Policy and Goal Statement adopted by the Investment Board.

Iowa Public Employees' Retirement System

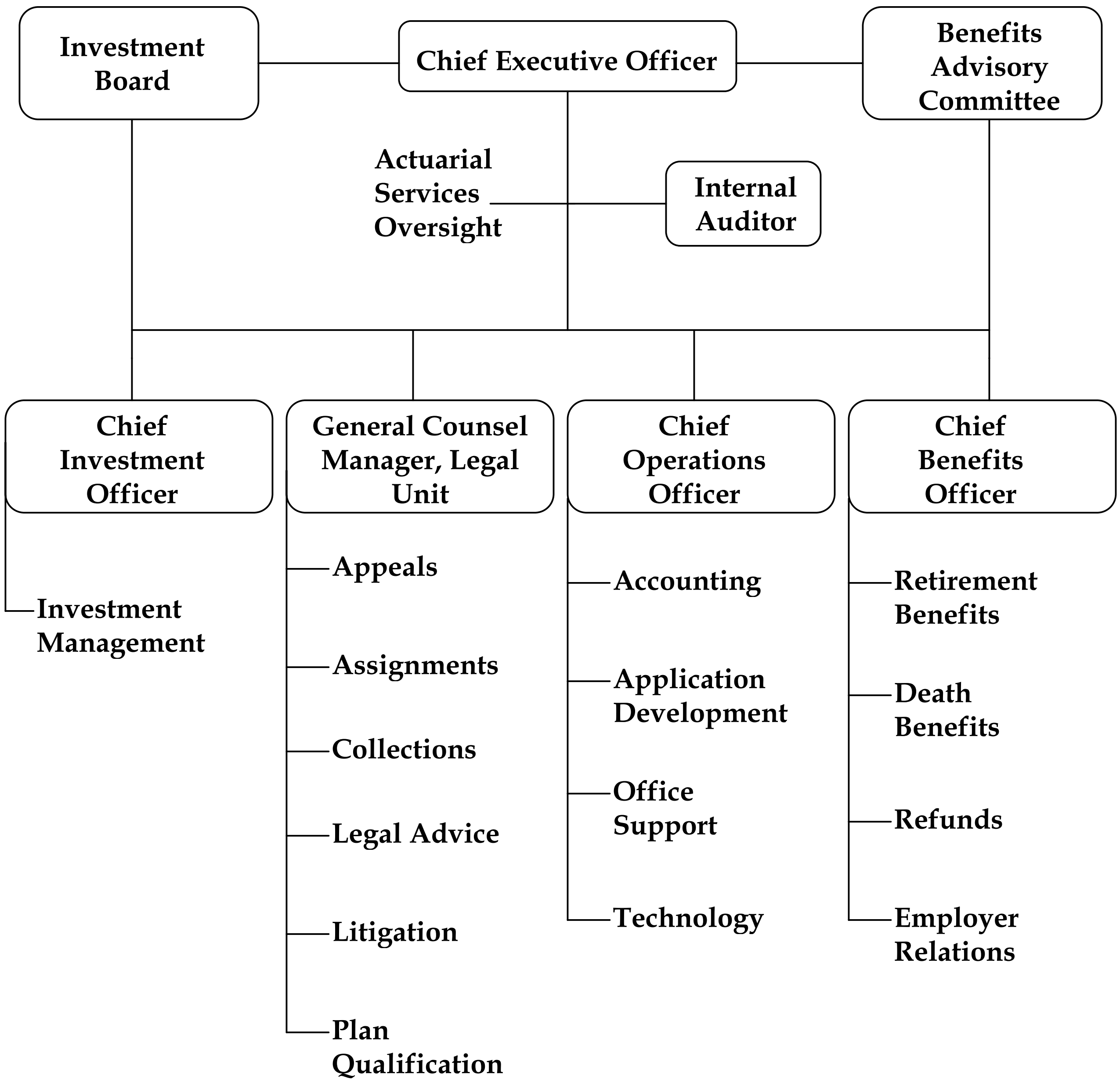
Donna M. Mueller
Chief Executive Officer

Investment Policy and Administration
Kathy S. Comito, Chief Investment Officer

Legal
Gregg A. Schochenmaier, General Counsel and Manager
Kelly Lovell, Deputy General Counsel

Membership and Benefit Administration
Greg Cusack, Chief Benefits Officer

Operations
Leon J. Schwartz, Chief Operations Officer


Investment Board
Chief Executive Officer
Benefits Advisory Committee
Actuarial Services Oversight
Internal Auditor
Chief Investment Officer
General Counsel Manager, Legal Unit
Chief Operations Officer
Chief Benefits Officer
Investment Management
Appeals
Assignments
Collections
Legal Advice
Litigation
Plan Qualification
Accounting
Application Development
Office Support
Technology
Retirement Benefits
Death Benefits
Refunds
Employer Relations

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 6 years. Gubernatorial appointees are subject to confirmation by the Iowa Senate.

Bruce G. Kelley*
Chairperson
Term expires 2007

Mr. Kelley has been the president and CEO of EMC Insurance Companies for 14 years. A graduate of the University of Iowa College of Law, he previously practiced law in Des Moines.

Joanne L. Stockdale*
Vice Chairperson
Term expires 2005

Ms. Stockdale is the president and owner of Northern Iowa Die Casting. She is a CPA with a degree from Iowa State University and accounting courses from Drake University. She was chosen Iowa's Outstanding CPA in Business and Industry for 2004.

*Voting member

IPERS Investment Board Members as of June 30, 2004

Lorie L. Bennett*
Term expires 2007
Formerly an accountant, Ms. Bennett has worked for the city of Humboldt for ten years. She is currently its city administrator and was previously the city clerk. Ms. Bennett has a business degree from Wartburg College.

David O. Creighton, Sr.*
Term expires 2007
Mr. Creighton is the chairman and CEO of The Bryton Companies in West Des Moines. He studied business at Arizona State University and has nearly 20 years of business finance experience, including a position as interim executive vice president of the National Association of Professional Insurance Agents.

Lana J. Dettbarn*
Term expires 2005
The executive director for administrative services for the Eastern Iowa Community College District since 1979, Ms. Dettbarn is also the district's board treasurer. She has an MBA from St. Ambrose University, and serves on the Advanced Technology Environmental Education Center Board.

Dr. Phyllis S. Peterson*
Term expires 2010
Dr. Peterson worked in Iowa public education for over 30 years before retiring in 2004 as the registrar of Kirkwood Community College. She began her career as a math teacher, and later became involved in telecommunications research. Dr. Peterson received her Ph.D. from the University of Iowa.

State Treasurer Michael L. Fitzgerald*
Treasurer Fitzgerald was first elected to office in 1982, and in 1989 was named the most valuable public official working in state government by *City and State* magazine. He has been the president of four associations, including the National Association of State Treasurers, and is currently a member of numerous organizations dedicated to government finance and administration.

*Voting member

IPERS Investment Board Nonvoting Members as of June 30, 2004

Senator John P. Kibbie

Senator Kibbie is an Emmetsburg farmer and cattle feeder. He served in the Iowa House of Representatives for three years beginning in 1961, and in the Iowa Senate for four years beginning in 1965. Senator Kibbie was re-elected to the Senate in 1988, where he continues to serve in numerous leadership and committee positions.

Senator Mark Zieman

Senator Zieman is a Postville farmer and trucking company owner. He is the chair of the Senate State Government Committee and the vice chair of the Administration and Appropriations Subcommittee. He also serves on the Senate Appropriations, Agriculture, Natural Resources and Environment, and Transportation Committees.

Representative Jeff Elgin

Representative Elgin of Cedar Rapids is president of J&T Elgin LLC Investment Company. He has an MBA in accounting from Iowa State University. He is the House State Government Committee chair, and serves on the Environmental Protection, Local Government, and Transportation Committees, and the Administration and Regulation Appropriations Subcommittee.

Representative Pam Jochum

Representative Jochum of Dubuque works at Loras College, where she received a degree in speech communication. She is the ranking member of the State Government Committee in 2004, a member of the Ways and Means and Judiciary Committees, and a member of the Dubuque Coordinated Community Response to Stop Family Violence.

BENEFITS ADVISORY COMMITTEE

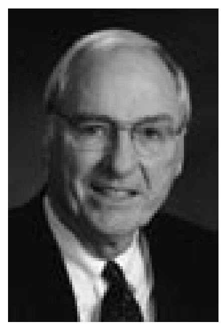
The IPERS Benefits Advisory Committee was created by state statute to make benefit and service recommendations to IPERS and the General Assembly. The Committee holds monthly public meetings.

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

Nine members of the Committee are elected by the Committee membership to serve as voting members. The director of the Iowa Department of Administrative Services is named a voting member in the Iowa Code. 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 must represent covered employers, four must represent IPERS membership, and one is a public member. Voting members serve three-year terms.

Lowell Dauenbaugh*
Chairperson
Voting term expires 2005

Mr. Dauenbaugh represents the Iowa State Education Association and is the association's assistant executive director. He helped develop Iowa's current school finance law and has studied educational funding in Iowa. Mr. Dauenbaugh has a graduate degree in physics from the University of Minnesota.



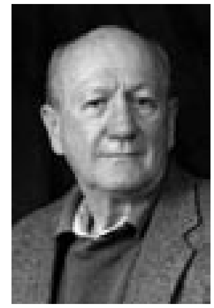
Dr. Gene Gardner
Vice Chairperson

Dr. Gardner, representing the Association of Community College Trustees, has worked with public colleges in Iowa for 40 years. He has a Ph.D. from Iowa State University in adult education and community college administration and research, and is currently the executive director of the Iowa Association of Community College Trustees.

* Voting member

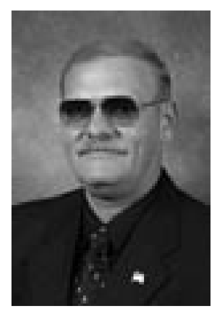
Member Association Representatives as of June 30, 2004

Walter L. Galvin
Mr. Galvin represents retired IPERS members on the BAC. He is retired and currently holds positions in the Iowa Retired School Personnel Association and the Des Moines Teachers Retirement System. He was the executive director of the Des Moines Education Association for over fifteen years during his career.



Janie Garr
Ms. Garr represents the IPERS Improvement Association, a private, nonprofit group, on the Committee. She has two graduate degrees, one in English education and one in counseling. A teacher and counselor at public schools in Ottumwa for 26 years, and once a secretary in the FBI, she is currently a realtor.

Roger Muri
Chief Muri, representing the Association of Chiefs of Police, has been employed in the Atlantic Police Department since 1984, and has been the department's chief of police for over ten years. His previous positions include sergeant in the United States Marine Corps and president of the Iowa Association of Chiefs of Police and Peace Officers.

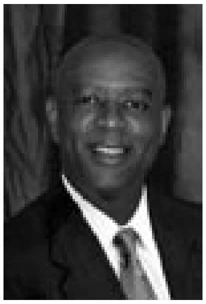


Bill Sage*
Voting term expires 2007
Deputy Sheriff Sage, who represents the Iowa Sheriffs' and Deputy Sheriffs' Association, has been with the Cass County Sheriff's Office for 23 years. In 1991, the Association named him Deputy Sheriff of the Year. He studied law enforcement at Iowa Western Community College and has served in the Atlantic Fire Department for 20 years.

Not pictured, **Deanna McCallum** (State Police Officers' Council, a nonvoting member)

*Voting member

Member Association Representatives as of June 30, 2004

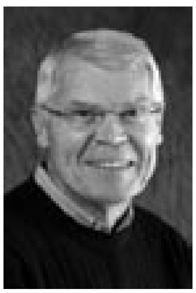


Lewis Washington*

Voting term expires 2007

Currently a probation and parole officer in Davenport, Mr. Washington represents the American Federation of State, County, and Municipal Employees (AFSCME) on the Committee. He studied business and public administration at Augustana College in Rock Island, Illinois, and is a member of the Iowa Corrections Association (ICA).

Employer/Member Association Representatives as of June 30, 2004



Dr. Gaylord Tryon*

Voting term expires 2007

Dr. Tryon represents the School Administrators of Iowa on the Committee. He began his career as a teacher and elementary school principal, and he earned his Ph.D. in educational administration from Iowa State University. Since 2001, he has served as president of his own company, G. Tryon and Associates.

Employer Association Representatives as of June 30, 2004

Mollie K. Anderson*

Appointed by statute

Ms. Anderson is the director of the Iowa Department of Administrative Services. She came to Iowa in 1999 when Governor Vilsack appointed her director of the Iowa Department of Personnel. Ms. Anderson earned her B.A. in behavioral science from Midland Lutheran College in Fremont, Nebraska.

Len Cockman*

Voting term expires 2006

Mr. Cockman, representing the Iowa Association of School Boards, is the human resource services director at that association. He is a certified professional in human resources and held administrative positions in Iowa public school districts for over ten years.

*Voting member

Employer Association Representatives as of June 30, 2004

James Maloney*
Voting term expires 2006

Mr. Maloney is the Polk County Assessor and represents the Iowa State Association of Counties on the Committee. He graduated from Drake University Law School and has held the positions of City Assessor for Des Moines and County Auditor of Polk County.

Andrea L. Stewart*
Voting term expires 2005

Ms. Stewart is the manager of administration at the Iowa League of Cities, representing that organization on the Committee. She has an associate degree in liberal arts from Muscatine Community College. Ms. Stewart has worked for city governments in North Carolina and Arizona as well as Iowa, analyzing the government's budget and labor costs.

Public Member Representative as of June 30, 2004

Dr. Marcus J. Haack*
Voting term expires 2005

Currently a clinical associate professor in educational administration at the University of Iowa, Dr. Haack has been part of the Committee for more than two years. He earned his Ed.D. at the University of Northern Iowa and is a member of five organizations dedicated to educational administration and curriculum development.

*Voting member

PROFESSIONAL AND CONSULTING SERVICES

An actuarial consulting firm, external legal counsel, securities litigation monitoring counsel, and two investment consulting firms assist the IPERS Investment Board and administration in carrying out their fiduciary duties. Contracts are awarded following competitive procurement processes in accordance with state law.

ACTUARY

Milliman USA, Inc.—Omaha, NE

The actuarial consulting firm chosen by the Investment Board 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.

PLAN LEGAL COUNSEL

Ice Miller Legal & Business Advisors—Indianapolis, IN

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.

SECURITIES LITIGATION MONITORING COUNSEL

Barrack, Rodos & Bacine—Philadelphia, PA

The external securities litigation 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.

INVESTMENT CONSULTANTS

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

The investment consulting firms chosen by the Investment Board are responsible for:

- Preparing asset allocation studies for the System.
- Periodically reviewing 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.

MASTER CUSTODIAN

The Bank of New York—New York, NY

The Treasurer of the State of Iowa is the custodian of the Fund and has hired a master custodian bank to assist in the custody and record keeping of the System's assets. The master custodian 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 to the System.
- Providing periodic reports summarizing the investment activity of the System's assets.

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, 2004

DOMESTIC EQUITY

Barclays Global Investors NA
San Francisco, CA

Mellon Capital Management Corp.
San Francisco, CA

RCM Global Investors LLC
San Francisco, CA

Wellington Trust Company NA
Boston, MA

INTERNATIONAL EQUITY

Barclays Global Investors NA
San Francisco, CA

Emerging Markets Management LLC
Arlington, VA

Oechsle International Advisors LLC
Boston, MA

Schroder Investment Management
North America Inc.
London, England

PRIVATE EQUITY/DEBT

Pathway Capital Management LLC
Irvine, CA

GLOBAL FIXED INCOME

BlackRock Financial Management Inc.
New York, NY

JPMorgan 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 LLC
Chicago, IL

TA Realty Corporation
Boston, MA

UBS Realty Investors LLC
Hartford, CT

IPERS

FINANCIAL

financial

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, 2004 and 2003, 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 overall financial statement presentation. We believe 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, 2004 and 2003, 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, 2004 and 2003, and the changes in plan net assets for the years then ended, in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis and the schedules of funding progress and employer contributions on pages 29 through 32 and 43 through 44 are not required parts 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 required supplementary information. However, 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. The other supplementary information included in Schedules 1 through 3 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 investments, actuarial, statistical and plan summary sections and, accordingly, express no opinion thereon.

In accordance with Government Auditing Standards, our reports on IPERS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts will be issued under separate cover in the State of Iowa's Single Audit Report. Those reports are 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, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 6, 2004

MANAGEMENT'S 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, 2004. It is intended to be used in conjunction with the transmittal letter and IPERS' financial statements and notes, which begin on page 33 of this report.

FINANCIAL HIGHLIGHTS

- IPERS' plan net assets held in trust for pension benefits increased by $1.8 billion during fiscal year 2004. On June 30, 2004, total plan assets (including capital assets of $4.3 million) totaled $20.2 billion, exceeding total liabilities of $3.0 billion, resulting in net assets held in trust for pension benefits of $17.2 billion.

- Covered payroll, upon which both employee and employer pension contributions are calculated, increased by $190.9 million, 4 percent, over the last fiscal year and totaled $5.1 billion. Employer and employee contributions also increased, in total, by 4 percent. In comparison, fiscal year 2003 saw a 3 percent increase in both covered wages and contributions.

- Net investment and securities lending income, after all investment-related expenses, was $2.2 billion in fiscal year 2004, compared to a gain of $814.8 million in fiscal year 2003 and a loss of $772.4 million in fiscal year 2002. Investment management expenses remained fairly steady, from $37.6 million for fiscal year 2002, to $29.9 million for fiscal year 2003, to $31.2 million for fiscal year 2004.

- Total contributions, investments, and other income resulted in a positive impact to the fund of $2.7 billion in fiscal year 2004, compared to $1.3 billion in fiscal year 2003 and a negative impact of $302.9 million in fiscal year 2002. Total additions more than doubled from 2003 to 2004. The increase in fiscal year 2004 is primarily due to net investment and securities lending income of $2.2 billion, compared to net investment and securities lending income of $814.8 million for fiscal year 2003.

- Pension benefits to members increased by $56.5 million, continuing the trend experienced in the previous two fiscal years. Refunds remained fairly constant with a slight increase from $35.6 to $36.4 million. Payments to members totaled $829.3 million in fiscal year 2004.

- Administrative expenses totaled $8.0 million for fiscal year 2004, as compared to $8.0 million for fiscal year 2003, and $7.6 million for fiscal year 2002. Over the 3 fiscal years, administrative expenses have run consistently at 0.05 percent 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 33) and the Statement of Changes in Plan Net Assets (see page 34). These Statements are presented on an accrual basis and reflect all Trust activities as incurred. The notes to 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 supplementary information following the notes to 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 funded status.

ANALYSIS OF PLAN NET ASSETS

Tables 1 and 2 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, 2004 are $17.2 billion, having increased $1.8 billion from the previous fiscal year-end balance.

A large percentage of total assets, 97.2 percent, is made up of investments held to provide retirement, survivor, and disability benefits to qualified members and their beneficiaries. Other assets, including cash and cash equivalents, receivables from member and employer contributions, receivables from investment-related transactions, and capital assets, comprise less than 3 percent of total assets. Total plan net assets increased by 12 percent in fiscal year 2004.

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 rebates and 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 by $393.7 million from fiscal year 2003 to 2004, as compared to an increase of $1.7 billion between fiscal years 2002 to 2003. As in fiscal year 2003, the majority of increase in liabilities for fiscal year 2004 was due to increased securities lending activity. The liabilities associated with the securities lending program (i.e., "Rebates and Collateral Payable") are more than offset by the 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 33 and footnote 3, page 37.)

TABLE 1

Plan Net Assets

(Dollar values expressed in thousands)

Fiscal years ended June 30,	2004	2003	2004/2003 Inc/(Dec) Percent	2002	2003/2002 Inc/(Dec) Percent
Cash and investments at fair value	19,711,582	17,309,229	13.9%	15,320,512	13.0%
Receivables	484,162	646,253	(25.1%)	392,995	64.4%
Capital assets	4,320	4,171	3.6%	4,426	(5.8%)
Total assets	20,200,064	17,959,653	12.5%	15,717,933	14.3%
Total liabilities	2,950,147	2,556,452	15.4%	843,514	203.1%
Total Plan Net Assets	17,249,917	15,403,201	12.0%	14,874,419	3.6%

TABLE 2

Changes in Plan Net Assets

(Dollar values expressed in thousands)

Fiscal years ended June 30,	2004	2003	2004/2003 Inc/(Dec) Percent	2002	2003/2002 Inc/(Dec) Percent
Additions					
Contributions & buy-backs/-ins	$ 506,635	$ 484,985	4.5%	$ 469,454	3.3%
Net investment and securities lending income (loss)	2,177,265	814,808	167.2%	(772,386)	205.5%
Transfers from another pension plan	0	8,880	(100.0%)	0	----
Miscellaneous	72	72	0.0%	68	5.9%
Total Additions	$ 2,683,972	$ 1,308,745	105.1%	$ (302,864)	532.1%
Deductions					
Benefits and refunds	829,296	771,922	7.4%	743,683	3.8%
Administrative expense	7,960	8,041	(1.0%)	7,581	6.1%
Total Deductions	837,256	779,963	7.3%	751,264	3.8%
Increase (Decrease) in Plan Net Assets	$ 1,846,716	$ 528,782	249.2%	$ (1,054,128)	150.2%

The increases in plan net assets experienced from the end of fiscal year 2003 to the end of fiscal year 2004 and from the end of fiscal year 2002 to the end of fiscal year 2003 were primarily due to investment market conditions. Benefits paid out continue to exceed contributions received by $322.7 million, $286.9 million, and $274.2 million for fiscal years 2004, 2003, and 2002, respectively. This excess of benefits paid relative to contributions received is characteristic of a mature pension plan such as IPERS. The investment rate of return for the current and two preceding fiscal years were 13.78 percent, 5.59 percent, and (4.94) percent, respectively. (See also the Investment Section of this report beginning on page 51 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, 2004.

TABLE 3

Asset Class	Return	Benchmark	Allocation
Domestic Equity	20.16%	21.24%	34.2%
International Equity	31.92%	32.50%	15.7%
Global Fixed Income	1.71%	1.00%	37.5%
Private Equity/Debt[1]	20.70%	24.85%	6.1%
Real Estate	10.96%	9.27%	6.1%
Short-Term Cash	2.04%	0.98%	0.4%
Total Fund	13.78%	14.55%	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, $8.0 million, and $7.6 million, respectively. (See Schedule of Administrative Expenses, page 46.)

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. 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

Statement of Plan Net Assets

June 30, 2004 and 2003

EXHIBIT A	2004	2003
Assets:		
Cash and cash equivalents	**$ 68,069,302**	**$ 134,308,691**
Receivables		
Contributions receivable	33,233,271	34,712,124
Accrued interest and dividends	46,708,330	37,872,500
Receivable for investments sold	377,144,863	512,229,707
Foreign exchange contracts receivable	22,746,109	58,272,090
Miscellaneous receivable	4,328,960	3,166,409
Total receivables	**484,161,533**	**646,252,830**
Investments at fair value		
Global fixed income	7,230,008,680	6,156,093,244
Domestic equity	5,893,362,827	4,566,685,854
International equity	2,688,372,550	2,362,533,708
Real estate	1,044,950,064	916,346,316
Private equity/debt	1,049,907,297	933,919,173
Tactical fund	0	776,815,156
Securities lending collateral pool	1,736,911,274	1,462,527,044
Total investments	**19,643,512,692**	**17,174,920,495**
Capital assets (note 5)		
Depreciable assets—net of accumulated depreciation	3,820,530	3,671,355
Nondepreciable assets—land	500,000	500,000
Total capital assets	**4,320,530**	**4,171,355**
Total assets	**$20,200,064,057**	**$17,959,653,371**
Liabilities:		
Accounts payable and accrued expenses	27,998,555	20,057,191
Payable for investments purchased	1,162,958,367	1,016,125,419
Rebates and collateral payable	1,736,444,175	1,461,997,765
Foreign exchange contracts payable	22,746,109	58,272,089
Total liabilities	**2,950,147,206**	**2,556,452,464**
Net assets held in trust for pension benefits (note 11)	**$17,249,916,851**	**$15,403,200,907**

See Schedule of Funding Progress on page 43.

See Notes to Financial Statements.

Statement of Changes in Plan Net Assets

Year ended June 30, 2004 and 2003

EXHIBIT B	2004	2003
Additions:		
Contributions		
Employer contributions	$ 298,923,667	$ 287,523,555
Employee contributions	192,807,978	185,430,574
Buy-back/buy-in contributions	14,903,466	12,031,207
Total contributions	**506,635,111**	**484,985,336**
Investments		
Interest	249,802,200	268,984,511
Dividends	102,894,530	93,319,070
Real estate and private equity/debt	64,158,621	58,218,028
Tactical	5,268,475	10,921,873
Net appreciation in fair value of investments	1,780,902,835	408,036,182
Other	700,882	951,011
Investment management expense	(31,224,356)	(29,908,131)
Net investment income	**2,172,503,187**	**810,522,544**
Securities Lending Income		
Security lending income	19,155,541	22,283,963
Security lending expense	(14,393,510)	(17,998,780)
Net securities lending income	**4,762,031**	**4,285,183**
Other Sources		
Transfer from another pension plan (note 6)	0	8,879,964
Miscellaneous noninvestment income	72,000	72,000
Total other sources	**72,000**	**8,951,964**
Total additions	**2,683,972,329**	**1,308,745,027**
Deductions:		
Benefit payments	792,866,773	736,330,878
Member and employer refunds	36,430,011	35,591,323
Administrative expense	7,959,601	8,041,113
Total deductions	**837,256,385**	**779,963,314**
Net increase	**1,846,715,944**	**528,781,713**
Net assets held in trust for pension benefit Beginning of year	15,403,200,907	14,874,419,194
Net assets held in trust for pension benefit End of year (note 11)	**$17,249,916,851**	**$15,403,200,907**

See Notes to Financial Statements.

Notes to Financial Statements

June 30, 2004 and 2003

(1) REPORTING ENTITY

IPERS, a public employee retirement system, 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 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, 2004	June 30, 2003
Employer members:		
City	1,291	1,309
County	458	465
School	389	392
State	22	21
28E Agencies	23	22
Utilities	80	80
Other	125	128
Total	2,388	2,417
Employee members:		
Current retirees and beneficiaries	76,961	74,336
Inactive vested	39,568	39,158
Active vested plan members	122,214	120,658
Active nonvested plan members	37,820	38,695
Inactive nonvested	63,481	65,050

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

Pension Benefits. A member may retire at age 65 (or anytime 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 0.25 percent 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. The date at which the member would first receive a normal retirement allowance is 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 under 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 equal to the present actuarial value of the member's accrued benefit or a calculated formula, whichever is greater.

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 4 years of covered service has vested rights to IPERS benefits, provided the member lives to retirement age 55 and does not withdraw his or her accumulated contributions. Effective July 1, 2005, members must be age 55 or have 4 years of service upon termination in order to be considered vested.

Funding Requirements. Member and employer contribution rates are established by statute for the regular membership. 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 following table. Wages are covered up to the federal limit of $205,000 for the calendar year 2004.

CONTRIBUTION RATES IN EFFECT JULY 1, 2003 – JUNE 30, 2004

	Employee	Employer	Total
Regular	3.70%	5.75%	9.45%
Sheriffs/Deputy Sheriffs (County) and Airport Firefighters	4.99%	7.48%	12.47%
Protection Occupations*	5.93%	8.90%	14.83%

*Protection Occupations: City marshals/police or firefighters in towns with populations under 8,000, state conservation peace officers, state correctional officers, airport safety officers, DOT peace officers, fire prevention inspector peace 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 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 3 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 Section 97B.7A.

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 5 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 Iowa Code. 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 percent of the fair value of any U.S. securities lent and 105 percent 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 percent of the value of the security lent plus accrued interest income.

At year-end the System had $135,212 in credit risk exposure to borrowers because the amounts they owed the System exceeded the amount the System owed them on 45 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, 2004, the System had securities on loan, including accrued interest income, of $1,698,820,613 against collateral, including borrower rebate, with a total value of $1,736,444,175.

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 the 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, 2004. 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 properties, 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 master custodian bank. The fair value of the position in the pool equals the value of the pool shares. A summary of investments as of June 30, 2004 and 2003 follows.

INVESTMENT	JUNE 30, 2004	JUNE 30, 2003
Category 1:		
Domestic Equity	$ 1,167,514,006	$ 1,572,218,372
International Equity	1,164,212,106	961,973,086
Global Fixed Income	2,892,123,822	2,255,798,017
Foreign Currency	(2,368,394)	1,786,021
Subtotal	5,221,481,540	4,791,775,496
Not categorized:		
Securities on Loan with Brokers	1,698,820,613	1,399,148,909
Investment in Mutual & Commingled Funds	8,336,925,688	7,569,780,506
Investment in Short-Term Investments Funds (STIF)	587,939,897	197,663,004
Investment in Real Estate	1,024,764,635	820,520,253
Investment in Private Equity/Debt	1,036,669,045	933,505,283
Securities Lending Collateral Pool	1,736,911,274	1,462,527,044
Total Investments	$19,643,512,692	$17,174,920,495

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 3 to 10 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 lessee pays all operating expenses directly associated with its occupancy. In addition, the lessee pays a proportionate share of common operating expenses. The lease with Data Input Services expires on January 31, 2005. After that date, the space has not been leased.

All rental income is categorized as miscellaneous income. Total rental income for the year ended June 30, 2004 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 Section 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 regular members contribute 3.70 percent of pay and most employers contribute 5.75 percent of pay for a total of 9.45 percent. Certain employers and employees in special risk occupations contribute an actuarially determined contribution rate. 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 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 liability exceeds the Funding Policy maximum of 30 years. Specifically, the System's unfunded actuarial 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 liability cannot be amortized within 30 years. An increase in the statutory rate can restore actuarial balance.

For the fiscal year ended June 30, 2004, the statutorily established contribution requirement for employers was $291,641,605, or 5.75 percent of covered payroll. The statutorily established requirement for employees for the same time period was $187,665,033, or 3.70 percent of covered payroll. The actual amount of contributions made by employers and employees during the fiscal year ended June 30, 2004, was $298,923,667 and $192,807,978, respectively.

Total required statutory contributions for the years ended June 30, 2004, 2003, and 2002 were $479,306,637, $461,263,972, and $448,267,972, 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:

	2004	2003
Building and improvements	$ 3,877,670	$ 3,748,182
Less accumulated depreciation	(434,265)	(334,846)
Furniture & equipment	729,328	572,246
Less accumulated depreciation	(352,203)	(314,227)
Land (non-depreciable)	500,000	500,000
Total capital assets	$ 4,320,530	$ 4,171,355

Depreciation expense for the year ended June 30, 2004 was $245,324.

(6) TRANSFER FROM ANOTHER PENSION PLAN

This reflects assets transferred to IPERS in fiscal year 2003 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 water works 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, 2004, IPERS had commitments to fund an additional $1,039,591,642 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 within the required supplementary information 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 Section 97B.11 establishes the contribution provisions of the plan.

State statute requires contributions of 3.70 percent by regular members and 5.75 percent by their employers. Wages are covered up to the federal limit of $205,000 for calendar year 2004. The System's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002, were $269,056, $249,678, and $234,549, 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:

	Regular Membership	Special Service Group 1*	Special Service Group 2**	FED Reserve Transfers***	Total
Balance at June 30, 2003	$14,260,803,500	$231,113,491	$424,024,555	$487,259,361	$15,403,200,907
Additions:					
Contributions	458,808,922	9,149,663	23,773,060	0	491,731,645
Service purchase	14,359,491	141,432	402,543	0	14,903,466
Investment and misc. income	2,044,023,737	33,790,992	62,281,436	68,465,409	2,208,561,574
Total additions	**2,517,192,150**	**43,082,087**	**86,457,039**	**68,465,409**	**2,715,196,685**
Deductions:					
Benefit payments	745,572,638	5,865,852	10,360,466	31,067,817	792,866,773
Member and employer refunds	33,643,116	743,172	2,043,723	0	36,430,011
Admin. & invest. expense	36,685,814	521,511	1,008,677	967,955	39,183,957
Total deductions	**815,901,568**	**7,130,535**	**13,412,866**	**32,035,772**	**868,480,741**
Balance at June 30, 2004	**$15,962,094,082**	**$267,065,043**	**$497,068,728**	**$523,688,998**	**$17,249,916,851**

*Includes sheriffs, deputies, and airport firefighters.

**Includes all other public safety members.

***Favorable Experience Dividend.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule 1

SCHEDULE OF FUNDING PROGRESS

Fiscal Year	Net Actuarial Value of Assets	Actuarial Accrued Liability	Percentage Funded	Unfunded Actuarial Liability (UAL)	Annual Covered Payroll(1)	UAL as a % of Covered Payroll
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)%
2004	16,951,942,539	19,128,410,606	88.62%	(2,176,468,067)	5,072,027,906	(42.91)%

(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, 2004, the federal limit has been $205,000.

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 years of 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 2

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Schedule of Actuarially Required Employer Contributions
Last 6 Fiscal Years

Fiscal Year	Actuarially Required Contributions	Total Employer Contributions	Percentage Contributed
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%
2004	328,760,242	298,923,667	90.9%

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.

Numbers are reported in aggregate for the total System membership. The corresponding numbers for each group are 90.3 percent for the regular membership and 100 percent for Special Services groups 1 and 2.

See note 4 for additional information on actuarial valuation.

See accompanying independent auditor's report.

OTHER SUPPLEMENTARY INFORMATION

Schedule 1

INVESTMENT INCOME BY SPECIFIC SOURCE

YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
Interest income—short term	$ 896,000	$ 9,385,092
Interest income on bonds	248,906,200	259,599,419
Dividend income	102,894,530	93,319,070
Real estate funds	71,040,420	75,237,963
Private equity/debt funds	(6,881,799)	(17,019,935)
Tactical funds	5,268,475	10,921,873
Security lending income	19,155,541	22,283,963
Other income	700,882	951,011
Investment income	441,980,249	454,678,456
Gain on investments	1,187,649,745	288,006,686
Currency gain	593,253,090	120,029,496
Net appreciation in fair value of investments	1,780,902,835	408,036,182
Investment income	$2,222,883,084	$862,714,638

See accompanying independent auditor's report.

Schedule 2

SCHEDULE OF ADMINISTRATIVE EXPENSES

YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
Personnel:		
Salaries & wages	$5,364,583	$4,899,752
Travel	97,980	104,875
Professional and technical services:		
Professional	636,725	882,037
Actuary	81,962	144,442
Computer support services	390,323	514,736
Auditing	69,300	62,978
Communications:		
Telephone	185,703	186,800
Printing	94,944	86,202
Other expenses:		
Supplies	508,946	512,069
Utilities	49,851	54,363
Depreciation	245,324	247,633
Repairs	106,799	146,613
Rent	2,010	1,266
Miscellaneous	125,151	197,347
Total administrative expenses	**$7,959,601**	**$8,041,113**

See accompanying independent auditor's report.

Schedule 3

SCHEDULE OF INVESTMENT AND CONSULTING-RELATED EXPENSES

YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
JPMorgan Investment Management	$ 28,854	$ 105,355
Mellon Capital Management	251,178	140,514
Barclays Global Investors	376,714	0
RCM Global Investors	1,630,523	2,001,036
Wellington Management Company LLP	774,378	1,752,679
TOTAL DOMESTIC EQUITY	**3,061,647**	**3,999,584**
BlackRock Financial Management, Inc.	914,469	805,216
JPMorgan Investment Management	762,939	645,334
Mellon Bond Associates	0	162,197
Mellon Capital Management	129,483	127,406
Oaktree Capital Management	1,999,722	2,405,379
Western Asset Management Company	2,062,739	1,327,072
TOTAL GLOBAL FIXED INCOME	**5,869,352**	**5,472,604**
Mellon Capital Management	552,240	1,255,316
TOTAL TACTICAL	**552,240**	**1,255,316**
Barclays Global Investors	4,663,120	3,818,962
Schroder Capital Management International	1,799,980	2,612,302
Putnam Institutional Management	188,249	474,758
Emerging Markets Management	2,151,170	167,898
Oechsle	144,558	0
TOTAL INTERNATIONAL EQUITY	**8,947,077**	**7,073,920**
RREEF REIT	1,157,675	733,215
RREEF	2,629,482	2,836,142
AEW Capital Management	24,266	92,970
Heitman/JMB	23,545	126,517
INVESCO	2,625,672	1,552,055
TA Associates	1,460,024	553,972
UBS Realty	1,582,431	2,928,288
PM Realty	0	177,200
TOTAL REAL ESTATE	**9,503,095**	**9,000,359**
Pathway Capital Management	1,978,297	1,798,322
TOTAL PRIVATE EQUITY/DEBT	**1,978,297**	**1,798,322**
The Townsend Group	132,000	132,000
Wilshire Associates	239,000	239,000
TOTAL INVESTMENT CONSULTANT FEES	**371,000**	**371,000**
Master Custodian Bank Fees	137,989	122,247
Treasurer of State	19,006	22,841
TOTAL CUSTODY EXPENSES	**156,995**	**145,088**
Investment Staff Expenses	687,957	684,321
Miscellaneous Expenses	96,696	107,617
TOTAL OTHER INVESTMENT EXPENSES	**784,653**	**791,938**
TOTAL INVESTMENT AND CONSULTING-RELATED EXPENSES	**$31,224,356**	**$29,908,131**

See accompanying independent auditor's report.

IPERS

INVESTMENTS

Investment Overview

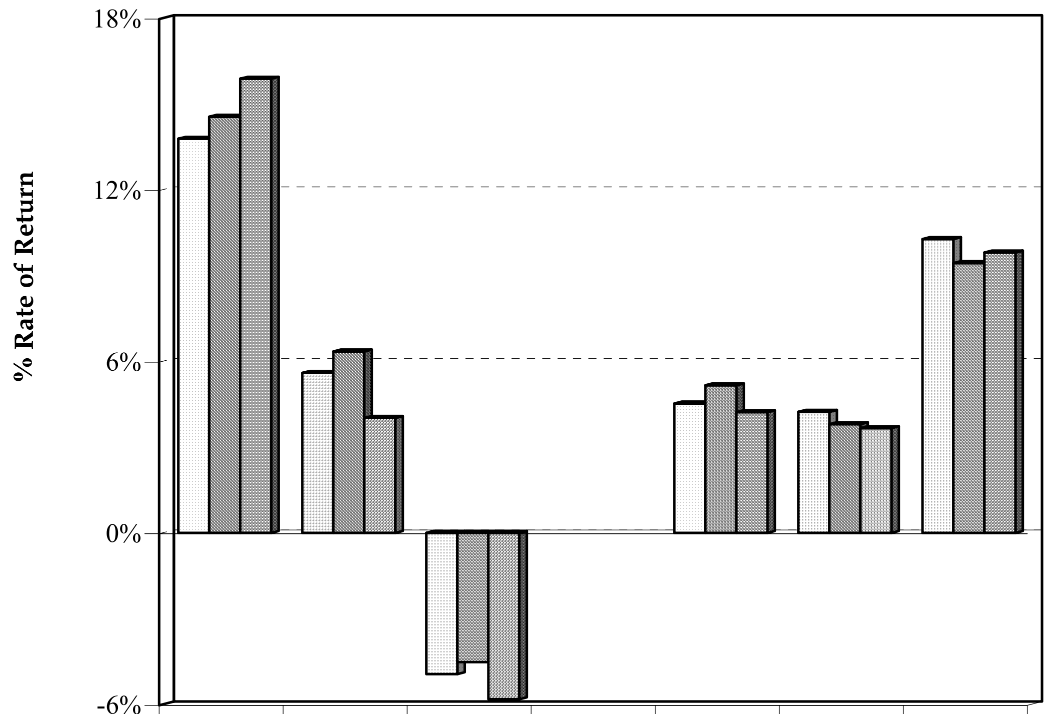
Investment Results

Investment Policy and Goal Statement

investments

INVESTMENT OVERVIEW

ANNUALIZED INVESTMENT PERFORMANCE SUMMARY
For the periods ended June 30



	2004	2003	2002		3 yr	5 yr	10 yr
IPERS' Portfolio *	13.78%	5.59%	-4.94%		4.52%	4.23%	10.27%
Policy Benchmark **	14.55%	6.34%	-4.52%		5.16%	3.80%	9.43%
Large Public Fund Median ***	15.88%	4.02%	-5.82%		4.22%	3.66%	9.80%

*Net of fees.
**A passively managed benchmark composed of market indices, and weightings of same, reflective of IPERS' asset allocation targets.
***Trust Universe Comparison Service (TUCS) Public Funds Greater than $1 Billion.

INVESTMENT OVERVIEW

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

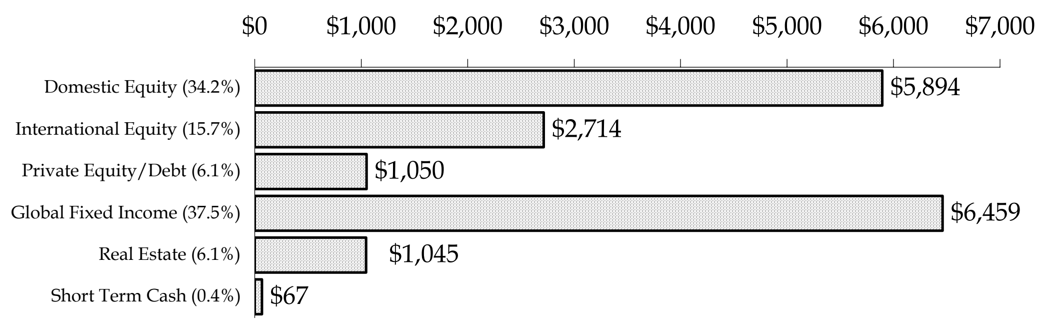
The System's investments are managed by professional investment management firms based upon statutory investment authority, the investment policies adopted by the IPERS Investment Board, and a detailed service contract with each manager. The System's staff coordinates and monitors the investment of the 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 that achieves a specific set of investment objectives. Each year the IPERS Investment Board adopts an Investment Policy and Goal Statement that describes the System's investment objectives and establishes the System's asset allocation policy as designed to meet those objectives. The asset allocation policy is adopted to provide for diversification of assets in an effort to maximize the investment return to the System consistent with prudent levels of market and economic risks. Of all the components of investment strategy formulation, the determination of asset allocation targets is the most important decision.

Summary of Investments by Asset Class
As of June 30, 2004
(Fair Value in Millions)



In addition to asset class diversification, the System also seeks to diversify the investment portfolio by investment management styles. The success of a particular investment style tends to be cyclical. For example, "growth" stock investing may outperform "value" stock investing for several quarters, or perhaps several years, until 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.

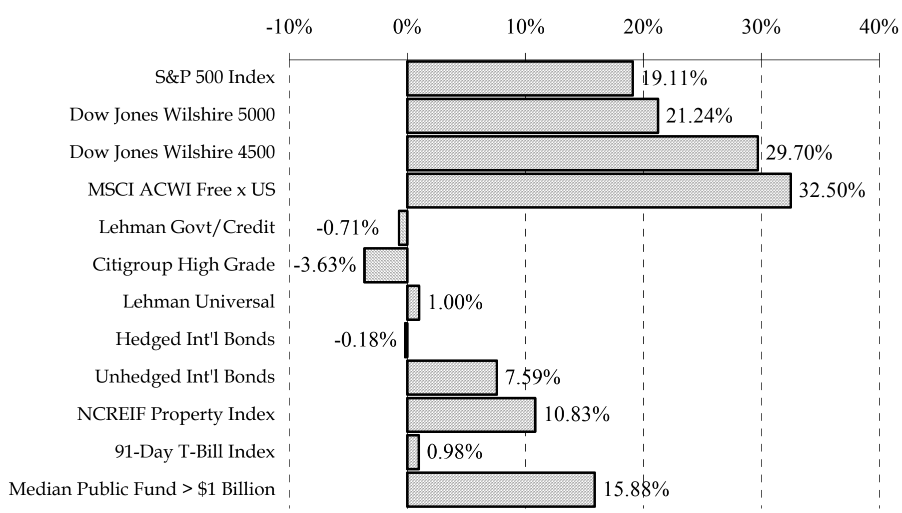
The System also requires its investment managers to diversify their portfolios at the security level. Managers are required to diversify across sectors, industries, and individual securities. The System develops specific contractual investment guidelines for each manager that control the risk of high 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 were less volatile and more profitable for investors in fiscal year 2004, the result of renewed optimism for a sustained economic recovery and belief that the Federal Reserve would be successful in keeping a tight reign on inflation. After three successive fiscal years of disappointing performance, the public and private equity markets bounced back with some impressive double-digit returns. Real estate investments continued to perform well, providing investors with returns in the low double-digits with low levels of risk. And, while investment returns for the fixed income market were markedly lower due to concerns regarding interest rate hikes, the asset class still provided a positive return for the fiscal year.

Fiscal Year 2004 Market Returns



The U.S. equity market, as measured by the Dow Jones Wilshire 5000 Index, returned 21.2 percent for the fiscal year, its best performance since fiscal year 1998. Value stocks outperformed growth stocks, and small capitalization stocks generally outperformed large capitalization stocks in fiscal year 2004, as shown in the table below.

Wilshire Style Index	FY Return
Large Growth	16.7%
Large Value	21.9%
Small Growth	31.9%
Small Value	37.2%

All sectors of the U.S. equity market produced positive returns in fiscal year 2004. Materials was the best performing sector of the Dow Jones Wilshire 5000 Index, with a return of 35.5 percent, followed by the Energy and Industrials sectors, which returned 32.7 percent and 29.5 percent, respectively. The worst performing sectors were Telecommunication Services (up 8.2 percent), Health Care (up 10.9 percent), and Utilities (up 13.4 percent).

International stocks outperformed U.S. stocks in the fiscal year ended June 30, 2004, due mainly to strong performance in stocks of companies located in the Pacific Basin and emerging markets. 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 32.5 percent for the fiscal year ended June 30, 2004. Japan's stock market was the best performer of the developed countries, returning 46.2 percent for the fiscal year, due to increased exports to China and diminishing fear of the SARS epidemic. Emerging markets stocks provided a 33.5 percent return for the fiscal year, due in large part to greater demand from a growing U.S. economy.

Returns on global fixed income assets were relatively flat for fiscal year 2004. Fixed income investors worried about deflation in the first half of the fiscal year, but inflation became more of a concern as signs of economic growth reappeared in the second half. As global economic recovery became more evident as the fiscal year progressed, bond investors became less risk-averse and started seeking out assets with higher return potential. These conditions helped the high yield and unhedged non-U.S. bond sectors. For the fiscal year, the high yield sector had a return of 10.0 percent, while unhedged non-U.S. bonds returned 7.6 percent. Overall, Treasuries returned 1.6 percent for the year, with Treasury Inflation Protected Securities (TIPS) returning 3.9 percent and longer maturity Treasuries returning -4.0 percent. Mortgages and corporate bonds generated returns of 2.2 percent and 0.1 percent, respectively. As measured by the Lehman Brothers Universal Index, the fixed income market generated a return of 1.0 percent for the fiscal year ended June 30, 2004.

The U.S. commercial real estate market also provided solid positive returns in fiscal year 2004. Both operating income and appreciation contributed positively to the year's performance. The NCREIF Property Index, a commonly cited measure of privately traded commercial real estate values and income, returned 10.8 percent for the one-year period ended June 30, 2004. Publicly traded real estate securities (REITS) produced exceptional results in fiscal year 2004, with the Dow Jones Wilshire Real Estate Investment Trust Index posting an annual return of 27.2 percent for the fiscal year.

Private equity investment performance was much improved in fiscal year 2004, due mainly to the stronger U.S. economy and renewed strength in the public equity markets. Venture capital investments were buoyed by a healthier IPO market and greater acquisition activity. According to *Venture Economics,* the average annual internal rate of return on venture capital funds for the fiscal year was 7.4 percent. Private equity investments in buyout strategies fared very well in fiscal year 2004, aided by increased valuations and exit opportunities due to the stronger public equity markets. *Venture Economics'* data indicates that buyout funds produced an average annual internal rate of return of 23.7 percent for fiscal year 2004. The overall private equity asset class, as measured by *Venture Economics'* data, produced a return of 18.8 percent in fiscal year 2004.

INVESTMENT PORTFOLIO ASSETS[1]

At the close of fiscal year 2004, IPERS' net investment portfolio assets had a fair value of $17,229,666,017. The change in fair value represents an increase of $1,854,395,725 from the $15,375,270,292 net investment asset fair value as of June 30, 2003. The largest factor contributing to the increase in net investment asset fair value was the positive investment portfolio return of 13.78 percent, which is more fully addressed below.

INVESTMENT RESULTS

IPERS posted a total portfolio investment return of 13.78 percent for the fiscal year ended June 30, 2004. This return exceeded the objective of providing an investment return at or above the rate of inflation (as measured by the Consumer Price Index, or "CPI") plus 3 percent; that objective was 6.27 percent for fiscal year 2004. The Fund's return also exceeded the investment return assumption used by IPERS' actuary, which is 7.50 percent per year. However, the Fund's 13.78 percent return lagged the 14.55 percent return of IPERS' "policy benchmark," a set of market indices, and weightings to those indices, 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, domestic equity, 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 one-year return also underperformed the 15.88 percent median return of the Trust Universe Comparison Service's (TUCS) universe of public pension funds with assets greater than $1 billion. This underperformance is due to IPERS' relatively conservative asset allocation and specifically its lower allocation to domestic equities when compared to some other large public pension systems.

IPERS' strongest return for the fiscal year was provided by its international equity portfolio at 31.92 percent, followed by the private equity portfolio at 20.70 percent. The weakest returns were from the global fixed income portfolio at 1.71 percent, and the cash portfolio at 2.04 percent.

For the five years ended June 30, 2004, IPERS' total Fund return of 4.23 percent annualized exceeded both the policy benchmark return of 3.80 percent and the TUCS large public fund universe median return of 3.66 percent. IPERS' 10-year annualized return of 10.27 percent also outpaced both the policy benchmark return of 9.43 percent and the TUCS large public fund median return of 9.80 percent, as well as the other objectives of the 7.50 percent annualized actuarial return assumption and CPI plus 3 percent (5.51 percent 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.

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[1] Based on fair value of the total investment portfolio at June 30, 2004 and June 30, 2003, 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, 2004[1]

Asset Class	1-Year	3-Year	5-Year	10-Year
		Annualized Returns		
Total Fund				
IPERS	13.78	4.52	4.23	10.27
Policy Benchmark[2]	14.55	5.16	3.80	9.43
CPI + 3%	6.27	5.15	5.68	5.51
Actuarial Interest Rate	7.50	7.50	7.50	7.50
TUCS Public Funds >$1 Billion Universe Median	15.88	4.22	3.66	9.80
Domestic Equity				
IPERS	20.16	0.23	-0.56	12.13
Dow Jones Wilshire 5000	21.24	0.79	-1.04	11.53
International Equity				
IPERS	31.92	4.99	1.63	5.05
Custom Benchmark	32.50	5.22	0.96	3.95
Global Fixed Income				
IPERS	1.71	7.16	7.35	7.83
Custom Benchmark	1.00	6.65	7.08	7.45
Private Equity/Debt[3]				
IPERS	20.70	-2.09	2.17	15.85
Dow Jones Wilshire 5000 + 3%	24.85	4.17	1.77	18.15
Real Estate				
IPERS	10.96	8.91	10.16	9.83
CPI + 6%	9.27	8.15	8.68	8.51
Short-Term Cash[4]				
IPERS	2.04	2.41	3.83	N/A
US Treasury Bills	0.98	1.72	3.29	N/A

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 following graph 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

[1] All returns are calculated in accordance with AIMR standards. 3-year, 5-year, and 10-year returns are annualized.

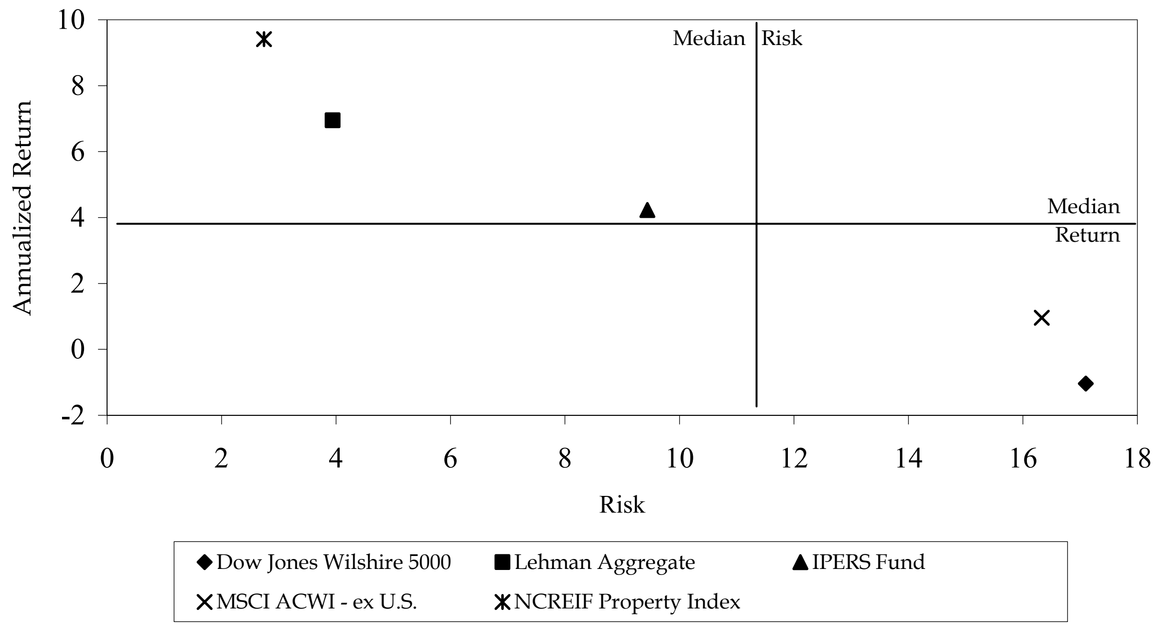
[2] As of June 30, 2004, the Policy Benchmark consists of 28 percent Dow Jones Wilshire 5000, 15 percent MSCI ACWI x US, 34 percent Lehman Universal, 5 percent Citigroup High-Yield Cash-Pay Capped, 10 percent Dow Jones Wilshire 5000 +3 percent, and 8 percent CPI +6 percent.

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

[4] Starting in fiscal year 2000, Short-Term Cash returns exclude miscellaneous income.

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, 2004 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, 2004

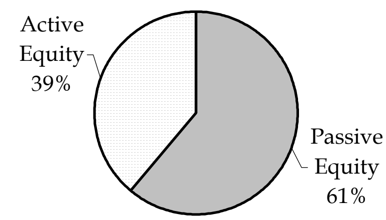


	Annualized Return	Risk (Standard Deviation)
IPERS Total Fund	4.23%	9.44%
Median Fund	3.66	11.34
Dow Jones Wilshire 5000	-1.04	17.10
Lehman Aggregate	6.95	3.94
MSCI ACWI – ex U.S.	0.96	16.33
NCREIF Property Index	9.41	2.74

DOMESTIC EQUITY

At June 30, 2004, 34.2 percent of IPERS' total portfolio was invested in domestic equities. The total net fair value of the domestic equity portfolio was $5,894,223,499. The portfolio is widely diversified across various equity market sectors and industries and has highly diversified financial characteristics and risk factors that influence the overall return.

Domestic Equity Portfolio
June 30, 2004

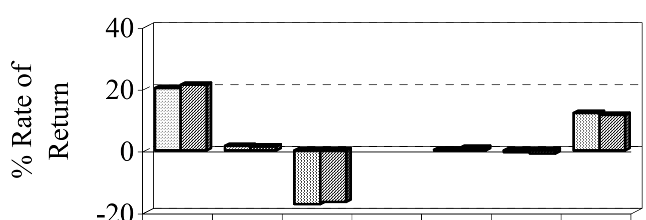


The domestic equity portfolio has two components:

Active Equity. An actively managed 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.

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

Domestic Equity Performance Summary
For the periods ended June 30



	2004	2003	2002		3 yr	5 yr	10 yr
IPERS' Portfolio *	20.16	1.49	-17.43		0.23	-0.56	12.13
Wilshire 5000	21.24	1.28	-16.62		0.79	-1.04	11.53

* Net of fees

The U.S. stock market continued its rebound during the year ended June 30, 2004. IPERS' domestic equity portfolio posted a positive return of 20.16 percent compared to 21.24 percent for the Dow Jones Wilshire 5000 Index. IPERS' portfolio lagged the market benchmark because its active stock managers, which tend to emphasize high-quality large capitalization stocks in their portfolios, failed to beat their benchmarks. Fiscal year 2004 was a difficult year for large companies with high quality of earnings as the market embraced more risk-taking and capital flowed to stocks of smaller companies with lower quality of earnings. For the five-year period ended June 30, 2004, the domestic equity portfolio has earned an annualized return (net of fees) of -0.56 percent, versus -1.04 percent for the Dow Jones Wilshire 500 Index.

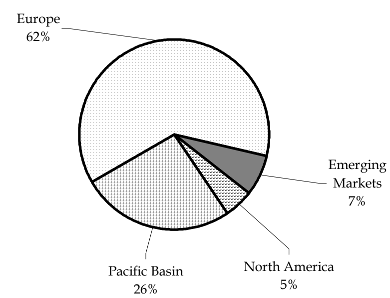
INTERNATIONAL EQUITY

At June 30, 2004, the international equity portfolio had a net fair value of $2,713,919,831, representing 15.7 percent 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:

International Equity Portfolio

June 30, 2004



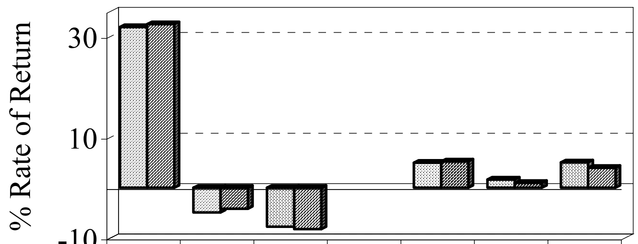
Active Equity. An actively managed diversified portfolio consisting primarily of equity securities issued by foreign companies in developed countries. For purposes of investment management, a regional approach is used to invest in these international markets. The active equity portfolio's performance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

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

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 31.92 percent during fiscal year 2004, compared to 32.50 percent for the benchmark. For the five-year period ended June 30, 2004, this portfolio has outperformed its benchmark, earning an annualized return of 1.63 percent versus 0.96 percent for the benchmark.

International Equity Performance Summary
For the periods ended June 30



	2004	2003	2002		3 yr	5 yr	10 yr
IPERS' Portfolio *	31.92	-4.91	-7.74		4.99	1.63	5.05
Custom Benchmark	32.50	-4.19	-8.23		5.22	0.96	3.95

* Net of fees

PUBLIC EQUITY PORTFOLIO—TOP 10 HOLDINGS

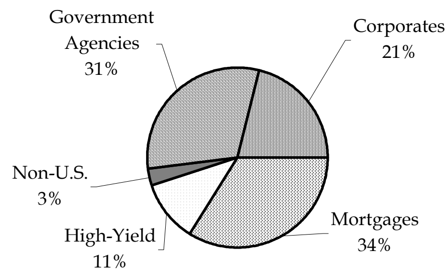
The top 10 holdings within the public equity portfolio at June 30, 2004 are illustrated below. The listing does not include the fair value of units held in commingled fund investments. A complete listing of the holdings, including commingled fund holdings, is available upon request.

Ten Largest Holdings(1) at June 30, 2004	Fair Value	% of Total IPERS' Public Equity Portfolio
Citigroup Incorporated	$ 54,953,979	0.64
Pfizer Incorporated	51,827,932	0.60
Bank of America Corporation	39,966,026	0.47
Microsoft Corporation	38,356,080	0.45
General Electric Company	36,844,520	0.43
Toyota Motor Corporation	28,445,825	0.33
Cisco Systems Incorporated	26,442,090	0.31
Yahoo Incorporated	25,547,256	0.30
Intel Corporation	24,624,720	0.29
3M Company	24,500,722	0.29

(1) Excludes all holdings in commingled fund accounts.

GLOBAL FIXED INCOME

Global Fixed Income Portfolio
June 30, 2004



The total IPERS Fund asset allocation target for fixed income is 39.0 percent. At fiscal year end, IPERS' global fixed income portfolio was 37.5 percent of the total Fund assets. The total return for the global fixed income portfolio for the year ended June 30, 2004 was 1.71 percent, exceeding the Lehman Brothers Universal Index return of 1.00 percent. The global fixed income portfolio fair value was $6,459,457,354 and the average bond rating for the portfolio was AA.

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

Active Bond. An actively managed 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 active bond 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- to 5-year time periods.

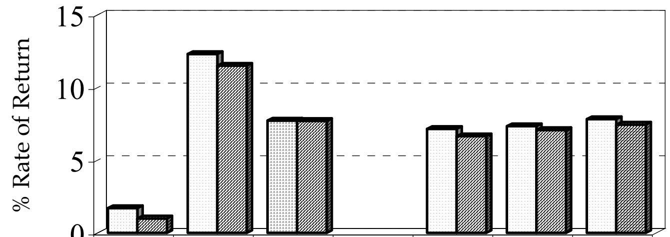
Passive Bond. A passively managed diversified portfolio comprised of investments in commingled funds, which are designed to emulate or index the Lehman Brothers Aggregate Bond Index.

High Yield. An actively managed 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 strategy is intended to add a risk-controlled portfolio management process to emphasize higher income than can be achieved with strictly investment grade securities.

Reflective of the low interest rate environment, the overall bond market returns were relatively flat for the fiscal year. U.S. Treasuries, especially long-maturity Treasuries, performed relatively poorly as compared to the previous year, as the Federal Reserve maintained a patient monetary policy as a hedge against renewed inflation. Investors became less risk-averse and started seeking out riskier assets in an attempt to obtain a higher return. IPERS' portfolio benefited from its allocation to high yield and non-U.S. bonds as these segments of the market returned 10.0 percent and 7.6 percent (unhedged), respectively, for the year. A tactical allocation to Treasury Inflation Protected Securities (TIPS) also benefited the portfolio, as inflation expectations were higher than previously anticipated. These strategies led to IPERS' global fixed income portfolio generating a return of 1.71 percent versus the benchmark return of 1.00 percent. The portfolio has also outperformed on a 5- and 10-year basis, returning 7.35 percent and 7.83 percent, respectively, versus the benchmark returns of 7.08 percent and 7.45 percent, as of June 30, 2004.

Global Fixed Income Performance Summary

For the periods ended June 30



	2004	2003	2002		3 yr	5 yr	10 yr
IPERS' Portfolio *	1.71	12.31	7.73		7.16	7.35	7.83
Custom Benchmark	1.00	11.51	7.71		6.65	7.08	7.45

* Net of fees

GLOBAL FIXED INCOME PORTFOLIO—TOP 10 HOLDINGS

The top 10 holdings within the global fixed income portfolio at June 30, 2004 are illustrated below. The listing does not include the fair value of units held in commingled fund investments. A complete listing of the holdings, including commingled fund holdings, is available upon request.

Ten Largest Holdings[1] at June 30, 2004	Fair Value	% of Total IPERS' Global Fixed Income Portfolio
GNMA I TBA 30 YR SFM 06.00% JUL 05	$139,230,000	1.93
UNITED STATES TREASURY 02.50% MAY 05	105,360,475	1.46
FHLMC TBA 30 YR GOLD SFM 05.00% JUL 05	95,220,000	1.32
FNMA TBA 15 YR 05.00% AUG 05	80,298,750	1.11
FNMA TBA 15 YR 05.00% JUL 05	71,067,029	0.98
FORWARD EUR/USD	61,531,653	0.85
FNMA TBA 15 YR 04.50% JUL 05	56,775,675	0.79
FHLMC 0.0 27 JUL 04	53,217,062	0.74
UNITED STATES TREASURY 04.00% JUN 09	45,498,783	0.63
FORWARD USD/EUR	43,584,299	0.60

(1) Excludes all holdings in commingled fund accounts.

PRIVATE EQUITY/DEBT

At June 30, 2004, IPERS' private equity/debt portfolio had a fair value of $1,049,907,296, representing 6.1 percent of the total IPERS portfolio. From the inception of the private equity/debt portfolio in 1985 through June 30, 2004, the System has committed $3,085,117,134 to 127 partnerships. Of that total, $1,039,591,642 remains to be called for investment. During the fiscal year, IPERS committed $470,734,101 to 14 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.

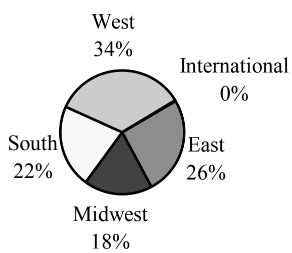
The long-term performance objective for the private equity/debt portfolio is to exceed the return of the Dow Jones Wilshire 5000 Index, calculated on an internal rate of return (IRR) basis, by 3 percentage points on an annualized basis. The private equity/debt portfolio returned 20.70 percent in fiscal year 2004 versus 24.85 percent for its benchmark. In terms of a longer, historical perspective, the private equity/debt portfolio has provided an annualized IRR of 13.97 percent since its inception in 1985 versus its return objective of 15.98 percent. 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 18.82 percent, well in excess of the manager's return objective of 8.93 percent over that time period.

REAL ESTATE

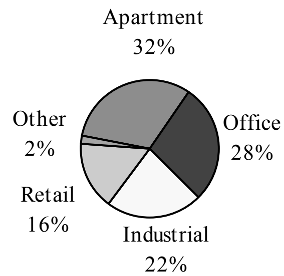
At June 30, 2004, $1,045,066,570, or 6.1 percent, of IPERS' total portfolio at fair value was invested in various real estate properties, commingled funds, partnerships, and publicly traded real estate investment trusts (REITs). In order to mitigate risk, the real estate portfolio is diversified by both 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 10.96 percent, compared to 9.27 percent for the portfolio's benchmark (CPI + 6 percent). Operating income and property values were both positive in fiscal year 2004.

REAL ESTATE PORTFOLIO
June 30, 2004

By Property Location



By Property Type



INVESTMENTS IN IOWA

Iowa Code Section 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, 2004, the System held investments of $956,465,315 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 following table).

Asset Class	Iowa-Based Companies	Companies with Iowa Operations	Total Investment Amount
Equity	$9,928,040	$841,350,663	$851,278,703
Fixed Income	27,133	102,631,479	102,658,612
Private Equity/Debt	2,528,000		2,528,000
Total	$12,483,173	$943,982,142	$956,465,315

Schedule of Brokerage Commissions Paid

Year Ended June 30, 2004

BROKERAGE FIRMS	Commissions Amount Paid[1]	Average Per Share	% of Total Paid for Period
MERRIL LYNCH PIERCE FENNER & SMITH	$ 484,990	$0.014	10.38
UBS SECURITIES LLC	380,491	0.009	8.14
GOLDMAN, SACHS & CO	369,274	0.039	7.90
MORGAN STANLEY & CO	343,464	0.020	7.35
CITIGROUP GLOBAL MARKETS INC	311,831	0.022	6.67
LEHMAN BROTHER INC	279,342	0.036	5.98
CREDIT SUISSE FIRST BOSTON	262,155	0.015	5.61
DEUTSCHE BANC SECURITIES INC	231,391	0.003	4.95
JP MORGAN SECURITIES LTD	193,534	0.006	4.14
STATE ST BROKERAGE SERVICE INC	160,549	0.008	3.44
BEAR STEARNS & CO INC	155,670	0.008	3.33
BANC AMERICA SECURITIES LLC	93,617	0.048	2.00
ABN AMRO SECURITIES	90,286	0.015	1.93
SG AMERICAS SECURITIES LLC	61,038	0.044	1.31
WACHOVIA SECURITIES LLC	55,156	0.046	1.18
PRUDENTIAL EQUITY GROUP	53,561	0.042	1.15
J B WERE AND SON LTD	45,612	0.014	0.98
SANFORD C BERNSTEIN & CO.	38,174	0.021	0.82
CIBC WORLD MARKETS CORP	36,961	0.047	0.79
ING BARING SEC INC	34,397	0.025	0.74
ERSHING & COMPANY	32,377	0.045	0.69
HSBC SECURITIES INC	29,787	0.013	0.64
CREDIT LYONNAIS SECURITIES	29,289	0.002	0.63
JEFFERIES & COMPANY, INC.	29,213	0.045	0.63
SOUNDVIEW TECHNOLOGY GROUP	28,948	0.048	0.62
OTHERS (Including 150 brokerage firms)	841,124	0.002	18.00
TOTALS	$4,672,231	$0.007	100.00 %

[1]In U.S. dollars.

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 2004, includes all Policy text, but excludes the addenda referenced in the Policy.

I. INTRODUCTION - IPERS' PURPOSE AND PRINCIPLES

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

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

IPERS is administered 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 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 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	8	6	10
Private Equity/Debt	10	7	13
% Private	18	--	--
% Equity	61	53	69
Fixed Income Component			
Global Fixed Income	34	30	38
High Yield Bonds	5	3	7
% Fixed Income	39	33	45
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, 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 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.

4. 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.

5. Equity Real Estate

A diversified portfolio of private real estate equity 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 IV)

6. 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 V)

7. Cash

A portfolio comprised of the Custodian bank's Short Term Investment Fund (STIF). 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.

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, the applicable provisions of Iowa Code sections 8.47 and 8.52, and the administrative rules adopted thereunder except as otherwise provided in duly issued waivers by the ruling authority. 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 that 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 that 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 III)

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 VI)

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 VII) 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 X.)

M. Confidential Investment Information

Iowa Code §22.7 and §97B.17(2)e provide that certain records and information in IPERS' possession are considered confidential and thus are exceptions to Iowa's Open Records (chapter 22) laws. Included in the exceptions is information which, if released:

1. Could result in a loss to the System or to the provider of the information, and/or

2. Would give advantage to competitors and serve no public purpose, and/or

3. Would violate trade secrets which are recognized and protected by law.

While the staff shall provide the Board with all essential information about the investment program, communication of information that is confidential under the above Iowa Code provisions will be identified as such in the communication.

Iowa Code §97B.8A(5), an explicit exception to Iowa's Open Meetings (chapter 21) laws, reinforces the need and obligation to maintain the confidentiality of such information by expressly authorizing the Board to hold closed sessions for discussion of this information.

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.

13. The Board shall set the salary of the Chief Executive Officer.

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 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. Board meeting dates for the fiscal year shall be set by members of the Board at the first meeting of the fiscal year.

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 the Chair at least five business days prior to the meeting. The Board may take up matters not included on its agenda.

4. To the extent there is no law, statute, or administrative rule governing a procedure, Board meetings shall be governed by the procedural rules established in the latest version of Robert's Rules of Order, Newly Revised.

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December 3, 2004

We have performed an actuarial valuation of the Iowa Public Employees' Retirement System (System) as of June 30, 2004. 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, 2004.
- 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 year's valuation are unchanged from last year's, with one exception. The eligibility for unreduced retirement benefits was changed for Special Services Group 1 (Sheriffs and Deputies). The years of service requirement remains at 22 or more, but the age requirement is lowered from age 55 by one each July 1, beginning July 1, 2004, until it reaches age 50 on July 1, 2008. The employer/employee split on the actuarial contribution rate for this group was also changed from a 60%/40% split to a 50%/50% split. The airport firefighters moved from Special Services Group 1 to Special Services Group 2.

The actuarial valuation results provide a "snapshot" view of the System's financial condition on June 30, 2004. 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, 2004 for all membership groups covered by IPERS is $2.2 billion as compared to an expected UAL of $2.0 billion. The unfavorable experience was the sum of an experience loss of $75 million on the actuarial value of assets and $82 million on System liabilities.

The normal cost rate represents the portion of the ultimate cost of benefits to be received which is allocated to the current year of service worked by active members. The normal cost rate for the general membership increased from 9.06% in the 2003 valuation report to 9.09% in the 2004 valuation. Although the entry age cost method develops a normal cost rate that is expected to be relatively level, it will fluctuate from year to year depending on the demographic composition of the active members. Recent experience indicates that the average age of new entrants coming into the System is older than the average entry age of the current membership. Given the current demographic profile of IPERS membership (in particular the baby boomers), the normal cost rate is expected to increase over time. This occurs because members with a lower normal cost rate (younger hire age) leave active status and are replaced by members with a higher normal cost rate (older hire age). 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 in last year's valuation, 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. This situation is not an immediate threat but represents a long term challenge which must be addressed.

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In 1998, legislation was passed to create the Favorable Experience Dividend (FED) reserve. The law provides that a portion of the favorable actuarial experience, if any, in subsequent years may be transferred to the FED reserve. Legislation passed in 2000 capped the FED reserve at ten years of expected payouts at the maximum level. Based on the results of the June 30, 2004 valuation, favorable actuarial experience did not occur for the System and, therefore, there is no transfer to the FED reserve. Given expected payout levels of 1.07% per year of service (the current rate) and no future transfers to the reserve, the current FED reserve is projected to be sufficient to make payments for the next ten years (including the January 2005 payment), plus a reduced payment in the eleventh 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. As a result, there is potential for the remaining years of payment to change dramatically from year to year.

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, 2003 and June 30, 2004, the actuarial value of assets increased by $832 million. This represented an approximate rate of return of 7.0% as compared to the actuarial assumed rate of 7.5%. The resulting actuarial loss was $75 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, 2004.** 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, 2004 and June 30, 2003 are summarized below:

	June 30, 2004	June 30, 2003	Change
Actuarial Balance Sheet Liability	$23,356,182,725	$22,108,936,178	5.6%
Actuarial Liability	19,128,410,606	17,987,374,960	6.3%
Liability for Accrued Benefits	15,377,914,627	14,337,988,064	7.3%

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Experience

Numerous factors contributed to the change in the Systems' assets, liabilities and remaining amortization period for the unfunded actuarial liability between June 30, 2003 and June 30, 2004. 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 an aggregate actuarial loss of $157 million. The change in the unfunded actuarial liability between June 30, 2003 and 2004 is shown below (in millions):

Unfunded Actuarial Liability, June 30, 2003	$ 1,867
• Expected change in UAL due to amortization method	+ 36
• Expected change in UAL due to contributions below actuarial rate	+ 87
• Investment (gain)/loss	+ 75
• Liability (gain)/loss from actual experience	+ 82
• Benefit enhancements (Special Services Group 1)	+ 29
• Change in actuarial assumptions	+ 0
Unfunded Actuarial Liability before FED transfer, June 30, 2004	$ 2,176
• FED Transfer	+ 0
Unfunded Actuarial Liability after FED transfer, June 30, 2004	$ 2,176

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 Services 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 (9.09%) is so close to the statutory contribution rate of 9.45%, the remaining 0.36% 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 1.97% to 11.42% of payroll. This rate is determined based on the snapshot of the System taken on the valuation date, June 30, 2004, and applies only for the fiscal year beginning July 1, 2005. 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 last 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.

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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 the 2002, 2003 and 2004 valuations).

(2) the amortization period exceeds 29 years (which has occurred in all valuations since 2001).

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 existence of 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, neither time nor optimistic investment returns are 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.

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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)
2004	$2,806,441,058	$7,255,282,305	$7,023,404,900	$16,951,942,539	100%	100%	98%
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%

Summary

IPERS, like most retirement plans in the United States (both public and private) is still feeling the impact of three years of record low market returns in 2001, 2002 and 2003. 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 (0.36%) difference between the 9.45% statutory rate and the 9.09% 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 11.42% of payroll. This rate is determined based on the snapshot of the System taken on the valuation date, June 30, 2004, and applies only for the fiscal year beginning July 1, 2005. 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 last 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 than the actuarial rate from the current valuation.

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 market 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 market value, and the funded status will decline over time if experience follows the assumptions. Due to an investment return of nearly 14% for FY2004, the current deferred actuarial investment loss for IPERS is $226 million. This is significantly lower than the amount in last year's valuation ($1.2 billion). The large difference that existed in the past two valuations has been substantially reduced, mitigating some of the immediate negative impact on the funded status of the System. However, the small portion of the total contribution rate that is available to pay off the unfunded actuarial liability makes it nearly impossible for the System to pay off the UAL over any reasonable time period without an increase in future contributions.

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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, 2004 and June 30, 2003 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, 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, 2004

	June 30, 2004	June 30, 2003	% Chg
SYSTEM MEMBERSHIP			
1. Active Membership			
- Number of Members	160,003	159,310	0.4
- Projected Payroll for Fiscal Year	$5,293M	$5,090M	4.0
- Average Salary	$33,082	$31,950	3.5
2. Inactive Membership			
- Number of Vested Deferred Members	35,788	35,375	1.2
- Number of Nonvested Members	67,341	68,929	(-2.3)
3. Retired Membership			
- Number of Retirees/Beneficiaries	76,782	74,128	3.6
- Average Annual Retirement Benefit	$ 9,787	$ 9,399	4.1
ASSETS AND LIABILITIES			
1. Net Assets (excluding FED reserve)			
- Fair Value	$16,726M	$14,916M	12.1
- Actuarial Value	16,952M	16,120M	5.2
2. Projected Liabilities			
- Retired Members	$7,255M	$6,714M	8.1
- Inactive Members	439M	450M	(-2.4)
- Active Members	15,662M	14,945M	4.8
- Total Liability	23,356M	22,109M	5.6
3. Actuarial Liability	$19,128M	$17,987M	6.3
4. Unfunded Actuarial Liability	$2,176M	$1,867M	16.6
5. Funded Ratio			
(Actuarial Value Assets/Actuarial Liability)	88.62%	89.62%	(-1.1)
SYSTEM CONTRIBUTIONS			
1. Statutory Contribution Rate*	9.45%	9.45%	0.0
2. Normal Cost Rate	9.09%	9.06%	0.3
3. Years Required to Amortize Unfunded Actuarial Liability	Infinite	Infinite	N/A

M = ($)Millions

* Contribution for certain special groups (4.0% 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, net of expenses.

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	5.0	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 generational mortality improvements. Rates for selected ages from the RP-2000 table (no projection) are shown below.

Annual Mortality Rates

Employee			Healthy Annuitant		
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	10.5	7.2	5.0
37	19.8	15.0	11.0	10.5	6.6	3.6
42	19.8	15.0	11.0	8.8	6.1	3.1
47	19.8	13.0	11.0	8.3	5.0	2.5
52	19.8	13.0	11.0	8.3	5.0	2.5
55+	19.8	13.0	11.0	8.3	5.0	2.5

8. Rates of Disablement

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

9. Withdrawal Rate of Member Accounts

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

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10. Retirement Rates

Early Retirement with Reduced Benefits

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

Normal Retirement[1]

	Annual Percentage Rate	
Age	1st year of eligibility	Thereafter
55 – 56	20%	10%
57 – 59	20	20
60	25	25
61	35	30
62	50	40
63	35	30
64	35	35
65	30	45
66	20	20
67 - 68	15	15
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, 2004

ASSETS

Actuarial value of assets	$16,951,942,539
Present value of future normal costs	4,227,772,119
Present value of future contributions to amortize the unfunded actuarial liability	2,176,468,067
Total Net Assets	$23,356,182,725

LIABILITIES

Present Value of Future Benefits	
Retired Members and Beneficiaries	
Annuity benefits being paid and contingent payments upon death	$ 7,255,282,305
Active Members	
Retirement benefits	13,752,214,662
Death benefits	202,921,990
Termination benefits	1,019,631,723
Disability benefits	687,004,100
Inactive Members	
Retirement allowances & death benefits for vested members	409,531,733
Accumulated employee account balances for nonvested members	29,596,212
Total Liabilities	$23,356,182,725

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IPERS

STATISTICAL

Membership Summary

Growth of Net Investment Portfolio Assets

Annualized Investment Performance Summary

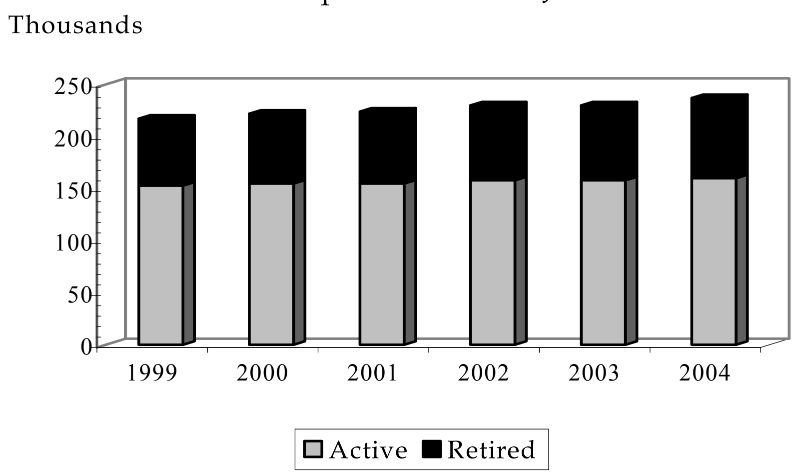
statistical

MEMBERSHIP SUMMARY

Special Statistics
Last 6 Fiscal Years

Fiscal Year	Number of Retired Members	Number of Active Members	Total Additions	Total Deductions	Total Investments	Total Net Assets
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
2004	76,961	160,034	2,683,972,329	837,256,385	19,643,512,692	17,249,916,851

IPERS Membership by Status
For the periods ended June 30



Average Benefit Payments for Retirees
For Last 6 Years as of June 30

	Years of Credited Service							
Fiscal Year	0-5	6-10	11-15	16-20	21-25	26-30	30+	Total
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
2004**								
Number of Retirees	3,986	10,854	11,646	11,560	10,757	8,719	19,420	76,942
Average Monthly Benefit	$83	$174	$342	$536	$794	$1,190	$1,688	$833
Average Years of Service	4.45	8.48	13.34	18.37	23.27	28.18	34.44	21.35

*Previously included in the 6-10 Years of Credited Service group.
**Does not include retirees under the Iowa Old Age and Survivors Insurance System.

New Retirees by Employer Group
As of June 30

Fiscal Year	City	County	School	State	Utility	28 E Agency	Township and Cemetery	Other	Total
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. Years of 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. Years of 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. Years of 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. Years of 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. Years of Service	17.51	17.63	22.38	20.21	24.68	19.17	9	0	20.65
2004									
Number of Retirees	614	696	2,853	522	29	229	0	0	4,943
Avg. Monthly Benefit	$926	$809	$1,318	$1,248	$1,207	$1,064	$0	$0	$1,178
Avg. Years of Service	18.6	17.00	22.20	19.17	19.96	17.08	0	0	20.45

*Amount included in column entitled Other.

Average Benefit Payments by Retirement Date
For Retirees as of June 30, 2004

	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	47	296	306	233	149	97	265	1,393
Average Monthly Benefit	$63	$124	$277	$342	$420	$487	$552	$330
Average Years of Service	5.18	8.44	13.25	18.00	22.91	28.01	38.45	19.61
Between 1/1/76 and 6/30/82:								
Number of Retirees	292	965	1,118	883	767	501	907	5,433
Average Monthly Benefit	$54	$129	$288	$370	$465	$609	$710	$385
Average Years of Service	4.65	8.58	13.29	18.38	23.13	27.96	35.87	19.33
Between 7/1/82 and 6/30/86:								
Number of Retirees	318	1,067	1,231	1,228	895	769	1,133	6,641
Average Monthly Benefit	$60	$153	$303	$424	$570	$751	$904	$480
Average Years of Service	4.55	8.52	13.47	18.28	23.24	28.21	34.50	19.75
Between 7/1/86 and 6/30/90:								
Number of Retirees	317	1,380	1,652	1,791	1,397	936	2,164	9,637
Average Monthly Benefit	$71	$157	$304	$434	$601	$789	$1,005	$547
Average Years of Service	4.57	8.59	13.41	18.32	23.11	27.93	33.87	20.75
Between 7/1/90 and 6/30/96:								
Number of Retirees	824	2,322	2834	3,052	2,853	2,081	4,431	18,397
Average Monthly Benefit	$74	$163	$304	$479	$694	$1,002	$1,301	$684
Average Years of Service	4.42	8.51	13.38	18.35	23.29	28.13	34.44	21.47
Between 7/1/96 and 6/30/00:								
Number of Retirees	864	2,267	2,243	2,203	2,279	2,005	4,950	16,811
Average Monthly Benefit	$80	$184	$372	$612	$888	$1,379	$1,944	$1,016
Average Years of Service	4.52	8.45	13.23	18.46	23.27	28.33	34.53	22.26
Between 7/1/00 and 6/30/04:								
Number of Retirees	1,324	2,557	2,262	2,170	2,417	2,330	5,570	18,630
Average Monthly Benefit	$107	$214	$446	$773	$1,143	$1,656	$2,408	$1,257
Average Years of Service	4.30	8.36	13.31	18.43	23.38	28.21	34.15	21.99
Total as of June 30, 2004:								
Number of Retirees	3,986	10,854	11,646	11,560	10,757	8,719	19,420	76,942
Average Monthly Benefit	$83	$174	$342	$536	$794	$1,190	$1,688	$833
Average Years of Service	4.45	8.48	13.34	18.37	23.27	28.18	34.44	21.35
IOASI Retirees*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	19
Average Monthly Benefit	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$101

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

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
2004	76,961	610,618,473	106,510,837	22,142,949	22,021,464	760,904	278,289	221,496

*Trend data is being accumulated for a 6-year period. This table does not include lump-sum payments.

Schedule of Retired Members by Type of Benefit
As of June 30, 2004

Amount of Monthly Benefit	No. 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	14,917	9,440	4,376	615	469	17	0	0
201-400	17,037	12,068	3,563	780	619	7	0	0
401-600	9,794	6,363	2,466	521	434	10	0	0
601-800	6,818	4,335	1,748	367	354	14	0	0
801-1,000	5,965	4,232	1,184	268	278	3	0	0
1,001-1,200	4,037	2,850	854	118	212	3	0	0
1,201-1,400	3,112	2,193	674	117	117	7	1	3
1,401-1,600	2,881	2,155	537	89	85	8	2	5
1,601-1,800	2,422	2,018	286	51	57	3	3	4
1,801-2,000	2,349	2,104	152	47	35	4	6	1
Over 2,000	7,629	7,234	294	58	33	6	4	0
Totals	76,961	54,992	16,134	3,031	2,693	82	16	13

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	14,917	5,618	2,837	2,389	1,482	2,371	177	43
201-400	17,037	7,337	3,304	1,741	2,087	2,385	169	14
401-600	9,794	3,732	2,039	965	1,690	1,219	149	0
601-800	6,818	2,427	1,414	588	1,462	754	173	0
801-1,000	5,965	1,900	1,331	524	1,434	630	146	0
1,001-1,200	4,037	1,129	972	386	975	399	176	0
1,201-1,400	3,112	842	609	241	916	337	167	0
1,401-1,600	2,881	689	607	248	803	365	169	0
1,601-1,800	2,422	562	456	222	659	340	183	0
1,801-2,000	2,349	484	416	242	628	361	218	0
Over 2,000	7,629	1,485	1,319	1,072	1,382	1,217	1,154	0
Totals	76,961	26,205	15,304	8,618	13,518	10,378	2,881	57

**See definitions of Benefit Options on page 113.

***Consists of benefits available under previous laws.

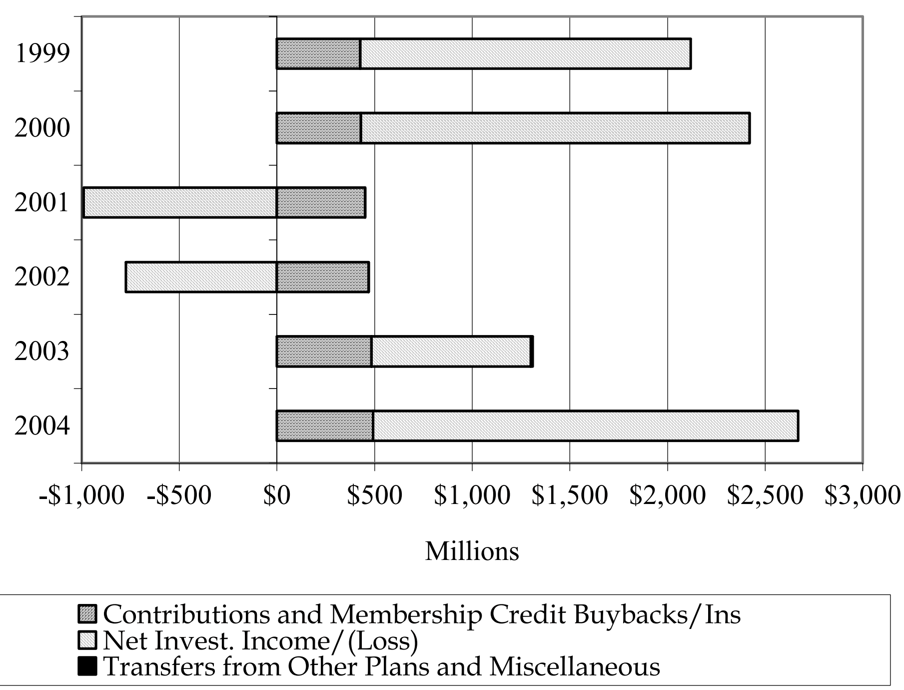
Active Membership Statistics For 10 Years Ended June 30					
Fiscal Year Ending June 30,	Total Actives	Percent Change	Average Covered Wage	Average Age	Average Service Credit
1995	144,912	2.5	23,322	44.1	10.8
1996	147,431	1.7	25,218	44.2	11.0
1997	147,736	0.2	26,055	44.6	11.5
1998	148,917	0.8	26,767	44.7	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
2004	160,034	0.4	30,605	43.9	11.5

Analysis of Change in Active Membership						
Fiscal Year Ending June 30,	Beginning Members	Additions	Retired	Died	Other Terminations	Ending Members
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
2004	159,353	16,715	3,450	153	12,431	160,034

Additions by Source Last 6 Fiscal Years						
Fiscal Year	Contributions	Membership Credit Buy-Backs/-Ins	Net Investment Income/(Loss)	Transfer From Another Pension Plan	Miscellaneous Income	Total
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
2004	491,731,645	14,903,466	2,177,265,218	--	72,000	2,683,972,329

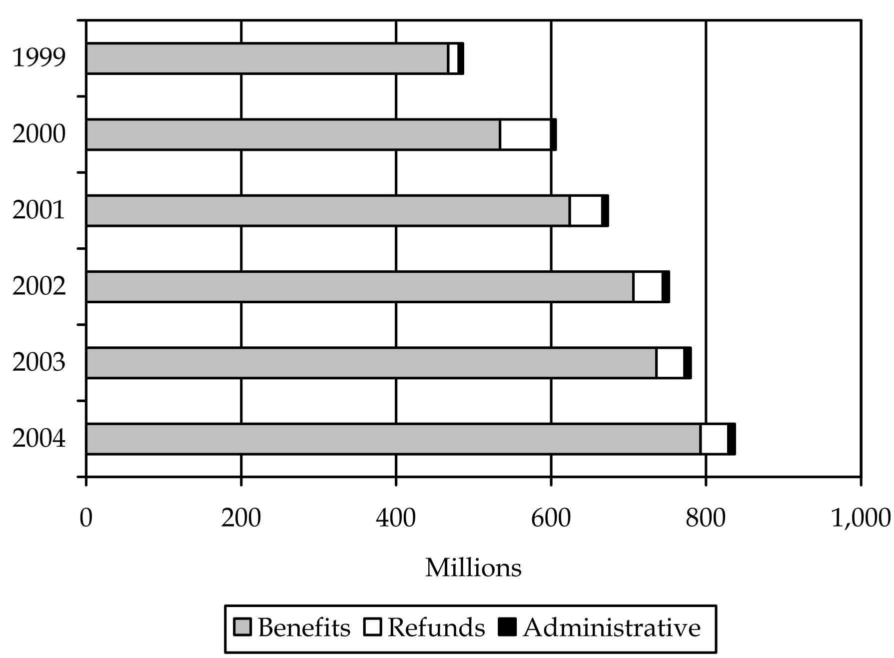
Additions by Source

For the years ended June 30



Deductions by Type Last 6 Fiscal Years				
Fiscal Year	Benefits	Refunds	Administrative Expenses	Total
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
2004	792,866,773	36,430,011	7,959,601	837,256,385

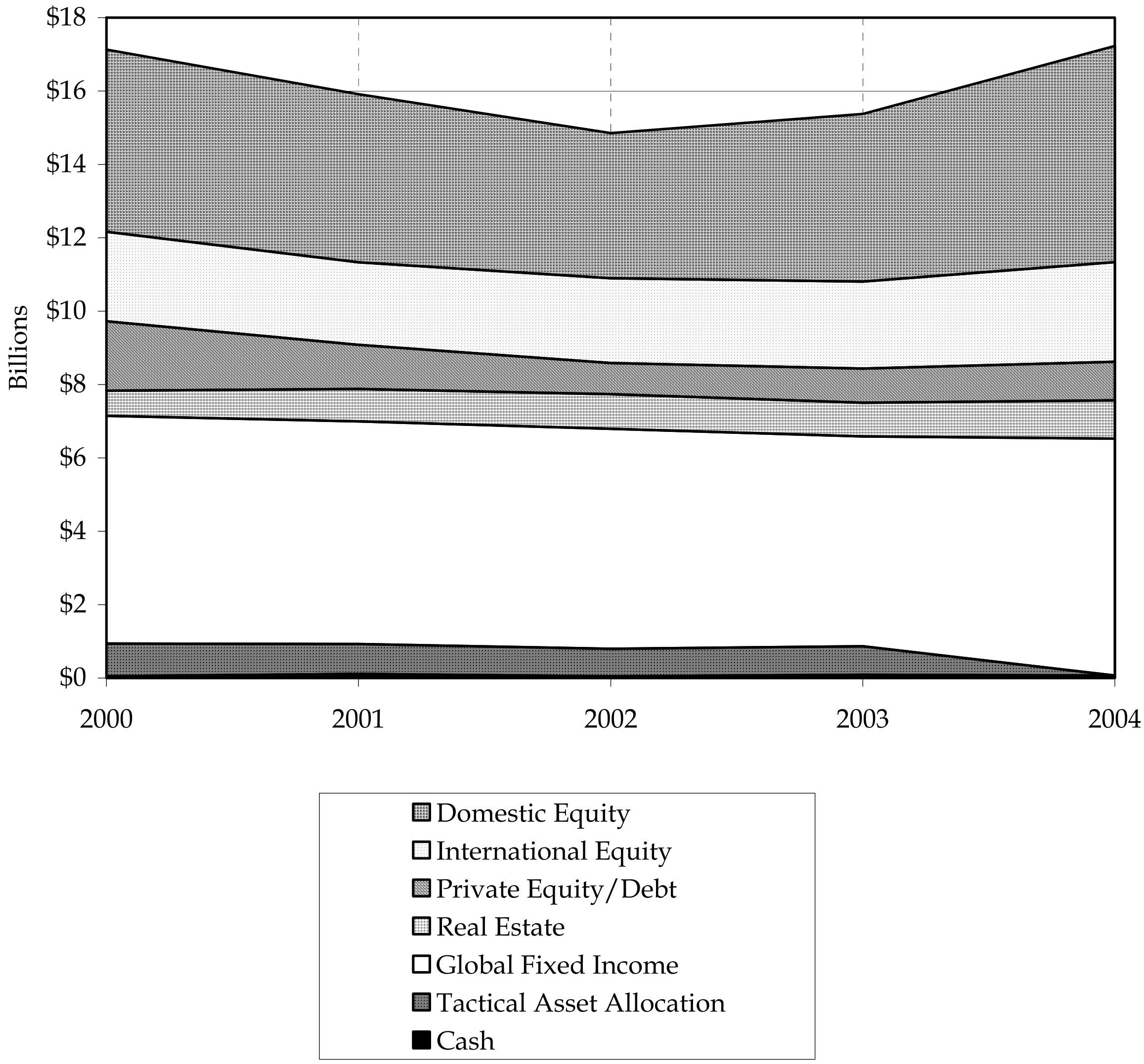
Deductions by Type
For the years ended June 30



GROWTH OF NET INVESTMENT PORTFOLIO ASSETS

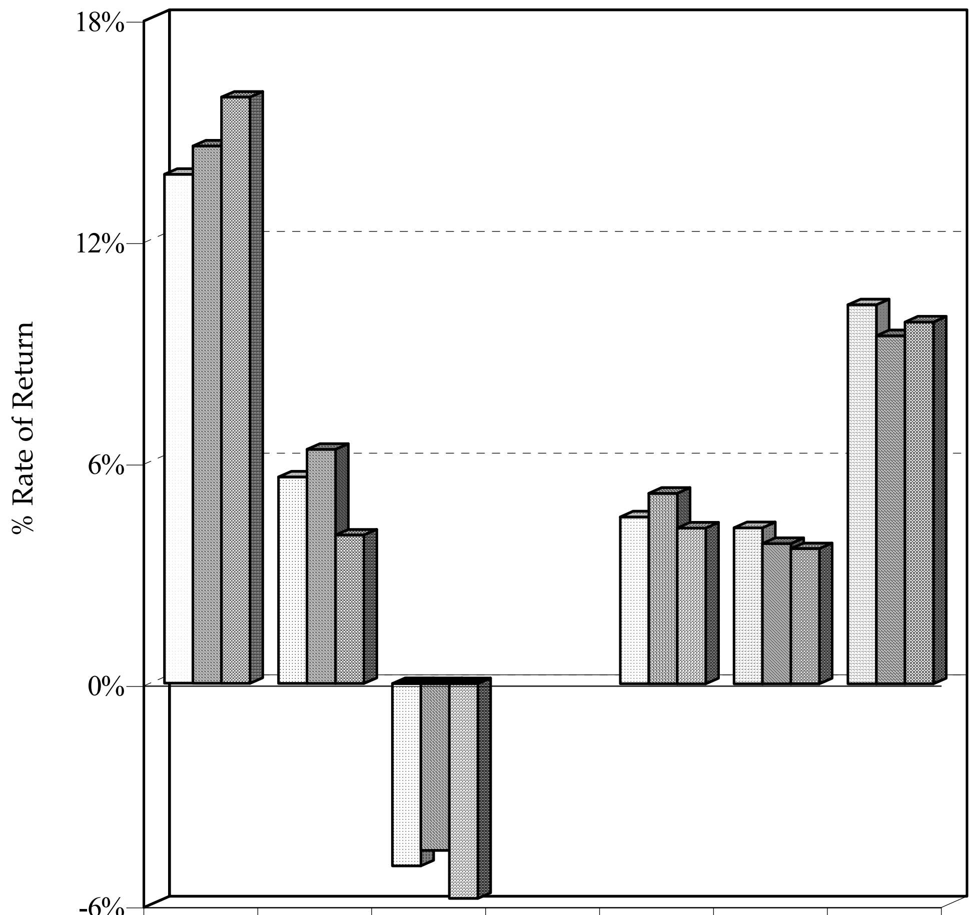
Five-Year Historical Summary

As of June 30



ANNUALIZED INVESTMENT PERFORMANCE SUMMARY

For the periods ended June 30



	2004	2003	2002		3 yr	5 yr	10 yr
IPERS' Portfolio *	13.78%	5.59%	-4.94%		4.52%	4.23%	10.27%
Policy Benchmark **	14.55%	6.34%	-4.52%		5.16%	3.80%	9.43%
Large Public Fund Median ***	15.88%	4.02%	-5.82%		4.22%	3.66%	9.80%

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

IPERS

PLAN SUMMARY

plan summary

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

Membership

	2004	2003
Retired Members		
All Retired Members	76,961	74,336
Average Years of Service	21	21
Average Monthly Benefit	$833	$796
Current Year Member Retirements	4,943	4,712
Average Years of Service	20	21
Average Monthly Benefit	$1,178	$1,148
Retired Reemployed**	6,487	6,179
Active Members	160,034	159,353
Inactive Vested	39,568	39,158
Inactive Nonvested	63,481	65,050
Total Membership	**340,044**	**337,897**

*Varies by calendar quarter.
**Retired re-employed are included in the number of retired members.

Employers

	2004		2003	
Employer Type	**Number of Entities**	**Covered Wages**	**Number of Entities**	**Covered Wages**
City	1,291	$ 643,073,957	1,309	$ 619,391,535
County	458	799,881,373	465	764,583,573
School	389	2,319,347,411	392	2,273,151,408
State	22	1,031,697,883	21	955,474,503
28E Agencies	23	313,574	22	272,305
Utilities	80	44,136,783	80	41,872,921
Other	125	233,576,925	128	226,353,993
Total	**2,388**	**$5,072,027,906**	**2,417**	**$4,881,100,238**

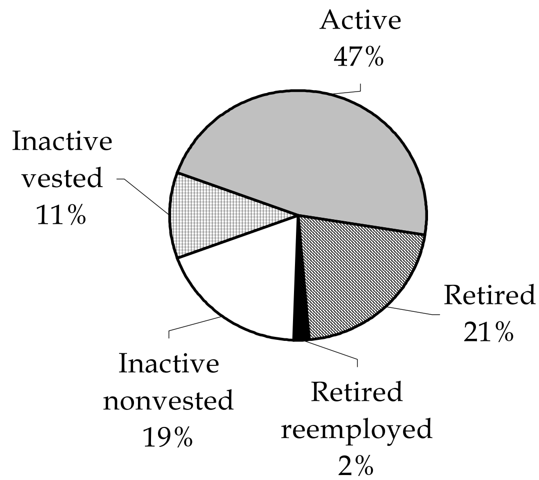
MEMBERSHIP

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, 2004, there were 160,034 active members employed by 2,388 public employers actively contributing to the System. The number of active employees increased by 0.4 percent from June 30, 2003. The chart, "Membership Profile," provides further information on the composition of the membership for fiscal year 2004.

Membership Profile

June 30, 2004



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 percent and employees at a rate of 3.7 percent. Certain employers and employees in special service occupations contribute at a slightly higher rate as required by statute. The table "Contribution Rates & Maximum Covered Wages" on the following page reflects the current contribution rates for employers and employees. For calendar year 2004, contribution rates were based on the federal wage ceiling of $205,000.

Contribution Rates & Maximum Covered Wages July 1, 2003–June 30, 2004				
IPERS	**Employee Rates**	**Employer Rates**	**Total Rate**	**Maximum Covered Wages**
Regular	3.70%	5.75%	9.45%	IRC § 401(a)(17) Compensation Limit**
Special Subgroups **1)** Sheriffs/Deputy Sheriffs (County) and Airport Firefighters	4.99%	7.48%	12.47%	IRC § 401(a)(17) Compensation Limit**
2) Protection Occupations*	5.93%	8.90%	14.83%	IRC § 401(a)(17) Compensation Limit**

*Protection Occupations: City marshals/police or firefighters in towns with populations under 8,000, state conservation peace officers, state correctional officers, airport safety officers, DOT peace officers, fire prevention inspector peace officers, and county conservation peace officers.
**$205,000 for calendar year 2004.

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. Effective July 1, 2005 members must be age 55 or have four years of service upon termination in order to be considered vested.

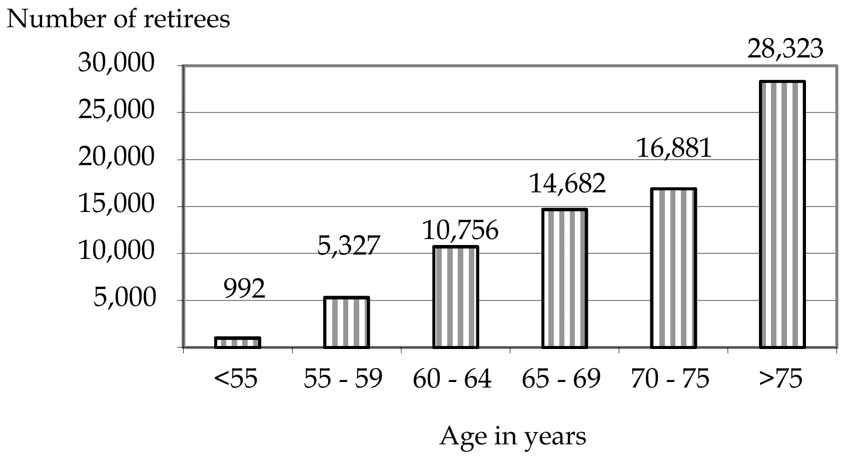
REFUNDS

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. Refund expenses paid in fiscal year 2004 totaled $36,430,011.

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 age 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 2004, a total of 76,961 IPERS and Iowa Old-Age and Survivors' Insurance System (IOASI) members were receiving pension benefits. The graph provides a breakdown of the number of retirees in various age groups.

Retired Members by Age
As of June 30, 2004



Benefit Amounts. For all present retirees, the monthly IPERS benefit check averages $833. For members retiring in fiscal year 2004, the average benefit was $1,178. The average member retired with 20 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.

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 percent for each year through 35 years, thereby increasing the maximum possible benefit to 65 percent 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.

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 percent.

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 percent, 75 percent, 50 percent or 25 percent 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.

Retired Membership by Benefit Option
As of June 30, 2004

	Number	Percent			Number	Percent
Option 1	26,205	34		Option 5	10,378	13
Option 2	15,304	20		Option 6 (100%)	1,410	2
Option 3	8,618	11		Option 6 (75%)	473	1
Option 4 (100%)	9,010	12		Option 6 (50%)	598	1
Option 4 (75%)	1,028	1		Option 6 (25%)	400	1
Option 4 (50%)	2,515	3		Misc. Options	57	Less than 1
Option 4 (25%)	965	1		**Total all options**	**76,961**	**100**

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 who began receiving benefits prior to July 1990, a guaranteed dividend is included with a member's regular November benefit payment. Post June 1990 retirees receive 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 2003, the dividends totaled $19,300,657 and the January 2004 FED totaled $31,067,817.

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. Death benefit = $\text{Member's accumulated contributions} + \left(\text{Member's highest year of covered wage} \times \dfrac{\text{Years of membership service}}{\text{30 years*}} \right)$

* 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 2004, death benefits paid to beneficiaries or to the estates of deceased nonretired and retired members totaled $16,411,616.

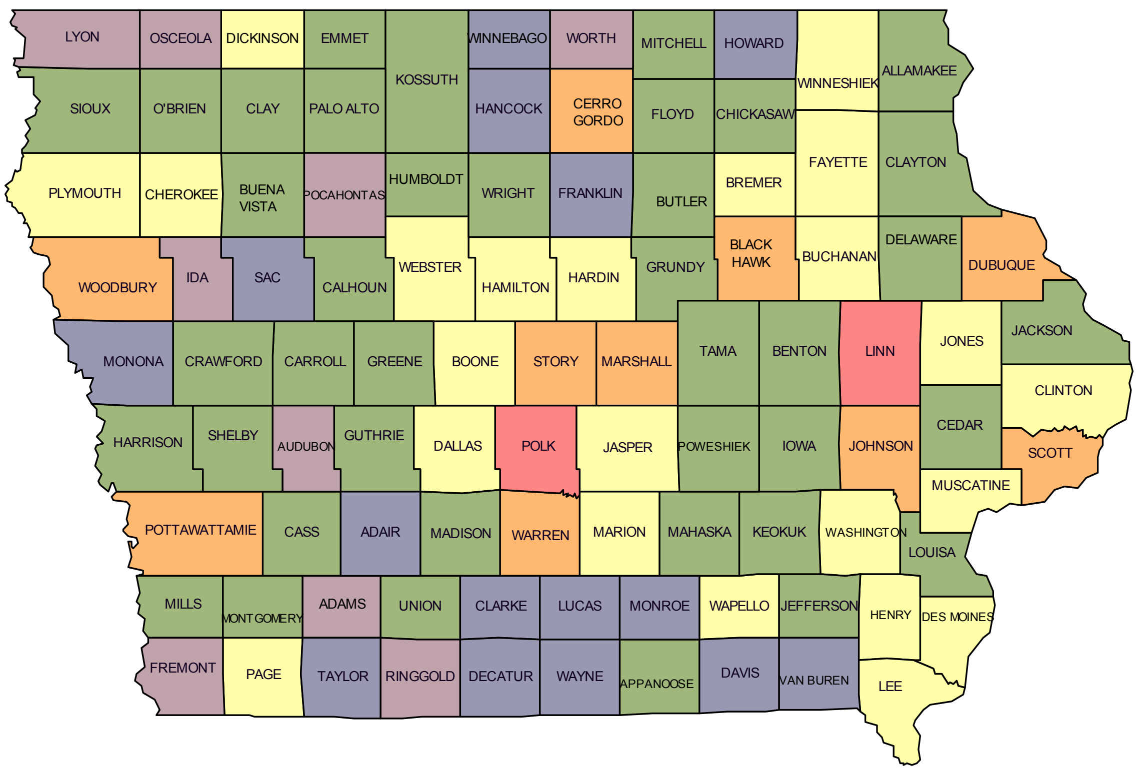
DISTRIBUTION OF IPERS BENEFIT PAYMENTS IN IOWA COUNTIES*

IN FISCAL YEAR 2004

County	Amount	Average	Payees	County	Amount	Average	Payees
Adair	$2,177,646	$8,376	260	Jefferson	$3,925,235	$10,330	380
Adams	$1,243,824	$7,584	164	Johnson	$17,444,455	$10,286	1696
Allamakee	$4,077,880	$9,572	426	Jones	$5,697,615	$10,266	555
Appanoose	$3,259,286	$8,857	368	Keokuk	$3,214,475	$8,159	394
Audubon	$1,760,738	$7,655	230	Kossuth	$3,620,128	$8,518	425
Benton	$4,875,674	$8,140	599	Lee	$8,350,030	$10,347	807
Black Hawk	$27,682,961	$10,407	2660	Linn	$43,369,863	$11,967	3624
Boone	$7,929,019	$9,339	849	Louisa	$3,106,950	$10,120	307
Bremer	$6,690,891	$10,107	662	Lucas	$2,665,139	$8,101	329
Buchanan	$6,694,214	$9,550	701	Lyon	$1,977,105	$7,972	248
Buena Vista	$4,675,639	$9,026	518	Madison	$3,131,657	$8,627	363
Butler	$3,690,120	$8,765	421	Mahaska	$4,955,171	$9,279	534
Calhoun	$3,507,292	$8,513	412	Marion	$5,911,208	$9,011	656
Carroll	$3,846,656	$8,548	450	Marshall	$11,404,575	$9,764	1168
Cass	$4,392,495	$8,964	490	Mills	$4,676,716	$9,188	509
Cedar	$4,008,887	$9,411	426	Mitchell	$3,059,578	$8,792	348
Cerro Gordo	$12,867,860	$10,989	1171	Monona	$2,670,358	$8,559	312
Cherokee	$5,549,787	$9,982	556	Monroe	$2,050,551	$8,580	239
Chickasaw	$3,621,987	$10,005	362	Montgomery	$3,234,219	$8,401	385
Clarke	$2,330,878	$8,415	277	Muscatine	$8,880,616	$10,472	848
Clay	$4,397,458	$9,277	474	O'Brien	$3,526,354	$8,278	426
Clayton	$4,930,545	$9,199	536	Osceola	$1,228,558	$7,978	154
Clinton	$9,584,691	$9,994	959	Page	$5,475,968	$8,861	618
Crawford	$4,294,403	$8,984	478	Palo Alto	$3,524,094	$8,371	421
Dallas	$9,293,886	$9,732	955	Plymouth	$5,090,493	$9,239	551
Davis	$2,557,458	$8,385	305	Pocahontas	$1,933,128	$8,592	225
Decatur	$2,459,756	$7,784	316	Polk	$82,823,302	$11,153	7426
Delaware	$4,905,675	$10,157	483	Pottawattamie	$14,955,549	$9,957	1502
Des Moines	$9,979,281	$10,493	951	Poweshiek	$4,665,357	$9,969	468
Dickinson	$7,106,509	$11,537	616	Ringgold	$1,995,049	$8,313	240
Dubuque	$14,366,171	$10,211	1407	Sac	$2,504,892	$7,500	334
Emmet	$3,057,982	$9,896	309	Scott	$29,758,170	$12,201	2439
Fayette	$5,456,980	$8,917	612	Shelby	$3,170,351	$8,545	371
Floyd	$4,698,778	$9,213	510	Sioux	$4,554,117	$7,962	572
Franklin	$2,694,620	$8,317	324	Story	$22,654,304	$11,378	1991
Fremont	$1,985,868	$7,818	254	Tama	$4,632,526	$9,512	487
Greene	$3,081,196	$7,515	410	Taylor	$2,024,394	$8,065	251
Grundy	$3,652,630	$8,997	406	Union	$4,379,313	$8,883	493
Guthrie	$3,921,436	$9,184	427	Van Buren	$2,756,791	$8,279	333
Hamilton	$5,474,692	$10,448	524	Wapello	$9,129,778	$9,754	936
Hancock	$2,848,077	$8,657	329	Warren	$10,427,342	$10,575	986
Hardin	$6,878,221	$9,147	752	Washington	$5,163,044	$8,274	624
Harrison	$3,576,257	$8,744	409	Wayne	$2,104,274	$7,569	278
Henry	$5,832,418	$9,377	622	Webster	$9,485,345	$9,552	993
Howard	$2,730,000	$8,077	338	Winnebago	$2,885,142	$8,664	333
Humboldt	$3,563,694	$8,713	409	Winneshiek	$5,394,125	$9,447	571
Ida	$1,723,400	$8,407	205	Woodbury	$20,645,021	$11,099	1860
Iowa	$3,314,944	$8,544	388	Worth	$1,759,906	$8,934	197
Jackson	$4,563,329	$8,793	519	Wright	$4,070,793	$9,168	444
Jasper	$8,525,166	$9,633	885				

* Unaudited fiscal year 2004 numbers. Payments determined by ZIP Code. **Total Iowa Benefit Payments: $ 682,402,378**
Table is based on cash accounting method; financial statements are based on accrual method.

DISTRIBUTION OF IPERS BENEFIT PAYMENTS IN IOWA COUNTIES*
IN FISCAL YEAR 2004

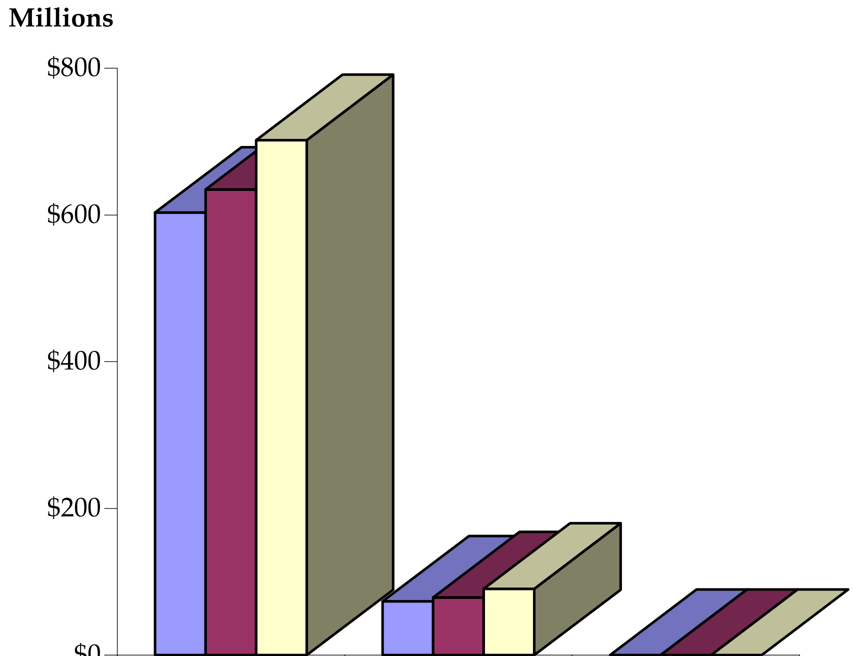


$31,000,001 to $83,000,000	$3,000,001 to $5,000,000
$10,000,001 to $31,000,000	$2,000,001 to $3,000,000
$ 5,000,001 to $10,000,000	$0 to $2,000,000

* Unaudited fiscal year 2004 numbers.

BENEFIT PAYMENT SUMMARY*

IN FISCAL YEAR 2004

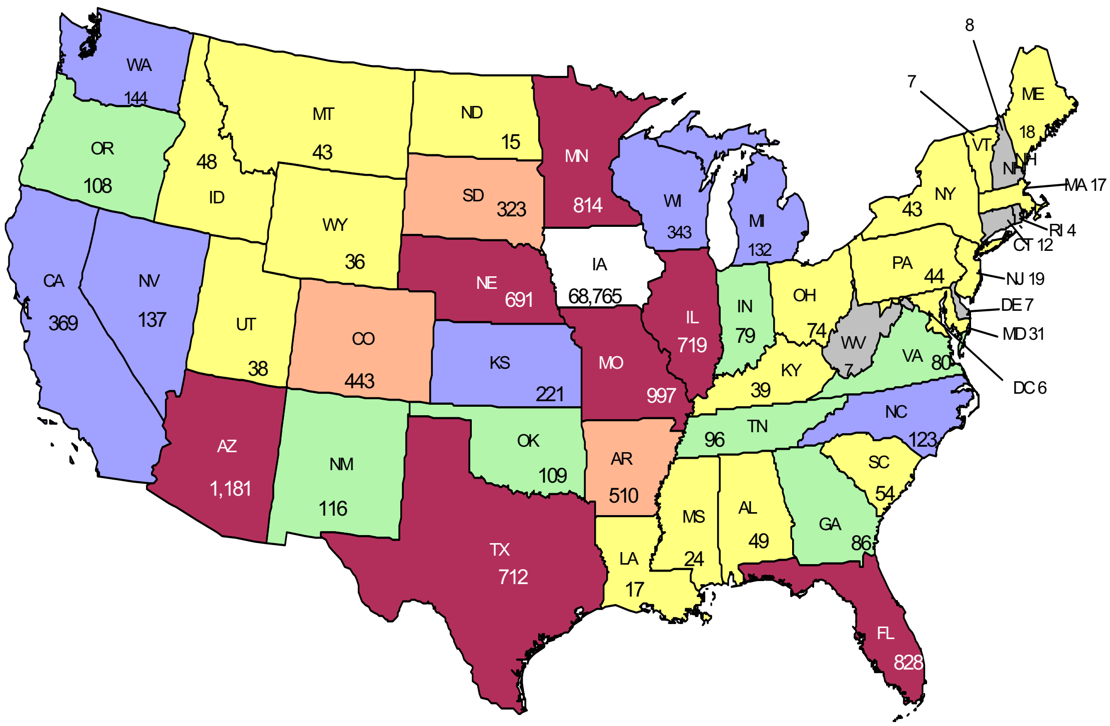


	$ to Iowa	$ to Other States	$ to Foreign Countries
FY2002	$603,397,686	$73,307,142	$128,478
FY2003	$634,959,550	$78,721,965	$117,160
FY2004	$702,196,119	$90,518,128	$152,526

* Unaudited fiscal year 2004 numbers.

DISTRIBUTION OF IPERS BENEFIT PAYMENTS BY STATE*

IN FISCAL YEAR 2004



Total retirees and beneficiaries in states other than Iowa: 10,048.
States are displayed with the number of recipients and are color-coded by amount.

- $6,000,001 to $11,000,000
- $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
- $1 to $100,000

Recipients outside the continental US include:

Hawaii: 10
Alaska: 14
Armed Forces Europe: 3
Australia: 2
Canada: 4
France: 1
Germany: 2
Greece: 1
Lebanon: 1
Mexico: 3
Philippines: 1
Sweden: 1
Thailand: 1

* Unaudited fiscal year 2004 numbers.