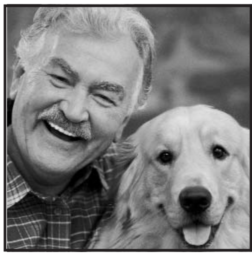
IOWA PUBLIC EMPLOYEES'
RETIREMENT SYSTEM



05

COMPREHENSIVE ANNUAL FINANCIAL REPORT

A Pension Trust Fund of the State of Iowa for the Year Ended June 30, 2005

IPERS

COMPREHENSIVE ANNUAL FINANCIAL REPORT
A PENSION TRUST FUND OF THE STATE OF IOWA
FOR THE YEAR ENDED JUNE 30, 2005

PREPARED BY
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

DONNA M. MUELLER, CHIEF EXECUTIVE OFFICER

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Monday–Friday

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www.ipers.org

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Fiscal Year 2005 Highlights

Membership:	
Active Members	160,905
Retired Members[1]	79,604
Contributions:	
Employee	$ 202,607,212
Employer	310,842,387
Buy-Backs/Buy-Ins	11,217,246
Distributions:	
Benefits Paid	$ 868,557,596
Refunds Paid	43,113,458
Investments:	
Net Investment and Securities Lending Income	$ 1,912,489,040
Investment Rate of Return	11.25%
Funding:	
Net Assets Held in Trust for Pension Benefits	$ 18,767,228,779
Actuarial Present Value of Total Projected Benefits <u>or</u> Total Liabilities	$ 24,573,803,251

[1]Unless specifically noted, references to retirees throughout this report include beneficiaries.

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Board photos by Linda Guffey, IPERS staff

INTRODUCTION



05

Certificate of Achievement

Letter of Transmittal

Administration

Investment Board

Benefits Advisory Committee

Professional and Consulting Services

Investment Managers

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Iowa Public Employees' Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

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, 2005

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, 2005. 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)"a".

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, Inc., and the results of its annual actuarial valuation.

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

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 annual 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 nonvoting 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.

IPERS had 305,925 members at the end of the fiscal year. The biggest change from the previous year was a reduction in inactive members following a mandatory distribution of small, inactive accounts.

IPERS ended the fiscal year with 160,905 active members who were working and contributing to IPERS.

At the end of the fiscal year there were 160,905 active members currently employed and contributing to IPERS. Member services provided to this group include benefit education and preretirement counseling.

During the year, IPERS' benefits staff fielded 85,208 phone calls and answered 4,464 e-mails. Staff prepared 62,548 benefit estimates. IPERS provided group and individual benefit education and preretirement counseling to 10,325 members. Members submitted 1,949 applications to buy service credit, and 821 members made service purchases.

The number of IPERS retirees increased by 2,643 during the fiscal year, to 79,604.

At the end of the fiscal year, IPERS had 79,604 members who were retired. The most important service IPERS provides to retirees is accurate and timely payment of benefits. IPERS paid 90.9 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 753,414 pages on IPERS' Web site during the fiscal year.

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.

Investments

IPERS funds benefit payments with a combination of member and employer contributions and investment earnings. IPERS' strong investment returns are the result of a large and diversified investment portfolio. IPERS is able to take advantage of its role as an institutional investor for an enduring public organization by focusing much longer-term than even the youngest investor. This allows IPERS to maximize investments and lower transaction costs on behalf of its members in a way that an individual investor cannot.

IPERS' 11.25 percent rate of return on investments for the fiscal year earned a top-quartile ranking from the Trust Universe Comparison Service (TUCS). TUCS is an often-cited benchmarking organization that collects and publishes the investment return and risk measures of U.S. public and private master trust funds.

IPERS received a TUCS top-quartile ranking for its 11.25 percent rate of return on investments.

A staff of professional investment officers oversees IPERS' investments. The investment officers, most of whom have achieved the highly respected Chartered Financial Analyst (CFA) or Certified Public Accountant (CPA) designation, each specialize in one of the six asset classes in which IPERS invests. IPERS' investment officers and investment consultants recommend asset allocation, investment policies, investment strategies, and contractor selection to the IPERS Investment Board, which makes the final decisions. IPERS' investment staff also negotiates detailed service contracts and monitors contractors' compliance with their IPERS service agreements. The contracted investment management firms select individual investments in the IPERS portfolio.

Legislation

The Iowa Legislature and Governor determine the Plan benefits and the regular membership contribution rate. Although members in public safety positions contribute at an actuarially required rate that may change every year, the contribution rate for regular members has not changed since 1979. Regular members make up about 96 percent of IPERS' membership. IPERS has asked for a contribution rate increase for regular members. Read about the initiative to raise contribution rates on page 8.

Major Initiatives

A request to raise the contribution rate to address IPERS' increasing unfunded actuarial liability was approved by the Iowa House of Representatives, but did not pass the Senate.

A benchmark study by Cost Effectiveness Measurement Inc. ranked IPERS' administrative costs lowest among IPERS' peers.

Contribution Rate Increase to Address the Increasing Unfunded Actuarial Liability

During fiscal year 2005, 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 $2.29 billion as of June 30, 2005. The effort culminated in a resolution from the Benefits Advisory Committee and the IPERS Investment Board calling for a phased-in contribution rate increase, and a bill that passed the House, and a Senate Committee, but did not pass the full Senate. The bill remains eligible for consideration by the Senate.

Benchmarking and Performance Evaluation

During fiscal year 2005, Cost Effectiveness Measurement Inc. (CEM) completed a benchmarking study on benefits administration for the prior year. IPERS ranked lowest in administrative costs among its peers and in the upper third in terms of services.

As reported previously, IPERS' 11.25 percent rate of return on investments earned a Trust Universe Comparison Service (TUCS) top-quartile ranking for the fiscal year that ended June 30, 2005. IPERS ranked in the top quartile in three TUCS universes, including the TUCS Public Pension Funds with Assets Greater than $1 billion.

Ethics Policy

The IPERS Investment Board, acting as the trustee for the System, adopted a rigorous Ethics Policy that applies to the Board, all IPERS staff, and all of IPERS' contracted service providers. The Policy represents significant expansion of the ethical conduct standards applicable to public officials as outlined in Iowa law.

Protecting Member Records

Over 8.5 million pages of members' paper records were scanned electronically, providing IPERS a means to preserve the records in perpetuity. The electronic records are backed up at a separate location so that IPERS can recover the records in the event of a disaster. Since IPERS provides lifetime benefits, long-term maintenance of individual account records is essential.

Returning Funds to Members With Small, Inactive Accounts

A law change in 2004 authorized IPERS to distribute, or cash out, the accounts for members who had no account activity for at least five years, and whose account balances were less than $3,000. During the initial distribution, IPERS returned nearly $14.6 million to 45,168 members. Two-thirds of those were Iowans who received a combined $9.8 million.

The funded status of the IPERS Trust Fund did not change as a result of the distribution. The first-year administrative savings from not maintaining the small accounts is estimated at $150,000 to $200,000.

Distributions of small, inactive accounts will be done quarterly. IPERS does not expect the owners of the accounts to earn a monthly retirement benefit from IPERS because they have not contributed for some time. The oldest account had been inactive for 37 years.

Financial Highlights

Total Net Assets

Total net assets held in trust for pension benefits increased from $17,249,916,851 on June 30, 2004 to $18,767,228,779 on June 30, 2005. 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, 2005, is in *Management's Discussion and Analysis* in the Financial section of this report.

Investment Portfolio Assets

At the close of fiscal year 2005, IPERS' net investment portfolio assets had a fair value of $18.745 billion. The change in fair value represents an increase of $1.515 billion from the $17.230 billion net investment asset fair value as of June 30, 2004. The largest factor contributing to the increase in net investment asset fair value was the positive investment portfolio return of 11.25 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, 2005, employee and employer contributions totaled $524,666,845 while total member benefits paid equaled $911,671,054 (regular monthly benefits, refunds, COLA, and FED payments). The resulting $387,004,209 contribution shortfall was funded with investment portfolio earnings.

Investment Results

Capital markets produced positive returns in fiscal year 2005 due to a global economic environment that was characterized by moderate growth and low inflation. The economy appeared to be expanding, primarily due to continued consumer spending and a robust housing market. However, factors such as surging oil prices, the threat of increasing inflation, and a global economic slowdown mitigated growth as the year drew to a close. The Federal Reserve maintained its predictable monetary tightening policy in an attempt to control inflation without restricting growth. The result was an increase in the overnight federal funds rate of 2.25 percent over the last 12 months to end the year at 3.25 percent.

The total return on the System's investment portfolio for the fiscal year ended June 30, 2005, was 11.25 percent. The total return on investments for the 10-year period ended June 30, 2005 was 9.93 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.

Net investment and securities lending income for fiscal year 2005 was $1,912,489,040.

For fiscal year 2005, revenues from employer and employee contributions, excluding buy-back/buy-in contributions, totaled $513,449,599, a 4 percent increase from the prior fiscal year. Buy-back/buy-in contributions for the year amounted to $11,217,246, a 25 percent decrease from the prior year. Net investment and securities lending income for fiscal year 2005 was $1,912,489,040, a decrease of $264,776,178 from 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 $911,671,054. This amount increased 10 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, 2005, was 79,604. The net increase of 2,643 during fiscal year 2005 was similar to the increase during fiscal year 2004. The average monthly retirement benefit, including the November and January dividend payments, increased from $833 to $866.

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 $8,214,903 for fiscal year 2005, a 3 percent increase 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 $48,784,645, a 56 percent increase from last year.

The increase is attributable to several factors. Rising market values generally lead to increased investment management expenses because managers' fees are partially based on the dollar amount of assets under management. However, IPERS also utilizes performance-based fee structures for many of its investment managers, and these arrangements generated higher fees in fiscal year 2005 when compared to fiscal year 2004. The majority of the total increase in management fees can be attributed to management fees paid to the System's real estate portfolio managers. Real estate was IPERS' strongest-performing asset class for the year, providing a 21 percent return. Fees in this portfolio reflected the managers' strong performance, rising from $9,503,095 in fiscal year 2004 to $25,943,947 in fiscal year 2005, an increase of 173 percent.

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 2005, the System expended 0.27 percent of the portfolio's total quarterly average fair value for investment management expenses, well below the maximum allowed. The 0.27 percent expended for investment management expenses in fiscal year 2005 also represents an increase from the 0.19 percent expended in fiscal year 2004.

For fiscal year 2005, the System expended 0.27 percent of the portfolio's total quarterly average fair value for investment management expenses, well below the 0.40 percent maximum allowed by state law.

Revenues ($ millions)

Source	2005	2004	Increase (Decrease)
Contributions	$ 513.4	$ 491.7	$ 21.7
Buy-Backs/Buy-Ins	11.2	14.9	(3.7)
Net Invest. & Securities Lending Income	1,912.5	2,177.3	(264.8)
Total	$2,437.1	$2,683.9	$(246.8)

Expenses ($ millions)

Type	2005	2004	Increase (Decrease)
Benefits	$ 868.6	$ 792.9	$ 75.7
Refunds	43.1	36.4	6.7
Administrative	8.2	8.0	0.2
Total	$ 919.9	$ 837.3	$ 82.6

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, 2005, reflects an unfunded actuarial liability of $2,288,608,596. This represents the difference between the accrued actuarial liability of $20,240,098,667 and the actuarial value of net assets of $17,951,490,071.

During the fiscal year, the unfunded actuarial liability increased by $112,140,529 from the preceding fiscal year's ending balance. This increase is primarily due to the fact that the contribution rate is lower than the actuarially required rate.

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.

Based on the FY2005 actuarial valuation, the rates necessary and sufficient for members and employers to fully fund the benefits and retirement allowance being credited is as follows for the fiscal year beginning July 1, 2006: Special Services Group 1 at 16.74 percent, Special Services Group 2 at 15.20 percent, and regular membership at 11.49 percent. The actuarial required contribution is paid for both groups of Special Services members. However, the contribution rate for regular members is set by statute at 9.45 percent. This is the third year that the contribution rate for regular members is below the certified amount.

Future Prospects

Although IPERS continues to be a well-funded system, as reflected in its 88.7 percent funded ratio (the ratio of actuarial assets to actuarial liabilities), there has been a downward trend in the funded status over the last several years. IPERS' actuary projects that employer contributions are 85.6 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 status is expected to continue its overall 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 existing 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 (2005) to audit annually all departments of the State. The accompanying financial statements of the System have been audited by the Auditor of State in accordance with U.S. generally accepted auditing standards, state law, and Government Auditing Standards. The Auditor's report is contained in the Financial section of this report.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to IPERS for its comprehensive annual financial report for the fiscal year ended June 30, 2004. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. IPERS believes that its current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and IPERS is 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 rolled over to other IRS-qualified retirement plans.
- Administering the benefits of the Iowa Old-Age and Survivors' Insurance System.
- 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

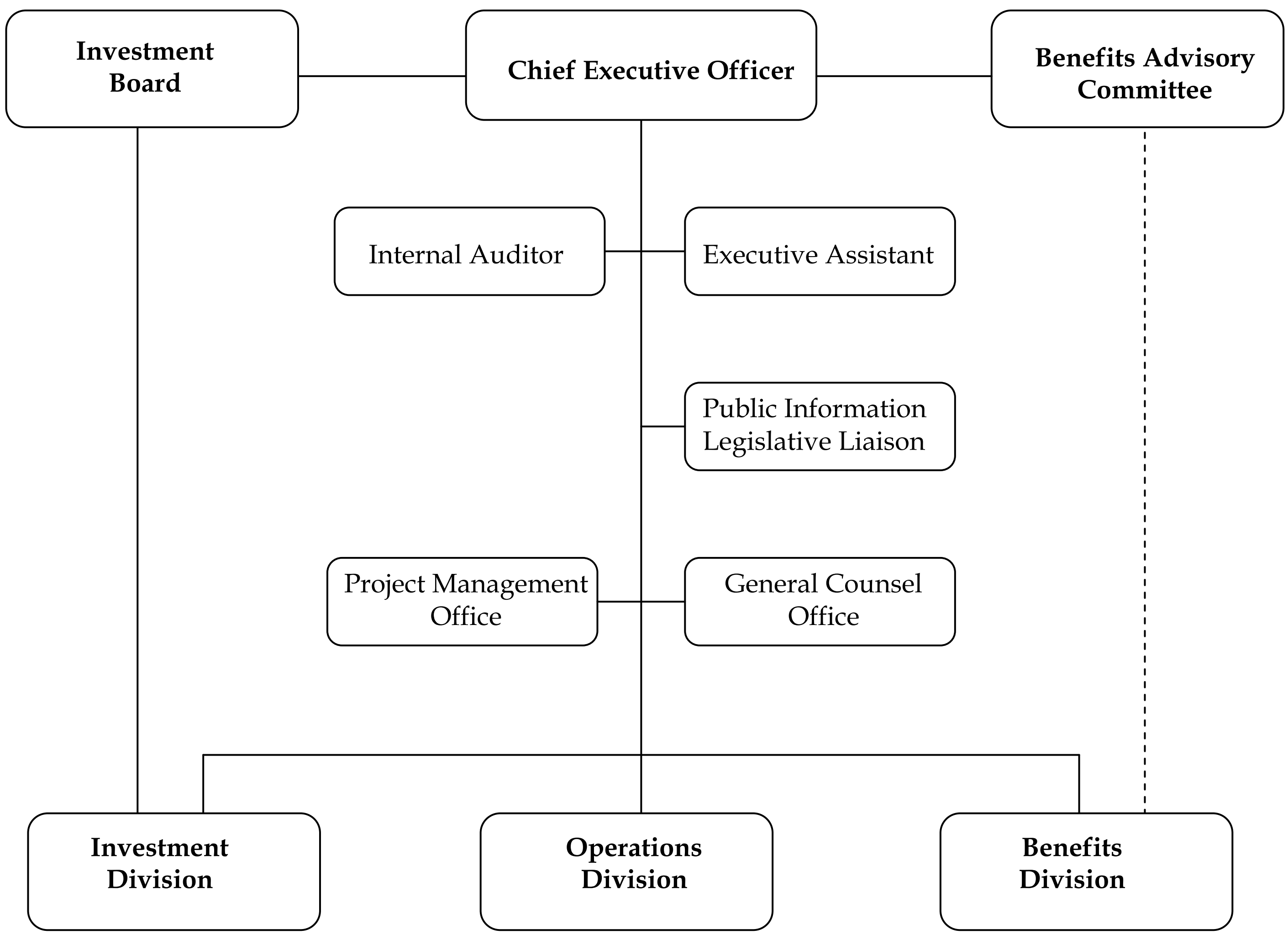
Investment Policy and Administration
Kathy S. Comito, Chief Investment Officer

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

Membership and Benefit Administration
David Martin, Retirement Services Coordinator

Operations
Leon J. Schwartz, Chief Operations Officer

IPERS Table of Organization



Investment Board

The Investment Board is the IPERS Fund's trustee.

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 employed by EMC Insurance Companies for 20 years, the last 14 as its president. A graduate of the University of Iowa College of Law, he previously practiced law in Des Moines.

Joanne L. Stockdale*
Vice Chairperson
Term expires 2011

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, 2005

Lorie L. Bennett*
Term expires 2007

Formerly an accountant, Ms. Bennett has worked for the city of Humboldt for eleven 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 2009

Mr. Creighton is the chairperson and CEO of The Bryton Companies in West Des Moines. He studied business at Arizona State University and has nearly 25 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 2011

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.

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 usage and instructional 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 Members

as of June 30, 2005

Senator John P. Kibbie

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

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 cochair of the Senate Ways and Means Committee. He also serves on the Commerce and Transportation Committees, and the Administration and Regulation Appropriations Subcommittee.

Representative Jeff Elgin

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

Representative Pam Jochum

Representative Jochum of Dubuque works at Northeast Iowa Community College. She received a degree in speech communication from Loras College. She serves on the State Government, Ways and Means, and Judiciary Committees in the Iowa House of Representatives. Representative Jochum is an active member in her community, serving on the Mississippi Valley Promise, the Community Health Center Committee, the Coordinated Response Team to Stop Family Violence, and the League of Women Voters.

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 Benefits Advisory Committee includes representatives of all major employer groups and major active and retired member associations.

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.

The Committee has nine voting members; seven are elected by the Committee membership. 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 2008

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.

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, 2005

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

Sheriff Sage, who represents the Iowa Sheriffs and Deputies Association, has been with the Cass County Sheriff's Office for 25 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 22 years.

Heather Stubbe

Ms. Stubbe is the executive director of the State Police Officers Council. Previously a caseworker and outreach coordinator in Senator Tom Harkin's offices, she also worked in the U.S. Embassy in London, England. Ms. Stubbe attended the Université de Caen in Caen, France and received her bachelor's degree in political science and French from Morningside College in Sioux City, Iowa.

*Voting member

Member Association Representatives

as of June 30, 2005

Stan McElderry*
Voting term expires 2007

Mr. McElderry is a deputy workers' compensation commissioner in the Iowa Workforce Development's Division of Workers' Compensation. Mr. McElderry is a graduate of Graceland College in Lamoni, Iowa. He received his Juris Doctor in law from the University of Iowa. He represents the American Federation of State, County and Municipal Employees (AFSCME) on the Committee.

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. He served as executive director for the School Administrators of Iowa for 28 years before retiring in 2000. Since 2001, he has served as president of his own company, G. Tryon and Associates.

Employer Association Representatives

as of June 30, 2005

Mollie K. Anderson*
Appointed by statute

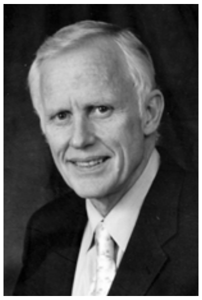
Ms. Anderson is the director of the Iowa Department of Administrative Services. She is a graduate of Midland Lutheran College in Fremont, Nebraska and the Council of State Government's Henry Toll Fellowship program. She also holds professional certifications from the Kennedy School of Government at Harvard University and the National Society for Human Resources.

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, 2005



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.

Alan Kemp*
Voting term expires 2008

Mr. Kemp joined the Iowa League of Cities in July 1999. He has the overall responsibility for the League's technical assistance and training program. He graduated from the University of Iowa with a degree in political science and journalism and is finishing his master's in public administration at Iowa State University.

Public Member Representative

Marcus J. Haack*
Voting term expires 2005 (Resigned April 2005)

Currently a clinical associate professor in educational administration at the University of Iowa, Dr. Haack was part of the Committee for nearly three 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 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 has 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, 2005

DOMESTIC EQUITY

Barclays Global Investors, NA
San Francisco, CA

Mellon Capital Management Corp.
San Francisco, CA

RCM
San Francisco, CA

Wellington Management Company, LLP
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

HIGH YIELD BONDS

Oaktree Capital Management, LLC
Los Angeles, CA

Post Advisory Group, LLC
Los Angeles, CA

GLOBAL FIXED INCOME

BlackRock Financial Management, Inc.
New York, NY

Mellon Capital Management Corp.
San Francisco, CA

Principal Global Investors, LLC
Des Moines, IA

Western Asset Management Co.
Pasadena, CA

PRIVATE EQUITY/DEBT

Pathway Capital Management, LLC
Irvine, CA

REAL ESTATE

AEW Capital Management
Boston, MA

Heitman Capital Management
Chicago, IL

ING Clarion Partners
New York, NY

INVESCO Realty Advisors
Dallas, TX

RREEF America, LLC
Chicago, IL

TA Realty LLC
Boston, MA

UBS Realty Investors LLC
Hartford, CT

FINANCIAL

05

Independent Auditor's Report

Management's Discussion and Analysis

Basic Financial Statements

- Statement of Plan Net Assets
- Statement of Changes in Plan Net Assets
- Notes to Financial Statements

Required Supplementary Information

Other Supplementary Information

IPERS

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, 2005 and 2004, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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, 2005 and 2004, 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, 2005 and 2004, 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 31 through 34 and 55 through 56 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 introduction, investments, actuarial, statistical and plan summary sections and, accordingly, express no opinion thereon.

Our report on IPERS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts and other matters required by Government Auditing Standards will be issued under separate cover. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 22, 2005

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, 2005. It is intended to be used in conjunction with the transmittal letter and IPERS' financial statements and notes, which begin on page 35 of this report.

Financial Highlights

- IPERS' plan net assets held in trust for pension benefits increased by $1.5 billion during fiscal year 2005. On June 30, 2005, total Plan assets (including capital assets of $4.2 million) totaled $21.8 billion, exceeding total liabilities of $3.0 billion, resulting in net assets held in trust for pension benefits of $18.8 billion.

- Covered payroll, upon which both employee and employer pension contributions are calculated, increased by $164.8 million, or 3 percent, over the last fiscal year and totaled $5.2 billion. Employer and employee contributions increased, in total, by 4 percent; by comparison, fiscal year 2004 saw a 4 percent increase in both covered wages and contributions.

- Net investment and securities lending income, after all investment-related expenses, was $1.9 billion in fiscal year 2005, compared to a gain of $2.2 billion in fiscal year 2004 and a gain of $800 million in fiscal year 2003. Investment management expenses increased to $48.8 million for fiscal year 2005, largely due to real estate incentive management fee accruals; by comparison, investment management expenses were $31.2 million for fiscal year 2004 and $29.9 million for fiscal year 2003.

- Total contributions, investments, and other income resulted in a positive impact to the Fund of $2.4 billion in fiscal year 2005, compared to $2.7 billion in fiscal year 2004 and $1.3 billion in fiscal year 2003. The decrease in fiscal year 2005 is primarily due to net investment income of $1.9 billion, compared to net investment income of $2.2 billion for fiscal year 2004.

Total contributions, investments, and other income resulted in a positive impact to the fund of $2.4 billion.

- Pension benefits to members increased by $75.7 million, continuing the trend experienced in the previous three fiscal years. Refunds increased from $36.4 to $43.1 million, due largely to the returning of funds to members with small, inactive accounts. Payments to members totaled $911.7 million in fiscal year 2005.

- Administrative expenses totaled $8.2 million for fiscal year 2005, as compared to $8.0 million for fiscal years 2004 and 2003. Administrative expenses were 0.04 percent of the value of plan net assets in fiscal year 2005; by comparison, administrative expenses were 0.05 percent of the value of plan net assets in fiscal years 2004 and 2003.

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 35) and the Statement of Changes in Plan Net Assets (see page 36). 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, 2005, were $18.8 billion, having increased $1.5 billion from the previous fiscal year-end balance.

Investments make up 96 percent of IPERS' total assets.

A large percentage of total assets, 96 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, compose 4 percent of total assets. Total plan net assets increased by 9 percent in fiscal year 2005.

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 $91.4 million from fiscal year 2004 to 2005, as compared to an increase of $393.7 million between fiscal years 2003 to 2004. As in fiscal year 2004, the majority of increase in liabilities for fiscal year 2005 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 35, and footnote 3, page 49.)

TABLE 1

Plan Net Assets
(Dollar values expressed in thousands)

June 30	2005	2004	2005/2004 Inc/(Dec) Percent	2003	2004/2003 Inc/(Dec) Percent
Cash and investments at fair value	$21,094,867	$19,715,911	7.0%	$17,312,396	13.9%
Receivables	709,751	479,833	47.9%	643,086	(25.4%)
Capital assets	4,152	4,320	(3.9%)	4,171	3.6%
Total assets	21,808,770	20,200,064	8.0%	17,959,653	12.5%
Total liabilities	3,041,541	2,950,147	3.1%	2,556,452	15.4%
Total Plan Net Assets	$18,767,229	$17,249,917	8.8%	$15,403,201	12.0%

TABLE 2

Changes in Plan Net Assets
(Dollar values expressed in thousands)

Fiscal years ended June 30	2005	2004	2005/2004 Inc/(Dec) Percent	2003	2004/2003 Inc/(Dec) Percent
Additions					
Contributions & buy-backs/buy-ins	$ 524,667	$ 506,635	3.6%	$ 484,985	4.5%
Net investment and securities lending income	1,912,489	2,177,265	(12.2%)	814,808	167.2%
Transfers from another pension plan	-	-	0.0%	8,880	(100.0%)
Miscellaneous	42	72	(41.7%)	72	0.0%
Total Additions	$2,437,198	$2,683,972	(9.2%)	$1,308,745	105.1%
Deductions					
Benefits and refunds	911,671	829,296	9.9%	771,922	7.4%
Administrative expense	8,215	7,960	3.2%	8,041	(1.0%)
Total Deductions	919,886	837,256	9.9%	779,963	7.3%
Increase in Plan Net Assets	$1,517,312	$1,846,716	(17.8%)	$ 528,782	249.2%

The increases in plan net assets experienced from the end of fiscal year 2004 to the end of fiscal year 2005 and from the end of fiscal year 2003 to the end of fiscal year 2004 were primarily due to investment market conditions. Benefits paid out continued to exceed contributions received by $387.0 million, $322.7 million, and $286.9 million for fiscal years 2005, 2004, and 2003, respectively. This excess of benefits paid relative to contributions received is characteristic of a mature pension plan such as IPERS. The investment rates of return for the current and two preceding fiscal years were 11.25 percent, 13.78 percent, and 5.59 percent, respectively. (See also the Investments section of this report beginning on page 61 for further information on rates of return.)

Total administrative expenses for the past three fiscal years have been $8.2 million, $8.0 million, and $8.0 million, respectively. (See Schedule of Administrative Expenses, page 58.)

The following table contains the fiscal year performance of each asset class, benchmark, and the Fund's actual asset allocation as of June 30, 2005.

Table 3

Asset Class	Return	Benchmark	Allocation
Domestic Equity	9.53%	8.21%	33.3%
International Equity	16.01%	16.95%	14.6%
Global Fixed Income	7.91%	7.43%	34.4%
High Yield Bonds	9.30%	9.86%	4.4%
Private Equity/Debt[1]	19.78%	11.30%	6.3%
Real Estate	21.00%	20.88%	6.5%
Short-Term Cash	2.40%	2.15%	0.5%
Total Fund	11.25%	10.76%	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.

Contacting System Financial Management

This financial report is designed to provide the Plan sponsor, the Investment Board, the Benefits Advisory Committee, the System's 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, 2005 and 2004

EXHIBIT A	2005	2004
Assets:		
Cash and cash equivalents	**$ 104,137,694**	**$ 68,069,302**
Receivables		
Contributions receivable	36,915,376	33,233,271
Accrued interest and dividends	64,242,869	46,708,330
Receivable for investments sold	598,745,945	377,144,863
Foreign exchange contracts receivable	9,846,508	22,746,109
Total receivables	**709,750,698**	**479,832,573**
Investments at fair value		
Fixed income	7,662,262,727	7,230,008,680
Domestic equity	6,248,358,784	5,893,362,827
International equity	2,724,477,026	2,688,372,550
Real estate	1,232,597,949	1,049,279,024
Private equity/debt	1,176,489,585	1,049,907,297
Securities lending collateral pool	1,946,543,565	1,736,911,274
Total investments	**20,990,729,636**	**19,647,841,652**
Capital assets (note 5)		
Depreciable assets—net of accumulated depreciation	3,651,427	3,820,530
Nondepreciable assets—land	500,000	500,000
Total capital assets	**4,151,427**	**4,320,530**
Total assets	**21,808,769,455**	**20,200,064,057**
Liabilities:		
Accounts payable and accrued expenses	44,039,104	27,998,555
Payable for investments purchased	1,042,190,067	1,162,958,367
Rebates and collateral payable	1,945,464,997	1,736,444,175
Foreign exchange contracts payable	9,846,508	22,746,109
Total liabilities	**3,041,540,676**	**2,950,147,206**
Net assets held in trust for pension benefits (note 10)	**$18,767,228,779**	**$17,249,916,851**

See Schedule of Funding Progress on page 55.

See Notes to Financial Statements.

Statement of Changes in Plan Net Assets

Years ended June 30, 2005 and 2004

EXHIBIT B	2005	2004
Additions:		
Contributions		
Employer contributions	$ 310,842,387	$ 298,923,667
Employee contributions	202,607,212	192,807,978
Buy-back/buy-in contributions	11,217,246	14,903,466
Total contributions	**524,666,845**	**506,635,111**
Investments		
Interest	220,332,216	249,802,200
Dividends	67,280,402	102,894,530
Real estate and private equity/debt	75,054,807	64,158,621
Tactical	-	5,268,475
Net appreciation in fair value of investments	1,591,053,269	1,780,902,835
Other	615,592	700,882
Investment management expense	(48,784,645)	(31,224,356)
Net investment income	**1,905,551,641**	**2,172,503,187**
Securities Lending Income		
Security lending income	47,519,749	19,155,541
Security lending net appreciation in fair value of collateral pool	420,561	-
Security lending expense	(41,002,911)	(14,393,510)
Net securities lending income	**6,937,399**	**4,762,031**
Other Sources		
Miscellaneous noninvestment income	42,000	72,000
Total other sources	**42,000**	**72,000**
Total additions	**2,437,197,885**	**2,683,972,329**
Deductions:		
Benefit payments	868,557,596	792,866,773
Member and employer refunds	43,113,458	36,430,011
Administrative expense	8,214,903	7,959,601
Total deductions	**919,885,957**	**837,256,385**
Net increase	**1,517,311,928**	**1,846,715,944**
Net assets held in trust for pension benefits		
Beginning of year	17,249,916,851	15,403,200,907
Net assets held in trust for pension benefits		
End of year (note 10)	**$18,767,228,779**	**$17,249,916,851**

See Notes to Financial Statements.

Notes to Financial Statements

June 30, 2005 and 2004

(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. The State's CAFR may be viewed from the Iowa Department of Administrative Services' Web site at <http://das.sae.iowa.gov/financial_reports/index.html>.

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 that 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.

In FY2005 IPERS had 305,925 members and 2,388 participating employers.

	June 30, 2005	June 30, 2004
Employers:		
City	1,280	1,291
County	463	458
School	389	389
State	22	22
28E Agencies	129	125
Utilities	82	80
Other	23	23
Total	2,388	2,388
Members:		
Current retirees and beneficiaries	79,604	76,961
Inactive vested	30,599	39,568
Active vested	123,231	122,214
Active nonvested	37,674	37,820
Inactive nonvested	34,817	63,481
Total	305,925	340,044

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 at least retirement age 55 and does not withdraw his or her accumulated contributions.

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 actuarially determined rates as shown in the following table. Wages are covered up to the federal limit of $210,000 for the calendar year 2005.

Contribution rates for regular members are established by statute.

CONTRIBUTION RATES IN EFFECT JULY 1, 2004–JUNE 30, 2005

	Employee	**Employer**	**Total**
Regular Membership	3.70%	5.75%	9.45%
Special Services Group 1*	8.535%	8.535%	17.07%
Special Services Group 2**	6.16%	9.23%	15.39%

*Includes sheriffs and deputies
**Includes all other public safety members

(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 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. Private equities are valued based on March 31 net asset values plus or minus purchases, sales and cash flows from April 1 through June 30 of the reporting year.

Custodial credit risk is the risk that, in the event of a failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the System and are held by either the counterparty or the counterparty's trust department or agent but not in the System's name.

The Treasurer of State is the statutory custodian of the funds of the System, and in this capacity, has arranged to have the custodial bank account collateralized or covered by the State Sinking Fund.

Consistent with the System's investment policy, the investments are held by the System's custodian and registered in the System's name. All of the System's securities are held by the System's custodial bank in the System's name, 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, 2005, follows.

Invested Assets[1]

(Dollar values expressed in thousands)

June 30, 2005

Investment Type	Total Fair Value	Fair Value on Loan
Fixed Income	**$ 5,101,569**	**$ 1,628,795**
U.S. Government	***1,318,547***	***1,110,159***
U.S. Government Treasuries, Notes, Bonds	*930,723*	*877,833*
U.S. Government TIPS	*211,090*	*181,465*
U.S. Government Agency	*176,734*	*50,861*
Mortgage Backed	***893,502***	***25,787***
Government Pass-Through	*698,070*	*9,999*
Corporate Pass-Through	*195,432*	*15,788*
Collateralized Mortgage Obligations	***133,492***	-
Government CMOs	*55,910*	-
Corporate CMOs	*77,582*	-
Corporate	***2,202,853***	***413,219***
Corporate Bonds	*1,584,399*	*342,254*
Corporate Asset Backed	*286,312*	*2,843*
Private Placements	*332,142*	*68,122*
Yankee Bonds	***43,610***	***9,578***
Supernationals	***2,280***	-
Non-U.S. Fixed Income	***507,285***	***70,052***
Developed Markets	*294,951*	*27,550*
Dev. Government/Sovereign	91,905	-
Dev. Corporate	203,046	27,550
Emerging Markets	*212,334*	*42,502*
Emg. Government/Sovereign	161,716	36,370
Emg. Corporate	50,618	6,132
Short Term	**238,948**	-
Repurchase Agreements	***183,017***	-
Certificate of Deposit	***15,076***	-
Agencies	***37,000***	-
Other Short Term	***3,855***	-
Equity	**3,165,855**	**374,242**
U.S.	***1,760,744***	***204,145***
Non-U.S.	***1,405,111***	***170,097***
Alternative Investments	**1,174,902**	-
Real Estate	**1,005,614**	-
Commingled Funds	**8,490,023**	-
U.S. Equity	***4,588,229***	-
Non-U.S. Equity	***1,376,918***	-
U.S. Fixed Income	***2,192,285***	-
Money Market Funds	***332,591***	-
Derivatives	**3,426**	-
Cash	**(435,457)**	-
Total	**$18,744,880**	**$ 2,003,037**

[1]Based on fair value of the total investment portfolio at June 30, 2005, gross of investment receivables and cash in investment manager accounts and net of 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 elsewhere in the Financial section, which are reported using GASB Statement 28 financial statement standards.

In March 2003, the GASB issued Statement 40, Deposit and Investment Risk Disclosures—an amendment to GASB Statement 3. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, custodial credit risk, interest rate and foreign currency risk. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2004. Each risk identified in Statement 40, as it relates to the System, is discussed in the remainder of this note.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to IPERS. As of June 30, 2005, IPERS' fixed income assets that are not government guaranteed represented 78 percent of the fixed income portfolio. In preparing this report, credit risk associated with all fixed income holdings including collateral for repurchase agreements and securities lending collateral has been included. The following tables summarize IPERS' fixed income portfolio exposure levels and credit quality ratings.

Credit Risk—S&P Quality Ratings
(Dollar values expressed in thousands)
June 30, 2005

	Total	TSY	AGY	AAA	AA	A	BBB	BB	B	CC & Below	NR
U.S. Government	***$ 1,318,547***	***$ 1,141,813***	***$ 7,977***	***$ 166,169***	***$***	***$***	***$***	***$***	***$***	***$***	***$ 2,588***
US Gov't Treasuries, Notes, Bonds	*930,723*	*930,723*	-	-	-	-	-	-	-	-	-
US Gov't TIPS	*211,090*	*211,090*	-	-	-	-	-	-	-	-	-
US Gov't Agency	*176,734*	-	*7,977*	*166,169*	-	-	-	-	-	-	*2,588*
Mortgage Backed	***893,502***	-	***698,070***	***151,283***	***3,507***	***6,349***	-	-	-	-	***34,293***
Gov't Pass-Through	*698,070*	-	*698,070*	-	-	-	-	-	-	-	-
Corporate Pass-Through	*195,432*	-	-	*151,283*	*3,507*	*6,349*	-	-	-	-	*34,293*
Collateralized Mortgage Obligations	***133,492***	-	***55,910***	***58,815***	***5,082***	***5,402***	-	-	-	***490***	***7,793***
Gov't CMOs	*55,910*	-	*55,910*	-	-	-	-	-	-	-	-
Corporate CMOs	*77,582*	-	-	*58,815*	*5,082*	*5,402*	-	-	-	*490*	*7,793*
Corporate	***2,202,853***	-	-	***316,341***	***112,567***	***264,336***	***366,379***	***476,245***	***587,804***	***63,269***	***15,912***
Corporate Bonds	*1,584,399*	-	-	*74,005*	*79,116*	*210,564*	*325,423*	*407,092*	*432,015*	*49,241*	*6,943*
Corporate Asset Backed	*286,312*	-	-	*224,416*	*11,031*	*23,712*	*12,065*	-	*431*	*7,623*	*7,034*
Private Placements	*332,142*	-	-	*17,920*	*22,420*	*30,060*	*28,891*	*69,153*	*155,358*	*6,405*	*1,935*
Yankee Bonds	***43,610***	-	-	-	-	***2,772***	***28,547***	***9,410***	***810***	***2,071***	-
Supernationals	***2,280***	-	-	-	-	***2,280***	-	-	-	-	-
Non-U.S. Fixed Income	***507,285***	-	-	***97,291***	***21,241***	***58,842***	***129,584***	***94,895***	***64,832***	***5,569***	***35,031***
Developed Markets	*294,951*	-	-	*92,989*	*21,241*	*39,027*	*34,005*	*35,175*	*43,222*	*822*	*28,470*
Dev. Government/Sovereign	91,905	-	-	88,415	3,490	-	-	-	-	-	-
Dev. Corporate	203,046	-	-	4,574	17,751	39,027	34,005	35,175	43,222	822	28,470
Emerging Markets	*212,334*	-	-	*4,302*	-	*19,815*	*95,579*	*59,720*	*21,610*	*4,747*	*6,561*
Emg. Government/Sovereign	161,716	-	-	-	-	11,036	77,620	56,122	9,323	4,679	2,936
Emg. Corporate	50,618	-	-	4,302	-	8,779	17,959	3,598	12,287	68	3,625
Fixed Income	**5,101,569**	**1,141,813**	**761,957**	**789,899**	**142,397**	**339,981**	**524,510**	**580,550**	**653,446**	**71,399**	**95,617**
Repurchase Agreements	***183,017***	-	-	-	-	-	-	-	-	-	***183,017***
Certificate of Deposit	***15,076***	-	-	-	-	-	-	-	-	-	***15,076***
Agencies	***37,000***	-	***37,000***	-	-	-	-	-	-	-	-
Other Short Term	***3,855***	-	-	-	-	-	-	-	-	-	***3,855***
Short Term	**238,948**	-	**37,000**	-	-	-	-	-	-	-	**201,948**
Commingled Funds— U.S. Fixed Income	**2,192,285**	**540,617**	**250,359**	**817,723**	**130,002**	**211,336**	**205,198**	-	-	-	**37,050**
Total	**$7,532,802**	**$1,682,430**	**$1,049,316**	**$1,607,622**	**$272,399**	**$551,317**	**$729,708**	**$580,550**	**$653,446**	**$71,399**	**$334,615**

There are no System-wide policy limitations for credit risk exposures within the portfolio. Each portfolio is managed in accordance with an investment contract that is specific as to permissible credit quality ranges and the average credit quality of the overall portfolios. However, in circumstances where downgrades occurred subsequent to purchase, investment managers have been given permission to hold the security due to several mitigating circumstances such as a very short maturity or a much higher rating from other rating agencies, among others. Credit risk for derivative instruments held by the System results from counterparty risk assumed by IPERS. This is essentially the risk that the borrower will be unable to meet its obligation. Information regarding IPERS' credit risk related to derivatives is found under the derivatives disclosures found on pages 48–49 of these notes. Policies related to credit risk pertaining to IPERS' securities lending program are found under the securities lending disclosures found on pages 49–51 of these notes.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issuer. IPERS' guidelines for each specific portfolio limits investments in any corporate entity to no more than 5 percent of the market value of the account. 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.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the portfolio using the effective duration or option-adjusted methodology. It is widely used in the management of fixed income portfolios in that it quantifies to a much greater degree the risk of interest rate changes. The methodology takes into account optionality on bonds and scales the risk of price changes on bonds depending upon the degree of change in rates and the slope of the yield curve. All of the System's fixed income portfolios are managed in accordance with investment contracts that are quite specific as to the degree of interest rate risk taken. Specifically, the investment contracts require that the effective duration of the manager's portfolio shall always remain between 80 percent and 120 percent of the effective duration measure of the Index. It is believed that the reporting of effective duration found in the tables below quantifies to the fullest extent possible the interest rate risk of the System's fixed income assets. Interest rate risks associated with swaps and other derivative instruments are found in the derivatives disclosures on pages 48–49 of these notes. No interest rate futures or options positions will be established which affect the duration or weighted average maturity of the managed account by more than one year.

Interest Rate Sensitivity—Effective Duration

(Dollar values expressed in thousands)

June 30, 2005

Investment Type	Fair Value	Effective Duration (Years)
Fixed Income	**$ 5,101,569**	**4.28**
U.S. Government	***1,318,547***	***4.85***
U.S. Government Treasuries, Notes, Bonds	*930,723*	*4.65*
U.S. Government TIPS	*211,090*	*6.84*
U.S. Government Agency	*176,734*	*3.36*
Mortgage-Backed	***893,502***	***2.78***
Government Pass-Through	*698,070*	*2.48*
Corporate Pass-Through	*195,432*	*3.92*
Collateralized Mortgage Obligations	***133,492***	***3.13***
Government CMOs	*55,910*	*3.04*
Corporate CMOs	*77,582*	*3.21*
Corporate	***2,202,853***	***4.08***
Corporate Bonds	*1,584,399*	*4.31*
Corporate Asset Backed	*286,312*	*2.11*
Private Placements	*332,142*	*4.73*
Yankee Bonds	***43,610***	***6.12***
Supernationals	***2,280***	***5.34***
Non-U.S. Fixed Income	***507,285***	***6.50***
Developed Markets	*294,951*	*5.41*
Dev. Government/Sovereign	91,905	7.36
Dev. Corporate	203,046	4.43
Emerging Markets	*212,334*	*7.96*
Emg. Government/Sovereign	161,716	8.42
Emg. Corporate	50,618	6.56
Short Term	**238,948**	**0.00**
Repurchase Agreements	***183,017***	***0.00***
Certificate of Deposit	***15,076***	***0.00***
Agencies	***37,000***	***0.00***
Other Short Term	***3,855***	***0.00***
Commingled Funds	**2,192,285**	**4.16**
Total	**$ 7,532,802**	**4.24**

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. From time to time, IPERS' external managers may or may not hedge the portfolio's foreign currency exposures with currency forward contracts depending upon their views on a specific foreign currency relative to the U.S. dollar. IPERS' currency policy is to manage the non-dollar portion of the global fixed income allocation against a 100 percent hedged benchmark and may allow its non-dollar equity managers to hedge on a selective basis for the protection of the asset values. IPERS will not manage currency as a separate asset class or enter into speculative currency positions (i.e., currency positions greater than 100 percent or less than 0 percent 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.

Foreign Currency Risk by Investment Type

(Dollar values expressed in thousands)

June 30, 2005

	Total	Fixed Income	Equity	Alternative Investments	Derivatives	Cash
Argentine Peso	$ 86	$ -	$ 86	$ -	$ -	$ -
Australian Dollar	85,390	-	85,063	-	-	327
Brazilian Real	13,002	8,043	4,907	-	-	52
British Pound Sterling	174,785	-	161,881	8,852	-	4,052
Canadian Dollar	1	-	-	-	-	1
Chilean Peso	1,221	-	1,241	-	-	(20)
Colombian Peso	1,332	-	1,293	-	-	39
Czech Koruna	248	-	248	-	-	-
Danish Krone	7,824	-	7,824	-	-	-
Euro Currency	512,990	82,294	385,699	139,519	(112,767)	18,245
Hong Kong Dollar	34,798	-	34,798	-	-	-
Hungarian Forint	669	-	669	-	-	-
Indonesian Rupiah	3,017	-	3,017	-	-	-
Israeli Shekel	4,122	-	4,122	-	-	-
Japanese Yen	367,594	15,082	352,502	-	-	10
Malaysian Ringgit	10,690	-	10,724	-	-	(34)
Mexican Nuevo Peso	2,287	14,740	2,751	-	(15,912)	708
New Turkish Lira	4,526	-	4,526	-	-	-
New Taiwan Dollar	41,823	-	41,785	-	-	38
Pakistani Rupee	396	-	396	-	-	-
Philippine Peso	710	-	710	-	-	-
Polish Zloty	1,272	-	1,272	-	-	-
Renminbi Yuan	636	-	636	-	-	-
Russian New Ruble	254	-	254	-	-	-
Singapore Dollar	23,863	-	23,864	-	-	(1)
South African Rand	20,031	-	20,031	-	-	-
South Korean Won	50,397	-	50,011	-	-	386
Swedish Krona	15,384	4,697	13,380	-	(2,939)	246
Swiss Franc	42,754	-	42,688	-	-	66
Thai Baht	8,953	-	8,953	-	-	-
Venezuelan Bolivar	3,055	3,055	-	-	-	-
Total	**$1,434,110**	**$127,911**	**$1,265,331**	**$148,371**	**$(131,618)**	**$24,115**

Note: American Depository Receipts (ADRs) are Non-U.S. Equity that are issued in U.S. Dollars, have no Foreign Currency Risk, and therefore, are not included in this schedule.

The System's managers are not permitted to utilize derivatives for speculative purposes, but may use them to efficiently access desired markets and to control and manage portfolio risk.

Derivatives
Certain of the System's external 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 make up 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 percent or less than 0 percent 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.

The various derivatives utilized by the System's external managers are explained below. All derivatives are reported at fair value in the Statement of Plan Net Assets.

Forward Contracts
Forward contracts in various currencies were used to transact and hedge direct foreign fixed income investments that the System maintains through the use of outside managers. Under these forward contracts the System is obligated to deliver the foreign currency at a certain dollar price sometime in the future. To fulfill this obligation at maturity, the System must obtain the currency in the open market. Anytime prior to contract maturity, the System can enter into an offsetting forward contract that nets out the original contract. These events expose the System to currency risk, which can fluctuate. The System is also subject to the risk that the counterparty will fail to fulfill the contract. The external money managers hedged $352.7 million of currency exposure in various currencies with various maturities as of June 30, 2005. At June 30, 2005, the fair value of these forward contracts was $6.9 million.

Futures Contracts
The System had investments in various fixed income and Eurodollar futures during the year. These contracts are reported at their fair value in the Statement of Plan Net Assets. A listing of futures contracts outstanding at June 30, 2005, is provided on the next page. Futures are designed to potentially offer lower-cost and more efficient alternatives to buying the underlying securities or currency. The market, currency, and credit risk of the futures were the same as if the System had owned the underlying securities or currency.

Futures Exposure Summary

(Dollar values expressed in thousands)

June 30, 2005

Contracts	Expiration Date	Long/(Short)	Fair Value
FUTURES			
10-year U.S. Treasury Notes	August '05	(Short)	$ (62)
10-year U.S. Treasury Notes	September '05	(Short)	(758)
10-year U.S. Treasury Notes	December '05	(Short)	(94)
5-year U.S. Treasury Notes	August '05	(Short)	(214)
5-year U.S. Treasury Notes	September '05	(Short)	(45)
U.S. treasury bond	September '05	(Short)	(652)
U.S. treasury bond	December '05	(Short)	(504)
U.S. Fed Fund	July '05	Long	2
Eurodollar	September '05	Long	486
Eurodollar	March '06	Long	975
	Total Net Futures Fair Value		$(866)

Note: Futures positions at 6/30/05 were only present in the WAMCO portfolio.

Credit Default Swaps

The System had investments in credit default swaps during the year. The credit default swaps held by the System are derivative instruments that are constructed to replicate the effect of investing in debt obligations of corporate bond issuers. The risk of the credit default swap is comparable to the credit risk of the reference security. At June 30, 2005, the notional value of the credit default swaps held in the System's fixed income portfolio was $285.1 million at par. All credit default swaps held by the System are reported at a fair value of $1.2 million in the Statement of Plan Net Assets.

Mortgage-Backed Securities

The System invests in mortgage-backed securities, which are reported at fair value in the Statement of Plan Net Assets and are based on the cash flows from the interest and principal payments by the underlying mortgages. As a result they are sensitive to prepayments by mortgagees, which is likely in declining interest rate environments, thereby reducing the value of these securities. The System invests in mortgage-backed securities to diversify the portfolio and increase the return while minimizing the extent of risk. Details regarding interest rate risks for these investments are included under the interest rate disclosures on pages 45–46.

Securities Lending

IPERS participates in the securities lending program administered by the Treasurer of State. The Treasurer of State has selected The Bank of New York, an "AA-rated" bank, to serve as the custodian bank for IPERS as well as the lending agent for the securities lending program. In its capacity as lending agent, The Bank of New York 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 Bank of New York 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 anytime the value of the collateral drops below 100 percent of the value of the security lent plus accrued interest income.

At year-end IPERS had $306,171 in credit risk exposure to borrowers because the amounts they owed to IPERS exceeded the amount IPERS owed the borrowers on 10 separate loans. Additional collateral was provided the next business day, eliminating this exposure. The contract with The Bank of New York requires it to indemnify IPERS 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 IPERS to pledge or sell any collateral securities unless the borrower defaults. As of June 30, 2005, IPERS had securities on loan, including accrued interest income, of $1,895,192,385 against collateral, including borrower rebate with a total value of $1,945,464,997.

The majority of securities loans are open loans, i.e., one-day maturity, where the rebate rate due the borrower is renegotiated daily. Either IPERS or the borrower can terminate all securities loans on demand. Cash collateral received from borrowers is invested in a cash collateral investment pool, which is managed by The Bank of New York in accordance with investment guidelines established by The Bank of New York and reviewed by the Treasurer of State and IPERS. 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. The effective duration of the cash collateral pool at June 30, 2005, was 26 days. Credit Quality and Years to Maturity statistics for the cash collateral pool at June 30, 2005, are shown on the next page.

Securities Lending Cash Collateral Pool[1]
Credit Risk—S&P Quality Ratings
(Dollar values expressed in thousands)
June 30, 2005

Investment Type	**Total**	**AAA**	**AA**	**A**	**NR**
Corporate	$1,074,475	$489,577	$365,703	$219,195	$ -
Corporate Bonds	*664,945*	*80,047*	*365,703*	*219,195*	-
Corporate Asset Backed	*409,530*	*409,530*	-	-	-
Repurchase Agreements	505,568	-	-	-	505,568
Certificate of Deposit	137,989	-	25,000	112,989	-
Bank Note	223,045	-	107,011	116,034	-
Securities Lending Cash Collateral Pool	**$1,941,077**	**$489,577**	**$497,714**	**$448,218**	**$505,568**

Securities Lending Cash Collateral Pool[1]
Years to Maturity
(Dollar values expressed in thousands)
June 30, 2005

		Investment Maturities (years)	
Investment Type	**Fair Value**	**Less Than 1**	**1–5**
Corporate	$1,074,475	$ 57,852	$1,016,623
Corporate Bonds	*664,945*	*27,041*	*637,904*
Corporate Asset Backed	*409,530*	*30,811*	*378,719*
Repurchase Agreements	505,568	505,568	-
Certificate of Deposit	137,989	63,989	74,000
Bank Note	223,045	-	223,045
Securities Lending Cash Collateral Pool	**$1,941,077**	**$627,409**	**$1,313,668**

[1]Schedules do not include accrued income of $5,467,000.

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 leased 14,400 square feet of the building acquired in November 1999, to Data Input Services, Inc., an Iowa corporation. The lessee paid all operating expenses directly associated with its occupancy. In addition, the lessee paid a proportionate share of common operating expenses. The lease with Data Input Services expired on January 31, 2005. After that date, the space has not been leased.

All rental income is categorized as miscellaneous income. Rental income for the year ended June 30, 2005, totaled $42,000.

(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 IPERS regular members contribute 3.70 percent of pay and their employers contribute 5.75 percent of pay for a total of 9.45 percent. Certain employers and their employees in Special Service occupations contribute at 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 continue to 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 as 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, 2005, the statutorily established contribution requirement for employers was $301,119,501, or 5.75 percent of covered payroll. The statutorily established requirement for employees for the same time period was $193,763,853, or 3.70 percent of covered payroll. The actual amount of contributions made by employers and employees during the fiscal year ended June 30, 2005, was $310,842,387 and $202,607,212, respectively.

Total required statutory contributions for the years ended June 30, 2005, 2004, and 2003 were $494,883,354, $479,306,637, and $461,263,972 respectively. All required contributions were made for all three fiscal years.

(5) CAPITAL ASSETS

A summary of capital assets as of June 30 follows:

	2005	2004
Building and improvements	$3,901,514	$3,877,670
Less accumulated depreciation	(534,379)	(434,265)
Furniture & equipment	824,568	729,328
Less accumulated depreciation	(540,276)	(352,203)
Land (nondepreciable)	500,000	500,000
Total capital assets	$4,151,427	$4,320,530

Depreciation expense for the year ended June 30, 2005, was $288,187.

(6) LITIGATION & CONTINGENCIES

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

(7) COMMITMENTS

At June 30, 2005, IPERS had commitments to fund an additional $1,178,834,604 to various private equity/debt partnerships and real estate investment managers.

(8) LOCATION OF HISTORICAL TREND INFORMATION

Historical trend information related to the pension plan is presented on Schedules 1 and 2 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.

(9) Pension and Retirement Benefits

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

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 $210,000 for calendar year 2005. The System's contributions to IPERS for the years ended June 30, 2005, 2004, and 2003, were $276,306, $269,056, and $249,678, respectively, equal to the required contributions for each year.

(10) Net Assets Held in Trust for Pension Benefits

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

	Regular Membership	Special Service Group 1*	Special Service Group 2**	FED Reserve Transfers***	Total
Balance at June 30, 2004	$15,962,094,082	$267,065,043	$497,068,728	$523,688,998	$17,249,916,851
Additions:					
Transfer of airport firefighters	-	(8,510,562)	8,510,562	-	-
Contributions	475,323,495	12,473,222	25,652,882	-	513,449,599
Buy-backs/buy-ins	10,814,666	102,329	300,251	-	11,217,246
Investment and misc. income	1,814,599,263	29,898,918	58,722,119	58,095,385	1,961,315,685
Total additions	**2,300,737,424**	**33,963,907**	**93,185,814**	**58,095,385**	**2,485,982,530**
Deductions:					
Benefit payments	810,415,553	7,635,432	13,328,425	37,178,186	868,557,596
Member and employer refunds	38,460,403	2,103,170	2,549,885	-	43,113,458
Admin. & invest. expenses	53,170,301	788,050	1,596,166	1,445,031	56,999,548
Total deductions	**902,046,257**	**10,526,652**	**17,474,476**	**38,623,217**	**968,670,602**
Balance at June 30, 2005	**$17,360,785,249**	**$290,502,298**	**$572,780,066**	**$543,161,166**	**$18,767,228,779**

*Includes sheriffs and deputies
**Includes all other public safety members
***Favorable Experience Dividend

(11) Reclassification of Accrued Real Estate Management Incentive Fees

During fiscal year 2005, the accrual for the real estate manager incentive fees was credited to the real estate asset fair value rather than to the "Miscellaneous Receivable" account, as had been done in prior years in the Statement of Net Assets. For fiscal year 2004 the incentive fee was $4,328,960 and therefore the reclassified "Investments at fair value"—"Real estate" balance for fiscal year 2004 is $1,049,279,024. This reclassification had no effect on the net assets held in trust for pension benefits.

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
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)%
2005	17,951,490,071	20,240,098,667	88.69%	(2,288,608,596)	5,236,860,886	(43.70)%

[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, 2005, the federal limit has been $210,000.*

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, 4.00% for wages

See accompanying independent auditor's report.

*Governmental Accounting Standards Board Statement 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
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%
2005	363,181,025	310,842,387	85.6%

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 84.7 percent for the regular membership and 100 percent for Special Service groups 1 and 2 for FY2005.

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, 2005 and 2004

	2005	2004
Interest income—short term	$ 1,661,236	$ 896,000
Interest income on bonds	218,670,980	248,906,200
Dividend income	67,280,402	102,894,530
Real estate funds	67,161,339	71,040,420
Private equity/debt funds	7,893,468	(6,881,799)
Tactical funds[1]	-	5,268,475
Security lending income	47,519,749	19,155,541
Security lending net appreciation in fair value of collateral pool	420,561	-
Other income	615,592	700,882
Investment income	411,223,327	441,980,249
Gain on investments	1,591,194,501	1,187,649,745
Currency gain	(141,232)	593,253,090
Net appreciation in fair value of investments	1,591,053,269	1,780,902,835
Investment income	$2,002,276,596	$2,222,883,084

See accompanying independent auditor's report.

[1]The tactical investment strategy was terminated during FY2004.

Schedule 2
Schedule of Administrative Expenses
Years ended June 30, 2005 and 2004

	2005	2004
Personnel:		
Salaries & wages	$5,433,879	$5,364,583
Travel	119,391	97,980
Professional and technical services:		
Professional	837,809	636,725
Actuary	57,532	81,962
Computer support services	441,528	390,323
Auditing	53,430	69,300
Communications:		
Telephone	131,582	185,703
Printing	121,312	94,944
Other expenses:		
Supplies	556,427	508,946
Utilities	60,124	49,851
Depreciation	288,187	245,324
Repairs	67,966	106,799
Rent	3,065	2,010
Miscellaneous	42,671	125,151
Total administrative expenses	**$8,214,903**	**$7,959,601**

See accompanying independent auditor's report.

Schedule 3
Schedule of Investment and Consulting-Related Expenses
Years ended June 30, 2005 and 2004

	2005	2004
JPMorgan Investment Management	$ -	$ 28,854
Mellon Capital Management	317,754	251,178
Barclays Global Investors	1,281,720	376,714
RCM	756,126	1,630,523
Wellington Management Company LLP	1,461,239	774,378
TOTAL DOMESTIC EQUITY	**3,816,839**	**3,061,647**
BlackRock Financial Management, Inc.	1,129,631	914,469
JPMorgan Investment Management	814,933	762,939
Mellon Capital Management	224,682	129,483
Oaktree Capital Management	1,289,717	1,999,722
Western Asset Management Company	3,322,357	2,062,739
Post Advisory	377,372	-
Principal Global Investors	88,995	-
TOTAL GLOBAL FIXED INCOME	**7,247,687**	**5,869,352**
Mellon Capital Management	-	552,240
TOTAL TACTICAL	**-**	**552,240**
Barclays Global Investors	4,812,094	4,663,120
Schroder Investment Management North America Inc	791,942	1,799,980
Putnam Institutional Management	-	188,249
Emerging Markets Management LLC	1,725,581	2,151,170
Oechsle International Advisors LLC	981,271	144,558
TOTAL INTERNATIONAL EQUITY	**8,310,888**	**8,947,077**
RREEF REIT	1,682,862	1,157,675
RREEF	7,205,052	2,629,482
AEW Capital Management	4,797	24,266
Heitman/JMB	-	23,545
INVESCO	9,863,296	2,625,672
TA Associates	1,923,623	1,460,024
UBS Realty	5,264,317	1,582,431
TOTAL REAL ESTATE	**25,943,947**	**9,503,095**
Pathway Capital Management	2,176,127	1,978,297
TOTAL PRIVATE EQUITY/DEBT	**2,176,127**	**1,978,297**
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	144,720	137,989
Treasurer of State	23,973	19,006
TOTAL CUSTODY EXPENSES	**168,693**	**156,995**
Investment Staff Expenses	689,356	687,957
Miscellaneous Expenses	60,108	96,696
TOTAL OTHER INVESTMENT EXPENSES	**749,464**	**784,653**
TOTAL INVESTMENT AND CONSULTING-RELATED EXPENSES	**$48,784,645**	**$31,224,356**

See accompanying independent auditor's report.

INVESTMENTS

05

Investment Overview

Investment Results

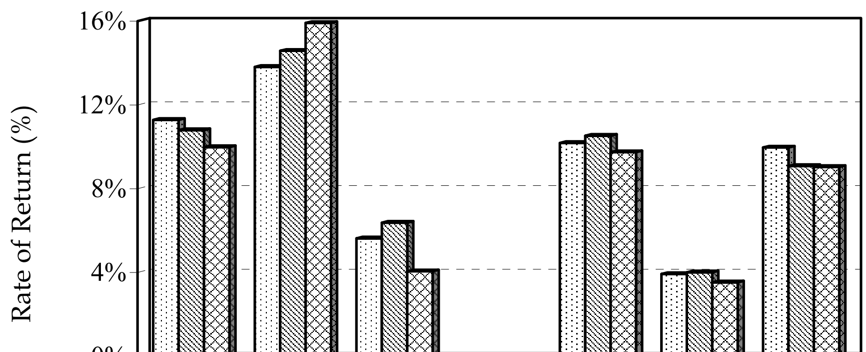
Investment Policy and Goal Statement

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.

Annualized Investment Performance Summary

For the periods ended June 30



	2005	2004	2003		3 yr	5 yr	10 yr
IPERS' Portfolio *	11.25%	13.78%	5.59%		10.15%	3.89%	9.93%
Policy Benchmark **	10.76%	14.55%	6.34%		10.49%	3.97%	9.05%
Large Public Fund Median ***	9.95%	15.88%	4.02%		9.71%	3.49%	9.00%

*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 with Assets Greater than $1 billion.

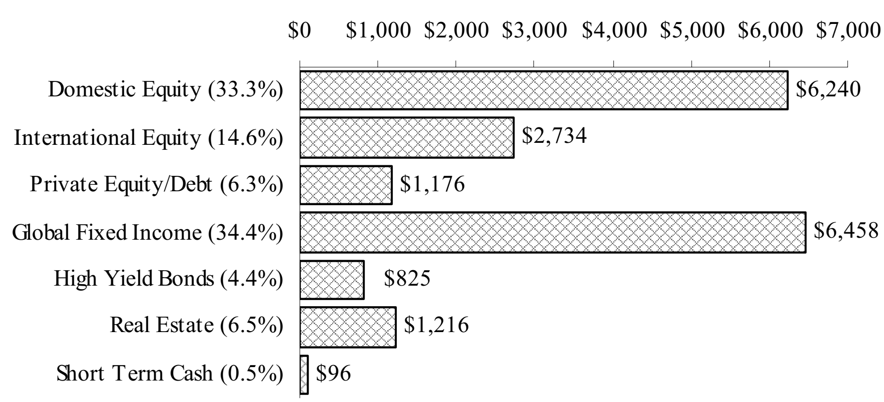
The System's investments are managed by professional investment management firms based upon statutory investment authority, the investment policies adopted by the IPERS Investment Board, and a detailed service contract with each manager. The System's staff coordinates and monitors the investment of the 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. Compared to the fair values shown in this report's Financial section, the values reflected in this Investments section are gross of investment receivables and cash in investment manager accounts and net of payables and securities lending collateral.

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, 2005
(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.

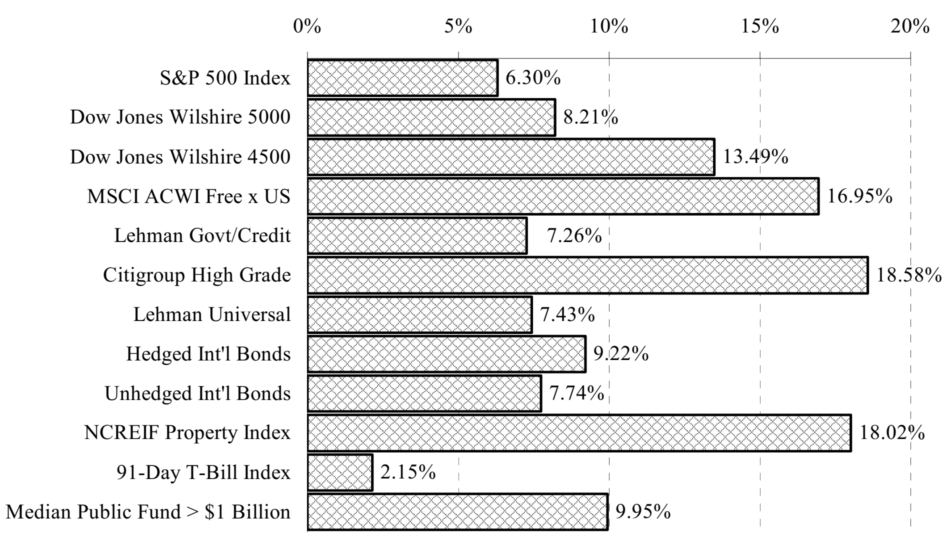
The System also requires its investment managers to diversify their portfolios at the security level. Managers are required to diversify across sectors, industries, and individual securities. The System develops specific contractual investment guidelines for each manager that control the risk of high 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 produced positive returns in fiscal year 2005 due to a global economic environment that was characterized by moderate growth and low inflation. While the first half of the fiscal year saw a renewed sense of optimism about the world economy, the second half gave way to growing concerns about the potential impact of higher oil prices and rising interest rates.

Fiscal Year 2005 Market Returns



The U.S. equity market, as measured by the Dow Jones Wilshire 5000 Index, returned 8.21 percent for the fiscal year. Value stocks significantly outperformed growth stocks, and small capitalization stocks generally outperformed large capitalization stocks within their respective styles in fiscal year 2005, as shown in the table.

Wilshire Style Index	FY2005 Return
Large Growth	0.1%
Large Value	13.3%
Small Growth	6.7%
Small Value	14.6%

All sectors of the U.S. equity market produced positive returns in fiscal year 2005, with the exception of Information Technology, which returned –3.8 percent for the fiscal year. Not surprisingly, Energy, driven in a large part by oil which hit $61 per barrel in June, was the best performing sector of the Dow Jones Wilshire 5000 Index, with a return of 40.4 percent, followed by the Utilities and Telecommunication Services sectors, which returned 35.5 percent and 10.9 percent, respectively. After Information Technology, the worst performing sectors were Consumer Staples (up 3.7 percent) and Health Care (up 4.1 percent).

International stocks continued to significantly outperform U.S. stocks.

International stocks continued to significantly outperform U.S. stocks in the fiscal year ended June 30, 2005, due mainly to strong performance in stocks of companies located in the Canadian 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 16.95 percent for the fiscal year ended June 30, 2005. The Canadian stock market was the best performer of the developed countries, returning 28.76 percent for the fiscal year, due in large part to that economy's exposure to energy stocks. Emerging markets stocks provided a 34.88 percent return for the fiscal year, due to both the continued reduction in the markets' volatility as well as the strength in the Technology sector.

The fixed income market posted solid returns for fiscal year 2005, despite an environment with mixed economic data. The economy appeared to be expanding, primarily due to continued consumer spending and a robust housing market. However, factors such as surging oil prices, the threat of increasing inflation, and a global economic slowdown mitigated growth. The Federal Reserve maintained its predictable monetary tightening policy in an attempt to control inflation without restricting growth. The result was an increase in the overnight federal funds rate of 2.25 percent over the last 12 months to 3.25 percent. The high yield and corporate sectors of the market performed well as inflation fears were moderated, corporate balance sheets improved, and investors sought out securities with the opportunity for greater yields. The high yield sector returned approximately 10 percent for the year, while the corporate sector returned 8.15 percent. U.S. Treasury securities returned 7.05 percent overall, with Treasury Inflation Protected Securities (TIPS) returning 9.34 percent and longer term Treasuries returning 16.80 percent. As measured by the Lehman Brothers Universal Index, the fixed income market returned 7.43 percent for the fiscal year ended June 30, 2005.

The U.S. commercial real estate market also provided solid positive returns in fiscal year 2005. 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 18.02 percent for the one-year period ended June 30, 2005. Publicly traded real estate securities (REITs) produced exceptional results in fiscal year 2005, with the Dow Jones Wilshire Real Estate Investment Trust Index posting an annual return of 34.14 percent for the fiscal year.

Private equity investments performed well in fiscal year 2005, mainly due to strong results from buyout investments in the U.S. A strong merger and acquisition market, and the continued ability to leverage investments at a low cost, allowed many buyout funds to successfully exit portfolio companies or to partially exit through recapitalization transactions. *Venture Economics'* preliminary data indicates that buyout funds produced an average annual internal rate of return of 26.90 percent for fiscal year 2005. By comparison, venture capital investment returns were relatively modest for the fiscal year, a result of fewer exit opportunities in a less active IPO market. According to preliminary data from *Venture Economics,* the average annual internal rate of return on venture capital funds for the fiscal year was 7.80 percent. The overall private equity asset class, as measured by *Venture Economics'* data, produced a return of 20.40 percent in fiscal year 2005.

INVESTMENT PORTFOLIO ASSETS[1]

At the close of fiscal year 2005, IPERS' net investment portfolio assets had a fair value of $18.745 billion. The change in fair value represents an increase of $1.515 billion from the $17.230 billion net investment asset fair value as of June 30, 2004. The largest factor contributing to the increase in net investment asset fair value was the positive investment portfolio return of 11.25 percent, which is more fully addressed on the following page.

[1]Based on fair value of the total investment portfolio at June 30, 2005, and June 30, 2004, gross of investment receivables and cash in investment manager accounts and net of 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 28 financial statement standards.

Investment Results

IPERS posted a total portfolio investment return of 11.25 percent for the fiscal year ended June 30, 2005. 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 5.52 percent for fiscal year 2005. The Fund's return also exceeded the investment return assumption used by IPERS' actuary, which is 7.50 percent per year. In addition, the Fund's 11.25 percent return exceeded the 10.76 percent return of IPERS' "policy benchmark," a set of market indices, and weightings to those indices, that reflect IPERS' target asset class allocations. Finally, the Fund's one-year return exceeded the 9.95 percent median return of the Trust Universe Comparison Service's (TUCS) Universe of Public Pension Funds with Assets Greater than $1 billion.

IPERS' real estate portfolio provided the System's strongest return for the fiscal year.

IPERS' strongest return for the fiscal year was provided by its real estate portfolio at 21.00 percent, followed by the private equity portfolio at 19.78 percent. The weakest returns were from the fixed income portfolio at 7.91 percent, and the cash portfolio at 2.40 percent.

For the five years ended June 30, 2005, IPERS' total Fund return of 3.89 percent annualized exceeded the TUCS Public Pension Funds with Assets Greater than $1 billion universe median return of 3.49 percent. IPERS' 10-year annualized return of 9.93 percent outpaced the policy benchmark return of 9.05 percent and the aforementioned TUCS universe median return of 9.00 percent, as well as the other objectives of the 7.50 percent annualized actuarial return assumption and CPI plus 3 percent (5.46 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.

Rates of Return

For periods ended June 30, 2005[1]

Asset Class	Annualized Returns (%) 1-Year	3-Year	5-Year	10-Year
Total Fund				
IPERS	11.25	10.15	3.89	9.93
Policy Benchmark[2]	10.76	10.49	3.97	9.05
CPI + 3%	5.52	5.63	5.44	5.46
Actuarial Interest Rate	7.50	7.50	7.50	7.50
TUCS Public Funds >$1 Billion Universe Median	9.95	9.71	3.49	9.00
Domestic Equity				
IPERS	9.53	10.13	-0.95	10.73
Dow Jones Wilshire 5000	8.21	9.94	-1.28	9.96
International Equity				
IPERS	16.01	13.32	0.60	6.90
Custom Benchmark	16.95	14.08	0.72	5.76
Fixed Income				
IPERS	7.91	6.99	8.09	6.41
Custom Benchmark	7.43	6.56	7.62	6.97
High Yield Bonds				
IPERS	9.30	11.54	8.18	N/A
Custom Benchmark	9.86	13.80	8.73	N/A
Private Equity/Debt[3]				
IPERS	19.78	12.61	-4.53	16.41
Dow Jones Wilshire 5000 + 3%	11.30	14.02	1.26	16.52
Real Estate				
IPERS	21.00	13.02	12.03	11.27
Custom Benchmark	20.88	12.73	10.92	9.75
Short-Term Cash[4]				
IPERS	2.40	2.26	3.14	4.42
U.S. Treasury Bills	2.15	1.55	2.63	3.97

[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, 2005, 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 plus 3 percent, and 8 percent of a weighted benchmark consisting of 85 percent NCREIF's National Property Index and 15 percent Wilshire REIT Index plus 0.25 percent.

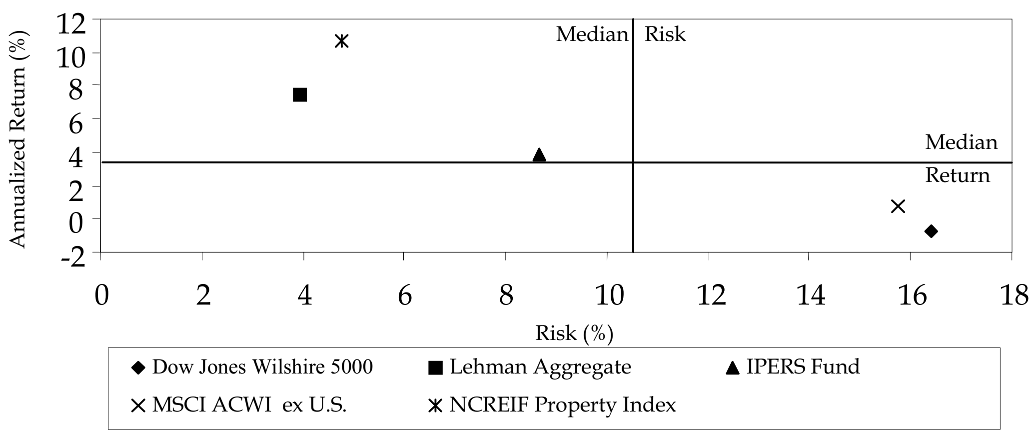
[3] Private Equity/Debt portfolio returns and benchmark returns are calculated using an Internal Rate of Return (IRR) methodology in accordance with AIMR standards.

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

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 and the resulting differences in asset allocation 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 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, 2005, 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.

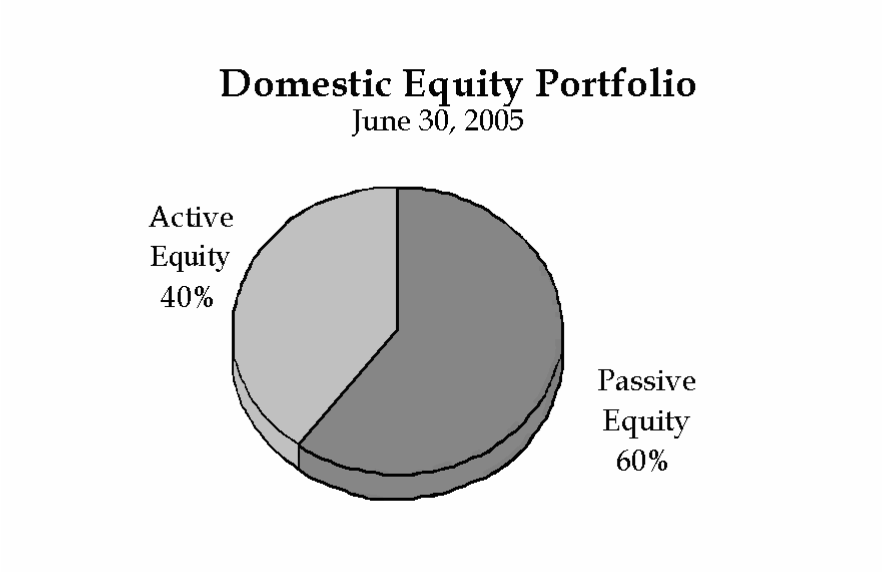
Risk vs. Total Return
Public Funds Greater Than $1.0 Billion
5 years ended June 30, 2005



	Annualized Return	Risk (Standard Deviation)
IPERS Total Fund	3.89%	8.66%
Median Fund	3.49%	10.53%
Dow Jones Wilshire 5000	-1.28%	16.16%
Lehman Aggregate	7.41%	3.92%
MSCI ACWI ex U.S.	0.76%	15.76%
NCREIF Property Index	10.63%	4.77%

DOMESTIC EQUITY

At June 30, 2005, 33.29 percent of IPERS' total portfolio was invested in domestic equities. The total net fair value of the domestic equity portfolio was $6.240 billion. 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.



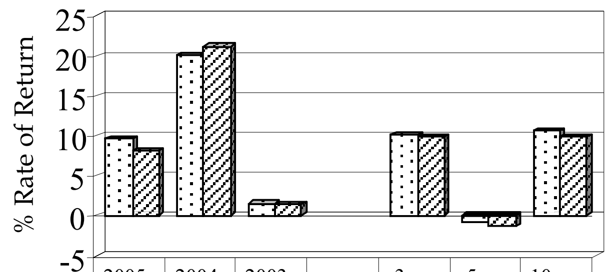
The domestic equity portfolio has two components:

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

For the periods ended June 30



	2005	2004	2003		3 yr	5 yr	10 yr
IPERS' Portfolio *	9.53	20.16	1.49		10.13	-0.95	10.73
DJ Wilshire 5000	8.21	21.24	1.28		9.94	-1.28	9.96

* Net of fees

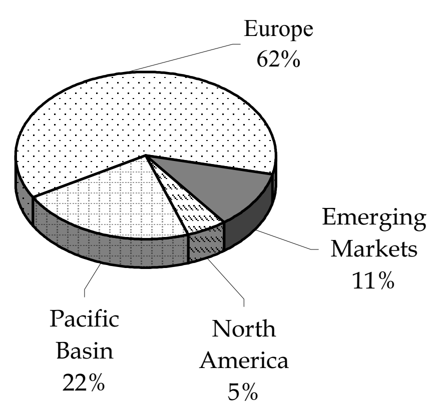
The U.S. stock market continued to rebound, albeit at only a single-digit return pace, during the year ended June 30, 2005. IPERS' domestic equity portfolio posted a positive return of 9.53 percent compared to 8.21 percent for the Dow Jones Wilshire 5000 Index. The Fund's alpha tilt and value managers provided significant outperformance during fiscal year 2005. For the five-year period ended June 30, 2005, the domestic equity portfolio has earned an annualized return (net of fees) of -0.95 percent, versus -1.28 percent for the Dow Jones Wilshire 500 Index.

INTERNATIONAL EQUITY

At June 30, 2005, the international equity portfolio had a net fair value of $2.734 billion, representing 14.59 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.

International Equity Portfolio

June 30, 2005



The international equity portfolio has three primary components:

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.

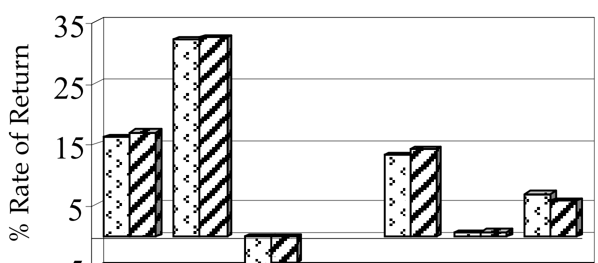
Passive Equity. A passively managed diversified portfolio consisting of commingled index fund investments in Canadian and developed European countries' corporate equity securities. The objective of the passive equity portfolios is to track the performance of the Morgan Stanley Capital International Canada 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 16.01 percent during fiscal year 2005, compared to 16.95 percent for the benchmark. For the five-year period ended June 30, 2005, this portfolio has slightly underperformed its benchmark, earning an annualized return of 0.60 percent versus 0.72 percent for the benchmark.

International Equity Performance

For the periods ended June 30



	2005	2004	2003		3 yr	5 yr	10 yr
IPERS' Portfolio *	16.01	31.92	-4.91		13.32	0.60	6.90
Custom Benchmark	16.95	32.50	-4.19		14.08	0.72	5.76

* Net of fees

PUBLIC EQUITY PORTFOLIO—TOP 10 HOLDINGS

The top 10 holdings within the public equity portfolio at June 30, 2005, 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, 2005	Fair Value	% of Total IPERS' Public Equity Portfolio
Citigroup Incorporated	$51,227,740	0.57
Bank of America Corporation	40,533,607	0.45
General Electric Company	36,952,619	0.41
Pfizer Incorporated	33,311,124	0.37
Exxon Mobil Corporation	33,252,142	0.37
Abbott Laboratories	31,459,519	0.35
Goldman Sachs Group Incorporated	29,963,274	0.33
Aetna Incorporated	28,448,670	0.32
Walgreen Company	27,938,925	0.31
United Technologies Corporation	27,918,995	0.31

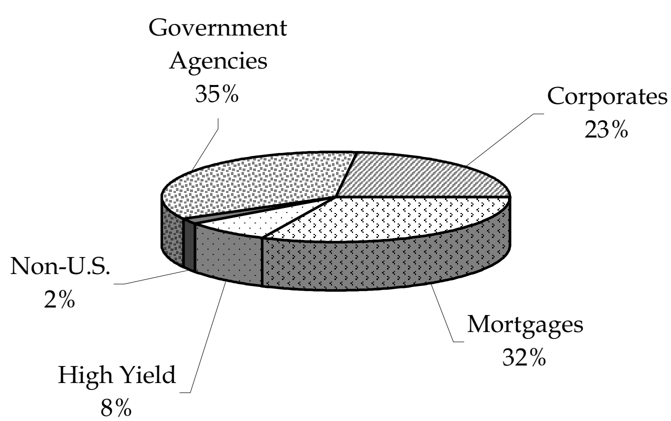
[1]Excludes all holdings in commingled fund accounts.

FIXED INCOME

IPERS has a significant allocation to fixed income securities, with a target asset allocation of 34 percent to core plus fixed income securities and 5 percent to high yield securities. At fiscal year end, IPERS' core plus portfolio was 34.4 percent of total Fund assets and the high yield portfolio was 4.4 percent of total Fund assets. The total return for the consolidated fixed income portfolio (core plus and high yield portfolios combined) for the year ended June 30, 2005, was 7.97 percent. The consolidated fixed income portfolio fair value was $7.283 billion and the average bond rating for the portfolio was AA.

Total Fixed Income Portfolio

June 30, 2005



IPERS' fixed income portfolio is managed through two strategies, as described below:

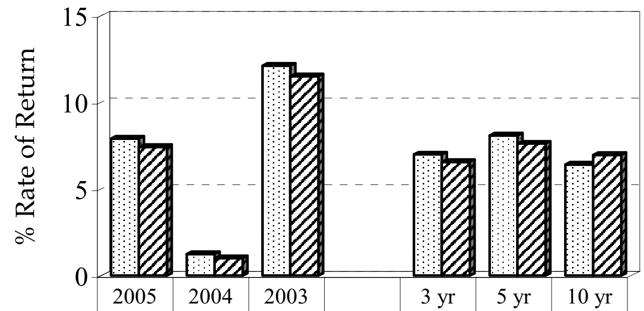
Core Plus. The objective of the core plus fixed income portfolio is to generate a return above the return of the overall fixed income market. Approximately 34 percent of the core plus portfolio is dedicated to a passively managed "core" investment in an index fund designed to earn the return of the Lehman Brothers U.S. Aggregate Index (the "Aggregate Index"), an index consisting of high-quality U.S. investment grade fixed income securities. The remainder of the core plus portfolio is actively managed with the objective of exceeding the return of the Lehman Brothers U.S. Universal Index (the "Universal Index") by 50 basis points, net of fees, over a full market cycle. The Universal Index is a broader "core plus" index, consisting of the core Aggregate Index, plus other fixed income sectors available to U.S. investors, such as commercial mortgage-backed securities (CMBS), high yield bonds, dollar-denominated emerging market debt, and Eurodollar bonds.

The core plus portfolio is a diversified portfolio of fixed income securities, utilizing cash and cash equivalents, forward foreign exchange contracts, swaps, 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 actively managed portion of the core plus portfolio is expected to have interest rate sensitivity similar to the Universal Index, and be diversified by industry, sector, and security issuers.

In fiscal year 2005, the market's realization that inflation was under control, coupled with investors' continued demand for higher yields, helped to produce attractive returns in the fixed income markets. According to *Wilshire Associates*, the high yield sector generated a return of 10.09 percent, the corporate investment grade bond sector generated a return of 8.15 percent, and the non-U.S. bond sector generated a return of 9.22 percent on a hedged basis and 7.74 percent on an unhedged basis in fiscal year 2005. IPERS' core plus fixed income portfolio benefited from its exposure to these sectors, and earned an annual rate of return of 7.91 percent for the fiscal year ended June 30, 2005, exceeding the 7.43 percent return of the Universal Index.

The graph on the following page provides a historical review of performance for the core plus fixed income portfolio:

Core Plus Fixed Income Performance
For the periods ended June 30



	2005	2004	2003		3 yr	5 yr	10 yr
IPERS' Portfolio *	7.91	1.24	12.11		6.99	8.09	6.41
Custom Benchmark	7.43	1.00	11.51		6.56	7.62	6.97

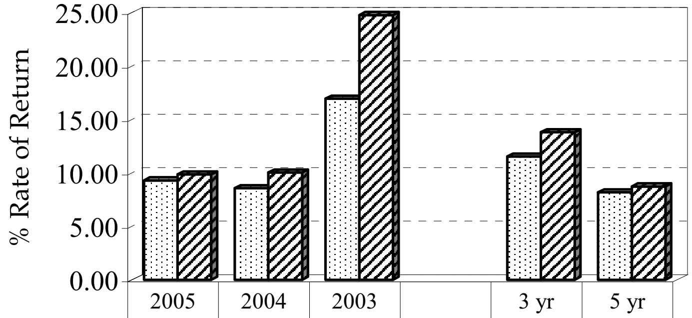
* Net of fees

High Yield. IPERS' high yield fixed income portfolio is designed as an actively managed, risk-controlled strategy that seeks to safely capture higher coupon income by investing in the debt of higher quality companies rated below investment grade. Bottom-up fundamental research is emphasized in selecting the high-yielding debt of U.S. and Canadian companies, with the objective of outperforming the Citigroup High-Yield Cash-Pay Capped Index by 100 basis points, net of fees, over a full market cycle.

As mentioned above, the high yield sector was the highest returning fixed income sector in fiscal year 2005. However, a very large portion of the return was attributable to outsized gains on the lowest quality issuers in the high yield debt market. Since IPERS' high yield investment strategy emphasizes investment in higher quality issuers, the High Yield fixed income portfolio's return of 9.30 percent for the fiscal year ended June 30, 2005, trailed the 9.86 percent return of the Citigroup High-Yield Cash-Pay Capped Index.

The graph on the next page provides a historical review of performance for the high yield fixed income portfolio:

High Yield Bonds Performance
For the periods ended June 30



	2005	2004	2003		3 yr	5 yr
IPERS' Portfolio *	9.30	8.57	16.95		11.54	8.18
Custom Benchmark	9.86	10.04	24.76		13.80	8.73

* Net of fees

FIXED INCOME PORTFOLIO—TOP 10 HOLDINGS

The top 10 holdings within the consolidated fixed income portfolio (core plus and high yield combined) at June 30, 2005, 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, 2005	Fair Value	% of Total IPERS' Fixed Income Portfolio
United States Treasury 2YR 3.75% 31FEB07	$172,209,635	2.67
FNMA TBA 30YR 6.00% AUG 05	98,162,042	1.52
FNMA TBA 15YR 5.50% JUL 06	91,079,988	1.41
Forward EUR/USD	85,581,465	1.33
FNMA TBA 15YR 6.50% JUL 05	74,549,234	1.15
United States Treasury 5YR 3.5% 15FEB10	67,288,563	1.04
Forward USD/EUR	66,089,877	1.02
FNMA TBA 30YR 6.00% JUL 06	64,575,000	1.00
United States Treasury Inflation Index Note 3.375% 15JAN07	60,768,802	0.94
United States Treasury 2YR 3.50% 31MAY07	53,129,600	0.82

[1]Excludes all holdings in commingled fund accounts.

PRIVATE EQUITY/DEBT

At June 30, 2005, IPERS' private equity/debt portfolio had a fair value of $1.176 billion, representing 6.28 percent of the total IPERS portfolio. From the inception of the private equity/debt portfolio in 1985 through June 30, 2005, the System has committed $3,521,115,997 to 146 partnerships. Of that total, $1,081,584,604 remains to be called for investment. During the fiscal year, IPERS committed $486,394,168 to 19 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 19.78 percent in fiscal year 2005 versus 11.30 percent for its benchmark. However, private equity investments typically span ten years or more, so a longer evaluation time horizon is appropriate. The private equity/debt portfolio has returned 16.41 percent versus its benchmark return of 16.52 percent for the ten-year period ended June 30, 2005. Since inception in 1985, the IPERS private equity/debt portfolio has returned 14.13 percent versus its benchmark return of 15.82 percent.

One drawback to comparing portfolio return against benchmark return is that it does not provide any information on how the portfolio's performance compares to the universe of private equity investment opportunities that were available at the time IPERS made its investments. The *Venture Economics*[1] All Private Equity funds performance database includes data from 1,493 partnerships, and makes it possible to compare a portfolio to a universe of private equity partnerships that raised capital over the same time period. Another performance analysis problem is that IRRs can be sensitive to the estimated value of unrealized investments. Therefore, IRRs for the portfolio should be reviewed in conjunction with "distributions to paid-in capital" (DPI) ratios, which ignore valuations and measure the ratio of cumulative distributions to cumulative paid-in capital for the time period, i.e., how much of the investment performance has been realized.

[1]All *Venture Economics* information is as of October 21, 2005, with data current for reporting periods ended June 30, 2005. Data is continuously updated and is therefore subject to change.

The table below compares the performance of IPERS' private equity/debt portfolio to the IRR and DPI of the *Venture Economics* database of private equity partnerships invested in years 1985 through June 30, 2005.

	IRR	DPI
IPERS— Private Equity/Debt Portfolio	14.13%	1.25
Venture Economics— All Private Equity Funds	13.80%	0.89

The performance measures shown above do not fully reflect the evolution that has occurred in the implementation of IPERS' private equity/debt strategy. For example, the IPERS Investment Board determined that as of 1993 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 since inception results shown above include the impact of decisions made prior to delegating the selection process to an investment manager.

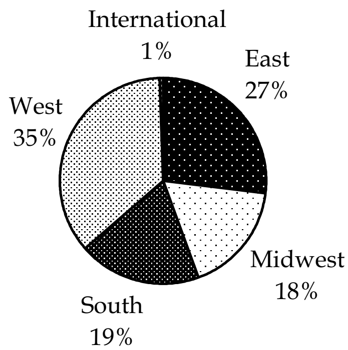
The decision to give full investment discretion to a management firm for the private equity/debt portfolio has proven successful to date. IPERS' private equity investment manager has produced a net IRR of 18.69 percent since the firm was given full discretion to select partnerships on IPERS' behalf on January 1, 1993. This return compares favorably to the 8.68 percent IRR of the custom benchmark IPERS has established for the manager, the 12.32 percent IRR of IPERS' asset class benchmark for private equity (Wilshire 5000 + 300 bps) over the time period, and the pooled average IRR of 13.80 percent reported by *Venture Economics* for All Private Equity funds in its database for vintage years 1993 through 2005. The DPI of 0.81 for the manager's discretionary portfolio also compares favorably to *Venture Economics'* pooled average DPI of 0.72 for All Private Equity funds in its database for years 1993 through 2005.

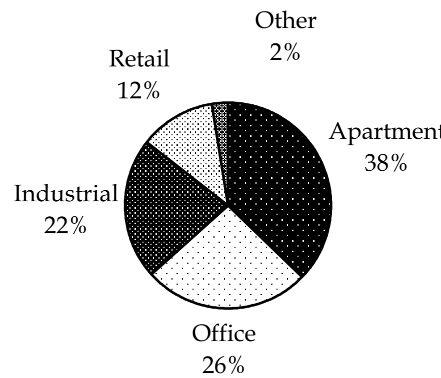
The decision to give full investment discretion to a management firm for the private equity/debt portfolio has proven successful.

REAL ESTATE

At June 30, 2005, $1.216 billion, or 6.5 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 21.00 percent, compared to 20.88 percent for the portfolio's benchmark (85 percent NCREIF NPI/15 percent Dow Jones Wilshire REIT + 0.25 percent). Operating income and property values were both positive in fiscal year 2005.

Real Estate Portfolio
June 30, 2005





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, 2005, the System held investments of $945,579,947 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	$11,824,947	$794,045,513	$805,870,460
Fixed Income	-	136,447,487	136,447,487
Private Equity/Debt	3,262,000	-	3,262,000
Total	$15,086,947	$930,493,000	$945,579,947

Schedule of Brokerage Commissions Paid

Year ended June 30, 2005

BROKERAGE FIRMS	Commissions Amount Paid[1]	Average Per Share	% of Total Paid for Period
Goldman Sachs & Co	$496,120	$0.0599	11.54
Merrill Lynch Pierce Fenner & Smith	425,741	0.0039	9.90
Morgan Stanley & Co	391,107	0.0038	9.10
Citigroup Global Markets Inc	341,732	0.0257	7.95
UBS Securities LLC	308,702	0.0232	7.18
Bear Stearns Securities	247,347	0.0351	5.75
Lehman Brothers Inc New York	190,695	0.0151	4.44
Credit Suisse First Boston	182,541	0.0164	4.25
JP Morgan Securities Inc	156,715	0.0004	3.65
Deutsche Bank Securities New York	130,827	0.0015	3.04
Thomas Weisel Partners LLC	76,461	0.0412	1.78
Banc/America Securities	94,324	0.0428	2.19
Prudential Equity Group	59,688	0.0368	1.39
Legg Mason Wood Walker Inc	57,875	0.0488	1.35
Sanford C Bernstein & Co LLC	56,733	0.0235	1.32
Jefferies & Company Inc	44,547	0.0311	1.04
RBC Dominion Securities Corp	42,757	0.0447	0.99
Wachovia Securities Capital Market	37,520	0.0483	0.87
Fidelity Capital Markets	33,960	0.0375	0.79
HG Asia New York	32,420	0.0040	0.75
Investment Technology Group	26,728	0.0154	0.62
Cantor Fitzgerald & Co Inc	25,487	0.0267	0.59
Edwards AG & Sons Inc	25,197	0.0318	0.59
ABN AMRO Securities LLC	24,711	0.0125	0.57
J B Were and Son	24,077	0.0269	0.56
Others (Including 151 brokerage firms)	764,420	0.0011	17.78
Total	$4,298,432	$0.0029	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 September 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 Dow Jones Wilshire 5000 Composite 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 time weighted return objective for the real estate portfolio is to exceed a weighted benchmark consisting of 85% of the National Council of Real Estate Investment Fiduciaries' Property Index (NPI) and 15% of the Wilshire Real Estate Investment Trust Index (Wilshire REIT) by 25 basis points (.25%) over rolling five-year periods. (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 Dow Jones Wilshire 5000 Composite 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.

ACTUARIAL



05

Actuary's Certification Letter

Comparative Statistics

Actuarial Balance Sheet

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November 21, 2005

We have performed an actuarial valuation of the Iowa Public Employees' Retirement System (System) as of June 30, 2005. 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, 2005.

- 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.

The actuarial valuation results provide a "snapshot" view of the System's financial condition on June 30, 2005. The results reflect net favorable experience for the past plan year as demonstrated by an unfunded actuarial liability (UAL) that was lower than was expected, based on actuarial assumptions. The UAL on June 30, 2005 for all membership groups covered by IPERS is $2.289 billion as compared to an expected UAL of $2.321 billion. The favorable experience was the sum of an experience gain of $89 million on the actuarial value of assets and an experience loss of $57 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 9.09% in the 2004 valuation report to 9.12% in the 2005 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 the previous three valuations, 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, 2005 valuation, favorable actuarial experience occurred for the System. However, because the amortization period is infinite, IPERS administrative rules dictate that no portion of the gain is to be transferred 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 nine years (including the January 2006 payment), plus a reduced payment in the tenth 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 gain on assets. Between June 30, 2004 and June 30, 2005, the actuarial value of assets increased by $999 million. This represented an approximate rate of return of 8.0% as compared to the actuarial assumed rate of 7.5%. The resulting actuarial gain was $89 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, 2005.** 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, 2005 and June 30, 2004 are summarized below:

	June 30, 2005	June 30, 2004	Change
Actuarial Balance Sheet Liability	$24,573,803,251	$23,356,182,725	5.2%
Actuarial Liability	20,240,098,667	19,128,410,606	5.8%
Liability for Accrued Benefits	16,399,413,020	15,377,914,627	6.6%

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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, 2004 and June 30, 2005. 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 gain of $32 million. The change in the unfunded actuarial liability between June 30, 2004 and 2005 is shown below (in millions):

Unfunded Actuarial Liability, June 30, 2004	$ 2,176
• Expected change in UAL due to amortization method	42
• Expected change in UAL due to contributions below actuarial rate	103
• Investment (gain)/loss	(89)
• Liability (gain)/loss from actual experience	57
• Benefit enhancements	0
• Change in actuarial assumptions	0
Unfunded Actuarial Liability before FED transfer, June 30, 2005	$ 2,289
• FED Transfer	0
Unfunded Actuarial Liability after FED transfer, June 30, 2005	$ 2,289

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. The results of the June 30, 2005 valuation are summarized below:

	Actuarial Rate	Statutory Rate	Shortfall
Regular Membership	11.49%	9.45%	2.04%
Special Services 1 (Sheriffs and Deputies)	16.74%	16.74%	0.00%
Special Services 2 (All others)	15.20%	15.20%	0.00%

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 (9.12%) is so close to the statutory contribution rate of 9.45%, the remaining 0.33% 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.

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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 2.04% to 11.49% of payroll. This rate is determined based on the snapshot of the System taken on the valuation date, June 30, 2005, and applies only for the fiscal year beginning July 1, 2006. 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 in 2003 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.

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 all valuations since 2002).

(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. While the most recent year's asset returns exceeded the assumed rate, the long term situation has not changed materially.

Given the current normal cost rate and the unfunded actuarial liability, 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.

OFFICES IN PRINCIPAL CITIES WORLDWIDE

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)
2005	$2,891,029,224	$7,841,276,253	$7,413,449,564	$17,951,490,071	100%	100%	97%
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%

Summary

IPERS, like many 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 (0.33%) difference between the 9.45% statutory rate and the 9.12% normal cost rate (cost allocated to the current year of service worked by active members), the unfunded actuarial liability cannot be amortized. With slightly favorable net experience, 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 11.49% of payroll. This rate is determined based on the snapshot of the System taken on the valuation date, June 30, 2005, and applies only for the fiscal year beginning July 1, 2006. The rate necessary for the System to continue to be "fully funded" in future years will change each year as the deferred actuarial investment experience is recognized and as other experience (both investment and demographic) impacts the System. The Asset/Liability Study completed in 2003 indicated that, in order to reach a 30 year amortization of the UAL by 2014 (and not to exceed that limit thereafter), an estimated 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 strong investment returns for FY2004 and FY2005, the current deferred actuarial investment gain for IPERS is $273 million. This reverses the situation faced in the past few years of having deferred investment losses. However, even with the deferred gain, 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.

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, Inc. We also provided the information that was used in the Schedule of Funding Progress located in the Financial section.

November 21, 2005
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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, 2005 and June 30, 2004 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

COMPARATIVE STATISTICS

	June 30, 2005	June 30, 2004	% Chg	
SYSTEM MEMBERSHIP				
1. Active Membership				
- Number of Members	160,876	160,003	0.5	
- Projected Payroll for Upcoming Fiscal Year	$5,480M	$5,293M	3.5	
- Average Salary	$34,066	$33,082	3.0	
2. Inactive Membership				
- Number of Vested Deferred Members	26,919	35,788	(24.8)	*
- Number of Nonvested Members	38,563	67,341	(42.7)	*
3. Retired Membership				
- Number of Retirees/Beneficiaries	79,419	76,782	3.4	
- Average Annual Retirement Benefit	$10,215	$9,787	4.4	
ASSETS AND LIABILITIES				
1. Net Assets (excluding FED reserve)				
- Fair Value	$18,224M	$16,726M	9.0	
- Actuarial Value	17,951M	16,952M	5.9	
2. Projected Liabilities				
- Retired Members	$7,841M	$7,255M	8.1	
- Inactive Members	456M	439M	3.9	
- Active Members	16,277M	15,662M	3.9	
- Total Liability	24,574M	23,356M	5.2	
3. Actuarial Liability	$20,240M	$19,128M	5.8	
4. Unfunded Actuarial Liability	$2,289M	$2,176M	5.2	
5. Funded Ratio (Actuarial Value Assets/Actuarial Liability)	88.69%	88.62%	0.1	
SYSTEM CONTRIBUTIONS				
1. Statutory Contribution Rate**	9.45%	9.45%	0.0	
2. Normal Cost Rate	9.12%	9.09%	0.3	
3. Years Required to Amortize Unfunded Actuarial Liability	Infinite	Infinite	N/A	
4. Actuarially Required Contribution Rate (ARC)	11.49%	11.42%	0.6	

M = ($)Millions

* Law changes in 97B.48 allowed mandatory distributions to members who were inactive more than five years and whose account value was less than $3,000.

** Contribution for certain special groups (4% 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: 3.50% per annum.

4. Payroll Growth: 4.00% per annum

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 Table 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%	16.5%	16.5%	11.0%	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%	22.0%	16.5%	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+	20	10

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10. Retirement Rates

Early Retirement with Reduced Benefits

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

Normal Retirement[1]

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

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

Terminated vested members are assumed to retire at age 62.

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

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

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

The actuarial assumptions were developed both from the experience of the System and from standard actuarial sources, based on a three-year experience study (1998–2001) conducted by Milliman, 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, 2005

ASSETS

Actuarial value of assets	$17,951,490,071
Present value of future normal costs	4,333,704,584
Present value of future contributions to amortize the unfunded actuarial liability	2,288,608,596
Total Net Assets	$24,573,803,251

LIABILITIES

Present Value of Future Benefits	
Retired Members and Beneficiaries	
Annuity benefits being paid and contingent payments upon death	$ 7,841,276,253
Active Members	
Retirement benefits	14,334,022,015
Death benefits	207,207,489
Termination benefits	1,032,361,437
Disability benefits	703,422,288
Inactive Members	
Retirement allowances & death benefits for vested members	431,107,491
Accumulated employee account balances for nonvested members	24,406,278
Total Liabilities	$24,573,803,251

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STATISTICAL



05

Membership Summary

Growth of Net Investment Portfolio Assets

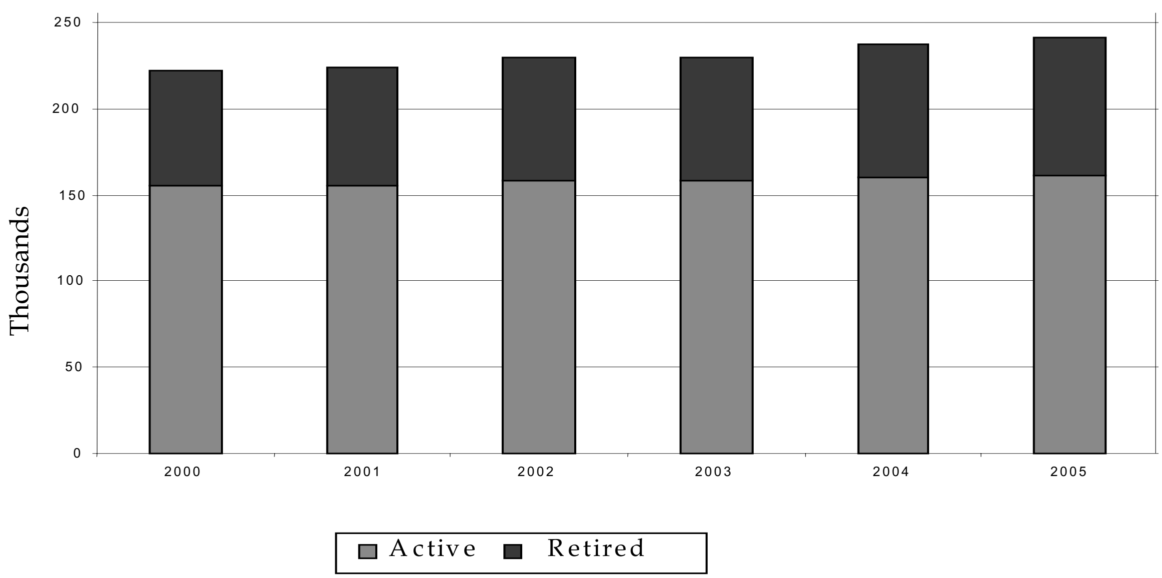
Fiscal Year Investment Returns 1981–2005

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
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	19,647,841,652	17,249,916,851
2005	79,604	160,905	2,437,197,885	919,885,957	20,990,729,636	18,767,228,779

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	31+	Total
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
2005**								
Number of Retirees	4,224	11,140	11,815	11,798	11,069	9,171	20,371	79,588
Average Monthly Benefit	$87	$179	$350	$555	$824	$1,246	$1,763	$873
Average Years of Service	4.45	8.48	13.35	18.38	23.28	28.19	34.41	21.42

*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
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	-	4,712
Avg. Monthly Benefit	$801	$830	$1,278	$1,266	$1,426	$1,178	$62	$-	$1,148
Avg. Years of Service	17.51	17.63	22.38	20.21	24.68	19.17	9	-	20.65
2004									
Number of Retirees	614	696	2,853	522	29	229	-	-	4,943
Avg. Monthly Benefit	$926	$809	$1,318	$1,248	$1,207	$1,064	$-	$-	$1,178
Avg. Years of Service	18.6	17.00	22.20	19.17	19.96	17.08	-	-	20.45
2005									
Number of Retirees	590	722	2,559	757	19	232	-	-	4,879
Avg. Monthly Benefit	$998	$1,031	1,335	$1,560	$1,699	$1,282	$-	$-	$1,283
Avg. Years of Service	19.01	18.97	22.19	22.04	25.59	19.38	-	-	21.18

*Amount included in column entitled Other.

Average Benefit Payments by Retirement Date

For retirees as of June 30, 2005

	Years of Credited Service							
Fiscal Year	0-5	6-10	11-15	16-20	21-25	26-30	31+	Total
Prior to 1/1/76:								
Number of Retirees	37	252	246	193	116	75	213	1,132
Average Monthly Benefit	$63	$122	$276	$341	$417	$486	$548	$325
Average Years of Service	5.18	8.44	13.21	17.98	22.83	28.08	38.36	19.40
Between 1/1/76 and 6/30/82:								
Number of Retirees	267	839	990	782	690	463	799	4,830
Average Monthly Benefit	$54	$127	$287	$368	$463	$611	$713	$386
Average Years of Service	4.68	8.55	13.30	18.38	23.11	27.96	35.79	19.35
Between 7/1/82 and 6/30/86:								
Number of Retirees	290	990	1,145	1,150	851	732	1,075	6,233
Average Monthly Benefit	$59	$151	$303	$423	$569	$754	$905	$483
Average Years of Service	4.58	8.53	13.50	18.27	23.24	28.25	34.53	19.87
Between 7/1/86 and 6/30/90:								
Number of Retirees	311	1,316	1,592	1,731	1,354	907	2,093	9,304
Average Monthly Benefit	$71	$156	$303	$433	$602	$787	$1,007	$548
Average Years of Service	4.58	8.59	13.42	18.34	23.17	28.02	33.93	20.81
Between 7/1/90 and 6/30/96:								
Number of Retirees	783	2,239	2,757	2,986	2,807	2,042	4,377	17,991
Average Monthly Benefit	$74	$164	$303	$479	$695	$1,000	$1,301	$688
Average Years of Service	4.43	8.52	13.40	18.36	23.31	28.14	34.47	21.57
Between 7/1/96 and 6/30/00:								
Number of Retirees	836	2,222	2,224	2,183	2,273	1,996	4,929	16,663
Average Monthly Benefit	$81	$184	$370	$612	$887	$1,378	$1,942	$1,019
Average Years of Service	4.52	8.47	13.23	18.45	23.28	28.33	34.52	22.32
Between 7/1/00 and 6/30/05:								
Number of Retirees	1,700	3,282	2,861	2,773	2,978	2,956	6,885	23,435
Average Monthly Benefit	$108	$222	$453	$790	$1,172	$1,709	$2,451	$1,272
Average Years of Service	4.33	8.37	13.32	18.44	23.37	28.21	34.12	21.84
Total as of June 30, 2005:								
Number of Retirees	4,224	11,140	11,815	11,798	11,069	9,171	20,371	79,588
Average Monthly Benefit	$87	$179	$350	$555	$824	$1,246	$1,763	$873
Average Years of Service	4.45	8.48	13.35	18.38	23.28	28.19	34.41	21.42
IOASI Retirees*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	16
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 Payments 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
2005	79,604	657,249,915	125,357,178	24,084,063	24,225,454	1,060,991	317,312	261,551

*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, 2005

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	15,243	9,243	4,857	629	493	21	-	-
201–400	16,784	11,424	3,921	808	621	10	-	-
401–600	9,825	6,143	2,679	533	455	15	-	-
601–800	6,975	4,310	1,879	399	368	19	-	-
801–1,000	6,092	4,192	1,313	291	291	5	-	-
1,001–1,200	4,244	2,918	965	133	224	4	-	-
1,201–1,400	3,291	2,280	748	124	125	10	1	3
1,401–1,600	3,083	2,259	612	95	99	10	2	6
1,601–1,800	2,580	2,119	335	54	63	3	3	3
1,801–2,000	2,539	2,223	209	52	42	5	6	2
Over 2,000	8,948	8,293	518	72	51	9	5	-
Totals	79,604	55,404	18,036	3,190	2,832	111	17	14

Retired Members by Benefit Option**

As of June 30, 2005

Amount of Monthly Benefit	Number of Retirees	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Misc.***
$ 1–200	15,243	5,602	2,971	2,516	1,503	2,352	261	38
201–400	16,784	7,066	3,331	1,771	2,075	2,291	236	14
401–600	9,825	3,659	2,066	1,006	1,691	1,201	202	-
601–800	6,975	2,454	1,457	618	1,465	760	221	-
801–1,000	6,092	1,919	1,354	553	1,443	628	195	-
1,001–1,200	4,244	1,181	1,011	408	983	423	238	-
1,201–1,400	3,291	873	664	267	927	342	218	-
1,401–1,600	3,083	744	649	271	816	382	221	-
1,601–1,800	2,580	604	486	230	682	340	238	-
1,801–2,000	2,539	517	451	261	647	379	284	-
Over 2,000	8,948	1,684	1,590	1,226	1,502	1,357	1,589	-
Totals	79,604	26,303	16,030	9,127	13,734	10,455	3,903	52

**See definitions of Benefit Options on pages 126–127.
***Consists of benefits available under previous laws.

Active Membership Statistics

For 10 years ended June 30

Fiscal Year Ended June 30	Total Actives	Percent Change	Average Covered Wage	Average Age	Average Service Credit (Years)
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
2005	160,905	0.5	31,376	45.6	11.6

Analysis of Change in Active Membership

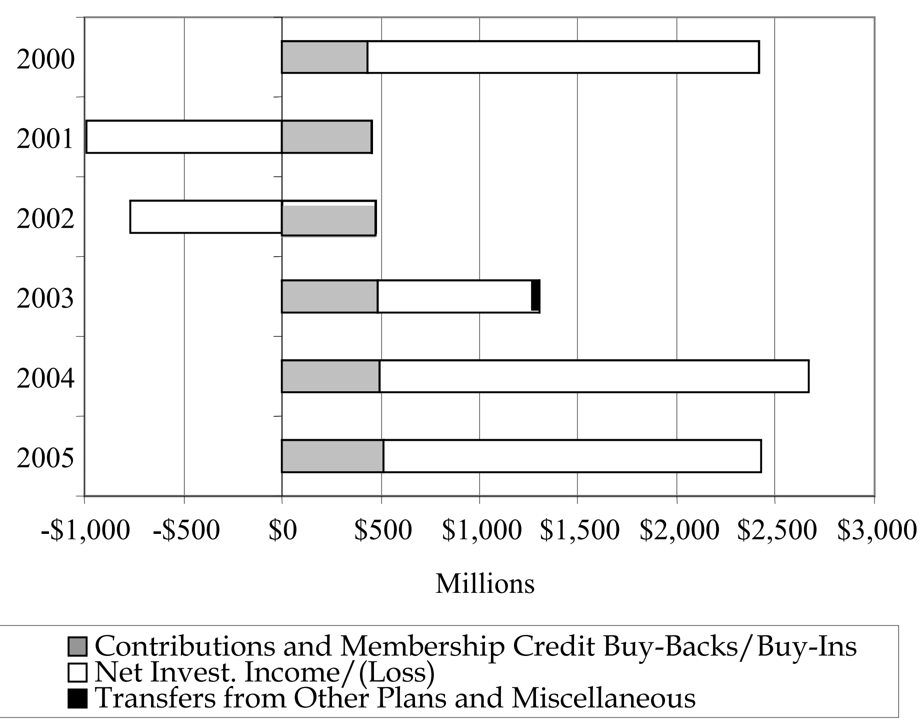
For 10 years ended June 30

Fiscal Year Ended June 30	Beginning Members	Additions	Retired	Died	Other Terminations	Ending Members
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
2005	160,034	17,598	3,716	156	12,855	160,905

Additions by Source Last 6 fiscal years						
Fiscal Year	Contributions	Membership Credit Buy-Backs/Buy-Ins	Net Investment Income/(Loss)	Transfer From Another Pension Plan	Miscellaneous Income	Total
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
2005	513,449,599	11,217,246	1,912,489,040	-	42,000	2,437,197,885

Additions by Source

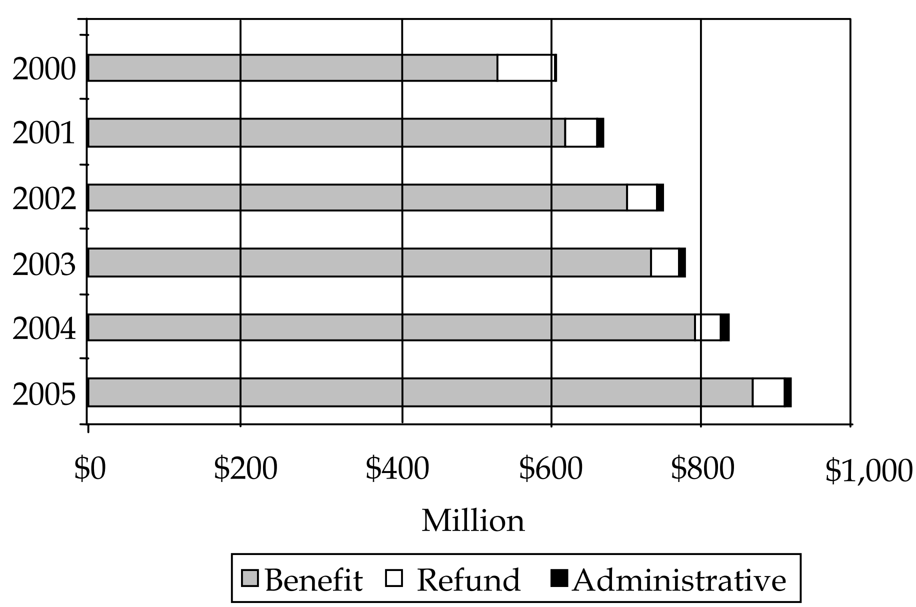
For the years ended June 30



Deductions by Type
Last 6 fiscal years

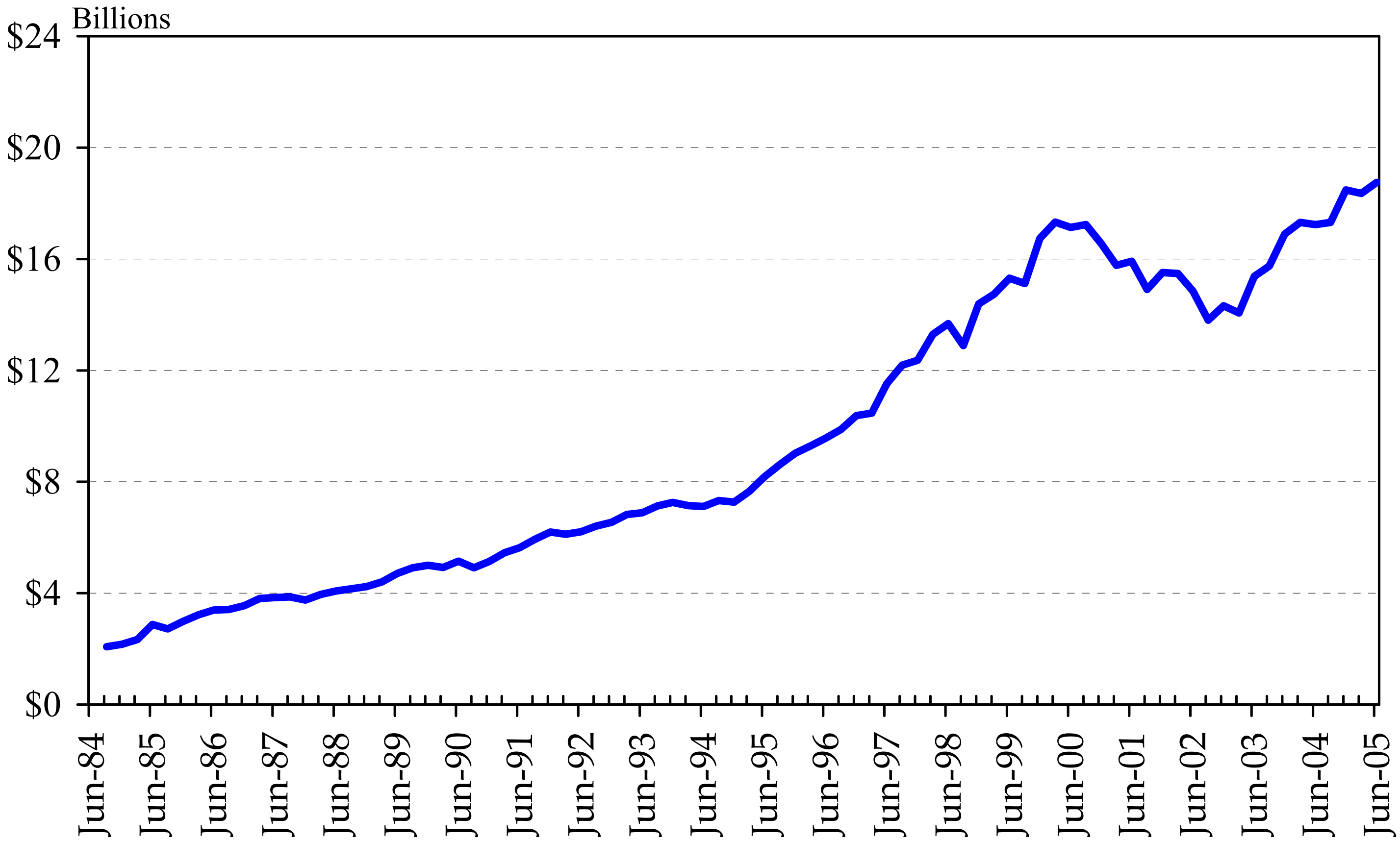
Fiscal Year	Benefits	Refunds	Administrative Expenses	Total
2000	$533,747,215	$65,608,628	$5,865,985	$605,221,828
2001	624,259,449	42,073,825	7,264,447	673,597,721
2002	705,767,690	37,915,199	7,581,105	751,263,994
2003	736,330,878	35,591,323	8,041,113	779,963,314
2004	792,866,773	36,430,011	7,959,601	837,256,385
2005	868,557,596	43,113,458	8,214,903	919,885,957

Deductions by Type
For the years ended June 30



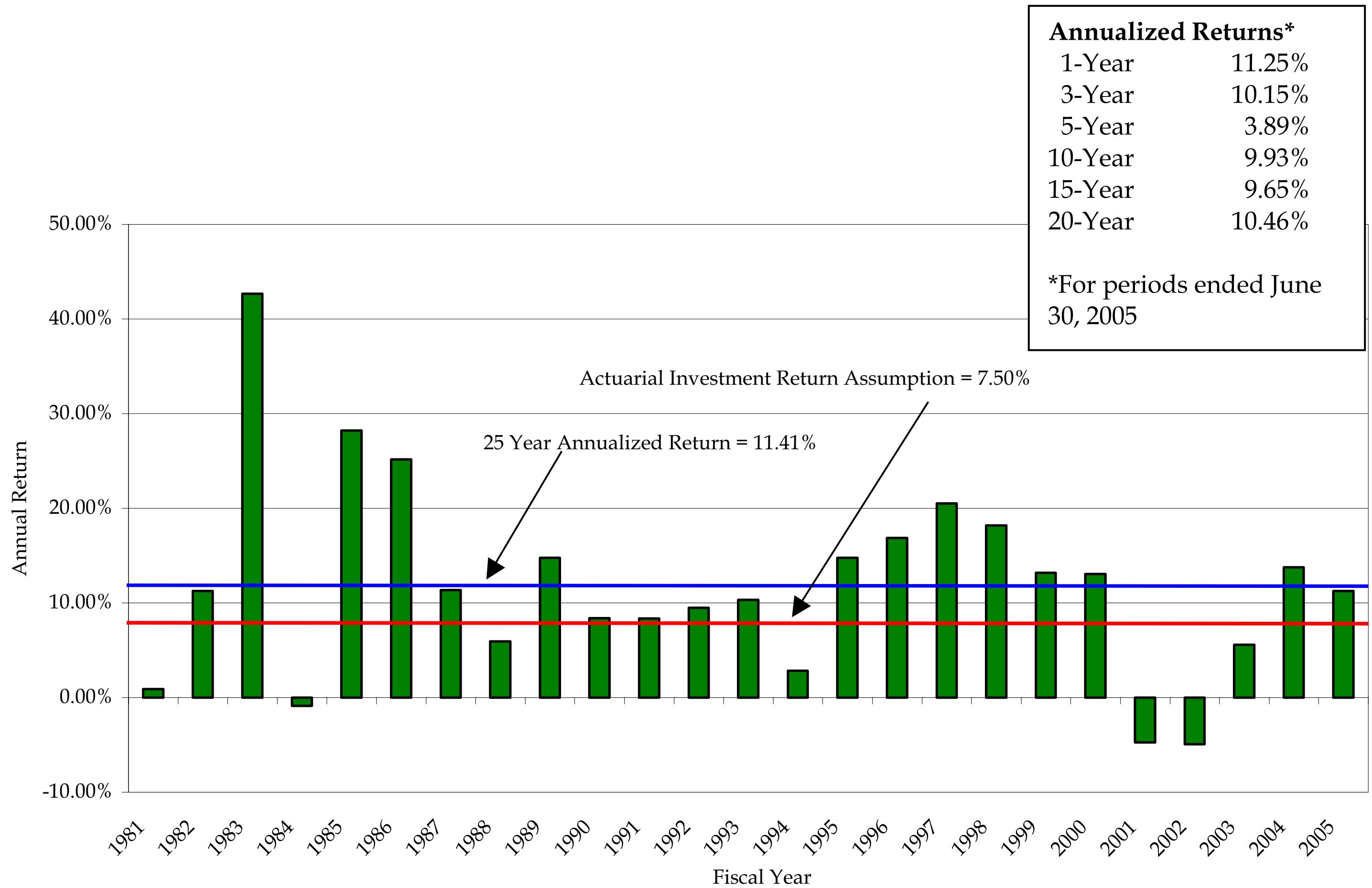
GROWTH OF NET INVESTMENT PORTFOLIO ASSETS

Historical Summary as of June 30, 2005



Asset values above are net of the periodic withdrawals made since FY1997 to provide partial funding for IPERS' expenses (retirement benefit payments, refund and administrative costs).

FISCAL YEAR INVESTMENT RETURNS 1981–2005



PLAN SUMMARY

05

Composition

Membership

Buy-Backs/Buy-Ins

Contributions

Vesting

Refunds

Benefits

Distribution of IPERS Benefit Payments in Iowa Counties

Benefit Payments Summary

Distribution of IPERS Benefit Payments by State

Composition

Membership

For the fiscal years ended June 30

	2005	2004
Retired Members		
All Retired Members	79,604	76,961
Average Years of Service	21	21
Average Monthly Benefit	$866	$833
Current Year Member Retirements	4,879	4,943
Average Years of Service	21	20
Average Monthly Benefit	$1,283	$1,178
Retired Reemployed**	6,629	6,487
Active Members	160,905	160,034
Inactive Vested	30,599	39,568
Inactive Nonvested	34,817	63,481
Total Membership	**305,925**	**340,044**

**Retired reemployed members are included in the number of retired members.

Employers

For the fiscal years ended June 30

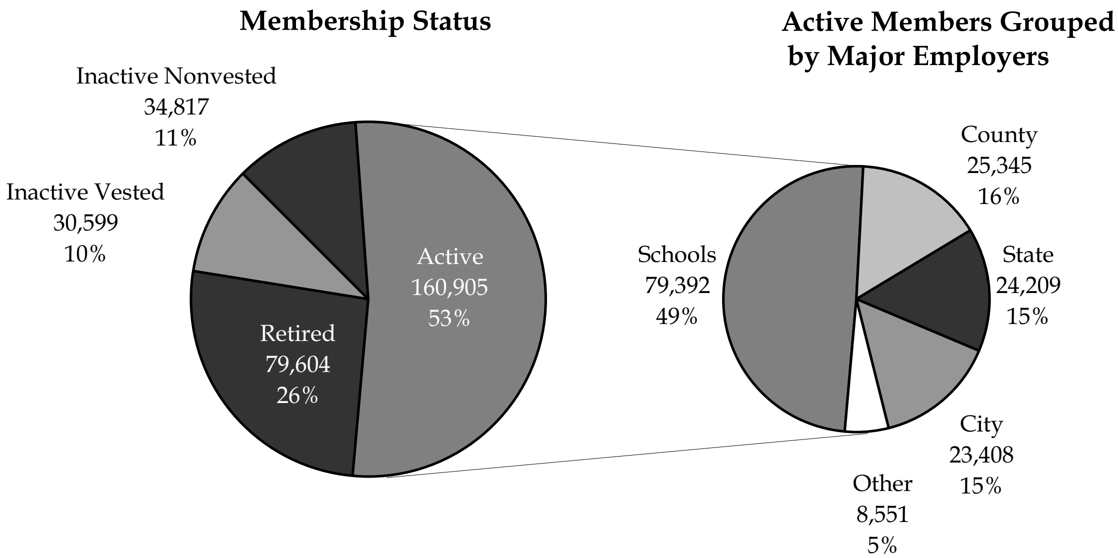
	2005		2004	
Employer Type	**Number of Entities**	**Covered Wages**	**Number of Entities**	**Covered Wages**
City	1,280	$ 669,311,464	1,291	$ 643,073,957
County	463	826,648,037	458	799,881,373
School	389	2,388,263,641	389	2,319,347,411
State	22	1,063,294,868	22	1,031,697,883
28E Agencies	129	242,656,636	125	233,576,925
Utilities	82	46,372,638	80	44,136,783
Other	23	313,602	23	313,574
Total	**2,388**	**$5,236,860,886**	**2,388**	**$5,072,027,906**

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, 2005, there were 160,905 members actively contributing to the System employed by 2,388 public employers. The number of active members increased by 0.5 percent from June 30, 2004. The membership profile chart provides further information on the composition of the membership for fiscal year 2005.

Membership Profile
June 30, 2005



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 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 3.70 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" below reflects the current contribution rates for employers and employees. For calendar year 2005, contribution rates were based on the federal wage ceiling of $210,000.

Contribution Rates & Maximum Covered Wages
July 1, 2004–June 30, 2005

IPERS	Employee Rates	Employer Rates	Total Rate	Maximum Covered Wages
Regular Membership	3.70%	5.75%	9.45%	IRC § 401(a)(17) Compensation Limit***
Special Subgroups				
1) Special Services Group 1*	8.535%	8.535%	17.07%	IRC § 401(a)(17) Compensation Limit***
2) Special Services Group 2**	6.16%	9.23%	15.39%	IRC § 401(a)(17) Compensation Limit***

*Includes sheriffs and deputies
**Includes all other public safety members
***$210,000 for calendar year 2005

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 attaining the age of 55 prior to termination.

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 2005 totaled $43,113,458, a substantial increase due to mandatory distribution of small, inactive accounts.

Benefits

IPERS members are eligible for retirement benefits if they are vested, no longer working for an IPERS-covered employer, and meet one of these conditions:

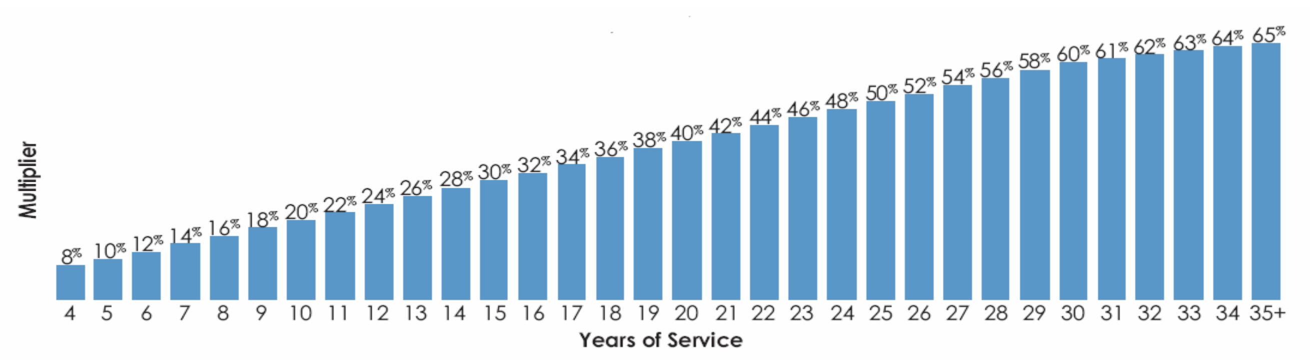
- Attain age 55.
- Retire due to a disability and have been awarded social security disability or railroad retirement disability benefits.
- Members who are age 70 and still actively working for an IPERS-covered employer may apply to begin receiving IPERS retirement benefits while still employed.

Members are vested when they meet one of these conditions:

- Complete 4 years of service.
- Reach age 55 while making contributions to the Plan.

The formula used to calculate the IPERS benefit includes:

- A formula multiplier (based on years of service).
- Highest 3-year average salary.
- Age at retirement (the benefit is reduced if it is received before normal retirement age).



If a member receives benefits before normal retirement age, the benefits are reduced 0.25 percent for each month (or 3 percent per year) that the member receives benefits before the member would have attained normal retirement age.

Normal retirement age is:

- Age 65.
- Age 62 with 20 or more years of covered employment.
- When years of service plus age equals or exceeds 88.

The monthly IPERS benefit check for all retirees at the end of the fiscal year averaged $866. For members retiring in fiscal year 2005, the average benefit was $1,283. The average member retired with 21 years of service.

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 of the member's benefits and the amount and availability of survivor benefits 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 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, 2005						
	Number	Percent			Number	Percent
Option 1	26,303	33%		Option 5	10,455	13%
Option 2	16,030	20%		Option 6 (100%)	1,933	2%
Option 3	9,127	12%		Option 6 (75%)	614	1%
Option 4 (100%)	9,144	12%		Option 6 (50%)	809	1%
Option 4 (75%)	1,070	1%		Option 6 (25%)	547	1%
Option 4 (50%)	2,537	3%		Misc. options	52	Less than 1%
Option 4 (25%)	983	1%		**Total all options**	79,604	

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 2004, the dividends totaled $17,911,022 and the January 2005 FED totaled $37,178,186.

Death Benefits

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

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

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

*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 2005, death benefits paid to beneficiaries or to the estates of deceased nonretired and retired members totaled $16,511,876.

Distribution of IPERS Benefit Payments in Iowa Counties*

In fiscal year 2005

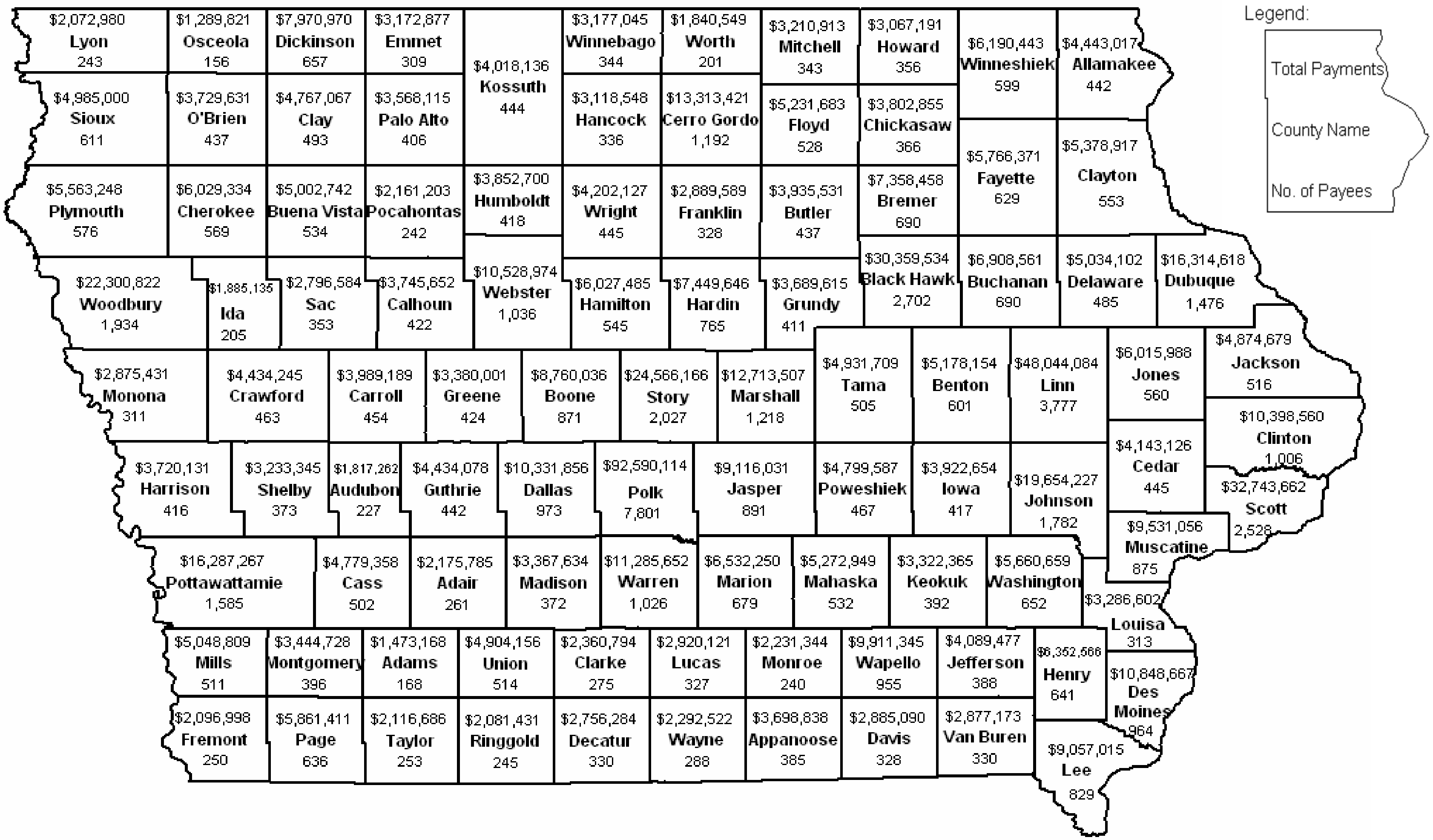
County	Amount	Average	Payees	County	Amount	Average	Payees
Adair	$2,175,785	$8,336	261	Jefferson	$4,089,477	$10,540	388
Adams	1,473,168	8,769	168	Johnson	19,654,227	11,029	1782
Allamakee	4,443,017	10,052	442	Jones	6,015,988	10,743	560
Appanoose	3,698,838	9,607	385	Keokuk	3,322,365	8,475	392
Audubon	1,817,262	8,006	227	Kossuth	4,018,136	9,050	444
Benton	5,178,154	8,616	601	Lee	9,057,015	10,925	829
Black Hawk	30,359,534	11,236	2702	Linn	48,044,084	12,720	3777
Boone	8,760,036	10,057	871	Louisa	3,286,602	10,500	313
Bremer	7,358,458	10,664	690	Lucas	2,920,121	8,930	327
Buchanan	6,908,561	10,012	690	Lyon	2,072,980	8,531	243
Buena Vista	5,002,742	9,368	534	Madison	3,367,634	9,053	372
Butler	3,935,531	9,006	437	Mahaska	5,272,949	9,912	532
Calhoun	3,745,652	8,876	422	Marion	6,532,250	9,620	679
Carroll	3,989,189	8,787	454	Marshall	12,713,507	10,438	1218
Cass	4,779,358	9,521	502	Mills	5,048,809	9,880	511
Cedar	4,143,126	9,310	445	Mitchell	3,210,913	9,361	343
Cerro Gordo	13,313,421	11,169	1192	Monona	2,875,431	9,246	311
Cherokee	6,029,334	10,596	569	Monroe	2,231,344	9,297	240
Chickasaw	3,802,855	10,390	366	Montgomery	3,444,728	8,699	396
Clarke	2,360,794	8,585	275	Muscatine	9,531,056	10,893	875
Clay	4,767,067	9,670	493	O'Brien	3,729,631	8,535	437
Clayton	5,378,917	9,727	553	Osceola	1,289,821	8,268	156
Clinton	10,398,560	10,337	1006	Page	5,861,411	9,216	636
Crawford	4,434,245	9,577	463	Palo Alto	3,568,115	8,788	406
Dallas	10,331,856	10,619	973	Plymouth	5,563,248	9,658	576
Davis	2,885,090	8,796	328	Pocahontas	2,161,203	8,931	242
Decatur	2,756,284	8,352	330	Polk	92,590,114	11,869	7801
Delaware	5,034,102	10,380	485	Pottawattamie	16,287,267	10,276	1585
Des Moines	10,848,667	11,254	964	Poweshiek	4,799,587	10,277	467
Dickinson	7,970,970	12,132	657	Ringgold	2,081,431	8,496	245
Dubuque	16,314,618	11,053	1476	Sac	2,796,584	7,922	353
Emmet	3,172,877	10,268	309	Scott	32,743,662	12,952	2528
Fayette	5,766,371	9,168	629	Shelby	3,233,345	8,668	373
Floyd	5,231,683	9,908	528	Sioux	4,985,000	8,159	611
Franklin	2,889,589	8,810	328	Story	24,566,166	12,119	2027
Fremont	2,096,998	8,388	250	Tama	4,931,709	9,766	505
Greene	3,380,001	7,972	424	Taylor	2,116,686	8,366	253
Grundy	3,689,615	8,977	411	Union	4,904,156	9,541	514
Guthrie	4,434,078	10,032	442	Van Buren	2,877,173	8,719	330
Hamilton	6,027,485	11,060	545	Wapello	9,911,345	10,378	955
Hancock	3,118,548	9,281	336	Warren	11,285,652	11,000	1026
Hardin	7,449,646	9,738	765	Washington	5,660,659	8,682	652
Harrison	3,720,131	8,943	416	Wayne	2,292,522	7,960	288
Henry	6,352,566	9,910	641	Webster	10,528,974	10,163	1036
Howard	3,067,191	8,616	356	Winnebago	3,177,045	9,236	344
Humboldt	3,852,700	9,217	418	Winneshiek	6,190,443	10,335	599
Ida	1,885,135	9,196	205	Woodbury	22,300,822	11,531	1934
Iowa	3,922,654	9,407	417	Worth	1,840,549	9,157	201
Jackson	4,874,679	9,447	516	Wright	4,202,127	9,443	445
Jasper	9,116,031	10,231	891				

Total Iowa Benefit Payments: $743,629,232

*Unaudited fiscal year 2005 numbers. Payments determined by ZIP Code.
Table is based on cash accounting method; financial statements are based on accrual method.

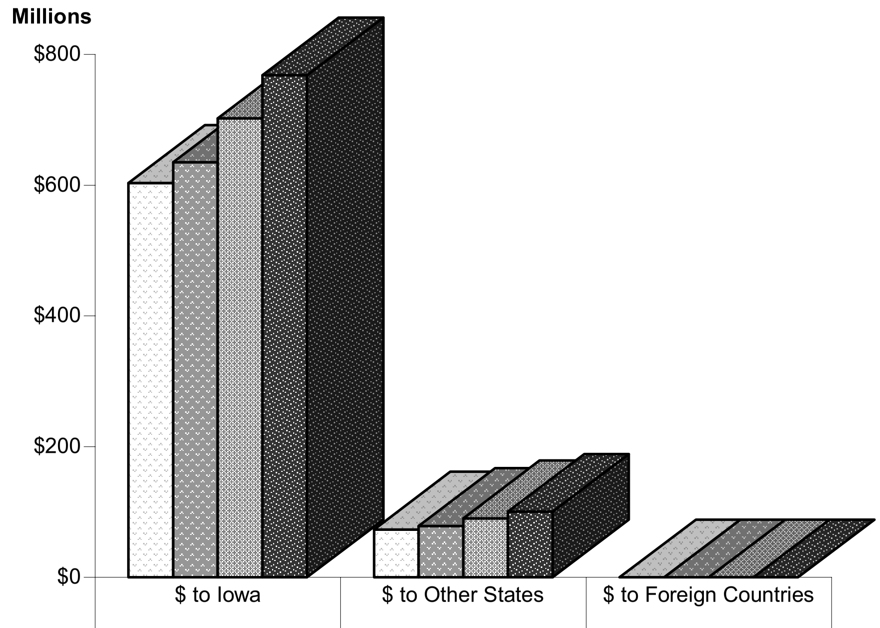
Distribution of IPERS Benefit Payments in Iowa Counties*

In fiscal year 2005



*Unaudited fiscal year 2005 numbers.

Benefit Payments Summary*

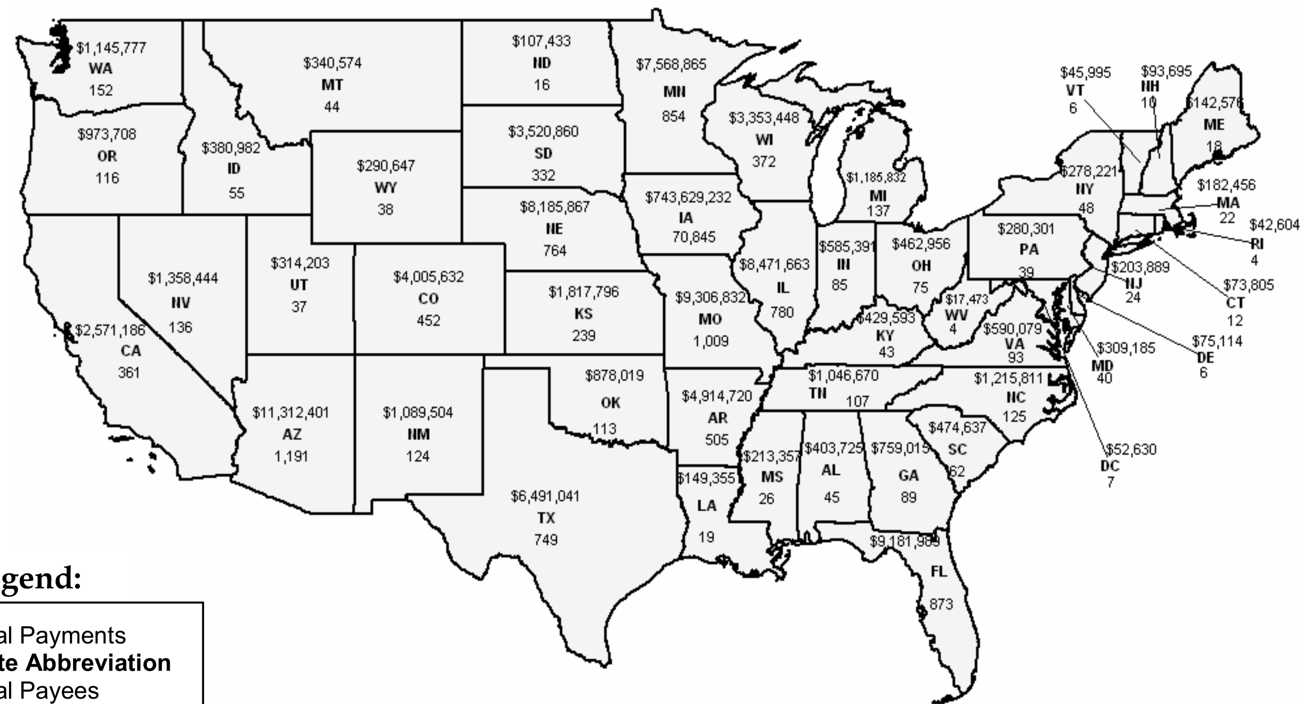


	$ to Iowa	$ to Other States	$ to Foreign Countries
FY2002	$603,397,686	$73,307,142	$128,478
FY2003	$634,959,550	$78,721,965	$117,160
FY2004	$702,196,119	$90,518,128	$152,526
FY2005	$768,041,811	$100,348,022	$167,763

*Unaudited fiscal year 2005 numbers.

Distribution of IPERS Benefit Payments by State*

In fiscal year 2005



Legend:

Total Payments
State Abbreviation
Total Payees

*Unaudited fiscal year 2005 numbers.

Total retirees and beneficiaries in continental states other than Iowa: 10,458
Recipients outside the continental U.S.:

Hawaii: 12	France: 1	Mexico: 3
Alaska: 15	Germany: 2	Northern Mariana Islands: 1
Armed Forces Europe: 4	Greece: 1	Philippines: 1
Australia: 3	Latvia: 2	Sweden: 1
Canada: 5	Lebanon: 1	Thailand: 1