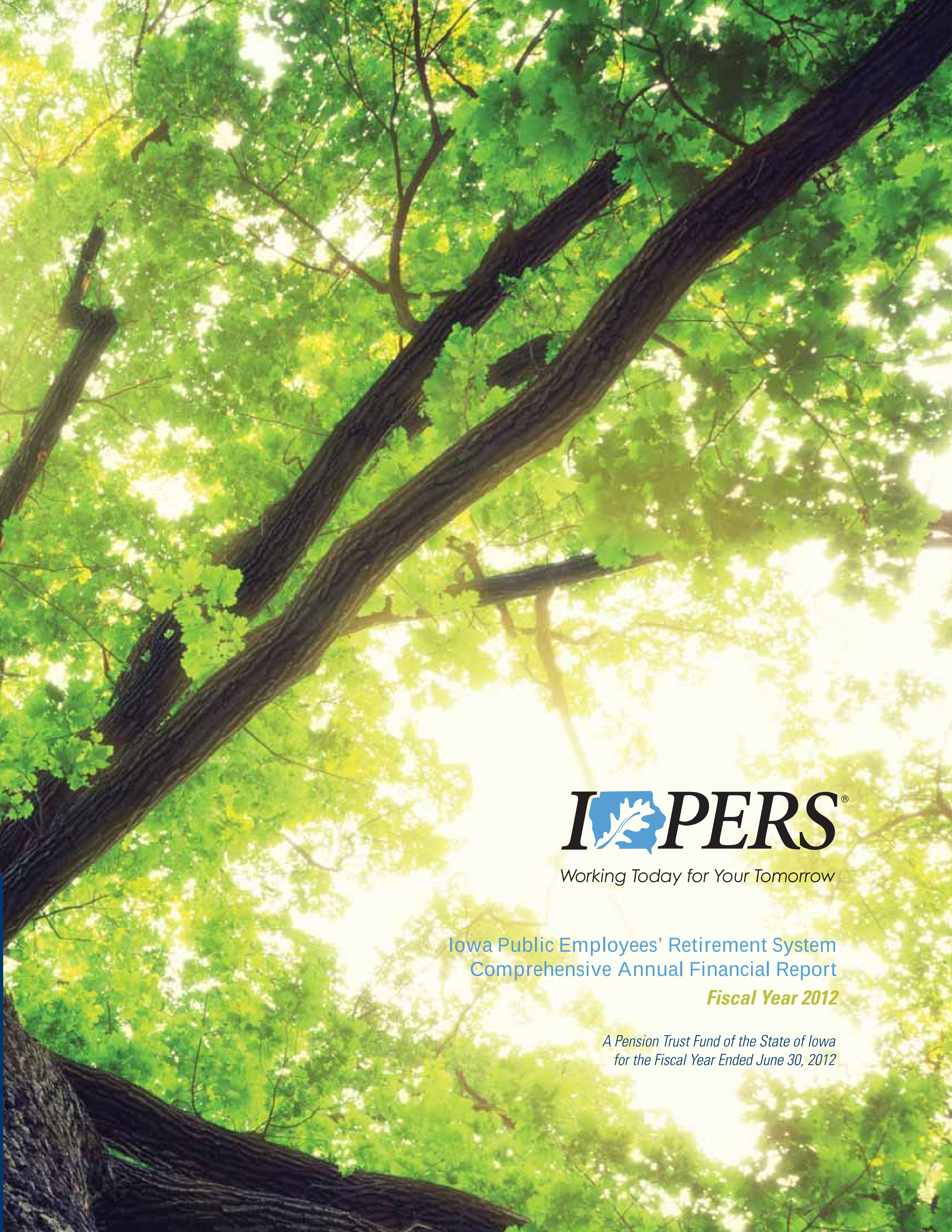

IPERS®

Working Today for Your Tomorrow

Iowa Public Employees' Retirement System Comprehensive Annual Financial Report

Fiscal Year 2012

A Pension Trust Fund of the State of Iowa for the Fiscal Year Ended June 30, 2012

FY2012 Comprehensive Annual Financial Report

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

A Pension Trust Fund of the State of Iowa
for the Fiscal Year Ended June 30, 2012

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

Fiscal Year 2012 Highlights

Membership

Active Members ***164,200***

*Retired Members** ***101,948***

Contributions

Employee ***$366,376,900***

Employer ***$558,405,418***

Service Purchases ***$17,611,695***

Distributions

Benefits Paid ***$1,549,176,636***

Refunds Paid ***$43,328,126***

Investments

Net Investment and Securities Lending Income ***$823,982,572***

Investment Rate of Return ***3.73%***

Funding

Net Assets Held in Trust for Pension Benefits ***$23,243,540,508***

Ratio of Actuarial Assets to Actuarial Liabilities ***79.9%***

*Unless specifically noted, references to retirees throughout this report include beneficiaries.

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Professional and Consulting Services

Terry E. Branstad
GOVERNOR
Kim Reynolds
LT. GOVERNOR

IPERS®
Donna M. Mueller
CHIEF EXECUTIVE OFFICER

December 14, 2012

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, 2012 (FY2012). This report is intended to provide complete and accurate information concerning the activities and results of the System's operations within a single publication. This report also fulfills the requirements set forth in Iowa Code section 97B.4(4)(a). 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 contents of the report.

This transmittal letter provides an overview of the status of IPERS. A thorough discussion of IPERS' activities and financial status is presented in the Financial, Investments, Actuarial, Statistical, and Plan Summary sections of the report.

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 remainder of this report.

This report is provided to the Governor, legislative leadership, IPERS Investment Board members, IPERS Benefits Advisory Committee 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 people may obtain the report through the IPERS website or upon request. IPERS also publishes an annual summary of information contained in this report, which is offered to members, employers, policymakers, and others.

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
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OPERATIONS FAX 515-281-0055
E-MAIL info@ipers.org
WEB SITE www.ipers.org

Plan History

IPERS was established by the Iowa Legislature on July 4, 1953, to replace the Iowa Old-Age and Survivors' Insurance System (IOASI). Effective July 4, 1953, all 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 that calculated benefits based on contributions. Today, IPERS is a contributory defined benefit plan with benefits based on a formula using a member's years of service, multi-year average covered wage, and a multiplier. In fiscal year 2010, changes to the plan were made when the Iowa Legislature passed House File 2518 to help secure and sustain long-term funding for the IPERS Trust Fund. Regular members experienced changes to benefits earned beginning July 1, 2012. This legislation gives IPERS the authority to implement contribution rates for the Regular members based on the annual actuarial valuation, as long as the rate does not change by more than 1 percentage point each year.

Structure and Governance

IPERS and the IPERS Trust Fund are established in Iowa Code chapter 97B. The Governor and the Iowa Legislature, 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 as the Fund's trustee. It sets investment policy and oversees the actuarial program. There are seven voting members: the Treasurer of State and six gubernatorial appointees 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 Chief Executive Officer Donna M. Mueller and her staff.

Member Services

IPERS was created so public employers in Iowa would have a cost-effective way to provide a core retirement benefit that would help attract and keep quality employees in public service. IPERS benefits were designed to provide an adequate retirement income when combined with Social Security benefits and individual savings. 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 entities. 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 335,098 members at the end of fiscal year 2012, with 164,200 active members employed and contributing to IPERS. There were 9,277 retirees drawing a pension in FY2012 who had returned to work with an IPERS-covered employer. At the end of the fiscal year, 8,268 of these retired reemployed members were still employed. The other 1,009 were no longer employed but had not subsequently requested a refund or a benefit recalculation.

During the year, IPERS staff provided group and individual benefit education and preretirement counseling to 12,420 members, fielded 91,591 phone calls, and answered 5,955 e-mails. Staff also prepared 78,359 benefit estimates. Members submitted 2,118 applications to buy service credit and 747 members purchased service credit.

The most important service IPERS provides to its 101,948 retirees is the accurate and timely payment of benefits. During the fiscal year, IPERS paid 97 percent of 1,199,983 benefit payments by electronic funds transfer (EFT), which ensures the monthly benefit is in the recipient's account on the day it is payable. EFTs have been IPERS' preferred payment method since 1992. IPERS charges a small service fee for paper checks.

Members have access to information electronically and in print. The IPERS website contains news and announcements, member publications, forms, and a benefit estimator. Members may also visit the website to see their benefits statements, which are updated quarterly.

IPERS publishes easy-to-read booklets to explain benefits at various career stages as well as a comprehensive Member Handbook. In FY2012, IPERS published and directly mailed to members information about benefits, plan changes, finances, and performance.

Employer Services

IPERS provides training and technical assistance to 2,153 employers to encourage voluntary compliance with IPERS' requirements. Employers also receive newsletters and a handbook of procedures and reporting requirements. A section of the website is dedicated to employers.

Employers who are enrolled in IPERS' Quest for Excellence (I-Que), an online wage-reporting system, also receive messages, publications, and other materials through that system. Employers report 99 percent of all member wages electronically through I-Que.

Investments

IPERS funds benefit payments through a combination of employee and employer contributions and investment earnings, with investment earnings providing the largest percentage of income. IPERS manages a large and diversified investment portfolio with a long-term investment horizon. This allows IPERS to maximize investment returns and lower transaction costs on behalf of its members in a way an individual investor cannot. In fiscal year 2012, IPERS' investment expenses were 0.22 percent of the portfolio's total quarterly average fair value.

A staff of professional investment officers oversees IPERS' investments. The investment officers, all of whom have earned the respected Chartered Financial Analyst (CFA) or Certified Public Accountant (CPA) designation, oversee all asset classes in which IPERS invests. IPERS' investment officers and investment consultant recommend asset allocation, investment policies, investment strategies, and contractor selection to the IPERS Investment Board, which makes the final decisions. IPERS' investment staff also manages the competitive selection process, negotiates detailed service contracts, and monitors contractors' compliance with their IPERS service agreements. The investment management firms select individual investments in the IPERS portfolio. See page 46 of the Financial section for information on expenses related to these investment management firms and page 63 of the Investments section for a Schedule of Brokerage Commissions Paid.

IPERS' investment portfolio returned 3.73 percent in fiscal year 2012. The annualized return on IPERS' investments for the 10-year period ended June 30, 2012, was 7.33 percent. Since 1983 (a 30-year period), the IPERS investment portfolio has produced an annualized investment return (net of fees) of 10.53 percent.

Major Initiatives

Funding Policy

In September 2011, the IPERS Investment Board adopted a Contribution Rate Funding Policy and an Actuarial Amortization Method. The Policy and Method establish procedures for setting the contribution rates for all membership groups within IPERS. IPERS has long set the contribution rates annually for the Special service groups based on the actuarially determined rate. However, the contribution rate for the Regular membership was set in statute through June 30, 2012, and could be changed only through legislative action.

Effective July 1, 2012, IPERS is charged with setting the contribution rates for Regular members based on an actuarially determined rate. By statute, the contribution rate cannot vary by more than 1 percentage point from the prior year's contribution rate. This statutory limitation has caused the contributions paid (statutory rate) to differ from the actuarially determined rate. When this occurs there are funding implications. The Policy strives to fund the System at the actuarially determined rate to fully fund the pensions promised.

The Contribution Rate Funding Policy establishes that the actuarial assumptions and methods approved by the IPERS Investment Board will be used to develop an actuarially determined rate each year. The rate will consist of normal cost and an amortization cost of any unfunded actuarial liability (UAL). The Method establishes a 30-year open amortization period for the UAL and provides the process to move to a 30-year closed amortization period.

The 2012 valuation is the first one in which the Policy and Method are applied to all membership groups. As a result, the amortization of the UAL for both Special service groups has a 30-year closed amortization period. The UAL for the Regular membership has a 30-year open amortization period. The amortization period can move to a 30-year closed period following the year that the actuarially determined rate equals the statutory rate.

This year's valuation calculated the actuarially determined contribution rate effective July 1, 2013, to be equal to the statutory rate. An increase of 0.43 percentage point is all that is needed to meet the actuarially determined rate for the Regular membership. This will be the first time since 2001 that the contribution rate paid by the Regular membership will equal the actuarially determined rate. The amortization period for the Regular membership's UAL may move to a closed period after fiscal year 2014.

Independent Performance Evaluations Remain Positive

To maintain a focus on effectively administering the plan, IPERS completed voluntary reviews of its performance during fiscal year 2012. CEM Benchmarking Inc., an independent company that reviews pension systems worldwide, completed a benchmarking study on IPERS' benefits administration for the previous year. IPERS was lowest in costs when compared to its peers, while receiving high ratings for its services.

CEM also conducted a benchmarking study of IPERS' investment program that compared the Trust Fund's costs and investment performance to CEM's extensive pension fund database. The analysis concluded that IPERS' investment program was a low-cost program over the 5-year period ended December 31, 2012, but on an after-cost basis, IPERS' net added value was moderately negative over that time period, similar to results for many of its peers.

Wilshire Associates, IPERS' investment consultant, also reviews IPERS' investment performance against a peer group of large U.S. public pension funds. Wilshire calculated that IPERS' investment return of 3.73 percent ranked in the top 5 percent of funds in the Trust Universe Comparison Service (TUCS) Universe of Public Funds with Assets Greater than $1 billion. Furthermore, Wilshire data shows that IPERS' risk-adjusted returns (returns divided by standard deviation of returns) have consistently ranked in the top 25 percent of the TUCS Universe of Public Funds with Assets Greater than $1 billion.

IPERS' Board members and staff are dedicated to prudent investment and safeguarding the System's assets. Along with providing the highest possible level of service to members and retirees, these are and will remain IPERS' top priorities.

Technology Advances to "Go-Live" Phase

Throughout FY2012, IPERS continued to work with its vendor to reengineer business processes and implement the "go-live" phase of its new benefits administration system, I-Que. In December, a major milestone was passed when the final data cutover was made. Annual benefit statements were generated and mailed to all members in the spring. A new system feature called My Account allows members and retirees online access to individualized information.

Facility Update

The renovation of IPERS' building was near completion at the end of FY2012. A $499,935 federal grant spurred IPERS to replace its old, inefficient HVAC system with a new geothermal system, making the building net-zero ready. Energy savings at the end of the fiscal year was $16,442. In addition, IPERS also received a rebate from the power company of nearly $73,000. This renovation included replacing the parking lot and sidewalks surrounding the building to secure the safety of visitors and employees.

Financial Highlights

Total Net Assets

Total net assets held in trust for pension benefits increased from $23.082 billion on June 30, 2011, to $23.243 billion on June 30, 2012. These assets consist of capital assets owned by IPERS and investment portfolio assets. An overview and analysis of IPERS' financial activities for FY2012 is in Management's Discussion and Analysis, which begins on page 23 in the Financial section of this report.

Investment Portfolio Assets

At the close of FY2012, IPERS' net investment portfolio assets[1] had a fair value of $23.196 billion. The change in fair value represents an increase of $36 million from the $23.160 billion net investment asset fair value as of June 30, 2011. The largest factor contributing to the increase was the investment portfolio return of 3.73 percent.

As in previous years, employee and employer contributions to IPERS only partially fund the benefit payments, refunds, and administrative expenses of the System. Funds must be drawn regularly from investment earnings to help meet these obligations. This drawdown of investment assets is typical for a mature pension system, where investment earnings are expected to supplement employee and employer contributions in meeting liabilities. In FY2012, employee and employer contributions totaled $942.4 million, while total member benefits equaled $1.593 billion (monthly benefits, lump-sum retirement benefits, death benefits, refunds, and dividend payments). The resulting $650.6 million contribution shortfall was funded with earnings and sales proceeds from the investment portfolio. Over the last 20 years, investment earnings have provided 68.7 percent of IPERS' funding of benefits.

Investment Results

IPERS' investment portfolio returned 3.73 percent in fiscal year 2012, a large decrease from the previous fiscal year's investment return of 19.91 percent. IPERS' investment return for the fiscal year was below the actuarial assumed investment return of 7.50 percent, and below the investment policy benchmark return of 5.09 percent. The 3.73 percent return did exceed the year's Consumer Price Index (CPI) increase of 1.66 percent and the 1.12 percent return of the median large public fund portfolio.

The capital markets experienced high levels of volatility in fiscal year 2012 due to concerns about the European debt crisis and a global economic slowdown. U.S. markets fared better than many other markets. For example, the U.S. stock market produced a return of 3.96 percent in fiscal year 2012, which was much better than the –14.15 percent return on international stocks for the same period.

The uncertainty that harmed equity returns, coupled with continued low interest rates and low inflation, helped bond markets produce solid returns in FY2012, especially the perceived safe haven of U.S. Treasury securities. While the overall U.S. bond market was up 7.35 percent, long-term U.S. Treasuries returned 32.26 percent and U.S. Treasury Inflation-Protected Securities (TIPS) returned 11.66 percent for the fiscal year. High-yield bonds returned 7.88 percent.

The U.S. commercial real estate market continued to rebound, producing a return of 12.90 percent in fiscal year 2012. Private equity produced a return of 3.45 percent for the fiscal year, according to Thomson Reuters.

[1]Investment portfolio assets are based on fair value, but are calculated according to industry standards that are different from the financial statement reporting requirements of Governmental Accounting Standards Board Statement No. 25, which produces the investments at fair value shown in the Financial section of this report.

Revenues

The System is funded through a combination of employee and employer contributions and investment income. Contributions for Regular members were 13.45 percent of employees' covered wages in FY2012. Employers contributed at a rate of 8.07 percent and employees at a rate of 5.38 percent. Employees in Special service occupations (for example, law enforcement, fire safety, and similar protection occupations) and their employers contributed at higher, actuarially determined rates.

For FY2012, revenues from employee and employer contributions, excluding service purchase contributions, totaled $924.8 million, a 19.40 percent increase over the prior fiscal year. Service purchase contributions for the year amounted to $17.6 million, an 18.62 percent increase from the prior year. Net investment and securities lending income for FY2012 was $824.0 million, a decrease of $3.099 billion from the previous fiscal year due to less favorable market conditions. Total additions for FY2012 were $1.767 billion.

Revenues

(Dollar values expressed in millions)

Source	2012	2011	Increase (Decrease)
Contributions	$ 924.8	$ 774.5	$ 150.3
Service purchases	17.6	14.8	2.8
Net investment and securities lending income	824.0	3,922.6	(3,098.6)
Miscellaneous noninvestment income*	0.5	---	0.5
Total	**$1,766.9**	**$4,711.9**	**$(2,945.0)**

*The miscellaneous noninvestment income represents the federal grant received by IPERS for energy-saving facility renovations.

Expenses

Expenses are incurred primarily to pay benefits to retirees. Included in the total expenses for the fiscal year were benefit payments, refunds, and dividend payments totaling $1.593 billion. This amount increased 6.29 percent over the prior fiscal year.

There were 101,948 annuitants receiving monthly benefits as of June 30, 2012. The net increase of 3,408 annuitants during FY2012 is less than the net increase of 4,848 annuitants during FY2011. The average monthly retirement benefit, including the November dividend and Favorable Experience Dividend (FED) payments, increased from $1,234 to $1,289.

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. Administrative expenses totaled $13.0 million for fiscal year 2012, a 34.34 percent increase from the previous year. The large increase was primarily due to the building renovation, expenses related to I-Que, and the depreciation of I-Que capitalized assets.

The System retains consultants and investment managers to assist the Investment Board and administration in carrying out their fiduciary duties.

For the fiscal year, IPERS' investment management expenses were $50.2 million. Investment management fees increased in FY2012 due mainly to performance incentive fees paid to bond managers and real estate managers. The System's ratio of investment management expenses to the portfolio's quarterly average fair value was 0.22 percent for FY2012. This expense ratio was higher than the 0.19 percent for FY2011, due mainly to the performance incentive payments mentioned above.

Expenses

(Dollar values expressed in millions)

Type	2012	2011	Increase
Benefits	$1,549.2	$1,457.0	$92.2
Refunds	43.3	41.2	2.1
Administrative	13.0	9.7	3.3
Total	**$1,605.5**	**$1,507.9**	**$97.6**

Funding

The ultimate test of IPERS' financial soundness is whether it can pay all of its promised benefits as they come due—not just today and tomorrow, but over a long period of time. Using demographic and economic assumptions adopted by the Investment Board, the System's actuary completes an annual valuation of the System's assets and liabilities to provide a current estimate of the System's funded status. The actuarial valuation at June 30, 2012, reported an unfunded actuarial liability (UAL) of $5.916 billion. This represents the difference between the actuarial liability of $29.446 billion and the actuarial value of assets of $23.530 billion.

During the fiscal year, the unfunded actuarial liability had a net increase of $234.3 million. There were four factors driving this increase. The first factor, contributions for the Regular membership below the actuarial rate, added $64.6 million to the UAL. The second factor, which added $110.2 million to the UAL, was an expected increase from the amortization method. The remaining factors, an experience loss of $168.5 million on the actuarial value of assets related to investment experience and an experience gain of about $109.0 million on System liabilities due to demographic experience more favorable than anticipated, reflect a net unfavorable experience for the past plan year.

Despite the growth in the UAL, positive signs of funding stability are present. Most notably, the funded ratio (a combined ratio of all membership groups), remained steady at 79.9 percent and the amortization schedule of the UAL continued to improve.

With the 2012 valuation, the period to amortize the UAL for the Regular membership declined to 30 years from 34 years in the 2011 and 2010 valuations. (From 2002 through 2009, the amortization period was infinite.) The change in the ability to now amortize the UAL stems from the increase in employee and employer contributions, the decrease in normal cost as a result of legislated benefit changes, and investment performance.

The period to amortize the UAL for the two Special service groups has never exceeded 30 years. Beginning with this valuation, the amortization period for Special service groups will move to a closed 30-year period.

Based on the 2012 actuarial valuation, the contribution rates necessary for employees and employers to fully fund the benefits and retirement allowances being credited are as follows for the fiscal year beginning July 1, 2013 (FY2014): Special Service Group 1 at 19.76 percent, Special Service Group 2 at 16.90 percent, and Regular membership at 14.88 percent.

Future Prospects

The ability to adjust contribution rates effective July 1, 2012, and going forward will contribute to paying down the UAL. This, combined with IPERS' investment performance, will help provide stability and improvement to the funded status.

As a result of the investment losses associated with the Great Recession, IPERS' funded ratio (the ratio of actuarial assets to actuarial liabilities) declined considerably to 81.2 percent in FY2009. The improved investment returns that followed, plus the changes in contributions and benefits, stabilized the funded ratio over the past four years between 79 and 81 percent. The continued improvement in the amortization period of the UAL for Regular membership, from infinite to 30 years, is further evidence of the funded ratio's stabilization.

Accounting System and Internal Control

The financial statements included in this report are the responsibility of IPERS' management. The statements have been prepared in accordance with generally accepted accounting principles (GAAP) for governmental accounting and reporting as pronounced or adopted by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB).

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 GAAP. IPERS' objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements since the cost of internal control should not exceed the benefits obtained.

Independent Audit

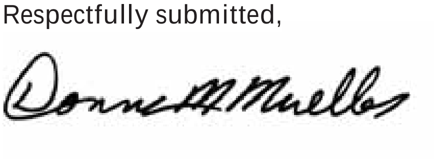
The Auditor of State is required by Iowa Code chapter 11 (2011) to audit all departments of the State annually. The accompanying financial statements of the System have been audited by the Auditor of State in accordance with generally accepted auditing standards, State law, and *Government Auditing Standards*. The Auditor's report is contained in the Financial section of this report.

Professional Awards

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, 2011. A Certificate of Achievement is valid for only one year, and this was the 19th consecutive year IPERS has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized Comprehensive Annual Financial Report that satisfies both generally accepted accounting principles and applicable legal requirements. We believe our current comprehensive annual report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

For the fourth consecutive year, IPERS also received the Public Pension Standards Award for the fiscal year ended June 30, 2012, from the Public Pension Coordinating Council (PPCC), in recognition of meeting the professional standards for plan funding and administration as set forth in the Public Pension Standards. This award is presented by the PPCC, a confederation of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and the National Council on Teacher Retirement (NCTR).

Respectfully submitted,



Donna M. Mueller
Chief Executive Officer

Administration

IPERS' primary purpose is to provide a 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, disability, 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 contributions, employee contributions, and employee wage information 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

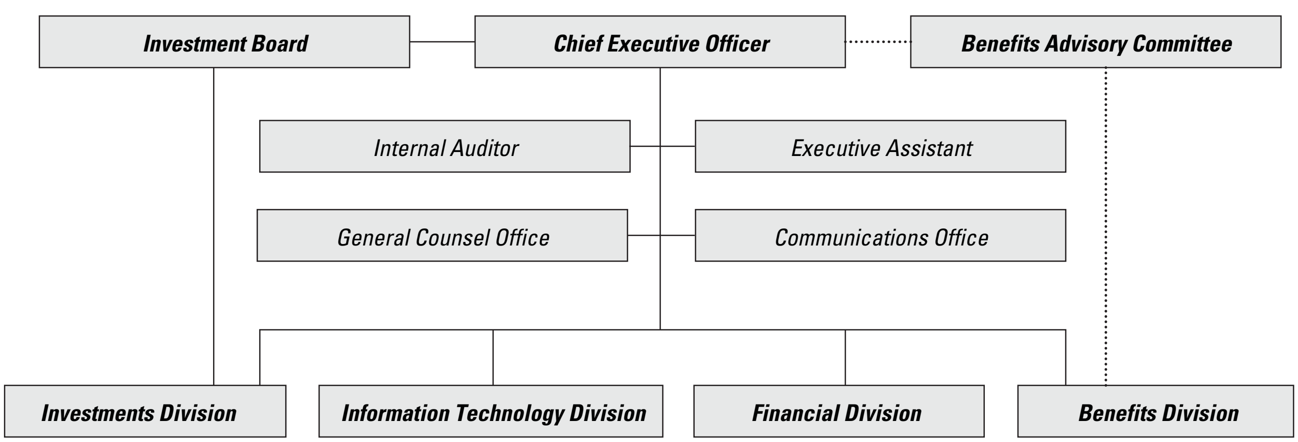
Investment Policy and Administration
Karl C. Koch, Chief Investment Officer

Membership and Benefit Administration
David Martin, Chief Benefits Officer

Financial
Darla Iverson, Chief Financial Officer

Legal
Gregg A. Schochenmaier, General Counsel

Table of Organization



Investment Board

DAVID O. CREIGHTON, SR.
Chairperson
Public Member
Term Expires Apr. 2015

PHYLLIS S. PETERSON
Vice Chairperson
Retired IPERS Member
Term Expires Apr. 2016

MICHAEL R. BEARY
Active IPERS Member
Term Expires Apr. 2013

STATE TREASURER MICHAEL L. FITZGERALD

SENATOR STEVE KETTERING
Nonvoting Member
Term Expires Jan. 2013

REPRESENTATIVE MARY MASCHER
Nonvoting Member
Term Expires Jan. 2013

SENATOR MATTHEW McCOY
Nonvoting Member
Term Expires Jan. 2013

REPRESENTATIVE DAWN PETTENGILL
Nonvoting Member
Term Expires Jan. 2013

MARLENE SPROUSE
IPERS Educational Member
Term Expires Apr. 2017

LISA A. STANGE
Public Member
Term Expires Apr. 2017

DENNIS E. YOUNG
Public Member
Term Expires Apr. 2013

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.

Eleven members serve on the Investment Board, seven voting members and four nonvoting members.

The voting members include:

- 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 include:

- Two state representatives (one appointed by the speaker of the Iowa House of Representatives, and one appointed by the minority leader of the Iowa House).
- Two state senators (one appointed by the majority leader of the Iowa Senate, and one appointed by the minority leader of the Iowa Senate).

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

Benefits Advisory Committee

LEN COCKMAN
Chairperson
Employer Representative
Iowa Association of School Boards
Voting Term Expires Apr. 2015

BRADLEY HUDSON
Vice Chairperson
Member Representative
Iowa State Education Association
Voting Term Expires Apr. 2014

SUSANNA BROWN
Member Representative
State Police Officers Council

MIKE CARROLL
Appointed by Statute
Employer Representative, Ex-Officio Voting Member
Iowa Department of Administrative Services

PHILIP TETZLOFF
Member Representative
Retired School Personnel Association

ANDREW HENNESY
Member Representative
IPERS Improvement Association

SANDY B. TRYON
Employer Representative
Iowa Association of Community College Trustees

STEVE HOFFMAN
Member Representative
Iowa State Sheriffs and Deputies Association

DANNY HOMAN
Member Representative
AFSCME
Voting Term Expires Apr. 2013

PATRICK LYNCH
Member Representative
International Brotherhood of Teamsters
Voting Term Expires Apr. 2013

JAMES MALONEY
Employer Representative
Iowa Association of Counties
Voting Term Expires Apr. 2015

DIANE REID
Public Member
Voting Term Expires Apr. 2014

MARK TOMB
Employer Representative
Iowa League of Cities
Voting Term Expires Apr. 2014

DANIEL H. SMITH
Member Representative
School Administrators of Iowa
Voting Term Expires Apr. 2013

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 regular public meetings.

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

The Committee has nine voting members; seven are elected by the Committee membership. The voting members serve three-year terms and include:

- Four members who represent IPERS-covered employers, one of whom must be the director of the Iowa Department of Administrative Services.
- Four members who represent IPERS members.
- A public member who is not a member of IPERS.

Professional and Consulting Services

The following organizations 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

Cavanaugh Macdonald Consulting, LLC—Bellevue, 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 Counsels

Foster Pepper PLLC—Seattle, WA
The external plan legal counsel chosen by the System is responsible for:
- Providing legal and transactional assistance related to the terms and conditions of the System's investments.
- Advising the System regarding state and federal securities laws and investment-related withholding and income tax laws.

Ice Miller, LLP—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 System staff on state and federal legislation and regulations.

Securities Litigation Monitoring Counsels

Barrack, Rodos & Bacine—Philadelphia, PA
Kessler Topaz Meltzer Check—Radnor, PA
Lieff Cabraser Heimann & Bernstein—San Francisco, CA
The external securities litigation monitoring firms chosen by the System are responsible for:
- Monitoring security class-action litigation globally.
- 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
The Investment Board utilizes Wilshire as the System's general investment consultant. Wilshire is responsible for:
- Preparing asset allocation studies for the System.
- Periodically reviewing investment performance.
- 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.
- Providing asset allocation and risk management software.

Holland Park Risk Management, Inc.—Toronto, Ontario
The Investment Board utilizes Holland Park for:
- Assisting the Board and staff in evaluating risk management practices.
- Assisting in building a stronger investment risk management program at IPERS, if needed.

Master Custodian and Securities Lending Agent

The Bank of New York Mellon—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 recordkeeping of the System's assets. The System also utilizes the custodian bank as its securities lending agent. The custodian is responsible for:

- Maintaining safe custody of the assets owned by the System.
- Settling trades in accordance with instructions from the System.
- Collecting the income due to the System.
- Administering a securities lending program for the System's assets and investing cash collateral received from such loans.
- Providing periodic reports summarizing the investment activity of the System's assets.

Operational/Information Technology Consultant

Vitech Systems Group, Inc.—New York, NY
The most significant operational / information technology consultant utilized by the System is responsible for:

- Implementing a new benefits administration system.
- Assisting in the review and improvement of all benefits administration business processes.

Benchmarking Consultant

CEM Benchmarking Inc.—Toronto, Ontario
The independent benchmarking consultant firm is responsible for:

- Providing standardized comparative information for IPERS' investment management.
- Providing standardized benefit administration cost information.
- Providing standardized service levels and activity information.

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.

Domestic Equity

BlackRock Institutional Trust Company, NA, San Francisco, CA
First Quadrant, L.P., Pasadena, CA
Fisher Investments, Woodside, CA
Janus Capital Management LLC, Denver, CO
J.P. Morgan Investment Management, Inc., New York, NY
Mellon Capital Management Corp., San Francisco, CA
PanAgora Asset Management, Inc., Boston, MA
RCM, San Francisco, CA
Wellington Management Company, LLP, Boston, MA

International Equity

Ashmore EMM, LLC, Arlington, VA
BlackRock Institutional Trust Company, NA, San Francisco, CA
GAM USA Inc., New York, NY
Oechsle International Advisors, LLC, Boston, MA
Quantitative Management Associates, LLC, Newark, NJ
Wellington Management Company, LLP, Boston, MA

Core Plus Fixed Income

BlackRock Financial Management, Inc., New York, NY
MacKay Shields LLC, New York, NY
Mellon Capital Management Corp., San Francisco, CA
PIMCO, Newport Beach, CA
Principal Global Investors, LLC, Des Moines, IA
Western Asset Management Company, Pasadena, CA

High-Yield Bonds

AEGON USA Investment Management, LLC, Cedar Rapids, IA
Oaktree Capital Management, L.P., Los Angeles, CA

Treasury Inflation-Protected Securities (TIPS)

BlackRock Institutional Trust Company, N.A., San Francisco, CA
Fischer Francis Trees & Watts, Inc., New York, NY

Other Real Assets

Forest Investment Associates L.P., Atlanta, GA
Harvest Fund Advisors LLC, Wayne, PA
UBS AgriVest LLC, Hartford, CT

Private Equity/Debt

Pathway Capital Management, LLC, Irvine, CA

Real Estate

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
Urdang Securities Management, Inc., Plymouth Meeting, PA

Transition Management Services

BlackRock Institutional Trust Company, N.A., San Francisco, CA
State Street Global Advisors, Boston, MA

FINANCIAL

Independent Auditor's Report
Management's Discussion and Analysis
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Statement of Plan Net Assets
Statement of Changes in Plan Net Assets
Notes to Financial Statements
Required Supplementary Information
Supplementary Information

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

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

David A. Vaudt, CPA
Auditor of State

Independent Auditor's Report

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

We have audited the accompanying Statement of Plan Net Assets of the Iowa Public Employees' Retirement System (IPERS) as of June 30, 2012 and 2011, 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, 2012 and 2011, 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, 2012 and 2011, and the changes in plan net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Schedule of Funding Progress and the Schedule of Employer Contributions on pages 23 through 25 and 42 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise IPERS' basic financial statements. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic 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, we express no opinion on it.

Our report on IPERS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, 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

DAVID A. VAUDT, CPA
Auditor of State

Warren Jenkins

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 5, 2012

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, 2012. It is intended to be used in conjunction with the transmittal letter and IPERS' financial statements and notes, which begin on page 26 of this report.

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 and the Statement of Changes in Plan Net Assets (see pages 26–27). These statements are presented on an accrual basis and reflect all Trust Fund 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 Supplementary Information following the Notes to Financial Statements provide historical and additional detailed information considered useful in evaluating the condition of the plan. Investment data 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.

Financial Highlights

- IPERS' plan net assets held in trust for pension benefits increased by $161.4 million during fiscal year 2012. On June 30, 2012, total plan assets (including capital assets of $25.6 million) were $25.988 billion, exceeding total liabilities of $2.745 billion, resulting in net assets held in trust for pension benefits of $23.243 billion.
- Capital assets increased from $21.6 million at the end of FY2011 to $25.6 million at the end of FY2012. This was primarily because of the capitalization of $3.5 million in equipment and other expenses directly related to the I-Que project.
- Covered wages, from which both employee and employer contributions are calculated, increased $211.3 million, or 3.21 percent, over the last fiscal year and totaled $6.786 billion. This increase is largely attributed to an additional payroll period occurring in FY2012 for many active employees. Typically, there are 26 payroll periods per year for employees who are paid biweekly. However, occasionally, every decade or so depending on how the days fall, 27 pay periods occur. In comparison, fiscal year 2011 saw a 0.06 percent increase in covered wages.
- Employee and employer contributions increased, in total, by 19 percent. In comparison, fiscal year 2011 saw a 4 percent increase in contributions. The large increase in contributions in FY2012 was due to a combination of the additional pay period and an increase in contribution rates, particularly the 2 percentage point increase in contribution rates for Regular members.
- Net investment and securities lending income, after all investment-related expenses, was $824.0 million in FY2012. In comparison, IPERS experienced a gain of $3.923 billion in FY2011 and a gain of $2.478 billion in FY2010. Investment management expenses were $50.2 million for FY2012. In comparison, investment management expenses were $41.9 million for FY2011 and $32.9 million for FY2010. Total contributions, investments, and other income resulted in additions to the Fund of $1.767 billion in fiscal year 2012. This compares to a gain of $4.712 billion in FY2011 and a gain of $3.233 billion in FY2010.
- Pension benefit payments to members increased by $92.2 million, while refunds increased by $2.1 million in FY2012. Payments to members totaled $1.593 billion in FY2012, compared to $1.498 billion in FY2011 and $1.320 billion in FY2010.

- Administrative expenses totaled $13.0 million, compared to $9.7 million for FY2011 and $9.0 million for FY2010. Administrative expenses were 0.06 percent of the value of plan net assets in FY2012. In comparison, administrative expenses were 0.04 percent of the value of plan net assets in FY2011 and 0.05 percent of the value of plan net assets in FY2010. The increase in administrative expenses was primarily due to the renovation of the IPERS building, expenses related to the new benefits administration system, and depreciation of the additional capitalized assets.

Analysis of Plan Net Assets

The investment rates of return for the current and preceding two fiscal years were 3.73 percent, 19.91 percent, and 13.82 percent, respectively. While market conditions were not as favorable as they were in FY2011, IPERS' positive return of 3.73 percent, along with increased contribution rates, an increase in capital assets, and a decrease in liabilities, produced positive results for total plan net assets, which increased 0.70 percent in FY2012. (See also the Investments section of this report beginning on page 49 for more information on rates of return.) The following table contains the fiscal year performance of each asset class, its respective benchmark, and the Fund's allocation to each asset class.

Investment Returns

Fiscal year ended June 30, 2012

Asset Class	Return (%)	Benchmark (%)	Allocation (%)
Domestic equity	3.33	3.96	26.22
International equity	–15.47	–14.15	13.73
Core plus fixed income	7.67	7.35	27.83
High-yield bonds	8.52	7.88	4.58
U.S. TIPS/other real assets	9.47	11.66	5.13
Private equity/debt	9.10	10.24	12.39
Real estate	12.90	12.90	8.86
Short-term cash	0.30	0.05	1.26
Total Fund	**3.73**	**5.09**	**100.00**

The two tables on the next page 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, 2012, were $23.243 billion, an increase of $161.4 million over the previous fiscal year-end balance.

A large percentage of total assets, 90 percent, is represented by investments held to provide retirement, death, and disability benefits to qualified members and their beneficiaries. Other assets, including cash and cash equivalents, receivables from employee and employer contributions, receivables from investment-related transactions, and capital assets, make up 10 percent of total assets.

Total liabilities in the following table 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 securities lending transactions, amounts owed to members or their beneficiaries, and amounts owed to contractors and vendors. Total liabilities decreased $969.3 million from fiscal year 2011 to 2012, as compared to an increase of $2.312 billion between fiscal years 2010 and 2011. The large increase in FY2011 was primarily due to a higher number of pending investment transactions that settled after the fiscal year-end. This was not the case in FY2012.

Benefits paid out continued to exceed contributions received by $650.1 million, $708.9 million, and $564.8 million for fiscal years 2012, 2011, and 2010, respectively. This excess of benefits paid relative to contributions received is characteristic of a mature pension plan such as IPERS.

Plan Net Assets

(Dollar values expressed in thousands)

Fiscal years ended June 30

	2012	2011	2012/2011 Inc/(Dec) (%)	2010	2011/2010 Increase (%)
Cash and investments at fair value	$23,822,705	$24,268,718	(1.8)	$20,641,924	17.6
Receivables	2,138,410	2,503,292	(14.6)	619,310	304.2
Capital assets	25,620	21,639	18.4	18,224	18.7
Other assets	1,665	2,666	(37.5)	703	279.2
Total assets	25,988,400	26,796,315	(3.0)	21,280,161	25.9
Total liabilities	2,744,859	3,714,182	(26.1)	1,402,080	164.9
Total plan net assets	**$23,243,541**	**$23,082,133**	**0.7**	**$19,878,081**	**16.1**

Changes in Plan Net Assets

(Dollar values expressed in thousands)

Fiscal years ended June 30

	2012	2011	2012/2011 Inc/(Dec) (%)	2010	2011/2010 Increase (%)
Additions					
Contributions and service purchases	$ 942,394	$ 789,354	19.4	$ 755,210	4.5
Net investment and securities lending income	823,983	3,922,569	(79.0)	2,477,824	58.3
Miscellaneous noninvestment income	500	---	NA	---	NA
Total additions	1,766,877	4,711,923	(62.5)	3,233,034	45.7
Deductions					
Benefits and refunds	1,592,505	1,498,221	6.3	1,320,026	13.5
Administrative expenses	12,964	9,650	34.3	8,968	7.6
Total deductions	1,605,469	1,507,871	6.5	1,328,994	13.5
Increase/(decrease) in plan net assets	**$ 161,408**	**$3,204,052**	**(95.0)**	**$1,904,040**	**68.3**

Contacting System Financial Management

This financial report is designed to provide the Governor and Iowa Legislature (plan sponsors), 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 manages. Questions about this report or requests for additional financial information should be directed to the Iowa Public Employees' Retirement System by e-mail at info@ipers.org, by phone at 515-281-0020 or 1-800-622-3849, or by mail at P.O. Box 9117, Des Moines, IA 50306-9117.

Basic Financial Statements

Statement of Plan Net Assets

June 30, 2012 and 2011

	2012 Pension Trust Fund	2012 QBA Fund*	2012 Total	2011 Total
ASSETS				
Cash and cash equivalents	**$ 314,436,003**	**$698**	**$ 314,436,701**	**$ 204,158,857**
Receivables				
Contributions	72,648,516	---	72,648,516	51,026,279
Accrued interest and dividends	66,063,247	---	66,063,247	62,924,106
Investment sales	415,721,152	---	415,721,152	942,792,040
Foreign exchange contracts	1,583,977,324	---	1,583,977,324	1,446,549,969
Total receivables	***2,138,410,239***	***---***	***2,138,410,239***	***2,503,292,394***
Investments at fair value				
Fixed income	7,828,222,334	---	7,828,222,334	8,010,945,795
Domestic equity	6,056,052,507	---	6,056,052,507	6,297,187,234
International equity	3,169,938,906	---	3,169,938,906	3,473,997,777
U.S. TIPS/other real assets	1,186,864,637	---	1,186,864,637	969,812,249
Real estate	2,058,556,112	---	2,058,556,112	1,774,420,630
Private equity/debt	2,870,875,285	---	2,870,875,285	2,852,708,439
Total investments	***23,170,509,781***	***---***	***23,170,509,781***	***23,379,072,124***
Securities lending collateral pool	**337,758,495**	**---**	**337,758,495**	**685,487,431**
Capital assets				
Depreciable assets, net of accumulated depreciation	25,119,802	---	25,119,802	21,138,636
Nondepreciable assets: land	500,000	---	500,000	500,000
Total capital assets	***25,619,802***	***---***	***25,619,802***	***21,638,636***
Other assets	**1,664,561**	**---**	**1,664,561**	**2,665,520**
Total assets	***25,988,398,881***	***698***	***25,988,399,579***	***26,796,314,962***
LIABILITIES				
Accounts payable and accrued expenses	28,659,222	---	28,659,222	21,808,798
Investment purchases payable	777,041,988	---	777,041,988	1,537,209,971
Rebates and collateral payable	351,926,015	---	351,926,015	704,376,252
Foreign exchange contracts payable	1,587,231,846	---	1,587,231,846	1,450,787,006
Total liabilities	***2,744,859,071***	***---***	***2,744,859,071***	***3,714,182,027***
Net assets held in trust for pension benefits (Note 9, page 41)	**$23,243,539,810**	**$698**	**$23,243,540,508**	**$23,082,132,935**

See accompanying Notes to Financial Statements beginning on page 28.

*See Note 10 on page 42.

Statement of Changes in Plan Net Assets

Years ended June 30, 2012 and 2011

	2012 Pension Trust Fund	2012 QBA Fund*	2012 Total	2011 Total
ADDITIONS				
Contributions				
Employer contributions	$ 558,396,418	$9,000	$ 558,405,418	$ 468,035,175
Employee contributions	366,376,900	---	366,376,900	306,471,917
Service purchases	17,611,695	---	17,611,695	14,846,807
Total contributions	***942,385,013***	***9,000***	***942,394,013***	***789,353,899***
Investments				
Interest	261,206,241	6	261,206,247	255,634,164
Dividends	110,059,346	---	110,059,346	100,933,755
Real estate and private equity/debt	107,061,032	---	107,061,032	110,204,420
Net appreciation in fair value of investments	388,469,246	---	388,469,246	3,489,456,132
Other	105,267	---	105,267	106,048
Investment management expenses	(50,174,760)	---	(50,174,760)	(41,933,207)
Net investment income	***816,726,372***	***6***	***816,726,378***	***3,914,401,312***
Securities lending income				
Securities lending income	710,214	---	710,214	1,321,341
Securities lending net appreciation in fair value of collateral pool	4,523,673	---	4,523,673	6,583,467
Securities lending expenses/rebates	2,022,307	---	2,022,307	262,895
Net securities lending income	***7,256,194***	***---***	***7,256,194***	***8,167,703***
Other sources				
Miscellaneous noninvestment income	499,935	---	499,935	---
Total additions	***1,766,867,514***	***9,006***	***1,766,876,520***	***4,711,922,914***
DEDUCTIONS				
Benefit payments	1,549,167,731	8,905	1,549,176,636	1,457,005,631
Member refunds	43,328,126	---	43,328,126	41,214,717
Administrative expenses	12,963,849	336	12,964,185	9,650,259
Total deductions	***1,605,459,706***	***9,241***	***1,605,468,947***	***1,507,870,607***
Net increase/(decrease)	***161,407,808***	***(235)***	***161,407,573***	***3,204,052,307***
Net assets held in trust for pension benefits, beginning of year	23,082,132,002	933	23,082,132,935	19,878,080,628
Net assets held in trust for pension benefits (Note 9, page 41)	**$23,243,539,810**	**$ 698**	**$23,243,540,508**	**$23,082,132,935**

See accompanying Notes to Financial Statements beginning on page 28.

*See Note 10 on page 42.

June 30, 2012 and 2011

(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 on the Iowa Department of Administrative Services' website.

For financial reporting purposes, IPERS considers 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. GASB has set forth criteria to be considered in determining financial accountability. These criteria are (1) whether IPERS could appoint a voting majority of an organization's governing body, (2) the ability of IPERS to impose its will on that organization, and (3) 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 GASB criteria.

(2) Plan Description

A. Administration

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

B. 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.

Plan Membership

	June 30, 2012	June 30, 2011*
Employers		
City	1,055	1,064
Education	383	392
County	346	347
Other	148	150
Utilities	134	135
Health	67	67
State	20	26
Total	**2,153**	**2,181**
Members		
Retirees and beneficiaries	101,948	98,540
Active vested	128,768	127,980
Inactive vested	32,410	32,452
Active nonvested	35,432	36,487
Inactive nonvested	36,540	33,516
Total	**335,098**	**328,975**

*With the implementation of I-Que and the improvement in data quality, the classifications of the employers and the counts have been revised for fiscal year 2011.

C. 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 is provided for general informational purposes only. Members should refer to the plan documents for more comprehensive information.

Pension Benefits

A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction.

The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Refunds

If a member leaves covered employment and applies for a refund, IPERS issues a lump-sum payment based on the member's accumulated contributions. Refunds for vested members also contain a portion of the member's accumulated employer contributions.

Vesting

Requirements for becoming a vested member of IPERS changed for Regular members on July 1, 2012. Before July 1, 2012, a member who completed four years of covered service or reached the age of 55 while in IPERS-covered employment became vested. Starting July 1, 2012, a Regular member who completes seven years of covered service or has reached the age of 65 while in IPERS-covered employment is vested.

Contributions

Through June 30, 2012, employee and employer contribution rates were established by statute for the Regular membership. Effective July 1, 2012, the contribution rates are established by IPERS following an annual actuarial valuation; however, rates cannot increase or decrease by more than 1 percentage point each year. The contributions are remitted by participating employers. Employees working in Special service occupations, and their employers, contribute at actuarially determined rates that change each year. Wages were covered up to the federal limit of $245,000 for calendar year 2011 and $250,000 for calendar year 2012.

Contribution Rates

Fiscal year 2012

	Employee	**Employer**	**Total**
Regular Membership	5.38%	8.07%	13.45%
Special Service Group 1*	9.83%	9.83%	19.66%
Special Service Group 2†	6.65%	9.97%	16.62%

*Sheriffs and deputies.
†All other protection occupation 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 governmental units. Revenues are recognized when they are earned and become measurable.

Expenses are recognized when the liability is incurred. As such, employee contributions are recognized in the period in which the contributions are due. Employer 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.

The System is funded through a combination of employee and employer contributions and investment income. Investment sales and purchases are recorded as of their trade date.

B. Cash and Cash Equivalents

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

C. Foreign Exchange Contracts

The System's investment managers enter into forward foreign exchange contracts to obtain exposure to foreign currencies or to minimize the short-term impact of currency fluctuations on their foreign investments. The gains or losses on these contracts are recorded 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 without 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.

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 investment securities are held by the System's custodian and registered in the System's name. All of the System's investment securities are held by the System's custodial bank in the System's name, except for investment securities on loan with brokers for cash collateral, investments in mutual and commingled funds, real estate properties, and limited partnerships, which, by nature, are not required to be categorized. Investments in the Short-Term Investment Funds (STIF) are held in a collective trust fund offered through the System's custodial bank. The fair value of the position in the trust fund equals the value of the fund shares. A summary of investments as of June 30, 2012, follows.

Invested Assets

(Dollar values expressed in thousands)

June 30, 2012

Investment Type	Total Fair Value	Fair Value on Loan
Cash	**$ 18,338**	**---**
Cash collateral at broker	**18,895**	**---**
Pooled funds and mutual funds	550,562	---
Treasuries	90,460	---
Short-term investments	**641,022**	**---**
Common stocks	4,137,476	$162,823
Real estate investment trusts	540,973	6,611
Preferred stock	28,583	---
Other equities	14,073	---
Equity investments	**4,721,105**	**169,434**
U.S. TIPS	481,079	---
U.S. Treasury bonds	379,824	64,319
U.S. Treasury notes	752,411	12,117
Other government-guaranteed	15,723	---
Ginnie Mae	196,024	---
Freddie Mac	52,397	9,469
Fannie Mae	857,508	---
Other government agencies	313,856	---
Collateralized mortgage-backed securities	167,181	---
Collateralized mortgage obligations	98,026	275
Other government mortgage-backed securities	583	---
Other government fixed income	69,402	229
Corporate bonds	2,090,909	71,034
Corporate asset-backed securities	184,964	---
Private placements	645,997	14,965
State and local obligations	24,003	---
Other fixed income	2,573	---
Fixed income investments	**6,332,460**	**172,408**
Derivatives	**(1,190)**	**---**
Real estate	**1,570,965**	**---**
Equity commingled	4,835,128	---
Fixed income commingled funds	2,485,997	---
Commingled bond funds	**7,321,125**	**---**
Special equity	2,191,492	---
Venture capital	679,383	---
Private equity	**2,870,875**	**---**
Real assets	**717**	**---**
Total	**$23,494,312**	**$341,842**

Total from above	$23,494,312
Cash in managers' accounts	(328,563)
Incentive fee accrual	4,761
Investments on Statement of Plan Net Assets	**$23,170,510**

GASB Statement No. 40, *Deposit and Investment Risk Disclosures,* an amendment to GASB Statement No. 3, addresses common deposit and investment risks related to credit risk, concentration of credit risk, custodial credit risk, interest rate risk, and foreign currency risk. Each risk identified in Statement No. 40, as it relates to the System, is discussed in the remainder of this note.

No System-wide formal policy exists relating to specific investment-related risks identified in GASB Statement No. 40. Each portfolio is managed in accordance with an investment contract that identifies and seeks to control the various types of investment-related risks.

Prior-year disclosures for investment type, credit risk quality ratings, and effective duration have not been included because the information is not believed to be of continuing significance.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to IPERS. Credit risk associated with all

Credit Risk: S&P Quality Ratings

(Dollar values expressed in thousands)

June 30, 2012

Investment Type	Total	TSY	AGY	AAA	AA	A	BBB	BB	B	CCC & Below	NR
Pooled funds and mutual funds	$ 550,562	---	---	$ 550,562	---	---	---	---	---	---	---
Treasuries	90,460	$ 90,460	---	---	---	---	---	---	---	---	---
Short-term investments	**641,022**	**90,460**	---	**550,562**	---	---	---	---	---	---	---
U.S. TIPS	481,079	481,079	---	---	---	---	---	---	---	---	---
U.S. Treasury bonds	379,824	379,824	---	---	---	---	---	---	---	---	---
U.S. Treasury notes	752,411	752,411	---	---	---	---	---	---	---	---	---
Other government-guaranteed	15,723	---	---	---	$ 15,723	---	---	---	---	---	---
Ginnie Mae	196,024	---	$145,231	---	---	---	---	---	---	---	$ 50,793
Freddie Mac*	52,397	---	---	---	52,397	---	---	---	---	---	---
Fannie Mae*	857,508	---	---	---	651,256	$ 14,786	---	---	---	---	191,466
Other govt. agencies	313,856	---	---	---	269,074	---	---	---	---	---	44,782
Collateralized mortgage-backed securities	167,181	---	---	57,831	14,801	42,268	$ 22,242	$ 2,897	---	$ 92	27,050
Collateralized mortgage obligations	98,026	---	---	25,619	24,634	6,716	---	3,042	$ 2,215	29,994	5,806
Other government-backed securities	583	---	---	---	---	---	---	---	---	---	583
Other government fixed income	69,402	---	---	---	3,634	12,783	26,184	10,091	4,570	---	12,140
Corporate bonds	2,090,909	---	---	9,823	54,488	461,938	454,651	405,168	434,259	97,612	172,970
Corporate asset-backed securities	184,964	---	---	73,932	44,423	9,563	2,941	1,848	5,237	3,141	43,879
Private placements	645,997	---	---	76,588	35,660	40,915	84,567	166,788	145,554	10,343	85,582
State and local obligations	24,003	---	---	605	9,776	13,622	---	---	---	---	---
Other fixed income	2,573	---	---	---	2,573	---	---	---	---	---	---
Fixed income investments	**6,332,460**	**1,613,314**	**145,231**	**244,398**	**1,178,439**	**602,591**	**590,585**	**589,834**	**591,835**	**141,182**	**635,051**
Commingled bond funds	**2,485,997**	**1,347,488**	**90,881**	**780,865**	**44,550**	**119,571**	**102,642**	**---**	**---**	**---**	**---**
Total	**$9,459,479**	**$3,051,262**	**$236,112**	**$1,575,825**	**$1,222,989**	**$722,162**	**$693,227**	**$589,834**	**$591,835**	**$141,182**	**$635,051**

*Fannie Mae and Freddie Mac mortgage pools consist of thousands of mortgages. Because of the complexity of these pools, hiring ratings agencies to rate each pool is cost-prohibitive. With no explicit ratings given to the pools, investors consider the ratings to be the same as the issuer's long-term rating, and the pools were reported as such in this table.

fixed income holdings, including collateral for repurchase agreements and securities lending collateral, has been included in this report. The tables summarize IPERS' fixed income portfolio exposure levels and credit quality ratings. The table on the previous page includes $3.1 billion of U.S. Treasury obligations, $196.0 million of Ginnie Mae obligations, and $15.7 million of FDIC-insured securities. These securities are explicitly guaranteed by the U.S. government and represent 34.5 percent of the total Fund's fixed income exposure. Therefore, as of June 30, 2012, IPERS' fixed income assets that are not explicitly government-guaranteed represented 65.5 percent of the fixed income portfolio.

Each fixed income 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. In circumstances where downgrades occurred subsequent to purchase, investment managers are permitted to hold a downgraded security if the manager believes it is prudent to do so. Credit risk for derivative instruments held by the System results from counterparty risk assumed by IPERS. This is essentially the risk the counterparty will be unable to meet its obligation. Information regarding IPERS' credit risk related to derivatives is found under the derivatives disclosures on pages 34–36 of these notes. Policies related to credit risk pertaining to IPERS' securities lending program are found under the securities lending disclosures on pages 36–37 of these notes.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of investment in a single issuer. IPERS' guidelines for each investment manager establish limits on investments in any corporate entity. The System has no separate account 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.

Custodial Credit Risk

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.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a fixed income investment. This risk is managed within the portfolio using the effective duration (or option-adjusted) methodology. 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.

Effective Duration

(Dollar values expressed in thousands)

June 30, 2012

Investment Type	Fair Value	Effective Duration (Years)
Pooled funds and mutual funds	$ 550,562	0.08
Treasuries	90,460	0.34
Short-term investments	**641,022**	**0.12**
U.S. TIPS	481,079	5.38
U.S. Treasury bonds	379,824	11.31
U.S. Treasury notes	752,411	4.40
Other government-guaranteed	15,723	0.36
Ginnie Mae	196,024	1.28
Freddie Mac	52,397	2.78
Fannie Mae	857,508	2.12
Other government agencies	313,856	1.74
Collateralized mortgage-backed securities	167,181	2.78
Collateralized mortgage obligations	98,026	1.02
Other government mortgage-backed securities	583	2.52
Other government fixed income	69,402	6.82
Corporate bonds	2,090,909	5.04
Corporate asset-backed securities	184,964	0.41
Private placements	645,997	4.23
State and local obligations	24,003	11.75
Other fixed income	2,573	0.18
Fixed income investments	**6,332,460**	**4.36**
Commingled bond funds	**2,485,997**	**5.93**
Total	**$9,459,479**	**4.49**

All of the System's core plus fixed income investment contracts require the effective duration of the manager's portfolio to remain between 80 percent and 120 percent of the effective duration measure of a specific fixed income index. For high-yield bond portfolios, the effective duration must remain between 75 percent and 125 percent of the benchmark's effective duration. It is believed the reporting of effective duration found in the preceding table 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. 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.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. IPERS' currency policy is to allow its investment managers the discretion to hedge

Foreign Currency Risk by Investment Type

(Dollar values expressed in thousands)

June 30, 2012

Currency	Total	Cash & Cash Equivalents	Derivatives	Equity	Fixed Income
Argentine Peso	$ 1	$ 1	---	---	---
Australian Dollar	111,742	(53,139)	$ 28,122	$ 136,759	---
Brazilian Real	38,191	15	---	38,176	---
British Pound	170,075	66,836	(62,754)	161,174	$ 4,819
Canadian Dollar	10,837	89,414	(82,107)	1,707	1,823
Chilean Peso	1,877	---	---	1,877	---
Chinese Yuan Renminbi	72	---	---	72	---
Czech Koruna	1,498	---	---	1,498	---
Danish Krone	19,329	78	---	19,251	---
Euro	648,453	(274,390)	193,948	716,370	12,525
Hong Kong Dollar	184,388	21,312	(19,808)	182,884	---
Hungarian Forint	1,242	---	---	1,242	---
Indian Rupee	10,979	---	---	10,979	---
Indonesian Rupiah	15,847	138	---	15,709	---
Japanese Yen	314,166	62,509	(89,163)	340,820	---
Malaysian Ringgit	14,696	45	---	14,651	---
Mexican Peso	27,116	666	---	14,893	11,557
New Zealand Dollar	3,490	3,490	---	---	---
Norwegian Krone	48,819	20,744	---	28,075	---
Peruvian Nuevo Sol	725	---	---	725	---
Philippine Peso	4,186	---	---	4,186	---
Polish Zloty	2,159	---	---	2,159	---
Russian Ruble	7,158	---	---	7,158	---
Singapore Dollar	28,144	189	---	27,955	---
South African Rand	15,470	8	---	15,462	---
South Korean Won	116,381	36	---	116,345	---
Swedish Krona	62,126	50,292	---	11,834	---
Swiss Franc	28,678	(25,995)	---	54,673	---
Taiwanese Dollar	72,182	---	---	72,182	---
Thai Baht	20,103	---	---	20,103	---
Turkish Lira	9,405	146	---	9,259	---
Total	**$1,989,535**	**$(37,605)**	**$(31,762)**	**$2,028,178**	**$30,724**

Note: American Depository Receipts (ADRs) are non-U.S. equity that are issued in U.S. dollars and have no foreign currency risk, and therefore are not included in this schedule.

their foreign currency exposures. IPERS generally does not allow its investment managers to enter into currency positions greater than 100 percent or less than 0 percent of the underlying asset exposure in their respective portfolios. The only exceptions are (1) as it relates to specific cross-hedging activity, which may be permitted in certain investment manager contracts, and (2) in global macro investment strategies where the manager is permitted to tactically allocate across several asset classes and strategies, including currency. The net foreign currency exposure of the global macro managers was less than 1 percent of the System's total foreign currency exposure on June 30, 2012.

Derivatives

GASB Statement No. 53 requires the fair value of financial arrangements called "derivatives" or "derivative instruments" to be reported in the financial statements of state and local governments. The statement further requires derivatives to be categorized as either a hedging derivative or an investment derivative. All of the System's derivative exposures at June 30, 2012, are categorized as investment derivatives and therefore the hedge accounting provisions of GASB Statement No. 53 are not applicable.

Some of the System's external investment managers may be permitted through their individual investment contracts to use derivative instruments, subject to the System's derivative policy contained in its Investment Policy and Goal Statement. (This policy can be viewed beginning on page 64.) Derivatives are contracts or securities whose returns are derived from the returns of other securities, indexes, 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, and swaptions. 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. 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, managing duration risk, augmenting index fund performance through index arbitrage, and portable alpha strategies.

The various derivatives utilized by the System's investment managers are described below. Although the notional values associated with these derivative instruments are not recorded in the financial statements, the fair value amounts of exposure (unrealized gains / losses) are reported in the Statement of Plan Net Assets. IPERS holds investments in limited partnerships and commingled investment funds, which may utilize derivatives from time to time for hedging purposes, and any derivatives held by these types of investment vehicles are not included in the information describing the System's derivatives on pages 34–36. IPERS could be exposed to risk if the counterparties to derivatives contracts are unable to meet the terms of the contracts. IPERS' investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. IPERS anticipates the counterparties will be able to satisfy their obligations under the contracts. Limited partnerships and commingled investment vehicles in which IPERS invests may also have exposure to counterparty risk from the use of derivatives for hedging purposes.

Futures and Options Contracts

The System had investments in various futures and options during the year. These contracts are reported at their fair value in the Statement of Plan Net Assets.

A listing of futures and options contracts outstanding at June 30, 2012, follows. Futures and options can potentially offer lower-cost and more efficient alternatives to buying the underlying securities or currency. Futures and options can also serve to minimize certain unwanted risks within the portfolio. 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, 2012

	Expiration Date	Long/ Short	Notional Value	Fair Value
Amsterdam Index	July 2012	Long	$ 50,856	$ 2,562
CAC 40 Euro Index	July 2012	Short	(2,662)	(51)
Hang Seng Index	July 2012	Short	(19,293)	(515)
IBEX 35 Index	July 2012	Short	(1,096)	(57)
10-year Australian bonds	September 2012	Short	(115,159)	35
10-year Canadian bonds	September 2012	Short	(103,521)	(644)
10-year Japanese bonds	September 2012	Short	(54,032)	6
10-year Japanese minibonds	September 2012	Long	2,209	6
10-year U.S. Treasury notes	September 2012	Short	(28,626)	(590)
2-year U.S. Treasury notes	September 2012	Short	(101,779)	52
5-year U.S. Treasury notes	September 2012	Short	(112,360)	(203)
DAX Index	September 2012	Long	21,084	885
E-mini (S&P 500)	September 2012	Long	127,620	4,696
Euro bunds	September 2012	Long	141,573	(2,817)
FTSE 100 Index	September 2012	Short	(2,500)	(100)
FTSE/MIB Index	September 2012	Short	(14,910)	(1,418)
S&P Canada 60	September 2012	Long	21,782	276
SPI 200 Index	September 2012	Long	28,386	(107)
TOPIX Index	September 2012	Short	(34,115)	(3,184)
U.K. Long Gilt	September 2012	Short	(59,763)	(391)
U.S. Treasury bonds	September 2012	Short	(13,588)	(25)
U.S. Ultra bonds	September 2012	Long	9,660	351
90-day Eurodollar	March 2015	Short	(9,380)	(35)
Total			**$(269,614)**	**$(1,268)**

Options Exposure Summary

(Dollar values expressed in thousands)

June 30, 2012

	Expiration Date	Long/ Short	Option Type	Strike Price	Fair Value
90-day Eurodollar	September 2012	Long	Put	$ 98.00	$ 1
90-day Eurodollar	September 2012	Short	Put	97.50	(1)
Eurodollar 2-year mid-curve	December 2012	Long	Put	97.25	1
Eurodollar 2-year mid-curve	December 2012	Short	Put	97.50	(1)
Eurodollar 2-year mid-curve	December 2012	Long	Put	98.00	5
Eurodollar 2-year mid-curve	December 2012	Short	Put	98.25	(19)
Eurodollar 2-year mid-curve	December 2012	Long	Put	98.75	51
Eurodollar 3-year mid-curve	July 2012	Long	Put	98.63	3
Eurodollar 3-year mid-curve	September 2012	Long	Put	97.50	1
Eurodollar 3-year mid-curve	December 2012	Long	Put	97.25	5
Eurodollar 3-year mid-curve	December 2012	Short	Put	97.75	(20)
Eurodollar 3-year mid-curve	December 2012	Long	Put	98.25	22
10-year U.S. Treasury notes	August 2012	Short	Call	134.50	(49)
10-year U.S. Treasury notes	July 2012	Short	Put	129.50	(2)
10-year U.S. Treasury notes	July 2012	Long	Put	131.00	15
10-year U.S. Treasury notes	August 2012	Short	Put	131.50	(23)
Total					**$(11)**

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 used to hedge or to replicate investments 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, 2012, the net notional value of the credit default swaps held in the System's fixed income portfolio was –$9.2 million. The credit default swaps are reported at a fair value of $234,404 in the Statement of Plan Net Assets.

Interest Rate Swaps and Swaptions

Interest rate swaps are transactions between two parties in which interest payments from different indexes are swapped. Interest rate swaps are often used to alter the portfolios' exposure to interest rate fluctuations, by swapping fixed-rate obligations for floating-rate obligations, or swapping floating-rate obligations for fixed-rate obligations. By utilizing interest rate swaps, the System's investment managers are able to synthetically alter their interest rate exposure and bring it in line with their strategic objectives for interest rate risk. At June 30, 2012, the net notional value of the interest rate swaps held in the System's fixed income portfolio was $42.8 million. All interest rate swaps held by the System are reported at a fair value of $366,400 in the Statement of Plan Net Assets.

A swaption represents the option to enter into an interest rate swap. In exchange for an option premium, the buyer gains the right but not the obligation to enter into a specified swap agreement with the issuer on a specified future date. The agreement will specify whether the buyer of the swaption will be a fixed-rate receiver (like a call option on a bond) or a fixed-rate payer (like a put option on a bond). The strike rate on the swaptions held by the System at June 30, 2012, was 1.40 percent and the swaptions expire in March 2013. All swaptions held by the System are reported in the Statement of Plan Net Assets at a fair value of –$516,294.

Total Return Swaps

A total return swap is a contract in which two parties swap payments based on the total return of a reference asset. The reference asset may be any asset, index, or basket of assets. At June 30, 2012, the net notional value of the total return swaps held in the System's fixed income portfolio was –$75.0 million. The total return swaps held by the System are reported at a fair value of $4,159 in the Statement of Plan Net Assets.

Mortgage-Backed Securities

The System invests in mortgage-backed securities, which are reported in the Statement of Plan Net Assets at fair value based on estimated future cash flows from the interest and principal payments of the underlying mortgages. As a result, mortgage-backed securities prices are sensitive to prepayments by mortgagees, which are more likely in declining interest rate environments. The System invests in mortgage-backed securities to diversify the portfolio and earn the return premium associated with prepayment risk. Details on interest rate risks for these investments are included under the interest rate risk disclosures on pages 32–33.

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 Mellon, a 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 Mellon 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 Mellon 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 fiscal year-end, IPERS had $1,321 in risk exposure to borrowers because the amounts they owed IPERS exceeded the amount IPERS owed the borrowers on three separate loans. Additional collateral was provided the next business day, eliminating this exposure. The contract with The Bank of New York Mellon 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.

Securities Lending Cash Collateral Account

(Dollar values expressed in thousands)

June 30, 2012

Investment Type	Fair Value	Credit Risk: S&P Quality Rating	Investment Maturity (Years)
Mutual funds	$127,689	Not rated	Less than 1
Overnight repurchase agreements	210,000	Not rated	Less than 1
Total	**$337,689**		

The securities lending contract does not allow IPERS to pledge or sell any collateral securities unless the borrower defaults. As of June 30, 2012, IPERS had securities on loan, including accrued interest income, with a fair value (carrying value) of $341.0 million against collateral, including borrower rebate, with a total fair value (carrying value) of $351.9 million.

The majority of securities loans are open loans, that is, one-day maturity, where the rebate rate due to 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 account, which is managed by The Bank of New York Mellon in accordance with investment guidelines established by the Treasurer of State and reviewed by 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 risks associated with not matching the maturity of the investments with the maturity of the loans. The effective duration of the cash collateral account at June 30, 2012, was 0.01. Credit quality and years to maturity statistics for the cash collateral account at June 30, 2012, are shown in the table above.

E. Capital Assets

The IPERS headquarters at 7401 Register Drive, Des Moines, Iowa, is held as a capital asset. Building and land are 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, data processing equipment, and software. 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. Software is depreciated over 15 years.

Total depreciation expense for the year ended June 30, 2012, was $1,410,440; $12,160 of this was reclassified as investment-related expense on the Schedule of Investment-Related Expenses on page 46. In FY2012, $3.5 million of equipment and other expenses directly related to I-Que were capitalized. I-Que was implemented in two phases, or rollouts. Rollout 1 went into production in August 2008, at which time IPERS began amortizing the capitalized intangible assets related to this phase. Rollout 2 went into production in December 2011, at which time IPERS began amortizing the related capitalized intangible assets.

Summary of Capital Assets

As of June 30, 2012 and 2011

Capital Assets	Land	Building and Improvements	Furniture, Equipment, and Software	Total Capital Assets
Balances as of June 30, 2011	$500,000	$5,218,297	$19,686,217	$25,404,514
Additions	---	1,822,629	3,568,977	5,391,606
Deletions	---	---	(132,954)	(132,954)
Balances as of June 30, 2012	500,000	7,040,926	23,122,240	30,663,166
Accumulated Depreciation				
Balances as of June 30, 2011	---	1,266,156	2,499,722	3,765,878
Depreciation expense	---	189,665	1,220,775	1,410,440
Deletions	---	---	(132,954)	(132,954)
Balances as of June 30, 2012	---	1,455,821	3,587,543	5,043,364
Net capital assets as of June 30, 2012	**$500,000**	**$5,585,105**	**$19,534,697**	**$25,619,802**

F. Compensated Absences and Other Postemployment Benefits

IPERS staff members, as State of Iowa employees, participate in the benefits available to all State of Iowa employees. Expenses related to accumulated vacation and sick leave earned by IPERS employees are recorded when earned.

IPERS has recorded liabilities of $621,289 related to the Sick Leave Insurance Program (SLIP). The SLIP program calculates a dollar value based on the unused sick leave balance to be credited to a retiree's account and used to pay the employer's share of the selected State group health insurance premium.

IPERS has also recorded liabilities for other postemployment benefits. These benefits consist of an implicit rate subsidy, which is the difference between the blended premiums paid by all participants in the State's health care plans and the expected claims for the retiree group. This liability, as determined by the State GAAP Team, was $3,885 for each full-time employee of IPERS, for a total liability of $306,915.

These accrued liabilities are included in accounts payable and accrued expenses in the Statement of Plan Net Assets on page 26. Details are provided on a statewide basis in the State of Iowa's CAFR.

(4) Contributions Required and Contributions Made

Each year, IPERS' actuarial consultant performs a valuation of the liabilities and reserves of the IPERS Trust Fund in accordance with Iowa Code section 97B.4(4)(d). The actuary also calculates an actuarially determined contribution rate (ADCR) for each membership group. The ADCR is the contribution rate necessary to fully fund the benefits provided under Iowa Code chapter 97B.

IPERS' Contribution Rate Funding Policy requires that the ADCR be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The ADCR covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

Iowa statute authorizes the contribution rate for both Special service groups to be set to the ADCR. Therefore, these groups have consistently paid 100 percent of their actuarially required contributions.

The contribution rate paid by the Regular membership has been set in statute. Since 2001, the statutory rate has been less than the actuarially required rate. Statutory rate increases were passed by the Iowa Legislature in 2006 and 2010. The last statutory rate increase, effective July 1, 2011, was still less than the ADCR. Pursuant to the statutory rate, Regular members contributed 5.38 percent of pay and their employers contributed 8.07 percent for a total rate of 13.45 percent. The actuarially required rate was 13.71 percent.

In 2010, the Iowa Legislature passed a law authorizing IPERS to set rates for Regular members based on the actuarially required rate, effective July 1, 2012. However, the rate cannot increase or decrease by more than 1 percentage point each year. This limitation may result in the rate payable (statutory rate) continuing the pattern of being less than the ADCR.

The actuarially required contributions for IPERS' active members and their employers combined for all membership groups and the actual contributions made for the years ended June 30, 2010, 2011, and 2012, are as follows:

Fiscal Year	Actuarially Required Contributions	Total Contributions	Percentage Contributed
2010	$829,370,219	$742,596,384	89.5
2011	939,832,711	774,507,092	82.4
2012	941,316,630	924,782,318	98.2

A more detailed schedule of employer contributions encompassing six years can be found on page 43 of the Required Supplementary Information following these notes.

(5) Funded Status

During fiscal year 2012, IPERS' unfunded actuarial liability increased to $5.916 billion and the amortization period dropped to the 30-year maximum. The funded status of the plan as of June 30, 2012, the most recent actuarial valuation date, is as follows:

Funded Status

Net actuarial value of assets	$23,530,094,461
Actuarial liability	$29,446,197,486
Percentage funded	79.91
Unfunded actuarial liability (UAL)	$5,916,103,025
Annual covered payroll*	$6,786,158,720
UAL as a percentage of covered payroll	87.18

*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. The federal limit was $250,000 in calendar year 2012.

The Schedule of Funding progress, presented as Required Supplementary Information on page 42 following the Notes to Financial Statements, presents trend information for six years. This multiyear presentation shows the progress made by IPERS in accumulating sufficient assets to pay pension benefits as they become due.

The primary purpose of an actuarial valuation is to calculate, on the basis of certain assumptions, the present value of benefits payable in the future from the Fund to current members and their beneficiaries, as well as the present value of future contributions to be made by these members and their employers. These calculated present values are then used to determine the level of annual contributions required to pay for these benefits.

The actuarial methods and assumptions used to perform these calculations are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the longer-term perspective of these calculations. The Investment Board has adopted and approved the use of the following assumptions and methods.

Actuarial Methods and Assumptions

Actuarial cost method	Entry age normal
Asset smoothing method	Expected value at the valuation date plus 25% of the difference between the market value and expected value. The actuarial value must fall within a corridor of 80%–120% of market value.
Amortization method	Level percent of pay
Amortization period	Regular membership: 30-year open Special service groups: 30-year closed
Rate of investment return	7.50%
Projected salary increases	4%–17% depending upon years of service
Mortality tables	RP2000 Employee and Healthy Annuitant Tables with generational scaling and age adjustments
Inflation rate	3.25% for prices, 4.00% for wages

(6) Litigation and Contingencies

IPERS monitors, evaluates, and takes the necessary actions related to litigation for or against IPERS. It does so based on its fiduciary responsibility to realize on claims impacting the Trust Fund. This includes, but is not limited to, federal and state court actions and defending administrative appeals filed against IPERS. IPERS employs outside legal counsel, utilizes the legal services of the Iowa Attorney General's Office, and utilizes in-house legal counsel to assert and defend claims for IPERS.

IPERS participates in federal actions in several ways. IPERS participates in federal securities class actions as the lead plaintiff, co-lead plaintiff, or as a member of the class action. It also assists and responds to federal governmental agencies that regulate the pension and investment industry. During the fiscal year, IPERS did not pay any amount related to federal actions. During the fiscal year, IPERS made several recoveries benefiting the Trust Fund. The recoveries are reflected in the financial statements for the year ended June 30, 2012.

In the fraud action against Westridge Capital Management, IPERS is aggressively pursuing its financial interests in the U.S. District Court for the Southern District of New York. On April 21, 2011, IPERS received an initial distribution of $215.2 million.

The receiver has not distributed all assets under its control. Management of the System and the Iowa Attorney General believe IPERS will receive an additional distribution from the receiver. IPERS also filed suit against Westridge Capital Management's auditor, Deloitte & Touche. This litigation is in its initial stages and will take time to resolve.

IPERS is aggressively defending a case filed in Polk County District Court, Iowa. The case is captioned *Robert J. Brunkhorst v. Iowa Public Employees' Retirement System*, CV No. 104520. Mr. Brunkhorst filed a claim under the Iowa Tort Claims Act alleging IPERS failed to implement the actuarial cost method for service purchase buy-backs in a timely fashion, causing a loss to the IPERS Trust Fund. IPERS denies the allegation. Management of the System believes that this case will have no material effect on the financial statements for the year ended June 30, 2012.

IPERS aggressively participated in the defense of a class-action lawsuit against most State agencies of Iowa alleging a pattern of racial discrimination in the hiring and promotion practices in State government. The case went to trial and the verdict relieved IPERS from any liability.

IPERS successfully defended several appeals filed under the Iowa Administrative Procedures Act. No administrative appeal resulted in a loss to the Trust Fund.

(7) Commitments

At June 30, 2012, IPERS had commitments to fund an additional $1.406 billion to various private equity / debt partnerships.

(8) Pension and Retirement Benefits

The System is a participating employer in IPERS, which is a cost-sharing, multiple-employer, contributory, defined benefit public employee 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.

The State statute required contributions of 5.38 percent by Regular members and 8.07 percent by their employers for FY2012. Required contributions by Regular members and employers were 4.50 percent and 6.95 percent, respectively, for fiscal year 2011, and 4.30 percent and 6.65 percent, respectively, for fiscal year 2010. The System's contributions to IPERS for the years ended June 30, 2012, 2011, and 2010, were $466,475, $393,628, and $354,546, respectively, equal to the statutorily required contributions for each year.

(9) Net Assets Held in Trust for Pension Benefits

There is only one IPERS Trust Fund where all investment income, member contributions, and employer contributions are pooled. However, within IPERS there are three distinct groups, each characterized by different benefit levels and occupation types. Because of these varied characteristics, each group has its own contribution rate. To calculate each contribution rate, it is necessary to separately identify the liabilities and assets associated with each group.

As a result of continued data improvements and preparations necessary to implement the new I-Que system, IPERS is now able to provide more complete data to the actuary. In turn, the actuary can provide a more refined measurement of the actuarial liabilities. This refinement of accounting and actuarial processes makes an incremental improvement in how liabilities are determined and assets are classified. Assets of members with service in more than one membership group are aggregated in a single group, as noted on the "transfers between groups" line in the following table. The end result is a closer match of liabilities with assets and therefore more refined contribution rates.

In addition to the assets associated with each of the three membership groups, there are assets held in the Favorable Experience Dividend (FED) reserve account as established in Iowa Code section 97B.49F.

Allocation of Net Assets Held in Trust

Fiscal year ended June 30, 2012

	Regular Membership*	Special Service Group 1†	Special Service Group 2‡	FED Reserve Account§	Total
Assets as of June 30, 2011	$21,365,705,614	$422,854,979	$ 983,784,058	$309,788,284	$23,082,132,935
Additions					
Contributions	855,332,704	17,998,546	51,451,068	---	924,782,318
Service purchases	16,852,811	217,226	541,658	---	17,611,695
Investment and miscellaneous income	810,461,014	16,226,795	37,990,013	9,979,445	874,657,267
Total additions	***1,682,646,529***	***34,442,567***	***89,982,739***	***9,979,445***	***1,817,051,280***
Deductions					
Benefit payments	1,392,015,794	18,733,898	37,998,448	100,428,496	1,549,176,636
Member refunds	37,489,332	958,957	4,879,837	---	43,328,126
Administrative expenses	12,501,308	86,812	376,065	---	12,964,185
Investment expenses	46,492,139	930,851	2,179,299	572,471	50,174,760
Total deductions	***1,488,498,573***	***20,710,518***	***45,433,649***	***101,000,967***	***1,655,643,707***
Preliminary net assets	**21,559,853,570**	**436,587,028**	**1,028,333,148**	**218,766,762**	**23,243,540,508**
Transfers between groups	**7,611,768**	**808,584**	**(8,420,352)**	**---**	**---**
Adjusted net assets as of June 30, 2012	**$21,567,465,338**	**$437,395,612**	**$1,019,912,796**	**$218,766,762**	**$23,243,540,508**

*Includes QBA Fund income and benefit payments.
†Sheriffs and deputies.
‡All other protection occupation members.
§Favorable Experience Dividend.

(10) Qualified Benefits Arrangement (QBA)

The purpose of the QBA is to permit IPERS retirees to receive the amount of their calculated monthly benefit that exceeds the IRS limits under IRC section 415(b). The QBA is maintained as a separate trust arrangement and no commingling with the IPERS Trust Fund is permitted. The QBA is funded by employer contributions on an as-needed basis and is therefore fully funded.

Required Supplementary Information

Schedule 1 *Schedule of Funding Progress*

Last six fiscal years

Fiscal Year Ended June 30	Net Actuarial Value of Assets	Actuarial Liability	Percentage Funded	Unfunded Actuarial Liability (UAL)	Annual Covered Payroll*	UAL as a % of Covered Payroll
2007	$20,759,628,415	$23,026,113,782	90.16	$2,266,485,367	$5,781,706,199	39.20
2008	21,857,423,183	24,522,216,589	89.13	2,664,793,406	6,131,445,367	43.46
2009	21,123,979,941	26,018,593,823	81.19	4,894,613,882	6,438,643,124	76.02
2010	21,537,458,560	26,468,419,650	81.37	4,930,961,090	6,571,182,005	75.04
2011	22,575,309,199	28,257,080,114	79.89	5,681,770,915	6,574,872,719	86.42
2012	23,530,094,461	29,446,197,486	79.91	5,916,103,025	6,786,158,720	87.18

*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. The federal limit was $250,000 in calendar year 2012.

See Note 5 on page 39 for additional information on IPERS' funded status and the actuarial assumptions and methods used to perform these calculations.

Schedule 2 *Schedule of Employer Contributions*

Last six fiscal years

Fiscal Year	*Actuarially Required Contributions*	*Total Employer Contributions*	*Percentage Contributed*
2007			
Regular Membership	$387,578,925	$318,762,838	82.2
Special Service Group 1	6,577,652	6,577,652	100.0
Special Service Group 2	17,723,013	17,722,840	100.0
2007 Total	**$411,879,590**	**$343,063,330**	**83.3**
2008			
Regular Membership	$408,882,080	$353,470,318	86.4
Special Service Group 1	6,301,171	6,301,171	100.0
Special Service Group 2	17,644,966	17,645,261	100.0
2008 Total	**$432,828,217**	**$377,416,750**	**87.2**
2009			
Regular Membership	$441,951,764	$384,221,534	86.9
Special Service Group 1	6,365,911	6,365,911	100.0
Special Service Group 2	24,736,688	24,736,688	100.0
2009 Total	**$473,054,363**	**$415,324,133**	**87.8**
2010			
Regular Membership	$467,839,274	$415,070,451	88.7
Special Service Group 1	6,725,778	6,725,778	100.0
Special Service Group 2	27,328,184	27,328,184	100.0
2010 Total	**$501,893,236**	**$449,124,413**	**89.5**
2011			
Regular Membership	$530,692,453	$430,330,067	81.1
Special Service Group 1	7,994,058	7,994,058	100.0
Special Service Group 2	29,711,050	29,711,050	100.0
2011 Total	**$568,397,561**	**$468,035,175**	**82.3**
2012			
Regular Membership	$528,525,785	$518,541,696	98.1
Special Service Group 1	8,999,273	8,999,273	100.0
Special Service Group 2	30,864,449	30,864,449	100.0
2012 Total	**$568,389,507**	**$558,405,418**	**98.2**

See Note 4 on page 38 for additional information on the actuarial valuation.

(1) Schedule of Funding Progress

IPERS' funded ratio (the ratio of actuarial assets to actuarial liabilities) declined considerably to 81.2 percent in FY2009 as a result of the investment losses associated with the Great Recession. The improved investment returns that followed, plus increases in employee and employer contribution rates and the decrease in normal cost as a result of legislated benefit changes, stabilized the funded ratio over the past four years between 79 and 81 percent.

The amortization period of the UAL for the Regular membership decreased from an infinite number of years in the 2002 through the 2009 valuations, to 34 years in the 2010 and 2011 valuations, to 30 years in the 2012 valuation. The amortization period has always been 30 years for the Special service groups since they have always paid the ADCR. The improvement in the amortization period is further evidence of the funded ratio's stabilization.

The increase in the UAL is the result of several factors. Adoption of new mortality assumptions for the Regular membership and a change in actuarial valuation software occurred with the FY2011 valuation. Contributions for the Regular membership below the ADCR have been a consistent factor in the increase in the UAL. Other contributing factors have included investment losses during the Great Recession and liability losses related to demographic experience that was less favorable than anticipated by actuarial assumptions. IPERS has addressed these concerns through legislation that has resulted in benefit and contribution rate changes.

(2) Schedule of Employer Contributions

The difference between the ADCR and actual contributions made is due entirely to statutory contribution requirements that have differed from the ADCR. The Special service groups have always paid the ADCR.

Contribution rates for Regular members were set in statute at 9.45 percent from 1979 to 2007. In 2006, legislation allowed a 0.5 percentage point increase for each of the following four years. In 2010, an additional contribution rate increase to 13.45 percent was passed by the Legislature.

The Legislature also passed a law authorizing IPERS to change the contribution rates by up to 1 percentage point each year, to bring them closer in line with the ADCR, starting in FY2013. The Contribution Rate Funding Policy adopted by the IPERS Investment Board in September 2011 established procedures for setting the contribution rates for all membership groups within IPERS. The FY2012 contribution rate for Regular members was 13.45 percent, while the ADCR was 13.71 percent. As a result, employers contributed a much higher percentage of the ADCR than in previous years.

Schedule 1 Investment Income by Specific Source

Years ended June 30, 2012 and 2011

	2012	2011
Interest income–short-term	$ 5,325,306	$ 604,681
Interest income on bonds	255,880,941	255,029,483
Dividend income	110,059,346	100,933,755
Real estate funds	121,091,898	100,210,511
Private equity/debt	(14,030,866)	9,993,909
Other income	105,267	106,048
Investment income	***478,431,892***	***466,878,387***
Gain on investments	566,636,348	3,303,031,602
Currency gain/(loss)	(178,167,102)	186,424,530
Net appreciation in fair value of investments	***388,469,246***	***3,489,456,132***
Securities lending income	710,214	1,321,341
Securities lending net appreciation in fair value of collateral pool	4,523,673	6,583,467
Securities lending income	***5,233,887***	***7,904,808***
Total investment income	**$872,135,025**	**$3,964,239,327**

Schedule 2 *Schedule of Investment-Related Expenses*

Years ended June 30, 2012 and 2011

	2012	*2011*
BlackRock Institutional Trust Company, NA	$ 845,156	$ 327,614
First Quadrant, L.P.	706,423	692,669
Fisher Investments	169,221	---
Janus Capital Management LLC	99,774	---
J.P. Morgan Investment Management, Inc.	886,894	286,826
Mellon Capital Management Corp.	884,838	1,534,038
PanAgora Asset Management, Inc.	1,142,879	2,050,305
RCM	568,657	1,182,706
Wellington Management Company, LLP	2,005,138	1,637,568
Total domestic equity	***7,308,980***	***7,711,726***
AEGON USA Investment Management LLC	443,965	---
BlackRock Financial Management, Inc.	1,793,708	1,828,377
MacKay Shields LLC	1,431,745	---
Mellon Capital Management Corp.	274,883	294,207
Oaktree Capital Management, L.P.	1,297,690	955,757
PIMCO	1,724,851	---
Post Advisory Group, LLC	612,072	1,064,450
Principal Global Investors, LLC	417,059	530,149
Western Asset Management Company	3,684,227	2,394,133
Total fixed income	***11,680,200***	***7,067,073***
BlackRock Institutional Trust Company, NA	105,320	29,368
Fischer Francis Trees & Watts, Inc.	333,713	134,979
Total U.S. TIPS/other real assets	***439,033***	***164,347***
Ashmore EMM, LLC	2,605,739	2,362,362
BlackRock Institutional Trust Company, NA	1,501,980	1,903,250
GAM USA, Inc.	254,991	277,057
Oechsle International Advisors, LLC	791,323	880,905
Quantitative Management Associates, LLC	669,420	702,509
Wellington Management Company, LLP	1,463,878	1,623,181
Total international equity	***7,287,331***	***7,749,264***
Clarion Partners	2,930,150	1,657,772
INVESCO Realty Advisors	1,922,911	1,871,695
RREEF America, LLC	4,039,416	2,414,824
RREEF America, LLC (REIT)	1,160,719	1,277,909
TA Realty, LLC	2,262,264	2,145,260
UBS Realty Investors, LLC	3,976,537	4,050,518
Urdang Securities Management, Inc.	678,455	9,129
Total real estate	***16,970,452***	***13,427,107***
Pathway Capital Management	4,240,745	3,855,223
Total private equity/debt	***4,240,745***	***3,855,223***
Holland Park Risk Management, Inc.	30,020	---
Wilshire Associates	385,000	384,200
Total investment consultant fees	***415,020***	***384,200***
The Bank of New York Mellon	229,933	197,449
Treasurer of State	23,175	100,921
Total custody expenses	***253,108***	***298,370***
Investment staff and Board expenses	1,008,480	976,804
Miscellaneous expenses	571,411	299,093
Total other investment expenses	***1,579,891***	***1,275,897***
Total investment-related expenses	**$50,174,760**	**$41,933,207**

Schedule 3 *Schedule of Administrative Expenses**

Years ended June 30, 2012 and 2011

	2012	2011
Personnel		
Salaries and wages	$ 6,076,804	$5,441,263
Travel	83,009	84,248
Professional and technical services		
Professional	2,610,467	1,117,039
Actuary	113,000	111,160
Computer support services	1,565,150	972,586
Auditing	104,066	101,564
Communications		
Telephone	170,661	208,391
Printing	143,236	159,893
Other expenses		
Supplies	558,287	456,257
Utilities	49,278	67,171
Depreciation	1,398,280	833,226
Repairs	2,259	2,150
Rent	4,182	2,028
Miscellaneous	85,506	93,283
Total administrative expenses	**$12,964,185**	**$9,650,259**

*Administrative expenses related to investments do not appear here but are included in the investment expenses reported on the Schedule of Investment-Related Expenses on the previous page.

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INVESTMENTS

Investment Overview
Investment Results
Investment Policy and Goal Statement

This section of the CAFR was compiled by IPERS' investment staff using information provided by consultant Wilshire Associates and the System's custodian bank, The Bank of New York Mellon. Except where noted otherwise, investment returns are based on investment asset fair values and calculated using time-weighted return calculation methodologies.

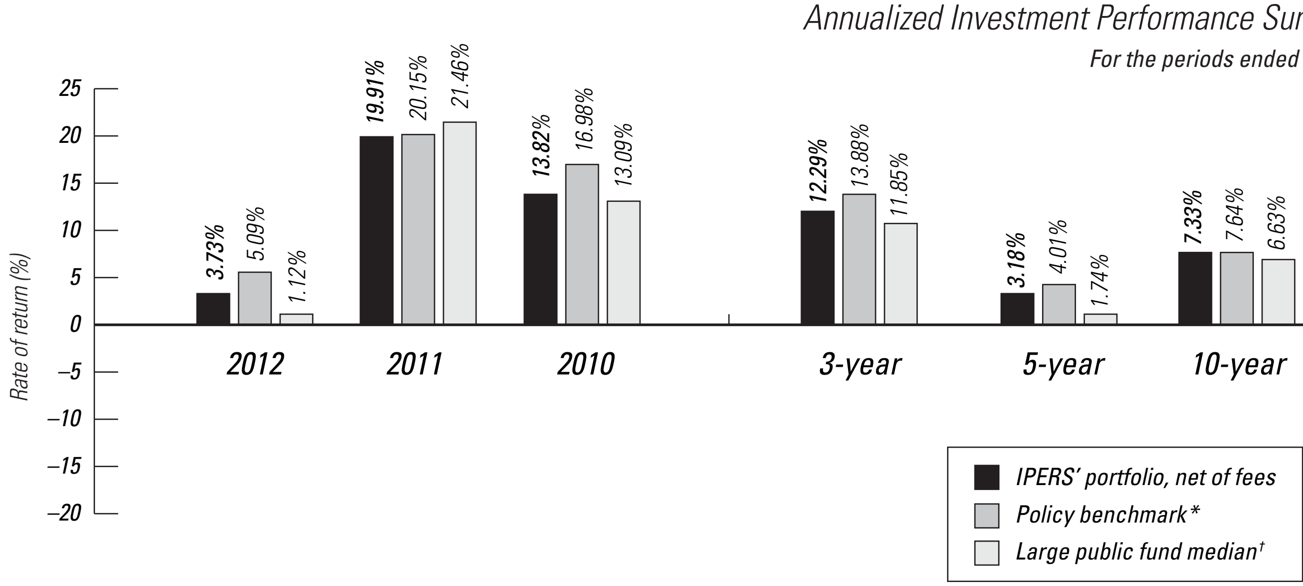
Investment returns play an important role in the funded status of the IPERS Trust Fund. The Investment Board has adopted an Investment Policy and Goal Statement, the objective of which is to benefit the members of the System by maximizing the total rate of return on investments within prudent risk parameters.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

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

Annualized Investment Performance Summary

For the periods ended June 30



*A benchmark composed of market indexes with weightings reflective of IPERS' asset allocation targets.
†Trust Universe Comparison Service (TUCS) Public Funds with Total Market Value Greater than $1 billion.

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. The 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.

In September 2010, the Investment Board approved a change in the asset allocation policy to establish a 2 percent allocation to "other real assets," an asset class that could include timberland, farmland, infrastructure, and other types of real return assets. The 2 percent target allocation for other real assets was to be accomplished by reducing the target allocation to domestic equity by 2 percentage points, to 23 percent. However, the Board's approval stipulated that the target allocation for other real assets would not become part of the policy benchmark until such time as funding of those assets occurred. At June 30, 2012, IPERS had invested only $717,000 in the asset class, so the target allocation for other real assets was effectively 0 percent and the domestic equity target allocation was 25 percent.

In addition to diversifying the portfolio through asset class diversification, the System 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.

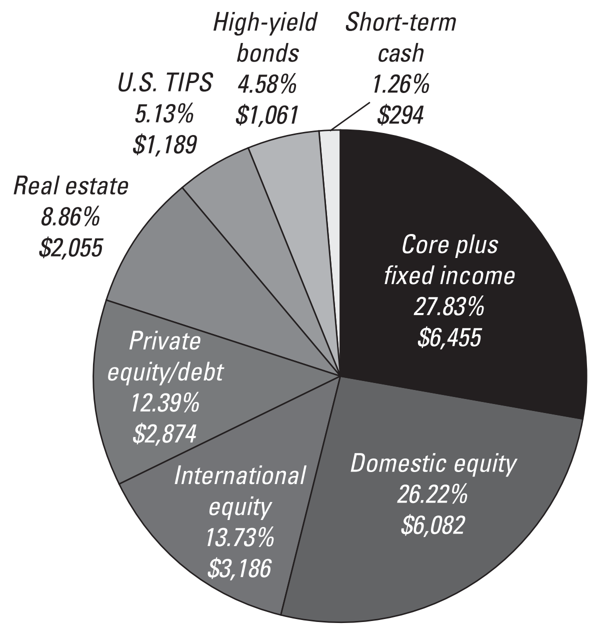
The System also requires its investment managers to diversify their portfolios at the security level. Managers are required to diversify across sectors, industries, and individual securities. The System develops specific contractual investment guidelines for each manager that control the risk of high 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 of the IPERS investment portfolio to achieve its long-term objectives.

Summary of Investments by Asset Class

(Fair value in millions)

As of June 30, 2012



Capital Markets Commentary

The annual investment returns of various asset classes for fiscal year 2012 are presented and discussed below.

The U.S. stock market, as measured by the Wilshire 5000 index, returned 3.96 percent for fiscal year 2012. Large-capitalization stocks did much better than small-cap stocks during the period, while the performance of value stocks edged out growth stocks for the fiscal year, as shown in the table below.

Wilshire Style Index	FY2012 Return
Large growth	4.38%
Large value	4.76%
Small growth	–3.27%
Small value	0.26%

The best-performing sector in the Wilshire 5000 index for fiscal year 2012 was telecommunications services with a 13.99 percent gain. Other leading sectors were consumer staples and utilities, which returned 13.46 percent and 13.22 percent, respectively. Energy was the worst-performing sector for the fiscal year, returning –9.81 percent.

International stocks came under severe selling pressure in fiscal year 2012 because of concerns about the European debt crisis and a slowing Chinese economy. The MSCI All Country World Free ex U.S. index, a performance benchmark for stocks of non-U.S. companies, returned –14.15 percent for the fiscal year (calculated in U.S. dollars). Stocks of European companies returned –16.48 percent for the fiscal year, while emerging market stocks returned –15.95 percent. Stocks of companies in the United Kingdom fared relatively better, returning –4.61 percent for the fiscal year.

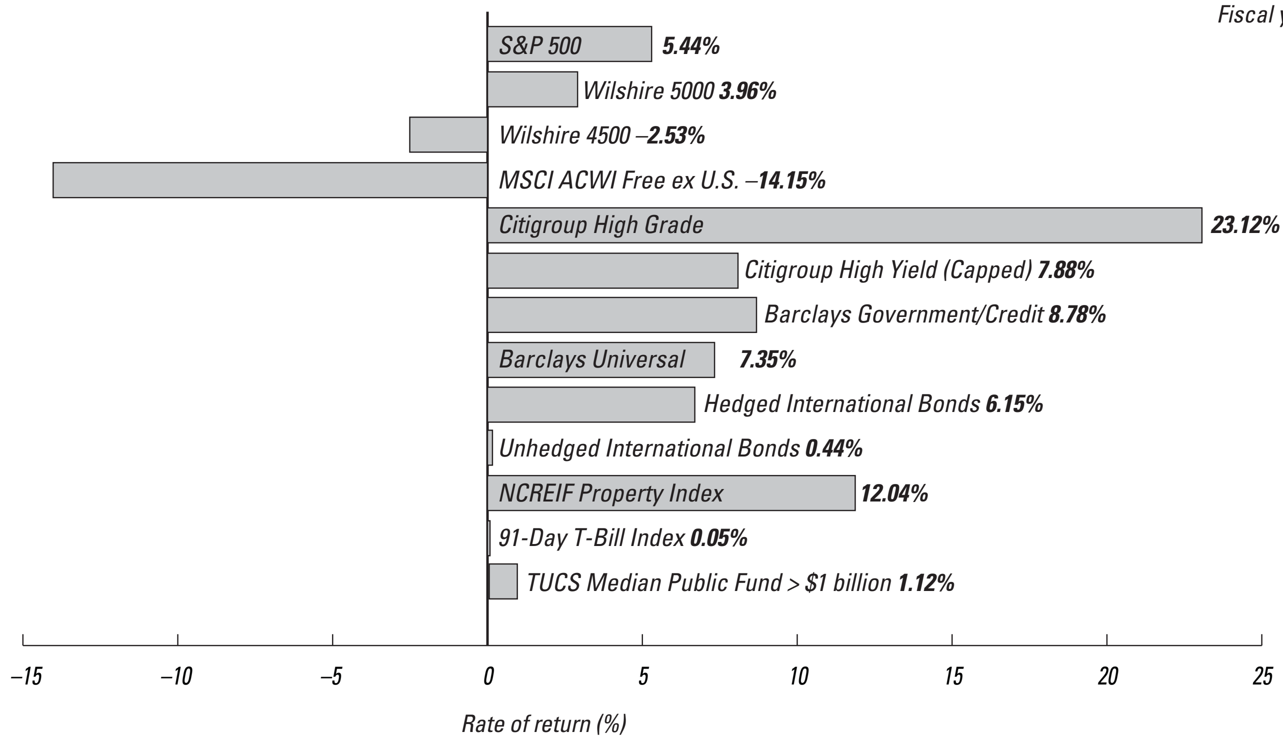
The fixed income markets posted solid returns for the fiscal year. The Barclays Capital U.S. Universal Bond index returned 7.35 percent for the fiscal year. The U.S. Treasury Inflation-Protected Securities (U.S. TIPS) sector was the best-performing sector of the bond market in fiscal year 2012, with the Barclays U.S. TIPS index returning 11.66 percent. Over the same period, the corporate investment-grade sector also performed well, as evidenced by the 9.54 percent annual return on the Barclays Credit index. The Barclays Treasury index was not far behind, returning 9.05 percent for the fiscal year.

The U.S. commercial real estate market continued to rebound in FY2012. The NCREIF Property index, a commonly cited measure of privately held commercial real estate values and income, returned 12.04 percent for the 1-year period ended June 30, 2012. This was down from 16.73 percent for the 1-year period ended June 30, 2011. Publicly traded real estate investment trusts (REITs) continued their rally in FY2012, with the Wilshire REIT index posting an annual return of 13.21 percent.

Private equity investments also produced positive results in FY2012. Financing terms remained attractive, while fundraising and investment activity both continued to show improvement. The overall private equity asset class, as measured by Thomson Reuters, produced a return of 3.45 percent in fiscal year 2012.

Market Returns

Fiscal year 2012



Investment Portfolio Assets

At the close of fiscal year 2012, IPERS' net investment portfolio assets[1] had a fair value of $23.196 billion. The change in fair value represents an increase of $36 million from the $23.160 billion net investment asset fair value as of June 30, 2011. The largest factor contributing to the increase in the net investment asset fair value was the investment portfolio return of 3.73 percent, less the net cash payouts for benefits during the fiscal year.

Investment Results

IPERS posted a total portfolio investment return of 3.73 percent for the fiscal year ended June 30, 2012. This return trailed the 5.09 percent return of IPERS' policy benchmark, a set of market indexes and weightings to those indexes that reflect IPERS' target asset class allocations. The underperformance against the policy benchmark was mainly attributable to underperformance in the private equity and public equity asset classes.

IPERS' 3.73 percent annual investment return exceeded the rate of inflation, as measured by the Consumer Price Index (CPI), which was 1.66 percent for the fiscal year. IPERS' annual investment return also exceeded the return on the median large public fund of 1.12 percent for the fiscal year. However, the Fund's investment performance was well below the actuarial assumed investment return (the assumption used by IPERS' actuary), which is 7.50 percent a year.

Real estate investments produced the highest return in the IPERS portfolio for the fiscal year, producing an annual return of 12.90 percent. International stocks produced the poorest return in the IPERS portfolio, with a –15.47 percent return for the fiscal year.

The following table provides a historical perspective on IPERS' investment returns and performance. IPERS' net-of-fees investment returns are shown for the total portfolio and for each asset class over various time periods. For comparison purposes, the benchmark for each asset class is also shown.

For the five years ended June 30, 2012, IPERS' total Fund annualized return of 3.18 percent was less than the policy benchmark return of 4.01 percent and did not meet the 7.50 percent actuarial assumed investment return objective. However, it exceeded the TUCS Public Funds with Assets Greater than $1 billion universe's median annualized return of 1.74 percent, and outpaced inflation, as measured by the CPI, which grew 1.95 percent over the period.

IPERS' 10-year annualized return of 7.33 percent was less than the policy benchmark return of 7.64 percent and the 7.50 percent actuarial assumed investment return objective. However, IPERS' 10-year investment return did exceed the CPI (2.46 percent annualized for the period), and the aforementioned TUCS universe's median return of 6.63 percent for the period.

While the impact of the Great Recession is evident in the 5- and 10-year returns, IPERS' longer-term investment performance has been good. The IPERS Trust Fund investment returns for the 15- and 20-year periods ended June 30, 2012, were 7.05 percent and 8.48 percent, respectively. The IPERS Trust Fund total return for the 30-year period ended June 30, 2012, was 10.53 percent. The annual investment returns for the IPERS Trust Fund for the past 30 years are shown in the Statistical section.

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

[1]Investment portfolio assets are based on fair value, but are calculated according to industry standards that are different from the financial statement reporting requirements of GASB Statement No. 25, which produces the investments at fair value shown in the Financial section of this report.

Rates of Return

*For periods ended June 30, 2012**

Asset Class	Annualized Returns (%) 1-Year	3-Year	5-Year	10-Year
Total Fund				
IPERS	3.73	12.29	3.18	7.33
Policy benchmark†	5.09	13.88	4.01	7.64
CPI + 3 percentage points	4.66	5.09	4.95	5.46
Actuarial assumed investment return	7.50	7.50	7.50	7.50
TUCS Public Funds > $1 billion universe median	1.12	11.85	1.74	6.63
Domestic equity				
IPERS	3.33	16.85	–1.47	5.05
Wilshire 5000	3.96	16.65	0.43	6.04
International equity				
IPERS	–15.47	6.62	–4.65	6.43
Custom benchmark	–14.15	7.43	–4.18	7.20
Core plus fixed income				
IPERS	7.67	9.09	7.04	6.23
Custom benchmark	7.35	7.55	6.76	5.96
High-yield fixed income				
IPERS	8.52	13.88	7.96	8.85
Custom benchmark	7.88	15.56	8.02	9.76
Private equity/debt‡				
IPERS	9.10	17.57	7.93	14.08
Wilshire 5000 + 3 percentage points	10.24	27.16	5.27	9.52
Real estate				
IPERS	12.90	11.22	1.75	8.06
Custom benchmark	12.90	13.06	3.45	8.93
U.S. TIPS composite§				
IPERS	9.47	NA	NA	NA
Barclays U.S. TIPS	11.66	NA	NA	NA
Short-term cash				
IPERS	0.30	0.68	1.53	2.50
U.S. Treasury bills	0.05	0.12	0.98	1.86

*All returns are time-weighted returns. The 3-year, 5-year, and 10-year returns are annualized.

†The policy benchmark on June 30, 2012, consisted of 25 percent Wilshire 5000, 15 percent MSCI ACWI ex U.S., 28 percent Barclays Universal, 5 percent Barclays U.S. TIPS, 1 percent Treasury bills, 5 percent Citigroup High-Yield Cash-Pay Capped, 13 percent Wilshire 5000 (return lagged by one calendar quarter) plus 3 percentage points, and 8 percent of a weighted benchmark consisting of 75 percent NCREIF Property index and 25 percent Wilshire REIT index. The composition of the policy benchmark has changed over the 10-year period.

‡Private equity/debt portfolio returns and benchmark returns are provided here as time-weighted returns to allow comparison to the time-weighted returns used for other asset classes. However, the more appropriate performance measurement for the private equity asset class is a dollar-weighted or internal rate of return (IRR) calculation. See the Private Equity/Debt section of this report for a discussion of the private equity/debt portfolio's performance using IRRs.

§Initial funding for this asset class occurred in the fourth quarter of 2010.

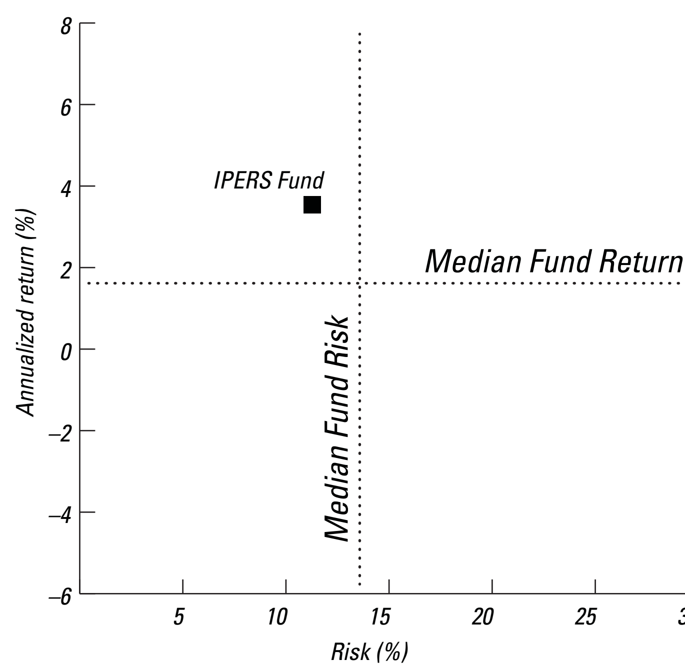
A more meaningful comparison can be made if returns are compared on the basis of how much return was earned for each unit of risk taken, where risk is measured by the volatility (standard deviation) of returns.

The following graph provides a comparison of IPERS' investment return per unit of risk taken for the last five years against the TUCS Universe of Public Funds with Assets Greater than $1 billion. The vertical line represents the median level of risk experienced by this universe of funds. The horizontal line represents the median rate of return earned by the group of funds. As shown in the graph, the return on IPERS' investments for the five years ended June 30, 2012, was slightly higher than the median large public pension fund return, and it was earned with less risk than the median large public pension fund.

Risk vs. Total Return

Public Funds Greater than $1 billion

5 years ended June 30, 2012

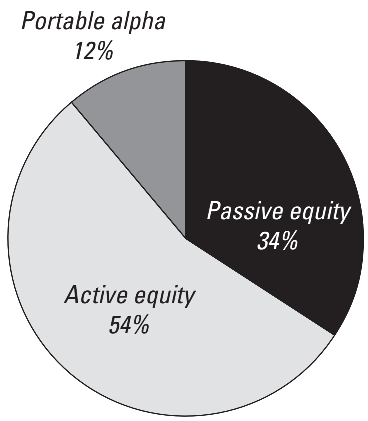


Domestic Equity

At June 30, 2012, 26.2 percent of IPERS' total portfolio was invested in domestic equities. The total net fair value of the domestic equity portfolio was $6.082 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.

Domestic Equity Portfolio

June 30, 2012



The IPERS domestic equity portfolio has three components:

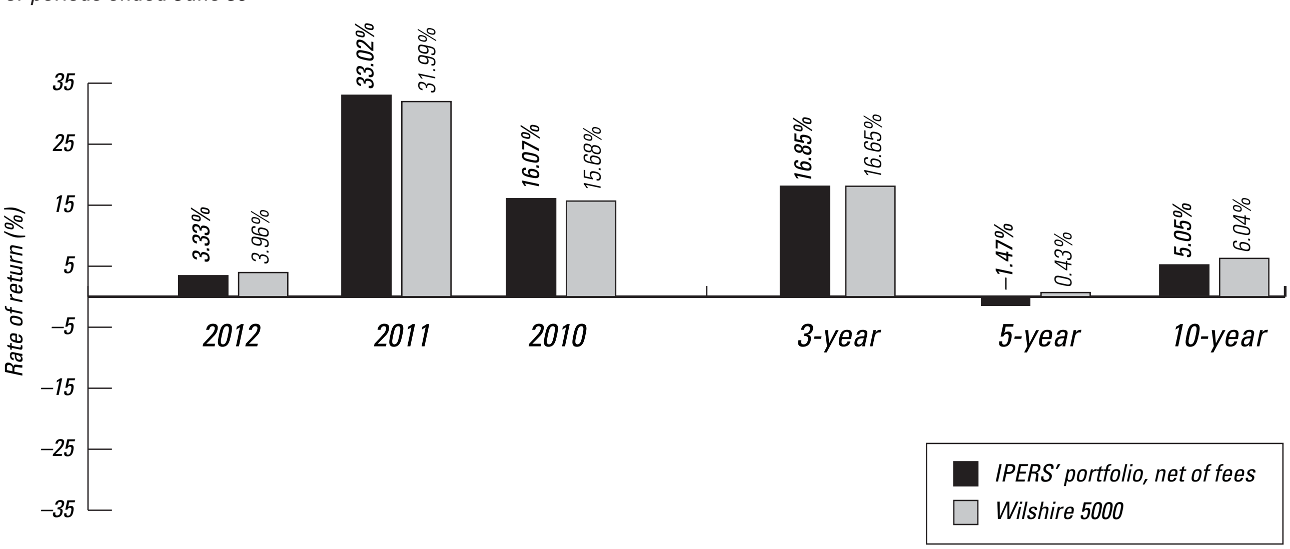
PASSIVE EQUITY. The passive component is divided into large-cap and small- to mid-cap strategies for management purposes and consists primarily of investments in commingled index funds, index futures, and short-term securities. The return objective for each passive strategy is to track, within a certain 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 means of obtaining market exposure to the domestic stock market.

ACTIVE EQUITY. An actively managed portfolio consists 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, which 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.

PORTABLE ALPHA. Traditional active equity strategies seek to produce returns in excess of the market (known as "alpha") through sector and stock selection. However, these traditional active strategies have historically produced mediocre excess returns, usually with a lot of volatility. This is generally because the U.S. equity market is the most efficient market in the world, making it very difficult for the average

Domestic Equity Performance

For periods ended June 30



active stock manager to consistently beat the market return.

IPERS' utilization of portable alpha strategies within the domestic equity portfolio is an effort to improve the return of the portfolio without significantly increasing the risk. Portable alpha strategies attempt to achieve better risk-adjusted returns by blending excess returns (alpha) from a skillful manager, regardless of the asset class where the alpha may be achieved, with the return of any specified market index. Portable alpha strategies should work as long as (1) skillful managers exist and can be identified, (2) the alpha is not highly correlated to the market returns, and (3) derivatives are available that can replicate market returns at a low cost. The concept is that alpha is no longer constrained to the asset class—IPERS can look for alpha anywhere, and then use low-cost derivatives or index funds to obtain the required market exposure so the System can maintain its strategic asset allocation targets. Portable alpha strategies within the domestic equity portfolio underperformed their benchmark during fiscal year 2012.

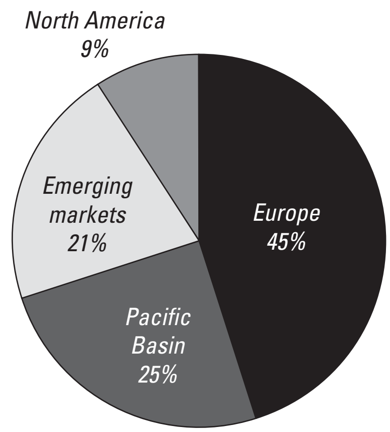
For the year ended June 30, 2012, IPERS' domestic equity portfolio delivered a return of 3.33 percent, compared to 3.96 percent for the Wilshire 5000 index. The volatile risk-on/risk-off environment in the equity markets during fiscal year 2012 proved to be very challenging for IPERS' active managers. Stock selection detracted 0.49 percent of the portfolio's value in fiscal year 2012. A slight tilt to growth-oriented stocks was additive to the portfolio's performance, while an overweight to small-cap stocks detracted value.

International Equity

At June 30, 2012, the international equity portfolio had a net fair value of $3.186 billion, representing 13.73 percent of the total IPERS portfolio. IPERS' international equity portfolio is composed 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, 2012

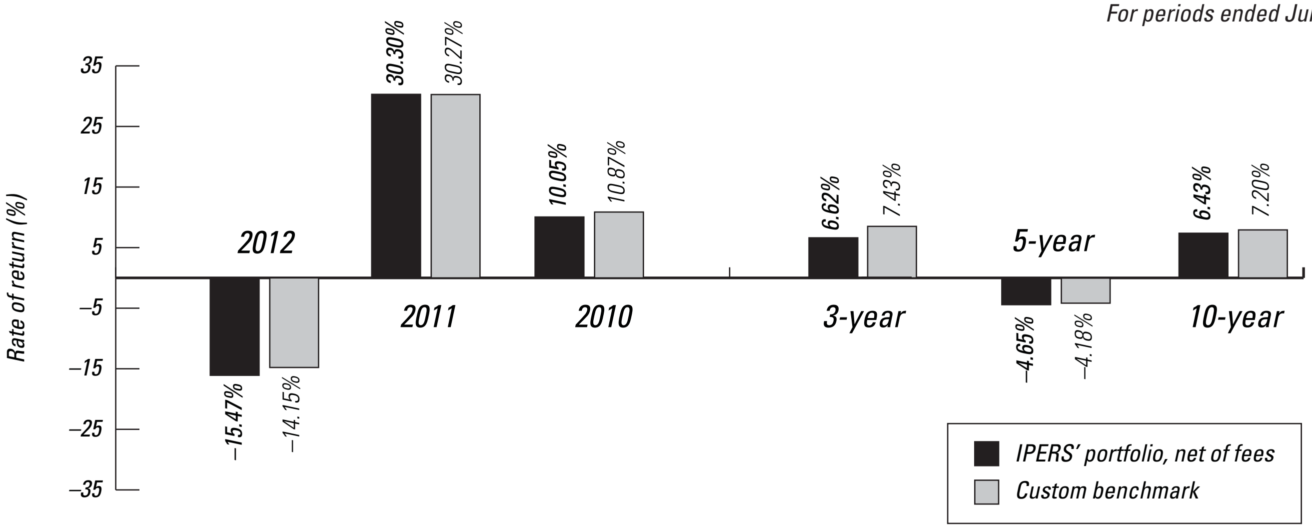


The international equity portfolio has three primary components:

ACTIVE EQUITY. This component is an actively managed diversified portfolio consisting primarily of equity securities issued by foreign companies in

International Equity Performance

For periods ended June 30



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 MSCI All Country World ex U.S. index.

PASSIVE EQUITY. This component is a passively managed diversified portfolio consisting of commingled index fund investments in Canadian and developed European, Australasian, and Far East countries' corporate equity securities. The objective of the passive equity portfolios is to track the performance of the MSCI Canada and EAFE indexes, respectively.

GLOBAL EMERGING MARKETS. This component is an actively managed diversified portfolio consisting primarily of equity securities issued by companies in countries that 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, lower correlation between returns of emerging markets and those of developed markets can serve to reduce some total risk in the international equity portfolio.

The international equity markets were adversely impacted by the financial crisis in Europe and the slowing economy of China. International equity returned –14.15 percent, as measured by the MSCI All Country World Free ex U.S. index in U.S. dollars, for the fiscal year ended June 30, 2012. The developed European equity market's 1-year return of –16.48 percent made it the worst-performing region in international equity markets for the fiscal year, while developed Pacific markets were the best-performing region, posting a 1-year return of –8.14 percent.

IPERS' international equity portfolio underperformed in fiscal year 2012, returning –15.47 percent versus –14.15 percent for the benchmark. An overweight exposure to the developed European region, along with weak overall stock selection by active managers, detracted value. At June 30, 2012, the portfolio's 5-year return of –4.65 percent trailed the –4.18 percent recorded for the composite benchmark.

Public Equity Portfolio: Top Ten Holdings

The top ten holdings within the public equity portfolio (domestic and international combined) at June 30, 2012, are listed 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* At June 30, 2012	*Fair Value ($000)*	*% of Total*
Apple, Incorporated	$121,645	1.31
Microsoft Corporation	59,005	0.64
Exxon Mobil Corporation	55,009	0.59
Simon Property Group, Incorporated	54,208	0.58
Wells Fargo & Company	45,701	0.49
Coca-Cola Company	44,927	0.48
United Health Group, Incorporated	35,561	0.38
Chevron Corporation	34,899	0.38
Samsung Electronics Company, Limited	34,281	0.37
Google, Incorporated	33,780	0.36
Total	**$519,016**	**5.58**

*Percentages represent percent of total domestic and international publicly traded equities. Excludes all holdings in commingled fund accounts.

Fixed Income

IPERS has a significant allocation to fixed income securities, with a target asset allocation of 28 percent to core plus fixed income securities and 5 percent to high-yield securities. At fiscal year end, IPERS' core plus portfolio was 27.83 percent of total Fund assets and the high-yield bond portfolio was 4.58 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, 2012, was 7.82 percent. The consolidated fixed income portfolio fair value was $7.516 billion and the average bond rating for the portfolio was A.

IPERS' fixed income portfolio has two main components:

CORE PLUS FIXED INCOME. The objective of the core plus fixed income portfolio is to generate a return above the return of the core fixed income market. Approximately 25 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 Barclays U.S. Aggregate index (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 Barclays U.S. Universal index (Universal index), net of fees, over a full market cycle. The Universal index is a broader index, consisting of the core Aggregate index, plus other fixed income sectors available to U.S. investors, such as 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, nonconvertible 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.

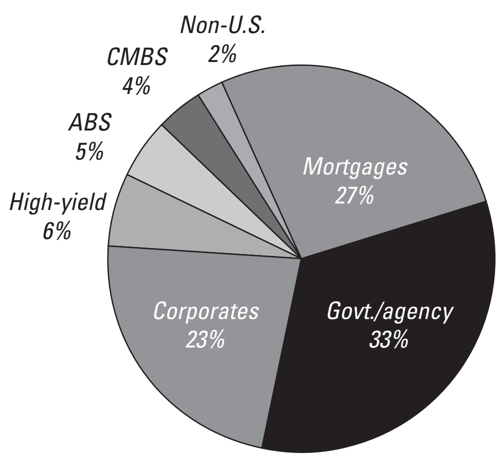
High unemployment, a weak housing market, and a European sovereign credit crisis were a few of the main concerns for the bond markets in fiscal year 2012. The Federal Reserve remained accommodative by maintaining the federal funds target range at 0.00 to 0.25 percent. The Fed also implemented additional monetary policy actions, such as Operation Twist, which was designed to stimulate capital investment by lowering long-term interest rates.

Bond investors were generally well-rewarded for the risks they took in fiscal year 2012. The Barclays Capital U.S. Credit index provided a return of 9.54 percent, outpacing the Barclays Capital Treasury sector index return of 9.05 percent. The Barclays Capital U.S. Corporate High-Yield sector index returned 7.27 percent for the fiscal year while the Barclays Capital Mortgage sector index returned 4.97 percent.

IPERS' core plus fixed income portfolio return of 7.67 percent outperformed the Barclays Capital Universal index return of 7.35 percent for the fiscal year ended June 30, 2012. This was mainly because of IPERS' exposure to the various spread sectors and issue selection within the credit and mortgage sectors.

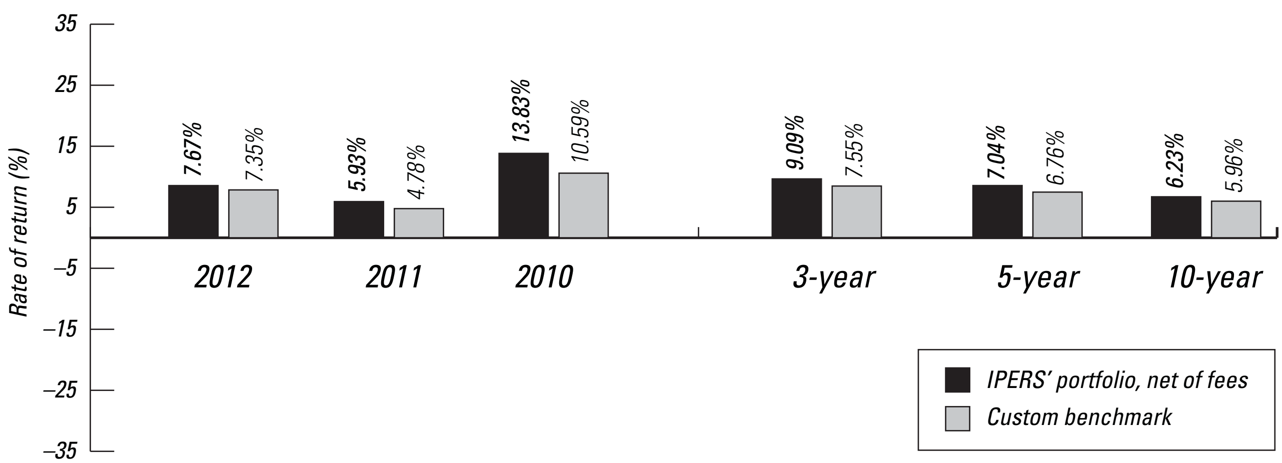
Core Plus Fixed Income Portfolio

June 30, 2012



Core Plus Fixed Income Performance

For periods ended June 30



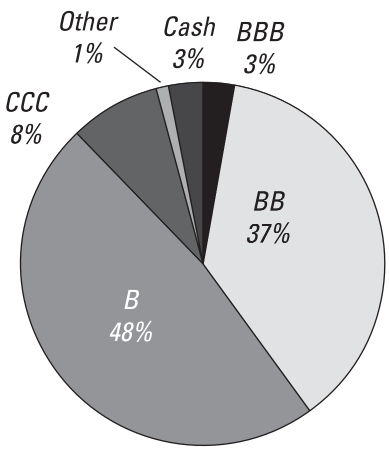
HIGH-YIELD. IPERS' high-yield fixed income portfolio is designed as an actively managed, risk-controlled strategy that seeks to safely capture higher coupon income by investing in the debt of higher-quality companies rated below investment grade.

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, net of fees, over a full market cycle.

The high-yield sector of the bond market performed modestly compared to the other sectors of the fixed income market in fiscal year 2012, as investors drove prices up (and yields down) in their quest for higher-yielding assets in a low-return environment.

High-Yield Fixed Income Portfolio

June 30, 2012



IPERS' high-yield fixed income portfolio outperformed the high-yield market return because of its emphasis on higher-quality issuers, which was rewarded during this period by investors. IPERS' high-yield portfolio generated a return of 8.52 percent versus the Citigroup High-Yield Cash-Pay Capped index return of 7.88 percent for the fiscal year ended June 30, 2012.

Fixed Income Portfolio: Top Ten Holdings

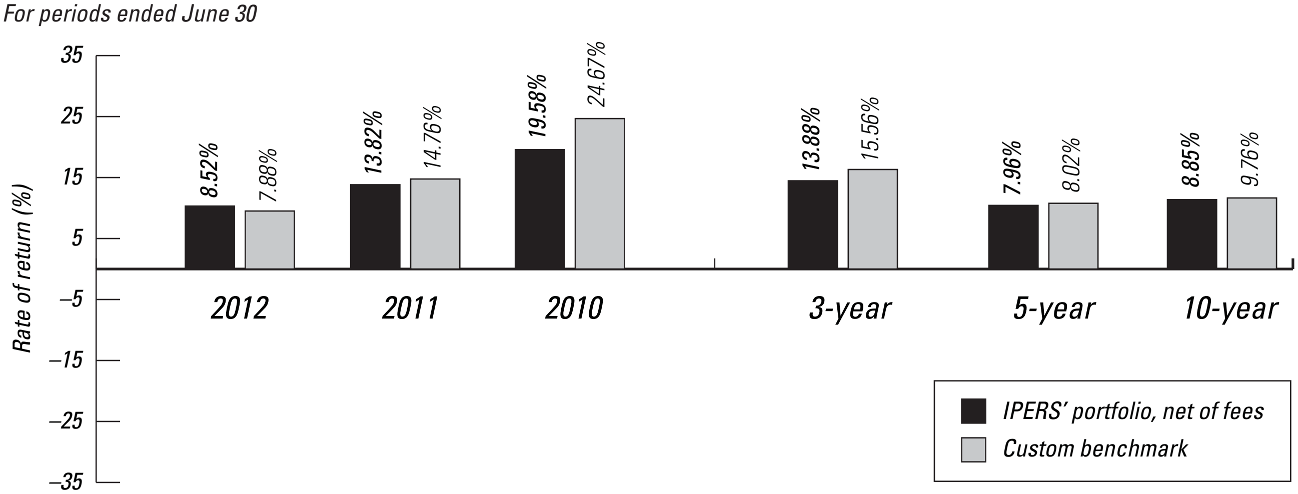
The top ten holdings within the consolidated fixed income portfolio (core plus and high-yield combined) at June 30, 2012, are illustrated below. The listing does not include the fair value of units held in commingled fund investments. A complete listing of the holdings, including commingled fund holdings, is available upon request.

Ten Largest Holdings* At June 30, 2012	***Fair Value ($000)***	***% of Total***
US TIPS 0.125% 16APR15	$115,256	1.53
US TIPS 1.875% 15JUL15	90,669	1.21
US Treasury Note 2.000% 15OCT21	88,563	1.18
US Treasury Note 1.750% 15MAY22	65,552	0.87
US Treasury Note 1.000% 31AUG16	64,299	0.86
US Treasury Note 0.875% 31JAN17	55,023	0.73
FNMA TBA 30YR 5.500% 01JUL42	54,539	0.73
US Treasury Note 1.250% 30APR19	54,437	0.72
US Treasury Note 1.500% 31APR19	54,162	0.72
US Agency Overnight Repo 0.22% 02JUL12	52,600	0.70
Total	**$695,100**	**9.25**

*Percentages represent percent of consolidated fixed income. Excludes all holdings in commingled fund accounts.

High-Yield Fixed Income Performance

For periods ended June 30



Private Equity/Debt

At June 30, 2012, IPERS' private equity/debt portfolio had a fair value of $2.874 billion, representing 12.39 percent of the total IPERS portfolio. From the inception of the private equity/debt portfolio in 1985 through June 30, 2012, the System has committed $6.902 billion to 247 partnerships. Of that total, $1.406 billion remains to be called for investment. During the fiscal year, IPERS committed $320.7 million to 12 new partnerships. The long-term objective of the private equity/debt portfolio is to achieve a rate of return that exceeds the returns available in the public equity markets.

The System seeks to minimize the risk associated with the asset class by investing in a variety of top-tier partnerships with different investment styles and objectives. The portfolio is also diversified by industry focus, geographic location, and, most importantly, time, which means that capital is committed to partnerships over the full course of the business cycle and not concentrated in any one year.

The long-term performance objective for the private equity/debt portfolio is to exceed the return of the Wilshire 5000 index, calculated on an internal rate of return (IRR)[1] basis, by 3 percentage points on an annualized basis. The private equity/debt portfolio returned 8.95 percent in fiscal year 2012 versus 9.96 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 returned 13.68 percent versus its benchmark return of 10.35 percent for the 10-year period ended June 30, 2012. Since inception in 1985, the IPERS private equity/debt portfolio has returned 14.14 percent, slightly underperforming the benchmark return of 14.46 percent.

One drawback to comparing a portfolio return to a 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 Thomson Reuters[2] All Regions Private Equity funds performance database includes data from 3,487 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 issue 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, that is, how much of the investment performance has been realized.

The table below compares the IRR and DPI of IPERS' private equity/debt portfolio to those calculated for all private equity partnerships in the Thomson Reuters database for vintage years 1985 through 2011.

	IRR	DPI
IPERS' private equity/debt portfolio	14.14%	1.15
Thomson Reuters All Regions Private Equity funds	11.13%	0.81

It is important to note that the IPERS Investment Board determined in 1993 that the selection of private equity partnerships should be delegated to a professional management firm, rather than having IPERS' staff and the Board attempt to evaluate and select these complex investments. The "since inception" results discussed 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 16.52 percent since the firm was given full discretion to select partnerships on IPERS' behalf on January 1, 1993. This return compares favorably to the 8.95 percent IRR of the custom benchmark IPERS has established for the manager, the 10.66 percent IRR of IPERS' asset class benchmark for private equity (Wilshire 5000 + 300 basis points) over the time period, and the pooled average IRR of 9.81 percent reported by Thomson Reuters for

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[1]The internal rate of return is utilized to evaluate private equity investments because they are generally illiquid and cash inflows and outflows can be controlled by the general partner of the private equity partnership. Time-weighted returns are inappropriate under such conditions.
[2]All Thomson Reuters information is as of October 2012, with data current for reporting periods ended March 31, 2012. Data is continuously updated and is therefore subject to change. As explained in the Summary of Significant Accounting Policies in the Financial section, IPERS utilizes a one-quarter valuation lag for its private equity/debt investments. Therefore, the March 31, 2012, Thomson Reuters data is the appropriate data for performance comparisons made here.

all private equity funds in its database for vintage years 1993 through 2011.

The DPI of 0.97 for the manager's discretionary portfolio also compares favorably to Thomson Reuters' pooled average DPI of 0.75 for all private equity funds in its database for vintage years 1993 through 2011.

Real Estate

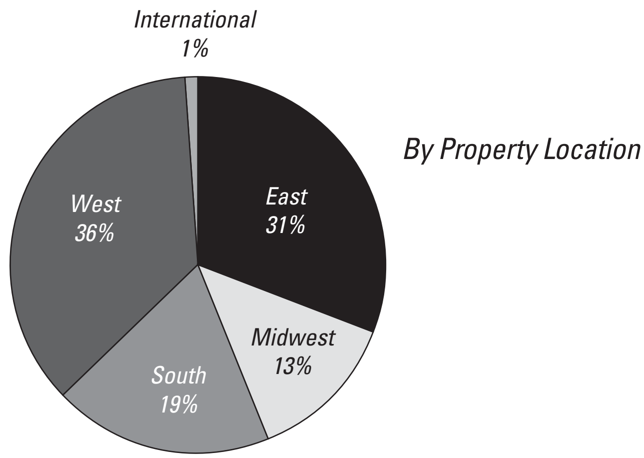
At June 30, 2012, $2.055 billion, or 8.86 percent, of IPERS' total portfolio at fair value was invested in various real estate properties and publicly traded real estate investment trusts. In order to mitigate risk, the real estate portfolio is diversified by both geographic location and property type, as shown in the following pie charts.

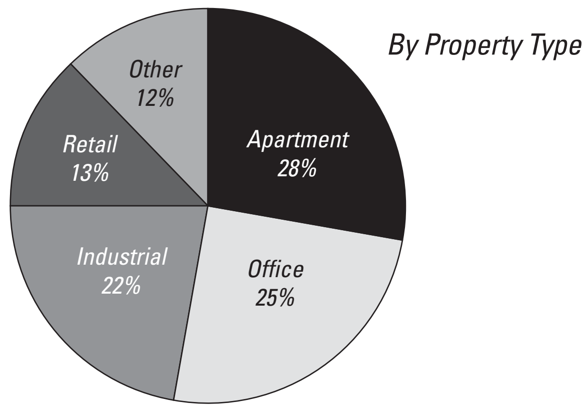
The total net return for the real estate portfolio for the fiscal year was 12.90 percent, matching the portfolio's benchmark (75 percent NCREIF Property index/25 percent Wilshire REIT). As with the private equity/debt portfolio, the real estate program invests in assets with long holding periods and should be evaluated over a longer time horizon. For the ten years ended June 30, 2012, the real estate portfolio returned 8.06 percent versus the portfolio's benchmark of 8.93 percent. The long-term underperformance can be explained entirely by the private portion of the program. Over this 10-year time period, the private program returned 7.46 percent versus the NCREIF Property index benchmark return of 8.29 percent, while the public program returned 11.55 percent versus the Wilshire REIT benchmark return of 10.31 percent.

The real estate program continued its strong recovery in FY2012 with the public portion of the program returning 12.27 percent (net of fees), while the private portion of the real estate program returned 13.00 percent (net of fees). Performance in the private program for FY2012 was split between valuation write-ups of 6.06 percent and an income return of 7.47 percent. Property occupancy rates for IPERS' portfolio increased from 89 percent to 92 percent.

Real Estate Portfolio

June 30, 2012





U.S. TIPS

IPERS invests in U.S. Treasury Inflation-Protected Securities (U.S. TIPS) to provide inflation protection and risk diversification. U.S. TIPS can also provide deflation risk protection because the securities cannot accrue a negative coupon even if the inflation rate is negative (which is a deflationary environment). IPERS' U.S. TIPS portfolio generated a return of 9.47 percent for the fiscal year, which underperformed the Barclays Capital U.S. TIPS index of 11.66 percent. IPERS' underperformance can be explained by the fact that one of the two TIPS managers utilized by IPERS manages its portfolio against a shorter duration benchmark than the asset class benchmark.

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, 2012, the System held investments of $988.9 million in companies of Iowa interest.

Holdings in Companies of Iowa Interest

June 30, 2012

Asset Class	Amount
Stocks	$765,485,330
Bonds	220,242,925
Private equity/debt	3,135,200
Total	**$988,863,455**

Schedule of Brokerage Commissions Paid

Year ended June 30, 2012

Brokerage Firm	Amount Paid	Average Per Share	% of Total Paid for Period
Deutsche Bank	$ 632,622	$0.008	9.95
UBS Securities LLC	538,540	0.008	8.47
Citigroup	461,189	0.012	7.26
Credit Suisse	453,622	0.007	7.14
JP Morgan	448,389	0.010	7.05
Goldman Sachs & Co.	445,911	0.009	7.02
Merrill Lynch	412,629	0.012	6.49
Morgan Stanley & Co. Inc.	359,301	0.010	5.65
Barclays Captial	212,510	0.019	3.34
Macquarie Securities	155,948	0.007	2.45
Bernstein Sanford C & Co.	138,790	0.014	2.18
Citation Group/BCC Clearing	137,635	0.024	2.17
Jefferies & Co. Inc.	103,723	0.021	1.63
SJ Levinson & Sons LLC	98,889	0.020	1.56
HSBC Securities	90,152	0.006	1.42
BNP Paribas	76,751	0.007	1.21
Stifel Nicolaus	75,449	0.039	1.19
RBC Captial Markets LLC	71,979	0.035	1.13
Nomura Securities	63,585	0.009	1.00
Piper Jaffray & Company	62,768	0.030	0.99
Weeden & Company	62,006	0.021	0.98
Instinet Corp.	59,766	0.004	0.94
Wells Fargo Securities LLC	54,234	0.037	0.85
Liquidnet	48,541	0.007	0.76
ISI Group Inc.	41,739	0.019	0.66
All others (includes 139 brokerage firms)	1,049,415	0.005	16.51
Total	**$6,356,083**	**$0.008**	**100.00**

Investment Policy and Goal Statement

The following excerpt from the Iowa Public Employees' Retirement System's Investment Policy and Goal Statement, as adopted by the IPERS Investment Board and last revised in September 2011, includes all Policy text, but excludes the addenda referenced in the Policy. IPERS' current investment policies are available online at www.ipers.org.

I. Introduction: IPERS' Purpose and Principles

The Iowa Public Employees' Retirement System (IPERS or System) 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.*

The Investment Board (Board) is the trustee of the IPERS Trust Fund (Fund). The Board's primary mission is to establish the System's tolerance for investment risk. The primary duties of the Board are to establish investment policy to communicate its tolerance for investment risk, review policy implementation, and approve the retention of service providers in matters relating to the investment of IPERS' assets. As trustee, the Board also adopts the actuarial methods and assumptions, approves the retention of service providers in matters relating to the actuarial valuation of the System's assets and liabilities, and adopts the System's contribution rate funding policy.

IPERS is administered through a chief executive officer, chief investment officer, chief benefits officer, and other full-time staff. The investment activities of the Board and staff are governed by the "prudent person" rules as defined in §97B.7A. The purposes of the System and the prudent person rule shall guide the Board and staff in developing this investment policy and goal statement. IPERS' investment activities shall be executed in a manner to fulfill these goals. The investment policy and the investment strategies will be periodically reviewed to ensure they conform to §§97B.2 and 97B.7A.

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 other resources as necessary to ensure the thorough oversight and administration of each investment program undertaken by the System.

II. Investment Objectives

The Board adopts the following investment objectives for the Fund:

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

B. The investment program will strive to maintain the Board's investment risk tolerance as communicated through this policy.

C. The investment activities will be designed to provide a return on the Fund 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.
D. The investment activities will achieve, after the deduction of management expenses, an annualized investment return that exceeds the return of the Policy Benchmark (defined in Section III.A.1 of this policy) over a minimum evaluation period of five years. The Board expects that total Fund returns will be produced without assuming more capital market risk than is implied by the Policy Benchmark's asset mix.

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.

Achievement of IPERS' investment goals ultimately depends upon earning a sufficient return on the System's investments while taking a prudent amount of risk to attain the return. Investment return is comprised of two components known as "beta" and "alpha." Beta return is the return generated from exposure to a specific market or asset class. Alpha return is the excess return resulting from subtracting the beta return from the total investment return, and is conditional upon skillful active investment decision making. IPERS believes that risk-adjusted investment returns can be improved by separating beta and alpha decisions in actively managed (that is, non-passive or non-index) portfolios.

Beta decisions should focus on maximizing expected market returns at prudent levels of risk (with risk defined as the standard deviation of the market returns). The Board will adopt a Policy Benchmark representing what it believes is the most efficient portfolio of market exposures (the beta portfolio) that will meet the Board's tolerance for market risk. Staff, with the assistance of the System's consultants, will implement the Board's beta decisions in the most cost-efficient manner possible and will be responsible for maintaining the beta exposure levels within the acceptable ranges established by the Board.

Alpha decisions are expected to provide additional return from actively managed strategies for the System's investment portfolio without significantly increasing the overall risk of the portfolio. The Board will adopt an alpha risk budget that establishes its tolerance for return volatility attributable to alpha decisions. While the alpha risk budget will be set by asset class, alpha sources will not be constrained to a specific asset class. Alpha returns from investing in securities of one asset class may be transported to another asset class through the use of portable alpha strategies.

A. The Beta Portfolio
   1. Policy Benchmark
      The System adopts a Policy Benchmark that represents a mix of beta exposures that is expected over the long term to maximize the risk-adjusted beta return to the System consistent with the Board's tolerance for market risk. The Policy Benchmark is predicated on a number of factors, including:
      a. The actuarially projected liability stream of benefits and its cost to both covered employees and employers.
      b. The relationship between the current and projected assets of the plan and the plan's projected liabilities.
      c. Expectations regarding long-term capital market returns and risks.
      d. Historical returns and risks and correlations of asset classes that make up the capital markets.
      e. The perception of future economic conditions, including inflation and interest rate assumptions, and their impacts on the System's assets and liabilities.

The table below represents the Board's adopted Policy Benchmark. The Policy Benchmark Weights establish the Board's target exposure to each asset class, while the Asset Class Ranges establish the ranges within which Policy Benchmark Weights may fluctuate. The Policy Benchmark Return is the sum of the products of multiplying each Policy Benchmark Weight by the respective Policy Benchmark Index return for the period.

Asset Class	Asset Class Ranges	Policy Benchmark Weights	Policy Benchmark Index
Equities		**51%**	
Domestic Equities	20%–26%	23%	Wilshire 5000
International Equities	12%–18%	15%	MSCI ACWI ex-U.S.
Private Equity / Debt	10%–16%	13%	Wilshire 5000 + 3%[1]
Fixed Income		**33%**	
Core Plus Fixed Income	25%–31%	28%	Barclays Capital U.S. Universal
Credit Opportunities	3%–7%	5%	Custom Index[2]
Real Assets		**15%**	
Equity Real Estate	6%–10%	8%	Custom Index[3]
U.S. TIPS	3%–7%	5%	Barclays Capital U.S. TIPS
Other Real Assets	0%–4%	2%	Custom Index[4]
Cash	0%–2%	**1%**	Merrill Lynch 91-Day T-Bill

[1] Lagged by one calendar quarter.
[2] The credit opportunities custom index for purposes of the Policy Benchmark Index is weighted 66 percent Citigroup HY Cash Pay Capped Index and 34 percent JP Morgan EMBI Global Diversified Index.
[3] The equity real estate custom index for purposes of the Policy Benchmark Index is weighted 75 percent NCREIF Property Index and 25 percent Wilshire REIT Index.
[4] This benchmark will be defined as specific real asset mandates are funded. See discussion under "Other Real Assets" below.

2. Policy Benchmark Components

   Apart from any alpha expectations described in Section III(B), IPERS seeks to earn market returns from each asset class in the Policy Benchmark. This market exposure may be achieved by purchasing securities that comprise the respective asset classes or by purchasing derivatives designed to provide the return of a particular market. Each public market asset class has a Policy Benchmark Index that is believed to best represent the broadest market opportunity set for the respective asset class. The return on each Policy Benchmark Index is the market return (beta return) for each asset class.

   Domestic Equities

   IPERS invests in the domestic equity market to earn an equity risk premium to enhance the long-term returns of the Fund. This asset class includes the broad market of publicly traded U.S. equities with varying characteristics related to market capitalization and investment style. The Policy Benchmark Index for Domestic Equities is the Wilshire 5000 Index.

   International Equities

   IPERS invests in international equities to earn an equity risk premium and to diversify the equity exposure within the Fund. The International Equities asset class includes both developed and emerging equity markets. The Policy Benchmark Index for International Equities is the Morgan Stanley Capital International (MSCI) All-Country World Index ex-U.S. (ACWI ex-U.S.) calculated gross of tax credits from dividend reinvestment.

Core Plus Fixed Income

IPERS invests in fixed income assets to provide stable income for the payment of benefit obligations and to diversify the market risk of the investment portfolio. The Core Plus fixed income market represents a global opportunity set of fixed income instruments available to U.S. institutional investors. The Policy Benchmark Index for Core Plus fixed income is the Barclay's Capital U.S. Universal Index.

Credit Opportunities

IPERS has made a strategic allocation to credit opportunities in high-yield corporate bonds and emerging markets corporate and sovereign debt to enhance the long-term returns of the investment portfolio, to provide current income, and to provide diversification benefits. The Policy Benchmark Index for Credit Opportunities is a weighted custom index of 66 percent the Citigroup High-Yield Cash-Pay Capped Index and 34 percent the JP Morgan EMBI Global Diversified Index. The custom index will take effect upon first funding of an emerging markets debt strategy.

Equity Real Estate

IPERS invests in equity real estate to provide diversification in the investment portfolio, provide some inflation protection and for income generation. The Policy Benchmark Index for Equity Real Estate is a weighted custom index of 75 percent the National Council of Real Estate Investment Fiduciaries' Property Index (NPI) and 25 percent the Wilshire Real Estate Investment Trust Index (Wilshire REIT). (See Appendix A for IPERS' Real Estate Investment Policy.)

Private Equity/Debt

IPERS invests in private equity/debt to enhance the investment portfolio return through long-term capital appreciation. Private equity investments are highly illiquid, and IPERS seeks to be compensated for such illiquidity by earning returns substantially greater than those available from publicly traded equity markets. The Policy Benchmark Index for Private Equity/Debt is the Wilshire 5000 Index (lagged by one calendar quarter) plus 300 basis points (3 percent). (See Appendix B for IPERS' Private Equity/Debt Investment Policy.)

U.S. TIPS

IPERS invests in U.S. Treasury Inflation Protected Securities (U.S. TIPS) to provide inflation protection and risk diversification for the investment portfolio. U.S. TIPS can also provide some deflation risk protection because the securities cannot accrue a negative coupon even if the inflation rate is negative (which is a deflationary environment). The Policy Benchmark Index for U.S. TIPS is the Barclays Capital U.S. Treasury Inflation Protected Securities Index.

Other Real Assets

IPERS invests in other real assets to provide inflation protection for the investment portfolio. Other real assets may consist of commodities, farmland, timberland, private energy partnerships, public energy partnerships (aka master limited partnerships (MLPs)), or infrastructure investments where principal or future income streams are protected from inflation. The Policy Benchmark Index for Other Real Assets will be created based upon the type of mandate that is funded, and will be revised as additional real asset strategies are added to the portfolio over time. The Policy Benchmark allocation for Other Real Assets shall not take effect until a mandate is funded in this asset category, and the allocation percentage shall be adjusted quarterly to reflect the actual investment in the asset class until such time that the target Policy Benchmark Weight has been achieved. Any "unused" allocation prior to reaching the target weight will remain in the target weight for Domestic Equities. Once the target weight for Other Real Assets has been achieved, the Policy Benchmark weight will be two percent for future periods.

Cash

Cash, for the purpose of applying the Policy Benchmark Weights and Asset Class Ranges, is limited to funds available prior to distribution to investment managers and the amount reserved to pay near-term benefits and administrative costs. The Policy Benchmark Index for Cash is the Merrill Lynch 91-Day Treasury Bill Index.

3. Policy Benchmark Rebalancing

   Because of the fluctuation of market values, and the effect of cash flows in and out of the System, the actual weights of each asset class can differ from the target weights established in the Policy Benchmark. In recognition of this, the Board has also adopted Asset Class Ranges for each asset class, and positioning within a specified Asset Class Range is acceptable and constitutes compliance with the Policy Benchmark. It is anticipated that the Board will make periodic revisions to the Policy Benchmark, and it is recognized that in some cases it may be prudent to allow an extended period of time to fully implement revisions to the Policy Benchmark. In the absence of suitable opportunities within a specific market, the funds shall be directed to the other components within the ranges specified. The Board and staff will regularly monitor the actual asset allocation versus the Policy Benchmark Weights and evaluate any variations. In addition, it is acknowledged that market conditions or circumstances beyond IPERS' control may lead to asset class weightings being temporarily out of their target ranges, especially as those ranges relate to illiquid asset classes.

B. The Alpha Portfolio

Alpha is the difference resulting from subtracting a beta return from a portfolio return. IPERS believes that positive alpha can be consistently earned by selecting skillful managers and applying that skill to a broad set of investment opportunities. By employing a combination of strategies that have low correlation to one another, and also employing a combination of skillful managers whose performance exhibits low correlation to one another, IPERS believes that consistent positive alpha returns (net of all fees) can be achieved at low levels of risk.

Various strategies may be employed in the creation of a diversified alpha portfolio. Factors that will determine the alpha portfolio composition will include market structure and dynamics, the breadth and depth of available active managers, and contribution to the alpha risk budget. Traditional long-only management strategies may continue to be utilized in order to capture alpha, while portable alpha strategies, which allow alpha earned in other asset classes to be transported to a particular asset class through the use of derivatives, may also be utilized. In reviewing the effectiveness of alpha portfolio decisions, it is understood that a sufficient time frame is necessary to measure results through market cycles. A five-year period will generally be used to judge the results of alpha portfolio decisions.

The Board acknowledges that portable alpha strategies introduce a component of leverage into the portfolio, since market exposure is obtained through the use of derivatives while cash not needed to maintain the derivatives position is invested in alpha-producing assets. However, it is believed that a properly constructed alpha portfolio with a low correlation to the underlying beta portfolio is, from an economic perspective, equivalent to utilizing traditional long-only strategies in terms of risk and return.

Properly executed portable alpha strategies, which seek to apply manager skill across multiple alpha sources with low correlation to one another, can also have unique implementation risks that must be carefully monitored and managed. Some strategies can introduce high levels of financial leverage, valuation risks due to a lack of transparency, custody risks due to assets being held by prime brokers, and operational risks due to the use of complex, highly quantitative strategies. Staff will seek to mitigate these risks by employing a careful and thorough due diligence process in the evaluation and selection of reputable, experienced portable alpha managers. However, it is acknowledged that it may not be possible to eliminate some implementation risks associated with some portable alpha strategies.

Most hedge fund strategies will have many, if not all, of the implementation risks described above. Staff does not currently have the resources to perform adequate due diligence on the many hedge funds available in the market. Therefore, the Board has directed staff to utilize only fund of hedge fund managers to execute any portable alpha strategies that invest in hedge funds.

The alpha portfolio within an asset class will be structured to meet an alpha risk budget established by the Board to reflect the Board's active risk tolerance. Alpha risk is defined as the standard deviation of the alpha returns, and the Alpha Risk Target represents the Board's tolerance for volatility attributable to alpha-seeking strategies for an asset class. The Board and staff will annually evaluate the alpha portfolios against their respective Alpha Risk Targets and determine what actions should be taken to address any deviations.

It shall be the staff's responsibility to recommend to the Board an allocation of the alpha risk budget to various alpha sources based upon an optimization model, and to maintain an alpha portfolio's alpha risk as close to the Alpha Risk Target as possible. However, because of the volatility of short-term alpha returns, positioning within the specified Alpha Risk Range is acceptable and constitutes compliance with the Policy. It is anticipated that the Board will periodically revise the alpha risk budgets, and it is acknowledged that it may be prudent to allow an extended period of time to fully implement revisions to the alpha risk budget.

The Board has established the following alpha risk budget:

Asset Class	*Alpha Risk Range*	*Alpha Risk Target*
Equities		
Domestic Equities	0.70%–1.30%	1.00%
International Equities	1.50%–2.50%	2.00%
Fixed Income		
Core Plus Fixed Income	0.70%–1.30%	1.00%
Credit Opportunities	2.40%–4.10%	3.25%
U.S. TIPS	0.40%– 0.60%	0.50%

Alpha risk budgets have not been established for the Equity Real Estate, Other Real Assets, and Private Equity/Debt asset classes because of the difficulty of separating beta and alpha in those asset classes. Additionally, the lack of investable benchmarks for these three asset classes makes it impossible to determine the beta return for these asset classes. Thus, for Policy purposes, the alpha and beta risks for these three asset classes are assumed to be captured in the Policy Benchmark risk budgeting process.

C. Investment Management

To achieve optimum performance results performance results in concert with the diversification of its assets, IPERS will select and utilize an external investment manager to manage each of its portfolio accounts. The System will also utilize the services of investment management consultants for the purpose of performance review, asset allocation studies, risk budgeting, 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 shall function under a formal contract that delineates their responsibilities and the appropriate risk management and performance expectations.

2. Manager/Consultant Discretion

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

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

3. Manager Evaluation

The investment managers under contract with the System will meet periodically with the Investment Board and/or staff for the purpose of reviewing the investment activities of their assigned portfolio, its performance, the investment strategy 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 Appendix C for IPERS' Investment Manager Monitoring and Retention Policy.)

4. Manager Diversification

The investment manager structure shall be diversified to reduce the risk of having too many of IPERS' actively managed investment assets with one firm or having IPERS' assets comprise too much of a firm's actively managed investment strategy. The following diversification limits shall apply:

a. An investment manager's combined responsibility for actively managed investment strategies on behalf of IPERS shall not exceed 15% of the Fund's total assets;
b. IPERS' investment in an investment manager's actively managed strategy shall not exceed 20% of the manager's total assets under management in that strategy.

For purposes of this section, enhanced indexing, equity real estate and private equity are considered to be actively managed investment strategies.

The Board acknowledges that there may be times when manager diversification limits could be exceeded due to manager terminations, abrupt changes in market conditions, or decisions made by other clients of a manager. In such times, staff shall inform the Board of the situation and shall attempt to rebalance to the diversification limits as soon as prudently possible, with periodic progress reports to the Board.

D. Cash Management

Staff will ensure that adequate cash is available for the payment of benefit obligations and the funding of investments, and any cash held pending such uses shall be temporarily invested in the custodian's Short Term Investment Fund (STIF) or other suitable short-term investment vehicle authorized by the Board. Cash held within the accounts of investment management firms will be managed in accordance with the guidelines established in the contractual agreement with each firm.

E. Currency Risk Management

Investment in nondollar-denominated assets introduces the risk of loss due to currency fluctuations. It shall be the responsibility of each investment manager to manage any currency risk within its portfolio according to the terms of the contract between the manager and the System. The objective of currency management is not the elimination of all currency risk, but rather the prudent management of risks associated with investing in currencies or in assets that are not denominated in U.S. dollars.

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/recordkeeping account in a master custody bank located in a national money center and in the international subcustodian 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.

G. Securities Lending

The primary objective of the securities lending program shall be to safely generate income from lending the System's securities to qualified borrowers. The program will only utilize lending agents that agree to acceptable make-whole or indemnification provisions in the event a loan of securities is terminated and the borrower has failed to return the loaned securities within the standard settlement period for the loaned securities.

Cash collateral received against loans of securities shall be prudently invested in a low-risk investment strategy that invests only in: a) commingled funds or money market funds managed in accordance with the regulations and criteria specified in Rule 2(a)(7) promulgated under the Investment Company Act of 1940, or b) separate accounts that have investment guidelines identical to those required of a 2(a)(7) fund, or c) overnight repurchase agreements collateralized with obligations issued by the United States Treasury or obligations issued by agencies or government-sponsored entities of the United States government.

The key investment objectives for investing the cash collateral shall be to: a) safeguard principal; b) maintain adequate liquidity; and c) consistent with the foregoing objectives, optimize the spread between the collateral earnings and the rebate paid to the borrower of securities.

The Investment Board may select its own securities lending agent or authorize the Treasurer of the State of Iowa to manage the securities lending program in accordance with the risk guidelines established herein. Staff shall execute a formal written agreement between any lending agent (or the Treasurer, as the case may be) and IPERS stipulating the risk parameters and performance benchmarks of the program, which shall be in accordance with these guidelines. 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-Dollars

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 managers' expenditure of soft-dollar credits to ensure an appropriate relationship to the management of their IPERS accounts.

J. Derivatives

The System recognizes that certain derivative instruments can be useful tools in managing portfolio risk and in efficiently replicating cash market positions. However, the System also recognizes that derivatives can introduce unique risks into the portfolio that must be controlled. The following guidelines shall apply to the use of derivatives by the System's managers, and are designed to provide general risk controls that apply to all managers. The System's staff and investment consultant shall establish specific guidelines in each manager's contract to control the various risks associated with the use of derivatives for a particular manager and mandate. With the exception of portable alpha strategies, a manager is only authorized to utilize the derivative instruments permitted in this policy, and then only to the extent such usage is authorized in the manager's contract with the System.

The System defines a derivative instrument (derivative) to be a financial instrument with a return or value that is obtained from the return or value of another underlying financial instrument. Mortgage-backed securities and asset-backed securities are not considered derivatives for the purposes of this policy.

The following is a list of categories of derivatives that are permitted under this policy.

1. Futures – Bond futures, interest rate futures, stock index futures, and currency futures that are listed on major exchanges in the United States, Japan, France, the United Kingdom, and Germany
2. Options – Options on stocks and bonds, index options, currency options, and options on futures and swaps
3. Currency forward contracts
4. Swaps – Interest rate, currency, index, credit default, or specific security or a group of securities swaps
5. Warrants – A manager is not permitted to purchase warrants separately. However, a manager may purchase securities that have warrants attached to them if such securities are permitted under their contract. A manager may also hold warrants in its portfolio if such warrants were received as part of a restructuring or settlement concerning an authorized investment

The following restrictions shall apply to any manager using derivatives in the portfolio they manage for IPERS (in addition to any other restrictions or limitations included in the manager's contract):

1. Under no circumstances shall a manager use derivatives for the purpose of leveraging its portfolio.
2. Prior to utilizing any derivative, a manager shall take all steps necessary to fully understand the instrument, its potential risks and rewards, and the impact adverse market conditions could have on the

instrument and the overall portfolio, and to ensure that it has all of the operational and risk management capabilities required to prudently monitor and manage the derivative.

3. A manager utilizing nonexchange-traded derivatives shall use prudent caution in selecting counterparties, and shall have written policies in place specifying how the manager will manage the credit risk of the counterparties. Such policies shall include, at a minimum, how the management firm will evaluate and monitor the creditworthiness of counterparties, an explanation of how the firm will determine the maximum firm-wide net market exposure amount to each counterparty, how the firm will monitor and enforce compliance with its credit policies, and other key terms that are required to be included in non-exchange-traded derivative contracts. Staff and IPERS' investment consultant shall periodically review these policies.
4. A manager shall not invest in nonexchange-traded derivatives with a counterparty that has a rating below "A3" as defined by Moody's or "A-" as defined by Standard & Poor's (S&P). Managers shall not use unrated counterparties, nor shall they use counterparties that have a "split rating" where one of the ratings is below A3 by Moody's or A- by S&P. However, managers may utilize an unrated counterparty if the manager has documentation evidencing that a parent or affiliate of the counterparty is: a) legally bound to cover the obligations of the counterparty, and b) has a rating of at least A3 by Moody's or A- by S&P. The counterparty shall be regulated in either the United States or the United Kingdom.
5. A manager utilizing nonexchange-traded derivatives in IPERS' account shall control the counterparty credit risk of such transactions by: a) utilizing payment netting arrangements to minimize the amount at risk, b) performing daily marking-to-market of derivatives contracts, and c) requiring collateralization of net amounts owed under the contracts after meeting minimum threshold for transfers.
6. A manager shall limit the System's exposure to counterparty defaults from nonexchange-traded derivatives by limiting the dollar amount at risk with any counterparty (net of the value of any collateral held) to no more than 5 percent of the market value of the IPERS account for a counterparty with a rating above A by Moody's or A+ by S&P, or 3 percent of the market value of the IPERS account for a counterparty with a rating of or below A by Moody's or A+ by S&P. The limitations of this paragraph apply only to the net exposure attributable to nonexchange-traded derivatives.
7. Collateral provided to IPERS by counterparties under a derivatives contract shall be delivered to and held by the System's custodian bank.
8. Managers shall reconcile cash and margin requirements concerning derivatives on a daily basis with the System's custodian bank.
9. These restrictions do not apply to portable alpha strategies utilized by the System. In lieu of such restrictions, staff shall attempt to ensure that contracts with managers executing portable alpha strategies adequately address as many of the restrictions as possible while allowing these managers the latitude necessary to manage a portable alpha portfolio where the alpha and beta sources are in different asset classes.
10. Contracts for portable alpha portfolios will articulate the specific derivative usage allowed within the manager's strategy. Additionally, the contract will incorporate the derivatives exposure parameters for that strategy. The contract will also articulate the data to be provided to IPERS staff and consultants in order to enable sufficient monitoring and evaluation of derivatives exposures.

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 and the Board will not support 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 Monitoring and Litigation

IPERS has a fiduciary duty to preserve trust assets to meet the retirement promises made to its members. Included in this duty is the obligation to recover investments in public securities that incur losses as a result of corporate mismanagement and/or fraud. To preserve trust assets, the Board has adopted a securities monitoring and litigation policy to guide the System's involvement in and monitoring of securities litigation. (See Appendix D for IPERS' Securities Monitoring and Litigation Policy.)

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.

N. Ethics

Fiduciaries of the System must exercise the highest standards of care in acting for the exclusive benefit of the plan participants. IPERS has adopted an Ethics Policy to govern the activities of Board members, staff, consultants, and managers as it relates to the System. (See Appendix E for IPERS' Ethics Policy.)

O. Sudan & Iran Investment Restrictions and Divestment

Iowa Code chapters 12F and 12H require IPERS to develop lists of scrutinized companies with operations in the Sudan and/or Iran, and to restrict its purchases of, and, under certain circumstances, to divest of holdings of publicly traded securities in any company determined to have active business operations in the Sudan and/or Iran. To comply with this legislative mandate, IPERS will utilize the research and findings of an organization recognized to be an authoritative source of information in this area. This list will be updated quarterly. Staff will engage the companies on the scrutinized companies list to determine if such companies are prohibited investments under Iowa law. Firms that are deemed to be prohibited under Iowa law will be placed on a prohibited companies list.

P. Continuing Education

The Investment Board consists of dedicated Iowans that have agreed to serve the public in the very important roles of fiduciary and trustee for the Fund. The Board members have been entrusted with making decisions concerning complex actuarial and investment issues. However, it is recognized that Board members have varying degrees of knowledge and experience in dealing with actuarial and investment issues. Therefore, to facilitate the ongoing education of its members so that they may obtain the knowledge required to make informed decisions, the Board establishes the following continuing education guidelines applicable to all Board members:

1. In the first 12 months following appointment, a Board member is encouraged to attend an educational session concerning fiduciary duties of trustees, and another educational session concerning asset allocation, actuarial principles, or investment policy.

2. For the period from 12 months following appointment until the end of the Board member's service on the Board, a Board member is encouraged to attend at least one educational session per year concerning any investment-related topic relevant to the Fund.
3. An "educational session" is defined as a conference, seminar, workshop, course, or other substantive educational activity on any investment or pension fund administration subject. If possible, staff will attempt to make some educational sessions annually available in Iowa in order to meet the needs of Board members' schedules.
4. Board members are responsible for self-evaluating their educational needs and obtaining knowledge in specific-needs areas in a fiscally responsible manner. Board members are encouraged to engage the CEO or IPERS investment staff to assist them in determining what educational sessions are available to meet their educational needs.
5. Board members must receive approval of the Board if they wish to attend more than two educational sessions in any 12-month period. This requirement applies only to educational sessions that require out-of-state travel.

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, and 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 participate in the annual 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 nonvoting 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 revisions to the Policy Benchmark targets, beta portfolio components, and alpha risk budgets.
2. The Board shall review the specific types and proportions of assets being utilized in implementing the overall policy, as established by the staff (for example, the proportion of mortgage bonds within the Core Plus Fixed Income portfolio).
3. The Board shall periodically review the staff's rebalancing activities and the System's compliance with Policy Benchmark Weights and Alpha Risk Targets within their designated ranges.
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. 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, 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.
7. 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.
8. 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

Actuary's Certification Letter
Principal Valuation Results
Actuarial Balance Sheet
Solvency Test
Schedule of Active Member Valuation Data
Retirees and Beneficiaries—Changes in Rolls
Actuarial Assumptions and Methods

November 8, 2012

This report presents the results of the June 30, 2012 actuarial valuation of the Iowa Public Employees' Retirement System (IPERS). The primary purposes of performing the valuation are as follows:

- to determine the actuarial contribution rates for the Regular Membership and the Special Service Groups (Group 1 includes sheriffs and deputies, Group 2 includes all other public safety members) in accordance with the Contribution Rate Funding Policy,
- to evaluate the funded status of the System and disclose various asset and liability measures as of June 30, 2012,
- to determine the experience of the System since the last valuation, and
- to analyze and report on trends in System contributions, assets, and liabilities over the past several years.

The actuarial valuation results provide a "snapshot" view of the System's financial condition on June 30, 2012. The results reflect net unfavorable experience for the past plan year as demonstrated by an unfunded actuarial liability (UAL) that was higher than expected. The UAL on June 30, 2012 for all membership groups covered by IPERS (Regular Members and both Special Service Groups) is $5.916 billion as compared to an expected UAL of $5.857 billion. The unfavorable experience was the combination of an experience loss of $168 million on the actuarial value of assets and an experience gain of about $109 million on System liabilities.

Historically, the statutory contribution rate for Regular Members was set in statute. Effective with the 2011 valuation, IPERS has the authority to implement actuarially determined contribution rates for the Regular Membership Group, subject to a change of no more than 1% per year. The 2012 actuarial valuation results, which set the contribution rates for FY2014, indicate that for the first time since the 2001 actuarial valuation, the statutory contribution rate is equal to the actuarial contribution rate.

The summary of the 2012 valuation results, which set the contribution rates for FY2014, are shown on the following page:

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Contribution Rate for FY2014			
	Regular Membership	**Special Service Group 1***	**Special Service Group 2****
1. Normal Cost Rate	10.17%	16.62%	16.04%
2. Amortization of UAL over 30 years	4.71%	3.14%	0.86%
3. Total Contribution Rate	14.88%	19.76%	16.90%
4. Statutory Contribution Rate	14.88%	19.76%	16.90%
5. Shortfall (3) – (4)	0.00%	0.00%	0.00%
6. Years to Amortize (based on (4))	30	30	30
7. Employee Contribution Rate	5.95%	9.88%	6.76%
8. Employer Contribution Rate (4) - (7)	8.93%	9.88%	10.14%
9 Unfunded Actuarial Liability ($M)	$5,806	$57	$53
10. Funded Ratio	79.2%	88.7%	95.1%

* Includes Sheriffs and Deputies
** Includes all other public safety members

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. The actuarial value of assets must fall within a corridor of 80% to 120% of market value. Based on this methodology, there was an actuarial loss on assets of about $168 million. Between June 30, 2011 and June 30, 2012, the actuarial value of assets increased by $955 million. This represented an approximate rate of return of 6.75%, lower than the actuarial assumed rate of return of 7.5%.

Liabilities

The actuarial liability is that portion of the present value of future benefits that will not be paid by future normal costs. The difference between this liability and the actuarial value of assets at the same date is called the unfunded actuarial liability (UAL). The dollar amount of unfunded actuarial liability is reduced if the contributions to the System exceed the normal cost for the year plus interest on the prior year's UAL.

The unfunded actuarial liability by group is shown as of June 30, 2012 in the following table:

($Millions)	Regular Membership	Special Service 1	Special Service 2	Total*
Actuarial Liability	$27,852	$503	$1,091	$29,446
Actuarial Value of Assets	22,047	446	1,038	23,530
Unfunded Actuarial Liability*	5,806	57	53	5,916
Funded Ratio	79.2%	88.7%	95.1%	79.9%

*Totals may not add due to rounding.

Changes in the UAL occur for various reasons. The net change in the UAL from 6/30/2011 to 6/30/2012 was $234 million. The components of this net change are shown in the table below (in millions):

Unfunded Actuarial Liability, June 30, 2011 ($M)	$	5,682
• Expected increase from amortization method		110
• Expected increase from contributions below actuarial rate		65
• Investment experience		168
• Liability experience (including transfers)		(109)
• Change in assumptions		0
Unfunded Actuarial Liability <u>before</u> FED transfer, June 30, 2012	$	5,916
• FED Transfer		0
Unfunded Actuarial Liability <u>after</u> FED transfer, June 30, 2012	$	5,916

As shown in the table above, various factors impacted the UAL. The two most significant were (1) the increase of $168 million due to investment experience, and (2) the decrease due to liability experience of $109 million.

Actuarial gains (losses), which result from actual experience that is more (less) favorable than anticipated based on the actuarial assumptions, 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 actuarial assumptions and methods or benefit provision changes. Overall, the System experienced a net actuarial loss of $59 million. The net actuarial loss may be explained by considering the separate experience of assets and liabilities. As noted earlier, there was a $168 million loss when measured on the actuarial value of assets. There was a liability gain of $109 million which arose from demographic experience more favorable than anticipated by the actuarial assumptions. The liability gain was largely the result of salary increases that were lower than the expected amounts, based on the actuarial assumptions.

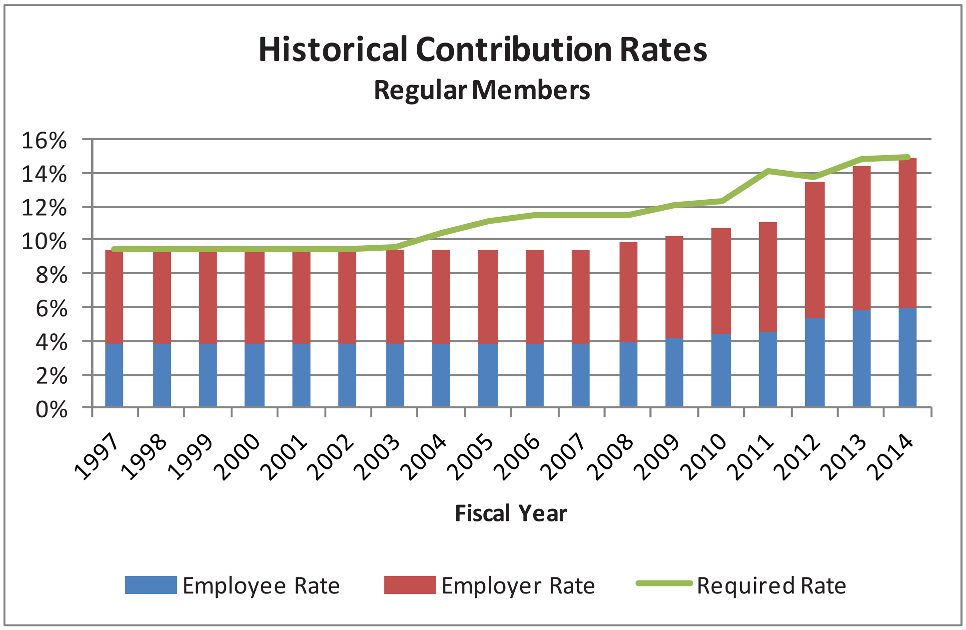
<u>Contribution Rate</u>

Under the Entry Age Normal cost method, the actuarial contribution rate consists of two components:

- a "normal cost" for the portion of projected liabilities allocated by the actuarial cost method to service of members during the year following the valuation date, and

- an "unfunded actuarial liability contribution" for the excess of the portion of projected liabilities allocated to service to date over the actuarial value of assets on hand.

In 2006 and 2010, legislation was passed that increased the statutory contribution rate for Regular Members. A historical summary of the actual and required rates is shown in the following graph:



There were several factors that impacted the contribution rates in the 2012 valuation. The contribution rates are summarized in the following table:

Contribution Rate for FY 2014	Regular Membership	Special Service 1	Special Service 2
1. Total Actuarial Contribution Rate	14.88%	19.76%	16.90%
2. Employee Contribution Rate	5.95%	9.88%	6.76%
3. Employer Contribution Rate (1) – (2)	8.93%	9.88%	10.14%
4. Employer Statutory Contribution Rate	8.93%	9.88%	10.14%
5. Shortfall (3) – (4)	0.00%	0.00%	0.00%

Based on the results of this valuation, the statutory contribution rate for the Regular Membership for fiscal year ending June 30, 2014 is 14.88%, which is also the actuarial contribution rate. Because the contribution rate for the fiscal year ending June 30, 2013 was 14.45%, the full actuarial contribution rate is reached in FY2014 within the annual statutory limitation of 1%. Because the statutory contribution rate and actuarial contribution rate for the Regular Membership are equal, it indicates that the UAL can be amortized in 30 years at the current contribution rate, if all actuarial assumptions are met in the future.

The actuarial contribution rate is determined based on the snapshot of the System taken on the valuation date, June 30, 2012, and applies only for the fiscal year beginning July 1, 2013. The actuarial contribution rate in future years will change each year as experience impacts the System's funding. The statutory contribution rate may change by no more than 1% per year.

Summary

The investment return on the market value of assets for FY2012 was 3.73% as reported by IPERS. Due to this low return, the actuarial value of assets is now greater than the market value of assets and there is a deferred investment loss of $505 million. The System's funded ratio in this valuation remained unchanged at 79.9% from the June 30, 2011 valuation.

As mentioned earlier in this section, the System utilizes an asset smoothing method in the valuation process. While this is a common procedure for public retirement systems, it is important to identify the potential impact of the deferred investment experience. The asset smoothing method impacts only the timing of when the actual market experience is recognized in the valuation process. Despite the fact there were deferred investment gains in the last valuation, the return on the actuarial value of assets was only 6.75% given the return of 3.73% on the market value of assets. The return on actuarial assets of less than 7.5% created the deferred investment loss of $505 million.

Both the statutory and the actuarial contribution rate determined in this year's valuation for Regular Members is 14.88%, which is based on an open 30 year amortization period. This contribution rate will apply for FY2014. Therefore, based on the Actuarial Amortization Method policy set by the Board, the amortization period will move to a closed 30 year period in the June 30, 2014 valuation.

This contribution rate is determined based on the snapshot of the System taken on the valuation date, June 30, 2012, and applies only for the fiscal year beginning July 1, 2013. The actuarial contribution rate in future years will change each year as the deferred actuarial investment experience is recognized and other experience (both investment and demographic) impacts the System. Pursuant to the charge in Iowa Code §97B.11 (3)(d), as incorporated in the Contribution Rate Funding Policy, contribution rates shall be set as required to discharge the system's liabilities. The contribution rate may change no more than 1% per year. Therefore, depending on actual experience it is possible that the statutory and actuarial contribution rates might not be equal in all future years.

The long-term financial health of this retirement system is heavily dependent on two key items: (1) future investment returns and (2) contributions to the System. Given the System's current funded status, the actuarial contribution rate, and the statutory contribution rate, the System's funded ratio is expected to improve over the long term, assuming all actuarial assumptions are met.

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. We provided the Principal Valuation Results, the Actuarial Balance Sheet and the Solvency Test in the Actuarial section. We also provided some information in the Financial section, including the Schedule of Funding Progress and the contribution rates used to calculate the actuarially required contribution on the Schedule of Employer Contributions.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this information is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Actuarial Standards of Practice promulgated by the Actuarial Standards Board and the applicable Guides to Professional Conduct, amplifying Opinions, and supporting Recommendations of the American Academy of Actuaries.

We 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 individually reasonable (taking into account the experience of the System and reasonable expectations of future experience); and which, in combination, offer our best estimate of anticipated experience affecting the System. 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. The Investment Board has the final decision regarding the appropriateness of the assumptions and adopted them as of the dates shown for each assumption.

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 the 2012 actuarial valuation report are for purposes of determining the recommended funding amounts for the System. Actuarial computations under GASB Statement No. 25 are for purposes of fulfilling financial accounting requirement. The computations prepared for these two purposes may differ as disclosed in the 2012 actuarial valuation report. The calculations have been made on a basis consistent with our understanding of the System's funding requirements and goals, and of GASB Statement No. 25. Determinations for purposes other than meeting these requirements may be significantly different from the results shown in the 2012 actuarial valuation 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, 2012 and June 30, 2011 valuations. All figures shown include the Regular 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.

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.

I, Brent A. Banister, 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.

Respectfully Submitted,

CAVANAUGH MACDONALD CONSULTING, LLC

Patrice Beckham

Patrice A. Beckham, FSA, EA, FCA, MAAA
Principal and Consulting Actuary

Brent A. Banister PhD, FSA, EA, FCA, MAAA
Chief Pension Actuary

PRINCIPAL VALUATION RESULTS

	June 30, 2012	June 30, 2011	% Chg
SYSTEM MEMBERSHIP			
1. Active Membership			
- Number of Members			
(excluding Retired/Reemployed)	164,200	164,436	(0.1)
- Projected Payroll for Upcoming Fiscal Year	$6,933M	$6,706M	3.4
- Average Salary	$42,223	$40,782	3.5
2. Inactive Membership			
- Number Not in Pay Status	69,777	65,965	5.8
- Number of Retirees/Beneficiaries	101,677	98,312	3.4
- Average Annual Benefit	$14,441	$13,939	3.6
ASSETS AND LIABILITIES			
1. Net Assets (excluding FED reserve)			
- Market Value	$23,025M	$22,772M	1.1
- Actuarial Value	23,530M	22,575M	4.2
2. Projected Liabilities			
- Retired Members	$14,152M	$13,252M	6.8
- Inactive Members	601M	588M	2.2
- Active Members	20,855M	20,375M	2.4
- Total Liability	$35,608M	$34,215M	4.1
3. Actuarial Liability	$29,446M	$28,257M	4.2
4. Unfunded Actuarial Liability	$5,916M	$5,682M	4.1
5. Funded Ratio			
a. Actuarial Value Assets/Actuarial Liability	79.91%	79.89%	0.0
b. Market Value Assets/Actuarial Liability	78.19%	80.59%	(3.0)
SYSTEM CONTRIBUTIONS			
Statutory Contribution Rate, Regular Members*	14.88%	14.45%	3.0
Employer Contribution Rate	8.93%	8.67%	3.0
Employee Contribution Rate	5.95%	5.78%	2.9
Total Actuarial Contribution Rate	14.88%	14.77%	0.7
Shortfall	0.00%	0.32%	(100.0)

M = ($)Millions

*Contribution rates for Special Service Group 1 are 9.88% for employers, 9.88% for employees
Contribution rates for Special Service Group 2 are 10.14% for employers, 6.76% for employees

Note: For valuation purposes, the data provided by IPERS was reclassified by CMC into the membership category that would most accurately reflect the actuarial liability of the individual member on the valuation date. As a result, the counts shown in this exhibit may vary from those shown in other sections of this report.

ACTUARIAL BALANCE SHEET
as of June 30, 2012

	Regular Membership	Special Service Group 1*	Special Service Group 2**	Total
ASSETS				
Actuarial value of assets	$22,046,553,809	$445,932,747	$1,037,607,905	$23,530,094,461
Present value of future normal costs	5,533,116,514	136,109,255	493,024,433	6,162,250,202
Present value of future contributions to amortize unfunded actuarial liability	5,805,831,644	56,784,083	53,487,298	5,916,103,025
Total Net Assets	$33,385,501,967	$638,826,085	$1,584,119,636	$35,608,447,688
LIABILITIES				
Present Value of Future Benefits:				
Retired Members and Beneficiaries	$13,573,602,957	$195,188,608	$ 383,175,993	$14,151,967,558
Active Members	19,240,951,699	436,033,673	1,178,179,155	20,855,164,527
Inactive Members	570,947,311	7,603,804	22,764,488	601,315,603
Total Liabilities	$33,385,501,967	$638,826,085	$1,584,119,636	$35,608,447,688

* Includes Sheriffs and Deputies
** Includes all other public safety members

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) the liability for active member contributions on deposit; 2) the liability for future benefits to present retirees; and (3) the liability 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 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.

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)
2012	$3,675,848,243	$14,151,967,558	$11,618,381,685	$23,530,094,461	100%	100%	49%
2011	3,562,999,712	13,252,276,665	11,441,803,737	22,575,309,199	100%	100%	50%
2010	3,569,189,416	12,321,926,878	10,577,303,356	21,537,458,560	100%	100%	53%
2009	3,501,951,261	10,623,480,763	11,893,161,799	21,123,979,941	100%	100%	59%
2008	3,343,722,874	9,922,758,244	11,255,735,471	21,857,423,183	100%	100%	76%
2007	3,165,389,448	9,217,242,773	10,643,481,561	20,759,628,415	100%	100%	79%

Note: The combined accrued liabilities in columns 1, 2, and 3 are based on the entry age normal cost method.

Schedule of Active Member Valuation Data

Year Ended	Number	Annual Payroll	Annual Average Pay	Percentage Increase in Average Pay
2007	165,241	$5,781,706,199	$34,990	3.31
2008	167,850	6,131,445,367	36,529	4.40
2009	167,717	6,438,643,124	38,390	5.09
2010	165,660	6,571,182,005	39,667	3.33
2011	164,467	6,574,872,719	39,977	0.78
2012	164,200	6,786,158,720	41,329	3.38

Retirees and Beneficiaries—Changes in Rolls

Schedule of Retirees Added to and Removed From Rolls

	Added to Rolls		Removed From Rolls		Rolls at Year-End			
Year Ended	Number*	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances	Percentage Increase in Annual Allowances	Average Annual Allowances
2007	5,246	$ 88,603,387	2,718	$10,883,501	81,213	$ 946,870,317	8.94	$11,659
2008	5,098	92,991,307	2,687	10,789,250	83,624	1,029,072,374	8.68	12,306
2009	4,908	92,013,786	2,761	12,041,683	85,771	1,109,044,477	7.77	12,930
2010	6,387	104,167,926	2,705	12,096,634	89,453	1,201,115,769	8.30	13,427
2011	7,383	183,137,035	2,767	13,377,850	94,069	1,370,874,954	14.13	14,573
2012	5,979	116,811,487	2,788	24,589,757	97,260	1,463,096,684	6.73	15,043

Schedule of Beneficiaries Added to and Removed From Rolls

	Added to Rolls		Removed From Rolls		Rolls at Year-End			
Year Ended	Number*	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances	Percentage Increase in Annual Allowances	Average Annual Allowances
2007	374	$3,299,984	157	$ 857,512	3,736	$30,156,566	8.81	$8,072
2008	335	3,673,542	205	934,239	3,866	32,895,869	9.08	8,509
2009	429	3,930,377	214	876,249	4,081	35,949,997	9.28	8,809
2010	397	4,387,178	239	1,231,637	4,239	39,105,538	8.78	9,225
2011	456	4,497,000	224	911,691	4,471	42,690,847	9.17	9,548
2012	464	5,918,466	247	1,858,259	4,688	46,751,054	9.51	9,972

*The number of retirees and beneficiaries added to rolls in these tables does not equal the number of new retirees reported elsewhere in the CAFR. This is because all retirees who died during the fiscal year have been removed from the retiree table and their beneficiaries have been added to the beneficiary table.

Note: Tables on this page are provided by IPERS. The remainder of the Actuarial section is provided by Cavanaugh Macdonald Consulting, LLC.

ACTUARIAL ASSUMPTIONS AND METHODS

ECONOMIC ASSUMPTIONS:

Rate of Inflation (effective June 30, 2006)

3.25% per annum

Rate of Crediting Interest on Contribution Balances (effective June 30, 2006)

4.00% per annum, compounded annually

Rate of Investment Return (effective June 30, 1996)

7.50% per annum, compounded annually, net of expenses.

Wage Growth Assumption (effective June 30, 1999)*

4.00% per annum based on 3.25% inflation assumption and 0.75% real wage inflation.

*Total of 4.0% did not change but the components changed June 30, 2006

Payroll Increase Assumption (effective June 30, 1999)

4.00% per year

DEMOGRAPHIC ASSUMPTIONS:

Rates of Mortality

To reflect anticipated future mortality improvements, generational mortality is used with projected mortality improvements based on Projection Scale AA.

Pre-Retirement (effective June 30, 2010)

State	
Male	RP2000 Employee Table, Generational, set back 3 years
Female	RP2000 Employee Table, Generational, set back 8 years
School	
Male	RP2000 Employee Table, Generational, set back 3 years
Female	RP2000 Employee Table, Generational, set back 8 years
Other	
Male	RP2000 Employee Table, Generational, no set back
Female	RP2000 Employee Table, Generational, set back 8 years
Special Services	
Male	RP2000 Employee Table, Generational
Female	RP2000 Employee Table, Generational

For Special Services active members, 5% of deaths are assumed to be service related.

Post-Retirement (effective June 30, 2011 for Regular Members and June 30, 2010 for Special Service Members)

State	RP2000 Healthy Annuitant Table, Generational
Male	1 Year set forward
Female	1 Year set back with 5% increase above age 75
School	RP2000 Healthy Annuitant Table, Generational
Male	No age adjustment, but rates decreased by 5% below age 75
Female	3 Year set back with 10% decrease before age 75 and 10% increase above age 75
Other	RP2000 Healthy Annuitant Table, Generational
Male	1 Year set forward
Female	2 Year set back with 5% increase above age 75
Special Services	RP2000 Healthy Annuitant Table, Generational
Male	No age adjustment
Female	No age adjustment

Beneficiaries: Same as members

Disabled Members (all groups): RP2000 Disabled Mortality, Generational
Set back 1 year for males and set forward 3 years for females

Retirement Rates (effective June 30, 2010)

Upon meeting the requirements for early retirement, the following rates apply to regular members:

	Assumed Retirement Rates – Early		
Age	State	School	Other
55	5.0%	8.0%	5.0%
56	5.0%	8.0%	5.0%
57	5.0%	8.0%	5.0%
58	5.0%	8.0%	5.0%
59	5.0%	9.0%	5.0%
60	5.0%	10.0%	5.0%
61	15.0%	15.0%	10.0%
62	15.0%	20.0%	20.0%
63	15.0%	20.0%	20.0%
64	15.0%	20.0%	20.0%

Upon reaching the requirements for normal retirement (unreduced benefits), the following rates apply:

Assumed Retirement Rates – Select

	Unreduced		
Age	State	School	Other
55	20.0%	30.0%	20.0%
56	15.0%	30.0%	20.0%
57	15.0%	30.0%	20.0%
58	15.0%	30.0%	20.0%
59	15.0%	30.0%	20.0%
60	15.0%	30.0%	20.0%
61	20.0%	30.0%	20.0%
62	40.0%	40.0%	40.0%
63	35.0%	30.0%	35.0%
64	30.0%	30.0%	35.0%
65	30.0%	30.0%	30.0%

Assumed Retirement Rates – Ultimate

	Unreduced		
Age	State	School	Other
55	15.0%	23.0%	15.0%
56	15.0%	23.0%	15.0%
57	15.0%	23.0%	15.0%
58	15.0%	23.0%	15.0%
59	15.0%	23.0%	15.0%
60	15.0%	23.0%	15.0%
61	20.0%	30.0%	20.0%
62	40.0%	35.0%	35.0%
63	30.0%	30.0%	25.0%
64	30.0%	30.0%	25.0%
65	30.0%	45.0%	40.0%
66	30.0%	35.0%	30.0%
67	20.0%	25.0%	20.0%
68	20.0%	25.0%	20.0%
69	35.0%	40.0%	40.0%
70	100.0%	100.0%	100.0%

Assumed Retirement Rates

Age	SS1	SS2
50	20.0%	
51	20.0%	
52	20.0%	
53	20.0%	
54	20.0%	
55	25.0%	20.0%
56	20.0%	10.0%
57	20.0%	10.0%
58	20.0%	10.0%
59	20.0%	10.0%
60	20.0%	10.0%
61	20.0%	10.0%
62	35.0%	35.0%
63	50.0%	30.0%
64	50.0%	30.0%
65	100.0%	100.0%

Terminated vested members are assumed to retire at age 62 (55 for Special Services).
For regular membership, retired re-employed members are assumed to retire at a rate of 25% per year until age 80 when all are assumed to retire.

Rates of Disablement (effective June 30, 2010)

Assumed Rates

	Males			**Females**		
Age	State	School	Other	State	School	Other
27	0.020%	0.020%	0.020%	0.020%	0.030%	0.020%
32	0.020%	0.020%	0.020%	0.020%	0.030%	0.020%
37	0.040%	0.040%	0.040%	0.032%	0.040%	0.032%
42	0.065%	0.065%	0.065%	0.051%	0.050%	0.051%
47	0.120%	0.110%	0.140%	0.087%	0.090%	0.087%
52	0.220%	0.160%	0.326%	0.220%	0.165%	0.200%
57	0.320%	0.260%	0.630%	0.390%	0.240%	0.350%
62	0.420%	0.360%	0.900%	0.620%	0.320%	0.500%

Assumed Rates
Special Services

Age	Rate
27	0.150%
32	0.150%
37	0.150%
42	0.180%
47	0.230%
52	0.280%
57	0.380%
62	0.510%

Rates of Termination of Employment (effective June 30, 2010)

Regular Membership

Years of Service	Male State	Male School	Male Other	Female State	Female School	Female Other
1	15.4%	15.0%	21.0%	15.4%	15.0%	21.0%
5	5.5%	6.9%	8.4%	5.5%	6.9%	9.2%
10	2.2%	2.9%	4.3%	2.2%	2.9%	5.8%
15	1.7%	1.8%	2.6%	1.7%	1.8%	4.1%
20	1.1%	1.3%	2.4%	1.1%	1.3%	3.2%
25	1.1%	1.2%	2.0%	1.1%	1.2%	2.4%
30	1.1%	1.2%	1.2%	1.1%	1.2%	1.5%

Special Services

Age	Rate of Termination
22	5.8%
27	5.8%
32	3.5%
37	3.0%
42	2.6%
47	2.0%
52	2.0%

Probability of Electing a Deferred Vested Benefit (effective June 30, 2010)

	Regular Membership					
	Male			**Female**		
Years of Service	State	School	Other	State	School	Other
5	66.0%	76.0%	61.0%	61.0%	80.0%	70.0%
10	73.0%	81.0%	66.0%	66.0%	80.0%	73.0%
15	78.0%	86.0%	71.0%	76.0%	85.0%	80.0%
20	83.0%	91.0%	76.0%	86.0%	90.0%	85.0%
25	88.0%	95.0%	80.0%	96.0%	95.0%	90.0%
30	90.0%	95.0%	80.0%	100.0%	100.0%	90.0%

	Special Services
Years of Service	Rate
5	53%
10	65%
15	85%
20	95%
25	100%
30	100%

Rates of Salary Increase* (effective June 30, 2010)

Years of Service	Annual Increase: State	School	Other	Special Services
1	15.0%	17.0%	15.0%	17.0%
5	7.6%	6.5%	6.1%	6.5%
10	6.3%	5.3%	5.3%	5.3%
15	5.2%	4.5%	4.8%	4.8%
20	4.8%	4.2%	4.5%	4.5%
25	4.6%	4.0%	4.4%	4.5%
30+	4.3%	4.0%	4.4%	4.0%

* Includes 4.0% wage growth

ACTUARIAL COST METHOD (adopted 1996)

The actuarial cost method is a procedure for allocating the actuarial present value of pension plan benefits and expenses to time periods. The method used for the valuation is known as the entry age normal actuarial cost method. Under this method, a total contribution rate is determined which consists of two parts: (i) the normal cost rate and (ii) the unfunded actuarial liability (UAL) rate. The entry age normal cost method has the following characteristics:

(i) The annual normal costs for each individual active member are sufficient to accumulate the value of the member's pension at time of retirement.

(ii) Each annual normal cost is a constant percentage of the member's year-by-year projected compensation rates.

The entry age normal actuarial cost method allocates the actuarial present value of each member's projected benefits on a level basis over the member's compensation rates between the entry age of the member and the assumed exit ages.

ACTUARIAL AMORTIZATION METHOD (adopted 2011)

The portion of the actuarial present value allocated to the valuation year is called the normal cost. The portion of the actuarial present value not provided for by the actuarial present value of future normal costs is called the actuarial accrued liability. Deducting the actuarial value of assets from the actuarial accrued liability determines the unfunded actuarial liability (UAL). The one-year lag between the valuation date and the date the contribution rate is effective is reflected in calculating the UAL and the corresponding amortization payment. The UAL is amortized according to the Actuarial Amortization Method adopted by the Investment Board and summarized below:

1. For the actuarial valuation prepared as of June 30, 2011, the amortization period of the UAL for each of IPERS' membership groups is 30-year open.
2. For actuarial valuations prepared as of June 30, 2012 and later, the amortization period for the UAL for Special Service Group 1 and Special Service Group 2 shall be a closed period beginning at 30 years.
3. The amortization period for the Regular Membership shall be 30-year open until the statutory rate is the same as the actuarially determined contribution rate (ADCR). The amortization period shall move to a closed period, beginning at 30 years, in the actuarial valuation following the actuarial valuation in which the statutory rate equals the ADCR.
4. The amortization period of a surplus shall be a 30-year open period for all groups.

ASSET SMOOTHING METHOD (adopted 2007)

The market value of assets, representing a fair value of System assets, may not necessarily be the best measure of the System's ongoing ability to meet its obligations.

To arrive at a suitable value for the actuarial valuation, a technique for determining the actuarial value of assets is used which dampens volatility in the market value while still indirectly recognizing market value. The specific technique follows:

Step 1: Determine the expected value of plan assets at the current valuation date using the actuarial assumption for investment return applied to the prior actuarial value and the actual receipts and disbursements of the fund for the previous 12 months.

Step 2: Subtract the expected value determined in Step 1 from the total market value of the Fund at the current valuation date.

Step 3: Multiply the difference between market and expected values determined in Step 2 by 25%.

Step 4: Add the expected value of Step 1 and the product of Step 3 to determine the actuarial value of assets.

Step 5: Verify the preliminary actuarial value of assets in Step 4 is not more than 120% of the market value of assets or less than 80% of the market value. If it is, adjust the actuarial value of assets so it falls within the 80% - 120% corridor.

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STATISTICAL

Statistical Overview
Membership Summary
Investment Statistics

Objectives

The objective of the Statistical section is to provide the detail and historical context needed for a thorough assessment and understanding of the System's financial condition. Data in this section are presented in multiple-year format to show any previous and emerging trends.

Contents

The Statistical section provides financial, demographic, operating, and investment trend information. The financial trend information presented in the Changes in Net Assets and the Membership Summary on pages 100–102 is intended to help explain how the System's financial position has changed over time.

The demographic and operating information presented on pages 103–109 provides data on IPERS' membership, including years of credited service, benefits, benefit options, active membership statistics, and principal participating employers.

The investment information presented on page 110 shows the growth of net investment portfolio assets and investment returns since 1983.

Tables related to types of refunds have not been included in the Statistical section because IPERS pays only one type of refund—termination refunds.

Data Sources

Data for the Statistical section are derived from financial statements, an actuary member file, and an actuary retirement file, all prepared by IPERS. The data in the actuary files are also used by IPERS' actuaries to prepare the annual actuarial valuation. The investment data in the Statistical section are provided by Wilshire Associates.

Methods

IPERS uses several data extraction and statistical tools to produce the information for the Statistical section. In some cases, data are imported into Microsoft Excel for further analysis and calculations.

Assumptions

Active members are defined as those with wages reported for the last quarter of the fiscal year. Retired members and beneficiaries are those who were paid benefits in the last month of the fiscal year.

Changes in Net Assets

Fiscal years ended June 30

(Dollar values expressed in thousands)

	2003	2004	2005	2006	2007
Additions					
Employee contributions	$ 185,431	$ 192,808	$ 202,607	$ 211,522	$ 223,515
Employer contributions	287,523	298,924	310,843	324,656	343,063
QBA Fund contributions*	---	---	---	35	---
Service purchases	12,031	14,903	11,217	11,275	8,026
Net investment income/(loss)	814,808	2,177,265	1,912,489	2,065,520	3,298,842
QBA income	---	---	---	1	1
Miscellaneous noninvestment income	8,952[§]	72	42	---	---
Total additions	**1,308,745**	**2,683,972**	**2,437,198**	**2,613,009**	**3,873,447**
Deductions					
Trust Fund benefits[†]	736,331	792,866	868,558	924,361	1,013,956
QBA Fund benefits[‡]	---	---	---	17	17
Refunds	35,591	36,430	43,113	41,668	38,116
Trust Fund administrative expenses	8,041	7,960	8,215	9,321	9,060
QBA Fund administrative expenses	---	---	---	---	1
Total deductions	**779,963**	**837,256**	**919,886**	**975,367**	**1,061,150**
Change in net assets	**$ 528,782**	**$1,846,716**	**$1,517,312**	**$1,637,642**	**$2,812,297**

Continued on page 101

*IPERS began collecting QBA contributions in FY2006 (see Note 10, page 42).

[†]A Schedule of Benefit Payments by Type of Benefit is found on page 106.

[‡]IPERS began paying QBA benefits in FY2006 (see Note 10, page 42).

[§]Increase is due to a transfer of $8,879,964 from the Cedar Rapids Water Works Retirement System to fund accrued actuarial liabilities assumed by IPERS for participants of that system.

Changes in Net Assets

Fiscal years ended June 30

(Dollar values expressed in thousands)

Continued from page 100

	2008	2009	2010	2011	2012
Additions					
Employee contributions	$ 245,898	$ 270,934	$ 293,472	$ 306,472	$ 366,377
Employer contributions	377,397	415,301	449,119	468,027	558,396
QBA Fund contributions*	20	23	5	8	9
Service purchases	10,875	9,301	12,614	14,847	17,612
Net investment income/(loss)	(338,575)	(3,863,760)	2,477,824	3,922,569	823,983
QBA income	---	---	---	---	---
Miscellaneous noninvestment income	---	---	---	---	500
Total additions	**295,615**	**(3,168,201)**	**3,233,034**	**4,711,923**	**1,766,877**
Deductions					
Trust Fund benefits†	1,096,078	1,183,098	1,278,550	1,456,998	1,549,168
QBA Fund benefits‡	20	21	6	8	9
Refunds	36,205	34,337	41,470	41,215	43,328
Trust Fund administrative expenses	9,884	10,896	8,967	9,649	12,964
QBA Fund administrative expenses	1	1	1	1	---
Total deductions	**1,142,188**	**1,228,353**	**1,328,994**	**1,507,871**	**1,605,469**
Change in net assets	**$(846,573)**	**$(4,396,554)**	**$1,904,040**	**$3,204,052**	**$ 161,408**

*IPERS began collecting QBA contributions in FY2006 (see Note 10, page 42).
†A Schedule of Benefit Payments by Type of Benefit is found on page 106.
‡IPERS began paying QBA benefits in FY2006 (see Note 10, page 42).
§Increase is due to a transfer of $8,879,964 from the Cedar Rapids Water Works Retirement System to fund accrued actuarial liabilities assumed by IPERS for participants of that system.

Membership Summary

Special Statistics

Fiscal years ended June 30

Fiscal Year	Number of Retired Members	Number of Active Members	Total Additions	Total Deductions	Total Investments*	Total Net Assets
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
2006	82,204	163,091	2,613,008,745	975,366,478	22,623,903,421	20,404,871,046
2007	84,949	165,241	3,873,447,126	1,061,150,226	26,605,342,485	23,217,167,946
2008	87,490	167,850	295,614,881	1,142,187,838	24,454,328,362	22,370,594,989
2009	89,852	167,717	(3,168,201,203)	1,228,353,135	18,715,729,776	17,974,040,651
2010	93,692	165,660	3,233,034,186	1,328,994,209	20,432,970,506	19,878,080,628
2011	98,540	164,467	4,711,922,914	1,507,870,607	24,064,559,555	23,082,132,935
2012	101,948	164,200	1,766,876,520	1,605,468,947	23,508,268,276	23,243,540,508

*Total investments in this table include the securities lending collateral pool.

Membership by Group

Fiscal years ended June 30

Fiscal Year		Regular Membership	Special Service Group 1	Special Service Group 2	Total
2003	Active members	153,485	1,480	4,388	159,353
	Inactive members	103,348	115	745	104,208
	Retired members	73,602	225	509	74,336
	Total	**330,435**	**1,820**	**5,642**	**337,897**
2004	Active members	154,279	1,506	4,249	160,034
	Inactive members	102,186	103	760	103,049
	Retired members	76,097	249	615	76,961
	Total	**332,562**	**1,858**	**5,624**	**340,044**
2005	Active members	155,165	1,471	4,269	160,905
	Inactive members	64,667	102	647	65,416
	Retired members	78,587	310	707	79,604
	Total	**298,419**	**1,883**	**5,623**	**305,925**
2006	Active members	157,117	1,478	4,496	163,091
	Inactive members	60,941	114	605	61,660
	Retired members	81,083	345	776	82,204
	Total	**299,141**	**1,937**	**5,877**	**306,955**
2007	Active members	159,092	1,470	4,679	165,241
	Inactive members	61,501	108	633	62,242
	Retired members	83,666	397	886	84,949
	Total	**304,259**	**1,975**	**6,198**	**312,432**
2008	Active members	161,583	1,520	4,747	167,850
	Inactive members	63,534	108	655	64,297
	Retired members	86,072	442	976	87,490
	Total	**311,189**	**2,070**	**6,378**	**319,637**
2009	Active members	159,113	1,492	7,112	167,717
	Inactive members	65,855	113	874	66,842
	Retired members	88,074	585	1,193	89,852
	Total	**313,042**	**2,190**	**9,179**	**324,411**
2010	Active members	157,118	1,546	6,996	165,660
	Inactive members	64,415	114	992	65,521
	Retired members	91,657	616	1,419	93,692
	Total	**313,190**	**2,276**	**9,407**	**324,873**
2011	Active members	156,011	1,524	6,932	164,467
	Inactive members	64,712	126	1,130	65,968
	Retired members	96,252	657	1,631	98,540
	Total	**316,975**	**2,307**	**9,693**	**328,975**
2012	Active members	155,800	1,530	6,870	164,200
	Inactive members	67,566	123	1,261	68,950
	Retired members	99,519	674	1,755	101,948
	Total	**322,885**	**2,327**	**9,886**	**335,098**

Average Benefit Payments for Retirees

Fiscal years ended June 30

		Years of Credited Service							
Fiscal Year		***0–5***	***6–10***	***11–15***	***16–20***	***21–25***	***26–30***	***>30***	***Total***
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 high average salary	$735	$809	$1,102	$1,384	$1,729	$2,219	$2,828	$1,728
	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 high average salary	$835	$872	$1,156	$1,452	$1,796	$2,297	$2,943	$1,813
	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 high average salary	$911	$939	$1,211	$1,525	$1,868	$2,391	$3,041	$1,899
	Average years of service	4.45	8.48	13.35	18.38	23.28	28.19	34.41	21.42
2006	Number of retirees	4,355	11,428	12,003	12,083	11,288	9,658	21,378	82,193
	Average monthly benefit	$92	$185	$360	$573	$858	$1,297	$1,832	$914
	Average high average salary	$993	$1,000	$1,277	$1,590	$1,944	$2,472	$3,131	$1,983
	Average years of service	4.47	8.47	13.34	18.39	23.28	28.20	34.36	21.51
2007	Number of retirees	4,421	11,666	12,149	12,331	11,586	10,132	22,658	84,943
	Average monthly benefit	$97	$194	$369	$598	$895	$1,357	$1,917	$967
	Average high average salary	$1,077	$1,080	$1,335	$1,671	$2,029	$2,563	$3,241	$2,085
	Average years of service	4.48	8.46	13.33	18.41	23.27	28.21	34.33	21.67
2008	Number of retirees	4,484	11,850	12,376	12,513	11,889	10,569	23,804	87,485
	Average monthly benefit	$103	$201	$380	$621	$932	$1,415	$1,993	$1,015
	Average high average salary	$1,124	$1,050	$1,170	$1,425	$1,713	$2,198	$2,797	$1,828
	Average years of service	4.49	8.46	13.34	18.42	23.27	28.23	34.33	21.81
2009	Number of retirees	4,549	12,061	12,547	12,685	12,191	10,893	24,921	89,847
	Average monthly benefit	$108	$209	$392	$644	$973	$1,471	$2,071	$1,064
	Average high average salary	$1,203	$1,130	$1,252	$1,521	$1,834	$2,318	$2,943	$1,948
	Average years of service	4.50	8.47	13.34	18.43	23.27	28.24	34.33	21.93
2010	Number of retirees	4,732	12,428	12,777	13,073	12,593	11,372	26,712	93,687
	Average monthly benefit	$110	$210	$390	$643	$982	$1,478	$2,094	$1,085
	Average high average salary	$1,280	$1,212	$1,349	$1,631	$1,978	$2,502	$3,198	$2,118
	Average years of service	4.49	8.47	13.34	18.44	23.29	28.25	34.36	22.10
2011	Number of retirees	4,924	12,762	13,210	13,512	13,287	12,014	28,828	98,537
	Average monthly benefit	$123	$235	$441	$731	$1,124	$1,667	$2,337	$1,234
	Average high average salary	$1,372	$1,296	$1,462	$1,763	$2,162	$2,679	$3,388	$2,284
	Average years of service	4.49	8.46	13.33	18.45	23.28	28.24	34.39	22.28
2012	Number of retirees	5,180	13,181	13,605	13,864	13,711	12,419	29,986	101,946
	Average monthly benefit	$136	$251	$467	$775	$1,184	$1,739	$2,418	$1,289
	Average high average salary	$1,213	$1,436	$1,742	$2,181	$2,706	$3,320	$4,094	$2,749
	Average years of service	4.47	8.46	13.33	18.45	23.29	28.22	34.43	22.31

Note: Where data were available, high 3-year average monthly wages were calculated by dividing the annual high 3-year average by 12. When high 3-year average wages were not obtainable, the monthly high 3-year average wages were estimated by dividing the annual annuity amount by a multiplying factor of 0.38 and then dividing by 12 (see retirement formula on page 115). This table does not include retirees under the Iowa Old-Age and Survivors' Insurance System.

New Retirees by Employer Group

Fiscal years ended June 30

Fiscal Year		City	County	Education	State	Utility	Health	28E Agency	Township & Cemetery	Other	Total
2003	Number of retirees	558	715	2,562	640	19	---	217	1	---	4,712
	Average monthly benefit	$801	$830	$1,278	$1,266	$1,426	---	$1,178	$62	---	$1,148
	Average years of service	17.51	17.63	22.38	20.21	24.68	---	19.17	9.00	---	20.65
2004	Number of retirees	614	696	2,853	522	29	---	229	---	---	4,943
	Average monthly benefit	$926	$809	$1,318	$1,248	$1,207	---	$1,064	---	---	$1,178
	Average years of service	18.60	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
	Average monthly benefit	$998	$1,031	$1,335	$1,560	$1,699	---	$1,282	---	---	$1,283
	Average years of service	19.01	18.97	22.19	22.04	25.59	---	19.38	---	---	21.18
2006	Number of retirees	591	699	2,920	568	24	---	66	2	22	4,892
	Average monthly benefit	$1,051	$1,057	$1,445	$1,463	$1,160	---	$633	$1,985	$465	$1,328
	Average years of service	19.32	19.14	23.33	21.04	19.26	---	13.84	29.50	11.22	21.78
2007	Number of retirees	620	809	2,697	965	32	---	50	2	26	5,201
	Average monthly benefit	$1,108	$1,190	$1,570	$1,936	$1,057	---	$752	$314	$376	$1,506
	Average years of service	19.71	20.04	23.72	24.85	18.94	---	14.54	6.75	8.03	22.67
2008	Number of retirees	697	738	2,730	777	35	---	52	1	31	5,061
	Average monthly benefit	$1,261	$1,119	$1,552	$1,901	$1,872	---	$617	$112	$578	$1,489
	Average years of service	20.66	19.76	23.25	23.71	24.74	---	13.61	6.25	12.61	22.29
2009	Number of retirees	620	800	2,571	765	44	---	49	---	28	4,877
	Average monthly benefit	$1,226	$1,241	$1,610	$2,067	$1,586	---	$881	---	$467	$1,558
	Average years of service	20.62	19.69	23.34	24.40	21.46	---	14.51	---	11.75	22.39
2010	Number of retirees	786	811	3,186	1,476	31	---	58	3	34	6,385
	Average monthly benefit	$1,274	$1,317	$1,739	$2,119	$1,471	---	$620	$1,098	$606	$1,698
	Average years of service	20.25	20.40	23.92	25.14	19.70	---	12.12	20.50	11.62	23.11
2011	Number of retirees	776	859	3,822	1,728	55	---	82	---	38	7,360
	Average monthly benefit	$1,387	$1,397	$1,799	$2,285	$1,741	---	$655	---	$544	$1,803
	Average years of service	20.51	20.80	23.95	25.85	23.00	---	13.11	---	11.93	23.48
2012*	Number of retirees	671	617	3,487	618	53	463	---	---	112	6,021
	Average monthly benefit	$1,547	$1,549	$1,728	$2,253	$1,754	$1,378	---	---	$1,024	$1,703
	Average years of service	21.63	21.47	22.45	21.22	21.78	18.28	---	---	15.57	21.68

*With the implementation of I-Que, revised employer classifications are being used for FY2012.

*Schedule of Benefit Payments by Type of Benefit**

Fiscal years ended June 30

Fiscal Year	Number of Retirees	Normal Retirement	Early Retirement	Survivor Payment (Normal, Early, or Disability Retirement)	Disability Retirement	Survivor Payment (Death in Service)	Duty Disability Retirement (Special Service Groups)	Nonduty Disability Retirement (Special Service Groups)	Total
2003	74,336	$ 570,327,217	$ 94,103,140	$20,009,733	$20,963,183	$ 469,783	$194,138	$153,412	$ 706,220,606
2004	76,961	610,618,473	106,510,837	22,142,949	22,021,464	760,904	278,289	221,496	762,554,412
2005	79,604	657,249,915	125,357,178	24,084,063	24,225,454	1,060,991	317,312	261,551	832,556,464
2006	82,204	701,149,558	141,860,569	26,228,650	25,540,886	1,382,098	433,669	269,095	896,864,525
2007	84,949	758,739,140	159,904,983	28,429,483	27,449,602	1,637,857	489,088	287,504	976,937,657
2008	87,490	818,804,704	180,411,922	30,892,964	28,284,772	1,919,799	563,314	303,042	1,061,180,517
2009	89,852	882,890,118	197,219,959	33,554,573	28,042,167	2,323,743	584,892	304,352	1,144,919,804
2010	93,692	951,375,232	220,803,713	36,386,690	27,960,711	2,653,287	624,888	330,890	1,240,135,411
2011	98,540	1,088,085,798	253,413,138	39,533,700	28,381,456	3,096,481	771,831	376,798	1,413,659,202
2012	101,948	1,134,393,596	290,216,887	43,180,523	39,968,472	3,595,564	801,062	362,184	1,512,518,288

*This table does not include lump-sum payments.

Schedule of Retired Members by Type of Benefit

As of June 30, 2012

Amount of Monthly Benefit	Number of Retirees	Normal Retirement	Early Retirement	Survivor Payment (Normal, Early, or Disability Retirement)	Disability Retirement	Survivor Payment (Death in Service)	Duty Disability Retirement (Special Service Groups)	Nonduty Disability Retirement (Special Service Groups)
$ <250	18,280	8,950	7,904	723	635	64	1	3
250–499	15,944	7,863	6,286	953	794	47	---	1
500–749	10,554	5,113	4,153	699	540	49	---	---
750–999	8,333	4,279	2,923	621	478	32	---	---
1,000–1,249	6,936	3,997	2,173	378	369	18	1	---
1,250–1,499	5,508	3,265	1,693	254	270	24	1	1
1,500–1,749	5,115	3,200	1,442	233	206	24	4	6
1,750–1,999	4,799	3,396	1,051	168	158	15	6	5
2,000–2,249	4,942	3,894	809	104	110	14	8	3
2,250–2,499	4,706	3,892	636	89	78	6	4	1
2,500–2,749	4,530	3,964	434	71	53	6	2	---
2,750–2,999	3,535	3,126	347	26	28	7	1	---
3,000–3,249	2,658	2,409	213	17	17	1	1	---
3,250–3,499	1,890	1,742	122	12	12	1	1	---
3,500–3,749	1,218	1,123	84	5	3	2	1	---
3,750–3,999	781	715	52	8	5	1	---	---
4,000+	2,219	2,003	150	12	48	4	1	1
Total	**101,948**	**62,931**	**30,472**	**4,373**	**3,804**	**315**	**32**	**21**

Note: The above tables do not include types of refunds because IPERS pays only one type of refund (termination refunds).

*Retired Members by Benefit Option**

As of June 30, 2012

Amount of Monthly Benefit	Number of Retirees	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Misc.†
$ <250	18,280	5,917	4,054	3,590	1,757	2,183	764	15
250–499	15,944	5,428	3,686	2,114	2,121	1,771	816	8
500–749	10,554	3,346	2,396	1,257	1,711	1,105	739	---
750–999	8,333	2,389	1,857	923	1,627	762	775	---
1,000–1,249	6,936	1,865	1,617	766	1,312	590	786	---
1,250–1,499	5,508	1,389	1,175	539	1,132	487	786	---
1,500–1,749	5,115	1,242	1,076	499	1,009	476	813	---
1,750–1,999	4,799	1,020	919	426	1,069	482	883	---
2,000–2,249	4,942	988	958	528	930	555	983	---
2,250–2,499	4,706	923	876	508	738	507	1,154	---
2,500–2,749	4,530	798	867	564	630	492	1,179	---
2,750–2,999	3,535	629	702	477	405	398	924	---
3,000–3,249	2,658	471	557	350	243	307	730	---
3,250–3,499	1,890	318	409	280	192	173	518	---
3,500–3,749	1,218	187	250	175	142	109	355	---
3,750–3,999	781	113	139	104	90	80	255	---
4,000+	2,219	292	390	291	255	246	745	---
Total	**101,948**	**27,315**	**21,928**	**13,391**	**15,363**	**10,723**	**13,205**	**23**

*See definitions beginning on page 116.

†Consists of retirees and beneficiaries of retirees under the Iowa Old-Age and Survivors' Insurance System.

Active Membership Statistics

Fiscal years ended June 30

Fiscal Year	Total Actives	Percent Change	Average Covered Wage	Average Age (Years)	Average Service Credit (Years)
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
2006	163,091	1.4	33,870	44.2	11.6
2007	165,241	1.3	34,990	43.2	11.5
2008	167,850	1.6	36,529	42.2	11.5
2009	167,717	(0.1)	38,390	41.4	11.7
2010	165,660	(1.2)	39,667	46.0	11.5
2011	164,467	(0.7)	39,977	45.0	11.6
2012	164,200	(0.2)	41,329	45.8	11.6

Analysis of Change in Active Membership

Fiscal years ended June 30

Fiscal Year	Beginning Members	Additions	Retired	Died	Other Terminations	Ending Members
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
2006	160,905	18,885	3,883	154	12,662	163,091
2007	163,091	19,111	4,344	246	12,371	165,241
2008	165,241	19,943	4,237	227	12,870	167,850
2009	167,850	16,565	4,013	246	12,439	167,717
2010	167,717	14,663	5,277	244	11,199	165,660
2011	165,660	17,236	6,368	237	11,824	164,467
2012	164,467	16,878	4,928	193	12,024	164,200

2012

Participating Employer	Covered Employees	Rank	Percentage of Total System
State of Iowa Centralized Payroll	17,609	1	10.72
Des Moines Independent Community School District (CSD)	4,525	2	2.76
Cedar Rapids CSD	3,018	3	1.84
Iowa Department of Transportation	2,689	4	1.64
Davenport CSD	2,318	5	1.41
University of Iowa	2,055	6	1.25
Sioux City CSD	1,869	7	1.14
Dubuque CSD	1,842	8	1.12
Iowa City CSD	1,827	9	1.11
Waterloo CSD	1,660	10	1.01
All other employers*	124,788		76.00
Total (2,153 employers)	**164,200**		**100.00**

2003

Participating Employer	Covered Employees	Rank	Percentage of Total System
State of Iowa Centralized Payroll	18,177	1	11.41
Des Moines Independent Community School District (CSD)	4,613	2	2.90
Cedar Rapids CSD	3,184	3	2.00
Iowa Department of Transportation	3,144	4	1.97
Davenport CSD	2,501	5	1.57
Sioux City CSD	1,992	6	1.25
Dubuque CSD	1,681	7	1.06
Iowa City CSD	1,584	8	0.99
West Des Moines CSD	1,550	9	0.97
Waterloo CSD	1,534	10	0.96
All other employers	119,393		74.92
Total (2,417 employers)	**159,353**		**100.00**

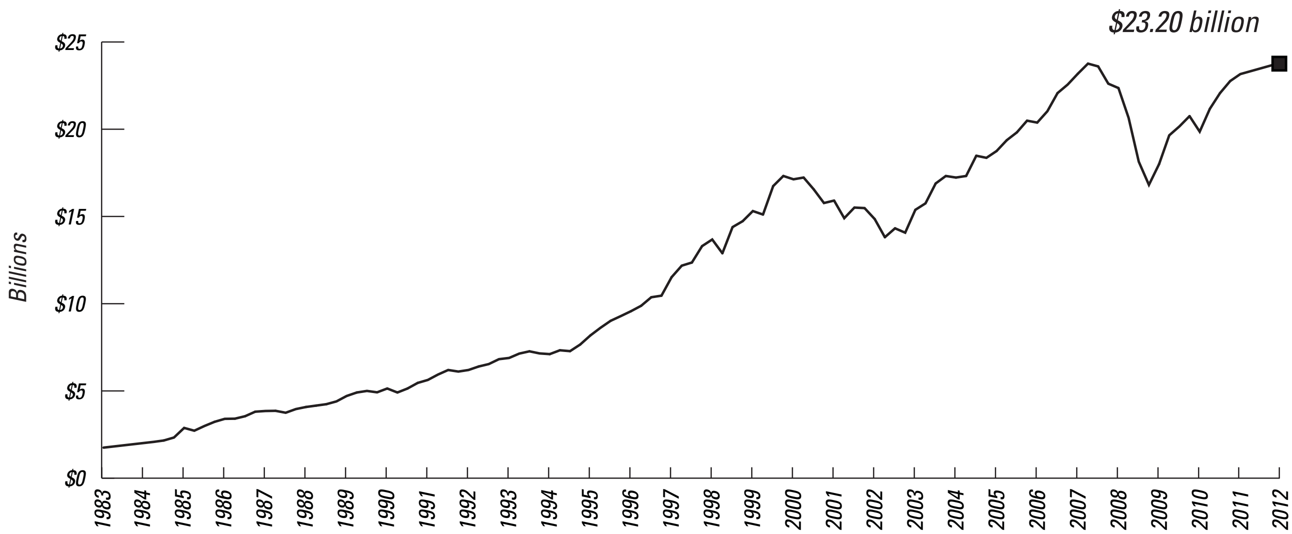
All other employers for FY2012:		
Type†	***Number***	***Employees***
City	1,055	18,525
Education	375	67,963
County	346	16,496
Other	148	3,491
Utilities	134	1,645
Health	67	14,999
State	18	1,669
Total	**2,143**	**124,788**

†With the implementation of I-Que, revised employer classifications are being used for FY2012.

Investment Statistics

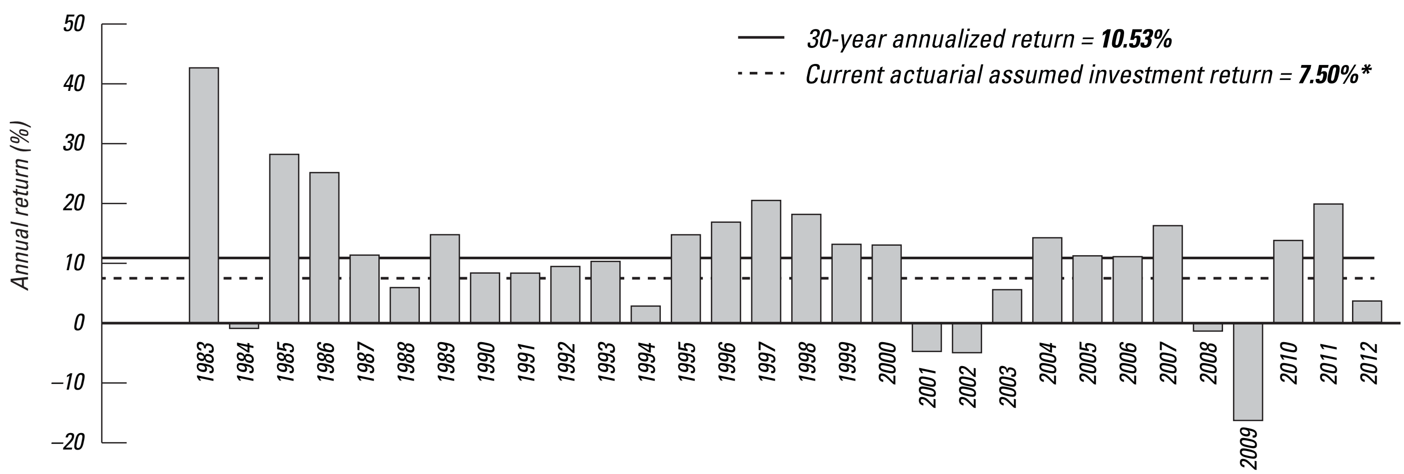
Growth of Net Investment Portfolio Assets

Fiscal years ended June 30



Investment Returns 1983–2012

Fiscal years ended June 30



**Actuarial assumed investment return:*

1953–1993: 6.50%

1994–1995: 6.75%

1996–present: 7.50%

Annualized returns[†]

1-year return	3.73%	15-year return	7.05%
3-year return	12.29%	20-year return	8.48%
5-year return	3.18%	25-year return	8.65%
10-year return	7.33%	30-year return	10.53%

[†]For periods ended June 30, 2012.

PLAN SUMMARY

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Membership Profile
Contributions
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Benefit Payments by Iowa County
Benefit Payments by State
Benefit Payments Summary

Composition

Membership

Fiscal years ended June 30

	2012	2011
Retired members	101,948	98,540
Average years of service	22	22
Average monthly benefit	$1,289	$1,234
New retirees this fiscal year	6,021	7,360
Average years of service	22	23
Average monthly benefit	$1,703	$1,803
Retired reemployed*	9,277	8,321
Active members	164,200	164,467
Inactive vested	32,410	32,452
Inactive nonvested	36,540	33,516
Total	**335,098**	**328,975**

*The number of retired reemployed members includes all retirees who have at any time returned to covered employment but have not subsequently requested a refund or a benefit recalculation. These members are also included in the number of retired members.

Employers

Fiscal years ended June 30

	2012		2011*	
Employer Type	***Number of Entities***	***Covered Wages***	***Number of Entities***	***Covered Wages***
City	1,055	$ 675,363,814	1,064	$ 656,117,699
Education	383	3,329,139,833	392	3,248,254,088
County	346	700,425,902	347	684,892,427
Other	148	103,220,098	150	103,332,978
Utilities	134	80,673,508	135	78,869,825
Health	67	619,237,075	67	593,459,889
State	20	1,278,098,490	26	1,210,016,607
Total	**2,153**	**$6,786,158,720**	**2,181**	**$6,574,943,513**

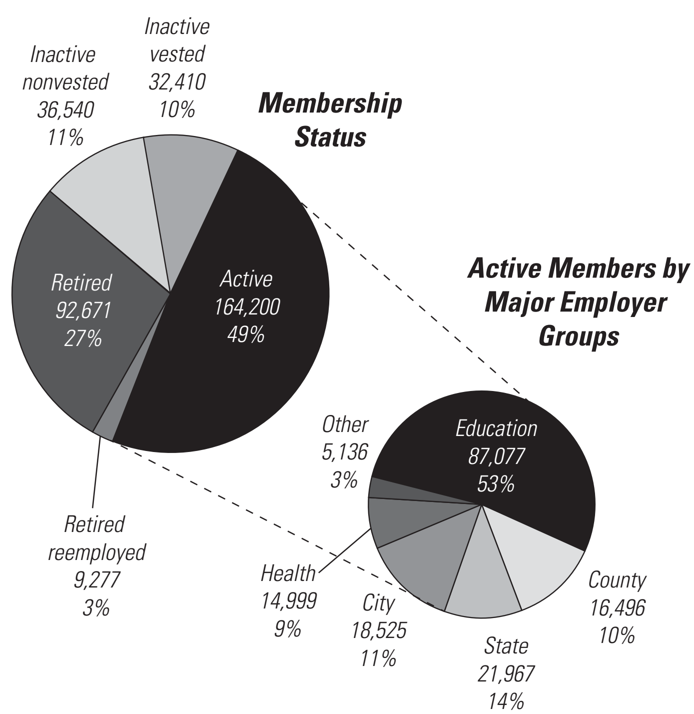
*With the implementation of I-Que and the improvement in data quality, the classifications of the employers, counts, and covered wages for FY2011 have been revised.

Membership Profile

Participation in IPERS is mandatory for most employees of the State of Iowa and its political subdivisions, including public school systems. Exceptions include 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, 2012, there were 164,200 members contributing to the System (active members), employed by 2,153 public employers. The number of active members decreased by 0.2 percent from June 30, 2011.

The membership profile chart provides further information on the composition of the membership as of June 30, 2012.



Contributions

IPERS meets its financial responsibilities by collecting mandatory contributions from employees and employers and investing those funds. Contributions continue throughout covered employment.

Contribution Rates and Maximum Covered Wages

Fiscal year 2012

IPERS	Employee Rate	Employer Rate	Total Rate	Maximum Covered Wages (Calendar Year)
Regular Membership	5.38%	8.07%	13.45%	**2011:** $245,000‡ **2012:** $250,000‡
Special Service Group 1*	9.83%	9.83%	19.66%	
Special Service Group 2†	6.65%	9.97%	16.62%	

*Sheriffs and deputies.
†All other protection occupation members.
‡Internal Revenue Code (IRC) section 401(a)(17) compensation limit.

Vesting

A member who completes four years of covered service or has attained the age of 55 while making contributions to the plan has vested rights to IPERS benefits. There were 161,178 vested members at June 30, 2012.

House File 2518, which was enacted in FY2010, changed the vesting requirements for Regular members who had not vested by July 1, 2012. Thereafter, members who complete seven years of covered service or have attained the age of 65 while making contributions to the plan will obtain vested rights to IPERS benefits.

Service Purchases

Under certain circumstances, members may restore (buy back) previously refunded member service, purchase (buy in) IPERS service credit for employment elsewhere or time spent away from work, or convert (buy up) Regular service credit to Special service credit. 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.

Refunds

IPERS members who terminate public employment for any reason may request a full refund of their 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. If an employee works in covered employment for less than six months, the employer may file a wage adjustment and the applicable IPERS contributions will be refunded to the individual and employer. Member refunds paid in FY2012 totaled $43,328,126.

Benefits

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

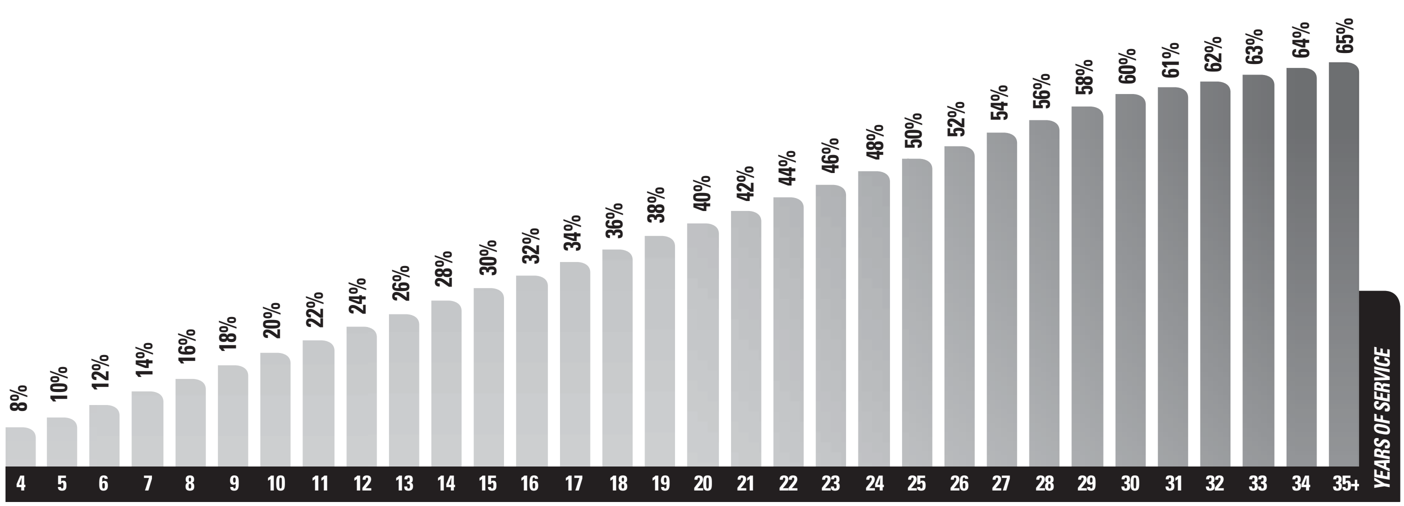
- Attain age 55.
- Retire because of a disability and receive Social Security disability or Railroad Retirement disability benefits.

Members who are age 70 and still working for an IPERS-covered employer may apply to begin receiving IPERS retirement benefits while still employed.

The formula used to calculate a member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest three-year average salary. (The highest average salary will change to the average of the highest five years on July 1, 2012.)
- An early-retirement reduction, only if the benefit is first paid before the member reaches normal retirement age.

Multiplier (for Regular Members)



If a Regular member receives benefits before normal retirement age, a permanent early-retirement reduction will apply. For service earned before July 1, 2012, a reduction of 0.25 percent per month is applied for each month the benefit commences before normal retirement age. For service earned after June 30, 2012, the reduction is 0.50 percent per month and applies to each month that the member receives a benefit before age 65.

Normal retirement age for Regular members is:

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

Retirees receiving benefits in FY2012 had, on average, approximately 22 years of service in IPERS-covered employment. The monthly benefit for all retirees averaged $1,289 as of June 30. For members retiring in fiscal year 2012, the average benefit was $1,703.

Retired Membership by Benefit Option

As of June 30, 2012

	Number	Percent
Option 1	27,315	27
Option 2	21,928	21
Option 3	13,391	13
Option 4 (100%)	10,149	10
Option 4 (75%)	1,474	1
Option 4 (50%)	2,661	3
Option 4 (25%)	1,079	1
Option 5	10,723	11
Option 6 (100%)	6,478	6
Option 6 (75%)	1,993	2
Option 6 (50%)	2,745	3
Option 6 (25%)	1,989	2
Misc. options	23	---
Total	**101,948**	**100**

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 death 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 an increment of $1,000, 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 can affect 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. The choice in percentages will be limited if the contingent annuitant is not the member's opposite-sex 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 have passed (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 dies 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.

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 may receive a Favorable Experience Dividend (FED) with their January benefit payment. The November 2011 dividends totaled $9,187,585 and the January 2012 FED payments totaled $100,428,496.

The FED is paid from a special Reserve Account that was created within the IPERS Trust Fund in 1998 by the Iowa Legislature. This Reserve Account can only be used for FED payments. Unlike the November dividend, the FED payment is not guaranteed. Whether the FED payment is made depends on the balance of the Reserve Account and the actuarial soundness of the System.

By law, IPERS cannot move money from the Trust Fund into the Reserve Account unless the Trust Fund would be at least 100 percent funded afterward. Based on this, IPERS does not anticipate any further transfers to the Reserve Account.

Death Benefits

Preretirement Death Benefits

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

$$\textbf{Death benefit} = \text{The actuarial present value of the member's accrued benefit as of date of death.}$$

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

*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.

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.

Lump-Sum Death Benefits

For fiscal year 2012, lump-sum death benefits paid to beneficiaries or to the estates of deceased nonretired and retired members totaled $19,357,633.

Benefit Payments by Iowa County*

Fiscal year 2012

County	Amount	Annual Average	Payees
Adair	$ 4,448,541	$12,056	369
Adams	2,444,216	12,100	202
Allamakee	6,799,944	12,879	528
Appanoose	6,551,452	14,089	465
Audubon	3,576,420	12,290	291
Benton	10,205,289	13,305	767
Black Hawk	53,565,632	15,432	3,471
Boone	16,657,693	15,116	1,102
Bremer	13,374,746	14,746	907
Buchanan	13,345,699	15,500	861
Buena Vista	9,175,545	13,298	690
Butler	6,945,731	12,492	556
Calhoun	5,945,917	12,209	487
Carroll	7,485,089	11,769	636
Cass	8,991,954	13,813	651
Cedar	7,931,047	13,722	578
Cerro Gordo	22,632,116	15,159	1,493
Cherokee	9,172,542	13,983	656
Chickasaw	6,597,012	14,725	448
Clarke	4,284,871	12,492	343
Clay	8,914,309	13,167	677
Clayton	10,040,764	13,717	732
Clinton	17,689,196	13,514	1,309
Crawford	7,014,096	12,615	556
Dallas	26,241,960	16,089	1,631
Davis	5,349,756	12,860	416
Decatur	4,029,579	11,070	364
Delaware	8,979,939	14,186	633
Des Moines	19,496,820	15,635	1,247
Dickinson	13,621,485	15,913	856
Dubuque	32,189,668	15,603	2,063
Emmet	5,147,708	13,801	373
Fayette	10,347,384	13,615	760
Floyd	8,462,498	13,627	621
Franklin	5,156,417	12,133	425
Fremont	3,963,807	13,213	300
Greene	6,150,489	11,583	531
Grundy	6,682,373	13,026	513
Guthrie	7,328,596	13,229	554
Hamilton	10,586,102	15,568	680
Hancock	4,858,013	12,025	404
Hardin	12,461,145	13,370	932
Harrison	5,797,569	12,283	472
Henry	13,065,164	14,966	873
Howard	5,195,631	11,469	453
Humboldt	5,611,101	12,469	450
Ida	3,031,876	13,068	232
Iowa	6,858,817	13,745	499
Jackson	9,373,314	13,333	703
Jasper	17,172,562	14,157	1,213

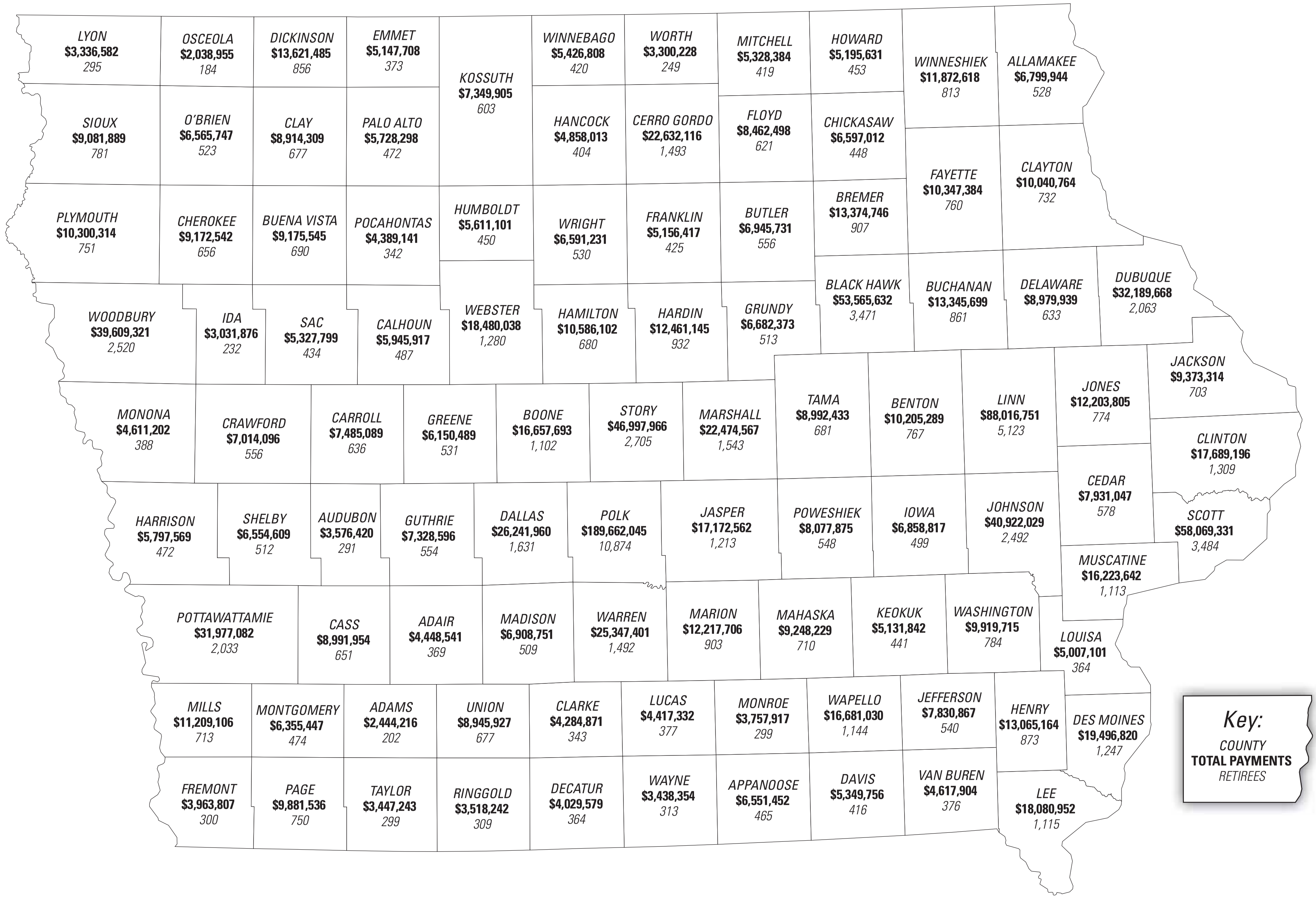
County	Amount	Annual Average	Payees
Jefferson	$ 7,830,867	$14,502	540
Johnson	40,922,029	16,421	2,492
Jones	12,203,805	15,767	774
Keokuk	5,131,842	11,637	441
Kossuth	7,349,905	12,189	603
Lee	18,080,952	16,216	1,115
Linn	88,016,751	17,181	5,123
Louisa	5,007,101	13,756	364
Lucas	4,417,332	11,717	377
Lyon	3,336,582	11,310	295
Madison	6,908,751	13,573	509
Mahaska	9,248,229	13,026	710
Marion	12,217,706	13,530	903
Marshall	22,474,567	14,566	1,543
Mills	11,209,106	15,721	713
Mitchell	5,328,384	12,717	419
Monona	4,611,202	11,885	388
Monroe	3,757,917	12,568	299
Montgomery	6,355,447	13,408	474
Muscatine	16,223,642	14,576	1,113
O'Brien	6,565,747	12,554	523
Osceola	2,038,955	11,081	184
Page	9,881,536	13,175	750
Palo Alto	5,728,298	12,136	472
Plymouth	10,300,314	13,715	751
Pocahontas	4,389,141	12,834	342
Polk	189,662,045	17,442	10,874
Pottawattamie	31,977,082	15,729	2,033
Poweshiek	8,077,875	14,741	548
Ringgold	3,518,242	11,386	309
Sac	5,327,799	12,276	434
Scott	58,069,331	16,667	3,484
Shelby	6,554,609	12,802	512
Sioux	9,081,889	11,629	781
Story	46,997,966	17,374	2,705
Tama	8,992,433	13,205	681
Taylor	3,447,243	11,529	299
Union	8,945,927	13,214	677
Van Buren	4,617,904	12,282	376
Wapello	16,681,030	14,581	1,144
Warren	25,347,401	16,989	1,492
Washington	9,919,715	12,653	784
Wayne	3,438,354	10,985	313
Webster	18,480,038	14,438	1,280
Winnebago	5,426,808	12,921	420
Winneshiek	11,872,618	14,603	813
Woodbury	39,609,321	15,718	2,520
Worth	3,300,228	13,254	249
Wright	6,591,231	12,436	530

Total Iowa Benefit Payments: $1,376,422,791

*Payments determined by zip code.

Benefit Payments by Iowa County

Fiscal year 2012



Benefit Payments by State

Fiscal year 2012

In the United States
(not including Iowa)

$172,458,343 PAID
13,878 RETIREES*

*Includes the following payees:

Armed Forces Europe	5
Armed Forces Pacific	3
Northern Mariana Islands	1
Puerto Rico	1

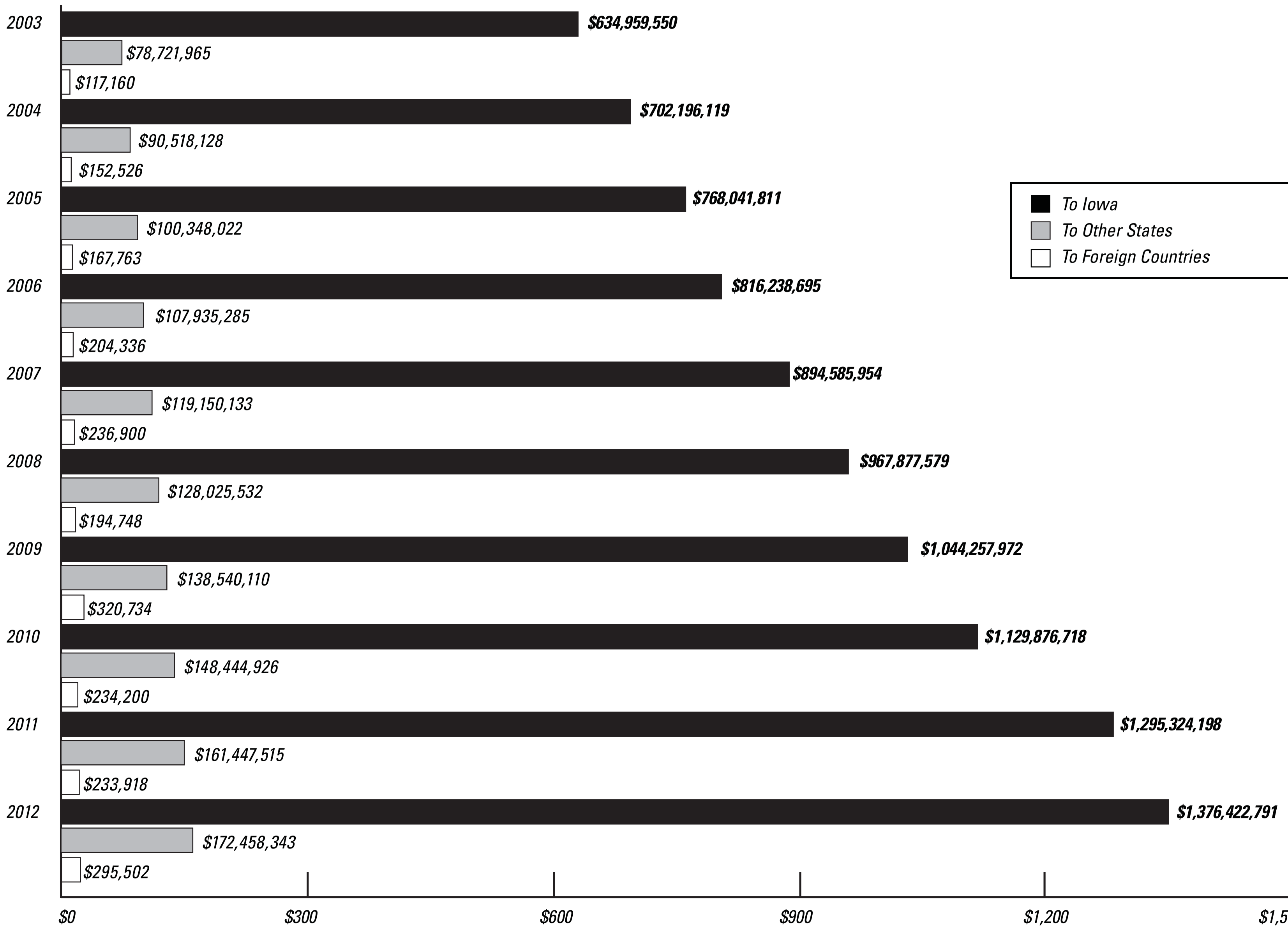
Outside the United States

$295,502 PAID
47 RETIREES

Canada	17	Japan	3	France	1
United Kingdom	4	Czech Republic	2	Ireland	1
Australia	3	Mexico	2	Malta	1
Germany	3	Philippines	2	New Zealand	1
		Thailand	2	Norway	1
		China	1	South Africa	1
		Costa Rica	1	Sweden	1

Benefit Payments Summary

Fiscal years ended June 30



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