

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Comprehensive Annual Financial Report

FISCAL YEAR 2014

A PENSION TRUST FUND OF THE STATE OF IOWA
FOR THE FISCAL YEAR ENDED JUNE 30, 2014





FY2014 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, 2014

PREPARED BY IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
DONNA M. MUELLER, CHIEF EXECUTIVE OFFICER

FISCAL YEAR 2014 HIGHLIGHTS

Membership

Active Members	165,913
Retired Members*	108,233

Contributions

Employee.....	\$429,195,536
Employer	\$639,001,548
Service Purchases	\$14,324,144

Distributions

Benefits Paid.....	\$1,764,064,264
Refunds Paid.....	\$48,120,596

Investments

Net Investment and Securities Lending Income.....	\$3,904,373,624
Investment Rate of Return	15.88%

Financial

Total Pension Liability.....	\$32,004,456,088
Fiduciary Net Position.....	\$28,038,549,893
Net Pension Liability.....	\$3,965,906,195
Ratio of Fiduciary Net Position to Total Pension Liability.....	87.61%

Funding

Ratio of Actuarial Assets to Actuarial Liabilities	82.68%
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*Unless specifically noted, references to retirees throughout this report include beneficiaries.

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INTRODUCTION



INTRODUCTION

LETTER OF TRANSMITTAL

PROFESSIONAL AWARDS

ADMINISTRATION

INVESTMENT BOARD

BENEFITS ADVISORY COMMITTEE

PROFESSIONAL AND CONSULTING SERVICES

Terry E. Branstad
GOVERNOR

Kim Reynolds
LT. GOVERNOR



Donna M. Mueller
CHIEF EXECUTIVE OFFICER

December 15, 2014

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

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Iowa Public Employees' Retirement System (IPERS, System, or plan) for the fiscal year ended June 30, 2014 (FY2014). This report presents a thorough discussion of IPERS' activities and financial status.

This publication fulfills the requirements set forth in Iowa Code section 97B.4(4)(a). The preparation of this report and the financial statements are 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.

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. To that end, IPERS' administration maintains an internal accounting control system. It ensures that transactions are executed as intended by the administration, assets are accounted for, and the records of transactions are sufficient to permit preparation of the financial statements. Financial statements must be consistent with generally accepted accounting principles (GAAP) for governmental accounting and reporting. GAAP are pronounced or adopted by the Governmental Accounting Standards Board (GASB).

The Auditor of State is required by the Iowa Code to conduct an annual audit of the financial statements. The audit has been completed in accordance with generally accepted auditing standards, State law, and *Government Auditing Standards*. The Auditor's report is contained in the Financial section.

The Financial section also contains Management's Discussion and Analysis. This is intended to satisfy the GASB requirement that the System provide a narrative introduction, overview, and analysis to accompany the basic financial statements. This letter of transmittal complements Management's Discussion and Analysis and should be read in conjunction with it.

Membership numbers in the Actuarial section differ from those in other sections because the Actuarial section reflects projections of future costs. Therefore, member deaths that occurred during the last month of the fiscal year are not counted in the membership numbers of that section. However, because there is a financial obligation for some of these members, they are included in the membership numbers in the remainder of this report.

System Overview

IPERS was established by the Iowa Legislature on July 4, 1953, to replace the Iowa Old-Age and Survivors' Insurance System (IOASI). At that time, the Legislature also voted to include Iowa's public employees in the federal Social Security plan retroactive to 1951.

Iowa Code chapter 97B was the chapter created to govern IPERS and the IPERS Trust Fund. The Code establishes IPERS as an independent agency within the Executive Branch of State Government. The Governor and the Iowa Legislature, as creators of the plan, are the plan sponsors.

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

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

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service, average salary, and a multiplier. IPERS is diligent in maintaining its tax qualification under the Internal Revenue Code. The most recent IRS determination letter of qualification is dated July 29, 2014. IPERS benefits are 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 covered by the Municipal Fire and Police Retirement System of Iowa (MFPRSI), and university and community college personnel who elect other coverage.

As a multiple-employer, cost-sharing pension plan with 346,413 members, IPERS is the largest public pension system in Iowa. The IPERS Trust Fund paid \$1.557 billion in benefits to Iowans in FY2014. One in ten Iowans is an IPERS member.

Membership Services

Members and employers have access to information online, over the phone, and in print. The IPERS website contains news and announcements, publications, forms, and a benefit estimator tool.

Members have online access to their benefits statements, which are updated quarterly and mailed each spring. IPERS publishes easy-to-read booklets to explain benefits at various career stages as well as a comprehensive Member Handbook. Annually, IPERS mails members information about benefits, plan changes, finances, and performance.

IPERS' 2,001 employers receive training and technical assistance to encourage voluntary compliance with IPERS' requirements. Employers also receive newsletters and a handbook of procedures and reporting requirements. IPERS' team of compliance officers conducts frequent employer audits.

Investments

IPERS manages a large and diversified investment portfolio using external investment advisers. IPERS' long-term horizon allows it to maximize investment returns and lower transaction costs on behalf of its members in a way an individual investor cannot.

A staff of professional investment officers oversees IPERS' investments. These 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 make recommendations concerning 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 45 of the Financial section for information on expenses related to these investment management firms and page 61 of the Investments section for a Schedule of Brokerage Commissions Paid.

Financial Highlights

Total Net Position

Total net position restricted for pensions increased from \$24.879 billion on June 30, 2013, to \$28.039 billion on June 30, 2014. These assets consist of capital assets owned by IPERS and investment portfolio assets. An overview and analysis of IPERS' financial activities for FY2014 is in Management's Discussion and Analysis, which begins on page 18 in the Financial section of this report.

Membership Services

Fiscal Year 2014

Preretirement counseling sessions	10,296
Phone inquiries	93,609
E-mail replies	5,387
Benefit estimates prepared	38,660
Service purchase cost quotes prepared	2,147
Service purchases made	505

In FY2014, employee and employer contributions, including service purchases, totaled \$1.083 billion, while total member benefits equaled \$1.812 billion (monthly benefits, lump-sum retirement benefits, death benefits, refunds, and dividend payments). The resulting \$729.0 million contribution shortfall was funded with earnings and sales proceeds from the investment portfolio.

Financial Reporting Changes

This is the first financial report prepared applying GASB Statement No. 67 (GASB 67), *Financial Reporting for Pension Plans*. The previous financial reporting statement, GASB Statement No. 25 (GASB 25), *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, was more aligned with the funding focus of the actuarial valuation. The new financial reporting approach of GASB 67 separates funding and financial reporting, resulting in less direct correlation with the results of the annual actuarial valuation.

A major change in GASB 67 is to report the total pension liability (TPL), whereas GASB 25 reported the actuarial liability as determined in the annual valuation. While this is a change in terminology, it is not a change in the resulting measurement for IPERS at this time. In calculating the TPL, GASB 67 requires the use of the entry age normal actuarial cost method and the use of a single equivalent interest rate (discount rate). Both of these factors are used by IPERS in its valuation of its actuarial liability.

IPERS uses the entry age normal cost method in its calculation of the actuarial liability. The discount rate, as calculated by IPERS' actuary (see Note 4 on pages 37–38), is the long-term actuarial assumed investment return of 7.50 percent, the same discount rate used in calculating the actuarial liability.

Under GASB 67, the TPL is considered in relation to the fiduciary net position, or FNP (basically the market value of assets). This comparison results in two measurements similar in nature to those calculated in the actuarial valuation and reported previously under GASB 25. First is the calculation of a net pension liability (NPL), which is equal to the TPL minus the FNP. While the NPL may be similar in nature to the unfunded actuarial liability (UAL) reported in the actuarial valuation, the resulting numbers will most often differ. In deriving the NPL, the FNP is used. This may result in greater variations in the NPL from year to year as investment gains or losses have an immediate impact on the FNP.

In calculating the UAL, the actuarial value of assets is used. In calculating the actuarial value of assets, investment experience gains or losses are smoothed (recognized over a period of time), resulting in less year-to-year volatility in the UAL. This is an important concept in bringing stability and predictability to contribution rates as a UAL amortization payment is a component of the actuarial contribution rates essential to funding the promised benefits.

The second measurement is the ratio of the FNP to the TPL, a funding measurement that will differ from the actuarial funded ratio of actuarial assets to actuarial liabilities. Again, because of the use of market value of assets in the FNP-to-TPL ratio, this measurement has a greater potential for volatile swings from year to year that may not be indicative of tracking funding trends as reported by the actuarial funded ratio.

Another new reporting requirement of note is the disclosure of the sensitivity of the NPL to changes in the discount rate of 1 percentage point lower and 1 percentage point higher than the actuarial assumed investment return of 7.50 percent.

Investment Portfolio Assets

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 67, which produces the investments at fair value shown in the Financial section of this report. In fiscal year 2014, IPERS' investment expenses were 0.23 percent of the portfolio's total quarterly average fair value.

At the close of FY2014, IPERS' net investment portfolio assets had a fair value of \$27.976 billion. The change in fair value represents an increase of \$3.145 billion from the \$24.831 billion net investment asset fair value as of June 30, 2013. The largest factor contributing to the increase was the investment portfolio return of 15.88 percent in fiscal year 2014, a substantial increase from the previous fiscal year's investment return of 10.12 percent.

IPERS' investment return for the fiscal year exceeded the actuarial assumed investment return of 7.50 percent, the policy benchmark return of 15.36 percent, and the year's Consumer Price Index (CPI) increase of 2.07 percent. IPERS' investment return of 15.88 percent far outpaced the estimated 5.40 percent growth in IPERS' liabilities in fiscal year 2014, based on a market-valued liability proxy developed by IPERS and its investment consultant Wilshire Associates.

Stability in Funding

The ultimate test of IPERS' financial soundness is whether it can pay all of its promised benefits as they come due, today and in the decades ahead. In this regard, the System's funding policy establishes procedures to set contribution rates, that when combined with investment income, will fully fund the benefits in an expeditious and reasonable manner. An annual actuarial valuation is undertaken to measure the System's progress toward its goal of full funding and determine the required contributions. The 2014 actuarial valuation shows stability and improvement in IPERS' ability to fund the pension benefits in three major areas: improved funded ratio, lower UAL, and full payment of the actuarial contribution rates.

Funding progress is typically expressed as a funded ratio of actuarial assets to actuarial liabilities. During fiscal year 2014, IPERS' funded ratio increased from 81.0 percent to 82.7 percent. This is indicative of steady forward movement and recovery from investment losses incurred in the Great Recession, when the funded ratio dropped from 89.1 to 81.2 percent in fiscal year 2009.

The improvement in the funded ratio in FY2014 is primarily the result of strong investment performance. For actuarial funding purposes, only a portion of investment experience is included in the valuation of assets each year. This results in a deferral of gains or losses to future years. In FY2013, there was a deferred investment gain of \$45.6 million. With the favorable investment experience during FY2014, the deferred gain has increased to \$1.579 billion.

The growth in the funded ratio means that the unfunded actuarial liability (the difference between the actuarial liabilities and the actuarial value of assets) has decreased. This is the second consecutive year that the UAL has dropped. In fiscal year 2014, the UAL decreased by \$243.2 million.

Perhaps most notably, this is the first year since fiscal year 2002 that the underpayment of actuarial contributions did not add to the UAL. While the actuarial contribution rates have always been paid by the Special service members, the contribution rates for the Regular members (95 percent of the membership) were set in statute below the actuarial rate since 2001. Legislation effective July 1, 2012, authorized the System to set the contribution rates using the actuarial assumptions, actuarial methods, and the funding policy adopted by the Investment Board with the stipulation that the contribution rates for Regular members cannot vary by more than 1 percentage point annually. This cap prevented payment of the actuarial contribution rate in FY2013. The contribution rates for FY2014 were not affected by the cap and reached 100 percent of the actuarial contribution rate.

Independent Performance Evaluations

To maintain a focus on effectively administering the plan, IPERS completed voluntary reviews of its performance during fiscal year 2014. CEM Benchmarking Inc., an independent company that reviews pension systems worldwide, conducted 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 results for peers in CEM's extensive pension fund database. The study covered a 5-year period that ended December 31, 2013. IPERS' investment program was rated by CEM as a low-cost program for that time period, but IPERS' net added value was -0.70 percent, which was substantially below peers, largely due to poor results recorded in 2009—the end of the global financial crisis.

Wilshire Associates, IPERS' investment consultant, also reviews IPERS' investment performance against a peer group of U.S. public pension funds. IPERS' FY2014 investment return ranked in the 71st percentile of

funds in the Trust Universe Comparison Service (TUCS) Universe of Public Funds with Assets Greater than \$1 billion. IPERS' low ranking was due mainly to its comparatively more conservative investment structure in a year when risk taking was once again rewarded. When peer performance is measured in terms of return per unit of risk, Wilshire data shows that IPERS' risk-adjusted returns (returns divided by standard deviation of returns) have consistently ranked in the top 15 percent of the TUCS Universe of Public Funds with Assets Greater than \$1 billion for 3-, 5-, and 10-year periods.

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, 2013. A Certificate of Achievement is valid for only one year, and this was the 21st consecutive year IPERS has earned this prestigious award. To receive a Certificate of Achievement, a governmental entity must publish an easy-to-read and efficiently organized CAFR that satisfies both generally accepted accounting principles and applicable legal requirements. We believe our current CAFR 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.

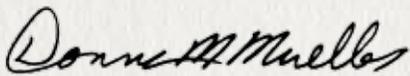
For the sixth consecutive year, IPERS also received the Public Pension Standards Award for the fiscal year ended June 30, 2014, from the Public Pension Coordinating Council (PPCC), in recognition of meeting the professional standards for plan funding and administration as set forth in the Public Pension Standards. The PPCC is 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).

Acknowledgments

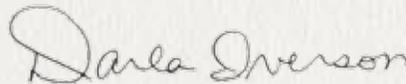
This report is available online or in hard copy by request. It is provided to the Governor, legislative leadership, IPERS Investment Board members, IPERS Benefits Advisory Committee members, and state fiscal staff in the Executive and Legislative Branches. IPERS also publishes an annual summary of the information contained in this report, which is offered to members, employers, policymakers, and others.

This report is intended to provide complete and reliable information as a basis for management decisions, legal compliance, and stewardship of the System's assets. We appreciate the dedication and commitment of IPERS' Board members and staff to provide the highest possible level of service to members and retirees.

Respectfully submitted,

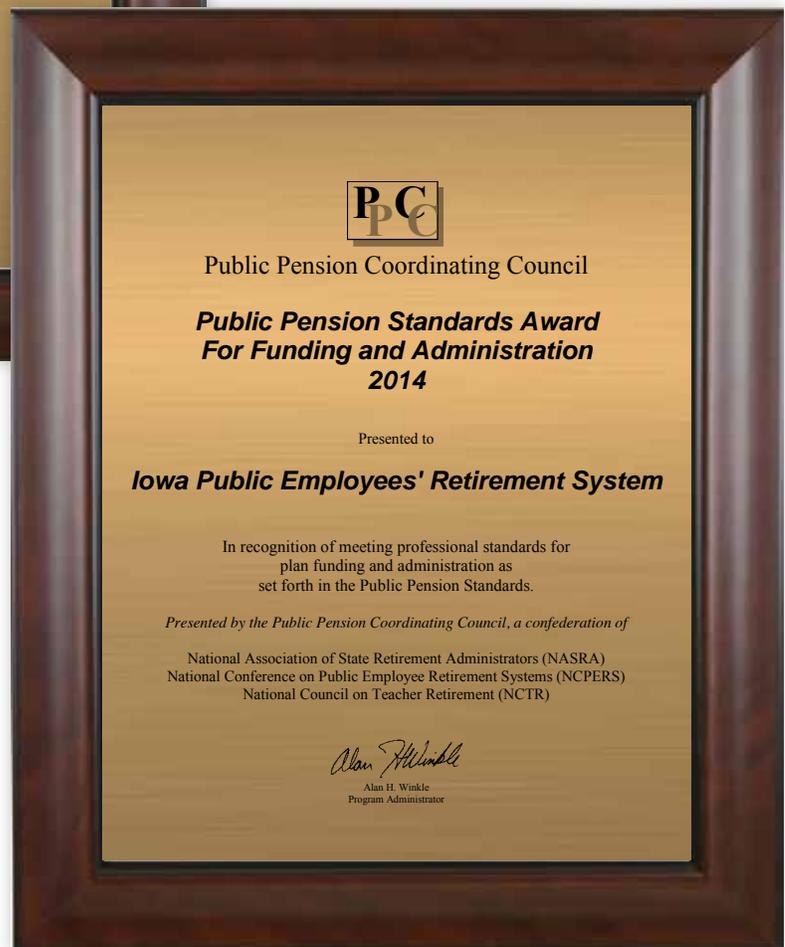


Donna M. Mueller
Chief Executive Officer



Darla Iverson
Chief Financial Officer

PROFESSIONAL AWARDS



ADMINISTRATION

IPERS' primary purposes are to provide a secure core retirement benefit to Iowa's former and current public employees, and to attract and retain quality employees in public service. The activities of the administration are designed to accomplish these purposes 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.
- 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

Investments Division

Karl C. Koch, Chief Investment Officer

Benefits Division

David Martin, Chief Benefits Officer

General Counsel Office

Gregg A. Schochenmaier, General Counsel

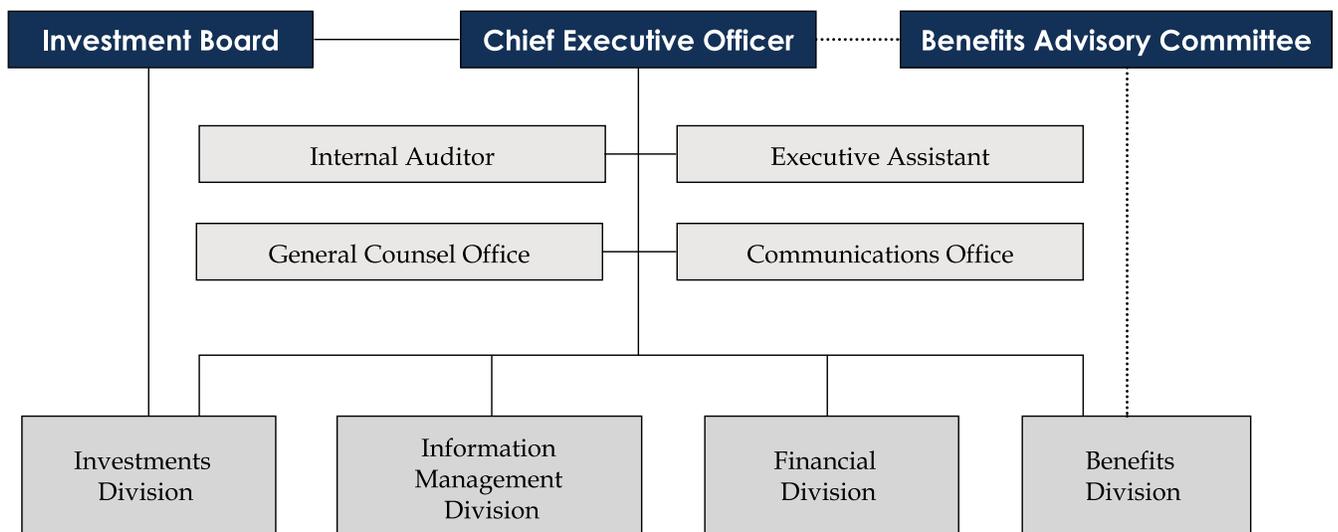
Financial Division

Darla Iverson, Chief Financial Officer

Information Management Division

Rick Hindman, Chief Technology Officer

Table of Organization



INVESTMENT BOARD

The IPERS Investment Board is designated as the Fund's trustee. The Board has eleven members: seven voting members and four nonvoting members. The following voting members serve six-year terms:

- Three public members appointed by the Governor and confirmed by the Iowa Senate.
- Three members of the System appointed by the Governor and confirmed by the Iowa Senate.

The State Treasurer is also a voting member. The nonvoting members include two state representatives and two state senators.

APPOINTED BY THE GOVERNOR:

Dennis Young, Chairperson
Public Member
Term Ends: April 30, 2019

Lisa Stange, Vice Chairperson
Public Member
Term Ends: April 30, 2017

David Creighton
Public Member
Term Ends: April 30, 2015

Phyllis Peterson
Retired IPERS Member
Term Ends: April 30, 2016

Marlene Sprouse
IPERS Educational Member
Term Ends: April 30, 2017

Wayne Walter
Active IPERS Member
Term Ends: April 30, 2019

EX OFFICIO MEMBER:

Michael Fitzgerald
State Treasurer

APPOINTED BY THE HOUSE SPEAKER AND MINORITY LEADER:

Representative Mary Mascher
State Representative
Term Ends: January 12, 2015

Representative Dawn Pettengill
State Representative
Term Ends: January 12, 2015

APPOINTED BY THE SENATE MAJORITY AND MINORITY LEADERS:

Senator Julian Garrett
State Senator
Term Ends: January 12, 2015

Senator Matt McCoy
State Senator
Term Ends: January 12, 2015

BENEFITS ADVISORY COMMITTEE

The IPERS Benefits Advisory Committee (BAC) members represent major member, employer, and retiree associations, and have extensive experience in education, public safety, workforce development, human resources, and other disciplines. While Iowa law names the constituent groups to serve on the BAC, each association chooses its BAC representative.

Len Cockman, Chairperson
Employer Representative
Iowa Association of School Boards

Bradley Hudson, Vice Chairperson
Member Representative
Iowa State Education Association

Matt Ballard
Member Representative
International Brotherhood of Teamsters

Susanna Brown
Member Representative
State Police Officers Council

Lowell Dauenbaugh
Public Member

Andrew Hennesy
Member Representative
IPERS Improvement Association

Steve Hoffman
Member Representative
Iowa State Sheriffs and Deputies Association

Danny Homan
Member Representative
AFSCME

A.J. Mumm
Employer Representative
Iowa Association of Counties

Janet Phipps
Ex Officio Employer Representative
Iowa Department of Administrative Services

Daniel H. Smith
Member Representative
School Administrators of Iowa

Philip Tetzloff
Member Representative
Retired School Personnel Association

Mark Tomb
Employer Representative
Iowa League of Cities

Sandy Tryon
Employer Representative
Iowa Association of Community College Trustees

PROFESSIONAL AND CONSULTING SERVICES

Actuary

- Cavanaugh Macdonald Consulting, LLC

Legal Counsel

- Foster Pepper PLLC
- Ice Miller, LLP

Securities Litigation Monitoring Counsel

- Barrack, Rodos & Bacine
- Kessler Topaz Meltzer Check
- Lieff Cabraser Heimann & Bernstein

Investment Management Consultant

- Wilshire Associates, Inc.

Master Custodian and Securities Lending Agent

- The Bank of New York Mellon

Information Technology Consultant

- Vitech Systems Group, Inc.

Benchmarking Consultant

- CEM Benchmarking Inc.

Investment Managers

Domestic Equity

- BlackRock Institutional Trust Company, NA
- Columbia Management Investment Advisers, LLC
- First Quadrant, L.P.
- Fisher Investments
- Janus Capital Management LLC
- J.P. Morgan Investment Management, Inc.
- Mellon Capital Management Corporation
- PanAgora Asset Management, Inc.
- Wellington Management Company, LLP

International Equity

- Ashmore Equities Investment Management (US) LLC
- BlackRock Institutional Trust Company, NA
- GAM USA Inc.
- Oechsle International Advisors, LLC
- Quantitative Management Associates LLC
- Wellington Management Company, LLP

Core-Plus Fixed Income

- BlackRock Financial Management, Inc.
- MacKay Shields LLC
- Mellon Capital Management Corporation
- Pacific Investment Management Company LLC
- Principal Global Investors, LLC
- Western Asset Management Company

Credit Opportunities

- AEGON USA Investment Management, LLC
- Oaktree Capital Management, L.P.
- Western Asset Management Company

Treasury Inflation- Protected Securities (TIPS)

- BlackRock Institutional Trust Company, NA
- Fischer Francis Trees & Watts, Inc.

Other Real Assets

- Forest Investment Associates L.P.
- Harvest Fund Advisors LLC
- UBS AgriVest LLC

Private Equity/Debt

- Pathway Capital Management, LP

Real Estate

- Blackstone Real Estate Debt Strategies Associates II L.P.
- CenterSquare Investment Management, Inc.
- Clarion Partners, LLC
- INVESCO Advisors, Inc.
- Principal Real Estate Debt Fund, LP
- RREEF America, L.L.C.
- UBS Realty Investors, LLC

Transition Management Services

- BlackRock Institutional Trust Company, NA
- Russell Implementation Services, Inc.
- State Street Bank and Trust Company



FINANCIAL



FINANCIAL

INDEPENDENT AUDITOR'S REPORT

MANAGEMENT'S DISCUSSION AND ANALYSIS

BASIC FINANCIAL STATEMENTS

Statement of Fiduciary Net Position

Statement of Changes in Fiduciary Net Position

Notes to Financial Statements

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY INFORMATION



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Des Moines, Iowa 50319-0004

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

Mary Mosiman, CPA
Auditor of State

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying Statement of Fiduciary Net Position of the Iowa Public Employees' Retirement System (IPERS) as of June 30, 2014, and the related Statement of Changes in Fiduciary Net Position for the year then ended and the related Notes to Financial Statements, which collectively comprise the Iowa Public Employees' Retirement System's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to IPERS' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of IPERS' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of IPERS at June 30, 2014, and the changes in its fiduciary net position for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of a Matter

As discussed in Note 1, the financial statements present the financial position and the changes in financial position of only that portion of the 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, 2014, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

Report on Summarized Comparative Information

We have previously audited the financial statements of IPERS for the year ended June 30, 2013, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 10, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Schedule of Changes in the Employers' Net Pension Liability and Related Ratios, the Schedule of Employers' Contributions and the Schedule of Investment Returns on pages 18 through 20 and 40 through 42 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 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 basic financial statements or to the basic 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.

Other Information

We did not audit the data included in the Introduction, Investments, Actuarial and Statistical sections and, accordingly, we express no opinion on the information presented in those sections.

Other Reporting Required by Government Auditing Standards

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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering IPERS' internal control over financial reporting and compliance.



MARY MOSIMAN, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 12, 2014

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, 2014. It is intended to be used in conjunction with the transmittal letter and IPERS' financial statements and notes, which begin on page 21 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 Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position (see pages 21–22). 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 information and additional details 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' net position restricted for pensions increased by \$3.160 billion during fiscal year 2014. On June 30, 2014, total plan assets (including capital assets of \$24.0 million) were \$31.275 billion, exceeding total liabilities of \$3.236 billion, resulting in a net position restricted for pensions of \$28.039 billion.
- Covered wages, from which both employee and employer contributions are calculated, increased \$219.1 million, or 3.19 percent, over the last fiscal year and totaled \$7.099 billion. In comparison, fiscal year 2013 wages totaled \$6.880 billion, a 1.38 percent increase from the prior fiscal year's wages of \$6.786 billion.
- Additions from employee and employer contributions totaled \$1.068 billion in fiscal year 2014, an increase of 6.12 percent. In comparison, fiscal year 2013 saw an 8.90 percent increase in contributions. These increases were due to the rise in covered payroll, as well as higher contribution rates.
- Contribution rates increased for Regular members in FY2014, but decreased for the sheriffs and deputies and the protection occupation members, whereas rates increased for all three groups in FY2013.
- Service purchase contributions for the year were \$14.3 million, a 19.26 percent increase from the prior year. In contrast, service purchase contributions were \$12.0 million for FY2013, a 31.80 percent decrease from the FY2012 amount of \$17.6 million.
- Net investment and securities lending income, after all investment-related expenses, was \$3.904 billion, an increase of \$1.566 billion, due to the 15.88 percent investment return for FY2014. In FY2013, net investment and securities lending income was \$2.338 billion, \$1.514 billion more than the previous fiscal year gain of \$824.0 million, also due to increasingly favorable market conditions.
- Investment management expenses were \$62.6 million for FY2014. In comparison, restated investment management expenses were \$60.4 million for FY2013 and \$57.6 million for FY2012. The increase in investment management expenses in FY2014 was primarily related to the other real assets and the international equity asset classes. The FY2013 increase was due mainly to performance incentive fees paid to investment managers. The System's ratio of investment management expenses to the portfolio's quarterly average fair value was 0.23 percent for FY2014, which compared favorably to the ratios of 0.25 percent for FY2013 and 0.26 percent for FY2012.
- Total contributions, investments, and other income resulted in total additions to the Fund of \$4.987 billion in fiscal year 2014. This compares to total additions of \$3.357 billion in FY2013 and \$1.767 billion in FY2012.

- Pension benefit payments to members increased by \$96.6 million, while refunds increased by \$5.5 million in FY2014.
- Payments to members totaled \$1.812 billion in FY2014, an increase of 5.97 percent over the prior fiscal year. In comparison, benefit and refund payments to members totaled \$1.710 billion in FY2013 and \$1.593 billion in FY2012, increases of 7.38 percent and 6.29 percent, respectively. This growth is largely due to the rise in numbers of retirees and members, as well as increases in the average monthly benefits paid.
- Administrative expenses totaled \$14.9 million in FY2014, compared to \$11.6 million for FY2013 and \$12.5 million for FY2012. Computer support services saw the biggest increase in FY2014, primarily due to expenses related to I-Que (the benefits administration system); whereas an increase in depreciation expense was most significant in FY2013. Administrative expenses have remained stable at 0.05 percent of the value of net position in FY2014, FY2013, and FY2012.
- In FY2014, capital assets decreased from \$26.1 million to \$24.0 million, primarily due to depreciation and equipment disposals. In addition, with I-Que in full production, related costs are no longer capitalized, but are expensed instead. Capital assets increased from \$25.6 million at the end of FY2012 to \$26.1 million at the end of FY2013. This was primarily due to the capitalization of costs directly related to I-Que.

Analysis of Net Position

The investment rates of return for the current and preceding two fiscal years were 15.88 percent, 10.12 percent, and 3.73 percent, respectively. IPERS' total net position increased 12.70 percent in FY2014, 7.03 percent in FY2013, and 0.70 percent in FY2012, primarily as a result of these market returns. The following table contains the fiscal year 2014 performance of each asset class and its respective benchmark, as well as the Fund's allocation to each asset class as a percentage of total Fund market value at June 30, 2014. (See also the Investments section of this report beginning on page 47 for more information on rates of return.)

Investment Returns and Allocations

Fiscal Year Ended June 30, 2014

Asset Class	Return	Benchmark	Allocation
Domestic equity	24.63%	24.92%	26.34%
International equity	22.94%	22.18%	15.83%
Core-plus fixed income	5.22%	5.20%	27.19%
Credit opportunities	10.47%	11.16%	5.12%
U.S. TIPS	4.00%	4.02%	4.29%
Other real assets	25.81%	20.44%	1.68%
Private equity/debt	23.33%	21.27%	10.99%
Real estate	11.72%	12.34%	7.80%
Cash	0.13%	0.06%	0.76%
Total Fund	15.88%	15.36%	100.00%

The two tables on the next page present condensed summaries of IPERS' net position and a breakdown of the changes in the net position with comparison to the previous two fiscal years.

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 other sections 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 increased \$180.9 million from fiscal year 2013 to 2014. In comparison, liabilities increased by \$311.1 million between fiscal years 2012 and 2013. The increase in FY2014 was related to foreign exchange contracts payable, whereas the increase in FY2013 was due to payables for investments purchased and rebates and collateral.

Benefits paid out continued to exceed contributions received by \$729.7 million, \$691.4 million, and \$650.6 million for fiscal years 2014, 2013, and 2012, respectively. This excess of benefits paid relative to contributions received is characteristic of a mature pension plan such as IPERS.

Fiduciary Net Position

(Dollar Values Expressed in Thousands)

Fiscal Years Ended June 30

	2014	2013	2014/2013 Inc/(Dec)	2012	2013/2012 Inc/(Dec)
Cash and investments at fair value	\$28,471,552	\$25,521,578	11.6%	\$23,822,705	7.1%
Receivables	2,779,050	2,386,912	16.4%	2,138,410	11.6%
Capital assets	23,998	26,066	(7.9%)	25,620	1.7%
Other assets	815	91	795.6%	1,665	(94.5%)
Total assets	31,275,415	27,934,647	12.0%	25,988,400	7.5%
Total liabilities	3,236,865	3,055,941	5.9%	2,744,859	11.3%
Total net position	\$28,038,550	\$24,878,706	12.7%	\$23,243,541	7.0%

Changes in Fiduciary Net Position

(Dollar Values Expressed in Thousands)

Fiscal Years Ended June 30

	2014	2013	2014/2013 Inc/(Dec)	2012	2013/2012 Inc/(Dec)
Additions					
Contributions and service purchases	\$1,082,521	\$1,018,617	6.3%	\$ 941,927	8.1%
Net investment and securities lending income	3,904,374	2,338,201	67.0%	823,983	183.8%
Other additions	---	---	NA	500	NA
Total additions	4,986,895	3,356,818	48.6%	1,766,410	90.0%
Deductions					
Benefits and refunds	1,812,185	1,710,066	6.0%	1,592,504	7.4%
Administrative expenses	14,866	11,587	28.3%	12,498	(7.3%)
Total deductions	1,827,051	1,721,653	6.1%	1,605,002	7.3%
Increase in net position	\$3,159,844	\$1,635,165	93.2%	\$ 161,408	913.1%

Request for Information

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 Fiduciary Net Position

June 30, 2014, with Comparative Totals for June 30, 2013

	2014 Pension Trust Fund	2014 QBA Fund*	2014 Total	2013 Total
ASSETS				
Cash and cash equivalents	\$ 284,577,011	\$378	\$ 284,577,389	\$ 384,706,943
Receivables				
Contributions	66,059,989	---	66,059,989	68,043,089
Accrued interest and dividends	83,811,328	---	83,811,328	68,790,941
Investment sales	422,438,641	---	422,438,641	690,187,879
Foreign exchange contracts	2,206,740,458	---	2,206,740,458	1,559,889,694
Total receivables	2,779,050,416	---	2,779,050,416	2,386,911,603
Investments at fair value				
Fixed income	9,127,798,628	---	9,127,798,628	7,936,896,671
Domestic equity	7,318,648,087	---	7,318,648,087	6,811,653,348
International equity	4,407,820,631	---	4,407,820,631	3,688,060,228
Other real assets	467,759,445	---	467,759,445	290,169,188
U.S. TIPS	1,198,116,139	---	1,198,116,139	1,122,745,899
Real estate	2,178,305,492	---	2,178,305,492	1,968,705,985
Private equity/debt	3,074,933,741	---	3,074,933,741	2,860,369,145
Total investments at fair value	27,773,382,163	---	27,773,382,163	24,678,600,464
Securities lending collateral pool	413,591,929	---	413,591,929	458,270,387
Capital assets				
Depreciable assets, net of accumulated depreciation	23,498,255	---	23,498,255	25,565,838
Nondepreciable assets: land	500,000	---	500,000	500,000
Total capital assets	23,998,255	---	23,998,255	26,065,838
Other assets	814,865	---	814,865	91,451
Total assets	31,275,414,639	378	31,275,415,017	27,934,646,686
LIABILITIES				
Accounts payable and accrued expenses	25,168,123	---	25,168,123	33,613,224
Investment purchases payable	588,815,244	---	588,815,244	997,897,728
Rebates and collateral payable	413,287,851	---	413,287,851	467,552,828
Foreign exchange contracts payable	2,209,593,906	---	2,209,593,906	1,556,876,877
Total liabilities	3,236,865,124	---	3,236,865,124	3,055,940,657
Net position restricted for pensions (Note 7, page 38)	\$28,038,549,515	\$378	\$28,038,549,893	\$24,878,706,029

See accompanying Notes to Financial Statements beginning on page 23.

*See Note 8 on page 39.

Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2014, with Comparative Totals for Year Ended June 30, 2013

	2014 Pension Trust Fund	2014 QBA Fund*	2014 Total	2013 Total
ADDITIONS				
Contributions				
Employer contributions	\$ 638,996,348	\$5,200	\$ 639,001,548	\$ 601,952,882
Employee contributions	429,195,536	---	429,195,536	404,653,693
Service purchases	14,324,144	---	14,324,144	12,011,145
Total contributions	1,082,516,028	5,200	1,082,521,228	1,018,617,720
Investments				
Interest	306,565,734	1	306,565,735	255,538,564
Dividends	114,750,582	---	114,750,582	122,495,733
Real estate and private equity/debt	128,404,339	---	128,404,339	138,479,144
Net appreciation in fair value of investments	3,403,949,197	---	3,403,949,197	1,873,659,409
Recaptured commissions	118,756	---	118,756	115,844
Investment management expenses	(62,618,912)	---	(62,618,912)	(60,373,539)
Net investment income	3,891,169,696	1	3,891,169,697	2,329,915,155
Securities lending income				
Securities lending income	290,717	---	290,717	615,460
Securities lending net appreciation in fair value of collateral pool	9,640,573	---	9,640,573	4,815,582
Securities lending expenses/rebates	3,272,637	---	3,272,637	2,854,875
Net securities lending income	13,203,927	---	13,203,927	8,285,917
Total additions	4,986,889,651	5,201	4,986,894,852	3,356,818,792
DEDUCTIONS				
Benefit payments	1,764,059,107	5,157	1,764,064,264	1,667,468,859
Member refunds	48,120,596	---	48,120,596	42,597,432
Administrative expenses	14,865,739	389	14,866,128	11,586,980
Total deductions	1,827,045,442	5,546	1,827,050,988	1,721,653,271
Net increase/(decrease)	3,159,844,209	(345)	3,159,843,864	1,635,165,521
Net position restricted for pensions, beginning of year	24,878,705,306	723	24,878,706,029	23,243,540,508
Net position restricted for pensions (Note 7, page 38)	\$28,038,549,515	\$ 378	\$28,038,549,893	\$24,878,706,029

See accompanying Notes to Financial Statements beginning on page 23.

*See Note 8 on page 39.

Notes to Financial Statements

June 30, 2014, and 2013

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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.

The System is funded through a combination of employee and employer contributions and investment income.

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.

Investment sales and purchases are recorded as of

their trade date. 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. Private equities and one real estate investment, Blackstone Real Estate Debt Strategies, 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. Futures contracts are valued daily with the resulting adjustments recorded as realized gains/losses arising from the daily settlement of the variation margin.

The basic financial statements include prior-year summarized comparative information in total, but not at the level of detail required for a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with IPERS' financial statements for the year ended June 30, 2013, from which the summarized information was derived.

B. New Accounting Pronouncement and Restatements

IPERS has implemented GASB Statement No. 67, *Financial Reporting for Pension Plans*. This statement is effective for financial reporting periods beginning after June 15, 2013. This standard replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 50, *Pension Disclosures*. GASB 67 introduces the concepts of total pension liability (TPL) and net pension liability (NPL) and establishes new accounting and reporting requirements for pension plans.

With the implementation of GASB 67 and as a result of discussions with the GASB, certain brokerage commissions and trading-related costs that had previously been netted against investment income are now reported as explicit investment expenses. The effect of this change has been an increase in FY2014 investment income of \$6.7 million and an offsetting increase in investment expenses of \$6.7 million. FY2013 has been restated to reflect these changes and to make it comparable to FY2014

financial statements. For FY2013, investment income and investment expenses each increased \$7.0 million.

In addition, as per further guidance from the GASB, IPERS' contributions as a participating employer are no longer included in employer contribution balances or administrative expenses. Prior years have been restated to reflect these changes and make the amounts more comparable between years. The effect of this change is a reduction in both employer contributions and administrative expenses of \$498,492 for FY2014 and \$491,221 for FY2013.

These restatements have no effect on the net position restricted for pensions.

C. 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.

D. 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.

E. Investments

The IPERS Investment Board has been given authority to establish investment policies by Iowa Code section 97B.7. These policies are documented in the IPERS Investment Policy and Goal Statement, and reviewed annually by the Investment Board. The Investment Policy and Goal Statement is located on pages 62–74.

The following is a description of significant changes to IPERS' investment policy that were adopted by the Investment Board during the fiscal year:

- Established a formal risk management program with the adoption of new risk metrics and management guidelines, including the elimination of active risk targets for each asset class and replacement with a total fund active risk budget.
- Revised the private equity component of the policy benchmark from Wilshire 5000 + 3 percentage points to the return of the private equity portfolio itself. The change was made in recognition of the

very long-term nature of private equity, the lack of investable benchmarks for the asset class, and the ineffectiveness of time-weighted returns to measure the performance of private equity.

- Limited private equity co-investments to no more than 10 percent of the private equity portfolio.
- Gave staff discretion to make annual real estate and private equity allocations within policy limits.
- Revised return objectives and lengthened performance evaluation periods for public and private real estate portfolios.
- Defined core, non-core, and market-driven opportunity private real estate strategies, and required IPERS' private real estate portfolio to have at least 80 percent invested in core strategies.
- Broadened permissible allocation ranges for public and private real estate.
- Increased allowable use of leverage by private real estate managers to 40 percent from 35 percent at the account level.

The investment activities of the System are 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 funding requirements of the plan over time while staying within the Board's tolerance for risk as expressed in the Investment Policy and Goal Statement. Of primary consideration is the maintenance of funding which is adequate to provide for the payment of the plan's actuarial liabilities over time. The following is the Investment Board's adopted asset allocation policy as of June 30, 2014.

Target Allocations

As of June 30, 2014

Asset Class	Target Allocation
Core-plus fixed income	28%
Domestic equity	23%
International equity	15%
Private equity/debt	13%
Credit opportunities	5%
Real estate	8%
U.S. TIPS	5%
Other real assets	2%
Cash	1%

For the fiscal year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment

expense, was 15.96 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The Treasurer of State is the statutory custodian 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, 2014, follows.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, is an amendment to GASB Statement No. 3, *Deposits With Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements*. GASB 40 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 GASB 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 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.

Invested Assets

(Dollar Values Expressed in Thousands)
June 30, 2014

Investment Type	Total Fair Value	Fair Value on Loan
Cash	\$ 33,501	---
Cash collateral at broker	44,140	---
Pooled funds and mutual funds	680,550	---
Treasuries	36,802	---
Agencies	20,150	---
Repurchase agreements	861	---
Short-term investments	738,363	---
Common stocks	5,126,303	\$111,026
Real estate investment trusts	853,101	4,641
Master limited partnerships	345,352	42,441
Preferred stock	143,297	12,623
Other equities	30,897	2,516
Equity investments	6,498,950	173,247
U.S. TIPS	648,919	---
U.S. Treasury notes	1,529,352	81,224
Ginnie Mae	183,033	---
Freddie Mac	307,358	---
Fannie Mae	728,130	---
Other government agencies	14,842	---
Collateralized mortgage-backed securities	174,401	---
Collateralized mortgage obligations	75,462	---
Other government mortgage-backed securities	8,614	---
Other government fixed income	416,195	14,783
Corporate bonds	2,555,908	65,103
Corporate asset-backed securities	176,436	---
Private placements	1,242,442	68,126
State and local obligations	26,280	---
Certificates of deposit	3,101	---
Fixed-income investments	8,090,473	229,236
Derivatives	(12,950)	---
Real estate	1,401,532	---
Equity commingled funds	6,281,458	---
Fixed-income commingled funds	1,808,143	---
Commingled funds	8,089,601	---
Special equity	2,247,131	---
Venture capital	825,167	---
Private equity	3,072,298	---
Real assets	107,863	---
Total	\$28,063,771	\$402,483
Total from above	\$28,063,771	
Cash in managers' accounts	(290,395)	
RREEF adjustment	6	
Investments on Statement of Fiduciary Net Position	\$27,773,382	

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 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 below includes \$3.292 billion of U.S. Treasury

obligations and \$183.0 million of Ginnie Mae obligations. These securities are explicitly guaranteed by the U.S. government and represent 32.7 percent of the total Fund's fixed-income exposure. Therefore, as of June 30, 2014, IPERS' fixed-income assets that are not explicitly government-guaranteed represented 67.3 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 Risk: S&P Quality Ratings

(Dollar Values Expressed in Thousands)

June 30, 2014

Investment Type	Total	TSY	AGY	AAA	AA	A	BBB	BB	B	CCC & Below	NR
Pooled funds and mutual funds	\$ 680,550	---	---	---	---	---	---	---	---	---	\$ 680,550
Treasuries	36,802	\$ 36,802	---	---	---	---	---	---	---	---	---
Agencies	20,150	---	\$ 20,150	---	---	---	---	---	---	---	---
Repurchase agreements	861	---	---	---	---	---	---	---	---	---	861
Short-term investments	738,363	36,802	20,150	---	---	---	---	---	---	---	681,411
U.S. TIPS	648,919	648,919	---	---	---	---	---	---	---	---	---
U.S. Treasury notes	1,529,352	1,529,352	---	---	---	---	---	---	---	---	---
Ginnie Mae	183,033	---	167,145	---	---	---	---	---	---	---	15,888
Freddie Mac*	307,358	---	---	---	\$ 265,731	---	---	---	---	---	41,627
Fannie Mae*	728,130	---	---	---	559,970	---	---	---	---	---	168,160
Other government agencies	14,842	---	---	---	2,025	---	---	---	---	---	12,817
Collateralized mortgage-backed securities	174,401	---	---	\$ 49,480	15,278	\$ 28,313	\$ 14,969	\$ 1,601	\$ 12,773	\$ 5,106	46,881
Collateralized mortgage obligations	75,462	---	---	443	12,064	7,735	3,851	1,917	8,248	20,977	20,227
Other government mortgage-backed securities	8,614	---	---	5,086	---	---	---	---	---	---	3,528
Other government fixed income	416,195	---	---	---	13,675	53,580	130,213	42,726	37,332	3,949	134,720
Corporate bonds	2,555,908	---	---	30,649	148,404	529,775	786,862	569,589	407,278	48,647	34,704
Corporate asset-backed securities	176,436	---	---	36,378	50,017	6,677	1,052	13,702	13,838	19,505	35,267
Private placements	1,242,442	---	---	93,380	53,457	112,457	228,775	316,603	231,521	49,617	156,632
State and local obligations	26,280	---	---	3,981	9,930	11,004	---	1,212	153	---	---
Certificates of deposit	3,101	---	---	---	---	3,101	---	---	---	---	---
Fixed-income investments	8,090,473	2,178,271	167,145	219,397	1,130,551	752,642	1,165,722	947,350	711,143	147,801	670,451
Commingled bond funds	1,808,143	1,077,383	40,998	492,421	33,109	79,874	84,358	---	---	---	---
Total	\$10,636,979	\$3,292,456	\$228,293	\$711,818	\$1,163,660	\$832,516	\$1,250,080	\$947,350	\$711,143	\$147,801	\$1,351,862

*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.

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 29–31 of these notes. Policies related to credit risk pertaining to IPERS' securities lending program are found under the securities lending disclosures on page 31 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 IPERS' net position restricted for pensions.

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 measured 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, 2014

Investment Type	Fair Value	Effective Duration in Years
Pooled funds and mutual funds	\$ 680,550	0.00
Treasuries	36,802	0.25
Agencies	20,150	0.04
Repurchase agreements	861	(0.06)
Short-term investments	738,363	0.01
U.S. TIPS	648,919	5.93
U.S. Treasury notes	1,529,352	6.49
Ginnie Mae	183,033	2.83
Freddie Mac	307,358	3.25
Fannie Mae	728,130	3.36
Other government agencies	14,842	3.98
Collateralized mortgage-backed securities	174,401	2.25
Collateralized mortgage obligations	75,462	1.40
Other government mortgage-backed securities	8,614	(0.85)
Other government fixed income	416,195	7.08
Corporate bonds	2,555,908	5.39
Corporate asset-backed securities	176,436	0.55
Private placements	1,242,442	4.62
State and local obligations	26,280	10.35
Certificates of deposit	3,101	1.58
Fixed-income investments	8,090,473	5.08
Commingled bond funds	1,808,143	6.39
Total	\$10,636,979	4.95

The System's core-plus fixed-income investment contracts generally require the effective duration of the manager's portfolio to remain between 75 percent and 125 percent of the effective duration measure of a specific fixed-income index. However, two of IPERS' core-plus managers have authority under their contracts to reduce the interest rate sensitivity of their core-plus portfolios to less than 75 percent of the benchmark's effective duration (up to zero effective duration) if the managers forecast a period of rising interest rates. 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 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, 2014.

Foreign Currency Risk by Investment Type

(Dollar Values Expressed in Thousands)

June 30, 2014

Currency	Total	Cash & Cash Equivalents	Derivatives	Equity	Fixed Income
Argentine Peso	\$ 1	\$ 1	---	---	---
Australian Dollar	124,870	(75,914)	\$ (3,722)	\$ 160,696	\$ 43,810
Brazilian Real	58,055	902	---	43,590	13,563
British Pound	460,893	188,660	394	246,841	24,998
Canadian Dollar	61,879	63,554	(2,095)	420	---
Chilean Peso	1,579	---	---	1,579	---
Colombian Peso	3,279	112	---	3,167	---
Czech Koruna	1,920	---	---	1,920	---
Danish Krone	30,081	142	---	29,939	---
Euro	719,275	(271,133)	(5,645)	897,238	98,815
Hong Kong Dollar	235,438	1,767	164	233,243	264
Indian Rupee	39,508	22	---	39,486	---
Indonesian Rupiah	11,124	2	---	11,122	---
Japanese Yen	548,013	87,002	(686)	461,697	---
Malaysian Ringgit	11,241	---	---	11,241	---
Mexican Peso	60,314	771	---	22,118	37,425
New Zealand Dollar	(25,272)	(37,159)	---	1,313	10,574
Norwegian Krone	105,231	72,376	---	32,855	---
Peruvian Nuevo Sol	222	---	---	222	---
Philippine Peso	6,664	---	---	6,664	---
Polish Zloty	972	---	---	972	---
Russian Ruble	8,721	---	---	8,721	---
Singapore Dollar	(37,082)	(64,744)	---	27,662	---
South African Rand	15,079	74	---	15,005	---
South Korean Won	144,235	(872)	---	145,107	---
Swedish Krona	(78,946)	(96,352)	---	17,406	---
Swiss Franc	(94,735)	(181,794)	---	87,059	---
Taiwanese Dollar	68,360	37	---	68,323	---
Thai Baht	7,959	(4,148)	---	12,107	---
Turkish Lira	13,252	---	---	13,252	---
Total	\$2,502,130	\$(316,694)	\$(11,590)	\$2,600,965	\$229,449

Derivatives

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, 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, 2014, are categorized as investment derivatives and therefore the hedge accounting provisions of GASB 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. 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 Fiduciary Net Position. 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 29–31. 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, exposure monitoring procedures, and in some cases the collateralization of gains or losses. 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 Fiduciary Net Position.

A listing of futures and options contracts outstanding at June 30, 2014, 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, 2014

	Expiration Date	Long/Short	Notional Value	Fair Value
Amsterdam Index	July 2014	Long	\$ 20,595	\$ (98)
CAC 40 Euro Index	July 2014	Long	6,175	(60)
Hang Seng Index	July 2014	Long	27,277	164
IBEX 35 Index	July 2014	Short	(27,794)	304
10-year Australian bonds	Sept. 2014	Short	(136,108)	(2,239)
10-year Canadian bonds	Sept. 2014	Short	(226,857)	(2,061)
DAX Index	Sept. 2014	Long	89,770	(643)
Euro bunds	Sept. 2014	Short	(240,327)	(3,336)
Euro OAT	Sept. 2014	Short	(60,538)	(914)
FTSE 100 Index	Sept. 2014	Short	(54,849)	182
FTSE/MIB Index	Sept. 2014	Short	(2,771)	105
10-year Japanese bonds	Sept. 2014	Short	(257,355)	(958)
10-year Japanese minibonds	Sept. 2014	Short	(3,163)	(10)
E-mini (S&P 500)	Sept. 2014	Long	127,589	669
S&P Canada 60	Sept. 2014	Short	(2,757)	(34)
SPI 200 Index	Sept. 2014	Short	(26,325)	135
TOPIX Index	Sept. 2014	Long	52,342	1,130
U.K. Long Gilts	Sept. 2014	Long	300,527	213
10-year U.S. Treasury notes	Sept. 2014	Long	271,498	716
2-year U.S. Treasury notes	Sept. 2014	Short	(138,563)	87
5-year U.S. Treasury notes	Sept. 2014	Short	(382,631)	698
U.S. Treasury bonds	Sept. 2014	Short	(45,546)	(509)
U.S. Ultra bonds	Sept. 2014	Long	32,386	205
30-year U.S. swap rate	Sept. 2014	Short	(2,600)	(50)
90-day Eurodollar	March 2015	Short	(481,285)	(405)
90-day Eurodollar	Dec. 2015	Long	124,327	131
90-day Eurodollar	June 2018	Short	(118,364)	(380)
Total			\$(1,155,347)	\$(6,958)

Options Exposure Summary

(Dollar Values Expressed in Thousands)

June 30, 2014

	Expiration Date	Long/Short	Option Type	Strike Price	Fair Value
90-day Eurodollar	Dec. 2014	Short	Call	\$ 99.50	\$ (54)
90-day Eurodollar	Dec. 2014	Short	Put	99.50	(0)
Eurodollar 2-year mid-curve	Sept. 2014	Long	Put	97.95	26
Eurodollar 3-year mid-curve	July 2014	Long	Put	97.00	2
U.S. Treasury bonds	July 2014	Short	Call	138.00	(103)
U.S. Treasury bonds	July 2014	Long	Call	139.00	54
5-year U.S. Treasury notes	July 2014	Long	Call	119.75	85
10-year U.S. Treasury notes	July 2014	Short	Put	123.00	(38)
10-year U.S. Treasury notes	July 2014	Long	Put	124.00	81
10-year U.S. Treasury notes	July 2014	Long	Put	122.00	7
Total					\$ 60

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, 2014, the net notional value of the credit default swaps held in the System's fixed-income portfolio was \$18.1 million. The credit default swaps are reported at a fair value of -\$1.0 million in the Statement of Fiduciary Net Position.

Interest Rate Swaps

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 alter their interest rate exposure and bring it in line with their strategic objectives for interest rate risk. At June 30, 2014, the net notional value of the interest rate swaps held in the System's fixed-income portfolio was -\$111.9 million.

All interest rate swaps held by the System are reported at a fair value of -\$5.3 million in the Statement of Fiduciary Net Position.

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, 2014, the net notional value of the total return swaps held in the System's fixed-income portfolio was -\$50.0 million. The total return swaps held by the System are reported at a fair value of \$113,300 in the Statement of Fiduciary Net Position.

Mortgage-Backed Securities

The System invests in mortgage-backed securities, which are reported in the Statement of Fiduciary Net Position at fair value based on estimated future cash flows from the interest and principal payments of the underlying mortgages. Mortgage-backed securities prices are sensitive to prepayments by mortgagees, a scenario that is 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 27-28.

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 according to Fitch Ratings, 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 \$6,516 in risk exposure to borrowers because the amounts they owed IPERS exceeded the amount IPERS owed the borrowers on two 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, 2014

Investment Type	Fair Value	Credit Risk: S&P Quality Rating	Investment Maturity (Years)
Overnight repurchase agreements	\$413,555	Not rated	Less than 1

The securities lending contract does not allow IPERS to pledge or sell any collateral securities unless the borrower defaults. As of June 30, 2014, IPERS had securities on loan, including accrued interest income, with a fair value (carrying value) of \$402.5 million against collateral, including borrower rebate, with a total fair value (carrying value) of \$413.3 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, 2014, was 0.00. Credit quality and years to maturity statistics for the cash collateral account at June 30, 2014, are shown in the table above.

F. 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, 2014, was \$2.2 million. Of that amount, \$17,185 was reclassified as an investment-related expense on the Schedule of Investment-Related Expenses on page 45. In FY2014, \$554,326 of capital asset additions was capitalized.

G. 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 \$658,663 related to the Sick Leave Insurance Program (SLIP). The SLIP 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 \$4,902 for each full-time employee of IPERS, for a total liability of \$377,454.

These accrued liabilities are included in accounts payable and accrued expenses in the Statement of Fiduciary Net Position on page 21. Details are provided on a statewide basis in the State of Iowa's CAFR.

(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.

The IPERS Investment Board is designated as the Fund's trustee. It sets investment policies and oversees the actuarial program 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.

Summary of Capital Assets

As of June 30, 2014, and 2013

Capital Assets	Land	Building and Improvements	Land Improvements	Furniture, Equipment, and Software	Total Capital Assets
Balances as of June 30, 2013	\$500,000	\$7,040,926	\$413,226	\$25,021,406	\$32,975,558
Additions	---	---	---	554,326	554,326
Deletions	---	---	---	(960,720)	(960,720)
Balances as of June 30, 2014	500,000	7,040,926	413,226	24,615,012	32,569,164
Accumulated Depreciation					
Balances as of June 30, 2013	---	1,666,774	6,887	5,236,059	6,909,720
Depreciation expense	---	210,954	13,774	2,005,966	2,230,694
Deletions	---	---	---	(569,505)	(569,505)
Balances as of June 30, 2014	---	1,877,728	20,661	6,672,520	8,570,909
Net capital assets as of June 30, 2014	\$500,000	\$5,163,198	\$392,565	\$17,942,492	\$23,998,255

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.

The IPERS Benefits Advisory Committee is statutorily charged to make benefit and service recommendations to IPERS and the General Assembly.

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.

B. Membership

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, 2014, there were 165,913 members contributing to the System (active members), employed by 2,001 public employers. The number of active members increased by 0.50 percent from June 30, 2013.

The Plan Membership tables and pie charts provide further information on the composition of the membership as of June 30, 2014.

Plan Membership

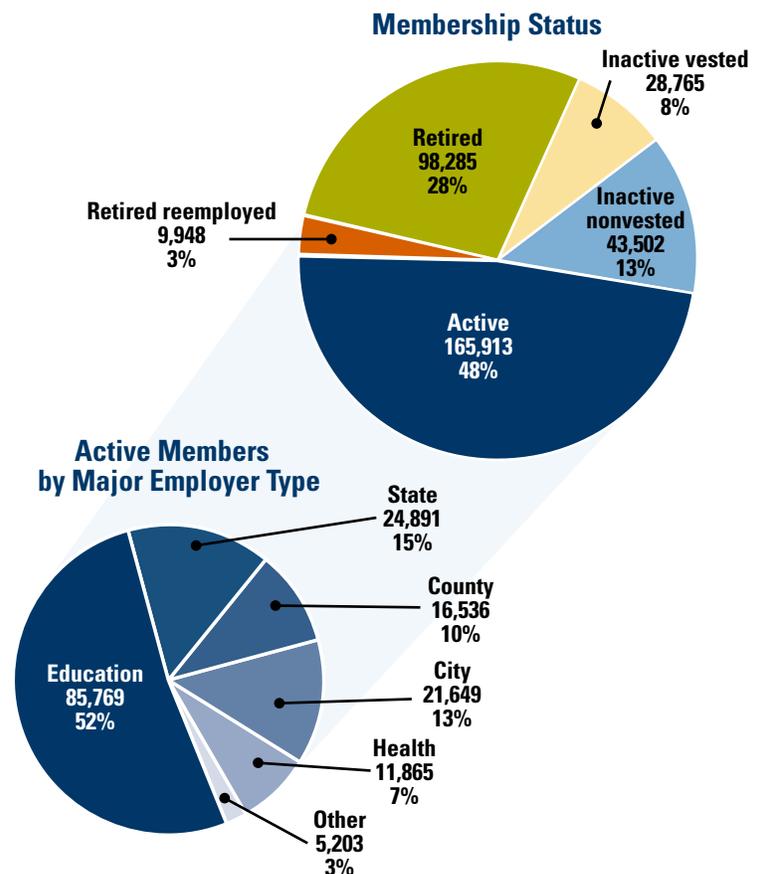
Fiscal Years Ended June 30

Members	2014	2013
Retirees and beneficiaries	108,233	104,933
Active vested	112,867	120,496
Inactive vested	28,765	32,666
Active nonvested	53,046	44,599
Inactive nonvested	43,502	39,958
Total	346,413	342,652

Note: The number of retired reemployed members of 9,948 in FY2014 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 included in the number of retired members.

Employer Type	2014		2013	
	Number of Entities	Covered Wages	Number of Entities	Covered Wages
City	948	\$ 830,532,874	1,051	\$ 675,141,221
Education	371	3,437,530,093	378	3,412,993,528
County	332	732,270,341	346	705,383,164
Other	149	102,302,327	149	101,036,347
Utilities	134	90,081,829	134	81,220,597
Health	57	525,415,604	67	642,408,639
State	10	1,381,144,212	22	1,261,947,638
Total	2,001	\$7,099,277,280	2,147	\$6,880,131,134

Note: In compliance with GASB Statement No. 67, 2014 employer counts have been adjusted.



C. Benefit Plan

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. Refer to the plan documents for more information.

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 becomes vested.

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.

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.

Eligibility for Pensions

A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time 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.

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

Special service members are eligible for retirement benefits if they are vested, no longer working for an IPERS-covered employer, and reach age 55. Sheriffs and deputies may become eligible for retirement benefits at age 50 if they have 22 years of qualified service.

Pension Benefit Formula

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

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)
- An early-retirement reduction, only if the benefit is first paid before the member reaches normal retirement age.

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 is paid 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.

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

- A multiplier (based on years of service).
- The member's highest three-year average salary.

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 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.

Level Payment Options

Special service members may choose to apply a level payment feature to Options 1-5. Level payment options provide for a lifetime monthly benefit that will be permanently reduced when the member reaches age 62. Level payment options allow members to receive approximately equal payments before and after they begin receiving Social Security benefits. The death benefit provisions for each level payment option match the provisions of the corresponding "normal" option.

Dividend Payments

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, for retirees who began receiving benefits prior to July 1990, a guaranteed dividend is included with a member's November benefit payment. The dividend payable in any given year is the sum of the dollar amount of the dividend payable in the previous November and a dividend adjustment. The dividend adjustment, as set out in Iowa Code 97B.49F(1)(b), is calculated by multiplying the total of the retiree's monthly benefit payments and the dividend payable to the retiree in the previous calendar year by the applicable percentage, up to a maximum of 3 percent.

Until January 2014, post-June 1990 retirees received a Favorable Experience Dividend (FED) with their January benefit payment. Unlike the November dividend, the FED payment was never a guaranteed payment. The FED was paid from a reserve account that was created within the IPERS Trust Fund in 1998 by the Iowa Legislature. This reserve account was used only for FED payments, and it was exhausted after the January 2014 payments.

By law, IPERS cannot transfer additional funds to the FED reserve account until the Trust Fund is 100 percent funded and would remain so after the transfer.

Disability 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.

Special service members who retire because of a disability may meet the requirements to receive Regular or Special service disability benefits from IPERS.

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:

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

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

*The denominator is 22 for all Special service members.

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.

(3) ACTUARIAL CONTRIBUTIONS COMPARED TO CONTRIBUTIONS PAID

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

IPERS' Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the entry age normal actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The

actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year closed 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.

Although the actuarial contribution rates were calculated each year for all three membership groups, the contribution rates for the Regular membership were set in law through June 30, 2012. From FY2002 through FY2013, the rate allowed by statute was less than the actuarial rate, in spite of rate increases passed by the Iowa Legislature in 2006 and 2010. Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and actuarial amortization method. Statute limits the amount rates can vary each year to 1 percentage point for Regular members.

In fiscal year 2014, the contribution rate for Regular members equaled the actuarial rate.

Iowa statute authorizes the contribution rate for both Special service groups to be set pursuant to the Contribution Rate Funding Policy. Therefore, these groups have consistently paid the rate needed to fully fund their benefits.

Contribution Rates

Fiscal Year 2014

	Employee	Employer	Total
Regular members	5.95%	8.93%	14.88%
Sheriffs and deputies	9.88%	9.88%	19.76%
Protection occupation members	6.76%	10.14%	16.90%

Contributions are remitted by participating employers. IPERS, as a participating employer, is subject to paying contributions at the Regular membership rate.

Wages were covered up to the Internal Revenue Code section 401(a)(17) compensation limit of \$255,000 for calendar year 2013, and \$260,000 in calendar year 2014. A detailed Schedule of Employers' Contributions encompassing ten years can be found on page 41 of the Required Supplementary Information following these notes.

(4) NET PENSION LIABILITY

The components of the net pension liability (NPL) at June 30, 2014, were as follows:

Total pension liability	\$32,004,456,088
Plan fiduciary net position	\$28,038,549,893
Employers' net pension liability	\$3,965,906,195
Plan fiduciary net position as a percentage of the total pension liability	87.61%

The total pension liability was determined by an actuarial valuation as of June 30, 2014. Actuarial valuations involve projections of benefit payments, contributions, and other amounts decades into the future. These projections are based on actuarial assumptions and methods adopted by the IPERS Investment Board. Assumptions such as salary increases, investment rates of return, retirement and disability rates, mortality, and inflation are compared against actual experience by actuarial experience studies conducted every four years. These studies assist IPERS in evaluating the accuracy with which the assumptions predict actual experience. The Investment Board adopted and approved the use of the assumptions and methods shown in the following table. These are the assumptions the actuary used to comply with GASB 67. Additional methods and assumptions used in the actuarial valuation for funding purposes are listed in the Actuarial section of this report.

Actuarial Methods and Assumptions

Actuarial cost method	Entry age normal
Assumed investment return	7.50%
Projected salary increases	4%–17% depending upon years of service
Mortality tables	RP-2000 Employee and Healthy Annuitant Tables with generational scaling and age adjustments
Inflation rate	3%
Wage growth	4%

The long-term actuarial assumed investment return reflects the anticipated returns on current and future plan assets. It provides a discount rate to determine the present value of future benefit payments.

The actuarial assumed investment return is reviewed as part of the experience studies prepared for the System by IPERS' actuary. The most recent analysis, performed for the period covering fiscal years 2010 through 2013, is outlined in a report dated May 24, 2014. Several factors are considered in evaluating the

actuarial assumed investment return including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the actuarial assumed investment return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the actuarial assumed investment return for funding pension plans, which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

Best estimates of arithmetic real rates of return for each major asset class included in IPERS' target asset allocation as of June 30, 2014, are shown in the following table.

Target Allocations and Long-Term Expected Real Rates of Return

As of June 30, 2014

	Target Allocation	Long-Term Expected Real Rate of Return
Core-plus fixed income	28%	2.06%
Domestic equity	23%	6.31%
International equity	15%	6.76%
Private equity/debt	13%	11.34%
Credit opportunities	5%	3.67%
Real estate	8%	3.52%
U.S. TIPS	5%	1.92%
Other real assets	2%	6.27%
Cash	1%	-0.69%

Discount Rate

The discount rate used to calculate the TPL is 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from employees and employers will be made at the contractually required rates, which are set by the Contribution Rate Funding Policy and derived from

the actuarial valuation. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the actuarial assumed investment return was applied to all periods of projected benefit payments to determine the TPL.

Net Pension Liability Sensitivity

GASB 67 requires the disclosure of the sensitivity of the NPL to changes in the discount rate. The table below shows the NPL if it were calculated using discount rates of 6.50 percent and 8.50 percent, which are 1 percentage point lower and 1 percentage point higher than the actuarial assumed investment return of 7.50 percent.

1% Decrease: 6.50%	Current Discount Rate: 7.50%	1% Increase: 8.50%
\$7,796,570,740	\$3,965,906,195	\$732,967,671

(5) LITIGATION AND CONTINGENCIES

IPERS monitors, evaluates, and takes the necessary actions related to litigation for or against IPERS. 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 securities class actions as the lead plaintiff, co-lead plaintiff, or as a member of the class action. 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, 2014.

In the fraud action against Westridge Capital Management, IPERS continues to pursue full recovery. In recent years, IPERS recovered \$225.7 million, which is nearly 90 percent of its initial investment. However, in fiscal year 2014, IPERS did not receive a distribution. While the receiver has not fully distributed all assets under its control, any future distributions are anticipated to be minimal.

In a related case, IPERS filed suit against Westridge Capital Management's auditor, Deloitte & Touche. The presiding judge dismissed this litigation. IPERS, along

with the Iowa Attorney General, decided to appeal this dismissal. Subsequently, the appellate court affirmed the dismissal of the case, and IPERS chose not to pursue further appeals.

For many years, IPERS defended a case, Robert J. Brunkhorst v. Iowa Public Employees' Retirement System, CV No. 104520, filed in Polk County District Court, Iowa. Mr. Brunkhorst, under the Iowa Tort Claims Act, alleged 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. This action had been dismissed twice previously by the district court and the plaintiff appealed the latest dismissal to the Iowa Supreme Court. On July 15, 2014, the Iowa Supreme Court denied review of the plaintiff's appeal, ending the case after seven years of litigation.

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

(6) COMMITMENTS

At June 30, 2014, IPERS had commitments to fund an additional \$1.791 billion to various private equity/debt partnerships and \$130.1 million to real estate debt partnerships.

(7) NET POSITION RESTRICTED FOR PENSIONS

There is only one IPERS Trust Fund where all investment income, member contributions, and employer contributions are pooled. However, IPERS' three distinct membership groups are 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. 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, IPERS held assets in the Favorable Experience Dividend reserve account as established in Iowa Code section 97B.49F(2) through

Allocation of Net Position Restricted for Pensions

Fiscal Year Ended June 30, 2014

	Regular Members	Sheriffs and Deputies	Protection Occupation Members	FED Reserve Account	Total
Net position as of June 30, 2013	\$23,137,319,653	\$484,510,930	\$1,134,833,132	\$122,042,314	\$24,878,706,029
Additions					
FED transfer	1,159,689	24,490	57,668	(1,241,847)	---
Contributions	994,972,205	19,167,024	54,057,855	---	1,068,197,084
Service purchases	13,752,294	77,583	494,267	---	14,324,144
Investment and miscellaneous income	3,704,542,975	78,231,475	184,218,086	---	3,966,992,536
Total additions	4,714,427,163	97,500,572	238,827,876	(1,241,847)	5,049,513,764
Deductions					
Benefit payments	1,573,108,447	22,332,151	47,823,199	120,800,467	1,764,064,264
Member refunds	40,811,628	1,696,723	5,612,245	---	48,120,596
Administrative expenses	14,299,271	105,355	461,502	---	14,866,128
Investment expenses	58,476,150	1,234,883	2,907,879	---	62,618,912
Total deductions	1,686,695,496	25,369,112	56,804,825	120,800,467	1,889,669,900
Preliminary net position	26,165,051,320	556,642,390	1,316,856,183	---	28,038,549,893
Transfers between groups	(7,290,284)	2,617,863	4,672,421	---	---
Adjusted net position as of June 30, 2014	\$26,157,761,036	\$559,260,253	\$1,321,528,604	---	\$28,038,549,893

Note: QBA Fund amounts are included in the Regular Members column.

January 2014, when the account was exhausted. Pursuant to administrative rule 15.2(7)(c), the remaining reserve account balance of \$1.2 million was credited among the three membership groups as shown in the table above.

(8) 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 Changes in the Employers' Net Pension Liability and Related Ratios

Fiscal Year Ended June 30, 2014

	2014
Total pension liability	
Service cost	\$ 710,882,930
Interest	2,229,800,454
Benefit term changes	---
Differences between expected and actual experience	41,027,658
Assumption changes	214,545,272
Benefit payments, including member refunds	(1,812,184,860)
Net change in total pension liability	1,384,071,454
Total pension liability—beginning	30,620,384,634
Total pension liability—ending	32,004,456,088
Plan fiduciary net position	
Employer contributions	639,001,548
Employee contributions	429,195,536
Service purchases	14,324,144
Net investment income, including net securities lending income	3,904,373,624
Benefit payments, including member refunds	(1,812,184,860)
Administrative expenses	(14,866,128)
Net change in plan fiduciary net position	3,159,843,864
Plan fiduciary net position—beginning	24,878,706,029
Plan fiduciary net position—ending	28,038,549,893
Net pension liability—ending	\$ 3,965,906,195
Plan fiduciary net position as a percentage of the total pension liability	87.61%
Covered payroll	\$ 7,099,277,280
Employers' net pension liability as a percentage of covered payroll	55.86%

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Schedule 2: Schedule of Employers' Contributions

Last 10 Fiscal Years

Fiscal Year	Actuarial Contributions	Contributions Paid*	Contribution Deficiency	Covered Payroll	Contributions Paid as a Percentage of Covered-Employee Payroll
2014					
Regular members	\$596,983,323	\$596,983,323	---	\$6,683,171,236	8.93%
Sheriffs and deputies	9,583,512	9,583,512	---	96,396,464	9.94%
Protection occupation members	32,434,713	32,434,713	---	319,709,580	10.15%
Total	\$639,001,548	\$639,001,548	---	\$7,099,277,280	9.00%
2013					
Regular members	\$573,480,969	\$560,587,243	\$12,893,726	\$6,473,445,372	8.66%
Sheriffs and deputies	9,246,766	9,246,766	---	93,426,040	9.90%
Protection occupation members	32,118,873	32,118,873	---	313,259,722	10.25%
Total	\$614,846,608	\$601,952,882	\$12,893,726	\$6,880,131,134	8.75%
2012					
Regular members	\$528,525,785	\$518,075,221	\$10,450,564	\$6,384,444,604	8.11%
Sheriffs and deputies	8,999,273	8,999,273	---	92,082,564	9.77%
Protection occupation members	30,864,449	30,864,449	---	309,631,552	9.97%
Total	\$568,389,507	\$557,938,943	\$10,450,564	\$6,786,158,720	8.22%
2011					
Regular members	\$530,692,453	\$429,936,439	\$100,756,014	\$6,187,127,465	6.95%
Sheriffs and deputies	7,994,058	7,994,058	---	89,378,089	8.94%
Protection occupation members	29,711,050	29,711,050	---	298,367,165	9.96%
Total	\$568,397,561	\$467,641,547	\$100,756,014	\$6,574,872,719	7.11%
2010					
Regular members	\$467,839,274	\$414,715,905	\$53,123,369	\$6,189,106,241	6.70%
Sheriffs and deputies	6,725,778	6,725,778	---	87,535,984	7.68%
Protection occupation members	27,328,184	27,328,184	---	294,539,780	9.28%
Total	\$501,893,236	\$448,769,867	\$53,123,369	\$6,571,182,005	6.83%
2009					
Regular members	\$441,951,764	\$383,886,018	\$58,065,746	\$6,060,164,555	6.33%
Sheriffs and deputies	6,365,911	6,365,911	---	84,855,625	7.50%
Protection occupation members	24,736,688	24,736,688	---	293,622,944	8.42%
Total	\$473,054,363	\$414,988,617	\$58,065,746	\$6,438,643,124	6.45%
2008					
Regular members	\$408,882,080	\$353,154,089	\$55,727,991	\$5,823,789,388	6.06%
Sheriffs and deputies	6,301,171	6,301,171	---	81,786,933	7.70%
Protection occupation members	17,644,966	17,644,966	---	225,869,056	7.81%
Total	\$432,828,217	\$377,100,226	\$55,727,991	\$6,131,445,377	6.15%
2007					
Regular members	\$387,578,925	\$318,468,194	\$69,110,731	\$5,510,516,261	5.78%
Sheriffs and deputies	6,577,652	6,577,652	---	78,074,667	8.42%
Protection occupation members	17,723,013	17,723,013	---	193,115,271	9.18%
Total	\$411,879,590	\$342,768,859	\$69,110,731	\$5,781,706,199	5.93%
2006					
Regular members	\$364,424,911	\$301,272,133	\$63,152,778	\$5,264,024,719	5.72%
Sheriffs and deputies	6,228,675	6,228,675	---	76,239,815	8.17%
Protection occupation members	16,888,833	16,888,833	---	183,598,787	9.20%
Total	\$387,542,419	\$324,389,641	\$63,152,778	\$5,523,863,321	5.87%
2005					
Regular members	\$341,552,685	\$288,937,741	\$52,614,944	\$4,998,714,724	5.78%
Sheriffs and deputies	6,236,611	6,236,611	---	72,580,514	8.59%
Protection occupation members	15,391,729	15,391,729	---	165,565,648	9.30%
Total	\$363,181,025	\$310,566,081	\$52,614,944	\$5,236,860,886	5.93%

*Contributions paid and recognized by the System are the same as the contractually required contributions.

Note: Methodology was revised in fiscal year 2009 to more appropriately reflect contribution amounts for the Special service groups. Prior years have been restated to reflect this change.

Schedule 3: Schedule of Investment Returns

Fiscal Year Ended June 30, 2014

Annual money-weighted rate of return, net of investment expense

2014

15.96%

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Notes to Required Supplementary Information

Benefit terms, actuarial assumptions and methods, and funding policies affect the actuarial contribution rates. Changes over the past ten years that had a significant impact on the actuarial contribution rates are summarized below. More detail may be obtained from the annual valuation reports.

(1) CHANGES IN BENEFIT TERMS

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups—emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers—from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

(2) CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent per year.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service durations.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in future years. It also included in the calculation of the UAL amortization payment the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service-based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

(3) FUNDING POLICIES

The difference between the actuarial contribution rates and contributions paid is due entirely to statutorily set contributions that have differed from the actuarial contribution rates. Special service members have always paid the actuarial contribution rates.

Contribution rates for Regular members were set in statute at 9.45 percent from 1979 to 2007. In 2006, legislation allowed a 0.50 percentage point increase for each of the following four years. In 2010, an additional contribution rate increase to 13.45 percent, effective in FY2012, was passed by the Legislature.

The same legislation authorized IPERS to change the contribution rates by 1 percentage point each year, to bring them closer in line with the actuarial contribution rates, starting in FY2013. The FY2013 required contribution rate for Regular members was capped at 14.45 percent because of the statutory restriction, while the actuarial contribution rate was 14.77 percent. In FY2014, the required contribution rate for Regular members equaled the actuarial contribution rate.

The Contribution Rate Funding Policy adopted by the IPERS Investment Board establishes procedures for setting the contribution rates for all membership classes. The actuarial contributions in the Schedule of Employers' Contributions are calculated annually on each valuation date (June 30), and apply one year after the valuation.

Methods and assumptions used in calculations of actuarial contributions are shown below.

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	30 years
Asset valuation method	Expected value plus 25% of difference between market value and expected value
Inflation rate	3%
Wage growth	4%
Projected salary increases	4%–17%, including inflation, depending on years of service
Assumed investment return	7.50% compounded annually, net of investment expense and including inflation
Mortality tables	RP-2000 Generational Mortality Tables, with age setbacks and age set-forwards as well as other adjustments based on different membership groups. Future mortality improvements are anticipated using Projection Scale AA. Different adjustments apply to preretirement, postretirement, and postdisability mortality tables.

SUPPLEMENTARY INFORMATION

Schedule 1: Investment Income by Specific Source

Fiscal Years Ended June 30, 2014, and 2013

	2014	2013
Interest income—short-term	\$ 215,752	\$ 446,162
Interest income on bonds	306,349,983	255,092,402
Dividend income	114,750,582	122,495,733
Real estate funds	120,911,106	119,131,020
Private equity/debt	7,493,233	19,348,124
Other income	118,756	115,844
<i>Investment income</i>	549,839,412	516,629,285
Gain on investments	3,484,371,341	2,017,594,332
Currency gain/(loss)	(80,422,144)	(143,934,923)
<i>Net appreciation in fair value of investments</i>	3,403,949,197	1,873,659,409
Securities lending income	290,717	615,460
Securities lending net appreciation in fair value of collateral pool	9,640,573	4,815,582
Securities lending expenses/rebates	3,272,637	2,854,875
<i>Net securities lending income</i>	13,203,927	8,285,917
Total investment income	\$3,966,992,536	\$2,398,574,611

Schedule 2: Schedule of Investment-Related Expenses

Fiscal Years Ended June 30, 2014, and 2013

	2014	2013
Allianz Global Investors U.S. LLC	---	\$ 567,815
BlackRock Institutional Trust Company, NA	\$ 3,450,198	2,015,346
Columbia Management Investment Advisers, LLC	333,755	---
First Quadrant, L.P.	789,561	825,833
Fisher Investments	552,009	547,797
Janus Capital Management LLC	857,901	321,864
J.P. Morgan Investment Management, Inc.	1,577,162	2,065,593
Mellon Capital Management Corporation	877,831	1,916,051
PanAgora Asset Management, Inc.	470,550	361,077
Wellington Management Company, LLP	2,219,313	1,621,664
Total domestic equity	11,128,280	10,243,040
AEGON USA Investment Management, LLC	1,086,524	2,045,316
BlackRock Financial Management, Inc.	929,552	738,250
MacKay Shields LLC	1,852,864	1,990,534
Mellon Capital Management Corporation	56,372	219,344
Oaktree Capital Management, L.P.	1,848,573	1,133,027
Pacific Investment Management Company LLC	1,436,776	2,268,904
Principal Global Investors, LLC	402,545	383,740
Western Asset Management Company	2,248,833	1,434,764
Total fixed income	9,862,039	10,213,879
BlackRock Institutional Trust Company, NA	98,966	104,560
Fischer Francis Trees & Watts, Inc.	346,690	559,000
Total U.S. TIPS	445,656	663,560
Forest Investment Associates L.P.	670,989	264,320
Harvest Fund Advisors LLC	3,450,902	1,309,148
Total other real assets	4,121,891	1,573,468
Ashmore Equities Investment Management (US), LLC	2,627,033	2,883,068
BlackRock Institutional Trust Company, NA	3,268,501	2,794,499
GAM USA Inc.	334,473	286,385
Oechsle International Advisors, LLC	1,941,337	920,199
Quantitative Management Associates LLC	1,575,840	785,537
Wellington Management Company, LLP	2,091,629	1,781,526
Total international equity	11,838,813	9,451,214
Blackstone Real Estate Debt Strategies Associates II L.P.	689,823	---
CenterSquare Investment Management, Inc.	1,336,287	410,518
Clarion Partners, LLC	1,452,289	3,509,972
INVESCO Advisors Inc.	3,028,650	3,369,097
Principal Real Estate Debt Fund, LP	902	---
RREEF America, LLC	2,074,907	5,142,302
RREEF America, LLC (REIT)	1,036,694	1,154,991
TA Realty, LLC	---	481,621
UBS Realty Investors, LLC	1,731,951	452,943
Total real estate	11,351,503	14,521,444
Pathway Capital Management, LP	5,088,809	4,664,820
Total private equity/debt	5,088,809	4,664,820
Holland Park Risk Management, Inc.	---	21,100
Wilshire Associates, Inc.	346,700	349,000
Total investment consultant fees	346,700	370,100
The Bank of New York Mellon	217,614	202,546
Treasurer of State	75,627	21,408
Total custody expenses	293,241	223,954
Commission expenses	6,555,314	6,864,462
Investment staff and Board expenses	981,010	961,154
Miscellaneous expenses	605,656	622,444
Total other investment expenses	8,141,980	8,448,060
Total investment-related expenses	\$62,618,912	\$60,373,539

Schedule 3: Schedule of Administrative Expenses

Fiscal Years Ended June 30, 2014, and 2013

	2014	2013
Personnel		
Salaries and wages	\$ 6,059,899	\$ 6,142,298
Travel	102,451	89,047
Professional and technical services		
Professional	694,221	534,706
Actuary	183,250	146,500
Computer support services	4,467,483	1,636,151
Auditing	116,200	112,368
Communications		
Telephone	153,337	168,689
Printing	166,644	126,142
Other expenses		
Supplies	567,357	390,012
Utilities	44,535	45,661
Depreciation	2,213,509	2,102,672
Repairs	834	924
Rent	1,216	1,021
Miscellaneous	95,192	90,789
Total administrative expenses	\$14,866,128	\$11,586,980

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



INVESTMENTS



INVESTMENTS

INVESTMENT OVERVIEW

INVESTMENT RESULTS

INVESTMENT POLICY AND GOAL STATEMENT

INVESTMENT OVERVIEW

This section of the CAFR was compiled by IPERS' investment staff using information provided by Wilshire Associates and 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, with the objective to benefit the members of the System by maximizing the total rate of return on investments within prudent risk parameters. IPERS' overall investment performance goal is to achieve an annualized rate of return which, when combined with the required employee and employer contributions, 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.

Asset Allocation and Diversification

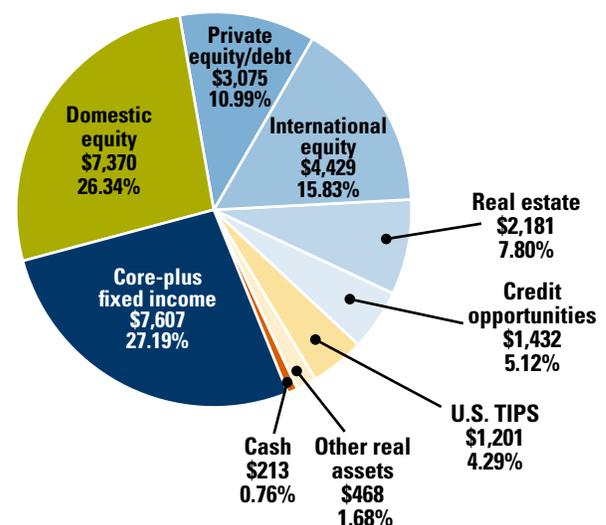
Asset allocation is a process designed to construct an optimal long-term asset mix that achieves a specific set of investment objectives. The Investment Policy and Goal Statement establishes the System's asset allocation policy as designed to meet those objectives. The asset allocation policy is adopted to provide for diversification of assets in an effort to maximize the investment return to IPERS 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.

The chart below illustrates the actual allocation to each type of investment, as of June 30, 2014.

Summary of Investments by Asset Class

(Fair Values in Millions)

As of June 30, 2014



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

Capital Markets Commentary

Fiscal year 2014 was another good year for capital markets, especially so for U.S. stocks and developed non-U.S. countries. All of the major asset class indexes produced positive returns for the year. The U.S. stock market produced returns above 20 percent as it continued to benefit from the accommodative monetary policy of the Federal Reserve. Interest rates remained near historical lows and consumer price inflation remained subdued. Developed non-U.S. countries also produced strong positive returns for many of the same reasons. The returns on emerging markets assets generally lagged the developed countries due mainly to slower economic growth in China.

Investment Portfolio Assets

At the close of fiscal year 2014, IPERS' net investment portfolio assets had a fair value of \$27.976 billion. This represents an increase of \$3.145 billion from the \$24.831 billion net investment asset fair value as of June 30, 2013. The largest factor contributing to the increase was the investment portfolio return of 15.88 percent.

INVESTMENT RESULTS

IPERS posted a total portfolio investment return of 15.88 percent for the fiscal year ended June 30, 2014. This return exceeded the 15.36 percent return of IPERS' policy benchmark, a set of market indexes and weightings to those indexes that reflect IPERS' target asset class allocations. The outperformance against the policy benchmark was attributable to strong performance by international equity and other real asset active managers, as well as staff's tactical asset allocation decisions.

IPERS' 15.88 percent return exceeded the actuarial assumed investment return of 7.50 percent, and also the rate of inflation, as measured by the Consumer Price Index, which was 2.07 percent for the fiscal year. IPERS' annual investment return on its assets also exceeded the 5.40 percent estimated return of its liabilities, based on a proxy of IPERS' liabilities constructed by Wilshire Associates.

IPERS' other real assets portfolio (investments in energy-related master limited partnerships and timberland) had the highest return for the fiscal year at 25.81 percent. IPERS' U.S. stock portfolio returned 24.63 percent and its international stock portfolio produced an annual return of 22.94 percent for the fiscal year. The lowest-performing assets in the IPERS portfolio for the fiscal year were cash with a 0.13 percent return; Treasury inflation-protected securities with a 4.00 percent return for the fiscal year; and core-plus fixed income with a 5.22 percent return.

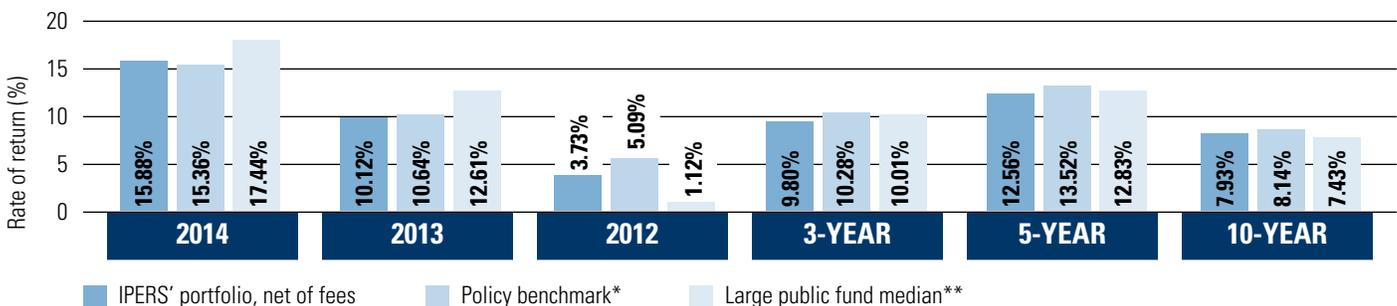
The following tables provide a historical perspective of IPERS' investment returns and performance over the last ten years. IPERS' net-of-fees investment returns are shown for the total portfolio and for each asset class over various time periods. For comparison purposes, the benchmark for each asset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

While the impact of the Great Recession is still evident in the investment returns, IPERS' longer-term investment performance has usually exceeded actuarial assumptions. The IPERS Trust Fund's annualized investment returns for the 15-, 20-, 25-, and 30-year periods ended June 30, 2014, were 6.72 percent, 9.12 percent, 8.86 percent, and 10.15 percent, respectively. The annual investment returns for the IPERS Trust Fund for each of 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 of a pension system's investment performance based solely on their returns.

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.
Note: 3-, 5-, and 10-year results are annualized returns.

Rates of Return

For Periods Ended June 30, 2014¹

Asset Class	Annualized Returns (%)			
	1-Year	3-Year	5-Year	10-Year
Total Fund				
IPERS	15.88	9.80	12.56	7.93
Policy benchmark ²	15.36	10.28	13.52	8.14
CPI + 3 percentage points	5.07	4.83	5.02	5.31
Actuarial assumed investment return	7.50	7.50	7.50	7.50
TUCS Public Funds > \$1 billion universe median	17.44	10.01	12.83	7.43
Domestic equity				
IPERS	24.63	16.27	19.40	7.40
Wilshire 5000	24.92	16.29	19.15	8.28
International equity				
IPERS	22.94	6.16	11.40	7.73
Custom benchmark	22.18	6.19	11.58	8.21
Core-plus fixed income				
IPERS	5.22	4.47	6.57	5.50
Custom benchmark	5.20	4.22	5.58	5.27
Credit opportunities				
IPERS	10.47	8.40	11.63	8.00
Custom benchmark	11.16	8.15	12.60	8.09
Private equity/debt³				
IPERS	23.33	14.26	17.31	15.70
Custom benchmark	21.27	16.09	23.91	10.51
Real estate				
IPERS	11.72	10.31	10.34	8.00
Custom benchmark	12.34	11.84	12.36	9.43
U.S. TIPS composite⁴				
IPERS	4.00	3.03	NA	NA
Custom benchmark	4.02	3.77	NA	NA
Other real assets⁵				
IPERS	25.81	NA	NA	NA
Custom benchmark	20.44	NA	NA	NA
Cash				
IPERS	0.13	0.18	0.45	2.09
U.S. Treasury bills	0.06	0.07	0.11	1.63

¹All returns are time-weighted returns. All returns beyond one year are annualized.

²The policy benchmark on June 30, 2014, consisted of 24 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 IPERS private equity portfolio, 1 percent custom benchmark for other real assets, 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.

³Private 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 over long periods of time, usually many years. Note that effective Oct. 1, 2013, the private equity component of the policy benchmark changed from Wilshire 5000 + 3 percentage points to the return of the private equity portfolio itself. The change was made in recognition of the very long-term nature of private equity, the lack of investable benchmarks for the asset class, and the ineffectiveness of time-weighted returns to measure the performance of private equity. See the Private Equity/Debt section of this report for a discussion of the private equity/debt portfolio's performance using IRRs.

⁴Initial funding for this asset class occurred in the fourth quarter of 2010.

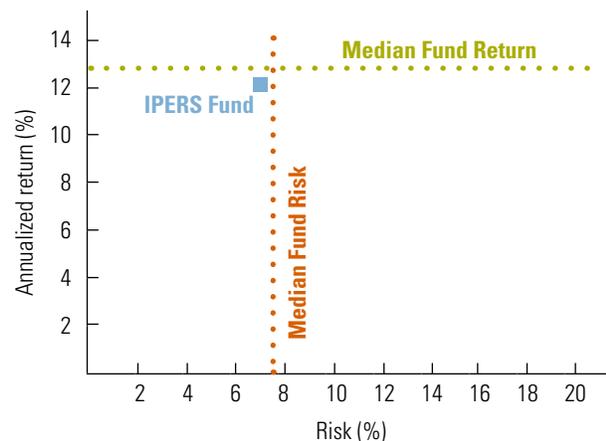
⁵Initial funding for this asset class occurred in the second quarter of 2012.

A more meaningful peer 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, 2014, was slightly lower than the median large public pension fund return, but 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, 2014



Domestic Equity

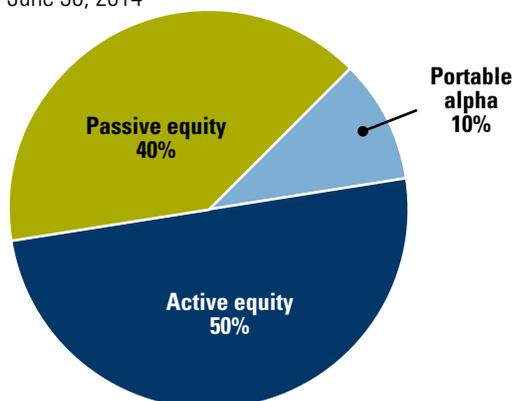
At June 30, 2014, 26.34 percent of IPERS' total portfolio was invested in domestic equities. The total net fair value of the domestic equity portfolio was \$7.370 billion. The portfolio is widely diversified across various equity market sectors and industries and has highly diversified financial characteristics and risk factors that influence the overall return.

The IPERS domestic equity portfolio has three components:

PASSIVE EQUITY. The passive component is divided into large-cap and small- to midcap strategies for management purposes and consists primarily of investments in commingled index funds, index

Domestic Equity Portfolio

June 30, 2014



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.

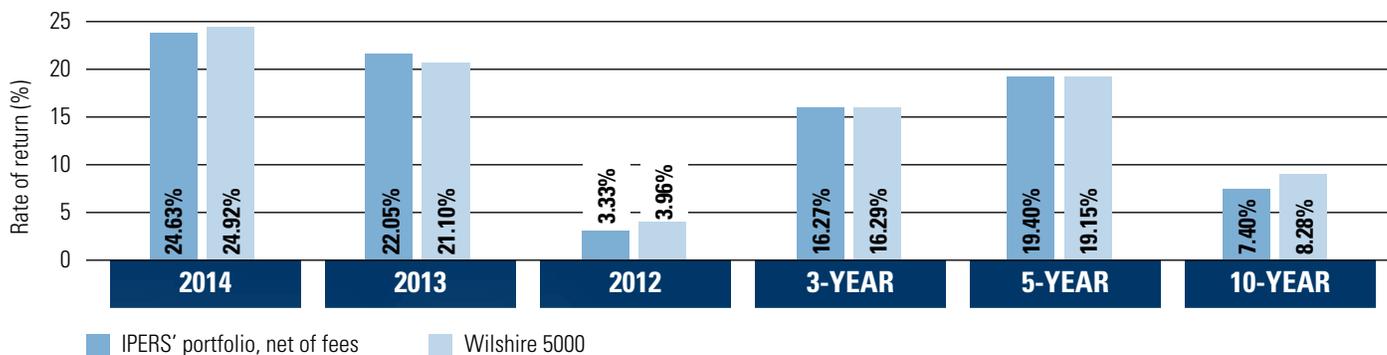
PORTABLE ALPHA. Traditional active equity strategies seek to produce returns in excess of the market (known as "alpha") through sector and stock selection. However, these traditional active strategies have historically produced mediocre excess returns, usually with a lot of volatility. This is generally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

For the year ended June 30, 2014, IPERS' domestic equity portfolio delivered a return of 24.63 percent, compared to 24.92 percent for its benchmark, the Wilshire 5000 index. Nearly all of the underperformance in fiscal year 2014 came from the two portable alpha managers as well as the small- to midcap (SMID) value manager. Each of these three managers, whose combined exposure represented 12.72 percent of the domestic equity program,

Domestic Equity Performance

For Periods Ended June 30



Note: 3-, 5-, and 10-year results are annualized returns.

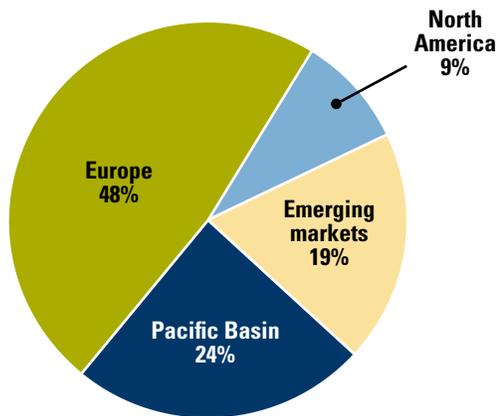
underperformed their respective benchmark by 5.00 percent during the fiscal year. The program's minor tilt to small-cap equity securities added relative value during the period.

International Equity

At June 30, 2014, the international equity portfolio had a net fair value of \$4.429 billion, representing 15.83 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, 2014



The international equity portfolio has three components:

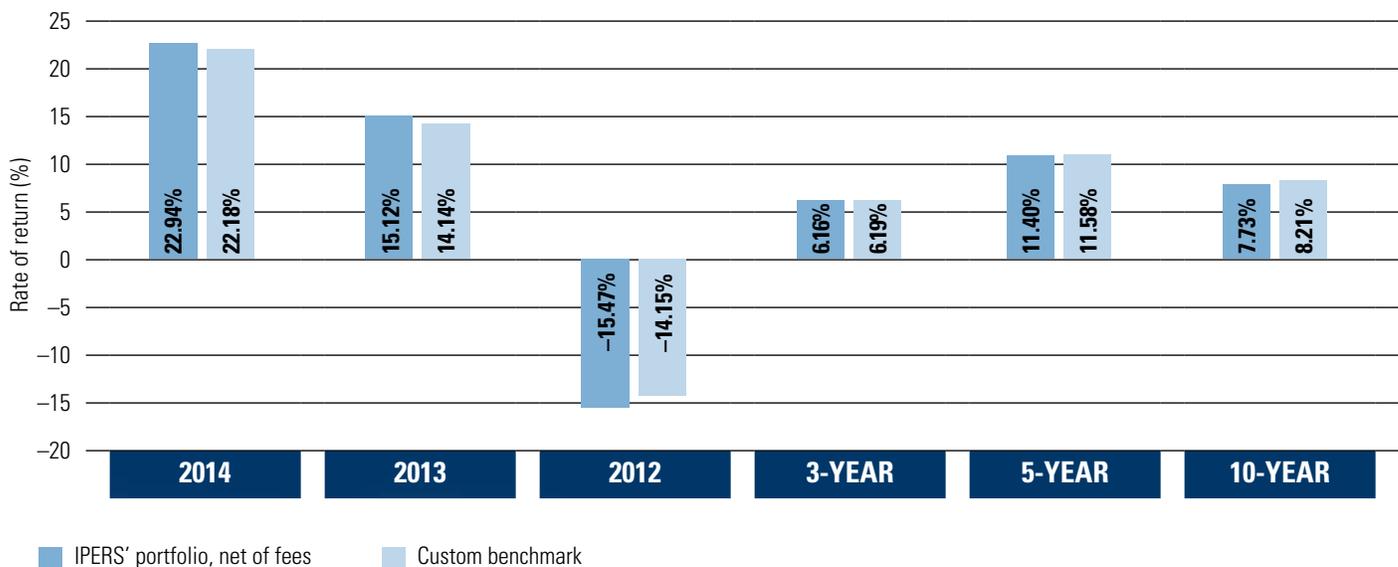
ACTIVE EQUITY. This component is an actively managed diversified portfolio consisting primarily of equity securities issued by foreign companies in developed countries. For purposes of investment management, a regional approach is used to invest in these international markets. The active equity portfolio's performance objective is to exceed the return of the 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 (EAFE) 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.

International Equity Performance

For Periods Ended June 30



Note: 3-, 5-, and 10-year results are annualized returns.

Developed international equity markets once again delivered strong returns in FY2014. The European Central Bank's continued aggressive policies aimed at reversing deflation and fueling economic growth were a key contributor to the strong results. On a regional basis, Europe's 1-year return of 29.28 percent was nearly double that delivered by either the Pacific or emerging market regions. Ongoing concerns over when central banks might begin to tighten, as well as favorable relative pricing fundamentals within Europe, both contributed to Europe's preferred market status during the year. The international equity market returned 22.18 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, 2014. A strong return of 29.34 percent generated by German stocks was the main driver of the developed European equity market's 1-year return of 29.28 percent. Concerns over a hike in the value-added tax in Japan, along with how much of a boost the Japanese economy would receive from the latest set of reforms laid out by the Abe government, both put downward pressure on the Pacific region which produced a return of 13.32 percent for fiscal year 2014.

IPERS' international equity portfolio outperformed in fiscal year 2014, returning 22.94 percent versus 22.18 percent for the benchmark. Strong overall stock selection by all of the active managers in the international program was a significant source of added value in fiscal year 2014. In addition, an overweight exposure to the developed European region and an underweight to the emerging markets region also contributed to the program outperformance. At June 30, 2014, the portfolio's 5-year return of 11.40 percent slightly trailed the 11.58 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, 2014, follow. 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, 2014

	Fair Value (\$000)	% of Total
Simon Property Group, Inc.	\$ 70,197	1.08
Wells Fargo & Company	57,027	0.88
Apple, Inc.	55,704	0.86
Exxon Mobile Corporation	55,116	0.85
Google, Inc.	51,837	0.80
Enterprise Products Partners LP	46,548	0.72
Citigroup	45,207	0.70
Baidu, Inc.	39,160	0.60
Boston Properties, Inc.	38,982	0.60
Cellegene Corporation	37,628	0.58
Total	\$497,406	7.67

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 credit opportunities securities. At fiscal year-end, IPERS' core-plus portfolio was 27.19 percent of total Fund assets and the credit opportunities bond portfolio was 5.12 percent of total Fund assets. The total return for the consolidated fixed-income portfolio (core-plus and credit opportunities portfolios combined) for the year ended June 30, 2014, was 6.04 percent. The consolidated fixed-income portfolio fair value was \$9.039 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 15 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, nondollar 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.

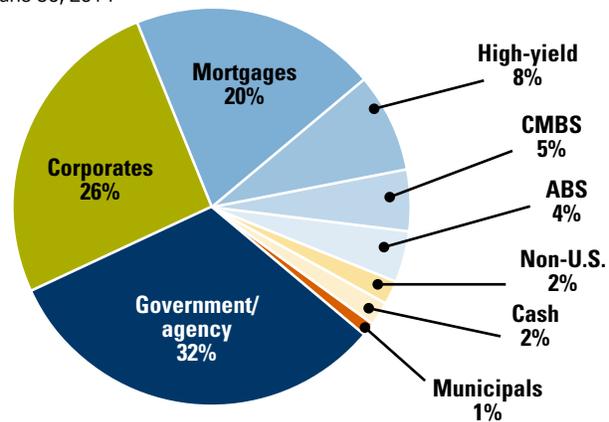
The actively managed portion of the core-plus portfolio is expected to have interest rate sensitivity similar to the Universal index, and be diversified by industry, sector, and security issuers.

The fixed-income market generated modest returns for fiscal year 2014. After a harsh winter and an economic slowdown, the economy picked up momentum late in the first quarter that continued into the second quarter of 2014. Improvements in overall job growth, including a drop in the unemployment rate, and stronger manufacturing data were some of the key drivers. The Federal Reserve remained accommodative by maintaining the federal funds target range at 0.00 to 0.25 percent over fiscal year 2014. However, the Fed did initiate a systematic tapering of its quantitative easing program, reducing the amount of its bond purchases.

Investors generally focused on longer-maturity, higher-yielding securities in the current low-rate environment, as can be seen in the following Barclays Capital index returns. The U.S. corporate high-yield sector index returned 11.73 percent and the U.S. credit sector index provided a return of 7.44 percent, while the Treasury sector index returned 2.04 percent and the mortgage sector index returned 4.66 percent for the fiscal year. IPERS' core-plus fixed-income portfolio return of 5.22 percent slightly outperformed the Barclays Capital Universal index return of 5.20 percent for the fiscal year ended June 30, 2014.

Core-Plus Fixed-Income Portfolio

June 30, 2014

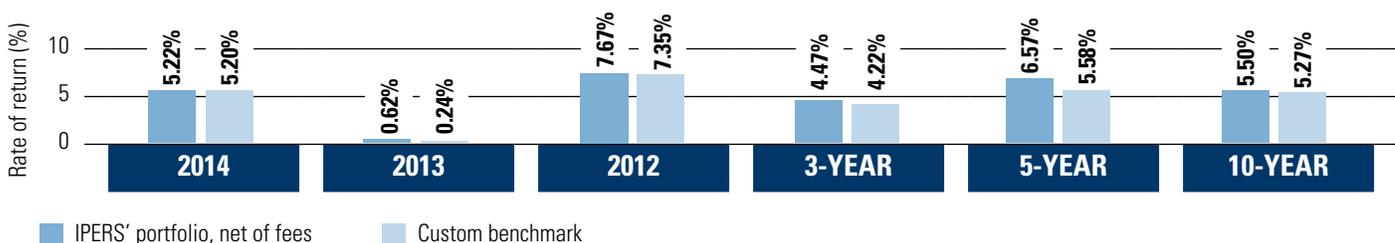


CREDIT OPPORTUNITIES FIXED INCOME. The objective of the credit opportunities fixed-income portfolio is to enhance the long-term returns of the Fund, to provide current income, and to provide diversification benefits. Approximately two-thirds of the credit opportunities portfolio is invested in high-yield securities, while approximately one-third is invested in emerging market debt securities.

IPERS' credit opportunities fixed-income portfolio generated a return of 10.47 percent for fiscal year 2014 versus its custom benchmark return of 11.16 percent. The high-yield portion of the portfolio provided a return of 10.63 percent versus the Citigroup High-Yield Cash-Pay Capped index return of 11.19 percent. The emerging market debt portion of the portfolio generated a return of 10.07 percent through June 30, 2014, underperforming the J.P. Morgan EMBI Global index return of 11.04 percent over the same time period.

Core-Plus Fixed-Income Performance

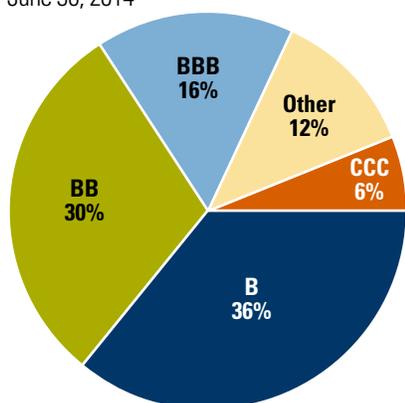
For Periods Ended June 30



Note: 3-, 5-, and 10-year results are annualized returns.

Credit Opportunities Fixed-Income Portfolio

June 30, 2014



Fixed-Income Portfolio: Top Ten Holdings

The top ten holdings within the consolidated fixed-income portfolio (core-plus and credit opportunities combined) at June 30, 2014, 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, 2014

U.S. Treasury Note—2.750%, 2/15/24	\$ 305,581	3.78
U.S. Treasury Note—2.125%, 1/31/21	120,118	1.48
U.S. TIPS—0.125%, 4/15/16	105,163	1.30
FNMA TBA 30-Year—4.000%, 8/1/44	96,180	1.19
U.S. TIPS—0.625%, 1/15/24	84,324	1.04
U.S. TIPS—0.125%, 4/15/17	75,384	0.93
U.S. Treasury Note—0.250%, 10/31/15	75,085	0.93
U.S. Treasury Note—2.000%, 5/31/21	74,705	0.92
U.S. Treasury Note—0.875%, 6/15/17	70,327	0.87
U.S. TIPS—0.375%, 7/15/23	62,986	0.78

Total

Fair Value (\$000)	% of Total
\$1,069,853	13.22

Private Equity/Debt

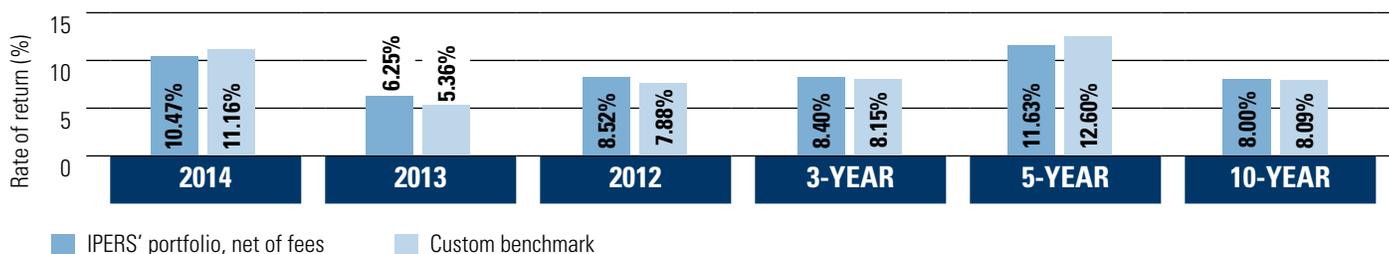
At June 30, 2014, IPERS' private equity/debt portfolio had a fair value of \$3.075 billion, representing 10.99 percent of the total IPERS portfolio. From the inception of the private equity/debt portfolio through June 30, 2014, the System has committed \$8.152 billion to 269 partnerships and 1 fund-of-funds investment. During fiscal year 2014, IPERS committed a total of \$778.1 million across 7 new partnerships, 2 add-on commitments, and a new fund of funds. At June 30, 2014, commitments of \$1.791 billion remained to be called for investment.

IPERS began investing in private equity in 1985 and has, since January 1, 1993, utilized the services of a full-discretion investment management firm, Pathway Capital Management, LLP (Pathway), to select partnerships and manage the portfolio of private equity funds. Beginning January 1, 2014, IPERS began utilizing a new structure for private equity investments by creating a fund-of-funds partnership (Pathway Private Equity Fund XXV) with Pathway. The fund-of-funds investment structure is expected to reduce IPERS' operational burden while allowing IPERS to more efficiently invest in secondary and co-investment opportunities. The new structure did not result in any changes to Pathway's existing contract, including fee arrangements.

IPERS seeks to minimize the risk associated with private equity 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.

Credit Opportunities Fixed-Income Performance

For Periods Ended June 30



Note: 3-, 5-, and 10-year results are annualized returns.

IPERS' goal for the private equity/debt portfolio is to exceed the internal rate of return (IRR) of the Wilshire 5000 index by 3 percentage points (net of investment management fees) over rolling 10-year periods. The internal rate of return is used because private equity investments are generally illiquid and cash inflows and outflows can be controlled by the general partner of the private equity partnership, making time-weighted returns inappropriate.

Private equity investments typically span ten years or more, so a longer evaluation time horizon is appropriate. The total private equity/debt portfolio returned 15.11 percent (net IRR) versus its benchmark return of 11.43 percent for the 10-year period ended June 30, 2014. Since inception in 1985, IPERS' total private equity/debt portfolio has returned 14.22 percent, slightly underperforming the benchmark return of 14.85 percent. Since 1993, Pathway has produced a net IRR of 16.51 percent. This return compares favorably to the 9.65 percent IRR of the custom benchmark IPERS has established for the manager and the 11.82 percent IRR of IPERS' asset class benchmark for private equity (Wilshire 5000 + 3 percentage points) over that time period.

"Distributions to paid-in capital" (DPI) ratios, which measure the ratio of cumulative distributions to cumulative paid-in capital for the time period, is another metric for evaluating private equity performance. Since 1985, the total private equity/debt portfolio's DPI was 1.22, while the DPI since 1993 was 1.10.

The Cambridge Associates All Regions Private Equity Composite performance database includes data from thousands of partnerships and makes it possible to compare a portfolio to a universe of private equity partnerships that raised capital over the same time period. As explained in the Summary of Significant Accounting Policies in the Financial section of this report, IPERS utilizes a one-quarter valuation lag for its private equity/debt investments. All Cambridge Associates information is as of October 2014, with data current for reporting periods ended March 31, 2014 (that is, it is also lagged by one quarter). Data is continuously updated and is therefore subject to change.

The following tables compare the IRR and DPI of IPERS' private equity/debt portfolio to those calculated for all private equity partnerships in the Cambridge Associates database for the periods 1985–2013 and 1993–2013. The IPERS program compares favorably over both time periods.

Vintage Years 1985–2013

IPERS' private equity/debt portfolio
Cambridge Associates All Regions
Private Equity Composite

IRR	DPI
14.22%	1.22
14.26%	0.94

Vintage Years 1993–2013

IPERS' private equity/debt portfolio
Cambridge Associates All Regions
Private Equity Composite

IRR	DPI
16.51%	1.10
13.41%	0.91

Real Estate

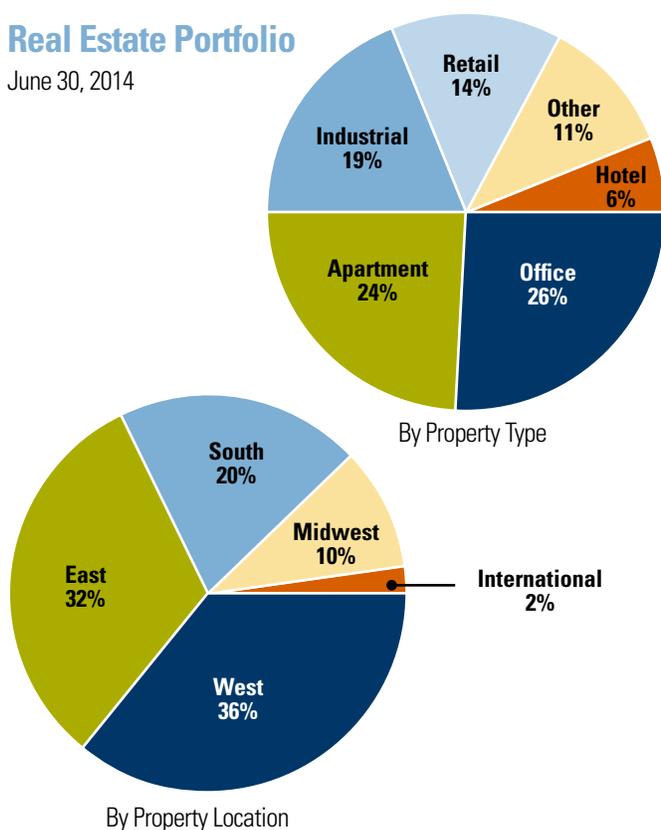
At June 30, 2014, \$2.181 billion, or 7.80 percent, of IPERS' total portfolio at fair value was invested in various private equity real estate properties, two real estate private debt funds, and publicly traded real estate investment trusts (REITs). In FY2013 IPERS expanded its real estate program to include private real estate debt strategies. As of June 30, 2014, IPERS had funded approximately \$69.9 million across the two debt funds and had remaining commitments of \$130.1 million.

The real estate program serves three distinct purposes for IPERS: diversification, income production, and inflation protection. 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 IPERS real estate portfolio benchmark is a blended benchmark of 75 percent NCREIF Open-End Diversified Core index/25 percent Wilshire REIT index. For the fiscal year, IPERS' real estate program posted a return of 11.72 percent versus the benchmark return of 12.34 percent. Outperformance in the public REIT portfolio and favorable income returns in the private portfolio were offset by trailing appreciation returns in the private portfolio. 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 10 years ended June 30, 2014, the real estate portfolio returned 8.00 percent, net of fees, versus the portfolio's benchmark of 9.43 percent. The long-term underperformance can be explained entirely by the private portion of the real estate program, with much of it attributable to one manager that was terminated in 2012, while the public REIT portfolio did quite well, returning 10.13 percent versus the Wilshire REIT return of 9.55 percent over the 10-year period.

Real Estate Portfolio

June 30, 2014



U.S. TIPS

At June 30, 2014, \$1.201 billion, or 4.29 percent, of IPERS' total portfolio at fair value was invested in Treasury inflation-protected securities (U.S. TIPS). IPERS invests in 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 utilizes one active TIPS manager that is benchmarked against the Barclays Capital U.S. TIPS 1-10 Year index and one passive manager that is benchmarked against the broader Barclays Capital U.S. TIPS index. IPERS' U.S. TIPS portfolio generated a return of 4.00 percent for the fiscal year, which slightly underperformed the blended custom benchmark return of 4.02 percent.

Other Real Assets

IPERS invests in real estate and U.S. TIPS for the purpose of protecting the investment portfolio from inflation. The other real assets portfolio has the same objective, but can invest in less traditional strategies in order to better diversify IPERS' inflation protection and its overall investment portfolio. In September

2010, the Investment Board approved a 2 percent target allocation to other real assets, with the stipulation that the target allocation would be accomplished over time by reducing the target allocation to domestic equity as these strategies were funded. At June 30, 2014, IPERS had invested \$468.6 million, representing 1.68 percent of the total Fund market value. The total return for this portfolio for the year ended June 30, 2014, was 25.81 percent, which exceeded its custom benchmark return of 20.44 percent.

IPERS' other real assets portfolio currently has three main components:

TIMBERLAND. The objective of the timberland strategy is to achieve a 5 percent real return after inflation and manager fees. The portfolio is diversified by geography, species, and timber markets. The benchmark for the timberland portfolio is the Consumer Price Index plus 5 percentage points. While the IPERS timberland portfolio is still in the acquisition phase, it had acquired several parcels of U.S. timberland with a market value of \$107.9 million as of June 30, 2014, and returned 7.05 percent for the fiscal year versus its benchmark return of 7.17 percent. Timberland investments represented 23 percent of the other real assets portfolio on June 30, 2014.

ENERGY INFRASTRUCTURE. Master limited partnerships, which are tax-favored investment vehicles traded on public stock exchanges, have become an important source of funding for the development and improvement of America's energy infrastructure (such as pipelines, storage facilities, and transportation). Master limited partnerships have also become an attractive investment for institutional investors because the securities provide access to inflation-protected revenue streams, a substantial dividend yield, and the liquidity of the public stock markets. The objective of the master limited partnership strategy is to achieve a return above the S&P Master Limited Partnership Total Return index, net of fees. IPERS' master limited partnership portfolio had a market value of \$360.7 million as of June 30, 2014, and returned 32.68 percent for the fiscal year versus its benchmark return of 24.87 percent. Master limited partnership investments represented 77 percent of the other real assets portfolio on June 30, 2014.

FARMLAND. IPERS contracts with an investment manager to acquire farmland in the United States. However, the manager has not yet identified any quality U.S. farmland investments that can achieve

IPERS' objective of a 5 percent real return after inflation and all fees. Therefore, IPERS had no farmland investments as of June 30, 2014.

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, 2014, the System held investments of \$1.694 billion in companies of Iowa interest.

Holdings in Companies of Iowa Interest

June 30, 2014

Asset Class	Amount
Stocks	\$1,262,098,335
Bonds	427,726,507
Private equity/debt	4,634,500
Total	\$1,694,459,342

Schedule of Brokerage Commissions Paid

Fiscal Year Ended June 30, 2014

PUBLIC EQUITY			
Brokerage Firm	Amount Paid	Shares Traded	Average Per Share
J.P. Morgan	\$ 537,839	80,561,288	\$0.007
Credit Suisse	493,650	68,709,035	0.007
UBS	447,853	77,474,824	0.006
Merrill Lynch	430,919	49,019,510	0.009
Citigroup	403,197	60,975,126	0.007
Goldman Sachs & Co.	343,238	61,450,399	0.006
Deutsche Bank	309,663	40,922,657	0.008
Morgan Stanley & Co. Inc.	248,540	36,532,168	0.007
Barclays Capital, Inc.	202,187	37,445,170	0.005
Macquarie Securities	180,257	33,087,802	0.005
Instinet Corporation	166,827	53,167,498	0.003
HSBC Securities	138,036	27,679,142	0.005
RBC Capital Markets LLC	98,430	3,492,275	0.028
SG Securities	95,743	38,787,636	0.002
ISI Group, Inc.	82,899	3,983,148	0.021
Credit Lyonnais Securities	79,249	18,835,635	0.004
G-Trade Services, Ltd.	67,336	32,597,846	0.002
Citation Group/BCC Clearing	67,197	1,629,397	0.041
BNP Paribas Securities Corporation	65,502	21,435,731	0.003
Stifel Nicolaus	63,437	1,579,457	0.040
Investment Technology, Inc.	60,867	5,295,720	0.011
Bernstein Sanford C & Co.	59,680	4,045,256	0.015
Banco Santander	58,952	3,625,089	0.016
Wells Fargo Securities LLC	57,043	1,656,287	0.034
Jefferies & Co. Inc.	56,269	2,804,695	0.020
All others (includes 132 brokerage firms)	883,144	90,518,385	0.010
Total commissions	\$5,697,954	857,311,176	\$0.007
FUTURES AND OPTIONS			
Brokerage Firm	Amount Paid	Contracts Traded	Average Per Contract
J.P. Morgan	\$ 319,444	104,804	\$3.05
Goldman Sachs & Co.	254,257	84,072	3.02
Morgan Stanley & Co. Inc.	225,085	83,975	2.68
UBS	38,936	24,376	1.60
Barclays Capital, Inc.	15,226	12,799	1.19
Credit Suisse	2,521	2,490	1.01
Merrill Lynch	1,891	1,876	1.01
Total futures and options	\$ 857,360	314,392	\$2.73
Total commissions and futures and options	\$6,555,314		

Note: Brokerage commissions do not include commissions paid by external managers utilizing commingled fund structures.

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 2013, 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 while staying within the Board's tolerance for risk expressed in this

Policy. 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 while staying within the Board's tolerance for active risk expressed in this Policy.

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. 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 Fund's mission and goals while staying within the Board's tolerance for 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 without significantly increasing the overall risk of the portfolio. The Board will adopt an active risk budget that establishes its tolerance for active risk. Staff will be responsible for allocating and rebalancing active risk among asset classes with the objective of maintaining the active risk budget established by the Board.

Beta and alpha decisions shall be made and evaluated according to the Risk Management Policy adopted by the Board (See Appendix F.) The Risk Management Policy communicates the Board's tolerance for investment risk by establishing investment risk budgets for the Fund's surplus risk and active risk. (Surplus risk takes into account the timing and potential volatility of the Fund's liabilities.) Unless the Board authorizes an override, risk management policy shall take precedence over investment policy.

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 risk. The Policy Benchmark is predicated on a number of factors, including:

- a. The liabilities.
- 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, including the impact of correlations.
- d. Historical distribution of returns, average volatility of returns, and correlations between asset classes as well as liabilities.

- 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, measured on a market value basis, while the Asset Class Ranges establish the ranges within which actual weights may fluctuate. The Policy Benchmark Return is the sum of the products of the Policy Benchmark Weights and the respective Policy Benchmark Index returns 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%	Custom Index 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%	Custom Index ⁴
Other Real Assets	0%–4%	2%	Custom Index ⁵
Cash	0%–2%	1%	Merrill Lynch 91-Day T-Bill

¹ For purposes of calculating a Policy Benchmark return for this asset class, the custom index is the private equity/debt portfolio itself. See Private Equity/Debt section under 2. Policy Benchmark Components for explanation.

² The credit opportunities custom index for purposes of the Policy Benchmark Index is weighted 67 percent Citigroup HY Cash Pay Capped Index and 33 percent JP Morgan EMBI Global Index.

³ The equity real estate custom index for purposes of the Policy Benchmark Index is weighted 75 percent NCREIF Open-End Diversified Core Index (ODCE) and 25 percent Wilshire REIT Index.

⁴ This benchmark is defined as 50 percent Barclays Capital U.S. TIPS Index and 50 percent Barclays Capital 1–10 Year U.S. TIPS Index.

⁵ 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 67 percent the Citigroup High-Yield Cash-Pay Capped Index and 33 percent the JP Morgan EMBI Global Index.

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' (NCREIF) Open-End Diversified Core Index (ODCE) 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, generally have lock-up periods of ten years or more, and are subject to long valuation lags. IPERS seeks to be compensated for such illiquidity by earning returns substantially greater than those available from publicly traded equity markets. There is no appropriate benchmark for measuring private equity performance on a time-weighted basis over short time periods. Therefore, for purposes of calculating a Policy Benchmark return for this asset class, the custom index is the portfolio itself. However, Private Equity/Debt will be evaluated annually against a Wilshire 5000 plus 300 basis point benchmark, but using internal rates of return and long-term evaluation periods and vintage year comparisons. (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). However, U.S. TIPS can introduce interest rate risk into the Fund portfolio, and IPERS will utilize some shorter duration U.S. TIPS strategies in order to mitigate some of the interest rate risk. The Policy Benchmark Index for U.S. TIPS is a weighted custom index of 50 percent the Barclays Capital U.S. Treasury Inflation Protected Securities Index and 50 percent the Barclays Capital 1-10 Year 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 the responsibility of IPERS staff to keep actual weights within the Asset Class Ranges. However, 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’s actual return. IPERS believes that positive alpha can be consistently earned by selecting skillful managers and applying that skill to a broad set of investment strategies. By employing a combination of strategies that have low return correlation with one another, and also exhibit low correlation with beta returns, IPERS believes that consistent positive active returns (net of all fees) can be achieved at low levels of additional risk to the total fund.

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 estimated degree of correlation between a strategy’s performance and the Policy Benchmark, the breadth and depth of available active managers, and contribution to the active 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 or the total fund as an overlay 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 will be structured to meet an active risk budget established and defined in the Risk Management Policy that reflects the Board's tolerance for active risk. The Board and staff will annually evaluate the alpha portfolio against the Active Risk Target and determine if any actions should be taken to address any deviations.

It shall be the staff's responsibility to manage the alpha portfolio's active risk. Staff will monitor active risk on an ex-ante and ex-post basis, and shall have the discretion to take action to lower or increase the ex-ante active risk if necessary to stay within the Active Risk Budget established in the Risk Management Policy. Because of the volatility of short-term alpha returns, positioning within the specified Active Risk Range is acceptable and constitutes compliance with the Policy. It is anticipated that the Board will periodically revise the active risk budget, and it is acknowledged that it may be prudent to allow an extended period of time to fully implement revisions to the active risk budget.

C. Investment Management

IPERS will select and utilize external investment management firms or funds 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 the applicable provisions of Iowa Code §§ 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 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 percent of the Fund's total assets;
- b. IPERS' investment in an investment manager's actively managed strategy shall not exceed 20 percent 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. In the case of cash denominated in a currency other than the U.S. dollar (USD), it shall be the responsibility of the investment management firm to repatriate or obtain foreign currency for any non-USD cash flows in its account. Investment managers are expected to obtain best execution on all foreign exchange transactions. IPERS staff shall have responsibility for repatriating or funding any non-USD cash flows from the Private Equity/Debt program, and will use an agency broker to attempt to obtain best execution on those foreign exchange transactions.

E. Currency Risk Management

Investment in non-USD 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 over the counter, non-exchange-traded swaps or options (OTC 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 OTC 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 OTC 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 OTC 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 OTC Derivatives.
7. OTC Derivative transactions shall be executed under an International Swap Dealers Association (ISDA) agreement. Collateral provided to IPERS by counterparties under a derivatives contract shall be delivered to and held by the System's custodian bank, or delivered and held by a third party agent under a Credit Support Annex (CSA) to the ISDA agreement executed by IPERS or the investment manager on behalf of IPERS.
8. Managers shall reconcile cash and margin requirements concerning derivatives on a daily basis with the System's custodian bank or any applicable third party under a CSA.
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.
2. Would give advantage to competitors and serve no public purpose.
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 and 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 chief executive officer 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 active 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 Active 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

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ACTUARY'S CERTIFICATION LETTER

PRINCIPAL VALUATION RESULTS

ACTUARIAL BALANCE SHEET

SOLVENCY TEST

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

RETIREES AND BENEFICIARIES—CHANGES IN ROLLS

SCHEDULE OF FUNDING PROGRESS

ACTUARIAL ASSUMPTIONS AND METHODS

CONTRIBUTION RATE FUNDING POLICY



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November 14, 2014

This report presents the results of the June 30, 2014 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 (ACR) and the Required Contribution Rates for the Regular membership, Sheriffs and Deputies, and the Protection Occupation group (all public safety members other than Sheriffs and Deputies) in accordance with IPERS' Contribution Rate Funding Policy,
- to evaluate the funded status of the System and disclose various asset and liability measures as of June 30, 2014,
- 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, 2014. The results reflect net favorable experience for the past plan year as demonstrated by an unfunded actuarial liability (UAL) that was lower than expected. The UAL on June 30, 2014 for all three membership groups covered by IPERS is \$5.544 billion as compared to an expected UAL of \$6.063 billion. The favorable experience was the combination of an experience gain of \$527 million on the actuarial value of assets and an experience loss of about \$8 million on System liabilities.

There were no changes in the plan provisions since the prior valuation. However, there were assumption and method changes as a result of the experience study completed earlier in 2014, which covered the study period of June 30, 2009 to June 30, 2013. The changes are described below:

- The inflation assumption decreased from 3.25% to 3.00% per year. Even though the inflation assumption was lowered, the investment return assumption and the general wage growth assumption, which both include inflation as a component of the assumption, did not change.
- The assumed rate of interest on member accounts was decreased to 3.75% per year from 4.00%.
- Male mortality rates for Regular members were adjusted by setting rates back one year:
 - State males were changed to the RP-2000 Healthy Annuitant Table using generational mortality projections with no age adjustment.
 - School males were changed to the RP-2000 Healthy Annuitant Table using generational mortality projections with a 1-year age set back and rates decreased by 5% below age 75.
 - Other males were changed to the RP-2000 Healthy Annuitant Table using generational mortality projections with no age adjustment.
- Retirement rates were reduced for Sheriffs and Deputies between the ages of 55 and 64.



- Beginning June 30, 2014, the Amortization Method amortizes the June 30, 2014 UAL as a level percentage of payroll over a closed 30-year period. Each year thereafter, changes in the UAL will result in the establishment of new bases. The future bases arising from plan experience will be amortized over a closed 20-year period beginning on the date the base is established. The amortization period for changes in the UAL due to plan amendments and assumption changes will be determined by the Investment Board at the time they occur.

Historically, the statutory contribution rate for Regular members was set by state statute. Effective with the 2011 valuation, IPERS has the authority to set the Required Contribution Rate (RCR) for the Regular membership group based on the Actuarial Contribution Rate (ACR) developed in the annual actuarial valuation, subject to a change of no more than 1% per year. From 2001 until 2011, the valuations indicated that the Required Contribution Rate was less than the Actuarial Contribution Rate. In the 2012 valuation, the Required Contribution Rate was equal to the ACR for Regular members. Based on the current Contribution Rate Funding Policy, the Required Contribution Rate for Regular members and the Sheriffs and Deputies group will remain unchanged. However, the Required Contribution Rate for Protection Occupation members will decrease 0.50%. The Required Contribution Rate for all three groups is greater than the ACR, as shown in the table below:

Contribution Rate for FY 2016			
	Regular Membership	Sheriffs and Deputies	Protection Occupation
1. Normal Cost Rate	10.23%	16.50%	16.04%
2. Amortization of UAL	4.12%	1.40%	0.00%
3. Actuarial Contribution Rate	14.35%	17.90%	16.04%
4. Required Contribution Rate	14.88%	19.76%	16.40%
5. Shortfall/(Margin) (3) – (4)	(0.53)%	(1.86)%	(0.36)%
6. Employee Contribution Rate	5.95%	9.88%	6.56%
7. Employer Contribution Rate (4) - (6)	8.93%	9.88%	9.84%
8. Unfunded Actuarial Liability (\$M)	\$5,516	\$29	(\$1)
9. Funded Ratio	81.7%	94.8%	100.1%

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 gain on assets of about \$527 million. Between June 30, 2013 and June 30, 2014, the actuarial value of assets increased by \$1,749 million. This represented an approximate rate of return of 9.7%, higher 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. 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, 2014 in the following table:

<i>(\$Millions)</i>	Regular Membership	Sheriffs & Deputies	Protection Occupation	Total*
Actuarial Liability	\$30,205	\$556	\$1,243	\$32,004
Actuarial Value of Assets	24,689	527	1,244	26,460
Unfunded Actuarial Liability*	5,516	29	(1)	5,544
Funded Ratio	81.7%	94.8%	100.1%	82.7%

*May not add due to rounding.

Changes in the UAL occur for various reasons. The net decrease in the UAL from June 30, 2013 to June 30, 2014 was \$243 million. The components of this net change are shown in the following table (in millions):

Unfunded Actuarial Liability, June 30, 2013 (\$M)	\$ 5,787
• Expected increase from amortization method	99
• Expected increase from contributions below actuarial rate	0
• Investment experience	(527)
• Liability experience*	8
• Change to amortization method	0
• Changes to actuarial assumptions	215
• Other	(38)
Unfunded Actuarial Liability before FED transfer, June 30, 2014	\$ 5,544
• FED Transfer for favorable experience	0
Unfunded Actuarial Liability after FED transfer, June 30, 2014	\$ 5,544

* Liability experience is 0.02% of the actuarial liability.

As seen above, various factors impacted the UAL. 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 gain of \$519 million. The net actuarial gain may be explained by considering the separate experience of assets and liabilities. As noted earlier, there was a \$527 million gain as measured on the actuarial value of assets. There was an actuarial loss of \$8 million from demographic experience slightly less favorable than anticipated by the actuarial assumptions. In addition, there was also a \$215 million increase in the UAL due to the assumption changes adopted by the Investment Board as a result of the experience study completed earlier in 2014.

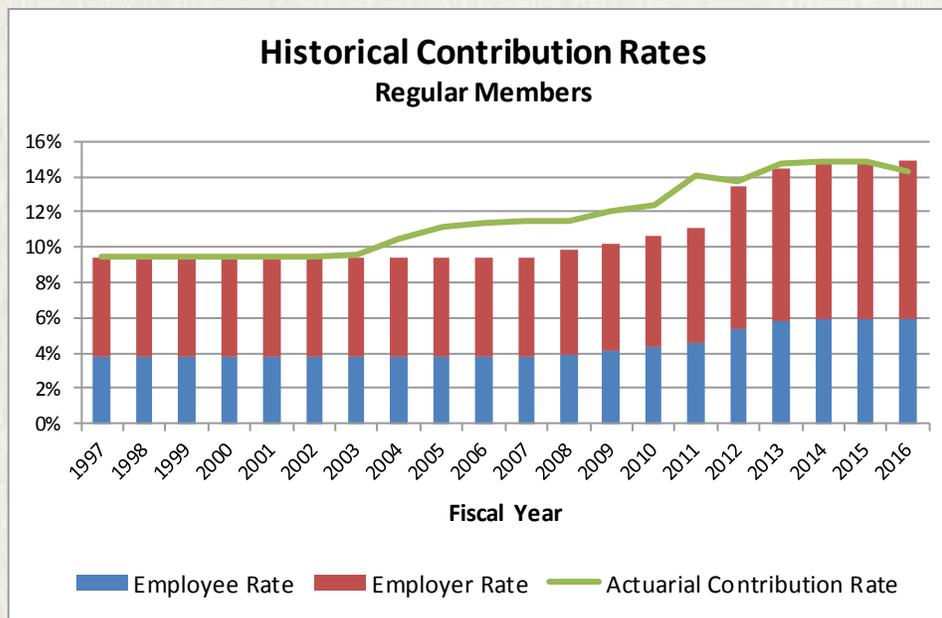
Contribution Rate

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 (statutory) contribution rate and the actuarial contribution rate is shown in the following graph:



There were several factors that impacted the contribution rates in the 2014 valuation. The contribution rates are summarized in the following table:

Contribution Rate for FY 2016	Regular Membership	Sheriffs & Deputies	Protection Occupation
1. Actuarial Contribution Rate	14.35%	17.90%	16.04%
2. Required Contribution Rate	14.88%	19.76%	16.40%
3. Employee Contribution Rate	5.95%	9.88%	6.56%
4. Employer Contribution Rate (2) – (3)	8.93%	9.88%	9.84%
5. Shortfall/(Margin) (1) – (2)	(0.53)%	(1.86)%	(0.36)%

Based on the results of this valuation, the Required Contribution Rate for Regular members for the fiscal year ending June 30, 2016 is 14.88%, which is above the Actuarial Contribution Rate. The remaining 5% of the active members, the Sheriffs and Deputies group and the Protection Occupation group, have historically contributed at the Actuarial Contribution Rate which was subject to change each year. However, based on the current Contribution Rate Funding Policy, the Required Contribution Rate for the Sheriffs and Deputies remains unchanged from last year's report, while the Protection Occupation group's rate decreased by 0.50% due to their funded status. The Required Contribution Rate for Protection Occupation members is still higher than the ACR due to the Funding Policy. As a result, the Required Contribution Rate for all three groups exceeds their respective ACR. Therefore, a higher stream of contributions in the future is anticipated to fund the UAL and the number of years to amortize the UAL, based on the Required Contribution Rate, is less than the amortization period set by the Actuarial Amortization Policy (30 years in this valuation).

The Actuarial Contribution Rate is determined based on the snapshot of the System taken on the valuation date, June 30, 2014, and applies only for the fiscal year beginning July 1, 2015. 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. The Required Contribution Rate will be set in each future year based on the Actuarial Contribution Rate and the Contribution Rate Funding Policy.



Summary

The investment return on the market value of assets for FY2014 was 15.88%, as reported by IPERS. As a result of a net experience gain on actuarial assets and liabilities, the System's funded ratio increased slightly from 81.0% in the June 30, 2013 valuation to 82.7% in this 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. Due to favorable investment experience in recent years, the return on the actuarial value of assets was 9.66%, higher than the assumed rate of 7.50%, resulting in an actuarial gain. Due to the return on the market value of assets, the deferred investment gain has increased from \$46 million in last years' valuation to \$1,580 million in the current valuation.

Based on the Contribution Rate Funding Policy, adopted by the Investment Board, the Required Contribution Rate determined in this year's valuation for Regular members will remain unchanged from last year, i.e. 14.88%. This rate is higher than the Actuarial Contribution Rate which was calculated using a 30-year closed amortization period. The Required Contribution Rate of 14.88% will apply for the fiscal year ending June 30, 2016. The Required Contribution Rate for the Sheriffs and Deputies and the Protection Occupation group in this valuation is also higher than the Actuarial Contribution Rate, as a result of applying the Contribution Rate Funding Policy.

This contribution rate is determined based on the snapshot of the System taken on the valuation date, June 30, 2014, and applies only for the fiscal year beginning July 1, 2015. The Actuarial Contribution Rate in future years will change each year as the deferred actuarial investment experience is recognized and as other experience (both investment and demographic) impacts the System. While the Required Contribution Rate can vary each year, the annual change to the rate is limited to 1.0% for Regular members. Therefore, depending on actual experience in future years, the Required Contribution Rate may vary from the Actuarial Contribution Rate.

The long-term financial health of this retirement system is heavily dependent on two key items: (1) future investment returns and (2) systematic contributions to the System at the full actuarially determined rate. Given the System's current funded status, the Actuarial Contribution Rate, and the Required 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, the Schedule of Funding Progress, and the Solvency Test in the Actuarial section. We also provided some information in the Financial section, including the calculation of the Total Pension Liability, the Schedule of Changes in the Employers' Net Pension Liability, and the sensitivity analysis on the Net Pension Liability. In addition, we provided the contribution rates used to calculate the actuarially required contributions reflected in the Schedule of Employer Contributions found in the Required Supplementary Information.

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.



Actuarial computations presented in the 2014 actuarial valuation report are for purposes of determining the recommended funding amounts for the System. The calculations have been made on a basis consistent with our understanding of the System's funding requirements and goals. Determinations for purposes other than meeting these requirements may be significantly different from the results shown in the June 30, 2014 actuarial valuation report. Accordingly, additional determinations may be needed for other purposes. We also prepared actuarial computations as of June 30, 2014 for purposes of fulfilling financial accounting requirements for the System under Governmental Accounting Standard No. 67 (GASB 67) based on the results of the June 30, 2014 actuarial valuation. The assumptions used in the funding valuation were also used for GASB 67 reporting, including the use of a 7.5% discount rate for the GASB 67 calculation of the Total Pension Liability (7.5% is the assumed rate of return used in the funding valuation). In addition, the entry age normal actuarial cost method, which is required to be used under GASB 67, is also used in the funding valuation. The actuarial assumptions and methods meet the parameters set by Actuarial Standard of Practice (ASOPs), as issued by the Actuarial Standards Board, and generally accepted accounting principles (GAAP) applicable in the United State of America as promulgated by the Governmental Accounting Standards Board (GASB).

In conclusion, on the following page we present comparative statistics and actuarial information on both the June 30, 2014 and June 30, 2013 valuations. All figures shown include the Regular members, Sheriffs and Deputies and the Protection Occupation 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

A handwritten signature in black ink that reads 'Patrice Beckham' in a cursive script.

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

A handwritten signature in black ink that reads 'Brent A. Banister' in a cursive script.

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



PRINCIPAL VALUATION RESULTS

	June 30, 2014	June 30, 2013	% Chg
SYSTEM MEMBERSHIP			
1. Active Membership			
- Number of members (excluding Retired/Reemployed)	165,911	165,095	0.5
- Projected Payroll for Upcoming Fiscal Year	\$7,337M	\$7,001M	4.8
- Average Salary	\$44,225	\$42,404	4.3
2. Inactive membership			
- Number Not in Pay Status	72,214	72,917	(1.0)
- Number of Retirees/Beneficiaries	107,934	104,640	3.1
- Average Annual Benefit	\$15,293	\$14,883	2.8
ASSETS AND LIABILITIES			
1. Net Assets (excluding FED reserve)			
- Market Value	\$28,039M	\$24,757M	13.3
- Actuarial Value	26,460M	24,711M	7.1
2. Projected Liabilities			
- Retired members	\$15,975M	\$15,001M	6.5
- Inactive members	651M	614M	6.0
- Active members	<u>21,927M</u>	<u>21,093M</u>	4.0
- Total Liability	\$38,553M	\$36,708M	5.0
3. Actuarial Liability	\$32,004M	\$30,498M	4.9
4. Unfunded Actuarial Liability	\$5,544M	\$5,787M	(4.2)
5. Funded Ratio			
a. Actuarial Value Assets/Actuarial Liability	82.68%	81.02%	2.0
b. Market Value Assets/Actuarial Liability	87.61%	81.17%	7.9
SYSTEM CONTRIBUTIONS			
Required Contribution Rate, Regular members*	14.88%	14.88%	0.0
Employer Contribution Rate	8.93%	8.93%	0.0
Employee Contribution Rate	5.95%	5.95%	0.0
Total Actuarial Contribution Rate	14.35%	14.60%	(1.7)
Shortfall/(Margin)	(0.53%)	(0.28%)	89.3

M = (\$)Millions

* Contribution rates for Sheriffs and Deputies are 9.88% for employers, 9.88% for employees

Contribution rates for Protection Occupation are 9.84% for employers, 6.56% 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, 2014**

	Regular Membership	Sheriffs & Deputies	Protection Occupation	Total
<u>ASSETS</u>				
Actuarial value of assets	\$24,688,992,673	\$527,010,103	\$1,244,425,309	\$26,460,428,085
Present value of future normal costs	5,886,916,726	144,295,801	517,312,843	6,548,525,370
Present value of future contributions to amortize unfunded actuarial liability	5,515,853,614	29,124,989	(950,600)	5,544,028,003
Total Net Assets	\$36,091,763,013	\$700,430,893	\$1,760,787,552	\$38,552,981,458
<u>LIABILITIES</u>				
Present Value of Future Benefits:				
Retired Members and Beneficiaries	\$15,230,657,798	\$240,964,615	\$503,104,371	\$15,974,726,784
Active Members	20,241,570,506	452,547,997	1,232,715,935	21,926,834,438
Inactive Members	619,534,709	6,918,281	24,967,246	651,420,236
Total Liabilities	\$36,091,763,013	\$700,430,893	\$1,760,787,552	\$38,552,981,458



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)
2014	\$3,974,396,951	\$15,974,726,784	\$12,055,332,353	\$26,460,428,085	100%	100%	54%
2013	3,789,330,469	15,000,576,427	11,708,435,424	24,711,096,187	100%	100%	51%
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%
2006	3,027,543,237	8,448,946,704	10,174,632,478	19,144,036,519	100%	100%	75%
2005	2,891,029,224	7,841,276,253	9,507,793,190	17,951,490,071	100%	100%	76%

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

Fiscal Years Ended June 30	Number of Participating Employers	Active Members	Annual Payroll	Annual Average Pay	Percentage Increase in Average Pay
2014	2,001	165,913	\$7,099,277,280	\$42,789	2.68
2013	2,147	165,095	6,880,131,134	41,674	0.83
2012	2,153	164,200	6,786,158,720	41,329	3.38
2011	2,177	164,467	6,574,872,719	39,977	0.78
2010	2,229	165,660	6,571,182,005	39,667	3.33
2009	2,241	167,717	6,438,643,124	38,390	5.09
2008	2,259	167,850	6,131,445,367	36,529	4.40
2007	2,293	165,241	5,781,706,199	34,990	3.31
2006	2,363	163,091	5,523,863,321	33,870	4.07
2005	2,388	160,905	5,236,860,886	32,546	2.69

Note: In compliance with GASB Statement No. 67, 2014 employer counts have been adjusted.

RETIREES AND BENEFICIARIES—CHANGES IN ROLLS

Schedule of Retirees Added to and Removed From Rolls

Fiscal Year	Added to Rolls		Removed From Rolls		Rolls at Year-End		Percentage Increase in Annual Allowances	Average Annual Allowances
	Number*	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances		
2014	6,008	\$124,411,510	3,008	\$30,068,643	103,015	\$1,663,546,968	6.01	\$16,149
2013	5,759	133,822,874	3,004	27,729,949	100,015	1,569,204,101	7.25	15,690
2012	5,979	116,825,979	2,788	24,589,757	97,260	1,463,111,176	6.73	15,043
2011	7,383	183,137,035	2,767	13,377,850	94,069	1,370,874,954	14.13	14,573
2010	6,387	104,167,926	2,705	12,096,634	89,453	1,201,115,769	8.30	13,427
2009	4,908	92,013,786	2,761	12,041,683	85,771	1,109,044,477	7.77	12,930
2008	5,098	92,991,307	2,687	10,789,250	83,624	1,029,072,374	8.68	12,306
2007	5,246	88,603,387	2,718	10,883,501	81,213	946,870,317	8.94	11,659
2006	4,892	71,906,397	2,510	10,155,290	78,685	869,150,431	7.65	11,046
2005	4,879	76,691,638	2,424	8,930,349	76,303	807,399,324	9.16	10,581

Schedule of Beneficiaries Added to and Removed From Rolls

Fiscal Year	Added to Rolls		Removed From Rolls		Rolls at Year-End		Percentage Increase in Annual Allowances	Average Annual Allowances
	Number*	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances		
2014	555	\$7,013,711	255	\$2,175,827	5,218	\$55,532,588	9.54	\$10,643
2013	496	6,073,050	266	2,129,400	4,918	50,694,704	8.44	10,308
2012	464	5,918,466	247	1,858,259	4,688	46,751,054	9.51	9,972
2011	456	4,497,000	224	911,691	4,471	42,690,847	9.17	9,548
2010	397	4,387,178	239	1,231,637	4,239	39,105,538	8.78	9,225
2009	429	3,930,377	214	876,249	4,081	35,949,997	9.28	8,809
2008	335	3,673,542	205	934,239	3,866	32,895,869	9.08	8,509
2007	374	3,299,984	157	857,512	3,736	30,156,566	8.81	8,072
2006	390	3,237,968	172	681,014	3,519	27,714,094	10.16	7,876
2005	386	2,964,764	198	724,001	3,301	25,157,140	9.78	7,621

*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 pages 86-87 are provided by IPERS.

SCHEDULE OF FUNDING PROGRESS

Fiscal Years Ended June 30	Actuarial Value of Assets	Actuarial Liability	Percentage Funded	Unfunded Actuarial Liability (UAL)	Covered Payroll*	UAL as a % of Covered Payroll
2014	\$26,460,428,085	\$32,004,456,088	82.68	\$5,544,028,003	\$7,099,277,280	78.09
2013	24,711,096,187	30,498,342,320	81.02	5,787,246,133	6,880,131,134	84.12
2012	23,530,094,461	29,446,197,486	79.91	5,916,103,025	6,786,158,720	87.18
2011	22,575,309,199	28,257,080,114	79.89	5,681,770,915	6,574,872,719	86.42
2010	21,537,458,560	26,468,419,650	81.37	4,930,961,090	6,571,182,005	75.04
2009	21,123,979,941	26,018,593,823	81.19	4,894,613,882	6,438,643,124	76.02
2008	21,857,423,183	24,522,216,589	89.13	2,664,793,406	6,131,445,367	43.46
2007	20,759,628,415	23,026,113,782	90.16	2,266,485,367	5,781,706,199	39.20
2006	19,144,036,519	21,651,122,419	88.42	2,507,085,900	5,523,863,321	45.39
2005	17,951,490,071	20,240,098,667	88.69	2,288,608,596	5,236,860,886	43.70

*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.

Note: See the ten-year Schedule of Employers' Contributions in the Required Supplementary Information on page 41 for information on actuarial contributions and required contributions paid.



ACTUARIAL ASSUMPTIONS AND METHODS

ECONOMIC ASSUMPTIONS:

Rate of Inflation (effective June 30, 2014)

3.00% per annum

Rate of Crediting Interest on Contribution Balances (effective June 30, 2014)

3.75% 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 3.00% inflation assumption and 1.00% real wage inflation.

*Total of 4.0% did not change but the components changed June 30, 2006 and June 30, 2014

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 RP-2000 Employee Table, Generational, set back 3 years

Female RP-2000 Employee Table, Generational, set back 8 years

School

Male RP-2000 Employee Table, Generational, set back 3 years

Female RP-2000 Employee Table, Generational, set back 8 years

Other

Male RP-2000 Employee Table, Generational, no set back

Female RP-2000 Employee Table, Generational, set back 8 years

Sheriffs/Deputies and Protection Occupation

Male RP-2000 Employee Table, Generational

Female RP-2000 Employee Table, Generational

5% of active deaths are assumed to be service related for non-regular members.



Post-Retirement (effective June 30, 2014)

State	RP-2000 Healthy Annuitant Table, Generational
Male	No age adjustment
Female	1 Year set back with 5% increase above age 75
School	RP-2000 Healthy Annuitant Table, Generational
Male	1 Year set back with 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	RP-2000 Healthy Annuitant Table, Generational
Male	No age adjustment
Female	2 Year set back with 5% increase above age 75
Sheriffs/Deputies and Protection Occupation	RP-2000 Healthy Annuitant Table, Generational
Male	No age adjustment
Female	No age adjustment
Beneficiaries:	Same as members
Disabled Members (all groups):	RP-2000 Disabled Mortality, Generational Set back 1 year for males and set forward 3 years for females

Retirement Rates (effective June 30, 2014)

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

<u>Age</u>	<u>Assumed Retirement Rates – Early</u>		
	<u>State</u>	<u>School</u>	<u>Other</u>
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			
<u>Age</u>	<u>State</u>	<u>School</u>	<u>Other</u>
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			
<u>Age</u>	<u>State</u>	<u>School</u>	<u>Other</u>
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%



Age	Assumed Retirement Rates	
	Sheriffs and Deputies	Protection Occupation
50	20.0%	
51	20.0%	
52	20.0%	
53	20.0%	
54	20.0%	
55	17.0%	20.0%
56	17.0%	10.0%
57	17.0%	10.0%
58	17.0%	10.0%
59	17.0%	10.0%
60	17.0%	10.0%
61	17.0%	10.0%
62	30.0%	35.0%
63	30.0%	30.0%
64	30.0%	30.0%
65	100.0%	100.0%

Terminated vested members are assumed to retire at age 62 (55 for Sheriffs/Deputies and Protection Occupation groups).

For Regular membership, retired reemployed 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)

Age	Assumed Rates					
	Males			Females		
	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
Sheriffs/Deputies
Protection Occupation**

<u>Age</u>	<u>Rate</u>
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

<u>Years of Service</u>	<u>Male</u>			<u>Female</u>		
	<u>State</u>	<u>School</u>	<u>Other</u>	<u>State</u>	<u>School</u>	<u>Other</u>
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%

Sheriffs/Deputies and Protection Occupation

<u>Age</u>	<u>Rate of Termination</u>
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)

<u>Years of Service</u>	Regular Membership					
	Male			Female		
	<u>State</u>	<u>School</u>	<u>Other</u>	<u>State</u>	<u>School</u>	<u>Other</u>
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%

<u>Years of Service</u>	<u>Rate</u>
5	53%
10	65%
15	85%
20	95%
25	100%
30	100%

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

<u>Years of Service</u>	Annual Increase				Sheriffs/Deputies and Protection Occupation
	<u>State</u>	<u>School</u>	<u>Other</u>	<u>Occupation</u>	
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 2013)

The portion of the actuarial present value of benefits allocated to the valuation year is called the normal cost. The portion of the actuarial present value of benefits not provided for by the actuarial present value of future normal costs is called the actuarial liability. Deducting the actuarial value of assets from the actuarial 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 corresponding amortization payment. The UAL is amortized according to the Actuarial Amortization Method adopted by the Investment Board and summarized below:

1. Amortization payments will be calculated as a level percentage of payroll.
2. For the actuarial valuation prepared as of June 30, 2013, the amortization period of the UAL shall be 30-year open for all membership groups.
3. For the actuarial valuation prepared as of June 30, 2014:
 - a. The UAL for each membership group shall be amortized over a 30-year closed period.
 - b. This will be designated as the initial UAL base for subsequent valuations and it will be amortized over the remaining years of the 30-year closed period set on June 30, 2014.
4. For each valuation subsequent to June 30, 2014, annual net experience gains/losses for each membership group will be amortized over a new, closed 20-year period.
5. Subsequent plan amendments or changes in actuarial assumptions or methods that create a change in the UAL will be amortized over a demographically appropriate period selected by the Investment Board at the time that the change is incurred.
6. The dollar amount of the UAL payment for purposes of computing the UAL component of the actuarial and required contribution rate will be the sum of the amortization payments for each amortization schedule divided by the total projected payroll. Unless the plan has been 110 percent funded for the current and prior two years, a negative amortization payment shall be ignored.
7. If the valuation shows that the group has surplus, the prior amortization bases will be eliminated and one base equal to the amount of surplus shall be established. The amortization period of a surplus shall be a 30-year open period for all groups.



ACTUARIAL VALUE OF ASSETS 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 nor less than 80% of the market value. If it is, adjust the actuarial value of assets so it falls within the 80% - 120% corridor.



CONTRIBUTION RATE FUNDING POLICY

Background:

IPERS is charged with setting a “Required Contribution Rate” for each membership category within IPERS that will discharge its liabilities. Iowa Code §97B.11(3)(d) provides the basic framework for implementing this charge by stating:

The Required Contribution Rate that is set by the system for a membership category shall be the contribution rate the system actuarially determines, based upon the most recent actuarial valuation of the system and using the actuarial methods, assumptions, and funding policy approved by the investment board, is the rate required by the system to discharge its liabilities as a percentage of the covered wages of members in that membership category. However, the Required Contribution Rate set by the system for members in regular service for a fiscal year shall not vary by more than one percentage point from the Required Contribution Rate for the prior fiscal year.

Goal:

To establish policy and procedures in setting contribution rates that combined with investment income will fund the benefits specified in Chapter 97B of the Iowa Code.

To move towards fully funding the benefits (100% or greater funded ratio) in as expeditious manner as is reasonable within the guidelines acknowledged herein.

Procedure:

The Investment Board shall retain a consulting actuary to conduct an annual actuarial valuation of assets and liabilities. The consulting actuary shall use the entry age normal cost method and all other actuarial assumptions and methods approved by the Investment Board.

In the annual valuation process, the consulting actuary shall calculate an Actuarial Contribution Rate and a Required Contribution Rate pursuant to this policy. Each shall be calculated as a level percent of pay.

There is a one year lag between the completion of an annual actuarial valuation report and the fiscal year to which the contribution rates calculated therein are applied. Therefore, the Actuarial Contribution Rate and the Required Contribution Rate declared in the annual valuation process are applicable to the fiscal year immediately following the completion of the valuation report (for example the rates declared in the report presented to the Investment Board in December, 2013 are applicable to the rates for the fiscal year beginning July 1, 2014).

Actuarial Contribution Rate (ACR):

1. ACR is the combined employer and employee contribution rate that is the minimum rate necessary to fund the benefits using the actuarial assumptions and methods approved by the Investment Board.
2. A separate ACR shall be determined for each membership group within IPERS according to this policy.
3. The ACR shall consist of:
 - a. Normal cost and an amortization payment (not less than zero) of any unfunded actuarial liability.
 - b. Normal cost may only be offset by a negative amortization payment after a membership group has attained a funded ratio of 110 percent or greater for 3 consecutive years.

Required Contribution Rate:

1. The Required Contribution Rate is the combined employer and employee rate payable pursuant to this policy and Iowa Code §97B.11(3)(d).



2. The Required Contribution Rate shall be determined by comparing the ACR determined in the annual valuation process to the Required Contribution Rate of the previous year.
 - a. IF the ACR is less than the previous Required Contribution Rate by fewer than 50 basis points, then the Required Contribution Rate shall remain unchanged from the previous year.
 - b. If the ACR is less than the previous Required Contribution Rate by 50 basis points or more, then the Required Contribution Rate shall be lowered by 50 basis points provided the funded ratio of the membership group is 95% or higher.
 - c. If the ACR is greater than the Required Contribution Rate of the previous year, then the Required Contribution Rate shall be:
 - i. Increased to be equal to ACR for Sheriffs and Deputies.
 - ii. Increased to be equal to ACR for Protection Occupation.
 - iii. Increased to be equal to ACR for Regular membership, or one percentage point greater than the prior year's Required Contribution Rate, whichever is smaller.

Policy Guidelines:

In adopting actuarial assumptions and methods to be used in setting contributions, the Investment Board shall strive to provide a balance among the following:

1. Stability in contributions (such as use of smoothing and amortization schedules that do not produce dramatic swings in the required contributions from year to year).
2. Disciplined funding approach (such as requiring full payment of normal cost and an amortization payment towards the unfunded actuarial liability and deferring decreases in contribution rates until strong funded ratios are attained).
3. Interperiod equity (such as shortening the amortization schedule when reasonable and amortization of retroactive benefit enhancements over a reasonable time period such as the average working lifetime for active members and the average life expectancy of retired members).
4. Support an affordable, sustainable plan (in consultation with the BAC review affordability of required contribution rates and/or the benefit provisions).
5. At a minimum, this policy will be reviewed in conjunction with the quadrennial experience study.





STATISTICAL



STATISTICAL

STATISTICAL OVERVIEW

MEMBERSHIP AND BENEFIT PAYMENT SUMMARY

INVESTMENT STATISTICS

STATISTICAL OVERVIEW

Objectives

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

Contents

The Statistical section provides financial, demographic, operating, and investment trend information. The financial trend information presented on pages 102–104 is intended to help explain how the System's financial position has changed over time.

As per guidance from the GASB, IPERS' contributions as an employer are no longer included in employer contribution balances or administrative expenses. In addition, certain brokerage commissions and trading-related costs that had previously been netted against income are now reported as investment expenses. Amounts from prior years have been restated to reflect these changes and to increase comparability between years. These restatements have no effect on the net position restricted for pensions.

The demographic and operating information presented on pages 105–115 provides data on IPERS' membership, including years of service, benefits, benefit options, active membership statistics, and principal participating employers.

The investment information presented on page 116 shows the growth of net investment portfolio assets and investment returns since 1985.

Tables related to types of refunds are not 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 Fiduciary Net Position

(Dollar Values Expressed in Thousands)

Fiscal Years Ended June 30

	2014	2013	2012	2011	2010
Additions					
Employee contributions	\$ 429,196	\$ 404,654	\$ 366,377	\$ 306,472	\$ 293,472
Employer contributions	638,996	601,945	557,930	467,633	448,765
QBA Fund contributions ¹	5	7	9	8	5
Service purchases	14,324	12,011	17,611	14,847	12,614
Net investment income/(loss)	3,904,374	2,338,201	823,983	3,922,569	2,477,824
QBA Fund income	---	---	---	---	---
Miscellaneous noninvestment income	---	---	500	---	---
Total additions	4,986,895	3,356,818	1,766,410	4,711,529	3,232,680
Deductions					
Trust Fund benefits ²	1,764,059	1,667,462	1,549,167	1,456,998	1,278,550
QBA Fund benefits ³	5	7	9	7	6
Refunds	48,121	42,597	43,328	41,215	41,470
Trust Fund administrative expenses	14,866	11,587	12,498	9,256	8,613
QBA Fund administrative expenses	---	---	---	1	1
Total deductions	1,827,051	1,721,653	1,605,002	1,507,477	1,328,640
Change in net position	\$3,159,844	\$1,635,165	\$ 161,408	\$3,204,052	\$1,904,040

Continued on page 103

¹IPERS began collecting QBA contributions in FY2006 (see Note 8, page 39).

²A Schedule of Benefit Payments by Type of Benefit is found on page 108.

³IPERS began paying QBA benefits in FY2006 (see Note 8, page 39).

Changes in Fiduciary Net Position

(Dollar Values Expressed in Thousands)

Fiscal Years Ended June 30

Continued from page 102

	2009	2008	2007	2006	2005
Additions					
Employee contributions	\$ 270,934	\$ 245,898	\$ 223,515	\$ 211,522	\$ 202,607
Employer contributions	414,966	377,080	342,769	324,368	310,566
QBA Fund contributions ¹	23	20	---	35	---
Service purchases	9,301	10,875	8,026	11,275	11,218
Net investment income/(loss)	(3,863,761)	(338,575)	3,298,842	2,065,520	1,912,489
QBA Fund income	---	---	1	1	---
Miscellaneous noninvestment income	---	---	---	---	42
Total additions	(3,168,537)	295,298	3,873,153	2,612,721	2,436,922
Deductions					
Trust Fund benefits ²	1,183,098	1,096,078	1,013,956	924,361	868,558
QBA Fund benefits ³	21	20	17	17	---
Refunds	34,337	36,205	38,116	41,668	43,113
Trust Fund administrative expenses	10,560	9,567	8,766	9,033	7,939
QBA Fund administrative expenses	1	1	1	---	---
Total deductions	1,228,017	1,141,871	1,060,856	975,079	919,610
Change in net position	\$(4,396,554)	\$ (846,573)	\$2,812,297	\$1,637,642	\$1,517,312

¹IPERS began collecting QBA contributions in FY2006 (see Note 8, page 39).

²A Schedule of Benefit Payments by Type of Benefit is found on page 108.

³IPERS began paying QBA benefits in FY2006 (see Note 8, page 39).

MEMBERSHIP AND BENEFIT PAYMENT SUMMARY

Special Statistics

Fiscal Years Ended June 30

Fiscal Year	Retired Members	Active Members	Total Additions	Total Deductions	Total Investments	Total Net Position
2014	108,233	165,913	\$4,986,894,852	\$1,827,050,988	\$28,186,974,092	\$28,038,549,893
2013	104,933	165,095	3,356,818,792	1,721,653,271	25,136,870,851	24,878,706,029
2012	101,948	164,200	1,766,410,045	1,605,002,472	23,508,268,276	23,243,540,508
2011	98,540	164,467	4,711,529,286	1,507,476,979	24,064,559,555	23,082,132,935
2010	93,692	165,660	3,232,679,640	1,328,639,663	20,432,970,506	19,878,080,628
2009	89,852	167,717	(3,168,536,719)	1,228,017,619	18,715,729,776	17,974,040,651
2008	87,490	167,850	295,298,357	1,141,871,314	24,454,328,362	22,370,594,989
2007	84,949	165,241	3,873,152,655	1,060,855,755	26,605,342,485	23,217,167,946
2006	82,204	163,091	2,612,721,572	975,079,305	22,623,903,421	20,404,871,046
2005	79,604	160,905	2,436,921,579	919,609,651	20,990,729,636	18,767,228,779

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

Membership by Group

Fiscal Years Ended June 30

Fiscal Year		Regular Members	Sheriffs and Deputies	Protection Occupation Members	Total
2014	Active members	157,349	1,538	7,026	165,913
	Inactive members	70,557	122	1,588	72,267
	Retired members	105,298	795	2,140	108,233
	Total	333,204	2,455	10,754	346,413
2013	Active members	156,679	1,527	6,889	165,095
	Inactive members	71,071	121	1,432	72,624
	Retired members	102,235	754	1,944	104,933
	Total	329,985	2,402	10,265	342,652
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
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
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
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
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
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
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
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

Average Benefit Payments for Retirees

Fiscal Years Ended June 30

Fiscal Year		Years of Service							Total
		0-5	6-10	11-15	16-20	21-25	26-30	>30	
2014	Number of retirees	5,527	13,966	14,425	14,513	14,448	13,160	32,194	108,233
	Average monthly benefit	\$144	\$270	\$507	\$824	\$1,265	\$1,850	\$2,552	\$1,373
	Average high average salary	\$1,294	\$1,581	\$1,899	\$2,321	\$2,820	\$3,393	\$4,178	\$2,866
	Average years of service	4.47	8.45	13.33	18.45	23.30	28.22	34.52	22.38
2013	Number of retirees	5,332	13,532	13,945	14,153	14,080	12,802	31,089	104,933
	Average monthly benefit	\$140	\$261	\$485	\$800	\$1,228	\$1,799	\$2,490	\$1,335
	Average high average salary	\$1,263	\$1,506	\$1,821	\$2,257	\$2,796	\$3,411	\$4,173	\$2,832
	Average years of service	4.47	8.46	13.32	18.45	23.30	28.22	34.47	22.36
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
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
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
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
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
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
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
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

Note: The data reported for average high average salary takes into account the statutory rules that govern how the wage component of the benefit formula is determined. These rules have changed over time. For most of the 2000s, the highest 3-year average salary was used. A spiking control was incorporated starting in FY2008. The wage component of the formula for Regular members was frozen as of June 30, 2012, until those members' highest 5-year average surpasses their 3-year average as of that date. A spiking control is incorporated into the highest 5-year average salary calculation as well.

Where data were available, the average monthly wages used to calculate members' retirement benefits were calculated by dividing the high average salary by the applicable number of months (36 for the highest 3-year average salary, or 60 for the highest 5-year average salary). This table does not include retirees under the Iowa Old-Age and Survivors' Insurance System.

New Retirees by Employer Type

Fiscal Years Ended June 30

Fiscal Year		City	County	Education	State	Utility	Health	28E Agency	Township & Cemetery	Other	Total
2014	Number of retirees	810	608	3,064	986	62	426	---	---	120	6,076
	Average monthly benefit	\$1,550	\$1,566	\$1,642	\$2,170	\$1,739	\$1,232	---	---	\$760	\$1,663
	Average years of service	20.61	21.30	21.70	22.24	19.78	17.46	---	---	12.73	21.11
2013	Number of retirees	665	673	3,011	809	50	473	---	---	133	5,814
	Average monthly benefit	\$1,655	\$1,593	\$1,685	\$2,327	\$1,833	\$1,271	---	---	\$849	\$1,709
	Average years of service	21.78	21.66	22.11	23.46	21.66	17.47	---	---	14.10	21.64
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
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
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
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
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
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
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
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

Note: With the implementation of I-Que, revised employer classifications are being used for FY2012 and forward.

Schedule of Benefit Payments by Type of Benefit

Fiscal Years Ended June 30

Fiscal Year	Number of Retirees	Normal Retirement Benefit	Early Retirement Benefit	Death Benefit (Normal, Early, or Disability Retirement)	Preretirement Death Benefit	Disability Benefit	Special Service In-Service Disability Benefit	Special Service Ordinary Disability Benefit	Total
2014	108,233	\$1,291,948,738	\$328,584,720	\$50,993,939	\$4,569,515	\$43,468,128	\$1,080,553	\$409,438	\$1,721,055,031
2013	104,933	1,215,721,455	312,460,044	46,566,814	4,155,084	41,507,779	902,784	372,139	1,621,686,099
2012	101,948	1,134,393,596	290,216,887	43,180,523	3,595,564	39,968,472	801,062	362,184	1,512,518,288
2011	98,540	1,088,085,798	253,413,138	39,533,700	3,096,481	28,381,456	771,831	376,798	1,413,659,202
2010	93,692	951,375,232	220,803,713	36,386,690	2,653,287	27,960,711	624,888	330,890	1,240,135,411
2009	89,852	882,890,118	197,219,959	33,554,573	2,323,743	28,042,167	584,892	304,352	1,144,919,804
2008	87,490	818,804,704	180,411,922	30,892,964	1,919,799	28,284,772	563,314	303,042	1,061,180,517
2007	84,949	758,739,140	159,904,983	28,429,483	1,637,857	27,449,602	489,088	287,504	976,937,657
2006	82,204	701,149,558	141,860,569	26,228,650	1,382,098	25,540,886	433,669	269,095	896,864,525
2005	79,604	657,249,915	125,357,178	24,084,063	1,060,991	24,225,454	317,312	261,551	832,556,464

Note: This table does not include lump-sum payments.

Schedule of Retired Members by Type of Benefit

As of June 30, 2014

Amount of Monthly Benefit	Number of Retirees	Normal Retirement Benefit	Early Retirement Benefit	Death Benefit (Normal, Early, or Disability Retirement)	Preretirement Death Benefit	Disability Benefit	Special Service In-Service Disability Benefit	Special Service Ordinary Disability Benefit
\$ <250	18,575	8,674	8,421	730	94	653	1	2
250-499	15,826	7,156	6,819	949	66	835	---	1
500-749	10,780	4,918	4,509	764	59	530	---	---
750-999	8,473	4,094	3,197	648	42	492	---	---
1,000-1,249	7,299	3,959	2,480	450	26	383	1	---
1,250-1,499	5,830	3,347	1,838	311	29	304	---	1
1,500-1,749	5,329	3,259	1,544	272	24	219	5	6
1,750-1,999	5,197	3,605	1,187	202	21	174	4	4
2,000-2,249	5,271	4,060	937	128	17	116	9	4
2,250-2,499	5,096	4,158	704	125	9	90	8	2
2,500-2,749	4,999	4,339	502	87	8	61	2	---
2,750-2,999	4,144	3,653	383	46	7	48	6	1
3,000-3,249	3,215	2,919	255	24	1	15	1	---
3,250-3,499	2,455	2,266	148	22	1	16	2	---
3,500-3,749	1,619	1,500	93	11	3	10	2	---
3,750-3,999	1,110	1,014	66	15	2	13	---	---
4,000+	3,015	2,754	193	20	5	42	1	---
Total	108,233	65,675	33,276	4,804	414	4,001	42	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, 2014

Amount of Monthly Benefit	Number of Retirees	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Misc.
\$ <250	18,575	5,699	4,355	3,635	1,771	2,097	1,007	11
250-499	15,826	5,112	3,747	2,141	2,079	1,675	1,065	7
500-749	10,780	3,275	2,496	1,288	1,679	1,089	953	---
750-999	8,473	2,313	1,946	943	1,527	779	965	---
1,000-1,249	7,299	1,924	1,683	770	1,325	620	977	---
1,250-1,499	5,830	1,440	1,240	597	1,141	476	936	---
1,500-1,749	5,329	1,295	1,089	484	1,025	478	958	---
1,750-1,999	5,197	1,099	1,012	483	1,070	492	1,041	---
2,000-2,249	5,271	1,014	1,056	520	934	579	1,168	---
2,250-2,499	5,096	997	925	527	819	503	1,325	---
2,500-2,749	4,999	862	999	578	673	519	1,368	---
2,750-2,999	4,144	718	839	524	465	442	1,156	---
3,000-3,249	3,215	541	687	397	287	332	971	---
3,250-3,499	2,455	416	519	324	236	242	718	---
3,500-3,749	1,619	247	344	211	173	127	517	---
3,750-3,999	1,110	155	234	147	119	99	356	---
4,000+	3,015	402	527	376	342	314	1,054	---
Total	108,233	27,509	23,698	13,945	15,665	10,863	16,535	18

See definitions of benefit options beginning on page 34.

Note: Miscellaneous column consists of survivor death benefits based upon law provisions no longer available.

Benefit Payments by Iowa County

Fiscal Year 2014

County	Amount	Annual Average	Payees
Adair	\$ 4,545,638	\$13,062	348
Adams	2,826,008	12,963	218
Allamakee	7,621,145	13,781	553
Appanoose	7,010,254	14,574	481
Audubon	3,828,554	12,847	298
Benton	11,921,908	14,977	796
Black Hawk	61,430,117	16,816	3,653
Boone	19,057,585	16,275	1,171
Bremer	15,392,582	16,169	952
Buchanan	13,875,009	16,059	864
Buena Vista	10,023,910	14,218	705
Butler	8,249,689	13,636	605
Calhoun	6,801,324	13,415	507
Carroll	8,484,250	12,569	675
Cass	10,154,288	14,485	701
Cedar	8,746,898	14,850	589
Cerro Gordo	25,660,589	16,292	1,575
Cherokee	9,809,163	14,684	668
Chickasaw	7,031,119	14,896	472
Clarke	4,681,521	13,040	359
Clay	10,059,450	14,089	714
Clayton	11,082,072	14,563	761
Clinton	19,812,566	14,536	1,363
Crawford	8,130,393	13,851	587
Dallas	32,562,555	17,507	1,860
Davis	5,791,807	13,628	425
Decatur	4,397,713	11,854	371
Delaware	10,498,636	15,740	667
Des Moines	22,242,272	16,749	1,328
Dickinson	15,099,599	16,648	907
Dubuque	36,842,092	16,345	2,254
Emmet	5,921,528	14,303	414
Fayette	11,308,034	14,820	763
Floyd	9,417,377	14,161	665
Franklin	5,901,311	13,114	450
Fremont	4,492,516	13,995	321
Greene	6,730,237	12,510	538
Grundy	7,648,556	14,138	541
Guthrie	8,050,071	13,903	579
Hamilton	11,099,202	15,721	706
Hancock	5,313,643	12,652	420
Hardin	13,105,667	13,854	946
Harrison	6,368,060	13,350	477
Henry	14,907,926	16,187	921
Howard	5,725,797	12,367	463
Humboldt	6,304,190	13,557	465
Ida	3,694,570	14,320	258
Iowa	8,294,763	14,865	558
Jackson	9,923,476	14,258	696
Jasper	19,896,298	14,815	1,343
Jefferson	8,340,826	15,276	546

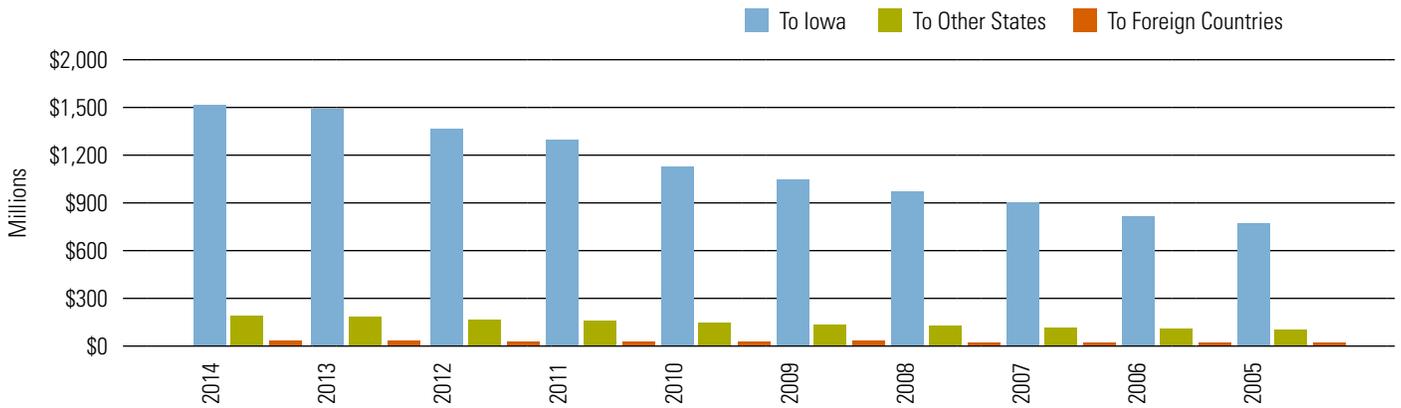
County	Amount	Annual Average	Payees
Johnson	\$ 47,935,667	\$17,508	2,738
Jones	13,916,045	16,488	844
Keokuk	5,364,877	12,002	447
Kossuth	8,618,908	13,594	634
Lee	20,054,116	17,229	1,164
Linn	97,966,996	18,022	5,436
Louisa	5,471,733	14,749	371
Lucas	5,354,350	13,624	393
Lyon	3,737,101	12,334	303
Madison	8,450,054	15,143	558
Mahaska	10,568,037	13,997	755
Marion	13,782,904	13,838	996
Marshall	25,688,617	15,808	1,625
Mills	12,782,342	16,908	756
Mitchell	6,240,078	13,477	463
Monona	5,366,281	13,316	403
Monroe	4,104,871	13,242	310
Montgomery	7,029,539	14,524	484
Muscatine	18,694,033	15,565	1,201
O'Brien	7,048,425	13,224	533
Osceola	2,580,548	12,712	203
Page	11,003,236	14,143	778
Palo Alto	6,386,588	12,597	507
Plymouth	11,567,376	14,495	798
Pocahontas	4,867,964	13,674	356
Polk	216,626,677	18,512	11,702
Pottawattamie	35,873,994	16,803	2,135
Poweshiek	8,656,218	15,321	565
Ringgold	3,994,301	12,215	327
Sac	6,042,472	13,107	461
Scott	68,343,381	18,387	3,717
Shelby	7,412,481	13,477	550
Sioux	10,338,279	12,811	807
Story	54,338,857	18,809	2,889
Tama	10,356,905	14,732	703
Taylor	3,824,987	11,991	319
Union	9,734,645	14,108	690
Van Buren	5,286,412	13,803	383
Wapello	18,802,278	15,642	1,202
Warren	29,283,036	18,031	1,624
Washington	10,725,926	13,209	812
Wayne	3,770,923	11,896	317
Webster	20,144,602	15,460	1,303
Winnebago	5,576,952	13,536	412
Winneshiek	12,796,930	15,038	851
Woodbury	43,441,434	16,805	2,585
Worth	3,322,728	13,562	245
Wright	7,471,477	13,462	555

Total Iowa Benefit Payments: \$1,556,861,335

Note: Payments determined by zip code.

Benefit Payment Summary

Fiscal Years Ended June 30



Fiscal Year

2014
2013
2012
2011
2010
2009
2008
2007
2006
2005

To Iowa

\$1,556,861,335
1,476,219,393
1,376,422,791
1,295,324,198
1,129,876,718
1,044,257,972
967,877,579
894,585,954
816,238,695
768,041,811

To Other States

\$206,805,339
190,938,237
172,458,343
161,447,515
148,444,926
138,540,110
128,025,532
119,150,133
107,935,285
100,348,022

To Foreign Countries

\$397,590
311,229
295,502
233,918
234,200
320,734
194,748
236,900
204,336
167,763

Active Membership Statistics

Fiscal Years Ended June 30

Fiscal Year	Active Members	Percent Change	Average Covered Wage	Average Age (Years)	Average Service Credit (Years)
2014	165,913	0.5	\$42,789	45.6	11.5
2013	165,095	0.5	41,674	45.7	11.6
2012	164,200	(0.2)	41,329	45.8	11.6
2011	164,467	(0.7)	39,977	45.0	11.6
2010	165,660	(1.2)	39,667	46.0	11.5
2009	167,717	(0.1)	38,390	41.4	11.7
2008	167,850	1.6	36,529	42.2	11.5
2007	165,241	1.3	34,990	43.2	11.5
2006	163,091	1.4	33,870	44.2	11.6
2005	160,905	0.5	32,546	45.6	11.6

Analysis of Change in Active Membership

Fiscal Years Ended June 30

Fiscal Year	Beginning Members	Additions	Retired	Died	Other Terminations	Ending Members
2014	165,095	18,616	4,787	205	12,806	165,913
2013	164,200	17,862	4,719	219	12,029	165,095
2012	164,467	16,878	4,928	193	12,024	164,200
2011	165,660	17,236	6,368	237	11,824	164,467
2010	167,717	14,663	5,277	244	11,199	165,660
2009	167,850	16,565	4,013	246	12,439	167,717
2008	165,241	19,943	4,237	227	12,870	167,850
2007	163,091	19,111	4,344	246	12,371	165,241
2006	160,905	18,885	3,883	154	12,662	163,091
2005	160,034	17,598	3,716	156	12,855	160,905

Principal Participating Employers

Fiscal Years Ended June 30

Participating Employer	2014		
	Covered Employees	Rank	Percentage of Total System
State of Iowa	24,383	1	14.70
Des Moines Independent Community School District (CSD)	4,682	2	2.82
Cedar Rapids CSD	2,863	3	1.73
Davenport CSD	2,381	4	1.43
Iowa City CSD	1,976	5	1.19
Sioux City CSD	1,918	6	1.16
Dubuque CSD	1,898	7	1.14
City of Ames	1,858	8	1.12
Waterloo CSD	1,754	9	1.06
West Des Moines CSD	1,416	10	0.85
All other employers*	120,784		72.80
Total (2,001 employers)	165,913		100.00

Participating Employer	2005		
	Covered Employees	Rank	Percentage of Total System
State of Iowa	18,582	1	11.55
Des Moines Independent CSD	4,541	2	2.82
Cedar Rapids CSD	3,143	3	1.95
Iowa Department of Transportation	3,049	4	1.90
Davenport CSD	2,684	5	1.67
Sioux City CSD	2,017	6	1.25
Dubuque CSD	1,816	7	1.13
Iowa City CSD	1,688	8	1.05
Waterloo CSD	1,564	9	0.97
West Des Moines CSD	1,496	10	0.93
All other employers	120,325		74.78
Total (2,388 employers)	160,905		100.00

*All other employers for FY2014

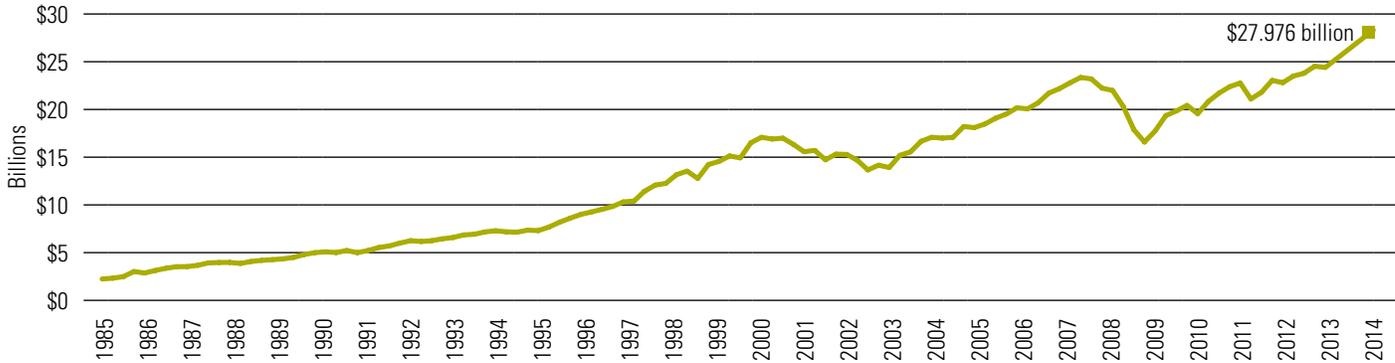
Type	Number	Employees
City	947	19,791
Education	363	66,881
County	332	16,536
Other	149	3,391
Utilities	134	1,812
Health	57	11,865
State	9	508
Total	1,991	120,784

Note: In compliance with GASB Statement No. 67, 2014 employer counts have been adjusted.

INVESTMENT STATISTICS

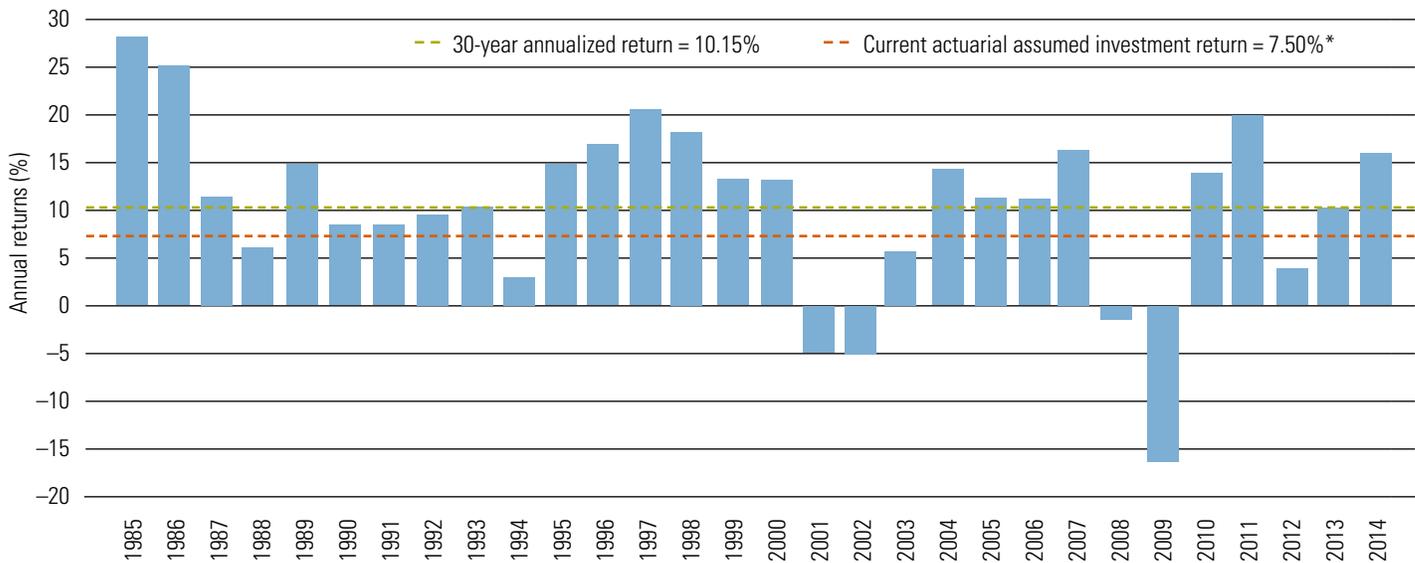
Growth of Net Investment Portfolio Assets

Fiscal Years Ended June 30



Investment Returns

Fiscal Years Ended June 30



*Actuarial assumed investment return:

1953–1993:	6.50%
1994–1995:	6.75%
1996–present:	7.50%

Annualized returns for periods ended June 30, 2014

1-year return:	15.88%	15-year return:	6.72%
3-year return:	9.80%	20-year return:	9.12%
5-year return:	12.56%	25-year return:	8.86%
10-year return:	7.93%	30-year return:	10.15%



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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

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

We have audited 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, the financial statements of the Iowa Public Employees' Retirement System (IPERS) as of and for the year ended June 30, 2014, and the related Notes to Financial Statements, which collectively comprise IPERS' basic financial statements, and have issued our report thereon dated December 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered IPERS' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of IPERS' internal control. Accordingly, we do not express an opinion on the effectiveness of IPERS' internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of IPERS' financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control we consider to be material weaknesses. However, material weaknesses may exist which have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether IPERS' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of IPERS' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering IPERS' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of IPERS during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



MARY MOSIMAN, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 12, 2014