IPERS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

2007

Comprehensive Annual Financial Report

A PENSION TRUST FUND OF THE STATE OF IOWA FOR THE YEAR ENDED **JUNE 30, 2007**

COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
A PENSION TRUST FUND OF THE STATE OF IOWA
FOR THE YEAR ENDED JUNE 30, 2007

PREPARED BY
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

DONNA M. MUELLER, CHIEF EXECUTIVE OFFICER

FOR MORE INFORMATION

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Fiscal Year 2007 Highlights

Membership:	
Active Members	165,241
Retired Members*	84,949
Contributions:	
Employee	$223,515,250
Employer	343,063,330
Buy-Backs/Buy-Ins	8,025,639
Distributions:	
Benefits Paid	$1,013,972,987
Refunds Paid	38,116,271
Investments:	
Net Investment and Securities Lending Income	$3,298,842,384
Investment Rate of Return	16.29%
Funding:	
Net Assets Held in Trust for Pension Benefits	$23,217,167,946
Ratio of Actuarial Assets to Actuarial Liabilities	90.2%

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

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Iowa Public Employees' Retirement System

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2006

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

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

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GOVERNOR
Patty Judge
LT. GOVERNOR

IPERS

Donna M. Mueller
CHIEF EXECUTIVE OFFICER

December 14, 2007

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

I am pleased to present the Comprehensive Annual Financial Report of the Iowa Public Employees' Retirement System (IPERS, System, or Plan) for the fiscal year ended June 30, 2007. This report is intended to provide complete and accurate information concerning the activities and results of the System's operations within a single publication. This report also fulfills the requirements set forth in Iowa Code section 97B.4(4)(a). The preparation of this report is the result of the combined effort of the System's staff under the direction of the management and CEO, who are responsible for the contents of the report.

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

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

This report is provided to the Governor, legislative leadership, IPERS Investment Board members, IPERS Benefits Advisory Committee members, and state fiscal staff in the Executive and Legislative Branches. Employers and IPERS members are advised of its availability online, and they may request a printed copy. Copies are also filed with the State Library of Iowa. All other interested persons may obtain the report through the IPERS Web site or upon request. IPERS also publishes an annual summary of information contained in this report which is widely distributed to members, employers, policymakers, and others.

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Plan History

IPERS was established by the Legislature on July 4, 1953, to replace the Iowa Old-Age and Survivors' Insurance System (IOASI). Effective July 4, 1953, all current public employees who had been IOASI contributors were given the option of transferring their contributions to IPERS for service credit in IPERS (prior service) or taking refunds of their IOASI contributions. At the same time, the Legislature elected to include Iowa's public employees in the federal social security plan retroactive to 1951. Before enactment of the 1953 legislation, public employees were not covered under Social Security.

Initially, IPERS was a money purchase system in which contributions made by members and their employers were used to calculate benefits. Today, IPERS is a defined benefit plan in which benefits are based on a member's years of service, high three-year annual average covered wage, and a formula multiplier. Four or more years of service are required to qualify for the "high-three" formula. A vested member with less than four years of service receives benefits computed on a money purchase basis.

Structure and Governance

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

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

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

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

Member Services

IPERS was created so that Iowa had a cost-effective way to provide a core retirement benefit that would help attract and keep quality employees in public service. IPERS benefits were designed to provide an adequate retirement income when combined with social security benefits and individual savings. Most public employees in Iowa become members of IPERS when they start employment with a covered employer, which includes schools, state agencies, counties, cities, townships, and other public entities. Public employees not covered by IPERS are judges, peace officers in the Iowa Department of Public Safety, police and fire personnel in cities with populations over 8,000, and university and community college personnel who elect other coverage.

IPERS ended the fiscal year with 165,241 active members who were working and contributing to IPERS.

IPERS had 312,432 members at the end of the fiscal year, with 165,241 active members employed and contributing to IPERS. There were 7,872 retirees drawing a pension who returned to work with an IPERS-covered employer, making this one of the fastest-growing segments of IPERS membership.

Services for members include benefit education and preretirement counseling. During the year, IPERS' benefits staff fielded 87,408 phone calls and answered 5,792 e-mails. Staff prepared 65,258 benefit estimates. IPERS provided group and individual benefit education and preretirement counseling to 9,516 members. Members submitted 1,887 applications to buy service credit, and 626 members purchased service credit.

The number of IPERS retirees increased by 2,745 during the fiscal year, to 84,949, and 7,872 retirees returned to work for an IPERS-covered employer.

The most important service IPERS provides to its 84,949 retirees is the accurate and timely payment of benefits. During the fiscal year, IPERS paid 95 percent of 1,005,450 benefit payments by electronic funds transfer (EFT), which ensures the monthly benefit is in the recipient's account on the day that it is payable. EFTs have been IPERS' preferred payment method since 1992. IPERS charges a small service fee for paper checks.

Members have access to information electronically and in print. The IPERS Web site contains news and announcements, member publications, forms, and a benefit estimator. Users viewed 975,195 pages on IPERS' Web site during the fiscal year.

IPERS publishes easy-to-read booklets electronically and in print. The booklets explain benefits at various career stages. The comprehensive IPERS Member Handbook is also available electronically and in print. Twice a year IPERS publishes and directly mails to members newsletters that include information about benefits, Plan changes, finances, and performance.

Employer Services

IPERS provides training and technical assistance to 2,293 employers to encourage voluntary compliance with IPERS' requirements. Employers also receive newsletters and a handbook of procedures and reporting requirements. A section of the Web site is dedicated to employers, and IPERS assigns staff to assist employer human resources departments.

Employers enrolled in IPERS' Connection Online (ICON), a system that provides for online wage reporting, can also receive messages, publications, and other materials through the system. The 46 percent of employers that use ICON report 54 percent of all members' wages.

Investments

IPERS funds benefit payments with a combination of member and employer contributions and investment earnings, with investment earnings providing the largest percentage of income. IPERS' strong investment returns are the result of a large and diversified investment portfolio. IPERS is able to take advantage of its role as an enduring public organization by focusing much longer-term than even the youngest investor. This allows IPERS to maximize investments and lower transaction costs on behalf of its members in a way that an individual investor cannot. In fiscal year (FY) 2007, IPERS' investment expenses were 0.26 percent of the portfolio's total quarterly average fair value, well below the 0.40 percent allowed by law.

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

IPERS' 16.29 percent rate of return on investments for the fiscal year far exceeded the actuarial assumed investment return of 7.50 percent, but was below the median return of other large public pension funds. This was mainly due to two factors: 1) IPERS had a significantly higher allocation to bonds and lower allocation to stocks than its peers, and bonds earned substantially less than stocks over the fiscal year; and 2) Several of IPERS' contracted investment managers that execute active management strategies within IPERS' publicly traded equity portfolios performed poorly. The investment division at IPERS is continuing its work in broadening the breadth of active investment strategies within these portfolios in order to address these performance issues.

IPERS earned a 16.29 percent return on investments in FY2007.

Major Initiatives

Addressing the Unfunded Actuarial Liability

Contributions for about 96 percent of IPERS' active members continued to be at a subpar rate that was set in law in 1979. Members in public safety positions contribute at rates adjusted each year based on the annual actuarial valuation. Their benefits are fully funded.

The contribution rate for regular members continued to be below the actuarial rate needed to fund benefits being promised. During fiscal year 2007, IPERS' unfunded actuarial liability (UAL) decreased from $2.507 billion to $2.266 billion.

Although in 2006 the Iowa Legislature and the Governor approved a 2 percentage point phased-in increase in the contribution rate for regular members, the first of four 0.5 percentage point increases is not effective until fiscal year 2008. According to an asset-liability study completed by the actuary in 2007 based on the FY2006 valuation, there is a 73 percent chance that the planned increased contribution rates will meet or exceed the actuarial rate by 2016.

Evaluating Performance

IPERS uses independent, outside evaluators to ensure it continues good business practices and to find ways to improve.

During fiscal year 2007, IPERS completed several voluntary audits of its performance.

CEM Benchmarking Inc., an independent company that reviews pension systems worldwide, completed a benchmarking study on IPERS' benefits administration for the previous year. IPERS was lowest in costs and in the upper third in terms of services when compared to its peers.

CEM Benchmarking Inc. also conducted a benchmarking study of IPERS' investment program that compared IPERS' cost and return performance to CEM's extensive pension fund database. The analysis concluded that while IPERS has a low-cost investment program, the investment program had not added value over the five-year period ended December 31, 2006. The main reasons for the negative added value were that IPERS was not invested at its target allocation for private equity during the period, and IPERS' active managers of U.S. and international stocks had underperformed. IPERS' investment division is working to address these issues and improve performance.

An independent actuarial audit concluded IPERS' actuarial program is accurate and reliable. Because IPERS' long-term funding depends on the correct mix of contributions and investment income to support benefits, accurate actuarial valuations are essential.

Audits of IPERS' information technology system and its security found that IPERS safely and securely maintains operations and records. IPERS maintains a fully functional redundant system off-site to ensure business continues should there be a disaster at the main IPERS office.

Improving Results

To maintain high-quality, low-cost services as the number of baby boomer retirements increases, IPERS must take advantage of technology. In fiscal year 2007 IPERS continued implementing I-Que (IPERS' Quest for Excellence), which will match modern benefits administration technology with skilled staff to improve member services, reduce risk, and increase efficiency. IPERS also redesigned and revised its Web site for easier navigation and to better support I-Que's enhanced online services.

Employers will be able to use I-Que's advanced online services in 2008; member online services will be available in 2009.

During FY2007 IPERS enhanced service to employers by implementing electronic funds transfer capabilities integrated with wage reporting. During the last quarter of the fiscal year, 333 employers, or 15 percent, paid $23 million in contributions electronically.

Investment returns play an important role in the IPERS Trust Fund because they provide the largest percentage of dollars needed to pay future benefits.

Although IPERS' investments earned 16.29 percent during fiscal year 2007, well above the actuarial assumed investment return of 7.50 percent, several of IPERS' contracted investment managers failed to add value in their active management strategies. To improve active management returns, IPERS began implementing a portable alpha program in FY2007. Full implementation of the program will occur in fiscal year 2008.

Financial Highlights

Total Net Assets

Total net assets held in trust for pension benefits increased from $20.405 billion on June 30, 2006, to $23.217 billion on June 30, 2007. These assets consist of capital assets owned by IPERS and investment portfolio assets. An overview and analysis of IPERS' financial activities for the fiscal year ended June 30, 2007, is in *Management's Discussion and Analysis* in the Financial section of this report.

Investment Portfolio Assets

At the close of FY2007, IPERS' net investment portfolio assets had a fair value of $23.182 billion. The change in fair value represents an increase of $2.801 billion from the $20.381 billion net investment asset fair value as of June 30, 2006. The largest factor contributing to the increase in net investment asset fair value was the investment portfolio return of 16.29 percent, which is more fully addressed below.

As in previous years, employer and employee contributions to IPERS only partially fund the benefit payments, refunds, and administrative expenses of the System. Funds must be drawn regularly from investment earnings to help meet these obligations. This drawdown of investment assets is typical for a mature pension system, where investment earnings are expected to supplement employer and employee contributions in meeting liabilities. For the year ended June 30, 2007, employer and employee contributions totaled $575 million, while total member benefits paid equaled $1.052 billion (regular monthly benefits, refunds, and dividend payments). The resulting $477 million contribution shortfall was funded with investment portfolio earnings.

Investment Results

A growing global economy, with controlled inflation and strong corporate earnings, provided a good environment for capital markets in fiscal year 2007. Those conditions combined with a seemingly high tolerance for risk by many market participants to produce above-normal returns in equity markets. International stocks, U.S. stocks, and private equity markets posted returns of 20 percent or more. Real estate markets remained very strong and fixed income markets posted respectable returns. In fact, none of the major asset classes produced a negative return in fiscal year 2007.

The total return on the System's investment portfolio (net of fees) for the fiscal year ended June 30, 2007, was 16.29 percent. The total return on investments for the 10-year period ended June 30, 2007, was 9.03 percent.

Revenues

The System is funded through a combination of member contributions, employer contributions, and investment income. Contributions for regular IPERS members, who make up approximately 96 percent of the active membership, were 9.45 percent of employees' covered wages in fiscal year 2007. Employers contribute at a rate of 5.75 percent and employees at a rate of 3.70 percent, which represents about a 60 percent/40 percent split. Employees engaged in Special Service occupations (for example, law enforcement, fire safety, and similar protection occupations) and their employers contributed at higher rates as determined by the actuary.

Net investment and securities lending income for fiscal year 2007 was $3.299 billion.

For FY2007, revenues from employer and employee contributions, excluding buy-back/buy-in contributions, totaled $567 million, a 5.66 percent increase over the prior fiscal year. Buy-back/buy-in contributions for the year amounted to $8 million, a 28.82 percent decrease from the prior year. Net investment and securities lending income for fiscal year 2007 was $3.299 billion, an increase of $1.233 billion over the prior year.

Expenses

Expenses are incurred primarily for the purpose for which IPERS was created: the payment of benefits to retirees. Included in the total expenses for the fiscal year were benefit payments, refunds, and dividend payments totaling $1.052 billion. This amount increased 8.91 percent from the prior fiscal year.

The total number of annuitants receiving monthly benefits as of June 30, 2007, was 84,949. The net increase of 2,745 during fiscal year 2007 was similar to the increase during fiscal year 2006. The average monthly retirement benefit, including the November and January dividend payments, increased from $903 to $952.

Administrative expenses decreased 2.79 percent from last year.

All administrative expenses for the System are paid from the IPERS Trust Fund. The administrative budget is submitted to the Legislature annually for authorization of spending. Those administrative expenses totaled $9 million for fiscal year 2007, a 2.79 percent decrease from last year. This decrease was due largely to the capitalization of payroll and benefit expenses directly related to the I-Que project, which was discussed in the Major Initiatives paragraphs of this introduction.

The System retains two investment consultants and multiple investment managers to assist the Investment Board and administration in carrying out their fiduciary duties by providing capital markets and portfolio advice to the System and investing the System's assets. For the fiscal year, IPERS' investment management expenses were $58 million, a 26.49 percent increase from last year.

For fiscal year 2007, the System expended 0.26 percent of the portfolio's total quarterly average fair value for investment management expenses, well below the 0.40 percent maximum allowed by state law.

IPERS utilizes performance-based fee structures for many of its investment managers, as required by state law, and these arrangements generated higher fees in fiscal year 2007 when compared to fiscal year 2006. This increase was primarily due to incentive management fees in the real estate portfolio. Total management fees earned by real estate managers in fiscal year 2007 were $34 million, an increase of 63.95 percent from the $21 million charged during fiscal year 2006.

In addition to the appropriations process described above for administrative expenses, state law limits the amount that can be expended annually for investment management expenses to 0.40 percent of the Fund's total net investment portfolio fair value. For fiscal year 2007, the System expended 0.26 percent of the portfolio's total quarterly average fair value for investment management expenses, well below the maximum allowed. The 0.26 percent expended for investment management expenses in FY2007 also represents an increase from the 0.23 percent expended in FY2006.

Revenues
(Dollar values expressed in millions)

Source	2007	2006	Increase (Decrease)
Contributions	$ 566.6	$ 536.2	$ 30.4
Buy-Backs/Buy-Ins	8.0	11.3	(3.3)
Net Invest. & Securities Lending Income	3,298.8	2,065.5	1,233.3
Total	**$3,873.4**	**$2,613.0**	**$1,260.4**

Expenses
(Dollar values expressed in millions)

Type	2007	2006	Increase (Decrease)
Benefits	$1,014.0	$924.4	$89.6
Refunds	38.1	41.7	(3.6)
Administrative	9.1	9.3	(0.2)
Total	**$1,061.2**	**$975.4**	**$85.8**

Funding

The ultimate test of whether a system such as IPERS is financially sound is whether it can pay all of its promised benefits as they come due. The achievement of this goal can only be judged over a long period of time. The annual valuation of the System's assets and liabilities by IPERS' actuary provides the best current estimate of the System's funded status. The actuarial valuation for funding purposes at June 30, 2007, reflected an unfunded actuarial liability of $2.266 billion. This represents the difference between the accrued actuarial liability of $23.026 billion and the actuarial value of net assets of $20.760 billion.

During the fiscal year, the unfunded actuarial liability decreased by $241 million from the preceding fiscal year's ending balance. This decrease is largely due to strong investment performance.

The System's amortization period for the unfunded actuarial liability remained at an infinite number of years, meaning that the level of periodic payments to reduce this liability that are possible under current statutory contribution rates will not be sufficient to pay off the unfunded actuarial liability. IPERS' Funding Policy and Governmental Accounting Standards Board Statement No. 25 require the amortization period not to exceed 30 years. This situation does not jeopardize the security of IPERS members' benefit payments for the next several years, but it does signal a need to carefully monitor the System's scheduled contribution rate increases approved by the 2006 Legislature in order to return to a fully funded status.

Based on the FY2007 actuarial valuation, the rates necessary and sufficient for members and employers to fully fund the benefits and retirement allowances being credited are as follows for the fiscal year ending June 30, 2009 (FY2009): Special Service Group 1 at 15.04 percent, Special Service Group 2 at 14.08 percent, and regular membership at 12.02 percent. The actuarially required contribution is the statutory contribution rate for both groups of Special Service members. However, the contribution rate for regular members for FY2009 is set by statute at 10.45 percent. FY2007 was the fifth year that the contribution rate for regular members was below the amount certified by the actuary.

Future Prospects

IPERS has a 90.2 percent funded ratio (the ratio of actuarial assets to actuarial liabilities). The funded ratio has stabilized in the last five years after a significant decline in the early 2000s and has started to increase this year. Despite the fact that IPERS is a well-funded system overall, IPERS' actuary projects that employer contributions are 83.3 percent and member contributions are 83.5 percent of what they should be. Because the majority of contributions go toward paying normal costs, only a small percentage is available to pay down the unfunded actuarial liability, and the amortization period is infinite. However, the contribution rate increase passed by the 2006 Legislature may begin to improve IPERS' funded status in future valuation reports. Given the contribution rate increase, if investments continue to meet the actuarial assumed investment return and the other actuarial assumptions hold true, the amortization period will likely decrease.

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

Accounting System and Internal Control

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

IPERS' administration is also responsible for maintaining an internal accounting control system designed to provide reasonable assurance that transactions are executed in accordance with the administration's general or specific authorization and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles.

Independent Audit

The Auditor of State is required by Iowa Code chapter 11 (2007) to audit annually all departments of the State. The accompanying financial statements of the System have been audited by the Auditor of State in accordance with U.S. generally accepted auditing standards, state law, and Government Auditing Standards. The Auditor's report is contained in the Financial section of this report.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to IPERS for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2006. In order to be awarded a Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. IPERS believes that its current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and IPERS is submitting it to the GFOA to determine its eligibility for another certificate.

Sincerely,

Donna M. Mueller
Chief Executive Officer

Administration

IPERS' primary purpose is to provide a strong and secure retirement income for Iowa's former and current public employees. The activities of the administration are designed to accomplish this purpose and include:

- Providing counseling services and retirement information to active and retired members.
- Providing retirement, disability, and death benefits to members and beneficiaries.
- Providing refunds to members, which may be rolled over to other IRS-qualified retirement plans.
- Administering the benefits of the Iowa Old-Age and Survivors' Insurance System.
- Collecting employer and employee contributions in accordance with state law and IPERS' administrative rules.
- Providing recommendations to the Governor and General Assembly on Plan design adjustments.
- Overseeing the investment of the System's funds in accordance with the Investment Policy and Goal Statement adopted by the Investment Board.

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

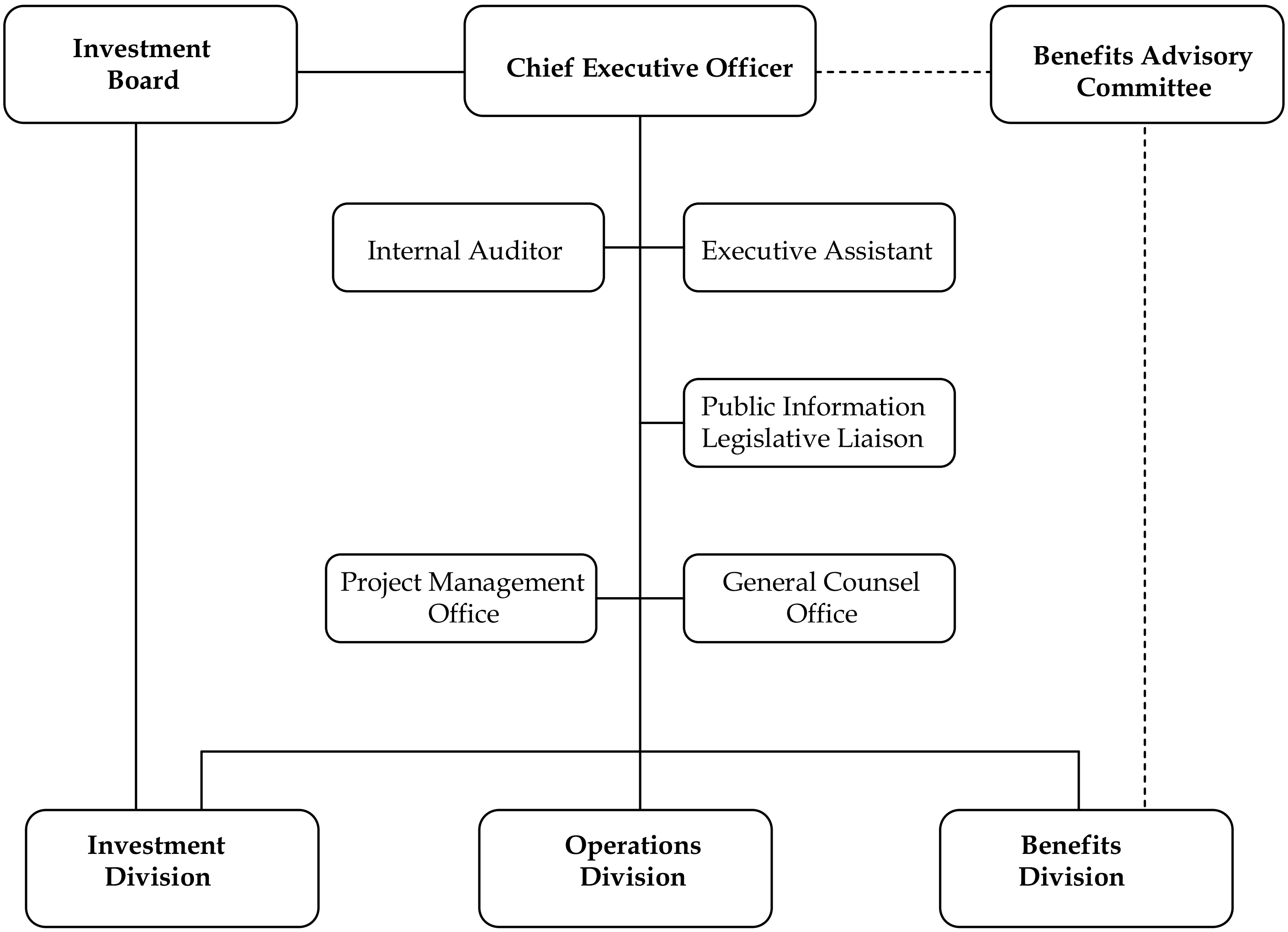
Investment Policy and Administration
Karl C. Koch, Chief Investment Officer

Membership and Benefit Administration
David Martin, Chief Benefits Officer

Operations
Leon J. Schwartz, Chief Operations Officer

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

IPERS Table of Organization



Investment Board

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

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

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

The Investment Board is the IPERS Fund's trustee.

The nonvoting members of the Investment Board are two state representatives (one appointed by the speaker of the Iowa House of Representatives and one by the minority leader of the Iowa House) and two state senators (one appointed by the majority leader of the Iowa Senate and one by the minority leader of the Iowa Senate).

The term for an Investment Board member appointed by the Governor is six years. Gubernatorial appointees are subject to confirmation by the Iowa Senate. Investment Board members listed below served on the Board during FY2007.

Joanne L. Stockdale*
Vice Chair and Acting Chair
Term expires 2011

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

*Voting member

Investment Board Members

Michael Beary*
Term expires 2013

Mr. Beary is serving his fifth term as a member of the Monroe County Board of Supervisors, first taking office in 1989. As a supervisor, he has policymaking and administrative responsibilities, including setting budgets and tax levies. He also represents the county on other boards and commissions. An Iowa native who has lived in Iowa his whole life, Mr. Beary farms near Lovilia.

David O. Creighton*
Term expires 2009

Mr. Creighton is the chair and chief executive officer of The Bryton Companies in West Des Moines and works in the property/casualty insurance business with the Asset Protection Agency. He has his chartered property casualty underwriter (CPCU) and certified insurance counselor (CIC) designations. Mr. Creighton studied business at Arizona State University and has nearly 30 years of business finance experience. Mr. Creighton served many years on the Board of the National Association of Professional Insurance Agents, including time as interim executive vice president.

Lana J. Dettbarn*
Term expires 2011

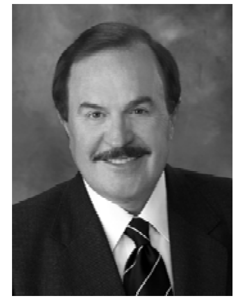
The executive director for administrative services for the Eastern Iowa Community College District since 1979, Ms. Dettbarn is also the district's board treasurer. She has a master's degree in business administration from St. Ambrose University, and serves on the Advanced Technology Environmental Education Center Board.

*Voting member

Investment Board Members

James (Jay) Ingram*
Term expires 2013

Mr. Ingram is the managing director of private wealth management at R.W. Baird, Inc., where he focuses on retail, high net worth, and institutional accounts. A licensed financial adviser for 37 years, his institutional investment experience includes retirement plans. Mr. Ingram was named one of America's 50 best financial advisers by *Research* magazine in 2005 and admitted to their Winner's Circle of Excellence.



State Treasurer Michael L. Fitzgerald*
Appointed by statute

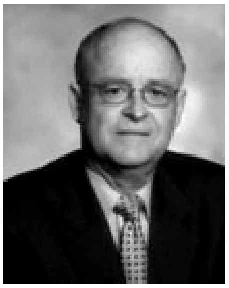
Treasurer Fitzgerald was first elected to office in 1982, and in 1989 was named the most valuable public official working in state government by *City and State* magazine. He has been the president of four associations, including the National Association of State Treasurers, and is currently a member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

Phyllis S. Peterson*
Term expires 2010

Dr. Peterson worked in Iowa public education for over 30 years before retiring in 2004 as the registrar of Kirkwood Community College. She began her career as a math teacher, and later became involved in telecommunications usage and instructional research. Dr. Peterson received her doctorate from the University of Iowa.

*Voting member

Investment Board Members



Senator Michael Connolly

Senator Connolly is from Dubuque. He is an assistant majority leader and chair of the Senate State Government Committee. He is vice chair of the Ethics and Government Oversight Committees, and also serves on the Appropriations, Education, and Ways and Means Committees. Senator Connolly is a retired school administrator and former teacher who has served six terms in the House and is serving his fifth term in the Senate.

Senator Mark Zieman

Senator Zieman is a Postville farmer and trucking company owner. He is the ranking member of the State Government Committee and serves on the Education, Judiciary, and Transportation Committees. Senator Zieman also serves on the Education Appropriations Subcommittee.

Representative Carmine Boal

Representative Boal is from Ankeny. She is the ranking member of the House State Government Committee and serves on the Education and Judiciary Committees. She also is a member of the Education Appropriations Subcommittee. Representative Boal is active in community groups and is the former vice president of the Ankeny Community School Board. She is serving her fifth term in the House.

Representative Pam Jochum

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

Outgoing Investment Board Members

Bruce G. Kelley

Mr. Kelley was a member of the Investment Board from 1988 until his term expired in April 2007, and served several terms as board chair. Mr. Kelley is president and chief executive officer of EMC Insurance Companies, which has $3 billion under management. He is a graduate of the University of Iowa College of Law and practiced law until he joined the management of EMC in 1985. Since that time he has been a member of its investment committee.

Lorie L. Bennett

Ms. Bennett was appointed to the Investment Board in December 2003, and continued serving until her term expired in April 2007. Ms. Bennett is the city administrator for Humboldt, a position she has held since 2004. She worked previously as Humboldt's city clerk and accountant. Ms. Bennett has a bachelor of arts degree from Wartburg College in finance and management. She is an Iowa League of Cities executive board member, vice president of the Humboldt County Community Foundation, and a former board member of the Iowa Municipal Finance Officers Association.

Senator John P. Kibbie

Senator Kibbie served on the Investment Board from 1992 to 2007. He is an Emmetsburg farmer and cattle feeder. He served in the Iowa House of Representatives for four years beginning in 1961, and in the Iowa Senate for four years beginning in 1965. Senator Kibbie was reelected to the Senate in 1988, where he has served in numerous leadership and committee positions. Senator Kibbie is now president of the Senate. He is also the chair of the Ethics Committee, vice chair of the Rules and Administration Committee, and a member of the State Government and Veterans Affairs Committees.

Jeff Elgin

A former representative, Mr. Elgin served on the Investment Board from 2002 to 2007. He is president of J&T Elgin LLC Investment Company in Cedar Rapids. Mr. Elgin has a master's of business administration in accounting from the University of Iowa. While a legislator he served as House State Government Committee chair and a member of the Local Government and Transportation Committees, and the Administration and Regulation Appropriations Subcommittee.

Benefits Advisory Committee

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

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

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

The Committee has nine voting members; seven are elected by the Committee membership. The director of the Iowa Department of Administrative Services is named a voting member in the Iowa Code. The voting members also elect a public member, who cannot be a member of the System. Of the nine voting members of the Committee, four must represent covered employers, four must represent IPERS membership, and one must be a public member. Voting members serve three-year terms. Committee members listed below served on the Committee during FY2007.

Gene Gardner
Chair

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

Len Cockman*
Vice Chair

Voting term expires 2009

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

*Voting member

Member Association Representatives

Maxine Moore Ballard

Ms. Ballard is the executive director of the State Police Officers Council, a union representing public employees working in public safety occupations. Ms. Ballard is an award-winning human resources professional with over 25 years of experience. She currently runs Ballard & Moore, LLC, a human resources consulting, counseling, and training company. Ms. Ballard has a master of science degree in counselor education.

Walter L. Galvin

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

Janie Garr

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

Bradley Hudson*
Voting term expires 2008

Mr. Hudson is a lobbyist for the Iowa State Education Association. He is a former fiscal analyst for the Legislative Service Agency and assistant director of business and finance for the Iowa Board of Regents. As the school budget supervisor in the state budget office, Mr. Hudson was instrumental in revising the Iowa School Foundation Formula. He holds a bachelor's degree in business from Iowa State University.

*Voting member

Member Association Representatives

Patrick Lynch*
Voting term expires 2010

Mr. Lynch is with the International Brotherhood of Teamsters, serving as their state political director in Iowa, Minnesota, North Dakota, and South Dakota. He has been a Teamster for 24 years, and previously was their secretary-treasurer. A Dubuque native, Mr. Lynch is a board member of Iowa Jobs for America's Graduates and the Iowa Memorial Scholarship Fund.

Bill Sage

Sheriff Sage, who represents the Iowa Sheriffs and Deputies Association, has been with the Cass County Sheriff's Office for 26 years. In 1991, the Association named him Deputy Sheriff of the Year. He studied law enforcement at Iowa Western Community College and has served in the Atlantic Fire Department for 25 years.

Gaylord Tryon*
Voting term expires 2010

Dr. Tryon represents the School Administrators of Iowa on the Committee. He began his career as a teacher and elementary school principal, and he earned his doctorate in educational administration from Iowa State University. He served as executive director for the School Administrators of Iowa for 28 years before retiring in 2000. Since 2001, he has served as president of his own company, G. Tryon and Associates.

Lewis Washington*
Voting term expires 2010

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

*Voting member

Employer Association Representatives

Mollie K. Anderson*
Appointed by statute

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

James Maloney*
Voting term expires 2009

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

Alan Kemp*
Voting term expires 2008

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

Public Member Representative

Diane Reid*
Voting term expires 2008

Ms. Reid retired as the executive director of the State Police Officers Council after 27 years of service. A veteran on public policy issues, she served as a member of the committee that preceded the Benefits Advisory Committee. Ms. Reid is a graduate of Katharine Gibbs Business School, holds an associate of science degree from Des Moines Area Community College, and has completed numerous seminars and training sessions on pension plans.

*Voting member

Outgoing Committee Members

Heather Stubbe

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

Gary Walters

Chief Walters was a member of the Committee for a year. He represented the Iowa Association of Chiefs of Police and Peace Officers. He is an Iowa native and has served in the law enforcement community since 1972. Currently the chief of police in Windsor Heights, Chief Walters has a master's of public administration from LaSalle University and a bachelor's degree from Upper Iowa University.

Professional and Consulting Services

The following organizations assist the IPERS Investment Board and administration in carrying out their fiduciary duties. Contracts are awarded following competitive procurement processes in accordance with state law.

Actuary

Milliman Inc.—Omaha, NE

The actuarial consulting firm chosen by the Investment Board is responsible for:

- Certifying the adequacy of the contribution rates used by the System.
- Measuring and reporting the assets and liabilities of the System.
- Reviewing and analyzing trends in the System's membership and actuarial assumptions.

Independent Actuarial Auditor

Gabriel Roeder Smith & Company—Southfield, MI

The independent actuarial auditor chosen by the System is responsible for:

- Reviewing the appropriateness of the actuarial assumptions and methods.
- Verifying the data collection and processing.
- Confirming the major actuarial valuation results.

Plan Legal Counsel

Ice Miller Legal & Business Advisors—Indianapolis, IN

The external plan legal counsel chosen by the System is responsible for:

- Assisting periodically in the review and analysis of tax- and benefit-related matters.
- Providing advice to the staff on state and federal legislation and regulations.

Securities Litigation Monitoring Counsels

Barrack, Rodos & Bacine—Philadelphia, PA
Bernstein, Liebhard & Lifshitz—New York, NY
Cohen, Milstein, Hausfeld & Toll—Washington, DC

The external securities litigation monitoring firms chosen by the System are responsible for:

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

Investment Consultants

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

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

- Preparing asset allocation studies for the System.
- Periodically reviewing investment performance.
- Assisting in the screening and selection of investment managers.
- Providing support in the development and implementation of the System's investment goals, objectives, and policies.

Master Custodian and Securities Lending Agent

The Bank of New York—New York, NY

The Treasurer of the State of Iowa is the custodian of the Fund and has hired a master custodian bank to assist in the custody and record-keeping of the System's assets. The System also utilizes the custodian bank as its securities lending agent. The custodian is responsible for:

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

Operational/Information Technology Consultants

L.R. Wechsler, Ltd.—Fairfax, VA
Vitech Systems Group, Inc.—New York, NY

The most significant operational/information technology consultants chosen and utilized by the System are responsible for:

- Implementing a new benefits administration system.
- Assisting in the review and improvement of all benefits administration business processes.
- Providing independent verification and validation and quality assurance services.

Benchmarking Consultant

CEM Benchmarking Inc.—Toronto, Ontario, Canada

The independent benchmarking consultant firm is responsible for:

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

Investment Managers

The Investment Board has selected a variety of investment management firms to execute the investment strategies of the System. Managers are given full discretion to direct and manage the investment of the assets allocated to their accounts in accordance with applicable federal and state regulations and their executed contracts.

The investment managers chosen by the System are responsible for:

- Investing the funds allocated to them in accordance with their contracts, the Investment Policy and Goal Statement, and applicable statutes.
- Reporting periodically to the Investment staff and Investment Board on matters such as performance, market conditions, and compliance with their contracts.

As of June 30, 2007

Domestic Equity

Barclays Global Investors, NA
San Francisco, CA

Mellon Capital Management Corp.
San Francisco, CA

RCM
San Francisco, CA

Smith Breeden Associates, Inc.
Chapel Hill, NC

Wellington Management Company, LLP
Boston, MA

Western Asset Management Co.
Pasadena, CA

Westridge Capital Management, Inc.
Santa Barbara, CA

International Equity

Barclays Global Investors, NA
San Francisco, CA

Emerging Markets Management, LLC
Arlington, VA

Oechsle International Advisors, LLC
Boston, MA

Schroder Investment Management
North America Inc.
London, England

Core Plus Fixed Income

BlackRock Financial Management, Inc.
New York, NY

Mellon Capital Management Corp.
San Francisco, CA

Principal Global Investors, LLC
Des Moines, IA

Western Asset Management Co.
Pasadena, CA

High Yield Bonds

Oaktree Capital Management, LLC
Los Angeles, CA

Post Advisory Group, LLC
Los Angeles, CA

Private Equity/Debt

Pathway Capital Management, LLC
Irvine, CA

Real Estate

ING Clarion Partners
New York, NY

INVESCO Realty Advisors
Dallas, TX

RREEF America, LLC
Chicago, IL

TA Realty LLC
Boston, MA

UBS Realty Investors LLC
Hartford, CT

IPERS

Independent Auditor's Report

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Financial

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004
Telephone (515) 281-5834 Facsimile (515) 242-6134

David A. Vaudt, CPA
Auditor of State

Independent Auditor's Report

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

We have audited the accompanying statement of plan net assets of the Iowa Public Employees' Retirement System (IPERS) as of June 30, 2007 and 2006, and the related statement of changes in plan net assets for the years then ended. These financial statements are the responsibility of IPERS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements present the financial position and the changes in financial position of only that portion of the financial reporting entity of the State of Iowa that is attributable to the transactions of IPERS. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2007 and 2006, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of IPERS at June 30, 2007 and 2006, and the changes in plan net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis and the schedules of funding progress and employer contributions on pages 35 through 38 and 60 through 61 are not required parts of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audits of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

We did not audit the data included in the introduction, investments, actuarial, statistical and plan summary sections and, accordingly, express no opinion on it.

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

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 30, 2007

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, 2007. It is intended to be used in conjunction with the transmittal letter and IPERS' financial statements and notes, which begin on page 39 of this report.

Using This Financial Report

This Comprehensive Annual Financial Report reflects the activities of the Iowa Public Employees' Retirement System as reported in the Statement of Plan Net Assets (see page 39) and the Statement of Changes in Plan Net Assets (see page 40). 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 Other Supplementary Information following the Notes to Financial Statements provide historical and additional detailed information considered useful in evaluating the condition of the Plan. Investment data in the Financial section are presented at fair value. See the Actuarial section of this report for a detailed discussion of the actuarial value of assets and liabilities and the funded status.

Financial Highlights

- IPERS' plan net assets held in trust for pension benefits increased by $2.8 billion during fiscal year 2007. On June 30, 2007, total plan assets (including capital assets of $9.5 million) were $28.0 billion, exceeding total liabilities of $4.8 billion, resulting in net assets held in trust for pension benefits of $23.2 billion.

- Capital assets increased from $4.4 million in fiscal year 2006 to $9.5 million in fiscal year 2007. This was primarily due to the capitalization of $5.1 million in equipment and other expenses directly related to the I-Que project, which was discussed on page 9 of the Introduction.

- Covered wages, upon which both employee and employer contributions are calculated, increased by $257.8 million, or 5 percent, over the last fiscal year and totaled $5.8 billion. Employer and employee contributions also increased, in total, by 5 percent; by comparison, fiscal year 2006 saw a 5 percent increase in covered wages and a 4 percent increase in contributions.

- Net investment and securities lending income, after all investment-related expenses, was $3.3 billion in fiscal year 2007, compared to a gain of $2.1 billion in fiscal year 2006 and a gain of $1.9 billion in fiscal year 2005. Investment management expenses were $58.3 million for fiscal year 2007; by comparison, investment management expenses were $46.1 million for fiscal year 2006 and $48.8 million for fiscal year 2005.

Total contributions, investments, and other income resulted in a positive impact to the Fund of $3.9 billion.

- Total contributions, investments, and other income resulted in a positive impact to the Fund of $3.9 billion in fiscal year 2007, compared to $2.6 billion in fiscal year 2006 and $2.4 billion in fiscal year 2005. The increase in fiscal year 2007 is primarily due to net investment income of $3.3 billion, compared to net investment income of $2.1 billion for fiscal year 2006.

- Pension benefits to members increased by $89.6 million, continuing the trend experienced in the previous five fiscal years. Refunds decreased from $41.7 million to $38.1 million. Payments to members totaled $1.1 billion in fiscal year 2007.

- Administrative expenses totaled $9.1 million, as compared to $9.3 million for fiscal year 2006 and $8.2 million for fiscal year 2005. This decrease was due largely to the capitalization of payroll and benefit expenses directly related to the I-Que project, which was discussed under Major Initiatives in the Introduction. Administrative expenses were 0.04 percent of the value of plan net assets in fiscal year 2007; by comparison, administrative expenses were 0.05 percent of the value of plan net assets in fiscal year 2006 and 0.04 percent of the value of plan net assets in fiscal year 2005.

Analysis of Plan Net Assets

Tables 1 and 2 present condensed summaries of plan net assets and a breakdown of the changes to the plan net assets with comparison to the previous two fiscal years.

IPERS' plan net assets at June 30, 2007, were $23.2 billion, having increased $2.8 billion from the previous fiscal year-end balance.

Total plan net assets increased by 14 percent in FY2007.

A large percentage of total assets, 95 percent, is made up of investments held to provide retirement, survivor, and disability benefits to qualified members and their beneficiaries. Other assets, including cash and cash equivalents, receivables from member and employer contributions, receivables from investment-related transactions, and capital assets, make up 5 percent of total assets. Total plan net assets increased by 14 percent in fiscal year 2007.

Total liabilities in Table 1 represent current liabilities and do not reflect the actuarial liabilities discussed in the Actuarial section of this report. These current liabilities consist primarily of amounts owed for investment-related transactions, including the value of rebates and collateral due back to borrowers of securities at the conclusion of securities lending transactions, amounts owed to members or their beneficiaries, and amounts owed to contractors and vendors. Total liabilities increased by $2.0 billion from fiscal year 2006 to 2007, as compared to a decrease of $238.9 million between fiscal years 2005 and 2006. The majority of the increase in liabilities for fiscal year 2007 was due to increased payables for investments purchased and securities lending rebates and collateral payable. The liabilities associated with the securities lending program (that is, rebates and collateral payable) are more than offset by the assets held as collateral by IPERS, as reflected in the securities lending collateral pool line item in the Statement of Plan Net Assets. (See Statement of Plan Net Assets, page 39, and note 3, beginning on page 43.)

Table 1

Plan Net Assets
(Dollar values expressed in thousands)
Fiscal years ended June 30

	2007	2006	2007/2006 Inc/(Dec) Percent	2005	2006/2005 Inc/(Dec) Percent
Cash and investments at fair value	$26,727,594	$22,725,569	17.6	$21,094,867	7.7
Receivables	1,271,506	477,498	166.3	709,751	(32.7)
Capital assets	9,471	4,424	114.1	4,152	6.6
Total assets	28,008,571	23,207,491	20.7	21,808,770	6.4
Total liabilities	4,791,403	2,802,620	71.0	3,041,541	(7.9)
Total plan net assets	$23,217,168	$20,404,871	13.8	$18,767,229	8.7

Table 2

Changes in Plan Net Assets
(Dollar values expressed in thousands)
Fiscal years ended June 30

	2007	2006	2007/2006 Inc/(Dec) Percent	2005	2006/2005 Inc/(Dec) Percent
Additions					
Contributions & buy-backs/buy-ins	$ 574,604	$ 547,488	5.0	$ 524,667	4.3
Net investment and securities lending income	3,298,842	2,065,520	59.7	1,912,489	8.0
Miscellaneous	1	1	0.0	42	(97.6)
Total additions	3,873,447	2,613,009	48.2	2,437,198	7.2
Deductions					
Benefits and refunds	1,052,089	966,046	8.9	911,671	6.0
Administrative expenses	9,061	9,321	(2.8)	8,215	13.5
Total deductions	1,061,150	975,367	8.8	919,886	6.0
Increase in plan net assets	$2,812,297	$1,637,642	71.7	$1,517,312	7.9

The increases in plan net assets experienced from the end of fiscal year 2006 to the end of fiscal year 2007 and from the end of fiscal year 2005 to the end of fiscal year 2006 were primarily due to investment market conditions. Benefits paid out continued to exceed contributions received by $477.5 million, $418.6 million, and $387.0 million for fiscal years 2007, 2006, and 2005, respectively. This excess of benefits paid relative to contributions received is characteristic of a mature pension plan such as IPERS.

Total administrative expenses for the past three fiscal years have been $9.1 million, $9.3 million, and $8.2 million, respectively. (See Schedule of Administrative Expenses, page 63.)

The investment rates of return for the current and preceding two fiscal years were 16.29 percent, 11.11 percent, and 11.25 percent, respectively. (See also the Investments section of this report beginning on page 65 for further information on rates of return.)

The following table contains the fiscal year performance of each asset class, benchmark, and the Fund's actual asset allocation as of June 30, 2007.

Table 3

Asset Class	Return	Benchmark	Allocation
Domestic equity	19.41%	20.46%	29.72%
International equity	27.65%	30.14%	15.64%
Core plus fixed income	6.49%	6.63%	32.54%
High yield bonds	9.91%	10.78%	4.43%
Private equity/debt	33.17%	24.04%	8.40%
Real estate	14.37%	16.84%	8.80%
Short-term cash	5.92%	5.19%	0.47%
Total Fund	**16.29%**	**16.61%**	**100.0%**

Contacting System Financial Management

This financial report is designed to provide the 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 receives. If you have any questions about this report or need additional financial information, you may contact the Iowa Public Employees' Retirement System by e-mail at info@ipers.org, by phone at 515-281-0020 or 1-800-622-3849, or by mail at P.O. Box 9117, Des Moines, IA 50306-9117.

Basic Financial Statements

Statement of Plan Net Assets

June 30, 2007 and 2006

	2007 Pension Trust Fund	2007 QBA Fund*	2007 Total	2006 Total
Assets				
Cash and cash equivalents	**$ 122,249,911**	**$1,277**	**$ 122,251,188**	**$ 101,665,926**
Receivables				
Contributions receivable	48,661,283	---	48,661,283	38,413,552
Accrued interest and dividends	79,432,027	6	79,432,033	66,924,180
Receivable for investments sold	1,136,905,073	---	1,136,905,073	311,975,955
Foreign exchange contracts receivable	6,507,551	---	6,507,551	60,184,158
Total receivables	**1,271,505,934**	**6**	**1,271,505,940**	**477,497,845**
Investments at fair value				
Fixed income	9,798,063,496	---	9,798,063,496	8,457,307,783
Domestic equity	7,209,791,382	---	7,209,791,382	6,249,467,721
International equity	3,606,256,940	---	3,606,256,940	3,150,622,782
Real estate	2,075,286,962	---	2,075,286,962	1,728,600,683
Private equity/debt	1,946,547,302	---	1,946,547,302	1,549,804,375
Securities lending collateral pool	1,969,396,403	---	1,969,396,403	1,488,100,077
Total investments	**26,605,342,485**	**---**	**26,605,342,485**	**22,623,903,421**
Capital assets				
Depreciable assets—net of accumulated depreciation	8,971,430	---	8,971,430	3,924,308
Nondepreciable assets—land	500,000	---	500,000	500,000
Total capital assets	**9,471,430**	**---**	**9,471,430**	**4,424,308**
Total assets	**28,008,569,760**	**1,283**	**28,008,571,043**	**23,207,491,500**
Liabilities				
Accounts payable and accrued expenses	55,176,787	---	55,176,787	31,860,038
Payable for investments purchased	2,760,787,187	---	2,760,787,187	1,222,672,647
Rebates and collateral payable	1,968,922,517	---	1,968,922,517	1,487,664,482
Foreign exchange contracts payable	6,516,606	---	6,516,606	60,423,287
Total liabilities	**4,791,403,097**	---	**4,791,403,097**	**2,802,620,454**
Net assets held in trust for pension benefits (note 9)	**$23,217,166,663**	**$1,283**	**$23,217,167,946**	**$20,404,871,046**

See Schedule of Funding Progress on page 60.
See Notes to Financial Statements.
*See note 10.

Statement of Changes in Plan Net Assets

Years ended June 30, 2007 and 2006

	2007 Pension Trust Fund	2007 QBA Fund*	2007 Total	2006 Total
Additions				
Contributions				
Employer contributions	$ 343,063,330	---	$ 343,063,330	$ 324,676,814
Employee contributions	223,515,250	---	223,515,250	211,535,926
Buy-back/buy-in contributions	8,025,639	---	8,025,639	11,275,428
Total contributions	**574,604,219**	---	**574,604,219**	**547,488,168**
Investments				
Interest	363,482,840	---	363,482,840	291,223,853
Dividends	80,004,527	---	80,004,527	72,660,062
Real estate and private equity/debt	87,133,068	---	87,133,068	84,631,620
Net appreciation in fair value of investments	2,821,866,951	---	2,821,866,951	1,657,758,987
Other	190,263	---	190,263	377,586
Investment management expenses	(58,315,192)	---	(58,315,192)	(46,104,211)
Net investment income	**3,294,362,457**	---	**3,294,362,457**	**2,060,547,897**
Securities lending income				
Securities lending income	97,688,056	---	97,688,056	70,394,470
Securities lending expenses	(93,208,129)	---	(93,208,129)	(65,422,452)
Net securities lending income	**4,479,927**	---	**4,479,927**	**4,972,018**
Other sources				
Miscellaneous noninvestment income	---	$ 523	523	662
Total other sources	---	**523**	**523**	**662**
Total additions	**3,873,446,603**	**523**	**3,873,447,126**	**2,613,008,745**
Deductions				
Benefit payments	1,013,955,902	17,085	1,013,972,987	924,378,316
Member and employer refunds	38,116,271	---	38,116,271	41,667,603
Administrative expenses	9,059,877	1,091	9,060,968	9,320,559
Total deductions	**1,061,132,050**	**18,176**	**1,061,150,226**	**975,366,478**
Net increase/(decrease)	**2,812,314,553**	**(17,653)**	**2,812,296,900**	**1,637,642,267**
Net assets held in trust for pension benefits Beginning of year	20,404,852,110	18,936	20,404,871,046	18,767,228,779
Net assets held in trust for pension benefits End of year (note 9)	**$23,217,166,663**	**$ 1,283**	**$23,217,167,946**	**$20,404,871,046**

See Notes to Financial Statements.

*See note 10.

Notes to Financial Statements

June 30, 2007 and 2006

(1) Reporting Entity

IPERS, a public employee retirement system, was created by the Iowa Legislature. IPERS is an integral part of the primary government of the State of Iowa and, accordingly, has been included as a pension trust fund in the *Iowa Comprehensive Annual Financial Report* (CAFR) as well as having its own stand-alone comprehensive annual financial report. The State's CAFR may be viewed from the Iowa Department of Administrative Services' Web site at <das.sae.iowa.gov/financial_reports/index.html>.

For financial reporting purposes, IPERS considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with IPERS is such that exclusion would cause IPERS' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and: (1) the ability of IPERS to impose its will on that organization, or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on IPERS. IPERS has no component units that meet the Governmental Accounting Standards Board criteria.

(2) Plan Description

A. Administration

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

B. Plan Membership

IPERS membership is mandatory for most state, county, and local public employees, employees of school districts, and certain elected officials. Membership is optional for some individuals, including the members of the Iowa Legislature. Members of other retirement systems supported by Iowa public funds are excluded from membership.

In FY2007 IPERS had 312,432 members and 2,293 participating employers.

	June 30, 2007	June 30, 2006
Employers		
City	1,198	1,252
County	423	443
School	399	401
State	25	26
28E agencies	68	60
Utilities	134	135
Other	46	46
Total	**2,293**	**2,363**
Members		
Retirees and beneficiaries	84,949	82,204
Inactive vested	30,047	29,522
Active vested	123,281	123,363
Active nonvested	41,960	39,728
Inactive nonvested	32,195	32,138
Total	**312,432**	**306,955**

C. Plan Benefits

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

D. Pension Benefits

A member may retire at age 65 (or at any time after reaching age 62 with 20 or more years of covered employment) and receive monthly benefits without an early retirement adjustment. A member is also entitled to benefits without an early retirement adjustment if the member's years of service plus the member's age at the last birthday equals or exceeds 88. (These qualifications must be met on the member's first month of entitlement to benefits.)

A member's monthly retirement allowance will be reduced by 0.25 percent for each month that the member's first month of entitlement precedes the date the member would have first retired with a normal retirement allowance. The date at which the member would first receive a normal retirement allowance is based on the member's actual age and years of service at the first month of entitlement.

E. Disability and Death Benefits

A vested member who is awarded federal social security or federal railroad retirement disability benefits because of a disability is eligible to claim IPERS benefits regardless of age. Disability benefits are unreduced for age. In lieu of the foregoing, a vested Special Service member may apply for in-service or ordinary disability retirement benefits under the

Special Service member disability program. Eligibility for the Special Service member disability program benefits is determined by IPERS, and also may begin at any age.

If a member dies before retirement, the beneficiary will receive a lifetime annuity or a lump-sum cash payment which is equal to the present actuarial value of the member's accrued benefit or a calculated formula, whichever is greater. When a member dies after retirement, the availability of death benefits depends on the benefit option selected by the member at the time of retirement.

F. Refunds

If a member leaves covered employment and applies for a refund, a lump-sum cash payment will be made based upon the member's accumulated contributions. Vested members requesting a refund also receive a portion of their accumulated employer contributions.

G. Vested Membership

A member who leaves covered employment after completing at least 4 years of covered service or has attained the age of 55 while making contributions to the Plan has vested rights to IPERS benefits.

H. Funding Requirements

Member and employer contribution rates are established by statute for the regular membership. The contributions are remitted by participating employers. Certain members and employers engaged in law enforcement, fire safety, and other protection occupations contribute at actuarially determined rates as shown in the following table. Wages are covered up to the federal limit of $225,000 for the calendar year 2007.

Contribution rates for regular members are established by statute.

Contribution Rates in Effect July 1, 2006–June 30, 2007

	Employee	Employer	Total
Regular membership	3.70%	5.75%	9.45%
Special Service group 1*	8.37%	8.37%	16.74%
Special Service group 2†	6.08%	9.12%	15.20%

*Sheriffs and deputies.

†All other protection occupation members.

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

IPERS' financial statements have been prepared using the accrual basis of accounting in conformity with U.S. generally accepted accounting principles as applied to government units. Revenues are recognized when they are earned and become measurable.

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

B. Cash and Cash Equivalents
For the purpose of financial reporting, cash and cash equivalents represent cash and money market investments with an original maturity of 3 months or less held by the System's administration and cash allocated to the System's investment managers for investment.

C. Foreign Exchange Contracts
The System enters into forward foreign exchange contracts to minimize the short-term impact of foreign currency fluctuations on the asset and liability positions of foreign investments. The gains or losses on these contracts are included in income in the period in which the exchange rates change.

D. Investments
IPERS is authorized to execute the investment of moneys to meet the requirements of the Investment Policy and Goal Statement established by the Investment Board, in accordance with the "Prudent Person" mandate of Iowa Code section 97B.7A.

All investments are reported at fair value. The determination of fair value is generally based on published market prices and quotations from major investment brokers. Investments not having quoted market prices have been valued based on yields and maturities currently available on comparable securities of similar issue. Fair values for real estate investments are based on periodic assessments or appraisals of the underlying investments. Futures contracts are valued daily with the resulting adjustment recorded as realized gains/losses arising from the daily settlement of the variation margin. Private equities are valued based on March 31 net asset values plus or minus purchases, sales, and cash flows from April 1 through June 30 of the reporting year.

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

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

Consistent with the System's investment policy, the investments are held by the System's custodian and registered in the System's name. All of the System's securities are held by the System's custodial bank in the System's name, except for securities on loan with brokers for cash collateral, investments in mutual and commingled funds, real estate properties, and limited partnerships, which, by their nature, are not required to be categorized. Investments in the Short-Term Investment Funds (STIF) are held in a Securities and Exchange Commission-registered pooled fund that is managed by the master custodian bank. The fair value of the position in the pool equals the value of the pool shares. A summary of investments as of June 30, 2007, follows.

Invested Assets*

(Dollar values expressed in thousands)

June 30, 2007

Investment Type	Total Fair Value	Fair Value on Loan
Cash	**$ (1,573,951)**	**---**
Cash collateral at broker	**32,542**	**---**
Forward contracts	**(2,571)**	**---**
Short-term investments	**1,470,896**	**---**
Pooled funds and mutual funds	1,132,582	---
Commercial paper	311,009	---
Certificates of deposit	22,968	---
Government agencies	4,337	---
Equity investments	**3,541,932**	**$ 721,665**
Common stocks	3,264,900	709,891
Real estate investment trusts	266,770	11,774
Preferred stock	7,406	---
Other equities	2,856	---
Fixed income investments	**8,125,612**	**1,195,111**
Government fixed income	1,320,548	915,537
Government agencies	*267,601*	*72,734*
Government bonds	*985,765*	*819,233*
Government notes	*29,664*	---
Other government fixed income	*37,518*	*23,570*
Government assets and mortgage-backed	2,820,390	23
Government National Mortgage Association	*39,723*	---
Federal Home Loan Mortgage Corporation	*86,194*	---
Federal National Mortgage Association	*1,823,972*	---
Collateralized mortgage obligations	*142,765*	---
Other government mortgage-backed	*727,736*	*23*
Corporate fixed income	3,448,568	228,273
Asset-backed securities	*891,218*	*8,163*
Corporate bonds	*2,557,350*	*220,110*
Other fixed income	536,106	51,278
Private placements	*531,551*	*50,967*
Miscellaneous other fixed income	*4,555*	*311*
Convertible investments	**4,105**	**---**
Convertible preferred stock	2,139	---
Convertible corporate bonds	1,966	---
Derivative instruments	**(31,583)**	**---**
Real estate	**1,782,295**	**---**
Commingled funds	**7,907,282**	**---**
Equity	5,308,900	---
Fixed income	2,598,382	---
Private equity	**1,925,089**	**---**
Venture capital	385,985	---
Special equity	1,539,104	---
Total	**$23,181,648**	**$1,916,776**

*Based on fair value of the total investment portfolio at June 30, 2007, gross of investment receivables and cash in investment manager accounts and net of payables and securities lending collateral. Although these values are the appropriate industry standard basis for calculation of investment returns, they differ from the "Investments at fair value" shown elsewhere in the Financial section, which are reported using GASB Statement No. 25 financial statement standards.

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

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

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to IPERS. As of June 30, 2007, IPERS' fixed income assets that are not explicitly government-guaranteed represented 88 percent of the fixed income portfolio. Credit risk associated with all fixed income holdings, including collateral for repurchase agreements and securities lending collateral, has been included in this report. The following tables summarize IPERS' fixed income portfolio exposure levels and credit quality ratings.

Credit Risk—S&P Quality Ratings

(Dollar values expressed in thousands)

June 30, 2007

	Total	TSY	AGY	AAA	AA	A	BBB	BB	B	CCC & Below	A-1	NR
Short-term investments	**$ 1,470,896**	**---**	**---**	**$ 928,371**	**---**	**---**	**---**	**---**	**---**	**---**	**$210,660**	**$331,865**
Pooled funds & mutual funds	1,132,582	---	---	928,371	---	---	---	---	---	---	---	204,211
Commercial paper	311,009	---	---	---	---	---	---	---	---	---	210,660	100,349
Certificates of deposit	22,968	---	---	---	---	---	---	---	---	---	---	22,968
Government agencies	4,337	---	---	---	---	---	---	---	---	---	---	4,337
Fixed income investments	**8,125,612**	**$ 816,492**	**$2,179,006**	**1,737,933**	**$210,961**	**$321,081**	**$607,989**	**$588,049**	**$888,967**	**$150,409**	---	**624,725**
Government fixed income	1,320,548	816,492	159,554	107,852	12,553	27,154	41,929	47,887	6,106	290	---	100,731
Government agencies	*267,601*	---	*159,554*	*94,598*	*12,553*	---	---	*896*	---	---	---	---
Government bonds	*985,765*	*816,492*	---	*13,254*	---	*26,264*	*21,719*	*31,328*	*5,351*	*290*	---	*71,067*
Government notes	*29,664*	---	---	---	---	---	---	---	---	---	---	*29,664*
Other government fixed income	*37,518*	---	---	---	---	*890*	*20,210*	*15,663*	*755*	---	---	---
Gov't assets & mortgage-backed	2,820,390	---	2,019,452	739,093	29,963	1,712	935	1,638	4,995	---	---	22,602
Gov't National Mortgage Assoc.	*39,723*	---	*32,284*	*7,439*	---	---	---	---	---	---	---	---
Federal Home Loan Mort. Corp.	*86,194*	---	*63,211*	*22,983*	---	---	---	---	---	---	---	---
Federal National Mortgage Assoc.	*1,823,972*	---	*1,823,972*	---	---	---	---	---	---	---	---	---
Collateralized mort. obligations	*142,765*	---	*88,262*	*47,399*	---	---	---	---	---	---	---	*7,104*
Other gov't mortgage-backed	*727,736*	---	*11,723*	*661,272*	*29,963*	*1,712*	*935*	*1,638*	*4,995*	---	---	*15,498*
Corporate fixed income	3,448,568	---	---	850,843	148,640	203,311	485,917	419,538	745,242	122,982	---	472,095
Asset-backed securities	*891,218*	---	---	*745,372*	*17,413*	*25,064*	*10,098*	*3,154*	*1,964*	*6,723*	---	*81,430*
Corporate bonds	*2,557,350*	---	---	*105,471*	*131,227*	*178,247*	*475,819*	*416,384*	*743,278*	*116,259*	---	*390,665*
Other fixed income	536,106	---	---	40,145	19,805	88,904	79,208	118,986	132,624	27,137	---	29,297
Private placements	*531,551*	---	---	*40,145*	*19,805*	*88,904*	*74,007*	*117,222*	*132,624*	*27,137*	---	*31,707*
Misc. other fixed income	*4,555*	---	---	---	---	---	*5,201*	*1,764*	---	---	---	*(2,410)*
Convertible investments	**4,105**	**---**	**---**	**---**	**---**	**---**	**---**	**603**	**3,502**	**---**	**---**	**---**
Convertible preferred stock	2,139	---	---	---	---	---	---	---	2,139	---	---	---
Convertible corporate bonds	1,966	---	---	---	---	---	---	603	1,363	---	---	---
Commingled bond funds	**2,598,382**	**593,730**	**285,303**	**1,208,767**	**122,384**	**200,855**	**187,343**	**---**	**---**	**---**	**---**	**---**
Total	**$12,198,995**	**$1,410,222**	**$2,464,309**	**$3,875,071**	**$333,345**	**$521,936**	**$795,332**	**$588,652**	**$892,469**	**$150,409**	**$210,660**	**$956,590**

There are no System-wide policy limitations for credit risk exposures within the portfolio. Each portfolio is managed in accordance with an investment contract that is specific as to permissible credit quality ranges and the average credit quality of the overall portfolios. 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 that the borrower will be unable to meet its obligation. Information regarding IPERS' credit risk related to derivatives is found under the derivatives disclosures on pages 52–54 of these notes. Policies related to credit risk pertaining to IPERS' securities lending program are found under the securities lending disclosures on pages 54–56 of these notes.

Concentration of Credit Risk
Concentration of credit risk is the risk of loss that may be attributed to the magnitude of investment in a single issuer. IPERS' guidelines for each investment manager establish limits on investments in any corporate entity. The System has no separate account investment in any specific stock or bond issues of any commercial or industrial organization other than the U.S. government and its instrumentalities whose fair value exceeds 5 percent of the plan net assets available for benefits.

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the portfolio using the effective duration (or option-adjusted) methodology. The methodology takes into account optionality on bonds and scales the risk of price changes on bonds depending upon the degree of change in rates and the slope of the yield curve. All of the System's fixed income investment contracts require that the effective duration of the manager's portfolio always remain between 80 percent and 120 percent of the effective duration measure of a specific fixed income index. It is believed that the reporting of effective duration found in the following 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 on pages 52–54 of these notes. No interest rate futures or options positions will be established which affect the duration or weighted average maturity of the managed account by more than one year.

Effective Duration

(Dollar values expressed in thousands)

June 30, 2007

Investment Type	Fair Value	Effective Duration (Years)
Short-term investments	**$ 1,470,896**	**0.03**
Pooled funds and mutual funds	1,132,582	---
Commercial paper	311,009	0.03
Certificates of deposit	22,968	0.05
Government agencies	4,337	---
Fixed income investments	**8,125,612**	**4.27**
Government fixed income	1,320,548	5.23
Government agencies	*267,601*	*4.43*
Government bonds	*985,765*	*5.29*
Government notes	*29,664*	*---*
Other government fixed income	*37,518*	*9.47*
Government assets and mortgage-backed	2,820,390	3.78
Government National Mortgage Association	*39,723*	*4.79*
Federal Home Loan Mortgage Corporation	*86,194*	*3.77*
Federal National Mortgage Association	*1,823,972*	*4.35*
Collateralized mortgage obligations	*142,765*	*3.97*
Other government mortgage-backed	*727,736*	*2.01*
Corporate fixed income	3,448,568	3.84
Asset-backed securities	*891,218*	*2.77*
Corporate bonds	*2,557,350*	*4.28*
Other fixed income	536,106	5.08
Private placements	*531,551*	*5.10*
Miscellaneous other fixed income	*4,555*	*4.19*
Convertible investments	**4,105**	**4.25**
Convertible preferred stock	2,139	2.92
Convertible corporate bonds	1,966	5.70
Commingled bond funds	**2,598,382**	**4.70**
Total	**$12,198,995**	**4.14**

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 portfolio's foreign currency exposures with currency forward contracts depending upon their views on a specific foreign currency relative to the U.S. dollar. IPERS does not manage currency as a separate asset class or enter into speculative currency positions (that is, currency positions greater than 100 percent or less than 0 percent of the underlying asset exposure) in its portfolio, except as it relates to specific cross-hedging activity, which may be permitted in certain investment manager contracts.

Foreign Currency Risk by Investment Type

(Dollar values expressed in thousands)

June 30, 2007

	Total	Cash	Forward Contracts	Equity	Fixed Income
Argentine Peso	$ 493	$ 3	---	$ 490	---
Australian Dollar	174,374	87	---	174,287	---
Brazilian Real	5,236	(618)	---	5,854	---
British Pound Sterling	217,244	38	---	217,206	---
Canadian Dollar	755	---	$ 14	741	---
Chilean Peso	1,648	3	---	1,645	---
Colombian Peso	1,545	---	---	1,545	---
Czech Koruna	1,311	---	---	1,311	---
Danish Krone	13,135	---	---	13,135	---
Euro	739,574	1,596	(12,560)	738,834	$11,704
Hong Kong Dollar	63,636	---	---	63,636	---
Hungarian Forint	924	---	(2,450)	753	2,621
Indonesian Rupiah	7,238	---	---	7,238	---
Israeli Shekel	2,571	---	---	2,571	---
Japanese Yen	478,275	4	27,194	441,460	9,617
Malaysian Ringgit	18,163	737	---	17,426	---
Mexican Nuevo Peso	14,808	(5,039)	(10,229)	9,263	20,813
New Taiwan Dollar	72,206	196	---	72,010	---
New Zealand Dollar	5,345	---	---	5,345	---
Norwegian Krone	7,662	---	---	7,662	---
Nuevo Sol	323	---	---	323	---
New Turkish Lira	6,083	---	---	6,083	---
Pakistani Rupee	199	198	---	1	---
Philippine Peso	3,205	---	---	3,205	---
Polish Zloty	2,301	28	(14,618)	1,491	15,400
Renminbi Yuan	384	---	---	384	---
Russian New Ruble	21,956	---	---	21,956	---
Singapore Dollar	27,156	157	---	26,999	---
South African Rand	21,426	---	(948)	21,430	944
South Korean Won	78,215	---	---	78,215	---
Swedish Krona	19,262	---	---	19,262	---
Swiss Franc	46,235	117	---	46,118	---
Thai Baht	7,548	(56)	---	7,604	---
Total	**$2,060,436**	**$(2,549)**	**$(13,597)**	**$2,015,483**	**$61,099**

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

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

Derivatives

Certain of the System's external investment managers may be permitted through their individual investment contracts to use derivative instruments, subject to the System's derivative policy contained in its Investment Policy and Goal Statement. (The investment management policy can be viewed beginning on page 92 of this document.) Derivatives are contracts or securities whose returns are derived from the returns of other securities, indices, or derivatives. While this definition includes the most common type of derivative, collateralized mortgage obligations (which typically make up a portion of the System's fixed income portfolio), it is also intended to include (but not be limited to) futures, forwards, options, options on futures, swaps, and swaptions. The System's managers are not permitted to utilize derivatives for speculative purposes (for example, by taking a position greater than 100 percent or less than 0 percent of underlying asset exposure), but may use them to efficiently access desired markets and to control and manage portfolio risk. Examples of appropriate applications of derivative strategies include hedging interest rate and currency risk, maintaining exposure to a desired asset class while effecting asset allocation changes, duration risk management, augmenting index fund performance through index arbitrage, and portable alpha strategies.

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

Futures Contracts

The System had investments in various equity, fixed income, and Eurodollar futures during the year. These contracts are reported at their fair value in the Statement of Plan Net Assets. A listing of futures contracts outstanding at June 30, 2007, is provided on the next page. Futures are designed to offer potentially lower-cost and more efficient alternatives to buying the underlying securities or currency. The market, currency, and credit risk of the futures were the same as if the System had owned the underlying securities or currency.

Futures Exposure Summary

(Dollar values expressed in thousands)

June 30, 2007

Contracts	Expiration Date	Fair Value
10-year U.S. Treasury notes	August '07	$ (138)
10-year U.S. Treasury notes	September '07	(718)
10-year U.S. Treasury notes	December '07	(867)
5-year U.S. Treasury notes	June '07	34
5-year U.S. Treasury notes	September '07	85
2-year U.S. Treasury notes	September '07	(251)
U.S. Treasury bonds	August '07	(689)
U.S. Treasury bonds	September '07	(1,090)
U.S. Treasury bonds	December '07	(81)
Eurodollar	September '07	2,660
Eurodollar	December '07	627
Eurodollar	March '08	(83)
Eurodollar	June '08	21
Eurodollar	September '08	14
Eurodollar	December '08	81
Eurodollar	March '09	20
Eurodollar	June '09	(200)
Eurodollar	September '09	(204)
Eurodollar	December '09	42
Eurodollar	March '10	42
Eurodollar	June '10	287
Eurodollar	September '10	40
Eurodollar	December '10	40
Eurodollar	March '11	40
Eurodollar	June '11	40
Eurodollar	September '11	40
Eurodollar	December '11	40
Eurodollar	March '12	40
Euro—Bund	September '07	(462)
3-month LIBOR	September '07	(316)
Mini—S&P 500	September '07	(2)
S&P 500 Index	September '07	(30,675)
Total net futures fair value		**$(31,583)**

Credit Default Swaps

The System had investments in credit default swaps during the year. The credit default swaps held by the System are derivative instruments that are constructed to replicate the investment 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, 2007, the notional value of the credit default swaps held in the System's fixed income portfolio was $407.9 million at par. All credit default swaps held by the System are reported at a fair value of $710,250 in the Statement of Plan Net Assets.

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 synthetically alter their interest rate exposure and bring it in line with their strategic objectives for interest rate risk. At June 30, 2007, the notional value of the interest rate swaps held in the System's fixed income portfolio was $620.5 million at par. All interest rate swaps held by the System are reported at a negative fair value of $1.5 million in the Statement of Plan Net Assets.

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, 2007, the notional value of the total return swaps held in the System's fixed income portfolio was $462.9 million. All total return swaps held by the System are reported at a negative fair value of $1.2 million in the Statement of Plan Net Assets.

Mortgage-Backed Securities
The System invests in mortgage-backed securities, which are reported at fair value in the Statement of Plan Net Assets based on estimated future cash flows from the interest and principal payments of the underlying mortgages. As a result, mortgage-backed securities prices are sensitive to prepayments by mortgagees, which 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 regarding interest rate risks for these investments are included under the interest rate disclosures on pages 49–50.

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, a "AA-rated" bank, to serve as the custodian bank for IPERS as well as the lending agent for the securities lending program. In its capacity as lending agent, The Bank of New York is responsible for operating the program and is permitted to lend any of the securities it holds in custody to broker-dealers and other entities in exchange for collateral.

The Bank of New York is permitted to accept collateral in the form of cash in U.S. dollars, U.S. government securities, or irrevocable letters of credit. A borrower is required to initially deliver collateral in an amount equal to 102 percent of the fair value of any U.S. securities lent and 105 percent of the fair value of any non-U.S. securities lent. Borrowers are required to provide additional collateral anytime the value of the collateral drops below 100 percent of the value of the security lent plus accrued interest income.

At year-end IPERS had $485,398 in credit risk exposure to borrowers because the amounts they owed to IPERS exceeded the amount IPERS owed the borrowers on 34 separate loans. Additional collateral was provided the next business day, eliminating this exposure. The contract with The Bank of New York requires it to indemnify IPERS if a borrower fails to return the securities on loan, or fails to return all of the income attributable to securities on loan. The securities lending contract does not allow IPERS to pledge or sell any collateral securities unless the borrower defaults. As of June 30, 2007, IPERS had securities on loan, including accrued interest income, of $1,916,775,889 against collateral, including borrower rebate, with a total value of $1,968,922,517.

The majority of securities loans are open loans, that is, one-day maturity, where the rebate rate due the borrower is renegotiated daily. Either IPERS or the borrower can terminate all securities loans on demand. Cash collateral received from borrowers is invested in a cash collateral investment pool, which is managed by The Bank of New York in accordance with investment guidelines established by The Bank of New York and reviewed by the Treasurer of State and IPERS. The investment guidelines do not require a matching of investment maturities with loan maturities, but do establish minimum levels of liquidity and other investment restrictions designed to minimize the interest rate risk associated with not matching the maturity of the investments with the maturity of the loans. The effective duration of the cash collateral pool at June 30, 2007, was 22 days. Credit Quality and Years to Maturity statistics for the cash collateral pool at June 30, 2007, are shown in separate charts below.

Securities Lending Cash Collateral Pool

Credit Risk—S&P Quality Ratings

(Dollar values expressed in thousands)

June 30, 2007

Investment Type	Total	AAA	AA	A	A-1	NR
Corporate	$ 805,661	$ 649,711	$ 85,436	$15,011	$ 55,503	---
Corporate bonds	*242,696*	*86,746*	*85,436*	*15,011*	*55,503*	---
Corporate asset-backed	*562,965*	*562,965*	---	---	---	---
Repurchase agreements	100,000	---	---	---	---	$100,000
Certificates of deposit	508,727	---	335,358	34,099	139,270	---
Bank notes	180,602	---	140,614	39,988	---	---
Mutual funds	369,648	369,648	---	---	---	---
Securities lending cash collateral pool	**$1,964,638**	**$1,019,359**	**$561,408**	**$89,098**	**$194,773**	**$100,000**

Securities Lending Cash Collateral Pool

Years to Maturity

(Dollar values expressed in thousands)

June 30, 2007

		Investment Maturities (Years)	
Investment Type	**Fair Value**	**Less Than 1**	**1–5**
Corporate	$ 805,661	$244,790	$ 560,871
Corporate bonds	*242,696*	*90,857*	*151,839*
Corporate asset-backed	*562,965*	*153,933*	*409,032*
Repurchase agreements	100,000	100,000	---
Certificates of deposit	508,727	139,270	369,457
Bank notes	180,602	---	180,602
Mutual funds	369,648	369,648	---
Securities lending cash collateral pool	**$1,964,638**	**$853,708**	**$1,110,930**

E. Capital Assets

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 and data processing equipment. All purchased equipment is recorded at cost. Depreciation on equipment is computed using the straight-line method based on estimated useful lives ranging from 3 to 10 years.

A summary of capital assets as of June 30 follows:

	2007	**2006**
Building and improvements	$4,355,012	$4,156,677
Less accumulated depreciation	(756,051)	(642,148)
Furniture and equipment	5,748,982	684,511
Less accumulated depreciation	(376,513)	(274,732)
Land (nondepreciable)	500,000	500,000
Total capital assets	**$9,471,430**	**$4,424,308**

Depreciation expense for the year ended June 30, 2007, was $247,207. Capitalization of equipment and other expenses directly related to I-Que resulted in a $5,079,934 increase in capital assets.

F. Compensated Absences

Expenses related to accumulated vacation and sick leave earned by IPERS employees are recorded when earned.

(4) Contributions Required and Contributions Made

On an annual basis, a valuation of the liabilities and reserves of the IPERS Trust Fund is performed by IPERS' actuarial consultant in accordance with Iowa Code section 97B.4(4)(d), in order to determine the amount of contributions required. In addition, based upon the IPERS Investment

Board's adoption of the actuarial methods and assumptions of the valuation, IPERS certifies the contribution rate determined thereby as the rate necessary and sufficient for members and employers to fully fund the benefits and retirement allowances being credited for service under Iowa Code chapter 97B.

The Iowa statute provided that IPERS regular members contribute 3.70 percent of pay and their employers contribute 5.75 percent of pay for a total rate of 9.45 percent for fiscal year 2007. Certain employers and their employees in Special Service occupations contribute at actuarially determined contribution rates. The annual actuarial valuation is performed to determine whether the statutory rate will be sufficient to fund the future benefits expected to be paid by the System within the guidelines established in the IPERS Funding Policy. The statutory rate is first applied to fund the normal cost. The remaining contribution rate is used to amortize the unfunded actuarial liability as a level percentage of payroll. The System's Funding Policy provides for a maximum amortization period of 30 years in order for the System to be considered "fully funded," and further establishes guidelines indicating when the System should consider requesting statutory contribution rate increases.

During fiscal year 2007, IPERS' unfunded actuarial liability decreased to $2.266 billion and the amortization period continued to exceed the 30-year maximum. To address IPERS' long-term funding needs, the Iowa Legislature in 2006 passed a bill increasing the contribution rate for regular members, the first rate increase since 1979. Regular members make up about 96 percent of IPERS' active membership. The increase of two percentage points from 9.45 percent to 11.45 percent will be phased in over four years beginning July 1, 2007. The increase does not affect members in public safety positions, who contribute at actuarially determined rates that may change every year.

(5) LITIGATION & CONTINGENCIES

IPERS is party to various lawsuits or threatened lawsuits. IPERS is the lead plaintiff in two federal class action lawsuits: *In re Mills Corporation* and *In re Bridgestone/Firestone*. In both cases IPERS is alleging that the defendants violated the Securities and Exchange Act of 1934 by making false and misleading statements to investors. IPERS is aggressively pursuing its remedies in both lawsuits to maximize recovery. The initial calculation of damages for IPERS for *In re Mills Corporation* is approximately $2.4 million. The initial calculation of damages for IPERS for *In re Bridgestone/Firestone* is between $700,000 and $1.6 million.

A tentative settlement has been reached in the *In re Bridgestone/Firestone* class action litigation. This agreement must be submitted for approval by the district court. Provided the agreement is approved, the case will proceed to the claims administration process whereby all investors may submit claims against the settlement proceeds. Until all claims are submitted and either accepted or rejected by the district court, it is premature to estimate the value of IPERS' recovery.

IPERS is also aggressively defending a case filed in the Polk County District Court, Iowa. The case is captioned *Robert J. Brunkhorst v. Iowa Public Employees' Retirement System*, CV No. 104520. Mr. Brunkhorst filed a claim under the

Iowa Tort Claims Act alleging that IPERS failed to timely implement the actuarial cost method for service purchase buy-backs, causing a loss to the IPERS Trust Fund. IPERS denies the allegation. The State Appeal Board denied the claim, prompting the filing of this action in the Polk County District Court. IPERS filed a Motion to Dismiss that was granted by the Polk County District Court. Mr. Brunkhorst is appealing the dismissal of his case to the Iowa Supreme Court.

It is the opinion of the administration that the ultimate outcome of these cases and all other litigation and threats of litigation will not have a material effect on the financial statements.

(6) COMMITMENTS

At June 30, 2007, IPERS had commitments to fund an additional $1.681 billion to various private equity/debt partnerships and real estate investment managers.

(7) LOCATION OF HISTORICAL TREND INFORMATION

Historical trend information related to the pension plan is presented on Schedules 1 and 2 within the required supplementary information accompanying these financial statements. The information is presented to enable the reader to assess the progress made by IPERS in accumulating sufficient assets to pay pension benefits as they become due.

(8) PENSION AND RETIREMENT BENEFITS

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

State statute required contributions of 3.70 percent by regular members and 5.75 percent by their employers for fiscal year 2007 and the two preceding fiscal years. The System's contributions to IPERS for the years ended June 30, 2007, 2006, and 2005, were $294,471, $287,173, and $276,306, respectively, equal to the required contributions for each year.

(9) NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

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

	Regular Membership*	Special Service Group 1†	Special Service Group 2‡	FED Reserve Transfers§	Total
Total as of June 30, 2006	**$18,874,014,285**	**$325,888,296**	**$647,774,321**	**$557,194,144**	**$20,404,871,046**
Additions					
Contributions	523,884,920	13,155,304	29,538,356	---	566,578,580
Buy-backs/buy-ins	7,729,421	70,868	225,350	---	8,025,639
Investment and misc. income	3,105,481,745	54,339,010	108,835,105	88,502,239	3,357,158,099
Total additions	**3,637,096,086**	**67,565,182**	**138,598,811**	**88,502,239**	**3,931,762,318**
Deductions					
Benefit payments	935,979,788	10,600,704	16,014,363	51,378,132	1,013,972,987
Member and employer refunds	34,548,660	1,674,951	1,892,660	---	38,116,271
Administrative expenses	8,830,819	55,272	174,877	---	9,060,968
Investment expenses	53,943,471	943,891	1,890,510	1,537,320	58,315,192
Total deductions	**1,033,302,738**	**13,274,818**	**19,972,410**	**52,915,452**	**1,119,465,418**
Total as of June 30, 2007	**$21,477,807,633**	**$380,178,660**	**$766,400,722**	**$592,780,931**	**$23,217,167,946**

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

(10) QUALIFIED BENEFITS ARRANGEMENT

In FY2006, IPERS implemented the Qualified Benefits Arrangement (QBA) authorized in 1998 legislation now codified as Iowa Code section 97B.49I. 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 and employee contributions on an as-needed basis and is therefore fully funded.

Required Supplementary Information

Schedule 1

Schedule of Funding Progress

Fiscal Year Ended June 30	Net Actuarial Value of Assets	Actuarial Liability	Percentage Funded	Unfunded Actuarial Liability (UAL)	Annual Covered Payroll*	UAL as a % of Covered Payroll
2002	$15,613,114,099	$16,868,559,185	92.56	$(1,255,445,086)	$4,743,576,424	(26.47)
2003	16,120,476,011	17,987,374,960	89.62	(1,866,898,949)	4,881,100,238	(38.25)
2004	16,951,942,539	19,128,410,606	88.62	(2,176,468,067)	5,072,027,906	(42.91)
2005	17,951,490,071	20,240,098,667	88.69	(2,288,608,596)	5,236,860,886	(43.70)
2006	19,144,036,519	21,651,122,419	88.42	(2,507,085,900)	5,523,863,321	(45.39)
2007	20,759,628,415	23,026,113,782	90.16	(2,266,485,367)	5,781,706,199	(39.20)

*Annual covered payroll is the amount of wages subject to contributions to IPERS not to exceed the federal covered wage limit in effect at the time the wages are paid. Beginning January 1, 2007, the federal limit is $225,000.

Actuarial Assumptions and Methods. The information presented in the required supplemental schedules was determined as part of the annual actuarial valuations. Additional information as of the latest actuarial valuation follows:

Actuarial cost method	Entry age normal
Assets smoothing method	Expected value at the valuation date plus 25% of the difference between the market value and expected value
Amortization method	Open period, level percent of pay
Amortization period	30 years* (open method)
Rate of investment return	7.50%
Projected salary increases	4%–12% depending upon years of service
Mortality tables	RP-2000 Healthy Annuitant Table with adjustments
Inflation rate	3.25% for prices, 4.00% for wages

*Governmental Accounting Standards Board Statement No. 25 states that, beginning in fiscal year 2006, the maximum acceptable amortization period for the total unfunded actuarial liability is 30 years. IPERS' Funding Policy also provides for a maximum amortization period of 30 years.

Schedule 2

Schedule of Employer Contributions

Last 6 fiscal years

Fiscal Year	Actuarially Required Contributions	Total Employer Contributions	Percentage Contributed
2002			
Regular membership	*	*	100.0
Special Service group 1	*	*	100.0
Special Service group 2	*	*	100.0
2002 total	**$278,682,745**	**$278,682,745**	**100.0**
2003			
Regular membership	270,363,337	268,108,914	99.2
Special Service group 1	5,670,239	5,669,294	100.0
Special Service group 2	13,738,478	13,745,347	100.0
2003 total	**289,772,054**	**287,523,555**	**99.2**
2004			
Regular membership	309,006,609	279,167,801	90.3
Special Service group 1	5,489,797	5,488,239	100.0
Special Service group 2	14,263,836	14,267,627	100.0
2004 total	**328,760,242**	**298,923,667**	**90.9**
2005			
Regular membership	341,552,685	289,220,242	84.7
Special Service group 1	6,236,611	6,236,770	100.0
Special Service group 2	15,391,729	15,385,375	100.0
2005 total	**363,181,025**	**310,842,387**	**85.6**
2006			
Regular membership	364,424,911	301,566,112	82.7
Special Service group 1	6,228,675	6,228,836	100.0
Special Service group 2	16,888,833	16,881,866	100.0
2006 total	**387,542,419**	**324,676,814**	**83.8**
2007			
Regular membership	387,578,925	318,762,838	82.2
Special Service group 1	6,577,652	6,577,652	100.0
Special Service group 2	17,723,013	17,722,840	100.0
2007 total	**411,879,590**	**343,063,330**	**83.3**

*Data not available.

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

See note 4 for additional information on actuarial valuation.

Other Supplementary Information

Schedule 1

Investment Income by Specific Source

Years ended June 30, 2007 and 2006

	2007	2006
Interest income—short term	$ 5,535,483	$ 3,120,538
Interest income on bonds	357,947,357	288,103,315
Dividend income	80,004,527	72,660,062
Real estate funds	93,652,970	86,844,552
Private equity/debt funds	(6,519,902)	(2,212,932)
Securities lending income	97,688,056	70,394,470
Other income	190,263	377,586
Investment income	628,498,754	519,287,591
Gain on investments	2,790,717,890	1,631,846,242
Currency gain	31,149,061	25,912,745
Net appreciation in fair value of investments	2,821,866,951	1,657,758,987
Total investment income	**$3,450,365,705**	**$2,177,046,578**

Schedule 2

Schedule of Administrative Expenses

Years ended June 30, 2007 and 2006

	2007	2006
Personnel		
Salaries & wages	$5,583,820	$5,831,366
Travel	107,434	125,278
Professional and technical services		
Professional	1,036,994	1,007,597
Actuary	159,400	101,033
Computer support services	739,079	738,426
Auditing	95,936	81,734
Communications		
Telephone	131,693	162,069
Printing	206,842	181,456
Other expenses		
Supplies	515,939	514,550
Utilities	66,767	71,865
Depreciation	247,207	289,602
Loss on disposal of fixed assets	---	14,120
Repairs	12,378	91,832
Rent	5,283	1,067
Miscellaneous	152,196	108,564
Total administrative expenses	**$9,060,968**	**$9,320,559**

Schedule 3

Schedule of Investment Related Expenses

Years ended June 30, 2007 and 2006

	2007	2006
Mellon Capital Management	$ 171,894	$ 266,969
Barclays Global Investors	3,625,893	3,760,194
RCM	1,292,973	850,517
Wellington Management Company LLP	1,012,231	1,685,486
Western Asset Management Company	88,951	---
Smith Breeden Associates	110,439	---
Westridge Capital Management	62,790	---
Total domestic equity	**6,365,171**	**6,563,166**
BlackRock Financial Management, Inc.	1,273,850	1,592,620
JP Morgan Investment Management	---	41,472
Mellon Capital Management	306,242	252,143
Oaktree Capital Management	1,290,696	1,280,007
Western Asset Management Company	2,385,769	3,271,260
Post Advisory	922,922	989,362
Principal Global Investors	1,079,073	880,225
Total fixed income	**7,258,552**	**8,307,089**
Barclays Global Investors	3,154,206	2,720,939
Schroder Investment Management North America Inc	997,573	902,374
Emerging Markets Management LLC	1,675,450	2,204,133
Oechsle International Advisors LLC	1,141,918	1,076,341
Total international equity	**6,969,147**	**6,903,787**
RREEF REIT	1,785,708	1,337,843
RREEF	6,958,466	5,199,600
INVESCO	5,936,302	3,258,580
TA Associates	9,433,322	4,882,233
UBS Realty	7,909,804	5,057,833
ING Clarion	1,680,720	821,044
Total real estate	**33,704,322**	**20,557,133**
Pathway Capital Management	2,633,169	2,393,790
Total private equity/debt	**2,633,169**	**2,393,790**
The Townsend Group	132,000	132,000
Wilshire Associates	239,000	239,000
Total investment consultant fees	**371,000**	**371,000**
Master custodian bank fees	168,857	141,164
Treasurer of State	39,120	34,528
Total custody expenses	**207,977**	**175,692**
Investment staff and board expenses	709,300	735,638
Miscellaneous expenses	96,554	96,916
Total other investment expenses	**805,854**	**832,554**
Total investment related expenses	**$58,315,192**	**$46,104,211**

Investment Overview

Investment Results

Investment Policy and Goal Statement

Investments

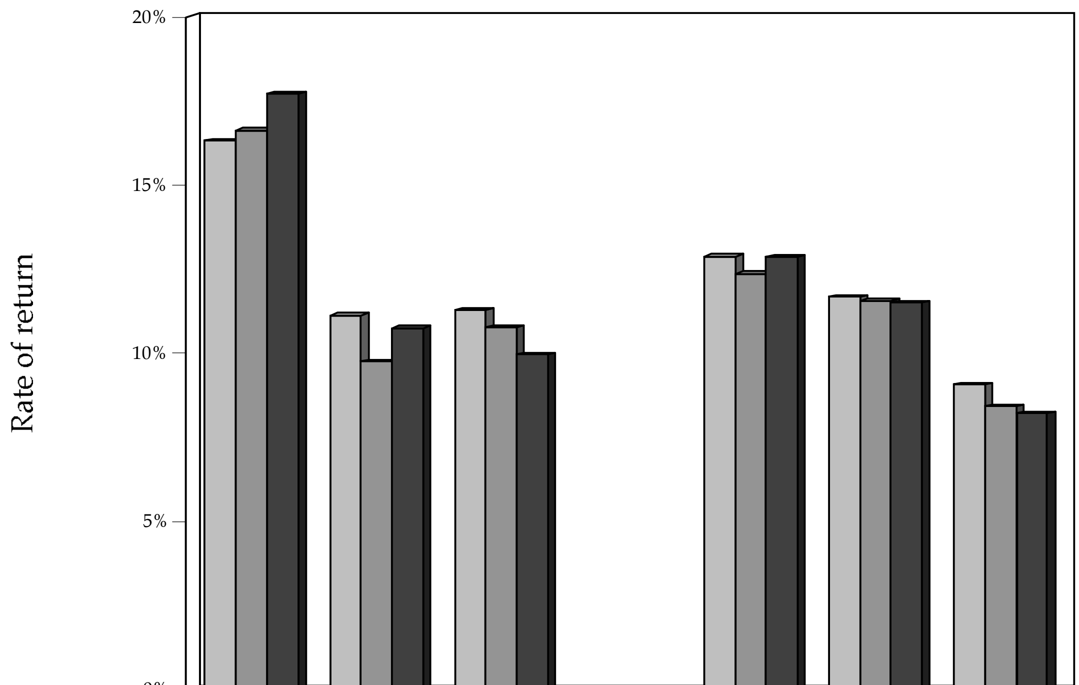
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM 2007

Investment Overview

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

Annualized Investment Performance Summary

For the periods ended June 30



	2007	2006	2005		3 yr	5 yr	10 yr
IPERS' portfolio*	16.29%	11.11%	11.25%		12.86%	11.64%	9.03%
Policy benchmark†	16.61%	9.73%	10.76%		12.34%	11.54%	8.41%
Large public fund median‡	17.69%	10.72%	9.95%		12.84%	11.47%	8.19%

*Net of fees.

†A benchmark composed of market indices, and weightings of same, reflective of IPERS' asset allocation targets.

‡Trust Universe Comparison Service's Public Funds with Total Market Value Greater than $1 billion.

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

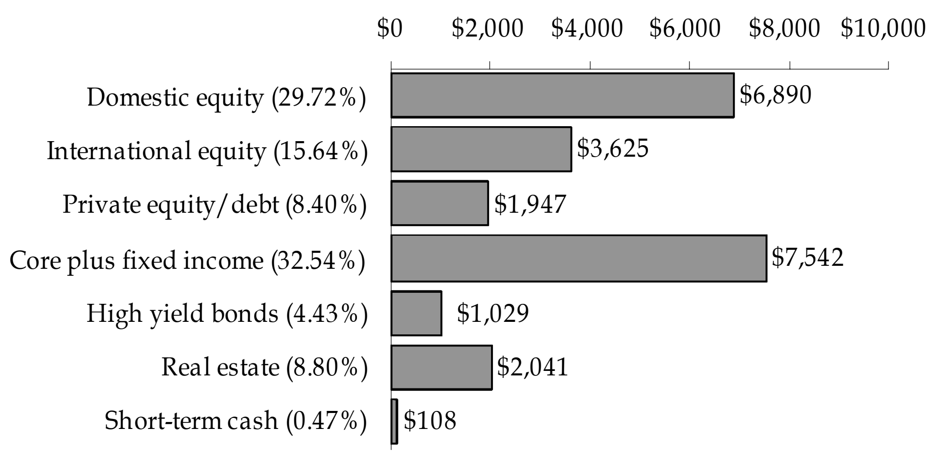
Asset Allocation and Diversification

Asset allocation is a process designed to construct an optimal long-term asset mix that achieves a specific set of investment objectives. Each year the IPERS Investment Board adopts an Investment Policy and Goal Statement that describes the System's investment objectives and establishes the System's asset allocation policy as designed to meet those objectives. The asset allocation policy is adopted to provide for diversification of assets in an effort to maximize the investment return to the System consistent with prudent levels of market and economic risks. Of all the components of investment strategy formulation, the determination of asset allocation targets is the most important decision.

Summary of Investments by Asset Class

(Fair value in millions)

As of June 30, 2007



In addition to asset class diversification, the System also seeks to diversify the investment portfolio by investment management styles. The success of a particular investment style tends to be cyclical. For example, "growth" stock investing may outperform "value" stock investing for several quarters, or perhaps several years, until that trend is inevitably reversed for a subsequent period. By utilizing several investment management firms with a variety of investment styles, the investment performance at the total Fund level is not dependent upon the success of one particular investment style.

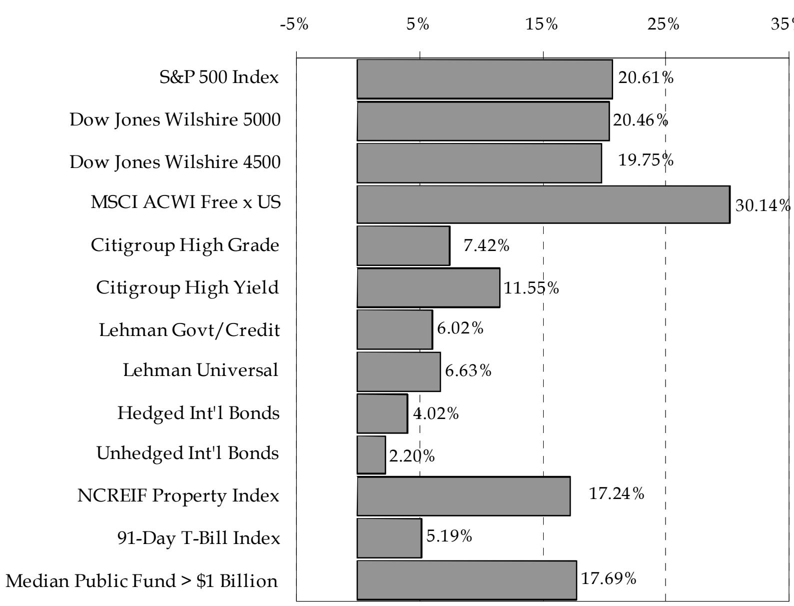
The System also requires its investment managers to diversify their portfolios at the security level. Managers are required to diversify across sectors, industries, and individual securities. The System develops specific contractual investment guidelines for each manager that control the risk of high concentrations in a particular sector, industry, or security.

Overall, diversification of the System's assets among various asset classes, investment management styles, and individual securities enhances the potential of the IPERS investment portfolio to achieve its long-term objectives.

Capital Markets Commentary

A growing global economy, with controlled inflation and strong corporate earnings, provided a good environment for capital markets in fiscal year 2007. Those conditions combined with a seemingly high tolerance for risk by many market participants to produce above-normal returns in equity markets. International stocks, U.S. stocks, and private equity markets posted returns of 20 percent or more. Real estate markets remained very strong and fixed income markets posted respectable returns. In fact, none of the major asset classes produced a negative return in fiscal year 2007 as shown in the table below.

Fiscal Year 2007 Market Returns



The U.S. equity market, as measured by the Dow Jones Wilshire 5000 Index, returned 20.46 percent for the fiscal year. In the large capitalization stocks, value triumphed over growth, but in the small capitalization stocks it was growth stocks outperforming in fiscal year 2007, as shown in the table.

Dow Jones Wilshire Style Index	FY2007 Return
Large Growth	18.22%
Large Value	23.21%
Small Growth	20.06%
Small Value	17.95%

All sectors of the U.S. stock market produced double-digit positive returns in fiscal year 2007. The telecommunications services sector was the best-performing sector of the Dow Jones Wilshire 5000 Index, with a return of 36.31 percent, followed by the materials and energy sectors, which returned 33.78 percent and 26.56 percent, respectively. The worst-performing sectors were financials (up 13.54 percent) and health care (up 16.14 percent).

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

International stocks continued to significantly outperform U.S. stocks, due to continued strong economic growth in both developed and emerging markets. The MSCI All Country World Free ex-U.S. Index, a performance benchmark for equities of non-U.S. companies, returned 30.14 percent for the fiscal year ended June 30, 2007. The German stock market was the best performer of the developed countries, returning 48.78 percent for the fiscal year, while emerging markets stocks, many of which represent companies in the production of oil and other natural resource commodities, were close behind with a 44.98 percent return for the fiscal year.

The fixed income market posted respectable results for fiscal year 2007. The Federal Reserve adopted a neutral monetary policy during the fiscal year, leaving the target Federal Funds rate unchanged during the period. This was viewed favorably by the bond markets, which had suffered in the previous year because of concerns of rising inflation due to large increases in prices of commodities and natural resources. As measured by the Lehman Brothers U.S. Universal Index, the fixed income market returned 6.63 percent for the fiscal year ended June 30, 2007. The high yield sector of the fixed income market returned 11.55 percent and the high-grade corporate bond sector returned 7.42 percent. Global bonds (unhedged) was the worst-performing sector in fiscal year 2007, returning 2.20 percent for the period.

The U.S. commercial real estate market continued its trend of providing solid positive returns in fiscal year 2007. Both operating income and price appreciation contributed positively to the year's performance. The NCREIF Property Index, a commonly cited measure of privately traded commercial real estate values and income, returned 17.24 percent for the one-year period ended June 30, 2007. Publicly traded real estate securities (REITs) did not perform as well in fiscal year 2007, with the Dow Jones Wilshire Real Estate Investment Trust Index posting an annual return of 11.68 percent for the fiscal year.

Private equity investments produced very strong results in fiscal year 2007, due to high returns from buyout investments in the United States. A strong merger and acquisition market and the continued availability of low-cost debt financing helped increase company valuations in buyout portfolios. These market conditions also allowed many buyout funds to successfully exit portfolio companies or to partially exit through recapitalization transactions. *Venture Economics'* data indicates that buyout funds produced an average annual internal rate of return of 21.10 percent for fiscal year 2007. Venture capital investment returns were relatively modest for the fiscal year, the result of a continuing trend of fewer exit opportunities in a less active IPO market. According to data from *Venture Economics,* the average annual internal rate of return on venture capital funds for the fiscal year was 17.40 percent. The overall private equity asset class, as measured by *Venture Economics'* data, produced a return of 19.30 percent in fiscal year 2007.

Investment Portfolio Assets[1]

At the close of fiscal year 2007, IPERS' net investment portfolio assets had a fair value of $23.182 billion. The change in fair value represents an increase of $2.801 billion from the $20.381 billion net investment asset fair value as of June 30, 2006. The largest factor contributing to the increase in net investment asset fair value was the positive investment portfolio return of 16.29 percent, which is more fully addressed below.

Investment Results

IPERS posted a total portfolio investment return of 16.29 percent for the fiscal year ended June 30, 2007. This return exceeded the objective of providing an investment return at or above the rate of inflation (as measured by the Consumer Price Index, or "CPI") plus 3 percent; that objective was 5.69 percent for fiscal year 2007. The Fund's return also exceeded the investment return assumption used by IPERS' actuary, which is 7.50 percent per year. However, the Fund's 16.29 percent return fell short of the 16.61 percent return of IPERS' "policy benchmark," a set of market indices, and weightings to those indices, that reflect IPERS' target asset class allocations.

The Fund's one-year return was well below the 17.69 percent median return of the Trust Universe Comparison Service's (TUCS) Universe of Public Pension Funds with Assets Greater than $1 billion, due mainly to IPERS' policy of having a lower allocation to U.S. stocks and a higher allocation to bonds. Poor results from some active management strategies in the equity portfolios also contributed to IPERS' lower comparative performance against its peers.

IPERS' strongest return for the fiscal year was provided by its private equity portfolio at 33.17 percent, followed by the international equity portfolio at 27.65 percent. The lowest returns, although still quite

[1]Based on fair value of the total investment portfolio at June 30, 2007, and June 30, 2006, gross of investment receivables and cash in investment manager accounts and net of payables and securities lending collateral. Although these values are the appropriate industry standard basis for calculation of investment returns, they differ from the "Investments at fair value" shown in the Financial section of this report, which are reported using GASB Statement No. 25 financial statement standards.

acceptable from a historical perspective, were from the cash portfolio at 5.92 percent and the core plus fixed income portfolio at 6.49 percent.

For the five years ended June 30, 2007, IPERS' total Fund annualized return of 11.64 percent exceeded the TUCS Public Pension Funds with Assets Greater than $1 billion universe median annualized return of 11.47 percent. IPERS' 10-year annualized return of 9.03 percent outpaced the policy benchmark return of 8.41 percent and the aforementioned TUCS universe median return of 8.19 percent, as well as the other objectives of the 7.50 percent annualized actuarial assumed investment return and CPI plus 3 percent (5.66 percent annualized). IPERS' investment returns, net of fees, for the total portfolio and for each asset class over various time periods are shown in the following table. For comparison purposes, the benchmark for each asset class is also shown.

Rates of Return

For periods ended June 30, 2007*

Asset Class	Annualized Returns (%) 1-Year	3-Year	5-Year	10-Year
Total Fund				
IPERS	16.29	12.86	11.64	9.03
Policy benchmark†	16.61	12.34	11.54	8.41
CPI + 3%	5.69	6.17	5.98	5.66
Actuarial assumed investment return	7.50	7.50	7.50	7.50
TUCS Public Funds >$1 billion universe median	17.69	12.84	11.47	8.19
Domestic equity				
IPERS	19.41	13.08	12.01	8.37
Dow Jones Wilshire 5000	20.46	12.73	11.96	7.68
International equity				
IPERS	27.65	23.56	18.80	8.71
Custom benchmark	30.14	25.02	19.93	7.72
Core plus fixed income				
IPERS	6.49	4.70	5.43	6.45
Custom benchmark	6.63	4.54	5.17	6.27
High yield fixed income				
IPERS	9.91	7.84	9.75	NA
Custom benchmark	10.78	8.10	11.54	NA
Private equity/debt‡				
IPERS	33.17	29.03	20.60	12.56
Dow Jones Wilshire 5000 + 3%	24.04	16.11	15.31	10.95
Real estate				
IPERS	14.37	18.51	14.77	13.07
Custom benchmark	16.84	19.09	14.89	11.61
Short-term cash§				
IPERS	5.92	4.38	3.49	4.35
U.S. Treasury bills	5.19	3.76	2.75	3.79

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

†As of June 30, 2007, the policy benchmark consists of 28 percent Dow Jones Wilshire 5000, 15 percent MSCI ACWIxUS, 34 percent Lehman Universal, 5 percent Citigroup High-Yield Cash-Pay Capped, 10 percent Dow Jones Wilshire 5000 plus 3 percent, and 8 percent of a weighted benchmark consisting of 85 percent NCREIF's National Property Index and 15 percent Dow Jones Wilshire REIT Index plus 0.25 percent.

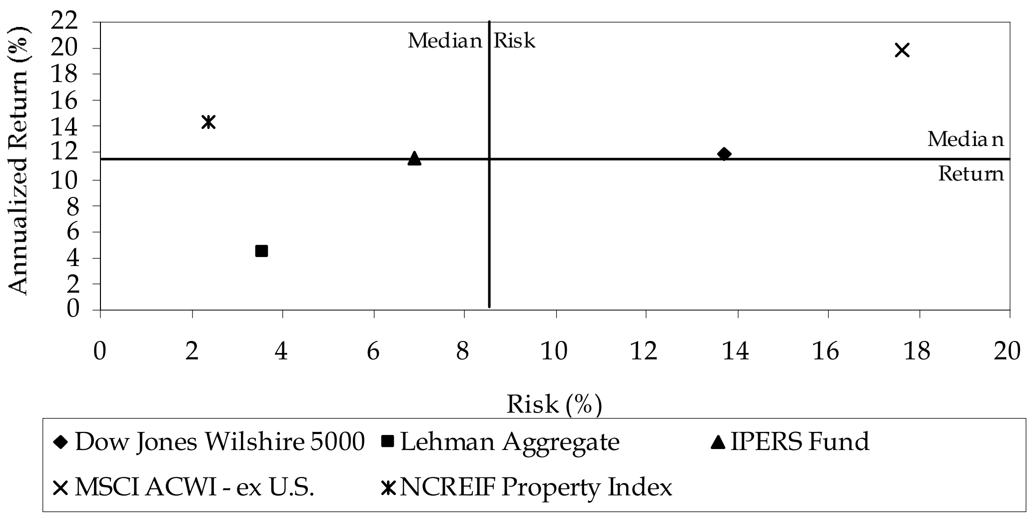
‡Private equity/debt portfolio returns and benchmark returns are provided here as time-weighted returns to allow comparision to the time-weighted returns used for other asset classes. However, the more appropriate performance measurement for the private equity asset class is a dollar-weighted or internal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

§Starting in FY2000, short-term cash returns exclude miscellaneous income.

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

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 Pension Funds with Assets Greater than $1 billion. The vertical line represents the median level of risk (standard deviation of returns) experienced by this universe of funds. The horizontal line represents the median rate of return earned by this same group of funds. IPERS' risk/return characteristics are plotted on the same graph along with selected market indices. As shown in the graph, the return on IPERS' investments for the five years ended June 30, 2007, was slightly higher than the median large public pension fund return, and this higher return was earned with significantly less risk than the median large public pension fund over this time period.

Risk vs. Total Return
Public Funds Greater Than $1.0 Billion
5 years ended June 30, 2007



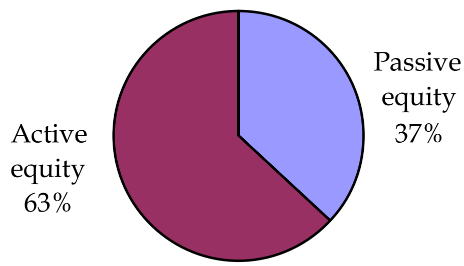
	Annualized Return	Risk (Standard Deviation)
IPERS Total Fund	11.64%	6.89%
Median Fund	11.47%	8.57%
Dow Jones Wilshire 5000	11.96%	13.72%
Lehman Aggregate	4.48%	3.56%
MSCI ACWI ex U.S.	19.93%	17.62%
NCREIF Property Index	14.39%	2.36%

Domestic Equity

At June 30, 2007, 29.72 percent of IPERS' total portfolio was invested in domestic equities. The total net fair value of the domestic equity portfolio was $6.890 billion. The portfolio is widely diversified across various equity market sectors and industries and has highly diversified financial characteristics and risk factors that influence the overall return.

Domestic Equity Portfolio

June 30, 2007



The domestic equity portfolio has two components:

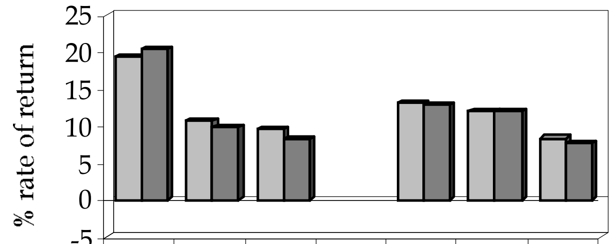
ACTIVE EQUITY. An actively managed portfolio consisting primarily of large capitalization stocks. For management purposes, the portfolio is divided among separate strategies that focus on different investment styles: a value portfolio which focuses on companies undervalued relative to their prospective dividend and earnings growth; a growth portfolio which focuses on companies whose earnings are expected to grow at rates exceeding that of the general economy; and a core portfolio that seeks to add value across all sectors through stock selection. Each investment strategy is expected to exceed an appropriate style benchmark over a full market cycle.

On April 1, 2007, the first step in IPERS' restructuring of active management strategies within its domestic equity portfolio was implemented through the introduction of an enhanced cash portable alpha program. The program allows its portfolio managers to efficiently acquire their market exposure, or beta, from equity index futures. Funds that are not needed to support the equity index futures are then invested in short-term enhanced cash instruments (which generally have a low correlation to equity market returns) with the objective of generating returns, or alpha, in excess of the equity market index.

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

Domestic Equity Performance

For the periods ended June 30



	2007	2006	2005		3 yr	5 yr	10 yr
IPERS' portfolio*	19.41	10.56	9.53		13.08	12.01	8.37
DJ Wilshire 5000	20.46	9.92	8.21		12.73	11.96	7.68

*Net of fees.

During the year ended June 30, 2007, IPERS' domestic equity portfolio posted a return of 19.41 percent, compared to 20.46 percent for the Dow Jones Wilshire 5000 Index. All three of IPERS' active equity managers significantly underperformed their respective benchmarks during fiscal year 2007. For the five-year period ended June 30, 2007, the domestic equity portfolio earned an annualized return (net of fees) of 12.01 percent, versus 11.96 percent for the Dow Jones Wilshire 5000 Index.

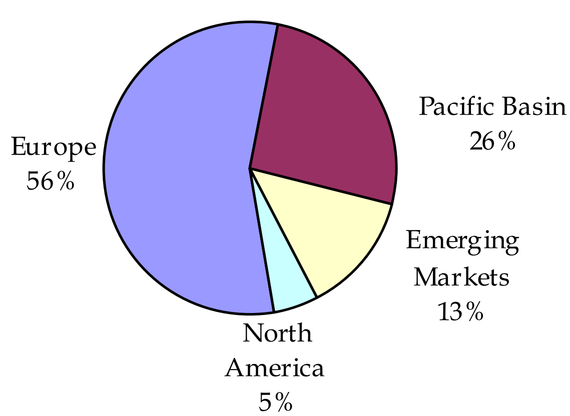
Domestic equity markets posted strong gains in fiscal year 2007 due to better-than-expected corporate earnings and strong merger and acquisition activity.

International Equity

At June 30, 2007, the international equity portfolio had a net fair value of $3.625 billion, representing 15.64 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, 2007



The international equity portfolio has three primary components:

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

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

GLOBAL EMERGING MARKETS. An actively managed diversified portfolio consisting primarily of equity securities issued by companies in countries which are small and immature by developed market standards. Over time these markets are expected to experience growth rates well in excess of developed markets. Consequently, investments in emerging markets provide opportunities for higher portfolio returns. Furthermore, low correlation between returns of emerging markets and those of developed markets can serve to reduce total risk in the international equity portfolio.

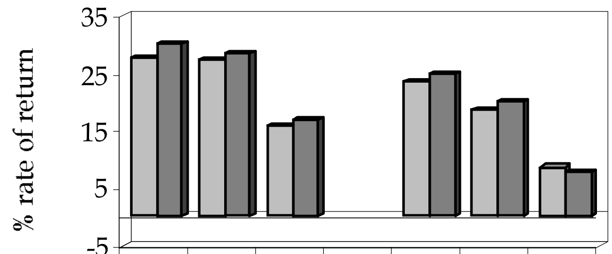
International markets once again outperformed the U.S. stock markets during the year ended June 30, 2007. The emerging markets were the strongest region of the index, as the ever-growing demand for oil and other commodity resources allowed emerging countries to produce a return of 44.98 percent for the period, outpacing that of any other public market during the fiscal year.

IPERS' international equity portfolio returned 27.65 percent during fiscal year 2007, compared to 30.14 percent for the benchmark. For the five-year period ended June 30, 2007, this portfolio underperformed its benchmark, earning an annualized return of 18.80 percent versus 19.93 percent for the benchmark.

Excess returns delivered by IPERS' two European equity managers during fiscal year 2007 were offset by significant underperformance by IPERS' active managers in the Pacific basin and emerging market regions. The Fund's Pacific basin manager underperformed its benchmark by 5.02 percent for the fiscal year while the emerging markets manager underperformed its one-year benchmark by 8.70 percent. Poor stock selection, as well as the underperformance of relative value strategies in markets that seemed to have high appetites for risk, contributed to the two managers' significant underperformance in fiscal year 2007.

International Equity Performance

For the periods ended June 30



	2007	2006	2005		3 yr	5 yr	10 yr
IPERS' portfolio*	27.65	27.40	16.01		23.56	18.80	8.71
Custom benchmark	30.14	28.40	16.95		25.02	19.93	7.72

*Net of fees.

Public Equity Portfolio—Top 10 Holdings

The top 10 holdings within the public equity portfolio at June 30, 2007, 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, 2007	Fair Value	% of Total IPERS Public Equity Portfolio
General Electric	$45,157,616	0.43
Exxon Mobile Corporation	38,685,456	0.37
AT&T Incorporated	38,168,089	0.36
Toyota Motor Corporation	37,825,073	0.36
Citigroup Incorporated	37,585,620	0.36
Bank of America Corporation	36,643,055	0.35
Google Incorporated	32,541,151	0.31
ConocoPhillips	29,442,367	0.28
SAP AG	28,491,894	0.27
Hewlett Packard Corporation	27,414,510	0.26

*Excludes all holdings in commingled fund accounts.

Fixed Income

IPERS has a significant allocation to fixed income securities, with a target asset allocation of 34 percent to core plus fixed income securities and 5 percent to high yield securities. At fiscal year end, IPERS' core plus portfolio was 32.54 percent of total Fund assets and the high yield portfolio was 4.43 percent of total Fund assets. The total return for the consolidated fixed income portfolio (core plus and high yield portfolios combined) for the year ended June 30, 2007, was 6.92 percent. The consolidated fixed income portfolio fair value was $8.571 billion and the average bond rating for the portfolio was AA.

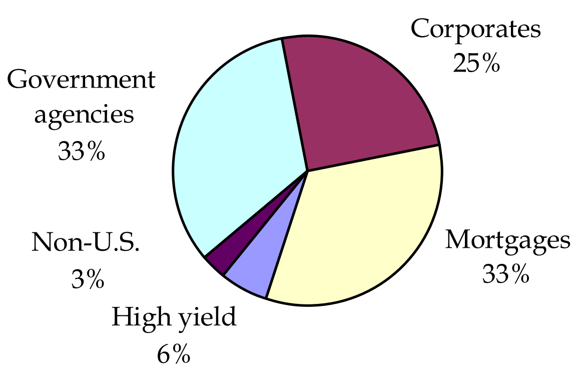
IPERS' fixed income portfolio is managed through two strategies, as described below:

CORE PLUS. The objective of the core plus fixed income portfolio is to generate a return above the return of the overall fixed income market. Approximately 34 percent of the core plus portfolio is dedicated to a passively managed "core" investment in an index fund designed to earn the return of the Lehman Brothers U.S. Aggregate Index (Aggregate Index), an index consisting of high-quality U.S. investment-grade fixed income securities. The remainder of the core plus portfolio is actively managed with the objective of exceeding the return of the Lehman Brothers U.S. Universal Index (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 commercial mortgage-backed securities (CMBS), high yield bonds, dollar-denominated emerging market debt, and Eurodollar bonds.

The core plus portfolio is a diversified portfolio of fixed income securities, utilizing cash and cash equivalents, forward foreign exchange contracts, swaps, currency options, financial futures, government and government agency bonds, Eurobonds, nondollar bonds, non-convertible preferred stock, options on fixed income instruments, mortgage-backed bonds, corporate bonds, commercial mortgage-backed securities, private placement corporate bonds, and asset-backed securities. The actively managed portion of the core plus portfolio is expected to have interest rate sensitivity similar to the Universal Index, and be diversified by industry, sector, and security issuers.

Core Plus Fixed Income Portfolio

June 30, 2007



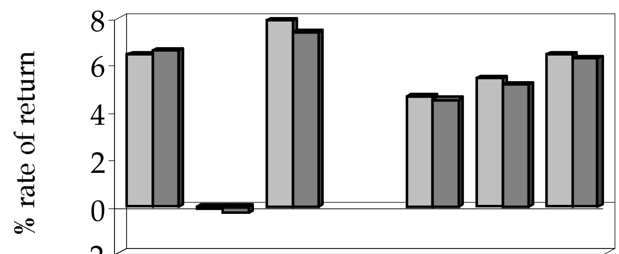
Volatility returned to the fixed income market during fiscal year 2007. The Federal Reserve stopped the federal funds rate increases and left the rate unchanged for the period at 5.25 percent. The concern of a downturn in the housing market brought about a measure of caution, as fears of a spillover into the overall economy gained support. Investors had an appetite for risk and yield in the first part of the year that somewhat reversed itself later in the year as the economy slowed a bit and volatility increased. The global economy remained healthy.

As a result, the best-performing sectors within the fixed income market were the emerging market and high yield sectors, returning 11.60 percent and 11.55 percent, respectively. The investment grade corporate sector also performed relatively well, returning 6.71 percent while the safer U.S. Treasury sector returned 5.48 percent for the fiscal year 2007. Overall, IPERS' core plus fixed income portfolio return of 6.49 percent slightly underperformed the Universal Index return of 6.63 percent for the fiscal year ended June 30, 2007.

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

Core Plus Fixed Income Performance

For the periods ended June 30



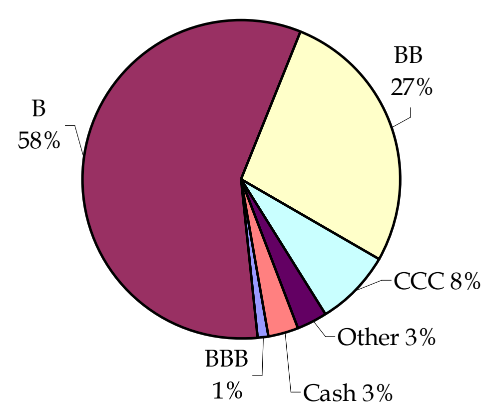
	2007	2006	2005		3 yr	5 yr	10 yr
IPERS' portfolio*	6.49	-0.13	7.91		4.70	5.43	6.45
Custom benchmark	6.63	-0.25	7.43		4.54	5.17	6.27

*Net of fees.

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

High Yield Fixed Income Credit Ratings

June 30, 2007

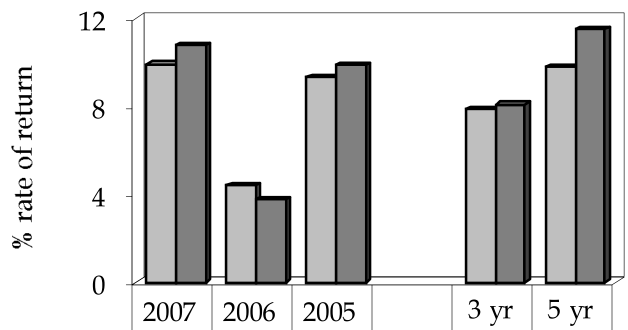


As mentioned previously, the high yield sector was one of the highest-performing fixed income sectors in fiscal year 2007. IPERS' high yield investment strategy emphasizes investment in higher-quality issuers within the high yield market. For fiscal year 2007, the lower-quality high yield issuers generated returns that outpaced the higher-quality high yield issuers as investors sought out yield while assuming additional risk. As a result, IPERS' high yield fixed income return of 9.91 percent underperformed the Citigroup High Yield Cash Pay Capped Index return of 10.78 percent for the fiscal year ended June 30, 2007.

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

High Yield Fixed Income Performance

For the periods ended June 30



	2007	2006	2005		3 yr	5 yr
IPERS' portfolio*	9.91	4.40	9.30		7.84	9.75
Custom benchmark	10.78	3.79	9.86		8.10	11.54

*Net of fees.

Fixed Income Portfolio—Top 10 Holdings

The top 10 holdings within the consolidated fixed income portfolio (core plus and high yield combined) at June 30, 2007, 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, 2007	Fair Value	% of Total IPERS Fixed Income Portfolio
FNMA TBA 30YR 6.00% 01JUL2031	$345,882,766	4.04
FNMA TBA 30YR 5.00% 01JUL2007	237,498,678	2.77
FNMA TBA 15YR 5.50% 01JUL2017	199,272,561	2.32
FNMA TBA 30YR 5.50% 01JUL2008	164,435,952	1.92
FNMA TBA 30YR 5.00% 01JUL2007	128,716,523	1.50
FNMA TBA 30YR 6.50% 25JUL2031	121,438,951	1.42
U.S. Treasury note 15OCT2008	90,513,689	1.06
U.S. Treasury bonds 15FEB2037	78,316,259	0.91
FNMA TBA 30YR 5.00% 01FEB2036	72,678,841	0.85
U.S. Treasury note 30APR2008	70,481,832	0.82

*Excludes all holdings in commingled fund accounts.

Private Equity/Debt

At June 30, 2007, IPERS' private equity/debt portfolio had a fair value of $1.947 billion, representing 8.40 percent of the total IPERS portfolio. From the inception of the private equity/debt portfolio in 1985 through June 30, 2007, the System has committed $5.020 billion to 187 partnerships. Of that total, $1.598 billion remains to be called for investment. During the fiscal year, IPERS committed $789 million to 19 new partnerships.

The long-term objective of the private equity/debt portfolio is to achieve a rate of return that exceeds the returns available in the public equity markets. The System seeks to minimize the risk associated with the asset class by investing in a variety of top-tier partnerships with different investment styles and objectives. The portfolio is also diversified by industry focus, geographic location, and, most importantly, time, which means that capital is committed to partnerships over the full course of the business cycle and not concentrated in any one year.

The long-term performance objective for the private equity/debt portfolio is to exceed the return of the Dow Jones Wilshire 5000 Index, calculated on an internal rate of return (IRR)[1] basis, by 3 percentage points on an annualized basis. The private equity/debt portfolio returned 32.77 percent in fiscal year 2007 versus 23.92 percent for its benchmark. However, private equity investments typically span 10 years or more, so a longer evaluation time horizon is appropriate. The private equity/debt portfolio has returned 12.96 percent versus its benchmark return of 11.45 percent for the ten-year period ended June 30, 2007. Since inception in 1985, the IPERS private equity/debt portfolio has returned 15.14 percent versus its benchmark return of 15.99 percent.

One drawback to comparing a portfolio return to a benchmark return is that it does not provide any information on how the portfolio's performance compares to the universe of private equity investment opportunities that were available at the time IPERS made its investments. The *Venture Economics*[2] All Private Equity funds performance database includes data from 1,620 partnerships, and makes it possible to compare a portfolio to a universe of private equity partnerships that raised capital over the same time period. Another performance analysis issue is that IRRs can be sensitive to the estimated value of unrealized investments. Therefore, IRRs for the portfolio should be reviewed in conjunction with "distributions to paid-in capital" (DPI) ratios, which ignore valuations and measure the ratio of cumulative distributions to cumulative paid-in capital for the time period, that is, how much of the investment performance has been realized.

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[1]The internal rate of return (IRR) is utilized to evaluate private equity investments because they are generally illiquid and cash inflows and outflows can be controlled by the general partner of the private equity partnership. Time-weighted returns are inappropriate under such conditions.

[2]All *Venture Economics* information is as of October 2007, with data current for reporting periods ended June 30, 2007. Data is continuously updated and is therefore subject to change.

The table below compares the performance of IPERS' private equity/debt portfolio to the IRR and DPI of the *Venture Economics* database of private equity partnerships invested from 1985 through June 30, 2007.

	IRR	DPI
IPERS— Private equity/debt portfolio	15.14%	1.21
Venture Economics— All Private Equity Funds	13.80%	0.93

The performance measures shown above do not fully reflect the evolution that has occurred in the implementation of IPERS' private equity/debt strategy. For example, the IPERS Investment Board determined that as of 1993 the selection of private equity partnerships should be delegated to a professional management firm, rather than having IPERS staff and the Board attempt to evaluate and select these complex investments. The "since inception" results shown above include the impact of decisions made prior to delegating the selection process to an investment manager.

The decision to give full investment discretion to a management firm for the private equity/debt portfolio has proven successful to date. IPERS' private equity investment manager has produced a net IRR of 21.70 percent since the firm was given full discretion to select partnerships on IPERS' behalf on January 1, 1993. This return compares favorably to the 9.89 percent IRR of the custom benchmark IPERS has established for the manager, the 13.63 percent IRR of IPERS' asset class benchmark for private equity (Wilshire 5000 + 300 bps) over the time period, and the pooled average IRR of 11.80 percent reported by *Venture Economics* for all private equity funds in its database for vintage years 1993 through 2007. The DPI of 0.92 for the manager's discretionary portfolio also compares favorably to *Venture Economics'* pooled average DPI of 0.80 for all private equity funds in its database for years 1993 through 2007.

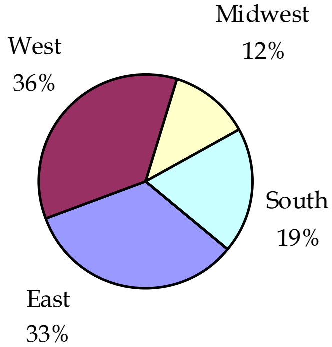
The decision to give full investment discretion to a management firm for the private equity/debt portfolio has proven successful.

Real Estate

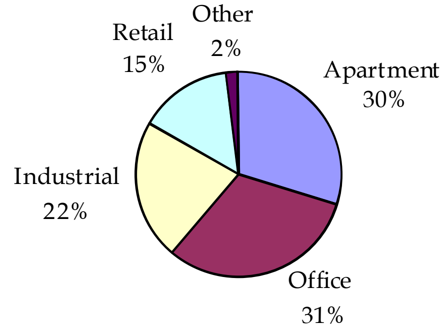
At June 30, 2007, $2.041 billion, or 8.80 percent, of IPERS' total portfolio at fair value was invested in various real estate properties, commingled funds, partnerships, and publicly traded real estate investment trusts (REITs). In order to mitigate risk, the real estate portfolio is diversified by both geographic location and property type, as shown in the following charts. IPERS has minimal investments in international real estate, which make up less than 1.00 percent. The total net return for the real estate portfolio for the fiscal year was 14.37 percent, compared to 16.84 percent for the portfolio's benchmark (85 percent NCREIF NPI/15 percent Dow Jones Wilshire REIT + 0.25 percent). Operating income and property values were both positive in fiscal year 2007.

Real Estate Portfolio
June 30, 2007

By Property Location



By Property Type



Investments in Iowa

Iowa Code section 97B.7A authorizes IPERS to invest the moneys of the Trust Fund in accordance with the Investment Policy and Goal Statement adopted by the Investment Board and subject to the Prudent Person rule. Section 97B.7A also directs that, where consistent with the aforementioned standards, IPERS will invest ". . . in a manner that will enhance the economy of the state, and in particular, will result in increased employment of the residents of the state." At June 30, 2007, the System held investments of $474 million in Iowa-based companies and/or companies with significant operations in the state of Iowa (as shown in the following table).

Asset Class	Companies Based in Iowa or With Significant Iowa Operations
Stocks	$408,041,929
Bonds	60,742,595
Private equity/debt	4,963,300
Total	**$473,747,824**

Schedule of Brokerage Commissions Paid

Year ended June 30, 2007

Brokerage Firm	Commissions Amount Paid*	Commissions Average Per Share	% of Total Paid for Period
Goldman Sachs & Co	$ 447,671	$0.036	11.54
Merrill Lynch	363,714	0.025	9.37
Credit Suisse	311,003	0.008	8.01
UBS Securities	310,046	0.062	7.98
Citigroup	278,924	0.025	7.18
Morgan Stanley	208,904	0.019	5.38
Deutsche Bank	191,726	0.030	4.94
JP Morgan Securities Inc	181,388	0.018	4.67
Barclays Global Investors	167,868	0.013	4.32
Lehman Brothers	159,219	0.032	4.10
Bear Stearns	143,401	0.027	3.69
MacQuarie Securities	71,415	0.024	1.84
Nomura International PLC London	51,245	0.030	1.32
Banc/America Securities	49,038	0.025	1.26
ABN Amro	47,628	0.108	1.23
Sanford C Bernstein & Co LLC	47,484	0.014	1.22
JB Were and Son	38,307	0.021	0.99
Pershing & Company	35,949	0.043	0.93
Liquidnet Inc	32,342	0.020	0.83
RBC Capital Markets Corp	31,925	0.050	0.82
Stifel Nicholaus & Co Inc	28,466	0.050	0.73
Calyon Securities	24,896	0.002	0.64
Investment Technology Group	24,071	0.012	0.62
Thomas Weisel Partners LLC	24,041	0.037	0.62
Cantor Fitzgerald	23,161	0.028	0.60
All others (includes 118 brokerage firms)	589,151	0.041	15.17
Total	**$3,882,983**	**$0.031**	**100.00%**

*In U.S. dollars.

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 in June 2007, includes all Policy text, but excludes the addenda referenced in the Policy.

I. INTRODUCTION - IPERS' PURPOSE AND PRINCIPLES

The Iowa Public Employees' Retirement System (IPERS 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."

IPERS is administered through a chief executive officer, chief investment officer, chief benefits officer, and other full-time staff. The investment activities are governed by an Investment Board, and the underlying principle which governs these activities is the "prudent person" rule. In the formulation of this investment policy and goal statement, a primary consideration of the Investment Board and staff has been their awareness of the stated purpose and investment principle. IPERS' investment activities are designed and executed in a manner that will fulfill these goals. The investment policy and the individual strategies will be periodically reviewed to ensure that they conform to §§ 97B.2 and 97B.7A.

The primary duties of the Investment Board (Board) are to establish policy, review its implementation, and approve the retention of service providers in matters relating to the investment of IPERS' assets and the actuarial evaluation of the System's assets and liabilities. The Investment Board shall be the trustee of the IPERS fund. The chief investment officer is responsible for the administration of the investment program pursuant to the policies of the Board. Additionally, the Board supports the retention and development of sufficient investment staff and the provision of such other resources as are required in order to ensure the thorough oversight and administration of each investment program undertaken by the System.

II. INVESTMENT GOAL STATEMENT

In accordance with the above described purpose and statutory citations, the following investment goals are adopted:

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

B. The investment activities are designed to provide a return on the portfolio that, when coupled with the periodic contributions of the membership and employers, will meet or exceed the benefit funding requirements of the plan over time. Of primary consideration is the maintenance of funding which is adequate to provide for the payment of the plan's actuarially determined liabilities over time.

C. The long-term performance expectations for the total fund after the deduction of management fees are as follows:

1. Performance which exceeds the rate of inflation, as determined by the Consumer Price Index (CPI), by at least 300 basis points (3%).

2. Performance which exceeds the 750 basis point (7.5%) assumed actuarial annual rate of interest.

3. Performance which exceeds the Policy Benchmark, as defined in Section III(A) of this Policy, which represents the return of a passively managed portfolio comprised of the target asset allocations to, and appropriate indexes for, each asset class.

4. Performance which exceeds the median risk-adjusted return of a universe of large public funds.

III. INVESTMENT POLICY STATEMENT

IPERS' investment policies are structured to maximize the probability that the investment goals will be fulfilled. All investment policy decisions shall include liquidity and risk considerations that are prudent and reasonable under the circumstances that exist over time. IPERS' investment policies will evolve as the internal conditions of the fund and the capital markets environments change.

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 (i.e., non-passive or non-index) portfolios.

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

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

A. The Beta Portfolio

1. Policy Benchmark

The System adopts a Policy Benchmark that represents a mix of beta exposures that is expected over the long term to maximize the risk-adjusted beta return to the System consistent with the Board's tolerance for market risk, and is predicated on a number of factors, including:

a. The actuarially projected liability stream of benefits and its cost to both covered employees and employers.

b. The relationship between the current and projected assets of the plan and the plan's projected liabilities.

c. Expectations regarding long-term capital market returns and risks.

d. Historical returns and risks and correlations of asset classes that comprise the capital markets.

e. The perception of future economic conditions, including inflation and interest rate assumptions, and their impacts on the System's assets and liabilities.

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

Asset Class	**Asset Class Ranges**	**Policy Benchmark Weights**	**Policy Benchmark Index**
Equities		**43%**	
Domestic Equities	23% - 33%	28%	Dow Jones Wilshire 5000
International Equities	10% - 20%	15%	MSCI ACWI ex US
Fixed Income		**39%**	
Core Plus Fixed Income	30% - 38%	34%	Lehman U.S. Universal
High Yield	3% - 7%	5%	Citigroup HY Cash-Pay
Alternatives		**18%**	
Private Equity	7% - 13%	10%	Dow Jones Wilshire 5000 + 3%
Equity Real Estate	6%-10%	8%	Custom Index[1]
Cash	0% - 1%	**0%**	Merrill Lynch 91-day T-Bill

[1] The equity real estate custom index for purposes of the Policy Benchmark Index is weighted 85% NCREIF Property Index and 15% Dow Jones Wilshire REIT Index to reflect the real estate program's strategic mix.

2. Policy Benchmark Components

Apart from any alpha expectations described in Section IIIB, 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 markets 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 Dow Jones 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.) 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 Lehman U.S. Universal Index.

High Yield Bonds

IPERS has made a strategic allocation to high yield corporate bonds to enhance the long-term returns of the investment portfolio, to provide current income and to provide diversification benefits. The Policy Benchmark Index for High Yield Bonds is the Citigroup High-Yield Cash-Pay Capped Index.

Equity Real Estate

IPERS invests in equity real estate to provide diversification in the investment portfolio and for income generation. The Policy Benchmark Index for Equity Real Estate is a weighted custom index of 85% the National Council of Real Estate Investment Fiduciaries' Property Index (NPI) and 15% the Dow Jones Wilshire Real Estate Investment Trust Index (Wilshire REIT). (See Addendum C, Tab IV for IPERS' Real Estate Investment Policy.)

Private Equity/Debt

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

Cash

Cash, for 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

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

B. The Alpha Portfolio

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

Various strategies may be employed in the creation of a diversified alpha portfolio. Factors that will determine the alpha portfolio composition will include market structure and dynamics, the breadth and depth of available active managers, and contribution to the alpha risk budget. Traditional long-only management strategies may continue to be utilized in order to capture alpha, while portable alpha strategies, which allow alpha earned in other asset classes to be transported to a particular asset class through the use of derivatives, may also be utilized.

In reviewing the effectiveness of alpha portfolio decisions, it is understood that a sufficient time frame is necessary to measure results through market cycles. A five year period will generally be used to judge the results of alpha portfolio decisions.

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

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

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

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

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

The Board has established the following alpha risk budget:

Asset Class	**Alpha Risk Range**	**Alpha Risk Target**
Equities		
Domestic Equities	0.70% - 1.30%	1.00%
International Equities	1.10% - 1.90%	1.50%
Fixed Income		
Core Plus Fixed Income	0.40% - 0.60%	0.50%
High Yield	2.40% - 4.10%	3.25%

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

C. Investment Management Policy

To achieve optimum performance results in concert with diversification of its assets, IPERS will select and utilize an external investment manager to manage each of its portfolio accounts. The System will also utilize the services of investment management consultants for the purpose of performance review, asset allocation studies, risk budgeting, manager selection screening, and topical studies.

1. Manager/Consultant Utilization and Selection

The selection of the managers and consultants is accomplished in accordance with Iowa Executive Order Number 25, dated June 4, 2002, the applicable provisions of Iowa Code sections 8.47 and 8.52, and the administrative rules adopted thereunder, except as otherwise provided in duly issued waivers by the ruling authority. The System will procure manager and consultant services with adequate attention to the principles of competition and reasonableness of costs, and will wherever feasible compensate the external managers through the use of performance-based fees.

Each investment manager and consultant functions under a formal contract that delineates their responsibilities and the appropriate performance expectations. A formal set of investment guidelines and investment administrative requirements for each investment manager and consultant exists as an addendum to this document.

2. Manager/Consultant Discretion

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

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

3. Manager Evaluation

The investment managers under contract with the System will meet periodically with the Investment Board and/or staff for the purpose of reviewing the investment activities of their assigned portfolio, its performance, the investment strategy that governs its management and the marketplace in which it exists. Such meetings may be conducted at the offices of the investment firms. A detailed discussion of IPERS' manager evaluation policies and procedures is provided in the IPERS Manager Monitoring and Retention Policy. (See Addendum B, Tab III)

D. Cash Management

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

E. Currency Risk Management

Investment in non-dollar 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/record keeping account in a master custody bank located in a national money center and in the international sub-custodian banks under contract to the custodian bank. The Treasurer shall consult with the Board prior to selecting the master custody bank. A formal written agreement shall be established between the Treasurer of State and any third party custodian. The custodian bank agreement shall be reviewed periodically by the staff and Investment Board and is incorporated herein. (See Addendum E, Tab VI)

G. Securities Lending

The Investment Board may authorize the Treasurer to conduct a "Securities Lending Program" in accordance with Iowa Code § 12.8. A formal written agreement shall be established between the Treasurer of the State of Iowa and the lending agent(s) stipulating the terms of the program. The agreement(s) will be reviewed with the Investment Board and staff and will be incorporated herein. (See Addendum F, Tab VII) The securities lending program will be annually reviewed by the Board, and the ongoing operation of such program shall be subject to periodic reauthorization by the Board.

H. Proxy Voting

IPERS acknowledges that proxies are a significant and valuable tool in corporate governance and therefore have economic value. The System commits to managing its proxy voting rights with the same care, skill, diligence, and prudence as is exercised in managing its other valuable assets. As responsible fiduciaries, the System's staff, its designated voting agents, its investment managers, and the trustees or agents of the System's collective, common or pooled fund investments will exercise their proxy voting rights in the sole interest of the System's members and in accordance with the applicable statutes.

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

I. Commission Recapture and Soft Dollar Policy

The System encourages, but does not require, certain of its active equity managers to direct brokerage transactions to commission recapture brokers to the extent these brokers can provide best execution. Best execution is defined as achieving the most favorable price and execution service available, bearing in mind the System's best interests, and considering all relevant factors. The System will monitor on an ongoing basis the services provided by the commission recapture brokers so as to assure that the investment managers are securing the best execution of the fund's brokerage transactions.

All rebates or credits from commissions paid by the System's investment managers to the commission recapture brokers will be realized in cash and remitted directly to the fund. It is the System's policy to refrain from using soft dollar credits to acquire products or services to be used in the internal administration of the fund. If the generation of soft dollar credits is unavoidable in certain instances, the System will make a best effort to have the credits converted to cash and remitted directly to the fund, and failing such conversion will regularly monitor the managers' expenditure of soft dollar credits to ensure an appropriate relationship to the management of their IPERS accounts.

J. Derivatives Policy

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 Derivatives 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 U.K., 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 levering 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, 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 non-exchange traded Derivatives shall use prudent caution in selecting counterparties, and shall have written policies in place specifying how the manager will manage the credit risk of the counterparties. Such policies shall include, at a minimum, how the management firm will evaluate and monitor the creditworthiness of counterparties, an explanation of how the firm will determine the maximum firm-wide net market exposure amount to each counterparty, how the firm will monitor and enforce compliance with its credit policies, and other key terms that are required to be included in non-exchange traded Derivative contracts. Staff and IPERS' investment consultant shall periodically review these policies.

4. A manager shall not invest in non-exchange traded Derivatives with a counterparty that has a rating below "A3" as defined by Moody's or "A-" as defined by Standard & Poor's (S&P). Managers shall not use unrated counterparties, nor shall they use counterparties that have a "split rating" where one of the ratings is below A3 by Moody's or A- by S&P. However, managers may utilize an unrated counterparty if the manager has documentation evidencing that a parent or affiliate of the counterparty is: a) legally bound to cover the obligations of the counter-party, 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 non-exchange traded Derivatives in IPERS' account shall control the counterparty credit risk of such transactions by: a) Utilizing payment netting arrangements to minimize the amount at risk; b) Performing daily marking-to-market of Derivatives contracts; and c) Requiring collateralization of net amounts owed under the contracts after meeting minimum threshold for transfers.

6. A manager shall limit the System's exposure to counterparty defaults from non-exchange traded Derivatives by limiting the dollar amount at risk with any counterparty (net of the value of any collateral held) to no more than 5% 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% 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 non-exchange traded Derivatives.

7. Collateral provided to IPERS by counterparties under a Derivatives contract shall be delivered to and held by the System's custodian bank.

8. Managers shall reconcile cash and margin requirements concerning Derivatives on a daily basis with the System's custodian bank.

9. These restrictions do not apply to portable alpha strategies utilized by the System. In lieu of such restrictions, staff shall attempt to ensure that contracts with managers executing portable alpha strategies adequately address as many of the restrictions as possible while allowing these managers the latitude necessary to manage a portable alpha portfolio where the alpha and beta sources are in different asset classes.

10. Contracts for portable alpha portfolios will articulate the specific derivative usage allowed within the manager's strategy. Additionally, the contract will incorporate the derivatives exposure parameters for that strategy. The contract will also articulate the data to be provided to IPERS staff and consultants in order to enable sufficient monitoring and evaluation of derivatives exposures.

K. Social Investing

As fiduciaries, the IPERS Investment Board, staff and investment managers must perform their duties for the exclusive benefit and in the best economic interest of the System's members and beneficiaries. The System will therefore oppose investment policies or strategies which seek to promote specific social issues or agendas through investment or divestment of IPERS' assets. To act otherwise could be construed as a violation of fiduciary duty and could endanger the System's tax-exempt status.

L. Securities Litigation Policy

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

M. Confidential Investment Information

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

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

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

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

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

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

N. Code of Ethics

The Investment Board shall adopt a Code of Ethics to govern the activities of members of the Board, staff, consultants and managers as it relates to the System. (See Addendum J, Tab XI)

O. Sudan Investment Restrictions & Divestment Policy

The Iowa General Assembly enacted Senate File 361 in the 2007 legislative session requiring IPERS to develop a list of scrutinized companies with operations in the Sudan, 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. To comply with this legislative mandate, IPERS will do the following:

1. Staff will develop a list of scrutinized companies with active business operations and inactive business operations (as such terms are defined in the legislation) by relying solely on the research and findings of the Sudan Divestment Task Force (the "Task Force"), the organization that developed the model legislation and is considered to be an authoritative source of information in this area. This list will be updated quarterly. Until such time as the Task Force clearly delineates in its reports which scrutinized companies have active business operations in the Sudan and which companies have inactive business operations, IPERS will treat all companies on the list that are characterized by the Task Force as "Highest Offenders" as companies having active business operations in the Sudan and subject to potential investment restrictions including divestment. IPERS will rely on the advice of the Task Force as to which companies that are not included on its Highest Offenders list are considered to be companies with inactive business operations.

2. Staff will post the list of scrutinized companies on its web site within 30 days of creation or update, with such posting to include information on the names and market values of scrutinized companies held in the IPERS investment portfolio. Annual reports required by the legislation will also be posted on IPERS web site.

3. Staff will be responsible for sending all required written notices to companies on the list of scrutinized companies and for maintaining files tracking correspondence with such companies so that compliance with the legislation can be monitored.

4. Staff will contact those investment managers that invest in direct holdings of securities on behalf of IPERS, and notify them of those companies with active business operations that have become subject to investment restriction and divestment. Said investment managers will be instructed to immediately cease purchasing the publicly traded securities of such company, and to sell any existing direct holdings of such company within 18 months of the date the company was first notified. The investment manager shall have the discretion to decide when to sell its holdings within the 18 month period.

5. Staff and consultant will develop custom performance benchmarks for each investment manager to reflect the limitations, if any, that have been placed on their discretion in managing their account on behalf of IPERS. These custom benchmarks

will be refreshed quarterly to reflect any changes to the list of companies with active business operations.

6. Staff and consultant will track and include in its annual reports the costs, including any opportunity costs, associated with the Sudan legislation.

7. Staff will contact investment management firms that currently manage IPERS' assets in commingled funds and request, as required by law, that they consider developing Sudan-free commingled funds for the System's possible investment. If Sudan-free alternatives are available or become available, Staff will develop an estimate of the costs that would apply in moving IPERS' investment to a Sudan-free commingled fund, and provide such estimate to the Board for its consideration. The Board shall determine if replacement with a Sudan-free commingled fund is consistent with prudent investing standards.

IV. RESPONSIBILITIES OF THE INVESTMENT BOARD AND STAFF

Successful management and oversight of IPERS' investment activities require the Investment Board and staff to have specific responsibilities, as outlined below:

A. Statutory Responsibilities

1. The Board shall annually adopt an Investment Policy and Goal Statement which is consistent with Iowa Code §§ 97B.7A and 97B.8A.

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

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

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

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

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

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

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

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

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

B. Operational Responsibilities

1. Upon recommendation of the staff, consultants, or of individual Board members, the Board shall periodically and as necessary adopt changes to the Investment Policy and Goal Statement, including revisions to the Policy Benchmark targets, beta portfolio components, and alpha risk budgets.

2. The Board shall review the specific types and proportions of assets being utilized in implementing the overall Policy, as established by the staff (e.g., the proportion of mortgage bonds within the Core Plus Fixed Income portfolio).

3. The Board shall periodically review the Staff's rebalancing activities and the System's compliance with Policy Benchmark Weights and Alpha Risk Targets within their designated ranges.

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

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

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

7. If the chief executive officer, chief investment officer, any investment officer or any IPERS attorney is in possession of information which would lead a reasonable person familiar with such matters to conclude that an investment or a commitment to an investment, or a decision to engage or terminate a contracted service provider, contradicts the fiduciary duties of the party or parties having the final authority to take such actions, it is the Board's expectation that the issue will be placed on a Board meeting agenda for review.

8. The Board shall hold public meetings to review the investment performance of the fund, to hear presentations from a portion of the System's investment managers, and to effect its statutory and operational responsibilities.

9. To maintain and strengthen the investment management of the System:

a. The Board and staff shall participate in conferences/seminars related to the investment activities of public and private institutional investors.

b. The staff, and as appropriate the Board, shall meet periodically with the investment managers of the fund at the firms' offices to review and clarify investment or administrative issues related to the management of the portfolio.

c. The staff, and as appropriate the Board, shall participate in investor meetings conducted by the various managers of the fund.

These activities shall be conducted in compliance with Iowa Code chapter 68B, the "Iowa Public Officials Act."

C. Administrative Responsibilities

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

2. At the first meeting in each fiscal year, the voting Board members shall elect a chair and vice-chair.

3. Parties wishing to present items for the Board's next meeting agenda shall file a written request with the Chair at least five business days prior to the meeting. The Board may take up matters not included on its agenda.

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

IPERS

Actuarial

A MILLIMAN GLOBAL FIRM

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November 20, 2007

This report presents the results of the June 30, 2007 actuarial valuation of the Iowa Public Employees' Retirement System (IPERS). The primary purposes of performing the valuation are as follows:

- to evaluate the sufficiency of the statutory contribution rate structure to fund the benefits expected to be paid to regular members in the future and to determine if the Plan's funding meets the criteria set out in the Funding Policy established by IPERS.
- to determine the actuarial contribution rates for the Special Service Groups.
- to evaluate the funded status of the System and disclose various asset and liability measures as of the valuation date.
- to determine the experience of the System since the last valuation.
- to analyze and report on trends in System contributions, assets, and liabilities over the past several years.

The actuarial assumptions are unchanged from last year's report. As a result of recommendations from the actuarial audit, there were two key changes in the actuarial methodologies since the last valuation. The application of the entry age normal cost method was adjusted to better match projected contributions to the projected salary stream in future years. This change increased the unfunded actuarial liability and the normal cost rate. The second change was to calculate the amortization payment to reflect the one year lag between the valuation date and the date the contribution rate is effective. This increased the UAL payment for the regular membership. Because the Special Service groups are contributing above the actuarial rate, this change decreased their contribution rates.

The statutory contribution rate for regular members was 9.45% (3.70% for members and 5.75% for employers) since 1979. In recent valuations the 9.45% statutory contribution rate has been insufficient to finance the benefits provided by IPERS. In 2006, legislation was passed that increases the statutory contribution rate 0.50% per year for four years commencing on July 1, 2007. The increase each year is shared 40% by the members and 60% by the employers. By July 1, 2010, the statutory contribution rate will reach 11.45% of pay. In the valuation, the scheduled increases in contribution rates are reflected for purposes of analyzing the long term funding of the System. However, for purposes of reporting under Governmental Accounting Standards, future increases in the contribution rate are not reflected. This valuation reflects the first increase in the contribution rate from 9.45% to 9.95%. The change in the contribution rate results in higher projected refunds for members who terminate active employment. The higher benefits translate to higher liabilities and a higher normal cost.

Passage of this legislation was a critical step in addressing the concern over the long term funding of IPERS; however, there is no guarantee that it will be sufficient in the long term. As part of the continuing effort to monitor the System's funding, IPERS completed a comprehensive Asset/Liability Study in 2007. The results of that study indicated that there was a 73% probability that the ultimate fixed contribution rate of 11.45% will be above the actuarial contribution rate in the June 30, 2016 valuation and a 50% probability of a funded ratio at or above 100% at that time. However, the Asset/Liability Study was performed using the June 30, 2006 actuarial valuation results. Since there were refinements in the actuarial methodology in the 2007 actuarial valuation, which increased the normal cost rate, and a liability loss from experience for FYE 2007 the projections using the 2007 actuarial valuation could be less favorable than those shown in the Asset/Liability Study. The situation should continue to be monitored and studied in the coming years.

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The actuarial valuation results provide a "snapshot" view of the System's financial condition on June 30, 2007. The results reflect net favorable experience for the past plan year as demonstrated by an unfunded actuarial liability (UAL) that was lower than expected, based on actuarial assumptions. The UAL on June 30, 2007 for all membership groups covered by IPERS (Regular members and Special Service Groups) is $2.266 billion as compared to an expected UAL of $2.664 billion. The favorable experience was the sum of an experience gain of $622 million on the actuarial value of assets and an experience loss of $187 million on System liabilities.

The summary of the 2007 valuation results are shown below:

Contribution Rate for FY09			
	Regular Membership	Special Service Group 1*	Special Service Group 2**
1. Normal Cost Rate	9.80%	15.23%	15.26%
2. Amortization of UAL over 30 years	2.22%	(0.19%)	(1.18%)
3. Total Contribution Rate	12.02%	15.04%	14.08%
4. Member Contribution Rate	4.10%	7.52%	5.63%
5. Employer Contribution Rate (3) - (4)	7.92%	7.52%	8.45%
6. Statutory/Expected Contribution	6.35%	7.52%	8.45%
7. Shortfall (5) – (6)	1.57%	0.00%	0.00%
8. Years to Amortize (Based on (6))	Infinite	30	30
9. Unfunded Actuarial Liability ($M)	2,315	(3.0)	(45.0)
10. Funded Ratio	89.5%	100.8%	106.9%

*Sheriffs and deputies.
**All other protection occupation members

Actuarial Value of Net Assets

For financial statement purposes, the System's assets are reported at current fair values. For actuarial purposes, the assets are valued using a technique which dampens the volatility in the fair value. Specifically, the assets are valued at their expected value at the valuation date (based on the assumed rate of investment return) plus 25% of the difference between the fair value and the expected value on the valuation date. The actuarial value of assets must fall within a corridor of 80% to 120% of market value. Based on this methodology, there was an actuarial gain on assets. Between June 30, 2006 and June 30, 2007, the actuarial value of assets increased by $1.6 billion. This represented an approximate rate of return of 10.3% as compared to the actuarial assumed rate of 7.5%. The resulting actuarial gain was $622 million.

Liabilities

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

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The unfunded actuarial liability by group is shown as of June 30, 2007 below:

($Millions)	Regular Membership	Special Service 1	Special Service 2	Total
Actuarial Liability	$22,024	$345	$657	$23,026
Actuarial Value of Assets	19,709	348	702	20,760
Unfunded Actuarial Liability	2,315	(3)	(45)	2,266

Totals may not add due to rounding.

Actuarial gains (losses) result from actual experience that is more (less) favorable than anticipated based on the actuarial assumptions. These "experience" (or actuarial) gains or losses are reflected in the UAL and are measured as the difference between the expected unfunded actuarial liability and the actual unfunded actuarial liability, taking into account any changes due to assumption or benefit provision changes. Overall, the System experienced a net actuarial gain of $425 million.

Numerous factors contributed to the change in the System's unfunded actuarial liability between June 30, 2006 and June 30, 2007, which is shown below (in millions):

Unfunded Actuarial Liability, June 30, 2006	$ 2,507
• Expected change in UAL due to amortization method	49
• Expected change in UAL due to contributions below actuarial rate	118
• Investment (gain)/loss	(622)
• Liability (gain)/loss from actual experience	187
• Benefit enhancements	0
• Change in actuarial assumptions/methods	27
Unfunded Actuarial Liability <u>before</u> FED transfer, June 30, 2007	$ 2,266
• FED Transfer	0
Unfunded Actuarial Liability <u>after</u> FED transfer, June 30, 2007	$ 2,266

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.

Although the entry age normal cost method develops a normal cost rate that is expected to be relatively level, it will fluctuate from year to year depending on the demographic composition of the active members. Recent experience indicates that the average age of new entrants coming into the System is older than the average entry age of the current membership, and we have seen the normal cost rate increase in past valuations. Again this year, the normal cost rate increased 0.04% from 9.05% to 9.09% due to changes in the demographic composition of the group.

OFFICES IN PRINCIPAL CITIES WORLDWIDE

In 2006, legislation was passed that increases the statutory contribution rate as shown in the table below:

Time Period	Contribution Rates Member	Employer	Total
Prior to 7/1/07	3.70%	5.75%	9.45%
7/1/07 – 6/30/08	3.90%	6.05%	9.95%
7/1/08 – 6/30/09	4.10%	6.35%	10.45%
7/1/09 – 6/30/10	4.30%	6.65%	10.95%
7/1/10 – 6/30/11 and later	4.50%	6.95%	11.45%

The increased contribution rates result in slightly larger benefits for members who elect a refund of contributions. Therefore, the normal cost rate increased 0.07% from 9.09% to 9.16%.

As a follow-up to recommendations from the actuarial audit, two changes in actuarial methodology were adopted in this valuation. First, the application of the entry age normal cost method was adjusted to better match projected contributions to the projected salary stream in future years. This change increased the normal cost rate for regular members 0.64% from 9.16% to 9.80%. The change in the normal cost rate for the Special Service Groups was smaller. The second change was to reflect the one year lag between the valuation date and the date the contribution rate is effective in calculating the UAL and the corresponding amortization payment. This change increased the actuarial contribution rate for the regular members by 0.12%. Because the Special Service Groups are contributing above the actuarial rate, this change slightly decreased their contribution rates for FY09.

Even with the 0.50% increase in the statutory contribution rate from 9.45% to 9.95% this year, only a small part of the total contribution rate is available to fund the UAL. If future increases in the statutory contribution rate for regular members are considered, higher contributions are available to fund the UAL. The results of the 2007 Asset/Liability Study indicated that there was a 73% probability that the ultimate fixed contribution rate of 11.45% will be above the actuarial contribution rate in the June 30, 2016 valuation and a 50% probability of a funded ratio at or above 100% at that time. However, the Asset/Liability Study was performed using the June 30, 2006 actuarial valuation results. Since there were changes in the actuarial methodology in the 2007 actuarial valuation, which increased the normal cost rate, and a liability loss from experience for FYE 2007 the projections using the 2007 actuarial valuation could be less favorable than those shown in the Asset/Liability Study. The situation should continue to be monitored and studied in the coming years.

This valuation calculates the actuarially determined contribution rates effective July 1, 2008 for the year ending June 30, 2009. Most IPERS members (regular members who represent 96% of total active members) have contributed 3.7% of pay and employers have contributed 5.75%, for a total of 9.45%. The statutory contribution rates are scheduled to increase as shown earlier in this section. The statutory contribution rate for FY09 is 10.45%, which are the numbers shown in the following table. The remaining 4% of the active members, the Special Service Groups, contribute at an actuarially determined rate that changes each year.

The contribution rates are summarized in the following table:

Contribution Rate for FYE 2009	Regular Membership	Special Service 1	Special Service 2
1. Total Actuarial Contribution Rate	12.02%	15.04%	14.08%
2. Member Contribution Rate	4.10%	7.52%	5.63%
3. Employer Contribution Rate (1) – (2)	7.92%	7.52%	8.45%
4. Employer Statutory Contribution Rate	6.35%	7.52%	8.45%
5. Shortfall (3) – (4)	1.57%	0.00%	0.00%

IPERS adopted its Funding Policy in 1996. The purpose of the Funding Policy is to provide a basis for the evaluation of the System's funded status and to provide a set of safeguards to help ensure the financial solvency of the System. The Funding Policy defines the term "fully funded" to mean the current actuarial value of assets plus the present value of future expected contributions is equal to or greater than the present value of future benefit payments. There is an additional requirement that the amortization period not exceed 30 years in order for the System to be "fully funded".

Based on the current UAL amount and amortization payment for FY08, the amortization period is infinite. In order for the System to be "fully funded" in the current valuation (the amortization period to be 30 years), the resulting contribution rate would need to increase by 1.57% to 12.02% of payroll. This rate is determined based on the snapshot of the System taken on the valuation date, June 30, 2007, and applies only for the fiscal year beginning July 1, 2008. The rate necessary for the System to continue to be "fully funded" in future years will change each year as the deferred actuarial investment experience is recognized and other experience (both investment and demographic) impacts the System.

Summary

The System's funded ratio has improved to 90%. If the contribution rate were determined in this year's valuation with an amortization period of 30 years (which is the requirement in IPERS' Funding Policy for the System to be "fully funded"), the FYE 2009 contribution rate would be 12.02% of payroll, as compared to the statutory FYE 2009 contribution rate of 10.45%. This rate is determined based on the snapshot of the System taken on the valuation date, June 30, 2007, and applies only for the fiscal year beginning July 1, 2008. The rate necessary for the System to continue to be "fully funded" in future years will change each year as the deferred actuarial investment experience is recognized and as other experience (both investment and demographic) impacts the System.

The 2006 Legislature passed legislation that increased the statutory contribution rate from 9.45% to 11.45% over a four year period commencing July 1, 2007. This change made a significant improvement to the long term funding of the System by creating a larger contribution amount to be used to pay off the unfunded actuarial liability. In addition, continued favorable investment experience resulted in an actuarial gain on assets for the year and the differential between the market and actuarial value of assets increased to nearly $2 billion. As part of the continuing effort to monitor the System's funding, IPERS completed a comprehensive Asset/Liability Study in 2007. The results of that study indicated that there was a 73% probability that the ultimate fixed contribution rate of 11.45% will be above the actuarial contribution rate in the June 30, 2016 valuation and a 50% probability of a funded ratio at or above 100% at that time. However, the Asset/Liability Study was performed using the June 30, 2006 actuarial valuation results. Since there were refinements in the actuarial methodology in the 2007 actuarial valuation, which increased the normal cost rate, and a liability loss from experience for FYE 2007 the projections using the 2007 actuarial valuation could be different than those shown in the Asset/Liability Study.

As a follow-up to recommendations from the actuarial audit, two refinements in actuarial methodology were adopted in this valuation. First, the application of the entry age normal cost method was adjusted to better match projected contributions to the projected salary stream in future years. This change increased the normal cost rate for regular members by 0.64%. The change in the normal cost rate for the Special Service Groups was smaller. The second change was to reflect the one year lag between the valuation date and the date the contribution rate is effective in calculating the UAL and the corresponding amortization payment. This change increased the actuarial contribution rate for the regular members by 0.12%. Because the Special Service Groups are contributing above the actuarial rate, this change slightly decreased their contribution rates for FY09.

The Board modified the asset valuation methodology in the last year. The actuarial value of assets must now fall within the corridor of 80% to 120% of the market value of assets (MVA). If it does not, the actuarial value of assets is set equal to the appropriate minimum (80% of MVA) or maximum (120% of MVA) amount. This change had no impact on the June 30, 2007 valuation results.

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In performing the valuation, we have relied upon membership and financial data reported to us by the System. We did not verify the accuracy of the information but did review it for reasonableness in relation to the data submitted for previous years. We provided the Principal Valuation Results, the Actuarial Balance Sheet and the Solvency Test in the Actuarial section. We also provided some information in the Financial section, including the Schedule of Funding Progress and the contribution rates used to calculate the actuarially required contribution on the Schedule of Employer Contributions.

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

We further certify that all costs, liabilities, rates of interest and other factors for the System have been determined on the basis of actuarial assumptions and methods which are individually reasonable (taking into account the experience of the System and reasonable expectations of future experience); and which, in combination, offer our best estimate of anticipated experience affecting the System. Nevertheless, the emerging costs will vary from those presented in this report to the extent actual experience differs from that projected by the actuarial assumptions. The Investment Board has the final decision regarding the appropriateness of the assumptions and adopted them as of the dates shown for each assumption.

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

Actuarial computations presented in the 2007 actuarial valuation report are for purposes of determining the recommended funding amounts for the System. Actuarial computations under GASB Statement No. 25 are for purposes of fulfilling financial accounting requirement. The computations prepared for these two purposes may differ as disclosed in the 2007 actuarial valuation report. The calculations have been made on a basis consistent with our understanding of the System's funding requirements and goals, and of GASB Statement No. 25. Determinations for purposes other than meeting these requirements may be significantly different from the results shown in the 2007 actuarial valuation report. Accordingly, additional determinations may be needed for other purposes.

In conclusion, on the following page we present comparative statistics and actuarial information on both the June 30, 2007 and June 30, 2006 valuations. All figures shown include the regular membership and the two Special Service Groups. The membership counts reflect the data as of June 30, appropriate for valuation purposes, and may differ from other reporting numbers.

Respectfully Submitted,

Milliman, Inc.

I, Patrice A. Beckham, F.S.A., am a member of the American Academy of Actuaries and a Fellow of the Society of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Patrice Beckham

Patrice A. Beckham, F.S.A.
Consulting Actuary

PRINCIPAL VALUATION RESULTS

	June 30, 2007	June 30, 2006	% Chg
SYSTEM MEMBERSHIP			
1. Active Membership			
- Number of Members			
(excluding Retired/Reemployed)	165,216	163,052	1.3
- Projected Payroll for Upcoming Fiscal Year	$6,049M	$5,784M	4.6
- Average Salary	$36,615	$35,475	3.2
2. Inactive Membership			
- Number Not in Pay Status	62,291	61,731	0.9
- Number of Retirees/Beneficiaries	84,770	82,037	3.3
- Average Annual Benefit	$11,404	$10,818	5.4
ASSETS AND LIABILITIES			
1. Net Assets (excluding FED reserve)			
- Market Value	$22,624M	$19,848M	14.0
- Actuarial Value	20,760M	19,144M	8.4
2. Projected Liabilities			
- Retired Members	$9,217M	$8,449M	9.1
- Inactive Members	483M	460M	5.0
- Active Members	18,088M	17,181M	5.3
- Total Liability	27,788M	26,090M	6.5
3. Actuarial Liability	$23,026M	$21,651M	6.4
4. Unfunded Actuarial Liability	$2,266M	$2,507M	-9.6
5. Funded Ratio			
(Actuarial Value Assets/Actuarial Liability)	90.16%	88.42%	2.0
SYSTEM CONTRIBUTIONS			
Statutory Contribution Rate*	10.45%	9.95%	5.0
Years Required to Amortize Unfunded Actuarial Liability	Infinite	Infinite	N/A
Total Actuarial Contribution Rate	12.02%	11.51%	4.4
Member Contribution Rate	4.10%	3.90%	5.1
Employer Contribution Rate	7.92%	7.61%	4.1

M = ($)Millions

*Contribution rates for certain special groups (4% of the membership) are not fixed by statute but are actuarially determined each year. The statutory rate is increasing starting with the fiscal year beginning July 1, 2007.

Note: For valuation purposes, the data provided by IPERS was reclassified by Milliman 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.

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ACTUARIAL BALANCE SHEET
JUNE 30, 2007

	Regular Membership	Special Service Group 1*	Special Service Group 2**	Total
ASSETS				
Actuarial value of assets	$19,709,190,040	$348,068,638	$702,369,737	$20,759,628,415
Present value of future normal costs	4,410,566,802	95,159,916	256,352,517	4,762,079,235
Present value of future contributions to amortize unfunded actuarial liability	2,314,673,050	(2,847,766)	(45,339,917)	2,266,485,367
Total Net Assets	$26,434,429,892	$440,380,788	$913,382,337	$27,788,193,017
LIABILITIES				
Present Value of Future Benefits:				
Retired Members and Beneficiaries	$ 8,941,802,561	$105,514,847	$169,925,365	$ 9,217,242,773
Active Members	17,031,457,493	327,690,039	728,965,820	18,088,113,352
Inactive Members	461,169,838	7,175,902	14,491,152	482,836,892
Total Liabilities	$26,434,429,892	$440,380,788	$913,382,337	$27,788,193,017

*Sheriffs and deputies.
**All other protection occupation members.

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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)
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%
2004	2,806,441,058	7,255,282,305	9,066,687,243	16,951,942,539	100%	100%	76%
2003	2,717,148,747	6,713,971,820	8,556,254,393	16,120,476,011	100%	100%	78%
2002	2,626,787,528	6,207,351,544	8,034,420,113	15,613,114,009	100%	100%	84%

Note: The combined accrued liabilities in columns 1, 2, and 3 are based on the entry age normal cost method. Information provided in this exhibit in prior CAFRs was based on the projected unit credit cost method.

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RETIREES AND BENEFICIARIES – CHANGES IN ROLLS

Schedule of Retirees Added to and Removed from Rolls

Year ended	Added to Rolls Number	Added to Rolls Annual Allowances	Removed from Rolls Number	Removed from Rolls Annual Allowances	Rolls at Year-End Number	Rolls at Year-End Annual Allowances	Percentage Increase in Annual Allowances	Average Annual Allowances
2002	5,499	$77,518,069	2,693	$ 8,820,223	68,979	$649,650,910	11.83	$ 9,418
2003	4,712	44,713,938	2,255	8,570,379	71,436	685,794,469	5.56	9,600
2004	4,943	62,470,578	2,531	8,627,012	73,848	739,638,035	7.85	10,016
2005	4,879	76,691,638	2,424	8,930,349	76,303	807,399,324	9.16	10,581
2006	4,892	71,906,397	2,510	10,155,290	78,685	869,150,431	7.65	11,046
2007	5,246	88,603,387	2,718	10,883,501	81,213	946,870,317	8.94	11,659

Schedule of Beneficiaries Added to and Removed from Rolls

Year ended	Added to Rolls Number	Added to Rolls Annual Allowances	Removed from Rolls Number	Removed from Rolls Annual Allowances	Rolls at Year-End Number	Rolls at Year-End Annual Allowances	Percentage Increase in Annual Allowances	Average Annual Allowances
2002	351	$2,730,326	145	$317,791	2,736	$19,306,368	14.28	$7,056
2003	351	1,751,698	187	631,929	2,900	20,426,137	5.80	7,043
2004	398	3,053,995	185	563,755	3,113	22,916,377	12.19	7,362
2005	386	2,964,764	198	724,001	3,301	25,157,140	9.78	7,621
2006	390	3,237,968	172	681,014	3,519	27,714,094	10.16	7,876
2007	374	3,299,984	157	857,512	3,736	30,156,566	8.81	8,072

ACTUARIAL ASSUMPTIONS AND METHODS

ECONOMIC ASSUMPTIONS:

Rate of Inflation (effective June 30, 2006)

3.25% per annum

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

4.00% per annum, compounded annually

Rate of Investment Return (effective June 30, 1996)

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

Wage Growth Assumption (effective June 30, 1999)*

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

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

Payroll Increase Assumption (effective June 30, 1999)

4.00% per year

DEMOGRAPHIC ASSUMPTIONS:

Rates of Mortality (effective June 30, 2002)

		Regular Membership	Special Service Groups
Males:	Retirees:	RP-2000 Healthy Annuitant Table, Set Forward One Year	RP-2000 Healthy Annuitant Table, Set Forward Three Years
	Actives:	RP-2000 Employee Table, Set Forward One Year	RP-2000 Employee Table, Set Forward Three Years
Females:	Retirees:	RP-2000 Healthy Annuitant Table, Set Back Two Years	RP-2000 Healthy Annuitant Table, No Age Adjustment
	Actives:	RP-2000 Employee Table, Set Back Two Years	RP-2000 Employee Table, No Age Adjustment
	The RP-2000 Tables are used with generational mortality		
Beneficiaries:	Same as members		Same as members
Disabled Members:	Annual rates are the greater of 3% or 2.5% plus the corresponding non-disabled rate (based on GAM 94 for males, 95% of GAM 94 for females)		Same as healthy members, Set forward 6 years

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

Retirement Rates (effective June 30, 2002)

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

Age	Assumed Retirement Rate (%)
55-59	5
60	10
61	15
62	25
63-64	20

Upon reaching the requirements for normal retirement, the following rates apply:

	Assumed Retirement Rates		
Age	1st Year Eligible	After 1st Year	Special Service Groups
55	20%	10%	15%
56	20%	10%	10%
57-59	20%	20%	10%
60	25%	25%	10%
61	35%	30%	20%
62	50%	40%	35%
63	35%	30%	20%
64	35%	35%	35%
65	30%	45%	100%
66	20%	20%	100%
67-68	15%	15%	100%
69	15%	35%	100%
70+	100%	100%	100%

Special Service Group 1 ages 50 to 55 with 22 years of service: 30%

Terminated vested members are assumed to retire at age 62 (55 for Special Service Groups).

For regular membership, retired re-employed members are assumed to retire at a rate of 25% per year until age 80 when all are assumed to retire.

Rates of Disablement (effective June 30, 1999 for Regular Membership),
(effective June 30, 2006 for Special Service Groups)

	Annual Rate Per 1,000 Members		
Age	Males	Females	Special Service Groups
27	0.2	0.2	1.1
32	0.2	0.2	1.2
37	0.4	0.3	1.8
42	0.7	0.5	3.5
47	1.4	0.9	6.5
52	3.3	2.2	14.6
57	6.3	3.9	26.0
62	9.0	6.2	48.7

Rates of Termination of Employment (effective June 30, 2002)

Regular Membership

	Annual Rate of Withdrawals Per 1,000 Members					
Males:						
Age	**Years 0-1**	**Year 2**	**Year 3**	**Years 4-6**	**Years 7-8**	**Years 9+**
22	330.0	250.0	165.0	165.0	110.0	66.0
27	231.0	145.0	121.0	99.0	88.0	66.0
32	198.0	145.0	110.0	74.8	55.0	38.5
37	195.8	140.0	110.0	74.8	49.5	33.0
42	195.8	140.0	110.0	74.8	49.5	25.3
47	195.8	130.0	99.0	74.8	49.5	19.8
52	176.0	110.0	77.0	74.8	49.5	19.8
55+	165.0	110.0	55.0	74.8	49.5	19.8
Females:						
Age	**Years 0-1**	**Year 2**	**Year 3**	**Years 4-6**	**Years 7-8**	**Years 9+**
22	330.0	250.0	220.0	220.0	165.0	55.0
27	275.0	170.0	140.0	110.0	99.0	55.0
32	247.5	170.0	140.0	104.5	71.5	49.5
37	198.0	150.0	110.0	104.5	66.0	36.3
42	198.0	150.0	110.0	88.0	60.5	30.8
47	198.0	130.0	110.0	82.5	49.5	25.3
52	198.0	130.0	110.0	82.5	49.5	25.3
55+	198.0	130.0	110.0	82.5	49.5	25.3

Special Service Groups

Age	Annual Rate of Withdrawals Per 1,000 Members
22	90
27	70
32	35
37	35
42	35
47	35
52	30

Probability of Electing a Vested Benefit (effective June 30, 2002)

Years of Service	Regular Membership		Special Service Groups
	Males	Females	
5	61%	70%	53%
10	66%	73%	65%
15	71%	80%	85%
20	76%	85%	95%
25	80%	90%	100%
30	80%	90%	100%

Rates of Salary Increase* (effective June 30, 2006)

Years of Service	Annual Increase	Years of Service	Annual Increase	Years of Service	Annual Increase
		11	5.3%	22	4.5%
Under 2	12.0%	12	5.2%	23	4.4%
2	9.5%	13	5.1%	24	4.4%
3	7.7%	14	5.0%	25	4.4%
4	7.1%	15	4.9%	26	4.3%
5	6.6%	16	4.8%	27	4.3%
6	6.1%	17	4.7%	28	4.2%
7	5.9%	18	4.6%	29	4.1%
8	5.7%	19	4.6%	30	4.0%
9	5.5%	20	4.5%	Over 30	4.0%
10	5.4%	21	4.5%		

*Includes 4.0% wage growth.

ACTUARIAL COST METHOD

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. As a follow-up to one of the recommendations in the actuarial audit, the application of the entry age normal cost method was adjusted to better match projected contributions to the projected salary stream in future years. This change increased the normal cost rate for regular members from 9.16% to 9.80%. The change in the normal cost rate for the Special Service Groups was smaller.

The portion of the actuarial present value allocated to the valuation year is called the normal cost. The portion of the actuarial present value not provided for by the actuarial present value of future normal costs is called the actuarial accrued liability. Deducting the actuarial value of assets from the actuarial accrued liability determines the unfunded actuarial liability (UAL). For regular members, the difference between the statutory contribution rate and the normal cost rate is used to finance the UAL and the number of years necessary to finance the unfunded actuarial accrued liability as a level percent of member payroll is determined. For Special Service members, the contribution rate is the sum of the normal cost rate and the rate required to amortize the UAL or surplus over 30 years. In response to one of the recommendations in the actuarial audit, the one year lag between the valuation date and the date the contribution rate is effective is reflected in calculating the UAL and the corresponding amortization payment. This change increased the actuarial contribution rate for the regular members by 0.12%. Because the Special Service Groups are contributing above the actuarial rate, this change slightly decreased their contribution rates for FY09.

ASSET SMOOTHING METHOD

The market value of assets, representing a "cash-out" 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 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.

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September 7, 2006

Investment Board
Iowa Public Employees' Retirement System
7401 Register Drive
Des Moines, IA 50321-2953

Dear Board Members:

Gabriel, Roeder, Smith & Company (GRS) is pleased to present this report of an Audit of the Iowa Public Employees' Retirement System. The audit covered both the June 30, 2005 valuation and the 2001 to 2005 Experience Study. We are grateful to IPERS Staff for their cooperation throughout the Audit process. In addition, we wish to thank Patrice Beckham and Brent Banister of Milliman, the System's retained actuary, for their assistance with this project.

The Actuarial Audit has several related objectives:

- Review the appropriateness of the actuarial assumptions,
- Review assumptions and methods for compliance with Professional Standards, State Law, and Board Regulations,
- Verify the demographic data through independent collection and processing, and
- Confirm the major valuation results

In our opinion, the retained actuary's work provides a fair and reasonable assessment of the financial position of IPERS. We are pleased to report that we have found no substantial errors or omissions in Milliman's work.

Throughout this report, the reader will note items where GRS sees things differently than Milliman. Indeed, our mission is to point out such items. In interpreting our comments, Trustees and IPERS Administration should be aware that while we are pointing out sources of difference, we are in agreement with Milliman on the vast majority of items reviewed.

Respectfully submitted,

Brian B. Murphy

Brian B. Murphy, F.S.A.

Mita Drazilov

Mita D. Drazilov, A.S.A.

BBM/MDD/dks

Statistical Overview

Membership Summary

Growth of Net Investment Portfolio Assets

Investment Returns 1981–2007

Statistical

Statistical Overview

Objectives

IPERS implemented GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, in FY2006. This statement is intended to improve consistency and comparability in financial reporting for all governmental entities, as well as to provide clearer guidance for Statistical section reporting. The objective of this pronouncement is to provide additional detail and historic context to enable a financial statement user to better assess and understand the System's financial condition.

IPERS has reviewed GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (OPEB). IPERS does not have any OPEB liabilities to report and expects none going forward. Tables related to types of refunds have not been included in the Statistical section because IPERS pays only one type of refund.

Data Sources

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

Methods

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

Assumptions

Active members are defined as those with reported wages in 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. Unless specifically noted, references to retirees throughout this report include beneficiaries.

Changes in Net Assets

(Dollars expressed in thousands)

Fiscal years ended June 30

	1998	1999	2000	2001	2002
Additions					
Member contributions	$ 151,848	$ 163,289	$ 168,847	$ 178,877	$ 185,788
Employer contributions	227,773	244,933	253,271	268,315	278,683
QBA Fund contributions[a]	---	---	---	---	---
Membership credit buy-backs/buy-ins	7,582	19,170[d]	7,295	3,847	4,983
Net investment income/(loss)	2,202,843	1,691,099	1,990,367	(989,190)	(772,386)
QBA income	---	---	---	---	---
Other	---	---	97	65	68
Total additions	2,590,046	2,118,491	2,419,877	(538,086)	(302,864)
Deductions					
Trust Fund benefits[b]	402,544	466,753	533,747	624,260	705,768
QBA Fund benefits[c]	---	---	---	---	---
Refunds	24,558	14,442[e]	65,609[e]	42,074	37,915
Trust Fund administrative expenses	4,013	4,620	5,866	7,264	7,581
QBA Fund administrative expenses	---	---	---	---	---
Total deductions	431,115	485,815	605,222	673,598	751,264
Change in net assets	$2,158,931	$1,632,676	$1,814,655	$(1,211,684)	$(1,054,128)

(Continued on page 123)

[a]IPERS began collecting QBA contributions in FY2006 (see note 10, page 59).
[b]A Schedule of Benefit Payments by Type of Benefit is on page 130.
[c]IPERS began paying QBA benefits in FY2006 (see note 10, page 59).
[d]The volume of service purchases has fluctuated due to changes in service purchase cost methods.
[e]Legislation passed in 1998 increased the refund payable amount for vested members effective 7/1/99. Many members delayed receiving their refund to take advantage of the legislative enhancement. Therefore, the refunds paid decreased significantly for FY1999 and increased significantly for FY2000.
[f]Increase is due to a transfer of $8,879,964 from the Cedar Rapids Water Works Retirement System to fund accrued actuarial liabilities assumed by IPERS for participants of the system.

Changes in Net Assets (Continued)

(Dollars expressed in thousands)

Fiscal years ended June 30

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

[a]IPERS began collecting QBA contributions in FY2006 (see note 10, page 59).

[b]A Schedule of Benefit Payments by Type of Benefit is on page 130.

[c]IPERS began paying QBA benefits in FY2006 (see note 10, page 59).

[d]The volume of service purchases has fluctuated due to changes in service purchase cost methods.

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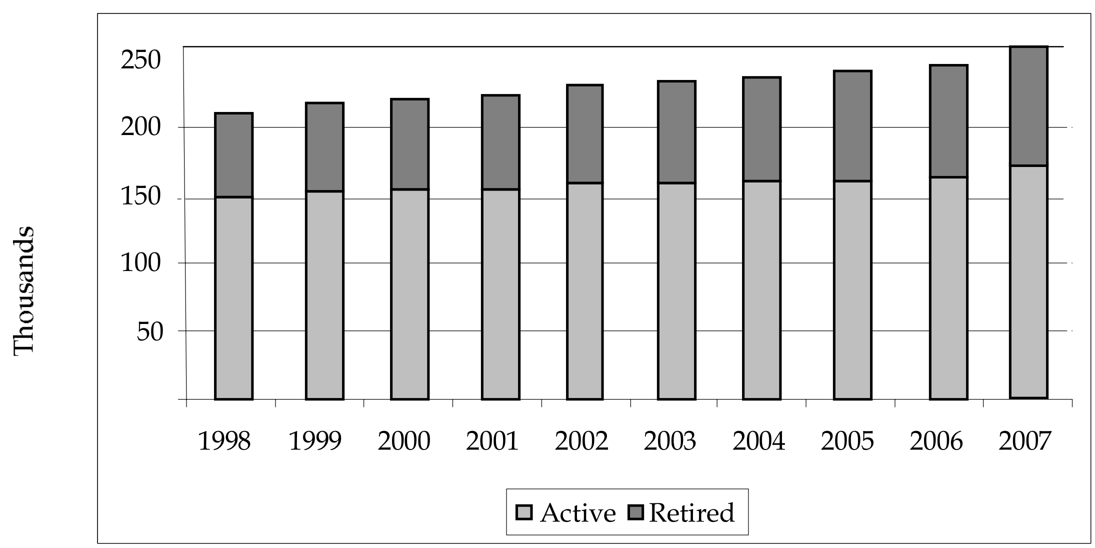
[f]Increase is due to a transfer of $8,879,964 from the Cedar Rapids Water Works Retirement System to fund accrued actuarial liabilities assumed by IPERS for participants of the system.

Membership Summary

Special Statistics Fiscal years ended June 30							
Fiscal Year	Number of Retired Members	Number of Active Members	Total Additions	Total Deductions	Total Investments	Total Net Assets
1998	62,106	148,917	$2,590,045,940	$ 431,115,031	$14,882,880,303	$13,692,899,832
1999	64,275	152,991	2,118,491,246	485,815,069	16,572,854,855	15,325,576,009
2000	66,681	154,612	2,419,877,009	605,221,828	18,358,625,668	17,140,231,190
2001	68,703	154,610	(538,086,303)	673,597,721	16,854,676,024	15,928,547,166
2002	71,715	158,467	(302,863,978)	751,263,994	15,264,248,089	14,874,419,194
2003	74,336	159,353	1,308,745,027	779,963,314	17,174,920,495	15,403,200,907
2004	76,961	160,034	2,683,972,329	837,256,385	19,647,841,652	17,249,916,851
2005	79,604	160,905	2,437,197,885	919,885,957	20,990,729,636	18,767,228,779
2006	82,204	163,091	2,613,008,745	975,366,478	22,623,903,421	20,404,871,046
2007	84,949	165,241	3,873,447,126	1,061,150,226	26,605,342,485	23,217,167,946

IPERS Membership by Status

Fiscal years ended June 30



Membership by Group* Fiscal years ended June 30				
Fiscal Year	Regular Membership	Special Service Group 1	Special Service Group 2	Total
2002				
Active members	152,986	1,439	4,042	158,467
Inactive members	97,479	112	637	98,228
Retired members	70,896	260	559	71,715
2002 total	**321,361**	**1,811**	**5,238**	**328,410**
2003				
Active members	153,485	1,480	4,388	159,353
Inactive members	103,348	115	745	104,208
Retired members	73,602	225	509	74,336
2003 total	**330,435**	**1,820**	**5,642**	**337,897**
2004				
Active members	154,279	1,506	4,249	160,034
Inactive members	102,186	103	760	103,049
Retired members	76,097	249	615	76,961
2004 total	**332,562**	**1,858**	**5,624**	**340,044**
2005				
Active members	155,165	1,471	4,269	160,905
Inactive members	64,667	102	647	65,416
Retired members	78,587	310	707	79,604
2005 total	**298,419**	**1,883**	**5,623**	**305,925**
2006				
Active members	157,117	1,478	4,496	163,091
Inactive members	60,941	114	605	61,660
Retired members	81,083	345	776	82,204
2006 total	**299,141**	**1,937**	**5,877**	**306,955**
2007				
Active members	159,092	1,470	4,679	165,241
Inactive members	61,501	108	633	62,242
Retired members	83,666	397	886	84,949
2007 total	**304,259**	**1,975**	**6,198**	**312,432**

*Trend data is being accumulated for a 10-year period.

Average Benefit Payments for Retirees* Fiscal years ended June 30								
	Years of Credited Service							
Fiscal Year	0–5	6–10	11–15	16–20	21–25	26–30	>30	Total
1998								
Number of retirees	†	12,477	10,734	10,531	8,609	6,327	13,428	62,106
Average monthly benefit	†	$122	$276	$408	$581	$840	$1,113	$548
Average final average salary	§	§	§	§	§	§	§	§
Average years of service	†	7.51	13.39	18.34	23.23	28.15	34.92	20.57
1999								
Number of retirees	†	12,820	10,880	10,733	8,910	6,681	14,251	64,275
Average monthly benefit	†	$132	$301	$445	$633	$929	$1,232	$609
Average final average salary	†	$549	$899	$1,187	$1,541	$2,033	$2,534	$1,443
Average years of service	†	7.47	13.38	18.35	23.25	28.17	34.82	20.69
2000								
Number of retirees	†	13,001	11,049	10,941	9,305	7,037	15,303	66,636
Average monthly benefit	†	$134	$308	$461	$662	$979	$1,325	$652
Average final average salary	†	$608	$959	$1,253	$1,612	$2,123	$2,664	$1,543
Average years of service	†	7.52	13.36	18.33	23.22	28.13	34.67	20.87
2001								
Number of retirees	†	13,317	11,201	11,057	9,654	7,422	16,014	68,665
Average monthly benefit	†	$138	$318	$479	$696	$1,029	$1,402	$692
Average final average salary	†	$661	$1,011	$1,302	$1,674	$2,186	$2,750	$1,615
Average years of service	†	7.51	13.36	18.35	23.24	28.17	34.64	20.98
2002								
Number of retirees	3,435	10,090	11,266	11,218	10,151	7,965	17,558	71,683
Average monthly benefit	$75	$165	$330	$502	$737	$1,096	$1,538	$760
Average final average salary	$636	$747	$1,073	$1,373	$1,755	$2,283	$2,915	$1,734
Average years of service	4.53	8.50	13.36	18.36	23.24	28.15	34.57	21.27
2003‡								
Number of retirees	3,652	10,509	11,464	11,402	10,485	8,326	18,472	74,310
Average monthly benefit	$80	$169	$337	$518	$765	$1,139	$1,611	$796
Average final average salary	$735	$809	$1,102	$1,384	$1,729	$2,219	$2,828	$1,728
Average years of service	4.49	8.49	13.37	18.37	23.27	28.18	34.51	21.32

(Continued on page 127)

*Where data were available, high 3-year average monthly wages were calculated by dividing the annual high 3-year average by 12. When high 3-year average wages were not obtainable, the monthly high 3-year average wages were estimated by dividing the annual annuity amount by a multiplying factor of 0.38 and then dividing by 12 (see retirement formula on page 142).

†Previously included in the 6–10 Years of Credited Service group.

‡Does not include retirees under the Iowa Old-Age and Survivors' Insurance System.

§Data not available.

Average Benefit Payments for Retirees* (Continued)

Fiscal years ended June 30

	Years of Credited Service							
Fiscal Year	0–5	6–10	11–15	16–20	21–25	26–30	>30	Total
2004‡								
Number of retirees	3,986	10,854	11,646	11,560	10,757	8,719	19,420	76,942
Average monthly benefit	$83	$174	$342	$536	$794	$1,190	$1,688	$833
Average final average salary	$835	$872	$1,156	$1,452	$1,796	$2,297	$2,943	$1,813
Average years of service	4.45	8.48	13.34	18.37	23.27	28.18	34.44	21.35
2005‡								
Number of retirees	4,224	11,140	11,815	11,798	11,069	9,171	20,371	79,588
Average monthly benefit	$87	$179	$350	$555	$824	$1,246	$1,763	$873
Average final average salary	$911	$939	$1,211	$1,525	$1,868	$2,391	$3,041	$1,899
Average years of service	4.45	8.48	13.35	18.38	23.28	28.19	34.41	21.42
2006‡								
Number of retirees	4,355	11,428	12,003	12,083	11,288	9,658	21,378	82,193
Average monthly benefit	$92	$185	$360	$573	$858	$1,297	$1,832	$914
Average final average salary	$993	$1,000	$1,277	$1,590	$1,944	$2,472	$3,131	$1,983
Average years of service	4.47	8.47	13.34	18.39	23.28	28.20	34.36	21.51
2007‡								
Number of retirees	4,421	11,666	12,149	12,331	11,586	10,132	22,658	84,943
Average monthly benefit	$97	$194	$369	$598	$895	$1,357	$1,917	$967
Average final 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

*Where data were available, high 3-year average monthly wages were calculated by dividing the annual high 3-year average by 12. When high 3-year average wages were not obtainable, the monthly high 3-year average wages were estimated by dividing the annual annuity amount by a multiplying factor of 0.38 and then dividing by 12 (see retirement formula on page 142).

†Previously included in the 6–10 Years of Credited Service group.

‡Does not include retirees under the Iowa Old-Age and Survivors' Insurance System.

§Data not available.

New Retirees by Employer Group
Fiscal years ended June 30

Fiscal Year	City	County	School	State	Utility	28E Agency	Township & Cemetery	Other	Total
1998									
Number of retirees	431	601	2,002	635	*	*	*	469	4,138
Average monthly benefit	$667	$638	$891	$875				$408	$774
Average years of service	19.18	19.37	24.15	21.38				15.21	21.50
1999									
Number of retirees	401	611	2,193	621	*	*	*	158	3,984
Average monthly benefit	$789	$787	$1,184	$1,146				$1,054	$1,072
Average years of service	18.86	19.54	24.14	21.92				21.00	22.42
2000									
Number of retirees	513	654	2,607	659	*	*	*	208	4,641
Average monthly benefit	$714	$745	$1,236	$1,180				$998	$1,091
Average years of service	17.53	18.29	24.38	21.75				19.28	22.16
2001									
Number of retirees	486	689	2,177	660	*	*	*	216	4,228
Average monthly benefit	$767	$806	$1,181	$1,232				$1,133	$1,078
Average years of service	18.35	18.25	22.86	21.75				20.61	21.29
2002									
Number of retirees	506	688	3,024	1,077	31	170	1	2	5,499
Average monthly benefit	$911	$884	$1,504	$1,626	$1,709	$1,385	$453	$409	$1,393
Average years of service	18.94	18.42	25.24	25.45	24.95	21.54	40.25	12.37	23.73
2003									
Number of retirees	558	715	2,562	640	19	217	1	---	4,712
Average monthly benefit	$801	$830	$1,278	$1,266	$1,426	$1,178	$62	---	$1,148
Average years of service	17.51	17.63	22.38	20.21	24.68	19.17	9.00	---	20.65
2004									
Number of retirees	614	696	2,853	522	29	229	---	---	4,943
Average monthly benefit	$926	$809	$1,318	$1,248	$1,207	$1,064	---	---	$1,178
Average years of service	18.60	17.00	22.20	19.17	19.96	17.08	---	---	20.45
2005									
Number of retirees	590	722	2,559	757	19	232	---	---	4,879
Average monthly benefit	$998	$1,031	$1,335	$1,560	$1,699	$1,282	---	---	$1,283
Average years of service	19.01	18.97	22.19	22.04	25.59	19.38	---	---	21.18
2006									
Number of retirees	591	699	2,920	568	24	66	2	22	4,892
Average monthly benefit	$1,051	$1,057	1,445	$1,463	$1,160	$633	$1,985	$465	$1,328
Average years of service	19.32	19.14	23.33	21.04	19.26	13.84	29.50	11.22	21.78
2007									
Number of retirees	620	809	2,697	965	32	50	2	26	5,201
Average monthly benefit	$1,108	$1,190	$1,570	$1,936	$1,057	$752	$314	$376	$1,506
Average years of service	19.71	20.04	23.72	24.85	18.94	14.54	6.75	8.03	22.67

*Amount included in column entitled Other.

Average Benefit Payments by Retirement Date

For retirees as of June 30, 2007

	Years of Credited Service							
Retirement Date	0–5	6–10	11–15	16–20	21–25	26–30	>30	Total
Prior to 1/1/76								
Number of retirees	25	146	136	117	70	44	123	661
Average monthly benefit	$63	$121	$272	$336	$412	$480	$547	$322
Average years of service	5.19	8.45	13.34	18.04	22.75	28.30	38.47	19.45
Between 1/1/76 and 6/30/82								
Number of retirees	190	648	756	613	523	373	599	3,702
Average monthly benefit	$55	$125	$285	$366	$461	$610	$716	$386
Average years of service	4.70	8.53	13.29	18.43	23.11	27.98	35.53	19.33
Between 7/1/82 and 6/30/86								
Number of retirees	235	843	971	997	720	638	938	5,342
Average monthly benefit	$58	$151	$302	$422	$565	$751	$903	$484
Average years of service	4.55	8.56	13.46	18.29	23.23	28.27	34.57	19.99
Between 7/1/86 and 6/30/90								
Number of retirees	276	1,182	1,448	1,575	1,245	843	1,963	8,532
Average monthly benefit	$77	$156	$303	$431	$601	$787	$1,005	$552
Average years of service	4.58	8.60	13.42	18.33	23.15	28.01	33.91	20.95
Between 7/1/90 and 6/30/96								
Number of retirees	727	2,113	2,609	2,821	2,683	1,962	4,228	17,143
Average monthly benefit	$75	$163	$305	$480	$694	$1,001	$1,301	$693
Average years of service	4.43	8.53	13.42	18.37	23.31	28.15	34.45	21.67
Between 7/1/96 and 6/30/00								
Number of retirees	753	2,123	2,170	2,141	2,215	1,976	4,890	16,268
Average monthly benefit	$82	$185	$369	$610	$887	$1,373	$1,941	$1,028
Average years of service	4.50	8.49	13.23	18.48	23.28	28.32	34.52	22.50
Between 7/1/00 and 6/30/07								
Number of retirees	2,215	4,611	4,059	4,067	4,130	4,296	9,917	33,295
Average monthly benefit	$121	$241	$470	$824	$1,241	$1,788	$2,534	$1,339
Average years of service	4.44	8.36	13.28	18.46	23.32	28.24	34.12	22.03
Total as of June 30, 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 years of service	4.48	8.46	13.33	18.41	23.27	28.21	34.33	21.67
IOASI retirees*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	6
Average monthly benefit	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$105

*Recipients receiving benefits calculated under the Iowa Old-Age and Survivors' Insurance System (IOASI), the predecessor to IPERS.

Schedule of Benefit Payments by Type of Benefit* Fiscal years ended June 30								
Fiscal Year	Number of Retirees	Normal Retirement for Age and Service	Early Retirement	Survivor Payment (Normal, Early, or Disability Retirement)	Disability Retirement	Survivor Payment (Death in Service)	Duty Disability Retirement (Special Service Groups)	Nonduty Disability Retirement (Special Service Groups)
2003	74,336	$570,327,217	$ 94,103,140	$20,009,733†	$20,963,183	$ 469,783	$194,138	$153,412
2004	76,961	610,618,473	106,510,837	22,142,949	22,021,464	760,904	278,289	221,496
2005	79,604	657,249,915	125,357,178	24,084,063	24,225,454	1,060,991	317,312	261,551
2006	82,204	701,149,558	141,860,569	26,228,650	25,540,886	1,382,098	433,669	269,095
2007	84,949	758,739,140	159,904,983	28,429,483	27,449,602	1,637,857	489,088	287,504

*Trend data is being accumulated for a 10-year period. This table does not include lump-sum payments.
†Previously the 2003 number only reported normal survivor payments. This number has been revised to include early and disability retirement payments.

Schedule of Retired Members by Type of Benefit As of June 30, 2007								
Amount of Monthly Benefit	Number of Retirees	Normal Retirement for Age and Service	Early Retirement	Survivor Payment (Normal, Early, or Disability Retirement)	Disability Retirement	Survivor Payment (Death in Service)	Duty Disability Retirement (Special Service Groups)	Nonduty Disability Retirement (Special Service Groups)
$ 1–200	15,454	8,752	5,475	685	513	29	---	---
201–400	16,285	10,229	4,546	842	649	19	---	---
401–600	9,934	5,765	3,086	572	490	21	---	---
601–800	7,234	4,202	2,157	452	395	28	---	---
801–1,000	6,306	4,108	1,547	337	306	8	---	---
1,001–1,200	4,608	3,045	1,150	164	242	7	---	---
1,201–1,400	3,677	2,444	932	144	142	11	1	3
1,401–1,600	3,441	2,413	767	125	113	15	2	6
1,601–1,800	2,921	2,340	434	66	70	3	4	4
1,801–2,000	2,981	2,521	315	72	58	6	7	2
Over 2,000	12,108	11,078	809	117	82	13	9	---
Totals	**84,949**	**56,897**	**21,218**	**3,576**	**3,060**	**160**	**23**	**15**

Retired Members by Benefit Option* As of June 30, 2007								
Amount of Monthly Benefit	Number of Retirees	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Misc.†
$ 1–200	15,454	5,458	3,133	2,731	1,499	2,236	358	39
201–400	16,285	6,530	3,362	1,855	2,054	2,117	367	---
401–600	9,934	3,549	2,156	1,092	1,676	1,164	297	---
601–800	7,234	2,426	1,550	692	1,456	781	329	---
801–1,000	6,306	1,890	1,430	610	1,441	633	302	---
1,001–1,200	4,608	1,253	1,090	462	1,001	454	348	---
1,201–1,400	3,677	968	747	316	941	371	334	---
1,401–1,600	3,441	845	719	306	839	399	333	---
1,601–1,800	2,921	691	548	268	697	357	360	---
1,801–2,000	2,981	607	539	321	684	398	432	---
Over 2,000	12,108	2,210	2,213	1,653	1,763	1,674	2,595	---
Totals	**84,949**	**26,427**	**17,487**	**10,306**	**14,051**	**10,584**	**6,055**	**39**

*See definitions of benefit options on page 143.
†Consists of benefit options available under previous laws.

Active Membership Statistics Fiscal years ended June 30					
Fiscal Year	Total Actives	Percent Change	Average Covered Wage	Average Age (Years)	Average Service Credit (Years)
1998	148,917	0.8	$26,767	44.7	11.5
1999	152,440	2.4	27,322	44.8	11.4
2000	153,039	0.4	29,032	44.8	11.6
2001	154,610	1.0	30,341	45.0	11.5
2002	158,467	2.5	32,119	45.2	11.3
2003	159,353	0.6	29,652	44.7	11.4
2004	160,034	0.4	30,605	43.9	11.5
2005	160,905	0.5	31,376	45.6	11.6
2006	163,091	1.4	33,870	44.2	11.6
2007	165,241	1.3	34,990	43.2	11.5

Analysis of Change in Active Membership Fiscal years ended June 30						
Fiscal Year	Beginning Members	Additions	Retired	Died	Other Terminations	Ending Members
1998	147,736	17,606	3,079	285	13,061	148,917
1999	148,917	18,503	3,642	250	11,088	152,440
2000	152,440	18,698	2,139	256	15,704	153,039
2001	153,039	13,534	1,567	113	10,283	154,610
2002	154,610	19,247	3,680	138	11,572	158,467
2003	158,467	17,130	3,657	153	12,434	159,353
2004	159,353	16,715	3,450	153	12,431	160,034
2005	160,034	17,598	3,716	156	12,855	160,905
2006	160,905	18,885	3,883	154	12,662	163,091
2007	163,091	19,111	4,344	246	12,371	165,241

Principal Participating Employers

Fiscal years ended June 30

Participating Employer	Covered Employees (2007)	Rank (2007)	Percentage of Total System (2007)
State of Iowa Centralized Payroll	18,821	1	11.39
Des Moines Independent Community School District (CSD)	4,570	2	2.77
Cedar Rapids CSD	3,021	3	1.83
Iowa Department of Transportation	2,953	4	1.79
Davenport CSD	2,431	5	1.47
Dubuque CSD	1,912	6	1.16
Sioux City CSD	1,909	7	1.16
Iowa City CSD	1,740	8	1.05
Waterloo CSD	1,543	9	0.93
City of Des Moines	1,379	10	0.83
All other employers*	124,962		75.62
Total (2,293 employers)	**165,241**		**100.00**

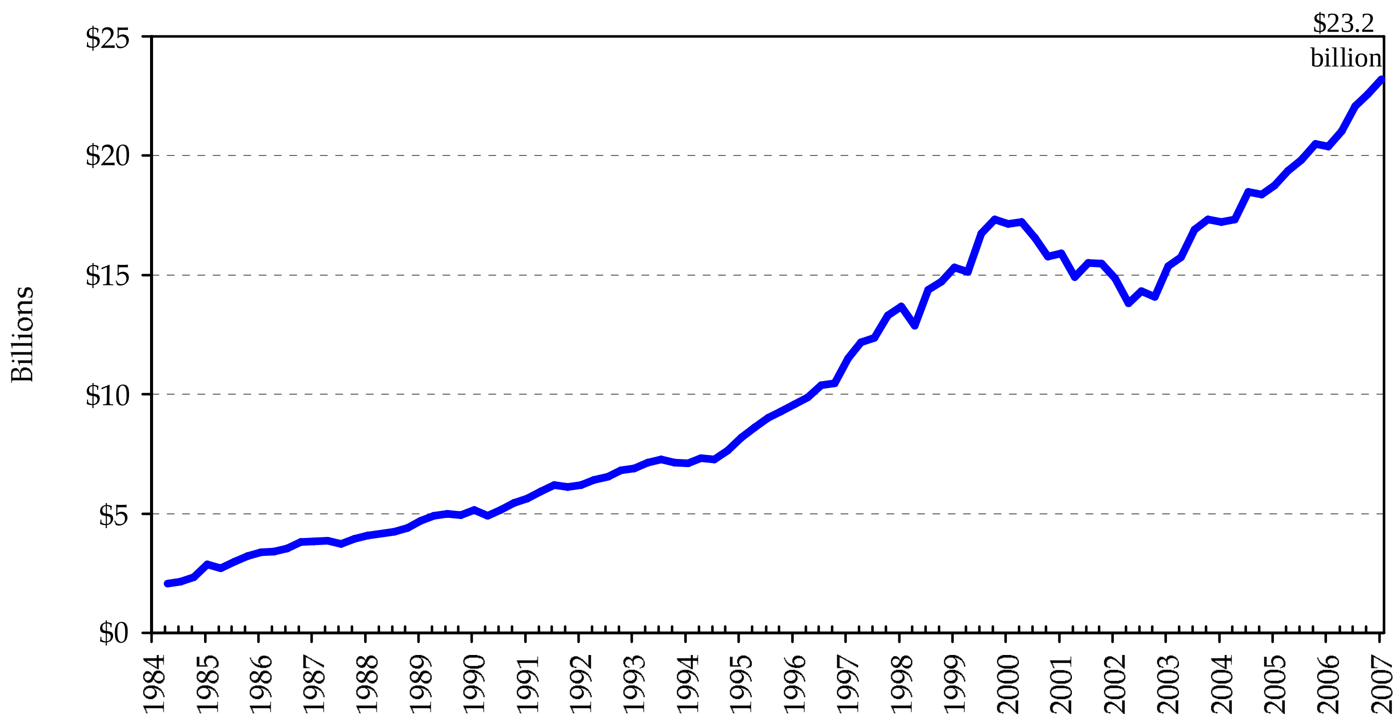
Participating Employer	Covered Employees (1998)	Rank (1998)	Percentage of Total System (1998)
State of Iowa Centralized Payroll	18,067	1	12.13
Des Moines Independent CSD	4,161	2	2.79
Iowa Department of Transportation	3,479	3	2.34
Cedar Rapids CSD	2,861	4	1.92
Davenport CSD	2,618	5	1.76
Sioux City CSD	1,971	6	1.32
Dubuque CSD	1,501	7	1.01
City of Des Moines	1,467	8	0.99
Waterloo CSD	1,405	9	0.94
West Des Moines CSD	1,340	10	0.90
All other employers	110,047		73.90
Total (2,376 employers)	**148,917**		**100.00**

*All other employers for FY2007:

Type	Number	Employees
City	1,197	22,637
County	423	25,611
School	392	68,367
State	23	3,302
28E Agencies	68	1,805
Utilities	134	1,689
Other	46	1,551
Total	**2,283**	**124,962**

Growth of Net Investment Portfolio Assets

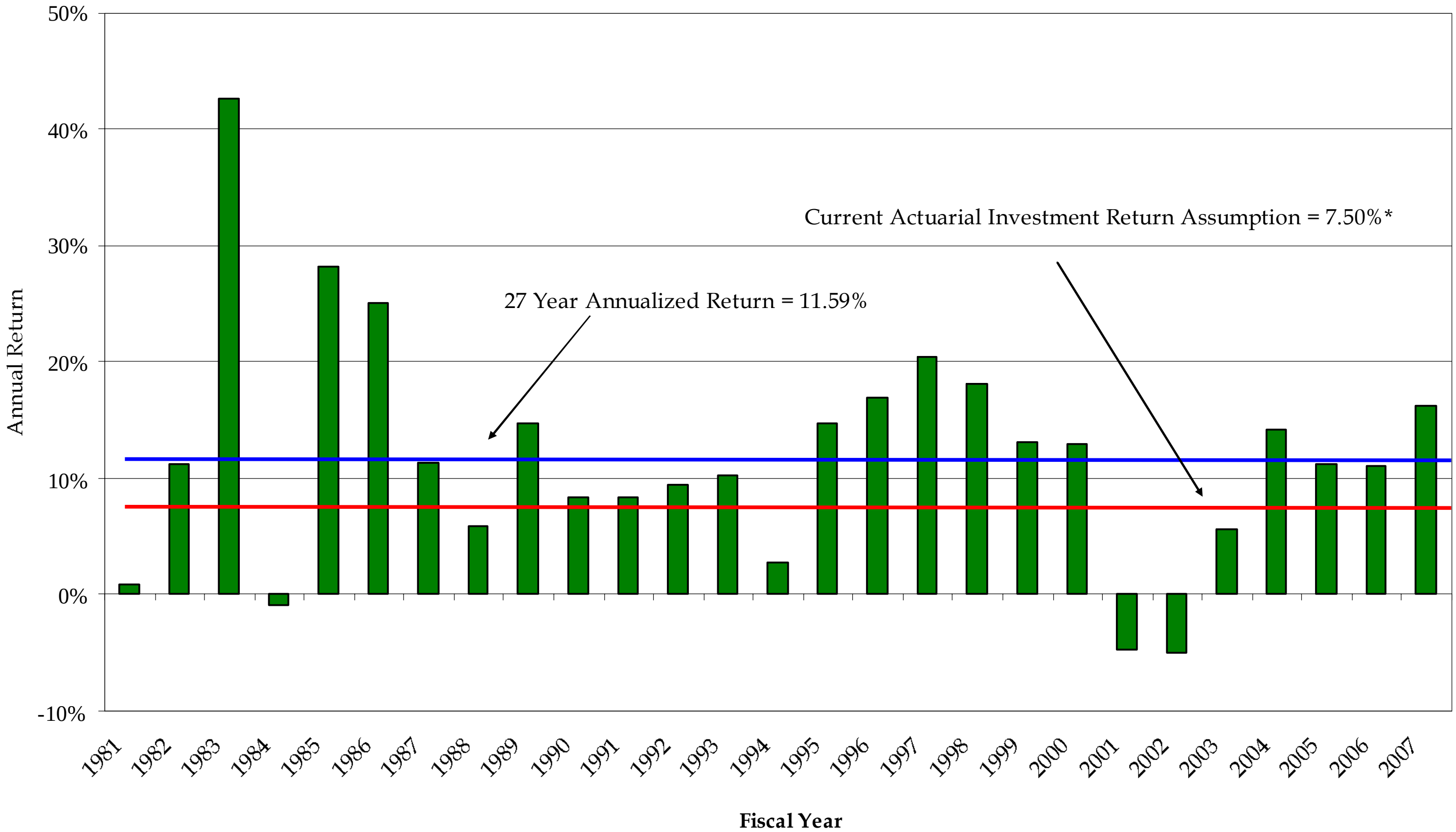
Fiscal years ended June 30



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

Investment Returns 1981–2007

Fiscal years ended June 30



*The actuarial investment return assumption was increased from 6.75 percent to 7.50 percent in FY1996.

ANNUALIZED RETURNS*

1-Year Return:	16.29%	10-Year Return:	9.03%
3-Year Return:	12.86%	15-Year Return:	10.31%
5-Year Return:	11.64%	20-Year Return:	10.07%

*For periods ending 6/30/07

IPERS

Composition

Membership

Buy-Backs/Buy-Ins

Contributions

Vesting

Refunds

Benefits

Distribution of IPERS Benefit Payments in Iowa Counties

Benefit Payments Summary

Distribution of IPERS Benefit Payments by State

Plan Summary

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM 2007

Composition

Membership

Fiscal years ended June 30

	2007	2006
Retired members		
All retired members	84,949	82,204
Average years of service	22	22
Average monthly benefit	$952	$903
Fiscal year member retirements	5,201	4,892
Average years of service	23	22
Average monthly benefit	$1,506	$1,328
Retired reemployed*	7,872	8,076
Active members	165,241	163,091
Inactive vested	30,047	29,522
Inactive nonvested	32,195	32,138
Total	**312,432**	**306,955**

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

Employers

Fiscal years ended June 30

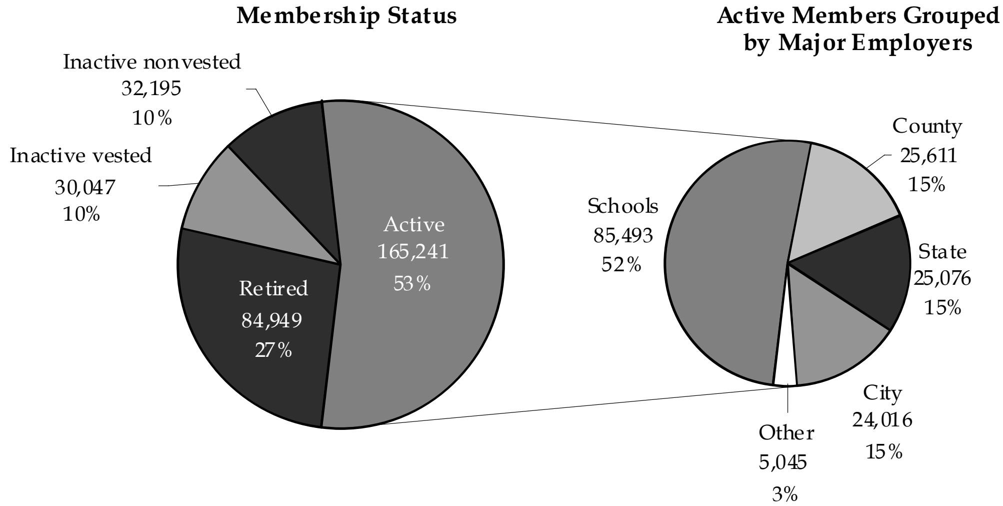
	2007		2006	
Employer Type	Number of Entities	Covered Wages	Number of Entities	Covered Wages
City	1,198	$ 740,142,679	1,252	$ 705,740,142
County	423	902,877,100	443	870,266,200
School	399	2,811,358,989	401	2,686,577,636
State	25	1,179,959,976	26	1,121,655,829
28E agencies	68	46,379,977	60	43,996,993
Utilities	134	67,918,027	135	64,583,808
Other	46	33,069,451	46	31,042,713
Total	**2,293**	**$5,781,706,199**	**2,363**	**$5,523,863,321**

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, 2007, there were 165,241 members actively contributing to the System employed by 2,293 public employers. The number of active members increased by 1.3 percent from June 30, 2006. The membership profile chart provides further information on the composition of the membership for fiscal year 2007.

Membership Profile
June 30, 2007



Buy-Backs/Buy-Ins

Under certain circumstances, members may restore (buy-back) previously refunded member service or may purchase (buy-in) IPERS service credit for employment elsewhere. The cost of purchasing service is determined by the System's actuary. There are federal limitations on how much service credit a member may purchase annually.

Contributions

IPERS accumulates the resources necessary to meet its responsibilities by collecting mandatory contributions from employees and employers and investing those funds. Contributions continue throughout covered employment. The majority of employers contributed at a rate of 5.75 percent and employees at a rate of 3.70 percent for FY2007. Certain employers and employees in Special Service occupations contribute at annually adjusted, actuarially determined rates. The table "Contribution Rates & Maximum Covered Wages" below reflects the contribution rates for employers and employees in effect during fiscal year 2007.

Contribution Rates & Maximum Covered Wages
Fiscal year 2007

IPERS	Employee Rate	Employer Rate	Total Rate	Maximum Covered Wages: Calendar Year
Regular membership	3.70%	5.75%	9.45%	2006: $220,000 2007: $225,000‡
Special Service group 1*	8.37%	8.37%	16.74%	2006: $220,000 2007: $225,000‡
Special Service group 2†	6.08%	9.12%	15.20%	

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

Vesting

A member who leaves covered employment after completing at least 4 years of covered service or has attained the age of 55 while making contributions to the plan has vested rights to IPERS benefits.

Refunds

An IPERS member who terminates public employment for any reason may request a full refund of the member's accumulated contributions. Vested members requesting a refund also receive a portion of their accumulated employer contributions. Acceptance of the refund automatically terminates IPERS membership and all claims to future benefits. Refunds paid in fiscal year 2007 totaled $38,116,271.

Benefits

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

- Attain age 55.
- Retire due to a disability and are receiving social security disability or railroad retirement disability benefits.

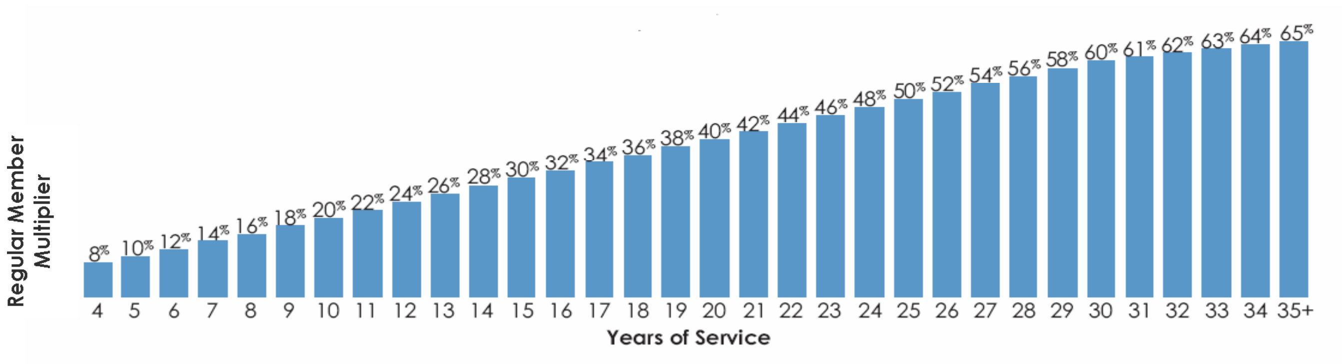
Members who are age 70 and still actively working for an IPERS-covered employer may apply to begin receiving IPERS retirement benefits while still employed.

Members are vested when they meet one of these conditions:

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

The formula used to calculate the IPERS benefit includes:

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



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

Normal retirement age for regular members is:

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

The monthly IPERS benefit check for all retirees at the end of the fiscal year averaged $952. For members retiring in fiscal year 2007, the average benefit was $1,506. The average member retired with approximately 23 years of service.

Benefit Options

Upon retirement, an IPERS member may choose from six benefit options. Each of the six options provides a lifetime benefit for the IPERS member. The amount of the member's benefits and the amount and availability of 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 increments 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. This amount is subject to restriction if the contingent annuitant is not the member's spouse and is more than ten years younger than the member.

OPTION 5. A member receives a lifetime benefit with a ten-year guarantee. If the member dies before ten full years 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 should die before the ten years expire, the beneficiary's estate will receive a commuted lump-sum settlement. If the member designates more than one beneficiary, payments will be made in a lump sum only. Members who have attained age 90 as of the first month of entitlement are not allowed to select this option.

OPTION 6. The member receives a reduced monthly benefit so that a lifetime monthly benefit may be provided after the member's death to the person named by the member as the contingent annuitant. In addition, the monthly amounts are reduced to pay for a pop-up feature. The pop-up feature provides that if the contingent annuitant dies before the member, the member's benefit will pop back up to what it would have been under IPERS Option 2, and death benefits may be payable to the member's designated beneficiary if certain conditions are met.

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Retired Membership by Benefit Option As of June 30, 2007						
	Number	Percent			Number	Percent
Option 1	26,427	31		Option 5	10,584	13
Option 2	17,487	21		Option 6 (100%)	2,948	3
Option 3	10,306	12		Option 6 (75%)	984	1
Option 4 (100%)	9,309	11		Option 6 (50%)	1,258	2
Option 4 (75%)	1,173	1		Option 6 (25%)	865	1
Option 4 (50%)	2,565	3		Misc. options	39	Less than 1
Option 4 (25%)	1,004	1		**Total all options**	**84,949**	

Dividend Payments

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, certain lump-sum dividend payments are authorized. For retirees who began receiving benefits prior to July 1990, a guaranteed dividend is included with a member's regular November benefit payment. Post-June 1990 retirees may receive a Favorable Experience Dividend (FED) with their January benefit payment. The FED payment is based upon the actuarial soundness of the System along with the retiree's annual benefit and number of years retired. FED payments are not guaranteed. The November 2006 dividends totaled $15,231,083 and the January 2007 FEDs totaled $51,378,132.

Death Benefits

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

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

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

*The denominator is 22 for all Special Service occupations.

If the member's designated beneficiary is a sole individual, the beneficiary will be offered the choice between receiving a lump sum or a lifetime annuity.

B. Postretirement Death Benefits—If an IPERS member dies after retirement, payment is made to the beneficiary according to the option selected by the member at the time of retirement.

C. For fiscal year 2007, death benefits paid to beneficiaries or to the estates of deceased nonretired and retired members totaled $20,564,065.

Distribution of IPERS Benefit Payments in Iowa Counties*

In fiscal year 2007

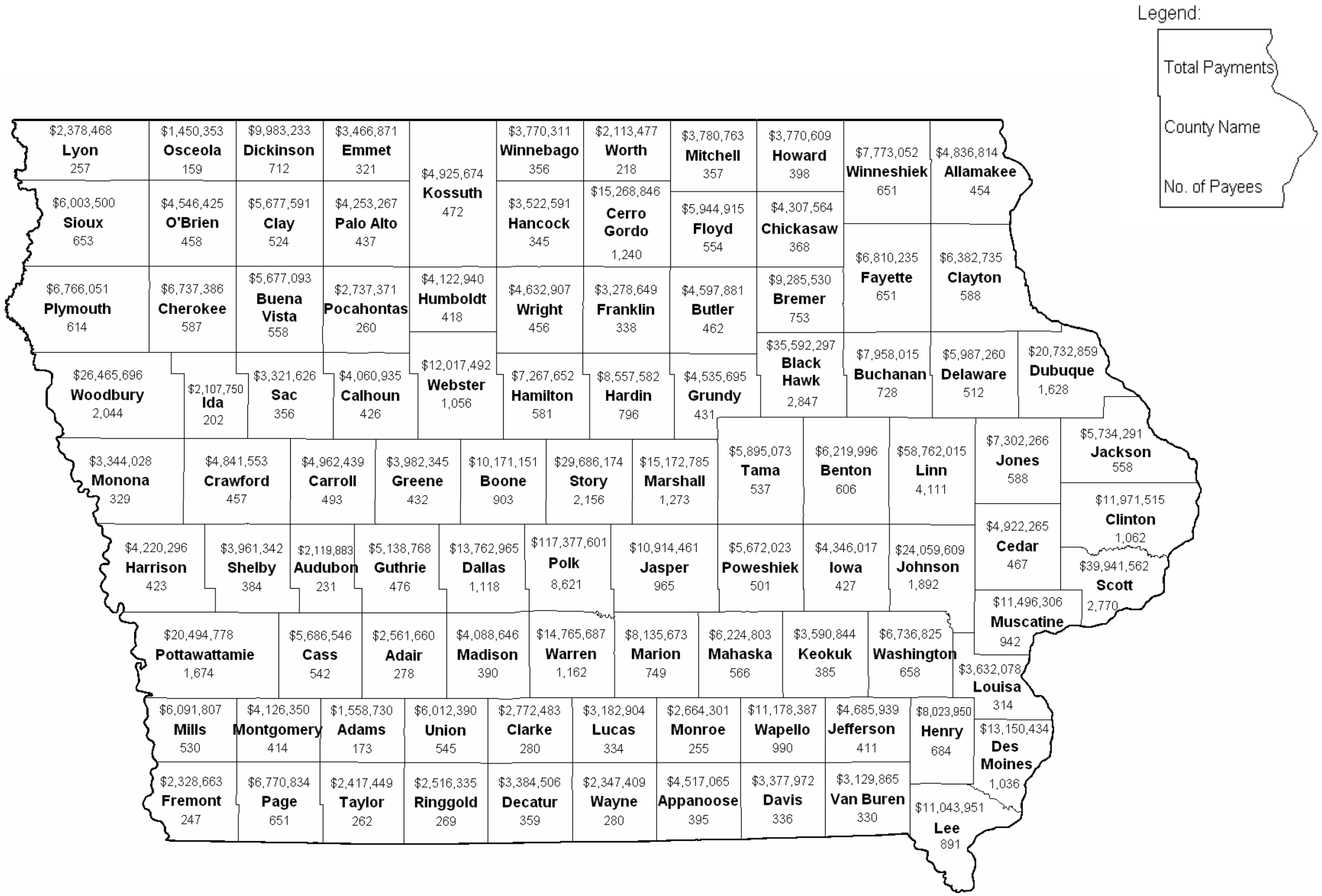
County	Amount	Annual Average	Payees	County	Amount	Annual Average	Payees
Adair	$ 2,561,660	$ 9,215	278	Jefferson	$ 4,685,939	$11,401	411
Adams	1,558,730	9,010	173	Johnson	24,059,609	12,716	1,892
Allamakee	4,836,814	10,654	454	Jones	7,302,266	12,419	588
Appanoose	4,517,065	11,436	395	Keokuk	3,590,844	9,327	385
Audubon	2,119,883	9,177	231	Kossuth	4,925,674	10,436	472
Benton	6,219,996	10,264	606	Lee	11,043,951	12,395	891
Black Hawk	35,592,297	12,502	2,847	Linn	58,762,015	14,294	4,111
Boone	10,171,151	11,264	903	Louisa	3,632,078	11,567	314
Bremer	9,285,530	12,331	753	Lucas	3,182,904	9,530	334
Buchanan	7,958,015	10,931	728	Lyon	2,378,468	9,255	257
Buena Vista	5,677,093	10,174	558	Madison	4,088,646	10,484	390
Butler	4,597,881	9,952	462	Mahaska	6,224,803	10,998	566
Calhoun	4,060,935	9,533	426	Marion	8,135,673	10,862	749
Carroll	4,962,439	10,066	493	Marshall	15,172,785	11,919	1,273
Cass	5,686,546	10,492	542	Mills	6,091,807	11,494	530
Cedar	4,922,265	10,540	467	Mitchell	3,780,763	10,590	357
Cerro Gordo	15,268,846	12,314	1,240	Monona	3,344,028	10,164	329
Cherokee	6,737,386	11,478	587	Monroe	2,664,301	10,448	255
Chickasaw	4,307,564	11,705	368	Montgomery	4,126,350	9,967	414
Clarke	2,772,483	9,902	280	Muscatine	11,496,306	12,204	942
Clay	5,677,591	10,835	524	O'Brien	4,546,425	9,927	458
Clayton	6,382,735	10,855	588	Osceola	1,450,353	9,122	159
Clinton	11,971,515	11,273	1,062	Page	6,770,834	10,401	651
Crawford	4,841,553	10,594	457	Palo Alto	4,253,267	9,733	437
Dallas	13,762,965	12,310	1,118	Plymouth	6,766,051	11,020	614
Davis	3,377,972	10,053	336	Pocahontas	2,737,371	10,528	260
Decatur	3,384,506	9,428	359	Polk	117,377,601	13,615	8,621
Delaware	5,987,260	11,694	512	Pottawattamie	20,494,778	12,243	1,674
Des Moines	13,150,434	12,693	1,036	Poweshiek	5,672,023	11,321	501
Dickinson	9,983,233	14,021	712	Ringgold	2,516,335	9,354	269
Dubuque	20,732,859	12,735	1,628	Sac	3,321,626	9,330	356
Emmet	3,466,871	10,800	321	Scott	39,941,562	14,419	2,770
Fayette	6,810,235	10,461	651	Shelby	3,961,342	10,316	384
Floyd	5,944,915	10,731	554	Sioux	6,003,500	9,194	653
Franklin	3,278,649	9,700	338	Story	29,686,174	13,769	2,156
Fremont	2,328,663	9,428	247	Tama	5,895,073	10,978	537
Greene	3,982,345	9,218	432	Taylor	2,417,449	9,227	262
Grundy	4,535,695	10,524	431	Union	6,012,390	11,032	545
Guthrie	5,138,768	10,796	476	Van Buren	3,129,865	9,484	330
Hamilton	7,267,652	12,509	581	Wapello	11,178,387	11,291	990
Hancock	3,522,591	10,210	345	Warren	14,765,687	12,707	1,162
Hardin	8,557,582	10,751	796	Washington	6,736,825	10,238	658
Harrison	4,220,296	9,977	423	Wayne	2,347,409	8,384	280
Henry	8,023,950	11,731	684	Webster	12,017,492	11,380	1,056
Howard	3,770,609	9,474	398	Winnebago	3,770,311	10,591	356
Humboldt	4,122,940	9,863	418	Winneshiek	7,773,052	11,940	651
Ida	2,107,750	10,434	202	Woodbury	26,465,696	12,948	2,044
Iowa	4,346,017	10,178	427	Worth	2,113,477	9,695	218
Jackson	5,734,291	10,277	558	Wright	4,632,907	10,160	456
Jasper	10,914,461	11,310	965				

Total Iowa Benefit Payments: $894,585,954

*Payments determined by zip code.

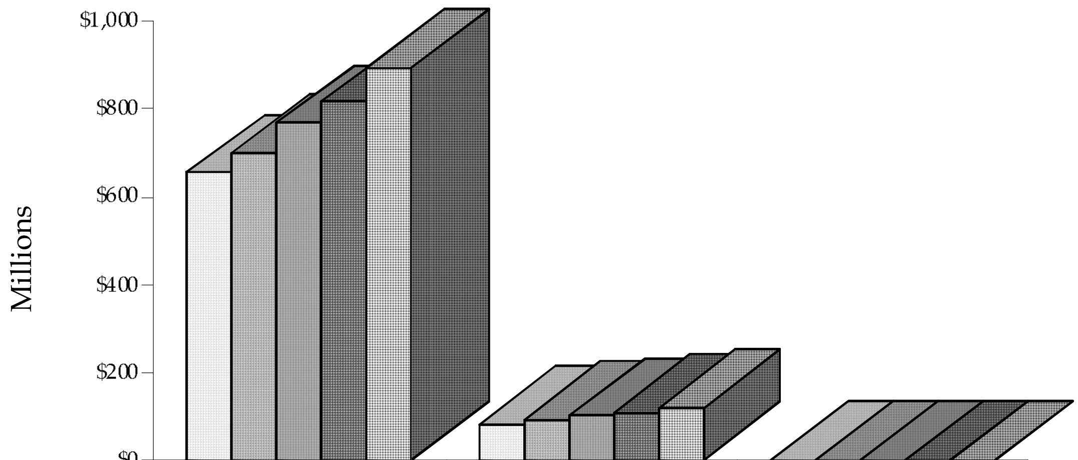
Distribution of IPERS Benefit Payments in Iowa Counties

In fiscal year 2007



Benefit Payments Summary

Fiscal years ended June 30



	$ to Iowa	$ to Other States	$ to Foreign Countries
2003	$655,003,070	$81,206,950	$120,858
2004	$702,196,119	$90,518,128	$152,526
2005	$768,041,811	$100,348,022	$167,763
2006	$816,238,695	$107,935,285	$204,336
2007	$894,585,954	$119,150,133	$236,900

Distribution of IPERS Benefit Payments by State

In fiscal year 2007

Total retirees and beneficiaries in continental states other than Iowa: 11,429

Recipients outside the continental U.S.:

Alaska: 15	Canada: 6	Great Britain: 2	Norway: 1
Hawaii: 15	China: 1	Greece: 1	Philippines: 2
Armed Forces Europe: 8	Czech Republic: 1	Latvia: 1	South Korea: 1
Argentina: 1	Denmark: 1	Lebanon: 1	Sweden: 1
Australia: 4	France: 2	Mexico: 4	
Austria: 1	Germany: 1	Northern Mariana Islands: 1	

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David A. Vaudt, CPA
Auditor of State

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 the financial statements of the Iowa Public Employees' Retirement System (IPERS) as of and for the year ended June 30, 2007, and have issued our report thereon dated November 30, 2007 under separate cover. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered IPERS' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of IPERS' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of IPERS' internal control over financial reporting.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects IPERS' ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of IPERS' financial statements that is more than inconsequential will not be prevented or detected by IPERS' internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by IPERS' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted a matter related to benefits administration system general controls which we reported to management of IPERS in a separate report dated May 29, 2007.

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, non-compliance 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 non-compliance or other matters that are required to be reported under Government Auditing Standards.

This report, a public record by law, is intended solely for the information and use of the officials and employees of IPERS, citizens of the State of Iowa and other parties to whom IPERS may report. This report is not intended to be and should not be used by anyone other than these specified parties.

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.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

December 27, 2007