

A Division of the Iowa Department of Personnel, State of Iowa



**I O W A**  
**P U B L I C**  
**E M P L O Y E E S '**  
**R E T I R E M E N T**  
**S Y S T E M**

**Comprehensive Annual Financial Report  
A Pension Trust Fund of the State of Iowa  
For the Year Ended June 30, 1999**

# **Iowa Public Employees' Retirement System**

**A Division of the Iowa Department of Personnel, State of Iowa**

**Comprehensive Annual Financial Report  
A Pension Trust Fund of the State of Iowa  
For the Year Ended June 30, 1999**

Prepared By:  
**Iowa Public Employees' Retirement  
System**

Mollie K. Anderson, Director  
Iowa Department of Personnel

## For More Information

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8:00 A.M. - 4:30 P.M.  
Monday through Friday

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## Fiscal Year 1999 Highlights:

### Membership:

Active Membership	152,991
Retired Membership	64,275

### Contributions:

Employee	\$ 163,288,710
Employer	244,933,066
Buy-backs/Buy-ins	19,169,871

### Distributions:

Benefits Paid	\$ 466,752,949
Refunds Paid	14,442,111

### Investments:

Net Investment Income	\$ 1,691,099,599
Investment Rate of Return	13.2%

### Funding:

Net Assets Held In Trust for Pension Benefits	\$15,325,576,009
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Actuarial Present Value of Total Projected Benefits <u>or</u> Total Liabilities	\$16,315,525,420
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# Introduction

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Certificate of Achievement

Letter of Transmittal

Investment Board

Administration

Consulting and Professional Services

Investment Managers

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Iowa Public Employees' Retirement System

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 1998

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.



*Cary Bruebach*  
President

*Jeffrey L. Essler*  
Executive Director

December 15, 1999

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

We are pleased to present the 46th comprehensive annual financial report of the Iowa Public Employees' Retirement System (IPERS or System) for the fiscal year ended June 30, 1999. This report is intended to provide readers with financial, actuarial, investment, and membership information in a single publication. This report also fulfills the requirements in Iowa Code sections 97B.4 and 97B.57.

This transmittal letter provides a brief overview of the status of the System. A more thorough discussion of the System's activities and financial status is presented in the following sections of this report. The report is divided into six sections:

- The Introduction contains the Certificate of Achievement, this transmittal letter, and identification of the Investment Board, administrative staff, consultants, and investment managers;
- The Financial section contains a letter expressing the opinion of our independent auditor, the Auditor of State, and the financial statements of the System;
- The Actuarial section contains a letter expressing the opinion of our actuarial firm, Milliman & Robertson, Inc., and the results of its annual actuarial valuation;
- The Investments section includes information on the Fund's asset allocation and performance and the Investment Policy and Goal Statement;
- The Statistical section includes historical information on the System's assets, membership, and financial and investment results; and
- The Plan Summary contains significant data pertaining to the System's membership and an overview of the retirement program.

**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. Prior to enactment of the 1953 legislation, public employees were not covered under Social Security.



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

### **Member Services:**

For most members, the IPERS benefits they receive will constitute only a portion of their retirement income. IPERS benefits are designed so that, when they are combined with a member's Social Security benefits and individual savings, the member will enjoy an adequate retirement income. Because a member's retirement income is derived from three separate sources, the need for financial planning actually begins years before retirement. Over the years, IPERS has become better aware of our members' need for additional assistance in their retirement planning.

The most important service that IPERS provides to our retirees is the accurate and timely payment of benefits. At fiscal year end, IPERS provided monthly payments to over 64,000 members. More than 78% of these payments were paid via electronic funds transfer (EFT), which ensures that the monthly benefit is in the recipient's account on the day that it is payable. Since 1992, EFT has been IPERS' preferred method of distribution.

During the year, IPERS' benefits staff prepared over 66,000 benefit estimates, fielded over 98,000 phone calls and provided on-site preretirement counseling to 4,300 members. The staff also provided multiple off-site retirement seminars for members, mostly at employer locations around the state, reaching over 5,300 members. Over 3,500 individual preretirement counseling sessions were held at those off-site visits as well.

The ability to purchase membership service is an area of continuing importance to our members. The number of new buy-back/buy-in applications received in fiscal year 1999 has risen to over 4,700, with over 4,500 members deciding to purchase service credit.

The System also provides a number of publications which are aimed at meeting the informational needs of members, retirees, and employers. The System provides a handbook, *Retirement Planning Guidelines*, to members to explain the retirement program. The *Employer Handbook* is a comprehensive resource on IPERS' procedures and reporting requirements for covered employers. In addition, employers are informed of current events through a quarterly newsletter, *The Latest Word*. IPERS also publishes a biannual newsletter for its retirees, *Pensioners' Post*, and a biannual newsletter, *Inside IPERS*, for active members. The newsletters are intended to keep members and retirees apprised of developments that affect them, their benefits, and IPERS.

### **Benefit Improvements:**

Fiscal year 1998 saw the enactment of several major plan enhancements. Some of the more notable changes included:

- Adding a favorable experience dividend of up to 3% of their annual benefits times years retired for members who retire after June 30, 1990, provided that IPERS can afford the distribution. While an annual dividend is not guaranteed, IPERS' creation of a reserve fund with an initial funding of an estimated five years' worth of dividend payments is intended to allow for distributions most years; and
- Increasing benefits for the longest-retired.

During fiscal year 1999, IPERS experienced the impact from these benefit enhancements:

- Favorable Experience Dividends (FED) totaling \$12,152,683 were paid to 27,210 retirees and 629 beneficiaries of deceased members; and
- The benefit increases for the longest-retired totaled \$15,770,550 and were paid to 33,254 retirees.

### **Major Initiatives:**

In 1998, the General Assembly directed IPERS to perform several studies, including:

- Whether IPERS special risk occupations (e.g., law enforcement, fire safety, and protection occupations), Peace Officer Retirement System (POR), and Municipal Fire and Police Retirement System of Iowa (MFPRSI) should achieve benefit parity, including benefits structure, disability benefits, efficiency of administrative functions, contribution rates, member service, and consideration of the establishment of a uniform actuarial reporting method;
- Whether adjunct instructors and substitute teachers should become members; and
- Whether a benefits advisory board should be established.

During fiscal year 1999, the studies were conducted. The results of the studies are as follows:

- A report entitled *Comprehensive Examination of Benefit Programs and Related Issues Pertaining to Public Safety Classifications Within IPERS, POR, and MFPRSI* was presented to the General Assembly with various recommendations. Highlights that impact IPERS members include:
  - Provide the opportunity for comparable benefits
    - Provide enhanced disability coverage for members of both public safety classifications within IPERS;

- Equalize the number of years required to establish the 60 percent benefit formula among all the affected groups by reducing the number of years required for IPERS protection occupation members to receive 60 percent to 22 years;
  - Provide credit for at least 30 years of service with the same 1.5 percent credit applied for each additional year of service over 22 years of service (IPERS protection occupation members);
  - Establish a fixed contribution rate structure for both IPERS public safety classifications; and
  - Improve both preretirement and postretirement death benefits for both IPERS public safety classifications.
- Combine the two special service groups within IPERS into a single group
  - Conduct and report a separate actuarial valuation of the liabilities of the special service groups
- A report entitled *Report to the General Assembly on Whether or Not Persons Employed by Community Colleges as Adjunct Instructors Should be Eligible for IPERS' Coverage* was prepared and later presented to the General Assembly. The report recommended that only adjunct instructors who have IPERS accounts should receive coverage for their adjunct instructor positions.
  - A report entitled *Report to the General Assembly Regarding the Establishment of an IPERS' Benefits Advisory Board* was presented to the General Assembly which recommended against the establishment of a benefits advisory board.

IPERS submitted its plan to the Internal Revenue Service to seek a new determination of qualified status. We are pleased to announce that we received a favorable determination letter, ensuring that our plan meets the requirements for qualified plans under the Internal Revenue Code.

### **Financial Highlights:**

#### **Total Fund Investment Results**

Sound investment planning has resulted in the steady growth of the Trust Fund. At the close of fiscal year 1999, IPERS' net assets had a market value of \$15,325,576,009. The change in market value represents an increase of \$1,632,676,177 from the \$13,692,899,832 net asset market value as of June 30, 1998. The total return on investment for the fiscal year ended June 30, 1999 was 13.2%. The total return on investments for the ten-year period ending June 30, 1999 was 12.2%. While benefiting from the strong capital market performance of the most recent year and decade, it should be anticipated that the performance of institutional funds, including IPERS, may not be sustainable at such high levels in the future. Nonetheless, it is expected that the System's diversified investment strategy will, over time, provide performance which meets or exceeds the System's actuarial liabilities.

## Revenues

The System is funded through a combination of member contributions, employer contributions, and investment income. In general, total contributions are 9.45% of employees' covered wages. Most employers contribute at a rate of 5.75% and most employees at a rate of 3.7%. Employees engaged in certain special risk occupations (e.g., law enforcement, fire safety, and protection occupations) contribute at a slightly higher rate as required by statute, as do their employers. Revenues from employer and employee contributions, excluding buy-back/buy-in contributions, totaled \$408,221,776 for fiscal year 1999, an 8% increase from the prior fiscal year. Buy-back/buy-in contributions for the year amounted to \$19,169,871, a 153% increase from the prior year. Net investment income for fiscal year 1999 was \$1,691,099,599, a decrease of \$511,743,091 from the prior year. Investment income represents approximately 80% of the total revenues of the fund.

<b>Revenues (\$ millions)</b>			
<b>Source</b>	<b>1999</b>	<b>1998</b>	<b>% Change</b>
Employee Contributions	\$ 163.3	\$ 151.8	8
Employer Contributions	244.9	227.8	8
Buy-backs/Buy-ins	19.2	7.6	153
<u>Net Investment Income</u>	<u>1,691.1</u>	<u>2,202.8</u>	<u>&lt;23&gt;</u>
<b>Total</b>	<b>\$2,118.5</b>	<b>\$2,590.0</b>	<b>&lt;18&gt;</b>

## Expenses

Expenses are incurred primarily for the purpose for which IPERS was created, namely the payment of benefits to retirees. Included in the total expenses for the fiscal year were benefit payments and refunds to members totaling \$481,195,060. This amount increased 13% from the prior fiscal year and represented 99% of the total fund expenditures. During the year, the total number of members receiving monthly benefits was 64,275, a net increase of 2,169. The average monthly retirement benefit, including the November dividend payment, increased to \$609.

<b>Expenses (\$ millions)</b>			
<b>Type</b>	<b>1999</b>	<b>1998</b>	<b>% Change</b>
Benefits	\$466.8	\$402.5	16
Refunds	14.4	24.6	<41>
<u>Administrative</u>	<u>4.6</u>	<u>4.0</u>	<u>15</u>
<b>Total</b>	<b>\$485.8</b>	<b>\$431.1</b>	<b>13</b>

All administrative expenses for the System are paid for from the IPERS Trust Fund. The administrative budget is submitted to the Legislature annually for formal approval. Those administrative expenses totaled \$4,620,009 for fiscal year 1999, a 15% increase from last year.

The System retains several consultants and investment managers to assist the Investment Board and Administration in carrying out their fiduciary duties by providing advice to the System and investing the System's assets. For the fiscal year, IPERS expended \$29,395,358 for these services, a 45% increase from last year. The increase is attributable to the payment of performance fees to investment managers who exceeded their investment performance objectives during the fiscal year. While allowing IPERS' investment managers to share in the financial

gains from their outperformance, which motivates them to perform well, IPERS retains the great majority of such gains.

In addition to the appropriations process described above for administrative expenses, state law limits the amount which can be expended annually for investment management expenses to .4 of 1% of the total fund's assets at market. For fiscal year 1999, the System expended .19 of 1% of total fund assets for investment management functions, well below the maximum allowed.

### **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 funding status, but even this has its limitations. The actuarial valuation for funding purposes at June 30, 1999 reflects an unfunded liability of \$389,624,316. This represents the difference between the actuarial accrued liability of \$13,053,655,753 and the actuarial value of net assets of \$12,664,031,437. During the fiscal year, the unfunded actuarial accrued liability decreased by \$164,921,959 from the preceding fiscal year's ending balance, primarily due to a higher-than-projected investment return on the System's assets. However, the actuary's review of economic and demographic assumptions used in IPERS' valuation process resulted in revision of several assumptions, an increase in the proportion of contributions needed to fund current liabilities, and an increase in the amortization period of the unfunded liability from 8 to 20 years.

### **Future Prospects:**

IPERS is maintained on an actuarially sound basis as certified by its actuary, thus providing protected future benefits for its members. It is expected that the investment earnings of the System's assets will continue to meet or exceed the actuarially assumed earnings rate. The System's goal is to maintain its actuarially sound status without increasing the required contribution rates paid by covered employers and employees.

IPERS' employees are dedicated to the prudent investment and safeguarding of the System's assets and providing the highest possible level of service to members and retirees. These are and will remain our first priorities.

### **Accounting System and Internal Control:**

The financial statements included in this report are the responsibility of IPERS management and have been prepared in accordance with 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 management is also responsible for maintaining an internal accounting control system designed to provide reasonable assurance that transactions are executed in accordance with management'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 generally accepted accounting principles.

### **Independent Audit:**

The Auditor of State is required by Iowa Code chapter 11 (1999) 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 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 the Iowa Public Employees' Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 1998. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

**Acknowledgments:**

The preparation of this report is the result of the combined effort of the System's staff. It is intended to provide complete and accurate information concerning the activities and results of the System's operations. This report is being provided to the Governor and to covered employers. Copies are available to members and other interested persons upon request.

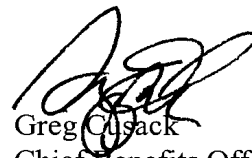
Sincerely,



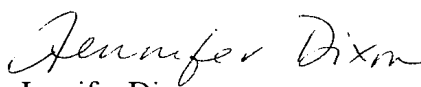
Mollie K. Anderson, Director  
Iowa Department of Personnel



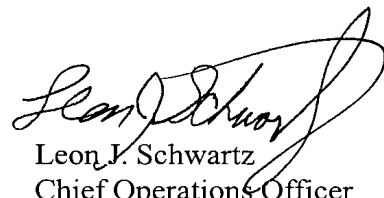
Kathy S. Comito  
Chief Investment Officer



Greg Cusack  
Chief Benefits Officer



Jennifer Dixon  
General Counsel



Leon J. Schwartz  
Chief Operations Officer

## IPERS INVESTMENT BOARD



Standing left to right: Dr. Sheila M. Riggs; Michael A. Logan; Bruce G. Kelly;  
Kimberly K. Reynolds; Thomas D. Whitson; Janet L. Adams.

Seated left to right: Mollie K. Anderson, Director; Senator John P. Kibble; and  
Representative Mona L. Martin

## Investment Board

The Investment Board of IPERS was created by state statute to oversee the investment activity of the System. The Board's role is to establish and approve policy relating to the investment of the Trust Fund assets. The Investment Board holds public meetings regularly to review investment performance and to formalize investment policy with the Administration.

Six of the Board members are appointed by the Governor and must by statute include:

- One retired member of the System;
- One active member who is an employee of a school district, area education agency, or merged area school;
- One active member who is not an employee of a school;
- One executive of a domestic life insurance company;
- One executive of a state or national bank operating within the State; and
- One executive of an industrial corporation located within the State.

The Director of the Iowa Department of Personnel serves as an ex officio, nonvoting member. The two remaining members are from the State Legislature. The President of the Senate appoints a member of the Senate and the Speaker of the House appoints a member of the House. The term for a Board member appointed by the Governor is six years.

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## IPERS Investment Board

**Bruce G. Kelly**

EMC Insurance Companies, Des Moines  
Term Expires 2001  
*Chairperson*

**Senator John P. Kibbie**

State Senator, Emmetsburg  
*Vice Chairperson*

**Representative Mona L. Martin**

State Representative, Davenport

**Kimberly K. Reynolds**

Clarke County Treasurer, Osceola  
Term Expires 2001

**Michael A. Logan**

Retired Teacher, Coralville  
Term Expires 2004

**Janet L. Adams**

Teacher, Webster City  
Term Expires 2005

**Thomas D. Whitson**

Peoples National Bank, Council Bluffs  
Term Expires 2003

**Dr. Sheila M. Riggs**

Wellmark, Des Moines  
Term Expires 2005

**Mollie K. Anderson**

Director, Iowa Department of Personnel, Des Moines  
(ex officio, nonvoting member)



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## **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 the following:

- Providing counseling services and retirement information to active and retired members;
- Providing retirement and death benefits to members and beneficiaries of the System;
- Providing refunds to members, which may be placed in other retirement vehicles;
- Administering the benefits of the Iowa Old-Age and Survivors' Insurance System;
- Administering the Teacher's Retirement Allowance Law;
- Collecting employer and employee contributions in accordance with state law and IPERS' administrative rules; and
- Overseeing the investment of the System's funds in accordance with the Investment Policy and Goal Statement adopted by the Investment Board.

During fiscal year 1999, the Iowa Department of Personnel, of which IPERS is a division, welcomed a new director, Mollie K. Anderson. We extend our gratitude to our former director, Linda G. Hanson, for her dedicated service and stewardship of the IPERS fund.

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### **Iowa Department of Personnel IPERS Division**

**Mollie K. Anderson** - Director

### **Investment Policy and Administration**

**Kathy S. Comito** - Chief Investment Officer

### **Membership and Benefit Administration**

**Greg Cusack** - Chief Benefits Officer

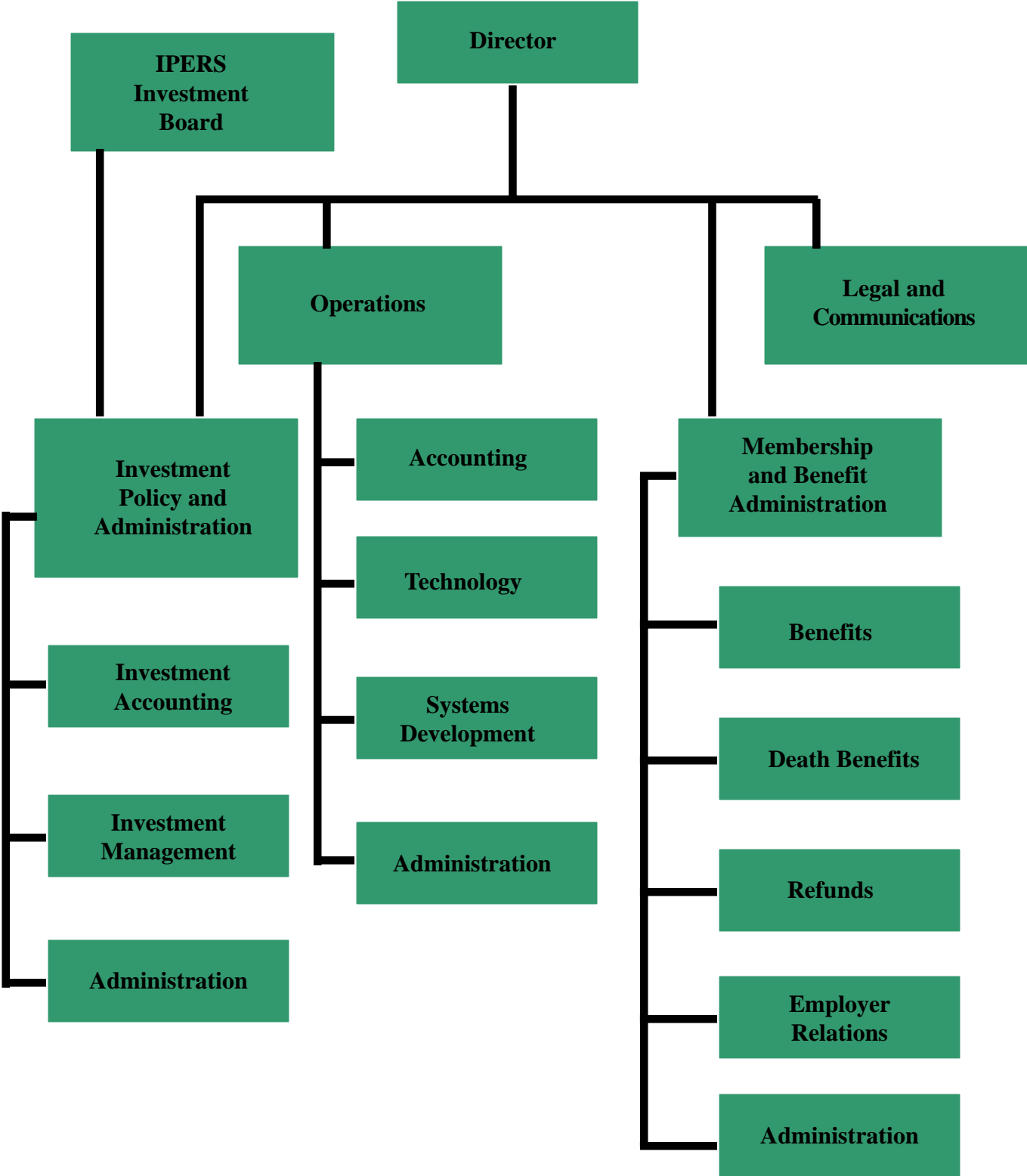
### **Operations**

**Leon J. Schwartz** - Chief Operations Officer

### **Legal & Communications**

**Jennifer Dixon** - General Counsel

# Iowa Department of Personnel IPERS Division



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## Consulting and Professional Services

To assist the Investment Board and Administration in carrying out their fiduciary duties, the System has hired an actuarial firm, legal counsel, master custodian, and two investment consulting firms.

The actuarial firm chosen by the System is responsible for:

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

The legal counsel chosen by the System is responsible for:

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

The master custodian for the fund 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 the System; and
- Providing periodic reports summarizing the investment activity of the System's assets.

The investment consulting firms chosen by the System are responsible for:

- Preparing asset allocation studies for the System;
- Reviewing periodically the performance of the Fund;
- Assisting in the screening and selection of investment managers; and
- Providing support in the development and refinement of the System's Investment Goals and Objectives.

### **ACTUARY**

Milliman & Robertson, Inc. - Omaha, NE

### **LEGAL COUNSEL**

Ice Miller Donadio & Ryan - Indianapolis, IN

### **MASTER CUSTODIAN**

Mellon Trust Company - Boston, MA

### **INVESTMENT CONSULTANTS**

Wilshire Associates Inc. - Los Angeles, CA  
(General)

The Townsend Group - Cleveland, OH  
(Real Estate)

## Investment Managers

The Investment Board and Administration have selected a variety of investment management firms to carry out the investment activity 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; and
- Reporting periodically to the Administration and Investment Board on matters such as performance, market conditions, and compliance with their contracts.

### **DOMESTIC EQUITY**

Dresdner RCM Capital Management  
San Francisco, CA

J. P. Morgan Investment Mgmt., Inc.  
New York, NY

Mellon Capital Management  
San Francisco, CA

Wellington Trust Company, N.A.  
Boston, MA

### **INTERNATIONAL EQUITY**

Barclays Global Investors  
San Francisco, CA

Brandywine Asset Management  
Wilmington, DE

Clay Finlay, Inc.  
New York, NY

Nomura Capital Management, Inc.  
New York, NY

Schroder Capital Mgmt. International  
London, England

### **TACTICAL**

Baring International Investment Ltd.  
Boston, MA

Mellon Capital Management  
San Francisco, CA

### **PRIVATE EQUITY/DEBT**

Pathway Capital Management  
Los Angeles, CA

Warburg, Pincus Counsellors, Inc.  
New York, NY

### **GLOBAL FIXED INCOME**

Barclays Global Investors  
San Francisco, CA

Heitman Capital Management  
Chicago, IL

J. P. Morgan Investment Mgmt., Inc.  
New York, NY

Loomis, Sayles & Company  
Boston, MA

Mellon Capital Management  
San Francisco, CA

Miller, Anderson & Sherrerd  
West Conshohocken, PA

Morgan Grenfell Asset Management  
London, England

Oaktree Capital Management  
Los Angeles, CA

TCW Global Advisors  
Los Angeles, CA

### **REAL ESTATE**

AEW Capital Management  
Boston, MA

Allegis Realty Investors LLC  
Hartford, CT

Heitman Capital Management  
Chicago, IL

INVESCO Realty Advisors  
Dallas, TX

RREEF America LLC  
Chicago, IL

TA Realty Corporation  
Boston, MA

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# Financial

Independent Auditor's Report

Statement of Plan Net Assets

Statement of Changes in Plan  
Net Assets

Notes to the Financial Statements

Supplementary Information



**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

Richard D. Johnson, CPA  
Auditor of State

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

Independent Auditor's Report

To Mollie K. Anderson, Director of the Iowa Department of Personnel:

We have audited the accompanying statement of plan net assets of the Iowa Public Employees' Retirement System (IPERS) as of June 30, 1999 and 1998, 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 audit.

We conducted our audits in accordance with generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit 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 financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of IPERS are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State of Iowa that is attributable to the transactions of IPERS.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of IPERS at June 30, 1999 and 1998, and the changes in plan net assets for the years then ended, in conformity with generally accepted accounting principles.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 1997 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplemental information included in Schedules 1 through 5, 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 actuarial, investments, statistical and plan summary sections and, accordingly, express no opinion thereon.

The report on IPERS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts in accordance with Government Auditing Standards will be issued under separate cover,

  
Richard D. Johnson, CPA  
Auditor of State

December 7, 1999

**Iowa Public Employees' Retirement System**  
**Statement of Plan Net Assets**  
**June 30, 1999 and 1998**

Exhibit A

	1999	1998
<b>Assets:</b>		
Cash and cash equivalents	\$ 69,307,920	\$ 35,428,343
Contributions receivable	33,810,199	27,797,282
Accrued interest and dividends	51,279,062	50,076,679
Receivable for investments sold	123,375,165	100,903,612
Foreign exchange contracts receivable	680,520,124	910,998,953
Total	958,292,470	1,125,204,869
Investments at fair market value (note 3)	16,572,854,855	14,882,880,303
Fixed assets - net of accumulated depreciation (note 5)	745,712	755,341
<b>Total Assets</b>	<b>\$17,531,893,037</b>	<b>\$16,008,840,513</b>
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 15,861,861	\$ 15,920,547
Payable for investments purchased	919,875,694	730,337,067
Rebates and collateral payable	596,554,476	657,982,464
Foreign exchange contracts payable	674,024,997	911,700,603
<b>Total Liabilities</b>	<b>2,206,317,028</b>	<b>2,315,940,681</b>
Net assets held in trust for pension benefits (note 11)	<b>\$15,325,576,009</b>	<b>\$13,692,899,832</b>

(See Schedule of Funding Progress on page 32.)

See notes to financial statements.



Exhibit B

**Iowa Public Employees' Retirement System**  
**Statement of Changes in Plan Net Assets**  
**Years Ended June 30, 1999 and 1998**

	1999	1998
<b>Additions:</b>		
<b>Contributions:</b>		
Employer contributions	\$ 244,933,066	\$ 227,772,773
Employee contributions	163,288,710	151,848,515
Buy-back/buy-in contributions	19,169,871	7,581,962
Total contributions	427,391,647	387,203,250
<b>Investments:</b>		
Interest	270,038,734	262,775,224
Dividends	95,689,990	89,710,389
Real estate and private equity/debt	42,101,181	34,357,339
Tactical	45,367,569	55,853,041
Net appreciation in fair value of investments	1,263,746,452	1,777,413,529
Security lending income	39,433,023	37,996,531
Other	599,799	753,329
Investment income	1,756,976,748	2,258,859,382
Investment management expense	29,395,358	20,285,406
Security lending expense	36,481,791	35,731,286
Net investment income	1,691,099,599	2,202,842,690
Total additions	2,118,491,246	2,590,045,940
<b>Deductions:</b>		
Monthly benefit payments	466,752,949	402,544,698
Member and employer refunds	14,442,111	24,557,597
Administrative expense	4,620,009	4,012,736
Total deductions	485,815,069	431,115,031
Net increase	1,632,676,177	2,158,930,909
Net assets held in trust for pension benefit beginning of year	13,692,899,832	11,533,968,923
Net assets held in trust for pension benefit end of year (note 11)	\$15,325,576,009	\$13,692,899,832

See notes to financial statements.

**Notes to the Financial Statements**  
**June 30, 1999 and 1998**

**(1) Reporting Entity**

IPERS, a public employee retirement system within the Department of Personnel, State of Iowa, was created in 1953 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. The more significant of the retirement system's accounting policies are described in note 3.

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

**(2) Plan Description**

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

Plan Membership - IPERS membership is mandatory for most state, county, and local public employees, employees of school districts, and for 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.

	<b>June 30, 1999</b>	<b>June 30, 1998</b>
Employer members:		
City	1,307	1,315
County	429	431
School	399	401
State	23	24
Other	218	205
<b>Total</b>	<b>2,376</b>	<b>2,376</b>
Employee members:		
Current retirees and beneficiaries	64,275	62,106
Inactive vested	32,854	43,286
Active vested plan members	112,911	112,199
Active nonvested plan members	40,080	37,942
Inactive nonvested	59,336	45,130

Plan Benefits - The following brief description of IPERS is provided for general information purposes only. Members should refer to the Plan agreement for more comprehensive information.

Pension Benefits – Normal retirement is age 65, or age 62 if the member has 20 years of service, or any time on or after age 55 if the member's age and service years equals 88. At retirement, a member chooses one of five benefit options available through IPERS. A member may also take early retirement between the ages of 55 and 65.

If the retirement is at or after age 55 and before age 65 and the member has not completed 20 years of service, the member will receive benefits computed as the normal retirement benefit reduced by one-quarter of one percent for each month the early retirement precedes the 65th birthday. If the retirement is at or after age 55 and before age 62 and the member has completed 20 years of service, the benefit is reduced from age 62. This reduction is permanent.

Disability and Death Benefits - A vested member who is awarded federal Social Security or federal Railroad Retirement disability benefits because of a disability is eligible to claim IPERS benefits regardless of age. Disability benefits are unreduced for age if the member is less than age 65, but the benefit will be reduced if the member has less than thirty years of service. When a member dies after retirement, the availability of death benefits depends on the benefit option selected by the member at the time of retirement.

If a member dies before retirement, the beneficiary will receive a lump sum cash payment based upon a calculated formula. 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 Membership - A member who leaves covered employment after completing at least four years of covered service has vested rights to IPERS benefits, provided the member lives to the retirement age of 55 and does not withdraw the member's accumulated contributions. A member who leaves covered employment before completing at least four years of service, but who leaves the accumulated contributions in the System, receives vested rights to IPERS benefits at age 55.

Funding Requirements - Member and employer contribution rates are established by statute. In general, IPERS members contribute 3.70% and employers contribute 5.75% of the covered wage base. The contributions are remitted by participating employers. Certain members and employers engaged in law enforcement, fire safety, and protection occupations contribute at slightly higher rates as shown in the table below. Wages are covered up to the federal limit of \$160,000.

<b>CONTRIBUTION RATES AS OF JUNE 30, 1999</b>			
	<b>Employee</b>	<b>Employer</b>	<b>Total</b>
Regular	3.70%	5.75%	9.45%
Sheriffs/Deputy Sheriffs (County) / Airport Firefighters	6.34%	9.51%	15.85%
Protection Occupations*	5.61%	8.41%	14.02%

\* Protection Occupations: City Marshals/Police or Firefighters in towns under 8,000 population, State Conservation Peace Officers, State Correctional Officers, Airport Safety Officers, DOT Peace Officers, and Fire Prevention Inspector Peace Officers.

### (3) **Summary of Significant Accounting Policies**

#### A. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

IPERS is a pension trust fund which is a fiduciary fund type. Pension trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned and become measurable. Their expenses are recognized when the liability is incurred. The financial statements of IPERS have been prepared in conformity with generally accepted accounting principles as applied to government units.

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B. Cash and Cash Equivalents

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

C. Foreign Exchange Contracts

The System 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 investment policy and goal statement established by the Investment Board, in accordance with the "Prudent Person" mandate of Iowa Code § 97B.7.

All investments are reported at fair market value. The determination of fair market 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. Market values for real estate and private equity/debt partnerships, and direct real estate investments are based on periodic assessments or appraisals of the underlying investments. Futures contracts are valued daily with the resulting adjustment recorded as realized gains/losses arising from the daily settlement of the variation margin.

The System has no investment in any specific stock or bond issues of any commercial or industrial organization other than the U.S. government and its instrumentalities whose market value exceeds five percent of the net assets available for benefits.

IPERS' domestic bank deposits held throughout the year and at year end were entirely covered by Federal depository insurance or by the State Sinking Fund.

The System participates in the securities lending program operated by the State's custodian bank as authorized by the Code of Iowa. The custodian bank is responsible for operating the program and is permitted to lend any of the securities it holds in custody to broker-dealers and other entities in exchange for collateral. The custodian bank is permitted to accept collateral in the form of cash in U.S. dollars, U.S. government securities, or irrevocable letters of credit. A borrower is required to initially deliver collateral in an amount equal to 102% of the market value of any U.S. securities lent and 105% of the market value of any non-U.S. securities lent. Borrowers are required to provide additional collateral any time the value of the collateral drops below 100% of the value of the security lent plus accrued interest income.

At year-end the System had \$1,894,322 in credit risk exposure to borrowers because the amounts they owed the System exceeded the amount the System owed them on 41 separate loans. Additional collateral was provided the next business day, eliminating this exposure. The contract with the custodian bank requires it to indemnify the System if a borrower fails to return the securities or fails to return all of the income attributable to securities on loan. The securities lending contracts do not allow the System to pledge or sell any collateral securities unless the borrower defaults. As of June 30, 1999, the System had securities on loan, including accrued interest income of \$645,257,644 against collateral with a total value of \$666,176,519.

The majority of securities loans are open loans, i.e. one day maturity, where the rebate rate due the borrower is renegotiated daily. All securities loans can be terminated on demand by either the System or the borrower. Cash collateral received from borrowers is invested in a cash collateral investment pool which is managed by the custodian bank in accordance with investment guidelines established by the custodian and reviewed by the System. The investment guidelines do not require a matching of investment maturities with loan maturities, but do establish minimum levels of liquidity and other investment restrictions designed to minimize the interest rate risk associated with not matching the maturity of the investments with the loans.

The table below presents IPERS investment portfolio as of June 30, 1999 and 1998 summarized according to the classification of the manager responsible for overseeing the investment.

Manager	June 30, 1999	June 30, 1998
Domestic Fixed Income	\$ 4,904,989,268	\$ 4,184,724,916
Domestic Equity	5,409,767,797	4,654,071,247
International Equity	1,654,121,153	1,208,644,087
International Fixed Income	1,008,426,535	931,372,984
Tactical Fund	1,232,386,503	1,626,430,831
Real Estate Funds	585,558,461	448,331,164
Private Equity/Debt	1,180,776,463	1,171,153,627
Securities Lending Collateral Pool	596,828,675	658,151,447
Total	\$16,572,854,855	\$14,882,880,303

IPERS' investments are categorized in the chart on the following page to give an indication of the level of credit risk assumed by IPERS at June 30, 1999. Category 1 includes registered securities that are held by the custodian bank in IPERS' name. Federal reserve book entry and depository securities are included in this category. All investments of the retirement system meet the criteria of Category 1 except for securities on loan with brokers for cash collateral and investments in mutual and commingled funds, real estate funds, and limited partnerships, which, by their nature, are not required to be categorized. A summary of investments as of June 30, 1999 and 1998 follows:

Investment	June 30, 1999	June 30, 1998
Category 1		
Domestic Equity	\$ 2,562,932,660	\$ 2,203,902,286
International Equity	1,011,524,219	719,620,893
Domestic Fixed Income	2,963,113,798	2,127,656,102
International Fixed Income	440,499,606	678,408,095
Foreign Currency	56,881,394	48,255,021
Subtotal	7,034,951,677	5,777,842,397
Not categorized:		
Securities on Loan with Brokers	574,110,375	629,310,920
Investment in Mutual & Commingled Funds	6,241,599,316	5,622,479,381
Investment in Short-Term Investments Funds (STIF)	522,803,411	704,376,912
Investment in Real Estate	530,454,483	390,948,589
Investment in Private Equity/Debt	1,072,106,918	1,099,770,657
Securities Lending Collateral Pool	596,828,675	658,151,447
Total Investments	\$16,572,854,855	\$14,882,880,303

E. Fixed Assets

IPERS' fixed assets consist primarily of office furniture and data processing equipment. All purchased equipment is recorded at cost or, if cost is not practically determinable, at estimated cost. Depreciation is computed using the straight line method based upon estimated useful lives ranging from three to ten years.

F. Compensated Absences

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

G. Operating Lease

IPERS currently leases the building space occupied by its administrative offices. The lease is classified as an operating lease and accordingly, all rents are charged to expense as incurred. The lease requires the payment of normal maintenance and property taxes on the property. IPERS has recently purchased a new headquarters building for \$3 million. Following remodeling, IPERS intends to take occupancy in August 2000.

The following table is a schedule by year of future minimum rental payments required under the operating lease in excess of one year as of June 30, 1999.

Year Ending June 30,	
Year	Rental Payment
2000	\$ 217,063
2001	36,177
Total	\$ 253,240

Rental expense for the year ended June 30, 1999 totaled \$271,001.

**(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' actuary in accordance with Iowa Code § 97B.61 in order to determine the amount of contributions required. In addition, after accepting the actuarial methods and assumptions of the valuation, IPERS certifies the contribution rate determined thereby as the rate necessary and sufficient for members and employers to fully fund the benefits and retirement allowances being credited for service under Iowa Code chapter 97B.

The Iowa statutes provide that most IPERS members shall contribute 3.70% of pay and employers shall contribute 5.75%, for a total of 9.45%. The valuation is performed to determine whether that 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 (maximum amortization period of 30 years). The statutory rate is first applied to fund the normal cost rate. The remaining contribution rate is used to amortize the unfunded actuarial accrued liability as a level percentage of payroll. The current valuation results indicate the statutory rate results in an amortization period less than the funding policy's maximum of 30 years.

For the fiscal year ended June 30, 1999, the actuarially determined contribution requirement for employers was \$234,977,914 or 5.75% of covered payroll. The actuarially determined contribution requirement for employees for the same time period was \$151,203,180 or 3.70% of covered payroll. The actual amount of contributions made by employers and employees during the fiscal year ended June 30, 1999, was \$244,933,066 and \$163,288,710 respectively.

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(5) **Fixed Assets**

A summary of fixed assets as of June 30, follows:

	1999	1998
Furniture, Fixtures & Equipment	\$2,899,274	\$2,711,613
Less Accumulated Depreciation	(2,153,562)	(1,956,272)
Total	\$ 745,712	\$ 755,341

Depreciation expense for the year ended June 30, 1999 was \$230,583.

(6) **Litigation & Contingencies**

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

(7) **Commitments**

At June 30, 1999, IPERS had commitments to fund an additional \$419,458,772 to various private equity/debt partnerships and real estate investment managers.

(8) **Year 2000 Readiness Disclosure**

Computer systems and many other types of electronic equipment are dependent upon date-sensitive coding to function correctly. However, many of these systems and equipment use only two digits to identify the year in a date and are therefore unable to distinguish between the year 2000 and the year 1900. If left uncorrected, this could cause disruption of government services.

State officials have established a Year 2000 Project Office located within the Information Technology Division of the Iowa Department of General Services to oversee the steps being taken to address this problem for the State of Iowa. Six basic phases have been identified in the process: assessment, conversion, testing, implementation, validation and contingency planning.

The first five phases for the information technology aspect of the Year 2000 problem have been completed. Year 2000 contingency plans will be finalized in mid-December.

The Iowa Department of General Services has evaluated firmware (electronic equipment with embedded chips) and has indicated that there are no known problems for IPERS.

The Iowa Department of General Services also contracted with Computer Technology Associates (CTA) to perform the validation phase and to monitor progress. The Year 2000 Project Office has issued for all Department of Personnel computer systems a final validation and verification report. All reports indicate there are no known problems for IPERS. Due to the uniqueness of this issue, there are no assurances that the remediation implemented will correct all potential problems.

As of June 30, 1999, IPERS had no outstanding commitments to make computer systems and other types of electronic equipment Year 2000 compliant.

(9) **Location of Historical Trend Information**

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

**(10) Pension and Retirement Benefits**

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

State statute requires contributions of 3.70% by the employee and 5.75% by the employer. Certain employers and employees in special risk occupations contribute at a slightly higher rate as required by statute. Wages are covered up to the federal limit of \$160,000. The System's contribution to IPERS for the years ending June 30, 1999, 1998, and 1997 were \$152,318, \$140,928, and \$115,227 respectively, equal to the required contributions for each year.

**(11) Net Assets Held in Trust for Pension Benefits**

A summary of the net assets held in trust, follows:

	Net Assets Designated for FED Reserve	Undesignated Net Assets	Total Net Assets
Balance at June 30, 1998	\$ -	\$13,692,899,832	\$13,692,899,832
Additions:			
Contributions and investment income	32,065,613	2,086,425,633	2,118,491,246
Amount allocated to FED Reserve	226,457,712	(226,457,712)	-
Deductions:			
Benefit payments, refunds, and administration	-	473,662,386	473,662,386
FED payments	12,152,683	-	12,152,683
Balance at June 30, 1999	\$ 246,370,642	\$15,079,205,367	\$15,325,576,009



## SUPPLEMENTARY INFORMATION

### Schedule 1 Schedule of Funding Progress

Fiscal Year	Net Actuarial Value of Assets	Actuarial Accrued Liability	Percentage Funded	Unfunded Actuarial Accrued Liability (UAAL)	Annual Covered Payroll <sup>(1)</sup>	UAAL as a % of Covered Payroll
1994	\$ 6,926,678,212	-	-	-	3,175,877,083	-
1995	7,574,159,776	-	-	-	3,352,992,969	-
1996	8,975,396,251	10,136,356,814	88.55%	\$(1,160,960,563)	3,463,455,913	(33.52)%
1997	10,112,976,077	10,774,216,472	93.86%	\$ (661,240,395)	3,640,257,177	(18.16)%
1998	11,352,674,142	11,907,220,417	95.34%	\$ (554,546,275)	3,908,471,056	(14.19)%
1999	12,664,031,437	13,053,655,753	97.02%	\$ (389,624,316)	4,086,572,426	( 9.53)%

The System elected to change the actuarial cost method from the aggregate cost to the entry age normal starting with the June 30, 1996 valuation. Unlike the aggregate cost method, the entry age normal method separately identifies an unfunded actuarial accrued liability. Under the previous method, any payment of the unfunded actuarial accrued liability was considered part of the normal cost of the System.

<sup>(1)</sup> Annual covered payroll is the payroll subject to contributions to IPERS according to the covered wage limit of \$160,000.

**ACTUARIAL ASSUMPTIONS:** The information presented in the required supplemental schedules was determined as part of the annual actuarial valuations. Additional information as of the latest actuarial valuation follows:

Actuarial cost method	Entry age normal
Asset valuation method	Expected value at the valuation date plus 25% of the difference between the market value and expected value
Amortization method	Level percent of pay
Amortization period	20 years (Open Method)
Investment rate of return	7.50%
Projected salary increases	4.0 – 18.5% depending upon members age
Mortality tables	1994 Group Annuity Mortality Table
Inflation rate	3.50%

In addition to the change in actuarial cost method noted above, beginning with the 1996 valuation, the following key assumptions for the 1999 valuation were also changed: (1) the projected salary increases changed from a range of 4.5 – 10.0% to a range of 4.0 – 18.5%; (2) the Mortality Tables changed from the 1977 IPERS Unisex Mortality Table for retired members and the 1983 Group Annuity Mortality Table for active and vested members and beneficiaries to the 1994 Group Annuity Mortality Table; (3) the inflation rate changed from 4.00% to 3.50%. All other significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used in previous years. Those assumptions were adopted in 1994 as a result of a ten year experience study conducted by the System's actuary.

See accompanying independent auditor's report.

## Schedules of Employer and Employee Contributions

### Schedule 2

<b>Schedule of Employer Contributions Last Six Fiscal Years</b>						
Fiscal Year	Actuarial Recommended Employer Contribution Rate	Covered Payroll	Employer Contributions Required	Employer Contributions Made	Excess of Contributions Made Over Contributions Required	Employer Contributions Made as a % of Covered Payroll <sup>(1)</sup>
1994	4.967%	\$ 3,175,877,083	157,745,815	183,456,347	25,710,532	5.78%
1995	4.753	3,352,992,969	159,374,462	196,675,586	37,301,124	5.87
1996	5.110	3,463,455,913	176,982,597	204,884,696	27,902,099	5.92
1997	5.750	3,640,257,177	209,314,788	214,967,348	5,652,560	5.91
1998	5.750	3,908,471,056	224,737,086	227,772,773	3,035,687	5.83
1999	5.750	4,086,572,426	234,977,914	244,933,066	9,955,152	6.00

<b>Schedule of Employee Contributions Last Six Fiscal Years</b>						
Fiscal Year	Actuarial Recommended Employee Contribution Rate	Covered Payroll	Employee Contributions Required	Employee Contributions Made	Excess of Contributions Made Over Contributions Required	Employee Contributions Made as a % of Covered Payroll <sup>(1)</sup>
1994	3.312%	\$ 3,175,877,083	105,185,049	122,304,231	17,119,182	3.85%
1995	3.169	3,352,992,969	106,249,641	131,117,057	24,867,416	3.91
1996	3.404	3,463,455,913	117,896,039	136,589,797	18,693,758	3.94
1997	3.700	3,640,257,177	134,689,516	143,311,565	8,622,049	3.94
1998	3.700	3,908,471,056	144,613,429	151,848,515	7,235,086	3.89
1999	3.700	4,086,572,426	151,203,180	163,288,710	12,085,530	4.00

<sup>(1)</sup> In general, employer and employee contributions made as a percentage of covered payroll will exceed the normal statutory rates of 5.75% for employers and 3.70% for employees because of the slightly higher contribution rates for employers and employees engaged in certain law enforcement, fire safety, and protection occupations.

See accompanying independent auditor's report.

Schedule 3

**Iowa Public Employees' Retirement System**  
**Investment Income by Specific Source**  
**Years Ended June 30, 1999 and 1998**

	1999	1998
Interest income - short term	\$ 4,506,310	\$ 6,518,767
Interest income on bonds	265,532,424	256,256,457
Dividend income	95,689,990	89,710,389
Real estate funds	40,619,659	30,924,040
Private equity/debt funds	1,481,522	3,431,299
Tactical funds	45,367,569	55,853,041
Security lending income	39,433,023	37,996,531
Other income	599,799	753,329
Investment income	<u>493,230,296</u>	<u>481,445,853</u>
Gain on investments	1,242,604,082	1,914,047,632
Currency gain or loss	21,142,370	(136,634,103)
Net appreciation in fair value of investments	<u>1,263,746,452</u>	<u>1,777,413,529</u>
Total investment income	<u>\$1,756,976,748</u>	<u>\$2,258,859,382</u>

See accompanying independent auditor's report.

**Iowa Public Employees' Retirement System**  
**Schedule of Administrative Expenses**  
**Years Ended June 30, 1999 and 1998**

Schedule 4

	1999	1998
<b>Personnel:</b>		
Salaries & wages	\$2,800,867	\$2,542,719
Travel	51,313	69,099
<b>Professional and technical services:</b>		
Professional	254,931	156,271
Actuary	38,782	69,094
Computer support services	47,661	54,959
Auditing	46,332	50,611
<b>Communications:</b>		
Telephone	119,971	79,175
Printing	150,729	61,049
<b>Other expenses:</b>		
Office supplies	437,267	316,746
Utilities	29,629	28,018
Depreciation	230,583	190,390
Repairs	19,143	14,297
Rent	271,001	271,242
Miscellaneous	121,800	109,066
<b>Total administrative expenses</b>	<b>\$4,620,009</b>	<b>\$4,012,736</b>

See accompanying independent auditor's report.

Schedule 5

**Iowa Public Employees' Retirement System**  
**Schedule of Investment and Consulting-Related Expenses**  
**Years Ended June 30, 1999 and 1998**

	1999	1998
Capital Guardian Trust Company	\$ -	\$ 150,294
J.P. Morgan Investment Management, Inc.	7,349,972	170,825
Mellon Capital Management	435,092	721,460
RCM Capital Management	2,549,680	2,122,505
Wellington Trust Company, N.A.	<u>1,413,359</u>	<u>864,418</u>
<b>TOTAL DOMESTIC EQUITY</b>	<b><u>11,748,103</u></b>	<b><u>4,029,502</u></b>
Barclays Global Investors	272,821	268,222
J.P. Morgan Investment Management, Inc.	1,270,794	1,117,791
Loomis, Sayles & Company	890,915	805,091
Mellon Bond Associates	323,486	375,878
Mellon Capital Management	109,197	165,549
Miller, Anderson & Sherrerd	1,352,228	1,227,387
Morgan Grenfell Asset Management	560,997	545,809
Oaktree Capital Management	1,954,653	185,510
TCW Global Advisors	<u>983,062</u>	<u>937,355</u>
<b>TOTAL GLOBAL FIXED INCOME</b>	<b><u>7,718,153</u></b>	<b><u>5,628,592</u></b>
Baring International Investment Ltd.	876,358	1,152,648
Mellon Capital Management	<u>2,225,429</u>	<u>2,418,601</u>
<b>TOTAL TACTICAL</b>	<b><u>3,101,787</u></b>	<b><u>3,571,249</u></b>
Barclays Global Investors	194,172	162,843
Barings International Investment Ltd.	-	455,600
Brandywine Asset Management	174,352	139,515
Clay Finlay, Inc.	459,598	380,998
Nomura Capital Management, Inc.	926,239	763,217
OSV Currency Advisors, L.P.	-	434,139
Schroder Capital Management International	<u>1,014,758</u>	<u>1,037,434</u>
<b>TOTAL INTERNATIONAL EQUITY</b>	<b><u>2,769,119</u></b>	<b><u>3,373,746</u></b>
RREEF America, L.L.C.	<u>479,438</u>	<u>623,968</u>
<b>TOTAL REAL ESTATE</b>	<b><u>479,438</u></b>	<b><u>623,968</u></b>
Pathway Capital Management	935,834	1,116,718
Warburg, Pincus Counsellors, Inc.	<u>562,597</u>	<u>316,535</u>
<b>TOTAL PRIVATE EQUITY/DEBT</b>	<b><u>1,498,431</u></b>	<b><u>1,433,253</u></b>
Asset Strategy Consulting	289,260	145,833
The Townsend Group	132,000	132,000
Wilshire Associates, Inc.	<u>239,000</u>	<u>205,667</u>
<b>TOTAL INVESTMENT CONSULTANT FEES</b>	<b><u>660,260</u></b>	<b><u>483,500</u></b>
Mellon Trust Company	760,850	479,992
Treasurer of State	<u>30,823</u>	<u>37,635</u>
<b>TOTAL CUSTODY EXPENSES</b>	<b><u>791,673</u></b>	<b><u>517,627</u></b>
Investment Staff Expenses	549,135	534,182
Miscellaneous Expenses	<u>79,259</u>	<u>89,787</u>
<b>TOTAL OTHER INVESTMENT EXPENSES</b>	<b><u>628,394</u></b>	<b><u>623,969</u></b>
<b>TOTAL INVESTMENT EXPENSES</b>	<b><u>\$29,395,358</u></b>	<b><u>\$20,285,406</u></b>

See accompanying independent auditor's report.

# Actuarial

Actuary's Certification Letter

Comparative Statistics

Actuarial Balance Sheet

Active Membership Statistics



**MILLIMAN & ROBERTSON, INC.**  
Actuaries & Consultants

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November 9, 1999

We have performed an actuarial valuation of the Iowa Public Employees' Retirement System (System) as of June 30, 1999. An actuarial valuation is prepared annually in accordance with Iowa Code §97B.61 using the actuarial assumptions adopted by the System and reflecting the applicable statutory laws in effect at that date. The primary purposes for performing the valuation are:

- to certify that the contribution rate to be paid by the members and employers for the Fiscal Year beginning July 1, 1999 is sufficient to fund the benefits expected to be paid to members and meets the criteria set out in the funding policy established by IPERS;
- to disclose various asset and liability measures as of June 30, 1999; and

to analyze and report on trends in System contributions, assets and liabilities over the past several years.

An Experience Study was completed in 1999 covering the experience from 1993 through 1998. The Experience Study resulted in the recommendation and adoption of several revised assumptions, which are reflected in this valuation. The most significant changes were:

- reflect improvements in mortality by adopting the 1994 Group Annuity Mortality Table, with adjustments to more closely reflect actual experience;
- use of an age, service, and gender based assumption for termination of employment rates;
- use of an age and service based assumption for salary increases; and
- modification of current retirement rates to more closely reflect experience.

The actuarial valuation results provide a "snapshot" view of the System's financial condition on June 30, 1999. The valuation results reflect overall favorable experience for the past plan year as demonstrated by an unfunded actuarial liability, prior to the adjustment for the impact of the change in assumptions and the Favorable Experience Dividend (FED) transfer, that was lower than expected based on our assumptions. Most of the favorable experience was due to a significant actuarial gain on the actuarial value of assets.

The impact of the change in actuarial assumptions was to increase the cost of the benefits provided by IPERS. The unfunded actuarial liability increased \$587 million due to the change in assumptions while the normal cost rate increased from 7.66% to 8.79%.

In 1998, legislation was passed to create the FED reserve account with initial funding of \$200 million (on an actuarial value of assets basis). The law provides that a portion of the favorable experience in subsequent years may be transferred to the FED reserve. Based on the results of the June 30, 1999 valuation, \$226.5 million was transferred to the FED reserve.

The unfunded actuarial liability of \$555 million at June 30, 1998 along with the \$813 million increase to the unfunded liability created by the change in actuarial assumptions and the funding of the FED reserve, offset the \$978 million of actuarial gains from investments and contributions to arrive at an unfunded actuarial liability of \$390 million at June 30, 1999. As a result, the amortization period increased from 8 years to 20 years. The funding policy's maximum amortization period is 30 years.

**Contribution Rate**

Iowa statutes require most IPERS members to contribute 3.70% of pay and employers to contribute 5.75%, for a total of 9.45%. Members employed in certain special risk occupations, and their employers, contribute at a slightly higher rate as determined by a separate actuarial investigation. The funding objective of the System is to maintain contributions which are level as a percent of payroll. This objective is addressed by (1) the use of the Entry Age Normal actuarial cost method, which develops costs which are level as a percent of pay over a member's working lifetime, and (2) the amortization of any unfunded actuarial liability as a level percent of payroll. An annual valuation is performed to determine whether the 9.45% is sufficient to fund the benefits promised by the System. Under the entry age normal cost method the required contribution rate consists of two elements: 1) the normal cost rate; and 2) the contribution rate required to amortize the unfunded actuarial liability. The statutory rate of 9.45% is applied first to the normal cost rate and any remaining contribution is used to amortize the unfunded actuarial accrued liability as a level percentage of pay. The unfunded actuarial liability represents the difference between the portion of the present value of projected benefits allocated by the actuarial cost method to service credited prior to the valuation date and the actuarial value of assets as of that date. Using the assumptions and benefit provisions in effect as of June 30, 1999, and assuming that all of the actuarial assumptions are met, the 9.45% statutory rate will be sufficient to pay the current normal cost and to amortize the unfunded actuarial liability over 20 years.

### **Actuarial Value of Net Assets**

For financial statement purposes, the System's assets are reported at current market values. For actuarial purposes, the assets are valued using a technique which dampens the volatility in the market 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 market value and the expected value on the valuation date. Between June 30, 1998 and June 30, 1999, the actuarial value of assets increased by \$1,311,357,295. The primary reason for the significant increase in the actuarial value of net assets was due to the actual return on the Fund's investments exceeding the 7.5% assumed rate of return, coupled with unrecognized favorable experience from prior years.

### **Liabilities**

Three different measurements of liabilities are shown below. Each liability measurement is used for a different purpose. Therefore, the relative importance of the measurement will depend on the perspective of the person using the information. From an actuarial viewpoint, the actuarial balance sheet liability and the actuarial accrued liability are the most critical because, along with the actuarial value of assets, they ultimately determine whether the statutory contribution rate for the System is sufficient to provide the current benefit structure. The other liability figure is valuable because it provides a useful comparison of assets and liabilities.

- Actuarial Balance Sheet Liability is the present value of all future benefits. This liability is calculated based on **both future payroll projections and service credits to retirement or other separation from service**. It represents the present value of all benefits expected to be paid to all current System members (retired, active and deferred vested) in the future.
- Actuarial Liability is the portion of the present value of future benefits (actuarial balance sheet liability) that will not be paid by future normal costs. It is also defined as the portion of the actuarial balance sheet liability allocated by the actuarial cost method to service before the valuation date.
- Liability for Accrued Benefits is used only for informational purposes. It does **not** impact the contribution rate or amortization period for the System. This liability represents the present value of benefits earned to date, based on **service and salary as of June 30, 1999**. The liability for accrued benefits can be used as a measure of the funded status of the System, since it more closely represents the amount required to pay all accrued benefits if the fund were to liquidate on the measurement date. In a well funded System, the expectation would be that the assets would be equal to or exceed the liability for accrued benefits, as is true for IPERS.



The net changes in System liabilities between June 30, 1999 and June 30, 1998 are summarized below:

	June 30, 1999	June 30, 1998	Change
Actuarial Balance Sheet Liability	\$16,315,525,420	\$14,404,281,967	13.3%
Actuarial Liability	13,053,655,753	11,907,220,417	9.6%
Liability for Accrued Benefits	9,934,872,095	8,866,270,876	12.1%

### Experience

Numerous factors contributed to the change in the System's assets, liabilities and remaining amortization period for the unfunded actuarial liability between June 30, 1998 and June 30, 1999. The components are examined in the following discussion.

Actuarial gains/losses result from actual experience that is more/less favorable than anticipated based on the actuarial assumptions. These "experience" (or actuarial) gains/losses are reflected in the unfunded actuarial liability (UAL) and are measured as the difference between the expected unfunded actuarial liability and the actual unfunded actuarial liability, taking into account changes due to assumption or benefit provision changes. Overall, the System experienced a net actuarial gain of \$941 million. The change in the unfunded actuarial liability between June 30, 1998 and 1999 is shown below (in millions):

Unfunded Actuarial Liability, June 30, 1998	
Expected change in UAL due to amortization payment	\$555
Investment gain	(37)
Liability (gain)/loss from actual experience	(730)
Benefit enhancements (excluding FED)	(211)
Change in actuarial assumptions	<u>587</u>
Unfunded Actuarial Liability <u>before</u> FED transfer, June 30, 1999	\$164
FED Transfer	<u>226</u>
Unfunded Actuarial Liability <u>after</u> FED transfer, June 30, 1999	<u>\$390</u>

### Solvency Test

A short-term solvency test, which is one means of determining a system's progress under its funding program, compares the plan's present assets with: 1) active member contributions on deposit; 2) the liabilities for future benefits to present retirees; and (3) the pension benefit obligation for service already rendered by active members. In a system that has been following the level percent of payroll financing discipline, the obligation for active member contributions on deposit (Item 1) and the liabilities for future benefits to present retired lives (Item 2) will be fully covered by present assets with the exception of rare circumstances. The obligation for service already rendered by active members (Item 3) will be fully or partially covered by the remainder of present assets. Absent any significant benefit changes, if the system has been using level cost financing, the funded portion of Item 3 usually will increase over a period of time.

## Solvency Test Last Ten Fiscal Years

Actuarial Valuation	Active Member Contributions	Retirees and Beneficiaries	Active Members Employer Financed Portion	Actuarial Value of Assets	Portions of Liabilities Covered by Assets		
	(1)	(2)	(3)		(1)	(2)	(3)
1999	\$2,155,591,553	4,414,919,917	4,820,813,078	12,664,031,437	100%	100%	100%
1998	2,012,398,849	3,866,369,340	4,448,899,695	11,352,674,142	100%	100%	100%
1997	1,933,363,854	3,366,088,472	4,027,315,316	10,112,976,077	100%	100%	100%
1996	1,797,120,005	3,076,721,751	3,881,257,078	8,975,396,251	100%	100%	100%
1995	1,679,791,138	2,517,031,712	2,579,784,695	7,574,159,776	100%	100%	100%
1994	1,649,551,000	2,232,336,187	2,308,964,035	6,926,678,212	100%	100%	100%
1993	1,515,557,000	2,206,710,587	2,154,408,522	6,365,169,296	100%	100%	100%
1992	1,469,229,075	1,797,774,550	2,212,374,402	5,805,210,929	100%	100%	100%
1991	1,263,546,643	1,644,047,308	2,113,478,570	5,304,520,455	100%	100%	100%
1990	1,158,731,527	1,510,160,281	1,834,678,668	4,829,933,406	100%	100%	100%

## SUMMARY

IPERS continues to be funded on an actuarially sound basis meeting its funding objective of contributions which are a level percent of payroll and amortizing any unfunded actuarial liability over a period not to exceed 30 years. Based on the current benefit structure, the unfunded actuarial liability will be amortized in 20 years, if all actuarial assumptions are met. Over the long term, the statutory rate of 9.45% is more than sufficient to support the current benefit structure. After the unfunded actuarial liability is fully amortized, the required actuarial contribution rate is expected to drop to the normal cost rate, which is presently 8.79%.

In performing the valuation, we have relied upon membership and financial data reported to us by the System. We did not verify the accuracy of the information but did review it for reasonableness in relation to the data submitted for previous years. All of the information in the Actuarial section of this report has been provided by Milliman and Robertson, Inc. We also provided the information that was used in the Schedule of Funding Progress located in the Financial section.

This valuation has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with principles prescribed by the Governmental Accounting Standards Board Statement No. 25, the Actuarial Standards Board (ASB), and the Code of Professional Conduct and Qualification Standards for Public Statements of Actuarial Opinion of the American Academy of Actuaries. We further certify that the actuarial assumptions and methods used in the valuation are reasonable, as related to the experience of the System.

Respectfully submitted  
Milliman & Robertson, Inc.



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

**COMPARATIVE STATISTICS**  
**JUNE 30, 1999**

	June 30, 1999*	June 30, 1998*	% Change
<b>SYSTEM MEMBERSHIP</b>			
1. Active Membership			
- Number of Active Members	152,440	148,917	2.4
- Projected Payroll	\$4,165,000,000	\$4,104,000,000	1.5
- Average Annual Salary	\$27,322	\$26,767	2.1
2. Inactive Membership			
- Number of Vested Deferred Members	34,332	31,202	10.0
- Number of Nonvested Members	60,521	57,621	5.0
3. Retired Membership			
- Number of Retirees and Beneficiaries**	63,396	61,648	2.8
- Average Annual Retirement Benefit	7,309	6,819	7.2
<b>ASSETS AND LIABILITIES</b>			
1. Net Assets			
- Market Value (includes FED Reserve)	\$15,325,576,009	\$13,692,899,832	11.9
- Actuarial Value (excludes FED Reserve)	\$12,664,031,437	\$11,352,674,142	11.6
2. Projected Liabilities			
- Retirees/Beneficiaries	\$4,414,919,917	\$3,866,369,340	14.2
- Inactive Members	\$341,571,178	\$307,613,143	11.0
- Active Members	<u>\$11,559,034,325</u>	<u>\$10,230,299,484</u>	13.0
Total Liability	<u>\$16,315,525,420</u>	<u>\$14,404,281,967</u>	13.3
3. Actuarial Accrued Liability	\$13,053,655,753	\$11,907,220,417	9.6
4. Unfunded Actuarial Accrued Liability	\$389,624,316	\$554,546,275	(29.7)
5. Funded Ratio (Actuarial Value of Assets/ Actuarial Accrued Liability)	97.0%	95.3%	1.8
<b>SYSTEM CONTRIBUTIONS</b>			
1. Required Contribution Rate***	9.45%	9.45%	---
2. Normal Cost Rate	8.79%	7.63%	15.2
3. Years Required to Amortize the Unfunded Actuarial Accrued Liability	20 years	8 years	150.0

\* System Membership data is as of March 31.

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

\*\*\* Contributions for certain special groups (3.3% of the membership) are not fixed at 9.45% but are actuarially determined separately each year.

**Actuarial Assumptions and Methods**

1. Rate of Interest/Investment Rate of Return - 7.50% per annum, compounded annually.
2. Rate of Crediting Interest on Contribution Balances - 5.5% per annum, compounded annually.
3. Inflation rate of 3.50%.
4. Payroll Growth 4.0% per year.
5. Rate of Salary Increase.

<b>Annual Percentage Rate of Increase</b>									
<u>Age</u>	Years	Year	Year	Years	Years	Years	Years	Years	Years
	0-1	2	3	4-5	6-7	8-10	11-15	16-20	21+
22	18.5	12.5	8.5	8.0	7.5	6.0	5.5	5.0	4.9
27	15.5	10.0	8.3	7.0	6.5	6.0	5.5	5.0	4.9
32	14.8	9.8	8.0	7.0	6.5	6.0	5.5	5.0	4.9
37	14.7	9.8	8.0	7.0	6.3	6.0	5.5	5.0	4.9
42	14.7	9.2	8.0	7.0	6.2	6.0	5.5	4.9	4.9
47	14.2	9.0	8.0	7.0	6.2	5.5	5.2	4.8	4.2
52	13.3	8.3	6.9	7.0	6.2	5.5	5.0	4.5	4.2
57	12.5	7.7	6.9	7.0	5.7	5.5	4.6	4.5	4.2
62	10.9	7.1	6.7	6.0	4.5	4.5	4.5	4.5	4.0

6. Rates of Mortality - Assumed mortality rates vary depending upon the member's age. Mortality rates are based on the 1994 Group Annuity Mortality Table with adjustments to better reflect actual experience. Rates for selected ages are shown below.

<b>Annual Mortality Rates per 1,000 Members</b>					
<u>Age</u>	Male	Female	<u>Age</u>	Male	Female
20	0.5	0.3	55	4.9	2.0
21	0.6	0.3	60	9.0	3.7
25	0.7	0.3	65	16.2	7.2
30	0.8	0.3	70	26.0	12.1
35	0.9	0.4	75	40.9	19.4
40	1.2	0.6	80	68.6	33.6
45	1.7	0.9	85	105.8	57.9
50	2.9	1.2	90	167.3	99.4

7. Rate of Employment Termination

Annual Percentage Rate of Termination

Males:

Age	Years 0-1	Year 2	Year 3	Years 4-6	Years 7-8	Years 9+
22	33.0	27.5	22.0	9.9	8.8	6.6
27	23.1	16.5	12.1	9.9	8.8	6.6
32	19.8	16.5	11.0	7.5	5.5	3.9
37	19.6	16.0	11.0	7.5	5.0	3.3
42	19.6	14.3	11.0	7.5	5.0	2.5
47	19.6	14.3	9.9	7.5	5.0	2.0
52	17.6	11.0	7.7	7.5	5.0	2.0
55+	16.5	11.0	5.5	7.5	5.0	2.0

Females:

Age	Years 0-1	Year 2	Year 3	Years 4-6	Years 7-8	Years 9+
22	33.0	30.8	22.0	11.0	9.9	5.5
27	27.5	22.0	16.9	11.0	9.9	5.5
32	24.8	22.0	15.4	10.6	7.2	5.0
37	19.8	15.8	14.3	10.6	6.6	3.6
42	19.8	15.7	12.1	8.8	6.1	3.1
47	19.8	14.3	12.1	8.3	5.0	2.5
52	19.8	14.3	12.1	8.3	5.0	2.5
55+	19.8	14.3	12.1	8.3	5.0	2.5

8. Rates of Disablement

Annual Rate per  
1,000 Members

<u>Age</u>	<u>Males</u>	<u>Females</u>
27	0.2%	0.2%
32	0.2	0.2
37	0.4	0.3
42	0.7	0.5
47	1.4	0.9
52	3.3	2.2
57	6.3	3.9
62	9.0	6.2

9. Withdrawal Rate of Member Accounts

Annual Rate per  
1,000 Members

<u>Age</u>	<u>Males</u>	<u>Females</u>
25	1,000	1,000
30	900	800
35	800	700
40	600	500
45	300	150
50	150	150
55	0	0

10. Retirement Rates

Early Retirement with Reduced Benefits		Normal Retirement <sup>1</sup>		
Age	Annual Rate per 100 Members	Age	1 <sup>st</sup> year of eligibility	Annual Rate per 100 Members Thereafter
55	5	55 – 58	20	10
58	5	59	20	20
60	10	60	25	25
61	15	61	35	35
62	25	62	50	50
63 - 64	20	63	35	40
		64	35	40
		65	30	50
		66	20	25
		67 - 68	15	20
		70+	100	100

<sup>1</sup>Eligibility for normal retirement is rule of 88, age 62 with 20 years of service, or age 65.

Terminated vested members are assumed to retire at age 62.

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

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

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

The actuarial assumptions were developed both from the experience of the System and from standard actuarial sources, based on a five-year experience study (1993–1998) conducted by Milliman & Robertson, Inc. The actuarial assumptions resulting from the study were first utilized in the June 30, 1999 actuarial valuation.

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**ACTUARIAL BALANCE SHEET**  
**JUNE 30, 1999**

**ASSETS**

Actuarial value of assets	\$12,664,031,437
Present value of future normal costs	3,261,869,667
Present value of future contributions to amortize the unfunded actuarial accrued liability	<u>389,624,316</u>
<u>Total Net Assets</u>	<u>\$16,315,525,420</u>

**LIABILITIES**

Present Value of Future Benefits

Retired Members and Beneficiaries

Annuity benefits being paid and contingent payments upon death	\$ 4,414,919,917
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Active Members

Retirement allowances	10,210,371,700
Death benefits	166,669,753
Termination benefits	823,568,374
Disability benefits	358,424,498

Inactive Members

Retirement allowances & death benefits for vested members	327,288,222
Accumulated employee account balances for nonvested members	<u>14,282,956</u>

<u>Total Liabilities</u>	<u>\$16,315,525,420</u>
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**ACTIVE MEMBERSHIP STATISTICS  
FOR 10 YEARS ENDING JUNE 30, 1999**

<b>Active Member Statistics</b>					
Fiscal Year Beginning July 1	Total Actives	Percent Change	Average Covered Wage	Average Age	Average Service Credit
1990	131,357	2.5	20,491	43.5	10.9
1991	135,104	2.8	21,885	43.7	11.1
1992	134,485	-0.5	22,510	44.3	11.4
1993	136,409	1.4	22,604	43.9	10.6
1994	141,423	3.7	22,968	44.2	10.7
1995	144,912	2.5	23,322	44.1	10.8
1996	147,431	1.7	25,218	44.2	11.0
1997	147,736	0.2	26,055	44.6	11.5
1998	148,917	0.8	26,767	44.7	11.5
1999	152,440	2.4	27,322	44.8	11.4

<b>Analysis of Change in Membership</b>						
Fiscal Year Ending June 30	Beginning Members	Additions	Retired	Died	Other Terminations	Ending Members
1990	128,053	14,741	2,986	245	8,206	131,357
1991	131,357	14,882	3,187	183	7,765	135,104
1992	135,104	12,620	3,524	216	9,499	134,485
1993	134,485	17,065	6,086	102	8,953	136,409
1994	136,409	17,529	2,330	572	9,613	141,423
1995	141,423	17,346	4,138	114	9,605	144,912
1996	144,912	17,514	3,133	224	11,638	147,431
1997	147,431	16,288	3,820	191	11,972	147,736
1998	147,736	17,606	3,079	285	13,061	148,917
1999	148,917	18,503	3,642	250	11,088	152,440



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A large green crosshair graphic is centered on the page, consisting of a vertical line and a horizontal line that intersect. The word "Investments" is positioned to the right of the vertical line, overlapping the horizontal line.

# Investments

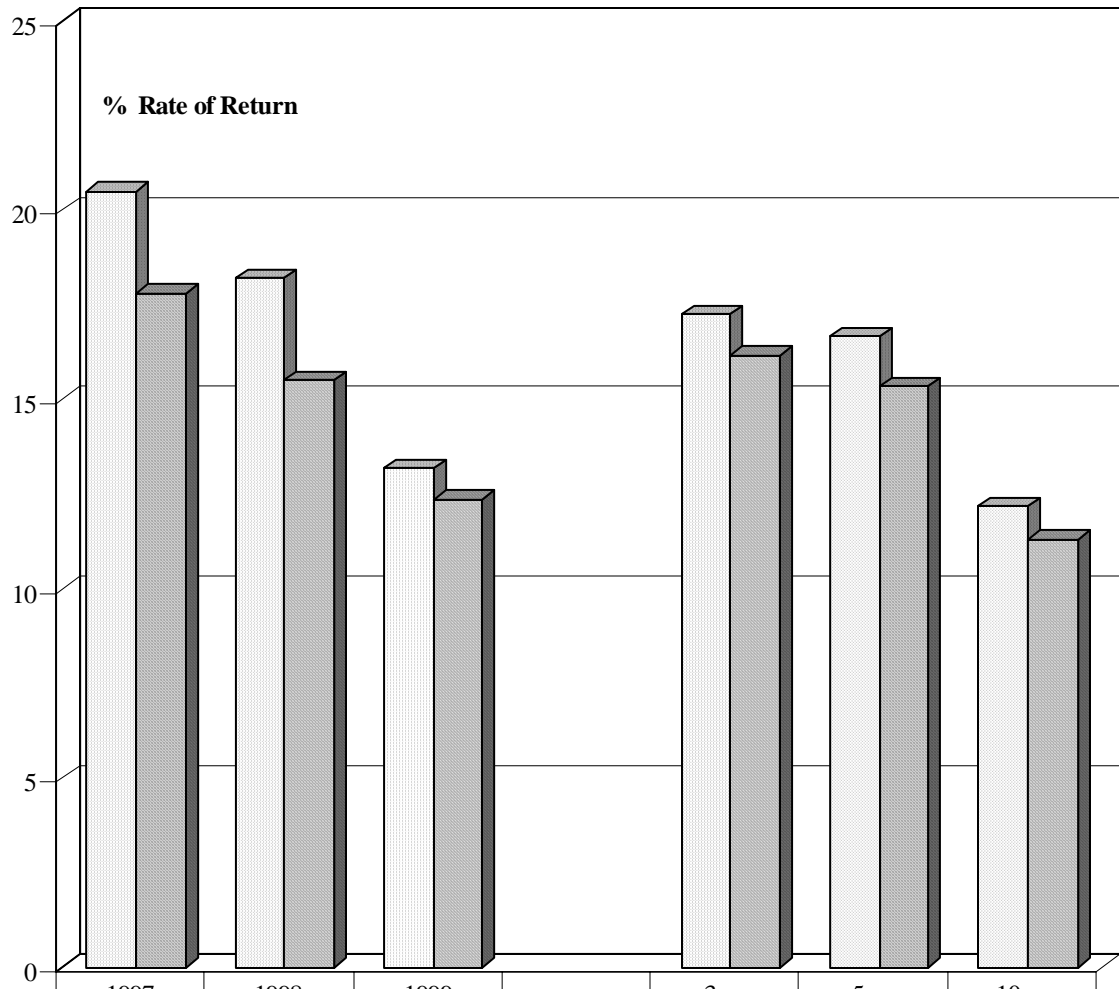
Investment Overview

Investment Results

Investment Policy And Goal Statement

# Annualized Performance Summary

For the periods ended June 30



□ IPERS' Portfolio *	20.5	18.2	13.18		17.25	16.68	12.17
■ Policy Benchmark	17.8	15.5	12.37		16.16	15.36	11.30

\* Net of Fees

**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 contributions to the System, will meet or exceed the benefit 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.

The System’s investments are managed by professional investment management firms and partnerships based upon statutory investment authority, the investment policies adopted by the IPERS Investment Board and detailed service contracts. The System’s staff coordinates and monitors the investment of the Trust Fund’s assets and assists the Investment Board in the formulation and implementation of investment policy and long-term investment strategy.

**The Importance of Asset Allocation and Diversification**

Asset allocation is a process designed to construct an optimal long-term asset mix which 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 policy formulation, the determination of asset allocation policy is the most important decision in the investment process.

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 the trend is reversed. By utilizing several investment management firms with a variety of investment styles, the investment performance of the Fund is not dependent upon the success of one particular investment style.

The System also instructs 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 investment guidelines for each manager that controls the risk of high concentrations in a particular sector, industry, or security.

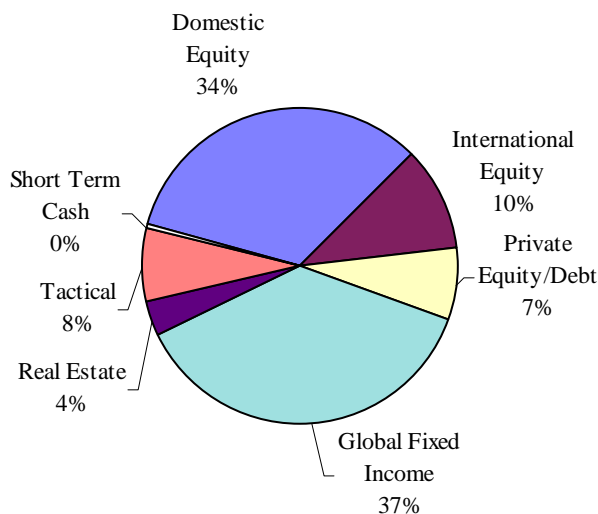
Overall, diversification of the System’s assets among various asset classes, investment management styles, and individual securities enhances the potential to achieve a greater rate of return while minimizing the risk of negative returns caused by adverse short-term changes in the capital markets.

**Capital Markets Commentary**

Capital markets performed relatively well in fiscal year 1999, albeit with more volatility than in the recent past. Some highlights:

**Allocation of IPERS' Investments**

As of June 30, 1999



The dominance of large capitalization stocks in the domestic equity markets came to an end, at least temporarily, when small cap stocks outperformed large cap stocks in the second quarter of 1999 for the first time in seven consecutive quarters. Fears of slower growth in corporate earnings led to the trend reversal. Despite the drop in the second quarter of 1999, some large cap stocks still did very well, as evidenced by the 22.8% return on the S&P 500 Index for the year ended June 30, 1999. One trend that remained intact during the fiscal year was investors' affinity for technology stocks. Technology stocks in the S&P 500 Index returned 62.5% for the one-year period ended June 30, 1999.

The global liquidity crisis of 1998 and the fear of tighter monetary policy by the Federal Reserve served to lower returns on domestic bonds in the fiscal year. The U.S. fixed income market, as measured by the Lehman Brothers Aggregate Index, returned only 3.1% for the one-year period ended June 30, 1999. Of the various domestic bond sectors, mortgages provided a 4.0% annual return for the fiscal year, followed by U.S. Treasury securities with a 3.2% annual return and corporate bonds with a 1.9% annual return. International bonds hedged against currency fluctuations outperformed all U.S. bond sectors, returning 4.9% for the fiscal year.

International stock markets saw a reversal of fortunes in fiscal year 1999.

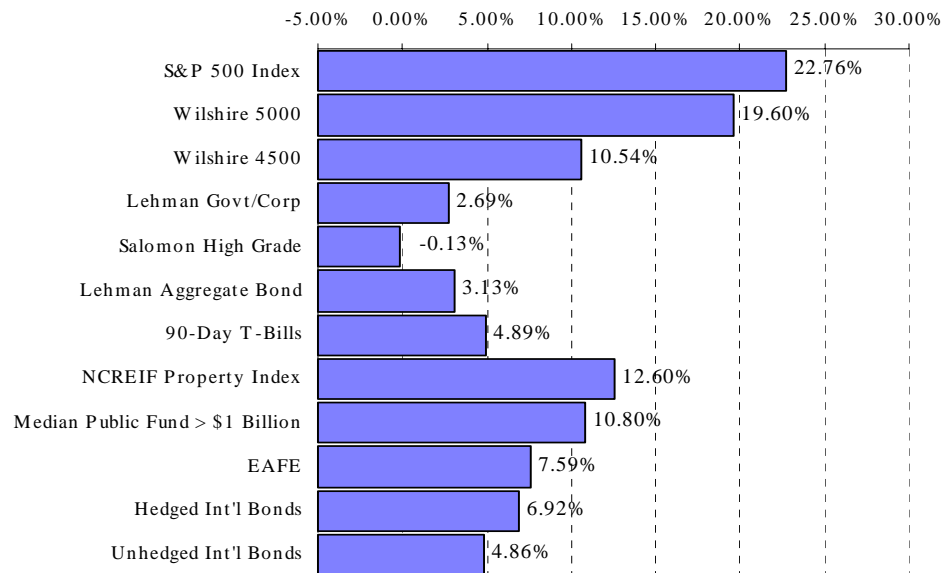
The Japanese stock market finally rebounded as investors expressed some confidence in the economic reform packages put forth by the Japanese government. The MSCI Pacific Index, which is dominated by Japanese companies, posted a return of 32.7% for the one-year period ended June 30, 1999, much improved over the -34.6% annual return for the previous fiscal year ended June 30, 1998. Stocks in emerging markets also experienced significant gains in fiscal year 1999 as liquidity came back into the market after recent financial crises in Asia and Russia. The MSCI Emerging Market Index posted a return of 28.7% for the one-year period ended June 30, 1999, which was also much improved over the prior fiscal year annual return of -38.5%. The trend for European stocks was in the opposite direction of stocks in the Pacific Basin and emerging markets, due mainly to weakness in Europe's new currency, the Euro. The MSCI Europe Index posted an annual return of -0.8% for the fiscal year ended June 30, 1999, much lower than the 37% annual return of the previous one-year period.

The U.S. commercial real estate market cooled in fiscal year 1999. The NCREIF Property Index, a commonly cited measure of privately-traded commercial real estate values and income, returned 12.6% for the one-year period ended June 30, 1999, down from the 17.2% annual return produced in fiscal year 1998. Publicly traded real estate securities (REITS) fared much worse during fiscal year 1999. The Wilshire Real Estate Investment Trust Index, a representative index of REIT performance, posted an annual return of -7.2% for the year ended June 30, 1999, compared to an annual return of 7.4% in the previous fiscal year.

## Investment Results

IPERS posted a total Fund return of 13.2% for the fiscal year ended June 30, 1999, well ahead of our policy benchmark return of 12.4%. The total Fund market value increased to \$15,325,576,009 an increase of \$1,632,676,177 from the previous year. The outperformance of the Fund relative to the policy benchmark was primarily the result of the superior relative performance of the domestic equity portfolio, where the one-year return was 22.9% relative to its benchmark return of 19.6%. Additionally, the international equity portfolio outperformed its benchmark by 173 basis points (1.7%). For the five years ending June 30, 1999, IPERS' total fund returned 16.7% compared to 15.4% for the policy benchmark, while the ten-year return of 12.2% outpaced the 11.3% policy benchmark return. The investment return, net of fees, for each asset class and the total Fund over various periods are shown in the

## Fiscal Year 1999 Market Returns



### Time-weighted Rates of Return for periods ended June 30, 1999<sup>1</sup>

Asset Class	Annual Return			
	1-Year	3-Year	5-Year	10-Year
<b>Total Fund</b>				
IPERS	13.18%	17.25%	16.68%	12.17%
Policy Benchmark <sup>2</sup>	12.37	16.16	15.36	11.30
CPI + 3%	4.94	4.98	5.34	5.96
Actuarial Interest Rate	7.50	7.50	7.50	7.50
Large Public Fund Universe Median	10.42	16.04	16.33	12.48
<b>Domestic Equity</b>				
IPERS	22.87	27.45	26.43	17.47
Wilshire 5000	19.60	25.84	25.70	17.63
<b>International Equity</b>				
IPERS	13.85	8.72	7.78	NA
50% Europe/50% Pacific 60% Hedged	12.12	6.09	7.02	NA
<b>Global Fixed Income</b>				
IPERS	3.45	7.72	8.31	8.69
Lehman Aggregate Bond	3.13	7.23	7.82	8.15
<b>Tactical</b>				
IPERS	12.58	20.73	20.31	15.24
Policy Benchmark	14.85	20.17	19.69	14.62
<b>Private Equity/Debt<sup>3</sup></b>				
IPERS	10.51	25.35	24.46	17.24
Wilshire 5000 + 5%	24.75	32.12	31.74	22.64
<b>Real Estate</b>				
IPERS	7.61	12.15	9.41	-0.01
CPI + 6%	7.94	7.98	8.34	8.96
<b>Short-Term Cash</b>				
IPERS	9.52	9.02	8.00	7.12
US Treasury Bills	4.89	5.28	5.42	5.49

<sup>1</sup>All returns are calculated in accordance with AIMR standards. 3-year, 5-year and 10-year returns are annualized.

<sup>2</sup>As of June 30, 1999 the Policy Benchmark consists of: 28% Wilshire 5000, 15% MSCI ACWI x US, 37% Lehman Aggregate, 5% Tactical policy benchmark, 10% Wilshire 5000 + 5%, and 5% CPI + 6%.

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

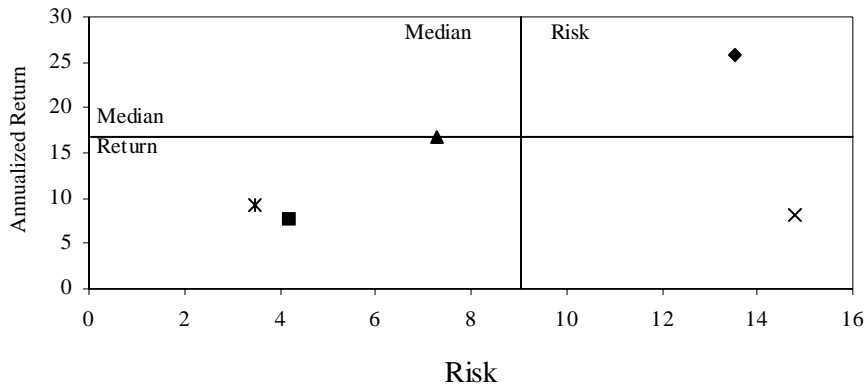
Ultimately, the total return an investment portfolio achieves is determined by the level of risk or volatility that the investor is willing to accept. In general, the greater the volatility of returns, the higher the return has to be to compensate the investor for accepting that volatility. A pension fund's willingness to accept additional risk is often the result of its need to achieve or maintain an actuarially sound system. Given the disparities in funding levels which exist among pension funds, it is often difficult, if not impossible, to make a meaningful comparison of their returns.

following chart. For comparison purposes, the benchmark for each asset class is also shown.

The graph below provides a comparison of IPERS' risk/return characteristics for the last five years against a universe of other master trust funds. The vertical line represents the median level of risk (volatility 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 investment indexes. As shown in the graph, the return on IPERS' investments for the five years ended June 30, 1999 was slightly lower than the median return; however, the System's investment returns were significantly less volatile than

pensated for the lower return.

**Comparison Return vs Risk  
For Master Trusts  
5 Years Ended June 30, 1999**



◆ Wilshire 5000	■ Lehman Aggregate	▲ IPERS Fund
× International Equity	✱ Wilshire Real Estate Fund	

	Annualized Return	Standard Deviation
IPERS Total Fund	16.68%	7.28%
Wilshire 5000	25.70	13.52
Lehman Aggregate	7.82	4.18
International Equity	8.20	14.79
WRE Fund	9.32	3.46
Median Fund	16.99	9.03

**Global Fixed Income**

IPERS took steps to restructure its fixed income portfolio in Fiscal Year 1999. In the past, IPERS strategically allocated fixed income assets between domestic (U.S.) bonds and global (non-U.S.) bonds. In March 1999, IPERS adopted the Lehman Brothers U.S. Universal Bond Index as its new benchmark for the fixed income portfolio and adopted a new fixed income structure that views non-U.S. bonds as another sector of the global fixed income universe. The U.S. Universal Index was adopted because it is a newly developed benchmark that better represents the global bond investment opportunities available to IPERS.

The restructuring of the fixed income portfolio is expected to reduce the overall risk of the portfolio by eliminating the biases to long-term securities and the structural overweightings to certain regions that existed under the old structure. The restructuring should also produce an incremental increase in the fixed income portfolio's return by eliminating strategic allocations to non-U.S. bonds and permitting investment managers to invest overseas in an opportunistic manner. Two investment managers that invested in global bonds and one investment manager that managed bonds under a long duration mandate were terminated as a result of the restructuring.

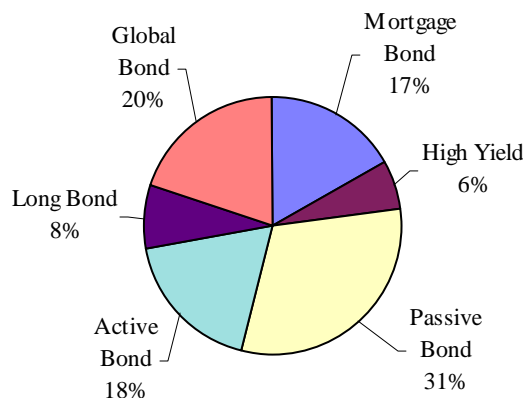
The total IPERS fund asset allocation target for fixed income is 37%. IPERS' Global Fixed Income portfolio was approximately 37% of the total fund assets at fiscal year end. The total return for the Global Fixed Income portfolio for the year ended June 30, 1999 was

3.45% compared to the Lehman Brothers Aggregate return of 3.13%. The Global Fixed Income portfolio market value was approximately \$5,913,415,803 and the average bond rating for the portfolio was AA.

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

### Global Fixed Income Portfolio

June 30, 1999



**Active Bond** - a diversified portfolio of fixed income securities utilizing cash and cash equivalents, forward foreign exchange contracts, currency options, financial futures, government and government agency bonds, Eurobonds, non-dollar bonds, non-convertible preferred stock, options on fixed income instruments, mortgage-backed bonds, corporate bonds, commercial mortgage backed securities, private placement corporate bonds, and asset-backed securities. The portfolio is expected to have interest rate sensitivity similar to the benchmark, be diversified by industry, sector, and individual security, and exceed the return on the Lehman Brothers U.S. Universal Index by 75 basis points, net of fees, on an annualized basis, over 3-5 year time periods.

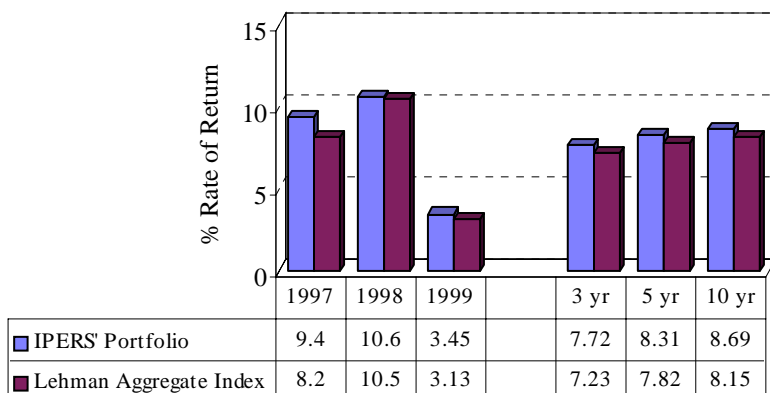
**Mortgage Bond** - a diversified portfolio consisting of mortgages, mortgage backed, asset backed, and commercial mortgage securities. For investment management purposes, the commercial mortgage investments are managed in a separate account. The objective of the traditional mortgage portfolio is to exceed the return of the Lehman Brothers Mortgage Index by 100 basis points, annually, net of fees. The objective of the separate account commercial mortgage-backed security portfolio is to exceed the return of the Lehman Brothers Corporate Index by 75 basis points annually, net of fees.

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

**High Yield** - a strategy utilizing a bottom-up, fundamental research approach in selecting U.S. and Canadian companies that consistently outperform the North American Sub-Sector of the Salomon Brothers' Cash Pay High Yield Bond Index over a full market cycle. This fund is intended to add a risk-controlled portfolio management process to emphasize higher income than can be achieved with strictly investment grade securities.

### Global Fixed Income Performance Summary

For the Periods ended June 30



Opposing economic forces throughout the year made fiscal year 1999 extremely challenging for fixed income managers. Domestically, low unemployment, low inflation, and high consumer confidence were positive factors for the fixed income environment. Negative factors in fiscal year 1999 included a global liquidity crisis earlier in the year, a bond default by Russia, speculation of a Brazilian bond default, and general fear of price inflation. Despite the negative global events during the fiscal year, IPERS beat its benchmark for the year ended June 30, 1999, earning 3.45% versus 3.13% for the benchmark. IPERS has historically beaten its fixed income benchmark, earning 8.31% versus 7.82% for the five-year period ended



June 30, 1999 and 8.69% versus 8.15% for the ten-year period ended June 30, 1999.

**Domestic Equity**

At June 30, 1999, 34% of IPERS’ total portfolio was invested in domestic equities. The total market value of the equity portfolio was \$5,409,767,797. The portfolio is widely diversified across various equity market sectors and industries and has highly diversified financial characteristics and risk factors which influence the overall return.

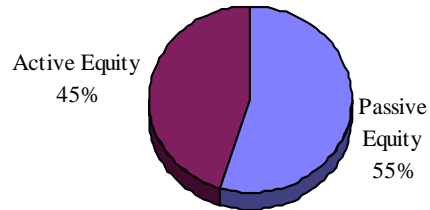
The domestic equity portfolio has two components:

**Passive Equity** - the passive component is further divided into large cap, small-mid cap, and enhanced 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.

**Active Equity** - a 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.

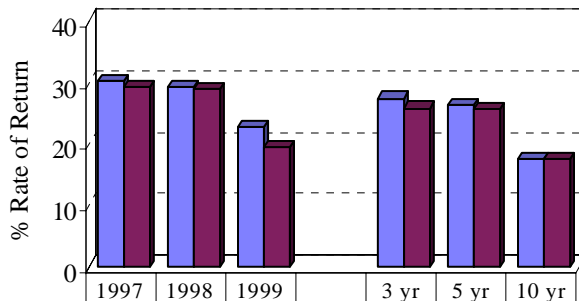
**Domestic Equity Portfolio**

June 30, 1999



**Domestic Equity Performance Summary**

For the Periods ended June 30



	1997	1998	1999	3 yr	5 yr	10 yr
IPERS' Portfolio	30.3	29.4	22.87	27.45	26.43	17.47
Wilshire 5000 Index	29.3	28.9	19.60	25.84	25.70	17.63

versus 25.7% for the Wilshire 5000 Index.

**Tactical Asset Allocation**

IPERS’ tactical asset allocation (TAA) portfolio is designed to take advantage of short-term discrepancies in valuation between capital markets. IPERS’ TAA managers allocate investments between stocks, bonds and cash based upon the relative value of each asset class. By making tactical shifts in the asset mix as risk premiums change, the TAA managers seek to take advantage of mispriced markets. IPERS utilizes two TAA managers, one for domestic markets and one for international markets.

The market value of the TAA portfolio was \$1,232,386,503 on June 30, 1999, which represented approximately 8% of total IPERS

assets. The TAA portfolio underperformed for the year ended June 30, 1999, earning 12.58% versus 14.85% for the benchmark. Historically, IPERS' TAA portfolio has outperformed its benchmark, earning 20.31% versus 19.69% for the five years ended June 30, 1999, and 15.24% versus 14.62% for the ten years ended June 30, 1999.

The IPERS Investment Board approved a reduction in the TAA target allocation to 5% of total fund assets from 10% of total fund assets in fiscal year 1999. Assets will be reallocated over a one- to two-year time period.

**International Equity**

At June 30, 1999, the international equity portfolio had a market value of \$1,654,121,153, representing 10% of the total IPERS portfolio. IPERS' international equity portfolio is comprised primarily of common stocks or equity commingled funds, foreign exchange contracts and cash, and is widely diversified across many regions, countries, industries, and securities.

The IPERS Investment Board adopted a new benchmark for the international equity portfolio in January 1999. The Morgan Stanley Capital International All Country World ex-U.S. Index was adopted to replace the custom benchmark that IPERS had used.

The international equity portfolio has three primary components:

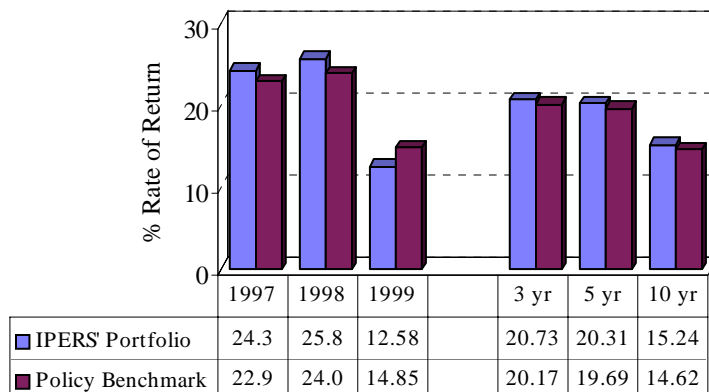
**Active Equity** - a diversified portfolio consisting primarily of equity securities issued by foreign companies in developed countries. For purposes of investment management, a regional approach is used to invest in these international markets. The portfolio's performance objective is to exceed the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

**Passive Equity** - a passively managed, diversified portfolio comprised of commingled index fund investments in developed European countries' corporate equity securities. The objective of the portfolio is to track the performance of the Morgan Stanley Capital International Europe Index.

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

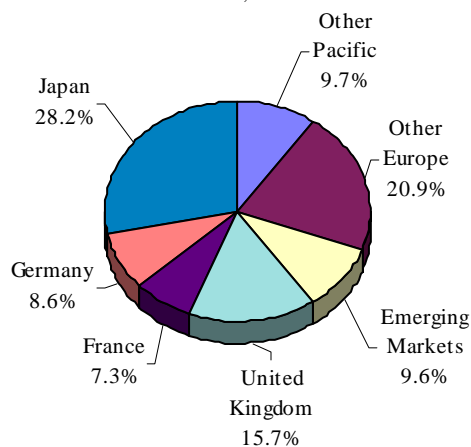
**Tactical Asset Allocation Performance Summary**

For the Periods ended June 30



**International Equity Portfolio**

June 30, 1999



The international equity markets recovered from the Asian financial crisis during fiscal year 1999, led by stocks in the Pacific Basin and Emerging Markets. Positive factors included a strong rebound in corporate profits in the Pacific Basin region, and Japan in

particular, and a recovery in valuations in Emerging Markets from the Russian default crisis. European stocks performed poorly during the fiscal year, due principally to continued sluggish growth and high unemployment.

IPERS' international equity portfolio returned 13.9% during fiscal year 1999 compared to 12.1% for the benchmark. Since inception, this portfolio has outperformed its benchmark earning an annualized return of 6.9% versus 6.1% for the benchmark.

### Private Equity/Debt

At June 30, 1999, IPERS' private equity/debt portfolio had a market value of \$1,180,776,463, representing 7% of the total IPERS portfolio. Since the inception of the private equity/debt portfolio in 1986 through June 30, 1999, the System has committed \$1,338,025,000 to sixty-seven partnerships. Of that total, \$361,386,000 remains to be called for investment. During the fiscal year, IPERS committed \$128,500,000 to six 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 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.

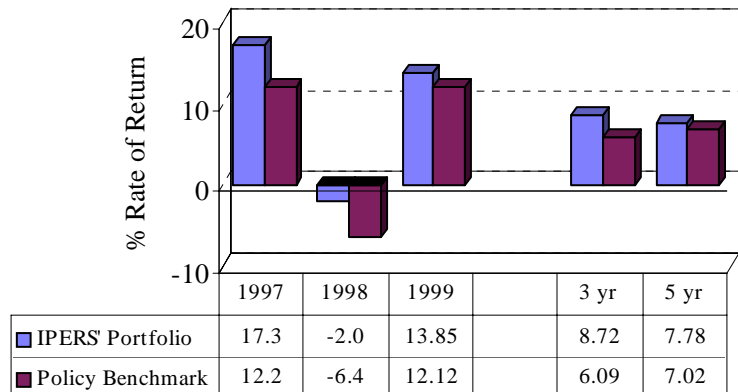
The performance objective for the private equity/debt portfolio is to exceed the return of the Wilshire 5000 index, calculated on an internal rate of return (IRR) basis, by five percentage points on an annualized basis. Since inception in 1986, the private equity/debt portfolio has provided an annualized IRR of 16.3% versus its return objective of 22.9%.

### Real Estate

At June 30, 1999, approximately 4% of IPERS' total portfolio at market 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 charts at the right. The total return for the real estate portfolio for the fiscal year was 7.6%, compared to 7.9% for the portfolio's benchmark (CPI + 6%). The IPERS real estate portfolio's positive return was attributable to operating income, appreciation of property values and cash distributions from sales of properties. An additional \$119 million was allocated to the portfolio and is being invested in direct

## International Equity Performance Summary

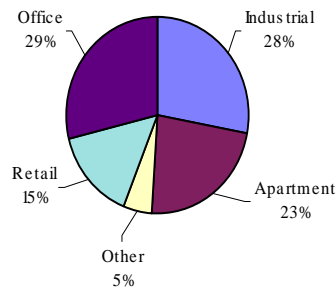
For the Periods ended June 30



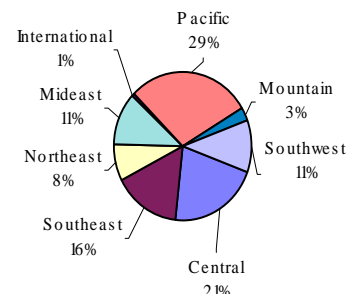
## Real Estate Portfolio

June 30, 1999

By Property Type



By Property Location



ownership of small to medium-sized properties throughout the U.S.

### Investments in Iowa

Iowa Code § 97B.7 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.7 also directs IPERS to 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," when such investments can be accomplished in a manner consistent with the other investment guidelines. At June 30, 1999, the System had invested \$1,019,508,412 in companies and real estate properties which are based in or have significant operations in the state of Iowa as shown in the table below.

<b>Asset Class</b>	<b>Iowa Based Companies/Properties</b>	<b>Companies with Iowa Operations</b>	<b>Total Investment Amount</b>
Domestic Equity	\$31,510,571	\$873,668,526	\$ 905,179,097
Domestic Fixed Income	49,262,940	52,383,009	101,645,949
Real Estate	12,649,366	-	12,649,366
Private Equity/Debt	34,000	-	34,000
<b>Total</b>	<b>\$93,456,877</b>	<b>\$926,051,535</b>	<b>\$1,019,508,412</b>

**Schedule of Brokerage Commissions Paid**  
**Year Ended June 30, 1999**

Brokerage Firms	Shares Traded	Dollar Volume of Trades	Commissions		As a % of Dollar Volume of Trades
			Dollar Amount	Per Share	
Merrill Lynch	214,439,666	\$ 316,786,348	\$ 602,098	\$ 0.003	0.19 %
Lehman Brothers	6,242,893	311,118,712	334,512	0.054	0.11
Morgan Stanley	12,396,387	246,405,448	331,333	0.027	0.13
Smith Barney	4,994,100	235,196,539	246,977	0.049	0.11
Dresdner Kleinwort Benson	8,866,639	108,891,786	228,884	0.026	0.21
Goldman Sachs	16,921,473	147,888,689	218,715	0.013	0.15
Frank Russell	3,380,975	153,161,658	198,379	0.059	0.13
Pain Webber	3,061,742	168,040,601	172,074	0.056	0.10
Donaldson Lufkin & Jenrette	2,447,200	110,341,516	136,920	0.056	0.12
Societe Generale	5,217,350	48,676,660	132,686	0.025	0.27
SBC	15,083,550	58,198,640	125,624	0.008	0.22
Salomon	15,834,910	57,376,585	125,370	0.008	0.22
James Capel	10,812,412	42,417,619	122,945	0.011	0.29
Bear Sterns	6,161,890	88,170,668	117,812	0.019	0.13
Credit Suisse First Boston	6,397,153	82,587,140	116,839	0.018	0.14
ABN AMRO	5,017,493	56,261,449	110,383	0.022	0.20
JP Morgan	2,629,735	79,690,527	107,723	0.041	0.14
BT Alex Brown	2,321,453	50,768,082	93,153	0.040	0.18
DB Clearing Services	1,590,926	58,013,758	88,597	0.056	0.15
Warburg	2,621,244	49,510,441	85,465	0.033	0.17
Prudential	1,318,199	64,444,787	73,364	0.056	0.11
SG Cowen	1,102,312	45,824,778	73,321	0.067	0.16
Bridge Trading	1,708,800	92,723,186	72,502	0.042	0.08
Investment Technology	3,146,400	149,579,265	67,908	0.022	0.05
Deutsche Morgan Grenfell	11,159,670	37,675,761	64,970	0.006	0.17
Montgomery Securities	1,233,530	51,899,266	62,705	0.051	0.12
Wachovia	1,179,200	74,103,995	58,811	0.050	0.08
Robert Fleming	13,284,531	20,394,521	58,445	0.004	0.29
Autranet	1,119,800	56,502,557	54,475	0.049	0.10
Credit Lyonnais	6,565,257	13,243,717	53,674	0.008	0.41
UBS	1,319,334	17,913,305	50,067	0.038	0.28
Others (including 204 brokerage firms)	304,991,114	823,865,157	1,261,125	0.004	0.15
<b>TOTALS</b>	<b>694,567,338</b>	<b>\$ 3,917,673,161</b>	<b>\$ 5,647,856</b>	<b>\$ 0.008</b>	<b>0.14 %</b>

## INVESTMENT POLICY AND GOAL STATEMENT

### I. INTRODUCTION - IPERS' PURPOSE AND PRINCIPLES

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

[T]o 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 by the Director of the Department of Personnel, through a 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.7.

The Investment Board designates the chief investment officer as its primary representative in the execution of the System's investment program. 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 3 percent;
  2. performance which exceeds the assumed actuarial rate of interest;
  3. performance which meets or exceeds IPERS' total fund policy return, which is defined as a passively managed benchmark comprised of the target asset allocations to, and appropriate indexes for, each asset class; and
  4. performance which exceeds the median risk-adjusted return of a universe of large public funds.

### III. INVESTMENT POLICY STATEMENT

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

#### A. Asset Allocation Policy

The System adopts and implements an asset allocation policy that is predicated on a number of factors, including:

1. The actuarially projected liability stream of benefits and its cost to both covered employees and employers;
2. The relationship between the current and projected assets of the plan and the plan's projected liabilities;

3. Expectations regarding short-term and long-term capital market returns and risks;
4. Historical returns and risks of the capital markets; and
5. The perception of future economic conditions, including inflation and interest rate assumptions, and their impacts on the System's assets and liabilities.

This policy is adopted to provide for diversification of assets in an effort to maximize the investment return to the System consistent with market and economic risk. Asset allocation identifies the classes of assets the System will utilize and the percentage each class represents of the total fund.

Each asset class selected for the IPERS portfolio serves a specific role in maximizing the total return and controlling overall risk, as follows:

Domestic Equities	Long-term return
International Equities	Long-term return, diversification
Emerging Market Equity	Long-term return greater than international equities, diversification
Global Tactical Asset Allocation	Return greater than the strategic asset allocation based on near-term market outlook
Global Fixed Income	Stable return relative to domestic equities
High Yield Bonds	Long-term return greater than global fixed income, diversification
Equity Real Estate	Diversification
Private Equity/Debt	Long-term return greater than public equities

Due to the fluctuation of market values, positioning within a specified range is acceptable and constitutes compliance with the policy. It is anticipated that an extended period of time may be required to fully implement the asset allocation policy and that periodic revisions may be effected to the allocation over time. In the absence of suitable opportunities within a specific market, the funds shall be directed to the other components within the ranges specified. The Investment Board and staff will regularly monitor and assess the actual asset allocation versus policy targets and evaluate any variations considered significant.

% of Portfolio at Market

	Target	Minimum	Maximum
<b>Equity Component</b>			
Public Market			
Domestic Equities	28	23	33
International Equities	13	9	17
Emerging Market Equities	2	1	3
% Public	43	--	--
Private Market			
Equity Real Estate	5	3	7
Private Equity/Debt	10	7	13
% Private	15	--	--
% Equity	58	50	66
<b>Fixed Income Component</b>			
Global Fixed Income	34	30	38
High Yield Bonds	3	2	4
% Fixed Income	37	32	42
<b>Global Tactical Asset Allocation</b>	5	3	7
<b>Cash</b>	0	0	5
<b>Total</b>	100%		

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## B. Portfolio Component Definitions and Performance Expectations

IPERS will utilize the following portfolio components and performance expectations, net of investment management fees, to fulfill the asset allocation targets and total fund performance goals established elsewhere in this document:

### 1. Domestic Equities

A portfolio of common stocks, stock index funds, equity commingled funds, American Depository Receipts, convertible securities, derivatives and cash. The portfolio will seek to outperform the Wilshire 5000 Index over a full market cycle. The sub-components of this portfolio will be as follows:

- a. **Passive Equity** - A highly diversified equity portfolio which is designed to emulate or index the equity market, experiences low turnover, and is fully invested in the market except during periods of rebalancing.
- b. **Active Equity** - A diversified equity portfolio utilizing large, medium and/or small capitalization stocks with moderate to high turnover, and a cash position which typically does not exceed 5%. This portfolio may be divided into separate core, growth and value components for the purpose of management. Relevant performance benchmarks will be chosen for each component.

### 2. International Equities

A diversified international investment portfolio of common stocks, equity commingled funds, closed-ended or open-ended country funds, Global, American or International Depository Receipts (GDRs, ADRs, IDRs), convertible securities, government debt instruments, foreign exchange contracts, and/or cash issued under the laws of selected foreign countries, territories, or their political subdivisions. The portfolio may be divided into separate regional and currency components for the purpose of management. The portfolio's performance is expected to exceed that of the Morgan Stanley Capital International (MSCI) All-Country World Index ex-U.S. ("ACWI ex-U.S.") over a full market cycle. The portfolio will consist of one or more of the following:

- a. **Passive Equity** - A highly diversified equity portfolio which is designed to emulate or index the international equity market or a portion thereof, experiences low turnover, and is fully invested in the market except during periods of rebalancing.
- b. **Active Equity** - A diversified international equity portfolio, and a cash position which does not exceed a range of 10% to 25%, to include non-equity exposure. The portfolio may be divided into separate regional components for the purpose of management. Relevant regional performance indexes will be chosen for each component.
- c. **Global Emerging Markets** - A diversified portfolio consisting of cash and equity and non-equity securities of countries that are generally considered to be emerging or developing by international financial markets and institutions generally, including the World Bank and the International Monetary Fund. The return objective for the portfolio is to exceed the MSCI Emerging Markets Free ex-Malaysia Index by at least 2.5% annually over a full market cycle.

### 3. Global Tactical Asset Allocation

A portfolio utilizing domestic and international stocks and/or stock index funds, bonds and/or bond index funds, cash and derivatives, to add value by actively shifting assets among the eligible asset classes and countries based upon the Manager's near-term perception of market and economic conditions. The portfolio may be divided into separate domestic and global components for the purpose of management. The performance of each component is expected to exceed by at least 1% annually that of a passively managed benchmark comprised of the target asset allocation to and appropriate indexes for each asset class. Overall, the portfolio performance is expected to exceed by at least 1% over a full market cycle that of a customized benchmark weighted 80% for the domestic component benchmark and 20% for the global component benchmark.

### 4. Global Fixed Income

A diversified portfolio of fixed income strategies and investments with the objective of outperforming the Lehman Brothers



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U.S. Universal Index by 50 basis points annually over a full market cycle. The portfolio will utilize passive and active investment strategies. The portfolio will consist of the following types of fixed-income investments: domestic and international bonds, government and government agency securities (including municipal and sovereign securities, if appropriate), bond index funds, corporate bonds, mortgage-backed and asset-backed securities, commercial mortgages and commercial mortgage-backed securities. Fixed income managers may utilize private placement structures, derivatives, foreign exchange contracts, financial futures, currency options, Eurobonds, cash and cash equivalents in the management of their respective portfolios. International bonds are considered to be a sector of the global fixed income market. Fixed income managers pursuing active strategies will be permitted to make limited tactical investments in international bonds (including bonds issued in emerging markets) and high yield bonds.

5. High Yield Bonds

The System will have a strategic allocation to a diversified portfolio of high yield corporate bonds. The portfolio will emphasize investments in fixed income securities rated BB+ and below by S&P (or equivalent at another major rating agency). The objective of the portfolio is to outperform the Salomon Cash Pay High Yield Bond Index by 100 basis points annually over a full market cycle.

6. Equity Real Estate

A diversified portfolio of real estate equity and participating/convertible debt interests in the form of private market commingled real estate fund participations, separate accounts and co-investments, and publicly-traded investments in real estate operating companies, real estate investment trusts and limited partnerships. The long term real return objective for the real estate portfolio is 6%.

7. Private Equity/Debt

Participation in investment vehicles which finance early stage and later stage companies prior to going public, vehicles investing in leveraged buyouts and turn arounds of existing companies, and other equity and debt oriented non-traditional investments. The long term return objective for this component is to exceed the Wilshire 5000 Index plus 5% on an internal rate of return basis.

8. Cash

A portfolio comprised of STIF or other short-term investment vehicles. The return objective of the cash portfolio is to exceed the rate of return on 90 Day Treasury Bills, while preserving principal. The return objective of the active component of the cash portfolio is to exceed the rate of return on the STIF by .60% annually.

C. Investment Management Policy

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

1. Manager/Consultant Utilization and Selection

The selection of the managers and consultants is accomplished in accordance with Iowa Executive Order Number 50, dated January 12, 1983, superseded by Executive Order Number 60, which provides each State of Iowa agency the authority to solicit and select professional service providers and execute and monitor state professional service contracts pursuant to the policies and procedures established by the Department of Revenue and Finance. 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 fees.

Each investment manager and consultant functions under a formal contract which delineates their responsibilities and the appropriate performance expectations. A formal set of investment guidelines and investment administrative requirements for each investment manager and consultant is provided 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/dealers as the managers may select. The investment managers will attempt to obtain the “best available price and most favorable execution” with respect to all of the portfolio transactions. In accordance with this principle, broker/dealers with an office in Iowa will be given an opportunity to compete for various transactions.

The Board and staff will consider the comments and recommendations of the 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 which 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.

#### D. Cash Management Policy

Management of cash, which is generated by contributions, investment income and proceeds of sales and maturities, shall emphasize the maximization of return within parameters of the System’s liquidity and capital preservation requirements. The allocation of cash between STIF and other short-term investment vehicles will be the responsibility of the System’s staff. Cash allocated for investment by the investment management firms is managed in accordance with the guidelines established in the contractual agreement with each firm. Due to the fluid nature of the capital markets, cash allocation decisions shall be made by the staff consistent with the Board’s investment policies and will be periodically reviewed with the Investment Board.

#### E. Currency Management Policy

In order to control and manage the underlying currency exposure of its international portfolio, the System has adopted the following currency management objectives:

1. Protect international asset values during periods of dollar strength;
2. Participate in currency returns during periods of dollar weakness; and
3. Reduce the return volatility in its non-dollar investments caused by exchange rate risk.

IPERS’ currency policy is to manage the non-dollar portion of the global fixed income allocation against a 100% hedged benchmark and may allow its non-dollar equity managers to hedge on a selective basis for the protection of the asset values. The System will not manage currency as a separate asset class or enter into speculative currency positions (i.e., currency positions greater than 100% or less than 0% of the underlying asset exposure) in its portfolio, except as it relates to specific cross-hedging activity which may be permitted in certain investment manager guidelines.

#### F. Custody

The Treasurer of the State of Iowa is the custodian and trustee 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 custodian bank agreement shall be reviewed periodically by the staff and Investment Board and is incorporated herein.

#### G. Securities Lending

The Investment Board may authorize the execution of a “Securities Lending Program” which will be conducted 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 workings of the program. The agreement(s) will be reviewed with the Investment Board and staff and will be incorporated herein.

#### H. Proxy Voting

IPERS acknowledges that proxies are a significant and valuable tool in corporate governance and therefore have economic value.

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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 directly owned by the System will be exercised by the staff, its designated voting agents, or, at staff's discretion, by selected investment managers. Votes will be cast in accordance with the "prudent person" standards delineated in Iowa Code chapter 97B.7 and the following policies:

1. The staff, or its designated agent, shall evaluate each proxy proposal and vote in the manner most beneficial to the long-term earnings of the fund.
2. The staff, or its designated agent, will cast abstention votes on proposals related to social responsibility issues where such proposals involve insignificant economic impact.
3. The effect of proposals on any Iowa-based employment of specific companies will be taken into consideration in voting proxies and tenders.

The voting rights of individual stocks held in any collective, common or pooled fund will be exercised by the trustees or agents of said fund in accordance with their own proxy voting policies, upon the determination by the System that such proxy policies are generally consistent with IPERS' proxy voting policy and statutory 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 used exclusively to reduce the normal operating expenses of the fund. It is the System's policy to refrain from using soft dollar credits, as obtained through a directed brokerage program, to acquire investment products or services or defray normal administrative expenses 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.

J. Derivatives Policy

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

K. Social Investing

As fiduciaries, the IPERS Investment Board, staff and investment managers must perform their duties for the exclusive benefit and in the best economic interest of the System's members and beneficiaries. The System will therefore oppose the investment policies or strategies which seek to promote specific social issue 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.

#### 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.7 and 97B.8.
2. The Board shall at least annually conduct a review of the general policies and procedures utilized by the System in administering the investment program.
3. The Board shall at least annually conduct a public meeting to review the policies and the investment performance of the fund.

##### B. Operational Responsibilities

1. Upon recommendation of the staff or of individual Board members, the Board shall periodically and as necessary adopt changes to the Investment Policy and Goal Statement, including the asset allocation policy targets and portfolio component definitions.
2. The Board shall approve changes to the actuarial interest rate assumption, as may be periodically recommended by staff.
3. The Board shall review the specific types and proportions of assets being utilized in implementing the overall policy, as established by the staff (e.g. the proportion of mortgage bonds within the Global Fixed Income portfolio).
4. The Board shall periodically review the cash allocation schedule as implemented by the staff, whereby available funds are channeled to specific investment portfolios and managers.
5. The Board shall approve the engagement of investment managers, and the solicitation of proposals for additional managers as recommended by the staff. The staff shall have the authority to terminate, amend or rebid contracts with existing managers. Staff shall inform the Board in advance whenever practical of its decision to terminate a manager.
6. The Board shall approve the engagement and termination of consultants, the solicitation of proposals for new consultants and the rebid of contracts with existing consultants. The staff shall have the authority to amend contracts with existing consultants.
7. The Board shall annually review the general provisions of the System's investment management contracts.
8. Commitments/cash allocations to investments within the state of Iowa (excluding publicly traded securities) in excess of 0.20% of IPERS' total fund market value shall require prior approval by the Board.
9. 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.
10. 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; and
  - 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."

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C. Administrative Responsibilities

1. The Board shall meet annually, and may meet more often, to review its investment policies. Future meeting dates shall be set by members of the Board at the end of each meeting.
2. At the first meeting in each fiscal year, the voting Board members shall elect a chair and vice-chair.
3. Advance notice of time, date, tentative agenda, and place of each Board meeting shall be given in compliance with Iowa Code chapter 21.
4. Parties wishing to present items for the Board's next meeting agenda shall file a written request with IPERS at least five work days prior to the meeting. The Board may take up matters not included on its agenda.
5. Five Board members eligible to vote shall constitute a quorum. A simple majority vote of the full voting membership shall be the vote of the Board.
6. In the event that it should become necessary to fill the chief investment officer position, the Board may consult with, and make hiring recommendations to, the Director of the Department of Personnel.

# Statistical

Average Benefit Payments for  
Last Ten Years for Retirees

New Retirees by Employer Group

Average Benefit Payments  
by Retirement Date

Membership Statistics

Additions by Source

Deductions by Type

Growth of Net Assets

Annualized Performance Summary

**AVERAGE BENEFIT PAYMENTS FOR LAST TEN YEARS  
FOR RETIREES AS OF JUNE 30, 1999**

Fiscal Year	Years of Credited Service						Total
	0-10	11-15	16-20	21-25	26-30	30+	
<b>1990</b>							
Number of Retirees	11,387	9,571	8,524	6,253	5,361	8,344	49,440
Average Monthly Benefit	\$78	\$156	\$248	\$356	\$507	\$569	\$287
Average Years of Service	7.63	13.34	18.28	23.19	28.50	36.61	19.69
<b>1991</b>							
Number of Retirees	11,403	9,647	8,663	6,429	5,449	8,324	49,915
Average Monthly Benefit	\$80	\$160	\$256	\$367	\$522	\$591	\$296
Average Years of Service	7.64	13.34	18.28	23.18	28.50	36.48	19.68
<b>1992</b>							
Number of Retirees	11,512	9,850	8,971	6,707	5,674	8,561	51,275
Average Monthly Benefit	\$83	\$168	\$267	\$386	\$551	\$633	\$315
Average Years of Service	7.64	13.34	18.28	23.18	28.53	36.31	19.73
<b>1993</b>							
Number of Retirees	11,649	10,074	9,248	7,055	6,038	9,018	53,082
Average Monthly Benefit	\$86	\$176	\$281	\$413	\$596	\$697	\$342
Average Years of Service	7.61	13.26	18.28	23.20	28.54	36.09	19.85
<b>1994</b>							
Number of Retirees	11,798	10,166	9,466	7,279	6,274	9,311	54,294
Average Monthly Benefit	\$89	\$185	\$295	\$435	\$633	\$755	\$366
Average Years of Service	7.55	13.37	18.29	23.22	28.54	35.93	19.91
<b>1995</b>							
Number of Retirees	10,302	10,356	10,082	8,189	6,314	11,341	56,584
Average Monthly Benefit	\$89	\$179	\$293	\$440	\$639	\$822	\$401
Average Years of Service	7.04	12.61	17.55	22.52	27.70	35.39	19.08
<b>1996</b>							
Number of Retirees	11,574	11,566	8,948	7,189	5,805	12,872	57,954
Average Monthly Benefit	\$119	\$206	\$330	\$475	\$672	\$837	\$428
Average Years of Service	8.31	13.29	18.28	22.75	27.44	33.91	20.24
<b>1997</b>							
Number of Retirees	12,254	10,600	10,317	8,323	5,892	12,514	59,900
Average Monthly Benefit	\$116	\$268	\$391	\$554	\$776	\$1,009	\$503
Average Years of Service	7.54	13.39	18.33	23.24	28.13	35.04	20.38
<b>1998</b>							
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 Years of Service	7.51	13.39	18.34	23.23	28.15	34.92	20.57
<b>1999</b>							
Number of Retirees	12,820	10,880	10,733	8,910	6,681	14,251	64,275
Average Monthly Benefit	\$132	\$301	\$445	\$633	\$929	\$1,232	\$609
Average Years of Service	7.47	13.38	18.35	23.25	28.17	34.82	20.69

NEW RETIREES BY EMPLOYER GROUP AS OF JUNE 30, 1999						
Fiscal Year	City	County	School	State	Other	Total
<b>1990</b>						
Number of Retirees	291	374	1,309	348	76	2,398
Average Monthly Benefit	\$418	\$391	\$524	\$463	\$433	\$479
Average Credited Service	18.55	18.32	22.98	18.70	18.32	20.01
<b>1991</b>						
Number of Retirees	313	425	1,463	465	74	2,740
Average Monthly Benefit	\$453	\$415	\$580	\$527	\$517	\$529
Average Credited Service	18.86	18.32	23.20	19.27	19.92	20.23
<b>1992</b>						
Number of Retirees	350	449	1,475	588	81	2,943
Average Monthly Benefit	\$491	\$462	\$609	\$578	\$535	\$564
Average Credited Service	18.48	18.81	22.56	19.26	18.68	19.81
<b>1993</b>						
Number of Retirees	352	549	1,747	794	92	3,534
Average Monthly Benefit	\$514	\$503	\$734	\$787	\$574	\$684
Average Credited Service	17.98	18.17	23.47	23.07	18.28	20.70
<b>1994</b>						
Number of Retirees	223	296	1,471	246	94	2,330
Average Monthly Benefit	\$581	\$545	\$843	\$672	\$648	\$754
Average Credited Service	18.48	18.81	24.38	19.22	18.94	22.34
<b>1995</b>						
Number of Retirees	431	601	2,002	635	469	4,138
Average Monthly Benefit	\$667	\$638	\$891	\$875	\$408	\$774
Average Credited Service	19.18	19.37	24.15	21.38	15.21	21.50
<b>1996</b>						
Number of Retirees	378	452	1,707	490	106	3,133
Average Monthly Benefit	\$657	\$585	\$864	\$832	\$699	\$788
Average Credited Service	18.65	18.29	23.04	20.36	18.43	21.25
<b>1997</b>						
Number of Retirees	489	539	2,006	667	119	3,820
Average Monthly Benefit	\$684	\$639	\$1,049	\$1,031	\$853	\$935
Average Credited Service	19.21	18.24	24.66	22.88	19.82	22.60
<b>1998</b>						
Number of Retirees	431	601	2,002	635	469	4,138
Average Monthly Benefit	\$667	\$638	\$891	\$875	\$408	\$774
Average Credited Service	19.18	19.37	24.15	21.38	15.21	21.50
<b>1999</b>						
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 Credited Service	18.86	19.54	24.14	21.92	21	22.42

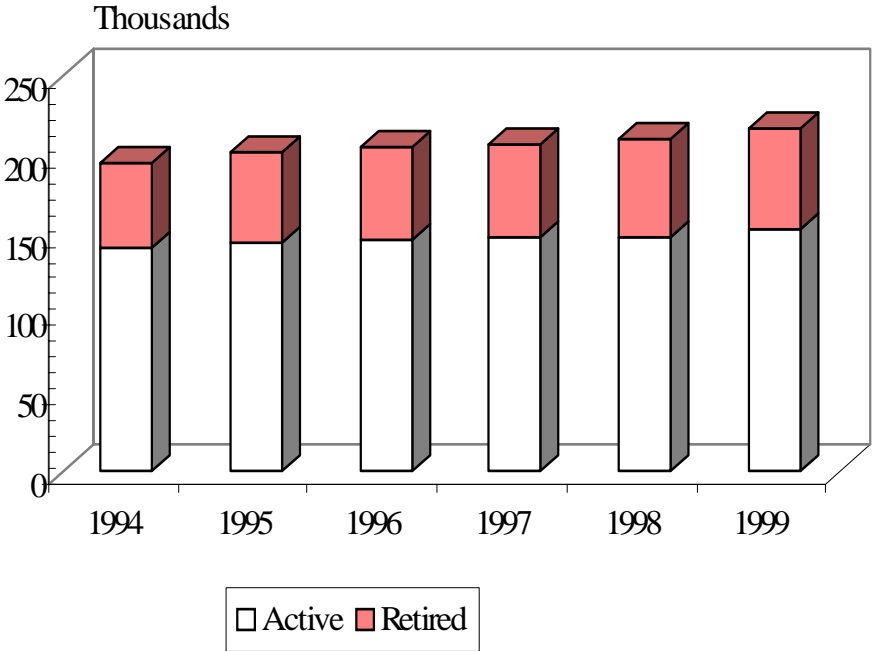


AVERAGE BENEFIT PAYMENTS BY RETIREMENT DATE FOR RETIREES AS OF JUNE 30, 1999							
Fiscal Year	Years of Credited Service						Total
	0-10	11-15	16-20	21-25	26-30	30+	
<b>Prior to 1/1/76:</b>							
Number of Retirees	857	822	634	399	258	814	3,784
Average Monthly Benefit	\$106	\$268	\$330	\$395	\$464	\$522	\$323
Average Years of Service	7.89	13.34	18.14	23.13	27.95	38.52	20.36
<b>Between 1/1/76 and 6/30/82:</b>							
Number of Retirees	2,111	1,795	1,427	1,179	749	1,430	8,691
Average Monthly Benefit	\$106	\$272	\$348	\$440	\$565	\$656	\$355
Average Years of Service	7.60	13.28	18.35	23.13	27.95	36.10	19.09
<b>Between 7/1/82 and 6/30/86:</b>							
Number of Retirees	1,915	1,596	1,559	1,117	921	1,390	8,498
Average Monthly Benefit	\$123	\$284	\$397	\$527	\$705	\$844	\$438
Average Years of Service	7.52	13.47	18.27	23.26	28.24	34.54	19.34
<b>Between 7/1/86 and 6/30/90:</b>							
Number of Retirees	2,051	1,945	2,118	1,611	1,060	2,424	11,209
Average Monthly Benefit	\$132	\$284	\$406	\$560	\$736	\$934	\$502
Average Years of Service	7.71	13.42	18.33	23.17	28.07	33.91	20.52
<b>After 7/1/90:*</b>							
Number of Retirees	5,886	4,722	4,995	4,604	3,693	8,193	32,093
Average Monthly Benefit	\$148	\$331	\$519	\$754	\$1,146	\$1,558	\$794
Average Years of Service	7.25	13.36	18.42	23.30	28.23	34.53	21.57
<b>Total as of June 30, 1999:</b>							
Number of Retirees	12,820	10,880	10,733	8,910	6,681	14,251	64,275
Average Monthly Benefit	\$131	\$301	\$445	\$633	\$929	\$1,232	\$609
Average Years of Service	7.47	13.38	18.35	23.25	28.17	34.82	20.69

MEMBERSHIP STATISTICS

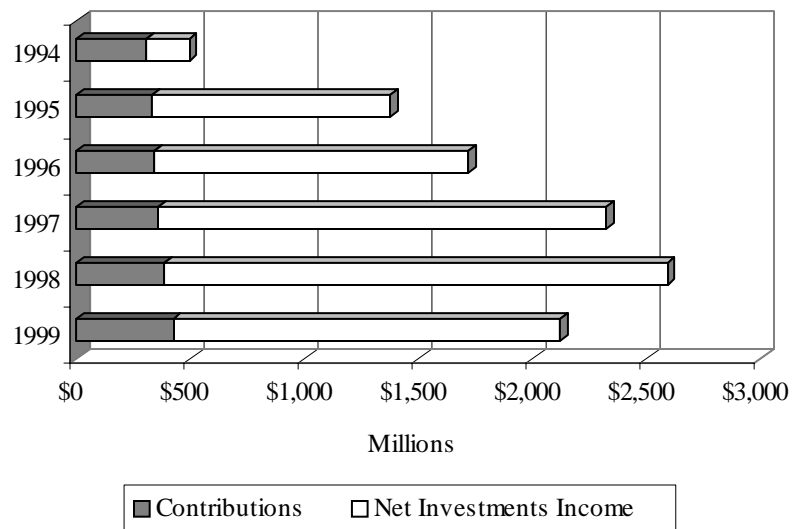
Special Statistics Last Six Fiscal Years						
Fiscal Year	Number of		Total Additions	Total Deductions	Total Investments	Total Net Assets
	Retired Members	Active Members				
1994	54,294	141,423	\$ 496,972,286	270,438,898	7,148,135,814	7,126,584,759
1995	56,584	144,912	1,375,792,511	303,160,219	8,575,937,402	8,199,217,051
1996	57,954	147,431	1,718,853,136	330,965,205	10,078,422,619	9,587,104,982
1997	59,900	147,736	2,324,514,873	377,650,932	12,356,344,733	11,533,968,923
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

**IPERS Membership by Status**  
1994 - 1999

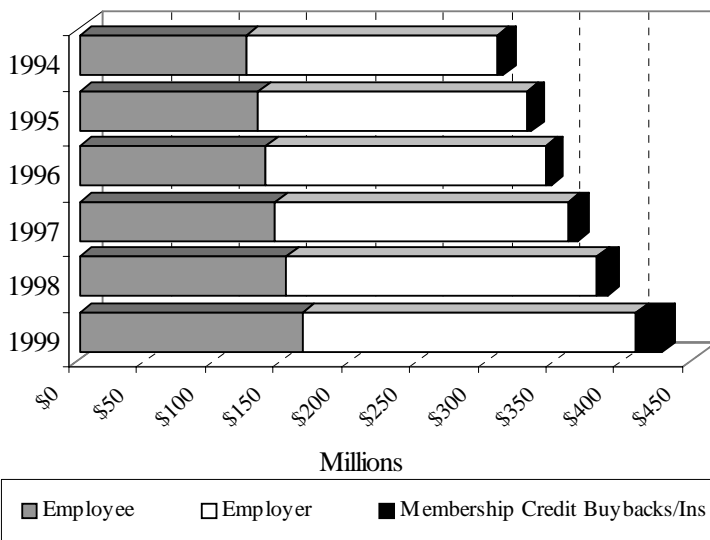


Additions by Source Last Six Fiscal Years					
Fiscal Year	Contributions			Net Investment Income	Total
	Employee	Employer	Membership Credit Buybacks/Ins		
1994	\$ 122,304,231	183,456,347	5,183,430	186,028,278	496,972,286
1995	131,117,057	196,675,586	3,870,832	1,044,129,036	1,375,792,511
1996	136,589,797	204,884,696	4,295,339	1,373,083,304	1,718,853,136
1997	143,311,565	214,967,348	6,638,079	1,959,597,881	2,324,514,873
1998	151,848,515	227,772,773	7,581,962	2,202,842,690	2,590,045,940
1999	163,288,710	244,933,066	19,169,871	1,691,099,599	2,118,491,246

**Additions by Source  
1994 - 1999**

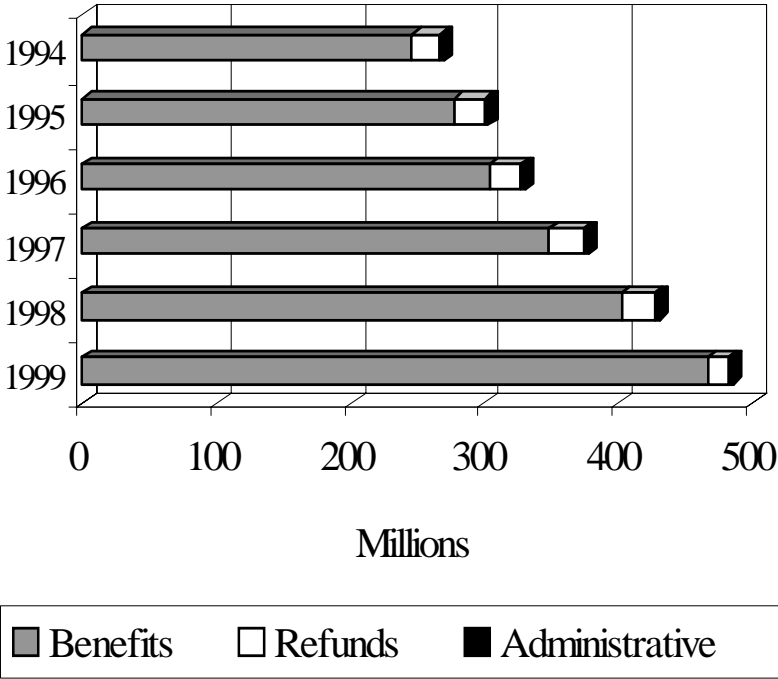


**Contributions by Source  
1994 - 1999**

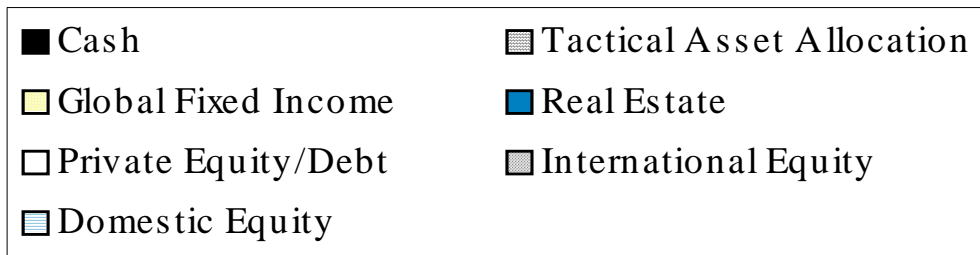
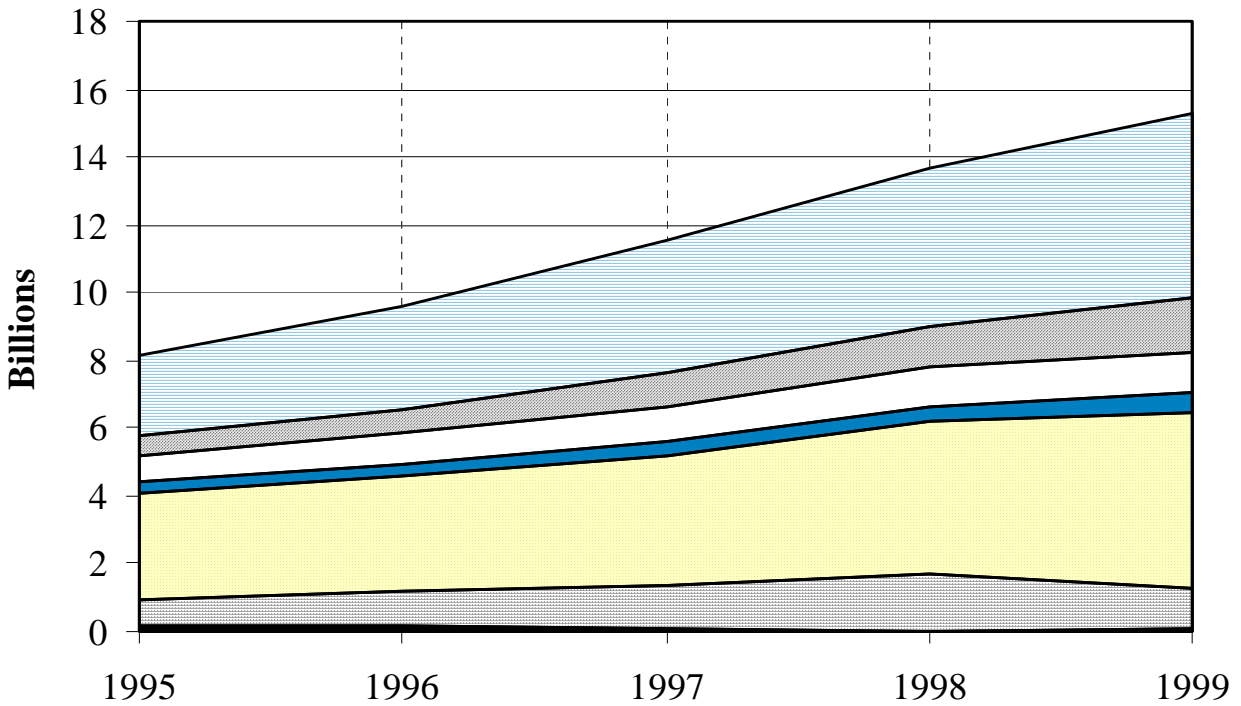


Deductions by Type Last Six Fiscal Years				
Fiscal Year	Benefits	Refunds	Administrative Expenses	Total
1994	\$ 246,123,627	21,025,322	3,289,949	270,438,898
1995	278,097,597	21,811,912	3,250,710	303,160,219
1996	303,812,003	23,743,427	3,409,775	330,965,205
1997	348,536,733	25,285,487	3,828,712	377,650,932
1998	402,544,698	24,557,597	4,012,736	431,115,031
1999	466,752,949	14,442,111	4,620,009	485,815,069

Deductions by Type  
1994-1999

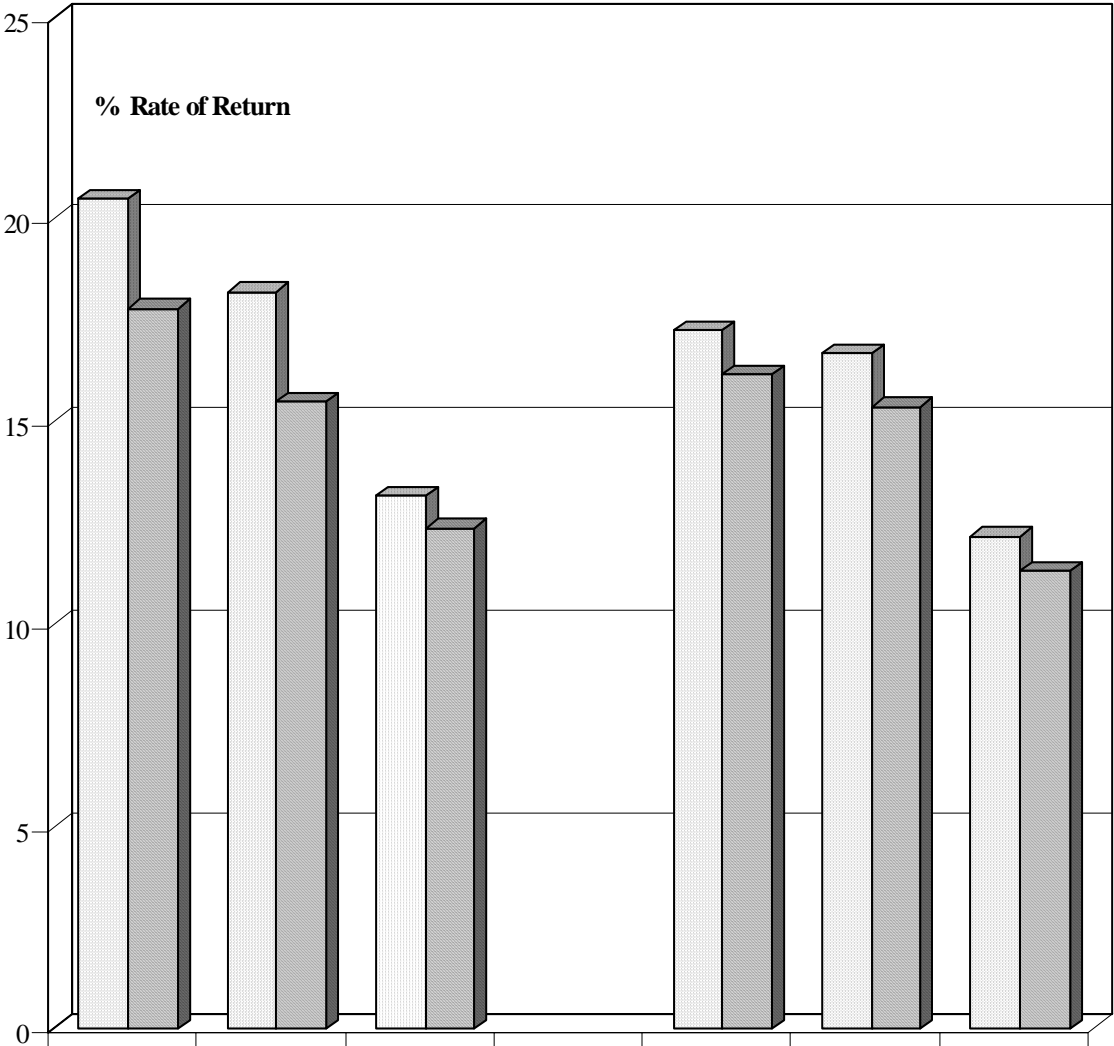


## Growth of Net Assets Five Year Historical Summary



# Annualized Performance Summary

## For the periods ended June 30



□ IPERS' Portfolio *	20.5	18.2	13.18		17.25	16.68	12.17
■ Policy Benchmark	17.8	15.5	12.37		16.16	15.36	11.30

\* Net of Fees

# Plan Summary

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Membership

Buy-backs/Buy-ins

Contributions

Vesting

Refunds

Benefits

**Membership and Employer Information\***  
**For the Fiscal Year Ended June 30**

**Membership**

	<b>1999</b>	<b>1998</b>
<b>Retired Members</b>		
All Retired Members .....	64,275	62,106
Average Years of Service.....	21	21
Average Monthly Benefit.....	\$609	\$548
Current Year Member Retirements .....	3,984	4,138
Average Years of Service.....	22	22
Average Monthly Benefit.....	\$1,072	\$774
Retired Reemployed** .....	4,961	4,361
<b>Active Members</b> .....	152,991	150,141
<b>Inactive Vested</b> .....	32,854	43,286
<b>Inactive Nonvested</b> .....	59,336	45,130
<b>Total Membership</b> .....	309,456	300,663

\*Varies by calendar quarter.

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

**Employer**

<b>Employer Type</b>	<b>1999</b>		<b>1998</b>	
	<b>Number of Entities</b>	<b>Covered Wages</b>	<b>Number of Entities</b>	<b>Covered Wages</b>
City	1,307	\$ 492,084,653	1,315	\$ 465,321,385
County	429	604,817,270	431	577,800,958
School	399	1,958,232,737	401	1,896,168,053
State	23	819,516,473	24	775,108,674
Other	218	211,921,293	205	194,071,986
Total	2,376	\$4,086,572,426	2,376	\$3,908,471,056

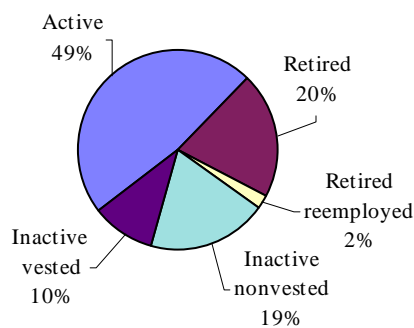


## Membership

Participation in IPERS is mandatory for most employees of the State of Iowa and its political subdivisions, including public school systems, except for those employees covered by another retirement system, other than Social Security, supported in whole or in part by public contributions. Membership is optional for the members of the Iowa General Assembly and certain other individuals.

At June 30, 1999, there were 152,991 active members employed by 2,376 public employers actively contributing to the System. The number of active employees increased by 2,850 from June 30, 1998. The chart below, "Membership Profile," provides further information on the composition of the members for fiscal year 1999.

**Membership Profile**  
June 30, 1999



## Buy-backs/Buy-ins

Under certain circumstances, members may buy back previously refunded member service or may purchase (buy in) IPERS service credit for public employment elsewhere. A member wishing to buy back previously refunded service must repay the refunded amount plus accumulated interest. Currently, a member wishing to purchase IPERS service credit for public employment elsewhere must pay a cost per year based on the employer's and employee's contribution rate multiplied by the member's covered wages for the most recent calendar year. There are federal limitations on how much service credit a member may purchase annually.

## Contributions

IPERS accumulates the resources necessary to meet its responsibilities by collecting mandatory contributions from employees and employers and by investing those funds. Employee contributions made on or after January 1, 1995 are treated as a pretax payment for federal income tax purposes only. Employee contributions made on or after January 1, 1999 are treated as a pretax payment for state income tax purposes also. Contributions continue throughout covered employment. The majority of employers contribute at a rate of 5.75% and employees at a rate of 3.7%. Certain employers and employees in special risk occupations contribute at a slightly higher rate as required by statute. The table "Contribution Rates & Maximums" on the following page reflects the current contribution rates for employers and employees. For calendar year 1999, contribution rates were based on the federal wage ceiling of \$160,000.

<b>Contribution Rates &amp; Maximums</b>				
<b>IPERS</b>	<b>Employee</b>	<b>Employer</b>	<b>Total</b>	<b>Maximum</b>
<b>Regular</b> 07/01/98 to 06/30/99	3.70%	5.75%	9.45%	\$160,000
<b>Special Subgroups</b> <b>1) Sheriffs/Deputy Sheriffs (County) and Airport Firefighters</b> 07/01/98 to 06/30/99	6.34%	9.51%	15.85%	\$160,000
<b>2) Protection Occupations*</b> 07/01/98 to 06/30/99	5.61%	8.41%	14.02%	\$160,000

\*Protection Occupations: City Marshals/Police or Firefighters in towns under 8,000 population, State Conservation Peace Officers, State Correctional Officers, Airport Safety Officers, DOT Peace Officers, and Fire Prevention Inspector Peace Officers.

## Vesting

Vesting entitles a member to receive IPERS benefits at some point in the future. While the requirements for vesting have changed over time, in general a member vests after completing four years of service or after attaining the age of 55, regardless of the termination date or length of service.

## Refunds

An IPERS member who terminates public employment for any reason may request a full refund of the member's accumulated contributions. Acceptance of the refund automatically terminates IPERS membership and all claims to future benefits. Employer contributions and interest and dividends earned on employer contributions are not currently refundable. These funds remain in the Trust Fund and are used to finance current and future benefits to members. Refunds paid for fiscal year 1999, excluding death benefits, totaled \$9,238,246. The amount of refunds paid in fiscal year 1999 is significantly lower than that paid in fiscal year 1998 (\$17,196,560) due in large part to a law change effective July 1, 1999 that allows vested members to receive a portion of their employer's accumulated contributions also. Many members delayed their refunds until July 1999 in order to receive a higher amount.

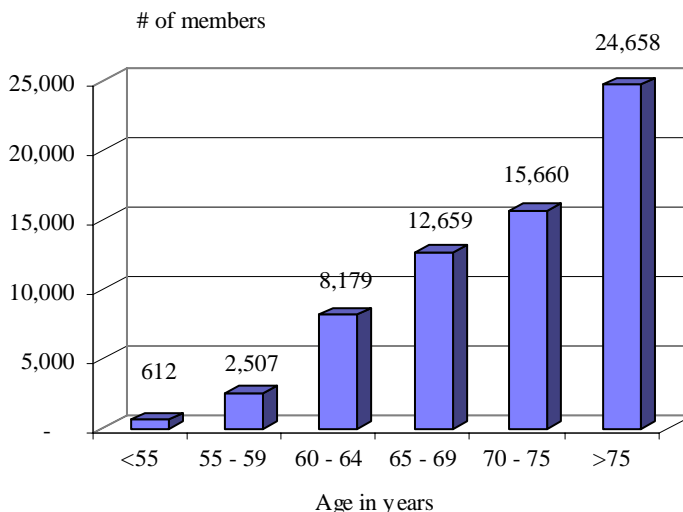
## Benefits

### Retirement Ages

To receive full retirement benefits, an IPERS member must retire at or after "normal retirement age" with 30 or more years of service. Normal retirement is the first of the month in which the member turns 65, the first of the month in which the member turns 62 if the member has 20 years of membership service, or the first of the month in which the member's age and years of service when combined equal 88. A vested member who is awarded federal Social Security or federal Railroad Retirement disability benefits, but who has not reached normal retirement age, is eligible for IPERS benefits, unreduced for age, regardless of the length of service. A member can take retirement as early as age 55, but benefits will be reduced if the member's retirement precedes the normal retirement date. At the close of fiscal year 1999, a total of 64,275 IPERS and Iowa Old-Age and Survivors' Insurance System (IOASI) members were receiving pension benefits. The graph entitled "Retired Members by Age," provides a breakdown of the number of retirees in various age groups.

### Retired Members by Age

as of June 30, 1999

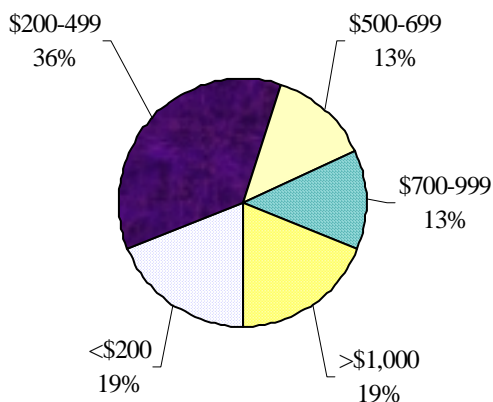


### Benefit Amounts

For all present retirees, the monthly IPERS benefit check averages \$609. For members retiring in fiscal year 1999, the average benefit was \$1,072. The average member retired with 22 years of service. The “Retirees by Monthly Benefit” chart below provides a statistical breakdown of benefit levels received by retirees. The amount of the benefit depends upon the number of years of credited service and the “average covered wage.” Other determining factors are the member’s age at retirement, the years of prior service credit, and the option selected by the retiree. An IPERS member who retires under option two at age 65 with at least 10 years of service is assured a minimum benefit of \$50 per month. Permanent increases of 15% were paid to members who retired prior to July 1, 1986. Increases of 7% were paid to members who retired after July 1, 1986 but before July 1, 1990.

Under the “high three” formula, full benefits are based upon 30 years of service and retirement at the “normal retirement age.” Years of prior service can be credited toward the 30 years. Benefits will be prorated downward for members who have less than 30 years or who retire before their normal retirement age. Four or more years of service are required to qualify for the “high three” formula benefit. A vested member with less than four years receives benefits computed on a money

### Retirees by Monthly Benefit June 30, 1999



purchase basis. For regular class members, years of service beyond 30 will earn 1% for each year through 35 years, thereby increasing the maximum possible benefit to 65% of a member's highest three-year average covered wage.

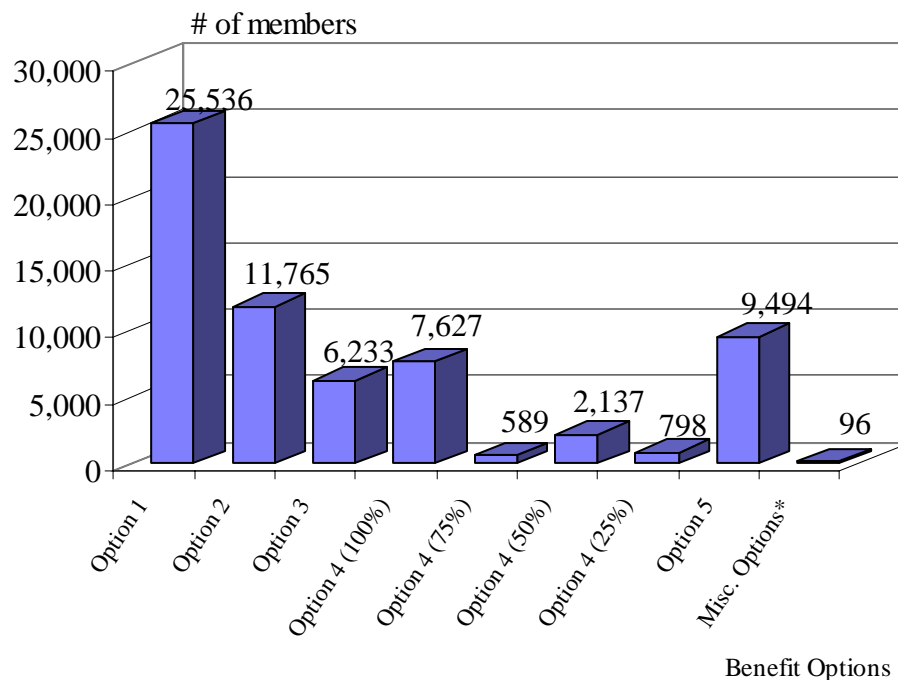
**Benefit Options:**

Upon retirement, an IPERS member may choose from five benefit options. Each of the five options provides a lifetime benefit for the IPERS member. The amount and availability of survivor monthly benefits or a lump sum death benefit vary according to the option selected.

**Option 1** - A member receives a lifetime monthly benefit. At retirement, the member specifies a lump sum death benefit amount, in \$1,000 increments, to be paid to a designated beneficiary upon the death of the member. The death benefit cannot exceed the member's accumulated contributions. The death benefit cannot lower the monthly benefit as calculated under Option 2 by more than 50%.

**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.

**Retired Membership by Benefit Option  
as of June 30, 1999**



\*Consists of benefits available under previous laws

**Option 3** - A member receives the maximum lifetime monthly benefit. No payment is made to a beneficiary upon the member's death.

**Option 4** - A member receives a lifetime monthly benefit actuarially reduced to provide for a lifetime monthly benefit to the contingent annuitant upon the member's death. The age of the contingent annuitant determines the cost of the lifetime

payments to the member based on actuarial tables. The contingent annuitant can receive 100%, 75%, 50% or 25% of the member's monthly benefit. This amount is subject to restriction if the contingent annuitant is not the member's spouse and is more than ten years younger than the member.

**Option 5** - A member receives a lifetime benefit with a ten-year guarantee. If the member dies before ten full years (120 monthly payments are made), the member's designated beneficiary will receive a monthly benefit for the remainder of the ten years. If the beneficiary should die before the ten years expire, the beneficiary's estate will receive a commuted lump sum settlement. If the member designates more than one beneficiary, payments will be made in a lump sum only. Members who have attained age 90 as of the first month of entitlement are not allowed to select this option.

**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, once a year a lump sum "dividend" payment is made. For retirees that began benefits prior to July 1990, the dividend is included with a member's regular November benefit payment. Post June 1990 retirees received 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. In November 1998, the dividends paid totaled \$14,086,374 and the January 1999 FED totaled \$12,152,683.

**Death Benefits**

If an IPERS member dies before retirement, the member's designated beneficiary receives a lump sum cash payment based on the

$$\text{Death benefit} = \text{Member's accumulated contributions} + \frac{\text{Member's highest year of covered wage}}{\text{Years of Membership service}} \times \frac{\text{Years of Membership service}}{30 \text{ years}^*}$$

following formula:

\* The denominator is 22 for sheriffs, deputy sheriffs, and airport firefighters. It is 25 for all other special risk occupations.

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. For fiscal year 1999, death benefits paid to beneficiaries or to the estates of deceased nonretired and retired members totaled \$5,203,865.