I P E R S

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, 2001

Iowa Public Employees' Retirement System

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Comprehensive Annual Financial Report
A Pension Trust Fund of the State of Iowa
For the Year Ended June 30, 2001

Prepared By:
Iowa Public Employees' Retirement System

Mollie K. Anderson, Director
Iowa Department of Personnel

For More Information

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FOR THE FISCAL YEAR 2001

Fiscal Year 2001 Highlights:

Membership:

Active Membership	154,610
Retired Membership	68,703

Contributions:

Employee	$ 178,876,729
Employer	268,315,094
Buy-backs/Buy-ins	3,847,364

Distributions:

Benefits Paid	$ 624,259,449
Refunds Paid	42,073,825

Investments:

Net Investment Income/(Loss)	$ (989,190,300)
Investment Rate of Return	(4.73)%

Funding:

Net Assets Held in Trust for Pension Benefits	$15,928,547,166
Actuarial Present Value of Total Projected Benefits or Total Liabilities	$19,313,637,119

Introduction

Not available online

December 14, 2001

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

We are pleased to present the 48th comprehensive annual financial report of the Iowa Public Employees' Retirement System (IPERS or System) for the fiscal year ended June 30, 2001. 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 USA, 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.

- 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.

Structure and Governance Legislation:

In response to recommendations made by the Task Force on IPERS Structure and Governance (Task Force) chartered by the Honorable Thomas J. Vilsack, Governor of Iowa, legislation was proposed and enacted in the 2001 legislative session. The purpose of the legislation was to make IPERS more effective, more efficient and responsive in fulfilling its fiduciary responsibilities to members and other stakeholders. Some of the more notable governance changes, effective July 1, 2002, unless otherwise indicated, included the following:

- IPERS becomes a separate and distinct division of the Iowa Department of Personnel, with its own Chief Executive Officer;

- the IPERS Investment Board becomes Trustee, with enhanced powers and duties;

- a Benefits Advisory Committee, composed of representatives of various employee and employer constituent groups, is established to review and make recommendations to IPERS and the General Assembly about benefits provided, benefits policies, and benefits goals with respect to Chapter 97B; and

- effective July 1, 2001, a Transition Benefits Advisory Committee was created to lay the groundwork for the operation of the permanent Benefits Advisory Committee.

Preparation for full implementation of the 2001 legislation altering IPERS’ governance and structure will be ongoing.

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 68,000 members. More than 81% 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 64,000 benefit estimates, fielded over 91,000 phone calls and provided on-site preretirement counseling to over 2,900 members. The staff also provided multiple off-site retirement seminars for members, mostly at employer locations around the state, reaching over 3,000 members. Over 3,700 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. Over 2,300 buy-back/buy-in applications were received in fiscal year 2001, with over 800 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. Some of these publications and certain other forms can be downloaded from our web site for use by our IPERS members.

Benefit Improvements:

During the 2000 session, the General Assembly passed many major enhancements designed to continue the process of making IPERS competitive with its public retirement plan peers. Many of those enhancements flowed from prior years' benefit enhancement studies performed by Buck Consultants and William H. Mercer, Inc. Much of fiscal year 2001 was spent in the implementation of these legislative changes. Some of the more notable changes included:

- amendment of the Cost-of Living adjustment for pre-July 1, 1990 retirees to be 100% of the Consumer Price Index up to a maximum of 3%;
- improved preretirement death benefits, including the ability to annuitize the improved lump sum amount;
- parity for IPERS protection occupation members, by making annual adjustments which will make the accrued benefit per year of service equal for all public safety employees beginning July 1, 2003; and
- reduced penalties for early retirement calculated by linking adjustments to the member's earliest normal retirement age, including Rule of 88.

Major Initiatives:

- **Portability.** 2000 Iowa Acts, chapter 1077, section 83, directed IPERS to commission a study of enhanced portability options. In June 2001, the selected consultant, Buck Consultants, submitted its portability report and recommendations for improvements. IPERS filed a report on the outcome of this portability study and its own recommendations with the legislature October 31, 2001.
- **Internet and Document Management Strategic Plans.** IPERS has received funding to implement the recommendations from its information technology consultant, Covansys Corporation, for implementation of an electronic document management system and for an interactive Internet presence with IPERS covered employers. Requests for Proposals are being prepared for issuance.
- **Implementation of Prospective 2000 Legislation.** In 2000 Iowa Acts, chapter 1077, the legislature authorized direct rollover transfers for making service purchases, to be effective July 1, 2002 and a new

method for calculating a member's final average salary, to be effective July 1, 2003. Preparations for implementation of those changes, including programming, rule-drafting, and education, are under way, and will be ongoing.

Internal Revenue Service (IRS) Matters:

· **Private Letter Ruling Requests.** The IRS has a large backlog of private letter ruling requests in highly technical areas such as pension plans. IPERS has submitted two private letter ruling requests that are caught up in this backlog. One relates to the Qualified Benefits Arrangement enacted at Iowa Code Section 97B.49I. Recent federal tax law changes have somewhat eased the need for an immediate response to this ruling request. The other private letter ruling is a request for a ruling that in-service disability benefits paid to IPERS covered public safety employees under Iowa Code Section 97B.50A are exempt from federal income tax.

· **Favorable Determination Letter.** On March 5, 2001, IPERS received a favorable ruling from the IRS with respect to its status as a plan qualified under Internal Revenue Code Section 401(a). This request was submitted by IPERS to protect IPERS' qualified plan status following the substantial amendments enacted in 2000 Iowa Acts, chapter 1077.

Financial Highlights:

Total Net Assets

Total net assets held in trust for pension benefits decreased from $17,140,231,190 on June 30, 2000 to $15,928,547,166 on June 30, 2001. These assets consist of fixed assets owned by IPERS and investment portfolio assets.

Investment Portfolio Assets

At the close of fiscal year 2001, IPERS' net investment portfolio assets had a fair value of $15,912,913,854. The change in fair value represents a decrease of $1,215,567,437 from the $17,128,481,291 net investment asset fair value as of June 30, 2000. The decrease in net investment portfolio asset fair value is attributable to two factors. The first factor is that employer and employee contributions to IPERS no longer fully fund the benefit payments, member refunds and administrative expenses of the System; funds must regularly be drawn from the investment portfolio to help meet these obligations. This draw down of investment assets is typical for a mature pension system, and IPERS' actuary continues to project that the assumed long-term investment return, when combined with ongoing employer and employee contributions, will be sufficient to meet IPERS' actuarial liabilities. For the year ended June 30, 2001 employee and employer contributions totaled $451,039,187 while total member benefits paid equaled $666,333,274 (*regular monthly benefits, COLA and FED*). The resulting $215,294,087 contribution shortfall was funded with investment portfolio earnings as would be expected in a mature pension system. The second factor contributing to the decrease in net investment portfolio assets was the System's negative fiscal year 2001 investment return, which is more fully addressed below.

Investment Results

A major market correction during the year ended June 30, 2001 had a negative impact on the Trust Fund's investment portfolio assets. The total return on investments for the fiscal year ended June 30, 2001 was a negative 4.7%. The total return on investments for the ten-year period ending June 30, 2001 was 11.2%. While benefiting from the strong capital market performance of the most recent decade, it should be anticipated, as was shown in the current year, that the strong 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 investment performance which, when combined with employer and employee contributions, will meet or exceed 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 service occupations (e.g., law enforcement, fire safety, and similar protection occupations) contribute at a higher rate as required by statute, as do their employers. Revenues from employer and employee contributions, excluding buy-back/buy-in contributions, totaled $447,191,823 for fiscal year 2001, a 6% increase from the prior fiscal year. Buy-back/buy-in contributions for the year amounted to $3,847,364, a 48% decrease from the prior year. Net investment income/(loss) for fiscal year 2001 was $(989,190,300), a decrease of $2,979,556,666 from the prior year.

Revenues
($ millions)

Source	2001	2000	% Change
Employee Contributions	$ 178.9	$ 168.8	6
Employer Contributions	268.3	253.3	6
Buy-backs/Buy-ins	3.8	7.3	(48)
Net Invest. Income/(Loss)	(989.2)	1,990.4	(150)
Total	$(538.2)	$2,419.8	(122)

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 $666,333,274. This amount increased 11% 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 68,703, a net increase of 2,022. The average monthly retirement benefit, including the November dividend payment, increased to $692.

Expenses
($ millions)

Type	2001	2000	% Change
Benefits	$624.2	$533.8	17
Refunds	42.1	65.6	(36)
Administrative	7.3	5.9	24
Total	$673.6	$605.3	11

All administrative expenses for the System are paid from the IPERS Trust Fund. The administrative budget is submitted to the Legislature annually for formal approval. Those administrative expenses totaled $7,264,447 for fiscal year 2001, a 24% increase from last year. The increase was, in large part, due to continuing reengineering of IPERS computer systems.

The System retains two investment consultants and several 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 $42,597,049 for these services, a 37.4% increase from last year. The increase in fees is attributable to higher performance fees earned by investment managers. For several managers that earned performance fees in fiscal year 2001, the magnitude of their outperformance over their market benchmark was greater than in fiscal year 2000. Some managers underperformed their market benchmark in fiscal year 2001. IPERS' performance fee structures allow investment managers to share in the financial gains of their outperformance while 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 .40 of 1% of the total fund's fair value. For fiscal year 2001, the System expended .26% of the total fund's quarterly average fair value for investment management expenses, 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, 2001 reflects an unfunded actuarial liability of $440,954,575. This represents the difference between the actuarial accrued liability of $15,553,379,304 and the actuarial value of net assets of $15,112,424,729. During the fiscal year, the unfunded actuarial accrued liability increased by $114,445,353 from the preceding fiscal year's ending balance. This increase is the net impact of an experience gain on the actuarial value of assets and an experience loss on liabilities, the latter largely due to the improvements in the member dataset used for the valuation. The System's amortization period for the unfunded actuarial liability increased from 21 to 39 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, over the long term, 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 Administration and have been prepared in accordance with U.S. generally accepted accounting principles for governmental accounting and reporting as pronounced or adopted by the Governmental Accounting Standards Board and the Financial Accounting Standards Board. IPERS Administration is also responsible for maintaining an internal accounting control system designed to provide reasonable assurance that transactions are executed in accordance with Administration's general or specific authorization and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles.

Independent Audit:

The Auditor of State is required by Iowa Code chapter 11 (2001) to audit annually all departments of the State. The accompanying financial statements of the System have been audited by the Auditor of State in accordance with U.S. generally accepted auditing standards, state law, and Government Auditing Standards. The Auditor's report is contained in the Financial section of this report.

Certificate of Achievement:

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Iowa Public Employees' Retirement System for its comprehensive annual financial report for the fiscal year ended June 30, 2000. 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 U.S. 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 through the IPERS web site or upon request.

Sincerely,

Mollie K. Anderson, Director
Iowa Department of Personnel

Kathy S. Comito
Chief Investment Officer

Greg Cusack
Chief Benefits Officer

Gregg A. Schochenmaier, General Counsel
Manager, Legal and Communications

Leon J. Schwartz
Chief Operations Officer

Not available online

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.
- 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.

IPERS Investment Board

Bruce G. Kelley
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 Blue Cross And Blue Shield of Iowa, Des Moines
Term Expires 2005

Mollie K. Anderson
Director, Iowa Department of Personnel, Des Moines
(ex officio, nonvoting member)

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.
- Overseeing the investment of the System's funds in accordance with the Investment Policy and Goal Statement adopted by the Investment Board.

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

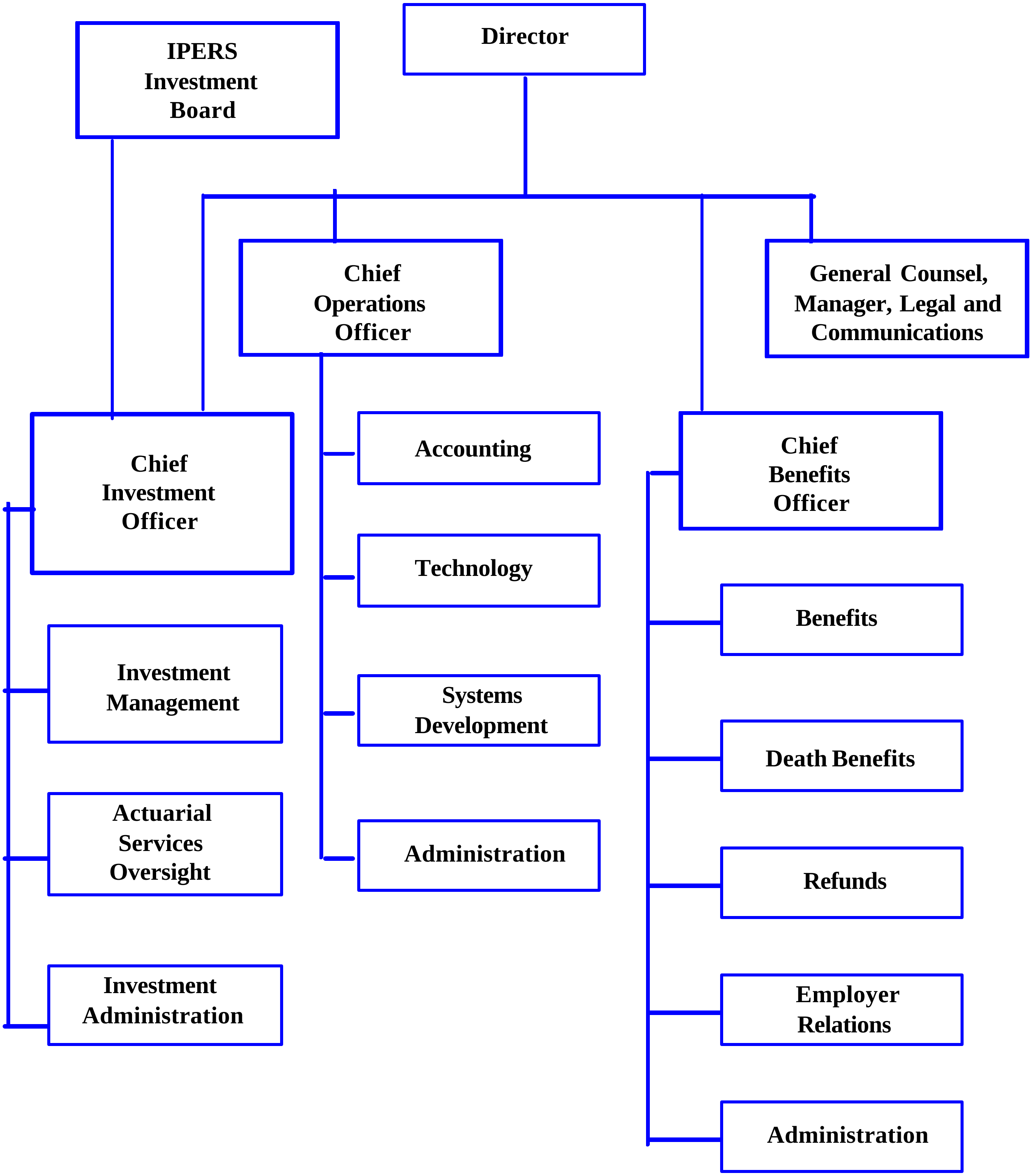
Operations

Leon J. Schwartz ¨ Chief Operations Officer

Legal & Communications

Gregg A. Schochenmaier ¨ General Counsel, Manager, Legal and Communications

Iowa Department of Personnel
IPERS Division



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.
- 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.
- 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.
- 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.
- 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 - Everett, MA

INVESTMENT CONSULTANTS
Wilshire Associates Inc. - Santa Monica, 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.
- 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

Putnam Institutional Management
Boston, MA

Schroder Investment Mgmt. North America Inc.
London, England

TACTICAL

Baring International Investment Ltd.
Boston, MA

Mellon Capital Management
San Francisco, CA

PRIVATE EQUITY/DEBT

Pathway Capital Management
Irvine, CA

Warburg, Pincus Asset Management, Inc.
New York, NY

GLOBAL FIXED INCOME

BlackRock Financial Management
New York, NY

Heitman Capital Management
Chicago, IL

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

Mellon Capital Management
San Francisco, CA

Miller, Anderson & Sherrerd
West Conshohocken, PA

Oaktree Capital Management
Los Angeles, CA

Western Asset Management Co.
Pasadena, CA

REAL ESTATE

AEW Capital Management
Boston, MA

Heitman Capital Management
Chicago, IL

INVESCO Realty Advisors
Dallas, TX

RREEF America LLC
Chicago, IL

TA Realty Corporation
Boston, MA

UBS Brinson Realty Investors LLC
Hartford, CT

CASH

Mellon Bond Associates
Pittsburgh, PA

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Financial

Independent Auditor's Report

Basic Financial Statements

Statement of Plan Net Assets

Statement of Changes in Plan Net Assets

Notes to the Financial Statements

Supplementary Information

BASIC FINANCIAL STATEMENTS

Iowa Public Employees' Retirement System

Exhibit A

Statement of Plan Net Assets
June 30, 2001 and 2000

	2001	2000
Assets:		
Cash and cash equivalents	$ 114,191,694	$ 53,633,269
Contributions receivable	39,220,096	33,232,166
Accrued interest and dividends	42,359,790	41,623,359
Receivable for investments sold	383,465,133	166,738,881
Foreign exchange contracts receivable	141,771,737	77,105,784
Miscellaneous receivable	- 0 -	181,128
Total	721,008,450	372,514,587
Investments at fair value (note 3)	16,854,676,024	18,358,625,668
Fixed assets - net of accumulated depreciation (note 5)	4,359,014	4,239,779
Total Assets	$17,580,043,488	$18,735,380,034
Liabilities:		
Accounts payable and accrued expenses	$ 29,953,473	$ 22,755,805
Payable for investments purchased	826,859,908	961,882,627
Rebates and collateral payable	655,080,961	533,437,139
Foreign exchange contracts payable	139,601,980	77,073,273
Total Liabilities	1,651,496,322	1,595,148,844
Net assets held in trust for pension benefits (note 10)	$15,928,547,166	$17,140,231,190

(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, 2001 and 2000

	2001	2000
Additions:		
Contributions:		
Employer contributions	$ 268,315,094	$ 253,271,051
Employee contributions	178,876,729	168,847,367
Buy-back/buy-in contributions	3,847,364	7,295,195
Total contributions	451,039,187	429,413,613
Investments:		
Interest	471,887,614	384,080,928
Dividends	80,717,280	91,198,414
Real estate and private equity/debt	75,617,154	49,594,632
Tactical	22,743,769	40,963,371
Net appreciation (depreciation) in fair value of investments	(1,602,178,006)	1,452,037,499
Security lending income	37,846,439	24,729,865
Other	776,030	722,625
Investment income (loss)	(912,589,720)	2,043,327,334
Investment management expense	42,597,049	31,008,690
Security lending expense	34,003,531	21,952,278
Net investment income (loss)	(989,190,300)	1,990,366,366
Miscellaneous income	64,810	97,030
Total additions (decrease)	(538,086,303)	2,419,877,009
Deductions:		
Monthly benefit payments	624,259,449	533,747,215
Member and employer refunds	42,073,825	65,608,628
Administrative expense	7,264,447	5,865,985
Total deductions	673,597,721	605,221,828
Net increase (decrease)	(1,211,684,024)	1,814,655,181
Net assets held in trust for pension benefit beginning of year	17,140,231,190	15,325,576,009
Net assets held in trust for pension benefit end of year (note 10)	$15,928,547,166	$17,140,231,190

See notes to financial statements.

Notes to the Financial Statements
June 30, 2001 and 2000

(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.

	June 30, 2001	June 30, 2000
Employer members:		
City	1,298	1,298
County	472	441
School	397	397
State	25	24
Other	230	226
Total	2,422	2,386
Employee members:		
Current retirees and beneficiaries	68,703	66,681
Inactive vested	32,295	30,650
Active vested plan members	115,352	114,114
Active nonvested plan members	39,258	40,498
Inactive nonvested	63,810	60,372

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 – A member may retire at age 65 (or any time after reaching age 62 with 20 or more years of covered employment) and receive monthly benefits without an early retirement adjustment.

A member is entitled to benefits without an early retirement adjustment if the member's years of service plus the member's age at the member's last birthday equals or exceeds 88. (This applies only if these qualifications are met on the member's first month of entitlement to benefits.)

A member's monthly retirement allowance will be reduced by .25% for each month that the member's first month of entitlement precedes the date the member would have first retired with a normal retirement allowance based on the member's actual age and years of service at the first month of entitlement.

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

If a member dies before retirement, the beneficiary will receive a lifetime annuity or a lump sum cash payment which is the greater of the actuarial present value of the member's accrued benefit or 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. A vested member is also entitled to receive a portion of the employer'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 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 higher rates as shown in the table below. Wages are covered up to the federal limit of $170,000.

CONTRIBUTION RATES IN EFFECT JULY 1, 2000 - JUNE 30, 2001

	Employee	Employer	Total
Regular	3.70%	5.75%	9.45%
Sheriffs/Deputy Sheriffs (County) / Airport Firefighters	5.59%	8.39%	13.98%
Protection Occupations*	5.90%	8.86%	14.76%

* 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 U.S. generally accepted accounting principles as applied to government units.

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 value. The determination of fair value is generally based on published market prices and quotations from major investment brokers. Investments not having quoted market prices have been valued based on yields and maturities currently available on comparable securities of similar issue. Fair values for real estate, 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 fair 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 fair value of any U.S. securities lent and 105% of the fair 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 $119,918 in credit risk exposure to borrowers because the amounts they owed the System exceeded the amount the System owed them on 28 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, 2001, the System had securities on loan of $660,966,897 against collateral with a total value of $681,884,221.

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, 2001 and 2000 summarized according to asset class.

Asset Class	June 30, 2001	June 30, 2000
Domestic Equity	$ 4,588,259,855	$ 4,914,395,105
International Equity	2,244,738,148	2,442,677,906
Global Fixed Income	6,479,016,098	7,003,083,153
Tactical	812,765,951	888,238,021
Real Estate	885,270,327	685,633,246
Private Equity/Debt	1,189,214,008	1,890,871,718
Securities Lending Collateral Pool	655,411,637	533,726,519
Total	$16,854,676,024	$18,358,625,668

IPERS' investments are categorized in the following chart to give an indication of the level of credit risk assumed by IPERS at June 30, 2001. 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, 2001 and 2000 follows:

Investment	June 30, 2001	June 30, 2000
Category 1:		
Domestic Equity	$ 2,148,915,726	$ 2,686,681,001
International Equity	867,873,499	1,066,731,393
Global Fixed Income	2,683,227,273	3,129,593,231
Foreign Currency	1,642,496	465,428,243
Subtotal	5,701,658,994	7,348,433,868
Not categorized:		
Securities on Loan with Brokers	660,966,897	521,906,689
Investment in Mutual & Commingled Funds	7,730,065,984	7,420,127,386
Investment in Short-Term Investments Funds (STIF)	185,691,210	427,133,465
Investment in Real Estate	812,554,551	626,507,950
Investment in Private Equity/Debt	1,108,326,751	1,480,789,791
Securities Lending Collateral Pool	655,411,637	533,726,519
Total Investments	$16,854,676,024	$18,358,625,668

E. Fixed Assets

The purchase of a building and land in November 1999 was recorded at cost including the costs of acquisition and remodeling. The building is being depreciated using the straight-line method and a useful life of 39 years. Land, a nonexhaustible asset, is not depreciated. Other fixed assets consist primarily of office furniture and information technology equipment. All purchased equipment is recorded at cost. Depreciation on equipment is computed using the straight-line method based on estimated useful lives ranging from 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

In July and August 2000, IPERS leased the building space occupied by its administrative offices. The lease required the payment of normal maintenance and property taxes. Rental expense for the year ended June 30, 2001 totaled $50,068. The lease was terminated at the end of August 2000 at which time IPERS moved into the building purchased in November 1999. There are no future lease obligations.

H. Operating Lease - Lessor

IPERS leases 14,400 square feet of the building acquired in November 1999, to Data Input Services, Inc., an Iowa corporation. The lessor pays all operating expenses directly associated with its occupancy. In addition, the lessor pays a proportionate share of common operating expenses.

All rental income is categorized as miscellaneous income. The following table is a schedule by year of future rental income under the lease, in excess of one year as of June 30, 2001.

Year Ending June 30,

Year	Rental Income
2002	$ 67,800
2003	72,000
2004	72,000
2005	42,000
Total	$ 253,800

Total rental income for the year ended June 30, 2001 totaled $64,800.

(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%. Certain employers and employees in special risk occupations contribute at a higher rate as required by statute. 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 more than the funding policy's maximum of 30 years.

For the fiscal year ended June 30, 2001, the actuarially determined contribution requirement for employers was $261,635,357 or 5.75% of covered payroll. The actuarially determined contribution requirement for employees for the same time period was $168,356,664 or 3.70% of covered payroll. The actual amount of contributions made by employers and employees during the fiscal year ended June 30, 2001, was $268,315,094 and $178,876,729 respectively.

(5) Fixed Assets

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

	2001	2000
Building and Improvements	$3,561,556	$3,105,953
Land	500,000	500,000
Furniture, Fixtures & Equipment	2,670,187	3,021,443
Less Accumulated Depreciation	(2,372,729)	(2,387,617)
Total	$4,359,014	$4,239,779

Depreciation expense for the year ended June 30, 2001 was $402,801.

(6) Litigation & Contingencies

IPERS is party to various lawsuits or threatened lawsuits. Administration believes 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, 2001, IPERS had commitments to fund an additional $1,133,104,729 to various private equity/debt partnerships and real estate investment managers.

(8) Location of Historical Trend Information

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

(9) Pension and Retirement Benefits

The System is a participating employer in IPERS, which is a cost-sharing, multiple-employer defined benefit public employees' retirement system designed to provide retirement, disability and death benefits to members and beneficiaries. Iowa Code § 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 higher rate as required by statute. Wages are covered up to the federal limit of $170,000. The System's contribution to IPERS for the years ended June 30, 2001, 2000, and 1999, were $207,134, $179,686, and $152,318 respectively, equal to the required contributions for each year.

(10) Net Assets Held in Trust for Pension Benefits

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

	General Membership	Special Service Group 1*	Special Service Group 2**	FED Reserve***	Total
Balance at June 30, 2000	$15,950,820,424	$230,835,928	$400,300,334	$558,274,504	$17,140,231,190
Additions:					
Contributions	421,054,605	9,206,468	20,778,114	--	451,039,187
Investment and misc. income	(902,546,038)	(8,533,267)	(14,776,315)	(20,672,821)	(946,528,441)
Amt allocated to FED Reserve	(70,202,066)	(3,184,728)	(7,783,453)	81,170,247	--
Deductions:					
Benefit payments, refunds, administration, and investment expenses	653,855,435	4,583,739	10,011,477	1,524,974	669,975,625
FED payments	--	--	--	46,219,145	46,219,145
Balance at June 30, 2001	$14,745,271,490	$223,740,662	$388,507,203	$571,027,811	$15,928,547,166

* Includes Sheriffs, Deputies and Airport Firefighters

** Includes all other public safety members

***Favorable Experience Dividend

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[1]	UAAL as a % of Covered Payroll
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)%
2000	14,145,141,535	14,471,650,757	97.74%	$ (326,509,222)	4,365,451,325	(7.48)%
2001	15,112,424,729	15,553,379,304	97.16%	$ (440,954,575)	4,550,180,113	(9.69)%

[1] Annual covered payroll is the payroll subject to contributions to IPERS according to the covered wage limit of $170,000 effective January 1, 2000.

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	39 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%

See accompanying independent auditor’s report.

Schedules of Employer and Employee Contributions

Schedule 2

Schedule of Employer Contributions
Last Six Fiscal Years

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[1]
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
2000	5.750	4,365,451,325	251,013,451	253,271,051	2,257,600	5.80
2001	5.750	4,550,180,113	261,635,357	268,315,094	6,679,737	5.90

Schedule of Employee Contributions
Last Six Fiscal Years

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[1]
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
2000	3.700	4,365,451,325	161,521,699	168,847,367	7,325,668	3.87
2001	3.700	4,550,180,113	168,356,664	178,876,729	10,520,065	3.93

[1] 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, 2001 and 2000

	2001	2000
Interest income - short term	$ 5,677,304	$ 3,744,366
Interest income on bonds	466,210,310	380,336,562
Dividend income	80,717,280	91,198,414
Real estate funds	80,874,519	50,561,885
Private equity/debt funds	(5,257,365)	(967,253)
Tactical funds	22,743,769	40,963,371
Security lending income	37,846,439	24,729,865
Other income	776,030	722,625
Investment income	689,588,286	591,289,835
Gain (loss) on investments	(1,464,250,536)	1,460,419,781
Currency gain (loss)	(137,927,470)	(8,382,282)
Net appreciation (depreciation) in fair value of investments	(1,602,178,006)	1,452,037,499
Total investment income (loss)	$(912,589,720)	$2,043,327,334

See accompanying independent auditor's report.

Iowa Public Employees' Retirement System

Schedule 4

Schedule of Administrative Expenses
Years Ended June 30, 2001 and 2000

	2001	2000
Personnel:		
Salaries & wages	$3,583,467	$3,079,546
Travel	59,163	46,277
Professional and technical services:		
Professional	575,707	161,117
Actuary	91,028	73,894
Computer support services	1,352,252	859,636
Auditing	55,314	51,125
Communications:		
Telephone	163,725	111,315
Printing	195,107	77,768
Other expenses:		
Office supplies	450,486	621,770
Utilities	53,360	32,838
Depreciation	402,801	315,315
Repairs	113,826	10,034
Rent	50,068	293,388
Miscellaneous	118,143	131,962
Total administrative expenses	$7,264,447	$5,865,985

See accompanying independent auditor's report.

Schedule 5

Iowa Public Employees' Retirement System
Schedule of Investment and Consulting-Related Expenses
Years Ended June 30, 2001 and 2000

	2001	2000
J.P. Morgan Investment Management, Inc.	$ 279,640	$ 1,559,101
Mellon Capital Management	262,973	461,176
RCM Capital Management	2,619,158	2,900,642
Wellington Trust Company, N.A.	6,420,011	3,369,898
TOTAL DOMESTIC EQUITY	**9,581,782**	**8,290,817**
Barclays Global Investors	----	35,545
Black Rock, Inc.	574,125	412,680
J.P. Morgan Investment Management, Inc.	1,287,733	1,189,902
Loomis, Sayles & Company	----	74,143
Mellon Bond Associates	414,511	275,132
Mellon Capital Management	327,747	262,901
Miller, Anderson & Sherrerd	831,104	1,025,130
Morgan Grenfell Asset Management	----	188,110
Oaktree Capital Management	2,170,574	2,006,358
TCW Global Advisors	----	114,701
Western Asset Management Company	1,596,334	278,439
TOTAL GLOBAL FIXED INCOME	**7,202,128**	**5,863,041**
Baring International Investment Ltd.	40,723	173,142
Mellon Capital Management	2,616,364	1,647,316
Mellon Capital GTAA	1,153,995	43,659
TOTAL TACTICAL	**3,811,082**	**1,864,117**
Barclays Global Investors - International	215,322	399,827
Brandywine Asset Management	----	173,607
Clay Finlay, Inc.	----	422,405
Nomura Capital Management, Inc.	----	348,584
Schroder Capital Management International	3,365,722	1,973,394
Barclays Global Investors - Alpha Tilt	4,356,010	125,560
Putnam	454,324	109,667
TOTAL INTERNATIONAL EQUITY	**8,391,378**	**3,553,044**
RREEF Reit	354,771	527,734
RREEF IMA	1,739,016	2,694,872
AEW	128,299	145,874
Copley	12,740	83,366
Heitman/JMB	452,740	514,082
Invesco	3,683,607	1,246,418
TA Associates	1,062,973	1,030,386
UBS Brinson	2,012,172	1,160,155
TOTAL REAL ESTATE	**9,446,318**	**7,402,887**
Pathway Capital Management	1,486,353	1,351,188
Warburg, Pincus Counsellors, Inc.	1,097,608	1,172,940
TOTAL PRIVATE EQUITY/DEBT	**2,583,961**	**2,524,128**
The Townsend Group	132,000	132,000
Wilshire Associates, Inc.	239,000	239,000
TOTAL INVESTMENT CONSULTANT FEES	**371,000**	**371,000**
Mellon Trust Company	483,279	454,326
Treasurer of State	36,557	49,398
TOTAL CUSTODY EXPENSES	**519,836**	**503,724**
Investment Staff Expenses	593,837	529,505
Miscellaneous Expenses	95,727	106,427
TOTAL OTHER INVESTMENT EXPENSES	**689,564**	**635,932**
TOTAL INVESTMENT EXPENSES	**$42,597,049**	**$31,008,690**

See accompanying independent auditor's report.

Actuarial

Actuary's Certification Letter

Comparative Statistics

Actuarial Balance Sheet

Active Membership Statistics

November 20, 2001

We have performed an actuarial valuation of the Iowa Public Employees' Retirement System (System) as of June 30, 2001. 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, 2001 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, 2001.

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

The actuarial assumptions and benefit provisions reflected in this report are unchanged from last year. However, one significant change occurred with respect to the member data upon which the valuation is based. Due to time constraints, the membership data in prior years was gathered as of March 31 and the salary and service for active members were projected to June 30, the valuation date. Based on detailed discussions last winter of the System's database, employer reporting requirements/timing, and membership processing, it was decided that the data for the June 30 valuation could be improved by using the actual final quarter data, expanding the data provided and capturing the actual status of members on the valuation date rather than on the date the file was created. This change in the approach to gathering the valuation data was first implemented with the 2001 valuation and impacted the demographic experience captured in this valuation as compared to prior years. Its impact is also reflected in the actuarial gain/loss for the year ended June 30, 2001.

There are two Special Service groups within IPERS (whose members are engaged in public safety occupations) for whom the contribution and benefit structure differs from that of the general membership. In the past, there was no separate accounting of the assets attributable to these groups. Beginning in fiscal year 2001, separate accounting was implemented and the valuation for these two special groups was performed on the same basis as the general membership and is included in the valuation report.

The actuarial valuation results provide a "snapshot" view of the System's financial condition on June 30, 2001. The valuation results reflect net unfavorable experience for the past plan year as demonstrated by an unfunded actuarial liability that was higher than expected based on the actuarial assumptions. The unfavorable experience was the net impact of an experience gain on the actuarial value of assets and an experience loss on liabilities, largely due to the change in the dataset used for the valuation.

The experience loss resulted in an increase in the amount of the unfunded actuarial liability (UAL). Although in comparison to total liabilities this increase is not large, it does represent a large percentage increase in the UAL. The System's normal cost rate this year is 8.93%, which represents a small and insignificant reduction from the normal cost rate in the 2000 valuation of 8.95%. With the normal cost rate at its current level, only a small part of the total contribution rate is available to fund the UAL. As a result, it is projected that 39 years will be required to fully amortize the UAL, if all actuarial assumptions are met. This determination is highly leveraged because of the small annual payment amount and significant changes in the years to amortize are not unexpected, especially when the prior amortization period was over 15 years. The determination of the years to amortize that is reflected in this report is based on one possible scenario. Although this is the expected result based on current actuarial assumptions, the actual amortization period will ultimately be determined by the experience of the System in the future.

In 1998, legislation was passed to create the Favorable Experience Dividend (FED) reserve. The law provides that a portion of the favorable actuarial experience, if any, in subsequent years may be transferred to the FED reserve. Legislation passed in 2000 capped the FED reserve at ten years of expected payouts at the maximum level. Based on the results of the June 30, 2001 valuation, favorable actuarial experience did not occur for the System and, therefore, there is no transfer to the FED reserve. The current FED reserve is projected to be sufficient to make the maximum potential payment of 3% times years retired for the next 7 years, plus a reduced payment in the eighth year, if all assumptions are met in future years.

Contribution Rate

The Iowa statutes provide that most IPERS members shall contribute 3.7% of pay and employers shall contribute 5.75%, for a total of 9.45% (the Special Service groups contribute at an actuarially determined rate). The valuation is performed to determine whether the contribution rate for the general membership will be sufficient to fund the future benefits expected to be paid by the System within the guidelines established in IPERS' funding policy (which defines "fully funded" status as an amortization period no greater than 30 years). The statutory contribution rate is first applied to fund the normal cost rate. The remaining contribution rate is used to amortize the unfunded actuarial liability (UAL) as a level percentage of payroll, which determines the amortization period. As a result, the remaining amortization period varies with each actuarial valuation. The current valuation results indicate that the statutory contribution rate results in an amortization period of 39 years.

Because the normal cost rate for the general membership (8.93%) is so close to the statutory contribution rate of 9.45%, the payment toward the UAL is very small. As a result, even though the System is very well funded, a relatively small change in the UAL may cause a significant change in the years to amortize. Overall unfavorable experience for year end 2001 resulted in an increase in the UAL. This increased the years to amortize (from 21 as of June 30, 2000 to 39 as of June 30, 2001).

Actuarial Value of Net Assets

For financial statement purposes, the System's assets are reported at current fair values. For actuarial purposes, the assets are valued using a technique which dampens the volatility in the fair value. Specifically, the assets are valued at their expected value at the valuation date (based on the assumed rate of investment return) plus 25% of the difference between the fair value and the expected value on the valuation date. Based on this methodology, there was an actuarial gain on assets due to the partial recognition of investment gains from prior periods. Between June 30, 2000 and June 30, 2001, the actuarial value of assets increased by $967,283,194.

Liabilities

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

- Actuarial Balance Sheet Liability is the present value of all future benefits. This liability is calculated based on **both future payroll projections** and **service credits to retirement or other separation from service**. It represents the present value of all benefits expected to be paid to all current System members (retired, active and deferred vested) in the future.

- Actuarial Liability is the portion of the present value of future benefits (actuarial balance sheet liability) that will not be paid by future normal costs. It is also defined as the portion of the actuarial balance sheet liability allocated by the actuarial cost method to service before the valuation date.

- Liability for Accrued Benefits is used only for informational purposes. It does **not** impact the contribution rate or amortization period for the System. This liability represents the present value of benefits earned to date, based on **service and salary as of June 30, 2001.** 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, 2001 and June 30, 2000 are summarized below:

	June 30, 2001	June 30, 2000	Change
Actuarial Balance Sheet Liability	$19,313,637,119	$17,947,607,541	7.6%
Actuarial Liability	15,553,379,304	14,471,650,757	7.4%
Liability for Accrued Benefits	12,233,187,712	11,141,602,323	9.8%

Experience

Numerous factors contributed to the change in the Systems' assets, liabilities and remaining amortization period for the unfunded actuarial liability between June 30, 2000 and June 30, 2001. The components are examined in the following discussion.

Actuarial gains (or losses) result from actual experience that is more (or less) favorable than anticipated based on the actuarial assumptions. These "experience" (or actuarial) gains or losses are reflected in the UAL and are measured as the difference between the expected unfunded actuarial liability and the actual unfunded actuarial liability, taking into account any changes due to assumption or benefit provision changes. Overall, the System experienced a net actuarial loss of $136 million. The change in the unfunded actuarial liability between June 30, 2000 and 2001 is shown below (in millions):

Unfunded Actuarial Liability, June 30, 2000	$	327
• Expected change in UAL due to amortization payment		(22)
• Investment (gain)/loss		(81)
• Liability (gain)/loss from actual experience		217
• Benefit enhancements		0
• Change in actuarial assumptions		0
Unfunded Actuarial Liability <u>before</u> FED transfer, June 30, 2001	$	441
• FED Transfer		0
Unfunded Actuarial Liability <u>after</u> FED transfer, June 30, 2001	$	441

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)
2001	$2,519,313,788	5,448,405,616	5,448,405,616	15,112,424,729	100%	100%	100%
2000	2,382,209,851	4,906,082,319	5,335,750,045	14,145,141,535	100%	100%	100%
1999	2,155,591,553	4,414,919,917	4,820,813,078	12,664,031,437	100%	100%	100%
1998	2,012,398,849	3,866,369,340	4,448,899,695	11,352,674,142	100%	100%	100%
1997	1,933,363,854	3,366,088,472	4,027,315,316	10,112,976,077	100%	100%	100%
1996	1,797,120,005	3,076,721,751	3,881,257,078	8,975,396,251	100%	100%	100%
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%

SUMMARY

Although this valuation report for the System indicates that the current statutory contribution rate is not expected to pay off the unfunded actuarial liability (UAL) within the 30 year period which defines “fully funded” status in IPERS’ Funding Policy, the System is still very well funded. The UAL is expected to be paid off in 39 years. Earlier in this document, the highly leveraged status of the UAL payment was discussed. This is a critical point in understanding the valuation results and the volatility of the amortization period as measured from year to year. Because the normal cost rate for the general membership (8.93%) is so close to the statutory contribution rate (9.45%), a very small part of the total contribution is available to pay off the unfunded actuarial liability. As a result, increases in the amount of the UAL will have a dramatic impact on the amortization period, particularly when the prior amortization period was greater than 15 years. Furthermore, changes in the normal cost rate in the future will also impact the amount of the total contribution rate available to finance the UAL and the resulting remaining amortization period.

When considering the financing of the UAL, it is important to analyze the UAL in terms of the total actuarial liability. Although the UAL for the general membership is $497 million, the actuarial liability for the group is over $15 billion. Based on the current benefit structure and the current membership, it is expected to take 39 years to amortize the unfunded actuarial liability, if all actuarial assumptions are exactly met. Many things will occur to impact this measurement (positively or negatively) in the future, including but not limited to investment return, actual experience related to demographic assumptions, changes in the demographic composition of the group and the size of the active membership. The funded percentage, measured as the ratio of actuarial value of assets to actuarial liability, is 97.2%, still indicating a very strong funded status, down only 0.5% from the 2000 valuation.

Based on the valuation results, Milliman USA, Inc. believes that IPERS is a well funded System. Although funding concerns are understandable given the valuation results, it must be remembered that the funding horizon for IPERS is very long term and many factors will impact the funding during that time frame. The funding policy adopted by IPERS anticipated the possibility of the amortization period exceeding 30 years and it provides criteria for determining when it is appropriate to consider changes to the contribution rate. Based on these criteria, a change in the contribution rate need not yet be considered as a result of this valuation report.

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

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted principles and practices which are consistent with the principles prescribed by the Actuarial Standards Board (ASB) and the Code of Professional Conduct and Qualification Standards for Public Statements of Actuarial Opinion of the American Academy of Actuaries.

We hereby further certify that all costs, liabilities, rates of interest and other factors for the System have been determined on the basis of actuarial assumptions and methods which are internally consistent, individually reasonable (taking into account the experience of the Plan and reasonable expectations of future experience) and which, in combination, offer our best estimate of anticipated experience under the Plan. Nevertheless, the emerging costs will vary from those presented in this report to the extent actual experience differs from that projected by the actuarial assumptions.

Actuarial computations presented in this report are for purposes of evaluating the funding of the System and for reporting under accounting standards. Determinations for purposes other than this may be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes.

In conclusion, on the following page we present comparative statistics and actuarial information on both the June 30, 2001 and June 30, 2000 valuations. All figures shown include the general membership and the two special service groups. To view an entire copy of my valuation report, please review the copy filed with IPERS or visit the IPERS web site noted on the inside of the cover of this Annual Report.

Respectfully Submitted,

Milliman USA, Inc.

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

Sincerely,

Patrice A. Beckham, F.S.A.
Principal

COMPARATIVE STATISTICS
JUNE 30, 2001

	June 30, 2001*	June 30, 2000	% Chg
SYSTEM MEMBERSHIP			
1. Active Membership			
- Number of Members	154,610	153,039	1.0
- Projected Payroll for Fiscal Year	$4,691M	$4,443M	5.6
- Average Annual Salary	$30,341	$29,032	4.5
2. Inactive Membership			
- Number of Vested Deferred Members	32,295	31,219	3.4
- Number of Nonvested Members	63,810	61,903	3.1
3. Retired Membership			
- Number of Retirees/Beneficiaries	68,703	65,712	4.6
- Average Annual Retirement Benefit	$8,221	$7,830	5.0
ASSETS AND LIABILITIES			
1. Net Assets (excluding FED reserve)			
- Fair Value	$15,358M	$16,474M	(6.8)
- Actuarial Value	$15,112M	$14,145M	6.8
2. Projected Liabilities			
- Retired Members	$5,448M	$4,906M	11.0
- Inactive Members	$407M	$369M	10.3
- Active Members	$13,459M	$12,673M	6.2
Total Liability	$19,314M	$17,948M	7.6
3. Actuarial Liability	$15,553M	$14,472M	7.5
4. Unfunded Actuarial Liability	$441M	$327M	34.9
5. Funded Ratio (Actuarial Value Assets/Actuarial Liability)	97.16%	97.74%	(0.6)
SYSTEM CONTRIBUTIONS			
1. Required Contribution Rate**	9.45%	9.45%	0.0
2. Normal Cost Rate	8.93%	8.95%	(0.2)
3. Years Required to Amortize Unfunded Actuarial Liability	39 years	21 years	85.7

M = ($)Millions
* These membership figures are based on June 30 data.
** Contribution for certain special groups (3.6% of the membership) are not fixed at 9.45% but are actuarially determined 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.

Annual Percentage Rate of Increase

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

Annual Mortality Rates per 1,000 Members

Age	Male	Female	Age	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

Age	Males	Females
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

Age	Males	Females
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

Age	Annual Rate per 100 Members
55	5
58	5
60	10
61	15
62	25
63 - 64	20

Normal Retirement[1]

Age	Annual Rate per 100 Members 1st year of eligibility	Thereafter
55 – 58	20	10
59	20	20
60	25	25
61	35	35
62	50	50
63	35	40
64	35	40
65	30	50
66	20	25
67 - 68	15	20
70+	100	100

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

Terminated vested members are assumed to retire at age 62.

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

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

Actuarial Value of Net Assets - For actuarial purposes, assets are valued at the expected value at the valuation date plus 25% of the difference between the fair 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 USA, Inc. The actuarial assumptions resulting from the study were first utilized in the June 30, 1999 actuarial valuation.

ACTUARIAL BALANCE SHEET
JUNE 30, 2001

ASSETS

Actuarial value of assets	$15,112,424,729
Present value of future normal costs	3,760,257,815
Present value of future contributions to amortize the unfunded actuarial liability	440,954,575
Total Net Assets	$19,313,637,119

LIABILITIES

Present Value of Future Benefits	
Retired Members and Beneficiaries	
Annuity benefits being paid and contingent payments upon death	$ 5,448,405,616
Active Members	
Retirement benefits	11,633,284,366
Death benefits	285,034,291
Termination benefits	933,185,573
Disability benefits	607,122,314
Inactive Members	
Retirement allowances & death benefits for vested members	386,124,321
Accumulated employee account balances for nonvested members	20,480,638
Total Liabilities	$19,313,637,119

ACTIVE MEMBERSHIP STATISTICS
FOR 10 YEARS ENDING JUNE 30, 2001

Active Member Statistics					
Fiscal Year Ending June 30	Total Actives	Percent Change	Average Covered Wage	Average Age	Average Service Credit
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
2000	153,039	0.4	29,032	44.8	11.6
2001	154,610	1.0	30,341	45.0	11.5

Analysis of Change in Membership						
Fiscal Year Ending June 30	Beginning Members	Additions	Retired	Died	Other Terminations	Ending Members
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
2000	152,440	18,698	2,139	256	15,704	153,039
2001	153,039	13,534	1,567	113	10,283	154,610

Investments

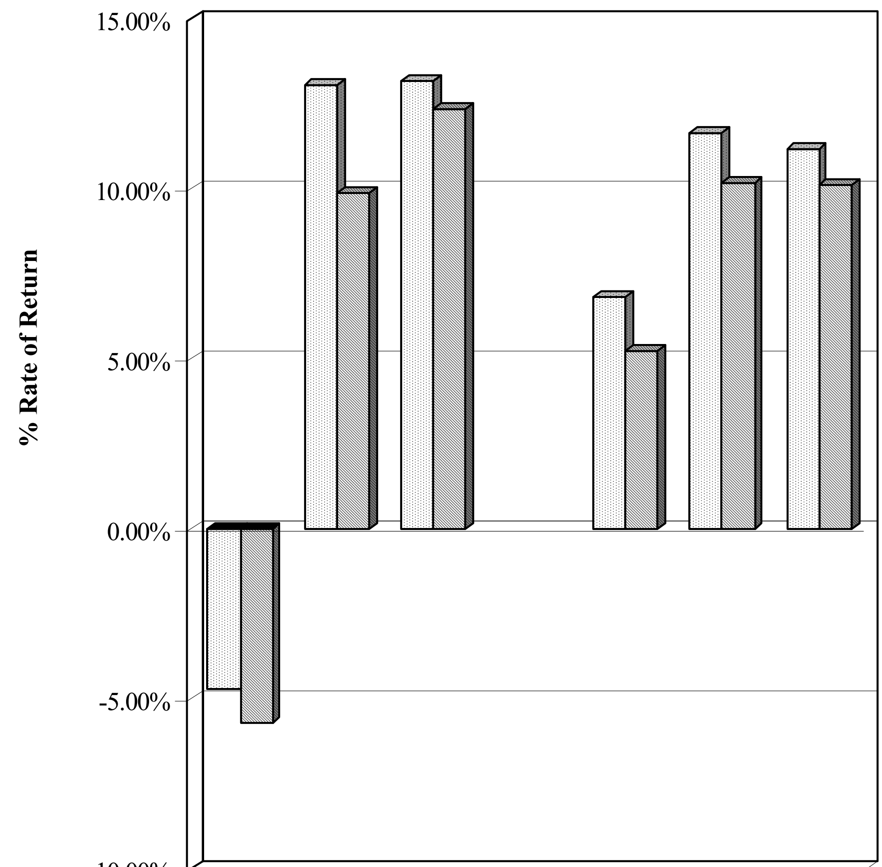
Investment Overview

Investment Results

Investment Policy And Goal Statement

Annualized Investment Performance Summary

For the periods ended June 30



	2001	2000	1999		3 yr	5 yr	10 yr
IPERS' Portfolio*	-4.73%	13.05%	13.18%		6.82%	11.65%	11.20%
Policy Benchmark**	-5.68%	9.88%	12.37%		5.21%	10.19%	10.12%

* Net of Fees

**A passively-managed benchmark comprised of market indices, and weightings to same, reflective of IPERS' asset allocation targets.

Investment Overview

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

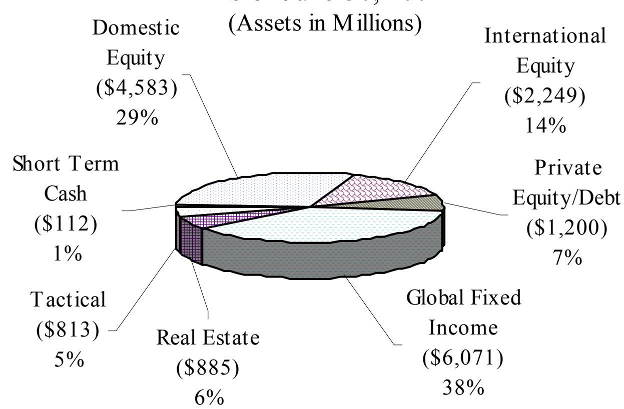
The System's investments are managed by professional investment management firms and partnerships based upon statutory investment authority, the investment policies adopted by the IPERS Investment Board and detailed service contracts. The System's staff coordinates and monitors the investment of the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

The IPERS net investment portfolio fair values reported in this Investments section and used as the basis for calculating investment returns differ from those shown in the Financial section of this report. The values used in this section are the appropriate basis for investment return calculation, and are net of all investment receivables, payables and securities lending collateral.

Allocation of IPERS' Investments

As of June 30, 2001

(Assets in Millions)



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.

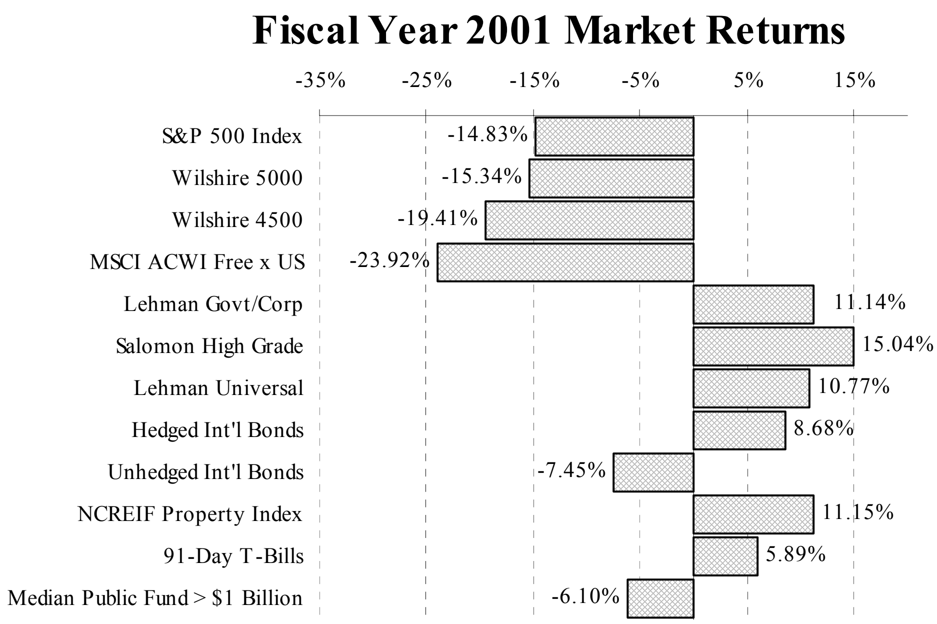
In addition to asset class diversification, the System also seeks to diversify the investment portfolio by investment management styles. The success of a particular investment style tends to be cyclical. For example, "growth" stock investing may outperform "value" stock investing for several quarters, 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 requires its investment managers to diversify their portfolios at the security level. Managers are required to diversify across sectors, industries, and individual securities. The System develops specific investment guidelines for each manager that control the risk of high concentrations in a particular sector, industry, or security.

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

Capital Markets Commentary

Capital markets produced a mixed bag of performance in fiscal year 2001. Equity markets in the United States and abroad performed poorly as the record-length global economic expansion slowed. The slowdown in consumer spending and a significant drop in worldwide capital spending contributed to the poor performance in equities. In contrast, fixed income and real estate markets performed well during the fiscal year as inflation remained subdued and the Federal Reserve cut interest rates six times during the fiscal year to counteract the slowdown in the U.S. economy.



The U.S. equity market, as measured by the Wilshire 5000 Index, returned a dismal -15.3% for the fiscal year, its worst performance on a fiscal year basis in 27 years. Value stocks greatly outperformed growth stocks during the fiscal year, a sharp reversal from fiscal year 2000 when growth stocks dominated. The Wilshire Large Capitalization Growth Stock Index returned -39.1% for the fiscal year versus 6.3% for the Wilshire Large Capitalization Value Stock Index. In small capitalization stocks, value stocks also dominated during the fiscal year, as evidenced by the Wilshire Small Cap Value Stock Index returning 31.4% versus -35.5% for the Wilshire Small Cap Growth Stock Index. Stocks in the technology sector of the Wilshire 5000 Index lost 35.5% during the fiscal year, while stocks in the energy sector returned 29.7% and stocks in the finance sector returned 24.8%.

International stocks also could not escape the slowing global economy. The MSCI All Country World Free ex-U.S. Index, a performance benchmark for equities of non-U.S. companies located in developed countries, returned -23.9% (in U.S. dollars) for the fiscal year ended June 30, 2001. European stocks lost 21.8% over the fiscal year, due also to the slowing global economy and a strong U.S. dollar. Stocks of companies in the Pacific Basin performed even worse, losing 27.4% over the fiscal year, as continued weakness in the U.S. economy led to less exports for Asian countries. Emerging markets stocks lost 25.8% in fiscal year 2001, as investors fled to higher quality stocks in the face of the slowing global economy.

The easing of monetary policy by the Federal Reserve in an environment of low inflation helped to produce positive returns in the fixed income markets in fiscal year 2001. The fixed income market, as measured by the Lehman Brothers Universal Index, returned 10.8% for the one-year period ended June 30, 2001. Of the various bond sectors, corporate bonds and mortgage securities provided returns of 12.3% and 11.3% respectively, while Treasury bonds returned 9.8% for the fiscal year. The high yield bond sector performed poorly, returning -0.3% during fiscal year 2001, due to concerns of credit deterioration in a slowing economy. Non-U.S. bonds hedged into the U.S. dollar returned 8.7% for the fiscal year. However, unhedged non-U.S. bonds produced a return of -7.5% over the fiscal year, evidence of the strength of the U.S. dollar over the time period.

The U.S. commercial real estate market continued to provide good, stable returns to investors in fiscal year 2001. The NCREIF Property Index, a commonly cited measure of privately traded commercial real estate values and income, returned 11.2% for the one-year period ended June 30, 2001, down slightly from the 11.6% annual return produced in fiscal year 2000. Publicly traded real estate securities (REITS) performed very well during fiscal year 2001. The Wilshire Real Estate Investment Trust Index, a representative index of REIT performance, posted an annual return of 25.6% for the year ended June 30, 2001, compared to an annual return of 5.2% in the previous fiscal year.

Private equity investments, which had produced exceptionally good returns in fiscal year 2000, were severely impacted by the downturn in the stock markets and the economy in fiscal year 2001. Venture capital investments were especially hard hit by the sharp decline in valuations for technology stocks in fiscal year 2001. According to *Venture Economics*, the average annual return on venture capital funds for the fiscal year was -18.2%, dramatically less than the average annual return of 143.4% for venture capital funds in fiscal year 2000. Private equity investments in buyout strategies also fared poorly in the slowing economy. *Venture Economics'* data indicates that buyout funds produced an average annual return of -7.2% for fiscal year 2001, compared to the 23.6% average annual return on buyout funds for fiscal year 2000. The overall private equity asset class, as measured by *Venture Economics* data, produced a return of -11.3% in fiscal year 2001, compared to a return of 58.9% in fiscal year 2000.

Investment Portfolio Assets

At the close of fiscal year 2001, IPERS' net investment portfolio assets had a fair value of $15,912,913,854.[1] The change in fair value represents a decrease of $1,215,567,437 from the $17,128,481,291 net investment asset fair value as of June 30, 2000. The decrease in net investment portfolio asset fair value is attributable to two factors. The first factor is that employer and employee contributions to IPERS no longer fully fund the benefit payments, member refunds and administrative expenses of the System; funds must regularly be drawn from the investment portfolio to help meet these obligations. This draw down of investment assets is typical for a mature pension system, and IPERS' actuary continues to project that the assumed long-term investment return, when combined with ongoing employer and employee contributions, will be sufficient to meet IPERS' actuarial liabilities. The second factor contributing to the decrease in net investment portfolio assets was the System's negative fiscal year 2001 investment return, which is more fully addressed below.

Investment Results

IPERS posted a total portfolio investment return of -4.7% for the fiscal year ended June 30, 2001. This return was ahead of the -5.7% return of IPERS' "policy benchmark," a set of market indices and weightings reflecting IPERS' target asset class allocations. The outperformance of the Fund relative to the policy benchmark was primarily the result of the superior relative performance of six of IPERS' seven asset class portfolios, all of which produced a return above their market benchmarks. The strongest return for the fiscal year was provided by the real estate portfolio at 12.9%, followed by the global fixed income portfolio at 10.9%. The weakest return, and the sole asset class portfolio to fall short of its benchmark return, was private equity at -26.1%. For the five years ending June 30, 2001, IPERS' total fund achieved an 11.7% annualized return, compared to 10.2% for the policy benchmark, while the ten-year annualized return of 11.2% outpaced the 10.1% policy benchmark return. The investment return, net of fees, for the total portfolio and for each asset class, over various periods, are shown in the following table. For comparison purposes, the benchmark for each asset class is also shown.

[1] Based on fair value of the total investment portfolio at June 30, 2001 and June 30, 2000, net of all investment receivables, payables and securities lending collateral. Although these values are the appropriate basis for calculation of investment returns, they differ from the "Investments at fair value" shown in the Financial section of this report, which are reported using GASB Statement No. 28 financial statement standards.

Time-weighted Rates of Return for periods ended June 30, 2001[a]

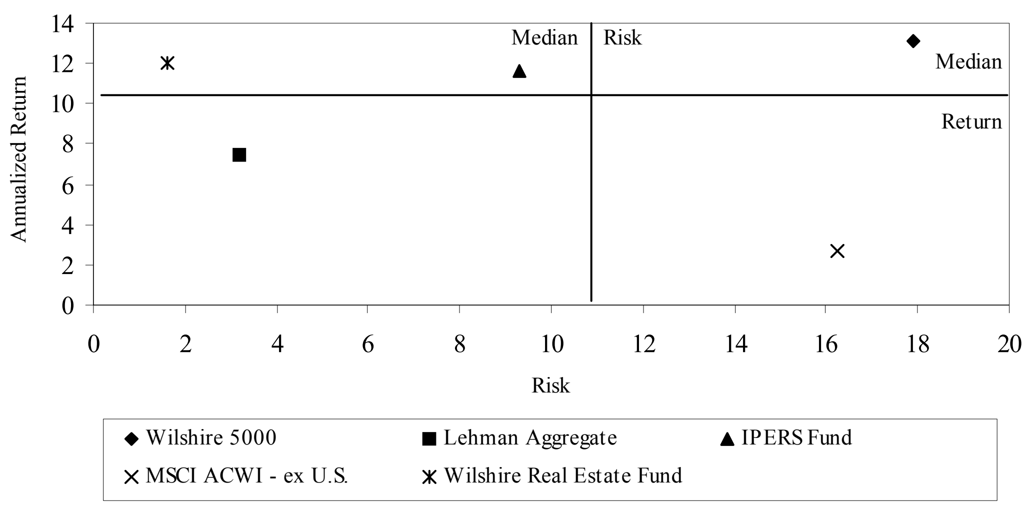
Asset Class	Annualized Returns 1-Year	3-Year	5-Year	10-Year
Total Fund				
IPERS	-4.73%	6.82%	11.65%	11.20%
Policy Benchmark[b]	-5.68	5.21	10.19	10.12
CPI + 3%	6.24	5.97	5.58	5.72
Actuarial Interest Rate	7.50	7.50	7.50	7.50
TUCS Public Funds >$1 Billion Universe Median	-6.10	4.82	10.41	11.32
Domestic Equity				
IPERS	-13.54	5.87	14.86	15.16
Wilshire 5000	-15.34	3.50	13.06	14.57
International Equity				
IPERS	-23.25	2.18	4.37	6.44
Custom Benchmark	-23.92	0.32	1.46	6.05
Global Fixed Income				
IPERS	10.91	6.22	7.68	8.60
Custom Benchmark	10.77	6.19	7.44	7.85
Tactical				
IPERS	-5.72	4.15	12.05	13.10
Custom Benchmark	-7.95	4.47	11.52	12.32
Private Equity/Debt[c]				
IPERS	-26.05	8.65	18.83	16.07
Wilshire 5000 + 3%	-13.19	6.55	17.59	18.65
Real Estate				
IPERS	12.89	10.49	12.08	1.65
CPI + 6%	9.24	8.97	8.58	8.72
Short-Term Cash[d]				
IPERS	6.11	5.81	5.78	N/A
US Treasury Bills	5.88	5.34	5.39	N/A

[a] All returns are calculated in accordance with AIMR standards. 3-year, 5-year and 10-year returns are annualized.
[b] As of June 30, 2001 the Policy Benchmark consists of: 28% Wilshire 5000, 15% MSCI ACWI x US, 34% Lehman Universal, 3% Salomon Cash Pay High Yield, 5% Tactical custom benchmark, 10% Wilshire 5000 + 3%, and 5% CPI + 6%.
[c] Private Equity/Debt portfolio returns and benchmark returns are calculated using an Internal Rate of Return (IRR) methodology in accordance with AIMR standards.
[d] Starting in Fiscal Year 2000, Short-Term Cash returns exclude miscellaneous income.

The total return an investment portfolio achieves over the long term is largely determined by the level of risk or volatility that the investor is willing to accept. In general, the greater the volatility of returns, the higher the return has to be 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.

The graph below provides a comparison of IPERS' investment risk/return characteristics for the last five years against a universe of large public pension funds. The vertical line represents the median level of risk (standard deviation of returns) experienced by this universe of funds. The horizontal line represents the median rate of return earned by this same group of funds. IPERS' risk/return characteristics are plotted on the same graph along with selected market indices. As shown in the graph, the return on IPERS' investments for the five years ended June 30, 2001 was slightly higher than the median large public pension fund return, but was earned with significantly less risk than the median large public pension fund over this same time period.

Risk vs Total Return
Public Funds Greater Than $1.0 Billion
5 Years Ended June 30, 2001



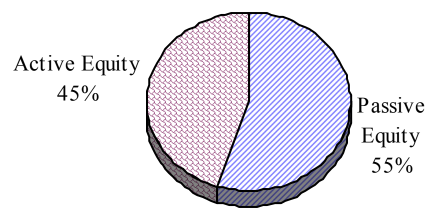
	Annualized Return	Risk (Standard Deviation)
IPERS Total Fund	11.65%	9.28%
Median Fund	10.41	10.91
Wilshire 5000	13.07	17.91
Lehman Aggregate	7.48	3.20
MSCI ACWI – ex U.S.	2.64	16.26
Wilshire Real Estate Fund	12.03	1.63

Domestic Equity

At June 30, 2001, 29% of IPERS' total portfolio was invested in domestic equities. The total net fair value of the domestic equity portfolio was $4,583,064,536. 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:

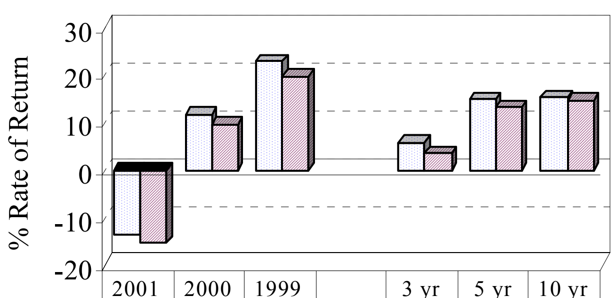
Domestic Equity Portfolio
June 30, 2001



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

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 Performance Summary
For the Periods ended June 30



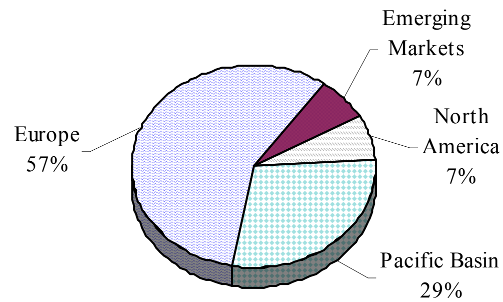
	2001	2000	1999		3 yr	5 yr	10 yr
IPERS' Portfolio *	-13.54	11.68	22.87		5.87	14.86	15.16
Wilshire 5000	-15.34	9.52	19.60		3.50	13.06	14.57

* Net of Fees

The U.S. stock market provided significantly negative returns during the year ended June 30, 2001. For the fiscal year, IPERS' domestic equity portfolio posted a -13.5% return compared to -15.3% for the Wilshire 5000 Index. For the five-year period ended June 30, 2001, the domestic equity portfolio has earned an annualized return (net of fees) of 14.9% versus 13.1% for the Wilshire 5000 Index.

International Equity

International Equity Portfolio
June 30, 2001



At June 30, 2001, the international equity portfolio had a net fair value of $2,249,497,252, representing 14% 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.

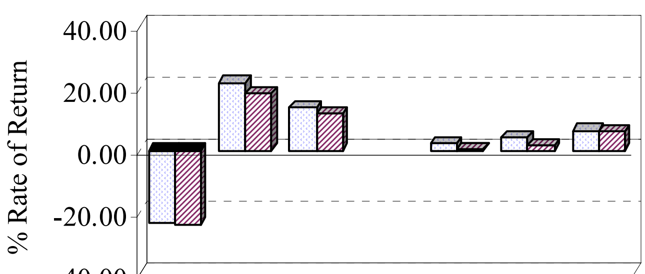
The international equity portfolio has three primary components:

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 Canadian and developed European countries' corporate equity securities. The objective of the portfolios is to track the performance of the Morgan Stanley Capital International Canada and Europe Indices, respectively.

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

International Equity Performance Summary
For the Periods ended June 30



	2001	2000	1999	3 yr	5 yr	10 yr
IPERS' Portfolio *	-23.25	22.10	13.85	2.18	4.37	6.44
Custom Benchmark	-23.92	18.36	12.12	0.32	1.46	6.05

* Net of Fees

IPERS' international equity portfolio returned -23.3% during fiscal year 2001 compared to -23.9% for the benchmark. For the five-year period ended June 30, 2001, this portfolio has outperformed its benchmark earning an annualized return of 4.4% versus 1.5% for the benchmark.

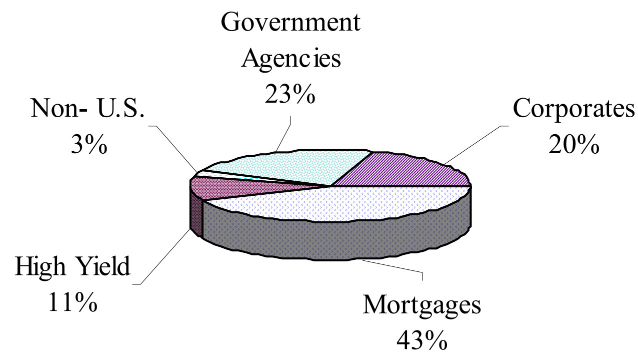
Global Fixed Income

The total IPERS fund asset allocation target for fixed income is 37%. IPERS' Global Fixed Income portfolio was approximately 38% of the total fund assets at fiscal year end. The total return for the Global Fixed Income portfolio for the year ended June 30, 2001 was 10.9% compared to the Lehman Brothers Universal return of 10.8%. The Global Fixed Income portfolio fair value was approximately $6,071,113,510 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 three different strategies:

Global Fixed Income Portfolio

June 30, 2001



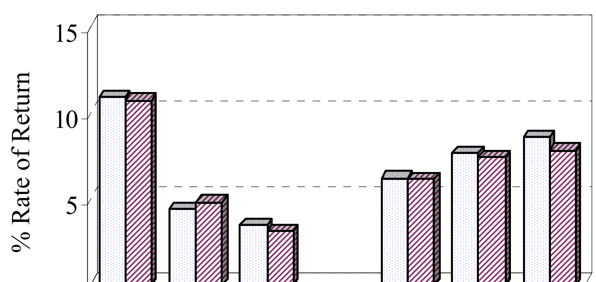
Active Bond - a diversified portfolio of fixed income securities utilizing cash and cash equivalents, forward foreign exchange contracts, currency options, financial futures, government and government agency bonds, Eurobonds, non-dollar bonds, non-convertible preferred stock, options on fixed income 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.

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 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



	2001	2000	1999		3 yr	5 yr	10 yr
IPERS' Portfolio*	10.91	4.42	3.45		6.22	7.68	8.60
Custom Benchmark	10.77	4.81	3.13		6.19	7.44	7.85

* Net of Fees

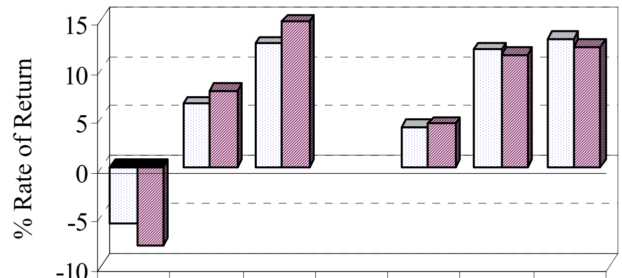
IPERS' fixed income portfolio exceeded its benchmark for the year ended June 30, 2001, earning 10.9% versus 10.8% for the benchmark. The majority of this outperformance can be attributed to yield curve positioning and sector selection. As corporate inventories surged and capital spending became problematic, the economy began to slow in 2000. The Federal Reserve expanded its monetary easing policy in response to the economic situation and IPERS' portfolio was well positioned along the yield curve to benefit from this action. Additionally, IPERS' portfolio benefited from tactical overweights to the corporate and mortgage sectors as these sectors outperformed the other sectors in the benchmark. As the Federal Reserve continued its easing policy, investors began searching for high quality securities that offered greater return potential than Treasuries. In addition to outperforming for the year, IPERS has also beaten its fixed income benchmark historically, earning 7.7% versus 7.4% for the benchmark for the five-year period ended June 30, 2001, and 8.6% versus 7.9% for the benchmark for the ten-year period ended June 30, 2001.

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' TAA strategy is utilized in both domestic and global markets.

Tactical Asset Allocation Performance Summary

For the Periods ended June 30



	2001	2000	1999		3 yr	5 yr	10 yr
IPERS' Portfolio *	-5.72	6.44	12.58		4.15	12.05	13.10
Custom Benchmark	-7.95	7.77	14.85		4.47	11.52	12.32

* Net of Fees

The fair value of the TAA portfolio was $812,759,358 on June 30, 2001, which represented approximately 5% of total IPERS assets. The TAA portfolio outperformed for the year ended June 30, 2001, earning -5.7% versus -8.0% for the benchmark. Over longer time periods, IPERS' TAA portfolio has outperformed its benchmark, earning 12.1% versus 11.5% for the five years ended June 30, 2001, and 13.1% versus 12.3% for the ten years ended June 30, 2001.

Private Equity/Debt

At June 30, 2001, IPERS' private equity/debt portfolio had a fair value of $1,199,696,625, representing 7% of the total IPERS portfolio. Since the inception of the private equity/debt portfolio in 1986 through June 30, 2001, the System has committed $2,267,999,500 to one hundred and four partnerships. Of that total, $800,304,428 remains to be called for investment. During the fiscal year, IPERS committed $447,205,000 to eighteen new partnerships.

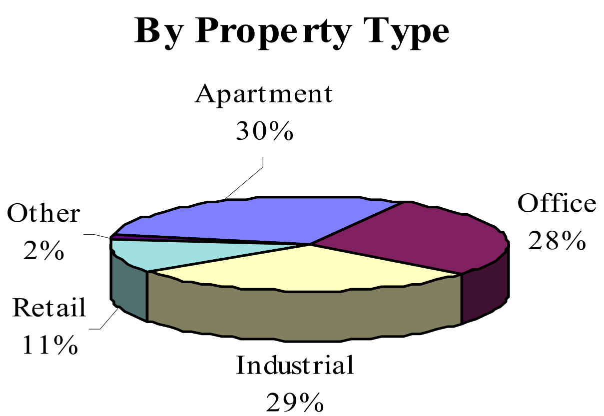
The long-term objective of the private equity/debt portfolio is to achieve a rate of return that exceeds the returns available in the public equity markets. The System seeks to minimize the risk associated with the asset class by investing in a variety of top-tier partnerships with different investment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

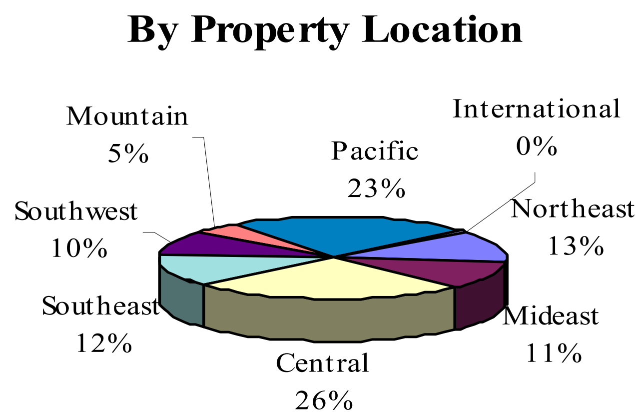
The performance objective for the private equity/debt portfolio is to exceed the return of the Wilshire 5000 Index, calculated on an internal rate of return (IRR) basis, by three percentage points on an annualized basis. The private equity/debt portfolio returned -26.1% in fiscal year 2001 versus -13.2% for its benchmark. In terms of a longer, historical perspective, the private equity/debt portfolio has provided an annualized IRR of 16.0% since its inception in 1985 versus its return objective of 17.7%. While the IRR since inception provides an indication of the historical performance of private equity/debt investments, it should be noted that the return number includes the performance of many newer partnerships which generally produce negative returns in the first year or two of their existence. Furthermore, the historical return does not fully reflect the evolution that has occurred in the implementation of IPERS private equity/debt strategy. For example, in 1993 the IPERS Investment Board determined that the selection of private equity partnerships was best left to a professional management firm, rather than having IPERS staff and the Board attempt to evaluate and select these complex investments. The decision to give full investment discretion to a management firm has proven successful to date, with investments selected by the manager since 1993 producing an internal rate of return of 31.3%, well in excess of the return objective of 19.9% for the asset class over that time period.

Real Estate

At June 30, 2001, approximately 6% of IPERS' total portfolio at fair value was invested in various real estate properties, commingled funds, partnerships, and publicly traded real estate investment trusts (REITs). In order to mitigate risk, the real estate portfolio is diversified by both geographic location and property type, as shown in the following charts. The total return for the real estate portfolio for the fiscal year was 12.9%, compared to 9.2% 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 $318.6 million was allocated to the portfolio and is being invested in direct ownership of small to medium-sized properties throughout the U.S.

Real Estate Portfolio
June 30, 2001





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 that where consistent with the aforementioned standards, IPERS will invest "...in a manner that will enhance the economy of the state, and in particular, will result in increased employment of the residents of the state." At June 30, 2001, the System held investments of $992,526,706 in Iowa companies, real estate properties and mortgages, as well as in stocks and bonds of companies with significant operations in the state of Iowa (as shown in the table below).

Asset Class	Iowa Based Companies	Companies with Iowa Operations	Total Investment Amount
Equity	$15,987,733	$877,486,755	$893,474,488
Fixed Income	36,875,690	49,463,805	86,339,495
Real Estate	12,628,723	-	12,628,723
Private Equity/Debt	84,000	-	84,000
Total	$65,576,146	$926,950,560	$992,526,706

Schedule of Brokerage Commissions Paid
Year Ended June 30, 2001

			Commissions		
Brokerage Firms	**Shares Traded**	**Dollar Volume of Trades**	**Dollar Amount**	**Average Per Share**	**As a % of Dollar Volume of Trades**
Goldman Sachs & Co	18,182,839	$ 411,475,511	$ 824,646	$ 0.045	0.20 %
Merrill Lynch International	63,985,439	462,555,768	674,513	0.011	0.15
Morgan Stanley & Co Inc	24,565,760	245,040,774	464,011	0.019	0.19
Lehman Brothers Inc	9,284,241	341,979,803	405,758	0.044	0.12
Credit Suisse First Boston	10,293,304	209,139,151	331,817	0.032	0.16
Frank Russell	8,644,497	164,028,701	330,972	0.038	0.20
Smith Barney Inc	12,004,046	208,936,142	295,479	0.025	0.14
Warburg Dillon Read LLC	21,982,947	147,132,862	230,214	0.010	0.16
Bear Sterns	11,267,686	209,724,800	215,727	0.019	0.10
UBS	7,444,010	86,591,000	182,708	0.025	0.21
Salomon Bros International Ltd	42,596,525	63,931,688	157,922	0.004	0.25
J P Morgan Securities Inc	80,256,703	74,148,272	144,304	0.002	0.19
Investment Technology Groups	6,976,921	274,899,843	142,672	0.020	0.05
Deutsche Bank Securities Inc	5,499,910	79,575,018	120,856	0.022	0.15
Robert Fleming & Co Ltd	12,824,438	44,841,385	105,659	0.008	0.24
Hoare Govett Securities Ltd	13,113,835	48,468,588	101,606	0.008	0.21
Montgomery Securities	2,048,188	56,297,131	100,026	0.049	0.18
Credit Lyonnais Securities	35,923,814	26,880,161	93,306	0.003	0.35
C S First Boston	5,097,911	27,198,900	72,598	0.014	0.27
Jardine Fleming	6,366,443	20,929,287	72,049	0.011	0.34
ABN AMRO Securities	21,578,314	47,541,376	70,089	0.003	0.15
BT Alex Brown Inc	1,242,586	40,590,074	61,953	0.050	0.15
Casenove & Co	4,874,311	18,432,266	56,143	0.012	0.30
BancBoston Robertson Stephens	1,155,223	34,602,572	55,740	0.048	0.16
Bridge Trading Co	1,542,308	70,516,184	53,913	0.035	0.08
Others (Including 175 Brokerage Firms)	665,559,183	897,434,438	1,233,411	0.002	0.14
TOTALS	1,094,311,382	$ 4,312,891,695	$ 6,598,092	$ 0.006	0.15 %

INVESTMENT POLICY AND GOAL STATEMENT

The following excerpt from the Iowa Public Employees' Retirement System's Investment Policy & Goal Statement includes all Policy text, but excludes the addenda referenced in the Policy.

I. INTRODUCTION - IPERS' PURPOSE AND PRINCIPLES

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

> "...to promote economy and efficiency in the public service by providing an orderly means for employees, without hardship or prejudice, to have a retirement system which will provide for the payment of annuities, enabling the employees to care for themselves in retirement, and which will improve public employment within the state, reduce excessive personnel turnover, and offer suitable attraction to high-grade men and women to enter public service in the state."

IPERS is administered 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 300 basis points (3%).

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

3. Performance which meets or exceeds IPERS' total fund policy return, which is defined as a passively managed benchmark comprised of the target asset allocations to, and appropriate indexes for, each asset class.

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

III. INVESTMENT POLICY STATEMENT

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

A. Asset Allocation Policy

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

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

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

3. Expectations regarding short-term and long-term capital market returns and risks.

4. Historical returns and risks of the capital markets.

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

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

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

Domestic Equities	Long-term return
International Equities	Long-term return, diversification
Global 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, income
High Yield Bonds	Long-term return greater than global fixed income, diversification, income
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 the policy targets and evaluate any variations considered significant.

	% of Portfolio at Market		
	Target	Minimum	Maximum
Equity Component			
Public Market			
Domestic Equities	28	23	33
International Equities	15	10	20
% Public	43	--	--
Private Market			
Equity Real Estate	5	3	7
Private Equity/Debt	10	7	13
% Private	15	--	--
% Equity	58	50	66
Fixed Income Component			
Global Fixed Income	34	30	38
High Yield Bonds	3	2	4
% Fixed Income	37	32	42
Global Tactical Asset Allocation	5	3	7
Cash[1]	0	0	5
Total	100%		

[1] Cash, for purpose of applying target and range, is limited to funds available prior to distribution to investment managers and the amount reserved to pay near-term benefits and administrative costs.

B. Portfolio Component Definitions and Performance Expectations

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

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.

c. Post-Distribution Equity - A concentrated portfolio of publicly traded stocks distributed from the Private Equity portfolio. The portfolio will be managed with the goal of maximizing the value of the distributed stocks while meeting the System's need for liquidity and diversification.

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.

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 100 basis points (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 100 basis points (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 U.S. Universal Index by 50 basis points (0.50%) annually over a full market cycle (defined generally as 3 to 5 years). 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 (North American Sector) by 100 basis points (1%) 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 annualized long term return objective for the real estate portfolio is to exceed the CPI by 600 basis points (6%). (See Addendum C, Tab V)

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 by 300 basis points (3%) on an internal rate of return basis. (See Addendum D, Tab VI)

8. Cash

A portfolio comprised of the Custodian bank's Short Term Investment Fund (STIF) and/or other short-term investment vehicles. The return objective of the cash portfolio is to exceed the rate of return of the Merrill Lynch 91-Day Treasury Bill Index, while preserving principal. The return objective of the active component of the cash portfolio is to exceed the rate of return on the Merrill Lynch 91-Day Treasury Bill Index by 75 basis points (0.75%) annually.

C. Investment Management Policy

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

1. Manager/Consultant Utilization and Selection

The selection of the managers and consultants is accomplished in accordance with Iowa Executive Order Number 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 exists as an addendum to this document.

2. Manager/Consultant Discretion

The investment managers shall have full discretion to direct and manage the investment and reinvestment of assets allocated to their accounts in accordance with this document, applicable federal and state statutes and regulations, and the executed contracts. Further, the investment managers shall have full discretion to establish and execute trades through accounts with one or more securities broker/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. (See Addendum B, Tab IV)

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.

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. (See Addendum E, Tab VII)

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 terms of the program. The agreement(s) will be reviewed with the Investment Board and staff and will be incorporated herein. (See Addendum F, Tab VIII)

H. Proxy Voting

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

The voting rights of individual stocks 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 § 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 issues or agendas through investment or divestment of IPERS' assets. To act otherwise could be construed as a violation of fiduciary duty and could endanger the System's tax-exempt status.

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

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.

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

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

C. Administrative Responsibilities

1. 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 business 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.

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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 Investment Portfolio Assets

Annualized Investment Performance Summary

AVERAGE BENEFIT PAYMENTS FOR LAST TEN YEARS FOR RETIREES AS OF JUNE 30, 2001							
	Years of Credited Service						
Fiscal Year	0-10	11-15	16-20	21-25	26-30	30+	Total
1992							
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
1993							
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
1994							
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
1995							
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
1996							
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
1997							
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
1998							
Number of Retirees	12,477	10,734	10,531	8,609	6,327	13,428	62,106
Average Monthly Benefit	$122	$276	$408	$581	$840	$1,113	$548
Average Years of Service	7.51	13.39	18.34	23.23	28.15	34.92	20.57
1999							
Number of Retirees	12,820	10,880	10,733	8,910	6,681	14,251	64,275
Average Monthly Benefit	$132	$301	$445	$633	$929	$1,232	$609
Average Years of Service	7.47	13.38	18.35	23.25	28.17	34.82	20.69
2000							
Number of Retirees	13,001	11,049	10,941	9,305	7,037	15,303	66,636
Average Monthly Benefit	$134	$308	$461	$662	$979	$1,325	$652
Average Years of Service	7.52	13.36	18.33	23.22	28.13	34.67	20.87
2001							
Number of Retirees	13,317	11,201	11,057	9,654	7,422	16,014	68,665
Average Monthly Benefit	$138	$318	$479	$696	$1,029	$1,402	$692
Average Years of Service	7.51	13.36	18.35	23.24	28.17	34.64	20.98

NEW RETIREES BY EMPLOYER GROUP AS OF JUNE 30, 2001						
Fiscal Year	City	County	School	State	Other	Total
1992						
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
1993						
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
1994						
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
1995						
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
1996						
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
1997						
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
1998						
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
1999						
Number of Retirees	401	611	2,193	621	158	3,984
Average Monthly Benefit	$789	$787	$1,184	$1,146	$1,054	$1,072
Average Credited Service	18.86	19.54	24.14	21.92	21	22.42
2000						
Number of Retirees	513	654	2,607	659	208	4,641
Average Monthly Benefit	$714	$745	$1,236	$1,180	$998	$1,091
Average Credited Service	17.53	18.29	24.38	21.75	19.28	22.16
2001						
Number of Retirees	486	689	2,177	660	216	4,228
Average Monthly Benefit	$767	$806	$1,181	$1,232	$1,133	$1,078
Average Credited Service	18.35	18.25	22.86	21.75	20.61	21.29

AVERAGE BENEFIT PAYMENTS BY RETIREMENT DATE FOR RETIREES AS OF JUNE 30, 2001								
	Years of Credited Service							
Fiscal Year	0-5	6-10	11-15	16-20	21-25	26-30	30+	Total
Prior to 1/1/76:								
Number of Retirees	101	510	572	459	267	185	563	2,657
Average Monthly Benefit	$62	$120	$275	$341	$410	$481	$543	$333
Average Years of Service	5.13	8.44	13.32	18.12	23.06	27.93	38.26	20.17
Between 1/1/76 and 6/30/82:								
Number of Retirees	429	1,344	1,533	1,203	1,010	645	1,220	7,384
Average Monthly Benefit	$52	$128	$283	$362	$458	$592	$689	$372
Average Years of Service	4.64	8.57	13.29	18.35	23.14	27.96	36.01	19.14
Between 7/1/82 and 6/30/86:								
Number of Retirees	406	1,307	1,474	1,437	1,038	869	1,319	7,850
Average Monthly Benefit	$59	$150	$296	$414	$553	$733	$879	$461
Average Years of Service	4.56	8.54	13.47	18.27	23.27	28.23	34.52	19.53
Between 7/1/86 and 6/30/90:								
Number of Retirees	361	1,534	1,841	2,004	1,534	1,020	2,330	10,624
Average Monthly Benefit	$70	$152	$297	$423	$583	$768	$976	$528
Average Years of Service	4.54	8.57	13.40	18.32	23.15	28.04	33.90	20.64
Between 7/1/90 and 6/30/96:								
Number of Retirees	931	2,515	3,058	3,257	2,951	2,159	4,549	19,420
Average Monthly Benefit	$74	$164	$306	$478	$695	$1,001	$1,299	$674
Average Years of Service	4.44	8.49	13.40	18.33	23.29	28.12	34.46	21.23
Between 7/1/96 and 6/30/00:								
Number of Retirees	952	2,335	2,249	2,242	2,293	2,036	4,988	17,095
Average Monthly Benefit	$78	$183	$377	$615	$886	$1,385	$1,941	$1,010
Average Years of Service	4.49	8.41	13.26	18.46	23.27	28.32	34.50	22.12
Between 7/1/00 and 6/30/01:								
Number of Retirees	157	435	474	455	561	508	1,045	3,635
Average Monthly Benefit	$105	$219	$433	$707	$1,058	$1,506	$2,186	$1,178
Average Years of Service	4.48	8.50	13.24	18.42	23.21	28.19	34.21	22.60
Total as of June 30, 2001:								
Number of Retirees	3,337	9,980	11,201	11,057	9,654	7,422	16,014	68,665
Average Monthly Benefit	$71	$160	$318	$479	$696	$1,029	$1,402	$692
Average Years of Service	4.53	8.50	13.36	18.35	23.24	28.17	34.64	20.98
IOASI Retirees*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	38
Average Monthly Benefit	N/A	N/A	N/A	N/A	N/A	N/A	N/A	112

*Recipients receiving benefits calculated under the Iowa Old-Age and Survivors' Insurance System (IOASI) are identified separately.

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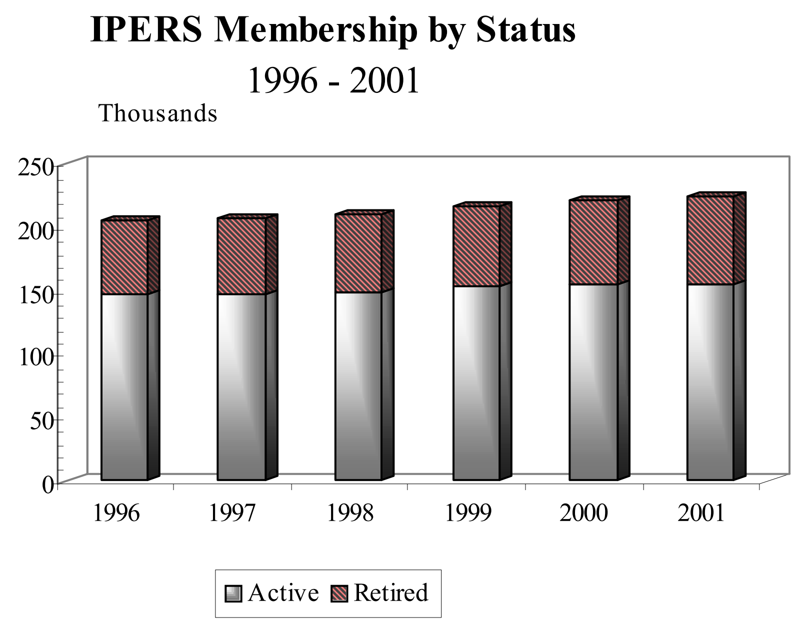
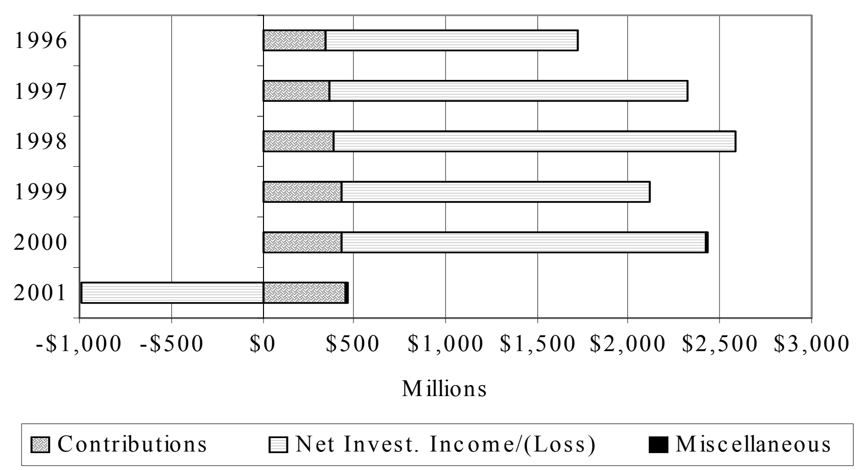
MEMBERSHIP STATISTICS

Special Statistics Last Six Fiscal Years						
	Number of					
Fiscal Year	Retired Members	Active Members	Total Additions	Total Deductions	Total Investments	Total Net Assets
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
2000	66,681	154,612	2,419,877,009	605,221,828	18,358,625,668	17,140,231,190
2001	68,703	154,610	(538,086,303)	673,597,721	16,854,676,024	15,928,547,166

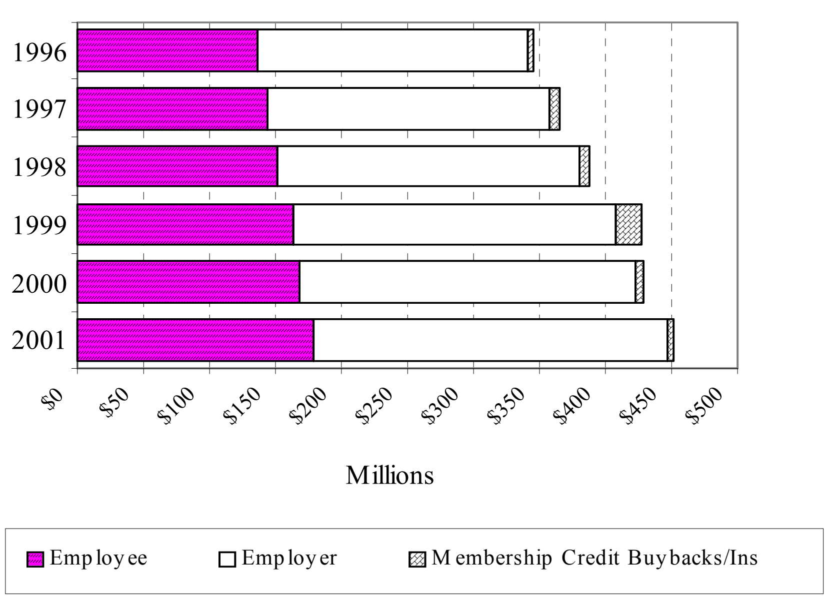


Additions by Source Last Six Fiscal Years						
	Contributions					
Fiscal Year	Employee	Employer	Membership Credit Buybacks/Ins	Net Investment Income/(Loss)	Miscellaneous Income	Total
1996	$ 136,589,797	204,884,696	4,295,339	1,373,083,304	--	1,718,853,136
1997	143,311,565	214,967,348	6,638,079	1,959,597,881	--	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
2000	168,847,367	253,271,051	7,295,195	1,990,366,366	97,030	2,419,877,009
2001	178,876,729	268,315,094	3,847,364	(989,190,300)	64,810	(538,086,303)

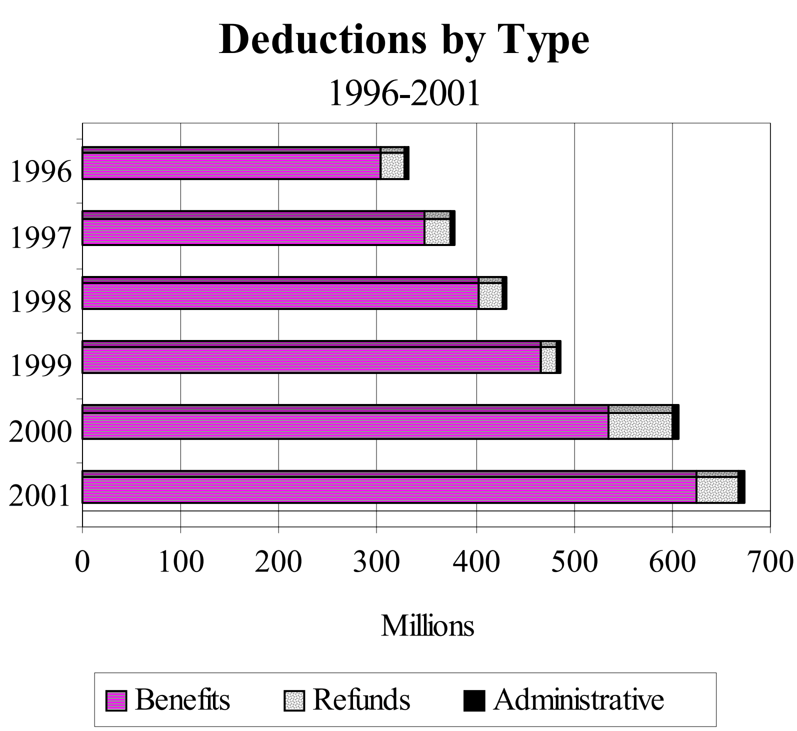
Additions by Source
1996 - 2001



Contributions by Source
1996 - 2001

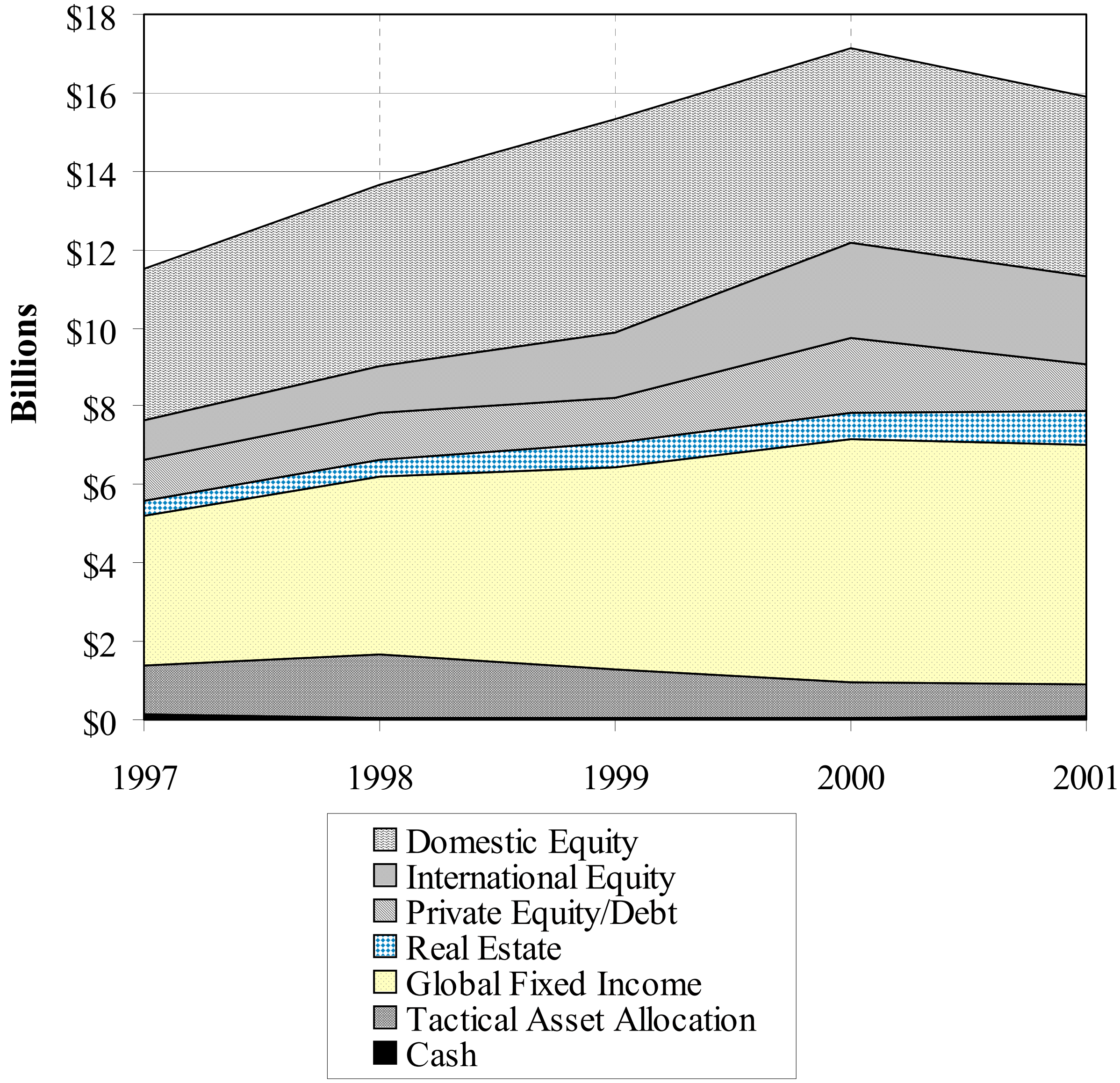


Deductions by Type Last Six Fiscal Years				
Fiscal Year	Benefits	Refunds	Administrative Expenses	Total
1996	$ 303,812,003	23,743,427	3,409,775	330,965,205
1997	348,536,733	25,285,487	3,828,712	377,650,932
1998	402,544,698	24,557,597	4,012,736	431,115,031
1999	466,752,949	14,442,111	4,620,009	485,815,069
2000	533,747,215	65,608,628	5,865,985	605,221,828
2001	624,259,449	42,073,825	7,264,447	673,597,721



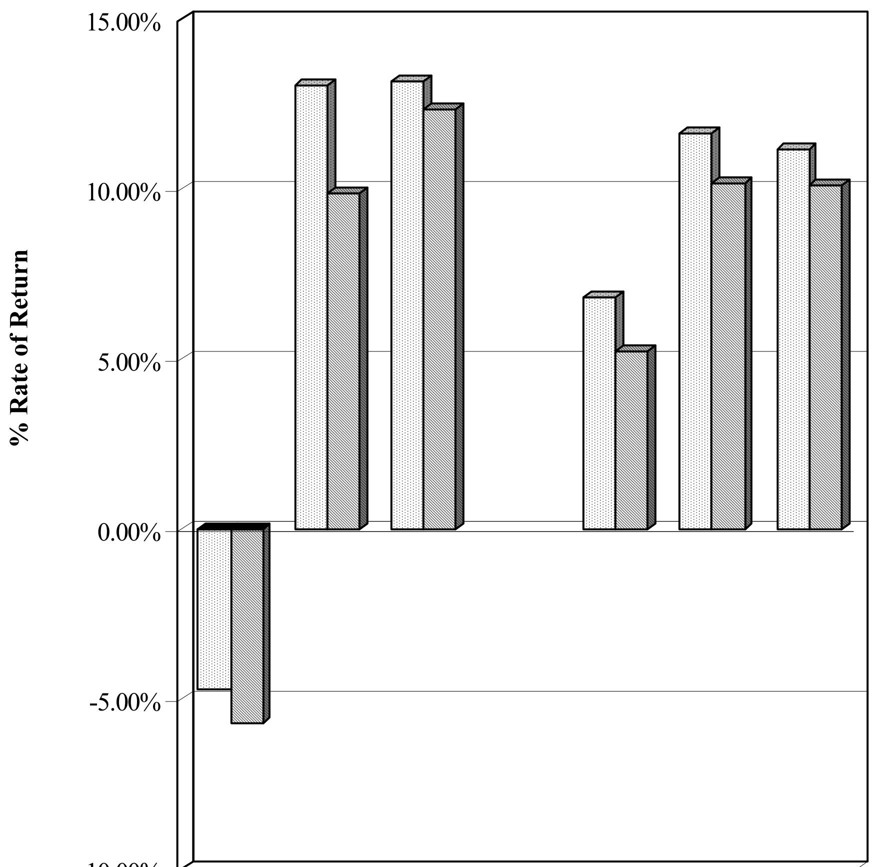
Growth of Net Investment Portfolio Assets

Five Year Historical Summary



Annualized Investment Performance Summary

For the periods ended June 30



	2001	2000	1999		3 yr	5 yr	10 yr
IPERS' Portfolio*	-4.73%	13.05%	13.18%		6.82%	11.65%	11.20%
Policy Benchmark**	-5.68%	9.88%	12.37%		5.21%	10.19%	10.12%

* Net of Fees
**A passively-managed benchmark comprised of market indices, and weightings to same, reflective of IPERS' asset allocation targets.

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Plan Summary

Membership

Buy-backs/Buy-ins

Contributions

Vesting

Refunds

Benefits

Distribution of IPERS Benefit Payments in Iowa Counties

IPERS Benefit Payments

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

Membership

Retired Members	2001	2000
All Retired Members	68,703	66,681
Average Years of Service	21	21
Average Monthly Benefit	$692	$652
Current Year Member Retirements	4,228	4,641
Average Years of Service	21	22
Average Monthly Benefit	$1,078	$1,091
Retired Reemployed**	5,095	5,487
Active Members	154,610	154,612
Inactive Vested	32,295	30,650
Inactive Nonvested	63,810	60,372
Total Membership	319,418	312,315

* Varies by calendar quarter.
**Retired reemployed are included in the number of retired members.

Employer

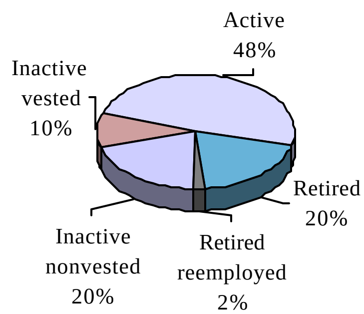
	2001		2000	
Employer Type	**Number of Entities**	**Covered Wages**	**Number of Entities**	**Covered Wages**
City	1298	$ 548,496,697	1298	$ 522,664,179
County	472	683,870,786	441	642,141,973
School	397	2,135,613,497	397	2,059,610,887
State	25	932,153,518	24	907,926,909
Other	230	250,045,616	226	233,107,377
Total	2422	$4,550,180,114	2386	$4,365,451,325

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, 2001, there were 154,610 active members employed by 2,422 public employers actively contributing to the System. The number of active employees decreased by 2 from June 30, 2000. The chart below, “Membership Profile,” provides further information on the composition of the members for fiscal year 2001.

Membership Profile
June 30, 2001



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. The cost of purchasing service is determined by the system’s actuary. There are federal limitations on how much service credit a member may purchase annually.

Contributions

IPERS accumulates the resources necessary to meet its responsibilities by collecting mandatory contributions from employees and employers and by investing those funds. Contributions continue throughout covered employment. The majority of employers contribute at a rate of 5.75% 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 2001, contribution rates were based on the federal wage ceiling of $170,000.

Contribution Rates & Maximum Covered Wages				
IPERS	Employee	Employer	Total	Maximum
Regular 07/01/00 to 06/30/01	3.70%	5.75%	9.45%	$170,000
Special Subgroups **1)** Sheriffs/Deputy Sheriffs (County) and Airport Firefighters 07/01/00 to 06/30/01	5.59%	8.39%	13.98%	$170,000
2) Protection Occupations* 07/01/00 to 06/30/01	5.90%	8.86%	14.76%	$170,000

*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.

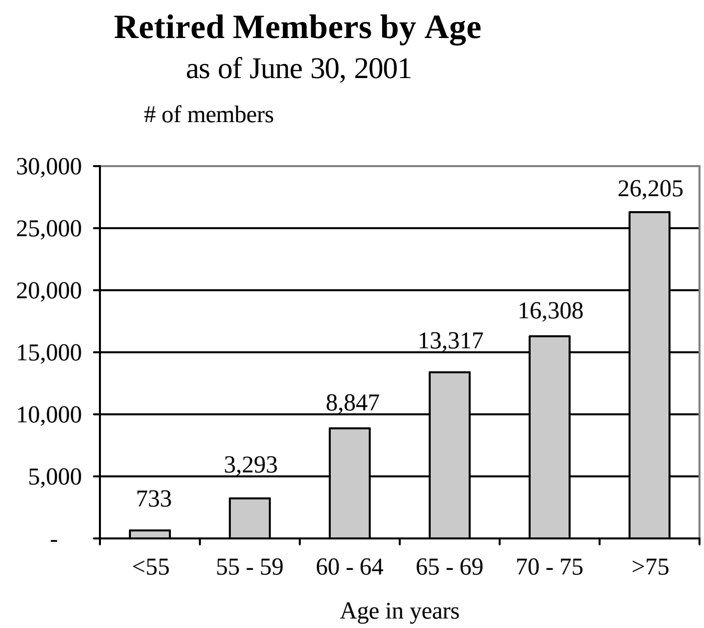
Refunds

An IPERS member who terminates public employment for any reason may request a full refund of the member's accumulated contributions. A vested member is also entitled to receive a portion of the employer's accumulated contributions. Acceptance of the refund automatically terminates IPERS membership and all claims to future benefits. Refunds expenses for fiscal year 2001, including employer refunds and actuarial equivalents, totaled $42,073,825.

Benefits

Retirement Ages

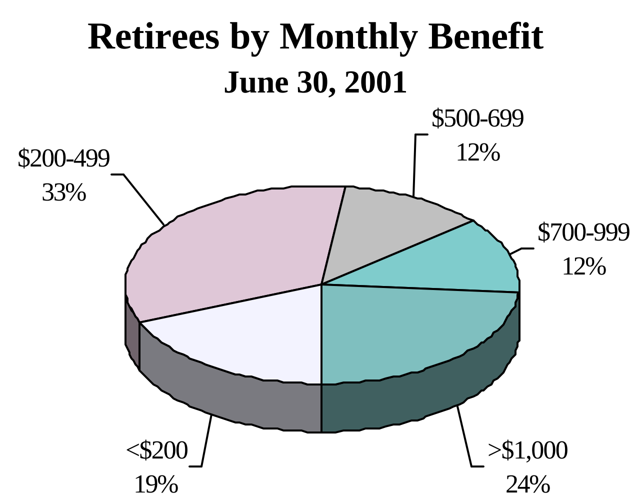
To receive full retirement benefits, an IPERS member must retire at or after "normal retirement age" with 30 or more years of service. Normal retirement is the first of the month in which the member turns 65, the first of the month in which the member turns 62 if the member has 20 years of membership 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 2001, a total of 68,703 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.



Benefit Amounts

For all present retirees, the monthly IPERS benefit check averages $692. For members retiring in fiscal year 2001, the average benefit was $1,078. The average member retired with 21 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.

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 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.

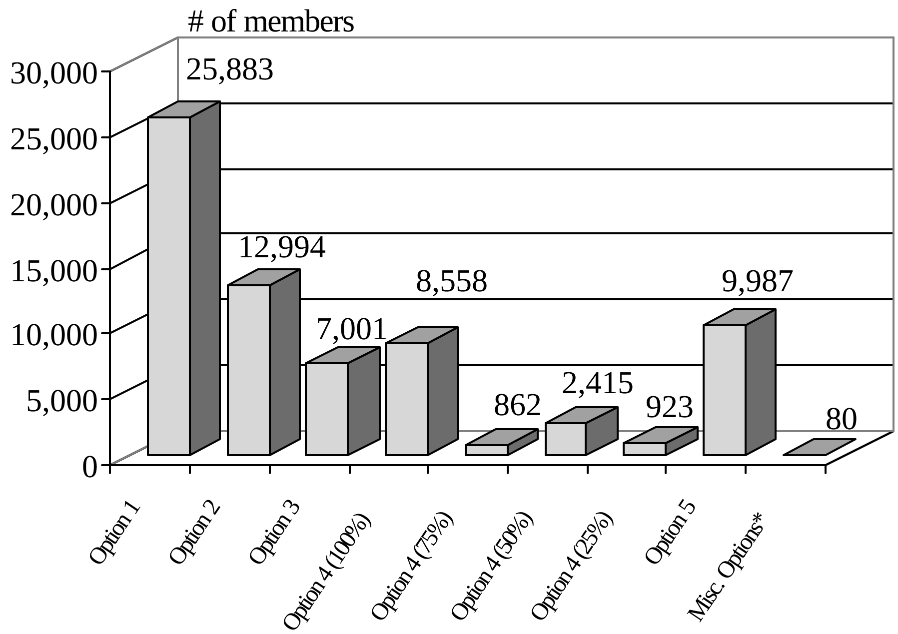


Benefit Options:

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.

Retired Membership by Benefit Option

as of June 30, 2001



*Consists of benefits available under previous laws

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.

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 2000, the dividends paid totaled $19,010,893 and the January 2001 FED totaled $46,219,145.

Death Benefits

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

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

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

*The denominator is 22 for sheriffs, deputy sheriffs, and airport firefighters. It is 24 for all other special service occupations.

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

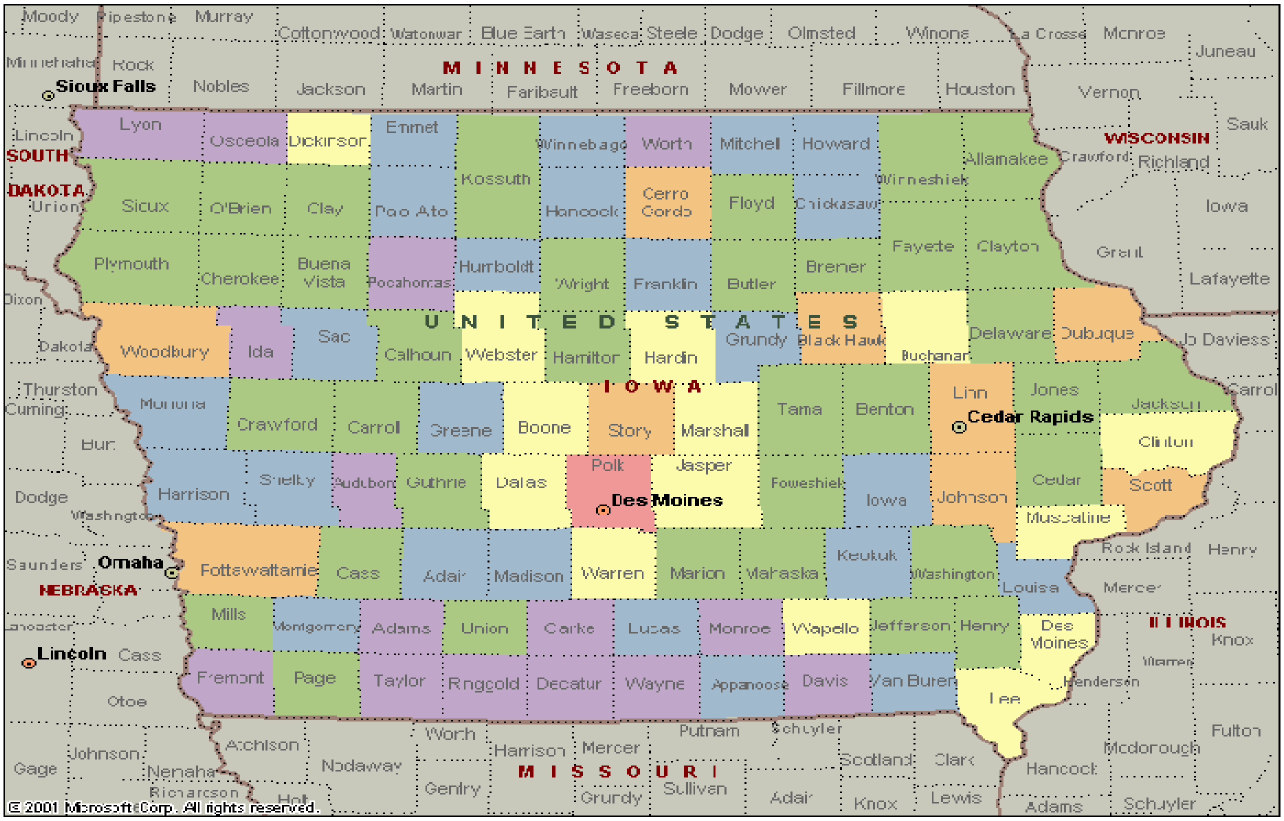
If an IPERS member dies after retirement, payment is made to the beneficiary according to the option selected by the member at the time of retirement. For fiscal year 2001, death benefits paid to beneficiaries or to the estates of deceased nonretired and retired members totaled $14,732,408.

Distribution of IPERS Benefit Payments in Iowa Counties as of June 30, 2001

COUNTY	AMOUNT	AVERAGE	PAYEES	COUNTY	AMOUNT	AVERAGE	PAYEES
Adair	$ 2,105,367	$ 8,005	263	Jefferson	$ 3,290,123	$ 8,821	373
Adams	988,092	6,631	149	Johnson	12,221,417	8,009	1526
Allamakee	3,325,909	8,661	384	Jones	4,607,809	9,179	502
Appanoose	2,556,382	7,794	328	Keokuk	2,862,774	7,696	372
Audubon	1,494,862	6,889	217	Kossuth	3,189,120	8,053	396
Benton	4,039,186	7,187	562	Lee	6,961,851	9,282	750
Black Hawk	21,551,506	9,071	2376	Linn	30,509,673	9,964	3062
Boone	6,593,185	8,130	811	Louisa	2,623,639	8,894	295
Bremer	4,624,937	8,409	550	Lucas	2,254,706	7,541	299
Buchanan	5,714,207	8,491	673	Lyon	1,837,627	7,754	237
Buena Vista	4,061,133	8,221	494	Madison	2,621,471	7,992	328
Butler	3,133,060	7,736	405	Mahaska	4,112,262	8,532	482
Calhoun	3,058,945	7,987	383	Marion	4,712,116	8,536	552
Carroll	3,044,338	7,371	413	Marshall	9,287,361	8,544	1087
Cass	3,932,216	8,475	464	Mills	3,974,182	8,211	484
Cedar	3,513,606	8,487	414	Mitchell	2,769,375	8,218	337
Cerro Gordo	10,631,422	9,835	1081	Monona	2,522,393	8,436	299
Cherokee	4,620,472	8,801	525	Monroe	1,655,437	7,015	236
Chickasaw	2,870,567	9,260	310	Montgomery	2,780,581	7,376	377
Clarke	1,793,241	7,116	252	Muscatine	6,068,683	8,245	736
Clay	3,651,423	8,394	435	O'Brien	3,205,211	7,595	422
Clayton	4,036,217	7,837	515	Osceola	1,074,387	7,115	151
Clinton	7,552,928	8,672	871	Page	4,833,666	8,305	582
Crawford	3,838,835	8,437	455	Palo Alto	2,976,334	8,044	370
Dallas	7,222,236	8,152	886	Plymouth	4,260,737	8,371	509
Davis	1,942,575	7,116	273	Pocahontas	1,687,677	7,602	222
Decatur	1,992,081	6,822	292	Polk	61,040,621	9,474	6443
Delaware	3,635,297	8,514	427	Pottawattamie	12,116,078	8,773	1381
Des Moines	8,497,568	9,892	859	Poweshiek	3,592,451	8,553	420
Dickinson	5,178,510	9,643	537	Ringgold	1,666,232	7,244	230
Dubuque	10,941,984	9,043	1210	Sac	2,129,222	7,218	295
Emmet	2,561,196	8,741	293	Scott	20,887,595	10,110	2066
Fayette	4,559,710	8,056	566	Shelby	2,858,922	8,215	348
Floyd	3,948,905	8,547	462	Sioux	3,998,234	7,530	531
Franklin	2,305,546	7,711	299	Story	17,839,065	9,856	1810
Fremont	1,740,624	7,134	244	Tama	3,754,479	8,572	438
Greene	2,643,765	6,779	390	Taylor	1,858,750	7,495	248
Grundy	2,892,077	8,034	360	Union	3,406,739	7,814	436
Guthrie	3,169,712	7,788	407	Van Buren	2,397,045	7,833	306
Hamilton	4,498,763	9,016	499	Wapello	7,870,417	8,883	886
Hancock	2,446,997	8,239	297	Warren	7,867,852	9,322	844
Hardin	5,831,811	8,464	689	Washington	4,198,488	7,226	581
Harrison	2,936,910	7,895	372	Wayne	1,752,600	6,927	253
Henry	4,608,250	8,259	558	Webster	7,693,996	8,400	916
Howard	2,420,938	8,555	283	Winnebago	2,415,895	8,107	298
Humboldt	2,914,709	7,964	366	Winneshiek	4,025,532	8,249	488
Ida	1,378,689	7,575	182	Woodbury	17,747,103	10,264	1729
Iowa	2,797,891	7,949	352	Worth	1,663,401	8,036	207
Jackson	3,633,460	8,003	454	Wright	3,589,447	8,176	439
Jasper	6,930,943	8,807	787				

Total Iowa Benefit Payments $541,633,959

IPERS Benefit Payments
as of June 30, 2001



$31,000,001 to $62,000,000

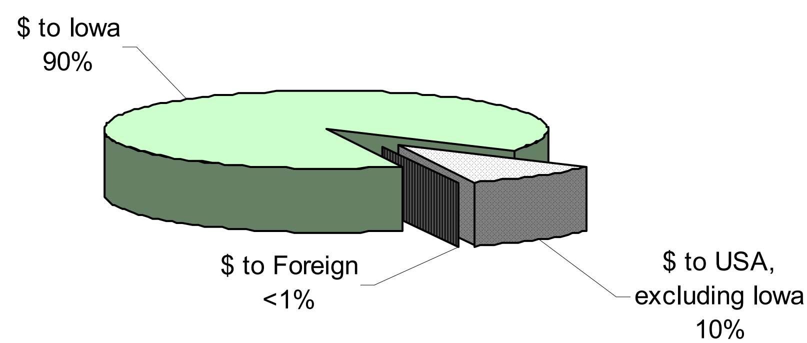
$10,000,001 to $31,000,000

$5,000,001 to $10,000,000

$3,000,001 to $5,000,000

$2,000,001 to $3,000,000

$988,000 to $2,000,000



PAYMENT SUMMARY

- $ to Iowa $541,633,959
- $ to USA, excluding Iowa $63,119,137
- $ to Foreign $103,761

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