

FY2013 ANNUAL SUMMARY

Iowa Public Employees' Retirement System

An Annual Summary for the Fiscal Year

Ended June 30, 2013



Strong Horizons.

At IPERS, we take a long, wide view.



Things began to look up in fiscal year 2013! This year's investment performance combined with recent plan changes results in a bright outlook for IPERS. Positive signs of strong financial health include:

- ▶ 10 percent return on investments
- ▶ 81 percent funded
- ▶ \$25 billion Trust Fund

In the pension world, we look at horizons of 30 or more years to assess our financial condition. Yes, this is an annual report for fiscal year 2013 and as you read the report, you will learn about measurements taken to provide a "snapshot" of FY2013. But what's important to understand is that we must take a big-picture view. One year of positive or negative investment returns will not make or break IPERS. You've heard me say it before: "It's performance over the long haul that counts."

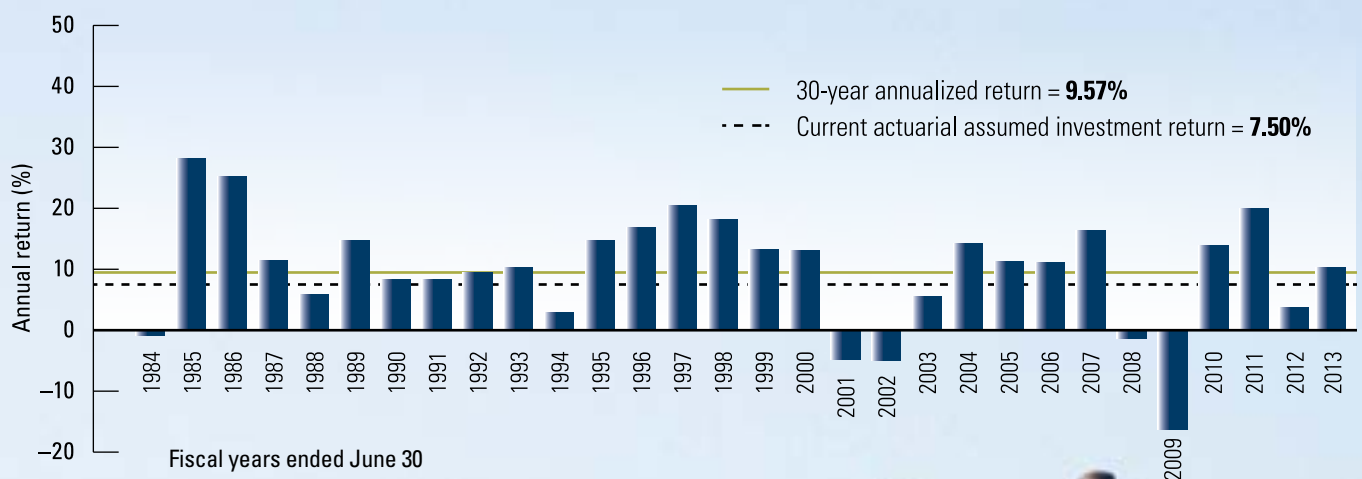
Recently, pension systems have been in the national news raising concern about Iowa's pension systems. Fortunately, IPERS was one of the early leaders of pension reform in 2010. Keep reading to learn more about IPERS: who we serve, the difference we make, and how we administer the plan.

IPERS CEO

Working Today for Your Tomorrow

Building Strength & Resiliency for the Future

Long-Term Investment Performance

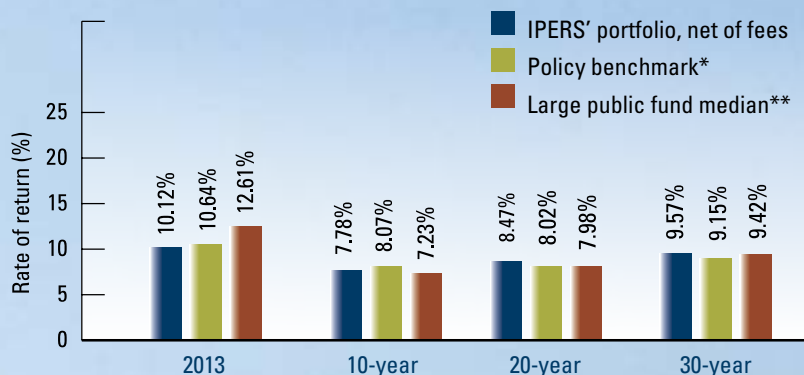


The ultimate test of IPERS' financial soundness will be whether its \$25 billion investment portfolio can produce the future earnings needed to pay all of the System's promised benefits. **IPERS seeks to maximize investment returns at an acceptable level of risk over a long time horizon** (consistent with the long-term nature of its liabilities) by maintaining a well-diversified investment portfolio.

Investments play a significant role in IPERS' funded status. Investment earnings have contributed nearly 70 percent of IPERS' benefits paid in recent decades. Fiscal year 2013's investment return of 10.12 percent exceeded the actuarial assumed investment return

of 7.50 percent. While it's great to have positive returns for the year, what's more important is the long-term performance of the Fund. IPERS' 30-year annualized return of 9.57 percent shows that the Fund is on track for fulfilling its promises.

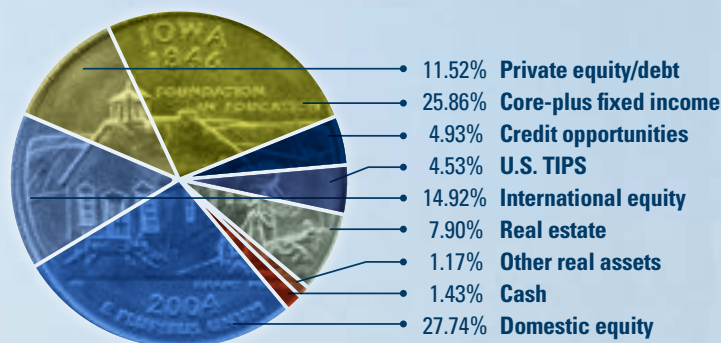
Investment Performance Summary For the periods ended June 30



*A benchmark composed of market indexes with weightings reflective of IPERS' asset allocation targets.
 **Trust Universe Comparison Service (TUCS) Public Funds with Total Market Value Greater than \$1 billion.
 Note: 10-, 20-, and 30-year results are annualized returns.

The IPERS Investment Board, along with investment managers, consultants, and staff, carefully evaluates how to best invest the Trust Fund in a diversified portfolio to reduce risk and maximize returns.

Asset Allocation As of June 30, 2013



It goes without saying that risk is a part of the investment picture. Without risk, investment gains are minimal. The Investment Board determines the level of risk it is willing to accept in order to achieve or maintain a sound funded status.

As the designated trustee of the Fund, the Board sets investment policies and actuarial assumptions. The Governor appoints six of the eleven Board members: three with substantial institutional investment experience who are not IPERS members, and three IPERS members—one active, one retired, and one school

employee. The other Board members are the State Treasurer, two state representatives, and two state senators.

In September 2013, the Board voted to amend the Contribution Rate Funding Policy and Actuarial Amortization Method. This provides stability in the contribution rates while addressing the risk of underfunding the benefits. The change allows IPERS to prepare for the next market downturn, whenever that occurs. As fiduciaries of the plan, the Board makes sure the right policies are in place to protect the members' assets.

Who Depends on Us?

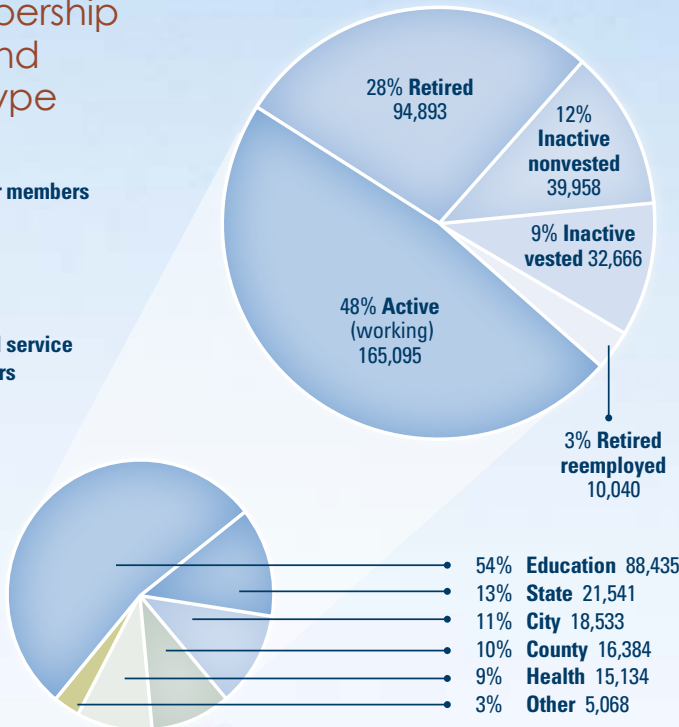
IPERS Membership by Status and Employer Type



95% Regular members



5% Special service members

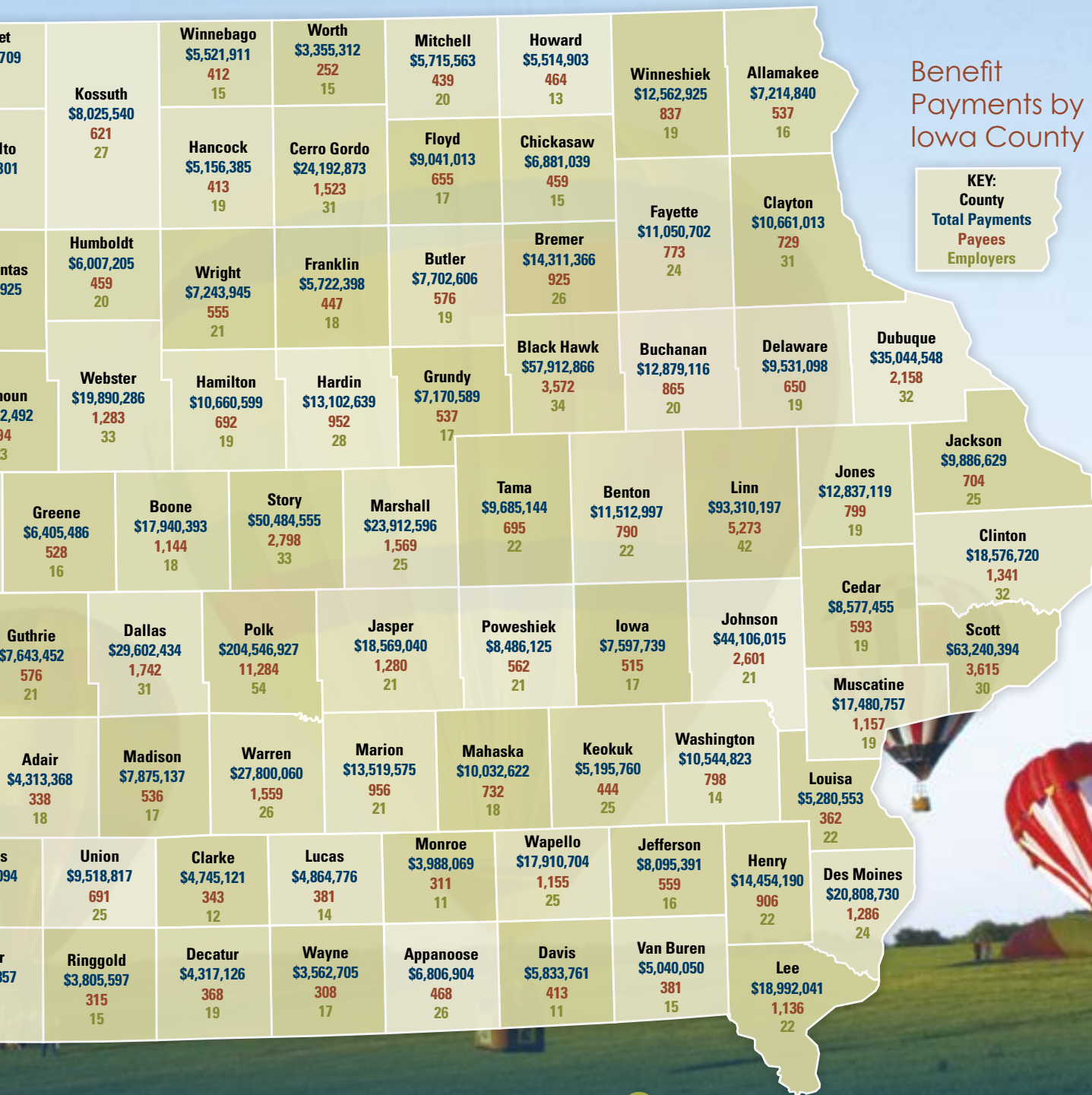


Lyon \$3,556,822 292 17	Osceola \$2,246,451 194 12	Dickinson \$14,430,131 891 24	Emmetsburg \$5,375,000 390 13
Sioux \$9,641,471 794 28	O'Brien \$7,010,309 527 25	Clay \$9,661,876 690 26	Palo Alto \$5,974,300 477 21
Plymouth \$10,957,176 777 27	Cherokee \$9,691,646 669 15	Buena Vista \$9,752,710 695 25	Pocahontas \$4,663,000 360 17
Woodbury \$42,578,508 2,565 33	Ida \$3,214,227 251 12	Sac \$5,657,770 458 20	Calhoun \$6,400,000 450 20
Monona \$5,055,769 403 20	Crawford \$7,522,641 569 25	Carroll \$8,062,659 643 30	
Harrison \$5,870,095 473 23	Shelby \$7,090,868 536 19	Audubon \$3,559,609 292 13	
Pottawattamie \$34,742,450 2,105 35	Cass \$10,057,221 675 22		
Mills \$11,748,464 715 12	Montgomery \$6,724,617 490 15	Adair \$2,677,000 215 11	
Fremont \$4,262,830 306 21	Page \$10,508,361 740 34	Taylor \$3,739,800 317 18	

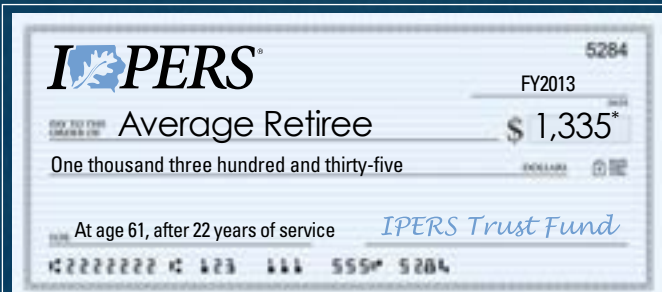
The Iowa Legislature created IPERS in 1953 to provide retirement security for Iowa citizens who dedicate their lives to public service. These individuals teach our children, maintain our roads and parks, care for our most vulnerable citizens, and protect Iowans across our state.

At IPERS, we work hard to ensure our members receive their guaranteed lifetime benefits. After all, providing the means necessary for public employees to care for themselves in retirement is why we exist.

With more than 104,000 retirees, IPERS paid over \$1.7 billion in benefits in FY2013, with \$1.5 billion paid in Iowa. IPERS is an economic engine making a significant impact on Iowa's economy.



One in ten Iowans is an IPERS member.



- TEACHERS
- FIREFIIGHTERS
- POLICE OFFICERS
- SOCIAL WORKERS
- SHERIFFS
- DEPUTIES

IPERS is the state's largest public employees' retirement system, covering roughly 340,000 members and retirees.

The Funding Equation

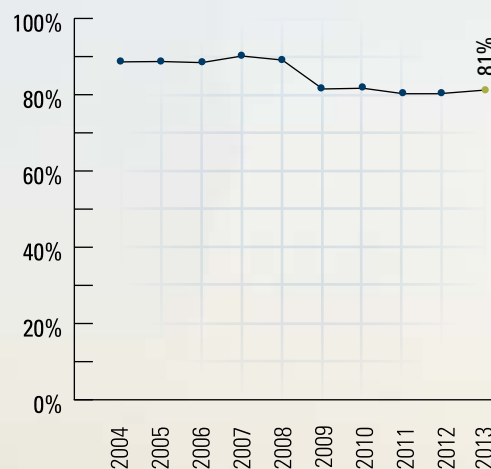
The key to secure funding for any pension system is managing to this equation.



IPERS is a prefunded system, not pay-as-you-go. That means IPERS must collect the correct amount of contributions during the member's career. These contributions are determined by the actuary using demographic and economic assumptions. Then the contributions are invested in order to pay for the guaranteed lifetime benefits, along with expenses of the System.

Starting in FY2014, for the first time in over a decade, the contribution rates are sufficient to prefund the earned benefits and apply the required payment to the unfunded actuarial liability (UAL). In FY2015, because of investment performance and the Board's funding policy, the contribution rates will remain the same.

Funded Ratio As of June 30

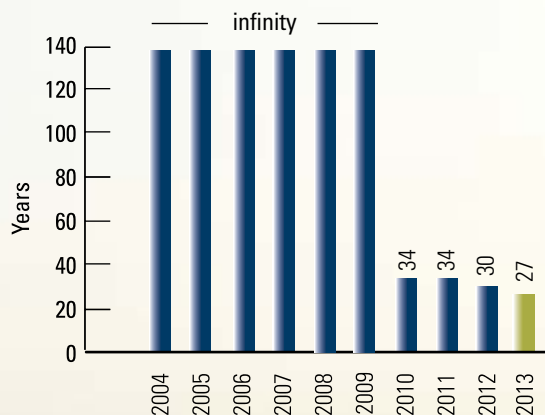


What's a UAL?

A UAL (unfunded actuarial liability) indicates that the Trust Fund does not currently have all the money needed to pay all future benefits. It does not mean that it will someday run out of money.

Much like a mortgage, the UAL is amortized and paid off over a 30-year period. From 2004 to 2009, IPERS' UAL was impossible to amortize. Law changes in 2010 helped to shore up IPERS' UAL, and it is now amortized at 27 years. IPERS' UAL decreased by \$129 million in FY2013—another key indicator of stabilization.

UAL Amortization Period As of June 30



Fiduciary Net Position

June 30, 2013

Assets

Cash and cash equivalents	\$ 384,706,943
Receivables	2,386,911,603
Investments at fair value	24,678,600,464
Securities lending collateral pool	458,270,387
Capital assets	26,065,838
Other assets	91,451
Total assets	\$27,934,646,686

Liabilities

Accounts payable and accrued expenses	\$ 33,613,224
Investment purchases payable	997,897,728
Rebates and collateral payable	467,552,828
Foreign exchange contracts payable	1,556,876,877
Total liabilities	\$ 3,055,940,657

Total net position	\$24,878,706,029
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Changes in Fiduciary Net Position

Year Ended June 30, 2013

Additions

Total contributions	\$ 1,019,108,941
Net investment income	2,329,915,155
Net securities lending income	8,285,917
Total additions	\$ 3,357,310,013

Deductions

Benefit payments	\$ 1,667,468,859
Member refunds	42,597,432
Administrative expenses	12,078,201
Total deductions	\$ 1,722,144,492

Net increase	\$ 1,635,165,521
Beginning of year	23,243,540,508
End of year	\$24,878,706,029



Working Today for Your Tomorrow

Iowa Public Employees' Retirement System

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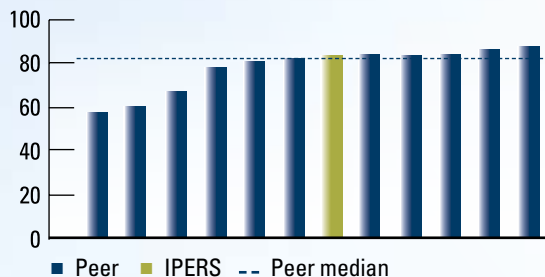
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Total Service Score



According to CEM Benchmarking Inc., an independent company that reviews pension systems worldwide, **IPERS was the lowest in costs** when compared to our peers, while receiving high ratings for services.

Note: Results based on FY2012 data. FY2013 data available in March 2014.

From the Governor and Lieutenant Governor



There is no better run public pension system in the state of Iowa than the Iowa Public Employees' Retirement System. From its inception, IPERS has been a solid public pension system that is efficiently managed, serving as a model system for other states.



Providing a secure retirement to public employees benefits everyone in a community. IPERS' economic footprint ripples down Main Street and throughout Iowa to help maintain our vibrant communities.

IPERS benefits are combined with Social Security and personal savings to allow

public employees security in retirement. Contributions from employees and employers are pooled and invested over a lifetime career to fund retirement benefits.

IPERS' leadership contributed to Iowa being named the second-best nationally in the management of its tax-supported debt and unfunded public employee pensions, by Barron's Financial Weekly, October 16, 2013. In addition, CEM Benchmarking Inc., an independent international consultant, rated IPERS as lowest among its peers in administration costs while maintaining high service levels.