Iowa Public Employees' Retirement System Comprehensive Annual Financial Report

Fiscal Year 2013

A Pension Trust Fund of the State of Iowa
for the Fiscal Years Ended June 30, 2013, and 2012

FY2013 Comprehensive Annual Financial Report

Iowa Public Employees' Retirement System

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for the Fiscal Years Ended June 30, 2013, and 2012

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

Fiscal Year 2013 Highlights

Membership

Active Members	165,095
Retired Members*	104,933

Contributions

Employee	$404,653,693
Employer	$602,444,103
Service Purchases	$12,011,145

Distributions

Benefits Paid	$1,667,468,859
Refunds Paid	$42,597,432

Investments

Net Investment and Securities Lending Income	$2,338,201,072
Investment Rate of Return	10.12%

Funding

Net Position Restricted for Pension Benefits	$24,878,706,029
Ratio of Actuarial Assets to Actuarial Liabilities	81.02%

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

Table of Contents

Introduction

Introduction

Terry E. Branstad
GOVERNOR

Kim Reynolds
LT. GOVERNOR

IPERS®

Donna M. Mueller
CHIEF EXECUTIVE OFFICER

December 12, 2013

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

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the Iowa Public Employees' Retirement System (IPERS, System, or plan) for the fiscal year ended June 30, 2013 (FY2013). This report presents a thorough discussion of IPERS' activities and financial status.

This publication fulfills the requirements set forth in Iowa Code section 97B.4(4)(a). The preparation of this report and the financial statements are the result of the combined effort of the System's staff under the direction of the management and CEO, who are responsible for the contents of the report.

IPERS' objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements since the cost of internal control should not exceed the benefits obtained. To that end, IPERS' administration maintains an internal accounting control system. It ensures that transactions are executed as intended by the administration, assets are accounted for, and the records of transactions are sufficient to permit preparation of the financial statements. Financial statements must be consistent with generally accepted accounting principles (GAAP) for governmental accounting and reporting. GAAP are pronounced or adopted by the Governmental Accounting Standards Board (GASB).

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

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

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

SYSTEM OVERVIEW

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

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

Initially, IPERS was a money purchase system that calculated benefits based on contributions. Today,

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
7401 Register Drive P.O. Box 9117 Des Moines, IA 50306-9117 1-800-622-3849 www.ipers.org
PHONE 515-281-0020 BENEFITS FAX 515-281-0053 LEGAL & INVESTMENTS FAX 515-281-0045 E-MAIL info@ipers.org

IPERS is a contributory defined benefit plan with benefits based on a formula using a member's years of service, average salary, and a multiplier. IPERS benefits are designed to provide an adequate retirement income when combined with Social Security benefits and individual savings.

Most public employees in Iowa become members of IPERS when they start employment with a covered employer, which includes schools, state agencies, counties, cities, townships, and other public entities. Public employees not covered by IPERS are judges, peace officers in the Iowa Department of Public Safety, police and fire personnel covered by the Municipal Fire and Police Retirement System of Iowa (MFPRSI), and university and community college personnel who elect other coverage.

As a multiple-employer, cost-sharing pension plan with 342,652 members, IPERS is the largest public pension system in Iowa. The IPERS Trust Fund paid $1.476 billion in benefits to Iowans in FY2013. One in ten Iowans is an IPERS member.

MEMBERSHIP SERVICES

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

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

IPERS' 2,147 employers receive training and technical assistance to encourage voluntary compliance with IPERS' requirements. Employers also receive newsletters and a handbook of procedures and reporting requirements. IPERS' team of compliance officers conducts frequent employer audits. Ninety-nine percent of all member wages are reported using I-Que, IPERS' online pension administration system.

Membership Services

Fiscal Year 2013

Preretirement counseling sessions	7,607
Phone inquiries	89,758
E-mail replies	5,402
Benefit estimates prepared	33,072
Service purchase cost quotes prepared	1,978
Service purchases made	457

INVESTMENTS

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

A staff of professional investment officers oversees IPERS' investments. The investment officers, all of whom have earned the respected Chartered Financial Analyst (CFA) or Certified Public Accountant (CPA) designation, oversee all asset classes in which IPERS invests. IPERS' investment officers and investment consultant make recommendations concerning asset allocation, investment policies, investment strategies, and contractor selection to the IPERS Investment Board, which makes the final decisions.

IPERS' investment staff also manages the competitive selection process, negotiates detailed service contracts, and monitors contractors' compliance with their IPERS service agreements. The investment management firms select individual investments in the IPERS portfolio. See page 40 of the Financial section for information on expenses related to these investment management firms and page 57 of the Investments section for a Schedule of Brokerage Commissions Paid.

FINANCIAL HIGHLIGHTS

Total Net Position

Total net position restricted for pension benefits increased from $23.244 billion on June 30, 2012, to $24.879 billion on June 30, 2013. These assets consist of capital assets owned by IPERS and investment portfolio assets. An overview and analysis of IPERS' financial activities for FY2013 is in Management's Discussion and Analysis, which begins on page 18 in the Financial section of this report.

In FY2013, employee and employer contributions, including service purchases, totaled $1.019 billion, while total member benefits equaled $1.710 billion (monthly benefits, lump-sum retirement benefits, death benefits, refunds, and dividend payments). The resulting $691.0 million contribution shortfall was funded with earnings and sales proceeds from the investment portfolio.

Investment Portfolio Assets

Investment portfolio assets are based on fair value, but are calculated according to industry standards that are different from the financial statement reporting requirements of GASB Statement No. 25, which produces the investments at fair value shown in the Financial section of this report. In fiscal year 2013, IPERS' investment expenses were 0.22 percent of the portfolio's total quarterly average fair value.

At the close of FY2013, IPERS' net investment portfolio assets had a fair value of $24.831 billion. The change in fair value represents an increase of $1.635 billion from the $23.196 billion net investment asset fair value as of June 30, 2012. The largest factor contributing to the increase was the investment portfolio return of 10.12 percent in fiscal year 2013, a large increase from the previous fiscal year's investment return of 3.73 percent.

IPERS' investment return for the fiscal year exceeded the actuarial assumed investment return of 7.50 percent, and also exceeded the year's Consumer Price Index (CPI) increase of 1.75 percent. However, FY2013 results were slightly below the investment policy benchmark of 10.64 percent and well behind the 12.61 percent median return of a peer group of large public funds.

Stability in Funding

The ultimate test of IPERS' financial soundness is whether it can pay all of its promised benefits as they come due, both today and in the decades ahead. Using demographic and economic assumptions adopted by the Investment Board, IPERS' actuary completes an annual valuation of the System's assets and liabilities to provide a current estimate of the System's funded status and determine the actuarial contribution rates (the rates necessary to fund the System). The 2013 actuarial valuation shows stability and improvement in IPERS' ability to fund the pension benefits.

A key measurement of the System's funded status is expressed as a funded ratio, which is a measurement of actuarial assets to actuarial liabilities. During fiscal year 2013, IPERS' funded ratio increased from 79.9 percent to 81.0 percent. This is the fifth consecutive year that the funded ratio has been approximately 80 percent. This shows substantial stability following the impact of the investment losses incurred in the Great Recession, when the funded ratio dropped from 89.1 percent in 2008 to 81.2 percent in 2009.

Another key indication of the improved stability in the funded status is the reduction in the number of years needed to amortize the unfunded actuarial liability (UAL), the difference between the actuarial liability and the actuarial value of assets. The amortization period decreased to 27 years in the 2013 valuation. The amortization period was infinite from 2002 through 2009. An essential element to funding the System is the amortization of the UAL over a reasonable period of time and including an amortization payment within the contribution rate.

The improvement in both the funded ratio and amortization period is the result of experience gains in actuarial assets and liabilities. The System had a net experience gain in actuarial assets of $15.2 million during FY2013. Strong investment performance eliminated a deferred (unrecognized) loss from the previous fiscal year, and provided for a deferral of $45.6 million in gains to future years.

The System's experience gain in liabilities was a reduction of $249.3 million. The experience gain was due primarily to salary increases in FY2013 that were lower than anticipated by the actuarial assumptions.

Progress toward stable funding is also evident in the narrowing gap between the contribution rates and the actuarial contributions for the Regular membership. (The actuarial contribution rates have always been paid by the Special service classes.) Because the contribution rate for Regular members was set in statute, the actuarial contribution rate has not been paid since 2001. Over the years, failure to pay the actuarial contribution rate has contributed significantly to the growth in the UAL. In FY2013, $20.8 million was added to the UAL due to underpayment of the actuarial contribution rate, which is significantly lower than the amount added in each of the previous ten years. This is reflective of a contribution rate at 98 percent of the actuarial rate, up from a low of 82 percent in 2011.

The move toward payment of the actuarial contribution rate began in 2007 with incremental increases in the required rates over five years. Legislation effective July 1, 2012, authorized the System to set the contribution rates pursuant to the actuarial assumptions, actuarial methods, and the funding policy adopted by the Investment Board. However, the contribution rates for Regular members cannot vary by more than 1 percentage point annually. This cap prevented payment of the actuarial contribution rate in FY2013. The contribution rates for FY2014 are not affected by the cap and are at 100 percent of the actuarial contribution rate for all three membership classes.

In September 2013, the Investment Board amended the Contribution Rate Funding Policy and Actuarial Amortization Method. The objective is to provide stability in the contribution rates and address the risk of underfunding the benefits. This is accomplished by delaying decreases in the required contribution rate until there is substantial funding progress, defined as reaching a funded ratio of 95 percent or greater. In addition, no reduction will be made unless it would be 0.50 percentage point or greater. This will result in periods when the required contribution rate will be higher than the actuarial rate. These amendments were effective as of the June 30, 2013, actuarial valuation in which the contribution rates for FY2015 are set. As a result, the required contribution rates for all three membership classes will be slightly greater than the actuarial contribution rates.

Based on the 2013 actuarial valuation, the contribution rates necessary for employees and employers to fully fund the benefits and retirement allowances being credited are as follows for the fiscal year beginning July 1, 2014 (FY2015): sheriffs and deputies at 19.30 percent, protection occupations at 16.61 percent, and Regular membership at 14.60 percent. However, based on the current Contribution Rate Funding Policy, the FY2015 required contribution rates will remain at the FY2014 levels and will, therefore, be greater than the actuarial contribution rates for all three classes. These rates are as follows: sheriffs and deputies at 19.76 percent, protection occupations at 16.90 percent, and Regular membership at 14.88 percent. As a result, a higher stream of contributions will be available to pay down the UAL. IPERS' funded ratio is expected to improve over the long term, if all actuarial assumptions are met.

INDEPENDENT PERFORMANCE EVALUATIONS

To maintain a focus on effectively administering the plan, IPERS completed voluntary reviews of its performance during fiscal year 2013. CEM Benchmarking Inc., an independent company that reviews pension systems worldwide, conducted a benchmarking study on IPERS' benefits administration for the previous year. IPERS was lowest in costs when compared to its peers, while receiving high ratings for its services.

CEM also conducted a benchmarking study of IPERS' investment program that compared the Trust Fund's costs and investment performance to results for peers in CEM's extensive pension fund database. The study covered a 5-year period that ended December 31, 2012. During that time, IPERS' investment program was rated as a low-cost program. On an after-cost basis, IPERS' net added value was moderately negative, similar to results for many of its peers.

Wilshire Associates, IPERS' investment consultant, also reviews IPERS' investment performance against a peer group of U.S. public pension funds. IPERS' FY2013 investment return ranked in the 87th percentile of funds in the Trust Universe Comparison Service (TUCS) Universe of Public Funds with Assets Greater than $1 billion. IPERS' relatively low ranking against peers in FY2013 was due mainly to its more conservative investment structure in a year when risk taking was rewarded. It should be noted, however, when peer performance is measured in terms of return per unit of risk, Wilshire data shows that IPERS' risk-adjusted returns (returns divided by standard deviation of returns) have consistently ranked in the top 15 percent of the TUCS Universe of Public Funds with Assets Greater than $1 billion for 3-, 5-, and 10-year periods.

PROFESSIONAL AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to IPERS for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2012. A Certificate of Achievement is valid for only one year, and this was the 20th consecutive year IPERS has earned this prestigious award. To receive a Certificate of Achievement, a governmental entity must publish an easy-to-read and efficiently organized CAFR that satisfies both generally accepted accounting principles and applicable legal requirements. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

For the fifth consecutive year, IPERS also received the Public Pension Standards Award for the fiscal year ended June 30, 2013, from the Public Pension Coordinating Council (PPCC), in recognition of meeting the professional standards for plan funding and administration as set forth in the Public Pension Standards. The PPCC is a confederation of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and the National Council on Teacher Retirement (NCTR).

ACKNOWLEDGMENTS

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

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

Respectfully submitted,

Donna M. Mueller

Donna M. Mueller
Chief Executive Officer

Darla Iverson

Darla Iverson
Chief Financial Officer

Professional Awards

Administration

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

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

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

Investments Division
Karl C. Koch, Chief Investment Officer

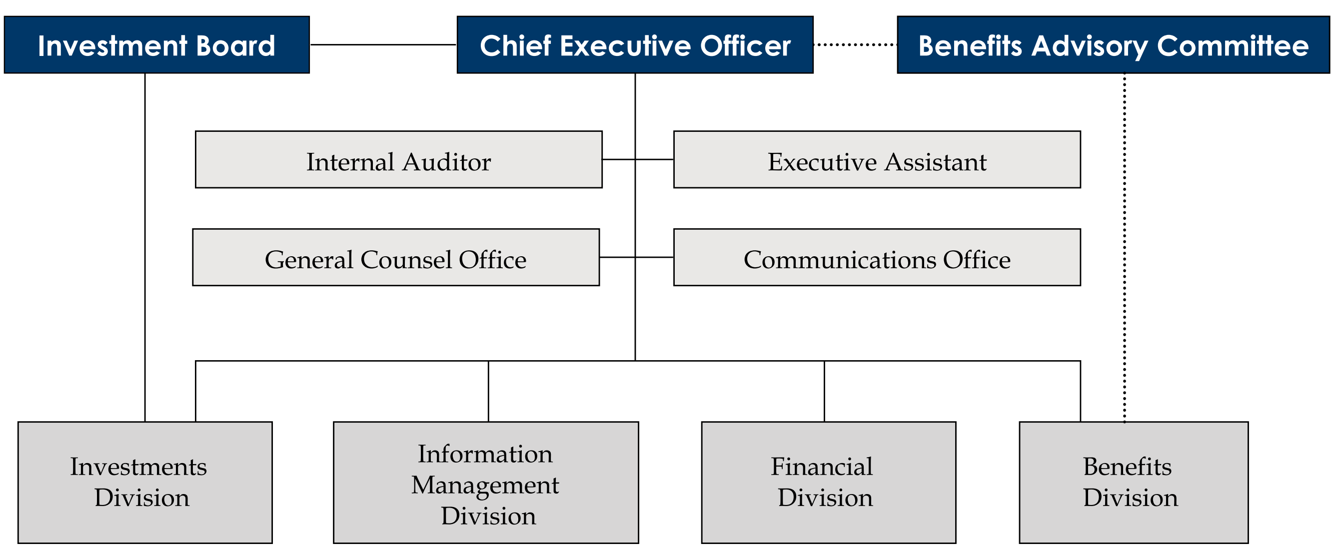
Benefits Division
David Martin, Chief Benefits Officer

General Counsel Office
Gregg A. Schochenmaier, General Counsel

Financial Division
Darla Iverson, Chief Financial Officer

Information Management Division
Rick Hindman, Chief Technology Officer

Table of Organization



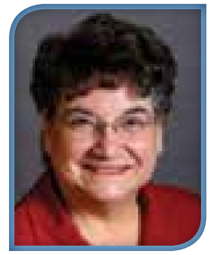
Investment Board

PHYLLIS S. PETERSON
Chairperson
Retired IPERS Member

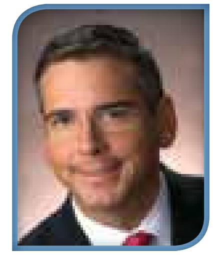
DENNIS E. YOUNG
Vice Chairperson
Public Member

DAVID O. CREIGHTON, SR.
Public Member

STATE TREASURER MICHAEL L. FITZGERALD



REPRESENTATIVE MARY MASCHER



SENATOR MATTHEW McCOY

REPRESENTATIVE DAWN PETTENGILL

MARLENE SPROUSE
IPERS Educational Member

LISA A. STANGE
Public Member

WAYNE WALTER
Active IPERS Member

SENATOR JACK WHITVER

The Investment Board of IPERS is designated as the Fund's trustee. It sets investment policies and oversees the actuarial program of the System. The Investment Board holds public meetings regularly to review actuarial findings and investment performance, and to formalize policies with the administration.

Eleven members serve on the Investment Board: seven voting members and four nonvoting members.

The voting members include:

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

The nonvoting members include:

- Two state representatives (one appointed by the speaker of the Iowa House of Representatives, and one appointed by the minority leader of the Iowa House).
- Two state senators (one appointed by the majority leader of the Iowa Senate, and one appointed by the minority leader of the Iowa Senate).

The term for an Investment Board member appointed by the Governor is six years. Gubernatorial appointees are subject to confirmation by the Iowa Senate.

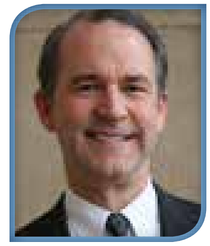
Benefits Advisory Committee

LEN COCKMAN
Chairperson
Employer Representative
Iowa Association of School Boards

BRADLEY HUDSON
Vice Chairperson
Member Representative
Iowa State Education Association

MATT BALLARD
Member Representative
International Brotherhood of Teamsters

SUSANNA BROWN
Member Representative
State Police Officers Council



MIKE CARROLL
Appointed by Statute
Employer Representative, Ex-Officio Voting Member
Iowa Department of Administrative Services

ANDREW HENNESY
Member Representative
IPERS Improvement Association

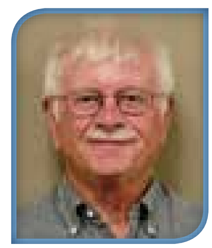
STEVE HOFFMAN
Member Representative
Iowa State Sheriffs and Deputies Association

DANNY HOMAN
Member Representative
AFSCME

JAMES MALONEY
Employer Representative
Iowa Association of Counties

DIANE REID
Public Member

DANIEL H. SMITH
Member Representative
School Administrators of Iowa



PHILIP TETZLOFF
Member Representative
Retired School Personnel Association

MARK TOMB
Employer Representative
Iowa League of Cities

SANDY B. TRYON
Employer Representative
Iowa Association of Community College Trustees

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

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

The Committee has nine voting members; seven are elected by the Committee membership. The voting members serve three-year terms and include:

- Four members who represent IPERS-covered employers, one of whom must be the director of the Iowa Department of Administrative Services.
- Four members who represent IPERS members.
- A public member who is not a member of IPERS.

Professional and Consulting Services

Actuary
- Cavanaugh Macdonald Consulting, LLC

Plan Legal Counsels
- Foster Pepper PLLC
- Ice Miller, LLP

Securities Litigation Monitoring Counsels
- Barrack, Rodos & Bacine
- Kessler Topaz Meltzer Check
- Lieff Cabraser Heimann & Bernstein

Investment Management Consultants
- Wilshire Associates, Inc. (General Investment Consultant)
- Holland Park Risk Management, Inc. (Investment Risk Management Consultant)

Master Custodian and Securities Lending Agent
- The Bank of New York Mellon

Information Technology Consultant
- Vitech Systems Group, Inc.

Benchmarking Consultant
- CEM Benchmarking Inc.

Investment Managers

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

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

Core-Plus Fixed Income
- BlackRock Financial Management, Inc.
- MacKay Shields LLC
- Mellon Capital Management Corp.
- Pacific Investment Management Company LLC
- Principal Global Investors, LLC
- Western Asset Management Company

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

Treasury Inflation-Protected Securities (TIPS)
- BlackRock Institutional Trust Company, NA
- Fischer Francis Trees & Watts, Inc.

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

Private Equity/Debt
- Pathway Capital Management, LP

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

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

Financial

Financial

OFFICE OF AUDITOR OF STATE

STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying Statement of Fiduciary Net Position of the Iowa Public Employees' Retirement System (IPERS) as of June 30, 2013 and 2012, and the related Statement of Changes in Fiduciary Net Position for the years then ended and the related Notes to Financial Statements, which collectively comprise the Iowa Public Employees' Retirement System's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of IPERS at June 30, 2013 and 2012, and the changes in fiduciary net position for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of a Matter

As discussed in Note 1, the financial statements present the financial position and the changes in financial position of only that portion of the reporting entity of the State of Iowa that is attributable to the transactions of IPERS. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2013 and 2012, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Schedule of Funding Progress and the Schedule of Employer Contributions on pages 18 through 20 and 36 through 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise IPERS' basic financial statements. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

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

Other Reporting Required by Government Auditing Standards

Our report on IPERS' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters required by Government Auditing Standards will be issued under separate cover. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering IPERS' internal control over financial reporting and compliance.

MARY MOSIAN, CPA Auditor of State	WARREN G. JENKINS, CPA Chief Deputy Auditor of State

December 10, 2013

Management's Discussion and Analysis

This discussion and analysis of the Iowa Public Employees' Retirement System provides an overview of the retirement system's financial activities for the fiscal year ended June 30, 2013. It is intended to be used in conjunction with the transmittal letter and IPERS' financial statements and notes, which begin on page 21 of this report.

Using This Financial Report

This Comprehensive Annual Financial Report reflects the activities of the Iowa Public Employees' Retirement System as reported in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position (see pages 21–22). These statements are presented on an accrual basis and reflect all Trust Fund activities as incurred. The Notes to Financial Statements are an integral part of the financial statements and include additional information not readily evident in the statements themselves. The Required Supplementary Information and Supplementary Information following the Notes to Financial Statements provide historical information and additional details considered useful in evaluating the condition of the plan. Investment data in the Financial section are presented at fair value. See the Actuarial section of this report for a detailed discussion of the actuarial value of assets and liabilities and the funded status.

Financial Highlights

- IPERS' net position restricted for pension benefits increased by $1.635 billion during fiscal year 2013. On June 30, 2013, total plan assets (including capital assets of $26.1 million) were $27.935 billion, exceeding total liabilities of $3.056 billion, resulting in a net position restricted for pension benefits of $24.879 billion.
- Capital assets increased from $25.6 million at the end of FY2012 to $26.1 million at the end of FY2013. This was primarily because of the capitalization of $2.0 million in expenses directly related to the I-Que project and $413,226 in parking lot repaving and improvements.
- Covered wages, from which both employee and employer contributions are calculated, increased $94.0 million, or 1.38 percent, over the last fiscal year and totaled $6.880 billion. In comparison, fiscal year 2012 saw a 3.21 percent increase in covered wages due to an additional payroll period occurring in FY2012 for many active employees.
- Additions from employee and employer contributions totaled $1.007 billion, an increase of 8.90 percent. In comparison, fiscal year 2012 saw a 19.40 percent increase in contributions. The large increase in contributions in FY2012 was due to a combination of the additional pay period and an increase in contribution rates, particularly the 2 percentage point increase in contribution rates for Regular members. The increase in contributions for FY2013 was due to the increase in covered payroll and contribution rates for all active members.
- Service purchase contributions for the year amounted to $12.0 million, a 31.80 percent decrease from the prior year.
- Net investment and securities lending income, after all investment-related expenses, was $2.338 billion in FY2013, which was $1.514 billion more than the previous fiscal year due to more favorable market conditions. IPERS experienced a gain of $824.0 million in FY2012 and a gain of $3.923 billion in FY2011.
- Investment management expenses were $53.3 million for FY2013. In comparison, investment management expenses were $50.2 million for FY2012 and $41.9 million for FY2011. Investment management expenses increased in FY2013 due mainly to performance incentive fees paid to investment managers. The System's ratio of investment management expenses to the portfolio's quarterly average fair value was 0.22 percent for FY2013. This expense ratio was unchanged from FY2012, largely because asset values kept pace with the growth in fees.
- Total contributions, investments, and other income resulted in additions to the Fund of $3.357 billion in fiscal year 2013. This compares to a gain of $1.767 billion in FY2012 and a gain of $4.712 billion in FY2011.

- Pension benefit payments to members increased by $118.3 million, while refunds decreased by $730,694 in FY2013.
- Payments to members totaled $1.710 billion in FY2013, an increase of 7.38 percent over the prior fiscal year. In comparison, benefit and refund payments to members totaled $1.593 billion in FY2012 and $1.498 billion in FY2011.
- Administrative expenses totaled $12.1 million, compared to $13.0 million for FY2012 and $9.7 million for FY2011. Administrative expenses were 0.05 percent of the value of net position in FY2013. In comparison, administrative expenses were 0.06 percent of the value of net position in FY2012 and 0.04 percent of the value of net position in FY2011.

Analysis of Net Position

The investment rates of return for the current and preceding two fiscal years were 10.12 percent, 3.73 percent, and 19.91 percent, respectively. IPERS' total net position increased 7.03 percent in FY2013. The following table contains the fiscal year performance of each asset class, its respective benchmark, and the Fund's allocation to each asset class. (See also the Investments section of this report beginning on page 43 for more information on rates of return.)

Investment Returns

Fiscal Year Ended June 30, 2013

Asset Class	Return (%)	Benchmark (%)	Allocation (%)
Domestic equity	22.05	21.10	27.74
International equity	15.12	14.14	14.92
Core-plus fixed income	0.62	0.24	25.86
Credit opportunities	6.25	5.36	4.93
U.S. TIPS	–3.93	–3.78	4.53
Other real assets	27.45	23.38	1.17
Private equity/debt	10.86	17.15	11.52
Real estate	6.42	10.30	7.90
Cash	0.19	0.11	1.43
Total Fund	**10.12**	**10.64**	**100.00**

The two tables on the next page present condensed summaries of IPERS' net position and a breakdown of the changes in the net position with comparison to the previous two fiscal years. Net position at June 30, 2013, was $24.879 billion, an increase of $1.635 billion over the previous fiscal year-end balance.

A large percentage of total assets, 90 percent, is represented by investments held to provide retirement, death, and disability benefits to qualified members and their beneficiaries. Other assets, including cash and cash equivalents, receivables from employee and employer contributions, receivables from investment-related transactions, and capital assets, make up 10 percent of total assets.

Total liabilities in the following table represent current liabilities and do not reflect the actuarial liabilities discussed in the Actuarial section of this report. These current liabilities consist primarily of amounts owed for investment-related transactions, including the value of rebates and collateral due back to borrowers of securities at the conclusion of securities lending transactions, amounts owed to members or their beneficiaries, and amounts owed to contractors and vendors. Total liabilities increased $311.1 million from fiscal year 2012 to 2013, as compared to a decrease of $969.3 million between fiscal years 2011 and 2012.

Benefits paid out continued to exceed contributions received by $691.0 million, $650.1 million, and $708.9 million for fiscal years 2013, 2012, and 2011, respectively. This excess of benefits paid relative to contributions received is characteristic of a mature pension plan such as IPERS.

Fiduciary Net Position

(Dollar Values Expressed in Thousands)
Fiscal Years Ended June 30

	2013	2012	2013/2012 Inc/(Dec) (%)	2011	2012/2011 Inc/(Dec) (%)
Cash and investments at fair value	$25,521,578	$23,822,705	7.1	$24,268,718	(1.8)
Receivables	2,386,912	2,138,410	11.6	2,503,292	(14.6)
Capital assets	26,066	25,620	1.7	21,639	18.4
Other assets	91	1,665	(94.5)	2,666	(37.5)
Total assets	27,934,647	25,988,400	7.5	26,796,315	(3.0)
Total liabilities	3,055,941	2,744,859	11.3	3,714,182	(26.1)
Total net position	**$24,878,706**	**$23,243,541**	**7.0**	**$23,082,133**	**0.7**

Changes in Fiduciary Net Position

(Dollar Values Expressed in Thousands)
Fiscal Years Ended June 30

	2013	2012	2013/2012 Inc/(Dec) (%)	2011	2012/2011 Inc/(Dec) (%)
Additions					
Contributions and service purchases	$1,019,109	$ 942,394	8.1	$ 789,354	19.4
Net investment and securities lending income/(loss)	2,338,201	823,983	183.8	3,922,569	(79.0)
Other additions	---	500	NA	---	NA
Total additions	3,357,310	1,766,877	90.0	4,711,923	(62.5)
Deductions					
Benefits and refunds	1,710,067	1,592,505	7.4	1,498,221	6.3
Administrative expenses	12,078	12,964	(6.8)	9,650	34.3
Total deductions	1,722,145	1,605,469	7.3	1,507,871	6.5
Increase/(decrease) in net position	**$1,635,165**	**$ 161,408**	**913.1**	**$3,204,052**	**(95.0)**

Request for Information

This financial report is designed to provide the Governor and Iowa Legislature (plan sponsors), the Investment Board, the Benefits Advisory Committee, the System's membership, contributors, taxpayers, and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it manages.

Questions about this report or requests for additional financial information should be directed to the Iowa Public Employees' Retirement System by e-mail at info@ipers.org, by phone at 515-281-0020 or 1-800-622-3849, or by mail at P.O. Box 9117, Des Moines, IA 50306-9117.

Statement of Fiduciary Net Position

June 30, 2013, and 2012

	2013 Pension Trust Fund	2013 QBA Fund*	2013 Total	2012 Total
ASSETS				
Cash and cash equivalents	**$ 384,706,220**	**$723**	**$ 384,706,943**	**$ 314,436,701**
Receivables				
Contributions	68,043,089	---	68,043,089	72,648,516
Accrued interest and dividends	68,790,941	---	68,790,941	66,063,247
Investment sales	690,187,879	---	690,187,879	415,721,152
Foreign exchange contracts	1,559,889,694	---	1,559,889,694	1,583,977,324
Total receivables	***2,386,911,603***	***---***	***2,386,911,603***	***2,138,410,239***
Investments at fair value				
Fixed income	7,936,896,671	---	7,936,896,671	7,828,222,334
Domestic equity	6,811,653,348	---	6,811,653,348	6,056,052,507
International equity	3,688,060,228	---	3,688,060,228	3,169,938,906
U.S. TIPS/other real assets	1,412,915,087	---	1,412,915,087	1,186,864,637
Real estate	1,968,705,985	---	1,968,705,985	2,058,556,112
Private equity/debt	2,860,369,145	---	2,860,369,145	2,870,875,285
Total investments	***24,678,600,464***	***---***	***24,678,600,464***	***23,170,509,781***
Securities lending collateral pool	**458,270,387**	**---**	**458,270,387**	**337,758,495**
Capital assets				
Depreciable assets, net of accumulated depreciation	25,565,838	---	25,565,838	25,119,802
Nondepreciable assets: land	500,000	---	500,000	500,000
Total capital assets	***26,065,838***	***---***	***26,065,838***	***25,619,802***
Other assets	**91,451**	**---**	**91,451**	**1,664,561**
Total assets	***27,934,645,963***	***723***	***27,934,646,686***	***25,988,399,579***
LIABILITIES				
Accounts payable and accrued expenses	33,613,224	---	33,613,224	28,659,222
Investment purchases payable	997,897,728	---	997,897,728	777,041,988
Rebates and collateral payable	467,552,828	---	467,552,828	351,926,015
Foreign exchange contracts payable	1,556,876,877	---	1,556,876,877	1,587,231,846
Total liabilities	***3,055,940,657***	***---***	***3,055,940,657***	***2,744,859,071***
Net position restricted for pension benefits (Note 9, page 35)	**$24,878,705,306**	**$723**	**$24,878,706,029**	**$23,243,540,508**

See accompanying Notes to Financial Statements beginning on page 23.
*See Note 10 on page 35.

Statement of Changes in Fiduciary Net Position

Years Ended June 30, 2013, and 2012

	2013 Pension Trust Fund	2013 QBA Fund*	2013 Total	2012 Total
ADDITIONS				
Contributions				
Employer contributions	$ 602,436,603	$7,500	$ 602,444,103	$ 558,405,418
Employee contributions	404,653,693	---	404,653,693	366,376,900
Service purchases	12,011,145	---	12,011,145	17,611,695
Total contributions	***1,019,101,441***	***7,500***	***1,019,108,941***	***942,394,013***
Investments				
Interest	255,345,605	5	255,345,610	261,206,247
Dividends	121,850,185	---	121,850,185	110,059,346
Real estate and private equity/debt	138,477,622	---	138,477,622	107,061,032
Net appreciation in fair value of investments	1,867,467,756	---	1,867,467,756	388,469,246
Other	115,844	---	115,844	105,267
Investment management expenses	(53,341,862)	---	(53,341,862)	(50,174,760)
Net investment income	***2,329,915,150***	***5***	***2,329,915,155***	***816,726,378***
Securities lending income				
Securities lending income	615,460	---	615,460	710,214
Securities lending net appreciation in fair value of collateral pool	4,815,582	---	4,815,582	4,523,673
Securities lending expenses/rebates	2,854,875	---	2,854,875	2,022,307
Net securities lending income	***8,285,917***	***---***	***8,285,917***	***7,256,194***
Other sources				
Miscellaneous noninvestment income	---	---	---	499,935
Total additions	***3,357,302,508***	***7,505***	***3,357,310,013***	***1,766,876,520***
DEDUCTIONS				
Benefit payments	1,667,461,828	7,031	1,667,468,859	1,549,176,636
Member refunds	42,597,432	---	42,597,432	43,328,126
Administrative expenses	12,077,752	449	12,078,201	12,964,185
Total deductions	***1,722,137,012***	***7,480***	***1,722,144,492***	***1,605,468,947***
Net increase	***1,635,165,496***	***25***	***1,635,165,521***	***161,407,573***
Net position restricted for pension benefits, beginning of year	23,243,539,810	698	23,243,540,508	23,082,132,935
Net position restricted for pension benefits (Note 9, page 35)	**$24,878,705,306**	**$ 723**	**$24,878,706,029**	**$23,243,540,508**

See accompanying Notes to Financial Statements beginning on page 23.
*See Note 10 on page 35.

Notes to Financial Statements

June 30, 2013, and 2012

(1) Reporting Entity

IPERS, a public employee retirement system, was created by the Iowa Legislature. IPERS is an integral part of the primary government of the State of Iowa and, accordingly, has been included as a pension trust fund in the Iowa Comprehensive Annual Financial Report (CAFR) as well as having its own stand-alone Comprehensive Annual Financial Report. The State's CAFR may be viewed on the Iowa Department of Administrative Services' website.

For financial reporting purposes, IPERS considers all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with IPERS is such that exclusion would cause IPERS' financial statements to be misleading or incomplete. GASB has set forth criteria to be considered in determining financial accountability. These criteria are (1) whether IPERS could appoint a voting majority of an organization's governing body, (2) the ability of IPERS to impose its will on that organization, and (3) the potential for the organization to provide specific benefits to or impose specific financial burdens on IPERS. IPERS has no component units that meet the GASB criteria.

(2) Plan Description

A. Administration

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

B. Membership

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

Plan Membership

	June 30, 2013	June 30, 2012
Employers		
City	1,051	1,055
Education	378	383
County	346	346
Other	149	148
Utilities	134	134
Health	67	67
State	22	20
Total	**2,147**	**2,153**
Members		
Retirees and beneficiaries	104,933	101,948
Active vested	120,496	128,768
Inactive vested	32,666	32,410
Active nonvested	44,599	35,432
Inactive nonvested	39,958	36,540
Total	**342,652**	**335,098**

C. Benefits

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

Pension Benefits

A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Refunds

If a member leaves covered employment and applies for a refund, IPERS issues a lump-sum payment based on the member's accumulated contributions. Refunds for vested members also contain a portion of the member's accumulated employer contributions.

Vesting

Requirements for becoming a vested member of IPERS changed for Regular members on July 1, 2012. Before July 1, 2012, a member who completed four years of covered service or reached the age of 55 while in IPERS-covered employment became vested. Starting July 1, 2012, a Regular member who completes seven years of covered service or has reached the age of 65 while in IPERS-covered employment becomes vested.

(3) Summary of Significant Accounting Policies

A. Basis of Accounting

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

Expenses are recognized when the liability is incurred. As such, employee contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The System is funded through a combination of employee and employer contributions and investment income. Investment sales and purchases are recorded as of their trade date.

B. New Accounting Pronouncement

IPERS has implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This statement is effective for financial reporting periods beginning after December 15, 2011. GASB Concepts Statement No. 4, *Elements of Financial Statements*, introduces and defines deferred outflows of resources and deferred inflows of resources as a consumption or acquisition of net assets, respectively, that is applicable to a future reporting period. These transactions are distinct from assets and liabilities and GASB Statement No. 63 establishes standards for reporting these financial statement elements and related disclosures. Incorporation of deferred inflows of resources and deferred outflows of resources into the financial statements also results in a change in terminology from net assets to net position for the residual of all other elements presented in a statement of financial position. IPERS does not have any deferred inflows of resources or deferred outflows of resources to report for FY2013.

C. Cash and Cash Equivalents

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

D. Foreign Exchange Contracts

The System's investment managers enter into forward foreign exchange contracts to obtain exposure to foreign currencies or to minimize the short-term impact of currency fluctuations on their foreign investments. The gains or losses on these contracts are recorded in the period in which the exchange rates change.

E. Investments

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

All investments are reported at fair value. The determination of fair value is generally based on published market prices and quotations from major investment brokers. Investments without quoted market prices have been valued based on yields and maturities currently available on comparable securities of similar issue. Fair values for real estate investments are based on periodic assessments or appraisals of the underlying investments. Futures contracts are valued daily with the resulting adjustment recorded as realized gains/losses arising from the daily settlement of the variation margin. Private equities are valued based on March 31 net asset values plus or minus purchases, sales, and cash flows from April 1 through June 30 of the reporting year.

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

Consistent with the System's investment policy, the investment securities are held by the System's custodian and registered in the System's name. All of the System's investment securities are held by the System's custodial bank in the System's name, except for investment securities on loan with brokers for cash collateral, investments in mutual and commingled funds, real estate properties, and limited partnerships, which, by nature, are not required to be categorized. Investments in the Short-Term Investment Funds (STIF) are held in a collective trust fund offered through the System's custodial bank. The fair value of the position in the trust fund equals the value of the fund shares. A summary of investments as of June 30, 2013, follows.

Invested Assets

(Dollar Values Expressed in Thousands)

June 30, 2013

Investment Type	Total Fair Value	Fair Value on Loan
Cash	**$ 17,926**	**---**
Cash collateral at broker	**22,993**	**---**
Pooled funds and mutual funds	736,082	---
Treasuries	45,861	---
Agencies	29,317	---
Repurchase agreements	26,200	---
Certificates of deposit	2,004	---
Short-term investments	**839,464**	**---**
Common stocks	4,121,333	$135,842
Real estate investment trusts	552,177	2,321
Master limited partnerships	194,725	26,115
Preferred stock	39,513	1,006
Other equities	29,730	2,518
Equity investments	**4,937,478**	**167,802**
U.S. TIPS	504,640	---
U.S. Treasury notes	1,364,286	188,056
Ginnie Mae	212,584	---
Freddie Mac	334,025	---
Fannie Mae	827,731	1,183
Other government agencies	14,518	---
Collateralized mortgage-backed securities	146,777	2,111
Collateralized mortgage obligations	58,271	---
Other government mortgage-backed securities	5,559	---
Other government fixed income	261,193	11,672
Corporate bonds	1,928,364	51,096
Corporate asset-backed securities	136,192	---
Private placements	907,696	32,738
State and local obligations	46,511	---
Other fixed income	30	---
Fixed-income investments	**6,748,377**	**286,856**
Derivatives	**8,298**	**---**
Real estate	**1,493,046**	**---**
Equity commingled	6,124,687	---
Fixed-income commingled funds	1,926,405	---
Commingled funds	**8,051,092**	**---**
Special equity	2,152,834	---
Venture capital	700,409	---
Private equity	**2,853,243**	**---**
Real assets	**95,367**	**---**
Total	**$25,067,284**	**$454,658**
Total from above	$25,067,284	
Cash in managers' accounts	(396,266)	
Incentive fee accrual	7,582	
Investments on Statement of Fiduciary Net Position	**$24,678,600**	

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment to GASB Statement No. 3, addresses common deposit and investment risks related to credit risk, concentration of credit risk, custodial credit risk, interest rate risk, and foreign currency risk. Each risk identified in Statement No. 40, as it relates to the System, is discussed in the remainder of this note. No System-wide formal policy exists relating to specific investment-related risks identified in GASB Statement No. 40. Each portfolio is managed in accordance with an investment contract that identifies and seeks to control the various types of investment-related risks.

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

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to IPERS. Credit risk associated with all fixed-income holdings, including collateral for repurchase agreements and securities lending collateral, has been included in this report.

The tables summarize IPERS' fixed-income portfolio

Credit Risk: S&P Quality Ratings

(Dollar Values Expressed in Thousands)

June 30, 2013

Investment Type	Total	TSY	AGY	AAA	AA	A	BBB	BB	B	CCC & Below	NR
Pooled funds and mutual funds	$ 736,082	---	---	---	---	---	---	---	---	---	$ 736,082
Treasuries	45,861	$ 45,861	---	---	---	---	---	---	---	---	---
Agencies	29,317	---	$ 29,317	---	---	---	---	---	---	---	---
Repurchase agreements	26,200	---	---	---	---	---	---	---	---	---	26,200
Certificates of deposit	2,004	---	---	---	---	---	---	---	---	---	2,004
Short-term investments	**839,464**	**45,861**	**29,317**	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**764,286**
U.S. TIPS	504,640	504,640	---	---	---	---	---	---	---	---	---
U.S. Treasury notes	1,364,286	1,364,286	---	---	---	---	---	---	---	---	---
Ginnie Mae	212,584	---	164,136	---	---	---	---	---	---	---	48,448
Freddie Mac*	334,025	---	---	---	$ 325,505	---	---	---	---	---	8,520
Fannie Mae*	827,731	---	---	---	645,845	$ 7,594	---	---	---	---	174,292
Other government agencies	14,518	---	---	---	1,976	---	---	---	---	---	12,542
Collateralized mortgage-backed securities	146,777	---	---	$ 53,224	23,083	20,365	$ 16,049	$ 3,708	---	$ 328	30,020
Collateralized mortgage obligations	58,271	---	---	621	7,554	9,283	4,761	2,236	$ 4,734	25,245	3,837
Other government mortgage-backed securities	5,559	---	---	5,094	---	---	---	---	---	---	465
Other government fixed income	261,193	---	---	---	5,448	51,245	85,779	22,920	37,883	---	57,918
Corporate bonds	1,928,364	---	---	2,318	90,606	447,121	557,425	350,593	387,197	55,964	37,140
Corporate asset-backed securities	136,192	---	---	31,434	29,105	6,758	9,970	1,872	19,359	19,538	18,156
Private placements	907,696	---	---	87,974	37,664	70,213	161,620	199,881	193,261	42,528	114,555
State and local obligations	46,511	---	---	12,754	20,503	13,254	---	---	---	---	---
Other fixed income	30	---	---	---	---	---	---	30	---	---	---
Fixed-income investments	**6,748,377**	**1,868,926**	**164,136**	**193,419**	**1,187,289**	**625,833**	**835,604**	**581,240**	**642,434**	**143,603**	**505,893**
Commingled bond funds	**1,926,405**	**1,116,586**	**59,911**	**547,867**	**36,074**	**83,749**	**82,218**	**---**	**---**	**---**	**---**
Total	**$9,514,246**	**$3,031,373**	**$253,364**	**$741,286**	**$1,223,363**	**$709,582**	**$917,822**	**$581,240**	**$642,434**	**$143,603**	**$1,270,179**

*Fannie Mae and Freddie Mac mortgage pools consist of thousands of mortgages. Because of the complexity of these pools, hiring ratings agencies to rate each pool is cost-prohibitive. With no explicit ratings given to the pools, investors consider the ratings to be the same as the issuer's long-term rating, and the pools were reported as such in this table.

exposure levels and credit quality ratings. The table on the previous page includes $3.031 billion of U.S. Treasury obligations and $212.6 million of Ginnie Mae obligations. These securities are explicitly guaranteed by the U.S. government and represent 34.1 percent of the total Fund's fixed-income exposure. Therefore, as of June 30, 2013, IPERS' fixed-income assets that are not explicitly government-guaranteed represented 65.9 percent of the fixed-income portfolio.

Each fixed-income portfolio is managed in accordance with an investment contract that is specific as to permissible credit quality ranges and the average credit quality of the overall portfolios. In circumstances where downgrades occurred subsequent to purchase, investment managers are permitted to hold a downgraded security if the manager believes it is prudent to do so. Credit risk for derivative instruments held by the System results from counterparty risk assumed by IPERS. This is essentially the risk the counterparty will be unable to meet its obligation. Information regarding IPERS' credit risk related to derivatives is found under the derivatives disclosures on pages 29–31 of these notes. Policies related to credit risk pertaining to IPERS' securities lending program are found under the securities lending disclosures on pages 31–32 of these notes.

Concentration of Credit Risk

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

Custodial Credit Risk

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of a fixed-income investment. This risk is measured using the effective duration (or option-adjusted) methodology. The methodology takes into account optionality on bonds and scales the risk of price changes on bonds depending upon the degree of change in rates and the slope of the yield curve.

Effective Duration

(Dollar Values Expressed in Thousands)
June 30, 2013

Investment Type	Fair Value	Effective Duration (Years)
Pooled funds and mutual funds	$ 736,082	0.01
Treasuries	45,861	0.41
Agencies	29,317	0.45
Repurchase agreements	26,200	0.01
Certificates of deposit	2,004	0.22
Short-term investments	**839,464**	**0.05**
U.S. TIPS	504,640	6.76
U.S. Treasury notes	1,364,286	6.93
Ginnie Mae	212,584	3.58
Freddie Mac	334,025	2.78
Fannie Mae	827,731	4.04
Other government agencies	14,518	4.70
Collateralized mortgage-backed securities	146,777	2.39
Collateralized mortgage obligations	58,271	0.86
Other government mortgage-backed securities	5,559	3.63
Other government fixed income	261,193	7.06
Corporate bonds	1,928,364	5.58
Corporate asset-backed securities	136,192	0.56
Private placements	907,696	4.82
State and local obligations	46,511	9.62
Other fixed income	30	0.00
Fixed-income investments	**6,748,377**	**5.32**
Commingled bond funds	**1,926,405**	**6.24**
Total	**$9,514,246**	**5.04**

The System's core-plus fixed-income investment contracts require the effective duration of the manager's portfolio to remain between 75 percent and 125 percent of the effective duration measure of a specific fixed-income index. However, IPERS has broadened the mandate of two of its core-plus managers and given them authority to reduce the interest rate sensitivity of their core-plus portfolios to less than 75 percent of the benchmark's effective duration (up to zero effective duration) if the managers forecast a period of rising interest rates. For high-yield bond portfolios, the effective duration must remain between 75 percent and 125 percent of the benchmark's effective duration. It is believed the reporting of effective duration found in the preceding table quantifies to the fullest extent possible the interest rate risk of the System's fixed-income assets. Interest rate risks associated with swaps and other derivative instruments are found in the derivatives disclosures. No interest rate futures or options positions will be established which affect the duration or weighted average maturity of the managed account by more than one year.

Foreign Currency Risk by Investment Type

(Dollar Values Expressed in Thousands)
June 30, 2013

Currency	Total	Cash & Cash Equivalents	Derivatives	Equity	Fixed Income
Argentine Peso	$ 1	$ 1	---	---	---
Australian Dollar	109,977	(44,793)	$ 117	$ 154,653	---
Brazilian Real	43,754	85	---	37,424	$ 6,245
British Pound	207,982	(2,582)	(6,132)	201,724	14,972
Canadian Dollar	(59,821)	(65,869)	5,597	451	---
Chilean Peso	1,575	---	---	1,575	---
Chinese Yuan Renminbi	795	795	---	---	---
Colombian Peso	1,952	---	---	1,952	---
Czech Koruna	3,772	119	---	3,653	---
Danish Krone	20,508	103	---	20,405	---
Euro	730,936	(65,693)	2,254	760,025	34,350
Hong Kong Dollar	205,839	3,458	705	201,676	---
Hungarian Forint	1,330	---	---	1,330	---
Indian Rupee	25,636	94	---	25,542	---
Indonesian Rupiah	10,881	49	---	10,832	---
Japanese Yen	427,100	(12,992)	2,328	437,764	---
Malaysian Ringgit	32,399	88	---	32,311	---
Mexican Peso	50,048	674	---	15,408	33,966
New Zealand Dollar	14,367	13,384	---	983	---
Norwegian Krone	50,422	24,083	---	26,339	---
Peruvian Nuevo Sol	927	---	---	927	---
Philippine Peso	1,815	---	---	1,815	---
Polish Zloty	353	---	---	353	---
Russian Ruble	14,053	48	---	6,896	7,109
Singapore Dollar	(2,594)	(32,963)	---	30,369	---
South African Rand	13,848	37	---	13,811	---
South Korean Won	127,150	(333)	---	127,483	---
Swedish Krona	40,538	25,835	---	14,703	---
Swiss Franc	22,160	(50,958)	---	73,118	---
Taiwanese Dollar	68,112	6	---	68,106	---
Thai Baht	17,084	---	---	17,084	---
Turkish Lira	14,214	173	---	7,405	6,636
Total	**$2,197,113**	**$(207,151)**	**$4,869**	**$2,296,117**	**$103,278**

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. IPERS' currency policy is to allow its investment managers the discretion to hedge their foreign currency exposures. IPERS generally does not allow its investment managers to enter into currency positions greater than 100 percent or less than 0 percent of the underlying asset exposure in their respective portfolios. The only exceptions are (1) as it relates to specific cross-hedging activity, which may be permitted in certain investment manager contracts, and (2) in global macro investment strategies where the manager is permitted to tactically allocate across several asset classes and strategies, including currency. The net foreign currency exposure of the global macro managers was less than 1 percent of the System's total foreign currency exposure on June 30, 2013.

Derivatives

GASB Statement No. 53 requires the fair value of financial arrangements called "derivatives" or "derivative instruments" to be reported in the financial statements of state and local governments. The statement further requires derivatives to be categorized as either a hedging derivative or an investment derivative. All of the System's derivative exposures at June 30, 2013, are categorized as investment derivatives and therefore the hedge accounting provisions of GASB Statement No. 53 are not applicable.

Some of the System's external investment managers may be permitted through their individual investment contracts to use derivative instruments, subject to the System's derivative policy contained in its Investment Policy and Goal Statement. (This policy can be viewed beginning on page 58.) Derivatives are contracts or securities whose returns are derived from the returns of other securities, indexes, or derivatives. While this definition includes the most common type of derivative, collateralized mortgage obligations (which typically make up a portion of the System's fixed-income portfolio), it is also intended to include (but not be limited to) futures, forwards, options, options on futures, swaps, and swaptions. The System's managers are not permitted to utilize derivatives for speculative purposes, but may use them to efficiently access desired markets and to control and manage portfolio risk. Examples of appropriate applications of derivative strategies include hedging interest rate and currency risk, maintaining exposure to a desired asset class while effecting asset allocation changes, managing duration risk, augmenting index fund performance through index arbitrage, and portable alpha strategies.

The various derivatives utilized by the System's investment managers are described below. Although the notional values associated with these derivative instruments are not recorded in the financial statements, the fair value amounts of exposure (unrealized gains/losses) are reported in the Statement of Fiduciary Net Position. IPERS holds investments in limited partnerships and commingled investment funds, which may utilize derivatives from time to time for hedging purposes, and any derivatives held by these types of investment vehicles are not included in the information describing the System's derivatives on pages 29–31. IPERS could be exposed to risk if the counterparties to derivatives contracts are unable to meet the terms of the contracts. IPERS' investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, exposure monitoring procedures, and in some cases the collateralization of gains or losses. IPERS anticipates the counterparties will be able to satisfy their obligations under the contracts. Limited partnerships and commingled investment vehicles in which IPERS invests may also have exposure to counterparty risk from the use of derivatives for hedging purposes.

Futures and Options Contracts

The System had investments in various futures and options during the year. These contracts are reported at their fair value in the Statement of Fiduciary Net Position.

A listing of futures and options contracts outstanding at June 30, 2013, follows. Futures and options can potentially offer lower-cost and more efficient alternatives to buying the underlying securities or currency. Futures and options can also serve to minimize certain unwanted risks within the portfolio. The market, currency, and credit risk of the futures were the same as if the System had owned the underlying securities or currency.

Futures Exposure Summary

(Dollar Values Expressed in Thousands)

June 30, 2013

	Expiration Date	Long/ Short	Notional Value	Fair Value
Amsterdam Index	July 2013	Long	$ 3,812	$ (47)
CAC 40 Euro Index	July 2013	Short	(34,733)	511
Hang Seng Index	July 2013	Long	19,874	705
3MO Euro Euribor	September 2013	Long	51,927	(21)
10-year Australian bonds	September 2013	Short	(24,309)	---
10-year Canadian bonds	September 2013	Short	(164,725)	5,741
DAX Index	September 2013	Long	47,819	(1,479)
E-mini (S&P 500)	September 2013	Long	95,236	(1,271)
Euro bunds	September 2013	Short	(24,038)	(244)
Euro OAT	September 2013	Short	(31,964)	619
FTSE 100 Index	September 2013	Long	49,584	(1,177)
FTSE/MIB Index	September 2013	Short	(26,150)	1,551
10-year Japanese bonds	September 2013	Short	(253,640)	808
10-year Japanese minibonds	September 2013	Short	(4,178)	14
S&P Canada 60	September 2013	Long	1,984	(146)
SPI 200 Index	September 2013	Long	13,742	118
TOPIX Index	September 2013	Long	39,766	1,564
U.K. Long Gilt	September 2013	Long	183,670	(4,956)
10-year U.S. Treasury notes	September 2013	Long	143,099	(4,203)
2-year U.S. Treasury notes	September 2013	Short	(50,804)	205
5-year U.S. Treasury notes	September 2013	Short	(313,001)	5,421
U.S. Treasury bonds	September 2013	Long	8,987	(427)
U.S. Ultra bonds	September 2013	Short	(19,041)	627
IBEX 35 Index	June 2015	Short	(31,118)	1,213
90-day Eurodollar	September 2015	Long	55,768	(218)
Total			**$(262,433)**	**$4,908**

Options Exposure Summary

(Dollar Values Expressed in Thousands)

June 30, 2013

	Expiration Date	Long/ Short	Option Type	Strike Price	Fair Value
90-day Eurodollar	December 2013	Long	Put	$ 99.63	$ 55
91-day Eurodollar	December 2013	Short	Put	99.50	(36)
Eurodollar 2-year mid-curve	September 2013	Long	Call	98.88	125
Eurodollar 2-year mid-curve	September 2013	Short	Call	99.38	(7)
Eurodollar 2-year mid-curve	September 2013	Short	Call	99.13	(33)
Eurodollar 3-year mid-curve	September 2013	Short	Call	98.50	(4)
5-year U.S. Treasury notes	July 2013	Short	Put	121.00	(170)
5-year U.S. Treasury notes	July 2013	Long	Call	123.50	1
5-year U.S. Treasury notes	July 2013	Long	Put	121.50	124
5-year U.S. Treasury notes	July 2013	Long	Put	120.50	58
10-year U.S. Treasury notes	July 2013	Short	Put	129.00	(402)
10-year U.S. Treasury notes	August 2013	Short	Call	130.50	(37)
10-year U.S. Treasury notes	August 2013	Short	Put	126.50	(379)
Total					**$(705)**

Credit Default Swaps

The System had investments in credit default swaps during the year. The credit default swaps held by the System are derivative instruments that are used to hedge or to replicate investments in debt obligations of corporate bond issuers. The risk of the credit default swap is comparable to the credit risk of the reference security. At June 30, 2013, the net notional value of the credit default swaps held in the System's fixed-income portfolio was –$29.9 million. The credit default swaps are reported at a fair value of –$546,453 in the Statement of Fiduciary Net Position.

Interest Rate Swaps and Swaptions

Interest rate swaps are transactions between two parties in which interest payments from different indexes are swapped. Interest rate swaps are often used to alter the portfolios' exposure to interest rate fluctuations, by swapping fixed-rate obligations for floating-rate obligations, or swapping floating-rate obligations for fixed-rate obligations. By utilizing interest rate swaps, the System's investment managers are able to alter their interest rate exposure and bring it in line with their strategic objectives for interest rate risk. At June 30, 2013, the net notional value of the interest rate swaps held in the System's fixed-income portfolio was –$66.2 million. All interest rate swaps held by the System are reported at a fair value of $6.0 million in the Statement of Fiduciary Net Position.

A swaption represents the option to enter into an interest rate swap. In exchange for an option premium, the buyer gains the right but not the obligation to enter into a specified swap agreement with the issuer on a specified future date. The agreement will specify whether the buyer of the swaption will be a fixed-rate receiver (like a call option on a bond) or a fixed-rate payer (like a put option on a bond). At June 30, 2013, the System held five interest rate swaptions. Four of these contracts had a strike rate of 0.40 percent and expire in March 2015. The remaining swaption held by the System at June 30, 2013, possessed a strike rate of 1.40 percent and will expire in September 2018. All five interest rate swaptions held by the System are reported in the Statement of Fiduciary Net Position at a fair value of –$557,885.

Total Return Swaps

A total return swap is a contract in which two parties swap payments based on the total return of a reference asset. The reference asset may be any asset, index, or basket of assets. At June 30, 2013, the net notional value of the total return swaps held in the System's fixed-income portfolio was –$50.0 million. The total return swaps held by the System are reported at a fair value of –$955,080 in the Statement of Fiduciary Net Position.

Mortgage-Backed Securities

The System invests in mortgage-backed securities, which are reported in the Statement of Fiduciary Net Position at fair value based on estimated future cash flows from the interest and principal payments of the underlying mortgages. As a result, mortgage-backed securities prices are sensitive to prepayments by mortgagees, which are more likely in declining-interest-rate environments. The System invests in mortgage-backed securities to diversify the portfolio and earn the return premium associated with prepayment risk. Details on interest rate risks for these investments are included under the interest rate risk disclosures on pages 27–28.

Securities Lending

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

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

At fiscal year-end, IPERS had $11,673 in risk exposure to borrowers because the amounts they owed IPERS exceeded the amount IPERS owed the borrowers on three separate loans. Additional collateral was provided the next business day, eliminating this exposure. The contract with The Bank of New York Mellon requires it to indemnify IPERS if a borrower fails to return the securities on loan or fails to return all of the income attributable to securities on loan.

Securities Lending Cash Collateral Account

(Dollar Values Expressed in Thousands)
June 30, 2013

Investment Type	Fair Value	Credit Risk: S&P Quality Rating	Investment Maturity (Years)
Overnight repurchase agreements	$458,259	Not rated	Less than 1

The securities lending contract does not allow IPERS to pledge or sell any collateral securities unless the borrower defaults. As of June 30, 2013, IPERS had securities on loan, including accrued interest income, with a fair value (carrying value) of $454.7 million against collateral, including borrower rebate, with a total fair value (carrying value) of $467.6 million.

The majority of securities loans are open loans, that is, one-day maturity, where the rebate rate due to the borrower is renegotiated daily. Either IPERS or the borrower can terminate all securities loans on demand. Cash collateral received from borrowers is invested in a cash collateral investment account, which is managed by The Bank of New York Mellon in accordance with investment guidelines established by the Treasurer of State and reviewed by IPERS. The investment guidelines do not require a matching of investment maturities with loan maturities, but do establish minimum levels of liquidity and other investment restrictions designed to minimize the risks associated with not matching the maturity of the investments with the maturity of the loans. The effective duration of the cash collateral account at June 30, 2013, was 0.00. Credit quality and years to maturity statistics for the cash collateral account at June 30, 2013, are shown in the table on the previous page.

F. Capital Assets

The IPERS headquarters at 7401 Register Drive, Des Moines, Iowa, is held as a capital asset. Building and land are recorded at cost, including the costs of acquisition and remodeling. The building is being depreciated using the straight-line method and a useful life of 39 years. Land, a nonexhaustible asset, is not depreciated. Other capital assets consist primarily of office equipment, data processing equipment, and software. All purchased equipment is recorded at cost. Depreciation on equipment is computed using the straight-line method based on estimated useful lives ranging from 3 to 10 years. Software is depreciated over 15 years.

Total depreciation expense for the year ended June 30, 2013, was $2.1 million. Of that amount, $14,970 was reclassified as investment-related expense on the Schedule of Investment-Related Expenses on page 40 and $3,769 was an immaterial loss on the disposal of assets. In FY2013, $2.6 million of capital asset additions was capitalized.

G. Compensated Absences and Other Postemployment Benefits

IPERS staff members, as State of Iowa employees, participate in the benefits available to all State of Iowa employees. Expenses related to accumulated vacation and sick leave earned by IPERS employees are recorded when earned.

IPERS has recorded liabilities of $680,291 related to the Sick Leave Insurance Program (SLIP). The SLIP program calculates a dollar value based on the unused sick leave balance to be credited to a retiree's account and used to pay the employer's share of the selected State group health insurance premium.

IPERS has also recorded liabilities for other postemployment benefits. These benefits consist of an implicit rate subsidy, which is the difference between the blended premiums paid by all participants in the State's health care plans and the expected claims for the retiree

Summary of Capital Assets

As of June 30, 2013, and 2012

Capital Assets	Land	Building and Improvements	Land Improvements	Furniture, Equipment, and Software	Total Capital Assets
Balances as of June 30, 2012	$500,000	$7,040,926	---	$23,122,240	$30,663,166
Additions	---	---	$413,226	2,150,452	2,563,678
Deletions	---	---	---	(251,286)	(251,286)
Balances as of June 30, 2013	500,000	7,040,926	413,226	25,021,406	32,975,558
Accumulated Depreciation					
Balances as of June 30, 2012	---	1,455,821	---	3,587,543	5,043,364
Depreciation expense	---	210,953	6,887	1,896,033	2,113,873
Deletions	---	---	---	(247,517)	(247,517)
Balances as of June 30, 2013	---	1,666,774	6,887	5,236,059	6,909,720
Net capital assets as of June 30, 2013	**$500,000**	**$5,374,152**	**$406,339**	**$19,785,347**	**$26,065,838**

group. This liability, as determined by the State GAAP Team, was $4,378 for each full-time employee of IPERS, for a total liability of $332,728.

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

(4) Actuarial Contributions Compared to Contributions Paid

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

IPERS' Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

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

In fiscal year 2013, the required rate for Regular members remained lower than the actuarial rate. Pursuant to the required rate, Regular members contributed 5.78 percent of pay and their employers contributed 8.67 percent for a total rate of 14.45 percent. The actuarial rate was 14.77 percent.

Iowa statute authorizes the required contribution rate for both Special service groups to be set to the actuarial contribution rate. Therefore, these groups have consistently paid the rate needed to fully fund their benefits.

Contribution Rates

Fiscal Year 2013

	Employee	Employer	Total
Regular members	5.78%	8.67%	14.45%
Sheriffs and deputies	9.90%	9.90%	19.80%
Protection occupation members	6.84%	10.27%	17.11%

The following table compares the actuarial contribution amounts to the contributions paid for the years ended June 30, 2011, 2012, and 2013. These amounts represent the combined member and employer contributions.

Fiscal Year	Actuarial Contributions	Contributions Paid	Percentage Contributed
2011	$ 939,832,711	$ 774,507,092	82.4
2012	941,316,630	924,782,318	98.2
2013	1,027,805,752	1,007,097,796	98.0

Contributions are remitted by participating employers. Wages were covered up to the federal limit of $250,000 for calendar year 2012, and $255,000 in calendar year 2013. A detailed Schedule of Employer Contributions encompassing six years can be found on page 37 of the Required Supplementary Information following these notes.

(5) Funded Status

During fiscal year 2013, IPERS' unfunded actuarial liability decreased from $5.916 billion to $5.787 billion and the amortization period decreased from 30 years to 27 years for all membership classes. The funded status of the plan as of June 30, 2013, is as follows:

Funded Status

Net actuarial value of assets	$24,711,096,187
Actuarial liability	$30,498,342,320
Percentage funded	81.02%
Unfunded actuarial liability (UAL)	$5,787,246,133
Annual covered payroll*	$6,880,131,134
UAL as a percentage of covered payroll	84.12%

*Annual covered payroll is the amount of wages subject to contributions to IPERS, not to exceed the federal covered wage limit in effect at the time the wages are paid. The federal limit was $250,000 in calendar year 2012 and $255,000 in calendar year 2013.

The Schedule of Funding Progress, presented as Required Supplementary Information on page 36 following the Notes to Financial Statements, presents trend information for six years. This multiyear presentation shows the progress made by IPERS in accumulating sufficient assets to pay pension benefits as they become due.

The primary purpose of an actuarial valuation is to calculate, on the basis of certain assumptions, the present value of benefits payable in the future to current members and their beneficiaries, as well as the present value of future contributions to be made by these members and their employers. These calculated present values are then used to determine the actuarial contribution rates (rates needed to fund the benefits).

The actuarial methods and assumptions used to perform these calculations are designed to reduce the effects of short-term volatility in the actuarial liabilities and actuarial assets, consistent with the longer-term perspective of these calculations. The Investment Board has adopted and approved the use of the following assumptions and methods.

Actuarial Methods and Assumptions

Actuarial cost method	Entry age normal
Asset smoothing method	Expected value at the valuation date plus 25% of the difference between the market value and expected value. The actuarial value must fall within a corridor of 80%–120% of market value
Amortization method	Level percent of pay
Amortization period	30-year open; moving to a closed 30-year period in FY2014
Assumed investment return	7.50%
Projected salary increases	4%–17% depending upon years of service
Mortality tables	RP2000 Employee and Healthy Annuitant Tables with generational scaling and age adjustments
Inflation rate	3.25% for prices, 4.00% for wages

(6) Litigation and Contingencies

IPERS monitors, evaluates, and takes the necessary actions related to litigation for or against IPERS. It does so based on its fiduciary responsibility to realize on claims impacting the Trust Fund. This includes, but is not limited to, federal and state court actions and defending administrative appeals filed against IPERS. IPERS employs in-house and outside legal counsel and utilizes the legal services of the Iowa Attorney General's Office to assert and defend claims for IPERS.

IPERS participates in federal securities class actions as the lead plaintiff, co-lead plaintiff, or as a member of the class action. IPERS received distributions in the class actions in FY2013 which are reflected in the financial statements of this report.

In the fraud action against Westridge Capital Management, IPERS continues to aggressively pursue its financial interests in the U.S. District Court for the Southern District of New York. In April 2011, IPERS received an initial distribution of $215.2 million. In April 2013, IPERS received a second distribution of $10.5 million. This recovery is reflected in the financial statements for the year ended June 30, 2013. The receiver has not distributed all assets under its control. However, IPERS anticipates any further distributions from the receiver will be minimal. During the preceding fiscal year, IPERS filed suit against Westridge Capital Management's auditor, Deloitte & Touche. The presiding judge dismissed this litigation. IPERS has appealed the dismissal of its suit.

IPERS is aggressively defending a case filed in Polk County District Court, Iowa. The case is captioned Robert J. Brunkhorst v. Iowa Public Employees' Retirement System, CV No. 104520. Mr. Brunkhorst filed a claim under the Iowa Tort Claims Act alleging IPERS failed to implement the actuarial cost method for service purchase buy-backs in a timely fashion, causing a loss to the IPERS Trust Fund. IPERS denies the allegation. This action has twice been dismissed by the district court and the plaintiff appealed the latest dismissal to the Iowa Supreme Court. This case had no material effect on the financial statements for the year ended June 30, 2013.

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

(7) Commitments

At June 30, 2013, IPERS had commitments to fund an additional $1.499 billion to various private equity/debt partnerships and $139.4 million to a real estate debt partnership.

(8) IPERS as a Participating Employer

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

The required contributions for FY2013 were 5.78 percent by Regular members and 8.67 percent by their employers. Required contributions by Regular members and employers were 5.38 percent and 8.07 percent, respectively, for fiscal year 2012, and 4.50 percent and 6.95 percent, respectively, for fiscal year 2011. The System's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011, were $491,221, $466,475, and $393,628, respectively, equal to the required contributions for each year.

(9) Net Position Restricted for Pension Benefits

There is only one IPERS Trust Fund where all investment income, member contributions, and employer contributions are pooled. However, within IPERS there are three distinct groups, each characterized by different benefit levels and occupation types. Because of these varied characteristics, each group has its own contribution rate. To calculate each contribution rate, it is necessary to separately identify the liabilities and assets associated with each group. Assets of members with service in more than one membership group are aggregated in a single group, as noted on the "transfers between groups" line in the following table. The end result is a closer match of liabilities with assets and therefore more refined contribution rates.

In addition to the assets associated with each of the three membership groups, there are assets held in the Favorable Experience Dividend (FED) reserve account as established in Iowa Code section 97B.49F.

(10) Qualified Benefits Arrangement (QBA)

The purpose of the QBA is to permit IPERS retirees to receive the amount of their calculated monthly benefit that exceeds the IRS limits under IRC section 415(b). The QBA is maintained as a separate trust arrangement and no commingling with the IPERS Trust Fund is permitted. The QBA is funded by employer contributions on an as-needed basis and is therefore fully funded.

Allocation of Net Position Restricted for Pension Benefits

Fiscal Year Ended June 30, 2013

	Regular Members*	Sheriffs and Deputies	Protection Occupation Members	FED Reserve Account	Total
Net position as of June 30, 2012	$21,567,465,338	$437,395,612	$1,019,912,796	$218,766,762	$23,243,540,508
Additions					
Contributions	935,093,659	18,493,532	53,510,605	---	1,007,097,796
Service purchases	11,416,116	245,294	349,735	---	12,011,145
Investment and miscellaneous income	2,222,229,123	45,518,722	106,857,818	16,937,271	2,391,542,934
Total additions	***3,168,738,898***	***64,257,548***	***160,718,158***	***16,937,271***	***3,410,651,875***
Deductions					
Benefit payments	1,490,536,416	21,067,730	42,580,769	113,283,944	1,667,468,859
Member refunds	36,590,189	961,279	5,045,964	---	42,597,432
Administrative expenses	11,636,603	83,998	357,600	---	12,078,201
Investment expenses	49,565,425	1,015,266	2,383,396	377,775	53,341,862
Total deductions	***1,588,328,633***	***23,128,273***	***50,367,729***	***113,661,719***	***1,775,486,354***
Preliminary net position	**23,147,875,603**	**478,524,887**	**1,130,263,225**	**122,042,314**	**24,878,706,029**
Transfers between groups	**(10,555,950)**	**5,986,043**	**4,569,907**	**---**	**---**
Adjusted net position as of June 30, 2013	**$23,137,319,653**	**$484,510,930**	**$1,134,833,132**	**$122,042,314**	**$24,878,706,029**

*Includes QBA fund income and benefit payments.

Required Supplementary Information

Schedule 1: Schedule of Funding Progress

Last Six Fiscal Years

Fiscal Year Ended June 30	Net Actuarial Value of Assets	Actuarial Liability	Percentage Funded	Unfunded Actuarial Liability (UAL)	Annual Covered Payroll*	UAL as a % of Covered Payroll
2008	$21,857,423,183	$24,522,216,589	89.13	$2,664,793,406	$6,131,445,367	43.46
2009	21,123,979,941	26,018,593,823	81.19	4,894,613,882	6,438,643,124	76.02
2010	21,537,458,560	26,468,419,650	81.37	4,930,961,090	6,571,182,005	75.04
2011	22,575,309,199	28,257,080,114	79.89	5,681,770,915	6,574,872,719	86.42
2012	23,530,094,461	29,446,197,486	79.91	5,916,103,025	6,786,158,720	87.18
2013	24,711,096,187	30,498,342,320	81.02	5,787,246,133	6,880,131,134	84.12

*Annual covered payroll is the amount of wages subject to contributions to IPERS, not to exceed the federal covered wage limit in effect at the time the wages are paid. The federal limit was $250,000 in calendar year 2012 and $255,000 in calendar year 2013.

See Note 5 on page 33–34 for additional information on IPERS' funded status and the actuarial assumptions and methods used to perform these calculations.

Schedule 2: Schedule of Employer Contributions

Last Six Fiscal Years

Fiscal Year	Actuarial Contributions	Contributions Paid	Percentage Contributed
2008			
Regular members	$408,882,080	$353,470,318	86.4
Sheriffs and deputies	6,301,171	6,301,171	100.0
Protection occupation members	17,644,966	17,645,261	100.0
2008 Total	**$432,828,217**	**$377,416,750**	**87.2**
2009			
Regular members	$441,951,764	$384,221,534	86.9
Sheriffs and deputies	6,365,911	6,365,911	100.0
Protection occupation members	24,736,688	24,736,688	100.0
2009 Total	**$473,054,363**	**$415,324,133**	**87.8**
2010			
Regular members	$467,839,274	$415,070,451	88.7
Sheriffs and deputies	6,725,778	6,725,778	100.0
Protection occupation members	27,328,184	27,328,184	100.0
2010 Total	**$501,893,236**	**$449,124,413**	**89.5**
2011			
Regular members	$530,692,453	$430,330,067	81.1
Sheriffs and deputies	7,994,058	7,994,058	100.0
Protection occupation members	29,711,050	29,711,050	100.0
2011 Total	**$568,397,561**	**$468,035,175**	**82.3**
2012			
Regular members	$528,525,785	$518,541,696	98.1
Sheriffs and deputies	8,999,273	8,999,273	100.0
Protection occupation members	30,864,449	30,864,449	100.0
2012 Total	**$568,389,507**	**$558,405,418**	**98.2**
2013			
Regular members	$573,480,969	$561,078,464	97.8
Sheriffs and deputies	9,246,766	9,246,766	100.0
Protection occupation members	32,118,873	32,118,873	100.0
2013 Total	**$614,846,608**	**$602,444,103**	**98.0**

See Note 4 on page 33 for additional information on the actuarial valuation.

Notes to Required Supplementary Information

(1) Schedule of Funding Progress

IPERS' funded ratio (the ratio of actuarial assets to actuarial liabilities) declined considerably from 90.2 percent in 2007 to 81.2 percent in 2009 as a result of the investment losses associated with the Great Recession. Over the past five years, the funded ratio has stabilized between 79 and 81 percent because of improved investment returns, increased employee and employer contribution rates, and plan design changes that lowered normal cost and reduced the UAL.

The amortization period of the UAL for the Regular membership has decreased in recent years. It was infinite in the valuations of 2002–2009, 34 years in 2010–2011, 30 years in 2012, and 27 years in 2013. The amortization period has always been 30 years for the Special service classes since they have always paid the actuarial contribution rate; however, in the 2013 valuation, the amortization period for these classes also decreased to 27 years. The improvement in the amortization period is further evidence of the funded ratio's stabilization.

Several factors caused the 2008–2012 increase in the UAL. A correction in mortality assumptions for the Regular membership and a change in actuarial valuation software occurred with the 2011 valuation. Contribution rates for the Regular membership set below the actuarial contribution rate have been a consistent factor since 2001. Other contributing factors have included investment losses from the Great Recession and liability losses related to demographic experience that was less favorable than anticipated by actuarial assumptions. IPERS has addressed these concerns through benefit and contribution rate changes. As a result of these legislated changes, as well as significant actuarial gains in the 2013 valuation, IPERS' UAL decreased $128.9 million in FY2013.

(2) Schedule of Employer Contributions

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

Contribution rates for Regular members were set in statute at 9.45 percent from 1979 to 2007. In 2006, legislation allowed a 0.5 percentage point increase for each of the following four years. In 2010, an additional contribution rate increase to 13.45 percent, effective in FY2012, was passed by the Legislature.

The Legislature also passed a law authorizing IPERS to change the contribution rates by 1 percentage point each year, to bring them closer in line with the actuarial contribution rate, starting in FY2013. The Contribution Rate Funding Policy adopted by the IPERS Investment Board establishes procedures for setting the contribution rates for all membership classes. The FY2013 required contribution rate for Regular members was capped at 14.45 percent because of the statutory restriction, while the actuarial contribution rate was 14.77 percent. Employers contributed a much higher percentage of the actuarial contribution rate in FY2012 and FY2013 than in previous years.

Supplementary Information

Schedule 1: Investment Income by Specific Source

Years Ended June 30, 2013, and 2012

	2013	2012
Interest income—short-term	$ 446,158	$ 5,325,306
Interest income on bonds	254,899,452	255,880,941
Dividend income	121,850,185	110,059,346
Real estate funds	119,131,012	121,091,898
Private equity/debt	19,346,610	(14,030,866)
Other income	115,844	105,267
Investment income	***515,789,261***	***478,431,892***
Gain on investments	2,011,402,679	566,636,348
Currency gain/(loss)	(143,934,923)	(178,167,102)
Net appreciation in fair value of investments	***1,867,467,756***	***388,469,246***
Securities lending income	615,460	710,214
Securities lending net appreciation in fair value of collateral pool	4,815,582	4,523,673
Securities lending income	***5,431,042***	***5,233,887***
Total investment income	**$2,388,688,059**	**$872,135,025**

Schedule 2: Schedule of Investment-Related Expenses

Years Ended June 30, 2013, and 2012

	2013	2012
Allianz Global Investors U.S. LLC	$ 567,815	$ 568,657
BlackRock Institutional Trust Company, NA	2,015,346	845,156
First Quadrant, L.P.	825,833	706,423
Fisher Investments	547,797	169,221
Janus Capital Management LLC	321,864	99,774
J.P. Morgan Investment Management, Inc.	2,065,593	886,894
Mellon Capital Management Corp.	1,916,051	884,838
PanAgora Asset Management, Inc.	361,077	1,142,879
Wellington Management Company, LLP	1,621,664	2,005,138
Total domestic equity	***10,243,040***	***7,308,980***
AEGON USA Investment Management, LLC	2,045,316	443,965
BlackRock Financial Management, Inc.	738,250	1,793,708
MacKay Shields LLC	1,990,534	1,431,745
Mellon Capital Management Corp.	219,344	274,883
Oaktree Capital Management, L.P.	1,133,027	1,297,690
Pacific Investment Management Company LLC	2,268,904	1,724,851
Post Advisory Group, LLC	---	612,072
Principal Global Investors, LLC	383,740	417,059
Western Asset Management Company	1,434,764	3,684,227
Total fixed income	***10,213,879***	***11,680,200***
BlackRock Institutional Trust Company, NA	104,560	105,320
Fischer Francis Trees & Watts, Inc.	559,000	333,713
Forest Investment Associates L.P.	264,320	---
Harvest Fund Advisors LLC	1,309,148	---
Total U.S. TIPS/other real assets	***2,237,028***	***439,033***
Ashmore Equities Investment Management (US) LLC	2,883,068	2,605,739
BlackRock Institutional Trust Company, NA	2,794,499	1,501,980
GAM USA, Inc.	286,385	254,991
Oechsle International Advisors, LLC	920,199	791,323
Quantitative Management Associates LLC	785,537	669,420
Wellington Management Company, LLP	1,781,526	1,463,878
Total international equity	***9,451,214***	***7,287,331***
CenterSquare Investment Management, Inc.	410,518	678,455
Clarion Partners	3,509,972	2,930,150
INVESCO Realty Advisors	3,369,097	1,922,911
RREEF America, LLC	6,297,293	5,200,135
TA Realty, LLC	481,621	2,262,264
UBS Realty Investors, LLC	452,943	3,976,537
Total real estate	***14,521,444***	***16,970,452***
Pathway Capital Management, LP	4,664,820	4,240,745
Total private equity/debt	**4,664,820**	**4,240,745**
Holland Park Risk Management, Inc.	21,100	30,020
Wilshire Associates, Inc.	349,000	385,000
Total investment consultant fees	***370,100***	***415,020***
The Bank of New York Mellon	202,546	229,933
Treasurer of State	21,408	23,175
Total custody expenses	***223,954***	***253,108***
Investment staff and Board expenses	961,154	1,008,480
Miscellaneous expenses	455,229	571,411
Total other investment expenses	***1,416,383***	***1,579,891***
Total investment-related expenses	**$53,341,862**	**$50,174,760**

Schedule 3: Schedule of Administrative Expenses*

Years Ended June 30, 2013, and 2012

	2013	2012
Personnel		
Salaries and wages	$ 6,633,519	$ 6,076,804
Travel	89,047	83,009
Professional and technical services		
Professional	530,983	2,610,467
Actuary	146,500	113,000
Computer support services	1,636,151	1,565,150
Auditing	112,368	104,066
Communications		
Telephone	168,689	170,661
Printing	126,142	143,236
Other expenses		
Supplies	390,012	558,287
Utilities	45,661	49,278
Depreciation	2,102,672	1,398,280
Repairs	924	2,259
Rent	1,021	4,182
Miscellaneous	94,512	85,506
Total administrative expenses	**$12,078,201**	**$12,964,185**

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

Investments

Investments

Investment Overview

Investment Results

Investment Policy and Goal Statement

Investment Overview

This section of the CAFR was compiled by IPERS' investment staff using information provided by our consultant Wilshire Associates and the System's custodian bank, The Bank of New York Mellon. Except where noted otherwise, investment returns are based on investment asset fair values and calculated using time-weighted return calculation methodologies.

Investment returns play an important role in the funded status of the IPERS Trust Fund. The Investment Board has adopted an Investment Policy and Goal Statement, with the objective to benefit the members of the System by maximizing the total rate of return on investments within prudent risk parameters. IPERS' overall investment performance goal is to achieve an annualized rate of return which, when combined with the required employee and employer contributions, will meet or exceed the benefits and administrative funding requirements of the System. (See the Investment Policy and Goal Statement at the end of this section for more information concerning IPERS' investment return objectives.)

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

The IPERS net investment portfolio fair values reported in this section, and used as the basis for calculating investment returns, differ from those shown in the Financial and Actuarial sections of this report. The values used in this section are the appropriate industry standard basis for investment return calculation. Compared to the fair values shown in this report's Financial and Actuarial sections, the values reflected in this Investments section are gross of investment receivables and cash in investment manager accounts, and net of payables and securities lending collateral.

Asset Allocation and Diversification

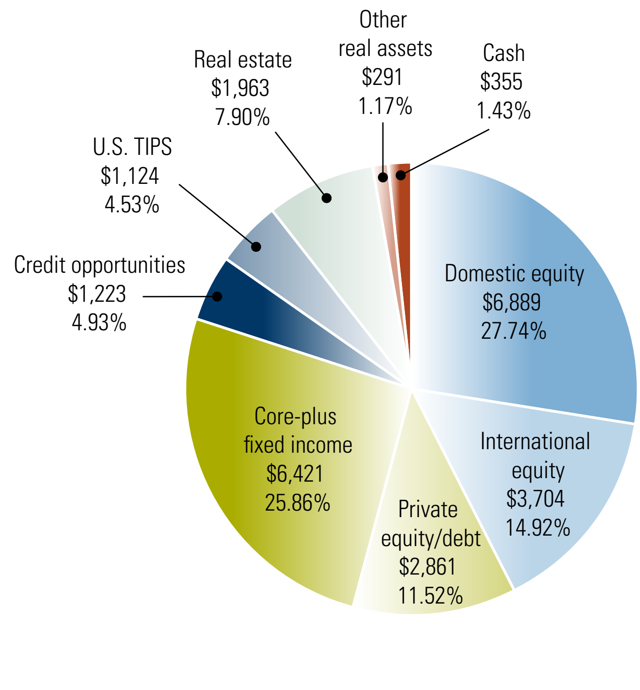
Asset allocation is a process designed to construct an optimal long-term asset mix that achieves a specific set of investment objectives. The Investment Policy and Goal Statement establishes the System's asset allocation policy as designed to meet those objectives. The asset allocation policy is adopted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

The chart below illustrates the actual allocation to each type of investment, as of June 30, 2013.

Summary of Investments by Asset Class

(Fair Values in Millions)

As of June 30, 2013



In addition to diversifying the portfolio through asset class diversification, IPERS seeks to diversify the investment portfolio by investment management styles. The success of a particular investment style tends to be cyclical. For example, growth stock investing may outperform value stock investing for several quarters, or perhaps several years, until that trend is inevitably reversed for a subsequent period.

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

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

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

Capital Markets Commentary

It was a good year for stocks and a bad year for bonds. Stock markets benefited from the accommodative monetary policy of central banks in developing nations, which kept interest rates at historic lows and continued to stimulate their economies through quantitative easing. Stocks in developing countries produced double-digit returns. Fixed-income securities (bonds) had a difficult year as record-low yields persuaded many investors to sell bonds and seek out higher yields in riskier assets such as stocks or high-yield bonds. The bond markets also reacted negatively late in the fiscal year to comments made by U.S. Federal Reserve Chairman Ben Bernanke, which appeared to signal that the Fed could begin tapering its bond buying program in late 2013. This was a surprise to investors, and interest rates rose dramatically—albeit from record-low rates.

Investment Portfolio Assets

At the close of fiscal year 2013, IPERS' net investment portfolio assets had a fair value of $24.831 billion. This represents an increase of $1.635 billion from the $23.196 billion net investment asset fair value as of June 30, 2012. The largest factor contributing to the increase was the investment portfolio return of 10.12 percent.

Investment Results

IPERS posted a total portfolio investment return of 10.12 percent for the fiscal year ended June 30, 2013. This return trailed the 10.64 percent return of IPERS' policy benchmark, a set of market indexes and weightings to those indexes that reflect IPERS' target asset class allocations. The underperformance against the policy benchmark was mainly attributable to underperformance in the private equity and real estate asset classes, which offset strong performance in the publicly traded stock and bond asset classes.

IPERS' 10.12 percent return exceeded the actuarial assumed investment return of 7.50 percent, and also the rate of inflation, as measured by the Consumer Price Index, which was 1.75 percent for the fiscal year. However, IPERS' annual investment return fell well short of the median return of large public funds, which was 12.61 percent for the fiscal year, mainly because of IPERS' more conservative investment strategy.

IPERS' other real assets portfolio (investments in energy-related master limited partnerships and timberland) had the highest return for the fiscal year at 27.45 percent. IPERS' U.S. stock portfolio returned 22.05 percent and its international stock portfolio produced an annual return of 15.12 percent for the fiscal year. The worst-performing assets in the IPERS portfolio for the fiscal year were Treasury inflation-protected securities (–3.93 percent for the fiscal year), and core-plus bonds (0.62 percent).

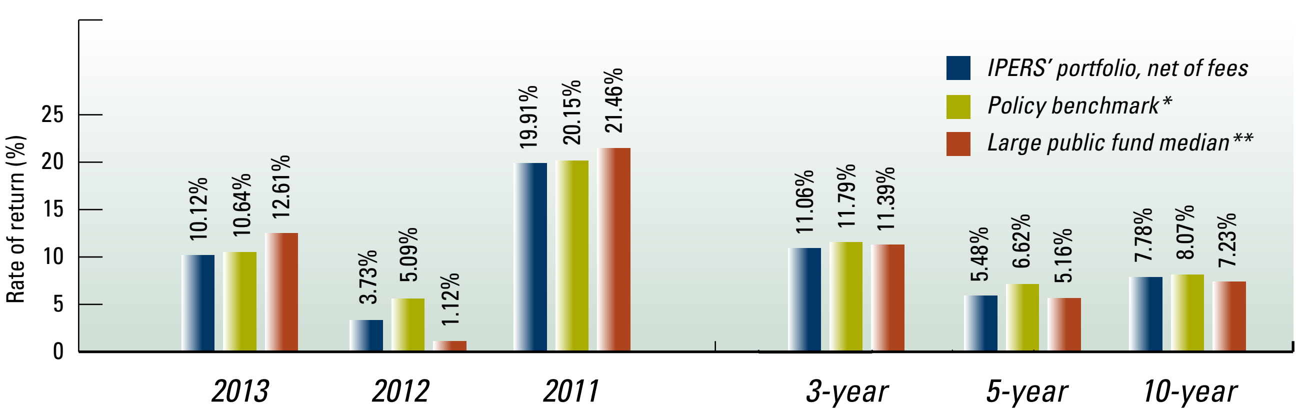
The following tables provide a historical perspective on IPERS' investment returns and performance over the last ten years. IPERS' net-of-fees investment returns are shown for the total portfolio and for each asset class over various time periods. For comparison purposes, the benchmark for each asset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

While the impact of the Great Recession is evident in the 5- and 10-year investment returns, IPERS' longer-term investment performance has usually exceeded actuarial assumptions. The IPERS Trust Fund annualized investment returns for the 15-, 20-, 25-, and 30-year periods ended June 30, 2013, were 6.55 percent, 8.47 percent, 8.82 percent, and 9.57 percent, respectively. The annual investment returns for the IPERS Trust Fund for the past 30 years are shown in the Statistical section.

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

Investment Performance Summary

For the Periods Ended June 30



*A benchmark composed of market indexes with weightings reflective of IPERS' asset allocation targets.
**Trust Universe Comparison Service (TUCS) Public Funds with Total Market Value Greater than $1 billion.
Note: 3-, 5-, and 10-year results are annualized returns.

Rates of Return

For Periods Ended June 30, 2013[1]

Asset Class	Annualized Returns (%) 1-Year	3-Year	5-Year	10-Year
Total Fund				
IPERS	10.12	11.06	5.48	7.78
Policy benchmark[2]	10.64	11.79	6.62	8.07
CPI + 3 percentage points	4.75	5.32	4.31	5.43
Actuarial assumed investment return	7.50	7.50	7.50	7.50
TUCS Public Funds > $1 billion universe median	12.61	11.39	5.16	7.23
Domestic equity				
IPERS	22.05	18.82	5.95	7.01
Wilshire 5000	21.10	18.45	7.19	7.95
International equity				
IPERS	15.12	8.24	–0.37	8.49
Custom benchmark	14.14	8.48	–0.34	9.09
Core-plus fixed income				
IPERS	0.62	4.71	6.10	5.09
Custom benchmark	0.24	4.08	5.52	4.84
Credit opportunities				
IPERS	6.25	9.48	9.00	7.81
Custom benchmark	5.36	9.26	9.27	7.98
Private equity/debt[3]				
IPERS	10.86	14.33	6.15	15.46
Wilshire 5000 + 3 percentage points	17.15	15.82	9.27	10.80
Real estate				
IPERS	6.42	12.67	1.81	7.94
Custom benchmark	10.30	14.39	4.40	9.14
U.S. TIPS[4]				
IPERS	–3.93	NA	NA	NA
Barclays U.S. TIPS	–3.78	NA	NA	NA
Other real assets[5]				
IPERS	27.45	NA	NA	NA
Custom benchmark	23.38	NA	NA	NA
Cash				
IPERS	0.19	0.47	0.66	2.29
U.S. Treasury bills	0.11	0.11	0.29	1.72

[1]All returns are time-weighted returns. All returns beyond one year are annualized.
[2]The policy benchmark on June 30, 2013, consisted of 24 percent Wilshire 5000, 15 percent MSCI ACWI ex U.S., 28 percent Barclays Universal, 5 percent Barclays U.S. TIPS, 1 percent Treasury bills, 5 percent Citigroup High-Yield Cash-Pay Capped, 13 percent Wilshire 5000 (return lagged by one calendar quarter) plus 3 percentage points, 1 percent custom benchmark for other real assets, and 8 percent of a weighted benchmark consisting of 75 percent NCREIF Property index and 25 percent Wilshire REIT index. The composition of the policy benchmark has changed over the 10-year period.
[3]Private equity/debt portfolio returns and benchmark returns are provided here as time-weighted returns to allow comparison to the time-weighted returns used for other asset classes. However, the more appropriate performance measurement for the private equity asset class is a dollar-weighted or internal rate of return (IRR) calculation over long periods of time, usually many years. See the Private Equity/Debt section of this report for a discussion of the private equity/debt portfolio's performance using IRRs.
[4]Initial funding for this asset class occurred in the fourth quarter of 2010.
[5]Initial funding for this asset class occurred in the second quarter of 2012.

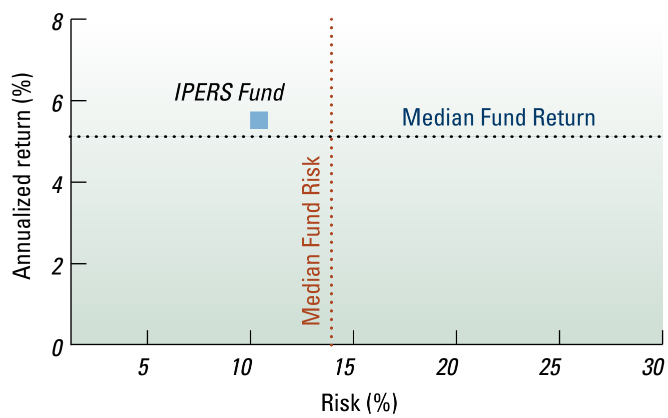
A more meaningful peer comparison can be made if returns are compared on the basis of how much return was earned for each unit of risk taken, where risk is measured by the volatility (standard deviation) of returns.

The following graph provides a comparison of IPERS' investment return per unit of risk taken for the last five years against the TUCS Universe of Public Funds with Assets Greater than $1 billion. The vertical line represents the median level of risk experienced by this universe of funds. The horizontal line represents the median rate of return earned by the group of funds. As shown in the graph, the return on IPERS' investments for the five years ended June 30, 2013, was higher than the median large public pension fund return, and it was earned with less risk than the median large public pension fund.

Risk vs. Total Return

Public Funds Greater than $1 billion

5 Years Ended June 30, 2013

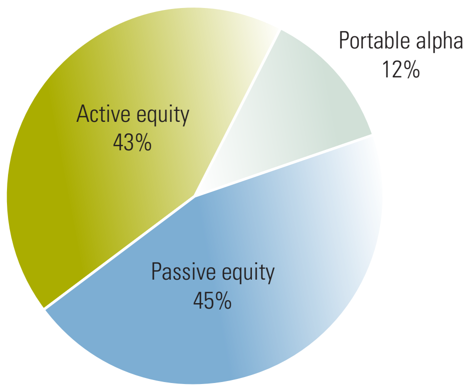


Domestic Equity

At June 30, 2013, 27.74 percent of IPERS' total portfolio was invested in domestic equities. The total net fair value of the domestic equity portfolio was $6.889 billion. The portfolio is widely diversified across various equity market sectors and industries and has highly diversified financial characteristics and risk factors that influence the overall return.

Domestic Equity Portfolio

June 30, 2013



The IPERS domestic equity portfolio has three components:

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

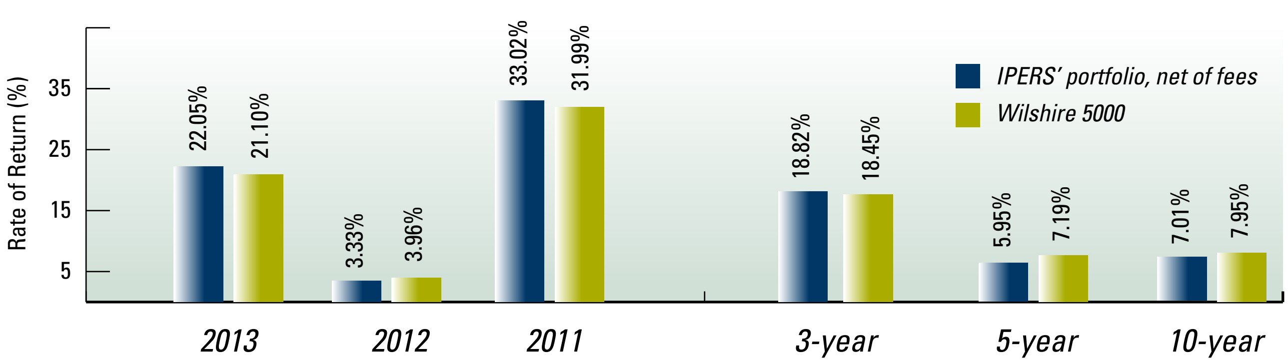
ACTIVE EQUITY. An actively managed portfolio consists primarily of large-capitalization stocks. For management purposes, the portfolio is divided among separate strategies that focus on different investment styles: a value portfolio, which focuses on companies undervalued relative to their prospective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

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

IPERS' utilization of portable alpha strategies within the domestic equity portfolio is an effort to improve the return of the portfolio without significantly increasing the risk. Portable alpha strategies attempt to achieve better risk-adjusted returns by blending excess returns (alpha) from a skillful manager, regardless of the asset class where the alpha may be achieved, with the return of any specified market index. Portable alpha strategies should work as long as (1) skillful managers exist and can be identified, (2) the alpha is not highly correlated to the market returns, and (3) derivatives are available that can replicate market returns at a low cost. The concept is that alpha is no longer constrained to the asset class—IPERS can look for alpha anywhere, and then use low-cost derivatives or index funds to

Domestic Equity Performance

For Periods Ended June 30



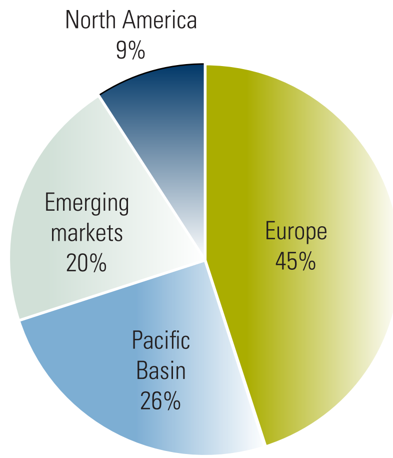
Note: 3-, 5-, and 10-year results are annualized returns.

obtain the required market exposure so the System can maintain its strategic asset allocation targets. Portable alpha strategies within the domestic equity portfolio outperformed their benchmark during fiscal year 2013.

For the year ended June 30, 2013, IPERS' domestic equity portfolio delivered a return of 22.05 percent, compared to 21.10 percent for the Wilshire 5000 index. Strong stock selection and sector allocation by IPERS' active managers drove the program's outperformance for FY2013. The program's minor tilt to small-cap growth also added relative value during the period. Six of the nine active managers utilized in the domestic equity program were able to provide a return that exceeded the asset class return of 21.10 percent for the fiscal year ended June 30, 2013.

International Equity Portfolio

June 30, 2013



International Equity

At June 30, 2013, the international equity portfolio had a net fair value of $3.704 billion, representing 14.92 percent of the total IPERS portfolio. IPERS' international equity portfolio is composed primarily of common stocks or equity commingled funds, foreign exchange contracts, and cash, and is widely diversified across many regions, countries, industries, and securities.

The international equity portfolio has three primary components:

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

International Equity Performance

For Periods Ended June 30

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

PASSIVE EQUITY. This component is a passively managed diversified portfolio consisting of commingled index fund investments in Canadian and developed European, Australasian, and Far East (EAFE) countries' corporate equity securities. The objective of the passive equity portfolios is to track the performance of the MSCI Canada and EAFE indexes, respectively.

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

Developed international equity markets delivered strong returns in FY2013. Driven by its central bank's aggressive spending program aimed at reversing deflation and fueling economic growth, Japan delivered the strongest developed international equity market fiscal year return at 52.53 percent. However, as the developed EAFE markets continued to stabilize their economies, the international investment community looked to reallocate capital away from the emerging market countries due to concerns about those countries' dependence on global economic growth and consumption. The international equity market returned 14.14 percent, as measured by the MSCI All Country World Free ex U.S. index in U.S. dollars, for the fiscal year ended June 30, 2013. Led by strong returns from German stocks, the developed European equity market's 1-year return of 18.86 percent made it the best-performing region in international equity markets for the fiscal year, while the emerging markets were the worst-performing region, posting a 1-year return of 2.87 percent.

IPERS' international equity portfolio outperformed in fiscal year 2013, returning 15.12 percent versus 14.14 percent for the benchmark. An overweight exposure to the developed European region, along with strong overall stock selection by active managers, added value. At June 30, 2013, the portfolio's 5-year return of –0.37 percent slightly trailed the –0.34 percent recorded for the composite benchmark.

Public Equity Portfolio: Top Ten Holdings

The top ten holdings within the public equity portfolio (domestic and international combined) at June 30, 2013, are listed below. The listing does not include the fair value of units held in commingled fund investments. A complete listing of the holdings, including commingled fund holdings, is available upon request.

Ten Largest Holdings at June 30, 2013	Fair Value ($000)	% of Total
Citigroup	$ 54,143	1.10
Exxon Mobile Corporation	49,115	0.99
Simon Property Group, Inc.	47,857	0.97
Chevron Corporation	43,769	0.89
J.P. Morgan Chase & Company	34,953	0.71
Cisco Systems	34,254	0.69
Apple, Inc.	31,759	0.64
Samsung Electronics Company, Ltd	31,612	0.64
Toyota Motor Corporation	29,240	0.59
AvalonBay Communities, Inc.	29,221	0.59
Total	**$385,923**	**7.81**

Fixed Income

IPERS has a significant allocation to fixed-income securities, with a target asset allocation of 28 percent to core-plus fixed-income securities and 5 percent to credit opportunities securities. At fiscal year-end, IPERS' core-plus portfolio was 25.86 percent of total Fund assets and the credit opportunities bond portfolio was 4.93 percent of total Fund assets. The total return for the consolidated fixed-income portfolio (core-plus and credit opportunities portfolios combined) for the year ended June 30, 2013, was 1.40 percent. The consolidated fixed-income portfolio fair value was $7.644 billion and the average bond rating for the portfolio was A.

IPERS' fixed-income portfolio has two main components:

CORE-PLUS FIXED INCOME. The objective of the core-plus fixed-income portfolio is to generate a return above the return of the core fixed-income market. Approximately 15 percent of the core-plus portfolio is dedicated to a passively managed "core" investment in an index fund designed to earn the return of the Barclays U.S. Aggregate index (Aggregate index), an index consisting of high-quality U.S. investment-grade fixed-income securities. The remainder of the core-plus portfolio is actively managed with the objective of exceeding the return of the Barclays U.S. Universal index (Universal index), net of fees, over a full market cycle. The Universal index is a broader index, consisting of the core Aggregate index, plus other fixed-income sectors available to U.S. investors, such as high-yield bonds, dollar-denominated emerging market debt, and eurodollar bonds.

The core-plus portfolio is a diversified portfolio of fixed-income securities, utilizing cash and cash equivalents, forward foreign exchange contracts, swaps, currency options, financial futures, government and government agency bonds, eurobonds, nondollar bonds, nonconvertible preferred stock, options on fixed-income instruments, mortgage-backed bonds, corporate bonds, commercial mortgage-backed securities, private placement corporate bonds, and asset-backed securities.

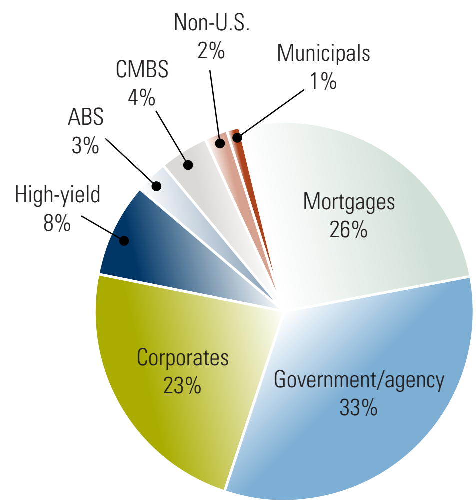
The actively managed portion of the core-plus portfolio is expected to have interest rate sensitivity similar to the Universal index, and be diversified by industry, sector, and security issuers.

The Federal Reserve remained accommodative by maintaining the federal funds target range at 0.00 to 0.25 percent over fiscal year 2013. The Fed also implemented a third round of quantitative easing, which included the purchase of $40 billion of mortgage-backed securities a month. This easing, along with the previous year's Operation Twist, was designed to help keep interest rates low and improve broader financial conditions.

Returns in the fixed-income market were relatively muted during fiscal year 2013, given the low-interest-rate environment and slowly improving economic conditions. The market also reacted negatively in the second quarter of 2013 to the possibility that the Fed was considering tapering its bond purchases, causing interest rates to rise significantly. In general, high-quality bonds and bonds with more interest rate sensitivity fared poorly in FY2013 while lower-quality bonds did well, as indicated by the following Barclays Capital indexes. The U.S. corporate high-yield sector index returned 9.49 percent and the U.S. credit sector index provided a return of 0.84 percent, while the Treasury sector index returned –1.64 percent and the mortgage sector index returned –1.10 percent for the fiscal year. IPERS' core-plus fixed-income portfolio return of 0.62 percent outperformed the Barclays Capital Universal index return of 0.24 percent for the fiscal year ended June 30, 2013.

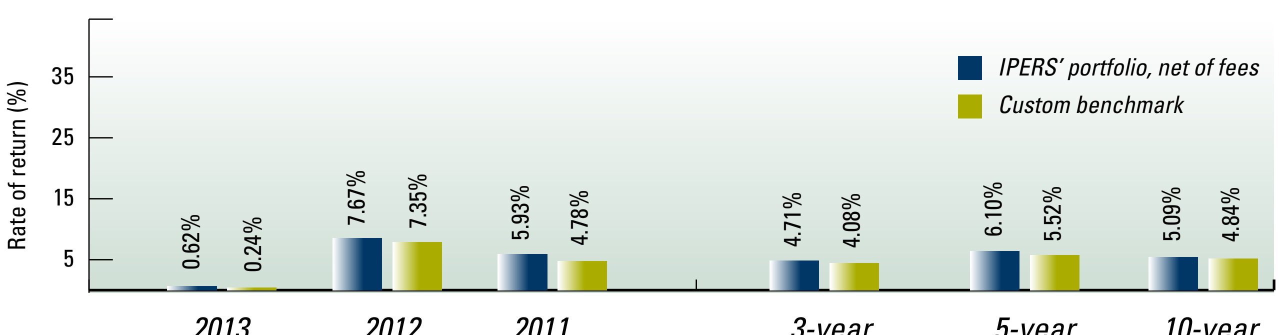
Core-Plus Fixed-Income Portfolio

June 30, 2013



Core-Plus Fixed-Income Performance

For Periods Ended June 30



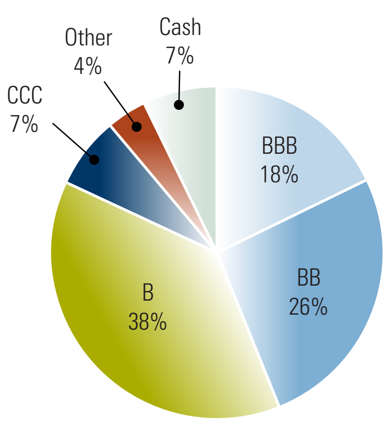
Note: 3-, 5-, and 10-year results are annualized returns.

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

IPERS' credit opportunities fixed-income portfolio generated a return of 6.25 percent for fiscal year 2013 versus its custom benchmark return of 5.36 percent. The high-yield portion of the portfolio provided a return of 9.57 percent versus the Citigroup High-Yield Cash-Pay Capped index return of 8.86 percent. The emerging market debt portion of the portfolio was initiated during the fourth quarter of 2012 and generated a return of –6.25 percent through June 30, 2013, underperforming the J.P. Morgan EMBI Global index return of –5.48 percent over the same time period.

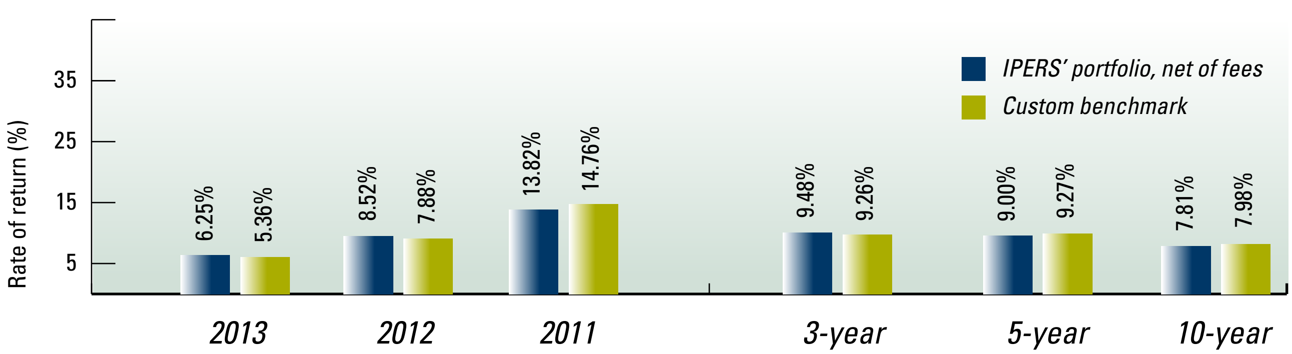
Credit Opportunities Fixed-Income Portfolio

June 30, 2013



Credit Opportunities Fixed-Income Performance

For Periods Ended June 30



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

Fixed-Income Portfolio: Top Ten Holdings

The top ten holdings within the consolidated fixed-income portfolio (core-plus and credit opportunities combined) at June 30, 2013, are illustrated below. The listing does not include the fair value of units held in commingled fund investments. A complete listing of the holdings, including commingled fund holdings, is available upon request.

Ten Largest Holdings at June 30, 2013	Fair Value ($000)	% of Total
U.S. TIPS—0.125%, 4/16/15	$159,968	2.37
U.S. Treasury Note—1.750%, 5/15/23	123,506	1.83
U.S. TIPS—1.125%, 1/15/21	117,618	1.74
U.S. Treasury Note—2.000%, 3/15/23	97,878	1.45
U.S. Treasury Note—1.375%, 5/31/20	86,925	1.29
U.S. Treasury Note—0.500%, 6/15/16	75,037	1.11
U.S. Treasury Note—0.375%, 6/30/15	71,528	1.06
FNMA TBA 30-Year—3.000%, 7/1/43	70,835	1.05
U.S. Treasury Note—1.000%, 8/31/19	69,007	1.02
U.S. Treasury Note—0.750%, 6/30/17	60,672	0.90
Total	**$932,974**	**13.82**

Private Equity/Debt

At June 30, 2013, IPERS' private equity/debt portfolio had a fair value of $2.861 billion, representing 11.52 percent of the total IPERS portfolio. From the inception of the private equity/debt portfolio in 1985 through June 30, 2013, the System has committed $7.418 billion to 263 partnerships. Of that total, $1.499 billion remains to be called for investment. During the fiscal year, IPERS committed $492.4 million to 16 new partnerships and increased its commitment to an existing partnership by $2.2 million. 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.

IPERS 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.

IPERS' goal for the private equity/debt portfolio is to exceed the internal rate of return (IRR) of the Wilshire 5000 index by 3 percentage points (net of investment management fees) over rolling 10-year periods. The internal rate of return is used because private equity investments are generally illiquid and cash inflows and outflows can be controlled by the general partner of the private equity partnership, making time-weighted returns inappropriate. The private equity/debt portfolio returned 10.67 percent in fiscal year 2013 versus 24.53 percent for its benchmark. However, private equity investments typically span ten years or more, so a longer evaluation time horizon is appropriate. The private equity/debt portfolio returned 15.09 percent versus its benchmark return of 11.65 percent for the 10-year period ended June 30, 2013. Since inception in 1985, the IPERS private equity/debt portfolio has returned 14.06 percent, slightly underperforming the benchmark return of 14.59 percent.

One drawback to comparing a portfolio return to a benchmark return is that it does not provide any information on how the portfolio's performance compares to the universe of private equity investment opportunities that were available at the time IPERS made its investments. Another performance analysis issue is that IRRs can be sensitive to the estimated value of unrealized investments. Therefore, IRRs for the portfolio should be reviewed in conjunction with "distributions to paid-in capital" (DPI) ratios, which ignore valuations and measure the ratio of cumulative distributions to cumulative paid-in capital for the time period, that is, how much of the investment performance has been realized.

The Thomson Reuters All Regions Private Equity funds performance database includes data from 3,525 partnerships and makes it possible to compare a portfolio to a universe of private equity partnerships that raised capital over the same time period. As explained in the Summary of Significant Accounting Policies in the Financial section, IPERS utilizes a one-quarter valuation lag for its private equity/debt investments. All Thomson Reuters information is as of October 2013, with data current for reporting periods ended March 31, 2013. Data is continuously updated and is therefore subject to change.

The table below compares the IRR and DPI of IPERS' private equity/debt portfolio to those calculated for all private equity partnerships in the Thomson Reuters database for vintage years 1985 through 2012.

	IRR	DPI
IPERS' private equity/debt portfolio	14.06%	1.17
Thomson Reuters All Regions Private Equity funds	11.09%	0.86

It is important to note that the IPERS Investment Board determined in 1993 that the selection of private equity partnerships should be delegated to a professional management firm, rather than having IPERS' staff and the Board attempt to evaluate and select these complex investments. The "since inception" results discussed above include the impact of decisions made prior to delegating the selection process to an investment manager.

The decision to give full investment discretion to a management firm for the private equity/debt portfolio has proven successful to date. IPERS' private equity investment manager has produced a net IRR of 16.16 percent since the firm was given full discretion to select partnerships on IPERS' behalf on January 1, 1993. This return compares favorably to the 9.17 percent IRR of the custom benchmark IPERS has established for the manager, the 11.14 percent IRR of IPERS' asset class benchmark for private equity (Wilshire 5000 + 3 percentage points) over the time period, and the pooled average IRR of 8.21 percent reported by Thomson Reuters for all private equity funds in its database for vintage years 1993 through 2012.

The DPI of 1.03 for the manager's discretionary portfolio also compares favorably to Thomson Reuters' pooled average DPI of 0.80 for all private equity funds in its database for vintage years 1993 through 2012.

Real Estate

At June 30, 2013, $1.963 billion, or 7.90 percent, of IPERS' total portfolio at fair value was invested in various real estate properties, publicly traded real estate investment trusts, and a real estate debt fund. In order to mitigate risk, the real estate portfolio is diversified by both geographic location and property type, as shown in the following pie charts.

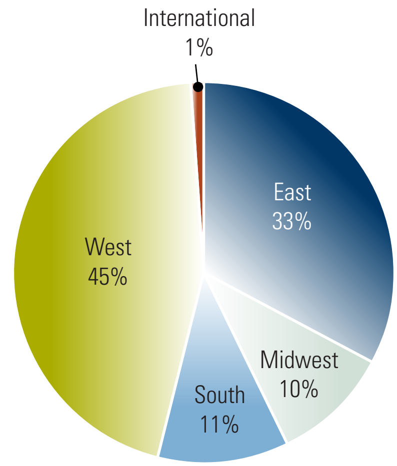
On October 1, 2012, the IPERS real estate portfolio benchmark was modified to a blended benchmark of 75 percent NCREIF Open-End Diversified Core index/25 percent Wilshire REIT index. This benchmark change was made because it is believed the NCREIF Open-End Diversified Core index is more representative of the real estate strategies utilized by IPERS in its private real estate program. As with the private equity/debt portfolio, the real estate program invests in assets with long holding periods and should be evaluated over a longer time horizon. For the ten years ended June 30, 2013, the real estate portfolio returned 7.94 percent net of fees versus the portfolio's benchmark of 9.14 percent. The long-term underperformance can be explained entirely by the private portion of the program. Over the majority of this 10-year time period, the private program was measured against the NCREIF Property index which returned 8.59 percent versus IPERS' private program net return of 7.31 percent. Over the same time period, the public program returned 11.51 percent versus the Wilshire REIT return of 10.80 percent.

The IPERS real estate program posted a return of 6.42 percent for fiscal year 2013. However, the program benchmark return over the same time period was 10.30 percent. Both the private and public portions of the program provided disappointing results in FY2013. Despite favorable income returns for IPERS' private real estate investments, the benchmark fared much better in terms of property appreciation. Private program total net returns for the fiscal year came in at 6.07 percent versus the private program benchmark total net return of 10.86 percent. The public portion of the IPERS real estate program returned 7.65 percent (net of fees) versus the Wilshire REIT return of 8.41 percent. In FY2013 IPERS expanded its real estate program to include high-yield real estate debt strategies. IPERS had invested approximately $10.6 million in one fund and had a remaining commitment of $139.4 million to that fund as of June 30, 2013.

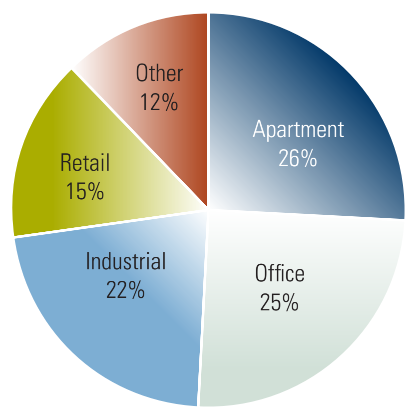
Real Estate Portfolio

June 30, 2013

By Property Location



By Property Type



U.S. TIPS

IPERS invests in U.S. Treasury inflation-protected securities (U.S. TIPS) to provide inflation protection and risk diversification. U.S. TIPS can also provide deflation risk protection because the securities cannot accrue a negative coupon even if the inflation rate is negative (which is a deflationary environment). IPERS utilizes one active TIPS manager that is benchmarked against the Barclays Capital U.S. TIPS 1–10 Year index and one passive manager that is benchmarked against the broader Barclays Capital U.S. TIPS index. IPERS' U.S. TIPS portfolio generated a return of –3.93 percent for the fiscal year, which underperformed the blended custom benchmark return of –3.78 percent.

Other Real Assets

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

In September 2010, the Investment Board approved a 2 percent target allocation to other real assets, with the stipulation that the target allocation would be accomplished over time by reducing the target allocation to domestic equity as these strategies were funded. At June 30, 2013, IPERS had invested $290.6 million, representing 1.17 percent of the total Fund market value. The total return for this portfolio for the year ended June 30, 2013, was 27.45 percent, which exceeded its custom benchmark return of 23.38 percent.

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

TIMBERLAND. The objective of the timberland strategy is to achieve a 5 percent real return after inflation and manager fees. The portfolio is diversified by geography, species, and timber markets. The benchmark for the timberland portfolio is the Consumer Price Index plus 5 percentage points. While the IPERS timberland portfolio is still in the acquisition phase, it had acquired several parcels of U.S. timberland with a market value of $95.4 million as of June 30, 2013, and returned 9.07 percent for the fiscal year versus its benchmark return of 6.90 percent. Timberland investments represented 33 percent of the other real assets portfolio on June 30, 2013.

ENERGY INFRASTRUCTURE. Master limited partnerships, which are tax-favored investment vehicles traded on public stock exchanges, have become an important source of funding for the development and improvement of America's energy infrastructure (such as pipelines, storage facilities, and transportation). Master limited partnerships have also become an attractive investment for institutional investors because the securities provide access to inflation-protected revenue streams, a substantial dividend yield, and the liquidity of the public stock markets. The objective of the master limited partnership strategy is to achieve a return above the S&P Master Limited Partnership Total Return index, net of fees. IPERS' master limited partnership portfolio had a market value of $195.2 million as of June 30, 2013, and returned 33.16 percent for the fiscal year versus its benchmark return of 29.49 percent. Master limited partnership investments represented 67 percent of the other real assets portfolio on June 30, 2013.

FARMLAND. IPERS contracts with an investment manager to acquire farmland in the United States. However, the manager has not identified any quality U.S. farmland investments that can achieve IPERS' objective of a 5 percent real return after inflation and all fees. Therefore, IPERS had no farmland investments as of June 30, 2013.

Investments in Iowa

Iowa Code section 97B.7A authorizes IPERS to invest the moneys of the Trust Fund in accordance with the Investment Policy and Goal Statement adopted by the Investment Board and subject to the "prudent person" rule. Section 97B.7A also directs that, where consistent with the aforementioned standards, IPERS will invest ". . . in a manner that will enhance the economy of the state, and in particular, will result in increased employment of the residents of the state." At June 30, 2013, the System held investments of $998.5 million in companies of Iowa interest.

Holdings in Companies of Iowa Interest

June 30, 2013

Asset Class	Amount
Stocks	$770,558,991
Bonds	227,591,800
Private equity/debt	361,000
Total	**$998,511,791**

Schedule of Brokerage Commissions Paid

Year Ended June 30, 2013

Brokerage Firm	Amount Paid	Average Per Share	% of Total Paid for Period
J.P. Morgan	$ 555,268	$0.008	9.05
Merrill Lynch	553,927	0.011	9.03
Goldman Sachs & Co.	531,317	0.006	8.66
UBS	520,617	0.006	8.48
Morgan Stanley & Co. Inc.	471,865	0.008	7.69
Credit Suisse	460,799	0.006	7.51
Citigroup	379,219	0.007	6.18
Deutsche Bank	259,028	0.006	4.22
Barclays Capital, Inc.	237,836	0.022	3.88
Macquarie Securities	143,745	0.005	2.34
Bernstein Sanford C & Co.	128,065	0.014	2.09
G-Trade Services, Ltd.	83,819	0.002	1.37
HSBC Securities	78,822	0.014	1.28
SJ Levinson & Sons LLC	78,489	0.020	1.28
SG Securities	73,342	0.002	1.20
Frank Russell Securities, Inc.	72,562	0.019	1.18
RBC Capital Markets LLC	71,980	0.034	1.17
BNP Paribas Securities Corporation	70,148	0.004	1.14
Credit Lyonnais Securities	68,675	0.004	1.12
Wells Fargo Securities LLC	62,740	0.030	1.02
Stifel Nicolaus	57,314	0.039	0.93
Citation Group/BCC Clearing	53,787	0.043	0.88
Green Street Advisors	51,873	0.042	0.85
Liquidnet Inc.	51,315	0.026	0.84
Raymond James & Associates, Inc.	42,485	0.039	0.69
All others (includes 139 brokerage firms)	977,432	0.010	15.92
Total	**$6,136,469**	**$0.008**	**100.00**

Investment Policy and Goal Statement

The following excerpt from the Iowa Public Employees' Retirement System's Investment Policy and Goal Statement, as adopted by the IPERS Investment Board and last revised in September 2012, includes all Policy text, but excludes the addenda referenced in the Policy. IPERS' current investment policies are available online at www.ipers.org.

I. Introduction: IPERS' Purpose and Principles

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

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

The Investment Board (Board) is the trustee of the IPERS Trust Fund (Fund). The Board's primary mission is to establish the System's tolerance for investment risk. The primary duties of the Board are to establish investment policy, to communicate its tolerance for investment risk, review policy implementation, and approve the retention of service providers in matters relating to the investment of IPERS' assets. As trustee, the Board also adopts the actuarial methods and assumptions, approves the retention of service providers in matters relating to the actuarial valuation of the System's assets and liabilities, and adopts the System's contribution rate funding policy.

IPERS is administered through a chief executive officer, chief investment officer, chief benefits officer, and other full-time staff. The investment activities of the Board and staff are governed by the "prudent person" rules as defined in §97B.7A. The purposes of the System and the prudent person rule shall guide the Board and staff in developing this investment policy and goal statement. IPERS' investment activities shall be executed in a manner to fulfill these goals. The investment policy and the investment strategies will be periodically reviewed to ensure they conform to §§97B.2 and 97B.7A.

The chief investment officer is responsible for the administration of the investment program pursuant to the policies of the Board. Additionally, the Board supports the retention and development of sufficient investment staff and the provision of other resources as necessary to ensure the thorough oversight and administration of each investment program undertaken by the System.

II. Investment Objectives

The Board adopts the following investment objectives for the Fund:

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

B. The investment program will strive to maintain the Board's investment risk tolerance as communicated through this policy.

C. The investment activities will be designed to provide a return on the Fund that, when coupled with the periodic contributions of the membership and employers, will meet or exceed the benefit funding requirements of the plan over time while staying within the Board's tolerance for risk expressed in this Policy. Of primary consideration is the maintenance of funding which is adequate to provide for the payment of the plan's actuarially determined liabilities over time.

D. The investment activities will achieve, after the deduction of management expenses, an annualized investment return that exceeds the return of the Policy Benchmark (defined in Section III.A.1 of this policy) over a minimum evaluation period of five years while staying within the Board's tolerance for active risk expressed in this Policy.

III. Investment Policy Statement

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

Achievement of IPERS' investment goals ultimately depends upon earning a sufficient return on the System's investments while taking a prudent amount of risk to attain the return. Investment return is comprised of two components known as "beta" and "alpha." Beta return is the return generated from exposure to a specific market or asset class. Alpha return is the excess return resulting from subtracting the beta return from the total investment return, and is conditional upon skillful active investment decision making. IPERS believes that risk-adjusted investment returns can be improved by separating beta and alpha decisions in actively managed (that is, non-passive or non-index) portfolios.

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

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

A. The Beta Portfolio
   1. Policy Benchmark
      The System adopts a Policy Benchmark that represents a mix of beta exposures that is expected over the long term to maximize the risk-adjusted beta return to the System consistent with the Board's tolerance for risk. The Policy Benchmark is predicated on a number of factors, including:
      a. The liabilities.
      b. The relationship between the current and projected assets of the plan and the plan's projected liabilities.
      c. Expectations regarding long-term capital market returns and risks, including the impact of correlations.
      d. Historical distribution of returns, average volatility of returns, and correlations between asset classes as well as liabilities.
      e. The perception of future economic conditions, including inflation and interest rate assumptions, and their impacts on the System's assets and liabilities.

The table below represents the Board's adopted Policy Benchmark. The Policy Benchmark Weights establish the Board's target exposure to each asset class, measured on a market value basis, while the Asset Class Ranges establish the ranges within which actual weights may fluctuate. The Policy Benchmark Return is the sum of the products of the Policy Benchmark Weights and the respective Policy Benchmark Index returns for the period.

Asset Class	Asset Class Ranges	Policy Benchmark Weights	Policy Benchmark Index
Equities		**51%**	
Domestic Equities	20%–26%	23%	Wilshire 5000
International Equities	12%–18%	15%	MSCI ACWI ex U.S.
Private Equity / Debt	10%–16%	13%	Wilshire 5000 + 3%[1]
Fixed Income		**33%**	
Core Plus Fixed Income	25%–31%	28%	Barclays Capital U.S. Universal
Credit Opportunities	3%–7%	5%	Custom Index[2]
Real Assets		**15%**	
Equity Real Estate	6%–10%	8%	Custom Index[3]
U.S. TIPS	3%–7%	5%	Custom Index[4]
Other Real Assets	0%–4%	2%	Custom Index[5]
Cash	0%–2%	**1%**	Merrill Lynch 91-Day T-Bill

[1] Lagged by one calendar quarter.
[2] The credit opportunities custom index for purposes of the Policy Benchmark Index is weighted 66 percent Citigroup HY Cash Pay Capped Index and 34 percent JP Morgan EMBI Global Index.
[3] The equity real estate custom index for purposes of the Policy Benchmark Index is weighted 75 percent NCREIF Open-End Diversified Core Index (ODCE) and 25 percent Wilshire REIT Index.
[4] This benchmark is defined as 50 percent Barclays Capital U.S. TIPS Index and 50 percent Barclays Capital 1–10 Year U.S. TIPS Index.
[5] This benchmark will be defined as specific real asset mandates are funded. See discussion under "Other Real Assets" below.

2. Policy Benchmark Components

   Apart from any alpha expectations described in Section III.B, IPERS seeks to earn market returns from each asset class in the Policy Benchmark. This market exposure may be achieved by purchasing securities that comprise the respective asset classes or by purchasing derivatives designed to provide the return of a particular market. Each public market asset class has a Policy Benchmark Index that is believed to best represent the broadest market opportunity set for the respective asset class. The return on each Policy Benchmark Index is the market return (beta return) for each asset class.

Domestic Equities

IPERS invests in the domestic equity market to earn an equity risk premium to enhance the long-term returns of the Fund. This asset class includes the broad market of publicly traded U.S. equities with varying characteristics related to market capitalization and investment style. The Policy Benchmark Index for Domestic Equities is the Wilshire 5000 Index.

International Equities

IPERS invests in international equities to earn an equity risk premium and to diversify the equity exposure within the Fund. The International Equities asset class includes both developed and emerging equity markets. The Policy Benchmark Index for International Equities is the Morgan Stanley Capital International (MSCI) All-Country World Index ex-U.S. (ACWI ex-U.S.) calculated gross of tax credits from dividend reinvestment.

Core Plus Fixed Income

IPERS invests in fixed income assets to provide stable income for the payment of benefit obligations and to diversify the market risk of the investment portfolio. The Core Plus fixed income market represents a global opportunity set of fixed income instruments available to U.S. institutional investors. The Policy Benchmark Index for Core Plus fixed income is the Barclay's Capital U.S. Universal Index.

Credit Opportunities

IPERS has made a strategic allocation to credit opportunities in high-yield corporate bonds and emerging markets corporate and sovereign debt to enhance the long-term returns of the investment portfolio, to provide current income, and to provide diversification benefits. The Policy Benchmark Index for Credit Opportunities is a weighted custom index of 66 percent the Citigroup High-Yield Cash-Pay Capped Index and 34 percent the JP Morgan EMBI Global Index. The custom index will take effect upon first funding of an emerging markets debt strategy.

Equity Real Estate

IPERS invests in equity real estate to provide diversification in the investment portfolio, provide some inflation protection, and for income generation. The Policy Benchmark Index for Equity Real Estate is a weighted custom index of 75 percent the National Council of Real Estate Investment Fiduciaries' (NCREIF) Open-End Diversified Core Index (ODCE) and 25 percent the Wilshire Real Estate Investment Trust Index (Wilshire REIT). (See Appendix A for IPERS' Real Estate Investment Policy.)

Private Equity/Debt

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

U.S. TIPS

IPERS invests in U.S. Treasury Inflation Protected Securities (U.S. TIPS) to provide inflation protection and risk diversification for the investment portfolio. U.S. TIPS can also provide some deflation risk protection because the securities cannot accrue a negative coupon even if the inflation rate is negative (which is a deflationary environment). However, U.S. TIPS can introduce interest rate risk into the Fund portfolio, and IPERS will utilize some shorter duration U.S. TIPS strategies in order to mitigate some of the interest rate risk. The Policy Benchmark Index for U.S. TIPS is a weighted custom index of 50 percent the Barclays Capital U.S. Treasury Inflation Protected Securities Index and 50 percent the Barclays Capital 1–10 Year U.S. Treasury Inflation Protected Securities Index.

Other Real Assets

IPERS invests in other real assets to provide inflation protection for the investment portfolio. Other real assets may consist of commodities, farmland, timberland, private energy partnerships, public energy partnerships (aka master limited partnerships (MLPs)), or infrastructure investments where principal or future income streams are protected from inflation. The Policy Benchmark Index for Other Real Assets will be created based upon the type of mandate that is funded, and will be revised as additional real asset strategies are added to the portfolio over time. The Policy Benchmark allocation for Other Real Assets shall not take effect until a mandate is funded in this asset category, and the allocation percentage shall be adjusted quarterly to reflect the actual investment in the asset class until such time that the target Policy Benchmark Weight has been achieved. Any "unused" allocation prior to reaching the target weight will remain in the target weight for Domestic Equities. Once the target weight for Other Real Assets has been achieved, the Policy Benchmark weight will be two percent for future periods.

Cash

Cash, for the purpose of applying the Policy Benchmark Weights and Asset Class Ranges, is limited to funds available prior to distribution to investment managers and the amount reserved to pay near-term benefits and administrative costs. The Policy Benchmark Index for Cash is the Merrill Lynch 91-Day Treasury Bill Index.

3. Policy Benchmark Rebalancing

   Because of the fluctuation of market values, and the effect of cash flows in and out of the System, the actual weights of each asset class can differ from the target weights established in the Policy Benchmark. In recognition of this, the Board has also adopted Asset Class Ranges for each asset class, and positioning within a specified Asset Class Range is acceptable and constitutes compliance with the Policy Benchmark. It is the responsibility of IPERS staff to keep actual weights within the Asset Class Ranges. However, it is anticipated that the Board will make periodic revisions to the Policy Benchmark, and it is recognized that in some cases it may be prudent to allow an extended period of time to fully implement revisions to the Policy Benchmark. In the absence of suitable opportunities within a specific market, the funds shall be directed to the other components within the ranges specified. The Board and staff will regularly monitor the actual asset allocation versus the Policy Benchmark Weights and evaluate any variations. In addition, it is acknowledged that market conditions or circumstances beyond IPERS' control may lead to asset class weightings being temporarily out of their target ranges, especially as those ranges relate to illiquid asset classes.

B. The Alpha Portfolio

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

Various strategies may be employed in the creation of a diversified alpha portfolio. Factors that will determine the alpha portfolio composition will include market structure and dynamics, the estimated degree of correlation between a strategy's performance and the Policy Benchmark, the breadth and depth of available active managers, and contribution to the active risk budget. Traditional long-only management strategies may continue to be utilized in order to capture alpha, while portable alpha strategies, which allow alpha earned in other asset classes to be transported to a particular asset class or the total fund as an overlay through the use of derivatives, may also be utilized. In reviewing the effectiveness of alpha portfolio decisions, it is understood that a sufficient time frame is necessary to measure results through market cycles. A five-year period will generally be used to judge the results of alpha portfolio decisions.

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

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

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

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

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

The Board has established the following active risk budget:

Asset Class	Active Risk Range	Active Risk Target
Equities		
Domestic Equities	0.70%–1.30%	1.00%
International Equities	1.50%–2.50%	2.00%
Fixed Income		
Core Plus Fixed Income	0.70%–1.30%	1.00%
Credit Opportunities	2.40%–4.10%	3.25%
U.S. TIPS	0.40%–0.60%	0.50%

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

C. Investment Management

IPERS will select and utilize external investment management firms or funds to manage each of its portfolio accounts. The System will also utilize the services of investment management consultants for the purpose of performance review, asset allocation studies, risk budgeting, manager selection screening, and topical studies.

1. Manager/Consultant Utilization and Selection

   The selection of the managers and consultants is accomplished in accordance with the applicable provisions of Iowa Code sections 8.47 and 8.52, and the administrative rules adopted thereunder, except as otherwise provided in duly issued waivers by the ruling authority. The System will procure manager and consultant services with adequate attention to the principles of competition and reasonableness of costs, and will wherever feasible compensate the external managers through the use of performance-based fees. Each investment manager and consultant shall function under a formal contract that delineates their responsibilities and the appropriate risk management and performance expectations.

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

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

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

4. Manager Diversification
   The investment manager structure shall be diversified to reduce the risk of having too many of IPERS' actively managed investment assets with one firm or having IPERS' assets comprise too much of a firm's actively managed investment strategy. The following diversification limits shall apply:
   a. An investment manager's combined responsibility for actively managed investment strategies on behalf of IPERS shall not exceed 15 percent of the Fund's total assets;
   b. IPERS' investment in an investment manager's actively managed strategy shall not exceed 20 percent of the manager's total assets under management in that strategy.

      For purposes of this section, enhanced indexing, equity real estate and private equity are considered to be actively managed investment strategies.

      The Board acknowledges that there may be times when manager diversification limits could be exceeded due to manager terminations, abrupt changes in market conditions, or decisions made by other clients of a manager. In such times, staff shall inform the Board of the situation and shall attempt to rebalance to the diversification limits as soon as prudently possible, with periodic progress reports to the Board.

D. Cash Management
   Staff will ensure that adequate cash is available for the payment of benefit obligations and the funding of investments, and any cash held pending such uses shall be temporarily invested in the custodian's Short Term Investment Fund (STIF) or other suitable short-term investment vehicle authorized by the Board. Cash held within the accounts of investment management firms will be managed in accordance with the guidelines established in the contractual agreement with each firm. In the case of cash denominated in a currency other than the U.S. Dollar (USD), it shall be the responsibility of the investment management firm to repatriate or obtain foreign currency for any non-USD cash flows in its account. Investment managers are expected to obtain best execution on all foreign exchange transactions. IPERS staff shall have responsibility for repatriating or funding any non-USD cash flows from the Private Equity/Debt program, and will use an agency broker to attempt to obtain best execution on those foreign exchange transactions.

E. Currency Risk Management

Investment in non-USD denominated assets introduces the risk of loss due to currency fluctuations. It shall be the responsibility of each investment manager to manage any currency risk within its portfolio according to the terms of the contract between the manager and the System. The objective of currency management is not the elimination of all currency risk, but rather the prudent management of risks associated with investing in currencies or in assets that are not denominated in U.S. dollars.

F. Custody

The Treasurer of the State of Iowa is the custodian of the Fund. The Treasurer will hold the System's assets in a custody/recordkeeping account in a master custody bank located in a national money center and in the international subcustodian banks under contract to the custodian bank. The Treasurer shall consult with the Board prior to selecting the master custody bank. A formal written agreement shall be established between the Treasurer of State and any third-party custodian. The custodian bank agreement shall be reviewed periodically by the staff and Investment Board.

G. Securities Lending

The primary objective of the securities lending program shall be to safely generate income from lending the System's securities to qualified borrowers. The program will only utilize lending agents that agree to acceptable make-whole or indemnification provisions in the event a loan of securities is terminated and the borrower has failed to return the loaned securities within the standard settlement period for the loaned securities.

Cash collateral received against loans of securities shall be prudently invested in a low-risk investment strategy that invests only in: a) commingled funds or money market funds managed in accordance with the regulations and criteria specified in Rule 2(a)(7) promulgated under the Investment Company Act of 1940, or b) separate accounts that have investment guidelines identical to those required of a 2(a)(7) fund, or c) overnight repurchase agreements collateralized with obligations issued by the United States Treasury or obligations issued by agencies or government-sponsored entities of the United States government.

The key investment objectives for investing the cash collateral shall be to: a) safeguard principal; b) maintain adequate liquidity; and c) consistent with the foregoing objectives, optimize the spread between the collateral earnings and the rebate paid to the borrower of securities.

The Investment Board may select its own securities lending agent or authorize the Treasurer of the State of Iowa to manage the securities lending program in accordance with the risk guidelines established herein. Staff shall execute a formal written agreement between any lending agent (or the Treasurer, as the case may be) and IPERS stipulating the risk parameters and performance benchmarks of the program, which shall be in accordance with these guidelines. The securities lending program will be annually reviewed by the Board, and the ongoing operation of such program shall be subject to periodic reauthorization by the Board.

H. Proxy Voting

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

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

I. Commission Recapture and Soft-Dollars

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

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

J. Derivatives

The System recognizes that certain derivative instruments can be useful tools in managing portfolio risk and in efficiently replicating cash market positions. However, the System also recognizes that derivatives can introduce unique risks into the portfolio that must be controlled. The following guidelines shall apply to the use of derivatives by the System's managers, and are designed to provide general risk controls that apply to all managers. The System's staff and investment consultant shall establish specific guidelines in each manager's contract to control the various risks associated with the use of derivatives for a particular manager and mandate. With the exception of portable alpha strategies, a manager is only authorized to utilize the derivative instruments permitted in this policy, and then only to the extent such usage is authorized in the manager's contract with the System.

The System defines a derivative instrument (derivative) to be a financial instrument with a return or value that is obtained from the return or value of another underlying financial instrument. Mortgage-backed securities and asset-backed securities are not considered derivatives for the purposes of this policy.

The following is a list of categories of derivatives that are permitted under this policy.

1. Futures – Bond futures, interest rate futures, stock index futures, and currency futures that are listed on major exchanges in the United States, Japan, France, the United Kingdom, and Germany
2. Options – Options on stocks and bonds, index options, currency options, and options on futures and swaps
3. Currency forward contracts
4. Swaps – Interest rate, currency, index, credit default, or specific security or a group of securities swaps
5. Warrants – A manager is not permitted to purchase warrants separately. However, a manager may purchase securities that have warrants attached to them if such securities are permitted under their contract. A manager may also hold warrants in its portfolio if such warrants were received as part of a restructuring or settlement concerning an authorized investment

The following restrictions shall apply to any manager using derivatives in the portfolio they manage for IPERS (in addition to any other restrictions or limitations included in the manager's contract):

1. Under no circumstances shall a manager use derivatives for the purpose of leveraging its portfolio.
2. Prior to utilizing any derivative, a manager shall take all steps necessary to fully understand the instrument, its potential risks and rewards, and the impact adverse market conditions could have on the instrument and the overall portfolio, and to ensure that it has all of the operational and risk management capabilities required to prudently monitor and manage the derivative.
3. A manager utilizing "over the counter", non-exchange-traded swaps or options (OTC Derivatives) shall use prudent caution in selecting counterparties, and shall have written policies in place specifying how the manager will manage the credit risk of the counterparties. Such policies shall include, at a minimum, how

the management firm will evaluate and monitor the creditworthiness of counterparties, an explanation of how the firm will determine the maximum firm-wide net market exposure amount to each counterparty, how the firm will monitor and enforce compliance with its credit policies, and other key terms that are required to be included in non-exchange-traded derivative contracts. Staff and IPERS' investment consultant shall periodically review these policies.

4. A manager shall not invest in OTC Derivatives with a counterparty that has a rating below "A3" as defined by Moody's or "A-" as defined by Standard & Poor's (S&P). Managers shall not use unrated counterparties, nor shall they use counterparties that have a "split rating" where one of the ratings is below A3 by Moody's or A- by S&P. However, managers may utilize an unrated counterparty if the manager has documentation evidencing that a parent or affiliate of the counterparty is: a) legally bound to cover the obligations of the counterparty, and b) has a rating of at least A3 by Moody's or A- by S&P. The counterparty shall be regulated in either the United States or the United Kingdom.
5. A manager utilizing OTC Derivatives in IPERS' account shall control the counterparty credit risk of such transactions by: a) utilizing payment netting arrangements to minimize the amount at risk, b) performing daily marking-to-market of derivatives contracts, and c) requiring collateralization of net amounts owed under the contracts after meeting minimum threshold for transfers.
6. A manager shall limit the System's exposure to counterparty defaults from OTC Derivatives by limiting the dollar amount at risk with any counterparty (net of the value of any collateral held) to no more than 5 percent of the market value of the IPERS account for a counterparty with a rating above A by Moody's or A+ by S&P, or 3 percent of the market value of the IPERS account for a counterparty with a rating of or below A by Moody's or A+ by S&P. The limitations of this paragraph apply only to the net exposure attributable to OTC Derivatives.
7. OTC Derivative transactions shall be executed under an International Swap Dealers Association (ISDA) agreement. Collateral provided to IPERS by counterparties under a derivatives contract shall be delivered to and held by the System's custodian bank, or delivered and held by a third party agent under a Credit Support Annex (CSA) to the ISDA agreement executed by IPERS or the investment manager on behalf of IPERS.
8. Managers shall reconcile cash and margin requirements concerning derivatives on a daily basis with the System's custodian bank or any applicable third party under a CSA.
9. These restrictions do not apply to portable alpha strategies utilized by the System. In lieu of such restrictions, staff shall attempt to ensure that contracts with managers executing portable alpha strategies adequately address as many of the restrictions as possible while allowing these managers the latitude necessary to manage a portable alpha portfolio where the alpha and beta sources are in different asset classes.
10. Contracts for portable alpha portfolios will articulate the specific derivative usage allowed within the manager's strategy. Additionally, the contract will incorporate the derivatives exposure parameters for that strategy. The contract will also articulate the data to be provided to IPERS staff and consultants in order to enable sufficient monitoring and evaluation of derivatives exposures.

K. Social Investing

As fiduciaries, the IPERS Investment Board, staff, and investment managers must perform their duties for the exclusive benefit and in the best economic interest of the System's members and beneficiaries. The System and the Board will not support investment policies or strategies which seek to promote specific social issues or agendas through investment or divestment of IPERS' assets. To act otherwise could be construed as a violation of fiduciary duty and could endanger the System's tax-exempt status.

L. Securities Monitoring and Litigation

IPERS has a fiduciary duty to preserve trust assets to meet the retirement promises made to its members. Included in this duty is the obligation to recover investments in public securities that incur losses as a result of corporate mismanagement and/or fraud. To preserve trust assets, the Board has adopted a securities monitoring and litigation policy to guide the System's involvement in and monitoring of securities litigation. (See Appendix D for IPERS' Securities Monitoring and Litigation Policy.)

M. Confidential Investment Information

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

1. Could result in a loss to the System or to the provider of the information, and/or
2. Would give advantage to competitors and serve no public purpose, and/or
3. Would violate trade secrets which are recognized and protected by law.

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

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

N. Ethics

Fiduciaries of the System must exercise the highest standards of care in acting for the exclusive benefit of the plan participants. IPERS has adopted an Ethics Policy to govern the activities of Board members, staff, consultants, and managers as it relates to the System. (See Appendix E for IPERS' Ethics Policy.)

O. Sudan & Iran Investment Restrictions and Divestment

Iowa Code chapters 12F and 12H require IPERS to develop lists of scrutinized companies with operations in the Sudan and/or Iran, and to restrict its purchases of, and, under certain circumstances, to divest of holdings of publicly traded securities in any company determined to have active business operations in the Sudan and/or Iran. To comply with this legislative mandate, IPERS will utilize the research and findings of an organization recognized to be an authoritative source of information in this area. This list will be updated quarterly. Staff will engage the companies on the scrutinized companies list to determine if such companies are prohibited investments under Iowa law. Firms that are deemed to be prohibited under Iowa law will be placed on a prohibited companies list.

P. Continuing Education

The Investment Board consists of dedicated Iowans that have agreed to serve the public in the very important roles of fiduciary and trustee for the Fund. The Board members have been entrusted with making decisions concerning complex actuarial and investment issues. However, it is recognized that Board members have varying degrees of knowledge and experience in dealing with actuarial and investment issues. Therefore, to facilitate the ongoing education of its members so that they may obtain the knowledge required to make informed decisions, the Board establishes the following continuing education guidelines applicable to all Board members:

1. In the first 12 months following appointment, a Board member is encouraged to attend an educational session concerning fiduciary duties of trustees, and another educational session concerning asset allocation, actuarial principles, or investment policy.

2. For the period from 12 months following appointment until the end of the Board member's service on the Board, a Board member is encouraged to attend at least one educational session per year concerning any investment-related topic relevant to the Fund.
3. An "educational session" is defined as a conference, seminar, workshop, course, or other substantive educational activity on any investment or pension fund administration subject. If possible, staff will attempt to make some educational sessions annually available in Iowa in order to meet the needs of Board members' schedules.
4. Board members are responsible for self-evaluating their educational needs and obtaining knowledge in specific-needs areas in a fiscally responsible manner. Board members are encouraged to engage the CEO or IPERS investment staff to assist them in determining what educational sessions are available to meet their educational needs.
5. Board members must receive approval of the Board if they wish to attend more than two educational sessions in any 12-month period. This requirement applies only to educational sessions that require out-of-state travel.

IV. Responsibilities of the Investment Board and Staff

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

A. Statutory Responsibilities
   1. The Board shall annually adopt an Investment Policy and Goal Statement which is consistent with Iowa Code §§97B.7A and 97B.8A.
   2. The Board shall at least annually conduct a review of the investment policies and procedures utilized by the System.
   3. The Board shall at least annually conduct a public meeting to review the policies and the investment performance of the Fund.
   4. With the approval of the Board, the Treasurer of State may conduct a program of lending securities in the IPERS portfolio.
   5. The Board shall review and approve, prior to the execution of a contract, the hiring of each investment manager and investment consultant outside of state government.
   6. The Board shall select the actuary to be employed by the System, and shall adopt the mortality tables, and actuarial methods and assumptions to be used by the actuary for the annual valuation of assets.
   7. The chief executive officer will consult with the Board prior to employing a chief investment officer.
   8. The Board shall participate in the annual performance evaluation of the chief investment officer.
   9. The chief executive officer shall consult with the Board on the budget program for the System.
   10. The Treasurer of State shall consult with the Board prior to selecting any bank or other third party for purposes of investment asset safekeeping, other custody, or settlement services.
   11. The Board shall consist of seven voting members and four nonvoting members as required by Iowa Code section 97B.8A. Four voting members of the Board shall constitute a quorum.
   12. Staff shall provide advance notice to the public of the time, date, tentative agenda, and place of each Board meeting in compliance with Iowa Code chapter 21.
   13. The Board shall set the salary of the chief executive officer.

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

2. The Board shall review the specific types and proportions of assets being utilized in implementing the overall policy, as established by the staff (for example, the proportion of mortgage bonds within the Core Plus Fixed Income portfolio).
3. The Board shall periodically review the staff's rebalancing activities and the System's compliance with Policy Benchmark Weights and Active Risk Targets within their designated ranges.
4. The Board shall approve the solicitation of proposals for investment managers as recommended by the staff. The staff shall have the authority to terminate, amend, or renew contracts with existing managers. Staff shall inform the Board in advance of its decision to terminate a manager.
5. The Board shall approve the termination of consultants and the solicitation of proposals for consultants. The staff shall have the authority to amend or renew contracts with existing consultants.
6. If the chief executive officer, chief investment officer, any investment officer, or any IPERS attorney is in possession of information which would lead a reasonable person familiar with such matters to conclude that an investment, a commitment to an investment, or a decision to engage or terminate a contracted service provider, contradicts the fiduciary duties of the party or parties having the final authority to take such actions, it is the Board's expectation that the issue will be placed on a Board meeting agenda for review.
7. The Board shall hold public meetings to review the investment performance of the Fund, to hear presentations from a portion of the System's investment managers, and to effect its statutory and operational responsibilities.
8. To maintain and strengthen the investment management of the System:
    a. The Board and staff shall participate in conferences/seminars related to the investment activities of public and private institutional investors.
    b. The staff, and as appropriate, the Board, shall meet periodically with the investment managers of the Fund at the firms' offices to review and clarify investment or administrative issues related to the management of the portfolio.
    c. The staff, and as appropriate, the Board, shall participate in investor meetings conducted by the various managers of the Fund.

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

C. Administrative Responsibilities
1. Board meeting dates for the fiscal year shall be set by members of the Board at the first meeting of the fiscal year.
2. At the first meeting in each fiscal year, the voting Board members shall elect a chair and vice chair.
3. Parties wishing to present items for the Board's next meeting agenda shall file a written request with the chair at least five business days prior to the meeting. The Board may take up matters not included on its agenda.
4. To the extent there is no law, statute, or administrative rule governing a procedure, Board meetings shall be governed by the procedural rules established in the latest version of <u>Robert's Rules of Order, Newly Revised</u>.

Actuarial

Actuarial

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November 14, 2013

This report presents the results of the June 30, 2013 actuarial valuation of the Iowa Public Employees' Retirement System (IPERS). The primary purposes of performing the valuation are as follows:

- to determine the Actuarial Contribution Rates (ACR) and the Required Contribution Rates for the Regular Membership, Sheriffs and Deputies, and the Protection Occupation group (all public safety members other than Sheriffs and Deputies) in accordance with IPERS' Contribution Rate Funding Policy,
- to evaluate the funded status of the System and disclose various asset and liability measures as of June 30, 2013,
- to determine the experience of the System since the last valuation, and
- to analyze and report on trends in System contributions, assets, and liabilities over the past several years.

The actuarial valuation results provide a "snapshot" view of the System's financial condition on June 30, 2013. The results reflect net favorable experience for the past plan year as demonstrated by an unfunded actuarial liability (UAL) that was lower than expected. The UAL on June 30, 2013 for all three membership groups covered by IPERS is $5.787 billion as compared to an expected UAL of $6.022 billion. The favorable experience was the combination of an experience gain of $15 million on the actuarial value of assets and an experience gain of about $220 million on System liabilities.

Historically, the contribution rate for Regular Members was set by state statute. Effective with the 2011 valuation, IPERS has the authority to set the Required Contribution Rate based on the Actuarial Contribution Rate for the Regular Membership Group developed in the annual actuarial valuation, subject to a change of no more than 1% per year. From 2001 until 2011, the valuations indicated that the Required Contribution Rate was less than the Actuarial Contribution Rate. In the 2012 valuation, the Required Contribution Rate was equal to the ACR for Regular Members. Based on the current Contribution Rate Funding Policy, the Required Contribution Rate for all three groups is greater than the ACR, as shown in the following table:

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Contribution Rate for FY 2015			
	Regular Membership	Sheriffs and Deputies	Protection Occupation
1. Normal Cost Rate	10.16%	16.59%	16.02%
2. Amortization of UAL over 30 years	4.44%	2.71%	0.59%
3. Actuarial Contribution Rate	14.60%	19.30%	16.61%
4. Required Contribution Rate	14.88%	19.76%	16.90%
5. Shortfall/(Margin) (3) – (4)	(0.28%)	(0.46%)	(0.29%)
6. Employee Contribution Rate	5.95%	9.88%	6.76%
7. Employer Contribution Rate (4) - (6)	8.93%	9.88%	10.14%

Actuarial Value of Net Assets

For financial statement purposes, the System's assets are reported at current fair values. For actuarial purposes, the assets are valued using a technique which dampens the volatility in the fair value. Specifically, the assets are valued at their expected value at the valuation date (based on the assumed rate of investment return) plus 25% of the difference between the fair value and the expected value on the valuation date. The actuarial value of assets must fall within a corridor of 80% to 120% of market value. Based on this methodology, there was an actuarial gain on assets of about $15 million. Between June 30, 2012 and June 30, 2013, the actuarial value of assets increased by $1,181 million. This represented an approximate rate of return of 7.57%, higher than the actuarial assumed rate of return of 7.5%.

Liabilities

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

The unfunded actuarial liability by group is shown as of June 30, 2013 in the following table:

($Millions)	Regular Membership	Sheriffs & Deputies	Protection Occupation	Total
Actuarial Liability	$28,799	$533	$1,166	$30,498
Actuarial Value of Assets	23,100	483	1,129	24,711
Unfunded Actuarial Liability	5,699	50	37	5,787
Funded Ratio	80.2%	90.5%	96.8%	81.0%

Note: May not add due to rounding.

Changes in the UAL occur for various reasons. The net decrease in the UAL from June 30, 2012 to June 30, 2013 was $129 million. The components of this net change are shown in the following table (in millions):

Unfunded Actuarial Liability, June 30, 2012 ($M)	$	5,916
• Expected increase from amortization method		115
• Expected increase from contributions below actuarial rate		21
• Investment experience		(15)
• Liability experience		(220)
• Other		(30)
Unfunded Actuarial Liability <u>before</u> FED transfer, June 30, 2013	$	5,787
• FED Transfer		0
Unfunded Actuarial Liability <u>after</u> FED transfer, June 30, 2013	$	5,787

As seen above, various factors impacted the UAL. Actuarial gains (losses), which result from actual experience that is more (less) favorable than anticipated based on the actuarial assumptions, are reflected in the UAL and are measured as the difference between the expected unfunded actuarial liability and the actual unfunded actuarial liability, taking into account any changes due to actuarial assumptions and methods or benefit provision changes. Overall, the System experienced a net actuarial gain of $265 million. The net actuarial gain may be explained by considering the separate experience of assets and liabilities. As noted earlier, there was a $15 million gain as measured on the actuarial value of assets. There was also a gain of $250 million from demographic experience more favorable than anticipated by the actuarial assumptions and other sources. The liability gain was largely the result of salary increases that were lower than expected based on the actuarial assumptions.

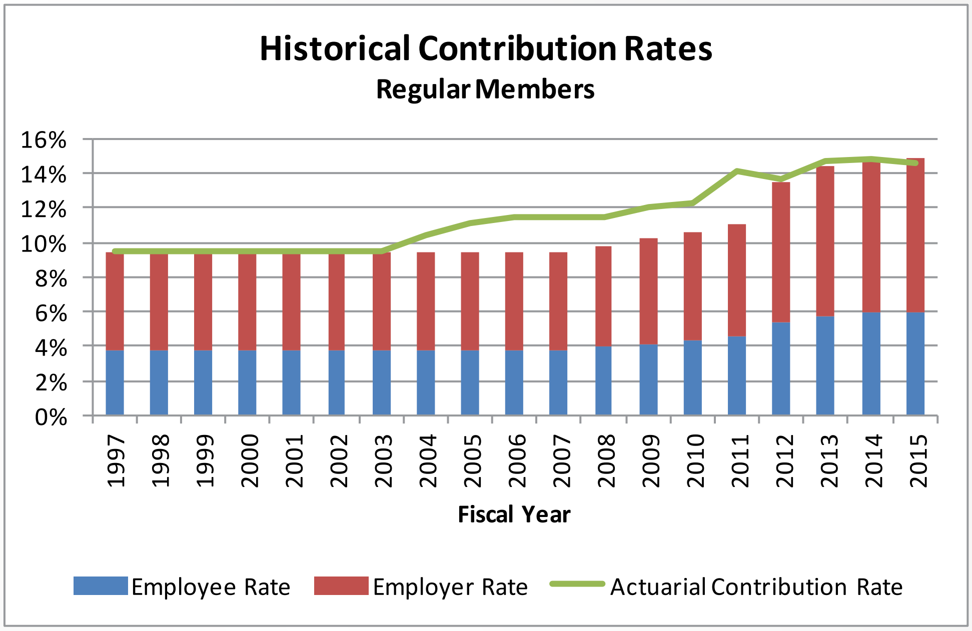
<u>Contribution Rate</u>

Under the Entry Age Normal cost method, the actuarial contribution rate consists of two components:

- a "normal cost" for the portion of projected liabilities allocated by the actuarial cost method to service of members during the year following the valuation date, and

- an "unfunded actuarial liability contribution" for the excess of the portion of projected liabilities allocated to service to date over the actuarial value of assets on hand.

In 2006 and 2010, legislation was passed that increased the contribution rate for Regular Members. A historical summary of the actual and required rates is shown in the following graph:



There were several factors that impacted the contribution rates in the 2013 valuation. The contribution rates are summarized in the following table:

Contribution Rate for FY 2015	Regular Membership	Sheriffs & Deputies	Protection Occupation
1. Actuarial Contribution Rate	14.60%	19.30%	16.61%
2. Required Contribution Rate	14.88%	19.76%	16.90%
3. Employee Contribution Rate	5.95%	9.88%	6.76%
4. Employer Contribution Rate (2) – (3)	8.93%	9.88%	10.14%
5. Shortfall/(Margin) (1) – (2)	(0.28%)	(0.46%)	(0.29%)

Based on the results of this valuation, the Required Contribution Rate for the Regular membership for fiscal year ending June 30, 2015 is 14.88%, which is slightly above the Actuarial Contribution Rate. As a result, a higher stream of contributions in the future is anticipated to fund the UAL. Therefore, the number of years to amortize the UAL, based on the Required Contribution Rate, is less than the amortization period set by the Actuarial Amortization Policy (30 years in this valuation).

The Actuarial Contribution Rate is determined based on the snapshot of the System taken on the valuation date, June 30, 2013, and applies only for the fiscal year beginning July 1, 2014. The Actuarial Contribution Rate in future years will change each year as the deferred actuarial investment experience is recognized and other experience (both investment and demographic) impacts the System. The Required Contribution Rate will be set in each future year based on the Actuarial Contribution Rate and the Contribution Rate Funding Policy.

Summary

The investment return on the market value of assets for FY2013 was 10.12%, as reported by IPERS. As a result of both an experience gain on actuarial assets and liabilities, the System's funded ratio increased slightly from 79.9% in the June 30, 2012 valuation to 81.0% in this valuation.

As mentioned earlier in this section, the System utilizes an asset smoothing method in the valuation process. While this is a common procedure for public retirement systems, it is important to identify the potential impact of the deferred investment experience. The asset smoothing method impacts only the timing of when the actual market experience is recognized in the valuation process. Since there were deferred investment losses in the last valuation, the return on the actuarial value of assets was only 7.57%, despite the return of 10.12% on the market value of assets. Due to this return on the market value of assets, the deferred investment loss has been eliminated and there is now a deferred investment gain of $46 million.

Based on the Contribution Rate Funding Policy, adopted by the Investment Board, the Required Contribution Rate determined in this year's valuation for Regular Members will remain unchanged from last year, i.e. 14.88%. This rate is slightly higher than the Actuarial Contribution Rate which was calculated using a 30 year open amortization period. The Required Contribution Rate of 14.88% will apply for the fiscal year ending June 30, 2015. The Required Contribution Rate for the Sheriffs and Deputies and the Protection Occupation group in this valuation is also higher than the Actuarial Contribution Rate as a result of applying the Contribution Rate Funding Policy.

This contribution rate is determined based on the snapshot of the System taken on the valuation date, June 30, 2013, and applies only for the fiscal year beginning July 1, 2014. The Actuarial Contribution Rate in future years will change each year as the deferred actuarial investment experience is recognized and as other experience (both investment and demographic) impacts the System. While the Required Contribution Rate can vary each year, the annual change to the rate is limited to 1.0% for Regular members. Therefore, depending on actual experience in future years, it is possible the Required Contribution Rate and Actuarial Contribution Rates might not be equal.

The long-term financial health of this retirement system is heavily dependent on two key items: (1) future investment returns and (2) systematic contributions to the System at the full actuarially determined rate. Given the System's current funded status, the Actuarial Contribution Rate, and the Required Contribution Rate, the System's funded ratio is expected to improve over the long term, assuming all actuarial assumptions are met.

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

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

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

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

Actuarial computations presented in the 2013 actuarial valuation report are for purposes of determining the recommended funding amounts for the System. Actuarial computations under GASB Statement No. 25 are for purposes of fulfilling financial accounting requirements. The computations prepared for these two purposes may differ as disclosed in the 2013 actuarial valuation report. The calculations have been made on a basis consistent with our understanding of the System's funding requirements and goals, and of GASB Statement No. 25. Determinations for purposes other than meeting these requirements may be significantly different from the results shown in the 2013 actuarial valuation report. Accordingly, additional determinations may be needed for other purposes.

In conclusion, on the following page we present comparative statistics and actuarial information on both the June 30, 2013 and June 30, 2012 valuations. All figures shown include the Regular Membership¸ Sheriffs and Deputies and the Protection Occupation groups. The membership counts reflect the data as of June 30, appropriate for valuation purposes, and may differ from other reporting numbers.

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

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

Respectfully Submitted,

CAVANAUGH MACDONALD CONSULTING, LLC

Patrice Beckham

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

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

PRINCIPAL VALUATION RESULTS

	June 30, 2013	June 30, 2012	% Chg
SYSTEM MEMBERSHIP			
1. Active Membership			
- Number of Members (excluding Retired/Reemployed)	165,095	164,200	0.5
- Projected Payroll for Upcoming Fiscal Year	$7,001M	$6,933M	1.0
- Average Salary	$42,404	$42,223	0.4
2. Inactive Membership			
- Number Not in Pay Status	72,917	69,777	4.5
- Number of Retirees/Beneficiaries	104,640	101,677	2.9
- Average Annual Benefit	$14,883	$14,441	3.1
ASSETS AND LIABILITIES			
1. Net Assets (excluding FED reserve)			
- Market Value	$24,757M	$23,025M	7.5
- Actuarial Value	24,711M	23,530M	5.0
2. Projected Liabilities			
- Retired Members	$15,001M	$14,152M	6.0
- Inactive Members	614M	601M	2.2
- Active Members	21,093M	20,855M	1.1
- Total Liability	$36,708M	$35,608M	3.1
3. Actuarial Liability	$30,498M	$29,446M	3.6
4. Unfunded Actuarial Liability	$5,787M	$5,916M	(2.2)
5. Funded Ratio			
a. Actuarial Value Assets/Actuarial Liability	81.02%	79.91%	1.4
b. Market Value Assets/Actuarial Liability	81.17%	78.19%	3.8
SYSTEM CONTRIBUTIONS			
Required Contribution Rate, Regular Members*	14.88%	14.88%	0.0
Employer Contribution Rate	8.93%	8.93%	0.0
Employee Contribution Rate	5.95%	5.95%	0.0
Total Actuarial Contribution Rate	14.60%	14.88%	(1.9)
Shortfall/(Margin)	(0.28%)	0.00%	NA

M = ($)Millions

* Contribution rates for Sheriffs and Deputies are 9.88% for employers, 9.88% for employees
  Contribution rates for Protection Occupation are 10.14% for employers, 6.76% for employees

Note: For valuation purposes, the data provided by IPERS was reclassified by CMC into the membership category that would most accurately reflect the actuarial liability of the individual member on the valuation date. As a result, the counts shown in this exhibit may vary from those shown in other sections of this report.

ACTUARIAL BALANCE SHEET
as of June 30, 2013

	Regular Membership	Sheriffs & Deputies	Protection Occupation	Total
ASSETS				
Actuarial value of assets	$23,099,969,131	$482,581,024	$1,128,546,032	$24,711,096,187
Present value of future normal costs	5,589,049,227	134,889,305	485,682,155	6,209,620,687
Present value of future contributions to amortize unfunded actuarial liability	5,699,355,807	50,452,414	37,437,912	5,787,246,133
Total Net Assets	$34,388,374,165	$667,922,743	$1,651,666,099	$36,707,963,007
LIABILITIES				
Present Value of Future Benefits:				
Retired Members and Beneficiaries	$14,329,968,181	$223,706,198	$446,902,048	$15,000,576,427
Active Members	19,476,091,255	437,392,447	1,179,431,089	21,092,914,791
Inactive Members	582,314,729	6,824,098	25,332,962	614,471,789
Total Liabilities	$34,388,374,165	$667,922,743	$1,651,666,099	$36,707,963,007

SOLVENCY TEST

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

Actuarial Valuation	Active Member Contributions (1)	Retirees and Beneficiaries (2)	Active Members Employer Financed Portion (3)	Actuarial Value of Assets	Portions of Liabilities Covered by Assets (1)	(2)	(3)
2013	$3,789,330,469	$15,000,576,427	$11,708,435,424	$24,711,096,187	100%	100%	51%
2012	3,675,848,243	14,151,967,558	11,618,381,685	23,530,094,461	100%	100%	49%
2011	3,562,999,712	13,252,276,665	11,441,803,737	22,575,309,199	100%	100%	50%
2010	3,569,189,416	12,321,926,878	10,577,303,356	21,537,458,560	100%	100%	53%
2009	3,501,951,261	10,623,480,763	11,893,161,799	21,123,979,941	100%	100%	59%
2008	3,343,722,874	9,922,758,244	11,255,735,471	21,857,423,183	100%	100%	76%

Note: The combined accrued liabilities in columns 1, 2, and 3 are based on the entry age normal cost method.

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Year Ended	Number	Annual Payroll	Annual Average Pay	Percentage Increase in Average Pay
2008	167,850	$6,131,445,367	$36,529	4.40
2009	167,717	6,438,643,124	38,390	5.09
2010	165,660	6,571,182,005	39,667	3.33
2011	164,467	6,574,872,719	39,977	0.78
2012	164,200	6,786,158,720	41,329	3.38
2013	165,095	6,880,131,134	41,674	0.83

RETIREES AND BENEFICIARIES—CHANGES IN ROLLS

Schedule of Retirees Added to and Removed From Rolls

	Added to Rolls		Removed From Rolls		Rolls at Year-End			
Fiscal Year	Number*	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances	Percentage Increase in Annual Allowances	Average Annual Allowances
2008	5,098	$ 92,991,307	2,687	$10,789,250	83,624	$1,029,072,374	8.68	$12,306
2009	4,908	92,013,786	2,761	12,041,683	85,771	1,109,044,477	7.77	12,930
2010	6,387	104,167,926	2,705	12,096,634	89,453	1,201,115,769	8.30	13,427
2011	7,383	183,137,035	2,767	13,377,850	94,069	1,370,874,954	14.13	14,573
2012	5,979	116,811,487	2,788	24,589,757	97,260	1,463,096,684	6.73	15,043
2013	5,759	133,800,972	3,004	27,729,949	100,015	1,569,167,707	7.25	15,689

Schedule of Beneficiaries Added to and Removed From Rolls

	Added to Rolls		Removed From Rolls		Rolls at Year-End			
Fiscal Year	Number*	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances	Percentage Increase in Annual Allowances	Average Annual Allowances
2008	335	$3,673,542	205	$934,239	3,866	$32,895,869	9.08	$8,509
2009	429	3,930,377	214	876,249	4,081	35,949,997	9.28	8,809
2010	397	4,387,178	239	1,231,637	4,239	39,105,538	8.78	9,225
2011	456	4,497,000	224	911,691	4,471	42,690,847	9.17	9,548
2012	464	5,918,466	247	1,858,259	4,688	46,751,054	9.51	9,972
2013	496	6,073,050	266	2,129,400	4,918	50,694,704	8.44	10,308

*The number of retirees and beneficiaries added to rolls in these tables does not equal the number of new retirees reported elsewhere in the CAFR. This is because all retirees who died during the fiscal year have been removed from the retiree table and their beneficiaries have been added to the beneficiary table.

Note: Tables on this page are provided by IPERS. The remainder of the Actuarial section is provided by Cavanaugh Macdonald Consulting, LLC.

ACTUARIAL ASSUMPTIONS AND METHODS

ECONOMIC ASSUMPTIONS:

Rate of Inflation (effective June 30, 2006)

3.25% per annum

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

4.00% per annum, compounded annually

Rate of Investment Return (effective June 30, 1996)

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

Wage Growth Assumption (effective June 30, 1999)*

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

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

Payroll Increase Assumption (effective June 30, 1999)

4.00% per year

DEMOGRAPHIC ASSUMPTIONS:

Rates of Mortality

To reflect anticipated future mortality improvements, generational mortality is used with projected mortality improvements based on Projection Scale AA.

Pre-Retirement (effective June 30, 2010)

State	
Male	RP2000 Employee Table, Generational, set back 3 years
Female	RP2000 Employee Table, Generational, set back 8 years
School	
Male	RP2000 Employee Table, Generational, set back 3 years
Female	RP2000 Employee Table, Generational, set back 8 years
Other	
Male	RP2000 Employee Table, Generational, no set back
Female	RP2000 Employee Table, Generational, set back 8 years
Sheriffs/Deputies and Protection Occupation	
Male	RP2000 Employee Table, Generational
Female	RP2000 Employee Table, Generational

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

Post-Retirement (effective June 30, 2011 for Regular Members and June 30, 2010 for Sheriffs/Deputies and Protection Occupation Members)

State	RP2000 Healthy Annuitant Table, Generational
Male	1 Year set forward
Female	1 Year set back with 5% increase above age 75
School	RP2000 Healthy Annuitant Table, Generational
Male	No age adjustment but rates decreased by 5% below age 75
Female	3 Year set back with 10% decrease before age 75 and 10% increase above age 75
Other	RP2000 Healthy Annuitant Table, Generational
Male	1 Year set forward
Female	2 Year set back with 5% increase above age 75
Sheriffs/Deputies and Protection Occupation	RP2000 Healthy Annuitant Table, Generational
Male	No age adjustment
Female	No age adjustment
Beneficiaries:	Same as members
Disabled Members (all groups):	RP2000 Disabled Mortality, Generational Set back 1 year for males and set forward 3 years for females

Retirement Rates (effective June 30, 2010)

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

	Assumed Retirement Rates – Early		
Age	State	School	Other
55	5.0%	8.0%	5.0%
56	5.0%	8.0%	5.0%
57	5.0%	8.0%	5.0%
58	5.0%	8.0%	5.0%
59	5.0%	9.0%	5.0%
60	5.0%	10.0%	5.0%
61	15.0%	15.0%	10.0%
62	15.0%	20.0%	20.0%
63	15.0%	20.0%	20.0%
64	15.0%	20.0%	20.0%

Upon reaching the requirements for normal retirement (unreduced benefits), the following rates apply:

	Assumed Retirement Rates – Select Unreduced		
Age	State	School	Other
55	20.0%	30.0%	20.0%
56	15.0%	30.0%	20.0%
57	15.0%	30.0%	20.0%
58	15.0%	30.0%	20.0%
59	15.0%	30.0%	20.0%
60	15.0%	30.0%	20.0%
61	20.0%	30.0%	20.0%
62	40.0%	40.0%	40.0%
63	35.0%	30.0%	35.0%
64	30.0%	30.0%	35.0%
65	30.0%	30.0%	30.0%

	Assumed Retirement Rates – Ultimate Unreduced		
Age	State	School	Other
55	15.0%	23.0%	15.0%
56	15.0%	23.0%	15.0%
57	15.0%	23.0%	15.0%
58	15.0%	23.0%	15.0%
59	15.0%	23.0%	15.0%
60	15.0%	23.0%	15.0%
61	20.0%	30.0%	20.0%
62	40.0%	35.0%	35.0%
63	30.0%	30.0%	25.0%
64	30.0%	30.0%	25.0%
65	30.0%	45.0%	40.0%
66	30.0%	35.0%	30.0%
67	20.0%	25.0%	20.0%
68	20.0%	25.0%	20.0%
69	35.0%	40.0%	40.0%
70	100.0%	100.0%	100.0%

Assumed Retirement Rates

Age	Sheriffs and Deputies	Protection Occupation
50	20.0%	
51	20.0%	
52	20.0%	
53	20.0%	
54	20.0%	
55	25.0%	20.0%
56	20.0%	10.0%
57	20.0%	10.0%
58	20.0%	10.0%
59	20.0%	10.0%
60	20.0%	10.0%
61	20.0%	10.0%
62	35.0%	35.0%
63	50.0%	30.0%
64	50.0%	30.0%
65	100.0%	100.0%

Terminated vested members are assumed to retire at age 62 (55 for Sheriffs/Deputies and Protection Occupation groups).
For Regular Membership, retired reemployed members are assumed to retire at a rate of 25% per year until age 80 when all are assumed to retire.

Rates of Disablement (effective June 30, 2010)

Assumed Rates

	Males			**Females**		
Age	State	School	Other	State	School	Other
27	0.020%	0.020%	0.020%	0.020%	0.030%	0.020%
32	0.020%	0.020%	0.020%	0.020%	0.030%	0.020%
37	0.040%	0.040%	0.040%	0.032%	0.040%	0.032%
42	0.065%	0.065%	0.065%	0.051%	0.050%	0.051%
47	0.120%	0.110%	0.140%	0.087%	0.090%	0.087%
52	0.220%	0.160%	0.326%	0.220%	0.165%	0.200%
57	0.320%	0.260%	0.630%	0.390%	0.240%	0.350%
62	0.420%	0.360%	0.900%	0.620%	0.320%	0.500%

Assumed Rates
Sheriffs/Deputies
Protection Occupation

Age	Rate
27	0.150%
32	0.150%
37	0.150%
42	0.180%
47	0.230%
52	0.280%
57	0.380%
62	0.510%

Rates of Termination of Employment (effective June 30, 2010)

Regular Membership

	Male			Female		
Years of Service	State	School	Other	State	School	Other
1	15.4%	15.0%	21.0%	15.4%	15.0%	21.0%
5	5.5%	6.9%	8.4%	5.5%	6.9%	9.2%
10	2.2%	2.9%	4.3%	2.2%	2.9%	5.8%
15	1.7%	1.8%	2.6%	1.7%	1.8%	4.1%
20	1.1%	1.3%	2.4%	1.1%	1.3%	3.2%
25	1.1%	1.2%	2.0%	1.1%	1.2%	2.4%
30	1.1%	1.2%	1.2%	1.1%	1.2%	1.5%

Sheriffs/Deputies and Protection Occupation

Age	Rate of Termination
22	5.8%
27	5.8%
32	3.5%
37	3.0%
42	2.6%
47	2.0%
52	2.0%

Probability of Electing a Deferred Vested Benefit (effective June 30, 2010)

	Regular Membership					
	Male			Female		
Years of Service	State	School	Other	State	School	Other
5	66.0%	76.0%	61.0%	61.0%	80.0%	70.0%
10	73.0%	81.0%	66.0%	66.0%	80.0%	73.0%
15	78.0%	86.0%	71.0%	76.0%	85.0%	80.0%
20	83.0%	91.0%	76.0%	86.0%	90.0%	85.0%
25	88.0%	95.0%	80.0%	96.0%	95.0%	90.0%
30	90.0%	95.0%	80.0%	100.0%	100.0%	90.0%

	Sheriffs/Deputies and Protection Occupation
Years of Service	Rate
5	53%
10	65%
15	85%
20	95%
25	100%
30	100%

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

	Annual Increase			
Years of Service	State	School	Other	Sheriffs/Deputies and Protection Occupation
1	15.0%	17.0%	15.0%	17.0%
5	7.6%	6.5%	6.1%	6.5%
10	6.3%	5.3%	5.3%	5.3%
15	5.2%	4.5%	4.8%	4.8%
20	4.8%	4.2%	4.5%	4.5%
25	4.6%	4.0%	4.4%	4.5%
30+	4.3%	4.0%	4.4%	4.0%

* Includes 4.0% wage growth

ACTUARIAL COST METHOD (adopted 1996)

The actuarial cost method is a procedure for allocating the actuarial present value of pension plan benefits and expenses to time periods. The method used for the valuation is known as the entry age normal actuarial cost method. Under this method, a total contribution rate is determined which consists of two parts: (i) the normal cost rate and (ii) the unfunded actuarial liability (UAL) rate. The entry age normal cost method has the following characteristics:

(i) The annual normal costs for each individual active member are sufficient to accumulate the value of the member's pension at time of retirement.

(ii) Each annual normal cost is a constant percentage of the member's year by year projected compensation rates.

The entry age normal actuarial cost method allocates the actuarial present value of each member's projected benefits on a level basis over the member's compensation rates between the entry age of the member and the assumed exit ages.

ACTUARIAL AMORTIZATION METHOD (adopted 2013)

The portion of the actuarial present value of benefits allocated to the valuation year is called the normal cost. The portion of the actuarial present value of benefits not provided for by the actuarial present value of future normal costs is called the actuarial liability. Deducting the actuarial value of assets from the actuarial liability determines the unfunded actuarial liability (UAL). The one-year lag between the valuation date and the date the contribution rate is effective is reflected in calculating the corresponding amortization payment. The UAL is amortized according to the Actuarial Amortization Method adopted by the Investment Board and summarized below:

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

ACTUARIAL VALUE OF ASSETS SMOOTHING METHOD (adopted 2007)

The market value of assets, representing a fair value of System assets, may not necessarily be the best measure of the System's ongoing ability to meet its obligations.

To arrive at a suitable value for the actuarial valuation, a technique for determining the actuarial value of assets is used which dampens volatility in the market value while still indirectly recognizing market value. The specific technique follows:

Step 1: Determine the expected value of plan assets at the current valuation date using the actuarial assumption for investment return applied to the prior actuarial value and the actual receipts and disbursements of the fund for the previous 12 months.

Step 2: Subtract the expected value determined in Step 1 from the total market value of the Fund at the current valuation date.

Step 3: Multiply the difference between market and expected values determined in Step 2 by 25%.

Step 4: Add the expected value of Step 1 and the product of Step 3 to determine the actuarial value of assets.

Step 5: Verify the preliminary actuarial value of assets in Step 4 is not more than 120% of the market value of assets nor less than 80% of the market value. If it is, adjust the actuarial value of assets so it falls within the 80% - 120% corridor.


Statistical

Statistical

Statistical Overview

Membership Summary

Investment Statistics

Statistical Overview

Objectives

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

Contents

The Statistical section provides financial, demographic, operating, and investment trend information. The financial trend information presented on pages 94–96 is intended to help explain how the System's financial position has changed over time.

The demographic and operating information presented on pages 97–103 provides data on IPERS' membership, including years of service, benefits, benefit options, active membership statistics, and principal participating employers.

The investment information presented on page 104 shows the growth of net investment portfolio assets and investment returns since 1984.

Tables related to types of refunds are not included in the Statistical section because IPERS pays only one type of refund—termination refunds.

Data Sources

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

Methods

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

Assumptions

Active members are defined as those with wages reported for the last quarter of the fiscal year. Retired members and beneficiaries are those who were paid benefits in the last month of the fiscal year.

Changes in Fiduciary Net Position

(Dollar Values Expressed in Thousands)

Fiscal Years Ended June 30

	2004	2005	2006	2007	2008
Additions					
Employee contributions	$ 192,808	$ 202,607	$ 211,522	$ 223,515	$ 245,898
Employer contributions	298,924	310,843	324,656	343,063	377,397
QBA Fund contributions[1]	---	---	35	---	20
Service purchases	14,903	11,217	11,275	8,026	10,875
Net investment income/(loss)	2,177,265	1,912,489	2,065,520	3,298,842	(338,575)
QBA income	---	---	1	1	---
Miscellaneous noninvestment income	72	42	---	---	---
Total additions	***2,683,972***	***2,437,198***	***2,613,009***	***3,873,447***	***295,615***
Deductions					
Trust Fund benefits[2]	792,866	868,558	924,361	1,013,956	1,096,078
QBA Fund benefits[3]	---	---	17	17	20
Refunds	36,430	43,113	41,668	38,116	36,205
Trust Fund administrative expenses	7,960	8,215	9,321	9,060	9,884
QBA Fund administrative expenses	---	---	---	1	1
Total deductions	***837,256***	***919,886***	***975,367***	***1,061,150***	***1,142,188***
Change in net position	**$1,846,716**	**$1,517,312**	**$1,637,642**	**$2,812,297**	**$ (846,573)**

Continued on page 95

[1]IPERS began collecting QBA contributions in FY2006 (see Note 10, page 35).
[2]A Schedule of Benefit Payments by Type of Benefit is found on page 100.
[3]IPERS began paying QBA benefits in FY2006 (see Note 10, page 35).

Changes in Fiduciary Net Position

(Dollar Values Expressed in Thousands)

Fiscal Years Ended June 30

Continued from page 94

	2009	2010	2011	2012	2013
Additions					
Employee contributions	$ 270,934	$ 293,472	$ 306,472	$ 366,377	$ 404,654
Employer contributions	415,301	449,119	468,027	558,396	602,437
QBA Fund contributions[1]	23	5	8	9	7
Service purchases	9,301	12,614	14,847	17,612	12,011
Net investment income/(loss)	(3,863,760)	2,477,824	3,922,569	823,983	2,338,201
QBA income	---	---	---	---	---
Miscellaneous noninvestment income	---	---	---	500	---
Total additions	***(3,168,201)***	***3,233,034***	***4,711,923***	***1,766,877***	***3,357,310***
Deductions					
Trust Fund benefits[2]	1,183,098	1,278,550	1,456,998	1,549,168	1,667,462
QBA Fund benefits[3]	21	6	8	9	7
Refunds	34,337	41,470	41,215	43,328	42,598
Trust Fund administrative expenses	10,896	8,967	9,649	12,964	12,078
QBA Fund administrative expenses	1	1	1	---	---
Total deductions	***1,228,353***	***1,328,994***	***1,507,871***	***1,605,469***	***1,722,145***
Change in net position	**$(4,396,554)**	**$1,904,040**	**$3,204,052**	**$ 161,408**	**$1,635,165**

[1]IPERS began collecting QBA contributions in FY2006 (see Note 10, page 35).
[2]A Schedule of Benefit Payments by Type of Benefit is found on page 100.
[3]IPERS began paying QBA benefits in FY2006 (see Note 10, page 35).

Membership Summary

Special Statistics

Fiscal Years Ended June 30

Fiscal Year	Retired Members	Active Members	Total Additions	Total Deductions	Total Investments*	Total Net Position
2004	76,961	160,034	$2,683,972,329	$ 837,256,385	$19,647,841,652	$17,249,916,851
2005	79,604	160,905	2,437,197,885	919,885,957	20,990,729,636	18,767,228,779
2006	82,204	163,091	2,613,008,745	975,366,478	22,623,903,421	20,404,871,046
2007	84,949	165,241	3,873,447,126	1,061,150,226	26,605,342,485	23,217,167,946
2008	87,490	167,850	295,614,881	1,142,187,838	24,454,328,362	22,370,594,989
2009	89,852	167,717	(3,168,201,203)	1,228,353,135	18,715,729,776	17,974,040,651
2010	93,692	165,660	3,233,034,186	1,328,994,209	20,432,970,506	19,878,080,628
2011	98,540	164,467	4,711,922,914	1,507,870,607	24,064,559,555	23,082,132,935
2012	101,948	164,200	1,766,876,520	1,605,468,947	23,508,268,276	23,243,540,508
2013	104,933	165,095	3,357,310,013	1,722,144,492	25,136,870,851	24,878,706,029

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

Membership by Group

Fiscal Years Ended June 30

Fiscal Year		Regular Members	Sheriffs and Deputies	Protection Occupation Members	Total
2004	Active members	154,279	1,506	4,249	160,034
	Inactive members	102,186	103	760	103,049
	Retired members	76,097	249	615	76,961
	Total	**332,562**	**1,858**	**5,624**	**340,044**
2005	Active members	155,165	1,471	4,269	160,905
	Inactive members	64,667	102	647	65,416
	Retired members	78,587	310	707	79,604
	Total	**298,419**	**1,883**	**5,623**	**305,925**
2006	Active members	157,117	1,478	4,496	163,091
	Inactive members	60,941	114	605	61,660
	Retired members	81,083	345	776	82,204
	Total	**299,141**	**1,937**	**5,877**	**306,955**
2007	Active members	159,092	1,470	4,679	165,241
	Inactive members	61,501	108	633	62,242
	Retired members	83,666	397	886	84,949
	Total	**304,259**	**1,975**	**6,198**	**312,432**
2008	Active members	161,583	1,520	4,747	167,850
	Inactive members	63,534	108	655	64,297
	Retired members	86,072	442	976	87,490
	Total	**311,189**	**2,070**	**6,378**	**319,637**
2009	Active members	159,113	1,492	7,112	167,717
	Inactive members	65,855	113	874	66,842
	Retired members	88,074	585	1,193	89,852
	Total	**313,042**	**2,190**	**9,179**	**324,411**
2010	Active members	157,118	1,546	6,996	165,660
	Inactive members	64,415	114	992	65,521
	Retired members	91,657	616	1,419	93,692
	Total	**313,190**	**2,276**	**9,407**	**324,873**
2011	Active members	156,011	1,524	6,932	164,467
	Inactive members	64,712	126	1,130	65,968
	Retired members	96,252	657	1,631	98,540
	Total	**316,975**	**2,307**	**9,693**	**328,975**
2012	Active members	155,800	1,530	6,870	164,200
	Inactive members	67,566	123	1,261	68,950
	Retired members	99,519	674	1,755	101,948
	Total	**322,885**	**2,327**	**9,886**	**335,098**
2013	Active members	156,679	1,527	6,889	165,095
	Inactive members	71,071	121	1,432	72,624
	Retired members	102,235	754	1,944	104,933
	Total	**329,985**	**2,402**	**10,265**	**342,652**

Average Benefit Payments for Retirees

Fiscal Years Ended June 30

Fiscal Year		Years of Service							
		0–5	**6–10**	**11–15**	**16–20**	**21–25**	**26–30**	**>30**	**Total**
2004	Number of retirees	3,986	10,854	11,646	11,560	10,757	8,719	19,420	76,942
	Average monthly benefit	$83	$174	$342	$536	$794	$1,190	$1,688	$833
	Average high average salary	$835	$872	$1,156	$1,452	$1,796	$2,297	$2,943	$1,813
	Average years of service	4.45	8.48	13.34	18.37	23.27	28.18	34.44	21.35
2005	Number of retirees	4,224	11,140	11,815	11,798	11,069	9,171	20,371	79,588
	Average monthly benefit	$87	$179	$350	$555	$824	$1,246	$1,763	$873
	Average high average salary	$911	$939	$1,211	$1,525	$1,868	$2,391	$3,041	$1,899
	Average years of service	4.45	8.48	13.35	18.38	23.28	28.19	34.41	21.42
2006	Number of retirees	4,355	11,428	12,003	12,083	11,288	9,658	21,378	82,193
	Average monthly benefit	$92	$185	$360	$573	$858	$1,297	$1,832	$914
	Average high average salary	$993	$1,000	$1,277	$1,590	$1,944	$2,472	$3,131	$1,983
	Average years of service	4.47	8.47	13.34	18.39	23.28	28.20	34.36	21.51
2007	Number of retirees	4,421	11,666	12,149	12,331	11,586	10,132	22,658	84,943
	Average monthly benefit	$97	$194	$369	$598	$895	$1,357	$1,917	$967
	Average high average salary	$1,077	$1,080	$1,335	$1,671	$2,029	$2,563	$3,241	$2,085
	Average years of service	4.48	8.46	13.33	18.41	23.27	28.21	34.33	21.67
2008	Number of retirees	4,484	11,850	12,376	12,513	11,889	10,569	23,804	87,485
	Average monthly benefit	$103	$201	$380	$621	$932	$1,415	$1,993	$1,015
	Average high average salary	$1,124	$1,050	$1,170	$1,425	$1,713	$2,198	$2,797	$1,828
	Average years of service	4.49	8.46	13.34	18.42	23.27	28.23	34.33	21.81
2009	Number of retirees	4,549	12,061	12,547	12,685	12,191	10,893	24,921	89,847
	Average monthly benefit	$108	$209	$392	$644	$973	$1,471	$2,071	$1,064
	Average high average salary	$1,203	$1,130	$1,252	$1,521	$1,834	$2,318	$2,943	$1,948
	Average years of service	4.50	8.47	13.34	18.43	23.27	28.24	34.33	21.93
2010	Number of retirees	4,732	12,428	12,777	13,073	12,593	11,372	26,712	93,687
	Average monthly benefit	$110	$210	$390	$643	$982	$1,478	$2,094	$1,085
	Average high average salary	$1,280	$1,212	$1,349	$1,631	$1,978	$2,502	$3,198	$2,118
	Average years of service	4.49	8.47	13.34	18.44	23.29	28.25	34.36	22.10
2011	Number of retirees	4,924	12,762	13,210	13,512	13,287	12,014	28,828	98,537
	Average monthly benefit	$123	$235	$441	$731	$1,124	$1,667	$2,337	$1,234
	Average high average salary	$1,372	$1,296	$1,462	$1,763	$2,162	$2,679	$3,388	$2,284
	Average years of service	4.49	8.46	13.33	18.45	23.28	28.24	34.39	22.28
2012	Number of retirees	5,180	13,181	13,605	13,864	13,711	12,419	29,986	101,946
	Average monthly benefit	$136	$251	$467	$775	$1,184	$1,739	$2,418	$1,289
	Average high average salary	$1,213	$1,436	$1,742	$2,181	$2,706	$3,320	$4,094	$2,749
	Average years of service	4.47	8.46	13.33	18.45	23.29	28.22	34.43	22.31
2013	Number of retirees	5,332	13,532	13,945	14,153	14,080	12,802	31,089	104,933
	Average monthly benefit	$140	$261	$485	$800	$1,228	$1,799	$2,490	$1,335
	Average high average salary	$1,263	$1,506	$1,821	$2,257	$2,796	$3,411	$4,173	$2,832
	Average years of service	4.47	8.46	13.32	18.45	23.30	28.22	34.47	22.36

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

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

New Retirees by Employer Group

Fiscal Years Ended June 30

Fiscal Year		City	County	Education	State	Utility	Health	28E Agency	Township & Cemetery	Other	Total
2004	Number of retirees	614	696	2,853	522	29	---	229	---	---	4,943
	Average monthly benefit	$926	$809	$1,318	$1,248	$1,207	---	$1,064	---	---	$1,178
	Average years of service	18.60	17.00	22.20	19.17	19.96	---	17.08	---	---	20.45
2005	Number of retirees	590	722	2,559	757	19	---	232	---	---	4,879
	Average monthly benefit	$998	$1,031	$1,335	$1,560	$1,699	---	$1,282	---	---	$1,283
	Average years of service	19.01	18.97	22.19	22.04	25.59	---	19.38	---	---	21.18
2006	Number of retirees	591	699	2,920	568	24	---	66	2	22	4,892
	Average monthly benefit	$1,051	$1,057	$1,445	$1,463	$1,160	---	$633	$1,985	$465	$1,328
	Average years of service	19.32	19.14	23.33	21.04	19.26	---	13.84	29.50	11.22	21.78
2007	Number of retirees	620	809	2,697	965	32	---	50	2	26	5,201
	Average monthly benefit	$1,108	$1,190	$1,570	$1,936	$1,057	---	$752	$314	$376	$1,506
	Average years of service	19.71	20.04	23.72	24.85	18.94	---	14.54	6.75	8.03	22.67
2008	Number of retirees	697	738	2,730	777	35	---	52	1	31	5,061
	Average monthly benefit	$1,261	$1,119	$1,552	$1,901	$1,872	---	$617	$112	$578	$1,489
	Average years of service	20.66	19.76	23.25	23.71	24.74	---	13.61	6.25	12.61	22.29
2009	Number of retirees	620	800	2,571	765	44	---	49	---	28	4,877
	Average monthly benefit	$1,226	$1,241	$1,610	$2,067	$1,586	---	$881	---	$467	$1,558
	Average years of service	20.62	19.69	23.34	24.40	21.46	---	14.51	---	11.75	22.39
2010	Number of retirees	786	811	3,186	1,476	31	---	58	3	34	6,385
	Average monthly benefit	$1,274	$1,317	$1,739	$2,119	$1,471	---	$620	$1,098	$606	$1,698
	Average years of service	20.25	20.40	23.92	25.14	19.70	---	12.12	20.50	11.62	23.11
2011	Number of retirees	776	859	3,822	1,728	55	---	82	---	38	7,360
	Average monthly benefit	$1,387	$1,397	$1,799	$2,285	$1,741	---	$655	---	$544	$1,803
	Average years of service	20.51	20.80	23.95	25.85	23.00	---	13.11	---	11.93	23.48
2012*	Number of retirees	671	617	3,487	618	53	463	---	---	112	6,021
	Average monthly benefit	$1,547	$1,549	$1,728	$2,253	$1,754	$1,378	---	---	$1,024	$1,703
	Average years of service	21.63	21.47	22.45	21.22	21.78	18.28	---	---	15.57	21.68
2013*	Number of retirees	665	673	3,011	809	50	473	---	---	133	5,814
	Average monthly benefit	$1,655	$1,593	$1,685	$2,327	$1,833	$1,271	---	---	$849	$1,709
	Average years of service	21.78	21.66	22.11	23.46	21.66	17.47	---	---	14.10	21.64

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

Schedule of Benefit Payments by Type of Benefit*

Fiscal Years Ended June 30

Fiscal Year	Number of Retirees	Normal Retirement Benefit	Early Retirement Benefit	Death Benefit (Normal, Early, or Disability Retirement)	Preretirement Death Benefit	Disability Benefit	Special Service In-Service Disability Benefit	Special Service Ordinary Disability Benefit	Total
2004	76,961	$ 610,618,473	$106,510,837	$22,142,949	$ 760,904	$22,021,464	$278,289	$221,496	$ 762,554,412
2005	79,604	657,249,915	125,357,178	24,084,063	1,060,991	24,225,454	317,312	261,551	832,556,464
2006	82,204	701,149,558	141,860,569	26,228,650	1,382,098	25,540,886	433,669	269,095	896,864,525
2007	84,949	758,739,140	159,904,983	28,429,483	1,637,857	27,449,602	489,088	287,504	976,937,657
2008	87,490	818,804,704	180,411,922	30,892,964	1,919,799	28,284,772	563,314	303,042	1,061,180,517
2009	89,852	882,890,118	197,219,959	33,554,573	2,323,743	28,042,167	584,892	304,352	1,144,919,804
2010	93,692	951,375,232	220,803,713	36,386,690	2,653,287	27,960,711	624,888	330,890	1,240,135,411
2011	98,540	1,088,085,798	253,413,138	39,533,700	3,096,481	28,381,456	771,831	376,798	1,413,659,202
2012	101,948	1,134,393,596	290,216,887	43,180,523	3,595,564	39,968,472	801,062	362,184	1,512,518,288
2013	104,933	1,215,721,455	312,460,044	46,566,814	4,155,084	41,507,779	902,784	372,139	1,621,686,099

*This table does not include lump-sum payments.

Schedule of Retired Members by Type of Benefit

As of June 30, 2013

Amount of Monthly Benefit	Number of Retirees	Normal Retirement Benefit	Early Retirement Benefit	Death Benefit (Normal, Early, or Disability Retirement)	Preretirement Death Benefit	Disability Benefit	Special Service In-Service Disability Benefit	Special Service Ordinary Disability Benefit
$ <250	18,386	8,796	8,134	724	78	651	1	2
250–499	15,769	7,422	6,552	944	59	791	---	1
500–749	10,638	4,984	4,331	735	57	531	---	---
750–999	8,406	4,178	3,067	637	38	486	---	---
1,000–1,249	7,068	3,945	2,329	394	22	377	1	---
1,250–1,499	5,653	3,283	1,773	283	26	288	---	---
1,500–1,749	5,202	3,215	1,495	247	25	209	5	6
1,750–1,999	5,071	3,540	1,151	183	19	169	5	4
2,000–2,249	5,055	3,950	854	107	16	116	9	3
2,250–2,499	4,898	4,012	675	112	8	80	7	4
2,500–2,749	4,794	4,172	478	78	8	56	2	---
2,750–2,999	3,866	3,410	373	40	6	37	---	---
3,000–3,249	2,941	2,668	234	16	1	19	3	---
3,250–3,499	2,187	2,010	143	19	---	13	2	---
3,500–3,749	1,430	1,332	82	6	2	7	1	---
3,750–3,999	943	854	68	6	2	13	---	---
4,000+	2,626	2,393	174	16	4	38	1	---
Total	**104,933**	**64,164**	**31,913**	**4,547**	**371**	**3,881**	**37**	**20**

Note: The above tables do not include types of refunds because IPERS pays only one type of refund (termination refunds).

Retired Members by Benefit Option*

As of June 30, 2013

Amount of Monthly Benefit	Number of Retirees	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Misc.**
$ <250	18,386	5,792	4,206	3,599	1,768	2,129	879	13
250–499	15,769	5,222	3,692	2,117	2,089	1,711	930	8
500–749	10,638	3,306	2,426	1,277	1,695	1,094	840	---
750–999	8,406	2,339	1,907	951	1,581	760	868	---
1,000–1,249	7,068	1,889	1,631	760	1,299	614	875	---
1,250–1,499	5,653	1,423	1,194	554	1,126	469	887	---
1,500–1,749	5,202	1,279	1,049	491	1,017	479	887	---
1,750–1,999	5,071	1,070	1,000	464	1,086	482	969	---
2,000–2,249	5,055	999	1,003	528	906	562	1,057	---
2,250–2,499	4,898	955	902	512	793	500	1,236	---
2,500–2,749	4,794	818	931	574	669	512	1,290	---
2,750–2,999	3,866	686	786	486	441	429	1,038	---
3,000–3,249	2,941	500	616	386	264	319	856	---
3,250–3,499	2,187	381	459	308	206	211	622	---
3,500–3,749	1,430	204	304	186	158	122	456	---
3,750–3,999	943	134	191	127	106	81	304	---
4,000+	2,626	360	467	325	291	284	899	---
Total	**104,933**	**27,357**	**22,764**	**13,645**	**15,495**	**10,758**	**14,893**	**21**

*See definitions beginning on page 109.
**Consists of retirees and beneficiaries of retirees under the Iowa Old-Age and Survivors' Insurance System.

Active Membership Statistics

Fiscal Years Ended June 30

Fiscal Year	Active Members	Percent Change	Average Covered Wage	Average Age (Years)	Average Service Credit (Years)
2004	160,034	0.4	$30,605	43.9	11.5
2005	160,905	0.5	31,376	45.6	11.6
2006	163,091	1.4	33,870	44.2	11.6
2007	165,241	1.3	34,990	43.2	11.5
2008	167,850	1.6	36,529	42.2	11.5
2009	167,717	(0.1)	38,390	41.4	11.7
2010	165,660	(1.2)	39,667	46.0	11.5
2011	164,467	(0.7)	39,977	45.0	11.6
2012	164,200	(0.2)	41,329	45.8	11.6
2013	165,095	0.5	41,674	45.7	11.6

Analysis of Change in Active Membership

Fiscal Years Ended June 30

Fiscal Year	Beginning Members	Additions	Retired	Died	Other Terminations	Ending Members
2004	159,353	16,715	3,450	153	12,431	160,034
2005	160,034	17,598	3,716	156	12,855	160,905
2006	160,905	18,885	3,883	154	12,662	163,091
2007	163,091	19,111	4,344	246	12,371	165,241
2008	165,241	19,943	4,237	227	12,870	167,850
2009	167,850	16,565	4,013	246	12,439	167,717
2010	167,717	14,663	5,277	244	11,199	165,660
2011	165,660	17,236	6,368	237	11,824	164,467
2012	164,467	16,878	4,928	193	12,024	164,200
2013	164,200	17,862	4,719	219	12,029	165,095

Principal Participating Employers

Fiscal Years Ended June 30

2013

Participating Employer	Covered Employees	Rank	Percentage of Total System
State of Iowa Centralized Payroll	17,260	1	10.45
Des Moines Independent Community School District (CSD)	4,588	2	2.78
Cedar Rapids CSD	2,979	3	1.80
Iowa Department of Transportation	2,643	4	1.60
Davenport CSD	2,353	5	1.43
University of Iowa	2,209	6	1.34
Iowa City CSD	1,940	7	1.17
Sioux City CSD	1,924	8	1.17
Dubuque CSD	1,887	9	1.14
Waterloo CSD	1,694	10	1.03
All other employers*	125,618		76.09
Total (2,147 employers)	**165,095**		**100.00**

2004

Participating Employer	Covered Employees	Rank	Percentage of Total System
State of Iowa Centralized Payroll	18,529	1	11.58
Des Moines Independent CSD	4,456	2	2.78
Cedar Rapids CSD	3,165	3	1.98
Iowa Department of Transportation	3,104	4	1.94
Davenport CSD	2,596	5	1.62
Sioux City CSD	1,958	6	1.22
Dubuque CSD	1,737	7	1.09
Iowa City CSD	1,635	8	1.02
Waterloo CSD	1,554	9	0.97
West Des Moines CSD	1,518	10	0.95
All other employers	119,782		74.85
Total (2,388 employers)	**160,034**		**100.00**

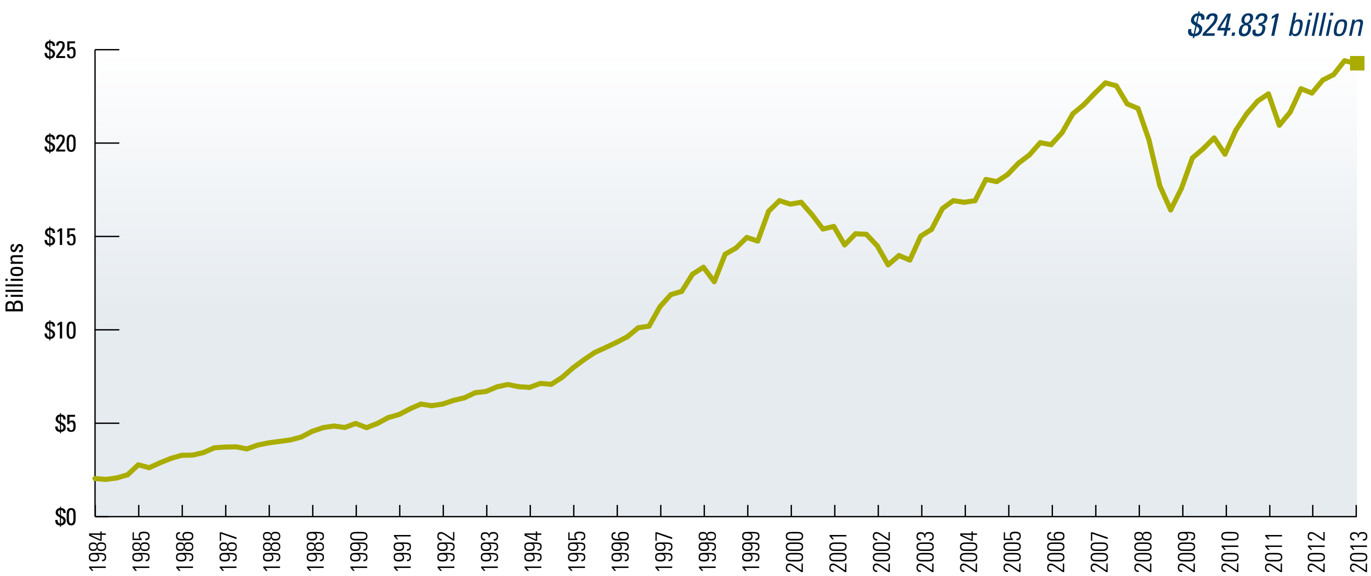
**All other employers for FY2013*

Type	Number	Employees
City	1,051	18,533
Education	370	68,861
County	346	16,384
Other	149	3,422
Utilities	134	1,646
Health	67	15,134
State	20	1,638
Total	**2,137**	**125,618**

Investment Statistics

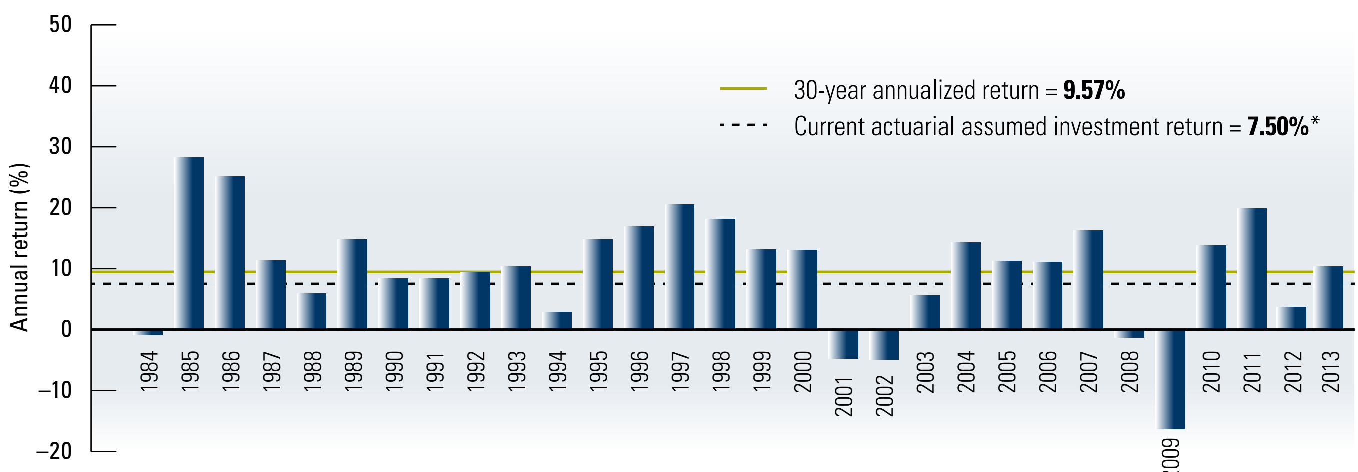
Growth of Net Investment Portfolio Assets

Fiscal Years Ended June 30



Investment Returns

Fiscal Years Ended June 30



**Actuarial assumed investment return:*

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

Annualized returns for periods ended June 30, 2013

1-year return	10.12%	**15-year return**	6.55%
3-year return	11.06%	**20-year return**	8.47%
5-year return	5.48%	**25-year return**	8.82%
10-year return	7.78%	**30-year return**	9.57%

Plan Summary

Plan Summary

Composition

Contributions

Benefit Plan

Benefit Payments by Iowa County

Benefit Payments by State

Benefit Payments Summary

Composition

Membership

Fiscal Years Ended June 30

	2013	2012
Retired members	104,933	101,948
Average years of service	22	22
Average monthly benefit	$1,335	$1,289
New retirees this fiscal year	5,814	6,021
Average years of service	22	22
Average monthly benefit	$1,709	$1,703
Retired reemployed*	10,040	9,277
Active members	165,095	164,200
Inactive vested	32,666	32,410
Inactive nonvested	39,958	36,540
Total	**342,652**	**335,098**

*The number of retired reemployed members includes all retirees who have at any time returned to covered employment but have not subsequently requested a refund or a benefit recalculation. These members are also included in the number of retired members.

Employers

Fiscal Years Ended June 30

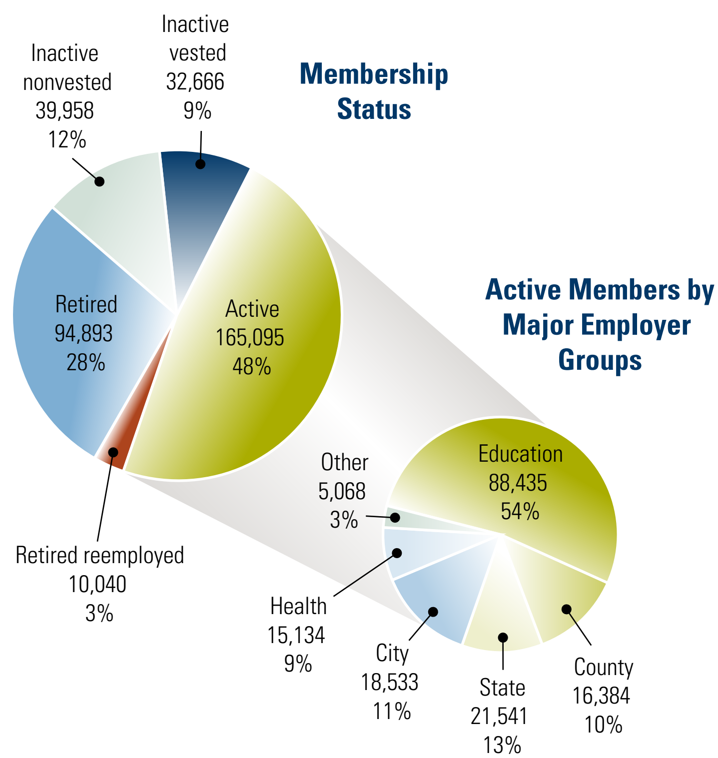
	2013		2012	
Employer Group	**Number of Entities**	**Covered Wages**	**Number of Entities**	**Covered Wages**
City	1,051	$ 675,141,221	1,055	$ 675,363,814
Education	378	3,412,993,528	383	3,329,139,833
County	346	705,383,164	346	700,425,902
Other	149	101,036,347	148	103,220,098
Utilities	134	81,220,597	134	80,673,508
Health	67	642,408,639	67	619,237,075
State	22	1,261,947,638	20	1,278,098,490
Total	**2,147**	**$6,880,131,134**	**2,153**	**$6,786,158,720**

Membership Profile

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

At June 30, 2013, there were 165,095 members contributing to the System (active members), employed by 2,147 public employers. The number of active members increased by 0.5 percent from June 30, 2012.

The membership profile chart provides further information on the composition of the membership as of June 30, 2013.



Contributions

IPERS meets its financial responsibilities by collecting mandatory contributions from employees and employers and investing those funds. Contributions continue throughout covered employment.

Contribution Rates and Maximum Covered Wages

Fiscal Year 2013

	Employee Rate	Employer Rate	Total Rate	Maximum Covered Wages* (Calendar Year)
Regular members	5.78%	8.67%	14.45%	2013: $255,000 2012: $250,000
Sheriffs and deputies	9.90%	9.90%	19.80%	
Protection occupation members	6.84%	10.27%	17.11%	

*Internal Revenue Code section 401(a)(17) compensation limit.

Benefit Plan

Vesting

Vesting requirements for Regular members changed on July 1, 2012. A member who completes seven years of covered service or has attained the age of 65 while making contributions to the plan has vested rights to IPERS benefits.

Employees in Special service occupations become vested after completing four years of covered service or attaining the age of 55 while making contributions to the plan.

There were 153,162 vested members as of June 30, 2013.

Service Purchases

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

Refunds

IPERS members who terminate public employment for any reason may request a full refund of their accumulated contributions. Vested members requesting a refund also receive a portion of their accumulated employer contributions. Acceptance of the refund automatically terminates IPERS membership and all claims to future benefits. If an employee works in covered employment for less than six months, the employer may file a wage adjustment and the applicable IPERS contributions will be refunded to the individual and employer. Member refunds paid in FY2013 totaled $42,597,432.

Retirement Benefits

Eligibility

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

- Attain age 55.
- Retire because of a disability and receive Social Security disability or Railroad Retirement disability benefits.

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

Special service members are eligible for retirement benefits if they are vested, no longer working for an IPERS-covered employer, and reach age 55. Sheriffs and deputies may become eligible for retirement benefits at age 50 if they have 22 years of qualified service. Special service members who retire because of a disability may meet the requirements to receive Regular or Special service disability benefits from IPERS.

Formula Components

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

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

If a Regular member receives benefits before normal retirement age, a permanent early-retirement reduction will apply. For service earned before July 1, 2012, a reduction of 0.25 percent per month is applied for each month the benefit is paid before normal retirement age. For service earned after June 30, 2012, the reduction is 0.50 percent per month and applies to each month that the member receives a benefit before age 65.

Normal retirement age for Regular members is:

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

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

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

Retirees receiving benefits in FY2013 had, on average, approximately 22 years of service in IPERS-covered employment. The monthly benefit for all retirees averaged $1,335 as of June 30. For members retiring in fiscal year 2013, the average benefit was $1,709.

Benefit Options

Upon retirement, an IPERS member may choose from six benefit options. Each of the six options provides a lifetime benefit for the IPERS member. The amount of the member's benefits and the amount and availability of death benefits vary according to the option selected.

Option 1

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

Option 2

A member receives a lifetime monthly benefit. When the member dies, the designated beneficiary receives a lump-sum refund of the excess, if any, of the member's accumulated contributions minus the amount of all retirement benefits paid to the member prior to death.

Option 3

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

Retired Membership by Benefit Option

As of June 30, 2013

	Number	Percent
Option 1	27,357	26
Option 2	22,764	22
Option 3	13,645	13
Option 4 (100%)	10,245	10
Option 4 (75%)	1,517	1
Option 4 (50%)	2,647	3
Option 4 (25%)	1,086	1
Option 5	10,758	10
Option 6 (100%)	7,415	7
Option 6 (75%)	2,208	2
Option 6 (50%)	3,063	3
Option 6 (25%)	2,207	2
Misc. options	21	---
Total	**104,933**	**100**

Option 4

A member receives a lifetime monthly benefit actuarially reduced to provide for a lifetime monthly benefit to the contingent annuitant upon the member's death. The age of the contingent annuitant can affect the cost of the lifetime payments to the member based on actuarial tables. The contingent annuitant can receive 100 percent, 75 percent, 50 percent, or 25 percent of the member's monthly benefit. The choice in percentages will be limited if the contingent annuitant is not the member's spouse and is more than ten years younger than the member.

Option 5

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

Option 6

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

Level Payment Options

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

Dividend Payments

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, certain lump-sum dividend payments are authorized.

For retirees who began receiving benefits prior to July 1990, a guaranteed dividend is included with a member's regular November benefit payment. Post-June 1990 retirees may receive a Favorable Experience Dividend (FED) with their January benefit payment. The November 2012 dividends totaled $8,104,939 and the January 2013 FED payments totaled $113,283,944.

The FED is paid from a special Reserve Account that was created within the IPERS Trust Fund in 1998 by the Iowa Legislature. This Reserve Account can only be used for FED payments. Unlike the November dividend, the FED payment is not guaranteed. FED payments are dependent upon the balance of the Reserve Account and the actuarial soundness of the System.

By law, IPERS cannot move money from the Trust Fund into the Reserve Account unless the Trust Fund would be at least 100 percent funded afterward. Based on this requirement, IPERS does not anticipate any further transfers to the Reserve Account. The FED Reserve Account will be exhausted after the January 2014 payments.

Death Benefits

Preretirement Death Benefits

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

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

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

*The denominator is 22 for all Special service members.

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

Postretirement Death Benefits

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

Lump-Sum Death Benefits

For fiscal year 2013, lump-sum death benefits paid to beneficiaries or to the estates of deceased nonretired and retired members totaled $23,179,946.

Benefit Payments by Iowa County*

Fiscal Year 2013

County	Total Payments	Annual Average	Payees
Adair	$ 4,313,368	$12,761	338
Adams	2,677,094	12,452	215
Allamakee	7,214,840	13,435	537
Appanoose	6,806,904	14,545	468
Audubon	3,559,609	12,190	292
Benton	11,512,997	14,573	790
Black Hawk	57,912,866	16,213	3,572
Boone	17,940,393	15,682	1,144
Bremer	14,311,366	15,472	925
Buchanan	12,879,116	14,889	865
Buena Vista	9,752,710	14,033	695
Butler	7,702,606	13,373	576
Calhoun	6,402,492	12,961	494
Carroll	8,062,659	12,539	643
Cass	10,057,221	14,900	675
Cedar	8,577,455	14,465	593
Cerro Gordo	24,192,873	15,885	1,523
Cherokee	9,691,646	14,487	669
Chickasaw	6,881,039	14,991	459
Clarke	4,745,121	13,834	343
Clay	9,661,876	14,003	690
Clayton	10,661,013	14,624	729
Clinton	18,576,720	13,853	1,341
Crawford	7,522,641	13,221	569
Dallas	29,602,434	16,993	1,742
Davis	5,833,761	14,125	413
Decatur	4,317,126	11,731	368
Delaware	9,531,098	14,663	650
Des Moines	20,808,730	16,181	1,286
Dickinson	14,430,131	16,195	891
Dubuque	35,044,548	16,239	2,158
Emmet	5,375,709	13,784	390
Fayette	11,050,702	14,296	773
Floyd	9,041,013	13,803	655
Franklin	5,722,398	12,802	447
Fremont	4,262,830	13,931	306
Greene	6,405,486	12,132	528
Grundy	7,170,589	13,353	537
Guthrie	7,643,452	13,270	576
Hamilton	10,660,599	15,405	692
Hancock	5,156,385	12,485	413
Hardin	13,102,639	13,763	952
Harrison	5,870,095	12,410	473
Henry	14,454,190	15,954	906
Howard	5,514,903	11,886	464
Humboldt	6,007,205	13,088	459
Ida	3,214,227	12,806	251
Iowa	7,597,739	14,753	515
Jackson	9,886,629	14,044	704
Jasper	18,569,040	14,507	1,280
Jefferson	8,095,391	14,482	559
Johnson	44,106,015	16,957	2,601

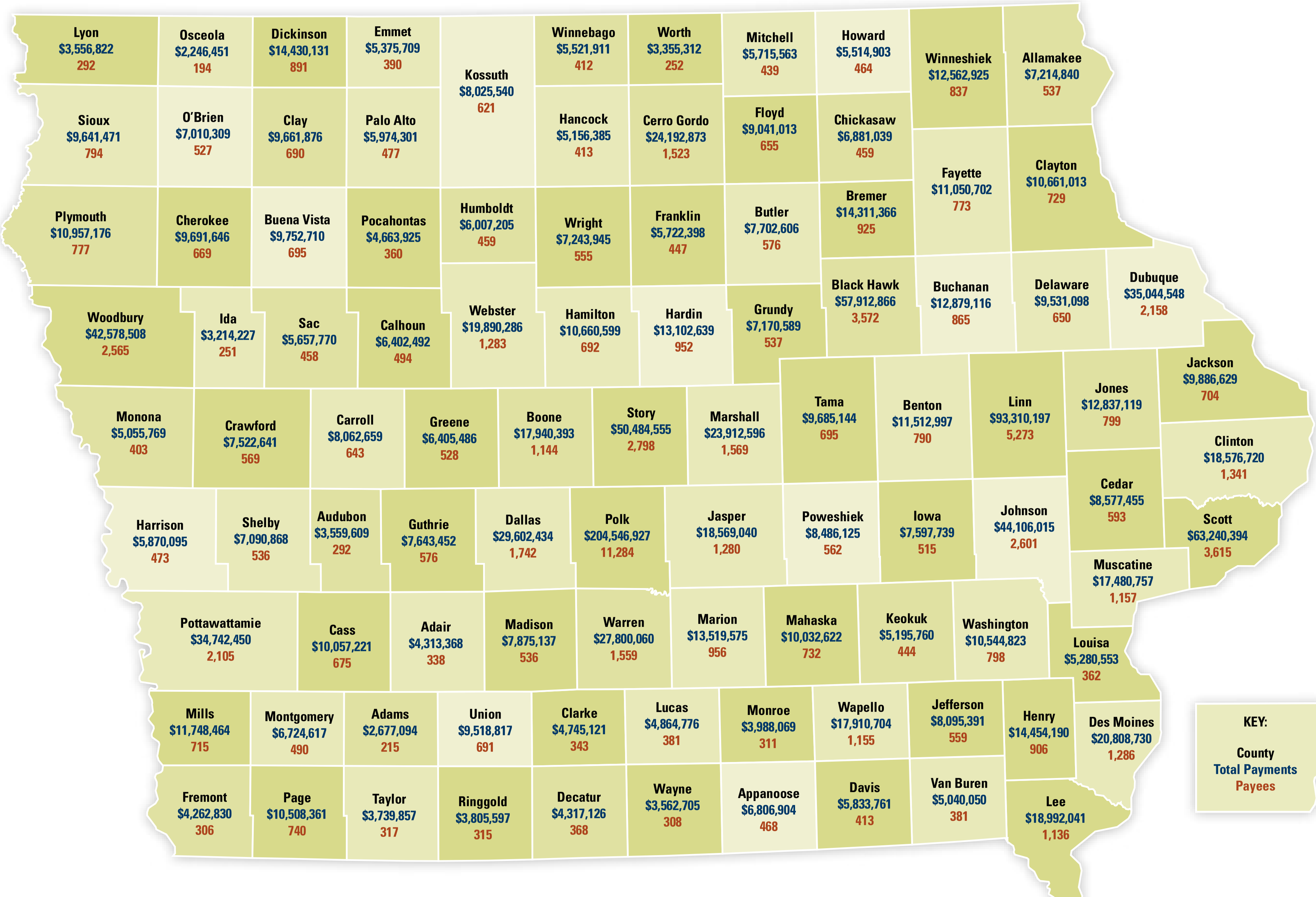
County	Total Payments	Annual Average	Payees
Jones	$ 12,837,119	$16,066	799
Keokuk	5,195,760	11,702	444
Kossuth	8,025,540	12,924	621
Lee	18,992,041	16,718	1,136
Linn	93,310,197	17,696	5,273
Louisa	5,280,553	14,587	362
Lucas	4,864,776	12,768	381
Lyon	3,556,822	12,181	292
Madison	7,875,137	14,692	536
Mahaska	10,032,622	13,706	732
Marion	13,519,575	14,142	956
Marshall	23,912,596	15,241	1,569
Mills	11,748,464	16,431	715
Mitchell	5,715,563	13,020	439
Monona	5,055,769	12,545	403
Monroe	3,988,069	12,823	311
Montgomery	6,724,617	13,724	490
Muscatine	17,480,757	15,109	1,157
O'Brien	7,010,309	13,302	527
Osceola	2,246,451	11,580	194
Page	10,508,361	14,200	740
Palo Alto	5,974,301	12,525	477
Plymouth	10,957,176	14,102	777
Pocahontas	4,663,925	12,955	360
Polk	204,546,927	18,127	11,284
Pottawattamie	34,742,450	16,505	2,105
Poweshiek	8,486,125	15,100	562
Ringgold	3,805,597	12,081	315
Sac	5,657,770	12,353	458
Scott	63,240,394	17,494	3,615
Shelby	7,090,868	13,229	536
Sioux	9,641,471	12,143	794
Story	50,484,555	18,043	2,798
Tama	9,685,144	13,935	695
Taylor	3,739,857	11,798	317
Union	9,518,817	13,775	691
Van Buren	5,040,050	13,228	381
Wapello	17,910,704	15,507	1,155
Warren	27,800,060	17,832	1,559
Washington	10,544,823	13,214	798
Wayne	3,562,705	11,567	308
Webster	19,890,286	15,503	1,283
Winnebago	5,521,911	13,403	412
Winneshiek	12,562,925	15,009	837
Woodbury	42,578,508	16,600	2,565
Worth	3,355,312	13,315	252
Wright	7,243,945	13,052	555

Total Iowa Benefit Payments: $1,476,219,393

*Payments determined by zip code.

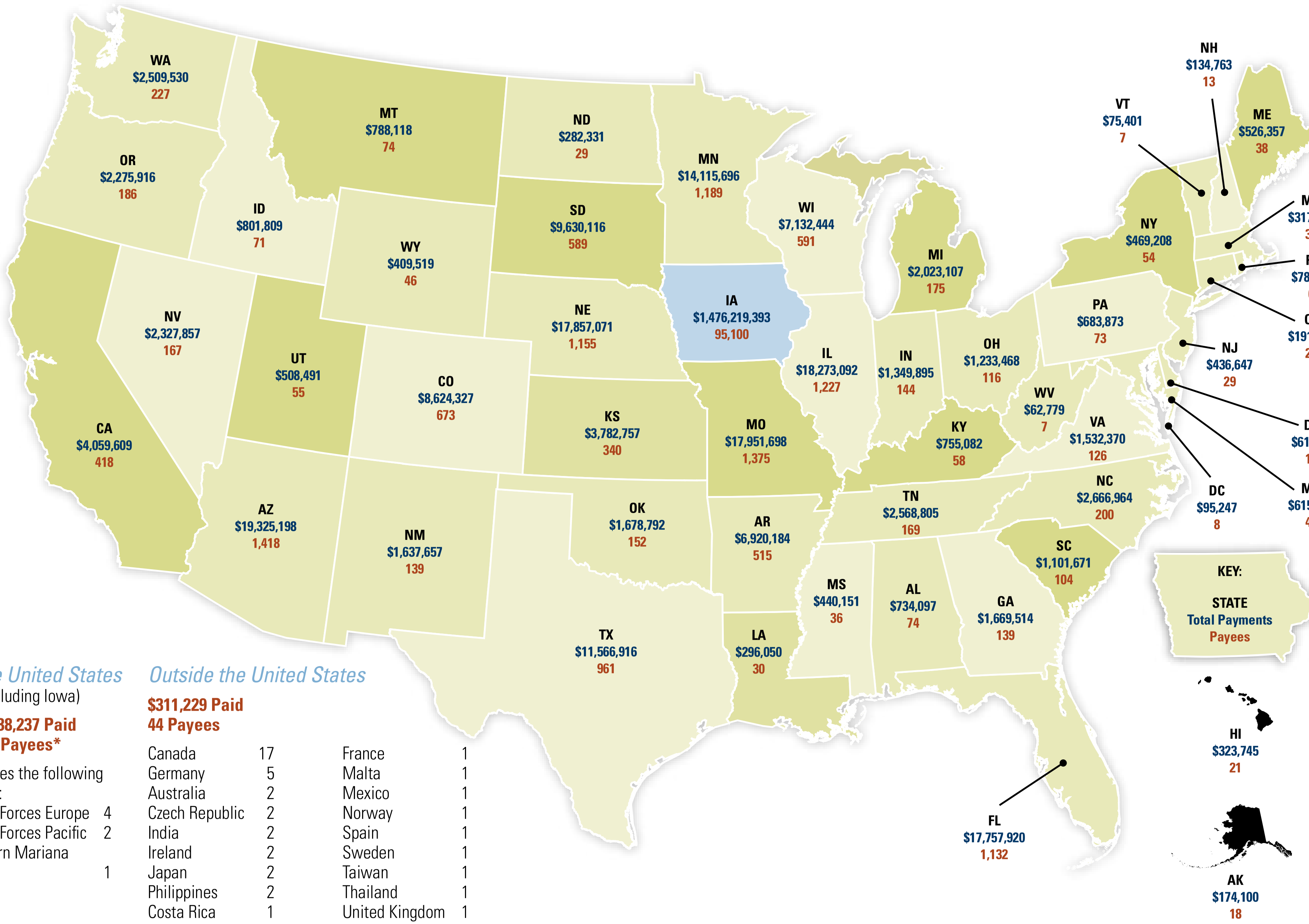
Benefit Payments by Iowa County

Fiscal Year 2013



Benefit Payments by State

Fiscal Year 2013



In the United States
(not including Iowa)

$190,938,237 Paid
14,490 Payees*

*Includes the following payees:

Armed Forces Europe	4
Armed Forces Pacific	2
Northern Mariana Islands	1

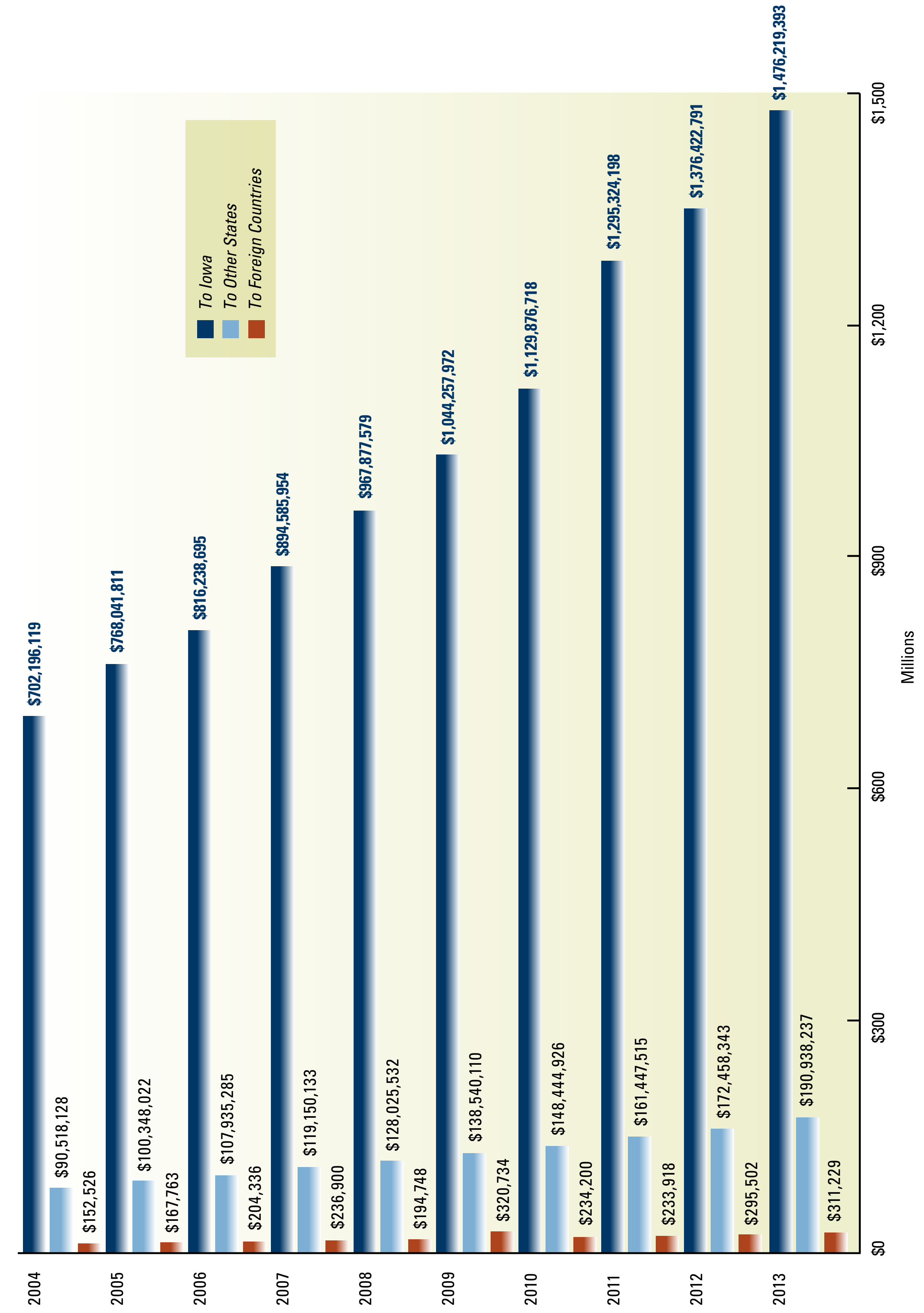
Outside the United States

$311,229 Paid
44 Payees

Canada	17	France	1
Germany	5	Malta	1
Australia	2	Mexico	1
Czech Republic	2	Norway	1
India	2	Spain	1
Ireland	2	Sweden	1
Japan	2	Taiwan	1
Philippines	2	Thailand	1
Costa Rica	1	United Kingdom	1

Benefit Payments Summary

Fiscal Years Ended June 30



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