FY2010

COMPREHENSIVE ANNUAL FINANCIAL REPORT

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
A PENSION TRUST FUND OF THE STATE OF IOWA
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

IPERS℠

Working Today for Your Tomorrow

MEASURED ADJUSTMENTS
FOR LONG-TERM SECURITY

FY2010
COMPREHENSIVE ANNUAL FINANCIAL REPORT

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
A PENSION TRUST FUND FOR THE STATE OF IOWA
FOR THE FISCAL YEAR ENDED
JUNE 30, 2010

PREPARED BY:
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
DONNA M. MUELLER
CHIEF EXECUTIVE OFFICER

IPERS
Working Today for Your Tomorrow

FISCAL YEAR 2010 HIGHLIGHTS

MEMBERSHIP:

Active Members	165,660
Retired Members*	93,692

CONTRIBUTIONS:

Employee	$293,471,971
Employer	449,124,413
Service Purchases	12,613,708

DISTRIBUTIONS:

Benefits Paid	$1,278,555,844
Refunds Paid	41,470,129

INVESTMENTS:

Net Investment and Securities Lending Income	$2,477,824,094
Investment Rate of Return	13.82%

FUNDING:

Net Assets Held in Trust for Pension Benefits	$19,878,080,628
Ratio of Actuarial Assets to Actuarial Liabilities	81.4%

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

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INTRODUCTION

Professional Awards

Letter of Transmittal

Administration

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Professional and Consulting Services

PROFESSIONAL AWARDS

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

Presented by the Government Finance Officers Association of the United States and Canada to recognize comprehensive annual financial reports achieving the highest standards in government accounting and financial reporting.

PUBLIC PENSION STANDARDS AWARD

Presented by the Public Pension Coordinating Council, a confederation of the National Association of State Retirement Administrators, National Conference on Public Employee Retirement Systems, and National Council on Teacher Retirement to recognize public pension systems that meet professional standards for plan funding and administration.

Chester J. Culver
GOVERNOR
Patty Judge
LT. GOVERNOR

IPERS

Donna M. Mueller
CHIEF EXECUTIVE OFFICER

December 15, 2010

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

I am pleased to present the Comprehensive Annual Financial Report of the Iowa Public Employees' Retirement System (IPERS, System, or plan) for the fiscal year ended June 30, 2010. This report is intended to provide complete and accurate information concerning the activities and results of the System's operations within a single publication. This report also fulfills the requirements set forth in Iowa Code section 97B.4(4)(a). The preparation of this report is the result of the combined effort of the System's staff under the direction of the management and CEO, who are responsible for the contents of the report.

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

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

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

PLAN HISTORY

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

Initially, IPERS was a money purchase system that calculated benefits based on contributions. Today, IPERS is a contributory defined benefit plan with benefits based on a formula using a member's years of service, multi-year average covered wage, and a multiplier. In fiscal year 2010 (FY2010), changes to the plan were made when the Iowa Legislature passed House File 2518 to help secure and sustain long-term funding for the IPERS Trust Fund. Most members will see changes to benefits earned beginning July 1, 2012, and an increase in contributions July 1, 2011.

STRUCTURE AND GOVERNANCE

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

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

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

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

MEMBER SERVICES

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

IPERS had 324,873 members at the end of fiscal year 2010, with 165,660 active members employed and contributing to IPERS. There were 8,363 retirees drawing a pension in FY2010 who had returned to work with an IPERS-covered employer. At the end of the fiscal year, 7,102 of these retired reemployed members were still employed. The other 1,261 were no longer employed but had not subsequently requested a refund or a benefit recalculation.

IPERS ended the fiscal year with 165,660 contributing workers.

During the year, IPERS staff provided group and individual benefit education and preretirement counseling to 14,500 members, fielded 102,108 phone calls, and answered 10,290 e-mails. Staff also prepared 77,658 benefit estimates. Members submitted 2,161 applications to buy service credit and 893 members purchased service credit.

The most important service IPERS provides to its 93,692 retirees is the accurate and timely payment of benefits. During the fiscal year, IPERS paid 96 percent of 1,104,828 benefit payments by electronic funds transfer (EFT), which ensures the monthly benefit is in the recipient's account on the day it is payable. EFTs have been IPERS' preferred payment method since 1992. IPERS charges a small service fee for paper checks.

Members have access to information electronically and in print. The IPERS Web site contains news and announcements, member publications, forms, and a benefit estimator. Members also visit the Web site to see their benefits statements, which are updated quarterly.

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

EMPLOYER SERVICES

IPERS provides training and technical assistance to 2,229 employers to encourage voluntary compliance with IPERS' requirements. Employers also receive newsletters and a handbook of procedures and reporting requirements. A section of the Web site is dedicated to employers, and IPERS assigns staff to assist employer human resources departments.

Employers who are enrolled in I-Que (IPERS' Quest for Excellence) Employer Self-Service, an online wage-reporting system, also receive messages, publications, and other materials through that system. Ninety-nine percent of all member wages are reported by employers electronically through I-Que.

INVESTMENTS

IPERS funds benefit payments with a combination of employee and employer contributions and investment earnings, with investment earnings typically providing the largest percentage of income. IPERS manages a large and diversified investment portfolio. IPERS is able to take advantage of its role as an enduring public organization by focusing much longer-term than even the youngest investor. This allows IPERS to maximize investments and lower transaction costs on behalf of its members in a way an individual investor cannot. In fiscal year 2010, IPERS' investment expenses were 0.16 percent of the portfolio's total quarterly average fair value.

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 recommend 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.

IPERS earned a 13.82 percent return on investments in FY2010.

IPERS' investment portfolio returned 13.82 percent in fiscal year 2010. IPERS' U.S. equity and core plus fixed income portfolios outperformed their respective benchmarks, while IPERS underperformed its return benchmarks in the other asset classes. Overall, IPERS beat three of its four investment policy objectives for fiscal year 2010. The annualized return on IPERS' investments for the 10-year period ended June 30, 2010, was 3.98 percent. Since 1981 (a 30-year period), the IPERS investment portfolio has produced an annualized investment return (net of fees) of 10.15 percent.

MAJOR INITIATIVES

MAKING A COURSE CORRECTION

In FY2010, IPERS experienced strong investment performance and a growth in Trust Fund assets. This is a step in the right direction to funding promised benefits. However, investment performance alone cannot set IPERS on a course toward fully funding promised benefits for the regular membership. The deepest recession in IPERS' 57-year history, coupled with years of insufficient contributions, resulted in an unprecedented growth in IPERS' unfunded actuarial liability (UAL) in FY2009 and disrupted IPERS' 30-year plan for funding benefits for regular members. Additional course corrections on liabilities and contributions were needed.

However, corrections impacting liabilities and contributions are not swiftly accomplished and both require legislative action. Various studies were undertaken that examined changes solely to benefits, solely to contributions, and to the combination of benefits and contributions. The studies also examined benefit changes applied to only new regular members and benefit changes to all regular members prospectively. With the support of IPERS' Benefits Advisory Committee and Investment Board, elements of the studies were enacted by the Iowa Legislature and Governor Culver in House File 2518. This law contains major changes designed to slow future growth of liabilities while also gradually aligning the contributions collected more closely to the actuarially required contributions for regular membership.

The changes to the liabilities include lengthening the vesting period from four to seven years, increasing the salary factor from a high three-year average salary to a high five-year average salary in the benefit formula, and increasing the early retirement reduction for regular members who retire before reaching any of IPERS' three definitions of normal retirement. As reported in the actuarial valuation as of June 30, 2010, the changes enacted by House File 2518 decreased the normal cost rate for regular members by 62 basis points and decreased IPERS' UAL by $673.9 million.

The course correction to contributions also includes incremental changes. Employee and employer contributions for regular members will increase on July 1, 2011 (the start of FY2012), to a combined total of 13.45 percent. Annually thereafter, IPERS will be authorized to adjust the total contribution rate up or down each year, by no more than 1.0 percentage point, based upon the actuarially required contribution rate. Employees will pay 40 percent of the contribution rate and employers will pay 60 percent. This FY2012 combined contribution is still less than the actuarially required rate of 13.71 percent as determined in the FY2010 valuation; however, it is a dramatic improvement over the allowed rates prior to the enactment of House File 2518. A much greater portion of the contribution rate will be available to pay down the UAL resulting in an amortization period for the UAL of 34 years. This is the first valuation in nine years that shows a UAL amortization period of less than infinity.

These changes affect only IPERS' regular members, who make up about 95 percent of the membership. Benefits for Special Service members (sheriffs, deputies, and members in protection occupations) remain primarily unchanged. (The new law adds a cancer and infectious disease presumption related to in-service Special Service disability benefits.) There was no change to IPERS' long-standing authority to collect the actuarially required contribution rates for both of IPERS' Special Service membership groups.

Changes to the State workforce affected IPERS' operations in FY2010. Primarily because of the State Employee Retirement Incentive Program (SERIP) offered in FY2010, the demand for IPERS' services greatly increased. There were 6,385 retirements in FY2010, an increase of 31 percent over the prior year. The large influx of retirements continued into the first month of FY2011 (July 2010), when IPERS had 3,242 new retirements—about two-thirds of the number processed in a "normal" fiscal year. In June and July 2010, IPERS had 4,628 new retirees, almost a year's worth in just two months.

PERFORMANCE EXCELLENCE

To maintain a focus on effectively administering the plan, IPERS completed voluntary reviews of its performance during fiscal year 2010. CEM Benchmarking Inc. (CEM), an independent company that reviews pension systems worldwide, completed a benchmarking study on IPERS' benefits administration for the previous year. IPERS was lowest in costs when compared to its peers, while receiving high ratings for its services.

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 CEM's extensive pension fund database. The analysis concluded that IPERS' investment program was a low-cost program that added a modest amount of value (about 0.2 percent, before deduction of costs) over the 5-year period ended December 31, 2009. CEM reported that this result was in line with IPERS' peers. On an after-cost basis, IPERS' net added value was slightly negative over that time period, also similar to results for its peers.

Wilshire Associates, IPERS' investment consultant, also reviews IPERS' investment performance against peer groups of large U.S. public pension funds. On an absolute basis, IPERS' return of 13.82 percent for FY2010 was in the top 35 percent of large U.S. public funds. On a risk-adjusted basis (return per unit of risk taken), IPERS' returns ranked in the top 25 percent of large U.S. public funds over 3-, 5-, and 10-year periods.

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

TECHNOLOGY ADVANCES

IPERS has been reengineering business processes and implementing a new benefit administration system, IPERS' Quest for Excellence (I-Que), since 2006. I-Que is being rolled out in two phases. Rollout 1, which contains online services for employers, went live in August 2008. As of this report's publication date, final modifications were underway for Rollout 2, which contains enhanced online services for members and more flexibility for IPERS staff. During FY2010, IPERS maintained two computer systems, ensuring the integrity of data held in both. Rollout 2 is planned for early 2011. I-Que promises to improve services for both members and employers.

FINANCIAL HIGHLIGHTS

TOTAL NET ASSETS

Total net assets held in trust for pension benefits increased from $17.974 billion on June 30, 2009, to $19.878 billion on June 30, 2010. These assets consist of capital assets owned by IPERS and investment portfolio assets. The increase in net assets is due primarily to the improvement in the market conditions during the past fiscal year. An overview and analysis of IPERS' financial activities for the fiscal year ended June 30, 2010, is in Management's Discussion and Analysis beginning on page 29 in the Financial section of this report.

INVESTMENT PORTFOLIO ASSETS[1]

At the close of FY2010, IPERS' net investment portfolio assets had a fair value of $19.856 billion. The change in fair value represents an increase of $1.859 billion from the $17.997 billion net investment asset fair value as of June 30, 2009. The largest factor contributing to the increase was the investment portfolio return of 13.82 percent.

As in previous years, employee and employer contributions to IPERS only partially fund the benefit payments, refunds, and administrative expenses of the System. Funds must be drawn regularly from investment earnings to help meet these obligations. This drawdown of investment assets is typical for a mature pension system, where investment earnings are expected to supplement employer and employee contributions in meeting liabilities. In FY2010, employer and employee contributions totaled $755.2 million, while total member benefits equaled $1.320 billion (monthly benefits, lump-sum retirement benefits, death benefits, refunds, and dividend payments). The resulting $564.8 million contribution shortfall was funded with earnings and sales proceeds from the investment portfolio.

[1]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 Governmental Accounting Standards Board Statement No. 25 which produces the investments at fair value shown in the Financial section of this report. See the Invested Assets table on page 40 for a reconciliation between the two values.

INVESTMENT RESULTS

IPERS' investment portfolio returned 13.82 percent in fiscal year 2010, in sharp contrast to the previous fiscal year when IPERS' investment return was –16.27 percent. Capital markets strongly rebounded in fiscal year 2010 as governments and central banks around the world stepped in and helped restore stability in markets through stimulus spending and quantitative easing. IPERS' 13.82 percent rate of return on investments for the fiscal year was well above the actuarial assumed investment return of 7.50 percent and the benchmark of the year's Consumer Price Index (CPI) plus 3 percentage points, which was 4.05 percent. IPERS' portfolio underperformed its policy benchmark return of 16.98 percent, but did exceed the 13.09 percent median return of other large public pension funds.

Equity markets were particularly strong in the fiscal year, with U.S. stocks returning 15.68 percent and international stocks returning 10.87 percent. The private equity market was up over 50 percent. The large difference between private and public market returns was mostly because private market returns are calculated on a lagging one-quarter basis to reflect the delay in valuations that occurs in that asset class. Fixed income securities also rebounded sharply in FY2010 as credit spreads shrank from historical levels reached in the previous fiscal year. The U.S. bond market produced a return of 10.59 percent for the fiscal year, and high-yield bonds were up 24.67 percent for the period. Real estate assets did not perform as well as other asset classes, as deleveraging continued to impact valuations of commercial real estate. The result was that the U.S. real estate market returned 6.74 percent for the fiscal year.

IPERS' investment portfolio benefited from the market rebound, with every asset class in IPERS' portfolio recording positive returns for the fiscal year, and all but two of those recording positive double-digit returns. Private equity investments led the way, returning 20.55 percent for the fiscal year, followed closely by high-yield bonds, which produced a return of 19.58 percent. Domestic stocks returned 16.07 percent, and international stocks returned 10.05 percent for the fiscal year. All of IPERS' core plus fixed income managers strongly outperformed in the fiscal year, with IPERS recording a 13.83 percent return for that asset class. However, the IPERS real estate portfolio continued to struggle, earning 2.35 percent for the fiscal year, which was a great improvement from the prior year, but indicative of the headwinds still facing commercial real estate in a deleveraging environment.

As reported in the FY2009 Comprehensive Annual Financial Report, IPERS recorded a loss on its investment in Westridge Capital Management due to fraud at a firm named WG Trading Company. IPERS wrote its investment down in FY2009 by $116.4 million, approximately 40 percent of its estimated market value of $291.1 million. This write-down was based on reports filed by a court-appointed receiver. Subsequent information from the receiver indicates IPERS' recovery may be greater than was previously estimated. However, IPERS will not write up the value pending the outcome of the receiver's claim process. The Office of the Attorney General is representing IPERS in the claims process.

REVENUES

The System is funded through a combination of employee and employer contributions and investment income. Contributions for regular members were 10.95 percent of employees' covered wages in FY2010. Employers contributed at a rate of 6.65 percent and employees at a rate of 4.30 percent. Employees in Special Service occupations (for example, law enforcement, fire safety, and similar protection occupations) and their employers contributed at higher actuarially determined rates.

For FY2010, revenues from employee and employer contributions, excluding service purchase contributions, totaled $742.6 million, an 8.21 percent increase over the prior fiscal year. Service purchase contributions for the year amounted to $12.6 million, a 35.62 percent increase from the prior year. Net investment and securities lending income for FY2010 was $2.478 billion, due mainly to the improvement in market conditions that resulted in a 13.82 percent rate of return. Total additions for FY2010 were $3.233 billion.

EXPENSES

Expenses are incurred primarily to pay benefits to retirees. Included in the total expenses for the fiscal year were benefit payments, refunds, and dividend payments totaling $1.320 billion. This amount increased 8.42 percent over the prior fiscal year.

Benefit payments exceeded $1 billion for the fourth consecutive year.

The total number of annuitants receiving monthly benefits as of June 30, 2010, was 93,692. The net increase of 3,840 annuitants during FY2010 was 1,478 higher than the increase during FY2009, largely due to the retirement incentives offered by the State of Iowa. The average monthly retirement benefit, including the November dividend and Favorable Experience Dividend (FED) payments, increased from $1,064 to $1,085.

All administrative expenses for the System are paid from the IPERS Trust Fund. The administrative budget is submitted to the Legislature annually for authorization of spending. Administrative expenses totaled $9.0 million for fiscal year 2010, a 17.70 percent decrease from the previous year. There are several reasons for this reduction. Expenses related to I-Que decreased (see a discussion of I-Que on page 9). Some additional I-Que expenses were capitalized because of the implementation of Governmental Accounting Standards Board (GASB) Statement No. 51 (see Note B on page 38). IPERS also reduced postage and printing costs by mailing a summary winter newsletter with the annual benefits statement mailing and directing members to the Web site for further information, in an effort to be more cost-efficient and environmentally friendly.

The System retains an investment consultant and multiple investment managers to assist the Investment Board and administration in carrying out their fiduciary duties. For the fiscal year, IPERS' investment management expenses were $32.9 million. IPERS utilizes performance-based fee structures for many of its investment managers, as required by state law, and these arrangements generated slightly higher fees in FY2010 as compared to FY2009.

The System's ratio of investment management expenses to the portfolio's quarterly average fair value was 0.16 percent for FY2010. This expense ratio was slightly below the 0.18 percent for FY2009, despite the fact investment management expenses increased 1.06 percent from the prior fiscal year, due to the increase in the quarterly average fair value of assets in FY2010.

REVENUES
(Dollar values expressed in millions)

Source	2010	2009	Increase (Decrease)
Contributions	$ 742.6	$ 686.3	$ 56.3
Service purchases	12.6	9.3	3.3
Net investment and securities lending income/(loss)	2,477.8	(3,863.8)	6,341.6
Total	**$3,233.0**	**$(3,168.2)**	**$6,401.2**

EXPENSES
(Dollar values expressed in millions)

Type	2010	2009	Increase (Decrease)
Benefits	$1,278.5	$1,183.1	$ 95.4
Refunds	41.5	34.3	7.2
Administrative	9.0	10.9	(1.9)
Total	**$1,329.0**	**$1,228.3**	**$100.7**

FUNDING

The ultimate test of IPERS' financial soundness is whether it can pay all of its promised benefits as they come due. The achievement of this goal can be judged only over a long period of time. The annual valuation of the System's assets and liabilities by IPERS' actuary provides the best current estimate of the System's funded status. The actuarial valuation at June 30, 2010, reflected an unfunded actuarial liability of $4.931 billion. This represents the difference between the actuarial liability of $26.468 billion and the actuarial value of net assets of $21.537 billion.

During the fiscal year, the UAL had a net increase of $36.3 million from the preceding fiscal year's ending balance. Several factors increased the UAL while others decreased it. The two most significant offsetting factors were an increase in the UAL due to the loss on the actuarial value of assets of $666.2 million (recognition of deferred investment losses from FY2009) and a decrease in the UAL due to the change in the benefit provisions of $673.9 million. Without the change in the benefit provisions, the UAL would have been much higher in this year's valuation.

The negative investment experience in FY2009 caused a significant drop in the funded ratio, which had been stable at around 90 percent from FY2003 through FY2008. The funded ratio appears stabilized again in FY2010 at 81 percent as a result of a strong investment return, changes in the actuarial assumptions, and benefit reductions.

IPERS' Funding Policy and GASB Statement No. 25 require the amortization period for the UAL not to exceed 30 years. The amortization period for the regular membership was at an infinite number of years in the FY2002 to FY2009 valuations. Because of the increase in contribution rates and a reduction in normal cost, more funds are available to finance the UAL and the years to amortize dropped to 34.

Future investment experience will have a significant impact on whether the years to amortize will fall below 30 in future valuations. Based on the FY2010 actuarial valuation, the contribution rates necessary and sufficient for members and employers to fully fund the benefits and retirement allowances being credited are as follows for the fiscal year beginning July 1, 2011 (FY2012): Special Service Group 1 at 19.66 percent, Special Service Group 2 at 16.62 percent, and regular membership at 13.71 percent.

The actuarially required contribution rate is the statutory contribution rate for both Special Service groups. However, the contribution rate for regular members for FY2012 is set by statute at 13.45 percent, which continues to be less than the actuarially required contribution rate. FY2010 was the eighth consecutive year the contribution rate for regular members was below the amount certified as actuarially required, a condition expected to continue for the next several years.

FUTURE PROSPECTS

IPERS has an 81.4 percent funded ratio (the ratio of actuarial assets to actuarial liabilities). The outlook for IPERS' long-term funding has significantly improved since the last valuation. The funded ratio has stabilized; the deferred investment loss decreased from $3.521 billion last year to $1.998 billion this year; and the time to amortize the UAL for the regular membership, which had been infinite for eight valuations, is now 34 years. The new contribution rates approved by the 2010 Legislature, scheduled to begin July 1, 2011, may allow more of the contribution rate to be applied to paying down the UAL. That, along with the 13.82 percent investment return, may be enough to offset the continuing growth of the UAL. If market conditions continue to improve and all other actuarial assumptions are met, additional contribution rate increases may not be necessary.

ACCOUNTING SYSTEM AND INTERNAL CONTROL

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

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

INDEPENDENT AUDIT

The Auditor of State is required by Iowa Code chapter 11 (2009) to audit all departments of the State annually. The accompanying financial statements of the System have been audited by the Auditor of State in accordance with U.S. generally accepted auditing standards, state law, and Government Auditing Standards. The Auditor's report is contained in the Financial section of this report.

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, 2009. A Certificate of Achievement is valid for only one year, and this was the 17th consecutive year IPERS has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized Comprehensive Annual Financial Report that satisfies both generally accepted accounting principles and applicable legal requirements. We believe our current comprehensive annual report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

For the second consecutive year, IPERS also received the Public Pension Standards Award for the fiscal year ended June 30, 2010, 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. This award is presented by the PPCC, 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).

Respectfully submitted,

Donna M Mueller

Donna M. Mueller
Chief Executive Officer

ADMINISTRATION

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

- Providing counseling services and retirement information to active and retired members.
- Providing retirement, disability, and death benefits to members and beneficiaries.
- Providing refunds to members, which may be rolled over to other IRS-qualified retirement plans.
- Administering the benefits of the Iowa Old-Age and Survivors' Insurance System.
- Collecting employer 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

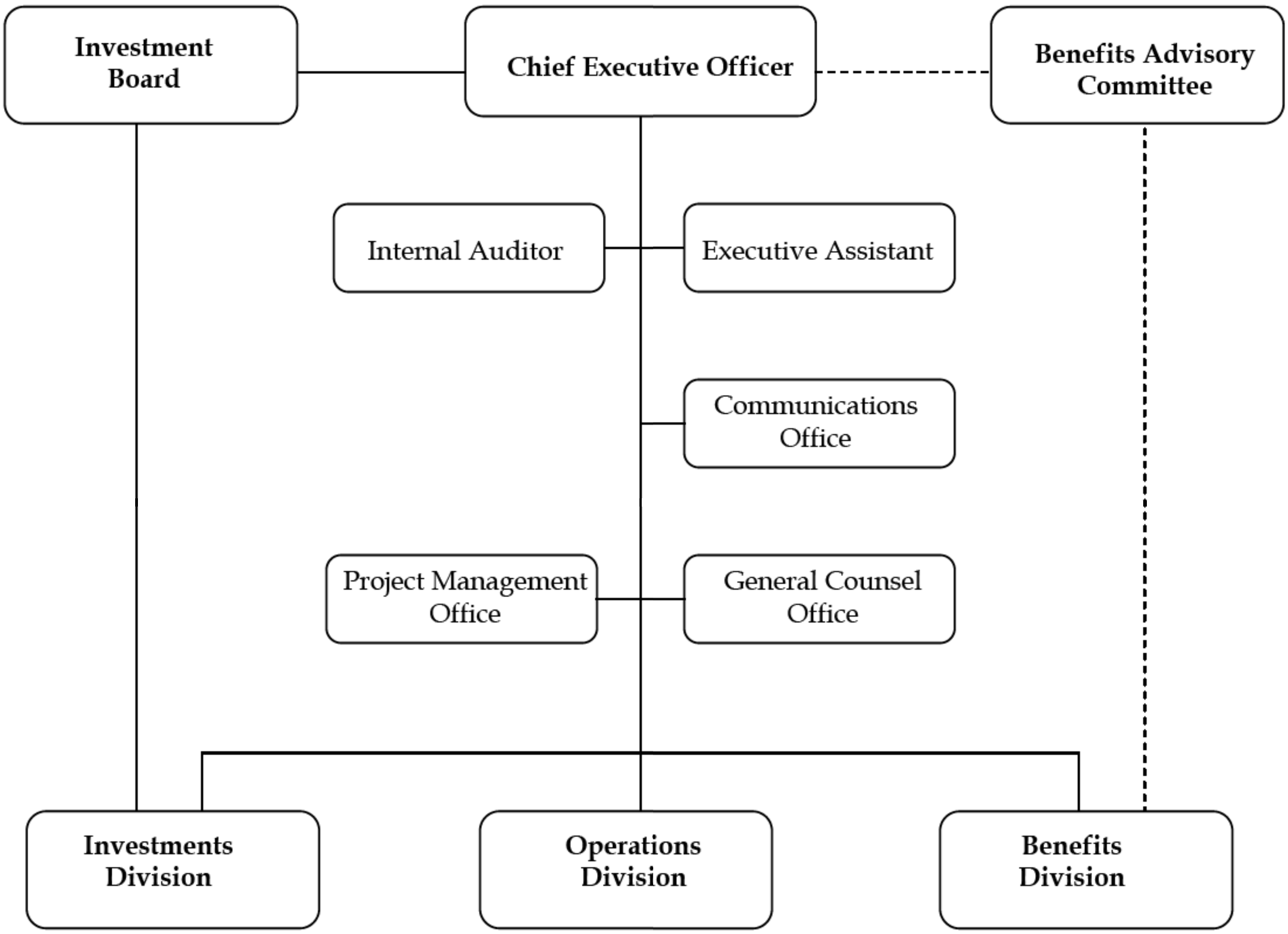
Investment Policy and Administration
Karl C. Koch, Chief Investment Officer

Membership and Benefit Administration
David Martin, Chief Benefits Officer

Operations
Leon J. Schwartz, Chief Operations Officer

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

IPERS TABLE OF ORGANIZATION



INVESTMENT BOARD

Phyllis S. Peterson
Chairperson

Retired IPERS Member
Term Expires: April 2016

State Treasurer Michael L. Fitzgerald
Vice Chairperson

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

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.

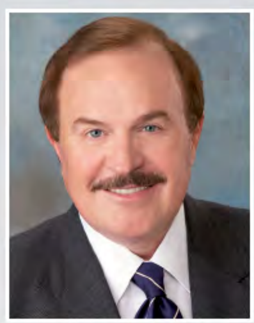
INVESTMENT BOARD

Senator Staci Appel
Nonvoting Member
Term Expires: January 2011

Michael R. Beary
Active IPERS Member
Term Expires: April 2013

David O. Creighton, Sr.
Public Member
Term Expires: April 2015

Lana J. Dettbarn
IPERS Educational Member
Term Expires: April 2011



James (Jay) Ingram
Public Member
Term Expires: April 2013

Senator Steve Kettering
Nonvoting Member
Term Expires: January 2011

Representative Mary Mascher
Nonvoting Member
Term Expires: January 2011

Representative Dawn Pettengill
Nonvoting Member
Term Expires: January 2011

Joanne L. Stockdale
Public Member
Term Expires: April 2011

BENEFITS ADVISORY COMMITTEE

Len Cockman
Chairperson

Employer Representative
Iowa Association of School Boards
Voting Term Expires 2012

Bradley Hudson
Vice Chairperson

Member Representative
Iowa State Education Association
Voting Term Expires 2011

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

The 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 include:

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

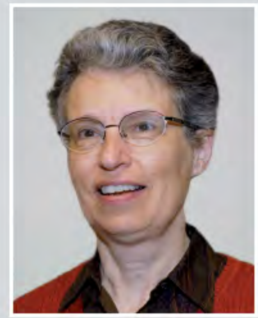
Voting members serve three-year terms.

BENEFITS ADVISORY COMMITTEE

Susanna Brown
Member Representative
State Police Officers Council

Walt Galvin
Member Representative
Retired School Personnel Association

Andrew Hennesy
Member Representative
IPERS Improvement Association



Martha Henrichs
Employer Representative
Iowa Association of Community College Trustees

Steve Hoffman
Member Representative
Iowa State Sheriffs and Deputies Association

Danny Homan
Member Representative
AFSCME
Voting Term Expires: 2013

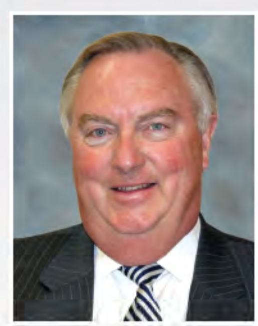
Patrick Lynch
Member Representative
International Brotherhood of Teamsters
Voting Term Expires: 2013

James Maloney
Employer Representative
Iowa Association of Counties
Voting Term Expires: 2012

Diane Reid
Public Member
Voting Term Expires: 2011

Mark Tomb
Employer Representative
Iowa League of Cities
Voting Term Expires: 2011

Gaylord Tryon
Member Representative
School Administrators of Iowa
Voting Term Expires: 2013



Ray Walton
Appointed by Statute
Iowa Department of Administrative Services

PROFESSIONAL AND CONSULTING SERVICES

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

ACTUARIES

Milliman, Inc.—Omaha, NE

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

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

Cavanaugh Macdonald Consulting, LLC—Omaha, NE

The firm assumed the assignment of the actuarial consulting contract to complete the FY2010 valuation and the remaining contract services through June 30, 2011.

PLAN LEGAL COUNSEL

Ice Miller, LLP—Indianapolis, IN

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

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

SECURITIES LITIGATION MONITORING COUNSELS

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

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

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

INVESTMENT CONSULTANT

Wilshire Associates Inc.—Santa Monica, CA

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

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

MASTER CUSTODIAN AND SECURITIES LENDING AGENT

The Bank of New York Mellon—New York, NY

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

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

OPERATIONAL/INFORMATION TECHNOLOGY CONSULTANT

Vitech Systems Group, Inc.—New York, NY

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

- Implementing a new benefits administration system.
- Assisting in the review and improvement of all benefits administration business processes.

BENCHMARKING CONSULTANT

CEM Benchmarking Inc.—Toronto, Ontario, Canada

The independent benchmarking consultant firm is responsible for:

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

INVESTMENT MANAGERS

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

The investment managers chosen by the System are responsible for:

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

INVESTMENT MANAGERS

as of June 30, 2010

Domestic Equity

BlackRock Institutional Trust Company, NA
San Francisco, CA

First Quadrant, L.P.
Pasadena, CA

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

Mellon Capital Management Corp.
San Francisco, CA

PanAgora Asset Management, Inc.
Boston, MA

RCM
San Francisco, CA

Wellington Management Company, LLP
Boston, MA

International Equity

BlackRock Institutional Trust Company, NA
San Francisco, CA

Emerging Markets Management, LLC
Arlington, VA

GAM USA Inc.
New York, NY

Oechsle International Advisors, LLC
Boston, MA

Quantitative Management Associates, LLC
Newark, NJ

Wellington Management Company, LLP
Boston, MA

Liquidation Account

Smith Breeden Associates, Inc.
Chapel Hill, NC

Western Asset Management Company
Pasadena, CA

Core Plus Fixed Income

BlackRock Financial Management, Inc.
New York, NY

Mellon Capital Management Corp.
San Francisco, CA

Principal Global Investors, LLC
Des Moines, IA

Western Asset Management Company
Pasadena, CA

High-Yield Bonds

Oaktree Capital Management, LLC
Los Angeles, CA

Post Advisory Group, LLC
Los Angeles, CA

Private Equity/Debt

Pathway Capital Management, LLC
Irvine, CA

Real Estate

ING Clarion Partners
New York, NY

INVESCO Realty Advisors
Dallas, TX

RREEF America, LLC
Chicago, IL

TA Realty, LLC
Boston, MA

UBS Realty Investors, LLC
Hartford, CT

FINANCIAL

Independent Auditor's Report

Management's Discussion and Analysis

Basic Financial Statements
Statement of Plan Net Assets
Statement of Changes in Plan Net Assets
Notes to Financial Statements

Required Supplementary Information

Other Supplementary Information

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

David A. Vaudt, CPA
Auditor of State

Independent Auditor's Report

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

We have audited the accompanying statement of plan net assets of the Iowa Public Employees' Retirement System (IPERS) as of June 30, 2010 and 2009, and the related statement of changes in plan net assets for the years then ended. These financial statements are the responsibility of IPERS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in note 1, the financial statements present the financial position and the changes in financial position of only that portion of the financial reporting entity of the State of Iowa that is attributable to the transactions of IPERS. They do not purport to, and do not, present fairly the financial position of the State of Iowa as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows, where applicable, for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of IPERS at June 30, 2010 and 2009, and the changes in plan net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

Management's Discussion and Analysis and the schedules of funding progress and employer contributions on pages 29 through 32 and 57 through 58 are not required parts of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

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

DAVID A. VAUDT, CPA Auditor of State	WARREN G. JENKINS, CPA Chief Deputy Auditor of State

December 2, 2010

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, 2010. It is intended to be used in conjunction with the transmittal letter and IPERS' financial statements and notes, which begin on page 33 of this report.

USING THIS FINANCIAL REPORT

This Comprehensive Annual Financial Report reflects the activities of the Iowa Public Employees' Retirement System as reported in the Statement of Plan Net Assets (see page 33) and the Statement of Changes in Plan Net Assets (see page 34). These statements are presented on an accrual basis and reflect all Trust Fund activities as incurred. The Notes to Financial Statements are an integral part of the financial statements and include additional information not readily evident in the statements themselves. The Required Supplementary Information and Other Supplementary Information following the Notes to Financial Statements provide historical and additional detailed information considered useful in evaluating the condition of the plan. Investment data in the Financial section are presented at fair value. See the Actuarial section of this report for a detailed discussion of the actuarial value of assets and liabilities and the funded status.

FINANCIAL HIGHLIGHTS

- IPERS' plan net assets held in trust for pension benefits increased $1.904 billion during fiscal year 2010. On June 30, 2010, total plan assets (including capital assets of $18.2 million) were $21.280 billion, exceeding total liabilities of $1.402 billion, resulting in net assets held in trust for pension benefits of $19.878 billion.

- Capital assets increased from $15.0 million at the end of FY2009 to $18.2 million at the end of FY2010. This was primarily due to the capitalization of $3.9 million in equipment and other expenses directly related to the I-Que project, as discussed on page 9 of the Introduction.

- Covered wages, upon which both employee and employer contributions are calculated, increased $132.5 million, or 2 percent, over the last fiscal year and totaled $6.571 billion. Employer and employee contributions increased, in total, by 8 percent. In comparison, fiscal year 2009 saw a 5 percent increase in covered wages and a 10 percent increase in contributions.

- Net investment and securities lending income, after all investment-related expenses, was $2.478 billion in FY2010. In comparison, IPERS experienced losses of $3.864 billion in FY2009 and $338.6 million in FY2008. Investment management expenses were $32.9 million for FY2010. In comparison, investment management expenses were $32.5 million for FY2009 and $39.3 million for FY2008.

- Total contributions, investments, and other income resulted in additions to the Fund of $3.233 billion in fiscal year 2010. This compares to a loss of $3.168 billion in FY2009 and a gain of $295.6 million in FY2008.

- Pension benefit payments to members increased $95.4 million. Refunds increased from $34.3 million to $41.5 million. Payments to members totaled $1.320 billion in fiscal year 2010, compared to $1.217 billion in FY2009 and $1.132 billion in FY2008.

- Administrative expenses totaled $9.0 million, compared to $10.9 million for fiscal year 2009 and $9.9 million for fiscal year 2008. This decrease was due largely to capitalization of expenses related to I-Que programming and a reduction in postage and printing costs. Administrative expenses were 0.05 percent of the value of plan net assets in fiscal year 2010. In comparison, administrative expenses were 0.06 percent of the value of plan net assets in FY2009 and 0.04 percent of the value of plan net assets in FY2008.

Asset Allocation and Diversification

The following two tables present condensed summaries of plan net assets and a breakdown of the changes to the plan net assets with comparison to the previous two fiscal years.

IPERS' plan net assets at June 30, 2010, were $19.878 billion, an increase of $1.904 billion over the previous fiscal year-end balance.

Total plan net assets increased 11 percent in FY2010.

A large percentage of total assets, 96 percent, is made up of investments held to provide retirement, death, and disability benefits to qualified members and their beneficiaries. Other assets, including cash and cash equivalents, receivables from member and employer contributions, receivables from investment-related transactions, and capital assets, make up 4 percent of total assets. Total plan net assets increased 11 percent in fiscal year 2010.

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 decreased $108.8 million from fiscal year 2009 to 2010, as compared to a decrease of $2.326 billion between fiscal years 2008 and 2009.

PLAN NET ASSETS

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

	2010	2009	2010/2009 Inc/(Dec) Percent	2008	2009/2008 Inc/(Dec) Percent
Cash and investments at fair value	$20,641,924	$19,000,853	8.6	$24,636,972	(22.9)
Receivables	619,310	469,097	32.0	1,558,465	(69.9)
Capital assets	18,224	14,996	21.5	12,474	20.2
Other assets	703	---		---	
Total assets	21,280,161	19,484,946	9.2	26,207,911	(25.7)
Total liabilities	1,402,080	1,510,905	(7.2)	3,837,316	(60.6)
Total plan net assets	**$19,878,081**	**$17,974,041**	**10.6**	**$22,370,595**	**(19.7)**

CHANGES IN PLAN NET ASSETS

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

	2010	2009	2010/2009 Inc/(Dec) Percent	2008	2009/2008 Inc/(Dec) Percent
Additions					
Contributions and service purchases	$ 755,210	$ 695,559	8.6	$ 634,190	9.7
Net investment and securities lending income/(loss)	2,477,824	(3,863,760)	164.1	(338,575)	(1,041.2)
Total additions	3,233,034	(3,168,201)	202.0	295,615	(1,171.7)
Deductions					
Benefits and refunds	1,320,026	1,217,456	8.4	1,132,302	7.5
Administrative expenses	8,968	10,897	(17.7)	9,886	10.2
Total deductions	1,328,994	1,228,353	8.2	1,142,188	7.5
Increase/(decrease) in plan net assets	**$1,904,040**	**$(4,396,554)**	**143.3**	**$(846,573)**	**(419.3)**

Benefits paid out continued to exceed contributions received by $564.8 million, $521.9 million, and $498.1 million for fiscal years 2010, 2009, and 2008, respectively. This excess of benefits paid relative to contributions received is characteristic of a mature pension plan such as IPERS.

Total administrative expenses for fiscal years 2010, 2009, and 2008 were $9.0 million, $10.9 million, and $9.9 million, respectively. (See Schedule of Administrative Expenses, page 60.)

The investment rates of return for the current and preceding two fiscal years were 13.82 percent, –16.27 percent, and –1.33 percent, respectively. (See also the Investments section of this report beginning on page 63 for more information on rates of return.) The following table contains the fiscal year performance of each asset class, the benchmark, and the Fund's actual asset allocation.

RETURNS BY ASSET CLASS

Fiscal year ended June 30, 2010

Asset Class	Return	Benchmark	Allocation
Domestic equity	16.07%	15.68%	25.18%
International equity	10.05%	10.87%	13.49%
Core plus fixed income	13.83%	10.59%	33.39%
High-yield bonds	19.58%	24.67%	5.01%
Private equity/debt	20.55%	55.11%	12.70%
Real estate	2.35%	6.74%	7.78%
Liquidation account	NA	NA	1.44%
Short-term cash	0.80%	0.15%	1.01%
Total Fund	**13.82%**	**16.98%**	**100.00%**

Contacting System Financial Management

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

BASIC FINANCIAL STATEMENTS

STATEMENT OF PLAN NET ASSETS

June 30, 2010 and 2009

	2010 Pension Trust Fund	2010 QBA Fund*	2010 Total	2009 Total
Assets				
Cash and cash equivalents	**$ 208,952,607**	**$710**	**$ 208,953,317**	**$ 285,122,930**
Receivables				
Contributions	49,189,220	---	49,189,220	53,350,133
Accrued interest and dividends	61,928,154	---	61,928,154	62,102,871
Investment sales	505,053,548	---	505,053,548	348,281,770
Foreign exchange contracts	3,138,931	---	3,138,931	5,362,808
Total receivables	**619,309,853**	**---**	**619,309,853**	**469,097,582**
Investments at fair value				
Fixed income	7,917,706,900	---	7,917,706,900	7,622,702,084
Domestic equity	5,002,367,554	---	5,002,367,554	3,805,487,883
International equity	2,667,363,333	---	2,667,363,333	2,389,790,557
Real estate	1,544,705,958	---	1,544,705,958	1,501,682,972
Private equity/debt	2,521,313,604	---	2,521,313,604	2,080,317,195
Liquidation account	283,313,502	---	283,313,502	564,506,304
Total investments	**19,936,770,851**	**---**	**19,936,770,851**	**17,964,486,995**
Securities lending collateral pool	**496,199,655**	**---**	**496,199,655**	**751,242,781**
Capital assets				
Depreciable assets—net of accumulated depreciation	17,723,796	---	17,723,796	14,496,184
Nondepreciable assets—land	500,000	---	500,000	500,000
Total capital assets	**18,223,796**	**---**	**18,223,796**	**14,996,184**
Other assets	**703,380**	**---**	**703,380**	**---**
Total assets	**21,280,160,142**	**710**	**21,280,160,852**	**19,484,946,472**
Liabilities				
Accounts payable and accrued expenses	16,424,954	---	16,424,954	22,804,557
Investment purchases payable	861,221,980	---	861,221,980	673,248,994
Rebates and collateral payable	521,824,119	---	521,824,119	809,451,718
Foreign exchange contracts payable	2,609,171	---	2,609,171	5,400,552
Total liabilities	**1,402,080,224**	**---**	**1,402,080,224**	**1,510,905,821**
Net assets held in trust for pension benefits (Note 9, page 55)	**$19,878,079,918**	**$710**	**$19,878,080,628**	**$17,974,040,651**

See accompanying Notes to Financial Statements beginning on page 35.
*See Note 10 on page 56.

STATEMENT OF CHANGES IN PLAN NET ASSETS

Years ended June 30, 2010 and 2009

	2010 Pension Trust Fund	2010 QBA Fund*	2010 Total	2009 Total
Additions				
Contributions				
Employer contributions	$ 449,119,413	$5,000	$ 449,124,413	$ 415,324,133
Employee contributions	293,471,971	---	293,471,971	270,934,593
Service purchases	12,613,708	---	12,613,708	9,300,671
Total contributions	**755,205,092**	**5,000**	**755,210,092**	**695,559,397**
Investments				
Interest	287,899,080	3	287,899,083	378,304,797
Dividends	58,676,370	---	58,676,370	64,652,316
Real estate and private equity/debt	79,926,921	---	79,926,921	101,713,961
Net appreciation/(depreciation) in fair value of investments	2,049,520,806	---	2,049,520,806	(4,345,603,579)
Other	106,998	---	106,998	66,744
Investment management expenses	(32,884,753)	---	(32,884,753)	(32,538,795)
Net investment income/(loss)	**2,443,245,422**	**3**	**2,443,245,425**	**(3,833,404,556)**
Securities lending income				
Securities lending income	1,553,052	---	1,553,052	14,845,898
Securities lending net appreciation/ (depreciation) in fair value of collateral pool	33,042,470	---	33,042,470	(36,734,366)
Securities lending expenses	(16,853)	---	(16,853)	(8,467,576)
Net securities lending income/(loss)	**34,578,669**	---	**34,578,669**	**(30,356,044)**
Total additions	**3,233,029,183**	**5,003**	**3,233,034,186**	**(3,168,201,203)**
Deductions				
Benefit payments	1,278,549,652	6,192	1,278,555,844	1,183,118,816
Employee refunds	41,470,129	---	41,470,129	34,337,453
Administrative expenses	8,967,510	726	8,968,236	10,896,866
Total deductions	**1,328,987,291**	**6,918**	**1,328,994,209**	**1,228,353,135**
Net increase/(decrease)	**1,904,041,892**	**(1,915)**	**1,904,039,977**	**(4,396,554,338)**
Net assets held in trust for pension benefits beginning of year	17,974,038,026	2,625	17,974,040,651	22,370,594,989
Net assets held in trust for pension benefits (Note 9, page 55)	**$19,878,079,918**	**$ 710**	**$19,878,080,628**	**$17,974,040,651**

See accompanying Notes to Financial Statements beginning on page 35.
*See Note 10 on page 56.

NOTES TO FINANCIAL STATEMENTS

June 30, 2010 and 2009

(1) Reporting Entity

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

For financial reporting purposes, IPERS considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with IPERS is such that exclusion would cause IPERS' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include (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, 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 retirement systems supported by Iowa public funds are excluded from membership.

PLAN MEMBERSHIP

	June 30, 2010	June 30, 2009
Employers		
City	1,154	1,163
County	412	415
School	391	393
State	25	25
28E agencies	70	68
Utilities	134	134
Other	43	43
Total	**2,229**	**2,241**
Members		
Retirees and beneficiaries	93,692	89,852
Active vested	128,448	128,004
Inactive vested	31,846	32,297
Active nonvested	37,212	39,713
Inactive nonvested	33,675	34,545
Total	**324,873**	**324,411**

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. These documents were changed in FY2010 when the Iowa Legislature passed House File 2518, affecting both future benefit accruals and contribution rates. The following brief description of IPERS benefits is provided for general informational purposes only and does not incorporate the changes resulting from House File 2518. (See page 7 of the Introduction for a summary of the changes.) Members should refer to the plan documents for more comprehensive information.

Pension Benefits

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

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

Disability and Death Benefits

A vested member who is awarded federal social security or federal railroad retirement disability benefits because of a disability is eligible to claim IPERS benefits regardless of age. Disability benefits are unreduced for age. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment which is equal to the present actuarial value of the member's accrued benefit or is calculated with a set formula, whichever is greater. When a member dies after retirement, the availability of death benefits depends on the benefit option selected by the member at the time of retirement.

Refunds

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

Vesting

A member who completes four years of covered service or who has attained the age of 55 while making contributions to the plan has vested rights to IPERS benefits.

Contributions

Employee and employer contribution rates are established by statute for the regular members. The contributions are remitted by participating employers. Employees working in Special Service occupations, and their employers, contribute at actuarially determined rates. Wages were covered up to the federal limit of $245,000 for calendar years 2009 and 2010.

CONTRIBUTION RATES

Fiscal year 2010

	Employee	Employer	Total
Regular Membership	4.30%	6.65%	10.95%
Special Service Group 1*	7.62%	7.62%	15.24%
Special Service Group 2†	6.14%	9.20%	15.34%

*Sheriffs and deputies.

†All other protection occupation members.

(3) Summary of Significant Accounting Policies

A. Basis of Accounting

IPERS' financial statements have been prepared using the accrual basis of accounting in conformity with U.S. generally accepted accounting principles as applied to 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 employer and employee contributions and investment income. Investment sales and purchases are recorded as of their trade date.

B. New Accounting Standards

In FY2010, IPERS implemented GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. Questions related to whether and when intangible assets should be considered capital assets for financial reporting purposes have led to inconsistencies in the accounting and financial reporting of these assets, particularly in the areas of recognition, initial measurement, and amortization. GASB Statement No. 51 is intended to address the lack of sufficiently specific authoritative guidance and to improve the consistency and, therefore, the comparability of the accounting and financial reporting of such assets among state and local governments. IPERS has applied this guidance to its accounting and reporting of I-Que, the new benefits administration system discussed on page 9.

IPERS also implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, in FY2010. A derivative is a financial contract that has its value linked to an underlying asset. They are often complex financial arrangements used by governments to manage specific risks or to make investments. GASB Statement No. 53 establishes accounting and financial reporting standards by providing guidance in the recognition, measurement, and disclosure of derivative holdings and transactions. The objective of this Statement is to increase the usefulness and comparability of derivative information reported by state and local governments. See derivative disclosure on page 46 of these notes.

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 enters into forward foreign exchange contracts to minimize the short-term impact of foreign currency fluctuations on the asset and liability positions of foreign investments. The gains or losses on these contracts are 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 not having quoted market prices have been valued based on yields and maturities currently available on comparable securities of similar issue. Fair values for real estate investments are based on periodic assessments or appraisals of the underlying investments. Futures contracts are valued daily with the resulting adjustment recorded as realized gains/losses arising from the daily settlement of the variation margin. Private equities are valued based on March 31 net asset values plus or minus purchases, sales, and cash flows from April 1 through June 30 of the reporting year.

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 their 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, 2010, follows.

INVESTED ASSETS

(Dollar values expressed in thousands)

June 30, 2010

Investment Type	**Total Fair Value**	**Fair Value on Loan**
Cash	**$ (341,235)**	**---**
Cash collateral at broker	**22,569**	**---**
Forward contracts	**2,188**	**---**
Pooled funds and mutual funds	632,515	---
Treasuries	43,880	---
Short-term investments	**676,395**	**---**
Common stocks	2,775,214	$169,180
Real estate investment trusts	147,983	3,277
Preferred stock	19,711	---
Other equities	87	1
Equity investments	**2,942,995**	**172,458**
Government agencies	*355,003*	*22,006*
Government bonds	*726,118*	*49,273*
Government inflation indexed	*5,115*	---
Other government fixed income	*88,704*	*9,350*
Government fixed income	1,174,940	80,629
Government National Mortgage Association	*22,778*	---
Freddie Mac	*98,984*	---
Fannie Mae	*599,700*	---
Collateralized mortgage obligations	*63,655*	---
Other government mortgage-backed	*19,156*	---
Government assets and mortgage-backed	804,273	---
Asset-backed securities	*586,086*	---
Corporate bonds	*1,881,362*	210,819
Corporate fixed income	2,467,448	210,819
State and local obligations	37,346	---
Private placements	*1,091,397*	38,818
Miscellaneous other fixed income	*775*	---
Other fixed income	1,092,172	38,818
Fixed income investments	**5,576,179**	**330,266**
Convertible preferred stock	5,852	---
Convertible corporate bonds	2,589	1,206
Convertible investments	**8,441**	**1,206**
Derivative instruments	**(5,778)**	**---**
Real estate	**1,345,816**	**---**
Equity funds	4,800,892	653
Fixed income funds	2,308,584	---
Commingled funds	**7,109,476**	**653**
Venture capital	485,197	---
Special equity	2,033,852	---
Private equity	**2,519,049**	**---**
Total	**$19,856,095**	**$504,583**

Total from above	19,856,095
Cash in managers' accounts	(213,035)
Accrued interest and dividends	(61,928)
Investments sales receivable	(505,053)
Foreign exchange contracts receivable	(3,139)
Investment purchases payable	861,222
Foreign exchange contracts payable	2,609
Investments on Statement of Net Assets	**$19,936,771**

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 following tables summarize IPERS' fixed income portfolio exposure levels and credit quality ratings. The table on the next page includes $789.1 million of U.S. Treasury obligations and $22.8 million of Government National Mortgage Association obligations. These securities are explicitly guaranteed by the U.S. government and represent 9.5 percent of the total Fund's fixed income exposure. Therefore, as of June 30, 2010, IPERS' fixed income assets that are not explicitly government-guaranteed represented 90.5 percent of the fixed income portfolio.

CREDIT RISK—S&P QUALITY RATINGS

(Dollar values expressed in thousands)

June 30, 2010

	Total	TSY	AGY	AAA	AA	A	BBB	BB	B	CCC & Below	NR
Pooled funds & mutual funds	$ 632,515	---	---	$ 470,268	---	---	---	---	---	---	$ 162,247
Treasuries	43,880	$ 43,880	---	---	---	---	---	---	---	---	---
Short-term investments	**676,395**	**43,880**	**---**	**470,268**	**---**	**---**	**---**	**---**	**---**	**---**	**162,247**
Government agencies	*355,003*	---	---	---	*$ 5,422*	*$ 33,178*	---	---	---	---	*316,403*
Government bonds	*726,118*	*1,197*	---	*724,496*	---	---	---	*$ 425*	---	---	---
Government inflation indexed	*5,115*	*5,115*	---	---	---	---	---	---	---	---	---
Other government fixed income	*88,704*	---	---	*4,448*	---	*2,225*	*$ 41,489*	*34,206*	*$ 6,336*	---	---
Government fixed income	1,174,940	6,312	---	728,944	5,422	35,403	41,489	34,631	6,336	---	316,403
Govt. National Mortgage Assoc.	*22,778*	---	*$22,778*	---	---	---	---	---	---	---	---
Freddie Mac	*98,984*	---	---	---	---	---	---	---	---	---	*98,984*
Fannie Mae	*599,700*	---	---	---	---	---	---	---	---	---	*599,700*
Collateralized mort. obligations	*63,655*	---	---	*10,159*	---	---	---	---	---	---	*53,496*
Other govt. mortgage-backed	*19,156*	---	---	*3,765*	---	---	*15,391*	---	---	---	---
Govt. assets & mortgage-backed	804,273	---	22,778	13,924	---	---	15,391	---	---	---	752,180
Asset-backed securities	*586,086*	---	---	*229,991*	*19,232*	*61,979*	*36,646*	*31,455*	*46,212*	*$ 87,439*	*73,132*
Corporate bonds	*1,881,362*	---	---	*124,821*	*98,079*	*415,256*	*406,244*	*347,173*	*404,002*	*47,761*	*38,026*
Corporate fixed income	2,467,448	---	---	354,812	117,311	477,235	442,890	378,628	450,214	135,200	111,158
State and local obligations	37,346	---	---	5,081	13,219	19,046	---	---	---	---	---
Private placements	*1,091,397*	---	---	*159,812*	*120,842*	*23,777*	*94,858*	*180,487*	*230,378*	*18,037*	*263,206*
Misc. other fixed income	*775*	---	---	---	---	---	---	---	---	*775*	---
Other fixed income	1,092,172	---	---	159,812	120,842	23,777	94,858	180,487	230,378	18,812	263,206
Fixed income investments	**5,576,179**	**6,312**	**22,778**	**1,262,573**	**256,794**	**555,461**	**594,628**	**593,746**	**686,928**	**154,012**	**1,442,947**
Convertible preferred stock	5,852	---	---	---	---	---	---	---	---	1,048	4,804
Convertible corporate bonds	2,589	---	---	---	---	---	416	---	---	2,173	---
Convertible investments	**8,441**	**---**	**---**	**---**	**---**	**---**	**416**	**---**	**---**	**3,221**	**4,804**
Commingled bond funds	**2,308,584**	**738,955**	**---**	**1,071,067**	**95,160**	**218,531**	**184,871**	**---**	**---**	**---**	**---**
Total	**$8,569,599**	**$789,147**	**$22,778**	**$2,803,908**	**$351,954**	**$773,992**	**$779,915**	**$593,746**	**$686,928**	**$157,233**	**$1,609,998**

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 borrower will be unable to meet its obligation. Information regarding IPERS' credit risk related to derivatives is found under the derivatives disclosures on pages 46–48 of these notes. Policies related to credit risk pertaining to IPERS' securities lending program are found under the securities lending disclosures on pages 48–50 of these notes.

Concentration of Credit Risk

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

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 managed within the portfolio using the effective duration (or option-adjusted) methodology. The methodology takes into account optionality on bonds and scales the risk of price changes on bonds depending upon the degree of change in rates and the slope of the yield curve. All of the System's core plus fixed income investment contracts require the effective duration of the manager's portfolio remain between 80 percent and 120 percent of the effective duration measure of a specific fixed income index. 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 following table quantifies to the fullest extent possible the interest rate risk of the System's fixed income assets. Interest rate risks associated with swaps and other derivative instruments are found in the derivatives disclosures. No interest rate futures or options positions will be established which affect the duration or weighted average maturity of the managed account by more than one year.

EFFECTIVE DURATION

(Dollar values expressed in thousands)

June 30, 2010

Investment Type	Fair Value	Effective Duration (Years)
Pooled funds and mutual funds	$ 632,515	---
Treasuries	43,880	0.25
Short-term investments	**676,395**	**0.23**
Government agencies	*355,003*	*3.10*
Government bonds	*726,118*	*7.61*
Government inflation indexed	*5,115*	*11.14*
Other government fixed income	*88,704*	*8.08*
Government fixed income	1,174,940	6.54
Government National Mortgage Association	*22,778*	*1.53*
Freddie Mac	*98,984*	*1.87*
Fannie Mae	*599,700*	*2.24*
Collateralized mortgage obligations	*63,655*	*0.89*
Other government mortgage-backed	*19,156*	*2.32*
Government assets and mortgage-backed	804,273	2.06
Asset-backed securities	*586,086*	*1.98*
Corporate bonds	*1,881,362*	*4.77*
Corporate fixed income	2,467,448	4.12
State and local obligations	37,346	12.64
Private placements	*1,091,397*	*4.22*
Miscellaneous other fixed income	*775*	*2.13*
Other fixed income	1,092,172	4.22
Fixed income investments	**5,576,179**	**4.39**
Convertible preferred stock	5,852	0.79
Convertible corporate bonds	2,589	5.26
Convertible investments	**8,441**	**2.36**
Commingled bond funds	**2,308,584**	**4.30**
Total	**$8,569,599**	**4.36**

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 foreign currency exposure of the global macro managers was less than 1 percent of the System's total foreign currency exposure on June 30, 2010.

FOREIGN CURRENCY RISK BY INVESTMENT TYPE

(Dollar values expressed in thousands)

June 30, 2010

	Total	Cash	Cash Equivalents	Forward Contracts	Equity	Fixed Income
Argentine Peso	$ 1	$ 1	---	---	---	---
Australian Dollar	63,267	(995)	$ 668	$ (39,688)	$ 103,282	---
Brazilian Real	30,525	269	---	---	30,256	---
British Pound	152,004	(3,973)	2,912	12,081	140,984	---
Canadian Dollar	(30,791)	(1,400)	1,200	(34,871)	4,280	---
Chilean Peso	3	3	---	---	---	---
Colombian Peso	1,654	---	---	---	1,654	---
Danish Krone	11,926	---	---	---	11,926	---
Egyptian Pound	3,505	---	---	---	3,505	---
Euro	553,031	(875)	(2,912)	(55,476)	608,264	$ 4,030
Hong Kong Dollar	131,835	999	62	---	130,774	---
Hungarian Forint	2,161	---	---	---	2,161	---
Indian Rupee	19,759	(89)	---	---	19,848	---
Indonesian Rupiah	14,575	---	---	---	14,575	---
Israeli Shekel	1,684	---	---	---	1,684	---
Japanese Yen	337,408	5,348	(1,588)	16,146	317,502	---
Malaysian Ringgit	10,973	(46)	---	---	11,019	---
Mexican Peso	15,189	---	---	---	15,189	---
New Taiwan Dollar	63,433	120	---	---	63,313	---
New Zealand Dollar	(8,242)	2	---	(8,244)	---	---
Norwegian Krone	15,745	---	---	44	15,701	---
Philippine Peso	3,009	---	---	---	3,009	---
Polish Zloty	4,308	---	---	---	4,308	---
Russian Ruble	14,193	---	---	---	14,193	---
Singapore Dollar	25,364	1,366	---	---	23,998	---
South African Rand	27,513	13	---	(1,800)	29,300	---
South Korean Won	70,968	---	---	---	70,968	---
Swedish Krona	66,329	---	---	56,284	10,045	---
Swiss Franc	63,047	---	---	9,957	53,090	---
Thai Baht	12,484	(230)	---	---	12,714	---
Turkish New Lira	6,288	---	---	(910)	7,198	---
Total	**$1,683,148**	**$513**	**$342**	**$(46,477)**	**$1,724,740**	**$4,030**

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

IPERS' investment managers cannot use derivatives for speculative purposes. They may use derivatives to access desired markets efficiently, to control and manage portfolio risk, and in portable alpha strategies.

Derivatives

GASB Statement No. 53 requires the fair value of financial arrangements called "derivatives" or "derivative instruments" be reported in the financial statements of state and local governments. The statement further requires derivatives be categorized as either a hedging derivative or an investment derivative. All of the System's derivative exposures at June 30, 2010, 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 87.) 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 Plan Net Assets. 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 46–48.

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, and exposure monitoring procedures. 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 Plan Net Assets.

A listing of futures and options contracts outstanding at June 30, 2010, is listed below. Futures and options can offer potentially 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, 2010

	Expiration Date	Long/ Short	Notional Value	Fair Value
Amsterdam Index	July 2010	Long	$ 8,179	$ (503)
CAC 40 Euro Index	July 2010	Long	12,865	(684)
Hang Seng Index	July 2010	Short	(11,910)	307
IBEX 35 Index	July 2010	Long	13,189	(563)
10-year U.S. Treasury notes	September 2010	Short	(113,157)	(1,547)
10-year Japan bonds	September 2010	Long	9,625	(20)
2-year U.S. Treasury notes	September 2010	Long	16,782	67
5-year U.S. Treasury notes	September 2010	Long	72,036	632
DAX Index	September 2010	Short	(4,705)	141
EMINI—S&P 500	September 2010	Long	91,251	(4,401)
Euro Bunds	September 2010	Long	145,214	1,389
FTSE 100 Index	September 2010	Long	23,852	(1,374)
TOPIX Index	September 2010	Short	(14,900)	497
U.S. Treasury bonds	September 2010	Long	93,964	2,936
10-year Australia bonds	September 2010	Short	(555,560)	(1,551)
10-year Canada bonds	September 2010	Short	(116,534)	(1,993)
U.K. Long Gilt	September 2010	Short	(147,782)	(2,352)
S&P Canada 60	September 2010	Short	(16,847)	592
FTSE/MIB Index	September 2010	Long	8,384	(445)
SPI 200 Index	September 2010	Long	1,779	(159)
U.S. Ultra Bonds	September 2010	Long	68,008	1,257
Total			**$(416,267)**	**$(7,774)**

OPTIONS EXPOSURE SUMMARY

(Dollar values expressed in thousands)

June 30, 2010

	Expiration Date	Long/ Short	Option Type	Strike Price	Fair Value
Eurodollar	September 2010	Short	Put	$ 98.75	$ (12)
Eurodollar	September 2010	Short	Call	99.25	(61)
10-year U.S. Treasury notes	September 2010	Long	Call	119.50	305
10-year U.S. Treasury notes	September 2010	Long	Call	121.50	252
10-year U.S. Treasury notes	September 2010	Short	Call	124.50	(97)
10-year U.S. Treasury notes	September 2010	Short	Call	123.50	(45)
10-year U.S. Treasury notes	September 2010	Long	Put	117.00	38
Total					**$380**

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, 2010, the notional value of the credit default swaps held in the System's fixed income portfolio was $95.3 million. The credit default swaps are reported at a fair value of $268,037 in the Statement of Plan Net Assets.

Interest Rate Swaps

Interest rate swaps are transactions between two parties in which interest payments from different indexes are swapped. Interest rate swaps are often used to alter the portfolios' exposure to interest rate fluctuations, by swapping fixed-rate obligations for floating-rate obligations, or swapping floating-rate obligations for fixed-rate obligations. By utilizing interest rate swaps, the System's investment managers are able to synthetically alter their interest rate exposure and bring it in line with their strategic objectives for interest rate risk. At June 30, 2010, the notional value of the interest rate swaps held in the System's fixed income portfolio was $99.2 million. All interest rate swaps held by the System are reported at a fair value of –$6.8 million in the Statement of Plan Net Assets.

Total Return Swaps

A total return swap is a contract in which two parties swap payments based on the total return of a reference asset. The reference asset may be any asset, index, or basket of assets. At June 30, 2010, the notional value of the total return swaps held in the System's fixed income portfolio was $83.0 million. The total return swaps held by the System are reported at a fair value of $204,440 in the Statement of Plan Net Assets.

Mortgage-Backed Securities

The System invests in mortgage-backed securities, which are reported in the Statement of Plan Net Assets 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 regarding interest rate risks for these investments are included under the interest rate risk disclosures on pages 43–44.

IPERS participates in the securities lending program administered by the Treasurer of State through the custodian bank.

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 no credit risk exposure to borrowers because the amount of collateral held on each loan exceeded 100 percent of the borrowed securities' market value. 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. The securities lending contract does not allow IPERS to pledge or sell any collateral securities unless the borrower defaults. As of June 30, 2010, IPERS had securities on loan, including accrued interest income, with a fair value (carrying value) of $504.6 million against collateral, including borrower rebate, with a total fair value (carrying value) of $521.8 million.

The majority of securities loans are open loans, that is, one-day maturity, where the rebate rate due the borrower is renegotiated daily. Either IPERS or the borrower can terminate all securities loans on demand. Cash collateral received from borrowers is invested in a cash collateral investment 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, 2010, was five days. Credit Quality and Years to Maturity statistics for the cash collateral account at June 30, 2010, are shown in the following tables.

SECURITIES LENDING CASH COLLATERAL ACCOUNT

Credit Risk—S&P Quality Ratings

(Dollar values expressed in thousands)

June 30, 2010

Investment Type	Total	AAA	AA	A	BB	B	CCC	Not Rated
Corporate asset backed bonds	$ 61,320	$3,461	$847	$14,927	$10,474	$16,790	$14,821	---
Mutual funds	250,191	---	---	---	---	---	---	$250,191
Overnight repurchase agreements	184,580	---	---	---	---	---	---	184,580
Total	**$496,091**	**$3,461**	**$847**	**$14,927**	**$10,474**	**$16,790**	**$14,821**	**$434,771**

SECURITIES LENDING CASH COLLATERAL ACCOUNT

(Dollar values expressed in thousands)

June 30, 2010

		Investment Maturities (Years)			
Investment Type	**Fair Value**	**Less Than 1**	**1–5**	**5–15**	**More Than 15**
Corporate asset backed bonds	$ 61,320	$ 7,515	$8,410	$7,296	$38,099
Mutual funds	250,191	250,191	---	---	---
Overnight repurchase agreements	184,580	184,580	---	---	---
Total	**$496,091**	**$442,286**	**$8,410**	**$7,296**	**$38,099**

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.

SUMMARY OF CAPITAL ASSETS

As of June 30, 2010 and 2009

	2010	2009
Building and improvements	$ 4,615,114	$4,615,114
Accumulated depreciation	(1,122,663)	(1,000,459)
Furniture, equipment, and software	16,067,496	12,092,044
Accumulated depreciation	(1,836,151)	(1,210,515)
Land (nondepreciable)	500,000	500,000
Total capital assets	**$18,223,796**	**$14,996,184**

Depreciation expense for the year ended June 30, 2010, was $745,501; $3.9 million of equipment and other expenses directly related to I-Que were capitalized. I-Que is being implemented in two phases. Rollout 1 went into production August 18, 2008, at which time IPERS began amortizing the capitalized intangible assets related to this phase. The second phase of the I-Que implementation is planned for early 2011. Once the full project is put into production, IPERS will begin amortizing the capitalized intangible assets related to Rollout 2.

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 $502,018 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 group. This liability, as determined by the State GAAP (Generally Accepted Accounting Principles) Team, was $1,954 for each full-time employee of IPERS, for a total liability of $156,320.

These accrued liabilities are included in accounts payable and accrued expenses in the Statement of Plan Net Assets on page 33. Details are provided on a statewide basis in the State of Iowa's CAFR.

(4) Contributions Required and Contributions Made

Each year, a valuation of the liabilities and reserves of the IPERS Trust Fund is performed by IPERS' actuarial consultant in accordance with Iowa Code section 97B.4(4)(d) to determine the amount of contributions required.

Also, based on the Investment Board's adoption of the actuarial methods and assumptions of the valuation, IPERS' actuary certifies the contribution rate determined thereby as the rate necessary and sufficient for employees and employers to fully fund the benefits that have been and will be credited for service under Iowa Code chapter 97B.

The Iowa statute provides that IPERS regular members contribute 4.30 percent of pay and their employers contribute 6.65 percent of pay for a total rate of 10.95 percent for fiscal year 2010. (Employees working in Special Service occupations, and their employers, contribute at actuarially determined contribution rates.) The annual actuarial valuation is performed to determine whether the statutory rate will be sufficient to fund the future benefits the System expects to pay within the guidelines established in the IPERS Funding Policy. The contributions are first applied to fund the normal cost. The remaining contributions are used to amortize the unfunded actuarial liability as a level percentage of payroll. The System's Funding Policy provides for an amortization period of 30 years or less for the System to be considered "fully funded," and further establishes guidelines indicating when the System should consider requesting statutory contribution rate increases.

The actuarially required contributions for IPERS' active members and their employers and the actual contributions made for the years ended June 30, 2008, 2009, and 2010, are as follows.

Fiscal Year	Actuarially Required Contributions	Total Contributions	Percentage Contributed
2008	$714,455,687	$623,314,422	87.2
2009	781,256,323	686,258,726	87.8
2010	829,370,219	742,596,384	89.5

The difference between the actuarially required contributions and actual contributions made is due entirely to statutory contribution requirements that differ from the actuarially required contribution rate. To address IPERS' long-term funding needs, the Iowa Legislature passed statutory rate increases for regular members in 2006 and 2010.

In addition, in 2010 the Iowa Legislature passed a law that will allow IPERS to set rates for regular members based on the actuarially required rate starting in FY2013 (July 1, 2012). However, the rate cannot vary by more than 1 percentage point each year.

A more detailed schedule of employer contributions encompassing six years can be found on page 58 of the Required Supplementary Information following these notes.

(5) Funded Status

During fiscal year 2010, IPERS' unfunded actuarial liability increased to $4.931 billion and the amortization period continued to exceed the 30-year maximum. The funded status of the plan as of June 30, 2010, the most recent actuarial valuation date, is as follows:

Net Actuarial Value of Assets	Actuarial Liability	Percentage Funded	Unfunded Actuarial Liability (UAL)	Annual Covered Payroll*	UAL as a % of Covered Payroll
$21,537,458,560	$26,468,419,650	81.37	$4,930,961,090	$6,571,182,005	75.04

*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 remained at $245,000 in FY2010.

The Schedule of Funding Progress, presented as Required Supplementary Information on page 57 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 from the Fund 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 level of annual contributions required to pay for these benefits.

The actuarial methods and assumptions used to perform these calculations are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of 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	Open period, level percent of pay
Amortization period	30 years† (open method)
Rate of investment return	7.50%
Projected salary increases	4%–17% depending upon years of service
Mortality tables	RP-2000 Healthy Annuitant Table with adjustments
Inflation rate	3.25% for prices, 4.00% for wages

†GASB Statement No. 25 states, beginning in FY2006, the maximum acceptable amortization period for the total unfunded actuarial liability is 30 years. IPERS' Funding Policy also provides for a maximum amortization period of 30 years.

(6) Litigation and Contingencies

IPERS monitors, evaluates, and takes the necessary actions related to federal securities class action litigation. It does so based on its fiduciary responsibility to realize on claims impacting the System. IPERS is serving in an active role, as the lead or co-lead plaintiff, in the following federal cases: *In re Mills Corporation, In re Bridgestone/Firestone, In re MF Global*, and *In re Countrywide*. IPERS has filed motions to intervene, or will file the motion, in several class actions involving mortgage-backed securities. These cases are *In re Bear Stearns MBS Litigation, In re Harborview Mortgage-Backed Securities Litigation, In re RALI Mortgage-Backed Securities Litigation, In re Lehman Mortgage-Backed Securities Litigation,* and *In re IndyMac Mortgage-Backed Securities Litigation.* Management of the System believes these cases will have no material effect on the financial statements for the year ended June 30, 2010.

In the fraud action against Westridge Capital Management (WCM), IPERS is aggressively pursuing its financial interests in the U.S. District Court for the Southern District of New York. The last reported value by WCM of IPERS' assets was $291.1 million. The U.S. District Court for the Southern District of New York appointed a receiver to take custody of all assets of WCM, including IPERS' assets. The receiver has reported there are insufficient assets under its control to pay all the claims of investors. On June 3, 2010, the receiver stated it had taken under its control over $875 million in assets that will be allocated to injured investors in the future. Management of the System and the Iowa Attorney General believe a significant portion, 80–90 percent, of IPERS' remaining investment will be recovered. IPERS has not ruled out pursuing litigation against other parties to recover losses.

In a Polk County District Court, Iowa, case 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 and is defending this case. Management of the System believes this case will have no material effect on the financial statements for the year ended June 30, 2010.

IPERS is also aggressively participating in the defense of a class action lawsuit against most agencies of Iowa state government alleging a pattern of racial discrimination in the hiring and promotion practices in Iowa state government. The complaint makes two specific allegations against IPERS. IPERS has thoroughly examined these allegations and has concluded there is no merit to these claims.

(7) Commitments

At June 30, 2010, IPERS had commitments to fund an additional $1.449 billion to various private equity/debt partnerships and real estate investment managers.

(8) Pension and Retirement Benefits

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 state statute required contributions of 4.30 percent by regular members and 6.65 percent by their employers for FY2010. Required contributions by regular members and employers were 4.10 percent and 6.35 percent, respectively, for fiscal year 2009, and 3.90 percent and 6.05 percent, respectively, for fiscal year 2008. The System's contributions to IPERS for the years ended June 30, 2010, 2009, and 2008, were $354,546, $335,516, and $316,524, respectively, equal to the statutorily required contributions for each year.

(9) Net Assets Held in Trust 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.

As a result of continued data improvements and preparations necessary to implement the new I-Que system, IPERS is now able to provide more complete data to the actuary. In turn, the actuary can provide a more refined measurement of the actuarial liabilities. This refinement of accounting and actuarial processes makes an incremental improvement in how liabilities are determined and assets are classified. 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 on the following table. The end result is a closer match of liabilities with assets and therefore a more refined contribution rate.

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.

ALLOCATION OF NET ASSETS HELD IN TRUST
Fiscal year ended June 30, 2010

	Regular Membership*	Special Service Group 1†	Special Service Group 2‡	FED Reserve Account§	Total
Total as of June 30, 2009	**$16,592,722,130**	**$312,513,806**	**$698,080,682**	**$370,724,033**	**$17,974,040,651**
Additions					
Contributions	683,578,052	13,451,556	45,566,776	---	742,596,384
Service purchases	12,141,197	95,226	377,285	---	12,613,708
Investment and misc. income	2,319,383,249	44,112,172	100,130,607	47,082,819	2,510,708,847
Total additions	**3,015,102,498**	**57,658,954**	**146,074,668**	**47,082,819**	**3,265,918,939**
Deductions					
Benefit payments	1,157,590,619	16,352,817	26,531,442	78,080,966	1,278,555,844
Employee refunds	36,281,484	647,024	4,541,621	---	41,470,129
Administrative expenses	8,650,702	61,991	255,543	---	8,968,236
Investment expenses	30,378,809	577,772	1,311,491	616,681	32,884,753
Total deductions	**1,232,901,614**	**17,639,604**	**32,640,097**	**78,697,647**	**1,361,878,962**
Preliminary net assets	**18,374,923,014**	**352,533,156**	**811,515,253**	**339,109,205**	**19,878,080,628**
Transfers between groups	**1,021,874**	**754,518**	**(1,776,392)**	**---**	**---**
Adjusted net assets as of June 30, 2010	**$18,375,944,888**	**$353,287,674**	**$809,738,861**	**$339,109,205**	**$19,878,080,628**

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

(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.

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
2005	$17,951,490,071	$20,240,098,667	88.69	$2,288,608,596	$5,236,860,886	43.70
2006	19,144,036,519	21,651,122,419	88.42	2,507,085,900	5,523,863,321	45.39
2007	20,759,628,415	23,026,113,782	90.16	2,266,485,367	5,781,706,199	39.20
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

*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 remained at $245,000 in FY2010.

See Note 5 on pages 52–53 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	Actuarially Required Contributions	Total Employer Contributions	Percentage Contributed
2005			
Regular Membership	$341,552,685	$289,220,242	84.7
Special Service Group 1	6,236,611	6,236,770	100.0
Special Service Group 2	15,391,729	15,385,375	100.0
2005 Total	**363,181,025**	**310,842,387**	**85.6**
2006			
Regular Membership	364,424,911	301,566,112	82.7
Special Service Group 1	6,228,675	6,228,836	100.0
Special Service Group 2	16,888,833	16,881,866	100.0
2006 Total	**387,542,419**	**324,676,814**	**83.8**
2007			
Regular Membership	387,578,925	318,762,838	82.2
Special Service Group 1	6,577,652	6,577,652	100.0
Special Service Group 2	17,723,013	17,722,840	100.0
2007 Total	**411,879,590**	**343,063,330**	**83.3**
2008			
Regular Membership	408,882,080	353,470,318	86.4
Special Service Group 1	6,301,171	6,301,171	100.0
Special Service Group 2	17,644,966	17,645,261	100.0
2008 Total	**432,828,217**	**377,416,750**	**87.2**
2009			
Regular Membership	441,951,764	384,221,534	86.9
Special Service Group 1	6,365,911	6,365,911	100.0
Special Service Group 2	24,736,688	24,736,688	100.0
2009 Total	**473,054,363**	**415,324,133**	**87.8**
2010			
Regular Membership	467,839,274	415,070,451	88.7
Special Service Group 1	6,725,778	6,725,778	100.0
Special Service Group 2	27,328,184	27,328,184	100.0
2010 Total	**501,893,236**	**449,124,413**	**89.5**

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

See Note 4 on pages 51-52 for additional information on the actuarial valuation.

OTHER SUPPLEMENTARY INFORMATION

Schedule 1
INVESTMENT INCOME BY SPECIFIC SOURCE
Years ended June 30, 2010 and 2009

	2010	2009
Interest income—short term	$ 790,421	$ 2,441,364
Interest income on bonds	287,108,662	375,863,433
Dividend income	58,676,370	64,652,316
Real estate funds	99,738,160	109,744,387
Private equity/debt funds	(19,811,239)	(8,030,426)
Other income	106,998	66,744
Investment income	**426,609,372**	**544,737,818**
Income/(loss) on investments	2,105,436,005	(4,218,514,292)
Currency gain/(loss)	(55,915,199)	(127,089,287)
Net appreciation/(depreciation) in fair value of investments	**2,049,520,806**	**(4,345,603,579)**
Securities lending income	1,553,052	14,845,898
Securities lending net appreciation/(depreciation) in fair value of collateral pool	33,042,470	(36,734,366)
Securities lending income/(loss)	**34,595,522**	**(21,888,468)**
Total investment income/(loss)	**$2,510,725,700**	**$(3,822,754,229)**

Schedule 2

SCHEDULE OF ADMINISTRATIVE EXPENSES*

Years ended June 30, 2010 and 2009

	2010	2009
Personnel		
Salaries and wages	$ 5,473,928	$ 5,311,286
Travel	70,140	127,223
Professional and technical services		
Professional†	384,039	1,348,151
Actuary	212,600	106,400
Computer support services	781,076	1,374,094
Auditing	101,187	98,673
Communications		
Telephone	602,443	153,071
Printing	81,575	318,904
Other expenses		
Supplies	362,863	491,591
Utilities	68,948	66,894
Depreciation	745,501	1,372,281
Repairs	2,447	8,429
Rent	2,278	12,165
Miscellaneous	79,211	107,704
Total administrative expenses	**$8,968,236**	**$10,896,866**

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

†Similar consultant costs that were expensed in FY2009 were capitalized in FY2010 as part of the implementation of GASB Statement No. 51. These FY2010 consultant costs totaled $503,910.

Schedule 3

SCHEDULE OF INVESTMENT RELATED EXPENSES

Years ended June 30, 2010 and 2009

	2010	2009
BlackRock Institutional Trust Company, NA	$ 611,816	$ 477,982
First Quadrant, L.P.	752,475	---
J.P. Morgan Investment Management, Inc.	6,530	---
Mellon Capital Management Corp	777,076	630,761
PanAgora Asset Management, Inc.	9,735	---
RCM	1,822,577	1,717,177
Wellington Management Company LLP	1,720,798	528,964
Total domestic equity	**5,701,007**	**3,354,884**
BlackRock Financial Management, Inc.	1,114,506	882,214
Mellon Capital Management Corp	278,608	275,426
Oaktree Capital Management, LLC	2,045,392	3,701,102
Post Advisory Group, LLC	993,767	2,872,035
Principal Global Investors, LLC	526,269	534,954
Western Asset Management Company	860,505	820,743
Total fixed income	**5,819,047**	**9,086,474**
BlackRock Institutional Trust Company, NA	850,682	694,475
Emerging Markets Management, LLC	1,679,993	1,310,575
GAM USA Inc.	250,852	353,106
Oechsle International Advisors, LLC	1,615,877	3,273,169
Quantitative Management Associates, LLC	567,486	456,314
Wellington Management Company, LLP	1,380,525	280,514
Total international equity	**6,345,415**	**6,368,153**
ING Clarion Partners	730,101	6,279,971
INVESCO Realty Advisors	1,906,244	1,021,974
RREEF America, LLC	2,370,521	1,706,441
RREEF America, LLC (REIT)	745,154	825,844
TA Realty, LLC	2,076,674	(3,174,510)
UBS Realty Investors, LLC	1,607,277	1,553,812
Total real estate	**9,435,971**	**8,213,532**
Pathway Capital Management, LLC	3,504,748	3,186,135
Total private equity/debt	**3,504,748**	**3,186,135**
Smith Breeden Associates, Inc.	18,308	178,418
Western Asset Management Company	53,699	117,180
Total liquidation account	**72,007**	**295,598**
The Townsend Group	---	33,000
Wilshire Associates	385,000	345,000
Total investment consultant fees	**385,000**	**378,000**
The Bank of New York Mellon	213,790	170,889
Treasurer of State	147,878	93,223
Total custody expenses	**361,668**	**264,112**
Investment staff and board expenses	903,248	1,013,727
Miscellaneous expenses	356,642	378,180
Total other investment expenses	**1,259,890**	**1,391,907**
Total investment related expenses	**$32,884,753**	**$32,538,795**

INVESTMENTS

Investment Overview

Investment Results

Investment Policy and Goal Statement

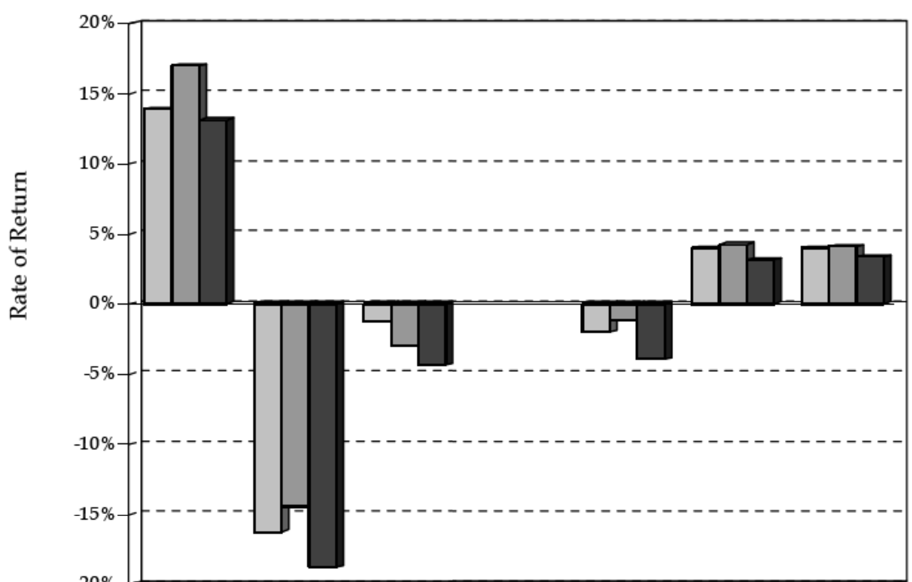
INVESTMENT OVERVIEW

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

Annualized Investment Performance Summary

For periods ended June 30



	2010	2009	2008		3 yr	5 yr	10 yr
IPERS' Portfolio*	13.82%	-16.27%	-1.33%		-2.03%	3.97%	3.98%
Policy Benchmark†	16.98%	-14.50%	-3.03%		-1.22%	4.22%	4.06%
Large Public Fund Median‡	13.09%	-18.76%	-4.36%		-3.96%	3.17%	3.38%

*Net of fees.
†A benchmark composed of market indices with weightings reflective of IPERS' asset allocation targets.
‡Trust Universe Comparison Service (TUCS) Public Funds with Total Market Value Greater than $1 billion.

The fair values reported in the Investments section are industry-based calculations that differ from those used in the Financial and Actuarial sections of this report.

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

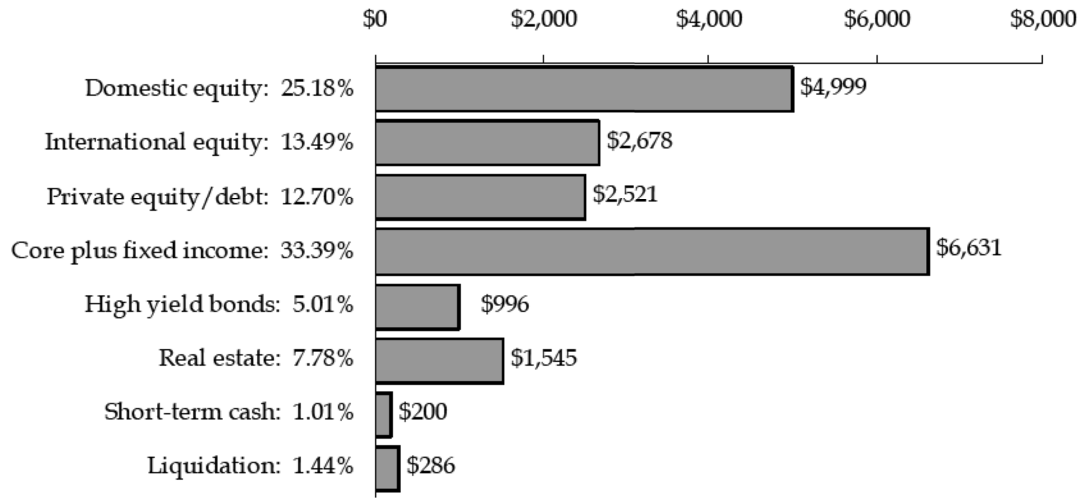
Asset allocation is a process designed to construct an optimal long-term asset mix that achieves a specific set of investment objectives. Each year, the Investment Board adopts an Investment Policy and Goal Statement that describes the System's investment objectives and establishes the System's asset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

In September 2009, the Investment Board approved changes to the asset allocation policy to address potential risks of inflation and to provide a cash reserve for the portfolio. Specifically, the target allocation for core plus fixed income assets was reduced from 34 percent to 30 percent of total assets, with the reduction to be used to fund a 3 percent allocation to Treasury Inflation Protection Securities (TIPS) in a new real return asset category and a 1 percent allocation to cash. The Board's approval stipulated that the 3 percent allocation to TIPS would not become part of the policy benchmark until such time as funding of those assets occurred. The 1 percent cash allocation was funded during the fiscal year, but as of June 30, 2010, the TIPS managers had not yet been funded, so the target allocation for core plus fixed income was 33 percent.

Summary of Investments by Asset Class

(Fair value in millions)

As of June 30, 2010



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

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

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

CAPITAL MARKETS COMMENTARY

The National Bureau of Economic Research declared June 2009 to be the official end of what came to be known as the Great Recession. The subsequent economic recovery resulted in some very good investment returns in fiscal year 2010.

In the first half of FY2010 the economy benefited from large-scale government intervention. While the stimulus bill was passed in February 2009, much of the funds were deployed in the first half of fiscal year 2010. For example, the Car Allowance Rebate System (Cash for Clunkers) spurred auto sales in July and August (the first two months of IPERS' fiscal year), and continued to help stabilize the auto industry.

Home prices were a different story, declining another 3 percent in FY2010 from the huge declines experienced in FY2009. Price declines could have been even greater if not for a federal government program that provided an $8,000 tax credit for first-time home buyers and a $6,500 credit for repeat buyers.

The second half of FY2010 was marked by concerns about the fiscal impact of the stimulus measures in Europe. Concerns first arose in January 2010 about Greece's ability to repay its burgeoning debt. Eventually, those concerns spread to include other heavily indebted European countries, threatening to destabilize the euro and the countries within the European Union. The debt crisis was eventually resolved to the satisfaction of the markets, at least temporarily, when the European Union engineered a bailout of Greece and vowed to support other weaker countries within the group.

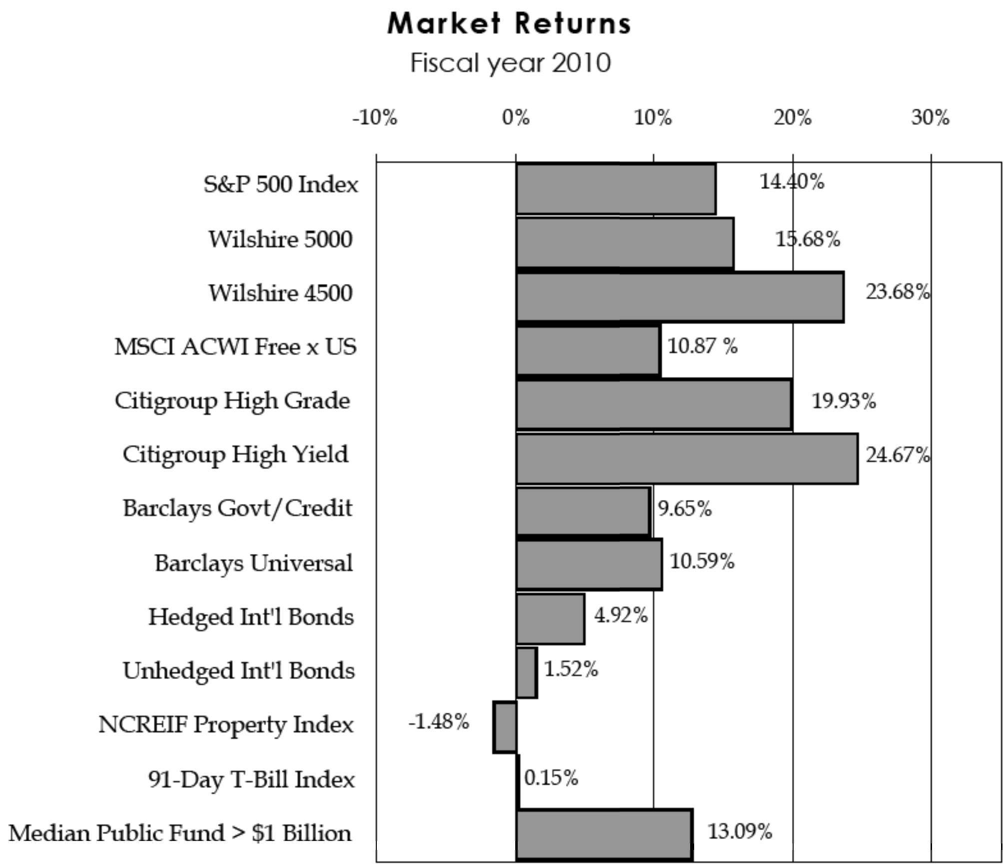
The final quarter of FY2010 was especially worrisome for the markets. In April 2010, an explosion on the Deepwater Horizon oil rig in the Gulf of Mexico led to an oil spill that lasted three months before the well was capped. The economic and environmental impact of that disaster was still being calculated at this CAFR's publication date.

Subsequently, the May 6, 2010, flash crash occurred in the U.S. equity market, which saw the Dow Jones Industrial Average fall 998 points in just a few minutes before recovering to end the day down 3.20 percent. These and other events weighed heavily on the stock markets: the Wilshire 5000 index lost 11.19 percent and the MSCI Europe index was down 15.18 percent for the quarter ended June 30, 2010.

In FY2010, investors began considering the possibility that a full recovery from the economic crisis could take longer than previously anticipated.

While the higher investment returns in FY2010 were a welcome change from the past two years, investors also started to realize that it could take longer than expected for the developed economies of the world to recover from the economic crisis. Some said the developed countries could be entering a "new normal" period—one that could be characterized by lower Gross Domestic Product growth and lower investment returns for several years as the economy struggles through the aftermath of the housing bubble and the ensuing credit crisis.

The investment returns for fiscal year 2010 for various asset classes are shown on the following table. More in-depth discussion of each asset class follows.



The U.S. equity market, as measured by the Wilshire 5000 index, continued its recovery and produced a return of 15.68 percent for the fiscal year. As expected during the early stages of a market recovery, small capitalization stocks outperformed their large capitalization counterparts in fiscal year 2010.

The table illustrates that value outperformed growth.

Wilshire Style Index	FY2010 Return
Large Growth	13.38%
Large Value	15.35%
Small Growth	23.62%
Small Value	30.25%

The consumer discretionary and industrial sectors were the best-performing sectors in the U.S. stock market for the fiscal year, with returns of 29.33 percent and 25.65 percent, respectively. The laggard was the energy sector, which returned only 5.96 percent for the fiscal year, mostly because of the fact that oil prices increased only slightly over the one-year span.

International stocks underperformed U.S. stocks for the fiscal year, with the MSCI All Country World ex U.S. index, a performance benchmark for equities of non-U.S. companies, returning 10.87 percent. Performance varied by region, with MSCI EAFE (European, Australasia, and Far East) and MSCI Europe indexes up 5.92 percent and 5.69 percent, respectively, as calculated in U.S. dollars. Those returns were bracketed by the MSCI Pacific, which was up 6.55 percent, and the MSCI Japan, which returned 0.76 percent. The best-performing region of the MSCI All Country World ex U.S. index was the emerging markets, which posted a return of 23.47 percent.

The Barclays Capital U.S. Universal bond index was up 10.59 percent for the fiscal year, which was a very good year for the bond market by historical standards. The main causes for the double-digit return were improving credit conditions and an outlook of little to no inflation. This was evidenced in the 1-year returns of several Barclays Capital sector indexes, such as the U.S. Credit index, which was up 14.68 percent for the fiscal year, and the U.S. Corporate High Yield index, which was up 26.77 percent over the same period. Even the Long Term U.S. Treasury index posted a very respectable 12.02 percent return.

The U.S. commercial real estate market continued to struggle in FY2010 as valuations continued to be written down, albeit at a slower pace than in the previous fiscal year. The NCREIF Property index, a commonly cited measure of privately traded commercial real estate values and income, returned –1.48 percent for the 1-year period ended June 30, 2010. This was up from –19.57 percent for the 1-year period ended June 30, 2009. Publicly traded real estate investment trusts (REITs) rebounded nicely in FY2010, with the Wilshire REIT index posting an annual return of 55.46 percent.

Private equity investments produced positive results in FY2010. Improved financing options through the credit markets, improved valuation metrics, and a pick-up in investment activity were all factors in the positive results for the asset class. The overall private equity asset class, as measured by *Venture Economics*, produced a return of 15.97 percent in fiscal year 2010.

Investment Portfolio Assets[1]

At the close of fiscal year 2010, IPERS' net investment portfolio assets had a fair value of $19.856 billion. The change in fair value represents an increase of $1.859 billion from the $17.997 billion net investment asset fair value as of June 30, 2009. The largest factor contributing to the increase in the net investment asset fair value was the investment portfolio return of 13.82 percent, which is more fully addressed on the following page.

[1]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. See the Invested Assets table on page 40 for a reconciliation between the two values.

INVESTMENT RESULTS

IPERS posted a total portfolio investment return of 13.82 percent for the fiscal year ended June 30, 2010. This return trailed the 16.98 percent return of IPERS' policy benchmark, a set of market indexes and weightings to those indexes that reflect IPERS' target asset class allocations. Much of the underperformance was attributable to private equity being benchmarked against a public equity benchmark, while private market valuations recorded in FY2010 significantly lagged the dramatic recovery in publicly traded stocks. Whether this is a temporary or more permanent phenomenon has yet to be seen. IPERS' domestic equity and core plus fixed income portfolios added value over their benchmarks for the fiscal year, while high-yield bonds and real estate performed poorly against their asset class benchmarks.

IPERS' investment portfolio return was well above the objective of providing an investment return at or above the rate of inflation (as measured by the Consumer Price Index) plus 3 percentage points; that objective was 4.05 percent for fiscal year 2010. The Fund's return was also well above the investment return assumption used by IPERS' actuary, which is 7.50 percent a year. In addition, the Fund's 1-year return outperformed the 13.09 percent median return of the TUCS universe of public funds over $1 billion.

IPERS' strongest return for the fiscal year was provided by its private equity portfolio at 20.55 percent, followed by the high-yield fixed income portfolio at 19.58 percent. The lowest returns came in the real estate portfolio, which produced a return of 2.35 percent, followed by international equities, which produced a return of 10.05 percent for the fiscal year.

For the five years ended June 30, 2010, IPERS' total Fund annualized return of 3.97 percent was less than the policy benchmark return of 4.22 percent, the CPI plus 3 percentage points objective (5.30 percent annualized for the period), and the 7.50 percent actuarial assumed investment return objective. The Fund's 5-year return did exceed the TUCS Public Funds with Assets Greater than $1 billion universe's median annualized return of 3.17 percent.

IPERS' 10-year annualized return of 3.98 percent was less than the policy benchmark return of 4.06 percent, the CPI plus 3 percentage points objective (5.37 percent annualized for the period), and the 7.50 percent actuarial assumed investment return objective. The Fund's 10-year investment return did exceed the aforementioned TUCS universe median return of 3.38 percent for the period. IPERS' investment returns, net of fees, for the total portfolio and for each asset class over various time periods are shown in the following table. For comparison purposes, the benchmark for each asset class is also shown.

The IPERS Trust Fund investment returns for the 15-, 20-, and 30-year periods ending June 30, 2010, were 7.94 percent, 8.22 percent, and 10.15 percent, respectively.

The following table gives annualized returns for periods over the last ten years. The IPERS Trust Fund investment returns for the 15-year and 20-year periods ending June 30, 2010, were 7.94 percent and 8.22 percent, respectively. The IPERS Trust Fund total return for the 30-year period ended June 30, 2010, was 10.15 percent. The annual investment returns for the IPERS Trust Fund for each year since 1981 are on the chart "Investment Returns 1981–2010" in the Statistical section on page 140.

RATES OF RETURN

For periods ended June 30, 2010*

Asset Class	Annualized Returns (%) 1-Year	3-Year	5-Year	10-Year
Total Fund				
IPERS	13.82	–2.03	3.97	3.98
Policy benchmark†	16.98	–1.22	4.22	4.06
CPI + 3 percentage points	4.05	4.51	5.30	5.37
Actuarial assumed investment return	7.50	7.50	7.50	7.50
TUCS Public Funds >$1 billion universe median	13.09	–3.96	3.17	3.38
Domestic equity				
IPERS	16.07	–12.26	–2.26	–1.61
Wilshire 5000	15.68	–9.36	–0.28	–0.78
International equity				
IPERS	10.05	–10.55	3.08	1.83
Custom benchmark	10.87	–10.28	3.83	2.26
Core plus fixed income				
IPERS	13.83	7.21	5.56	6.82
Custom benchmark	10.59	7.22	5.57	6.59
High-yield fixed income				
IPERS	19.58	5.89	6.38	7.28
Custom benchmark	24.67	5.90	6.43	7.27
Private equity/debt‡				
IPERS	20.55	2.81	14.13	4.54
Wilshire 5000 + 3 percentage points	55.11	–0.83	5.58	3.54
Real estate				
IPERS	2.35	–6.72	2.17	7.04
Custom benchmark	6.74	–4.17	4.20	7.59
Short-term cash				
IPERS	0.80	2.14	3.34	3.28
U.S. Treasury bills	0.15	1.56	2.76	2.70

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

†The policy benchmark on June 30, 2010, consisted of 28 percent Wilshire 5000, 15 percent MSCI ACWI ex U.S., 33 percent Barclays Universal, 1 percent short-term cash, 5 percent Citigroup High-Yield Cash-Pay Capped, 10 percent Wilshire 5000 (return lagged by one calendar quarter) plus 3 percentage points, and 8 percent of a weighted benchmark consisting of 85 percent NCREIF's National Property index and 15 percent Wilshire REIT index plus 0.25 percentage point. The composition of the policy benchmark has changed over the 10-year period.

‡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. See the *Private Equity/Debt* section of this report for a discussion of the private equity/debt portfolio's performance using IRRs.

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

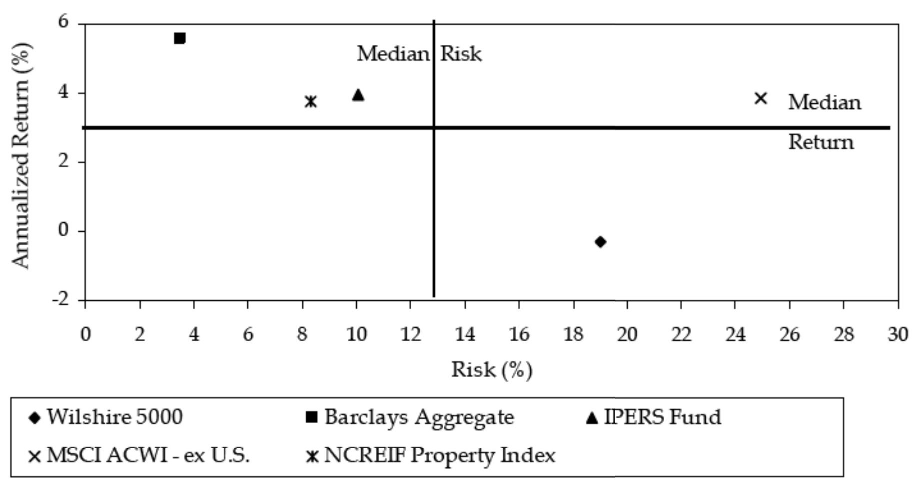
Not only was IPERS' 5-year investment return slightly higher than the median large public pension fund return, IPERS earned it while taking significantly less risk.

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 over $1 billion. The vertical line represents the median level of risk (standard deviation of returns) experienced by this universe of funds. The horizontal line represents the median rate of return earned by this same group of funds. IPERS' risk/return characteristics are plotted on the same graph along with selected market indexes. As shown in the graph, the return on IPERS' investments for the five years ended June 30, 2010, was slightly higher than the median large public pension fund return, and it was earned with significantly less risk than the median large public pension fund.

Risk vs. Total Return

Public Funds Greater Than $1.0 Billion

5 years ended June 30, 2010

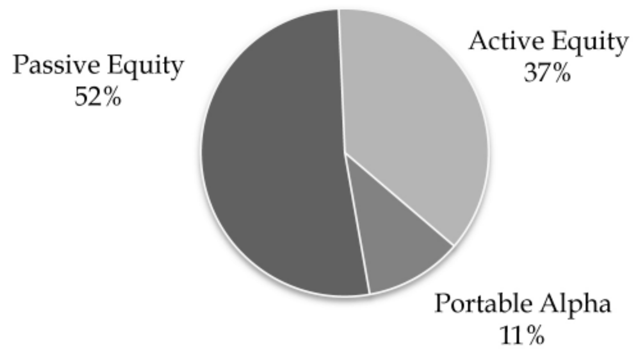


	Annualized Return	Risk (Standard Deviation)
IPERS Total Fund	3.97%	10.07%
Median Fund	3.17%	12.61%
Wilshire 5000	–0.28%	18.99%
Barclays Aggregate	5.54%	3.52%
MSCI ACWI ex U.S.	3.83%	24.94%
NCREIF Property Index	3.78%	8.30%

DOMESTIC EQUITY

At June 30, 2010, 25.18 percent of IPERS' total portfolio was invested in domestic equities. The total net fair value of the domestic equity portfolio was $4.999 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, 2010



The IPERS domestic equity portfolio has three components:

PASSIVE EQUITY. The passive component is divided into large cap and small to mid cap strategies for management purposes and consists primarily of investments in commingled index funds, index futures, and short-term securities. The return objective for each 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.

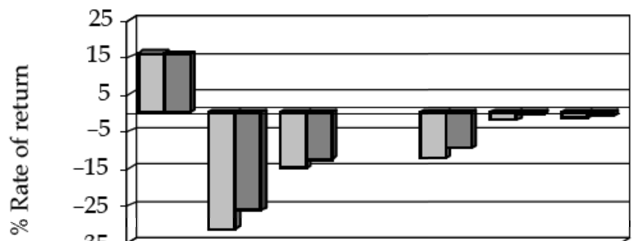
ACTIVE EQUITY. An actively managed portfolio consists primarily of large capitalization stocks. For management purposes, the portfolio is divided among separate strategies that focus on different investment styles: a value portfolio, which focuses on companies undervalued relative to their prospective 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 active stock managers 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 obtain the required market exposure so the System can maintain its strategic asset allocation targets. Portable alpha strategies within the domestic equity portfolio provided a strong return relative to their benchmark during fiscal year 2010.

Domestic Equity Performance

For periods ended June 30



	2010	2009	2008		3 yr	5 yr	10 yr
IPERS' Portfolio*	16.07	-31.43	-15.12		-12.26	-2.26	-1.61
Wilshire 5000	15.68	-26.40	-12.53		-9.36	-0.28	-0.78

*Net of fees.

For the year ended June 30, 2010, IPERS' domestic equity portfolio posted a return of 16.07 percent, compared to 15.68 percent for the Wilshire 5000 index. The primary driver of the excess return in the domestic equity portfolio for fiscal year 2010 was an overweight to small capitalization stocks. This overweight was first created in fiscal year 2009 with the elimination of a significant exposure to large capitalization stocks that was held in three portable alpha mandates. System staff continue to rebalance assets over time within the domestic equity portfolio in an effort to eliminate this size bias. For the 5-year period ended June 30, 2010, the domestic equity portfolio earned an annualized return (net of fees) of –2.26 percent, versus –0.28 percent for the Wilshire 5000 index.

LIQUIDATION ACCOUNT

The liquidation account is a temporary account created to hold securities or interests from discontinued portable alpha strategies previously utilized in the domestic equity portfolio.

The Smith Breeden and Western Asset portable alpha strategies utilized equity index futures to obtain exposure to the domestic equity market, while investing remaining cash in an enhanced cash portfolio consisting mainly of fixed income securities. Both the Smith Breeden and Western Asset mandates were discontinued by IPERS during FY2009 because of poor performance and the inability of the managers to meet margin calls on the equity index futures utilized in their accounts. Upon discontinuation, both managers sold their equity index futures, and the managers' mandates were modified to be those of a liquidation manager, with the objective of overseeing the orderly sale of the remaining fixed income securities as market conditions improved. Both accounts were reclassified as liquidation accounts because the objective had changed and had no remaining exposure to domestic equity. As of June 30, 2010, Smith Breeden had sold the securities in its account, while Western Asset still had $111.8 million of securities yet to be sold.

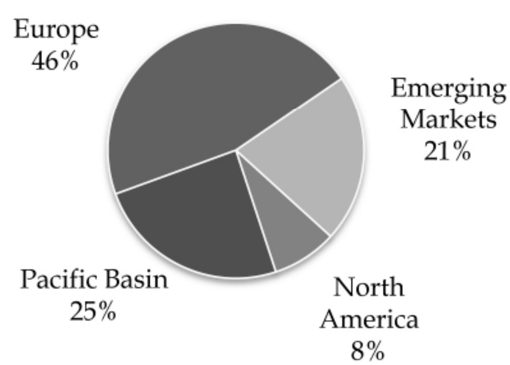
The Westridge Capital Management mandate was discontinued in February 2009 when it was disclosed that alleged fraud had occurred at an affiliated firm utilized in the strategy. IPERS terminated its contract with Westridge and ordered the sale of the equity index futures that were utilized in the strategy. The Westridge account was reclassified as a liquidation account because it no longer had exposure to domestic equity.

The investment performance for each of the three managers moved to the liquidation account is reflected in the domestic equity portfolio up to the end of the month in which it was reclassified. Performance after the date of reclassification is not included in the returns for the domestic equity portfolio, but is included in the calculation of investment returns for the total Fund.

INTERNATIONAL EQUITY

At June 30, 2010, the international equity portfolio had a net fair value of $2.678 billion, representing 13.49 percent of the total IPERS portfolio. IPERS' international equity portfolio is composed primarily of common stocks or equity commingled funds, foreign exchange contracts, and cash, and is widely diversified across many regions, countries, industries, and securities.

International Equity Portfolio
June 30, 2010



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.

Passive Equity. This component is a passively managed diversified portfolio consisting of commingled index fund investments in Canadian and developed European, Australasia, and Far East 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 which are small and immature by developed market standards. Over time these markets are expected to experience growth rates well in excess of developed markets'. Consequently, investments in emerging markets provide opportunities for higher portfolio returns. Furthermore, low correlation between returns of emerging markets and those of developed markets can serve to reduce total risk in the international equity portfolio.

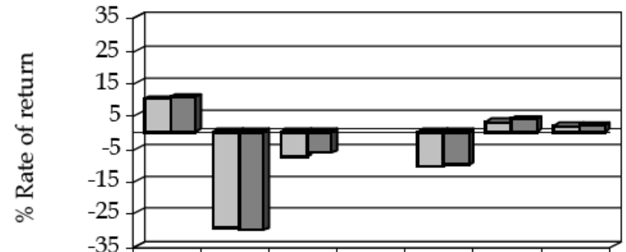
Overall, international markets trailed the U.S. stock markets during the year ended June 30, 2010. The MSCI All Country World ex U.S. index returned 10.87 percent for fiscal year 2010, while the Wilshire 5000 index posted 15.68 percent for the same period. The emerging markets were the top-performing region in international equity markets, with a 1-year return of 23.47 percent. Developed European markets were the worst-performing region with a return of 5.69 percent.

The emerging markets were the top-performing region in international equities.

IPERS' international equity portfolio returned 10.05 percent during fiscal year 2010, compared to 10.87 percent for the benchmark. An overweight exposure to the Pacific basin and an underweight to the emerging markets, coupled with poor active management by some investment managers, was the source of nearly all the underperformance in the international equity portfolio for fiscal year 2010. For the 5-year period ended June 30, 2010, this portfolio has underperformed its benchmark, earning an annualized return of 3.08 percent versus a benchmark of 3.83 percent.

International Equity Performance

For periods ended June 30



	2010	2009	2008		3 yr	5 yr	10 yr
IPERS' Portfolio*	10.05	-29.64	-7.57		-10.55	3.08	1.83
Custom Benchmark	10.87	-30.54	-6.20		-10.28	3.83	2.26

*Net of fees.

PUBLIC EQUITY PORTFOLIO—TOP TEN HOLDINGS

The top ten holdings within the public equity portfolio at June 30, 2010, 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, 2010	Fair Value ($000)	% of Total IPERS Public Equity Portfolio
Apple, Incorporated	$44,559	0.58
Wells Fargo & Company	26,544	0.35
Simon Property Group Incorporated	24,866	0.32
Samsung Electric Company, Limited	24,056	0.31
Microsoft Corporation	22,623	0.29
AT&T, Incorporated	21,852	0.28
Cisco Systems Incorporated	20,209	0.26
Walt Disney Company	20,004	0.26
Exxon Mobile Corporation	19,716	0.26
Nestle S.A.	19,216	0.25

*Excludes all holdings in commingled fund accounts.

FIXED INCOME

IPERS has a significant allocation to fixed income securities, with a target asset allocation of 33 percent to core plus fixed income securities and 5 percent to high-yield securities. At fiscal year end, IPERS' core plus portfolio was 33.39 percent of total Fund assets and the high-yield bond portfolio was 5.01 percent of total Fund assets. See the discussion on page 66 regarding changes to the core plus fixed income target allocation during the fiscal year. The total return for the consolidated fixed income portfolio (core plus and high-yield portfolios combined) for the year ended June 30, 2010, was 14.56 percent. The consolidated fixed income portfolio fair value was $7.627 billion and the average bond rating for the portfolio was A.

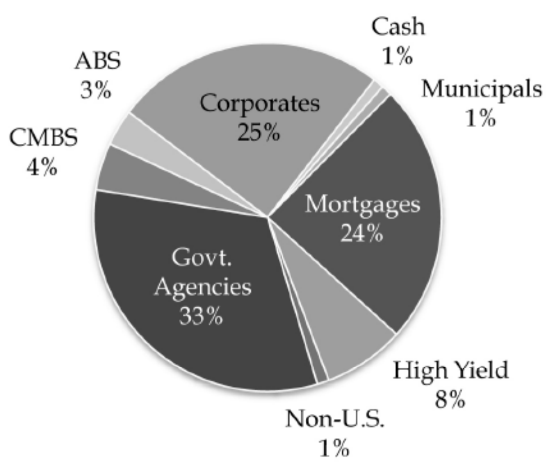
IPERS' fixed income portfolio has two main components:

Core Plus. The objective of the core plus fixed income portfolio is to generate a return above the return of the overall fixed income market. Approximately 34 percent of the core plus portfolio is dedicated to a passively managed "core" investment in an index fund designed to earn the return of the 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 commercial mortgage-backed securities (CMBS), high-yield bonds, dollar-denominated emerging market debt, and eurodollar bonds.

The core plus portfolio is a diversified portfolio of fixed income securities, utilizing cash and cash equivalents, forward foreign exchange contracts, swaps, currency options, financial futures, government and government agency bonds, eurobonds, non-dollar 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 (ABS).

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

Core Plus Fixed Income Portfolio
June 30, 2010



The economy continued to rebound in FY2010 from the credit crisis, and throughout most of the fiscal year bond investors were once again rewarded for taking risk. Many investors found value in deeply discounted credit. There was also little sign of inflation for bond investors to worry about. In fact, the Federal Reserve kept the federal funds target range at 0.00 to 0.25 percent, as deflation was still the major threat to the economy.

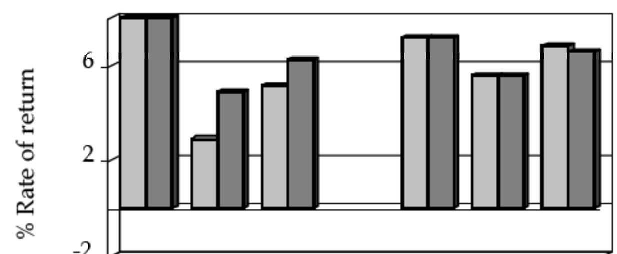
The bond market recovery slowed in the second half of the fiscal year as government aid programs were allowed to expire, and a European sovereign debt crisis created added concern about all types of government securities.

Overall, the improving economic stability set the stage for credit sector assets to outperform the safer, lower-yielding asset sectors like U.S. Treasury securities for the fiscal year. The Barclays Capital U.S. Corporate Investment Grade bond index generated a return of 15.92 percent for fiscal year 2010 as companies improved their balance sheets. The Barclays Capital Mortgage index generated a return of 7.48 percent as government-sponsored programs to purchase agency mortgages helped the sector until they were allowed to expire. Even though they did not perform as well as the credit sectors, the returns on U.S. Treasury securities, as measured by the Barclays Capital Long Term Treasury index, were still solid at 12.02 percent, as longer-dated Treasuries performed well.

IPERS' core plus fixed income portfolio return of 13.83 percent outperformed the Barclays Capital Universal index return of 10.59 percent for the fiscal year ended June 30, 2010. This was due mainly to IPERS' overweight position to the corporate sector, as well as an overweight to the CMBS and ABS sectors versus the benchmark.

Core Plus Fixed Income Performance

For periods ended June 30



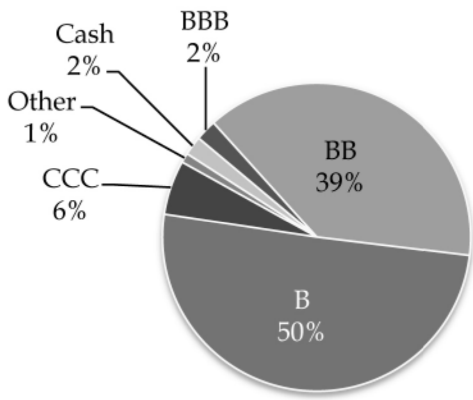
	2010	2009	2008		3 yr	5 yr	10 yr
IPERS' Portfolio*	13.83	2.91	5.19		7.21	5.56	6.82
Custom Benchmark	10.59	4.93	6.24		7.22	5.57	6.59

*Net of fees.

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

High Yield Fixed Income Portfolio

June 30, 2010

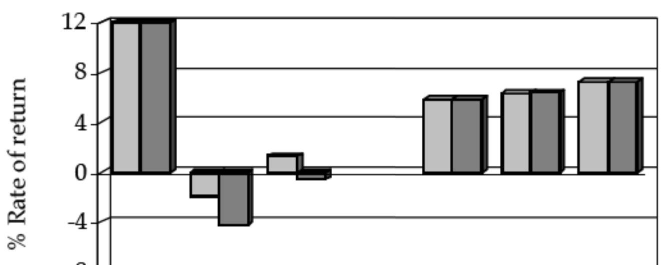


The high-yield sector of the bond market outperformed the other sectors of the fixed income market in FY2010, as investors sought out higher-yielding assets in the low return environment and were willing to assume the higher risk. IPERS' high-yield fixed income portfolio underperformed the high-yield market return because of its emphasis on higher-quality issuers, which was not rewarded during this period, generating a return of 19.58 percent versus the Citigroup High Yield Cash Pay Capped index return of 24.67 percent for the fiscal year ended June 30, 2010.

IPERS' high-yield portfolio underperformed because of its emphasis on quality.

High Yield Fixed Income Performance

For periods ended June 30



	2010	2009	2008		3 yr	5 yr	10 yr
IPERS' Portfolio*	19.58	-1.97	1.29		5.89	6.38	7.28
Custom Benchmark	24.67	-4.22	-0.53		5.90	6.43	7.27

*Net of fees.

FIXED INCOME PORTFOLIO—TOP TEN HOLDINGS

The top ten holdings within the consolidated fixed income portfolio (core plus and high-yield combined) at June 30, 2010, 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, 2010	Fair Value ($000)	% of Total IPERS Fixed Income Portfolio
US Treasury Note 3.000% 30SEP2016	$65,778	0.86
FHLMC Corp Discount FRN 26AUG2010	64,994	0.85
US Treasury Note 3.125% 31JAN2017	63,544	0.83
US Treasury Note 2.250% 31JAN2015	58,769	0.77
US Treasury Note 3.625% 15FEB2020	55,521	0.73
GNMA TBA 30 YR 5.00% 28AUG2038	55,075	0.72
FNMA TBA 30 YR SFM 4.50% 01AUG 2010	50,451	0.66
US Treasury Note 0.0% 31MAY2012	45,911	0.60
FHLMC Debt FRN 0.35469% 04MAY2011	45,052	0.59
FNMA TBA 30YR SFM 5.00% 01AUG2010	44,447	0.58

*Excludes all holdings in commingled fund accounts.

PRIVATE EQUITY/DEBT

At June 30, 2010, IPERS' private equity/debt portfolio had a fair value of $2.521 billion, representing 12.70 percent of the total IPERS portfolio. From the inception of the private equity/debt portfolio in 1985 through June 30, 2010, the System has committed $6.176 billion to 222 partnerships. Of that total, $1.449 billion remains to be called for investment. During the fiscal year, IPERS committed $110.3 million to five new partnerships. The long-term objective of the private equity/debt portfolio is to achieve a rate of return that exceeds the returns available in the public equity markets.

The System seeks to minimize the risk associated with the asset class by investing in a variety of top-tier partnerships with different investment styles and objectives. The portfolio is also diversified by industry focus, geographic location, and, most importantly, time, which means that capital is committed to partnerships over the full course of the business cycle and not concentrated in any one year.

IPERS manages private equity risk by using different management styles and diversifying by industry, location, and time commitment.

The long-term performance objective for the private equity/debt portfolio is to exceed the return of the Wilshire 5000 index, calculated on an internal rate of return (IRR)[1] basis, by 3 percentage points on an annualized basis. The private equity/debt portfolio returned 20.60 percent in fiscal year 2010 versus 19.21 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 has returned 3.76 percent versus its benchmark return of 2.13 percent for the 10-year period ended June 30, 2010. Since inception in 1985, the IPERS private equity/debt portfolio returned 14.03 percent, matching its benchmark return of 14.03 percent.

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

One drawback to comparing a portfolio return to a benchmark return is that it does not provide any information on how the portfolio's performance compares to the universe of private equity investment opportunities that were available at the time IPERS made its investments. The *Venture Economics*[1] All Private Equity funds performance database includes data from 1,801 partnerships and makes it possible to compare a portfolio to a universe of private equity partnerships that raised capital over the same time period. Another performance analysis issue is that IRRs can be sensitive to the estimated value of unrealized investments. Therefore, IRRs for the portfolio should be reviewed in conjunction with "distributions to paid-in capital" (DPI) ratios, which ignore valuations and measure the ratio of cumulative distributions to cumulative paid-in capital for the time period, that is, how much of the investment performance has been realized.

The table compares the IRR and DPI of IPERS' private equity/debt portfolio to those calculated for all private equity partnerships in the *Venture Economics* database for vintage years 1985 through 2009. (*Venture Economics* data was not available for vintage year 2010.)

	IRR	DPI
IPERS' private equity/debt portfolio	14.03%	1.06
Venture Economics All Private Equity funds	11.40%	0.83

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

The decision to give full investment discretion to a management firm for the private equity/debt portfolio has proven successful to date. IPERS' private equity investment manager has produced a net IRR of 16.59 percent since the firm was given full discretion to select partnerships on IPERS' behalf on January 1, 1993. This return compares favorably to the 9.06 percent IRR of the custom benchmark IPERS has established for the manager, the 8.31 percent IRR of IPERS' asset class benchmark for private equity (Wilshire 5000 + 300 bps) over the time period, and the pooled average IRR of 9.10 percent reported by *Venture Economics* for all private equity funds in its database for vintage years 1993 through 2009.

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

[1]All *Venture Economics* information is as of October 2010, with data current for reporting periods ended March 31, 2010. Data is continuously updated and is therefore subject to change. 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. Therefore, the March 31 *Venture Economics* data is the appropriate data for performance comparisons made here and on the following page.

The DPI of 0.85 for the manager's discretionary portfolio also compares favorably to *Venture Economics'* pooled average DPI of 0.73 for all private equity funds in its database for vintage years 1993 through 2009.

REAL ESTATE

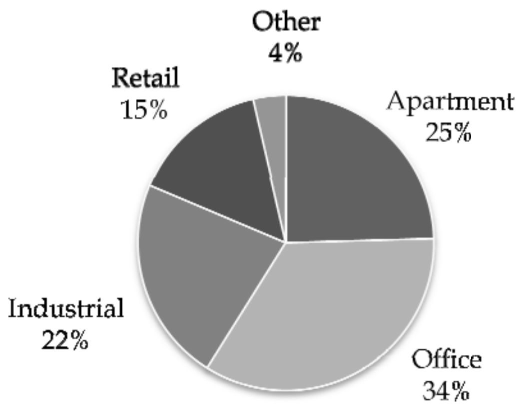
At June 30, 2010, $1.545 billion, or 7.78 percent, of IPERS' total portfolio at fair value was invested in various real estate properties and publicly traded real estate investment trusts. In order to mitigate risk, the real estate portfolio is diversified by both geographic location and property type, as shown in the following pie charts.

The total net return for the real estate portfolio for the fiscal year was 2.35 percent, compared to 6.74 percent for the portfolio's benchmark (85 percent NCREIF NPI/15 percent Wilshire REIT + 0.25 percent). 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, 2010, the real estate portfolio returned 7.04 percent versus the portfolio's benchmark of 7.59 percent.

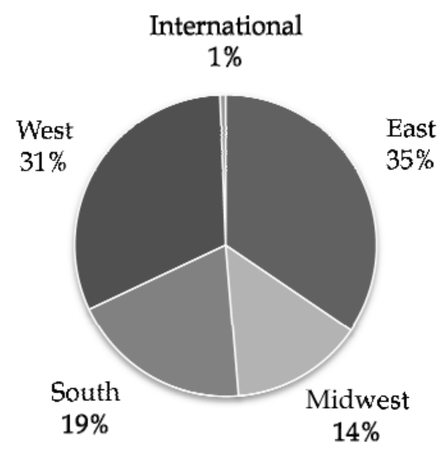
The public portion of the real estate program bounced back in FY2010 with a net return of 52.38 percent while the private portion of the real estate program was slightly negative with a net return of –1.14 percent. Valuation write-downs in the private portion of the program continued in FY2010, albeit at a slower pace than in the previous fiscal year. Write-downs in the private portfolio for fiscal year 2010 were –7.09 percent versus –27.76 percent in the previous fiscal year. Property occupancy rates for IPERS' portfolio also declined slightly from 90 percent to 88 percent. The decline was mostly caused by the industrial assets, which went from 91 percent occupied to 83 percent occupied over the fiscal year. Occupancy levels in the other major property types stabilized or improved in fiscal year 2010.

Real Estate Portfolio
June 30, 2010

By Property Type



By Property Location



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, 2010, the System held investments of $885.7 million in companies of Iowa interest.

HOLDINGS IN COMPANIES OF IOWA INTEREST

June 30, 2010

Asset Class	Amount
Stocks	$620,422,520
Bonds	262,198,533
Private equity/debt	3,095,000
Total	**$885,716,053**

SCHEDULE OF BROKERAGE COMMISSIONS PAID

Year ended June 30, 2010

	Commissions		
Brokerage Firm	Amount Paid	Average Per Share	% of Total Paid for Period
Citigroup Global Markets Inc	$ 396,722	$0.007	9.49
Merrill Lynch & Company Inc	379,833	0.012	9.09
Credit Suisse First Boston	307,888	0.006	7.37
UBS Securities LLC	301,114	0.008	7.20
Morgan Stanley & Co	292,545	0.006	7.00
Goldman Sachs & Co	267,039	0.010	6.39
JP Morgan Securities Inc	250,032	0.011	5.98
Deutsche Bank Securities	237,809	0.009	5.69
Barclays Capital	228,197	0.033	5.46
Macquarie Securities	109,164	0.003	2.61
State Street Global Markets	108,868	0.009	2.60
Pershing Securities	92,152	0.009	2.20
Sanford C Bernstein & Company LLC	81,912	0.023	1.96
Jeffries & Company Inc	72,363	0.035	1.73
HSBC Securities	54,217	0.003	1.30
BNP Paribas	50,113	0.013	1.20
Spectrum Asset Management Inc	49,585	0.025	1.19
Nomura Securities	47,933	0.004	1.15
Credit Agricole	45,076	0.002	1.08
ING Financial Markets LLC	44,335	0.004	1.06
ISI Group Inc	32,299	0.029	0.77
SG Securities Limited	29,331	0.002	0.70
Paribas Securities	25,626	0.008	0.61
Stifel Nicholaus & Co Inc	25,283	0.034	0.60
BANCO Santander	24,079	0.014	0.58
All others (includes 131 brokerage firms)	626,636	0.001	14.99
Total	**$4,180,151**	**$0.005**	**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 on September 17, 2009, 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.

IPERS is administered through a chief executive officer, chief investment officer, chief benefits officer, and other full-time staff. The Investment Board (Board) is the trustee of the IPERS Trust Fund (Fund). The primary duties of the Board are to establish investment policy, review its 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, and approves the retention of service providers in matters relating to the actuarial valuation of the System's assets and liabilities.

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 GOAL STATEMENT

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

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

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

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

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

2. Performance which exceeds the 750 basis point (7.5 percent) actuarial assumed investment return.

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

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

III. INVESTMENT POLICY STATEMENT

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

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

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

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

A. The Beta Portfolio

1. Policy Benchmark

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

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

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

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

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

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

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

Asset Class	Asset Class Ranges	Policy Benchmark Weights	Policy Benchmark Index
Equities		**43%**	
Domestic Equities	23%–33%	28%	Wilshire 5000
International Equities	10%–20%	15%	MSCI ACWI ex-U.S.
Fixed Income		**35%**	
Core Plus Fixed Income	30%–38%	30%	Barclays Capital U.S. Universal
High-Yield	3%–7%	5%	Citigroup HY Cash-Pay
Alternatives		**21%**	
Private Equity	7%–13%	10%	Wilshire 5000 + 3%[1]
Equity Real Estate	6%–10%	8%	Custom Index[2]
Real Assets	0%–6%	3%	Barclays Capital World ILB
Cash	0%–2%	**1%**	Merrill Lynch 91-Day T-Bill

[1] Lagged by one calendar quarter.

[2] The equity real estate custom index for purposes of the Policy Benchmark Index is weighted 85 percent NCREIF Property Index and 15 percent Wilshire REIT Index plus 25 basis points to reflect the real estate program's return objective.

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.

High-Yield Bonds

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

Equity Real Estate

IPERS invests in equity real estate to provide diversification in the investment portfolio, provide some inflation protection and for income generation. The Policy Benchmark Index for Equity Real Estate is a weighted custom index of 85 percent the National Council of Real Estate Investment Fiduciaries' Property Index (NPI) and 15 percent the Wilshire Real Estate Investment Trust Index (Wilshire REIT) plus 25 basis points. (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.)

Real Assets

IPERS invests in real assets to provide inflation protection for the investment portfolio. Real assets may consist of Treasury Inflation Protected Securities (TIPS), global inflation linked bonds, commodities, timber, or infrastructure assets where principal or future income streams are protected from inflation. The real asset portfolio will initially be established using inflation linked securities, and the Policy Benchmark Index for Real Assets will initially be the Barclays Capital World Inflation Linked Bond Index (Hedged $US). The benchmark will be revised as additional real asset strategies are added to the portfolio over time. The Real Assets component of the Policy Benchmark shall not take effect until a Real Assets mandate is funded.

Cash

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

3. Policy Benchmark Rebalancing

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

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

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

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

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

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

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

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

The Board has established the following alpha risk budget:

Asset Class	Alpha Risk Range	Alpha Risk Target
Equities		
Domestic Equities	0.70%–1.30%	1.00%
International Equities	1.50%–2.50%	2.00%
Fixed Income		
Core Plus Fixed Income	0.40%–0.60%	0.50%
High-Yield	2.40%–4.10%	3.25%

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

C. Investment Management

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

1. Manager/Consultant Utilization and Selection

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

Each investment manager and consultant shall function under a formal contract that delineates their responsibilities and the appropriate risk management and performance expectations.

2. Manager/Consultant Discretion

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

The Board and staff will consider the comments and recommendations of the 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 comprised 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% of the Fund's total assets;

b. IPERS' investments in an investment manager's actively managed strategy shall not exceed 20% 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.

E. Currency Risk Management

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

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

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

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

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

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

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

K. Social Investing

As fiduciaries, the IPERS Investment Board, staff, and investment managers must perform their duties for the exclusive benefit and in the best economic interest of the System's members and beneficiaries. The System 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 Investment Restrictions and Divestment

Iowa Code chapter 12F requires IPERS to develop a list of scrutinized companies with operations in the Sudan, and to restrict its purchases of, and, under certain circumstances, to divest of holdings of publicly traded securities in any company determined to have active business operations in the Sudan. To comply with this legislative mandate, IPERS will do the following:

1. Staff will develop a list of scrutinized companies with active business operations and inactive business operations (as such terms are defined in the legislation) utilizing 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.

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

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

4. Staff will contact those investment managers that invest in direct holdings of securities on behalf of IPERS, and notify them of those companies with active business operations that have become subject to investment restriction and divestment. Said investment managers will be instructed to immediately cease purchasing the publicly

traded securities of such company, and to sell any existing direct holdings of such company within 18 months of the date the company was first notified. The investment manager shall have the discretion to decide when to sell its holdings within the 18-month period.

5. Staff and consultant will track and include in its annual reports the costs associated with the Sudan legislation.

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

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 alpha risk budgets.

2. The Board shall review the specific types and proportions of assets being utilized in implementing the overall policy, as established by the staff (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 Alpha Risk Targets within their designated ranges.

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

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

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

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 Robert's Rules of Order, Newly Revised.

ACTUARIAL

Actuary's Certification Letter

Principal Valuation Results

Actuarial Balance Sheet

Solvency Test

Schedule of Active Member Valuation Data

Retirees and Beneficiaries—Changes in Rolls

Actuarial Assumptions and Methods

Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

November 15, 2010

This report presents the results of the June 30, 2010 actuarial valuation of the Iowa Public Employees' Retirement System (IPERS). The primary purposes of performing the valuation are as follows:

- to evaluate the sufficiency of the statutory contribution rate structure to fund the benefits expected to be paid to regular members in the future and to determine if the Plan's funding meets the criteria set out in the Funding Policy established by IPERS,

- to determine the actuarial contribution rates for the Special Service Groups (Group 1 includes sheriffs and deputies, Group 2 includes all other public safety members),

- to evaluate the funded status of the System and disclose various asset and liability measures as of June 30, 2010,

- 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.

This is the first valuation report prepared by Cavanaugh Macdonald Consulting LLC. However, the valuation results were developed using the prior actuary's (Milliman) valuation software. Therefore, the change in actuarial firms did not impact the valuation results this year. They are comparable to last year's results other than the changes noted below.

This valuation reflects the impact of the changes in the actuarial assumptions recommended in the 2005-2009 Experience Study that were adopted by the Investment Board at their June, 2010 meeting (there were no changes in the actuarial methods). The new set of assumptions includes separate assumptions for subgroups of the regular membership (State, School and Other). Other changes made to better reflect expected experience included:

- Some adjustments were made to the retiree mortality assumption to better fit the observed experience.
- Retirement rates were modified to reflect the observed patterns of retirement, generally reflecting fewer retirements.
- Disability rates were lowered at most ages.
- Termination of employment rates were lowered, reflecting increased employee retention.
- The probability of terminating members leaving their contributions with IPERS and receiving a deferred retirement benefit were generally increased to reflect experience.
- Salary increase assumptions were modified to better reflect the observed experience. There were both increases and decreases in the rates at various durations.

The change in assumptions impacted the three membership groups differently:

- The normal cost rate for the regular membership increased by 0.50% and the unfunded actuarial liability (UAL) decreased by $137 million.
- For Special Service Group 1 (SS1), the normal cost rate increased by 0.63% and the UAL increased by $12 million.
- For Special Service Group 2 (SS2), the normal cost rate decreased by 0.06% and the UAL increased by $11 million.

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The 2010 Legislature passed House File 2518 which increased the contribution rate for regular members and also changed the benefit structure for regular members. These changes, outlined below, are reflected in this valuation.

- The combined contribution rate is increased to 13.45% effective July 1, 2011.
- The System shall set the contribution rate as actuarially determined for fiscal years after 2012, but the contribution rate may not vary by more than 1.0% per year.
- The benefit structure is modified by amending the definition of final average salary to the highest five years of covered wages, increasing the years of service to be vested from four to seven, and increasing the early retirement reduction from 3% per year measured from the member's first unreduced retirement age to a 6% reduction measured from age 65.

For the Special Service groups, the legislation eliminated the 0.50% annual cap on the change in the contribution rate, which was to be effective for FY2012, and added a cancer and infectious disease presumption for in-service disability benefits, effective July 1, 2011.

The change in the benefit structure for the regular membership decreased the normal cost rate by 0.62% and the UAL by $674 million. The cancer and infectious disease presumption for the Special Service groups had no measurable impact on their valuation results because the total disability rates adopted as part of the June 2010 Experience Study were substantially lowered.

Several factors contributed to the change in the normal cost rate and actuarial liability from the 2009 to the 2010 valuation. The impact of each change is summarized in the table below:

	Normal Cost			**Actuarial Liability**		
	Regular	**SS1**	**SS2**	**Regular**	**SS1**	**SS2**
6/30/09 Valuation	9.97%	15.57%	15.92%	$24,733	$412	$873
Demographic Experience	+0.02%	+0.05%	-0.06%	1,159	+24	+56
Change in Assumptions	+0.50%	+0.63%	-0.06%	-137	+12	+11
Change in Benefit Structure	-0.62%	0.00%	0.00%	-674	0	0
6/30/10 Valuation	9.87%	16.25%	15.80%	$25,081	$448	$940

The actuarial valuation results provide a "snapshot" view of the System's financial condition on June 30, 2010. The results reflect net unfavorable experience for the past plan year as demonstrated by an unfunded actuarial liability (UAL) that was higher than expected, based on current actuarial assumptions. The UAL on June 30, 2010 for all membership groups covered by IPERS (Regular members and both Special Service Groups) is $4.931 billion as compared to an expected UAL of $4.450 billion. The unfavorable experience was the sum of an experience loss of $666 million on the actuarial value of assets and an experience gain of $185 million on System liabilities.

The statutory contribution rate for regular members had been 9.45% (3.70% for members and 5.75% for employers) since 1979. For several years, the valuation had indicated the 9.45% statutory contribution rate was insufficient to finance the benefits provided by IPERS. In 2006, legislation was passed that increased the statutory contribution rate 0.50% per year for four years commencing on July 1, 2007. The increase each year was shared 40% by the members and 60% by the employers. On July 1, 2010, the statutory contribution rate reached 11.45% of pay. Legislation passed in 2008 gave IPERS the authority to implement actuarially determined contribution rates for the regular membership group after fiscal year 2011. However, the contribution rate could not change by more than 0.50% in any single year. In 2010, legislation was passed that increased the contribution rate for regular members to 13.45% on July 1, 2011. In addition, the contribution rate can change by 1.0% each year. In the valuation, future increases in contribution rates are reflected for purposes of analyzing the long term funding of the System. As indicated previously, certain calculations are performed for purposes of reporting under Governmental Accounting Standards. For this purpose, future increases in the contribution rate are not reflected, i.e. the current contribution rate of 11.45% is used.

The summary of the 2010 valuation results, which set the contribution rates for FY2012, are shown below:

Contribution Rate for FY2012	Regular Membership	Special Service Group 1*	Special Service Group 2**
1. Normal Cost Rate	9.87%	16.25%	15.80%
2. Amortization of UAL over 30 years	3.84%	3.41%	0.82%
3. Total Contribution Rate	13.71%	19.66%	16.62%
4. Member Contribution Rate	5.38%	9.83%	6.65%
5. Employer Contribution Rate (3) - (4)	8.33%	9.83%	9.97%
6. Statutory/Expected Contribution	8.07%	9.83%	9.97%
7. Shortfall (5) – (6)	0.26%	0.00%	0.00%
8. Years to Amortize (Based on (6))	34	30	30
9. Unfunded Actuarial Liability ($M)	$4,820	$59	$52
10. Funded Ratio	80.8%	86.8%	94.4%

* Includes Sheriffs and Deputies
** Includes all other public safety members

Actuarial Value of Net Assets

For financial statement purposes, the System's assets are reported at current fair values. For actuarial purposes, the assets are valued using a technique which dampens the volatility in the fair value. Specifically, the assets are valued at their expected value at the valuation date (based on the assumed rate of investment return) plus 25% of the difference between the fair value and the expected value on the valuation date. The actuarial value of assets must fall within a corridor of 80% to 120% of market value. Based on this methodology, there was an actuarial loss on assets of about $666 million. Between June 30, 2009 and June 30, 2010, the actuarial value of assets increased by $413 million. This represented an approximate rate of return of 4.3%, less than the actuarial assumed rate 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, 2010 in the following table:

($Millions)	Regular Membership	Special Service 1	Special Service 2	Total*
Actuarial Liability	$25,081	$448	$940	$26,468
Actuarial Value of Assets	20,261	389	888	21,537
Unfunded Actuarial Liability	4,820	59	52	4,931
Funded Ratio	80.8%	86.8%	94.4%	81.4%

*Totals may not add due to rounding.

Changes in the UAL occur for various reasons. The net change in the UAL from 6/30/2009 to 6/30/2010 was only $36 million. The components of this net change are shown in the table below (in millions):

Unfunded Actuarial Liability, June 30, 2009	$	4,895
• Expected increase from amortization method	+	95
• Expected increase from contributions below actuarial rate	+	248
• Investment experience	+	666
• Liability experience (including transfers)	-	185
• Change in actuarial assumptions	-	114
• Change in benefit provisions	-	674
Unfunded Actuarial Liability before FED transfer, June 30, 2010	$	4,931
• FED Transfer	+	0
Unfunded Actuarial Liability after FED transfer, June 30, 2010	$	4,931

As seen above, several of the components increased the UAL while others decreased it. The two most significant factors were the increase in the UAL due to the loss on the actuarial value of assets ($666 million) and the decrease in the UAL due to the change in the benefit provisions ($674 million). Without the change in the benefit provisions, the UAL would have been much higher in this year's valuation.

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 assumptions, methodology or benefit provision changes. Overall, the System experienced a net actuarial loss of $481 million. The net actuarial loss may be explained by considering the separate experience of assets and liabilities. As noted earlier, assets had a $666 million loss when measured on an actuarial value basis. There was a liability gain of $185 million (or about 0.7% of total actuarial liability) which arises from demographic experience more favorable than anticipated by the actuarial assumptions. The largest component of the liability gain was due to actual salary increases for active members that were lower than expected. The increase in salaries for members who were active in both the 2009 and 2010 valuations was 4.5% or about 1.5% lower than expected, resulting in an actuarial gain of about $250 million. This gain was partially offset by an actuarial loss due to more retirements than expected for a net liability gain of $185 million.

Contribution Rate

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

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

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

In 2006, 2008 and 2010 legislation was passed that increased the statutory contribution rate for regular members as shown in the table below:

Time Period	Member	Employer	Total
	Contribution Rates		
Prior to 7/1/07	3.70%	5.75%	9.45%
7/1/07 – 6/30/08	3.90%	6.05%	9.95%
7/1/08 – 6/30/09	4.10%	6.35%	10.45%
7/1/09 – 6/30/10	4.30%	6.65%	10.95%
7/1/10 – 6/30/11	4.50%	6.95%	11.45%
7/1/11 – 6/30/12	5.38%	8.07%	13.45%
7/1/12 and later	Actuarially Determined*		

*May not change by more than 1.0% per year.

There were several factors that impacted the contribution rates in the 2010 valuation. Please see the table earlier in this section for a detailed summary of the impact of each change.

Despite the 0.50% increase in the statutory contribution rate to 11.45% for regular members this year, there is still only a small part of the total contribution rate that is available to fund the UAL. When the statutory contribution increases to 13.45% on July 1, 2011, a much higher contribution rate will be available to fund the UAL. However, given the deferred investment loss, additional increases in the actuarial contribution rate are expected. The actuarial contribution rates in years after FY2012 will be heavily dependent on future investment experience, especially that which occurs in the next few years.

The contribution rates are summarized in the following table:

Contribution Rate for FYE 2012	Regular Membership	Special Service 1	Special Service 2
1. Total Actuarial Contribution Rate	13.71%	19.66%	16.62%
2. Member Contribution Rate	5.38%	9.83%	6.65%
3. Employer Contribution Rate (1) – (2)	8.33%	9.83%	9.97%
4. Employer Statutory Contribution Rate	8.07%	9.83%	9.97%
5. Shortfall (3) – (4)	0.26%	0.00%	0.00%

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

This valuation determines the actuarial contribution rates for FY2012. Based on the projected UAL for the regular membership at June 30, 2011 and the amortization payment for FY2012, the amortization period is 34 years. In order for the System to be "fully funded" (the amortization period to be 30 years), the contribution rate would need to increase by 0.26% to 13.71% of payroll. This rate is determined based on the snapshot of the System taken on the valuation date, June 30, 2010, and applies only for the fiscal year beginning July 1, 2011. The rate necessary for the System to be "fully funded" in future years will change each year as the deferred actuarial investment experience is recognized and other experience (both investment and demographic) impacts the System. The scheduled increases, beginning July 1, 2011, which raise the contribution rate to 13.45% and then allow the rate to increase 1.0% per year in the future, should permit the statutory contribution rate to converge with the actuarial rate if all assumptions are met in future years.

Summary

The investment return on the market value of assets for FY2010 was 13.82%. Despite this strong return, there is still nearly $2 billion of deferred investment loss due to the use of an asset smoothing method. However, this is a significant improvement over the $3.5 billion deferred loss a year ago. The System's funded ratio remained stable at 81% which was positive as it would have been expected to decrease based on last year's valuation results. If the contribution rate were determined in this year's valuation with an amortization period of 30 years (which is the requirement in IPERS' Funding Policy for the System to be "fully funded"), the FYE 2012 contribution rate would be 13.71% of payroll, as compared to the statutory FYE 2012 contribution rate of 13.45%. This rate is determined based on the snapshot of the System taken on the valuation date, June 30, 2010, and applies only for the fiscal year beginning July 1, 2011. The rate necessary for the System to continue to be "fully funded" in future years will change each year as the deferred actuarial investment experience is recognized and as other experience (both investment and demographic) impacts the System. While the statutory contribution rate can vary each year, the annual change is limited to 1.0%.

As mentioned above, 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. Despite a return of 13.82% on the market value of assets, the return on the actuarial value of assets was only 4.3%. This is due to the deferred investment experience from FY2009. If asset returns on market value are not significantly higher than 7.5% over the next few years, the $2 billion of deferred investment experience will be recognized and the actuarially required contribution rate can be expected to increase.

The 2006 Legislature passed legislation that increased the statutory contribution rate from 9.45% to 11.45% over a four-year period commencing July 1, 2007. Legislation passed in 2008 provided IPERS with the authority to implement actuarially determined contribution rates for regular members, but the change in the contribution rate could not exceed 0.50% per year. The 2010 Legislature passed House File 2518 which took dramatic steps to strengthen the long term funding of IPERS by increasing the statutory contribution rate to 13.45%, effective July 1, 2011, and providing for an adjustment of up to 1.0% in the contribution rate in each successive year. The bill also made certain changes to the benefit structure for regular members, which lowered the liabilities and cost for that group. These changes, combined with the 13.82% return for FY2010, resulted in an improvement in the outlook for IPERS' long term funding.

The outlook for IPERS long term funding has significantly improved since the last valuation. The funded ratio has stabilized, the deferred investment loss decreased from $3.5 billion last year to $2.0 billion this year, and the years to amortize for the regular membership, which has been infinite for eight valuations, is now 34 years. The improvement is due to numerous factors which include:

- An investment return on the market value of assets of 13.82% for FY2010.
- A decrease in the liabilities of the System due to changes in the actuarial assumptions.
- An increase in the combined contribution rate to 13.45% for FY2012 for regular members with changes in subsequent years, not to exceed 1.0%.
- Benefit reductions for regular members that lowered the liability and normal costs.

The long-term financial health of this retirement system is heavily dependent on two key items: (1) future investment returns and (2) contributions to the System. Given the System's funded status, the deferred investment losses, and the legislative changes made in 2010 (the benefit structure and scheduled contribution rates), the long term financial health of the System has improved and we would expect the System's funded ratio to improve over the long term, assuming all actuarial assumptions are met. These changes have brought the regular membership group into actuarial balance, with a period to amortize the unfunded actuarial liability of 34 years.

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 2010 actuarial valuation report are for purposes of determining the recommended funding amounts for the System. Actuarial computations under GASB Statement No. 25 are for purposes of fulfilling financial accounting requirement. The computations prepared for these two purposes may differ as disclosed in the 2010 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 2010 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, 2010 and June 30, 2009 valuations. All figures shown include the regular membership and the two Special Service Groups. The membership counts reflect the data as of June 30, appropriate for valuation purposes, and may differ from other reporting numbers.

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, F.S.A.
Consulting Actuary

Brent A. Banister

Brent A. Banister
Senior Actuary

PRINCIPAL VALUATION RESULTS

	June 30, 2010	June 30, 2009	% Chg
SYSTEM MEMBERSHIP			
1. Active Membership			
- Number of Members (excluding Retired/Reemployed)	165,626	167,691	(1.2)
- Projected Payroll for Upcoming Fiscal Year	$6,820M	$6,762M	0.9
- Average Salary	$41,179	$40,326	2.1
2. Inactive Membership			
- Number Not in Pay Status	65,571	66,098	(0.8)
- Number of Retirees/Beneficiaries	93,513	89,718	4.2
- Average Annual Benefit	$13,139	$12,443	5.6
ASSETS AND LIABILITIES			
1. Net Assets (excluding FED reserve)			
- Market Value	$19,539M	$17,603M	11.0
- Actuarial Value	21,537M	21,124M	2.0
2. Projected Liabilities			
- Retired Members	$11,770M	$10,623M	10.8
- Inactive Members	552M	538M	2.6
- Active Members	19,879M	20,287M	(2.0)
- Total Liability	32,200M	31,449M	2.4
3. Actuarial Liability	$26,468M	$26,019M	1.7
4. Unfunded Actuarial Liability	$4,931M	$4,895M	0.7
5. Funded Ratio			
a. Actuarial Value Assets/Actuarial Liability	81.37%	81.19%	0.2
b. Market Value Assets/Actuarial Liability	73.82%	67.66%	9.1
SYSTEM CONTRIBUTIONS			
Statutory Contribution Rate*	13.45%	11.45%	17.5
Years Required to Amortize Unfunded Actuarial Liability	34	Infinite	N/A
Total Actuarial Contribution Rate	13.71%	14.12%	(2.9)
Member Contribution Rate	5.38%	4.50%	19.6
Employer Contribution Rate	8.33%	9.62%	(13.4)

M = ($) Millions

*Contribution rates for certain special groups (5% of membership) are not fixed by statute but are actuarially determined each year.

Note: For valuation purposes, the data provided by IPERS was reclassified by Cavanaugh Macdonald 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
JUNE 30, 2010

	Regular Membership	Special Service Group 1*	Special Service Group 2**	Total
ASSETS				
Actuarial value of assets	$20,260,943,904	$388,636,933	$887,877,723	$21,537,458,560
Present value of future normal costs	5,141,168,260	130,800,420	460,079,323	5,732,048,003
Present value of future contributions to amortize unfunded actuarial liability	4,819,661,910	58,990,710	52,308,470	4,930,961,090
Total Net Assets	**$30,221,774,074**	**$578,428,063**	**$1,400,265,516**	**$32,200,467,653**
LIABILITIES				
Present Value of Future Benefits:				
Retired Members and Beneficiaries	$11,293,531,095	$169,436,571	$306,902,663	$11,769,870,329
Active Members	18,403,688,484	402,573,164	1,072,279,127	19,878,540,775
Inactive Members	524,554,495	6,418,328	21,083,726	552,056,549
Total Liabilities	**$30,221,774,074**	**$578,428,063**	**$1,400,265,516**	**$32,200,467,653**

* Includes Sheriffs and Deputies.
** Includes all other public safety members.

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)
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%
2007	3,165,389,448	9,217,242,773	10,643,481,561	20,759,628,415	100%	100%	79%
2006	3,027,543,237	8,448,946,704	10,174,632,478	19,144,036,519	100%	100%	75%
2005	2,891,029,224	7,841,276,253	9,507,793,190	17,951,490,071	100%	100%	76%

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
2005	160,905	$5,236,860,886	$32,546	2.69
2006	163,091	5,523,863,321	33,870	4.07
2007	165,241	5,781,706,199	34,990	3.31
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

RETIREES AND BENEFICIARIES—CHANGES IN ROLLS

Schedule of Retirees Added to and Removed from Rolls

Year Ended	Added to Rolls		Removed from Rolls		Rolls at Year-End		Percentage Increase in Annual Allowances	Average Annual Allowances
	Number*	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances		
2005	4,879	$ 76,691,638	2,424	$ 8,930,349	76,303	$ 807,399,324	9.16	$10,581
2006	4,892	71,906,397	2,510	10,155,290	78,685	869,150,431	7.65	11,046
2007	5,246	88,603,387	2,718	10,883,501	81,213	946,870,317	8.94	11,659
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

*The number of retirees added to rolls may not equal the number of new retirees reported in other sections of the CAFR due to retirees that began payments in the fiscal year but were not receiving payments at the end of the fiscal year. These retirees are included in the "added to rolls" and the "removed from rolls" columns of this table; whereas, only new retirees that were receiving benefits as of fiscal year-end are reported elsewhere throughout the CAFR.

Schedule of Beneficiaries Added to and Removed from Rolls

Year Ended	Added to Rolls		Removed from Rolls		Rolls at Year-End		Percentage Increase in Annual Allowances	Average Annual Allowances
	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances		
2005	386	$2,964,764	198	$ 724,001	3,301	$25,157,140	9.78	$7,621
2006	390	3,237,968	172	681,014	3,519	27,714,094	10.16	7,876
2007	374	3,299,984	157	857,512	3,736	30,156,566	8.81	8,072
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

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 4.00% did not change but the components changed June 30, 2006

Payroll Increase Assumption (effective June 30, 1999)

4.00% per year

DEMOGRAPHIC ASSUMPTIONS:

Rates of Mortality (effective June 30, 2010)

Pre-Retirement

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
Special Services	
Male	RP2000 Healthy Annuitant Table, Generational
Female	RP2000 Healthy Annuitant Table, Generational

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

Post-Retirement

State	RP2000 Healthy Annuitant, Generational
Male	No set back
Female	1 Year set forward with 70% decrease below age 75 and 10% decrease above age 75
School	RP2000 Healthy Annuitant, Generational
Male	2 Year set back with 10% decrease below age 75 and 10% increase above age 75
Female	3 Year set back with 25% decrease below age 75 and 10% increase above age 75
Other	RP2000 Healthy Annuitant, Generational
Male	No set forward or set back
Female	3 Year set back with 10% decrease below age 75 and 15% increase above age 75
Special Services	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

Age	State	School	Other
	Unreduced		
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	SS1	SS2
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 Special Services).
For regular membership, retired re-employed members are assumed to retire at a rate of 25% per year until age 80 when all are assumed to retire.

Rates of Disablement (effective June 30, 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 Special Services
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%

Special Services

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%

	Special Services
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	Special Services
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

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.

The portion of the actuarial present value allocated to the valuation year is called the normal cost. The portion of the actuarial present value not provided for by the actuarial present value of future normal costs is called the actuarial accrued liability. Deducting the actuarial value of assets from the actuarial accrued liability determines the unfunded actuarial liability (UAL). For regular members, the difference between the statutory contribution rate and the normal cost rate is used to finance the UAL and the number of years necessary to finance the unfunded actuarial accrued liability as a level percent of member payroll is determined. For Special Service members, the contribution rate is the sum of the normal cost rate and the rate required to amortize the UAL or surplus over 30 years.

ASSET SMOOTHING METHOD

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 Overview

Membership Summary

Growth of Net Investment Portfolio Assets

Investment Returns 1981–2010

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 the System's financial condition. Data in this section are presented in multiple-year format to show previous and emerging trends, if any. In implementing GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, the intent was to improve consistency and comparability in financial reporting for all governmental entities.

CONTENTS

The Statistical section provides financial, demographic, operating, and investment trend information. The financial trend information presented in the Changes in Net Assets and the Membership Summary on pages 128–130 is intended to assist in understanding and assessing how the System's financial position has changed over time.

The demographic and operating information presented on pages 131–138 provides data on IPERS' membership, including years of credited service, benefits, benefit options, active membership statistics, and principal participating employers.

The investment information presented on pages 139 and 140 shows the growth of net investment portfolio assets since 1984 and investment returns since 1981.

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

DATA SOURCES

Data for the Statistical section 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 Inc.

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

CHANGES IN NET ASSETS
(Dollars expressed in thousands)
Fiscal years ended June 30

	2001	2002	2003	2004	2005
Additions					
Employee contributions	$ 178,877	$ 185,788	$ 185,431	$ 192,808	$ 202,607
Employer contributions	268,315	278,683	287,523	298,924	310,843
QBA Fund contributions*	---	---	---	---	---
Service purchases	3,847	4,983	12,031§	14,903	11,217
Net investment income/(loss)	(989,190)	(772,386)	814,808	2,177,265	1,912,489
QBA income	---	---	---	---	---
Other	65	68	8,952¶	72	42
Total additions	**(538,086)**	**(302,864)**	**1,308,745**	**2,683,972**	**2,437,198**
Deductions					
Trust Fund benefits†	624,260	705,768	736,331	792,866	868,558
QBA Fund benefits‡	---	---	---	---	---
Refunds	42,074	37,915	35,591	36,430	43,113
Trust Fund administrative expenses	7,264	7,581	8,041	7,960	8,215
QBA Fund administrative expenses	---	---	---	---	---
Total deductions	**673,598**	**751,264**	**779,963**	**837,256**	**919,886**
Change in net assets	**$(1,211,684)**	**$(1,054,128)**	**$ 528,782**	**$1,846,716**	**$1,517,312**

(Continued on page 129)

*IPERS began collecting QBA contributions in FY2006 (see Note 10, page 56).
†A Schedule of Benefit Payments by Type of Benefit is found on page 135.
‡IPERS began paying QBA benefits in FY2006 (see Note 10, page 56).
§The volume of service purchases has fluctuated due to changes in service purchase cost methods.
¶Increase is due to a transfer of $8,879,964 from the Cedar Rapids Water Works Retirement System to fund accrued actuarial liabilities assumed by IPERS for participants of that system.

CHANGES IN NET ASSETS (CONTINUED)

(Dollars expressed in thousands)

Fiscal years ended June 30

	2006	2007	2008	2009	2010
Additions					
Employee contributions	$ 211,522	$ 223,515	$ 245,898	$ 270,934	293,472
Employer contributions	324,656	343,063	377,397	415,301	449,119
QBA Fund contributions*	35	---	20	23	5
Service purchases	11,275	8,026	10,875	9,301	12,614
Net investment income/(loss)	2,065,520	3,298,842	(338,575)	(3,863,760)	2,477,824
QBA income	1	1	---	---	---
Other	---	---	---	---	---
Total additions	**2,613,009**	**3,873,447**	**295,615**	**(3,168,201)**	**3,233,034**
Deductions					
Trust Fund benefits†	924,361	1,013,956	1,096,078	1,183,098	1,278,550
QBA Fund benefits‡	17	17	20	21	6
Refunds	41,668	38,116	36,205	34,337	41,470
Trust Fund administrative expenses	9,321	9,060	9,884	10,896	8,967
QBA Fund administrative expenses	---	1	1	1	1
Total deductions	**975,367**	**1,061,150**	**1,142,188**	**1,228,353**	**1,328,994**
Change in net assets	**$1,637,642**	**$2,812,297**	**$(846,573)**	**$(4,396,554)**	**1,904,040**

*IPERS began collecting QBA contributions in FY2006 (see Note 10, page 56).

†A Schedule of Benefit Payments by Type of Benefit is found on page 135.

‡IPERS began paying QBA benefits in FY2006 (see Note 10, page 56).

§The volume of service purchases has fluctuated due to changes in service purchase cost methods.

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

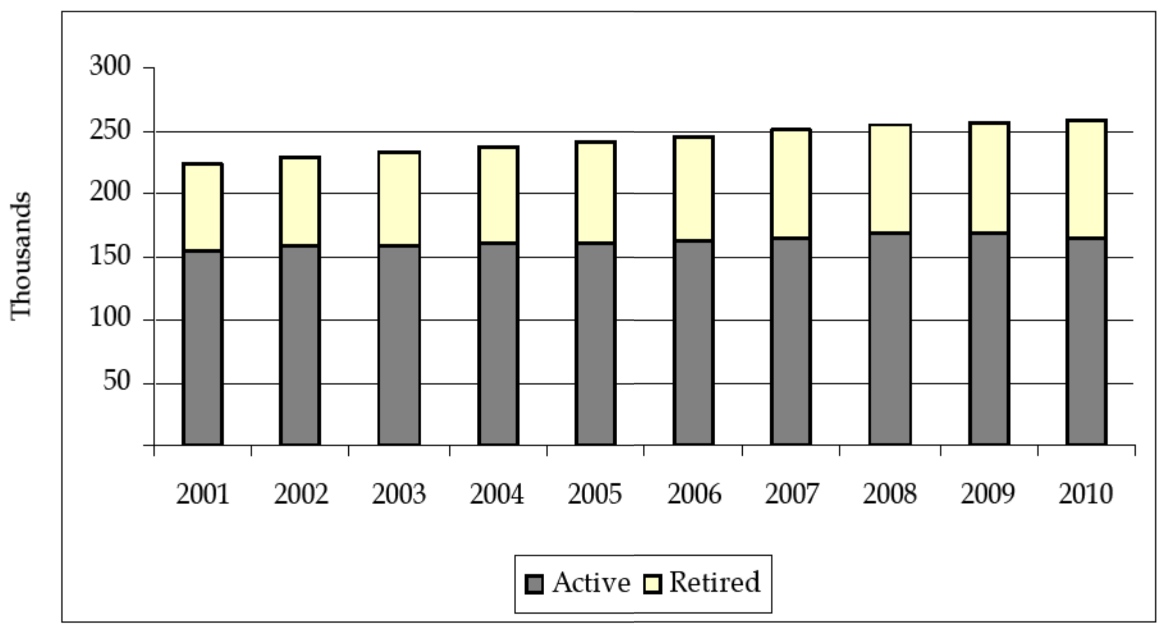
MEMBERSHIP SUMMARY

SPECIAL STATISTICS
Fiscal years ended June 30

Fiscal Year	Number of Retired Members	Number of Active Members	Total Additions	Total Deductions	Total Investments*	Total Net Assets
2001	68,703	154,610	$(538,086,303)	$673,597,721	$16,854,676,024	$15,928,547,166
2002	71,715	158,467	(302,863,978)	751,263,994	15,264,248,089	14,874,419,194
2003	74,336	159,353	1,308,745,027	779,963,314	17,174,920,495	15,403,200,907
2004	76,961	160,034	2,683,972,329	837,256,385	19,647,841,652	17,249,916,851
2005	79,604	160,905	2,437,197,885	919,885,957	20,990,729,636	18,767,228,779
2006	82,204	163,091	2,613,008,745	975,366,478	22,623,903,421	20,404,871,046
2007	84,949	165,241	3,873,447,126	1,061,150,226	26,605,342,485	23,217,167,946
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

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

IPERS Membership by Status
Fiscal years ended June 30



MEMBERSHIP BY GROUP* Fiscal years ended June 30				
Fiscal Year	Regular Membership	Special Service Group 1	Special Service Group 2	Total
2002				
Active members	152,986	1,439	4,042	158,467
Inactive members	97,479	112	637	98,228
Retired members	70,896	260	559	71,715
2002 total	**321,361**	**1,811**	**5,238**	**328,410**
2003				
Active members	153,485	1,480	4,388	159,353
Inactive members	103,348	115	745	104,208
Retired members	73,602	225	509	74,336
2003 total	**330,435**	**1,820**	**5,642**	**337,897**
2004				
Active members	154,279	1,506	4,249	160,034
Inactive members	102,186	103	760	103,049
Retired members	76,097	249	615	76,961
2004 total	**332,562**	**1,858**	**5,624**	**340,044**
2005				
Active members	155,165	1,471	4,269	160,905
Inactive members	64,667	102	647	65,416
Retired members	78,587	310	707	79,604
2005 total	**298,419**	**1,883**	**5,623**	**305,925**
2006				
Active members	157,117	1,478	4,496	163,091
Inactive members	60,941	114	605	61,660
Retired members	81,083	345	776	82,204
2006 total	**299,141**	**1,937**	**5,877**	**306,955**
2007				
Active members	159,092	1,470	4,679	165,241
Inactive members	61,501	108	633	62,242
Retired members	83,666	397	886	84,949
2007 total	**304,259**	**1,975**	**6,198**	**312,432**
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
2008 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
2009 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
2010 total	**313,190**	**2,276**	**9,407**	**324,873**

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

AVERAGE BENEFIT PAYMENTS FOR RETIREES* Fiscal years ended June 30								
	Years of Credited Service							
Fiscal Year	0–5	6–10	11–15	16–20	21–25	26–30	>30	Total
2001								
Number of retirees	†	13,317	11,201	11,057	9,654	7,422	16,014	68,665
Average monthly benefit	†	$138	$318	$479	$696	$1,029	$1,402	$692
Average high average salary	†	$661	$1,011	$1,302	$1,674	$2,186	$2,750	$1,615
Average years of service	†	7.51	13.36	18.35	23.24	28.17	34.64	20.98
2002								
Number of retirees	3,435	10,090	11,266	11,218	10,151	7,965	17,558	71,683
Average monthly benefit	$75	$165	$330	$502	$737	$1,096	$1,538	$760
Average high average salary	$636	$747	$1,073	$1,373	$1,755	$2,283	$2,915	$1,734
Average years of service	4.53	8.50	13.36	18.36	23.24	28.15	34.57	21.27
2003‡								
Number of retirees	3,652	10,509	11,464	11,402	10,485	8,326	18,472	74,310
Average monthly benefit	$80	$169	$337	$518	$765	$1,139	$1,611	$796
Average high average salary	$735	$809	$1,102	$1,384	$1,729	$2,219	$2,828	$1,728
Average years of service	4.49	8.49	13.37	18.37	23.27	28.18	34.51	21.32
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

(Continued on page 133)

*Where data were available, high 3-year average monthly wages were calculated by dividing the annual high 3-year average by 12. When high 3-year average wages were not obtainable, the monthly high 3-year average wages were estimated by dividing the annual annuity amount by a multiplying factor of 0.38 and then dividing by 12 (see retirement formula on page 146).

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

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

AVERAGE BENEFIT PAYMENTS FOR RETIREES* (CONTINUED) Fiscal years ended June 30								
	Years of Credited Service							
Fiscal Year	0–5	6–10	11–15	16–20	21–25	26–30	>30	Total
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

*Where data were available, high 3-year average monthly wages were calculated by dividing the annual high 3-year average by 12. When high 3-year average wages were not obtainable, the monthly high 3-year average wages were estimated by dividing the annual annuity amount by a multiplying factor of 0.38 and then dividing by 12 (see retirement formula on page 146).

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

‡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	School	State	Utility	28E Agency	Township & Cemetery	Other	Total
2001									
Number of retirees	486	689	2,177	660	*	*	*	216	4,228
Average monthly benefit	$767	$806	$1,181	$1,232				$1,133	$1,078
Average years of service	18.35	18.25	22.86	21.75				20.61	21.29
2002									
Number of retirees	506	688	3,024	1,077	31	170	1	2	5,499
Average monthly benefit	$911	$884	$1,504	$1,626	$1,709	$1,385	$453	$409	$1,393
Average years of service	18.94	18.42	25.24	25.45	24.95	21.54	40.25	12.37	23.73
2003									
Number of retirees	558	715	2,562	640	19	217	1	---	4,712
Average monthly benefit	$801	$830	$1,278	$1,266	$1,426	$1,178	$62	---	$1,148
Average years of service	17.51	17.63	22.38	20.21	24.68	19.17	9.00	---	20.65
2004									
Number of retirees	614	696	2,853	522	29	229	---	---	4,943
Average monthly benefit	$926	$809	$1,318	$1,248	$1,207	$1,064	---	---	$1,178
Average years of service	18.60	17.00	22.20	19.17	19.96	17.08	---	---	20.45
2005									
Number of retirees	590	722	2,559	757	19	232	---	---	4,879
Average monthly benefit	$998	$1,031	$1,335	$1,560	$1,699	$1,282	---	---	$1,283
Average years of service	19.01	18.97	22.19	22.04	25.59	19.38	---	---	21.18
2006									
Number of retirees	591	699	2,920	568	24	66	2	22	4,892
Average monthly benefit	$1,051	$1,057	$1,445	$1,463	$1,160	$633	$1,985	$465	$1,328
Average years of service	19.32	19.14	23.33	21.04	19.26	13.84	29.50	11.22	21.78
2007									
Number of retirees	620	809	2,697	965	32	50	2	26	5,201
Average monthly benefit	$1,108	$1,190	$1,570	$1,936	$1,057	$752	$314	$376	$1,506
Average years of service	19.71	20.04	23.72	24.85	18.94	14.54	6.75	8.03	22.67
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

*Amount included in column entitled Other.

SCHEDULE OF BENEFIT PAYMENTS BY TYPE OF BENEFIT* Fiscal years ended June 30								
Fiscal Year	Number of Retirees	Normal Retirement	Early Retirement	Survivor Payment (Normal, Early, or Disability Retirement)	Disability Retirement	Survivor Payment (Death in Service)	Duty Disability Retirement (Special Service Groups)	Nonduty Disability Retirement (Special Service Groups)
2003	74,336	$570,327,217	$ 94,103,140	$20,009,733	$20,963,183	$ 469,783	$194,138	$153,412
2004	76,961	610,618,473	106,510,837	22,142,949	22,021,464	760,904	278,289	221,496
2005	79,604	657,249,915	125,357,178	24,084,063	24,225,454	1,060,991	317,312	261,551
2006	82,204	701,149,558	141,860,569	26,228,650	25,540,886	1,382,098	433,669	269,095
2007	84,949	758,739,140	159,904,983	28,429,483	27,449,602	1,637,857	489,088	287,504
2008	87,490	818,804,704	180,411,922	30,892,964	28,284,772	1,919,799	563,314	303,042
2009	89,852	882,890,118	197,219,959	33,554,573	28,042,167	2,323,743	584,892	304,352
2010	93,692	951,375,232	220,803,713	36,386,690	27,960,711	2,653,287	624,888	330,890

*Trend data is being accumulated for a 10-year period. This table does not include lump-sum payments.

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT As of June 30, 2010								
Amount of Monthly Benefit	Number of Retirees	Normal Retirement	Early Retirement	Survivor Payment (Normal, Early, or Disability Retirement)	Disability Retirement	Survivor Payment (Death in Service)	Duty Disability Retirement (Special Service Groups)	Nonduty Disability Retirement (Special Service Groups)
$ <200	15,591	8,195	6,221	647	480	48	---	---
201–400	15,600	8,707	5,386	871	608	28	---	---
401–600	10,067	5,300	3,622	642	475	28	---	---
601–800	7,561	4,066	2,591	493	371	40	---	---
801–1,000	6,513	3,917	1,881	412	287	16	---	---
1,001–1,200	5,137	3,178	1,478	231	234	16	---	---
1,201–1,400	4,239	2,664	1,205	197	153	16	1	3
1,401–1,600	3,995	2,683	1,007	151	129	18	2	5
1,601–1,800	3,483	2,685	617	84	80	9	4	4
1,801–2,000	3,532	2,880	490	79	66	9	7	1
2,000+	17,974	16,039	1,613	183	102	21	12	4
Totals	**93,692**	**60,314**	**26,111**	**3,990**	**2,985**	**249**	**26**	**17**

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

RETIRED MEMBERS BY BENEFIT OPTION* As of June 30, 2010								
Amount of Monthly Benefit	Number of Retirees	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Misc.†
$ <200	15,591	5,163	3,319	3,033	1,496	2,060	499	21
201–400	15,600	5,816	3,425	1,987	2,020	1,819	525	8
401–600	10,067	3,380	2,248	1,196	1,673	1,089	481	---
601–800	7,561	2,407	1,688	806	1,427	743	490	---
801–1,000	6,513	1,851	1,496	681	1,404	616	465	---
1,001–1,200	5,137	1,345	1,191	544	1,051	487	519	---
1,201–1,400	4,239	1,076	855	402	980	398	528	---
1,401–1,600	3,995	952	822	385	887	409	540	---
1,601–1,800	3,483	791	673	340	752	392	535	---
1,801–2,000	3,532	705	661	388	729	428	621	---
2,000+	17,974	3,189	3,417	2,430	2,272	2,096	4,570	---
Totals	**93,692**	**26,675**	**19,795**	**12,192**	**14,691**	**10,537**	**9,773**	**29**

*See definitions of benefit options on page 147.
†Consists of benefit options available under previous laws.

ACTIVE MEMBERSHIP STATISTICS Fiscal years ended June 30					
Fiscal Year	Total Actives	Percent Change	Average Covered Wage	Average Age (Years)	Average Service Credit (Years)
2001	154,610	1.0	$ 30,341	45.0	11.5
2002	158,467	2.5	32,119	45.2	11.3
2003	159,353	0.6	29,652	44.7	11.4
2004	160,034	0.4	30,605	43.9	11.5
2005	160,905	0.5	31,376	45.6	11.6
2006	163,091	1.4	33,870	44.2	11.6
2007	165,241	1.3	34,990	43.2	11.5
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

ANALYSIS OF CHANGE IN ACTIVE MEMBERSHIP Fiscal years ended June 30						
Fiscal Year	Beginning Members	Additions	Retired	Died	Other Terminations	Ending Members
2001	153,039	13,534	1,567	113	10,283	154,610
2002	154,610	19,247	3,680	138	11,572	158,467
2003	158,467	17,130	3,657	153	12,434	159,353
2004	159,353	16,715	3,450	153	12,431	160,034
2005	160,034	17,598	3,716	156	12,855	160,905
2006	160,905	18,885	3,883	154	12,662	163,091
2007	163,091	19,111	4,344	246	12,371	165,241
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

PRINCIPAL PARTICIPATING EMPLOYERS

Fiscal years ended June 30

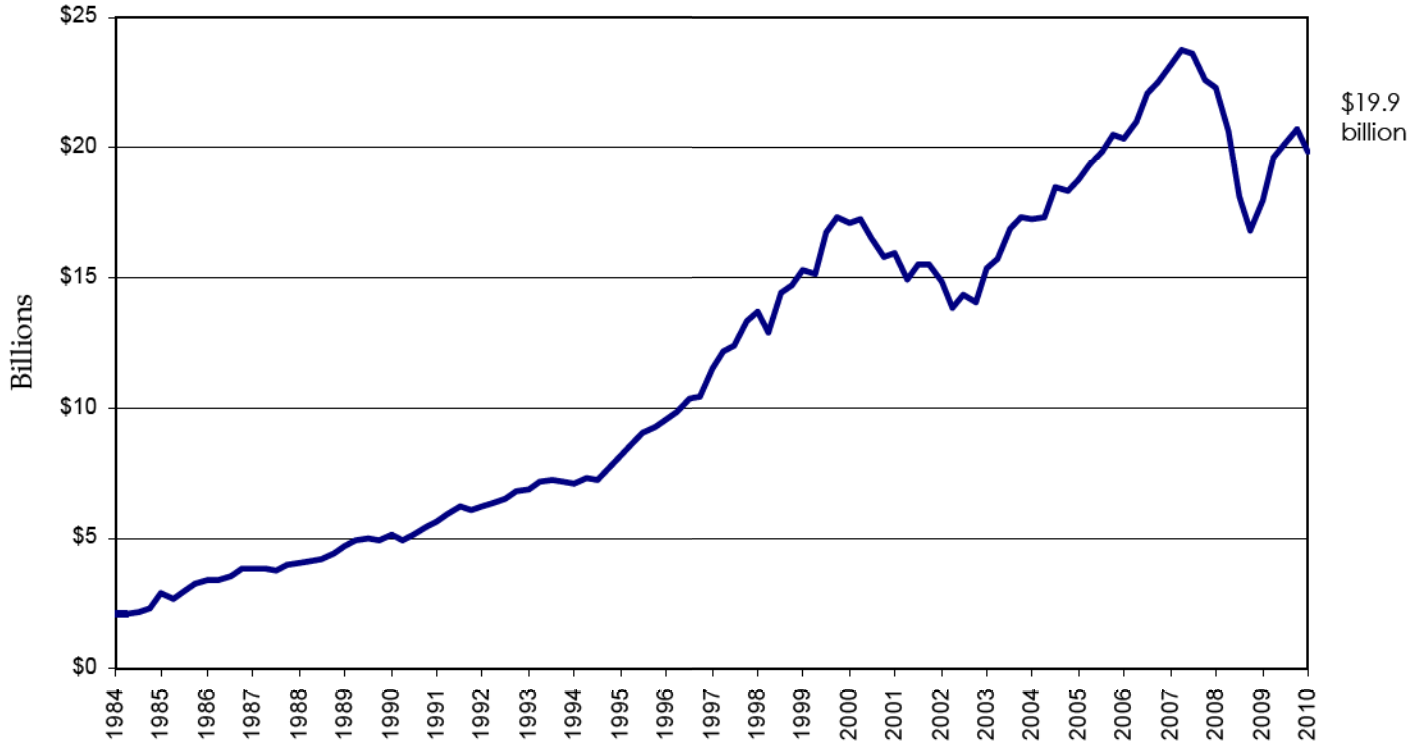
	2010		
Participating Employer	Covered Employees	Rank	Percentage of Total System
State of Iowa Centralized Payroll	18,377	1	11.09
Des Moines Independent Community School District (CSD)	4,467	2	2.70
Cedar Rapids CSD	3,056	3	1.84
Iowa Department of Transportation	2,861	4	1.73
Davenport CSD	2,396	5	1.45
Dubuque CSD	1,889	6	1.14
Sioux City CSD	1,838	7	1.11
Iowa City CSD	1,779	8	1.07
Waterloo CSD	1,544	9	0.93
West Des Moines CSD	1,408	10	0.85
All other employers*	126,045		76.09
Total (2,229 employers)	**165,660**		**100.00**

	2001		
Participating Employer	Covered Employees	Rank	Percentage of Total System
State of Iowa Centralized Payroll	19,579	1	12.66
Des Moines Independent CSD	4,452	2	2.88
Iowa Department of Transportation	3,582	3	2.32
Cedar Rapids CSD	3,058	4	1.98
Davenport CSD	2,502	5	1.62
Sioux City CSD	1,973	6	1.28
Dubuque CSD	1,586	7	1.03
Waterloo CSD	1,525	8	0.99
City of Des Moines	1,492	9	0.96
Iowa City CSD	1,478	10	0.95
All other employers	113,383		73.33
Total (2,422 employers)	**154,610**		**100.00**

*All other employers for FY2010:		
Type	Number	Employees
City	1,154	24,108
County	412	26,117
School	383	66,825
State	23	3,453
28E Agencies	70	2,040
Utilities	134	1,643
Other	43	1,859
Total	**2,219**	**126,045**

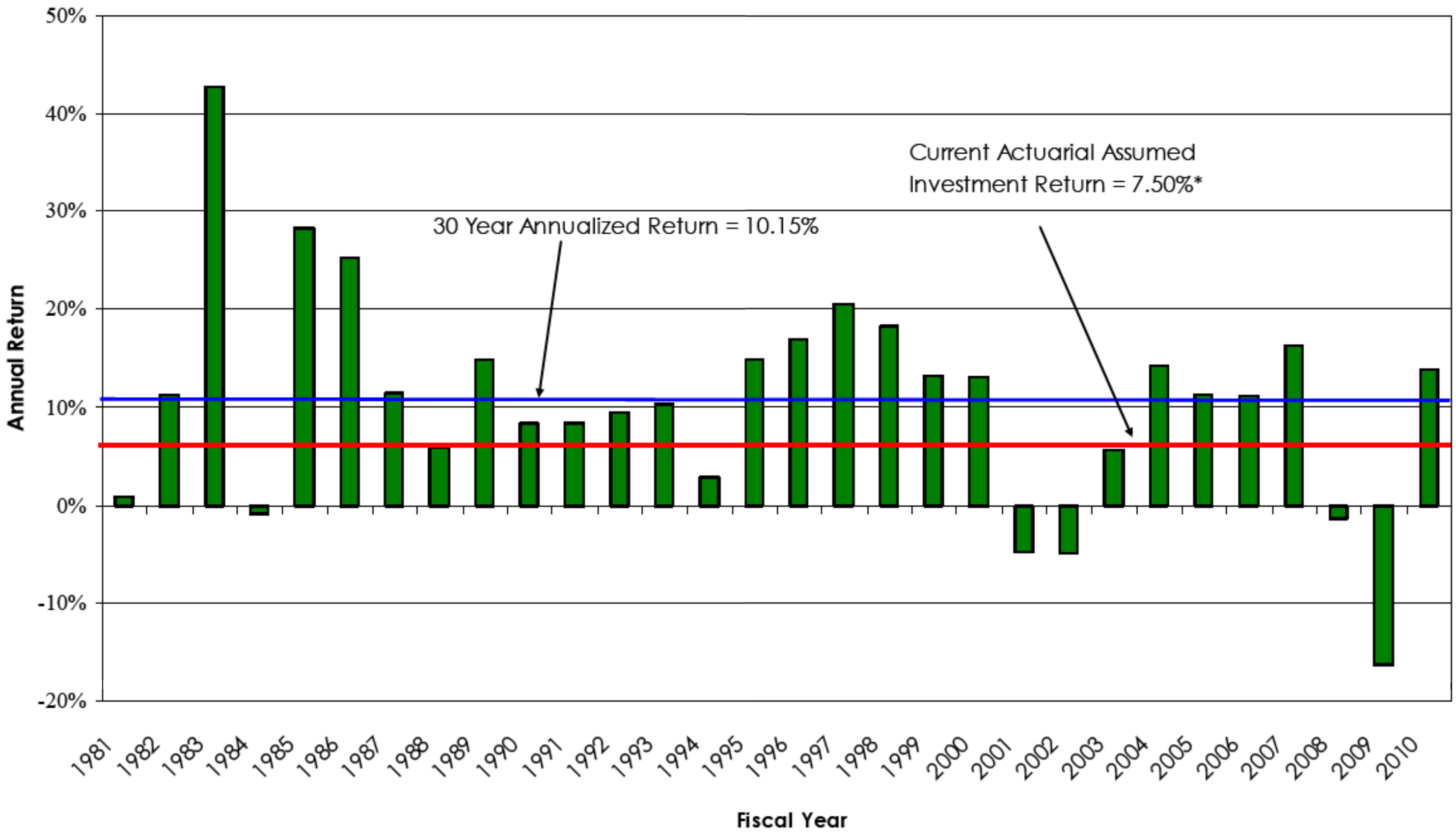
GROWTH OF NET INVESTMENT PORTFOLIO ASSETS

Fiscal years ended June 30



INVESTMENT RETURNS 1981–2010

Fiscal years ended June 30



*Actuarial assumed investment return:
1953–1993: 6.50%
1994–1995: 6.75%
1996–present: 7.50%

ANNUALIZED RETURNS†

1-Year Return:	13.82%	10-Year Return:	3.98%
3-Year Return:	–2.03%	15-Year Return:	7.94%
5-Year Return:	3.97%	20-Year Return:	8.22%

†For periods ended 6/30/10

PLAN SUMMARY

Composition

Membership

Service Purchases

Contributions

Vesting

Refunds

Benefits

IPERS Benefit Payments by Iowa County

Benefit Payments Summary

IPERS Benefit Payments by State in Fiscal Year 2010

COMPOSITION

MEMBERSHIP

Fiscal years ended June 30

	2010	2009
Retired members		
Total	93,692	89,852
Average years of service	22	22
Average monthly benefit	$1,085	$1,064
New retirees this fiscal year	6,385	4,877
Average years of service	23	22
Average monthly benefit	$1,698	$1,558
Retired reemployed*	8,363	8,451
Active members	165,660	167,717
Inactive vested	31,846	32,297
Inactive nonvested	33,675	34,545
Total	**324,873**	**324,411**

*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

	2010		2009	
Employer Type	Number of Entities	Covered Wages	Number of Entities	Covered Wages
City	1,154	$ 842,529,542	1,163	$ 823,889,012
County	412	1,049,014,962	415	996,237,316
School	391	3,207,674,332	393	3,127,540,499
State	25	1,291,318,690	25	1,321,028,896
28E agencies	70	58,816,682	68	54,342,364
Utilities	134	75,469,034	134	76,075,351
Other	43	46,358,763	43	39,529,686
Total	**2,229**	**$6,571,182,005**	**2,241**	**$6,438,643,124**

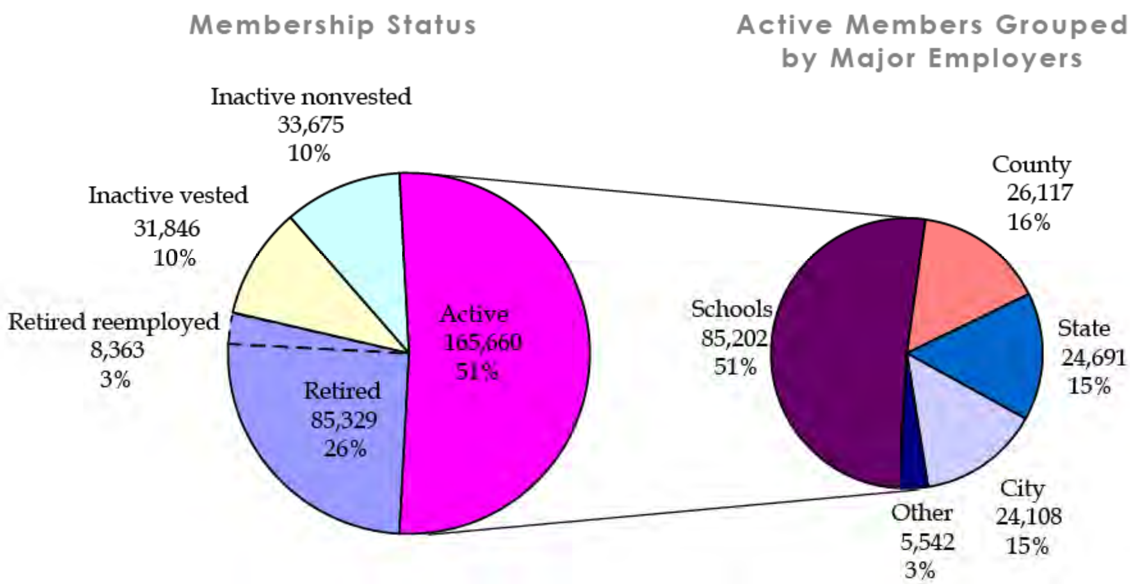
MEMBERSHIP

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

At June 30, 2010, there were 165,660 members contributing to the System (active members), employed by 2,229 public employers. The number of active members decreased by 1.23 percent from June 30, 2009. The membership profile chart provides further information on the composition of the membership for FY2010.

Membership Profile

June 30, 2010



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.

CONTRIBUTIONS

IPERS accumulates the resources necessary to meet its responsibilities by collecting mandatory contributions from employees and employers and investing those funds. Contributions continue throughout covered employment. The majority of employers contributed at a rate of 6.65 percent and employees at a rate of 4.30 percent for FY2010. Employers and employees in Special Service occupations contribute at annually adjusted, actuarially determined rates.

CONTRIBUTION RATES & MAXIMUM COVERED WAGES

Fiscal year 2010

IPERS	Employee Rate	Employer Rate	Total Rate	Maximum Covered Wages: Calendar Year
Regular Membership	4.30%	6.65%	10.95%	2009: $245,000 2010: $245,000‡
Special Service Group 1*	7.62%	7.62%	15.24%	
Special Service Group 2†	6.14%	9.20%	15.34%	

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

VESTING

A member who completes four years of covered service or has attained the age of 55 while making contributions to the plan has vested rights to IPERS benefits. There were 160,294 vested members at June 30, 2010.

The law House File 2518, which was enacted in FY2010, changed the vesting requirements for members who will not have vested by July 1, 2012. See page 7 for more details.

REFUNDS

An IPERS member who terminates public employment for any reason may request a full refund of the member's accumulated contributions. Vested members requesting a refund also receive a portion of their accumulated employer contributions. Acceptance of the refund automatically terminates IPERS membership and all claims to future benefits. 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. Employee refunds paid in FY2010 totaled $41,470,129.

BENEFITS

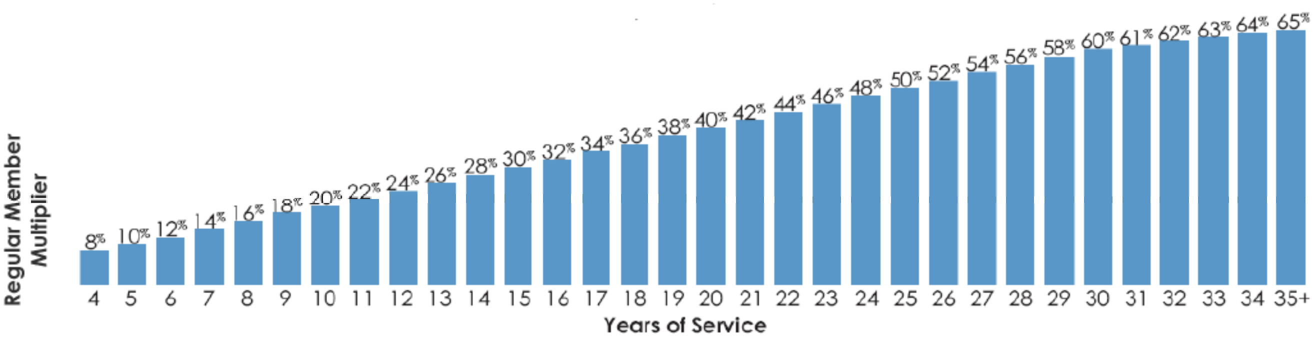
IPERS regular members are eligible for retirement benefits if they are vested, no longer working for an IPERS-covered employer, and meet one of these conditions:

- 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.

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

- A formula multiplier (based on years of service).
- Highest three-year average salary. (The highest average salary is slated to change because of the FY2010 passage of House File 2518. See page 7 for details.)
- Age at retirement (the benefit is reduced if it is received before normal retirement age).



If a member receives benefits before normal retirement age, the benefits are reduced 0.25 percent for each month (or 3 percent per year) that the member receives benefits before the member would have attained normal retirement age. (House File 2518 changed the early retirement reduction.)

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 retirees receiving benefits in FY2010 earned, on average, approximately 22 years of service in IPERS-covered employment. The monthly benefit for all retirees averaged $1,085 as of June 30. For members retiring in fiscal year 2010, the average benefit was $1,698.

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.

OPTION 4. A member receives a lifetime monthly benefit actuarially reduced to provide for a lifetime monthly benefit to the contingent annuitant upon the member's death. The age of the contingent annuitant can affect the cost of the lifetime payments to the member based on actuarial tables. The contingent annuitant can receive 100 percent, 75 percent, 50 percent, or 25 percent of the member's monthly benefit. This amount is subject to restriction if the contingent annuitant is not the member's opposite-sex spouse and is more than ten years younger than the member.

OPTION 5. A member receives a lifetime benefit with a 10-year guarantee. If the member dies before ten full years have passed (120 monthly payments are made), the member's designated beneficiary will receive a monthly benefit for the remainder of the ten years. If the beneficiary should die before the ten years expire, the beneficiary's estate will receive a commuted lump-sum settlement. If the member designates more than one beneficiary, payments will be made in a lump sum only. Members who have attained age 90 as of the first month of entitlement are not allowed to select this option.

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

RETIRED MEMBERSHIP BY BENEFIT OPTION

As of June 30, 2010

	Number	Percent
Option 1	26,675	28
Option 2	19,795	21
Option 3	12,192	13
Option 4 (100%)	9,697	10
Option 4 (75%)	1,336	1
Option 4 (50%)	2,621	3
Option 4 (25%)	1,037	1

	Number	Percent
Option 5	10,537	11
Option 6 (100%)	4,689	5
Option 6 (75%)	1,528	2
Option 6 (50%)	2,055	2
Option 6 (25%)	1,501	2
Misc. options	29	Less than 1
Total all options	**93,692**	

DIVIDEND PAYMENTS

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, certain lump-sum dividend payments are authorized. For retirees who began receiving benefits prior to July 1990, a guaranteed dividend is included with a member's regular November benefit payment. Post-June 1990 retirees may receive a Favorable Experience Dividend (FED) with their January benefit payment. The FED payment is not guaranteed. Whether the FED payment is made depends upon the actuarial soundness of the System. FED payment amounts are determined with the retiree's annual benefit, number of years retired, and a multiplier. The November 2009 dividends totaled $11,407,690 and the January 2010 FEDs totaled $78,080,966.

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:

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

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

*The denominator is 22 for all Special Service occupations.

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

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 2010, lump-sum death benefits paid to beneficiaries or to the estates of deceased nonretired and retired members totaled $18,994,665.

IPERS BENEFIT PAYMENTS BY IOWA COUNTY*

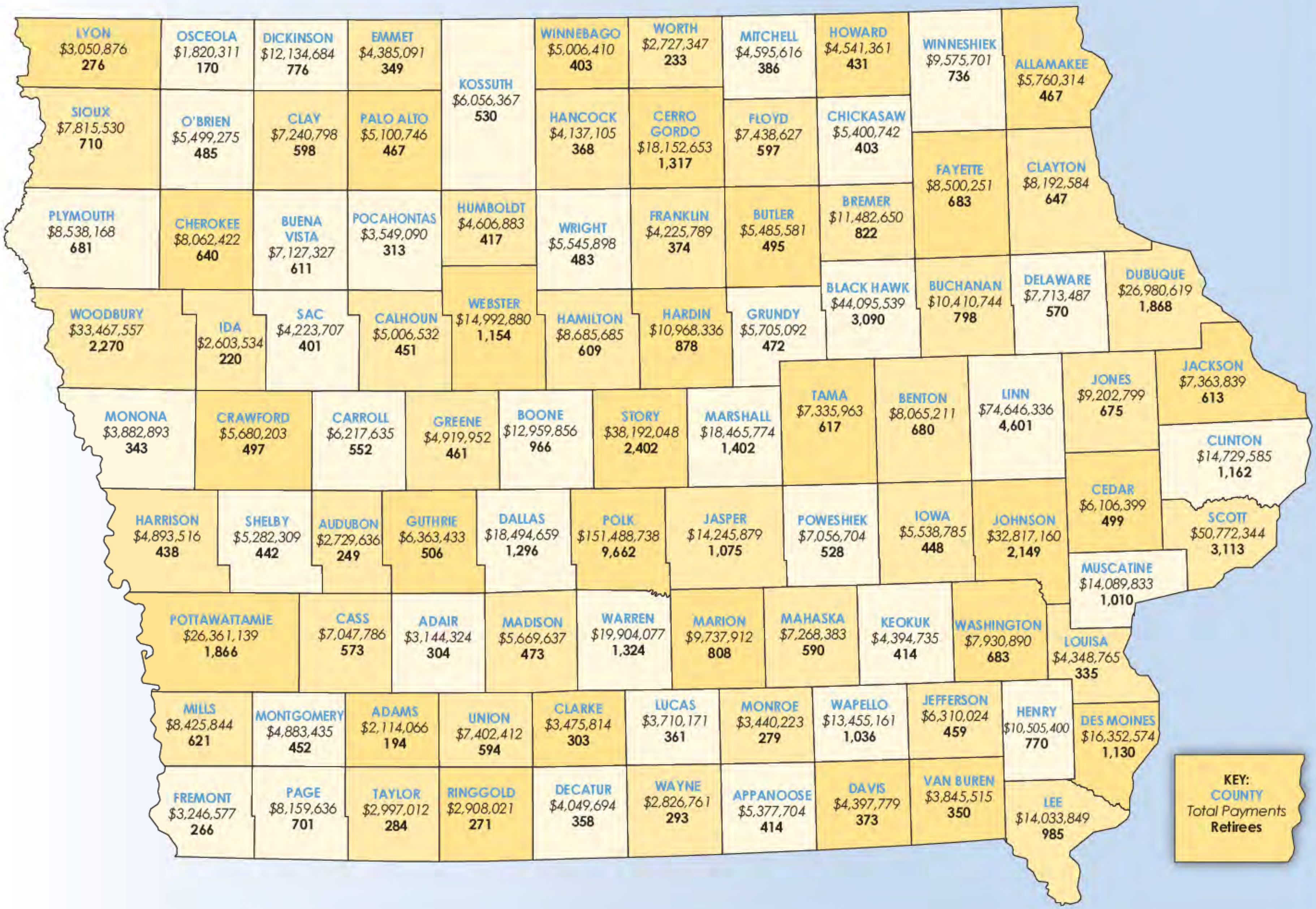
In fiscal year 2010

County	Amount	Annual Average	Payees	County	Amount	Annual Average	Payees
Adair	$ 3,144,324	$ 10,343	304	Jefferson	$ 6,310,024	$13,747	459
Adams	2,114,066	10,897	194	Johnson	32,817,160	15,271	2,149
Allamakee	5,760,314	12,335	467	Jones	9,202,799	13,634	675
Appanoose	5,377,704	12,990	414	Keokuk	4,394,735	10,615	414
Audubon	2,729,636	10,962	249	Kossuth	6,056,367	11,427	530
Benton	8,065,211	11,861	680	Lee	14,033,849	14,248	985
Black Hawk	44,095,539	14,270	3,090	Linn	74,646,336	16,224	4,601
Boone	12,959,856	13,416	966	Louisa	4,348,765	12,981	335
Bremer	11,482,650	13,969	822	Lucas	3,710,171	10,277	361
Buchanan	10,410,744	13,046	798	Lyon	3,050,876	11,054	276
Buena Vista	7,127,327	11,665	611	Madison	5,669,637	11,987	473
Butler	5,485,581	11,082	495	Mahaska	7,268,383	12,319	590
Calhoun	5,006,532	11,101	451	Marion	9,737,912	12,052	808
Carroll	6,217,635	11,264	552	Marshall	18,465,774	13,171	1,402
Cass	7,047,786	12,300	573	Mills	8,425,844	13,568	621
Cedar	6,106,399	12,237	499	Mitchell	4,595,616	11,906	386
Cerro Gordo	18,152,653	13,783	1,317	Monona	3,882,893	11,320	343
Cherokee	8,062,422	12,598	640	Monroe	3,440,223	12,331	279
Chickasaw	5,400,742	13,401	403	Montgomery	4,883,435	10,804	452
Clarke	3,475,814	11,471	303	Muscatine	14,089,833	13,950	1,010
Clay	7,240,798	12,108	598	O'Brien	5,499,275	11,339	485
Clayton	8,192,584	12,662	647	Osceola	1,820,311	10,708	170
Clinton	14,729,585	12,676	1,162	Page	8,159,636	11,640	701
Crawford	5,680,203	11,429	497	Palo Alto	5,100,746	10,922	467
Dallas	18,494,659	14,271	1,296	Plymouth	8,538,168	12,538	681
Davis	4,397,779	11,790	373	Pocahontas	3,549,090	11,339	313
Decatur	4,049,694	11,312	358	Polk	151,488,738	15,679	9,662
Delaware	7,713,487	13,532	570	Pottawattamie	26,361,139	14,127	1,866
Des Moines	16,352,574	14,471	1,130	Poweshiek	7,056,704	13,365	528
Dickinson	12,134,684	15,637	776	Ringgold	2,908,021	10,731	271
Dubuque	26,980,619	14,444	1,868	Sac	4,223,707	10,533	401
Emmet	4,385,091	12,565	349	Scott	50,772,344	16,310	3,113
Fayette	8,500,251	12,445	683	Shelby	5,282,309	11,951	442
Floyd	7,438,627	12,460	597	Sioux	7,815,530	11,008	710
Franklin	4,225,789	11,299	374	Story	38,192,048	15,900	2,402
Fremont	3,246,577	12,205	266	Tama	7,335,963	11,890	617
Greene	4,919,952	10,672	461	Taylor	2,997,012	10,553	284
Grundy	5,705,092	12,087	472	Union	7,402,412	12,462	594
Guthrie	6,363,433	12,576	506	Van Buren	3,845,515	10,987	350
Hamilton	8,685,685	14,262	609	Wapello	13,455,161	12,988	1,036
Hancock	4,137,105	11,242	368	Warren	19,904,077	15,033	1,324
Hardin	10,968,336	12,492	878	Washington	7,930,890	11,612	683
Harrison	4,893,516	11,172	438	Wayne	2,826,761	9,648	293
Henry	10,505,400	13,643	770	Webster	14,992,880	12,992	1,154
Howard	4,541,361	10,537	431	Winnebago	5,006,410	12,423	403
Humboldt	4,606,883	11,048	417	Winneshiek	9,575,701	13,010	736
Ida	2,603,534	11,834	220	Woodbury	33,467,557	14,743	2,270
Iowa	5,538,785	12,363	448	Worth	2,727,347	11,705	233
Jackson	7,363,839	12,013	613	Wright	5,545,898	11,482	483
Jasper	14,245,879	13,252	1,075				

*Payments determined by zip code.

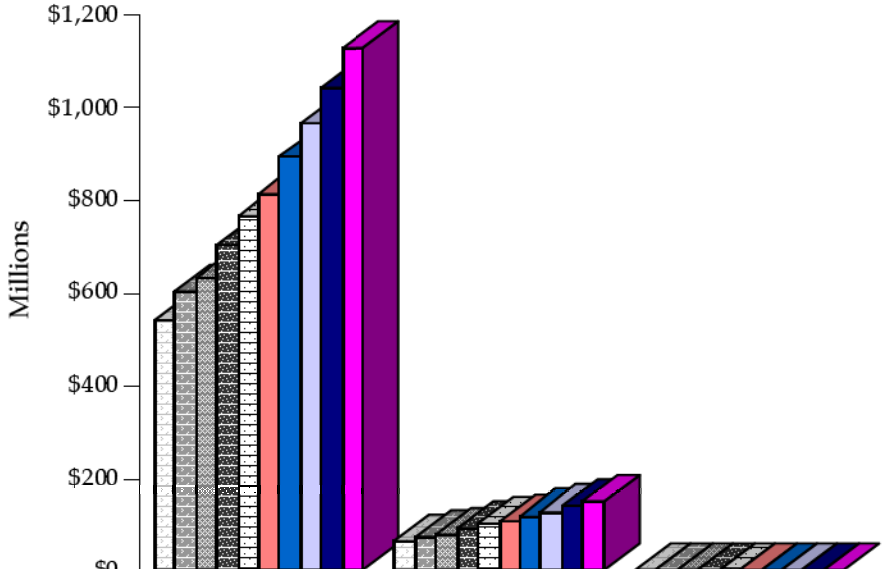
Total Iowa Benefit Payments: $1,129,876,718

IPERS BENEFIT PAYMENTS BY IOWA COUNTY IN FISCAL YEAR 2010



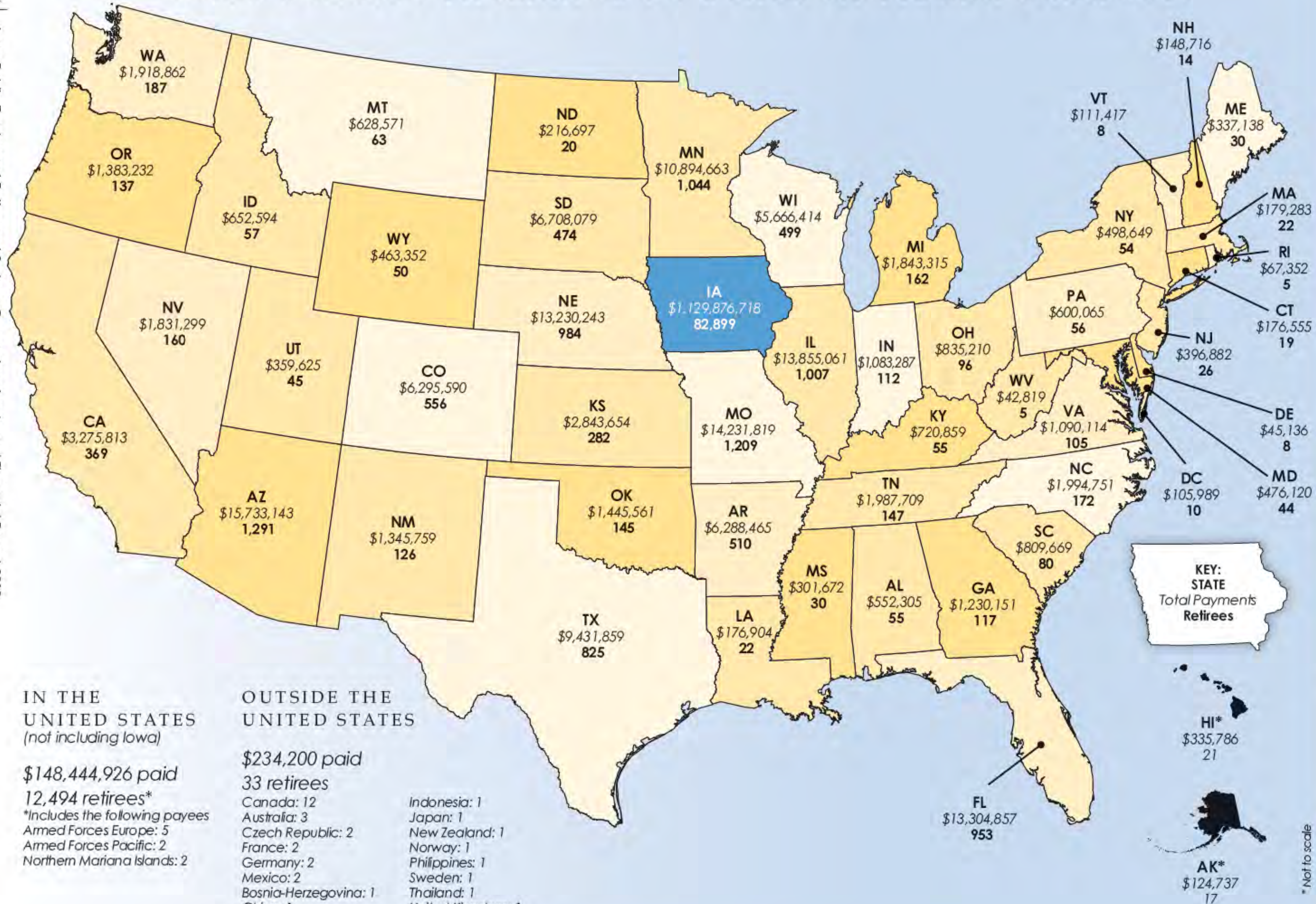
BENEFIT PAYMENTS SUMMARY

Fiscal years ended June 30



	$ to Iowa	$ to Other States	$ to Foreign Countries
2001	$541,633,959	$63,119,137	$103,761
2002	$603,397,686	$73,307,142	$128,478
2003	$634,959,550	$78,721,965	$117,160
2004	$702,196,119	$90,518,128	$152,526
2005	$768,041,811	$100,348,022	$167,763
2006	$816,238,695	$107,935,285	$204,336
2007	$894,585,954	$119,150,133	$236,900
2008	$967,877,579	$128,025,532	$194,748
2009	$1,044,257,972	$138,540,110	$320,734
2010	$1,129,876,718	$148,444,926	$234,200

IPERS BENEFIT PAYMENTS BY STATE IN FISCAL YEAR 2010



IN THE
UNITED STATES
(not including Iowa)

$148,444,926 paid

*12,494 retirees**

**Includes the following payees*
Armed Forces Europe: 5
Armed Forces Pacific: 2
Northern Mariana Islands: 2

OUTSIDE THE
UNITED STATES

$234,200 paid

33 retirees

Canada: 12
Australia: 3
Czech Republic: 2
France: 2
Germany: 2
Mexico: 2
Bosnia-Herzegovina: 1
China: 1
Indonesia: 1
Japan: 1
New Zealand: 1
Norway: 1
Philippines: 1
Sweden: 1
Thailand: 1
United Kingdom: 1

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Monday–Friday

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Working Today for Your Tomorrow

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STATE OF IOWA

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David A. Vaudt, CPA
Auditor of State

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

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

We have audited the financial statements of the Iowa Public Employees' Retirement System (IPERS) as of and for the year ended June 30, 2010, and have issued our report thereon dated December 2, 2010 under separate cover. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of IPERS' financial statements will not be prevented or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether IPERS' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters required to be reported under Government Auditing Standards.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of IPERS during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

DAVID A. VAUDT, CPA Auditor of State	WARREN G. JENKINS, CPA Chief Deputy Auditor of State

December 2, 2010