IPERS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

2006 COMPREHENSIVE ANNUAL FINANCIAL REPORT

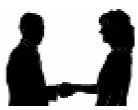
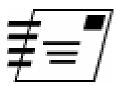
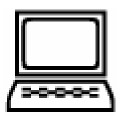
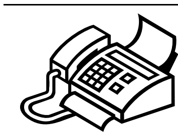
A Pension Trust Fund of the State of Iowa
for the Year Ended June 30, 2006

COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF THE IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
A PENSION TRUST FUND OF THE STATE OF IOWA
FOR THE YEAR ENDED JUNE 30, 2006

PREPARED BY
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

DONNA M. MUELLER, CHIEF EXECUTIVE OFFICER

FOR MORE INFORMATION

	**By mail** P.O. Box 9117 Des Moines, IA 50306-9117
	**In person** 8 a.m.–4:30 p.m. Central Time Monday–Friday 7401 Register Drive Des Moines, IA 50321
	**Phone** 515-281-0020 or toll-free 1-800-622-3849 7:30 a.m.–5 p.m. Central Time Monday–Friday
	**E-mail** info@ipers.org
	**Web site** www.ipers.org
	**Fax** 515-281-0053

Fiscal Year 2006 Highlights

Membership:	
Active Members	163,091
Retired Members[1]	82,204
Contributions:	
Employee	$211,535,926
Employer	324,676,814
Buy-Backs/Buy-Ins	11,275,428
Distributions:	
Benefits Paid	$924,378,316
Refunds Paid	41,667,603
Investments:	
Net Investment and Securities Lending Income	$2,065,519,915
Investment Rate of Return	11.11%
Funding:	
Net Assets Held in Trust for Pension Benefits	$20,404,871,046
Actuarial Present Value of Total Projected Benefits or Total Liabilities	$26,089,988,336

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

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Board and Committee members' photos by Linda Guffey, IPERS

IOPERS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Introduction

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Iowa Public Employees' Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

Government Finance Officers Association of the United States and Canada Corporation Seal Chicago

Carla E. Pedge

President

Jeffrey R. Emer

Executive Director

Thomas J. Vilsack
GOVERNOR
Sally J. Pederson
LT. GOVERNOR

IPERS

Donna M. Mueller
CHIEF EXECUTIVE OFFICER

December 15, 2006

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, 2006. This report is intended to provide readers with financial, actuarial, investment, and membership information in a single publication. This report also fulfills the requirements set forth in Iowa Code Section 97B.4(4)"a".

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

1. The **Introduction** contains the Certificate of Achievement for Financial Reporting from the Government Finance Officers Association, this transmittal letter, and identification of IPERS' administrative staff, Investment Board, Benefits Advisory Committee, consultants, and investment managers.

2. The **Financial** section contains a letter expressing the opinion of our independent auditor, the Auditor of State, management's discussion and analysis, the financial statements, notes to financial statements, required supplementary information, and other supplementary information.

3. The **Investments** section includes information on the IPERS Trust Fund's asset allocation, investment performance, and the Investment Policy and Goal Statement.

4. The **Actuarial** section contains a letter expressing the opinion of our actuarial consultant, Milliman, Inc., the results of the annual actuarial valuation, a financial solvency test, changes to the retirees and beneficiaries rolls, and a list of all actuarial assumptions and methods.

5. The **Statistical** section includes historical information on the System's assets, membership, payments, financial information, and investment results.

6. The **Plan Summary** contains significant data pertaining to the System's membership and an overview of the retirement program.

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 Financial, Statistical, and Plan Summary sections.

Plan History

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

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

Structure and Governance

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. The Investment Board sets investment policy and oversees the actuarial program. There are seven voting members: the Treasurer of State and six gubernatorial appointments 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 and Employer Services

IPERS was created so that Iowa had 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 ended the fiscal year with 163,091 active members who were working and contributing to IPERS.

IPERS had 306,955 members at the end of the fiscal year, with 163,091 active members employed and contributing to IPERS. There were 8,076 retirees drawing a pension who returned to work with an IPERS-covered employer, making this one of the fastest-growing segments of IPERS membership.

Services for members include benefit education and preretirement counseling. During the year, IPERS' benefits staff fielded 87,474 phone calls and answered 4,506 e-mails. Staff prepared 68,599 benefit estimates. IPERS provided group and individual benefit education and preretirement counseling to 11,289 members. Members submitted 2,268 applications to buy service credit, and 693 members made service purchases.

The number of IPERS retirees increased by 2,600 during the fiscal year, to 82,204, and 8,076 retirees returned to work for an IPERS-covered employer.

The most important service IPERS provides to its 82,204 retirees is the accurate and timely payment of benefits. IPERS paid 93.9 percent of these payments via electronic funds transfer (EFT), which ensures that the monthly benefit is in the recipient's account on the day that it is payable. EFTs have been IPERS' preferred payment method since 1992, and this year IPERS began charging a service fee for paper checks.

The employer relations bureau provides training and technical assistance to 2,363 employers to encourage voluntary compliance with IPERS' requirements. The team provides training twice a year for personnel who are responsible for wage reporting. The team also provides training on legislative and procedural changes each year.

Members and employers have access to information electronically and in print. The IPERS Web site contains news and announcements, member and employer publications, forms, and a benefit estimator. Users viewed 953,361 pages on IPERS' Web site during the fiscal year.

IPERS publishes easy-to-read booklets electronically and in print. The booklets explain benefits at various career stages. The comprehensive IPERS Member Handbook also is available electronically and in print. Twice a year IPERS publishes and directly mails to members newsletters that include information about benefits, Plan changes, finances, and performance. Employers receive quarterly newsletters and a handbook of procedures and reporting requirements.

Employers enrolled in IPERS' Connection Online (ICON), a system that provides for online wage reporting, can also receive messages, publications, and other materials through the system. The 43 percent of employers that use ICON report 58 percent of all members' wages.

Investments

IPERS funds benefit payments with a combination of member and employer contributions and investment earnings, with investments providing the largest percentage of income. IPERS' strong investment returns are the result of 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 that an individual investor cannot. In fiscal year (FY) 2006, IPERS' investment expenses were 0.23 percent of the portfolio's total quarterly average fair value, well below the 0.40 percent allowed by law.

IPERS' 11.11 percent rate of return on investments for the fiscal year earned a top-quartile ranking from the Trust Universe Comparison Service (TUCS). TUCS is an often-cited benchmarking organization that collects and publishes the investment return and risk measures of U.S. public and private master trust funds.

IPERS earned a TUCS top-quartile ranking for its 11.11 percent rate of return on investments.

A staff of professional investment officers oversees IPERS' investments. The investment officers, most of whom have earned the respected Chartered Financial Analyst (CFA) or Certified Public Accountant (CPA) designation, oversee the six asset classes in which IPERS invests. IPERS' investment officers and investment consultants recommend asset allocation, investment policies, investment strategies, and contractor selection to the IPERS Investment Board, which makes the final decisions. IPERS' investment staff also negotiates detailed service contracts and monitors contractors' compliance with their IPERS service agreements. The contracted investment management firms select individual investments in the IPERS portfolio.

Major Initiatives

Contribution Rate Increase to Address UAL

During fiscal year 2006, IPERS' unfunded actuarial liability (UAL) increased to $2.507 billion. To address IPERS' long-term funding needs, the Iowa Legislature passed and the Governor signed a bill increasing the contribution rate for regular members, the first rate increase since 1979. Regular members make up about 96 percent of IPERS' active membership. The increase of two percentage points from 9.45 percent to 11.45 percent on covered wages will be phased in over four years beginning July 1, 2007. The increase does not affect members in public safety positions, who contribute at a rate that is adjusted each year based on the annual valuation.

The Iowa Legislature approved a contribution rate increase, the first since 1979, for regular IPERS members.

Plan Reforms

The bill to increase the contribution rate for regular members included reforms intended to control future costs. A limit on spiking wages in the years used to calculate the final average salary will minimize how much inflated wages can increase pensions. Counting deferred compensation as earnings for retired reemployed members will help ensure pensions are equitable when compensation exceeds the earnings limit, regardless of how the compensation is paid.

Benchmarking and Performance Evaluation

IPERS evaluates performance by benchmarking services and investments against respected national and international benchmarking services.

IPERS kept administrative costs low while receiving top national rankings for investments and services.

CEM Benchmarking, Inc. completed a benchmarking study on benefits administration for fiscal year 2005. IPERS' peer rankings were among the lowest in administrative costs and in the upper third in terms of services.

IPERS' investments earned several top rankings from the Trust Universe Comparison Service. IPERS placed in the top 20 percent of TUCS All Master Trust Universe of 333 funds for its ten-year return. IPERS also was in the top 20 percent on two smaller universes of public pension funds for its ten-year return. IPERS' three-, five-, and ten-year returns were 12.04 percent, 7.14 percent, and 9.37 percent, respectively. Private Equity Intelligence, a London-based company, found IPERS was the best of all public retirement systems in the United States in selecting private equity investments. *Institutional Investor* nominated Chief Investment Officer Kathy Comito as national CIO of the Year.

Independent Actuarial Audit

Since IPERS' long-term funding depends on the correct mix of contributions and investment income to support benefits, accurate actuarial valuations are essential. In FY2006 IPERS initiated an independent actuarial audit to examine the actuarial assumptions and methodology used by the System. According to preliminary results, IPERS' actuarial program is accurate and reliable. Final audit results are due in FY2007.

Replacing IPERS' Benefit Administration Technology System

During FY2006, IPERS began working on a project to replace the aging technology used to process thousands of contribution and benefit transactions every year. The result of this multimillion-dollar, multiyear project will be a system that is more efficient, reliable, and flexible, with enhanced online services for members and employers.

Financial Highlights

Total Net Assets

Total net assets held in trust for pension benefits increased from $18,767,228,779 on June 30, 2005, to $20,404,871,046 on June 30, 2006. These assets consist of capital assets owned by IPERS and investment portfolio assets. An overview and analysis of IPERS' financial activities for the fiscal year ended June 30, 2006, is in *Management's Discussion and Analysis* in the Financial section of this report.

Investment Portfolio Assets

At the close of fiscal year 2006, IPERS' net investment portfolio assets had a fair value of $20.381 billion. The change in fair value represents an increase of $1.636 billion from the $18.745 billion net investment asset fair value as of June 30, 2005. The largest factor contributing to the increase in net investment asset fair value was the investment portfolio return of 11.11 percent, which is more fully addressed below.

As in previous years, employer and employee contributions to IPERS only partially fund the benefit payments, member 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. For the year ended June 30, 2006, employer and employee contributions totaled $547,488,168, while total member benefits paid equaled $966,045,919 (regular monthly benefits, refunds, and dividend payments). The resulting $418,557,751 contribution shortfall was funded with investment portfolio earnings.

Investment Results

The value of diversification was never more evident in capital markets than in fiscal year 2006. A strong global economy, driven by a resilient U.S. economy with controlled inflation and strong corporate earnings, helped equity investments overall. Exceptional returns were posted during the period from private equity, real estate, and international stock investments, while U.S. stocks provided solid returns. However, growing concern about rising commodity prices (especially oil) and inflation provided a basis for concern in the capital markets. The Federal Reserve maintained its predictable monetary tightening policy in an attempt to control inflation without restricting growth; however, as fiscal year 2006 drew to an end, the tone of the Federal Reserve began to reflect a possibility that the rate increase cycle may be near the end.

The total return on the System's investment portfolio for the fiscal year ended June 30, 2006, was 11.11 percent. The total return on investments for the 10-year period ended June 30, 2006, was 9.37 percent. While IPERS' 10-year return continues to benefit from the strong capital market performance of the late 1990s, it is not anticipated that such high levels of returns will be attainable over the next 10 years.

Revenues

The System is funded through a combination of member contributions, employer contributions, and investment income. Contributions for regular IPERS members, who make up approximately 96 percent of the active membership, are 9.45 percent of employees' covered wages. Employers contribute at a rate of 5.75 percent and employees at a rate of 3.70 percent, which represents about a 60 percent/40 percent split. Employees engaged in certain Special Service occupations (e.g., law enforcement, fire safety, and similar protection occupations) and their employers contributed at a higher rate as determined by the actuary.

Net investment and securities lending income for fiscal year 2006 was $2,065,519,915.

For fiscal year 2006, revenues from employer and employee contributions, excluding buy-back/buy-in contributions, totaled $536,212,740, a 4.43 percent increase over the prior fiscal year. Buy-back/buy-in contributions for the year amounted to $11,275,428, a 0.52 percent increase from the prior year. Net investment and securities lending income for fiscal year 2006 was $2,065,519,915, an increase of $153,030,875 over the prior year.

Expenses

Expenses are incurred primarily for the purpose for which IPERS was created: the payment of benefits to retirees. Included in the total expenses for the fiscal year were benefit payments and refunds totaling $966,045,919. This amount increased 5.96 percent from the prior fiscal year and represented 99.04 percent of the total Fund expenditures.

The total number of annuitants receiving monthly benefits as of June 30, 2006, was 82,204. The net increase of 2,600 during fiscal year 2006 was similar to the increase during fiscal year 2005. The average monthly retirement benefit, including the November and January dividend payments, increased from $866 to $903.

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. Those administrative expenses totaled $9,320,559 for fiscal year 2006, a 13.46 percent increase from last year. This increase was due largely to the completion of the first phase of the benefits modernization project implemented to replace aging benefit administration technology, as discussed under the Major Initiatives section of this introduction.

The System retains two investment consultants and multiple investment managers to assist the Investment Board and administration in carrying out their fiduciary duties by providing capital markets and portfolio advice to the System and investing the System's assets. For the fiscal year, IPERS' investment management expenses were $46,104,211, a 5.49 percent decrease from last year.

The net decrease is attributable to several factors. IPERS utilizes performance-based fee structures for many of its investment managers, as required by state law, and these arrangements generated higher fees in fiscal year 2006 when compared to fiscal year 2005 for most of the non-real estate relationships. However, the increases in non-real estate fees were more than offset by the decrease in fees paid to the real estate managers. Total management fees paid to real estate managers in fiscal year 2006 were $20,557,133, down 20.76 percent from the $25,943,947 paid out during fiscal year 2005, when real estate was IPERS' best-performing asset class.

In addition to the appropriations process described above for administrative expenses, state law limits the amount that can be expended annually for investment management expenses to 0.40 percent of the Fund's total net investment portfolio fair value. For fiscal year 2006, the System expended 0.23 percent of the portfolio's total quarterly average fair value for investment management expenses, well below the maximum allowed. The 0.23 percent expended for investment management expenses in fiscal year 2006 also represents a decrease from the 0.27 percent expended in fiscal year 2005.

For fiscal year 2006, the System expended 0.23 percent of the portfolio's total quarterly average fair value for investment management expenses, well below the 0.40 percent maximum allowed by state law.

Revenues ($ millions)

Source	2006	2005	Increase (Decrease)
Contributions	$ 536.2	$ 513.4	$ 22.8
Buy-Backs/Buy-Ins	11.3	11.2	.1
Net Invest. & Securities Lending Income	2,065.5	1,912.5	153.0
Total	$2,613.0	$2,437.1	$ 175.9

Expenses ($ millions)

Type	2006	2005	Increase (Decrease)
Benefits	$ 924.4	$ 868.6	$ 55.8
Refunds	41.7	43.1	(1.4)
Administrative	9.3	8.2	1.1
Total	$ 975.4	$ 919.9	$ 55.5

Funding

The ultimate test of whether a system such as IPERS is financially sound is whether it can pay all of its promised benefits as they come due. The achievement of this goal can only be judged over a long period of time. The annual valuation of the System's assets and liabilities by IPERS' actuary provides the best current estimate of the System's funded status. The actuarial valuation for funding purposes at June 30, 2006, reflected an unfunded actuarial liability of $2,507,085,900. This represents the difference between the accrued actuarial liability of $21,651,122,419 and the actuarial value of net assets of $19,144,036,519.

During the fiscal year, the unfunded actuarial liability increased by $218,477,304 from the preceding fiscal year's ending balance. This increase is primarily due to the fact that the contribution rate is lower than the actuarially required rate.

The System's amortization period for the unfunded actuarial liability remained at an infinite number of years, meaning that the level of periodic payments to reduce this liability that are possible under current statutory contribution rates will not be sufficient to pay off the unfunded actuarial liability. IPERS' Funding Policy and Governmental Accounting Standards Board Statement No. 25 require the amortization period not to exceed 30 years. This situation does not jeopardize the security of IPERS members' benefit payments for the next several years, but it does signal a need to carefully monitor the System's scheduled contribution rate increases approved by the 2006 Legislature in order to return to a fully funded status.

Based on the FY2006 actuarial valuation, the 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, 2007 (FY2008): Special Service Group 1 at 15.40 percent, Special Service Group 2 at 14.11 percent, and regular membership at 11.51 percent. The actuarially required contribution is the statutory contribution rate for both groups of Special Service members. However, the contribution rate for regular members for FY2008 is set by statute at 9.95 percent. FY2006 is the fourth year that the contribution rate for regular members is below the amount certified by the actuary.

Future Prospects

IPERS has an 88.4 percent funded ratio (the ratio of actuarial assets to actuarial liabilities). The funded ratio has stabilized in the last four years after a significant decline in the early 2000s. Despite the fact that IPERS is a well-funded system overall, IPERS' actuary projects that contributions are 83.8 percent of what they should be. Because the majority of contributions go toward paying normal costs, only a small percentage is available to pay down the unfunded actuarial liability, and the amortization period is infinite. However, the contribution rate increase passed by the 2006 Legislature may begin to improve IPERS' funded status in future valuation reports. Given the contribution rate increase, if investments continue to meet the actuarially assumed earnings rate and the other actuarial assumptions hold true, the amortization period will likely decrease.

IPERS' boards 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.

Accounting System and Internal Control

The financial statements included in this report are the responsibility of the 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.

Independent Audit

The Auditor of State is required by Iowa Code Chapter 11 (2005) to audit annually all departments of the State. The accompanying financial statements of the System have been audited by the Auditor of State in accordance with U.S. generally accepted auditing standards, state law, and Government Auditing Standards. The Auditor's report is contained in the Financial section of this report.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to IPERS for its comprehensive annual financial report for the fiscal year ended June 30, 2005. In order to be awarded a Certificate of Achievement, a governmental entity must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgments

The preparation of this report is the result of the combined effort of the System's staff under the direction of the management and CEO, who are responsible for the contents of the report.

The report is intended to provide complete and accurate information concerning the activities and results of the System's operations. 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.

Sincerely,

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 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 and employee contributions 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

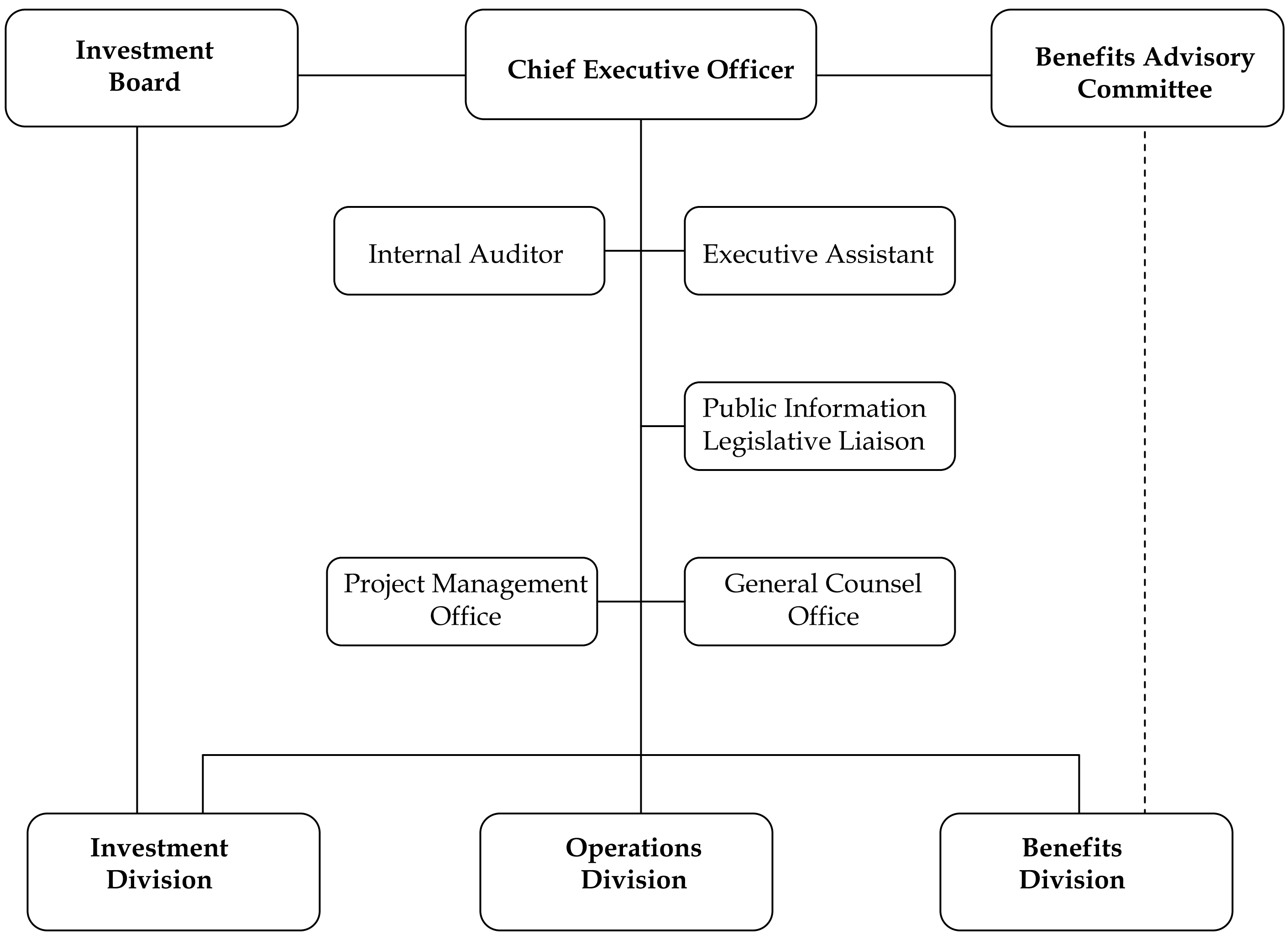
Investment Policy and Administration
Kathy S. Comito, Chief Investment Officer

Membership and Benefit Administration
David Martin, Chief Benefits Officer

Operations
Leon J. Schwartz, Chief Operations Officer

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

IPERS Table of Organization



Investment Board

The Investment Board is the IPERS Fund's trustee.

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.

The Investment Board consists of eleven members, including seven voting members and four nonvoting members. The voting members are as follows:

- 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 of the Investment Board are two State Representatives (one appointed by the Speaker of the Iowa House of Representatives and one by the Minority Leader of the Iowa House) and two State Senators (one appointed by the Majority Leader of the Iowa Senate and one 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 members are as of June 30, 2006.

Bruce G. Kelley*
Chairperson
Term expires 2007

Mr. Kelley is President and Chief Executive Officer of EMC Insurance Companies, which has $3 billion under management. He is a graduate of the University of Iowa College of Law and practiced law until he joined the management of EMC in 1985. Since that time he has been a member of its investment committee.

Joanne L. Stockdale*
Vice Chairperson
Term expires 2011

Ms. Stockdale is the President and owner of Northern Iowa Die Casting. She is a Certified Public Accountant with a degree from Iowa State University and accounting courses from Drake University. She was chosen Iowa's Outstanding CPA in Business and Industry for 2004.

*Voting member

Investment Board Members

Lorie L. Bennett*
Term expires 2007

Ms. Bennett is the city administrator for Humboldt, a position she has held since 2004. She worked previously as Humboldt's city clerk and accountant. Ms. Bennett has a bachelor of arts degree from Wartburg College in finance and management. She is currently an Iowa League of Cities executive board member, a former board member of the Iowa Municipal Finance Officers Association, and Vice President of the Humboldt County Community Foundation.

David O. Creighton*
Term expires 2009

Mr. Creighton is the chairperson and Chief Executive Officer of The Bryton Companies in West Des Moines and works in the property/casualty insurance business with the Asset Protection Agency. He has his Chartered Property Casualty Underwriter (CPCU) and Certified Insurance Counselor (CIC) designations. Mr. Creighton studied business at Arizona State University and has nearly 30 years of business finance experience. Mr. Creighton served many years on the Board of the National Association of Professional Insurance Agents, including time as interim Executive Vice President.

Lana J. Dettbarn*
Term expires 2011

The executive director for administrative services for the Eastern Iowa Community College District since 1979, Ms. Dettbarn is also the district's board treasurer. She has a master's degree in business administration from St. Ambrose University, and serves on the Advanced Technology Environmental Education Center Board.

State Treasurer Michael L. Fitzgerald*

Treasurer Fitzgerald was first elected to office in 1982, and in 1989 was named the most valuable public official working in state government by *City and State* magazine. He has been the President of four associations, including the National Association of State Treasurers, and is currently a member of numerous organizations dedicated to government finance and administration.

Phyllis S. Peterson*
Term expires 2010

Dr. Peterson worked in Iowa public education for over 30 years before retiring in 2004 as the registrar of Kirkwood Community College. She began her career as a math teacher, and later became involved in telecommunications usage and instructional research. Dr. Peterson received her doctorate from the University of Iowa.

*Voting member

Investment Board Members

Senator John P. Kibbie

Senator Kibbie is an Emmetsburg farmer and cattle feeder. He served in the Iowa House of Representatives for four years beginning in 1961, and in the Iowa Senate for four years beginning in 1965. Senator Kibbie was reelected to the Senate in 1988, where he continues to serve in numerous leadership and committee positions, including Senate Democratic President.

Senator Mark Zieman

Senator Zieman is a Postville farmer and trucking company owner. He is cochair of the Senate Ways and Means Committee. He also serves on the Commerce, State Government, and Transportation Committees, and the Administration and Regulation Appropriations Subcommittee.

Representative Jeff Elgin

Representative Elgin of Cedar Rapids is president of J&T Elgin LLC Investment Company. He has a master's of business administration in accounting from the University of Iowa. He is the House State Government Committee chair, and serves on the Local Government and Transportation Committees, and the Administration and Regulation Appropriations Subcommittee.

Representative Pam Jochum

Representative Jochum of Dubuque works at Northeast Iowa Community College. She received a degree in speech communication from Loras College. She serves on the State Government, Ways and Means, and Judiciary Committees in the Iowa House of Representatives. Representative Jochum is an active member of her community, serving on the Mississippi Valley Promise, the Community Health Center Committee, the Coordinated Response Team to Stop Family Violence, and the League of Women Voters.

Benefits Advisory Committee

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 Benefits Advisory Committee includes representatives of major employer groups and major active and retired member associations.

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 director of the Iowa Department of Administrative Services is named a voting member in the Iowa Code. The voting members also elect a public member, who cannot be a member of the System. Of the nine voting members of the Committee, four must represent covered employers, four must represent IPERS membership, and one is a public member. Voting members serve three-year terms. Committee members are as of June 30, 2006.

Lowell Dauenbaugh*
Chairperson
Voting term expires 2008

Mr. Dauenbaugh represents the Iowa State Education Association and is the association's assistant executive director. He helped develop Iowa's current school finance law and has studied educational funding in Iowa. Mr. Dauenbaugh has a graduate degree in physics from the University of Minnesota.

Gene Gardner
Vice Chairperson

Dr. Gardner, representing the Association of Community College Trustees, has worked with public community colleges in Iowa for 40 years. He has a doctorate from Iowa State University in adult education and community college administration and research, and is currently the executive director of the Iowa Association of Community College Trustees.

*Voting member

Member Association Representatives

Walter L. Galvin

Mr. Galvin represents retired IPERS members on the BAC. He is retired and currently holds positions in the Iowa Retired School Personnel Association and the Des Moines Teachers Retirement System. He was the executive director of the Des Moines Education Association for over fifteen years during his career.

Janie Garr

Ms. Garr represents the IPERS Improvement Association, a private, nonprofit group, on the Committee. She has two graduate degrees, one in English education and one in counseling. A teacher and counselor at public schools in Ottumwa for 26 years, and once a secretary in the FBI, she is currently a realtor.

Bill Sage*
Voting term expires 2007

Sheriff Sage, who represents the Iowa Sheriffs and Deputies Association, has been with the Cass County Sheriff's Office for 26 years. In 1991, the Association named him Deputy Sheriff of the Year. He studied law enforcement at Iowa Western Community College and has served in the Atlantic Fire Department for 25 years.

Heather Stubbe

Ms. Stubbe is the executive director of the State Police Officers Council. Previously a caseworker and outreach coordinator in Senator Tom Harkin's offices, she also worked in the U.S. Embassy in London, England. Ms. Stubbe attended the Université de Caen in Caen, France and received her bachelor's degree in political science and French from Morningside College in Sioux City, Iowa.

Gaylord Tryon*
Voting term expires 2007

Dr. Tryon represents the School Administrators of Iowa on the Committee. He began his career as a teacher and elementary school principal, and he earned his doctorate in educational administration from Iowa State University. He served as executive director for the School Administrators of Iowa for 28 years before retiring in 2000. Since 2001, he has served as President of his own company, G. Tryon and Associates.

*Voting member

Member Association Representatives

Gary Walters

Chief Walters represents the Iowa Association of Chiefs of Police and Peace Officers. He is an Iowa native and has served in the law enforcement community since 1972. Currently the Chief of Police in Windsor Heights, Chief Walters has a master's of public administration from LaSalle University and a bachelor's degree from Upper Iowa University.

Lewis Washington*
Voting term expires 2007

Currently a probation and parole officer in Davenport, Mr. Washington represents the American Federation of State, County, and Municipal Employees (AFSCME) on the Committee. He studied business and public administration at Augustana College in Rock Island, Illinois, and is a member of the Iowa Corrections Association (ICA).

Employer Association Representatives

Mollie K. Anderson*
Appointed by statute

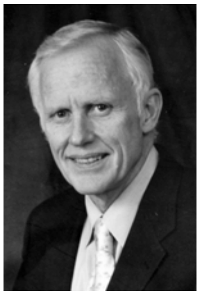
Ms. Anderson is the director of the Iowa Department of Administrative Services. She is a graduate of Midland Lutheran College in Fremont, Nebraska and the Council of State Government's Henry Toll Fellowship program. She also holds professional certifications from the Kennedy School of Government at Harvard University and the National Society for Human Resources.

Len Cockman*
Voting term expires 2009

Mr. Cockman, representing the Iowa Association of School Boards, is the human resource services director at that association. He is a certified professional in human resources and held administrative positions in Iowa public school districts for over ten years.

*Voting member

Employer Association Representatives



James Maloney*
Voting term expires 2009

Mr. Maloney is the Polk County Assessor and represents the Iowa State Association of Counties on the Committee. He graduated from Drake University Law School and has held the positions of City Assessor for Des Moines and County Auditor of Polk County.

Alan Kemp*
Voting term expires 2008

Mr. Kemp joined the Iowa League of Cities in July 1999. He has the overall responsibility for the League's technical assistance and training program. He graduated from the University of Iowa with a degree in political science and journalism and is finishing his master's in public administration at Iowa State University.

Public Member Representative

Diane Reid*
Voting term expires 2008

Ms. Reid retired as the executive director of the State Police Officers Council after 27 years of service. A veteran on public policy issues, she served as a member of the committee that preceded the Benefits Advisory Committee. Ms. Reid is a graduate of Katharine Gibbs Business School, holds an associate of science degree from Des Moines Area Community College, and has completed numerous seminars and training sessions on pension plans.

*Voting member

Professional and Consulting Services

An actuarial consulting firm, external legal counsel, securities litigation monitoring counsel, two investment consulting firms, and a major operational/information technology firm 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.

ACTUARY

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.

PLAN LEGAL COUNSEL

Ice Miller Legal & Business Advisors—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 the staff on state and federal legislation and regulations.

SECURITIES LITIGATION MONITORING COUNSEL

Barrack, Rodos & Bacine—Philadelphia, PA

The external securities litigation monitoring counsel chosen by the System is 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 CONSULTANTS

Wilshire Associates Inc.—Santa Monica, CA (General)

The Townsend Group—Cleveland, OH (Real Estate)

The investment consulting firms chosen by the Investment Board are responsible for:

- Preparing asset allocation studies for the System.
- Periodically reviewing the performance of the Fund.
- 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—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 master 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.
- Providing periodic reports summarizing the investment activity of the System's assets.

OPERATIONAL/INFORMATION TECHNOLOGY CONSULTANT

L.R. Wechsler, Ltd.—Fairfax, VA

The most significant operational/information technology consultant utilized during FY2006 was L.R. Wechsler, Ltd., which was responsible for:

- Assisting in the preparations for the replacement of the benefits administration system.
- Preparing an information technology strategic plan.
- Assisting in the procurement process for an implementation vendor to replace the benefits administration system.
- Providing support in the development and implementation of an IPERS project management office.

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.

As of June 30, 2006

DOMESTIC EQUITY

Barclays Global Investors, NA
San Francisco, CA

Mellon Capital Management Corp.
San Francisco, CA

RCM
San Francisco, CA

Wellington Management Company, LLP
Boston, MA

INTERNATIONAL EQUITY

Barclays Global Investors, NA
San Francisco, CA

Emerging Markets Management, LLC
Arlington, VA

Oechsle International Advisors, LLC
Boston, MA

Schroder Investment Management
North America Inc.
London, England

HIGH YIELD BONDS

Oaktree Capital Management, LLC
Los Angeles, CA

Post Advisory Group, LLC
Los Angeles, 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 Co.
Pasadena, CA

PRIVATE EQUITY/DEBT

Pathway Capital Management, LLC
Irvine, CA

REAL ESTATE

AEW Capital Management
Boston, MA

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

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Financial

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, 2006 and 2005, 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, 2006 and 2005, 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, 2006 and 2005, 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 31 through 34 and 56 through 57 are not required parts of the financial statements, but is 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
DAVID A. VAUDT, CPA
Auditor of State

Warren Jenkins
WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

November 28, 2006

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, 2006. It is intended to be used in conjunction with the transmittal letter and IPERS' financial statements and notes, which begin on page 35 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 35) and the Statement of Changes in Plan Net Assets (see page 36). 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 by $1.6 billion during fiscal year 2006. On June 30, 2006, total plan assets (including capital assets of $4.4 million) were $23.2 billion, exceeding total liabilities of $2.8 billion, resulting in net assets held in trust for pension benefits of $20.4 billion.

- Covered payroll, upon which both employee and employer pension contributions are calculated, increased by $287.0 million, or 5 percent, over the last fiscal year and totaled $5.5 billion. Employer and employee contributions increased, in total, by 4 percent; by comparison, fiscal year 2005 saw a 3 percent increase in covered wages and a 4 percent increase in contributions.

- Net investment and securities lending income, after all investment-related expenses, was $2.1 billion in fiscal year 2006, compared to a gain of $1.9 billion in fiscal year 2005 and a gain of $2.2 billion in fiscal year 2004. Investment management expenses decreased to $46.1 million for fiscal year 2006; by comparison, investment management expenses were $48.8 million for fiscal year 2005 and $31.2 million for fiscal year 2004.

- Total contributions, investments, and other income resulted in a positive impact to the Fund of $2.6 billion in fiscal year 2006, compared to $2.4 billion in fiscal year 2005 and $2.7 billion in fiscal year 2004. The increase in fiscal year 2006 is primarily due to net investment income of $2.1 billion, compared to net investment income of $1.9 billion for fiscal year 2005.

Total contributions, investments, and other income resulted in a positive impact to the Fund of $2.6 billion.

- Pension benefits to members increased by $55.8 million, continuing the trend experienced in the previous four fiscal years. Refunds decreased from $43.1 to $41.7 million, due largely to a decrease in the amount of funds returned to members with small, inactive accounts as compared to FY2005. Payments to members totaled $966.0 million in fiscal year 2006.

- Administrative expenses totaled $9.3 million, as compared to $8.2 million for fiscal year 2005 and $8.0 million for fiscal year 2004. This increase was due largely to the completion of the first phase of the benefits modernization project implemented to replace aging benefit administration technology, as discussed under the Major Initiatives section of the Introduction. Administrative expenses were 0.05 percent of the value of plan net assets in fiscal year 2006; by comparison, administrative expenses were 0.04 percent of the value of plan net assets in fiscal year 2005 and 0.05 percent of the value of plan net assets in fiscal year 2004.

Analysis of Plan Net Assets

Tables 1 and 2 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, 2006, were $20.4 billion, having increased $1.6 billion from the previous fiscal year-end balance.

Investments make up 97 percent of IPERS' total assets.

A large percentage of total assets, 97 percent, is made up of investments held to provide retirement, survivor, 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, compose 3 percent of total assets. Total plan net assets increased by 9 percent in fiscal year 2006.

Total liabilities in Table 1 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 security lending transactions, amounts owed to members or their beneficiaries, and amounts owed to contractors and vendors. Total liabilities decreased by $238.9 million from fiscal year 2005 to 2006, as compared to an increase of $91.4 million between fiscal years 2004 to 2005. The majority of the decrease in liabilities for fiscal year 2006 was due to decreased securities lending rebates and collateral payable. The liabilities associated with the securities lending program (i.e., "Rebates and Collateral Payable") are more than offset by the assets held as collateral by IPERS, as reflected in the securities lending collateral pool line item in the Statement of Plan Net Assets. (See Statement of Plan Net Assets, page 35, and note 3, beginning on page 39.)

Table 1

Plan Net Assets
(Dollar values expressed in thousands)

June 30	2006	2005	2006/2005 Inc/(Dec) Percent	2004	2005/2004 Inc/(Dec) Percent
Cash and investments at fair value	$22,725,569	$21,094,867	7.7%	$19,715,911	7.0%
Receivables	477,498	709,751	(32.7%)	479,833	47.9%
Capital assets	4,424	4,152	6.6%	4,320	(3.9%)
Total assets	23,207,491	21,808,770	6.4%	20,200,064	8.0%
Total liabilities	2,802,620	3,041,541	(7.9%)	2,950,147	3.1%
Total Plan Net Assets	$20,404,871	$18,767,229	8.7%	$17,249,917	8.8%

Table 2

Changes in Plan Net Assets
(Dollar values expressed in thousands)

Fiscal years ended June 30	2006	2005	2006/2005 Inc/(Dec) Percent	2004	2005/2004 Inc/(Dec) Percent
Additions					
Contributions & buy-backs/buy-ins	$ 547,488	$ 524,667	4.3%	$ 506,635	3.6%
Net investment and securities lending income	2,065,520	1,912,489	8.0%	2,177,265	(12.2%)
Miscellaneous	1	42	(97.6%)	72	(41.7%)
Total Additions	2,613,009	2,437,198	7.2%	2,683,972	(9.2%)
Deductions					
Benefits and refunds	966,046	911,671	6.0%	829,296	9.9%
Administrative expense	9,321	8,215	13.5%	7,960	3.2%
Total Deductions	975,367	919,886	6.0%	837,256	9.9%
Increase in Plan Net Assets	$1,637,642	$1,517,312	7.9%	$1,846,716	(17.8%)

The increases in plan net assets experienced from the end of fiscal year 2005 to the end of fiscal year 2006 and from the end of fiscal year 2004 to the end of fiscal year 2005 were primarily due to investment market conditions. Benefits paid out continued to exceed contributions received by $418.6 million, $387.0 million, and $322.7 million for fiscal years 2006, 2005, and 2004, respectively. This excess of benefits paid relative to contributions received is characteristic of a mature pension plan such as IPERS.

Total administrative expenses for the past three fiscal years have been $9.3 million, $8.2 million, and $8.0 million, respectively. (See Schedule of Administrative Expenses, page 59.)

The investment rates of return for the current and preceding two fiscal years were 11.11 percent, 11.25 percent, and 13.78 percent, respectively. (See also the Investments section of this report beginning on page 63 for further information on rates of return.)

The following table contains the fiscal year performance of each asset class, benchmark, and the Fund's actual asset allocation as of June 30, 2006.

Table 3

Asset Class	Return	Benchmark	Allocation
Domestic Equity	10.56%	9.92%	30.7%
International Equity	27.40%	28.40%	15.6%
Core Plus Fixed Income	(0.13%)	(0.25%)	33.1%
High Yield Bonds	4.40%	3.79%	4.3%
Private Equity/Debt	33.96%	13.24%	7.6%
Real Estate	19.36%	19.54%	8.4%
Short-Term Cash	4.40%	3.97%	0.3%
Total Fund	11.11%	9.73%	100.0%

Contacting System Financial Management

This financial report is designed to provide the 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, 2006 and 2005

Exhibit A

	2006 PENSION TRUST FUND	2006 QBA FUND*	2006 TOTAL	2005 TOTAL
Assets:				
Cash and cash equivalents	**$ 101,647,066**	**$18,860**	**$ 101,665,926**	**$ 104,137,694**
Receivables				
Contributions receivable	38,413,552	---	38,413,552	36,915,376
Accrued interest and dividends	66,924,104	76	66,924,180	64,242,869
Receivable for investments sold	311,975,955	---	311,975,955	598,745,945
Foreign exchange contracts receivable	60,184,158	---	60,184,158	9,846,508
Total receivables	**477,497,769**	**76**	**477,497,845**	**709,750,698**
Investments at fair value				
Fixed income	8,457,307,783	---	8,457,307,783	7,662,262,727
Domestic equity	6,249,467,721	---	6,249,467,721	6,248,358,784
International equity	3,150,622,782	---	3,150,622,782	2,724,477,026
Real estate	1,728,600,683	---	1,728,600,683	1,232,597,949
Private equity/debt	1,549,804,375	---	1,549,804,375	1,176,489,585
Securities lending collateral pool	1,488,100,077	---	1,488,100,077	1,946,543,565
Total investments	**22,623,903,421**	**---**	**22,623,903,421**	**20,990,729,636**
Capital assets (note 5)				
Depreciable assets—net of accumulated depreciation	3,924,308	---	3,924,308	3,651,427
Nondepreciable assets—land	500,000	---	500,000	500,000
Total capital assets	**4,424,308**	**---**	**4,424,308**	**4,151,427**
Total assets	**23,207,472,564**	**18,936**	**23,207,491,500**	**21,808,769,455**
Liabilities:				
Accounts payable and accrued expenses	31,860,038	---	31,860,038	44,039,104
Payable for investments purchased	1,222,672,647	---	1,222,672,647	1,042,190,067
Rebates and collateral payable	1,487,664,482	---	1,487,664,482	1,945,464,997
Foreign exchange contracts payable	60,423,287	---	60,423,287	9,846,508
Total liabilities	**2,802,620,454**	---	**2,802,620,454**	**3,041,540,676**
Net assets held in trust for pension benefits (note 10)	**$20,404,852,110**	**$18,936**	**$20,404,871,046**	**$18,767,228,779**

See Schedule of Funding Progress on page 56.
See Notes to Financial Statements.
*See note 11.

Statement of Changes in Plan Net Assets

Years ended June 30, 2006 and 2005

Exhibit B

	2006 PENSION TRUST FUND	2006 QBA FUND*	2006 TOTAL	2005 TOTAL
Additions:				
Contributions				
Employer contributions	$ 324,655,506	$21,308	$ 324,676,814	$ 310,842,387
Employee contributions	211,522,043	13,883	211,535,926	202,607,212
Buy-back/buy-in contributions	11,275,428	---	11,275,428	11,217,246
Total contributions	**547,452,977**	**35,191**	**547,488,168**	**524,666,845**
Investments				
Interest	291,223,853	---	291,223,853	220,332,216
Dividends	72,660,062	---	72,660,062	67,280,402
Real estate and private equity/debt	84,631,620	---	84,631,620	75,054,807
Net appreciation in fair value of investments	1,657,758,987	---	1,657,758,987	1,591,053,269
Other	377,586	---	377,586	615,592
Investment management expense	(46,104,211)	---	(46,104,211)	(48,784,645)
Net investment income	**2,060,547,897**	---	**2,060,547,897**	**1,905,551,641**
Securities Lending Income				
Security lending income	70,394,470	---	70,394,470	47,519,749
Security lending net appreciation in fair value of collateral pool	---	---	---	420,561
Security lending expense	(65,422,452)	---	(65,422,452)	(41,002,911)
Net securities lending income	**4,972,018**	---	**4,972,018**	**6,937,399**
Other Sources				
Miscellaneous noninvestment income	---	662	662	42,000
Total other sources	---	**662**	**662**	**42,000**
Total additions	**2,612,972,892**	**35,853**	**2,613,008,745**	**2,437,197,885**
Deductions:				
Benefit payments	924,361,399	16,917	924,378,316	868,557,596
Member and employer refunds	41,667,603	---	41,667,603	43,113,458
Administrative expense	9,320,559	---	9,320,559	8,214,903
Total deductions	**975,349,561**	**16,917**	**975,366,478**	**919,885,957**
Net increase	**1,637,623,331**	**18,936**	**1,637,642,267**	**1,517,311,928**
Net assets held in trust for pension benefits Beginning of year	18,767,228,779	---	18,767,228,779	17,249,916,851
Net assets held in trust for pension benefits End of year (note 10)	**$20,404,852,110**	**$18,936**	**$20,404,871,046**	**$18,767,228,779**

See Notes to Financial Statements.
*See note 11.

Notes to Financial Statements

June 30, 2006 and 2005

(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 <http://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 appointing a voting majority of an organization's governing body and: (1) the ability of IPERS to impose its will on that organization, or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on IPERS. IPERS has no component units that meet the Governmental Accounting Standards Board criteria.

(2) PLAN DESCRIPTION

Administration

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

Plan Membership

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

In FY2006 IPERS had 306,955 members and 2,363 participating employers.

	June 30, 2006	June 30, 2005
Employers:		
City	1,252	1,280
County	443	463
School	401	389
State	26	22
28E Agencies	60	82
Utilities	135	129
Other	46	23
Total	2,363	2,388
Members:		
Retirees and beneficiaries	82,204	79,604
Inactive vested	29,522	30,599
Active vested	123,363	123,231
Active nonvested	39,728	37,674
Inactive nonvested	32,138	34,817
Total	306,955	305,925

Plan Benefits

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official Plan documents. The following brief description of IPERS benefits is provided for general informational purposes only. 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 adjustment. A member is also entitled to benefits without an early retirement adjustment if the member's years of service plus the member's age at the member's last birthday equals or exceeds 88. (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 percent 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. In lieu of the foregoing, a vested Special Service member may apply for in-service or ordinary disability retirement benefits under the

Special Service member disability program. Eligibility for the Special Service member disability program benefits is determined by IPERS, and also may begin at any age.

If a member dies before retirement, the beneficiary will receive a lifetime annuity or a lump-sum cash payment which is equal to the present actuarial value of the member's accrued benefit or a calculated 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 cash 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.

Vested Membership
A member who leaves covered employment after completing at least 4 years of covered service or has attained the age of 55 while making contributions to the plan has vested rights to IPERS benefits.

Funding Requirements
Member and employer contribution rates are established by statute for the regular membership. The contributions are remitted by participating employers. Certain members and employers engaged in law enforcement, fire safety, and protection occupations contribute at actuarially determined rates as shown in the following table. Wages are covered up to the federal limit of $220,000 for the calendar year 2006.

Contribution rates for regular members are established by statute.

Contribution Rates in Effect July 1, 2005–June 30, 2006

	Employee	Employer	Total
Regular Membership	3.70%	5.75%	9.45%
Special Service Group 1*	8.20%	8.20%	16.40%
Special Service Group 2†	6.16%	9.23%	15.39%

*Includes sheriffs and deputies.
†Includes all other public safety 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 government units. Revenues are recognized when they are earned and become measurable.

Expenses are recognized when the liability is incurred. As such, Plan member contributions are recognized in the period in which the contributions are due. Employers' 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.

B. New Accounting Pronouncements

IPERS has implemented GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*. This statement is effective for statistical sections prepared for periods beginning after June 15, 2005, and it is intended to improve consistency and comparability in financial reporting for all governmental entities, as well as to provide clearer guidance for Statistical section reporting. As a result, many of the tables have been expanded to provide ten years of trend information and additional information has been included regarding principal employers and the number of their employees.

IPERS has reviewed GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (OPEB). IPERS does not have any OPEB liabilities to report and expects none going forward.

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 3 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 included in income 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.

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.

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 investments are held by the System's custodian and registered in the System's name. All of the System's securities are held by the System's custodial bank in the System's name, except for 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 an SEC-registered pooled fund that is managed by the master custodian bank. The fair value of the position in the pool equals the value of the pool shares. A summary of investments as of June 30, 2006, follows.

Invested Assets[1]

(Dollar values expressed in thousands)

June 30, 2006

Investment Type	Total Fair Value	Fair Value on Loan
Fixed Income	**$ 5,837,474**	**$1,097,757**
U.S. Government	***1,105,652***	***676,155***
U.S. Government Treasuries, Notes, Bonds	*800,799*	*489,574*
U.S. Government TIPS	*78,745*	*78,256*
U.S. Government Agency	*226,108*	*108,325*
Mortgage Backed	***1,356,536***	***5,807***
Government Pass-Through	*1,111,146*	---
Corporate Pass-Through	*245,390*	*5,807*
Collateralized Mortgage Obligations	***260,661***	***3,019***
Government CMOs	*65,088*	*3,019*
Corporate CMOs	*195,573*	---
Corporate	***2,630,812***	***327,087***
Corporate Bonds	*1,689,213*	*272,087*
Corporate Asset Backed	*618,530*	*1,295*
Private Placements	*323,069*	*53,705*
Yankee Bonds	***57,181***	***6,792***
Supernationals	***2,963***	***---***
Non-U.S. Fixed Income	***423,669***	***78,897***
Developed Markets	*241,877*	*26,877*
Dev. Government/Sovereign	28,783	---
Dev. Corporate	213,094	26,877
Emerging Markets	*181,792*	*52,020*
Emg. Government/Sovereign	150,455	45,822
Emg. Corporate	31,337	6,198
Short Term	**251,367**	---
Repurchase Agreements	***248,835***	---
Other Short Term	***2,532***	---
Equity	**3,489,025**	**357,065**
U.S.	***1,892,157***	***185,543***
Non-U.S.	***1,596,868***	***171,522***
Alternative Investments	**1,546,969**	**---**
Real Estate	**1,460,939**	---
Commingled Funds	**8,657,297**	---
U.S. Equity	***4,530,550***	***---***
Non-U.S. Equity	***1,578,024***	***---***
U.S. Fixed Income	***2,299,197***	---
Money Market Funds	***249,526***	---
Derivatives	**(2,827)**	---
Cash	**(859,446)**	**---**
Total	**$20,380,798**	**$1,454,822**

[1]Based on fair value of the total investment portfolio at June 30, 2006, gross of investment receivables and cash in investment manager accounts and net of payables and securities lending collateral. Although these values are the appropriate industry standard basis for calculation of investment returns, they differ from the "Investments at fair value" shown elsewhere in the Financial section, which are reported using GASB Statement No. 25 financial statement standards.

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, 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.

Prior year disclosures for investment type, credit risk quality ratings, and interest rate sensitivity-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. As of June 30, 2006, IPERS' fixed income assets that are not government-guaranteed represented 87 percent of the fixed income portfolio. 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.

Credit Risk—S&P Quality Ratings

(Dollar values expressed in thousands)

June 30, 2006

	Total	TSY	AGY	AAA	AA	A	BBB	BB	B	CC & Below	NR
U.S. Government	***$1,105,652***	***$ 467,900***	***$ 122,975***	***$ 526,038***	***$ 185***	***$ ---***	***$ ---***	***$ ---***	***$ ---***	***$ ---***	***$ (11,446)***
US Gov't Treasuries, Notes, Bonds	*800,799*	*408,464*	*---*	*406,173*	*---*	*---*	*---*	*---*	*---*	*---*	*(13,838)*
US Gov't TIPS	*78,745*	*59,436*	*---*	*19,309*	*---*	*---*	*---*	*---*	*---*	*---*	*---*
US Gov't Agency	*226,108*	*---*	*122,975*	*100,556*	*185*	*---*	*---*	*---*	*---*	*---*	*2,392*
Mortgage Backed	***1,356,536***	***---***	***1,075,877***	***215,004***	***3,508***	***980***	***---***	***---***	***---***	***---***	***61,167***
Gov't Pass-Through	*1,111,146*	*---*	*1,075,877*	*34,682*	*---*	*---*	*---*	*---*	*---*	*---*	*587*
Corporate Pass-Through	*245,390*	*---*	*---*	*180,322*	*3,508*	*980*	*---*	*---*	*---*	*---*	*60,580*
Collateralized Mortgage Obligations	***260,661***	***---***	***57,413***	***186,689***	***6,148***	***3,399***	***---***	***---***	***---***	***220***	***6,792***
Gov't CMOs	*65,088*	*---*	*57,413*	*7,675*	*---*	*---*	*---*	*---*	*---*	*---*	*---*
Corporate CMOs	*195,573*	*---*	*---*	*179,014*	*6,148*	*3,399*	*---*	*---*	*---*	*220*	*6,792*
Corporate	***2,630,812***	***---***	***---***	***656,595***	***162,077***	***274,592***	***299,929***	***429,251***	***686,885***	***66,715***	***54,768***
Corporate Bonds	*1,689,213*	*---*	*---*	*91,607*	*101,455*	*229,297*	*261,672*	*349,950*	*572,719*	*51,741*	*30,772*
Corporate Asset Backed	*618,530*	*---*	*---*	*555,362*	*8,611*	*19,229*	*5,245*	*2,639*	*404*	*7,037*	*20,003*
Private Placements	*323,069*	*---*	*---*	*9,626*	*52,011*	*26,066*	*33,012*	*76,662*	*113,762*	*7,937*	*3,993*
Yankee Bonds	***57,181***	***---***	***---***	***---***	***---***	***13,449***	***33,025***	***4,731***	***5,976***	***---***	***---***
Supernationals	***2,963***	***---***	***---***	***---***	***---***	***2,963***	***---***	***---***	***---***	***---***	***---***
Non-U.S. Fixed Income	***423,669***	***---***	***---***	***49,193***	***39,510***	***51,957***	***97,505***	***106,226***	***43,303***	***2,205***	***33,770***
Developed Markets	*241,877*	*---*	*---*	*45,176*	*39,510*	*29,194*	*29,231*	*45,121*	*21,596*	*---*	*32,049*
Dev. Government/Sovereign	28,783	---	---	9,604	---	---	---	---	---	---	19,179
Dev. Corporate	213,094	---	---	35,572	39,510	29,194	29,231	45,121	21,596	---	12,870
Emerging Markets	*181,792*	*---*	*---*	*4,017*	*---*	*22,763*	*68,274*	*61,105*	*21,707*	*2,205*	*1,721*
Emg. Government/Sovereign	150,455	---	---	---	---	17,709	58,907	57,541	13,765	2,205	328
Emg. Corporate	31,337	---	---	4,017	---	5,054	9,367	3,564	7,942	---	1,393
Fixed Income	**5,837,474**	**467,900**	**1,256,265**	**1,633,519**	**211,428**	**347,340**	**430,459**	**540,208**	**736,164**	**69,140**	**145,051**
Repurchase Agreements	***248,835***	***---***	***---***	***---***	***---***	***---***	***---***	***---***	***---***	***---***	***248,835***
Other Short Term	***2,532***	***---***	***---***	***---***	***---***	***---***	***---***	***---***	***---***	***---***	***2,532***
Short Term	**251,367**	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**251,367**
Commingled Funds— U.S. Fixed Income	**2,299,197**	**563,763**	**270,386**	**1,144,349**	**79,992**	**104,458**	**112,662**	**---**	**---**	**---**	**23,587**
Total	**$8,388,038**	**$1,031,663**	**$1,526,651**	**$2,777,868**	**$291,420**	**$451,798**	**$543,121**	**$540,208**	**$736,164**	**$69,140**	**$420,005**

There are no System-wide policy limitations for credit risk exposures within the portfolio. Each 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. However, in circumstances where downgrades occurred subsequent to purchase, investment managers have been given permission to hold the security due to several mitigating circumstances such as a very short maturity or a much higher rating from other rating agencies, among others. Credit risk for derivative instruments held by the System results from counterparty risk assumed by IPERS. This is essentially the risk that 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 48–50 of these notes. Policies related to credit risk pertaining to IPERS' securities lending program are found under the securities lending disclosures on pages 50–51 of these notes.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issuer. IPERS' guidelines for each specific portfolio 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.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the portfolio using the effective duration or option-adjusted methodology. It is widely used in the management of fixed income portfolios in that it quantifies to a much greater degree the risk of interest rate changes. 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 fixed income portfolios are managed in accordance with investment contracts that are quite specific as to the maximum degree of interest rate risk to be taken. Specifically, the investment contracts require that the effective duration of the manager's portfolio always remain between 80 percent and 120 percent of the effective duration measure of a specific fixed income index. It is believed that the reporting of effective duration found in the tables below 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 on pages 48–50 of these notes. 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.

Interest Rate Sensitivity—Effective Duration

(Dollar values expressed in thousands)

June 30, 2006

Investment Type	Fair Value	Effective Duration (Years)
Fixed Income	**$ 5,837,474**	**4.09**
U.S. Government	***1,105,652***	***5.18***
U.S. Government Treasuries, Notes, Bonds	*800,799*	*5.13*
U.S. Government TIPS	*78,745*	*12.84*
U.S. Government Agency	*226,108*	*2.67*
Mortgage-Backed	***1,356,536***	***4.61***
Government Pass-Through	*1,111,146*	*4.61*
Corporate Pass-Through	*245,390*	*4.59*
Collateralized Mortgage Obligations	***260,661***	***2.16***
Government CMOs	*65,088*	*2.84*
Corporate CMOs	*195,573*	*1.92*
Corporate	***2,630,812***	***3.34***
Corporate Bonds	*1,689,213*	*3.86*
Corporate Asset Backed	*618,530*	*1.21*
Private Placements	*323,069*	*4.69*
Yankee Bonds	***57,181***	***4.32***
Supernationals	***2,963***	***4.51***
Non-U.S. Fixed Income	***423,669***	***5.10***
Developed Markets	*241,877*	*3.56*
Dev. Government/Sovereign	28,783	3.13
Dev. Corporate	213,094	3.62
Emerging Markets	*181,792*	*7.15*
Emg. Government/Sovereign	150,455	7.59
Emg. Corporate	31,337	4.71
Short Term	**251,367**	**0.00**
Repurchase Agreements	***248,835***	***0.00***
Other Short Term	***2,532***	***0.00***
Commingled Funds—U.S. Fixed Income	**2,299,197**	**4.80**
Total	**$ 8,388,038**	**4.16**

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. From time to time, IPERS' external managers may or may not hedge the portfolio's foreign currency exposures with currency forward contracts depending upon their views on a specific foreign currency relative to the U.S. dollar. IPERS' currency policy is to manage the nondollar portion of the global fixed income allocation against a 100 percent hedged benchmark and may allow its nondollar equity managers to hedge on a selective basis for the protection of the asset values. IPERS will not manage currency as a separate asset class or enter into speculative currency positions (i.e., currency positions greater than 100 percent or less than 0 percent of the underlying asset exposure) in its portfolio, except as it relates to specific cross-hedging activity, which may be permitted in certain investment manager contracts.

Foreign Currency Risk by Investment Type

(Dollar values expressed in thousands)

June 30, 2006

	Total	Fixed Income	Equity	Alternative Investments	Cash
Argentine Peso	$ 399	$ ---	$ 399	$ ---	$ ---
Australian Dollar	100,996	---	100,996	---	---
Brazilian Real	18,201	---	17,935	---	266
British Pound Sterling	199,290	---	170,376	24,578	4,336
Canadian Dollar	18,261	---	18,261	---	---
Chilean Peso	3,071	---	3,068	---	3
Colombian Peso	1,228	---	1,228	---	---
Czech Koruna	1,096	---	1,096	---	---
Danish Krone	4,326	---	4,326	---	---
Euro	681,990	20,407	474,679	186,846	58
Hong Kong Dollar	45,016	---	45,016	---	---
Hungarian Forint	806	---	806	---	---
Indonesian Rupiah	3,919	---	3,919	---	---
Israeli Shekel	2,768	---	2,768	---	---
Japanese Yen	437,923	---	421,444	---	16,479
Malaysian Ringgit	7,140	---	7,140	---	---
Mexican Nuevo Peso	7,415	2,940	7,445	---	(2,970)
New Taiwan Dollar	47,080	---	46,284	---	796
New Zealand Dollar	1,772	---	1,772	---	---
Pakistani Rupee	158	---	158	---	---
Peruvian Nuevo Sol	319	---	319	---	---
Philippine Peso	674	---	674	---	---
Polish Zloty	146	18,501	1,008	---	(19,363)
Russian New Ruble	11,397	---	11,397	---	---
Singapore Dollar	20,163	---	20,163	---	---
South African Rand	26,257	---	26,183	---	74
South Korean Won	55,129	---	55,693	---	(564)
Swedish Krona	13,193	---	13,193	---	---
Swiss Franc	67,654	---	67,585	---	69
Thai Baht	2,982	---	2,960	---	22
Turkish Lira	3,323	---	3,344	---	(21)
Total	**$1,784,092**	**$41,848**	**$1,531,635**	**$211,424**	**$(815)**

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

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.

Derivatives

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

The various derivatives utilized by the System's external managers are explained below. All derivatives are reported at fair value in the Statement of Plan Net Assets.

Futures Contracts

The System had investments in various fixed income and Eurodollar futures during the year. These contracts are reported at their fair value in the Statement of Plan Net Assets. A listing of futures contracts outstanding at June 30, 2006, is provided on the next page. Futures are designed to potentially offer lower-cost and more efficient alternatives to buying the underlying securities or currency. 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, 2006

Contracts	Expiration Date	Long/ (Short)	Fair Value
FUTURES			
10-year U.S. Treasury Notes	August '06	(Short)	$ (5)
10-year U.S. Treasury Notes	September '06	(Short)	(450)
10-year U.S. Treasury Notes	November '06	(Short)	(8)
10-year U.S. Treasury Notes	December '06	(Short)	(38)
5-year U.S. Treasury Notes	August '06	(Short)	(29)
5-year U.S. Treasury Notes	September '06	(Short)	(11)
U.S. treasury bond	August '06	(Short)	(47)
U.S. treasury bond	September '06	(Short)	(303)
U.S. treasury bond	November '06	(Short)	(65)
Eurodollar	September '06	Long	1,002
Fannie Mae Discount Note	September '06	Long	3,388
	Total Net Futures Fair Value		$3,434

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 constructed to replicate the effect of investing 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, 2006, the notional value of the credit default swaps held in the System's fixed income portfolio was $277.3 million at par. All credit default swaps held by the System are reported at a negative fair value of $1.9 million in the Statement of Plan Net Assets.

Interest Rate Swaps

Interest rate swaps are transactions between two parties in which one party exchanges a stream of interest for another party's stream. Interest rate swaps are normally "fixed against floating," but can also be "fixed against fixed" or "floating against floating" rate swaps. 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 swapping interest rates, the System's investment managers are able to synthethically alter their interest rate exposures and bring them in line with the System's appetite for interest rate risk. At June 30, 2006, the notional value of the interest rate swaps held in the System's fixed income portfolio was $141.1 million at par. All interest rate swaps held by the System are reported at a negative fair value of $1.9 million in the Statement of Plan Net Assets.

Total Return Swaps
A total return swap is a contract in which one party receives interest payments on a reference asset plus any capital gains and losses over the payment period, while the other receives a specified fixed or floating cash flow unrelated to the credit worthiness of the reference asset, especially where the payments are based on the same notional amount. The reference asset may be any asset, index, or basket of assets. At June 30, 2006, the notional value of the total return swaps held in the System's fixed income portfolio was $272.7 million. All total return swaps held by the System are reported at a negative fair value of $2.2 million in the Statement of Plan Net Assets.

Mortgage-Backed Securities
The System invests in mortgage-backed securities, which are reported at fair value in the Statement of Plan Net Assets and are based on the cash flows from the interest and principal payments by the underlying mortgages. As a result they are sensitive to prepayments by mortgagees, which is likely in declining interest rate environments, thereby reducing the value of these securities. The System invests in mortgage-backed securities to diversify the portfolio and increase the return while minimizing the extent of risk. Details regarding interest rate risks for these investments are included under the interest rate disclosures on pages 45–46.

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, an "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 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 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 year-end IPERS had $365,613 in credit risk exposure to borrowers because the amounts they owed to IPERS exceeded the amount IPERS owed the borrowers on 18 separate loans. Additional collateral was provided the next business day, eliminating this exposure. The contract with The Bank of New York 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, 2006, IPERS had securities on loan, including accrued interest income, of $1,454,822,313 against collateral, including borrower rebate with a total value of $1,487,664,482.

The majority of securities loans are open loans, i.e., 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 pool, which is managed by The Bank of New York in accordance with investment guidelines established by The Bank of New York and reviewed by the Treasurer of State and 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 interest rate risk associated with not matching the maturity of the investments with the maturity of the loans. The effective duration of the cash collateral pool at June 30, 2006, was 26 days. Credit Quality and Years to Maturity statistics for the cash collateral pool at June 30, 2006, are shown below.

Securities Lending Cash Collateral Pool

Credit Risk—S&P Quality Ratings

(Dollar values expressed in thousands)

June 30, 2006

Investment Type	Total	AAA	AA	A	NR
Corporate	$ 798,770	$551,792	$110,997	$135,981	$ ---
Corporate Bonds	*277,343*	*30,365*	*110,997*	*135,981*	---
Corporate Asset Backed	*521,427*	*521,427*	---	---	---
Repurchase Agreements	253,896	---	---	---	253,896
Certificate of Deposit	210,047	---	180,893	29,154	---
Bank Note	224,819	---	186,517	38,302	---
Securities Lending Cash Collateral Pool	**$1,487,532**	**$551,792**	**$478,407**	**$203,437**	**$253,896**

Securities Lending Cash Collateral Pool

Years to Maturity

(Dollar values expressed in thousands)

June 30, 2006

		Investment Maturities (Years)	
Investment Type	**Fair Value**	**Less Than 1**	**1–5**
Corporate	$ 798,770	$198,371	$ 600,399
Corporate Bonds	*277,343*	*40,055*	*237,288*
Corporate Asset Backed	*521,427*	*158,316*	*363,111*
Repurchase Agreements	253,896	253,896	---
Certificate of Deposit	210,047	---	210,047
Bank Note	224,819	---	224,819
Securities Lending Cash Collateral Pool	**$1,487,532**	**$452,267**	**$1,035,265**

F. Capital Assets
Building and land is 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 and data processing equipment. All purchased equipment is recorded at cost. Depreciation on equipment is computed using the straight-line method based on estimated useful lives ranging from 3 to 10 years.

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

H. Operating Lease/Lessor
IPERS leased 14,400 square feet of the building acquired in November 1999, to Data Input Services, Inc., an Iowa corporation. The lessee paid all operating expenses directly associated with its occupancy. In addition, the lessee paid a proportionate share of common operating expenses. The lease with Data Input Services expired on January 31, 2005. After that date, the space has not been leased.

All rental income is categorized as miscellaneous income. Rental income for the year ended June 30, 2005, totaled $42,000.

(4) CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE
On an annual basis, a valuation of the liabilities and reserves of the IPERS Trust Fund is performed by IPERS' actuarial consultant in accordance with Iowa Code Section 97B.4(4)"d," in order to determine the amount of contributions required. In addition, based upon the IPERS Investment Board's adoption of the actuarial methods and assumptions of the valuation, IPERS certifies the contribution rate determined thereby as the rate necessary and sufficient for members and employers to fully fund the benefits and retirement allowances being credited for service under Iowa Code Chapter 97B.

The Iowa statutes provide that IPERS regular members contribute 3.70 percent of pay and their employers contribute 5.75 percent of pay for a total of 9.45 percent. Certain employers and their employees in Special Service occupations contribute at an actuarially determined contribution rate. The annual actuarial valuation is performed to determine whether the statutory rate will be sufficient to fund the future benefits expected to be paid by the System within the guidelines established in the IPERS Funding Policy. The statutory rate is first applied to fund the normal cost. The remaining contribution rate is used to amortize the unfunded actuarial liability as a level percentage of payroll. The System's Funding Policy provides for a maximum amortization period of 30 years in order for the System to be considered "fully funded," and further establishes guidelines indicating when the System should consider requesting statutory contribution rate increases.

During fiscal year 2006, IPERS' unfunded actuarial liability increased to $2,507,085,900 and the amortization period continued to exceed the 30-year maximum. To address IPERS' long-term funding needs, the Iowa Legislature passed a bill increasing the contribution rate for regular members, the first rate increase since 1979. Regular members make up about 96 percent of IPERS' active membership. The increase of two percentage points from 9.45 percent to 11.45 percent will be phased in over four years beginning July 1, 2007. The increase does not affect members in public safety positions, who contribute at an actuarially determined rate that may change every year.

(5) CAPITAL ASSETS

A summary of capital assets as of June 30 follows:

	2006	2005
Building and improvements	$4,156,677	$3,901,514
Less accumulated depreciation	(642,148)	(534,379)
Furniture & equipment	684,511	824,568
Less accumulated depreciation	(274,732)	(540,276)
Land (nondepreciable)	500,000	500,000
Total capital assets	$4,424,308	$4,151,427

Depreciation expense for the year ended June 30, 2006, was $289,602.

(6) LITIGATION & CONTINGENCIES

IPERS is party to various lawsuits or threatened lawsuits. IPERS is the lead plaintiff in two federal class action lawsuits. In the first case, *In re Mills Corporation*, IPERS is alleging that the Mills Corporation violated the Securities and Exchange Act of 1934 by making false and misleading statements to investors. The initial calculation of damages for IPERS is approximately $2.4 million. IPERS is aggressively pursuing this litigation to maximize its recovery. In the second case, *In re Bridgestone/Firestone*, IPERS is alleging that Bridgestone/Firestone violated the Securities and Exchange Act of 1934 by making false and misleading statements to investors. The initial calculation of damages for IPERS is between $0.7 million and $1.6 million. IPERS is aggressively pursuing this litigation to maximize its recovery. With regards to all other litigation, it is the opinion of the administration that the ultimate liability arising from other litigation and threats from such litigation will not have a material effect on the financial statements.

(7) COMMITMENTS

At June 30, 2006, IPERS had commitments to fund an additional $1,461,855,977 to various private equity/debt partnerships and real estate investment managers.

(8) LOCATION OF HISTORICAL TREND INFORMATION

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

(9) PENSION AND RETIREMENT BENEFITS

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

State statute requires contributions of 3.70 percent by regular members and 5.75 percent by their employers. The System's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004, were $287,173, $276,306, and $269,056, respectively, equal to the required contributions for each year.

(10) NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

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

	Regular Membership*	Special Service Group 1†	Special Service Group 2‡	FED Reserve Transfers§	Total
Balance at June 30, 2005	$17,360,785,249	$290,502,298	$572,780,066	$543,161,166	$18,767,228,779
Additions:					
Contributions	495,607,334	12,457,351	28,148,055	---	536,212,740
Buy-backs/buy-ins	10,860,075	101,023	314,330	---	11,275,428
Investment and misc. income	1,953,285,661	33,227,365	65,795,627	59,316,135	2,111,624,788
Total additions	**2,459,753,070**	**45,785,739**	**94,258,012**	**59,316,135**	**2,659,112,956**
Deductions:					
Benefit payments	856,190,962	9,060,299	15,138,978	43,988,077	924,378,316
Member and employer refunds	38,593,756	558,048	2,515,799	---	41,667,603
Admin. & invest. expenses	51,739,316	781,394	1,608,980	1,295,080	55,424,770
Total deductions	**946,524,034**	**10,399,741**	**19,263,757**	**45,283,157**	**1,021,470,689**
Balance at June 30, 2006	**$18,874,014,285**	**$325,888,296**	**$647,774,321**	**$557,194,144**	**$20,404,871,046**

*Includes QBA fund contributions, income, and benefit payments.

†Includes sheriffs and deputies.

‡Includes all other public safety members.

§Favorable Experience Dividend.

(11) QUALIFIED BENEFITS ARRANGEMENT

In FY2006, IPERS implemented the Qualified Benefits Arrangement (QBA) authorized in 1998 legislation now codified as Iowa Code Section 97B.49I. 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 and employee contributions on an as-needed basis and is therefore fully funded.

Required Supplementary Information

Schedule 1

Schedule of Funding Progress

Fiscal Year Ended June 30	Net Actuarial Value of Assets	Actuarial Liability	Percentage Funded	Unfunded Actuarial Liability (UAL)	Annual Covered Payroll[1]	UAL as a % of Covered Payroll
2001	$15,112,424,729	$15,553,379,304	97.16%	$ (440,954,575)	$4,550,180,113	(9.69)%
2002	15,613,114,099	16,868,559,185	92.56%	(1,255,445,086)	4,743,576,424	(26.47)%
2003	16,120,476,011	17,987,374,960	89.62%	(1,866,898,949)	4,881,100,238	(38.25)%
2004	16,951,942,539	19,128,410,606	88.62%	(2,176,468,067)	5,072,027,906	(42.91)%
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)%

[1]*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. Beginning January 1, 2006, the federal limit is $220,000.*

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

Actuarial cost method	Entry age normal
Assets smoothing method	Expected value at the valuation date plus 25% of the difference between the market value and expected value
Amortization method	Open period, level percent of pay
Amortization period	30 years* (open method)
Investment rate of return	7.50%
Projected salary increases	4.0%–12.0% depending upon years of service
Mortality tables	RP-2000 Healthy Annuitant Table with adjustments
Inflation rate	3.25% for prices, 4.00% for wages

*Governmental Accounting Standards Board Statement No. 25 states that, beginning in fiscal year 2006, 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.

Schedule 2

Schedule of Employer Contributions

Last 6 fiscal years

Fiscal Year	Actuarially Required Contributions	Total Employer Contributions	Percentage Contributed
2001			
Regular Membership	*	*	100.0
Special Service Group 1	*	*	100.0
Special Service Group 2	*	*	100.0
2001 Total	**$268,315,094**	**$268,315,094**	**100.0**
2002			
Regular Membership	*	*	100.0
Special Service Group 1	*	*	100.0
Special Service Group 2	*	*	100.0
2002 Total	**278,682,745**	**278,682,745**	**100.0**
2003			
Regular Membership	270,363,337	268,108,914	99.2
Special Service Group 1	5,670,239	5,669,294	100.0
Special Service Group 2	13,738,478	13,745,347	100.0
2003 Total	**289,772,054**	**287,523,555**	**99.2**
2004			
Regular Membership	309,006,609	279,167,801	90.3
Special Service Group 1	5,489,797	5,488,239	100.0
Special Service Group 2	14,263,836	14,267,627	100.0
2004 Total	**328,760,242**	**298,923,667**	**90.9**
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**

*Data not available.

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 for additional information on actuarial valuation.

Other Supplementary Information

Schedule 1

Investment Income by Specific Source

Years ended June 30, 2006 and 2005

	2006	2005
Interest income—short term	$ 3,120,538	$ 1,661,236
Interest income on bonds	288,103,315	218,670,980
Dividend income	72,660,062	67,280,402
Real estate funds	86,844,552	67,161,339
Private equity/debt funds	(2,212,932)	7,893,468
Security lending income	70,394,470	47,519,749
Security lending net appreciation in fair value of collateral pool	---	420,561
Other income	377,586	615,592
Investment income	519,287,591	411,223,327
Gain on investments	1,631,846,242	1,591,194,501
Currency gain	25,912,745	(141,232)
Net appreciation in fair value of investments	1,657,758,987	1,591,053,269
Investment income	$2,177,046,578	$2,002,276,596

Schedule 2

Schedule of Administrative Expenses

Years ended June 30, 2006 and 2005

	2006	2005
Personnel:		
Salaries & wages	$5,831,366	$5,433,879
Travel	125,278	119,391
Professional and technical services:		
Professional	1,007,597	837,809
Actuary	101,033	57,532
Computer support services	738,426	441,528
Auditing	81,734	53,430
Communications:		
Telephone	162,069	131,582
Printing	181,456	121,312
Other expenses:		
Supplies	514,550	556,427
Utilities	71,865	60,124
Depreciation	289,602	288,187
Loss on disposal of fixed assets	14,120	---
Repairs	91,832	67,966
Rent	1,067	3,065
Miscellaneous	108,564	42,671
Total administrative expenses	**$9,320,559**	**$8,214,903**

Schedule 3

Schedule of Investment Related Expenses

Years ended June 30, 2006 and 2005

	2006	2005
Mellon Capital Management	$ 266,969	$ 317,754
Barclays Global Investors	3,760,194	1,281,720
RCM	850,517	756,126
Wellington Management Company LLP	1,685,486	1,461,239
TOTAL DOMESTIC EQUITY	**6,563,166**	**3,816,839**
BlackRock Financial Management, Inc.	1,592,620	1,129,631
JPMorgan Investment Management	41,472	814,933
Mellon Capital Management	252,143	224,682
Oaktree Capital Management	1,280,007	1,289,717
Western Asset Management Company	3,271,260	3,322,357
Post Advisory	989,362	377,372
Principal Global Investors	880,225	88,995
TOTAL FIXED INCOME	**8,307,089**	**7,247,687**
Barclays Global Investors	2,720,939	4,812,094
Schroder Investment Management North America Inc	902,374	791,942
Emerging Markets Management LLC	2,204,133	1,725,581
Oechsle International Advisors LLC	1,076,341	981,271
TOTAL INTERNATIONAL EQUITY	**6,903,787**	**8,310,888**
RREEF REIT	1,337,843	1,682,862
RREEF	5,199,600	7,205,052
AEW Capital Management	---	4,797
INVESCO	3,258,580	9,863,296
TA Associates	4,882,233	1,923,623
UBS Realty	5,057,833	5,264,317
ING Clarion	821,044	---
TOTAL REAL ESTATE	**20,557,133**	**25,943,947**
Pathway Capital Management	2,393,790	2,176,127
TOTAL PRIVATE EQUITY/DEBT	**2,393,790**	**2,176,127**
The Townsend Group	132,000	132,000
Wilshire Associates	239,000	239,000
TOTAL INVESTMENT CONSULTANT FEES	**371,000**	**371,000**
Master Custodian Bank Fees	141,164	144,720
Treasurer of State	34,528	23,973
TOTAL CUSTODY EXPENSES	**175,692**	**168,693**
Investment Staff and Board Expenses	735,638	689,356
Miscellaneous Expenses	96,916	60,108
TOTAL OTHER INVESTMENT EXPENSES	**832,554**	**749,464**
TOTAL INVESTMENT RELATED EXPENSES	**$46,104,211**	**$48,784,645**

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Investment Overview

Investment Results

Investment Policy and Goal Statement

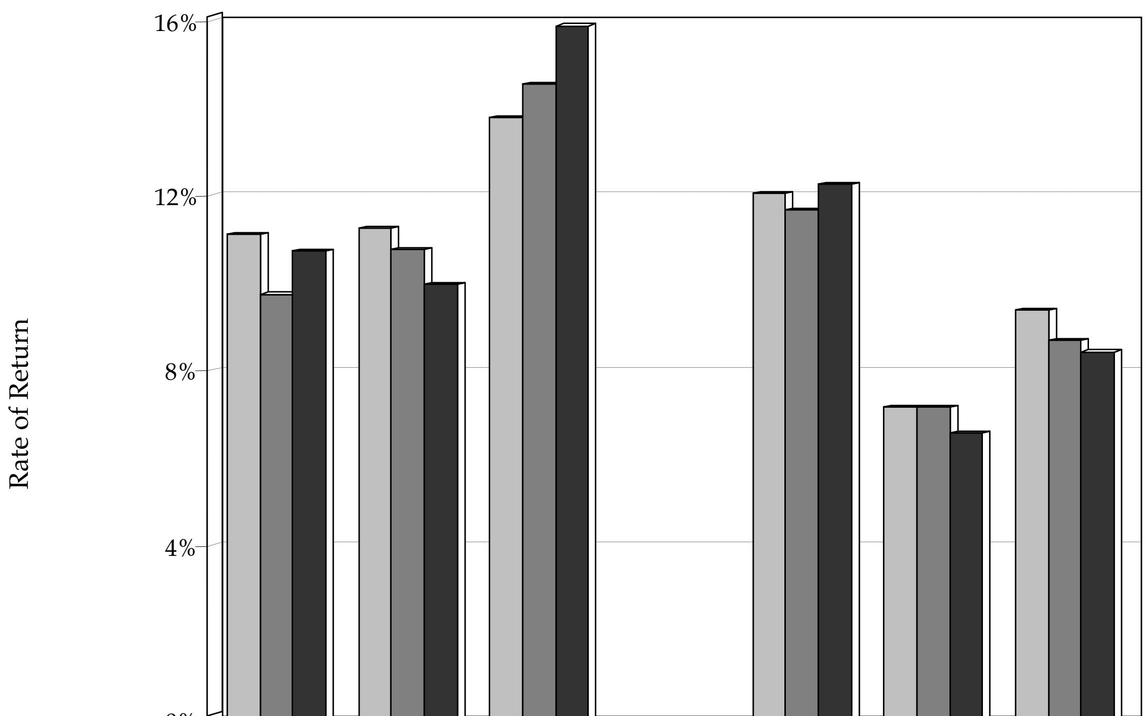
Investments

Investment Overview

Investment returns play an important role in the funded status of the IPERS Trust Fund. The IPERS Investment Board has adopted an Investment Policy and Goal Statement, the objective of which is to benefit the members of the System by maximizing the total rate of return on investments within prudent risk parameters. The System's overall investment performance goal is to achieve an annualized rate of return which, when combined with the required employer and employee contributions to the System, will meet or exceed the benefits and administrative funding requirements of the System. In addition, specific investment return objectives are adopted by the Investment Board for the Trust Fund in total and for each asset class in which IPERS invests. Please 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 the periods ended June 30



	2006	2005	2004		3 yr	5 yr	10 yr
IPERS' Portfolio*	11.11%	11.25%	13.78%		12.04%	7.14%	9.37%
Policy Benchmark†	9.73%	10.76%	14.55%		11.66%	7.16%	8.67%
Large Public Fund Median‡	10.72%	9.95%	15.88%		12.24%	6.57%	8.42%

*Net of fees.

†A passively managed benchmark composed of market indices, and weightings of same, reflective of IPERS' asset allocation targets.

‡Trust Universe Comparison Service (TUCS) Public Funds with Total Market Value Greater than $1 billion.

The System's investments are managed by professional investment management firms based upon statutory investment authority, the investment policies adopted by the IPERS 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 section 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 section, 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.

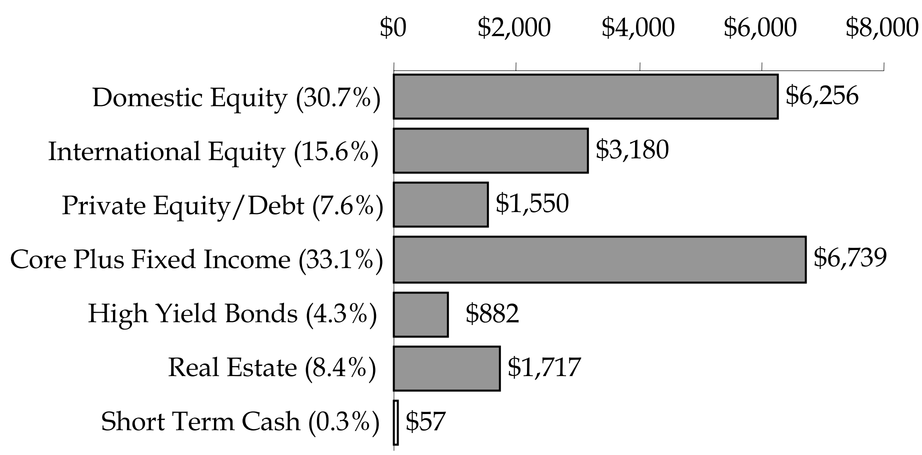
Asset Allocation and Diversification

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 IPERS Investment Board adopts an Investment Policy and Goal Statement that describes the System's investment objectives and establishes the System's asset allocation policy as designed to meet those objectives. The asset allocation policy is adopted to provide for diversification of assets in an effort to maximize the investment return to the System consistent with prudent levels of market and economic risks. Of all the components of investment strategy formulation, the determination of asset allocation targets is the most important decision.

Summary of Investments by Asset Class

As of June 30, 2006

(Fair Value in Millions)



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.

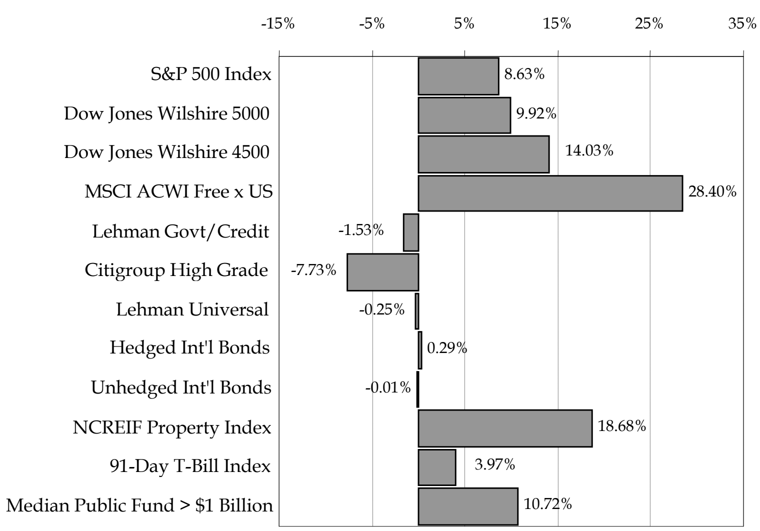
The System also requires its investment managers to diversify their portfolios at the security level. Managers are required to diversify across sectors, industries, and individual securities. The System develops specific contractual investment guidelines for each manager that control the risk of high 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 to achieve a greater rate of return over time while minimizing the risk of negative returns caused by adverse short-term changes in the capital markets.

Capital Markets Commentary

The value of diversification was never more evident in capital markets than in fiscal year 2006. A strong global economy, driven by a resilient U.S. economy with controlled inflation and strong corporate earnings, helped equity investments overall. Exceptional returns were posted during the period from private equity, real estate, and international stock investments, while U.S. stocks provided solid returns. However, growing concern about rising commodity prices (especially oil) and inflation provided a basis for concern in the bond markets, and the result was negative returns in most fixed income investment categories for the period.

Fiscal Year 2006 Market Returns



The U.S. equity market, as measured by the Dow Jones Wilshire 5000 Index, returned 9.92 percent for the fiscal year. Small capitalization stocks outperformed large capitalization stocks within their respective styles in fiscal year 2006, as shown in the table.

Dow Jones Wilshire Style Index	FY2006 Return
Large Growth	7.93%
Large Value	10.19%
Small Growth	15.69%
Small Value	14.96%

All sectors of the U.S. equity market produced positive returns in fiscal year 2006. Not surprisingly, the Energy sector, driven by large price increases in oil due to supply problems and unease over the situation in the Middle East, was the best-performing sector of the Dow Jones Wilshire 5000 Index, with a return of 26.81 percent, followed by the Materials and Industrials sectors, which returned 21.02 percent and 18.86 percent, respectively. The worst-performing sectors were Health Care (up 0.97 percent) and Consumer Discretionary (up 1.18 percent).

International stocks continued to significantly outperform U.S. stocks.

International stocks continued to significantly outperform U.S. stocks in the fiscal year ended June 30, 2006, due to strong performance across the board in stocks of companies located in both developed and emerging markets. The MSCI All Country World Free ex-U.S. Index, a performance benchmark for equities of non-U.S. companies, returned 28.40 percent for the fiscal year ended June 30, 2006. The Japanese stock market was the best performer of the developed countries, returning 35.85 percent for the fiscal year, amid renewed optimism that Japan may be finally emerging from its economic and financial difficulties. Emerging markets stocks, many of which represent companies in the production of oil and other natural resource commodities, provided a 35.46 percent return for the fiscal year.

The fixed income market posted relatively weak results for fiscal year 2006. The economy expanded as corporate balance sheets improved and unemployment dropped. Hurricanes Katrina and Rita, high commodities and energy prices, a potential housing bubble and inflation risk, however, were factors that were causes of concern. The Federal Reserve continued its tightening stance, raising the overnight federal funds rate from 3.25 percent to 5.25 percent during the fiscal year in an attempt to control inflation without limiting economic growth. The emerging market and high yield sectors of the market performed well as investors sought out investments with higher yields, while the corporate and treasury sectors underperformed. For the fiscal year, the emerging market sector returned 6.26 percent and the high yield sector returned 4.80 percent. The investment grade corporate sector returned -2.22 percent while the treasury sector returned -1.68 percent. As measured by the Lehman Brothers Universal Index, the fixed income market returned -0.25 percent for the fiscal year ended June 30, 2006.

The U.S. commercial real estate market provided solid positive returns in fiscal year 2006. Both operating income and price appreciation contributed positively to the year's performance. The NCREIF Property Index, a commonly cited measure of privately traded commercial real estate values and income, returned 18.68 percent for the one-year period ended June 30, 2006. Publicly traded real estate securities (REITs) also produced strong results in fiscal year 2006, with the Dow Jones Wilshire Real Estate Investment Trust Index posting an annual return of 22.00 percent for the fiscal year.

Private equity investments performed very well in fiscal year 2006, due to strong results from buyout investments in the United States. A strong merger and acquisition market and the continued availability of low-cost debt financing helped increase company valuations in buyout portfolios. These market conditions also allowed many buyout funds to successfully exit portfolio companies or to partially exit through recapitalization transactions. *Venture Economics'* preliminary data indicates that buyout funds produced an average annual internal rate of return of 27.30 percent for fiscal year 2006. By comparison, venture capital investment returns were relatively modest for the fiscal year, a result of a continuing trend of fewer exit opportunities in a less active IPO market. According to preliminary data from *Venture Economics,* the average annual internal rate of return on venture capital funds for the fiscal year was 16.20 percent. The overall private equity asset class, as measured by *Venture Economics'* data, produced a return of 22.50 percent in fiscal year 2006.

Investment Portfolio Assets[1]

At the close of fiscal year 2006, IPERS' net investment portfolio assets had a fair value of $20.381 billion. The change in fair value represents an increase of $1.636 billion from the $18.745 billion net investment asset fair value as of June 30, 2005. The largest factor contributing to the increase in net investment asset fair value was the positive investment portfolio return of 11.11 percent, which is more fully addressed below.

Investment Results

IPERS posted a total portfolio investment return of 11.11 percent for the fiscal year ended June 30, 2006. This return exceeded the objective of providing an investment return at or above the rate of inflation (as measured by the Consumer Price Index, or "CPI") plus 3 percent; that objective was 7.32 percent for fiscal year 2006. The Fund's return also exceeded the investment return assumption used by IPERS' actuary, which is 7.50 percent per year. In addition, the Fund's 11.11 percent return exceeded the 9.73 percent return of IPERS' "policy benchmark," a set of market indices, and weightings to those indices, that reflect IPERS' target asset class allocations.

[1]Based on fair value of the total investment portfolio at June 30, 2006, and June 30, 2005, gross of investment receivables and cash in investment manager accounts and net of payables and securities lending collateral. Although these values are the appropriate industry standard basis for calculation of investment returns, they differ from the "Investments at fair value" shown in the Financial section of this report, which are reported using GASB Statement No. 25 financial statement standards.

The Fund's one-year return exceeded the 10.72 percent median return of the Trust Universe Comparison Service's (TUCS) Universe of Public Pension Funds with Assets Greater than $1 billion.

IPERS' private equity portfolio provided the System's strongest return for the fiscal year.

IPERS' strongest return for the fiscal year was provided by its private equity portfolio at 33.96 percent, followed by the international equity portfolio at 27.40 percent. The weakest returns were from the core plus fixed income portfolio at -0.13 percent, and the cash and high yield fixed income portfolios, each at 4.40 percent.

For the five years ended June 30, 2006, IPERS' total Fund return of 7.14 percent annualized exceeded the TUCS Public Pension Funds with Assets Greater than $1 billion universe median return of 6.57 percent. IPERS' 10-year annualized return of 9.37 percent outpaced the policy benchmark return of 8.67 percent and the aforementioned TUCS universe median return of 8.42 percent, as well as the other objectives of the 7.50 percent annualized actuarial return assumption and CPI plus 3 percent (5.62 percent annualized). IPERS' investment returns, net of fees, for the total portfolio and for each asset class over various periods are shown in the following table. For comparison purposes, the benchmark for each asset class is also shown.

Rates of Return

For periods ended June 30, 2006[1]

Asset Class	Annualized Returns (%) 1-Year	3-Year	5-Year	10-Year
Total Fund				
IPERS	11.11	12.04	7.14	9.37
Policy Benchmark[2]	9.73	11.66	7.16	8.67
CPI + 3%	7.32	6.37	5.65	5.62
Actuarial Interest Rate	7.50	7.50	7.50	7.50
TUCS Public Funds >$1 Billion Universe Median	10.72	12.24	6.57	8.42
Domestic Equity				
IPERS	10.56	13.32	4.05	9.32
Dow Jones Wilshire 5000	9.92	12.98	4.02	8.45
International Equity				
IPERS	27.40	24.92	11.33	7.79
Custom Benchmark	28.40	25.77	11.83	6.52
Core Plus Fixed Income				
IPERS	-0.13	2.95	5.75	6.73
Custom Benchmark	-0.25	2.67	5.39	6.42
High Yield Fixed Income				
IPERS	4.40	7.40	8.38	N/A
Custom Benchmark	3.79	7.87	8.59	N/A
Private Equity/Debt[3]				
IPERS	33.96	24.90	8.11	12.52
Dow Jones Wilshire 5000 + 3%	13.24	16.30	7.18	11.74
Real Estate				
IPERS	19.36	17.03	13.28	12.68
Custom Benchmark	19.54	16.31	12.77	10.72
Short-Term Cash[4]				
IPERS	4.40	3.09	2.89	4.32
U.S. Treasury Bills	3.97	2.36	2.25	3.81

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[1] All returns are time-weighted returns. 3-year, 5-year, and 10-year returns are annualized.

[2] As of June 30, 2006, the Policy Benchmark consists of 28 percent Dow Jones Wilshire 5000, 15 percent MSCI ACWI x US, 34 percent Lehman Universal, 5 percent Citigroup High-Yield Cash-Pay Capped, 10 percent Dow Jones Wilshire 5000 plus 3 percent, 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 percent.

[3] Private Equity/Debt portfolio returns and benchmark returns are provided here as time-weighted returns to allow comparison to the time-weighted returns used for other asset classes. However, the more appropriate performance measurement for the private equity asset class is a dollar-weighted or internal rate of return (IRR) calculation. See the Private Equity/Debt section of this report for a discussion of the Private Equity/Debt portfolio's performance using IRRs.

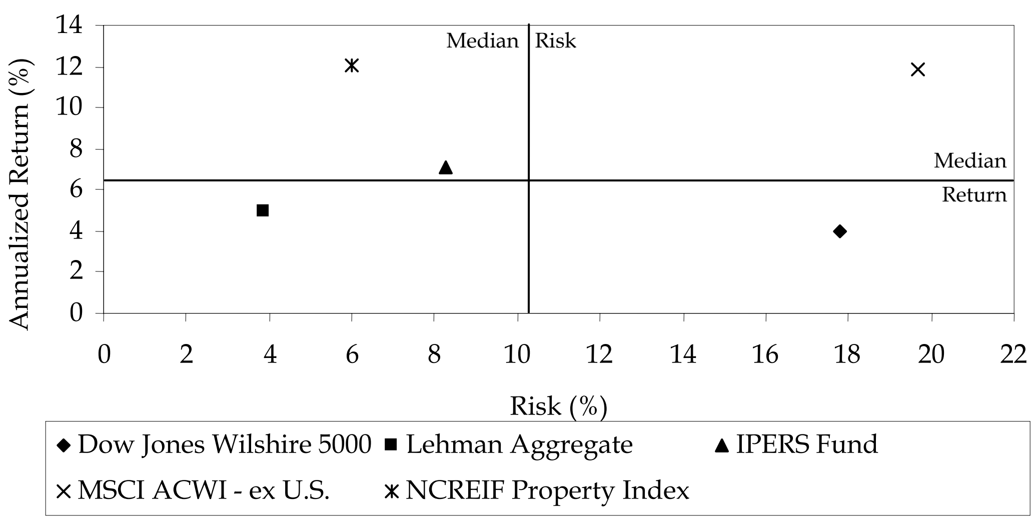
[4] Starting in fiscal year 2000, Short-Term Cash returns exclude miscellaneous income.

The total return an investment portfolio achieves over the long term is largely determined by the level of risk or volatility 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 which exist among pension funds, it is often difficult, if not impossible, to make a meaningful comparison of their returns.

The following graph provides a comparison of IPERS' investment risk/return characteristics for the last five years against the TUCS Universe of Public Pension Funds with Assets Greater than $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 indices. As shown in the graph, the return on IPERS' investments for the five years ended June 30, 2006, was higher than the median large public pension fund return, and this higher return was earned with significantly less risk than the median large public pension fund over this same time period.

Risk vs. Total Return
Public Funds Greater Than $1.0 Billion

5 years ended June 30, 2006



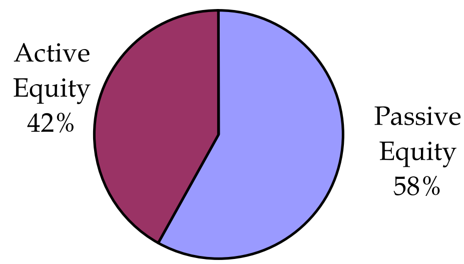
	Annualized Return	Risk (Standard Deviation)
IPERS Total Fund	7.14%	8.27%
Median Fund	6.57%	10.28%
Dow Jones Wilshire 5000	4.02%	17.78%
Lehman Aggregate	4.98%	3.86%
MSCI ACWI ex U.S.	11.85%	19.68%
NCREIF Property Index	12.01%	5.99%

Domestic Equity

At June 30, 2006, 30.7 percent of IPERS' total portfolio was invested in domestic equities. The total net fair value of the domestic equity portfolio was $6.256 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, 2006



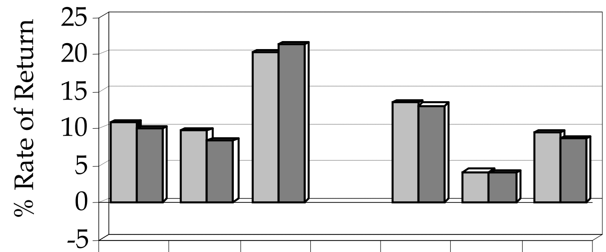
The domestic equity portfolio has two components:

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

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 strategy is to track, within a certain range, the returns of a broad market index. The passive component is designed to add diversity to the overall portfolio while complementing the active investment styles of IPERS' other domestic equity portfolios. The passive component constitutes an efficient, low-cost investment strategy that offsets much of the volatility associated with active management.

Domestic Equity Performance

For the periods ended June 30



	2006	2005	2004		3 yr	5 yr	10 yr
IPERS' Portfolio*	10.56	9.53	20.16		13.32	4.05	9.32
DJ Wilshire 5000	9.92	8.21	21.24		12.98	4.02	8.45

* Net of fees.

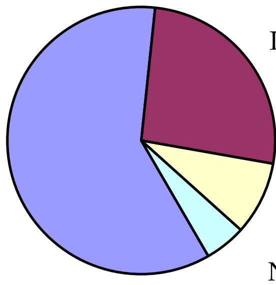
During the year ended June 30, 2006, IPERS' domestic equity portfolio posted a positive return of 10.56 percent, compared to 9.92 percent for the Dow Jones Wilshire 5000 Index. The Fund's alpha tilt and growth managers provided significant outperformance during fiscal year 2006. For the five-year period ended June 30, 2006, the domestic equity portfolio has earned an annualized return (net of fees) of 4.05 percent, versus 4.02 percent for the Dow Jones Wilshire 500 Index.

As fiscal year 2006 drew to a close the domestic equity market was reacting to issues both here in the U.S. and overseas. In the U.S., concerns over the housing market along with the growing belief that Federal Reserve Chair Ben Bernanke may raise interest rates too high left investors uneasy. These concerns, along with geopolitical concerns over North Korea's and Iran's nuclear programs, added to the market's desire to take profits in assets perceived to be higher risk.

International Equity

At June 30, 2006, the international equity portfolio had a net fair value of $3.180 billion, representing 15.6 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, 2006



The international equity portfolio has three primary components:

ACTIVE EQUITY. 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 Morgan Stanley Capital International All Country World Index ex-U.S.

PASSIVE EQUITY. A passively managed diversified portfolio consisting of commingled index fund investments in Canadian and developed European countries' corporate equity securities. The objective of the passive equity portfolios is to track the performance of the Morgan Stanley Capital International Canada and Europe Indices, respectively.

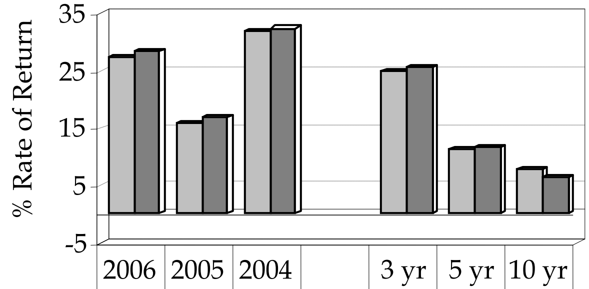
GLOBAL EMERGING MARKETS. An actively managed diversified portfolio consisting primarily of equity securities issued by companies in countries which are small and immature by developed market standards. Over time these markets are expected to experience growth rates well in excess of developed markets.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

International markets continued to outperform U.S. stocks during the year ended June 30, 2006. The Emerging Markets were the strongest region of the index, posting a one-year return of 35.46 percent. This strong return was the result of the regions' oil and other commodity resources which continue to be in high demand globally.

IPERS' international equity portfolio returned 27.40 percent during fiscal year 2006, compared to 28.40 percent for the benchmark. For the five-year period ended June 30, 2006, this portfolio has slightly underperformed its benchmark, earning an annualized return of 11.33 percent versus 11.83 percent for the benchmark.

International Equity Performance

For the periods ended June 30



	2006	2005	2004		3 yr	5 yr	10 yr
IPERS' Portfolio*	27.40	16.01	31.92		24.92	11.33	7.79
Custom Benchmark	28.40	16.95	32.50		25.77	11.83	6.52

* Net of fees.

Public Equity Portfolio—Top 10 Holdings

The top 10 holdings within the public equity portfolio at June 30, 2006, 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[1] at June 30, 2006	Fair Value	% of Total IPERS Public Equity Portfolio
Citigroup Incorporated	$50,565,457	0.54
Bank of America Corporation	45,574,750	0.48
Goldman Sachs Group Incorporated	34,057,352	0.36
Toyota Motor Corporation	32,240,140	0.34
Proctor & Gamble Company	30,681,192	0.33
Chevron Corporation	28,777,222	0.30
Occidental Petroleum Corporation	28,682,792	0.30
Google Incorporated	28,514,440	0.30
ConocoPhillips	28,221,281	0.30
Johnson & Johnson	28,162,400	0.30

[1]Excludes all holdings in commingled fund accounts.

Fixed Income

IPERS has a significant allocation to fixed income securities, with a target asset allocation of 34 percent to core plus fixed income securities and 5 percent to high yield securities. At fiscal year end, IPERS' core plus portfolio was 33.1 percent of total Fund assets and the high yield portfolio was 4.3 percent of total Fund assets. The total return for the consolidated fixed income portfolio (core plus and high yield portfolios combined) for the year ended June 30, 2006, was 0.37 percent. The consolidated fixed income portfolio fair value was $7.621 billion and the average bond rating for the portfolio was AA-.

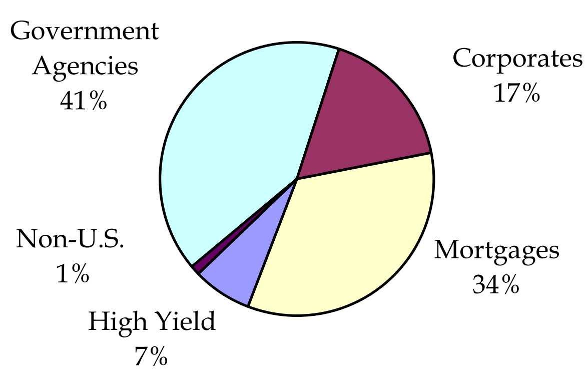
IPERS' fixed income portfolio is managed through two strategies, as described below:

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 Lehman Brothers U.S. Aggregate Index (the "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 Lehman Brothers U.S. Universal Index (the "Universal Index") by 50 basis points, net of fees, over a full market cycle. The Universal Index is a broader "core plus" 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, nondollar bonds, non-convertible preferred stock, options on fixed income instruments, mortgage-backed bonds, corporate bonds, commercial mortgage-backed securities, private placement corporate bonds, and asset-backed securities. The 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, 2006



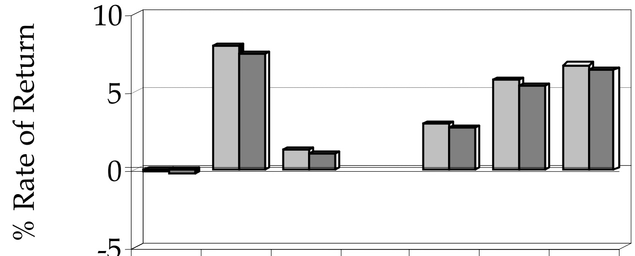
Despite distractions such as hurricanes, a potential housing bubble, and high commodities prices, the economy remained relatively healthy in fiscal year 2006. The Federal Reserve continued its tightening stance to keep inflation in check, causing the Federal Funds rate to increase from 3.25 percent to 5.25 percent. The combination of rising interest rates and an expanding economy hampered the returns within the fixed income market as investors sought higher returning assets. The best-performing sectors within the fixed income market were the Emerging Market and

High Yield sectors with returns of 6.26 percent and 4.80 percent, respectively. These returns were countered by returns of -2.22 percent and -1.68 percent in the Investment-Grade Corporate sector and the U.S. Treasury sector, respectively. Overall, IPERS' core plus fixed income return of -0.13 percent compared favorably to the Lehman Universal Index return of -0.25 percent for the fiscal year ended June 30, 2006.

The graph below provides a historical review of performance for the core plus fixed income portfolio:

Core Plus Fixed Income Performance

For the periods ended June 30



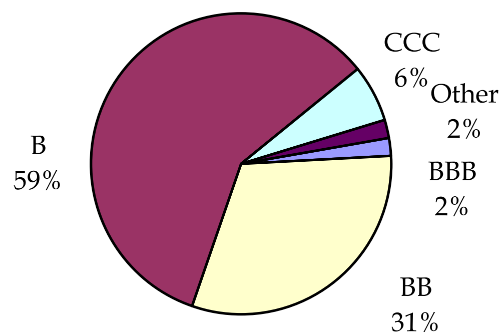
	2006	2005	2004		3 yr	5 yr	10 yr
IPERS' Portfolio*	-0.13	7.91	1.24		2.95	5.75	6.73
Custom Benchmark	-0.25	7.43	1.00		2.67	5.39	6.42

* 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 by 100 basis points, net of fees, over a full market cycle.

High Yield Fixed Income Credit Ratings

June 30, 2006

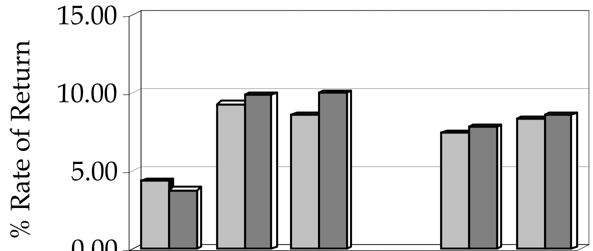


As mentioned previously, the high yield sector was one of the highest-performing fixed income sectors in fiscal year 2006. IPERS' high yield investment strategy emphasizes investment in higher-quality issuers within the high yield market. Even though lower-quality high yield issuers generated returns that outpaced the higher-quality high yield issuers for the year, IPERS' High Yield fixed income return of 4.40 percent outperformed the Citigroup High-Yield Cash-Pay Capped Index return of 3.79 percent for the fiscal year ended June 30, 2006.

The graph below provides a historical review of performance for the high yield fixed income portfolio:

High Yield Fixed Income Performance

For the periods ended June 30



	2006	2005	2004		3 yr	5 yr
IPERS' Portfolio*	4.40	9.30	8.57		7.40	8.38
Custom Benchmark	3.79	9.86	10.04		7.87	8.59

* Net of fees.

Fixed Income Portfolio—Top 10 Holdings

The top 10 holdings within the consolidated fixed income portfolio (core plus and high yield combined) at June 30, 2006, 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[1] at June 30, 2006	Fair Value	% of Total IPERS' Fixed Income Portfolio
FNMA TBA 30YR 5.00% 01JUL2036	$286,156,177	3.75
FNMA TBA 30YR 6.00% 01JUL2036	85,193,406	1.12
U.S. Treasury 4.875% 31MAY2008	84,125,359	1.10
U.S. Treasury 2.5% 30SEP2006	67,848,745	0.89
U.S. Treasury 4.5% 15FEB2016	65,177,102	0.86
U.S. Treasury 4.5% 15NOV2010	64,553,356	0.85
U.S. Treasury 4.375% 31JAN2008	52,064,683	0.68
FNMA TBA 30YR 6.50% 25JUL2034	51,469,867	0.68
U.S. Treasury 6.25% 15AUG2023	46,000,978	0.60
FNMA TBA 30YR 5.00% 01AUG2021	45,769,063	0.60

[1]Excludes all holdings in commingled fund accounts.

Private Equity/Debt

At June 30, 2006, IPERS' private equity/debt portfolio had a fair value of $1.550 billion, representing 7.60 percent of the total IPERS portfolio. From the inception of the private equity/debt portfolio in 1985 through June 30, 2006, the System has committed $4.225 billion to 167 partnerships. Of that total, $1.331 billion remains to be called for investment. During the fiscal year, IPERS committed $728 million to 21 new partnerships.

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

The long-term performance objective for the private equity/debt portfolio is to exceed the return of the Dow Jones 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 33.98 percent in fiscal year 2006 versus 13.31 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 14.33 percent versus its benchmark return of 13.58 percent for the ten-year period ended June 30, 2006. Since inception in 1985, the IPERS private equity/debt portfolio has returned 14.64 percent versus its benchmark return of 15.74 percent.

One drawback to comparing portfolio return against 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*[2] All Private Equity funds performance database includes data from 1,862 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 problem 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, i.e., how much of the investment performance has been realized.

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[1] The internal rate of return (IRR) 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.

[2] All *Venture Economics* information is as of October 2006, with data current for reporting periods ended June 30, 2006. Data is continuously updated and is therefore subject to change.

The table below compares the performance of IPERS' private equity/debt portfolio to the IRR and DPI of the *Venture Economics* database of private equity partnerships invested from 1985 through June 30, 2006.

	IRR	DPI
IPERS— Private Equity/Debt Portfolio	14.64%	1.22
Venture Economics— All Private Equity Funds	13.70%	0.93

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 20.54 percent since the firm was given full discretion to select partnerships on IPERS' behalf on January 1, 1993. This return compares favorably to the 10.29 percent IRR of the custom benchmark IPERS has established for the manager, the 12.44 percent IRR of IPERS' asset class benchmark for private equity (Wilshire 5000 + 300 bps) over the time period, and the pooled average IRR of 11.60 percent reported by *Venture Economics* for All Private Equity funds in its database for vintage years 1993 through 2006. The DPI of 0.86 for the manager's discretionary portfolio also compares favorably to *Venture Economics'* pooled average DPI of 0.77 for All Private Equity funds in its database for years 1993 through 2006.

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

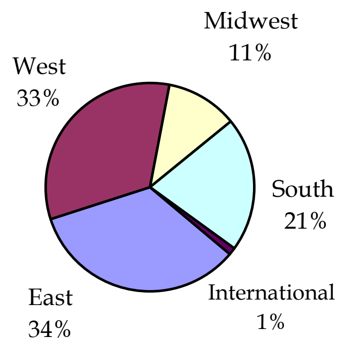
Real Estate

At June 30, 2006, $1.717 billion, or 8.4 percent, of IPERS' total portfolio at fair value was invested in various real estate properties, commingled funds, partnerships, and publicly traded real estate investment trusts (REITs). In order to mitigate risk, the real estate portfolio is diversified by both geographic location and property type, as shown in the following charts. The total net return for the real estate portfolio for the fiscal year was 19.36 percent, compared to 19.54 percent for the portfolio's benchmark (85 percent NCREIF NPI/15 percent Dow Jones Wilshire REIT + 0.25 percent). Operating income and property values were both positive in fiscal year 2006.

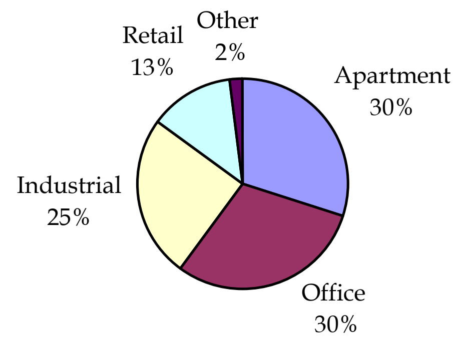
Real Estate Portfolio

June 30, 2006

By Property Location



By Property Type



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, 2006, the System held investments of $997,489,888 in Iowa-based companies as well as in stocks and bonds of companies with significant operations in the State of Iowa (as shown in the following table).

Asset Class	Iowa-Based Companies	Companies With Iowa Operations	Total Investment Amount
Equity	$11,975,669	$839,068,056	$851,043,725
Fixed Income	1,642,602	141,541,561	143,184,163
Private Equity/Debt	3,262,000	---	3,262,000
Total	$16,880,271	$980,609,617	$997,489,888

Schedule of Brokerage Commissions Paid

Year ended June 30, 2006

BROKERAGE FIRMS	Commissions Amount Paid[1]	Commissions Average Per Share	Commissions % of Total Paid for Period
Goldman Sachs & Co	$ 369,916	$0.0670	9.77
Citigroup Global Markets Inc	352,790	0.0311	9.31
Merrill Lynch Pierce Fenner & Smith	321,830	0.0094	8.50
UBS Securities LLC	273,894	0.0114	7.23
Credit Suisse First Boston	261,185	0.0209	6.90
Morgan Stanley & Co	247,970	0.0150	6.55
Bear Stearns Securities	225,207	0.0023	5.95
Lehman Brothers Inc New York	214,587	0.0389	5.67
JP Morgan Securities Inc	167,516	0.0113	4.42
Deutsche Banc Securities New York	122,688	0.0259	3.24
Banc/America Securities	110,193	0.0317	2.91
Sanford C Bernstein & Co LLC	70,751	0.0324	1.87
GGET LLC	63,540	0.0302	1.68
RBC Dominion Securities Corp	54,322	0.0463	1.43
Cantor Fitzgerald & Co Inc	45,538	0.0308	1.20
Wachovia Securities Capital Market	37,799	0.0492	1.00
Prudential Equity Group	37,578	0.0378	0.99
Stifel Nicholaus & Co Inc	37,333	0.0492	0.99
ABN AMRO Securities LLC	33,994	0.0136	0.90
Legg Mason Wood Walker Inc	26,789	0.0500	0.71
Calyon Securities	23,650	0.0021	0.62
Nomura International PLC London	20,731	0.0255	0.55
S G Cowen & Co LLC	20,459	0.0416	0.54
Jefferies & Company Inc	19,184	0.0319	0.51
Thomas Weisel Partners LLC	18,482	0.0418	0.49
All Others (Includes 123 brokers)	609,738	0.0009	16.07
Grand Total	$3,787,664	$0.0041	100.00 %

[1]In U.S. dollars.

Investment Policy and Goal Statement

The following excerpt from the Iowa Public Employees' Retirement System's Investment Policy & Goal Statement, as adopted by the IPERS Investment Board in September 2005, includes all Policy text, but excludes the addenda referenced in the Policy.

I. INTRODUCTION - IPERS' PURPOSE AND PRINCIPLES

The Iowa Public Employees' Retirement System (IPERS 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 activities are governed by an Investment Board, and the underlying principle which governs these activities is the "prudent person" rule. In the formulation of this investment policy and goal statement, a primary consideration of the Investment Board and staff has been their awareness of the stated purpose and investment principle. IPERS' investment activities are designed and executed in a manner that will fulfill these goals. The investment policy and the individual strategies will be periodically reviewed to ensure that they conform to §§ 97B.2 and 97B.7A.

The primary duties of the Investment Board (Board) are to establish policy, review its implementation, and approve the retention of service providers in matters relating to the investment of IPERS' assets and the actuarial evaluation of the System's assets and liabilities. The Investment Board shall be the trustee of the IPERS fund. 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 such other resources as are required in order to ensure the thorough oversight and administration of each investment program undertaken by the System.

II. INVESTMENT GOAL STATEMENT

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

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

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

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

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

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

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

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

III. INVESTMENT POLICY STATEMENT

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

A. Asset Allocation Policy

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

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

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

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

4. Historical returns and risks of the capital markets.

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

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

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

Domestic Equities	Long-term return
International Equities	Long-term return, diversification
Core Plus Fixed Income	Stable return relative to domestic equities, income
High Yield Bonds	Long-term return greater than core plus fixed income, diversification, income
Equity Real Estate	Diversification, income
Private Equity/Debt	Long-term return greater than public equities

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

	% of Portfolio at Market		
	Target	Minimum	Maximum
Equity Component			
Public Market			
Domestic Equities	28	23	33
International Equities	15	10	20
% Public	43	--	--
Private Market			
Equity Real Estate	8	6	10
Private Equity/Debt	10	7	13
% Private	18	--	--
% Equity	61	53	69
Fixed Income Component			
Core Plus Fixed Income	34	30	38
High Yield Bonds	5	3	7
% Fixed Income	39	33	45
Cash[1]	0	0	5
Total	100%		

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

B. Portfolio Component Definitions and Performance Expectations

IPERS will utilize the following portfolio components and performance expectations, net of investment management fees, to fulfill the asset allocation targets and total fund performance goals established elsewhere in this document. Where performance objectives are stated as expectations “over a full market cycle”, such cycles are defined as generally three to five years in length, although capital market conditions may on occasion result in significantly longer or shorter cycles.

1. Domestic Equities

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

a. Passive Equity - A highly diversified equity portfolio which is designed to emulate or index the equity market, experiences low turnover, and is fully invested in the market except during periods of rebalancing.

b. Active Equity - A diversified equity portfolio utilizing large, medium and/or small capitalization stocks with moderate to high turnover, and a cash position which typically does not exceed 5%. This portfolio may be divided into separate core, growth, value, and risk-controlled components for the purpose of management. Relevant performance benchmarks will be chosen for each component. Active domestic equity managers are expected to outperform their respective performance benchmarks by at least 100 basis points (1%), net of fees, over a full market cycle.

2. International Equities

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

a. Passive Equity - A highly diversified equity portfolio which is designed to emulate or index the international equity market or a portion thereof, experiences low turnover, and is fully invested in the market except during periods of rebalancing.

b. Active Equity - A diversified international equity portfolio, which may have up to 10% in cash, 10% in non-equity securities and 10% in convertible securities. The portfolio may be divided into separate regional components for the purpose of management. Relevant regional performance indexes will be chosen for each component. Active international equity managers are expected to outperform their respective performance benchmarks by at least 100 basis points (1%), net of fees, over a full market cycle.

c. Global Emerging Markets - A diversified portfolio consisting of cash and equity and non-equity securities of countries that are generally considered to be emerging or developing by international financial markets and institutions generally, including the World Bank and the International Monetary Fund. Active global emerging markets equity managers are expected to outperform their respective performance benchmarks by at least 100 basis points (1%), net of fees, over a full market cycle.

3. Core Plus Fixed Income

A diversified portfolio of fixed income strategies and investments with the objective of outperforming the Lehman Brothers U.S. Universal Index over a full market cycle. The portfolio will utilize passive and active investment strategies. Active core plus fixed income managers are expected to outperform their respective performance benchmarks by at least 50 basis points (0.50%), net of fees, over a full market cycle. The portfolio will consist of the following types of fixed-income investments: domestic and international bonds, government and government agency securities (including municipal and sovereign securities, if appropriate), bond index funds, corporate bonds, mortgage-backed and asset-backed securities, commercial mortgages and commercial mortgage-backed securities. Fixed income managers may utilize private placement structures, Derivatives, foreign exchange contracts, financial futures, currency options, Eurobonds, cash and cash equivalents in the management of their respective portfolios. International bonds are considered to be a sector of the core plus fixed income market. Fixed income managers pursuing active strategies will be permitted to make limited tactical investments in international bonds (including bonds issued in emerging markets) and high yield bonds.

4. High Yield Bonds

The System will have a strategic allocation to a diversified portfolio of high yield corporate bonds. The portfolio will emphasize investments in fixed income securities rated BB+ and below by S&P (or equivalent at another major rating agency). The use of Derivatives may be allowed. The objective of the portfolio is to outperform the Citigroup High-Yield Cash-Pay Capped Index by 100 basis points (1%), net of fees, annually over a full market cycle.

5. Equity Real Estate

A diversified portfolio of private real estate equity interests in the form of private market commingled real estate fund participations, separate accounts and co-investments, and publicly-traded investments in real estate operating companies, real estate investment trusts and limited partnerships. The annualized long term net of fees time weighted return objective for the real estate portfolio is to exceed a weighted benchmark consisting of 85% of the National Council of Real Estate Investment Fiduciaries' Property Index (NPI) and 15% of the Wilshire Real Estate Investment Trust Index (Wilshire REIT) by 25 basis points (.25%) over rolling five-year periods. (See Addendum C, Tab IV)

6. Private Equity/Debt

Participation in investment vehicles which finance early stage and later stage companies prior to going public, vehicles investing in leveraged buyouts and turn-arounds of existing companies, and other equity and debt oriented non-traditional investments. This portfolio may also include publicly traded securities received in distributions from private equity partnerships that are temporarily held pending liquidation. The rolling 10-year net of fees return objective for this component is to exceed the Dow Jones Wilshire 5000 Composite Index by 300 basis points (3%) on an internal rate of return basis. (See Addendum D, Tab V)

7. Cash

A portfolio comprised of the Custodian bank's Short Term Investment Fund (STIF). The net of fees return objective of the STIF is to exceed the rate of return of the Merrill Lynch 91-Day Treasury Bill Index, while preserving principal.

C. Investment Management Policy

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

1. Manager/Consultant Utilization and Selection

   The selection of the managers and consultants is accomplished in accordance with Iowa Executive Order Number 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 functions under a formal contract that delineates their responsibilities and the appropriate performance expectations. A formal set of investment guidelines and investment administrative requirements for each investment manager and consultant exists as an addendum to this document.

2. Manager/Consultant Discretion

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

D. Cash Management Policy

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

E. Currency Management Policy

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

1. Protect international asset values during periods of dollar strength.

2. Participate in currency returns during periods of dollar weakness.

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

F. Custody

The Treasurer of the State of Iowa is the custodian of the Fund. The Treasurer will hold the System's assets in a custody/record keeping account in a master custody bank located in a national money center and in the international sub-custodian banks under contract to the custodian bank. The 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 and is incorporated herein. (See Addendum E, Tab VI)

G. Securities Lending

The Investment Board may authorize the Treasurer to conduct a "Securities Lending Program" in accordance with Iowa Code § 12.8. A formal written agreement shall be established between the Treasurer of the State of Iowa and the lending agent(s) stipulating the terms of the program. The agreement(s) will be reviewed with the Investment Board and staff and will be incorporated herein. (See Addendum F, Tab VII) 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 Dollar Policy

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

All rebates or credits from commissions paid by the System's investment managers to the commission recapture brokers will be realized in cash and 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 manager's expenditure of soft dollar credits to ensure an appropriate relationship to the management of their IPERS accounts.

J. Derivatives Policy

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. 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 the Derivatives 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 U.K., 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 levering 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, 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 non-exchange 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 couter-party, 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 non-exchange 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 non-exchange 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% 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% 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 limitation of this paragraph apply only to the net exposure attributable to non-exchange 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.

K. Social Investing

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

The Investment Board shall adopt a policy concerning the System's involvement in and monitoring of securities litigation. (See Addendum I, Tab X.)

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. Code of Ethics

The Investment Board shall adopt a Code of Ethics to govern the activities of members of the Board, staff, consultants and managers as it relates to the System. (See Addendum J, Tab XI)

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, 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 non-voting 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 the asset allocation policy targets and portfolio component definitions.

2. The Board shall review the specific types and proportions of assets being utilized in implementing the overall policy, as established by the staff (e.g., the proportion of mortgage bonds within the Core Plus Fixed Income portfolio).

3. The Board shall periodically review the cash allocation schedule as implemented by the staff, whereby available funds are channeled to specific investment portfolios and managers.

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. The Board shall annually review the general provisions of the System's investment management contracts.

7. 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.

8. 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.

9. 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.

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Actuarial

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Consultants and Actuaries

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November 17, 2006

We have performed an actuarial valuation of the Iowa Public Employees' Retirement System (System) as of June 30, 2006. An actuarial valuation is prepared annually in accordance with Iowa Code § 97B.4(4)(d) using the actuarial assumptions adopted by the System and reflecting the applicable statutory laws in effect at that date. The primary purposes for performing the valuation are:

- to 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 rate for the Special Service Groups.
- to evaluate the funded status of the System and disclose various asset and liability measures as of the valuation date.
- to determine the experience of the System since the last valuation.
- to analyze and report on trends in System contributions, assets, and liabilities over the past several years.

The benefit provisions and actuarial methods reflected in this report are unchanged from last year's report. The assumptions used in this valuation have changed from those used last year. Based on the results of the 2001 - 2005 Experience Study and our recommendations, the Investment Board adopted a new set of actuarial assumptions in June, 2006. The changes in the actuarial assumptions are listed below:

- Change to a service based only salary scale.
- Decrease in the assumed interest rate credited on contributions from 4.25% to 4.00%.
- Lower the inflation assumption from 3.50% to 3.25%.
- Lower disability rates for Special Service Groups.

The statutory contribution rate for regular members has been 9.45% (3.70% for members and 5.75% for employers) since 1979. The prior four actuarial valuation reports have indicated that the current statutory contribution rate of 9.45% was not adequate to meet IPERS Funding Policy of amortizing the unfunded actuarial liability within 30 years. The 2006 Legislature passed House File 729 (HF729) which contains several provisions of importance to IPERS:

1) Provides for an increase in the statutory contribution rate of 0.50% per year for four years commencing on July 1, 2007. The increase each year is shared 40% by the members and 60% by the employers. By July 1, 2010, the statutory contribution rate will have reached 11.45% of pay. For purposes of analyzing the long term funding of the System, this increase in contribution rate is reflected. However, for purposes of reporting under Governmental Accounting Standards, future increases in the contribution rate are not reflected.

2) Provides that no transfer may be made to the Favorable Experience Dividend unless the System is fully funded and would remain so after the transfer.

3) Provides that there may be no increase in benefits until after the System is fully funded and it must continue to be fully funded after the benefit change. An increase in benefits may be enacted if such increase is accompanied by an increase in the contribution rate necessary to support the benefit enhancement.

Passage of this legislation will begin to address the problem of meeting the IPERS Funding Policy; however, it is not clear based on this valuation snapshot if this will prove to be enough. We will continue to monitor the situation over the coming years to see what happens.

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The actuarial valuation results provide a "snapshot" view of the System's financial condition on June 30, 2006. 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 actuarial assumptions. The UAL on June 30, 2006 for all membership groups covered by IPERS (Regular members and Special Service Groups) is $2.507 billion as compared to an expected UAL of $2.500 billion. The unfavorable experience was the sum of an experience gain of $235 million on the actuarial value of assets and an experience loss of $242 million on System liabilities.

The summary of the 2006 valuation results are shown below:

Contribution Rate for FY08			
	Regular Membership	Special Service Group 1*	Special Service Group 2**
1. Normal Cost	9.05%	14.93%	14.92%
2. Amortization of UAL over 30 years	2.46%	0.47%	(0.81%)
3. Total Contribution	11.51%	15.40%	14.11%
4. Member Contribution	(3.90%)	(7.70%)	(5.64%)
5. Employer Contribution (3) - (4)	7.61%	7.70%	8.47%
6. Statutory/Expected Contribution	(6.05%)	(7.70%)	(8.47%)
7. Shortfall	1.56%	0.00%	0.00%
8. Years to Amortize (Based on (6))	Infinite	30	30
9. Unfunded Actuarial Liability ($M)	$2,529	7	(29)
10. Funded Ratio	87.8%	97.9%	104.9%

* 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. Based on this methodology, there was an actuarial gain on assets. Between June 30, 2005 and June 30, 2006, the actuarial value of assets increased by $1.2 billion. This represented an approximate rate of return of 8.8% as compared to the actuarial assumed rate of 7.5%. The resulting actuarial gain was $235 million.

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, 2006 below:

($Millions)	**Regular Membership**	**Special Service 1**	**Special Service 2**	**Total**
Actuarial Liability	$20,738	$320	$593	$21,651
Actuarial Value of Assets	18,209	313	622	19,144
Unfunded Actuarial Liability	2,529	7	(29)	2,507

Actuarial gains (losses) result from actual experience that is more (less) favorable than anticipated based on the actuarial assumptions. These "experience" (or actuarial) gains or losses are reflected in the UAL and are measured as the difference between the expected unfunded actuarial liability and the actual unfunded actuarial liability, taking into account any changes due to assumption or benefit provision changes. Overall, the System experienced a net actuarial loss of $7 million.

Experience

Numerous factors contributed to the change in the Systems' assets, liabilities and remaining amortization period for the unfunded actuarial liability between June 30, 2005 and June 30, 2006. The components are examined in the following discussion.

Actuarial gains (or losses) result from actual experience that is more (or less) favorable than anticipated based on the actuarial assumptions. These "experience" (or actuarial) gains or losses are reflected in the UAL and are measured as the difference between the expected unfunded actuarial liability and the actual unfunded actuarial liability, taking into account any changes due to assumption or benefit provision changes. The change in the unfunded actuarial liability between June 30, 2005 and 2006 is shown below (in millions):

Unfunded Actuarial Liability, June 30, 2005	$ 2,289
• Expected change in UAL due to amortization method	22
• Expected change in UAL due to contributions below actuarial rate	125
• Investment (gain)/loss	(235)
• Liability (gain)/loss from actual experience	242
• Benefit enhancements	0
• Change in actuarial assumptions	64
Unfunded Actuarial Liability before FED transfer, June 30, 2006	$ 2,507
• FED Transfer	0
Unfunded Actuarial Liability after FED transfer, June 30, 2006	$ 2,507

Contribution Rate

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

- a "normal cost" for the portion of the projected liabilities allocated by the actuarial costs 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.

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The normal cost rate represents the portion of the ultimate cost of benefits to be received which is allocated to the current year of service worked by active members. Although the entry age cost method develops a normal cost rate that is expected to be relatively level, it will fluctuate from year to year depending on the demographic composition of the active members. Recent experience indicates that the average age of new entrants coming into the System is older than the average entry age of the current membership, and we have seen the normal cost rate increase in past valuations. Again this year the average entry age for active regular members increased (from 34.0 in the 2005 valuation to 34.1 in the 2006 valuation). Absent the impact of the assumption changes, the normal cost rate increased from 9.12% to 9.18%. Due to the assumption changes, the final normal cost rate is 9.05%. With the normal cost rate at its current level, only a small part of the total contribution rate is available to fund the UAL. If future investment returns on the market value of System assets meet the actuarial assumed rate of 7.5% and the future increases in the statutory contribution rate for regular members are factored into the projections, higher contributions are available to fund the UAL. Consequently, within the next 10 years, the amortization period may decline to below 30 years, assuming all assumptions are met (including 7.5% on market value) and that benefits remain unchanged. These projections are preliminary and subject to change.

This valuation sets the contribution rates effective July 1, 2007 for the year ending June 30, 2008. Most IPERS members (regular members who represent 96% of total active members) have contributed 3.7% of pay and employers have contributed 5.75%, for a total of 9.45%. Commencing July 1, 2007 the total contribution rate for regular members will increase 0.50% per year for four years to a total of 11.45%. The increase will be shared 40% by the members and 60% by employers. Therefore, the statutory contribution rate for FY08 is 9.95%, which are the numbers shown in the table below. The remaining 4% of the active members, the Special Service Groups, contribute at an actuarially determined rate that changes each year.

The contribution rates are summarized in the following table:

Contribution Rate	Regular Membership	Special Service 1	Special Service 2
Total Actuarial Contribution Rate	11.51%	15.40%	14.11%
Member Contribution Rate	(3.90%)	(7.70%)	(5.64%)
Employer Contribution Rate	7.61%	7.70%	8.47%
Employer Statutory Contribution Rate	(6.05%)	(7.70%)	(8.47%)
Shortfall	1.56%	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".

Based on the current UAL amount and amortization payment for FY08, the amortization period is infinite. In order for the System to be "fully funded" in the current valuation (the amortization period to be 30 years), the resulting contribution rate would need to increase by 1.56% to 11.51% of payroll. This rate is determined based on the snapshot of the System taken on the valuation date, June 30, 2006, and applies only for the fiscal year beginning July 1, 2007. 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 other experience (both investment and demographic) impacts the System.

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Summary

The funded status of the System remains nearly 90%. 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 contribution rate would be 11.51% of payroll, as compared to the statutory contribution rate of 9.95%. This rate is determined based on the snapshot of the System taken on the valuation date, June 30, 2006, and applies only for the fiscal year beginning July 1, 2007. 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.

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. This change makes a significant improvement to the long term funding of the System by creating a larger contribution amount to be used to pay off the unfunded actuarial liability. In addition, continued favorable investment experience resulted in an actuarial gain on assets for the year and the differential between the market and actuarial value of assets increased. If the market value of the System's assets earns the actuarial assumed rate of 7.5% each year in the future and all other actuarial assumptions are met, the 11.45% appears to be sufficient to lower the "years to amortize" to below 30 in the next ten years. These estimates are based on the June 30, 2005 valuation model using adjustments for the June 30, 2006 assets and liability amounts.

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 report 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 2006 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 2006 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 2006 actuarial valuation report. Accordingly, additional determinations may be needed for other purposes.

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In conclusion, on the following page we present comparative statistics and actuarial information on both the June 30, 2006 and June 30, 2005 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.

Respectfully Submitted,

Milliman, Inc.

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.

Patrice Beckham

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

OFFICES IN PRINCIPAL CITIES WORLDWIDE

PRINCIPAL VALUATION RESULTS

	June 30, 2006	June 30, 2005	% Chg
SYSTEM MEMBERSHIP			
1. Active Membership			
- Number of Members			
(excluding Retired/Reemployed)	163,052	160,876	1.4
- Projected Payroll for Upcoming Fiscal Year	$5,784M	$5,480M	5.5
- Average Salary	$35,475	$34,066	4.1
2. Inactive Membership			
- Number Not in Pay Status	61,731	65,482	(5.7)
- Number of Retirees/Beneficiaries	82,037	79,419	3.3
- Average Annual Benefit	$10,818	$10,215	5.9
ASSETS AND LIABILITIES			
1. Net Assets (excluding FED reserve)			
- Market Value	$19,848M	$18,224M	8.9
- Actuarial Value	19,144M	17,951M	6.6
2. Projected Liabilities			
- Retired Members	$8,449M	$7,841M	7.8
- Inactive Members	460M	456M	0.9
- Active Members	17,181M	16,277M	5.6
- Total Liability	26,090M	24,574M	6.2
3. Actuarial Liability	$21,651M	$20,240M	7.0
4. Unfunded Actuarial Liability	$2,507M	$2,289M	9.5
5. Funded Ratio			
(Actuarial Value Assets/Actuarial Liability)	88.42%	88.69%	(0.3)
SYSTEM CONTRIBUTIONS			
Statutory Contribution Rate*	9.95%	9.45%	5.3
Years Required to Amortize Unfunded Actuarial Liability	Infinite	Infinite	N/A
Total Actuarial Contribution Rate	11.51%	11.49%	0.2
Member Contribution Rate	3.90%	3.70%	5.4
Employer Contribution Rate	7.61%	7.79%	(2.3)

M = ($)Millions

* Contribution for certain Special Service Groups (4% of the membership) are not fixed by statute but are actuarially determined each year. The June 30, 2006 valuation is performed for the purpose of determining actuarial contribution rates effective July 1, 2007, and legislation has fixed the statutory rate on that date for regular members at 0.50% above the current rate, or 9.95%.

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ACTUARIAL BALANCE SHEET
JUNE 30, 2006

	Regular Membership	Special Service Group 1*	Special Service Group 2**	Total
ASSETS				
Actuarial value of assets	$18,209,048,069	$312,911,423	$622,077,027	$19,144,036,519
Present value of future normal costs	4,092,472,748	96,993,548	249,399,621	4,438,865,917
Present value of future contributions to amortize unfunded actuarial liability	2,529,243,218	6,811,633	(28,968,951)	2,507,085,900
Total Net Assets	$24,830,764,035	$416,716,604	$842,507,697	$26,089,988,336
LIABILITIES				
Present Value of Future Benefits:				
Retired Members and Beneficiaries	$8,220,573,243	$86,780,625	$141,592,836	$8,448,946,704
Active Members	16,172,031,930	322,248,373	686,993,423	17,181,273,726
Inactive Members	438,158,862	7,687,606	13,921,438	459,767,906
Total Liabilities	$24,830,764,035	$416,716,604	$842,507,697	$26,089,988,336

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

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SOLVENCY TEST

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

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)
2006	$3,027,543,237	$8,448,946,704	$7,947,450,506	$19,144,036,519	100%	100%	96%
2005	2,891,029,224	7,841,276,253	7,413,449,564	17,951,490,071	100%	100%	97%
2004	2,806,441,058	7,255,282,305	7,023,404,900	16,951,942,539	100%	100%	98%
2003	2,717,148,747	6,713,971,820	6,543,779,001	16,120,476,011	100%	100%	100%
2002	2,626,787,528	6,207,351,544	6,085,044,806	15,613,114,009	100%	100%	100%
2001	2,519,313,788	5,448,405,616	5,782,943,236	15,112,424,729	100%	100%	100%
2000	2,382,209,851	4,906,082,319	5,335,750,045	14,145,141,535	100%	100%	100%
1999	2,155,591,553	4,414,919,917	4,820,813,078	12,664,031,437	100%	100%	100%
1998	2,012,398,849	3,866,369,340	4,448,899,695	11,352,674,142	100%	100%	100%
1997	1,933,363,854	3,366,088,472	4,027,315,316	10,112,976,077	100%	100%	100%

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RETIREES AND BENEFICIARIES – CHANGES IN ROLLS

Schedule of Retirees Added to and Removed from Rolls

	Added to Rolls		Removed from Rolls		Rolls at Year-End		Percentage	
Year ended	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances	Increase in Annual Allowances	Average Annual Allowances
2001	4,228	$69,202,547	2,399	$6,740,637	66,173	$580,953,064	15.33	$ 8,779
2002	5,499	77,518,069	2,693	8,820,223	68,979	649,650,910	11.83	9,418
2003	4,712	44,713,938	2,255	8,570,379	71,436	685,794,469	5.56	9,600
2004	4,943	62,470,578	2,531	8,627,012	73,848	739,638,035	7.85	10,016
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

Schedule of Beneficiaries Added to and Removed from Rolls

	Added to Rolls		Removed from Rolls		Rolls at Year-End		Percentage	
Year ended	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances	Increase in Annual Allowances	Average Annual Allowances
2001	303	$1,519,881	110	$283,515	2,530	$16,893,833	11.53	$6,677
2002	351	2,730,326	145	317,791	2,736	19,306,368	14.28	7,056
2003	351	1,751,698	187	631,929	2,900	20,426,137	5.80	7,043
2004	398	3,053,995	185	563,755	3,113	22,916,377	12.19	7,362
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

ACTUARIAL ASSUMPTIONS AND METHODS

ECONOMIC ASSUMPTIONS:

Rate of Inflation (effective June 30, 2006)

3.25% per annum

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

4.00% per annum, compounded annually

Rate of Investment Return (effective June 30, 1996)

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

Wage Growth Assumption (effective June 30, 1999)*

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

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

Payroll Increase Assumption (effective June 30, 1999)

4.00% per year

DEMOGRAPHIC ASSUMPTIONS:

Rates of Mortality (effective June 30, 2002)

		Regular Membership	Special Service Groups
Males:	Retirees:	RP-2000 Healthy Annuitant Table, Set Forward One Year	RP-2000 Healthy Annuitant Table, Set Forward Three Years
	Actives:	RP-2000 Employee Table, Set Forward One Year	RP-2000 Employee Table, Set Forward Three Years
Females:	Retirees:	RP-2000 Healthy Annuitant Table, Set Back Two Years	RP-2000 Healthy Annuitant Table, No Age Adjustment
	Actives:	RP-2000 Employee Table, Set Back Two Years	RP-2000 Employee Table, No Age Adjustment
	The RP-2000 Tables are used with generational mortality		
Beneficiaries:	Same as members		Same as members
Disabled Members:	Annual rates are the greater of 3% or 2.5% plus the corresponding non-disabled rate (based on GAM 94 for males, 95% of GAM 94 for females)		Same as healthy members, set forward six years

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

Retirement Rates (effective June 30, 2002)

Upon meeting the requirements for early retirement, the following rates apply to regular members:

Age	Assumed Retirement Rate (%)
55-59	5
60	10
61	15
62	25
63-64	20

Upon reaching the requirements for normal retirement, the following rates apply:

	Assumed Retirement Rates		
Age	1st Year Eligible	After 1st Year	Special Service Groups
55	20%	10%	15%
56	20%	10%	10%
57-59	20%	20%	10%
60	25%	25%	10%
61	35%	30%	20%
62	50%	40%	35%
63	35%	30%	20%
64	35%	35%	35%
65	30%	45%	100%
66	20%	20%	100%
67-68	15%	15%	100%
69	15%	35%	100%
70+	100%	100%	100%

Special Service Group 1 ages 50 to 55 with 22 years of service: 30%

Terminated vested members are assumed to retire at age 62 (55 for Special Service Groups).
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, 1999 for Regular Membership),
(effective June 30, 2006 for Special Service Groups)

	Annual Rate Per 1,000 Members		
Age	Males	Females	Special Service Groups
27	0.2	0.2	1.1
32	0.2	0.2	1.2
37	0.4	0.3	1.8
42	0.7	0.5	3.5
47	1.4	0.9	6.5
52	3.3	2.2	14.6
57	6.3	3.9	26.0
62	9.0	6.2	48.7

Rates of Termination of Employment (effective June 30, 2002)

Regular Membership

	Annual Rate of Withdrawals Per 1,000 Members					
Males:						
Age	**Years 0-1**	**Year 2**	**Year 3**	**Years 4-6**	**Years 7-8**	**Years 9+**
22	330.0	250.0	165.0	165.0	110.0	66.0
27	231.0	145.0	121.0	99.0	88.0	66.0
32	198.0	145.0	110.0	74.8	55.0	38.5
37	195.8	140.0	110.0	74.8	49.5	33.0
42	195.8	140.0	110.0	74.8	49.5	25.3
47	195.8	130.0	99.0	74.8	49.5	19.8
52	176.0	110.0	77.0	74.8	49.5	19.8
55+	165.0	110.0	55.0	74.8	49.5	19.8
Females:						
Age	**Years 0-1**	**Year 2**	**Year 3**	**Years 4-6**	**Years 7-8**	**Years 9+**
22	330.0	250.0	220.0	220.0	165.0	55.0
27	275.0	170.0	140.0	110.0	99.0	55.0
32	247.5	170.0	140.0	104.5	71.5	49.5
37	198.0	150.0	110.0	104.5	66.0	36.3
42	198.0	150.0	110.0	88.0	60.5	30.8
47	198.0	130.0	110.0	82.5	49.5	25.3
52	198.0	130.0	110.0	82.5	49.5	25.3
55+	198.0	130.0	110.0	82.5	49.5	25.3

Special Service Groups

Age	Annual Rate of Withdrawals Per 1,000 Members
22	90
27	70
32	35
37	35
42	35
47	35
52	30

Probability of Electing a Vested Benefit (effective June 30, 2002)

Years of Service	**Regular Membership**		**Special Service Groups**
	Males	Females	
5	61%	70%	53%
10	66%	73%	65%
15	71%	80%	85%
20	76%	85%	95%
25	80%	90%	100%
30	80%	90%	100%

Rates of Salary Increase* (effective June 30, 2006)

Years of Service	Annual Increase	Years of Service	Annual Increase	Years of Service	Annual Increase
		11	5.3%	22	4.5%
Under 2	12.0%	12	5.2%	23	4.4%
2	9.5%	13	5.1%	24	4.4%
3	7.7%	14	5.0%	25	4.4%
4	7.1%	15	4.9%	26	4.3%
5	6.6%	16	4.8%	27	4.3%
6	6.1%	17	4.7%	28	4.2%
7	5.9%	18	4.6%	29	4.1%
8	5.7%	19	4.6%	30	4.0%
9	5.5%	20	4.5%	Over 30	4.0%
10	5.4%	21	4.5%		

*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.

ACTUARIAL VALUE OF ASSETS SMOOTHING METHOD

The market value of assets, representing a "cash-out" 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 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.

IPERS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Statistical Overview

Membership Summary

Growth of Net Investment Portfolio Assets

Fiscal Year Investment Returns 1982–2006

Statistical

Statistical Overview

Implementation of New Accounting Pronouncement

IPERS has implemented GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*. This statement is effective for statistical sections prepared for periods beginning after June 15, 2005, and it is intended to improve consistency and comparability in financial reporting for all governmental entities, as well as to provide clearer guidance for Statistical section reporting. The objective of this pronouncement is to provide additional detail and historic context to enable a financial statement user to better assess and understand the system's financial condition. As a result, many of the tables have been expanded to provide ten years of trend information and additional information has been included regarding principal employers and the number of their employees.

IPERS has reviewed GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (OPEB). IPERS does not have any OPEB liabilities to report and expects none going forward. Tables related to types of refunds have not been included in the Statistical section because IPERS only pays one type of refund.

Data Sources

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

Methods

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

Assumptions

Active members are defined as those with reported wages in the last quarter of the fiscal year.

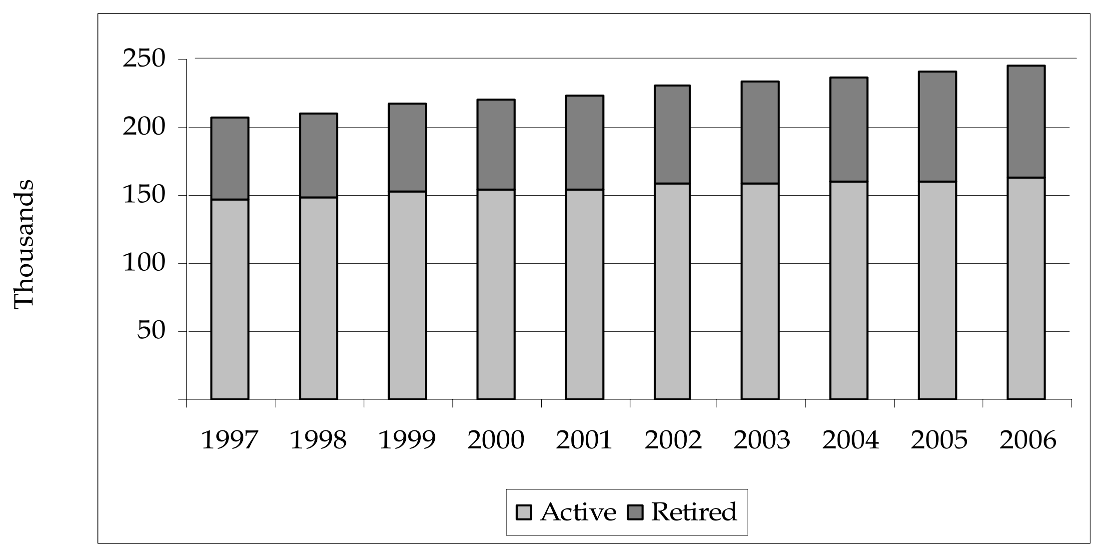
Retired members and beneficiaries are those who were paid benefits in the last month of the fiscal year.

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
1997	59,900	147,736	$2,324,514,873	$377,650,932	$12,356,344,733	$11,533,968,923
1998	62,106	148,917	2,590,045,940	431,115,031	14,882,880,303	13,692,899,832
1999	64,275	152,991	2,118,491,246	485,815,069	16,572,854,855	15,325,576,009
2000	66,681	154,612	2,419,877,009	605,221,828	18,358,625,668	17,140,231,190
2001	68,703	154,610	(538,086,303)	673,597,721	16,854,676,024	15,928,547,166
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

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**

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

Average Benefit Payments for Retirees*
Fiscal years ended June 30

	Years of Credited Service							
Retirement Date	0-5	6-10	11-15	16-20	21-25	26-30	>30	Total
1997								
Number of Retirees	†	12,254	10,600	10,317	8,323	5,892	12,514	59,900
Average Monthly Benefit	†	$116	$268	$391	$554	$776	$1,009	$503
Average Final Average Salary	§	§	§	§	§	§	§	§
Average Years of Service	†	7.54	13.39	18.33	23.24	28.13	35.04	20.38
1998								
Number of Retirees	†	12,477	10,734	10,531	8,609	6,327	13,428	62,106
Average Monthly Benefit	†	$122	$276	$408	$581	$840	$1,113	$548
Average Final Average Salary	§	§	§	§	§	§	§	§
Average Years of Service	†	7.51	13.39	18.34	23.23	28.15	34.92	20.57
1999								
Number of Retirees	†	12,820	10,880	10,733	8,910	6,681	14,251	64,275
Average Monthly Benefit	†	$132	$301	$445	$633	$929	$1,232	$609
Average Final Average Salary	†	$549	$899	$1,187	$1,541	$2,033	$2,534	$1,443
Average Years of Service	†	7.47	13.38	18.35	23.25	28.17	34.82	20.69
2000								
Number of Retirees	†	13,001	11,049	10,941	9,305	7,037	15,303	66,636
Average Monthly Benefit	†	$134	$308	$461	$662	$979	$1,325	$652
Average Final Average Salary	†	$608	$959	$1,253	$1,612	$2,123	$2,664	$1,543
Average Years of Service	†	7.52	13.36	18.33	23.22	28.13	34.67	20.87
2001								
Number of Retirees	†	13,317	11,201	11,057	9,654	7,422	16,014	68,665
Average Monthly Benefit	†	$138	$318	$479	$696	$1,029	$1,402	$692
Average Final 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 Final 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

(Continued on page 119)

*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 136).
†Previously included in the 6-10 Years of Credited Service group.
‡Does not include retirees under the Iowa Old-Age and Survivors' Insurance System.
§Data not available.

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
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 Final 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 Final 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 Final Average Salary	$911	$939	$1,211	$1,525	$1,868	$2,391	$3,041	$1,899
Average Years of Service	4.45	8.48	13.35	18.38	23.28	28.19	34.41	21.42
2006‡								
Number of Retirees	4,355	11,428	12,003	12,083	11,288	9,658	21,378	82,193
Average Monthly Benefit	$92	$185	$360	$573	$858	$1,297	$1,832	$914
Average Final 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

*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 136).

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

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

§Data not available.

New Retirees by Employer Group
Fiscal years ended June 30

Fiscal Year	City	County	School	State	Utility	28 E Agency	Township & Cemetery	Other	Total
1997									
Number of Retirees	489	539	2,006	667	*	*	*	119	3,820
Avg. Monthly Benefit	$684	$639	$1,049	$1,031				$853	$935
Avg. Years of Service	19.21	18.24	24.66	22.88				19.82	22.60
1998									
Number of Retirees	431	601	2,002	635	*	*	*	469	4,138
Avg. Monthly Benefit	$667	$638	$891	$875				$408	$774
Avg. Years of Service	19.18	19.37	24.15	21.38				15.21	21.50
1999									
Number of Retirees	401	611	2,193	621	*	*	*	158	3,984
Avg. Monthly Benefit	$789	$787	$1,184	$1,146				$1,054	$1,072
Avg. Years of Service	18.86	19.54	24.14	21.92				21.00	22.42
2000									
Number of Retirees	513	654	2,607	659	*	*	*	208	4,641
Avg. Monthly Benefit	$714	$745	$1,236	$1,180				$998	$1,091
Avg. Years of Service	17.53	18.29	24.38	21.75				19.28	22.16
2001									
Number of Retirees	486	689	2,177	660	*	*	*	216	4,228
Avg. Monthly Benefit	$767	$806	$1,181	$1,232				$1,133	$1,078
Avg. 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
Avg. Monthly Benefit	$911	$884	$1,504	$1,626	$1,709	$1,385	$453	$409	$1,393
Avg. 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
Avg. Monthly Benefit	$801	$830	$1,278	$1,266	$1,426	$1,178	$62	$---	$1,148
Avg. 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
Avg. Monthly Benefit	$926	$809	$1,318	$1,248	$1,207	$1,064	$---	$---	$1,178
Avg. 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
Avg. Monthly Benefit	$998	$1,031	1,335	$1,560	$1,699	$1,282	$---	$---	$1,283
Avg. 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
Avg. Monthly Benefit	$1,051	$1,057	1,445	$1,463	$1,160	$633	$1,985	$465	$1,328
Avg. Years of Service	19.32	19.14	23.33	21.04	19.26	13.84	29.50	11.22	21.78

*Amount included in column entitled Other.

Average Benefit Payments by Retirement Date For retirees as of June 30, 2006								
	Years of Credited Service							
Retirement Date	0-5	6-10	11-15	16-20	21-25	26-30	>30	Total
Prior to 1/1/76:								
Number of Retirees	29	197	180	157	89	62	167	881
Average Monthly Benefit	$64	$126	$275	$341	$413	$486	$547	$327
Average Years of Service	5.22	8.50	13.32	18.07	22.83	28.13	38.58	19.61
Between 1/1/76 and 6/30/82:								
Number of Retirees	230	740	879	696	593	429	680	4,247
Average Monthly Benefit	$54	$126	$286	$368	$462	$611	$717	$385
Average Years of Service	4.69	8.55	13.27	18.43	23.09	27.97	35.62	19.26
Between 7/1/82 and 6/30/86:								
Number of Retirees	261	910	1,055	1,085	780	689	1,013	5,793
Average Monthly Benefit	$59	$152	$302	$422	$567	$754	$903	$485
Average Years of Service	4.55	8.55	13.47	18.28	23.22	28.27	34.57	19.96
Between 7/1/86 and 6/30/90:								
Number of Retirees	297	1,255	1,519	1,659	1,300	876	2,023	8,929
Average Monthly Benefit	$75	$156	$303	$433	$602	$787	$1,005	$549
Average Years of Service	4.58	8.61	13.41	18.32	23.17	28.02	33.92	20.85
Between 7/1/90 and 6/30/96:								
Number of Retirees	759	2,171	2,685	2,916	2,741	2,009	4,306	17,587
Average Monthly Benefit	$75	$163	$305	$479	$694	$1,003	$1,301	$690
Average Years of Service	4.43	8.53	13.42	18.36	23.31	28.15	34.46	21.62
Between 7/1/96 and 6/30/00:								
Number of Retirees	802	2,190	2,202	2,166	2,251	1,983	4,916	16,510
Average Monthly Benefit	$81	$185	$370	$611	$886	$1,378	$1,941	$1,022
Average Years of Service	4.52	8.48	13.23	18.47	23.29	28.33	34.53	22.39
Between 7/1/00 and 6/30/06:								
Number of Retirees	1,977	3,965	3,483	3,404	3,534	3,610	8,273	28,246
Average Monthly Benefit	$115	$228	$463	$799	$1,202	$1,739	$2,477	$1,292
Average Years of Service	4.39	8.37	13.30	18.44	23.34	28.22	34.10	21.86
Total as of June 30, 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 Years of Service	4.47	8.47	13.34	18.39	23.28	28.20	34.36	21.51
IOASI Retirees*	N/A	N/A	N/A	N/A	N/A	N/A	N/A	11
Average Monthly Benefit	N/A	N/A	N/A	N/A	N/A	N/A	N/A	$104

*Recipients receiving benefits calculated under the Iowa Old-Age and Survivors' Insurance System (IOASI), the predecessor to IPERS.

Schedule of Benefit Payments by Type of Benefit*

Fiscal years ended June 30

Fiscal Year	Number of Retirees	Normal Retirement for Age and Service	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

*Trend data is being accumulated for a 10-year period. This table does not include lump-sum payments.
†Previously the 2003 number only reported normal survivor payments. This number has been revised to include early and disability retirement payments.

Schedule of Retired Members by Type of Benefit

As of June 30, 2006

Amount of Monthly Benefit	No. of Retirees	Normal Retirement for Age and Service	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)
$ 1–200	15,457	9,023	5,210	692	504	28	---	---
201–400	16,529	10,799	4,238	846	630	16	---	---
401–600	9,913	5,964	2,893	558	479	19	---	---
601–800	7,110	4,258	2,024	425	380	23	---	---
801–1,000	6,203	4,162	1,425	311	298	7	---	---
1,001–1,200	4,422	2,977	1,056	149	233	7	---	---
1,201–1,400	3,480	2,357	839	133	136	11	1	3
1,401–1,600	3,267	2,325	696	114	110	14	2	6
1,601–1,800	2,731	2,209	385	60	66	3	4	4
1,801–2,000	2,754	2,372	257	60	51	5	7	2
Over 2,000	10,338	9,455	711	89	64	11	8	---
Totals	82,204	55,901	19,734	3,437	2,951	144	22	15

Retired Members by Benefit Option*
As of June 30, 2006

Amount of Monthly Benefit	Number of Retirees	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Misc.†
$ 1–200	15,457	5,575	3,071	2,618	1,536	2,310	315	32
201–400	16,529	6,803	3,355	1,805	2,061	2,193	298	14
401–600	9,913	3,602	2,124	1,044	1,688	1,200	255	---
601–800	7,110	2,447	1,517	656	1,458	761	271	---
801–1,000	6,203	1,917	1,400	573	1,439	630	244	---
1,001–1,200	4,422	1,221	1,045	439	988	443	286	---
1,201–1,400	3,480	915	715	290	933	354	273	---
1,401–1,600	3,267	789	688	293	830	395	272	---
1,601–1,800	2,731	640	505	249	692	349	296	---
1,801–2,000	2,754	559	487	285	671	390	362	---
Over 2,000	10,338	1,920	1,863	1,428	1,612	1,502	2,013	---
Totals	82,204	26,388	16,770	9,680	13,908	10,527	4,885	46

*See definitions of benefit options on pages 137.
†Consists of benefits available under previous laws.

Principal Participating Employers

Fiscal years ended June 30

Participating Employer	Covered Employees (2006)	Rank	Percentage of Total System
State of Iowa Centralized Payroll	18,675	1	11.45
Des Moines Independent Community School District (CSD)	4,485	2	2.75
Cedar Rapids CSD	3,035	3	1.86
Iowa Department of Transportation	3,028	4	1.86
Davenport CSD	2,478	5	1.52
Sioux City CSD	1,909	6	1.17
Dubuque CSD	1,858	7	1.14
Iowa City CSD	1,665	8	1.02
Waterloo CSD	1,552	9	0.95
City of Des Moines	1,388	10	0.85
All other employers[1]	123,018		75.43
Total (2,363 employers)	**163,091**		**100.00**

Participating Employer	Covered Employees (1997)	Rank	Percentage of Total System
State of Iowa Centralized Payroll	17,783	1	12.04
Des Moines Independent CSD	4,089	2	2.77
Iowa Department of Transportation	3,542	3	2.39
Cedar Rapids CSD	2,832	4	1.92
Davenport CSD	2,591	5	1.75
Sioux City CSD	1,890	6	1.28
City of Des Moines	1,473	7	1.00
Dubuque CSD	1,471	8	1.00
Iowa City CSD	1,322	9	0.89
West Des Moines CSD	1,315	10	0.89
All other employers	109,428		74.07
Total (2,392 employers)	**147,736**		**100.00**

[1]All other employers for FY2006

Type	Number	Employees
City	1251	21,846
County	443	25,399
School	394	67,618
State	24	3,232
28E Agencies	60	1,772
Utilities	135	1,652
Other	46	1,499
Total	**2,353**	**123,018**

Active Membership Statistics
Fiscal years ended June 30

Fiscal Year	Total Actives	Percent Change	Average Covered Wage	Average Age (Years)	Average Service Credit (Years)
1997	147,736	0.2	$26,055	44.6	11.5
1998	148,917	0.8	26,767	44.7	11.5
1999	152,440	2.4	27,322	44.8	11.4
2000	153,039	0.4	29,032	44.8	11.6
2001	154,610	1.0	30,341	45.0	11.5
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

Analysis of Change in Active Membership
Fiscal years ended June 30

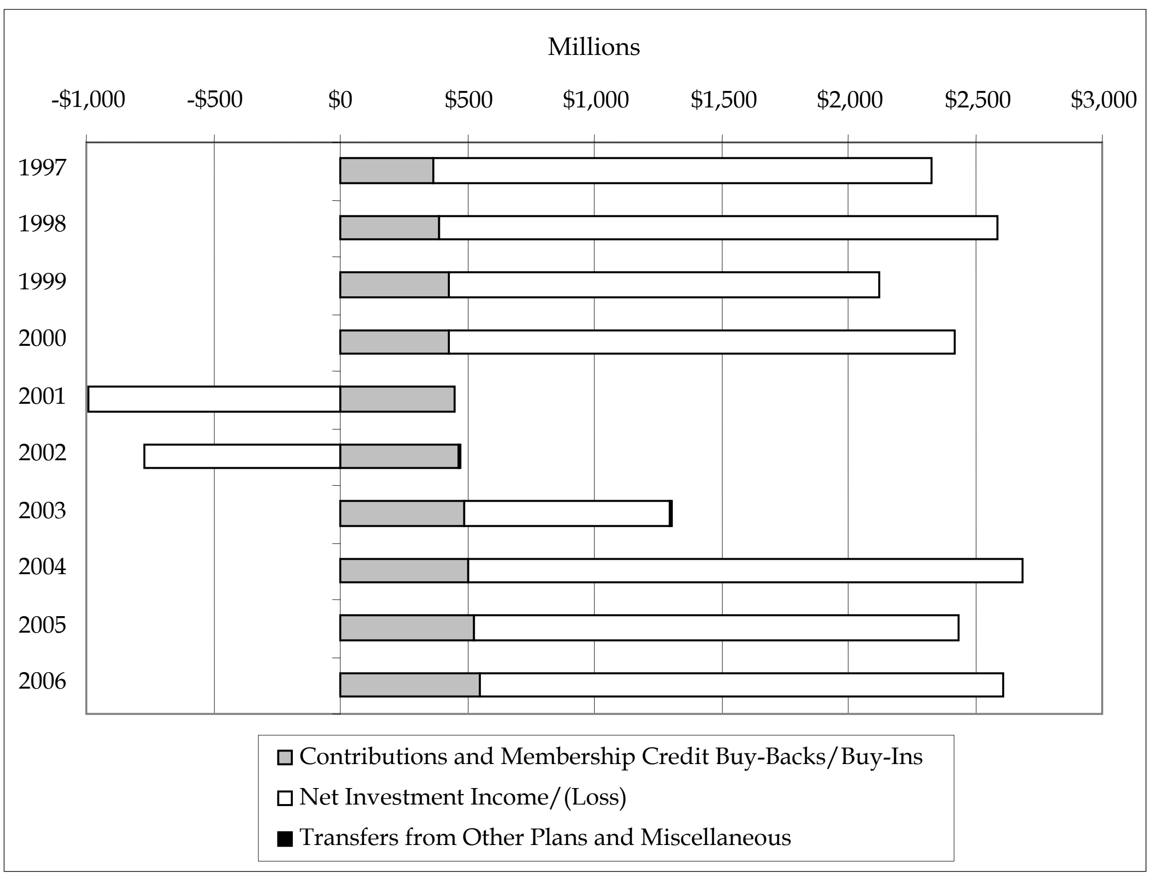
Fiscal Year	Beginning Members	Additions	Retired	Died	Other Terminations	Ending Members
1997	147,431	16,288	3,820	191	11,972	147,736
1998	147,736	17,606	3,079	285	13,061	148,917
1999	148,917	18,503	3,642	250	11,088	152,440
2000	152,440	18,698	2,139	256	15,704	153,039
2001	153,039	13,534	1,567	113	10,283	154,610
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

Additions by Source
Fiscal years ended June 30

Fiscal Year	Trust Fund Contributions	QBA Fund* Contributions	Membership Credit Buy-Backs/Buy-Ins	Net Investment Income/(Loss)	Transfer From Another Pension Plan	Miscellaneous Income	Total
1997	$358,278,913	---	$6,638,079	$1,959,597,881	---	---	$2,324,514,873
1998	379,621,288	---	7,581,962	2,202,842,690	---	---	2,590,045,940
1999	408,221,776	---	19,169,871†	1,691,099,599	---	---	2,118,491,246
2000	422,118,418	---	7,295,195	1,990,366,366	---	$97,030	2,419,877,009
2001	447,191,823	---	3,847,364	(989,190,300)	---	64,810	(538,086,303)
2002	464,471,241	---	4,983,334	(772,386,353)	---	67,800	(302,863,978)
2003	472,954,129	---	12,031,207†	814,807,727	$8,879,964	72,000	1,308,745,027
2004	491,731,645	---	14,903,466	2,177,265,218	---	72,000	2,683,972,329
2005	513,449,599	---	11,217,246	1,912,489,040	---	42,000	2,437,197,885
2006	536,177,549	$35,191	11,275,428	2,065,519,915	---	662	2,613,008,745

*IPERS began collecting QBA contributions in 2006 (see note 11, page 55).
†The volume of service purchases has fluctuated due to changes in service purchase cost methods.

Additions by Source
Fiscal years ended June 30



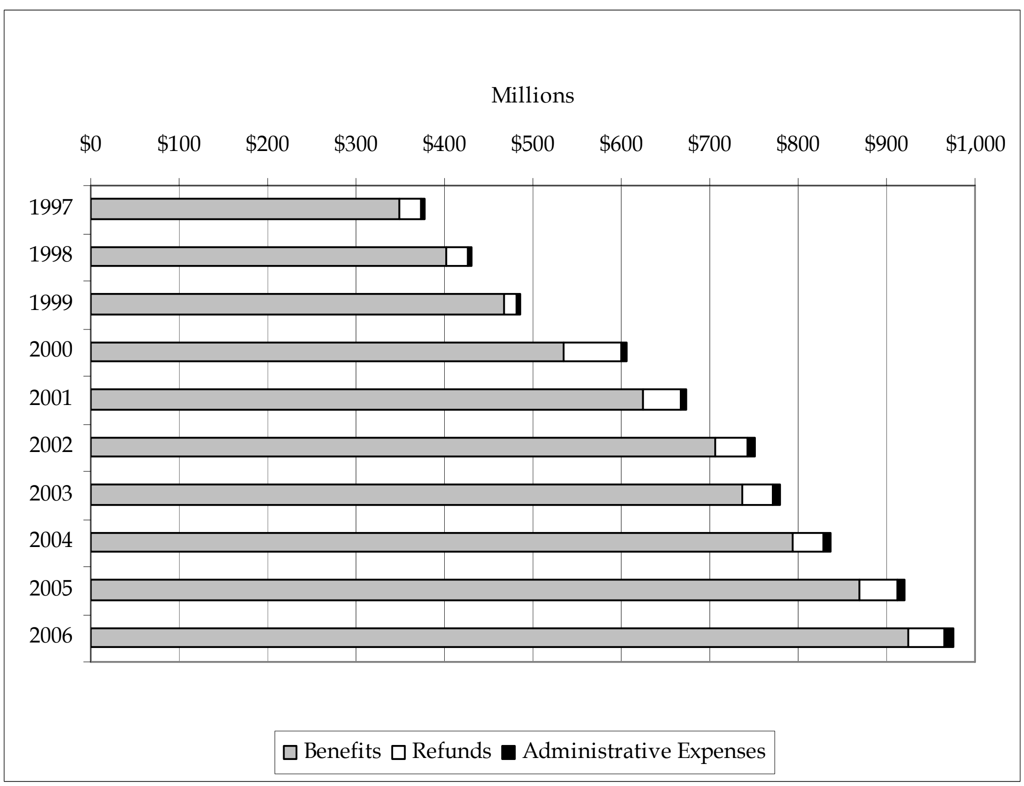
Deductions by Type
Fiscal years ended June 30

Fiscal Year	Benefits	QBA Fund Benefits*	Refunds	Administrative Expenses	Total
1997	$348,536,733	---	$25,285,487	$3,828,712	$377,650,932
1998	402,544,698	---	24,557,597	4,012,736	431,115,031
1999	466,752,949	---	14,442,111†	4,620,009	485,815,069
2000	533,747,215	---	65,608,628†	5,865,985	605,221,828
2001	624,259,449	---	42,073,825	7,264,447	673,597,721
2002	705,767,690	---	37,915,199	7,581,105	751,263,994
2003	736,330,878	---	35,591,323	8,041,113	779,963,314
2004	792,866,773	---	36,430,011	7,959,601	837,256,385
2005	868,557,596	---	43,113,458	8,214,903	919,885,957
2006	924,361,399	$16,917	41,667,603	9,320,559	975,366,478

*IPERS began paying QBA benefits in FY2006 (see note 11, page 55).

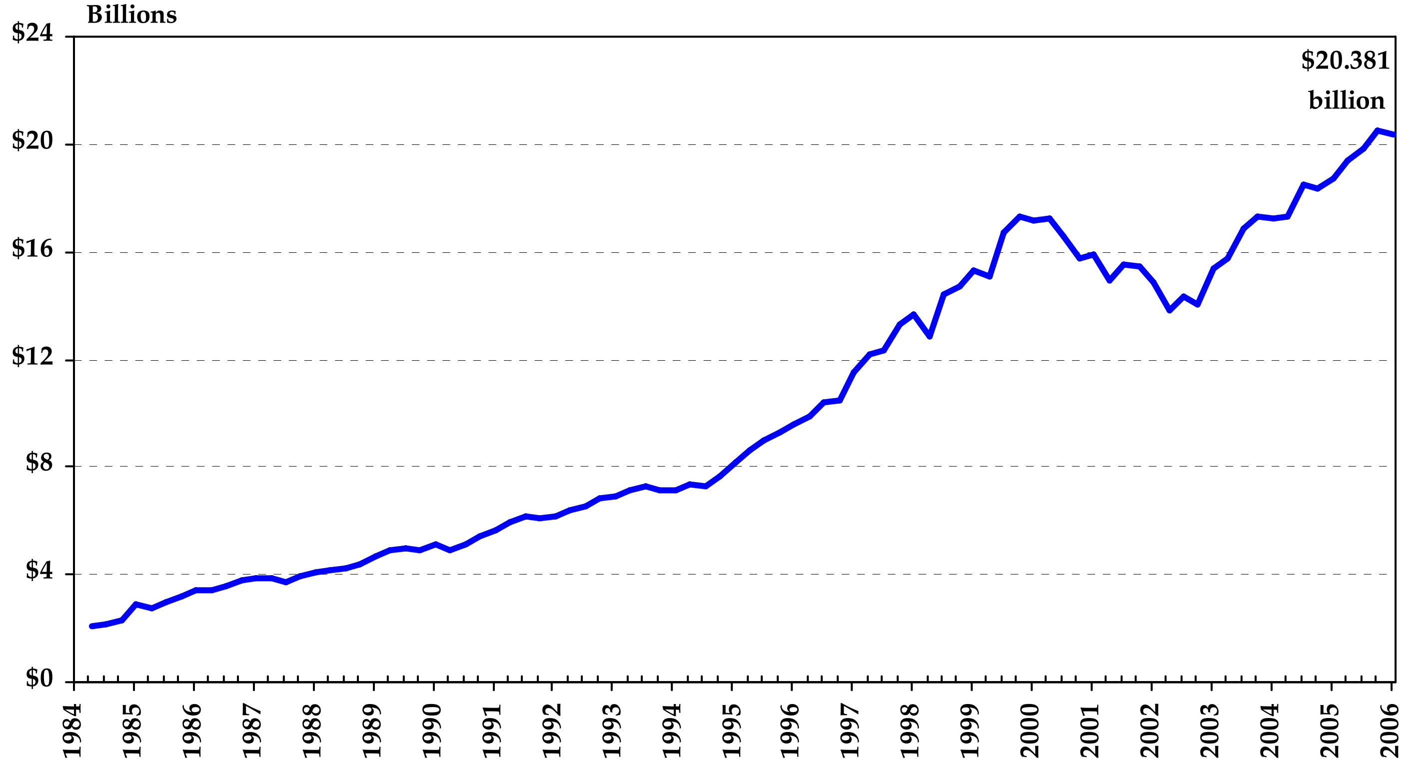
†Legislation passed in 1998 increased the refund payable amount for vested members effective 7/1/99. Many members delayed receiving their refund to take advantage of the legislative enhancement. Therefore, the refunds paid decreased significantly for FY1999 and increased significantly for FY2000.

Deductions by Type
Fiscal years ended June 30



Growth of Net Investment Portfolio Assets

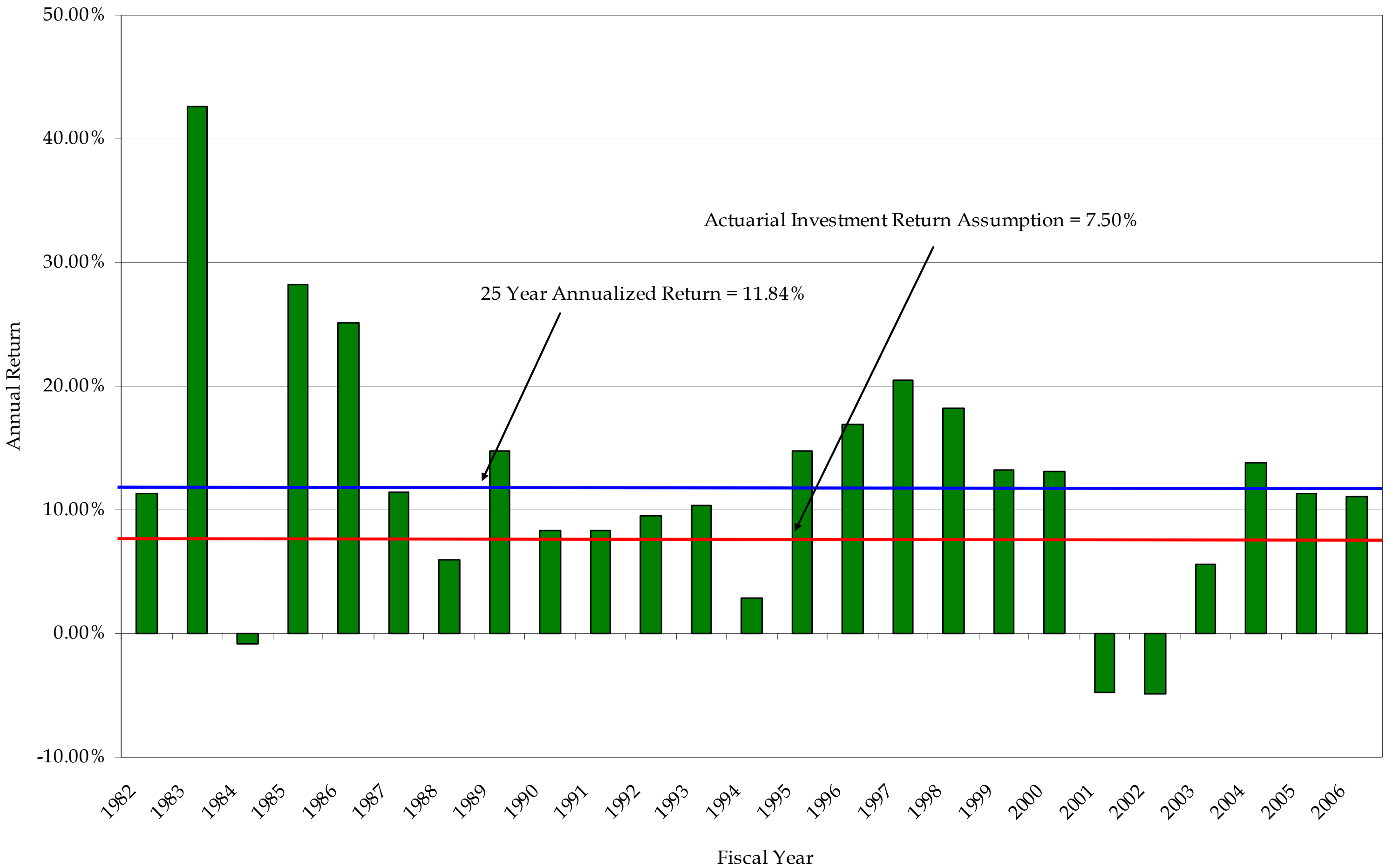
Fiscal years ended June 30



Asset values above are net of the periodic withdrawals made since FY1997 to provide partial funding for IPERS expenses (retirement benefit payments, refunds, and administrative costs).

Investment Returns 1982–2006

Fiscal years ended June 30



Annualized Returns	
1-Year	11.11%
3-Year	12.04%
5-Year	7.14%
10-Year	9.37%
15-Year	9.83%
20-Year	9.81%

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Plan Summary

Composition

Membership

For the fiscal years ended June 30

	2006	2005
Retired Members		
All Retired Members	82,204	79,604
Average Years of Service	22	21
Average Monthly Benefit	$903	$866
Current Year Member Retirements	4,892	4,879
Average Years of Service	22	21
Average Monthly Benefit	$1,328	$1,283
Retired Reemployed*	8,076	6,629
Active Members	163,091	160,905
Inactive Vested	29,522	30,599
Inactive Nonvested	32,138	34,817
Total Membership	**306,955**	**305,925**

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

Employers*

For the fiscal years ended June 30

	2006		2005	
Employer Type	**Number of Entities**	**Covered Wages**	**Number of Entities**	**Covered Wages**
City	1,252	$ 705,740,142	1,280	$ 665,821,877
County	443	870,266,200	463	818,637,481
School	401	2,686,577,636	389	2,558,696,953
State	26	1,121,655,829	22	1,060,908,427
28E Agencies	60	43,996,993	82	41,632,748
Utilities	135	64,583,808	129	61,816,607
Other	46	31,042,713	23	29,346,793
Total	**2,363**	**$5,523,863,321**	**2,388**	**$5,236,860,886**

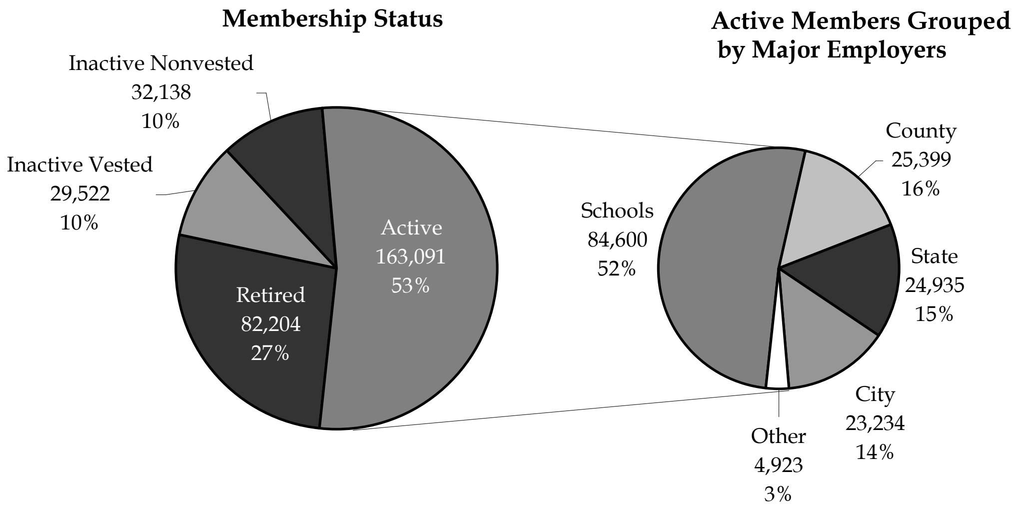
*During FY2006 the employer classifications were reviewed and regrouped. For comparison purposes, the FY2005 classifications and their corresponding covered wages have been revised.

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, 2006, there were 163,091 members actively contributing to the System employed by 2,363 public employers. The number of active members increased by 1.4 percent from June 30, 2005. The membership profile chart provides further information on the composition of the membership for fiscal year 2006.

Membership Profile
June 30, 2006



Buy-Backs/Buy-Ins

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

Contributions

IPERS accumulates the resources necessary to meet its responsibilities by collecting mandatory contributions from employees and employers and investing those funds. Contributions continue throughout covered employment. The majority of employers contribute at a rate of 5.75 percent and employees at a rate of 3.70 percent. Certain employers and employees in Special Service occupations contribute at an annually adjusted actuarially determined rate. The table "Contribution Rates & Maximum Covered Wages" below reflects the contribution rates for employers and employees in effect during fiscal year 2006.

Contribution Rates & Maximum Covered Wages
Fiscal year 2006

IPERS	Employee Rate	Employer Rate	Total Rate	Maximum Covered Wages: Calendar Year
Regular Membership	3.70%	5.75%	9.45%	2005: $210,000 2006: $220,000‡
Special Service Group 1*	8.20%	8.20%	16.40%	2005: $210,000 2006: $220,000‡
Special Service Group 2†	6.16%	9.23%	15.39%	

*Includes sheriffs and deputies.
†Includes all other public safety members.
‡IRC Section 401(a)(17) Compensation Limit.

Vesting

A member who leaves covered employment after completing at least 4 years of covered service or has attained the age of 55 while making contributions to the plan has vested rights to IPERS benefits.

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. Refund expenses paid in fiscal year 2006 totaled $41,667,603.

Benefits

IPERS 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 due to a disability and have been awarded social security disability or railroad retirement disability benefits.

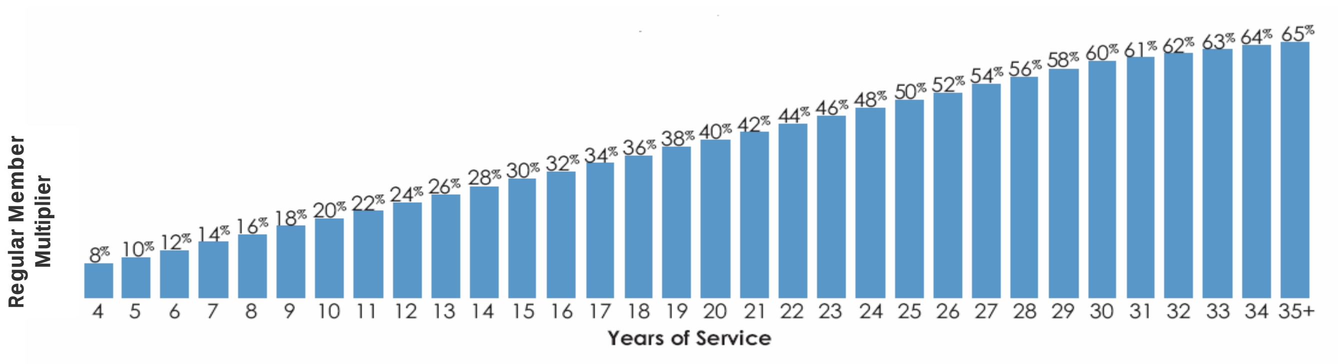
Members who are age 70 and still actively working for an IPERS-covered employer may apply to begin receiving IPERS retirement benefits while still employed.

Members are vested when they meet one of these conditions:

- Complete 4 years of service.
- Reach age 55 while making contributions to the Plan.

The formula used to calculate the IPERS benefit includes:

- A formula multiplier (based on years of service).
- Highest 3-year average salary.
- 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.

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 monthly IPERS benefit check for all retirees at the end of the fiscal year averaged $903. For members retiring in fiscal year 2006, the average benefit was $1,328. The average member retired with 22 years of service.

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 increments 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 spouse and is more than ten years younger than the member.

Option 5. A member receives a lifetime benefit with a ten-year guarantee. If the member dies before ten full years have passed (120 monthly payments are made), the member's designated beneficiary will receive a monthly benefit for the remainder of the ten years. If the beneficiary 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.

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Retired Membership by Benefit Option As of June 30, 2006						
	Number	Percent			Number	Percent
Option 1	26,388	32%		Option 5	10,527	13%
Option 2	16,770	20%		Option 6 (100%)	2,385	3%
Option 3	9,680	12%		Option 6 (75%)	778	1%
Option 4 (100%)	9,240	11%		Option 6 (50%)	1,020	1%
Option 4 (75%)	1,117	1%		Option 6 (25%)	702	1%
Option 4 (50%)	2,555	3%		Misc. options	46	Less than 1%
Option 4 (25%)	996	1%		**Total all options**	82,204	

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 receive a Favorable Experience Dividend (FED) with their January benefit payment. The FED payment is based upon the actuarial soundness of the System along with the retiree's annual benefit and number of years retired. FED payments are not guaranteed. The November 2005 dividends totaled $16,542,558 and the January 2006 FEDs totaled $43,988,077.

Death Benefits

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

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

2. $$\text{Death benefit} = \begin{array}{c}\text{Member's}\\ \text{accumulated}\\ \text{contributions}\end{array} + \left(\begin{array}{c}\text{Member's}\\ \text{highest year of}\\ \text{covered wage}\end{array} \times \frac{\text{Years of membership service}}{\text{30 years*}} \right)$$

*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.

B. 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.

C. For fiscal year 2006, death benefits paid to beneficiaries or to the estates of deceased nonretired and retired members totaled $14,535,289.

*Distribution of IPERS Benefit Payments in Iowa Counties**

In fiscal year 2006

County	Amount	Annual Average	Payees
Adair	$ 2,434,084	$ 9,082	268
Adams	1,615,872	9,287	174
Allamakee	4,568,391	10,359	441
Appanoose	4,115,773	10,803	381
Audubon	1,972,020	8,726	226
Benton	5,615,911	9,161	613
Black Hawk	32,792,706	11,925	2,750
Boone	9,258,820	10,545	878
Bremer	8,367,246	11,431	732
Buchanan	7,489,177	10,548	710
Buena Vista	5,333,786	9,877	540
Butler	4,096,332	9,226	444
Calhoun	3,837,602	9,051	424
Carroll	4,472,670	9,184	487
Cass	5,111,638	9,736	525
Cedar	4,595,597	10,145	453
Cerro Gordo	14,173,257	11,772	1,204
Cherokee	6,400,230	10,978	583
Chickasaw	4,057,974	10,967	370
Clarke	2,528,964	8,874	285
Clay	5,244,703	10,489	500
Clayton	5,758,999	10,139	568
Clinton	11,280,742	10,952	1,030
Crawford	4,622,417	10,027	461
Dallas	11,870,042	11,348	1,046
Davis	3,043,686	9,308	327
Decatur	3,149,611	8,973	351
Delaware	5,545,434	11,203	495
Des Moines	11,944,680	12,041	992
Dickinson	8,923,000	13,180	677
Dubuque	18,315,258	11,644	1,573
Emmet	3,458,137	10,706	323
Fayette	6,373,398	10,100	631
Floyd	5,627,877	10,441	539
Franklin	3,119,997	9,369	333
Fremont	2,190,858	9,091	241
Greene	3,687,838	8,537	432
Grundy	3,960,774	9,319	425
Guthrie	4,744,717	10,360	458
Hamilton	6,765,074	11,952	566
Hancock	3,262,578	9,540	342
Hardin	7,890,184	10,013	788
Harrison	4,035,571	9,586	421
Henry	7,059,644	10,729	658
Howard	3,518,911	9,459	372
Humboldt	3,982,788	9,551	417
Ida	2,055,857	10,029	205
Iowa	4,357,261	10,086	432
Jackson	5,256,500	9,770	538
Jasper	9,707,172	10,597	916

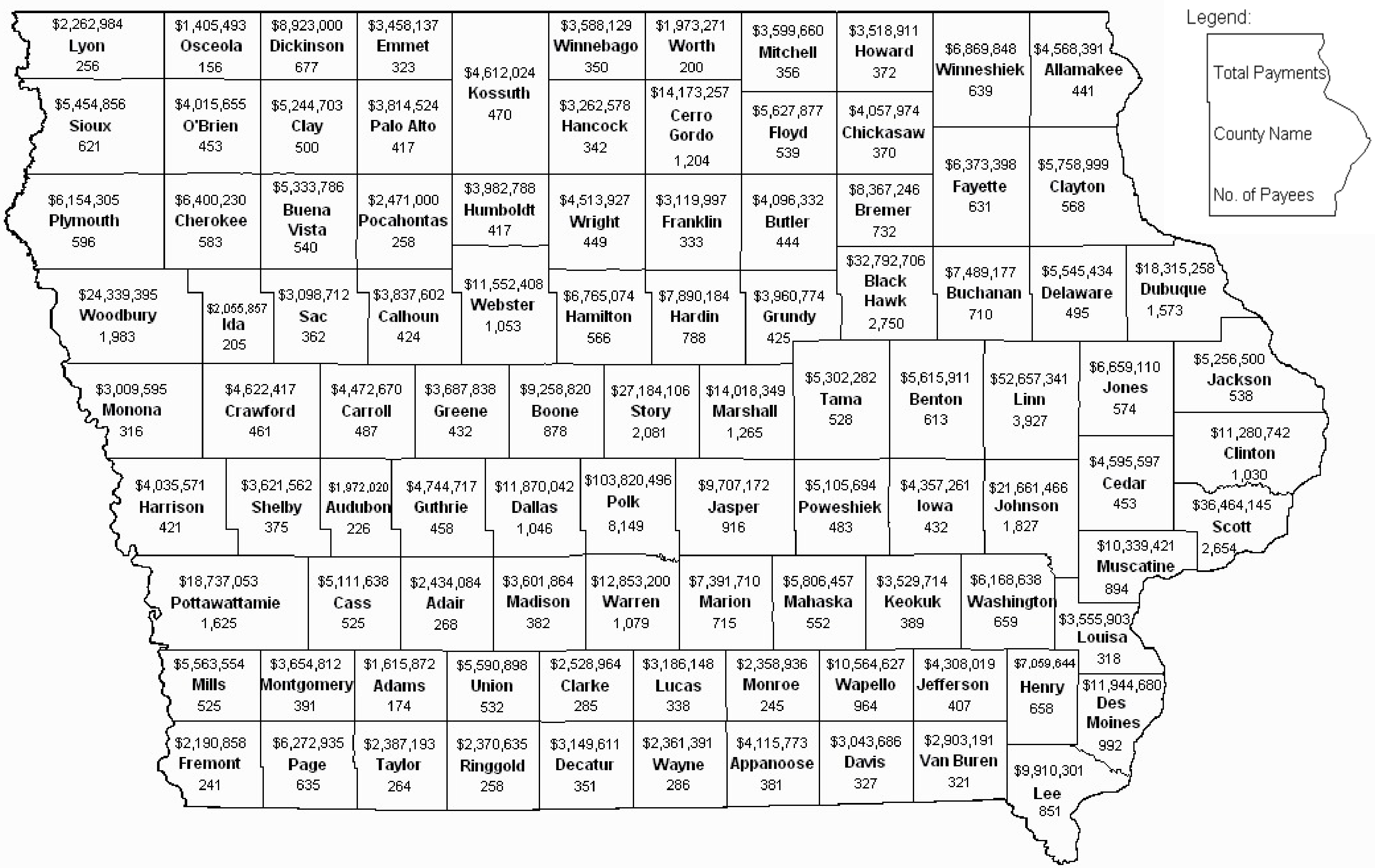
County	Amount	Annual Average	Payees
Jefferson	$ 4,308,019	$10,585	407
Johnson	21,661,466	11,856	1,827
Jones	6,659,110	11,601	574
Keokuk	3,529,714	9,074	389
Kossuth	4,612,024	9,813	470
Lee	9,910,301	11,645	851
Linn	52,657,341	13,409	3,927
Louisa	3,555,903	11,182	318
Lucas	3,186,148	9,426	338
Lyon	2,262,984	8,840	256
Madison	3,601,864	9,429	382
Mahaska	5,806,457	10,519	552
Marion	7,391,710	10,338	715
Marshall	14,018,349	11,082	1,265
Mills	5,563,554	10,597	525
Mitchell	3,599,660	10,111	356
Monona	3,009,595	9,524	316
Monroe	2,358,936	9,628	245
Montgomery	3,654,812	9,347	391
Muscatine	10,339,421	11,565	894
O'Brien	4,015,655	8,865	453
Osceola	1,405,493	9,010	156
Page	6,272,935	9,879	635
Palo Alto	3,814,524	9,148	417
Plymouth	6,154,305	10,326	596
Pocahontas	2,471,000	9,578	258
Polk	103,820,496	12,740	8,149
Pottawattamie	18,737,053	11,530	1,625
Poweshiek	5,105,694	10,571	483
Ringgold	2,370,635	9,189	258
Sac	3,098,712	8,560	362
Scott	36,464,145	13,740	2,654
Shelby	3,621,562	9,657	375
Sioux	5,454,856	8,784	621
Story	27,184,106	13,063	2,081
Tama	5,302,282	10,042	528
Taylor	2,387,193	9,042	264
Union	5,590,898	10,509	532
Van Buren	2,903,191	9,044	321
Wapello	10,564,627	10,959	964
Warren	12,853,200	11,912	1,079
Washington	6,168,638	9,361	659
Wayne	2,361,391	8,257	286
Webster	11,552,408	10,971	1,053
Winnebago	3,588,129	10,252	350
Winneshiek	6,869,848	10,751	639
Woodbury	24,339,395	12,274	1,983
Worth	1,973,271	9,866	200
Wright	4,513,927	10,053	449

Total Iowa Benefit Payments: $816,238,695

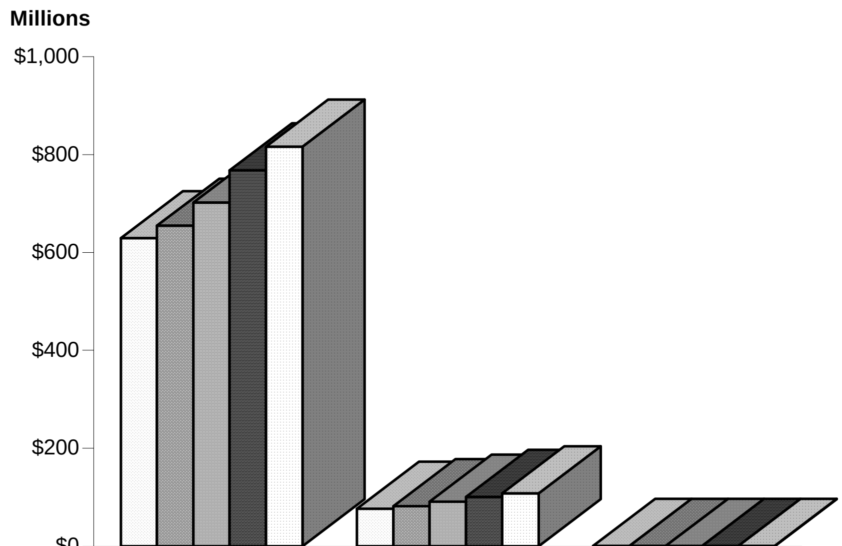
*Payments determined by zip code.

Distribution of IPERS Benefit Payments in Iowa Counties

In fiscal year 2006



Benefit Payments Summary



	$ to Iowa	$ to Other States	$ to Foreign Countries
FY2002	$629,192,724	$76,440,996	$133,970
FY2003	$655,003,070	$81,206,950	$120,858
FY2004	$702,196,119	$90,518,128	$152,526
FY2005	$768,041,811	$100,348,022	$167,763
FY2006	$816,238,695	$107,935,285	$204,336

Distribution of IPERS Benefit Payments by State

In fiscal year 2006

Legend:

Total Payments
State Abbreviation
Total Payees

Total retirees and beneficiaries in continental states other than Iowa: 10,982

Recipients outside the continental U.S.:

Hawaii: 12	France: 2	Mexico: 4
Alaska: 17	Germany: 2	Northern Mariana Islands: 1
Armed Forces Europe: 7	Greece: 1	Philippines: 2
Australia: 3	Latvia: 2	Sweden: 1
Canada: 6	Lebanon: 1	