FY2011 ANNUAL SUMMARY

Iowa Public Employees' Retirement System

An Annual Summary for the Fiscal Year Ended June 30, 2011

IPERS®

Sound. Secure. Moving Forward.

FROM IPERS CEO

DONNA M. MUELLER

This past year has seen a great deal of press about public pensions. If you're like me, you notice things like that. Sometimes the headlines are sensational and misleading—that's what sells papers. What I want to reassure you about is this: IPERS is sound and secure.

IPERS' actuary takes a snapshot of our financial status every year. The snapshot is a report called the actuarial valuation. This document evaluates IPERS' financial health and provides us with a type of report card. IPERS did very well this year. For FY2011, IPERS achieved:

***79.9** percent funding status*

***19.9** percent return on investments*

*An amortization rate of **34 years***

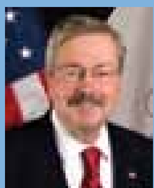
All of these indicators reflect a sound and secure pension system. Inside you'll find more details on each of the measurements.

Pension benefits are an important element in building a solid and reliable workforce. Teachers, firefighters, police officers, social workers, snowplow operators, school bus drivers, and thousands more depend on IPERS for secure retirements.

IPERS' high marks indicate that your retirement system's outlook is positive. Be assured IPERS has the funds to pay promised benefits far into the future.

Donna M. Mueller

FROM GOVERNOR
TERRY E. BRANSTAD



IPERS plays an important role in attracting and retaining the high-quality workforce we need in Iowa.

The Branstad-Reynolds administration's goal of building a world-class education system starts with employing world-class teachers, administrators, and school employees.

As a defined benefit plan, IPERS benefits are intended to supplement personal savings and Social Security benefits in retirement. Together they provide secure, adequate retirement income for you—the people Iowans depend on.

IPERS was established as a Trust Fund for the exclusive purpose of providing retirement income to those who teach our children, keep our communities safe, and provide essential services to all Iowans. Many people don't realize that IPERS is prefunded, not pay-as-you-go. This means you and your employer both contribute to your future retirement. The younger generation is not burdened with paying for current retirees' benefits.

Recent pension reforms, combined with an investment return of nearly 20 percent and low administrative costs, show IPERS is making positive strides to recover from the Great Recession.

Sustainability for the long term is the focus of the Iowa Public Employees' Retirement System. As one of the best-run public pension systems in the country, IPERS continues to excel as a leader in pension administration and is an important component in our work to build a world-class education system.

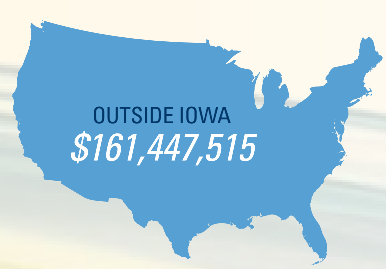
The Purpose of IPERS

In 1953, IPERS was created so public employers in Iowa would have a cost-effective way to provide a core retirement benefit that would help attract and retain quality employees in public service.

IPERS benefits were designed to provide an adequate retirement income when combined with Social Security and personal savings. The average benefit paid in FY2011 was $1,234, and members retired with an average of 22 years of service.

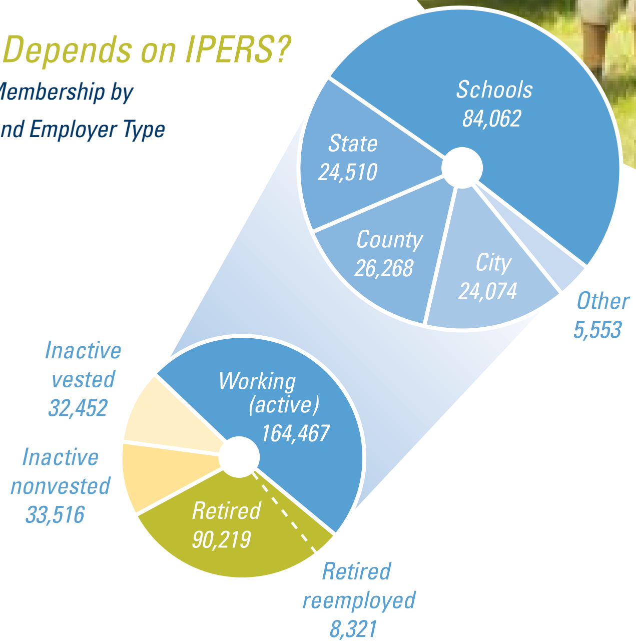
Benefit payments in excess of $1.4 billion—
with $1.3 billion staying in Iowa—
mean IPERS' effect on the economy rippled down to Main Street and out to the nation.

OUTSIDE THE U.S.
$233,918



Who Depends on IPERS?

IPERS Membership by Status and Employer Type



How IPERS Works

Employees and their employers contribute to IPERS a set percentage of employees' wages. Contributions from both employees and employers are pooled and invested. These contributions, along with the investment earnings, provide the funding for all IPERS pensions. IPERS is prefunded, meaning contributions paid and invested over the employee's career provide the funds for the benefits the person eventually receives at retirement.

Contributions

The Foundation to Funding Secure Retirements

	Membership Class	Member Share	Employer Share	Total
FY2011	Regular members	4.50%	6.95%	11.45%
	Sheriffs and deputies	8.94%	8.94%	17.88%
	Protection occupations	6.64%	9.95%	16.59%
FY2012	Regular members	5.38%	8.07%	13.45%
	Sheriffs and deputies	9.83%	9.83%	19.66%
	Protection occupations	6.65%	9.97%	16.62%

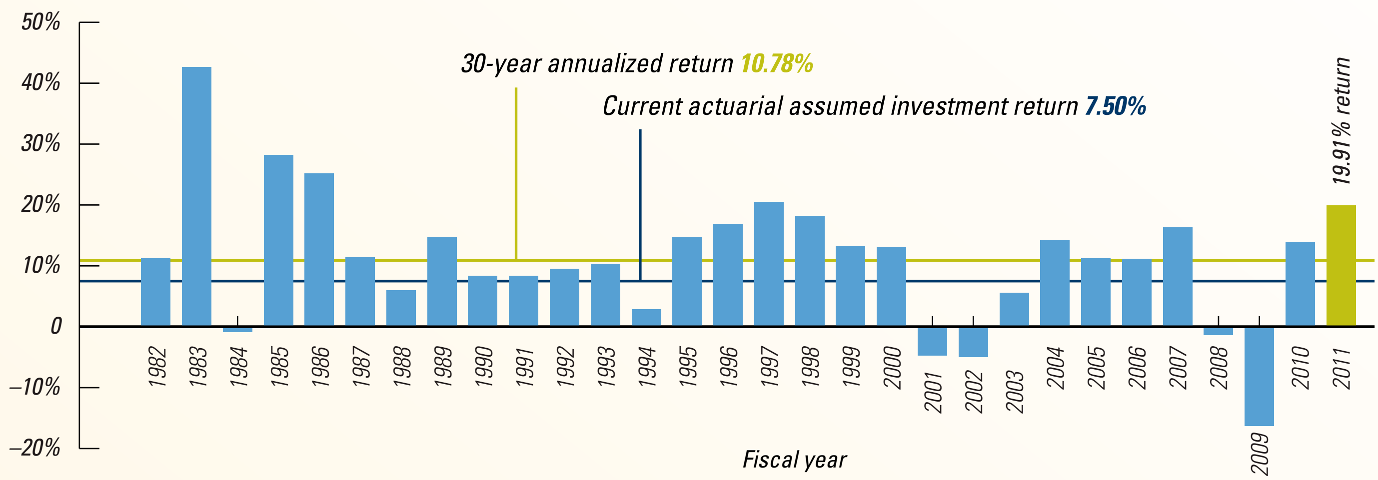
Over the last ten years, investment earnings have funded **66 percent** *of the benefits paid.* >>

Investment Earnings

Turn Contributions Into Benefit Payments

The new millennium has been an investment market rollercoaster. Investment returns fund the majority of the pensions IPERS pays, and that is by design. Even with the record-low returns of this new century, 66 percent of every benefit payment IPERS paid in the last ten years came from the investment markets—not money from members' paychecks or employers' budgets.

30 Years of Trust Fund Returns



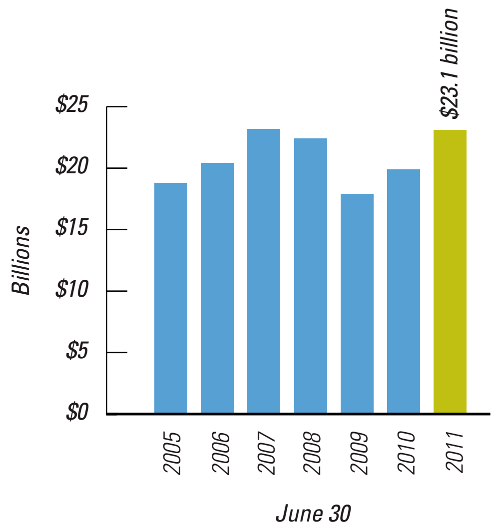
How Does IPERS Compare?

	FY2011	FY2010	FY2009	5-YEAR	10-YEAR	20-YEAR
IPERS' portfolio*	19.91%	13.82%	–16.27%	5.57%	6.40%	8.77%
Policy benchmark	20.15%	16.98%	–14.50%	6.03%	6.61%	8.35%
Other public pension funds†	21.46%	13.09%	–18.76%	5.05%	5.93%	8.71%

*Net of fees
†Trust Universe Comparison Service (TUCS) Universe of Public Funds With Assets Greater than $1 billion

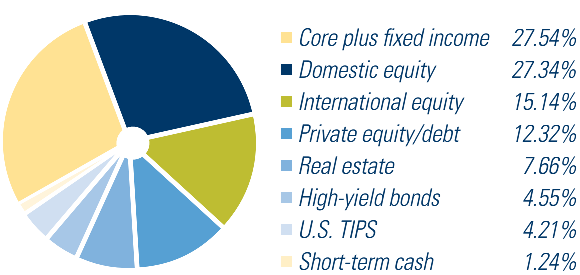
In FY2011, **the Trust Fund grew to $23.1 billion,** *nearing its FY2007 prerecession balance, and investments returned 19.9 percent.*

Trust Fund Value



Asset Allocation

June 30, 2011



Plan Net Assets *As of June 30, 2011*

Assets

Cash and cash equivalents	$ 204,158,857
Receivables	2,503,292,394
Investments at fair value	23,379,072,124
Securities lending collateral pool	685,487,431
Capital assets	21,638,636
Other assets	2,665,520
Total assets	$26,796,314,962

Liabilities

Accounts payable and accrued expenses	$ 21,808,798
Investment purchases payable	1,537,209,971
Rebates and collateral payable	704,376,252
Foreign exchange contracts payable	1,450,787,006
Total liabilities	$ 3,714,182,027
Net assets held in trust for pension benefits	$23,082,132,935

Changes in Plan Net Assets *Year Ended June 30, 2011*

Additions

Total contributions	$ 789,353,899
Net investment income	3,914,401,312
Net securities lending income	8,167,703
Total additions	$ 4,711,922,914

Deductions

Benefit payments	$ 1,457,005,631
Member refunds	41,214,717
Administrative expenses	9,650,259
Total deductions	$ 1,507,870,607
Net increase	$ 3,204,052,307
Net assets held in trust for pension benefits, beginning of year	19,878,080,628
Net assets held in trust for pension benefits, end of year	$23,082,132,935

The FY2011 return of 19.9 percent is a better-than-average return, but it is **investment performance over the long term** *that affects how financially fit IPERS is. The effects of the low returns of the new century, combined with insufficient contribution rates and a growing retiree population, were mitigated by forward-thinking legislators who passed House File 2518 in 2010. >>*

What Does the Future Hold?

No one knows what the investment markets hold for the future, but we do know this: IPERS judges its fiscal health on a 30-year horizon—the next 30 years to come—and small adjustments made in a timely manner can improve our outlook in a major way.

IPERS is on the right track for improved funding and stability. This year's financial data clearly illustrates that investment performance and legislative changes are coming together to secure promised pension benefits—from past promises to future ones.

Recent Changes Yield Greater Sustainability

Many things contribute to the positive strides made this year, but none more than the law known as House File 2518. The law increased contributions and modified benefits for Regular members (95 percent of the membership). These changes greatly improve IPERS' funding status and sustainability. The Legislature and the Governor, as plan sponsors, must ensure IPERS is able to keep its promises today and in the future. ***House File 2518:***

Increased vesting requirements. Starting 7/1/12, members become vested with seven years of service or when they reach age 65 while in IPERS-covered employment.

Changed the average salary used to calculate benefits from each member's highest three-year average salary to the highest five-year average salary.

Increased the reduction on benefits for members who retire early.

Increased contributions starting 7/1/11 to 13.45 percent. Effective 7/1/12, IPERS can adjust the rate up or down each year (based on the year's recommendation from IPERS' actuary), by no more than 1.0 percentage point.

There are rules in place to protect members' previously earned benefits and soften the effects of these changes for those who begin receiving benefits soon after the law change (July 1, 2012). Also, retirees' current benefits (other than the FED payment) are protected by law and will not change, as always.

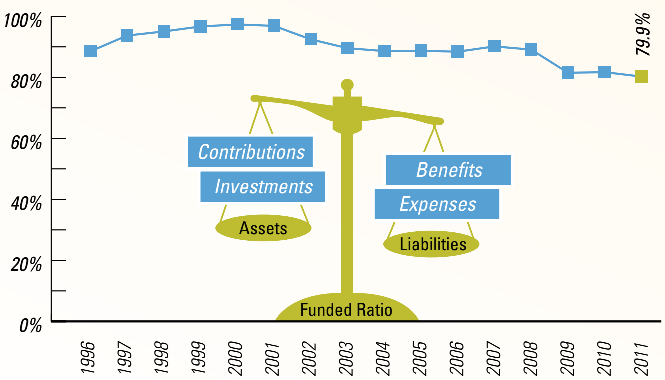
These changes mean IPERS gains greater financial stability for the future.

NOTE: *These changes do not apply to IPERS' other two membership classes—sheriffs/deputies and members in protection occupations. These members, known as Special service members, have been paying contribution rates as recommended by IPERS' actuary for many years, so their benefits were better funded before the recession and less affected by the recession than Regular members' benefits.*

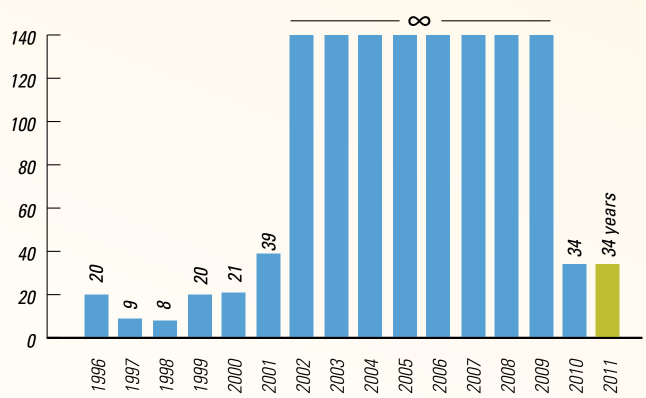
Best practices in pension plan administration and prudent investment strategies earned IPERS a ***healthy funding status of 79.9 percent*** *this year.*

Funded Ratio *As of June 30*

Balancing Assets With Liabilities



UAL Amortization Period *As of June 30*



Prefunded retirement systems such as IPERS need to judge financial health based on certain assumptions about the future—salary increases, length of employment, life expectancies, and investment returns, to name a few. IPERS' actuary uses these assumptions to calculate the funding status which is in turn used in determining whether IPERS can pay the promised benefits.

In FY2011, the actuary's life expectancy assumptions were adjusted to account for people living longer. That caused a slight decrease in the funded ratio, to 79.9 percent. The funded ratio has stabilized near 80 percent over the past three years.

IPERS' actuary determined in FY2011 that the unfunded actuarial liability (UAL) amortization period is 34 years. A UAL indicates that the Trust Fund does not *currently* have all the money needed to pay all *future* benefits. It does not mean that it will someday run out of money. Generally, an amortization period of 30 years or less is considered healthy. Going from a period of infinity from 2002–2009, to 34 years in 2010–2011, is an improvement in IPERS' funding.

The 13th Check

Update on Cost-of-Living Adjustments for Retirees

The IPERS benefit plan does not offer a traditional cost-of-living adjustment for retirees' benefits. Years ago, the Legislature put in place two payments—the November dividend for those who started receiving benefits before July 1, 1990, and the Favorable Experience Dividend (FED) for the ones who retired after June 30, 1990.

The November dividend is guaranteed to be paid every year for the retiree's life; however, the FED payment is not. For many years, IPERS has said the FED payment will end one day soon. That day is now upon us. The FED Reserve Account, created in 1998 with money from the Trust Fund, is nearly exhausted. By law, it cannot be replenished until the IPERS plan is at least 100 percent funded, and would remain so after the transfer. Retirees who receive a FED payment will most likely receive two more FED payments (in January 2013 and January 2014) before the program ends.

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