



# MFPRSI

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## Annual Report

For the Fiscal Year ended June 30, 2013

Municipal Fire and Police  
Retirement System of Iowa

A Pension Trust Fund for municipal police officers  
and firefighters in the State of Iowa

Prepared by MFPRSI staff

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# Fiscal Year 2013 Highlights

as of June 30, 2013

## Membership

Active Members	3,866
Inactive Members	4,177

## Investments

Market Value of Portfolio	\$1,964,266,618
Rate of Return	12.84%

## Funding

Funding Ratio*	73.9%
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## Contributions

Employees Total	\$23,358,844
Cities Total	\$65,327,766

## Distributions

Benefits Paid	\$136,593,585
Refunds Paid	\$1,024,295

\*The Funding Ratio measures the actuarial value of assets (\$1,860,947,878) to the entry age normal accrued liability (\$2,518,228,578).

# Introduction

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Letter from the Board of Trustees Chairperson  
Plan History, Structure, and Governance  
Board of Trustees  
Administration  
MFPRSI's Accomplishments



# Municipal Fire and Police Retirement System of Iowa

7155 Lake Drive, Suite 201  
West Des Moines, IA 50266

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## **To the Members of Municipal Fire and Police Retirement System of Iowa, City Officials, Elected Officials, and Interested Parties:**

On behalf of the board of trustees, I am pleased to present MFPRSI's report for the period ending June 30, 2013 (FY13). This report provides information on the financial status of the retirement system and fulfills the obligation set forth in Iowa Code section 411.5(6).

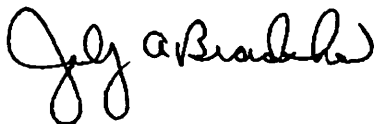
The accomplishments of the trustees and administration of MFPRSI over the last fiscal year are summarized on the following pages. The development of this report is the result of the combined effort of MFPRSI's administration under the direction of the Trustees, Executive Director, and Deputy Director.

MFPRSI's investment portfolio ended the fiscal year valued at \$1.97 billion, which exceeded the previous fiscal year ending market value by \$179 million. The investment portfolio produced an annual return of 12.8%. This return was due to strong performance in equity markets and asset allocation as approved by the Board of Trustees.

The firm of Deloitte & Touche, LLP, Certified Public Accountants, conducted an audit for the period ending June 30, 2013. A copy of the audit report has been provided to each of the employing cities and is viewable at MFPRSI's website, [www.mfprsi.org](http://www.mfprsi.org). The report is also available at MFPRSI's office in West Des Moines, IA.

The trustees and administration appreciate the efforts extended by city officials as well as the support given to MFPRSI by the active and retired memberships and city representatives.

Thank you for your interest.



**Judy Bradshaw**  
Chairperson  
Board of Trustees

# Plan History, Structure, and Governance

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MFPRSI was created by the Iowa General Assembly in 1990 to establish a statewide retirement system for fire and police personnel covered by the provisions of Iowa Code chapter 411. Upon its establishment, MFPRSI accomplished the consolidation of 87 local fire and police retirement systems formerly administered by 49 of Iowa's largest cities. MFPRSI initiated its formal operations on January 1, 1992 to administer the retirement benefits for fire and police personnel in Iowa's largest participating cities.

The purpose of MFPRSI is to provide a sound and secure retirement income for individuals receiving benefits under its programs. The programs of the retirement system include the payment of pension benefits for service retirement, ordinary disability retirement, accidental disability retirement, survivors of deceased members (i.e., spouse and dependent benefits), and the refund of contribution upon withdrawal by a terminated member.

In its effort to accomplish its goals, MFPRSI administers a contributory defined benefit plan for firefighters and police officers as established in Iowa Code chapter 411. The benefits available through MFPRSI are based on a formula using a member's years of service, the average of a member's highest three years of earned wages, and a multiplier. The fiscal year begins July 1 and ends June 30.

In addition to the service retirement benefits, MFPRSI offers a comprehensive disability program that includes establishing standards for entrance physical examinations, guidelines for ongoing fitness and wellness, and post-disability retirement compliance requirements. Permanent full-time firefighters and police officers in the participating cities are granted membership by Iowa Code Chapter 411. Participants are vested upon attaining four years of membership service.

A board of trustees is established by Iowa Code section 411.36 to provide direction and administration for the MFPRSI, and Iowa Code section 411.7(1) requires it to act as fiduciaries for the retirement fund. The board represents the police officer and firefighter memberships, cities, citizens of Iowa, and the Iowa General Assembly provides the retirement system with direction and oversight. In addition, the board also may hire a staff to act as administrators for the retirement fund and its membership. Iowa Code section 411.5 includes specific authorization to administer each of the following: actuarial services, medical board, legal services, and organization and staff. The individuals comprising the administrative staff are available to assist members, city officials, and interested parties with any questions or concerns about the retirement program.

# Membership

MFPRSI had 8,043 members at the end of fiscal year 2013, with 3,866 active members employed by the 49 participating cities. Of the remainder 3,862 are retired members or beneficiaries and 315 are terminated vested members receiving a monthly pension payment. MFPRSI made over 47,000 accurate and timely benefit payments over the course of the fiscal year. Approximately 96% of those payments were made via electronic funds transfer. During the year members received annual statements summarizing their contributions as well as two newsletters highlighting news, statistics, and announcements. On its website, [www.mfprsi.org](http://www.mfprsi.org), MFPRSI also provides its membership with a comprehensive *Member Handbook* which details the various benefit structures that are available.

Members, city officials, and any interested parties are encouraged to contact MFPRSI with any questions you may have concerning the programs it administers under Iowa Code Chapter 411.

# Investments

Member benefits are made available through both employee and employer contributions, and investment earnings. Of those two sources, the investment portfolio provides the greatest percentage of income. MFPRSI manages an investment portfolio that is well diversified with a long-term investment horizon. The portfolio is designed to capture positive investment returns in equity, fixed income, real estate, and private markets when the markets are up while minimizing loss during negative investment periods.

The fund is monitored by a staff of investment officers at MFPRSI under the direction of the Executive Director who acts as the Chief Investment Officer. Investment recommendations are made by the executive director, deputy director, investment consultant, and investment officers. In turn, the board of trustees uses the information provided by those parties and makes the final decisions on asset allocation. On an annual basis and more frequently as necessary, the board reviews and revises the investment policy as necessary.

MFPRSI's investment portfolio returned 12.84% in fiscal year 2013. The 10-year return for the period ending June 30, 2013 is 7.9%. The long-term target rate of return, as determined by the board, is 7.5%. The target rate is adopted by the board as the investment rate of return in which the retirement system can meet its liabilities at the current level of employee and employer contributions. The investment portfolio's performance since inception in 1992 is 7.7%.

# Board of Trustees

The activities of MFPRSI are under the direction of a board of trustees (the “board”) with nine voting members and four non-voting legislative representatives. The voting membership of the board is comprised of four representatives of the active and retired fire and police membership, four representatives of the cities, and one private citizen.

Individuals are appointed to the board by the fire and police associations and by the Iowa League of Cities. The eight voting members select a private citizen to serve as the ninth voting member. Each voting member serves a four-year term.

The following are the board members with voting rights as of June 30, 2013:

<b>Name</b>	<b>Position</b>	<b>City</b>	<b>Term Expires</b>
Judy Bradshaw	Chief of Police	Des Moines	Chair April 2017
Mary Bilden	Citizen Member	Boone	April 2014
P. Kay Cmelik	City Clerk / Finance Director	Grinnell	April 2017
June Anne Gaeta	Fire Lieutenant	Muscatine	April 2014
Frank Guihan	Retired Firefighter	West Burlington	April 2016
Duane Pitcher	Director of Finance	Ames	April 2014
Marty Pottebaum	Retired Police Officer	Sioux City	April 2015
Scott Sanders	Finance Director	Des Moines	April 2015
Jody E. Smith	Deputy City Manager / City Clerk	West Des Moines	April 2016

The leadership of the Iowa Senate and the Iowa House of Representatives appoint legislative members to the board of trustees. The following are the legislative representatives as of June 30, 2013:

<b>Name</b>	<b>Elected Position</b>	<b>Name</b>	<b>Elected Position</b>
Wally E. Horn	Senator	Scott Ourth	Representative
Ken Rozenboom	Senator	Jason Schultz	Representative

## Fiduciary Responsibilities

Upon appointment to the board, the individual members accept a fiduciary responsibility to the retirement system and its members. Statutory responsibilities as fiduciaries, as delineated within Iowa Code Chapter 411, include the following:

- The board is responsible for the overall operation, administration, and establishment of governing rules of MFPRSI.
- The board establishes MFPRSI’s budget and oversees its execution.



- The board maintains a record of all its proceedings and submits an annual report to the Governor, the General Assembly, and the city council of each of the participating cities.
- The board engages in actuarial and other services as deemed necessary and employs a staff as necessary to assist it in carrying out its responsibilities.
- The board ensures that proper determinations are made on applications for benefits and that monthly benefits are paid in a timely and accurate manner.
- The board establishes the rate of interest to be paid on withdrawn contributions.
- The board manages the investment fund and establishes an investment policy on an annual basis. Assets are invested in accordance with that policy.
- The board provides the maintenance of actuarial data for the purpose of valuing the fund and assessing the experience of MFPRSI. The board determines a rate of contribution for the participating cities based upon an annual actuarial valuation and certifies the rate to the proper officials of the cities.

In order to maintain MFPRSI’s status as a qualified plan, the members of the board act in accordance with the exclusive benefit provision of the Internal Revenue Code.

## Administration

Under the direction of the board, the programs of MFPRSI are developed and executed by an administrative staff. The following individuals are available to assist members, city officials, and interested parties with any questions or concerns they may have about the retirement program:

<b>Name</b>	<b>Position</b>	<b>Name</b>	<b>Position</b>
Terry Slattery	Executive Director	Dan Cassady	Deputy Director
Brian Danielson	Benefits Supervisor	Sandra Wells	Senior Pension Officer
Jill Hagge	Senior Pension Officer	Angie Conner	Senior Pension Officer
James Bybee	Accountant / Investment Officer	Blake Jeffrey	Accountant / Investment Officer
Cody Jans	Accountant / Investment Officer	BriAnna Olson	Administrative Officer

### MFPRSI Office location and hours of operation

7155 Lake Drive, Suite 201  
 West Des Moines, IA 50266  
 The offices of MFPRSI are open 8:00 a.m.  
 to 4:30 p.m., Monday through Friday,  
 excluding recognized national holidays.

Local Telephone: 515.254.9200  
 Toll Free: 888.254.9200  
 Fax: 515.254.9300  
[pensions@mfprsi.org](mailto:pensions@mfprsi.org)  
[www.mfprsi.org](http://www.mfprsi.org)

# MFPRSI's Accomplishments

Over the course of the fiscal year 2013 (July 1, 2012, to June 30, 2013) MFPRSI engaged in a number of activities pertaining to both the retirement plan's active and retired memberships as well as to the financial management of the assets of the plan. Projects were intended to either enhance the services provided to membership and cities or to further the performance opportunities for the investment portfolio. During this period, the board and administration performed the following:

## **Financial / Investment**

- The board and MFPRSI's investment consultant have conducted an ongoing asset/liability study. The goal of the study is to improve the risk/return aspect of the portfolio through the additional diversification of assets.
- As a result of the asset/liability study, the board approved allocations to Master Limited Partnership (MLP) and emerging market debt managers. MLP managers invest in stocks of companies that own energy infrastructure in the United States. Emerging market debt managers invest in sovereign debt securities in countries whose economies are considered as less-developed (e.g., China, Brazil, Russia) than developed economies (e.g., United States, Europe, Japan).
- The board and staff reviewed both the investment allocation policy and alternative portfolio allocation strategies.
- The board was briefed on specific investment concepts related to the investment portfolio.
- Individuals of the administration traveled to the investment firms which the retirement system has hired to manage assets and met with professionals responsible for administering its investment portfolios.
- The board and staff conducted regular scheduled reviews with the investment firms managing the System's portfolios. In addition to the comprehensive written reports provided by the firms as required by the contracts established with MFPRSI, the administration engaged in scheduled monthly and quarterly reviews with each investment firm.

## **Benefit Plan**

- The board and MFPRSI's actuary conducted an analysis of the last 10 years of system experience and the board approved changes to the actuarial assumptions based on the results of the actuary's analysis. Assumption changes were made to members' salary increases, number of members retiring due to disability, and the number of retired members who are married.

- MFPRSI continued the administration of the retirement, disability, and DROP programs. Individual counseling with members was provided upon request. Participation in DROP increased 6% year over year to 45% of those eligible.
- The board periodically reviewed its fiduciary standards as described on page 12 of this report.
- MFPRSI continued its application of the Federal Pension Protection Act of 2006 (PPA). This act established a \$3,000 income tax exclusion for eligible retired public safety officers who elect to use a portion of their distributions from an eligible retirement plan to directly pay for qualified health insurance premiums. The utilization of this program among eligible retirees has expanded significantly over the past several years.

## Legislation

- In January, the board submitted its biennial Financial Evaluation Report to the Iowa General Assembly. The report provided the legislature and its staff a summary of the financial status of MFPRSI.
- The board included a recommendation to the Iowa General Assembly requesting the State of Iowa adhere to its funding commitment made in 1976 and resume its contribution to MFPRSI at 3.79% of payroll. This level of funding would have been a \$9.8 million commitment in fiscal year 2014. This recommendation was made into a bill that did not pass the Senate Appropriations Committee. A separate Standing Appropriations bill included language for the State of Iowa to contribute \$9.6 million in fiscal year 2013 and \$5 million in both fiscal years 2014 and 2015. This bill passed the Senate, but did not gain enough support to pass the House of Representatives.
- Senate File 327 (SF327) was passed into law providing clarification on several issues, including the following:
  - If a member dies or becomes disabled while serving in the military and is unable to return to active duty as a police officer or firefighter, his or her military service time will count toward his or her benefit calculation.
  - Married members wishing to withdraw contributions need to gain spousal approval if the amount is \$5,000 or more (determined as the limit by the IRS at the time of this publication). If the amount is less than \$5,000, members may withdraw contributions without spousal consent.
  - The definition describing eligible appointments to the retirement system's Board of Trustees now includes any city officer involved with the management of financial matters from the participating municipality. Previously, the definition only listed city treasurers, financial officers, and clerks as acceptable titles for nominees. Four of the nine Trustees are appointed to four-year terms through this definition.

- Modified Iowa Code language related to the retirement system so that it conforms with certain IRS requirements.

## **Management**

- The staff is implementing an upgrade to its pension administration system. The upgrade will improve data security and enhance operational functionality.
- At its October meeting, the board received both the actuarial valuation and annual audit for the retirement system as of June 30th.
- The board continued its regular review of each professional firm with which MFPRSI contracts for services. Modifications to the existing relationships were established via revisions to the appropriate contracts where necessary.

## **Communication and Outreach**

- The staff distributed annual statements to the active and terminated-vested memberships.
- Staff engaged in its annual outreach effort which offered the opportunity for individuals approaching retirement to meet with a representative of the retirement system.
- Staff gave presentations to member associations and to the League of Cities.
- Staff distributed periodic newsletters to its membership, employers, and to other interested parties. Additionally, staff maintained a website, [www.mfprsi.org](http://www.mfprsi.org), for members and city officials.



# Financial Reports

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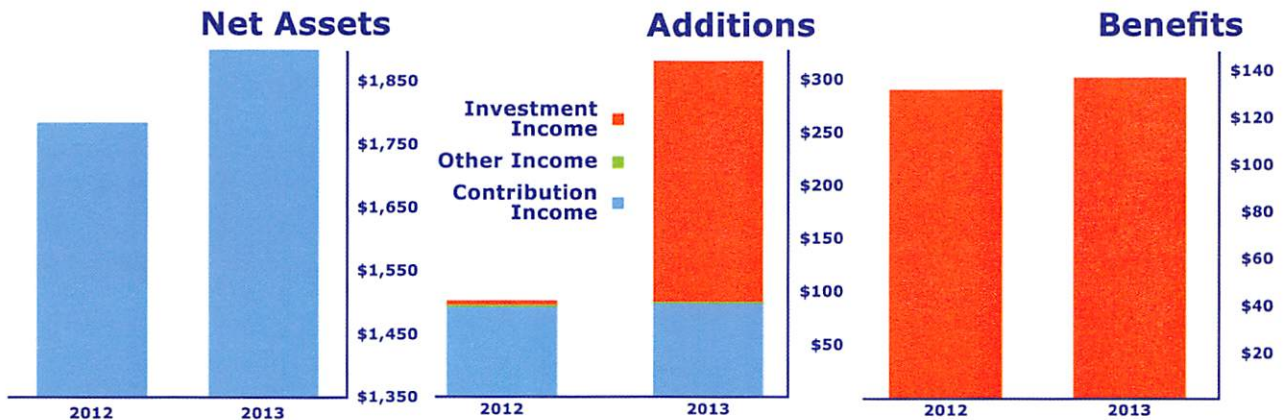
Management's Discussion and Analysis  
Statement of Plan Net Assets  
Statement of Changes in Plan Net Assets  
Notes to Financial Statements

# Management's Discussion and Analysis

The following discussion and analysis of the Municipal Fire and Police Retirement System of Iowa's (System) financial performance provides an overview of the System's financial activities for the fiscal years ended June 30, 2013 and 2012. Please read in conjunction with the basic financial statements, which follow this discussion. These statements represent the current condition from an accounting perspective, but do not reflect the System's actuarial status. Refer to the System's actuarial valuation for the System's funding status regarding long-term benefit obligations.

## Financial Highlights

- System assets exceeded its financial liabilities at the close of the fiscal years 2013 and 2012 by \$1,964,266,618 and \$1,785,228,513 (reported as plan net assets held in trust for pension benefits), respectively. Net assets are held in trust to meet future benefit payments.
- Additions for the year ended June 30, 2013 were \$318,281,742, which is comprised of contributions of \$88,686,610, net investment income of \$229,592,075, and other income of \$3,057. Additions for the year ended June 30, 2012 were \$90,142,336, which is comprised of contributions of \$86,081,548, net investment income of \$4,057,940, and other income of \$2,848.
- Benefit payments were \$136,593,585 and \$131,640,614 for the years ended June 30, 2013 and 2012, respectively, a 3.8% increase from year to year.



The graphs above display data in millions.

## **The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets**

This Annual Financial Report consists of two financial statements: the Statements of Plan Net Assets and the Statements of Changes in Plan Net Assets. These financial statements report information about the System as a whole, and financial condition that should help answer the question: Is the System, as a whole, better off or worse off as a result of this fiscal year's experience? These financial statements include all assets and liabilities using the accrual basis of accounting. Under the accrual basis of accounting, all revenues and expenses are taken into account regardless of when cash is received or paid.

The Statements of Plan Net Assets present all of the System's assets and liabilities, with the difference between assets and liabilities reported as plan net assets. Over time, increases and decreases in plan net assets is one method of measuring whether the System's financial position is improving or deteriorating. The Statements of Changes in Plan Net Assets present the changes in plan net assets during the respective fiscal year.

### **Financial Analysis**

System assets as of June 30, 2013 and 2012 were approximately \$1.98 billion and \$1.80 billion, respectively, and were primarily comprised of investments, cash, receivables from brokers, and contributions due from employers. The \$179,166,608, or 9.9%, increase in assets from June 30, 2012 to June 30, 2013 was primarily due to the unrealized gains experienced in invested assets.

As discussed in Notes 2 and 4 to the financial statements, total System investments include investments valued at \$644.0 million (32.5% of total assets) and \$567.3 million (31.5% of total assets) as of June 30, 2013 and 2012, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or the general partners.

Total liabilities as of June 30, 2013 and 2012 were \$17,717,360 and \$17,588,857, respectively, and were primarily comprised of obligations under benefits and refunds payable, as well as investment management expenses payable. The \$128,503, or 0.7%, increase in liabilities from June 30, 2012 to June 30, 2013 was due to an increase in payables for benefits offset by a decrease in payables for investment management expenses.

System assets exceeded liabilities at the close of fiscal year 2013 by \$1,964,266,618. During the year ended June 30, 2013 plan net assets held in trust for pension benefits increased \$179,038,105, or 10.0%, from the previous fiscal year, primarily due to the unrealized gains experienced in invested assets. This is in comparison to the previous fiscal year, when net assets decreased by \$44,177,154, or 2.4%, from the prior year.

## Condensed Statement of Plan Net Assets as of June 30, 2013 & 2012

	2013	2012	Total Percentage Change
<b>Assets</b>			
Cash	\$ 4,965	\$ 3,929	26.4%
Investments	1,970,919	1,794,484	9.8
Receivables	6,016	4,347	38.4
Other Assets	84	57	47.4
Total Assets	1,981,984	1,802,817	9.9
<b>Liabilities</b>			
Benefits & Refunds Payable	15,269	14,117	8.2
Investment Management Expenses Payable	1,681	3,202	(47.5)
Administrative Expenses Payable	387	269	43.9
Payable to brokers for unsettled trades	380	0	0
Total liabilities	17,717	17,588	0.7
Plan Net Assets	\$ 1,964,267	\$ 1,785,229	10%

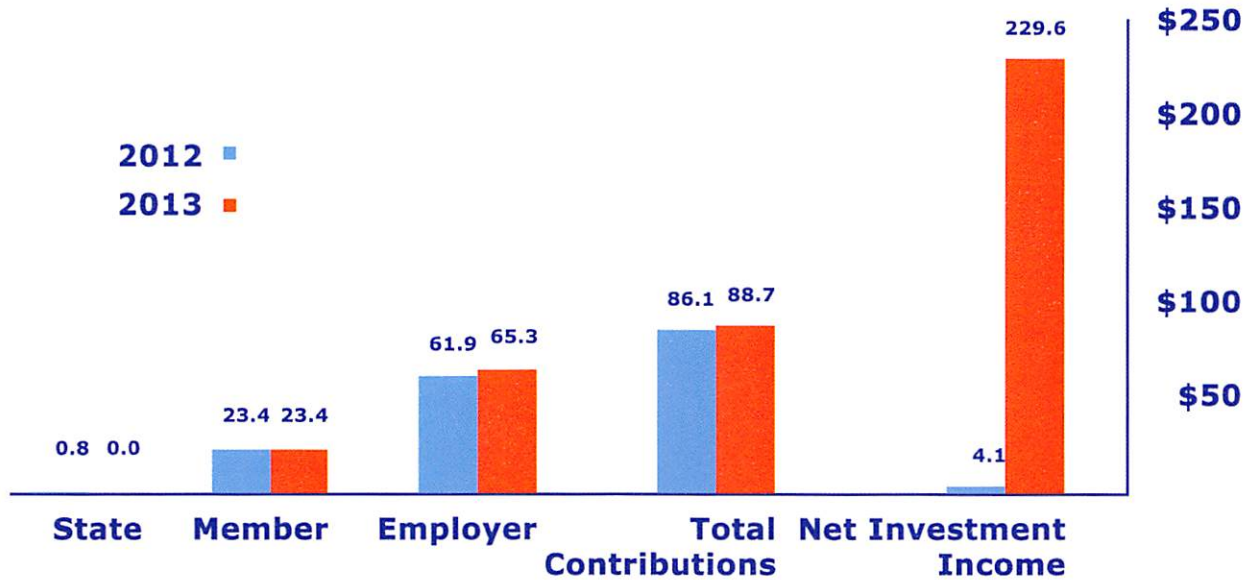
### Revenues - Additions to Plan Net Assets

Reserves needed to finance retirement benefits are accumulated through the collection of contributions and earnings on investments. Contributions and net investment income for the fiscal year 2013 totaled \$318,278,685.

Contributions increased from the previous year by \$2,605,062. This increase is primarily due to an increase in the employer contribution rate from 24.76% to 26.12% for the years ended June 30, 2012 and 2013, respectively. Net investment income increased from the previous year by \$225,534,135. This change is primarily due to an increase in the appreciation of the fair value of investments.



## Additions to Plan Net Assets (in millions)

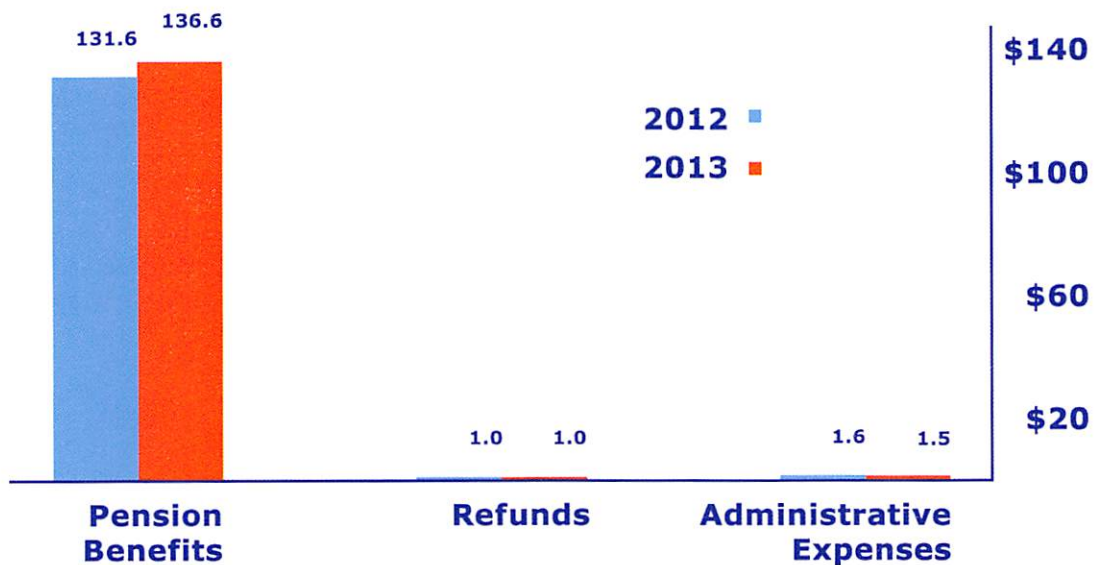


### Expenses - Deductions from Plan Net Assets

The principal expenses of the System include the payment of pension benefits to retired members and beneficiaries, refund of contributions to former members, and the cost of administering the System. Total deductions for the fiscal year 2013 were \$139,243,637, an increase of 3.7% over fiscal year 2012 deductions.

Pension benefit payments increased by \$4,952,971, or 3.8%, from the previous year. Refund of contributions increased by \$52,912, or 5.4%.

## Deductions from Plan Net Assets (in millions)



## **Retirement System as a Whole**

It is important to note the financial obligations established by the Iowa legislature in Iowa Code Chapter 411 are committed benefits, which are to be funded through the contributions made by the employers and the membership, in concert with the long-term return on investments. The “public policy” within Iowa has always been to meet the benefit commitments of the pension plans. The history of the plan benefits under Chapter 411 traces to 1934. The funding methods established by the legislature in the Iowa Code, whereby contributions are made from the individual employers and members, coupled with the “prudent person” concept for investment policy, provides the financial foundation for this public policy.

## **Contacting the System**

This financial report is designed to provide the System’s Board of Trustees, membership, and cities a general overview of the System’s finances and to demonstrate accountability for assets. If you have any questions about this or need additional financial information, contact the System’s office, 7155 Lake Drive, Suite 201, West Des Moines, IA 50266.

# Statement of Plan Net Assets

## Statement of Plan Net Assets as of June 30, 2013 & 2012

	2013	2012
<b>Assets</b>		
Cash	\$4,964,537	\$3,928,871
Investments, at fair value		
U.S. equity securities	443,271,741	366,771,486
Foreign equity securities	364,734,621	371,703,188
Commingled fixed income	189,709,264	235,383,134
Fund of funds commingled investment	247,589,014	227,929,863
Short-term investments and currency positions	16,232,704	25,357,221
Real estate	271,974,484	182,880,399
Private equity	354,581,877	319,075,681
Multi-strategy commingled fund	82,824,878	65,383,401
Total investments, at fair value	<u>1,970,918,583</u>	<u>1,794,484,373</u>
<b>Receivables</b>		
Contributions	4,342,743	4,027,239
Investment Income	27,306	155,597
Receivable from brokers for unsettled trades, net	1,646,358	164,396
Total Receivables	<u>6,016,407</u>	<u>4,347,232</u>
<b>Other</b>		
Other assets	84,451	56,894
Total assets	<u>1,981,983,978</u>	<u>1,802,817,370</u>
<b>Liabilities</b>		
Benefits & Refunds Payable	15,269,329	14,117,497
Investment Management Expenses Payable	1,680,596	3,201,956
Administrative Expenses Payable	387,435	269,404
Payable to brokers for unsettled trades, net	380,000	0
Total liabilities	<u>17,717,360</u>	<u>17,588,857</u>
Plan net assets held in trust for pension benefits	<u>\$1,964,266,618</u>	<u>\$1,785,228,513</u>

See notes to financial statements.

# Statement of Changes in Plan Net Assets

## Statement of Changes in Plan Net Assets as of June 30, 2013 & 2012

	2013	2012
<b>Additions</b>		
Contributions:		
Member	\$23,358,844	\$23,419,864
Employer	65,327,766	61,911,684
State appropriations	0	750,000
Total contributions	<u>88,686,610</u>	<u>86,081,548</u>
Investment income:		
Interest	204,942	1,016,001
Dividend	13,061,699	8,907,078
Net appreciation in fair value of investments	<u>230,476,832</u>	<u>9,780,524</u>
Net investment income from investment activity	243,743,473	19,703,603
Less investment expenses:		
Management fees and other	<u>14,151,398</u>	<u>15,645,663</u>
Net investment income	229,592,075	4,057,940
Other income	<u>3,057</u>	<u>2,848</u>
Total additions	<u>318,281,742</u>	<u>90,142,336</u>
<b>Deductions</b>		
Benefit payments	136,593,585	131,640,614
Refund payments	1,024,295	971,383
Administrative expenses	1,523,477	1,606,072
Disability expenses	<u>102,280</u>	<u>101,421</u>
Total deductions	<u>139,243,637</u>	<u>134,319,490</u>
Net increase (decrease)	179,038,105	(44,177,154)
Plan net assets held in trust for pension benefits:		
Beginning of year	<u>1,785,228,513</u>	<u>1,829,405,667</u>
End of year	<u>\$1,964,266,618</u>	<u>\$1,785,228,513</u>

See notes to financial statements.

# Notes to Financial Statements

## Plan Description

### General

The Municipal Fire and Police Retirement System of Iowa (System) was created under Chapter 411.35 of the Code of Iowa to replace 87 separate fire and police retirement systems from 49 cities and 1 county in Iowa (Separate Systems). Effective January 1, 1992, the Separate Systems were terminated, and the respective entities were required to transfer assets to the System equal to their respective accrued liabilities (as measured by the System's actuary). Upon transfer of the assets, the System assumed all membership, benefits rights, and financial obligations of the Separate Systems.

The System is the administrator of a multi-employer, cost sharing, defined benefit pension plan (the Plan) for the exclusive benefit of eligible employees of participating cities (substantially all full-time employees of the respective cities' fire and police departments). It is governed by a nine-member Board of Trustees (Board) who are appointed to the Board by police and fire associations and by the Iowa League of Cities. The eight voting members select a private citizen to serve as the ninth voting member. The Board is authorized by the state legislature to make investments, pay benefits, set contributions rates, hire staff and consultants, and perform all necessary functions to carry out the provisions of the Code of Iowa. The System is separate and apart from state government and is not included in the state's financial statements.

At June 30, 2013, the System was comprised of 49 cities in Iowa covering 3,866 active members; 315 terminated members entitled to benefits; and 3,862 retired firefighters, police officers, bailiffs, and eligible beneficiaries.

### Funding

Member contribution rates are set by state statute. In accordance with Iowa Code Chapter 411 as modified by act of the 1994 General Assembly, to establish compliance with the Federal Older Workers Benefit Protections Act, the contribution rate was 9.40% of earnable compensation for the years ended June 30, 2013 and 2012.

Employer contribution rates are based upon an actuarially determined normal contribution rate and set by state statute. The required actuarially determined contributions are calculated on the basis of the entry age normal method as adopted by the Board of Trustees as permitted under Chapter 411 of the Code of Iowa. The normal contribution rate is provided by state statute to be the rate percent of the earnable compensation of all members equal to the rate required by the System to discharge its liabilities, stated as a percentage of the earnable compensation of all members, and reduced by the employee contribution rate. Under the Code of Iowa the employer's contribution rate cannot be less

than 17.00% of earnable compensation. The contribution rate was 26.12% and 24.76% for the years ended June 30, 2013 and 2012, respectively.

*State Appropriations* - State appropriations are approved by the state legislature and may further reduce the employer's contribution rate, but not below the minimum statutory contribution rate of 17.00% of earnable compensation. The state of Iowa contributed \$750,000 in fiscal year 2012 and \$0 in fiscal year 2013.

## **Benefits**

Participating members are entitled to the benefit provisions in effect on the member's date of termination. The following is a summary of the System benefit provisions for the years ended June 30, 2013 and 2012:

*Retirement* - Members with 4 or more years of service are entitled to pension benefits beginning at age 55. Full service retirement benefits are granted to members with 22 years of service, while partial benefits are available to those members with 4 to 22 years of service based on the ratio of years completed to years required (22 years). Members with less than 4 years of service are entitled to a refund of their contribution only, with interest for the period of employment.

Benefits are calculated based upon the member's highest 3 years of compensation. The average of these 3 years becomes the member's average final compensation. The base benefit is 66 percent of the member's average final compensation. Additional benefits are available to members who perform more than 22 years of service (2 percent for each additional year of service, up to a maximum of 8 years). Survivor benefits are available to the beneficiary of a retired member according to the provisions of the benefit option chosen plus an additional benefit for each child. Survivor benefits are subject to a minimum benefit for those members who chose the basic benefit with a 50 percent surviving spouse benefit.

*Disability and Death* - Disability coverage is broken down into two types, accidental and ordinary. Accidental disability is defined as permanent disability incurred in the line of duty, with benefits equivalent to the greater of 60 percent of the member's average final compensation or the member's service retirement benefit calculation amount. Ordinary disability occurs outside the call of duty and pays benefits equivalent to the greater of 50 percent of the member's average final compensation, for those with 5 or more years of service, or the member's service retirement benefit calculation amount, and 25 percent of average final compensation for those with less than 5 years of service.

Death benefits are similar to disability benefits. Benefits for accidental death are 50 percent of the average final compensation of the member plus an additional amount for each child, or the provisions for ordinary death. Ordinary death benefits consist of a pension equal to 40 percent of the average final compensation of the member plus an additional amount for each child, or a lump-sum distribution to the designated beneficiary equal to 50 percent of

the previous year's earnable compensation of the member or equal to the amount of the member's total contributions plus interest.

Benefits are increased (escalated) annually in accordance with Iowa Code Chapter 411.6 which states a standard formula for the increases.

*Traumatic Personal Injury* - The surviving spouse or dependents of an active member who dies due to a traumatic personal injury incurred in the line of duty receives a \$100,000 lump-sum payment.

*Deferred Retirement Option Program (DROP)* - Active members, at least 55 years of age, with 22 or more years of service have the option to participate in the DROP Program. The DROP is an arrangement whereby a member who is otherwise eligible to retire and commence benefits opts to continue to work. A member can elect a 3, 4, or 5 year DROP period. By electing to participate in DROP the member is signing a contract indicating the member will retire at the end of the selected DROP period. During the DROP period the member's retirement benefit is frozen and a DROP benefit is credited to a DROP Account established for the member. Assuming the member completes the DROP period, the DROP benefit is equal to 52% of the member's retirement benefit at the member's earliest date eligible and 100% if the member delays enrollment for 24 months. At the member's actual date of retirement, the member's DROP Account will be distributed to the member in the form of a lump-sum or rollover to an eligible plan.

## **Summary of Significant Accounting Policies**

### **Basis of Presentation**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The System has elected to apply only applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, that do not contradict Governmental Accounting Standards Board (GASB) pronouncements.

The System prepared its financial statements using the accrual basis of accounting. It recognizes member and employer contributions as revenues in the month member earnings are paid. Benefits and refunds are recognized as expenses when payable. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

### **Use of Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts in the financial statements. The System's estimates are primarily related to the valuation of various investment instruments, including real estate, private equity, and the multi-strategy commingled fund. Actual results could differ from those estimates.

## **Risks and Uncertainties**

The System utilizes various investment securities including U.S. government securities, corporate debt instruments, mutual funds, private equities, and corporate stocks. Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect the amounts reported in the financial statements.

Plan contributions are made and the actuarial accrued liability of plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates, and member demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

## **Investments**

The System's securities are reported at fair value. Where appropriate, the fair value includes estimated disposition costs. Certificates of deposit are recorded at amortized cost, which approximates fair value. Interest income is recognized when earned. Dividend income is recognized on the ex-dividend date. Gains or losses on stocks and bonds are recognized on an average cost basis calculated separately for each investment manager. Other gains and losses are recognized on an identified cost basis. Gains and losses on sales and exchanges are recognized on the trade date. The fair values of marketable securities held at June 30 are determined by using the closing price listed on active national securities exchanges and quoted market prices provided by independent pricing services. For commingled funds, the net asset value is determined and certified by the commingled fund manager. Investments in real estate, private equities, and the multi-strategy commingled fund which invest in both publicly and privately owned securities are valued based on estimates and assumptions of general partners, partnership valuation committees, or third party appraisal firms, in the absence of readily determined market values. Such valuations generally reflect discounts for illiquidity and consider variables such as financial performance of investments, recent sales prices of investments, and other pertinent information.

## **Income Taxes**

The System has a tax determination letter from the Internal Revenue Service stating that it qualifies under the provision of Section 401 of the Internal Revenue Code and is exempt from federal and state income taxes.

## **New Accounting Standards Not Yet Effective**

In June 2012, GASB issued Statement No. 67, Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25. The System will be subject to the provisions of GASB Statement No. 67 beginning with the fiscal year ending June 30, 2014. GASB Statement No. 67 replaces the requirements of GASB Statement No. 25, Financial Reporting for Defined Benefit



Pension Plans and Note Disclosures for Defined Contribution Plans, and GASB Statement No. 50, Pension Disclosures, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. GASB Statement No. 67 builds upon the existing framework for financial reports of defined benefit pension plans and enhances note disclosures and required supplementary information. In addition, it requires the presentation of new information about the annual money-weighted rates of return on pension plan investments in the notes to the financial statements and in the required supplementary information schedules. The System is evaluating the impact of the new GASB standard.

## Cash

For cash deposits, custodial credit risk is the risk that in the event of a bank failure, the System’s deposits may not be returned. The table below presents a summary of cash balances of the System at June 30, 2013 and 2012:

### Cash Balance as of June 30, 2013 & 2012

	2013	2012
Insured	\$ 250,000	\$ 250,000
Uninsured and uncollateralized	<u>4,714,537</u>	<u>3,678,871</u>
Carrying amount	<u><u>4,964,537</u></u>	<u><u>3,928,871</u></u>

## Investments

### Investment Policy

The investment authority, as prescribed by the Code of Iowa, is governed by the “prudent person rule.” This rule requires that an investment be made with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an entity of a like character with like aims. Within the “prudent person” framework, the Board has adopted investment guidelines for the System’s investment program.

The System is prohibited from holding direct investments in the Sudan and Iran due to state statute. The following investment vehicles are permitted by the System’s investment policy and may be considered for the System’s funds:

### Stocks and Bonds (Domestic, International & Emerging Markets)

- Securities issued by and the obligations of or guaranteed by the United States of America or U.S. government sponsored enterprises or by the Dominion of Canada or any province thereof, financial futures and options;
- Bonds issued by the State of Iowa or its political subdivisions;

- Common stock, American Depositary Receipts, corporate bonds, or other evidences of indebtedness issued under the laws of the Dominion of Canada or any province thereof;
- Common stock, bonds, or other evidences of indebtedness issued under the laws of selected foreign countries or their political subdivisions;
- Debt instruments issued by multinational organizations, on behalf of selected nations or groups of nations, such as Brady Bonds, whether in U.S. dollars or foreign currencies;
- Mutual funds, commingled funds, or private equity which are comprised of stocks, equity and or debt instruments, including those which hold positions in emerging markets, whether in U.S. dollars or foreign currencies; and,
- Derivative instruments, such as futures and options, can be utilized as an alternative to a stock or bond position, as specified.

### **Other Asset Classes**

The currency positions of the System include the currency of a group of selected nations, which have well-established and stable economic and political structures. Currency positions are only taken in countries or in multinational currencies (for examples, Euros) in which the System has determined to invest the System's assets. The currency assets of the System are represented within the individual portfolios of the investment managers, which have mandates, which include international bonds or stocks. The benchmark against which these managers run the portfolios shall include a zero percent hedged position to the U.S. dollar for the international portions of the mandate.

### **Derivative Instruments**

Derivative instruments, such as futures and options, may be utilized in selected portfolios for the following purposes:

1. As an alternative to maintaining a selected asset position,
2. To maintain the duration of securities in a portfolio,
3. To gain exposure in a time of dollar strength to a foreign bond market with minimal exposure to the currency of the country,
4. To hedge or otherwise protect existing or anticipated portfolio positions,

5. To establish and maintain the currency positions for the currency overlay portfolio and for the individual currency activities of the individual portfolios, and
6. Not to speculate or leverage (gear-up) the portfolio.

Derivative instruments are generally defined as contracts whose value depends on (“derives” from) the value of an underlying asset, reference rate, or index. Derivative instruments include both of the following:

- a) “Over the counter” (OTC) derivatives: privately negotiated contracts provided directly by dealers to end-users; which include swaps, futures, and options based upon interest rates, currencies, equities, and commodities; and
- b) Standardized contracts sold on exchanges: futures and options.

### Real Estate

The real estate positions of the System may include domestic or international real estate investments in individual properties or groups of properties, through one or more of the following: direct purchase or mortgage of individual properties, participation in a commingled fund (open-ended or closed-ended), or in a trust or a partnership, which has positions in one or more properties.

The real estate positions of the System may include investment in securitized real estate, via publicly traded or privately held Real Estate Investment Trusts (REITs).

### Fund of Funds Commingled Investments

As of June 30, 2013 and 2012, the System was invested in fund of funds commingled investments, which can be broken down into the following asset classes:

#### Fund of Funds Commingled Asset Breakdown

	2013	2012
<b>Investments, at fair value:</b>		
U.S. equity securities	\$ 134,575,916	\$ 126,640,255
Foreign equity securities	75,883,390	62,029,538
Commingled fixed income	31,008,506	31,450,162
Short-term investments and currency positions	6,121,202	7,809,908
Total fund of funds commingled investments	\$ 247,589,014	\$ 227,929,863

## Investment Risk Disclosure:

### *Credit Risk*

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations as of June 30, 2013 are as follows:

	<b>Quality Rating</b>	
<b>Rating</b>	<b>Fair Value</b>	<b>Percentage of Portfolio</b>
AAA	\$ 0	0%
AA	26,892,078	14.18
A	76,125,377	40.13
BBB	0	0
BB	5,890,105	3.10
B	0	0
N/A	11,174,217	5.89
	<hr/>	<hr/>
Total credit risk debt securities	120,081,777	63.30
	<hr/>	<hr/>
U.S. Government Fixed Income Securities*	69,627,487	36.70
	<hr/>	<hr/>
Total fixed income securities	\$ 189,709,264	100%

\*Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government.

The System does not have a formal policy that limits the quality grade in which the System may invest.

### *Custodial Credit Risk*

For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the System will not be able to recover the value 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 counter-party or the counter-party's trust department or agent but not in the System's name.

Iowa Code 411.7 establishes the secretary of the Board as the custodian of the fund and provides for the System to select master custodian banks to provide custody of the System's assets. On December 1, 2011, the System arranged for Wells Fargo Bank (previously Bank of New York Mellon Corporation) to act as the master custodian bank. The master custodian bank may hold System property in the name of its nominee, bearer form, or in book entry form, so long as the custodian's records clearly indicate that such property is held as part of the System's account.

### ***Concentration of Credit Risk***

The System is guided by statute and policy in the selection of security investments. No investments in any one organization represent 5% or more of plan assets.

### ***Interest Rate Risk***

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. The following table discloses the fair value and average duration of fixed income investments as of June 30, 2013.

#### **Portfolio Fixed Income Fair Value and Duration**

	<b>Fair Value</b>	<b>Duration</b>
Investment type:		
Short-term	\$ 980,427	0.0225
Commingled	<u>189,709,264</u>	<u>5.4478</u>
Total fair value	<u>\$ 190,689,691</u>	
Portfolio modified duration		<u>5.4199</u>

Duration is a measure of interest rate risk. The greater the duration of a bond, or portfolio of bonds, the greater its price volatility will be in response to a change in interest rates and vice-versa. Duration is the measure of a bond price's sensitivity to a 100-basis point change in interest rates. Duration of eight would mean that, given a 100-basis point change up/down in rates, a bond's price would move up/down by 8%.

### ***Commitments***

The System is committed, as of June 30, 2013, to invest approximately \$302,000,000 in certain private equity, real estate partnerships, and real estate commingled funds.

### ***Derivatives***

The System's investment managers may invest in derivative securities as permitted by their contracts. A derivative security is an investment whose payoff depends upon the value of an underlying asset such as bond and stock prices or a market index. All derivatives are considered investments. The System has no hedging derivatives because all derivatives are entered primarily for the purpose of achieving a positive return. The fair values of all derivative financial instruments are reported in the Statements of Plan Net Assets as 'Short-term investments and currency positions'. Changes in the values of derivative financial instruments are reported in the Statements of Changes in Plan Net Assets as 'Net appreciation in fair value of investments'. Derivative

financial instruments involve, to varying degrees, credit risk and market risk. At June 30, 2013 and 2012, the System had no derivative financial instruments.

Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. To limit credit risk, each investment manager screens potential counter-parties and establishes and maintains an approved list of acceptable firms which meet a high level of creditworthiness.

Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is managed by imposing contractual requirements on the investment managers as to the types, amounts and degree of risk they may undertake. Investment managers' derivative activities are reviewed on a periodic basis by the System as well as the Board to monitor compliance with the contracts. The System does not purchase derivatives with borrowed funds and does not allow the leveraging of the portfolios.

The System's derivative investments may include foreign currency forward contracts, options, futures, and collateralized mortgage obligations. The remaining derivative securities are used to improve yield, adjust the duration of the fixed income portfolio, or to hedge changes in interest rates.

A forward contract is an agreement to buy or sell a specific currency position or security at a specified delivery or maturity date. As the fair value of the forward contract fluctuates, the System records an unrealized gain or loss. There were no forward contracts outstanding at June 30, 2013 or 2012.

A financial option is an agreement that gives one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price, called the strike price, on or before a specified expiration date. The System's leverage prohibitions which apply to forwards and futures also apply to options. There were no financial options outstanding at June 30, 2013 or 2012.

Futures represent commitments to purchase (asset) or sell (liability) securities at a future date and at a specified price. Futures contracts are traded on organized exchanges (exchange traded) thereby minimizing the System's credit risk. The net change in the futures contracts value is settled daily in cash with the exchanges. As of June 30, 2013 and 2012, the System was not invested in futures.

Contractual amounts, which represent the fair value of the underlying assets the derivative contracts control, are often used to express the volume of these transactions but do not reflect the extent to which positions may offset one another. These amounts do not represent the amounts potentially subject to risk because long positions are offset with short positions and vice versa. Every position which is sold or purchased must be backed by assets, since the investment managers are not allowed to leverage the portfolio.

Derivatives which are exchange traded are not subject to the custodial credit risk disclosure. As of June 30, 2013 and 2012, the System was not invested in currency forwards.

## Funded Status and Funding Progress

The funded status of the Plan as of July 1, 2013 as calculated using entry age normal based on a 25-year amortization period is as follows (dollar amounts in thousands):

### Funded Status

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Payroll ((b-a)/c)
\$1,860,948	\$2,518,229	\$657,281	<u>73.9%</u>	\$258,425	<u>254.3%</u>

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the AAL for benefits.

Additional information as of the latest actuarial valuation follows:

### Additional Actuarial Valuation Information

Valuation Date	July 1, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar open
Remaining amortization period	25 years
Asset valuation period	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	4.50% to 15.11%
COLAs	Annual adjustment in accordance with Iowa Code Chapter 411.6

## Required Supplementary Information

### Schedule of Contributions from the Employers and other Contributing Entities

Year Ended June 30	Annual Required Contributions			Percentage Contributed		
	Employer	Member	State	Employer	Member	State
2013	\$65,327,766	\$23,358,844	\$0	100%	100%	100%
2012	61,911,684	23,419,864	750,000	100	100	100
2011	47,392,747	22,328,836	1,500,000	100	100	100
2010	39,852,678	21,874,015	2,253,158	100	100	100
2009	42,112,894	20,909,488	2,704,597	100	100	100
2008	54,565,393	20,009,916	2,745,784	100	100	100
2007	57,019,034	19,146,427	2,745,784	100	100	100
2006	56,078,840	18,525,032	2,745,784	100	100	100
2005	47,717,299	17,672,155	2,745,784	100	100	100
2004	36,868,735	16,772,145	2,745,784	100	100	100

### Schedule of Funding Progress (dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
07/01/2013*	\$1,860,948	\$2,518,229	\$657,281	73.9%	\$258,425	254.3%
07/01/2012*	1,838,607	2,493,849	655,242	73.7	258,518	253.5
07/01/2011**	1,867,281	2,388,494	521,213	78.2	248,869	209.4
07/01/2010**	1,862,630	2,296,382	433,752	81.1	242,481	178.9
07/01/2009**	1,897,931	2,216,645	318,714	85.6	232,872	136.6
07/01/2008**	1,891,172	2,109,111	217,939	89.7	223,752	97.4
07/01/2007**	1,752,135	2,010,377	258,242	87.2	213,039	121.2

\*25-year amortization period

\*\*30-year amortization period



## Notes to Required Supplementary Information

Valuation date		July 1, 2013
Actuarial cost method		Entry Age Normal *
Remaining amortization period		25 years
Asset valuation method	Fair value adjusted for a five-year amortization of asset gains as of July 1, 2013, 2012, 2011, 2010, 2009 and 2008	
Actuarial assumptions:		
Investment rate of return		7.50%
Projected salary increases		4.50% to 15.11%
Post-retirement mortality table:		
Ordinary	A weighting equal to 4 /12 of the 1971 Group Annuity Mortality Table, Male and Female and 8/12 of the 1994 Group Annuity Mortality Static Table, Male and Female with no projection of future mortality improvement.	
Disabled	A weighting equal to 4/12 of the 1971 Group Annuity Mortality Table — Male, set forward three years and 8/12 of the 1994 Group Annuity Mortality Static Table — Male, set forward three years with no projection of future mortality improvement.	

\* Aggregate cost method used July 1, 2003, - July 1, 2010.

# Benefits

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Description of Benefit Plan

Optional Forms of Payment

Deferred Retirement Option Program

Examples of Monthly Benefit Calculations



# Description of Benefit Plan

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The following section describes the eligibility of the membership of MFPRSI for different types of retirement benefits. Benefit formulas are established by Iowa Code Chapter 411. Revisions to the benefit program can only be instituted by the Iowa General Assembly. The Board and the administration of the retirement system are required to administer retirement benefits in compliance with the statutory provisions. Questions concerning an individual's eligibility should be directed to the administration of the retirement system.

## **Retirement Age**

To qualify for a full service retirement, the member shall be age 55 or older with a minimum of 22 years of service at termination of employment. The other forms of benefits, with the exception of vested retirement and DROP, do not have specific age or length of service requirements. Retirement under the ordinary disability or accidental disability programs of MFPRSI are available to members who become permanently disabled (permanently defined as a duration of one year or longer) while employed as a firefighter or police officer without regard to the age of the member.

## **Benefit Amounts**

Current benefit amounts are based upon a percentage of the member's average monthly earnable compensation. The average monthly earnable compensation is calculated by adding the member's earnable compensation for the highest three years of service and dividing it by 36. The percentage multiplier varies by type of retirement and the length of the member's service. The benefit percentage for a service retirement is 66% with 22 years of service and 82% with 30 year of service.

## **Refunds**

Since July 1, 1990, members who terminate service (other than by death or disability) may withdraw their contributions in total from their date of hire through their termination date. If a member withdraws contributions, the member waives any claim to benefits for the period of membership for which the withdrawal is made.

Effective July 1, 1994, members who terminate service also have the option to rollover the eligible portion of their refund to another qualified retirement plan or to an Individual Retirement Account (IRA). Such rollovers must be approved in advance by MFPRSI. The contributions being withdrawn are credited with an annualized simple interest rate determined by the Board, currently set at 5%.

## Vesting

If the employment of a member is terminated before age 55 (other than by death or disability) and the member has at least four years of service, or if the member retires after age 55 but with less than 22 years of service the member is entitled to a vested service retirement payable at age 55 or at termination. The benefit formula is a fraction of the pension the member would have received under a regular service retirement.

# Optional Forms of Payment

Members retiring as service or vested service retirement have the opportunity to select either the basic benefit as provided by Chapter 411, or one of six optional forms of benefit. Each of the optional forms is based on the member's average monthly compensation and number of years of service. The options are calculated using actuarial tables which consider the age of the member at retirement, the age of the member's beneficiary, and the assumed life expectancy of both. Summaries of each option are listed below:

### **Joint and 75% Survivor Annuity Benefit**

The member receives an actuarially adjusted benefit for his or her lifetime. Upon the member's death, the named beneficiary receives 75% of the gross amount of the member's payment at the time of the member's death. The beneficiary receives this amount for his or her lifetime. Upon the death of the beneficiary, the benefit ends. If the beneficiary dies before the member, the benefit ends with the death of the member.

### **Joint and 75% Survivor Annuity with Pop-up**

An actuarially adjusted retirement allowance based upon the basic benefit. Following the member's death, the designated beneficiary of the member will receive for the duration of his or her lifetime 75% of the member's retirement allowance at the time of the member's death. If the designated beneficiary predeceases the member, the member's retirement allowance shall be increased to the amount of the service retirement allowance under the basic benefit and no survivor benefit is payable following the death of the member.

### **Joint and 100% Survivor Annuity Benefit**

The member receives an actuarially adjusted benefit for his or her lifetime. Upon the member's death, the named beneficiary receives 100% of the gross amount of the member's payment at the time of the member's death. The beneficiary receives this amount for the duration of his or her lifetime. Upon the death of the beneficiary, the benefit ends. If the beneficiary dies before the member, the benefit ends with the death of the member.

**Joint and 100% Survivor Annuity with Pop-up**

An actuarially adjusted retirement allowance based upon the basic benefit. Following the member's death, the designated beneficiary of the member will receive for the duration of his or her lifetime 100% of the member's retirement allowance at the time for the member's death. If the designated beneficiary predeceases the member, the member's retirement allowance shall be increased to the amount of the service retirement allowance under the basic benefit and no survivor benefit is payable following the death of the member.

**Single Life Annuity with Designated Lump Sum Benefit**

The member receives an actuarially adjusted benefit for his or her lifetime. Upon the death of the member, a pre-designated lump sum is paid to the named beneficiary or beneficiaries and the benefit ends. If the beneficiary dies before the member, the lump sum is paid to the member's estate.

**Straight Life Annuity Benefit**

An actuarially adjusted retirement allowance based upon the basic benefit. Following the member's death, no further benefits are payable.

## Deferred Retirement Option Program (DROP)

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Active members, at least 55 years old, with 22 or more years of service have the option to participate in the DROP Program. The DROP is an arrangement whereby a member who is otherwise eligible to retire and commence benefits opts to continue to work. A member can elect a 3, 4, or 5 year DROP period. By electing to participate in DROP the member is signing a contract indicating the member will retire at the end of the selected DROP period.

During the DROP period the member's retirement benefit is frozen and a DROP benefit is credited to a DROP Account established for the member. The DROP benefit is equal to 52% of the member's retirement benefit at the member's earliest date eligible and 100% if the member delays enrollment for 24 months. At the member's actual date of retirement, the member's DROP Account will be distributed to the member in the form of a lump-sum or rollover to an eligible plan.

# Examples of Monthly Benefit Calculations

## Assumptions

Member Age:	55	Spouse Age:	54	Lump Sum:	\$100,000
Average Monthly Compensation:	\$4,000	Beneficiary Age:	54		

## Service Retirement Basic Benefit & Optional Forms of Monthly Benefit Payment

Basic Benefit:	$\$4,000 \times 66\% =$	\$2,640
Maximum Benefit:	$\$4,000 \times 82\% =$	\$3,280

### Optional Forms of Payment (Based on 66% Base Benefit of \$2,640):

Joint & 75% Survivor	\$2,528
Joint & 75% Survivor with Pop-up	\$2,500
Joint & 100% Survivor	\$2,424
Joint & 100% Survivor with Pop-up	\$2,390
Straight Life Annuity with Lump Sum	\$2,692
Straight Life Annuity	\$2,899

Service retirement basic benefit is equivalent to 66% of the member's average final compensation. Additional benefits are available to members who perform more than 22 years of service (2 percent for each additional year of service; up to a maximum of 8 additional years).

## Accidental Disability Retirement Form of Monthly Benefit Payment

Basic Benefit:	$\$4,000 \times 60\% =$	\$2,400
Maximum Benefit:	$\$4,000 \times 82\% =$	\$3,280

Accidental disability is the greater of 60% of the member's average final compensation or the member's service retirement benefit calculation amount.

## Ordinary Disability Retirement Form of Monthly Benefit Payment

Basic Benefit with less than 5 years of service:	$\$4,000 \times 25\% =$	\$1,000
Basic Benefit with more than 5 years of service:	$\$4,000 \times 50\% =$	\$2,000
Maximum Benefit:	$\$4,000 \times 82\% =$	\$3,280

Ordinary disability is greater of 50% of the member's average final compensation, for those with 5 or more years of service, or the member's service retirement benefit calculation amount, and 25% of average final compensation for those with less than 5 years of service.

## Accidental / Ordinary Death Forms of Monthly Benefit Payment

Accidental Death Benefit:	$\$4,000 \times 50\% =$	\$2,000
Ordinary Death Benefit:	$\$4,000 \times 40\% =$	\$1,600
Child Benefit:	$\$4,000 \times 6\% =$	\$240

Accidental death benefits are 50% of the member's average final compensation and ordinary death benefits are 40% of the member's average final compensation plus an additional benefit for each child.

## Death after Retirement (Spousal & Child Benefit) Forms of Monthly Benefit Payment

Survivor Benefit*:	$\$2,640 \times 50\% =$	\$1,320
Child Benefit:	$\$4,000 \times 6\% =$	\$240

\*Survivor Benefit assumes member chose the basic benefit.

Survivor benefits are available to the beneficiary of a retired member according to the provisions of the benefit option chosen plus an additional benefit for each child.





# Statistics

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Membership Data  
Contributions to the Plan



# Membership Data

MFPRSI experienced a decrease year-over-year (as of fiscal years ending June 30 of both 2013 and 2012) in both its number of active members and total sum of all members' annual compensation. Concurrently, the average annual compensation of active members increased by \$355. This is due to normal salary and inflation adjustments. The average age and average years of service for active members did not change over the course of the fiscal year.

Non-active members (e.g., members who terminate before age 55) increased by 19 and their average benefit also increased by \$800 year-over-year. Meanwhile, the average age of non-active members decreased by 0.4, or approximately 3 months.

Members and beneficiaries receiving monthly benefit payments increased by 46 and their benefit payments increased by an average of \$1,448 over the course of the year. The benefit increase was caused by both new retirees and the annual adjustment of benefits. The annual benefit adjustment is required by state law.

## Membership Profile July 1, 2013

	2013	+/-
<b>Active Members</b>		
Number	3,866	(22)
Average age	40.8	0
Average past service	13.5	0
Total Annual Compensation	\$258,425,211	(\$92,840)
Average Annual Compensation	\$66,846	\$355
<b>Non-Active Members with Deferred Benefits</b>		
Number*	315	19
Average age	44.6	(0.4)
Total Annual Benefits	\$5,353,716	\$559,812
Average Annual Benefits	\$16,996	\$800
<b>Members and Beneficiaries in Pay Status</b>		
Number	3,862	46
Average age (excluding children)	68.9	0.1
Total Annual Benefits	\$133,363,968	\$7,115,172
Average Annual Benefits	\$34,532	\$1,448

\* Excludes 14 and 18 terminated non-vested members who had not yet received a refund of contributions as of 2013 and 2012, respectively.

+/- column compares data as of June 30, 2013, to data as of June 30, 2012.

The following table reflects the membership application activity the System experienced during fiscal year 2013 (July 1, 2012 to June 30, 2013) as well as statistical history of the benefit, disability, beneficiary, and refund activity of the System since its inception on January 1, 1992.

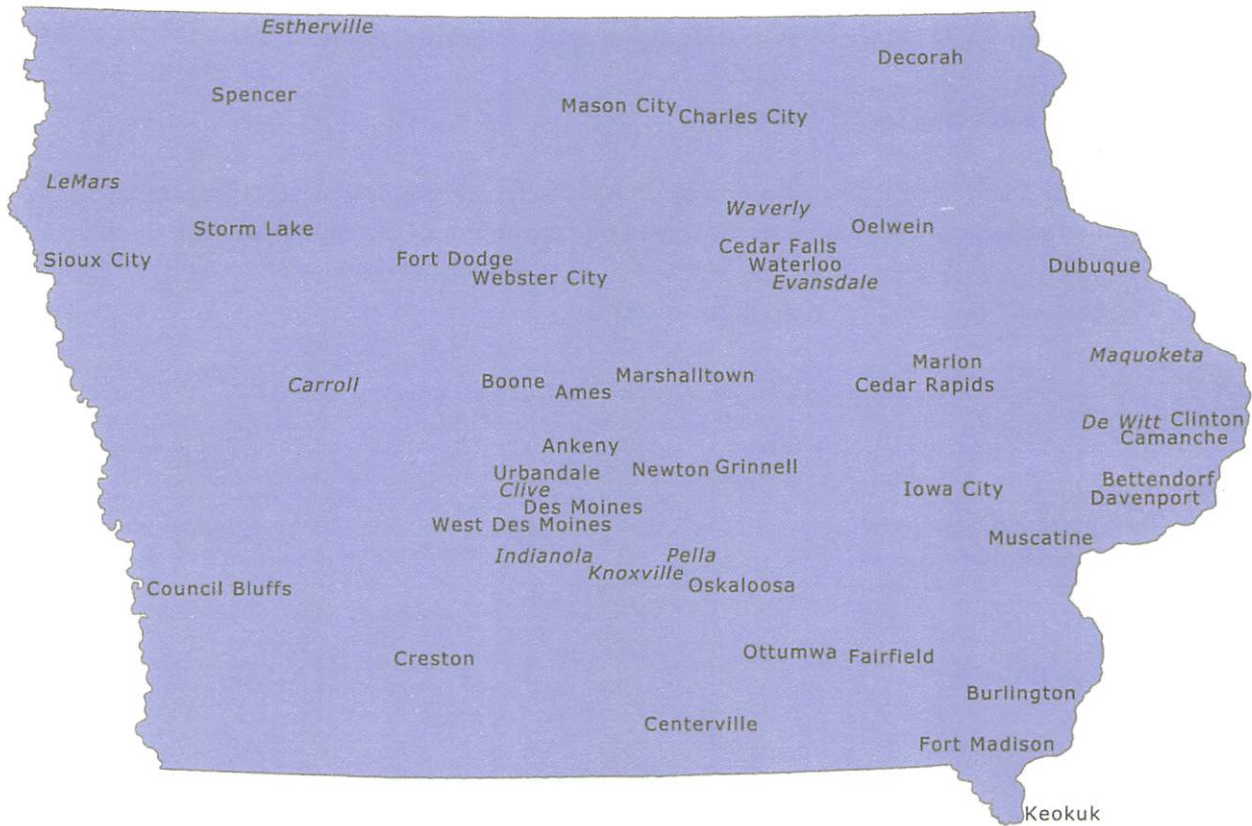
### Membership Retirement Application Activity Through June 30, 2013

	FYs 1992- 1997	FYs 1998- 2003	FYs 2004- 2006	FYs 2007- 2009	FYs 2010- 2012	FY 2013	FYs 1992 - 2013 Total
<b>Members</b>							
Service	378	405	198	195	226	34	1,436
Disability Accidental	186	233	97	96	76	32	720
Disability Ordinary	40	49	23	19	17	6	154
Denied	28	17	11	8	12	1	77
Vested Into Pay Status	42	67	52	53	62	18	294
<b>Beneficiaries</b>							
Service	126	156	94	83	55	27	541
Disability Accidental	72	88	39	41	39	8	287
Disability Ordinary	17	17	6	7	14	5	66
Vested Into Pay Status	11	17	13	10	6	3	60
Accidental Death	7	9	4	1	2	0	23
Ordinary Death	9	11	4	7	1	0	32
Dependents	43	40	28	13	13	0	137
Lump Sum	4	6	6	2	6	0	24
Subtotal	963	1,115	575	535	529	134	3,851
<b>Other Application Activity</b>							
Marital Property Orders							727
Child Support Orders							77
IRS Levies							17
Disability Re-exams	23	35	25	17	9	4	113
Refunds	257	384	235	213	166	66	1,321
<b>Total Activity</b>	<b>1,243</b>	<b>1,534</b>	<b>835</b>	<b>765</b>	<b>704</b>	<b>204</b>	<b>6,106</b>

The membership of MFPRSI includes firefighters and police officers from the largest cities within the State of Iowa. The 49 cities, whose fire and/or police personnel are covered by Chapter 411 of the Iowa Code, are as follows (*italics denotes police department only*):

Ames	Council Bluffs	<i>Indianola</i>	Ottumwa
Ankeny	Creston	Iowa City	<i>Pella</i>
Bettendorf	Davenport	Keokuk	Sioux City
Boone	Decorah	<i>Knoxville</i>	Spencer
Burlington	Des Moines	<i>LeMars</i>	Storm Lake
Camanche	<i>DeWitt</i>	<i>Maquoketa</i>	Urbandale
<i>Carroll</i>	Dubuque	Marion	Waterloo
Cedar Falls	<i>Estherville</i>	Marshalltown	<i>Waverly</i>
Cedar Rapids	<i>Evansdale</i>	Mason City	Webster City
Centerville	Fairfield	Muscatine	West Des Moines
Charles City	Fort Dodge	Newton	
Clinton	Fort Madison	Oelwein	
<i>Clive</i>	Grinnell	Oskaloosa	

**Map of the cities participating in the Chapter 411 retirement system in Iowa**



# Contributions to the Plan

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The financing of the retirement system is derived from payments in the form of regular contributions from the membership and cities and from the growth of invested assets.

## **Members' Rate of Contribution**

Member contributions to MFPRSI are based on a percentage of earnable compensation as defined in Chapter 411 of the Iowa Code and further defined in MFPRSI's Administrative Rules. To establish compliance with the Federal Older Workers Benefit Protection Act, the contribution rate for all active membership was statutorily adjusted to 9.35% in 1995. Effective July 1, 2010, the contribution rate was statutorily adjusted to 9.40% to establish the presumption that cancer and infectious diseases are considered work-related for purposes of disability and death benefits of active members.

## **Cities' Rate of Contribution**

Contributions to MFPRSI by the member cities are based on an annual actuarial valuation of the accrued liabilities and assets of MFPRSI and the amount needed to fund future benefit accruals of the membership. The contribution rate for the cities is discussed in the Actuary section starting on page 71 of this report.

## **Funds from the State of Iowa**

The Board and MFPRSI's administration have actively sought re-establishment of full contributions from the State of Iowa and repayment of the under-funding over the last several fiscal years. The State of Iowa provided \$0 this year toward its commitment (enacted by 1976 legislation).



# Investments

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Investment Performance  
Investment Policy and Objectives  
Investment Allocation  
Portfolio Descriptions

# Investment Performance

The performance of the retirement system's composite portfolio and that of the individual manager's portfolios is periodically reviewed by the Board and administration.

An investment consulting firm submits a report to MFPRSI each quarter and provides technical information and investment advisory services to the Board and administration. Periodically, the Board reviews MFPRSI's investment policy and implements changes to the strategic and tactical policies of the investment program. Summit Strategies Group ("Summit"), located in St. Louis, MO, has been MFPRSI's investment consultant since July 1, 2004. Summit provides the Board with the periodic investment performance and market reports.

Using data provided by Summit, the performance of MFPRSI's portfolio from the inception of the fund through the latest fiscal year is reported on the chart and line graph below and on the next page:

## Investment Performance as of June 30, 2013

	<b>One Year</b>	<b>Three Years</b>	<b>Five Years</b>	<b>Ten Years</b>	<b>Since Inception*</b>
Total Fund	12.84%	11.69%	3.84%	7.85%	7.65%
Policy Index**	9.70%	9.24%	4.31%	6.99%	6.77%
Excess Return	3.14%	2.45%	-0.47%	0.86%	0.88%
Target Actuarial Rate	7.5%	7.5%	7.5%	7.5%	7.5%

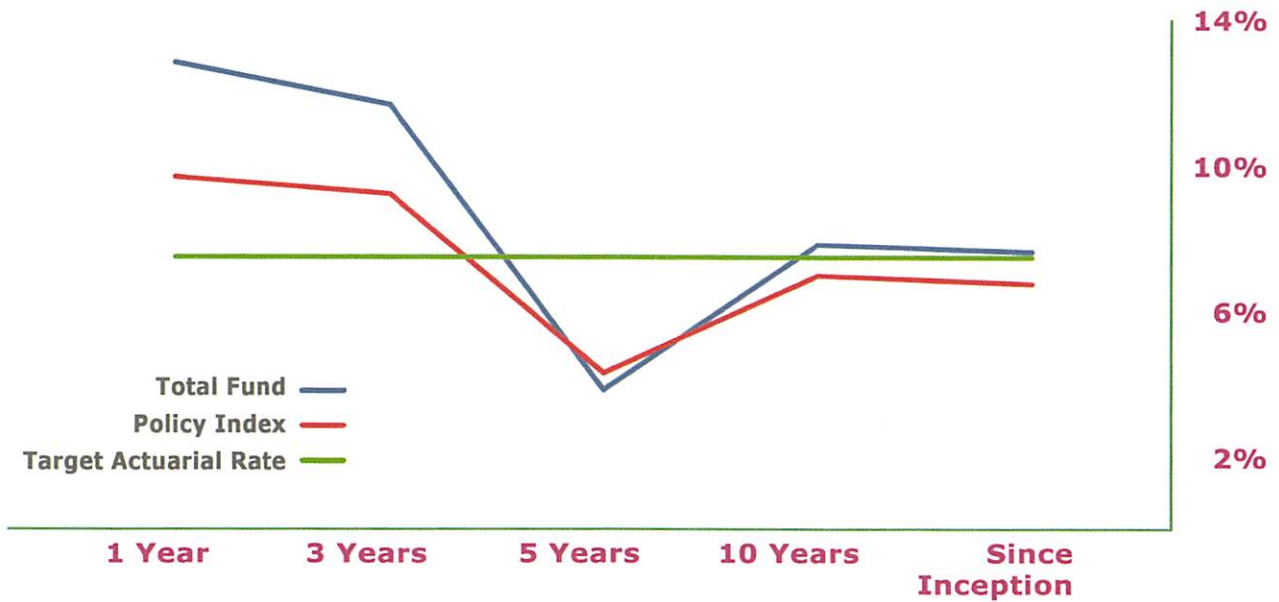
\* Inception Date: January 1, 1992

\*\* Policy index = 60% MSCI ACWI IMI Index; 40% BarCap Aggregate Index

It is important to note that historical performance is not a guarantee of future performance of the portfolio due to the cyclical nature of markets and the individual components thereof.

Additional information which describes the performance of the investment portfolio(s) is available upon request.

## Investment Returns



# Investment Policy & Objectives

for the Fiscal Year ending June 30, 2013

## Statement of Purpose

The *Statement of Investment Policies and Objectives* is intended to:

- Delineate the investment related responsibilities of the Board, the Administration, and the providers of investment services which MFPRSI retains to manage its assets.
- Establish formal yet flexible investment guidelines, which incorporate prudent asset allocation and realistic total return goals.
- Provide a framework for ongoing communication between the Board, the Administration, and MFPRSI's providers of investment services.
- Create standards of investment performance that are reasonable, consistent with the goals of the Board, and by which the Investment Managers agree to be measured over time.



It is anticipated that this Statement will be reviewed annually by the Board to insure the relevance of its contents to investment market conditions and MFPRSI's needs.

## **Investment Goals & Strategic Assumptions**

*1. Investment Goals* - The investment activities of MFPRSI are designed to meet the ongoing funding requirements of the benefit plans with which it is charged under Iowa Code Chapter 411.

The comprehensive goals of the investment program are as follows:

1. Meet the ongoing financial needs of the benefit plan as defined by MFPRSI's actuary consistent with conservative actuarial policies.
2. Create the opportunity for periodic consideration of benefit program enhancements (targeted at every 2 - 5 years) and contribution rate adjustments contingent upon the availability of favorable returns in the various capital markets.

Additional goals for the retirement system's investment program are as follows:

- To implement the requirements of the program as delineated within this *Statement of Investment Policies and Objectives*.
- To provide for an investment program which shall serve the best interests of the members and beneficiaries of MFPRSI and which are reflective of the financial capabilities of their employers.
- To provide for a return on investment that, when combined with the periodic contributions of the membership and their employers, will meet the funding needs of the benefit plans.
- To meet or exceed the actuarial interest rate assumption as established by the Board over extended periods.
- To meet or surpass the performance expectations established for the portfolios as described in this document.
- To provide for the establishment of relationships with investment management firms and consultants who further the achievement of MFPRSI's financial purposes and which provide for the continuing refinement of a comprehensive investment program.

Obtaining specific performance goals in individual portfolios and in the various investment markets is contingent upon the continuing growth of the capital markets. Performance over specific periods will vary in concert with the economic conditions of the environments in which the assets are invested.

2. *Strategic Assumptions* - The following basic assumptions concerning the investment markets are the foundation for the development of MFPRSI's investment policy:

1. Over the long-term there is a distinct relationship between return and risk. Cash should be used for liquidity, bonds to provide income and reduce volatility of quarterly returns, stocks for long-term appreciation of assets above inflation, and real estate for diversification of risk.
2. It is extremely difficult to "time the stock market." Therefore, cash should be kept to a minimum and target allocations to stocks and bonds should be maintained within reasonable bands.
3. Diversification into global markets by investment style and across the market capitalization spectrum (in stocks) is essential both to manage risk and to maintain exposure to the entire capital markets opportunity set for maximum return.
4. The role of active portfolio management is to add incremental value relative to the diversification strategy of the plan. The role of passive management is to provide a core exposure in each of the various markets and to lower the overall costs of the management of the assets of the plan.
5. Diversification of the plan may include consideration and potential implementation of portfolios involving additional asset classes (e.g., real estate, emerging markets, etc.)

## **General Investment Policies**

The following general investment policies of MFPRSI are intended to meet the investment goals and represent the resolution of the Board, in accordance with the *Prudent Person* mandate of Iowa Code Chapters 411 and 97B.

### **Asset Allocation Policies**

MFPRSI shall adopt and execute an asset allocation policy that is predicated on a number of factors that will include:

- The projected liability stream of benefits and their costs;
- The level of expected risk and long-term performance of the capital markets;
- The historical performance of the capital markets;
- The view of future economic conditions and to include inflation and interest rates assumptions;

- The relationship between the current and projected assets of the plan and its actuarial requirements; and,
- The projected or expected changes in the level of financial support from its funding sources.

The policy will identify the classes of assets MFPRSI will utilize and the percentage they are intended to represent of the total fund. The policy is designed to provide asset diversification in an effort to enhance the investment return consistent with market and economic risk. Additionally, this policy provides the framework for distribution of cash flows and establishes the projected rate of return and standard deviation of return.

### **Performance Policies**

*General Performance Expectations* - The performance of MFPRSI's investment program shall periodically be evaluated by the Board. The general long-term performance expectations for the composite fund are as follows:

1. Performance that exceeds the rate of inflation as determined by the consumer price index (CPI);
2. Performance that exceeds the assumed actuarial rate of interest; and,
3. Performance that reflects the target asset allocation and appropriate indices for the various asset categories.

### **Relationship Policies**

*Investment Manager Policies* - In order to achieve optimum performance results in concert with diversification of its assets MFPRSI selects and utilizes external investment managers to manage portions of its assets. The selection of investment managers is accomplished as described in the *Selection and Retention* section on page 64 of this report. Investment managers function under a formal contract that delineates its responsibilities and the appropriate performance expectation or under a formal trust or partnership agreement in which MFPRSI participates. When appropriate, MFPRSI may compensate the external investment managers through the use of performance fees. Soft dollars generated through brokerage activity may, if authorized by the contract, be used to acquire investment research and analysis and to defray various administrative expenses. MFPRSI may determine to have a portion of its portfolio managed by its administration.

*Manager Investment Discretion* - The investment managers under contract or who manage the applicable trust or partnership in which MFPRSI participates shall have full discretion to direct and manage the investment and reinvestment of assets allocated to their accounts applicable to federal and state statutes and regulations, and the executed contracts.

*Manager Brokerage Discretion* - The investment managers under contract to MFPRSI shall have discretion to establish and execute through accounts with one or more securities broker/dealer(s) as the managers may select. The investment managers will attempt to obtain the “best available price and most favorable execution” with respect to portfolio transactions unless such standard is not applicable in the applicable markets (e.g., foreign markets). At the direction of MFPRSI selected portions of the manager’s transactions may be directed to specific brokers by its administration for the purpose of recapturing commissions.

*Manager Evaluation* - The external investment managers under contract with MFPRSI will meet with the administration and/or the Board for the purpose of reviewing the investment activities of the individual portfolio, its performance under the contract, the investment strategy which governs its management, and the market in which it exists. The external investment managers are expected to meet periodically with the administration at its request. Such meetings may be conducted at the offices of the investment firms.

*Short Term Investments* - Cash allocated for investment by the investment management firms is managed in accordance with the guidelines established in the contractual agreement with each firm. Said guidelines stipulate that the firms shall invest their cash primarily in the STIF account of MFPRSI’s custodial bank. Due to the fluid nature of the capital markets, cash allocation decisions shall be made by MFPRSI’s administration consistent with the Board’s asset allocation policy.

*Investment Consultants* - MFPRSI may utilize the services of investment consultants for the purpose of performance review, asset allocation studies, manager selection screening, and topical studies. The comments and recommendations of the consultant(s) will be considered in conjunction with other available information for the purpose of making an informed and prudent decision. Each consultant shall function under a formal contract that delineates its responsibilities.

*Custodial Bank* - The investment assets of MFPRSI shall be held in a custody/record keeping account in a master custody bank and in the international sub-custodian banks under contract to the custodian bank. The custodial bank shall function under a formal contract that delineates its responsibilities. MFPRSI may, at its discretion, authorize the execution of a securities lending program which may be performed by the custody bank.

*Selection and Retention* - At its discretion, MFPRSI will:

- a. Utilize a competitive Request for Proposal (RFP) or Request for Information (RFI) process to select investment managers and custodian bank; or,
- b. In consideration of the extensive screening process conducted by its investment consultant, request a list of the top candidate firms from its investment consultant. Subsequent to the identification of the top candidate firms, the firms will be evaluated by the administration and MFPRSI’s investment consultant. Upon completion of this evaluation the firm identified as the top candidate will be interviewed by MFPRSI with the participation of the consultant (more than one firm may be interviewed). Upon completion of the process a recommendation

will be made to the Board. Upon approval of the Board MFPRSI will establish a contract or will participate in a partnership or trust managed by the selected firm subject to legal review and negotiation of terms and conditions.

- c. MFPRSI will utilize a Request for Proposal to select investment consultant(s).

The contracts established on behalf of MFPRSI will provide for an ongoing relationship and will establish definite service requirements for the firm. The contract with the firm will provide for the termination of the relationship at MFPRSI's discretion. Action to terminate a relationship with a firm will be based upon the firm's performance under the contract and may take into account all relevant information concerning the firm.

### **Administrative Policies**

*Proxy Voting* - Voting rights of the stocks of American corporations will be exercised by MFPRSI's administration or, at its direction by selected managers, in the best interest of MFPRSI and in accordance with the applicable statutes. The custodial bank will forward all proxies to MFPRSI's administration or to the designated investment manager. The administration or the investment managers will execute the voting of the proxies in accordance with the "prudent person" standard delineated in Iowa Code Chapter 97B. It is the general policy of MFPRSI to vote its shares against measures that would hinder or preclude the acquisition or takeover of a corporation or company where a takeover or acquisition may be beneficial to the long-term earnings of the fund. Additionally, it is the general policy of MFPRSI to abstain from voting its shares on social issues except where the voting of said proxy may serve to further the safety of the membership of MFPRSI if consistent with the execution of MFPRSI's fiduciary responsibility. Issues arising in the proxy process may include:

1. Election of directors including the number and terms of office, attendance, and the number of meetings held.
2. Selection and ratification of auditors.
3. Stock splits, dividend, and fractional share issues.
4. Application for listing of securities.
5. Corporate name changes.
6. Remuneration of management, directors, and employees including ratification of employee stock option plans.
7. Employment issues.
8. Cumulative voting issues.
9. Fees paid to auditors or consultants.
10. Date or location of annual meetings.
11. Contributions to charities or educational institutions.

12. All other items which are not expected to have a material adverse effect on the price of the security or which would not substantially affect the rights or privileges of the security.
13. Acquisitions, mergers, and divestitures.
14. Significant changes in the company's articles of incorporation or by-laws, such as anti-takeover provisions, poison pills, or rights issues.
15. Increases in the number of authorized shares.
16. Business abroad.

*Education and Due Diligence* - To maintain and strengthen the investment management of MFPRSI, the members of the Board and/or the administration may, when appropriate:

1. Participate in conferences/seminars related to the investment activities of public and private institutional investors and participate in the meetings of organizations of which MFPRSI is a member;
2. Meet periodically with the MFPRSI's investment managers at the home office of each firm to perform a review and to clarify investment or administrative issues related to the management of the portfolio;
3. Participate in the investors' meetings conducted by the various managers of MFPRSI's assets; and,
4. Conduct due diligence visits to ascertain the acceptability of a firm or firms under consideration for management of the MFPRSI's assets.

*Organizations* - To maintain and strengthen the investment management of the retirement system, MFPRSI shall join national organizations related to institutional management, finance, and education.

## **Responsibilities**

### **Board of Trustees**

The Board acknowledges their responsibility as fiduciaries of the retirement system. In the management and administration of the invested assets (the "Funds") that comprise MFPRSI the Board strives to act prudently and for the best long-term interest of MFPRSI and the membership.

The Board will periodically review the progress of the retirement system in achieving its investment objectives, on the compliance with the policies and guidelines as outlined in this investment policy, and on other matters as appropriate. The Board shall, as an Investment Committee of the whole, or periodically through an ad hoc Investment Committee appointed to represent the Board, perform the following:

1. Ensure that the contributions to MFPRSI and the proceeds from the investments are used in accordance with its objectives.
2. Evaluate and select an independent investment consultant, if deemed necessary, to assist the Board in forming investment objectives and policies, allocating assets, selecting investment vehicles and investment managers, monitoring performance, and considering other appropriate issues as they may occur.
3. Develop investment objectives, guidelines, and performance standards which are consistent with the risk, return, and policy parameters of each investment component.
4. Evaluate and select investment managers, pooled funds, mutual funds, or other appropriate investment vehicles for each investment component of MFPRSI's assets.
5. Communicate the investment objectives, guidelines and standards (including any material changes that may occur) to the investment managers or responsible representatives of the selected investment alternatives of the Funds.
6. Review and evaluate results of each investment component in context with established standards of performance.
7. Take, or direct the taking of, appropriate action as deemed prudent and appropriate if investment results are below expectations or if prevailing conditions deem to warrant.
8. Ensure the compliance with the provisions and reporting requirements of pertinent federal, state, and local regulations and rulings.
9. Oversee the allocation of the state, city, and membership contributions.

### **Investment Consultant**

The Investment Consultant(s), in recognition of their role as a fiduciary of MFPRSI, shall perform the following:

1. Support the development of the *Statement of Investment Policies and Objectives* which identifies the various policy issues affecting MFPRSI's investment of assets.
2. Make recommendations, when deemed necessary, as to changes in the objectives, guidelines, or standards based upon material and sustained changes in the capital markets.

3. Make recommendations with supporting materials as to the appropriate portfolio weights among the various major asset classes (i.e., stocks, bonds, and cash) within the Funds.
4. Assist the Board in the conduct of manager selections by:
  - a. Identifying and screening candidates for appropriate portfolio and organizational characteristics;
  - b. Performing due diligence reviews and evaluations;
  - c. Quantifying the trade off between expected returns and risks among various investment alternatives; and
  - d. Functioning as an information-gathering agent.
5. Perform a quarterly performance evaluation of MFPRSI's portfolios and their components and provide a written report to the Board following the end of each quarter. The written report will cover five basic areas:
  - a. *Returns* - Total time weighted rates of returns.
  - b. *Comparisons* - Returns will be compared to appropriate benchmark indices and a universe of similar funds.
  - c. *Diagnostics* - Measurement of risk adjusted performance, analysis of risks, style characteristics, and return attribution.
  - d. *Compliance* - The investment manager's compliance with the assigned portfolio level mandates of the individual contracts.
6. Participate in periodic review meetings with the Board and/or the administration to evaluate and assess the performance and quality of the individual managers. The purpose of such meetings will be to provide:
  - a. A review and re-appraisal of the investment program.
  - b. A commentary on investment results in light of the appropriate standards of performance.
  - c. A discussion of any key policy issues.
  - d. Any other matters as deemed appropriate by the Board or the administration.



## **Administration**

The administration shall perform the following on behalf of the Board:

1. Coordinate the development of the *Statement of Investment Policies and Objectives* which identifies the various policy issues affecting the MFPRSI's investment of assets.
2. Make recommendations concerning changes in the objectives, guidelines, or standards based upon material and sustained changes in the capital markets.
3. Administer the various policies delineated by this document to include the development of the asset allocation policy. Execute decisions made by the Board concerning the investment program.
4. Participate in periodic review meetings with the Board to evaluate and assess the performance and quality of the individual managers. Periodically meet with individual investment managers, the custodian bank, and consultants to assess the quality of the services being provided to MFPRSI.
5. Establish contracts with the support of MFPRSI's legal counsel with investment managers, consultants, and the custodian bank.
6. Vote the shares of the MFPRSI's equity assets through the proxy process in consideration of its economic interests or direct the managers to vote the proxies of MFPRSI.
7. Manage a portion of the MFPRSI's assets upon authorization of the Board and the establishment of specific guidelines.

## **Investment Managers**

The investment managers, in recognition of their role as fiduciaries of MFPRSI, shall assume the following responsibilities as they pertain to:

1. Legally commit to invest MFPRSI's funds in accordance with the objectives, guidelines, and standards delineated in the contractual document established between MFPRSI and the investment firm.
2. Exercise full discretionary authority as to all buy, hold, and sell decisions for each asset under the firm's management subject to the requirements of the contract.
3. Make recommendations, when deemed necessary, as to changes in the objectives, guidelines, or standards contained within the contract based upon material and sustained changes in the capital markets.

4. Produce a statement for MFPRSI at the end of each month describing the portfolio asset class weights, individual security positions showing both cost and market value, and all principal cash transactions including all buys and sells in sufficient descriptive detail. For commingled assets this statement should show unit position and unit value. Reports will be submitted to MFPRSI as requested (e.g., quarterly, monthly, ad hoc) on the management of the MFPRSI's assets and will also include a performance review.
5. At MFPRSI's request, participate in periodic review meetings with any or all of the following: the Board, MFPRSI's administration, or MFPRSI's investment consultant. The subjects to be discussed shall include:
  - a) A review of the activities of the manager pertaining to the individual portfolio and commentary upon the specifics of the investment strategy.
  - b) A commentary on investment results in light of the appropriate standards of performance.
  - c) A synopsis of the key investment decisions made by the investment manager, the underlying rationale, and how those decisions could affect future results.
  - d) A discussion of the investment manager's outlook, what specific investment decisions the outlook may trigger, and how these decisions could affect future results.
6. Provide frequent and open communication with MFPRSI on all material matters pertaining to investment policies and the management of the Fund's assets. In particular, the investment managers will:
  - a) Provide notice of any material changes in their investment outlook, strategy, and portfolio structure.
  - b) Notify MFPRSI of material changes in the investment firm's ownership, organizational structure, financial condition, senior staffing, and management.
  - c) Provide a copy to MFPRSI of each investment manager's periodic SEC Form ADV filing and of any other documents required by the contract with MFPRSI.
7. The investment managers will use their best judgment to obtain brokerage services based upon consideration of the objective of the best execution of trades and the lowest cost to the retirement system. MFPRSI may direct the investment manager to direct a reasonable amount of brokerage fees to particular brokerage firms in payment for certain third party services as may be determined to be needed by MFPRSI.

8. The investment managers shall, upon request from the administration, provide information concerning individual proxy issues. Issues arising in the proxy process may include both routine and non-routine matters.

### **Custodian Bank**

The custodian bank, in recognition of its role as MFPRSI's fiduciary, shall assume the following responsibilities as they pertain to:

1. Hold all MFPRSI deposits in the appropriate accounts and provide highly secure storage of stock certificates and bonds such that there is essentially no risk of loss due to theft, fire, or accident. Maintain appropriate records on computer files (i.e., data bases) that are secure and free from inappropriate manipulation.
2. Arrange for timely and business-like settlement of all purchases and sales made for MFPRSI. Transactions shall be on a delivery versus payment basis unless dictated by the requirements of the markets in which the transactions are conducted. The custodian bank shall act to insure the safety of the assets in the markets in which the transactions are conducted.
3. Provide for receipt and prompt crediting of all dividend and interest payments received as a result of MFPRSI's holdings. Monitor income receipts to ensure that income is received when due and institute investigative process to track and correct late or insufficient payments including reimbursement of interest lost due to tardiness or shortfall.
4. Sweep excess cash daily into an interest bearing account featuring a high degree of safety of principal and liquidity.
5. Provide monthly reports showing individual asset holdings with sufficient descriptive detail to include units volume, unit price, cost, market value, CUSIP number (where available), and any other information requested by MFPRSI. Principal cash transactions, including dividends and interest received, deposits, withdrawals, securities purchased, sold, matured, and fee payments will also be listed.
6. At the direction of MFPRSI's Executive Director or their appointed representative, transfer funds into and out of specified accounts.
7. The custodian bank will promptly forward all proxy materials received to the administration or, at the administration's direction, to the appropriate investment manager for execution.

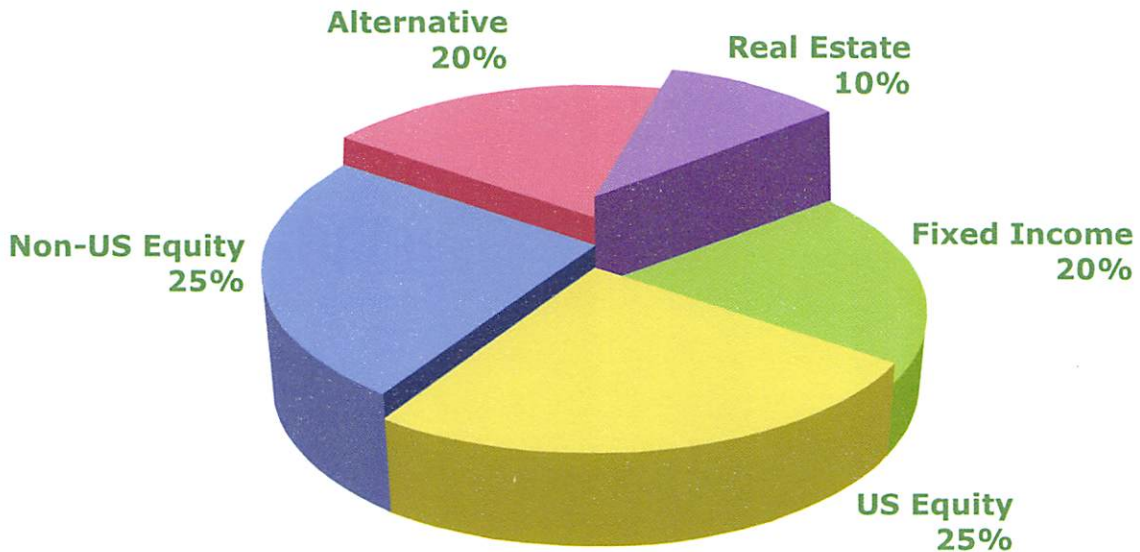
# Investment Allocation

## Asset Allocation as of June 30, 2013

Asset Class	Portfolio Target Percentage	Total Portfolio Target Percentage by Asset Class
U.S. Equity	25%	
Non-U.S. Equity	25%	
<b>Total Equity</b>		<b>50%</b>
Alternative Investments	20%	
Real Estate	10%	
<b>Total Alternative Investments</b>		<b>30%</b>
Fixed Income	20%	
Cash	0%	
<b>Total Debt-Oriented Investments</b>		<b>20%</b>
<b>Total</b>		<b>100%</b>
Total Plan Performance Expectation*	8.46%	
Standard Deviation (Risk)	12.42%	

The *Asset Allocation Policy* was adopted by the Board of Trustees on February 23, 2012.

\*Performance expectation and risk projection based upon Summit Strategies' 2010 assumptions.



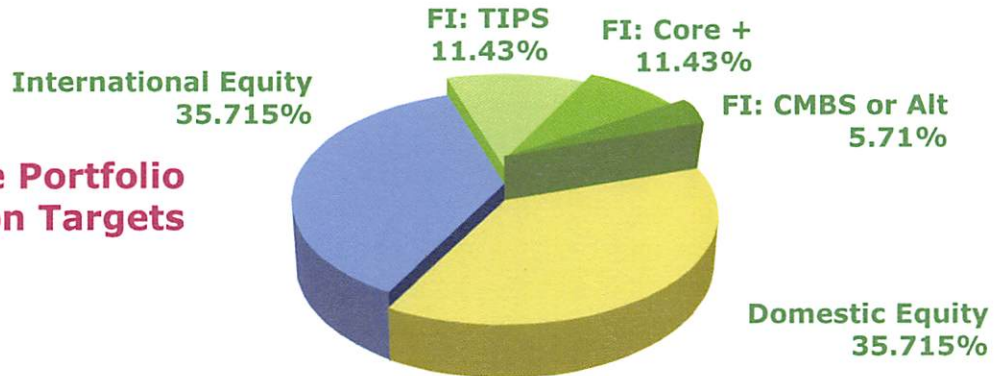
### Caveats:

1. In the absence of suitable opportunities within a specific market the funds shall be directed to the other components within the debt or equity category. Due to the fluctuation of market values positioning within a range shall constitute compliance with the policy.
2. A review of the allocation policy shall occur periodically to allow the Board of Trustees to consider the affect of any changes in market conditions or of the expectations for the retirement system.

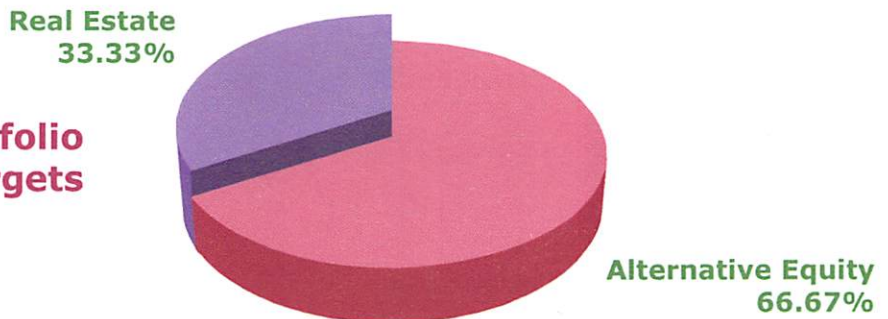
## Asset Allocation Policy Detail

Asset Class	Core	Alternative	Strategic
Domestic Equity Target	35.715%		35.715%
International Equity Target	35.715%		35.715%
Real Estate Target		33.33%	
Alternative Equity Target		66.67%	
Component Equity Target	71.43%	100.00%	71.43%
Fixed Income: Core-plus Target	11.43%		
Fixed Income: TIPS Target	11.43%		
CMBS or Alternatives	5.71%		
Fixed Income			28.57%
Cash	0.00%		0.00%
Component Debt Target	28.57%		28.57%
Total	100.00%	100.00%	100.00%

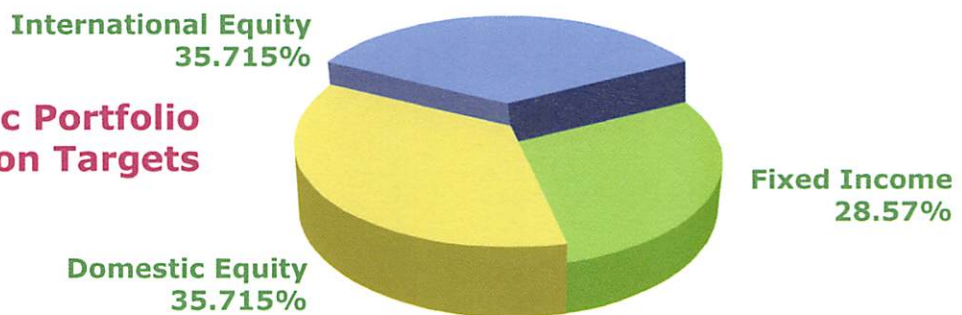
### Core Portfolio Allocation Targets



### Alternative Portfolio Allocation Targets



### Strategic Portfolio Allocation Targets



# Portfolio Descriptions

## Core Portfolio

### Domestic Enhanced Index Fund

Intech Investment Managements LLC  
Palm Beach, FL and Princeton, NJ

Intech Investment Management LLC employs a highly disciplined mathematical investment style designed to seek long-term returns while reducing the risk of significant underperformance. The firm applies mathematical principles to the universe of U.S. stocks in its benchmark to identify high volatility stocks and determine the optimal proportion for each stock. The goal is to construct a portfolio that is efficient and neutral to its benchmark.

### Domestic Short Enabled (130/30) Strategy Portfolio

J.P. Morgan Asset Management  
New York, NY

The process used by the Large Cap Core Plus (i.e., 130/30) portfolio utilizes long-only attractive equity assets with an overlay of short positions in unattractive stocks. J.P. Morgan Asset Management moderately underweights or overweights assets when it believes such allocations will benefit the portfolio. Securities that are undervalued are purchased and securities that are overvalued are sold short as deemed appropriate by the firm. The portfolio will maintain an approximate net 100% long exposure to the equity market; however, the long and short positions will vary in size as opportunities in the market change.

### Domestic Small Capitalization Equity Portfolio

Dimensional Fund Advisors  
Austin, TX

Dimensional Fund Advisors manage a disciplined and broadly diversified equity portfolio designed to capture risk factors that the firm, through rigorous research, believes generates higher portfolio returns over time. The process is designed to minimize asset turnover and trading costs and minimize market frictions. The portfolio invests entirely in U.S. small capitalization equity securities and will, for short durations, hold cash.

## **Actively Managed Master Limited Partnerships (MLP)**

Tortoise Capital Advisors - Leawood, KS  
Harvest Fund Advisors LLC - Wayne, PA

Tortoise Capital Advisors and Harvest Fund Advisors LLC invest in MLPs, which are limited partnerships that are publicly traded on U.S. securities exchanges. MLPs are limited by the U.S. Internal Revenue Service to only apply to enterprises that generate at least 90% of its revenue from qualifying sources - real estate, natural resources, and commodities. Both Tortoise Capital Advisors and Harvest Fund Advisors LLC manage separately managed accounts primarily focused on midstream energy infrastructure; however, both may invest in upstream and downstream energy infrastructure, as well.

## **Actively Managed International Equity Portfolios**

Baillie Gifford Overseas, LTD  
Edinburgh, Scotland, UK

Mondrian Investment Partners, LTD  
London, England, UK

Both Baillie Gifford Overseas and Mondrian Investment Partners manage diversified portfolios comprised of equity and domestic and foreign currencies. Each portfolio is invested in equities listed on established international and domestic stock markets. Baillie Gifford Overseas uses a bottom-up, research driven approach when investing in its portfolio with a preference for companies that will achieve an above average rate of growth while trading at a reasonable price. Mondrian Investment Partners utilizes a value-oriented analysis focusing on companies whose stock is undervalued according to the firm's research. Both portfolios also invest in equities listed on emerging markets indices.

## **Passively Managed International Equity Portfolio**

State Street Global Advisors  
Boston, MA

State Street Global Advisors (SSGA) manages an All Country World Index (ACWI) strategy that attempts to match, as closely as possible, the performance and allocation of the Morgan Stanley Capital International (MSCI) ACWI. The fund is not involved with securities lending and is, at all times, highly liquid.

## **Actively Managed Emerging Markets Equity Portfolio**

Dimensional Fund Advisors  
Austin, TX

Dimensional Fund Advisors administers a portfolio committed to emerging markets equity and domestic and foreign currencies. The strategy invests in stocks listed on established international stock markets and intends to out-perform an emerging markets equity index. Stocks are selected according to the firm's research and preference for value (i.e., high book value vs. market value) at the time of purchase.

## **Fixed Income (Core-Plus)**

Aberdeen Asset Management  
New York, NY

Aberdeen Asset Management manages a Core-Plus+ fixed income fund invested in a wide variety of investment-grade fixed income securities issued by governments throughout the world, including the United States of America. The array of securities held by the fund is maintained based on the firm's current views concerning yield, duration, maturity, issue classification, and security quality.

## **Fixed Income (Treasury Inflation Protected Securities)**

State Street Global Advisors  
Boston, MA

State Street Global Advisors (SSGA) operates a portfolio comprised of units of the SSGA U.S. Treasury Inflation Protected Securities (TIPS) Index Non-Lending Fund. This fund holds securities held by the Barclays Capital U.S. TIPS Index. The fund will not always fully replicate the securities listed by the index. The portfolio is managed duration neutral to the index.



## **Alternative Portfolio**

### **Real Estate Portfolio**

#### **Diversified Core / Core-Plus Portfolios**

J.P. Morgan Asset Management  
New York, NY

Principal Global Investors  
Des Moines, IA

Sentinel Real Estate Corporation  
New York, NY

The managers listed above maintain portfolios comprised of investments in both non-leveraged and leveraged real estate properties. The investments are either directly held through individual ownership or through participation in one or more commingled real estate property funds.

#### **Value Added / Opportunistic Portfolios**

Long Wharf Real Estate Partners, LLC  
Boston, MA

Hines Interests  
Houston, TX

TA Associates Realty  
Boston, MA

Ares Real Estate Group  
New York, NY

J.P. Morgan Asset Management  
New York, NY

Contrarian Capital Management, LLC  
Greenwich, CT

The portfolios managed by the Value Added/Opportunistic real estate managers are comprised of investments held in partnerships, trusts, or funds which acquire, manage, and dispose of both non-leveraged and leveraged real estate properties. The Value Added/Opportunistic portfolios are invested in funds, partnerships, or trusts which, in turn, invest in either one individual sector or across several sectors of the direct real estate market. Real estate sectors may include: apartments, industrial, retail, commercial office, turn-around opportunities, as well as others not identified.

## **Commercial Mortgage Backed Securities Portfolio**

Principal Global Investors  
Des Moines, IA

The firm manages a portfolio of core-Commercial Mortgaged Backed Securities (CMBS) strategy with investments ranging from junior classes of AAA CMBS issues to select CMBS issuances in the A to A- range in order to optimize returns while accepting investment grade risk. Principal Global Investors may also invest in select Collateralized Debt Obligations (CDO) re-securitizations of prior CMBS issues.

## **Strategic Portfolio**

### **Strategic (Global Balanced) Portfolios - (U.S. Equity, International Equity, Fixed Income, Emerging Market Equity)**

J.P. Morgan Asset Management  
New York, NY

GMO and Co. LLC  
Boston, MA

J.P. Morgan Asset Management and GMO and Co. LLC manage diversified portfolios comprised of fixed income, U.S. and International equity, emerging market equity, and debt. Both firms invest in securities in global markets with the intent to out-perform a composite index, which is weighted 71.43% to equity and 28.57% to fixed income for GMO and 71.40% to equity and 28.60% to fixed income for J.P. Morgan Asset Management.

## **Transitional Assets**

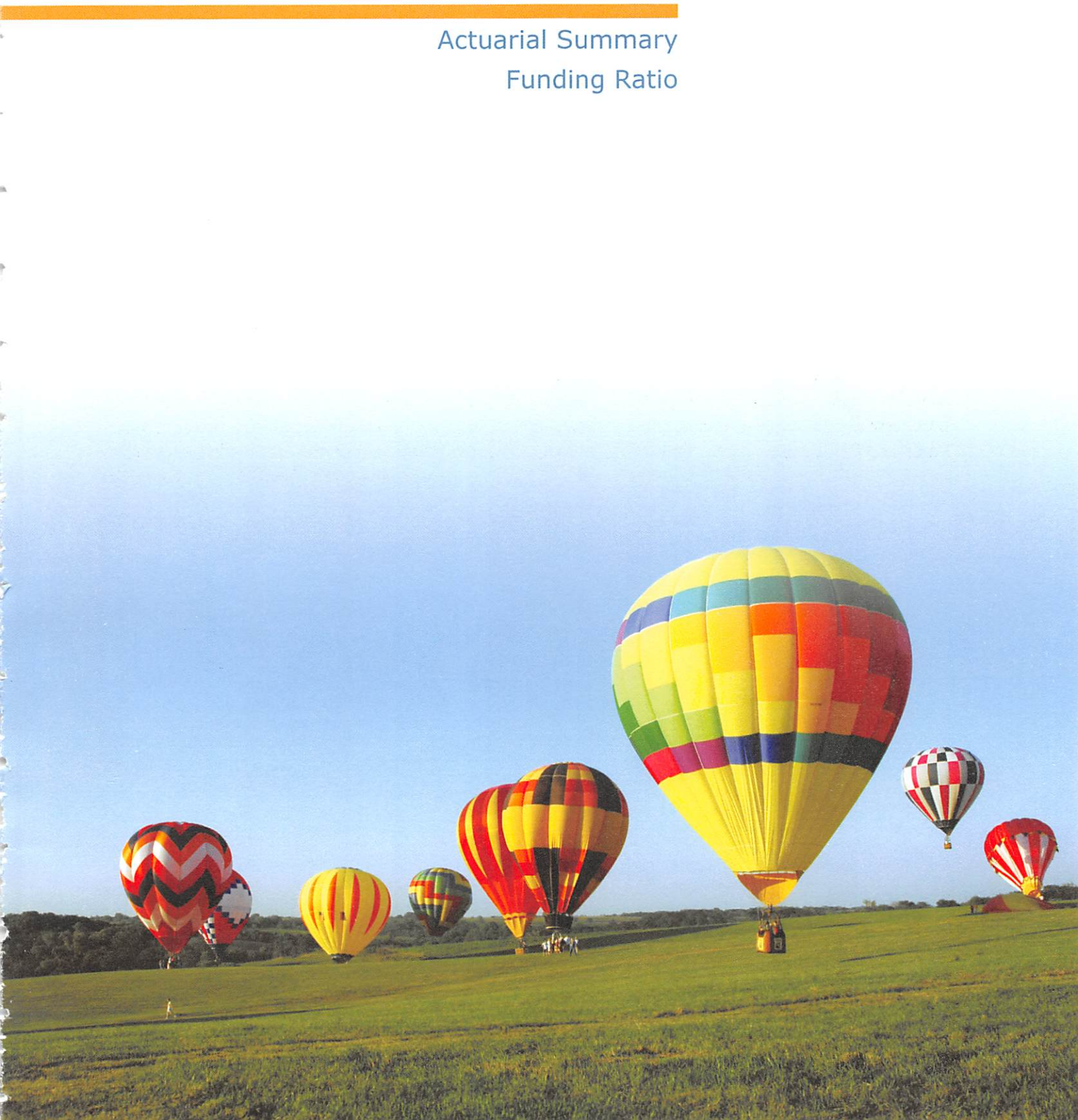
### **Custodial Bank**

Wells Fargo Institutional Retirement and Trust  
Minneapolis, MN

The cash portion of MFPRSI's assets held at its custodian, Wells Fargo Institutional Retirement and Trust, will be invested either in a STIF product available from the custodial bank or in a checking account which is managed by a subsidiary of the custodial bank.

# Actuary

Actuarial Summary  
Funding Ratio



# Actuarial Summary

As of July 1, 2013, MFPRSI covered 3,866 active employees with an annual payroll (earnable compensation) of \$258.4 million, and 4,177 inactive participants.

The required contribution rate for the cities for the 2013-14 plan year has been certified by the Board at 30.12% of covered payroll (earnable compensation). The contribution rate was calculated by the actuary as shown on the following page.

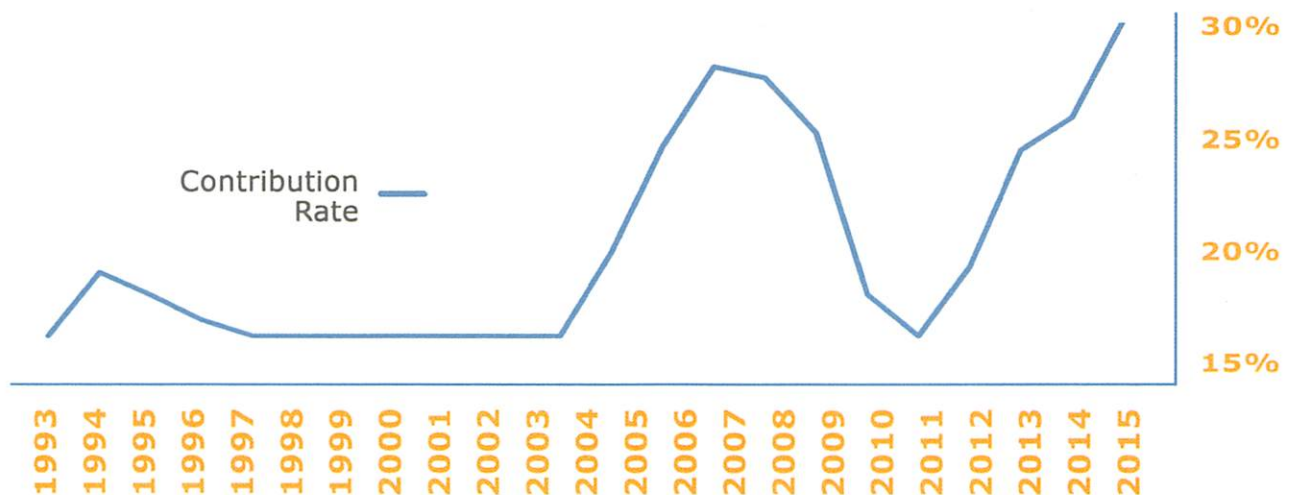
The following table shows the required contribution rates for the cities since the inception of MFPRSI. The 2013 valuation is based on asset values as of June 30, 2013, participant census data as of July 1, 2013, and current MFPRSI provisions.

## Contribution Rate History

Rate	Period	Rate	Period
17.00%	1/1/92 - 6/30/93*	24.92%	7/1/04 - 6/30/05
19.66%	7/1/93 - 6/30/94	28.21%	7/1/05 - 6/30/06
18.71%	7/1/94 - 6/30/95	27.75%	7/1/06 - 6/30/07
17.66%	7/1/95 - 6/30/96	25.48%	7/1/07 - 6/30/08
17.00%	7/1/96 - 6/30/97*	18.75%	7/1/08 - 6/30/09
17.00%	7/1/97 - 6/30/98*	17.00%	7/1/09 - 6/30/10*
17.00%	7/1/98 - 6/30/99*	19.90%	7/1/10 - 6/30/11
17.00%	7/1/99 - 6/30/00*	24.76%	7/1/11 - 6/30/12
17.00%	7/1/00 - 6/30/01*	26.12%	7/1/12 - 6/30/13
17.00%	7/1/01 - 6/30/02*	30.12%	7/1/13 - 6/30/14
17.00%	7/1/02 - 6/30/03*	30.41%	7/1/14 - 6/30/15
20.48%	7/1/03 - 6/30/04		

\* Rate certified at statutory minimum of 17.00%

## City Contribution Rate History 1993 - 2014



## Valuation as of June 30, 2013 - Contribution Rate (Effective July 1, 2014)

<b>Preliminary Total Contribution</b>		
1.	Annual Normal Cost	\$ 48,020,046
2.	Estimated Member Contributions	24,291,970
3.	25-Year Amortization of Unfunded Actuarial Accrued Liability	54,851,249
4.	Total (Cities plus State) Contributions (1) – (2) + (3)	78,579,325
<b>Cities' Contribution</b>		
5.	Preliminary Total Contribution (4)	78,579,325
6.	Estimated State Contribution	0
7.	Preliminary Cities' Contribution (5) – (6)	78,579,325
8.	Covered Payroll	258,425,211
9.	Cities' Contribution as a percent of payroll (7) / (8)	30.41%
10.	Minimum required contribution rate for Cities	17.00%
11.	Cities' Contribution [Greater of (9) or (10)] x (8)	\$ 78,587,107

## Funding Ratio

A comparison of the actuarial value of assets with the actuarial entry age normal liability provides one measure of the funded status of MFPRSI. The actuarial entry age normal liability consists of the liability for pension and ancillary benefits that have been earned on the basis of each participant's salary and service history as of the fiscal year-end valuation date. These values under the assumptions as of the current valuation date are shown below along with funded percentage (the actuarial market value of assets divided by the actuarial entry age normal liability).

		<b>Funded Ratio</b>
		<b>July 1, 2013</b>
1.	Actuarial Accrued Liability	
a.	Total Accrued Liability for Active Members	\$ 1,034,921,262
b.	Total Accrued Liability for Inactive Members	1,532,310,027
c.	Change in Actuarial Assumptions	(49,002,711)
	Total Actuarial Accrued Liability	2,518,228,578
2.	Actuarial Value of Plan Assets	1,860,947,878
3.	Funding Ratio (2) / (1)	73.9%

Additional information as of the latest actuarial valuation follows:

### Additional Actuarial Valuation Information

Valuation date	July 1, 2013
Actuarial cost method	Entry age normal
Authorization method	Level dollar open
Remaining amortization period	25 years
Asset valuation method	5 year smoothed market
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	4.50% to 15.11%
COLAs	Annual adjustment in accordance with Iowa Code Chapter 411.6

### Actuarial Cost Method

The Entry Age Normal Actuarial Cost Method was used to determine recommended contributions. Using this method, the annual contribution consists of a normal cost and an unfunded accrued liability payment.

The normal cost is determined as the sum of the individual normal costs for each active member of MFPRSI. A normal cost accrual rate is determined for each member. The accrual rate is equal to the actuarial present value of future benefits determined as of the member's entry age, divided by the actuarial present value of the assumed salaries paid to the member from entry age to retirement age. The normal cost accrual rate is multiplied by current salary to provide the member's individual normal cost.

The actuarial accrued liability is the sum of the individual actuarial accrued liabilities for all MFPRSI members. Each member's actuarial accrued liability equals the actuarial present value of future benefits, less the actuarial present value of the member's normal costs payable in the future. These present values are calculated at the member's attained age. The unfunded actuarial accrued liability equals the total actuarial accrued liability less the actuarial value of plan assets. The unfunded actuarial accrued liability payment is the amount payable toward the amortization of the unfunded actuarial accrued liability. The unfunded actuarial accrued liability is amortized over 25 years on a level dollar, open basis.

At the end of each year, a determination of actuarial gains and losses is made. Actuarial gains and losses indicate the extent to which actual experience is deviating from that expected on the basis of the actuarial assumptions. Actuarial gains result from experience more favorable than assumed and reduce the unfunded actuarial accrued liability. Actuarial losses result from experience less favorable than assumed and increase the unfunded actuarial accrued liability.

## Government Accounting Standards Board Disclosure

Measurements used to evaluate the funding status of MFPRSI are based on procedures set forth by GASB (Government Accounting Standards Board). In an effort to enhance the understandability and usefulness of the pension information that is included in the financial reports of pension plans for state and local governments, GASB has issued Statement No. 25 – Financial Reporting for Defined Benefit Pension Plans and Statement No. 50 – Pension Disclosures.

GASB Statement No. 25 and GASB Statement No. 50 establish a financial reporting framework for defined benefit plans. In addition to two required statements regarding plan assets, the statement requires two schedules, the Schedule of Funding Progress and Schedule of Employer contributions, and accompanying notes disclosing information relative to the funded status of the plan and historical contribution patterns.

- The Schedule of Funding Progress is required for systems which use the Entry Age Normal cost method to determine the Annual Required Contribution (ARC). This information is prepared in a separate report.
- The Schedule of Employer Contributions provides historical information about the Annual Required Contribution (ARC) and the percentage of the ARC that was actually contributed. For MFPRSI, the ARC is equal to the normal contribution rate multiplied by the covered payroll for the year or \$78,587,107 for 2013. This is the total ARC before any adjustment for minimum contribution rates or state contributions.

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# MFPRSI

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*MFPRSI Annual Report FY 2013* is prepared by MFPRSI staff using data gathered from various sources, including MFPRSI's actuarial services provider, SilverStone Group and investment consultant, Summit Strategies Group.

Design/Production - Cody Jans  
Printing - Colorfx

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