

IOWA PERS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Annual Summary Fiscal Year 2006



Tips from Donna

Please join me in reviewing IPERS' finances and performance in the 2006 fiscal year. Look through my glasses at FY2006 highlights where I explain numbers and add favorite facts.

I am proud of the role IPERS plays in the lives of Iowans and our contributions to Iowa's economy. IPERS has provided for secure retirements for over 50 years, and now pays almost \$1 billion a year in benefits—most within Iowa.


Donna M. Mueller, CEO

Working for Iowa




82,204 RETIRED MEMBERS

Most of the **\$924,378,316** that IPERS paid in benefits in FY2006 returned to the Iowa economy. More than **88%** of the monthly benefit payments were to retirees or their beneficiaries in Iowa.

 IPERS' monthly pension has a lifetime guarantee. Nearly 100 IPERS members are 100 years old or more!


224,751 NONRETIRED MEMBERS

Iowa's teachers, police, firefighters, and other public employees—**163,091** from across the state—contributed to IPERS during the year through payroll deductions. Another **61,660** have contributed in the past and kept their IPERS membership.

 With a state population of about 3 million, there is one IPERS member for every ten Iowans.

2,363 SUPPORTING EMPLOYERS

IPERS helps Iowa's schools, and city, county, and state agencies recruit and keep qualified personnel by providing a benefit that employees feel is valuable. Employers' contributions to IPERS are part of employees' overall compensation.

 More than half of IPERS members work in education.

Working for You!

Iowa Legislature & Governor determine IPERS participation, benefits, and contributions.

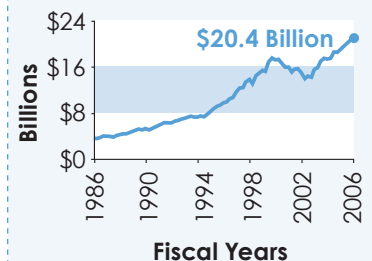
State Treasurer oversees all IPERS banking services.

Benefits Advisory Committee represents employers, members, and the public when it advises on IPERS benefits and services.

Investment Board, trustee of the IPERS Trust Fund, grows and preserves the fund for IPERS members.

IPERS' Administration collects contributions, invests assets, and pays benefits.

IPERS' NET INVESTMENT PORTFOLIO ASSETS



Working for Members



During the year, IPERS staff:

- Answered 87,474 member phone calls and 4,506 e-mails.
- Prepared 68,599 benefit estimates.
- Provided benefit education and individual counseling to 11,289 members.

Since most public employees in Iowa are covered by IPERS, it is easier to list who is not covered—judges, the Iowa State Patrol, and police and firefighters in larger towns and cities. Most community college and state university personnel, and elected officials, have the option of participating in IPERS or selecting other coverage.

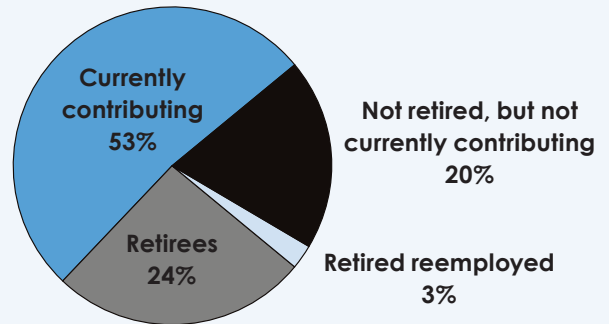
The average IPERS member retired at age 62 with almost 22 years of service to Iowans. The average monthly benefit payment for all retirees was \$903. The average monthly benefit payment for someone retiring in FY2006 was \$1,328.

There were 8,076 retirees drawing a pension who returned to work with an IPERS-covered employer, making retired reemployed members one of the fastest-growing segments of IPERS membership.

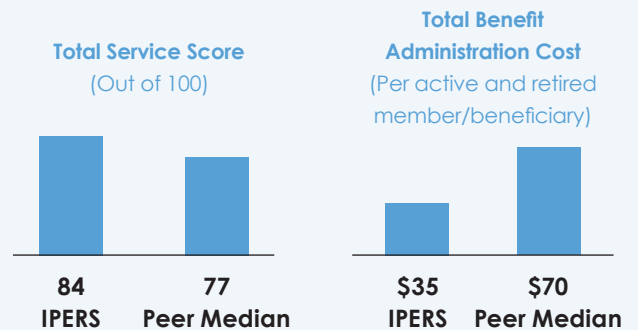


CEM Benchmarking Inc. in 2006 rated IPERS' services high for the previous year. At the same time, IPERS' costs were about half those of other retirement systems similar to IPERS in size. CEM Benchmarking is an independent international company that assesses the performance of public retirement systems.

306,955 IPERS MEMBERS



CEM BENCHMARKING



Working for Employers



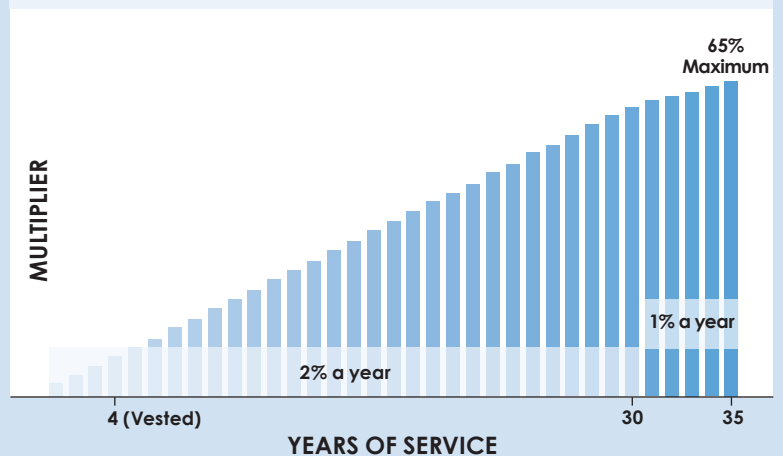
IPERS helps public employers keep good employees. The longer employees work, the more their IPERS benefit grows.

To help employers attract and keep employees in public service, the legislature designed IPERS so its value increases as employees' years of public service increase.

The multiplier for most IPERS members is 2% a year for 30 years plus 1% a year for years 31-35. The maximum multiplier is 65%. Benefits are reduced for early retirements.

The multiplier for Special Service (public safety) members is about 2.7272% a year for 22 years, plus 1.5% each year for years 23-30. The maximum multiplier is 72%.

RETIREMENT BENEFIT FORMULA:
FINAL AVERAGE SALARY × MULTIPLIER (Based on years of service)




The Bottom Line

CONTRIBUTIONS

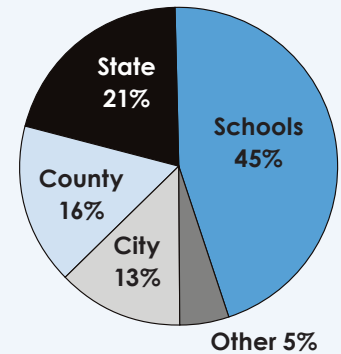
IPERS benefits are funded entirely by contributions plus investment income. Public employees and their employers contributed \$547,488,168 during the fiscal year.

Employees contribute to IPERS through payroll deductions. Employers' contributions are part of each employee's compensation package.

In 2006 the Iowa Legislature, which sets the contribution rates for most IPERS members, approved an increase, the first one since 1979. The FY2006 rate of 9.45% will increase 0.5 percentage point each year for four years beginning July 1, 2007. Rates for members working in public safety positions are reviewed annually and adjusted when needed.

 IPERS is prefunded, meaning employees contribute during their working lives for their future retirements.

CONTRIBUTIONS BY WORK SITE
(Employee and Employer)



INVESTMENTS

IPERS' investments provide the majority of income needed to fund pensions. In 2006, IPERS:

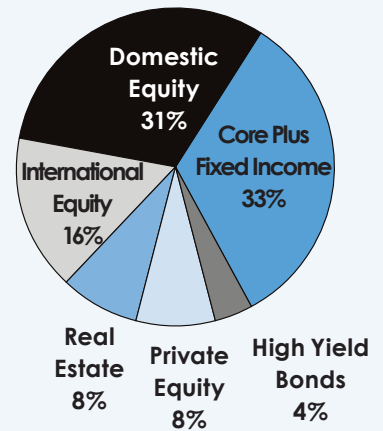
- Ranked in the top 20 percent of Trust Universe Comparison Service's (TUCS) All Master Trust Universe of 333 funds for its ten-year return.
- Was selected as having the best large private equity portfolio among public retirement systems in the United States by Private Equity Intelligence.
- Kept investment expenses at 0.23% of the portfolio's average quarterly market value, well below industry benchmarks and the 0.40% allowed by state law.

IPERS' INVESTMENT RETURNS

	FY2006	3 Years ¹	5 Years	10 Years
IPERS' Return	11.11%	12.04%	7.14%	9.37%
Policy Benchmark ²	9.73%	11.66%	7.16%	8.67%
Median—TUCS Public Funds >\$1 Billion ³	10.72%	12.24%	6.57%	8.42%

¹ Returns for periods longer than one year are annualized.
² Policy benchmark is a passively managed set of market indices, with appropriate weightings, that are reflective of IPERS' target asset allocations.
³ Median return of TUCS' universe of public funds with assets greater than \$1 billion.

INVESTMENTS BY ASSET CLASS

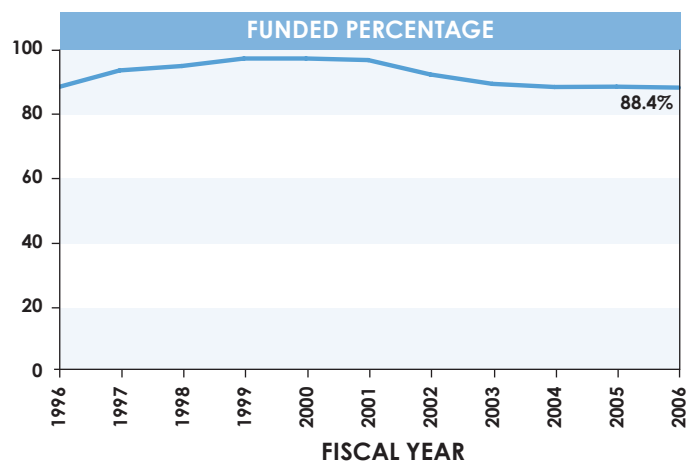


 CEM Benchmarking Inc. rated IPERS' investment program as high in value and low in cost.

ACTUARIAL

IPERS uses several actuarial measures to monitor long-term financial health. As expected, IPERS' unfunded actuarial liability increased from \$2.289 billion in FY2005 to \$2.507 billion in FY2006. However, the funded percentage, a ratio of actuarial assets to liabilities, has stabilized after significantly dropping between 2001 and 2003.

Rebalancing IPERS' long-term funding required a contribution rate increase. The actuarial impact of the increase will become visible only after the increase has been in place several years.



 Liabilities grow when projected retirement costs increase but the contribution rate stays the same.



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IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

The Bottom Line

PLAN NET ASSETS as of June 30, 2006

Assets	
Cash and cash equivalents	\$ 101,665,926
Receivables	477,497,845
Investments at fair value	22,623,903,421
Capital assets	4,424,308
Total assets	23,207,491,500

Liabilities	
Accounts payable and accrued expenses	31,860,038
Payable for investments purchased	1,222,672,647
Rebates and collateral payable	1,487,664,482
Foreign exchange contracts payable	60,423,287
Total liabilities	2,802,620,454

Net assets held in trust for pension benefits \$20,404,871,046

CHANGES IN PLAN NET ASSETS for the year ended June 30, 2006

Additions	
Total contributions	\$ 547,488,168
Net investment income	2,060,547,897
Net securities lending income	4,972,018
Total other sources	662
Total additions	2,613,008,745

Deductions	
Benefit payments	924,378,316
Member and employer refunds	41,667,603
Administrative expense	9,320,559
Total deductions	975,366,478

Net increase 1,637,642,267

Net assets held in trust for pension benefits
Beginning of year **18,767,228,779**

Net assets held in trust for pension benefits
End of year **\$20,404,871,046**

This Annual Summary, released December 2006, provides a fiscal overview. It is not intended to provide IPERS' complete financial picture. For that, view the audited FY2006 Comprehensive Annual Financial Report at <www.ipers.org>, or contact IPERS for a printed copy.

IPERS

- Largest public retirement plan in Iowa.
- Established in 1953 as core retirement system.
- Intended to work with Social Security and personal savings.
- Provides employers a recruitment and retention tool that rewards career public service.
- Trust Fund must be used for exclusive benefit of members.
 - Contributions paid by public employees and their employers.
 - Investments provide largest percentage of income.

Legislature's Role as Sponsor of the IPERS Plan

- Establishes the benefit plan.
- Determines participating public employers and employees.
- Sets the contribution rate for regular members.
- Oversees rule-making process by which IPERS announces rates for Special Service members.
- Approves appropriation of Trust Fund monies for non-investment-related administrative expenses.

Issues

- Increasing retirement costs.
- Increasing workload from an increasing number of retirees.
- Changing definition of retirement—retirees returning to work.
- No ongoing mechanism to adjust pensions for inflation.
- No fully empowered board of trustees.
- Close monitoring of funded percentage as the contribution rate increase for regular members is phased in.

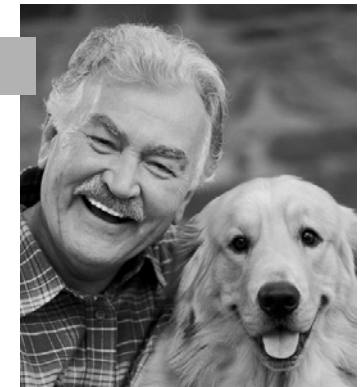
Typical IPERS Retiree

Lives in Iowa



Served Iowans for about 22 years

Retired at age 62

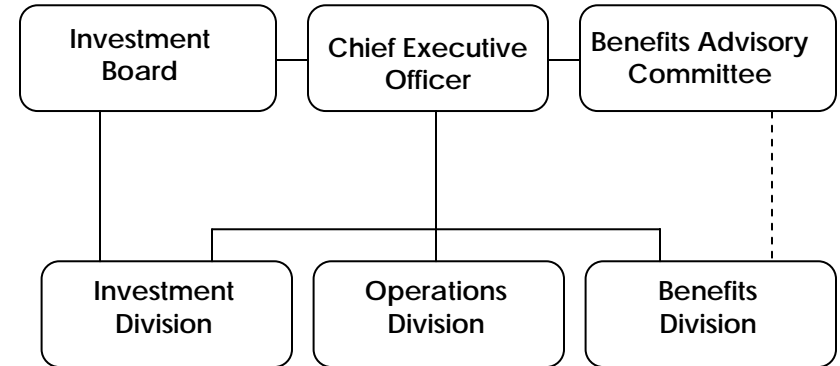


Receives \$903 a month from IPERS
(The average monthly pension for someone retiring in FY2006 was \$1,328.)

IPERS Administration

Independent agency within the executive branch with 95.13 authorized FTEs.

- o Collects contributions.
- o Invests assets.
- o Tracks members' service credits and maintains member accounts.
- o Pays benefits.
- o Counsels members.
- o Assists employers.



Investment Board

Eleven-member Investment Board is the Fund's trustee for its investment and actuarial policies.

- o Seven voting members include six gubernatorial appointees and the Treasurer.
- o Legislative leadership appoints four nonvoting legislative members (Senators Connolly and Zieman; Representative Jochum).

Benefits Advisory Committee

Thirteen-member Benefits Advisory Committee advises IPERS and the General Assembly on benefits and services.

- o Committee members are designees of statewide constituent groups that represent employers and IPERS members.
- o The Department of Administrative Services director is named by statute as one of nine voting members.

Fiscal Year 2008 Budget Request Summary

- No General Funds are requested.
- IPERS' administrative expenses are paid by the Trust Fund.
- No increase from FY2007 for IPERS' internal operations.
- An additional \$117,835 is needed to pay increased I/3 costs assessed by DAS.
- FY2008 Request: \$17,063,076 and 95.13 FTE (FY2007: \$16,945,241 and 95.13 FTE)

Fiscal Year 2008 Budget Request by Offer

(Page 170-172 of LSA Analysis of the FY2008 Budget and Department Requests)

FY2008 Offer Name	Offer	General Fund	Other Funds (IPERS Trust Fund)	Total
Investment Management <i>(Oversee investments and investment policy)</i>	553_ADM_001	\$0	\$ 760,687	\$ 760,687
Retirement Services <i>(Paying benefits; disability services)</i>	553_ADM_002	0	3,139,655	3,139,655
Member Services <i>(Benefit education and estimates; retirement counseling)</i>	553_ADM_003	0	2,700,056	2,700,056
Employer Relations and Data Management <i>(Employer training; compliance reviews; employer reporting)</i>	553_ADM_004	0	1,133,862	1,133,862
Governance, Plan Design, and Financial Control <i>(Legal compliance, administrative rules, internal auditing, appeals, plan design)</i>	553_ADM_005	0	2,045,801	2,045,801
IPERS Quest for Excellence (I-Que) Project	553_ADM_006	0	7,283,015	<u>7,283,015</u> \$17,063,076



Summary

Third year of a five-year project to replace an aging and inefficient benefits administration system. The system's technology is used to:

- Manage over 300,000 member accounts.
- Pay nearly \$1 billion a year in benefits.
- Collect \$547 million a year in employee and employer contributions.
- Process approximately 1 million member payments.
- Create over 700,000 document images.

IPERS' goals for implementing I-Que are to:

- Meet increased demands for service from baby boomers.
- Automate and streamline processes.
- Control future cost increases.
- Improve and add online features for employers.
- Provide additional information and online services for members and retirees.
- Reduce security and financial risks.
- Provide for the Legislature's consideration money-saving changes that will be possible because of system improvements. (For example, reporting IPERS service credit by pay period rather than quarterly could save the Trust Fund an estimated \$6.3 million a year.)

Progress

- Completed RFP, hired vendors, and purchased the system.
- Identified all current business processes.
- Identified best business practices and system requirements.
- Began identifying how to set up I-Que to fulfill the requirements.
- Acquired hardware needed to date.
- Initiated employer communications, including a survey.

FY2008 Budget

Existing project staff, support, and resources	\$ 408,491
Implementation vendor	3,528,699
Public pension consultant— Independent Validation/Verification, QA	589,680
Data cleansing, planning, training	480,500
Infrastructure	<u>2,275,645</u>
Total FY2008	\$7,283,015

(Estimated cost for FY2009 – FY2010: \$9,318,000.)



Employee and Employer Contribution Rates

July 1, 2006–June 30, 2007

	Employee	Employer	Total
Regular Members	3.70%	5.75%	9.45%
Protection Occupations	6.08%	9.12%	15.20%
Sheriffs and Deputies	8.37%	8.37%	16.74%

Regular IPERS Members

	7/1/07 (FY2008)	7/1/08 (FY2009)	7/1/09 (FY2010)	7/1/10 (FY2011)
Employee	3.90%	4.10%	4.30%	4.50%
Employer	6.05%	6.35%	6.65%	6.95%
Total Rate	9.95%	10.45%	10.95%	11.45%

Special Service Contribution Rates

- IPERS adjusts rates each year based on the actuary's annual valuation.
- Rates go through the rulemaking process.
- Rates are stable over time.

