

Public Employees' Individual Retirement
Account Fund/Deferred Compensation Plan
(A Component Unit of the State of Alabama)

FINANCIAL STATEMENTS

For the Fiscal Year Ended September 30, 2008

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INDEPENDENT AUDITORS' REPORT

The Board of Control
Public Employees' Individual Retirement
Account Fund/Deferred Compensation Plan

We have audited the accompanying statement of fiduciary net assets of the Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan (a component unit of the State of Alabama) as of September 30, 2008, and the related statement of changes in fiduciary net assets for the year then ended. These financial statements are the responsibility of the Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan's 2007 financial statements, which were audited by other auditors who expressed an unqualified opinion on such financial statements in their report dated March 12, 2008.

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

In our opinion, the 2008 financial statements referred to above present fairly, in all material respects, the financial position of the Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan (a component unit of the State of Alabama) as of September 30, 2008, and its changes in fiduciary net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 2 and 3 are not required parts of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Carr, Riggs & Ingram, LLC

January 27, 2009
Montgomery, Alabama

**PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND/
DEFERRED COMPENSATION PLAN
Management's Discussion and Analysis**

The Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan (PEIRAF/DCP) operates as a deferred compensation plan as defined in Section 457 of the Internal Revenue Code of the United States. The following discussion provides an overview of the financial position and results of operation for the PEIRAF/DCP as of and for the year ended September 30, 2008, respectively. For more detailed information, please refer to the financial statements, including the Notes to the Financial Statements.

Financial Statements

The financial statements include the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets. The Notes to the Financial Statements are considered an integral part of the financial statements. The financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of when cash is received or expended. Investments are reported at fair value.

Statement of Fiduciary Net Assets – Includes all assets and liabilities of the PEIRAF/DCP and provides a snapshot of the financial position of the PEIRAF/DCP as of the end of the fiscal year. Assets less liabilities results in the net assets held in trust for members at fiscal year-end.

Statement of Changes in Fiduciary Net Assets – Reports all additions and deductions of the PEIRAF/DCP for the fiscal year. Additions are primarily comprised of member contributions and investment income. Deductions are principally made up of normal distributions. Additions minus deductions provide the change in fiduciary net assets for the fiscal year. The change in fiduciary net assets plus the beginning fiduciary net assets results in the fiduciary net assets held in trust for members at fiscal year-end.

The Notes to the Financial Statements include plan descriptions, a summary of significant accounting policies, credit risk disclosures for cash and investments, concentration of investments disclosures, and securities lending disclosures.

Comparative Summary Statements

**Summary Comparative Statement of Fiduciary Net Assets
As of September 30, 2008 and 2007**

	2008	2007	Variance	% Increase (Decrease)
<i>Assets</i>				
Cash	\$ 1	\$ 1	\$ -	-
Interest and Dividends Receivable	12,328,723	11,943,615	385,108	3.22
Investments	1,067,583,760	1,069,404,844	(1,821,084)	(0.17)
Invested Securities Lending Collateral	280,032,100	226,741,706	53,290,394	23.50
<i>Total Assets</i>	<u>1,359,944,584</u>	<u>1,308,090,166</u>	<u>51,854,418</u>	3.96
<i>Liabilities</i>				
Securities Lending Collateral	280,032,100	226,741,706	53,290,394	23.50
<i>Total Liabilities</i>	<u>280,032,100</u>	<u>226,741,706</u>	<u>53,290,394</u>	23.50
<i>Net Assets Held in Trust for</i>				
<i>Deferred Compensation Benefits</i>	<u>\$ 1,079,912,484</u>	<u>\$ 1,081,348,460</u>	<u>\$ (1,435,976)</u>	(0.13)

**PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND/
DEFERRED COMPENSATION PLAN
Management's Discussion and Analysis**

**Summary Comparative Statement of Changes in Fiduciary Net Assets
For the Fiscal Years Ended September 30, 2008 and 2007**

	2008	2007	Variance	% Increase (Decrease)
<i>Additions</i>				
Member Contributions	\$ 114,305,102	\$ 110,987,093	\$ 3,318,009	2.99
Interest and Dividend Income	52,062,911	50,908,743	1,154,168	2.27
Net (Decrease)/Increase in Fair Value of Investments	(104,354,871)	38,622,527	(142,977,398)	(370.19)
Net Income from Securities Lending Activities	2,123,408	376,827	1,746,581	463.50
Total Additions	64,136,550	200,895,190	(136,758,640)	(68.07)
<i>Deductions</i>				
Normal Distributions	64,846,802	58,389,542	6,457,260	11.06
Emergency Withdrawals	725,724	484,049	241,675	49.93
Total Deductions	65,572,526	58,873,591	6,698,935	11.38
<i>(Decrease)/Increase in Fiduciary Net Assets</i>	(1,435,976)	142,021,599	(143,457,575)	(101.01)
Net Assets Held in Trust for Deferred Compensation Benefits - Beginning of Year	1,081,348,460	939,326,861	142,021,599	15.12
<i>Net Assets Held in Trust for Deferred Compensation Benefits - End of Year</i>	<u><u>\$ 1,079,912,484</u></u>	<u><u>\$ 1,081,348,460</u></u>	<u><u>\$ (1,435,976)</u></u>	<u><u>(0.13)</u></u>

Financial Analysis

- Assets and liabilities related to invested securities lending collateral increased as a result of increased securities lending activity. Specifically, the demand for U.S. Government backed securities increased causing more lending opportunities.
- Earnings from securities lending activities increased and securities lending expenses had a net decrease, causing an overall increase in net income from securities lending activities for 2008. Increased lending, due to greater demand from borrowers caused gross income from securities lending activities to be higher than in 2007. Also, borrower rebates decreased due to the lowering of Federal interest rates, causing a decline in securities lending expenses.
- Member contributions increased in fiscal year 2008, primarily as a result of Deferred Retirement Option Program (DROP) rollovers. A significant amount of DROP distributions were rolled into PEIRAF/DCP.
- The struggling economy caused lower earnings and resulted in an overall decrease in the fair value of existing fixed income securities.
- Drop withdrawals, including lump sum, rollovers, and monthly distributions, accounted for most of the total increase in normal distributions for 2008. Many of the rollovers were from Drop accounts into PEIRAF/DCP accounts.
- Emergency withdrawals increased as a result of the recent economic downturn. Members who faced financial hardships, including home foreclosure, withdrew funds from their accounts.

**PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND
DEFERRED COMPENSATION PLAN**

**Statement of Fiduciary Net Assets
September 30, 2008 with comparative amounts at September 30, 2007**

	<u>2008</u>	<u>2007</u>
<i>Assets</i>		
Cash	\$ 1	\$ 1
Interest and Dividends Receivable	12,328,723	11,943,615
Investments, at Fair Value (Note 2)		
Commercial Paper	145,991,944	127,722,565
Money Market Funds	22,495,489	35,595,871
U. S. Government Guaranteed Bonds	142,130,265	122,004,690
U. S. Agency Securities	144,354,664	221,680,550
Mortgage-backed Securities	73,700,610	2,729,183
Corporate Bonds	301,596,482	279,670,104
Private Placements	59,014,122	72,345,754
Common Stocks	178,300,184	207,656,127
Total Investments	<u>1,067,583,760</u>	<u>1,069,404,844</u>
Invested Securities Lending Collateral	<u>280,032,100</u>	<u>226,741,706</u>
Total Assets	<u>1,359,944,584</u>	<u>1,308,090,166</u>
<i>Liabilities</i>		
Securities Lending Collateral	<u>280,032,100</u>	<u>226,741,706</u>
Total Liabilities	<u>280,032,100</u>	<u>226,741,706</u>
<i>Net Assets Held in Trust for Deferred Compensation Benefits</i>	<u>\$ 1,079,912,484</u>	<u>\$ 1,081,348,460</u>

See accompanying Notes to the Financial Statements.

PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND
DEFERRED COMPENSATION PLAN
Statement of Changes in Fiduciary Net Assets
For the Fiscal Year Ended September 30, 2008 with comparative amounts shown for 2007

	<u>2008</u>	<u>2007</u>
<i>Additions</i>		
Member Contributions	\$ 114,305,102	\$ 110,987,093
Investment Income (Note 2)		
<i>From Investing Activities</i>		
Interest and Dividends	52,062,911	50,908,743
Net (Decrease)/Increase in Fair Value of Investments	<u>(104,354,871)</u>	<u>38,622,527</u>
Total Investment (Loss)/Income from Investing Activities	<u>(52,291,960)</u>	<u>89,531,270</u>
<i>From Securities Lending Activities</i>		
Securities Lending Income	9,820,012	9,022,265
Less Securities Lending Expenses:		
Borrower Rebates	7,278,674	8,578,961
Management Fees	<u>417,929</u>	<u>66,477</u>
Total Securities Lending Expenses	<u>7,696,603</u>	<u>8,645,438</u>
Income from Securities Lending Activities, Net	<u>2,123,408</u>	<u>376,827</u>
Net Investment (Loss)/Income	<u>(50,168,551)</u>	<u>89,908,097</u>
<i>Total Additions</i>	<u>64,136,551</u>	<u>200,895,190</u>
<i>Deductions</i>		
Normal Distributions	64,846,802	58,389,542
Emergency Withdrawals	<u>725,724</u>	<u>484,049</u>
<i>Total Deductions</i>	<u>65,572,527</u>	<u>58,873,591</u>
<i>Net (Decrease)/Increase</i>	(1,435,976)	142,021,599
<i>Net Assets Held in Trust for Deferred Compensation Benefits:</i>		
Beginning of Year	<u>1,081,348,460</u>	<u>939,326,861</u>
End of Year	<u>\$ 1,079,912,484</u>	<u>\$ 1,081,348,460</u>

See accompanying Notes to the Financial Statements.

**PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND/
DEFERRED COMPENSATION PLAN**

**Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2008**

1) Organization and Summary of Significant Accounting Policies

A. Plan Description

On November 26, 1986, the Public Employees' Individual Retirement Account Fund (PEIRAF or "The Board") Board of Control established the Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan (PEIRAF/DCP) under the provision of Act 86-685 of the 1986 Legislature to afford the PEIRAF members the greatest possible tax benefits under the federal income tax laws. The PEIRAF/DCP operates as a deferred compensation plan as defined in Section 457 of the Internal Revenue Code of the United States and began receiving deferred portions of employees' income on January 1, 1987. The responsibility for the general administration and operation of the PEIRAF/DCP is vested in its Board of Control. In accordance with the Governmental Accounting Standards Board (GASB), the PEIRAF/DCP is considered a component unit of the State of Alabama (State) and is included in the State's *Comprehensive Annual Financial Report*.

Effective January 1, 2008, each member may defer a maximum of \$15,500 per calendar year. Any member, age 50 and older, may make additional deferrals of \$5,000 for calendar year 2008. At inception, PEIRAF/DCP funds were invested in fixed income investments such as corporate bonds, U.S. agency obligations, government national mortgage association securities, and commercial paper. However, in an effort to give members more flexibility within their portfolios, members have been offered the opportunity to invest in an S & P 500 Index Fund since January 1, 2001.

All members of the Teachers' Retirement System of Alabama, Employees' Retirement System of Alabama, Judicial Retirement Fund, and employees of employers eligible to participate in the Employees' Retirement System pursuant to provisions of Section 36-27-6, *Code of Alabama 1975*, and public officials and employees of the State of Alabama or any political subdivision thereof (collectively, participating employers) are members of the PEIRAF/DCP and are eligible to participate. As of September 30, 2008, there were 34,363 participants.

Effective October 1, 1997, the PEIRAF/DCP adopted Trust status in compliance with The Small Business Job Protection Act of 1996. Deferred income and investment earnings are held in trust for the exclusive benefit of the plan's participants and their beneficiaries.

B. Cash

Cash consists of deposits held by the State Treasurer in the PEIRAF/DCP's name. Deposits are entirely insured by Federal depository insurance or protected under the Security for Alabama Funds Enhancement (SAFE) Program. The *Code of Alabama 1975* requires all State organizations to participate in the SAFE Program. The SAFE Program is a multiple financial institution collateral pool. The SAFE Program requires all public funds to be deposited in a financial institution designated by the State Treasurer as a qualified public depository. Each qualified public depository is required to pledge collateral in accordance with the rules established by the SAFE Board of Directors. In the event that a qualified public depository defaults or becomes insolvent and the pledged collateral is insufficient to satisfy the claims of public depositors, the *Code of Alabama 1975, Section 41-14A-9(3)* authorizes the State Treasurer to make assessments against the other qualified public depositories in the pool so that there will be no loss of public funds.

**PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND/
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**Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2008**

C. Basis of Accounting

The PEIRAF/DCP is a private purpose trust fund that operates under the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the cash flows in accordance with standards of the GASB.

D. Investments

The Board of Control has the authority and responsibility to invest and reinvest available funds, through the secretary-treasurer of the Employees' Retirement System, in bonds, mortgage-backed securities, common and preferred stocks, or other investment vehicles 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.

All investments are carried at fair value except money market securities with a remaining maturity of one year or less at the time of purchase which are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price at current exchange rates. Mortgage-backed securities are reported based on estimated future principal and interest payments discounted at the prevailing interest rate for similar instruments. Generally, private placements are valued based on the selling price of similar investments sold in the open market. In those instances where there are no similar investments sold in the open market, an appraisal is performed to determine the fair value of the private placements.

E. Income Distribution

All investment income earned on the accrual basis is posted monthly to member accounts based on average daily balances. Losses posted to member accounts were at an annual rate of -.065 percent for the fixed investment option and -21.43 percent for the stock investment option.

F. Administrative Costs

Under the provisions of Legislative Act 2001-1061, the administrative costs incurred directly for the operation of the PEIRAF/DCP are provided from the expense funds of the Teachers' Retirement System and the Employees' Retirement System.

G. Distribution Policy

An employee may retire or terminate service and receive a lump-sum distribution, a partial distribution followed by equal monthly payments, or a monthly disbursement. Current Internal Revenue Code and Regulations require that distributions to the member begin not later than April 1 of the calendar year following the calendar year in which the employee attains age 70-1/2 or retires, whichever is later. Generally, distributions may begin at any age following retirement or separation of service.

Normal distributions include monthly benefit disbursements, lump-sum distributions upon retirement or separation of service, and rollovers to other qualified plans. Member withdrawals include emergency disbursements.

**PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND/
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**Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2008**

H. Comparative Statements

The basic financial statements include the prior year Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets (Statements) for comparative purposes only. Prior year Note Disclosures are not included. Therefore, the prior year basic financial statement presentation does not meet the minimum level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, the prior year Statements should be read in conjunction with the PEIRAF/DCP's prior year financial report from which the prior year Statements were derived.

2) Investments

A. Investment Risks

Investments are subject to certain types of risks, including interest rate risk, custodial credit risk, credit quality risk, and concentration of credit risk. The following describes those risks:

Interest Rate Risk – The fair value of fixed-maturity investments fluctuates in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, and other general market conditions. Certain fixed maturity investments have call provisions that could result in shorter maturity periods. However, the Fund's intent is to hold all fixed maturity investments until maturity, and as such, fixed maturity investments are classified in the following tables as if they will be held to maturity.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that an entity will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if the counterparty fails. The PEIRAF/DCP's custodial credit risk policy requires the custodial agent to hold or direct its agents or subcustodians to hold, for the account of the PEIRAF/DCP all securities and other non-cash property other than securities in the Federal Reserve book-entry system, in a clearing agency which acts as a securities depository, or in another book-entry system. The PEIRAF/DCP's safekeeping agent holds all investments of the PEIRAF/DCP in the PEIRAF/DCP's name except for securities in the Securities Lending Program.

Credit Quality – Nationally recognized statistical rating organizations provide ratings of debt securities quality based on a variety of factors, such as the financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations. Domestic fixed-maturity investments may consist of rated or non-rated securities. International fixed-maturity investments may consist of securities with a rating of at least A by one of the principal rating agencies at the time of purchase or acquisition, except that up to 2% of the fair value of the Fund's total portfolio may be invested in obligations of sovereign countries with a rating of BBB or BAA at the time of purchase. The Fund may hedge against the possible adverse effects of currency fluctuations on the Fund's portfolio of international fixed income obligations when it is considered appropriate. Short-term investments may consist of commercial paper rated at least A-2 and/or P-2, repurchase agreements, short-term U.S. securities, and other money market investments. U.S. government bonds, indexed linked government bonds, and certain government

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**Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2008**

A. Investment Risks, Continued

agency securities (Government National Mortgage Association securities or GNMA's) are explicitly backed by the full faith of the U.S. government and are not considered to have credit risk.

Concentration of Credit Risk – The distribution of investments between fixed maturity investments and the S & P index fund is determined by member elections.

The following table provides information as of September 30, 2008, concerning the fair value of investments and interest rate risk:

	INVESTMENTS					
	Maturity in Years at Fair Value					
Type of Investment	Less Than 1	1-5	6-10	More Than 10	Total Fair Value	Cost
<i>Fixed Maturity</i>						
Domestic						
Commercial Paper	\$ 145,991,944	\$ -	\$ -	\$ -	\$ 145,991,944	\$ 145,991,944
U.S. Agency	-	82,820,167	53,413,124	8,121,373	144,354,664	142,845,254
U.S. Government Guaranteed	8,489,880	57,835,785	75,804,600	-	142,130,265	132,984,020
Corporate Bonds	12,588,363	120,574,273	110,935,837	57,498,009	301,596,482	337,998,291
Private Placements	-	4,612,733	44,870,895	9,530,494	59,014,122	87,689,025
GNMAs	-	-	-	5,464,999	5,464,999	5,413,387
Collateralized Mortgage Obligations	-	577,695	-	67,657,916	68,235,611	68,594,173
Money Market Funds	22,495,489	-	-	-	22,495,489	22,495,489
Total Domestic Fixed Maturity	\$ 189,565,676	\$ 266,420,653	\$ 285,024,456	\$ 148,272,791	889,283,576	944,011,583
<i>Equities</i>						
Domestic					178,300,184	190,533,221
Total Investments					\$ 1,067,583,760	\$ 1,134,544,804

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**Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2008**

A. Investment Risks, Continued

The following table provides information as of September 30, 2008, concerning credit risk:

RATINGS OF FIXED MATURITIES

Moody's Ratings	Fair Value	Cost	Fair Value as a Percent of Total Fixed Maturity Fair Value
AAA	\$ 230,125,402	\$ 231,854,152	25.878
AA1	8,488,987	8,559,682	0.955
AA2	17,688,985	18,504,710	1.989
AA3	24,136,095	30,141,362	2.714
A1	30,332,634	34,977,320	3.411
A2	36,005,640	40,000,313	4.049
A3	39,443,396	42,278,127	4.435
BAA1	35,145,398	38,658,752	3.952
BAA2	57,013,206	61,624,586	6.411
BAA3	22,340,669	24,446,263	2.512
BA1	10,149,175	10,659,507	1.141
BA2	3,058,050	2,878,920	0.344
B1	4,912,500	4,686,550	0.552
B3	2,825,135	9,319,405	0.318
CAA1	5,947,634	7,649,690	0.669
P-1	22,495,489	22,495,489	2.530
P-2	145,991,944	145,991,944	16.417
BBB+(SP)	5,858,309	4,823,321	0.659
BBB(SP)	2,002,580	2,000,000	0.225
U.S. Government Guaranteed Securities	147,595,264	138,397,407	16.597
‡ Not Rated	37,727,084	64,064,083	4.242
Totals	\$ 889,283,576	\$ 944,011,583	100.000

‡ Primarily consists of private placements.

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**Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2008**

B. Concentration of Investments

As of September 30, 2008, the PEIRAF/DCP owned debt securities of Federal Home Loan Mortgage Corporation and Federal National Mortgage Association, which represented approximately 8.20% and 8.26%, respectively, of the total fair value of investments.

C. Securities Lending Program

The PEIRAF/DCP is authorized by the Board of Control to participate in a securities lending program. The Plan's custodian, State Street Bank and Trust Company (State Street), administers the program. Certain securities from the PEIRAF/DCP are loaned to borrowers approved by the Plan for collateral that will be returned for the same securities in the future. Approved borrowers of securities provide acceptable collateral in the form of cash, securities issued or guaranteed by the United States government or its agencies or instrumentalities, sovereign debt, Canadian Provincial debt, convertible bonds, irrevocable bank letters of credit by a person other than the borrower or an affiliate of the borrower if State Street determines to be appropriate, and such other collateral as the parties may agree to in writing from time to time. All security loans are open loans and can be terminated on demand by the PEIRAF/DCP or borrower. The initial collateral received shall have (i) in the case of loaned securities denominated in United States Dollars or whose primary trading market is located in the United States, sovereign debt issued by foreign governments (other than Canada) or corporate bonds that are not denominated in United States Dollars (other than those issued in Canada), a value of 102% of the fair value of the loaned securities, or (ii) in the case of loaned securities which are not denominated in United States Dollars or whose primary trading market is not located in the United States (and are not referenced in (i)), a value of 105% of the fair value of the loaned securities, or (iii) in the case of loaned securities comprised of UK gilts, a value of 102.5% of the fair value of the loaned securities, or (iv) in all other cases, such value, not less than 102% of the fair value of the loaned securities, as may be applicable in the jurisdiction in which such loaned securities are customarily traded. Pursuant to the terms of the applicable securities loan agreement, State Street shall, in accordance with State Street's reasonable and customary practices, mark loaned securities and collateral to their fair value each business day based upon the fair value of the collateral and the loaned securities at the close of business, employing the most recently available pricing information and shall receive and deliver collateral in order to maintain the value of the collateral at no less than 100% of the fair value of the loaned securities.

The PEIRAF/DCP cannot pledge or sell collateral securities received unless the borrower defaults. Cash collateral is invested in the State Street Quality D Short-term Investments Fund (QDF).

The following describes the QDF's guidelines. The QDF's average effective duration is restricted to 120 days or less. The maximum option-adjusted duration of any variable rate security investment of the QDF shall be five years or less. All fixed rate instruments must have an option-adjusted duration not to exceed 30 months. At the time of purchase, all securities with maturities of 13 months or less must qualify as first tier securities and all securities with maturities in excess of 13 months will be rated A or better by at least two nationally recognized statistical rating organizations (NRSROs), or, if not rated, be of comparable quality. The QDF may invest in other State Street managed investment vehicles provided they conform to QDF guidelines.

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**Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2008**

C. Securities Lending Program, Continued

As of September 30, 2008, the average term of the loans was 5 days. Cash collateral investments in the QDF are matured as needed to fulfill loan obligations. There is no direct matching of the maturities of the loans with the investments made with cash collateral.

The fair value of the securities on loan was \$273,585,204 and the fair value of the collateral pledged by the borrowers was \$280,776,272, as of September 30, 2008. Since the amounts owed by the PEIRAF/DCP exceeded the amounts the borrowers owed to the PEIRAF/DCP, there was no credit risk exposure as of September 30, 2008. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries of prior period losses during the year.

Investments purchased with cash collateral are held by the custodial agent, but not in the name of the Fund. Securities pledged as collateral are held by the custodial agent, but not in the name of the Fund. Letters of credit pledged as collateral are issued by the borrower's bank and are irrevocable. The following table provides information as of September 30, 2008, concerning securities lent:

SECURITIES LENDING - INVESTMENTS LENT AND COLLATERAL RECEIVED
(at Fair Value)

<u>Type of Investment Lent</u>	<u>Amounts</u>
<i>For Cash Collateral</i>	
Domestic Fixed Maturities	\$ 219,838,064
Domestic Equity	53,043,340
Total Lent for Cash Collateral	<u>272,881,404</u>
<i>For Non-cash Collateral</i>	
Domestic Equity	703,800
Total Lent for Non-cash Collateral	<u>703,800</u>
Total Securities Lent	<u><u>\$ 273,585,204</u></u>
 Type of Collateral Received	
<i>Cash Collateral - Invested in State Street Quality D Fund</i>	\$ 280,032,100
<i>Non-cash Collateral</i>	
Securities - U.S. Dollar	744,172
Total Collateral Received	<u><u>\$ 280,776,272</u></u>

**PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND/
DEFERRED COMPENSATION PLAN**

**Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2008**

D. Mortgage-backed Securities

As of September 30, 2008 the PEIRAF/DCP had investments in mortgage-backed securities. Embedded prepayment options cause these investments to be highly sensitive to changes in interest rates. Prepayments by the obligors of the underlying assets reduce the total interest payments to be received. Generally, when interest rates fall, obligors tend to prepay the mortgages thus eliminating the stream of interest payments that would have been received under the original amortization schedule. The resulting reduction in cash flow diminishes the fair value of the mortgage-backed securities.

3) Subsequent Events

Subsequent to September 30, 2008, financial markets continued to decline. Accordingly, as of December 31, 2008 the PEIRAF/DCP Equity investments declined by approximately 21.23% compared to September 30, 2008.