

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, 2013

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Public Employees' Individual Retirement Account Deferred Compensation Plan Management's Discussion and Analysis September 30, 2013

The Public Employees' Individual Retirement Account 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 fiscal year ended September 30, 2013. For more detailed information, please refer to the financial statements, including the *Notes to the Financial Statements*.

Overview of the Financial Statements

The financial statements of the PEIRAF/DCP include the *Statement of Fiduciary Net Position* and the *Statement of Changes in Fiduciary Net Position*. The *Notes to the Financial Statements* are considered an integral part of the financial statements and should be read in conjunction with the financial statements.

The financial statements are prepared under the accrual basis of accounting using the economic resources measurement focus. 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.

The *Statement of Fiduciary Net Position* includes all assets and liabilities of the PEIRAF/DCP and provides a snapshot of the financial position of the PEIRAF/DCP as of the fiscal year-end. Assets are reduced by liabilities resulting in the fiduciary net position restricted for the PEIRAF/DCP's members as of the fiscal year-end.

The *Statement of Changes in Fiduciary Net Position* reports all of the additions and deductions in the fiscal year for the PEIRAF/DCP. Additions are primarily comprised of member contributions and investment income. Deductions primarily consist of distributions made to participants during the fiscal year. The change in fiduciary net position plus the beginning fiduciary net position results in the fiduciary net position restricted for members at fiscal year-end.

The *Notes to the Financial Statements* include a description of the PEIRAF/DCP, a summary of significant accounting policies, and notes and disclosures regarding the PEIRAF/DCP's investments.

Comparative financial statements for the fiscal years ended September 30, 2013 and September 30, 2012 have been included below.

Summary Comparative Statement of Fiduciary Net Position
As of September 30, 2013 and 2012

	2013	2012	Variance	% Increase/ (Decrease)
Assets				
Cash	\$ 11	\$ 11	\$ -	-
Interest and Dividends Receivable	9,325,148	10,288,795	(963,647)	(9.37)
Investment Sales Receivable	-	4,029,814	(4,029,814)	(100.00)
Investments	1,654,264,118	1,589,310,318	64,953,800	4.09
Invested Securities Lending Collateral	173,906,490	98,584,116	75,322,374	76.40
Total Assets	1,837,495,767	1,702,213,054	135,282,713	7.95
Liabilities				
Investment Purchases Payable	123,382	9,412,364	(9,288,982)	(98.69)
Securities Lending Collateral	173,906,490	98,584,116	75,322,374	76.40
Total Liabilities	174,029,872	107,996,480	66,033,392	61.14
Net Position Restricted for Deferred Compensation				
Benefits	\$ 1,663,465,895	\$ 1,594,216,574	\$ 69,249,321	4.34

Summary Comparative Statement of Changes in Fiduciary Net Position
For the Fiscal Years Ended September 30, 2013 and 2012

	2013	2012	Variance	% Increase/ (Decrease)
Additions				
Member Contributions	\$ 145,428,181	\$ 143,930,078	\$ 1,498,103	1.04
Interest & Dividend Income	51,649,934	50,727,956	921,978	1.82
Net Increase in Fair Value of Investments	2,606,115	80,818,416	(78,212,301)	(96.78)
Net Income from Securities Lending Activities	1,405,085	1,437,231	(32,146)	(2.24)
Total Additions	201,089,315	276,913,681	(75,824,366)	(27.38)
Deductions				
Normal Distributions	131,270,610	101,433,247	29,837,363	29.42
Emergency Withdrawals	569,384	766,459	(197,075)	(25.71)
Total Deductions	131,839,994	102,199,706	29,640,288	29.00
Change in Net Position	69,249,321	174,713,975	(105,464,654)	(60.36)
Net Position Restricted for Deferred Compensation				
Benefits at Beginning of Year	1,594,216,574	1,419,502,599	174,713,975	12.31
Net Position Restricted for Deferred Compensation				
Benefits at End of Year	\$ 1,663,465,895	\$ 1,594,216,574	\$ 69,249,321	4.34

Financial Highlights

- Investment sales receivable and investment purchases payable occur as a result of trade date accounting. The decrease in the receivable and payable for fiscal year 2013 was due to the value of the securities traded in the current fiscal year and settling in the following fiscal year being smaller than the value of the securities accounted for using trade date accounting in the previous fiscal year.
- The PEIRAF/DCP's annual rate of return on investments as calculated by State Street Bank and Trust Company, the PEIRAF/DCP's investment custodian, was -0.10% for fixed securities and 19.14% for equity securities.
- Member contributions increased slightly by 1.04% during the fiscal year as a result of increases in the amount of rollovers from Deferred Retirement Option Plans and transfers from other plans.
- Member distributions increased by 29.42% primarily as a result of increases in the amount of lump sum and rollover distributions made during the 2013 fiscal year.

PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND
DEFERRED COMPENSATION PLAN
Statement of Fiduciary Net Position
September 30, 2013 with comparative amounts at September 30, 2012

	<u>2013</u>	<u>2012</u>
<i>Assets</i>		
Cash	\$ 11	\$ 11
Interest and Dividends Receivable	9,325,148	10,288,795
Investment Sales Receivable	-	4,029,814
Investments, at Fair Value (Note 2)		
Commercial Paper	105,996,422	151,958,397
Money Market Funds	67,495,272	67,866,026
U. S. Government Guaranteed Bonds	313,025,757	317,390,116
U. S. Agency Securities	99,946,374	99,105,193
Mortgage-backed Securities	168,316,160	170,585,537
Corporate Bonds	502,441,557	463,039,628
Private Placements	31,109,735	29,700,372
Common and Preferred Stocks	365,932,841	289,665,049
Total Investments	<u>1,654,264,118</u>	<u>1,589,310,318</u>
Invested Securities Lending Collateral	<u>173,906,490</u>	<u>98,584,116</u>
Total Assets	<u>1,837,495,767</u>	<u>1,702,213,054</u>
<i>Liabilities</i>		
Investment Purchases Payable	123,382	9,412,364
Securities Lending Collateral	<u>173,906,490</u>	<u>98,584,116</u>
Total Liabilities	<u>174,029,872</u>	<u>107,996,480</u>
<i>Net Position Restricted for Deferred Compensation Benefits</i>	<u>\$ 1,663,465,895</u>	<u>\$ 1,594,216,574</u>

See accompanying Notes to the Financial Statements.

PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND
DEFERRED COMPENSATION PLAN
Statement of Changes in Fiduciary Net Position
For the Fiscal Year Ended September 30, 2013 with comparative amounts shown for 2012

	<u>2013</u>	<u>2012</u>
<i>Additions</i>		
Member Contributions	\$ 145,428,181	\$ 143,930,078
Investment Income (Note 2)		
<i>From Investing Activities</i>		
Interest and Dividends	51,649,934	50,727,956
Net Increase in Fair Value of Investments	2,606,115	80,818,416
Total Investment Income from Investing Activities	<u>54,256,049</u>	<u>131,546,372</u>
<i>From Securities Lending Activities</i>		
Securities Lending Income	1,975,095	1,996,710
Less Securities Lending Expenses:		
Borrower Rebates	48,976	60,306
Management Fees	521,034	499,173
Total Securities Lending Expenses	<u>570,010</u>	<u>559,479</u>
Income from Securities Lending Activities, Net	<u>1,405,085</u>	<u>1,437,231</u>
Net Investment Income	<u>55,661,134</u>	<u>132,983,603</u>
<i>Total Additions</i>	<u>201,089,315</u>	<u>276,913,681</u>
<i>Deductions</i>		
Normal Distributions	131,270,610	101,433,247
Emergency Withdrawals	<u>569,384</u>	<u>766,459</u>
<i>Total Deductions</i>	<u>131,839,994</u>	<u>102,199,706</u>
<i>Change in Net Position</i>	69,249,321	174,713,975
<i>Net Position Restricted for Deferred Compensation Benefits:</i>		
Beginning of Year	<u>1,594,216,574</u>	<u>1,419,502,599</u>
End of Year	<u>\$ 1,663,465,895</u>	<u>\$ 1,594,216,574</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, 2013

1) Organization and Summary of Significant Accounting Policies

A. Plan Description

On November 26, 1986, the Public Employees' Individual Retirement Account Fund (PEIRAF) Board of Control established the Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan (PEIRAF/DCP) under the provisions of Act 86-685 of the 1986 Alabama 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) pronouncements, 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, 2013, each member may defer a maximum of \$17,500 per calendar year. Any member, age 50 and older, may make additional deferrals of \$5,500 for calendar year 2013. A member may "catch-up" unused eligible amounts for one to three years if the member did not defer the maximum deferral amount in the years beginning with 1986 and was eligible to participate. In order to make these additional deferrals ("catch-up" deferrals), a member must be within three years of normal retirement and be eligible for an unreduced pension.

PEIRAF/DCP investments are participant-directed in either an S&P 500 Index Fund or in fixed income investments such as corporate bonds, U.S. agency obligations, government national mortgage association securities, and commercial paper.

All members of the Teachers' Retirement System of Alabama (TRS), the Employees' Retirement System of Alabama (ERS), the Judicial Retirement Fund (JRF), and employees of employers eligible to participate in the ERS pursuant to provisions of *Code of Alabama 1975 Section 36-27-6*, 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, 2013, there were 35,192 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 PEIRAF/DCP'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 the Federal Deposit Insurance Corporation 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.

Public Employees' Individual Retirement Account Fund Deferred Compensation Plan
Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2013

B. Cash, Continued

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.

C. Basis of Accounting

The PEIRAF/DCP is a private purpose trust fund that operates under the accrual basis of accounting using the economic resources measurement focus. 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. Subsequent events were evaluated by management through the date the financial statements were issued.

D. Investments

The Board of Control has the authority and responsibility to invest and reinvest available funds, through the Secretary-Treasurer of the ERS, in bonds, mortgage-backed securities, common and preferred stocks, and 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. Short-term investments 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 independent 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. Income posted to member accounts was at an annual rate of - 0.11% for the fixed investment option. Income posted to member accounts was at an annual rate of 19.11% for the stock investment option.

Public Employees' Individual Retirement Account Fund Deferred Compensation Plan
Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2013

F. Administrative Costs

Under the provisions of Act 2001-1061 of the Alabama Legislature, the administrative costs incurred directly for the operation of the PEIRAF/DCP are provided from the expense funds of the TRS and the ERS.

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. The Internal Revenue Code and Regulations require that distributions to the member begin no 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.

H. Comparative Statements

The basic financial statements include the prior fiscal year *Statement of Fiduciary Net Position* and the *Statement of Changes in Fiduciary Net Position* for comparative purposes only. Prior fiscal year note disclosures are not included. Therefore, the prior fiscal 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 fiscal year statements should be read in conjunction with the PEIRAF/DCP's prior fiscal year financial report from which the prior fiscal year statements were derived.

I. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results may differ from these estimates.

J. New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, in June 2011 to be effective for fiscal years beginning after December 15, 2011. GASB Statement No. 63 amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements set forth in GASB Statement No. 63 were implemented by the PEIRAF/DCP for fiscal year 2013.

Public Employees' Individual Retirement Account Fund Deferred Compensation Plan
Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2013

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.

Custodial Credit Risk – 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. 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.

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

Public Employees' Individual Retirement Account Fund Deferred Compensation Plan
Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2013

A. Investment Risks, Continued

The following table provides information as of September 30, 2013, concerning the fair value of investments and interest rate risk:

Type of Investment	INVESTMENTS				Total Fair Value	Cost
	Maturity in Years at Fair Value					
	Less Than 1	1-5	6-10	More Than 10		
<i>Fixed Maturity</i>						
Domestic						
Money Market Funds	\$ 67,495,272	\$ -	\$ -	\$ -	\$ 67,495,272	\$ 67,495,272
Commercial Paper	105,996,422	-	-	-	105,996,422	105,996,422
U.S. Agency	3,440,353	48,304,544	44,286,745	3,914,732	99,946,374	97,564,499
U.S. Government Guaranteed	-	75,047,316	224,402,101	13,576,340	313,025,757	309,019,097
Corporate Bonds	116,133,173	207,639,174	98,065,678	80,603,532	502,441,557	484,801,015
Private Placements	10,160,000	2,617,637	-	18,332,098	31,109,735	39,652,909
GNMAs	-	-	-	23,516,093	23,516,093	24,021,109
CMO	-	5,020,160	-	139,779,907	144,800,067	145,288,826
Total Domestic Fixed Maturity	<u>\$ 303,225,220</u>	<u>\$ 338,628,831</u>	<u>\$ 366,754,524</u>	<u>\$ 279,722,702</u>	1,288,331,277	1,273,839,149
<i>Equities</i>						
Domestic						
					365,932,841	262,692,117
Total Investments					<u>\$ 1,654,264,118</u>	<u>\$ 1,536,531,266</u>

Public Employees' Individual Retirement Account Fund Deferred Compensation Plan
Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2013

A. Investment Risks, Continued

The following table provides information as of September 30, 2013, concerning credit risk:

RATINGS OF FIXED MATURITIES			
	Cost	Fair Value	Fair Value as a Percentage of Total (%)
Moody's			
Aaa ¹	\$ 570,436,470	\$ 575,103,710	44.64
Aa1	68,666,329	67,307,587	5.22
Aa2	3,334,975	3,519,543	0.27
Aa3	5,483,525	6,908,786	0.54
P-1	91,494,935	91,494,935	7.10
P-2	81,996,758	81,996,758	6.37
A1	36,203,905	38,722,066	3.01
A2	39,166,952	40,599,338	3.15
A3	59,916,900	64,261,892	4.99
Baa1	77,362,859	82,168,263	6.38
Baa2	82,316,176	86,250,569	6.69
Baa3	41,149,525	41,048,618	3.19
Ba1	22,799,217	23,836,955	1.85
Ba2	6,382,702	5,673,910	0.44
B1	3,878,963	4,591,425	0.36
Caa2	2,114,803	1,735,635	0.13
Not Rated ²	81,134,155	73,111,287	5.67
Total Fixed Maturities	<u>\$ 1,273,839,149</u>	<u>\$ 1,288,331,277</u>	<u>100.00</u>
Standard & Poor's			
AA+ ¹	\$ 588,902,745	\$ 595,287,500	46.21
AA	72,049,208	70,970,330	5.51
AA-	9,911,092	11,488,063	0.89
A-1	87,467,458	87,467,458	6.79
A-2	86,024,235	86,024,235	6.68
A+	5,842,299	5,709,150	0.44
A	54,128,436	56,821,633	4.41
A-	86,857,138	93,437,647	7.25
BBB+	117,331,983	119,692,820	9.29
BBB	90,467,409	94,238,243	7.31
BBB-	14,263,340	15,009,290	1.17
BB+	8,310,140	9,159,805	0.71
BB-	6,382,702	5,673,910	0.44
CCC-	2,114,803	1,735,635	0.13
Not Rated ²	43,786,161	35,615,558	2.77
Total Fixed Maturities	<u>\$ 1,273,839,149</u>	<u>\$ 1,288,331,277</u>	<u>100.00</u>

¹ Includes securities guaranteed by the U.S. Government.

² Primarily consists of private placements.

Public Employees' Individual Retirement Account Fund Deferred Compensation Plan
Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2013

B. Concentration of Investments

As of September 30, 2013, the PEIRAF/DCP owned debt securities of the Federal National Mortgage Association (Fannie Mae), which represented approximately, 8.98% 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 PEIRAF/DCP'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 PEIRAF/DCP for collateral that will be returned for the same securities in the future. Approved borrowers provide acceptable collateral in the form of cash (U.S. dollar and foreign currency), U.S. and non U.S. equities, assets permissible under Rule 15c3-3 of the Exchange Act of 1934, and 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 (depending on the nature of the loaned securities and the collateral received), a value of 102% or 105% of the fair value of the loaned securities, or such other 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 collateral fund is separated into two pools, a liquidity pool and a duration pool. The split allows greater flexibility in managing the available liquidity in the investment in the fund and the outstanding balance of securities on loan.

The following describes the QDF's guidelines for the liquidity pool: The QDF's Investment Manager shall maintain the dollar-weighted average maturity of the QDF in a manner that the Investment Manager believes is appropriate to the objective of QDF, provided, that (i) in no event shall any eligible security be acquired with a remaining legal final maturity (i.e., the date on which principal must be repaid) of greater than 18 months, (ii) the Investment Manager shall endeavor to maintain a dollar-weighted average maturity of the QDF not to exceed 75 calendar days, and (iii) the Investment Manager shall endeavor to maintain a dollar-weighted average maturity to final of QDF not to exceed 180 calendar days. Additionally, at the time of purchase, all eligible securities with maturities of 13 months or less shall be rated at least A1, P1 or F1 by at least two of the following nationally recognized statistical rating organizations: Standard & Poor's Corp. ("S&P"), Moody's Investor Services, Inc. ("Moody's"), or Fitch, Inc. ("Fitch"), or be determined by the Investment Manager

Public Employees' Individual Retirement Account Fund Deferred Compensation Plan
Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2013

C. Securities Lending Program, Continued

to be of comparable quality. Additionally, all eligible securities with maturities in excess of 13 months shall be rated at least A-, A3, or A- by at least two of the following nationally recognized statistical rating organizations: S&P, Moody's, or Fitch or be determined by the Investment Manager to be of comparable quality. The QDF may invest up to 10% of its assets at the time of purchase in commingled vehicles managed by the Trustee or its affiliates that conform to the Investment Policy Guidelines.

The following describes the QDF's guidelines for the duration pool: The QDF duration pool includes all asset-backed securities (regardless of maturity) and securities of any type with a remaining maturity of 91 days or greater. Each QDF investor owns a specified percentage interest in the duration pool which is redeemable only in kind, not in cash. The QDF duration pool will not make additional investments.

As of September 30, 2013, the average loan term was 67 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 \$396,808,946 and the fair value of the collateral pledged by the borrowers was \$419,760,481, as of September 30, 2013. 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, 2013. Additionally, 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 fiscal year.

Investments purchased with cash collateral are held by the custodial agent, but not in the name of the PEIRAF/DCP. Securities pledged as collateral are held by the custodial agent, but not in the name of the PEIRAF/DCP. Letters of credit pledged as collateral are issued by the borrower's bank and are irrevocable. Tri party collateral is held by a third party bank in the name of the custodial agent. State Street, as custodial agent, is authorized to request a third party bank to undertake certain custodial functions in connection with holding of the collateral provided by a borrower. State Street may instruct the third party bank to establish and maintain a borrower's account and a State Street account wherein all collateral including cash shall be maintained by the third party bank in accordance with the terms of the agreement.

Public Employees' Individual Retirement Account Fund Deferred Compensation Plan
Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2013

C. Securities Lending Program, Continued

The following table provides information as of September 30, 2013, concerning securities lent:

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

Type of Investment Lent	Amounts
<i>For Cash Collateral</i>	
Domestic Fixed Maturities	\$ 108,603,082
Domestic Equity	61,573,098
Total Lent for Cash Collateral	170,176,180
<i>For Non-cash Collateral</i>	
Domestic Fixed Maturities	217,040,405
Domestic Equity	9,592,361
Total Lent for Non-cash Collateral	226,632,766
Total Securities Lent	\$ 396,808,946
Type of Collateral Received	
<i>Cash Collateral - Invested in State Street Quality D Fund</i>	\$ 173,906,490
<i>Non-cash Collateral</i>	
Domestic Fixed Securities	206,066,012
Domestic Equity Securities	14,413,634
International Fixed Maturities & Equity	
GBP	25,374,345
Total Non-Cash Collateral	245,853,991
Total Collateral Received	\$ 419,760,481

Public Employees' Individual Retirement Account Fund Deferred Compensation Plan
Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2013

D. Mortgage-backed Securities

As of September 30, 2013, 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.