Back to Basics: Secure Retirement
Presented to the Public Retirement Systems Committee
Donna M. Mueller, CEO of IPERS
November 1, 2007

Typical recent IPERS retiree:
✓ Retired at age 62
✓ Worked about 22 years in public service
✓ Was an education employee
✓ Continues to live in Iowa
✓ Earned a monthly pension of about $1,500

Total # years worked by ≈225,000 nonretired members: Over 2 million

# of members younger than 30: Over 35,500

# of retirees over 100: About 100

I P E R S
Working today for your tomorrow
Back to Basics: Secure Retirement

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Ms. Mueller received a Juris Doctor in law from Washington and Lee University in Lexington, Virginia, and a Bachelor of Arts in political science, magna cum laude, from the University of Minnesota in Duluth.

She began her career as an attorney and deputy director of a Wisconsin agency serving low-income citizens.

Ms. Mueller is a graduate of the John F. Kennedy School of Government’s Program for Senior Executives at Harvard University and is certified as a pension professional by the Institute of Chartered Pension Professionals in Boston.

Donna M. Mueller, Esq.

Donna M. Mueller has been the CEO of IPERS since January 2003. She came to Iowa from Massachusetts where she was CEO of the Boston Retirement Board. Ms. Mueller also worked for the Boston Mayor’s Office of Consumer Affairs and Licensing, serving as both executive director and assistant corporate counsel.

Signs indicate where there are issues that need special attention.
Who makes plan decisions?

Legislature
Plan Sponsor

Governor
Plan Sponsor

Investment Board*
Fund Trustee

CEO*
IPERS FTEs = 95.13

Benefits
Advisory
Committee

Executive Assistant
Melinda Prince
515-281-0070

General Counsel Office*
Kelly Lovell
Gregg Schochenmaier

Internal Auditor
Roger Wheatley

Project Management Office
Bob Sharp

Public Information
Legislative Liaison
Julie Economaki
515-281-0043

Investment Division

Chief Investment Officer*
Karl Koch
- Core Plus Fixed Income
- Domestic Equity
- High-Yield Bonds
- International Equity
- Private Equity
- Real Estate

Operations Division

Chief Operations Officer*
Leon Schwartz
- Accounting
- Application Development
- Data
- Office Support
- Technology

Benefits Division

Chief Benefits Officer*
David Martin
- Death Benefits
- Disability Benefits
- Employer Relations
- Member Accounts
- Retirement Services
- Special Service Benefits

*Fiduciary
Who makes plan decisions?

Legislature
Plan Sponsor

Governor
Plan Sponsor

Purpose

Goals of 97B.2
- Attract employees to public service
- Reduce excessive turnover of personnel
- Care for oneself in retirement
- Create economy and efficiency in government

Plan Design

1: The features of the plan that carry out the intention of the plan sponsors
   a: Who is covered by a plan
   b: What benefits are provided
2: Funding the cost of benefits

Plan Funding

Contributions
+ Investment Earnings

Liabilities = Benefits and Expenses
What is the plan design?

Who Is Covered

- IPERS covers most Iowa public employees
- ≈96% are regular IPERS members
- ≈4% are in a Special Service group
  - Sheriffs & deputies
  - Members in protection occupations such as correctional officers, police officers, and firefighters
- Each Special Service group has different contribution rates and benefits

≈307,000 Members

- Active (contributing) 53%
- Inactive vested 10%
- Inactive nonvested 10%
- Retired 27%

7,872 (9.6%) of 82,204 retired members returned to work with an IPERS-covered employer during FY2007. The number of retired reemployed members has been growing. Most reemployed retirees are working part-time.

Active Members (Currently Contributing)

- About 2,300 reporting employers
- Covered employers include schools, community colleges, state agencies, counties, cities, and others
- Benefits easily move from employer to employer
- Service purchases and rollovers provide additional portability of benefits

Statewide, multi-employer
The IPERS Plan

IPERS is designed to work with Social Security and personal savings

- Basic defined benefit (DB) plan
- Benefits based on formula that takes the average of the highest three years' wages times a multiplier based on years of service
- Prefunded
  - Today's workers fund their own future retirements
- Contribution rate set by statute for regular class
- Actuarial contribution rate for two Special Service (public safety) groups
- Vest at 4 years (or when contributing at age 55)
- Wage replacement: up to 65% or 72%
- Pension not adjusted for cost of living
- Disability benefits
- Pre- and postretirement death benefits
- All members qualify for social security benefits, with no offset

Social Security
- Formula
- Career averaging
- Pay-as-you-go system
  - Today's workers fund today's retirements
- Wage replacement: 35%-57%

*Sorting Out Social Security Replacement Rates, Alicia H. Munnell and Mauricio Soto, Center for Retirement Research at Boston College, November 2005

Personal savings
- Home ownership
- Deferred compensation
- Tax-sheltered annuities
- Other
**Defined contribution (DC) plans**
- Similar to 401(k)s
- Predictable employer contributions
- Individual accounts
- Individual bears investment and longevity risk
- Payouts depend on account performance, loans, and other withdrawals
- No incidental benefits, such as disability payments
- Quicker vesting

**Hybrid plans** have features of both defined benefit and defined contribution plans. A hybrid could include a traditional DB plan with a lower multiplier used in the benefit formula plus mandatory participation in a DC plan.
Retention

Benefits grow as years of service grow

What is the plan design?

Regular

<table>
<thead>
<tr>
<th>Years of Service</th>
<th>Multiplier (Percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>8</td>
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<tr>
<td>5</td>
<td>10</td>
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<td>34</td>
<td>68</td>
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<tr>
<td>35+</td>
<td>70</td>
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Special Service

<table>
<thead>
<tr>
<th>Years of Service</th>
<th>Appropriation (Percent)</th>
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<tbody>
<tr>
<td>4</td>
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<td>6</td>
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<td>21.81</td>
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<td>43.63</td>
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<td>46.36</td>
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<td>73.66</td>
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<td>76.39</td>
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<td>79.12</td>
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<tr>
<td>30*</td>
<td>81.86</td>
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</table>

8
What is the plan design?

**Wage Replacement**

Replace up to 65% of wages

**Multiplier**  
(Based on years of service)

**Salary**  
(High 3-year average)

**Regular**

**FORMULA MULTIPLIER**

- 2% a year for 30 years plus 1% a year for years 31–35
- Maximum multiplier 65%
- Benefit reduction of 3% each year before normal retirement age

**NORMAL RETIREMENT AGE**

- Age 65
- Age 62 and 20 years of service (YOS)
- Rule of 88  
  \((\text{Age} + \text{YOS} = 88)\)

**Special Service**

**FORMULA MULTIPLIER**

- Approximately 2.7272% a year for 22 years, plus 1.5% each year for years 23–30

**NORMAL RETIREMENT AGE**

- Sheriffs and deputies  
  - Age 55
  - Age 50 & 22 YOS  
    \((7/1/08)\)

- Protection occupations
  - Age 55

**The average IPERS retiree has about 21.5 years of service, so IPERS is replacing about 43% of the highest three-year average wage.**
How is the plan funded?

Contributions + Investment Earnings = Liabilities

Employee contributions ➔ Pooled and invested ➔ Promised benefits + expenses

Employer contributions

IPERS Trust Fund

Public pension fund revenue sources
U.S., 1982 to 2005

Investment Earnings 63.7%
Employer Contributions 24.3%
Employee Contributions 12.0%

Source: U.S. Census Bureau
National Association of State Retirement Administrators
How is the plan funded?

Current employees contribute for their own future retirements

Prefund benefits

Contributions

- Employees contribute throughout their careers
- Employers’ contributions are part of the overall compensation package provided to employees
- Each year’s contributions pay a portion of the projected cost of the employee’s future lifetime benefits (normal cost)
- Contributions, plus projected investment income, should be adequate to prefund the benefits that are being promised
How is the plan funded?

Investments

Investments by asset class

- **Domestic Equity**: 30%
- **Core Plus Fixed Income**: 33%
- **International Equity**: 16%
- **Private Equity**: 8%
- **Real Estate**: 9%
- **High Yield Bonds**: 4%

Board

- Adopts policies for and oversees IPERS investment and actuarial programs
- 7 voting members
  - State Treasurer Michael Fitzgerald
  - 3 public members
    - David Creighton, Sr. (Vice Chair)
    - Jay Ingram
    - Joanne Stockdale
  - 3 IPERS members
    - Phyllis S. Peterson (retired member)
    - Michael Beary (active, not in education)
    - Lana Dettbarn (active, education)
- 4 nonvoting members
  - Representatives Jochum and Boal
  - Senators Connolly and Zieman
What are the plan’s assets?

1: A person legally responsible to hold and manage assets for the benefit of another person.

2: A pension plan fiduciary must act for the exclusive benefit of members and beneficiaries, prudently manage the plan’s assets, and exercise care to efficiently administer the plan.

The IPERS Investment Board recently reaffirmed its policy that, because of its fiduciary duty, IPERS and the Investment Board cannot support any type of social investing strategy or agenda. IPERS’ fiduciary duty is to invest exclusively to bring the best risk-controlled economic returns for its members.
Benefits and the cost of administering benefits are the plan’s liabilities.

There is no turning back once a benefit is granted.

Benefit enhancements affect plan funding for decades.

A promised benefit cannot be reduced later if it proves to be too costly; the benefit can only be modified for future members.

All benefit increases have a cost.

It is inadvisable to make multiple changes over short time periods, as it is impossible to predict how the changes will interact with each other to affect the behavior of those in the plan.

Cost drivers you can’t control

- How many years people will draw benefits
- Member behavior

Cost drivers you can control

- Formula multiplier
- When benefits start and the normal retirement age
- Definition of covered wages
Current actuarial balance sheet

Contributions + Investment Earnings < Liabilities

IPERS’ Assets and Liabilities

- Actuarial value of assets
- Accrued liability

Unfunded actuarial liability

$2.507 billion

Actuarial Valuation
As of June 30, 2006
Milliman
Do assets equal liabilities?

Current benefits are not prefunded fully

Percent Funded

Amortize UAL

Rates

Statutory contribution rate

All numbers as of June 30

Valuations determine future actuarial contribution rates; thus 2006 reflects the first 0.5% legislative-approved increase effective July 2007.
**Statutory vs. actuarial contribution rate (7/1/07–6/30/08)**

<table>
<thead>
<tr>
<th></th>
<th>Employee Share</th>
<th>Employer Share</th>
<th>Total</th>
<th>Percent of Actuarial Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular IPERS Members</td>
<td>3.90</td>
<td>6.05</td>
<td>9.95 (By statute)</td>
<td>86*</td>
</tr>
<tr>
<td>Sheriffs and Deputies</td>
<td>7.70</td>
<td>7.70</td>
<td>15.40 (Adjustable)</td>
<td>100</td>
</tr>
<tr>
<td>Protection Occupations</td>
<td>5.64</td>
<td>8.47</td>
<td>14.11 (Adjustable)</td>
<td>100</td>
</tr>
</tbody>
</table>

*Actuarial rate: 11.51%

**Actuarial Valuation**

As of June 30, 2006

**Milliman**

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**Upcoming contribution rates (regular members)**

<table>
<thead>
<tr>
<th></th>
<th>7/1/08</th>
<th>7/1/09</th>
<th>7/1/10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee</td>
<td>4.10</td>
<td>4.30</td>
<td>4.50</td>
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<tr>
<td>Employer</td>
<td>6.35</td>
<td>6.65</td>
<td>6.95</td>
</tr>
<tr>
<td>Total Rate</td>
<td>10.45</td>
<td>10.95</td>
<td>11.45</td>
</tr>
</tbody>
</table>

**73%**

The probability that the 11.45% contribution rate will be equal to or exceed the actuarial rate (if all actuarial assumptions are met)

Asset Liability Study

June 2007

Milliman
The Cost of Inaction

Delayed contributions and lost investment earnings*

*IPERS’ estimate of losses from delaying 0.5 percentage point annual contribution rate increase (that was eventually approved) for four years effective 07/01/04. Regular membership payroll for FY2006 used as base case with a 4% annual payroll growth applied thereafter; investment earnings based on actual quarterly investment returns through 6/30/07 with 7.5% annual returns assumed thereafter.

Inadequate contributions added $251 million to the UAL between 2002–2005. In 2006 alone, an additional $125 million was added to the UAL because of the delay in raising the contribution rate.

Actuarial Valuation as of June 30, 2006
Milliman
When should contributions change?

Special Service Contribution Rates

- Contribution rates are actuarially determined
- Benefits have increased, but remain fully funded
- Power of compounding
- Stability over time
- Today’s rates similar to rates 10 years ago

Special Service
≈4% of total membership

City police
Correctional officers
Sheriffs & deputies
Other

CAUTION

Special Service Contribution Rates

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Sheriffs/Deputies</th>
<th>Protection Occupations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>17.12</td>
<td>17.07</td>
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<td>1997</td>
<td>15.03</td>
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<td>14.87</td>
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<td>2003</td>
<td>14.76</td>
<td>15.39</td>
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<tr>
<td>2004</td>
<td>15.49</td>
<td>15.39</td>
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<tr>
<td>2005</td>
<td>15.11</td>
<td>15.39</td>
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<tr>
<td>2006</td>
<td>13.42</td>
<td>15.39</td>
</tr>
<tr>
<td>2007</td>
<td>12.47</td>
<td>15.39</td>
</tr>
</tbody>
</table>

Sheriffs/Deputies
Protection Occupations

City police
Correctional officers
Sheriffs & deputies
Other

CAUTION
How well does the plan meet goals?

### Investment Returns (%)

<table>
<thead>
<tr>
<th></th>
<th>Fiscal Year 2007</th>
<th>Three Years¹</th>
<th>Five Years</th>
<th>Ten Years</th>
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<tbody>
<tr>
<td>IPERS' Return</td>
<td>16.29</td>
<td>12.86</td>
<td>11.64</td>
<td>9.03</td>
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<tr>
<td>Policy Benchmark²</td>
<td>16.61</td>
<td>12.34</td>
<td>11.54</td>
<td>8.41</td>
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<tr>
<td>CPI + 3%</td>
<td>5.69</td>
<td>6.17</td>
<td>5.98</td>
<td>5.66</td>
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<tr>
<td>Actuarial Return Assumption</td>
<td>7.50</td>
<td>7.50</td>
<td>7.50</td>
<td>7.50</td>
</tr>
<tr>
<td>Median—TUCS Public Funds &gt; $1 Billion³</td>
<td>17.69</td>
<td>12.84</td>
<td>11.47</td>
<td>8.19</td>
</tr>
</tbody>
</table>

¹Returns for periods longer than one year are annualized.

²Policy benchmark is a passively managed set of market indices, with appropriate weightings, that are reflective of IPERS' target asset allocations.

³Median return of the Trust Universe Comparison Service’s Universe of Public Funds with Assets Greater than $1 billion.

### Fiscal Year 2007 Returns by Asset Class (% net of fees)

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Return</th>
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<tbody>
<tr>
<td>Private Equity</td>
<td>33.17</td>
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<tr>
<td>International Equity</td>
<td>27.65</td>
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<tr>
<td>Domestic Equity</td>
<td>19.41</td>
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<tr>
<td>Real Estate</td>
<td>14.23</td>
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<tr>
<td>High Yield Fixed Income</td>
<td>9.91</td>
</tr>
<tr>
<td>Core Plus Fixed Income</td>
<td>6.49</td>
</tr>
<tr>
<td>Cash</td>
<td>5.92</td>
</tr>
</tbody>
</table>
How well does the plan meet goals?

Fiscal Year Investment Returns

27 Year Annualized Return = 11.59%
Current Actuarial Investment Return Assumption = 7.50% *

*The actuarial investment return assumption was increased from 6.75% to 7.50% in FY1996.

Sudan Divestment

SF 361
Prohibits investing in certain companies doing business in the Sudan and requires divesting from some

✓ IPERS uses Sudan Divestment Task Force’s Highest Offender List

✓ Letters of engagement sent to 45 firms; 10 responded

✓ Updated lists of Prohibited Investments and Holdings on IPERS Web site <www.ipers.org>

✓ IPERS’ direct holdings estimated at $5 million (6/30/07)
How well does the plan meet goals?

Efficiency and Economy

IPERS 3,199 to 1
Median 1,625 to 1

Source: CEM Benchmarking Inc.
How well does the plan meet goals?

Efficiency and Economy

Source: CEM Benchmarking Inc.

Should you be concerned that IPERS pays a billion dollars a year in benefits to an increasing number of retirees but collects only about half that in contributions from active members, whose numbers are not increasing as rapidly?

No.

In a mature prefunded plan, adequate contributions plus investment earnings cover liabilities, with investments providing most of the income needed to pay future benefits.

However, as the number of retirees increases, IPERS’ administrative costs will increase.
How well does the plan meet goals?

Ratings From Elected Officials

Quality of service

Overall value

Accountability

Source:
T.L. Grantham & Associates, 2005
How well does the plan meet goals?

Ratings From Employers

Quality of service

Overall value

Help you comply with rules

Source:
T.L. Grantham & Associates, 2005
How well does the plan meet goals?

Ratings From Members

Quality of service

Ability to meet your specific needs

Source: T.L. Grantham & Associates, 2005

Employees value retirement benefits as much as they value health insurance.
2007 Iowa Employment Values Survey

Rating From CEM Benchmarking Inc.

Total Service Score (FY2006)
How well does the plan meet goals?

- IPERS has no traditional cost-of-living adjustment (COLA) to protect pensions from the effects of inflation.
- Traditional COLAs are expensive.
- The once-a-year November and Favorable Experience Dividends (FED) have not kept up with inflation.
- The November dividend is guaranteed; the FED is not guaranteed.
- The FED is paid from a separate reserve account.
- IPERS is unable to transfer money to the FED Reserve Account until IPERS is fully funded.
- The Reserve Account is credited with investment earnings—or losses.
- The FED Reserve Account is estimated to run out in 7-8 years, depending on investment returns.

Secure Retirement

November Dividend
- For members who retired before July 1, 1990
- Based on a formula that applies a multiplier to the base payment
- Although a base payment is guaranteed, increases are not

Favorable Experience Dividend (FED)
- For members who retired after June 30, 1990
- Retired for one full calendar year
- Not guaranteed

Ages of IPERS Retirees

- <65: 26%
- 65-74: 34%
- 75-84: 28%
- 85-94: 11%
- 95+: 1%

How will we preserve the buying power of pensions?
How well does the plan meet goals?

Secure Retirement

<table>
<thead>
<tr>
<th>FY</th>
<th>November Dividend</th>
<th>FED</th>
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<tbody>
<tr>
<td></td>
<td>Total Paid</td>
<td>Total Paid</td>
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<tr>
<td>'99</td>
<td>$14,086,374</td>
<td>$12,152,683</td>
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<td>'02</td>
<td>$22,284,857</td>
<td>$57,890,007</td>
</tr>
<tr>
<td>'03</td>
<td>$20,835,973</td>
<td>$25,570,783</td>
</tr>
<tr>
<td>'04</td>
<td>$19,300,657</td>
<td>$31,067,817</td>
</tr>
<tr>
<td>'05</td>
<td>$17,752,181</td>
<td>$37,178,186</td>
</tr>
<tr>
<td>'06</td>
<td>$16,543,014</td>
<td>$43,986,041</td>
</tr>
<tr>
<td>'07*</td>
<td>$15,230,523</td>
<td>$51,407,696</td>
</tr>
</tbody>
</table>

**November Dividend Formula**  
Set Base Payment \* Multiplier  
(not to exceed 3%)

**FED Formula**  
December Benefit \* 12 Months \* Multiplier \* # Full Calendar Years Retired  
(not to exceed 3%)

*As reported in the month dividends are initially paid; does not reflect subsequent adjustments.

**COLAs in Neighboring States**

- Kansas PERS; North Dakota PERS and Teachers: Ad hoc by Legislature
- Minnesota PERF and Teachers: Automatic, based on CPI (up to 2.5%) plus investment performance
- Missouri Local Government: Automatic, CPI (up to 4%)
- Missouri State: 80% of CPI (up to 5%)
- Nebraska Schools: Automatic, CPI (up to 2.5%)
- South Dakota: Automatic, CPI (up to 3.1%)
- Wisconsin: Based on investment performance

Source: 2006 Public Funds Survey, National Association of State Retirement Administrators and National Council on Teachers Retirement
1. Plan works with Social Security and personal savings.

2. Social Security replaces 35% to 57% of wages depending on the amount of preretirement wages (Center for Retirement Research at Boston College).

3. IPERS replaces, without any offset for social security benefits, up to 65% for regular members and 72% for public safety members.

**What income replacement ratio is needed?**

**Is it an effective retention tool?**

1. The multiplier is higher in earlier years and lower in later years, providing less incentive to continue working.

2. There is no formula multiplier for years worked beyond 35.

**Secure Retirement**

**Recruit and Retain**

<table>
<thead>
<tr>
<th>Plans Coordinated with Social Security</th>
<th>Multiplier</th>
<th>Final Average Salary (FAS)</th>
<th>Limitation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illinois SERS</td>
<td>1.67%</td>
<td>High 4 of 10</td>
<td>75% FAS</td>
</tr>
<tr>
<td>Iowa PERS</td>
<td>2% (30 yrs)1% (31-35)</td>
<td>High 3</td>
<td>65% FAS</td>
</tr>
<tr>
<td>Kansas PERS</td>
<td>1.75%</td>
<td>High 3</td>
<td>—</td>
</tr>
<tr>
<td>Minnesota PERA</td>
<td>1.70%</td>
<td>High 5 consecutive</td>
<td>100% FAS</td>
</tr>
<tr>
<td>Minnesota Teachers</td>
<td>1.70%</td>
<td>High 5</td>
<td>100% FAS</td>
</tr>
<tr>
<td>Minnesota State</td>
<td>1.70%</td>
<td>High 5</td>
<td>—</td>
</tr>
<tr>
<td>Missouri Local Government</td>
<td>1.00–1.50%</td>
<td>High 3 consecutive</td>
<td>100% FAS</td>
</tr>
<tr>
<td>Missouri State</td>
<td>1.6–1.7%</td>
<td>High 3 consecutive</td>
<td>—</td>
</tr>
<tr>
<td>Nebraska Schools</td>
<td>2%</td>
<td>High 3 consecutive</td>
<td>—</td>
</tr>
<tr>
<td>North Dakota PERS</td>
<td>2%</td>
<td>High 3 of 10</td>
<td>—</td>
</tr>
<tr>
<td>North Dakota Teachers</td>
<td>2%</td>
<td>High 3 or high 5</td>
<td>—</td>
</tr>
<tr>
<td>South Dakota</td>
<td>1.55–1.625%</td>
<td>High 3 consecutive of last 10</td>
<td>—</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>1.6–1.765%</td>
<td>High 3</td>
<td>70% FAS</td>
</tr>
</tbody>
</table>

Protection occupation group

1. IPERS’ protection occupation group is intended for public safety jobs that necessitate earlier retirements.

2. Employees in the protection occupation group earn more benefits faster and may retire earlier.

3. The Benefits Advisory Committee adopted guidelines to use when advising the legislature.

4. Transfers to the protection occupation group increase rates for current members in that group with no added benefit to them.

5. Transfers increase contribution rates for both the member and employer.

6. The regular IPERS plan provides disability, death, and early retirement benefits.

BAC protection occupation guidelines

1. Primary duties: preservation of the physical safety of individuals and/or protection of property, and

2. The duties must be hazardous (place own or other’s life in peril) and physically demanding (require strength, or speed, or stamina, or agility, or a combination), and

3. The duties generally require professional certification or specialized training directly related to the preservation of the physical safety of individuals and/or protection of property, and

4. There is a material reduction in capacity due to age which makes it necessary to retire at an earlier age and with less service than a regular member, and

5. An employer association agrees that it meets the definition, and

6. Any changes are prospective.
Retirement plan changes should address only retirement issues. A retirement plan cannot fix compensation issues that lead to requests to move to the protection occupation group.

Benefits Advisory Committee (BAC)

The BAC was created by statute to advise the plan sponsors and IPERS. The Committee includes representatives of major employer groups and member associations. While the constituent groups are generically named by statute, each association designates its BAC representative.

Member Representatives
Maxine Moore Ballard, State Police Officers Council
Walter L. Galvin, Iowa Retired School Personnel Association
Bradley Hudson (Vice Chair), Iowa State Education Association
Janie Garr, IPERS Improvement Association
Patrick Lynch, International Brotherhood of Teamsters
Bill Sage, Iowa Sheriffs and Deputies Association
Gaylord Tryon, School Administrators of Iowa
Lewis Washington, American Federation of State, County, and Municipal Employees

Employer Representatives
Mollie K. Anderson, Department of Administrative Services
Len Cockman, Iowa Association of School Boards
M. J. Dolan, Association of Community College Trustees
Alan Kemp, Iowa League of Cities
James Maloney, Iowa State Association of Counties

Public Member
Diane Reid
Benefit eligibility

1. The normal retirement age was reduced as longevity increased.
2. The formula multiplier provides little incentive to continue working after 30 years of employment.
3. Although a bona fide retirement is required by the IRS, IPERS' return-to-work restrictions are generous.
4. Early retirement incentives in the IPERS Plan and those offered by employers increase pressure to allow retirees to return to work.
5. Allowing people to double-dip—draw a public pension and earn a salary at the same time—creates a public outcry.
6. A worker shortage is expected as baby boomers reach retirement age.
7. Baby boomers are projected to want work flexibility in retirement, including part-time hours and phased-in retirement.

IPERS normal retirement age

The normal retirement age is the age at which an early retirement benefit reduction no longer applies; it does not mean maximum benefits were accrued.

Regular members
✓ Age 65
✓ Age 62 & 20 years of service
✓ Rule of 88 (age + years of service = 88)

Sheriffs and deputies
✓ Age 55
✓ Age 50 (7/1/08) & 22 years of service

Protection occupations
✓ Age 55

IPERS return to work

✓ Minimum four-month break in employment to demonstrate a bona fide retirement.
✓ Pension reduced 50 cents for every dollar earned over the annual earnings restriction (currently $30,000). The income restriction applies only to retirees under the age of 65 who return to work for a public employer covered by IPERS.
How well does the plan meet goals?

Types of return-to-work limits used by states

- Minimum break in service or waiting period
- Earnings
- Time (e.g., hours per year)
- Age (e.g., if reemployed before a certain age)
- Type of position (e.g., postretirement covered employment only allowed in temporary or substitute positions, or for designated personnel shortages)

Kansas Public Employees
Normal retirement age
65/any; 62/10; Rule of 85

Return to work
30-day waiting period and $20,000-per-year earnings limit if work for any employer worked for during last two years. Time worked after retirement not covered.

Missouri State Employees
Normal retirement age
Depends on plan: 62/5; Rule of 80; or 65/4 if active; 65/5; 60/15; Rule of 80

Return to work
Retirement benefit stopped if return to work in a benefit-eligible position. A benefit-eligible position normally requires the performance of duties not fewer than 1,000 hours per year. Time worked after retirement not covered.

Minnesota Teachers
Normal retirement age
Social Security retirement age, not to exceed 66

Return to work
$12,960 earnings limitation for those under full retirement age (65 years, 10 months for 2007). Benefit reduced $1 for each $2 in earnings above the limit. No earnings limit for retirees over full retirement age.

South Dakota Retirement System
Normal retirement age
65/3; Rule of 85

Return to work
If reemployed before normal retirement age by a participating employer on a permanent, full-time basis after having retired with a reduced benefit, monthly benefit payments stop while reemployed.

Nebraska School Employees
Normal retirement age
65/5; Rule of 85; any age/35

Return to work
No covered employment for at least 180 calendar days. Terminating employment does not include ceasing work at the end of the school year if the member provides service on a regular basis in any capacity in any covered school district within 180 calendar days after ending employment—whether or not the service is compensated. Reemployed retirees have system coverage as new employee.

Sources: 2006 Public Funds Survey, National Association of State Retirement Administrators and National Council on Teachers Retirement; Retirement Systems’ public Web sites
Allow IPERS to adjust contribution rates for benefits currently provided to regular members. The benefits for regular IPERS members, about 96 percent of the total membership, are only 88.4 percent funded.

If the legislature and governor increase benefits, they should adjust contribution rates at that time based on an actuarial projection of the cost of the benefit increase.

1. IPERS already adjusts rates for the two Special Service groups, and Special Service benefits are 100 percent funded.

2. Although Special Service contribution rates fluctuate from year to year, they are about the same as they were 10 years ago. Small but timely adjustments use the power of compounding to make this possible.

3. Limit increases and decreases in the contribution rate to no more than 0.5 percentage points a year to stabilize and provide predictability to the rate.

4. Announce the rate 6 months before it is effective to provide employers time to budget.

5. Provide legislative oversight through the rulemaking process.
CEO’s Recommended Changes

Eliminate bonuses and allowances from the definition of IPERS-covered wages.

1. Bonuses do not reflect a normal progression of wages over a career. They can be used to increase retirement payments by inflating the wages included in the benefit formula without commensurate contributions.

2. Most public employees do not receive bonuses and allowances and would not be affected.

3. IPERS will work with education groups to ensure appropriations intended to improve salaries are not defined as bonuses but also do not inflate the wages used in the benefit formula.

Support I-Que and do not implement benefit changes in FY2009.

1. I-Que is modern benefits administration technology that will improve services and help control costs.

2. I-Que will help IPERS manage increasing workloads with less risk of errors.

3. I-Que provides employers 24/7 access to submit monthly reports and pay contributions; they will receive timely and complete information online.

4. In turn, IPERS will charge employers for administrative costs incurred if employers send paper reports or pay contributions late.

5. Changes to the plan design before I-Que is implemented will require programming changes and increase costs.

6. I-Que will be fully implemented by FY2010.
Evaluate how early retirement incentives provided in the IPERS plan and by employers may hurt retention and exacerbate concerns about having enough qualified employees.

Consider whether phased retirement (reducing work hours and phasing in benefits) and the formula multiplier may be useful incentives to delay retirement.

Explore ways to address the lack of a guaranteed cost-of-living adjustment to IPERS’ monthly benefit and lack of ongoing funding for the current FED program.
1. **WHO makes plan decisions?** You do

2. **WHAT is the plan design?**
   - Defined benefit plan using a high 3 formula
   - Retains by rewarding career employees
   - Replaces up to 65% or 72% of the average highest three year’s wages
   - Special groups for public safety
   - Generous return-to-work provisions

3. **HOW is the plan funded?**
   - Funded by contributions plus investments (mostly investments)
   - Contributions plus investments earnings must fund liabilities
   - Liabilities equal benefits plus expenses
   - Benefits should be prefunded

4. **WHAT are the plan’s assets?**
   - $23 billion, well-diversified investment portfolio
   - Assets held in trust for the exclusive benefit of members and beneficiaries

5. **WHAT are the plan’s liabilities?**
   - Liabilities = Benefits + Expenses
   - Benefits promised cannot be taken away
   - Can control major benefit costs
     - Formula multiplier
     - When benefits start and the normal retirement age
     - Definition of covered wages

6. **DO assets equal liabilities?** No, the UAL is $2.507 billion as of 6/30/06
7. WHEN should contributions change?
- Review annually; adjust timely
- When a contribution rate change is needed, the change should be made sooner rather than later
- Waiting costs more in the long run

8. HOW well does the plan meet goals?
- IPERS is a good basic retirement plan
- Overall, it works well
- Needs only fine-tuning

9. WHERE should we go from here?
- Allow IPERS to adjust contribution rates for regular members
- Eliminate bonuses and allowances from covered wages
- Support l-Que and do not implement any benefit changes in FY2009

10. WHERE should we focus attention?
- Growing number of retirees returning to work
- People living longer
- Cost-of-living adjustments
- Intent (and costs) of protection occupation benefits

IPERS is a solid, basic retirement plan.
It is a valued employee benefit.
It provides the kind of retirement security for our employees and their families that we hope our own children and grandchildren will have when they are ready to retire.
We can preserve IPERS for future generations by staying focused on its original purposes and making sure we properly fund it.

Donna M. Mueller, CEO