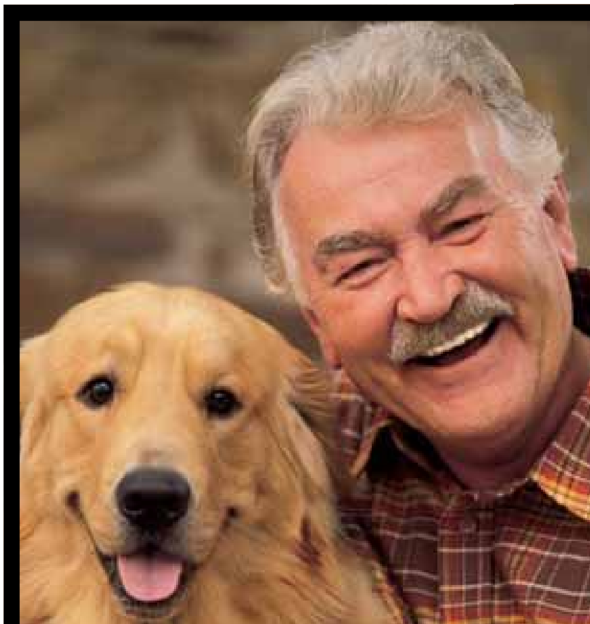


# of members younger than 30: Over 35,500

# of retirees over 100: About 100

Back to Basics: Secure Retirement

Presented to the Public Retirement Systems Committee

Donna M. Mueller, CEO of IPERS

November 1, 2007

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

IPERS

Working today for your tomorrow

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

Back to Basics: Secure Retirement

Signs indicate where there are issues that need special attention.

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.

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.

Who makes plan decisions?

Legislature
Plan Sponsor

Governor
Plan Sponsor

Investment Board*
Fund Trustee

CEO*
IPERS FTEs = 95.13

- **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

Benefits Advisory Committee

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?

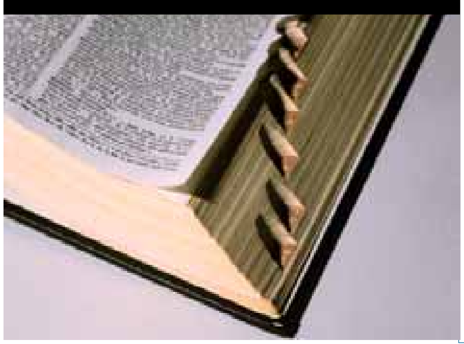
Legislature Plan Sponsor	**Governor** Plan Sponsor

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**

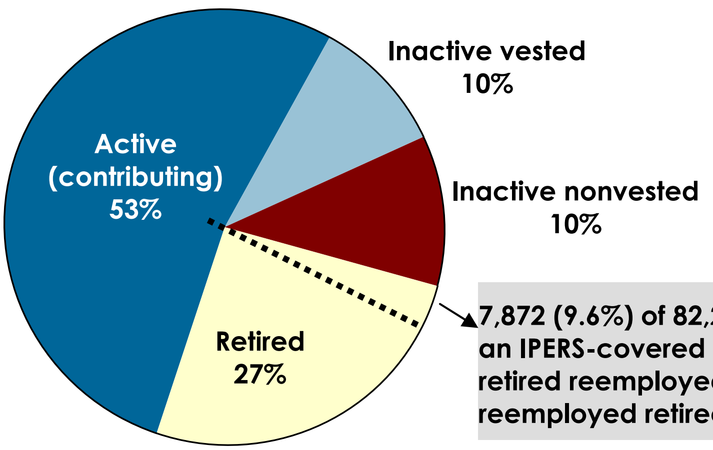
Liabilities = Benefits and Expenses

What is the plan design?

Who Is Covered

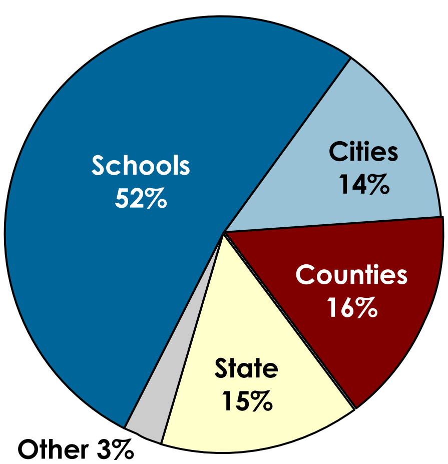
- ✓ IPERS covers most Iowa public employees
- ✓ ≈96% are regular IPERS members
- ✓ ≈4% are in a Special Service group
  - ✓ Sheriffs & deputies
  - ✓ Members in protection occupations such as correctional officers, police officers, and firefighters
- ✓ Each Special Service group has different contribution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

≈307,000 Members



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)
By Employer



Statewide, multi-employer

- ✓ 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

What is the plan design?

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

What is the plan design?

Types of Retirement Plans

Defined benefit (DB) plans

- Traditional pension plan
- Predictable benefits based on formula
- Lifetime payments
- Death and disability benefits
- Actuarial contribution rate based on liabilities
- Pooled contributions
- Investment and longevity risk borne by the plan
- Vesting rights usually within 3–5 years

DB

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.

DB/DC Hybrid

DC

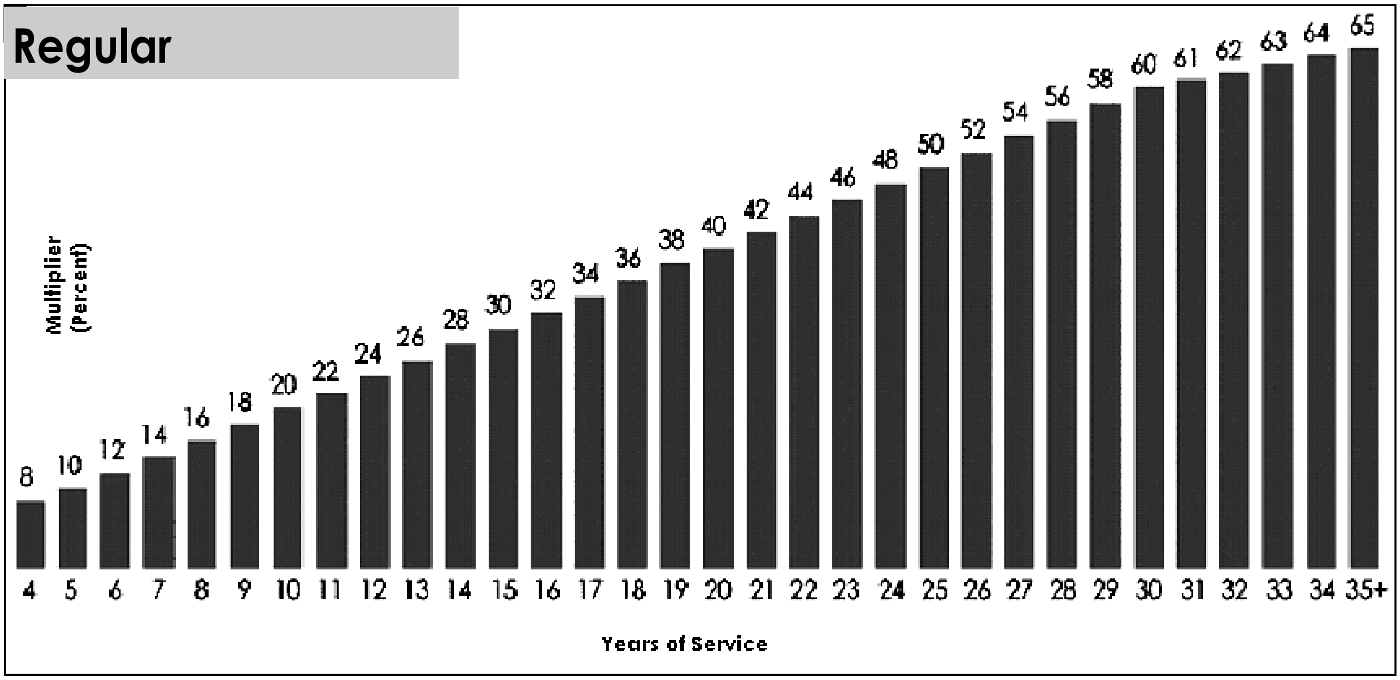
Defined contribution (DC) plans

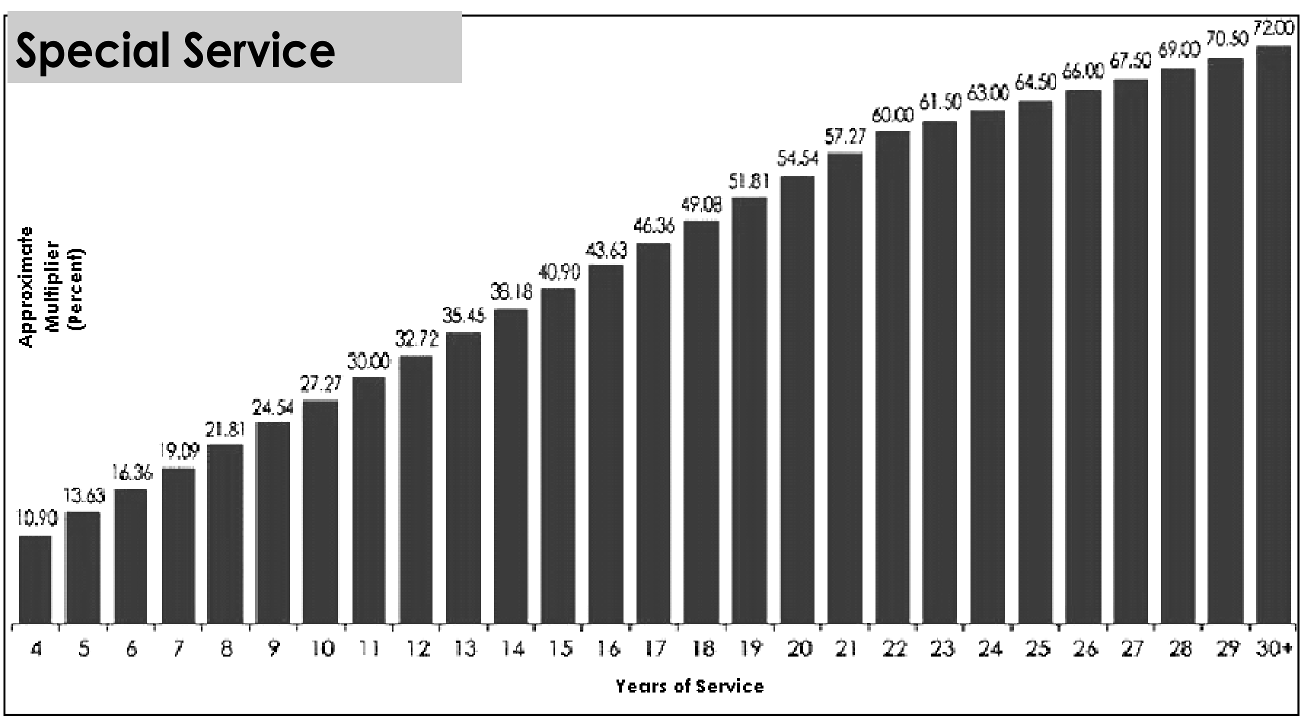
- Similar to 401(k)s
- Predictable employer contributions
- Individual accounts
- Individual bears investment and longevity risk
- Payouts depend on account performance, loans, and other withdrawals
- No incidental benefits, such as disability payments
- Quicker vesting

What is the plan design?

Retention

Benefits grow as years of service grow





What is the plan design?

Wage Replacement

Multiplier (Based on years of service) **X** **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 (Age + YOS = 88)

Replace up to 65% of wages

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

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)

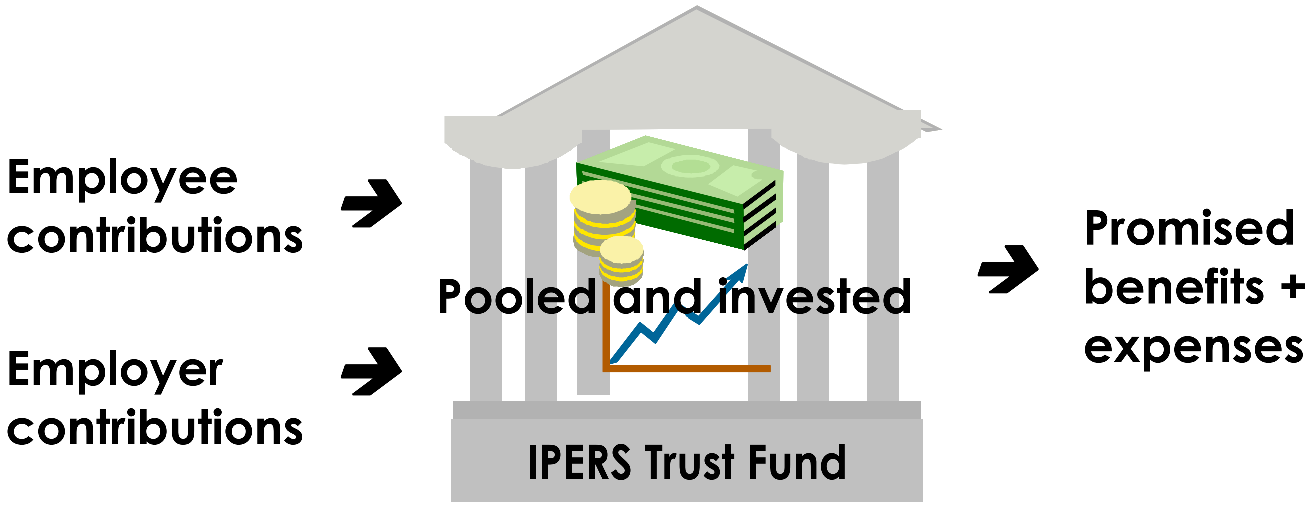
Protection occupations

- ✓ Age 55

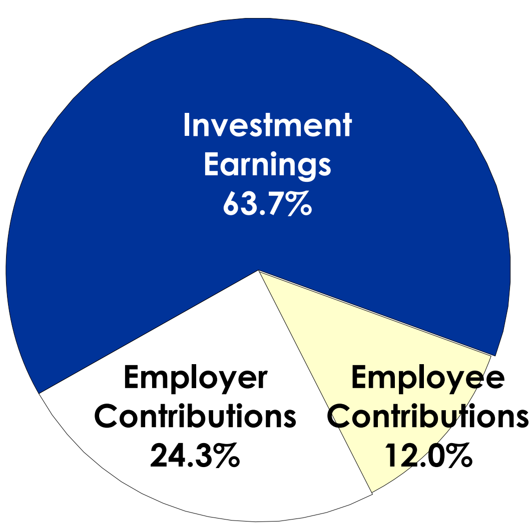
Replace up to 72% of wages

How is the plan funded?

Contributions + Investment Earnings = Liabilities



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



Source: U.S. Census Bureau National Association of State Retirement Administrators

How is the plan funded?

Prefund benefits

Current employees contribute for their own *future* retirements

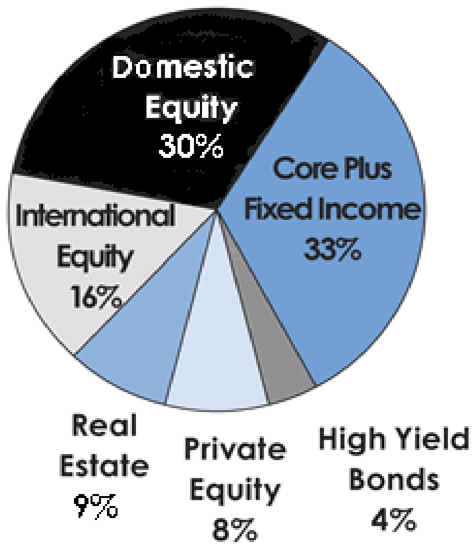
Contributions

- 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



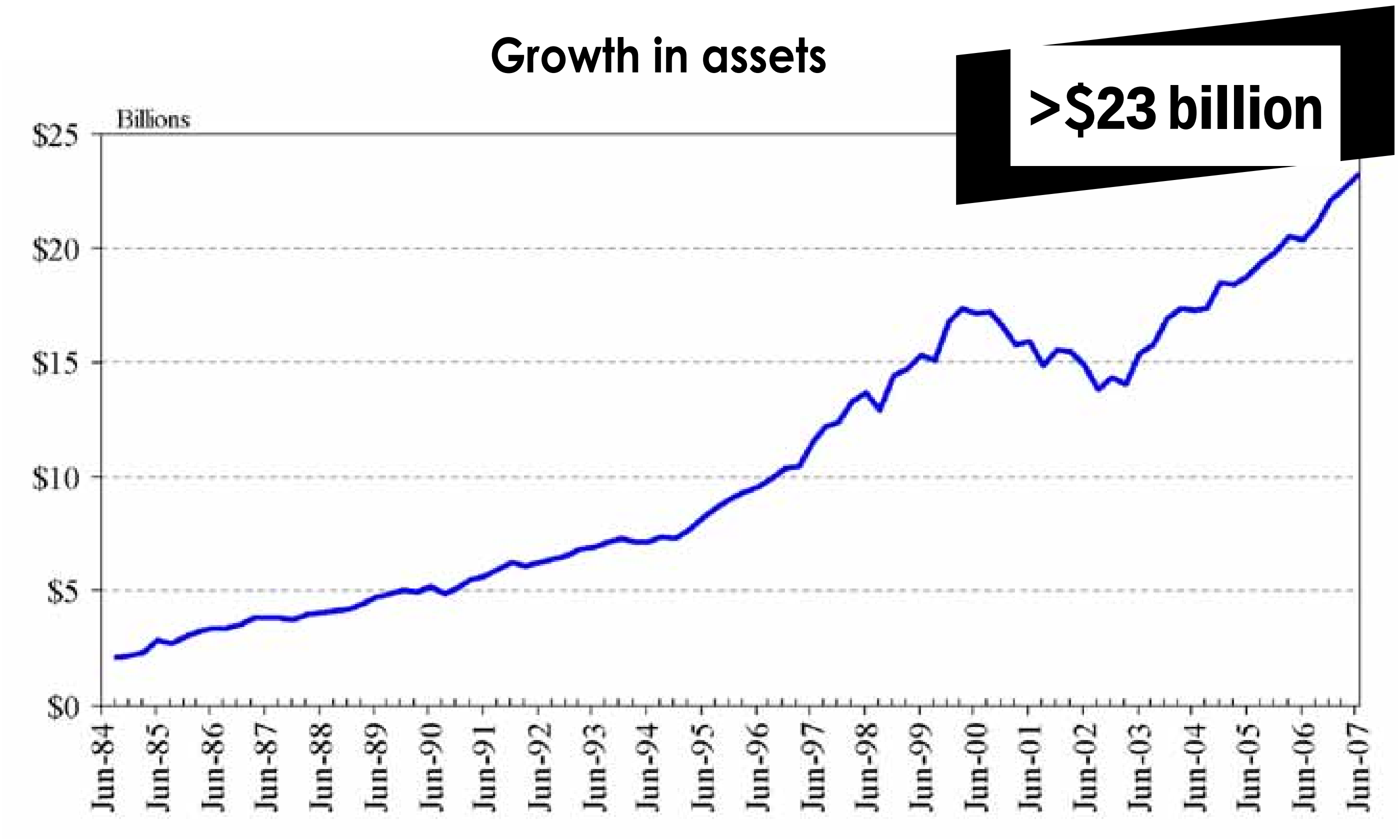
Board

Joanne Stockdale
Chair

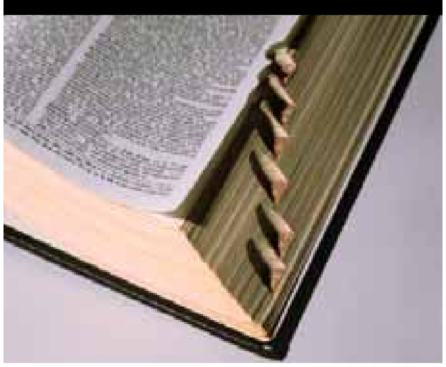
Owner and President
Northern Iowa Die Casting

- ✓ 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?



Fiduciary



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.

What are the plan's liabilities?

- ✓ 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

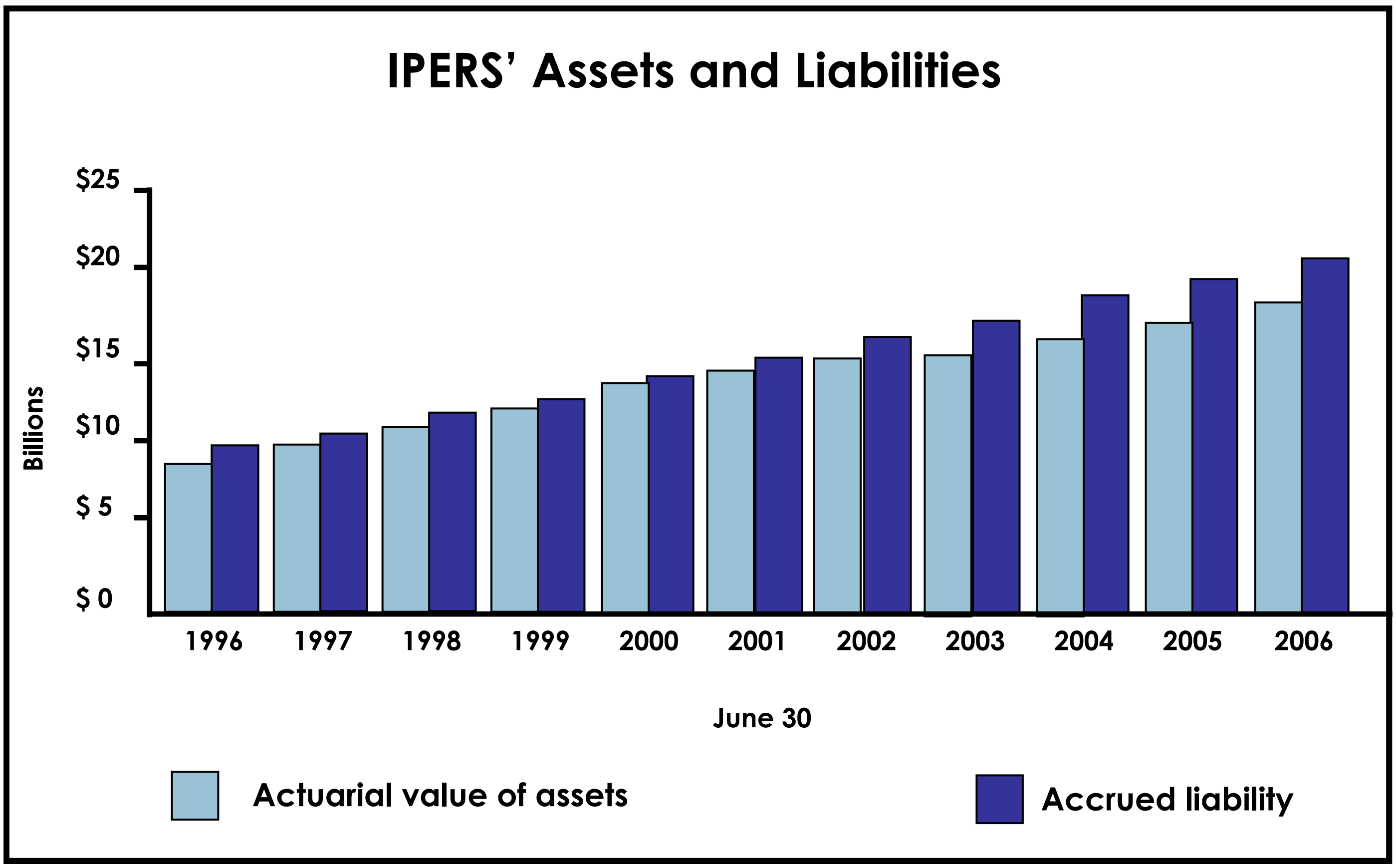
- ✓ How many years people will draw benefits
- ✓ Member behavior

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



$2.507 billion

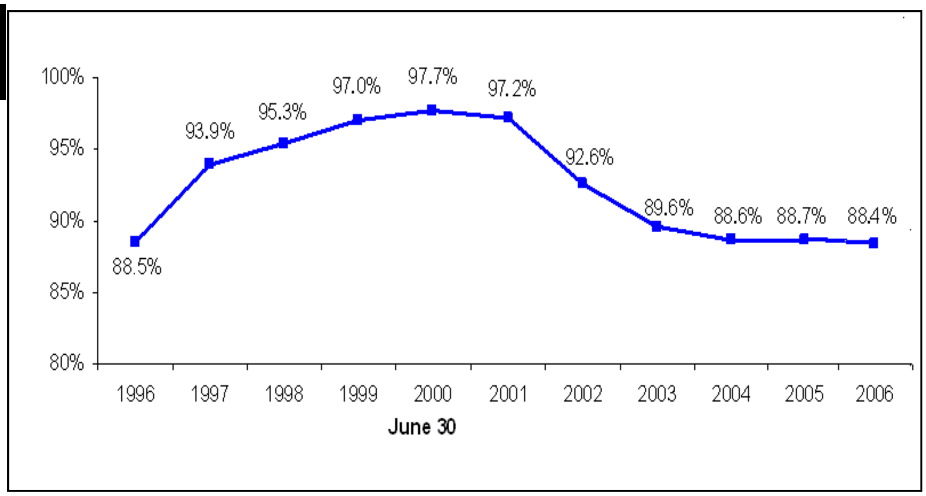
Unfunded actuarial liability

Actuarial Valuation
As of June 30, 2006
Milliman

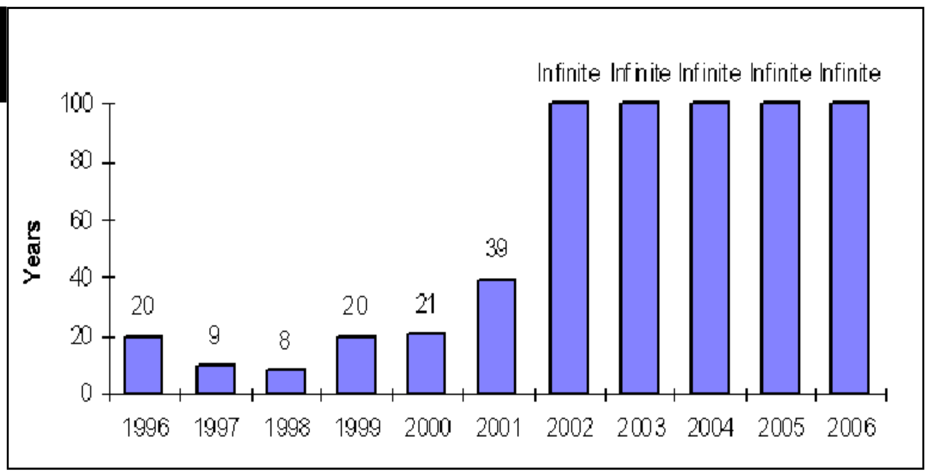
Do assets equal liabilities?

Current benefits are not prefunded fully

Percent Funded



Amortize UAL



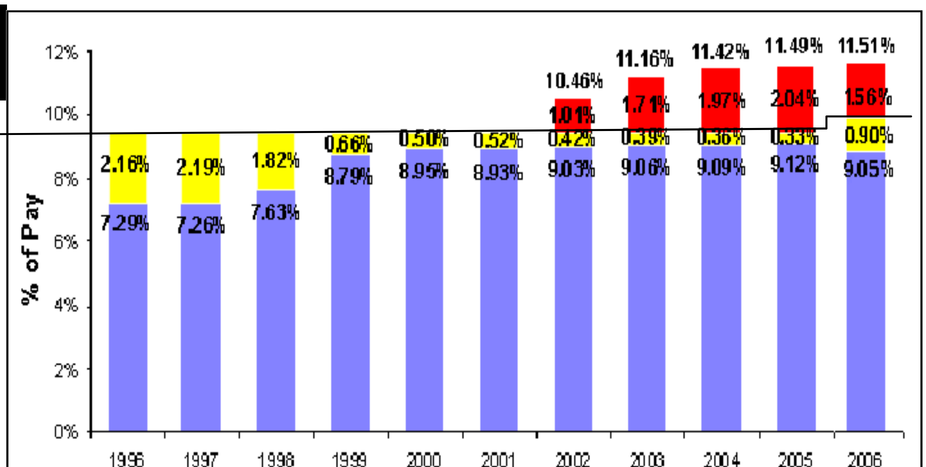
Rates

Statutory contribution rate

Actuarial

Amortization

Normal Cost



Valuations determine future actuarial contribution rates; thus 2006 reflects the first 0.5% legislative-approved increase effective July 2007.

All numbers as of June 30

When should contributions change?

Statutory vs. actuarial contribution rate (7/1/07–6/30/08) Percent of pay				
	Employee Share	**Employer Share**	**Total**	**Percent of Actuarial Rate**
Regular IPERS Members	3.90	6.05	9.95 (By statute)	86*
Sheriffs and Deputies	7.70	7.70	15.40 (Adjustable)	100
Protection Occupations	5.64	8.47	14.11 (Adjustable)	100

*Actuarial rate: 11.51%
Actuarial Valuation
As of June 30, 2006
Milliman

Upcoming contribution rates (regular members) Percent of pay			
	7/1/08	**7/1/09**	**7/1/10**
Employee	**4.10**	**4.30**	**4.50**
Employer	**6.35**	**6.65**	**6.95**
Total Rate	**10.45**	**10.95**	**11.45**

73%

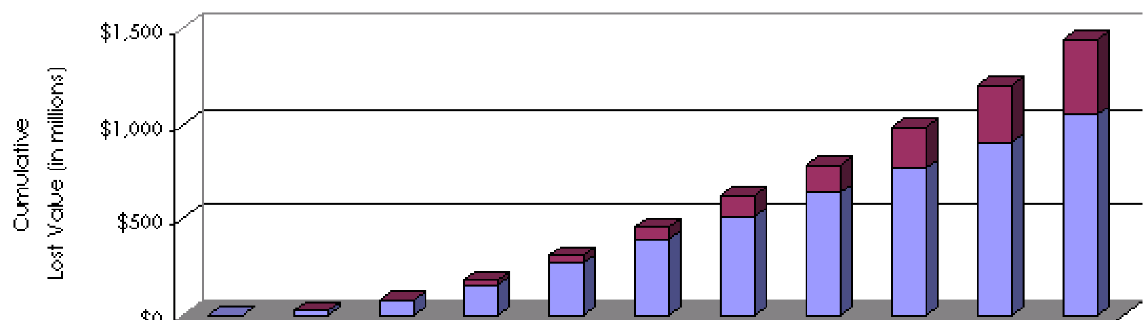
The probability that the 11.45% contribution rate will be equal to or exceed the actuarial rate (if all actuarial assumptions are met)

Asset Liability Study
June 2007
Milliman

When should contributions change?

The Cost of Inaction

Delayed contributions and lost investment earnings*



	FYE 6/30/04	FYE 6/30/05	FYE 6/30/06	FYE 6/30/07	FYE 6/30/08	FYE 6/30/09	FYE 6/30/10	FYE 6/30/11	FYE 6/30/12	FYE 6/30/13	FYE 6/30/14
Cumulative Lost Investment Earnings	$0.0	$0.9	$5.1	$22.7	$39.3	$65.8	$103.1	$152.5	$215.2	$292.7	$386.4
Cumulative Lost Contributions	$0.0	$25.1	$77.5	$159.1	$272.2	$389.9	$512.3	$639.6	$772.0	$909.6	$1,052.8

*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.

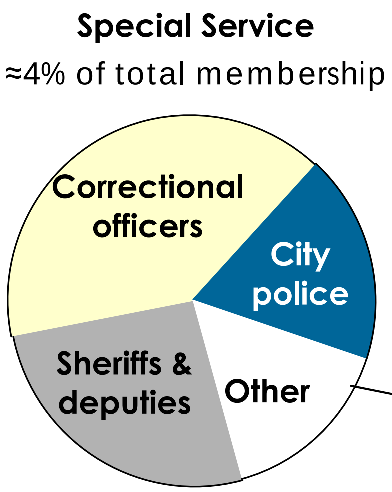
$376 million

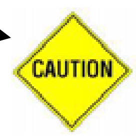
Inadequate contributions added $251 million to the UAL between 2002–2005. In 2006 alone, an additional $125 million was added to the UAL because of the delay in raising the contribution rate.

Actuarial Valuation as of June 30, 2006
Milliman

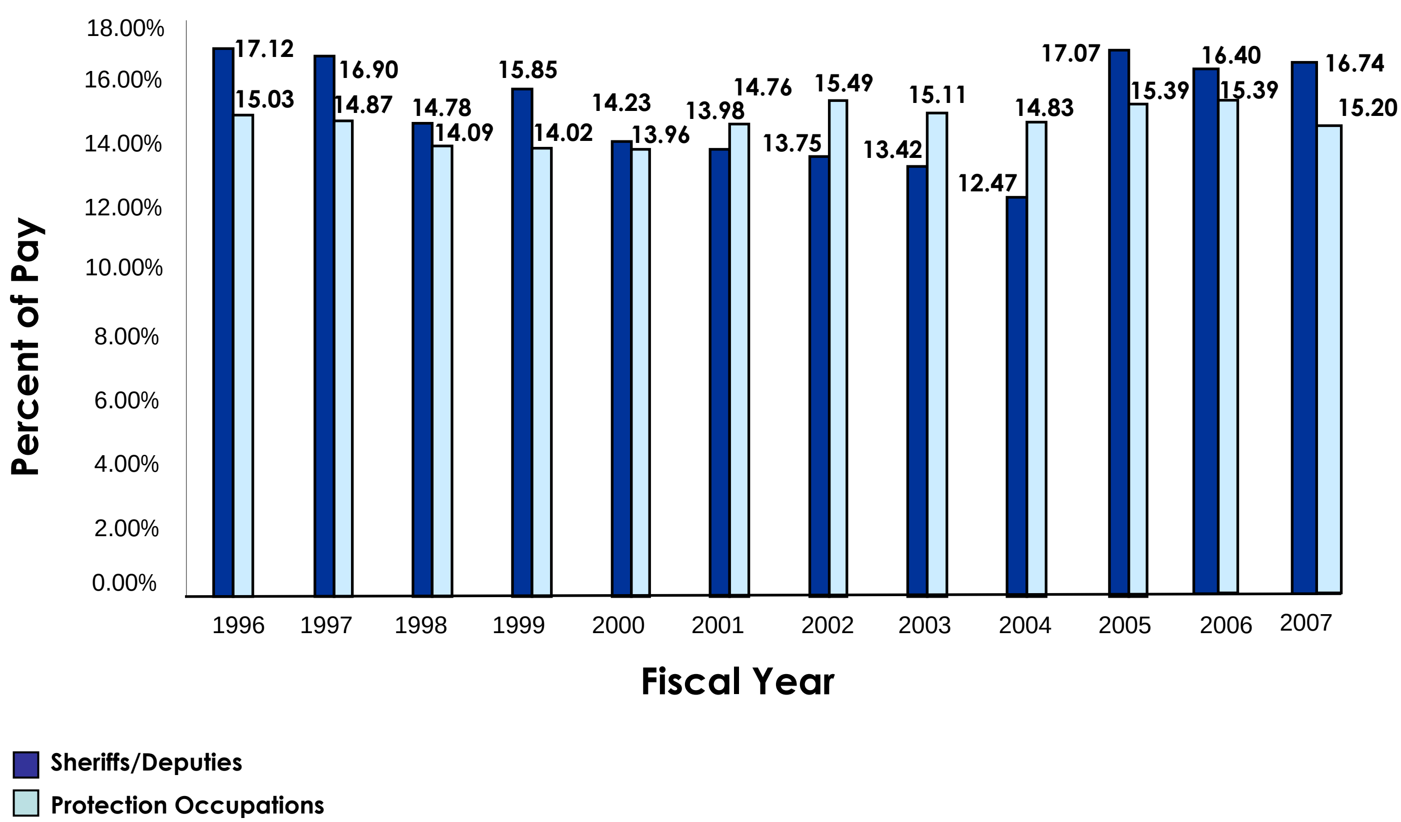
When should contributions change?

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



How well does the plan meet goals?

Investment Returns (%)

	Fiscal Year 2007	Three Years[1]	Five Years	Ten Years
IPERS' Return	**16.29**	**12.86**	**11.64**	**9.03**
Policy Benchmark[2]	16.61	12.34	11.54	8.41
CPI + 3%	5.69	6.17	5.98	5.66
Actuarial Return Assumption	7.50	7.50	7.50	7.50
Median—TUCS Public Funds > $1 Billion[3]	17.69	12.84	11.47	8.19

[1]Returns for periods longer than one year are annualized.

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

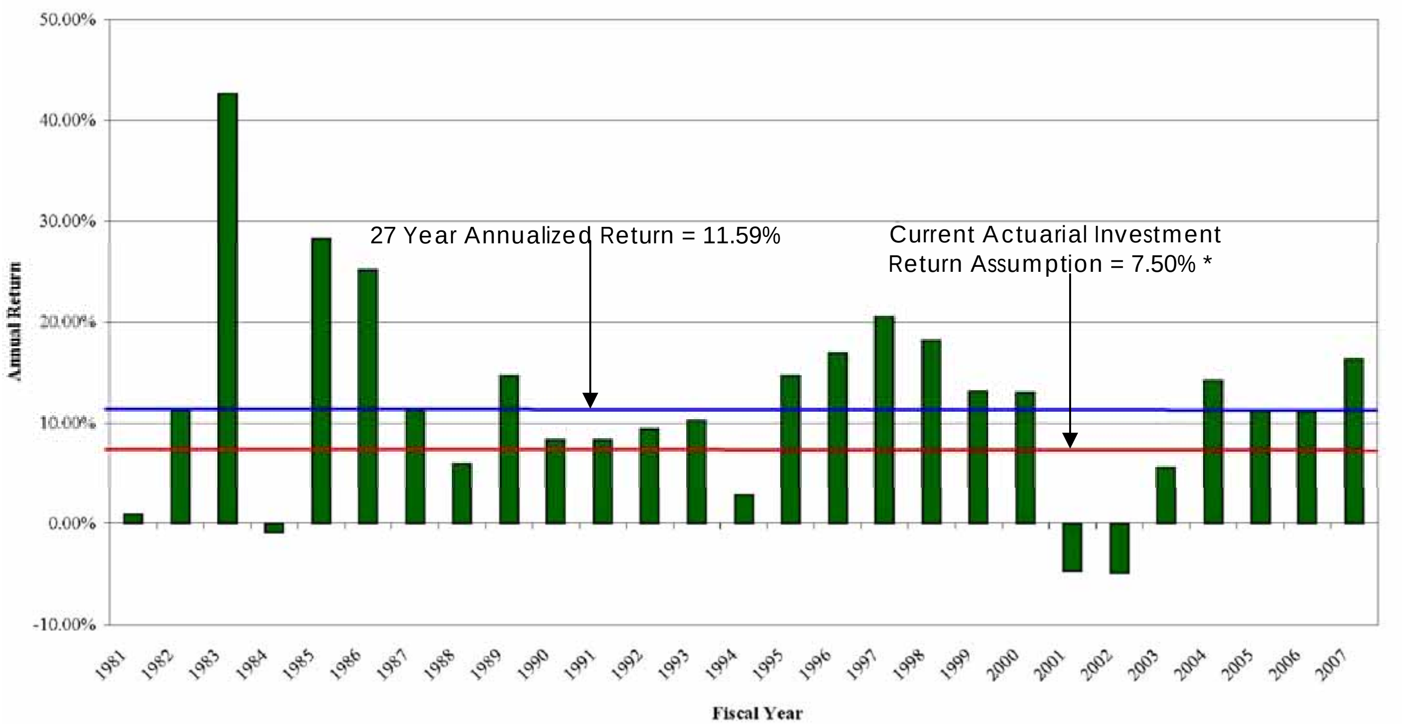
[3]Median return of the Trust Universe Comparison Service's Universe of Public Funds with Assets Greater than $1 billion.

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

Private Equity	33.17
International Equity	27.65
Domestic Equity	19.41
Real Estate	14.23
High Yield Fixed Income	9.91
Core Plus Fixed Income	6.49
Cash	5.92

How well does the plan meet goals?

Fiscal Year Investment Returns



*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

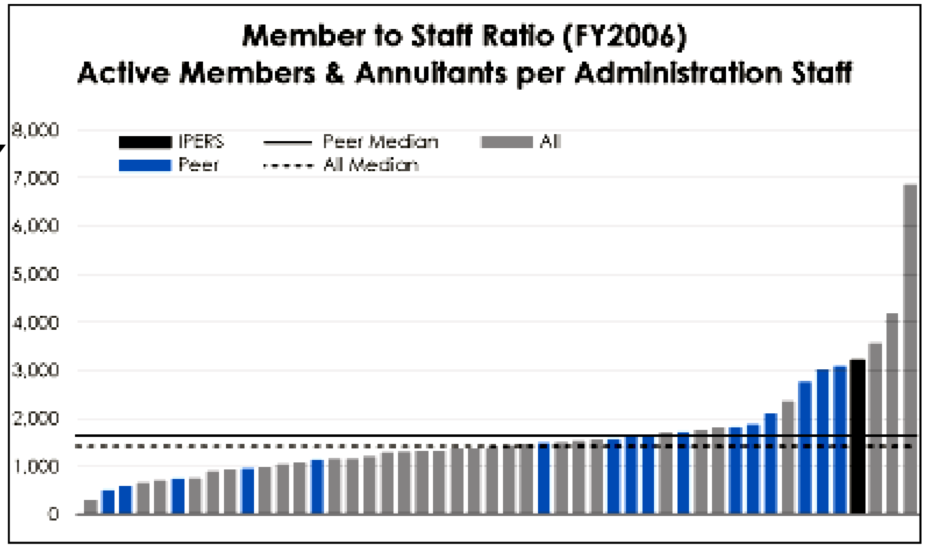
✓ Updated lists of Prohibited Investments and Holdings on IPERS Web site <www.ipers.org>

✓ IPERS' direct holdings estimated at $5 million (6/30/07)

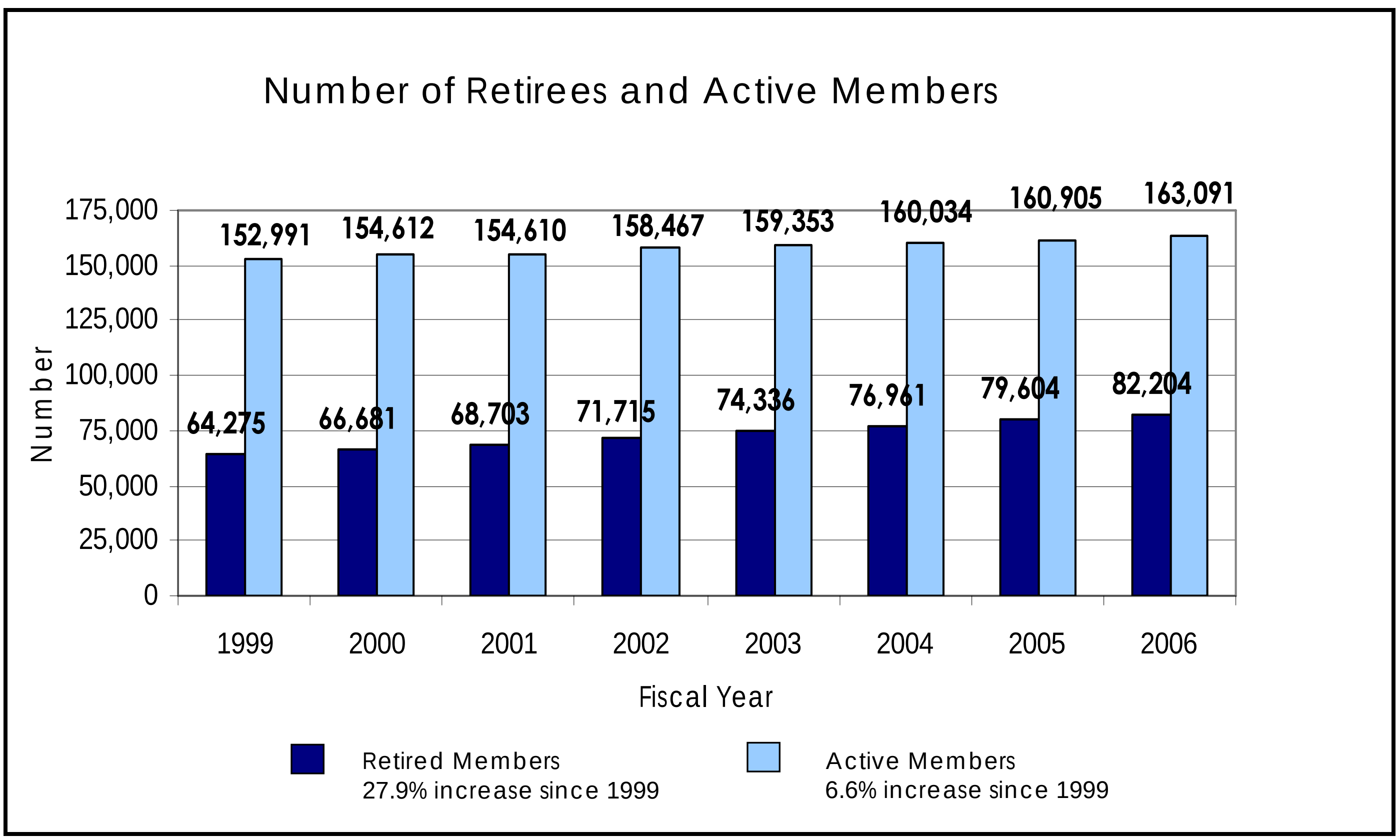
How well does the plan meet goals?

Efficiency and Economy

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

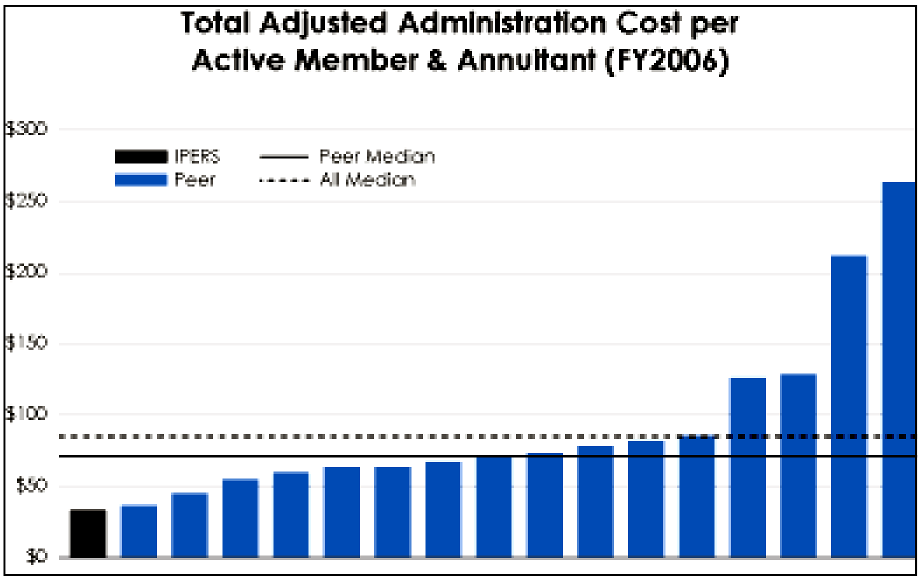


Source: CEM Benchmarking Inc.



How well does the plan meet goals?

Efficiency and Economy



IPERS $36
Median $69

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?

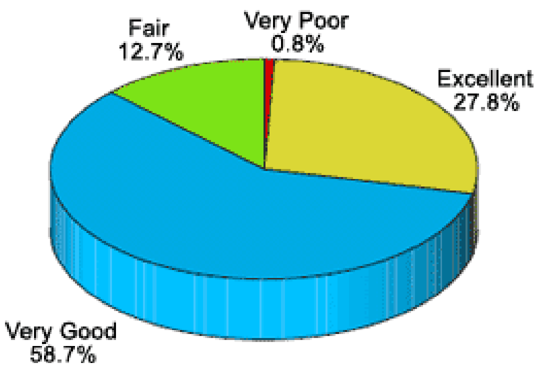
No.

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

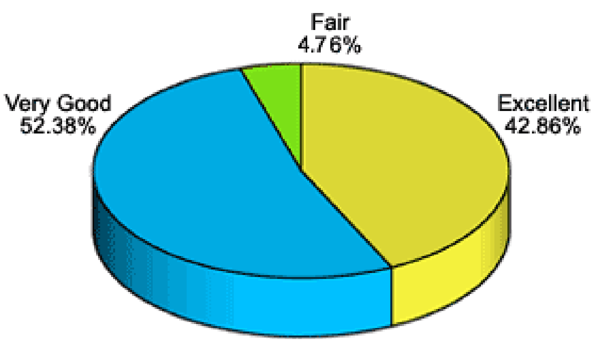
However, as the number of retirees increases, IPERS' administrative costs will increase.

How well does the plan meet goals?

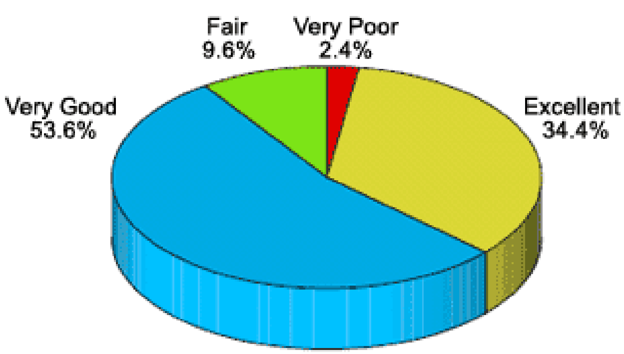
Ratings From Elected Officials



Quality of service



Overall value



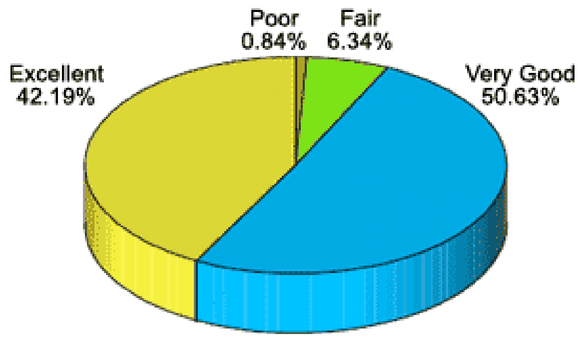
Accountability

Source:
T.L. Grantham & Associates, 2005

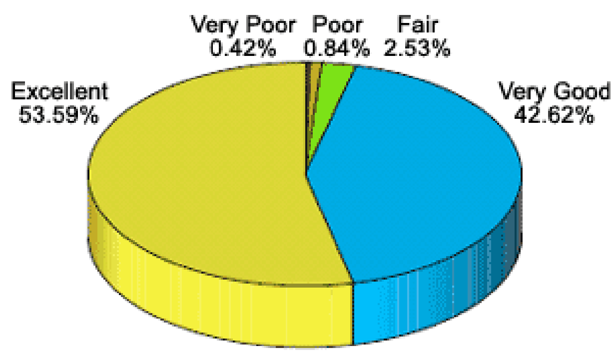
How well does the plan meet goals?

Ratings From Employers

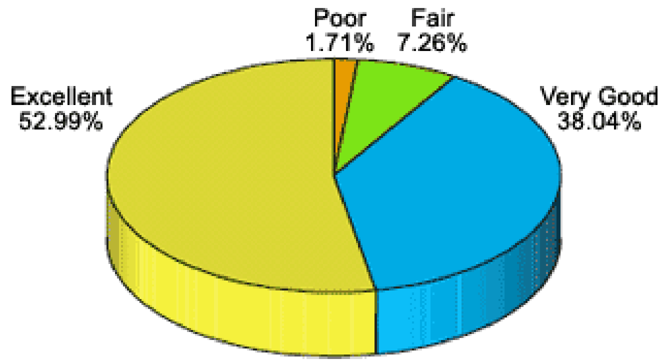
Quality of service



Overall value



Help you comply with rules

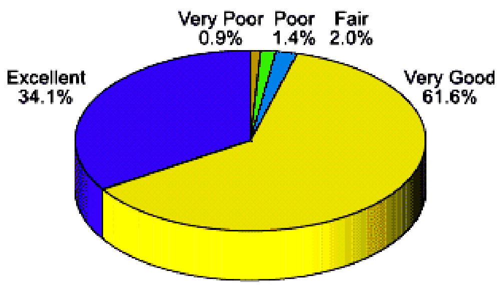


Source:
T.L. Grantham & Associates, 2005

How well does the plan meet goals?

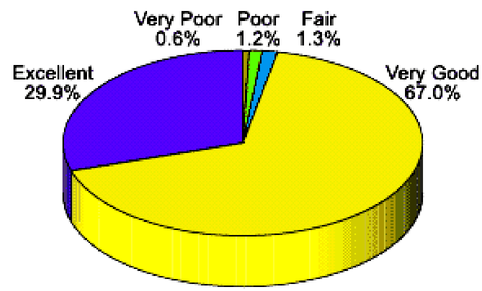
Ratings From Members

Quality of service



Source:
T.L. Grantham & Associates, 2005

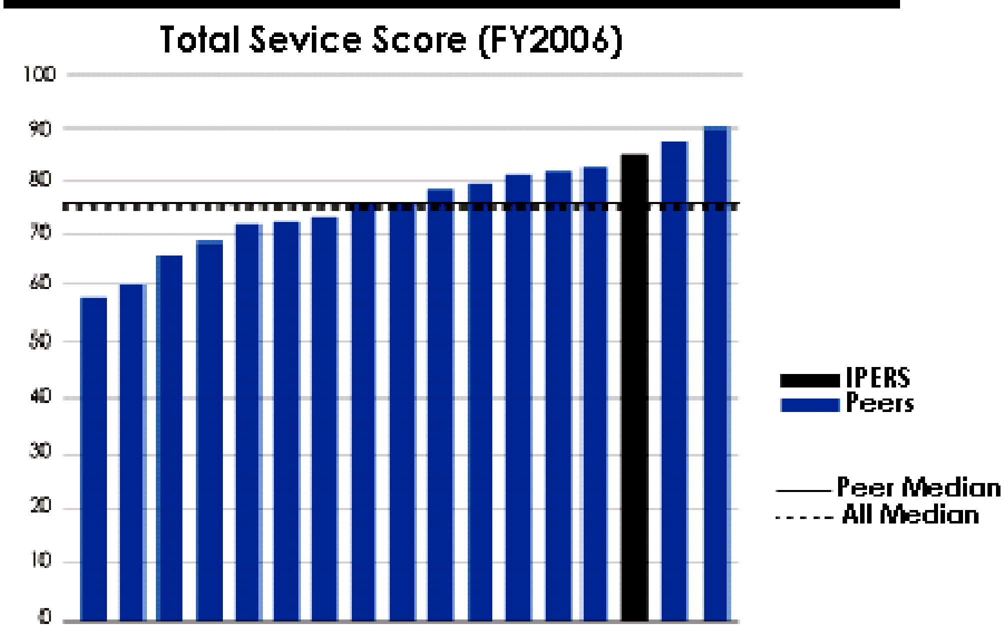
Ability to meet your specific needs



Employees value retirement benefits as much as they value health insurance.

2007 Iowa Employment Values Survey

Rating From CEM Benchmarking Inc.



How well does the plan meet goals?

Secure Retirement

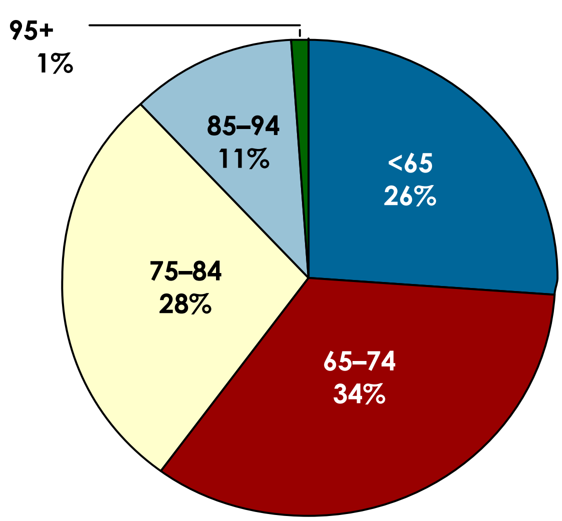
- ✓ *IPERS has no traditional cost-of-living adjustment (COLA) to protect pensions from the effects of inflation.*
- ✓ *Traditional COLAs are expensive.*
- ✓ *The once-a-year November and Favorable Experience Dividends (FED) have not kept up with inflation.*
- ✓ *The November dividend is guaranteed; 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.*

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

FY2006



How will we preserve the buying power of pensions?

How well does the plan meet goals?

Secure Retirement

FY	November Dividend Total Paid	November Dividend # Paid	November Dividend Multiplier (%)	FED Total Paid	FED # Paid	FED Multiplier (%)	CPI (%)
'99	$14,086,374	33,414	1.33	$12,152,683	26,993	1.33	1.33
'00	$15,451,127	31,462	1.59	$18,797,522	29,590	1.59	1.59
'01	$19,010,893	29,644	3.00	$46,219,145	35,152	3.00	3.73
'02	$22,284,857	27,778	3.00	$57,890,007	39,291	3.00	3.25
'03	$20,835,973	25,963	0.00	$25,570,783	43,758	1.07	1.07
'04	$19,300,657	24,202	0.00	$31,067,817	49,438	1.07	2.11
'05	$17,752,181	22,451	0.00	$37,178,186	52,681	1.07	3.27
'06	$16,543,014	20,871	0.00	$43,986,041	56,462	1.07	2.53
'07*	$15,230,523	19,225	0.00	$51,407,696	60,248	1.07	4.32

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

FED Formula
December Benefit X 12 Months X Multiplier X # 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

How well does the plan meet goals?

Secure Retirement

What income replacement ratio is needed?

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.

Recruit and Retain

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.

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

Sources: 2006 Public Funds Survey, National Association of State Retirement Administrators and National Council on Teachers Retirement; 2004 Comparative Study of Major Public Employee Retirement Systems, Wisconsin Legislative Council, December 2005.

How well does the plan meet goals?

Secure Retirement

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.

Is the job a protection occupation?

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

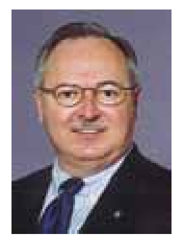
6. Any changes are prospective.

How well does the plan meet goals?

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.



Len Cockman
Chair

Iowa Association of School Boards

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

How well does the plan meet goals?

Recruit and Retain

Does the normal retirement age help or hurt retention?

How can we meet needs and prevent double-dipping?

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.

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.

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.

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

Where should we go from here?

Allow IPERS to adjust rates for regular members

CEO's Recommended Changes

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.

Where should we go from here?

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.

Eliminate bonuses & allowances from covered wages

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.

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

Where should we go from here?

Changes to Study

Should benefit eligibility change?

- 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.

Back to Basics: Secure Retirement

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

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

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 I-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