

# Update to the Public Retirement Systems Committee

The image shows a close-up, low-angle shot of a building's exterior. The building is light-colored with large windows. On the facade, the letters "IOWA PERS" are prominently displayed in large, dark, three-dimensional block letters. The letter "O" is replaced by a blue square containing a white silhouette of the state of Iowa with a white tree and a white wave inside it. The sky is a clear, bright blue, and the sun is visible in the upper right corner, creating a lens flare effect. Green trees are visible in the foreground, partially obscuring the building.

**Donna M. Mueller, CEO**

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

December 10, 2015

The logo for Iowa Public Employees' Retirement System (Iowa PERS). It features the word "IOWA" in a stylized font where the "O" is a blue square containing a white silhouette of the state of Iowa with a white tree and a white wave inside it. This is followed by the word "PERS" in a large, white, serif font. A small registered trademark symbol (®) is located to the upper right of the "S".

# Our Mission & Vision



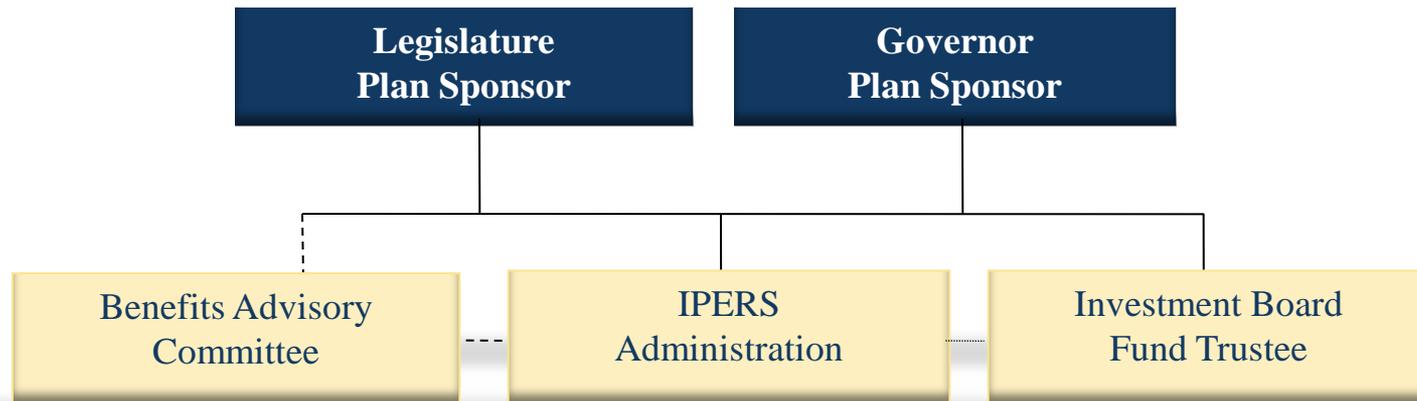
## MISSION

*Administer a cost-efficient retirement plan that provides lifetime pension payments to public employees and serves to attract and retain a quality workforce.*

## VISION

*IPERS is a sustainable and affordable retirement plan that is valued by all Iowans and provides members with secure income, supports self-sufficiency in retirement, and contributes to local economies.*

# Governance



## What is the role of the Plan Sponsor

Creates plan

Determines participation

Establishes funding

Determines benefits

Monitors performance against plan goals

# IPERS is a Defined Benefit Plan

- Paid as a lifetime, monthly annuity
- Amount is based on a formula
- Contributions from employee and employer
- Pooled contributions are invested by professional investment managers

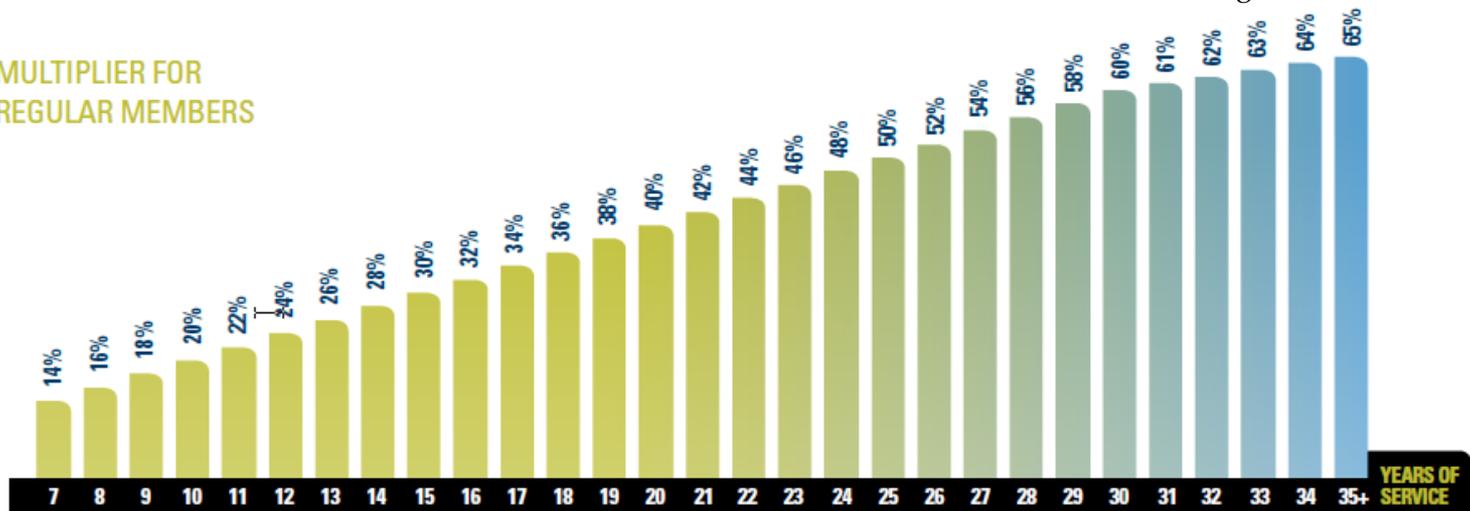
## IPERS Benefit Calculation

$$\begin{aligned} & \text{Average Salary} \\ & \times \text{Multiplier} \\ & - \text{Reduction, If Any}^* \end{aligned}$$

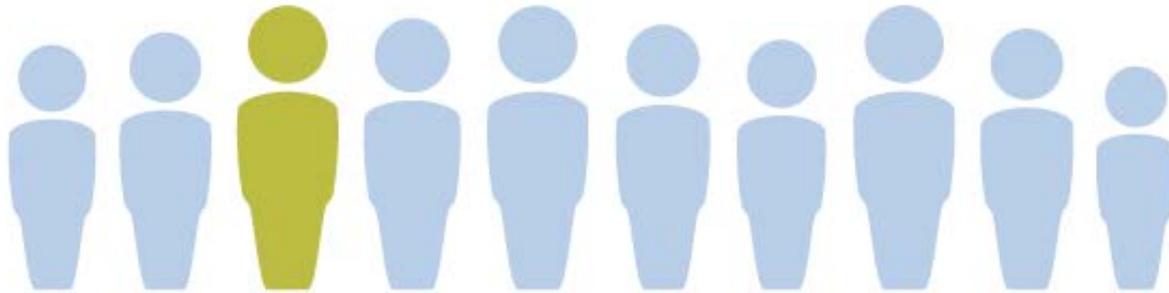
### Annual IPERS Benefit

\*Early-retirement reduction applies only to the benefits of Regular members who retire before normal retirement age.

### MULTIPLIER FOR REGULAR MEMBERS



# 346,000 Members



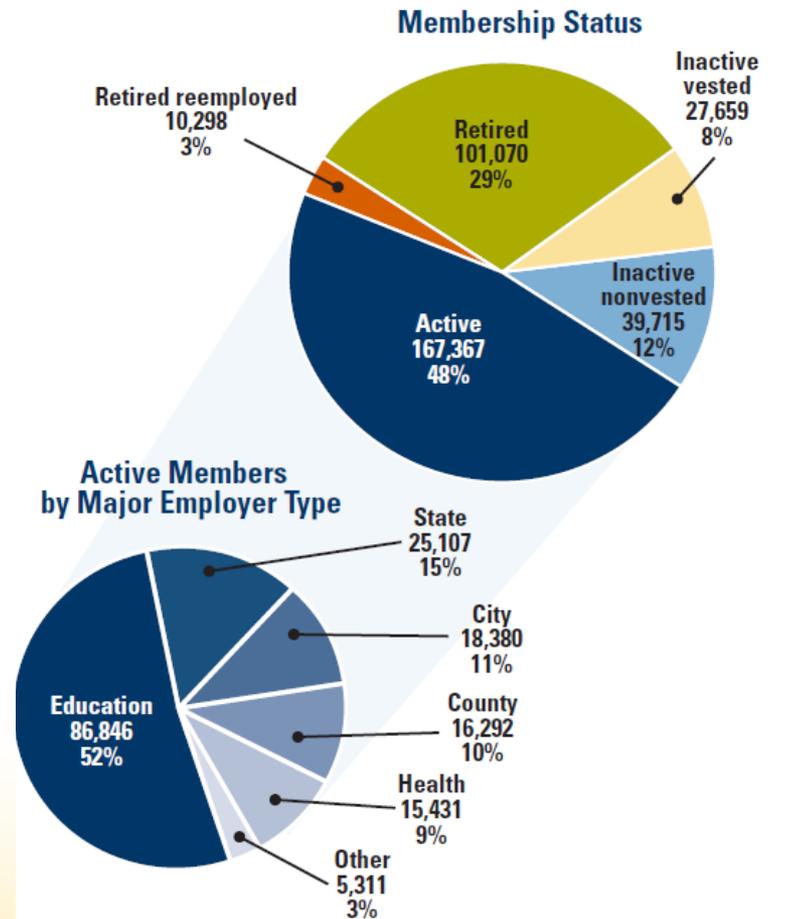
*Did you know? One in ten*  
Iowans is an IPERS member.

- Over 111,000 retirees and beneficiaries
- \$1.7 billion paid in benefits
  - \$1.5 billion paid to Iowans

# Large Membership Pool

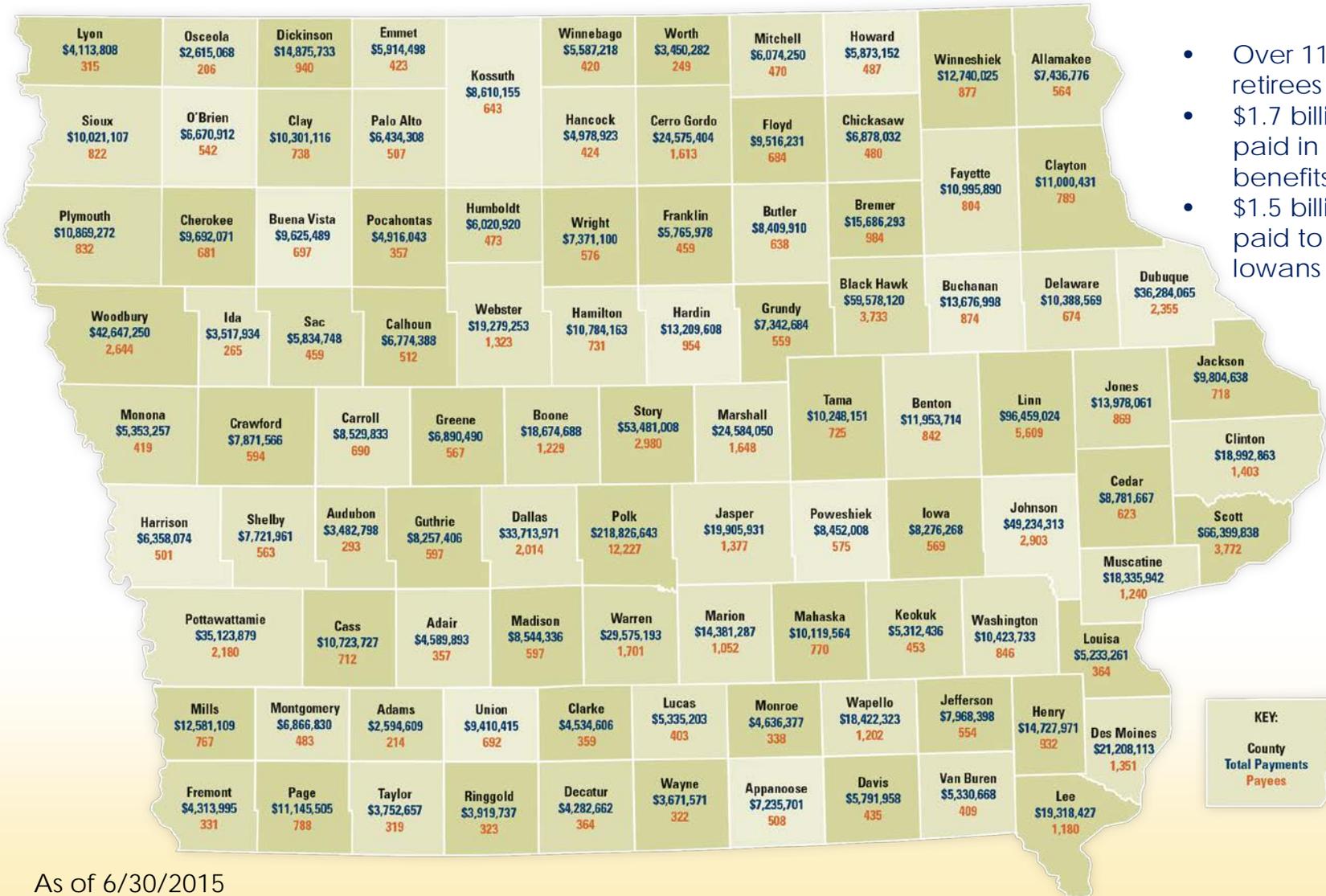
**Regular** members make up **95%**.

**Special Service** members make up **5%**.



As of 6/30/15

# Benefit Payments by County

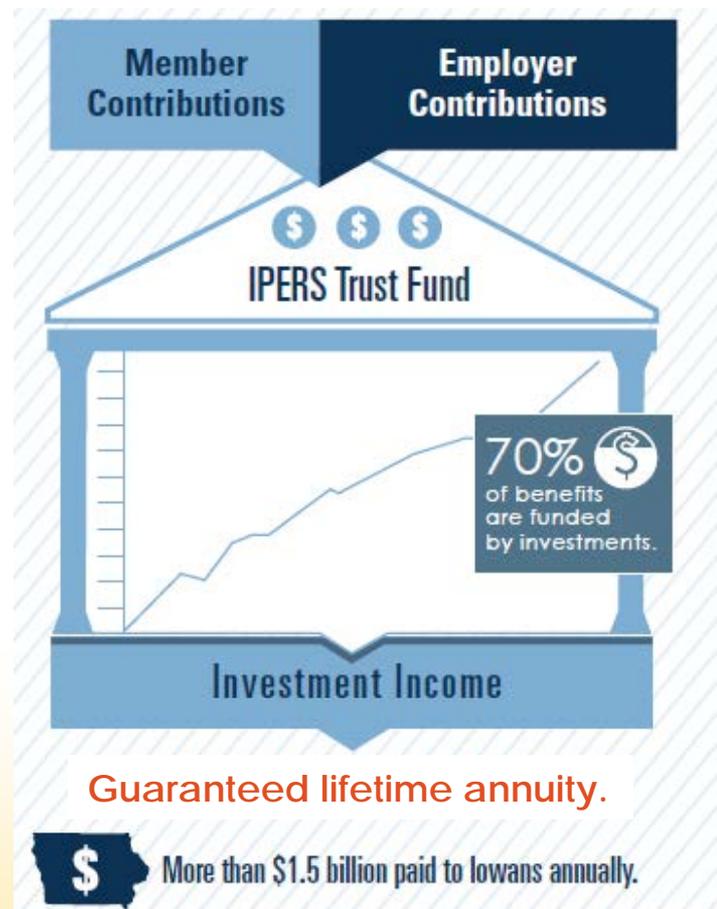


- Over 111,000 retirees
- \$1.7 billion paid in benefits
- \$1.5 billion paid to lowans

KEY:  
County  
Total Payments  
Payees

# Prefund – Not Pay-as-You-Go

**Contributions + Investments = Benefits + Expenses**



# FY2015 Actuarial Valuation



Presented by

Patrice A. Beckham, FSA, EA, FCA, MAAA



*Cavanaugh Macdonald Consulting*

- Independent actuarial consulting firm
- Practicing entirely in the public sector
- Lead actuarial consultant to IPERS for many years

# Purposes of an Actuarial Valuation



- Measure assets and liabilities
- Determine actuarial contribution rates which are used to set the required contribution rates
  - 6/30/15 valuation used to set the FY2017 contribution rates
- Analyze experience (actual vs. expected) in last year
- Report on trends

# Key Measurements



	<b>June 30, 2015</b>	<b>June 30, 2014</b>
Actuarial Liability (\$M)	\$ 33,370	\$ 32,004
Actuarial Assets (\$M)	<u>27,915</u>	<u>26,460</u>
Unfunded Actuarial Liability	\$ 5,455	\$ 5,544
Funded Ratio - AVA	83.7%	82.7%
Funded Ratio - MVA	85.2%	87.6%
Actuarial Contribution Rate*	14.17%	14.35%
Required Contribution Rate*	<u>(14.88%)</u>	<u>(14.88%)</u>
Shortfall/(Margin)*	(0.71%)	(0.53%)

\* Regular members only

# Actuarial Value of Assets



- Market value not used directly in valuation
- Asset valuation method used to smooth the effect of market fluctuations
- Actuarial value is expected value (based on 7.5% assumption) plus 25% of difference between actual and expected values

# Asset Values (\$M)



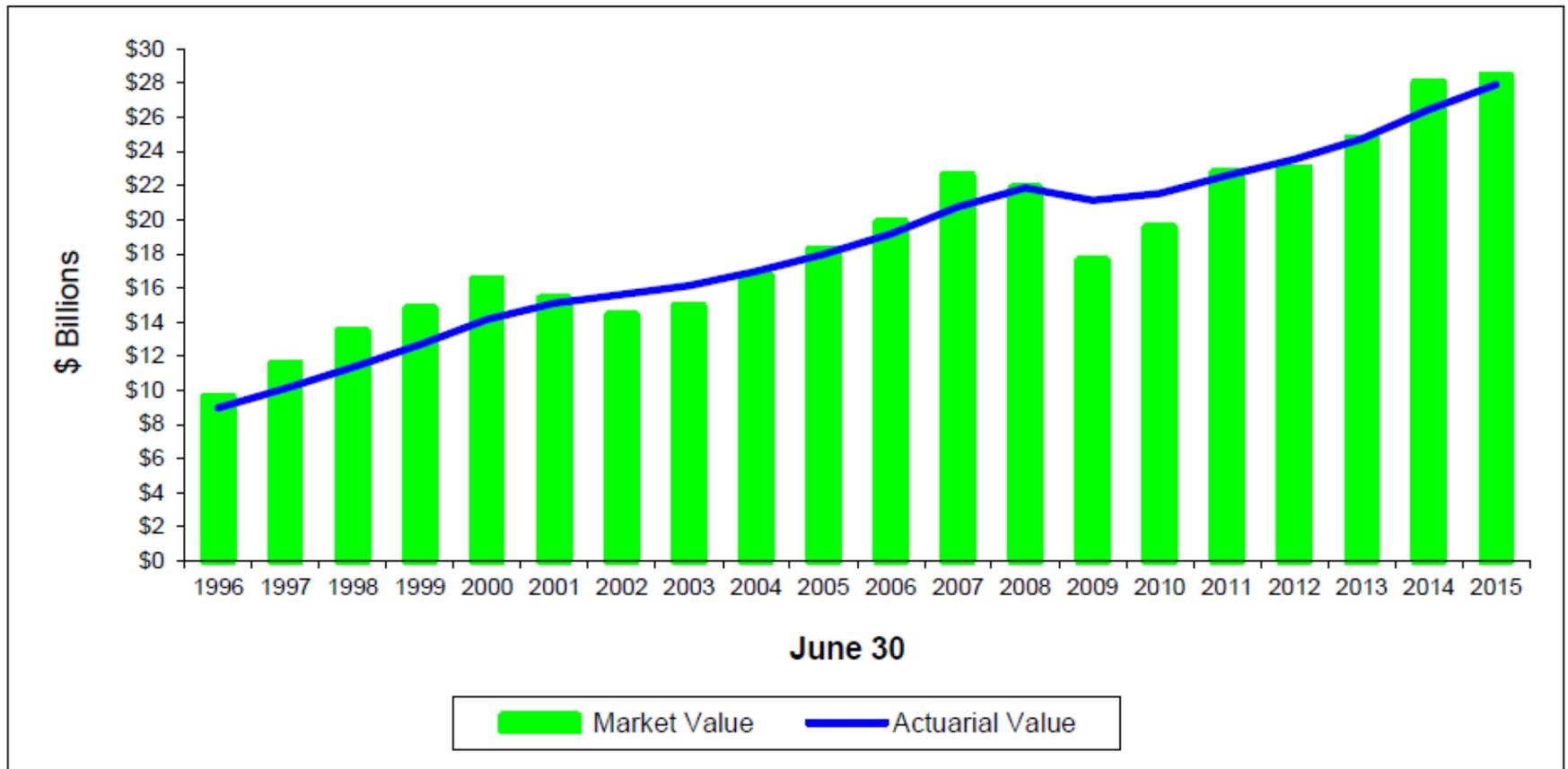
	<b>Market</b>	<b>Actuarial</b>
Assets, 6/30/14	\$ 28,039	\$ 26,460
• Contributions	1,116	1,116
• Benefit Payments	(1,792)	(1,792)
• Investment Income	1,067	2,131
• FED Transfer	0	0
Assets, 6/30/15	\$ 28,430	\$ 27,915
Estimated Rate of Return	+4.0%	+8.2%

# Actuarial Assets



- Actuarial gain on assets: \$171 million
- Return on market value of assets of 4% decreased the unrecognized gain from last year's valuation
- $\text{Market value} \div \text{Actuarial Value} = 102\%$
- Deferred gain is \$514 million

# Historical Asset Values



# Unfunded Actuarial Liability (UAL \$M)

UAL June 30, 2014	\$ 5,544
– Contributions above actuarial rate	(20)
– Expected increase from amortization	72
– Investment experience	(171)
– Liability experience	30
– Change to amortization method	0
– Changes to actuarial assumptions	0
– Other	0
UAL June 30, 2015	\$5,455

# UAL (\$M) at 6/30/15



	<b>Regular Members</b>	<b>Sheriffs &amp; Deputies</b>	<b>Protection Occupations</b>	<b>Total</b>
Actuarial Liability	\$31,452	\$591	\$1,327	\$33,370
Actuarial Value of Assets	<u>26,003</u>	<u>567</u>	<u>1,345</u>	<u>27,915</u>
Unfunded Actuarial Liability (UAL)	\$5,449	\$24	(\$17)	\$5,455
Funded Ratio	82.7%	96.0%	101.3%	83.7%

*Note: Numbers may not add due to rounding.*

# Contribution Rates



## Components

- Normal Cost (ongoing cost for actives)
- Amortization of UAL

## UAL Amortization Policy

- June 30, 2014 base is amortized over a closed 30-year period (so 29 years remaining this year).
- Each year thereafter, changes in the expected UAL will result in the establishment of new base to be amortized over a separate closed 20-year period.
- Once a group becomes fully funded, all outstanding bases are eliminated and the surplus is amortized over an open 30-year period.

# IPERS' Funding Policy



- Provides stability in the contribution rates and delays decreases until funding reaches 95 percent
  - Goal is 100 percent funded
  - Closed 30-year amortization
  - No rate reduction unless it would be 0.50 percentage point or greater
- Prepares for the next downturn

# Contribution Rate

## Regular Members



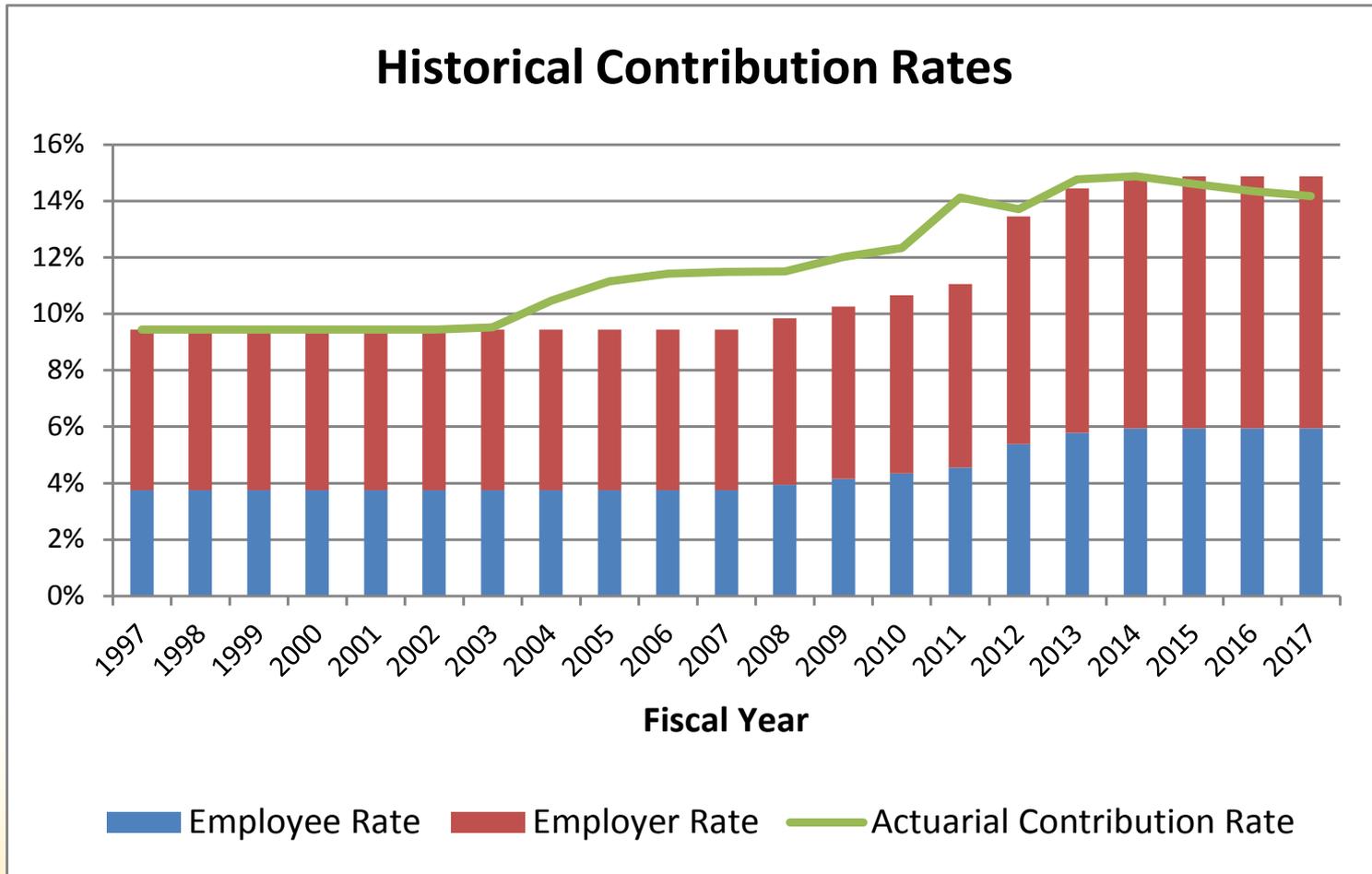
### Valuation Date

(Contribution Rates for FY17/FY16)

	June 30, 2015	June 30, 2014
Normal Cost	10.22%	10.23%
UAL Payment	<u>3.95%</u>	<u>4.12%</u>
Total Actuarial Rate	14.17%	14.35%
Required Contribution*	<u>14.88%</u>	<u>14.88%</u>
Shortfall/(Margin)	(0.71%)	(0.53%)
*Employee Rate	5.95%	5.95%
*Employer Rate	8.93%	8.93%

*Group is less than 95% funded so no decrease in the Required Contribution Rate may occur.*

# Regular Membership



# Contribution Rate

## Sheriffs & Deputies



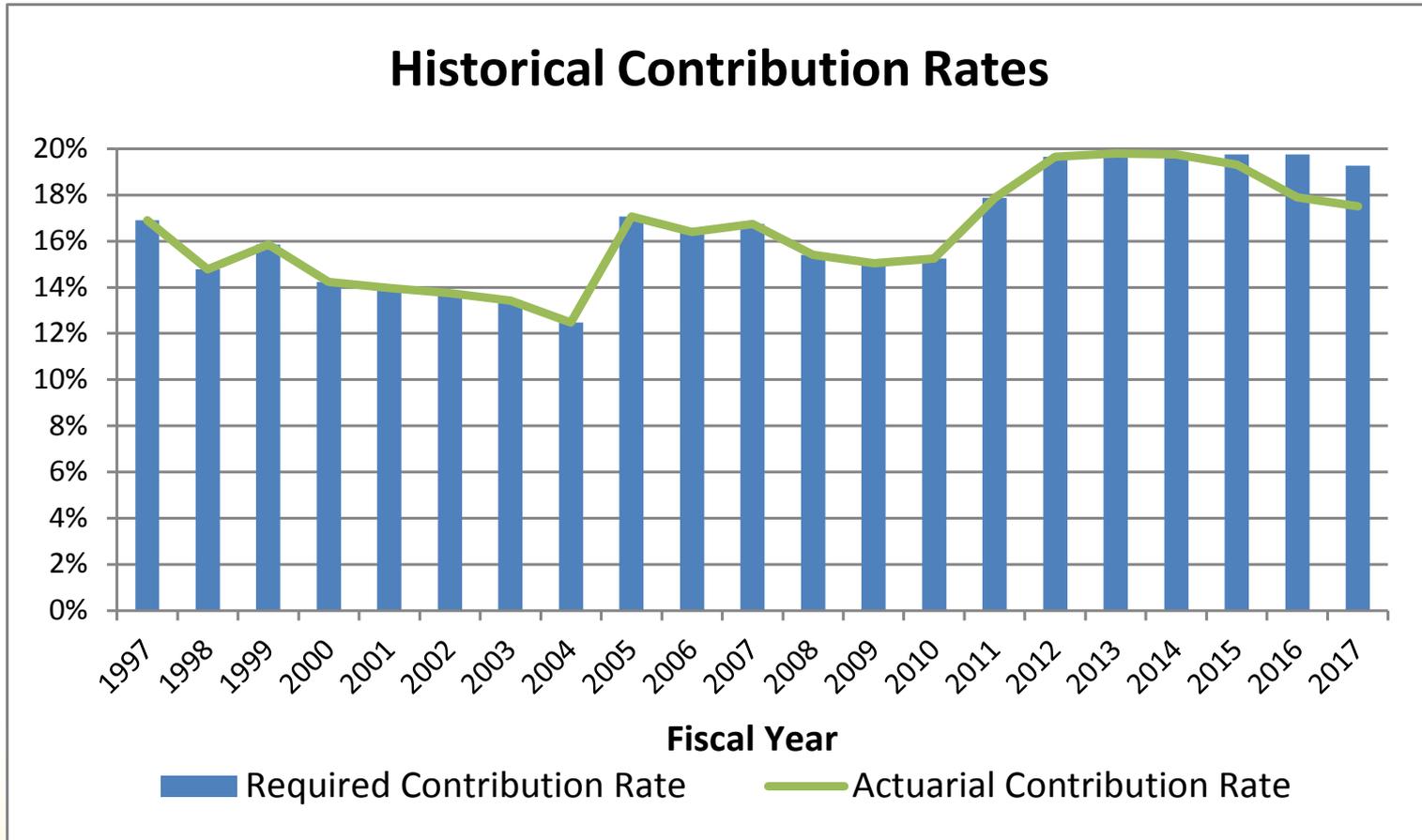
### Valuation Date

(Contribution Rates for FY17/FY16)

	June 30, 2015	June 30, 2014
Normal Cost	16.50%	16.50%
UAL Payment	<u>1.00%</u>	<u>1.40%</u>
Total Actuarial Rate	17.50%	17.90%
Required Contribution*	<u>19.26%</u>	<u>19.76%</u>
Shortfall/ (Margin)	(1.76%)	(1.86%)
* Employee Rate	9.63%	9.88%
* Employer Rate	9.63%	9.88%

*Note: Funded ratio is above 95% and difference in ACR and prior RCR > 0.50% so the Required Contribution Rate declined 0.50%.*

# Sheriffs & Deputies



# Contribution Rate

## Protection Occupations



### Valuation Date

(Contribution Rates for FY17/FY16)

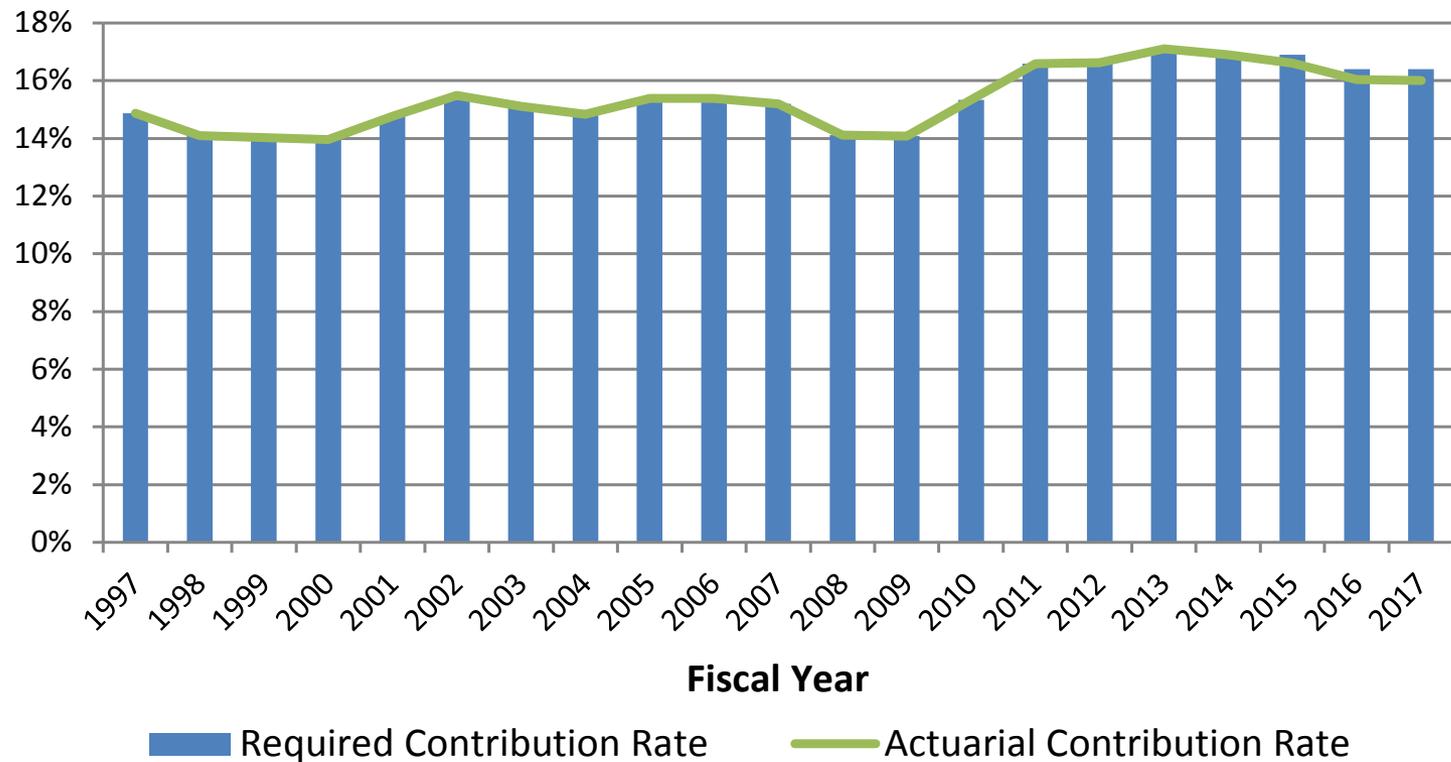
	June 30, 2015	June 30, 2014
Normal Cost	16.01%	16.04%
UAL Payment	<u>0.00%</u>	<u>0.00%</u>
Total Actuarial Rate	16.01%	16.04%
Required Contribution*	<u>16.40%</u>	<u>16.40%</u>
Shortfall/ (Margin)	(0.39%)	(0.36%)
* Employee Rate	6.56%	6.56%
* Employer Rate	9.84%	9.84%

*Note: The difference in the ACR and the prior year's RCR is less than 0.50% so no adjustment to the RCR is made.*

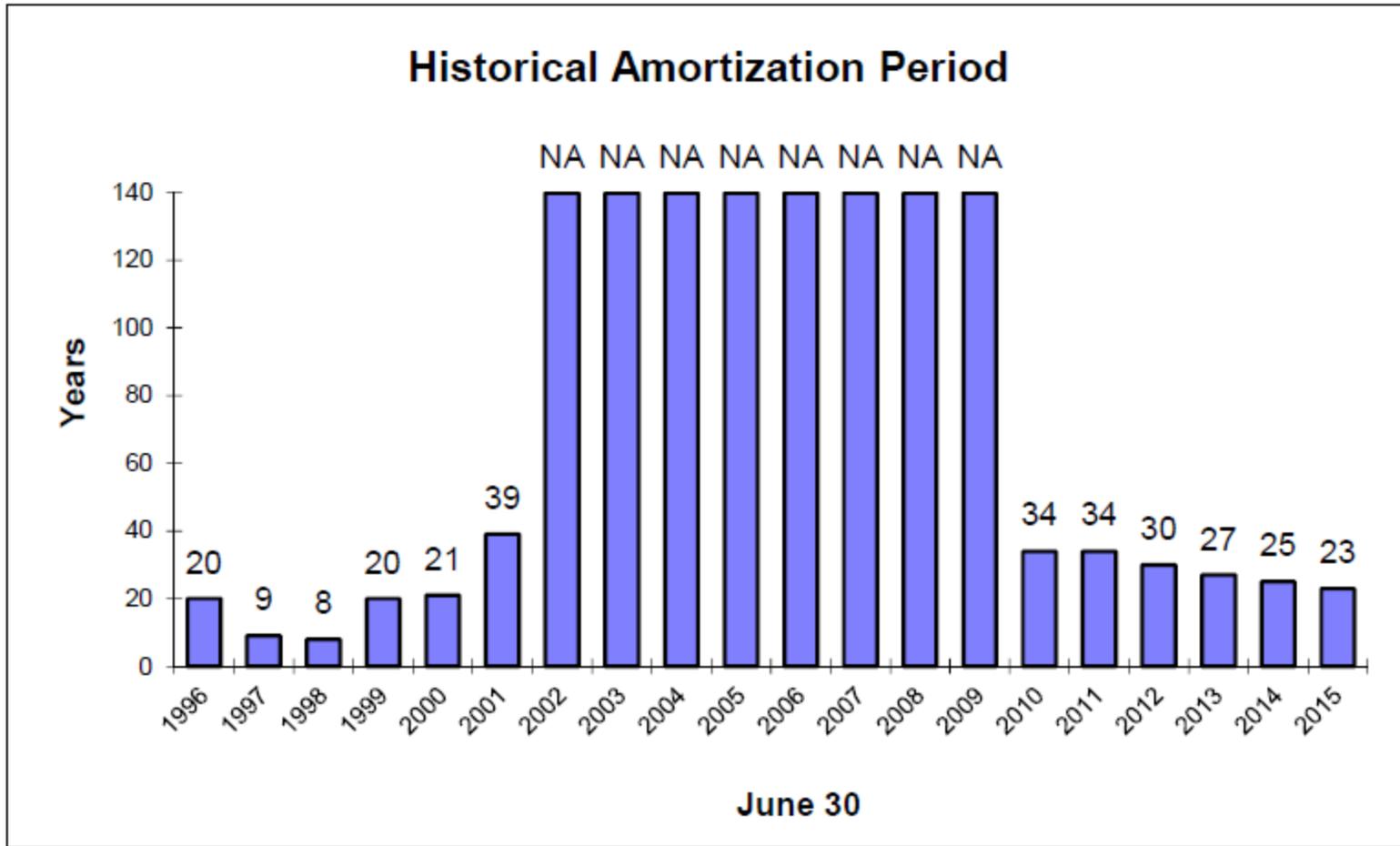
# Protection Occupations



## Historical Contribution Rates



# Amortization Period



*23 years for FY2015 assumes current contribution rates remains unchanged and all assumptions are met.*

# Summary and Comments



Experience gain on actuarial value of assets of \$171 million, despite a 3.96% return on assets

- Deferred gain of \$1.579 billion last year decreased to \$514 million this year

## Contribution Rate Funding Policy

- For all three groups, the Required Contribution Rate exceeds the Actuarial Contribution Rate for FY2017
- Will fund the UAL more rapidly than the amortization policy and also provide more stability in contribution rates

Positive trend in funded ratio expected if all actuarial assumptions are met in the future

# Independent Actuarial Audit



## Gabriel, Roeder, Smith & Company

Hired to conduct a peer view of IPERS' actuary with the following objectives:

- Examine actuarial assumptions and methods for compliance with Professional Standards, State Law and Board Regulations
- Verify demographic data
- Provide an actuarial opinion regarding the reasonableness and/or accuracy of valuation

Final opinion - Cavanaugh Macdonald provides "a fair and reasonable assessment" of IPERS' financial position.

# IPERS Investment Board



Presented by  
David O. Creighton  
*Board Chair*

- Chair and CEO of The Bryton Companies
  - 30 years of business finance experience
- Served on the Investment Board since 2003

# Fiduciary Duty of the Board



## The Investment Board is the trustee of the Trust Fund

*A fiduciary with a legal duty to act in accordance with all of the following:*

- Solely in the interest of the participants and beneficiaries
- For the exclusive purpose of providing benefits to participants and beneficiaries and paying reasonable expenses

# IPERS Investment Board



## Board Structure

- Seven voting members
  - Six members appointed by the Governor and confirmed by the Senate
    - Three public members with investment and financial experience
      - David Creighton, Lisa Stange, Dennis Young
    - Three IPERS members
      - Phyllis Peterson, Marlene Sprouse, Wayne Walter
  - Seventh voting member is State Treasurer Fitzgerald (appointed by statute)
- Four non-voting members
  - Representatives Mascher and Pettengill
  - Senators Garrett and McCoy

# IPERS Investment Board



## Roles & Responsibilities

- Establish the investment policy and risk tolerance of the investment program
- Hire investment managers and consultants
- Review investment performance, investment management expenses and IPERS' administrative budget
- Select the actuary and adopt actuarial methods, mortality tables and assumptions to be used by the actuary for the annual valuation of assets

# Investment Performance



## Annualized Returns

	FY2015	10-Year	20-Year	30-Year
<b>IPERS Portfolio*</b>	3.96%	7.21%	8.58%	9.38%
<b>Policy Benchmark†</b>	3.51%	7.45%	8.23%	8.89%
<b>Large Public Fund Median‡</b>	3.43%	6.93%	8.15%	9.43%

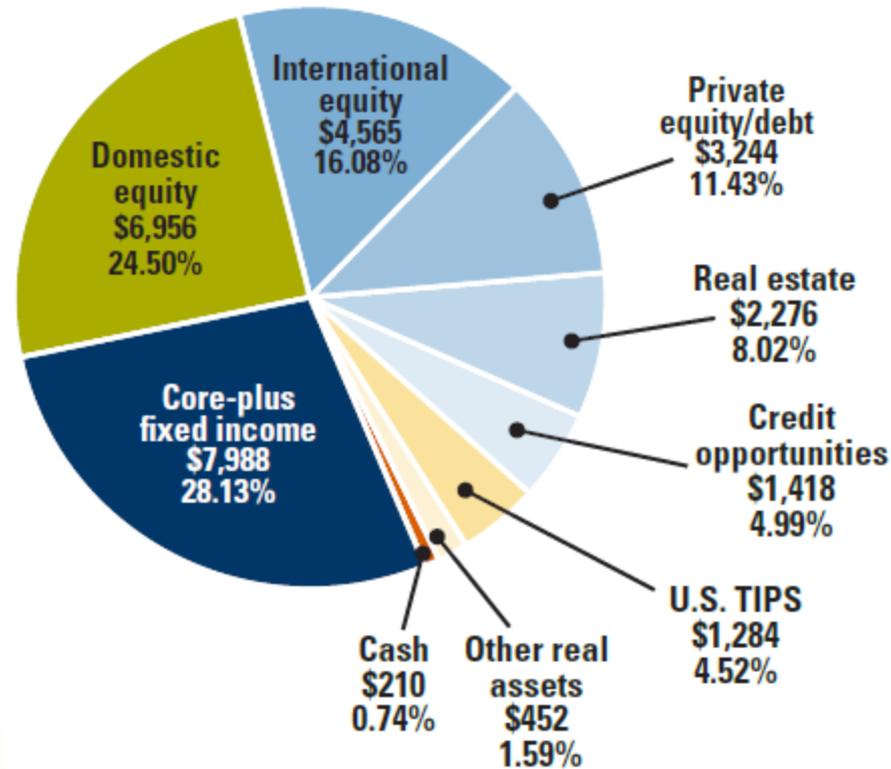
*For periods ended June 30*

\*Net of fees.

†A benchmark composed of market indexes with weightings reflective of IPERS' asset allocation targets.

‡ Trust Universe Comparison Service (TUCS) Public Funds with Total Market Value Greater than \$1 billion.

# Investments by Asset Class



(Fair Values in Millions)

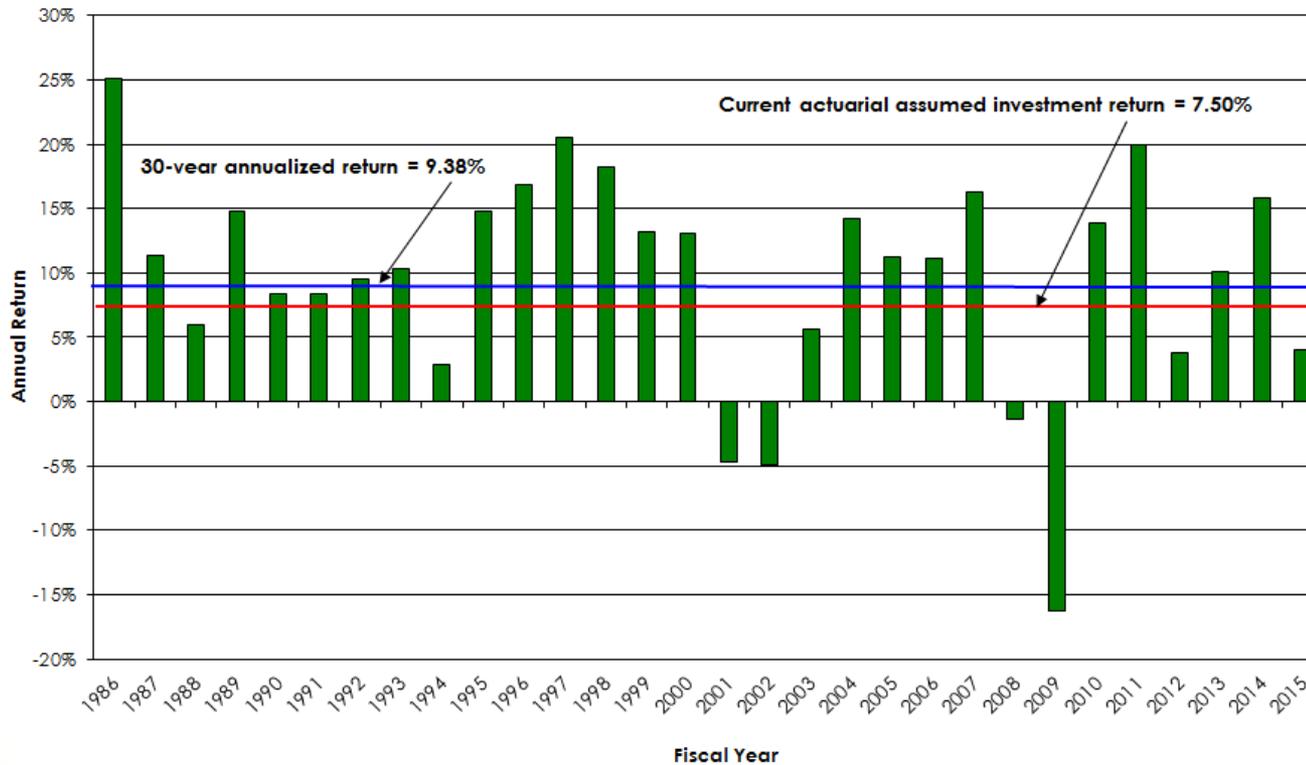
As of June 30, 2015

# Trust Fund Value



The IPERS Trust Fund  
as of 6/30/15  
remained at **\$28 billion**  
after paying out \$1.7 billion.

# Investment Returns



## Annualized Returns

<b>1-Year</b>	3.96%
<b>10-Year</b>	7.21%
<b>20-Year</b>	8.58%
<b>30-Year</b>	9.38%

For periods ending June 30, 2015

## Actuarial Assumed Investment Return

<b>1953–1993</b>	6.50%
<b>1994–1995</b>	6.75%
<b>1996–present</b>	7.50%

# Benefits Advisory Committee

Presented by



Len Cockman  
Chair



Bradley Hudson  
Vice Chair

# Benefits Advisory Board



## Roles & Responsibilities

- #1 role is to consider and make recommendations to IPERS and the General Assembly on the administration of IPERS benefits
- Comprised of representatives from constituent groups, including employers, active members and retired members
- Nine voting members (seven elected by the Committee)
  - Also includes, by statute, the director of the Department of Administrative Services, and a member of the public

# IPERS' Benefit Package



- Model pension system
- Reformed in 2010
- Contribution rates tied to actuarial rate
  - Investment Board adopted funding policy
- Benefit reductions taken by current, active members
  - No separate tier for new hires

# Cost-of-Living Adjustments



## November Dividend

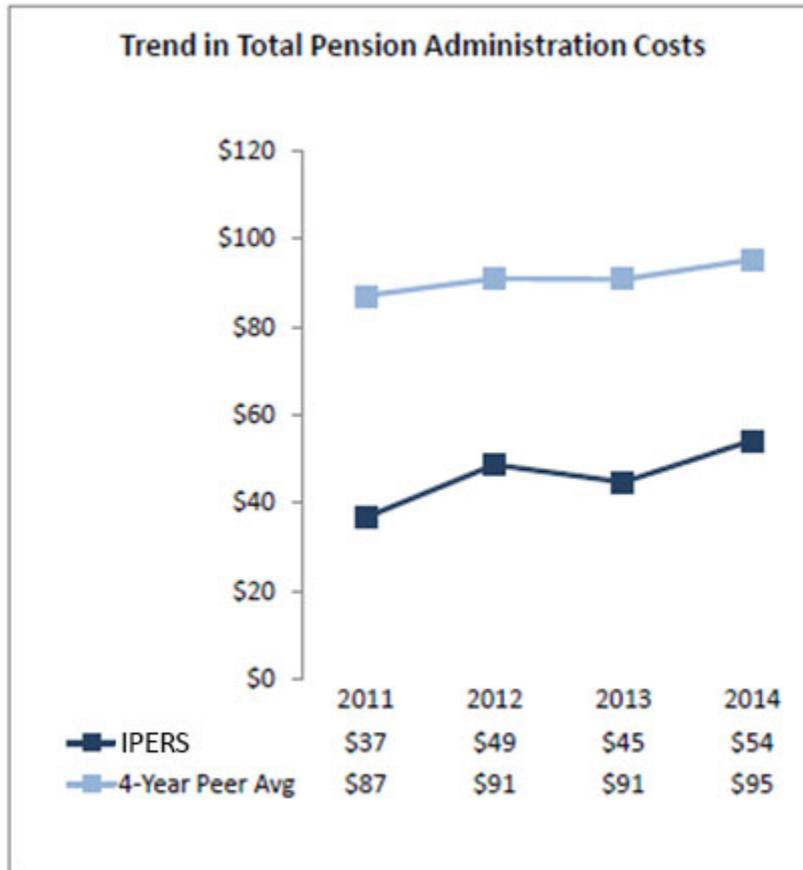
- Guaranteed
- Approximately \$7 million to an estimated 7,000 retirees

## Favorable Experience Dividend

- Last payment occurred in January 2014



# Consistent Low Cost



IPERS' total pension administration cost of **\$54** per active member and annuitant has remained significantly below its 4-year peer group cost of **\$95**.

Source: CEM Benchmarking Inc.

# Key Funding Measurements



## FY2015

- Ratio of actuarial assets to actuarial liabilities  
**83.7%** (up from 82.7%)
- Unfunded actuarial liability (UAL) decreased by **\$89 million**
- Deferred investment gain of **\$514 million**

# Our Mission



*Administer a cost-efficient retirement plan that provides lifetime pension payments to public employees and serves to attract and retain a quality workforce.*

# Contact Us



The purpose of this presentation is to provide an update on IPERS. For additional information, feel free to contact us or visit our website at [www.ipers.org](http://www.ipers.org)

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