

**REPORT TO THE GENERAL ASSEMBLY  
ON WHETHER OR NOT IPERS  
SHOULD OFFER A SUPPLEMENTAL SAVINGS PLAN  
TO ALL IPERS' MEMBERS**

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## 1996 Legislative Mandate

The 1996 General Assembly assigned several *special studies* to the Iowa Public Employees' Retirement System (IPERS), one of which was to investigate "various alternatives for establishing a defined contribution option for members of ...[IPERS] in addition to the current defined benefit plan..." The consultant we employed in 1996 to assist us with other *special studies* also looked at this question and subsequently recommended that IPERS offer a deferred compensation (Internal Revenue Code Section 457) plan to all of our members.<sup>1</sup> (Such a plan is the only tax-deferred option a governmental plan such as IPERS has under federal law.)

## 1997 Survey of IPERS' Covered Employers

Knowing that many of our employers already offered their employees some form of supplementary plan, we surveyed all of our 2,400 covered employers in December 1997 to determine: a) what, if any, supplemental plans they currently offered; and b) whether or not they supported IPERS offering a statewide deferred compensation plan. We were gratified that fully 60% of our employers took the time and effort to respond. The nature of their feedback was sufficient to raise important caution flags as we continued to study this issue. For instance, while 59% of those who responded supported IPERS developing a statewide deferred compensation plan for employees as a supplemental savings vehicle<sup>2</sup>, a significant 23% did not. Another 18% were either neutral or expressed no opinion. Further, it appeared from this survey that approximately 70% of our covered employees had a supplementary savings plan of one type or another already available to them through their employers.<sup>3</sup>

## 1998 Action by the General Assembly

In a letter dated February 11, 1998, IPERS reported the above to the Senate and House State Government Committees and proposed that IPERS perform a survey of its membership through utilization of a professional survey firm. Subsequently, in Section 83 of House File 2496, the Legislature allowed IPERS to "continue its study of the possible establishment of a statewide deferred compensation plan for active members..." In doing so, IPERS was to "seek input, through surveys or other similar methods, from affected employees and employers..." In separate legislation, the General Assembly authorized IPERS to use Trust Fund monies for this survey effort.

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<sup>1</sup> Dr. Joseph Metz, Buck Consultants, 1997 Report and Recommendations on Enhancements to the Core Benefit Structure and Supplemental Plans and Features of the IPERS Defined Benefit Plan, p. 54.

<sup>2</sup> A notable minority of the respondents *qualified* their endorsement in one manner or another, however.

<sup>3</sup> Iowa Public Employees' Retirement System Deferred Compensation Survey, Summary of Results and Recommendations, February 1998, compiled by IPERS' staff Curt Sorteberg and Mike Bridges.

## 1998 Survey of IPERS' Active Members

IPERS subsequently contracted with Selzer & Company of Des Moines to perform a survey for us of a representative sampling of IPERS' 150,000 active members. A prime concern of ours was that the selected portion of our membership would constitute a statistically valid sampling of employee population by key demographic characteristics (such as age, gender, and employer groupings).

The survey was conducted by telephone in mid-November 1998. A total of 680 active members were interviewed about their attitudes toward retirement savings plans, including their own efforts in saving for retirement, whether or not supplementary plans were offered by their employers and, if so, whether or not they participated. In addition, they were asked whether or not they favored having IPERS also offer a deferred compensation plan as a supplement to our existing defined benefit plan.

Highlights of the survey results are as follows:

- An overwhelming number of IPERS' members (85%) are actively devoting additional savings towards retirement through employer-sponsored supplemental plans or private savings.
- In addition, the great majority of IPERS' members (74%) work for an employer who already offers a supplemental plan.<sup>4</sup>
- Of those with a supplemental plan option available, a relatively high 56% are currently participating in the plans offered by their employers.
- Interest in having IPERS offer a plan of its own is predictably strongest among those employees who do not currently have access to an employer-sponsored supplemental plan. (Even among these, however, a significant number say they would definitely not participate even if IPERS were to offer a plan.)
- While a majority of IPERS' covered employees indicate some interest in participating in an IPERS-sponsored supplementary plan, only 16% say they would **definitely** do so.
- An important concern (echoed in the employer survey of one year ago) was whether or not any IPERS' plan would be *another* option open to them or would serve to *supplant* existing employer sponsored plans. (IPERS' employers, in their response to the 1997 survey, expressed strong concerns about any intent to replace their plan offerings.)

## Conclusions

The results of the 1998 survey of our members closely parallel those flowing from the survey IPERS conducted of its employers in December 1997. Our perspective, coupled with the salient facts from both surveys, is:

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<sup>4</sup> These plans are primarily either deferred compensation plans, utilized by local governments, or tax-sheltered annuities, which are favored by educational units.

1. Almost all (85%) of IPERS' covered employees are already saving for retirement in addition to their basic IPERS' plan.
2. Most (74%) of them already have an employer-sponsored supplemental plan available to them.
3. Many employers who currently offer a supplementary plan, and many of their employees, would welcome an additional savings alternative from IPERS. Employers especially, however, are very concerned about any IPERS' plan, which would serve to either draw participants away from their current, locally offered plans or, even worse from their perspective, become the sole plan offering in lieu of their existing plans.
4. The greatest desire for an IPERS-sponsored supplemental plan was voiced by that quarter of active members for whom no employer-sponsored plan option exists. These tend to be the employees who work for the smallest covered employers. We believe that it would not be cost effective to establish a plan for just those members, as the cost per person of providing appropriate education and marketing services would be quite high.

## Policy Options

The policy options for IPERS appear to be to offer:

1. No supplemental plan.
  - The downside of this option is that those without a supplemental plan today would only have one available if their employer, separately or in league with other employers, would decide to offer one in the future.
2. A plan, but only to those who currently have no option available to them locally.
  - While in some respects appearing to be "the best of both worlds", this option raises the issue of high per person administrative costs of any plan offered for a few. This is especially applicable as not all to whom the plan would be available would choose to participate
3. A plan open to all covered employees, available as an additional supplemental plan offering for those who already have a supplemental plan available to them through their employers.
  - This would put IPERS in competition with locally sponsored plans and would likely generate substantial opposition from employers and local agents or providers of existing plans.
4. A plan open to all covered employees and provide for it being the exclusive offering available to them.
  - Employers and employees would likely deem this unacceptable.

When the Legislature first raised this issue in the 1996 session of the General Assembly, it was, we believe, in the context of ensuring that such an option was *available* to IPERS' covered employees. IPERS has never proposed, nor do we believe that the Legislature intends, that we become a *competitor* to existing plans. We were surprised to learn how many of our active members are vigorously saving for retirement and are also participating in existing plans. Further, it is gratifying to learn that fully  $\frac{3}{4}$  of employees are already offered supplemental, defined contribution-like plans through their employers.

IPERS recognizes that participation by our members in supplemental savings vehicles in addition to our defined benefit plan is an essential component for security in retirement. We are

deeply concerned, however, about attempting to either offer a whole new plan for a small segment of our membership or going into competition with existing plans sponsored by our employers. Further, the lukewarm response by both our covered employees and participating employers to the issue of whether or not IPERS should offer such a supplementary vehicle reinforces our reluctance to propose that we initiate such a plan.

## **Recommendations**

Accordingly, we recommend that IPERS:

1. **Not develop its own deferred compensation plan, and**
2. **Continue to do all that we can to cooperatively work with our employers to educate members on the need for savings in addition to IPERS' defined benefit plan, including participation in supplemental plans available to them through their employers.**