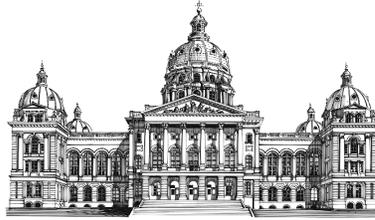


# Iowa Legislative Services Agency Fiscal Services

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October 6, 2006

## Iowa Public Employees' Retirement System (IPERS)

### ISSUE

This *Issue Review* provides an overview of the Iowa Public Employees' Retirement System (IPERS).

### AFFECTED AGENCIES

Iowa Public Employees' Retirement System  
State and Local Government Agencies  
Local School Districts

### CODE AUTHORITY

Chapter 97B, Code of Iowa  
495, Iowa Administrative Code, Chapter 1

### BACKGROUND

The Iowa Public Employees' Retirement System (IPERS) was established in 1953 by the General Assembly. The IPERS replaced the Iowa Old Age and Survivor's Insurance System (IOASI) established in 1946.

The IPERS is an independent agency within State government, established and governed by Chapter 97B, Code of Iowa, and is administered through a Chief Executive Officer, a Chief Investment Officer, and a Chief Benefits Officer.

The IPERS Plan is a defined benefit plan. The lifetime monthly benefit received by a retiree is defined; it is calculated using a formula. Benefits grow with covered employees during their working career. As years of service and salary increase, IPERS benefits increase.

The investment activities are governed by an 11-member Investment Board. As the trustee of the IPERS Fund, the Board sets investment policy, monitors investment performance, oversees the actuarial program, and includes three representatives who are IPERS members.

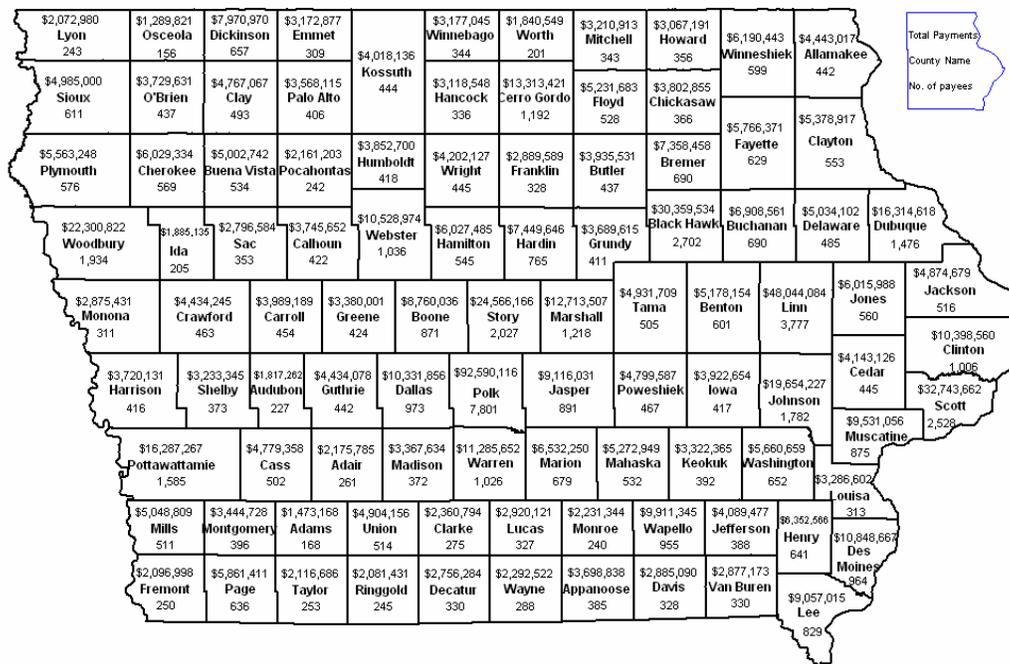
The Benefits Advisory Committee (BAC) is responsible for recommendations to the IPERS administrators and the General Assembly regarding benefits and services. The BAC also

submits nominees to the Governor to fill positions on the Investment Board, reviews and provides feedback on the annual IPERS operating budget, and participates in the performance evaluation of the Chief Executive Officer. The BAC is comprised of no fewer than nine and no more than 14 representatives of employers and employees who are covered by the IPERS.

**CURRENT SITUATION**

The IPERS currently serves over 300,000 members employed by an estimated 2,400 participating employers. The IPERS Fund balance was \$18.8 billion as of June 30, 2005. In FY 2005, IPERS payments totaled approximately \$841.0 million to all retirees and beneficiaries. The Fund's investments returned 11.25 percent in FY 2005. Benefits payment information by county for FY 2005 is provided below.

*IPERS FY2005 Benefit Payments*



|                            |                      |
|----------------------------|----------------------|
| Iowa                       | \$743,629,232        |
| U.S. other than Iowa       | \$97,158,412         |
| Outside the U.S.           | \$162,431            |
| <b>Total 2005 Payments</b> | <b>\$840,950,075</b> |

In the FY 2005 Comprehensive Annual Financial Report (CAFR) for the IPERS, an actuarial valuation of the IPERS Fund financial condition was included. The primary purposes for the actuarial valuation included:

- Evaluate the sufficiency of the statutory contribution rate structure to fund benefits expected to be paid in the future and to determine if the IPERS funding meets the criteria set out in the funding policy established by the IPERS.
- Evaluate the funded status and disclose various asset and liability measures as of June 30, 2005.

- Analyze and report on trends in System contributions, assets, and liabilities over the past several years.

The results of the 2005 actuarial valuation indicated the following:

- An increase in the Unfunded Actuarial Liability (UAL) compared to 2004. The UAL increased from \$2.2 billion in 2004 to \$2.3 billion in 2005.
- The current contribution rate of 9.45% by members will not be sufficient to provide long-term future benefits to current members.
- No transfer of funds to the Favorable Experience Reserve Account for Favorable Experience Dividend (FED) payments.

The Favorable Experience Dividend (FED) is payable to post-July 1990 retirees or beneficiaries from funds credited to the Favorable Experience Reserve Account (Reserve) within the IPERS Retirement Fund. Monies sufficient to pay the dividend for five years were credited to the Reserve in January 1999. The IPERS last credited a transfer to the Reserve in FY 2001. Unlike a cost-of-living dividend, the FED is not guaranteed to be paid in any year and the actual dividend increase in any particular year, if any, is not specified in the Code of Iowa, except to limit it to no more than 3.0%. The multiplier applied to FED payments continued frozen.

House File 729 (Pension Omnibus Act) prohibited transfers to the Reserve unless the IPERS is fully funded. Funds may be credited to the Reserve only when the IPERS has a funded ratio of assets to actuarial accrued liabilities of 100.0%. Investment gains and losses are applied to the reserve.

### **BUDGET IMPACT**

House File 729 (Pension Omnibus Act) also increased the IPERS contribution rates for public employers and employees, (except sheriffs, deputy sheriffs, police, firefighters, correctional officers, and those in other protection occupations covered by the IPERS) for the first time since 1979.

The regular IPERS employees' contribution rates and the employers' contribution rates will change beginning July 1, 2007, as follows:

|         | <u>Employees'<br/>Contribution<br/>Rate</u> | <u>Employers'<br/>Contribution<br/>Rate</u> | <u>Total<br/>Contribution<br/>Rates</u> |
|---------|---|---|---|
| FY 2006 | 3.70%                                       | 5.75%                                       | 9.45%                                   |
| FY 2007 | 3.70%                                       | 5.75%                                       | 9.45%                                   |
| FY 2008 | 3.90%                                       | 6.05%                                       | 9.95%                                   |
| FY 2009 | 4.10%                                       | 6.35%                                       | 10.45%                                  |
| FY 2010 | 4.30%                                       | 6.65%                                       | 10.95%                                  |
| FY 2011 | 4.50%                                       | 6.95%                                       | 11.45%                                  |
| FY 2012 | 4.50%                                       | 6.95%                                       | 11.45%                                  |

As a result of the contribution rate increase for FY 2008, contributions to the IPERS will increase by an estimated \$28.3 million. Employees will pay 40.0% of the total increase, approximately \$11.3 million, while employers will pay 60.0%, or approximately \$17.0 million.

Other changes passed by the 2006 General Assembly included:

- Coupling requirements for mandatory lump sum distributions to members for inactive accounts to the Internal Revenue Code.
- Limiting wage spiking to minimize impacts of inflated wages on pensions.
- Counting deferred compensation as retired re-employed earnings.
- Allowing all protection occupation service time to count toward sheriff and deputy sheriff retirement benefit calculations.
- Extending the study of a reduced bona fide retirement requirement for licensed health care professionals in some public hospitals.
- Reviewing pension flexibility issues and submitting recommendations to the General Assembly.

The Legislative Public Retirement Systems Committee was established in 1986, and is also required to study and report to the General Assembly on previous studies and reports pertaining to pension flexibility, supplemental defined contribution and hybrid retirement plans, and cost-of-living adjustment plans, by October 1, 2007. There may be further legislative changes considered for the IPERS and other State retirement systems based on the recommendations of the Committee.

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Iowa Public Employees' Retirement System (IPERS)  
<http://www.legis.state.ia.us/lsadocs/lssReview/2007/IRSJL002.PDF>  
LSA/FSD:IRSJL002.Doc/10/06/06/12:20 pm