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IPERS
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Previous legislative questions

1. How does IPERS' funding ratio compare to other systems?

The most recent national information available through the Public Funds Survey is FY2007. Findings are contained in the graph.

IPERS FY2007	**90.2%**
Median (121 plans)	**84.3%**

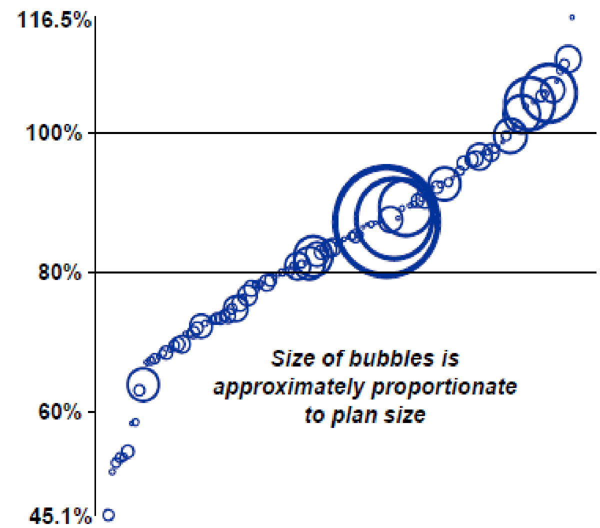
Because of accounting standards changes, Iowa public retirement systems began to report their funded ratio using the entry age normal actuarial method in FY2008. IPERS already was reporting using this method.

IPERS overall FY2008		**89.1%**
IPERS Special Services 1	101.6%	
IPERS Special Services 2	105.2%	
IPERS Regular	88.4%	
Municipal Fire and Police (411)[1]		**89.7%**
Peace Officers Retirement (PORS)[2]		**73.7%**
Judicial[2]		**62 %**

[1] Source: FY2008 Annual Report, p. 37
[2] Source: Systems and June 30, 2008 audit reports, pgs 20 and 18 respectively

Seventy-five of the 121 plans (62 percent, up from 59 percent in FY 06), are funded at or above 80 percent, an informal threshold of actuarial health. Notably, plans funded above 80 percent comprise three-fourths of the assets of all plans in the survey, indicating that as a group, larger plans constitute a larger portion of plans funded above the 80 percent level. The median funding level is 84.3 percent.

Figure B: Actuarial funding ratios for 121 public pension plans



Public Fund Survey Summary of Findings for FY2007, Keith Brainard, Research Director, National Association of State Retirement Administrators, November 2008

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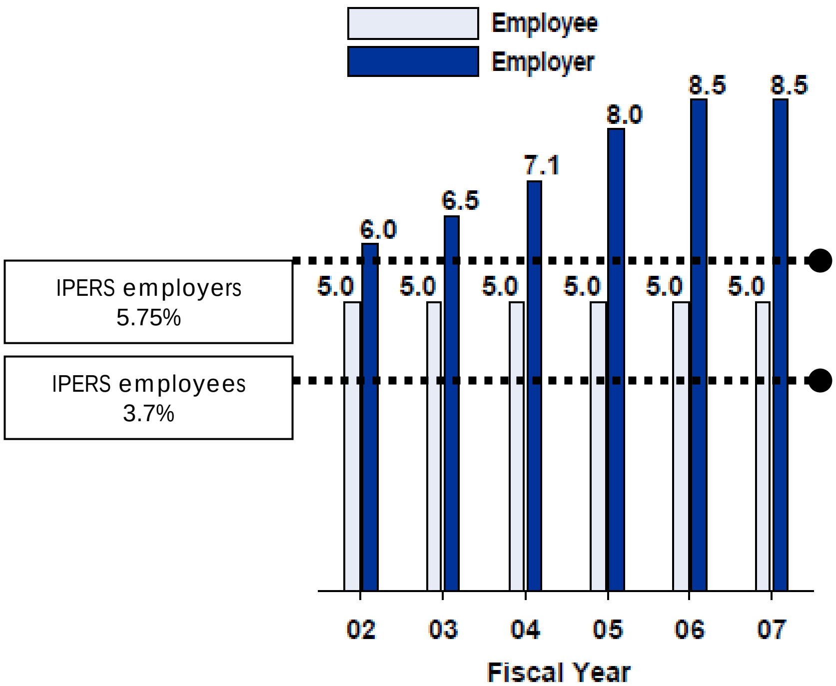
Median Employer and Employee Contributions (Social Security Eligible)



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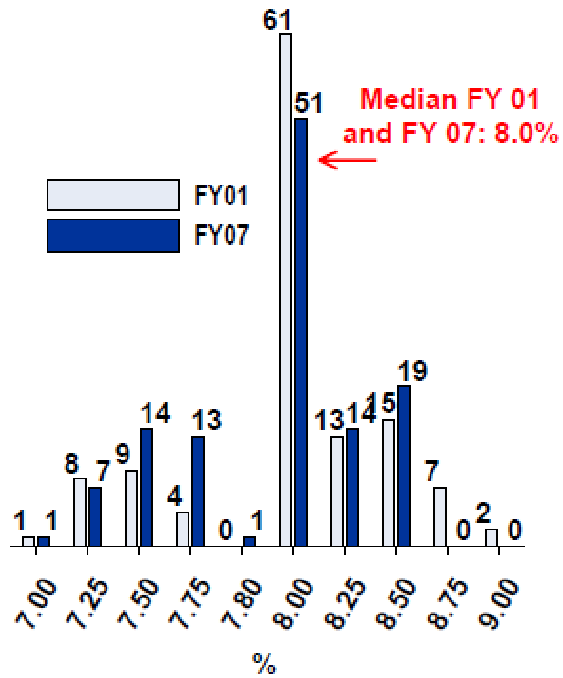
Distribution of Investment Return Assumptions



2. Will IPERS reduce its 7.5percent annual investment return assumption? The return assumption is a long-term assumption and IPERS has no current plans to change it. The 7.5 percent assumption is below the median for 121 plans participating in the Public Fund Survey. However, the IPERS Investment Board regularly reviews the assumption with its investment consultant and actuary.

3. Can IPERS access federal bailout money through the Troubled Assets Relief Program (TARP) program?

IPERS has been working with a national association that is investigating this possibility. Initial legal interpretation was that public retirement systems could not use this program. IPERS will continue to monitor progress and if it appears the program is an option for retirement systems, IPERS will explore it further.

4. What are IPERS recommendations for legislative action?

The severity of this recession and its impact on the financial markets likely will require both increasing contributions and reducing future benefit accruals. Increasing contributions has an immediate impact. Reducing future benefit accruals has a delayed impact.

A. Contribution rate increases

Option 1: Increase the contribution rates to the actuarial rate identified in annual valuations. The latest valuation identified the FY2010 actuarial rate at 12.34 percent.

This requires legislative action. This preferred approach is how rates are set in the Municipal Fire and Police Retirement System (411 system) and for IPERS' two special service (public safety) groups.

Estimated Cost of an additional 1.39 percentage points in FY2010

	Employee Increase	Employer Increase	Total Increase
Schools	19,257,515	22,567,400	41,824,915
State	7,140,901	8,368,243	15,509,144
County	5,824,540	6,825,632	12,650,172
City	4,908,477	5,752,122	10,660,600
Community Colleges	877,408	1,028,213	1,905,622
Regents	274,341	321,493	595,834
Other	1,057,788	1,239,596	2,297,384
Total	39,340,971	46,102,700	85,443,671
Average	233	273	507

Based on FY2008 reported IPERS-covered wages, with a 4% annual salary adjustment applied each year to arrive at FY2010 wages. Also assumes no change to the number of active members. This brings the contribution rate to 12.34%, which is the declared actuarial rate for FY2010. FY2010 statutory rate is 10.95%

This option avoids significant costs. The chart below shows the additional unfunded actuarial liability created when contributions for regular members are less than the actuarial contribution rate. Inadequate contributions added a total of $621 million to IPERS' unfunded actuarial liability in only six years (FY2003–FY2008).

Cost to IPERS when Actuarial Rate not Paid (percent of wages)

	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010	FY2011
Employee	3.70	3.70	3.70	3.90	4.10	4.30	4.50
Employer	5.75	5.75	5.75	6.05	6.35	6.65	6.95
Total statutory rate	9.45	9.45	9.45	9.95	10.45	10.95	11.45
Total actuarial rate	11.16	11.42	11.49	11.51	12.02	12.34	NA*
Shortfall	1.71	1.9	2.04	1.56	1.57	1.39	NA*
Added to UAL (in millions)	**$103**	**$125**	**$118**	**$127**			

The annual valuation determines future contribution rates. For example, the FY2010 rate is based on the FY2008 valuation. The FY2011 actuarial rates will be identified with the FY2009 valuation

Option 2: Amend §97B.11(2) to increase the contribution rate for regular members 1 percentage point in FY2011 rather than the 0.5 percentage point contribution rate increase previously approved by the legislature. (FY2010 rates are already set and incorporated in the employers' budgets.)

Also amend §97B.11(3) to allow rates to change up to 1 percentage point annually effective July 1, 2011. IPERS does not have the authority to adjust rates until FY2012. Although IPERS is authorized to begin adjusting rates in FY2012, the law limits annual rate changes to no more than 0.5 percentage point.

Cost of an additional 0.5 percentage point in FY2011

	Employee Increase	Employer Increase	Total Increase
Schools	6,258,692	9,388,038	15,646,731
State	2,320,793	3,481,189	5,801,982
County	1,892,975	2,839,463	4,732,438
City	1,595,255	2,392,883	3,988,138
Community Colleges	285,158	427,737	712,894
Regents	89,161	133,741	222,902
Other	343,781	515,672	859,453
Total	12,785,816	19,178,723	31,964,539
Average	76	114	190

Based on FY2008 reported IPERS-covered wages, with a 4% annual salary adjustment applied each year. Also assumes no change to the number of active members.

B. Benefit changes

1. Do not enact benefit enhancements for any group covered by IPERS.

2. Analyze legal implications of reducing future benefit accruals for regular members (active and future members).

3. Conduct actuarial studies to identify the fiscal impact of benefit changes.
   a. Reduce the multiplier used in the benefit formula.
   b. Use an average of the highest 5 years of wages in the formula. (A 3-year average is used now.)
   c. Change the vesting period from 4 years to 5 years and eliminate automatic vesting at age 55.
   d. Redefine IPERS covered wages used in the benefit formula.
   e. Delay normal retirement age. (Current normal retirement age is 65; 62 with 20 years of service; or when age plus years of service equals 88.)
   f. Apply full actuarial reduction to retirements not meeting normal retirement provisions.
   g. End the January dividend for post-June 1990 retirees and transfer remaining money from the FED Reserve Account to the general IPERS Trust Fund.

4. Present results of studies to Public Retirement Systems Committee.

IPERS' BENEFIT FORMULA FOR REGULAR MEMBERS

Multiplier X Final Average Salary
(Based on Years of Service)

Multiplier: 2% a year for 30 years; 1% a year for years 31–35. Maximum = 65%.

Final Average Salary: Average of the highest three years' wages.

Benefit reduction when retire before normal retirement age or final wages increase more than 10% a year.