

Testimony before the Public Retirement Systems Committee  
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Des Moines

My name is David Creighton, Sr., and I am a member of the IPERS Investment Board. I have served on the IPERS Investment Board since 2003 as a member of the public with substantial institutional investment experience.

I have been in the business finance field for 25 years. I currently am the chairman and CEO of The Bryton Companies in West Des Moines. We provide diversified insurance and financial services, including retirement plans, to businesses and individuals throughout Iowa and the United States.

The IPERS Investment Board is the trustee of the IPERS Trust Fund. We are fiduciaries. “Fiduciary” is an important legal term that conveys great responsibility. As fiduciaries, we are obligated to take action to preserve the IPERS Trust Fund for current and future members of the System. We do that by making investment policy decisions that will bring the best investment returns at a prudent level of risk. Each year we review how we are allocating our assets and discuss whether we should change our strategy.

As fiduciaries we also are responsible for informing you, the sponsors of the System, when you need to take action. I am here today to stress that you need to take action.

The IPERS Investment Board just finished our annual asset allocation review. We reviewed our risks and returns. We looked at the status of IPERS' long-term funding. We reviewed our consultants' reports.

No prudent asset allocation will provide the long-term funding needed for the System. In other words, we cannot address long-term funding requirements through investments alone.

Last year the IPERS Investment Board passed a resolution calling for increased contributions. We did not take a position on the amount of the increase or who should pay what portion of the increase. We asked you to take action in order to bring the System into actuarial balance (current and future contributions equal the present value of future benefits).

We have looked at options other than increasing the contribution rate. In 2003, we completed a thorough Asset/Liability Study of IPERS. The Asset/Liability Study was a collaborative effort between Wilshire Associates, Inc. (IPERS investment consultant) and Milliman USA (IPERS actuary).

We learned from the study that it would take an 11 percent rate of return every year through 2014 to meet the Systems' funding needs through investments alone.

Let me repeat that. It would take an 11 percent rate of return every year through 2014—not an average of 11 percent but an 11 percent rate of return each and every year—to meet the Systems' funding needs through investments alone. If you look at IPERS' investment returns for the last 10, 15 and 20-year periods, you will see that even with the bull market of the 90's and with great performance relative to our peers, we did not accomplish that.

Requiring a minimum 11 percent rate of return every year is not a reasonable or responsible course of action. It would require the drastic step of shifting all assets to the highest-risk asset class. CEO Mueller shared with you the historical investment returns. Investment returns have and continue to exceed benchmarks. However, long-term funding needs will not be met by any asset allocation that wisely balances risk and returns.

The Asset/Liability Study also examined a reduction of benefits as a way to bring the System into actuarial balance. Realistic benefit reductions are not an effective solution. The study found that even with a change in the benefit structure, a contribution rate increase is necessary to restore actuarial soundness.

The IPERS Investment Board is dedicated to fulfilling our role as the System's trustee. We will continue to scrutinize our investment policies and asset allocation. We will continue to monitor performance. And we will continue to advise you when we believe that legislative action is required. Thank you for allowing me to talk with you today.