

**PRESENTATION TO THE LEGISLATIVE
PUBLIC RETIREMENT SYSTEMS COMMITTEE**

Lowell Dauenbaugh, Chairperson, Benefits Advisory Committee
November 2, 2005

I would like to thank Co-Chairpersons Representative Elgin and Senator Zieman as well as the Committee members for the opportunity to present to you this afternoon on a topic that is very important to the members and beneficiaries of IPERS.

I am Lowell Dauenbaugh, the current Chairperson of the IPERS Benefits Advisory Committee and am here representing the BAC. As you are aware, the BAC was created by the Iowa Legislature to "serve as a channel for employers and employees to help formulate policies and recommendations regarding the provision of benefits and services to the system." The BAC officially became an entity on July 1, 2002. Prior to that time it was a constituent advisory group to IPERS and a transitional BAC. We have fourteen constituent groups on the BAC that represent employer and employee interest. Of these members, four are voting representatives of employers, four are voting representatives of employees, and one is a voting public representative.

For the past several years, we have reviewed the IPERS actuarial studies and have worked to respond responsibly to the needed increase in contributions rates. We submitted a request to the Governor and Legislature in 2003 and 2004 recommending action. We are returning again this year to urge you to proceed with action to resolve the unfunded liability issue within IPERS.

Last year the House passed House File 729 on a vote of 94-5, thanks to the hard work of Representative Elgin and the other members of the State Government Committee. The bill that was passed was not the BAC's proposal, but following considerable discussion and compromise, no BAC member opposed its passage. That same bill is still before the Senate this legislative session, and we urge you to support positive action on the bill.

You have heard considerable information from Pat Beckham and Donna Mueller regarding the status of the IPERS fund. I am not going to repeat that information, but would like to reaffirm some of it in my discussion with you.

The BAC's recommendation is to increase the contribution level to IPERS by one percent per year for four years. That would result in a funding level of 13.45%. HF 729 increases the contribution rate by .5% per year for 8 years to end up at the same spot. It also disallows an increase between FY2006 and FY2014 if the funding status improves so that the unfunded actuarial liability could be amortized within 10 years. Again, the BAC can support this change, as we understand it is difficult for both employers and employees to pay more and more each year. Our members, however, know that we need to start this increase sooner rather than later. You have seen data

that would indicate that IPERS cannot grow itself out of the current unfunded liability problem. An increase in contribution rates is necessary and it needs to begin soon.

IPERS Investments have performed well the past two years. We compliment the Investment Board and IPERS staff for the work they have done in this area. Even though IPERS did not meet the projected returns in 2001-2003, the work of the Board and staff provided better returns than the market would have expected. Even though the fund has grown to \$18.7 Billion as of June 30, 2005, the unfunded liability also grew to \$2.3 Billion, an increase of \$13 Million. Our UAL amortization remains at infinity where it has been for the last four years. One of the largest problems that has occurred during the past several years has been the narrowing of the gap between the contribution percentage and the normal cost. When the major improvements were enacted by the legislature in 1996, the gap between the contribution level and the normal cost was 2.16%. Today that gap is only .33%. In simplest terms, this gap is the amount that is available from contributions to pay down the unfunded liability. It is not sufficient. It is not even enough to pay the interest on the Unfunded Liability. It needs to be increased to pay the interest and sufficient principal to amortize the UAL over 30 years. The largest reason for the closing of the gap is more accurate records and assumption changes - 1.26%. Some narrowing occurred because of demographic experience, and .52% occurred because of benefit enhancements. The relatively small additional cost for the benefit enhancements was able to bring IPERS benefits from a poor public pension plan to an average public pension plan.

The BAC supports the current 60-40 split of contribution rates between the employer and employee be retained. This was maintained in HF 729. Obviously, no one employer/employee alike wants to contribute more than necessary to fund a pension program. Everyone, however, wants the system to be fiscally sound and be there to provide benefits that have been promised to our public employees. Employees realize that the pension provided by an employer is part of their total compensation package. They know that only so much money is available within a budget and when more goes to a pension, less is available for salary and benefits. They are willing to accept this, however, to be assured a benefit that allows them to live comfortably in retirement.

The 60/40 split in contributions has been the same for many years. The BAC did look at other funding splits, but decided it best to continue it at the same percentage. Everyone should help fund the unfunded liability in the same ratio as previously agreed to. We recognize there are some funds that have all of any contribution increases picked up by the employer. The BAC did not recommend this. The BAC recommended what we felt was appropriate for sharing the cost increase. We presented something we felt was right, not something we felt should be advanced and then bargained about. We proposed what we felt was the prudent recourse for the legislature to take. Though employees will find it difficult to increase their contribution, fairness warrants continuing the 60/40 ratio. They are faced with ever increasing costs of health care, while the average salary continues to slide. The most recent salary report for average teacher salary indicates Iowa has slipped to 42nd in the nation. This is the lowest Iowa teachers'

salary has ranked since 1970, the earliest date for which we have a comparison. Average teacher salaries ranked ten points higher at 32nd only 5 years earlier. Teachers had ranked as high as 20th back in the 1970's. Public employees in Iowa are expected to continually do more and more with less and less;

The BAC also is aware that some other groups have willingly gone to a 50/50 split on contributions. You must keep in mind, however, that that was done with a significant increase in the benefit structure. There was a five year reduction in the potential retirement age. No benefit enhancements are being proposed by the BAC. We are only proposing to begin paying on the unfunded liability. We certainly would be willing to look at other funding options for any benefit enhancements in the future.

In addition to the above, the BAC has recommended that IPERS be given authority to adjust contribution rates within statutory guidelines to keep IPERS fiscally sound in the future. This would be similar to IPERS authority to set the annual contribution rates for the protection occupation group. By having this discretion, the protection occupation group has very minimal unfunded liability. Though HF 729 does not include this item, we believe it should still be considered in the future. When this review occurs, it would also be a good time to look to establishing a Board of Trustees for IPERS. This has been a BAC recommendation for several years and continues to be needed to provide for the safety and security of the IPERS fund. An independent Board of Trustees is the best way to provide for the future fiduciary security of IPERS.

In addition, we continue to believe the current benefit structure to both current and future public employees be maintained. This is maintained in HF 729.

In summary, we thank you for the work you have done thus far to advance the BAC's recommendations. We urge you to support positive action this year on HF 729. It is a compromise we should all support. Thank you.