# Iowa Public Employees Retirement System (IPERS)

Position Statement
Iowa Association of School Boards

IASB

## Overview

Recent actuarial analysis indicated that IPERS contributions are not yet sufficient to pay benefits over the long term. The legislature generally reviews IPERS every two years, yet may consider recommendations to bring the fund into balance during the 2004 2005 legislative session. In 2004 the IPERS Benefits Advisory Committee (BAC) recommended that the legislature and governor raise contribution rates. IASB members need to educate state public policy makers about the impact these increases will have on schools.

## Background

All Iowa school districts, area education agencies, community colleges and their employees contribute to the IPERS defined benefit plan authorized by *Iowa Code* Chapter 97B. Retirement benefits are based on a formula including the age at retirement, years of service, high three-year salary average and a percentage multiplier. The system guarantees a consistent lifetime income upon retirement. Iowa school employees also contribute to and are eligible for benefits from Social Security.

In the fiscal year ending June 30, 2002, IPERS assets included employee contributions ($185.8 million) and employer contributions ($278.7 million) with net assets at $14.9 billion. School corporations, comprising 48.8 percent of IPERS membership, contributed $130.7 million and education employees contributed $87.7 million to IPERS in 2001-2002.

In a June 2002 actuarial report, the system's unfunded actuarial liability (UAL) had reached $1.255 billion over 30 years. Because the system is not in "actuarial balance" some type of additional contribution, reduction in benefits, or combination will be necessary in the future. The actuarial report indicated the IPERS fund has resource to meet obligations for at least 20 years.

The challenge of providing long-term benefits is exacerbated by an economic downturn, declining asset values, growing obligations, and demographic changes, resulting in a projection of inadequate contribution rates. An asset/liability study by Milliman USA was commissioned by IPERS. Milliman reported in August 2003, using capital market assumptions developed by Wilshire for the next 10 years, and applying projections to scenarios over the next 30 years, a change was necessary for a balanced fund over the long-term.

**The IPERS Benefits Advisory Council (BAC)** was charged with recommending a solution. The BAC includes representatives from: Iowa State Association of Counties, Iowa Association of Community College Trustees, Iowa Association of School Boards, Iowa League of Cities, State of Iowa, School Administrators of Iowa, American Federation of State, County, and Municipal Employees, Association of Chiefs of Police, Iowa State Education Association, IPERS Improvement Association, Retired School Personnel Association, Sheriffs and Deputy Sheriffs Association, State Police Officers' Council, and a public member.

**BAC Proposal:** In October 2003, the BAC endorsed the following approach:

1. Begin now *(2004-05)* to increase contribution rates from 9.45 percent to 13.45 percent.
2. Do so by "phasing-in" the necessary rates over four years.
3. Maintain existing benefit structure (no cuts in or reductions of benefits).

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4. Seek approval for IPERS to automatically adjust future rates if a *(in a yet to be determined range or amount of)* change occurs in IPERS' normal cost in the future.
5. Maintain the existing 60-40 sharing split between employer and employee contribution rates.

**Cost of Recommended Contribution Increases:** If the legislature approves the recommendation, the amount of contribution by school corporations *(current contribution rate 5.75 percent)* will increase from $130.6 million (2002) to $181.7 million (as calculated for the 2004 session). Regardless of how long the increase is extended, it would result in an eventual cost to school corporations of over $51 million per year.

**Contribution Rates – Equal Share**

IASB understands that without any other changes in the IPERS system, contribution rates need to increase to ensure a balanced fund. Contribution rates should not be viewed in a vacuum. Other issues such as change in the contribution rate structure by going for 50/50 employer/employee split and decreasing benefits for new hires should also be considered.

**Cost Tradeoffs**

IASB encourages legislators and the governor to consider the budget impact of IPERS to schools. $12.5 million per year is equivalent to one day of professional development for every educator in the state or salaries for 416 teachers *(calculated at $30,000 per year)*. $51 million would pay for 4.5 days of professional development or the salaries of 1,664 teachers.

School boards strive to reward employees and provide excellent benefits, but in a world of limited resources there are difficult choices to be made. A review and adjustment of retirement benefits should not be made without a larger view of employee needs. Data considering other tools to attract and retain quality employees, such as salary and professional support and growth, cannot be eliminated from the discussion. Resources spent on beginning teacher salaries and professional development for all teachers are effective means of attracting and retaining quality teachers.

Just as the economic downturn has created difficulties for IPERS, it has also impacted the state's ability to fund allowable growth. Four years of record low allowable growth combined with phase-out of the budget guarantee and across-the-board budget cuts, coupled with federal mandates to improve learning for every child, have already squeezed school budgets dramatically. Any change in retirement benefits must consider the impact of funding otherwise dedicated to employee salaries and educating children.

**Benchmarking to Other Retirement Benefits Programs**

Benchmarking to other public retirement systems requires a closer look. With over 40 states in financial crisis and pension fund pressures from lower-than-expected return on investments, other states will consider contribution and benefits changes in the next few years. Benchmarking with private sector plans may also provide some sense of fairness to taxpayers who ultimately pay for the IPERS system.

**Recommendations for Policy Makers**

1. Actuarial studies document a need for an increase in IPERS contributions to maintain current benefit levels. IASB does not support going beyond the 13.25 percent actuarial estimate.
2. The legislature should consider benefits changes and an equal share in costs for the retirement system, 50 percent by the employer, and 50 percent by the employee.
3. Phase in any required rates over a number of years in order to lessen the impact. Delay the initial change for at least one year beyond the current bargaining cycle
4. Give school districts alternative funding sources, including use of management levy funds to fund IPERS costs, so the districts' ability to improve student achievement by providing quality

staff and needed professional development are not negatively impacted. This recommendation is consistent with city and county levy authority for benefits increases.

5. Do not amend the statute to allow IPERS to automatically adjust rates if a change occurs in IPERS normal cost in the future. This should remain a policy issue for the legislature. Caution should be taken to ensure that school districts and their employees are not subjected to an additional unfunded mandate mid-budget year without recourse.
6. Provide that any increase in contributions and the school district cost of providing it, should be subtracted from new money considerations at the bargaining table.

**Advocacy Messages**

- School boards believe it is important to establish retirement benefits necessary to attract and retain qualified employees.
- Educational costs are often seen as tradeoffs. Taking money from the general fund budget to pay for IPERS increases will result in difficult choices, including fewer school employees.
- There should be an equal employer/employee contribution in the IPERS retirement system.
- Rushing into a remedy will create budget difficulties for schools and negatively impact school districts' abilities to meet student needs.
- Since IPERS benefits are not bargained, the money to pay for any mandated IPERS increase should not be considered as available to pay increased salaries or insurance benefits.

**RESOURCES**

*Effective Teacher Recruitment and Retention Strategies in the Midwest: Who Is Making Use of Them?* Prepared for the North Central Regional Educational Laboratory by: Debra Hare and James L. Heap, May 2001.

IPERS Benefits Advisory Council (BAC) recommendations, October 2003

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