

IPERS

- Core retirement system to work with Social Security and personal savings.
- Provides employers a recruitment and retention tool that rewards career public service.
- Trust Fund composed of contributions from members and their employers plus investment income.
- Trust Fund must be used for exclusive benefit of members.
- Assets total \$17.2 billion.
- Largest public retirement plan in Iowa

Membership

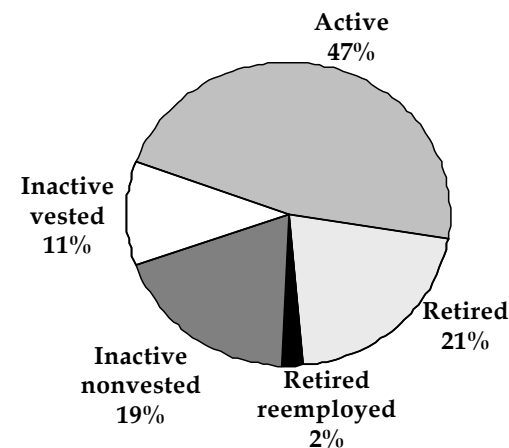
- Most school, county, city, and state employees.
- Exceptions include judges, state patrol, and other members of the Department of Public Safety, police and fire personnel in cities with populations of over 8,000 as of the 1990 census, and university and community college personnel who elect other coverage
- Optional for elected officials.
- Employer reporting units currently total 2,388.

Legislature's Role as Plan Sponsor

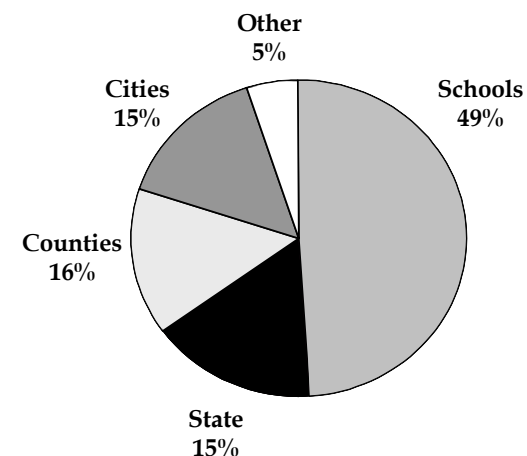
- Establishes the benefit plan.
- Determines participating public employers and employees.
- Sets the contribution rate for regular members.
- Oversees rule-making process by which IPERS announces rates for Special Service members.
- Approves appropriation of Trust Fund monies for non-investment-related administrative expenses.

All figures are for FY2004.

IPERS' 340,044 Members



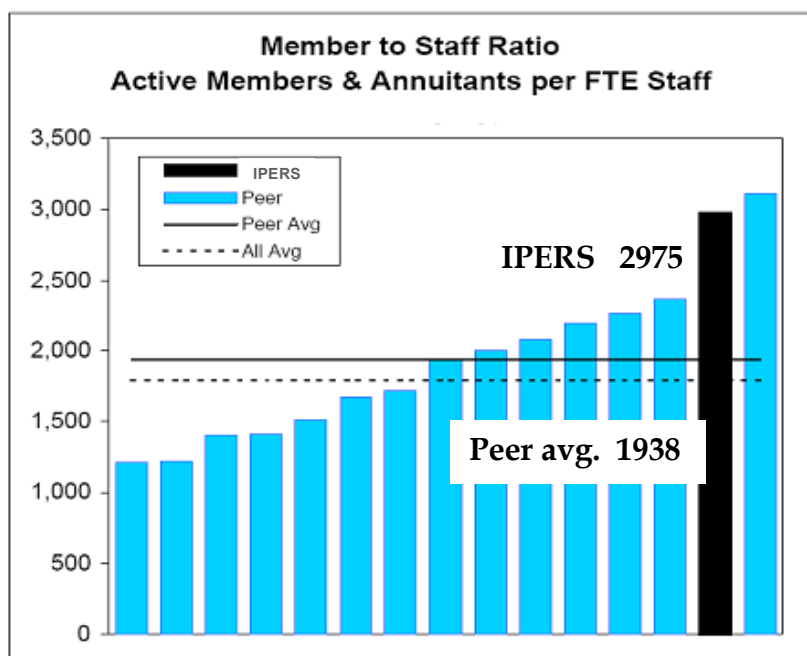
160,034 Active Members at Work



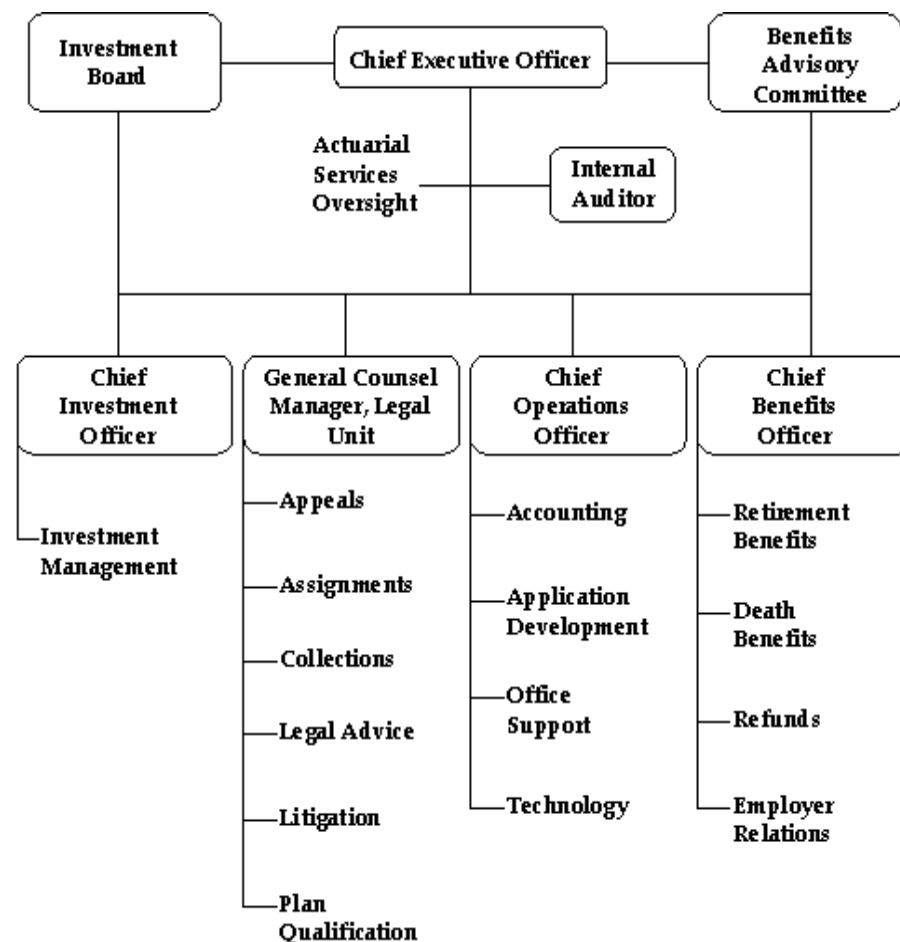
Administration of IPERS

- Executive branch agency with 90.13 authorized FTE.
- Eleven-member Investment Board is the Fund's trustee, overseeing investment and actuarial functions:
 - Seven voting members include six gubernatorial appointees and the Treasurer of State.
 - Legislative leadership appoints four nonvoting legislative members (Senators Kibbie and Ziemann; Representatives Elgin and Jochum).

- Thirteen-member Benefits Advisory Committee advises on benefits and services:
 - Selects its members from constituent groups representing employers and members.
 - The Department of Administrative Services director is one of nine voting members.

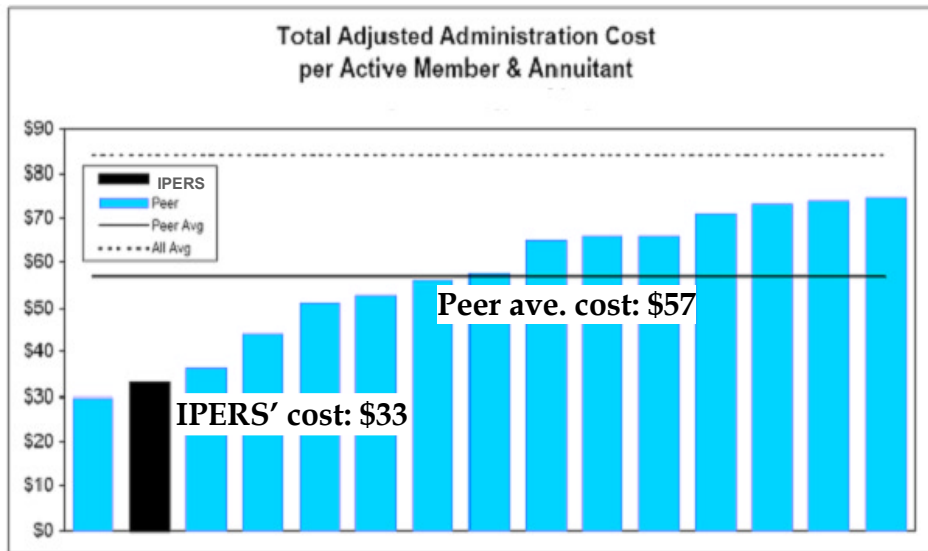


*Costs, staffing, and service results on page 2 and 6 are for 2003 as reported in *Defined Benefit Administration Benchmarking Analysis, Iowa Public Employees' Retirement System*, March 30, 2004, Cost Effectiveness Measurement Inc. (CEM), a study of IPERS and 15 similarly sized public retirement systems in the United States. CEM is a private firm that conducts studies worldwide.



Expenses

- Administrative expenses are 0.05 percent of the Trust Fund's market value.
- IPERS' total administrative cost is lower than all but one of the other public systems to which IPERS was compared.
- IPERS' low administrative cost is especially significant because IPERS also was rated high in services. IPERS' services rated 80, compared to an average service rating of 73 for the comparative group.



Fiscal Year 2006 Budget Request

- No General Funds are requested. IPERS' administrative expenses are paid by the Trust Fund.
- Request is status quo for day-to-day administration of the retirement system.

\$ 8,879,900 (FY2005)

278,575 Salary Adjustment

13,133 DAS Utility Revenue

\$9,171,608 Total Administrative Request

- Multi-year plan to replace the aging and inflexible technology system that supports benefit administration. Details are on the next page.

Budget request--IPERS' benefits administration technology system

During FY2004, IPERS managed 340,000 member accounts, made almost \$793 million in payments, and processed \$492 million in contributions from 2,388 employers using benefits administration computer systems. These computer systems have been in place for over 10 years. This multi-year request to replace aging, inflexible systems is designed to achieve the following:

1. Meet increased demands for service from baby boomers.

- The number of IPERS retirees is expected to increase from 77,000 to 125,000 in the next ten years.
- The number of IPERS members retiring each year is projected to increase from 5,000 to 9,000 by 2013.
- Technology improvements are necessary to keep up with demand without significant additional staff.
- Online services that allow members convenient access to their own accounts will improve services and lessen this demand on staff.

2. Reduce security and financial risks.

- IPERS needs new technology to eliminate the use of social security numbers as membership numbers. (The federal government is likely to soon require this.)
- IPERS needs to ensure the security of electronic member information.
- System inflexibility and necessary manual work-arounds have resulted in miscalculations and errors which must be corrected manually.
- Performance data is difficult to obtain.

3. Reduce inefficiencies to control future cost increases.

- Automate benefit payments that staff must produce manually, such as benefits for members who have worked under more than one type of IPERS plan.
- Reduce maintenance and BAND-AID fixes required by the current disjointed system that was cobbled together over the past ten years to address numerous law changes to the benefit plan.
- Improve business processes by integrating member and employer reporting systems, allowing staff to learn, use, and maintain only one system.
- Implement money-saving plan design changes that are possible because of improved system flexibility. For example, reporting IPERS service credit by pay period rather than quarterly could save the Trust Fund an estimated \$6.3 million a year.

Budget

Project staff (5.0 FTEs), Support, and Resources	\$415,097
Public Pension Consultant	750,000
IT Infrastructure	<u>250,000</u>
Total FY2006	\$1,415,097

Estimated cost FY2007: \$4-8 million.

Estimated cost FY2008--FY2010 \$10-20 million.

FY2006 funds will be used to assess business processes and develop a plan for the most cost-effective way to modernize IPERS' administration system. Future costs can then be projected more accurately.

Funding Basics

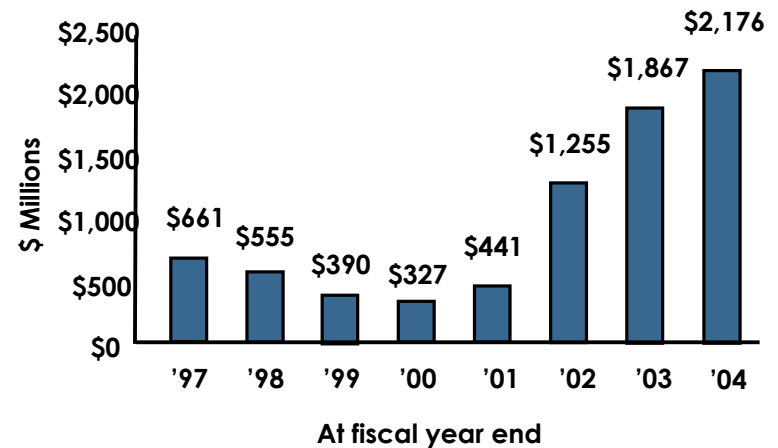
- Benefits are prefunded with contributions plus investment income. Members contribute for future benefits during their working lives.
- Employer's contributions are part of a public employee's compensation package.
- Investment income provides the largest percentage of Trust Fund income (normal in mature retirement systems).
 - Contributions in FY2004 were about \$492 million; benefits paid were almost \$793 million.
 - Investment risk shared by members and employers.

Contributions

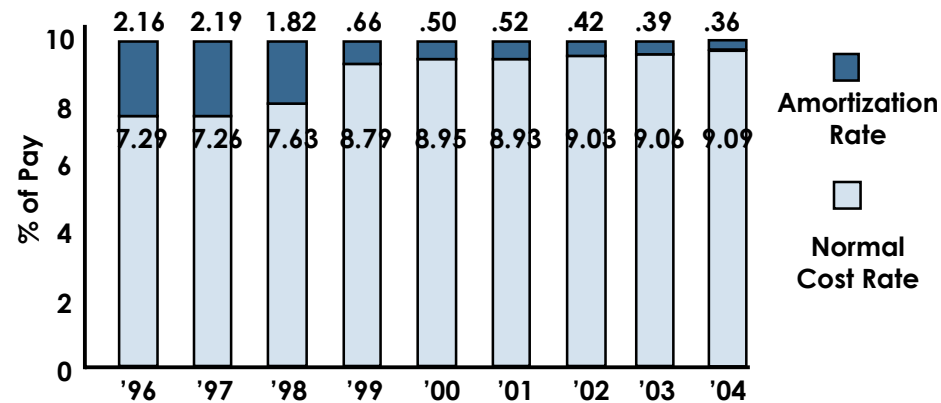
- Current rate for regular members (approximately 96 percent of membership):
 - Set by statute in 1979 at 9.45 percent of covered wages (split roughly 60 percent employer/40 percent employee).
 - According to the FY2004 actuarial valuation, this rate is 90.9 percent of what is needed.
- Rates for Special Service members (e.g., sheriffs, correctional officers, etc.) are actuarially determined and reviewed each year.
 - Current rate for sheriffs and deputy sheriffs is 17.07 percent, split 50-50 between the employer and employee.
 - Current rate for other protection occupations is 15.39 percent, split 60 percent employer/40 percent employee.
- Contributions should cover normal costs – the portion of costs allocated to the current year of service earned by members who are working – *and* an amortization payment on the UAL.
- Normal costs increased because of an aging membership, retirees who are living longer, and benefit changes.
- The small difference between the 9.45 percent contribution rate and 9.09 percent normal cost rate leaves little to apply to the UAL, which has grown to \$2.176 billion.

$$C+I=B+E$$

IPERS' Unfunded Actuarial Liability (UAL)



IPERS' Normal Cost
9.45% contribution rate



$$C+I=B+E$$

Contributions

Iowa Public Retirement Systems FY2005 Contribution Rates*

	Employee	Employer	Total
IPERS			
Regular	3.70%	5.75%	9.45%
Sheriffs & Dep.	8.535	8.535	17.07
Protection Occup.	6.16	9.23	15.39
Judicial Retirement¹	5.00	9.71	14.71
PORS	9.35	17.00	26.35*
MFPRSI/411s²	9.35	24.92	34.27*
TIAA-CREF³	5.00	10.00	15.00

¹ Section 602.9104(4b), Code of Iowa, requires an employer contribution of 23.7%. That section was notwithstanding in SF 2298 (FY2005 Omnibus Appropriations Act).

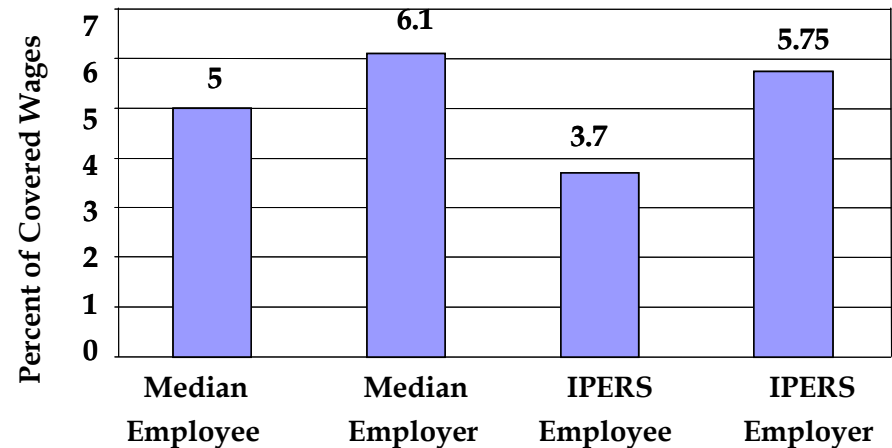
² The State also contributed \$2.7 million in FY2005.

³ The contribution rate is 10.0% for the first \$4,800 of salary for staff members with less than five years of services and 15.0% on all additional salary.

* Rates reflect that the employees are not covered by Social Security.

Source: LSA

U.S. Public Retirement System Contribution Rates*



Source: FY2003 *Median Rates Public Fund Survey* (of 103 systems and 117 plans), National Association of State Retirement Administrators and the National Council on Teacher Retirement for employees eligible for Social Security. IPERS contribution rates are for regular members.

$$C + I = B + E$$

Investments

Of the top 1000 pension funds in the United States ranked according to total assets, IPERS is 61st, with over \$17 billion in assets.
Pensions and Investments, January 24, 2005

IPERS' Investment Returns as of June 30, 2004

Compared with the System's long-term performance expectations

	1 Yr	3 Yr ¹	5 Yr	10 Yr
Total Fund Return²	13.78%	4.52%	4.23%	10.27%
Policy Benchmark³	14.55%	5.16%	3.80%	9.43%
Median Return – Large Public Pension Fund Universe⁴	15.88%	4.22%	3.66%	9.80%
Inflation Rate + 3%⁵	6.27%	5.15%	5.68%	5.51%
Actuarial Return Assumption	7.50%	7.50%	7.50%	7.50%

¹ Returns for periods longer than 1 year are annualized.

² Net of fees.

³ A benchmark comprised of market indices and weightings of same, that reflects IPERS' asset allocation.

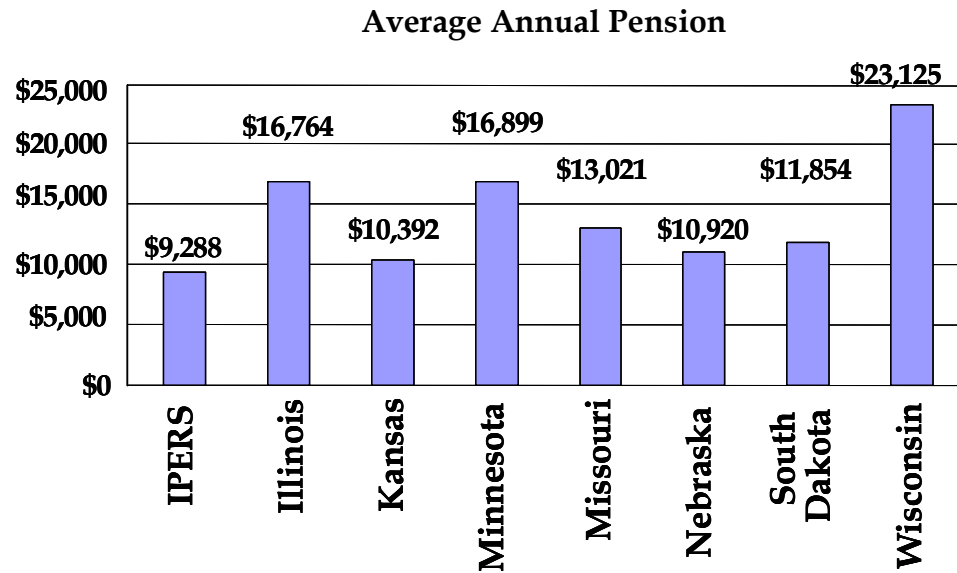
⁴ Trust Universe Comparison Service Public Funds Greater than \$1 Billion.

⁵ Inflation as measured by the Consumer Price Index.

$$C+I=B+E$$

Benefits

- Defined benefit plan providing monthly annuity for life.
- Amount determined by formula that includes the high three-year average salary and years of service.
- Plan also provides disability and death benefits.
- In FY2004, nearly 89 percent of \$793 million in benefits were paid to retirees and beneficiaries in Iowa. (See county map.)



Source: IPERS' Report to the Joint Public Retirement Systems Committee, October 14, 2003.
Averages are for all retirees.