

Legislators' Guide to IPERS

Important Information for IPERS' Plan Sponsors



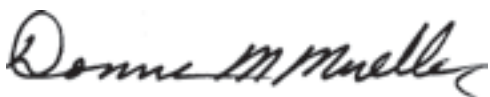
I **PERS**

Working Today for Your Tomorrow

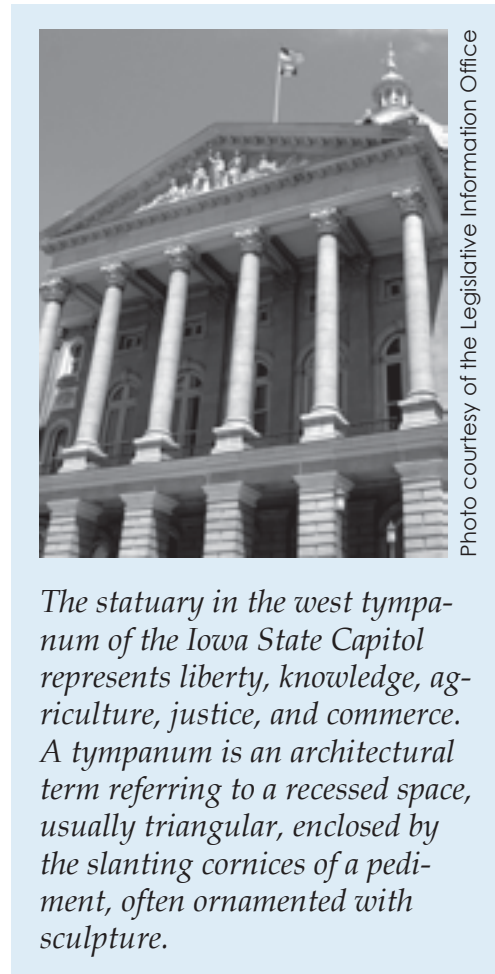
The Iowa Legislature created IPERS in 1953, recognizing a need for retirement security for Iowa citizens who dedicate their lives to public service.

The Legislature designed the Plan as a core benefit for Iowa’s schools, counties, towns, and state agencies to use to attract and keep employees needed to fulfill critical government responsibilities. These public employees teach our children, maintain our roads and parks, care for our most vulnerable citizens, and protect Iowans across our state.

The Iowa Legislature and Governor share responsibility as the IPERS Plan sponsor. It is your role to ensure that a secure retirement plan remains in place. I look forward to working with you as you carry out this important role.



Donna M. Mueller
IPERS CEO



WHAT'S INSIDE	PAGE
The Importance of IPERS	2
Attracting and Retaining a Quality Workforce	4
Governance and Administration	6
The Trust Fund at a Glance	8
Timeline – Where We’ve Been	10
Available Resources	12



A Note to Our Legislators

We value your commitment to the residents of Iowa. One of your important responsibilities as a legislator is ensuring that IPERS can provide retirement benefits that have been promised to current and future retirees.

As the average age of IPERS retirees rises and the economy continues to rebound post-9/11, IPERS faces challenges now and in the future that you can help us meet by your continued commitment.



The purpose of IPERS is to:

- Offer a solid retirement plan for teachers and school support staff, law enforcement, social workers, prison staff, transportation workers, and other public employees in your district.
- Provide a retirement benefit complementary to Social Security and other personal savings and investments.
- Attract and retain valuable employees to public service in Iowa.

THE IMPORTANCE OF IPERS

For more than 50 years, IPERS has provided a core retirement plan covering most Iowa local and state public employees. With approximately 300,000 members and almost 2,400 covered employers, IPERS is the largest public retirement system in Iowa.

The Legislature designed IPERS to provide monthly lifetime annuities that supplement social security benefits and personal savings, enabling public employees to care for themselves in retirement. The Legislature also intended for IPERS to be an employee benefit that would help Iowa’s public employers recruit and retain qualified personnel.

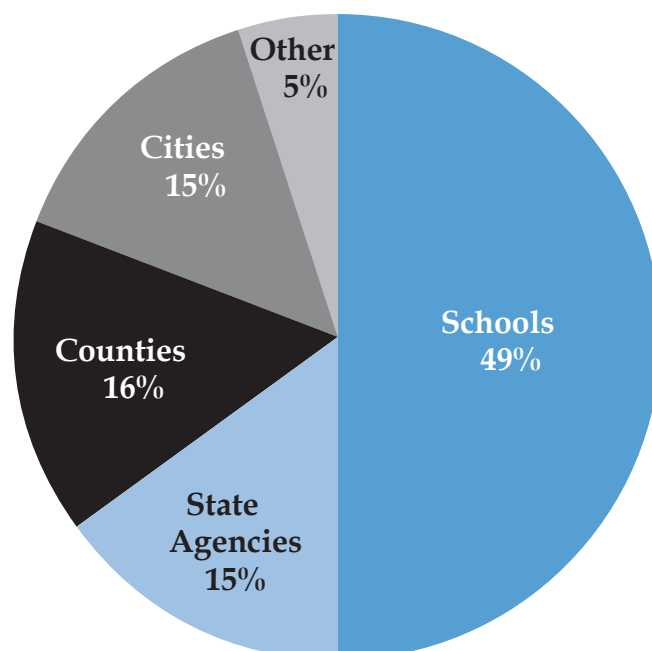
As a defined benefit plan, the monthly benefit IPERS members receive is calculated using a formula. A member’s benefit increases as his or her years of service and salary increase.

Because IPERS is a defined benefit plan, the Legislature is assured that the money contributed by public employees and their employers for retirement is used as intended. The benefit is paid as a lifetime monthly annuity. IPERS members cannot borrow or withdraw their money while in public employment.

IPERS Membership

Most public employees in Iowa automatically become members of IPERS when they start employment with a covered employer. Members also include a Special Services class of public safety employees. There are two Special Services groups: 1) sheriffs and deputy sheriffs and 2) other protection occupations, including city police, firefighters in cities not covered by Chapter 411, correctional officers, airport firefighters, airport safety officers, airport security officers, and DOT weight officers. You, as a legislator, also have the choice of being a participating member of IPERS.

Covered employers are established by law and include:



Investments

As an institutional investor, IPERS is able to use professional investment managers and invest in funds that are not accessible to the individual investor. As a result, IPERS is able to pool and better manage its investment risk, maximize investment returns, and reduce transaction fees.

The law restricts the amount IPERS can spend on investment expenses. In fiscal year 2005, IPERS spent about one-third less than the law allows on investment expenses.

Iowa Investments

IPERS' first responsibility under Iowa law is to act in the exclusive interest of the System's members. IPERS must invest the Trust Fund's assets to gain the highest returns within the parameters of reasonable risk. Although IPERS cannot give preference to Iowa-based companies unless the investments meet required standards, IPERS is committed to supporting Iowa's businesses and communities.

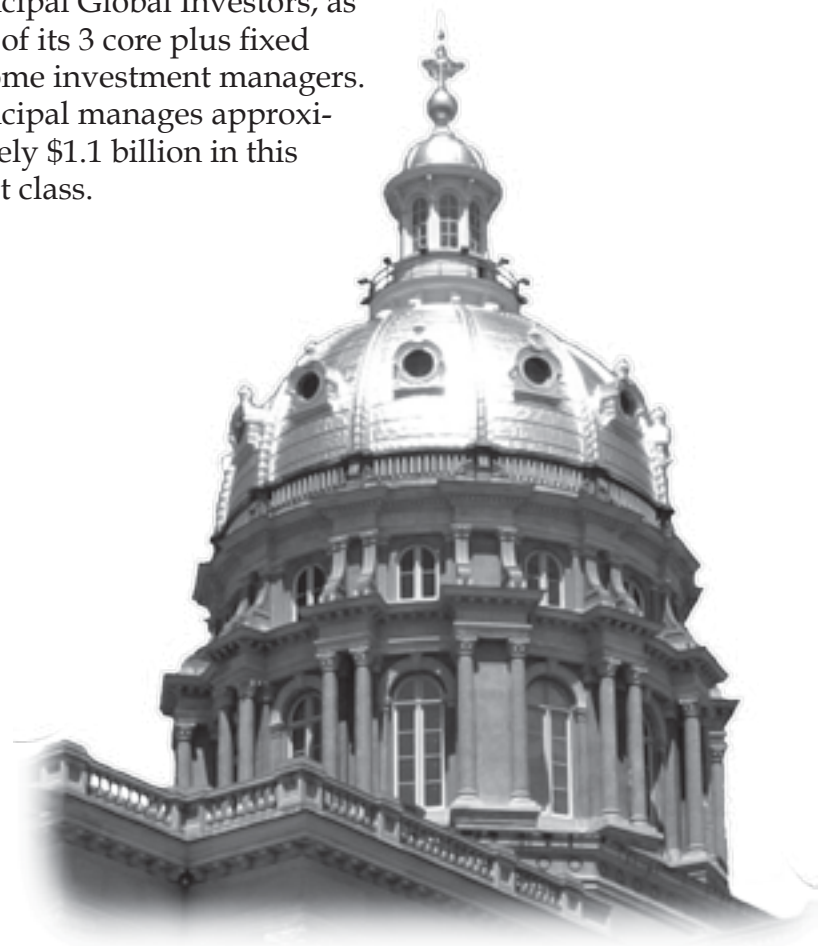
At the end of fiscal year 2005, IPERS held investments valued at over \$945 million in companies that were Iowa-based or that had Iowa-based operations and/or employment. IPERS also uses an Iowa-based company, Principal Global Investors, as one of its 3 core plus fixed income investment managers. Principal manages approximately \$1.1 billion in this asset class.



IPERS' Impact on Iowa

IPERS positively affects Iowa's local economies, businesses, and communities. Consider that in fiscal year 2005 IPERS:

- Invested nearly a billion dollars in companies that were Iowa-based or that had Iowa-based operations.
- Paid nearly \$744 million in benefits to IPERS members and beneficiaries living in Iowa's 99 counties.





IPERS Provides Financial Security During Retirement

The average monthly benefit paid to members who retired in fiscal year 2005 was \$1,283. This benefit, combined with personal savings and Social Security, helps ensure members have financial security during retirement.

ATTRACTING AND RETAINING A QUALITY WORKFORCE

Finding and keeping talented employees is a challenge that many employers face. The primary assets of an organization are the talents of its people, not the tangible and financial assets of budget sheets. The cost of finding key talent and replacing staff who leave is expensive and time-consuming.

The IPERS Plan can help attract and retain talented employees in Iowa. While many employers are changing from defined benefit to defined contribution plans to save money by shifting the investment risk to employees, IPERS – a defined benefit plan – offers employees the security of a guaranteed retirement benefit. With recent stock market fluctuations, many people are seeking to reduce the investment risk of their retirement savings – one of the reasons the IPERS Plan can help to attract employees. In addition, the longer employees remain in the IPERS Plan, generally, the greater their retirement benefits will be – an added incentive to remain with an IPERS-covered employer.



Membership Has Rewards

Protection for Families

The IPERS Plan values families by providing protection against the unexpected. Disability benefits provide protection in the event members develop a disability before retirement. The Plan also provides pre- and postretirement death benefits to members' spouses, children, or other beneficiaries.

Amount of Retirement Benefit

The formula used to calculate a member's retirement benefit includes:

1. A formula multiplier (based on a member's years of service).
2. A member's highest 3-year average salary.
3. For regular members, a member's age at retirement (a member's benefit is reduced if it is received before normal retirement age). Regular members, 96 percent of IPERS' membership, are members not in a public safety position. Public safety positions include sheriffs, deputy sheriffs, police, firefighters, and correctional officers.

The benefit is calculated* as follows:

$$\begin{array}{ccc} \textbf{Multiplier} & & \textbf{Salary} \\ \text{(Based on Your Years of Service)} & \times & \text{(A Member's Highest 3-Year Average)} \end{array}$$

* Regular members who retire before normal retirement age receive reduced benefits. Their benefits are reduced by 0.25 percent for each month (or 3 percent a year) before their normal retirement age. Special Service members' benefits are not reduced for early retirement.

Please note: The maximum benefit that a regular member may earn is 65 percent (72 percent for Special Service members) of his or her average salary, provided the member has 35 years (30 years for Special Service members) of service and is not subject to an early retirement reduction.

Payment Options

Since members have different needs and personal circumstances, members may choose between various payment options. This provides members the flexibility to choose the level of benefit protection that is right for them and their family.

Protecting Pensions from Inflation

Rather than including a cost-of-living adjustment to protect the value of pensions from inflation, the Legislature addressed retirement security in different ways.

For Pre-1990 Retirees

These retirees receive an annual payment guaranteed by Iowa law. The payment is based on a formula, defined in law, that uses a benefit multiplier. The benefit multiplier does not increase unless IPERS' actuary certifies that the increase can be supported by current contribution rates. There has not been an increase to the base payment since November 2001.

For Post-1990 Retirees

These retirees receive an annual FED (Favorable Experience Dividend) payment based on formula defined in law. The formula includes a multiplier that is limited to no more than 3 percent. The multiplier has been frozen at 1.07 percent since 2003. The average payment in 2006 is about \$760.



The payment is made from the FED Reserve Account, established by the Legislature in 1998. Money is not transferred into this account unless IPERS' unfunded actuarial liability can be amortized over 15 years or less. The last transfer into this account was in fiscal year 2001. With the multiplier frozen at 1.07 percent, funds will run out in roughly 9–10 years.

Normal Retirement Age

For regular members, normal retirement age is the earliest of these events to occur:

- Age 65
- Age 62 if a member has 20 or more years of covered employment (62/20)
- When a member's years of service plus age equals or exceeds 88 (Rule of 88)

Normal retirement age is the age at which a member can begin to receive benefits unreduced by an early retirement penalty. It is not necessarily when a member can draw maximum benefits.

Special Service members may become eligible for benefits earlier. Depending on a Special Service member's job and length of service, the member may be eligible to begin receiving benefits before age 55.



Iowa Code Chapters Governing IPERS

97B: Specific to IPERS

97D: Addresses all Iowa public retirement systems, including the intent for equity among them



Legislature and Governor

Plan sponsors



Public Retirement Systems Committee

Reviews public retirement system policy

GOVERNANCE AND ADMINISTRATION

Legislature and Governor

As Plan sponsors, the Legislature and Governor control IPERS. They establish by statute:

- Contribution rates that regular members and their employers pay.
- Member benefits.
- The public employers and employees that participate in IPERS.

They also oversee the administration of the Plan.

The Legislature and Governor must approve any changes to IPERS' statutes proposed by an IPERS board, administration, or constituency group. The Legislature and Governor also authorize spending from the IPERS Trust Fund for administrative expenses that are not related to investments. They set a cap on the percentage that may be used for investment-related expenses. The Legislature's Administrative Rules Review Committee reviews all administrative rules that are adopted by IPERS to carry out the law.

The Public Retirement Systems Committee, a 10-member, permanent committee of senators and representatives, meets between sessions of the Legislature, typically in the fall. The committee is charged with reviewing policy issues for all of Iowa's public retirement systems, including IPERS.

IPERS Boards

The IPERS Investment Board and the Benefits Advisory Committee oversee IPERS. The Investment Board is designated the Fund's trustee. The Board sets investment policy and oversees the actuarial program. There are 7 voting members – the Treasurer of State, who is the IPERS Fund custodian, and 6 gubernatorial appointments confirmed by the Senate. Legislative leadership appoints the 4 nonvoting legislative members.

The Legislature established the Benefits Advisory Committee to advise IPERS and the General Assembly on benefits and services. The Committee selects its own members from constituent groups representing employers and members specified by statute. A public member also serves on the Committee.

IPERS Administration

IPERS is an independent agency within the Executive Branch of Iowa government. Chief Executive Officer Donna M. Mueller and her staff administer the IPERS Plan established by the Legislature and Governor.



Investment Board

Fund trustee



Benefits Advisory Committee

Advises on IPERS benefits



State Treasurer

Fund custodian



IPERS' Administration

Carries out the law, collects contributions, invests assets, pays benefits



Low Administrative and Investment Expenses

Consider This:

Cost Effectiveness Measurement Inc., a private company that reviews pension systems, found that IPERS' administrative expenses were the lowest among public retirement systems of a similar size. At the same time, IPERS' service was rated high.

– “Defined Benefit Administration Benchmarking Analysis: Iowa PERS,” Cost Effectiveness Measurement Inc., January 7, 2005

THE TRUST FUND AT A GLANCE

IPERS' **total assets** fund its **total liability** to active members, current retirees, and surviving beneficiaries.

The Plan's Total Assets Include...	The Plan's Total Liability Includes...
<ul style="list-style-type: none"> • Employer contributions • Member contributions • Investment earnings 	<ul style="list-style-type: none"> • Benefits earned by active members • Benefits paid to current retirees and beneficiaries • Refunds paid to those leaving IPERS • Costs of administering the Plan

Here's how it works:

- The IPERS Trust Fund, by law, must be used for the exclusive benefit of members. IPERS needs to have enough assets to pay benefits to current retirees and surviving beneficiaries *and* benefits earned by active members.
- As active members work, they earn IPERS benefits, which IPERS pays at retirement (or another qualifying event such as disability or termination of employment).
- Active members contribute to the System while they are working. Employers pay a share of the contributions as part of the total compensation package they provide to employees.
- IPERS is a “prefunded” system, which means that current contributions and income from contributions should cover the *future* retirement benefits of members currently working.
- Federal and state law grants broad investment authority to IPERS. The earnings on these investments (11.25 percent rate of return for fiscal year 2005) provide the largest percentage of income to the Plan.

A Note About Expenses

The Legislature controls what IPERS pays in expenses in two ways:

1. The law caps the amount IPERS can spend on investment expenses. In fiscal year 2005, IPERS spent about one-third less on investment expenses than the law allows.
2. The Legislature authorizes spending from the Trust Fund to pay other administrative expenses.

IPERS closely monitors and negotiates what it pays to investment portfolio managers, does not spend money on costly advertising campaigns, and manages itself with a lean and efficient staff. Limiting administrative and investment management expenses allows IPERS to use its assets to pay out benefits and helps ensure the long-term funding of the Plan.

Myth	Fact
IPERS benefits are not portable.	Members become vested after they accrue 4 years of service or if they reach age 55 while an active (contributing) member, whichever occurs first. Members are always 100 percent vested in their own contributions. When vested members leave IPERS-covered employment before retirement, they may receive, in addition to their own contributions and interest, a portion of their employer's investment based on their years of service. Alternatively, members may roll over their IPERS account to another eligible retirement plan or take a refund upon termination of employment. If a member changes jobs to another IPERS-covered position, the member remains covered automatically.
IPERS is the only retirement benefit a member needs at retirement.	IPERS Plan benefits are only one component of a member's overall retirement savings. Total retirement income will come from a combination of a member's IPERS Plan benefits, Social Security, personal savings, and any other retirement plan benefits.
A member's IPERS benefit and preretirement pay are equal.	IPERS replaces only a portion of an employee's preretirement pay. The maximum benefit regular members can receive is 65 percent of their average salary, provided they meet the 35-year service requirement and are not subject to reductions for early retirement. Special Service members can receive up to 72 percent of their average salary provided they have 30 or more years of service; their benefits are not reduced for early retirement.
IPERS covers only state employees.	IPERS covers several types of employers including schools, counties, cities, and others. The largest percentage of IPERS members is in education.
Iowa taxpayers pay for IPERS.	Employers contribute to IPERS as part of the total compensation package they offer to members. Members contribute to the Plan via salary deductions. Investment income earned from IPERS contributions provides the largest percentage of money that is used to pay benefits. Taxpayers indirectly contribute to IPERS via tax dollars used to support government and the compensation packages of public employees.
IPERS decides which benefits to offer.	The Iowa Legislature determines the amount of benefits IPERS members receive. The Iowa Legislature also determines the contribution rate for regular members, who account for 96 percent of IPERS' membership.
IPERS works like Social Security.	IPERS is a prefunded system – people working today contribute toward a future retirement benefit. The Plan must meet actuarial tests to ensure that it has the funds available to pay retirement benefits to members when they are ready to retire. In theory, Social Security should work in a similar way. However, social security benefits do not need to meet the same rigorous actuarial tests that IPERS does. Consequently, social security benefits are not prefunded.

TIMELINE—WHERE WE'VE BEEN

IPERS has a long and rich history. Here's a look back:

July 4, 1953 – IPERS was founded to supplement Social Security

1954 – **Contributions:** \$14.2 million*
Contribution rate: 7%
Maximum annual taxable wage: \$4,000
Benefits paid: \$3.1 million*
Amount in Trust Fund: \$29.3 million*

1959 – **Contributions:** \$17.4 million*
Benefits paid: \$3.8 million*
Amount in Trust Fund: \$92.9 million*

1950s

1972 – **Total membership:** 120,000*
Contributions: \$50 million*
Retirees and beneficiaries: 19,000*
Benefits paid: \$15.5 million*
Assets: \$442 million*

1976 – **Maximum annual taxable wage:** \$20,000
Contribution rate: 8.25%

1977 – **Contribution rate:** 8.85%

1979 – **Contribution rate:** 9.45%
Assets: \$1.1 billion*

1970s

1960s

1965 – **Active members:** 94,000*
Contributions: \$25 million*
Retirees: 8,000*
Assets: \$193.6 million*

1968 – **Active members:** 105,000*
Maximum annual taxable wage: \$7,000
Retirees and beneficiaries: 11,000*
Benefits paid: \$9.3 million*
Assets: \$272 million*

* Approximate figures

1990 – Active members: 136,000*
Contributions: \$245.9 million*
Retirees and beneficiaries: 49,000*
Benefits paid: \$167.9 million*
Assets: \$4.7 billion*

1997 – No maximum on taxable wages

1998 – Active members: 149,000*
Contributions: \$387.2 million*
Retirees and beneficiaries: 62,000*
Benefits paid: \$402.5 million*
Assets: \$13.7 billion*

1980s

1990s

2000s

1980 – Active members: 152,000*
Contributions: \$151.1 million*
Retirees and beneficiaries: 33,000*
Benefits paid: \$57.6 million*

1987 – Active members: 128,000*
Contributions: \$198.6 million*
Retirees and beneficiaries: 44,000*
Benefits paid: \$128 million*
Assets: \$3.5 billion*

2004 – Contributions: \$506.6 million*
Benefits paid: \$792.9 million*
Assets: \$17.2 billion*

2005 – Active members: 160,905
Covered public employers: 2,388
Contribution rate: 9.45%
Retirees and beneficiaries: 79,604
121 retirees in the “100 and older”
group drawing an IPERS benefit
Assets: \$18.8 billion*



Important!

This booklet briefly explains certain rights and benefits of IPERS membership. It is not a substitute for federal and state laws governing IPERS, which provide complete information and are subject to change. Although IPERS makes every attempt to ensure its materials are accurate and up to date, any conflict between the contents of the booklet and law must be resolved in favor of the law. The Member Handbook provides a more detailed description of IPERS benefits. It is available electronically on the IPERS Web site or in print by contacting IPERS.

AVAILABLE RESOURCES

IPERS offers many resources to help you and your constituents including:

- Web site (<www.ipers.org>)
- Member handbook and benefits summaries
- Employer handbook
- Ongoing newsletters
- Educational brochures
- Fiscal year financial summary
- Comprehensive Annual Financial Report
- Personalized statements
- Individual and group counseling/retirement planning sessions
- Access to knowledgeable representatives

CONTACT US

We're here to help you! If you have questions about IPERS, please don't hesitate to contact us.

IPERS Legislative Liaison

Julie Economaki
515-281-0043
julie.economaki@ipers.org

CEO

Donna M. Mueller
515-281-0070
donna.mueller@ipers.org



By mail

P.O. Box 9117
Des Moines, IA 50306-9117



In person

7401 Register Drive
Des Moines, IA 50321
8 a.m.-4:30 p.m., Monday-Friday



Phone

515-281-0020 or toll-free 1-800-622-3849
7:30 a.m.-5 p.m., Monday-Friday



Fax

515-281-0053



E-mail

info@ipers.org



Web site

<http://www.ipers.org>

