



The LATEST WORD

Fall 2005

FOR IPERS EMPLOYERS

Top national ranking for IPERS' investment returns

An 11.25 percent rate of return on investments earned IPERS a TUCS top-quartile ranking for the state fiscal year that ended June 30. The Trust Universe Comparison Service, better known as TUCS, is an oft-cited benchmarking organization that collects and publishes the investment return and risk measures of U.S. public and private master trust funds.

With current assets surpassing \$19 billion, IPERS also ranked in the top quartile in TUCS Universe of Public Pension Funds with Assets Greater than \$1 Billion for its ten-year return.

"IPERS' success is due to its highly qualified professional staff, effective asset allocation, and careful selection and monitoring of portfolio manag-

ers," said Bruce Kelley, chairperson of the IPERS Investment Board.

Kelley also noted that IPERS is a continuing organization that can take advantage of its massive assets to focus longer-term. That allows IPERS to maximize investments and lower transaction costs on behalf of its members in a way that an individual investor cannot.



Bruce Kelley, chairman of the IPERS Investment Board, is the president and CEO of EMC Insurance Companies.

"A person works from about age 20 to age 65, and typically starts out with debt and acquires assets later," explained Kelley. "Within that time frame, as retirement nears, more dynamic assets like stocks are exchanged for more

stable assets like bonds, which in turn increases transaction costs."

Donna M. Mueller, CEO of IPERS, said the returns don't erase the need for increased contributions to IPERS

IPERS' assets surpass \$19 billion.

from Iowa's public employees and their employers. Mueller has advised the Iowa Legislature, which sets policies for IPERS, to increase contributions.

"I'm proud of our performance. Unfortunately, our success can't alter the reality that retirement costs are increasing," said Mueller. "The workforce is aging. The age of public employees who join IPERS is increasing. Retirees are living longer. Our investments are successful, but we must have adequate contributions to invest."

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IPERS

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- Chief Benefits Officer Appointed





From Donna M. Mueller, CEO: Reinventing retirement



Some say retirement is obsolete. People even propose changing retirement's name. Baby boomers are ready to trade in old philosophies

and old perceptions. They want a fresh, energetic substitution for retirement—a reinvention—to reflect an active time of changing priorities, interests, and careers.

Nearly 70 percent of older employees plan to continue working.

I'm a boomer, but I'm not sure I want to give up on retirement. I look forward to trading in my everyday routine of work for something else. I like to daydream about sleeping late and wearing flip-flops—all day if I want to. Yet, as I get closer to retirement, reality creeps in and I realize the truth behind the advice I found in a fortune cookie, "Retirement does not mean quitting life."

According to AARP, nearly 70 percent of workers within 5–10 years of retiring plan to continue working at least part-time, or to never retire at all. The top reason is a need for money. However, more than two-thirds also want to work to stay active, be useful, and have fun. Almost half foresee working into their 70s or beyond.

So how is retirement being reinvented?

Retirement may include second careers in a different field. It may involve returning to school to learn a new trade. It may involve part-time work. It could include phased retirement, gradually decreasing work hours before full retirement.

Reinventing retirement will require us to reexamine laws and other policies governing returning to work after retirement. We'll have to talk about when pensions should be paid and when benefits should be suspended.

We'll need to revisit public opinion against double dipping—receiving a government pension and holding a government job. We'll have to look at the impact on the workforce, and the impact on younger workers trying to advance their careers. We'll need to look at disincentives to phased retirement.

Finally, we'll need to look at increased costs to the retirement plan. Normally, the plan assumes that when a member retires, that person is removed from the role of a contributor

Future retirements may be phased in.

and replaced by a younger member who will contribute to the plan for many years during the member's entire working life. When this doesn't happen, costs increase. We'll need to discuss how these costs will be covered and who will pay.

One advantage of a defined benefit plan like IPERS is that retirement income is stable and predictable. This gives people an important piece of information as they explore retirement alternatives.

Paying pensions to people who are working costs employers.

Future retirees, employers, and policymakers will need to explore how continued work affects Social Security, IPERS benefits, and other retirement plans. They'll need to become familiar with IRS rules that impact earnings. They will learn about how the bona fide retirement period affects employee behavior, human resource needs, and pension plan funding. The bona fide retirement period is a required break from employment intended to demonstrate that employees are ready to draw retirement benefits because they are serious about retiring.

Articles included in this issue speak to the current rules that govern IPERS' retirees who want to work and draw their benefits. IPERS' return-to-work provisions are lenient compared to other plans' provisions. There are no limits if the employer is not a public employer covered by IPERS. The bona fide retirement period is only four months long. After that, a retiree may return to work, even for a public employer, and still receive IPERS benefits. Working within these rules we can reinvent retirement for retirees who have a desire to continue in public service.

Fall legislative committee to plan for 2006 session

The Public Retirement Systems Committee, a permanent ten-member legislative committee that works between sessions of the Legislature, plans to meet November 2 and 3. The committee is charged with reviewing policy issues for all of Iowa's public retirement systems, including IPERS.

The committee is expected to discuss contribution rates and other ways to address rising retirement costs, including benefit cuts and alternative retirement plans.

Public Retirement Systems Committee

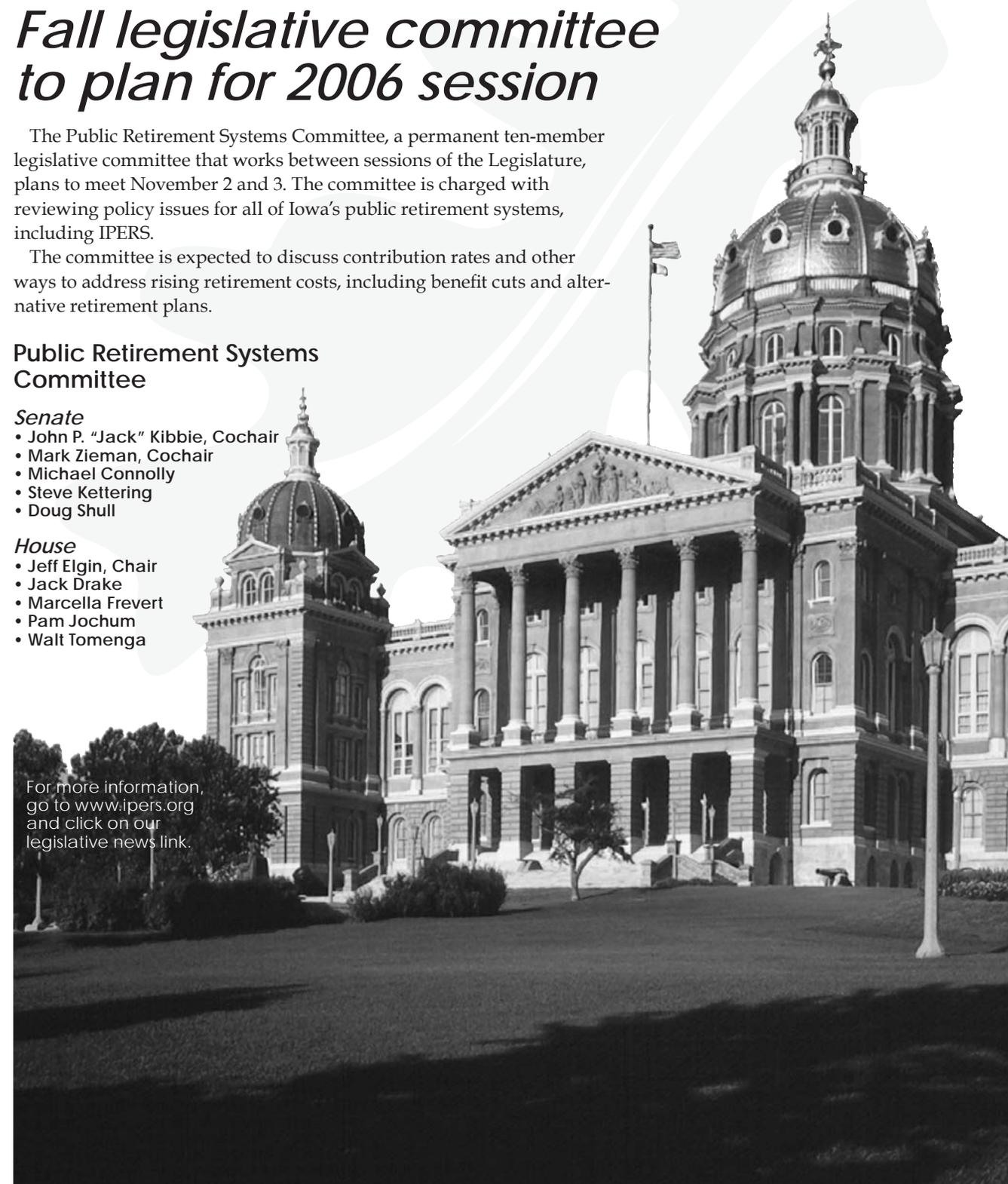
Senate

- John P. "Jack" Kibbie, Cochair
- Mark Zieman, Cochair
- Michael Connolly
- Steve Kettering
- Doug Shull

House

- Jeff Elgin, Chair
- Jack Drake
- Marcella Frevert
- Pam Jochum
- Walt Tomenga

For more information, go to www.ipers.org and click on our legislative news link.



IPERS gets high marks across the board

- About 96 percent of 237 public employers surveyed feel the overall value of IPERS is very good or excellent.
- More than three-fourths of employers said offering the pension plan as part of their employee benefit package is helpful in recruiting and keeping good employees.
- Over 98 percent of 1,068 IPERS members taking part in the survey rated IPERS' overall performance as very good or excellent.
- Awareness of IPERS benefits and funding was lower than satisfaction.
- IPERS board members and staff plan improvements in response to the survey findings, including additional outreach to employers.

Iowa's public officials and employees are happy with the performance of IPERS, according to a 2005 survey conducted by T.L. Grantham and Associates, a Des Moines-based marketing and research firm.

"It is imperative that IPERS be understood as an employee benefit for hiring and retaining a quality workforce in our schools," said Len Cockman, human resource services director for the Iowa Association of School Boards. "On the first day of employment, school district employees begin a lifelong benefit that will improve their quality of life after retirement."

About 96 percent of 237 public employers surveyed feel the overall value of IPERS is very good or excellent. More than three-fourths of the employers said offering the pension plan as part of their employee benefit package is helpful in recruiting and keeping good employees.

Those employees include teachers, school bus drivers, police officers, firefighters, correctional officers, conservation officers, snowplow drivers, social workers, nurses, and many others who deliver essential services to Iowans.

Employers weren't alone in their satisfaction. Over 98 percent of 1,068 IPERS members taking part in the survey rated IPERS' overall performance as very good or excellent. The survey participants were a representative sample of retirees and current public employees who are contributing to IPERS.

Elected officials, who also take part in the IPERS retirement plan, reported high levels of satisfaction as well. Over 95 percent of 126 elected officials

surveyed rated the overall value of IPERS as very good or excellent. Over 88 percent of elected officials rated IPERS' performance as very good or excellent. Elected officials covered by IPERS include legislators, county supervisors, city council members, and school board members.

"We are proud of the results, but we still have work to do," stated Donna

"It is imperative that IPERS be understood as an employee benefit for hiring and retaining a quality workforce in our schools."

*Len Cockman
Human Resource Services Director
Iowa Association of School Boards*

M. Mueller, the CEO of IPERS.

All groups gave IPERS high ratings on service and benefits, trustworthiness, accountability, accessibility, value, and performance. However, survey participants rated their awareness of IPERS benefits lower.

"This study indicates where there are gaps in knowledge and understanding of benefits and where employers can work with IPERS to ensure employees understand its long-term value," noted Cockman. As a member of the Benefits Advisory Committee, Cockman advises the Legislature and IPERS' administration about benefits.

Respondents in all groups were most aware of the IPERS monthly

pension. They were less aware of disability and death benefits that are part of the retirement plan.

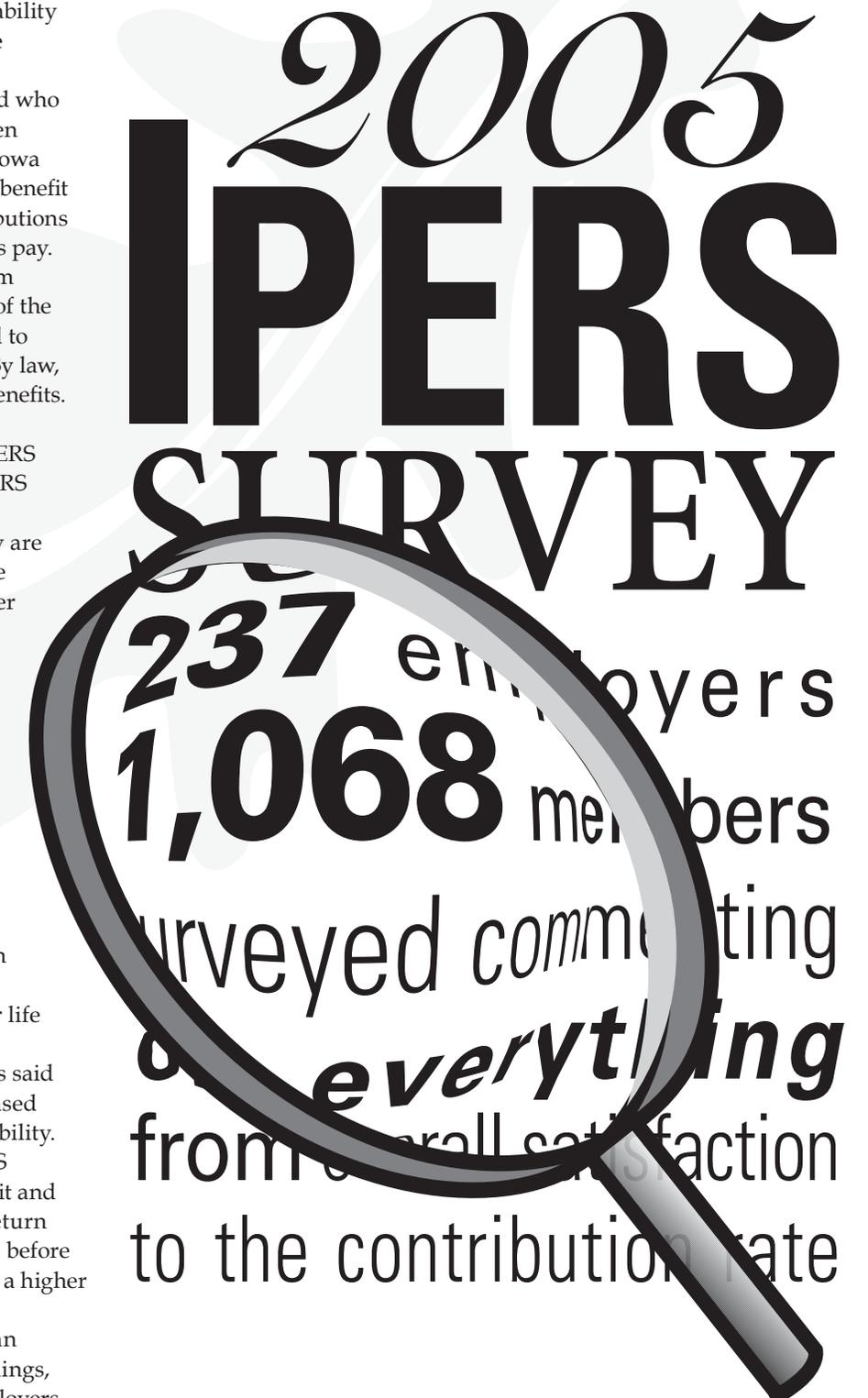
Awareness of how IPERS works and who makes decisions about IPERS was even lower. IPERS is a public agency. The Iowa Legislature and Governor decide the benefit plan that IPERS offers and the contributions public employees and their employers pay. IPERS is funded by contributions from employees, public employers as part of the total compensation package provided to employees, and investment income. By law, money must be held in trust to pay benefits.

Although only 44 percent of public employees who currently pay into IPERS reported they were aware of why IPERS asked the Legislature to increase the contribution rate, 68 percent said they are willing to contribute more to keep the guaranteed monthly benefits. A higher percentage of employers, almost 89 percent, were aware of why IPERS was asking for a contribution rate increase.

Of elected officials, over 72 percent said they were aware that IPERS asked the Legislature for the increase to address rising normal costs and an increasing unfunded actuarial liability. The unfunded actuarial liability is an indicator that contributions are not keeping up with the pensions earned by an increasing number of future retirees with longer life expectancies.

Sixty (60) percent of elected officials said the contribution rate should be increased to address the unfunded actuarial liability. A minority of respondents said IPERS should take other actions, such as wait and do nothing, use higher risk/higher return investments, look into all alternatives before changing, or have employees pick up a higher percentage of the contributions.

IPERS board members and staff plan improvements in response to the findings, including additional outreach to employers.



For Your Planner

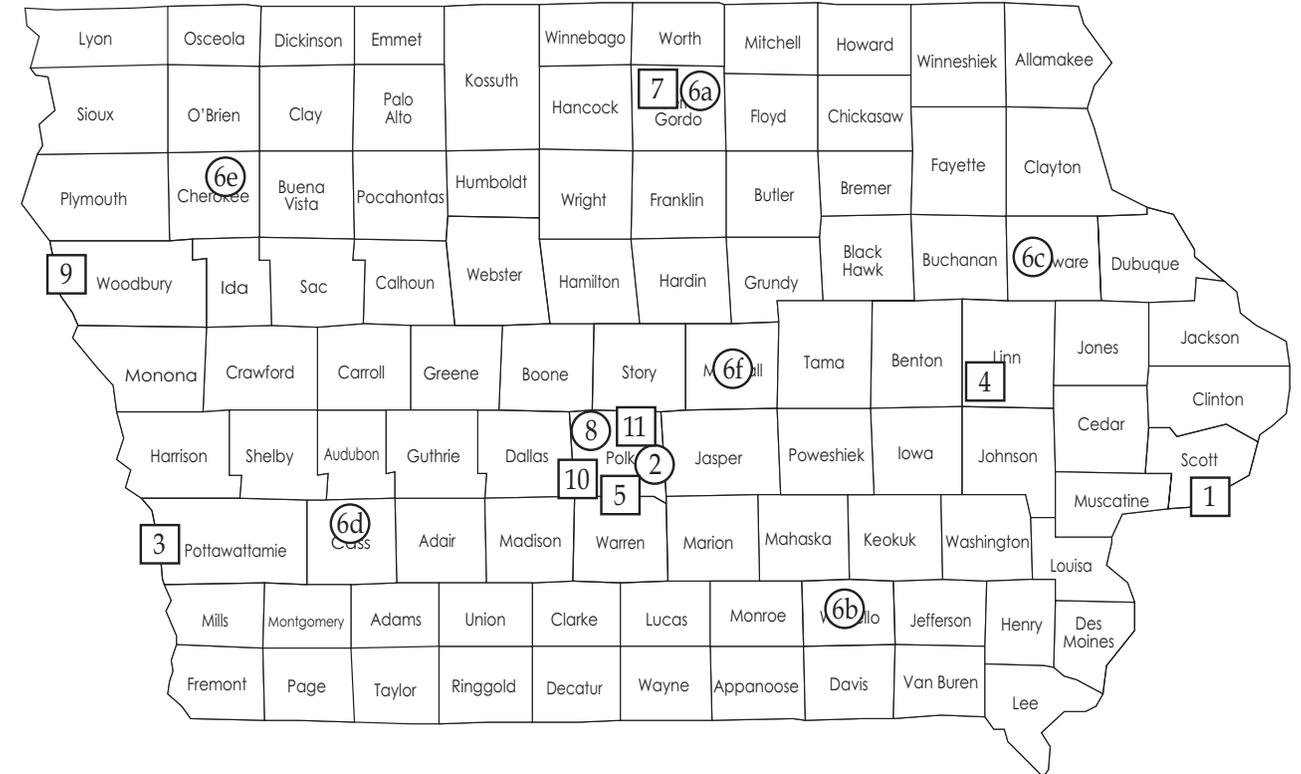
2005

- 1 **BETTENDORF—OCTOBER 24-27**
Mississippi Bend AEA
729 21st Street
Member education: Overview of IPERS
October 24, 6:30 p.m. (No appointment needed)
Individual member retirement consultations
October 25-27 (Call IPERS at 1-800-622-3849 to make an appointment)
- 2 **DES MOINES—OCTOBER 25, 1 p.m.-4 p.m. OR
—OCTOBER 26, 9 a.m.-noon**
IPERS Office
7401 Register Drive
Employer training for new IPERS reporting officials
- 3 **COUNCIL BLUFFS—OCTOBER 31-NOVEMBER 3**
Public Library
400 Willow Avenue
Member education: Overview of IPERS
October 31, 6:30 p.m. (No appointment needed)
Individual member retirement consultations
November 1-3 (Call IPERS at 1-800-622-3849 to make an appointment)
- 4 **CEDAR RAPIDS—NOVEMBER 14**
Grant Wood AEA
4401 Sixth Street, SW
Member education: Overview of IPERS
6:30 p.m. (No appointment needed)
- 5 **DES MOINES—NOVEMBER 17**
Polk County Convention Complex
501 Grand Avenue
IPERS presentation and booth at Iowa Association of School Boards Convention

NOVEMBER 29-DECEMBER 13
IPERS participation in Iowa League of Cities' Budget Workshops

- 6a **MASON CITY—NOVEMBER 29**
Hanford Inn
3041 Fourth Street, SW
Highway 122 West
- 6b **OTTUMWA—DECEMBER 1**
The Hotel Ottumwa
107 East Second Street
- 6c **MANCHESTER—DECEMBER 6**
Manchester Golf Club
18175 222nd Street
- 6d **ATLANTIC—DECEMBER 7**
Cass County Community Center
805 West Tenth Street
- 6e **CHEROKEE—DECEMBER 8**
Cherokee Community Center
530 West Bluff Street
- 6f **MARSHALLTOWN—DECEMBER 13**
Iowa Valley Continuing Education
Conference Center, Marshalltown
Community College
Highway 14 South
(one-quarter mile south of Highway 30)

- 7 **MASON CITY—DECEMBER 5-8**
North Iowa Area Community College
500 College Drive, Activity Center
Member education: Overview of IPERS
December 5, 6:30 p.m., Room 101 (No appointment needed)
Individual member retirement consultations
December 6-8, Rooms 212 and 213 (Call IPERS at 1-800-622-3849 to make an appointment)
- 8 **WEST DES MOINES—DECEMBER 12-13**
Sheraton Hotel, 1800 50th Street
IPERS information at Iowa State Sheriffs and Deputies Association Conference



2006

- 9 **SIOUX CITY—JANUARY 23-26**
Convention Center
801 Fourth Street
Member education: Overview of IPERS
January 23, 6:30 p.m., Room 2
(No appointment needed)
Individual member retirement consultations
January 24-26, Rooms 4 and 5 (Call IPERS at 1-800-622-3849 to make an appointment)
- 10 **DES MOINES—JANUARY 26 OR
—MARCH 16 OR
—APRIL 13**
IPERS Office
7401 Register Drive
Member education for those 1-3 years from retirement
Ready, set, retire: Information from Social Security, Medicare, Medicare supplements, long-term care, deferred compensation, and IPERS
8:30 a.m. (Call IPERS at 1-800-622-3849 to register)
- 11 **DES MOINES—MAY 18**
IPERS Office
7401 Register Drive
Member education for those 3 or more years from retirement
Long-range retirement planning: Financial information from Social Security, financial counselors, deferred compensation, and IPERS
8:30 a.m. (Call IPERS at 1-800-622-3849 to register)



Independent contractor or employee?

For workers to have the right pension coverage, their employers must classify them correctly as an employee or independent contractor. IPERS' employer relations team evaluates employer-employee relationships during compliance reviews, often at the request of the employer or worker.

IPERS asks the parties involved to complete a *Determination of Employee/Independent Contractor Status* form, available on IPERS' Web site. Although IPERS uses a different form than the IRS, both elicit similar facts for use in deciding. The facts fall into three main categories: behavioral control, financial control, and the perceived relationship of parties. In each case, it is very important to consider all the facts—generally no single fact provides the answer.

Behavioral control factors indicate a right to direct or control how the worker does the work. Instruction and training are two examples of behavioral control. "Instruction" includes, but is not limited to, telling the person how, when, or where to do the work; what tools or equipment to use; what assistants to use to help with the work; and where to purchase supplies or services. "Training," as it relates to required procedures and methods, indicates that the business wants the work done in a certain way. These examples support employee/employer relationships.

Financial control factors also indicate control over the business part of the work.

There is no precise dollar test, but a significant personal investment in a product or tools used to perform the work points to an independent contractor. Unreimbursed business expenses are indicative of an independent contractor relationship. Having an opportunity for profit or loss also suggests an independent contractor relationship.

Relationship of the parties factors illustrate how the business and the worker perceive their relationship. Employee benefits received, such as insurance, pension, or paid leave, indicate an employee relationship. Written contracts stating what both

parties intend as a relationship may be very significant if it is difficult to determine status as either independent contractor or employee. However, a contract stating a particular intention does not itself determine a worker's status if the other factors do not support the intended relationship.

Several years ago, IPERS determined teachers and superintendents could not meet the requirements of Iowa law if hired as independent contractors. An informal opinion from the Iowa attorney general's office supported this determination.

There are two primary reasons for this conclusion. First, the statutory requirements that govern school districts' contract provisions with teachers and school administrators require school districts to have a degree of control that makes teachers and supervisors common-law employees, regardless of the independent contractor label. Second, the delegation of essential governmental functions like these to private entities or persons is strictly limited in Iowa.

If you question whether your organization is covering a worker in the correct status, please complete the *Determination of Employee/Independent Contractor Status* form, available under the "Employer Forms" section of IPERS' Web site or by calling IPERS' toll-free number (1-800-622-3849). Please include any written contacts or relative information that may assist in the process.



Q&A Returning to work after a bona fide retirement

Q. What is a bona fide retirement?

A. A bona fide retirement is the period of time a retiree must stay out of employment before returning to work for an IPERS-covered employer.

Q. How long is the bona fide retirement period?

A. A retiree cannot work for any covered employer for one month, and must stay out of covered employment for an additional three months, which is a total of four months.

Q. Does a retiree's bona fide retirement start with the day he or she retires?

A. No. The bona fide retirement period starts with the first day of the first month a retiree receives benefits. This month is also known as the first month of entitlement.

Q. What if a retiree wants to work for a covered employer but doesn't want to return to covered employment? For example, the retiree wants to substitute teach or be hired for other temporary employment.

A. If a retiree returns to work in a position that is not covered by IPERS, such as a substitute teacher or a temporary employee, then the retiree needs only complete a one-month bona fide retirement period. The retiree will need to check with his or her employer, because not all substitute teachers are exempt from IPERS coverage.

Q. Are there any other positions that do not have a four-month bona fide retirement period?

A. Yes. A licensed health care professional only has a one-month bona fide retirement period. There is no bona fide retirement if a retiree goes to work for a noncovered (private) employer.

Q. What if a retiree wants to return to work as an independent contractor?

A. Independent contractors do not need to complete a bona fide retirement period. However, the employer needs to complete a *Determination of Employee/Independent Contractor Status* form for a written formal determination from IPERS. Some independent contractors are really employees.

Q. Are there any other exceptions to the bona fide retirement period?

A. Yes. Part-time elected officials may retire and retain their office without violation of the bona fide retirement rules if they notify their employer and IPERS in writing of their intent to retire and terminate membership for their employment as an elected official. They must have a bona fide termination of *all other IPERS-covered employment*. An exception also exists for members age 70 and older. A member who has reached age 70 may start to receive benefits without retiring and completing a bona fide retirement.

Q. What if a retiree returns to covered employment before the bona fide retirement is completed?

A. If a retiree violates these provisions, the retiree's application will be canceled and he or she will be required to repay all retirement benefits received to date plus interest. Members and employers should be keenly aware that a retiree is also in violation of these provisions if the retiree enters into a contract to return to employment (verbal or written) prior to completing the one-month bona fide retirement.

Q. Is there a limit on the amount of wages a retiree can earn if the retiree returns to work for an IPERS-covered employer?

A. Yes. The current earnings limitation for retirees under age 65 is \$30,000 per calendar year if working for an IPERS-covered employer. There is no limit on earnings if the retiree is age 65 or older, an independent contractor, or is working for a private employer.

Q. If employees need more information or have further questions about their specific situations, should they talk to their employer or call IPERS?

A. The only people members should talk to about IPERS' rules and regulations are IPERS representatives. Please direct your employees to contact our office at 1-800-622-3849 and a representative will help with any questions they have.

Services for employers

The employer relations team was designed to help you meet your IPERS responsibilities. In addition to answering your questions by telephone or e-mail, we offer the following services. All are free.

New Reporting Official Training

Training sessions in April and October are for new reporting officials or those who have never been to IPERS training. All your reporting responsibilities are covered—from the basics of quarterly reporting, to more complex procedures for optional coverage and temporary employment. You'll become familiar with IPERS' laws and procedures for wage and benefit coverage, and learn where to go for answers. You'll receive materials the day of the session that you can take with you for future reference.

The next training classes will be October 25 and 26. Notices were previously mailed to all employers. If we have space available, we can accept registrations up to the date of the class. Call us to see if we have space available.

Annual Update Training

A June training session is designed for all reporting officials. It is held in many locations around the state and at IPERS in Des Moines. It's an opportunity to find out what new laws have been passed, what procedural

changes will mean to you, and the important information you need to know to do your job effectively. Watch the mail and the IPERS Web site for registration information.

Compliance Reviews

Although a compliance review contains elements of an audit, it is also a training session customized especially for you and the IPERS issues you deal with daily. It is an excellent opportunity to ask questions about specific problems or concerns you may have and receive assistance in how to resolve them. Requesting a compliance review is easy! Just call a member of the employer relations team. We will contact you to schedule a review once we know the next time we will be in your area.

Special Presentations

We give presentations at organizational conferences, such as the Iowa Association of School Business Officials, Iowa League of Cities, and Iowa Association of Counties. If your organization would like us to come to your next conference, call us to set up a date.



If you are not able to attend any of our training sessions, we are always available to assist you by telephone or e-mail. Just call us!

David Martin appointed chief benefits officer



David Martin
Chief Benefits Officer

IPERS CEO Donna M. Mueller appointed David Martin chief benefits officer following a national search.

Mueller noted that Martin's expertise is needed in this position at a critical time.

"IPERS will have an increasing number of baby boomers entering retirement," stated Mueller. "David has a rare combination of skill in managing services and an understanding of retirement plan funding, actuarial science, and pension policy."

As the chief benefits officer, Martin is responsible for administering retirement, disability, and death benefits for the

retirement plan's 300,000 members. Martin also will work with over 2300 public employers that participate in IPERS.

"Our retirees depend on us. It is essential that we pay pensions on time and in the correct amount," noted Martin. "However, it is also important that all members are happy with our services."

According to Martin, employers also need to feel they are getting a good value from IPERS.

"We must make sure

employers recognize that employees value a solid pension," stated Martin. "IPERS is an employee benefit that can help public employers recruit and keep top talent."

Martin started working for IPERS in 1988. For the past decade, he has supervised retirement education and other benefit services. He replaces Greg Cusack, who retired last year.

IPERS will come to you

Provide your staff the information they need to understand their benefits and make wise retirement decisions. IPERS offers employers the opportunity to provide their staff important information regarding their retirement, death, and disability benefits. We provide presentations for new hires, members 5-10 years from retirement, and those nearing retirement.

Is your agency offering an early retirement incentive? IPERS can help make the incentive successful with group presentations and on-site individual consultations.

To schedule a presentation or individual consultations at your location, call 1-800-622-3849 and ask to speak to Pam or Ronda.



The Latest Word is published quarterly by the Iowa Public Employees' Retirement System for participating employers and others interested in IPERS policy and funding.

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www.ipers.org
(Select the Employers tab)

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(7:30 a.m. to 5 p.m.)
515-281-0020
1-800-622-3849
(Ask for a member of the Employer Relations Team)

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Top national ranking for IPERS' investment returns

IPERS placed in the TUCS top quartile for its FY2005 investment returns. Read more on page 1.

IPERS' Investment Returns as of June 30, 2005 With Benchmarks

	One Year	Three Years ¹	Five Years	Ten Years
IPERS' Return	11.25%	10.15%	3.89%	9.93%
Actuary's Assumed Return	7.50%	7.50%	7.50%	7.50%
CPI + 3%	5.52%	5.63%	5.44%	5.46%
Median-TUCS Universe of Public Funds > \$1 Billion	9.95%	9.71%	3.49%	9.00%
IPERS' Policy Benchmark²	10.76%	10.49%	3.97%	9.05%

¹ Returns for periods longer than one year are annualized.

² A benchmark comprised of allocations to passively managed investments (index funds) that reflect IPERS' asset allocation targets.