



Fall 2004

# The LATEST WORD

FOR IPERS EMPLOYERS

## IPERS

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### BULLETIN SUMMARY

IPERS bulletins are the primary means we use to inform employers of changes in IPERS' legal requirements. IPERS issued these bulletins during the last quarter:

**IPERS Employer Bulletin 2004-1**

Legislative Changes Affecting Sheriffs and Deputies  
Effective July 1, 2004

**IPERS Employer Bulletin 2004-2**

Legislative Changes Affecting Airport Firefighters  
Effective July 1, 2004

**IPERS Employer Bulletin 2004-3**

Legislative Changes Affecting Licensed Health Care Professionals  
Effective July 1, 2004

Copies of the bulletins are on the IPERS Web site, [www.ipers.org](http://www.ipers.org). Click on the "Employers" tab and then open the "Employer Publications" page.

## Riskier equity market produces strong IPERS investment returns

by Kathy Comito, Chief Investment Officer

**T**he more robust equity markets experienced in late 2003 and early 2004 are reflected in IPERS' strong 13.78% return for fiscal year (FY) 2004.

For the ten-year period that ended June 30, 2004, IPERS ranks at the 27th percentile, or the high second quartile, in a commonly cited universe of large public pension funds.

For FY2004, all of the asset classes in which IPERS invests provided positive returns. Strongest returns for the year were obtained from:

- International equity at 31.92%
- Private equity at 20.77%
- Domestic equity at 20.16%

Equity markets typically produce the highest returns, but they also carry the most risk. IPERS uses a balanced investment portfolio, including a significant allocation to bonds, to manage overall risk.

Investing in only high-risk markets is not prudent. While for FY2004 IPERS' bond portfolio had a return of just 1.71%, much less than the returns on our equity assets for that year, during the bear market years of 2000-2002, it was this bond allocation that provided stronger returns and helped to offset negative equity returns.

*Read what the returns mean on page 2 >>*

### IPERS' INVESTMENT RETURNS AS OF JUNE 30, 2004

*in comparison with the System's peer group and several formal investment objectives*

	1 Year	3 Years <sup>1</sup>	5 Years	10 Years
<b>IPERS' Return</b>	13.78%	4.52%	4.23%	10.27%
<b>Median Return - Large Public Pension Fund Universe<sup>2</sup></b>	15.88%	4.22%	3.66%	9.80%
<b>Inflation Rate +3%<sup>3</sup></b>	6.27%	5.15%	5.68%	5.51%
<b>Actuarial Return Assumption</b>	7.50%	7.50%	7.50%	7.50%

<sup>1</sup> Returns for periods longer than 1 year are annualized.

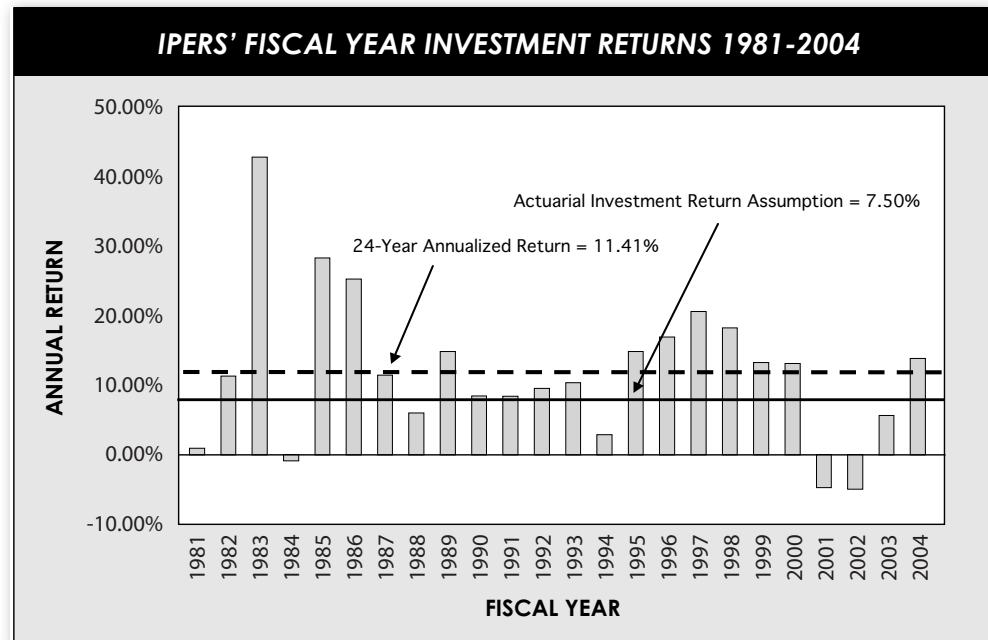
<sup>2</sup> Trust Universe Comparison Service's Public Funds Greater than \$1 Billion Universe.

<sup>3</sup> Inflation as measured by the Consumer Price Index.

## WHAT THE RETURNS MEAN FOR IPERS

The FY2004 total IPERS return represents slightly more than a 6% margin above the actuary's 7.50% per year return assumption. This excess return will slightly improve IPERS' funded status by reducing the deferred losses from previous years. However, the excess return will not eliminate the need for the contribution rate increases recommended by our actuary. In her most recent (FY2003) report on IPERS' funded status, our actuary has determined that:

- An FY2004 return of approximately 16%, or returns of approximately 11% in both FY2004 and FY2005, would be required just to wipe out IPERS' \$1.2 billion of deferred investment losses from the 2000-2002 bear market



years. Deferred investment losses occur because IPERS' actuary uses a multi-year smoothing method to reduce the year-to-year volatility of investment returns.

- Returns of approximately 11% **every year** from FY2004 through FY2014 would be required to eliminate the need for contribution rate increases.

## Improved investments only part of IPERS' financial picture

CEO says contribution rates, unchanged from 1979, must increase

**B**ecause the 13.78% rate of return on investments made last year does not alone preserve the System's long-term financial health, Donna Mueller, CEO of IPERS, is again asking for contribution rate increases. Contribution rates have not changed since 1979.

Without increases, projections show that by the year 2031, IPERS' funded ratio of assets to liabilities will likely drop to less than half.

IPERS' unfunded actuarial liability--the amount by which future benefits and expenses, minus future contributions, will exceed

assets--had grown to an estimated \$1.867 billion by FY2003. The downturn of the stock market over the past several years, longer life expectancies, benefit changes, and the unchanged contribution rates contributed to the unfunded liability.

Citing that the longer rate increases are delayed, the more the debt will grow, Mueller has again asked for support for the increases from the IPERS Benefits Advisory Committee (BAC). The BAC includes representatives from employers, employees, and retirees, and is tasked by law to advise the Legislature on

IPERS' benefits and contribution rates.

Last year Mueller and the BAC asked the Iowa Legislature to increase rates a combined 1 percentage point in each of the next four years. The committee used an asset-liability study to develop its recommendation for rate increases. The Legislature did not approve the increases.

Although current pensions are safe, Mueller says that rate increases, combined with continued good investment performance, are the only responsible way to put IPERS back into long-term financial balance.

**CEO LETTER**

# **Standing up to standards**

Donna M. Mueller, CEO



You don't need me to tell you the past few years have been tough for public agencies!

You already know that policymakers

and administrators have had to prioritize not between important and unimportant programs, but among the essential. Personnel directors have laid off hardworking, dedicated public employees. Remaining employees have struggled to pick up the load.

Resources declined while the high expectations of the public and those you serve remained.

As a public agency, you must achieve no matter the circumstances. You must be accessible to those you serve and you must be accountable to all.

Unlike other benefit providers you may have, IPERS is a public agency. As a public agency, IPERS should be held to the same standards for accessibility, accountability, and achievement that you are.

Accessibility, accountability, and achievement summarize my philosophy as a public pension executive. These words reflect my commitment to the public employees and retirees who are members of IPERS and the public employers who make this retirement plan work. Accessibility, accountability, and achievement are reflected throughout our strategic plan because they are critical during good times and bad.

Please share this newsletter with your administrators, managers, personnel offices, boards, and others to whom IPERS needs to be accessible and accountable. Please let me know what we can do to keep you better informed about our achievements.

**ACCESSIBILITY**

- Making information easy to obtain
- Providing information that is easy to understand
- Providing 24/7 access for employers and members through the Internet

**ACCOUNTABILITY**

- Reporting on finances
- Reporting on performance
- Proposing contribution rate increases when necessary to maintain the long-term financial health of the System

**ACHIEVEMENT**

- Meeting performance standards
- Keeping administrative costs down
- Providing a benefit that is valued to help employers recruit and retain good employees

**THE INSIDE WORD**

From Employer Relations Coordinator Curt R. Sorteberg

**E**mployers are critical stakeholders in IPERS. Not only do retirement services provide an essential employee benefit, you also do the important work of submitting wage reports and contributions.

We are making some changes in this newsletter to improve communications with you and to encourage dialogue on important issues. We are working to improve the newsletter's appearance and readability. We want to include more

content that will be helpful to you in understanding IPERS, such as profiles on staff members. We want to understand your needs better. We also plan to feature employer staff members who assist us and provide other information you may find helpful. While we will continue to include announcements and short articles on compliance issues, the employer bulletins are now the primary vehicle we use to inform you of changes in legal requirements.

Two years ago, we changed the name of the Compliance Team to Employer Relations. Even though compliance is still our primary responsibility, our goal is to encourage voluntary compliance to a maximum extent. We welcome your suggestions on how we can improve our services to you, and we appreciate your cooperation in providing fair and equitable retirement benefits for your employees who are IPERS members.

## HELP DESK

# Questions?

### IPERS LAW AND PROCEDURES

Linda Guffey  
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[linda.guffey@ipers.org](mailto:linda.guffey@ipers.org)  
Pat Frette  
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[pat.frette@ipers.org](mailto:pat.frette@ipers.org)  
Danielle Huffine  
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[danielle.huffine@ipers.org](mailto:danielle.huffine@ipers.org)

### WAGE ADJUSTMENTS

Melinda Rushing  
515-281-0033  
[melinda.rushing@ipers.org](mailto:melinda.rushing@ipers.org)

### WAGE REPORTING, PAYMENTS, AND YOUR ACCOUNT

Monica McAninch  
515-281-0091  
[monica.mcaninch@ipers.org](mailto:monica.mcaninch@ipers.org)

### ICON

Use the ICON system to reach IPERS or contact one of the people below.

#### Enrollment, passwords, and log-on

Melinda Rushing  
515-281-0033  
[melinda.rushing@ipers.org](mailto:melinda.rushing@ipers.org)

#### Wage reporting transactions

Monica McAninch  
515-281-0091  
[monica.mcaninch@ipers.org](mailto:monica.mcaninch@ipers.org)

E-mail: [employerrelations@ipers.org](mailto:employerrelations@ipers.org)  
Fax: 515-281-0053  
Web site: [www.ipers.org](http://www.ipers.org)

THE HELP DESK INCLUDES RESOURCES, FREQUENTLY ASKED QUESTIONS, AND HELPFUL HINTS.

## Employer training for new reporting officials

October 12 & 13, 2004  
IPERS Office  
7401 Register Drive  
Des Moines

This training is intended for those new to IPERS reporting official positions and those who have never attended training before. Registration forms were sent at the end of August by e-mail to

those enrolled in ICON, and were included in the quarterly packets for everyone else. You may access additional registration forms on the IPERS Web site ([www.ipers.org](http://www.ipers.org)) by clicking on "Employer Publications" and looking under the list entitled "Special Notices." A map to IPERS is on the Web site under "About IPERS."

Hope to see you there!

## Employer reporting officials pleased with training

Over 83 percent of employer reporting officials attending IPERS legislative training said they were pleased with the results. The training, held in June across the state, was on law changes made by the Iowa Legislature during its 2004 session.

Of the 527 wage-reporting officials who attended, 439 said they were "satisfied" or "very satisfied" with the training.

Holding separate sessions for different types of employers was the most frequently

suggested improvement.

Linda Guffey, Employer Relations Team Leader, explained that IPERS has not provided separate classes because the numbers attending training have not made it cost-effective.

"We are looking at how to make future training the most relevant for those who attend," said Guffey. "We may be able to adjust the agenda to present general topics together, and present topics that apply to only a few afterwards."

**HELP DESK**

# **Q** Are the wages of high school and college students subject to IPERS?

**A** IPERS rules exclude high school and lower-grade students from IPERS coverage. Therefore, these students are not eligible for IPERS coverage until they have graduated from high school.

Upon graduation, these employees are eligible for IPERS coverage, subject to IPERS' other coverage rules. For example, even after graduation, employment expected to last less than 6 months would be considered temporary employment and not IPERS-covered, unless the employee makes \$300 or more in 2 consecutive quarters. In that case, the employee qualifies for IPERS coverage in the following quarter during which wages are earned. If you have questions about IPERS coverage for temporary employees, please contact a member of IPERS'

Employer Relations Team.

If the employment is permanent and part-time, the high school student is eligible for coverage immediately upon graduation.

Coverage for college students differs. There are two parts to this coverage rule:

- 1) College students employed anywhere other than where they are going to school are NOT excluded from IPERS coverage, and are eligible for IPERS under the coverage rules of other new hires.
- 2) College students employed by the college where they are enrolled MAY be excluded from IPERS, depending on whether the college employs them on a full- or part-time basis. Specifically, college

students employed full-time by the school where they are enrolled are NOT excluded from IPERS coverage. However, college students who work part-time for the school where they are enrolled are excluded from IPERS coverage. These coverage rules apply to both full- and part-time students.

Before 2002, IPERS' rules excluded more college students from coverage than they do now. IPERS changed the rules because of the growing number of employed adults enrolling in college classes.

If you have any questions about student coverage, or need to make a correction for wages reported incorrectly, please contact a member of IPERS' Employer Relations Team for assistance.

## **Call IPERS for answers to coverage questions**

Advice from others may be wrong

According to reporting officials who have learned the hard way, IPERS reporting errors can occur if you listen to coverage advice from an accountant, auditor, payroll agency, or other party not directly associated with IPERS. This advice may be wrong!

Do not accept coverage advice from anyone other than IPERS staff. No one else is authorized to interpret IPERS rules and regulations.

Call the IPERS Employer Relations Team with questions about IPERS coverage for different types of employees and compensation

arrangements. Besides answering general questions by telephone and e-mail, the team routinely reviews cafeteria plans and employment contracts regarding IPERS issues.

Please contact the Employer Relations Team for help with IPERS coverage questions.

## IPERS rates high on service, low on costs

Iowa's public employers are supporting a pension system that is performing well, according to a review by Cost Effectiveness Measurement, Inc. (CEM), a private firm that reviews public pension systems in the United States and abroad.

The CEM report rated IPERS higher than other states' public retirement systems in providing quality pension services while keeping costs low. IPERS' administrative costs for FY2003 were lower than 13 of 14 similarly sized public pension systems in a comparison group that included systems in Illinois, Indiana, Kansas, and Missouri.

IPERS' administrative costs were \$33 per active member and annuitant compared to a peer average of \$57. Part of the low cost--high service results can be attributed to the fact that IPERS' staff serves more people per position than all but one of its peers.

The cost for paying out monthly pensions is \$8 per annuitant, compared to a peer medium of \$12. The cost for service to employers is \$118 per reconciliation (or collection point), compared to a peer median of \$303.

Even though administrative and service costs are low, IPERS' services for members and employers rate higher than most of its peers' services. IPERS rated above average for services to members, such as counseling and communication with members.

IPERS' services to employers also ranked higher than all but one of its

peers' services. IPERS rated 90 out of 100 compared to an average of 80 for its peers. IPERS earned this score in part because it has an Employer Relations Team and provides employer-specific information.

IPERS' total service score was 80, compared to 73 for the study peers.

"That Iowa can provide good services and keep administrative costs down is especially pleasing during a time when public and private employers are scrutinizing the costs of benefits they provide to employees," stated Donna Mueller, CEO of IPERS. "Public employers should take credit for providing a valued benefit to their employees."

### IMPROVEMENTS NEEDED

While recognizing the hard work of staff and IPERS' boards, support from employers, and oversight by state policymakers as the causes

of the positive results, Mueller noted that IPERS must modernize its computer system to continue making improvements.

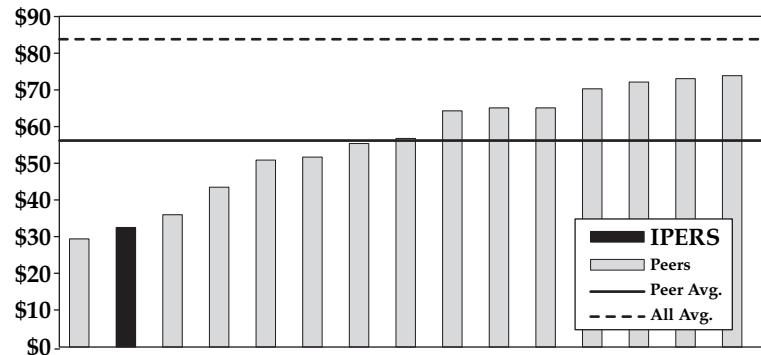
"To keep costs down, we must continue to automate and we must upgrade our aging computer system," explained Mueller.

"Therefore, we are putting together a long-range plan and we'll ask the Legislature to approve our plan."

Mueller noted that the current computer system's applications date from the early 1990s. It is costly to maintain and difficult to integrate with other systems.

"We need to move away from quarterly wage reporting to reporting that is more compatible with employers' needs. Members need electronic access to their accounts. We need to provide more information about member accounts in annual statements," Mueller added.

**TOTAL ADJUSTED ADMINISTRATION COST**  
Per Active Member & Annuitant



IPERS' adjusted administrative costs: \$33  
Peers: \$57

## **IPERS receives certificate for excellence in financial reporting**

**I**PERS has received a Certificate of Achievement for Excellence in Financial Reporting for its 2003 Comprehensive Annual Financial Report (CAFR).

The Certificate of Achievement, awarded by the Government Finance Officers Association of the United States and Canada (GFOA), is the highest form of recognition for governmental accounting and

financial reporting. An impartial panel judged the CAFR using standards for clearly communicating the financial story of an organization.

The GFOA is a nonprofit professional association serving roughly 16,000 government finance professionals.

You can view the 2003 CAFR at <http://www.ipers.org/publications.htm>.

## **You don't have to report wages electronically to take advantage of ICON**

**I**f you aren't ready to join the 602 employers using IPERS Connection Online (ICON) to report wages, you can still take advantage of ICON's benefits if you sign up.

ICON is an interactive Internet application that is easy and convenient to use. Designed as an electronic wage-reporting system, it is also an easy way to keep your information current and retrieve historical data.

You can use ICON to:

- Enter new employee information.
- Update or correct current employee information.
- Update or correct employer information.
- Receive debit/credit memos by e-mail.
- View past wage reports.
- Provide auditors easy access to your information.

To enroll, contact IPERS staff at

the numbers listed in the section titled Help Desk on page 4.

### **SYSTEM ERRORS DURING REPORTING**

Some employers experienced difficulties using ICON to report wages during the past two quarters. We apologize for the frustration. We have made corrections and continue working with the software manufacturer to make sure our equipment will properly run the program.

We hope the changes corrected the problems, but if you do have difficulties, please call us right away. Our technology staff can better monitor the system at the time the problem is occurring.

Please be ready to let us know:

- Your employer information.
- The error message you are receiving.
- What transaction you were performing.
- The time the problem occurred.
- If this is a recurring problem or the first time you experienced the problem.

*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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515-281-0020  
800-622-3849

PHONE CENTER HOURS  
7:30 a.m. - 5 p.m.

OFFICE HOURS  
8 a.m. - 4:30 p.m.

Des Moines, Iowa 50306-9117  
P.O. Box 9117  
7401 Register Drive



Please share with employees

## **IPERS group presentations and individual retirement planning**

### **OCTOBER - DECEMBER 2004**

Group presentations provide an overview of IPERS and answers to general questions. There is no registration for the group presentation.

Individual consultations provide members with their projected retirement benefits and other plan provisions. To schedule an individual counseling session, call IPERS at 1-800-622-3849. The sessions fill quickly, so call early. You will receive a letter confirming your appointment.

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#### **CALMAR**

Northeast Iowa  
Community College  
1625 Highway 150

#### **October 11, 2004**

Group Presentation  
6:30 p.m.  
Wilder Auditorium

#### **October 12-14, 2004**

Individual Consultations  
8 a.m. – 6:30 p.m.  
Wilder Hall,  
Rm. 101 & 105

#### **WATERLOO**

Hawkeye  
Community College  
1501 East Orange Road

#### **October 25, 2004**

Group Presentation  
6:30 p.m.  
Tama Hall, Rm. 107

#### **October 26-28, 2004**

Individual Consultations  
8 a.m. – 6:30 p.m.  
Tama Hall,  
Rm. 101 & 103

#### **COUNCIL BLUFFS**

Council Bluffs  
Public Library  
400 Willow Avenue

#### **November 1, 2004**

Group Presentation  
7 p.m.

#### **November 2-4, 2004**

Individual Consultations  
8:30 a.m. – 6:30 p.m.

#### **WEST BURLINGTON**

Southeastern  
Community College  
1500 West Agency Road

#### **November 15, 2004**

Individual Consultations  
2 p.m. – 6:30 p.m.

#### **November 16-18, 2004**

Individual Consultations  
8:00 a.m. – 6:30 p.m.  
Bldg. 400  
Private Dining Rm. A/B

#### **MASON CITY**

North Iowa Area  
Community College  
Activity Center  
500 College Drive

#### **December 6, 2004**

Group Presentation  
6:30 p.m.  
Rm. 101

#### **December 7-9, 2004**

Individual Consultations  
8:00 a.m. – 6:00 p.m.  
Rm. 212 & 213