

PENSIONERS' POST

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Responsibilities and Activities of the Benefits Advisory Committee

By Lowell Dauenbaugh, Chairman, IPERS' Benefits Advisory Committee

How To Contact BAC Members

You may contact the committee at the following address:
The Benefits Advisory Committee; Iowa Public Employees' Retirement System; PO Box 9117; Des Moines, Iowa 50306-9117.

Or, you may email individuals as listed below.

Employer Associations

Iowa Association of Counties

(Jim Maloney - maloney@assess.co.polk.ia.us)

Iowa Association of Community College Trustees

(Dr. Gene Gardner - IACCT@Prodigy.net)

Iowa Association of School Boards

(Susan Olesen - solesen@sai-iowa.org)

Iowa League of Cities

(Andi Stewart - AndiStewart@IowaLeague.org)

State of Iowa

(Mollie Anderson - mollie.anderson@iowa.gov)

Active, Vested and Retired Member Associations

American Federation of State, County and Municipal Employees

(Mike Campbell - mcampbell@afscmeiowa.org)

Association of Chiefs of Police

(Mike Rolow - mrolow@windsorheights.org)

Iowa State Education Association

(Lowell Dauenbaugh - Ldauenbaugh@isea.org)

IPERS' Improvement Association

(Janie Garr - info@ipers.org)

Retired School Personnel Association

(Walt Galvin - info@ipers.org)

Sheriffs and Deputy Sheriffs Association

(Bill Sage - bsage@cass.co.ia.us)

State Police Officers' Council

(Diane Reid - SPOCISTA@aol.com)

Employer/Member Associations

School Administrators of Iowa

(Dr. Gaylord Tryon - gtryon@mchsi.com)

Public Member

Dr. Marc Haack - marcus-haack@uiowa.edu

As stated in the summer issue of this newsletter, the new Benefits Advisory Committee (BAC) assumed its duties at its initial meeting on July 5, 2002. According to the Code of Iowa, it is the core responsibility of the BAC to "consider and make recommendations to the division and the general assembly concerning the provision of benefits and services to members of the system."

To clarify expectations of how the committee is to fulfill this role in conjunction with IPERS' staff and managers, as well as its key role in representing IPERS' members and participating employers in the governance of their retirement system, the BAC adopted a Statement of Responsibilities and Expectations at the July meeting. This document (available either by download from IPERS' website (www.ipers.org), or by mail via a fax or email request of IPERS' staff) declares that:

Central to benefits and member service policies is the concept of stewardship – the orienting determination to administer the retirement program for the exclusive benefit of its members and their beneficiaries. This is an ethical imperative of the highest order and it is to this purpose that the Benefits Advisory Committee dedicates its efforts and oversight. We take very seriously our responsibility to always speak and act in the interests of IPERS' members and participating employers. Our value to the IPERS' organization and, therefore, to our members and beneficiaries, is our independent representation of those for whom the System exists.

This statement goes on to say that:

We continue to believe that a fully empowered Board of Trustees is the most proven, and most widely recognized, protection for a multiple employer System against intrinsic competing loyalties which arise in an environment that can never be totally free of political pressures or influence. We note with pleasure that IPERS' own Strategic Plan – developed by IPERS' staff and endorsed by IPERS' management team – calls for just such a fully empowered Board of Trustees within a retirement system independent of other State agencies.

The BAC will annually review the benefits and member services provided by IPERS, will be involved in the annual budget process – including supporting recommendations for additional resources when necessary, and will sponsor membership meetings where the voices, hopes, and concerns of the membership for their retirement system can be both voiced and heard. The months since that first meeting have been very busy for us. Among other items, we have discussed at length the following two major areas:

1. **What IPERS' policy should be regarding cost-of-living programs going forward.** IPERS is trying to be proactive with regard to its dividend program for post-June 1990 retirees (the Favorable Experience Dividend program). Included in this issue you will find an article discussing the opinions on the future of the FED. The BAC spent portions of several meetings wrestling with options for the current program, as well as a potentially redesigned program for the more distant future.

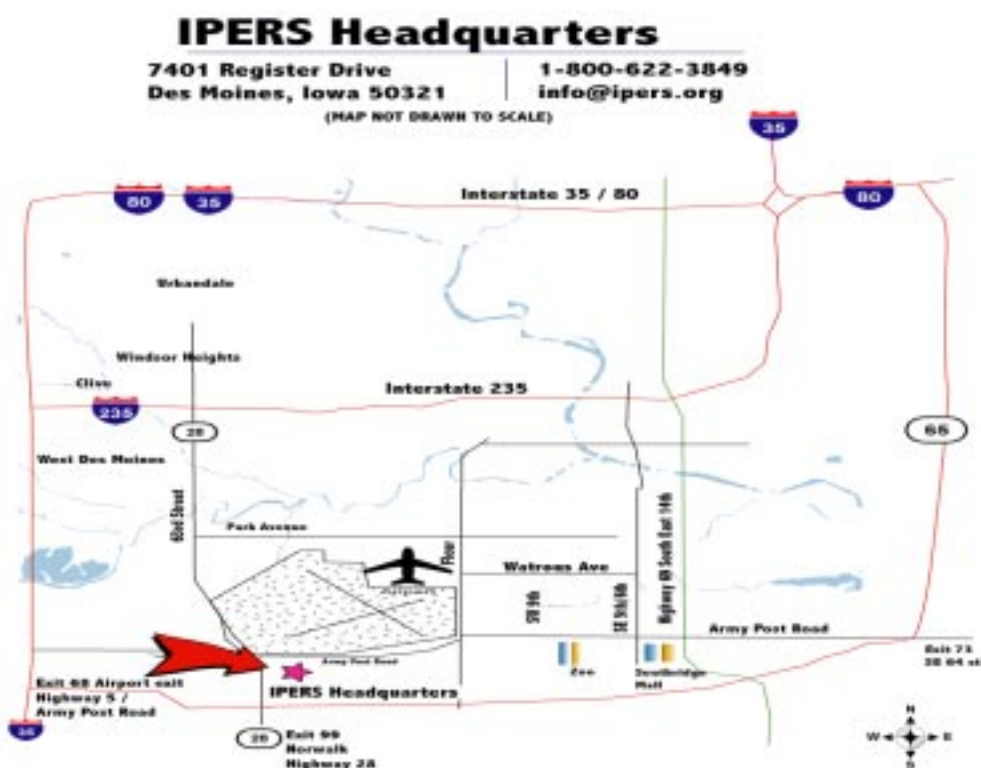
2. **What additional budget resources the BAC should support for IPERS' membership service areas.** Many of you may not be aware that much of the cost of IPERS' investment activities, as well as the outflow for monthly pension payments, death benefits, and refunds to terminated members, are all funded through a standing provision of the Iowa Code. (There is a cap related to the size of the Trust Fund for investment management fees.) However, for all other activities – including all member services (counseling, telephone responses, service purchases, processing refunds, death benefits and providing IPERS' website) – money has been allocated from the IPERS' Trust Fund by the Iowa Legislature on an annual basis. This is important because in these tight fiscal times legislators have been unwilling to add the staff IPERS needs to handle the escalating number of its members, including the skyrocketing number of

persons in and nearing retirement. The BAC has, therefore, unanimously endorsed IPERS' managers' requests for: a) additional staff for counseling and processing member requests; b) additional staff in order to carry out more frequent "compliance audits" with our 2,400 participating employers; and c) appropriate funds to allow us to mail updated member and employer handbooks within the next two years.

We are proud of IPERS' commitment to providing excellent member services, and we will do all we can to ensure the continuance of those services into the future. The Benefits Advisory Committee is eager to hear from you and to work with you for the continued stability and excellence of this retirement system into the next generation of public employees. Let us hear from you if you have questions, concerns, or suggestions for ways in which IPERS can improve its services and benefits.

How to Visit IPERS

Please note that the Iowa 28, Iowa 5, and Army Post Road bypass south of Des Moines is now open so that reaching IPERS will be much easier and convenient. We look forward to seeing you!



IPERS' Investment Portfolio Size & Returns

By Kathy Comito, Chief Investment Officer

IPERS ended Fiscal Year 2002 with an investment portfolio asset total market value of \$14.9 billion.

Like most institutional and individual investors, IPERS has experienced lower investment returns since early calendar year 2000. While we want to keep you informed about our returns, we caution you to remember that since IPERS is a "defined benefit" pension plan, *your level of retirement benefit is set in Iowa law*. This is in contrast to "defined contribution" pension plans, where the actual investment returns earned on your own and your employer's contributions determine the level of your eventual retirement benefit.

The table below shows IPERS' annualized investment returns at 6/30/02, and compares these to the median returns of two commonly-cited peer universes. We are pleased to report that for FY '02, IPERS not only beat the median return of the public pension fund universe, but our return ranked in the *upper 25%* of this peer group!

	One Year	Three Years	Five Years	Ten Years
IPERS' Total Fund Return	-4.94%	0.79%	6.48%	9.64%
Median Return of Large Public Pension Funds ¹	-5.82%	-0.40%	5.13%	9.34%
Median Return of Master Trust Funds ²	-5.96%	-0.32%	5.65%	9.93%

¹ Trust Universe Comparison Service's "Public Funds with Market Value Over \$1 billion" universe.

² Trust Universe Comparison Service's "All Master Trusts" universe.

For the fiscal year, IPERS' investment loss was controlled by the portfolio's diversification across several asset classes. Positive investment returns for the year were contributed by the System's real estate portfolio at 8.25%, global bonds at 7.73%, and short-term cash at 2.87%. Negative returns came from international stocks at -7.74%, tactical asset allocation at -8.40%, domestic stocks at -17.43%, and private equity at -22.7%. Those asset classes with negative returns for the year, public stocks and private equity, are known to be "volatile" asset classes, where higher returns and portfolio diversification benefits in most years can only be obtained by accepting low returns in a few other years.

IPERS' objectives for investment returns, as adopted by the IPERS Investment Board, are established for the System's long-term investment performance. Since a pension plan's *liabilities* (obligations to pay retirement, disability, and death benefits, and refunds) are very long term in nature, its *investment goals* need to also be set for average annualized performance over long time periods. Below is a table showing several of IPERS' official long-term investment objectives and demonstrating our outperformance of these objectives.

	Ten-Year Annualized Results as of 6/30/02
IPERS' Total Fund Return	9.64%
Consumer Price Index + 3%	5.52%
Actuary's Assumed Investment Return	7.50%
IPERS' Policy Benchmark ³	8.65%

³ Policy Benchmark is comprised of "passive" or index returns of the asset classes, and in the weights of those classes, in which IPERS invests.

Opinions on the Future of the Favorable Experience Dividend (FED) Program

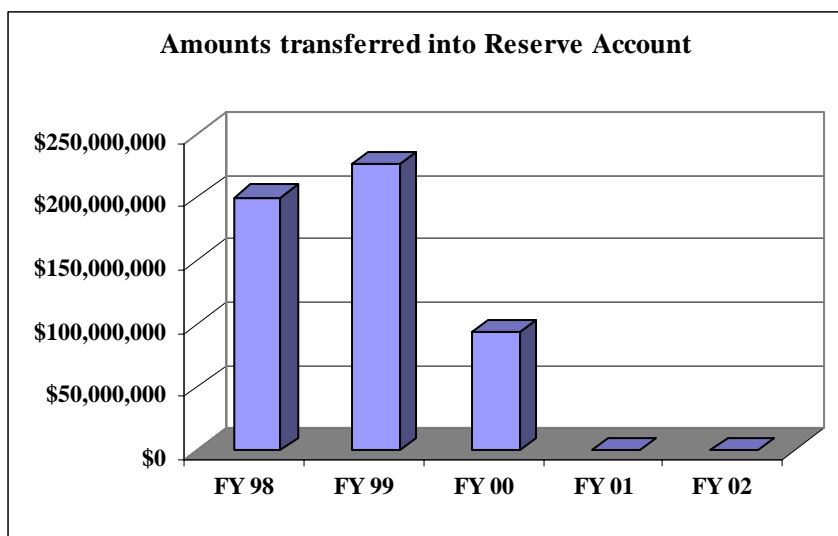
By Greg Cusack, Chief Benefits Officer

The Favorable Experience Dividend (FED): The Iowa Legislature created the FED program in 1998 in order to provide ad hoc supplemental lump-sum payments to all IPERS' members who had retired after June 1990 and had been in retirement for at least one full calendar year. (Members who retired before that date have a genuine cost-of-living adjustment (COLA) program, the annual dividend for which is paid each November.) Unlike the COLA dividend, the FED dividend is not guaranteed.

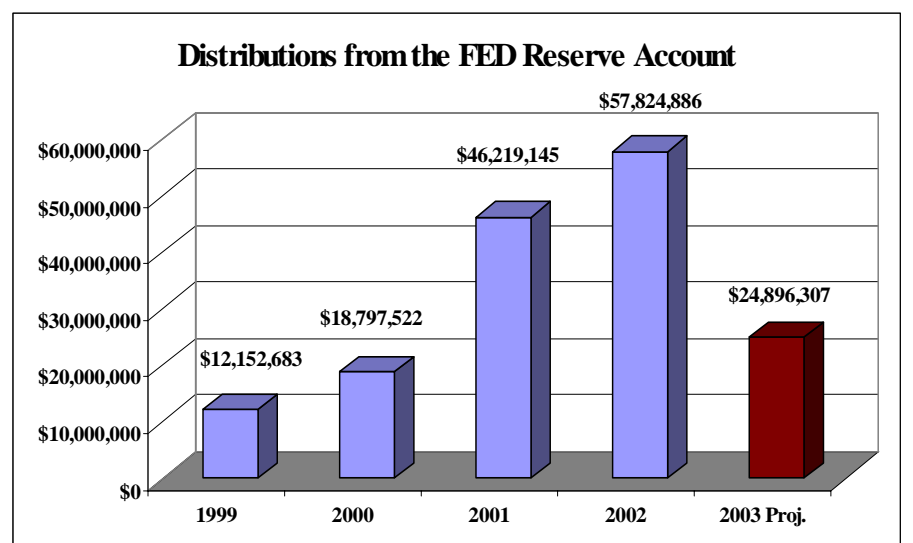
Funding for the FED Program: Upon its creation, the Legislature required IPERS to allocate funds sufficient to pay five years of maximum payments (that is, 3% per year) into a separate "FED reserve account" within the IPERS' Trust Fund. In each year when the Fund enjoys "favorable experience", additional funds can be allocated to the FED reserve account increasing (or restoring) the amount of reserves. In years when IPERS does not enjoy "favorable experience," however – such as the past two fiscal years ending June 30, 2001 and 2002 – no such credit to the FED reserve account is made.

Determining the Annual FED Dividend: By law, IPERS' managers annually determine both whether a FED is to be paid and, if so, how much that distribution might be. (As with the COLA program paid to the pre-June 1990 retirees, the maximum annual percentage used to calculate distributions is limited to 3%.) The target rate for the FED distribution is the same percentage increase as paid in the November COLA payment. To illustrate: in November of 2001, IPERS declared and paid a COLA dividend increase of 3%. Therefore, our target for the January 2002 FED dividend multiplier was also 3%. However, by law, IPERS' managers are to take into consideration many other factors before declaring the actual dividend. These include matters such as the amounts previously paid out in both FED and COLA distributions, funding set aside for past and future FED distributions, and the adequacy of funding for future FED payments, etc.

Actual Experience in "Feeding," and Distributing, the FED: The following charts bring us up to date with both the allocations into, and out of, the FED reserve account.



The total inflow was \$519 million, all of which occurred before FY 01.



The total outflow to date is \$136 million (\$160 million counting January 2003's projected distribution).

What is the "Net" Picture? The "net inflow" minus the "total payments made" the reserve account would have \$359 million left for future distributions. This seems to be an adequate sum for many years, right? Yes, but... Moreover, herein lies the problem. This reserve account resides within the over-all IPERS' Trust Fund – it therefore experiences the ups and downs (lately, all downs) of that Fund depending upon market experience. Therefore, the relentless bear market in place has also eroded the amount that would otherwise be in the reserve account since 2000.

Looking to the Future, Building on a Solid Foundation

By Curt Sorteberg, Benefits Executive Officer

As IPERS prepares to celebrate our 50th Anniversary, we have many accomplishments of which we should be proud, but we are also entering a period of great uncertainty that requires intelligent analysis and effective management of change. Our vision is to be recognized as the best-administered public retirement system in the country providing our members and beneficiaries valuable benefits and superior services. Accordingly, we are engaging in some self-analysis efforts to determine how we are performing as an organization and to compare our benefits and services with other peer retirement systems. These efforts will require management and staff resources, but they are vital if IPERS is to remain a viable system into the future.

We are updating the analysis of how IPERS staff is deployed, and these data will be used to determine future staff needs. The peak of the wave of baby boomer retirements is expected to begin between 2004-2007 and reach the maximum in 2012, and we must be able to meet this increased demand. It already appears that we are several staff short to meet all functions currently without further resources. We will need to increase productivity and redeploy staff, and we will need to manage the trade-offs involved, which are a tough balancing act between managing risk to the organization and maintaining quality member services.

We have obtained the services of an organization by the name of Cost Effectiveness Measurement to conduct a benchmarking study of how efficiently and effectively we provide services to members. After we have completed the survey, our information will be entered into a system that rates the quality and cost of our services against those delivered by over 50 other large public retirement systems. From this information we can determine where we are doing well, and where we need to improve.

Another analysis effort, the Baldrige assessment, is focused more internally, but it also seeks to verify the results of our efforts and explore ways we can improve as an organization. We are currently about half way through this process and the findings should be available by the end of the year. In addition, we are in the process of implementing the Accountable Government Act requirements (recently passed by the Iowa General Assembly), which are focused on strategic planning and improvement of performance. The purpose of all of these projects is to do the best possible job for you our valued members.

IPERS Has a New Website!

By Bob Marvin, Information Technology Specialist

IPERS has a completely redesigned website that you may find by using the address: <http://www.ipers.org>. In July IPERS was able to register the domain ipers.org. Its previous owner, a Mr. Ipers of Germany, was using the domain as one of his addresses to reach his family site. After contacting Mr. Ipers he was kind enough to allow us to take over the domain address when his registration expired in June. IPERS plans on using the address www.ipers.org from now on as its main website.

What will you find at the new site? The opening “**Members**” section welcomes the visitor to the website and has all the latest news concerning IPERS and your retirement. There are many useful publications, forms, and retirement links in our “**Resources**” section. If you are interested in reviewing IPERS investment policies or reading news updates about IPERS’ investments, there is a section called “**Investments**” for this purpose. Even “**Employers**” have their own area where they can download employer forms and read the latest employer newsletter. If you ever want to know how to contact IPERS, the “**About IPERS**” section gives you all the details, from our phone numbers, address, email to even a map showing IPERS building location with a link to get driving directions.

The new domain name also means IPERS’ employee email addresses have changed. When you need to contact a specific IPERS employee you can email them by using the format: `firstname.lastname@ipers.org`

We plan to place much more information in all the sections mentioned above. We are also looking into ways of providing more interactive services to all of our members via the Internet. So please place <http://www.ipers.org> in your bookmarks, and plan on checking back every now and then to see what the latest additions have been.

IPERS 50th Anniversary to be Celebrated on July 30-31, 2003

By Curt Sorteberg, Benefits Executive Officer

The Iowa Public Employees’ Retirement System will celebrate its 50th Anniversary in July 2003, and a celebration has been planned for July 30-31 to be held at the Sheraton Four Points Hotel on Army Post Road in Des Moines. The event is sponsored jointly by IPERS and the IPERS Benefits Advisory Committee, and active, retired and employer members are invited to participate.

The planning committee met on July 23 to discuss preliminary arrangements, and it was agreed that the program on July 31 will include a keynote speaker, workshops and a luncheon to recognize individuals who have provided distinguished service to IPERS. An informal reception will be held on July 30 for those who arrive early. A modest registration fee will be charged, which will be \$20 in advance and \$25 at the time of the conference if room is still available. Registrations will be accepted in the order they are received up to the maximum seating capacity.

Further details on the program will be released at a later time and periodic updates will be provided on the IPERS web site under the heading, “50th Anniversary.” Registration information is available on the web site, or a form is included below for you to use as the celebration gets closer. Registrations will be accepted in the order they are received up to the maximum seating capacity.

IPERS 50 th Anniversary Celebration	
Name:	_____
Street Address:	_____
City:	_____ State: _____ Zip Code: _____
_____ Registration fee of \$20 per person is enclosed. Return no later than June 15, 2003. You may also obtain a registration form from the IPERS web site.	

Social Security Corner

By Kelly Lovell, Deputy General Counsel

Social Security Windfall Elimination Provisions. From time to time we receive inquiries from members who are planning to move out of Iowa and are concerned about losing Social Security benefits if they move into another State where governmental pensions are subject to the “Social Security Windfall Elimination Provisions.” In short, IPERS members who contributed to IPERS and Social Security during their employment will not have their Social Security benefits affected by IPERS benefits following such a move.

In some states governmental employees do not contribute to Social Security for their governmental employment. Generally those states provide an enhanced retirement benefit to make up for the lack of Social Security coverage. When governmental employees in those states retire under their governmental pension plan, and also qualify for Social Security through other employment, the benefits received from that state’s pension plan may count against Social Security entitlements.

In Iowa, the vast majority of members are covered under both Social Security and IPERS from day one. Accordingly, Social Security’s windfall provisions are not applicable—IPERS members (and employers) have paid their share for Social Security benefits and have not received enhanced pension benefits from IPERS to make up for the lack of Social Security coverage. This is true whether members choose to remain in Iowa or move to another state.

Special Service Members Disability Payments Offset. Special Service members are reminded that the foregoing paragraphs do not apply to the offset of Social Security disability payments against IPERS Special Service disability benefits. In order to avoid duplication of benefits for the same injury, IPERS Special Service disability benefits are reduced dollar for dollar by Social Security disability payments.

Part-time Elected Officials. As some may recall, special legislation was passed in the last legislative session to permit, but not require, IPERS covered employers to provide both IPERS and Social Security coverage to part-time elected officials. Prior law required part-time elected officials who elected into IPERS to be removed from Social Security coverages. The legislation left the implementation details to be worked out by IPERS and the Social Security Administration (SSA). IPERS contacted the Social Security Administration for its assistance, received a reply, and is now working with SSA and the IRS to develop an implementation plan. Unfortunately, it looks to be a complex and time-consuming project. We will keep you posted on further developments.

FYI: E-File Your Iowa Income Tax Return!

For more information, contact the Iowa Department of Revenue and Finance, Taxpayer Services, by e-mail at idr@idr.state.ia.us, visit their Web site at: www.state.ia.us/tax, or call: 515-281-3114 or 800-367-3388.

Favorable Experience Dividend Program

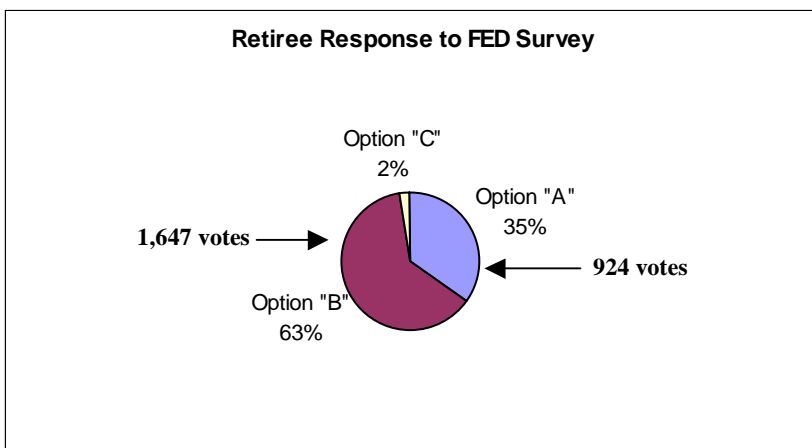
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The Problem: As mentioned in our summer newsletter, we are concerned that the combined effect of continued depletion of the reserve account (through both payment draw downs and market erosion of investment values) and a growing retiree base eligible for the FED payments means the likelihood that in the relatively near future (3-4 years perhaps) the reserve account will be so depleted that IPERS will be unable to make further FED distributions.

By law, whether or not we channel money into the reserve account in the future (when we will, sometime, again have favorable experience) depends on the amount of unfunded liability the System bears as well as on how quickly we are projected to be able to pay off that unfunded liability.

We are convinced that it will most likely be several years in the future before we will again be able to “feed” the reserve account. This means that if we do not take steps in the immediate future to conserve the account, we may be faced with a situation in which we are unable to make any FED distribution for one or several years.

Your Feedback: In the summer newsletter, I asked for your advice given the situation facing us. Since that article appeared, I have heard from 2,636 retirees, most by mail but a considerable number by email. While not an overwhelming response (these folks represented just 6% of retirees eligible for the FED), they were a highly knowledgeable group. In addition to reminding us of just how crucial these FED distributions are to the majority of the retirees eligible for it, you did provide us clear guidance as to “where we should go from here.”



Option A was that we continue to pay out the dividends without any effort to curtail amounts otherwise payable, even if this meant the exhaustion of the reserve account.

Option B was that we implement *reduced* dividends in order to curtail amounts otherwise payable, allowing us to “stretch” the years of funding left in the account.

Option C was “neither of the above,” and elicited a variety of responses.

Conclusion and Recommended Policy Option: The results of the survey were shared with staff, IPERS’ managers, and the Benefits Advisory Committee (BAC). With almost two-thirds of respondents favoring **Option B**, there is clear consensus among us that we must take appropriate steps to ensure that at least some level of FED distribution is continued as long as possible (until such time as we are able to begin replenishing the reserve account).

Thanks to all of you who participated by taking the time to share your thoughts with us. It definitely helped us decide on the course to follow!

Service Purchase Reminder

By Kelly Lovell, Deputy General Counsel

Members are reminded of the substantial changes made by last year’s legislation, permitting the purchase of service credit for private sector employment, and providing the ability to fund those service purchases with pretax dollars using monies set aside in other retirement plans and accounts.

Service purchases can be purchased out of pocket, or by direct rollover service purchases from all IRS section 401(a) plans (including 401(k) plans), governmental 403(b) tax sheltered annuities, and governmental 457(b) deferred compensation plans. Furthermore, you can also purchase service credit on a tax deferred basis using your governmental 403(b) plan or your governmental 457(b) even while you are still working.

Even if a person ultimately decides not to apply for a retirement allowance, service purchase amounts are 100% vested, are credited with quarterly interest, and balances do not rise or fall with the performance of the stock

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A Newsletter for the
Retired Members of IPERS

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Special Problems Posed By Retiree Volunteers

By Kelly Lovell, Deputy General Counsel

Retiree volunteers can pose special problems for IPERS. Often, a covered employer may find that the employer is unable to fill a position left open by a retirement. The retiree may become aware of the employer’s need to fill the position through other sources, or the employer may actually contact the retiree and see if he or she would be willing to volunteer their services until a replacement is found. The problem is that under the complex IRS regulations that govern IPERS, a member has to truly sever the employment relationship in order to receive retirement benefits.

If a member retires one month and the next month is back performing exactly the same services, the IRS’ perception may be that there was no retirement at all, just a leave of absence. The problem would not be severe if the person who returns to fill their old position always remained uncompensated. It also often happens, however, that a period of volunteering can be just a subterfuge for evading the rule that there must truly be a period of severance following a retirement. This is particularly troublesome when a person retires, volunteers for the minimum required period of severance, and then starts getting paid for the same services again. It gets even worse when the employer attempts to increase wages to compensate the retiree for the volunteer period. To the IRS, the latter scenarios create a strong inference that the member did not retire at all, but rather manipulated the system so as to begin receiving both a retirement check and a paycheck.

Volunteering is a wonderful, laudable activity, and one that is increasing in importance. At the same time, IPERS strongly encourages members who are nearing retirement and recent retirees who are considering volunteering to fill their old positions to keep the foregoing considerations in mind. The last thing anyone wants is the perception that IPERS employers and employees are gaming the system.

market. Furthermore, as a defined benefit pension plan, the monthly allowance that you will receive if you retire also does not directly depend on the stock market. Please contact IPERS at its general number for more information about these valuable new rights.