

A Legislator's Guide

to Iowa Public Employees' Retirement System

Important Information for IPERS' Plan Sponsors



I  **PERS**[®]

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Important Information for IPERS' Plan Sponsors

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 IPERS 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





The Importance of IPERS

For more than 50 years, IPERS has provided a core retirement plan covering most Iowa state and local public employees. With approximately 325,000 members and about 2,100 covered employers, IPERS is the largest public retirement system in Iowa.

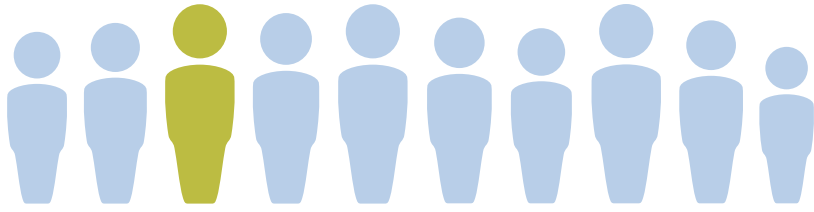
The Legislature designed IPERS to provide monthly lifetime annuities that supplement Social Security benefits and personal savings, enabling public employees to care for themselves in retirement. The Legislature also intended for IPERS to be an employee benefit that would help Iowa's public employers 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.

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.



Did you know? **One in ten** Iowans is an IPERS member.



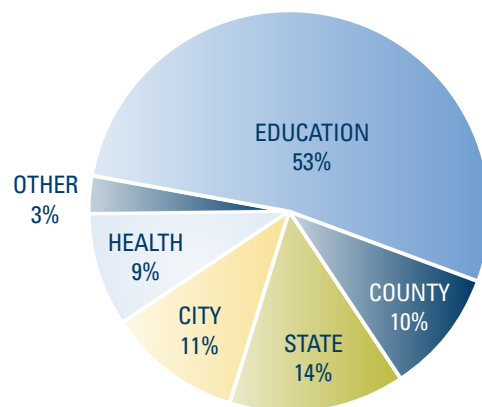
THE PURPOSE OF IPERS IS TO:

- **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.

IPERS Membership

Most public employees in Iowa automatically become IPERS members when starting work with a covered employer. IPERS has three membership classes. Regular members, 95 percent, are members not in a public safety position. The other 5 percent are in Special service classes: 1) sheriffs/ deputy sheriffs, and 2) other protection occupations, including city police, firefighters in cities not covered by Chapter 411, correctional officers, conservation peace officers, jailers, and emergency medical service providers. Legislators can also choose to be members of IPERS. Covered employers are established by law.

WORKING MEMBERS BY EMPLOYER GROUP



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 investment management fees.

Iowa Investments

IPERS' first responsibility under Iowa law is to act in the exclusive interest of IPERS' 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.

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. Finding key talent and replacing staff who leave is expensive and time-consuming.

IPERS can help employers 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 IPERS can help to attract employees. In addition, the longer employees remain in IPERS-covered employment, the greater their retirement benefits will be—an added incentive to continue working with an IPERS-covered employer.

IPERS' Average Retiree



IPERS PROVIDES FINANCIAL SECURITY DURING RETIREMENT

This benefit, combined with personal savings and Social Security, helps ensure members have a financially secure retirement.

IPERS' IMPACT ON IOWA

IPERS favorably affects Iowa's local economies, businesses, and communities, returning over \$1 billion a year to retirees in Iowa.

Membership Rewards

EARLY-RETIREMENT REDUCTION

Regular members who retire before normal retirement age have a permanent early-retirement reduction applied to their benefit. Normal retirement age is one of the following, whichever comes first:

- **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**)

Reaching normal retirement age does not mean a member is eligible for benefits calculated with the maximum multiplier of 65 or 72 percent.

For service earned before July 1, 2012, the early-retirement reduction is 3 percent for each year the member receives benefits before the member's earliest normal retirement age. For service earned after June 30, 2012, the early-retirement reduction is 6 percent for each year the member receives benefits before age 65.

Amount of Retirement Benefit

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

- **A MEMBER'S HIGHEST AVERAGE SALARY**
- **A MULTIPLIER** (based on years of service).
- **AN EARLY-RETIREMENT REDUCTION** (in certain cases only).

The benefit is calculated as follows:

IPERS Benefit Calculation

$$\begin{aligned} & \text{Average Salary} \\ & \times \text{Multiplier} \\ & - \text{Reduction, If Any}^* \end{aligned}$$

Annual IPERS Benefit

**The early-retirement reduction applies only to the benefits of Regular members who retire before normal retirement age.*



The maximum benefit a Regular member may earn is 65 percent (72 percent for Special service members) of the average salary, if the member has 35 years of service (30 years for Special service members).

Regular members and protection occupation members cannot begin receiving benefits until age 55, unless they become eligible for disability benefits. Sheriffs and deputies with at least 22 years of service may begin receiving benefits at age 50.

Protection for Families

IPERS provides a safety net for members' families. Disability benefits provide financial protection for members who develop a disability before retirement. IPERS also provides pre- and post-retirement death benefits to members' spouses, children, or other beneficiaries.

Payment Options

When applying for monthly retirement benefits, each member must choose a payment option. The option determines the death benefits that may become payable after the member's death, if any. This provides members the flexibility to choose the level of benefit protection that is right for them and their family.

Protecting Pensions From Inflation

IPERS benefits do not include a cost-of-living adjustment. Members must plan for inflation while still working.

Pre-7/1/90 Retirees

These retirees receive an annual payment called the November Dividend guaranteed by Iowa law. The payment is based on a formula that is defined in law and uses a benefit multiplier. The benefit multiplier does not increase unless IPERS' actuary certifies that the increase can be supported by current contribution rates. For the first time since 2001, there will be an increase in the dividend.

Post-6/30/90 Retirees

These retirees receive an annual FED (Favorable Experience Dividend) payment based on a formula defined in law. The formula includes a multiplier of 3 percent or less. FED payments will cease in January 2014.

The payments have been paid from the FED Reserve Account, established with money from the IPERS Trust Fund by the Legislature in 1998. Money cannot be transferred into this account unless IPERS is 100 percent funded and a transfer would not bring IPERS below 100 percent funding. The last transfer into this account was in fiscal year 2001.

The FED payment was created using money from the IPERS Trust Fund. It was meant to be a temporary substitute for retirees' cost-of-living increases. It is not a guaranteed payment and will end in January 2014.

Legislature and Governor
Plan sponsors

**Public Retirement
Systems Committee**
Reviews public retirement
system policy

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

IOWA CODE CHAPTERS GOVERNING IPERS

97B: Specific to IPERS
97D: General principles
for changes to all Iowa
public retirement systems,
including the intent for
equity among them

- IPERS
- Peace Officers' Retirement System
- Judicial Retirement System
- Municipal Fire & Police Retirement System of Iowa

Governance and Administration

Legislature and Governor

The Legislature and Governor oversee the laws that govern IPERS. In the past, contribution rates for Regular members (those not in public safety professions) were set too low which led to years of underfunding the System. Recent pension reform, effective July 1, 2012, allows IPERS to adjust the contribution rate based on the annual actuarial valuation and IPERS' contribution rate funding policy. The rate for Regular members cannot change by more than 1 percentage point each year, a limit set in statute.

The Legislature and Governor establish, by statute:

- Member benefits
- The public employers and employees who participate in IPERS

They must approve any changes to IPERS' statutes proposed by IPERS, an IPERS board, or any constituency group. The Legislature and Governor also authorize spending from the IPERS Trust Fund for administrative expenses that are not related to investments. 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 ten-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 as IPERS' Trust Fund trustee. The Board sets investment policy and oversees the actuarial program. There are seven voting members—the Treasurer of State and six gubernatorial appointments confirmed by the Senate. Three of the six must have substantial institutional investment or financial experience. The other three must be members of IPERS. Legislative leadership appoints the four 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 member of the public 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.

The Trust Fund at a Glance

Trust Fund Assets

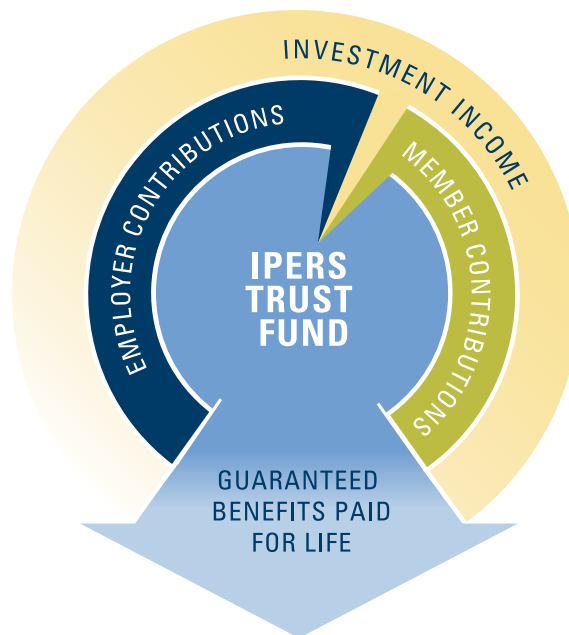
- Employer contributions
- Member contributions
- Investment income

Liabilities

- Benefits earned by working 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, as well as benefits earned by members.
- Members contribute to IPERS 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 investment earnings from contributions paid over a member’s career should pay for the future retirement benefits of those members.



- Contributions are invested to gain the highest return at a reasonable level of risk.
- Investment earnings provide the largest percentage of income to IPERS—even during the 2000s when returns were down.

A Note About Expenses

The Legislature authorizes spending from the Trust Fund to pay IPERS’ administrative expenses not related to investments.

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 expenses allows IPERS to use its assets to pay out benefits and helps ensure the long-term funding of the benefits.

LOW ADMINISTRATIVE EXPENSES

Consider This:

CEM Benchmarking Inc., an independent company that reviews pension systems, each year finds IPERS’ administrative expenses to be among the lowest of similarly sized public retirement systems.

Facts About IPERS

<p>IPERS benefits are portable.</p>	<p>Members are always entitled to 100 percent of their own IPERS contributions and interest earnings. When a member changes jobs, the member keeps IPERS coverage if the new job is an IPERS-covered position.</p> <p>If the member starts working for a non-IPERS-covered employer, the member may leave money in IPERS or take a refund. Refunds can be rolled over to another qualified retirement plan. Vested members who decide not to keep their IPERS membership will receive a portion of the employer's contribution (based on years of service) along with the member's own contribution. Portability into IPERS is provided by service purchases once a member is vested.</p>
<p>IPERS is not the only retirement benefit a member needs at retirement.</p>	<p>IPERS benefits are only one component of a member's overall retirement savings. Total retirement income should come from a combination of a member's IPERS benefits, Social Security, personal savings, and any other retirement plan benefits. The cost of living rises over time and members must plan for it while still working. IPERS does not include a guaranteed cost-of-living adjustment.</p>
<p>A member's IPERS benefit and preretirement pay are not equal.</p>	<p>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 have 35 years of service. Special service members can receive 72 percent of their average salary if they have 30 or more years of service; their benefits are not reduced for early retirement.</p>
<p>IPERS covers more than just teachers.</p>	<p>IPERS covers many public employers including schools, counties, cities, state, and others. Most IPERS members work in education. IPERS members are also firefighters, police officers, social workers, sheriffs, and deputies.</p>
<p>Iowa taxpayers help pay for IPERS.</p>	<p>Employers contribute to IPERS as part of the total compensation package they offer to members. Members contribute through salary deductions. Investment income earned from IPERS contributions provides most of the money that is used to pay benefits. Taxpayers indirectly contribute to IPERS through tax dollars used to support government and the compensation packages of public employees.</p>
<p>IPERS does not decide which benefits to offer.</p>	<p>As plan sponsors, the Governor and the Iowa Legislature determine the benefit plan.</p>
<p>IPERS is not a pay-as-you-go system.</p>	<p>IPERS is a prefunded system—people working today contribute toward their own future retirement benefit. IPERS must undergo actuarial tests to ensure 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.</p>
<p>IPERS is sustainable.</p>	<p>IPERS was one of the early leaders of pension reform with plan changes by forward-thinking legislators who passed House File 2518 in 2010. The law increased employer and member contributions and modified benefits for Regular members. These changes stabilized IPERS' funding status and enhanced the plan's sustainability.</p>

For more information...

Available Resources

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

- **Website, www.ipers.org**
- **Member Handbook** (online)
- **Employer Handbook** (online)
- **Educational booklets for members** (online)
- **Fiscal year annual summary** (mailed and online)
- **Comprehensive Annual Financial Report** (online)
- **Personalized benefits statements** (request online)
- **Access to personal IPERS information through My Account feature** (online)
- **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.

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Questions? *Contact us.*

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Working Today for Your Tomorrow