



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE July 21, 2004

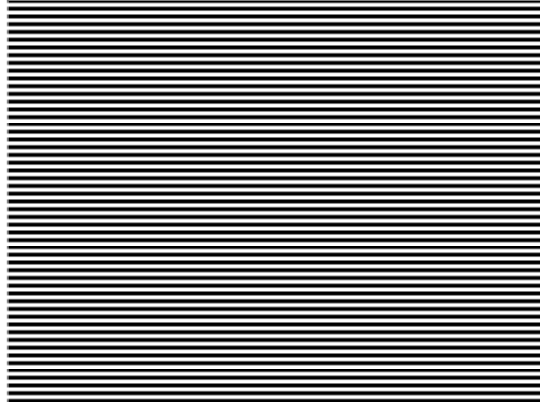
Contact: Andy Nielsen
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Auditor of State David A. Vaudt today released a report on the Iowa Public Employees' Retirement System (IPERS) for the year ended June 30, 2003. IPERS has previously released its comprehensive annual financial report for the year ended June 30, 2003. IPERS was created by the Iowa Legislature in 1953 and is responsible for providing retirement and death benefits for all covered employees of the State of Iowa and its political subdivisions.

Vaudt recommended IPERS continue evaluating options and addressing alternatives to comply with its funding policy.

A copy of the report is available for review at the Iowa Public Employees' Retirement System or the Office of Auditor of State.

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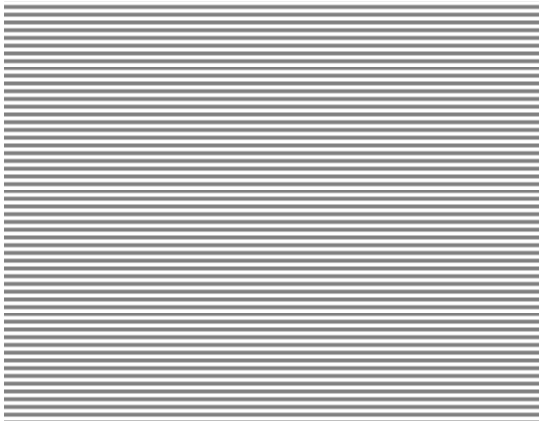
**REPORT OF RECOMMENDATIONS TO THE
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

JUNE 30, 2003

Office of
**AUDITOR
OF STATE**
State Capitol Building • Des Moines, Iowa



David A. Vaudt, CPA
Auditor of State





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December 12, 2003

To Donna Mueller, Chief Executive Officer of the
Iowa Public Employees' Retirement System:

Iowa Public Employees' Retirement System (IPERS) is a part of the State of Iowa and, as such, has been included in our audit of the State's Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2003. We have also audited the financial statements of IPERS as of and for the year ended June 30, 2003 and have issued our report thereon dated December 2, 2003.

In conducting our audits, we became aware of an aspect concerning IPERS' operations for which we believe corrective action is necessary. As a result, we have developed a recommendation which is reported on the following pages. We believe you should be aware of the recommendation which pertains to compliance with statutory requirements and other matters. The recommendation has been discussed with IPERS personnel and their response to the recommendation is included in this report.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Iowa Public Employees' Retirement System, citizens of the State of Iowa and other parties to whom the Iowa Public Employees' Retirement System may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the IPERS during the course of our audits. Should you have questions concerning the above matters, we shall be pleased to discuss them with you at your convenience. Individuals who participated in our audits of IPERS are listed on page 6 and they are available to discuss these matters with you.

DAVID A. VAUDT, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

cc: Honorable Thomas J. Vilsack, Governor
Cynthia P. Eisenhauer, Director, Department of Management
Dennis C. Prouty, Director, Legislative Services Agency

June 30, 2003

Findings Related to Internal Control:

No matters were noted.

Finding Related to Statutory Requirements and Other Matters:

IPERS Funding Policy – An annual actuarial valuation is performed to determine whether the statutory contribution rates will be sufficient to fund the future benefits expected to be paid by the System within the guidelines established in the IPERS Funding Policy. The purpose of the funding policy is to establish safeguards to ensure the System continues to be funded on an actuarially sound basis over the long term.

IPERS Funding Policy recommends a contribution increase be considered if either of the following occurs at least three years of any five consecutive year period:

- 1) The normal cost rate (the level percentage of salary required to pay the cost of retirement benefits allocated to the current year of service) exceeds the statutory combined employer/employee contribution rate minus 0.5%.
- 2) The amortization period for the unfunded actuarial liability as reported in the annual valuation exceeds 24 years by more than 5 years

The normal cost rate has exceeded the statutory combined employer/employee contribution rate of 9.45% minus 0.5% for the years ended June 30, 2003 and 2002. Also, the amortization period of the unfunded actuarial liability has exceeded 29 years for each of the years ended June 30, 2003, 2002, and 2001.

Recommendation – IPERS should continue evaluating options and addressing alternatives to comply with the IPERS Funding Policy.

Response – IPERS is in complete agreement with this recommendation. A great deal of effort has been invested as IPERS has monitored the long-term financial health of the IPERS Trust Fund. We have been vigilant regarding the application of the IPERS Funding Policy and agree with the State Auditor that we have been and are currently in compliance with the requirements of the IPERS Funding Policy. We have met that compliance through research into the increasing trend in both the amortization period and unfunded actuarial liability. IPERS alerted appropriate executive and legislative officials as these trends became apparent, even before the IPERS Funding Policy required action. In addition, the IPERS Benefits Advisory Committee and the IPERS Investment Board have been engaged in the discussion of alternatives to comply with the funding policy. To assist in that effort, IPERS had an actuarial asset/liability study performed to provide the best possible information to assist in identifying alternatives. Based upon this extensive monitoring, research, and on-going discussion IPERS sought legislative action that included increased contribution rates. IPERS does not have the authority to act independently of the legislature when considering benefit modifications or contribution rate modifications. At this point, it appears that our requested legislative initiative for 2004 will not be favorably acted upon.

Report of Recommendations to the Iowa Public Employees' Retirement System

June 30, 2003

IPERS will continue to monitor the long term health of the IPERS Trust Fund through similar research and will continue our efforts of evaluating options and addressing alternatives with the Benefits Advisory Committee, Investment Board, and all other appropriate officials to continue to keep us in compliance with the IPERS Funding Policy, but more importantly to ensure the long term health of the Trust Fund.

Conclusion – Response accepted.

Report of Recommendations to the Iowa Public Employees' Retirement System

June 30, 2003

Staff:

Questions or requests for further assistance should be directed to:

Ronald D. Swanson, CPA, Manager
Gina L. Cunningham, CPA, Senior Auditor
Andrew E. Nielsen, CPA, Deputy Auditor of State

Other individuals who participated on the audits include:

Natalie J. Storm, CPA, Staff Auditor
Jake P. Keegan, Assistant Auditor
Kip M. Druecker, Assistant Auditor
Trevor L. Theulen, Assistant Auditor
Corinne M. Widen, Assistant Auditor