

Q&A

FURLOUGHS, BUMPING, AND IPERS BENEFITS

2010–2011

Am I still covered by IPERS during a furlough?

A furlough does not change your status with IPERS; you are still an active member. In fact, you cannot take your money out of IPERS until you end all employment that is covered by IPERS.

IPERS considers a furlough to be a temporary reduction in your work hours that your employer requires. You remain an employee during a furlough with the expectation you will return to your normal work after the furlough ends. Your furlough may be for a few hours or a few days, which may be sequential or spread out over several months. Your employer may use a different term for furlough, such as temporary layoff. IPERS does not define a reduction in overtime, lower wages because of a job reassignment, or a reduction in base pay as equivalent to a furlough. Seasonal and permanent layoffs are not considered furloughs either.

How will bumping to another position to avoid a layoff affect my IPERS coverage?

Your IPERS coverage continues when you bump into another IPERS-covered job. You do not need to do anything. Your employer will continue deducting your IPERS contributions automatically.

I don't plan to retire for many years. How will a furlough or bumping affect my IPERS retirement benefits?

Because IPERS is a defined benefit plan, IPERS benefits are determined by a formula. The formula includes a multiplier that increases as your years of service increase, and your highest average salary.

Neither a furlough nor bumping affects how fast you earn IPERS service credits. You continue to earn IPERS service credits as long as you stay in an IPERS-covered job. When a furlough lasts only a few days, regardless of whether the days are in a row or periodic one-day furloughs, you continue to earn service credits uninterrupted. You need to receive IPERS-covered wages only once anytime during each quarter (three-month intervals, such as January through March) to get a service credit for the quarter.

Your highest average salary is currently the average of your highest three calendar years of wages. (Starting July 2012, the average will be calculated with your highest five yearly wages.) Because wages usually increase during a career, the years during which you will earn the most have yet to come. Therefore if you are not in your final few years of employment, it is unlikely that a furlough will affect your IPERS benefits. Whether a reduction in wages because of bumping affects your IPERS benefits depends on your career after bumping occurs.

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I hope to retire soon. How will a furlough or bumping affect my IPERS retirement benefits?

Although you continue to earn service credits during a furlough and if you bump into a lower-paying job, both a furlough and bumping into a lower-paying position will affect your wages for that year. This could affect your benefit amount if that year is one of the years that determines your highest average salary for the benefit formula. However, there are protections in place that can lessen the impact of lower wages.

First, the years of wages that determine your highest average salary do not have to be the years immediately before you retire. If your wages go down because of reduced hours or a cut in pay, you do not have to use these years of lower wages in the formula if you had higher wages in past calendar years. We will automatically use the years when you earned the most to figure your highest average salary.

Second, you can preserve a higher average salary if a furlough or bumping reduces your wages. You do this by paying the contributions IPERS would have received based on the higher wages you would have received if not for the furlough or bumping. See page 3 for an explanation of the action you must take.

Third, even if a furlough decreases your highest average salary and you decide not to make up contributions, wages are only one variable in the benefit formula.

Example:

- Age 58 with 30 years of IPERS-covered employment
- Wage increase of 3% a year during the three years before retirement
- Temporary layoff during last year of highest three years of wages

	Without furlough	With 5 furlough days
Year 1	\$50,000	\$50,000
Year 2	\$51,500	\$51,500
Year 3	\$53,045	\$52,025 (\$1,020 reduction for furlough)
Total	\$154,545	\$153,525
Highest average salary	\$51,515	\$51,175
Multiplier	60% (2% a year × 30 years)	60% (2% a year × 30 years)
Estimated monthly benefit	\$2,575.75 (\$51,515 × .60 ÷ 12)	\$2,558.75 (\$51,175 × .60 ÷ 12)

BENEFIT FORMULA for regular members (non-public safety)

HIGHEST AVERAGE SALARY

Average of highest 3 years of IPERS-covered wages (or 121% of fourth-highest year, whichever is lower).

×

MULTIPLIER

2% a year for 30 years plus 1% a year for years 31–35. Maximum = 65%. (Benefits reduced unless, at retirement, you are age 65, age 62 with 20 years of service, or your age + years of service = 88.)



Can I make up for any drop in my monthly benefit that a furlough or bumping would create by delaying my retirement?

The impact of delaying retirement depends on your circumstances, but it is likely you would make up for a reduction in your monthly benefit when a furlough or bumping reduces your wages—and potentially gain even more.

By continuing to work, you could increase the wages that IPERS will use to calculate your highest average salary, which is used in the benefit formula. You can also continue to increase your service credits, which will increase your multiplier in the benefit formula.

In the example at left, the person was eligible to retire because she met the rule of 88 (age + years of service = 88). However, being eligible to retire does not mean your benefit amount will be calculated with the maximum multiplier. For regular members, the multiplier increases 2 percent each year for the first 30 years of service, and then 1 percent each year from 30 to 35 years of service. For the member in the example, the multiplier could have increased to 65 percent if she had worked another five years.

Even if you have earned the maximum multiplier, any increase in salary, even if it is only a cost-of-living increase, can increase your highest average salary, subsequently increasing your monthly benefit.

How do I make up contributions to prevent a drop in my monthly IPERS benefit?

If you contribute to your IPERS account the amount both you and your employer would have paid on your higher salary, IPERS will record the higher wages for you. You can make voluntary contributions for hours reduced or wages lost due to bumping that occurred between January 1, 2009, and June 30, 2011. You will find this beneficial only if your highest average salary will include your wages from calendar year 2009, 2010, or 2011.

To make voluntary contributions, you must file an application form with your employer before July 1, 2011, and your employer must withhold your additional contributions no later than July 31, 2011. The application form contains more information and is available in the Members section of IPERS' Web site, <www.ipers.org>. Current and future contribution rates are also always posted on the Web site.

For example, if the person in the example at left were to make up contributions for her five-day layoff, she would have to pay her own share and her employer's share of contributions for the amount of her lost wages. The combined member and employer contribution rate for July 1, 2009–June 30, 2010, is 10.95 percent, so she would pay \$111.69 ($\$1,020 \times 10.95\%$). The additional contributions restore her highest average salary, increasing her estimated monthly benefit by \$17. She would make up the cost of the added contributions through a higher monthly benefit in less than seven months. The higher benefit is for life.

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Do I need to call IPERS or take any action if I am furloughed or bump into another position and do not plan to retire for many years?

There is nothing you need to do. Your employer reports your earnings and submits contributions on your behalf each month. IPERS cannot pay any money to you until you end all IPERS-covered employment. Lower wages will not affect your future retirement benefits unless they are part of your highest average salary.

For more information,
visit <www.ipers.org>.



IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM



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