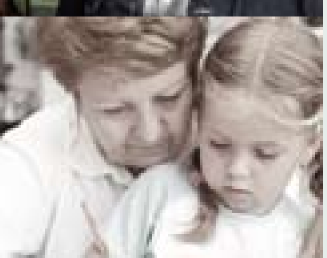
Plain talk about IPERS

A summary of fiscal year 2008

What's inside

Let's be candid—2008 was a scary year for many people and a dismal one for the economy.



Iowa's spring rains flooded homes, farms, and businesses, pounding a state economy already weary from swimming upstream against a national economy cascading down. If there was a bright spot in 2008, it was that IPERS helped many people feel a little bit safer by providing secure retirement income.

Simply secure

It's really quite simple. IPERS is a sure thing. IPERS benefits carry a lifetime guarantee. A bad economy and declining stock market do not decrease your benefits. Instead, your benefit amount is determined by a preestablished formula that replaces a percentage of your preretirement wages. How close your benefits get to the maximum of the IPERS plan—replacing 65 percent of preretirement wages or 72 percent for public safety personnel—is mostly up to you.

Current employees don't have to worry about where to invest or what to do when there is a slump in the stock market. Retirees don't have to worry that a down market will reduce their monthly payments, and they never have to worry about outliving their IPERS benefits. Disability payments and death benefits act as a safety net for members and their families.

IPERS benefits aren't meant to stand alone. The legislature's goal was to provide adequate retirement income to public employees by making IPERS benefits work with social security benefits and personal savings. Last year IPERS benefits replaced on average about 44 percent of a retiree's highest three-year average wage earned before retirement.

About IPERS retirees

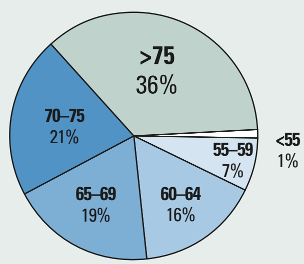
Number of retirees (or their beneficiaries receiving monthly benefits): **87,490**

Average monthly benefit for someone who retired in 2008: **$1,489**

Average number of years of service for a 2008 retiree: **22.29**

Average monthly benefit in 2008 for all retirees: **$996**

Ages of IPERS retirees:



Of the retirees over 75 years old, 67 percent are 80 or older, and 13 percent are 90 or older!

On June 30, 2008

149 retirees were already at least 100 years old.

The oldest person drawing benefits was 107.

One retiree had been drawing IPERS benefits for 43 years—that's 516 monthly payments!

Disability benefits

People receiving disability benefits: **4,200**

Amount paid in FY2008: **$39,329,798**

Death benefits

Beneficiaries receiving monthly death benefits: **4,039**

Amount paid in FY2008: **$33,408,734** *(Includes only those receiving monthly payments; does not include those who received a one-time lump-sum payment)*

Funding fundamentals

IPERS benefits should be prefunded. In other words, funding for the plan depends on employees and employers contributing enough today so that when investment income is added, there is enough money to cover the cost of future retirement benefits. This is different from other retirement plans, such as Social Security, where today's workers help pay the benefits for today's retirees.

Prefunding retirement benefits: Today's workers contribute for their own future retirements.

IPERS pools employees' payroll deductions and employer contributions in the Trust Fund, and then invests the money so the Trust Fund will grow. Because IPERS' responsibilities extend decades into the future, IPERS adopts long-term investment strategies. Most of the income to pay benefits comes from earnings on investments.

Income by source 1999–2008
Investment income: 70.1%
Employer contributions: 17.7%
Member contributions: 12.2%

The IPERS Investment Board and administration are legally responsible to safeguard the Trust Fund. The law says that no one can use the Trust Fund for any reason except to pay the benefits promised to IPERS members plus reasonable operating costs.

Trust Fund value on June 30, 2008 = **$22.4 billion**

The length of 22,400,000,000 one-dollar bills laid end to end measures 2,170,707 miles. This would extend around the earth about 87 times.

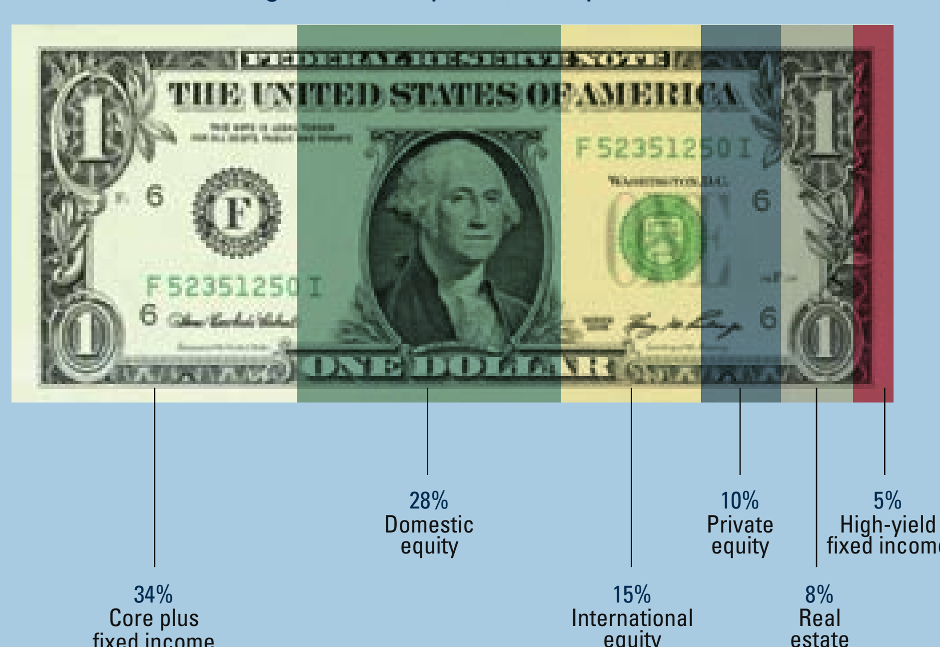
Spreading the Trust Fund among several baskets

Markets are fickle, so we never put IPERS' retirement nest eggs in only one basket. Investment staff and the Investment Board carefully study the best way to diversify IPERS' portfolio. Diversifying helps offset the effect of declining markets, as we had in 2008, because when some asset classes are not doing well, others are likely to perform better. The equity asset classes can bring high returns, but they also are riskier. Fixed-income sources such as bonds carry less risk, but they bring lower returns.

FY2008 investment returns by asset class	
Core plus fixed income	5.19%
Domestic equity	–15.12%
International equity	–7.57%
Private equity	20.50%
Real estate	6.12%
High-yield fixed income	1.29%
Short-term cash	4.56%

FY2008 asset allocation targets

Target allocation, or percent, of total portfolio

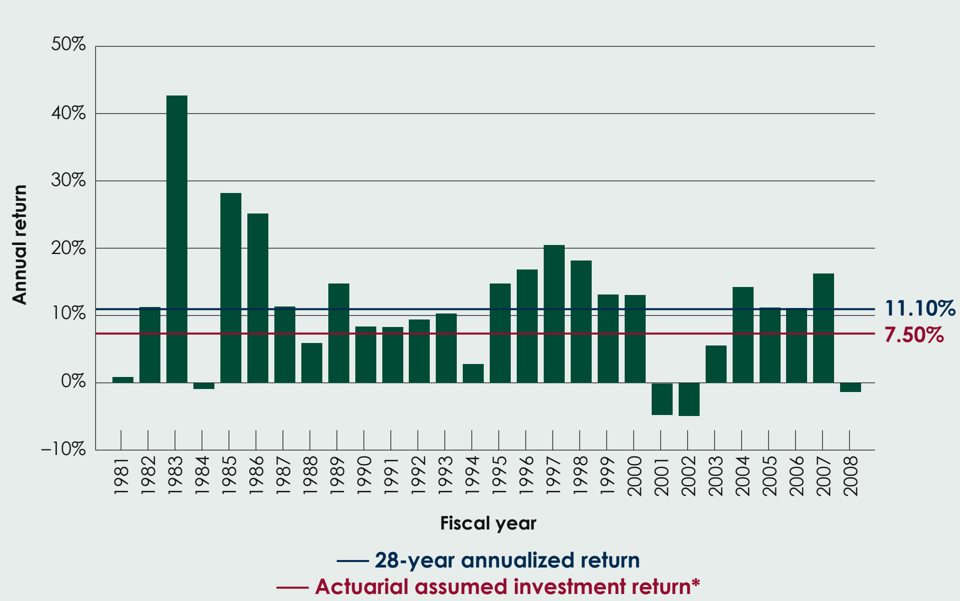


Time is on our side

Because we don't know what future investment returns will be, our actuary and Investment Board must use assumptions to estimate IPERS' funding condition. In 2008, they continued using an actuarial assumed investment return of 7.50 percent, the assumption that was adopted in 1996.

When figuring IPERS' financial condition, the actuary smooths out investment gains and losses by spreading them over four years. This way, short-term turbulence in the markets does not blur the funding picture, nor does it send contribution rates soaring or plummeting.

Investment returns 1981–2008



*The actuarial assumed investment return increased from 6.75 percent to 7.50 percent in FY1996.

How did IPERS compare in FY2008?

	FY2008	Three years	Five years	Ten years
		Annualized return		
IPERS' return	**–1.33%**	**8.43%**	**10.14%**	**7.09%**
Median return of the Trust Universe Comparison Service's Universe of Public Funds with Assets Greater than $1 billion	–4.36%	7.57%	9.82%	6.00%

CEO Donna M. Mueller

On 2008's unfinished business

Baby boomers will place new demands on IPERS as increasing numbers retire with new goals. Some would like to continue working part-time in their current jobs or move to a new job and receive a full pension, but that could increase costs dramatically. We must keep IPERS benefits relevant amid rising costs and rising expectations.

When boomers do retire, they will learn what current retirees already know—fixed monthly benefits lose buying power over time. The FED (Favorable Experience Dividend), a once-a-year payment most retirees receive as a cushion against inflation, is not guaranteed and funding is running out. Retirees did not contribute money for a cost-of-living adjustment while they were working, so there is no easy solution.

Outlook for 2009

The economy is likely to overshadow everything else in 2009, including the pressing unfinished business. The global financial crisis has affected all parts of IPERS' investment portfolio. Between June 30, the end of fiscal year 2008, and November 30, U.S. stocks fell 30.74 percent and international stocks fell 42.55 percent. It may get worse before it gets better. If investments continue to lose value, it is possible that IPERS will need to increase contributions more than already planned.

Although reports are dismal, IPERS maintains its optimism. A long-term investor with long-term obligations, IPERS does not need to sell most of our investments when the markets are low. We have adequate cash flow to pay benefits for many years as we wait for markets to recover.

When you join IPERS, you become part of something big.

Strength in numbers

IPERS is a statewide plan with members and employers in all 99 Iowa counties. In FY2008, IPERS covered 2,259 participating employers. Most of Iowa's public employees are members. There are advantages to that.

Being a member of IPERS is similar to having an insurance policy for retirement. IPERS takes on the investment risks, pooling contributions and the cost of benefits, so no one must face the market alone.

It is more cost-efficient to manage IPERS centrally than it would be for each employer to run its own retirement plan. In FY2008, CEM Benchmarking Inc., an independent company, reviewed IPERS' performance for the prior year and confirmed IPERS continues to provide services efficiently and economically. IPERS' costs consistently rank low among similar systems' costs, while IPERS' services rank high.

Did you know one of the biggest retirement risks is longevity risk—the risk that you will outlive your money? IPERS benefits have a lifetime guarantee.

CEM found IPERS' cost to administer benefits was $35 per active member and retiree; the median cost for similar plans was $73.

Membership on June 30, 2008

319,637 members		
167,850 (53%)	87,490 (27%)	64,297 (20%)
Active (currently contributing) *Most active members, 52 percent, were working in education in 2008; 45 percent were split evenly among city, county, and state government. The rest worked for other public employers, such as townships.* *Oldest person still working: **90***	**Retired** *A growing number of retired members are returning to work with an IPERS-covered employer. During FY2008, **8,547 (9.8 percent)** were working for a government employer that provides IPERS benefits.*	**Inactive** (money in IPERS but not currently contributing) ***Almost half** of IPERS' inactive members are vested, giving them a right to lifetime monthly benefits.*

IPERS members made **81,269 phone calls** and sent **6,293 e-mails** to IPERS during the year.

The basic equation

When benefits are prefunded, **actuarial assets equal actuarial liabilities.**
Actuarial assets = Projected contributions + Investment income
Actuarial liabilities = Projected cost of benefits being promised + Expenses

For the prefunding equation to work, two things must happen. First, the contribution rates (the percentage of wages that employees and employers contribute to IPERS) must be at the right level. Second, investments must earn the returns we expect.

Over the past three decades, investments have done better than expected, but contributions have been less than they should have been. Fortunately, because benefits are prefunded, there is time to make up for past low contribution rates. Future adjustments to the contribution rate can correct this.

Fiscal year 2008 was the first year the contribution rate increased for regular members (about 95 percent of all members) in almost 30 years. The legislature has set the rate for regular members through June 2011, increasing it 0.5 percentage point a year. In 2008, the law changed to allow IPERS to adjust contribution rates for regular members starting in July 2011. IPERS already has the authority to adjust the contribution rates for Special Service members (sheriffs, deputies, and those in other protection occupations).

Contribution rates

(Percent of employee's wages)

	FY2008 (July 1, 2007–June 30, 2008)			FY2009 (July 1, 2008–June 30, 2009)		
Membership class	Employee	Employer	Total	Employee	Employer	Total
Regular members	3.90%	6.05%	9.95%	4.10%	6.35%	10.45%
Sheriffs and deputies	7.70%	7.70%	15.40%	7.52%	7.52%	15.04%
Protection occupations	5.64%	8.47%	14.11%	5.63%	8.45%	14.08%

Basic financial statements

Plan net assets
as of June 30, 2008

Assets	
Cash and cash equivalents	$ 182,644,381
Receivables	1,558,464,915
Investments at fair value	24,454,328,362
Capital assets	12,473,791
Total assets	26,207,911,449
Liabilities	
Accounts payable and accrued expenses	34,029,755
Payable for investments purchased	2,579,741,045
Rebates and collateral payable	1,220,763,027
Foreign exchange contracts payable	2,782,633
Total liabilities	3,837,316,460
Net assets held in trust for pension benefits	$22,370,594,989

Changes in plan net assets
for the year ended June 30, 2008

Additions	
Total contributions	$ 634,189,547
Net investment income	(328,079,861)
Net securities lending income	(10,494,805)
Total additions	295,614,881
Deductions	
Benefit payments	1,096,097,859
Member and employer refunds	36,204,512
Administrative expenses	9,885,467
Total deductions	1,142,187,838
Net increase/(decrease)	(846,572,957)
Net assets held in trust for pension benefits Beginning of year	23,217,167,946
Net assets held in trust for pension benefits End of year	$22,370,594,989

This Annual Summary, released December 2008, provides only an overview of IPERS' finances and performance. For a complete financial picture, view the audited FY2008 Comprehensive Annual Financial Report at <www.ipers.org>, or contact IPERS for a printed copy. Alternative formats are available on request.

It's a balancing act

In 2008, projected contributions plus investment earnings were less than the cost of benefits being promised plus expenses. In other words, current benefits are not fully prefunded and IPERS has an unfunded actuarial liability (UAL).

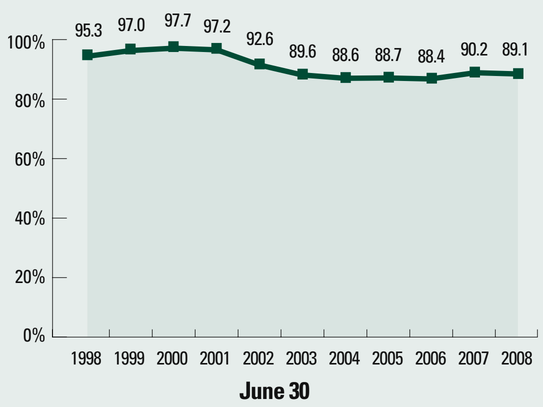
It is common for retirement systems to have a UAL, and there is no need to worry about a UAL if the retirement system has a plan to improve funding.

The biggest contributor to IPERS' UAL has been the contribution rate, which has been lower than the rate necessary to prefund benefits. The plan to address IPERS' UAL includes keeping benefits the same and incrementally increasing the contribution rate.

2008 equation:
Projected contributions + Investment income < Projected cost of benefits + Expenses

Funded ratio

(Actuarial value of assets ÷ Actuarial liability)



Actuarial assets = $21.857 billion

Actuarial liability = $24.522 billion

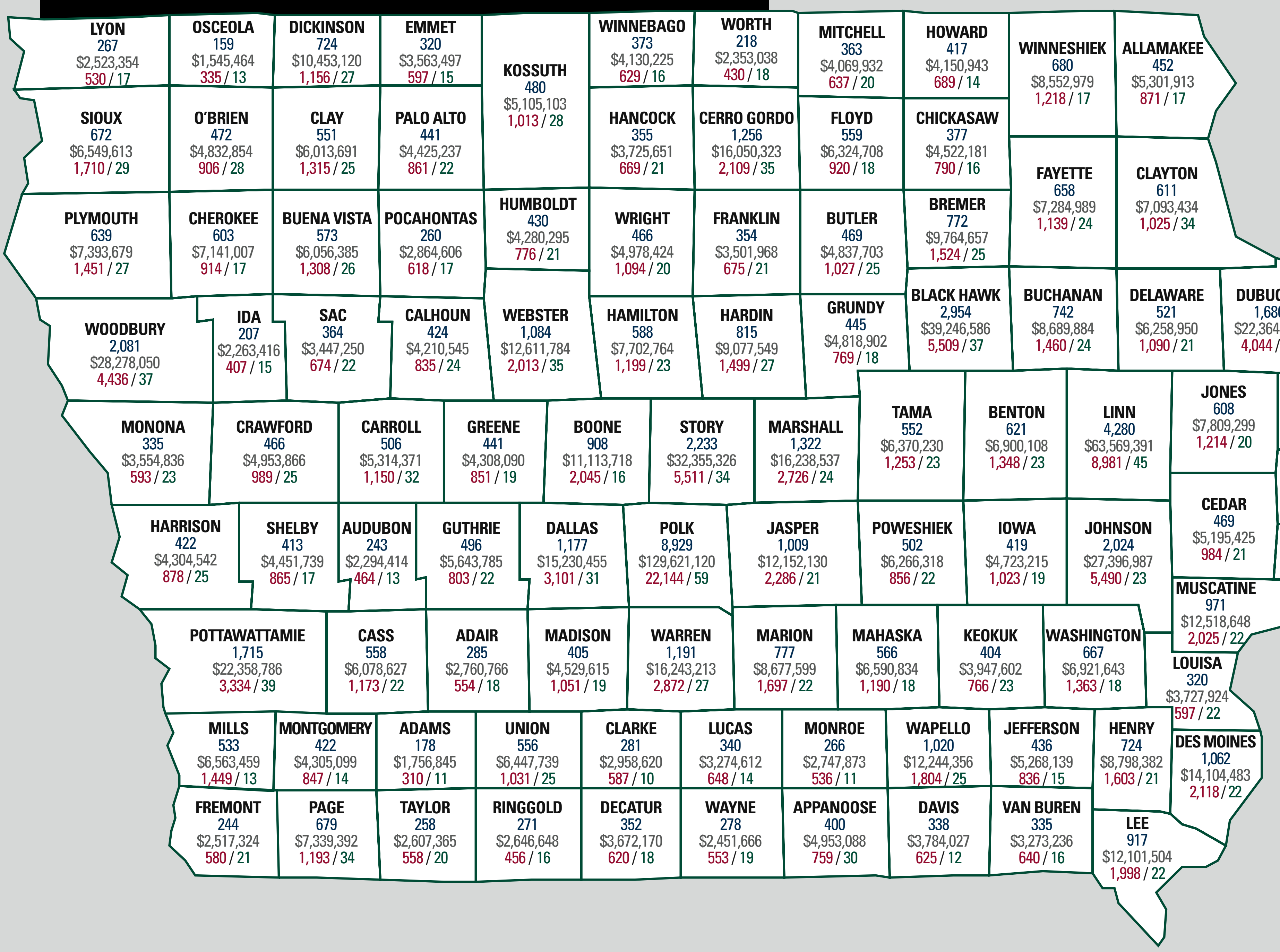
Unfunded actuarial liability
IPERS' unfunded actuarial liability increased from $2.266 billion in FY2007 to $2.665 billion in FY2008.

Giving back to our communities

IPERS directly affects the economies of Iowa communities. During FY2008, IPERS paid $1,096,097,859 in benefits with $967,877,579 of that—over 88 percent—paid in Iowa. IPERS paid most of the remainder to people in the border states of Illinois, Minnesota, Missouri, Nebraska, South Dakota, and Wisconsin, where many IPERS retirees lived while they were employed. Much of the rest went to retirees in the warmer states of Arizona, Texas, and Florida.

Where the money goes

Key
Retirees and beneficiaries
Retiree and beneficiary payments
Active members / Employers



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