

Recession highlights value of secure benefits



Reports about the advantages of a defined benefit or traditional pension plan such as IPERS surfaced from within the recession's bad news.

As people watched the value of their personal retirement accounts plunge, their confidence in having a secure retirement fell to an all-time low, according to the Employee Benefit Research Institute. At the same time, people who have a pension plan started to appreciate their plan even more for the security it provides.

A defined benefit plan such as IPERS provides a predictable, dependable benefit when you retire that carries a lifetime

guarantee. The amount of your benefit payment does not change when the market drops. You will continue receiving your IPERS benefit every month for the rest of your life.

A defined benefit plan can provide guaranteed lifetime benefits because it operates much as an insurance plan does. The plan covers a group of people, and their contributions are pooled and invested. The group shares costs and risks such as the risk of outliving retirement savings and investment risk.

You will continue receiving your IPERS benefit every month for the rest of your life. Your benefit cannot be reduced.

2009 BENEFITS CALENDAR

MONTH	CHECKS MAILED	DIRECT DEPOSIT
July	30	31
August	28	31
September	29	30
October	29	30
November	25	30
December	30	31

GUARANTEED BY IPERS

- ✓ Your monthly payment
- ✓ Death benefits if you selected one at retirement
- ✓ Dividend if you retired before July 1990
- ✓ Retirement, death, and disability benefits earned to date by employees

NOT GUARANTEED

- ✗ Dividend if you retired after June 1990
- ✗ Benefits current employees have not yet earned

The legislature can change the benefits IPERS offers going forward for those who have not yet retired. The legislature can also change how fast employees can earn benefits in the future.

Recession hurts IPERS' long-term funding

BENEFITS ADVISORY COMMITTEE STUDIES SOLUTIONS

IPERS has been through several recessions since it was founded over 50 years ago, but the current recession has been unusually brutal. Segments of the investment markets fell 30-40 percent or more during the last year. The loss in IPERS' investment portfolio for fiscal year 2009 (7/1/08-6/30/09) could be 20 percent or more. With a loss that large, IPERS' funded ratio (projected future assets divided by projected future liabilities) could drop to 73 percent next year, down from last year's 89 percent. Without changes, IPERS' actuary estimates the funded ratio will continue to drop.

This early warning from IPERS' actuary has prompted the Benefits Advisory Committee to begin studying ways to restore balance to IPERS' long-term funding. Recognizing there is

no immediate problem and thus no need to react impulsively, the Benefits Advisory Committee still understands the recession could affect the long-term funding outlook for decades.

The Benefits Advisory Committee has said any solution must preserve IPERS as a defined benefit retirement plan for future Iowa public employees. To do so, its recommendations likely will include adjustments to both contributions and how fast employees earn benefits in the future. When reviewing benefits, the Benefits Advisory Committee agreed to consider first those changes that are the fairest for the most people.

The BAC, composed of representatives from employer and member associations, advises the legislature and

IPERS' administration. The Iowa Legislature would need to approve any recommendation from the BAC before the changes would become part of the IPERS plan.

You may contact members of the BAC through IPERS or the organizations represented.

Follow the BAC's work on
<www.ipers.org>.

Upcoming meetings
08/03/09 10/05/09



Benefits Advisory Committee

EMPLOYER ASSOCIATION REPRESENTATIVES

Len Cockman, Chair

Iowa Association of School Boards

Ray Walton

Iowa Department of Administrative Services

Martha Henrichs

Iowa Association of Community College Trustees

Mark Tomb

Iowa League of Cities

James Maloney

Iowa State Association of Counties

MEMBER ASSOCIATION REPRESENTATIVES

Bradley Hudson, Vice Chair

Iowa State Education Association

Susanna Brown

State Police Officers Council

Walter Galvin

Iowa Retired School Personnel Association

Janie Garr

IPERS Improvement Association

Patrick Lynch

International Brotherhood of Teamsters

Steve Hoffman

Iowa Sheriffs and Deputies Association

Gaylord Tryon

School Administrators of Iowa

Danny Homan

American Federation of State, County, and Municipal Employees (AFSCME)

PUBLIC MEMBER

Diane Reid

Free information on long-term services and support

Being aware of potential needs for long-term care makes you more likely to put plans in place that meet your own or your family's needs based on personal preferences, according to the Iowa Department of Elder Affairs. For free information

on long-term services and support, call the Family Caregiver Program at 1-866-468-7887 or the Department of Elder Affairs at 1-800-532-3213. LifeLong Links has planning information and reference material online at <www.LifeLongLinks.org>.



Q&A: IPERS dividend payments

1. WHY DOES IPERS PAY DIVIDENDS?

Over time, inflation reduces the buying power of fixed monthly benefit payments. IPERS does not have a traditional cost-of-living adjustment that increases your monthly benefit. Instead, the Iowa legislature created once-a-year dividend payments to help offset the effects of inflation. Retirees and beneficiaries who receive monthly IPERS benefits receive the dividends.

2. I RECEIVE A NOVEMBER DIVIDEND. WILL I GET A PAYMENT THIS YEAR?

Yes. The law guarantees a base November dividend, which is paid to those who retired before July 1, 1990. However, the law does not require IPERS to increase your monthly benefit amount.

The November dividend can be increased above your base amount only if we can afford to do so without increasing contributions from current public employees. Because the

contribution rate has not been as high as it should have been for several years, the November dividend base has not increased. Payments have been the same since 2002.

3. WILL IPERS CONTINUE TO PAY THE JANUARY FAVORABLE EXPERIENCE DIVIDEND (FED)?

It is likely IPERS will pay the FED in 2010 and several years after. However, the law does not guarantee payment of the FED. The January 2010 FED payments will not be calculated until early January.

IPERS pays the FED to those who retired after June 30, 1990, and have been retired for at least one year. The legislature provided for the FED payment by creating a Favorable Experience Dividend Reserve Account and transferring money from the IPERS Trust Fund into the Reserve Account. The law does not require IPERS to pay the FED; rather, it allows IPERS to pay the FED from the Reserve Account as long as there is money in the account.

Despite its name, the FED is not tied to our investment performance. However, the Reserve Account is invested with the Trust Fund. Investment gains and, more recently, losses are applied to the account balance. The law allows transfers to the Reserve Account only when the IPERS Trust Fund is 100 percent funded—meaning assets and liabilities will balance in the long term.

IPERS last transferred money to the Reserve Account in 2001. Given no more transfers, the recent recession and falling investment markets, and an increasing number of FED recipients, the Reserve Account will support only an estimated three more years of dividend payments assuming no changes in the calculation methods used last year. The legislature could decide to stop the FED payments before then and transfer the remaining money back to IPERS' general Trust Fund.

Inside the Westridge investment

THE BACKGROUND

In February, IPERS ended an investment management contract with Westridge Capital Management after confirming federal authorities were investigating two company executives for fraud. IPERS has assisted the authorities since they began the investigation. IPERS will continue to assist federal authorities until the case is resolved.

THE INVESTORS

There are about 40 affected investors. Other investors seeking to recover money reportedly include pension or endowment funds of 3M, Blue Cross & Blue Shield, Kaiser Aluminum & Chemical, Wells Fargo, North Dakota, San Diego County, Sacramento, the University of Pittsburgh, and Carnegie Mellon University.

IPERS' INVESTMENT

IPERS hired Westridge Capital Management in March 2007 to manage one strategy within the domestic equity portfolio, using about 2 percent of IPERS' assets. The initial investment in 2007 was about \$400 million. IPERS later added two \$50 million investments

as part of rebalancing our portfolio to maintain the Investment Board's asset diversification targets.

The value of our investment was expected to increase or decrease in line with the stock market. A component of the investment, a stock arbitrage strategy, was expected to provide a very modest amount of additional return. The stock market experienced major losses in 2008 and early 2009. As a result, the value of our investment also dropped significantly.

THE RECOVERY

IPERS has recovered \$35 million, most of which was held by Westridge to pay margin calls. After IPERS' recovery of \$35 million, and after deducting the loss due to the declining stock market, the value of our account should be about \$291 million.

The court has appointed a receiver who is responsible for identifying and protecting assets. The receiver has captured assets and investments valued at about \$900 million and has estimated claims against these assets at about \$1.5 billion. Because claims exceed available assets, IPERS' recovery will be less than our estimated account value.

THE LEGAL STATUS

It may be months, or even years, before the case is resolved. The two men arrested still have not been indicted. The court-appointed receiver, who will develop a plan on returning available money to investors, is expected to outline a claims process by June 30.

A FREQUENTLY ASKED QUESTION

One question asked frequently is, "Could IPERS have prevented this from happening?" Many investors have asked themselves a similar question in light of recent fraud cases. IPERS and other investors already perform due diligence to research a company before selecting a manager or making an investment. Companies such as Westridge are also heavily regulated by federal agencies. Right now it does not appear there were evident warning signs, but IPERS is joining other investors in reviewing industry standards and our own standards to see what additional protections we can adopt.

Affected investors include IPERS and other pension and endowment funds including those of 3M, Blue Cross & Blue Shield, Wells Fargo, North Dakota, the University of Pittsburgh, and Carnegie Mellon University.

Read Westridge updates and get other investment-related news on <www.ipers.org>.

Donna M. Mueller, CEO

It can be difficult to separate fact from rumor and certainty from speculation in discussions that follow bad events. The fact is that we do not have all of the answers yet about our Westridge investment. We do know federal authorities are taking appropriate action in the Westridge case, and we must be patient while the court does its work.

Being patient does not mean being idle. Our legal team is aggressively seeking the recovery of IPERS' investment and we will continue to fight for what is rightfully ours. Iowa Attorney General Tom Miller and Governor Chet Culver continue to support our battle to recover IPERS' money.

Although the outcome of Westridge does not change IPERS' overall funding status, this case concerns all of us. At the same time, concern about the effect of the recession on investments

has greatly overshadowed the Westridge investment.

The worldwide recession has been the worst economic period for our country since the Great Depression. Our personal retirement savings accounts have lost much of their value, and it may take years for individuals to make up their losses. Large investors such as IPERS have an investment timeframe that spans decades rather than years, and the recession has affected these investors' long-term funding.

In spite of the bad economic news, IPERS continues to be a strong retirement plan with predictable, dependable benefits. We can speed up our own economic recovery and preserve IPERS for all future public employees through a plan that addresses IPERS' future assets as well as future liabilities. The Benefits Advisory Committee is already working toward this goal.



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Inside IPERS' funding

IPERS is not immune to the economy. The recession has hurt IPERS' long-term funding, as it has the finances of other pension plans across the country.

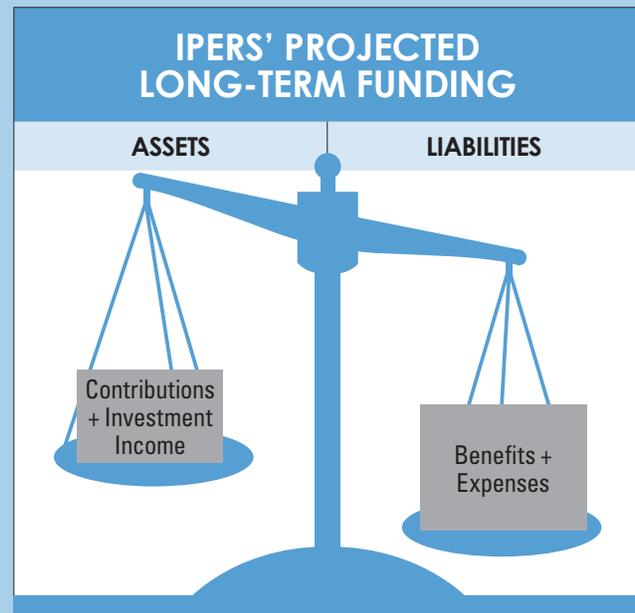
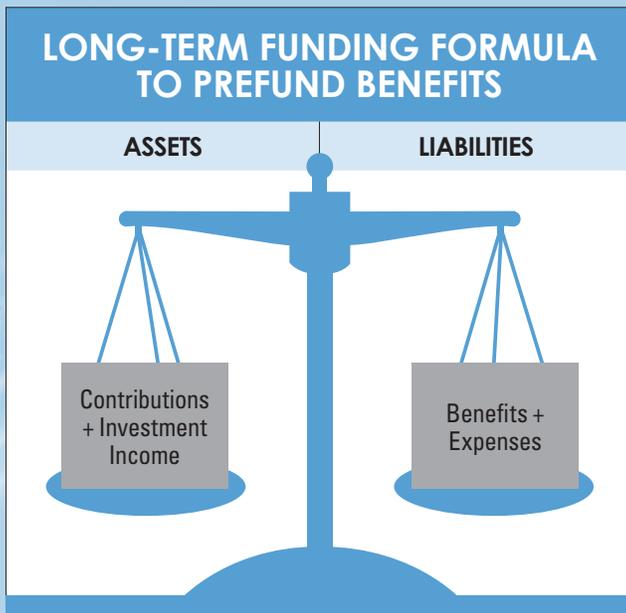
IPERS does not get a direct appropriation of money from state and local governments. Instead, IPERS is funded entirely by contributions from public employees and their employers, plus investment income. Because most of the income to pay benefits is income from investments, a severe or prolonged recession can affect IPERS' long-term funding—and this recession has.

IPERS benefits are supposed to be prefunded. Balanced long-term funding depends on employees and employers contributing enough today so that, after adding investment income, there is enough

money to cover the cost of future retirement benefits and expenses. This is different from retirement plans such as Social Security, where today's workers help pay the benefits for today's retirees.

Contributions for most IPERS members have been less than they should have been to cover the cost of benefits employees were earning. The legislature already approved adjustments to future contribution rates to help correct past shortcomings, but the contribution rate for most employees is still below what it should be.

To meet funding expectations, investments must earn 7.5 percent annually. Over the past three decades, investments have done better than expected. Then, in 2008, the economy plunged quickly



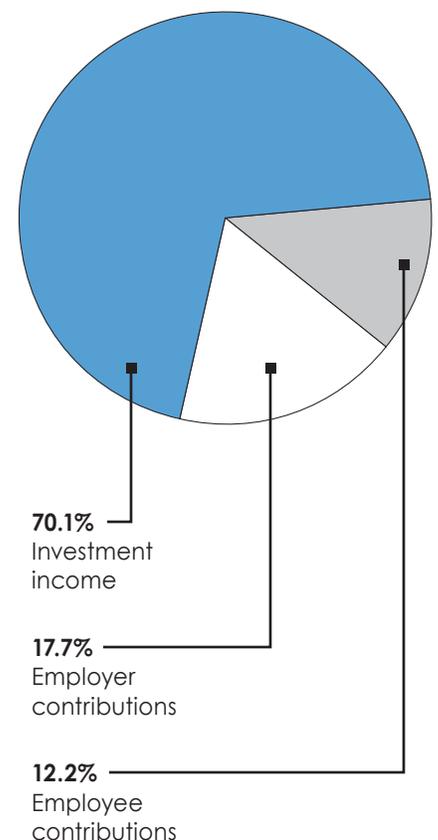
and stayed down. Although an institutional investor like IPERS can take advantage of an outlook of 30 years or longer, the length and severity of this recession has affected all asset classes included in even the most diversified investment portfolio. Projections show that next year's return would have to be 55 percent, which is clearly improbable, to make up for the recession losses suffered so far.

Rebalancing long-term funding requires a review of both sides of the funding equation: assets and liabilities. Trying to adjust only the asset side of the equation can quickly lead to unaffordable contributions or false thinking about the control an investor has over the markets.

The only significant way to affect the liability side of the equation is to change benefits employees can earn going forward. Annual administrative expenses are only about 0.04 percent of the value of the Trust Fund, and IPERS' costs are already lowest among its peers according to independent reviewer CEM Benchmarking Inc.

Annual benefit payments are more than 110 times as much as administrative expenses. Although IPERS cannot reduce the benefit you are currently receiving or any benefits already earned by current and past employees, the legislature can change benefits employees earn in the future.

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Iowa Public Employees' Retirement System

NEWSLETTER FOR RETIRED IPERS MEMBERS



Take time for IPERS at the Iowa State Fair

The 2009 Iowa State Fair opens August 13 with the theme, "State Fair Time." IPERS will be there the entire time, from opening day through the last day on August 23. Look for our booth in its usual spot—the northeast quadrant of the Varied Industries Building. Stop by and say hello!

More inside

- Your IPERS benefits are safe—find out why
- Read about how the recession is affecting IPERS
- Q&A: IPERS dividend payments