LIFE TIMES

NEWSLETTER FOR RETIRED IPERS MEMBERS | Iowa Public Employees' Retirement System | Summer 2006

Legislature and Governor act to keep IPERS strong

IPERS' future looks brighter thanks to bipartisan support of a contribution rate increase needed to address rising retirement costs.

The Legislature and Governor approved a contribution rate increase totaling two percentage points phased in over four years. Although less than requested, the increase will help keep IPERS' currently sound finances healthy in the future.

The increase begins July 1, 2007. Employers will pay 60 percent and employees 40 percent of the increase.

The contribution rate increase is the first one since 1979. The rate applies to all IPERS members except for sheriffs, deputy sheriffs, police, firefighters, correctional officers, and those in other protection occupations, who contribute at rates determined annually by IPERS' actuary.

House File 729, passed by the Legislature during the 2006 session, authorizes the rate increase. More details are in the legislative wrap-up on page 4.

Misunderstood thirteenth check helps retirees keep up with inflation

Although you wouldn't know by their names, the misunderstood "thirteenth IPERS checks" are neither dividends nor payments based on favorable investment experience. The November dividends and January Favorable Experience Dividends (FEDs) are once-a-year payments established in Iowa law to be paid to IPERS retirees.

Paying the thirteenth check often produces the question from current public employees and legislators: "Why did retirees receive a thirteenth check when IPERS asked for a contribution rate increase?"

Since IPERS does not have a traditional cost-of-living program, the Legislature created the payments to help protect pensions from inflation. The payment formulas take into account that fixed monthly pensions lose buying power the longer people are retired.

Iowa law guarantees the November dividend, but not the FED. IPERS pays the FED from the FED Reserve Account. The Legislature created the Reserve Account as a separate account within the IPERS Trust Fund. IPERS can use the FED Reserve Account only to pay the thirteenth checks.

The law prohibits IPERS from transferring any more money to the FED Reserve Account until promised retirement benefits are 100 percent funded. IPERS can continue to send a FED check and make the money last as long as possible, but when the FED account is empty, there are no more FED checks.

November Dividend

- For pre-July 1990 retirees
- Base payment guaranteed by law
- Annual payment based on a formula that includes a multiplier and a base payment
- The multiplier is limited to no more than 3% and is not applied to the base unless IPERS' actuary certifies that current contribution rates can support the increase
- No increase to the base payment since November 2001
- $16.6 million to 20,964 retirees in November 2005
- Average payment: $792.47

FED (Favorable Experience Dividend)

- For post-June 1990 retirees
- Annual payment based on a formula defined in law
- Formula includes a multiplier
- Multiplier limited to no more than 3%
- Multiplier frozen at 1.07% since 2003
- Almost $44 million to 56,629 retirees in January 2006
- Average payment: $781.13
- Paid from the FED Reserve Account established by the Legislature in 1998
- Money cannot be transferred into this account unless IPERS' promised retirement benefits are 100% funded
- Last transfer in fiscal year 2001
- With the multiplier frozen at 1.07%, funds will run out in roughly 9–10 years

"When I retired after 37 years, someone told me that I'd most likely be fine the first ten years. But I would begin to notice being on a fixed income after that. They were so right, so I really appreciate the additional money [from the FED]." — IPERS retiree

IPERS Performance Report

Private equity investments: #1

IPERS was the best of all public retirement systems in the United States in selecting private equity investments, according to Private Equity Intelligence (PEI), a London-based company. One report on the PEI study results called IPERS a "savvy private equity investor." (*Institutional Investor: Hedge Fund Daily,* April 12, 2006.)

IPERS' private equity investments returned 19.8 percent for fiscal year 2005, which ended June 30. Second best was the Oregon State Treasury. The California State Teachers' Retirement System came in third.

Overall, IPERS' investments returned 11.25 percent in fiscal year 2005. The Trust Universe Comparison Service (TUCS), a respected investment benchmarking company, reported that IPERS' returns ranked in the top quartile in three of the TUCS institutional investor peer universes: TUCS Public Pension Funds with Assets Greater than $1 billion, TUCS All Master Trusts Universe, and TUCS Public Funds Universe.

IPERS benefits are guaranteed regardless of IPERS' investment performance, but performance is critical because investments provide the largest percentage of income from which benefits are paid. Net investment portfolio assets were $18.745 billion on June 30, 2005. Assets have since topped $20 billion.

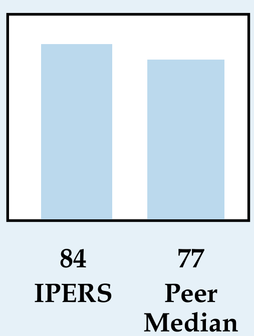
IPERS benefit administration costs lower by half

An independent company that reviews costs and performance of public retirement systems found IPERS' fiscal year 2005 benefit administration costs were lower than those of nearly all other public retirement agencies of a similar size in a recent study.

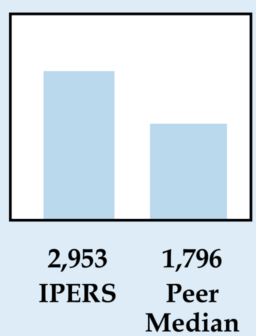
CEM Benchmarking Inc. rated IPERS' services high and concluded IPERS' administration costs were half the median of the costs of the comparison group. CEM reviewed 54 pension organizations and compared IPERS to 16 from that group that are similar in size and membership, including several systems in the Midwest. CEM, a private company based in Canada, reviews performance and costs of public pension systems in the United States and abroad.

Total benefit administration cost
(Per active and retired member/beneficiary)

Total service score
(Out of 100)



Number of members served per staff position



You can read the entire 2005 CEM Benchmarking report at <www.ipers.org/publications.htm>.

No change to taxes on IPERS benefits

Tax cuts for seniors affect tax returns filed in 2008

After weeks of talk about reducing state taxes on pensions, the Legislature made no pension tax changes. However, a new law phases out state income taxes on the taxable portion of social security benefits from 2007 through 2014. The minimum income thresholds triggering when a state tax return is required are increased starting in 2007 for those aged 65 and older.

Since the first changes take effect in 2007, the changes will not affect tax returns until 2008. The Department of Revenue will work in the upcoming months to develop information on who is affected by the changes and how. Although IPERS cannot give tax advice, IPERS will work with the Department to provide more information about the law changes in future newsletters.

Increased contributions from current employees affect retirees

IPERS CEO
Donna M. Mueller

Although retirees' monthly IPERS benefits were safe even if the Legislature did not pass a contribution rate increase, your state senator, state representative, and Governor Vilsack deserve a big thank-you from all of us. Their support this year of House File 729 helps preserve IPERS' long-term financial health.

Why does the contribution rate increase paid by employees affect you?

Because payment of the FED check, explained on page 1, is based in law on the overall health of the IPERS Trust Fund. As long as contributions are less than needed to cover the costs of future retirements, IPERS is unable to maintain its solid financial foundation—even with good investment returns. If IPERS cannot fully meet the costs of future retirements, IPERS is prohibited from transferring money into the reserve fund used to make the FED payment. Even with the contribution rate increase, the FED reserve fund will be depleted in nine to ten years and there will be no more FED payments.

Why did contribution rates need to change?

Rising life expectancies and the stock market downturn in the early 2000s only partially explain the need for more contributions. IPERS needs an infusion of contributions now because there is no timely way to adjust, even minutely, the rate at which public employees and their employers pay into IPERS.

IPERS is like a group insurance plan. Risks are pooled and the costs of claims shared by everyone in the pool. When the pool or the payouts change, the amount people pay for coverage needs to change.

Why didn't IPERS adjust the rate sooner?

IPERS can't adjust the contribution rates of most members as the characteristics of IPERS members, the benefits, or the stock market change. For 96 percent of IPERS members, only the Legislature can change the contribution rate. It last did so in 1979.

Not being able to adjust rates is costly. We estimated we lost over $170 million in contributions and investment income by delaying the first 0.5 percentage point increase from July 2004, when IPERS first asked for an increase, to July 2007.

IPERS can adjust contribution rates for the 4 percent of our members who are in public safety positions. Each year we review and move the rates for these members up or down. Those small, constant changes result in rate stability in the long run. For example, in 2006 the contribution rate for sheriffs and deputies was lower than it was in 1996. The rate for the other group of public safety employees was only 0.36 percentage point higher than it was ten years ago. At the same time, the retirement benefits for these groups were funded at or near 100 percent, even with benefit improvements.

What's next?

Each year IPERS has an actuarial valuation. Our actuary will start factoring in our rate increase. In a few years we'll have a much better idea of how much the contribution increase improves our funding status. We will work with the Legislature to examine options for cost-of-living adjustments. We will discuss whether the Legislature should establish a board of trustees that can adjust rates for IPERS so we can start making the small changes that make a big difference. And we will work hard to let you know what is happening so you can make your voice heard.

CEO Statement on CIETC

Media reports that now-fired executives at the Central Iowa Employment and Training Consortium (CIETC) in Des Moines received salaries of $360,000 a year generated calls and e-mails from IPERS members. The members expressed concerns that the agency's executives will get pensions higher than they deserve.

The Legislature held hearings on CIETC's finances in April and May, and plans to continue its probe throughout the summer. State and federal law enforcement agencies are investigating.

The law requires IPERS to cover most public agencies, including CIETC. Therefore we are monitoring developments and want to assure our members that IPERS will take all appropriate action when the investigation is complete. We have the ability to adjust wages reported to us if that is justified.

Donna M. Mueller
CEO

IPERS Legislative Wrap-Up

House File (HF) 729

(HF 729 also makes changes to the Judicial Retirement System.)

1 Increases the contribution rate by one-half percentage point a year for four years, beginning July 1, 2007.

Read about this change on page 1.

2 Limits how much people can inflate their wages to get a higher pension.

IPERS uses the average of the highest three years of wages to figure the amount of a member's pension. The higher the average wage, the higher the pension. However, people do not pay their fair share for their higher pensions when there are huge wage increases in the highest three years compared with the rest of their employment history.

Beginning July 1, 2007, IPERS will use a spiking control that limits how much of a wage increase applies when calculating pensions. IPERS will compare the average of the highest three years, or the final average salary, to the fourth highest year's salary.

If the final average salary is more than 121 percent of the fourth highest wage, the final average wage is adjusted. This approach allows for a wage increase of approximately 10 percent in each of the highest three years.

3 Restricts retirees who return to work for an IPERS-covered employer while drawing an IPERS pension from diverting wages to noncovered types of compensation in order to avoid the cap on earnings.

Employer contributions to deferred compensation retirement plans, currently not considered wages by IPERS, will count as earnings starting July 1, 2007, although IPERS will not collect contributions on them. IPERS reduces pensions when retirees earn more than the limit.

4 Cancels a future change in how the final average salary used in the benefit formula is figured.

On July 1, 2008, IPERS was scheduled to start using the average of the highest twelve consecutive quarters of wages in the benefit formula, rather than the highest three years. IPERS originally requested the change because of its potential to control intentional wage spiking that inflates pensions.

IPERS twice has asked for an extension of the deadline. IPERS still does not have the technology necessary to move to the highest twelve consecutive quarters. IPERS also determined the change was not an effective way to control wage spiking.

Example: Joe, age 65, retires in 2009 after working 30 years in an IPERS-covered position.

Step 1. Figure the final average salary.

Joe's highest three years of salary are:
2007—$50,000
2008—$55,000
2009—$75,000 (year of retirement)
$180,000/3 = $60,000

Joe's final average salary is $60,000.

Step 2. Figure the spiking control by multiplying the highest annual salary outside the highest three years by 121%.

Joe's next highest annual salary was $46,000 in 2006.
$46,000 x 121% = $55,660, the spiking control

Step 3. Compare the final average salary from Step 1 and the spiking control in Step 2.

Joe's final average salary = $60,000
Spiking control = $55,660
Since $55,660 < $60,000, $55,660 is used as the final average salary in the formula to figure Joe's benefits.

IPERS Benefit Formula	Final Avg. Salary Avg. highest 3 yrs. salary	X	Multiplier 2%/year for 30 yrs; 1%/year next 5 yrs	= Annual Benefit
Current Law	$60,000	X	60%	= $36,000 ($3,000/month)
Law Change 7/1/07	$55,660	X	60%	= $33,396 ($2,783/month)

The spiking control will not affect the benefits of most IPERS members.

An employee can receive an increase in salary averaging about 10 percent a year before the spiking control applies. The spiking control affects Joe's benefits because of his atypical wage increases during the three years in which he earned his highest salaries.

5 Restricts IPERS from transferring money into the Favorable Experience Dividend (FED) Reserve Account based on favorable actuarial experience, unless IPERS is fully funded. The transfer also must not bring IPERS below fully funded status.

The Legislature created the thirteenth, or FED, check for retirees, recognizing that pensions lose their buying power over time. IPERS does not have a traditional cost-of-living adjustment. The Legislature established a reserve account with money transferred from the general IPERS Fund to pay the checks. The Legislature allowed for additional transfers to replenish the reserve account when IPERS has favorable actuarial experience. Favorable actuarial experience occurs when long-term assets and liabilities are better than predicted.

Under HF 729, IPERS can transfer additional money from the general IPERS Fund to the reserve account only when assets fully fund all pension liabilities. However, IPERS continues to credit investment earnings to the reserve account.

6 Restricts IPERS from transferring money from the general IPERS Trust Fund into supplemental accounts of active members (SAAM).

This technical change is necessary because of the limit on transfers into the FED Reserve Account. IPERS has never used the SAAM provision because of funding.

7 Allows future benefit increases only when IPERS is fully funded or the Legislature passes a contribution rate increase to pay for the benefit.

Current law contains only the second restriction. IPERS must also stay fully funded immediately after implementing the benefit increase.

8 Requires the Public Retirement Systems Committee to report to the Legislature by October 1, 2007, on alternatives to the current IPERS plan.

The committee will review pension flexibility, including defined contribution, supplemental, and hybrid retirement plans, and cost-of-living adjustments.

HF 2245, IPERS' Technical Changes

(All changes take effect July 1, 2006, unless otherwise noted. The bill also contains changes for the Municipal Fire and Police Retirement System.)

1 Couples requirements for closing inactive IPERS accounts with the Internal Revenue Code (IRC).

Currently state law says IPERS must cash out accounts that have been inactive for five or more years if the account balance is less than $3,000. IPERS already changed its practice to comply with the current $1,000 IRC limit. This change is retroactive to January 1, 2006.

2 Makes reporting deadlines consistent.

IPERS currently must submit its comprehensive annual financial report to the Governor by December 15. This deadline is different from the end-of-December reporting deadline for sending the report to the Government Finance Officers Association, which sets standards for financial reporting.

3 Keeps the current method used to determine a person's final average salary.

HF 2245 included this provision in case HF 729 did not pass. Because HF 729 did pass, a third bill removes the duplication.

4 Amends the definition of "eligible service" that counts in qualifying for retirement benefits for sheriffs and deputy sheriffs.

Currently service in some, but not all, of the other protection occupations is counted. For example, currently if an airport firefighter or local county conservation officer becomes a county sheriff or deputy sheriff, the time that person worked as an airport firefighter or conservation officer does not count toward the retirement benefits for sheriffs and deputies. However, other firefighters in IPERS' Special Service group who would later become sheriffs or deputy sheriffs could count their firefighting service as "eligible service."

Although IPERS has two categories of Special Service members (sheriffs/deputy sheriffs and other protection occupations) with slightly different retirement benefits, all the members are in a public safety position. All pay an actuarially determined contribution rate that is higher than that paid by regular IPERS members.

5 Allows licensed health care professionals in some public hospitals a one-month bona fide retirement period until June 30, 2010.

A report to the Legislature on whether the shortened bona fide retirement period should be continued is due October 1, 2009.

Did you know? About 26 percent of IPERS' approximately 300,000 members are retirees or beneficiaries.

Recently Asked Question

Q: If I decide to work after I retire, how will it affect my pension?

A: Working after retirement affects your IPERS pension based on:

1. Your age.
2. Your employer.
3. How much you earn.

Age 70 and Over

There are no work restrictions that affect your pension. You may:

- Continue your current IPERS-covered job and begin receiving benefits.
- Retire from your current job and return to work with a different IPERS-covered employer, or with the same employer in a different job.
- Work for an employer that does not participate in IPERS.
- Earn as much as you want. There is no IPERS limit on earnings. Social Security earnings limitations may affect you.

Between Ages 65 and 70

Employer that is not covered by IPERS

- You must end your IPERS-covered job to qualify for benefits, but you can begin work for an employer that is not covered by IPERS at anytime.
- There are no IPERS restrictions on earnings. Social Security earnings limitations may affect you.

Employer that is covered by IPERS

You must have a bona fide retirement to qualify for benefits, which means that you must:

- Apply for and begin receiving monthly benefit payments.
- Terminate employment with all IPERS-covered employers, including noncovered service with covered employers.
- Remain unemployed with all IPERS-covered employers for 1 month, and not work in covered employment for 3 additional months.

The bona fide retirement period begins with your first month of entitlement for retirement benefits as approved by IPERS. You cannot enter into any employment agreement (verbal or written) until you have received at least one benefit payment from IPERS.

Under Age 65

You must complete a bona fide retirement before returning to work with any IPERS-covered employer. If you earn more than $30,000 a year, or the annual social security wage limit, whichever is higher, your monthly benefit is reduced by 50 cents for each dollar you earn over the limit. *(The social security limit changes each year. You can get information about changes at <www.ssa.gov>.)*

*Get more information about working after retirement in the IPERS brochure **Returning to Work After Retirement: How Reemployment Affects Your IPERS Benefits**,* available at <www.ipers.org>. *Under the "Resources" tab, select "Benefit Information." Or call IPERS at 1-800-622-3849 for a printed copy.*

July–December benefits calendar

$ Benefit checks mailed
$ Direct deposit of benefits

JULY

S	M	T	W	T	F	S
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
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30	**$**					

AUGUST

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SEPTEMBER

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OCTOBER

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NOVEMBER

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DECEMBER

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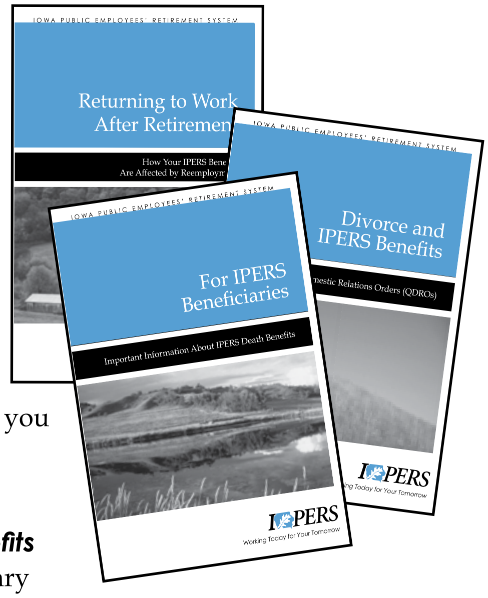
17	18	19	20	21	22	23
24	25	26	27	$	**$**	30
31						

Get the facts straight

Whether you are planning to return to work or are planning for the unexpected, we have information that may help.



Returning to Work After Retirement: How Your IPERS Benefits Are Affected by Reemployment
This easy-to-follow brochure explains how your IPERS benefits are affected if you start working again.

For IPERS Beneficiaries: Important Information About IPERS Death Benefits
This brochure explains what a beneficiary needs to do when an IPERS member dies. The brochure describes the type of IPERS benefits your beneficiaries may receive and what steps they need to take. Don't let the people you care about stumble across this information at a sad and stressful time. Share it now.

Divorce and IPERS Benefits: Qualified Domestic Relations Orders (QDROs)
QDROs are a special kind of court order that divides IPERS retirement benefits when a couple divorces. This brochure, written in nonlegal terms, explains how a QDRO works and what the court order must include. You and your attorney will find it helpful if you are facing a divorce.

Get easy access to the IPERS publications at <www.ipers.org>. Under the "Resources" tab, select "Benefit Information." Or call IPERS at 1-800-622-3849 for a printed copy.

Iowa State Fair IPERS Booth

August 10–20, 2006

Talk to an IPERS representative or pick up information at our booth in the Varied Industries Building.

Summer in Iowa To Do List

1. *Eat home-grown tomatoes and sweet corn.*
2. *Make sun tea.*
3. *Visit the Iowa State Fair August 10–20 and stop at the IPERS booth in the Varied Industries Building.*
4. *Update my IPERS records.*

Keep your address up to date with IPERS so that you don't miss out on important information. Review your beneficiary form to make sure it is current. You can update your contact information and download a beneficiary form at <www.ipers.org>. Or call 1-800-622-3849 and we'll help you.

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Did you know?

About 23 percent of IPERS retirees are younger than 65. About 12 percent of IPERS retirees are 85 or older.

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OFFICE HOURS
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what's inside.

Did you know?

In fiscal year 2005, IPERS paid almost $744 million to retirees and beneficiaries living in Iowa, representing 88 percent of the total benefits paid.