The LATEST WORD

Spring 2006

FOR IPERS EMPLOYERS

Senators compromise on IPERS contribution rate increase

As part of a bipartisan agreement to improve IPERS' long-term funding, the Iowa Senate agreed to a contribution rate increase totaling two percentage points phased in over four years. Employers would pay 60 percent of the increase. The House must agree to the Senate amendment.

Only five weeks into the 2006 session, the Senate agreed to amend House File (HF) 729, the bill aimed at restoring IPERS' long-term funding. The House passed HF 729 in 2005, phasing in a four percentage point increase over eight years. However, the bill stalled in the Senate last year.

The contribution rate increase would be the first one since 1979. The rate applies to all IPERS members except for sheriffs, deputy sheriffs, and those in other protection occupations who contribute at a rate determined by IPERS' actuary.

The Senate agreement does not allow future benefit increases unless there is additional funding for the increases or until the System is fully funded. The agreement also limits wage spiking, bumping up wages beyond normal increases to get a bigger pension. People do not pay their fair share when they receive pensions based on spiked wages.

At the publication deadline, the House had not acted on the amendment. If the House approves with the Senate amendment, the bill will go to the Governor for his signature. See a complete description of the changes included in HF 729 below.

Proposed Change	Current	7/1/07	7/1/08	7/1/09	7/1/10
Total Contribution Rate (Regular members)	9.45%	9.95%	10.45%	10.95%	11.45%
Employer Contribution Rate	5.75%	6.05%	6.35%	6.65%	6.95%

Thank you

The support of IPERS from employers and employer associations was essential to reaching a compromise in the Senate. See our Web site for updates on the progress in the House.

Thank you,
Donna M. Mueller, CEO

Impact of compromise on HF 729

1. Increases contributions for regular members by one-half percentage point a year for four years, beginning July 1, 2007 (fiscal year 2008). The total increase is two percentage points. Employers would continue to pay roughly 60 percent of the total contribution and employees will continue to pay 40 percent.

2. Continues use of a three-year average covered wage after July 1, 2008. This was the date IPERS was to begin using the high twelve consecutive quarters, rather than the high three years, in figuring the final average wage for the benefit formula. This change is consistent with IPERS' technical bill, HF 2245. IPERS twice has asked for an extension of the deadline and still does not have the technology necessary to move to the highest twelve consecutive quarters. IPERS and the Legislature can reexamine the change after IPERS has new technology in place.

3. Establishes a spiking control to limit people from wage spiking, or inflating wages before retirement to get a higher retirement benefit. IPERS retirement benefits are determined by a formula that uses the average of the three highest years of wages. In wage spiking, the average of the three highest years of wages is inflated and does not accurately reflect wages paid over the work life of the employee. Spiking controls are put in place so everyone pays their fair share for benefits. Most people get incremental pay increases, as opposed to big jumps in the last few years, and will not be affected by the new provision. *See an explanation of the spiking control on page 2.*

4. Restricts those who draw a pension and return to work for an IPERS-covered employer from diverting wages to noncovered types of compensation to avoid the limit on earnings. Employer contributions to defined contribution and deferred compensation retirement plans would be earnings. People who work while drawing an IPERS pension and earn more than the limit have their pensions reduced by 50 cents for each dollar earned over the limit.

5. Stipulates that a transfer of money into the Favorable

continued on page 2

- impact of HF 729 compromise continued

Experience Dividend (FED) Reserve Account because of favorable actuarial experience occurs only when IPERS is fully funded and when the transfer will not bring IPERS below fully funded status. IPERS pays the January FED to retirees from the Reserve Account.

6. Limits transfers from the general IPERS Trust Fund into supplemental accounts of active members, which never have been funded.

7. Requires that IPERS be fully funded or the Legislature approve a contribution rate increase for any future benefit improvements for active or retired members. Currently, contributions are to change when benefits increase.

8. Changes the date of the Public Retirement Systems Committee's report on pension flexibility, including defined contribution, supplemental, and hybrid plans, from January 1, 2006, to October 1, 2007.

How the spiking control will work

Step 1. Figure the final average salary.

Joe retires in 2009 after working 30 years in an IPERS-covered position. His 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

Step 2. For the spiking control, figure the highest annual salary outside of the highest three years x 121%.

Joe's next highest annual salary:
2006—$46,000
$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.

[An employee can receive an increase in salary averaging about 10% a year before the spiking control applies. The spiking control affects Joe's benefits because of his unusual increases in wages. *The spiking control will not affect the benefits of most IPERS members.*]

The IPERS Benefits Formula

Final Average Salary		**Multiplier**		
Avg. highest 3 yrs. salary	X	2%/year for the first 30 yrs covered employment; 1%/year next 5 yrs	=	**Annual Benefit**
Joe's Annual Benefit Under Current Law				
$60,000	X	60%	=	**$36,000** ($3,000/month)
Joe's Annual Benefit Adjusted for Wage Spiking Under HF 729				
$55,660	X	60%	=	**$33,396** ($2,783/month)

Other IPERS changes

HF 2245 contains IPERS' technical changes which are minor changes to correct or clarify something in the law. The bill passed the House, and the Senate also is expected to pass the bill.

• Changes the deadline for filing IPERS' Comprehensive Annual Financial Report with the Governor.

• Removes a future move to using the highest twelve consecutive quarters rather than the three highest years to figure final average salary. IPERS' computer system, which IPERS is replacing, cannot make the change.

• Adds all protection occupation service to "eligible service" needed to qualify for retirement benefits for sheriffs and deputy sheriffs. Currently covered are most, but not all, protection occupations.

• Substitutes a reference to the limit in the Internal Revenue Code (IRC), which IPERS must follow, for the current $3,000 threshold to cash out inactive accounts. The IRC amount recently changed to $1,000. By referencing the IRC, IPERS can change when the IRC changes.

• Extends the study of a one-month bona fide retirement period for licensed health care professionals in some public hospitals.
- Report due: October 1, 2009
- Sunset of provision: June 30, 2010

Other bills

Several bills that address purchasing service and returning to work after retirement face an uncertain future. IPERS opposes bills that increase benefits or costs until the current benefit plan is funded adequately.

Iowa legislators see different roads to retirement

The Iowa Legislature thinks saving for retirement is an important goal, but legislators disagree on the best way to get there.

Underlying the discussion on the IPERS contribution rate increase were broader issues, such as the type of retirement plans for public employees the Legislature should support and who should pay the costs. Some legislators feel public employees should have a defined contribution plan, which is more like a 401(k) plan, instead of a defined benefit plan, which is a traditional pension plan like IPERS. Some want a choice between types of plans. Others feel employees should use both types of plans to save for retirement.

House File (HF) 729 includes a study on a defined contribution plan for public employees. HF 2730, waiting for debate by the House of Representative at *The Latest Word*'s publication deadline, creates a defined contribution plan that public employees could select.

There are important differences in the philosophy of who is responsible to save for retirement and what happens if people have not have saved enough for retirement. Expect more discussion and debate on defined benefit and defined contribution plans.

	IPERS (Defined Benefit Plan)	Defined Contribution Plan, such as 401(k) & 403(b)
	Defined benefit plans are sometimes called traditional pension plans.	The amount contributed to the plan, not the benefit at retirement, is defined.
Benefit	Predictable benefit calculated using a set formula. Guaranteed for life.	Benefit can fluctuate—up and down—depending on contributions and investment earnings or losses on those contributions (minus withdrawals and loans).
Investment Risk	IPERS decides investments, takes on all investment risk, and watches investment performance.	The employee decides investments, takes on the investment risk, and watches investment performance.
Withdrawals and Loans	Loans not allowed. May withdraw money only when no longer working for an IPERS-covered employer.	Many defined contribution plans allow for withdrawals and loans, which may reduce available income at retirement.
Vesting Rights	Always 100 percent vested in own contributions. Vested after 4 years of service or at age 55 while contributing. Vested members entitled to a portion of their employers' contributions and other benefits.	100 percent vested in own contributions. Vesting in employer's contributions varies by the plan sponsor.
Disability Benefits	Yes	In most cases, no
Death Benefits	Yes, before and after retirement. Choices after retirement include a lifetime monthly annuity or a lump-sum payment.	The account balance is transferred to the beneficiary(ies) who decide how the value of the account is paid.
Expenses	Controlled by the Iowa Legislature. Limited by law. Since a formula is used to calculate benefits, what the Plan pays out in expenses does not affect the benefit amount.	Fees are typically higher than those of defined benefit plans. Administrative and investment expenses are spread across accounts or taken directly from individual balances.
Job Change	IPERS coverage continues if it is an IPERS-covered position. If not, the account can be maintained, payment made and account closed, or the balance rolled over to another retirement plan.	Depending on the plan, the vested account balance may be fully portable, including rolling it over to another retirement plan.

Frustrated by cranky computers?

We are too, but a multiyear project to replace IPERS' aging computer system is underway.

Donna M. Mueller, CEO

We appreciate the patience and support of ICON users as we worked to smooth the bumps in the road to electronic business. Although we tried to make ICON as flexible as possible, our benefits administration technology limits what we can do.

Our current technology is old and disjointed, made up of smaller systems cobbled together to carry out many law changes over the past ten years. On February 1, I went before the Administration and Regulation Appropriations Subcommittee of the Iowa Legislature, which approves IPERS' budget. I asked for their support of our five-year project to replace IPERS' benefits administration technology.

When you are spending several million dollars over several years, you need to have good reasons. Our goals are to:

1. Meet increased demands for service from baby boomers while limiting the need for more staff.

We need to manage an expected increase in the total number of retirees, from 80,000 to 125,000 in the next ten years. Online features will give members convenient access to their own accounts so they don't always have to call our office to get the information they want.

2. Reduce security and financial risks.

We need new technology to stop using the social security number as the membership number. With an increased reliance on technology, we also need to stay up to date on electronic security.

Thirteenth check creates confusion, brings thanks

The November dividends and Favorable Experience Dividends (FEDs), the misunderstood "thirteenth IPERS checks," are neither dividends nor payments based on favorable investment experience. These once-a-year payments required by Iowa law lead to a frequent question: "Why do retirees receive a thirteenth check when IPERS is asking for a contribution rate increase?"

The Legislature created the payments to help protect pensions from inflation. The payment formula takes 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 set up by the Legislature. IPERS has not transferred and does not expect to transfer money to the FED Reserve Account because of the current funding status. IPERS can use the FED Reserve Account only to pay the thirteenth checks.

IPERS can continue to send a FED check that is the lowest amount allowed by law to make the money last as long as possible, but when the FED account is empty, there are no more FED checks.

Thank-yous from Iowa retirees

◢ *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.*

◢ *I couldn't sleep tonight if I did not write to thank you. . . . Financially this has been a tough year. I had my second knee replaced. . . . I also had . . . surgery. . . . I have good insurance, but living alone, much has to be hired at these times.*

◢ *That dividend at Christmas time comes in time to help some charities as well as help pay winter expenses which are always a heavier burden. Thank you.*

3. Reduce inefficiencies to control future cost increases.

Our old system needs constant maintenance and repairs. We also can automate benefit payment processes that currently are manual. Employers will be able report more easily. Instead of being tied to quarters of service, we can collect more precise information that better reflects years worked.

Although we have completed only part of the project's first year, we have already reviewed all of our business processes to identify ways to deliver services more efficiently, reduce risks, and improve member account access. We issued a request for proposals in January. Proposals were due March 3. In May, we will select a company to implement new technology. We hope to have the new system in place in 2010.

questions?

E-mail employerrelations@ipers.org

Phone (7:30 a.m. to 5 p.m.)
515-281-0020 or 1-800-622-3849 (Ask for a member of the Employer Relations Bureau)

Fax 515-281-0053

Web site www.ipers.org (Select the *Employers* tab)

don't forget.

Contribution rates for IPERS Special Service members change July 1, 2006.

	Member Share	Employer Share	Total Contribution Rate
Protection Occupations	6.08%	9.12%	15.20%
Sheriffs and Deputy Sheriffs	8.37%	8.37%	16.74%

November Dividend for Pre-July 1990 Retirees

- Base payment guaranteed by law
- Payment made once a year
- 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

- Paid from the FED Reserve Account set up by the Legislature in 1998
- Payment not guaranteed
- 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
- Money transferred into this account only if IPERS' unfunded actuarial liability can be amortized over 15 years or less
- The last transfer into this account was in fiscal year 2001
- With the multiplier frozen at 1.07%, funds will run out in roughly 9–10 years
- Almost $44 million to 56,629 retirees in January 2006
- Average payment: About $780

Dang! We hate it when that happens

Sorry, it's not a blue-light special or a rollback of prices. It was just an error caught by one of our sharp-eyed reporting officials.

The contribution rates for IPERS members and their employers reported on page 50 of the 2005 Employer Handbook were reversed. Employers still pay about 60 percent of the contribution rate. Of the current 9.45 percent rate of contributions for regular members, that means employers continue to pay 5.75 percent.

We are sending you a label that corrects the rates.

Please let us know if you find other errors as you use the handbook. We did a major revamping to make the handbook more useful to you, and there may be other "oops" inside. And let us know if you have ideas so we can improve future handbooks or other information that may help you.

Corrections to the Employer Handbook:

Page 50: Current Contribution Rates. Titles for columns "Employer Contribution" and "Member Contribution" on the rate chart are reversed.

All reporting officials should receive a correction label by April 15. If you have not received one by May 1, contact employer relations staff.

Page 79: Glossary of Terms. Calendar Quarters. The definition of calendar quarters should read, "Periods of three calendar months, beginning each January 1, April 1, July 1, and <u>October 1</u>, used for quarterly reporting of wages." It currently says September 1.

Page 80: Glossary of Terms. Fraudulent Practice. The last line should read, "Code Chapter 97B" instead of 98B.

Q&A

IPERS-covered wages

Compensation commonly paid in a lump sum at the end of employment

Q. Are final vacation and sick leave payouts reported as IPERS-covered wages?

A. Lump-sum payouts of unused vacation or sick leave made during or at the end of service are not included as wages for IPERS' purposes. But payments made during a period of vacation or as a continuation of salary to replace regular work hours would be included in the employee's IPERS-covered wages. (See examples at right.)

Q. Is compensatory time handled the same way as vacation time?

A. No. IPERS-covered wages include amounts paid for compensatory time taken instead of regular work **<u>or</u>** when paid as a lump sum. However, coverage of lump-sum payments for compensatory time shall not exceed 240 hours per employee per year.

Q. If an employee receives an early retirement bonus, should that be reported as IPERS-covered wages?

A. No. Payments made as an incentive for early retirement above and beyond an employee's normal wages are not IPERS-covered wages, whether paid in a lump sum or installments.

Q. If an employee is terminated and receives a severance payment, is that covered?

A. No. Payments made on dismissal or severance from employment are not IPERS-covered wages. This applies whether payments are received in a lump sum or installments.

Example of noncovered wages:
An employee worked until his or her termination date. The employee was paid 32 hours' worth of unused vacation on the last paycheck. The amount paid for the 32 hours of vacation is not IPERS-covered wages.

Example of covered wages:
The employee's termination date was February 28. The last day the employee physically worked was February 14. The employee used accrued vacation and continued receiving a salary through February 28. Those payments are IPERS-covered wages.

Coming up

March 31
Presentation on IPERS

Iowa Association of School Business Officials (IASBO)
Scheman Center,
Iowa State University, Ames

April 25–26
Training for new reporting officials

IPERS office, 7401 Register Drive,
Des Moines

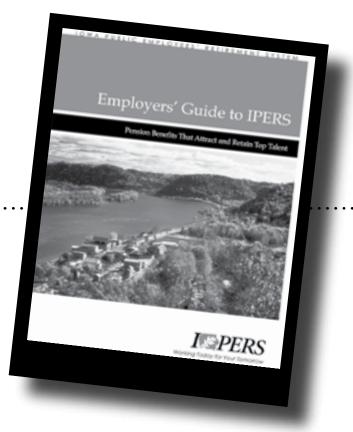
The free three-hour training for those who complete IPERS reports for employers runs from 1 p.m.–4 p.m. on April 25 and is repeated on April 26 from 9 a.m.–noon. The training covers all reporting responsibilities, IPERS laws and procedures for wage and benefit coverage, and resources that are available to help you. If you haven't already received a registration form, you soon will. We will e-mail enrollment forms to employers in ICON. If you don't use ICON, we will mail a form to your organization's reporting official. You also can print registration forms from IPERS' Web site at <www.ipers.org>. Select the "Employers" tab and click on Employer Publications. Scroll down to "Special Notices." You have until April 21, 2006, to register.

May 19
Presentation on IPERS

Iowa Society of Certified Public Accountants
Iowa Governmental Roundtable,
Sheraton, 1800 50th Street,
West Des Moines

If you would like someone to discuss IPERS at a meeting of your employer group or association, call the employer relations staff.

Employers' Guide supports workforce efforts



Employees value a secure, dependable retirement program, and employers should take credit for supporting a great benefit like IPERS.

The "Employers' Guide to IPERS" lists the advantages of providing the IPERS benefit to potential and current employees so you can use the information in recruiting and retention efforts.

The guide covers the basics about how IPERS works; the retirement, death, and disability benefits provided; and the advantages of the IPERS Plan. Contact IPERS for a printed copy. The guide also is available on the IPERS Web site.

The Latest Word is published quarterly by the Iowa Public Employees' Retirement System for participating employers and others interested in IPERS policy and funding.

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Please share copies of *The Latest Word* with others in your agency who need to know about IPERS.

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what's inside.

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The Iowa Senate agreed to a contribution rate increase totaling two percentage points phased in over four years beginning July 1, 2007. Employers will continue to pay approximately 60 percent of the total contribution. The House must agree to the Senate amendment.

p3 Iowa legislators see different roads to retirement
Although sometimes miles apart in philosophy on the best way to save for retirement, legislators are committed to rebalancing IPERS' long-term funding. Read about what's being discussed on page 3.

p4 Frustrated by cranky computers? We are too. . . .
CEO Mueller talks about why a multiyear project to replace IPERS' aging technology will help employers with reporting frustrations.

p4 Thirteenth check creates confusion, brings thanks
The Favorable Experience Dividend and the November Dividend suffer from an identity crisis. Their names mistakenly imply payment depends on favorable investment returns. Created by the Legislature as types of cost-of-living adjustments, you can get the facts about these once-a-year payments on page 4.

p7 Employer resources
Find answers to frequently asked questions, training opportunities, and more.

The Latest Word is published quarterly by IPERS for employers. It automatically is sent to employers' reporting officials. ***The Latest Word*** is also sent free of charge to others interested in IPERS funding, policy, and benefits. If you do not regularly receive ***The Latest Word*** and would like to receive it, contact Melinda Prince at 515-281-0044 or 1-800-622-3849 ext. 10044.