



Benefits Advisory Committee recommends contribution rate increase

For the second consecutive year, the IPERS Benefits Advisory Committee (BAC) is recommending an increase in the contribution rate for regular IPERS members, who make up about 96 percent of the IPERS membership.

The committee passed a resolution this fall calling for the 2005 Iowa Legislature to increase the contribution rate 1 percentage point a year in each of the next four years. If the Legislature passes and the Governor signs a bill to implement the recommendation, the contribution rate would increase from the current 9.45 percent to 13.45 percent.

"There are too many warning signs to ignore," stated BAC committee chair Lowell Dauenbaugh. "We

must act now to preserve benefits and the financial health of IPERS."

While current finances are sound, the committee recognized the need for an increase based on IPERS' long-term finances.

Signs of the need to act include an increasing unfunded actuarial liability and a decreasing percentage of contributions available to apply to the liability, which cannot be amortized over 30 years. *(Read more about the signs on pages 2 and 3.)*

"Because the Senate did not act on our recommendation for an increase last year, we felt we should call for an immediate increase," explained Dauenbaugh. "The more we delay, the more the debt will grow, and the more difficult it will be to fix the problem."

The committee is asking the Legislature to keep the current contribution rate split of 60 percent from employers and 40 percent from employees, allow IPERS to adjust rates after the four-year phase-in, and maintain current benefits.

The BAC, created by law to make benefits and services recommendations to the Iowa Legislature and IPERS, includes employer and member representatives. The BAC recommended the same rate increase last year for regular IPERS members. Each year an actuary determines the rate needed to support the benefits for Special Service members, who make up about 4 percent of the IPERS membership.

Benefits Advisory Committee has employer representation

The law requires that the Benefits Advisory Committee include employer representation. The employer representatives are:

- Mollie Anderson (Iowa Department of Administrative Services)
- Len Cockman (Iowa Association of School Boards)
- Jim Maloney (Iowa Association of Counties)
- Andrea Stewart (Iowa League of Cities)
- Bill Sage (Sheriffs and Deputy Sheriffs' Association)
- Diana Richeson (State Police Officers Council)
- Roger Muri (Iowa Association of Chiefs of Police)
- Janie Garr (IPERS Improvement Association)
- Stan McElderry (American Federation of State, County, and Municipal Employees)
- Dr. Marc Haack (Public member)

Other members on the committee are:

- Chairman Lowell Dauenbaugh (Iowa State Education Association)
- Vice Chair Dr. Gene Gardner (Iowa Association of Community College Trustees)
- Dr. Gaylord Tryon (School Administrators of Iowa)
- Walt Galvin (Retired School Personnel Association)

Committee minutes and other committee information are available at www.ipers.org under the "About IPERS" tab.

IPERS

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From Donna Mueller, CEO



The 2005 legislative session is just around the corner. IPERS will file a bill implementing the Benefits Advisory Committee's recommendation.

I don't like requesting an increase in the contribution rate, but it is the responsible thing to do.

Pensions that are being promised to members should be funded during the working lives of those members so the burden does not fall on future generations. Our actuary now projects that the contribution rate for our regular members, who make up roughly 96 percent of our membership, is 90.9 percent of what it should be.

The bill provides IPERS the authority to adjust contribution

rates after a four-year phase-in of the increase recommended by the Committee. Since elsewhere in the newsletter we talk about the BAC recommendation on the contribution rate, I will focus on how the rates are set.

Each year we examine IPERS' financial status. We review the profiles of new members who have joined. We look at how many members we expect will begin drawing their pensions. After considering investment returns and other assets, our actuary uses a long-term projection model to identify what the contribution rates should be.

This is similar to what insurance companies do when setting their rates. However, IPERS cannot adjust contribution rates even when we determine a need.

IPERS is different from many other public pension systems in the

nation in that we do not have a board of trustees with the ability to adjust rates. Although we have the ability to adjust the rate for Special Service members such as sheriffs, deputies, correctional officers, and others in public protection occupations, only the Legislature can set the rate for regular members. The Legislature has not changed the contribution rate for regular members since 1979.

IPERS is a good retirement plan. It rewards career public servants and can be an important retention tool for employers. IPERS pays dependable pensions for the rest of members' lives after retirement.

IPERS needs a board that is able to set rates. To keep the retirement system financially sound, we must be able to adjust rates up when necessary—and down when possible. It is the responsible thing to do.

Signs of the need to change funding

All graphs reflect funding as of June 30, 2004

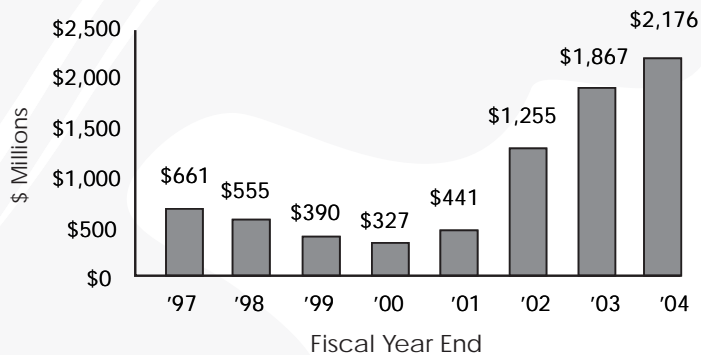
Sign #1: An increasing unfunded actuarial liability

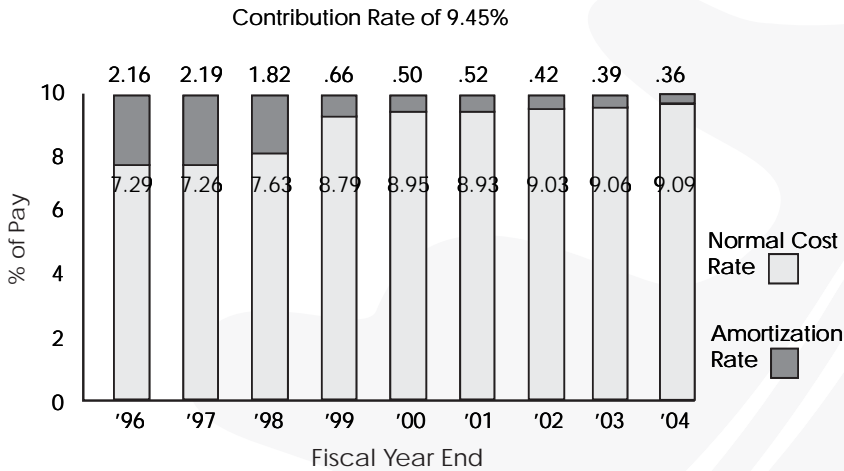
IPERS has an unfunded actuarial liability because future benefits and expenses are projected to exceed future contributions and investment income. The unfunded actuarial liability does not represent a debt that is payable today. It is a long-term obligation that must be financed, much as a mortgage on a house is financed, through a 30-year amortized payment schedule.

It is normal for a retirement system to have an unfunded actuarial liability, just as it is normal to

have a mortgage on a house. However, IPERS' liability has increased over the past four years. The increase is a result of lower-than-expected investment returns, changes in the

demographics of the membership (the population is aging and people are living longer), and benefit enhancements. This growth has far outpaced IPERS' ability to finance the liability.

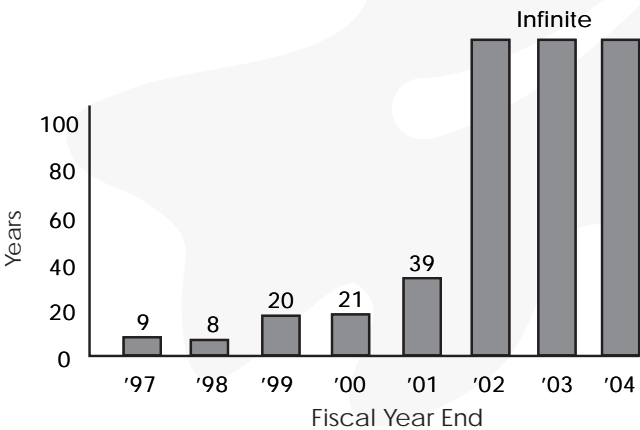




Sign #2: An increase in normal costs

Contributions should cover normal costs (the proportion of costs allocated to the current year of service earned by members who are working) and provide for an amortization payment on the unfunded actuarial liability.

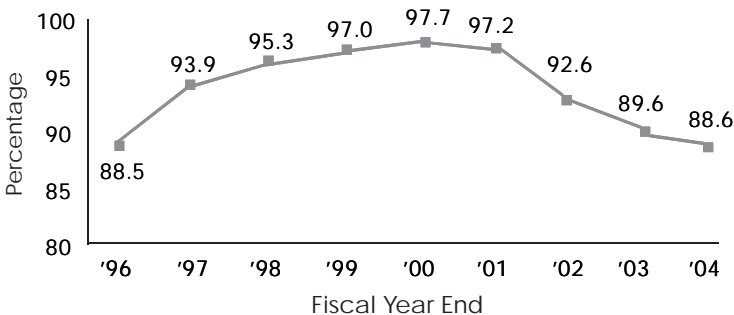
The unfunded actuarial liability includes all current benefits being paid plus all benefits that have been promised in the future. Most of the contributions are paying for normal costs. That leaves little left to apply to the amortization payment. In fact, the payment is not large enough to pay interest on the outstanding debt. Therefore, the unfunded actuarial liability is increasing.



Sign #3: Infinite amortization of the unfunded actuarial liability

Because there is little money that can be applied to the unfunded actuarial liability, it continues to grow. The number of years needed to amortize (pay off) the unfunded actuarial liability is infinite.

This is similar to making less than the minimum monthly payments on a credit card purchase. When a person doesn't pay enough to pay the interest, the total amount he owes continues to increase. He would make payments forever yet continuously fall further behind.



Sign #4: Percent funded

IPERS is currently funded at 88.6 percent. If the current and projected income and assets were sufficient to pay off the debt within 30 years, IPERS would be fully funded at 100 percent.

This is a long-term problem and not an imminent crisis. This is a fairly high percentage compared to those of public systems in other states.

At the same time, IPERS cannot wait. The unfunded actuarial liability will continue to grow.

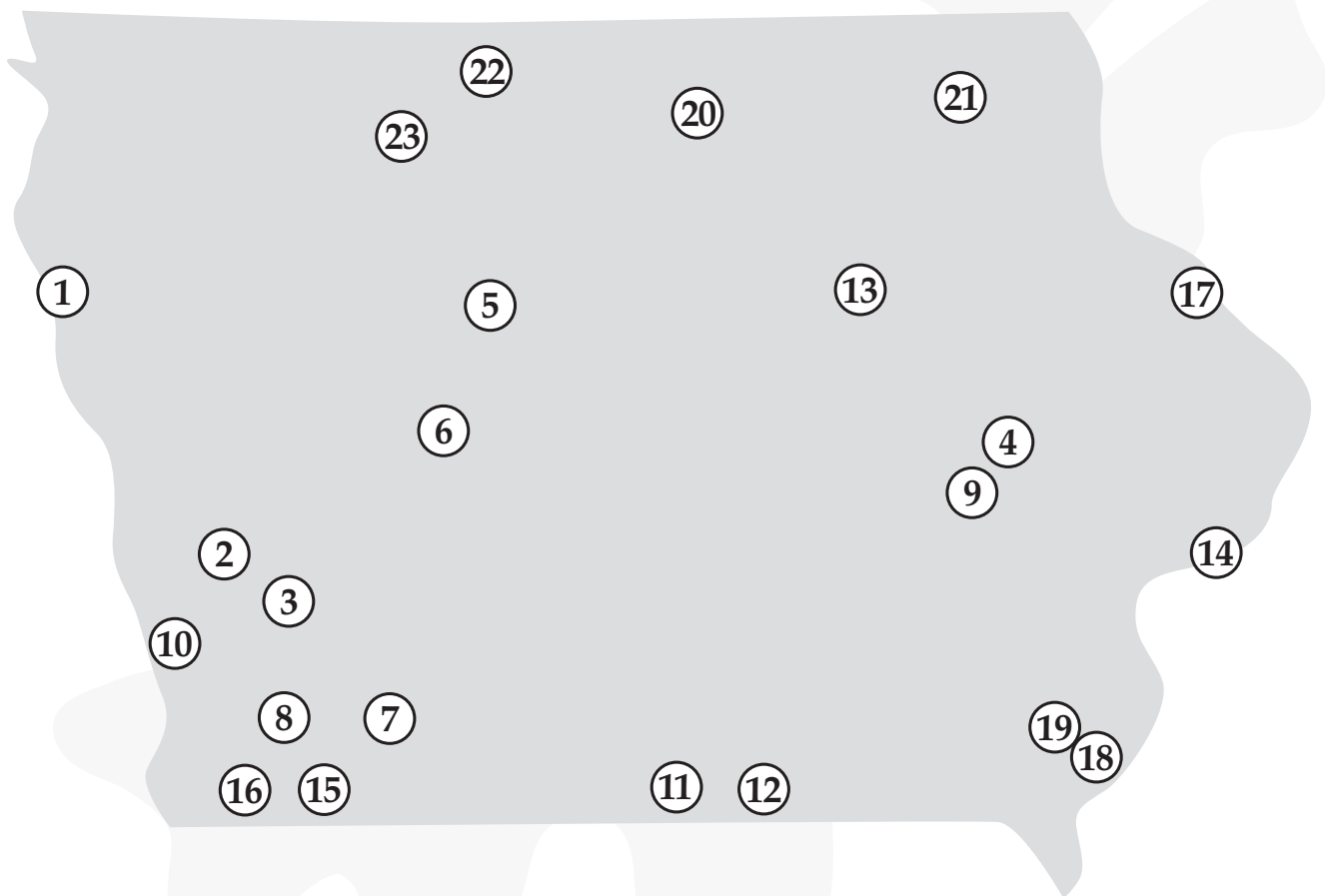
Investments alone cannot solve the problem. It would take an unrealistically high rate of return to pay off past investments losses and reverse these trends.

Group presentations provide an overview of IPERS and answers to general questions. There is no registration for the group presentation. Individual consultations provide members with their projected retirement benefits and other plan provisions.

To schedule an individual counseling session, call IPERS at 1-800-622-3849. The sessions fill quickly, so call early. You will receive a letter confirming your appointment.

- ① **SIOUX CITY—JANUARY 24-27, 2005**
Convention Center
801 Fourth Street
GROUP PRESENTATION
Jan. 24, 6:30 p.m., rm. 7
INDIVIDUAL CONSULTATIONS
Jan. 25-27, 8:30 a.m.–6:30 p.m., rm. 8 and 9
- ② **HARLAN—FEBRUARY 9, 2005**
Myrtue Memorial Hospital
1213 Garfield Avenue
INDIVIDUAL CONSULTATIONS
9 a.m.–5 p.m.
- ③ **ATLANTIC—FEBRUARY 10, 2005**
Cass County Memorial Hospital
1501 East 10th Street
INDIVIDUAL CONSULTATIONS
9 a.m.–5 p.m.
- ④ **CEDAR RAPIDS—FEBRUARY 14-17, 2005**
Kirkwood Community College
6301 Kirkwood Boulevard Southwest
Iowa Hall, Marland Room
INDIVIDUAL CONSULTATIONS
Feb. 14, 2 p.m.–6 p.m.
Feb. 15-17, 8:30 a.m.–6 p.m.
- ⑤ **FORT DODGE—MARCH 1 & 2, 2005**
AEA 8: Prairie Lakes
1235 Fifth Avenue South
INDIVIDUAL CONSULTATIONS
Mar. 1, 8:30 a.m.–6:30 p.m.
Mar. 2, 8:30 a.m.–6 p.m.
- ⑥ **JEFFERSON—MARCH 3 & 4, 2005**
Greene County Extension Service
104 West Washington Street
INDIVIDUAL CONSULTATIONS
Mar. 3, 8:30 a.m.–5:30 p.m.
Mar. 4, 8:30 a.m.–11:30 a.m.
- ⑦ **CORNING—MARCH 9, 2005**
Adams County Courthouse
500 Ninth Street
INDIVIDUAL CONSULTATIONS
9 a.m.–4 p.m.
- ⑧ **RED OAK—MARCH 10, 2005**
Montgomery County Courthouse
105 Coolbaugh Street
INDIVIDUAL CONSULTATIONS
9 a.m.–4 p.m.
- ⑨ **CORALVILLE—MARCH 15-17, 2005**
AmericInn
2597 Holiday Road
INDIVIDUAL CONSULTATIONS
Mar. 15 & 17, 8:30 a.m.–6 p.m.
Mar. 16, 8:30 a.m.–6:30 p.m.
- ⑩ **COUNCIL BLUFFS—MARCH 28-31, 2005**
Public Library
400 Willow Avenue
GROUP PRESENTATION
Mar. 28, 7 p.m.
INDIVIDUAL CONSULTATIONS
Mar. 29 & 30, 8:30 a.m.–6:30 p.m.
Mar. 31, 8:30 a.m.–6 p.m.
- ⑪ **CORYDON—APRIL 6, 2005**
Wayne County Courthouse
100 Lafayette Street
INDIVIDUAL CONSULTATIONS
9 a.m.–4 p.m.
- ⑫ **CENTERVILLE—APRIL 7, 2005**
Appanoose County Courthouse
201 North 12th Street
INDIVIDUAL CONSULTATIONS
9 a.m.–4 p.m.
- ⑬ **WATERLOO—APRIL 11-14, 2005**
Hawkeye Community College
1501 East Orange Road
GROUP PRESENTATION
Apr. 11, 6:30 p.m., Tama Hall, rm. 107
INDIVIDUAL CONSULTATIONS
Apr. 12-14, 8:30 a.m.–6:30 p.m., Tama Hall,
rm. 103 & 104
- ⑭ **DAVENPORT—APRIL 25-28, 2005**
Scott County Offices
428 Western, 6th floor
GROUP PRESENTATION
Apr. 25, 6:30 p.m.
INDIVIDUAL CONSULTATIONS
Apr. 26, 9 a.m.–6 p.m.
Apr. 27, 8:30 a.m.–6:30 p.m.
Apr. 28, 8:30 a.m.–6 p.m.
- ⑮ **CLARINDA—MAY 4, 2005**
Page County Courthouse
112 East Main Street
INDIVIDUAL CONSULTATIONS
9 a.m.–4 p.m.
- ⑯ **SHENANDOAH—MAY 5, 2005**
Shenandoah City Hall
500 West Clarinda Avenue
INDIVIDUAL CONSULTATIONS
9 a.m.–4 p.m.

ING SPRING/SUMMER 2005



17 *DUBUQUE—MAY 9-12, 2005*
The Forum
2300 Chaney Road
INDIVIDUAL CONSULTATIONS
May 9, 3 p.m.–6 p.m.
May 10, 8:30 a.m.–6:30 p.m.
May 11 & 12, 8:30 a.m.–6 p.m.

18 *WEST BURLINGTON—MAY 23-25, 2005*
Southeastern Community College
1500 West Agency Road, building 400
GROUP PRESENTATION
May 23, 6:30 p.m., Little Theater
INDIVIDUAL CONSULTATIONS
May 23, 2 p.m.–4 p.m.
May 24-25, 8:30 a.m.–6:30 p.m.,
Private Dining Room

19 *MOUNT PLEASANT—MAY 26, 2005*
Henry County Health Center
407 South White Street
Health Education Center
INDIVIDUAL CONSULTATIONS
8:30 a.m.–6:30 p.m.

20 *MASON CITY—MAY 31-JUNE 2, 2005*
North Iowa Area Community College
500 College Drive
Activity Center

GROUP PRESENTATION
May 31, 6:30 p.m., rm. 101
INDIVIDUAL CONSULTATIONS
June 1, 8:30 a.m.–6:30 p.m., rm. 212 & 213
June 2, 8:30 a.m.–6 p.m., rm. 212 & 213

21 *CALMAR—JUNE 13-16, 2005*
Northeast Iowa Community College
1625 Highway 150
Wilder Hall
GROUP PRESENTATION
June 13, 6:30 p.m., auditorium
INDIVIDUAL CONSULTATIONS
June 14-16, 8 a.m.–6:30 p.m., rm. 101 & 105

22 *ESTHERVILLE—JUNE 27-28, 2005*
Iowa Lakes Community College
300 South 18th Street
INDIVIDUAL CONSULTATIONS
June 27, 2 p.m.–6:30 p.m.
June 28, 8:30 a.m.–6:30 p.m.

23 *EMMETSBURG—JUNE 29-30, 2005*
Iowa Lakes Community College
3200 College Drive
INDIVIDUAL CONSULTATIONS
June 29, 10 a.m.–6:30 p.m.
June 30, 8:30 a.m.–6:30 p.m.

Military duty and IPERS

Many IPERS members are serving their country in the National Guard or Reserves. Employees called to military duties may have questions about how military leave will affect their IPERS benefits.

Although you should encourage your employees to contact IPERS directly for detailed information specific to their circumstances, basic information on rights, requirements, and limitations follows. This applies only to IPERS benefits. Individual employers may have more strict return-to-employment policies regarding other fringe benefits or entitlements.

1. IPERS is subject to the Uniformed Services Employment and

Reemployment Rights Act of 1994 (USERRA), and complies with the terms of that Act.

2. If a member is called into active military duty from an IPERS-covered position and returns to any covered position in Iowa within 12 months of being released from active duty, the individual will receive free IPERS service credit for the military leave.

3. A member who returns to covered employment may, but is not required to, make IPERS contributions for the period of military leave and have the employer make the appropriate matching contributions. In general, making the employee contributions and having the employer

make matching contributions will not increase the retirement benefit available to members (unless the person is in the "high-three" period), but it will increase the amount of a refund and may have an effect on the amount of the member's death benefits. The member must sign an irrevocable agreement to make such contributions, and the payment period cannot exceed 5 years.

4. Even if a member does not return to IPERS-covered employment within 12 months after being released from active duty, the period of military service can still be purchased if the member is vested or returns to covered employment at a later date.

New reporting officials attend October training

April training planned

Forty reporting officials from public employers around Iowa attended training in October at the IPERS office in Des Moines. The training is offered twice a year.

The three-hour sessions are geared toward reporting officials who are new to the position or who have never before attended an IPERS training session for employers. Topics include which employees and compensation are eligible for IPERS coverage, how to complete IPERS' forms, and how to use ICON, IPERS' online wage-reporting system.

Past attendees have found the training helpful for discovering errors, and many make corrections after the training. The earlier errors are found, the easier they are to correct.

The next training session will be held on April 12 and 13, 2005 in Des Moines. Registration details will be included in the spring issue of *The Latest Word*.

In addition to training for new reporting officials, IPERS' Employer Relations Team holds training on legislative and procedural changes in several locations around the state each year in June. Watch for those dates and locations to be announced at a later date.

Kurt Hiatt joins IPERS' Employer Relations Team

Kurt Hiatt, IPERS' newest Retirement Compliance Officer, became interested in retirement because of something that was not happening.

"I saw people get to the point where they wanted to retire, but they couldn't. Or they retired and found out they couldn't live the way they wanted to," said Hiatt.

Hiatt thinks employers should talk to their employees about retirement. "Unfortunately, they don't," stated Hiatt.

Hiatt should know. He has extensive experience in private pension plans. Before joining IPERS' Employer Relations Team, Hiatt worked with Principal Financial Group, Edward Jones, and UBS Financial Services.

A Nebraska native, Hiatt received a bachelor of science degree in psychology from Upper Iowa University. Hiatt wants to assure everyone that his Nebraska background does not interfere with his support of Iowa's college teams!

HELP DESK

Notice of fiscal year 2006 rates for sheriffs, deputy sheriffs, and protection occupations

IPERS' actuary completed the annual valuation and certified the following contribution rates effective July 1, 2005:

	Member	Employer	Total Rate
Protection occupations	6.16%	9.23%	15.39%
Sheriffs and deputy sheriffs	8.2%	8.2%	16.4%

Study Team works on cafeteria plan coverage

Cafeteria plan coverage continues to be the single greatest cause of IPERS appeals, creating frustration for employers and adding to the staff workload. The Cafeteria Plan Coverage Study Team, a group of representatives from member and employer associations and IPERS staff, worked last spring and summer to resolve the problems.

The team discovered the following:

- Few public retirement systems similar to IPERS cover cash paid in lieu of benefits.
- Equitable coverage across IPERS' employer groups is difficult to achieve.
- IPERS law limits coverage of elective employer contributions that are uniformly available in cash to all employees within a recognized group, such as teachers, support staff, or administration.
- Even when employers are aware of this, some remain confused. Many have mistakenly assumed that IPERS contributions are

paid only for employees who receive cash, not all employees eligible to receive cash under the cafeteria plan.

- Requiring employers to adjust previously paid wages adds complexity and costs.

The team researched several potential solutions to address the issues, but was unable to reach a solution. The group directed IPERS staff to present an analysis of three options to present to the CEO for further action:

1. Make only minor changes in current legal requirements, but improve education for reporting officials and other employer representatives.
 2. Cover a percentage of or all cafeteria plan benefits. The group noted this is likely to increase costs to IPERS significantly, but felt it should be considered.
 3. Phase out all coverage of cafeteria plan cash in lieu of benefits over a certain number of years, such as five.
- Although staff drafted the analysis, they continue to welcome opinions from employers and members. Contact

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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Curt Sorteberg, Danielle Huffine, or Linda Guffey if you have comments. Until changes are made, continue to follow carefully the requirements in the Employer Handbook, and contact a compliance officer if you have any questions about coverage.

CAFETERIA PLAN STUDY TEAM

Todd Kjelkopf (Iowa League of Cities)

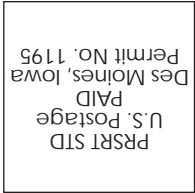
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Lowell Dauenbaugh (Iowa State Education Association)

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Mike Hamilton (Iowa Association of School Business Officials)

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OFFICE HOURS
 8 a.m. - 4:30 p.m.

PHONE CENTER HOURS
 7:30 a.m. - 5 p.m.

1-800-622-3849
 515-281-0020



Q Are employees who retire and go back to work subject to IPERS withholding?

A IPERS retirees who return to work after starting to receive retirement benefits are subject to the same IPERS coverage as any other new employee. If the retiree has worked for your organization in the past, he or she may not seem like a “new” employee to you. However, in order to be eligible for IPERS retirement benefits, retirees under age 70 must formally terminate all IPERS-covered employment. Therefore, if they return to work after they have terminated to start retirement benefits, it is considered a new period of employment when they return.

Because it is a new period of employment, those hired as temporary employees will need to qualify for coverage prior to having IPERS contributions withheld from their

checks. If this employee was previously employed in an IPERS-covered position, please make sure to update your computer so IPERS contributions are not taken out of the employee’s wages until he or she qualifies for coverage. IPERS receives many wage adjustments for members who had IPERS contributions withheld in error when they returned to employment.

In addition, please remember that retirees must complete a “bona fide retirement” prior to returning to work with an IPERS-covered employer. Also, IPERS retirees under age 65 who return to work are subject to an earnings limitation, which is currently \$30,000 per calendar year. Please see page 13 of *IPERS’ Employer Handbook* for further information on these topics.

Other questions?

E-mail
employerrelations@ipers.org

Phone
 515-281-0020
 1-800-622-3849
 (Ask for a member of the Employer Relations Team)

Fax
 515-281-0053

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

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