



IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Fiscal Year 2009

# **PERFORMANCE REPORT**

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# INTRODUCTION

## **Purpose and Scope**

The Iowa Public Employees' Retirement System (IPERS) is pleased to present this report on our performance during fiscal year 2009 (July 1, 2008 to June 30, 2009). Accountability to stakeholders is a core value for IPERS, and we strongly support the goal of the Iowa Accountable Government Act to provide timely performance information. Performance measures serve as a baseline to compare future performance and gauge our progress toward goals.

In addition to this report, each year IPERS provides directly to all IPERS members, participating employers, legislators, the governor, and other stakeholders an easy-to-read annual summary of IPERS' performance and financial condition. IPERS also provides a detailed report in the IPERS Comprehensive Annual Financial Report (CAFR).

The FY2009 annual summary and CAFR are available to the public on IPERS Web site, <[www.ipers.org](http://www.ipers.org)>.

## **Strategic Challenges**

IPERS has two main strategic challenges – meeting long-term financial needs as costs increase, and fulfilling increasing service needs as the baby boomers retire.

IPERS costs have been increasing because IPERS pays a lifetime pension and people are living longer. Benefits enhancements in the 1990's also are now affecting costs.

IPERS' pays for benefits, as well as services and other administrative expenses, solely from the IPERS Trust Fund. IPERS does not receive appropriations from general state revenues.

Although costs have been increasing, the contribution rate for most IPERS members had remained the same through FY2007, with increases in contribution rates starting in FY08. The Iowa Legislature sets the contribution rate for approximately 96 percent of IPERS members. The rate has been far below the rate IPERS' actuary has been saying IPERS needed.

In addition to contributions, IPERS receives income from investments. In fact, investment earnings provide the majority of income needed to pay pensions.

IPERS actuarial liability (UAL) increased from \$2,665 M in FY2008 to \$4,895 M in FY2009. IPERS funded percentage, a ratio of actuarial assets to liabilities, dropped to 81.2 percent for FY09 from 89.1 percent in FY08.

## **Major Achievements**

IPERS began a campaign in 2003 to increase the contribution rate to the level recommended by the actuary. In FY2006, the Iowa Legislature passed and the Governor signed a bill to increase incrementally the contribution rate for regular members beginning July 1, 2007. Although less than the rate that was recommended, the increase will begin to rebalance IPERS' long-term funding.

IPERS re-deploys resources strategically to keep costs down while meeting increased service demands, and CEM Benchmarking, Inc. (CEM), confirmed the effectiveness of the

## **Performance Planning Summary**

The performance plan for FY2009 included two core functions: Retirement Services and Trust Fund Management. Outcome measures for these, when combined with the results of benchmarking studies, foster an environment of excellence and continuous improvement focused on measurable results.

strategy in FY2009. CEM is an independent company that assesses the performance of U.S. and foreign retirement systems.

In FY2010, CEM rated IPERS services for the prior year above the median for public retirement systems of similar size. IPERS service score was 81, which was equal to the peer median in the study.

At the same time, CEM found IPERS delivered services to members cost effectively. IPERS total benefit administration cost was the lowest in the peer group and well below the peer median.

IPERS Administration thanks the Governor and Iowa Legislature – sponsors of the IPERS Plan – the IPERS Investment Board, Benefits Advisory Committee, our members, and participating employers for their continuing support of our goals.

# AGENCY OVERVIEW

## **Vision**

IPERS will be a fully funded retirement plan that is valued by Iowa's public employers and employees for its benefits, excellent customer services, and cost-effective management.

## **Mission**

Provide a cost-efficient statewide retirement plan that helps employers recruit and retain employees in public service and allow them to care for themselves in retirement.

## **Core Values**

- Members and public employers are the reason we exist and providing the most efficient and effective services to our members, their beneficiaries, and public employers is our primary responsibility.
- Protection of member benefits and services are fundamental to IPERS' operations.
- Independent, responsible management of the trust fund for the exclusive benefit of our members and beneficiaries is our most important fiduciary responsibility and must not be compromised for political or operational expediency.

- Honesty and integrity shall prevail in our dealings with members, other stakeholders, and our colleagues.
- Mutual respect guides our deliberations, and we are committed to follow the highest level of professional conduct.
- Accountability is fundamental to trust, and we stand behind our actions and their results.

## **Core Functions**

### **Retirement Services**

Administer a responsible retirement system for the exclusive benefit of its public employee members and their beneficiaries.

### **Trust Fund Management**

Provide all vital services necessary to support retirement services, including investment management, financial and personnel services. These include payroll, accounting and budgeting; purchasing goods and services; information technology; staff development; planning, policy development, and leadership; maintenance of physical infrastructure; and activities to support governance.

### **Key Services, Products (Benefits) and/or Activities**

IPERS is a defined benefit plan with a pension formula equal to two percent per year of service multiplied by the average of the three highest annual covered wages. Pensions are adjusted for years of service, age, and death benefit selected at retirement. Death benefits for beneficiaries are paid in a lump sum or by continuing monthly payments, depending on the choice of the member. Benefits also include disability retirement benefits to members whose eligibility is determined by Social Security.

IPERS' participation in the CEM benchmarking process requires that administrative costs be assigned to various services or activities that are used to conduct the comparisons. The AGA also requires that agencies define core functions, and services, products and activities (SPAs) for measuring performance and determining budgeting cost centers. To encourage uniformity between CEM and AGA, IPERS bases cost categories for services and benefits on CEM definitions and uses AGA definitions for resource management.

### **CEM activities and services:**

1. Paying pensions
2. Pension inceptions
3. Preparing and mailing estimates
4. Counseling (in-house and group)
5. Member contacts
6. Mass communication
7. Data management, billing and services to employers
8. Processing and paying refunds
9. Processing service purchases
10. Disability
11. Financial control and governance
12. Rules development, interpretation and implementation
13. Major projects

### **SPAs by Core Function used in the FY2009 Performance Plan**

#### **1. Retirement Services** (based primarily on CEM categories)

- Member counseling
- Retirement payments
- Employer training
- Refund payments
- Service purchases

#### **2. Trust Fund Management** (based primarily on AGA definitions)

- Cost-effective investment
- Assignments processing
- Appeals coordination
- Technology acquisition and management
- Budget development
- Internal audit effectiveness

## **Stakeholders, Delivery Capacity, and Organizational Structure**

IPERS is a trust fund that exists for the sole benefit of IPERS members. Therefore IPERS' primary customers are the current and former public employees who are members of IPERS. The Benefits Division provides most of the direct services to members with support from other divisions of IPERS.

Public employers are secondary, but no less important, customers of IPERS. The Employer Relations and Account Maintenance Bureau in the Benefits Division and the Accounting Bureau of the Operations Division provide most employers' services. The Operations Division is also responsible for the technology that serves members and employers.

The sponsors of the IPERS plan are the Iowa Legislature and Governor. They determine by law covered employers, contributions, benefits, and retirement rules.

The State Treasurer of Iowa is the custodian of the IPERS Trust Fund. The Treasurer oversees all banking services for the Trust Fund.

The Benefits Advisory Committee (BAC) is advisory to the Legislature and IPERS administration. The employer and employee representatives on the BAC are designated by statute or are elected by committee members. The BAC provides advocacy for members, employers and retirees relating to plan design, benefits enhancements, efficiency and effectiveness of services, coordination of legislation, and other matters that affect these major stakeholders.

The Investment Board serves as trustee for the IPERS Trust Fund. The Trust Fund holds member and employer contributions plus investment income and is used to pay benefits and expenses.

The Investment Board, acting directly through the Investment Division and based upon recommendations of their contracted investment consultants and staff, establishes investment policy and oversees its implementation. Based on this policy, IPERS contracts for services with approximately 20 external professional investment management firms. Investment Division staff, assisted by the Board's investment consultants, are responsible for monitoring the external managers' activities.

Other external customers include the IRS (qualified plan status, distribution rules, tax withholding, levy administration), Iowa DHS (qualified domestic relations orders), the Iowa Department of Management (Accountable Government Act), the Legislative Services Agency (coordination of legislation, budget coordination, program implementation), other retirement systems (information sharing), the Iowa Attorney General (legal consultation), and the Iowa Department of Administrative Services (DAS).

The DAS is a supplier of services in that they print the checks for retirement and refund distributions, provide access to the state accounting system, provide human relations services to IPERS, and provide technology support and consultation.

IPERS' contracted actuarial consultant assesses IPERS' actuarial assets, liabilities and funding level, and recommends any needed changes in IPERS contribution rates.

IPERS moved to its current location in south Des Moines at 7401 Register Drive in 2000. There are 95 employees

and 3 divisions – Benefits, Investments, and Operations – and the Chief Executive Officer's Office.

The approved operating budget for FY 2009 was \$17.8 million, and \$3.8 million was returned to the trust fund at the end of FY2009.



# STRATEGIC PLAN RESULTS

## **Key Strategic Challenges:**

1. Addressing the unfunded actuarial liability within the requirements of IPERS funding policy and GASB standards.
2. Ensuring IPERS is poised to take actions to preserve IPERS' funded status.
3. Meeting the needs of an increasing number of retirees.
4. Managing expectations of members for benefits and services in difficult economic times.

## **Greatest Opportunities:**

1. Strengthening IPERS' governance through a fully empowered board of trustees.
2. Using new and emerging technologies for communications and benefit administration to manage an increasing workload while containing costs and improving services.
3. Demonstrating sound investment policy in changing economic times.
4. Upholding high ethical standards and fulfilling fiduciary responsibilities for the trust fund.

## **GOALS**

### **Goal 1**

Reduce the unfunded actuarial liability and increase IPERS' funded percentage.

### **Strategies**

1. Continue to emphasize fiduciary responsibility and statutory compliance to maintain the structural and financial integrity of IPERS.
2. Expand communication and education efforts to increase involvement of stakeholders, especially employers and active members, in decision-making processes.
3. Increase legislative activity on issues of highest priority to gain support for necessary changes.

### **Tasks Accomplished**

1. Developed consensus and compromises among members and employer organizations for contribution increases, controls on benefit abuses, and restrictions on future benefit increases until fully funded.
2. Gained legislative support for an increase in contribution rates phased in over four years beginning July 1, 2007.
3. Developed and implemented information strategies to inform major stakeholders of progress and action needed.

4.

<i>Results</i>	
<i>Performance Measure:</i> Percent of recommendations adopted by Legislature.	<b>The Iowa Legislature passed and the Governor signed HF 729, which authorized a contribution rate increase and included controls on benefit abuses and future increases.</b>
<i>Data Sources:</i> Enrolled bill Iowa legislative and executive branches public records	

### **Data Reliability**

Very reliable since it is based on official public records.

### **What Was Achieved**

A law change authorizes IPERS to begin collecting more in contributions, as has been recommended by IPERS' actuary for several years. The approved increase is two percentage points phased in over four years beginning July 1, 2007. The increase is less than recommended.

### **Analysis of Results**

The unfunded actuarial liability and percent funded are long-term – 30 years and more – actuarial measures. These measures do not respond to changes in contributions or benefits quickly. The effect of the contribution rate increase approved will be assessed in upcoming asset-liability studies and annual valuations completed by IPERS' actuary.

### **Link to Enterprise Plan**

Accountable Government

## Goal 2

Establish a fully functioning board of trustees with the authority to take action to fund promised benefits fully.

### Strategies

1. Continue to emphasize fiduciary responsibility and statutory compliance to maintain the structural and financial integrity of IPERS.
2. Expand communication and education efforts to increase involvement of stakeholders, especially employers and active members, in decision-making processes.
3. Increase legislative activity on issues of highest priority to gain support for necessary changes.

### Tasks Accomplished

1. Developed educational materials on the fiscal impact of delaying implementation of actuarial contribution rates.
2. Developed and implemented information strategies to inform major stakeholders of progress and action needed.

Results	
<i>Performance Measure</i> Percent of recommendations adopted by Legislature.	<b>Because correcting contributions within current governance was the priority, IPERS did not recommend legislation necessary to implement this goal.</b>
<i>Data Sources</i> Enrolled bill	
Iowa legislative and executive branches public records	

### Data Reliability

Very reliable since it is based on official public records.

### What Was Achieved

The law change authorizing IPERS to begin collecting more in contributions did not provide for a board with the authority to adjust rates. Currently, only the legislature can adjust contribution rates for about 96 percent of IPERS members.

### Analysis of Results

Until a board of trustees is in place with the ability to adjust rates timely, IPERS is unable to respond to actuarial valuations and the contributions are less than required to fund promised benefits fully. It costs less to make small, incremental changes in rates than to wait and “catch up.” IPERS already has the ability to adjust rates for public safety members, and their benefits are fully funded every year.

### Link to Enterprise Plan

Accountable Government

### Goal 3

Meet the service needs of a growing retirement population while controlling costs.

#### Strategies

1. Improve services for all segments of membership through benchmarking, improved access to information, and continuous needs assessment.
2. Improve IPERS' work processes and technological applications to ensure accuracy of data, system integrity, and increased productivity.
3. Redirect and increase resources for development of staff, members, and computer systems to meet increased demands for core and additional services related to strategic priorities.

#### Tasks Accomplished

1. Implemented the fourth year of a multi-year project to replace IPERS' aging computer system. The new system, I-Que, will be more reliable, provide better information, support process redesign to increase productivity, and allow employers and members to transact business online 24x7.
2. Obtained legislative approval to fund through the trust fund the fifth year of I-Que.
3. Participated in the CEM Benchmarking study that allows IPERS to compare performance to other retirement systems similar in size
4. Met requirements of the Accountable Government Act.

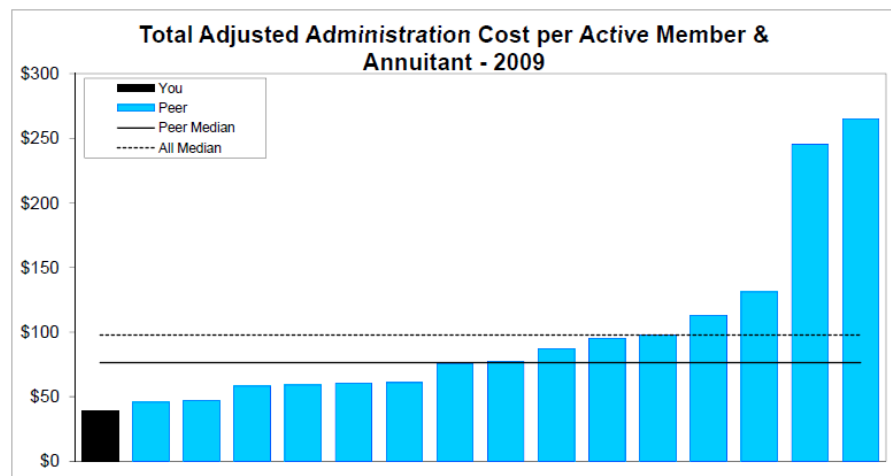
### Results

#### Performance Measure

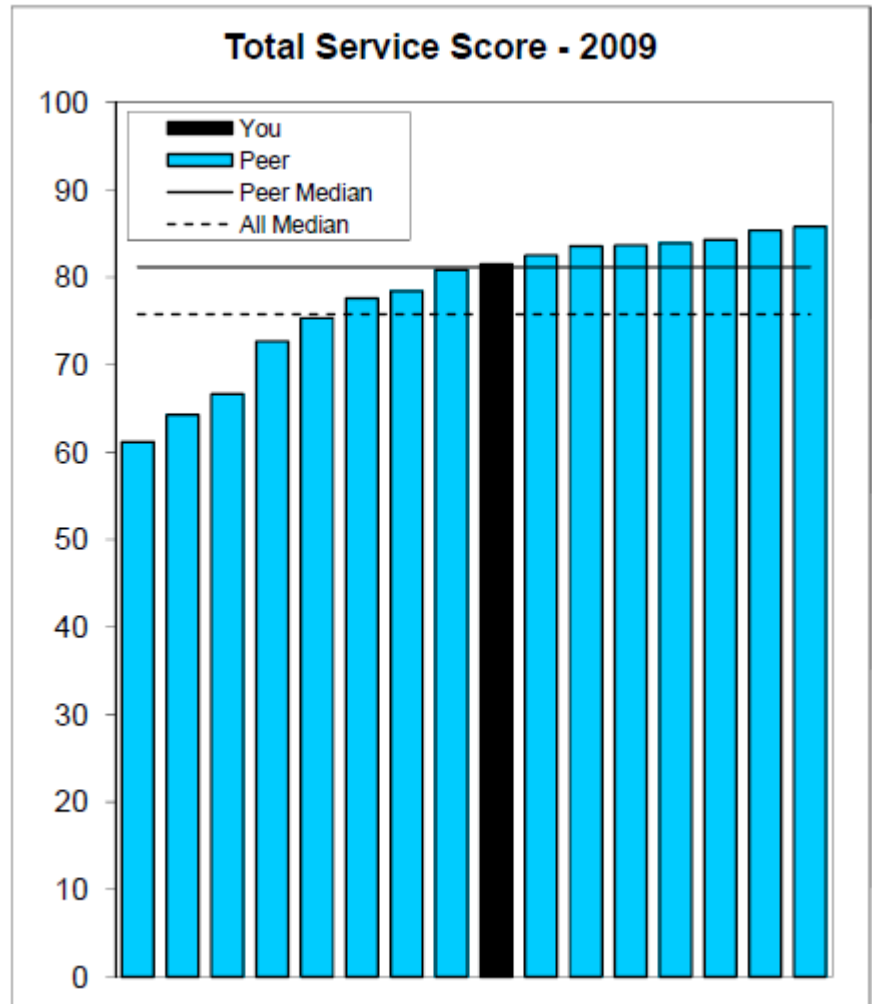
Upper quartile for services and lower quartile for administrative costs compared to peers

#### Data Sources

CEM Benchmarking (Report on FY2009 performance, published February 2010)



## Results Continued



### Data Reliability

CEM performance information is considered accurate and meets validity and reliability tests.

### What Was Achieved

IPERS rated in the top quartile for services and bottom quartile for administrative costs. IPERS "Total Adjusted Administration Cost" was \$39 per active member and annuitant, while the peer median was \$100. IPERS service rating was 81, which was equal to the peer median in the survey.

### Analysis of Results

IPERS' high service rating is especially significant given its low administrative costs. IPERS services rated 8<sup>th</sup> highest among a peer group of 16. At the same time, IPERS'

total administrative cost was the lowest cost of other systems of similar size participating in the CEM study.

**Link to Enterprise Plan**  
Accountable Government

## **PERFORMANCE PLAN RESULTS**

### **CORE FUNCTIONS AND SERVICES, PRODUCTS AND ACTIVITIES**

As was mentioned previously in the report, IPERS has two core functions: Retirement Services and Trust Fund Management. To facilitate review of the outcome measures for the Core Functions and the measures associated with relevant Services, Products and/or Activities (SPAs), two tables are attached.

The column headings contain summary information with appropriate cross references. The SPAs related to a core function are listed in the same table.

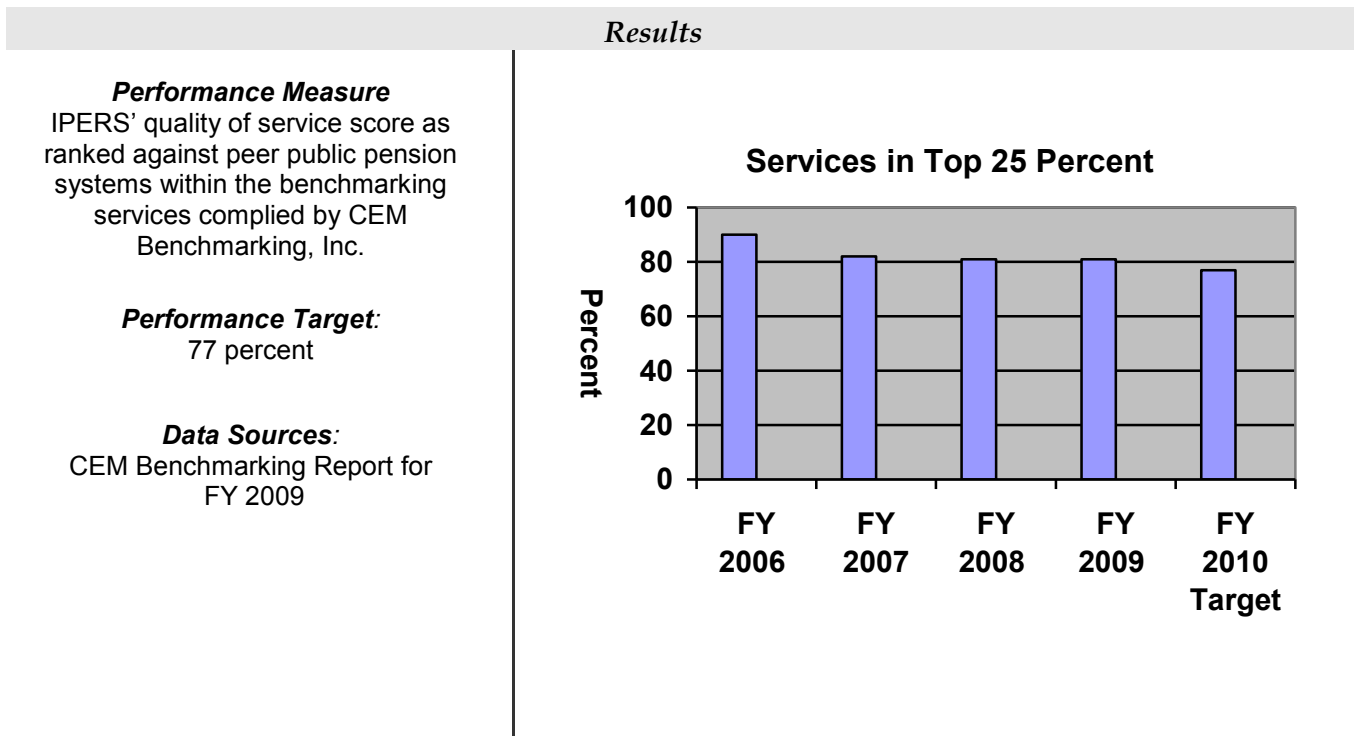
## CORE FUNCTION RESULTS

### Name: Retirement Services

**Description:** IPERS provides retirement benefits to its members and offers a variety of services to members, retirees and employers.

**Why we are doing this:** IPERS is responsible under Iowa law to provide cost-effective and sufficient core retirement benefits and services exclusively to members and beneficiaries for their care in retirement, to reduce personnel turnover and to attract competent men and women to public service in the State of Iowa.

**What we're doing to achieve results:** IPERS improves its benefits and services through the Iowa Excellence Assessment, benchmarking against peer retirement systems, and strategic deployment of human, financial and technology resources.



**Data reliability:** The CEM benchmarking survey is conducted every year following the close of the fiscal year. Comparisons to other systems are based on common definitions and criteria to ensure high reliability.

**Why we are using this measure:** Since IPERS has no real peers among the other agencies of state government, benchmarking provides the opportunity to compare the effectiveness and efficiency of our service delivery processes with peer retirement systems in other states and countries.



**What was achieved:** Over 90 percent of IPERS' key services ranked in the top quartile in comparison to peer systems.

**Analysis of results:** Even though IPERS' composite service quality score was in the top percentile, this measure compares individual services with peers resulting in identifying more opportunities for improvement. The total service score received in FY2009 was 81, well above the target set at 77.

**Factors affecting results:** The primary factor in determining relative rankings is the definition of the benchmarks. Improvement is tied to achieving more of the quality criteria associated with the service.

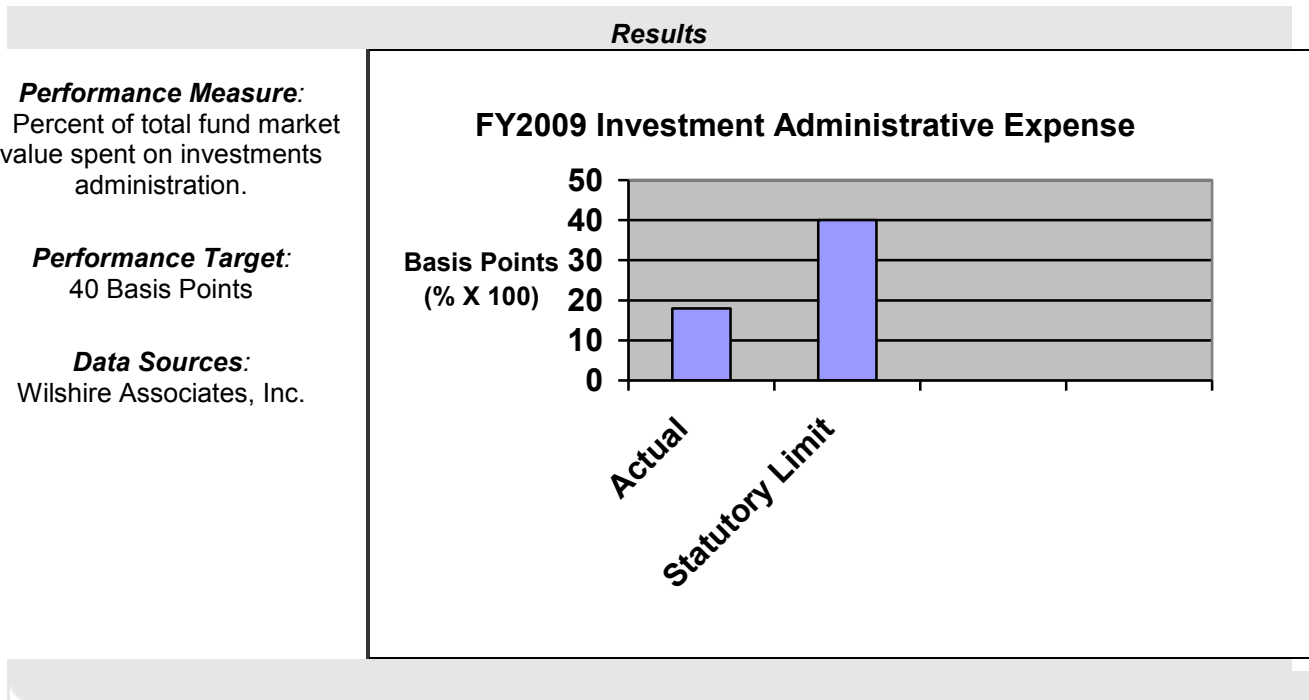
**Resources used:** \$31,500 from IPERS Trust Fund for the CEM Survey.

**Name: Trust Fund Management**

**Description:** These are the services necessary to administer and support IPERS' retirement services.

**Why we are doing this:** IPERS is responsible under Iowa law to provide a cost-effective retirement system for Iowa's public employees. The IPERS Trust Fund is for the exclusive benefit of IPERS members.

**What we're doing to achieve results:** IPERS improves services through the Iowa Excellence Assessment, benchmarking against peers, and strategic deployment of human, financial and technology resources.



**Data reliability:** Since information is collected from accounting records and is analyzed by a respected consultant, it is very accurate.

**Why we are using this measure:** It is important to track administrative expenses against a recognized baseline value to monitor changes related to maximum efficiency.

**What was achieved:** Investment administrative costs were significantly lower than the statutory limit of 40 basis points.

**Analysis of results:** We are featuring this measure because it demonstrates that IPERS has worked hard to keep down administrative expenses.

**Factors affecting results:** The total cost for administration and allocation of costs varies somewhat by methodology, but is in a very narrow range of variation.

**Resources used:** Investments administrative costs are paid from the IPERS Trust Fund. The administrative costs for FY 2009 was \$1,391,907.

## **RESOURCE REALLOCATIONS**

IPERS annually conducts a detailed, thorough analysis of cost projections based on the December budget report. This six month review resulted in the refinement of expenditure projections and a significant reduction in total projected expenses in FY2009.

As a result of our efforts to control costs, \$3.8 million was returned to the IPERS Trust Fund at the end of FY 2009.

## AGENCY CONTACTS

### **Performance Planning, Performance Reporting, Accounting, and Budgeting Information**

Darla Iverson

Phone: 515-281-0056

FAX: 515-281-0055

E-Mail: [Darla.Iverson@ipers.org](mailto:Darla.Iverson@ipers.org)

**Other performance information is available on IPERS' Web site at [www.IPERS.org](http://www.IPERS.org).**

Name of Agency: Iowa Public Employees' Retirement System				
Agency Mission/Core Purpose: To provide cost-effective and sufficient core retirement benefits and services exclusively to members and beneficiaries for their care in retirement, to reduce personnel turnover and to attract competent men and women to public service in the State of Iowa.				
Core Function	Outcome Measure(s)	Data Reported/ Results	Data Source	Link to Strategic Plan Goal (s)
CF: Retirement Services	553_70			
Desired Outcome(s):				
1. To provide benefits and services to members that exceed their expectations and that strongly contribute to the economic stability of the state.	IPERS' quality of service score as ranked against peer public pension systems within the benchmarking services provided by CEM Benchmarking, Inc. 553_70_002	75%	CEM Benchmarking Report	IPERS' Mission and Goal 3, Meet the service needs of a growing retirement population while controlling costs.
2. To maintain actuarial soundness of IPERS fund.	Percent by which IPERS investment return, on a rolling 10 year basis, meets the 7.5% assumed actuarial annual rate of interest. 553_70_004	100%	Wilshire Associates, Inc. (IPERS investment consultant)	Goal 1, Reduce the unfunded actuarial liability and increase IPERS' funded percentage. Goal 2, Establish a fully functioning board of trustees with the authority to take action to fund promised benefits fully.

Services, Products, Activities	Performance Measures	Data Reported Results	Data Source	Strategies/Recommended Actions
1. Retirement Payments 553_70101 Org #: 4110	% of payments on time 553_70101_001	100%	Accounting Records	Maintain performance.
2. Member Counseling 553_70104 Org #: 4110	% very satisfied with service 553_70104_001	95%	Surveys	Maintain efforts-currently meeting.
3. Service Purchases 553_70105 Org #: 4110	% of member info requests to actuary in 5 days of request 553_70105_001	22%	IPERS System Data	Track service purchase information through database.
4. Employer Training 553_70108 Org#: 4110	% rating training as "very satisfied" 553_70108_001	90%	Surveys	Revise training based upon evaluation results.
5. Refund payments 553_70109 Org#: 4110	% of applications processed in 3 days 553_70109_001	100%	IPERS System Data	Maintain performance.

Name of Agency: : Iowa Public Employees' Retirement System

Agency Mission/Core Purpose: To provide cost-effective and sufficient core retirement benefits and services exclusively to members and beneficiaries for their care in retirement, to reduce personnel turnover and to attract competent men and women to public service in the State of Iowa.

Core Function	Outcome Measure(s)	Data Reported/ Results	Data Source	Link to Strategic Plan Goal(s)
CF: Trust Fund Management	553_67			
Desired Outcome(s):				
1. To ensure IPERS' operational effectiveness and fiscal stability.	Percent by which IPERS benefit administrative costs are less than peer median administrative costs as measured by CEM per active member and annuitant. 553_67100_001	20%	CEM Benchmarking data	Goal 3, Meet the service needs of a growing retirement population while controlling costs.
2. To fulfill total fund investment objectives that reflect maximization of investment returns within prudent capital market risk parameters.	Percent by which IPERS investment return, on a rolling 10 year basis, meets the 7.5% actuarial annual rate of interest.	100%	Investments	Goal 1, Reduce the unfunded actuarial liability and increase IPERS' funded percentage.

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Activities, Services, Products	Performance Measures	Data Reported	Data Source	Purpose of Measure(s) and Significance of Results
1. Budget Development Org# 4110 553_67101	% of compliance with DOM standards on monetary resource management. 553_67101_001	100%	Enterprise	Monitor budget development against resource standards.
2. Internal Audit Effectiveness Org #: 4110 553_67101	% of accepted recommendations implemented prior to follow-up audit. 553_67101_003	45%	Internal Auditor	Track acceptance and implementation efforts.
3. Invest IPERS Trust Fund in a cost-effective manner that meets statutory standards Org # 4110 553_67102	% of total fund market value spent on investment administration 553_67102_001	.03%	Investments	IPERS Strategy 5.5: Continue to emphasize fiduciary responsibility and statutory compliance to maintain the structural and financial integrity of the system.
4. Assignments Processing Org # 4110 553_67102	% of final court orders reviewed and responded to in 10 working days 553_67102_002	95%	General Counsel	Maintain performance.

<p>5. Appeals Coordination 553_67102 Org #: 4110</p>	<p>% of appeals from Final Agency Decision to Division of Administrative Hears in 10 working days (20 days for disability appeals) 553_67102_003</p>	<p>33%</p>	<p>General Counsel</p>	<p>Track and document results for appeals sent to Division of Administrative Hearings.</p>
<p>6. Technology Acquiring and Managing Org #: 4110 553_67104</p>	<p>% of time the IBM i5 520 is available 553_67104_003</p>	<p>100%</p>	<p>Operations</p>	<p>Maintain effort and make necessary enhancements.</p>