



2012 - 2017
STRATEGIC PLAN

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

7401 REGISTER DRIVE
DES MOINES, IOWA

MISSION

Administer a cost-efficient retirement plan that provides lifetime pension payments to public employees and serves to attract and retain a quality workforce.

VISION

IPERS is a sustainable and affordable retirement plan that is valued by all Iowans and provides members with secure income, supports self-sufficiency in retirement, and contributes to local economies.

GOVERNANCE

Assessment

Plan Sponsors

The legislature and governor are the plan sponsors who determine membership in IPERS and establish the benefits provided to members. Through the administrative rules review process, the legislature also has oversight of employee and employer contributions to the system. The plan sponsor has adopted the prudent person standard for guidance in investments, but has diverged from that standard through specific legislated divestment policies.

Boards

IPERS does not have a Board of Trustees with authority over all IPERS responsibilities. The Benefits Advisory Committee (BAC), which includes member and employer representatives, addresses benefits and functions in an advisory role only. The IPERS Investment Board has policymaking authority over the investments and actuarial areas but does not engage in discussion of retirement benefits. The Investment Board has responsibility to adopt assumptions for actuarial valuations. The public members as well as the active and retired IPERS members on the Investment Board are appointed by the governor and confirmed by the Senate.

This strategic plan recognizes that a Board of Trustees is the model governance structure. A Board of Trustees would have fiduciary responsibility over operations and administration to ensure the protection of the Trust Fund for the exclusive benefit of the members and beneficiaries. Establishment of a comprehensive Board of Trustees would require legislative enactment and require major restructuring of the BAC and Investment Board. Over the past several years, the BAC and Investment Board have begun to work more closely. Acknowledgement of mutual concerns and working

together to address these concerns can provide incrementally better governance until a Board of Trustees is established.

Governance Goals and Objectives

Goal Organizational structure, policies, and business decisions are made to support IPERS' mission and to ensure that the Trust Fund is used exclusively to benefit the members and beneficiaries.

Objective 1 Support legislative changes to the current governance structure (Investment Board and BAC) to establish a Board of Trustees.

Objective 2 Facilitate coordination of Investment Board and BAC on policy oversight of investments, benefits, and plan administration.

- a. IPERS provides timely educational tools and opportunities to Investment Board and BAC members on fiduciary responsibilities, investment policies, actuarial policies, risk management principles, and alternative plan benefit structures.
- b. Review and update the roles and responsibilities of the Board and BAC, identifying key areas of mutual concern.
- c. IPERS schedules joint meetings on key areas of common interest, such as actuarial presentations, experience studies, asset/liability studies, etc.

Objective 3 Obtain waivers or exemptions to unfunded state mandates that add cost or interfere with the legal duty to use the Trust Fund for the exclusive benefit of the members.

- a. Identify state mandates that interfere or potentially interfere with the ability of IPERS to manage the trust fund exclusively for members' benefits.
- b. Educate legislative committees, the governor's office, the Department of Management, the Department of Administrative Services, the BAC, and the Investment Board on the exclusive benefit rule as applied to the trust fund and the interference some mandates may create.
- c. Develop and file legislative or administrative proposals to remove state mandates that interfere with the exclusive benefit rule.

Objective 4 Find a funding source, other than the Trust Fund, to cover IPERS' expenses to fulfill mandated Social Security administrator responsibilities, which are unrelated to members' IPERS benefits.

- a. Complete a gap analysis of responsibilities and current practice.
- b. Identify one-time and ongoing administrative costs and needed staffing
- c. Evaluate funding options such as employer fees or General Fund appropriations.

FUNDING

Assessment

Assets

The market value of the IPERS Trust Fund exceeds \$20 billion. There are two sources of income, investments and contributions. IPERS is charged with setting actuarial contribution rates for all membership groups, with some limitation on the rate adjustment for Regular members. The rates were increased to the highest level ever in response to the investment losses in fiscal years 2008 and 2009 (the period of the great recession). Investments recovered in fiscal years 2010 and 2011. Investments face the challenge of needed growth and downside protection to pay future benefits.

Liabilities

IPERS' promised retirement benefits are its liabilities. The normal cost of benefits continues to increase with the increasing age of members entering IPERS, longer life spans, and retirement patterns. Benefit changes enacted in 2010 lowered the normal cost for Regular members and reduced the unfunded actuarial liability (UAL). However, for the last decade contribution rates for Regular members which have been less than the actuarially required rate have significantly added to the UAL. Liabilities for Regular members experienced a one-time increase in fiscal year 2011 due to updates in mortality assumptions. Liabilities for all groups have also increased due to investment returns less than the actuarial assumed rate for fiscal years 2008 and 2009.

Percent Funded

At the end of fiscal year 2011 the ratio of actuarial assets to liabilities for the current benefits was 79.9 percent.

Funding Goals and Objectives

Goal Obtain and maintain full funding by collecting contributions and earning returns on investments necessary to pay expenses and all promised benefits.

- Objective 1** Achieve optimal investment returns based on risk tolerance policy.
- a. Improve risk budgeting processes to better manage portfolio risk.
 - b. Restructure the investment portfolio as necessary to improve returns within risk budgets.
- Objective 2** Establish policies to achieve and maintain full funding of the System.
- a. Establish a contribution rate funding policy that delineates key factors in developing an actuarially determined contribution rate and supports funding promised benefits.
 - b. Establish a sustainability policy that identifies criteria to ensure a well-funded plan. Considerations include investment risk tolerance, affordability of contributions and benefits, and features that attract and retain a quality workforce. Key aspects of the policy must:
 1. Identify funding ratio criteria necessary to support current plan design and funding ratio necessary before any future benefit enhancements can be added.
 2. Identify contribution rate thresholds for members and employers.
 3. Identify essential plan elements that are core to providing retirement benefits valued by employees and employers.

RETIREMENT PLAN

Assessment

Plan Type

Iowa law charges IPERS with administering a defined benefit plan (a lifetime monthly annuity based on a formula that includes wages and years worked). The plan provides a cost effective, secure basic retirement benefit that should be preserved. The defined benefit plan attracts and retains quality employees by pooling investment risk and longevity risk in the plan. Many private-sector employers offering retirement savings plans have a defined contribution plan, e.g. 401(k)-type, which feature greater portability but, by design, places the investment risk and longevity risk solely on the

employee. Many public employers are considering plans that offer features of both retirement plans to meet changing workforce expectations.

IPERS members who were surveyed reported little awareness of the IPERS plan beyond monthly pension benefits. In general, people are unaware of the differences between defined contribution and defined benefit plans, making it difficult for them to compare risk and value. This lack of knowledge contributes to the general public's negative perception of public pensions and increases pension envy.

Recruitment and Retention

The IPERS plan allows retirement as early as age 55 (age 50 for sheriffs and deputies). Normal retirement age, the point at which there is no benefit reduction for early retirement, is age 65, or earlier if the member meets the Rule of 88, or age 62 with 20 years of service. An increasing number of people are reaching retirement age. Baby boomers in the private sector reportedly plan to continue working, or work full- or part-time after they retire. Until recently, IPERS also experienced fewer retirements than projected. However, retirements increased the last several years as public employers sought to reduce the workforce by offering early retirement incentives. IPERS continues to see a demand by employers and retirees to return to IPERS' covered employment after retirement.

Plan Changes

Plan design changes over the years were identified to control final average wage spiking, such as the elimination of bonuses from covered wages. More recent and extensive changes were enacted to protect the sustainability of the plan. Recent legislative changes effective July 1, 2012, include:

- **Benefit formula factor changes.** The wages used to calculate benefit amounts will be the average over the five years the employee earned the most. (Previously this was calculated over three years). IPERS continues to use a control year outside of the "high five" years to test for wage spiking that inflates benefits.
- **Vesting requirements take longer.** A member becomes vested after seven years of service, or upon reaching age 65 while in IPERS-covered employment, whichever comes first. Previously, vesting occurred after four years of service or upon reaching age 55 while in IPERS-covered employment.
- **Early retirement benefit reduction rate increases.** The amount lifetime monthly benefits are reduced for early retirement increases from 3 percent to 6 percent times the number of years the member receives benefits before age 65. The 6 percent reduction for early retirement will affect only people who retire before reaching normal retirement age.

Cost-of -Living Adjustments

The monthly IPERS benefit loses value because there is no cost-of-living adjustment to retirees' monthly pensions. IPERS offers two different once-a-year payments intended to offset some negative effects of inflation. One is guaranteed; one is not. Neither payment has been adjusted for inflation for several years. The nonguaranteed payment (FED or Favorable Experience Dividend) will be depleted in the timeframe of this strategic plan. Cost-of-living adjustments are expensive and lead to intergenerational inequities if not pre-funded.

Retirement Plan Goals and Objectives

Goal 1 Objectively review features that improve cost-efficient lifetime retirement benefits.

- Objective 1** Study existing and proposed plan structures.
- a. Evaluate changes to the core defined benefit plan to retain cost efficiency of the benefit offered.
 - b. Conduct timely actuarial studies and develop position papers on proposals considered by the legislature's Public Retirement Systems Committee.
 - c. Evaluate other plan structures that use features of both defined benefit and defined contribution plans.

- Objective 2** Increase awareness among members of employers' savings programs that can be used to supplement IPERS retirement income to help combat inflation.
- a. Incorporate education of savings plans in retirement seminars.

Goal 2 Assess plan features that are inequitable, add complexity, and are inefficient.

- Objective 1** Simplify the definition of IPERS-covered wages.
- a. Identify compensation that is used to manipulate wages to increase pensions, such as overtime and cafeteria plans.
 - b. Identify the difficulties employers have applying the current definition.
 - c. Develop a BAC-supported legislative proposal.

- Objective 2** Identify and prioritize specific plan provisions that are expensive, inequitable across generations, and benefit only a few members.

- a. Develop a BAC-supported legislative proposal that eliminates expensive and/or inequitable provisions.

PLAN ADMINISTRATION

Assessment

Service Quality and Costs

IPERS recognizes the need for efficient and economical ways to reach over 300,000 members and almost 2,200 reporting employers. Demand for 24/7 online accessibility has become standard. Social media and electronic communication must be expanded to broaden our reach. Surveys and focus group results show that IPERS' service quality rates high, but that IPERS should provide additional ways of communication and education. IPERS has low benefit administration costs and staffing ratio compared to our peers. IPERS' investment management costs are comparatively low as well.

IPERS has been reengineering business processes and implementing a new pension administration software system since 2006. Employers have benefited from the new IPERS' Quest for Excellence (I-Que) software system upgrade for several years. Members will see an upgrade by year end. While this has stretched out further than the original target date, the enhanced online capabilities for members promise to be well worth the wait.

The focus on IPERS' funding status, an increasingly negative public opinion of defined benefit plans, and cuts in state and local government spending will reinforce the need to keep administrative costs low and service quality high.

Plan Administration Goals and Objectives

Goal Provide high-quality, low-cost services and administrative support.

- Objective 1** Increase usage of electronic business.
 - a. Fully implement I-Que self-service for employers and members.
 - b. Increase electronic communication to provide 24/7 access and incorporate current social media strategies.
- Objective 2** Match people, skills, and positions with changing priorities and needs.

- a. Develop and coordinate a management transition plan with I-Que.
- b. Identify upcoming IPERS staff retirements and develop a workforce management and succession plan.

Objective 3 Maintain efficient, safe, and secure infrastructure.

- a. Update disaster recovery plan to prevent any interruption of business and to maintain data security and confidentiality of records.
- b. Revise IPERS' records management plan, including special attention to electronic records.

Objective 4 Coordinate new GASB reporting.

- a. Communicate with stakeholders, employers, and policy makers on new pension reporting requirements.
- b. Develop efficient means for employers to retrieve appropriate pension expenses and liabilities.