

A Legislator's Guide

to Iowa Public Employees' Retirement System

Important Information for IPERS' Plan Sponsors



I **PERS**[®]

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The Iowa Legislature created IPERS in 1953, recognizing a need for retirement security for Iowa citizens who dedicate their lives to public service.

The Legislature designed IPERS as a core benefit for Iowa's schools, counties, cities, and state agencies to use to attract and keep employees needed to fulfill critical government responsibilities. These public employees teach our children, maintain our roads and parks, care for our most vulnerable citizens, and protect Iowans across our state.

The Iowa Legislature and Governor share responsibility as the IPERS plan sponsor. It is your role to ensure that IPERS remains secure. I look forward to working with you as you carry out this important role.



Donna M. Mueller
IPERS CEO



Note: This publication contains FY2017 data.



The Importance of IPERS

For more than 50 years, IPERS has provided a core retirement plan covering most Iowa state and local public employees. With approximately 355,000 members and about 2,000 covered employers, IPERS is the largest public retirement system in Iowa.

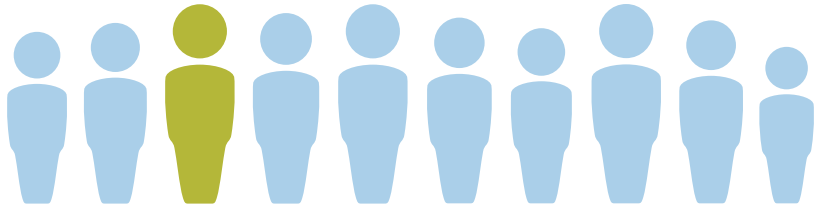
The Legislature designed IPERS to provide monthly lifetime annuities that supplement Social Security benefits and personal savings, enabling public employees to care for themselves in retirement. The Legislature also intended for IPERS to be an employee benefit that would help Iowa's public employers recruit and retain qualified personnel.

As a defined benefit plan, IPERS provides monthly benefits that are calculated using a formula. A member's benefit increases as his or her years of service and salary increase.

Because IPERS is a defined benefit plan, the Legislature is assured that the money contributed by public employees and their employers for retirement is used as intended. The benefit is paid as a lifetime monthly annuity. IPERS members cannot borrow or withdraw their money while in public employment.

A NOTE TO OUR LEGISLATORS

We value your commitment to the residents of Iowa. One of your important responsibilities as a legislator is ensuring that IPERS can provide retirement benefits that have been promised to current and future retirees.



Did you know? **One in ten** Iowans is an IPERS member.



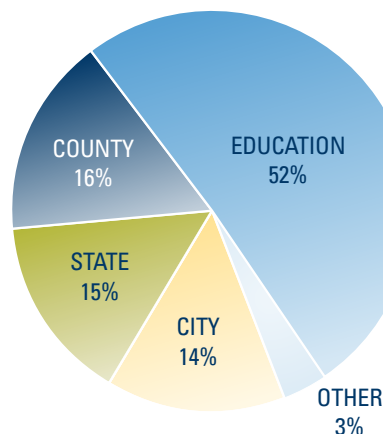
THE PURPOSE OF IPERS IS TO:

- **Offer a solid retirement plan** for teachers and school support staff, law enforcement, social workers, prison staff, transportation workers, and other public employees in your district.
- **Provide a retirement benefit complementary to Social Security** and other personal savings and investments.
- **Attract and retain valuable employees** to public service in Iowa.

IPERS Membership

Most public employees in Iowa automatically become IPERS members when starting work with a covered employer. IPERS has three membership groups. Regular members make up 95 percent of the membership. The other 5 percent are in Special service groups: 1) sheriffs/deputy sheriffs, and 2) other protection occupations, including city police, firefighters in cities not covered by Chapter 411, correctional officers, conservation peace officers, jailers, and emergency medical service providers. Legislators can also choose to be members of IPERS. Covered employers are established by law.

WORKING MEMBERS BY EMPLOYER TYPE



Investments

As an institutional investor, IPERS is able to use professional investment managers and invest in funds that are not accessible to the individual investor. As a result, IPERS is able to pool and better manage its investment risk, maximize investment returns, and reduce investment management fees.

Iowa Investments

IPERS' first responsibility under Iowa law is to act in the exclusive interest of IPERS members. IPERS must invest the Trust Fund's assets to gain the highest returns within the parameters of reasonable risk. Although IPERS cannot give preference to Iowa-based companies unless the investments meet required standards, IPERS is committed to supporting Iowa's businesses and communities.



Attracting and Retaining a Quality Workforce

Finding and keeping talented employees is a challenge that many employers face. The primary assets of an organization are the talents of its people, not the tangible and financial assets of budget sheets. Finding key talent and replacing staff who leave is expensive and time-consuming.

IPERS helps attract and retain talented employees in Iowa. As a defined

benefit plan, IPERS offers the security of a guaranteed retirement benefit that cannot be outlived. While employees and employers make contributions to the System, IPERS takes on the risk associated with investing the money. The longer employees remain in IPERS-covered employment, the greater their retirement benefit will be.

IPERS favorably affects Iowa's local economies, businesses, and communities, returning **\$1.7 billion** to retirees in Iowa last year.

IPERS PROVIDES FINANCIAL SECURITY DURING RETIREMENT

This benefit, combined with personal savings and Social Security, helps ensure members have a financially secure retirement.

IPERS'
AVERAGE
RETIREE

61
AGE WHEN
PENSION STARTS

23
YEARS OF
SERVICE

\$17,000
ANNUAL
PENSION
AMOUNT*

*Annual pension amount for a recent retiree is \$22,000

EARLY-RETIREMENT REDUCTION

Regular members who retire before normal retirement age have a permanent early-retirement reduction applied to their benefit. Normal retirement age is one of the following, whichever comes first:

- **Age 65**
- Age 62 if a member has 20 or more years of covered employment (**62/20**)
- When a member's years of service plus age equals or exceeds 88 (**Rule of 88**)

Reaching normal retirement age does not mean a member is eligible for benefits calculated with the maximum multiplier of 65 or 72 percent.

For service earned before July 1, 2012, the early-retirement reduction is 3 percent for each year the member receives benefits before the member's earliest normal retirement age. For service earned after June 30, 2012, the early-retirement reduction is 6 percent for each year the member receives benefits before age 65.

Membership Rewards

Retirement Benefit Formula

The formula used to calculate a member's retirement benefit includes:

- **A MEMBER'S HIGHEST AVERAGE SALARY**
- **A MULTIPLIER** (based on years of service).
- **AN EARLY-RETIREMENT REDUCTION***

The benefit is calculated as follows:

IPERS Benefit Calculation

$$\begin{array}{l} \text{Average Salary} \\ \times \text{Multiplier} \\ - \text{Reduction, If Any}^* \end{array}$$

Annual IPERS Benefit

**The early-retirement reduction applies only to the benefits of Regular members who retire before normal retirement age.*

Protection for Families

IPERS provides a safety net for members' families. Disability benefits provide financial protection for members who develop a disability before retirement. IPERS also provides pre- and postretirement death benefits to members' spouses, children, or other beneficiaries.



Postretirement Inflation and the End of the Favorable Experience Dividend

IPERS benefits do not include a cost-of-living adjustment. Members must plan for inflation while still working.

Pre-7/1/90 Retirees

These retirees receive an annual payment called the November dividend, which is guaranteed by Iowa law. The payment is based on a formula that is defined in law and uses a benefit multiplier. The benefit multiplier does not increase unless IPERS' actuary certifies that the increase can be supported by current contribution rates.

Post-6/30/90 Retirees

A FED (Favorable Experience Dividend) was paid to these retirees each year from January 1999 to January 2014. The final FED payments were made in January 2014. There are no funds available to provide any additional FED payments or a substitute for the FED payments. IPERS' Benefits Advisory Committee continues to look for a solution; however, the main priority is to stay

on track with funding IPERS' base benefits.

FED payments were made from the FED Reserve Account, established with money from the IPERS Trust Fund by the Legislature in 1998. Money cannot be transferred into this account unless IPERS is 100 percent funded and the transfer would not bring IPERS below 100 percent funding. The last transfer into this account was in fiscal year 2001.

The FED payment was created using money from the IPERS Trust Fund. It was meant to be a temporary substitute for retirees' cost-of-living increases. Since 1999, \$953 million in FED payments were paid to retirees. The last FED payment was made in January 2014.



Legislature and Governor

Plan sponsors

Public Retirement Systems Committee

Reviews public retirement system policy

Investment Board

Fund trustee

Benefits Advisory Committee

Advises on IPERS benefits

State Treasurer

Fund custodian

IPERS' Administration

Carries out the law, collects contributions, invests assets, pays benefits

Governance and Administration

Legislature and Governor

The Legislature and Governor oversee the laws that govern IPERS. They establish, by statute:

- Member benefits
- The public employers and employees who participate in IPERS

IPERS' statutes may be changed through the legislative process. The Legislature and Governor approve spending from the IPERS Trust Fund for administrative expenses, while the Legislature's Administrative Rules Review Committee reviews all administrative rules related to IPERS.

Public Retirement Systems Committee

The Public Retirement Systems Committee, a ten-member, permanent committee of senators and representatives, meets between sessions of the Legislature, typically in the fall. The committee is charged with reviewing policy issues for all of Iowa's public retirement systems, including IPERS.

IPERS Boards

The IPERS Investment Board and the Benefits Advisory Committee oversee IPERS. The Investment Board is designated as IPERS’ Trust Fund trustee. The Board sets investment policy and oversees the actuarial program. There are seven voting members – the Treasurer of State and six gubernatorial appointments confirmed by the Senate. Three of the six must have substantial institutional investment or financial experience. The other three must be members of IPERS. Legislative leadership appoints the four nonvoting legislative members.

The Legislature established the Benefits Advisory Committee to advise IPERS and the General Assembly on benefits and services. The Committee selects its own members from constituent groups representing employers and members specified by statute. A member of the public also serves on the Committee.

IPERS Administration

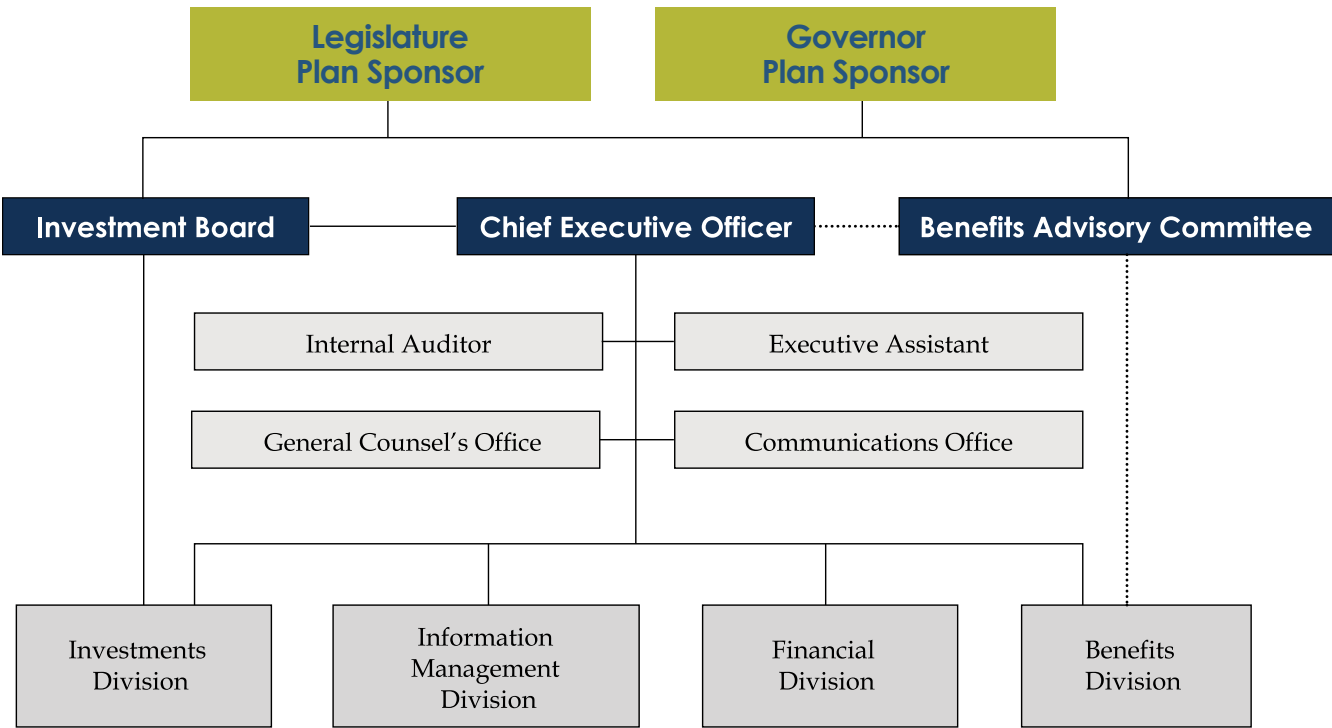
IPERS is an independent agency within the Executive Branch of Iowa government. Chief Executive Officer Donna M. Mueller and her staff administer the IPERS plan established by the Legislature and Governor.

IOWA CODE CHAPTERS GOVERNING IPERS

97B: Specific to IPERS
97D: General principles for changes to all Iowa public retirement systems, including the intent for equity among them

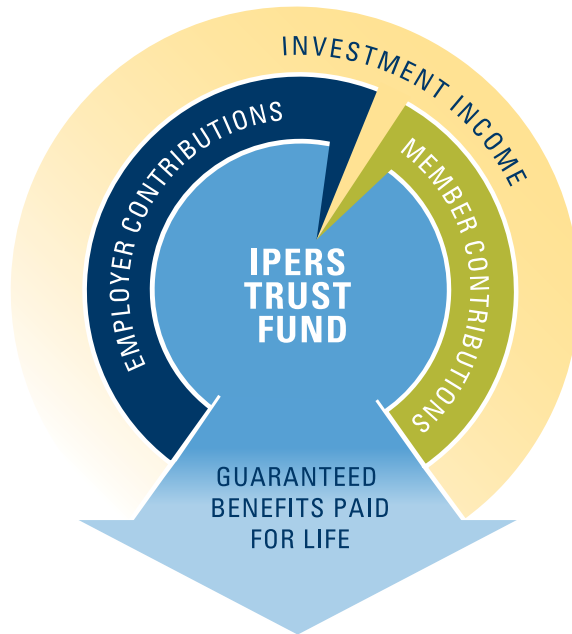
- IPERS
- Peace Officers’ Retirement System
- Judicial Retirement System
- Municipal Fire & Police Retirement System of Iowa

TABLE OF ORGANIZATION



The Trust Fund at a Glance

70% OF BENEFITS
ARE FUNDED BY
INVESTMENTS.



LOW ADMINISTRATIVE EXPENSES

Consider This:

According to CEM Benchmarking Inc., IPERS' administrative expenses are consistently among the lowest of similarly sized public retirement systems, averaging 50% less than our peers.

Trust Fund Assets

- Employer contributions
- Member contributions
- Investment income

Liabilities

- Benefits earned by working members
- Benefits paid to current retirees and beneficiaries
- Refunds paid to those leaving IPERS
- Costs of administering the plan

Here's How It Works:

- The IPERS Trust Fund, by law, must be used for the exclusive benefit of members. IPERS needs to have enough assets to pay benefits to current retirees and surviving beneficiaries, as well as benefits earned by members.
- Members contribute to IPERS while they are working. Employers pay a share of the contributions as part of the total compensation package they provide to employees.
- IPERS is a "prefunded" system, which means investment earnings from contributions paid over a member's career should pay for the future retirement benefits of those members.
- Contributions are invested to gain the highest return at a reasonable level of risk.
- Investment earnings provide the largest percentage of income to IPERS—even during the 2000s when returns were down.

A Note About Expenses

The Legislature authorizes spending from the Trust Fund to pay IPERS' administrative expenses not related to investments.

IPERS closely monitors and negotiates what it pays to investment portfolio managers, does not spend money on costly advertising campaigns, and manages itself with a lean and efficient staff. Limiting expenses allows IPERS to use its assets to pay out benefits and helps ensure the long-term funding of the benefits.

Funding in Recent Years

The UAL (Unfunded Actuarial Liability)

In the past, contribution rates for Regular members (those not in public safety positions) were set in the law at 9.45 percent. The early 2000s brought the 2001 recession and adjustments to the mortality tables used by IPERS' actuary to reflect longer life expectancies. As a result, the longstanding contribution rate was too low to adequately fund the benefits being promised. This led to years of underfunding the System, followed by the Great Recession of 2009, which yielded negative investment returns.

IPERS' unfunded actuarial liability, or UAL, indicates that the IPERS Trust Fund does not currently have all the money needed to pay future benefits. This is known as a shortfall. Recent news commentaries have compared IPERS to other public pension systems in crisis, creating confusion and unnecessary concern.

A shortfall is not always a sign of a problem for a retirement system. The important question to ask is whether a retirement system has a reasonable plan to manage the shortfall and the resources to carry out the plan.

Managing the shortfall is the responsibility of IPERS through its investments and its employer and employee contributions. IPERS'

2001 recession

+ 2009 recession

+ Contribution rates less than required until 2014

+ Updated mortality tables

TODAY'S SHORTFALL



“We plan to pay down that shortfall just like a mortgage.

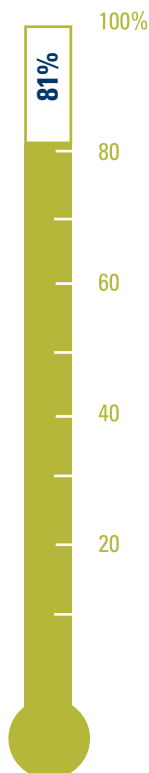
When you take out a mortgage, you don't pay that mortgage debt all in one day. You amortize it over 30 years. That's what we're doing with the shortfall.” —DONNA M. MUELLER, CEO

shortfall is amortized over 30 years, and current contribution rates provide funding for the basic benefits as well as sufficient payments toward amortizing the shortfall.

Today, IPERS is a \$31 billion Trust Fund that is 81 percent funded. IPERS pays out \$1.9 billion annually, with \$1.7 billion paid in Iowa.

FUNDING AND CONTRIBUTIONS

100 percent is our goal. With an 81 percent funded ratio as of June 30, 2017, IPERS has made significant improvements in recent years.



An Early Leader in Pension Reform

Iowa was an early leader with pension reform for IPERS' Regular members. In 2010, the Iowa Legislature acted swiftly and decisively to protect IPERS, becoming one of the first states to pass a pension reform bill. (Note: While the pension reform bill applied to current, active members, it did not reduce benefits already earned.)

Key details of the pension reform bill:

- Lengthened the vesting period.
- Reduced future benefit accruals by replacing the highest three-year average salary with the highest five-year average salary.
- Increased the early-retirement penalty.
- Allows IPERS flexibility in setting contribution rates for Regular members, as has long been authorized for the two Special service groups.

IPERS can now adjust the contribution rates based on the annual actuarial valuation and IPERS' contribution rate funding policy. The rate for Regular members cannot change by more than 1 percentage point each year, a limit set in statute.

All of these benefit changes became effective on July 1, 2012. Now, just five years after the reform bill's effective date, the contribution rates have remained stable and IPERS' funding equation is more closely in balance. IPERS' goal is to become 100 percent funded.

"With the change in the law, and with the funding policy enacted by the Investment Board, we are not only collecting the actuarially required contributions, but we are holding rates steady to provide a cushion when the next market downturn comes." —DONNA M. MUELLER, CEO

Accounting Changes

New GASB Statements

For the fourth year, public pensions, including IPERS, took a new approach to financial reporting because of recently issued standards from the Governmental Accounting Standards Board (GASB).

The GASB's standards created new accounting requirements that are separate from the funding measurements. Funding measurements and contribution rates will continue to be determined under actuarial methods.

The GASB now requires IPERS-covered employers to place a proportionate share of IPERS' net pension liability and pension expense on their balance sheets. This is a new way of recognizing the liability related to the IPERS benefits accrued by members each year. These are separate numbers that do not affect the amounts employers contribute to IPERS.

Legislators and taxpayers must understand that the new GASB calculations do not change IPERS' liabilities, and those liabilities are not due today. The new reporting rules do not:

- Indicate IPERS' funded ratio.
- Affect the required contribution rates.
- Require an immediate payment of the liabilities.

IPERS works with employers to help them provide the information necessary for their financial reporting. For more information, see IPERS' webpage on the GASB standards in the Employers section of www.ipers.org.

Bond ratings will not see major changes as a result of these new standards. Bond rating agencies have always considered pension plan viability and employers' ability to pay contributions in their determination of ratings. To date, not one city or school has had its bond ratings downgraded primarily because of its participation in IPERS.

Actuarial funding concepts and calculations, such as those shown in this booklet, will remain valid and essential.



Facts About IPERS

IPERS benefits are portable.

Members are always entitled to keep their own IPERS contributions and interest earnings. When a member changes jobs, the member keeps IPERS coverage if the new job is an IPERS-covered position. Members who have ended all employment with an IPERS-covered employer may roll their IPERS money into a qualified retirement plan.

IPERS benefits are only one part of a member's overall retirement savings.

Total retirement income should come from several sources: a member's IPERS benefits, Social Security, personal savings, and any other retirement plan benefits. The cost of living rises over time and members must plan for it while still working. IPERS does not include a cost-of-living adjustment.

IPERS covers a variety of public employees.

IPERS covers employees of schools, counties, cities, the state, and others. Most IPERS members work in education. IPERS members are also firefighters, police officers, social workers, sheriffs, and deputies.

Iowa taxpayers help pay for IPERS.

Taxpayers indirectly contribute to IPERS through tax dollars used to support government and the compensation packages of public employees. Investment income earned from IPERS contributions provides most of the money that is used to pay benefits. Members contribute through salary deductions, and are taxpayers themselves.

IPERS is a prefunded system.

IPERS members working today contribute toward their own future retirement benefit. IPERS must undergo actuarial tests to ensure it has the funds available to pay retirement benefits to members when they are ready to retire. Prefunding allows IPERS long time horizons to earn investment income, a best practice of funding pension benefits.

IPERS is sustainable.

The Iowa Legislature made IPERS an early leader in pension reform, passing the reform bill in 2010. The law increased employer and member contributions and modified benefits for Regular members. IPERS is now a \$31 billion Trust Fund with an 81 percent funded status.

For more information...

Available Resources

IPERS offers many resources to help you and your constituents including:

- **Website, www.ipers.org**
- **Member Handbook** (online)
- **Employer Handbook** (online)
- **Educational booklets for members** (online)
- **Fiscal year annual summary** (mailed and online)
- **Comprehensive Annual Financial Report** (online)
- **Personalized benefits statements** (mailed and online)
- **Access to personal IPERS information through My Account feature** (online)
- **Individual and group counseling/retirement planning sessions**
- **Access to knowledgeable representatives**

Contact Us

We're here to help you! If you have questions about IPERS, please don't hesitate to contact us.

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Working Today for Your Tomorrow