IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Member Handbook Supplement

JULY 1, 2010–JUNE 30, 2012

Supplement to the Summary of the IPERS Retirement Plan • July 2010

In accordance with law changes of the 83rd Iowa General Assembly

IPERS℠

Working Today for Your Tomorrow

IPERS℠

Member Handbook

S u p p l e m e n t

July 1, 2010–June 30, 2012, Supplement to the Summary of the IPERS Retirement Plan

July 2010

In accordance with law changes of the 83rd Iowa General Assembly

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I. INTRODUCTION

A. Why a supplement?

In 2010, the state legislature and the governor approved changes to the IPERS plan. Important changes will apply to most IPERS members, but the changes are not effective until July 1, 2012. A few changes were effective immediately but did not affect most IPERS members. Because most of the IPERS plan is unchanged, IPERS published the law changes as a supplement to the IPERS Member Handbook.

B. How to use this supplement

The IPERS Member Handbook remains effective until July 1, 2012. View the supplement as an addendum to the IPERS Member Handbook dated May 2009.

How the supplement is organized

I. WHICH PART OF THE IPERS PLAN IS AFFECTED

A. What the change is

This title summarizes the change

1. Whom the change affects

Many changes affect only one or two IPERS membership classes. This part identifies who needs to pay attention to the change.

IPERS membership classes

Regular members
- Regular membership class (includes most IPERS members)

Special Service members
- Sheriff/deputy sheriff membership class
- Protection occupation membership class (includes correctional officers, firefighters, jailers, police officers, and others)

2. When the change occurs

This part shows when the change will be effective.

A narrative and examples are given in each part. They describe what is different from the current plan and show how the change may affect you.

II. IF YOU HAVE QUESTIONS ABOUT THIS SUPPLEMENT

A. Contact information

Phone
515-281-0020 or
toll-free 1-800-622-3849
7:30 a.m.–5 p.m. CT
Monday–Friday

E-mail
info@ipers.org

Web site
www.ipers.org

Benefits fax
515-281-0053

Legal fax
515-281-0045
(For QDROs and other legal matters)

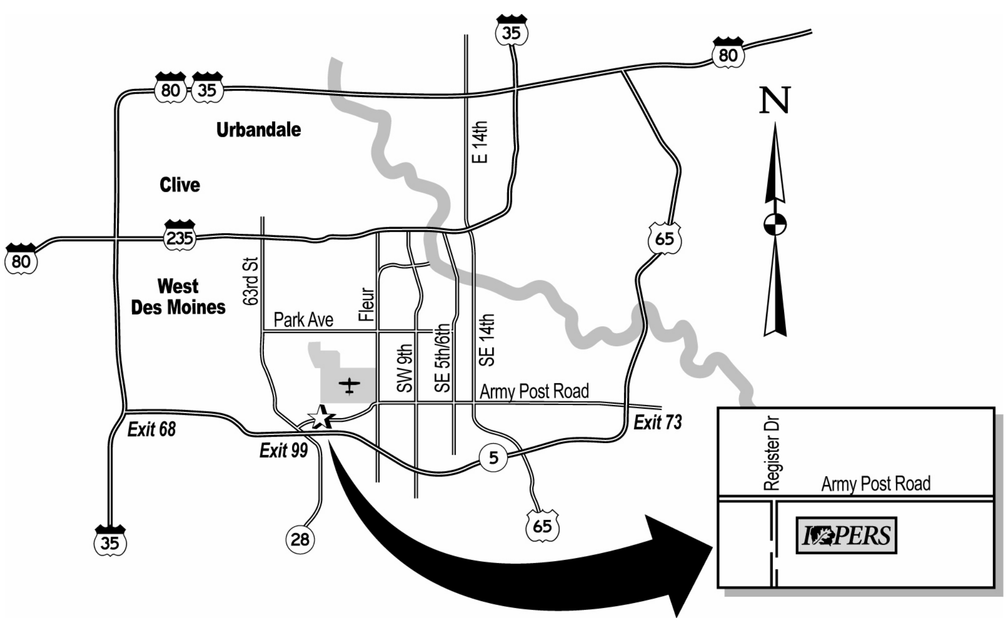
By mail
P.O. Box 9117
Des Moines, IA 50306-9117

To help us help you, when you write us, please include your full name, signature, member identification number, address, and a telephone or fax number where you can be reached during the day.

In person
7401 Register Drive
Des Moines, IA 50321
8 a.m.–4:30 p.m. CT
Monday–Friday

B. If you plan a visit to IPERS

IPERS is located at 7401 Register Drive, Des Moines, IA 50321.



III. CONTRIBUTIONS

A. Preserve recorded wages for benefit formula by making up contributions

1. Applies to any IPERS member who is furloughed or receives reduced wages because of bumping

2. Effective January 1, 2009, through June 30, 2011

You may voluntarily make up contributions to IPERS if your pay goes down because of either one of the following:

1) Required unpaid time off.

2) Bumping to avoid a layoff.

This is most likely to help you if you are near retirement, when most members earn their highest wages (which will be used to calculate their benefit amounts). By paying the contributions you and your employer would have paid, you can minimize the impact reduced wages will have on your benefit. You must pay both your share and your employer's share of the contributions to have IPERS record your wages as though they had not been reduced. If you choose to make up contributions, your employer will withhold them from your paycheck. Your decision to make up contributions cannot be changed.

You should get a benefit estimate before agreeing to make up contributions, because your decision will be final. To get a benefit estimate, complete a *Request for Benefit Estimate for Employees Affected by a Furlough or Exercise of Bumping Rights* form. The estimate will give you an idea of how the additional contributions would affect your IPERS benefit amount. If you decide to make up contributions, you must submit an *Application to Submit Contributions for Furlough or Exercise of Bumping Rights.* Both forms are available at <www.ipers.org> or by calling IPERS.

B. Increase in the contribution rate

1. Applies to regular members

2. Effective July 1, 2011

The total contribution rate for regular members will be 13.45 percent from July 1, 2011, through June 30, 2012. Employees will contribute 5.38 percent, which is 40 percent of the total. Employers will contribute 8.07 percent, which is 60 percent of the total.

How the contribution rate works
The contribution rate is the percentage of covered wages employees and their employers pay to IPERS. From 7/1/11–6/30/12, employees who are regular IPERS members will contribute 5.38 percent of their wages. To calculate contributions for a member making $45,000 a year:

$$\begin{array}{r} \$45{,}000 \\ \underline{\times\ .0538} \\ \$\ 2{,}421 \end{array}$$

$2,421 ÷ 52 weeks = $46.56

An employee with covered wages of $45,000 a year will contribute $2,421 a year, or $46.56 a week for IPERS benefits. Employers deduct the money from employees' pay and send the money to IPERS.

Without the law change, the total rate for regular members would have been 11.95 percent on July 1, 2011. The employees' contribution rate would have been 4.70 percent and the employers' contribution rate would have been 7.25 percent.

With the law change, the total contribution rate for regular members will be 1.50 percentage points more than it would have been. Employees will pay 0.68 percentage point more under the new law than under the old law.

Contribution rate 7/1/11–6/30/12

	Employee Share	Employer Share	Total
Old law	4.70%	7.25%	11.95%
New law	5.38%	8.07%	13.45%

Example showing effect on employee contributions

Old law: \$45,000 × 4.70% = \$2,115 — \$2,115 ÷ 52 weeks = \$40.67

New law: \$45,000 × 5.38% = \$2,421 — \$2,421 ÷ 52 weeks = \$46.56

A regular member with wages of \$45,000 a year will contribute \$306 a year more under the new law, or \$5.89 more a week.

C. Limit on annual changes to the contribution rate

1. Applies to regular members

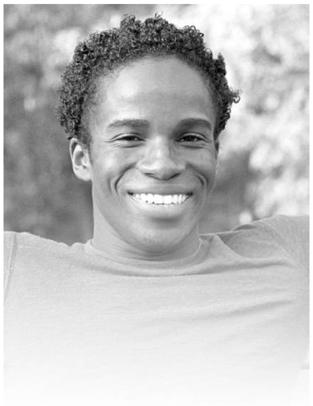
2. Effective July 1, 2012

Each year starting July 1, 2012, IPERS can adjust the total contribution rate by no more than 1.0 percentage point up or down. IPERS will set the rate following an actuarial valuation, which is a snapshot of IPERS' finances over the next 30 years.

Example

After projecting assets and liabilities, IPERS' actuary concludes the total contribution rate should be 16 percent. However, the total contribution rate for the prior year was 13.45 percent.

Because the total rate cannot increase or decrease by more than 1.0 percentage point a year, the total contribution rate would be 14.45 percent, not the 16 percent calculated by the actuary. Employees pay 40 percent of the total. The contribution rate for employees would be 5.78 percent.



IV. VESTING

A. Seven years to vest

1. Applies to regular members

2. Effective July 1, 2012

Why vesting is important

Vesting gives you a permanent future right to an IPERS benefit. Once you are vested, you are able to purchase service. You also gain access to disability and death benefits. As a vested member, if you leave IPERS-covered employment and want to take your money out of IPERS, you will have access to a percentage of your employer's contributions that increases over time. (Vested or not, your own contributions to IPERS are always yours.)

Before July 1, 2012, you become vested when you first meet one of these conditions:

- You have completed 4 years (16 quarters) of service.
- You are at least age 55 and contributing to IPERS.

After July 1, 2012, you become vested when you first meet one of these conditions:

- You have completed 7 years (28 quarters) of service.
- You are at least age 65 and contributing to IPERS.

If you are vested on June 30, 2012, you remain vested on July 1, 2012, and after, even if you don't meet either of the new vesting requirements.

Example
Susan has 5 years of service on June 30, 2012. On July 1, 2012, the vesting period changes to 7 years. Because Susan had more than 4 years of service, she was vested on June 30, 2012. Susan remains vested.

Nicholas has 3½ years of service on June 30, 2012. Because he was not vested before July 1, 2012, Nicholas must work another 3½ years, for a total of 7 years, to become vested.

V. CALCULATING BENEFITS FOR REGULAR MEMBERS

A. Benefit formula changes

1. Applies to regular members

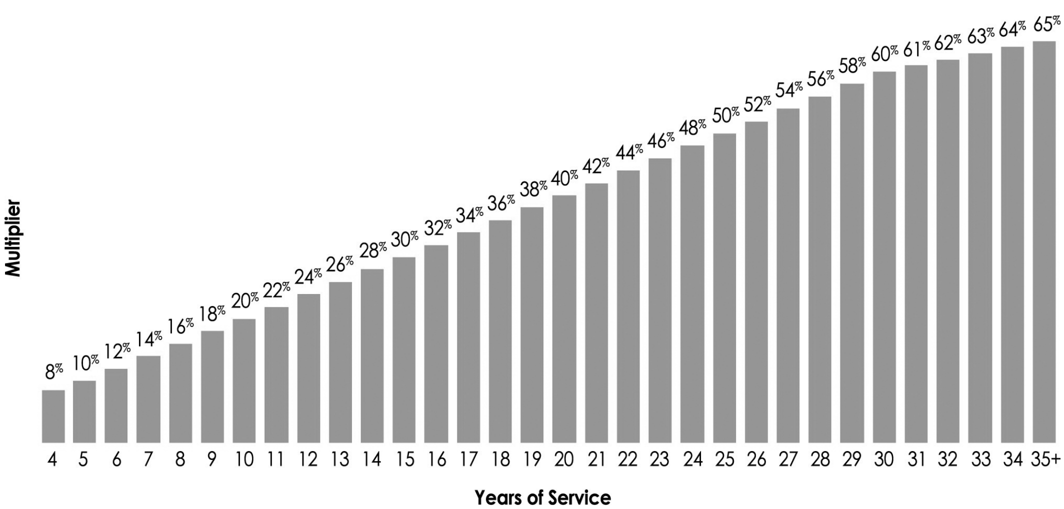
2. Effective July 1, 2012

As a defined benefit plan, IPERS uses a formula to determine your benefits. This section explains changes to the formula used for regular members. If you are considering retirement or have questions, contact IPERS to discuss how the changes may affect you.

Parts of the formula change July 1, 2012.

Multiplier	×	**Highest average salary**	–	**Early retirement reduction** (if any)
No change		*Will change*		*Will change*

Multiplier. The multiplier will not change. The multiplier increases 2 percent a year for your first 30 years of IPERS-covered employment, and 1 percent a year for years 31–35. The maximum is 65 percent of your highest average salary.



Early retirement reduction. If benefits begin before you reach normal retirement age, your benefit amount will be reduced. (Normal retirement age is when age plus years of service equals 88, or age 62 with 20 years of service, or age 65.)

B. Five-year highest average salary

1. Applies to regular members

2. Effective July 1, 2012

Your highest average salary is the sum of your wages during a set number of years you earned the most, divided by the set number of years. Through June 30, 2012, the highest average salary is calculated with wages from the three years you earned the most. Starting July 1, 2012, five years of wages will be used to calculate the highest average salary.

If you are a vested member, IPERS will compare your three-year average as of June 30, 2012, to your five-year average throughout your career, and use the higher of the two averages to calculate your benefits.

IPERS checks one additional year outside the highest years' wages used in the average to determine if wage spiking occurred. Spiking artificially inflates members' retirement benefits. When wages jump significantly before retirement, the benefits you will receive are disproportionate to the amount you contributed during your career.

Benefit calculation for regular members

Through June 30, 2012

Multiplier
×
Highest 3-year average salary[1]

Vested before July 1, 2012

Multiplier
×
The higher of (a) or (b):

a) Highest 3-year average salary, calculated on June 30, 2012[1]

b) Highest 5-year average salary[2]

Vested July 1, 2012, or later

Multiplier
×
Highest 5-year average salary[2]

[1]IPERS will compare this amount to 121 percent of your 4th highest year's salary and use the lower of those two amounts.

[2]IPERS will compare this amount to 134 percent of your 6th highest year's salary and use the lower of those two amounts.

Example: Vested before July 1, 2012
Continuing to work after the law change

Carolyn has less than 35 years of service in IPERS and is thinking of retiring before the law change. However, she decides to keep working after June 30, 2012, because she knows her IPERS benefit cannot be decreased from the amount she had earned at that date.

Because working longer will increase her years of service, the multiplier used to calculate her benefit will increase. Her highest average salary will never be lowered from the amount she had earned as of June 30, 2012.

Multiplier	×	**Salary**	=	**Benefit**
(Based on Carolyn's years of service over her entire career)		(The higher of [a] or [b]) *(a) Highest 3-year average as of June 30, 2012* *(b) Highest 5-year average over her entire career*		

C. Changes to early retirement benefit reduction

1. Applies to regular members

2. Effective July 1, 2012

If you retire before reaching normal retirement age, and you do not retire because of a disability, you will receive a lower benefit. The reduction is to make up for the increased time that you will collect benefits.

Normal retirement age

There is no change to the definition of normal retirement age. You can reach normal retirement age after July 1, 2012, the same way you could before that date.

Normal retirement age is one of the following, whichever comes first:

- When your years of service plus your age at your last birthday equals or exceeds 88 (Rule of 88)
- Age 62 if you have 20 or more years of service (Rule of 62/20)
- Age 65

Through June 30, 2012, the reduction is 3 percent a year, or 0.25 percent a month. The reduction is figured by multiplying the number of months you receive benefits before your closest normal retirement date.

On July 1, 2012, the reduction increases to 6 percent times the number of years (or 0.50 percent times the number of months) you receive benefits before your 65th birthday. The 6 percent reduction from age 65 is closer to the cost of early retirement benefits. In the past, IPERS members' contributions were helping pay the added costs of other members' early retirements.

Early retirement benefit reductions apply *only* if you retire before normal retirement age.

- **The 6 percent reduction applies *only* to service you earn *after* June 30, 2012.**
- The 3 percent reduction applies to all service you complete *before* July 1, 2012.

Scenario 1: Sue

Scenario 1A: Sue's early retirement before July 1, 2012

On June 30, 2012, Sue is 55 years old and has 25 years of service.

Sue has heard rumors that her IPERS benefits will go down if she waits to retire after new laws take effect July 1, 2012. On June 30, 2012, she can retire with reduced benefits. Sue is 8 years from meeting the Rule of 88 and 7 years from meeting the Rule of 62/20. Her early retirement reduction as of June 30, 2010, is 7 years × 3 percent a year = 21 percent.

50%	×	**$64,000**	=	**$32,000**	–	**$6,720**	=	**$25,280**
2% multiplier × 25 years		*Highest average salary*		*Unreduced benefit*		*21% reduction*		*Option 2 benefit*

Scenario 1B: Sue waits for normal retirement after June 30, 2012

On June 30, 2016, Sue is 59 years old and has 29 years of service.

By continuing to work after June 30, 2012, both her age and service increase until she first meets normal retirement age—the Rule of 88—in four years. Sue's five-year highest average salary is slightly lower than her three-year highest average salary on June 30, 2012. IPERS calculates her benefits using the higher amount.

58%	×	**$64,000**	=	**$37,120**	–	**$0**	=	**$37,120**
2% multiplier × 29 years		*Highest average salary*		*Unreduced benefit*		*No reduction*		*Option 2 benefit*

Sue increases her benefit by $11,840, nearly $1,000 a month, by working four more years. If she collects benefits for 25 years, she increases her lifetime benefit by $296,000.

Scenario 2: Steve

Scenario 2A: Steve's early retirement after June 30, 2012

In December 2014, Steve is 61 years old and has 26½ years of service.

His highest average salary is $54,000. A 3-percent-a-year early retirement reduction from Steve's nearest normal retirement applies to the 24 years of service he earned before July 1, 2012. Because Steve has more than 20 years of service, his nearest normal retirement is age 62. Steve's early retirement reduction is 3 percent × 1 year = 3 percent.

48%	×	**$54,000**	=	**$25,920**	–	**$777.60**	=	**$25,142.40**
2% multiplier × 24 years		*Highest average salary*		*Unreduced benefit*		*3% reduction*		*Option 2 benefit*

A 6-percent-a-year early retirement reduction from age 65 applies to the 2½ years of service Steve has earned since July 1, 2012. He is 4 years from age 65. His early retirement reduction is 6 percent × 4 years = 24 percent.

5%	×	**$54,000**	=	**$2,700**	–	**$648**	=	**$2,052**
2% multiplier × 2½ years		*Highest average salary*		*Unreduced benefit*		*24% reduction*		*Option 2 benefit*

When Steve retires in December 2014, his annual benefit (under Option 2) is:

$25,142.40	+	**$2,052**	=	**$27,194.40**

Scenario 2B: Steve waits for normal retirement

In June 2015, Steve is still 61 years old and he has 27 years of service. He now meets the Rule of 88.

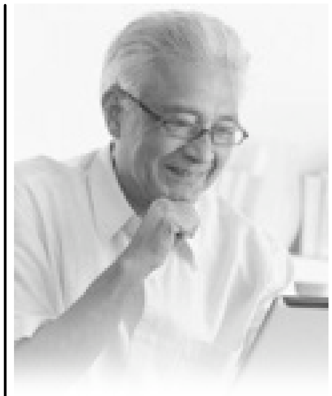
54%	×	**$54,000**	=	**$29,160**	–	**$0**	=	**$29,160**
2% multiplier × 27 years		*Highest average salary*				*No reduction*		*Option 2 benefit*

By working six more months, Steve could increase his benefit by $1,965.60 a year, or $163.80 each month. If Steve collects his pension for 20 years, he can increase his lifetime benefit by $39,312 by delaying his retirement only six months.

D. Changes to benefit calculation if you return to work after you retire

1. Applies to retirees who return to work in regular membership class

2. Effective July 1, 2012



If you return to work with an IPERS-covered employer during retirement, you begin earning more in IPERS benefits. How your additional benefit is calculated depends on when and how long you worked during the reemployment period.

Vested before 7/1/12

Standard formula: *multiplier × highest average salary*

Money purchase formula: *uses the amount of your and your employer's contributions, interest, and an actuarial factor based on your age when you start receiving the benefit*

Period of reemployment	**Years reemployed**	**Calculation of reemployment benefit**
Starts and ends before 7/1/12	4 or more	Standard formula Highest 3-year average salary
	Less than 4	Money purchase formula
Starts before 7/1/12 and ends after 6/30/12	4 or more	Standard formula with the highest average salary the greater of: a) Highest 3-year average salary calculated on June 30, 2012, or b) Highest 5-year average salary
	Less than 4	Money purchase formula
Starts and ends after 6/30/12	More than 7	Standard formula Highest 5-year average salary
	Less than 7	Money purchase formula

! You may have IPERS add the second benefit to your original monthly payment or you can ask to receive a one-time lump-sum payment.

E. Changes to the hybrid formula

1. Applies to retirees with both Special Service and regular service

2. Effective July 1, 2012

If you have a mix of Special Service and regular service, IPERS may use a hybrid formula to calculate your benefits when you retire. The hybrid formula applies the regular service multiplier to your regular-class service and the Special Service multiplier to the service you earned as a sheriff, deputy sheriff, or protection occupation employee. Because there are no changes to the benefit formula for Special Service, the hybrid calculation will change only for the portion of service you earn in the regular class.

Example: Jerry's benefit calculation using the hybrid formula

Jerry retires at age 55 with 5 years of Special Service and 9 years of regular service. Because he is not eligible for normal retirement as a regular member, Jerry's benefits will be reduced slightly more as a result of the law changes effective July 1, 2012. However, the early retirement reduction will apply *only* to his regular service credits.

Highest average salary	×	Multiplier	–	Early retirement reduction	=	Annual benefit (Option 2)
Special Service						
$57,500 *3-year at retirement*	×	**13.636%** *5 years × 2.7272%*	–	**$0** *No reduction*	=	**$7,840.70**
Regular service before 7/1/12						
$55,000* *5-year at retirement*	×	**10%** *5 years × 2%*	–	**$1,650** *30% reduction*	=	**$3,850**
Regular service after 6/30/12						
$55,000* *5-year at retirement*	×	**8%** *4 years × 2%*	–	**$2,640** *60% reduction*	=	**$1,760**
Annual benefit (Option 2)						**$13,450.70**

*If your 5-year average at retirement is higher than your 3-year average on June 30, 2012, IPERS will use the 5-year average in the calculation. See pages 8 and 9 for more information.

VI. IF YOU RETIRE BECAUSE OF DISABILITY

A. In-service presumption for cancer and infectious diseases

1. Applies to Special Service members

2. Effective July 1, 2010

If you are a Special Service member and you retire because of a disability, you may choose between regular and Special Service disability benefits. You are eligible for regular disability benefits if you are receiving social security or railroad retirement disability benefits. However, you do not have to receive federal disability benefits to qualify for Special Service disability benefits. Instead, you complete a medical exam by the Medical Board of the University of Iowa and IPERS staff makes the disability ruling.

There are two different types of Special Service disability benefits: in-service disability and ordinary disability. In-service disability benefits are greater.

In-service disability benefits are awarded when your disability is the result of a work-related injury or an illness contracted on the job. The law provides a presumption that certain medical conditions were contracted while you were on active duty, unless there is credible evidence to the contrary. The law change expands the presumption to include certain types of cancer and infectious diseases (the previous law already included the presumption for heart, lung, and respiratory tract diseases).

Cancer
Prostate cancer, primary brain cancer, breast cancer, ovarian cancer, cervical cancer, uterine cancer, malignant melanoma, leukemia, non-Hodgkin's lymphoma, bladder cancer, colorectal cancer, multiple myeloma, testicular cancer, and kidney cancer.

Infectious disease
Acquired immune deficiency syndrome (AIDS), human immunodeficiency virus (HIV), all strains of hepatitis, meningococcal meningitis, and mycobacterium tuberculosis.

The heart and lung presumptions do not apply if you did not become an IPERS member until July 1, 2000, or later, *and* the medical condition existed when membership started.

VII. EXCEPTIONS TO BONA FIDE RETIREMENT

Bona fide retirement

When you start receiving IPERS retirement benefits, you must complete a bona fide retirement before returning to work with any IPERS-covered employer. A bona fide retirement is a period during which you end IPERS-covered employment, complete an application for retirement benefits, and demonstrate that you are entitled to retirement benefits.

To qualify for a bona fide retirement, you must:

- End all service with covered employers, including noncovered service.
- File an IPERS benefit application.
- Stay out of all employment with a covered employer for one month.
- Stay out of all employment in an IPERS-covered position for an additional three months.

A. State active duty with the Iowa National Guard

1. ***Applies to retirees younger than age 70 who are called to state active duty in the Iowa National Guard***

2. ***Effective retroactively to May 25, 2008***

IPERS' bona fide retirement requirements prohibiting reemployment with an IPERS-covered employer within one month of retirement do not apply to state active duty with the Iowa National Guard. The exception applies retroactively to May 25, 2008.

B. Licensed health care professionals

1. ***Applies to licensed health care professionals who return to work in a city or county hospital***

2. ***Effective through June 30, 2012***

Licensed health care professionals may return to IPERS-covered employment in city or county hospitals after one month of job separation. This provision is effective through June 30, 2012.

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