

Inside **IPERS**

Message from Governor Culver

Dear IPERS members:

Time is on our side

Because we don't know what future investment returns will be, our actuary and Investment Board must use assumptions to estimate IPERS' funding condition. In 2008, they continued using an actuarial assumed investment return of 7.50 percent, the assumption that was adopted in 1996.

When figuring IPERS' financial condition, the actuary smooths out investment gains and losses by spreading them over four years. This way, short-term fluctuations in investment returns don't have as much of an impact on the funding condition. In 2008, the actuary assumed a 7.50 percent investment return, which is the same assumption that was used in 1996. This means that the actuary's assumed investment return is based on long-term historical returns, not short-term fluctuations.

IPERS remains a sound retirement plan with solid long-term funding. We will continue to work hard to ensure that IPERS remains a sound retirement plan with solid long-term funding.

Work here today for your tomorrow

Good news, bad news

Donna M. Mueller • House State Government Committee • 01/22/09

IPERS

Governance

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graph TD
    LS[Legislature Plan Sponsor] --- IA[IPERS Administration]
    GS[Governor Plan Sponsor] --- IA
    LS -.-> BAC[Benefits Advisory Committee]
    GS -.-> BAC
    LS -.-> IB[Investment Board Fund Trustee]
    GS -.-> IB
    BAC -.-> IA
  
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Plan Sponsor

- Creates plan
- Determines participation
- Establishes funding
- Determines benefits
- Monitors performance against plan goals

IPERS

There is good news

IPERS provides retirement security

Large resource and risk pool

Long-term outlook

Healthy funded ratio

Positive economic impact in Iowa



Core defined benefit plan

*IPERS is
designed to
work with
Social Security
and personal
savings*



Benefits based on formula

Multiplier (based on years of service) X
Average of 3 years' highest wages

Helps retain employees

Maximum possible wage replacement:
up to 65% or 72%

Average benefit replaces about 44%

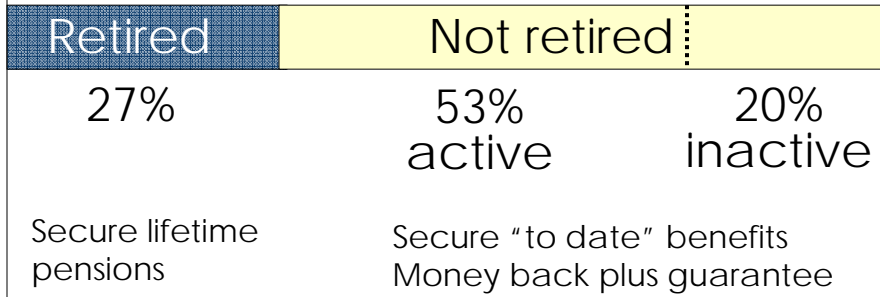
Disability and death benefits

Lifetime annuity benefit

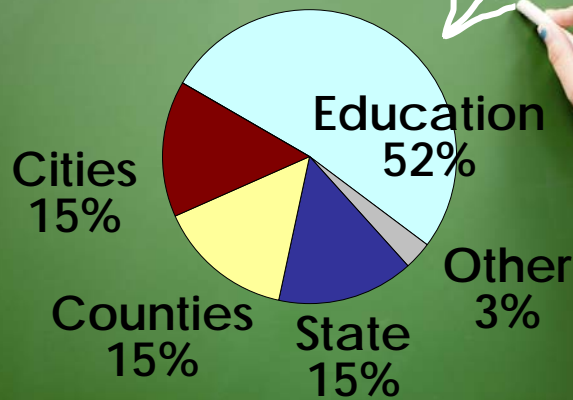


Large membership pool

319,637 members



167,850 active members



Economic impact

\$968 million
paid in Iowa
in FY2008

Over 88%
of \$1.096 billion
total benefits paid

Most of the
rest to former
border state
commuters

Remainder
to warmer
southern
states

 IOWA PERS

How the Trust Fund works

Assets

Employee contributions
Employer contributions

Pooled and invested

Liabilities

Benefits and expenses


Trust Fund

 IOWA PERS

Prefund, not pay-as-you-go

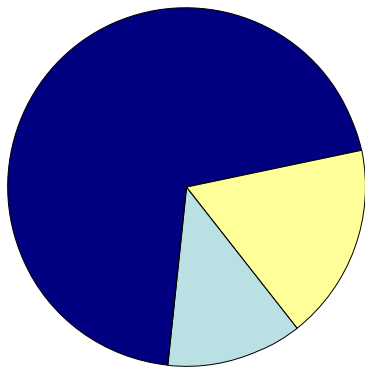


Current employees contribute for their own *future* retirements



IPERS income by source

1999-2008



Investments
70.1%

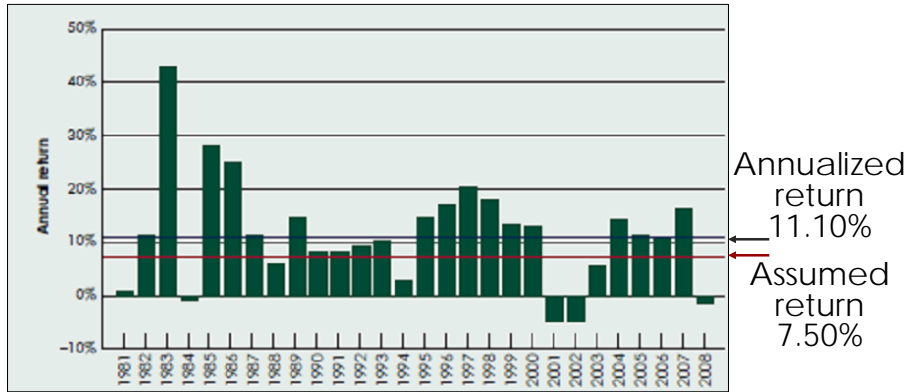
Employers
17.7%

Employees
12.2%



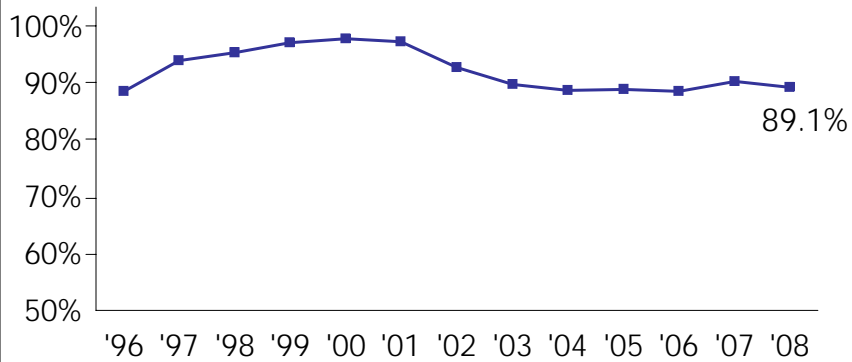
Long-term look

Investment returns 1981-2008



Healthy funded ratio

Actuarial assets ÷ Actuarial liabilities



Now the bad news

Balance sheet out of balance

Bear market growling

Contributions lagging

Funded ratio declining without action

COLA alternatives lagging



Actuarial balance sheet

FY2008 actuarial valuation

Assets

Liabilities

Contributions + Investments < Benefits + Expenses

\$21.857 billion

\$24.522 billion

\$2.665 billion UAL
(unfunded actuarial liability)



Inside IPERS' actuarial balance sheet

Assets < Liabilities

2 recent bear markets

Contribution rate below actuarial rate

Failure to amortize UAL

Salary increases higher than assumptions

Older entrants

Longevity



Bear market

Public market returns

	FY2008	FY2009 YTD
U.S. stocks	-12.5%	-29.5%
Intl. stocks	-6.2%	-37.6%
U.S. bonds	6.2%	1.5%
High-yield bonds	-0.5%	-24.6%



Investment returns

	IPERS	IPERS' actuarial assumption	Peers ¹
FY2008	-1.33%	7.5%	-4.36%
FY2009 YTD² (July-Dec.)	-17.8% (est.)	7.5%	

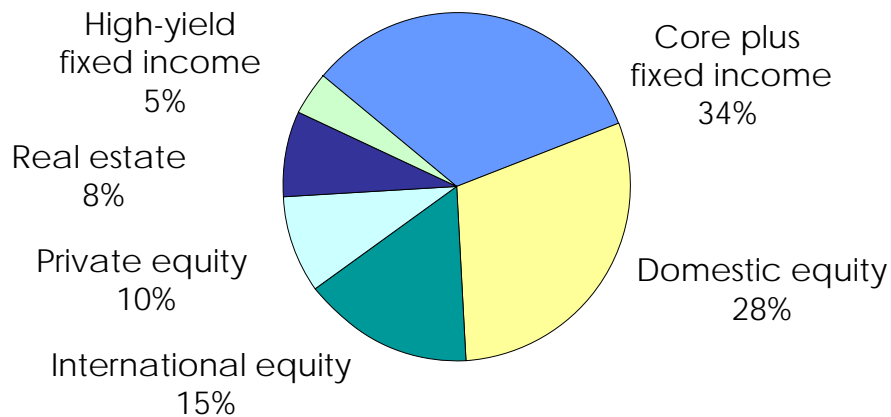
¹Median: TUCS Public Funds > \$1 billion

²IPERS' estimated returns are based on preliminary data and/or estimates provided by IPERS' investment managers, and are subject to change. Final returns will not be available until mid-February.



Diversified portfolio

Asset allocation targets



Past contribution "holidays"

Regular members

- 95% of members
- Rate set in law lower than actuarial rate
- Added \$621 million to UAL in 6 yrs
- Benefits Advisory Committee: increase rate 4 percentage points starting FY2006
- Legislature: increased rate 2 percentage points phased in over 4 years, starting in FY2008
- First rate increase since 1979



Contributions still lagging

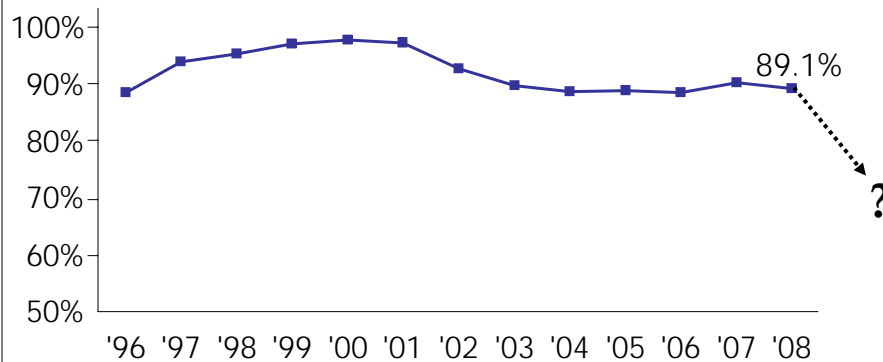
	FY2010 Contribution Rate	Actuarial Rate	Percent Funded
Regular members	10.95%	12.34%	88.4%
Special Service members*			
Sheriffs and deputies	15.24%	15.24%	101.5%
Protection occupations	15.34%	15.34%	105.1%

*Benefits for Special Service members are higher than those for regular members.



Future funded ratio

Actuarial assets ÷ Actuarial liabilities



IPERS

No traditional COLA

**\$1.00 in 1980 =
\$2.58 in 2008**



It would take
the entire \$996
average monthly IPERS benefit to
buy what \$386 would buy in 1980.

Bureau of Labor Statistics calculator

IPERS

COLA alternatives lagging

November Dividend

Pre-July 1990
Base payment guaranteed
Increase to base not guaranteed
Amount frozen since Nov. 2001

FED

Post-June 1990
Not guaranteed
Multiplier frozen since Jan. 2003
Money running out (est. 4 years)



The solutions of the past will not work in the situation we now face.

- Past action began to address past problems.
- We cannot hide behind unrealistically high future investment returns.
- This recession demands new solutions.



There are solutions

1. Speed up implementation of approved contribution rate increases; raise rates even more
2. Resist adding new benefits
3. Consider reducing future benefit accruals
 - Cannot reduce benefits already earned
 - Biggest cost drivers: formula (multiplier) and retirement age
4. Refer to Public Retirement Systems Committee for review and recommendations



To summarize

Good news—solid plan that provides retirement security

Bad news—economy

Solutions exist but they aren't easy

