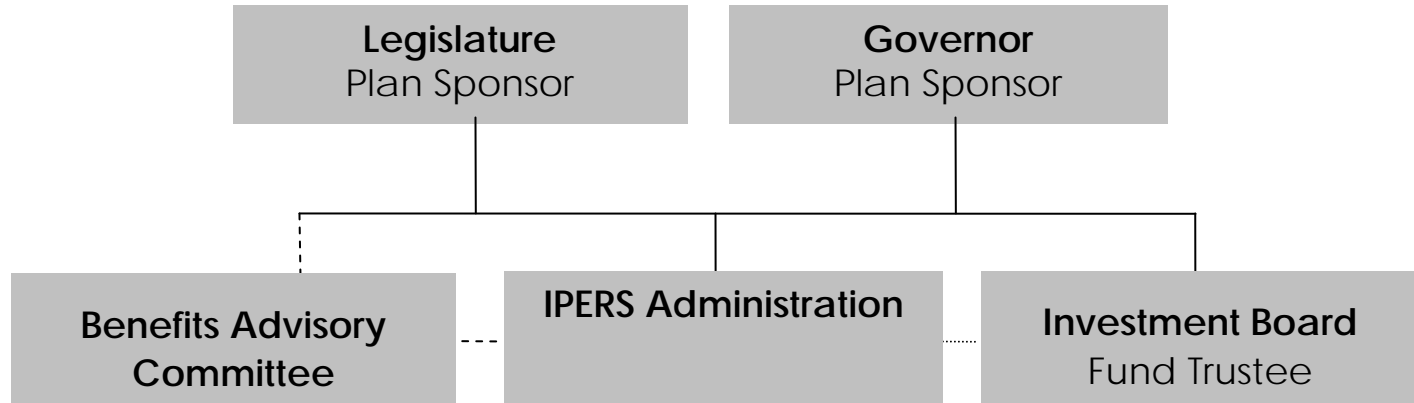


# Update on IPERS

Donna M. Mueller • Government Oversight Committee • 03/03/09



# Governance



## Plan Sponsor

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

# 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%

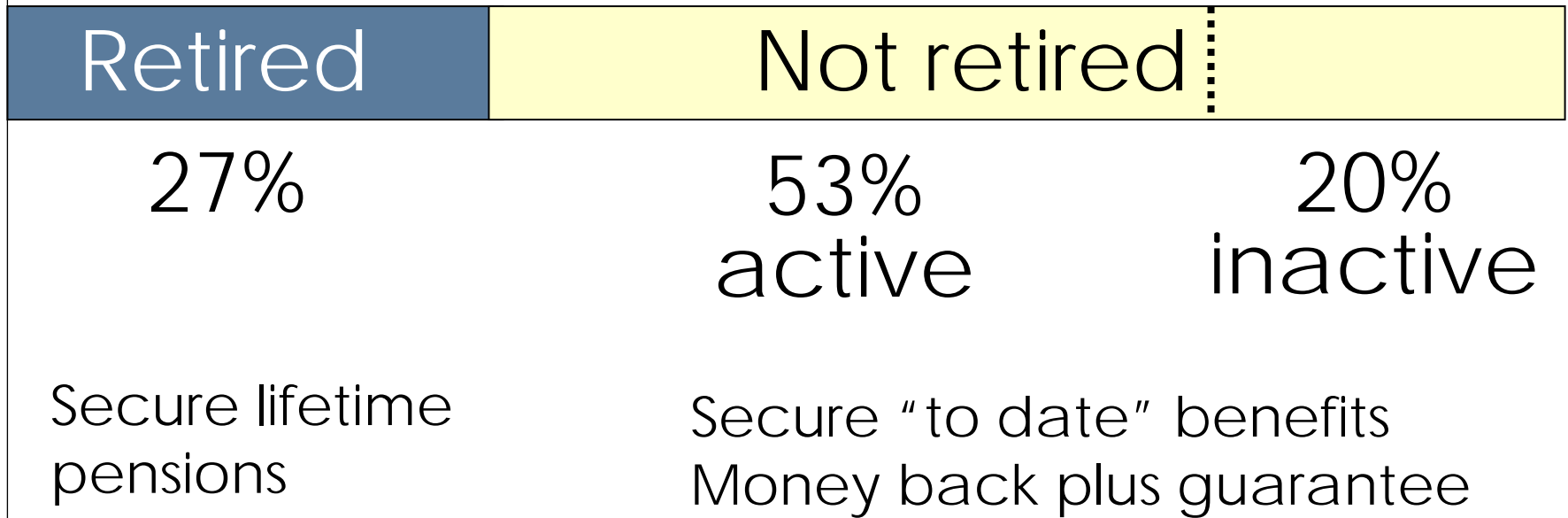
Average benefit replaces about 44%

Disability and death benefits

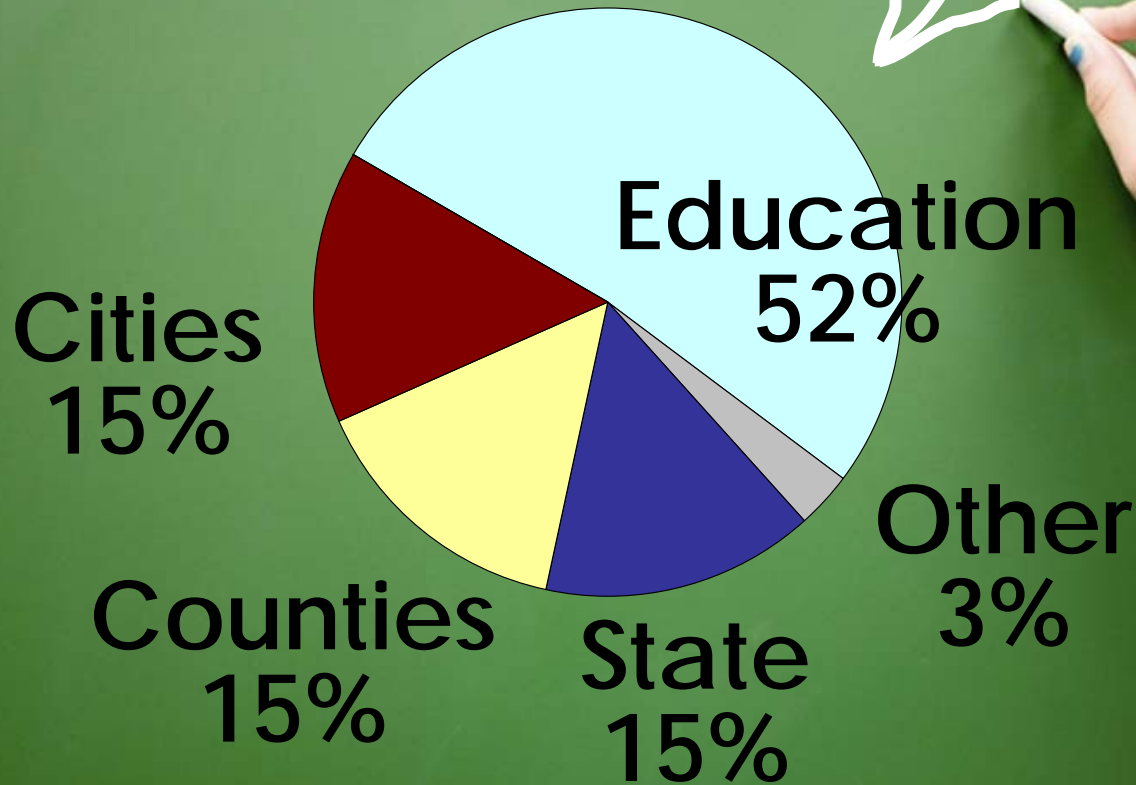
Lifetime annuity benefit

# 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**

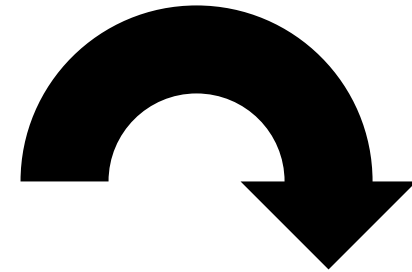
Most of the  
rest to former  
border state  
commuters

Remainder  
to warmer  
southern  
 states

# How the Trust Fund works

## Assets

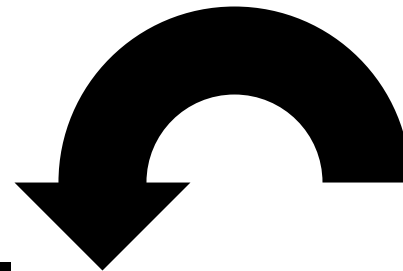
Employee contributions  
Employer contributions



Pooled and invested



Trust Fund



## Liabilities

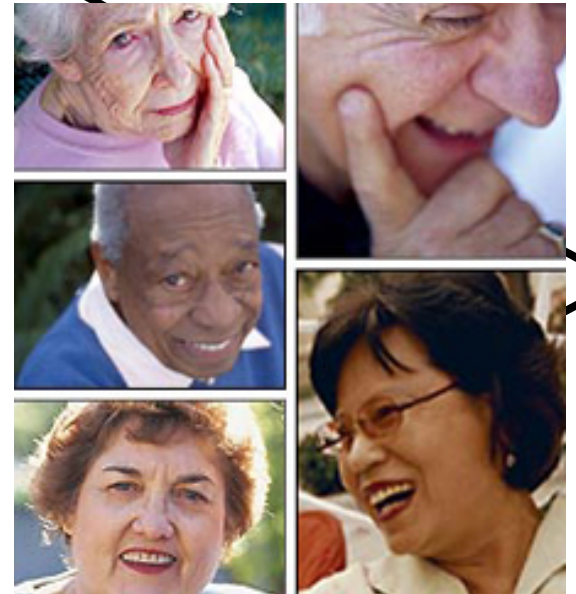
Benefits and expenses

# Prefund, not pay-as-you-go

**Prefund  
benefits**

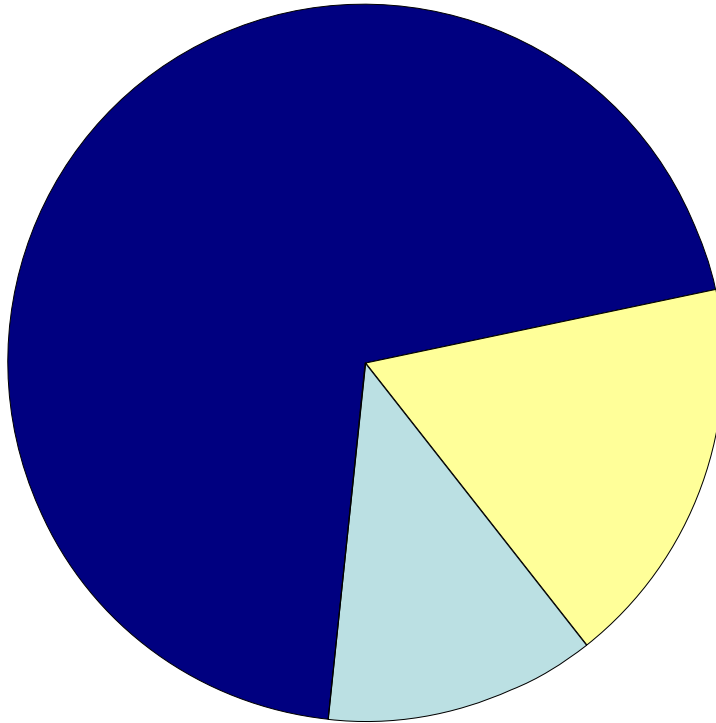


Current  
employees  
contribute  
for their own  
*future*  
retirements



# IPERS income by source

1999-2008



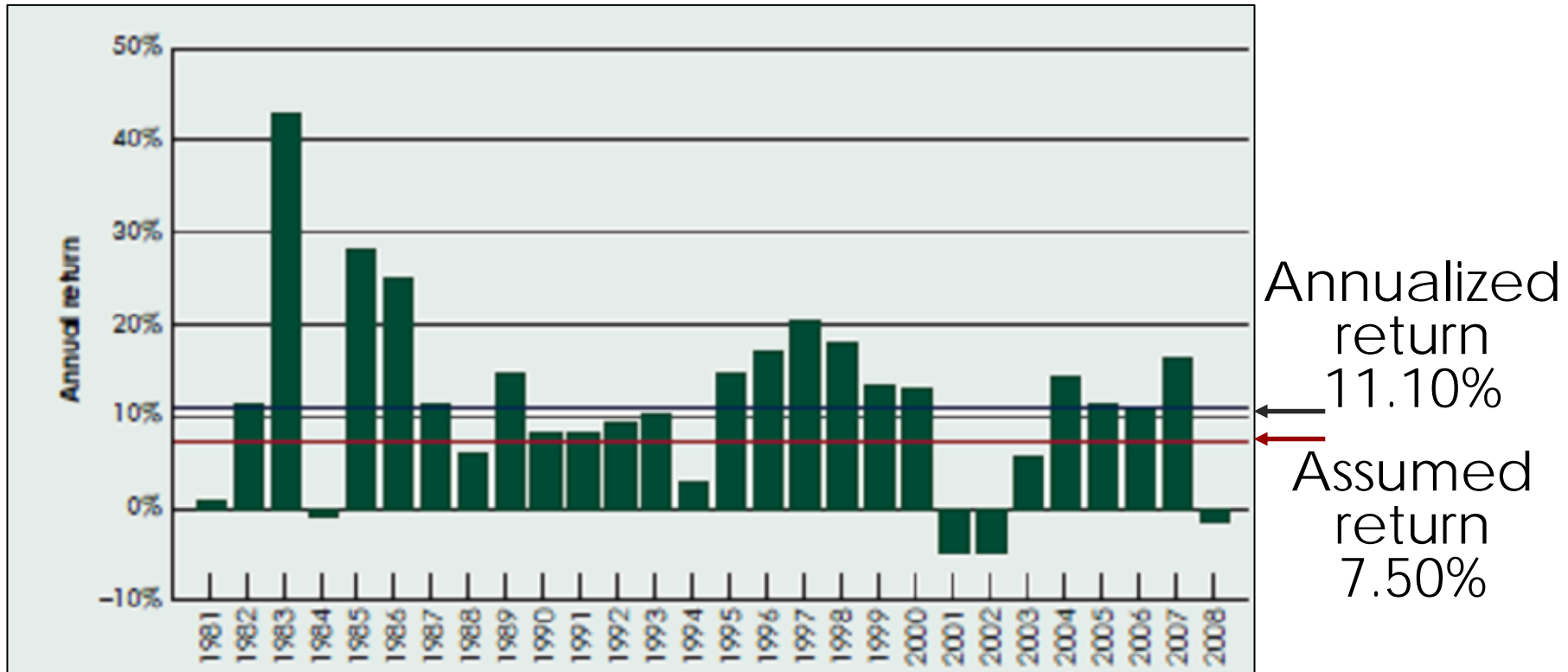
**Investments**  
70.1%

**Employers**  
17.7%

**Employees**  
12.2%

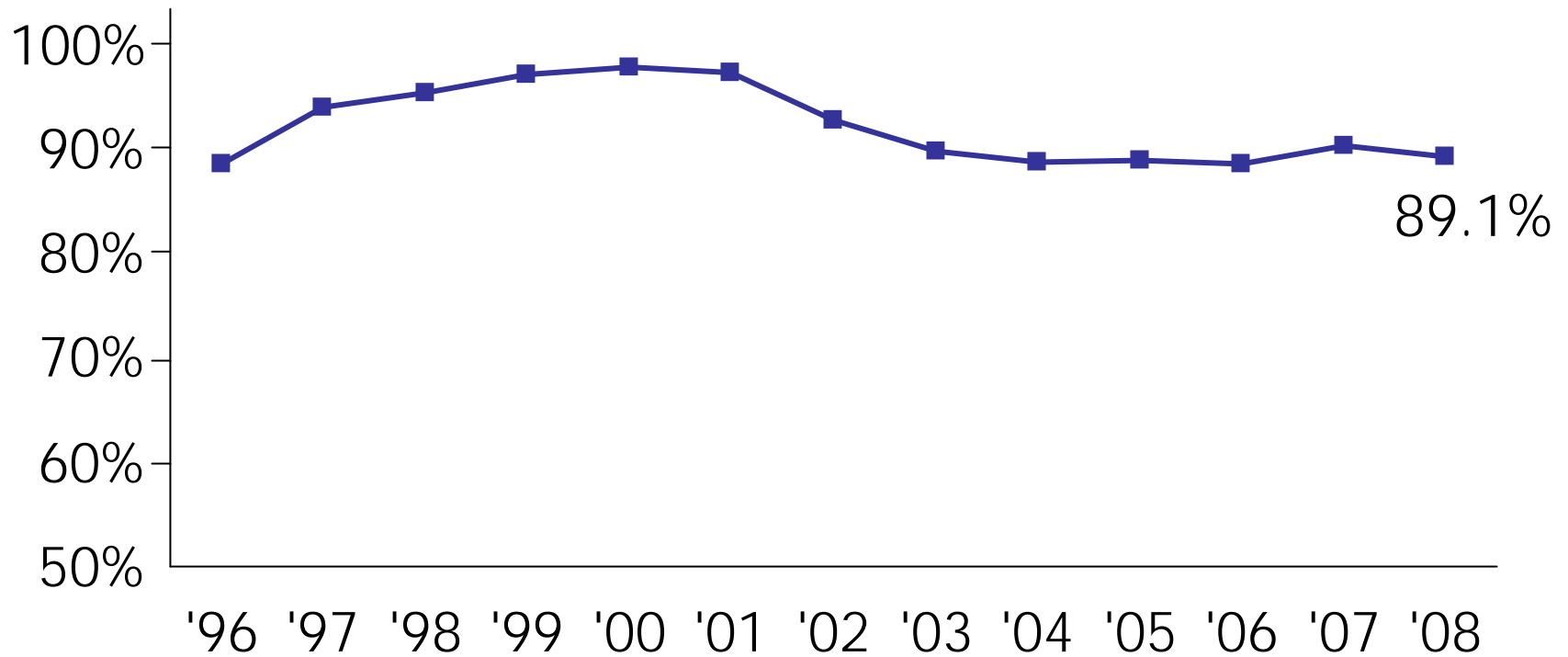
# Long-term look

## Investment returns 1981-2008



# Healthy funded ratio

Actuarial assets ÷ Actuarial liabilities



# 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**

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2 recent bear markets

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Contribution rate below  
actuarial rate

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Failure to amortize UAL

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Salary increases higher  
than assumptions

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Older entrants

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Longevity

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# 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%

\* July 1 through December 31, 2008

# Investment returns

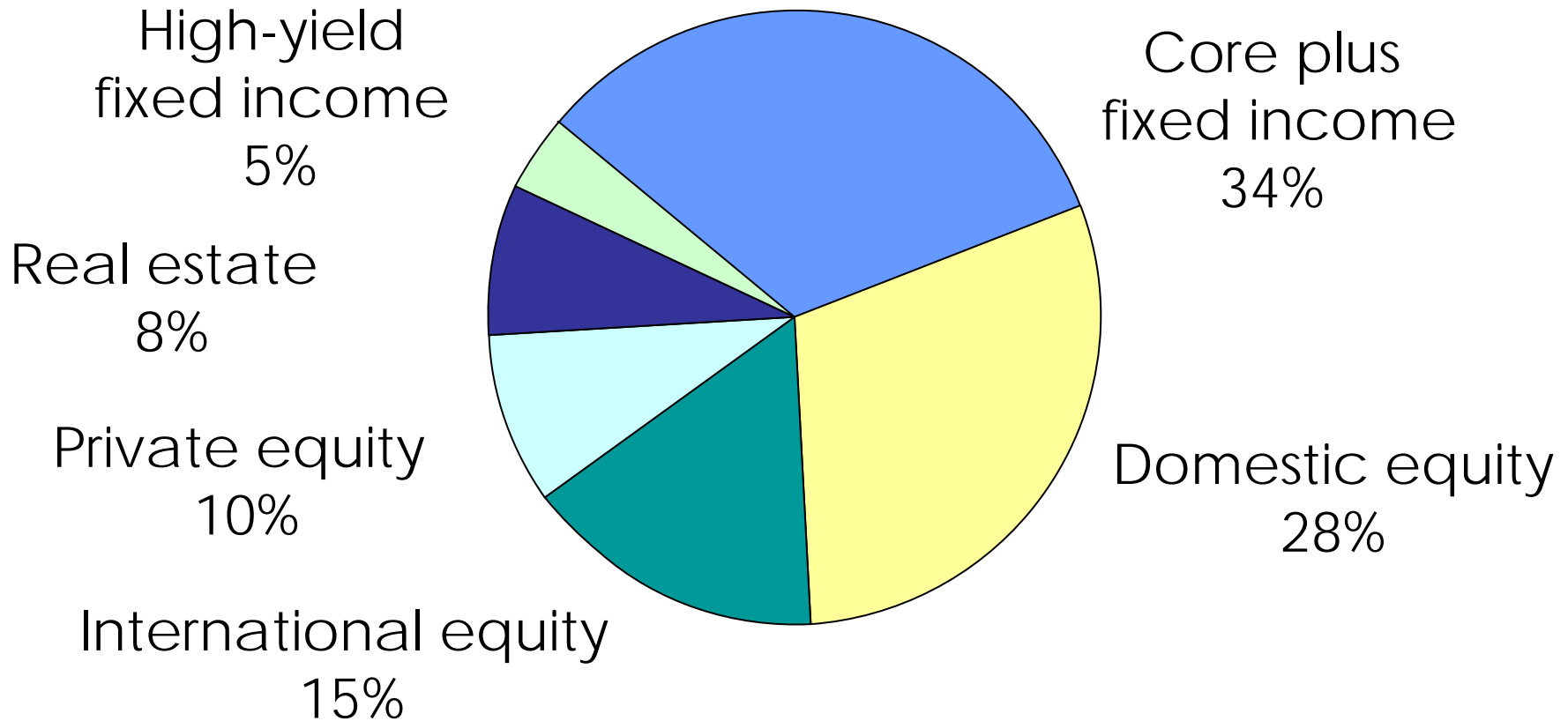
	IPERS	IPERS' actuarial assumption	Peers <sup>1</sup>
<b>FY2008</b>	-1.33%	7.5%	-4.36%
<b>FY2009 YTD<sup>2</sup></b> (July–Dec.)	-17.3% (est.)	7.5%	

<sup>1</sup>Median: TUCS Public Funds > \$1 billion

<sup>2</sup>Process underway to determine how to account for the impaired Westridge investment

# 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

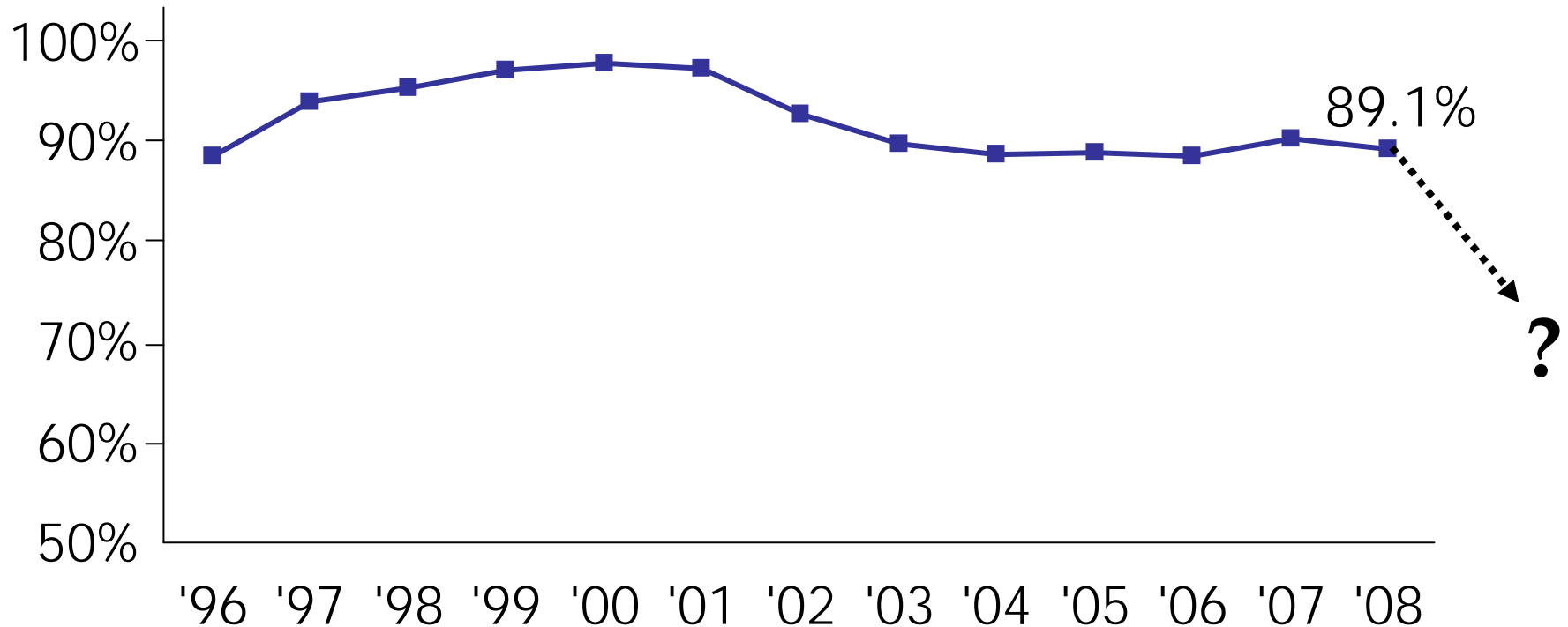
# Contributions still lagging

	FY2010 Contribution Rate	Actuarial Rate	Percent Funded
<b>Regular members</b>	10.95%	12.34%	88.4%
<b>Special Service members*</b>			
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



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

- Past action began to address past problems.
- We cannot assume the high investment returns of the past will continue.
- This recession demands new solutions that likely will include adjusting both contributions and future benefits.