Proposed IPERS changes

House File 2518 (formerly House File 2502)

Question 6 updated March 2, 2010

This bill contains the Public Retirement Systems Committee's recommendations for the Public Safety Peace Officers' Retirement, Accident, and Disability System (PORS), the Statewide Fire and Police Retirement System (411 System), and the Iowa Public Employees' Retirement System (IPERS). Division II of the bills addresses IPERS. Division II also includes technical changes requested by IPERS. The legislature and governor still must approve the bill.

BILL OVERVIEW

1. What does the bill change?

The bill reduces IPERS benefits not yet earned by regular members and raises contributions for them above the rate set in current law. Regular members are those who are not sheriffs, deputy sheriffs, or working in a protection occupation such as police officers, firefighters, and correctional officers.

The bill raises the limit on how much contributions for regular members can change each year. The bill increases the limit from 0.5 percentage point to 1.0 percentage point.

The bill also extends a provision for restoring wage credits for mandatory unpaid time and extends it to union bumping. Other changes in the bill are limited in scope and will not affect most members; some changes are merely technical.

2. Why are benefit changes and contribution rate increases needed?

Contribution rates for regular members have not kept up with the value of benefits employees have earned. The legislature had not adjusted the rates since 1979 until it approved a 0.5 percentage point increase in each of four years, starting July 1, 2007. That action may have been enough if not for the severe, extended recession. Now adjustments to both contributions and benefits are necessary.

3. What benefit changes for regular members are in the bill?

The bill would:

(a) Increase the time to vest from four to seven years.
(b) Change the average wage used in the benefit formula from the average of a member's highest three annual salaries to the average of the highest five annual salaries.
(c) Increase the amount benefits are reduced for early retirement. This would affect only people who retire before reaching normal retirement age.

The bill also includes transition rules that preserve the benefits current employees have already earned. Those benefits can never be lowered.

4. When would the changes occur?

The contribution rate would increase to 13.45 percent on July 1, 2011. Benefit changes would occur July 1, 2012.

5. Would these changes affect everyone?

Changes in the bill would affect most employees covered by IPERS. However, the benefit changes would not affect sheriffs, deputy sheriffs, or members working in protection occupations. Protection occupations include police officers, firefighters, conservation officers, Iowa Department of Transportation officers, and many employees of the Iowa Department of Corrections.

Changes would affect new employees and current employees differently. These differences are explained in the following sections.

6. How does the bill change benefits for sheriffs, deputies, and employees in protection occupations?

IPERS has had the authority to adjust contributions for these membership classes for many years, so they were not behind in paying contributions when the recession started. Therefore there was no need to apply benefit changes for regular members to the other membership classes. The bill preserves IPERS' ability to adjust contribution rates each year. See page 7 for more information.

The bill would affect disability benefits for employees in protection occupations. In determining benefits for those unable to work because of a disability caused by cancer or an infectious disease, IPERS would presume the disability occurred on the job.

VESTING

7. What is vesting?

Vesting is when a member gains rights to disability benefits, death benefits, and lifetime retirement benefits; and the right to buy service credit. In addition, when leaving IPERS-covered employment before retirement and taking a refund, vested members can receive some of the contributions the member's employer made to IPERS.

8. How would vesting change?

Before July 1, 2012, a member must meet one of these two requirements to vest.

(a) Complete at least four years of service.
(b) Reach at least age 55 while in IPERS-covered employment, regardless of years of service.

Starting July 1, 2012, a member would have to meet one of these two requirements to vest.

(a) Complete at least seven years of service.
(b) Reach at least age 65 while in IPERS-covered employment, regardless of years of service.

9. Would the change affect a member who is already vested or one who will be vested before July 1, 2012?

No. Members who are vested before July 1, 2012, will remain vested.

10. How would the change affect members who have not vested by July 1, 2012?

Members who have not vested by July 1, 2012, would have to work until they complete at least seven years of service to vest. Those members could also vest by turning 65 while in IPERS-covered employment if that occurs first. All new members who begin employment after July 1, 2012, would have to work seven years, or be at least age 65 while working in IPERS-covered employment, to vest.

HIGHEST AVERAGE SALARY

11. Why is the highest average salary important?

The average salary is part of the formula IPERS uses to figure your benefits.

Retirement benefit formula: multiplier × highest average salary

(The multiplier for regular members is 2 percent a year for the first 30 years, plus 1 percent for each of the next five years, for a maximum of 65 percent.)

12. How is the highest average salary currently figured?

IPERS calculates the average of a member's highest three years of wages. (IPERS also applies a spiking control to make sure wages, and consequently benefits, are not inflated above what they should be based on a typical career. However, this does not affect most people.)

13. How would IPERS calculate the highest average salary if the bill passes?

For members who are not vested on June 30, 2012, IPERS would figure the highest average salary at retirement based on a member's highest five years of wages.

Members who are vested on June 30, 2012, will have already earned a right to a lifetime benefit. To protect benefits already earned, a member's highest average salary would never be lower than the member's highest average salary as of June 30, 2012. Each vested member's highest three-year average salary at that date would be stored by IPERS.

When a member retires, IPERS would figure the average of the member's five highest annual salaries. That average would be compared to the June 30, 2012, average. IPERS would use the higher of the two averages in the benefit formula.

Example 1

Highest 3-year average salary on June 30, 2012		Highest 5-year average salary at retirement	
Year	Wages	Year	Wages
2009	$40,000.00	2009	$40,000.00
2010	$41,600.00	2010	$41,600.00
2011	$43,264.00	2011	$43,264.00
Average	**$41,621.33**	2012	$44,994.56
		2013	$46,794.34
		Average	**$43,330.58**

Example 2

Highest 3-year average salary on June 30, 2012		Highest 5-year average salary at retirement	
Year	Wages	Year	Wages
2009	$40,000.00	2009	$40,000.00
2010	$41,600.00	2010	$41,600.00
2011	$43,264.00	2011	$43,264.00
Average	**$41,621.33**	2012	$40,000.00
		2013	$41,600.00
		Average	**$41,292.80**

EARLY RETIREMENT REDUCTION

14. What is the early retirement reduction?

Regular members can receive IPERS benefits as early as age 55. However, if a member begins receiving benefits before reaching normal retirement age, IPERS reduces the member's benefits for early retirement. The reduction helps offset the increased costs that result from starting benefits earlier and receiving benefits longer.

The current reduction is 3 percent for each year (0.25 percent for each month) the member receives benefits before reaching normal retirement age.

15. What is normal retirement age?

Normal retirement age is 65, age 62 with at least 20 years of service (the Rule of 62/20), or when a member's age plus years of service equals 88 (the Rule of 88).

If you have this many years of service:	And your age is at least:	You meet normal retirement under:
33 or more	55	Rule of 88
32 to 32.75	56	Rule of 88
31 to 31.75	57	Rule of 88
30 to 30.75	58	Rule of 88
29 to 29.75	59	Rule of 88
28 to 28.75	60	Rule of 88
27 to 27.75	61	Rule of 88
20 to 26.75	62	Rule of 62/20
Less than 20	65	Age 65

16. Would the Rule of 88 or Rule of 62/20 change?

No.

17. How would the early retirement reduction change?

The bill would increase the reduction to 6 percent for each year (0.5 percent for each month). The bill would also change how IPERS calculates the reduction. Now IPERS figures the reduction from the date a member would have reached normal retirement age. Under the bill, IPERS would always calculate the reduction using the amount of time it will take for the member to reach age 65. This would more closely match the long-term added costs created when people retire early and receive benefits for extra years.

18. How could members avoid the reduction if the bill is passed?

If the bill becomes law, members could avoid an early retirement reduction the same way they can now—by waiting to retire until they have met one of the normal retirement ages. Benefits would not be reduced for members who are age 65 or who meet the Rule of 88 or the Rule of 62/20 at retirement. The bill would not change this.

19. Should members who plan to retire early hurry up and retire in case the law changes?

It would make no sense for members to retire before they are ready merely because the law may change. The bill would reduce benefits for early retirement by a greater percentage after July 1, 2012, than before that date. However, the added reduction would apply only to the portion of the benefit earned after the law changes. Benefits members have already earned will never be decreased.

20. How would IPERS calculate the reduction under the new law?

The higher reduction of 6 percent a year from age 65 would apply only to the portion of service earned after the law changes. IPERS would apply only a 3 percent reduction to the portion of service completed before the law change to preserve credit for benefits already earned.

Example:
Retire December 31, 2014, at age 61
26.5 years of service
$54,000 average salary

June 30, 2012

Years before law change	24	
Years after law change		2.5
Multiplier per year	2%	2%
Annual reduction	3%	6%
Reduced from	Rule of 62/20	Age 65
How long	1 year	4 years
Total reduction	3%	24%
Calculation	24 years × 2%/year = 48% multiplier $54,000 × 48% = $25,920.00 Reduce 3% (3%/year for 1 year) $25,920 × 3% reduction = $777.60 $25,920.00 – $777.60 = $25,142.40	2.5 years × 2%/year = 5% multiplier $54,000 × 5% = $2,700.00 Reduce 24% (6%/year for 4 years) $2,700 × 24% reduction = $648.00 $2,700.00 – $648.00 = $2,052.00
Annual benefit	$25,142.40 + $2,052.00 = $27,194.40	

CONTRIBUTIONS

21. How would contributions for regular members change under the bill?

The Iowa legislature already approved a 0.5 percentage point increase for regular members in each of four years, from July 1, 2007, to June 30, 2011. The legislature also directed IPERS to adjust the contribution rate starting July 1, 2012, by no more than 0.5 percentage point each year.

Under current law, the contribution rate from 7/1/11 to 6/30/12 would be 11.95 percent. Employees pay about 40 percent of contribution and employers pay 60 percent.

The bill would set the contribution rate from 7/1/11 to 6/30/12 at 13.45 percent. Employees would continue to pay about 40 percent of the contribution and employers would pay 60 percent. IPERS would be able to adjust the rate starting 7/1/12 by up to 1.0 percentage point each year.

22. How would contributions for sheriffs, deputies, and protection occupation members change if the bill were approved?

IPERS already adjusts the contribution rate for these classes each year. Currently there is no limit to how much the rate can change from year to year. However, the law is slated to begin restricting the change to no more than 0.5 percentage point a year starting 7/1/11. The bill would remove that restriction and allow contributions for these classes to continue to change as much as needed.

OTHER CHANGES

Bona fide retirement exceptions for licensed health care professionals in city and county hospitals and the Iowa National Guard

The bill would extend a study of a one-month bona fide retirement period for licensed health care professions for two more years. (Most IPERS members have a four-month bona fide retirement period, which means they must stay out of IPERS-covered employment for the first four months they are receiving benefits.)

The bill would also create an exception for members of the Iowa National Guard who are called to state duty. This occurs when the Guard responds to a disaster such as a flood or tornado. The state is an IPERS-covered employer and without the exception, a retiree's IPERS benefits could be at risk because the person reported for Guard duty.

Restoring wage credits for unpaid time and union bumping

The bill allows employees who are required to take time off without pay through June 30, 2011, to make up IPERS contributions. IPERS records wages as if the unpaid days had not occurred. A current provision was set to expire on June 30, 2010.

The bill also provides a similar provision for those whose pay is lower because they exercised union bumping rights. This provision would apply retroactively from January 1, 2009, through June 30, 2011.

Employees must make up both the employer and employee share of IPERS contributions. The provisions are more likely to help those who are near retirement when recorded wages affect how much their IPERS benefits will be.