A Legislator’s Guide
to Iowa Public Employees’ Retirement System

Important Information for IPERS’ Plan Sponsors
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 attract and retain 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 sponsors. 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 FY2019 data.
The Importance of IPERS

For more than 60 years, IPERS has provided a core retirement plan covering most Iowa state and local public employees. With approximately 360,000 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 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 grows 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. 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.
IPERS Membership
Most public employees automatically become IPERS members when they start work with a covered employer. IPERS has three membership groups. Regular members make up 95% of the membership. The other 5% 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.

Investments
As an institutional investor, IPERS uses professional investment managers and invests 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 its 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.

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

The purpose of IPERS is to:

- Offer a solid retirement plan for educators, 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 valuable employees to public service in Iowa.

Today, IPERS is a $34 billion trust fund. Investments fund nearly 70% of benefits.
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. Employees and employers make contributions to IPERS, sharing 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 $1.9 billion to retirees in Iowa last year.
Membership Rewards

Retirement Benefit Formula

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

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

The benefit is calculated as follows:

\[
\text{Annual IPERS Benefit} = \frac{\text{Average Salary} \times \text{Multiplier} - \text{Reduction, If Any}*}{\text{Multiplier}}
\]

*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 a member’s spouse, children or other beneficiaries.

EARLY-RETIREMENT REDUCTION

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

- **Age 65**
- **Age 62 with 20 or more years of covered employment (62/20)**
- **When 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% for Regular members or 72% for Special Service members.

For service earned before June 30, 2012, the reduction is 3% times the number of years that you receive benefits before you reach your closest normal retirement age. For service earned starting July 1, 2012, the reduction is 6% times the number of years you receive benefits before your 65th birthday. This reduction is permanent, meaning it applies to your annual benefit even after you meet a normal retirement age or turn 65.
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 they’re 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 favorable experience dividend (FED) 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. Since 1999, $953 million in FED payments were paid to retirees.

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% funded, and the transfer would not bring IPERS below 100% funding. The last transfer into this account was in FY2001.
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 10-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 (411)

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The Trust Fund at a Glance

**FUNDING AND CONTRIBUTIONS**

IPERS is currently 84% funded and continues to grow towards our goal of 100%.

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**Trust Fund Assets**

- Employer contributions
- Member contributions
- Investment income

**Trust Fund Liabilities**

- Benefits earned by working members
- Benefits paid to 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 the member.
- 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 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.

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.
Funding Policy

The Unfunded Actuarial Liability (UAL)
The early 2000s brought challenges including new mortality tables, which increased liabilities, and the dot-com recession. A contribution rate change was needed to keep IPERS healthy, but the Legislature chose to delay a contribution increase. Each year contributions were underpaid meant less was available to invest, compounding the growth of the shortfall.

In 2010, the Iowa Legislature acted decisively to protect IPERS, becoming one of the first states to pass a pension reform bill. As a result, in 2012 four key changes were enacted to address the shortfall and close the funding gap within 30 years.

(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.
- Provided IPERS flexibility in setting contribution rates for Regular members.

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 one percentage point each year, a limit set in statute.

Now, just seven years after the reform bill’s effective date, the contribution rates have remained stable and IPERS’ funding equation is more closely in balance.

AN IPERS CASE STUDY
IPERS’ two Special Service membership groups are 99% funded, primarily because each has consistently paid the actuarially required contribution rate. Even when recessions plagued investment earnings in 2001 and 2008, these groups maintained a robust funded ratio because statute mandated a contribution rate equal to what was required to support benefits.

Despite years of warning and a dwindling funded ratio, it wasn’t until 2010 that legislators passed a pension reform bill that empowered the System to set the contribution rates for Regular members, as was the long-time practice for the Special Service groups.

This teaches a valuable lesson: IPERS’ success is fundamentally dependent on adequate contributions from its members and employers, in combination with investment earnings.
**Facts About IPERS**

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<th><strong>IPERS benefits are portable.</strong></th>
<th><strong>Members are always entitled to keep their own IPERS contributions and interest earnings.</strong> 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.</th>
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<td><strong>IPERS benefits are only one part of a member’s overall retirement savings.</strong></td>
<td><strong>Total retirement income should come from several sources:</strong> 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.</td>
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<td><strong>IPERS covers a variety of public employees.</strong></td>
<td><strong>IPERS covers employees of schools, counties, cities, the state and others.</strong> Most IPERS members work in education. IPERS members are also firefighters, police officers, social workers, sheriffs and deputies.</td>
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<td><strong>IPERS is a prefunded system.</strong></td>
<td><strong>IPERS members working today contribute toward their own future retirement benefit.</strong> 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.</td>
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<td><strong>IPERS is sustainable.</strong></td>
<td><strong>The Iowa Legislature made IPERS an early leader in pension reform, passing the reform bill in 2010.</strong> The law increased employer and member contributions and modified benefits for Regular members. IPERS is now a $34 billion Trust Fund with an 84% funded status.</td>
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Available Resources

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

• Access to knowledgeable representatives
• Individual and group counseling/retirement planning sessions
• www.ipers.org
• Member Handbook (online)
• Employer Handbook (online)
• Educational booklets for members (online)
• Comprehensive Annual Financial Report and Summary Annual Financial Report (online)
• Personalized benefits statements (mailed and online)
• Access to personal IPERS information through My Account digital tool (online)

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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