MEASURED ADJUSTMENTS FOR LONG-TERM SECURITY

AN ANNUAL SUMMARY FOR THE FISCAL YEAR ENDED JUNE 30, 2010

IPERS
IOWA PUBLIC EMPLOYEES’ RETIREMENT SYSTEM
FROM GOVERNOR
TERRY E. BRANSTAD

Sustainability for the long term must be the focus of the Iowa Public Employees’ Retirement System. We have made promises to you, our public employees, and we must honor our commitments. In the recession of 2007–2009, the IPERS Trust Fund suffered losses, just like the rest of the economy. Course corrections have been made, and you will see from this report that already the IPERS Trust Fund has rebounded, earning 13.82 percent in FY2010.

Public pensions also give back to the economy. You may be surprised to learn that IPERS paid $1.1 billion in benefits to Iowans this past year. This is a sizable economic footprint for our state. Pension benefits paid to Iowans are returned to our local economy in the form of housing, goods, and services.

Our goal is for IPERS to be 100 percent funded in order to provide the lowest cost to taxpayers. That may require looking at other changes to ensure the sustainability of our plan. Compared to other states’ retirement systems, IPERS is in much better shape, but we need to explore ways to do even better.

I have full confidence in the leadership at IPERS. The experience and knowledge of the IPERS board and staff are excellent. The IPERS Trust Fund is one of the best managed of its kind in the country. I am looking forward to working with the legislature to ensure the sustainability of IPERS... and keeping our promises to you.

Sincerely,

FROM IPERS CEO
DONNA M. MUELLER

This report covers a very busy year. IPERS focused its efforts on further recovery from the worst recession in its history. Our overall goals are long-term security and delivering promised benefits. With those as our guide, IPERS implemented measured adjustments to regain some of the prior years’ losses and secure plan funding in fiscal year 2010.

The good news is that we appear to be headed in the right direction. The benefit changes made with the enactment of House File 2518 slow future growth of liabilities. At the same time, it gradually aligns the contributions collected more closely to the actuarially required contributions for the regular membership (95 percent of our members).

As reported last year, IPERS joined with federal authorities and the Iowa Attorney General to hold Westridge Capital Management accountable and recover IPERS’ assets. It’s estimated that 80–90 percent of IPERS’ principal will be recovered. We are looking forward to bringing closure to this fraud case and justice to our stakeholders.

Clearly, by making these measured course corrections, we are making positive progress toward long-term security and funding promised benefits.

DONNA M. MUELLER
This year, incremental course corrections contributed to IPERS’ success in emerging from the global recession. Our staff of professional investment officers, the Investment Board, the Benefits Advisory Committee, and the changes of House File 2518 all contributed to IPERS’ progress and success.

While our positive return of 13.82 percent is a step in the right direction to funding promised benefits, we knew investment performance alone would not be enough. Years of insufficient contributions, along with investment losses in fiscal years 2008 and 2009, threatened IPERS’ ability to fully fund promised benefits for the regular membership.

Legislative changes reduce liabilities and the cost of future benefits. (See Moving the Needle.) They allow us to sustain our healthy funding ratio of 81.4 percent as well as the ability to finance the unfunded actuarial liability. We hope the worst is behind us as we move confidently toward our goal of 100 percent funding.

For the first time since 2001, IPERS is able to amortize the unfunded actuarial liability (UAL). The financing period (similar to a mortgage) has gone from infinity to 34 YEARS!
For many years, changes to IPERS’ funding were necessary to become fully funded. Then the recession hit in FY2008, further eroding the status of IPERS’ funding. The Benefits Advisory Committee wanted to meet the recession head-on by finding ways to rebalance the funding over the next 30 years. It was essential that any changes to plan funding would ensure:

- Retirees’ benefits are secure and IPERS will continue to pay them on time.
- IPERS will honor past promises to pay benefits already earned by members who have not yet retired.
- Changes will secure dependable monthly income for future generations.

House File 2518 accomplishes all that. The main changes are:

- Contribution rates increase for regular members on July 1, 2011, and can be adjusted each year after that by up to 1.0 percentage point a year.
- The length of time to vest increases from four to seven years.
- The average wage used in the benefit formula calculation changes from the average of the highest three annual salaries to the highest five annual salaries.
- There will be greater benefit reductions for those who choose to retire early, before reaching normal retirement age.

**DID YOU KNOW?**

**IPERS is a prefunded retirement plan.**

That means the money employees contribute today is pooled and invested so it can grow and pay for their own future benefits.

For a detailed summary of House File 2518, visit the IPERS website at www.ipers.org.

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**CONTRIBUTION RATES**

<table>
<thead>
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<tbody>
<tr>
<td><strong>MEMBERSHIP CLASS</strong></td>
<td><strong>Employee</strong></td>
</tr>
<tr>
<td>Regular</td>
<td>4.50%</td>
</tr>
<tr>
<td>Protection Occupation</td>
<td>6.64%</td>
</tr>
<tr>
<td>Sheriffs/Deputies</td>
<td>8.94%</td>
</tr>
</tbody>
</table>
Investment Returns

- 2010: 13.82%
- 2009: -16.27%
- 2008: -1.33%

DID YOU KNOW?

IPERS takes on all the investment risk. Members don’t have to worry about market fluctuations. Your benefits are guaranteed for life.

—DONNA M. MUELLER, CEO

Trust Fund Value

Value on June 30 (billions of dollars)

- 2005: $18.8
- 2006: $20.4
- 2007: $23.2
- 2008: $22.4
- 2009: $17.9
- 2010: $19.9

Sources:
- Pension Administration
- CEM Benchmarking Inc.

Vision

To provide a cost-efficient statewide retirement plan that is valued by Iowa's public employers and employees for its benefits, IPERS will be a fully funded, cost-effective management, excellent customer service, and Andreas to worry about their own retirement. IPERS helps employers recruit and retain employees in public service and allows members to care for themselves in retirement.

Did You Know?

That means the money employees contribute is invested so it can grow and pay for their own future benefits. Changes will secure dependable monthly income for future generations.

Changes are essential that any changes to plan funding would ensure:

- The length of time to vest increases from four to seven years.
- The average wage used in the benefit formula calculation changes from the average of the highest three annual salaries to the highest five annual salaries.
- There will be greater benefit reductions for those who choose to retire early, before reaching normal retirement age.

Contribution rates increase for regular members on July 1, 2011, and can be adjusted each year after that by up to 1.0 percentage point a year.

Funding

- House File 2518, visit the IPERS website at www.ipers.org.
by finding ways to rebalance the funding over the next 30 years. It
was essential that any changes to plan funding would ensure:
• Changes will secure dependable monthly income earned by members who have not yet retired.
• IPERS will honor past promises to pay benefits already to pay them on time.
• Retirees’ benefits are secure and IPERS will continue to become fully funded. Then the recession hit in FY2008,
  or many years, changes to IPERS’ funding were necessary to retire early, before reaching normal retirement age.
• There will be greater benefit reductions for those who choose to the highest five annual salaries.
• The average wage used in the benefit formula calculation changes from the average of the highest three annual salaries.
• The length of time to vest increases from four to seven years.
• Contribution rates increase for regular members on July 1, 2011, and can be adjusted each year after that.

For a detailed summary of Advisory Committee wanted to meet the recession head-on further eroding the status of IPERS’ funding. The Benefits
DiD you know?
Pension Administration
Source: Pension Administration Benchmarking Results,
that other similar Benchmarking Inc.,
retirement systems do,
et our services rank an 81 out of 100—equal to the median
score of others.

DID YOU KNOW?
IPERS spends about half the amount in administration costs
that other similar retirement systems do, yet our services rank an 81 out of 100—equal to the median score of others.

Did you know?
In 2010, IPERS spent $3.2 billion toward funding the retirement system.

Changes in plan net assets
The following table describes the changes in plan net assets from January 1, 2010, to June 30, 2010:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total additions</td>
<td>$755,210,092</td>
</tr>
<tr>
<td>Total contributions</td>
<td>$755,210,092</td>
</tr>
<tr>
<td>Net investment income</td>
<td>$2,443,245,425</td>
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<tr>
<td>Net securities lending income</td>
<td>$34,576,669</td>
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<tr>
<td>Total additions</td>
<td>$3,233,034,186</td>
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<tr>
<td>Deductions</td>
<td>$1,328,994,209</td>
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<tr>
<td>Benefit payments</td>
<td>$1,278,555,844</td>
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<tr>
<td>Employee refunds</td>
<td>$41,470,129</td>
</tr>
<tr>
<td>Administrative expenses</td>
<td>$8,968,236</td>
</tr>
<tr>
<td>Total deductions</td>
<td>$1,904,039,777</td>
</tr>
<tr>
<td>Net increase</td>
<td>$1,904,039,777</td>
</tr>
<tr>
<td>Net assets held in trust for pension benefits—beginning of year</td>
<td>$17,974,040,651</td>
</tr>
<tr>
<td>Net assets held in trust for pension benefits—end of year</td>
<td>$19,878,080,628</td>
</tr>
</tbody>
</table>

Net assets held in trust for pension benefits $19,878,080,628
IPERS paid $1.3 billion to retirees and beneficiaries in fiscal year 2010, with 88 percent of those payments staying in Iowa.

These dollars are spent on Main Street, directly impacting businesses and indirectly impacting the employees and stakeholders of those businesses. That spending creates a significant economic footprint. It’s a simple fact: IPERS benefit payments have a ripple effect. One person’s retirement check becomes another person’s paycheck.

MEASURING THE VALUE OF IPERS FOR IOWA

IPERS is a defined benefit plan that works with social security benefits and personal savings, providing dependable retirement income that is guaranteed for life.
MISSION
To provide a cost-efficient statewide retirement plan that helps employers recruit and retain employees in public service and allows members to care for themselves in retirement.

VISION
IPERS will be a fully funded retirement plan that is valued by Iowa’s public employers and employees for its benefits, excellent customer service, and cost-effective management.

www.ipers.org

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Working Today for Your Tomorrow