

IPERS Advisory Committee Makes Recommendations

The Benefits Advisory Committee (BAC) of the Iowa Public Employees Retirement System (IPERS) has agreed on recommendations to the Legislature to deal with the long-term funding concerns facing the system. One recommendation is to increase the combined employer/employee contribution rate.

In making these recommendations, some members of committee stated their belief that the responsibility of BAC is to make recommendations that protect the fiscal integrity of the fund, while others expressed concern that an increase will cause budget problems for state, county, and city employers.

BAC first started looking at this issue last April when they requested the system's actuary provide a funding analysis under several different scenarios. Once the actuary provided the information, BAC discussed various scenarios prior to making their recommendations at their November 2 meeting.

The committee's recommendations to the Legislature include the following:

1. Increase the combined employer/employee contribution rate to 13.45% effective July 1, 2011. Under current law, the rate will be 11.45% on July 1, 2011. Some members worried about the effect on counties and cities if the contribution rate is increased so quickly. However, others noted that this was the exact recommendation BAC made to the Legislature in 2003 that was not enacted.
2. Allow IPERS to "float" the contribution rate by 1% each year. Current law sets this at 0.5%.
3. Change the vesting requirement from the current four years to seven years.
4. Change the final average salary from the current high three years to five years.
5. Increase the early retirement reduction penalty from the current 3% to an average of 6% per year below age 65 for anyone retiring before they have earned the Rule of 88, or age 62 with 20 years of service or have reached age 65. The age reduction would be measured from age 65.
6. The benefit multiplier remains unchanged under this proposal. Currently, employees earn 2% per year for up to 30 years of employment resulting in a 60% multiplier. Once the employee has worked from 30 to 35 years, the benefit multiplier is 1% resulting in their final retirement benefit being the average of the highest three years salary times 65%. This does not change under this recommendation.

Legislature Makes Any Changes

The Iowa Legislature is the IPERS plan sponsor. Therefore, if any changes are made to the current system, they must be made by the Legislature. IPERS cannot make the changes.

Returns are Showing Improvement

IPERS currently assumes a 7.5% return on investment. IPERS ended the 2009 fiscal year well below this assumption with a -16.27% return, resulting in an investment return of -23.77%. As of June 30, 2009, the market value of the fund dropped to \$17.99 billion.

The first quarter of fiscal year 2010 shows signs of improvement. At the end of October, the market value of the fund was \$19.8 billion.