The LATEST WORD

Winter 2005/2006

FOR IPERS EMPLOYERS

The latest word from the CEO

IPERS CEO Donna M. Mueller speaks out about retirement trends, contribution rates, and Minnesota/Iowa jokes

Donna M. Mueller has been the CEO of IPERS since January 2003. She came to Iowa from Boston, Massachusetts, where she was CEO of the Boston Retirement Board. She also worked for the Boston Mayor's Office of Consumer Affairs and Licensing, serving as both executive director and assistant corporate counsel. *The Latest Word* sat down with CEO Mueller to discuss the latest issues. Here is that discussion.

LW: Let's get the important stuff out of the way first. You live in Iowa but are originally from Minnesota and still have family there. Do you have a favorite Iowa/Minnesota joke?

DM: It depends on what state my mind is in!

LW: We aren't going to let you off that easy! Are there things about Iowa that you prefer?

DM: The mild winters (yes, I find them much milder), the State Fair, the enthusiastic support the citizens have for their local communities and their state.

Our return of 11.25 percent for fiscal year 2005 ranked high against benchmarks.

LW: There has been much talk about IPERS needing increased contributions to restore actuarial balance and meet its long-term funding obligations. Is there anything else happening at IPERS?

DM: There are many good things happening that get lost in the contribution rate discussion. For one thing, our investments continue to perform well. Although we can't meet long-term funding needs through investments alone, our return of 11.25 percent for fiscal year 2005 ranked high against benchmarks. We were in the top quartile in three of the Trust Universe Comparison Service's (TUCS) institutional investor peer universes: TUCS Public Pension Funds with Assets

Continued on page 2

IPERS

WHAT'S INSIDE

IMPORTANT ARTICLES
- 2006 Covered Wage Ceiling page 5
- 2007 Special Service Contribution Rates page 8

About the CEO

Donna M. Mueller received a Bachelor of Arts in political science, magna cum laude, from the University of Minnesota in Duluth. She received a Juris Doctor in law from Washington and Lee University in Lexington, Virginia.

Mueller is certified as a pension professional by the Institute of Chartered Pension Professionals in Boston. She also graduated from the John F. Kennedy School of Government's Program for Senior Executives at Harvard University.

Mueller began her career as an attorney for Wisconsin Judicare, Inc., a legal services program for low-income citizens. She later became the organization's deputy director.

Mueller is a member of the National Association of State Retirement Administrators, the National Council on Teacher Retirement (NCTR), and NCTR's Legislative Committee.

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IPERS Special Service contribution rates for FY2007

*IPERS' actuary completed the annual valuation and certified the following contribution rates for fiscal year 2007, **effective July 1, 2006.***

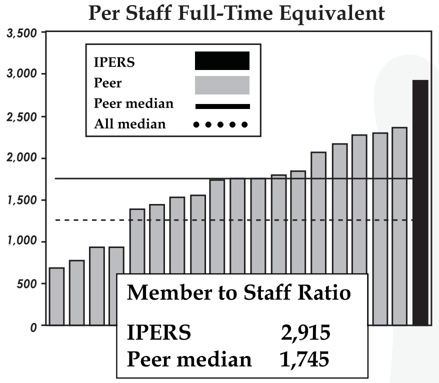
	Member Share	Employer Share	Total Contribution Rate
Protection Occupations	6.08%	9.12%	15.20%
Sheriffs and Deputy Sheriffs	8.37%	8.37%	16.74%

Greater than $1 billion, TUCS All Master Trusts Universe, and TUCS Public Funds Universe. For the ten years that ended June 30, 2005, we were in the top decile of TUCS Public Funds and TUCS Public Funds Greater than $1 billion universe, and the top third of TUCS All Master Trusts Universe.

LW: How are your services?

DM: I continue to be incredibly proud of our performance. Each year we benchmark IPERS against other public retirement systems of similar size. Our services rate high and our costs are low. Our staff serves more members per position than any other public retirement system in the comparison group. Of course, there is a downside to that. As more and more baby boomers retire, at some

Active and Retired Member Per Staff Full-Time Equivalent



From Defined Benefit Administration Benchmarking Analysis, January 7, 2005, Cost Effectiveness Measurement Inc.

point we are going to need to increase the number of staff. Although we are reworking our technology to automate as much as we can, we will need to increase staff to keep up with the growing needs.

LW: What retirement trends do you see?

I catch people's attention when I tell them that at the end of June, we had 121 retirees in the "100 and older" group.

DM: We are already seeing an increasing number of retirees. We expect that trend to accelerate as more and more baby boomers reach retirement age.

Retirees are also living longer. I catch people's attention when I tell them that at the end of June, we had 121 retirees in the "100 and older" group.

We are also seeing a growing number of retirees who are returning to work. Policymakers will need to examine what, if any, changes they should make to retirement systems when more and more people go back to work while drawing a pension.

LW: What other retirement policy discussions may take place during the next year?

DM: Although employers report having difficulty filling some positions, employers continue to sponsor early retirement programs. These incentives affect retirement behavior. People may apply for IPERS benefits earlier than they otherwise would have, which means they will draw benefits longer. This increases our costs and we have to fund increased costs with increased contributions.

If employees leave hard-to-fill positions, not only may the employee want to return to work after retirement, the employer may also want the employee to come back. Some policymakers and taxpayers become concerned when they see what they believe is "double-dipping."

LW: Are there other issues out there?

DM: I also expect discussions about the portion of our membership in Special Services. These are employees in public safety positions and currently they make up about 4 percent of our membership. We continually get requests for membership expansion and our Benefits Advisory Committee is working on guidelines so they can better advise the Legislature. We need to keep in mind that this classification was originally created to provide for retirement of employees with careers shortened by the physical demands of public safety jobs, and their IPERS plan allows for earlier retirements. Employees and their employers pay contributions that are at a higher rate determined by the actuary. Employers worry about costs when more people move to this classification.

LW: There has been talk about not increasing contributions as long as IPERS pays a "thirteenth check."

The CEO notes that in addition to funding, issues include early retirement, returning to work after retirement, and Special Service designations.

Continued on page 3

Why do IPERS retirees receive an annual payment as well as their monthly pension?

DM: Unlike the Social Security program, IPERS does not have a traditional cost-of-living adjustment. The Legislature created a couple of payments, these so-called "dividend payments" or "thirteenth checks" to help protect pensions from inflation.

The November Dividend is for pre-July 1990 retirees. Once a year they receive a base payment guaranteed by law. The amount each retiree receives is determined by a formula that applies a multiplier to the base payment. The multiplier is not applied to the base unless IPERS' actuary certifies that the increase can be supported by current contribution rates. Because the contribution rate for regular members is below the actuarial rate, we have not increased the base payment since November 2001. This year we paid an average of slightly more than $792 to 20,964 retirees.

The Legislature created the FED (Favorable Experience Dividend) for those who retire after July 1990. The FED is a misnomer. It actually refers to the name of an account, the FED Reserve Account, that is part of the Trust Fund and was established by the Legislature in 1998. Paying the FED to retirees does not depend on favorable experience. Instead, "favorable experience" is a factor in determining whether money is transferred to the Reserve Account. Money is transferred to the Reserve Account when IPERS' unfunded actuarial liability, our long-term payment obligation, can be amortized over 15 years or less. The last time we transferred money into this account was in fiscal year 2001.

Retirees who receive an annual FED payment also receive an amount based on a formula defined in law. The multiplier used to determine the payment is limited to no more than 3 percent, but it has been frozen at 1.07 percent since 2003. Even with the multiplier frozen at 1.07 percent, funds in the Reserve Account are projected

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to run out in roughly 9 to 10 years unless there is a contribution rate increase.

The next FED payment is in January 2006. We estimate we will make an average payment of about $760 to 56,454 retirees.

LW: What are you most proud of as CEO of IPERS?

DM: That is a tough question. I am proud of our staff. Our benchmarking results speak to the results we are getting. I am pleased with the support we get from our Governor and legislators. They are the Plan sponsors and they take a lot of time to understand the Plan so they can make sound decisions. I am proud of our members. These people dedicate their lives to serving the public.

If I have to pick only one thing, I am most proud of the impact IPERS has in Iowa. Most of our retirement benefits, about 88.4 percent, stay in Iowa. Last year we paid out almost $750 million in Iowa. This money goes into every single one of Iowa's 99 counties. This is a huge economic benefit to Iowa's communities. That most of our money stays in Iowa is just one more piece of evidence that these former public employees are loyal to Iowa.

LW: We do need to ask about funding. Has anything changed?

DM: Not really. Our board has not yet adopted our annual valuation, but it is clear the long-term funding issue will not resolve itself. Even with strong investment returns of the past two years, the unfunded actuarial liability (UAL) has grown. We need to increase contributions. Because normal costs (the costs of benefits earned in the current year) are almost equal to the statutory contribution rate, there is little to apply to the UAL. It will continue to grow until we increase contributions. Investments alone will not preserve IPERS' long-term financial health.

LW: What do you plan to do?

DM: Last year the House passed House File 729, which increased contribution rates one-half a percentage point a year for eight years. The bill stops the increases as soon as long-term funding is in balance. This bill is eligible for debate in the Senate during the 2006 legislative session.

I have also testified before a legislative committee about the cost of waiting. The effects of compounding can

Continued on page 4

work for us—or against us. There is a cost to waiting. If the Legislature does not take action, we don't receive the contributions. If we don't receive the contributions, we can't invest them.

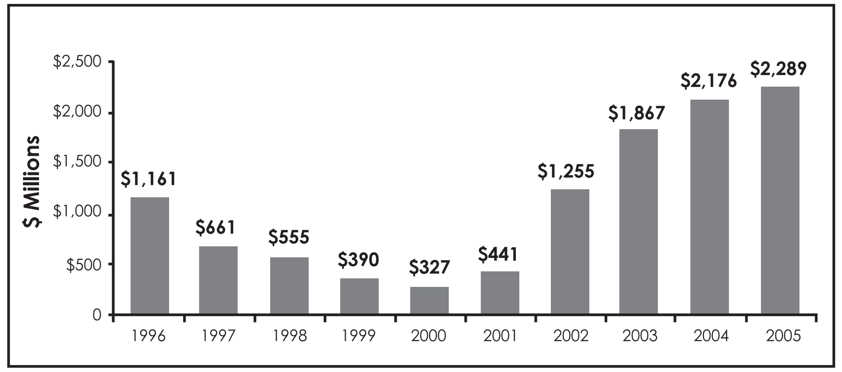
LW: Since current finances are sound and you are addressing a long-term issue, what happens if the Legislature doesn't act?

DM: The biggest risk is that the cost—the amount of contributions needed—will be greater than what we are asking for today. This also has the effect of pushing the cost off onto the next generation of employees. The costs of future retirements should be paid during the working life of employees. We should not shift costs to future generations.

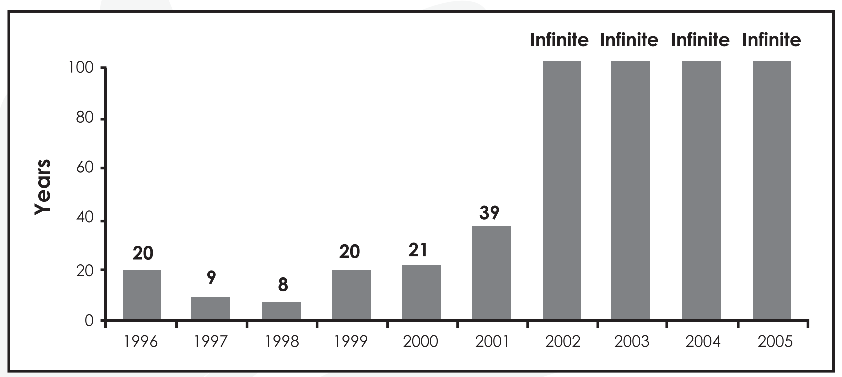
LW: We know you are busy. Thanks for your time. But before we go, we have one more question. What's the biggest soda in the world?

DM: You've just reminded me of another reason I like Iowa—Beggars' Night—I love to hear the jokes the kids tell! They don't do that in Minnesoda.

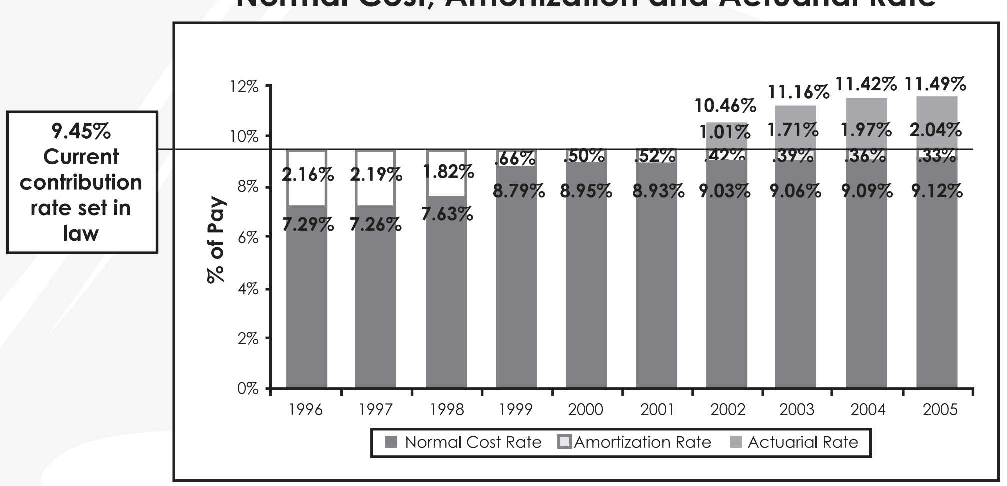
Unfunded Actuarial Liability (UAL)



UAL Amortization



Normal Cost, Amortization and Actuarial Rate



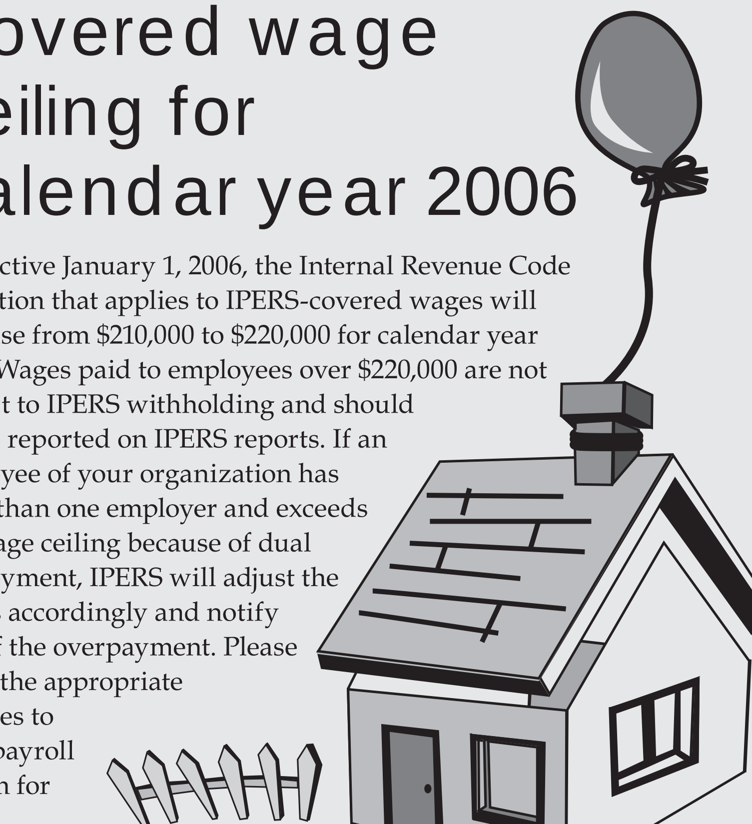
In the Legislature

The Public Retirement Systems Committee met November 2 and 3 to review the status of all of Iowa's public retirement systems, including IPERS. The committee meets again December 21 at 10 a.m. in Room 116 of the Capitol. The committee plans to discuss the issues identified in November and may develop recommendations for the Legislature to consider when it convenes in January 2006.

House File (HF) 729 remains eligible for debate in the Senate. The bill passed the House last year. The House version of HF 729 increases the contribution rate for regular members by one-half percentage point for each of eight years. Increases are halted if the funding status of IPERS improves. It is unknown whether the Public Retirement Systems Committee will recommend action on the bill.

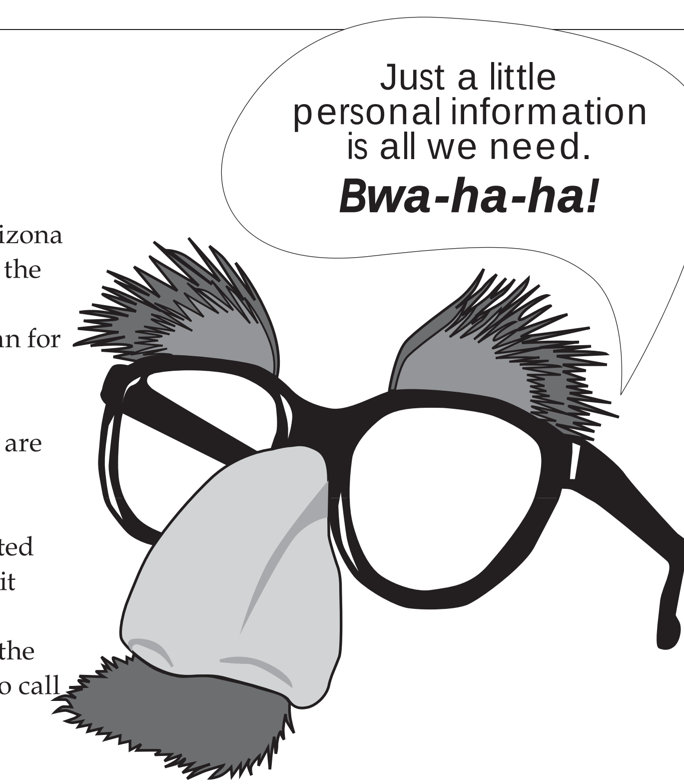
Go the IPERS Web site at <www.ipers.org> and select "Legislative News" to see materials from the November meeting and for information on the December 21 meeting. You can also directly go to the Legislature's Web site at <www.legis.state.ia.us>.

Covered wage ceiling for calendar year 2006



Effective January 1, 2006, the Internal Revenue Code limitation that applies to IPERS-covered wages will increase from $210,000 to $220,000 for calendar year 2006. Wages paid to employees over $220,000 are not subject to IPERS withholding and should not be reported on IPERS reports. If an employee of your organization has more than one employer and exceeds the wage ceiling because of dual employment, IPERS will adjust the wages accordingly and notify you of the overpayment. Please make the appropriate changes to your payroll system for 2006.

Don't be fooled by deceptive mailings



The Arizona Republic recently reported that hundreds of Arizona teachers had received information that appeared to come from the state pension offices. Instead, the notices were from a financial planning company. The mailers offered to help the teachers plan for retirement and asked for personal information.

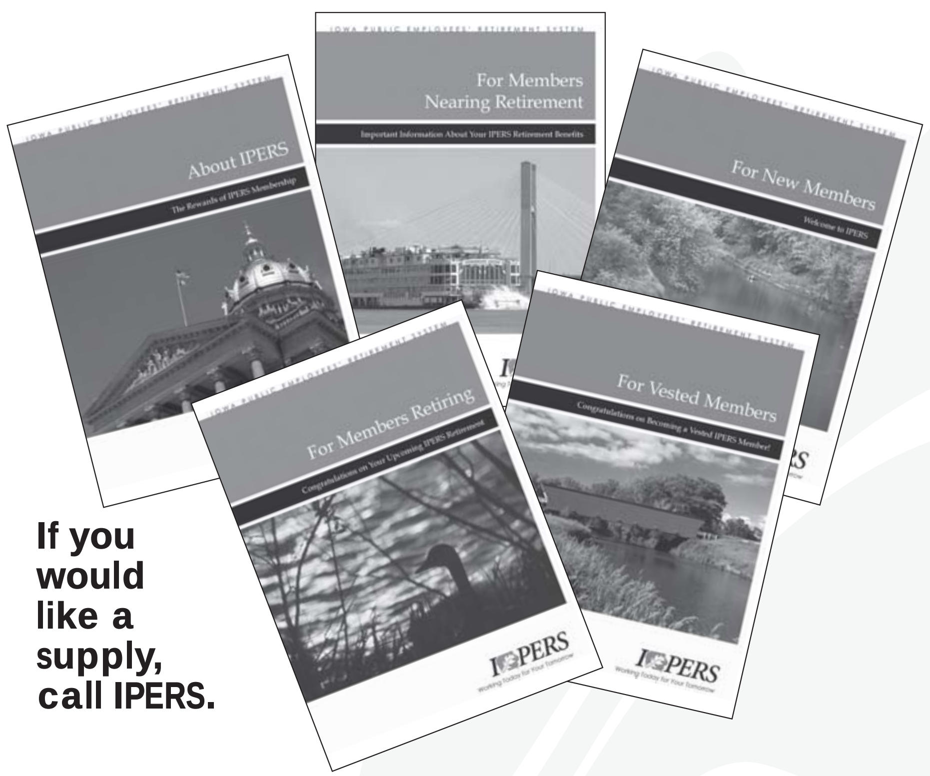
IPERS has heard of a similar direct marketing scheme from individual insurance agents who give the impression that they are associated with IPERS.

"Members need to be aware that we already have personal information on you and would not likely request it again, " stated David Martin, IPERS' chief benefits officer. "We also do not visit members in their homes."

Martin stressed that if any IPERS member or employer feels the least bit suspicious about something, they should not hesitate to call IPERS.

Retirement benefit information for employees

A series of booklets will soon be available for your employees. The booklets include information about IPERS retirement benefits in an easy-to-follow format. The booklets are targeted to new employees, employees who are vested in IPERS, those nearing retirement, and employees who have decided to retire. There is also a booklet of general information appropriate for use in your recruitment efforts. When these are ready, IPERS will begin filling back requests for benefit information. If you would like a supply, call IPERS so we can get your name on the list.



If you would like a supply, call IPERS.

QUESTIONS?

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(Select the *Employers* tab)

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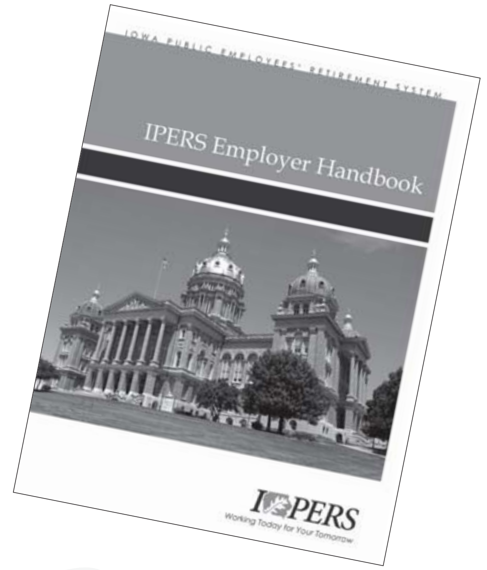
(7:30 a.m. to 5 p.m.)
515-281-0020
1-800-622-3849
(Ask for a member of the Employer Relations Bureau)



Not so new but greatly improved:

IPERS Employer Handbook is on its way

The IPERS Employer Handbook has been rewritten, reformatted, and redesigned to make it a more useful resource for employers. The handbook includes information important for employers in managing and administering IPERS benefits for your employees. The handbook includes information on how IPERS works, reporting responsibilities and procedures, and tools and resources available to employers. IPERS mailed a handbook to all employers in November. If you have not received your copy, please call to let us know. The handbook will also be available on the IPERS Web site at <www.ipers.org>.

Linda Guffey leads employer services

Services to employers are now under the leadership of Linda Guffey, a nine-year IPERS veteran who knows the details about IPERS policies affecting employers.

"I have been working with employers for most of my career at IPERS," said Guffey.

As a compliance officer, Guffey performed compliance reviews and provided training to employers. Guffey also served as a team leader to other IPERS compliance officers.

"I view compliance reviews as a time to provide technical assistance. Employers try to do the right thing, and we want to help them," said Guffey. "If employers make mistakes interpreting our rules, we want to discover the mistakes early when they are easier to correct.

"I'm glad that I won't lose contact with employers in my new position," Guffey added. "That's the part of my job I like the best."

Guffey hopes to increase the frequency of compliance reviews. She also wants to increase electronic reporting to make it easier for employers to report more often. More frequent reporting helps IPERS discover problems quickly so they can be addressed.


Linda Guffey

Guffey said she will continue to stress the importance of employer training and will focus on areas causing the most problems for employers, including rules governing coverage of cafeteria plans.

Guffey noted she also will work to make sure that employers are correctly crediting wages in a way that is fair to all IPERS members. She said deliberate alterations of pay arrangements right before retirement to inflate benefits artificially is a rule violation. Guffey stressed that although only a few people do this, it is not fair to other IPERS members.

The Latest Word is published quarterly by the Iowa Public Employees' Retirement System for participating employers and others interested in IPERS policy and funding.

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