IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Gregory S. Samorajski, CFA
Chief Executive Officer

Kim Reynolds
Governor

Adam Gregg
Lt. Governor

AGENDA

Monday, July 31, 2023
1:00 p.m.
BENEFITS ADVISORY COMMITTEE
IPERS Board Room or
Conference Telephone #: 312-626-6799
Meeting ID: 892 7963 9775

1) Call to Order / 1:00 p.m.
   a) Roll Call of Members

2) Election of Officers

3) Approval of Previous Meeting Minutes – May 22, 2023

4) COLA Cost Study Options – Brent Banister, Cavanaugh Macdonald and Greg Samorajski

5) Investment Board Appointment (Active Educational Member) – Greg Samorajski

6) Other Business

7) Public Comments

8) Confirm Next Meeting Date
   a) Monday, August 28, 2023

BENEFITS ADVISORY COMMITTEE MEETING MINUTES
IPERS BOARD ROOM
7401 Register Drive, Des Moines, Iowa
May 22, 2023

The following people attended the IPERS Benefits Advisory Committee (BAC) meeting held on Monday, May 22, 2023.

Members of the Benefits Advisory Committee – Present

Len Cockman, Chair
Lowell Dauenbaugh, Vice Chair
Matt Carver
Susanna Cave
Todd Copley
Richard Hoffman
Steve Hoffman
Connie Kuennen
Erin Mullenix
Melissa Peterson
Adam Steen
Phil Tetzloff

Members of the Benefits Advisory Committee – Absent

Andrew Hennesey

IPERS Administration and Staff

Greg Samorajski, Chief Executive Officer
David Martin, Chief Benefits Officer
Melinda McElroy Executive Assistant
Sriram Lakshminarayanan, CIO
Shawna Lode, Director of Communications
Tara Hagan, Chief Financial Officer
Rick Hindman, Chief Information Officer

Cavanaugh Macdonald

Brent Banister
Bryan Hoge

Call to Order

Len Cockman, chair, called the meeting to order at 1:00 p.m.

BAC Membership Elections

Three voting positions on the BAC were up for election. Iowa Code requires one of these vacancies be held by a constituent group representing teachers. Matt Carver nominated the Iowa State Education Association. Lowell Dauenbaugh seconded the nomination. The nomination was approved by unanimous roll call vote of the full BAC membership.

Iowa Code requires one of these vacancies be held by an organization that represents cities. Matt Carver nominated the Iowa League of Cities. Phil Tetzloff seconded the nomination. The nomination was approved by unanimous roll call vote of the full BAC membership.

Iowa Code requires one voting seat be held by a public citizen who is not a member of IPERS. Matt Carver nominated Lowell Dauenbaugh as the citizen representative on the BAC. Erin Mullenix seconded the nomination. The nomination was approved by unanimous roll call vote of the voting membership.

Approval of Previous BAC Meeting Minutes

Matt Carver made the motion to approve the minutes from the October 31, 2022, December 1, 2022, and January 23, 2023, Benefits Advisory Committee meetings. Erin Mullenix seconded. The motion carried by unanimous voice vote.

COLA Study Options

Greg Samorajski gave a brief overview and history of the Favorable Experience Dividend (FED) and the Supplemental Accounts for Active Members (SAAM) programs and possible options to address the expected liabilities each could create. Option 1: Eliminate the FED/SAAM provisions legislatively or administratively. Administrative action would require the Investment Board to determine by policy that fully funded means a percentage greater than 100%. Option 2: Maintain the current FED/SAAM provisions and increase required contribution rates to accommodate the estimated liabilities. Option 3: Eliminate the FED/SAAM provisions and replace them with a more traditional COLA.

Cavanaugh Macdonald provided a study that reviewed the potential costs to expand the November Dividend program. Currently, the dividend is paid to members who retired prior to July 1, 1990. The study included three proposals to expand the program to: A) members who retired before July 1, 2000; B) members who retired before July 1, 2005; and C) members who are retired for 20 years.

The BAC expressed interest in using its budget to pay for studies that provide additional replacement options. Matt Carver made the motion to delegate authority to the BAC chair to approve the expenditure. Phil Tetzloff seconded. The motion carried by unanimous roll call vote.

Matt Carver next made the motion that the BAC recommend to the Legislature eliminating the FED/SAAM programs and replacing them with a possible expansion of the November Dividend program or a similar COLA. Carver acknowledged that legislation to facilitate this change would be determined later. Phil Tetzloff seconded. The motion carried by unanimous roll call vote.

Legislative Session Update

Shawna Lode reviewed the status of several bills IPERS tracked during the 2023 legislative session. She also noted the Governor has not yet signed the state budget bill.

Staff Reports

Benefits Update – David Martin reported that his team continues to fill staff vacancies and has four new employees in training.

Investment Update – Sriram Lakshminarayanan updated the BAC on estimated investment performance for the fourth quarter of 2022 and the first quarter of 2023. He reported the Trust Fund balance was approximately $40.6 billion.

Other Business

Phil Tetzloff announced that he is resigning from the Iowa Retired School Personnel Association's Board this fall. The IRSPA has started searching for his replacement on the BAC.

Public Comments

Former Senator Pat Deluhery shared his concerns on public funds investing in private equity companies.

Future Meeting Dates

The next BAC meeting is scheduled for Monday, August 28, 2023. With no further business to come before the committee, Matt Carver made the motion to adjourn the meeting. Lowell Dauenbaugh seconded; the motion carried by unanimous voice vote. The meeting adjourned at 3:00 p.m.

Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

June 27, 2023

Mr. Greg Samorajski
Chief Executive Officer
Iowa Public Employees Retirement System
7401 Register Drive
PO Box 9117
Des Moines, IA 50321

Re: Cost Study for Expanding Eligibility for Automatic Post-Retirement Dividends and Elimination of the Favorable Experience Dividend Reserve Account

Dear Greg:

At your request, we have prepared a cost study to analyze the impact of expanding the current eligibility requirements for receiving a post-retirement dividend and also eliminating the existing provision for potential payment of a Favorable Experience Dividend (FED).

Currently, automatic annual dividends are paid to members who retired prior to July 1, 1990 in the form of a 13th check. The automatic dividend amount is adjusted each year by the least of the following percentages: (i) the change in the CPI, (ii) percentage certified by the actuary as affordable by the System, and (iii) 3.0%.

For members who retired on or after July 1, 1990, a FED reserve account was established (via 1998 legislation) to help offset the negative effects of post-retirement inflation by paying dividends to these members when there is sufficient favorable experience on the System's actuarial liabilities and assets. The balance in the FED reserve has been zero since the June 30, 2014 actuarial valuation, and no money can be transferred to the account until the System is fully funded. As of June 30, 2022, the funded ratio for the System was 89.5% using the actuarial value of assets and 91.4% using the market value of assets. The date the System will be fully funded will depend heavily on actual investment returns in the future.

Under the alternative scenarios proposed for this study, the eligibility requirements for the automatic dividend payment will be expanded to include a larger number of retirees and beneficiaries, and the FED reserve account will be eliminated. In addition, the automatic dividend increase for any newly eligible members will be capped at either: (i) the current 3.0% each year or (ii) a reduced rate of 1.5%. Each proposal expands the eligibility criteria for a dividend to include the following groups:

- Proposal A – Those retired before July 1, 2000.
- Proposal B – Those retired before July 1, 2005.
- Proposal C – All members once they have been retired for 15 years.
- Proposal D – All members once they have been retired for 20 years.
- Proposal E – All members once they have been retired for 25 years.

Cost Analysis

The results of this study are based on the most recent actuarial valuation, prepared as of June 30, 2022. The following tables summarize the impact for the Regular Members, Sheriffs and Deputies, and Protection Occupation members. Under each proposal with a 3.0% cap on the dividend, we valued a dividend payment starting in FY 2023 that is 2.6% (current inflation assumption) of the prior year's benefit. This is consistent with the assumption currently used in the valuation for the existing group that receives the dividend. Under the proposals with a 1.5% cap on the dividend, it was assumed the dividend payments would increase the full 1.5% each year.

For Proposals A and B, these dividend payments commence immediately for the identified closed group of retirees and beneficiaries. For Proposals C, D and E, where the automatic dividend payments are delayed for a specified number of years after retirement, those who have already met the criteria as of June 30, 2022 are assumed to receive the dividend payment in FY 2023. Those members who have not yet been retired long enough or have not yet begun receiving benefits are assumed to begin receiving the dividend payment when they have met the criteria.

Regular Members ($ in millions) – 1.5% Maximum Dividend

	6/30/2022 Valuation	(A) Retired Before 7/1/2000	(B) Retired Before 7/1/2005	(C) All Members Retired 15+ Years	(D) All Members Retired 20+ Years	(E) All Members Retired 25+ Years
Actuarial Liability	$41,090.8	$41,164.0	$41,363.3	$42,995.5	$42,115.7	$41,548.4
Actuarial Valuation of Assets	36,345.9	36,345.9	36,345.9	36,345.9	36,345.9	36,345.9
Unfunded Actuarial Liability (UAL)	$4,744.9	$4,818.1	$5,017.4	$6,649.6	$5,769.8	$5,202.5
Impact Compared to 6/30/2022 Valuation		**$73.3**	**$272.5**	**$1,904.8**	**$1,024.9**	**$457.7**
Funded Ratio	88.45%	88.30%	87.87%	84.53%	86.30%	87.48%
Impact Compared to 6/30/2022 Valuation		**(0.15%)**	**(0.58%)**	**(3.92%)**	**(2.15%)**	**(0.97%)**
FY 2024 Contribution Rates						
Normal Cost Rate	10.60%	10.60%	10.60%	10.86%	10.72%	10.65%
UAL Contribution Rate	3.36%	3.42%	3.59%	4.97%	4.22%	3.74%
Actuarial Contribution Rate	13.96%	14.02%	14.19%	15.83%	14.94%	14.39%
Impact Compared to 6/30/2022 Valuation		**0.06%**	**0.23%**	**1.87%**	**0.98%**	**0.43%**
Required Contribution Rate	15.73%	15.73%	15.73%	15.83%	15.73%	15.73%
Contribution Shortfall/(Margin)	(1.77%)	(1.71%)	(1.54%)	0.00%	(0.79%)	(1.34%)
Impact Compared to 6/30/2022 Valuation		**0.00%**	**0.00%**	**0.10%**	**0.00%**	**0.00%**

Note: Future potential FED benefit payments are not currently reflected in the actuarial valuation.
Increase in the unfunded actuarial liability is amortized over a closed 20-year period.
Numbers may not add due to rounding.

For all Proposals with the automatic dividend capped at 1.5%, other than Proposal C, the current margin of the Required Contribution Rate over the Actuarial Contribution Rate allows the provision to be enacted without an immediate increase in the Required Contribution Rate. For Regular Members, Proposal C would require a modest increase in the Required Contribution Rate of 0.10% of pay, which impacts both the employer and member contribution rate. Note that these results are based on the June 30, 2022 actuarial valuation and June 30, 2023 results and impacts will be different, depending on how actual experience unfolds.

Regular Members ($ in millions) – 3.0% Maximum Dividend

	6/30/2022 Valuation	(A) Retired Before 7/1/2000	(B) Retired Before 7/1/2005	(C) All Members Retired 15+ Years	(D) All Members Retired 20+ Years	(E) All Members Retired 25+ Years
Actuarial Liability	$41,090.8	$41,223.4	$41,588.3	$44,602.6	$42,964.4	$41,920.6
Actuarial Valuation of Assets	36,345.9	36,345.9	36,345.9	36,345.9	36,345.9	36,345.9
Unfunded Actuarial Liability (UAL)	$4,744.9	$4,877.5	$5,242.4	$8,256.7	$6,618.5	$5,574.7
Impact Compared to 6/30/2022 Valuation		**$132.6**	**$497.6**	**$3,511.8**	**$1,873.7**	**$829.8**
Funded Ratio	88.45%	88.17%	87.39%	81.49%	84.60%	86.70%
Impact Compared to 6/30/2022 Valuation		**(0.28%)**	**(1.06%)**	**(6.96%)**	**(3.85%)**	**(1.75%)**
FY 2024 Contribution Rates						
Normal Cost Rate	10.60%	10.60%	10.60%	11.08%	10.82%	10.69%
UAL Contribution Rate	3.36%	3.47%	3.77%	6.32%	4.94%	4.06%
Actuarial Contribution Rate	13.96%	14.07%	14.37%	17.40%	15.76%	14.75%
Impact Compared to 6/30/2022 Valuation		**0.11%**	**0.41%**	**3.44%**	**1.80%**	**0.79%**
Required Contribution Rate	15.73%	15.73%	15.73%	16.73%	15.76%	15.73%
Contribution Shortfall/(Margin)	(1.77%)	(1.66%)	(1.36%)	0.67%	0.00%	(0.98%)
Impact Compared to 6/30/2022 Valuation		**0.00%**	**0.00%**	**1.00%**	**0.03%**	**0.00%**

Note: Future potential FED benefit payments are not currently reflected in the actuarial valuation.
Increase in the unfunded actuarial liability is amortized over a closed 20-year period.
Numbers may not add due to rounding.

If the maximum annual increase in the dividend is set at 3.0% rather than 1.5%, the increase to the Required Contribution Rate under Proposal C increases by 1.00% of pay initially (rather than by 0.10% with the 1.5% cap) and has a remaining shortfall of 0.67% that is expected to be covered by an increase to occur in the following year. For Proposals A, B, and E, the current margin of the Required Contribution Rate over the Actuarial Contribution Rate is expected to allow the provision to be enacted without an immediate increase in the Required Contribution Rate. There is expected to be a small increase to the Required Contribution Rate of 0.03% of pay under Proposal D, based on the June 30, 2022 valuation results.

Sheriffs & Deputies ($ in millions) – 1.5% Maximum Dividend

	6/30/2022 Valuation	(A) Retired Before 7/1/2000	(B) Retired Before 7/1/2005	(C) All Members Retired 15+ Years	(D) All Members Retired 20+ Years	(E) All Members Retired 25+ Years
Actuarial Liability	$849.7	$850.2	$853.4	$891.2	$872.1	$859.9
Actuarial Valuation of Assets	889.6	889.6	889.6	889.6	889.6	889.6
Unfunded Actuarial Liability (UAL)	($40.0)	($39.4)	($36.3)	$1.6	($17.5)	($29.7)
Impact Compared to 6/30/2022 Valuation		**$0.5**	**$3.7**	**$41.6**	**$22.4**	**$10.2**
Funded Ratio	104.70%	104.64%	104.25%	99.82%	102.01%	103.46%
Impact Compared to 6/30/2022 Valuation		**(0.06%)**	**(0.45%)**	**(4.88%)**	**(2.69%)**	**(1.24%)**
FY 2024 Contribution Rates						
Normal Cost Rate	16.78%	16.78%	16.78%	17.29%	17.03%	16.89%
UAL Contribution Rate	0.00%	0.00%	0.00%	0.56%	0.00%	0.00%
Actuarial Contribution Rate	16.78%	16.78%	16.78%	17.85%	17.03%	16.89%
Impact Compared to 6/30/2022 Valuation		**0.00%**	**0.00%**	**1.07%**	**0.25%**	**0.11%**
Required Contribution Rate	17.02%	17.02%	17.02%	17.85%	17.03%	17.02%
Contribution Shortfall/(Margin)	(0.24%)	(0.24%)	(0.24%)	0.00%	0.00%	(0.13%)
Impact Compared to 6/30/2022 Valuation		**0.00%**	**0.00%**	**0.83%**	**0.01%**	**0.00%**

Note: Future potential FED benefit payments are not currently reflected in the actuarial valuation.

Increase in the actuarial liability reduces the surplus (which is amortized over 30 years) under Proposals A, B, D and E, while creating a net unfunded actuarial liability under Proposal C. The resulting unfunded actuarial liability under Proposal C is amortized over a closed 20-year period.

Numbers may not add due to rounding.

For Proposals A, B and E where the automatic dividend is capped at 1.5%, the current margin of the Required Contribution Rate over the Actuarial Contribution Rate is expected to allow the provision to be enacted without an immediate increase in the Required Contribution Rate. Proposals C and D are expected to require an increase in the Required Contribution Rate of 0.83% of pay and 0.01% of pay, respectively, which impacts both the employer and member contribution rate.

Sheriffs & Deputies ($ in millions) – 3.0% Maximum Dividend

	6/30/2022 Valuation	(A) Retired Before 7/1/2000	(B) Retired Before 7/1/2005	(C) All Members Retired 15+ Years	(D) All Members Retired 20+ Years	(E) All Members Retired 25+ Years
Actuarial Liability	$849.7	$850.6	$856.4	$926.9	$891.1	$868.4
Actuarial Valuation of Assets	889.6	889.6	889.6	889.6	889.6	889.6
Unfunded Actuarial Liability (UAL)	($40.0)	($39.0)	($33.2)	$37.3	$1.4	($21.2)
Impact Compared to 6/30/2022 Valuation		**$0.9**	**$6.8**	**$77.3**	**$41.4**	**$18.7**
Funded Ratio	104.70%	104.59%	103.88%	95.98%	99.84%	102.45%
Impact Compared to 6/30/2022 Valuation		**(0.11%)**	**(0.82%)**	**(8.72%)**	**(4.86%)**	**(2.25%)**
FY 2024 Contribution Rates						
Normal Cost Rate	16.78%	16.78%	16.78%	17.72%	17.23%	16.97%
UAL Contribution Rate	0.00%	0.00%	0.00%	2.46%	0.54%	0.00%
Actuarial Contribution Rate	16.78%	16.78%	16.78%	20.18%	17.77%	16.97%
Impact Compared to 6/30/2022 Valuation		**0.00%**	**0.00%**	**3.40%**	**0.99%**	**0.19%**
Required Contribution Rate	17.02%	17.02%	17.02%	20.18%	17.77%	17.02%
Contribution Shortfall/(Margin)	(0.24%)	(0.24%)	(0.24%)	0.00%	0.00%	(0.05%)
Impact Compared to 6/30/2022 Valuation		**0.00%**	**0.00%**	**3.16%**	**0.75%**	**0.00%**

Note: Future potential FED benefit payments are not currently reflected in the actuarial valuation.

Increase in the actuarial liability reduces the surplus (which is amortized over 30 years) under Proposals A, B, D and E, while creating a net unfunded actuarial liability under Proposal C. The resulting unfunded actuarial liability under Proposal C is amortized over a closed 20-year period.

Numbers may not add due to rounding.

If the maximum dividend is set at 3.0% rather than 1.5%, the increase to the Required Contribution Rate under Proposal C increases by 3.16% of pay, while under Proposal D the increase would be 0.75%, with the surplus eliminated under both Proposals. For Proposals A, B, and E the current margin of the Required Contribution Rate over the Actuarial Contribution Rate is expected to still allow the provision to be enacted without an immediate increase in the Required Contribution Rate for Sheriffs & Deputies, even if the automatic dividend cap is set to 3.0%.

Protection Occupation ($ in millions) – 1.5% Maximum Dividend

	6/30/2022 Valuation	(A) Retired Before 7/1/2000	(B) Retired Before 7/1/2005	(C) All Members Retired 15+ Years	(D) All Members Retired 20+ Years	(E) All Members Retired 25+ Years
Actuarial Liability	$2,029.3	$2,030.3	$2,034.8	$2,113.1	$2,071.0	$2,047.0
Actuarial Valuation of Assets	2,118.7	2,118.7	2,118.7	2,118.7	2,118.7	2,118.7
Unfunded Actuarial Liability (UAL)	($89.4)	($88.4)	($83.9)	($5.6)	($47.7)	($71.7)
Impact Compared to 6/30/2022 Valuation		**$1.0**	**$5.6**	**$83.8**	**$41.7**	**$17.7**
Funded Ratio	104.41%	104.36%	104.12%	100.26%	102.30%	103.50%
Impact Compared to 6/30/2022 Valuation		**(0.05%)**	**(0.29%)**	**(4.15%)**	**(2.11%)**	**(0.91%)**
FY 2024 Contribution Rates						
Normal Cost Rate	15.31%	15.31%	15.31%	15.73%	15.51%	15.40%
UAL Contribution Rate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Actuarial Contribution Rate	15.31%	15.31%	15.31%	15.73%	15.51%	15.40%
Impact Compared to 6/30/2022 Valuation		**0.00%**	**0.00%**	**0.42%**	**0.20%**	**0.09%**
Required Contribution Rate	15.52%	15.52%	15.52%	15.73%	15.52%	15.52%
Contribution Shortfall/(Margin)	(0.21%)	(0.21%)	(0.21%)	0.00%	(0.01%)	(0.12%)
Impact Compared to 6/30/2022 Valuation		**0.00%**	**0.00%**	**0.21%**	**0.00%**	**0.00%**

Note: Future potential FED benefit payments are not currently reflected in the actuarial valuation.

Under all Proposals, the increase in the actuarial liability reduces the surplus (which is amortized over 30 years) but does not create an unfunded actuarial liability.

Numbers may not add due to rounding.

For all Proposals other than C where the automatic dividend is capped at 1.5%, the current margin of the Required Contribution Rate over the Actuarial Contribution Rate is expected to allow the provision to be enacted without an immediate increase in the Required Contribution Rate. For the Protection Occupation group, Proposal C is expected to result in an increase in the Required Contribution Rate of 0.21% of pay, which impacts both the employer and member contribution rate.

Protection Occupation ($ in millions) – 3.0% Maximum Dividend

	6/30/2022 Valuation	(A) Retired Before 7/1/2000	(B) Retired Before 7/1/2005	(C) All Members Retired 15+ Years	(D) All Members Retired 20+ Years	(E) All Members Retired 25+ Years
Actuarial Liability	$2,029.3	$2,031.1	$2,039.5	$2,184.3	$2,105.8	$2,061.6
Actuarial Valuation of Assets	2,118.7	2,118.7	2,118.7	2,118.7	2,118.7	2,118.7
Unfunded Actuarial Liability (UAL)	($89.4)	($87.6)	($79.2)	$65.6	($12.9)	($57.1)
Impact Compared to 6/30/2022 Valuation		**$1.8**	**$10.2**	**$155.1**	**$76.5**	**$32.3**
Funded Ratio	104.41%	104.31%	103.89%	97.00%	100.61%	102.77%
Impact Compared to 6/30/2022 Valuation		**(0.10%)**	**(0.52%)**	**(7.41%)**	**(3.80%)**	**(1.64%)**
FY 2024 Contribution Rates						
Normal Cost Rate	15.31%	15.31%	15.31%	16.08%	15.67%	15.46%
UAL Contribution Rate	0.00%	0.00%	0.00%	1.48%	0.00%	0.00%
Actuarial Contribution Rate	15.31%	15.31%	15.31%	17.56%	15.67%	15.46%
Impact Compared to 6/30/2022 Valuation		**0.00%**	**0.00%**	**2.25%**	**0.36%**	**0.15%**
Required Contribution Rate	15.52%	15.52%	15.52%	17.56%	15.67%	15.52%
Contribution Shortfall/(Margin)	(0.21%)	(0.21%)	(0.21%)	0.00%	0.00%	(0.06%)
Impact Compared to 6/30/2022 Valuation		**0.00%**	**0.00%**	**2.04%**	**0.15%**	**0.00%**

Note: Future potential FED benefit payments are not currently reflected in the actuarial valuation.

Increase in the actuarial liability reduces the surplus (which is amortized over 30 years) under Proposals A, B, D and E, while creating a net unfunded actuarial liability under Proposal C. The resulting unfunded actuarial liability under Proposal C is amortized over a closed 20-year period.

Numbers may not add due to rounding.

If the maximum dividend is set at 3.0% rather than 1.5%, the expected increase to the Required Contribution Rate under Proposal C is 2.04% of pay. For Proposals A, B, and E the current margin of the Required Contribution Rate over the Actuarial Contribution Rate is expected to still allow the provision to be enacted without an immediate increase in the Required Contribution Rate. There is expected to be a modest increase to the Required Contribution Rate of 0.15% of pay under Proposal D if the maximum dividend is set to 3.0% each year.

As shown in the tables, each of the proposed plan changes will result in an increase in the actuarial liability, a lower funded ratio, and (in some cases) a higher total actuarial contribution rate. Proposals A and B have a smaller increase in the actuarial liability because the dividends are only granted to older retirees and beneficiaries with a shorter payment period. Under Proposals C, D and E, all current members, including actives, inactive vested members, and recent retirees/beneficiaries, are eligible for a dividend payment so the increase in the liability and the associated cost are greater.

As mentioned earlier, if any of these proposals are adopted, it was assumed the current provisions regarding the FED reserve would be eliminated. The balance in the FED reserve has been zero for many years, and it has been even longer since any transfers have been made into the FED. However, this is expected to change as the System approaches the date at which it is fully funded. Once the System is fully funded, transfers to the FED are expected, enabling dividend payments to be paid in the future, thereby creating significant costs. As a result, eliminating the provision to grant the FED payments is expected to produce significant savings in the future. The expected benefit payments from the FED are not currently reflected in the actuarial valuation so the impact of eliminating this benefit cannot be easily quantified. However, based on our professional judgement we believe the liability is significant.

Risk Considerations

These proposals have several implications for the risks faced by IPERS. First, one assumption used to value the proposed change to the benefit structure is that the annual increase in the dividend will be 2.6%, the current long-term inflation assumption, under the scenario where the automatic dividend for the newly eligible members is capped at 3.0% each year. To the extent that inflation is higher or lower, the costs of these proposals will increase or decrease. Note that a cap for the automatic dividend limits the upward risk, especially under the scenario where the cap is set to 1.5%. The dividend in place for a closed group of current members is also increased only if the System can afford the increase without an immediate increase in contribution rates. If this provision applies to the new dividend proposals, it will help mitigate the funding risk. Of course, since the liability for the benefits is built into the funding calculations, this protection only applies in limited situations.

A second consideration is that Proposals A and B extend new benefits only to a closed group of older retirees and beneficiaries. This limits the risk under these proposals since the number of people in the group will decline over time and eventually be gone.

Finally, it should be noted that for each of the three membership groups, Proposals A and B did not increase the Required Contribution Rate under either of the proposed dividend caps. This does not mean that these proposed dividend provisions have no cost. ***To the extent that benefit payments in the future are higher under these proposals, there is an increase in the System's liability and the costs.*** However, the current contribution margin (excess of the Required Contribution Rate over the Actuarial Contribution Rate) is adequate to absorb the <u>initial cost increase</u> as of June 30, 2022. The results in the June 30, 2023 valuation may be different as a result of the actual FY 2023 investment performance and demographic experience. In addition, future experience will also impact the Required Contribution Rate from year to year. These proposed changes in the provisions increase the actuarial liability of the System which means that either contribution rates will be higher or contribution rates will remain the same for a shorter period of time. In addition, with the proposed changes there is a higher probability that the Required Contribution Rates in the future will be higher than would otherwise occur if the suggested dividend approaches are not implemented.

Data, Assumptions and Methodology

The analysis contained in this letter is based on the June 30, 2022 actuarial valuation. To the extent that any of that data is inaccurate, our analysis may need to be revised. In order to prepare the results in this letter, we have utilized appropriate actuarial models that were developed for this purpose. These models use assumptions about future contingent events along with recognized actuarial approaches to develop the results. Unless otherwise noted, the actuarial assumptions and methods used in analyzing this proposed plan change are the same as those used in the June 30, 2022 actuarial valuation, which are shown in Appendix C of that report.

The comments and analysis contained in this letter are not intended to give exact calculations of costs. They should be considered as estimates. The emerging costs will vary from those presented in this letter to the extent that actual experience differs from that projected by the actuarial assumptions. This cost analysis has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the principles prescribed by the Actuarial Standards Board (ASB) and the Code of Professional Conduct and Qualification Standards for Public Statement of Actuarial Opinion of the American Academy of Actuaries.

We have not explored any legal issues with respect to the proposed plan changes. We are not attorneys and cannot give legal advice on such issues. We suggest that you review this proposal with counsel.

We, Patrice A. Beckham, FSA, and Brent A. Banister, FSA, are consulting actuaries with Cavanaugh Macdonald Consulting, LLC. We are members of the American Academy of Actuaries, Fellows of the Society of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

If you have any questions or additional information is needed, please let us know.

Sincerely,

Patrice Beckham

Patrice A. Beckham, FSA, EA, FCA, MAAA
Principal and Consulting Actuary

Brent A. Banister

Brent. A. Banister, PhD, FSA, EA, FCA, MAAA
Chief Actuary

IPERS
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Gregory S. Samorajski, CFA
Chief Executive Officer

Kim Reynolds
Governor

Adam Gregg
Lt. Governor

July 26, 2023

TO: IPERS Benefits Advisory Committee

FR: Greg Samorajski

RE: Investment Board Appointee

Issue:
The BAC must submit to the Governor a slate of nominees for the IPERS Investment Board member designated as an active member who is an employee of a school district, area education agency, or merged area.

Background:
The Investment Board's voting membership includes three positions required to be filled by IPERS members. The active educational position previously held by Mike Duncan is vacant with his retirement from teaching.

Iowa Code §§69.16 and 69.16A require appointive boards to be balanced by gender and political affiliation. One-half the membership plus one of a particular affiliation complies with the balance requirement. Currently the Investment Board has three males and two females. Political party affiliations are three republicans, one democrat and one independent.

Information on the appointive process and applications for gubernatorial appointments may be obtained at: https://talentbank.iowa.gov/board-detail/0edd328d-f98e-4ae1-8161-5723c999306e

IPERS Statutory Reference: §97B.8A(4)(b)

Three members, appointed by the governor, who are members of the retirement system. Prior to the appointment by the governor of a member of the board under this subparagraph, the benefits advisory committee shall submit a slate of at least two nominees per position to the governor for the governor's consideration. The governor is not required to appoint a member from the slate submitted. Of the three members appointed, **one shall be an active member who is an employee of a school district, area education agency, or merged area**; one shall be an active member who is not an employee of a school district, area education agency, or merged area; and one shall be a retired member of the retirement system. (Emphasis added)