

## **Contribution Rate Funding Policy**

### **Background:**

IPERS is charged with setting a "Required Contribution Rate" for each membership category within IPERS that will discharge its liabilities. Iowa Code §97B.11(3)(d) provides the basic framework for implementing this charge by stating:

The Required Contribution Rate that is set by the system for a membership category shall be the contribution rate the system actuarially determines, based upon the most recent actuarial valuation of the system and using the actuarial methods, assumptions, and funding policy approved by the investment board, is the rate required by the system to discharge its liabilities as a percentage of the covered wages of members in that membership category. However, the Required Contribution Rate set by the system for members in regular service for a fiscal year shall not vary by more than one percentage point from the Required Contribution Rate for the prior fiscal year.

### **Goal:**

To establish policy and procedures in setting contribution rates that combined with investment income will fund the benefits specified in Chapter 97B of the Iowa Code.

To move towards fully funding the benefits (100 percent or greater funded ratio) in as expeditious manner as is reasonable within the guidelines acknowledged herein.

### **Procedure:**

The Investment Board shall retain a consulting actuary to conduct an annual actuarial valuation of assets and liabilities. The consulting actuary shall use the entry age normal cost method and all other actuarial assumptions and methods approved by the Investment Board.

In the annual valuation process, the consulting actuary shall calculate an Actuarial Contribution Rate and a Required Contribution Rate pursuant to this policy. Each shall be calculated as a level percent of pay.

There is a one-year lag between the completion of an annual actuarial valuation report and the fiscal year to which the contribution rates calculated therein are applied. Therefore, the Actuarial Contribution Rate and the Required Contribution Rate declared in the annual valuation process are applicable to the fiscal year immediately following the completion of the valuation report (for example the rates declared in the report presented to the Investment Board in December 2013 are applicable to the rates for the fiscal year beginning July 1, 2014).

**Actuarial Contribution Rate (ACR):**

1. ACR is the combined employer and employee contribution rate that is the minimum rate necessary to fund the benefits using the actuarial assumptions and methods approved by the Investment Board.
2. A separate ACR shall be determined for each membership group within IPERS according to this policy.
3. The ACR shall consist of:
  - a. Normal cost and an amortization payment (not less than zero) of any unfunded actuarial liability.
  - b. Normal cost may only be offset by a negative amortization payment after a membership group has attained a funded ratio of 110 percent or greater for 3 consecutive years.

**Required Contribution Rate:**

1. The Required Contribution Rate is the combined employer and employee rate payable pursuant to this policy and Iowa Code §97B.11(3)(d).
2. The Required Contribution Rate shall be determined by comparing the ACR determined in the annual valuation process to the Required Contribution Rate of the previous year.

- a. If the ACR is less than the previous Required Contribution Rate by fewer than 50 basis points, then the Required Contribution Rate shall remain unchanged from the previous year.
- b. If the ACR is less than the previous Required Contribution Rate by 50 basis points or more, then the Required Contribution Rate shall be lowered by 50 basis points provided the funded ratio of the membership group is 95 percent or higher.
- c. If the ACR is greater than the Required Contribution Rate of the previous year, then the Required Contribution Rate shall be:
  - i. Increased to be equal to ACR for Sheriffs and Deputies.
  - ii. Increased to be equal to ACR for Protection Occupation Members.
  - iii. Increased to be equal to ACR for Regular Members, or one percentage point greater than the prior year's Required Contribution Rate, whichever is smaller.

**Favorable Experience Dividend (“FED”) and Supplemental Account for Active Members (“SAAM”) transfers:**

For the purposes and only for the purposes of calculating potential transfers to the favorable experience dividend reserve account and to each member's supplemental account the term “fully funded” as specified in the relevant Iowa Code and Administrative Rules<sup>1</sup> shall mean:

The funding percentage, which shall not be less than 100 percent,<sup>2</sup> determined by the System's actuary at which calculated transfers to the favorable experience dividend reserve account and to the member's supplemental accounts will not result in a material probability that the System will fall below 100 percent funded.<sup>3</sup>

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<sup>1</sup> §97B.49F(2)(c)(5); §97B.49H (3); IAC 495—15.2(1).

<sup>2</sup> §97B.1A(11A).

<sup>3</sup> As contemplated in §97B.4(4)(d) and §97B.65(2) the terms “fully funded” and “fully fund” shall reference a 100 percent funding ratio.

**Policy Guidelines:**

In adopting actuarial assumptions and methods to be used in setting contribution rates, the Investment Board shall strive to provide a balance among the following:

1. Stability in contribution rates (such as use of smoothing and amortization schedules that do not produce dramatic swings in the required contributions from year to year).
2. Disciplined funding approach (such as requiring full payment of normal cost and an amortization payment towards the unfunded actuarial liability and deferring decreases in contribution rates until strong funded ratios are attained).
3. Interperiod equity (such as shortening the amortization schedule when reasonable and amortization of retroactive benefit enhancements over a reasonable time period such as the average working lifetime for active members and the average life expectancy of retired members).
4. Support an affordable, sustainable plan (in consultation with the Benefits Advisory Committee review affordability of required contribution rates and/or the benefit provisions).
5. At a minimum, this policy will be reviewed in conjunction with the quadrennial experience study.