IPERS®
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Gregory S. Samorajski, CFA
Chief Executive Officer

Kim Reynolds
Governor

Adam Gregg
Lt. Governor

AGENDA
Monday, June 28, 2021
1:00 p.m.
BENEFITS ADVISORY COMMITTEE
Conference Telephone #: 312-626-6799
Meeting ID: 867 5885 1245#

1) Call to Order / Roll Call of Members

2) Possible Plan Design Studies – David Martin

3) Other Business

4) Public Comments

5) Future Meeting Dates
   - BAC Meeting – August 23, 2021
   - BAC Meeting - October 25, 2021

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May 4, 2021

To: Greg Samorajski, Chief Executive Officer

From: David Martin, Chief Benefits Officer

Re: Plan design

This memo is in response to your request for me to review the plan design regarding retired reemployed and employer contribution posting to member accounts.

Retired Reemployed
When retired members return to IPERS-covered employment after satisfying the four-month bona-fide retirement requirement, IPERS changes their member status from "Retired" to "Retired Reemployed" for actuarial purposes. Retired Reemployed members are considered vested. Currently, all Regular members pay 6.29% and their employers contribute 9.44% for a total percentage of 15.73%. When retired reemployed members terminate their reemployment, Iowa Code provides a lump-sum pay out of 100% of the employee and employer contributions, <u>*plus interest*</u>. In some cases, retired reemployed members have the option of converting the lump sum to a monthly annuity increase. The issue is a portion of the 15.73% total contribution rate (5.23%) is for funding IPERS' unfunded actuarial liability (UAL). All of the contributions received for retired reemployed members (plus interest) are paid out in either a lump sum or a benefit increase and no portion of those contributions is applied to the UAL. You may recall the System's actuary, Cavanaugh MacDonald, recently performed a study for the Benefits Advisory Committee and made the following comment:

> *"Another financial consideration connected with this proposal involves the contributions allocated to funding the Unfunded Actuarial Accrued liability (UAAL). Currently, all regular members contribute 6.29% of pay and employers contribute 9.44%, for a total contribution rate of 15.73% of pay. This provides a sufficient amount of contributions to fund the on-going accrual of benefits (the normal cost rate) of 10.50% and the scheduled paydown of the UAAL (the amortization rate) plus a 0.21% margin that helps pay down the UAAL more quickly. However, it should be noted that the 10.50% normal cost rate is an average across all regular members. The normal cost rate varies by age at hire, sex, and employer type (schools, state, and other).* ***<u>In fact, retired teachers who return to IPERS-covered employment between ages 57 and 65 have normal cost rates between 15.5% and 17.0%, so the total member and employer contributions do not even cover the cost of their benefit accruals and no contributions are available to fund the UAL.</u>****" (emphasis added)*

If there is an interest in addressing the actuarial losses associated with retired reemployed members, I suggest amending Iowa Code section 97B.42A with the following new paragraph:

Effective (July 1, XXXX), retired members who return to covered employment shall receive a lump sum as provided in 97B.53 for their reemployment service.

Chapter 97B.53 refers to the lump sum refund provision where vested members receive 100% of their contributions and interest along with a **portion** of the employer contributions and interest based upon years of service divided by 30. For example, a retired reemployed member returns to IPERS-covered employment for three years. A refund of 100% of their contributions and interest plus 3/30th of the employer's contributions and interest would be payable.

Employer Contribution Posting to Member Accounts

As Cavanaugh MacDonald noted above, "*all regular members contribute 6.29% of pay and employers contribute 9.44%, for a total contribution rate of 15.73% of pay. This provides a sufficient amount of contributions to fund the on-going accrual of benefits (the normal cost rate) of 10.50% and the scheduled paydown of the UAAL (the amortization rate) plus a 0.21% margin that helps pay down the UAAL more quickly.*" Currently, the percentage earmarked to pay down the UAAL is posted to member accounts thus making a portion available for refunds and 100% for money purchase retirements. This amounts to 5.23% (total contribution rate of 15.73% minus 10.50% normal cost).

We see the posting of UAAL contributions to member accounts is distorting some calculations. For example, members who become vested solely on age, rather than seven years of service, have their retirement benefit calculated using a "money purchase" formula. This formula utilizes their total investment and 100% of their employer contributions plus interest. In these cases, the UAAL payment artificially increases their monthly benefit beyond normal cost and no funds are withheld to pay the UAL. As far as refunds are concerned, only vested members receive a portion of their employer contributions plus interest. However, many refunds are substantial and include a significant portion of the UAL payment plus interest.

It may be worth requesting an actuarial study of limiting the posting of employer contributions to member accounts up to the normal cost of 10.50%. I would be glad to discuss these observations with the Benefits Advisory Committee if you want to pursue them.