October 2013

Iowa Legislature and Governor Need to Focus on Pension Reform

POLICY STUDY

No. 13-6

by

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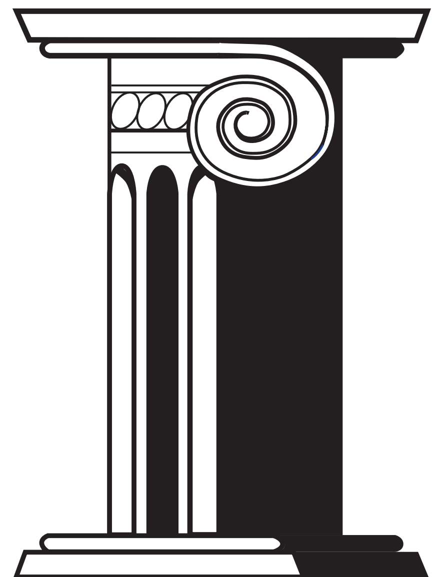

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Public Interest Institute

Dr. Don Racheter, President

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POLICY STUDIES are published by Public Interest Institute *at* Iowa Wesleyan College, a nonpartisan, nonprofit, research and educational institute whose activities are supported by contributions from private individuals, corporations, companies, and foundations. The Institute does **not** accept government grants.

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Introduction

Long-term Iowa state government fiscal health and accountability should concern all Iowans.

While Governor Terry Branstad and the House of Representatives, led by fiscal responsibility, have brought state government back from the Great Recession into a solid financial position – there are storm clouds on the horizon. And they're not rain or snow, but something more troubling.

In addition to creating and managing an annual spending budget, an important part of the long-term government financial picture is state employee retirement plans, worth billions of dollars. The impact of these legislatively approved retirement benefits on the state government budget, long-term fiscal liabilities, and taxpayers is significant.

Unfortunately, many people, including State Legislators, do not have a good understanding of even the basics of pension-plan management.

This POLICY STUDY, an updated version of the one released by the Public Interest Institute in January 2012, "Iowa's Privileged Class: Time for a Change," POLICY STUDY Number 12-1, will address this issue.[1]

Review of National Pension Issues

The Pew Center on the States is currently working on pension-reform issues from a national perspective. Project Director Greg Minnis said in September 2013 that "Public-pension reform is arguably one of the most significant fiscal challenges facing states and municipalities today." Their research shows that the nationwide pension debt or shortfall in 2012 totaled $757 billion.[2]

Fortunately, as this is a state issue, not a federal one – and states are generally required by law to have a balanced budget – the situation is still manageable. Most states, including Louisiana, New Jersey, and Utah, are taking proactive steps to address this huge entitlement.

Morningstar and Moody's – two of the largest and most well-known investment advisory and credit rating firms in the country – have both recently completed reviews of the U.S. state-government-employee pension plans. These studies highlight significant problems with many of the state plans, while recognizing some star performers.

Morningstar National Analysis

According to Morningstar, on a nationwide basis the government-employee pension plans of the 50 states, plus territories, are funded at 72.6 percent of the amount promised to retirees. The Unfunded Accrued Actuarial Liability (UAAL), or the money which

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would have to be paid out if the states wrote a check to every potential retiree for the entire amount owed them, is about $2,600 per capita.[3]

As outlined in the "State of State Pension Plans 2013" by Morningstar, Iowa's neighbor to the north, Wisconsin, has the strongest pension system in the country, at 99.9 percent funded, and a UAAL of less than $20 per capita. This strong position is generally attributed to the pension reforms passed and implemented by Wisconsin Governor Scott Walker in 2011. An important part of this reform was increasing the amounts employees paid into the pension funds.[4]

Four other states are above 90 percent funded – New York, North Carolina, South Dakota, and Washington – and several others have a UAAL of less than $100 per capita.

In general a pension plan is considered to be adequately funded if 80 percent of the money owed is available. Several of Iowa's other neighbors are in this category, including Minnesota, Missouri, and Nebraska. Anything less than 70 percent is considered to be significantly underfunded.

Iowa's IPERS plan falls in the middle of the pack. The 2012 funded ratio is 79.5 percent, down from 88.6 percent in 2008, and just below the recommended "adequate" funding level. There is a shortfall of just over $6 billion, and the amount owed per capita, if it had to be made up today, is $2,041.[5]

Nationally, 26 states and Puerto Rico have significant pension shortfalls, with funding of less than 70 percent.[6] Stated a different way, the pension plans in half of our states are at risk of default or bankruptcy. This will directly affect all taxpayers, because at some point in time the money must be found to pay the promised pensions. Pensions, as most are set up today, are another long-term entitlement program with insufficient funding, similar to Social Security, Medicare, and Medicaid.

In contrast to the fiscally responsible government of Wisconsin, an especially bad example is our neighbor to the east, Illinois. In 2012 the pension system there was only funded at 40.4 percent, with a shortfall of $94.5 billion – up from a shortfall of "only" $54.3 billion in 2008. This is a public debt of $7,421 per capita for every citizen of Illinois.[7]

"Pensions, as most are set up today, are another long-term entitlement program with insufficient funding, similar to Social Security, Medicare, and Medicaid."

The worst pension plan in the country, according to Morningstar, is actually that of Puerto Rico, which is only 11 percent funded, and, even following significant reforms in 2011 and 2013 could potentially be bankrupt in the next few years.[8] Puerto Rico's situation is especially troubling as it continues to be economically depressed, with taxpayers nationwide providing significant funding to its residents in a wide variety of ways.

Moody's Investors Service Review

Moody's takes a new and different approach in reviewing state pension plans. Its report, "Moody's on Pensions: Sub-sovereign Credit Risk," issued in mid-September 2013, reviews not only the pension plans of U.S. states, but of Canadian, Australian, and German sub-sovereign units. According to them, the U.S. underfunding is the most significant of the four developed countries, with only 48 percent of the promised benefits funded. Many of the "states" in the other countries are using either pay-as-you-go models or have switched to defined contribution (DC) plans.[9]

The 48 percent figure means that the states have only 48 cents available for every dollar in pensions promised. This is a significantly lower figure than that generated using the UAAL method, which was at basically 73 cents on the dollar (72.6 percent).

In evaluating the pensions, Moody's uses an adjusted net pension liability (ANPL) model, which factors money currently held in the pension funds and a bond market-determined discount interest rate against the current resources, or taxes, available to pay the pensions. This model helps to gauge whether or not potential investors think the state can pay the money promised.[10] This more realistic evaluation means that state governments have a significantly higher risk of bankruptcy than originally thought.

Under this evaluation model, Nebraska has the strongest pension plan, with a ratio of 6.8 percent, while Illinois is the worst at 241 percent. This means that Illinois needs almost two and a half times more money than it currently has available in annual revenues in order to pay the pensions promised.

The problems in Illinois are recognized by everyone except the Illinois Governor and State Legislature, as evidenced by the Pew Center report in July that the Illinois pension situation "threatens the delivery of essential government services."[11]

Both evaluation models, Morningstar and Moody's, place Illinois at the bottom of the pack, it's just a question of how bad the problem is.

In contrast Iowa ranks in the top five best plans, after Nebraska, with a ratio of 14.4 percent. The others are Wisconsin (14.4%), Idaho (14.8%), and New York (16.6%).[12] Other strong states are South Dakota, Tennessee, and North Carolina.[13]

Nebraska, for example, could pay retirees pensions using less than 7 percent of their annual money. However, even in Nebraska good government advocates in the Platte Institute for Economic Research are questioning the

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"...recommendation is that these plans be gradually converted to the cash balance/DC plan type, to fully remove long-term taxpayer liability."

potential liability and risk to taxpayers.

In a June 2013 study Platte Institute notes that the pension plan for Nebraska state and county government employees hired after January 2003 is a cash balance (CB) plan, where the pension money put into the fund earns a fluctuating rate of return, which is guaranteed to be no less than 5 percent – with principle and interest paid out during retirement.

Those hired before 2003 were given the option of converting to the CB plan or remaining in the defined contribution (DC) plan. In the DC plan, the employee may invest their money in a variety of mutual fund options, potentially earning either larger – or smaller – returns than in the cash balance plan. In either plan the money belongs to the employee, not the government, and may be rolled over into a traditional IRA or 401k plan if the employee leaves government for another job.[14]

However, the other three plans managed by the state of Nebraska – the schools, judges, and state patrol – are all traditional defined benefit (DB) plans, with varying levels of underfunding and debt. In addition, the plans of large cities such as Omaha are DB plans, with substantial liabilities on future taxpayers. The Platte Institute recommendation is that these plans be gradually converted to the cash balance/DC plan type, to fully remove long-term taxpayer liability.

After Illinois, the other states facing problems are Connecticut (189.7 percent), Kentucky (140.9 percent), New Jersey (137.2 percent), and Hawaii (132.5 percent).

In Moody's opinion, the reasons these pension plans are in trouble include long-term historical annual underfunding, the extremely high level of benefits promised to workers, and inclusion of education and other local government pensions, which are outside of state control, but funded by the state government.

One Governor working to address these problems is Chris Christie, who convinced the New Jersey employee unions in 2011 to take a $120 billion "haircut" over the next few years by agreeing to increased worker contributions, a higher retirement age for new workers, and no cost-of-living increases for retirees.[15] This is significant reform in a heavily unionized state.

On the positive side, the soundest pension plans after Nebraska – as ranked by Moody's – are Wisconsin (ranked first by Morningstar) at 14.4 percent, Idaho at 14.8 percent, Iowa at 16.1 percent, and New York at 16.6 percent, as noted earlier.[16]

The evaluation of state pension plans by Moody's and Morningstar is critical because these groups are highly influential in setting the bond ratings for the states – a lower bond rating, such as Illinois' A3

negative, means that the interest rates charged for state bonds is higher and taxpayers will end up paying more in taxes to cover the interest charged to the state. The bond ratings of six of the ten states with significant pension underfunding have been downgraded in the last few years.[17]

Impediments to Reform

An important factor to be aware of in discussing government-employee pensions and pension reform is that in most cases the DB pensions promised to current employees cannot, legally, be changed or revised downwards.

Courts have ruled that the promises made by elected officials, including Legislators and Governors from 5, 10, 15, or even 20 years ago, must be upheld today. This is not the case with private companies, who are generally free to change their pension plans. This also does not apply to DC plans, where as long as the promised money is paid in, the final pension money paid out in retirement is based on the actual returns of the investments made.

This issue has been especially difficult in states such as California, where many city governments are at risk of default and bankruptcy because of large pension liabilities, huge numbers of new retirees, and a declining tax base.

Following successful votes in San Diego and San Jose, California in 2012 to change benefit payouts, government pension reformers are attempting to implement statewide changes through their referendum process. Proposed changes could include allowing voters to approve new pension plans and plan changes, as well as addressing pension-spiking and other governance reforms.[18]

Additionally, if a DB pension plan is actually closed down, there are significant financial implications on how the state must ensure the last employees to retire under this plan receive their promised money.

Utah addressed this by not actually closing their DB plan but providing a hybrid option. The state continues to allocate money on behalf of the current employees, while allowing new employees a very strong 401k option. Utah now contributes 10 percent of every employee's salary to the 401k, a high percent in both private sector and public sector plans.[19]

Pension reform has supporters on both the left and right sides of the political spectrum. In California, one "outspoken liberal Democrat" who is the San Francisco Public Defender was quoted as saying, "Today, we spend $1 out of every $7 on pension and benefits costs for city employees; by 2018, it will be one out of every $4."[20]

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For example, Utah reformed their pension system after the 2008-2009 recession, when Utah Legislators realized that even though they had done everything recommended by the actuaries, including funding the pension plan 100 percent every year, only one year of investment losses (minus 22 percent) resulted in a 30 percent long-term shortfall of millions of dollars and would require a 75 percent increase in state contributions for 25 years to make up the difference, even if investment returns remained strong every single future year.[21] This represents 10 percent of their total state budget and would have resulted in significant tax increases and a significant risk to the state economy.

Now in Utah all new state government employees will have a private-sector type 401k plan to invest in, controlling their own funds and removing a long-term risk and debt from the state government. At the same time, the current employees have received a guarantee that their pensions are safe and will be paid.

Iowa's Current Situation

The Morningstar and Moody's rating of the Iowa pension system reflects a system which is not in trouble, but should have further reforms.

The Iowa Public Employees' Retirement System (IPERS) was originally set up in 1953 and is a traditional defined benefit (DB) system. This means that the amount an employee receives in retirement is based on "years of service, a multi-year average covered wage, and a multiplier."[22]

The money in a DB system comes from that originally put in by employers and employees, and the growth in that money through investments in stocks and bonds. This money must be equal, in the long run, to the money promised to be paid out. Changes in any of the three factors, money in, money growth, and money out, are critical to long-term success.

IPERS covers a wide range of government employees, including those working for public schools, state agencies, counties (99), cities, and townships. The majority (53.4 percent) are school employees, including the Regent universities.

As of FY 2012, there were 164,200 active working employees, down almost 1,500 from 165,660 two years earlier (FY 2010),[23] and 101,948 retired employees, up almost 8,250 from 93,700.[24] The proportion of working employees to retirees and the continuing decrease in number of workers to number of retirees is a critical part of the risk of the IPERS system.

The increase in retirees supported and reduction in employees paying into the system creates a significant risk for Iowa taxpayers because a

DB plan is basically a Ponzi scheme – if the previously allocated money does not earn enough to pay the current beneficiaries, the new money is used to pay those beneficiaries. With fewer employees, there is less new money coming in to pay the retirees. The chart below outlines this data.

The Iowa Legislature made changes to IPERS in 2010 which took full effect in FY 2012. Major changes for employees in the "Regular" category included increasing the employment time required for full vesting to seven years, using the "high-five" compared to a control year in figuring average pay used to determine retirement payments, increasing the benefit reductions for early retirement, and increasing the total contribution amount to 13.45 percent, with the government paying 8.07 percent and the employee 5.38 percent.[25]

The maximum wage covered by IPERS as of 2013 is $245,000, set by the federal government.[26] A "Regular" category worker who makes $245,000 or more per year – of which there are many – would have $13,181 withheld from their paychecks and deposited to IPERS. That individual would have another $19,771 contributed directly by their employer, the government, for a total of almost $33,000 per year.[27]

A major change in 2010 was that the contribution rate can now be adjusted either up or down each year, by a maximum of 1 percent, to attempt to meet the amount recommended by the actuarial expectations. Much of the Iowa shortfall is because previously the contribution rate had been set by the Iowa Legislature and since 2001 had been set at less than the actuarially recommended amount – as the Legislators used current incoming money to fund other, more important, items.

Allowing the rate to be set by the IPERS board, based on the actuarial recommendations, will result in contributions moving closer to the amount needed to meet the promises

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IPERS Number of Employees Compared to Retirees
FY 2012 Versus FY 2010

Fiscal Year	Employees	Retirees	Ratio of Employees to Retirees	Percent of Employees to Retirees
2012	164,200	101,948	16 to 10	161%
2010	165,600	93,700	16 to 9	177%
Change	-1,400	8,248	N/A	-15.7%

Source: FY 2010 and FY 2012 Comprehensive Annual Financial Reports, IPERS

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made to employees under their contract. This can be seen in the FY 2012 employer contribution report, which shows a 98.1 percent rate compared to previous years. This is detailed in the table below.

This change will not, however, address the long-term result of poor investment returns, such as those earned in 2008, 2009, 2012, and other years. A poor investment return, or even loss, in one year compounds the negative result for succeeding years – as it must be made up before further growth is achieved.

As long as the pension plans are DB plans, with a promise to pay X amount no matter what, state government and future taxpayers retain significant risk.

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The amounts contributed for employees in the County Sheriff and Protection Services employee categories are quite a bit higher than those of the regular class of employees. This is because their maximum retirement payout is higher, 72 percent instead of 65 percent, and because their plans are currently significantly underfunded.[28]

County Sheriff employees and the government both pay 9.83 percent, for a total of 19.66 percent. Protection Services employees pay 6.65 percent and the government pays 9.97 percent, for a total of 16.62 percent.[29]

At this time there is no upper-end limit on the amount the special services group contribution rate can increase each year. Hopefully these higher contribution rates will address the UAAL shortfall.

The Iowa Sheriff's plan is only funded at 61 percent of its liability of $480 million, with a shortfall of almost $190 million. The Protection Services/Judicial Retirement system subset of IPERS has a $53 million shortfall, at 68.9 percent funded.[30] Though these are lesser amounts, in the

IPERS: Amount of Government Contributions

Fiscal Year	Required Contribution	Actual Contribution	Percent Contributed
2007	$387.5	$318.7	82.2%
2008	$408.8	$353.4	86.4%
2009	$441.9	$384.2	86.9%
2010	$467.8	$415.0	88.7%
2011	$530.6	$430.3	81.1%
2012	$528.5	$518.5	98.1%
2013	Due December 2013	Due December 2013	Due December 2013

Contribution amounts listed in millions
Source: IPERS Comprehensive Annual Financial Report 2012, p. 43.

overall pension discussion they are still important and must be addressed.

The contribution rate for all IPERS groups is now determined in November of each year and begins the next July with the new fiscal year. Both employer and employee rates can be adjusted by the IPERS board if necessary to meet the actuarial projections within the 1 percent change limit.

Importantly, the recent changes only apply to new hires, not previous hires already in the system. These changes were expected to increase the overall viability of the IPERS system and to some extent have. For example, IPERS has now reached a 30-year full funding projection. This means that IPERS is expected to be 100 percent funded in 30 years, or 2043, but not before.

It is important to recognize that the contributions to IPERS come from state taxes paid by private-sector workers. In Iowa, government employees make contributions to their own retirement from their paycheck, but all of the money originally comes from the taxpayers via the government.

Further, even if the amount of money in IPERS isn't sufficient to pay the promised benefits, that amount is still owed to employees according to their negotiated contract and will have to be made up by taxpayers. This is a key difference between a DB retirement plan and a DC plan.

No matter how much money is originally put in and how much (or little) it grows, the payout is still the same based on the salary level, number of years worked, and age at retirement.

In a DC plan, money is put in and allowed to grow over time, then removed during retirement. The amount paid out is determined by the amount put in and how much it grows. There is no predetermined monthly retirement check. In a DC plan, the final retirement amount could be either higher or lower than in a DB plan. State government and taxpayers, however, do not have continued liability over a 30-40 year time period for shortfalls under the DC plan.

The most recent IPERS financial report, for FY 2012, shows current funding for Regular category payable benefits at less than 80 percent (79.9 percent) of the long-term requirements using the UAAL method.[31]

This means that if IPERS was cashed out today, only 80 percent of all the money owed to both current retirees and current employees based on what they've been promised is available. The State of Iowa would only be able to pay them $4 of every $5 promised.

The question is, "Where will the rest of the money come from?" The answer is current taxpayers and future taxpayers: us, our children, and our grandchildren.

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" From a high of 97.9 percent funded in 2000, IPERS is at a low of 79.9 percent in FY 2012."

Using the Moody's ANPL method, state government would have to use just over 16 percent of annual revenues to pay the pension shortfall.

In contrast to the horrible situation in Illinois, Iowa taxpayers would only owe $2,041 per capita if we needed to make up the IPERS shortfall. However, this could change tomorrow, depending on investment returns.

Though it has recently stabilized in the 80 percent range, the IPERS funding ratio has been on a fairly steep downward trend for the last thirteen years. From a high of 97.9 percent funded in 2000, IPERS is at a low of 79.9 percent in FY 2012. DB pension plans operate on the presumption of both additional incoming funds and growth in currently held and invested funds. The effect on the IPERS funding ratio of the 2008 recession and drop in the stock market was significant.

Some of the Great Recession losses were made up this past year, as the stock market was up significantly in early 2013. But in FY 2012, the investments did poorly, resulting in loss of ground made up in FY 2011.

The FY 2013 financial report, due out in December, will show a 10.12 percent return compared to only 3.73 percent for FY 2012. As of June 30, 2013, IPERS had almost $25 billion in assets ($24.83), up from $23.24 billion in June 2012.[32]

Unfortunately, the liability remains greater than the assets on both an actuarial and a cash basis. The key number is the unfunded accrued actuarial liability (UAAL) that the Morningside analysis references.

This number is generated by the actuaries whose legal job it is to take all retirement and life expectancy factors into statistical account, determine as accurately as possible exactly how long retirees will live, and calculate how much money the state will have to pay them between their retirement and death.

The total IPERS actuarial liability as of FY 2012 for both retirees and current employees is $29.44 billion, with an actuarial value of the paid-in money plus investment profits on assets at $23.53 billion.[33]

This is $5.91 billion less than is needed, or about a full year of the state's current budget – with no money to spend on anything else, from education to healthcare. To emphasize, to make up the shortfall in the current Iowa DB pension plan would take a full year's state tax budget, without paying for anything else.

The following table shows the dollar amount of unfunded pension liabilities. Note that this has been increasing every year for the last five fiscal years, to a current high of almost $6 billion. Note also the significant impact in FY 2009 of the drop in the stock market from the Great

Recession. This $2.2 billion dollar increase in liabilities is an example of how the ability of the state government to meet the promises of a DB pension plan is dependent upon factors outside the IPERS managers' control.

In contrast, once a DC plan is funded, the future risk to the state and to taxpayers is removed.

One way the financial report views this number is that after current retirees were paid 100 percent of the money they've been promised through their expected death, and current employees have 100 percent of the money returned to them that they've paid in, the state would still owe current employees almost 50 percent of the money they have been promised.[34] That amount for FY12 is the $5.91 billion shown in the table below.

The December 2013 Financial Report, which will show updated actuarial liabilities, will likely show this gap narrowing following the 10.12 percent investment returns through June of 2013. However, one of the problems with the Iowa – and all state pension plans – is the volatility of the stock market. The up and down of the stock market makes the rollercoaster at Adventureland look like a walk in the park.

The goal for the average annual return of IPERS is 7.5 percent. As of FY12 the ten-year average return was only 3.98 percent, not the estimated, and needed, 7.5 percent.[35] When viewed on a 20 and 30-year basis the overall annual return is in the famous and often quoted 10 percent range. As financial advertisements and advisors remind us, "previous results are no guarantee" of future returns. Yet the ability to pay the promised pensions is highly dependent on the investments reaching this 7.5 percent every year.

Some experts have recommended using an

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IPERS Unfunded Accrued Actuarial Liability

Fiscal Year	Unfunded Percent	Unfunded Amount	Annual Increase
2007	9.84%	$2,266.4	NA
2008	10.87%	$2,664.7	$398.3
2009	18.81%	$4,894.6	$2,229.9
2010	18.63%	$4,930.9	$36.3
2011	20.11%	$5,681.7	$750.8
2012	20.09%	$5,916.1	$234.4
2013	NA	NA	NA

Dollar amounts in millions

Source: IPERS Comprehensive Annual Financial Report 2012, p. 42.

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"As the economy continues in a 'jobless' recovery, the pension plans paying out income to retirees – especially to government workers – must have significant reforms, so that the burden on future workers and taxpayers will not be onerous."

expected return rate ranging from 5.22 percent, the private-sector corporate bond interest rate standard, to 4.38 percent, the return rate on a 30-year Treasury bond.[36] Using these figures, which may be more realistic, will result in significant increases in the amount of unfunded liabilities and require larger initial contributions from both the state and the employee.

Accordingly, significant increases in state budgets and state contributions to IPERS will be needed to make up the difference.

One place where IPERS is at risk is in the category of county and city employees. The contracts with these employees are negotiated at the local level, where it is often harder for the elected county supervisors and city council members to manage salaries and hours worked. This is reflected in the increasing amount of monthly benefits paid to these groups of workers.

For example, in FY12 the average monthly amount paid to city and county retirees increased from about $1,390 to $1,550, or by almost $160 per month, while the payments to teachers, state government workers, and utility workers either dropped or stayed the same.[37]

The state government and State Legislators have little impact or influence on salary decisions at this level yet are expected to fully fund the resulting bills.

Suggestions for Iowa Pension Reforms

If additional reforms are not considered and implemented by the Iowa Legislature, IPERS will remain at significant financial risk of under-funding in the future. The amounts owed to both current and future beneficiaries must be paid by future taxpayers — the younger workers of today and tomorrow. And many of these future taxpayers are already finding their financial future constrained because of a lack of jobs.

As the economy continues in a "jobless" recovery, the pension plans paying out income to retirees – especially to government workers – must have significant reforms, so that the burden on future workers and taxpayers will not be onerous.

One suggestion is that Iowa look at a Utah-type reform, where the state government provides new employees with hybrid options.

First, the state should provide the option of investing a specific amount in a 401k plan, along with a variety of low-cost mutual funds to choose from. This is in addition to the Social Security contributions made on the employee's behalf. Current employees are able to choose a hybrid option, with a smaller guaranteed pension going forward and the ability to also have a 401k.

Additional changes being made by other states include ending the practice of double-dipping. Under "double-dipping," an employee is allowed to retire and start drawing a pension, then is able to immediately (or fairly quickly) to be re-hired and receive both a paycheck and a pension.

Some states, such as Utah, are requiring that if you are rehired within a certain time period you must either put your pension draw on hold, or no further contributions can be made to your pension from the new job.

Other options include raising the retirement age and extending the "high-five" salary used to determine the pension further, to seven or eight years. Given that many pensioners "double-dip" by taking retirement, then going back to work full-time shortly thereafter, it would seem that an older initial retirement age would not be problematic for most workers. Lower retirement ages were set when life expectancies were also lower, and should be revised.

The gaming of the system by hourly and overtime eligible workers in padding their "high-five" salary is something which also must be further addressed. This is simply not fair to taxpayers. Going to a high seven or high eight would help to discourage workers from doing so.

At a most basic level, all states, Iowa included, must seriously look at the reality of a very unstable stock market going forward, with extreme highs and even more extreme lows in investment returns.

The Legislature and Governor must realize that one bad year has significant long-term impacts on the overall ability to pay promised pensions, as shown in recent history.

Overly optimistic expectations benefit no one – taxpayers or workers. Recent history documents these problems, as the Iowa funding level has fallen from healthy to potentially problematic. Initial contribution amounts should be based on a lower expected and required return, down from the current 7.5 percent to possibly as little as 5 percent.

Making this change in the expected return would mean that current pension contributions would have to be increased in order to pay promised benefits.

Yet, it is better to be conservative with our expectations and end up pleasantly surprised than to count on winning the lottery to pay next month's mortgage. And when that does not happen, to have to turn to Iowa taxpayers again to pay your mortgage for you, in addition to the car payment they are already making.

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"Given that many pensioners 'double-dip' by taking retirement, then going back to work full-time shortly thereafter, it would seem that an older initial retirement age would not be problematic for most workers."

(Endnotes)

[1] Deborah D. Thornton, "Iowa's Privileged Class: Time for a Change," Public Interest Institute, January 2012, <http://www.limitedgovernment.org/ps-12-1.html>.
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