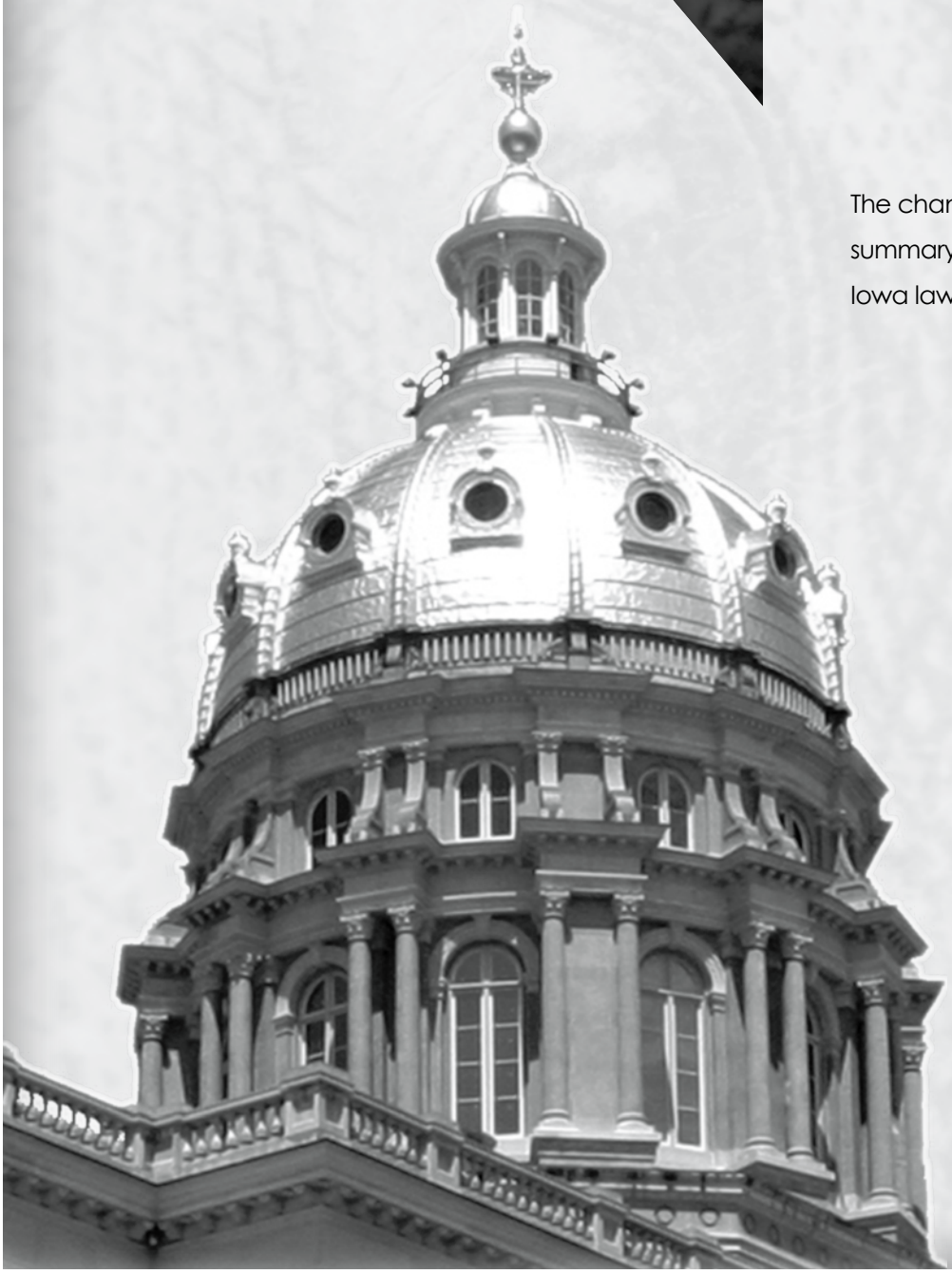
Q&A

2010–2012 IPERS law changes



The changes described in this summary are the result of a 2010 Iowa law (House File 2518).

IPERS

Overview of changes

What is changing?

The new law makes the following changes:

(a) Reduces IPERS benefits not yet earned by regular members and raises contributions for them above the rate set in current law.

(b) Raises the limit on how much contributions for regular members can change each year from 0.5 percentage point to 1.0 percentage point.

(c) Extends a provision for restoring wage credits for mandatory unpaid time and extends it to union bumping.

Other changes are limited in scope and will not affect most members; some changes are merely technical.

Why are benefit changes and contribution rate increases needed?

Contribution rates for regular members have not kept up with the value of benefits employees have earned. The legislature had not adjusted the rates since 1979 until it approved a 0.5 percentage point increase in each of four years, starting July 1, 2007.

That action may have been enough if not for the severe, extended recession. Now adjustments to both contributions and benefits are necessary.

IPERS MEMBERSHIP CLASSES

IPERS has three membership classes. Each class has different contribution rates and benefits. Most IPERS members are in the regular class. Only sheriffs, deputy sheriffs, and those working in protection occupations are not. *(Protection occupations include certain employees of the Department of Corrections, state and county conservation peace officers, city police officers, DOT peace officers, airport firefighters, airport safety officers, fire prevention inspector peace officers, regular and volunteer firefighters, air base security officers, county jailers, emergency medical service providers, county attorney investigators, and National Guard installation security officers.)*

What are the benefit changes for regular members?

(a) The time to vest will increase from four to seven years.

(b) The average wage used in the benefit formula will be the average of the highest five annual salaries instead of the average of the highest three annual salaries.

(c) There will be a greater reduction in benefits for early retirement. This will affect only people who retire before reaching normal retirement age.

The law includes transition rules that preserve the benefits current employees have already earned. Those benefits cannot be lowered.

When will the changes occur?

The contribution rate will increase to 13.45 percent on July 1, 2011. Benefit changes will occur July 1, 2012.

Do these changes affect everyone?

The changes will affect most employees covered by IPERS. However, the benefit changes will not affect sheriffs, deputy sheriffs, or members working in protection occupations.

Changes will affect new employees and current employees differently. These differences are explained in the following sections.

Will sheriffs, deputies, and employees in protection occupations see changes?

IPERS has had the authority to adjust contributions for these membership classes for many years, so they were not behind in paying contributions when the recession started. Therefore there was no need to apply benefit changes for regular members to the other membership classes. The new law does add a cancer and infectious disease presumption connected to these members' in-service disability benefits. The law also preserves IPERS' ability to adjust contribution rates each year. See page 7 for more information.

Vesting

REGULAR MEMBERS

What is vesting?

Vesting is when a member gains rights to disability benefits, death benefits, and lifetime retirement benefits; and the right to buy service credit. In addition, when leaving IPERS-covered employment before retirement and taking a refund, vested members can receive some of the contributions the member's employer made to IPERS.

How will vesting change?

Before July 1, 2012, a member must meet one of these two requirements to vest.

(a) Complete at least four years of service.

(b) Reach at least age 55 while in IPERS-covered employment, regardless of years of service.

Starting July 1, 2012, a member must meet one of these two requirements to vest.

(a) Complete at least seven years of service.

(b) Reach at least age 65 while in IPERS-covered employment, regardless of years of service.

Will the change affect a member who is already vested or one who will be vested before July 1, 2012?

No. Members who are vested before July 1, 2012, will remain vested.

How will the change affect members who have not vested by July 1, 2012?

Members who have not vested by July 1, 2012, must work until they complete at least seven years of service to vest. Those members can also vest by turning 65 while in IPERS-covered employment if that occurs first. All new members who begin employment after July 1, 2012, must work seven years, or be at least age 65 while working in IPERS-covered employment, to vest.

Highest average salary

Why is the highest average salary important?

The average salary is part of the formula IPERS uses to figure your benefits.

Retirement benefit formula:
multiplier* × highest average salary

**The multiplier for regular members is 2 percent a year for the first 30 years, plus 1 percent for each of the next five years, for a maximum of 65 percent.*

How is the highest average salary currently figured?

IPERS calculates the average of a member's highest three years of wages. (IPERS also applies a spiking control to make sure wages, and consequently benefits, are not inflated above what they should be based on a typical career. However, this does not affect most people.)

How will the highest average salary be figured?

For members who are not vested on June 30, 2012, IPERS will figure the highest average salary at retirement based on a member's highest five years of wages.

Members who are vested on June 30, 2012, will have already earned a right to a lifetime benefit. To protect benefits already earned, a member's highest average salary cannot be lower than the member's highest average salary as of June 30, 2012. Each vested member's highest three-year average salary at that date will be stored by IPERS.

When a member retires, IPERS will figure the average of the member's five highest annual salaries. That average will be compared to the June 30, 2012, average. IPERS will use the higher of the two averages in the benefit formula.

Example 1

Highest 3-year average salary on June 30, 2012		Highest 5-year average salary at retirement	
Year	Wages	Year	Wages
2009	$40,000.00	2009	$40,000.00
2010	$41,600.00	2010	$41,600.00
2011	$43,264.00	2011	$43,264.00
		2012	$44,994.56
		2013	$46,794.34
Average	**$41,621.33**	**Average**	**$43,330.58**

In example 1, IPERS will use the 5-year average in the benefit formula because it is the higher of the two averages.

Example 2

Highest 3-year average salary on June 30, 2012		Highest 5-year average salary at retirement	
Year	Wages	Year	Wages
2009	$40,000.00	2009	$40,000.00
2010	$41,600.00	2010	$41,600.00
2011	$43,264.00	2011	$43,264.00
		2012	$40,000.00
		2013	$41,600.00
Average	**$41,621.33**	**Average**	**$41,292.80**

In example 2, IPERS will use the 3-year average in the benefit formula because it is the higher of the two averages.

Early retirement reduction

What is the early retirement reduction?

Regular members can receive IPERS benefits as early as age 55. However, if a member begins receiving benefits before reaching normal retirement age, IPERS reduces the member's benefits for early retirement. The reduction helps offset the increased costs that result from starting benefits earlier and receiving benefits longer.

The current reduction is 3 percent for each year (0.25 percent for each month) the member receives benefits before reaching normal retirement age.

What is normal retirement age?

Normal retirement age is 65, age 62 with at least 20 years of service (the Rule of 62/20), or when a member's age plus years of service equals 88 (the Rule of 88).

If you have this many years of service:	And your age is at least:	You meet normal retirement under:
33 or more	55	Rule of 88
32 to 32.75	56	Rule of 88
31 to 31.75	57	Rule of 88
30 to 30.75	58	Rule of 88
29 to 29.75	59	Rule of 88
28 to 28.75	60	Rule of 88
27 to 27.75	61	Rule of 88
20 to 26.75	62	Rule of 62/20
Less than 20	65	Age 65

Will the Rule of 88 or Rule of 62/20 change?

No.

How will the early retirement reduction change?

The bill increases the reduction to 6 percent for each year (0.5 percent for each month). The bill also changes how IPERS will calculate the reduction. Now IPERS figures the reduction from the date a member would have reached normal retirement age. Starting July 1, 2012, IPERS will always calculate the reduction using the amount of time it will take for the member to reach age 65. This more closely matches the long-term added costs created when people retire early and receive benefits for extra years.

How can members avoid the reduction under the new law?

Members will be able to avoid an early retirement reduction the same way they can now—by waiting to retire until they have met one of the normal retirement rules. Benefits will not be reduced for members who are age 65 or who meet the Rule of 88 or the Rule of 62/20 at retirement. These normal retirement rules will not change.

Should members who plan to retire early hurry up and retire before the law changes take effect?

It would make no sense for members to retire before they are ready merely because the changes will occur. Benefits members have already earned cannot be decreased.

IPERS will reduce benefits for early retirement by a greater percentage after July 1, 2012, than before that date. However, the added reduction will apply only to the portion of the benefit earned after the law changes.

How will IPERS calculate the reduction under the new law?

The higher reduction of 6 percent a year from age 65 will apply only to the portion of service earned after the law changes. IPERS will apply only a 3 percent reduction to the portion of service completed before the law change to preserve credit for benefits already earned.

Example:

Retire December 31, 2014, at age 61
26.5 years of service
$54,000 average salary

	JUNE 30, 2012 ↓	
Years before law change	24	
Years after law change		2.5
Multiplier per year	2%	2%
Calculation	24 years × 2%/year = 48% multiplier	2.5 years × 2%/year = 5% multiplier
	$54,000.00 × 48% = **$25,920.00**	$54,000.00 × 5% = **$2,700.00**
Annual reduction	3%	6%
Reduced from	Rule of 62/20	Age 65
How long	1 year	4 years
Reduction	1 year × 3%/year = 3% reduction	4 years × 6%/year = 24% reduction
	$25,920.00 × 3% = **$777.60**	$2,700.00 × 24% = **$648.00**
	$25,920.00 − $777.60 = **$25,142.40**	$2,700.00 − $648.00 = **$2,052.00**
Annual benefit	$25,142.40 + $2,052.00 = **$27,194.40**	

Contributions

How will the new law change contributions for regular members?

The Iowa legislature already approved a 0.5 percentage point increase for regular members in each of four years, from July 1, 2007, to June 30, 2011. The legislature also directed IPERS to adjust the contribution rate starting July 1, 2012, by no more than 0.5 percentage point each year.

Before the bill was signed into law, the contribution rate from 7/1/11 to 6/30/12 would have been 11.95 percent. Employees have been paying about 40 percent of the contribution and employers have been paying about 60 percent.

Because of the law change, the contribution rate from 7/1/11 to 6/30/12 will be 13.45 percent. Employees will pay exactly 40 percent of the contribution and employers will pay 60 percent. IPERS can adjust the rate starting 7/1/12 by up to 1.0 percentage point each year.

How will contributions for sheriffs, deputies, and protection occupation members change?

IPERS already adjusts the contribution rate for these classes each year. There is no limit to how much the rate can change from year to year.

Previously, a law was passed to begin restricting the change to no more than 0.5 percentage point a year starting 7/1/11. This new law removes that restriction and allows contributions for these classes to continue to change as much as needed.

Other changes

Restoring recorded wages for unpaid time and union bumping

These provisions are more likely to help those who are near retirement, when recorded wages affect how much their IPERS benefits will be.

Employees may now make up IPERS contributions when they are required to take time off without pay through June 30, 2011. An earlier provision was set to expire on June 30, 2010.

The bill also provides a similar provision for those whose pay is lower because they exercised union bumping rights. This provision applies retroactively from January 1, 2009, through June 30, 2011.

Employees must make up both the employer and employee share of IPERS contributions. IPERS then records wages as if the unpaid days had not occurred.

Bona fide retirement exceptions for licensed health care professionals in city and county hospitals and the Iowa National Guard

The law extends a study of a one-month bona fide retirement period for licensed health care professionals for two more years. (Most IPERS members have a four-month bona fide retirement period, which means they must stay out of IPERS-covered employment for the first four months they are receiving benefits.)

The law also creates a bona fide retirement exception for members of the Iowa National Guard who are called to state duty. This applies when the Guard responds to a disaster such as a flood or tornado. The state is an IPERS-covered employer and without the exception, a retiree's IPERS benefits could be at risk because the person reported for Guard duty.

IPERS

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