

League of Cities 411 Pension Summit

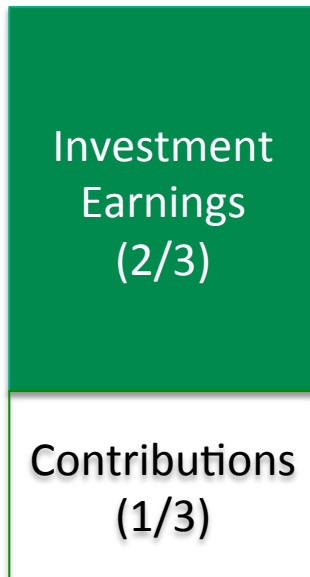
December 2014

TAXPAYERS

ASSOCIATION

■ of Central Iowa ■

Benefits Can Be Paid if Contributions and Investment Earnings are Sufficient



A system that is 100 percent funded has enough dollars set aside to pay benefits when due.

All is based on the choice of methods and assumptions. If the goal is 100 percent funding, there will be times when the system is above 100 percent and times when it is below.

When Times Are Good, Benefits are Enhanced

Municipal Police and Fire Retirement System of Iowa

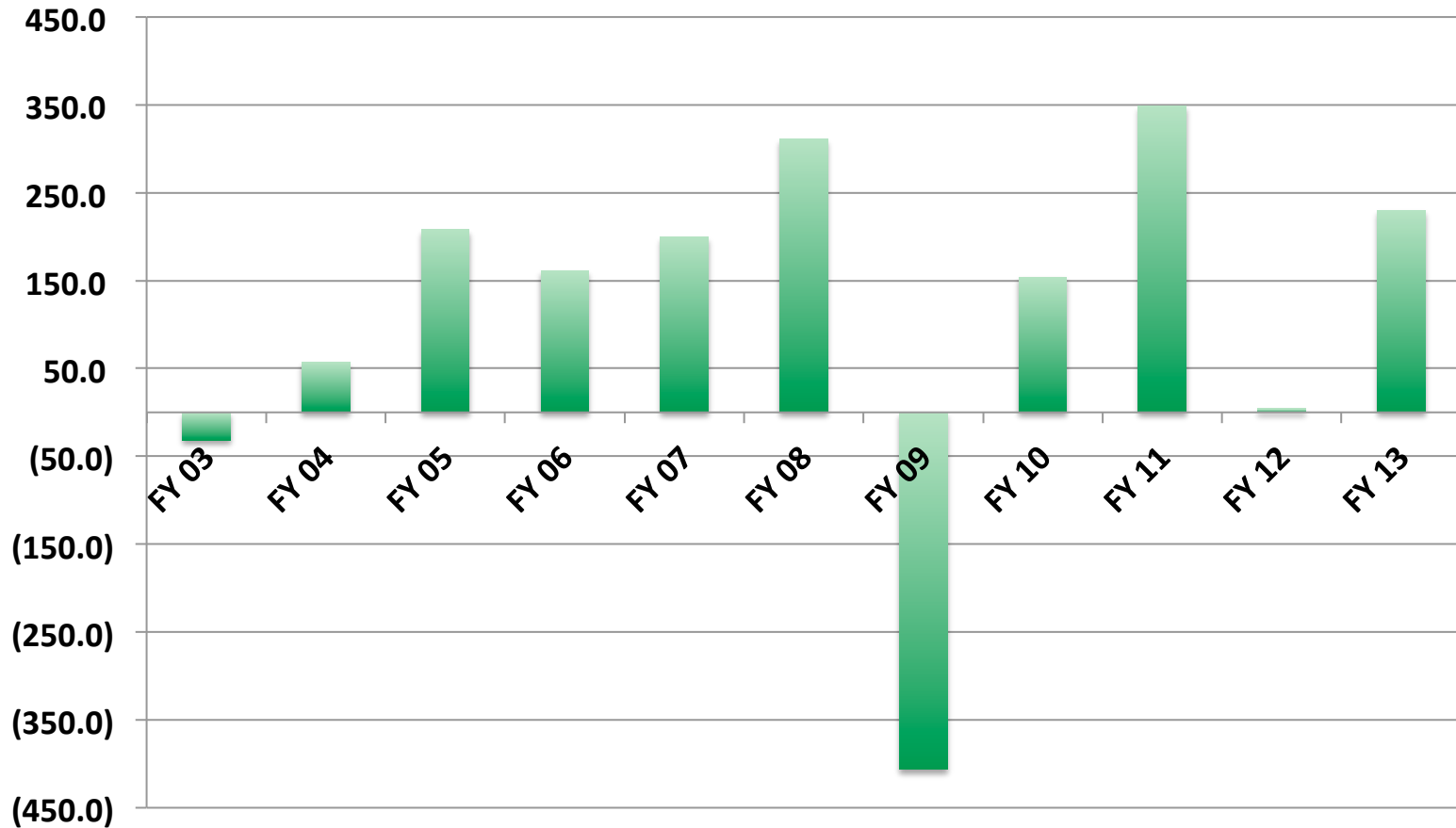
	Prior Year	Max. Benefit
Year	Funded Status	Percentage
1995	94%	65%
1998	106%	72%
2000	107%	82%

One Year Drop; 25+Year Fix

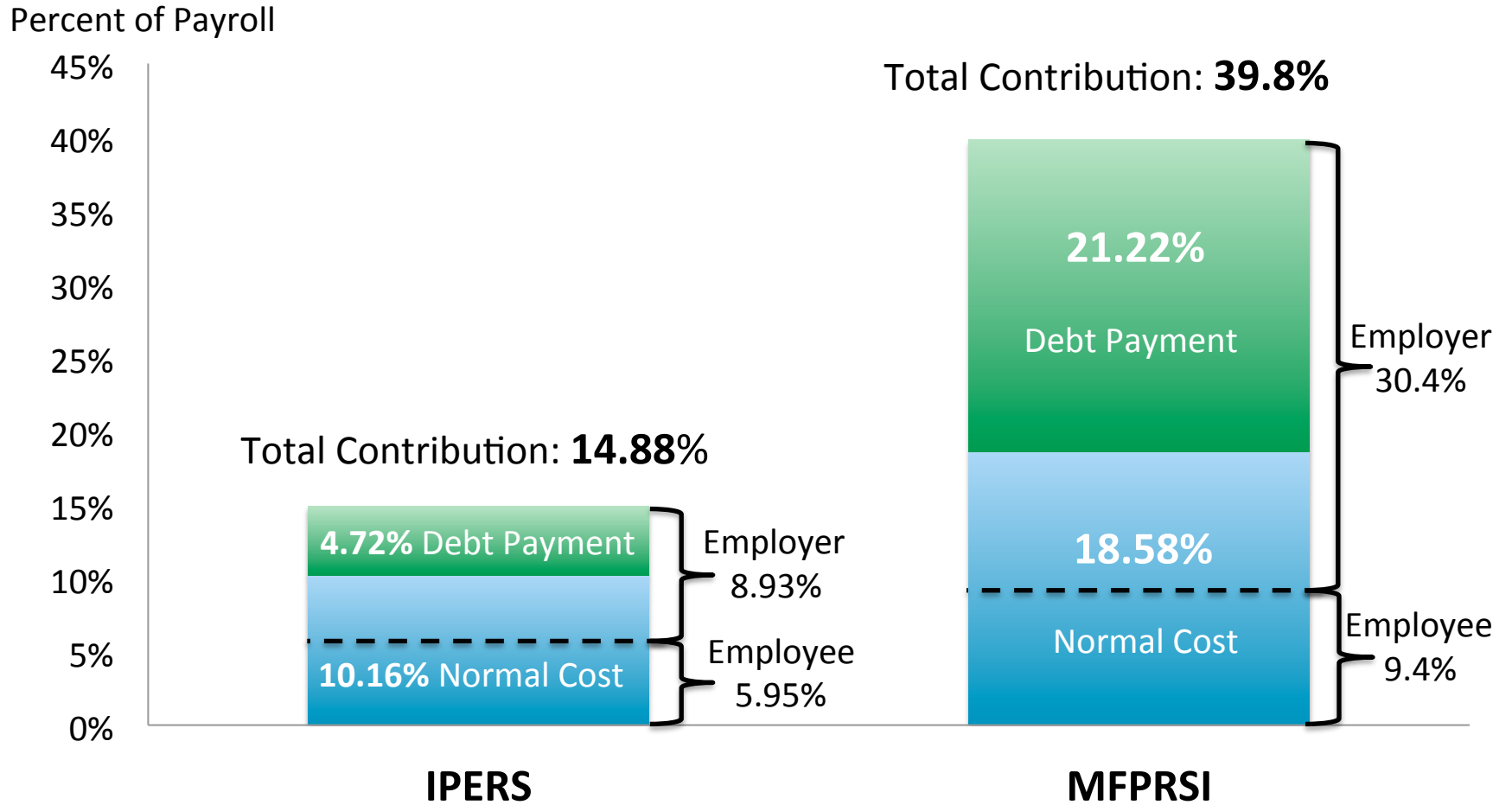
Year	Funded Status
2008	100%
2009	73%

Net Investment Gains (Losses)

Municipal Fire and Police Retirement System of Iowa



Fiscal Year 2014 Payroll Contribution Percentages



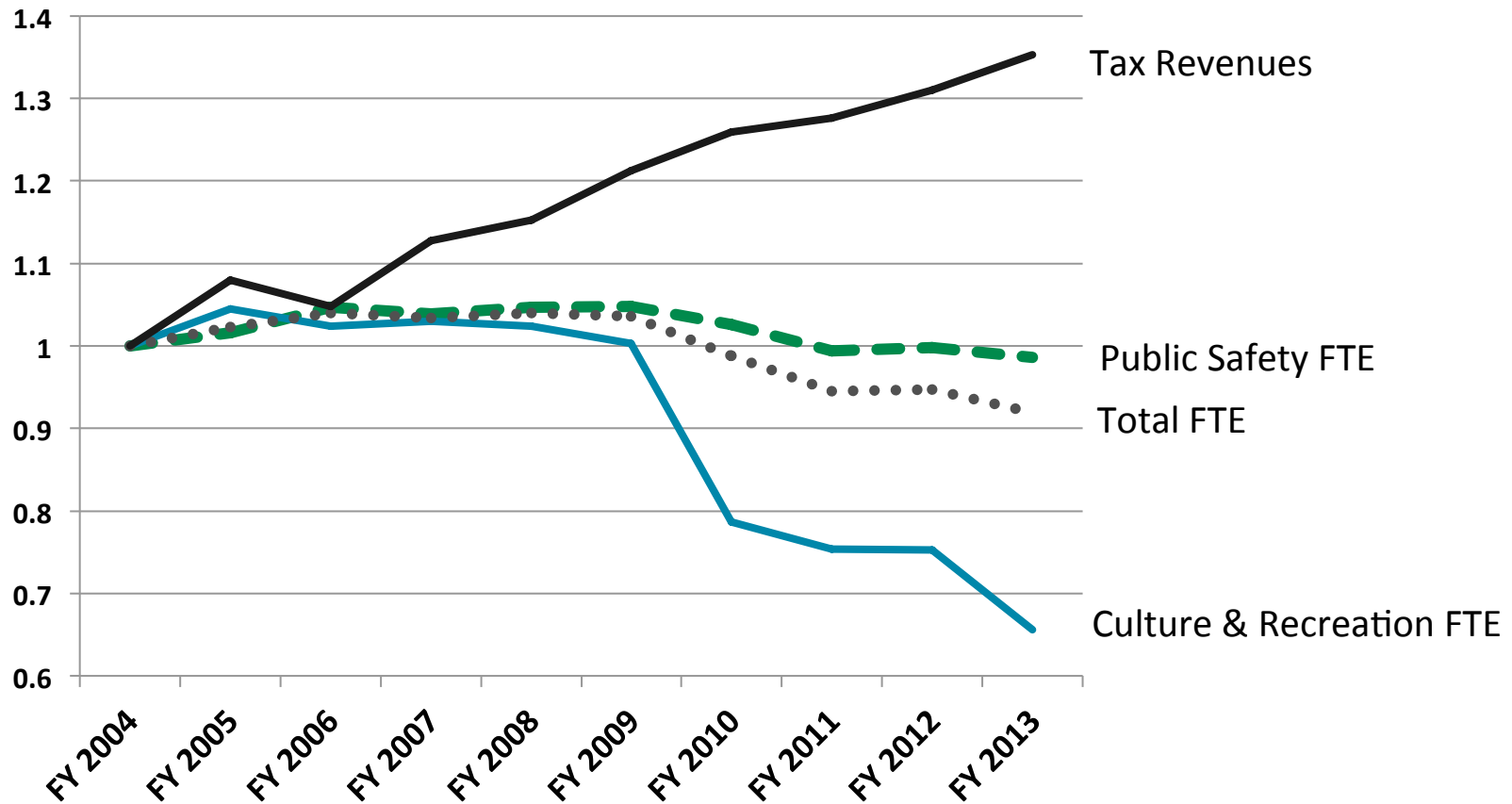
Statewide Impacts of Increased Public Retirement Contributions (IPERS and 411)

- \$375 million per year of additional public spending **JUST FOR DEBT PAYMENTS** (total = \$700M+ per year)
- What does this represent?
 - 25 percent more uniformed officers in each city
 - 15 percent more teachers
- Exceeds the total property tax savings from 2013 property tax reform

As Tax Revenues Have Increased, Services Have Declined

City of Des Moines

Indexed, 2004 = 1



Public pension employer contributions now represent the equivalent of 19 percent of all property taxes collected in the City of Des Moines.

All Estimates are Based on Certain Methods and Assumptions That Tend to Understate the Debt

	IPERS	MFPRSI	Moody's	Society of Actuaries
Amortization Period	30 years, open (to close in 2015)	25 years, <u>now</u> closed	20 years, closed	15-20 years, closed
Discount Rate	7.5%	7.5%	5.6%	6.4% (+ or - 3%)
Mortality Tables	RP 2000 with projected mortality improvements	2/12 1971; 10/12 1994; <u>no</u> projected improvements	RP 2000	Most up-to-date (RP 2014)

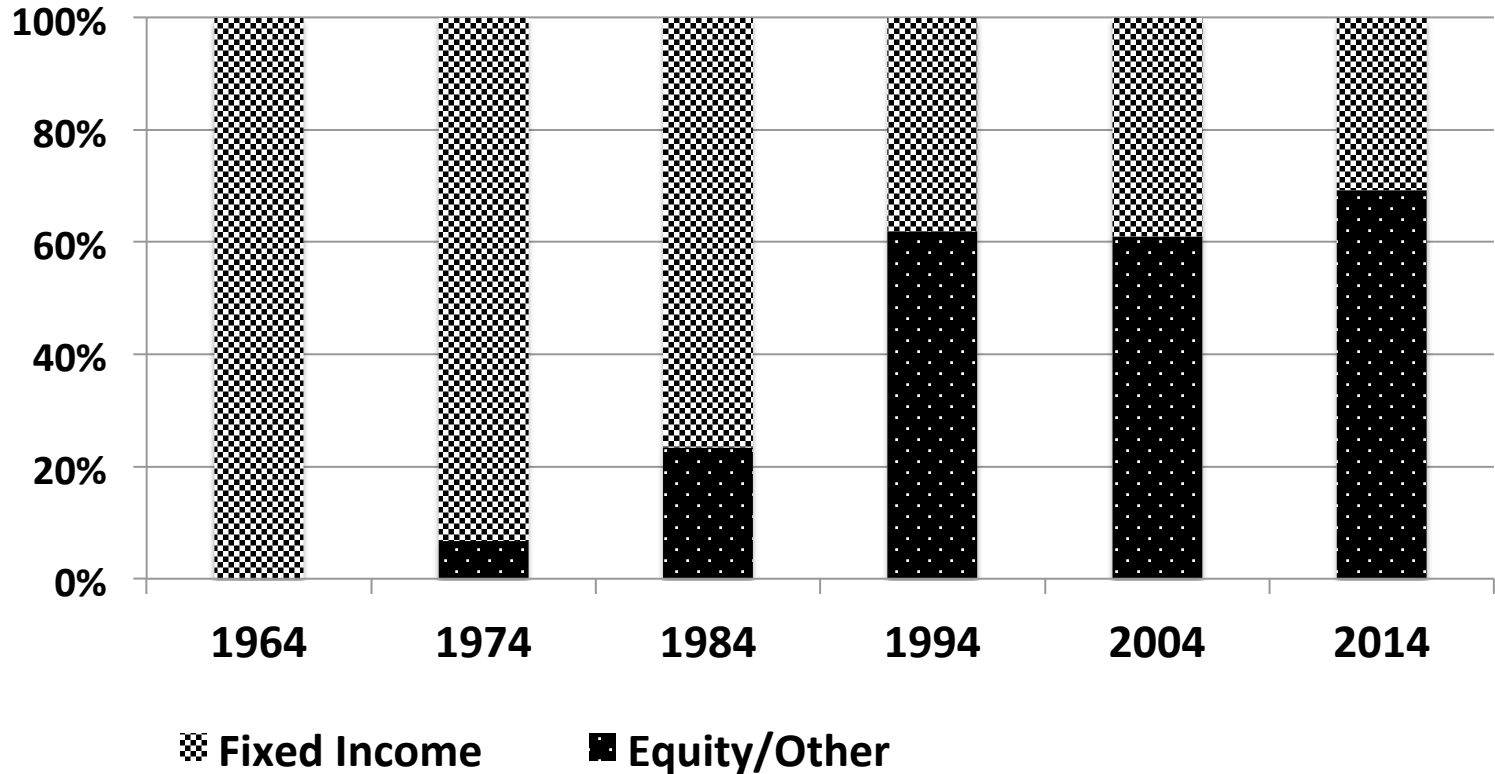
Moody's analysis suggests that IPERS' unfunded liability is **more than twice what is currently reported**. Assumptions and methods result in understatement of liabilities.

Moody's Analysis of Pension Debt Has Led to Rating Downgrades*

Rating	City	Pop Rank	Last Update
AAA	Iowa City	5	04/29/2014
	West Des Moines	9	07/24/2014
Aa1	<i>Cedar Rapids*</i>	<i>2</i>	<i>05/06/2014</i>
	<i>Ames*</i>	<i>8</i>	<i>03/21/2014</i>
	Urbandale	12	07/24/2013
	Marion	14	10/21/2013
Aa2	Ankeny	11	04/16/2014
	<i>Des Moines*</i>	<i>1</i>	<i>06/19/2014</i>
	<i>Dubuque*</i>	<i>10</i>	<i>04/11/2014</i>
	Waterloo	6	05/30/2014
	<i>Sioux City*</i>	<i>4</i>	<i>02/25/2014</i>
	Cedar Falls	13	03/03/2010
	<i>Bettendorf*</i>	<i>15</i>	<i>03/27/2014</i>
	<i>Council Bluffs*</i>	<i>7</i>	<i>03/13/2014</i>
Aa3	<i>Davenport*</i>	<i>3</i>	<i>02/05/2014</i>

IPERS Investments by Decade 1964 – 2014

More Volatility Should be Expected



Source: IPERS Annual Reports, compiled by Taxpayers Association of Central Iowa

Short-Term Fixes and Long-Term Solutions For True Retirement Security

Fundamental issues of defined benefit plans in political decision making environment will not go away. In fact, because of increasing volatility they are likely to be magnified as time goes on.

Understatement of debt leaves no margin for error during future downturns – actuarial maneuvers are already in play. (411 system is 69% funded at 6.5%.)

Benefits are expanded when plan appears to be fully funded, but they place increased stress on system during downturns.

There is a 50 percent probability that returns will be less than 7.5 percent, with potentially extreme consequences for employees, employers and taxpayers.

Are we willing to accept those consequences, or should we look at new options for new employees?

Short-Term Fixes and Long-Term Solutions For True Retirement Security

Current Plan:

Employee contribution at 11% would represent about 40% of full funding target (26.4%).

Find a way for employees to share in downside risk. If contributions must rise above 11%, allocate a share (25%? 40%) to employee contribution.