



# The Iowa Policy Project

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## Public Pensions in Perspective

### *Why Foundations of Iowa, Many State Pension Systems are Strong*

IOWA CITY, Iowa (Dec. 12, 2013) — Iowa's public pension systems are strong and healthy, working as intended to assure retirement security to thousands of Iowans.

A new report from the nonpartisan Iowa Policy Project finds that Iowa's four public pension funds have recovered from recessionary losses and are poised for future sustainability.

"Our state pension plans are sound and, after weathering a difficult period for all investors, they stand well-positioned to meet the needs of current and future retirees," said Imran Farooqi, lead author of the report, available at [www.iowapolicyproject.org](http://www.iowapolicyproject.org).

IPP's David Osterberg and Peter Fisher, co-authors of the report, agreed.

"Iowa lawmakers need to take a deep breath, focus on long-term strategic funding of IPERS and other plans to assure that the state maintains its responsibility as an employer," Osterberg said. "Along with recovery from the recession-era decline in investments, past lapses in the state's obligations to meet funding requirements are now being addressed."

"As of the last fiscal year, the state was meeting its full obligation to IPERS, and is now on course to return to a fully-funded plan. Patience and diligence are being rewarded."

Fisher added, "IPERS' sound footings are demonstrated by its rebound from those down years. Now, the state is making its appropriate contributions and needs to make sure that continues. Public employees are required to make all of their pension contributions in full and on time. We need public employers to make the same commitment."

The report finds:

- Iowa and most states have generally healthy and well-managed plans built to last over the long term. Highly publicized cases of extreme pension underfunding elsewhere, such as Illinois and Detroit, are actually the exception to the rule.
- The health of a pension plan is tied to its sponsor's ability and willingness to make the contributions necessary for a fully funded plan.
- Defined-benefit plans, such as IPERS and other state plans, are more efficient and better assure security to retirees than "defined contribution" plans, such as 401(k) plans.
- All four Iowa plans are somewhat underfunded, but all have a strong foundation based on net assets.

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- Iowa’s pension spending constitutes only 2.2 percent of state and local government expenditures. Forty states spend more.

“We are seeing considerable debate over the question of ‘defined benefit’ plans, such as IPERS, which guarantee a secure retirement, vs. ‘defined contribution’ plans, such as 401(k)s, which put all risk on the employee,” Farooqi said. “We show that defined benefit plans are more efficient for public employers, taxpayers, and retirees; they pool risk, which keeps overall costs lower while providing predictable benefits to retirees.”

The authors recommend:

- Iowa, with one of the lowest percentages of state expenditures devoted to pension plans, can increase its overall expenditures devoted to these pension plans.
- The state should make every effort to continue meeting its actuarially recommended contribution (ARC) to pension plans, as it did in FY2013.
- The present value of pension liabilities should continue to be calculated at the actuarially determined discount rates based on long-term returns experienced in the investment portfolio.
- The state should renew its commitment to the MFPRSI fund (for local police and firefighters) by re-starting its contributions at the 3.79 percent level.
- Future increases in contributions should be shared on a 40 percent to 60 percent basis between employees and employers.
- When changes are made, plans should ease members through the process with effective and timely communication.
- Incremental steps to “course-correct” are more effective than quick fixes because of the long-term nature of a pension system.

“At some point we have to stand up, as Iowans, for the obligations undertaken in our name,” Osterberg said. “State, local and school district employees enter public service in good faith, with an understanding that some of their compensation is deferred, or ‘loaned’ to an employer-managed pension account which they should expect to later access in retirement.”

Prior IPP research ([“Apples to Apples: Private-Sector and Public-Sector Compensation in Iowa, 2011”](#)) has shown that even when pension and health insurance benefits are taken into account, Iowa public sector employees are already *undercompensated* in comparison to private sector counterparts with similar levels of education and experience.

The Iowa Policy Project is a nonpartisan, nonprofit public policy research organization based in Iowa City. Reports are at [www.iowapolicyproject.org](http://www.iowapolicyproject.org).