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SNAPSHOT: Iowa Public Employees' Retirement System

Overview

The Iowa Public Employees' Retirement System (IPERS) was established in 1953 so that public employers in Iowa would have a cost-effective way to provide a meaningful retirement benefit that would help attract and keep quality employees in public service. Today, the system provides a defined benefit (DB) pension for its 164,467 active employees, including 80,743 public school employees.[1]

A defined benefit (DB) pension is a retirement plan that typically offers a modest but stable monthly retirement income that lasts the remainder of the retiree's life. Public sector pensions usually employ a shared financing model whereby both employees and employers contribute to the pension fund over time to manage costs. In contrast, private sector pensions almost always are funded solely by the employer.

Defined benefit (DB) pensions generally are a function of an employee's years of service and salary at the end of one's career. The benefits are financed by a combination of employer contributions, employee contributions, and investment earnings. Contributions typically are pooled among all employees and invested, with investment decisions made by professional asset managers overseen by trustees.

Research shows that Americans who have the three-legged retirement stool of a defined benefit (DB) pension, Social Security, and individual savings including 401(k)-type plans generally have greatest opportunity to achieve financial security in retirement.

Key Facts

- Employees contribute 5.38% of salary to IPERS.
- Employers contribute 8.07% to the fund.
- Each dollar invested by Iowa taxpayers in IPERS supported $6.30 in total economic activity in the state.

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Key Iowa Data[2]

The chart below summarizes the key data for IPERS, as of June 30, 2011:

	IPERS	School Employees
Total active employees	164,467	80,743*
Total retired members and survivor beneficiaries	98,540	51,884
Average annual retirement pension benefit	$14,808	$21,588**
Employer contribution rate***	8.07%	
Employee contribution rate***	5.38%	
Net assets	$23.1 billion	
Funded ratio	79.9%	
Unfunded actuarial accrued liability	$5.7 billion	

* Excluding community college employees.
** Among new 2011 retirees.
*** Employer and employee contribution rates as of July 1, 2011.

The Economic Impact of Iowa Pensions[3]

Expenditures made by retirees of state and local government provide a steady economic stimulus to Iowa communities and the state economy. Within the state of Iowa, 2012 expenditures stemming from state and local pensions supported:

- 23,853 jobs that paid $933.1 million in wages and salaries
- $3.6 billion in total economic output
- $447.3 million in federal, state, and local tax revenues

Each dollar paid out in pension benefits supported $1.74 in total economic activity in Iowa.

Each dollar "invested" by Iowa taxpayers in these plans supported $6.30 in total economic activity in the state.

[1] This excludes community college employees.

[2] All data, unless otherwise noted, as of June 30, 2011.

[3] Rhee, N. 2014. *Pensionomics 2014 Measuring the Economic Impacts of DB Pension Expenditures.* Washington, DC: National Institute on Retirement Security.

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Iowa Public Pensions By the Numbers

The following provides a snapshot of key data relative to the **Iowa Public Employees' Retirement System (IPERS)**. IPERS was established in 1953 so that public employers in Iowa would have a cost-effective way to provide a core retirement benefit that would help attract and keep quality employees in public service. Today, the system provides a defined benefit (DB) pension, a retirement plan that typically offers a modest but stable monthly retirement income that lasts the remainder of a retiree's life.

$6.30 Total economic activity in Iowa for each dollar invested by Iowa taxpayers in IPERS.

$3.6 billion Total economic output in Iowa created in 2012 when public sector retirees spent their pension income.

$447.3 million Federal, state and local tax revenues generated by spending of Iowa public pension income.

23,853 Jobs created from pension income spending by Iowa state and local government retirees.

164,467 Total active members of IPERS.

$14,808 Average annual retirement pension income.

5.38 Percentage of salary that Iowa state employees currently contribute from every paycheck to their pension benefit to share the funding responsibility. Nationally, the median employee contribution rate is 5%.

60 Percentage of pre-retirement income replaced by the defined benefit (DB) plan for an employee with 30 years of service. A replacement ratio of 80% from all income sources is considered adequate for a secure retirement.

238 Number of teachers retained each year solely due to the defined benefit (DB) plan.

$2.5 million Teacher turnover cost savings generated by the retention affect of the defined benefit (DB) pension.

All data comes from either IPERS or the National Institute on Retirement Security.

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SNAPSHOT: Pensions for Iowa Teachers

Overview

As early as the turn of the 20th century, American legislators seemed to understand the importance of teacher quality to students' education. A 1917 report on public education noted that, "A school teacher's work is personal, direct, and positive. It works for the good or the ill of each pupil."[1]

Key Facts

- Teachers contribute 5.38% of salary out of each paycheck to the pension fund.
- The average school employee benefit is $21,588 per year, or $1,799 per month.
- IPERS covers 80,743 active school employees and 51,884 retired school employees and beneficiaries.
- Teachers are paid 14.3% less than comparable private sector workers.
- The IPERS pension replaces 60% of pre-retirement income for a teacher with 30 years of service.
- Most experts find that a replacement ratio of 80% or more, from all income sources, is adequate for a secure retirement.
- On average, state and local workers receive 7% less in wages than those in the private sector.
- Research shows that 81% of Americans believe all workers should have access to a pension plan.

Defined benefit (DB) pension plans were first introduced for teachers in the United States to help with the recruitment of high quality educators, and as an incentive to keep those educators in the teaching profession. By 1916, some form of retirement plan was available to public schoolteachers in 33 states. It was thought that such a retirement system might serve two purposes: 1) bringing more diverse, and highly qualified teachers into the profession; and 2) creating a more productive workforce that actually saves public employers money, as one dollar in pension benefits was seen as worth more than a dollar in salary.[2]

All public school teachers in Iowa have pension coverage through the Iowa Public Employee Retirement System (IPERS).

The IPERS plan covers 80,743 active school employees,[3] and 51,884 retired school employees and beneficiaries. As of July 2011, Iowa teachers contribute 5.38% out of each of their paycheck to the pension fund. Among 2011 retirees, the average school employee retirement benefit was $21,588 per year, or $1,799 per month.

The IPERS pension generally replaces 60% of pre-retirement income for a teacher with 30 years of service. Most experts find that a replacement ratio of 80% or more, from all income sources, is adequate for a secure retirement.

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Teachers Receive Lower Compensation

Public employees receive lower wages than their private sector counterparts. Even after accounting for pensions and other benefits, on average, state and local workers receive 7% less than those in the private sector.[4] More specifically, teachers are paid 14.3% less than comparable private sector workers—and this pay gap has increased in the last decade.[5] Teacher pensions play an important role in offsetting the financial impact of lower salaries.

Research shows that pensions are reliable and relieve retirement anxiety. Some 83% of Americans indicated that those with pensions are more likely to have a secure retirement, and 81% believe all workers should have access to a pension plan.[6]

Pensions Help Retain Quality Teachers in Iowa [7]

Better teachers are experienced teachers. DB pensions help to retain highly productive teachers longer, as compared with individual defined contribution (DC) accounts. Moreover, the cost of teacher turnover is quite high, both in terms of financial cost and loss of productivity to the school district.

In Iowa:

- The cost of turnover in Iowa is $10,704 per teacher.
- 238 teachers are retained each year due to the defined benefit (DB) plan.
- The defined benefit (DB) pension system saved $2.5 million in teacher turnover costs in 2003 in school districts across the state.

About NRTA

NRTA: *AARP's Educator Community* is a national umbrella organization for the nation's largest network of retired educators. For nearly 65 years, NRTA has worked with state and local Retired Educators Associations (REAs) across the country on areas of mutual interest in advocacy and community outreach.

Collectively, NRTA and REAs engage and advocate on behalf of nearly one-million retired educators. Our shared priorities are to protect earned pension benefits and to assure access to affordable retiree healthcare. Additionally, NRTA helps inspire and honor the work of REA volunteers through NRTA's With our Youth! national recognition program.

[1, 2] Graebner, W. 1978. Retirement in education: The economic and social functions of the teachers' pension. *History of Education Quarterly*, 18(4), 397-417.

[3] This excludes community college employees.

[4] Heywood, J., and K. Bender. 2010. *Out of Balance: Comparing Public and Private Sector Pay over Twenty Years.* Washington, DC: National Institute on Retirement Security.

[5] Allegretto, S., S. Corcoran, and L. Mishel. 2008. *Teachers' Pay Continues to Slide.* Washington, DC: Economic Policy Institute.

[6] Perlman, B., K. Kenneally, and I. Boivie. 2011. *Pensions and Retirement Security 2011: A Roadmap for Policy Makers.* Washington, DC: National Institute on Retirement Security.

[7] Boivie, I. 2011. *The Three Rs of Teacher Pension Plans: Recruitment, Retention, and Retirement.* Washington, DC: National Institute on Retirement Security.