"Even with a large shortfall, IPERS has a payment plan in place to be fully funded in 30 years."

This statement is true, but only if all of the assumptions are right and Iowans are comfortable in asking their grandchildren to help pay for operating costs that were incurred before they were even born. The "shortfall" is nearly $7 **billion** now, so the plan's assumptions and models have not worked well in the past. The model assumes an average annual 7 percent return on investment for the next 30 years.

Zerber

The way that pension systems work, funds are set aside each year to earn interest and eventually pay for the benefits earned that year. This is called the "normal cost," and is around 10 percent of payroll. In addition, however, the "unfunded actuarial liability" is the shortfall in funds that **should** be in place to earn interest to pay benefits when due but are **not** in place. (One reason is that in 2009, the investment fund lost 20 percent of its value.) Extra payments (about five percent of payroll) must be made to close this gap, typically spread over a 30-year period. This means that operating costs from past years will actually be paid by people 30 years in the future.

Even if all of the current assumptions are met, the shortfall will actually get bigger for a period of years before beginning to shrink. This is because the make-up payments are structured in such a way that early on, the payments are not large enough to cover the growth in interest on the shortfall. The means the system will – <u>by design</u> -- become even more underfunded than it is now.

Moreover, IPERS' own fund managers predict that for the first ten of the next 30 years, returns will be in the six percent range. We can therefore expect the plan's funded status to drop even more -- to the low or mid-70s -- before it begins to turn around and must be comfortable with the associated financial vulnerability. While 80 percent funded is not "healthy," certainly 70-75 percent is worse.