FACTS ABOUT IPERS

Because facts matter

Why IPERS is in the news

"The early 2000s brought the 'perfect storm' of new mortality tables, which increased liabilities, and the dotcom recessions. A contribution rate change was needed to keep IPERS healthy, but the legislature chose to delay a contribution increase. As a result, a shortfall, or unfunded actuarial liability, developed. This shortfall means that, if ALL future retirement benefits had to be paid TODAY, there wouldn't be enough money."

Defined benefit plans are not fundamentally flawed, Zerber
but they have serious problems in a political environment. The incentives are all wrong. IPERS' experiences over the past two decades illustrate why. Initially, benefits were enhanced in the late 1990s because the plan appeared to be fully funded. We now know that any plan that has 100% funding as a goal will at times be above 100%, and at times below 100%. If benefits are enhanced every time the plan is at or near 100% funding, the funding goal will never be met. In reality, the political environment makes it too tempting to raise benefits when the plan is close to fully funded. Doing so provides personal and political benefits, and the cost can be deferred to the future.

The reverse is also true. When the plan is underfunded and needs an increase in contributions or a reduction in benefits, it's easier to do nothing. No one wants to take responsibility for making such changes. In fact, typically these large defined benefit plans place a priority on keeping contribution rates stable. To do so, they will choose methods and assumptions that make it look like everything works. Examples are the amortization method (level dollar or level percent of payroll), the amortization period (for example starting a new 30-year period every year) and the rate of return assumption. The plans tend to do whatever is necessary to make the math work out, even though the assumptions and methods are often not reasonable when viewed by those outside the public pension industry.

If a plan is 100% funded, it does not mean there would be enough money to pay **all** future retirement benefits if they had to be paid today. In reality, there is only enough set aside to **grow into** what will be necessary to pay benefits when they are due. Even the 100% funded plan is still entirely dependent on the assumptions that have been made about investment return, payroll growth, etc.