READY TO RETIRE?
An Overview

Presented by Kevin Wenndt
Senior Retirement Benefits Officer
What is IPERS?

• $40 billion Trust Fund – the largest public retirement system in Iowa

• A defined benefit program
  – Lifetime retirement benefits are paid based on a formula, **not** on the amount of contributions
  – Formula factors: age, years of service, highest average salary

**IPERS Benefit Calculation**

\[
\text{Annual IPERS Benefit} = \text{Average Salary} \times \text{Multiplier} - \text{Reduction, If Any}^* \\
\]

*Early retirement reduction applies only to the benefits of Regular members who retire before normal retirement age.
What is IPERS?

- Members include:
  - Public schools, cities, counties, state government, state universities, public hospitals, emergency workers, and more
- 375,000 members
- 2,000 covered employers
- 117,000 retirees
- $2.3 billion paid in benefits annually
### DB vs. DC: What’s the Difference?

<table>
<thead>
<tr>
<th>Feature</th>
<th>IPERS (Defined Benefit Plan)</th>
<th>401(k), 403(b), etc. (Defined Contribution Plan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guaranteed Benefit</td>
<td><strong>YES.</strong> Monthly benefit is guaranteed for life.</td>
<td><strong>NO.</strong> Benefit fluctuates with market performance.</td>
</tr>
<tr>
<td>Investment Risk</td>
<td>Pooled investments. <strong>IPERS</strong> takes on all the risk.</td>
<td><strong>YOU</strong> take on all the risk.</td>
</tr>
<tr>
<td>Withdrawals &amp; Loans</td>
<td><strong>NOT AVAILABLE</strong></td>
<td><strong>TYPICALLY AVAILABLE</strong></td>
</tr>
<tr>
<td>Vesting</td>
<td><strong>100%</strong> in your contributions.</td>
<td><strong>100%</strong> in your contributions.</td>
</tr>
<tr>
<td>Portability</td>
<td><strong>YES</strong></td>
<td><strong>YES</strong></td>
</tr>
<tr>
<td>Death Benefits</td>
<td><strong>YES</strong></td>
<td><strong>YES</strong></td>
</tr>
<tr>
<td>Disability Benefits</td>
<td><strong>YES.</strong> <strong>IPERS</strong> provides disability benefits depending on certain qualifications.</td>
<td><strong>NO.</strong> Defined contribution plans do not usually provide disability benefits.</td>
</tr>
<tr>
<td>Fees &amp; Expenses</td>
<td><strong>INCLUDED</strong></td>
<td><strong>TYPICALLY HIGH</strong></td>
</tr>
</tbody>
</table>
How Does it Work?

- The IPERS Trust Fund must be used for the exclusive benefit of members and their beneficiaries.
- Only vested members are eligible for a monthly benefit of any type.
- Non-vested members are eligible for a refund of their contributions + interest.
What is vesting?

• Entitles the member to:
  – Monthly retirement or disability benefit
  – A portion of employer’s contributions if a refund is taken (years of service/30)
  – Service Purchase at retirement (if vested by years of service, not age alone)
How do I become vested?

**Regular Member** vested status is obtained after:
- 28 quarters (7 years) of reported wages or
- When wages are reported in the same calendar year age 65 or older is attained.

**Special Service** vested status is obtained after:
- 16 quarters (4 years) of reported wages or
- When wages are reported in the same calendar years age 55 or older is attained.
What’s My Part?

• Contributions + interest
  - Contributions based on gross wages
  - IPERS can adjust the total contribution rate by no more than 1.0 percentage point up or down, following a yearly actuarial valuation.
Contribution Rates

6.29% from the member
9.44% from your employer
15.73% total contribution rate
Contribution Rates

6.21% from the member
9.31% from your employer
15.52% total contribution rate
Contribution Rates

9.01% from the **member**
9.01% from your **employer**
18.02% total contribution rate
The Benefit Formula – Regular

- The multiplier increases 2% per year for the first 30 years worked.
- 1% per year for years 31–35, for a maximum of 65% of final average salary.
- Early retirement reduction applies if you retire before normal retirement.
Normal Retirement Age – Regular

There are certain "rules" a member must meet before retiring to avoid an early retirement reduction. **These rules are referred to as Normal Retirement Age.**

<table>
<thead>
<tr>
<th>Rule</th>
<th>Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age 65</td>
<td>No minimum service requirement</td>
</tr>
<tr>
<td>Rule of 62/20</td>
<td>Age 62 with 20 or more years of service</td>
</tr>
<tr>
<td>Rule of 88</td>
<td>Years of service + your age = 88 or greater</td>
</tr>
</tbody>
</table>
Early Retirement Reduction

If you start receiving benefits before reaching normal retirement age, benefit reductions will apply.

Reduce 3% a year for portion of service through **06/30/12**

- From nearest normal retirement eligibility (rule of 88; rule of 62/20; age 65)

As of July 1, 2012

Reduce 6% a year thereafter

- From age 65
The Benefit Formula – Special Service

- The multiplier increases with every year you work in IPERS-covered employment.
- Maximum total of 72% payable for each additional year after 30.
- Benefits are not reduced for early retirement if you have always been a Special Service member.
Unlike Regular members, Special Service members qualify for normal retirement at age 55.

There is no early retirement penalty.
Hybrid Benefit Formula

• If you have worked in IPERS-covered Special Service and Regular service, a hybrid formula may be used to calculate your retirement benefit.

• The hybrid formula may change the amount of your average salary.

• Your benefits under the hybrid formula will be reduced if you begin receiving them before normal retirement age.
  
  – An early retirement reduction will apply only to your Regular service credits.
Maximizing Years of Service

• Free credit
  – Leaves of absence
    • Granted prior to July 1998
    • Requires verification from employer
  – Active military duty
    • Entered military as an IPERS-covered employee and returned to IPERS employment within one year of discharge
    • Submission of DD214 form required
service Purchase Options

• Nonqualified service (air time)
  
• Refunded IPERS service (buy-back)
  
• IPERS employment not previously covered
  
• Other public system(s) (if not eligible to draw pension from the other system)
  
• Active duty military/LOA time not eligible for free credit
  
• IPERS buy-up credit conversion

5-year limit
Making a Service Purchase

Purchasing takes place at retirement.

Request a service purchase cost estimate from IPERS to help you plan for a purchase at retirement.
Retirement Estimates

• Request benefit estimates from IPERS before deciding on a retirement date.

• Working a little longer could increase benefits significantly.

• May be eligible to retire earlier!
Sample Estimate

IPERS Benefit Estimate for: JOHN DOE
Member ID: 1234-5678

Information we used to figure your estimate

<table>
<thead>
<tr>
<th>When you will start receiving benefits</th>
<th>Years of service and multiplier</th>
<th>Regular class average salary calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Month you leave employment</td>
<td>Membership class Before 12.50</td>
<td>Current salary $63,654.04</td>
</tr>
<tr>
<td>Month of last paycheck</td>
<td>After 17.75</td>
<td>Yearly salary increase rate 2.00%</td>
</tr>
<tr>
<td>First month of entitlement</td>
<td>0.00 Before 0.00 After 0.00</td>
<td>Highest salaries 2029 $87,383.36</td>
</tr>
<tr>
<td></td>
<td>Total years of service 30.25</td>
<td>2028 $85,669.96</td>
</tr>
<tr>
<td></td>
<td>Future quarterly service 4</td>
<td>2027 $83,990.15</td>
</tr>
<tr>
<td></td>
<td>Regular class multiplier 60.250%</td>
<td>2026 $82,343.29</td>
</tr>
<tr>
<td></td>
<td>Sheriff class multiplier 0.000%</td>
<td>2025 $80,728.71</td>
</tr>
<tr>
<td></td>
<td>Protection class multiplier 0.000%</td>
<td>Average salary used in benefit $84,023.09</td>
</tr>
<tr>
<td></td>
<td>Contingent annuitant (CA) Spouse</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Relationship Spouse</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Birth date 06/11/1962</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Nearest age at your retirement 68</td>
<td></td>
</tr>
</tbody>
</table>
Benefit Payment Options

• Six monthly payment options
  – Always *lifetime payments* to member
  – Different death benefit provisions

**IMPORTANT:**
Your choice cannot be changed once benefit payments begin.
Option Choices

**OPTION 1**
Guaranteed death benefit in $1,000 increments

**OPTION 2**
Death benefit only if balance of investment remains

**OPTION 3**
No death benefit

**OPTION 4**
Dual life annuity

**OPTION 5**
Guaranteed minimum 10 years monthly benefit payments

**OPTION 6**
Dual life annuity with pop-up feature for member
Pre-retirement Death Benefits

- Designated **sole beneficiary of a vested member** can elect lump-sum payment or lifetime monthly benefit.

- If designated beneficiary is **more than one individual** or entity, death benefit can only be paid in lump-sum payment.

- If **no beneficiary** has been designated, lump-sum payment is made to the estate.
Important Facts

• Working any time in a month makes you ineligible for benefits that month.

• You **can** get a paycheck in the same month you start IPERS payments.
Getting Started

• Must be **age 55** or older
  – Unless vested and eligible for IPERS disability benefits

• Must submit **completed** application

• Benefits paid the **last business day** of month

• Must **terminate employment** unless age 70
Taxes

• Benefit payments are subject to federal and state income tax.
  – You can request that the tax can be withheld from your monthly benefit payment

IPERS will mail your 1099-R in January for tax purposes.
To return to work with an IPERS-covered employer, you must have a **Bona Fide Retirement**, which means:

- You have submitted a retirement application and IPERS has approved it.
- You have left employment with all IPERS-covered employers, including non-covered positions, with no written or verbal agreement to return.
- You are receiving benefits.
- You have followed the time restrictions for providing services for an IPERS-covered employer (next slide).

**IMPORTANT:** There is a financial penalty for violating this requirement.
Bona Fide Retirement Time Restrictions

- To have a Bona Fide Retirement, there are certain time restrictions you must follow for providing services for an IPERS-covered employer:
  - Stay out of all employment with a covered employer until you’ve received one IPERS benefit payment.
  - Stay out of all employment in an IPERS-covered position for an additional three months, until you’ve received four IPERS benefit checks.

For example, you receive your FIRST BENEFIT as a new retiree in January.

- The first of February (the first of the month after you receive your FIRST benefit), you can:
  - Enter into a written or verbal agreement to perform services as an employee, independent contractor, or volunteer for an IPERS-covered employer.
  - Work in a non-IPERS-covered position with an IPERS-covered employer.

- The first of May (the month after you receive your FOURTH benefit), you can:
  - Serve as an independent contractor for your former IPERS-covered employer(s)
  - Work in covered employment for an IPERS-covered employer.
No bona fide retirement if a member:

• Enters into a verbal or written arrangement to perform duties for their former employer(s) as an independent contractor prior to or during their first month of entitlement; or

• Performs any duties for their former employer(s) as an independent contractor prior to receiving four months of retirement benefits.
Reemployment Guidelines*

*Applies to IPERS-covered employment only

- $50,000 earnings limit under age 65 (benefits reduced 50 cents for each dollar earned over the limit)
- No earnings limit after age 65
- Benefits recomputed upon termination
Reemployment Guidelines

• Must have a **bona fide retirement**.

• **It’s your responsibility to contact IPERS** if you are returning to an IPERS-covered position.

• Know the Social Security earning limits. Employer rules may be different.

• Contact us about specific elected official rules/questions.
When to Contact IPERS

• 4–6 months from retirement to obtain application packet
• At termination, if before age 55 for additional options
• If a disability occurs
Contact Us

More questions?

E-mail: info@ipers.org

www.ipers.org

Phone: 515-281-0070

Toll-free: 800-622-3849

Monday – Friday
7:30 am to 5:00 pm
Thank you for attending!

1-800-622-3849
info@ipers.org
www.ipers.org