The gap between the promises Iowa has made for public employees' retirement benefits and the money set aside to pay for them has grown to $5.7 billion – a 1,643-percent increase over 11 years, State Auditor David Vaudt said Monday.

“We had just a $327-million liability at the end of 2000. That has now grown to $5.7 billion, and that's equal almost to one year's general-fund budget,” Vaudt said. “We're going to need substantial resources in the future to improve the funded status of this particular plan.”

A report last year by State Budget Solutions, a national not-for-profit advocating for fundamental reform of state budgets, pegs Iowa's unfunded liability as even larger – $21.3 billion as of last March.

“The official estimate of the unfunded liability is based upon the state's promise to get a return on investment that is literally impossible,” said State Budget Solutions Editor Frank Keegan. “Taxpayers have to make up the difference, and that's going to cost a lot of money. ... I'm worried that governors and legislatures don't really realize the magnitude of it.”

Keegan said the average Iowa household will have to pay more than $800 in additional taxes every year for the next 30 years just for the existing unfunded pension promises. He said that's in addition to all other taxes and tax increases, no matter what pension reforms are enacted.

Assets in the Iowa Public Employees' Retirement System (IPERS) were $23.2 billion as of June 30, 2011, up from $19.9 billion the previous year, IPERS spokesperson Judy Akre said. The estimated value is a snapshot that fluctuates, depending on the stock market.

The assets are enough to pay for 80 percent of the pension fund's long-term liabilities, Vaudt said. That's down from 98 percent in fiscal 2000. Vaudt said Iowa got into this situation because contributions to the fund haven't kept up with the amount needed to pay out to participants.

"The key thing is, if we're going to promise a certain level of benefits, then we're going to have to actually fund those at a level that's appropriate to carry those out," Vaudt said. "The good news is we're 80-percent funded. The bad news is we're 20-percent underfunded, and that means somebody in the future is going to have to help make up that difference."

Yet Iowa's state pension plan does well when compared to those across the country. State pension plans nationwide were 78-percent funded in fiscal 2009, down from 84 percent in 2008, according to a report last year by Pew Center on the States, a nonpartisan think tank.

The Government Accountability Office, the investigative arm of Congress, advises states to have at least an 80-percent funding level for their pension systems. Thirty-one states fell below that threshold in Fiscal Year 2009, including Illinois, which was funded at 51 percent.

"I think over time, IPERS is really sound – more sound than 95 percent of the other pension systems in the United States," said Iowa Senate Appropriations Chair Bob Dvorsky (D-Coralville).

Vaudt said states should aim to be more like New York and Wisconsin, which were funded at 101 and 100 percent, respectively, according to the Pew report.

Shoring up the state pension fund's long-term finances means putting more money into the fund by increasing contribution rates by both the state and its employees, Vaudt said. Maximum contribution rates were frozen at 3.7 percent of wages for employees and 5.75 percent for employers for nearly three decades – from July 1979 to June 2007 – but have had several increases since then.

Contribution rates increased 0.5 percentage points each year from July 1, 2007, to June 30, 2011. The current rate is 5.38 percent for employees and 8.07 percent for employers. When that rate took effect in July 2011, an employee with weekly wages of $1,000 had $6.80 more deducted each week. This July, the rates will go up to 5.78 percent for employees and 8.67 percent for employers.

IPERS benefits were also cut with House File 2518, approved in 2010. Under the law, it takes seven years instead of four years for an employee to become eligible for benefits. New employees must reach the age of 65, rather than 55. The wage used to determine benefits comes from averaging an employee's five highest annual salaries, instead of highest three. Benefits for early retirement also were reduced.

Governor Terry Branstad agrees with Vaudt about the need to shore up the state pension fund, "which is why we have already taken action through increases in both the state contribution and employee contribution," Branstad spokesperson Tim Albrecht said.

Danny Homan, president of the American Federation of State, County, & Municipal Employees Iowa Council 61, which represents 40,000 public employees, said the "fixes" done in the Legislature in 2010 will take care of any problem with the state employees' retirement system.

"Currently, I believe the rates and the return on our money are much better than they were," Homan said. "I believe IPERS is sound and will be around for a very, very long time."

Iowa Senate President Jack Kibbie (D-Emmetsburg) said that with the 2010 legislation already increasing IPERS contribution rates, no additional legislation is planned or needed.

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