
LEGAL UPDATE

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PUBLIC RETIREMENT SYSTEMS COMMITTEE MEETING — DECEMBER 8, 2021

Purpose. *Legal updates are prepared by the nonpartisan Legal Services Division of the Legislative Services Agency. A legal update is intended to provide legislators, legislative staff, and other persons interested in legislative matters with summaries of recent meetings, court decisions, Attorney General Opinions, regulatory actions, federal actions, and other occurrences of a legal nature that may be pertinent to the General Assembly's consideration of a topic. Although an update may identify issues for consideration by the General Assembly, it should not be interpreted as advocating any particular course of action.*

Co-Chairpersons: Senator Tim Kraayenbrink; Representative Robert Bacon

OVERVIEW.

The Public Retirement Systems Committee received testimony from individuals involved with the Judicial Retirement System, the Iowa Public Employees Retirement System, the Peace Officers' Retirement System, the Municipal Fire and Police Retirement System, and the State of Iowa deferred compensation program for certain state and school employees. Additional materials presented for consideration by the committee are included on the committee's Internet site.

JUDICIAL RETIREMENT SYSTEM.

Mr. Robert Gast, State Court Administrator; Mr. Jon Cleereman, Director of Finance, Iowa Judicial Branch; and Ms. Patrice Beckham, Consulting Actuary, Cavanaugh Macdonald Consulting, LLC, provided background on the retirement system which covers all full-time judges and other judicial officers. Mr. Gast noted that the Judicial Retirement System is referenced in the Iowa State Constitution and is administered by the State Court Administrator. The State Treasurer is responsible for investing the assets of the retirement fund. Mr. Cleereman provided details about the current system population and certain related financial statistics. Ms. Beckham provided the committee a primer on actuarial concepts, discussed a plan maturity measurement, and then commented on the July 1, 2021, actuarial valuation of the system. Ms. Beckham discussed a plan maturity measurement referred to as the asset volatility ratio. The ratio, determined by dividing the market value of assets by covered payroll for a retirement system, tests the impact of varying investment returns. Ms. Beckham reported that the Judicial Retirement System was fully funded on July 1, 2021, and as a result, the statutory contribution rate requiring employees to contribute 60 percent and the state to contribute 40 percent will begin in fiscal year 2023.

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (IPERS).

IPERS Staff. Mr. Gregory S. Samorajski, Chief Executive Officer, and Ms. Patrice Beckham, Consulting Actuary, provided an overview of the retirement system, focusing primarily on the June 30, 2021, actuarial valuation of the system. Mr. Samorajski noted that the historical goals for IPERS are to attract and retain a quality workforce and to provide a secure retirement with lifetime pension payments. Ms. Beckham discussed the July 1, 2021, actuarial valuation of the system. Key funding measures based on the July 1, 2021, actuarial report include an increase in the ratio of actuarial assets to actuarial liabilities for the system as a whole from 84.0 percent to 88.3 percent, a decrease in the unfunded actuarial liability by \$1.627 billion. Based upon IPERS contribution rate policy, the total contribution rate for the regular membership classification will remain at 15.73 percent of pay, payable on a 60-40 employer and employee basis. For members of the sheriffs and deputies classification, the total contribution rate will decrease from 18.02 percent of pay to 17.52 percent, payable on a 50-50 employer and employee basis. For members of

the protection occupation classification, the total contribution rate will remain at 15.52 percent, payable on a 60-40 employer and employee basis. Ms. Beckham noted that the funded ratio for IPERS regular membership is 87.3 percent; for the sheriffs and deputies classification, 102.7 percent; and for the protection occupation classification, 103.1 percent. Ms. Beckham also commented on the asset volatility ratio of each IPERS membership classification. Ms. Beckham recommended reviewing the amortization policy and plans to complete a new comprehensive experience study in 2022 to gather data for possible changes to the amortization actuarial assumption changes and revisions.

IPERS Investment Board. Ms. Phyllis Peterson, Chairperson, Iowa Public Employees Investment Board (board); Karl Koch, Chief Investment Officer, board; and Mr. Ali Kazemi, Wilshire Associates, addressed the committee relative to the role of the board and IPERS investments. Ms. Peterson noted the fiduciary responsibility of the board as a trustee of the IPERS fund and its role in setting and reviewing investment policy and actuarial assumptions. Currently, around \$68 million is paid by IPERS to external managers of IPERS' portfolio and internal management could reduce this cost while still providing competitive salaries for IPERS-employed investment managers. Mr. Koch expressed support for the internal investment proposal and then commented on the investment performance of IPERS. Mr. Koch noted that IPERS remains a well-diversified portfolio with an increasing effort in managing risk. Mr. Koch discussed the asset allocation of the IPERS portfolio, noting that the determination of this allocation is critical in determining the rate of return. Mr. Koch noted that the rate of return for fiscal year 2020 was 29.63 percent net of fees, that investment management expenses were 0.17 percent of assets, and that IPERS has significantly reduced active management in its U.S. stock portfolio. Mr. Koch further noted that similar net investment returns cannot reasonably be expected in the future. IPERS focuses on risk-adjusted returns and IPERS performs well based on these measures relative to other pension funds. Mr. Kazemi addressed the committee regarding the role of Wilshire Associates, as consultant for the board, in the asset allocation process and in determining the assumed rate of return. Mr. Kazemi noted that an appropriate asset allocation policy is determined by an investor's risk tolerance and return expectation viewed in the context of the liabilities that the assets are supporting. Concerning determining an appropriate investment return assumption, Mr. Kazemi noted that both 10-year and 30-year forward-looking horizon return assumptions are examined. Based on the asset allocation policy, the current 10-year projected rate of return is 4.75 percent while the 30-year expected return is 6.40 percent. Mr. Kazemi noted that it remains prudent for the board to continue looking at possibly reducing the investment return assumption in the future, despite a better than projected investment return in the past year.

IPERS Benefit Advisory Committee (BAC). Mr. David Martin, Chief Benefits Officer, addressed the committee. The goal of membership groups represented on the BAC is the long-term viability of the IPERS trust fund. Mr. Martin noted the positive impact of the 2012 pension reforms, including modification of benefits.

PEACE OFFICERS' RETIREMENT SYSTEM (PORS).

Mr. Jim Wittenwyler, Administrative Services Director, Iowa Department of Public Safety, and Ms. Patrice Beckham, Consulting Actuary, provided background on the system. Mr. Wittenwyler noted that the system is governed by a board of trustees, covers sworn peace officers of the Iowa Department of Public Safety, and members of the system are not covered by Social Security. Mr. Wittenwyler reviewed benefit provisions and the target asset allocation applicable to the system, and noted that the board is monitoring the current 7.0 percent investment return assumption. Ms. Beckham discussed the July 1, 2021, actuarial valuation of the system. Ms. Beckham provided a historical overview of the funded status of the system, noting that the funded ratio has increased from a low of 61 percent in 2012 to 84 percent as of July 1, 2021, and noted an increase from 76 percent in the previous year. Long term, the financial health of the system is dependent on future investment returns and scheduled contributions, including continued payment of the state supplemental payments of \$5 million until the system is 85 percent funded. Ms. Beckham explained that a full experience study is performed every five years and the next study will be completed before the 2022 valuation. Changes to the assumptions based on the study could also impact the date at which the system is expected to reach the benchmark of an 85 percent funded ratio.

MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA (MFPRSI).

Mr. Dan Cassidy, Executive Director, MFPRSI, and Mr. Mike Ehmke, Principal, Silverstone Group, provided background information concerning the retirement system. Mr. Cassidy noted that the mission of the system is to provide a comprehensive set of retirement and disability benefits to eligible local police officers and fire fighters in a sound, sustainable, and efficient manner, in accordance with the requirements of the program's governing statute. The

vision statement for the system provides additional background on the mission goals of providing a comprehensive, efficient, sound, and sustainable retirement system. Mr. Cassady provided an overview of the system, including its governance, member cities, responsibilities, and major program activities. He discussed the system description and statistics and continuing challenges for the system. Current challenges for the system include investment return expectations, restoration of 100 percent funding status, financial support for the system from the state, administrative costs of the Pension Protection Act of 2006, COVID-19 protocols, veteran's reemployment rights and the implementation of federal and state requirements, and the evaluation of the investment activities of the firms currently managing MFPRSI's portfolios including reviews of asset allocation, operational controls, and audit processes of the investment managers. Mr. Cassady noted that the board of trustees report on the system supports having the state resume its contribution to the retirement system at 3.79 percent of earnable compensation in order to reinstate the funding agreement between the state and the participating cities from 1976. He briefly discussed the possibility of legislative action to address certain technical changes in Iowa Code.

Mr. Ehmke then discussed the July 1, 2021, actuarial valuation of the system. As of July 1, 2021, the funded ratio of the system based on the actuarial value of assets is 82.95 percent and the city contribution rate beginning July 1, 2022, will decrease to 23.90 percent. He noted that of the total required contribution, about half is utilized to address the unfunded actuarial accrued liability of the system. Mr. Ehmke discussed future trends in the actuarial contribution rate to be paid by cities and the system's funded ratio over the next 25 years using current assumptions.

DEFERRED COMPENSATION PROGRAMS.

Department of Administrative Services (DAS). Mr. Adam Steen, Director, DAS, discussed the supplemental deferred compensation programs operated by DAS collectively called the Retirement Investors' Club (RIC). The programs are differentiated by the three applicable Internal Revenue Code sections describing public employee deferred compensation programs, 457, 401a, and 403b. The 457 program is available to primarily state employees, includes an employer match component (401a), and is utilized by about 65 percent of eligible state employees. The state's 403b program, which covers primarily educational employees, was established in 2009, is available to educational employers and their employees who participate in the program, does not provide an employer match, and is utilized by only about 13,000 participants, which reflects a fairly low participation rate. All programs offer core providers of investment products which providers were selected pursuant to certain requirements relating to fees and other service and performance metrics. In addition, the 403b program offers optional providers that are made available for school districts. Committee members discussed possible ways to encourage members to participate in the programs.

COMMITTEE DISCUSSION.

The committee did not adopt any formal recommendations.

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