
LEGAL UPDATE

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PUBLIC RETIREMENT SYSTEMS COMMITTEE MEETING — DECEMBER 6, 2023

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.*

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 governmental 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. Kent Farver, 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. Gast 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, 2023, 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 moved from a fixed rate to a variable rate, requiring employees to contribute 60 percent and the state to contribute 40 percent of the actuarially required contribution rate, beginning in fiscal year 2023. Investment volatility creates volatility in the actuarial contribution rate and, therefore, creates volatility in the employee and employer contribution rates. She noted by 2032 there is a 25 percent chance the employee contribution rate will rise from the current 10.13 percent rate to a rate exceeding 16.26 percent. Ms. Beckham noted that a special study was performed in November 2022 that found that the state would benefit from moving to a fixed contribution rate.

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, 2023, 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, 2023, actuarial valuation of the system and noted that the actuarial valuation of assets for the system is currently \$41 billion. Key funding measures based on the July 1, 2023, actuarial report include an increase in the funded ratio of actuarial assets to actuarial liabilities for the system as a whole from 89.5 percent to 89.7 percent, and a slight increase in

the unfunded actuarial liability of \$92 million. 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 remain the same at 17.02 percent of pay, 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 88.76 percent; for the sheriffs and deputies classification, 102.6 percent; and for the protection occupation classification, 102.96 percent. Ms. Beckham also commented that the projected unfunded liability balance for regular members is scheduled to be paid off by 2037. Mr. Samorajski also discussed rising concerns about fraud and overpayments in the IPERS system. Finally, Mr. Samorajski discussed the need for more resources to increase service delivery and to address key work areas.

IPERS Benefit Advisory Committee (BAC). Mr. Gregory S. Samorajski, Chief Executive Officer, addressed the committee on behalf of the BAC. The goal of membership groups represented on the BAC is the long-term viability of the IPERS trust fund. The BAC reviews proposals for benefit changes, but did not offer any benefit changes at the meeting.

IPERS Investment Board. Mr. Bill Bemis, Vice-chairperson of the IPERS Investment Board, discussed the role of the board and IPERS investments. Mr. Bemis 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. Mr. Bemis noted that the board, after considerable study, has established the ability to internally manage some assets with the hope of providing cost savings. Mr. Bemis answered questions relating to requests for IPERS to divest from certain types of investments.

IPERS Investment Update. Mr. Siriam Lakshminarayanan, Chief Investment Officer of IPERS, stated he has a staff of seven employees who implement the board's investment policies and oversee and evaluate investment managers. Mr. Lakshminarayanan noted IPERS is saving money by internally managing about \$90 million and has authorization from the board to manage over \$300 million. IPERS remains a well-diversified portfolio and does well managing risk. Mr. Lakshminarayanan discussed the asset allocation of the IPERS portfolio, noting that the determination of this allocation is critical in determining the rate of return. Mr. Lakshminarayanan discussed managing the liquidity of the fund to ensure monthly benefits are paid. He noted that the rate of return for fiscal year 2023 was 5.41 percent, and the target rate is 7 percent.

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 and 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 the investment return assumption is 6.5 percent. Ms. Beckham discussed the July 1, 2023, 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 73 percent as of July 1, 2023. Long term, the financial health of the system is dependent on future investment returns and scheduled contributions, including continued payment of the state supplemental appropriation to the system of \$5 million until the system is 85 percent funded. Ms. Beckham explained that moving peace officers from the Department of Transportation into PORS had a positive impact from an actuarial standpoint on the fund. Ms. Beckham noted the unfunded actuarial accrued liability of the fund increased from \$183.7 million to \$206.5 million as of the July 1, 2023, valuation, and that the actual contribution rate to the system for FY 2024 will be 9.25 percent less than the required actuarial contribution rate. Ms. Beckham commented that the impact of the \$5 million supplemental annual appropriation into the fund diminishes each year as the payroll increases. Discussion ensued about possible solutions to the unfunded liability.

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

Mr. Dan Cassady, Executive Director, MFPRSI, and Mr. Glen Gahan, Actuary, HUB International, provided background information concerning the retirement system. Mr. Cassady 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 of 7.5 percent, restoration of 100 percent funding status, financial support for the system from the state, steady rise in number of disability claims, increasing pressure from groups to divest from specific investments, maintaining up-to-date controls, keeping spending power of members in line with inflation, 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. Mr. Gahan then discussed the July 1, 2023, actuarial valuation of the system. As of July 1, 2023, the funded ratio of the system based on the actuarial value of assets is 84.57 percent and the city contribution rate beginning July 1, 2024, will decrease to 22.66 percent. He noted that of the total required contribution, about half is utilized to address the unfunded actuarial accrued liability of the system. Mr. Gahan 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.

DEPARTMENT OF ADMINISTRATIVE SERVICES (DAS).

Mr. Adam Steen, Director, Department of Administrative Services (DAS), and Mr. Nathan Reckman, Deputy 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 68 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 13,500 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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