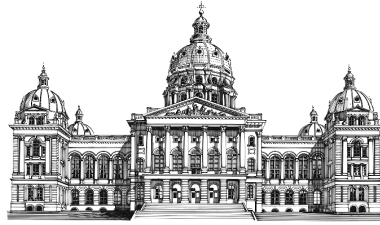


Iowa Legislative Fiscal Bureau

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Des Moines, IA 50319
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Community College Alternative Retirement System

ISSUE

Description and status report of the community college alternative retirement system.

AFFECTED AGENCIES

Community Colleges

CODE AUTHORITY

Section 97B.42 and Section 260C.23, Code of Iowa

BACKGROUND

Section 97B.42 and Section 260C.23, 1993 Code of Iowa, requires the community colleges to provide an alternative retirement benefits system. The major provisions include:

- By July 1, 1994, community colleges are required to provide an alternative retirement benefits system to employees who are members of the Iowa Public Employees' Retirement System (IPERS) or new employees.
- Community colleges were required to provide an alternative retirement benefits system for persons newly employed after July 1, 1990, who were already members of the alternative system.
- Employees can elect coverage under the alternative retirement benefits system in lieu of continuing or commencing contributions to IPERS.
- Employee and employer contributions are required to be substantially the same as provided by the State Board of Regents (BOR).
- Employer contributions are required not to exceed the employer's contribution rate established for the employees of the BOR.
- A member who elects coverage under an alternative retirement benefits system may withdraw the member's accumulated contributions.

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- An election to participate in the alternative retirement benefits system is irrevocable.

During the 1994 Session, changes were made to the alternative retirement benefits system by HF 2418, the Public Retirement Systems Bill. The changes include:

- Employee and employer contributions are required to be similar to that provided by the BOR. Previously, employee and employer contributions were required to be substantially the same as provided by the State Board of Regents (BOR).
- The employer's annual contribution in dollars to the alternative retirement benefits system can not exceed the employers contribution which the employers would have contributed under IPERS. Previously, employer contributions were required not to exceed the employer's contribution rate established for the employees of the BOR.
- A member employed prior to July 1, 1994 is required to file an election for coverage under the alternative retirement benefits system within 18 months.
- A member employed after July 1, 1994 must file an election for coverage under the alternative retirement benefits system within 60 days.
- Members who fail to file for election by the required date will remain with IPERS and are not eligible to elect to participate in the alternative retirement benefits system at a later date.

CURRENT SITUATION

The community colleges have chosen the Iowa Association of Community College Trustees to administer the alternative retirement system for all 15 community colleges. The contributions will be directed to the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). Table 1 (See Attached) compares Community College TIAA-CREF plan to IPERS and the Board of Regents TIAA-CREF plan. The offering of TIAA-CREF and the current contribution level is a Board of Regents policy choice.

As of November 8, 1994, 533 community college personnel have enrolled in the TIAA-CREF program that were previously enrolled in the IPERS program since July 1, 1994. (Table 2) Employees hired before July 1, 1994 have until January 1, 1996 to switch plans. New employees have 60 days to elect the alternative retirement system.

TABLE 2

| <u>Community College</u> | <u>Area</u> | <u>Number of Personnel switched to TIAA-CREF</u> |
|--------------------------|-------------|--|
| Northeast Iowa | I | 36 |
| North Iowa | II | 32 |
| Iowa Lakes | III | 13 |
| Northwest Iowa | IV | 5 |
| Iowa Central | V | 20 |
| Iowa Valley | VI | 37 |
| Hawkeye | VII | 21 |
| Eastern Iowa | IX | 27 |
| Kirkwood | X | 89 |
| Des Moines Area | XI | 111 |
| Western Iowa | XII | 33 |
| Iowa Western | XIII | 23 |
| Southwestern | XIV | 28 |
| Indian Hills | XV | 13 |
| Southeastern | XVI | 45 |
| Total | | 533 |

BUDGET IMPACT

Since HF 2418 limits the employer's contribution to the contribution that would have been made under IPERS, there is no budget impact to community colleges or the State General Fund.

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Comparison of Retirement Plans (Attachment I)

| | Iowa Public Employees Retirement System (IPERS) | Community College Alternative Retirement System (TIAA-CREF) | Board of Regents TIAA-CREF |
|-------------------------------------|---|--|--|
| <i>Type of Plan</i> | <ul style="list-style-type: none"> Defined Benefit Plan, IPERS provides a pre-set amount of retirement income that is guaranteed and predictable. The benefit is determined using a formula, which takes into account the highest 3 years of IPERS taxable wages, age, and years of participation. To fund this benefit, employee and employer contributions are made based on a percentage of salary. | <ul style="list-style-type: none"> Defined Contribution Plan, employer and employee contribute a certain percentage of salary into an individually-owned retirement annuity account. The employee decides how the contributions are allocated among Teachers Insurance and Annuity Association (TIAA) fixed (guaranteed) annuity and College Retirement Equities Fund (CREF) investment accounts. The earnings from these options will determine the size of the overall accumulation and, in turn, the amount of retirement income. | <ul style="list-style-type: none"> Same as Community College Alternative Retirement System (TIAA-CREF). |
| <i>Employer Contribution</i> | <ul style="list-style-type: none"> 5.75% of the covered salary. | <ul style="list-style-type: none"> Same as IPERS. | <ul style="list-style-type: none"> 6.67% on the first \$4,800 for employees with less than 5 years of service and 10.00% on all additional salary. 10.00% for employees with more than 5 years of service. |
| <i>Employee Contribution</i> | <ul style="list-style-type: none"> 3.70% of the covered salary. | <ul style="list-style-type: none"> Same as IPERS. | <ul style="list-style-type: none"> 3.33% on the first \$4,800 for employees with less than 5 years of service and 5.00% on all additional salary. 5.00% for employees with more than 5 years of service. |
| <i>Covered Salary</i> | <ul style="list-style-type: none"> As of 1994, \$38,000. This level is intended to increase each year until a ceiling of \$55,000 is reached. | <ul style="list-style-type: none"> Same as IPERS. | <ul style="list-style-type: none"> No maximum covered salary. |
| <i>Vesting</i> | <ul style="list-style-type: none"> By completing 4 years of service or by attaining age 55, regardless of years of service. | <ul style="list-style-type: none"> Vesting of employee and employer contributions is immediate. | <ul style="list-style-type: none"> Same as Community College Alternative Retirement System (TIAA-CREF). |
| <i>Portability</i> | <ul style="list-style-type: none"> Active membership in the IPERS may be transferred to any municipal or state public employment in Iowa. You may also purchase IPERS credit in certain limited situations. | <ul style="list-style-type: none"> Benefits are vested immediately in individual contracts, which go with the employee if the employee leaves. If the employee transfers to one of over 5,000 educational and research institutions offering TIAA-CREF, accumulating benefits continue under the contracts once the employee is eligible for the new employer's plan. | <ul style="list-style-type: none"> Same as Community College Alternative Retirement System (TIAA-CREF). |