Legislative Services Agency

MINUTES

Public Retirement Systems Committee

October 31 and November 1, 2007 — First Meeting

MEMBERS PRESENT:

Senator Michael Connolly, Co-chairperson
Senator Jeff Angelo
Senator Staci Appel
Senator Frank Wood
Senator Mark Zieman

Representative Pam Jochum, Co-chairperson
Representative Mark Davitt
Representative Jack Drake
Representative Marcella Frevert
Representative Walt Tomenga

MEETING IN BRIEF

Organizational staffing provided by: Ed Cook, Senior Legal Counsel, (515) 281-3994

Minutes prepared by: Rick Nelson, Senior Legal Counsel, (515) 242-5822

I. Procedural Business

Convening and Adjournment. The meeting convened on Wednesday, October 31, 2007, at 10:01 a.m. in Room 103, Supreme Court Chamber, at the Statehouse, and recessed at 3:04 p.m. On Thursday, November 1, 2007, the Committee reconvened at 9:00 a.m. and adjourned at 2:19 p.m.

Election and Approval. Co-chairpersons Connolly and Jochum were elected co-chairpersons at the beginning of Wednesday's meeting, and proposed rules were approved and adopted by the Committee.

Opening Remarks. Co-chairperson Jochum referenced the Legislative Guide on Iowa Public Retirement, written by Mr. Ed Cook, Legal Services Division, Legislative Services Agency (LSA), as setting out the guiding principles for use in making decisions related to Iowa public retirement systems. Co-chairperson Connolly recognized the expertise accumulated by legislative staff and the various retirement systems over the years, and noted that the Committee will be examining benefits aspects of the retirement systems and also providing oversight regarding the investments side.

II. Municipal Fire and Police Retirement System of Iowa (MFPRSI)

MFPRSI Staff. Mr. Dennis Jacobs, Executive Director, MFPRSI, accompanied by Mr. Donn Jones, Consulting Actuary, Silverstone Group, provided background information concerning the retirement system. Mr. Jacobs described the initial statutory consolidation of local fire and police retirement systems in 1990, the subsequent merger with additional such systems in 1992, placement of the system under a board of trustees, and the current membership of the board. Five goals sought to be achieved through consolidation were identified and reviewed, with the comment by Mr. Jacobs that MFPRSI feels that the goals are being accomplished. He summarized major program activities, highlighting in particular local real estate investment as part of the investment program, implementation and administration of 2007 Iowa Acts, S.F. 361, prohibiting investing in certain companies doing business in Sudan, and implementation of a Deferred Retirement Option Program, and noted that most retirees under MFPRSI are not covered under social security. A membership profile for the system was presented, the retirement formulas were reviewed, the member cities within the system were identified, and benefit activity since creation of the merged system was summarized. Mr. Jacobs noted, with respect to disability benefits, that the average number of claims filed per year has significantly decreased since consolidation, attributable to uniformly consistent administration of processing and approving disability claims across all member cities. Mr. Jacobs also noted that the board was not proposing any legislation for next year.

With regard to the system's investment program, Mr. Jacobs indicated that the fund returned 18.9 percent last fiscal year, and that based on the most recent actuarial valuation of the system for the fiscal year ending June 30, 2007, the funded status of the system is around 107 percent. Investment returns were characterized as significantly higher than the actuarial assumptions when viewed over the long term, resulting from utilization of a diversified asset investment plan, with the caveat that individual year fluctuations vary based upon market performance. Mr. Jacobs described various investment components spread throughout 23 portfolios managed by a number of private firm portfolio managers. Based on the most recent actuarial valuation and the state's current appropriation to the system, the required contribution rate from cities beginning in FY 2008-2009 will be 18.75 percent, down from 25.48 percent for FY 2007-2008. Because of recent good investment returns, Mr. Jacobs indicated that the required contribution rate from the cities will likely fall below the cities' minimum 17 percent level after the next actuarial valuation. The lack of financial commitment to the plan from the state as originally proposed continues to be a significant issue — funding was frozen in the early 1990s and payment by the state of the amount absorbed by the plan in the succeeding period would restore over $30 million in plan assets.

Mr. Jones provided more detailed information regarding the variable calculation of member cities' contribution to the system, the fixed nature of the state's contribution, utilization of a four-year rolling average method for deferral of the immediate recognition of gain and loss and the fact that the system is currently in a deferral of gain phase, and an actuarial valuation history regarding the funded status of the system.

Committee discussion included the extent to which the board is involved in investment policy decisions and the ongoing nature of board and investment manager interaction; a request for a report on the investment performance impact of the subprime mortgage situation, which was described as minimal based on the diversified nature of asset investment; a request for a proportionate breakdown of various investments to determine allocation of performance; the limited experience with alternative investments such as hedge funds; the extent to which wellness training may prevent disability claims and the growing phenomenon of mental health disability claims; the possibility of using a longer period of time than four years for the deferral of gains and losses; and commentary regarding the dedication and diligence of MFPRSI Board members and support staff.

Iowa League of Cities. Mr. Alan Kemp, Acting Executive Director for the League, accompanied by Ms. Jessica Harder, Governmental Affairs Counsel for the League, identified as a legislative priority controlling public pension costs by limiting any increased public pension-related requirements imposed upon local governments. Mr. Kemp indicated that pension contributions by league members represent a significant financial contribution by cities, and stated that while there has been a decline in member contribution rates based on strong current investment performance, fluctuating rates continue to plague cities. He advocated a more reasonable split between members and cities and removal of the 17 percent floor on city contributions to eliminate unnecessary overfunding in the event that favorable market conditions and declines in contribution rates continue to occur. Committee discussion included requests for additional information relating to the percentage of cities' budgets which pension contributions represent and how Iowa compares to other states with similar consolidated retirement systems.

Iowa State Police Association. Mr. Brad Novak, President, Iowa State Police Association, stated that the association recommends no changes to the system, with current contribution amounts and calculation formulas maintained. When funding becomes available, however, the association proposes increasing the maximum pension from 82 to 90 percent of final average pay after 30 years of service, increasing the escalator program which provides increases in retirement benefits following retirement, and including overtime in a member's earnable compensation for purposes of calculating retirement benefits.

Iowa Professional Fire Fighters. Mr. Jack Reed, State President, Iowa Professional Fire Fighters, accompanied by Mr. Tom Fey, lobbyist for the organization, advanced several recommendations. Mr. Reed stated that the current contribution level of a 17 percent minimum for cities, and 9.35 percent for fire fighter and police members, should be maintained, pointing out that the cities are not paying extra for workers' compensation coverage or for social security tax and retained approximately $80 million in excess funding in 1992 when consolidation occurred. He recommended increasing the pension multiplier applied after 22 years of service to 74 percent with a maximum pension of 90 percent of final average pay at no additional member cost, to take effect in late 2008 or early 2009 and contingent upon funding, commenting that while 90 percent might seem high, members are paying their own family health insurance. Additionally, Mr. Reed recommended establishing a presumption that disabilities or deaths due to certain cancers and infectious diseases are job-related, at no additional member cost, indicating that research supports a higher incidence of such occurrences under the hazardous job conditions of fire fighters and emergency medical services personnel. He also maintained that many cities are imposing doctor's choice requirements on fire fighters and requested clarification that there is no requirement applicable to cities of doctor's choice under Code chapter 411, that penalties against cities are needed in instances where cities are not abiding by the heart and lung presumption in Code chapter 411 and instead requiring employees to file costs with their health insurance or prove the problem is job-related in nature, and that the cost of the $100,000 line of duty death benefit should be paid from the State General Fund rather than the retirement fund. Further, Mr. Reed advocated increasing the escalator program providing increases in benefits following retirement.

Committee discussion included the merits of providing a no-cost health physical to all fire fighters, whether volunteer or professional; a request for comparisons with other states; a request for a list of cities which may not be enforcing the heart and lung presumption; and a clarification regarding the definition of "fully funded" by Mr. Jacobs and resulting discussion of commonly used terms.

III. Judicial Retirement System

Mr. David Boyd, State Court Administrator, accompanied by Ms. Peggy Sullivan, Director of Finance and Personnel, Judicial Branch, provided background relating to the retirement system, highlighted results from the most recent actuarial valuation of the system, and presented an overview of investment results during the past year. Mr. Boyd discussed limitation of the system to full-time judicial officers, indicating that the size of the system is relatively small, consisting of 200 active members, 151 retired members or surviving spouses, and nine inactive members (members who have left the bench but not yet retired). The calculation of a judge's basic retirement benefit and retirement eligibility requirements were reviewed. With reference to the actuarial valuation, Mr. Boyd stated that specified assumptions underlying the valuation needed to be updated, including more up-to-date mortality tables, with a net impact of increasing the accrued liability of the system by $9 million and normal cost by approximately $400,000. He pointed out that a gain on the actuarial value of assets of $6.9 million helped to offset the increase in the actuarial accrued liability resulting from the change in assumptions.

Mr. Boyd said that the most recent results indicate that as of July 1, 2007, the funded ratio of assets to liabilities of the system is approximately 70 percent and the annual actuarially required contribution rate from the state should be 30.9 percent. He provided a historical overview of state contributions to the system, indicating that the state did not make employer contributions until approximately 1994, and that the subsequent statutory provision for a minimum annual state contribution rate of at least 23.7 percent has not been consistently followed since FY 2001-2002, resulting in significant underfunding of the system. Mr. Boyd stated that if the statutory contribution rate had been met, the fund would be approximately $16 million larger, and that the system's unfunded liability continues to grow. If the state meets or exceeds its statutory minimum obligation in FY 2008-2009, with a judicial contribution rate of 6 percent and no benefit enhancements, the fund could begin to recover.

Committee discussion included passage of a motion that judges be polled to determine interest in the possibility of combining or folding the judicial retirement system with another one, such as the Iowa Public Employees' Retirement System (IPERS), which would achieve a broader investment base, although the prospect of another system incurring the judicial system's current liability situation might seem unlikely. Additional discussion relating to remedying the unfunded liability prompted a request from Mr. Boyd for an additional State General Fund appropriation of $4.5 million to begin making progress toward achieving actuarial soundness, the comment that it would take approximately 20 years to make up the $42 million shortfall if the state began paying the required 23.7 percent rate, and the notation that allocating amounts out of the jurors and witness fund cannot be an ongoing solution to the problem.

IV. Overview of Public Retirement Systems in Iowa

Mr. Cook, LSA, summarized background information available both on the General Assembly's Website and in his Iowa Public Retirement Legislative Guide useful for Committee members in interpreting and understanding some of the principles and concepts being discussed. Mr. Cook emphasized that service on the Public Retirement Systems Committee is an important responsibility but also presents challenges due to the complexity of the subject matter and terminology involved, and identified as an overriding goal discerning the commonality among the seemingly disparate systems and groups. He identified the basic retirement formula applicable to all retirement plans, contrasted defined benefit versus defined contribution plans, stressed that retirement system oversight is a legislative function and is excluded from collective bargaining, summarized the guiding goals for evaluating changes in public retirement systems as contained in Code section 97D.1, and reviewed the Committee's statutory duties. Mr. Cook stated that creating a coherent state policy on pensions can be difficult given that there are essentially six distinct systems with different employee mixes and benefit needs, and noted that additional challenges include a benefits "domino effect," legal restrictions on benefit reductions, and the fiscal impact of changes and enhancements. He discussed the key aspect of solvency given the fact that benefits are guaranteed, including the actuarial basis for the determination of solvency and assumptions inherent in that process, and identified various resources available to Committee members to provide further assistance.

V. Iowa Public Employees' Retirement System

IPERS Staff. Ms. Donna Mueller, Chief Executive Officer, IPERS, accompanied by Mr. David Martin, Chief Benefits Officer, IPERS, and Mr. Karl Koch, Chief Investment Officer, IPERS, identified IPERS as the largest retirement system in the state and provided an overview of the organization and operation of the system. Ms. Mueller listed the primary goals of IPERS as including the attracting and retaining of public service employees, allowing them to care for themselves in retirement, and creating economy and efficiency in state government. She stated that IPERS covers most Iowa public employees either as regular members or in a special service group, noted that while the state is the single largest IPERS contributing employer it still constitutes only about 15 percent of the total employer contribution base, profiled members and contributing employers, mentioned that all IPERS members are covered under social security, summarized the operation of the system as a basic contributory defined benefit plan designed to work in tandem with social security and personal savings, contrasted the plan design with a defined contribution plan, and indicated that when the formula multiplier is applied to the high-three-year average salary, the system is designed to replace up to 65 percent of wages for regular members and up to 72 percent of salary for the sheriffs and deputies and protection occupations constituting special service members.

Ms. Mueller explained that the average IPERS retiree has approximately 21.5 years of service, with the system replacing about 43 percent of the highest three-year average wage, that there is a changing demographic regarding what constitutes retirement or whether retired workers will continue employment in some other capacity, and that retired individuals are living longer. She identified "normal" retirement ages for regular members, and noted that special services classifications envision earlier retirement based on the potentially hazardous nature of the covered occupations.

Regarding plan funding, Ms. Mueller explained the basic principle that IPERS needs to collect a sufficient amount during the working life of its members and earn enough on investments made from those collections to pay promised benefits in the future, and that a benefit which has already been earned cannot be rescinded or removed. She stated that benefit enhancements must be evaluated in light of whether they will contribute to or enhance the basic purposes of the plan, and that multiple benefit enhancements or changes are not advisable over a short period of time because their cumulative effect can lead to a change in member behavior not previously assumed by the plan. Ms. Mueller also stated that factors driving up costs which cannot be controlled include how many years people will draw benefits and member behavior, and that factors which can be controlled include the formula multiplier, when benefits start and the normal retirement age, and the definition of covered wages.

Ms. Mueller informed the Committee that the FY 2007 Actuarial Report has not been finalized, will be distributed within the next few weeks, and that accordingly the figures she presents are from FY 2006. She indicated that the plan has an unfunded actuarial liability of $2.5 billion, assets of over $23 billion, that current benefits are not fully prefunded and presently are funded at 88.4 percent, and that there is a disparity between statutory versus actuarial contribution rates. She discussed the impact of delaying one-half percentage point annual contribution rate increases for four years and in raising the contribution rate as creating a $376 million unfunded actuarial liability, and noted that actuarially determined special service contribution rates have resulted in a relatively stable situation for the covered groups.

Ms. Mueller stated that from an investment perspective, the system is currently beating the actuarial return assumption of 7.5 percent, and that in a peer comparison with retirement programs in other states, IPERS has been ranked near or at the bottom in terms of costs and ranked high regarding service. She contended that IPERS needs to study how a traditional cost-of-living adjustment (COLA) could be incorporated, offered assessments of how well the plan appears to be meeting its goals based upon input from and compared to various groups, stated that the system's return-to-work provisions are among the most liberal in the country, and noted that there is an increase in protection occupation status requests.

Ms. Mueller made the following recommendations:

- Allow IPERS to adjust contribution rates for benefits currently provided to regular members, with increases or decreases in the total contribution rate restricted to one-half of a percentage point in a given fiscal year. Rate adjustments should be announced six months in advance to provide employers time to budget.
- Eliminate bonuses and allowances from the definition of covered wages used to determine system contributions and benefits, in recognition of the fact that they do not reflect a normal progression of wages over a career and are relatively uncommon.
- Support benefits administration computer technology implementation designed to improve services and help control costs, and forego implementation of benefit changes during FY 2008-2009 while the system upgrades the new benefits administration technology.
- Evaluate various aspects of the plan, including how early retirement incentives provided in the system plan and by employers may hurt retention and exacerbate concerns about having enough qualified employees, whether phased retirement programs or changes in the formula multiplier may be useful incentives to delay retirement, how to address the lack of a guaranteed COLA to the system's monthly benefit, and whether to expand protected occupation status to other professions or occupations.

Committee discussion included the fact that teachers in the Des Moines Independent Public School District are permitted a choice regarding participation in IPERS or a separate retirement plan operated solely for the school district; a probability percentage of 73 percent that the 11.45 percent contribution rate will be sufficient, in a few years, to adequately fund the IPERS plan; an estimate that approximately 80 percent of all benefits paid from the system stay in the state of Iowa; the status of recently enacted additional teacher pay as salary rather than as a bonus; the fact that bonuses of a nature similar to those in question relating to the Central Iowa Employment and Training Consortium (CIETC) would not be reported to IPERS as covered wages; a request for a breakdown regarding the number of covered employees above and below an annual salary level of $100,000; the impact of vesting on employee recovery of a portion of employer contributions; and the prospect of enhancing plan portability within a defined benefit structure and the existence and impact of purchase of services credit and plan rollovers.

IPERS Investment Board. Mr. David Creighton, Chief Executive Officer, The Bryton Companies, and Vice Chairperson of the Investment Board, accompanied by Mr. Koch, addressed the Committee on behalf of the board. Mr. Creighton provided an overview of the board's roles and responsibilities, including the adoption of policies governing diversification and investment of assets, hiring investment managers and consultants, reviewing investment performance, selecting the actuary and adopting mortality tables and actuarial methods and assumptions, evaluating the performance of IPERS executive officers, and reviewing investment management expenses and the IPERS administrative budget. He identified the structure and composition of the board and the board's fiduciary duty as trustee of the IPERS Trust Fund. Mr. Koch discussed the role of the board's staff in implementing the policies and strategies adopted by the board, including a policy to oppose social investment strategies or mandates, and mentioned implementation of the Sudan legislation identified previously as a current staff function. Investment returns were characterized as favorable over the preceding three- to four-year period, with the comment that some active investment strategies in stock portfolios have not consistently beaten market levels and are being replaced or reduced with ones that are more consistent or provide a broader array of investment choices. Mr. Koch indicated that bailout plans have been discussed regarding investments backed by subprime market loans, but that the true significance of this development is on the longer term impact on the economy and that at the present time the IPERS portfolio appears to be in good shape. It was recommended that the cap on IPERS investment management expenses should be eliminated since IPERS utilizes performance-based fees and a cap limits the ability to reward excellent portfolio managers. Committee discussion included the extent to which alternative investments and hedge funds are being pursued in the retirement arena and ongoing evaluation of such activities by the board.

Benefits Advisory Committee (BAC). Mr. Len Cockman, Chairperson, IPERS BAC, provided information regarding BAC membership, and indicated that its duties include advising the General Assembly and administration on services provided to IPERS members; determining the extent to which the goals of the system are being met by benefits policy; studying the ramifications of proposed changes; participation in executive office hiring decisions and evaluations; providing feedback on IPERS' strategic plan, administrative rules, and proposed agency legislation; annual operating budget reviews; and monitoring of the system's status and performance. Current issues being addressed by BAC include ensuring full funding of benefits and their continued relevance and affordability, considering COLA, and reviewing requests to expand protection occupation status. Mr. Cockman stated that BAC supports maintaining and preserving IPERS as a defined benefit plan, attaining full funding for the IPERS Trust Fund, granting IPERS the authority to review contribution rates annually and adjust the rates when necessary, and establishing an independent IPERS Board of Trustees.

Iowa State Education Association (ISEA). Mr. Brad Hudson, ISEA, remarked that ISEA views IPERS as a modest and well-managed system, and supports granting IPERS the authority to adjust contribution rates on an actuarial basis, studying proposals for establishing a permanent cost-of-living benefit for retirees, and establishing an independent IPERS Board of Trustees to strengthen and enhance fiduciary capacity.

Iowa League of Cities. Mr. Kemp, again appearing before the Committee with relation to IPERS, stressed that the league's legislative priority is to control public pension costs and limit any increased requirements imposed upon local governments relating thereto. He stated that the league supports policies that will ensure the long-term integrity and full funding of the system, opposes expansion of benefits until the system is fully funded, and urges caution in expanding the protection occupation classification as it might relate to cost increases.

School Administrators of Iowa. Dr. Gaylord Tryon, representing the School Administrators of Iowa, recommended that the formula multiplier be changed to 2 percent for each year of employment for all regular members, regardless of the number of years the member has been employed. He related the loss of school administrators and superintendents to neighboring states based on the current IPERS policy of no additional multiplier being applied for members after 35 years of employment, which he characterized as a disincentive to continue employment past that point and discriminatory against older workers who continue paying into the system and who are tending to retire later. Dr. Tryon predicted that the recommended change would encourage teachers, administrators, and others to stay in the workforce longer, thus minimizing the need to find replacements for those difficult-to-fill positions. Committee discussion included an inquiry as to the impact of extending the multiplier on early retirement and subsequent reemployment options, with a response that such arrangements are being slowly phased out based upon the realization that the same amount of work may be expected for substantially reduced postretirement contract pay.

Iowa Hospital Association (IHA). Ms. Shannon Strickler, representing IHA, related the problems posed during health care worker shortage periods by an IPERS requirement that a public hospital retiree must wait four months before returning to full-time employment. This dilemma resulted in legislation effective July 1, 2004, which reduced the waiting period for licensed health care workers to one month. Ms. Strickler advocated expansion of the shortened retirement waiting period to all public hospital employees, stating that this would reach more shortage areas and remove barriers public hospitals face when competing with private hospitals for employees. She also indicated that IHA supports increasing the earned income cap to keep pace with inflation and allowing health care employees more flexibility when returning back to work on a part-time or as-needed basis. Committee discussion included a request for an estimate of the number of hospital employees covered by IPERS.

Iowa State Sheriffs' and Deputies' Association (ISSDA). Captain Daniel Chapman, Second Vice President, ISSDA Board, accompanied by Ms. Susan Cameron, lobbyist for ISSDA, described the physical demands, risks, and dangers facing peace officers employed in law enforcement positions, which supports a younger retirement age than other IPERS-covered employees. He indicated that ISSDA is beginning to develop retirement benefit goals which would include increasing the escalator for the eight years between 22 years and 30 years of service from the current level of 1.5 percent per year to 2 percent per year, which would result in an increased payout of 76 percent for 30 years of service. The ISSDA has requested an actuarial cost study for this benefit enhancement and depending on the results of the study will determine whether to pursue the enhancement, and if so, when to pursue it. The ISSDA support for moving to an actuarially set or adjustable contribution rate for all IPERS members, and evaluating whether the favorable experience dividend is the most effective way to ensure COLAs, was also stated.

Iowa County Attorneys' Association. Mr. Ray Blase, Iowa County Attorneys' Association, accompanied by Mr. Ralph Potter, Dubuque County Attorney, and Ms. Cameron, discussed the rationale for providing Iowa prosecutors with benefits comparable to those provided under the protection occupation classification. Mr. Blase stated that although prosecutors play a vital role in the state's criminal justice system, their pension benefits lag behind judges, local law enforcement personnel, and state public safety officials, which has contributed to increased difficulty in attracting attorneys to run for the elected office of county attorney and a relatively brief period of service for those who do. He emphasized the need for attracting the best and brightest legal talent possible, the public pressure that can often be brought to bear on prosecuting attorneys, and the close working relationship of prosecutors with law enforcement personnel. Mr. Potter described the rigors of life as a prosecuting attorney, underscoring recognition that the job is inherently hazardous and stressful. The association is currently addressing the potential shortage in attracting and retaining county attorneys by working to enhance salaries and pension benefits, and proposes the creation of a special group under IPERS for prosecutors consisting exclusively of county attorneys and assistant county attorneys and with benefits paid by the prosecutors, thereby avoiding a negative impact on other IPERS members or the unfunded liability of the fund. IPERS is currently conducting an actuarial cost study for the proposal. Committee discussion included whether the difficulty with recruitment was really a salary rather than pension issue, with the response that it is also vital to retain skilled prosecutors at the county level.

Miscellaneous Protection Occupation Classification Proposals:

- **Emergency Medical Services (EMS) Employees.** Mr. Bill Fish, representing the Iowa EMS Association, and a critical care paramedic, accompanied by Mr. Cal Hultman, also representing the association, stated that the IPERS BAC has unanimously agreed that EMS employees appear to meet all the requirements necessary for inclusion in the protection occupation classification. Mr. Fish noted that EMS employees may or may not be affiliated with a fire department, may be employed by a variety of entities, and accordingly suffer somewhat from a lack of cohesive identity. He emphasized that EMS employees covered by IPERS are in fact public safety employees; suffer repeated exposure to death, dying and other human tragedy, toxic substances, and unrelenting physical demands; and therefore deserve to enjoy the same benefit level as other public safety employees. During Committee discussion it was clarified that the request pertains to full-time EMS employees rather than part-time employees and volunteers.
- **Jailers and Military Installation Officers.** Mr. Pat Lynch, International Brotherhood of Teamsters, indicated that BAC also supports inclusion of jailers and military installation officers in the protection occupation classification. He supplied copies of a survey requested by BAC directed at the impacted members, the county sheriffs, and the county boards of supervisors, and the results of an actuarial cost study relating to inclusion.
- **Polk County Attorney's Office Special Investigators.** Mr. Paul Houston, Criminal Investigator, Polk County Attorney's Office, stated that BAC additionally supports inclusion of Polk County special investigators in the protection occupation classification.

He described the unique status of the Polk County Attorney's Office as employing six deputized investigators, discussed their duties relating to conducting case investigations, effecting arrests and search warrants, and transporting prisoners, and summarized the training they receive in carrying out these duties.

Additional Presentations:

- **Tax Sheltered Annuity Regulation Implications.** Mr. Mark Beerman, Attorney, Ahlers & Cooney, P.C., accompanied by Mr. Kurt Subra, CPA, West Des Moines Community Schools, represented the Iowa Association of School Business Officials in recommending legislation allowing school districts to limit the number of eligible tax-sheltered annuities authorized under Internal Revenue Code section 403(b) offered to school district employees. Mr. Beerman discussed new Internal Revenue Service regulations issued in July of 2007 imposing additional administrative burdens upon school districts which would now function as plan administrators, rather than as a conduit or pass-through entity as under current law. Mr. Subra distributed a handout contrasting requirements applicable to school districts with cities, counties, and the state regarding plan administration; emphasized that limiting the number of vendors would provide parity with those other entities; and stressed that the issue is time-sensitive given the impending effective date of the new regulations.
- **Buyback of Service Credit.** Mr. Jim West, Attorney, Nyemaster, Goode, West, Hansell & O'Brien, P.C., discussed the impact of a change requiring an IPERS-covered employee buying back prior service to pay the actuarial cost of the service bought back, indicating that an employee should get a credit against the full actuarial cost of a buyback of service reflective of the amount previously contributed to the system by that member and not refunded to the member. Mr. West attached two study bills from the 2007 Legislative Session intended to address this situation.

VI. Peace Officers' Retirement System (PORS)

PORS Staff. Mr. David Heuton, PORS Director of Administrative Services, provided background on the system. He indicated that a final version of the most recent actuarial report is not yet available, but stated that based upon a draft of the report the required contribution rate should be 45.84 percent, that the current contribution rates are substantially lower, and that resulting unfunded liability of the system is approximately $100 million. He indicated that PORS encompasses a broader employee base than just troopers, that PORS and MFPRSI share a portability feature between the systems, that a recently enacted permissive service credit has resulted in relatively little participation, and that investments are overseen by the State Treasurer's Office which contracts with investment managers. Mr. Heuton indicated that the Treasurer's Office is presently conducting an investment strategies review.

Regarding recommendations, PORS supports modification of language regarding medical board certification to mirror that applicable to MFPRSI; providing that accidental disability benefits will cease if a member seeks and obtains another law enforcement position; restructuring of statutory language to eliminate a duplication relating to a pension accumulation, reserve, and expense fund; changing a requirement that PORS use the aggregate method of valuation to permit use of the method adopted by the board of trustees; and increasing the state appropriation to the retirement fund by $5 million per year coupled with a 2 percent annual increase in the state contribution rate to the system until the system is fully funded.

Committee discussion included a series of requests for more detailed information in chart and graph form depicting current fund status and past and present investment performance, and inquiry regarding what has contributed to such a significant unfunded liability. Mr. Heuton indicated that no one factor is completely responsible, but identified periods of poor investment performance and few new entrants into the system as contributing factors.

State Police Officers Council, Iowa State Troopers Association, Iowa State Patrol Supervisors' Association. Mr. Fey, collectively representing the associations, accompanied by Ms. Maxine Moore Ballard, representing the council, and Mr. John Cacciatore, representing the troopers association, stated that PORS was well funded until a market downturn adversely impacted retirement systems in general which, combined with actuarial experience and a decline in the contribution base, led to the system's present situation. He indicated that the council and associations support the proposal discussed above to increase state appropriations and the state contribution rate to reach fully funded status and that, upon reaching that status, contributions should be determined in a manner consistent with MFPRSI whereby the state increases its contribution rate to pay for any future shortfalls in the system.

VII. Next Meeting

Committee members agreed during an earlier portion of the meeting to hold the next Committee meeting on Friday, December 7, 2007, in Room 22 of the State Capitol to discuss various proposals relating to the retirement systems.

VIII. Materials Filed With the Legislative Services Agency

The following materials listed were distributed at or in connection with the meeting and are filed with the Legislative Services Agency. The materials may be accessed from the <Additional Information> link on the Committee's Internet Webpage:
http://www.legis.state.ia.us/aspx/Committees/Committee.aspx?id=57.

1. Back To Basics: Secure Retirement — IPERS Presentation, Ms. Donna Mueller, Chief Executive Officer, IPERS.
2. Iowa Judicial Retirement System, Status of Judicial Retirement Fund, Mr. David Boyd, State Court Administrator.
3. Legislative Guide to Iowa Public Retirement Systems, Mr. Ed Cook, Senior Legal Counsel, Legislative Services Agency.
4. MFPRSI Presentation, Mr. Dennis Jacobs, Executive Director, MFPRSI.
5. MFPRSI Memo, Mr. James L. Abshier, City Attorney, Sioux City.
6. IPERS BAC Presentation, Mr. Len Cockman, Chairperson, BAC.

7. IPERS Investment Board Presentation, Mr. David O. Creighton, Sr., Vice Chairperson, IPERS Investment Board.

8. Iowa County Attorneys' Association Presentation, Mr. Ray Blase, representing the association.

9. Iowa Emergency Medical Services Association Presentation, Mr. Bill Fish, representing the association.

10. Iowa Hospital Association Presentation, Ms. Shannon Strickler, representing the association.

11. Iowa League of Cities Presentation, Mr. Alan Kemp, Acting Executive Director for the league.

12. Iowa State Sheriffs' and Deputies' Association Presentation, Mr. Daniel Chapman, Second Vice President of the association.

13. IPERS Presentation, Mr. Jim West, Nyemaster, Goode, West, Hansell & O'Brien, P.C.

14. Polk County Attorney's Office Special Investigators Presentation, Mr. Paul Houston, Special Investigator, Polk County Attorney's Office.

15. School Administrators of Iowa, Dr. Gaylord Tryon, representing the association.

16. Jailers Request for Protection Occupation, Mr. Pat Lynch, International Brotherhood of Teamsters.

17. State Police Officers Council, Iowa State Troopers Association, Iowa State Patrol Supervisors' Association Presentation, Ms. Maxine Moore Ballard, Mr. John Cacciatore, Mr. Justin Hupfer, Mr. Tom Fey, and Mr. Mike St. Clair.

18. Iowa Judges Association Statement, Judge Larry Eisenhauer.

19. MFPRSI — Iowa League of Cities Presentation, Mr. Alan Kemp.

20. MFPRSI — Iowa Professional Fire Fighters, Mr. Jack Reed, State President, Iowa Professional Fire Fighters.

21. Tax Sheltered Annuities, Mr. Mark Beerman, Attorney, Ahlers & Cooney, P.C.

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