



MINUTES

Public Retirement Systems Committee

November 9, 2009

MEMBERS PRESENT:

Senator John P. Kibbie, Co-chairperson
Senator Staci Appel
Senator Steve Kettering
Senator Steve Soddors
Senator Brad Zaun

Representative Mary Mascher, Co-chairperson
Representative Jack Drake
Representative Marcella Frevert
Representative Dawn Pettengill

MEETING IN BRIEF

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- I. Procedural Business
- II. Peace Officers' Retirement System (PORS)
- III. State Police Officers Council and the Iowa State Patrol Supervisors Association
- IV. Judicial Retirement System
- V. Iowa Public Employees' Retirement System (IPERS)
- VI. IPERS Benefit Advisory Committee (BAC)
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Public Retirement Systems Committee

I. Procedural Business

Convening and Adjournment. The meeting convened at 9:35 a.m. on Monday, November 9, 2009, in Room 103 (Supreme Court Chamber) at the State Capitol. The meeting was adjourned at 3:35 p.m.

Member Absent. Representative Paul Bell's absence from the meeting was excused.

Next Meeting. The next meeting is scheduled for Thursday, November 19, 2009, in Room 103 of the State Capitol.

Election of Chairpersons. Temporary Co-chairpersons Kibbie and Mascher were elected permanent co-chairpersons by voice vote.

Adoption of Rules. The proposed rules — previously distributed — were adopted by voice vote.

Opening Remarks. Co-chairperson Kibbie noted that the charge of the Committee is to review and evaluate all public retirement systems in place in Iowa, including the Iowa Public Employees' Retirement System (IPERS), the Municipal Fire and Police Retirement System of Iowa (MFPRSI), the Department of Public Safety (DPS) Peace Officers' Retirement System (PORS), and the Judicial Retirement System. He referred the members to the Legislative Guide on Iowa Public Retirement, written by Mr. Ed Cook, Legal Services Division, Legislative Services Agency (LSA), stating that it is an excellent reference and will be useful to the Committee members.

II. Peace Officers' Retirement System (PORS)

PORS Staff. Mr. David Heuton, PORS Director of Administrative Services, and Ms. Patrice Beckham, actuary for the system, provided background on the system. Based upon the July 1, 2009, actuarial valuation of the system, the unfunded actuarial accrued liability of the system is about \$133 million. Because the system does not recognize all of the losses in the asset value of the system in one year, additional losses incurred during fiscal year (FY) 2008-2009 of almost \$67 million have yet to be recognized. As a result, the funded ratio of assets to liabilities for PORS is 69 percent using the actuarial valuation of assets and only 54 percent using the market valuation of assets. Ms. Beckham stated that, based on the FY 2008-2009 actuarial valuation, the required contribution rate should be 44.53 percent, yet the state contribution rate beginning July 1, 2010, will be 23 percent and the employee contribution rate will be 9.35 percent for a total contribution rate of 32.35 percent. Based upon the current statutory contribution rate, the funded ratio will decline and the actuarial contribution rate will increase, giving rise to concerns about the long-term funding of the system and, ultimately, sustainability of the system. Ms. Beckham stated that it would take a 40 percent return in 2009 to restore the valuation status existing on July 1, 2008. Ms. Beckham noted that the three primary ways to impact long-term funding is to realize a higher return on investments, increase contribution rates, or lower benefits. PORS staff has not conducted research on the condition of similar plans in other states.

Senator Appel and Representative Pettengill questioned Ms. Beckham regarding the 8 percent assumed rate of return currently employed by the system. Ms. Beckham stated that, when considering variations to assumptions in the modeling of the system, the investment return



assumption is the single most powerful assumption. In late 2008 the PORS Board of Trustees reviewed the system's asset allocation and the assumptions being employed in the modeling of the system and determined that it was reasonable to retain an expected investment return rate of 8 percent in any short-term and long-term modeling of the system. Eight percent was around the 50th percentile, meaning that there is a 50–50 chance that the system will average an 8 percent investment return over the next 40 to 60 years. At Senator Appel's request, Representative Pettengill concurring, Ms. Beckham stated that she would attempt to provide information on the ramifications of using a lower assumed rate of return in the modeling.

Co-chairperson Mascher noted that PORS members are exempt from paying the non-Medicare portion of Social Security tax. They also have workers' compensation and, under the PORS system, temporary incapacity duty pay. She requested that PORS staff provide a comparison of contribution rates for PORS and contribution rates for the special service class and protected occupation class within IPERS. Representative Frevert inquired whether an early retirement option is a possibility for some of the older members of PORS. Mr. Heuton stated that most PORS members have accumulated over 32 years of service by the age of 55. In order for an early retirement option to be successful, the current penalty for those who retire before age 55 would have to be reduced or eliminated.

Senator Kettering inquired about the longevity tables used by the actuary in the assumptions used to model the system, particularly the longevity table options from which to choose and whether the same longevity table is used consistently. Ms. Beckham stated that the system formerly utilized the group annuity mortality table (GAMs) in its modeling but has recently switched to using a generational mortality table, or RP 2000, finding it a more appropriate measure of mortality over a long period of time, particularly when predicting the life span of different generations. Senator Kettering speculated whether the generational mortality table is a more conservative measure, or assumption, than the GAMs table. Ms. Beckham noted that the GAMs table is created, largely, from data supplied by insurance companies. She agreed to supply the Committee information on the mortality tables used by the various systems under the Committee's review.

III. State Police Officers Council and the Iowa State Patrol Supervisors Association

Mr. Tom Fey, representing the association, and Ms. Susana Brown, representing the council, stated that PORS provides pension benefits for the peace officer members of the DPS, with the council representing the nonsupervisory, sworn officers and the association representing the supervisors. Under the system, the minimum years of service is 22 and the age for service retirement is 55 years old. The service retirement benefit is 2.75 percent for each year of service up to 32 years of service.

The associations acknowledged the gravity of the funding status of PORS, and noted that the state has the responsibility to set the state's normal contribution rate, as certified by the PORS Board of Trustees, in order to maintain the actuarial soundness of the fund. They asserted that the state has failed to pay the full actuarial contribution rate to the system for several years, even as the funded ratio of the system declined from 2002 through 2007. The presenters did acknowledge the



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General Assembly's action in 2007, increasing the employer contribution rate 2 percent a year for five years, capping at 27 percent. However, even with this action, the funded ratio of the PORS fund is expected to drop to 56 percent by 2011. The associations stated their willingness to work with policy makers to address the funding issues of PORS.

In response to a question from Representative Frevert, Mr. Fey stated that several years ago a study was conducted on merging the PORS and 411 systems with the protected class occupation IPERS members. Co-chairperson Kibbie, recalling the study, stated that there are many complications involved with merging these systems and that they perhaps outweigh the benefits of merger.

IV. Judicial Retirement System

Mr. David Boyd, State Court Administrator; Ms. Peggy Sullivan, Director of Finance and Personnel; and Ms. Beckham, actuary for the system, provided background on the Judicial Retirement System. Mr. Boyd stated that, as of July 1, 2009, there were 200 active members (i.e., active judge positions) in the system, 165 persons receiving a monthly benefit, and seven inactive members. Under the system, eligibility for retirement is four years of service as a judge and 65 years of age or 20 years of service and 50 years of age. The service retirement benefit is 3.25 percent for each year of service. However, the yearly benefit under the system cannot exceed 65 percent of the highest basic annual salary (usually the average salary in the last three years of service). Ms. Sullivan stated that the FY 2009-2010 budget reductions will affect the system to the extent furloughs are utilized because the statutory salary contributions are based on actual payroll amounts. However, reductions in actual salary due to furloughs will not affect computation of benefits because of the definition of "basic annual salary," at least for those employees of the judicial branch who are judges; the other judicial branch employees are IPERS members.

Ms. Beckham stated that based upon the July 1, 2009, actuarial valuation of the system, the unfunded liability of the system is about \$58 million and the funded ratio of assets to liabilities for the system is 61.6 percent using the actuarial valuation of assets. However, because the system in 2009 began utilizing a smoothing method in determining the actuarial value of assets, additional losses incurred during FY 2008-2009 of almost \$21.3 million have yet to be recognized. As a result, the funded ratio of assets to liabilities for the system is only 52.5 percent using the market valuation of assets. While the actuarially required state contribution should be 30.8 percent of payroll, the statutory state contribution rate is set at 30.6 percent. The member contribution rate increases to 8.7 percent for FY 2009-2010, and to 9.35 percent in FY 2010-2011. Taking into account the deferred losses yet to be recognized, Ms. Beckham stated that the actuarial contribution rate (employer and employee) is expected to increase in future years to around 40 percent of pay.

V. Iowa Public Employees' Retirement System (IPERS)

IPERS Staff. Ms. Donna Mueller, Chief Executive Officer; Ms. Beckham, actuary for the system; and Karl Koch, Chief Investment Officer, addressed the Committee and provided an overview of the retirement system and described the general financial condition of the system. Ms. Mueller



stated that there are 324,411 IPERS members, of whom 167,717 are active members. Employees in the education system make up 52 percent of the active members. The benefit formula under IPERS is the employee's final average salary (three highest years) times a multiplier of 2 percent per year for 30 years of service and 1 percent a year in years 31 through 35 (for a maximum of 65 percent). As to benefits, Ms. Mueller stated that the biggest cost drivers under IPERS are when one can retire (the retirement age) and at what amount (the applicable benefit multiplier).

Ms. Beckham reviewed the most recent annual actuarial valuation of the system (i.e., FY 2008-2009). While a gradual increase in contribution rates beginning in July 1, 2007, began to address the unfunded liability of the system, the system still had an unfunded actuarial liability of \$2.6 billion as of July 1, 2008. As a result of the global recession and a 16.27 percent loss in assets during fiscal year 2008-2009, the unfunded actuarial liability has grown to almost \$4.9 billion with additional market losses yet to be recognized. Because market returns in the future are unlikely to bridge the funding gap, changes in the contributions to IPERS as well as the benefit structure must be considered, Ms. Beckham stated. As to contributions, the current planned statutory increases (beginning in FY 2011-2012 and limited to a half a percentage point a year increase) will not be enough. The actuarial contribution rate for FY 2009-2010 is 12.34 percent while the statutory contribution rate is 10.95 percent for that fiscal year and 11.45 percent in FY 2010-2011.

Ms. Mueller noted that the IPERS policy bill for the 2010 Legislative Session would include the following:

- Create a bona fide retirement exception for members called to state active duty with the National Guard.
- Extend the bona fide retirement exception for licensed health care professionals for one year.

VI. IPERS Benefit Advisory Committee (BAC)

Mr. Len Cockman, chairperson of the IPERS Benefits Advisory Committee, stated that the committee is established by statute and is charged with reviewing benefits and services and recommending statutory changes, hiring and conducting performance reviews of the IPERS chief benefits officer, and making recommendations for certain appointments to the IPERS investment board. The members of the committee include representatives of employers and employees in the system and one member of the public.

Mr. Cockman stated that the BAC recommends the following to take effect July 1, 2012, except as noted:

- Increase the total contribution rate to 13.45 percent beginning July 1, 2011, and allow the system to adjust the rate either up or down by no more than one percentage point per year.
- Implement a seven-year vesting requirement instead of the current four years.
- Calculate retirement benefits using a member's high five years of salary instead of the current three years.
- Implement a 6 percent per year reduction in retirement benefits for each year a member retires and receives a retirement allowance prior to age 65 if at the time the member retires the



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member does not meet the rule of 88 or is not at least 62 years of age with at least 20 years of service.

- Extend the current purchase of wage credit rules relative to furloughs for IPERS members for an additional year and allow the rules to apply to union bumping rights.

VII. Interested Organizations

Iowa League of Cities. Mr. Mark Tomb, league representative to the BAC, stated that the BAC recommendation to increase the total contribution rate to 13.45 percent on July 1, 2011, from 11.45 percent for the previous year is unrealistic given the current economy, and he voted against it. Consideration should be given to reducing to 1.9 percent or 1.8 percent the current 2 percent multiplier for each year of service up to 30 years.

Iowa Hospital Association. Ms. Shannon Strickler, Iowa Hospital Association, requested that the Committee recommend extending the sunset of the shortened retirement waiting period for licensed health care professionals for two years, instead of the one-year extension proposed by IPERS.

School Administrators of Iowa. Mr. Gaylord Tryon, representing the School Administrators of Iowa on the BAC, recommended changing the formula multiplier to 2 percent for each year of employment for all regular members regardless of the number of years of service.

Iowa State Education Association (ISEA). Mr. Bradley Hudson, ISEA representative and vice chairperson of the BAC, stated that the association supports legislation allowing the purchase of service for that period of time a teacher takes a leave of absence to serve as president of ISEA by paying the contributions that otherwise would have been paid for that period of service. ISEA also supports the establishment of an independent board of trustees for IPERS, he said.

Joint Statement of Certain Utilities Associations and Educational Associations. In a jointly prepared statement, associations representing certain rural and municipal utilities and educational groups recognized that long-term changes will be necessary to ensure the viability of the system, but urged caution in seeking solutions. One of the goals of any changes to IPERS should be to minimize the negative impact on employers and employees.

VIII. Committee Discussion

Co-chairperson Kibbie reminded Committee members that some states have resorted to issuing pension bonds to achieve actuarial soundness in their public retirement systems. Iowa is far from having to consider that kind of action, he said, because the public employer and employee groups in Iowa have traditionally been willing to work together and compromise on needed changes to the various public retirement systems.

Co-chairperson Mascher requested that the groups making presentations at today's meeting prepare recommendations to propose to the Committee at its next meeting.



IX. Materials Distributed

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. PORS — System Presentation.
2. PORS — Actuarial Review.
3. PORS — State Police Officers Council and Iowa State Patrol Supervisors Association.
4. JudRet — System Presentation.
5. IPERS — System Presentation.
6. IPERS — Benefits Advisory Committee.
7. IPERS — Iowa League of Cities.
8. IPERS — School Administrators of Iowa.
9. IPERS — Joint Statement — Education and Utility Associations.