



# MINUTES

## Public Retirement Systems Committee

November 19, 2009

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### 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 Bruce Hunter  
Representative Jack Drake  
Representative Marcella Frevert  
Representative Dawn Pettengill

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## MEETING IN BRIEF

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- I. Procedural Business
- II. Municipal Fire and Police Retirement System of Iowa (MFPRSI)
- III. Organizations Primarily Concerned With MFPRSI
- IV. Iowa Public Employment Retirement System (IPERS)
- V. Peace Officers' Retirement System (PORS)
- VI. Proposed Recommendations
- VII. Committee Discussion
- VIII. Committee Action
- IX. Materials Distributed



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### I. Procedural Business

**Convening and Adjournment.** The meeting convened at 9:35 a.m. and adjourned at 2:24 p.m.

**Announcements.** Co-chairperson Mascher informed the Committee that Representative Hunter would take the place of Representative Bell on the Committee.

**Distributions.** Co-chairperson Kibbie directed the members' attention to a handout prepared by House Democratic Caucus staff outlining the different public retirement systems in Iowa.

The Committee received, without presentation, a letter from Ms. Patrice Beckham, consulting actuary for the Judicial Retirement System, estimating the cost impact if more members retire in fiscal year (FY) 2009-2010 than expected. She estimated the increase in unfunded actuarial liability resulting from the identified retirements to be approximately \$5.5 million.

**Next Meeting.** The Committee intends to meet during the 2010 Legislative Session to consider a proposed interim committee bill.

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

Mr. Dennis Jacobs, MFPRSI Executive Director, and Mr. Donn Jones and Mr. Glenn Gahan, consulting actuaries, provided background information concerning the retirement system. Mr. Jacobs stated that, according to the FY 2008-2009 actuarial report, the MFPRSI has 3,886 active members, 3,670 members and beneficiaries in pay status, and 315 nonactive members with deferred benefits. There are 49 membership cities in the system. Eligibility age for retirement under the system is 55 years of age. The basic service retirement formula is 66 percent (22 years of service times 3 percent per year), and the maximum retirement formula is 82 percent (for up to eight years beyond 22 years times 2 percent per year for those additional years).

Mr. Jacobs noted that the system's fund lost 21.8 percent last fiscal year. Based on the most recent actuarial valuation of the system for the fiscal year ending June 30, 2009, the funded status of the system based upon the market value of assets is 72 percent. Just two years ago, the funded ratio was around 107 percent, highlighting the impact of last year's significant drop in the capital markets. In addition, based on this most recent actuarial valuation, the required contribution rate from cities beginning FY 2010-2011 will be 19.9 percent. The state's contribution rate will be about 1.08 percent, based on a \$2.5 million appropriation. The cities' contribution rate is established annually at the level required to fund the plan. The statute also specifies that the cities' contribution rate shall not be below 17 percent. The state is also required to contribute. Mr. Gahan then discussed future trends in the actuarial contribution rate, noting that the cities' contribution rate under a variety of asset return scenarios will likely rise to at least 35 percent of payroll over the next several years.

Mr. Jones and Mr. Gahan presented information that had been requested by the General Assembly in legislation enacted in 2009 concerning current and projected funding status for the plan under a variety of return and financial profiles.

Mr. Jacobs stated that, operating under the current statutory provisions, restoration of a favorable funded status will be dependent upon capital markets providing investment returns which



cumulatively meet or surpass the 7.5 percent assumed annual return and upon receipt of revenues from contributions which annually meet the actuarial contribution rate levels. Mr. Jacobs presented to the Committee recommendations for statutory (Code Chapter 411) changes of a technical nature, including clarification of definitions and surviving spouse election provisions and compliance with federal law changes.

### III. Organizations Primarily Concerned With MFPRSI

**Iowa League of Cities.** Mr. Alan Kemp, Executive Director, Iowa League of Cities, expressed the league's concern over the impact of increased required contributions from the cities (i.e., employers) to MFPRSI in the future. The league proposed moving towards a split of the total required contribution rate to the system of 60 percent employer and 40 percent employee. The league also opposes any benefit enhancements to the system Mr. Kemp stated.

**Iowa State Police Association.** Officer Stew Barnes, president of the Iowa State Police Association, expressed the association's concern over the increasing use of overtime and noted that the system does not recognize overtime pay in calculating benefits under the system.

**Iowa Professional Fire Fighters.** Mr. Rick Scofield, president of the Iowa Professional Fire Fighters, stated that the association believes the system is working as designed and does not recommend any benefit enhancements at this time.

### IV. Iowa Public Employment Retirement System (IPERS)

**Follow-up.** Ms. Donna Mueller, Chief Executive Officer of IPERS, provided information to the Committee requested at the previous meeting on November 9. She stated that the funded ratio of that part of the system that consists of regular IPERS members is 80.5 percent and that part of the system that is special service members is 91 percent for sheriffs and deputies and 96 percent for protected occupations. She reminded the Committee that benefits for special service members are higher than those for regular members.

Ms. Mueller also provided information on shared services between the retirement systems, noting that since FY 2006-2007 IPERS has processed the payrolls of the Judicial Retirement System and the Peace Officers' Retirement System. The annual processing fee charged for this service is \$6 per annuitant. In terms of combining systems, Ms. Mueller stated that compliance with federal regulations is a factor that would need to be considered. Investments could be commingled but not the accounts of each system. Furthermore, combining systems would have no actuarial impact on the IPERS fund. In response to a question from Co-chairperson Mascher, Ms. Mueller stated that the FY 2010-2011 actuarial contribution rate for IPERS is 14.12 percent. This contribution rate would cover normal costs and the amount necessary to pay the unfunded liabilities of the system over 30 years, she said.

### V. Peace Officers' Retirement System (PORS)

**Follow-up.** Mr. Dave Heuton, Director of Administrative Services for PORS, and Ms. Beckham provided an overview of the PORS investment portfolio and a comparison with other states' peace officers' retirement systems. Ms. Beckham presented a variety of scenarios that would address



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the system's current unfunded actuarial liabilities. These scenarios included contribution rate changes, lump-sum cash infusions, and changes in the assumed return on investment. Ms. Beckham also provided the Committee with the results of four actuarial cost studies that estimated the impact of specified changes to the PORS benefit structure.

Mr. Heuton presented to the Committee proposed statutory changes to the system that would not affect benefits, including clarification regarding definitions and certain disability allowance and retirement provisions and changing the deadline for setting state contribution rates.

### VI. Proposed Recommendations

Co-chairperson Kibbie moved that an interim committee bill be drafted which would include the following provisions:

#### IOWA PUBLIC EMPLOYEES RETIREMENT SYSTEM (IPERS)

1. Create a bona fide retirement exception for members called to state active duty with the National Guard.
2. Extend the bona fide retirement exception for licensed health care professionals for two years.
3. Increase the total contribution rate for IPERS regular service 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 for all employee classifications under IPERS.
4. Increase the vesting requirement from 4 to 7 years.
5. Calculate retirement benefits using a member's high five years of salary instead of the current high three years.
6. 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 member does not meet the rule of 88 or is not at least 62 years of age with at least 20 years of service.
7. 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.

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

1. Increase the employee contribution rate by .5 percentage points per year for four years beginning July 1, 2010.
2. Adopt the proposed technical statutory changes approved by the MFPRSI board concerning the definition of surviving spouse, knowledge of pre-existing conditions, ordinary death benefit elections, rollovers by nonspouse beneficiaries, and compliance with federal military service provisions.
3. Phase out and eventually eliminate the state's contribution to MFPRSI.



4. Beginning July 1, 2010, provide that overtime pay is considered earnable compensation for purposes of MFPRSI.
5. Direct the MFPRSI board to provide specific benefit and other technical statutory changes to the public retirement systems interim committee.

PEACE OFFICERS' RETIREMENT SYSTEM (PORS)

1. Increase the employee contribution rate by .5 percentage points per year for four years beginning July 1, 2010.
2. Adopt the proposed technical statutory changes approved by the PORS board concerning temporary incapacity, disability retirement documentation, purchase of permissive service, calculation of ordinary disability allowance, reemployment after disability, contributions by the state, and hospitalization and medical attention.
3. Beginning July 1, 2010, provide that overtime pay is considered earnable compensation for purposes of PORS.
4. Direct the PORS board to provide specific benefit and other technical statutory changes to the public retirement systems interim committee.

## VII. Committee Discussion

In response to a question from Representative Pettengill, Co-chairperson Kibbie stated that fiscal information can be made available before a retirement systems bill is debated in the General Assembly, but at this point, the Committee needs to put forth recommendations based on the information received from the systems' representatives and interest groups. Senator Kettering requested clarification as to another Committee meeting and inquired whether Co-chairperson Kibbie was amenable to dividing his motion so that members could vote on some of the items separately. Co-chairperson Mascher stated that the Committee would meet in January to examine the interim committee bill containing the recommendations adopted by the Committee. Co-chairperson Kibbie stated that he was not interested in dividing his motion and preferred to take one vote on the motion in its entirety.

Senator Zaun stated that he agrees with some of the recommendations but thinks the state needs to go further and discontinue the defined benefit plan to new employees and instead offer a defined contribution plan only. This would put us more in step with private employers, he said. Co-chairperson Kibbie stated that the defined benefit plan offered by the state has guaranteed the state top-notch, highly qualified employees.

## VIII. Committee Action

The proposed motion by Co-chairperson Kibbie was adopted on a roll call vote. For the Senate, Co-chairperson Kibbie, Senator Appel, and Senator Soddors voted in favor while Senator Kettering and Senator Zaun voted against. For the House, Co-chairperson Mascher, Representative Hunter, and Representative Frevert voted in favor while Representative Drake and Representative Pettengill voted against.



### **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. MFPRSI — System Presentation.
2. MFPRSI — Presentation by Iowa League of Cities.
3. MFPRSI — Presentation by Iowa Professional Fire Fighters.
4. MFPRSI — Presentation by Iowa State Police Association.
5. PORS — System Follow-up Presentation.
6. PORS — Actuarial Cost Studies.
7. IPERS — System Follow-up Presentation.
8. JudRet — Impact of FY 2010 Retirements.