MINUTES

Public Retirement Systems Committee

October 23, 2013

MEMBERS PRESENT:

Senator Thomas G. Courtney, Co-chairperson
Senator Jeff Danielson
Senator Tim L. Kapucian
Senator Matt McCoy
Senator Roby Smith

Representative Dawn E. Pettengill, Co-Chairperson
Representative Jack Drake
Representative Vicki S. Lensing
Representative Mark S. Lofgren
Representative Mary Mascher

MEETING IN BRIEF

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I. Procedural Business

Convening and Adjournment. Temporary Co-chairperson Dawn E. Pettengill called the October 23, 2013, meeting of the State Government Efficiency Review Committee to order at 9:35 a.m. in Room 116 of the State Capitol. Roll call was taken and a quorum was determined to be present. Temporary Co-chairperson Pettengill and Temporary Co-chairperson Thomas G. Courtney were elected permanent co-chairpersons by a voice vote. The proposed rules for the committee were approved by a voice vote. The meeting was adjourned at 3:03 p.m., and the second meeting of the committee, to take place on December 11, 2013, was noted.

II. Public Retirement Systems Overview

Mr. Ed Cook, Senior Legal Counsel, Legal Services Division, Legislative Services Agency (LSA). Mr. Cook discussed issues related to public pensions in general and noted that the issues surrounding public pensions are relatively complicated. He then stated that LSA Fiscal Division employees Jennifer Acton and Dave Heuton would serve as good resources to any member of the committee seeking additional information on pension issues.

Mr. Cook then discussed several documents provided to the committee through the committee's Internet site including a legislative guide and a document on the historical contribution rates to public pensions, noting that most systems have missed their actuarially required contribution rates at one time or another. Mr. Cook noted that there are really six public retirement plans operating under Iowa Code and that the Iowa Public Employees' Retirement System (IPERS) administers three of those plans. Mr. Cook then noted that the six plans fall into two broad categories, one category for public safety employees and one for nonpublic safety employees. The four systems under the public safety category include the Municipal Fire and Police Retirement System of Iowa (MFPRSI), Public Safety Peace Officers' Retirement, Accident, and Disability System (PORS), and two categories under IPERS, the sheriffs and deputy sheriff, and protection occupations. The nonpublic safety category includes a general IPERS program and a separate judicial retirement system, which are respectively the largest and smallest public pension systems in the state. Mr. Cook noted that the four public safety plans include disability and disability retirement benefits. He then noted that MFPRSI and PORS do not participate in Social Security and that these systems often serve as the only retirement safety net for their members. Mr. Cook noted that the legislative role is critical in the operation of all of these systems, stating that benefits and funding mechanisms for all these public plans are governed by the Iowa Code.

Mr. Cook then discussed the differing nature of defined benefit and defined contribution plans and issues related to what constitutes an adequate retirement benefit. He stated that the objective of both defined benefit and defined contribution plans is to provide adequate income replacement after retirement. Mr. Cook then discussed the basic funding formula for all retirement plans whereby Contributions + Interest = Benefits + Expenses. He noted that expenses in defined benefit plans are generally lower than those expenses in defined contribution plans. He then noted that investment returns tend to be higher in pooled defined benefit plans.

Mr. Cook noted that defined benefit plans operate in ways similar to insurance policies with regular contributions, like premiums, made over time and with benefits paid, like a claim, upon retirement.

Mr. Cook then noted that actuaries make calculations as to the cost of the pension plan based on the experience of the members in the pool and the applicable benefit formulas. He noted that the actuarial calculations are not simply based upon the benefits, noting that membership characteristics in the different systems create different actuarial costs. He noted that the membership population for fire, police, and public safety occupations constitute a different profile than the general category in IPERS, or even within the judicial retirement system.

Mr. Cook then discussed a handout on a variety of financial measures relative to each state retirement system. The handout provides information on each system's normal cost, actuarial liability, and funded status.

III. Iowa Public Employees' Retirement System (IPERS) and Governmental Accounting Standards Board (GASB) Update

Ms. Donna Mueller, Chief Executive Officer, IPERS. Ms. Mueller noted that the mission of IPERS is provided in statute and requires that the state administer a cost-efficient retirement program that provides a lifetime pension to attract and retain a quality workforce. She commented on the notion that it is the intent that IPERS remain a sustainable and affordable retirement system. Ms. Mueller noted that the Governor and General Assembly, as plan sponsors of IPERS, serve certain functions to create a plan, establish funding, determine participation, determine benefits, and to monitor performance against plan goals.

Ms. Mueller noted that membership in IPERS includes 2,100 active employers with over 343,000 total members. IPERS, as a defined benefit plan, provides a lifetime monthly annuity based upon a set formula. She stated that contributions are made by employees and employers over the course of employment and that these investments are pooled, along with risks, to form the system.

Ms. Mueller discussed FY 2013 IPERS contribution rates and noted that regular membership contribution rates match the actuarial need for the first time in a decade. She then noted that sheriffs and deputy sheriffs and protection occupations contribution rates have always been set based upon actuarial need. She then noted the three funded ratios for the three IPERS plans, stating that the funded ratio was 79 percent for the general population, 89 percent for sheriffs and deputies, and 95 percent for protection occupations.

Ms. Mueller then noted that investment returns are an important portion of the formula for any retirement plan. She commented that the annualized return rate for IPERS over the past 30 years was 9.7 percent and compared that to the actuarial assumption which has been set at 7.5 percent for the past 15 years.

Ms. Mueller stated that the current unfunded actuarial liability of the system had its genesis in the late 1990s and early 2000s when the system used fund assets to provide for a nonguaranteed favorable experience dividend payment to certain retirees, adjusted the mortality tables used by the system, and experienced investment losses relating to the end of the "technology bubble." As a result of this "perfect storm," the unfunded liability of the system increased while contribution rates were not adjusted until later in the 2000s. After the recession in FY 2008-2009, the General Assembly adopted a series of changes in 2010 that increased contribution rates while reducing benefits for current and future members of the system. Benefit changes included the shift from calculating benefits based upon an average of the top three years of salary to one based upon the top five years and early retirement reductions were increased from 3 percent to 6 percent per year.

Ms. Mueller then discussed that IPERS currently lacks a traditional cost of living adjustment, but noted that the system has provided a November dividend for individuals who retired before 1990, but that this dividend does not cover most retirees. Ms. Mueller then discussed the favorable experience dividend (FED) payment which will provide final payments this coming January. She noted that the January payments will be approximately $121.6 million, stating that over the term of the program, FED payments would total close to $1 billion from an initial set-aside of $600 million, noting that IPERS does not have the ability to replace this in order to protect current and future retirees from the impacts of inflation.

Ms. Mueller then focused upon recent GASB changes related to public pension plans. She stated that IPERS' 2,100 current employers all report information to IPERS and that IPERS will meet Statement No. 67 this fiscal year with employers' reporting requirements changing after June 15, 2014, under Statement No. 68. GASB sets accounting standards for governmental pension plans and covers employers who report using generally accepted accounting principles (GAAP) accounting. The changes break the link between actuarial funding and financial accounting so that instead of focusing on whether an employer is paying the actuarially required contribution rate to a retirement plan, employers are required to report a share of the plan's net pension liability, similar to unfunded actuarial liability, on their balance sheet. One aspect of the change is requiring pension systems to utilize a blended discount rate in calculating the net pension liability of a system if projected net assets are not sufficient to cover projected benefit payments. Based on the 2012 actuarial valuation, IPERS will not have to use the blended rate. Still, the net pension liability will be recalculated each year, and employers using GAAP accounting will be required to report their share of this liability beginning with fiscal years starting after June 15, 2014.

Ms. Mueller then discussed other pension systems that have recently experienced problems and compared those systems to IPERS. Ms. Mueller noted that there is a real need for reform in many pension systems, noting specific examples where employers underfunded the systems and provided high benefits. She noted that IPERS is healthy and sustainable, highlighting that the recent changes in funding and the modest benefits of the program provide stability. Ms. Mueller stated that other retirement plans with generous cost-of-living adjustments of 3 to 5 percent or postemployment benefits, such as health benefits, have negatively impacted the financial health of other retirement systems; IPERS does not face these burdens. She then stated that contribution rate changes and reforms to IPERS are not subject to the same problems encountered in other states and municipalities. Ms. Mueller, in emphasizing the health of Iowa pension systems, then discussed some of the recent publications by Moody's and Barron's related to the state's debts and pension liabilities. Ms. Mueller noted that state and local government spending on pension systems in Iowa based on 2010 U.S. Census Bureau information is only 1.73 percent of total spending.

Discussion. Representative Mary Mascher inquired about the changes removing salary caps for making payments and receiving contributions. Ms. Mueller responded that the changes made to the cap increased actuarial liabilities when the cap was removed in the mid-1990s.

Co-chairperson Pettengill inquired about the actuarial assumptions and how they are set. Ms. Mueller responded that the investment board makes those decisions. Co-chairperson Pettengill then asked whether the reserve account for FED payments would be replenished automatically. Ms. Mueller responded that excess investment could not be moved into the FED until the general fund of IPERS is fully funded.

Representative Jack Drake asked how the dividend was decided each year. Ms. Mueller responded that there was a unique formula with a multiplier which also utilized the consumer price index.

Representative Mascher inquired about administrative costs under IPERS and how IPERS compares with other comparable funds. Ms. Mueller noted that IPERS has done an annual report every year for the past eight noting that IPERS costs in its peer group of 14 plans were the second lowest or the lowest in the group in each of the eight years, further noting that it has been the lowest for the past five years.

Representative Mark S. Lofgren asked about IPERS' return performance over time. Ms. Mueller noted that in terms of performance, IPERS returns have been in the top quartile, noting that IPERS has a lower equity exposure than most public pension funds.

Chairperson Pettengill asked about separating funding from reporting under GASB stating that GASB does not change funding rates but only the reporting. Ms. Mueller agreed that the GASB requirements do not set contribution rates and only change the reporting requirements for employers, further stating that an employer reporting an unfunded actuarial liability is different and emphasized that it is appropriate, under GASB, to separate funding and reporting requirements.

IV. Taxpayers Association of Central Iowa

Ms. Gretchen Tegeler, Executive Director, Taxpayers Association of Central Iowa. Ms. Tegeler noted that the role of the pension committee is to serve as stewards to the pension systems in the state for members and to provide oversight for citizens. She noted that decisions made today and in coming years are important for the future of the state, and she emphasized the role the pension committee plays in asking appropriate questions to understand the risks the systems create for Iowa taxpayers. Ms. Tegeler noted the role of her organization is to partner with local governments, but she noted that she is a former state employee and that she has concern for public employees, retirees, and the present and future needs of Iowa communities.

Ms. Tegeler noted that the changes advocated by the committee over recent years should be recognized and applauded. Ms. Tegeler then stated that her group began looking at the Municipal Fire and Police Retirement System of Iowa (MFPRSI) plan requirements and how it impacts cities and their budgets, noting contribution rates between 23 to 31 percent of salary in the coming years. She noted the aggregate figure over many years can have negative impacts on budgets year-to-year, stating that next year's contribution requirements represent 10 percent of the budget for the City of Des Moines and 15 percent of the property tax revenue collected by the city. She noted these high rates have impacts on municipal budgets and can negatively impact the high quality of life across Iowa communities.

Ms. Tegeler noted that cutbacks to public libraries and other services provide direct examples of how these impacts change the operation of communities, emphasizing property tax increases enacted in Des Moines, Urbandale, and Clive. She noted that pensions are not the only cause but that they represent a significant cost factor for cities. Ms. Tegeler noted the difficulties in comparing benefit packages across different retirement systems, commenting on how MFPRSI operates to provide for Social Security and disability insurance, unlike other state-sponsored pension systems. Ms. Tegeler then presented data to the committee which sought to compare the costs of contributions and benefits across state pension systems, primarily IPERS protection occupation category and MFPRSI. She then discussed the numbers that she developed seeking to compare employer costs and member benefits, emphasizing adjustments meant to account for program differences such as participation in Social Security and the provision of disability coverage. Ms. Tegeler noted the difficulties in weighting the provision of long-term disability under MFPRSI and stated that there were certain complications in weighting statistics due to the fact that rates for workers' compensation differ across fire and police occupations in MFPRSI cities and non-MFPRSI cities. Ms. Tegeler stated that costs are high for cities under MFPRSI when compared to IPERS and that in comparison IPERS protection occupation category employees contribute more for their own pensions than MFPRSI employees.

Ms. Tegeler noted that all state pension funds have been affected by the negative market forces in 2008. She noted that there was $6.8 billion in unfunded liability across all state retirement systems, emphasizing that credit agencies consider pension liabilities in their ratings, and that these unfunded pension liabilities will have an impact on the future of the state and its residents. Ms. Tegeler noted that credit agency assessments and assumptions need to be factored in and that the state is underfunding these systems. She stated that recent changes to the MFPRSI to use a 25-year amortization period, was admirably less than the longer 30-year amortization period, but stressed that Moody's uses a 20-year amortization period. Ms. Tegeler then discussed issues with mortality tables adopted by different pension systems, noting use of outdated mortality tables in non-IPERS employment.

Ms. Tegeler noted that Moody's assumptions are based on assessing credit risk and are not based upon funding levels. She then stated that there may be more financial exposure than calculated by systems. She went on to caution the committee against extending new or more generous benefits when systems become fully funded, noting that raising benefits adds additional risks. Ms. Tegeler commented that the state should not change benefits retroactively but that reforms should be made prospectively. She emphasized that public services are being squeezed out by pension and other costs creating issues for cities and for the state moving forward. She recommended that the pension funds engage in sensitivity testing. Ms. Tegeler then noted the legislative changes and improvements to state pension systems upon a broad-based review of public pension plans, but stated that additional consideration should be taken into account to provide for current public goals. She then noted the reform experiences in other states such as Utah, Kentucky, and Kansas while also noting the work done by the Pew Center and other organizations. She stated that the goal of the committee should be balancing the needs of employees and Iowa communities at large.

Discussion. Co-chairperson Pettengill asked Ms. Tegeler to address her comments that city contributions had tripled in the last decade under the MFPRSI system, noting that contribution rates had not tripled in that time. Ms. Tegeler responded that city year-by-year contributions had risen from $25 million to $80 million in that period and that her comments reflected changes in the overall contributions rather than contribution rates. Chairperson Pettengill asked how those numbers broke down per member over that decade. Ms. Tegeler responded that she had not calculated per capita changes for the period.

Co-chairperson Pettengill noted the difficulties in comparing member groups across different systems and populations. She emphasized the IPERS membership in protection occupations is different from MFPRSI membership despite the efforts to create a comparison. She inquired about differences in addressing overtime, noting that overtime is not included in MFPRSI though it is included in IPERS. Ms. Tegeler stated this was good for the MFPRSI system from a financial liability perspective especially related to retirement benefits where an alternative policy would encourage overtime hours spiking in the final years of employment to inflate retirement payments.

Co-chairperson Pettengill then discussed the National Council on Compensation Insurance comparisons and self-funding workers' compensation insurance in the City of Des Moines, and stated that there were large differences between insuring fire fighters and police officers and found issues with the weighting of these in documents received by the committee.

Co-chairperson Pettengill inquired about information presented in materials related to the decline in Fortune 500 companies offering defined benefit plans, noting that some of the claimed declines may represent employers adopting hybrid defined benefit/defined contribution models. Ms. Tegeler agreed that this could be the case, but reiterated that many Fortune 500 companies have moved away from pure defined benefit plans.

Senator Jeff Danielson thanked Co-chairperson Pettengill for making the point that it is so difficult to provide apples-to-apples comparisons for these pension systems with such distinct populations and occupations, and given differing participation in Social Security and workers' compensation. Senator Danielson asked that Ms. Tegeler provide the committee with all information related to the materials she provided, including datasets and information on methodology. Senator Danielson then noted that Ms. Tegeler's analogies to Detroit and Illinois were misleading and asked if she could offer a date when she would expect for the state or a city in Iowa to declare bankruptcy. Ms. Tegeler responded that these references to Detroit and Illinois were made to note the dangers of ignoring these issues and stated that Iowa municipalities are already experiencing service deficits as a result of the changes in pension contributions, noting reduced library hours as an example. She emphasized that there are numerous cities in the state that are turning towards service deficits but stated that she did not have an estimate on the likelihood of bankruptcy for an Iowa city. Senator Danielson responded that analogies and numbers are powerful and cautioned that making those analogies is dangerous in any public discussion on these issues if the claims are not substantiated.

Senator Danielson inquired what problem Ms. Tegeler's organization is trying to solve and if the organization would be providing recommendations to achieve its goals. Ms. Tegeler responded that the service deficits created by funding issues in the MFPRSI system are the first concern of the organization along with raising awareness of taxpayer liabilities for pension costs. She noted that the committee should look not just at public sector actuarial liabilities, but also look at the credit environment for cities. Senator Danielson asked if Ms. Tegeler would make any specific policy recommendations to the committee today. Ms. Tegeler responded that her organization is seeking to be a part of the debate on the data and to provide information, but that she would not make specific recommendations for changes. She noted that recommendations for changes have been made by stakeholders and other organizations, but stressed that her organization does not advocate for any particular solutions. Ms. Tegeler stated that the status quo, related to these plans, should be challenged with external evaluation across the different pension systems to present the General Assembly with information on risks that may not be seen by internal system professionals who are responsible first for the financial stewardship of those plans. She noted that the committee should take a step back and look at all of the issues, seek stability in contribution rates, and seek long-term predictability but that she would not offer specific recommendations.

Co-chairperson Pettengill noted that the charge of the committee is to look over all public pension plans with a degree of scrutiny and to provide for the health and future of these plans; noting that in this charge the committee looks at actions taken by other systems including the states discussed in Ms. Tegeler's presentations. She stated that in considering the actions taken by other states, the committee looks at the health of plans before and after changes are made. She noted that Utah's radical changes cannot yet be known at this point, and that not even the administration costs are known. Co-chairperson Pettengill emphasized that it is the charge of the committees to be aware of concerns like those presented and to recommend beneficial changes when appropriate.

V. Municipal Fire and Police Retirement System of Iowa (MFPRSI or 411 System)

Mr. Terry Slattery, Executive Director, MFPRSI. Mr. Slattery noted that he had been with the system for two years now and that MFPRSI represents the fifth public fund in the fourth state that he has worked for. Mr. Slattery then discussed the history of the 411 system and its start beginning with the 1992 consolidation of certain individual systems under one board's administration.

Mr. Slattery noted that the board consists of nine members, including four members of the 411 system itself, four representatives of 411 system employer cities, and one private citizen appointed by the other eight members as well as four ex-officio, nonvoting members who serve two-year terms. He then discussed the current goals for the administration of the system, including the consistent application of the benefit statutes, the development of a long-term funding strategy, improvement of the appearance and quality of member communications, improvement of risk/return performance on portfolio assets, and surveying of membership to obtain information on client service.

Mr. Slattery then noted that the current fiscal year is the last year for accounting for the losses from the 2008 financial downturn and that the current funding status does not account for all of the gains that will be reflected in future actuarial reports. He then went on to discuss MFPRSI responsibilities in detail relating to collection of contributions, preretirement and refund counseling, administration of a permanent disability program, compliance with state and federal law, the implementation of a diversified investment policy, and member communication efforts. He noted that the board is a sophisticated institutional investor that makes decisions on investment products to diversify the system's asset portfolio and reduce risk. Mr. Slattery then noted that the board regularly evaluates actuarial experiences and adjusts assumptions on a five-year basis with the assistance of their actuaries at SilverStone Group. Mr. Slattery discussed the cost-of-living adjustment for retirees and beneficiaries and the Deferred Retirement Option Plan (DROP) program and the flexibility that it provides to cities and members.

Mr. Slattery noted that there are 3,866 active members and 3,862 retirees who make up the system, stating that this is a mature plan and that the system has moved past the prefunding stage, noting that there may eventually be more retirees than active membership as active membership stays constant while numbers of retirees continue to grow.

Mr. Slattery then discussed MFPRSI investment history since 1992. He noted that since 1992 the system has shown an annualized rate of return of 7.65 percent. He discussed how the use of global tactical asset allocation has allowed portfolio managers to meet benchmarks, noting that these allocations were particularly useful during the downturn. Mr. Slattery then discussed the MFPRSI investment portfolio including core investments equaling 40 percent, strategic investments equaling 30 percent, private market investments equaling 20 percent, and real estate investments equaling 10 percent.

He noted that the board is continuing to look at new opportunities including bank loans and bank debt. He expounded upon MFPRSI's 2013 evaluation report and the goal of setting funding policy to fully fund MFPRSI over the next 25 years. He stated that MFPRSI operates under an open amortization period today, but that the board is considering moving to a closed amortization of 25 years.

Mr. Glen Gahan, Actuary, SilverStone Group. Mr. Gahan discussed the results of the July actuarial evaluation and the member and city contribution rates for the 2015 fiscal year, discussing how the actuaries determined the rates and noting the differences between the market value and actuarial value of current assets. Mr. Gahan then discussed his firm's evaluation of demographic experience noting the last five-year evaluation was conducted earlier in 2013 and noting that the bulk of experience gains and losses have been based upon investment gains and losses rather than demographic changes.

Mr. Gahan stated that MFPRSI currently operates under an open amortization and stated how this impacted the method by which the actuary determines the city contribution rate that becomes effective next July. He stated that the current city rate was set at 30.12 percent of salary and that the rate would equal 30.41 percent for the next fiscal year. Mr. Gahan discussed the 2004-2012 actuarial summary report included in the presentation materials and the five-year forecast based upon actuarial assumptions, noting in particular that the losses experienced in 2008 are smoothed over the course of five years and that smoothing out of those losses will end this fiscal year, stating that this should dramatically reduce city contribution rates in the near future. Mr. Gahan then noted that the city rates could reduce to 21 percent by 2022, 18 percent by 2032, and 17 percent at the end of the 25-year period in 2038, assuming all other actuarial assumptions are met.

Discussion. Mr. Slattery stated that the investment consultant for 411 was Summit Strategies in St. Louis and that the firm focused on investment consulting for 80 public investment funds like MFPRSI. Co-chairperson Pettengill then asked about how disability determinations were made by the system. Mr. Slattery responded that the board seeks authorization from members to send information and records to the University of Iowa Hospitals and Clinics to make recommendations with final decisions made by MFPRSI staff with a member's right to appeal such decisions to the board.

Co-chairperson Pettengill asked if asset managers receive fees and pay based upon portfolio management returns. Mr. Slattery responded that fees are based upon the size of the portfolio though some have performance fees over a three-year period to provide incentives to portfolio managers. Co-chairperson Pettengill asked Mr. Slattery to confirm the funding percentages and liability based upon the market value and actuarial value of total assets. Mr. Slattery responded that MFPRSI is 85 percent funded on a market value basis as opposed to 75 percent funded on an actuarial value basis.

In response to a question from Representative Lofgren, Mr. Slattery stated that the current bond investments equal 10 percent of the MFPRSI portfolio. Representative Lofgren then asked whether the investment strategy of managers has changed to adjust to rising rates. Mr. Slattery noted that individual managers have the flexibility to take advantage of market opportunities.

VI. Iowa League of Cities

Mr. Scott Sanders, MFPRSI Board Member and City Finance Director, City of Des Moines. As a board member, Mr. Sanders noted that the system does its work well and that the board's role in appeals and investments are made through the regular operation of the system. He noted that the asset liability match requires board members to be realistic in making their decisions and discussed the MFPRSI review process and setting of actuarial assumptions.

As Finance Director for the City of Des Moines, Mr. Sanders discussed GASB requirements and possible impacts to city credit ratings. He then noted that unfunded liability becomes a part of every discussion of credit and credit ratings, stating that credit agencies are beginning to change their rating methodologies to account for unfunded pension liabilities. Mr. Sanders then noted that the MFPRSI board is engaged and sophisticated and that the board acts to be both conservative and flexible.

Mr. Jon Burmeister, PFM Group. Mr. Burmeister discussed his firm's role in working with local governments, including Des Moines, Council Bluffs, and Oskaloosa in Iowa. He noted that pension obligations are beginning to come to the forefront in reviews by ratings agencies as a result of the coming GASB changes. Mr. Burmeister stated that the rating agencies view these GASB changes as positive in that they allow agencies to evaluate the possible impacts that such liabilities have on the finances of individual cities. Mr. Burmeister then stated that Moody's had been attempting to account for these liabilities even before the GASB changes came into effect. He noted that a key focus for credit rating agencies as it relates to a city's pension system is whether a commitment to funding exists, the investment performance and trends of the pension system, pension affordability for the city, efforts to sustain the system, and level of pension contribution.

Mr. Tom Hanafan, Mayor, City of Council Bluffs. Mr. Hanafan has served as mayor of the City of Council Bluffs for the past 28 years. He discussed the role of cities in providing services to residents and stressed that police and fire service remain a high priority for Iowa cities. He then noted that cities have had to face issues and invest heavily in police equipment and training. He then noted changes to fire and EMT services over the period of his tenure with the city and the experience the city has had in extending services across western Iowa communities through the use of 28E agreements. He noted that the 411 system was formed in a bipartisan manner, that the system is good and works, and that the floor on contributions has gone up since benefit hikes took effect in 2002. However, increasing pension costs have put constraints on the city budget. He stated that there needs to be a partnership between cities, the state, and members.

Mr. Mike Schrock, City Manager, City of Oskaloosa. Mr. Schrock has been the city manager of Oskaloosa for over four years. He discussed the experience of the town of 11,000 residents with a $20 million budget and an operating budget of just $4.5 million. He stated that public safety expenditures account for 60 percent of that budget. Mr. Schrock noted police and fire budgets account for 25 employees and $2.5 million with retirement costs of $400,000 each year. He noted that the cost discussions inevitably lead to discussions about revenue and expenditures, and that the desire to keep property tax rates flat results in strains on other areas. He noted some measures the city has taken to maintain a flat property tax rate, including not replacing employees upon retirement, moving fire fighters to reserve status, contracting with the sheriff's office for law enforcement service, and cross-training public safety officers. He noted that public safety remains a priority, but that the general fund expenditures pick up those growing costs. He further stated that 40 to 50 percent of Oskaloosa's public safety command staff will retire within the next five years and that this creates both opportunities and risks.

Discussion. Co-chairperson Pettengill asked how the city deals with the balance of overtime and not replacing retirees with new hires. Mr. Schrock noted that overtime is minimal in his community and is usually paid through state-funded grants. He stated that the use of reserve fire fighters minimizes overtime needs, stating that there are eight on-call reserve fire fighters. He further stated that the city and reserve fire fighters work with the reservist's employers to allow flexibility.

Senator Matt McCoy asked the League of Cities to address disparities regarding their projections when compared to those of the MFPRSI board. Mr. Miller noted that League of Cities data was based on the most recent accessible 2012 actuarial numbers and not the most recent numbers available to the board, further stating that the organization had based its annual 4.5 percent increases in compensation based upon prior assumptions used in MFPRSI materials. Erin Mullenix, Research and Fiscal Analyst, Iowa League of Cities, reiterated that the 4.5 percent compensation increase rates have often been used in MFPRSI system projections in the past. Senator McCoy stated that he would be interested in the methodology used to arrive at that rate.

Co-chairperson Courtney inquired why cities rely on overtime rather than training and employing full-time employees, especially when replacing a retiree. Mr. Schrock noted that, for small communities especially, the use of overtime allows a greater degree of flexibility to respond to community needs. Mr. Hanafan reiterated that overtime provides flexibility for military service, sickness, maternity leave, and other human resource needs, further stating that hiring an additional employee raises issues relating to training as well as costs.

VII. Employees Associations Joint Presentation

Mr. Dan Cougill, Trustee, Iowa Professional Fire Fighters. Mr. Cougill noted that as a member of the system he wants to see the system be financially sound and functional for all 49 member cities. He stated that the system is healthy, sustainable, and managed well with returns of 12.84 percent on investments last fiscal year. He cited a report that places MFPRSI in the top 10 performing public funds over the last decade. He further noted a 7.65 percent return over the history of the system exceeding the 7.5 percent assumed return, emphasizing that a 7.5 percent return assumption is not unrealistic. Mr. Cougill then noted Iowa's ranking by Barron's as the second best state in managing tax-supported debt and unfunded public employee pensions.

Mr. Cougill then discussed how the MFPRSI system is unique in providing disability, workers' compensation, and death benefits so that cities do not shoulder those burdens alone. He also noted that most individual members are not covered by or eligible for Social Security, and that the few members eligible are still subject to windfall elimination provisions under federal law. Mr. Cougill then discussed how MFPRSI employees are now contributing to their own disability and death benefit, unlike many other employees.

Mr. Eric Snyder, President, Iowa State Police Association. Mr. Snyder noted that discussions today have focused upon recent contribution cost increases within the system, but stated that the city contribution rate has averaged 21.13 percent over the life of the system, which is only marginally over the base minimum city contribution of 17 percent. He then noted anticipated city rate reductions over the next 25 years, emphasizing that those rates are projected to be at the base of 17 percent at the end of that period. He also noted that the smoothing of the 2008 downturn that ends this year will have beneficial impacts for cities. He stated that the MFPRSI system is working the way it is intended to over the long term, but stated that until 2012 there were three major contributors when the state contribution was eliminated. He noted that this elimination created a dollar-for-dollar increase on cities. Mr. Snyder concluded that both associations ask that the state maintain the current structure of the MFPRSI system, stating that the General Assembly should look at changes to the 411 system based only on documented numbers and well-considered rationale over the long term. He stated that the members themselves would be the first to ask for change if the system was unsustainable.

Discussion. Senator McCoy asked how the state contribution to 411 went from 3.78 percent, or approximately $10 million annually, to $1.2 million, then to $900,000, and eventually to zero, thereby increasing contribution requirements from cities. Co-chairperson Pettengill stated that the General Assembly viewed these as state subsidies for city employers that should be provided by the cities themselves. Mr. Cougill responded that the Co-chairperson's rationale of the change was correct and accurate, but he stated that these public safety employees provide a service both to the cities and to the state, especially the services that these cities provide directly to the state as the owners of buildings and state highways in these communities. He stated that these MFPRSI members were providing a service to the state and that the state is not paying for those services. Senator McCoy noted that the state has been avoiding paying the bill for these important services while there is still $1.4 billion in excess in the state treasury. He noted that the money could be better used if it were invested in markets through contributions to these retirement systems, as was attempted with the judicial pension system and the system provided in Iowa Code chapter 97A which was later vetoed. He advocated putting state moneys to better use rather than sitting in state coffers, emphasizing that the state is missing an opportunity to take advantage of market returns, especially during good times in financial markets.

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