MINUTES
Public Retirement Systems Committee

Monday, December 18, 2017

MEMBERS PRESENT

Senator Charles Schneider, Vice-chairperson
Senator Michael Breitbach
Senator Jeff Danielson
Senator Mark S. Lofgren
Senator Matt McCoy

Representative Dawn E. Pettengill, Chairperson
Representative Jane Bloomingdale
Representative Wes Breckenridge
Representative Gary Carlson
Representative Mary Mascher

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I. Procedural Business

Call to Order and Adjournment. The meeting of the Public Retirement Systems Committee was called to order by Representative Pettengill at 9:02 a.m., Monday, December 18, 2017, in Room 103, Supreme Court Chamber, State Capitol, Des Moines. The meeting was adjourned at 3:45 p.m.

Election of Chairperson and Vice chairperson. Members of the committee unanimously elected Representative Pettengill as Chairperson and Senator Schneider as Vice chairperson.

Opening Remarks. Vice chairperson Schneider expressed the committee's intent to hold a routine meeting to discuss the current conditions of the various state pension systems. Chairperson Pettengill described the committee's role in scrutinizing the state's public pension systems.

II. Presentation Concerning the Judicial Retirement System

Mr. Todd Nuccio, State Court Administrator, Judicial Branch. Mr. Nuccio provided a general overview of the Judicial Retirement System, which is established in Iowa Code chapter 602 and referenced in the Iowa Constitution. He explained that the State Court Administrator oversees the system, and is appointed to do so by the Supreme Court. Mr. Nuccio stated that the current asset allocation of funds in the Judicial Retirement System is close to the target allocation. Mr. Nuccio stated that membership in the Judicial Retirement System consists of Justices of the Supreme Court, the Judges of the Court of Appeals, district, district associate, full-time probate, and juvenile court judges. Magistrates and other employees of the judicial branch are members of IPERS for retirement purposes. Mr. Nuccio noted that the system's current membership includes 198 active members and 204 collecting beneficiaries. He noted that contributions by both judges and the employer to the system are established in statute at a rate of 9.35% from the employee and 30.60% from the employer.

Mr. Nuccio provided an overview of benefits in the Judicial Retirement System. He explained that normal retirement is at age 65 with four years of service, or age 50 with 20 years of service. Mr. Nuccio provided an overview of the state's senior judge program, which provides additional judicial resources for a minimum of 13 weeks per year per judge.

Ms. Patrice Beckham, Principal and Consulting Actuary, Cavanaugh Macdonald Consulting LLC. Ms. Beckham provided information on funding the system and the actuarial valuation process. Ms. Beckham explained that funding for the system is long-term in nature and decisions are made for the long-term. Ms. Beckham stated that actuarial assumptions are used to help estimate the amount and timing of future benefit payments and are extremely important. She noted that actuarial assumptions are neither overly aggressive nor overly conservative and that experience studies are performed regularly to review these assumptions. Ms. Beckham provided information on several actuarial concepts, including actuarial assets, unfunded actuarial liabilities, funded ratio, and actuarial contribution rate.

Ms. Beckham provided information on the membership of the system from 1998 to 2017, noting that the number of beneficiaries exceeds the number of active members in the current year. Ms. Beckham explained that as the system becomes more mature, there is greater contribution risk but this is not problematic. Ms. Beckham described the system's actual experience in terms of rates of return and value of assets from 1997 through 2017. Ms. Beckham compared key valuation results from 2017 with results from 2016. She noted that actuarial liability from 2016 to 2017 has increased, whereas unfunded actuarial liability from 2016 to 2017 has decreased. Ms. Beckham noted the total contribution amounts for Fiscal Year 2016-2017 and the estimated amounts for Fiscal Year 2017-2018. Ms. Beckham reviewed historical information about the system's contribution amounts, unfunded actuarial liability amounts, and funded ratio, pointing out 2009 as a high point for unfunded actuarial liability amounts and a low point for funded ratio. Ms. Beckham noted the upward trajectory of the system's funded ratio from 2009 to the current year.

Ms. Beckham provided a summary of the 2017 valuation results, noting that the system's current funded ratio is 91 percent and is expected to be fully funded by 2021 if all assumptions are met in the future. Ms. Beckham stated that an experience study is to be conducted in spring 2018 to review all noneconomic assumptions and methods used in the valuation process and that any new assumptions will be used in the July 1, 2018, valuation. Ms. Beckham noted that future experience, particularly investment returns, will heavily influence the funding of the system.

Discussion. Chairperson Pettengill asked Mr. Nuccio whether the government structure supporting the Judicial Retirement System is adequate. Mr. Nuccio responded that the government structure is adequate at this time. Chairperson Pettengill asked who sets investment allocations. Mr. Nuccio responded that the State Treasurer sets investment allocations. Chairperson Pettengill asked how often investment allocations are rebalanced. Ms. Jina Bresson, a representative of the State Treasurer's office, responded that investment allocations are rebalanced quarterly. Chairperson Pettengill asked if people at age 50 receive full benefits. Mr. Nuccio responded that a person at age 50 gets full benefits after 20 years of service.

Representative Carlson asked the speakers to share their remarks on the mortality table utilized for the system. Ms. Beckham stated that there is a strong correlation between education, income, and mortality. Ms. Beckham noted that the most recently developed mortality table is based on data collected from corporate pension plans and explained that there is a question as to whether such data is appropriate for public plans. Ms. Beckham added that an adjustment to the mortality assumptions may be needed when all noneconomic assumptions are reviewed in spring 2018.

Representative Mascher asked at what point it becomes a problem when more beneficiaries are collecting than active members contributing. Ms. Beckham responded that there is no easy answer and it is a question of cash flow but noted that by funding benefits in advance, the system is not dependent on contributions for benefits to be paid. Ms. Beckham added that life longevity is a factor. Representative Mascher asked if judges in the senior judge program still contribute to the system or stop contributing when they retire. Mr. Nuccio responded that they no longer contribute after retiring.

Senator Danielson asked if there are members who transition into the Judicial Retirement System from other state pension systems. Mr. Nuccio responded that there are only a handful of IPERS members who transition into the Judicial Retirement System and portability is not an issue because the number of years in IPERS does not matter with respect to the system. Senator Danielson remarked that there is greater crossover in other state pension systems and that there should be a policy to allow for transition into the Judicial Retirement System from other state pension systems.

In response to a question from Representative Carlson, Ms. Bresson noted that with respect to the international investments for the system, 80 percent consists of investments in developed countries and 20 percent consists of investments in developing countries.

Representative Mascher asked if an individual from one state pension system could buy into the Judicial Retirement System. Mr. Nuccio responded that an individual with IPERS service can buy into the Judicial system. Mr. Nuccio further stated he would look into the question and provide the committee with more information.

III. Presentation Concerning the Iowa Public Employees' Retirement System (IPERS — Chapter 97B)

Ms. Donna Mueller, Chief Executive Officer, IPERS. Ms. Mueller noted that IPERS is the state's largest public retirement system and explained how the state serves as the plan sponsor, with Iowa Code chapter 97B serving as the IPERS plan document. Ms. Mueller described the system's mission statement and the roles of the Legislature and the Executive Branch with respect to the system. She also described the roles of the IPERS Investment Board and the work of investment staff and described the IPERS Benefits Advisory Committee. Ms. Mueller noted that IPERS is a defined benefit plan for eligible public employees, and provides member retirees with a lifetime monthly annuity. She stated that there are currently over 355,600 IPERS members and over 117,000 retirees receiving $2 billion in annual benefits, of which $1.7 billion go to retirees who live within the state of Iowa.

Ms. Mueller stated that 48 percent of IPERS members are education employees, that 15 percent are state employees, and that the remaining members are employees of cities, counties, and other local governments. Ms. Mueller discussed the three distinct groups within IPERS: for the general membership, for protection occupations, and for sheriffs and deputies. She stated that the protection occupation class includes state correctional officers, jailers, and emergency medical technicians, and that the Legislature specifies classes of employment that are covered as protection occupations. She noted that 95 percent of IPERS members are part of the general system and the remaining 5 percent are special service members.

Ms. Mueller described the basic actuarial funding equation for all retirement systems, including IPERS, as contributions plus investments equaling benefits plus expenses. Ms. Mueller noted that the key to secure funding for any pension system is managing this equation. Ms. Mueller provided information about IPERS' shortfall prior to 2017. Ms. Mueller noted that the $5.6 billion in unfunded actuarial liability prior to 2017 resulted from over a decade of insufficient contributions, two recessions, updated actuarial assumptions, and unfunded benefit enhancements.

Ms. Patrice Beckham, Principal and Consulting Actuary, Cavanaugh Macdonald Consulting LLC. Ms. Beckham stated that IPERS uses an asset valuation method to smooth the effect of market fluctuations. Ms. Beckham explained that actuarial value of assets is the expected value plus 25 percent of the difference between actual and expected values. Ms. Beckham noted that the resulting value of actuarial assets must be within the corridor of 80 to 120 percent of pure market value, which did not apply this year. Ms. Beckham provided information on the rate of return on assets from 1998 to 2017, noting that the asset valuation method is working given the volatility of market fluctuations.

Ms. Beckham described the changes since the July 2016 IPERS valuation. Ms. Beckham noted that there were no changes to benefit structure or actuarial methods. Ms. Beckham stated that the IPERS Investment Board made changes to the actuarial assumptions at its March 2017 meeting. She explained that the board modified the economic assumptions by lowering inflation from 3 percent to 2.6 percent, lowering investment return from 7.5 percent to 7 percent, decreasing interest on member accounts from 3.75 percent to 3.5 percent, decreasing the general wage growth assumption from 4 percent to 3.25 percent, and lowering the payroll growth assumption from 4 percent to 3.25 percent. Ms. Beckham noted that the board will review the demographic assumptions in Fiscal Year 2017-2018.

Ms. Beckham provided a side-by-side analysis of the actuarial evaluation results for each of the three different membership groups, comparing the 2016 evaluation results with the 2017 results under both the old assumptions and new assumptions. Ms. Beckham noted that the new set of economic assumptions have a significant impact on unfunded actuarial liabilities. Ms. Beckham stated that economic assumptions are not changed frequently and are long-term in nature.

Ms. Beckham examined the mechanisms for determining actuarial contribution rates and normal costs, and IPERS amortization policies. She noted that IPERS adopted a 30-year closed amortization for the general population plan in June 2014, stating that the unfunded actuarial liability, established in June 2014, will be fully extinguished in 2044. She indicated that once a group becomes fully funded, all outstanding bases are eliminated and the surplus is amortized over an open 30-year period. Ms. Beckham described the contribution rate funding policy, which compares the required contribution rate from the prior year to the actuarial contribution rate in the current year.

Ms. Beckham provided a side-by-side analysis of the contribution rates for each of the three different membership groups, comparing the 2016 actuarial evaluation results with the 2017 results under both the old assumptions and new assumptions. Ms. Beckham noted the differences in the contribution rates when comparing the old assumptions to the new assumptions. Ms. Beckham stated that the new assumptions are accomplishing what was intended.

Ms. Beckham provided information regarding projected unfunded actuarial liabilities and funded ratios by membership class, assuming current contribution rates remain in place and all future actuarial assumptions are met. She noted that the regular membership class is projected to be fully funded by 2046.

Ms. Beckham provided key funding measurements applicable to Fiscal Year 2017-2018. Ms. Beckham stated that the funded ratio decreased from 83.9 percent to 81.4 percent, unfunded actuarial liability increased by $1.4 billion, largely because of the change in the investment return rate, and deferred investments increased by $307 million.

Discussion. Representative Mascher asked if there are other pension systems that include benefit advisory committees. Ms. Mueller responded that it varies state by state. Representative Mascher noted the reasonableness of IPERS administrative costs. Responding to a question about cost-of-living adjustments (COLA), Ms. Mueller responded that IPERS has no COLA, but has a COLA-type payment applicable to a small group of individuals who retired before 1990.

Senator Lofgren asked about the change in contribution rates if the unfunded liability was amortized using a level dollar amount and not a level percent of pay. Ms. Mueller responded that there would be a big difference. Ms. Beckham added that there is a balancing act in determining how the unfunded liability is to be paid.

Representative Carlson thanked the IPERS Investment Board for reducing the investment return assumption and asked about the percentage of net cash flow as indicated on exhibit 22 of the 2017 actuarial report. Ms. Beckham responded that the fact that more money is drawn out than contributions is not unexpected or problematic. Mr. Karl Koch, Chief Investment Officer of the IPERS Investment Board, added that in dealing with this negative cash flow situation, the system maintains an allocation to cash and limits private market investments to maintain liquidity. Representative Carlson noted this puts even more pressure on investment returns.

Senator Breitbach asked about historic changes that occurred in the 1990s regarding IPERS. Ms. Mueller responded that throughout the 1990s the salary cap was lifted, and the benefit formula was changed. Senator Breitbach asked if the removal of the salary cap had a significant impact on unfunded actuarial liabilities. Ms. Beckham responded that because the salary cap was lifted at the same time as an increase in the investment rate, there was no change in net impact. Senator Breitbach asked if wage amounts accounted for the unfunded actuarial liability looking consistent until 2029. Ms. Beckham responded that looking just at payroll amounts is not indicative with respect to unfunded actuarial liabilities.

Vice chairperson Schneider asked about projected investment returns at 10 years, 20 years, and 30 years. Ms. Beckham responded that the 10-year projected investment return is around 6.25 percent while the 30-year projected investment return is about 7.3 percent. The systems' investment consultant does not have a 20-year investment return projection.

IV. IPERS Investment Board

Mr. Karl Koch, Chief Investment Officer, IPERS Investment Board. Mr. Koch described the roles and responsibilities of the IPERS Investment Board, which include to establish the investment policy and risk tolerance of the investment program, hire investment managers and consultants, review investment performance and expenses, select the actuary, and adopt actuarial methods, mortality tables, and assumptions to be used for the annual valuation. Mr Koch noted that the Chief Investment Officer (CIO) reports to IPERS' board and Chief Executive Officer. Mr. Koch stated that the CIO and a staff of five investment officers oversee the system's over $31 billion portfolio. Mr. Koch stated that responsibilities of the staff include implementing the investment board's investment policies, managing investment risk within risk budgets set by the board, adding value to assets, advising the board on investment issues, overseeing and evaluating investment managers, and making limited tactical allocation decisions.

Mr. Koch described the strategic asset allocation and noted the diversity of the portfolio. Mr. Koch stated that the classic struggle is deciding how much risk is prudent. Mr. Koch noted that Fiscal Year 2017-2018 was a good year for investments, exceeding the 7.5 percent investment return assumption. Mr. Koch noted that 73 percent of active investment managers outperformed in 2017. Mr. Koch noted that IPERS' investment approach is generally more conservative than its peers.

Mr. Koch provided information regarding investment returns from 1988 to 2017, noting that 2001-2002, and 2008-2009 were bad years for investment returns. Mr. Koch noted that IPERS has beaten its benchmarks and peers over most long-term periods. Mr. Koch noted that IPERS' risk-adjusted returns rank high among its peers.

Mr. Koch stated that developing internal investment management, as opposed to external investment management, is a strategic initiative of IPERS and could save IPERS millions of dollars each year. Mr. Koch stated that the goal is not to get rid of all external management, but to establish in-house internal management staffers. Mr. Koch noted that doing so will lower management costs, provide more jobs in Iowa, and provide better oversight of external management. Mr. Koch noted that South Dakota has utilized internal investment management for some of their portfolios. Mr. Koch stated that the initiative will require significant start-up costs. He stated that the investment board will need more authority and autonomy to hire and fire investment professionals, set compensation levels for investment personnel, and oversee procurement of investment management tools. Mr. Koch noted that the investment board supports the development of internal investment management and is a part of IPERS' five-year strategic plan. Mr. Koch noted that the initiative will require legislative and administration support.

Mr. Koch noted that the value of the IPERS trust fund is $32 billion as of December 15, 2017.

Discussion. Chairperson Pettengill asked if the investment board's decision to support internal investment management was unanimous. Mr. Koch responded that the State Treasurer voted against the decision.

Representative Carlson asked about the compensation of in-house investment staffers compared to those employed on Wall Street. Mr. Koch responded that staffers cannot come work for a public pension fund expecting Wall Street compensation. Mr. Carlson noted that it is not unusual to see seven-figure salaries for investment bankers. Mr. Koch responded that IPERS is already paying these salaries to external management personnel.

Representative Mascher asked if current staff has the capability in terms of training or education, or will it take additional training to achieve internal investment management. Mr. Koch responded that current staff is excellent, but does not have experience in trading. Mr. Koch added that the idea is for current staff to work under experienced portfolio managers and eventually manage portfolios once they gain experience. Representative Mascher stated that this initiative will save money and support Iowa's own and noted that other states have adopted internal investment management successfully.

V. IPERS Benefits Advisory Committee

Mr. Len Cockman, Chairperson, IPERS Benefits Advisory Committee. Mr. Cockman stated that the Benefits Advisory Committee (BAC) represents a variety of major member, employer, and retiree associations and is an important link between members, administrators, and legislators. Mr. Cockman stated that the primary role of the BAC is to make recommendations to IPERS and the General Assembly on the administration of IPERS benefits, as well as recommend changes to legislation and help ensure IPERS continues to meet the needs of its members. Mr. Cockman described various initiatives supported by the BAC, including pension reform passed in 2010, anti-spiking rules, exclusion of bonuses and allowances from covered wages, and actuarial cost studies. Mr. Cockman noted that the total IPERS administration costs were consistently low.

Discussion. Chairperson Pettengill noted that a group does not need a lobbyist to start the process of seeking to be included in the protection occupation classification and asked if any groups had approached the BAC in the current year. Mr. Cockman responded that no groups had sought inclusion in the protection occupation classification in the current year. Ms. Mueller remarked that groups are encouraged to approach the BAC for joining, but the BAC itself does not have the authority to move groups into the protection occupation classification. Ms. Mueller added that a group must seek a legislative solution.

Senator Lofgren asked a question regarding high salaries and anti-spiking rules. Ms. Mueller responded that higher salaries are sometimes just a natural progression and does not mean to imply that an employee is trying to manipulate the system. Senator Lofgren noted Illinois as an example where high salaries caused the state pension system trouble.

Representative Mascher noted that the majority of IPERS beneficiaries live in Iowa and contribute to the state's economy. Ms. Mueller responded that the IPERS website provides information on the distribution rate for each county and added that about $1.7 billion was distributed within Iowa this year. Representative Mascher noted that these beneficiaries contributed and paid into the system, and the dollars they receive are from their investment into the system. Ms. Mueller responded that a unique feature to IPERS is that it is only one of three pension systems where employee contributions vary as well as employer contributions. Representative Mascher thanked the BAC.

Chairperson Pettengill stated that she loves when Illinois is brought up as an example to show what happens when mistakes are made. Chairperson Pettengill stated that she appreciates IPERS' governing structure and its working relationship with the Legislature. Chairperson Pettengill added that she thinks IPERS is doing everything correctly and is hopeful that the upward trajectory in funding status continues.

VI. Presentation Concerning the Peace Officers' Retirement System

Ms. Roxanne Ryan, Commissioner, Iowa Department of Public Safety. Ms. Ryan described the governing structure of the Peace Officers' Retirement System (PORS), including information about the system's board of trustees and the plan document contained in Iowa Code chapter 97A. Ms. Ryan noted that PORS provides retirement benefits for sworn peace officers of the Department of Public Safety (DPS) across DPS' five separate divisions, and that members are not covered by Social Security. Ms. Ryan provided information on the seven different plan options available to PORS members upon retirement, discussed program contours along with PORS' disability and death benefits, and explained benefit formulas. Ms. Ryan described PORS asset allocations for the current fiscal year and provided comparative analysis of actual allocations relative to target allocations, noting generally good returns for the prior fiscal year.

Ms. Patrice Beckham, Principal and Consulting Actuary, Cavanaugh Macdonald Consulting LLC. Ms. Beckham provided an update from PORS' annual evaluation from July 1, 2017. Ms. Beckham noted that the completion of the experience study resulted in changes to the actuarial methods, including the amortization approach, and demographic assumptions. Ms. Beckham provided information on the significant cost impact of the experience study changes, including an increase in unfunded actuarial accrued liability, a decrease in the actuarial value of assets, and an increase in the actuarial contribution rate.

Ms. Beckham provided historical information on PORS' membership and noted that there are now more retirees than active members. Ms. Beckham stated that a key concern is the fact that the number of active members keeps decreasing. Ms. Beckham provided historical information on the market and actual rates of return and noted the fluctuations of such returns. Ms. Beckham noted that in the current year the market value rate of return Fiscal Year 2016-2017 was 18.4 percent while the actuarial value rate of return was 9.2 percent. Ms. Beckham provided historical information on the market and actuarial value of assets for PORS.

Ms. Beckham provided a comparative analysis of system performance between 2016 and 2017, noting an increase in unfunded actuarial accrued liability from $152 million in 2016 to $182.9 million in 2017, of which $33.5 million of the total unfunded liability being attributable to the assumption changes. She stated that this resulted in a decrease in the system's funding status from 74 percent in 2016 to 71 percent in 2017. Ms. Beckham provided historical information on PORS' unfunded actuarial accrued liability and funding status.

Ms. Beckham pointed out an increase in the total actuarial contribution rate from 53.44 percent in 2016 to 56.94 percent in 2017, stating that the increase is due to asset experience, liability experience, other experience, including lower payroll growth, assumption and method changes, a change in the normal cost rate, and contributions less than the actuarial rate. Ms. Beckham additionally provided historical information on PORS' actual statutory contribution rates in comparison to actuarially required contribution rates, noting that the discrepancy between the two from 2003-2013 resulted in the system's large unfunded actuarial liability. She stated that legislative changes to the PORS funding mechanism were made in 2010 to improve PORS' funding status. She further noted that the state's $5 million annual contribution, established in the 2010 legislation, will continue until the PORS funding ratio reaches 85 percent.

Ms. Beckham stated that PORS is expected to reach full funding in 2039, assuming all assumptions are met and all contributions are made as scheduled. She stated that PORS' long-term financial health is dependent on future investment returns and scheduled contributions, including the state's annual supplemental contribution of $5 million until the system is 85 percent funded. She further noted that the impact of higher contributions on the system's funding status will take time to materialize in the valuation results.

Discussion. Representative Breckenridge asked how long the $5 million supplemental contribution from the state has been provided. Ms. Ryan responded that the $5 million supplemental contribution began in Fiscal Year 2013-2014.

Chairperson Pettengill asked if PORS allows for overtime in determining pension benefits and contributions. Ms. Ryan responded that the system does not include overtime for determining benefits and contributions. Chairperson Pettengill compared PORS to IPERS' protection occupation system, noting that a PORS member could work a significant amount of overtime but would not receive contributions, which is a negative impact for the member. Ms. Ryan responded that this is a negative impact for the member, but not on the pension fund itself. Chairperson Pettengill stated that she sees not including overtime as taking advantage of members.

Chairperson Pettengill asked how often the target asset allocation is rebalanced. Ms. Jina Bresson, a representative of the State Treasurer's office, noted that the target allocation is reviewed quarterly and noted that the target allocation was last rebalanced on October 1, 2017. Ms. Bresson noted that the system uses a 5 percent leeway on rebalancing.

Representative Carlson asked Ms. Bresson to explain the meaning of the 5 percent leeway on rebalancing. Ms. Bresson responded that the leeway means the actual asset allocation must be plus or minus 5 percent of the target allocation. Representative Carlson stated that it was difficult to understand the risk profile of emerging versus developed markets for international investments when they are all lumped together and asked about the risk profile of emerging markets. Ms. Bresson responded that emerging markets cannot exceed 20 percent of international investments.

Representative Mascher noted that the number of active members is down to 597 from a peak of 662 in 2009. Representative Mascher stated the low number of active members is the reason we are seeing so much overtime and stated that we are in a situation where it is difficult to recruit and retain peace officers.

Chairperson Pettengill asked about the number of hours of overtime peace officer members have served. Ms. Ryan responded that she will look into the question and provide the committee with information.

VII. DAS — Retirement Investors' Club

Ms. Janet Phipps, Director, Department of Administrative Services (DAS). Ms. Phipps described the Retirement Investors' Club (RIC) as a supplemental retirement savings program authorized for public sector employees under Internal Revenue Code (IRC) sections 457, 401(a), and 403(b). Ms. Phipps stated that RIC plans are intended to supplement pension benefits, encourage retirement readiness, and help attract and retain quality employees. Ms. Phipps described IRC section 457 and 401(a) plans for state employees, and other public sector employees, to enter into the RIC, while section 403(b) plans are for education employees to have access to the RIC. She described the RIC's authorizing legislation, program requirements, and associated employer contributions, if any.

Ms. Phipps discussed the separate Request for Proposals (RFP) and Invitation to Qualify (ITQ) processes for selecting plan providers, noting that RIC "core providers" went through the RFP process, and noting that core providers needed to satisfy certain program requirements, including low maximum fees and no surrender penalties. She then described the expansion of section 403(b) offerings to include additional optional providers available after the ITQ process, and stating that individual school districts can decide whether or not to offer plan options from the additional providers. She noted that school districts participating in the program pay an annual management cost to DAS of $400. Ms. Phipps noted that 26 school districts are currently offering plan options from the additional providers.

Ms. Phipps provided participation rates for the various RIC programs, noting that about 13,000 participants utilize the 403(b) program, about 55 percent of eligible state employees utilize the 457 program, and 13,800 participants are in the 401(a) program.

Ms. Phipps provided information about current activity regarding the RIC, stating that an RFP for a third-party administrator was issued in October 2017, and that Voya was selected the week of December 11, 2017. Ms. Phipps stated that in response to legislation enacted in 2017, an initial ITQ for additional optional providers was issued, but was unsuccessful. Ms. Phipps stated that a new ITQ is being issued and is hopeful that there will be interest from providers.

Discussion. Representative Carlson asked Ms. Phipps to address the fact that there are no additional optional vendors for the 403(b) program. Ms. Phipps responded that she hopes the new ITQ will invite interest from vendors.

Representative Mascher asked if Ms. Phipps had a breakdown by pension system of RIC program participants. Ms. Phipps responded that she does not know if RIC has this information and will follow up with more information.

Chairperson Pettengill asked about Voya's role in light of being selected as a third-party administrator. Ms. Phipps responded that Voya will continue to be a common remitter.

Chairperson Pettengill asked if school districts get to pick core vendors under the 403(b) program. Ms. Phipps responded that all core vendors are offered by school districts. Chairperson Pettengill noted that the intent of the 2017 legislation was for all optional vendors to have the same standing on the form as core vendors. Chairperson Pettengill stated that the expectation going forward is that school districts have to offer all DAS-approved optional vendors to 403(b) program participants on their forms for transparency. Chairperson Pettengill stated that the committee should consider ways to increase participation rates. Ms. Phipps responded that perhaps RIC could create a survey and will put more thought into how to get information to employees about the program.

VIII. Presentation Concerning the Municipal Fire and Police Retirement System of Iowa (Iowa Code Chapter 411)

Mr. Terry Slattery, Executive Director, Municipal Fire and Police Retirement System of Iowa (MFPRSI). Mr. Slattery provided background information concerning MFPRSI, noting that legislation from 1990 created the current statewide system. Governance for the system is provided by a nine-member board along with four ex officio legislative members. Mr. Slattery discussed the requirements for participating cities in MFPRSI and noted that MFPRSI is a "state-wide" system, as opposed to a "state" system. Mr. Slattery stated that the mission of MFPRSI is to provide a comprehensive set of retirement and disability benefits to eligible local police officers and fire fighters in a sound, sustainable, and efficient manner in accordance with the requirements of the program's governing statute. Mr. Slattery added that MFPRSI's vision statement provides further information on program goals. Mr. Slattery provided a detailed history of the program.

Mr. Slattery discussed MFPRSI responsibilities and major activities, including collecting contributions, pre-retirement counseling, administering a permanent disability program, executing benefits and refund payrolls, complying with federal law, implementing a diversified investment policy, applying statutory requirements, and communicating to members. Mr. Slattery noted that MFPRSI distributes about $14 million per month to retirees, a majority of which is distributed within the state. Mr. Slattery described the system's Deferred Retirement Option Plan, stating that 46 percent of eligible employees have decided to participate in the program since it was initiated in 2007. Mr. Slattery noted that the number of active members is nearly the same as the number of retirees, stating that the system has matured and a negative cash flow is anticipated. Mr. Slattery reviewed the program's investment allocation policy and noted that the 10-year annual rate of return since inception of the statewide system in 1992 is 7.7 percent.

Mr. Slattery discussed challenges facing MFPRSI, including the 7.5 percent investment return assumption, strategic planning, a goal of full funding over a 25-year period, the financial status of the system, and the implementation of several complex programs. Mr. Slattery noted that the system's funding status increased to 81.4 percent as of July 1, 2017. Mr. Slattery discussed legislative activities affecting MFPRSI, noting that the board of trustees recommended having the state resume its contribution to the system at a rate of 3.79 percent of earnable compensation in order to reinstate the funding agreement between the state and participating cities from 1976. Mr. Slattery noted that Senator Danielson has sponsored a bill that reflected the board's recommendation, but it did not pass.

Mr. Glen Gahan, Silverstone Group, Actuary. Mr. Gahan discussed the July 1, 2017, actuarial valuation of MFPRSI. Mr. Gahan noted that the system changed its future mortality improvement assumption for purposes of the 2017 valuation. Mr. Gahan stated that as a result of this change, coupled with strong investment performance for the last fiscal year, the funded ratio of the system based on the actuarial value of assets is 81.4 percent as of July 1, 2017, and the city contribution rate beginning July 1, 2018, will increase to 26.02 percent. Mr. Gahan discussed future trends in the actuarial contribution rate to be paid by cities and the system's funded ratio over the next 25 years using current assumptions. Mr. Gahan noted that by the end of the 25-year period, the system will be over 99 percent funded and the city contribution rate would decrease to the required minimum city contribution rate of 17 percent. Mr. Gahan discussed the results of the alternative actuarial valuation under common standards for General Assembly reporting.

Discussion. Senator Danielson stated that MFPRSI is a great system because not only is it a pension system, but also a short and long-term disability system. MFPRSI also provides a line-of-duty death payment. Senator Danielson noted that it would be difficult to overstate the importance of the system to its members because they do not receive Social Security benefits. Senator Danielson stated that the committee should consider a state contribution of a few million dollars, which would minimize the impact of a potential reduction in property tax replacement money provided by the state to local communities. Senator Danielson also stated that the committee should think about the long-term impact of hiring and firing decisions based on health status.

Representative Carlson expressed concern regarding the 7.5 percent investment return expectation. He encouraged the presenters to see if the investment return expectation should be moved closer to 7 percent to make sure the system is adequately funded.

Chairperson Pettengill asked if MFPRSI had any type of required compliance testing. Mr. Slattery responded that up until 2014, they had to apply for a compliance determination letter from the IRS every five years, but that this is no longer required. Mr. Slattery added that they are not required to file annual IRS reporting requirements.

IX. Committee Discussion

There was no committee discussion following the conclusion of the presentations.

X. 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 "Committee Documents" link on the committee's Internet site: www.legis.iowa.gov/committees/meetings/documents?committee=655&ga=ALL

1. PORS — State Police Officers Council comments
2. MFPRSI — Iowa Professional Fire Fighters and Iowa State Police Association comments
3. IPERS — State Police Officers Council comments
4. 2017 — Public Retirement Systems Committee — written comments
5. PORS — System Presentation
6. MFPRSI — System Report
7. JudRet — System Presentation
8. IPERS — System Presentation
9. DAS — Retirement Investors' Club Presentation