MINUTES

Public Retirement Systems Committee

Wednesday, December 11, 2019

MEMBERS PRESENT

Senator Charles Schneider, Co-chairperson	Representative Mary Ann Hanusa, Co-chairperson
Senator Tony Bisignano	Representative Robert P. Bacon
Senator Michael Breitbach	Representative Gary L. Carlson
Senator Pam Jochum	Representative Molly Erin Donahue
Senator Mark S. Lofgren	Representative Mary Mascher

LSA CONTACTS: Organizational staffing provided by: Ed Cook, Sr. Legal Counsel, 515.281.3994; Minutes prepared by: Joe Simpson, Legal Counsel, 515.725.2251

CONTENTS

I. Procedural Business

II. Presentation Concerning the Judicial Retirement System

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

IV. IPERS Investment Board

V. IPERS Benefits Advisory Committee

VI. Presentation Concerning the Peace Officers' Retirement System

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

VIII. Department of Administrative Services — Retirement Investors' Club

IX. Committee Discussion

X. Materials Filed With the Legislative Services Agency

I. Procedural Business

Call to Order and Adjournment. The meeting of the Public Retirement Systems Committee was called to order by temporary Co-chairperson Hanusa at 9:09 a.m., Wednesday, December 11, 2019, in Room 103 of the State Capitol, Des Moines. The meeting was adjourned at 3:45 p.m.

Election of Permanent Co-chairpersons. Members of the committee unanimously elected temporary Co-chairpersons Schneider and Hanusa as permanent Co-chairpersons.

Adoption of Rules. Members of the committee adopted procedural rules that are available on the committee's website.

Committee Charge. The charge of the committee, in accordance with Iowa Code section 97D.4, is to review and evaluate all public retirement systems in place in Iowa, including the Iowa Public Employees' Retirement System (IPERS), the Municipal Fire and Police Retirement System of Iowa (Iowa Code chapter 411), the Department of Public Safety Peace Officers' Retirement System (PORS), and the Judicial Retirement System.

II. Presentation Concerning the Judicial Retirement System

Mr. Todd Nuccio, State Court Administrator, provided a general overview of the Judicial Retirement System, which is established in Iowa Code chapter 602 and referenced in the Iowa Constitution. Mr. Nuccio explained that the State Court Administrator oversees the system and is appointed to do so by the Iowa Supreme Court. Mr. Nuccio stated that as of June 30, 2019, the fund was valued at $216,405,241 with a total annual pension payroll of $14,161,609. The fund is projected to be fully funded by 2026. Mr. Nuccio stated that membership in the Judicial Retirement System consists of Justices of the Supreme Court, the Judges of the Court of Appeals, and district, district associate, full-time probate, and juvenile court judges. Magistrates and other Judicial Branch employees are members of IPERS. The contribution rates for the Judicial Retirement System are set by statute, with employees contributing 9.35 percent of pay and employers contributing 30.60 percent of pay. Funds are then invested by the State Treasurer. The investment return assumption for the judicial retirement system is 6.75 percent.

Mr. Nuccio explained certain benefit provisions of the Judicial Retirement System, including the Senior Judge Program. A senior judge may serve for no more than six years and may not serve after the age of 78 years old.

Ms. Patrice Beckham, Consulting Actuary, Cavanaugh Macdonald Consulting, LLC, gave an actuarial report regarding the Judicial Retirement System. Ms. Beckham began her presentation by explaining certain actuarial concepts. Ms. Beckham explained the basic actuarial funding equation, which is contributions plus investment income equals benefits plus expenses. Actuarial assumptions and funding methodology are determined by the State Court Administrator and are used to estimate the amount and timing of future benefit payments. To ensure that assumptions are reasonable and the best estimates for future experience, experience studies are performed approximately every four or five years. Based on the 2018 experience study, the investment return assumption was lowered from 7.5 percent to 6.75 percent. Ms. Beckham stated that even though life expectancy has seen recent decreases, judges are expected to live longer. Ms. Beckham explained that growth in the number of retirees and other beneficiaries was expected, but the number of contributors (judges) is relatively stable. Changes in assumptions caused the unfunded actuarial liability to increase by $33 million, the funded ratio of actuarial assets to actuarial liabilities to decrease from 97.6 percent to 83.7 percent, and the actuarial contribution rate to increase by 13.84 percent for the 2018 valuation of the system.

Ms. Beckham explained the actuarial valuation process, which is a budgeting tool that allocates the cost of the benefits to different years of service worked by members. The purpose of a valuation is to assist with monitoring funding progress and evaluating or setting contribution rates. For the Judicial Retirement System, the normal entry age method is used to create a level percent of pay that is over a member's working career. Ms. Beckham noted that variations from the assumed actuarial value, known as "actuarial experience gains or losses," are expected to occur from year to year because the assumptions are long-term in nature. Ms. Beckham defined the term "actuarially funded," which means that current assets plus future contributions and future investment earnings equal the present value of future benefit payments.

Ms. Beckham provided information on the membership of the system from 2006 to 2019, which showed a gradual increase in the number of persons receiving benefits. Ms. Beckham noted that the number of persons receiving benefits exceeds the number of active members in the current year. Ms. Beckham compared the funded ratio, which is the actuarial assets divided by the actuarial liability of the trust, between July 1, 2018, and July 1, 2019. Ms. Beckham noted that the 2019 funded ratio is 86 percent, compared to 84 percent for 2018. Ms. Beckham said that the nationwide average funded ratio for most public retirement systems is 73 percent. Ms. Beckham stated that if all assumptions are met in the future, the system should be fully funded by 2026.

In response to a question from Representative Mascher, Ms. Beckham explained that because the number of contributors remains fairly constant and retirees are expected to live longer, the number of retirees and other beneficiaries will continue to increase for a while. Representative Mascher asked if that caused a concern. Ms. Beckham stated that from an actuarial perspective, increasing beneficiaries relative to active members can create cash flow concerns. Senator Jochum asked if the entry age into the system has changed. Ms. Beckham said that most judges enter the system in their 40s. Mr. Nuccio mentioned that they did not have the data readily available but there are some judges who enter at a younger age. Senator Jochum asked why the assumptions for salary increases were lowered. Ms. Beckham explained that there is an assumption for lower inflation so therefore salaries will likely follow a similarly slow pace.

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

Ms. Donna Mueller, Chief Executive Officer, IPERS, presented an overview of the retirement system. The system was established in 1953 with the mission of being "a cost-effective retirement plan that provides lifetime pension payments to public employees and serves to attract and retain a quality workforce." The system's trust fund has grown to $34 billion, with the fund adding $19 billion since 2003. Ms. Mueller described the administration of the system and explained the roles of the IPERS Benefits Advisory Committee and the IPERS Investment Board. Ms. Mueller explained that IPERS is a defined benefit plan with benefits paid as a lifetime, monthly annuity. Ms. Mueller explained the following core elements of the system: mandatory participation by eligible employees; pooled investment risk, which is managed by professionals and a board of trustees; pooled longevity risk, which is necessary because people often underestimate how long they will live after retirement; employer-employee cost-sharing; lifetime annuity, though there is not a cost of living adjustment; and supplementation of Social Security and personal savings or deferred compensation payments.

Ms. Mueller explained that there are three groups for IPERS membership: regular members; protection occupations members; and sheriffs and deputy sheriffs. The total membership of IPERS is 368,292, with 172,304 of those members being active and 112,973 being retired. Ms. Mueller noted that of the

$2.2 billion in benefits payments made from the system each year, $1.9 billion of the benefits are paid to beneficiaries through Iowa banks. Ms. Mueller noted that 172 retirees are over 100 years of age.

Ms. Beckham discussed the June 30, 2019, actuarial valuation of the system. Key actuarial assumptions for the valuation include the investment return assumption of 7.0 percent, the general wage increase assumption of 3.25 percent, and various age adjustments and scaling made to mortality assumptions to better reflect actual experience. Ms. Beckham noted, based on the June 30, 2019, actuarial report, that for regular members, the fund had a funded ratio of 82.7 percent, the sheriffs and deputies had a funded ratio of 99.0 percent, and protection occupation members had a funded ratio of 99.7 percent. For the system as a whole, the unfunded actuarial liability decreased by $338 million and the ratio of actuarial assets to actuarial liabilities increased from 82.4 percent to 83.7 percent. The June 30, 2019, actuarial report also included deferred investment gains of $686 million.

Ms. Beckham explained the system's unfunded actuarial liability amortization policy. The system amortized liabilities as of June 30, 2014, over a closed 30-year period and uses a separate 20-year amortization period for subsequent liabilities. Once a piece of debt becomes fully funded, all outstanding bases are eliminated and the surplus is amortized over an open 30-year period.

Ms. Beckham explained the system's contribution rate funding policy, which was first adopted in FY 2012-2013. The goal of the system's contribution rate policy is to attempt to hold steady the required contribution rate for members. In order to achieve the policy's goal, the required contribution rate from the previous year is compared against the actuarial contribution rate from the current year. If the current actuarial contribution rate is lower than the previous year's required contribution rate by a difference of less than 0.5 percent, the required contribution rate will remain unchanged. If the difference is greater than 0.5 percent, however, then the required contribution rate is lowered by 0.5 percent, provided the funded ratio is 95 percent or higher. If the actuarial contribution rate is higher than the previous year's required contribution rate, then the current required contribution rate shall be increased to the actuarial contribution rate, except that regular members shall not see a greater than 1 percent change. Ms. Beckham stated that for FY 2020-2021, the required contribution rate for regular members will remain unchanged while the sheriffs and deputy sheriffs group and the protection occupations group will each see a 0.5 percent decrease in required contribution rates.

Ms. Beckham described a new actuarial measurement to assess the volatility of the system for all members, called the asset volatility ratio, which is the ratio of system assets to covered payroll. A higher ratio indicates a greater contribution risk, meaning the system is more volatile. For regular members, the asset volatility ratio is 4.11 with a current contribution margin of 0.29 percent. The volatility ratio for sheriffs and deputy sheriffs is 6.29 with a current contribution margin of 1.65 percent. The volatility ratio for protection occupations is 4.86 with a current contribution margin of 0.67 percent.

Ms. Beckham explained the Governmental Accounting Standards Board (GASB) sensitivity analysis, which subtracts the market value of assets in the system from the total pension liability, based on adjusted assumptions, to find the net pension liability, which is essentially the unfunded actuarial liability on a market value basis. Ms. Beckham demonstrated the sensitivity analysis by showing that the net pension liability would increase if the total pension liability increased due to a 1 percent decrease in the discount rate, and conversely the net pension liability would decrease if the total pension liability decreased due to a 1 percent increase in the discount rate. Ms. Beckham explained that the current state of the unfunded actuarial liability is due in part to more than a decade of insufficient contributions, which was amplified by recessions in the years 2001 and 2009. Other contributors to the unfunded actuarial liability include changed assumptions relating to mortality tables and a reduced investment return assumption, and unfunded benefits enhancements from favorable experience dividend payments.

Representative Carlson questioned whether the 7 percent investment return assumption is too aggressive. Ms. Beckham replied that the investment return assumption is reviewed every four years and is forward-looking based on inflation and actual returns. Representative Carlson also stated that the unfunded liability should be viewed as just a point in time. Ms. Mueller replied that generational equity has to be taken into account in setting the investment return assumption.

IV. IPERS Investment Board

Ms. Lisa Stange, Chairperson, IPERS Investment Board, Mr. Karl Koch, Chief Investment Officer, IPERS Investment Board, and Mr. Ali Kazemi, Senior Consultant and Head of Risk Management, Wilshire Associates, presented information concerning the IPERS Investment Board. The board consists of trustees who act in the interest of participants and beneficiaries for the exclusive purpose of providing benefits to participants and beneficiaries in a cost-efficient manner. The board's roles and responsibilities include establishing the investment policy and risk tolerance of the investment program; setting asset allocation and diversification policy; hiring investment managers, actuaries, and consultants; reviewing investment performance, investment management expenses, and the system's administrative budget; and adopting actuarial methods, mortality tables, and assumptions for the actuary to prepare the annual valuation of assets and liabilities. The board recommended the establishment of the ability to internally manage assets. Ms. Stange explained that internal management could save about $8 million on fees, which would help bring the system closer to being fully funded. Ms. Stange stated that most other funds of similar size to IPERS have found that at least partial internal management of assets is the best practice because it provides better alignment of interests and improves oversight of existing managers. Additionally, Ms. Stange noted that internal management could bring good-paying jobs into Iowa. Ms. Stange explained that internal management is supported by the IPERS Investment Board, the IPERS Benefits Advisory Committee, and IPERS staff.

Ms. Stange noted that a barrier to being able to internally manage the system is the inability to offer competitive salaries. Representative Carlson asked what kind of salary would attract a quality candidate. Ms. Stange replied that a performance-based salary would need to start in the range of $200,000 to $300,000, which is closer to a base salary on the open market, to attract a quality candidate. Ms. Stange stated that the system is currently paying $54 million for investment management services. Mr. Kazemi mentioned that states that have internal management offer salaries that range from about $300,000 to $700,000. Representative Mascher raised concerns about losing good personnel if salaries are not high enough. Ms. Stange mentioned that with internal management, an investment analyst has to understand that they are subject to being fired for poor performance. Ms. Mueller stated that internal management is allowed, but the inability of the board to determine qualifications and salaries creates roadblocks to internal management. Co-chairperson Hanusa asked what percentage of the $54 million would be a good first step to allocate to transition to active internal management. Mr. Koch stated that starting with internal management for passive management strategies would probably be a wise idea. Co-chairperson Hanusa asked whether the state would be exposed to financial liability if it adopted internal management. Mr. Koch stated that the state could purchase fiduciary insurance but was unsure how much such insurance would cost. Senator Lofgren expressed support for further looking into internal management.

Mr. Koch explained his role as the Chief Investment Officer of the IPERS Investment Board. The Chief Investment Officer reports to the Chief Executive Officer and manages five investment officers who oversee $34 billion in a global portfolio. The investment officers implement the board's investment policies, manage investment risk within the risk budgets set by the board, add value to the system, advise the board on investment issues and make recommendations to the board for asset allocation and implementation, oversee and evaluate investment managers and recommend retention or removal, administer competitive bidding processes and divestment mandates, and make limited tactical allocation decisions. Mr. Koch explained that the IPERS Investment Board annually reviews and periodically adjusts its asset allocation, dependent on how much risk the board finds prudent given the long investment horizon.

Mr. Koch presented information on the system's performance over the previous fiscal year. Mr. Koch stated that the fund had a net earnings of 8.35 percent of fees, which exceeded the investment return assumption of 7.0 percent, but the earnings underperformed the policy benchmark return of 8.64 percent. However, the return still ranked in the top 13 percent of large public funds that reported to the Wilshire Trust Universe Comparison Service. Management expenses accounted for 0.2 percent of the fund's average quarterly market value. The pension administration service company CEM Benchmarking rated the IPERS investment program as a low-cost program with added value in line with similar pension funds. Mr. Koch presented information showing the fund's investment performance over the last 10, 20, and 30 years. Mr. Koch also presented information on IPERS risk-adjusted returns.

Mr. Kazemi presented information on the role of Wilshire Associates in allocating assets in the fund. In managing the fund, the goal of Wilshire Associates is to select a diversified mix of suitable asset classes to maximize the return for the level of risk based on the investor's risk tolerance and return expectation requirements. Mr. Kazemi explained the benefits of using different ranges for forward-looking horizon return assumptions and said that the current market appears favorable for the 30-year horizon return assumptions. Mr. Kazemi explained the current and proposed asset allocation among market asset classes. Mr. Kazemi noted that return prospects have been declining for decades and therefore a decline in discount rates for public funds is expected to continue.

V. IPERS Benefits Advisory Committee

Mr. Len Cockman, Chairperson, IPERS Benefits Advisory Committee, discussed the role of the IPERS Benefits Advisory Committee. The committee serves as a communication link between members, administrators, and legislators. The committee studies issues and makes plan recommendations to IPERS and the Legislature. Mr. Cockman presented initiatives that the committee supports, which includes adopting internal investment management to keep money in Iowa. Mr. Cockman shared data showing that IPERS administrative costs per member are approximately $51 whereas administrative fees for similar retirement funds cost about $96 per member. At the end of Mr. Cockman's presentation, Co-chairperson Hanusa thanked all the presenters for their work in keeping IPERS strong and stable and specifically thanked Ms. Mueller for her many years of service.

VI. Presentation Concerning the Peace Officers' Retirement System

Mr. Jim Wittenwyler, Administrative Services Director, Iowa Department of Public Safety, presented an overview of the Peace Officers' Retirement, Accident, and Disability System (PORS), which is created in Iowa Code chapter 97A. Mr. Wittenwyler reported a fund value of $539.4 million as of July 1, 2019, which reflected an increase from approximately $528 million one year prior. Mr. Wittenwyler stated that the system had a total membership of 1,228 members with 551 of those being active members. The benefits paid in FY 2019 totaled $32.6 million, which resulted in an average annual benefit of $53,532 per member. In FY 2019, members contributed $5.5 million to the fund and the state contributed $16.8 million plus an additional $5 million that the state is required to contribute until the system is 85 percent funded. The member contribution rate was 11.40 percent of pay and the state statutory contribution rate before the additional $5 million contribution was 37.00 percent of pay. Mr.

Wittenwyler stated that the members, who are sworn peace officers within the Department of Public Safety, do not receive Social Security benefits, but members are required to pay into Medicare Part A. Mr. Wittenwyler provided information on the plan options available to PORS members upon retirement and ancillary benefits available due to death or disability. Mr. Wittenwyler presented data depicting changes in contribution rates, the target asset allocation as of July 1, 2019, investment performance history, and return rates. Representative Carlson asked why fixed income comprises 25 percent of the target asset allocation. Mr. Wittenwyler responded that the State Treasurer would invest the moneys in the trust fund. Representative Mascher asked why the system only saw a 2.97 percent return over the previous year when the market has been healthy. Mr. Wittenwyler responded that the board of trustees will continue to monitor the situation but the State Treasurer's office is better equipped to answer that question. Mr. Wittenwyler added that dropping the return assumption from 7.5 percent to 7 percent may be a consideration in the future. Senator Bisignano asked why PORS members are not part of Social Security. Mr. Wittenwyler stated that the Social Security Administration has an agreement dating back to the 1980s to exclude certain civil service employees.

Ms. Beckham presented actuarial information related to PORS. Ms. Beckham discussed actuarial assumptions that had been adopted in the past, which include lowering the investment return assumption from 8.00 percent to 7.50 percent, using the RP-2014 mortality table with a one-year age setback, and lowering the payroll growth assumption to 3.0 percent. Ms. Beckham noted that since about 2009, PORS has seen a trend of fewer active members and an increase in retired, disabled, and other beneficiaries. Ms. Beckham reported that the funded ratio of the system based on the actuarial value of assets improved from 75 percent as of July 1, 2018, to 78 percent as of July 1, 2019. Ms. Beckham stated that the system is expected to be fully funded by the year 2038. Ms. Beckham reported that the unfunded actuarial accrued liability decreased from $162 million as of July 1, 2018, to about $154 million as of July 1, 2019.

Ms. Beckham shared information showing the historic trends from the actuarial contribution rate and the actual statutory contribution rate, noting that for a 12-year period between 2001 and 2013 the actual statutory contribution rate was lower than the actuarial contribution rate. Ms. Beckham shared a sensitivity analysis showing that if the investment return assumption was lowered to 6.5 percent, the system would only be 84.5 percent funded by 2038. Ms. Beckham noted how the reduction in active membership and slow payroll growth causes slow increases in terms of member contributions. Ms. Beckham stated that as the ratio of assets to payroll has increased, the same percentage of investment return loss has become a larger share of payroll. Specifically, with a ratio of 11.49 in 2019, a 10 percent investment loss is equivalent to 115 percent of payroll, whereas in 1999 when the ratio was 7.45 percent, the same percentage of investment loss would have only been 75 percent of payroll. Ms. Beckham presented information showing how changes to the actual return for FY 2020 impact how many years the state will continue to make the supplemental $5 million contribution.

Representative Mascher asked how many more years the state is expected to make the $5 million supplementary contribution. Ms. Beckham stated that based on current assumptions, the state will make the supplemental contribution for five more years. However, Ms. Beckham stated that a drop in the number of members, possibly due to frequent overtime hours and burnout, could affect how soon the system will reach 85 percent funded. Ms. Beckham noted that over the last two decades there are almost 100 fewer active members in the system.

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

Mr. Terry Slattery, Executive Director, Municipal Fire and Police Retirement System of Iowa, presented an overview of the Municipal Fire and Police Retirement System of Iowa that is established in Iowa Code chapter 411. Mr. Slattery stated that the main goal of the system is to ensure that members receive the proper benefits that they earned. Mr. Slattery explained that the system is governed by a board of trustees that consists of nine voting members, two of whom are fire fighter representatives, two of whom are police representatives, four of whom represent participating cities, and one of whom is a private citizen, and four nonvoting legislative members. Mr. Slattery discussed the legislative history of the system. Mr. Slattery stated that in 1992, approximately $575 million in investment assets were transferred from cities into the system and today the system manages over $2.6 billion.

Mr. Slattery stated that the system includes over 4,000 active members. Mr. Slattery discussed the mission of the system and the board's responsibilities and major activities. Responsibilities include the collection of member and employer contributions based on the rate recommended by the actuary; paying out approximately $14 million per month in benefits to about 4,000 beneficiaries with approximately 85 percent of payments staying within Iowa; implementation of a diversified investment policy based on a strategy adopted each year as required by statute; application of statutory provisions, which include marital and dependent provisions and federal provisions; and communicating with members, which includes the use of newsletters, annual financial reports, annual statements, and a website. Activities include revising systematic policy revisions at least once every four years; recommending legislative changes; annually adjusting retirement benefits to account for cost-of-living increases; implementing and executing the deferred retirement option program, which 46 percent of eligible beneficiaries have participated in; making recommendations to Congress relating to the federal Pension Protection Act; and annually conducting a review of audit controls and safeguards for the system's portfolio using an external auditor.

Mr. Slattery presented statistics relating to the system. Mr. Slattery highlighted the number of active members compared to the number of members receiving benefits, which results in a roughly one-to-one ratio. The average age of beneficiaries excluding children is 70 years old and the average age of new retirees is 58 years old. Beneficiaries receive an average benefit of $42,095 per year. Mr. Slattery explained the retirement benefit percentages based on a member's service time and disability status. Since the system's inception, the system has an average annual investment return rate of 7.7 percent and has maintained a 7.5 percent actuarial return assumption. Mr. Slattery noted that the system's 7.5 percent assumption is higher than the industry average of 7.25 percent, but stated that the board is comfortable staying with 7.5 percent.

Mr. Slattery described the system's investment policy. Forty-five percent of investments are core investments, which include public securities and open-ended real estate funds. Thirty-five percent of investments are strategic investments, which are generally determined by multi-asset managers who build portfolios and are able to better sense the market and make adjustments. The remainder of the system's investments go to private markets, which generally include real estate holdings.

Mr. Slattery discussed challenges that the system faces. One such challenge is the recent increase in members applying for disability due to post-traumatic stress disorder. Mr. Slattery mentioned that there are medical procedures in place to ensure members are capable of doing their jobs and screening procedures will expose preexisting conditions when applying for a disability. Mr. Slattery stated that maintaining the system's data security is an ongoing challenge. Mr. Slattery listed recent program implementation as another challenge, including the recent adoption of converting paper files to electronic records. Mr. Slattery also noted that the board recommended that the state resume its contribution to the system of 3.79 percent, which would lower the amount that cities are required to contribute and would reinstate an agreement between the state and participating cities that dates back to 1976.

Mr. Glen Gahan, Actuary, SilverStone Group, presented the July 1, 2019, actuarial report of the system. Mr. Gahan stated that the member contribution rate is 9.4 percent, which is fixed by statute, and the actuarially calculated contribution rate for cities will be 25.31 percent beginning July 1, 2020. Mr. Gahan described the changes to the liabilities and assets of the system and mentioned that there were fewer disability payments than expected. Mr. Gahan also noted demographic changes in mortality assumptions. Mr. Gahan discussed changes in contributions from members and participating cities from 2018 to 2019. Mr. Gahan explained that the system's funding ratio suffered a slight decrease from 82.00 percent in 2018 to 81.04 percent in 2019, but the system has rebounded since having a funding ratio of only about 74 percent in 2013. Mr. Gahan provided the committee with 25-year projections for contributions based on a 7.5 percent investment return rate. Mr. Gahan also presented results included with the alternative statutory actuarial report.

Senator Breitbach asked whether a city is capable of withdrawing from the system if the city's population falls under 8,000 people. Mr. Slattery responded that there is not a mechanism in current law that allows a city to withdraw if it was originally required to participate. Senator Breitbach noted that state troopers pay 11.4 percent of their compensation while municipal officers only pay 9.4 percent and asked why there is a difference. Mr. Slattery answered that those contribution rate percentages are fixed by statute. Representative Carlson asked about the system's investment strategy and benchmarking. Mr. Slattery responded that the system has a definite value bias toward overall value. Mr. Slattery explained that the system's goal is to make 7.5 percent return on investment and reduce volatility. Representative Carlson mentioned that the system's rate of return is lower than other systems. Mr. Slattery indicated that the other funds' performance may be related to risks the respective investors are willing to take and that the Municipal Fire and Police Retirement System of Iowa Board of Trustees is not as comfortable taking those risks.

VIII. Department of Administrative Services — Retirement Investors' Club

Mr. Jim Kurtenbach, Director, Department of Administrative Services, discussed the Retirement Investors' Club, which is comprised of supplemental retirement savings programs. The purposes of the Retirement Investors' Club are to supplement employees' pension benefits, encourage retirement readiness, and help attract and retain quality employees. The programs are differentiated by the three applicable Internal Revenue Code sections describing public employee deferred compensation programs—sections 457, 401a, and 403b. Mr. Kurtenbach explained the legislative authority for Iowa's participation in the programs. The participation in the programs is not mandatory but the programs are available to public sector and education-related employers and employees. Mr. Kurtenbach discussed the vendors and benefits of the various plans available. Mr. Kurtenbach stated that participation in the 403b program, covering educational employees, as of September 30, 2019, included 12,687 members, which is relatively low for a 403b program. Mr. Kurtenbach discussed membership in the 457 program, covering state employees, and mentioned that the state offers a matched contribution of up to $75 per month. Mr. Kurtenbach also mentioned that about 60 percent of eligible employees participate in the 457 program. Mr. Kurtenbach stated that local governments may offer a contribution match as part of the 457 program but not all local governments offer that incentive.

Senator Breitbach asked whether there is a requirement for a participant to start withdrawing from a 457 plan. Mr. Kurtenbach replied that a participant must start withdrawing by 70-and-one-half years of age. Representative Mascher asked about teachers who participate in their own plans. Mr. Kurtenbach noted that the Retirement Investors' Club is just an option if the person wants the state to administer the employee's investment. Representative Mascher wanted to clarify that teachers may invest on their own, but doing so would not include a potential contribution match.

IX. Committee Discussion

The co-chairpersons opened the committee for discussion. Representative Mascher stated that she wanted to establish an interim study committee concerning internal management of IPERS funds. Senator Bisignano asked whether there is any plan to make changes to IPERS or other pension programs. The co-chairpersons responded that they do not expect any changes to occur, other than possible consideration of allowing IPERS internal investment management authority.

The committee did not adopt any formal recommendations.

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. JudRet — System Presentation
4. IPERS — System Presentation
5. PORS — System Presentation
6. MFPRSI — System Presentation
7. DAS — Retirement Investors' Club Presentation