MINUTES

Public Retirement Systems Committee

Wednesday, December 8, 2021

MEMBERS PRESENT

Senator Tim Kraayenbrink, Co-chairperson
Senator Tony Bisignano
Senator Tim Goodwin
Senator Pam Jochum
Senator Mike Klimesh

Representative Robert P. Bacon, Co-chairperson
Representative Dave Deyoe
Representative Molly Donahue
Representative Martin L. Graber
Representative Chris Hall

LSA CONTACTS: Organizational staffing provided by: Ed Cook, Sr. Legal Counsel, 515.281.3994; Minutes prepared by: Tyler Heeren, Legal Counsel, 515.725.0480

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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 temporary Co-chairperson Kraayenbrink at 9:02 a.m., Wednesday, December 8, 2021, in Room 116 of the State Capitol, Des Moines. The meeting was adjourned at 2:45 p.m.

Election of Permanent Co-chairpersons. Members of the committee unanimously elected temporary Co-chairpersons Kraayenbrink and Bacon 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 was, in accordance with Iowa Code section 97D.4, to review and evaluate all public retirement systems in place in Iowa, including the Iowa Public Employees' Retirement System (IPERS), the Municipal Fire and Police Retirement System of Iowa (MFPRSI), the Department of Public Safety Peace Officers' Retirement System (PORS), and the Judicial Retirement System.

II. Presentation Concerning the Judicial Retirement System

Mr. Robert Gast, State Court Administrator, Judicial Branch, provided a general overview of the Judicial Retirement System, which is established in Iowa Code chapter 602 and referenced in the Iowa Constitution. Mr. Gast explained that the State Court Administrator, appointed by the Iowa Supreme Court, oversees the system. Magistrates and other Judicial Branch employees are members of IPERS. The Judicial Retirement System is a defined benefit plan with mandatory participation, including from Supreme Court Justices, Court of Appeals Judges, district and associate court judges, and full-time probate and juvenile judges. System investments are managed by professional investment managers hired by the Treasurer's office.

The system reached full funding in the July 2021 valuation, which triggers a change in contribution rates. Previously, the statutory contribution rates were 9.35 percent for employees and 30.60 percent for the state. Now that the system is fully funded, the actuarial contribution rate is split and employees are responsible for 40 percent while the state is responsible for 60 percent. The new statutory contribution rates for fiscal year 2023 are 9.98 percent for employees and 14.97 percent for the state. The Judicial Retirement System currently operates with an investment return assumption of 6.75 percent.

Mr. Jon Cleereman, Director of Finance, Judicial Branch, provided an overview of the system membership and plan finances. Mr. Cleereman stated that as of June 30, 2021, the fund was valued at $310,164,529 with a total pension payroll of $15,209,116. Mr. Cleereman noted that there are currently 205 active members and 258 persons collecting benefits from the system.

Mr. Cleereman explained certain benefit provisions of the Judicial Retirement System. Benefits are payable for the life of the judge and available at a 50 percent rate for a surviving spouse. The normal retirement age is 65 years old with four years of service and 50 years old with 20 years of service. Judges are subject to a mandatory retirement age of 72 years old. Mr. Gast also discussed the senior judge program, which provides additional judicial resources of a minimum of 13 weeks per year per judge. 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. Ms. Beckham stated that because investing in retirement systems represents a long-term obligation, there is an advantage for investment purposes in utilizing long-term assumptions and funding methodologies. As such, the assumptions used to estimate the amount and timing of future benefit payments can refrain from being overly aggressive or conservative, which is important because costs are being allocated to different generations of members and taxpayers. To ensure that assumptions are reasonable and the best estimates for future experience, experience studies are performed approximately every four or five years with the last study for the Judicial Retirement System occurring in 2018. The next study is scheduled for 2023. Based on the 2018 study, the investment return assumption was lowered from 7.5 percent to 6.75 percent, which, among other changes, caused the unfunded actuarial liability to increase by $6 million. Ms. Beckham stated that even though life expectancy has seen recent decreases, white-collar retirees, and judges especially, 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.

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 methodology to determine valuation uses the normal entry age 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 noted that high investment returns were realized in FY 2021 and that contributed to the system becoming fully funded this year. She cautioned that similar returns are unlikely and cannot be expected when planning for the future.

Ms. Beckham provided information on the membership of the system from 2006 to 2021, which showed a gradual increase in the number of persons receiving benefits. Ms. Beckham noted that the number of the 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, 2020, and July 1, 2021. As of July 1, 2021, the funded ratio is now 101 percent. Ms. Beckham cautioned that member and state contributions are expected to vary from year to year, potentially significantly, as the actuarial contribution rate fluctuates due to actual versus expected experience. As a result, future experience, particularly investment returns, will heavily influence the funding of the system. Ms. Beckham opined that general expectations are for lower returns in the next 5 to 10 years, which may result in increased pressure on contribution rates.

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

Mr. Gregory S. Samorajski, Chief Executive Officer, IPERS, presented on IPERS and provided a general overview and background of the system. The system was established in 1953 with the mission to administer "a cost-effective retirement plan that provides lifetime pension payments to public employees and serves to attract and retain a quality workforce." The system is a workforce recruitment tool and serves 381,922 members. Mr. Samorajski provided a breakdown of the system's membership into various groups. Mr. Samorajski explained that there are three groups for IPERS membership: regular members, protection occupations members, and sheriffs and deputy sheriffs. Of the total membership of IPERS, 173,186 are active members and 119,542 are retired members. Mr. Samorajski noted that of the $2.3 billion in benefits payments made from the system each year, over $2 billion of the benefits are paid to beneficiaries through Iowa banks, with the remaining payments being made outside of Iowa in the United States and globally.

The system benefited from historic investment returns of 29.6 percent in FY 2021. The second highest return in the system history saw $9 billion in investment income. Mr. Samorajski explained that IPERS is a defined benefit plan paid as a lifetime, monthly annuity. Mr. Samorajski 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 IPERS benefits with Social Security and personal savings or deferred compensation payments.

Mr. Samorajski took an opportunity to publicly thank the members of the legislature for his confirmation and highlighted the launch of the new IPERS website (www.ipers.org) which serves more than 225,000 users annually. Mr. Samorajski cautioned about the potential risks associated with attempting to continue to support the system with the current operating budget and that delivering the services and results may become more difficult without increased funding.

Committee discussion followed Mr. Samorajski's presentation. A brief discussion was held concerning the trend of recent increased retirements, accelerated by the COVID-19 pandemic and how to continue to support retirees. Mr. Samorajski expects the system liabilities to increase and that based on calculations and demographic changes, it is necessary to continue to earn the assumed 7 percent return on investments annually. His goal is to keep skilled employees managing the system.

The committee discussed possible ways to address any teacher workplace shortage and the impact of the bona fide retirement, particularly as it affects rural school districts. Mr. Samorajski explained that a number of different options to address the concerns are being reviewed.

Ms. Beckham discussed the June 30, 2021, actuarial valuation of the system and explained that the results are used to set the 2023 fiscal year contribution rates. There was no change to assumptions, methods, or benefits but a new study will be prepared in the first half of 2022. Ms. Beckham presented certain funding measures based on the June 30, 2021, actuarial report. For regular members, the fund had a funded ratio of 88.3 percent, the sheriffs and deputies had a funded ratio of 102.7 percent, and the protection occupations had a funded ratio of 103.1 percent. Ms. Beckham explained that when a group is fully funded, the outstanding bases will be eliminated and the surplus will be amortized over an open 30-year period. For the system as a whole, the unfunded actuarial liability decreased by $1.63 billion.

Ms. Beckham explained the system's unfunded actuarial liability amortization policy. The system uses a base of June 30, 2014, over a closed 30-year period and uses a fixed schedule to pay off pieces of debt. A new piece of debt added is amortized over a separate 20-year period, thus creating layers in a valuation. Ms. Beckham presented a graph showing how the amortization policy projects a decline in expected unfunded actuarial liability, assuming current contribution rates continue and all actuarial assumptions are met in the future.

Ms. Beckham explained the system's contribution rate funding policy, which was first adopted in FY 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 described the volatility of the system for all members. The volatility of the system is determined by calculating 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. She recommended reviewing the amortization policy and federal transfer assumption as part of a comprehensive experience study in 2022.

Committee discussion followed and continued with Ms. Beckham explaining the actuarial side of addressing any employee shortage concerns. She explained that part of the assumptions made are based on any built-in expected leave time and that changes made will then alter the assumptions. Employee behavior is also likely to change if leave time changes are made. Members of the committee discussed ways to address teacher and nurse workforce shortages.

IV. IPERS Investment Board

Ms. Phyllis Peterson, Chairperson, IPERS Investment Board, and Mr. Karl Koch, Chief Investment Officer, IPERS, presented information on the role and responsibilities of the IPERS Investment Board. The board consists of trustees who act as fiduciaries in the interest of participants and beneficiaries of IPERS and for the exclusive purpose of providing benefits to participants and beneficiaries of IPERS in a cost-efficient manner. The board's role 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 IPERS Investment Board recently approved the creation of IPERS' first internally managed investment program, Alternative Risk Premia. Overall, investment expenses were $68.1 million, or 0.17 percent of the fund's total quarterly average fair value.

Mr. Koch explained his role as the Chief Investment Officer of IPERS. The Chief Investment Officer reports to the Chief Executive Officer and manages seven investment officers who oversee $43 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, and oversee and evaluate investment managers and recommend retention or removal, and administer competitive bidding processes and divestment mandates. 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 investment return of 29.63 percent for FY 2021 exceeded the investment return assumption of 7.0 percent, though similar returns in the future cannot be expected. Mr. Koch presented information showing the fund's investment performance over the last 30 years and the fund's expected investment performance over the next 10, 20, and 30 years in comparison with the policy benchmark and the median of other large public funds. Mr. Koch shared details that showed IPERS' portfolio has outperformed the large public fund median in recent years. Mr. Koch also presented information on the risk versus return ratio that shows where IPERS ranks compared to other large public funds.

Mr. Ali Kazemi, Managing Director, Senior Consultant and Head of Risk Management, Wilshire Associates, presented information on the role of Wilshire Associates in assisting the investment board in allocating assets in the fund. The goal of Wilshire Associates is to provide advice on managing the fund by selecting 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 asset allocation policy was revised in September 2020 and reaffirmed in 2021. Mr. Kazemi stated that Iowa was ahead of the curve in adopting a lower discount rate and over 70 percent of state retirement systems have discount rates of 7 to 8 percent.

V. IPERS Benefits Advisory Committee

Mr. David Martin, Chief Benefits Officer, IPERS, discussed the role of the IPERS Benefits Advisory Committee. The committee, established by statute, serves as a communication link between members, administrators, and legislators. The committee studies issues and makes plan recommendations to IPERS and the Legislature. Mr. Martin presented initiatives that the committee supports, which include adopting internal investment management to keep money in Iowa. Mr. Martin shared data showing that IPERS administrative costs per member are approximately $46 whereas administrative fees for similar retirement funds cost about $98 per member.

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 that the PORS trust fund had a value of $807.5 million as of July 1, 2021. Mr. Wittenwyler stated that the system has a total membership of 1,248 members with 547 of those being active members. The benefits paid in FY 2021 totaled $36.5 million, which resulted in an average annual benefit of $55,847 per member. In FY 2021, members contributed $5.4 million to the fund and the state contributed $17.7 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 and the state statutory contribution rate before the additional contribution was 37.00 percent. Mr. Wittenwyler stated that the members, who are sworn peace officers within the Department of Public Safety, are exempt from Social Security and therefore 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, 2021, investment performance history, and return rates. Mr. Wittenwyler noted the current investment return assumption is 7.00 percent. He provided information showing an investment return over the past year of 34.81 percent, and since the program's inception, an overall investment return of 9.55 percent.

Ms. Beckham presented actuarial information related to PORS. Ms. Beckham discussed actuarial assumptions that had been adopted by the board of trustees for PORS, including an investment return assumption of 7 percent and using the most recent mortality table with a one-year age setback. 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 each year, which has resulted in reduced contributions. Ms. Beckham exhibited data showing the fluctuations of the market value versus the actuarial value of the system. Ms. Beckham reported that the funded ratio of the system based on the actuarial value of assets improved from 76 percent as of July 1, 2020, to 84 percent as of July 1, 2021. Ms. Beckham noted that the system's funded ratio was 61 percent in 2012. Ms. Beckham projected the system to be fully funded by the year 2024 if all assumptions are met. Ms. Beckham reported that the unfunded actuarial accrued liability decreased from $177.4 million as of July 1, 2020, to $122.1 million as of July 1, 2021.

Ms. Beckham presented a forecast of the value of assets in the system against the actuarial liability from 2021 through 2040. The forecast assumes all assumptions are met, other than investment return. Ms. Beckham noted that beginning in 2014, the actual statutory contribution rate became greater than the actuarial contribution rate. Ms. Beckham shared a sensitivity analysis showing that if the investment return assumption was lowered to -10 percent in FY 2022, the system would only become 100 percent funded by 2040, compared to it being 110 percent funded if the assumed return occurs annually. 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 the recent favorable results are largely due to extremely strong return on investments of 34.58 percent in FY 2021.

During committee questions and comments, Mr. Wittenwyler advised that a new experience study is planned for 2022. A clarification was provided regarding the data that showed investment return rates net fees.

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

Mr. Dan Cassady, Executive Director, Municipal Fire and Police Retirement System of Iowa, presented an overview of MFPRSI as established in Iowa Code chapter 411. Mr. Cassady stated that the main goal of the system 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. Cassady 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. Cassady discussed the legislative history of the system and stated that in 1992, when the statewide system was established, approximately $575 million in investment assets were transferred from cities into the system. Today, the system manages over $3.3 billion.

Mr. Cassady stated that the system includes 4,107 active members, and over 8,000 total members. Mr. Cassady discussed the board's responsibilities and major activities. Responsibilities include collecting member and employer contributions based on the rate recommended by the actuary; providing preretirement and refund counseling; administering a permanent disability program; executing regular benefit and refund payrolls; monitoring compliance with legislative and tax requirements; implementing a diversified investment policy; applying benefits to statutorily eligible persons, including spouses and dependents; and communicating extensively with members. Activities include adopting national standards for preemployment medical protocols and review of the medical examination network; using new technology to maintain member records and data; revising investment policies; completing an annual investment policy implementation and oversight review; making recommendations for legislative changes, which have been minimal and generally limited to changes regarding the implementation of the system; and technical language modifications.

Mr. Cassady presented statistics relating to the system. He 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 nonactive beneficiaries excluding children is 70.1 years old and the average age of new retirees is 58.2 years old. Nonactive beneficiaries receive an average benefit of $44,987 per year. Mr. Cassady 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 8.2 percent and has maintained a 7.5 percent actuarial return assumption.

Mr. Cassady described the system's investment policy. Forty-three 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. Cassady discussed challenges that the system faces. The system is unique as fire fighters and police officers generally are not eligible for workers' compensation. He 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. Cassady discussed the health and safety concerns and precautions that resulted from and were implemented following the COVID-19 pandemic. He noted that the administration maintained normal hours of operations and provided uninterrupted service to its members throughout the pandemic. He 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 the funding agreement between the state and participating cities that dates back to 1976.

Mr. Mike Ehmke, Principal, SilverStone Group, presented the July 1, 2021, actuarial report of the system. Mr. Ehmke 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 23.9 percent beginning July 1, 2022. Mr. Ehmke described the changes to the liabilities and assets of the system. Mr. Ehmke discussed changes in contributions from members and participating cities from 2020 to 2021. Mr. Ehmke explained that the system's funding ratio increased from 79.93 percent in 2020 to 82.95 percent in 2021. Mr. Ehmke provided the committee with 25-year projections for contributions based on a 7.5 percent investment return rate.

During committee discussion and questions, discussion centered on how retirement benefits are affected if a retiree continues to work and the rate and cap of cost-of-living adjustment calculations when used for benefits. Mr. Ehmke provided a dollar amount estimation to reflect data presented as a percentage.

VIII. DAS — Retirement Investors' Club

Mr. Adam Steen, 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. Steen explained the history and 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. Steen discussed the providers and benefits of the various plans available. Mr. Steen provided details of the different programs and member participation rates.

Committee discussion and questions followed relating to the 403b program for education employees. Discussion focused on increasing participation and the possibility of legislative action and its potential effect on the eligible benefits. The committee discussed ways to improve counseling and advisements to the member pool and ways to provide guidance to eligible employees so that informed decisions can be made by interested members.

IX. Committee Actions

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 - Iowa Professional Fire Fighters and Iowa State Police Association comments
2. JudRet - System Presentation
3. IPERS - System Presentation
4. PORS - System Presentation
5. MFPRSI - System Presentation
6. DAS - Retirement Investors' Club Presentation