



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Mary Mosiman, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE _____ January 4, 2017

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released a report on the Peace Officers' Retirement, Accident and Disability System (System).

The report includes the audited Schedule of Employer Pension Amounts required to implement Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. The Schedule presents the System's employer contributions, net pension liability, deferred outflows of resources and deferred inflows of resources as of and for the year ended June 30, 2016 and the net pension liability as of June 30, 2015.

A copy of the report is available for review in the Peace Officers' Retirement, Accident and Disability System's office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1760-5521-0001>.

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**PEACE OFFICERS' RETIREMENT, ACCIDENT
AND DISABILITY SYSTEM**

**INDEPENDENT AUDITOR'S REPORT
SCHEDULE OF EMPLOYER PENSION AMOUNTS**

JUNE 30, 2016

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**Peace Officers'
Retirement, Accident and Disability System**

Officials

Name

Title

State

Honorable Terry E. Branstad	Governor
David Roederer	Director, Department of Management
Glen P. Dickinson	Director, Legislative Services Agency

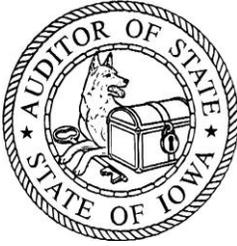
Board of Trustees

Commissioner Roxann M. Ryan	Chairperson
Honorable Michael L. Fitzgerald	Member
Robert Conrad	Member (through June 30, 2017)
Chris Mayer	Member (through April 30, 2018)
Gail Schwab	Member (through June 30, 2018)

Agency

Charis Paulson	Director of Administrative Services, Department of Public Safety
Linda Guffey	Secretary, Peace Officers' Retirement, Accident and Disability System

**Peace Officers'
Retirement, Accident and Disability System**



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Independent Auditor's Report

To the Board of Trustees of the Peace Officers' Retirement, Accident and Disability System:

Report on the Financial Statements

We have audited the accompanying Schedule of Employer Pension Amounts of the Peace Officers' Retirement, Accident and Disability System (System) as of June 30, 2016 and June 30, 2015 and for the year ended June 30, 2016, and the related Notes to Schedule of Employer Pension Amounts. We have also audited the columns titled 2016 Employer Contributions, Net Pension Liability, Total Deferred Outflows of Resources, Total Deferred Inflows of Resources and Pension Expense.

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of the Schedule in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the Schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the 2016 Employer Contributions, Net Pension Liability, Total Deferred Outflows of Resources, Total Deferred Inflows of Resources and Pension Expense included in the Schedule based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the Schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedule.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Schedule referred to above presents fairly, in all material respects, the 2016 Employer Contributions, the Net Pension Liability, the Total Deferred Outflows of Resources, the Total Deferred Inflows of Resources and Pension Expense for the System as of June 30, 2016 and June 30, 2015 and for the year ended June 30, 2016 in accordance with U.S. generally accepted accounting principles.

Other Matter

We have audited, in accordance with U.S. generally accepted auditing standards, the financial statements of the Peace Officers' Retirement, Accident and Disability System as of and for the year ended June 30, 2016, and our report thereon, dated December 14, 2016, expressed an unmodified opinion on those financial statements.

Other Reporting Required by Government Auditing Standards

Our report on the Peace Officers' Retirement, Accident and Disability System's internal control over financial reporting and other tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters required by Government Auditing Standards has been issued with our report on the aforementioned financial statements of the Peace Officers' Retirement, Accident and Disability System dated December 14, 2016. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Peace Officers' Retirement, Accident and Disability System's internal control over financial reporting and compliance.

Restriction on Use

Our report, a matter of public record, is intended solely for the information and use of the System's management, the Peace Officers' Retirement, Accident and Disability System's Board of Trustees and the management and citizens of the State of Iowa and is not intended to be and should not be used by anyone other than these specified parties.


MARY MOSIMAN, CPA
Auditor of State

December 14, 2016

Peace Officers'
Retirement, Accident and Disability System

Schedule of Employer Pension Amounts

As of June 30, 2016 and June 30, 2015
and for the Year Ended June 30, 2016

		Total Deferred Outflows of Resources (Difference Between Projected and Actual Earnings)			Total Deferred Inflows of Resources (Difference Between Expected and Actual Experience)		
2016 Employer Contributions	Net Pension Liability			Total Deferred Resources (Changes of Assumptions)	Total Deferred Outflows of Resources	Expected and Actual Experience)	Pension Expense
	June 30, 2016	June 30, 2015					
\$ 20,519,243	175,304,336	124,028,061	35,565,914	20,119,480	55,685,394	9,324,880	27,460,604

See Notes to Schedule of Employer Pension Amounts.

**Peace Officers'
Retirement, Accident and Disability System**

Peace Officers'
Retirement, Accident and Disability System
Notes to Schedule of Employer Pension Amounts
June 30, 2016

(1) Plan Description

Plan Membership

The Peace Officers' Retirement, Accident and Disability System is the administrator of a single-employer defined benefit public employee retirement system that is a statewide retirement system for peace officers in the Iowa Department of Public Safety.

Plan Benefits

Plan benefits are established by state statute under Chapter 97A of the Code of Iowa and may be amended only by the State legislature.

1. Service Retirement Benefits – A member may retire with a service allowance after completing twenty-two years of creditable service and attaining the minimum service retirement age of fifty-five. The retirement allowance consists of a pension equal to 60.5% of the member's average final compensation plus an additional 2.75% for each year of service over twenty-two years, not to exceed ten additional years, or a maximum of 88%. The member's average final compensation is the average earnable compensation of the member during the member's highest three years of service as a member of the Iowa Department of Public Safety.
2. Ordinary Disability Retirement Benefits – A member may retire on an ordinary disability retirement allowance, provided the medical board, after a medical examination of the member, has certified the member is mentally or physically incapacitated for further performance of duty and such incapacity is likely to be permanent and the member should be retired. The ordinary disability retirement allowance consists of a pension which is equal to 50% of the member's average final compensation, except if the member has not had five or more years of membership service. Then the member will receive a pension equal to 25% of the member's average final compensation. If the member has had twenty-two or more years of membership service, the member shall receive the greater of the benefit that would be payable under a service retirement if the member were fifty-five years of age or 50% of the member's average final compensation.
3. Accidental Disability Benefit – A member who has become totally and permanently incapacitated for duty as the result of an injury, disease or exposure occurring while in the actual performance of duty will be retired by the Board of Trustees, provided the medical board has certified such member is mentally or physically incapacitated for further performance of duty, such incapacity is likely to be permanent and the member should be retired. Upon retirement for accidental disability, a member will receive an accidental disability retirement allowance which consists of a pension equal to 60% of the member's average final compensation. If the member has had twenty-two or more years of membership service, the member will receive the greater of the benefit payable under a service retirement if the member were fifty-five years of age or 60% of the member's average final compensation.

4. Ordinary Death Benefit – Upon the death of a member who has one or more years of service and no pension payable for accidental death benefits, an amount equal to 50% of the final year of compensation will be payable to the member's beneficiary. If the member was in service at the time of death, the beneficiary, if qualified, may elect to receive a pension equal to 40% of the average final compensation, but not less than an amount equal to 25% of the compensation paid to an active member having the rank of senior patrol officer of the Iowa highway safety patrol payable immediately upon the death of the member. If the member was not in service at the time of death, the pension will be reduced to a prorated service allowance payable commencing when the member would have attained the age of fifty-five.

In addition, immediately upon death, there will be paid for each child of a member a monthly pension equal to 6% of the monthly earnable compensation payable to an active member having the rank of senior patrol officer.

5. Accidental Death Benefit – Upon the death of a member as a result of an accident or exposure occurring in the performance of duty, there will be payable to the member's surviving spouse, children or dependent parent a pension equal to 50% of the average final compensation of the member. If there is no surviving spouse, children or dependent parent, the death will be treated as an ordinary death case and the benefit will be payable to the member's estate.

In addition, immediately upon death, there will be paid for each child of a member a monthly pension equal to 6% of the monthly earnable compensation payable to an active member having the rank of senior patrol officer.

6. Line of Duty Death Benefit – Upon the receipt of evidence and proof the death of a member in service was the direct and proximate result of a traumatic personal injury incurred in the line of duty, the person authorized to receive an accidental death benefit will receive a lump sum payment equal to \$100,000.

7. Adjustments to Pensions – Each July 1 and January 1, if applicable, the following adjustments are made: Monthly earnable compensation payable to an active member of the same rank and position in the salary scale as was held by the retired or deceased member at the time of the member's retirement or death, for July of the current year less that of the preceding July, times the following percentages:

- (1) 40% for members receiving a service retirement allowance and for beneficiaries receiving an accidental death benefit.
- (2) 40% for members with five or more years of membership who are receiving an ordinary disability benefit.
- (3) 40% for members receiving an accidental disability benefit.
- (4) 24% for members with less than five years of membership who are receiving an ordinary disability benefit and for beneficiaries receiving an ordinary death benefit.
- (5) 50% of the amount which would have been added to the benefit of the retired member for surviving spouses, but not less than 25% of the monthly earnable compensation paid to an active member having the rank of senior patrol officer.

Additionally, the following amounts will be added to a member's or beneficiary's initial monthly pension:

Years Since Retired *	Amount
0-4	\$ 15
5-9	20
10-14	25
15-19	30
20 or more	35

* Measured in whole years.

The way the flat escalator was applied changed effective July 1, 2010. Prior to 2010, the amount increased for each year after retirement.

Surviving children's pensions are adjusted each July to equal 6% of monthly earnable compensation payable to an active member having the rank of senior patrol officer of the state patrol.

Vested Membership – A member leaving covered employment before attaining retirement age but after completing at least four years of covered service is entitled to receive a service retirement allowance upon attaining the minimum service retirement age provided his or her accumulated contributions have not been withdrawn.

Contributions – Contributions to the System are made pursuant to Chapter 97A of the Code of Iowa. Member contribution rates enacted by the 2010 Legislature changed the scheduled contribution rates for both the employee and the employer. Employee contributions increased 0.5% each year for four years, beginning at 9.35% in fiscal year 2011 and increasing to 11.40% on July 1, 2015. The 11.40% contribution rate beginning July 1, 2015 includes .05% for the cost of the cancer and infectious disease presumption. The employer rate is scheduled to increase 2% each year from 33% for plan year 2016 until reaching 37% in the year beginning July 1, 2017. The State also began contributing an additional \$5 million each year, beginning July 1, 2013, until the funded status of the System attains 85%. On May 27, 2016, the Governor signed House File 2459 limiting the additional appropriation for fiscal year 2017 to \$2.5 million.

The member contribution required and contributed was \$5,079,754, representing 11.40% of current year covered payroll. The State contribution required by statute and the amount actually contributed was \$20,519,243. \$5,000,000 of the State contribution was an annual appropriation, which was in addition to the required employer 33% contribution rate. Costs of administering the plan are financed through employer contributions and investment income.

(2) Summary of Significant Accounting Policies

A. Basis of Presentation

Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, requires certain information be provided about the System. The Schedule of Employer Pension Amounts (Schedule) provides this required pension information to the State of Iowa for inclusion in its financial statements.

The underlying financial information used to prepare the Schedule is based on the System's financial statements which are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. System contributions are recognized when due and the System has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Schedule is intended to present the information required by GASB Statement No. 68 and not to present the financial position of the System or the State of Iowa.

The System issues a publicly available financial report which includes financial statements and required supplementary information. The report may be obtained by writing to the Iowa Department of Public Safety, Peace Officers' Retirement, Accident and Disability System, Public Safety Building, 215 East 7th Street, Des Moines, Iowa 50319.

B. Deferred Outflows of Resources and Deferred Inflows of Resources

Differences Between Projected and Actual Earnings – The differences between projected and actual earnings on System investments are recognized over a five year period. The non-current amount is presented as a deferred outflow of resources in the Schedule. The current amount is included as pension expense.

Differences Between Expected and Actual Experience – The differences between expected and actual experience is recognized over the average remaining service life for all members which is 6.48 years. The non-current amount is presented as a deferred inflow of resources in the Schedule. The current amount is included as pension expense.

(3) Net Pension Liability

The components of the net pension liability of the System at June 30, 2016 are as follows:

Total pension liability	\$ 578,388,848
Plan fiduciary net position	<u>403,084,512</u>
Net pension liability	<u>\$ 175,304,336</u>
Plan fiduciary net position as a percentage of the total pension liability	69.69%

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of July 1, 2015 using the following actuarial assumptions and the entry age normal actuarial cost method applied to all periods included in the measurement:

Inflation:	2.75%
Salary increases:	4.00% to 7.00%, including inflation
Investment rate of return:	7.50% compounded annually, net of investment expense, and including inflation

Pre-retirement mortality rates were based on the RP-2000 Mortality Table for Employees, Male and Female, with Generational Projection. Post-retirement mortality rates were based on the RP-2000 Mortality Table for Healthy Annuitants, Male and Female, with Generational Projection. Disability mortality rates were based on the RP-2000 Mortality Table for Healthy Annuitants, Male and Female, with a 5-year set forward and Generational Projection.

The actuarial assumptions used in the July 1, 2015 valuation are based on the results of the most recent actuarial experience study, which covered the five year period ended June 30, 2011. The experience study report is dated September 10, 2012.

The long-term expected rate of return on System investments is reviewed as part of the experience study. Several factors are considered in evaluating the long term rate of return assumption, including the long term historical data, estimates inherent in current market data and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Stocks (Large Cap Equities)	25.00 %	8.83
U.S. Stocks (Small Cap Equities)	15.00	9.64
International Equity - Developed	18.75	9.89
International Equity - Emerging	6.25	12.50
Fixed Income	25.00	3.95
Real Estate	10.00	7.50
Total	100.00 %	

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed plan contributions from members and the State will be made at the current contribution rates as set in State statute:

- a. Employee contribution rate: 11.40%.
- b. State contribution rate: 33.00%, increasing by 2.00% each year until the rate reaches 37.00% in fiscal year 2018.
- c. Supplemental State contributions: \$5 million until the System is 85% funded. The State contribution is set at \$2.5 million for fiscal year 2017 and then returns to \$5 million in subsequent years.

Based on those assumptions, the fiduciary net position is projected to be available to make all projected future benefit payments to current members. Therefore, the long-term expected rate of return on System assets was applied to all periods of projected benefit payments to determine the net pension liability. The municipal bond rate was not used in determining the discount rate, but if it were required, the rate would have been 3.01%. The projected future benefit payments for all current plan members were projected through 2115.

Sensitivity Analysis - The sensitivity of the net pension liability to changes in the discount rate presents the net pension liability of the System, calculated using the discount rate of 7.50%, as well as the System's net pension liability calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current discount rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability	\$252,115,184	175,304,336	111,719,239

Deferred Outflows and Deferred Inflows of Resources

The summary of the amounts of Deferred Outflows of Resources and Deferred Inflows of Resources as of June 30, 2016 is as follows:

	Year of Deferral	Amortization Period	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Deferred Outflows of Resources:						
Differences between expected and actual earnings	2015	5 years	\$7,619,050	-	1,904,763	5,714,287
	2016	5 years	-	37,314,534	7,462,907	29,851,627
	Total		<u>\$7,619,050</u>	<u>37,314,534</u>	<u>9,367,670</u>	<u>35,565,914</u>
Deferred Outflows of Resources:						
Changes of assumptions	2016	6.48 years	\$-	23,790,918	3,671,438	20,119,480
Deferred Inflows of Resources:						
Differences between expected and actual experience	2015	6.51 years	\$5,593,450	-	1,015,145	4,578,305
	2016	6.48 years	-	5,612,738	866,163	4,746,575
	Total		<u>\$5,593,450</u>	<u>5,612,738</u>	<u>1,881,308</u>	<u>9,324,880</u>

Pension Expense

The summary of pension expense for the year ended June 30, 2016 is as follows:

Service cost at end of year	\$ 12,206,877
Interest on total pension liability	41,660,565
Employee contributions	(5,079,754)
Projected earnings on plan investments	(32,732,854)
Expensed portion of current-period differences between projected and actual earnings on plan investments	7,462,907
Expensed portion of prior-period differences between projected and actual earnings on plan investments	1,904,763
Expensed portion of current-period change in assumption	3,671,438
Expensed portion of current-period difference between expected and actual experience in the total pension liability	(866,163)
Expensed portion of prior-period difference between expected and actual experience in the total pension liability	(1,015,145)
Administrative expenses	247,970
Total pension expense	<u>\$ 27,460,604</u>

Peace Officers'
Retirement, Accident and Disability System

Staff

This audit was performed by:

Tammy A. Hollingsworth, CIA, Manager
Kyle C. Smith, CPA, Staff Auditor
Alex W. Case, Staff Auditor
Nicole L. Roethlisberger, Staff Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, stylized initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State