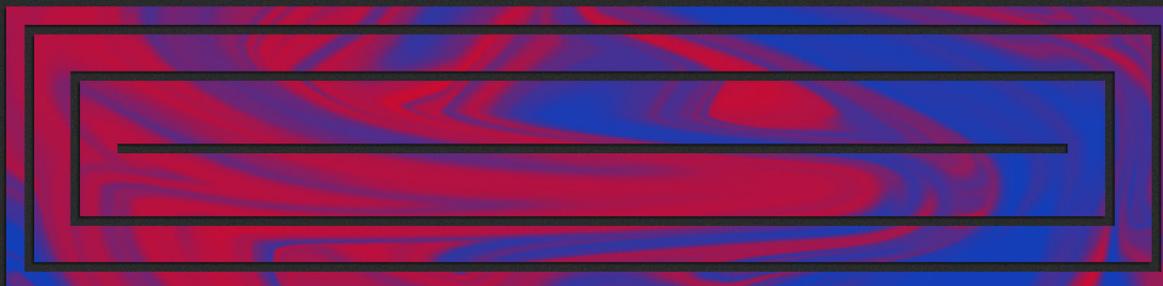


**MFPRSI**



**FINANCIAL EVALUATION REPORT**

p r e s e n t e d t o t h e

**I O W A G E N E R A L A S S E M B L Y**

o n J a n u a r y 1 1 , 2 0 2 1

**MFPRSI** MUNICIPAL FIRE & POLICE  
RETIREMENT SYSTEM OF IOWA

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# EXECUTIVE SUMMARY

**The following is a summary of the main points included in this report as submitted to the Iowa General Assembly by the Board of Trustees of the Municipal Fire & Police Retirement System of Iowa (MFPRSI):**

The Board of Trustees (“Board”) of the Municipal Fire and Police Retirement System of Iowa (“MFPRSI”) adopted a contribution rate for its participating cities of 26.18 percent effective for fiscal year 2022 at its October 2020 meeting. The contribution rate for fiscal year 2021 is 25.31 percent.

Legislation will be recommended by representatives of the Board that would re-establish the State of Iowa’s funding commitment made in 1976 to the retirement plans and resume its annual contribution at the agreed upon rate of 3.79 percent of payroll. This rate would equal \$12.5 million in fiscal year 2022. If enacted, this would be a dollar-for-dollar reduction to both the cities’ contribution and property taxes.

The current funded status of MFPRSI is 79.9 percent and the market value of assets is \$2.6 billion as of June 30, 2020. Funding decreased from 81.04 percent in 2019 based largely upon the retirement system’s actuarial value of assets realizing a return, 5.42 percent, which was less favorable than the assumed return of 7.5 percent.



# EXECUTIVE SUMMARY

Terry Slattery, executive director, announced his retirement effective December 31, 2020. The Board of Trustees reviewed the executive director position and appointed Dan Cassady as executive director effective January 1, 2021. Dan Cassady previously held the position of deputy director.

In addition to naming a new executive director, the Board with the help of legal counsel, utilized a plan of succession to provide a roadmap for the future administration of the retirement system. As part of this plan, a new organization chart was adopted for the administration and BriAnna Nystrom was promoted to Assistant Director/Chief Operating Officer. Carlton Chin was hired as Deputy Chief Investment Officer in November 2020.

The administration created a plan to take into account the safety and precautions needed to operate during the Covid-19 pandemic, while protecting the health and safety of the retirement system's members and staff. The plan included a variety of measures, including remote working, closing the office to external visitors, and temporarily ending in-person outreach counseling in favor of phone and video conferencing. As a result of the plan, the administration was able to maintain its normal hours of operations and provide uninterrupted service to its members throughout the pandemic.



# EXECUTIVE SUMMARY

The Board adopted a policy statement regarding mental injury factors after a thorough review of prior case law and appeals relating to mental injury disability awards. The policy delineates relevant factors used to determine whether a disability due to a mental injury qualifies for accidental or ordinary disability retirement. The pertinent factors include, but are not limited to:

- Whether the incident(s) resulting in the mental injury is something for which the applicant has received training;
- Whether, with respect to the incident(s) resulting in the mental injury, the applicant's department or supervisor followed or deviated from standard protocol(s) in the profession (whether at the time of or following the incident(s));
- The applicant's degree of familiarity with a victim prior to an incident;
- The culpability or innocence of the victim(s);
- Whether the incident occurred in temporal proximity to other stressful incidents.

While the review of any disability application remains subject to the consideration of all relevant facts and circumstances, the MFPRSI Board of Trustees has concluded the factors listed above are generally key to any consideration of the type of disability to be awarded where the disability arises from a mental injury.

The Board also implemented an overall communications plan to reach out to retirement system stakeholders, including state legislators, and provide information on its current activities. Included in its communications efforts in 2019 and 2020 was the creation of informational pamphlets and videos to increase membership awareness of their benefits, an updated edition of a legislative guide aimed to help legislators better understand the retirement system, and stories focusing on individual members included in the retirement system's annual report.



# INTRODUCTION

In 2010, the Iowa General Assembly enacted HF 2518 which included provisions requiring the Board of Trustees of the Municipal Fire and Police Retirement System of Iowa to conduct examinations of the financial provisions of the pension plan established by Iowa Code Chapter 411 (“Chapter 411”). The Board is directed to submit reports once every two years to the Iowa General Assembly concerning any recommendations the Board develops as a result of the reviews.

## **Iowa Code Chapter 411.5.16:**

Benefits and financing review. At least every two years, the board shall review the benefits and finances provided under this chapter. The board shall make recommendations to the general assembly concerning this review, which shall include recommendations concerning the long-term financing and benefits policy of the System.

**On an ongoing basis, the Board examines the following major elements of the financial provisions of the plan:**

- Actuarial policies
- Investment policies
- Benefit plan
- Contribution structure

In accordance with the above statutory provisions, the Board hereby submits this report to the Iowa General Assembly.



# BOARD OF TRUSTEES

## Voting Members



Marty Pottebaum  
Chair  
Retired  
Police Officer  
Sioux City



Mary Bilden  
Citizen  
Boone



June Anne Gaeta  
Active  
Firefighter  
Muscatine



Frank Guihan  
Retired  
Firefighter  
Burlington



Eric Hartman  
Active  
Police Officer  
Des Moines



Duane Pitcher  
City  
Representative  
Ames



Laura Schaefer  
City  
Representative  
Carroll



Nickolas Schaul  
City  
Representative  
Des Moines



Michelle Weidner  
City  
Representative  
Waterloo

## Non-Voting Members



Waylon Brown  
Senator  
Senate  
District 26



Jackie Smith  
Senator  
Senate  
District 7

Representative  
to be named

Representative  
to be named

Pending legislative appointments are due January 11, 2021.



# FINANCIAL COMPONENTS

## Actuarial Policies – Financial Profile and Funding

On an ongoing basis, the Board evaluates the financial challenge as described below:

Description of the Financial Challenge – Since inception in 1992, MFPRSI’s investment portfolio has succeeded in meeting its annual assumed rate of return of 7.5 percent. The Board diligently reviews and implements changes to its actuarial policies and investment portfolio in order to maximize the risk/reward ratio of its investments. Going forward, the Board is focused on cultivating investment returns in an era of expected low economic growth in both the near to medium terms. As stipulated in Chapter 411, the actuarial valuation process utilized by the plan systematically responds to actuarial gains and losses by adjusting the employer contribution requirements for the retirement system.

Condition of the Retirement Plan – Current financial profile and the funded status since 2011.

<b>Plan Net Assets (in millions) as of June 30</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Market Value	\$2,605	\$2,623	\$2,559	\$2,448	\$2,255	\$2,300	\$2,278	\$1,964	\$1,785	\$1,829
Investment Return (since inception*)	7.5%	7.7%	7.7%	7.7%	7.6%	7.9%	8.1%	7.7%	7.4%	7.8%
Actuarial Liabilities	\$3,390	\$3,269	\$3,145	\$3,023	\$2,868	\$2,769	\$2,641	\$2,518	\$2,494	\$2,388
Funded Ratio**	80%	81%	82%	81%	81%	81%	78%	74%	72%	77%
Asset Gain (Loss) for Prior 5 years***	\$(52)	\$(45)	\$8	\$27	\$(18)	\$63	\$93	\$(59)	\$(116)	\$(54)
Annual Recognized Gain (Loss)	\$(27)	\$(10)	\$1	\$19	\$(34)	\$(20)	\$43	\$20	\$(26)	\$47

\*Inception date – January 1, 1992. Return performance calculated by Summit Strategies (2011-2018) and Marquette Associates (2019-2020)

\*\*Based on ratio of actuarial value of assets to actuarial accrued liability as determined by SilverStone Group.

\*\*\*Relative to the 7.5% annual assumed rate of return.



# FINANCIAL COMPONENTS

## Actuarial Policies – Financial Concepts

The Board adopted a funding policy (see Addendum Five for the complete policy) that provides reasonable assurance that the cost of benefits provided to the members of MFPRSI under the provisions of Chapter 411 will be funded in an equitable and sustainable manner. It is the intention of the Board to follow a financing pattern that computes and requires contribution amounts which, expressed as percentages of active member payroll, will remain approximately level from year to year and from one generation of taxpayers to the next generation.

## Actuarial Policies – Actuarial Actions

In 2013 the Board adopted new actuarial methods to ensure the Unfunded Accrued Liabilities (UAL) will be paid off within a twenty-five-year period. The action the Board took was to change the methodology to amortize the UAL over twenty-five years using a level-dollar, closed layered basis. The net effect of this action is that more contributions will be paid into the Fund earlier to amortize the UAL using level-dollar and that using a closed, layered amortization method will require the UAL to be paid off over a twenty-five-year period. As a result of this action by the Board the retirement system's actuary has projected that MFPRSI will be around 90 percent funded by 2035.

Six years into this policy, MFPRSI remains on track to pay off the original UAL by 2038.

Addendum Two displays the twenty-five-year projections of contributions and funded status of the retirement system.



# FINANCIAL COMPONENTS

## Investment Policies – Current Allocation Policy, Performance, and Risk Expectation

In 2019 the Board modified its asset allocation structure following an extensive review of its investment portfolio. The Board increased its allocation to private markets from 15 percent to 22 percent and moved its real assets positions (e.g., real estate) to fit beneath its “core” allocation. Following the review with the assistance of its investment consultant, Marquette Associates, the Board remained committed to its 7.5 percent expected annual rate of return. The investment consultant provided a forecast and projected MFPRSI’s portfolio to earn 8.2 percent over a ten-year investment horizon.

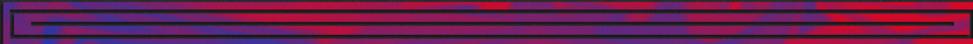
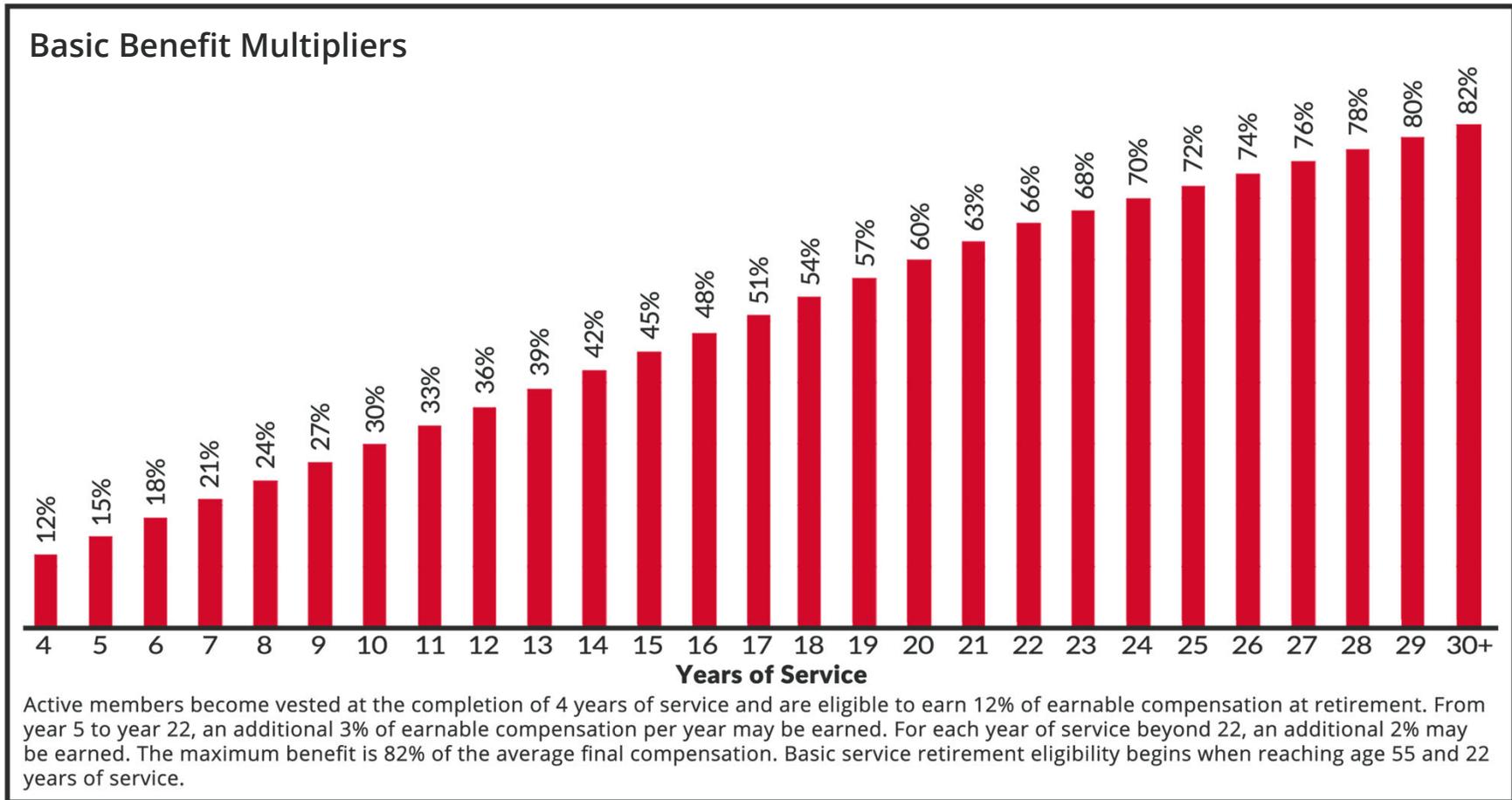
Asset Allocation	
Core Investments	43%
Strategic Investments	35%
Private Markets	22%
Total Allocation	100%

Performance and Risk Expectation	
Plan Expected 10-Year Return	8.2%
Expected 10-Year Volatility	10.6%
Rate of Inflation	2.25%
Performance expectation and risk projection based on Marquette Associates’ 01/09/2020 assumptions.	



# FINANCIAL COMPONENTS

## Benefit Plan



# FINANCIAL COMPONENTS

## Benefit Plan

<h3>Retirement Eligibility Age</h3> <table> <tr> <td>At or after age</td> <td>Not to exceed age</td> </tr> <tr> <td><b>55</b></td> <td><b>65</b></td> </tr> </table>		At or after age	Not to exceed age	<b>55</b>	<b>65</b>	<h3>Annual Escalator</h3> <p>The benefits of eligible retirees and beneficiaries are adjusted annually on July 1 using the following calculation:</p> <ol style="list-style-type: none"> <li>1. Previous monthly benefit multiplied by <b>1.5%</b> and,</li> <li>2. An additional dollar amount based on the following incremental steps:</li> </ol> <table> <tr> <td><b>\$35</b></td> <td>Retired at least 20 years</td> <td><b>\$30</b></td> <td>Retired at least 15 years, but fewer than 20 years</td> </tr> <tr> <td><b>\$25</b></td> <td>Retired at least 10 years, but fewer than 15 years</td> <td><b>\$20</b></td> <td>Retired at least 5 years, but fewer than 10 years</td> </tr> <tr> <td><b>\$15</b></td> <td>Retired fewer than 5 years</td> <td></td> <td></td> </tr> </table>		<b>\$35</b>	Retired at least 20 years	<b>\$30</b>	Retired at least 15 years, but fewer than 20 years	<b>\$25</b>	Retired at least 10 years, but fewer than 15 years	<b>\$20</b>	Retired at least 5 years, but fewer than 10 years	<b>\$15</b>	Retired fewer than 5 years		
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<b>\$15</b>	Retired fewer than 5 years																		
<h3>Disability Benefits</h3> <p><u>Accidental:</u> <b>60%</b> of the average final compensation or service retirement</p> <p><u>Ordinary:</u> <b>50%</b> of the average final compensation or 25% if fewer than 5 years of service</p>		<h3>Death Benefits</h3> <table> <tr> <td><u>Accidental:</u> Pension equal to 50% of average compensation, plus 6% child benefit</td> <td><u>Ordinary:</u> Pension equal to 40% of average compensation, plus 6% child benefit</td> <td><u>Lump Sum:</u> \$100,000 if member's death is plus due to traumatic injury on duty</td> </tr> </table>		<u>Accidental:</u> Pension equal to 50% of average compensation, plus 6% child benefit	<u>Ordinary:</u> Pension equal to 40% of average compensation, plus 6% child benefit	<u>Lump Sum:</u> \$100,000 if member's death is plus due to traumatic injury on duty													
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<h3>Terminated Vested Benefits</h3> <p>If terminated employment prior to age 55 or with fewer than 22 years of service, the member retires under the service formula; however, the member is not eligible for annual escalation.</p>		<h3>Membership</h3> <table> <tr> <td><u>Active Members:</u> Full-time police and fire personnel with a covered employer</td> <td><u>Retirees &amp; Beneficiaries:</u> Retired members and beneficiaries upon the death of the retired member</td> </tr> </table>		<u>Active Members:</u> Full-time police and fire personnel with a covered employer	<u>Retirees &amp; Beneficiaries:</u> Retired members and beneficiaries upon the death of the retired member														
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		<h3>Refund of Contributions</h3> <p>Upon termination a member may withdraw his or her contributions with interest calculated for the period of membership. The member forfeits any rights to monthly pension payments.</p>																	



# FINANCIAL COMPONENTS

## Benefit Plan – Deferred Retirement Option Plan (DROP)

A distribution option within the qualified defined benefit pension plan. The DROP is an arrangement whereby a member who is otherwise eligible to retire and commence benefits under a defined benefit pension plan opts to continue to work. Members may select a DROP period of three, four, or five years.

If the MFPRSI member elects to participate in the DROP, funds are credited to a separate account for the member, and the member's additional compensation and years of service are not considered under the defined benefit plan formula.

The member's retirement benefit is "frozen" at the rate it would have been had the member retired when he or she entered the DROP arrangement, and pension amounts that would have otherwise been paid to the member are paid into the DROP account.

The member's DROP account is paid to the member when the member eventually retires after a specified period.

When the member enrolls in the DROP, the member is signing a contract indicating that the member will retire at the end of the selected DROP period. The DROP was designed to be actuarially cost neutral.

DROP Benefit Formula	
52% of service retirement when first eligible (age 55 & 22 years of service)	52%
2% for each month DROP entry is delayed for the next 24 months	48%
Total maximum of service retirement benefit	100%



# FINANCIAL COMPONENTS

## Benefit Plan – Benefit Plan Development

The development of the benefit plan and the evolution of the changes since the inception of the consolidated retirement system:

1. In November 1998, the Iowa General Assembly received a comprehensive report on the comparability of the pension benefit plans for public safety workers in Iowa's public retirement systems. The study was conducted in response to a mandate from the Iowa General Assembly.
2. The current benefit formula was adopted by the Iowa General Assembly in an effort to establish parity between the benefit plans for these classes of workers. The changes made for Chapter 411 occurred in 2000.
3. The membership is provided the Chapter 411 retirement plan without additional Social Security coverage. This condition traces its history back to the inception of the pre-Chapter 411 plan in 1934 and the later adoption of Social Security coverage for Iowa's public workers in 1953. Public workers covered by an existing retirement plan, as of the date of Iowa's adoption of Social Security coverage (1953), were not eligible by Federal law for Social Security coverage.
4. An important component of the benefit plan is the disability program which serves as a substitute for long-term workers' compensation benefits. Pending approval of disability by MFPRSI and per Chapter 411, the employers are responsible for 100 percent of pay, benefits, and medical costs related to on-the-job injuries for covered members. After disability has been approved, employers are responsible for lifetime medical costs for the disabling illness or injury and MFPRSI is responsible for benefit pay.

For a comprehensive review of the historical changes to the benefit plan, see Addendum Three.



# FINANCIAL COMPONENTS

## Contribution Structure

The contribution structure of MFPRSI provides for the funding of the benefit plan in response to the annual actuarial valuations of the plan's funding requirements.

Since the inception of the plan design in 1934, the membership has contributed at various rates established by the Iowa General Assembly in the plan document (i.e., Chapter 411).

Throughout the existence of the retirement plan, the statute has stipulated that the employing cities provide the additional monies to fund the plan through regular contributions. The annual actuarial valuation of the retirement plan's assets and liabilities determines the employers' contribution rate for the ensuing fiscal year. Upon submittal by MFPRSI's actuary and following its review, the Board is statutorily required to adopt the rate.

In addition, the State of Iowa (the "State") made a commitment to assist in funding the plan in conjunction with the passage of a benefit increase in 1976. Initially, the State committed to pay an annual contribution equal to 3.79 percent of total member payroll to the plan. In 1992, a statutory change was made to require the State to make a flat dollar contribution to the plan annually. This amount began at a level of approximately \$2.9 million per year, but gradually was reduced over time due to budget hardships. As of fiscal year 2013, the State completely stopped contributing to the retirement plan, thus obligating the cities to pay the entire required employer contribution.

The State's decision to reduce and now eliminate its contribution commitment to MFPRSI has had a substantial financial impact on the participating cities. The plan has calculated that the reduction in the State's contribution from its original commitment has required the cities to contribute an additional \$132.8 million over the past twenty-eight years (see Addendum Four). The Board strongly believes that the State should uphold its contribution commitment to the plan.



# FINANCIAL COMPONENTS

## Contribution Structure – Current

One final piece of the contribution structure is the method of allocating contribution increases due to benefit changes as spelled out in Iowa Code Section 411.8.f(8). The statute indicates that MFPRSI's actuary determines the increased cost of the benefit and calculates the new contribution rate to be paid.

If the cost of the new benefit level would cause the employer contribution rate, as determined by MFPRSI's actuary, to increase above the statutory minimum then the additional cost is to be paid completely by the member until the employee contribution rate reaches 11.35%. Additional costs above the employee contribution limit are to be allocated 60% to the employer and 40% to the employee.

### Summary: Current Contribution Structure

1. Employee rate	Fixed by statute at 9.40%
2. Employer rate	As determined by annual actuarial valuation (minimum of 17%)
3. State contribution	Presently, 0.0%



# BOARD SUMMARY

In accordance with Iowa Code Section 411.5.16, the Board of Trustees submits the following recommendations for consideration of the Iowa General Assembly:

1. The State of Iowa adheres to the funding commitment it made in 1976 to the plan's participating employers and resumes its annual contribution to MFPRSI at the agreed upon rate of 3.79 percent of payroll which in fiscal year 2021 would equal an amount of \$12.4 million.
2. No statutory changes are recommended at this time to the MFPRSI actuarial or investment policies.
3. No statutory changes are recommended to the level of benefits provided in Chapter 411.

The Board of Trustees recognizes that the plan sponsor is the Iowa General Assembly. The Board will continue to work diligently to meet its fiduciary duty to carry out the plan document in the best interests of the membership and the employers.

In the context thereof, the Board of Trustees respectfully comments to the Iowa General Assembly that the content and scope of the benefit plan and contribution structure rests with the Iowa General Assembly and not with the Board of Trustees.



# ADDENDUM ONE

## Participating Cities

Ames	Decorah	Marion
Ankeny	Des Moines	Marshalltown
Bettendorf	DeWitt*	Mason City
Boone	Dubuque	Muscatine
Burlington	Estherville*	Newton
Camanche	Evansdale*	Oelwein
Carroll*	Fairfield	Oskaloosa
Cedar Falls	Fort Dodge	Ottumwa
Cedar Rapids	Fort Madison	Pella*
Centerville	Grinnell	Sioux City
Charles City	Indianola*	Spencer
Clinton	Iowa City	Storm Lake
Clive*	Keokuk	Urbandale
Council Bluffs	Knoxville*	Waterloo
Creston	Le Mars*	Waverly*
Davenport	Maquoketa*	Webster City
		West Des Moines

\* Police department only.



# ADDENDUM TWO

## 25-Year Projection

### Forecast of Contribution Rates and Funded Status (Amounts in thousands)

**Municipal Fire & Police Retirement System of Iowa**  
Forecast of Contribution Rates and Funded Status  
(Amounts in Thousands)

Valuation Date	7/1/2020	7/1/2021	7/1/2022	7/1/2023	7/1/2024	7/1/2025	7/1/2026	7/1/2027	7/1/2028	7/1/2029	7/1/2030	7/1/2031	7/1/2032
Actual Prior Year													
Investment Return on Assets													
- Market Value	N/A	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
- Actuarial Value	N/A	6.51%	5.91%	6.03%	6.52%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Covered Payroll	327,870	340,985	353,942	367,392	381,353	395,844	410,887	426,500	442,707	459,530	476,992	495,118	513,932
<b>CURRENT ENTRY AGE NORMAL METHOD 25-YEAR AMORTIZATION PERIOD OF UAL LEVEL DOLLAR, CLOSED LAYERED AMORTIZATION</b>													
Actuarial Accrued Liability	3,390,349	3,521,617	3,645,858	3,772,603	3,901,711	4,033,011	4,162,148	4,292,597	4,424,055	4,551,626	4,678,997	4,805,691	4,931,176
Asset Values													
- Market Value	2,592,748	2,701,548	2,817,172	2,938,248	3,067,835	3,207,914	3,353,949	3,503,264	3,655,380	3,810,049	3,968,746	4,129,180	4,290,980
- Actuarial Value	2,710,028	2,801,325	2,880,639	2,964,801	3,067,835	3,207,914	3,353,949	3,503,264	3,655,380	3,810,049	3,968,746	4,129,180	4,290,980
Funded Ratio (Actuarial Value Assets)	79.93%	79.55%	79.01%	78.59%	78.63%	79.54%	80.58%	81.61%	82.63%	83.71%	84.82%	85.92%	87.02%
Contribution Rates (% of Payroll)													
- Cities	26.18%	26.60%	27.75%	29.22%	29.35%	28.80%	28.19%	27.59%	27.37%	26.71%	26.07%	25.46%	24.87%
- Members	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%
- State	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
- Total	35.58%	36.00%	37.15%	38.62%	38.75%	38.20%	37.59%	36.99%	36.77%	36.11%	35.47%	34.86%	34.27%
Actual Cities Contribution Rate	25.31%	26.18%	26.60%	27.75%	29.22%	29.35%	28.80%	28.19%	27.59%	27.37%	26.71%	26.07%	25.46%
<b>Assumptions and Data</b>													
Interest Rate	7.5%	Non-Investment Expense Growth		3.0%									
Active Members		Census Data											
- Population Growth	0.2%	- As of July 1, 2020											
- Average Age	40.8	Asset Data											
- Average Service	13.5	- As of July 1, 2020											



# ADDENDUM TWO

## 25-Year Projection

### Forecast of Contribution Rates and Funded Status (Amounts in thousands)

**Municipal Fire & Police Retirement System of Iowa**  
Forecast of Contribution Rates and Funded Status  
(Amounts in Thousands)

Valuation Date	7/1/2033	7/1/2034	7/1/2035	7/1/2036	7/1/2037	7/1/2038	7/1/2039	7/1/2040	7/1/2041	7/1/2042	7/1/2043	7/1/2044	7/1/2045
Actual Prior Year													
Investment Return on Assets													
- Market Value	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
- Actuarial Value	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Covered Payroll	533,462	553,733	574,775	596,617	619,288	642,821	667,248	692,604	718,923	746,242	774,599	804,034	834,587
<b>CURRENT ENTRY AGE NORMAL METHOD 25-YEAR AMORTIZATION PERIOD OF UAL LEVEL DOLLAR, CLOSED LAYERED AMORTIZATION</b>													
Actuarial Accrued Liability	5,054,854	5,176,060	5,294,056	5,408,020	5,517,043	5,620,119	5,716,136	5,803,869	5,881,969	5,948,949	6,003,178	6,042,864	6,066,041
Asset Values													
- Market Value	4,453,780	4,617,118	4,780,473	4,943,326	5,104,976	5,264,705	5,422,584	5,543,132	5,658,624	5,767,999	5,870,085	5,963,587	6,047,078
- Actuarial Value	4,453,780	4,617,118	4,780,473	4,943,326	5,104,976	5,264,705	5,422,584	5,543,132	5,658,624	5,767,999	5,870,085	5,963,587	6,047,078
Funded Ratio (Actuarial Value Assets)	88.11%	89.20%	90.30%	91.41%	92.53%	93.68%	94.86%	95.51%	96.20%	96.96%	97.78%	98.69%	99.69%
Contribution Rates (% of Payroll)													
- Cities	24.30%	23.76%	23.23%	22.72%	22.36%	17.00%	17.00%	17.00%	17.00%	17.00%	17.00%	17.00%	17.00%
- Members	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%	9.40%
- State	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
- Total	33.70%	33.16%	32.63%	32.12%	31.76%	26.40%	26.40%	26.40%	26.40%	26.40%	26.40%	26.40%	26.40%
Actual Cities Contribution Rate	24.87%	24.30%	23.76%	23.23%	22.72%	22.36%	17.00%	17.00%	17.00%	17.00%	17.00%	17.00%	17.00%
<b>Assumptions and Data</b>													
Interest Rate	7.5%	Non-Investment Expense Growth		3.0%									
Active Members		Census Data											
- Population Growth	0.2%	- As of July 1, 2020											
- Average Age	40.8	Asset Data											
- Average Service	13.5	- As of July 1, 2020											



# ADDENDUM THREE

## Benefit & Contribution Changes 1976 - 2020

### 1976

Section 411.20 was added to the Code in 1976 providing for an appropriation from the State to be used to finance “the costs of benefits provided...” Those benefit enhancements were as follows:

- enhancement of service retirement benefit to equal 50 percent of average final compensation;
- enhancement of ordinary disability benefit to provide a benefit equal to 25 percent of average final compensation for a member with less than 5 years of service;
- enhancement of ordinary death benefit to extend that benefit (the member’s accumulated contributions plus an amount equal to 50 percent of the final year’s earnable compensation) to vested members; and,
- transfers between cities

### 1992

The 1992 legislation amended § 411.8(1)(f)(8) to provide that, beginning July 1, 1996, the members’ contribution rate would be increased “as necessary to cover any increase in cost to the system resulting from statutory changes which are enacted by any session of the general assembly meeting after July 1, 1991, if the increase cannot be absorbed within the contribution rates otherwise established pursuant to this paragraph,” subject to a maximum employee contribution rate of 11.3 percent. After the employee contribution reaches 11.3 percent, the cost of such statutory changes was to be split 60/40 between the members and the cities, with the cities paying 60 percent of the cost.

Year, beginning July	City Rate	Member Rate	Service Allowance for 22 Years
1992	Minimum of 17%	6.1%	56%
1993	Minimum of 17%	7.1%	58%
1994	Minimum of 17%	8.1%	60%
1995	Minimum of 17%	9.1%	60%



# ADDENDUM THREE

## Benefit & Contribution Changes 1976 - 2020

### 1994

The chapter was amended to eliminate provisions that discriminated based on age (e.g. higher contribution rates for members over age 55 and lack of additional credit for service past age 55). The member contribution rate was increased by 0.25 percent to cover the cost of eliminating age discrimination. This resulted in the following rates:

Year, beginning July	City Rate	Member Rate
1994	Minimum of 17%	July 1, 1994 to December 31, 1994: 8.1% January 1, 1995 to June 30, 1995: 8.35%
1995	Minimum of 17%	9.35%

As before, after the employee contribution reached 11.3 percent, the cost of such statutory changes was split 60/40 between the members and the cities.

### 1996

The escalation provisions of § 411.6(12) were amended to provide for a formula rather than escalating benefits based on salary increases for the applicable position in each retired member's department. There was no amendment to the contribution rates since the actuary determined the cost of the amendment could be absorbed within the existing rates in effect at that time.



# ADDENDUM THREE

## Benefit & Contribution Changes 1976 - 2020

### 1998

Section 411.6(4) was amended to provide for an ordinary disability pension equal to the greater of 50 percent of average final compensation or the amount the member would have received if the member had attained age 55, regardless of whether the member had 22 years of service.

Section 411.6(2) was amended to increase the service retirement allowance for years 23 – 30 from 0.6 percent of compensation to 1.5 percent of compensation, thus increasing the maximum benefit for 30 years of service from 64.8 percent of compensation to 72 percent of compensation.

There was no amendment to the contribution rates since the actuary determined the cost of the amendment could be absorbed within the existing rates in effect at that time.

### 2000

Section 411.6(2) was amended to increase the service retirement pension from 60 percent of compensation to 66 percent of compensation.

Section 411.6(2) was amended to increase the service retirement allowance for years 23 – 30 from 1.5 percent of compensation to 2 percent of compensation, thus increasing the maximum benefit for 30 years of service from 72 percent of compensation to 82 percent of compensation.

Section 411.6(15), the line of duty death benefit was added.

There was no amendment to the contribution rates since the actuary determined the cost of the amendment could be absorbed within the existing rates in effect at that time.



# ADDENDUM THREE

## Benefit & Contribution Changes 1976 - 2020

### 2006

Section 411.6 C was added to provide for the DROP program.

The contribution rate was not increased since the DROP program was designed to be actuarially neutral. Section 411.6 (C) (5) provides, however, that if the actuary determines in its annual valuation that the DROP has resulted in an increased actuarial cost to the retirement system, then the members' rate will be increased accordingly, notwithstanding any provision of § 411.8 to the contrary.

### 2009

Section 411.1 and § 411.6(5) were amended to provide a presumption of job-relatedness for certain cancers and infectious diseases. The member contribution rate was increased by 0.05 percent to cover the cost of the expanded presumption. This resulted in the following rates:

Year, beginning July	City Rate	Member Rate
2009	Minimum of 17%	9.40%



# ADDENDUM FOUR

## Impact of the Elimination of State Contributions

Actual impact on MFPRSI due to the elimination of State contributions as of July 1, 2020

FISCAL YEAR	MFPRSI COVERED PAYROLL	PRIOR STATUTORY COMMITMENT 3.79 % OF COVERED PAYROLL	REVISED STATUTORY CONTRIBUTION FROM STATE	STATE SHORTFALL IN DOLLARS	STATE SHORTFALL IN PERCENTAGES	CITIES RATE FOR YEAR	IMPACT ON CITIES RATE	IMPACT ON CITIES PROPERTY TAXES	IMPACT ON PLAN	CONTRIBUTION IMPACT ON PLAN DOLLARS
1993	\$115,334,259	\$4,371,168	\$2,942,726	\$1,428,442	1.24%	17.00%	0.00%	\$0	1.24%	\$1,428,442
1994	\$119,251,347	\$4,519,626	\$2,942,724	\$1,576,902	1.32%	19.66%	1.32%	\$1,576,902	0.00%	\$0
1995	\$123,826,722	\$4,693,033	\$2,942,724	\$1,750,309	1.41%	18.71%	1.41%	\$1,750,309	0.00%	\$0
1996	\$128,174,026	\$4,857,796	\$2,942,724	\$1,915,072	1.49%	17.66%	0.66%	\$845,949	0.83%	\$1,069,123
1997	\$134,721,583	\$5,105,948	\$2,942,724	\$2,163,224	1.61%	17.00%	0.00%	\$0	1.61%	\$2,163,224
1998	\$140,849,965	\$5,338,214	\$2,942,724	\$2,395,490	1.70%	17.00%	0.00%	\$0	1.70%	\$2,395,490
1999	\$147,031,641	\$5,572,499	\$2,942,724	\$2,629,775	1.79%	17.00%	0.00%	\$0	1.79%	\$2,629,775
2000	\$153,939,399	\$5,834,303	\$2,942,724	\$2,891,579	1.88%	17.00%	0.00%	\$0	1.88%	\$2,891,579
2001	\$164,623,840	\$6,239,244	\$2,942,724	\$3,296,520	2.00%	17.00%	0.00%	\$0	2.00%	\$3,296,520
2002	\$166,018,043	\$6,292,084	\$2,816,189	\$3,475,895	2.09%	17.00%	0.00%	\$0	2.09%	\$3,475,895
2003	\$173,140,899	\$6,562,040	\$2,816,189	\$3,745,851	2.16%	17.00%	0.00%	\$0	2.16%	\$3,745,851
2004	\$180,390,246	\$6,836,790	\$2,745,784	\$4,091,006	2.27%	20.48%	2.27%	\$4,091,006	0.00%	\$0
2005	\$186,919,429	\$7,084,246	\$2,745,784	\$4,338,462	2.32%	24.92%	2.32%	\$4,338,462	0.00%	\$0
2006	\$196,143,062	\$7,433,822	\$2,745,784	\$4,688,038	2.39%	28.21%	2.39%	\$4,688,038	0.00%	\$0
2007	\$206,385,084	\$7,821,995	\$2,745,784	\$5,076,211	2.46%	27.75%	2.46%	\$5,076,211	0.00%	\$0
2008	\$213,039,324	\$8,074,190	\$2,745,784	\$5,328,406	2.50%	25.48%	2.50%	\$5,328,406	0.00%	\$0
2009	\$223,752,299	\$8,480,212	\$2,704,597	\$5,775,615	2.58%	18.75%	1.75%	\$3,915,665	0.83%	\$1,859,950
2010	\$232,872,388	\$8,825,864	\$2,253,158	\$6,572,706	2.82%	17.00%	0.00%	\$0	2.82%	\$6,572,706
2011	\$242,481,190	\$9,190,037	\$1,500,000	\$7,690,037	3.17%	19.90%	2.90%	\$7,031,955	0.27%	\$658,083
2012	\$248,869,746	\$9,432,163	\$750,000	\$8,682,163	3.49%	24.76%	3.49%	\$8,682,163	0.00%	\$0
2013	\$258,518,051	\$9,797,834	\$0	\$9,797,834	3.79%	26.12%	3.79%	\$9,797,834	0.00%	\$0
2014	\$258,425,211	\$9,794,315	\$0	\$9,794,315	3.79%	30.12%	3.79%	\$9,794,315	0.00%	\$0
2015	\$266,265,413	\$10,091,459	\$0	\$10,091,459	3.79%	30.41%	3.79%	\$10,091,459	0.00%	\$0
2016	\$273,319,323	\$10,358,802	\$0	\$10,358,802	3.79%	27.77%	3.79%	\$10,358,802	0.00%	\$0
2017	\$283,639,887	\$10,749,952	\$0	\$10,749,952	3.79%	25.92%	3.79%	\$10,749,952	0.00%	\$0
2018	\$296,238,000	\$11,227,420	\$0	\$11,227,420	3.79%	25.68%	3.79%	\$11,227,420	0.00%	\$0
2019	\$302,420,000	\$11,461,718	\$0	\$11,461,718	3.79%	26.02%	3.79%	\$11,461,718	0.00%	\$0
2020	\$315,937,000	\$11,974,012	\$0	\$11,974,012	3.79%	24.41%	3.79%	\$11,974,012	0.00%	\$0
<b>TOTAL FISCAL YEARS TO DATE</b>				<b>\$164,967,217</b>				<b>\$132,780,580</b>		<b>\$32,186,637</b>
<b>ACTUALS</b>								<b>WITH EARNINGS OF PLAN</b>		<b>\$112,197,164</b>

# ADDENDUM FOUR

## Impact of the Elimination of State Contributions

Impact on MFPRSI of State eliminated contributions if cost is passed to cities due to non-availability of margin in the plan for the next 10 years as of July 1, 2020

FISCAL YEAR	MFPRSI COVERED PAYROLL	PRIOR STATUTORY COMMITMENT 3.79 % OF COVERED PAYROLL	REVISED STATUTORY CONTRIBUTION FROM STATE	STATE SHORTFALL IN DOLLARS	STATE SHORTFALL IN PERCENTAGES	CITIES RATE FOR YEAR	IMPACT ON CITIES RATE	IMPACT ON CITIES PROPERTY TAXES	IMPACT ON PLAN	CONTRIBUTION IMPACT ON PLAN DOLLARS
2021	\$327,870,000	\$12,400,000	\$0	\$12,400,000	3.79%	25.31%	3.79%	\$12,400,000	0.00%	\$0
2022	\$340,985,000	\$12,900,000	\$0	\$12,900,000	3.79%	26.18%	3.79%	\$12,900,000	0.00%	\$0
2023	\$353,942,000	\$13,400,000	\$0	\$13,400,000	3.79%	26.60%	3.79%	\$13,400,000	0.00%	\$0
2024	\$367,392,000	\$13,900,000	\$0	\$13,900,000	3.79%	27.75%	3.79%	\$13,900,000	0.00%	\$0
2025	\$381,353,000	\$14,500,000	\$0	\$14,500,000	3.79%	29.22%	3.79%	\$14,500,000	0.00%	\$0
2026	\$395,844,000	\$15,000,000	\$0	\$15,000,000	3.79%	29.35%	3.79%	\$15,000,000	0.00%	\$0
2027	\$410,887,000	\$15,600,000	\$0	\$15,600,000	3.79%	28.80%	3.79%	\$15,600,000	0.00%	\$0
2028	\$426,500,000	\$16,200,000	\$0	\$16,200,000	3.79%	28.19%	3.79%	\$16,200,000	0.00%	\$0
2029	\$442,707,000	\$16,800,000	\$0	\$16,800,000	3.79%	27.59%	3.79%	\$16,800,000	0.00%	\$0
2030	\$459,530,000	\$17,400,000	\$0	\$17,400,000	3.79%	27.37%	3.79%	\$17,400,000	0.00%	\$0
<b>TOTAL FUTURE FISCAL YEARS PROJECTION</b>			<b>\$0</b>	<b>\$148,100,000</b>				<b>\$148,100,000</b>		<b>\$0</b>
	<b>FY 2020 - FY 2029</b>	<b>ESTIMATED</b>								



# ADDENDUM FIVE

## Funding Policy

The Board has adopted a funding policy that provides reasonable assurance that the cost of benefits provided to the members of MFPRSI under the provisions of Iowa Code Chapter 411 will be funded in an equitable and sustainable manner. It is the intention of the Board to follow a financing pattern that computes and requires contribution amounts which, expressed as percentages of active member payroll, will remain approximately level from year to year and from one generation of taxpayers to the next generation.

Chapter 411 requires the Board to undertake certain actions in order to ensure the proper funding of the retirement system. Section 411.5 directs the Board to have the actuary conduct an Experience Study every five years. This same section also requires that the Board certify an annual Actuarial Valuation report that includes the cities' contribution rates to be paid. As part of these reports, Section 411.8 indicates the Board is responsible for adopting the actuarial cost method to be used in the valuation as well as each of the demographic and economic assumptions necessary to produce valuation reports that most accurately reflect the actual experience of the plan and the actuary's expectations regarding future year experience.



# ADDENDUM FIVE

## Funding Policy

In carrying out the funding requirements of Chapter 411 the Board has undertaken the following steps to ensure the sound actuarial condition of the Fund:

The Entry Age Normal Actuarial Cost Method has been adopted to determine recommended contributions in the annual valuation reports. This method determines the normal cost of MFPRSI benefits which is expressed as a uniform percent of active member payroll. This percentage reflects the ongoing cost to provide the membership with service retirement benefits, disability benefits, survivor benefits, and administrative services.

In addition to calculating the Normal Cost of the Plan in the annual actuarial valuation, the actuary must also calculate the Unfunded Accrued Liability (UAL) to be amortized. Currently, the Board has adopted a 25-year period during which the existing UAL is to be amortized. This 25-year amortization is calculated using a level dollar amount on a closed layered basis. The net effect of the Board's decision is that more money will be paid into the Fund earlier to amortize the UAL in comparison to using the level percent of payroll method. Also, using the closed period means that the UAL will actually be paid off over 25 years. Finally, by layering any annual change in the UAL, we will avoid spikes in the amounts to be paid off at the end of each 25-year amortization period.

Each annual actuarial valuation shall reflect the value of MFPRSI's assets as of June 30 and membership data as of July 1. The timing of the presentation of the report results to the Board will normally occur at the October board meeting. Should changes in the report be required, the actuary will need to complete the revisions in time to present the report to the Board for final adoption at the November board meeting.

In adopting the annual actuarial valuation report, the Board certifies both the cities' and the members' contribution rates which are presented as a percentage of active member payroll. These rates are communicated to the participating cities and the membership as soon as practical after the Board meeting. In addition, the Board certifies the alternative actuarial valuation report which is created using the specifications included in Iowa Code Chapter 97D.5 and is provided to the Iowa General Assembly.

Contribution rates that are certified from the actuarial valuation report are effective the following fiscal year beginning on July 1. The administration is responsible for ensuring the correct contribution rates have been used by the employers when reporting payroll results and that the amounts contributed are promptly deposited to the credit of the Fund.

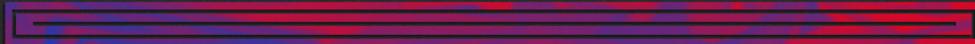


# ADDENDUM FIVE

## Funding Policy

Section 411.5(10) requires, at least once every five years, the Board to conduct an actuarial investigation into the various assumptions employed in MFPRSI's annual valuation reports. This investigation is otherwise known as the Analysis of System Experience. The purpose of this analysis is to compare the various actuarial assumptions adopted by the Board to the actual experience of the membership and identify the differences between them over a set period of time which has been determined to be 10 years. The actuarial assumptions to be analyzed are as follows:

1. Investment Return on Assets
2. Active Annual Salary Increases
3. Active Withdrawals
4. Active Ordinary Disability Retirements
5. Active Accidental Disability Retirements
6. Active Service Retirements
7. Active Ordinary Deaths
8. Active Accidental Deaths
9. Active DROP Participation
10. Active DROP Premature Withdrawals
11. Inactive Deaths for Service Retirements
12. Inactive Deaths for Beneficiaries
13. Inactive Deaths for Disability Retirements



# ADDENDUM FIVE

## Funding Policy

Along with the actuary's expectations for future year experience, the Analysis of System Experience will serve as the basis for determination by the Board regarding whether or not demographic or economic assumptions should be modified for future valuation reports. The most recent 5-year study was performed in fiscal year 2018. Subsequent studies will be performed every five years unless the actuary determines that there is a need to review the assumptions sooner.

The Board has adopted a policy of asset smoothing in order to lessen the short-term impact of investment return volatility on the calculation of the cities' contribution rates and the retirement system's funded status. As part of the valuation report calculations, the actuary determines an actuarial value of assets. This amount deviates from the market value of assets by smoothing in gains and losses of the actual annual fiscal year investment return relative to the assumed rate of return which is presently 7.5 percent. The amounts that are greater or lesser than the assumed rate of return are smoothed in over a five-year period or 20 percent annually. At the end of the five years, the entire gain or loss is recognized in the computation of the actuarial value of assets. By using a method of smoothing investment gains and losses over five years, the variations of cities' contribution rates are minimized to assist the cities with the preparation of the annual budgeting process.

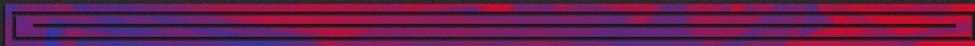


# ADDENDUM FIVE

## Funding Policy

The success of the Board achieving the goal of this policy to fund the retirement system in an equitable and sustainable manner relies heavily on the performance of the Board's actuarial consultant. Therefore, the work of the actuary in connection with this policy shall conform to actuarial standards of practice for public employee retirement plans promulgated by the Actuarial Standards Board and shall satisfy the requirements of the Governmental Accounting Standards Board with respect to the development of information needed by MFPRSI and by the participating employers for financial reporting purposes.

In order to verify the standards of practice and the accuracy of the actuarial products provided to the retirement system, the Board may periodically contract with an actuarial firm, other than the retained actuary, to conduct an actuarial audit. The purpose of the audit and the resulting report is to provide the Board with an independent assessment of the quality of the work of the retained actuary with respect to both process and reasonableness of assumptions and recommendations. The most recent actuarial audit was performed in fiscal year 2015.



# ADDENDUM SIX

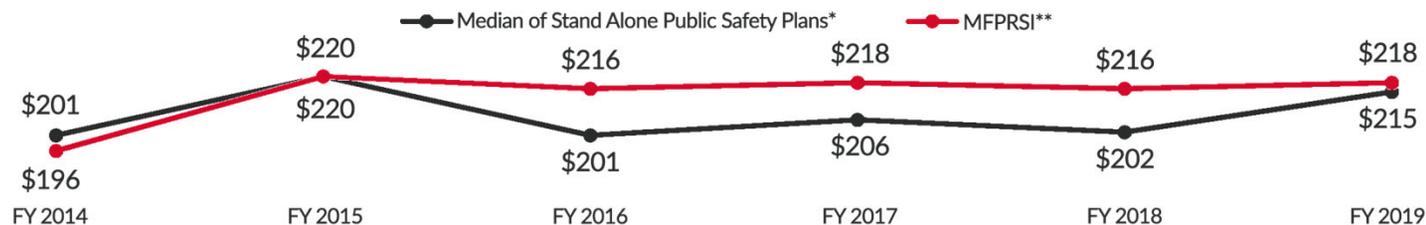
## Strategic Planning

In an effort to meet and exceed its objective, the Board created a strategic plan to define long-term missions, goals, and the means by which MFPRSI will measure its successes. Two goals, obtaining top quality management services for a cost that is mid-range for comparable retirement systems and achieving top-quartile investment returns for similarly sized plans were researched.

In April 2020 MFPRSI researched and compared the retirement plan’s administrative costs with all similarly sized public retirement systems in the U.S. This analysis showed that the amount of money MFPRSI pays to administer the retirement system is \$218 per member and comparable to the median cost per member among nine peers with comparable characteristics.

	Date	Active Members	Receiving Benefits	Total Members	Admin. Costs	Admin. Cost per Member
Median		12,383	9,301	23,141	\$2,194,806	\$215
MFPRSI	6/30/2019	4,086	4,148	8,234	\$1,799,085	\$218

### Annual Administrative Costs Per Member



Data set includes 9 U.S. public pension plans for public safety officers as of June 30, 2019.

\*Cost based on administrative costs reported on annual statements. Costs may be influenced by GASB 68 which can cause cost to increase or decrease in any particular fiscal year.

\*\*Costs based on expenses reported on the June 30<sup>th</sup> final budget status, eliminating the volatility created by GASB 68.

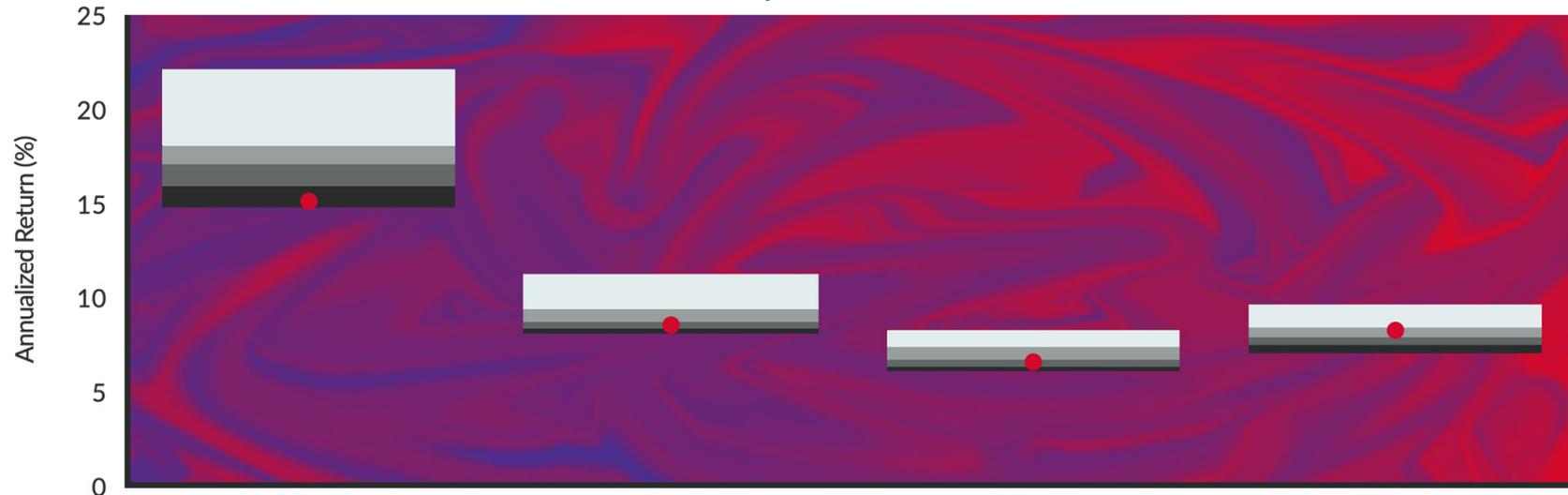


# ADDENDUM SIX

## Strategic Planning

As part of its strategic planning review in April 2020, MFPRSI compared the net returns of its investment portfolio with similarly sized retirement plans in the U.S. This review demonstrated that the 3- and 5-year net investment returns were at the median, the 10-year net return was slightly below the top quartile, and the 1-year net return was in the bottom quartile compared to the cohorts included in this review.

Total Fund - Public DB Plans \$1B-\$5B Net Return Comparison as of December 31, 2019



	1 Year	3 Years	5 Years	10 Years
25 <sup>th</sup> Percentile	18.1	9.3	7.3	8.4
Median	17.1	8.7	6.6	7.9
75 <sup>th</sup> Percentile	16.0	8.3	6.3	7.4
# of Portfolios	39	39	39	34
● MFPRSI	15.1	8.6	6.6	8.2

