Financial Evaluation Report presented to the Iowa General Assembly on January 12, 2015

Board of Trustees
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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 General Assembly by the Board of Trustees of the Municipal Fire and Police Retirement System of Iowa (MFPRSI):

- The Board adopted a Cities' Contribution Rate of 27.77% effective for fiscal year 2016 at the October 2014 meeting. This is a reduction from the peak contribution rate of 30.41% in fiscal year 2015.

- The Board will introduce legislation that will re-establish the State of Iowa's funding commitment made in 1976 to the System's participating employers and resume its annual contribution to MFPRSI at the agreed upon rate of 3.79% of payroll. This rate would equal $10.1 million in fiscal year 2016. If enacted, this would be a dollar-for-dollar reduction to both the cities' contribution and property taxes.

- The current funded status of the System is 78% and the market value of assets is at an all-time high of $2.3 billion as of June 30, 2014. Funding improved from 74% in 2013 based largely upon the good investment returns earned by the fund during the last five year period.

- The Board adopted a comprehensive Funding Strategy for the System which includes the methodology to get the funded status to 100% within a 25-year period using a level dollar closed, layered methodology starting in 2014. This strategy is expected to decrease the Cities' Contribution Rate to the statutory minimum of 17% by 2033. The purpose for this change in methodology is to ensure the System is properly funded to amortize unfunded liabilities within a period of 25 years or less.

Executive Summary

- During 2013 and 2014, the Board conducted an Asset/Liability study which resulted in additional diversification of the System's investment portfolio. The current asset allocation has been projected by the System's investment consultant to earn an annualized return of 8% over the upcoming 10 - 12 year period.

- During the past year, the Board conducted a Membership & Employer Satisfaction Survey with overwhelmingly positive results. The Board also implemented an overall communications plan to reach out to System stakeholders, including state legislators, and provide information on its current activities.

- The Board updated the assumptions used in the annual actuarial valuation reports to be consistent with the recommended changes made by the actuary in the most recent 10-year Experience Study. The Board's revisions were made to match the current actuarial assumptions, which include mortality rates and rates of retirement, to the actual experience incurred by the members of the System from 2003 through 2012.

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 ("the Board") 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 Membership

Two firefighter representatives appointed by the Iowa Association of Professional Fire Fighters:

June Anne Gaeta, active, Muscatine
Frank Guihan, retired, West Burlington

Two police representatives appointed by the Iowa State Police Association:

Eric Court, active, Davenport
Marty Pottebaum, retired, Sioux City, (Chairperson)

Four city representatives appointed by the Iowa League of Cities:

P. Kay Cmelik, Grinnell
Duane Pitcher, Ames
Scott Sanders, Des Moines
Michelle Weidner, Waterloo

One private citizen selected by the Board of Trustees:

Mary Bilden, CPA, Boone (Vice Chairperson)

Two Senators from the Iowa Senate and two Representatives from the Iowa House of Representatives. All four legislative members are non-voting participants.

New appointments due January 2015.

Financial Components of the Retirement Plan

Actuarial Policies – Financial Profile and Funding

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

Description of the Financial Challenge – The 2007-2009 global economic crisis created a significant funding shortfall for the retirement system. Since that time, the Board of Trustees has implemented changes to the their actuarial policies and the diversification of the investment portfolio to enhance the funding of the System and improve the risk/reward ratio of its investments. As stipulated in Chapter 411, the actuarial valuation process utilized by the plan systematically responds to actuarial gains and losses by adjusting the employer contributions requirements for the retirement system.

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

Plan Net Assets (in millions) as of June 30	2014	2013	2012	2011
Market Value	$2,278	$1,964	$1,785	$1,829
Investment Return (since inception*)	8.1%	7.7%	7.4%	7.8%
Actuarial Liabilities	$2,389	$2,518	$2,494	$2,388
Funded Ratio**	77%	74%	74%	78%
Asset Gain (Loss) for Prior 5 years***	$464	$(294)	$(579)	$(260)
Annual Recognized Gain (Loss)	$93	$(59)	$(116)	$(54)

*Inception date – January 1, 1992. Return performance calculated by Summit Strategies.

**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 of the Retirement Plan

Actuarial Policies – Funding Concepts

The Board has adopted a funding policy (see Attachment Five for the complete policy) that provides reasonable assurance that the cost of benefits provided to the members of the System 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.

At its May 2013 meeting, the Board reviewed a 10-year Experience Study covering the period July 1, 2002, through June 30, 2012. The purpose of the study was to compare the results of actual system experience to the Board's actuarial assumptions. Differences between actual experience and assumptions were addressed by the Board as follows:

- Expected salary increases for members, ages 35-44, were made higher to conform to actual wage increases.

- Lower the rates for expected accidental disabilities by 20% in accordance with actual reduction of job-related disabilities.

- Lower the mortality rates for inactive members to match the actual experience over the 10-year period. The study showed that retired members were living longer than previously assumed and the Board has adjusted the mortality tables used to reflect the increased longevity.

Financial Components of the Retirement Plan

Actuarial Policies – Actuarial Actions

At its November 2013 meeting, the Board adopted new actuarial methods to ensure the Unfunded Accrued Liabilities (UAL) will be paid off within a 25-year period. The action the Board took was to change the methodology to amortize the UAL over 25 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 actually require the UAL to be paid off over a 25-year period.

July 1, 2014 Actuarial Valuation Report:

- Following review with MFPRSI's actuary, the Board adopted the city contribution rate of 27.77% to be effective July 1, 2015 (see Attachment One for a list of participating cities).

- Additionally, the Board received and examined actuarial projections displaying a forecast of city contribution rates and funding progress over a twenty-five year period. The twenty-five year forecast of the city contribution rates utilized an investment return assumption of 7.5% (see Attachment Two for the contribution projections).

Financial Components of the Retirement Plan

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

The investment program and policies were extensively reviewed in 2013 and early 2014. The review included the conduct of a comprehensive asset allocation/liability study performed by MFPRSI's investment consultant. The Board evaluated a series of investment allocation policy alternatives, in the context of the current financial profile of the plan. A revised policy was adopted in February 2014.

The Board will continue to review portfolio performance and will make allocations within the policy.

Asset Allocation Policy	
Core Investments	40%
Strategic Investments	35%
Private Markets	15%
Real Assets	10%
Total Allocation	100%

Performance and Risk Expectation	
Plan Performance %	8.0%
Risk (Standard Deviation) %	12.2%

Performance expectation and risk projection based on Summit Strategies' 2012 assumptions.

Financial Components of the Retirement Plan

Investment Policies – Asset/Liability Study

Beginning in July 2012 and concluding in February 2014, the Board worked with its investment consultant on the review of an Asset/Liability study. The result of this study was the inclusion of two new asset classes in the portfolio. The Board elected to initiate investment in Emerging Markets Debt securities and Master Limited Partnerships in order to further diversify the overall portfolio to limit potential losses from economic and market downturns.

Since the end of the Great Recession in 2009, MFPRSI has regained all of its investment losses. Currently, the retirement system has $2.3 billion in invested assets which is an all-time high. Since July, 2009, the portfolio has earned an annualized return of 12.8% through June 30, 2014.

Over the past ten years, which includes the Great Recession, the portfolio has an annualized return of 7.83% which exceeds the Board's assumed 7.5% rate of return. In addition, since inception of MFPRSI in 1992 through June 30, 2014, the portfolio has earned an annualized return of 8.1%.

Financial Components of the Retirement Plan

Benefit Plan

On an ongoing basis, the Board is provided with statistical information concerning the benefit plan as established by Chapter 411 for permanent, full-time police and fire personnel in the forty-nine participating cities.

The benefit plan is as follows:

Defined Benefit Retirement Formula (Service Retirement)	
3% for each service year for the first 22 years	66%
2% for each service year for the next 8 years	16%
Total Maximum	*82%

*Multiplied against statistical high 3-years of earnable compensation

Retirement Eligibility Age
At or after age 55, but not to exceed age 65

Financial Components of the Retirement Plan

Benefit Plan, continued

Annual Escalator

Eligible retirees and beneficiaries benefit are adjusted annually on July 1 by:

1. Previous monthly benefit multiplied by 1.5%, and
2. An additional dollar amount based upon the following incremental steps:

$35	Retired at least 20 years
$30	Retired at least 15 years, but less than 20 years
$25	Retired at least 10 years, but less than 15 years
$20	Retired at least 5 years, but less than 10 years
$15	Retired less than 5 years

Disability Benefits

Not less than the benefit % currently accrued under the service retirement

1. Accidental	60% of the average final compensation or service retirement
2. Ordinary	50% of the average final compensation or 25% if less than 5 years

Financial Components of the Retirement Plan

Benefit Plan, continued

Death Benefits

1. Accidental	Pension equal to 50% of average compensation, plus 6% child benefit
2. Ordinary	Pension equal to 40% of average compensation, plus 6% child benefit
3. Lump Sum	$100,000 if member's death is due to traumatic injury on duty

Terminated Vested Benefits

If terminated employment prior to age 55 or with less than 22 years of service, the member retires under the service formula; however, the member is not eligible for annual escalation.

Refund of Contributions

Upon termination, a member may withdraw his or her contributions with interest calculated for the period of membership and the member forfeits any rights to monthly pension payments.

Membership

1. Active Members	Full-time police and fire personnel in a covered employer
2. Retirees & Beneficiaries	Retired members and beneficiaries upon the death of the retired member

Financial Components of the Retirement Plan

Benefit Plan, continued

Deferred Retirement Option Plan (DROP)

A distribution option within the qualified defined benefit pension plan (Chapter 411 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.

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 taken into account 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 and 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 of the Retirement 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 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 the 411 code, the employers are responsible for 100% 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 changes to the benefit plan, see *Attachment Three*.

Financial Components of the Retirement Plan

Contribution Structure

The contribution structure of MFPRSI provides for the funding of the benefit plan in response to the periodic 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% 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 making a contribution 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 $66 million over the past 20 years (see *Attachment Four*). The Board strongly believes that the State should uphold its contribution commitment to the plan.

Financial Components of the Retirement Plan

Current Contribution Structure

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 determine the increased cost of the benefit and calculate the new contribution rate to be paid. If the cost of the new benefit level, which is called the Normal Cost, exceeds the statutory rates for employer and employee then the additional cost is to be paid by the member until the employee contribution reaches 11.35%. Additional costs above the amount are to be allocated 60% employer and 40% employee. Since 1992, the Board has not had to allocate additional costs due to benefit changes to member contributions because the ongoing Normal Cost of the plan has been less than the statutory contribution rates. Currently, the Normal Cost of the plan is 18.65% compared to the total statutory combined rate of 26.4%.

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 adhere to the funding commitment it made in 1976 to the plan's participating employers and resume its annual contribution to the System at the agreed upon rate of 3.79% of payroll which in fiscal year 2016 would equal an amount of $10.1 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.

Attachment One: List of Participating Cities

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

Police Department only

Attachment Two: 25-Year Projection

Investment Return Impact on Contribution Rates

Provided by SilverStone Group

Municipal Fire & Police Retirement System of Iowa

Forecast of Contribution Rates and Funded Status

(Amounts in Thousands)

Valuation Date	7/1/2014	7/1/2015	7/1/2016	7/1/2017	7/1/2018	7/1/2019	7/1/2020	7/1/2021	7/1/2022	7/1/2023	7/1/2024	7/1/2025	7/1/2026
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	12.41%	9.58%	10.44%	9.30%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%	7.50%
Covered Payroll	266,265	277,582	289,379	301,678	314,499	327,865	341,799	356,326	371,470	387,257	403,715	420,873	438,761
Current Entry Age Normal Method 25-Year Amortization Period of UAL Level Dollar, Closed Layered Amortization													
Actuarial Accrued Liability	2,640,955	2,739,950	2,841,021	2,944,037	3,048,842	3,155,250	3,263,048	3,371,985	3,481,775	3,592,089	3,702,553	3,812,741	3,922,175
Asset Values													
- Market Value	2,278,457	2,399,362	2,518,512	2,632,265	2,747,203	2,858,188	2,966,886	3,077,203	3,188,887	3,301,686	3,415,268	3,529,300	3,643,359
- Actuarial Value	2,054,844	2,258,785	2,413,782	2,589,657	2,747,203	2,858,188	2,966,886	3,077,203	3,188,887	3,301,686	3,415,268	3,529,300	3,643,359
Funded Ratio (Actuarial Value Assets)	77.81%	82.44%	84.96%	87.96%	90.11%	90.59%	90.92%	91.26%	91.59%	91.92%	92.24%	92.57%	92.89%
Contribution Rates (% of Payroll)													
- Cities	27.77%	24.24%	23.30%	20.91%	19.37%	19.19%	19.01%	18.84%	18.67%	18.51%	18.35%	18.20%	18.05%
- 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	37.17%	33.64%	32.70%	30.31%	28.77%	28.59%	28.41%	28.24%	28.07%	27.91%	27.75%	27.60%	27.45%

Assumptions and Data

Interest Rate	7.5%	Non-Investment Expense Growth	4.0%
Active Members		Census Data	
- Population Growth	0.2%	- As of July 1, 2014	
- Average Age	41.0	Asset Data	
- Average Service	13.7	- As of July 1, 2014	

October 14, 2014
SilverStone Group

Attachment Two: 25-Year Projection

Investment Return Impact on Contribution Rates

Provided by SilverStone Group

Municipal Fire & Police Retirement System of Iowa

Forecast of Contribution Rates and Funded Status
(Amounts in Thousands)

Valuation Date	7/1/2027	7/1/2028	7/1/2029	7/1/2030	7/1/2031	7/1/2032	7/1/2033	7/1/2034	7/1/2035	7/1/2036	7/1/2037	7/1/2038	7/1/2039
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	457,408	476,848	497,114	518,241	540,266	563,228	587,165	612,119	638,134	665,255	693,528	723,003	753,731
Current Entry Age Normal Method													
25-Year Amortization Period of UAL													
Level Dollar, Closed Layered Amortization													
Actuarial Accrued Liability	4,030,314	4,136,550	4,240,203	4,340,513	4,436,632	4,518,579	4,593,495	4,660,169	4,717,263	4,763,300	4,796,657	4,815,545	4,817,999
Asset Values													
- Market Value	3,757,012	3,869,726	3,980,900	4,089,913	4,196,018	4,298,436	4,396,189	4,487,452	4,572,157	4,649,612	4,718,552	4,777,580	4,825,152
- Actuarial Value	3,757,012	3,869,726	3,980,900	4,089,913	4,196,018	4,298,436	4,396,189	4,487,452	4,572,157	4,649,612	4,718,552	4,777,580	4,825,152
Funded Ratio (Actuarial Value Assets)	93.22%	93.55%	93.88%	94.23%	94.58%	95.13%	95.70%	96.29%	96.92%	97.61%	98.37%	99.21%	100.15%
Contribution Rates (% of Payroll)													
- Cities	17.90%	17.76%	17.62%	17.49%	17.35%	17.08%	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	27.30%	27.16%	27.02%	26.89%	26.75%	26.48%	26.40%	26.40%	26.40%	26.40%	26.40%	26.40%	26.40%

Assumptions and Data

Interest Rate	7.5%	Non-Investment Expense Growth	4.0%
Active Members		Census Data	
- Population Growth	0.2%	- As of July 1, 2014	
- Average Age	41.0	Asset Data	
- Average Service	13.7	- As of July 1, 2014	

October 14, 2014
SilverStone Group

Attachment Three: Benefit & Contributions Changes Timeline

Timeline of Benefit and Contributions Changes, 1976 - 2014

1976
1992
1994
1996
1998
2000
2006
2009

1976

§ 411.20 was added to the Code in 1976. It provided for an appropriation from the State to be used to finance "the costs of benefits provided in this chapter by amendments of 66 G.A. Chapter 1089." Those benefit enhancements were as follows:

- enhancement of service retirement benefit to equal 50% of average final compensation;
- enhancement of ordinary disability benefit to provide a benefit equal to 25% 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% of the final year's earnable compensation) to vested members; and,
- transfers between cities

Attachment Three: Benefit & Contributions Changes Timeline

Timeline of Benefit and Contributions Changes, 1976 - 2014

1976
1992
1994
1996
1998
2000
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2009

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%. After the employee contribution reaches 11.3%, the cost of such statutory changes was to be split 60/40 between the members and the cities, with the cities paying 60% of the cost. The statutory rates and service allowance at the time were as follows:

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

Attachment Three: Benefit & Contributions Changes Timeline

Timeline of Benefit and Contributions Changes, 1976 - 2014

1976
1992
1994
1996
1998
2000
2006
2009

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 .25% to cover the cost of eliminating age discrimination. This resulted in the following rates:

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

As before, after the employee contribution reached 11.3%, the cost of such statutory changes was to be 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.

Attachment Three: Benefit & Contributions Changes Timeline

Timeline of Benefit and Contributions Changes, 1976 - 2014

1976

1992

1994

1996

1998

2000

2006

2009

1998

- § 411.6(4) was amended to provide for an ordinary disability pension equal to the greater of 50% 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.
- § 411.6(2) was amended to increase the service retirement allowance for years 23 – 30 from 0.6% of compensation to 1.5% of compensation, thus increasing the maximum benefit for 30 years of service from 64.8% of compensation to 72% 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

- § 411.6(2) was amended to increase the service retirement pension from 60% of compensation to 66% of compensation.
- § 411.6(2) was amended to increase the service retirement allowance for years 23 – 30 from 1.5% of compensation to 2% of compensation, thus increasing the maximum benefit for 30 years of service from 72% of compensation to 82% of compensation.
- § 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.

Attachment Three: Benefit & Contributions Changes Timeline

Timeline of Benefit and Contributions Changes, 1976 - 2014

1976

1992

1994

1996

1998

2000

2006

2009

2006

- § 411.6C was added to provide for the DROP program.

The contribution rate was not increased since the DROP program was designed to be actuarially neutral. § 411.6C(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

- § 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 .05% to cover the cost of the expanded presumption. This resulted in the following rates:

Year, beginning July	City	Member
2009	Min. of 17%	9.40

Attachment Four: Impact of Elimination of State Contributions

Actual Impact on MFPRSI of State Eliminated Contributions as of July 1, 2014

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	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%	0.00%	$0	1.24%	$1,428,442
1994	$119,251,347	$4,519,626	$2,942,724	$1,576,902	1.32%	1.32%	$1,576,902	0.00%	$0
1995	$123,826,722	$4,693,033	$2,942,724	$1,750,309	1.41%	1.41%	$1,750,309	0.00%	$0
1996	$128,174,026	$4,857,796	$2,942,724	$1,915,072	1.49%	0.66%	$845,949	0.83%	$1,069,123
1997	$134,721,583	$5,105,948	$2,942,724	$2,163,224	1.61%	0.00%	$0	1.61%	$2,163,224
1998	$140,849,965	$5,338,214	$2,942,724	$2,395,490	1.70%	0.00%	$0	1.70%	$2,395,490
1999	$147,031,641	$5,572,499	$2,942,724	$2,629,775	1.79%	0.00%	$0	1.79%	$2,629,775
2000	$153,939,399	$5,834,303	$2,942,724	$2,891,579	1.88%	0.00%	$0	1.88%	$2,891,579
2001	$164,623,840	$6,239,244	$2,942,724	$3,296,520	2.00%	0.00%	$0	2.00%	$3,296,520
2002	$166,018,043	$6,292,084	$2,816,189	$3,475,895	2.09%	0.00%	$0	2.09%	$3,475,895
2003	$173,140,899	$6,562,040	$2,816,189	$3,745,851	2.16%	0.00%	$0	2.16%	$3,745,851
2004	$180,390,246	$6,836,790	$2,745,784	$4,091,006	2.27%	2.27%	$4,091,006	0.00%	$0
2005	$186,919,429	$7,084,246	$2,745,784	$4,338,462	2.32%	2.32%	$4,338,462	0.00%	$0
2006	$196,143,062	$7,433,822	$2,745,784	$4,688,038	2.39%	2.39%	$4,688,038	0.00%	$0
2007	$206,385,084	$7,821,995	$2,745,784	$5,076,211	2.46%	2.46%	$5,076,211	0.00%	$0
2008	$213,039,324	$8,074,190	$2,745,784	$5,328,406	2.50%	2.50%	$5,328,406	0.00%	$0
2009	$223,752,299	$8,480,212	$2,704,597	$5,775,615	2.58%	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%	0.00%	$0	2.82%	$6,572,706
2011	$242,481,190	$9,190,037	$1,500,000	$7,690,037	3.17%	2.90%	$7,031,955	0.27%	$658,083
2012	$248,869,746	$9,432,163	$750,000	$8,682,163	3.49%	3.49%	$8,682,163	0.00%	$0
2013	$258,518,051	$9,797,834	$0	$9,797,834	3.79%	3.79%	$9,797,834	0.00%	$0
2014	$258,425,211	$9,794,315	$0	$9,794,315	3.79%	3.79%	$9,794,315	0.00%	$0
TOTAL FISCAL YEARS TO DATE				$99,103,853			$66,917,216		$32,186,637
ACTUALS							WITH EARNINGS OF PLAN		$83,592,361

Notes:
1992 Legislation: State contribution changed from 3.79% to fixed dollar amount.
2010 Legislation: State contribution eliminated.

Statutory contribution rates: Cities: 17.00% Minimum; Members: 9.4% Fixed

Attachment Four: Impact of 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, 2014

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	IMPACT ON CITIES RATE	IMPACT ON CITIES PROPERTY TAXES	IMPACT ON PLAN	CONTRIBUTION IMPACT ON PLAN DOLLARS
PROJECTED COST IMPACT TO CITIES AND PLAN FOR NEXT 10 YEARS									
2015	$266,265,000	$10,100,000	$0	$10,100,000	3.79%	3.79%	$10,100,000	0.00%	$0
2016	$277,582,000	$10,500,000	$0	$10,500,000	3.79%	3.79%	$10,500,000	0.00%	$0
2017	$289,379,000	$11,000,000	$0	$11,000,000	3.79%	3.79%	$11,000,000	0.00%	$0
2018	$301,678,000	$11,400,000	$0	$11,400,000	3.79%	3.79%	$11,400,000	0.00%	$0
2019	$314,499,000	$11,900,000	$0	$11,900,000	3.79%	3.79%	$11,900,000	0.00%	$0
2020	$327,865,000	$12,400,000	$0	$12,400,000	3.79%	2.37%	$7,800,000	1.42%	$4,600,000
2021	$341,799,000	$13,000,000	$0	$13,000,000	3.79%	2.19%	$7,500,000	1.60%	$5,500,000
2022	$356,326,000	$13,500,000	$0	$13,500,000	3.79%	2.01%	$7,200,000	1.78%	$6,300,000
2023	$371,470,000	$14,100,000	$0	$14,100,000	3.79%	1.84%	$6,800,000	1.95%	$7,300,000
2024	$387,257,000	$14,700,000	$0	$14,700,000	3.79%	1.67%	$6,500,000	2.12%	$8,200,000
TOTAL FUTURE FISCAL YEARS			**$0**	**$122,600,000**			**$90,700,000**		**$31,900,000**
PROJECTION	**FY 2015 - FY 2024**	**ESTIMATED**							

Notes:

1992 Legislation: State contribution changed from 3.79% to fixed dollar amount.

2010 Legislation: State contribution eliminated.

Statutory contribution rates: Cities: 17.00% Minimum; Members: 9.4% Fixed

Attachment Five: MFPRSI Funding Policy

The Board of Trustees of the Municipal Fire and Police Retirement System (MFPRSI) has adopted a funding policy that provides reasonable assurance that the cost of benefits provided to the members of the System 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 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.

Attachment Five: MFPRSI 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 System 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 in to 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 the System'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.

Attachment Five: MFPRSI 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, continued from the previous slide :

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 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.

Attachment Five: MFPRSI Funding Policy

Section 411.5(10) requires the Board to conduct an actuarial investigation at least once every five years into the various assumptions employed in the System'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

Attachment Five: MFPRSI 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 2013. The next study is scheduled to be performed in fiscal year 2018 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 cities' contribution rates and System 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%. The amounts that are greater or lesser than the assumed rate of return are smoothed in over a five-year period or 20% 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.

Attachment Five: MFPRSI Funding Policy

Finally, it should be noted that the success of the Board achieving the goal of this policy to fund the 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 the System 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 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. It is expected that an actuarial audit shall be conducted during fiscal year 2015.

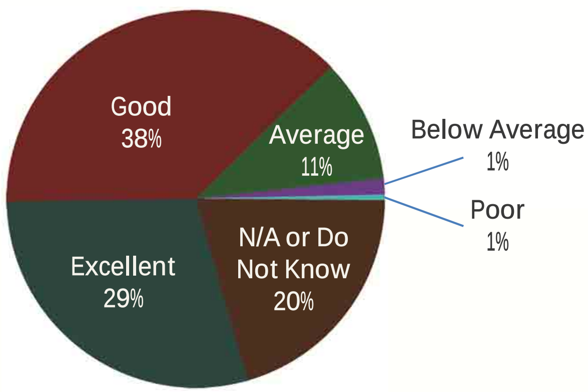
Attachment Six: Satisfaction Surveys

A satisfaction survey of active and retired membership, and city contacts was conducted by MFPRSI. The survey asked all parties for opinions as to how effectively the Chapter 411 retirement system is serving its constituents. Responses were collected through MFPRSI's website, www.mfprsi.org, and via surveys mailed to active and retired members.

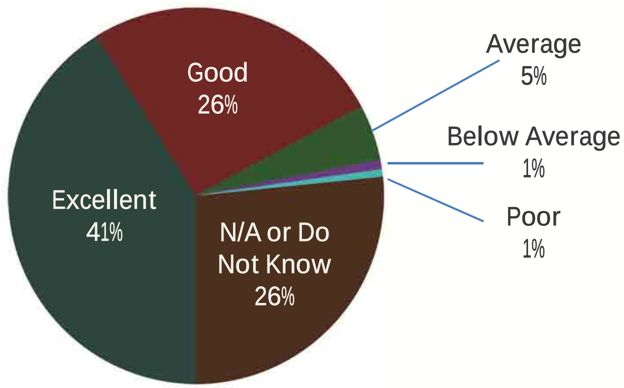
Responses were overwhelmingly positive with over two-thirds of all multiple choice responses earning either an "Excellent" or "Good" rating. Survey questions covered an array of topics, including membership's and city contact's opinions of MFPRSI's newsletter, website, union presentations, and the level of knowledge and courtesy provided by staff.

In total, 684 members and 69 city contacts completed the satisfaction survey between February 7, 2014, and April 15, 2014. Letters were mailed to over 7,900 members and to city contacts in all 49 participating cities in early February encouraging them to participate in the survey.

Employer Satisfaction Survey Results



Member Satisfaction Survey Results



MFPRSI MUNICIPAL FIRE & POLICE RETIREMENT SYSTEM OF IOWA