



HF 417 – 411 Retirement System (LSB1197HV)
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 Fiscal Note Version – New

Description

[House File 417](#) concerns certain benefits under the Municipal Fire and Police Retirement System of Iowa (MFPRSI), established under Iowa Code chapter [411](#), and including effective dates and retroactive applicability provisions. House File 417 retroactively applies new Iowa Code sections 411.1(11) and 411.15A related to infectious diseases, quarantine, and employment rights to January 1, 2020, and takes effect upon enactment. The Bill also increases the employee contribution rate from 9.40% of pay to 9.55%.

Background

Effective July 1, 1992, 87 local fire and police retirement systems in 49 cities were consolidated into a single statewide system, commonly referred to as the 411 System. The MFPRSI is governed by a nine-member Board of Trustees and four legislative members as required by Iowa Code section [411.36](#). The voting members of the Board include two fire and two police representatives, four city representatives, and a private citizen.

Based on the July 1, 2020, actuarial valuation, the MFPRSI covers approximately 4,084 active members, 1,141 disabled members, 3,049 retired members and beneficiaries, and 375 vested, terminated members. The current funded ratio is 79.93%. The current actuarial accrued liability is \$3.390 billion, the actuarial value of assets is \$2.710 billion, and the unfunded actuarial liability is \$680.3 million.

For FY 2022, members’ estimated contributions at the current rate of 9.40% total \$30.8 million, and the cities’ estimated contributions at 26.18% total \$85.8 million. Total covered payroll is \$327.9 million. The average annual compensation for an active member is \$80,282.

The table below shows the contribution rates for FY 2018 to FY 2022.

	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>
Employer Contribution Rate	25.68%	26.02%	24.41%	25.31%	26.18%
Employee Contribution Rate	9.40%	9.40%	9.40%	9.40%	9.40%
Total	<u>35.08%</u>	<u>35.42%</u>	<u>33.81%</u>	<u>34.71%</u>	<u>35.58%</u>

Per Iowa Code section [411.8](#), the member contribution rate will be increased for any statutory changes, if the increase cannot be absorbed within the current contribution rates, to a maximum of 11.35%. Costs would then be applied 60/40 between the employer and employee.

The MFPRSI provides for both an ordinary and accidental disability for a member in good standing with the System. From 2002 through 2020, the MFPRSI reported one member in good standing who would have been affected by HF 417, if it were in effect at that time. The medical board determines if a member is medically able to perform their respective duties as a fire fighter or a police officer. If the member is determined to be unable to perform their duties, the MFPRSI decides if the member is eligible for an ordinary or accidental disability. The

compensation for an ordinary disability is 50.0% of the average final compensation, whereas the compensation for accidental disability is 60.0% of the average final compensation.

Cities are responsible for the payment of all medical costs related to MFPRSI claims under Iowa Code section [411.15](#). Cities cannot use workers' compensation to cover short-term indemnity or medical cost exposure. Iowa Code section [85.1\(4\)](#) states that workers' compensation does not apply to "persons entitled to benefits pursuant to Iowa Code chapters [410](#) and [411](#)."

Assumptions

- Expanding the number of disabilities eligible for an accidental disability and allowing retirees who are receiving an ordinary disability and within five years of retirement to apply for an accidental disability would reduce the funded ratio of the Fire and Police Retirement Fund by 0.10%, from 79.93% to 79.83%.
- Based on the most recent actuarial valuation report as of July 1, 2020, no increase in costs can be absorbed within the existing contribution rates for FY 2022. The FY 2022 employee contribution rate would need to increase from 9.40% to 9.60%, an increase of 0.20%.
 - The total contribution rate impact of Section 1 of the Bill would be an increase of 0.05% to the members' contribution rate to add diseases and viruses declared a pandemic, epidemic, or public health emergency by the federal government, Governor, or local public health authorities as a presumed job-related illness.
 - The total contribution rate impact of Sections 3-7 of the Bill would be an increase of 0.15% to the members' contribution rate. These provisions include:
 - Allowing current ordinary disability retirees within five years of retirement to apply for an accidental disability will affect the total contribution rate by 0.08%.
 - Permitting future ordinary disabilities to be treated as accidental disabilities due to the elimination of the definite time and place requirement, addition of respiratory droplets to disease of lungs or respiratory tract, and greater than day-to-day stress standard for mental injuries will affect the total contribution rate by 0.07%.
- Assumes that all other actuarial assumptions going forward will be met.
- The MFPRSI may see an increase in administrative costs related to medical exams.
- Cities may see increased medical and administrative costs for all injuries and diseases related to employment, regardless of the type of benefit received from the System.
- There are approximately seven ordinary disability retirements per year. The estimate assumes there will be no overall increase in disability incidents; however, all future disabilities would qualify for accidental disabilities.
- Eliminating the link between medical costs and 411 accidental disabilities, requiring medical cost coverage for cumulative injuries, eliminating the greater than day-to-day stress standard for mental injuries, and the addition of infectious diseases may result in additional medical costs and short-term wages being covered by city employers. In addition, HF 417 allows retroactive claims to be paid by the city employer, including presumptions and broadens the definitions of eligibility for disability/claims and presumed illnesses which may also increase city expenses.

Fiscal Impact

New Iowa Code section 411.15A applies retroactively to January 1, 2020, takes effect upon enactment, and grants leaves of absence if a member has been exposed to an infectious disease while on duty and is required to quarantine. The member will be compensated at the employee's regular rate of pay for those regular hours during which the employee was absent. The compensation will be from the city's general fund or trust and agency fund. The FY 2020 and FY 2021 fiscal impacts to the city employers cannot be determined at this time.

House File 417 is estimated to increase administrative costs for the MFPRSI due to increased medical exams by \$50,000 to \$100,000 annually. Any increased administrative costs for the MFPRSI will be paid from the Fire and Police Retirement Fund.

The unfunded actuarial accrued liability of the Municipal Fire and Police Retirement Fund is estimated to increase in FY 2022 by approximately \$4.3 million and the funded ratio would decrease from 79.93% to 79.83%.

The FY 2022 cost for increasing the members' contribution rate from 9.40% to 9.60% is approximately \$656,000 or \$161 per employee. In subsequent fiscal years, this cost may increase based on covered payroll.

Cities under the MFPRSI are required to provide hospital, nursing, and medical attention for members of the police and fire departments. The fiscal impact of HF 417 on cities for additional medical costs and short-term wages cannot be determined at this time but may be significant.

Sources

Municipal Fire and Police Retirement System of Iowa Actuarial Valuation Report
Municipal Fire and Police Retirement System of Iowa
League of Cities

/s/ Holly M. Lyons

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The fiscal note for this Bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.

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