



HF 687 – 411 Retirement System (LSB1947HV)
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 Fiscal Note Version – New

Description

[House File 687](#) relates to civil service entrance evaluations and benefits for members of the Municipal Fire and Police Retirement System of Iowa (MFPRSI). The Bill expands the number of disabilities eligible for an accidental disability benefit and allows retirees who are receiving an ordinary benefit and who are within three years of retirement to apply for an accidental disability benefit. The Bill also adds a mental health evaluation to the required examination of applicants for civil service.

Background

Iowa Code chapter [400](#) relates to civil service and requires applicants for the positions of police officer and fire fighter to take entrance examinations to determine whether the applicant meets qualification standards. The examinations are designed to test the mental and physical ability of an applicant to perform the duties of the position.

Iowa Code chapter [411](#) relates to a retirement system for police officers and fire fighters. The chapter provides for the payment of pensions to retired members, members incurring disabilities, and the surviving spouses and dependents of deceased members. The chapter also relates to a disability program for police officers and fire fighters and includes standards for entrance, guidelines for ongoing fitness and wellness, disability pensions, and postdisability retirement compliance requirements.

At the beginning of FY 2023, the ratio of liabilities to assets (funded ratio) of the retirement system was 84.43%. The current funded ratio is 84.21%. Based on the July 1, 2022, actuarial valuation, the MFPRSI covers approximately 4,155 active members; 1,181 disabled members; 3,172 retired members and beneficiaries; and 453 vested, terminated members. The current actuarial accrued liability of the MFPRSI is \$3.652 billion, the actuarial value of assets is \$3.083 billion, and the unfunded actuarial liability is \$568.4 million.

For FY 2024, members’ estimated annual contributions at the current rate of 9.40% total \$31.6 million, and cities’ estimated contributions at 22.98% total \$88.4 million. Total covered payroll is \$349.8 million. The average annual compensation for an active member is \$84,176.

Table 1 below shows the annual employer and employee contribution rates for FY 2020 to FY 2024.

Table 1 — Annual Contribution Rates

	<u>FY 2020</u>	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>
Employer Contribution Rate	24.41%	25.31%	26.18%	23.90%	22.98%
Employee Contribution Rate	9.40%	9.40%	9.40%	9.40%	9.40%
Total	<u>33.81%</u>	<u>34.71%</u>	<u>35.58%</u>	<u>33.30%</u>	<u>32.38%</u>

Iowa Code section [411.8](#) provides that member contribution rates will be increased for any statutory changes, if the increase cannot be absorbed within the current contribution rates, up to a maximum of 11.35%. Costs are then applied 60/40 between the employer and employee. Current member contribution rates are 9.40% of pay.

The MFPRSI provides for both an ordinary and accidental disability benefit for a member in good standing with the System. The medical board determines whether a member is medically able to perform the member's job duties. If the member is determined to be unable to perform the member's duties, the MFPRSI decides whether the member is eligible for an ordinary or accidental disability benefit. The compensation for an ordinary disability is 50.0% of the average final compensation, whereas the compensation for an 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 benefit and allowing retirees who are receiving an ordinary disability benefit and within three years of retirement to apply for an accidental disability benefit will reduce the funded ratio of the Municipal Fire and Police Retirement Fund by 0.12%, from 84.21% to 84.09%.
- Based on the most recent actuarial valuation report as of July 1, 2022, no increase in costs can be absorbed within the existing contribution rates for FY 2024. The FY 2024 employee contribution rate would need to increase from 9.40% to 9.64%, an increase of 0.24%.
- According to the MFPRSI, the total contribution rate impact of the Bill will be an increase of 0.24% to the members' contribution rate. The provisions creating the impact include the following:
 - Allowing current ordinary disability retirees within three years of retirement to apply for an accidental disability benefit will increase the total contribution rate by 0.04%.
 - Permitting future ordinary disabilities to be treated as accidental disabilities due to the elimination of the definite time and place requirement and greater than day-to-day stress standard for mental injuries will increase the total contribution rate by 0.12%.
 - A 5.0% increase in total future disabilities due to the expansion of accidental disability benefits combined with accidental disability tax advantages will increase member contribution rates by 0.08%.
 - However, the Bill caps the members' contribution rate at 9.55%.
- All other actuarial assumptions made by the MFPRSI for annual actuarial valuations going forward will be met.
- The MFPRSI may see an increase in administrative costs related to medical exams between approximately \$50,000 to \$100,000 in FY 2024 and \$20,000 to \$50,000 in FY 2025 and each year thereafter. This includes the implementation and performance of mental health evaluations.
- Medical and administrative costs incurred by cities may increase 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.
- Eliminating the link between medical costs and MFPRSI accidental disabilities, requiring medical cost coverage for cumulative injuries, and altering the stress standard for mental injuries to be established may result in additional medical costs being covered by city employers.

Fiscal Impact

Administrative costs for the MFPRSI associated with performing mental health evaluations and medical exams are estimated to increase between \$50,000 to \$100,000 in FY 2024 and between \$20,000 to \$50,000 annually beginning in FY 2025 and each year thereafter. Any increased administrative costs for the MFPRSI will be paid from the Municipal Fire and Police Retirement Fund.

The unfunded actuarial accrued liability of the Municipal Fire and Police Retirement Fund is estimated to increase by approximately \$4.4 million in FY 2024. The funded ratio would decrease from 84.21% to 84.09%.

Increasing members' contribution rate from 9.40% to 9.55% is estimated to cost approximately \$525,000, or \$126 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 687 on cities for additional medical costs cannot be determined at this time but may be significant.

Sources

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

/s/ Jennifer Acton

April 18, 2023

Doc ID 1371807

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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