

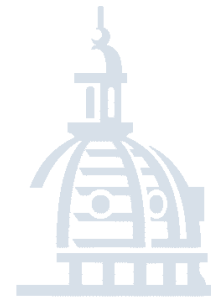


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Fiscal Note

Fiscal Services Division



HF 2518 – Public Retirement Systems (LSB 5346HZ.1)

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Fiscal Note Version – As Amended and Passed by the House

Description

House File 2518 makes various changes to public retirement systems including the Peace Officers' Retirement System (PORS), the Iowa Public Employee Retirement System (IPERS), and the Statewide Fire and Police Retirement System.

Overall Fiscal Impact Summary of HF 2518

FY 2011	Fiscal Impact Summary										Pension Fund	General Fund	
	Employee				Employer				Total				
	State	County	City	Other	State	County	City	Other					
POR System	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	(950,000)	\$ 135,000	
IPERS	0	0	0	0	0	0	0	0	0	0	0	0	
411 System	0	0	0	0	0	0	0	0	0	0	0	(753,159)	
Total	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0		\$ (618,159)	
FY 2012	Fiscal Impact Summary										Pension Fund	General Fund	
	Employee				Employer				Total				
	State	County	City	Other	State	County	City	Other					
POR System	\$ 210,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 210,000	(950,000)	\$ 0	
IPERS	23,880,068	5,740,600	5,245,008	6,433,601	35,820,103	8,610,899	7,867,512	9,650,402	103,248,193	103,248,193	0	0	
411 System	0	0	0	0	0	0	0	0	0	0	0	(750,000)	
Total	\$ 24,090,068	\$ 5,740,600	\$ 5,245,008	\$ 6,433,601	\$ 35,820,103	\$ 8,610,899	\$ 7,867,512	\$ 9,650,402	\$ 103,458,193			\$ (750,000)	
FY 2013	Fiscal Impact Summary										Pension Fund	General Fund	
	Employee				Employer				Total				
	State	County	City	Other	State	County	City	Other					
POR System	\$ 210,000	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 210,000	(950,000)	\$ 5,000,000	
IPERS	24,994,472	6,008,494	5,489,775	6,733,836	37,810,108	9,089,283	8,304,596	10,186,536	108,617,100	108,617,100	(1,950,000,000)*	0	
411 System	0	0	0	0	0	0	0	0	0	0	0	(750,000)	
Total	\$ 25,204,472	\$ 6,008,494	\$ 5,489,775	\$ 6,733,836	\$ 37,810,108	\$ 9,089,283	\$ 8,304,596	\$ 10,186,536	\$ 108,827,100			\$ 4,250,000	

Note

* Includes \$750.0 million for the reduction in the unfunded actuarial liability (UAL) and a reduction of \$1.2 billion in the present value of future benefits.

Division I - Peace Officers Retirement System (PORS)

Section 8 – Increases the employee contribution rate by 0.5% each year for four years beginning July 1, 2011.

Assumptions

- As of July 1, 2009, there were 662 active members in the PORS and 538 retired members and beneficiaries.
- As of the July 1, 2009, per the Actuarial Valuation Report for the PORS, covered wages were reported at \$41.9 million.
- For FY 2010, the contribution rate is 21.00% for the employer and 9.35% for the employee.
- Under current law, the employer's contribution rate for the PORS is as follows:
 - FY 2011 – 23.0%
 - FY 2012 – 25.0%
 - FY 2013 – 27.0% or the normal contribution rate, whichever is less, for each year on or after July 1, 2012.

Fiscal Impact

The increase in the employee contribution rate by 0.5% for four years beginning July 1, 2011, is an estimated increase in contributions of \$210,000 per year for a total of \$840,000 by FY 2015.

0.5% Employee Contribution Rate Increase

Fiscal Year	Contribution Rate	Increase
2011	9.35%	\$ 0
2012	9.85%	\$ 210,000
2013	10.35%	\$ 420,000
2014	10.85%	\$ 630,000
2015	11.35%	\$ 840,000

Section 7 increases the employer contribution rate as follows:

- FY 2013 – 27.0%
- FY 2014 – 29.0%
- FY 2015 – 31.0%
- FY 2016 – 33.0%
- FY 2017 – 35.0%
- FY 2018 – 37.0% or the normal contribution rate, whichever is less, for each year on or after July 1, 2017.

The 2.0% increase in the employer contribution rate is an increase of approximately \$800,000 per year, based on current covered wages. The employer contribution is paid from the State General Fund.

Sections 10, 11, and 15 - Allows members of PORS to purchase permissive service credit for eligible qualified service based on the actuarial cost of the service minus a credit for contributions made to the 411 System when the person was a member of that System. A report must be filed by July 1, 2011.

Background

There are five employees in the Department of Public Safety (DPS) with service in the 411 System, prior to January 1, 1992, that were not eligible to transfer service credit to the PORS. Portability between the two Systems was not in place until 1996.

Each of these members resigned from the 411 System prior to being vested (15 years at that time). The vesting and refund rules were such at the time that these members were not entitled to any of their contributions. Language was changed after July 1, 1990, to allow any member that terminated service from the 411 System to withdraw their contributions in total from their date of hire through their termination date.

Senate File 2199 (enacted in 2006) allowed the purchase of permissive service credit during the period of July 1, 2006, through June 30, 2007. One of the five employees purchased two years of service totaling \$57,000.

Assumptions

1. The cost to purchase years of service is based on the member's current salary, current age, and date of hire and will be paid by the member.
2. There are five members with a total of 31 years of service and all eligible years of service will be purchased.

3. There will be a credit for the contributions members did not receive back from the 411 System of approximately \$4,400 for each year of service. The remaining amount will be paid by the member.

Fiscal Impact

The estimated cost of purchasing the years of service, plus interest, is approximately \$1.3 million. The estimated cost to provide a credit for the contributions that the members did not receive back from the 411 System is approximately \$135,000 or \$4,400 in credit for each year of service purchased. The remaining \$1.2 million would be paid by the employees. The estimate is based on the best available calculations and would require an actuarial study.

Section 15 for the purchase of eligible service credit, establishes a standing unlimited appropriation for an amount equal to that portion of the actuarial cost of the permissive service credit purchase for eligible service credit. The cost is estimated to be \$135,000.

Section 13 – Beginning July 1, 2012 (FY 2013), a General Fund appropriation of \$5.0 million per year is made until the PORS Fund reaches an 85.0% funded ratio.

Assumptions

The current funded ratio of the PORS Fund is 69.4%.

Fiscal Impact

The fiscal impact is a \$5.0 million appropriation from the General Fund beginning in FY 2013 to the PORS Fund annually until the PORS Fund reaches a funding ratio of at least 85.0%.

Section 17 - Changes the escalation amount for POR members from compounding each year to a set escalation amount in five year increments.

Background

Under current law, after a member retires, an adjustment is applied to the member's pension each July 1. The adjustment is based on the number of years the members has been retired and results in an increase in the monthly pension payment by an amount between \$15 and \$35. Over a 25 year retirement, the adjustment results in a cumulative increase of approximately \$82,500.

The PORS has two cost of living adjustments. One is based on the earnings of a current, active member [Code Section 97A.6(14)(1)(a)] and the second is based on the number of years since retirement [Code Section 97A.6(14)(2)(a)]. Members of the PORS do not receive social security benefits for their PORS covered earnings.

Assumptions

1. The actuarial value of the escalator is 2.24% of covered wages for the PORS.
2. As of July 1, 2009, per the Actuarial Valuation Report for the PORS, the covered payroll was \$41.9 million.
3. There are currently 538 retired members of the PORS.
4. House File 2518 provides an additional \$15 for the first five years, \$20 for years 6-10, \$25 for years 11-15, \$30 for years 16-20, and \$35 for the remaining five years for an annual total of \$7,500 per employee.

Fiscal Impact

The change in escalation is a decrease of \$75,000 for a member surviving 25 years beyond their retirement date. The flat escalator language provides the PORS a savings of future

benefits payable totaling approximately \$950,000 per year due to the elimination of compounding of the amounts indicated in Code Section 97A.14.

Division II - Iowa Public Employee Retirement System (IPERS)

Sections 19, 21, 22, and 30 – The Bill makes the following changes (effective July 1, 2012):

- ***Increases the vesting requirement from four years to seven years.***
- ***Calculates retirement benefits using a member's high five years of salary instead of the current three years.***
- ***Implements a 6.0% per year reduction in retirement benefits for each year the member receives a retirement allowance before age 65 when a member retires prior to normal retirement age.***

Background

Currently members vest at four years of completed service or at age 55 if active (making contributions to the plan). A vested member, meeting retirement eligibility requirements, is entitled to a lifetime retirement benefit based on a formula. Vested members also may purchase service credits. Vested members that leave IPERS covered employment and take a refund receive a portion of the employer's contributions made on their behalf plus interest. A member is always entitled to 100.0% of their own contributions and interest earnings.

Spiking occurs when wages are inflated and, as a result, the retirement benefit increases beyond what it would have been if wages increased incrementally as expected. The spiking control works by comparing the average wage with the wages for next highest year that is outside the average. Currently, the final average wage is compared to 121.0% of the fourth highest year's wages. The recommended change compares the final average wage to 134.0% of the sixth highest year. The benefit calculation uses whichever figure is lower. This continues to allow a wage increase of 10.0% a year.

Current law reduces the benefits of anyone that retires before meeting one of the normal retirement eligibility requirements by 3.0% a year. The current 3.0% a year reduction is figured from the nearest normal retirement eligibility. The recommendation proposes a reduction in benefits of 6.0% per year for a member that retires before meeting one of the normal retirement eligibility requirements. The reduction is applied from age 65.

Assumptions

1. Benefit changes apply only to regular class IPERS members. Regular members include most IPERS members, but do not include sheriffs, deputies, and employees in protection occupations such as correctional officers, town police and firefighters, jailers, emergency medical service providers, and others.
2. Benefit changes are effective July 1, 2012, and are based on an estimated June 30, 2012, estimated valuation using a current valuation model.
3. All actuarial assumptions adopted by the IPERS investment board also apply, such as longevity, the percentage retiring at various ages, and salary increases for active members.
4. A 6.0% adjustment for early retirement reflects the actuarial cost to the system.

Fiscal Impact

The changes:

- a) Reduce the present value of future benefits by \$1.2 billion.
- b) Reduce the normal cost rate by 90 basis points or 0.9%. The normal cost rate funds the increase in the present value of benefits that have accrued for service during a year.
- c) Reduce the unfunded actuarial liability (UAL) by \$750.0 million. The UAL is the difference between the actuarial liability, that portion of the present value of future benefits that will not be paid by future normal costs, and the actuarial value of assets at the same date.

The IPERS cannot provide cost savings for each benefit variable individually as the variables interact with each other and were estimated as a package.

Section 31 – Cancer presumption for members of the IPERS protection occupation group.

Background

- According to the American Cancer Society, within a person's lifetime, men have a one in two chance of developing an invasive cancer and women have a one in three chance. (Similar information regarding infectious diseases was unavailable).
- The IPERS Protection Occupation group includes 7,112 active members. Of these, 37.0% work for the Iowa Department of Corrections, 18.0% are county jailers, 15.0% are police, 13.0% are emergency management services workers, 8.0% are firefighters, and 9.0% include other occupations such as conservation and transportation officers, airport fire and safety officers, and others.

Assumptions

- The probability of a member becoming disabled is relatively small and the likelihood that the disability falls under the cancer and infectious disease category is even smaller. Few occurrences are expected to occur in future years.
- The additional benefit payable for an in-service retirement is not significantly larger than the benefit payable under an ordinary retirement (60.0% versus 50.0%) and for members with higher years of service (when disability rates are higher), there may be no difference because the full accrued benefit is paid in either scenario.

Fiscal Impact

Protection Occupation

The impact is an increase of 0.07 percentage point in the contribution rate. If the FY 2011 contribution rate included the cancer presumption, it would be 16.66% versus 16.59%. With the cost applied 60.0% to the employer and 40.0% to the employee, adding the cancer presumption would have increased the contribution rates in FY 2011 by .042 percentage point for the employer and .028 percentage point for the employee. Since FY 2011 rates have already been set, the change would be included in future actuarial valuations which determine rates.

Sheriffs and Deputies

The impact is an increase of 0.04 percentage point in the contribution rate. If the FY 2011 contribution rate included the cancer presumption, it would be 17.92% versus 17.88%. With the cost applied 50.0% to the employer and 50.0% to the employee, adding the cancer presumption would have increased the contribution rates in FY 2011 by .02 percentage point for the employer and .02 percentage point for the employee. Since FY 2011 rates have already been set, the change would be included in future actuarial valuations which determine rates.

Section 33 - Extends the bona fide retirement exception for licensed health care professionals for two years.

Background

Federal tax law requires qualified retirement plans to have a bona fide retirement period, a set time period when retirees demonstrate they ended employment and are entitled to retirement benefits. The standard bona fide retirement period for IPERS is four months. For the first month, a retiree must not work for an IPERS-covered employer, regardless if the job is IPERS-covered. A retiree also must stay out of an IPERS-covered job for an additional three months.

Current law allows licensed health care professionals to retire with IPERS benefits and return to work in one month. The exception sunsets June 30, 2010. This recommendation extends the exception for two years.

Assumptions

1. A shortened bona fide retirement period may encourage earlier retirements by making it easier for retirees to return to work.
2. Funding is affected when older members re-enter the system compared to younger members with more years to contribute before retirement.
3. The IPERS actuary must complete an experience study of employment and retirement behaviors to determine impact. The study will examine the impact of licensed health care professionals on the actuarial assumptions of expected behavior.

Fiscal Impact

1. Of the 14,748 active IPERS members employed by public hospitals, 7,245 are licensed health care professionals (5,348 active and 1,897 inactive). Of the active members, 1,406 are age 55 or older.
2. Based on a study period from July 1, 2004, through June 30, 2009, of the 491 licensed health care professionals that retired, 117 (23.8%) returned to work.
 - Of the 117 retirees that returned to work, 84 (71.8%) did so in less than four months.
 - Of the 84 that returned to work in less than four months, the median age at retirement was 60 with a median final average salary before retirement of \$46,732 and a median annual retirement benefit of \$24,447.
3. The IPERS actuary conducts an experience study every four years. The next study will be completed in the summer of 2010. IPERS actuary will examine the shortened bona fide retirement period for licensed health care professionals.

Section 33 - Creates a bona fide retirement exception for members called to State active duty with the National Guard with a retroactive effective date of May 25, 2008.

Assumptions

To date there have been no known bona fide retirement violations as a result of the National Guard calling up members for State Active Duty.

Fiscal Impact

The fiscal impact for the bona fide retirement exception for members called to State Active Duty with the National Guard is anticipated to be minimal.

Sections 25 and 38 - Increases the total contribution rate to 13.45% beginning July 1, 2011, and allows the system to adjust the rate up or down by no more than one percentage point per year for regular members.

Background

Under current law, the contribution rate will increase to 11.95% on July 1, 2011, and the maximum annual change is limited to 0.5 percentage point.

Assumptions

1. The contribution rate of 13.45% applies only to regular IPERS members. Regular members include most IPERS members, but do not include sheriffs, deputies, and employees in protection occupations such as correctional officers, town police and firefighters, jailers, emergency medical service providers, and others.
2. The FY 2011 contribution rate for regular membership is set at 11.45%. Under current law, the FY 2012 contribution rate for regular members effective July 1, 2011, would increase 0.5 % to 11.95%, shared between employer and employee as follows:

Employer	7.25%
<u>Employee</u>	<u>4.70%</u>
Total	11.95%

3. The percentage point limit on the annual contribution rate changes would increase from 0.5% to 1.0% and apply to all IPERS membership classes.
4. All active member counts are based on FY 2009 actuarial data and include all members active anytime during the year.
5. The expected FY 2010 total wages are from the FY 2009 IPERS valuation report completed by Milliman (the IPERS actuarial firm). The FY 2011 through FY 2016 total wages are compounded by 4.0% annually per actuarial assumptions.

Fiscal Impact

Comparison of 11.95% and 13.45% Rate for FY 2012

EMPLOYER TYPE	Current Law					Proposed Law				
	ACTIVE MEMBER	TOTAL WAGES	MEMBER CONTRIBUTION 4.70%	EMPLOYER CONTRIBUTION 7.25%	COMBINED RATE 11.95%	MEMBER CONTRIBUTION 5.30%	EMPLOYER CONTRIBUTION 8.15%	COMBINED RATE 13.45%	DIFFERENCE	
STATE	21,108	\$ 1,259,627,970	\$ 59,202,515	\$ 91,323,028	\$150,525,542	\$ 66,760,282	\$ 102,659,680	\$ 169,419,962	\$ 18,894,420	
BOARD OF REGENTS	2,179	55,065,704	2,588,088	3,992,264	6,580,352	2,918,482	4,487,855	7,406,337	825,986	
COUNTY	23,272	956,766,600	44,968,030	69,365,579	114,333,609	50,708,630	77,976,478	128,685,108	14,351,499	
CITY	23,002	874,168,045	41,085,898	63,377,183	104,463,081	46,330,906	71,244,696	117,575,602	13,112,521	
SCHOOL	87,734	3,386,540,773	159,167,416	245,524,206	404,691,622	179,486,661	276,003,073	455,489,734	50,798,112	
COMM. COLLEGE	3,409	158,313,898	7,440,753	11,477,758	18,918,511	8,390,637	12,902,583	21,293,219	2,374,708	
OTHER	5,535	192,729,963	9,058,308	13,972,922	23,031,231	10,214,688	15,707,492	25,922,180	2,890,949	
	<u>166,239</u>	<u>\$ 6,883,212,953</u>	<u>\$ 323,511,009</u>	<u>\$ 499,032,939</u>	<u>\$822,543,948</u>	<u>\$ 364,810,286</u>	<u>\$ 560,981,856</u>	<u>\$ 925,792,142</u>	<u>\$103,248,194</u>	
Member Averages		\$ 41,406	\$ 1,946	\$ 3,002	\$ 4,948	\$ 2,194	\$ 3,375	\$ 5,569		

Notes:
OTHER employer type includes municipal utilities, 28E organizations, Area Education Agencies, and miscellaneous small local entities.

One Percentage Point Increase Per Year

	EMPLOYER TYPE	ACTIVE		MEMBER	EMPLOYER	COMBINED
		MEMBER	TOTAL WAGES	CONTRIBUTION	CONTRIBUTION	RATE
				5.70%	8.75%	14.45%
FY2013	STATE	21,108	\$ 1,310,013,089	\$ 74,670,746	\$ 114,626,145	\$ 189,296,891
FY2013	BOARD OF REGENTS	2,179	57,268,332	3,264,295	5,010,979	8,275,274
FY2013	COUNTY	23,272	995,037,264	56,717,124	87,065,761	143,782,885
FY2013	CITY	23,002	909,134,767	51,820,682	79,549,292	131,369,974
FY2013	SCHOOL	87,734	3,522,002,404	200,754,137	308,175,210	508,929,347
FY2013	COMM. COLLEGE	3,409	164,646,454	9,384,848	14,406,565	23,791,413
FY2013	OTHER	5,535	200,439,161	11,425,032	17,538,427	28,963,459
		<u>166,239</u>	<u>\$ 7,158,541,471</u>	<u>\$ 408,036,864</u>	<u>\$ 626,372,379</u>	<u>\$ 1,034,409,243</u>
Member Averages			\$ 43,062	\$ 2,455	\$ 3,768	\$ 6,222

	EMPLOYER TYPE	ACTIVE		MEMBER	EMPLOYER	COMBINED
		MEMBER	TOTAL WAGES	CONTRIBUTION	CONTRIBUTION	RATE
				6.10%	9.35%	15.45%
FY2014	STATE	21,108	\$ 1,362,413,613	\$ 83,107,230	\$ 127,385,673	\$ 210,492,903
FY2014	BOARD OF REGENTS	2,179	59,559,065	3,633,103	5,568,773	9,201,876
FY2014	COUNTY	23,272	1,034,838,755	63,125,164	96,757,424	159,882,588
FY2014	CITY	23,002	945,500,157	57,675,510	88,404,265	146,079,774
FY2014	SCHOOL	87,734	3,662,882,500	223,435,832	342,479,514	565,915,346
FY2014	COMM. COLLEGE	3,409	171,232,312	10,445,171	16,010,221	26,455,392
FY2014	OTHER	5,535	208,456,728	12,715,860	19,490,704	32,206,564
		<u>166,239</u>	<u>\$ 7,444,883,130</u>	<u>\$ 454,137,871</u>	<u>\$ 696,096,573</u>	<u>\$ 1,150,234,444</u>
Member Averages			\$ 44,784	\$ 2,732	\$ 4,187	\$ 6,919

	EMPLOYER TYPE	ACTIVE		MEMBER	EMPLOYER	COMBINED
		MEMBER	TOTAL WAGES	CONTRIBUTION	CONTRIBUTION	RATE
				6.50%	9.95%	16.45%
FY2015	STATE	21,108	\$ 1,416,910,157	\$ 92,099,160	\$ 140,982,561	\$ 233,081,721
FY2015	BOARD OF REGENTS	2,179	61,941,428	4,026,193	6,163,172	10,189,365
FY2015	COUNTY	23,272	1,076,232,305	69,955,100	107,085,114	177,040,214
FY2015	CITY	23,002	983,320,164	63,915,811	97,840,356	161,756,167
FY2015	SCHOOL	87,734	3,809,397,800	247,610,857	379,035,081	626,645,938
FY2015	COMM. COLLEGE	3,409	178,081,604	11,575,304	17,719,120	29,294,424
FY2015	OTHER	5,535	216,794,997	14,091,675	21,571,102	35,662,777
		<u>166,239</u>	<u>\$ 7,742,678,455</u>	<u>\$ 503,274,100</u>	<u>\$ 770,396,506</u>	<u>\$ 1,273,670,606</u>
Member Averages			\$ 46,576	\$ 3,027	\$ 4,634	\$ 7,662

	EMPLOYER TYPE	ACTIVE		MEMBER	EMPLOYER	COMBINED
		MEMBER	TOTAL WAGES	CONTRIBUTION	CONTRIBUTION	RATE
				6.90%	10.55%	17.45%
FY2016	STATE	21,108	\$ 1,473,586,564	\$ 101,677,473	\$ 155,463,382	\$ 257,140,855
FY2016	BOARD OF REGENTS	2,179	64,419,085	4,444,917	6,796,213	11,241,130
FY2016	COUNTY	23,272	1,119,281,597	77,230,430	118,084,209	195,314,639
FY2016	CITY	23,002	1,022,652,970	70,563,055	107,889,888	178,452,943
FY2016	SCHOOL	87,734	3,961,773,712	273,362,386	417,967,127	691,329,513
FY2016	COMM. COLLEGE	3,409	185,204,869	12,779,136	19,539,114	32,318,250
FY2016	OTHER	5,535	225,466,797	15,557,209	23,786,747	39,343,956
		<u>166,239</u>	<u>\$ 8,052,385,593</u>	<u>\$ 555,614,606</u>	<u>\$ 849,526,680</u>	<u>\$ 1,405,141,286</u>
Member Averages			\$ 48,439	\$ 3,342	\$ 5,110	\$ 8,453

1. All active member counts are based on FY 2009 actuarial data and include all members active anytime during the year.
2. Expected FY 2010 total wages are from Exhibit 11, FY 2009 Valuation report.
3. The FY 2011 through FY 2016 total wages are compounded by 4.0% annually per actuarial assumptions.
4. OTHER employer type includes municipal utilities, 28E organizations, Area Education Agencies, and miscellaneous small local entities.

Section 36 - Extends the current wage purchase credit rules relative to furloughs for IPERS members for an additional year and allows the rules to apply to union bumping rights with a retroactive effective date of January 1, 2009.

Background

This provision allows IPERS members with reduced wages because of a furlough or mandatory unpaid days, or because of bumping within a layoff plan, to make up both the employer and employee contributions to IPERS for that time. When they make up the contributions, IPERS records the wages at the level they would have been without the loss of pay.

Assumptions

1. Employees near retirement would make up contributions to preserve the wages used in the retirement benefit formula and thus maintain the level of retirement benefits they would have received without the reduction in pay.
2. Employees that are not near retirement will not make up IPERS contributions.

Fiscal Impact

The cost of extending the current wage purchase credit for furloughs for an additional year and applying it to union bumping rights cannot be determined because IPERS does not know how widespread furloughs will be beyond State government. IPERS does not anticipate major additional costs.

There is a related cost to furloughs because IPERS loses contributions from everyone that is taking a furlough and not retiring. Only those employees retiring will make up lost contributions and will receive a higher benefit because of it.

Division III - Municipal Fire and Police Retirement System (411 System)

Section 54 - Phase-out of the State's contribution to the 411 System.

Background

In 1976, the General Assembly enacted benefit improvements under Chapter 411 and provided the improvements be paid for by the following:

- Additional member contributions at the rate of 1.21%.
- State of Iowa contributions to pay for the cost of benefits above the 1.21% to be determined by an actuarial valuation of cost to each of the 87 local systems for 49 cities.

In 1979, the contribution rate paid by the State of Iowa was calculated at an average for all local systems instead of individual city valuations. The rate was set at 3.79% of earnable compensation.

The standing appropriation is capped in Code Section 8.59.

Assumptions

1. If the State's contribution to the benefit plan is eliminated, the city contribution rate (as a percent of earnable compensation) and dollars will increase by the corresponding amount.
2. The FY 2010 General Fund contribution was \$2,503,510 (1.08%). After the 10.0% across-the-board reduction, the amount is \$2,253,159.
3. Assumes a 7.5% return on investments.

Fiscal Impact

Phase Out of the State Contribution to the 411 System

	411 System		General Fund	
	Standing Appropriation		Appropriation Reduction	
FY 2010	\$	2,253,159	\$	0
FY 2011	\$	1,500,000	\$	753,159
FY 2012	\$	750,000	\$	750,000
FY 2013	\$	0	\$	750,000

Estimated Impact to the Cities Contribution Rate

Fiscal Year	Current Estimated City Contribution Rate	Estimated City Contribution Rate
	Changes Including the State Appropriation	Rate Changes Without the State Appropriation
2011	19.90%	20.38%
2012	24.91%	25.64%
2013	29.92%	30.90%
2014	35.32%	36.26%
2015	38.55%	39.45%

Sources

Iowa Public Employees' Retirement System (IPERS)
Peace Officers Retirement System (PORS)
Municipal Police and Fire (411 System)
League of Cities

/s/ Holly M. Lyons

March 18, 2010

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