

***MUNICIPAL FIRE AND POLICE RETIREMENT
SYSTEM OF IOWA***

***REPLY TO REQUEST FOR ADDITIONAL INFORMATION
FROM MEMBERS OF THE
PUBLIC RETIREMENT SYSTEMS COMMITTEE
INTERIM MEETING – NOVEMBER 3, 2005***

November 16, 2005

***MFPRSI
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Urbandale, Iowa 50322
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Inquiry #1: Provide an explanation of the History of the State Appropriation to the benefit plan provided under Iowa Code Chapter 411.

Response #1: Attachment One provides a summary of the history of the appropriation.

Inquiry #2: Describe the portfolios and the names of the firms who are managing the assets for the retirement system?
Identify the cost of the investment management of the program?

Response #2: Attachment Two provides a description of the requested information

Inquiry #3: Describe the employees' contribution to the retirement plan.

Response #3: Attachment Three provides the requested information pertaining to the employees (and employers) contribution rates.

INQUIRY ONE:

STATE APPROPRIATION TO THE CHAPTER 411 BENEFIT PLAN

History of the State of Iowa's Contribution to the Chapter 411 Benefit Plan

- 1976** Legislature enacted benefit improvements under Chapter 411 and provided that said improvements be paid for by the following:
- a) Additional contributions by the membership at the rate of 1.21%, and
 - b) State of Iowa contributions to pay for cost of benefits above the 1.21%; to be determined by annual valuation of cost to each local system (411.20 of the code).
- 1979** Contribution amount to be paid by the State to be calculated at the average cost for all local systems instead of individual city valuations; at a later date, the State's contribution rate was set at 3.79%.
- 1992** H. F. 2486 provided that "notwithstanding the standing appropriation", the State's appropriation under Iowa Code 411.20 shall not exceed a specified dollar amount (\$3,097,606) for the fiscal year beginning July 1, 1992. This amount was later reduced by several across the board cuts made during the legislative session.
- S. F. 2351 – "State Budget – Financial Practices", provided that amounts appropriated under the applicable code sections for fiscal years commencing on or after 7/1/1993 are limited to those amounts expended under those sections for the fiscal year beginning 7/1/1992.
- This provision preempted 411.20 and created a dollar limit on the annual appropriation to the Chapter 411 plan for the benefits agreed to in 1976. The limit served to cap the State's contribution at the fixed dollar amount of \$2,942,726. This reduction created an additional funding requirement for the pension plan, which has been transferred to the cities and absorbed by the retirement plan.

Various across the board budget reductions since that date has reduced the State's contribution amount to the current level of \$2,745,784 per annum. The transfer of this additional obligation to the cities and the retirement plan has had two consequences:

- 1) "Increased Cities Contributions" The cities' have paid additional amounts to the plan due to the change in the statutory commitment.
- 2) "Reduced Plan Funding Level" The financial assets of the plan have been reduced, thereby, adversely impacting the funding ratio of the plan.

Exhibit One shows the financial impact of this change on the cities and on the level of plan assets. Exhibit Two depicts the annual impact of the change.

CHAPTER 411 RETIREMENT PLAN

IMPACT OF 1992 LEGISLATION - CONTRIBUTION CHANGED FROM 3.79% TO FIXED DOLLAR AMOUNT

FISCAL YEAR	MFPRSI COVERED PAYROLL	PRIOR COMMITMENT 3.79 % OF PAYROLL	REVISED STATUTORY CONTRIBUTION FROM STATE	SHORTFALL IN DOLLARS	SHORTFALL IN PERCENTAGES	CITIES RATE FOR YEAR	IMPACT ON CITIES RATE	IMPACT ON CITIES DOLLARS	IMPACT ON PLAN	IMPACT ON PLAN DOLLARS
	\$	\$	\$	\$	%	%	%	\$	%	\$
1 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
2 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
3 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
4 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
5 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
6 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
7 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
8 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
9 2001	\$166,018,043	\$6,292,084	\$2,942,724	\$3,349,360	2.02%	17.00%	0.00%	\$0	2.02%	\$3,349,360
10 2002	\$173,140,899	\$6,562,040	\$2,816,189	\$3,745,851	2.16%	17.00%	0.00%	\$0	2.16%	\$3,745,851
11 2003	\$180,390,246	\$6,836,790	\$2,816,189	\$4,020,601	2.23%	17.00%	0.00%	\$0	2.23%	\$4,020,601
12 2004	\$186,919,429	\$7,084,246	\$2,752,825	\$4,331,421	2.32%	20.48%	2.32%	\$4,331,421	0.00%	\$0
13 2005	\$196,143,062	\$7,433,822	\$2,745,784	\$4,688,038	2.39%	24.92%	2.39%	\$4,688,038	0.00%	\$0
13 2006 (est.)	\$207,911,646	\$7,879,851	\$2,745,784	\$5,134,067	2.47%	24.92%	2.47%	\$5,134,067	0.00%	\$0
TOTAL FOR FISCAL YEARS				\$42,020,132				\$18,326,686		\$23,693,446
								WITH EARNINGS OF PLAN		\$36,928,565

DIRECT IMPACT :	ON CITIES	\$18,326,686	ON PLAN	\$36,928,565
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Impact of State Contribution Change

EXHIBIT 2

<u>FISCAL YEAR</u>	<u>CITIES RATE</u>	<u>EFFECT</u>
1993	17.00%	Retirement plan absorbed the cost
1994	19.66%	Cities paid full cost
1995	18.71%	Cities paid full costs
1996	17.66%	Cities paid a portion of cost and retirement plan absorbed a portion of the costs
1997	17.00%	Retirement plan absorbed the cost
1998	17.00%	Retirement plan absorbed the cost
1999	17.00%	Retirement plan absorbed the cost
2000	17.00%	Retirement plan absorbed the cost
2001	17.00%	Retirement plan absorbed the cost
2002	17.00%	Retirement plan absorbed the cost
2003	17.00%	Retirement plan absorbed the cost
2004	20.48%	Cities paid full costs
2005	24.92%	Cities paid full costs
2006	28.21%	Cities paid full costs

***INQUIRY TWO:
INVESTMENT MANAGEMENT OF THE CHAPTER 411 RETIREMENT SYSTEM***

- I. INVESTMENT POLICY**
- II. INVESTMENT PORTFOLIOS**
- III. CONSULTANT AND CUSTODIAL BANK**
- IV. INVESTMENT EXPENSES AND INVESTMENT PERFORMANCE**

I. "INVESTMENT POLICY"

The retirement system's asset allocation policy for 2005 shall be as follows:

"ASSET ALLOCATION POLICY"

US EQUITY	30.0%	
NON-US EQUITY	20.0%	
REAL ESTATE	10.0%	
ALTERNATIVE INVESTMENTS	10.0%	
TOTAL EQUITY ORIENTED INVESTMENTS		70.0%
US FIXED INCOME	12.0%	
TACTICAL FIXED INCOME	18.0%	
CASH	0.0%	
TOTAL DEBT ORIENTED INVESTMENTS		30.0%
TOTAL PLAN PERFORMANCE EXPECTATION %		8.00%*
STANDARD DEVIATION (RISK) %		10.40%

[* Allocation, performance expectation and risk projection based upon Summit's 2005 assumptions.]

"ALLOCATION POLICY DETAIL" COMPONENTS OF PORTFOLIO

	CORE	ALTERNATIVE	STRATEGIC
U.S. EQUITY TARGET	37.5%		37.5%
INTERNATIONAL EQUITY	25.0%		25.0%
REAL ESTATE		50%	
ALTERNATIVE EQUITY		50%	
COMPONENT EQUITY TARGET	62.5%	100.0%	62.5%
US FIXED INCOME	15.0%		
TACTICAL FIXED INCOME	22.5%		
UNIVERSAL FIXED INCOME			37.5%
CASH	0.0%		0.0%
COMPONENT DEBT TARGET	37.5%		37.5%

II. INVESTMENT PORTFOLIOS

"PORTFOLIO DESCRIPTIONS"

CORE PORTFOLIO

A. DOMESTIC INDEX STOCK FUND ("INDEX MANAGEMENT")

MELLON CAPITAL MANAGEMENT

Russell 1000 (stock) Index Fund

B. DOMESTIC ENHANCED INDEX FUND

PIMCO (Pacific Investment Management Co.) (Newport Beach, CA.)

A portfolio comprised of S&P 500 Futures Contracts, U. S. Treasury Securities and Cash which is intended to outperform the performance of the U.S. equity market as represented by the S&P 500 index, with index-like volatility (risk) and with no leverage.

C. DOMESTIC SMALL CAPITALIZATION EQUITY PORTFOLIO

DIMENSIONAL FUND ADVISORS (Santa Monica, CA.)

A diversified portfolio comprised of small capitalization stocks and cash, which is intended to outperform the performance of an index, which represents the small companies within the U.S. stock market.

D. ACTIVELY MANAGED INTERNATIONAL EQUITY PORTFOLIO

1. *BAILLIE GIFFORD OVERSEAS, LTD. (Edinburgh, Scotland)*

2. *DELAWARE INTERNATIONAL ADVISERS, LTD (London, England)*

A diversified portfolio comprised of equity and cash, which is invested in stocks listed on established international stock markets with the intent to out-perform a broad-based international equity index . The portfolio shall also invest in emerging markets.

E. DOMESTIC FIXED INCOME (CORE)

BLACKROCK (New York)

A diversified fixed income portfolio which contains securities issued by and the obligations of or guaranteed by the United States of America or U.S. government sponsored enterprises or by the Dominion of Canada or any province thereof, financial futures and options, and of corporate bonds or other evidences of indebtedness issued under the laws of the United States or its political subdivisions. The portfolio may invest opportunistically in the securities issued by and obligations guaranteed by developed foreign countries. Securities issued by emerging market or developing market countries shall not be included in the portfolio. Securities acquired for the portfolio shall be of investment grade as rated by a recognized rating agency.

F. TACTICAL FIXED INCOME (ABSOLUTE RETURN) PORTFOLIO
[CONTRACTS UNDER DEVELOPMENT]

A fixed income portfolio in which the manager is expected to implement a “best ideas” portfolio, i.e. not a bench-mark sensitive approach to portfolio construction. The portfolio will include, but may not be limited to investments in the following markets: domestic fixed income, high yield, emerging market debt, global bonds, non-dollar tips, global tips, and bank loans. The benchmark for the portfolio will be an absolute return target, (such as Libor + 300bp) rather than measuring a return relative to an investable index.

ALTERNATIVE PORTFOLIO

G. REAL ESTATE PORTFOLIO

“ DIVERSIFIED CORE REAL ESTATE PORTFOLIO ”

1. *J.P. MORGAN INVESTMENT MANAGEMENT, INC. (New York)*
2. *TA ASSOCIATES (Boston)*

A diversified portfolio comprised of investments in non-leveraged and leveraged real estate properties, either directly through individual ownership, through participation in one or more commingled real estate property funds, or through the acquisition of REITs, either directly or through a fund. The portfolio will have a target investment strategy of sixty-five percent in funds, which acquire direct real estate assets, and thirty-five percent in a fund, which acquires REIT securities.

“ACTIVE REAL ESTATE PORTFOLIO
- Partnership, Trust or Funds”

1. *FIDELITY MANAGEMENT TRUST COMPANY (New York)*
2. *HINES CAPITAL MARKETS (Houston)*
3. *SENTINEL REALTY ADVISORS CORPORATION (New York)*

A portfolio comprised of investments held in a partnership, trust, or fund, which acquires, manages and disposes of non-leveraged and leveraged real estate properties.

The retirement System’ s overall portfolio will invest in one or more funds, partnerships, or trusts, which are each focused on an individual sector or sectors of the direct real estate market. Real estate portfolios, investing in the following sectors may be included: apartments, industrial, retail, commercial office, turn-around opportunities, as well as others not identified.

H. ALTERNATIVE INVESTMENTS IN PRIVATE EQUITY & DEBT

1. *ADAM STREET PARTNERS, LLC (Chicago)*
2. *HARBOURVEST PARTNERS (Boston)*

A portfolio comprised of investment in a “fund of funds” which acquires positions in various venture capital funds, buyout funds and opportunistic funds. Investments made by the individual funds shall be via equity ownership and/or privately placed debt.

STRATEGIC PORTFOLIO

I. STRATEGIC (GLOBAL BALANCED) PORTFOLIOS

(U.S. Equity, International Equity, Fixed Income, Emerging Market Equity)

1. *MORGAN STANLEY DEAN WITTER ASSET MANAGEMENT (New York)*
2. *J.P. MORGAN FLEMING INVESTMENT MANAGEMENT, INC. (New York)*
3. *GRANTHAM, MAYO, VAN OTTERLOO AND CO. LLC (Boston)*

A diversified portfolio comprised of fixed income, equity, emerging market equity and debt, and cash which is invested in securities of global markets with the intent to out-perform a composite index which is weighted sixty-two and one-half percent to equity and thirty-seven and one-half percent to fixed income.

TRANSITION ASSETS

CUSTODIAL BANK - MELLON TRUST (Boston)

Cash and Short Term Investments - Effective April 2005, the cash portion of the System’ s assets will be invested either in a STIF product available from the custodial bank (Mellon Trust) or in an enhanced cash fund which is managed by Standish Mellon, a subsidiary of Mellon Trust.

Transition Assets - Selected assets transferred to the System as of the date of the consolidation, which due to the market conditions, the maturity of the asset or the specific nature of the asset, have not been liquidated by the System.

III. CONSULTANT AND CUSTODIAL BANK SERVICES

A. INVESTMENT CONSULTANT

The retirement system has a contractual relationship with an investment consulting firm, *Summit Strategies* of St. Louis, Mo. Services provided by the firm to the system include regularly scheduled performance reviews and reports, asset/liability analysis and forecasting, screening and commenting on the performance of the investment firms, and technical advice concerning individual investment strategies and policies.

B. CUSTODIAL BANK

The retirement system has a contractual relationship with a custodial bank, *Mellon Trust*, of Pittsburg/Boston. The bank provides custodial and investment accounting services to the retirement system.

IV. INVESTMENT EXPENSES AND PERFORMANCE

A. INVESTMENT EXPENSES

The expense ratio for the investment of the plan's assets for the fiscal year period ending June 30, 2005 was as follows:

Asset Value:	\$1,469,753,955
Expenses:	\$6,851,662
Expense Ratio:	.4661 of 1%

B. INVESTMENT PERFORMANCE

The following table reflects the performance of the system's asset over various time periods, net of the investment fees (after fees have been deducted).

January 2, 1992 – June 30, 2005

	Annualized			
	<u>1 year</u>	<u>3 years</u>	<u>5 Years</u>	<u>Since Inception</u>
Total MFPRSI	12.3%	11.6%	5.0%	8.6%
Policy Index	11.0%	10.6%	3.5%	8.0%
Actuarial Assumption	7.5%	7.5%	7.5%	7.5%

**INQUIRY THREE:
CONTRIBUTIONS TO THE PLAN**

Exhibit: History of Employer & Employee Rates

Period	Employer Rate	Employee rate	Age 45	Age 46	Age 47	Age 48	Age 49
Local Systems							
07/01/79		2.21%					
07/01/82		3.10%					
07/01/90		4.10%	5.10%	6.10%	7.10%	8.10%	9.10%
07/01/91	19.00%+	5.10%	6.10%	7.10%	8.10%	9.10%	
Consolidation of the 87 Local Systems (MFPRSI)							
01/01/92	17.00%	5.10%	6.10%	7.10%	8.10%	9.10%	
07/01/92	17.00%	6.10%	7.10%	8.10%	9.10%		
10/16/92	17.00%	6.10%					
07/01/93	19.66%	7.10%					
07/01/94	18.71%	8.10%					
01/01/95	18.71%	8.35%					
07/01/95	17.66%	9.35%					
07/01/96-6/30/03	17.00%	9.35%					
7/01/03	20.48%	9.35%					
7/01/04	24.92%	9.35%					
7/01/05	28.21%	9.35%					
7/01/06	27.75%	9.35%					