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FINAL REPORT

PENSION AND RETIREMENT PROGRAMS STUDY COMMITTEE

F I N A L R E P O R T

PENSION AND RETIREMENT PROGRAMS STUDY COMMITTEE

The Pension and Retirement Programs Study Committee is a two-year study committee which was authorized by the Legislative Council and which met during both the 1973 and 1974 interims. The membership during both interims remained the same and is as follows:

Senator Warren E. Curtis, Cherokee, Chairman
Representative C. Raymond Fisher, Grand Junction, Vice Chairman
Senator C. Joseph Coleman, Clare
Senator John N. Nystrom, Boone
Representative Richard L. Byerly, Ankeny
Representative John H. Connors, Des Moines
Representative Rollin C. Edelen, Estherville

The Committee's charge was to conduct a comprehensive study of the pension plans and retirement programs available to Iowa public employees. The study was to include, but not be limited to, various benefits available to public employees; the relationship of IPERS benefits to Social Security benefits for public employees covered; investment of pension funds; variable annuities; benefit determination based upon salary levels; plans for early retirement; and comparison of benefits available under the various pension plans and retirement programs.

The retirement and pension programs available to Iowa public employees, statutory citation, and number of active members in each for 1972 are as follows:

Iowa Public Employees' Retirement System (Chapter 97B) - 113,119
Judicial Retirement System (Chapter 605A) - 100
Peace Officers' Retirement, Accident and Disability System (Chapter 97A) - 431
Local Police and Fire Retirement Systems (Chapter 411) - 5,000 (Estimated by consulting actuary)
Local Police and Fire Pension Plans (Chapter 410) - No estimate available
Municipal Utility Retirement System (Chapter 412) - No estimate available

In addition, certain employees of the Board of Regents Institutions are eligible to select in lieu of IPERS, membership in the Teacher's Insurance Annuity Association and College Equity Retirement Fund (TIAA/CREF). TIAA/CREF is incorporated as a legal reserve life insurance company in the State of New York, and membership is available to college teachers, administrators, and other higher-salaried college employees throughout the United States. The system provides portability of membership for its members, growth prospects from the CREF variable annuity and a high level of contribution to the program.

By the beginning of the 1974 legislative session, the Committee had completed a study of the present provisions of the public retirement systems in this state, the provisions of public retirement systems in other states, and current trends in public retirement systems, as well as soliciting suggestions for revisions of the systems from various affected interest groups. A list of various types of improvements which might be effected for the retirement systems was compiled, and the consulting actuaries from Milliman & Robertson, Inc. were asked to estimate their fees for conducting actuarial studies to determine the costs of implementing the various improvements. For a description of the Committee's activities and conclusions during the 1973 legislative interim and for a brief outline of each separate public retirement program, see the 1973 Progress Report of the Pension and Retirement Programs Study Committee on file at the Legislative Service Bureau.

As a result of the estimates submitted by the consulting actuaries, Senate Concurrent Resolution 103 was passed by both houses of the General Assembly during the 1974 session. S.C.R. 103 authorizes the expenditure of $50,000 in state funds to Milliman & Robertson, Inc. for the costs of conducting actuarial studies, for the payment of travel and expenses of the consulting actuaries, and for assistance where necessary in drafting legislation for proposed improvements.

The Committee held five meetings during the current interim, and Mr. Fenton Isaacson and Mr. Denis Sullivan, Consulting Actuaries from Milliman & Robertson, Inc., were present at each meeting to discuss the cost studies requested by the Committee and to answer questions. Mr. Edmund Longnecker, IPERS Division of the Employment Security Commission, was also present for each of the meetings to serve as a resource person for questions concerning IPERS.

Representatives from the following associations and groups presented information to the Committee during the current interim:

- Joint Council on IPERS
- Iowa District Court Judges Association
- IPERS Improvement Association
- Iowa State Policemen's Association
- Iowa Association of Chiefs of Police and Police Officers, Inc.
- Iowa Association of School Administrators
- Iowa State Education Association
- Conservation Peace Officers
- Iowa State Association of Counties
- Iowa Highway Patrol
- Fire Marshal's Office
- Iowa Association of Professional Fire Fighters
- Retired Teachers Association

City of Des Moines
Des Moines Area Teachers Association

One of the major issues to be decided by the Committee during its deliberations was whether retirement benefits should be in any way dependent upon the Social Security benefits a retiree receives. All public employees are covered by the Old Age, Survivors, Disability and Health Insurance Program (Social Security) except for members of the Peace Officers' Retirement System and members of Chapter 411 police and fire systems. Social Security benefits are automatically increased as the Consumer Price Index increases by 3% or more. The Committee requested that cost studies relating to improvement of benefits for IPERS members and members of the Judicial Retirement System which were conducted by the actuaries include plans which in determining benefit levels include a portion of the Social Security benefits in computing the total retirement benefits received (integrated) and plans which do not take into account the amount of Social Security benefits which would be received (nonintegrated). The percent of Social Security benefits considered is the integration level. It was learned that according to Internal Revenue Service rulings, a maximum of 83 1/3 percent of a person's primary Social Security benefit can be considered in any integrated plan.

The Conservation Peace Officers of Iowa and members of the Fire Marshal's Office appeared before the Committee requesting a transfer from IPERS to the Peace Officers' Retirement System. However, these employees are presently covered by Social Security and according to information received by the Committee, the only procedure by which a group of employees can terminate the requirement for a continuing contribution to Social Security, is for all of the employees of the governmental entity (in this case the state) to vote not to be covered by Social Security. As a result, the Conservation Peace Officers sought approval for the establishment of a special division under the IPERS system for persons employed in hazardous occupations which would allow retirement at age 55 after 22 years of service with no reduction benefits. The Committee approved the recommendation (more fully described later in this report) for the Conservation Peace Officers, and acknowledged that other members of IPERS employed in hazardous occupations will probably request inclusion under the special division.

The Committee received requests from various affected interest groups concerning the possibility of using the information generated for the Committee and available in the computers of Milliman & Robertson, Inc., and it voted to allow any affected interest group to request cost studies of possible benefit improvements from the consulting actuaries if the results of the actuarial computation is made available to the Committee and if no cost to the state is incurred. The Conservation Peace Officers and a group composed of the Iowa Association of Chiefs of Police and Peace Officers, Inc., the Iowa State Policemen's Association, and the Iowa Association of Professional Fire Fighters acting jointly, employed Milliman & Robertson, Inc. to conduct additional studies and made the results available to the Committee.

The Committee was charged with a determination of the feasibility of incorporating a variable annuity program into IPERS, similar to the annuity program provided the Board of Regents employees under TIAA/CREF. The consulting actuaries presented information to the Committee that the defined benefit formula method of determining a person's annuity at retirement (as under IPERS) is not compatible with the variable annuity concept, and the money purchase method is essential to the efficient operation of a variable annuity. The consulting actuaries recommended that if the variable annuity concept is desirable for IPERS, it should be established on a separate segment basis using the money purchase concept and a separate fund account to support it, and the program should be optional. A complete explanation of the actuaries' comments is on file in the Legislative Service Bureau.

The Committee discussed the advisability of increasing the employer contribution for IPERS in order that it more nearly reflect the employer contribution under TIAA/CREF program and the trends of private retirement programs. Recommendations were made relating to the contribution level for both the employer and the employee.

An Attorney General's opinion was requested to clarify whether the provisions of section 97B.9, subsection 3, of the Code of Iowa (1975) which authorizes and directs political subdivisions to levy taxes sufficient to meet their obligations for IPERS contributions prevails over the provisions of Chapters 442 of the Code for school districts and 444 of the Code for counties which place limits upon the expenditures of school districts and counties. A copy of the Attorney General's opinion, which states that the provisions of section 97B.9, subsection 3, prevail, is attached to this report. The Committee does not believe that its charge allows it to make recommendations regarding the manner in which the increased employer contributions required of political subdivisions should be financed.

The Committee has received cost studies for the following benefit improvements (The cost studies which became available but which were not requested by a vote of the Committee and which were not financed by state funds allocated to the Committee are followed by an asterisk.):

1. Iowa Public Employees' Retirement System

   a. $14,000 annual covered salary.

   b. Benefits based on average salary of highest 5 of last 10 years with $10,800 annual covered salary.

   c. Benefits based on average salary of highest 5 of last 10 years with $14,000 annual covered salary.

d. 60% of average final salary based on high 5 of last 10 years, Social Security integration level of 83 1/3% and salary limit of $14,000.

e. 80% of average final salary based on high 5 of last 10 years, Social Security integration level of 83 1/3% and salary limit of $14,000.

f. Increase from present system based on Consumer Price Index.

g. 1% increase in retirement benefits being paid and invested benefits.

h. 25% increase in IOASI benefits.

i. 60% of average final salary based on high 5 of last 10 years, Social Security integration level of 50% and salary limit of $14,000.

j. 80% of average final salary based on high 5 of last 10 years, Social Security integration level of 50% and salary limit of $14,000.

k. 60% of average final salary based on high 5 of last 10 years, Social Security integration level of 83 1/3% and no limit on covered salary.

l. 80% of average final salary based on high 5 of last 10 years, Social Security integration level of 83 1/3% and no limit on covered salary.

m. 60% of average final salary based on high 5 of last 10 years, Social Security integration level of 50% and no limit on covered salary.

n. 80% of average final salary based on high 5 of last 10 years, Social Security integration level of 50% and no limit on covered salary.

o. 80% of average final salary based on high 5 of last 10 years, Social Security integration level of 83 1/3%, salary limit of $14,000 and retirement at age 62.

p. $100 monthly benefit with 10 or more years of service.

q. Nonintegrated plan with benefits based on average salary during highest 5 of last 10 years, 1.67% annual benefit credit for all service, no limit on covered salary.

r. Nonintegrated plan with benefits based on average salary during highest 5 of last 10 years, 1.67% annual benefit credit for up to 30 years service, no limit on covered salary.

II. Judicial Retirement System

a. 70% of average of last three years salary, Social Security integration level of 83 1/3%, with 16 years service.

b. Spouse's benefits payable at spouse's age 60 if judge dies prior to spouse's age 60.

c. 80% of average of last three years salary, Social Security integration level of 83 1/3%, with 16 years service.

d. 80% of average of last three years salary, Social Security integration level of 50%, with 16 years service.

III. Peace Officers' Retirement System

a. Service retirement of 50% of highest 5 year average salary plus annuity.

b. Service retirement of 50% of highest 3 year average salary plus annuity.

c. Service retirement at age 50 with 22 years of service.

d. Vesting upon completing 15 years of service.

e. Vesting upon completing 12 years of service.

f. Consumer Price Index as basis of benefit escalations.

g. Service and ordinary disability retirement benefits of 66 2/3% and accidental disability benefits of 75% of highest 5-year average salary.*

h. Ordinary disability during first 5 years service of 25% of average salary.*

i. Service and ordinary disability retirement benefits of 66 2/3% and accidental disability benefits of 75% of highest 5-year average salary and ordinary disability during first 5 years service of 33 1/3% of average salary.*

j. Benefits escalated at 100% of adjustment.*

k. Benefits payable to surviving spouse in event of death after retirement, if member's marriage occurs after retirement.*

l. 50% of vested benefit payable to survivors upon death of terminated vested member.*

m. Service retirement after 25 years of service with no age specified.*

n. Service retirement of 50% of highest 5-year average salary plus annuity after 25 years of service with no age specified.*

IV. Local Police and Fire Systems under Chapter 411

a. Service retirement of 50% of highest 5-year average salary plus annuity.

b. Service retirement of 50% of highest 3-year average salary plus annuity.

c. Service retirement at age 50 with 22 years of service.

d. Vesting upon completing 12 years of service.

e. Consumer Price Index as basis of benefit escalations.

f. Service and ordinary disability retirement benefits of 66 2/3% and accidental disability benefits of 75% of highest 5-year average salary.*

g. Ordinary disability during first 5 years service of 25% of average salary.*

h. Service and ordinary disability retirement benefits of 66 2/3% and accidental disability benefits of 75% of highest 5-year average salary and ordinary disability during first 5 years service of 33 1/3% of average salary.*

i. Benefits escalated at 100% of adjustment.*

j. Benefits payable to surviving spouse in event of death after retirement, if member's marriage occurs after retirement.*

k. 50% of vested benefit payable to survivors upon death of terminated vested member.*

l. Service retirement after 25 years of service with no age specified.*

m. Service retirement of 50% of highest 5-year average salary plus annuity after 25 years of service with no age specified.*

Actuarial cost studies, paid for by the Conservation Peace Officers, were also performed which computed the cost of transferring the Conservation Peace Officers to the Peace Officers' Retirement System under the present system and with certain benefit improvements to the PORS.

Copies of the actuarial cost studies are available in the Legislative Service Bureau.

The recommendations of the Pension and Retirement Programs Study Committee are as follows:

RECOMMENDATIONS CONCERNING IPERS

1. After thirty years of membership service, the IPERS monthly benefit should be an amount which when added to 83 1/3% of a member's primary Social Security benefit will equal 80% of the average of the five highest years salaries of the last ten years of membership service. For less than thirty years of service, the amount of the Social Security benefit included in the computation and the amount of the IPERS benefit should be reduced proportionally.

2. The employer contribution should be two times the rate of the employee contribution and should be computed on the employee's entire salary. For the plan described in the preceding recommendation, the contribution rates would be approximately 9% for the employer and 4.5% for the employee.

3. Those members covered by IPERS prior to the effective date of the new plan, and who retire after the effective date of the new plan, should be able to elect to receive benefits under the present plan or under the new plan, whichever are higher.

4. Death benefits should continue at the rate under which they are presently computed and should include the employee's contribution and an equal amount from the employer's contribution, plus interest.

5. The monthly benefits to current IPERS retirees should be increased by 50% with the additional costs paid from funds appropriated by the General Assembly from the general fund of the state.

6. The monthly benefits to IOASI recipients, including benefits to those persons who retired before July 1947 with thirty years of service, should be increased by 75% percent with the additional costs paid from funds appropriated by the General Assembly from the general fund of the state.

7. Members continuing in employment after age 70 should be allowed to begin receiving benefits at age 70 when contributions cease, rather than at age 72 as under present law.

8. An employee who terminates employment during a year should be allowed to receive interest on his contributions for the portion of the year during which he was employed at the annual rate for the preceding year, rather than at the rate of 2% per year as under present law.

9. After the passage of 18 months from the death of the member, if the beneficiary cannot be located, the Employment Security Commission should be allowed to make payment to the estate of the deceased member. However, if the whereabouts of the beneficiary is known but the beneficiary cannot be contacted, payment should not be made.

RECOMMENDATIONS CONCERNING THE PORS

1. Members of the Peace Officers' Retirement System should vest after fifteen years of service to be uniform with the local fire and police retirement systems.

2. The formula for computing pension increases because of salary increases to active members should be computed on the basis of 50% of the salary increases rather than 45% as under present law.

3. The service retirement allowance should be computed on the basis of 50% of the average of the 3 highest years salaries plus the annuity.

4. A 25% benefit for ordinary disability should be provided during the first 5 years of service.

5. Spouse's benefits should be provided to persons who marry retired members if the marriage occurs two years before the death of the retired member.

6. In the event of the death of a vested terminated member, if there are children under 18 years of age, or under 25 years of age and enrolled in postsecondary education, the widow's pension and allowance for children should be paid commencing upon the vested member's death rather than requiring the widow to wait until the member would have reached retirement age. If there are no children or when all children reach the age of 18, or 25 years if enrolled in postsecondary education, then benefits should not be paid until such time as the vested deceased member would have reached age 55.

RECOMMENDATIONS CONCERNING THE *LOCAL POLICE AND FIRE SYSTEMS UNDER CHAPTER 411 OF THE CODE*

1. The service retirement allowance should be computed on the basis of 50% of the average of the highest 3 years of compensation plus the annuity.

2. A 25% benefit for ordinary disability should be provided during the first 5 years of service.

3. Spouse's benefits should be provided to persons who marry retired members if the marriage occurs two years before the death of the retired member.

4. In the event of the death of a vested terminated member, if there are children under 18 years of age, or under 25 years of age and enrolled in postsecondary, the spouse's pension and allowance for children should be paid commencing upon the vested member's death rather than requiring the spouse to wait until the member would have reached retirement age. If there are no children or when all children reach the age of 18, or 25 years if enrolled in postsecondary education, then benefits should not be paid until such time as the vested deceased member would have reached age 55.

RECOMMENDATIONS CONCERNING THE ESTABLISHMENT OF A SPECIAL DIVISION UNDER IPERS FOR HAZARDOUS DUTY OCCUPATIONS

1. There should be established under IPERS a special division for the Conservation Peace Officers. The Conservation Peace Officers would continue to contribute to IPERS on the same basis as other IPERS members, but would be eligible for retirement at age 55. The special division would pay benefits to retirees on the basis of 50% of a member's final average salary commencing at age 55. The IPERS payment would be adjusted when the member reaches 62 years of age and receives Social Security benefits so that 83 1/3% of the amount of the Social Security benefits the retiree receives would displace that amount of the IPERS benefits.

The recommendations of the Pension and Retirement Programs Study Committee made in 1973 are as follows:

1. The Committee recommends the establishment of a central system for investment of funds of the IPERS, Judicial Retirement System, Peace Officers' Retirement System, and Chapter 411 police and fire systems, but the administration of the funds would remain separate. The Committee considered the establishment of a single omnibus retirement system for all state and local employees, but concluded that given the different methods of computing benefits and the different contribution levels presently existing, such a system is not feasible at present. Information received from cities about the investment of funds was largely incomplete, but it appears from the investment information received that a higher rate of return can be achieved if all funds are centrally invested by knowledgeable administrators. The Committee anticipates that a private consultant might be employed to invest the funds.

2. The Committee voted not to take action on the amounts of the various retirement funds which can be invested in equities. The Committee received conflicting testimony about the advisability of investing public funds in common stock which can fluctuate in value, and voted no changes.

3. The Committee recommends that the concept of actuarial soundness is a goal to be achieved for pension plans and retirement

programs. A fund is actuarially sound if when a member reaches retirement age, there are sufficient funds available to pay his benefits for the rest of his life without burdening any future members of the system. IPERS is an actuarially sound system. The Peace Officers' System is actuarially sound on the basis of the current annual contribution of 16%. The Judicial Retirement System is a pay-as-you-go system and is not actuarially sound, but rather is dependent upon appropriations from the General Assembly for funding. Chapter 411 local police and fire systems are required by law to be actuarially sound. Chapter 410 systems are pay-as-you-go systems. Representative Byerly dissents from the definition of actuarial soundness.

4. The Committee recommends that investment expenses for IPERS be paid from investment income rather than from the administrative costs of the system. The IPERS Division of the Employment Security Commission suggested the change, and the Committee agreed.

5. The Committee recommends that no action be taken with regard to TIAA/CREF. The Committee recognizes that persons eligible for TIAA/CREF coverage receive higher contributions from their employer than IPERS members and receive higher retirement benefits, but the Committee also believes that the solution to complaints about higher benefits to TIAA/CREF members lies in improvement of the other retirement systems.