FINAL REPORT

PEACE OFFICERS RETIREMENT SYSTEMS STUDY COMMITTEE

Pursuant to Senate Joint Resolution 1008 which was enacted by the Sixty-sixth General Assembly in 1976 the Study Committee was appointed with the following members: Senator C. Joseph Coleman, Senator Warren Curtis, Senator William E. Gluba, Senator James M. Redmond, Senator William P. Winkelman, Representative Reid W. Crawford, Representative William W. Dieleman, Representative Willis E. Junker, Representative Joyce Lonergan, and Representative James D. Wells.

The Committee elected Senator James Redmond Chairperson and Representative James Wells Vice Chairperson.

With the passage of House File 1251, Acts of the Sixty-sixth General Assembly, 1976 Session, the Study Committee was obligated to submit any request for actuarial services through a public bidding procedure. With this constraint upon Committee progress, the Study Committee held its first meeting on August 27, 1976.

At the first meeting the Committee reviewed the scope of its *directive--SJR 1008--which is to undertake a detailed study of* the pension needs of peace and corrections officers and for which $6,500 was appropriated for actuarial services. The Committee reviewed current Iowa law governing peace officer retirement systems benefits--Chapters 97A, 97B, 411 Iowa Code. The Committee received testimony on current pension trends and the effect of the Pension Reform Act of 1974 and the effect and future of social security benefits integrated with state pension benefits.

The Committee heard from individuals representing sheriffs and deputy sheriffs, state fire marshals, and Department of Transportation enforcement officers.

The Committee considered and recommended to the Legislative Council the rules to be followed to implement the public bidding for actuarial services. These rules were submitted to the Legislative Council for approval and were approved on September 8, 1976. At that time the Legislative Council, to whom the $6,500 for actuarial services had been appropriated, reserved the right to pass on the selection of bidders for the actuarial services.

On September 8, 1976 a second Study Committee meeting was held. In addition to hearing from the Department of Transportation about auto theft investigators and the Department of Social Services about corrections officers, the Committee specified the services upon which actuarial bids would be received.

It is important to note that the required specificity of services to clearly establish exactly what services would be required of bidders actually required the assistance of experts that were not available until a contract for services was entered. Thus the Study Committee was forced to specify exactly what information they thought was needed without the careful assistance and expertise of the pension actuaries. Several firms volunteered their time and talents to provide guidance to the Study Committee. Of specific mention are: Stennes and Associates, Mr. Robert Hopson and Milliman & Roberston, Inc., Mr. Denis Sullivan.

After evaluation of the hazards that characterize the duties of peace officers and corrections officers, the Committee voted to study the costs necessary to provide the following groups with benefits equivalent to those afforded peace officers under Chapter 411 of the Code or those afforded conservation peace officers under Chapter 97B of the Code for:

1. 481 corrections officers at Iowa corrections institutions.

2. 2889 full-time police officers in cities with less than a population of 8000.

3. 99 sheriffs and 766 deputy sheriffs.

Prior to publication of the bid notification, the Legislative Service Bureau staff contacted Mr. John Thalacker of the Department of Social Services and Mr. Gene Kennedy, representing the Iowa State Sheriffs Association, to solicit their assistance in obtaining the social security numbers of the individuals to be a part of the study. Information upon which actuarial studies can be made is available at the Department of Job Service but this information must be extracted by social security number.

On October 13, 1976 a progress report was made to the Legislative Council and a subcommittee of the Legislative Council consisting of Senator Joseph Coleman and Senator James Redmond was appointed to open bids to be received November 5, 1976. The Council retained the authority for final approval of the bid recommended by the subcommittee.

On October 18, 1976, after more than sixty percent of the social security numbers had been received, the notification for bids was published in the Des Moines Register.

On November 5, 1976 at 1:00 p.m. the appointed subcommittee met, and opened the single bid received from Stennes and Associates, Inc. (A complete copy of which is attached and made a part of this final report.)

On November 10, 1976, the subcommittee reported to the Legislative Council, recommending the approval of the $6,100 bid. The Legislative Council approved this bid.

All social security information received by the Legislative Service Bureau was forwarded to Mr. Hopson at Stennes and Associates, Inc.

A problem arose in as much as Stennes' bid did not include the cost of readying the listed social security numbers into a form that was computer acceptable. Mr. Edward Jones in the computer division of the Department of Job Service assisted the Bureau by assigning an individual to prepare a program which would read the social security number and extract the entire file for manipulation by the actuaries. The actuaries had the social security numbers reduced to computer cards and the union of these two work products produced the data file to be manipulated by the actuaries. This package was ready for delivery to the actuaries on December 6, 1976.

The final report from the actuaries was received by the Legislative Service Bureau on February 2, 1977, a copy of which is attached to this final report.

The Study Committee found that delay in the acquisition of information from the actuaries results from the following factors:

1. The Study Committee had to establish and approve a bidding procedure that was subsequently submitted to the Legislative Council for approval. The Study Committee Chairperson, Senator Redmond, had requested the Legislative Service Bureau staff, prior to the first Study Committee meeting, to prepare proposed rules to govern the bidding procedures which were adopted by the Study Committee at the first meeting on August 27, 1976, and approved by the Legislative Council on September 8, 1976.

It was suggested by several Committee members that a standard actuarial service bidding procedure be adopted by the Legislative Council to eliminate the delay necessitated by Study Committee and Council approval. A copy of the Committee's rules is attached as a model.

2. The next problem confronted by the Study Committee was the need to determine <u>exactly</u> what information to request from the actuaries without benefit of the expertise and guidance of an actuary. The Study Committee had to speculate about <u>all</u> the information that would be necessary to evaluate costs and clearly specify the specific retirement benefits improvements to be studied. This means that after the bids are let for the contract for a specific study, the Committee did not have the flexibility to request additional information, when found necessary, without instituting the entire bidding procedure for the services. Thus, the variance from the original bid specification requires new bids and any attempt to include language such as "and such additional actuarial services as necessary", would not allow the bidders sufficient specificity to submit their bids for an undetermined amount of service.

3. Further delay in the acquisition of actuarial services arose when the subcommittee appointed by the Legislative Council opened the bids and delayed action until approval by the Legislative Council.

This delay could be eliminated by delegating to the subcommittee the authority to accept a bid, thus allowing immediate action on the bids without waiting for an approval at the next following Legislative Council meeting.

This final report is to be forwarded to the appropriate standing committees for consideration during the first session of the Sixty-seventh General Assembly.

IOWA LEGISLATIVE COUNCIL
REPRESENTATIVE DALE M. COCHRAN, CHAIRPERSON
SENATOR MINNETTE F. DOOERER, VICE CHAIRPERSON

IOWA LEGISLATIVE SERVICE BUREAU
STATE HOUSE
DES MOINES, IOWA 50319
TELEPHONE 515/281-3566
SERGE H. GARRISON, DIRECTOR

INVITATION TO BID

Sealed bids will be received until 12:00 Noon, November 5, 1976 by the Legislative Service Bureau, State House, Des Moines, Iowa 50319, Telephone 515/281-3566. Bids will be opened on November 5, 1976 in Room 22 of the State House, Des Moines, Iowa 50319.

BIDDER INFORMATION

Bidder's Name: Stennes and Associates, Inc.

Address of Main Office: 2850 Metro Drive
Bloomington, Minnesota 55420

Name of president or owner of firm:
James W. Kemble, President

Type of organization (Corp., Partnership, Individual):
Corporation

If incorporated, indicate which state:
Minnesota

Persons authorized to sign bids and contracts in your name:
J. Robert Hopson

Person to contact on matters concerning bids and contracts:
J. Robert Hopson

BID

We propose to furnish actuarial services and make such written reports as required for the services specified in this quotation for the sum of: $6,100.00

PERFORMANCE SPECIFICATION FOR ACTUARIAL SERVICES QUOTATION

We agree to perform an actuarial study to evaluate the cost necessary to provide the following specified retirement benefits to the following three groups of employees:

1. 481 Corrections officers at Iowa corrections institutions.
2. 2889 full-time police officers in cities with less than a population of 8,000. Information is available on approximately 60% of the full-time police officers.
3. 99 sheriffs and 766 deputy sheriffs. Information is available on approximately 60% of the sheriffs and deputy sheriffs.

The costs, both total and excess over current Iowa Public Employe Retirement Systems benefits as a percentage of salary and a total cost, shall be determined for the following alternatives:

I. The costs for each group to be provided with benefits (other than disability benefits) identical to those retirement benefits provided police under the provisions of chapter 411, Iowa Code 1975 as amended.

Retirement at 55 will be allowed but in no event earlier than five years after implementation of the improved benefits or at age 65 whichever comes first.

No covered wage limits.

Benefits will be vested and computed on the total years of service as a peace officer under both IPERS and the new system to be established. New system benefits shall be offset by vested IPERS benefits. IPERS benefits shall be left in the IPERS fund as a prerequisite to being counted for new system credit. Benefits payments shall be offset by primary social security benefits an individual is eligible to receive after age 65 or disability benefits an individual is eligible to receive.

II. The cost to provide benefits improvements identical to those provided conservation peace officers--retire at age 60 after 25 years of service as a peace officer.

We agree to supply the above information not later than 45 days after receipt of the basic data necessary to perform the actuarial study. This agreement is a firm offer and shall not be withdrawn unless a written request for withdrawal is received by the committee prior to the date designated for opening bids. If this bid is accepted, all additional costs in excess of this bid incurred by the Committee to provide services in accordance with this Performance Specification for Services Quotation, which are not performed by the bidder submitting this bid, shall be collectible from the approved bidder submitting this bid together with all legal expenses incurred in the collection process.

J. R. Hosen

Authorized Signature

Stennes and Associates, Inc.

Firm Name

619 Savings and Loan Building

Address

Des Moines	Iowa	50309
City	State	Zip Code

1. DEFINITIONS.

a. "Approved bidder" means the bidder selected to provide the services specified in the Performance Specification for Services Quotation.

b. "Bidder" means any firm or individual doing business within the state of Iowa or out of the state who has access to the facilities and the expertise necessary to provide the services specified in the Performance Specification for Services Quotation.

2. PUBLIC BIDDING PROCEDURE.

a. Pursuant to the requirements of Section 2, Senate File 1251, Acts of the Sixth-sixth General Assembly, 1976 Session, actuarial services shall be incurred for the Peace Officers' Retirement Systems Study Committee subsequent to the following public bidding procedure.

b. The committee shall prepare a "Performance Specification for Services Quotation" form. An advertisement shall be printed in at least one daily newspaper in the state of Iowa as a classified advertisement with the heading "Notice to Bidders for Actuarial Services", which shall contain the following information:

(1) Due date and time for bid opening, not less than fifteen days after publication.

(2) A general statement of the actuarial services desired.

(3) Address, name and phone number of the person from whom official bid forms may be obtained.

c. Bids received shall be opened and read aloud at the designated time and place. Bids shall be evaluated and tabulated by the committee with the award of the contract, rejection of all bids, or notice of re-opening of the bidding procedure to be made within fifteen days following the opening of the bids.

d. Selection of a bid conforming to the Performance Specification for Services Quotation which is not the lowest bid received shall be accompanied by a written explanation of the reasons for the acceptance of a higher conforming bid. If the award is not made within fifteen days, all bids shall be deemed rejected and prices quoted for services shall not be deemed binding upon bidders. Selection of the approved bidder is deemed a rejection of all quoted prices for services by other bidders.

3. INSTRUCTIONS TO BIDDERS.

The following procedures shall be complied with by all bidders submitting bids for actuarial services:

a. All bids shall be submitted upon forms provided by the committee and entitled "Performance Specification for Services Quotation".

b. Bids shall be prepared in ink or typewritten.

c. Bidders shall specify the costs to be allocated to the delineated services upon which bidding is solicited in the Performance Specification for Services Quotation and shall specify the costs of such additional services necessary to provide the delineated services and data.

d. All bids shall be signed by the person having authority to bind the bidder to perform the delineated services.

4. PERFORMANCE SPECIFICATION FOR SERVICES QUOTATION.

a. The performance specification for actuarial studies shall specify the kinds of services required, a detailed specification of all data to be aggregated, generated and tabulated, the kinds of reports desired and the time periods within which the services must be provided by the bidder.

b. The quotation form shall contain the following statement to be signed by a person with authority to bind the bidder for contractual services.

This agreement is a firm offer and shall not be withdrawn unless a written request for withdrawal is received by the committee prior to the date designated for opening bids. If this bid is accepted, all additional costs in excess of this bid incurred by the Committee to provide services in accordance with this Performance Specification for Services Quotation, which are not performed by the bidder submitting this bid, shall be collectible from the approved bidder submitting this bid together with all legal expenses incurred in the collection process.

Signature of person with authority to bind bidder

STENNES & ASSOCIATES, INC.
ACTUARIES AND CONSULTANTS

619 SAVINGS AND LOAN BUILDING
DES MOINES, IOWA 50309
(515) 244-4182

February 2, 1977

Mr. T. J. Braunschweig
Legal Counsel
Iowa Legislative Service Bureau
State House
Des Moines, Iowa 50319

Dear Mr. Braunschweig:

Attached is a report summarizing the results of the Actuarial Cost Study for the three groups of Iowa employees (Corrections officers, Police personnel for cities with population less than 8,000 and Sheriffs and Deputy Sheriffs).

The study summarizes the estimated costs as prescribed.

We certify that all calculations in respect to the valuation were performed on the basis of the assumptions outlined in the report and that the results are true and correct to the best of our knowledge.

Respectfully submitted,

J. Robert Hopson

J. Robert Hopson
Fellow, Society of Actuaries
Member, American Academy of Actuaries

JRH:pn

Attachment

IOWA LEGISLATIVE SERVICE BUREAU

ACTUARIAL COST STUDY

FOR

THREE SPECIFIED GROUPS

OF

IOWA PUBLIC EMPLOYEES

AS OF

JANUARY 1, 1977

Prepared and Submitted By

Stennes & Associates, Inc.
Actuaries and Consultants

INTRODUCTION

The purpose of this Actuarial Cost Study is to provide cost estimates for improved benefits for three specific groups of Iowa Public Employees. These three groups are Corrections Officers at Iowa Correctional Institutions, full-time Police Officers in cities with less than 8,000 population and the Sheriffs and Deputy Sheriffs in the State of Iowa. The study is divided into two parts; the first part is to provide cost estimates to modify the present IPERS benefits to benefits similar to the present benefits under Chapter 411 of the Iowa Code excluding disability benefits. The second part of the cost study was to provide the increase in cost necessary to modify the normal retirement age from age 65 to age 60 and 25 years of service.

Part I of the study also prescribes "new system benefits shall be offset by vested IPERS benefits. IPERS benefits shall be left in the IPERS fund as a prerequisite to being counted for the new system credit. Benefit payments shall be offset by primary Social Security benefits an individual is eligible to receive after age 65 or disability benefits an individual is eligible to receive."

VALUATION INFORMATION

In the attempt to define the scope of this study, a meeting was held on September 8, 1976, at which time the general outline of the possible benefits were discussed along with the method of obtaining the valuation information. The original idea was to provide the Social Security number of the employees involved for the three groups and to match these Social Security numbers against the IPERS system to obtain the necessary employee valuation information. It was originally contemplated that 100% of the employees in the three groups would not be available to include in the cost study. The Social Security numbers were provided to us by T. J. Braunschweig on November 16, 1976. These numbers, however, had to be coded by our firm before they could be matched against the IPERS system. This coding included an analysis of the data in order to be able to split the valuation information into three separate groups. In doing this, one group of Social Security numbers provided was not included because it was from a city which already had a Chapter 411 police and fire system. The remaining numbers were coded, punched and sorted and presented to Ed Jones for matching against the IPERS system. This amounted to 1,794 separate Social Security numbers. Of this number, 125 records were not selected because they were either not on the IPERS system or they were not currently active. Thus, the number of selected records was 1,669.

In processing these records, there was an additional 225 records which were not included because they were either duplicate Social Security numbers or the information in the IPERS system was of such nature that it could not be read by the computer. Therefore, the final number included in the cost study was reduced to 1,444.

Since the employees (1,444) do not represent 100% of the groups involved, the actuarial costs as reported herein specify the costs as a level percent of compensation. Assuming the final 1,444 included employees are representative of the total group, salary, service and attained age wise, these level percentage costs should be used to multiply by the salaries for the included groups to get the final dollar costs involved.

DESCRIPTION OF BENEFITS

The benefits described in this section are divided into two parts.

PART I

(Benefits similar to Chapter 411 benefits)

Normal Retirement Date - Age 55 and 22 years of service but not greater than attained age 70. Should the participant reach age 70 without having 22 years of service, the benefits are pro-rated by the ratio of years of service divided by 22.

Normal Retirement Benefits - 50% of the participant's final average salary prior to normal retirement date plus the return of the participant's accumulated contributions made after January 1, 1977 on his normal retirement date. These benefits were offset by the participant's vested IPERS benefits and a portion of his projected Social Security benefits at his retirement date. This is discussed further under the Social Security Benefit section. One-half the benefit continues to the surviving spouse should the retired participant die first.

Ordinary Death Benefit - Equal to one-fourth (1/4) the final average compensation at date of death payable to the surviving spouse plus a child's benefit equal to $20.00 per month until age 22.

Accidental Death Benefit - Equal to one-half (1/2) the final average compensation at date of death payable to the surviving spouse plus a child's benefit equal to $20.00 per month until age 22.

Withdrawal Benefit - A ratio not greater than one times the final average compensation at the date of withdrawal, first available at age 55 should withdrawal occur prior to age 55, plus the accumulated contributions at that date. The ratio is years of service divided by 22 but not greater than one, if the terminating participant has at least 15 years of service.

Adjustment of Benefits After Retirement or Death - Benefits are adjusted each year by one-half (1/2) the difference between the retirement benefit currently available upon retirement and the original retirement benefit, such adjustment added to the original benefit. The current retirement benefit is calculated for the like rank or position which was held at the actual retirement date.

PART II

The Benefits measured under Part II are the service retirement benefits available under IPERS. The extra cost of Part II of the study benefits was measured by comparing the normal cost of retirement benefits assuming a normal retirement age of 65 versus the normal cost of service retirement benefits assuming a normal retirement age of 60 and at least 25 years of service. Should one of the participants attain age 70 without 25 years of service, the benefit was modified to reduce the normal retirement benefit at age 70 to a fraction of the IPERS benefit, such fraction being years of service divided by 25.

SOCIAL SECURITY BENEFITS

The original specifications for the job called for an offset of primary Social Security benefits an individual is eligible to receive after age 65. In the private plan sector, it is possible to "integrate" a plan with Social Security benefits. Should a plan be integrated, the maximum offset available is 83 1/3% of said Social Security benefits if the amount of the offset is computed on the basis of the Social Security Act in effect at the time in which the offset is first applied. This would be the case involved in this study. This 83 1/3% reduction is the maximum reduction allowed if the plan is to be a "qualified plan". Should the plan provide benefits other than a straight life annuity upon the normal retirement date, or the normal retirement date be less than age 65, or the plan provide for death benefits prior to the normal retirement date, the 83 1/3% has to be reduced depending on the previously mentioned benefits as actually provided by the plan. The advantages for a plan to be a "qualified plan" for IRS purposes is that the contributions made by the employer are tax deductible while at the same time, these same contributions need not be included in the employee's income for tax purposes until the date of actual retirement. While it is obvious that the contributions made by the State to fund the cost of the employees' benefits under this study need not involve any tax considerations to the State, there is still a question whether contributions made under a plan which provided for larger offsets than allowed would be includable in the employee's income for tax purposes.

A common offset percentage used in the private sector is 50%. The rationale behind this 50% offset is that the cost of the Social Security benefits provided for each member is split 50-50 between the employee and the employer. Since the employer is picking up the tab for half the Social Security benefit costs, it is logical to provide for a reduction of half the Social Security benefits provided with the other half belonging to the employee and not so included in the reduction.

The costs of the benefits under Part I of the study and shown in the following sections, have been calculated using the following percentage offsets of projected Social Security Benefits - - 0%, 50% and 60%. 0% was chosen in order to get a feel for the basic costs of the benefits which would be similar to the cost as provided under Chapter 411. 50% was used because of the rationale as previously discussed. 60% was chosen as a compromise position between the 50% rationale and the 83 1/3% maximum.

FUNDING METHOD

The funding method used to provide the cost estimates in this study is the Aggregate Funding Method. This was chosen in order to be consistent with the funding methods as required under Chapter 411 and Chapter 97A of the Iowa Code and what is used under the Chapter 97B IPERS system. This is also generally recognized as the strongest or most conservative valuation method.

VALUATION COST RESULTS

The valuation information used was obtained as previously stated, from the IPERS system. This information was based on employee data as of 1-1-76. Because this survey was to be used by the Legislature which convened in 1977, I felt it advisable to up-date the information obtained from the IPERS system to January 1, 1977. This was done by projecting the salary levels obtained as of 1-1-76 to 1-1-77 by 7%. All other necessary valuation data in the study is also based on the January 1, 1977 valuation date.

As previously discussed, 100% of the eligible employees to be included in this study were not available either because they were not initially submitted, they were not available on the IPERS system, they were not in an active status, or for other data exception reasons. Therefore, the costs results, as shown below, must be viewed as representative of the entire group. To get the total dollar cost for the group, it is still necessary to obtain the salaries for the particular group in question as of January 1, 1977. To these salaries, the normal cost percentages can be multiplied to obtain the dollar cost for the calendar year 1977.

As previously stated, the valuation information obtained from IPERS could not break down the 1,444 participants by the three respective groups desired and consequently, care was taken in coding the information received as to the appropriate source, be they corrections officers, police personnel in cities with less than 8,000 population or Sheriffs. The normal cost percentages were then calculated for the entire gruop and then for each of the three groups seperately to see if any one particular group had characteristics which would change the normal cost percentages significantly when viewed separately than when the entire group was considered as a whole.

PART I RESULTS

NORMAL COST PERCENTAGES

	50% Final Average Less Vested IPERS Benefit	50% Fin. Avg. Less 50% S.S. Less Vested IPERS Benefit	50% Fin. Avg Less 60% S.S. Less Vested IPERS Benefit
Total Group	24.8%	12.9%	10.6%
Group 1 (Corrections Officers)	23.8	11.9	10.0
Group 2 Police Officers Cities less than 8,000	20.4	11.0	9.2
Group 3 Sheriffs and Deputies	30.3	16.3	12.7

The results show for Group 1, the normal cost percentages do not differ significantly from the total group normal cost results.

Group 2 costs are somewhat less while Group 3 costs are significantly larger than the total group costs. The largest single reason for the large costs associated with Group 3 when considered separately is the advanced attained age of the group as compared to the attained ages of the other two groups.

The costs shown in the above table represent the percentages which would replace the current percentages which employers contribute to the IPERS system. Also, it must be remembered that the 50% of the final five-year average salary is calculated on the total salary earned without the present $20,000 ceiling as presently contained in the IPERS formula.

PART II RESULTS

NORMAL COST PERCENTAGE INCREASES

Total Group	5.14%
Group 1 (Corrections Officers)	5.23
Group 2 Police Officers Cities less than 8,000	4.15
Group 3 Sheriffs and Deputies	5.88

The above costs are shown for the total group and by individual group. The higher costs associated with Group 3 reflect the higher attained age of this group.

The costs percentages are the additional costs as a percent of payroll needed to modify the normal retirement age from age 65 to age 60 with 25 years of service. These are percentages that are needed in addition to the contributions presently being made. The percentages assume the present IPERS benefit formula will remain unchanged.

VALUATION ASSUMPTIONS

Mortality:	Prior to Retirement	'51 GAM Table projected to 60 Male and Female
	After Retirement	'71 GAM Table
Accidental Death Rate:		6.5 deaths per 10,000 prior to termination

Withdrawal rates by attained age:

20	17.5%
25	10.0
30	5.0
35	2.5
40	2.5
45	2.5
50	2.0
55	0

Valuation Interest Rate: 6% per annum

Salary Scale:

7% First Year
5 1/2% Second Year
4% Thereafter

AGGREGATE COST FUNDING METHOD

The aggregate funding method is one of the family of projected benefit cost methods. An estimate of the projected monthly benefit payable at retirement is initially required to determine costs and liabilities under this method.

The present value of future benefits is equal to the value of the projected benefit payable at normal retirement discounted back to the member's current age. Discounts include such items as interest, mortality, etc. The present value of future benefits also includes a liability for payment of benefits prior to normal retirement for early retirement, vesting or death.

The present value of future normal costs contribution is equal to the difference between the present value of future benefits and the assets. As such, a past service liability is not determined but all past and future costs are funded over the future.

The normal cost is determined by expressing the present value of future normal costs as a percentage of salary (dividing by the present value of future salary).

Actuarial gains and losses are automatically included in the normal cost and amortized over the future.