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RETIREMENT PROGRAMS SUBCOMMITTEE
OF THE
STANDING COMMITTEES ON STATE GOVERNMENT

Report to Members of the
Second Session of the Sixty-seventh General Assembly

State of Iowa
1978

FINAL REPORT

RETIREMENT PROGRAMS SUBCOMMITTEE

Senate Joint Resolution 11 passed by the General Assembly in 1977 called for the Legislative Council to establish a joint interim subcommittee of the Senate and House Committees on State Government for a comprehensive study of the public retirement systems in this state and the feasibility of the establishment of a single integrated retirement system for all public employees with study given to social security coverage for all public employees, including the adequacy of benefits for both past and future retirees, actuarial soundness of the various funds, and methods of financing benefits. In addition to these items, the Legislative Council also assigned the Subcommittee the task of overseeing the study of the actuarial soundness of the Judicial Retirement System. The General Assembly appropriated \$15,000 in S.J.R. 11 and \$2,500 in S.F. 163 for actuarial studies. Members of the Subcommittee are:

Senator Minnette F. Doderer, Chairperson
Representative W. R. Monroe, Vice Chairperson
Senator Robert Carr
Senator John Nystrom
Senator Forrest Schwengels
Senator Tom Slater
Representative Diane Brandt
Representative Reid Crawford
Representative William Griffiee
Representative Ingwer Hansen

The Legislative Council granted the Subcommittee four meetings.

At its first meeting the Subcommittee was provided information by the staff of the Legislative Service Bureau relating to contributions and benefit levels of the public retirement systems in Iowa and in other states.

Discussion at the first two meetings of the Subcommittee centered around the kinds of information which the Subcommittee wished to be obtained from actuarial studies. A wide-ranging list of proposed actuarial studies with studies relating to each of the public retirement systems compiled from suggestions of Subcommittee members, was sent to a number of actuarial firms located throughout the United States and notice of a bid letting was published in the Des Moines Register. A copy of the invitation to bid is attached to this Report and by this reference made a part thereof. The invitation to bid includes a comparison of the provisions of the several public retirement systems.

Bids from three different actuarial firms were received by the Subcommittee and a meeting was held to decide which of the pro-

posed studies should be conducted in light of the fact that the Subcommittee was appropriated only \$17,500 with which to purchase actuarial services. The Subcommittee granted the bid to Stennes & Associates, Inc. for \$11,130 for actuarial studies of the following:

1. Pension goals, a comparison of public plans in this state, a general comparison of public and private plans, general comments regarding integration with Social Security, and a discussion concerning the feasibility of a long-range consolidation of all public plans in Iowa into one system.

2. An actuarial study of the Judicial Retirement System including the System's current and projected liabilities, an analysis of the actuarial soundness of the system including a recommendation of appropriate changes, recommendations of actuarial funding methods and the most effective approach to funding, and the cost savings which would be realized by requiring a reduction in retirement benefits of the members to qualify for continued pension benefits for a beneficiary.

3. Cost savings to the state as a percentage of salary if the Peace Officers' Retirement System were integrated with Social Security and the service retirement benefits were offset by a portion of the Social Security benefits earned by the members.

The actuarial reports were received by the Subcommittee at its December 14-15 meeting and copies are available upon request from the Legislative Service Bureau.

In addition to assistance from Mr. Bob Hopson, consulting actuary from Stennes & Associates, Inc., Mr. Fenton Isaacson and Mr. Dennis Sullivan, consulting actuaries from Milliman & Robertson, Inc. were present at several of the Subcommittee meetings. The Subcommittee asked the consulting actuaries from Milliman & Robertson, Inc. to clarify their role in relation to the Legislature since they are employed as the consulting actuaries from the Iowa Public Employees' Retirement System by the Department of Job Service. Mr. Isaacson responded that since the firm of Milliman & Robertson, Inc. is employed by the administrator of the system, it would be a conflict of interest for the firm to also be employed by the Iowa General Assembly. He assured the Subcommittee that his firm will make observations and comments on proposals for revising the system, review of cost studies developed by the General Assembly actuary, use of the firm's IPERS data base, assistance in formulation of requests for special studies, and assistance in drafting legislation.

Following discussion and a review of the actuarial reports, the Subcommittee makes the following recommendations:

IPERS

1. The formula for computing monthly benefits should be increased from forty percent to forty-four percent of the final five-year average covered wage after thirty years of service, based upon cost estimates conducted by Milliman & Robertson, Inc.

2. Benefits for most members who retired between January 1, 1966 and January 1, 1976 should be increased by thirty percent for members who retired after twenty years of service with a one and one-half percent increase for every year of service in excess of twenty years of service up to forty-five percent increase for thirty or more years of service. The cost of the increase will be paid from interest which accrues to the Fund in excess of the six and one-half percent interest rate assumption used by the consulting actuaries.

3. The contribution rate for employers should be increased from five and one-fourth percent to five and three-fourths percent of covered wages and for employees should be increased from three and six-tenths percent to three and seven-tenths percent of covered wages effective July 1, 1979 in order to finance the intent of the General Assembly to provide benefits of fifty percent of final average salary after thirty years of service. Members of the Subcommittee discussed the advisability of continuing to increase benefits to fifty percent of the final average salary and discussed the feasibility of providing cost-of-living increases to retired members instead.

4. Commencing January 1, 1979 those persons who are members of the Iowa Old Age and Survivor's Insurance system which was abolished on July 4, 1953 should be allowed to repay contributions which were withdrawn at that time together with interest which would have accrued and receive credit for service under that system in computed retirement benefits under IPERS.

5. The following technical changes which were recommended by Mr. Ed Longnecker, Chief of the IPERS Division of the Department of Job Service should be enacted:

- a. Strike the requirement that hearings be recorded by a certified shorthand reporter.
- b. Strike unclear language relating to termination of membership of an employee.
- c. Revise language so that covered wages do not include wages paid to a member in the month a member becomes seventy years of age and thereafter.
- d. Clarify that an entire quarter of a year will be counted as service if the member earns \$300 or more dollars during that quarter.

- e. Remove obsolete references to commission instead of department.
 - f. Provide for lump sum payment of benefits to beneficiaries when the member dies before the first retirement allowance is payable.
 - g. Exempt CETA employees from IPERS coverage unless they opt to be covered.
 - h. Exempt certain foreign exchange teachers and visitors and religious persons who have taken the vow of poverty from IPERS coverage.
6. Members of the General Assembly in 1979 should be allowed to purchase IPERS membership for previous service in the General Assembly by paying the employee's contributions which would have been paid if the employee had been a member of IPERS plus the accumulated interest.
7. The benefits under IPERS should be changed for sheriffs and deputy sheriffs to provide that they may elect to retire after twenty-five years of service at sixty years of age without any reduction in the benefits of forty percent of the average of the highest five years of compensation. This provision is identical to the special benefit presently provided for conservation peace officers. The increased cost of the benefits will be borne by additional contributions by the employee and the county from the property tax base in the same proportion as regular contributions paid by the employer and the employee.

Peace Officers' Retirement System

- 1. The definition of earnable compensation should be clarified as it relates to overtime pay, holiday pay, shift differential pay, and vacation pay.
- 2. The income limits on outside income for accidental and ordinary disability should not apply after the member reaches fifty-five years of age.
- 3. The limit on outside earnings of persons on disability retirement allowances should be changed to the difference between the retirement allowance and the income the member would be earning if he or she were still an active member of the system at the same grade and rank.
- 4. Surviving child benefits should commence at six percent of the salary payable to an active member having the rank of senior patrolman of the Iowa Highway Safety Patrol rather than commencing at twenty dollars per month and being adjusted to the six percent amount on the next July first.

5. The annuity should be abolished, all contributions made to the annuity savings fund should be returned to the members, and the retirement allowance for ordinary disability should be changed.

Fire and Police Retirement Systems

1. The changes recommended by the Peace Officers' Retirement System should also be enacted for the fire and police system.

2. There should be established a single fire and police retirement system for the state administered by a single board of trustees in lieu of the separate police system or fire and police systems in the forty-four cities which have established such systems. The consulting actuary will compute a single contribution rate for all cities in the system. The funds of the various cities will be transferred to the state and be administered by the retirement division of the Department of Job Service. The actuary would also determine the unfunded liability of each city and would require each city to pay a percent of payroll to pay off the unfunded liability of the city over a twenty-year period.

General Recommendations

The Subcommittee was given the task of studying the feasibility of establishing a single consolidated public retirement system and discussed the concept at every meeting. The Subcommittee concludes that although a single consolidated retirement system is a valid goal, such a goal would require a number of years to implement and knowledge by a number of legislators of all of the public retirement systems in this state. In order for the General Assembly to develop and retain an oversight of the various public retirement systems, the Subcommittee discussed establishing a permanent retirement commission composed of members of the General Assembly to review all bills relating to those retirement systems. The Subcommittee did not have sufficient time to make recommendations relating to the duties of such a commission, and it recommends that a joint subcommittee of the House and Senate Committees on State Government continue to meet during the legislative session to develop legislation relating to the establishment of a retirement commission.

IOWA LEGISLATIVE COUNCIL

IOWA LEGISLATIVE SERVICE BUREAU

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DES MOINES, IOWA 50319
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INVITATION TO BID

Sealed bids will be received until 12:00 Noon, September 12, 1977 addressed to the Legislative Service Bureau, State House, Des Moines, Iowa 50319, Telephone 515/281-3566. Bids are to be submitted in a sealed envelop labeled "Pension Actuarial Bids". Bids will be opened on September 13, 1977, in the Speaker's Room of the State House, Des Moines, Iowa 50319.

BIDDER INFORMATION

Bidder's Name: _____

Address of Main Office: _____

Name of president or owner of firm: _____

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

If incorporated, indicate which state: _____

Persons authorized to sign bids and contracts in your name: _____

Person to contact on matters concerning bids and contracts: _____

We propose to furnish actuarial services and analysis and make such written reports and oral presentations as required for services specified in this quotation for the sums listed with performance request:

PERFORMANCE SPECIFICATION FOR ACTUARIAL SERVICES QUOTATION

We agree to perform an actuarial study to evaluate the costs and provide the requested analysis of the following groups of employees:

1. 120 active judges, 45 retired judges, 22 spouses receiving an annuity and 9 inactive judges with funds left in the system but who have not retired. Information for the judges is available in printed form.

2. 136,500 active members and 28,000 retired members of the Iowa Public Employees Retirement System. Information is available on magnetic tape and will have to be accessed by programs written by the bidder.

3. 509 active and 98 retired peace officers. Information is available in printed form.

4. 1,906 police in 44 different systems and 1,450 fire personnel in 36 different systems in cities with a population greater than 8,000. Information is available only for a fraction of the members.

SERVICES

The charge to the interim subcommittee is to study the feasibility of the establishment of a single integrated retirement system for all public employees with an analysis of the impact of inclusion of or integration with social security. A copy of a summary of the benefit provisions and the references to the appropriate Iowa law governing the public pension programs is attached to this bid form. The actuarial firm selected will be required to assess and compute the costs of various alternative proposals studied both as a dollar figure and as a percentage of total payroll. In addition the actuary will be required to assess the retirement programs from the perspective of the overall objective of the study committee--to begin a program toward a comprehensive retirement system. Toward this objective the alternative plans suggested by the actuaries must reflect:

1. Pension goals for the public retirement system, i.e. benefits levels, retirement age, service requirements, social security interaction, etc. Cost to perform analysis: _____

2. A comparison with the private pension plans available in Iowa. Cost to perform analysis: _____

3. Benefit, contribution requirements and other differences which exist between public pension programs to include the reasons which exist for maintaining differences and the direction to be taken to resolved disparities which are not appropriate. Cost to perform analysis: _____

The actuaries will be required to meet with the subcommittee to discuss specific alternatives for which actuarial determinations of costs will be made. Services will require:

* I. A meeting with the subcommittee between 20 and 25 days after this bid is selected to explain and advise the committee on a comparison with private plans and the alternative pension directions suggested by the actuaries for which detailed cost estimates could be provided by the actuaries. This session will include recommendations for benefits changes to include evaluation of the possibilities of integrating existing benefits with social security, or providing social security where not now available, escalation of post retirement benefits including an analysis of escalation based upon the cost-of-living or such other factors proposed by the actuaries.

The total cost of providing this analysis function will be _____.

SPECIFIC COST INFORMATION OF CONCERN TO THE SUBCOMMITTEE.

II. JUDICIAL RETIREMENT SYSTEM

1. A review and analysis of system investments, with recommendations of alternative funding mediums available. Cost to perform study: _____.

2. Establish initial valuation assumptions relative to mortality, disability, turnover, investment return, and salary increases. Cost to perform study: _____.

3. Recommendations of actuarial funding methods and the most effective approach to funding. Cost to perform study: _____.

4. Evaluation of the system's current and projected liabilities. Cost to perform study: _____.

5. Analysis of actuarial soundness of the system including recommendation of appropriate changes. Cost to perform study: _____.

6. What cost savings would be realized by requiring a reduction in retirement benefits of the member to qualify for continued pension benefits for a beneficiary. Cost to perform study: _____.

III. IOWA PUBLIC EMPLOYEES RETIREMENT SYSTEM

1. Disability for IPERS. What additional cost as a dollar figure and percentage of payroll will be incurred to provide all IPERS employees with disability benefits equal to either:

a. Disability benefits for state employees, section 79.20, Iowa Code 1977.

b. Disability benefits similar to those provided peace officers, section 411.6, Iowa Code 1977.

c. What reduction in contribution requirements will be realized if all disability benefits are offset by social security or a reasonable portion of social security benefits received for disability.

Cost to perform study a, b and c: _____.

2. What are the current and projected liabilities of the system. What is the unfunded liability. Cost to perform the study: _____.

3. Assuming all other benefits remain the same, what will be the increased cost to the system for providing the following alternative benefit increases (including a description of the assumptions made in determining costs):

a. Increase the percentage of final average salary from 40% to 42%, 44%, 46%, 48% or 50%. Cost to perform study: _____.

b. Provide for early retirement without loss of benefits at age 62 or 60. Is the current reduction in retirement benefits of 6% per year for early retirement an accurate assessment of the increased costs for early retirement? Cost to perform study: _____.

c. Provide for retirement based upon length of service, i.e. 35 years and out, or 30 years and out. Cost to perform study: _____.

d. Provide for escalation of post retirement benefits increasing benefits by consumer price index not to exceed either 1%, 2%, 3% or 4%. Cost to perform study: _____.

4. What is the cost to allow retired or members of the former public retirement system prior to 1953 to buy back retirement benefits with contributions of accumulated contributions. Cost to perform study: _____.

IV. PEACE OFFICERS (Chapter 97A, 1977 Iowa Code), POLICE AND FIRE SYSTEMS (Chapter 411, 1977 Iowa Code)

1. What savings would be realized by including peace officers, police and fire within social security and providing for an offset for all benefits received from social security against existing pension and disability levels. Cost to perform study for peace officers: _____. Cost to perform study for all police and fire systems: _____.

2. Establish initial valuation assumptions relative to mortality, disability, turnover, investment return, and salary increases. Cost to perform study for the peace officers system: _____. Cost to perform study for the police and fire systems: _____.

3. Recommendations of actuarial funding methods and the most effective approach to funding. Cost to perform study: _____.

4. Evaluation of the system's current and projected liabilities. Cost to perform study for peace officers retirement system: _____. Cost to perform study for police and fire systems: _____.

5. Analysis of the actuarial soundness of the system including recommendation of appropriate changes. Cost to perform study: _____.

V. Provide a comparison between the Iowa Public Employees' Retirement System, the Judicial Retirement System and the Peace Officers' Retirement System to compare to total average pension benefits earned to the total average contribution by the member. Cost to perform study: _____.

Because funds are limited, detailed cost studies may necessarily be curtailed by fund limitations, for this reason specific cost estimates for service are needed to afford the subcommittee the information upon which to assess priorities and select specific questions for analysis.

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.

Authorized Signature

Firm Name

Address

City State Zip Code

In addition to the information requested on the invitation to bid, the committee would also like bids to compute the following information for the Iowa Public Employees Retirement System:

1. The cost of providing increased benefits to IPERS retirees as provided in Section 2 of Senate File 396, which is enclosed. Cost to perform Study: _____

2. The cost of providing increased benefits to persons retiring from IPERS after January 1, 1976 and before January 1, 1976 as follows:

30% increase for those eligible retirees with 20 years of service and an additional 1½% increase for each additional year of service up to a 45% increase for those eligible retirees with 30 or more years of service.
Cost to perform Study: _____

3. Recommendations of funding methods for providing the increased benefits and an analysis of whether a portion of the cost could be taken from the fund and providing for repayment of the unfunded liability over a twenty-year period. Cost to perform Study: _____

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.

Authorized Signature

Firm Name

Address

City State Zip Code

COMPARISON OF PUBLIC RETIREMENT BENEFITS

	Retirement Age for Maximum Benefit	Years of Service for Maximum Benefit	Contribution Rate Employer/Employee		Regular Benefit	Ordinary Disability	Accidental Disability	Social Security Including Medicare	Death Benefits (Ordinary)	Death Benefits (Accidental)	Accelerator	Refunds
Fire and Police (411)	55	22	Ant. to make system actuarially sound varies up to 3% of payroll	6.12% to 7.71% of all wages	50% of average of five highest years + annuity*	annuity* plus pension to equal 50% of average of 5 highest years. First 5 years, 25% to equal instead of 50%	66 2/3% of average of 5 highest years + annuity* reduced by workers' compensation	No	Accum. Contrib. -1.21% + 50% compens. during preceding year, or pension + annuity equal 1/4 of average of 5 highest years + 6% of salary of first class patrolman or fireman/month/child	Accum. Contrib. -1.21% + pension equal to 50% of average of 5 highest years + \$20/month/child	Adjusted annually by 1/2 difference between pension at retirement and based upon current salary of same position	Accumulated employee contribution - 1.21%
IPERS (97a)	65	30	5.25% of wages up to \$20,000	0.62% of wages up to \$20,000	40% of average of highest 5 of last 10 years	NONE	NONE	Yes	Accum. Contrib. of member and employer payable with annuity options	Same as ordinary death benefits	NONE	Accumulated employee contribution.
Conserv. Peace Officers	60	25	13% of wages up to \$20,000	Same as IPERS	Same as IPERS	NONE	NONE	Yes	Same as IPERS	Same as IPERS	NONE	Same as IPERS
Judicial Retirement System	65	16 2/3	31 of salaries plus \$195,700 for 1978 fiscal year	4% of all wages	50% of final salary	3% x average annual salary of last 3 years x years of service, up to 50%	Same as ordinary disability	Yes	Surviving spouse receives 1/2 amount judge is receiving if judge is 65 or when judge would be 65 or wife would be 60	Same as ordinary death benefits	NONE	Judges' contribution
Peace Officers Retirement System (97A)	55	22	16% of payroll	6.12% to 7.77% of all wages	Same as 411 systems	Same as 411 systems	Same as 411 systems	No	Same as 411 systems	Same as 411 systems	Same as 411 systems	Accumulated employee contribution - 1.21%
Social Security	65		5.85% of wages up to \$16,500	5.85% of wages up to \$16,500							Adjusted annually	
State Employees Other Benefits						After 90 working days up to 1 year employment-20% earnings; 1 year to 2 years-40%; after 2 years 60% earnings reduced by Social Security and Workers' Compensation			\$10,000 term life insurance option to buy \$10,000 additional at a state rate	Same as ordinary death benefits		
TIAA-CREF SUI (Employees earning \$7,800 or more)	65 (faculty and officers 70 (others))	NA	6.275% on first \$4,800 10% on balance	3.137% on first \$4,800 3% on balance	TIAA buys rd. up retirement annuity - CREF buys variable annuity	NONE	NONE	YES	Can select reduced annuity with benefits for survivor	Same as ordinary death benefits	None, except CREF is variable annuity	Both accumulated employer and employee contributions
TIAA-CREF IA (Employees earning \$7,800 or more)	70	NA	Same as SUI	Same as SUI	Same as SUI	NONE	NONE	YES	Same as SUI	Same as ordinary death benefits		Both accumulated employer & employee contributions
TIAA-CREF UNI (Employees earning \$4,800 or more)	68 (faculty and officers 70 (others))	NA	Same as SUI	Same as SUI	Same as SUI	NONE	NONE	YES	Same as SUI	Same as ordinary death benefits		Both accumulated employer & employee contributions

*Annuity is accumulated contributions to members except for 1.21% paid for additional benefits and can be returned to members upon retirement.