

F I N A L R E P O R T

PUBLIC RETIREMENT SYSTEMS SUBCOMMITTEE

OF THE

SENATE AND HOUSE COMMITTEES ON STATE GOVERNMENT

January, 1984

The Public Retirement Systems Subcommittee of the Senate and House Committees on State Government was established to review the present provisions and benefit levels of the public retirement systems in this state, including the Iowa Public Employees' Retirement System (Chapter 97B), the Judicial Retirement System (Chapter 605A), the Peace Officers' Retirement System (97A), and local police and fire retirement systems (Chapter 411). The Subcommittee was originally granted two meeting days, and a third day was subsequently approved to provide time for the Subcommittee to learn more about the issues surrounding a 1980 Attorney General's Opinion that affected coverage of certain police officers and fire fighters under federal Social Security.

Members serving on the Subcommittee were:

Senator Bob Carr, Dubuque, Co-chairperson
Representative Rod Halvorson, Fort Dodge, Co-chairperson
Senator Don Gettings, Ottumwa
Senator Jack Nystrom, Boone
Senator Forrest V. Schwengels, Fairfield
Senator Tom Slater, Council Bluffs
Representative Gene Blanshan, Scranton
Representative Dorothy Carpenter, West Des Moines
Representative Johnie Hammond, Ames
Representative George Swearingen, Sigourney

The Subcommittee held meetings on August 23, October 10, and November 29. At the first meeting Senator Carr and Representative Halvorson were elected co-chairpersons.

The Subcommittee solicited comments from the public retirement systems administrators, affected interest groups, and selected individuals relating to each of the public retirement systems in this state. The comments relating to each public retirement system were summarized and listed in a chart which is available from the Legislative Service Bureau.

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

The Iowa Public Employees' Retirement System administrators provided the Subcommittee with background information about the System, a number of proposed administrative changes, and an analysis of various proposals affecting IPERS that have been proposed during the last several years. The asset balance in the

IPERS Fund on July 1, 1983 was \$1,991,659,000 which included a growth over the previous year's balance of \$252,528,000. For the first time during a fiscal year the investment income of \$176,083,000 exceeded the income from payroll tax contributions of \$174,477,000. Information about the number of active and retired IPERS members and the average monthly benefits of retired members is attached and by this reference made a part of this final report.

In addition to the comments from the IPERS administrators, the Subcommittee asked for comments and recommendations from a number of interested groups and heard testimony from the following:

1. Iowa State Education Association
2. Iowa Association of School Boards
3. IPERS Improvement Association
4. Iowa Retired Teachers Association
5. Iowa Sheriffs and Deputies Association
6. American Federation of State, County, and Municipal Employees
7. Conservation Peace Officers (Park Rangers)
8. Conservation Peace Officers (Fish and Game Officers)
9. Department of Transportation Enforcement Officers
10. Kirkwood Community College employees who were covered under TIAA-CREF for four years
11. Marion Campbell representing herself
12. Ed Moses representing himself

The IPERS administrators told the Subcommittee that the IPERS Division of the Iowa Department of Job Service had a limited amount of money to use for actuarial studies from Milliman & Robinson, Inc., the IPERS Consulting Actuaries. The report of the consulting actuaries for the fiscal year ending June 30, 1983 indicated that although the total contribution rate is 9.45 percent of the covered wages of the members, only 8.68 percent of covered wages is necessary to maintain actuarial soundness of the system, which leaves an available margin of .77 percent of covered wages.

At the request of the Subcommittee and IPERS administrators a number of actuarial studies were conducted since the Subcommittee members agreed that recommendations would be made only after adequate cost study information had been obtained.

The consulting actuaries for the Department of Job Service provided the following cost information for the specified benefit changes:

<u>Benefit Improvements</u>	<u>Additional Cost Over Present System as a Percent of Covered Wages</u>
1. Early retirement reduction of 3% for ages 62, 63, and 64 and 6% for ages	

55 through 61 regardless of age at retirement	.710%
2. Early retirement reduction of 3% for ages 60 through 64 and 6% for ages 55 through 59 regardless of age at retirement	3.484%
3. No annual early retirement reduction before age 61, and 3% for ages 60 and 61, and 6% for ages 55 through 59 regardless of age at retirement	7.696%
4. 10% increase for IOASI and teacher retirees	General fund appropriation of \$71,700 for Fiscal Year 1984
5. 10% increase for pre 1976 retirees	.217%
6. Increase benefits for those currently receiving 47% of average final compensation to 50%	.220%
7. Increase benefits for members with more than 30 years of service by 1 2/3% for each year beyond 30 years up to 40 years	1.242%
8. Increase benefits for members with more than 30 years of service by 1 2/3% for each year beyond 30 years up to 35 years	.720%
9. Increase benefits for members with more than 30 years of service by .833% for each year beyond 30 years up to 35 years	.360%
10. Increase the covered salary ceiling to \$24,000	.75%
11. Increase the covered salary ceiling to \$26,000	1.10%
12. Remove the covered salary ceiling	4.00%
13. One year exit without penalty for early retirement	2.199%
14. Change death benefit provisions to a formula based upon years of service and covered wages	+ .379%
15. Department of Transportation Enforcement officers retire at age 60 with 25 years of service	9.4%

In addition, it was determined that Marion Campbell's proposal relating to age determination and benefit commencement date would increase liabilities to the system by \$30 million to \$35 million and that portion that applies retroactively would require a lump sum payment of \$7.5 million to \$10 million.

Actuarial costs were also calculated to allow conservation peace officers, county sheriffs and deputy sheriffs, correctional officers and small town peace officers to retire at 60 years of age and up to 25 years of service.

Following Subcommittee discussion of the actuarial cost studies, the Subcommittee makes the following recommendations and recommends that a bill be drafted to implement the recommendations that will be submitted to the House and Senate Committees on State Government:

1. That commencing July 1, 1984 members of IPERS receive an additional credit of .833% for each year of service under IPERS beyond 30 and up to 35 years. A member retiring on or after July 1, 1989 with 35 or more years of service would receive monthly retirement benefits equal to 54.165% of the member's average final compensation. (Cost is .360% of covered payroll.)

2. That monthly benefit increases of 10% be provided for the remaining 527 persons retired under the Iowa Old Age Survivors Insurance (IOASI) System and the remaining 108 persons who have retired under a teachers' pension system and these increases be funded from the General Fund of the State. The cost for the first year will be about \$71,700 and it will decrease thereafter.

3. That the monthly benefits for those 17,500 persons retiring under IPERS before January 1, 1976 be increased by 10%. (Cost is .217% of covered payroll.)

4. That the monthly benefits for those persons who retired under IPERS between January 1, 1976 and June 30, 1982 be increased from 47% to 50% of their average annual final compensation. (Cost is .220% of covered payroll.)

5. That the method of paying the death benefit of active members, or vested members who have terminated employment, be changed so that the beneficiary would receive the accumulated employee contributions plus one-thirtieth of the member's highest covered salary multiplied by the member's years of service, and the other death benefit options be deleted. The present method provides for paying both the accumulated employee and employee contributions to the beneficiary and has remained as a remnant of the money purchase system that IPERS used before 1967. (This recommendation provides a savings of .379% of covered payroll.)

6. That IPERS members who were covered under the Teachers Insurance Annuity Association--College Retirement Equity Fund

(TIAA-CREF) between 1967 and 1971 as Kirkwood Community College employees be allowed to pay both employer and employee contributions that would have been paid under IPERS on their covered wages for those years plus interest that would have accrued and receive credit for those years of service and in addition that those members who withdrew their accumulated employee contributions made to IPERS for years prior to 1967 be allowed to repay those employee contributions plus accumulated interest and receive credit under IPERS for those years.

7. That members of the ministry, rabbinate, or other religious order who have taken the vow of poverty and are currently not covered under IPERS be given one year in which to opt to be covered under IPERS.

8. That a standing appropriation from the IPERS Retirement Fund be provided for the payment of investment expenses and the expenses be limited to one percent of the market value of the Fund with investment expenses reported annually to the Governor.

9. That a reference to the Comprehensive Employment Training Act be updated to the Job Training Partnership Act.

10. That the employees of the agricultural promotion boards and judicial hospitalization referees be exempt from IPERS coverage.

11. That the provisions relating to the dispersal of the proceeds of a decedent's entitlement to a person other than the decedent's spouse be changed retroactive to January 1, 1984 in order to conform to recent changes in the Internal Revenue Service Code.

12. That named beneficiaries be allowed to waive their rights to benefits so that the benefits can be paid to the decedent's estate.

13. That the accumulated contributions of a member who has terminated employment be refunded to the terminated member 30 days after the termination, rather than ninety days, and that the terminated member may repay the accumulated contributions within 60 days after receiving them and continue IPERS coverage.

14. That those members who were unvested public employees in other states should be granted unlimited access to the purchase under IPERS of those years of service.

15. That the present option that an IPERS member can elect to receive a decreased retirement allowance and have a death benefit equal to the excess of the member's accumulated employer and employee contributions be deleted and replaced with an option that the member can elect to receive a decreased retirement allowance and designate that a specified amount of money in thousand dollar increments be paid to a named beneficiary so long as the designated

amount does not lower the retiree's benefit by more than 50%. The deleted provision is a remnant of the money purchase system that IPERS used before 1967.

16. That the requirement that Social Security taxes be remitted monthly be deleted to conform with 1983 Social Security amendments.

The total cost of these recommendations as a percent of covered payroll can be illustrated as follows:

.770%	Excess Contributions
-.797%	Cost to the System
<u>+.379%</u>	Savings to the System
.352%	Excess Contributions Remaining

Questions arose in the early 1970's about coverage under Social Security of police officers and fire fighters in cities who had less than 8,000 population in 1953 when Social Security coverage for these public employees began. An Attorney General's Opinion issued in 1974 in response to a question from the city of Marion stated that Social Security coverage should have been extended to these employees and the Social Security Administration accepted the Opinion. In 1980 the Attorney General rescinded the earlier Opinion and stated that these employees were covered by a Chapter 410 retirement system in 1953 and should be excluded from Social Security coverage. The Social Security Administration accepted the Opinion and directed that Marion and other similar cities and their employees be given a refund of contributions back through 1977.

In 1983 the Department of Job Service issued a Declaratory Ruling that Social security coverage remain in place for all those cities that have not yet withdrawn their contributions. The Department concluded that potentially 92 cities would be impacted by the issue, 11 cities have already been removed from coverage, leaving 81 cities.

Review of the Declaratory Ruling is available through the district court, but as of December 1, 1983, no suit has been filed in a district court in this state.

The Subcommittee took no action on the issue, but agreed to monitor the situation.

PEACE OFFICERS' RETIREMENT SYSTEM

Interested groups that gave testimony and comments about the Peace Officers' Retirement System were:

1. Iowa State Troopers Association
2. Iowa Highway Patrol Supervisors Association
3. PORS Board of Trustees

The Subcommittee heard requests for improved benefits and a request from the PORS Board of Trustees that the state's contribution of 16% of payroll be increased to the 33.32% of payroll recommended by the consulting actuaries in order to fund the system on an actuarially sound basis. The Subcommittee made no recommendations.

CHAPTER 411 FIRE AND POLICE SYSTEMS

Interested groups that gave testimony and comments about the Chapter 411 Fire and Police Systems were:

1. Iowa Association of Chiefs of Police and Peace Officers
2. Iowa Policemen's Association
3. Iowa Association of Professional Fire Fighters

The Subcommittee heard requests for improved benefits but took no action.

JUDICIAL RETIREMENT SYSTEM

Supreme Court Justice Harvey Uhlenhopp, representing the Iowa Judges Association, presented recommendations for benefit improvements for judges and other technical retirement system changes, as well as recommendations that the Judicial Retirement System be funded on an actuarially sound basis. The Subcommittee took no action on the recommendations, but it was noted that during the 1983 legislative session the Senate passed Senate File 407 and Senate File 542 which contain a number of the recommendations made by the Judges Association.