F I N A L R E P O R T

PUBLIC RETIREMENT SYSTEMS STUDY COMMITTEE

February 1990

AUTHORIZATION AND MEMBERSHIP

The Public Retirement Systems Study Committee is a statutory committee created by Iowa Code section 97B.76. Under that section the Committee is directed to:

1. Develop and recommend retirement standards and a coherent policy on public retirement systems.

2. Continuously survey pension and retirement developments in other states and in industry and business and periodically review the state's policy and standards in view of these developments and changing economic and social conditions.

3. Review the provisions in the public retirement systems in effect in this state.

4. Review individually sponsored bills relating to the public retirement systems.

5. Review proposals from interested associations and organizations recommending changes in the state's retirement laws.

6. Study the feasibility of adopting a consolidated retirement system for the public employees of this state.

7. Make recommendations to the general assembly.

Members of the Committee for the 1989-1990 biennium are:

Senator John P. Kibbie, Emmetsburg, Co-Chairperson
Representative Gene Blanshan, Scranton, Co-Chairperson
Senator Charles Bruner, Ames
Senator William W. Dieleman, Pella
Senator Richard F. Drake, Muscatine
Senator Jack Nystrom, Boone
Representative Dorothy F. Carpenter, West Des Moines
Representative Darrell R. Hanson, Manchester
Representative Charles N. Poncy, Ottumwa
Representative Dennis L. Renaud, Altoona

MEETING DAYS IN 1989

The Committee held a two-day meeting on September 5 and 6, 1989, and a one-day meeting on October 31, 1989. At the September meeting the Committee received oral and written reports from the Iowa Public Employees' Retirement System (IPERS), the Public Safety Peace Officers Retirement System (POR), and the Judicial Retirement System; a progress report concerning the study of retirement systems directed by 1989 Iowa Acts, chapter 315, section 16 (S.F. 517); and testimony from interested associations and individuals about present and proposed provisions relating to the various public retirement systems. At the October meeting representatives of the Iowa Public Employees' Retirement System presented financial information and recommendations regarding specific changes in the IPERS law and the Committee made decisions on a series of IPERS recommendations for presentation to the General Assembly in 1990. It was agreed that recommendations for public retirement systems other than IPERS would be considered at a meeting to be held at the beginning of the 1990 session.

PRESENTATIONS

On September 5, 1989, the following presentations were made to the Committee:

Mr. Thomas E. Donahue, Director of the Department of Personnel, and Mr. Greg Cusack of IPERS provided two reports, the actuarial report from Milliman and Robertson, Inc. as of June 30, 1988, and a report entitled "The Iowa Public Employees' Retirement System: History, Trends, and Analysis." They concentrated on the latter report, which gave an overview of public retirement system trends and issues; described the evolution of the IPERS system beginning in the 1950's; and set forth a list of groups identified as "underserved" relative to others within public employment based upon the following criteria: (1) the degree of benefit comparability enjoyed by individual members of the system, (2) the degree to which the interests of the larger community of employees is served, and (3) the degree to which the financial and benefit integrity of the overall pension plan is maintained.

Commissioner of Public Safety Gene Shepard, State Treasurer Michael Fitzgerald, and Trooper Gail Schwab reported on the Public Safety Peace Officers Retirement System. They distributed copies of the POR report and accompanying charts prepared by TPF&C Actuaries, reviewed the statistical information, and answered questions regarding the experience, assumptions, and expectations with respect to the operation of the system.

Ms. Rebecca Reznicek, Executive Assistant to the Chief Justice, and Ms. Peggy Sullivan, Director of Finance for the Judicial Department, presented a written report containing financial and

other statistical information relating to the Judicial Retirement System, together with the actuarial report as of July 1, 1988, prepared by William M. Mercer-Meidinger-Hansen.

Mr. Maurice Baringer, Administrator of the Iowa Public Employees' Retirement System, reported orally concerning the progress of the study of public retirement systems which was directed by 1989 Iowa Acts, chapter 315, section 16 (S.F. 517). The statute requires that the Iowa Public Employees' Retirement System conduct a study of the public retirement systems established in this state, including the judicial retirement system, the POR system, and retirement systems for local police officers and fire fighters established under chapter 411 of the Iowa Code. The study is to extend to the financial condition of the existing systems, including but not limited to membership status, benefits paid, average age of members, annual compensation average, rate of contribution necessary to make the systems actuarially sound, and the actual rate of return against the expected rate of return. Mr. Baringer said a preliminary report is to be presented to the General Assembly by February, 1990. He described current efforts to develop a uniform data base for the city police and fire retirement systems which will enable comparisons among cities.

Mr. Clewis Walden presented proposals from the Iowa State Education Association. These included adoption of a "Rule of 90," increases in the covered wage with eventual elimination of the maximum, authorization for buy-backs by employees with service after 1973, and continuation of ad hoc increases for the currently retired.

Mr. Don McKee spoke on behalf of the American Federation of State, County, and Municipal Employees (AFSCME). His presentation was devoted primarily to the issue of early retirement for employees of the Department of Corrections and weight enforcement officers of the Department of Transportation.

Mr. Ron Dickinson testified on behalf of the School Administrators of Iowa. He requested the removal of the maximum on covered wages, the granting of service credit beyond 30 years, and the expansion of buy-back and buy-in provisions.

Mr. Ronald Morden of the Polk-Des Moines Taxpayers Association presented comments on the municipal police and fire retirement systems under chapter 411. He asked for revisions in the disability provisions under that chapter, urging emphasis on retraining, rehabilitation, and the rating of injuries using a percentage scale of disability.

On September 6, 1989, the following presentations were made to the Committee:

Judge Allen Donielson of the Iowa Court of Appeals testified on behalf of the Iowa Judges Association. He commented on current judicial retirement provisions and recommended two changes relating to the senior judge program. First, he suggested the continuation of health, accident, and life insurance for all senior judges, including those 65 years of age and older. Second, he recommended a change whereby the cost of the senior judge program would be paid from the state general fund rather than from judicial retirement system funds.

Mr. Terry Moran of Kirkwood Community College spoke on behalf of the Association of Community College Presidents. He said the IPERS benefits available to community college employees do not compare favorably with TIAA-CREF benefits available to employees of the Regents institutions. He recommended raising the covered wage ceiling beyond $40,000 and accelerating the movement toward the cap. He also recommended raising the IPERS benefit calculation factor to a level beyond fifty percent. He suggested a reduction in the number of years of service and age requirements necessary for full benefits. Finally, he suggested a study of possible changes in the level of employee contributions.

Several persons representing organizations of peace officers and fire fighters presented coordinated testimony concerning recommendations for revisions in chapters 411 and 97A. The groups joining in the recommendations were the Iowa Association of Professional Fire Fighters, the Iowa State Troopers Association, the Iowa State Patrol Supervisors Association, the Iowa Association of Chiefs of Police and Peace Officers, and the Iowa State Policemen's Association. The following four recommendations were presented:

1. Provide an additional three percent of final average compensation for each year over 22 years of service to age 55 with a cap of eighty percent.

2. Increase the benefits to surviving spouses of retirees from fifty percent to seventy-five percent of the member's pension.

3. Increase the escalator provision for persons retiring under ordinary disability between July 1, 1979 and June 30, 1988, from twenty percent to twenty-five percent, to make it consistent with the escalator provision for those who retired before and after that period.

4. Increase the escalator provision for service retirement from the present twenty-five percent to thirty-five percent.

Persons presenting testimony in support of these recommendations were Mr. John Daws, Mr. Tom Ryan, Mr. Rick Conn, Mr. Eugene Kleinow, and Mr. Gary Herrick.

Mr. Paul Grossheim, Director of the Department of Corrections, appeared with Mr. Tom Donahue, Director of Personnel, to present information and answer questions concerning the classification of positions in the Department of Corrections for purposes of early retirement under IPERS.

Mr. Ray Thomas, a Des Moines fire fighter, testified that in his opinion the University of Iowa medical review process for ordinary disability under chapter 411 is not working satisfactorily. He asserted that the review process should not extend to additional tests, surgical procedures, or other treatment.

Mr. Howard Underwood, also a Des Moines fire fighter, requested revision of the statutory language governing the presumption as to heart and lung disease to avoid misconstruction with respect to other causes of accidental disability. He also suggested that disability determinations be made by the board of trustees of the local retirement system, following an examination by the medical board.

Mr. William F. Sueppel, general counsel for the League of Iowa Municipalities, cited a number of legal problems which may arise in connection with the chapter 411 police and fire retirement systems. These included the question of social security coverage and other implications if new census figures show an increase in the official population of some cities to 8,000 or greater or a decrease in the official population of other cities to below 8,000.

Mr. Kerry Kirkpatrick, an investigator with the Department of Transportation Office of Motor Vehicle Enforcement, spoke in favor of early retirement for the Department of Transportation enforcement officers comparable to benefits for other protection occupations under IPERS.

Mr. Richard Lampshire of the Iowa Retired Teachers Association requested that the bonus for current IPERS beneficiaries be placed on a permanent basis and that twenty-five percent of the investment margin over liabilities be dedicated to current beneficiaries.

Mr. Don Lindenberg of the Iowa Fish and Game Conservation Officers Association requested changes in statutes governing the disability program for state employees, to provide that expiration of sick leave beyond ninety days would no longer be required and that improvements in disability benefits would be subject to collective bargaining. He also recommended reducing the early retirement penalty for conservation peace officers retiring before age 55.

Chief Robert V. Armstrong of the Des Moines Fire Department recommended that the disability provision under chapter 411 be changed to include recognition of the degree of the member's disability. He also suggested increasing pensions for police and

fire personnel after 25 years by one percent per year until a maximum of sixty percent is reached at 35 years of service.

Former Senator Robert M. Carr, now Dubuque County Treasurer, recommended removal of the 30-year limitation under the Rule of 92 and also recommended expanding the "buy-back" provision under IPERS.

Mr. Wesley Smith presented recommendations on behalf of the IPERS Improvement Association. The recommendations were:

1. Give some type of credit to a retiree with over 30 years of service.

2. Remove the ceiling on the covered wage and have employees and employers pay contributions based on the total salary.

3. Revise "option 4" to provide more flexibility as to benefits to the spouse in cases where the couple is no longer together.

4. Study the feasibility and cost of changing the Rule of 92 to the Rule of 90, so that where the employee's age plus years of service equals 90 there would be no loss in retirement benefits. Also consider removing the 30-year limitation.

5. Reconsider the action taken a few years ago whereby the death benefit to a beneficiary was drastically reduced if an employee died prior to retirement.

6. Extend the crediting of interest on the employee's contribution so that interest earned after the time of retirement would be credited to the employee.

Mr. Dave Baker of the Alliance of Iowa Police and Fire Retirement Systems reported to the Committee that the Alliance is active and will assist in obtaining information from the various cities concerning their police and fire retirement systems.

Mr. Larry Hardy appeared on behalf of the Iowa Corrections Association concerning early retirement benefits under IPERS for correctional workers. He recommended legislation to remove from the Director of Corrections and the Director of Personnel the authority to determine which job classes should be covered and urged the expansion of coverage to include more correctional workers, including employees of judicial district departments of correctional services.

Mr. Gordon Sweitzer, Director of the Motor Vehicle Division, and Mr. Ralph Ager, Director of Motor Vehicle Enforcement, testified on behalf of the Department of Transportation concerning the inclusion of motor vehicle enforcement officers in the "protection occupation" category eligible for early retirement under IPERS.

They said the enforcement officers have full peace officer authority and should be treated the same as other peace officers under IPERS.

On October 31, the following presentations were made to the Committee:

Mr. Greg Cusack of IPERS presented information on possible benefit enhancement options and related costs. He reported that $36,313,719, or 1.59 percent of covered payroll, can be considered accessible for benefit enhancements without jeopardizing the stability of the fund. Estimates were presented for several options, including:

1. Accelerating the annual increments toward the statutory covered wage ceiling of $40,000. Estimates were given for an increase from $2,000 per year to $3,000 per year and to $4,000 per year.

2. Allowing service credit for years of service beyond 30 at the same value per year as service not exceeding 30 years. Estimates were given based on a 31-year maximum, a 36-year maximum, and no maximum.

3. Providing that the accounts of those who terminate before retirement would accrue value over time. Estimates were given for (1) treating an employee account as a money purchase plan upon termination, eligible for draw-down at the normal retirement age; and (2) indexing, at termination, the amount of the employee's retirement pension entitlement by applying a factor tied to inflation experience.

4. Providing to those who take refunds at termination not only their own contribution plus interest but also a share of the employer's contribution at the rate of 1/30 of the employer contribution multiplied by the employee's years of service.

5. Allowing unrestricted buy-backs for active, vested, or retired members.

6. Implementing a "controlled" cost of living adjustment for retirees, designed to compensate for a targeted percentage of the previous year's rise in inflation. The adjustment would be tied to the fund's ability to pay and legislative action for implementation. Estimates were given for three percent, four percent, and five percent COLAs.

7. Amending the Rule of 92 to remove the requirement for 30 years of service in order to qualify.

8. Implementing the Rule of 90, including a requirement for a minimum of 30 years of service.

9. Implementing the Rule of 90 without the requirement for a minimum of 30 years of service.

10. Increasing the existing amount paid to persons who retired prior to January 1, 1976, through annual "dividend" checks representing a percentage of their monthly benefit. Estimates were given for an effective three percent increase and an effective five percent increase in total annual pension income.

11. Increasing the existing amount paid to persons who retired between January 1, 1976, and July 1, 1982, through annual "dividend" checks representing a percentage of their monthly benefit. Estimates were given for an effective three percent increase and an effective five percent increase in total annual pension income.

12. Providing an annual "dividend" to persons who retired after July 1, 1982. Estimates were given for an effective three percent increase and an effective five percent increase in total annual pension income.

13. Changing the formula so that the maximum years of service in the formula would be 25 rather than 30.

14. Changing the formula so that the maximum pension distribution would be 55 percent rather than the present 50 percent of final average compensation.

15. Changing the formula so that the maximum pension distribution would be 60 percent rather than the present 50 percent.

16. Stopping employee contributions after 30 years of service.

17. Stopping both employee and employer contributions after 30 years of service.

18. Providing a one-time cost of living adjustment of four percent to all retirees.

Mr. Cusack also presented a summary showing the various enhancement options by cost, number of persons impacted, and the IPERS Division's assessment as to the degree each option would assist in meeting the objectives of attracting, retaining, and fairly treating employees.

Turning to specific recommendations, Mr. Cusack said the recommendations reflect the IPERS Division's concern that the guiding goals should be to (1) begin building today the retirement plan the state needs to meet the challenge of the future, (2) select those benefit enhancement options which most successfully deliver the greatest good to the greatest number of employees, (3)

choose those options which best correct existing inequities between and among various groups within IPERS, and (4) determine those options which most ably serve the twin objectives of attracting and retaining quality employees.

The IPERS recommendations were as follows:

1. That the General Assembly allow, effective January 1, 1991, active, vested, and retired persons who have taken refunds in the past to participate in unrestricted buy-backs. Cost: $7,970,748 (.35%).

2. That IPERs continue to provide, to persons who retired prior to January 1, 1976, a dividend check equivalent to 120% of their monthly pension check. Cost: No additional cost. (Continuation at existing level is built into base cost of plan at $2,299,915).

3. That IPERS continue to provide, to persons who retired between January 1, 1976, and July 1, 1982, a dividend check equivalent to 80% of their monthly pension check. Cost: No additional cost. (Continuation at existing level is built into base cost of plan at $2,466,410).

4. That the General Assembly commit to changing the basic formula so that persons retiring at 30 years of service would be eligible to receive 60 percent of their high-three covered salary, rather than the present 50 percent level. Cost: $9,934,885 (.43%). (This is the cost per one percent increase in 1989 dollars and valuation.)

5. That the General Assembly commit to a plan which would value more fully the years of service of terminated, vested members who had 10 or more years of service under IPERS by providing such members with a benefit at normal retirement age indexed (ultimately, at the rate of 4% per year) over the time since their termination. The recommendation is that this be achieved through an incremental increase of one percent per year. Cost for fiscal year beginning July 1, 1990: $15,073,619 (.66%)

6. That IPERS be authorized to develop a "side by side" defined contribution plan, to be implemented January 1, 1992. The proposed plan would be available to all employees as an optional plan in addition to their basic IPERS coverage. Employees electing to participate would be eligible to contribute up to 5 percent of their total salary per year at their option and this would accumulate interest at the rate credited to members' accounts under the basic plan, less management expenses and administrative costs. The funds in the employee's account would be available to the employee either upon termination of public employment or at retirement.

Mr. Cusack noted that implementation of all the IPERS recommendations would commit 1.44% out of the 1.59% margin available for enhancements.

Ms. Carol Swanson of the Department of Personnel presented information compiled pursuant to requests from the Committee at the previous meeting. Included were information on workers' compensation costs for resident treatment workers at the various mental health and related facilities, breakdowns showing the changes in early retirement eligibility for Department of Corrections positions at different locations, information concerning members who retired between July 1, 1988, and June 30, 1989, breakdowns showing the number of workers above and below the covered wage, and information showing the average length of service for full-time state employees recently terminating their employment.

Mr. Maurice Baringer provided a further progress report on the mandated study of retirement systems and said the preliminary report would be ready near the beginning of the 1990 legislative session.

Mr. Robert Johann, a retired teacher who took early retirement at a time when the system imposed a greater penalty for early retirement, spoke in favor of a change which would reduce the penalty for retirees in his situation.

MAJOR ISSUES CONSIDERED BY THE COMMITTEE

Iowa Public Employees' Retirement System

In 1989 the Committee's consideration of proposed benefit enhancements in the Iowa Public Employees' Retirement System was strongly influenced by Department of Personnel/IPERS presentations focusing on trends, goals, and overall policy issues. Within the context of maintaining financial soundness and the ability to attract and retain employees in the future, emphasis was placed on options that would assist the groups identified by the IPERS Division as "underserved" relative to others within public employment and on options that would provide the greatest good to the greatest number of people. The Committee heard recommendations for further incentives to early retirement, for example, and for other enhancements benefiting relatively small portions of all members, but chose instead to recommend using the available funds to correct inequities affecting larger groups of "underserved" persons and to commence programs which would achieve major benefit enhancements over a period of years.

Other Public Retirement Systems

The Committee heard testimony from a number of persons seeking changes in the Peace Officer Retirement System under chapter 97A, individual city police and fire retirement systems under chapter 411, and the judicial retirement system. However, no recommendations were made in 1989 concerning benefit enhancements or other changes for these systems.

At a meeting early in 1990 the Committee will receive a preliminary report concerning the IPERS Division review and analysis of these other systems. A particular problem has been the lack of uniformity in data about the various chapter 411 systems, and a priority of the IPERS Division has been the development of a uniform data base from which to make informed estimates regarding proposed changes.

RECOMMENDATIONS

The Committee's IPERS recommendations are listed below. The recommendations depart from those of the Department of Personnel/IPERS in only two respects. First, a three percent increase is recommended for the dividend checks of persons who retire prior to January 1, 1976, and persons who retired between January 1, 1976 and July 1, 1982. Second, the timetable is moved forward for development of a supplemental, optional defined contribution plan to exist "side by side" with the current IPERS plan.

1. Allow, effective January 1, 1991, active, vested, and retired persons who have taken refunds in the past to participate in unrestricted buy-backs.

2. Provide to persons who retired prior to January 1, 1976, a dividend check equivalent to 156 percent of their monthly pension check.

3. Provide to persons who retired between January 1, 1976, and July 1, 1982, a dividend check equivalent to 116 percent of their monthly pension check.

4. Commit to changing the basic formula so that persons retiring at 30 years of service would be eligible to receive 60 percent of their high-three covered salary, rather than the present 50 percent level. Begin by providing a one percent increase for the fiscal year beginning July 1, 1990.

5. Commit to a plan which would value more fully the years of service of terminated, vested members who had 10 or more years of service under IPERS by providing such members with a benefit at normal retirement age indexed (ultimately, at the rate of four per cent per year) over the time since their termination. Provide that this be achieved through an incremental increase of one percent per year, commencing with the fiscal year beginning July 1, 1990.

6. Authorize the IPERS Division to develop a "side by side" defined contribution plan and require a preliminary report during the 1990 interim and a final report during the 1991 interim. The plan would be available to all employees as an optional plan in addition to their basic IPERS coverage. Employees electing to participate would be eligible to contribute up to five percent of their total salary per year at their option and this would accumulate interest at the rate credited to members' accounts under the basic plan, less management expenses and administrative costs. The funds in the employee's account would be available to the employee either upon termination of public employment or at retirement.

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