



FINAL REPORT

Public Retirement Systems Committee

January 2016

MEMBERS:

Senator Thomas G. Courtney,
Co-chairperson
Senator Jeff Danielson
Senator Matt McCoy
Senator Charles Schneider
Senator Jason Schultz

Representative Dawn E. Pettengill,
Co-chairperson
Representative Gary Carlson
Representative Kevin Koester
Representative Vicki S. Lensing
Representative Mary Mascher

Staff Contacts:

Ed Cook, Senior Legal Counsel,
(515) 281-3994
ed.cook@legis.iowa.gov

Andrew J. Ward, Legal Counsel,
(515) 725-2251
andrew.ward@legis.iowa.gov

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AUTHORIZATION AND APPOINTMENT

The Public Retirement Systems Committee was established pursuant to Iowa Code section 97D.4 and charged with reviewing and evaluating public retirement systems in Iowa. The committee reviewed the Iowa Public Employees' Retirement System (IPERS), the Municipal Fire and Police Retirement System of Iowa (MFPRSI), the Department of Public Safety Peace Officers' Retirement System (PORS), and the Judicial Retirement System.



I. Committee Proceedings

The committee conducted meetings on two days during the 2015 Legislative Interim. The committee met on December 9, 2015, and December 10, 2015.

II. Pension Retirement Systems Review

Mr. Ed Cook, Senior Legal Counsel, Legislative Services Agency (LSA), reviewed information provided on the committee Internet site, a new Internet site being developed by LSA for public pension information, the public retirement systems that are the focus of the committee, and the important role legislators play relative to the public retirement systems in the state. Mr. Cook noted pending pension legislation and discussed key retirement concepts such as retirement benefit adequacy and funding policy. Specifically, Mr. Cook noted that the six primary public employee retirement systems, that are the focus of the committee, are defined benefit plans, which operate like retirement insurance plans, with pooled contributions and investments, along with a sharing of the benefit risk.

III. Deferred Compensation Programs

Department of Administrative Services (DAS). Ms. Janet Phipps, Director, DAS, discussed the supplemental deferred compensation programs operated by DAS collectively called the Retirement Investors' Club (RIC). The programs are differentiated by the three applicable Internal Revenue Code sections describing public employee deferred compensation programs: sections 457, 401(a), and 403(b). The DAS programs provide plan administration and compliance monitoring and are similar to private sector section 401(k) plans. The section 457 program, available to primarily state employees, includes an employer match component (section 401(a)), and is utilized by about 56 percent of eligible employees. The state's section 403(b) program, which covers primarily educational employees, was established in 2009, allows educational employers and their employees the ability to utilize the RIC program to provide this option, and is utilized by about 15,000 participants. The initial DAS section 403(b) program was started through a request for proposals (RFPs) process continued through December 2015. Beginning January 2016, the investment providers available for the sections 457, 401(a), and 403(b) programs changed. Pursuant to an RFP process, four core providers were selected for all programs pursuant to certain requirements relating to fees and other service and performance metrics. In addition, DAS used an invitation to qualify (ITQ) process to allow other optional providers for the section 403(b) program. If a prospective vendor met certain minimum requirements, the vendor was added to the optional provider list. Five providers are included on the optional provider list and are available to all section 403(b) employers to select, as a group, as a part of their plan when completing a RIC adoption agreement. Currently, the optional providers are only available for the 403(b) program.

National Association of Insurance and Financial Advisors (NAIFA). Mr. Greg Johnson, Iowa President, NAIFA, and Mr. Richard Dobson, Former Iowa Officer, NAIFA, addressed the committee concerning the state's section 403(b) program. The presenters opined that the 2009 change in how section 403(b) programs were made available to teachers in the state was detrimental to the goal of encouraging both younger and older employees to participate in a section 403(b)-type program,



noting that only 20 percent of eligible section 403(b) employees currently participate in programs offered by DAS.

The presenters also stated that financial advisors are important in educating employees about the benefits of retirement savings, and the new DAS optional section 403(b) provider program should allow more financial advisors the opportunity to educate employees and increase employee participation in the state's section 403(b) plan.

IV. Municipal Fire and Police Retirement System of Iowa (MFPRSI)

MFPRSI Staff. Mr. Terry Slattery, Executive Director, MFPRSI, and Mr. Glen Gahan, Actuary, Silverstone Group, provided background information concerning the retirement system. Mr. Slattery noted that the mission of the system is to provide a comprehensive set of retirement and disability benefits to eligible local police officers and fire fighters in a sound, sustainable, and efficient manner, in accordance with the requirements of the program's governing statute. The vision statement for the system provides additional background on the mission goals of providing a comprehensive, efficient, sound, and sustainable retirement system. Mr. Slattery reviewed the current investment allocation policy and noted that the plan performance expectation for the system is 7.6 percent, slightly higher than the system's actuarial return assumption of 7.5 percent. Mr. Slattery noted that the system invests in private equities and discussed the fees associated with this type of investment. Mr. Gahan discussed the financial condition of the system and noted that the system has adopted a funding policy with the goal of fully funding the system over a 25-year period using a steady contribution rate. In meeting this goal, Mr. Gahan noted that the system has changed the method of amortizing the system's unfunded liability by moving to a 25-year closed, layered, level-dollar, amortization schedule. In the last few years, the funded ratio of the system has improved from 74 percent to 81 percent while the city's contribution rate has been reduced from 30.41 percent for FY 2015, to 25.92 percent for FY 2017. Mr. Gahan discussed the system's blended mortality table and noted that it has matched the system's current mortality experience. Mr. Gahan discussed future trends in the actuarial contribution rate to be paid by cities and the system's funded ratio over the next 25 years using current assumptions. By the end of the 25-year period, the system would be over 99 percent funded and the city contribution rate would decrease to the required minimum city contribution rate of 17 percent.

Iowa League of Cities. Mr. Dustin Miller, General Counsel, Iowa League of Cities, addressed the committee and commented that pension issues concerning the MFPRSI are a priority issue for the league. Mr. Miller noted that police and fire employees are valued by cities and a quality pension system is critical for attracting quality individuals to these positions. While noting that MFPRSI is a well-run pension system, Mr. Miller cited several cost concerns for cities that ultimately impact the ability of cities in meeting their public safety needs. Currently, any variability in the cost of the system is borne entirely by the cities and the state has not provided any supplemental cost assistance since 2013. In addition, five participating cities in MFPRSI are contributing to both MFPRSI and to Social Security. Mr. Miller stated that city costs for providing short-term disability and on-duty injury medical coverage are significant and an issue in need of further study. Additionally, Mr. Miller noted that recent accounting standard reporting changes are requiring cities to recognize pension liabilities for their financial reports. Mr. Miller expressed the hope that both the cities and employee members can agree on the need for a quality and sustainable retirement



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system, that the state should fulfill its initial promise of providing a contribution of 3.79 percent, and that additional research needs to be conducted concerning medical costs.

Iowa Professional Fire Fighters and Iowa State Police Association. Mr. Doug Neys, President, Iowa Professional Fire Fighters, and Mr. Zach Lewis, President, Iowa State Police Association, addressed the committee. The associations believe that the system is working as designed, is managed well, and is sustainable without any changes. The associations appreciate the fact that the system was allowed to work as designed after the financial crisis without any significant changes. While Mr. Neys noted that health and safety issues are always a concern for fire fighters, neither association is recommending any changes to the system. The associations did request that the state restore its funding partnership with the system, noting that the services provided by police officers and fire fighters covered by MFPRSI provide a benefit to the entire state.

V. Iowa Public Employees' Retirement System (IPERS)

IPERS Staff. Ms. Donna Mueller, Chief Executive Officer, and Ms. Patrice Beckham, Consulting Actuary, provided an overview of the retirement system, focusing primarily on the June 30, 2015, actuarial valuation of the system. Ms. Mueller noted that the mission and vision for IPERS is to provide and administer a sustainable and affordable retirement plan that provides lifetime pension payments to public employees and which serves to attract and retain a quality workforce. Ms. Beckham noted that IPERS funding policy establishes a goal of 100 percent funding for each of the three membership groups in IPERS. To reach this goal, IPERS has moved to a closed 30-year amortization period for the initial unfunded liability of each membership group with any new changes in expected unfunded actuarial liability to be amortized over a 20-year period. In addition, the funding policy provides that the contribution rate for any of the membership groups will not decline until that group within IPERS reaches 95 percent funding. Based on the June 30, 2015, actuarial valuation, the funded status of the entire system, based upon the actuarial value of assets, has increased to 83.7 percent. The total contribution rate for the regular membership classification for FY 2017 will remain at 14.88 percent of pay, payable on a 60-40 employer and employee basis, resulting in an additional contribution to the fund above the actuarially required contribution of .71 percentage points. For members of the sheriffs' and deputies' classification, the total contribution rate for FY 2017 will be reduced from 19.76 percent of pay to 19.26 percent, payable on a 50-50 employer and employee basis, still resulting in an additional contribution to the fund above the actuarially required contribution of 1.76 percentage points. For members of the protection occupation classification, the total contribution rate for FY 2017 will remain at 16.40 percent of pay, payable on a 60-40 employer and employee basis, resulting in an additional contribution to the fund above the actuarially required contribution of .39 percentage points. Ms. Beckham discussed the development of the discount rate for IPERS, differences between corporate and public pension requirements, mortality table development, and the differences between financial reporting and funding of pensions. In summary, Ms. Beckham noted that prior positive investment returns and the contribution rate funding policy indicate a positive trend in the funded ratio of the system if all other assumptions are met. For the 2016 Legislative Session, Ms. Mueller noted that IPERS is not proposing any changes.

IPERS Investment Board. Mr. David O. Creighton, Sr., Chairperson, and Mr. Karl Koch, Chief Investment Officer, addressed the committee relative to the role of the investment board and



IPERS investments. Mr. Creighton noted the fiduciary responsibility of the board as a trustee of the IPERS fund and its role in setting and reviewing investment policy and actuarial assumptions. Mr. Koch noted that IPERS remains a well-diversified portfolio with an increasing effort in managing risk. Mr. Koch discussed the asset allocation of the IPERS portfolio, commented on the real estate asset class, and discussed the manner in which private equity investments are made and the fees associated with this form of investment. Mr. Koch also noted that IPERS has now recovered over 96 percent of the principal initially lost in the Westridge Capital Management fraud case. Ms. Mueller noted that over the next year, the investment board will be exploring alternative compensation models for hiring and retaining good investment managers within IPERS.

IPERS Benefit Advisory Committee (BAC). Mr. Len Cockman, Chair, and Mr. Brad Hudson, Vice Chair, addressed the committee. The goal of membership groups represented on the BAC is the long-term viability of the IPERS trust fund. In 2010, members responded to financial challenges facing the system by supporting legislation reducing benefits for all employee members of the system and increasing contribution rates on both employers and employees. The one weakness of IPERS is that the system does not provide any inflation protection for retirees. The BAC has decided to request an actuarial study on the issue of providing some form of inflation protection, like a cost of living adjustment (COLA), and to identify costs and plausible solutions that may be recommended once IPERS begins to reach fully funded status.

VI. Peace Officers' Retirement System (PORS)

PORS Staff. Ms. Charis Paulson, PORS Director of Administrative Services, and Ms. Beckham provided background on the system. Based upon the July 1, 2015, actuarial valuation of the system, the funded status of the system based upon the actuarial value of assets improved to 74 percent after having been only 61 percent on June 30, 2012. Due to an increasing employer contribution rate and the \$5 million standing supplemental state appropriation to the fund, total contributions to the fund will exceed the actuarially required contribution by 7.76 percentage points as of July 1, 2015. Long-term, the impact of the changes to the system during the 2010 Legislative Session in benefits and contributions and the payment of contributions above the actuarially required rate will result in the funded status of the system improving to about 85 percent by the year 2019 and 100 percent by 2029, if all other assumptions are met. In response to committee questions, the presenters noted that the Treasurer of State's Office, in coordination with a newly hired investment consultant, is undergoing an asset/liability study to examine the asset allocation of the system and whether the current 8 percent investment return assumption needs to be changed by the board of trustees overseeing the system. In response to a committee question, Ms. Paulson noted that the PORS board does not include nonvoting legislative members.

State Police Officers Council (SPOC) and Iowa State Patrol Supervisors Association (ISPSA). Ms. Sue Brown, SPOC, and Sergeant Marland Winter, ISPSA, expressed appreciation for the legislative changes made in 2010 that have improved the financial viability of the system. Members covered by PORS do not receive Social Security and rely on the pension system upon retirement. Both presenters noted concern with the current number of active trooper members and the impact this has on public safety.



VII. Judicial Retirement System

Ms. Peggy Sullivan, Director of Finance and Personnel, Judicial Branch, and Ms. Beckham provided background on the retirement system, which covers all full-time judges and other judicial officers. Ms. Sullivan noted that the Judicial Retirement System is referenced in the Iowa State Constitution and is administered by the State Court Administrator. Ms. Sullivan noted the system is not overseen by a separate board of trustees and that the Treasurer of State is responsible for investing the assets of the retirement fund. Ms. Beckham discussed the July 1, 2015, actuarial valuation of the system. The funded status of the system based upon the actuarial value of assets has made considerable improvement in the last five years, improving to 84 percent on July 1, 2015, from 78 percent in the prior fiscal year. As a result, the fixed statutory contribution rate now exceeds the actuarially required rate which should assist in further improving the funded status of the system. Assuming all assumptions are met, the system should be fully funded by July 1, 2022.

VIII. Committee Discussion

The committee did not adopt any formal recommendations. However, committee members did agree that further study should be conducted on the issue raised by the Iowa League of Cities concerning medical costs incurred by cities within MFPRSI and that this issue and request for study be reflected in the final report of the committee. Committee members also expressed interest in scheduling additional educational presentations on pension topics during the 2016 Legislative Session.

IX. Materials Filed with the Legislative Services Agency

The following materials listed were distributed at or in connection with the meeting and are filed with the Legislative Services Agency. The materials may be accessed from the “Committee Documents” link on the committee’s Internet Site:

<https://www.legis.iowa.gov/committees/meetings/documents?committee=655&ga=ALL>

1. DAS — Iowa Retirement Investors’ Club.
2. MFPRSI — System Presentation.
3. IPERS — System Presentation.
4. JudRet — System Presentation.
5. PORS — System Presentation.
6. Taxpayers Association of Central Iowa — Written Presentation.