Final Report of the
Retirement Programs Study Committee

Twenty-three legislators who served in the Sixty-second Iowa General Assembly requested in a letter dated July 1, 1967 that the Legislative Research Committee continue the study of Iowa retirement systems for State and local public employees begun during the 1965-1967 legislative biennium. The request noted that major proposals of the 1965-1967 Study Committee were adopted, but it was believed other areas, some of which were considered and recommended by the Study Committee, should be given further consideration. It was suggested that, in view of their study and knowledge of Iowa retirement systems, as many of the 1965-1967 Retirement Programs Study Committee members as deemed advisable be appointed to serve on the proposed Study Committee during the 1967-1969 biennium.

The Legislative Research Committee at its July 29, 1967 meeting resolved that the Retirement Programs Study be continued through the present interim. The motion continuing the Study specified that as many of the 1965-1967 Study Committee members as possible be reappointed to serve on the Study Committee during the 1967-1969 biennium. Senator Andrew G. Frommelt was reappointed Study Committee Chairman. Other legislators appointed to serve on the Retirement Programs Study Committee are:

Senator Charles F. Balloun, Toledo
Senator Merle W. Hagedorn, Royal
Senator Elmer F. Lange, Sac City*
Senator H. Kenneth Nurse, Hartley*
Representative Maurice E. Baringer, Oelwein*
Representative Minnette F. Doderer, Iowa City*
Representative J. Wesley Graham, Ida Grove
Representative Dan L. Johnston, Des Moines
Representative James T. Klein, Lake Mills

*Legislator indicated also served on the 1965-1967 Study Committee.

The Retirement Programs Study Committee held its first meeting on August 29, 1967 at which time Representative James T. Klein was elected Committee Vice Chairman. The Committee began its study with a review of information prepared, areas considered, and recommendations made by the 1965-1967 Study Committee. The 1965-1967 Study Committee developed four major goals for public employee retirement systems in evaluating the objectives, benefits provided, financial condition, and administration of public employee retirement systems. The 1967-1969 Committee reviewed and reaffirmed the four goals which are as follows:

1. A modern effective retirement system constitutes a positive approach to providing deferred compensation in order to implement personnel policies necessary for efficient and effective operation and meeting desirable social needs. Such a policy must be expressed in terms of retirement income adequate in real purchasing power to maintain an adequate standard of living relative to an employee's achievements during the years of employment.

2. The achievement of a benefit income level adequate to maintain the system's objectives, based on trends and programs in both private industry and government, should require a retirement income level of not less than fifty percent of compensation during the last five years of service, after having completed thirty-five years of employment. The number of years of employment (thirty-five) required to achieve full benefit should appropriately be adjusted for certain special classes of employment, such as public safety. In order to effectively achieve the retirement system's objectives, it is necessary to provide for the protection of the purchasing power of retirement income. This can most appropriately be done through a process of adjusting retirement income in accordance with local cost-of-living indexes. Consistent with the objectives of deferred compensation and social desirability, retirement income should take into account Federal Social Security program benefits determining total cost requirements.

3. The retirement system should be soundly funded. Resources to accomplish this purpose should be derived from employer and employee contributions and investment earnings.
4. The administration of the individual retirement systems should be combined in a federated system to secure the benefits that can be expected to result from more efficient operations. Unified administration should extend to investment policies and management.
5. Local retirement system trustees should maintain authority over the establishment of local policies and local systems should provide the resources necessary to fully fund these policies.

In determining study procedures, the Study Committee agreed that a public hearing should be held at which time all interested groups and individuals would be invited to present their views on needed revisions in present retirement systems offered Iowa state and local public employees. The public hearing was held October 27, 1967. The suggestions presented at the public hearing, plus additional areas of consideration suggested by Committee members, have been reviewed by the Study Committee during the present interim.

The Study Committee, particularly in regard to the Iowa Public Employees' Retirement System (IPERS), has worked closely with Mr. Edmund R. Longnecker, Chief, Retirement Division, Employment Security Commission, and the consulting actuary who performs actuarial examinations of IPERS, Mr. Fenton R. Isaacson, of Haight, Davis and Haight Division, Milliman & Robertson, Inc. These two persons have provided much information in addition to analyses of proposed revisions in retirement systems, and this Study would not have been possible without their assistance.

The following report of information compiled and recommendations of the Retirement Programs Study Committee is respectfully submitted for consideration by the Legislative Research Committee.

PRESENT PUBLIC EMPLOYEE RETIREMENT SYSTEMS IN IOWA

Three state administered retirement systems and at least one hundred fifteen local retirement systems have been established for Iowa state and local public employees. In addition, certain permanent employees of the three state supported institutions of higher learning in Iowa are covered under a retirement system nationwide in scope, the Teachers Insurance and Annuity Association (TIAA), which is not administered at the state level. The one hundred nineteen retirement systems vary widely in number of members, benefits provided, contribution rates, financial condition, and administration of the systems.

The two major types of retirement programs offered Iowa public employees are the money purchase and defined benefit (formula benefit) programs. Under the money purchase program, benefits are computed entirely on the basis of employee contributions, employer contributions, and interest earned in accumulated funds. Benefits under the formula benefit program are specified in advance in accordance with a formula which is usually based on a percentage of the employee's salary multiplied by the number of years of public employment.

Appendix I lists the number of systems, active and retired memberships, and current assets of retirement systems for state and local public employees in Iowa. A brief analysis of each retirement system follows.

State Administered Systems

Iowa Public Employees' Retirement System. The Iowa Public Employees Retirement System (IPERS) was established in 1953 to replace the Iowa Old Age and Survivors Insurance Program (IOASI) which had been established in 1946. State and local public employees not covered under other retirement systems established in the state are required to be covered under IPERS. The Employment Security Commission is responsible for the administration of IPERS, which is by far the largest retirement system for public employees.

Legislation recommended by the 1965-1967 Study Committee and enacted by the 1967 Legislature provided for conversion of IPERS from a money purchase to formula benefit program. To be eligible to receive IPERS benefits, an employee must have been employed by state or local government at least eight years or have attained the age of fifty-five years prior to termination of public employment. Benefits provided under IPERS are service retirement and death benefits. Service retirement allowances vary according to years of service and annual salary of the employee. The beneficiary of the employee upon his death is entitled to receive accumulated contributions of both the member and the employer plus interest earned. If death occurs while on retirement, benefits payable to the beneficiary vary according to which of the four optional retirement allowances has been selected by the member.

Years of creditable service for purposes of IPERS benefits are divided into "prior service" which includes years employed prior to establishment of IPERS in 1953, and "future service" which includes years of employment after 1953. Provision was made in 1953 for employees to either withdraw their contributions from the IOASI system, which preceded IPERS, or transfer the contributions into IPERS and obtain credit toward retirement for years of employment (prior service) before 1953. Only those employees who elected to transfer IOASI contributions into IPERS are entitled to prior service benefits.

IPERS is financed through employee and employer matching contributions equal to three and one-half percent of annual salary up to $7,000, and interest earned on accumulated funds. Another important source of revenue is "quit-money" which represents the employer's share of contributions toward IPERS benefits in behalf of persons leaving public employment and who elect to withdraw their accumulated contributions plus interest which results in such employees forfeiting their rights to employer contributions.

IPERS is a very soundly financed program with the only unfunded obligation of the system attributable to assumption by IPERS of the payment of retirement benefits to members and beneficiaries of the former system, IOASI, and prior service bentfits provided IPERS members. Section 97B.54 of the *Code of Iowa* requires that the unfunded obligations of the system be liquidated prior to July 1, 1998, and annual payments are being made to liquidate the liabilities of the system in accordance with the statutory requirement. It should also be noted that all proposed recommendations of this Committee, as well as the 1965-1967 Study Committee, have been examined by the actuary for the system to determine the impact of the proposal on the financial condition of the system.

Judicial Retirement System. The Judicial Retirement System was established in 1949 for the purpose of providing a retirement program for judges of the Iowa Supreme and District Courts. Eligibility for coverage under the system was extended to municipal and superior court judges in 1959. The state comptroller is responsible for the administration of the system. Participation in the Judicial Retirement System is voluntary, but judges wishing to participate must do so within one year after taking their oath of office. Judges not electing to join the Judicial Retirement System are automatically included under IPERS.

Judges must complete either at least six years of service and attain the age of sixty-five, or twenty-five years of service to qualify for retirement benefits. Formula benefits for service retirement and disability retirement benefits are provided under the system. No death benefits, other than return of employee contributions, are provided under the present system.

Judges presently contribute four percent of their total salary toward the system, while the employer contribution rate is three percent of total salary. The employer contribution is far less than the rate required to fund the system in an actuarially sound basis, and the system consequently is being financed primarily on a pay-as-you-go basis, i.e., contributions from active members are being used to finance benefits payable to retired and disabled members. Funds are also appropriated by each General Assembly to meet benefit obligations of the system.

Peace Officers' Retirement System. The Peace Officers' Retirement, Accident and Disability System was established in 1949. All members of the Iowa Highway Patrol and Bureau of Criminal Investigation, except clerical workers, are required to participate in the system. The system is administered by a three-member board of trustees composed of the Commissioner of Public Safety, the State Treasurer, and a member of the system.

Formula benefits are provided under the system for service retirement, disability, and survivors' benefits in event of death of an active or retired member. Members with at least twenty-two years of service are eligible for service retirement benefits at age fifty-five. An additional feature of the Peace Officers' Retirement System is an escalator clause which provides for adjustments of the retirement benefits of retired, disabled, and deceased members upon the granting of salary increases to active employees holding the same or equivalent rank of the retired member receiving benefits. The escalator provisions were enacted in 1965.

Members of the system are required to contribute a percentage of their total salary, ranging from four and ninety-one hundredths percent to six and one-half percent, which varies according to their age upon commencement of employment. The state is required by statute to contribute toward the system in accordance with a formula based on current assets, liability, and future salaries payable to members of the system. Present statutes contain a "savings clause", however, under which the state's share of the cost of providing benefits under the system may be financed on a pay-as-you-go basis. Although assets are being accumulated under the system, the state's contribution rate has not in the past been sufficient to fund the system in accordance with the statutory formula. The state's contribution under the statutory formula should be twenty-eight and six tenths percent of payroll compared to the present rate of sixteen percent of payroll. Another factor affecting the financial condition of the system is that members were given credit toward retirement for all previous years of law enforcement service prior to establishment of the system in 1949, but no provision was made to fund the liabilities accrued from allowing this credit.

Locally Administered Retirement Systems

Retirement Systems for Local Policemen and Firemen. The first retirement systems for policemen and firemen were established in 1909. These systems, which are authorized under present chapter 410 of the Code, have been largely superseded by retirement systems for policemen and firemen established under chapter 411 of the Code. The chapter 411 systems were established during the Extraordinary Session of the Forty-fifth Iowa General Assembly (1933), and all policemen and firemen employed after March 1, 1934 by municipalities required to establish such retirement systems, must be members of the chapter 411 systems. Policemen and firemen appointed prior to March 1, 1934 continue to be covered under chapter 410 systems, but these systems are now being liquidated in cities required to establish retirement systems under chapter 411. Until the systems are liquidated, however, most cities with populations exceeding 10,000 have four separate retireemnt systems for local policemen and firemen.

Chapter 411 requires that separate retirement systems be established for policemen and firemen in any city electing or required to appoint firemen and policemen under civil service. Cities with populations exceeding 8,000 persons, which have paid police or fire departments, are required under section 365.1 of the *Code of Iowa* to establish a civil service system for such employees. Establishment of a civil service system is optional for cities under 8,000 population.

Chapter 411 systems are administered by seven-member boards of trustees composed of city officials, members of the system, and private citizens. A separate board administers the separate systems for policemen and firemen in each municipality, but private citizen members serve on both boards. Chapter 410 systems are administered by three-member boards of trustees, but provision is made for these systems to be administered by the chapter 411 board of trustees in cities with systems under both chapters 410 and 411.

Benefits provided under police and fire retirement systems established in accordance with chapters 410 and 411 include service retirement, disability, and survivors benefits. Benefits are virtually identical to the benefits provided under the Peace Officers' Retirement System discussed previously, including provision for escalation of benefits to members receiving retirement allowances upon the granting of salary increases to active members.

Although little data on chapter 410 systems is available, it is believed most chapter 410 systems are being financed on a pay-as-you-go basis. Chapter 410, unlike chapter 411, does not require that the systems be funded on an actuarially sound basis, and most cities provide for an annual appropriation to the systems for the purpose of paying benefits due each year. This funding method is probably adequate for these systems since no new members are being admitted for coverage and very few active members remain in the systems.

Employee contribution rates and the procedure for calculating the city's contribution rate for chapter 411 systems is identical to the rates and procedures under the Peace Officers' Retirement

System. The 1965-1967 Study Committee forwarded a comprehensive questionnaire to cities with chapter 411 systems, and considerable information was obtained pertaining to the membership, benefits being paid, and financial status of each system. It is apparent from the results of the questionnaire that some chapter 411 systems are not being funded in accordance with the statutory formula, but examination of recent actuarial studies submitted in conjunction with the questionnaire by twelve cities reveals that systems in eleven of the twelve cities, which includes twenty-three separate retirement systems, are more adequately financed than the Peace Officers' Retirement System.

Public School Teachers' Retirement Systems. Section 294.8 of the *Code of Iowa* authorizes any school district located in whole or in part within a city of at least 25,100 population to establish a retirement system for the public school teachers of the school district. Establishment of a retirement system in a city of less than 75,000 must be ratified by a vote of the people. It is provided that funds for retirement systems may be obtained from a tax levy, contributions by teachers, and interest earned on any funds accumulated. The teacher contribution rate must be at least equal to the school district contribution rate. Provision is made for administration of each system by a board of trustees composed of the board of directors of the school district.

The Des Moines school district is the only district in the state which has established a separate teachers' retirement system. In addition to administration of the system by the Board of Trustees (school board), an Advisory Committee has been established to advise the board in policy matters. The Advisory Committee is composed of the superintendent, president of the school board, one private citizen, and four members of the system.

Participation in the Des Moines system is voluntary, but teachers not electing participation are automatically included in IPERS. The Des Moines Teachers' Retirement system is a money-purchase plan which provides service retirement and disability benefits. The chief advantages of the Des Moines system compared with IPERS are the disability benefits, higher service retirement benefits resulting from the higher contribution rates which are based on total salary, and normal service retirement at age sixty. The vesting provisions under the Des Moines system, however, are much more restrictive than IPERS. Members are eligible for IPERS benefits after eight years of service or attainment of at least fifty-five years of age prior to termination. Eligibility for benefits under the Des Moines system is restricted to teachers remaining in the system until age sixty, or teachers who attained the age of at least forty-five years and had completed twenty years of service prior to termination of employment. Employees who qualify for benefits under the latter provision receive an annuity equal to the actuarial value of employee contributions plus a pension equal to twenty-five percent of the annuity. Teachers with twenty years of service terminating employment between the ages of forty-five and sixty receive a pension equal to five percent of the annuity for each year of service completed after age forty-five.

Utilities Employee Retirement Systems. Chapter 412 of the *Code of Iowa* authorizes establishment of municipal utility retirement systems in cities with populations of at least 5,000. Utility systems are defined as "waterworks, sewage works, gas, or electric light plants managed, operated, and owned by a municipality." Systems are to be administered by either the city council or the board responsible for adminstration of the municipal utility.

Funds for utility retirement systems may be obtained from employees, the employer, and interest earned on accumulated funds. The governing authority of the system may contract with any legal reserve insurance company authorized to conduct business in Iowa for payment of the retirement benefits provided.

At least seven municipal retirement systems have been established in Iowa, but little information on the systems is available at the state level. Information compiled for the 1965-1967 Study Committee concerning the municipal utility retirement system of the city of Ames, indicates that employees under the system are provided service retirement, disability, and death benefits. Service retirement benefits are equal to one and one-third percent of the average annual salary for the five consecutive highest years of earnings of the last ten years of service, multiplied by the number of years of service. Disability retirement benefits equal fifty percent of the employee's highest average annual salary. Death benefits are equal to the sum of accumulated employee contributions or a lump sum payment of $1,000, whichever is the greater. Contribution rates for the Ames system are five percent of total salary for employees and seven and one-half percent of total salary for the employer.

Retirement Systems for Municipal Judges. The city of Ames has established a separate retirement system for municipal judges. No specific statutory authority to establish municipal judge retirement systems has been located in the Code, but provision was made under IPERS in 1953 that persons covered under any other retirement system could be excluded from IPERS coverage. It is believed that the Ames system is the only separate municipal judges' retirement system in the state, and the city's response to a 1965-1967 Study Committee survey indicated that only one judge was a member of the system. No information is available on the benefits provided under the Ames system.

Other Retirement Systems Offered Iowa Public Employees

Higher-salaried permanent staff employees of the University of Iowa, Iowa State University, and University of Northern Iowa are presently granted the option of either IPERS or coverage under an alternative retirement system with benefits provided by private insurers. It is believed that all, or virtually all, employees electing coverage under the optional program have selected the Teachers Insurance and Annuity Association (TIAA) program. TIAA is a nonprofit, legal reserve life insurance and annuity company which was founded in 1918 by the Carnegie Foundation for the advancement of teaching. Participation in TIAA is limited to employees of public and private colleges or universities and certain nonprofit research or educational organizations. Eligibility for TIAA in Iowa is limited to permanent staff employees with annual salaries of at least $4,800 at the University of Iowa and University of Northern Iowa and at least $6,600 at Iowa State University.

TIAA coverage has been offered in the three Board of Regents' institutions since about 1944. TIAA is nation-wide in scope, and the State is not involved in the administration of the system except for determination of eligibility, contribution rates and monthly remittance of contributions to TIAA.

The chief advantages of TIAA in comparison with IPERS are increased retirement benefits resulting primarily from greater employee and employer contribution rates toward the system, the variable annuity option provided, and the issuance of annuity contracts directly to the individual with no vesting requirement for eligibility to receive benefits. The employer contributes an amount toward TIAA equal to twice the contribution of the employee. Present employer contribution rates are six and two-thirds percent of salary up to $4,800 and ten percent on the salary balance in excess of $4,800.

The variable annuity program is offered under a separate nonprofit corporation, the College Retirement Equity Fund (CREF), although eligibility is restricted to those persons granted TIAA coverage. The employee may elect to allocate from twenty-five percent to seventy-five percent of total employee-employer contributions into CREF, and the funds allocated are invested in common stocks. Upon retirement, the person is granted a fixed-income based on TIAA contributions and a variable income based on CREF contributions. The variable income is recomputed each year on the basis of the market value of CREF funds.

The third major feature of the TIAA program, immediate vesting, permits an employee to accept employment in another institution without losing his rights to an annuity based on both employee and employer contributions. Most retirement systems have vesting requirements under which eligibility for retirement benefits is contingent upon employment for a specific number of years.

TIAA AND IPERS COVERAGE AT BOARD OF REGENTS INSTITUTIONS

First Quarter, 1968

Institutions	Number Under TIAA	Number Under IPERS	Total Full-time Employees	% Of Employees Under TIAA
Iowa State University	1,801	2,572	4,373	41.18%
University of Iowa	3,215	3,483	6,698	48.00%
University of Northern Iowa	481	630	1,111	43.29%
Totals	5,497	6,685	12,182	45.12%

BOARD OF REGENTS INSTITUTIONS EMPLOYEES UNDER IPERS WITH SALARIES EXCEEDING $4,800

First Quarter, 1968

	Salary Level (Number of Employees)				
Institutions	\$4,800-\$6,600	\$6,600-\$7,000	\$7,000-\$10,000	Over \$10,000	Total Over \$4,800
Iowa State University	687	45	191	87	1,010
University of Iowa	505	61	214	33	813
University of Northern Iowa	93	25	78	25	221

COMMITTEE RECOMMENDATIONS

Investment of Iowa Retirement System Funds

Present Procedures. As previously discussed, most retirement systems for public employees established in Iowa are administered and funds invested by a separate governing authority. The Committee believes, in accordance with its fourth goal, that investment of the funds of individual retirement systems should be consolidated for more efficient operation and increased investment income. In discussing the possibility of centralizing investment of retirement system funds, it should be emphasized that the great majority of Iowa state and local public employees are covered under a single system, IPERS, which in effect results in considerable consolidation of administration and investment of retirement system funds. Other states may have separate retirement systems for state employees, teachers, local employees, and other types of employees, each of which may be administered by a separate agency or board.

Most retirement systems for Iowa public employees are formula benefit programs under which the employer must pay the difference between the total cost of providing benefits and the amounts obtained through employee contribution and investment income. Increases in investment income therefore directly reduce the employer's share of the cost of financing a formula benefit retirement program. Information available indicates that investment yields for the great majority of systems are less than four percent compared with the overall present IPERS yield of four and eight tenths percent for the 1968 fiscal year. The yield on new money invested during the 1968 fiscal year was six and sixteen hundredths percent. Small increases in the rates of return can yield considerable amounts of revenue considering total assets invested. For example, total assets held by the sixty police and fire retirement systems established under chapter 411 of the *Code of Iowa* amount to about forty million dollars. An increased percentage yield of only five-tenths percent would result in an increase in investment income of $200,000, while a full one percent increase would yield an additional $400,000.

Management of a large and diversified investment portfolio requires skilled investment counsel, and it is extremely doubtful whether the board or official responsible for investment of the funds of many smaller state and local retirement systems has the experience and expertise needed to obtain the maximum return consistent with safety from accumulated retirement system funds. A further problem involved in investment of retirement system funds is that many of the systems are severely restricted in the types of securities for which investment is authorized. Most systems, with the exception of IPERS and the Des Moines Teachers' Retirement System, either are restricted by law or in actual practice limit investments to a purchase of government securities which yield much lower rates of return than other types of investments.

Committee Proposal. The Committee recommends that investment of retirement system funds be centralized under the Employment Security Commission. The three state administered retirement systems should be required to participate in the centralized investment program, but participation in the centralized investment program should be entirely voluntary on the part of the governing authority of locally administered systems. The Employment Security Commission is believed to be an appropriate agency for such centralization in that this agency is presently responsible for the administration and investment of funds of IPERS which is by far the largest retirement system in the state. This recommendation is being submitted to the Sixty-third General Assembly and is incorporated in Senate File 10.

The major features of the Committee's proposal as found in Senate File 10 are summarized below:

1. Creation of a single fund into which the assets of each retirement system required or electing to participate in the centralized investment are to be placed. All assets placed in the single fund must be transferred at market value or in cash so that a realistic value can be placed on the assets of each system, but systems electing participation may elect to retain securities which may have a market value which is less than the value at which purchased.

2. All moneys held by the three state administered retirement systems would be placed in a single fund, and all benefit payments and any other disbursements of the three systems would be paid from the single fund. Local systems electing to participate in the single fund would periodically remit the excess, if any, of receipts over disbursements, and each system would continue to pay benefits and all other disbursements from funds retained at the local level.

3. All funds in the single fund would be invested by the State Treasurer at the direction of the Employment Security Commission. Funds may be invested in any securities for which IPERS funds may currently be invested including common stocks. Investment income and expenses are to be credited or charged to each system on the basis of the average quarterly balance of each system in relation to the total quarterly balance in the single fund.

4. The Commission is authorized to employ such professional and clerical personnel deemed necessary, employ outside investment counsel, and promulgate any rules and regulations necessary to carry out its assigned functions.

5. The present Advisory Investment Board is continued with no expansion of its advisory powers, but the membership on the board is increased from five to seven members. Two board members would continue to be legislators, appointed by the presiding officers of each house, and the remaining five members are to be appointed by the Governor for six-year terms. No particular qualifications other than experience in the field of investment and finance are required of board members appointed by the Governor in contrast to the present law which outlines the specific qualifications of each board member.

6. The governing authority of any retirement system electing participation in the single fund may, upon no more than one hundred eighty days notice, withdraw from participation in the central fund. Assets of systems electing withdrawal are to be transferred in cash.

Iowa Public Employees' Retirement System (IPERS)

Major revisions in the Iowa Public Employees' Retirement System were recommended by the 1965-1967 Study Committee and subsequently enacted by the Sixty-second Iowa General Assembly. These revisions are summarized as follows:

1. Conversion of IPERS from a money-purchase benefit program to a formula-benefit. The increase in benefits from this conversion has been estimated to range from ten percent to seventy percent depending on age and length of service at the time of retirement. An estimated $2,000,000 each year will be paid in increased benefits to presently retired IPERS members.

2. Prior service benefits, the benefits payable for two years of service prior to 1953, were increased from two-thirds percent of one percent to a full one percent for each year of prior service multiplied by the annual wage during the year of prior service that wages were the highest, up to a maximum of $3,000 annual wage. This revision necessitated an increase of $500,000 per year to finance prior service benefits.

3. The salary base for employee-employer contributions was increased from $4,800 to $7,000. This change will substantially affect future benefits since the formula benefit is based in part on annual salaries subject to IPERS contributions.

4. Expansion of investment authority for IPERS funds to include investments in common stocks of up to ten percent of the fund, with the restriction that no more

than twenty-five percent of new money may be invested in stocks any one year. The effect of this revision cannot yet be evaluated, but the intent of the Committee's recommendation was to increase the amount of funds available for retirement through increased investment income.

In view of the major revisions in IPERS enacted in 1967, the Study Committee is recommending no major revisions in the program in 1969. The full impact of the 1967 revision cannot yet be measured, but the Committee suggests that the revisions be subject to careful review at such time as sufficient information is available for evaluation purposes. The revisions suggested, information compiled, and the recommendations of the Study Committee are summarized below:

IPERS BENEFITS

Present Benefit Formula. The present formula benefit for service retirement under IPERS is equal to one and one-fourth percent of career average salary subject to contributions multiplied by the number of years of service. Adjustments in the formula can either be made in the percentage or the salary upon which benefits are computed. One of the goals of the Study Committee is that the retirement benefit, including Social Security benefits, provided a public employee completing thirty-five years should be not less than fifty percent of average compensation during the last five years of service. IPERS benefits presently meet the Committee's goal for employees with annual salaries up to $7,000, but present benefits for employees with salaries in excess of this figure are inadequate in relation to the Committee's goal. It has been recommended that the present formula be changed from career average salary to average salary during either the last five or the highest five of the last ten years of service. The Committee recommends no change in the salary basis at the present time, but the salary basis should periodically be reviewed to determine the need for future adjustments.

The other method of adjusting formula benefits, increasing the percentage of salary, was also considered by the Committee but is not recommended at this time. Estimates computed at the request of the Committee indicate that an increase in the percentage from one and one-fourth percent to one and one-half percent would require an increase in the contribution rate from three and one-half percent to four percent for both employees and the employer if the $7,000 annual salary ceiling were retained. It is estimated that revision of the formula to one and one-half percent would result in approximately a twenty percent increase in retirement benefits.

Pension Adjustments After Retirement. A major problem in the maintenance of adequate benefits following retirement is the effect of inflation on fixed retirement income. A stable relationship between purchasing power and income can be maintained through salary increases while employed, but a fixed benefit at the time of retirement may be very inadequate following increases in the cost of living. Adjustments in pensions following retirement are provided under the Peace Officers' Retirement System, local police and fire retirement systems, and TIAA-CREF. Several methods of adjusting retirement benefits following retirement have been considered by the Committee. The methods, each of which is accompanied by a brief explanation, are as follows:

1. **Variable Annuity.** This approach is currently utilized under TIAA-CREF, the Wisconsin systems for public employees and teachers, state systems in New Jersey and Oregon, and the Milwaukee and New York City teacher retirement systems. Under the variable annuity approach authorized under TIAA-CREF, the member may elect to place a specific percentage of his employee-employer contributions into a separate fund which is invested in common stocks. The value of the member's accumulated contributions varies according to the favorable or unfavorable investment experience of the fund. Upon retirement, a value is placed upon the variable portion of the member's retirement benefit, and this value is annually adjusted upward or downward in accordance with the investment earnings performance of the total fund. Although there is no guarantee that the stock market will fluctuate with changes in the cost of living, past market performance indicates a close relationship between prices and adjustments in the cost of living.

   A limited variable annuity approach presented for Committee consideration is to allow a member to place a percentage of his accumulated contributions at the time of retirement in a separate fund invested in common stocks with an annual adjustment in benefits according to the investment experience of the fund. This approach contrasts with the CREF program, under which the participant may elect to place a percentage of contributions in CREF during his entire period of employment. Another approach, which is presently utilized by Arizona, is the "thirteenth check" concept, under which the retired member is paid an additional benefit at the end of the year based on favorable investment earnings experience and mortality rates for the preceding year.

It should be emphasized that, although the variable annuity is based entirely on favorable investment earnings, adoption of any of the above approaches will result in some additional cost to IPERS at least in the form of administrative costs. In addition, investment income is presently used to fund the formula benefits provided under IPERS, and a different allocation of this income will therefore somewhat affect the financial condition of the system.

2. **Formula Adjustments.** A second method of adjusting pensions after retirement is through either a fixed formula or adjustments based on economic factors. Fixed formula programs utilized in Hawaii, Nevada, and the Kentucky Teacher's System, provide for automatic increases in pensions each year. This approach is based on the assumption that there will be continual increases in the cost of living, and the fixed percentage increase is intended to maintain a stable relationship between pension income and cost of living increases.

   Another approach under the formula method is adjustments in pensions on the basis of some type of economic indicator which reflects increases or decreases in the purchasing power of the dollar. The economic factor most widely utilized is the Consumer Price Index, also called the cost of living index, computed by the United States Department of Labor. Systems which use the cost of living approach include the Federal Civil Service Retirement System, state systems in Massachusetts and Utah, and several local systems in California.

3. **Adjustments According to Job Classification.** A third method of adjusting pensions after retirement is through an "escalator clause", currently used under the Peace Officers' Retirement System and local police and fire retirement systems, under which retirement benefits are adjusted in accordance with salary increases granted active members of the retired member's equivalent rank at the time of retirement. This method requires a well defined job classification system, such as found in law enforcement and other similar agencies, and it is believed that providing an escalator clause under IPERS may not be feasible at this time in view of the presently untested job classification system provided for most public employees covered under IPERS.

4. **Insuring Adequate Benefit Upon Retirement.** Perhaps the most important method of combating the effect of inflation on fixed retirement income is through insuring an adequate benefit at the time of retirement. Since the person's salary at the time of retirement reflects his standard of living upon retirement, many pension experts contend that retirement benefits based on average salary the last few years of employment will probably provide adequate retirement allowances for the lifetime of many retired persons.

5. **Periodic Benefit Increases.** Although no specific method of periodically adjusting pensions is provided under IPERS, it should be noted that adjustments in pension benefits after retirement have been periodically implemented through statutory revision. For example, large increases in IPERS benefits were provided by the Sixty-second General Assembly through increasing prior service benefits and implementation of the formula benefit.

6. **Committee Recommendation.** The Committee recommends adoption of a limited variable annuity option for retired members of IPERS. Legislation is being submitted

to carry out this recommendation in the Form of Senate File 15. The variable annuity option would be administered and would work as herein described.

IPERS now provides an amount of monthly pension determined by a formula which fixes the member's monthly pension at the time he retires. His monthly pension remains level throughout his retired lifetime.

The variable annuity option would permit a retiring IPERS member to elect that half of his monthly pension would be adjusted once each year. The amount of adjustment each year would depend on the investment performance on securities in the variable annuity investment account portion of the IPERS retirement fund. The securities in the variable annuity account would be mostly, if not all, in the form of common stocks. This type of investment would provide the maximum potential for adjustment of pensions.

The variable annuity option would provide the same death benefit as the normal form of IPERS retirement allowance, i.e., payment to the beneficiary of the excess, if any, of the member's accumulated contributions as of his retirement date over the total retirement allowances paid to him under the retirement system.

Assume an IPERS member is ready to retire and has made his retirement application to the IPERS administrative office. He is informed that he is entitled to a monthly pension of $200.00 on a fixed basis or that he may elect to have $100.00 of his monthly pension, i.e. one-half of his $200.00 entitlement, paid to him under the variable annuity option with the other $100.00 paid to him on the fixed basis. If he elects the variable annuity option, then the single sum value of his variable pension, computed on the basis of actuarial tables adopted by the Commission, is transferred to the variable annuity investment account within the IPERS retirement fund for the purpose of investing largely in common stocks. Based on the actuarial tables currently being used by Commission, the single sum value to be so transferred for this retiring member is $13,866.00, assuming he is age sixty-five.

During the first year of retirement, the retired member receives exactly $200.00 per month. At the beginning of his second year of retirement, the variable half of his pension is adjusted by applying the variable annuity adjustment factor; this factor is based on the investment performance in the variable annuity investment account of the IPERS retirement fund.

Assuming a variable annuity account factor of 1.0388 computed at the beginning of the member's second year of retirement on the basis of investment performance in the variable annuity investment account during his first year of retirement, the variable half of the member's pension would be increased by multiplying the variable annuity account factor times the variable half of his pension. If the member's variable pension during his first year of retirement is $100.00 per month, his variable monthly pension for his second year of retirement would be $103.88 which, together with his fixed monthly pension of $100.00, would give him a total monthly pension of $203.88 during his second year of retirement. At the end of his second year of retirement, a new variable annuity account factor would be computed based on investment performance in the variable annuity investment account of the IPERS retirement fund during his second year of retirement. This new variable annuity account factor would be multiplied by the variable portion of his monthly pension paid to him during the second year of his retirement to determine the variable portion of his monthly pension payable during his third year of retirement. The same process would be repeated each year.

Appendix II illustrates how the variable pension would be adjusted each year based on a hypothetical set of variable annuity account factors for a span of fifteen years and assuming the member's monthly pension is initially $200.00 (i.e. $100.00 fixed and $100.00 variable).

Benefit Options Upon Retirement Under IPERS. An IPERS member may select any of the following four benefit options at the time of his retirement:

Option 1—A lifetime monthly benefit with provision that if benefits received upon the member's death are not equal to the total accumulated contributions plus interest of the employee and employer, the remaining balance will be refunded to the beneficiary.

Option 2—A lifetime benefit with provision that if benefits received upon the member's death are not equal to employee contributions plus interest, the remaining balance will be refunded to the beneficiary. This option results in a higher benefit than Option 1 since only employee contributions plus interest are subject to refund upon death.

Option 3—A lifetime benefit with no refund paid upon death of the member. This option results in a higher benefit than either Options 1 or 2 since no refund is payable upon death.

Option 4—Decreased benefits with provision for continuing benefits to the beneficiary. The members may elect a decreased benefit for life with an identical benefit continued after his death to the beneficiary, a decreased benefit with provision that one-half of the monthly benefit is continued after his death to the beneficiary, or a decreased benefit with provision that one-fourth of the monthly benefit is to be continued after his death to the beneficiary.

Many retirement programs and life insurance policies provide an additional option that payment of full benefits to either the member or his beneficiary are guaranteed for a specified number of years. The chief advantage of this benefit option, referred to as a "certainty and life thereafter" option, is the guarantee that full benefits will be provided either the member for life or, in the event of the member's death, his beneficiary for the remaining years of the certainty period. Implementation of a certainty period option will not result in any additional cost to the system since the amount of the benefit is actuarially determined.

The Committee recommends that an additional benefit option providing for a ten-year certainty and life thereafter benefit option be provided under IPERS. Examples of present benefits under each option, except Option 4, and comparisons with the proposed new option are included in Appendix III of this report. This recommendation is incorporated in Senate File 13.

Death Benefits. The present law requires payment of accumulated employee-employer contributions plus interest in a lump sum to the beneficiary upon the death of an active member. The Committee recommends that death benefits be made payable in annuity form in addition to the present lump sum method of payment. This option will result in no additional cost to the system since the monthly benefit would be actuarially determined. For tax purposes, it is recommended that the option be elected by the member rather than the beneficiary. If the member does not elect the option, the beneficiary would be entitled to select the method of payment. This recommendation is incorporated in Senate File 14.

Service Requirements

As indicated previously, state and local public employees at the time IPERS was established in 1953 were given the option of transferring their IOASI contributions to IPERS and qualifying for prior service benefits, or withdrawing employee contributions in cash. Many public employees withdrew their contributions in 1953, thus forfeiting their rights to prior service benefits. Prior service benefits have been substantially increased since 1953, and it is now apparent that employees who transferred their contributions into IPERS are now entitled to much greater benefits in relation to their contributions than employees withdrawing contributions in 1953 expected.

Proposals to permit IPERS members who withdrew their contributions to buy back prior service benefits were considered by this Committee, as well as the 1965-1967 Study Committee. Under the proposed "buy-back", employees would be permitted a certain length of time to return the amount withdrawn from IOASI plus interest which would have been earned on the funds since 1953. The maximum amount which could have been contributed to IOASI, without interest, is $540.00. The interest earned from 1946 to the present would probably be about equal to the principal withdrawn in 1953.

The total cost to state and local government of permitting a "buy-back" of prior service was estimated for the 1965-1967 Study Committee to be approximately $3,131,000 or $119,000 per year if the liability were funded over a forty-year period. The Employment Security Commission staff has estimated that, in view of prior service benefit increases enacted by the 1967 Legislature, the present annual cost of permitting a buy-back will amount to about $164,000 per year.

It is recognized that employees should have been given more encouragement in 1953 to transfer their contributions into IPERS and thus obtain credit for prior service, but the Committee believes that there is little which can now be done to correct this situation. The Committee therefore has rejected the suggestion that employees be allowed to "buy-back" prior service.

Another area closely connected with a "buy-back" provision is that elected county officials prior to 1953 were not eligible for IOASI; and consequently, those officials in office from 1946 to 1953 do not qualify for prior service benefits which are based on all years of service including years prior to establishment of IOASI in 1946. It has been suggested that an elected county official also be permitted to obtain credit for prior service by contributing an amount plus interest which would have been contributed by the elected county official had he been eligible for IOASI. Based on survey of counties conducted by the Fayette County Auditor, it has been estimated that the annual cost of allowing prior service benefits for the group of elected county officials not eligible for IOASI would amount to about $20,000 per year.

While the cost of permitting a "buy-back" to elected county officials is not great, the Committee believes there is little justification for permitting such purchase of prior service credit. It is probable that these officials were not interested in coverage under IOASI, and many of these officials would probably have withdrawn their contributions in 1953 had they been eligible for such withdrawal. It is therefore recommended that elected county officials not be permitted to purchase prior service benefits in the manner outlined above.

Financing Retirement Benefits

IPERS benefits are presently financed by matching employee-employer contribution rates equal to three and one-half percent of the employee's annual salary up to $7,000. Other sources of revenue for the benefits provided are interest income and the employer's share of contributions, referred to as "quit-money".

IPERS is frequently compared with other programs which provide for much higher employer contribution rates than employee contribution rates. Employer contribution rates under the TIAA program, for example, are double that of the employee rate. The employer also contributes a much greater share than the employee under the Peace Officers' Retirement System and local police and fire systems. Although the employee-employer contribution rate is identical under IPERS, other factors are involved which affect the employer-employee contribution ratio of the system. At the Committee's request the actuary for IPERS calculated that the employer-employee contribution ratio under IPERS, considering "quit-money", was actually 1.43:1 even though employer-employee contribution rates are equal under IPERS. Since no major revisions in the IPERS program are being recommended this interim, the Committee recommends retention of the present employer-employee matching contribution rates under IPERS.

Another factor, in addition to contribution rates, which affects benefits under IPERS is the $7,000 ceiling on IPERS contributions. The ceiling results in lower retirement benefits in relation to salary for persons earning in excess of $7,000, since only that part of the employee's salary subject to contribution is considered in determining the formula benefit. Although removal of the $7,000 ceiling cannot be accomplished without additional cost to the system, a study conducted by the actuary for IPERS at the request of the Study Committee reveals that the ceiling could be removed with no increase in contribution rates required to continue IPERS on a financially sound basis. The annual cost to the employer of removing the salary ceiling is estimated to be about $1,800,000.

The majority of the Committee is of the opinion that the present $7,000 salary ceiling should be retained. The full impact on retirement benefits of increasing the salary ceiling from $4,800 to $7,000 should be carefully evaluated prior to consideration of raising or removing the ceiling, and sufficient data does not now appear to be available to make such an evaluation.

Retirement Benefits. Members of the Iowa Highway Patrol and Bureau of Criminal Investigation are granted greater retirement benefits than other state employees, but the Committee believes that the service retirement, disability, and death benefits provided are justifiable in view of the need for young and career law enforcement personnel. The present retirement system insures the maintenance of a young law enforcement force through provision for early retirement and greatly assists in the recruitment of career personnel through providing excellent retirement benefits upon completion of service.

The Committee believes, however, that the escalator provisions which provide for adjustments in pensions on the basis of salary increases to active members should be continually reviewed by the Legislature. A problem with the escalator approach is that retired members benefit from salary increases even though these increases may be granted to attract and retain law enforcement officers with substantially greater training and educational achievement than the retired officer. Much emphasis is placed today on law enforcement activities and the need for highly trained law enforcement personnel. Adequate law enforcement personnel can probably only be obtained through great increases in salary to upgrade the profession, but the escalator clause which ties retirement benefits for retired officers to present salary levels of active officers may be detrimental to the granting of needed salary increases to present officers. The intent of the 1965 legislation was to insure that pension income would reflect changes in the cost of living, but the large salary increases which will probably be needed in the future to attract and retain law enforcement personnel may bear no relation to increases or decreases in the cost of living.

A further problem with the escalator clause is that the increase of one percent of salary in employee contribution rates, considered at the time to be sufficient to fund the entire cost of providing escalator benefits, is not sufficient to pay the full cost of escalator benefits. One of the arguments advanced in favor of enactment of the escalator provisions in 1965 was that the employee would pay the full cost of the increased benefits. At the request of the Committee, the actuary who performed the 1966 acturarial examination of the Peace Officers' Retirement System computed the cost of funding the escalator clause to be about two percent rather than one percent of payroll. Thus, an increase equal to one percent of payroll is needed in the employee contribution rate to insure that the escalator provisions are financed entirely from employee contributions.

The Committee believes that officers receiving retirement benefits are entitled to adjustments in these benefits based on changes in the cost of living, but retired officers should not necessarily benefit from any salary increases needed to upgrade the occupation of law enforcement. It is therefore believed that either employee contribution rates should be increased to insure that the entire cost of the escalator clause is financed from employee contributions, or the escalator clause should be replaced with a cost-of-living approach to insuring adjustments in retirement benefits in accordance with the cost of living.

Financing the System — Committee Recommendation. The Peace Officers' Retirement System does not conform with the Committee's stated goal that all systems be soundly funded. A review of actuarial examinations of the system conducted since establishment of the system in 1949 reveals that a substantial increase in the state's contribution was recommended following each examination of the system. Present statutes require that the state's contribution rate be equal to the normal rate computed by the actuary in accordance with a statutory formula, but a "savings clause" in the present law permits funding of the system on a pay-as-you-go basis. Review of the Peace Officers' Retirement System since its origin in 1949 reveals that the following two factors are primarily responsible for the present unsound condition of the system:

1. The state's contribution rate has always been substantially below the rate computed on the basis of the statutory formula. The state's contribution rate to the system was eight percent of payroll from the establishment of the system to July, 1957, and sixteen percent of payroll from that date to the present time. Actuarial studies have consistently revealed that the state's contribution rate should be increased to between twenty-six percent and thirty percent of payroll.

2. Members of the system were given credit for all years of previous law enforcement service toward retirement benefits, but no provision was made for funding the prior service liability resulting from allowing this credit upon which no contributions toward retirement were made.

The Committee recommends legislation which eliminates the "savings clause" under which the employer's (state) share of financing the Peace Officers' Retirement System may be funded on a pay-as-you-go basis and increases the employee contribution rate an additional one percent of salary. Section 97A.8 as amended would provide that the state's contribution payable each year is to be the "normal contribution rate" as determined in the most recent actuarial study of the system. The normal contribution rate is determined on the basis of present assets and future liabilities in accordance with a formula prescribed by statute. The state contribution must be paid from funds appropriated by the General Assembly to the Department of Public Safety. This recommendation is incorporated in Senate File 11.

The increase in employee contribution rates results in the range in rates from five and ninety-one hundredths percent of salary for employees entering service at age twenty to seven and one-half percent of salary for employees entering service at age forty or more compared with the present ranges of four and ninety-one hundredths percent to six and one-half percent respectively. Enactment of the present escalator clause in 1965 was accompanied by an increase in employee contribution rates believed to be sufficient to fund the entire cost of the escalator clause. An actuarial examination of the cost of funding the escalator clause requested by the Committee reveals, however, that the actual cost of funding the escalator clause amounts to about two percent of payroll, and the recommended one percent of payroll increase is required to provide for funding of the entire cost of escalator benefits from employee contributions.

The Committee also recommends that the minimum widow's benefits under the Peace Officers' Retirement System be increased from $50.00 to $75.00 a month, and the escalator clause basis be changed from forty-five to fifty percent of salary. These two areas are the only differences between the Peace Officers' Retirement System and local and fire systems established under chapter 411 of the Code. This recommendation is incorporated in Senate File 12.

Possible Revision. Another area of the Peace Officers' System which was suggested for Committee is to reduce retirement benefits if the retired or disabled member is employed by state or local government while receiving benefits under the system. Retired members drawing full benefits may, under present law, accept full-time employment with the state with no provision for reduction of retirement benefits. Other retirement systems do not permit public employment while the person is receiving retirement benefits without provision for benefit reduction. The Committee is not recommending any action on this suggestion.

Other State Law Enforcement Officials

Other state officials defined as and performing peace officer functions are covered under the Iowa Public Employees Retirement System (IPERS). It has been suggested that the benefits provided the Iowa Highway Patrol and the Bureau of Criminal Investigation under the Peace Officers' Retirement System, notably the provisions for early retirement and disability benefits, should be extended to other peace officers. Officers most frequently mentioned in this regard are state conservation officers and guards at Iowa penal institutions.

The Fish and Game Conservation Officers' Association has requested that the Committee recommend establishment of a separate retirement system for conservation officers. The association recommended that the proposed system be identical to the present Peace Officers' System with the exceptions that normal retirement age be placed at age sixty rather than age fifty-five, and the provision for offsetting Social Security benefits against benefits payable to the member or his beneficiary be deleted. Retirement at age sixty rather than age fifty-five would reduce the amount of revenue needed to finance the system. Conservation officers are presently subject to Social Security, and the association believes that benefits derived from Social Security should not be offset, since officers will have contributed toward these benefits during their years of employment.

Another approach might be to extend the Peace Officers' Retirement System to include conservation officers. Present members of the Peace Officers' System have, however, expressed opposition to inclusion of conservation officers, and conservation officers also have expressed reluctance to join the system in view of its present financial condition.

Local Police and Fire Retirement Systems

No consideration has yet been given to revisions in local police and fire retirement systems other than the proposed centralized investment legislation which would include all state and local retirement systems. Consideration might be given to recommending substantially the same revisions as the Peace Officers' Retirement System since this system is virtually identical to local police and fire retirement systems.

Judicial Retirement System

During the latter part of the Committee's study the District Court Judges' Association indicated to the Committee that it desired to appear before it and present a plan for revision of the Judicial Retirement System. Pursuant to such request the Committee invited representatives of the District Judges' Association to appear before it. The District Judges' Association presented the following proposal for revision of the Judicial Retirement System:

Judges in office on or after July 1, 1969, would contribute the balance in excess of $300,000 in the old retirement system fund, to start the new fund. Monthly deductions would be made from judges' salaries at the following rates based on their ages on July 1, 1969, or on subsequent appointment: under forty years, four percent; forty to forty-four years, five percent; forty-five to forty-nine years, six percent; fifty years and over, seven percent. Monthly deductions from judges' retirement compensation for life would be made at the same rates. The state would contribute monthly the additional amount required (less the earnings on the fund), in order to maintain the fund in an actuarially sound condition.

Judges who would retire under the proposed system would receive a pension on retirement at sixty-five or older, consisting of four percent times years of service times the current salary of the office, with a ceiling of sixty percent of such salary. Judges would also be eligible to receive a pension on being determined to be permanently disabled, consisting of six percent times years of service times the current salary of the office, with a ceiling of sixty percent of such salary. A judge's widow would receive an annuity at age sixty (or older, at the judge's death), consisting of half of the amount the judge would receive if living.

To qualify for any benefits, a judge would be required to have at least six years of service. A widow, in order to qualify for benefits, would have to have been married to the judge at least five years prior to his death. She would cease to be qualified upon remarriage.

Judges would only receive a refund of their contributions if they did not serve six years, or if they were removed from office for cause. Otherwise the fund would retain a judge's contributions although he and his widow never lived to receive benefits. An acturarial review and acturarial projections under the system would be reported to the Governor and the presiding officers of the General Assembly every four years for such legislative action as is deemed appropriate.

The Committee reviewed the proposed revisions of the judicial system at its final meeting but is not recommending any action upon the proposal. The Committee notes, however, that the proposal would establish standards higher than provided for other Iowa public retirement plans and in excess of fifty percent of compensation during the last five years of employment, which fifty percent is a goal the Committee believes should be provided for all public employee retirement systems, not selected systems.

The Committee does recommend, however, that the judicial retirement system be revised so as to provide for widows' benefits under an option similar to that provided for in IPERS, and that the judicial retirement system be made actuarially sound over a period of years pursuant to adequate appropriations determined through a statutory formula. The Committee is not submitting legislation to carry out this recommendation because of the lack of study time needed to develop such legislation. It is the opinion of the Committee, however, that such legislation should be developed and approved by the General Assembly.

Legislation Submitted for Consideration by the Legislative Research Committee

The Retirement Programs Study Committee submits for consideration by the Legislative Research Committee the following proposed legislative bills:

Senate File 10. An Act relating to consolidation of the investment of retirement system funds under the employment security commission.

Senate File 11. An act relating to contributions toward the peace officers' retirement, accident, and disability system.

Senate File 12. An Act relating to benefits payable to retired members and beneficiaries under the peace officers' retirement system.

Senate File 13. An Act to provide an additional retirement allowance option for members of the Iowa public employees' retirement system.

Senate File 14. An Act relating to optional payment of accumulated contributions upon death of an active member of the Iowa public employees' retirement system.

Senate File 15. An Act to provide that retired members of the Iowa public employees retirement system may elect to have one-half of their retirement allowances invested in a variable annuity program.

Appendix I

IOWA STATE AND LOCAL RETIREMENT SYSTEMS

Number, Membership, and Assets

Systems	Number of Separate Systems	Membership: Active	Membership: Receiving Benefits	Current Assets
A. State Administered Systems				
Iowa Public Employees' Retirement System (June 30, 1968)	1	105,000	10,978	$272,000,000
Judicial Retirement System (June 30, 1968)	1	77	34	429,000
Peace Officers' Retirement System (Dec. 31, 1967)	1	418	57	5,000,000
Total State Systems	3	105,495	11,069	$277,429,000
B. Locally Administered Systems				
Systems established under Chapter 410 (Oct., 1965)				
Police	24	23	394	Not available
Fire	22	14	495	Not available
Subtotal	46	37	889	
Systems established under Chapter 411 (projected to Dec. 31, 1967)				
Police	33	1,272	276	$ 19,825,000
Fire	27	1,294	213	19,860,000
Subtotal	60	2,566	489	$ 39,685,000
Chapter 412 Municipal Utility Systems (October, 1965)	7	395	82	Not available
Other Systems				
Ames Municipal Judges (October, 1965)	1	1	0	Not available
Des Moines Teachers (June 30, 1968)	1	1,450	292	15,826,000
Total Local Systems	115	4,449	1,752	$ 55,691,000
GRAND TOTAL	118	109,944	12,821	$333,120,000

Appendix II

Illustration Of The Variable Annuity Option In Operation Over A 15 Year Period

Year of Retirement	VAA Factor	IPERS Monthly Pension		
		Fixed	Variable*	Total
1	1.0388	$100.00	$100.00	$200.00
2	1.0485	100.00	103.88	203.88
3	1.0680	100.00	108.92	208.92
4	.8252	100.00	116.33	216.33
5	1.0821	100.00	96.00	196.00
6	1.1111	100.00	103.88	203.88
7	1.1014	100.00	115.42	215.42
8	1.0628	100.00	127.12	227.12
9	.9179	100.00	135.10	235.10
10	1.0192	100.00	124.01	224.01
11	1.0192	100.00	126.39	226.39
12	1.0385	100.00	128.82	228.82
13	1.0481	100.00	133.78	233.78
14	1.0577	100.00	140.21	240.21
15	1.0673	100.00	148.30	248.30

*The variable pension each year is determined by multiplying the VAA Factor for the previous year times the variable pension for the previous year (i.e. the variable pension for the third year of retirement is 1.0485 times $103.88 equals $108.92).

Appendix III

IPERS

BENEFIT ILLUSTRATIONS

Under Options 1, 2, 3, and 5

Assumptions:

(1) No prior service

(2) Accumulated employee contributions at retirement — $3,600

(3) Monthly Formula Benefit — $100 payable at normal retirement

(4) Male employee

Age Nearest Birthday at Retirement	Monthly Retirement Benefit			
	Option 1	Option 2	Option 3	Option 5
55	$ 37.55 (106.3%)	$ 40.00 (99.8%)*	$ 41.31 (96.7%)	$ 39.93
60	68.21 (99.0%)	70.00 (96.4%)	71.34 (94.7%)	67.51
65	98.15 (94.7%)	100.00 (92.9%)	101.83 (91.3%)	92.93
70	95.89 (91.4%)	100.00 (87.7%)	102.60 (85.4%)	87.66
75	90.88 (87.4%)	100.00 (79.4%)	104.05 (76.3%)	79.42

* Ratio of Option 5 to each other option, expressed as a percentage.

Definition of Options:

Option 1 provides refund on death of Employee's and Employer's matching contributions (with interest) in excess of pension payments made.

Option 2 is the formula benefit (i.e. Normal Form) which provides refund on death of Employee's contributions (with interest) in excess of pension payments made.

Option 3 is a life pension only — i.e. no death benefits.

Option 5 is the proposed 10 year certain and life option.

Appendix IV

Comparison of Monthly Benefit Formula of 1.50% With 1.25%*

Age 65 or Over

Years of Service After July, 1953	AVERAGE ANNUAL COVERED WAGES							
	$10,000		$7,000		$6,000		$4,000	
	1.50%	1.25%	1.50%	1.25%	1.50%	1.25%	1.50%	1.25%
35	437	364	306	255	262	219	175	146
25	312	260	218	182	187	156	125	104
15	187	156	131	109	112	94	75	63
10	125	104	87	72	75	63	50	42
5	62	52	43	36	37	31	25	21

Changing formula from 1.25% to 1.50% for each year of service would increase benefits approximately 20% based on service after July, 1953.

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* Prepared for the Retirement Programs Study Committee by Mr. Ed R. Longnecker, Chief, Retirement Division, Employment Security Commission.

Appendix V

Iowa Employment Security Commission
Iowa Public Employees' Retirement System
1000 East Grand, Des Moines, Iowa 50319

EXAMPLES OF FUTURE SERVICE BENEFIT UNDER OPTION 2*
BASED UPON SERVICE AFTER JULY 4, 1953

(For Prior Service Formula — See Final Paragraph)

Approximate monthly formula benefit under Option 2* which provides for a lifetime benefit with a refund at death of the excess, if any, of the member's investment over total monthly retirement allowances received.

Years of Service After July, 1953	AVERAGE ANNUAL COVERED WAGES						
	$7,000	$6,600	$6,000	$5,000	$4,500	$4,000	$3,500
40 Yrs. Service							
Age 65 or over	$292.00	$275.00	$250.00	$208.00	$187.00	$167.00	$146.00
64	274.00	256.00	235.00	196.00	176.00	157.00	137.00
63	257.00	242.00	220.00	183.00	165.00	147.00	128.00
62	239.00	226.00	205.00	171.00	153.00	137.00	120.00
61	222.00	209.00	190.00	158.00	142.00	127.00	111.00
60	204.00	193.00	175.00	146.00	131.00	117.00	102.00
35 Yrs. Service							
Age 65 or over	255.00	240.00	219.00	182.00	164.00	146.00	128.00
64	240.00	226.00	206.00	171.00	154.00	137.00	120.00
63	224.00	211.00	193.00	160.00	144.00	128.00	113.00
62	209.00	197.00	180.00	149.00	135.00	120.00	105.00
61	194.00	182.00	166.00	138.00	125.00	111.00	97.00
60	168.00	158.00	144.00	120.00	115.00	102.00	90.00
25 Yrs. Service							
Age 65 or over	182.00	172.00	156.00	130.00	117.00	104.00	91.00
64	171.00	162.00	147.00	122.00	110.00	98.00	86.00
63	160.00	151.00	137.00	114.00	103.00	92.00	80.00
62	149.00	141.00	128.00	107.00	96.00	85.00	75.00
61	138.00	131.00	119.00	99.00	89.00	79.00	69.00
60	127.00	120.00	109.00	91.00	82.00	73.00	64.00
15 Yrs. Service							
Age 65 or over	109.00	103.00	94.00	78.00	70.00	63.00	55.00
64	102.00	97.00	88.00	73.00	66.00	59.00	52.00
63	96.00	91.00	83.00	69.00	62.00	55.00	48.00
62	89.00	84.00	77.00	64.00	57.00	52.00	45.00
61	83.00	78.00	71.00	59.00	53.00	48.00	42.00
60	76.00	72.00	66.00	55.00	49.00	44.00	39.00

APPENDIX V (Continued)

Years of Service After July, 1953	AVERAGE ANNUAL COVERED WAGES $7,000	$6,600	$6,000	$5,000	$4,500	$4,000	$3,500
5 Yrs. Service							
Age 65 or over	36.00	34.00	31.00	26.00	23.00	21.00	18.00
64	34.00	32.00	29.00	24.00	22.00	20.00	17.00
63	32.00	30.00	27.00	23.00	20.00	19.00	16.00
62	30.00	28.00	25.00	21.00	19.00	17.00	15.00
61	27.00	26.00	24.00	20.00	17.00	16.00	14.00
60	25.00	24.00	22.00	18.00	16.00	15.00	13.00
Approximate Allowance per month at age 65 for each year of service	$ 7.30	$ 6.90	$ 6.30	$ 5.20	$ 4.67	$ 4.20	$ 3.70

*OPTIONAL FORMS OF BENEFIT:

Option 1 provides for a refund at death of the excess of the member's, plus the employer's accumulated contributions over the total retirement benefits paid, and the monthly payment would be less than for Option 2.

Option 3 provides a lifetime benefit for the member but with no refund possibility at death, and the retirement allowance under this option would be greater than the amount indicated by the table for Option 2.

Option 4 provides for a lifetime benefit decreased sufficiently to provide that after the member's death a lifetime monthly benefit will be paid to the contingent annuitant named. Estimates under this option will be provided upon request.

PRIOR SERVICE BENEFIT: If a person has a prior service credit he will receive a prior service benefit in addition to the benefit indicated by the above tables. He may compute his prior service benefit by multiplying 1% of his highest wage in any 12-consecutive month period prior to July 4, 1953 (not to exceed $3,000) by the number of years of service prior to July 4, 1953. Dividing the result by 12 will give the monthly prior service benefit.