

SENATE FILE 431
BY COMMITTEE ON STATE GOVERNMENT

(SUCCESSOR TO SSB 226)

Passed Senate, Date _____ Passed House, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to public retirement systems by providing that
2 member contributions under certain public retirement systems
3 are considered employer contributions for state income tax
4 purposes, and providing applicability and effective date
5 provisions, and providing for the exclusion of certain
6 publicly elected officials from membership, and the
7 calculation of dividends for certain retirees, under the Iowa
8 public employees' retirement system.
9 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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S.F. 431

1 Section 1. Section 97A.8, subsection 1, paragraph i, Code
2 1997, is amended to read as follows:

3 i. (1) Notwithstanding paragraph "g" or other provisions
4 of this chapter, beginning January 1, 1995, for federal income
5 tax purposes, and beginning January 1, 1998, for state income
6 tax purposes, member contributions required under paragraph
7 "f" or "h" which are picked up by the department shall be
8 considered employer contributions for federal and state income
9 tax purposes, and the department shall pick up the member
10 contributions to be made under paragraph "f" or "h" by its
11 employees. The department shall pick up these contributions
12 by reducing the salary of each of its employees covered by
13 this chapter by the amount which each employee is required to
14 contribute under paragraph "f" or "h" and shall certify the
15 amount picked up in lieu of the member contributions to the
16 department of revenue and finance. The department of revenue
17 and finance shall forward the amount of the contributions
18 picked up to the board of trustees for recording and deposit
19 in the pension accumulation fund.

20 (2) Member contributions picked up by the department under
21 subparagraph (1) shall be treated as employer contributions
22 for federal and state income tax purposes only and for all
23 other purposes of this chapter ~~and the laws of this state~~
24 shall be treated as employee contributions and deemed part of
25 the employee's earnable compensation or salary.

26 Sec. 2. Section 97B.11A, Code 1997, is amended to read as
27 follows:

28 97B.11A PICKUP OF EMPLOYEE CONTRIBUTIONS.

29 1. Notwithstanding section 97B.11 or other provisions of
30 this chapter, beginning January 1, 1995, for federal income
31 tax purposes, and beginning January 1, 1998, for state income
32 tax purposes, member contributions required under section
33 97B.11 which are picked up by the employer shall be considered
34 employer contributions for federal and state income tax
35 purposes, and each employer shall pick up the member

1 contributions to be made under section 97B.11 by its
2 employees. Each employer shall pick up these contributions by
3 reducing the salary of each of its employees covered by this
4 chapter by the amount which each employee is required to
5 contribute under section 97B.11 and shall pay the amount
6 picked up in lieu of the member contributions as provided in
7 section 97B.14.

8 2. Member contributions picked up by each employer under
9 subsection 1 shall be treated as employer contributions for
10 federal and state income tax purposes only and for all other
11 purposes of this chapter ~~and the laws of this state~~ shall be
12 treated as employee contributions and deemed part of the
13 employee's wages or salary.

14 Sec. 3. Section 97B.42, Code 1997, is amended by adding
15 the following new unnumbered paragraph:

16 NEW UNNUMBERED PARAGRAPH. Notwithstanding any other
17 provision of this section, a member who is a publicly elected
18 official of the state or any of its political subdivisions,
19 excluding a member of the general assembly of Iowa, whose
20 application for coverage under this chapter has been approved
21 by the department and who is a member of the system pursuant
22 to that coverage, but who, prior to or concurrent with the
23 member's service in the elective office, is a member of the
24 system pursuant to other covered employment, shall no longer
25 be an active member of the system for the elective office as
26 of the last day of the month preceding the member's first
27 month of entitlement for a retirement allowance pursuant to
28 the other covered employment. To be excluded from coverage,
29 the publicly elected official shall be serving in a part-time
30 elective office covered under the system.

31 Sec. 4. Section 294.10A, Code 1997, is amended to read as
32 follows:

33 294.10A PICKUP OF TEACHER ASSESSMENTS.

34 1. Notwithstanding section 294.9 or other provisions of
35 this chapter, for federal income tax purposes beginning

1 January 1 following the submission by a board of trustees of
2 an application to the federal internal revenue service
3 requesting qualification of a plan in accordance with the
4 requirements of the Internal Revenue Code, as defined in
5 section 422.3, and for state income tax purposes beginning
6 January 1, 1998, or January 1 following an application for
7 qualification, whichever is later, teacher assessments
8 required under section 294.9 which are picked up by an
9 employing school district shall be considered employer
10 contributions for federal and state income tax purposes, and
11 each employing school district establishing a pension and
12 annuity retirement system pursuant to this chapter shall pick
13 up the teacher assessments to be made under section 294.9 by
14 its employees commencing on the January-1-following-an
15 application-for-qualification applicable date under this
16 subsection. Each employing school district shall pick up
17 these teacher assessments by reducing the salary of each of
18 the teachers covered by this chapter by the amount which each
19 teacher is required to contribute through assessments under
20 section 294.9 and shall pay to the board of trustees the
21 amount picked up in lieu of the teacher assessments for
22 recording and deposit in the fund.

23 2. Teacher assessments picked up by each employing school
24 district under subsection 1 shall be treated as employer
25 contributions for federal and state income tax purposes only
26 and for all other purposes of this chapter ~~and the laws of~~
27 ~~this state~~ shall be treated as teacher assessments and deemed
28 part of the teacher's wages or salary.

29 Sec. 5. Section 411.8, subsection 1, paragraph i, Code
30 1997, is amended to read as follows:

31 i. (1) Notwithstanding paragraph "g" or other provisions
32 of this chapter, beginning January 1, 1995, for federal income
33 tax purposes, and beginning January 1, 1998, for state income
34 tax purposes, member contributions required under paragraph
35 "f" or "h" which are picked up by the city shall be considered

1 employer contributions for federal and state income tax
2 purposes, and each city shall pick up the member contributions
3 to be made under paragraph "f" or "h" by its employees. Each
4 city shall pick up these contributions by reducing the salary
5 of each of its employees covered by this chapter by the amount
6 which each employee is required to contribute under paragraph
7 "f" or "h" and shall pay the amount picked up in lieu of the
8 member contributions to the board of trustees for recording
9 and deposit in the fund.

10 (2) Member contributions picked up by each city under
11 subparagraph (1) shall be treated as employer contributions
12 for federal and state income tax purposes only and for all
13 other purposes of this chapter ~~and the laws of this state~~
14 shall be treated as employee contributions and deemed part of
15 the employee's earnable compensation or salary.

16 Sec. 6. Section 422.7, subsections 29 through 31, Code
17 1997, are amended by striking the subsections.

18 Sec. 7. IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM --
19 DIVIDEND ADJUSTMENT COMPUTATION.

20 1. For a retiree or beneficiary who received an increase
21 in the retiree's or beneficiary's monthly benefit effective
22 January 1, 1997, pursuant to section 97B.49, subsection 4, the
23 dividend adjustment used to calculate the dividend payable to
24 the retiree or beneficiary in November 1997, pursuant to
25 section 97B.49, subsection 13, paragraph "g", shall not be
26 calculated pursuant to that paragraph but shall be calculated
27 as provided in subsection 2.

28 2. The dividend adjustment for a retiree or beneficiary
29 described in subsection 1 shall be calculated by multiplying
30 the sum of the dividend payable to the retiree or beneficiary
31 in November 1996 and an amount representing twelve times the
32 total of the retiree's or beneficiary's monthly benefit
33 payments received by the retiree or beneficiary for January
34 1997 by the applicable percentage as determined by section
35 97B.49, subsection 13, paragraph "g". To the extent not

1 inconsistent with this subsection, the provisions of section
2 97B.49, subsection 13, paragraph "g", shall apply in
3 calculating the dividends payable in November 1997 to a
4 retiree or beneficiary described in subsection 1.

5 3. This section shall only apply to the calculation of
6 dividends for November 1997, and shall not apply to the
7 calculation of dividends for any subsequent year.

8 Sec. 8. EFFECTIVE AND APPLICABILITY DATE. Sections 1, 2,
9 4, 5, and 6 of this Act take effect January 1, 1998, and apply
10 to tax years beginning on or after January 1, 1998.

11 EXPLANATION

12 This bill provides that, beginning January 1, 1998, a
13 member's contribution under the public safety peace officers'
14 retirement, accident, and disability system, the Iowa public
15 employees' retirement system (IPERS), and the statewide fire
16 and police retirement system are considered employer
17 contributions, and not part of the employee's salary, for
18 state income tax purposes. Current law provides, as of
19 January 1, 1995, that these contributions for these systems
20 are considered employer contributions for federal income tax
21 purposes only.

22 The bill also provides that member contributions to a
23 pension and annuity retirement system for teachers established
24 pursuant to chapter 294 are considered employer contributions
25 for state income tax purposes, beginning January 1, 1998, or
26 on the January 1 following submission of an application for
27 qualification of the system to the internal revenue service,
28 whichever is later.

29 The provisions of this bill concerning pretax treatment of
30 contributions take effect January 1, 1998, and apply to tax
31 years beginning on or after that date.

32 This bill also provides that a part-time elected official
33 covered under IPERS who is also covered under IPERS for other
34 employment ceases to be an active member of IPERS as an
35 elected official on the last day of the month prior to the

1 member's first month of entitlement to a retirement allowance
2 pursuant to the other employment.

3 This bill provides that the dividends otherwise payable in
4 November 1997 for retirees or beneficiaries under IPERS who
5 received an increase in their monthly benefit in January 1997
6 based on the increase in the minimum monthly benefit shall be
7 calculated based on the monthly benefits they are entitled to
8 receive for this year and not on the total of the monthly
9 benefits they received during 1996.

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SENATE FILE 431
FISCAL NOTE

A fiscal note for Senate File 431 is hereby submitted pursuant to Joint Rule 17. Data used in developing this fiscal note is available from the Legislative Fiscal Bureau to members of the Legislature upon request.

Senate File 431 provides that, beginning January 1, 1998, a member's contribution under the Public Safety Peace Officers' Retirement, Accident, and Disability System (POR), the Iowa Public Employees' Retirement System (IPERS), and the Statewide Fire and Police Retirement System (MFPRSI) are considered employer contributions rather than part of the employee's salary for state income tax purposes. Current law provides that these contributions for these systems are considered employer contributions for federal income tax purposes only. The provision would also apply to certain teacher pension and annuity plans.

This Bill also provides that a part-time elected official covered under IPERS who is also covered under IPERS for other employment ceases to be an active member of IPERS as an elected official on the last day of the month prior to the member's first month of entitlement to a retirement allowance pursuant to the other employment.

Additionally, SF 431 provides that the dividends otherwise payable in November 1997 for retirees or beneficiaries under IPERS who received an increase in their monthly benefit in January 1997 based on the increase in the minimum monthly benefit shall be calculated based on the monthly benefits they are entitled to receive for this year and not on the total of the monthly benefits they received during 1996.

ASSUMPTIONS

1. Only those provisions of SF 431 dealing with pre-tax treatment of public pensions are expected to have any fiscal impact.
2. The following retirement systems are included in the estimate: IPERS, POR, MFPRSI, and the Des Moines Teachers' Retirement Fund.
3. The average marginal tax rate of the affected employees is assumed to be 5.0%. This has been reduced by 10.0% from past estimates to reflect the change in income tax rates pursuant to HF 388.
4. State withholding would be adjusted beginning with the first paycheck in January 1998.

The following table shows the estimated number of employees and total contributions affected by the Bill (in millions of dollars).

EMPLOYEES	IPERS	POR	MFPRSI	TEACHER	TOTAL
Number	148,500	612	3,615	1,017	153,744

-2-

Contributions \$143.2 \$2.4 \$11.9 \$1.7 \$159.2

FISCAL IMPACT

Senate File 431 is expected to result in a decrease in revenues to the General Fund of approximately \$4.4 million in FY 1998 and \$8.8 million in FY 1999 and subsequent fiscal years. Since the tax reduction is in the form of a deferral, a significant portion of this cost would be recouped upon the retirement of the affected employees.

SOURCES

IPERS

MFPRSI

POR

Des Moines Teachers' Retirement Fund

(LSB 2678SV, JAM)

FILED MARCH 27, 1997

BY DENNIS PROUTY, FISCAL DIRECTOR

Ritter, Chair
Kibbie
McKibben

SSB 226

State Government

Succeeded By

(SF) HF 431

SENATE FILE _____
BY (PROPOSED COMMITTEE ON STATE
GOVERNMENT BILL BY CHAIR-
PERSON LIND)

Passed Senate, Date _____ Passed House, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
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A BILL FOR

1 An Act relating to public retirement systems by providing that
2 member contributions under certain public retirement systems
3 are considered employer contributions for state income tax
4 purposes, and providing applicability and effective date
5 provisions, and providing for the exclusion of certain
6 publicly elected officials from membership, and the
7 calculation of dividends for certain retirees, under the Iowa
8 public employees' retirement system.

9 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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1 Section 1. Section 97A.8, subsection 1, paragraph i, Code
2 1997, is amended to read as follows:

3 i. (1) Notwithstanding paragraph "g" or other provisions
4 of this chapter, beginning January 1, 1995, for federal income
5 tax purposes, and beginning January 1, 1998, for state income
6 tax purposes, member contributions required under paragraph
7 "f" or "h" which are picked up by the department shall be
8 considered employer contributions for federal and state income
9 tax purposes, and the department shall pick up the member
10 contributions to be made under paragraph "f" or "h" by its
11 employees. The department shall pick up these contributions
12 by reducing the salary of each of its employees covered by
13 this chapter by the amount which each employee is required to
14 contribute under paragraph "f" or "h" and shall certify the
15 amount picked up in lieu of the member contributions to the
16 department of revenue and finance. The department of revenue
17 and finance shall forward the amount of the contributions
18 picked up to the board of trustees for recording and deposit
19 in the pension accumulation fund.

20 (2) Member contributions picked up by the department under
21 subparagraph (1) shall be treated as employer contributions
22 for federal and state income tax purposes only and for all
23 other purposes of this chapter ~~and the laws of this state~~
24 shall be treated as employee contributions and deemed part of
25 the employee's earnable compensation or salary.

26 Sec. 2. Section 97B.11A, Code 1997, is amended to read as
27 follows:

28 97B.11A PICKUP OF EMPLOYEE CONTRIBUTIONS.

29 1. Notwithstanding section 97B.11 or other provisions of
30 this chapter, beginning January 1, 1995, for federal income
31 tax purposes, and beginning January 1, 1998, for state income
32 tax purposes, member contributions required under section
33 97B.11 which are picked up by the employer shall be considered
34 employer contributions for federal and state income tax
35 purposes, and each employer shall pick up the member

1 contributions to be made under section 97B.11 by its
2 employees. Each employer shall pick up these contributions by
3 reducing the salary of each of its employees covered by this
4 chapter by the amount which each employee is required to
5 contribute under section 97B.11 and shall pay the amount
6 picked up in lieu of the member contributions as provided in
7 section 97B.14.

8 2. Member contributions picked up by each employer under
9 subsection 1 shall be treated as employer contributions for
10 federal and state income tax purposes only and for all other
11 purposes of this chapter ~~and the laws of this state~~ shall be
12 treated as employee contributions and deemed part of the
13 employee's wages or salary.

14 Sec. 3. Section 97B.42, Code 1997, is amended by adding
15 the following new unnumbered paragraph:

16 NEW UNNUMBERED PARAGRAPH. Notwithstanding any other
17 provision of this section, a member who is a publicly elected
18 official of the state or any of its political subdivisions,
19 excluding a member of the general assembly of Iowa, whose
20 application for coverage under this chapter has been approved
21 by the department and who is a member of the system pursuant
22 to that coverage, but who, prior to or concurrent with the
23 member's service in the elective office, is a member of the
24 system pursuant to other covered employment, shall no longer
25 be an active member of the system for the elective office as
26 of the last day of the month preceding the member's first
27 month of entitlement for a retirement allowance pursuant to
28 the other covered employment. To be excluded from coverage,
29 the publicly elected official shall be serving in a part-time
30 elective office covered under the system.

31 Sec. 4. Section 294.10A, Code 1997, is amended to read as
32 follows:

33 294.10A PICKUP OF TEACHER ASSESSMENTS.

34 1. Notwithstanding section 294.9 or other provisions of
35 this chapter, for federal income tax purposes beginning

1 January 1 following the submission by a board of trustees of
2 an application to the federal internal revenue service
3 requesting qualification of a plan in accordance with the
4 requirements of the Internal Revenue Code, as defined in
5 section 422.3, and for state income tax purposes beginning
6 January 1, 1998, or January 1 following an application for
7 qualification, whichever is later, teacher assessments
8 required under section 294.9 which are picked up by an
9 employing school district shall be considered employer
10 contributions for federal and state income tax purposes, and
11 each employing school district establishing a pension and
12 annuity retirement system pursuant to this chapter shall pick
13 up the teacher assessments to be made under section 294.9 by
14 its employees commencing on the January-1-following-an
15 application-for-qualification applicable date under this
16 subsection. Each employing school district shall pick up
17 these teacher assessments by reducing the salary of each of
18 the teachers covered by this chapter by the amount which each
19 teacher is required to contribute through assessments under
20 section 294.9 and shall pay to the board of trustees the
21 amount picked up in lieu of the teacher assessments for
22 recording and deposit in the fund.

23 2. Teacher assessments picked up by each employing school
24 district under subsection 1 shall be treated as employer
25 contributions for federal and state income tax purposes only
26 and for all other purposes of this chapter ~~and the laws of~~
27 ~~this state~~ shall be treated as teacher assessments and deemed
28 part of the teacher's wages or salary.

29 Sec. 5. Section 411.8, subsection 1, paragraph i, Code
30 1997, is amended to read as follows:

31 i. (1) Notwithstanding paragraph "g" or other provisions
32 of this chapter, beginning January 1, 1995, for federal income
33 tax purposes, and beginning January 1, 1998, for state income
34 tax purposes, member contributions required under paragraph
35 "f" or "h" which are picked up by the city shall be considered

1 employer contributions for federal and state income tax
 2 purposes, and each city shall pick up the member contributions
 3 to be made under paragraph "f" or "h" by its employees. Each
 4 city shall pick up these contributions by reducing the salary
 5 of each of its employees covered by this chapter by the amount
 6 which each employee is required to contribute under paragraph
 7 "f" or "h" and shall pay the amount picked up in lieu of the
 8 member contributions to the board of trustees for recording
 9 and deposit in the fund.

10 (2) Member contributions picked up by each city under
 11 subparagraph (1) shall be treated as employer contributions
 12 for federal and state income tax purposes only and for all
 13 other purposes of this chapter ~~and the laws of this state~~
 14 shall be treated as employee contributions and deemed part of
 15 the employee's earnable compensation or salary.

16 Sec. 6. Section 422.7, subsections 29 through 31, Code
 17 1997, are amended by striking the subsections.

18 Sec. 7. IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM --
 19 DIVIDEND ADJUSTMENT COMPUTATION.

20 1. For a retiree who received an increase in the retiree's
 21 monthly benefit effective January 1, 1997, pursuant to section
 22 97B.49, subsection 4, the dividend adjustment used to
 23 calculate the dividend payable to the retiree in November
 24 1997, pursuant to section 97B.49, subsection 13, paragraph
 25 "g", shall not be calculated pursuant to that paragraph but
 26 shall be calculated as provided in subsection 2.

27 2. The dividend adjustment for a retiree described in
 28 subsection 1 shall be calculated by multiplying the sum of the
 29 dividend payable to the retiree in November 1996 and an amount
 30 representing twice the total of the retiree's monthly benefit
 31 payments received by the retiree for the first six months of
 32 1997 by the applicable percentage as determined by section
 33 97B.49, subsection 13, paragraph "g". To the extent not
 34 inconsistent with this subsection, the provisions of section
 35 97B.49, subsection 13, paragraph "g", shall apply in

1 calculating the dividends payable in November 1997 to a
2 retiree described in subsection 1.

3 3. This section shall only apply to the calculation of
4 dividends for November 1997, and shall not apply to the
5 calculation of dividends for any subsequent year.

6 Sec. 8. EFFECTIVE AND APPLICABILITY DATE. Sections 1, 2,
7 4, 5, and 6 of this Act take effect January 1, 1998, and apply
8 to tax years beginning on or after January 1, 1998.

9 EXPLANATION

10 This bill provides that, beginning January 1, 1998, a
11 member's contribution under the public safety peace officers'
12 retirement, accident, and disability system, the Iowa public
13 employees' retirement system (IPERS), and the statewide fire
14 and police retirement system are considered employer
15 contributions, and not part of the employee's salary, for
16 state income tax purposes. Current law provides, as of
17 January 1, 1995, that these contributions for these systems
18 are considered employer contributions for federal income tax
19 purposes only.

20 The bill also provides that member contributions to a
21 pension and annuity retirement system for teachers established
22 pursuant to chapter 294 are considered employer contributions
23 for state income tax purposes, beginning January 1, 1998, or
24 on the January 1 following submission of an application for
25 qualification of the system to the internal revenue service,
26 whichever is later.

27 The provisions of this bill concerning pretax treatment of
28 contributions take effect January 1, 1998, and apply to tax
29 years beginning on or after that date.

30 This bill also provides that a part-time elected official
31 covered under IPERS who is also covered under IPERS for other
32 employment ceases to be an active member of IPERS as an
33 elected official on the last day of the month prior to the
34 member's first month of entitlement to a retirement allowance
35 pursuant to the other employment.

1 This bill provides that the dividends otherwise payable in
 2 November 1997 for retirees under IPERS who received an
 3 increase in their monthly benefit in January 1997 based on the
 4 increase in the minimum monthly benefit shall be calculated
 5 based on the monthly benefits they are entitled to receive for
 6 this year and not on the total of the monthly benefits they
 7 received during 1996.

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