

FEB 10 2000

STATE GOVERNMENT

HOUSE FILE

2210

BY BRUNKHORST

Passed House, Date _____ Passed Senate, Date _____

Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____

Approved _____

A BILL FOR

1 An Act creating a defined contribution pension option for school
2 employees covered by the Iowa public employees' retirement
3 system and providing an effective date.

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

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HF 2210

1 Section 1. Section 97B.1, subsection 2, Code 1999, is
2 amended by adding the following new subsection:

3 NEW SUBSECTION. cc. "Optional plan" means the Iowa public
4 school employees' defined contribution plan created in chapter
5 97E.

6 Sec. 2. Section 97B.1A, unnumbered paragraph 1, Code 1999,
7 is amended to read as follows:

8 When used in this chapter and chapter 97E unless the
9 context requires otherwise:

10 Sec. 3. Section 97B.1A, subsection 8, unnumbered paragraph
11 1, Code 1999, is amended to read as follows:

12 "Employee" means as provided in this subsection:

13 aa. "Employee" includes an individual who is employed as
14 defined in this chapter for whom coverage under this chapter
15 is mandatory and who, even if eligible, has not elected out of
16 coverage under this chapter and elected coverage under the
17 optional plan pursuant to section 97B.42A.

18 Sec. 4. Section 97B.42A, Code 1999, is amended by adding
19 the following new subsection:

20 NEW SUBSECTION. 1A. Commencing on July 1, 2003, a person
21 who is newly hired in a position as an employee of a school
22 corporation or educational institution shall be covered under
23 this chapter unless the person complies with the requirements
24 of subsection 1 to elect out of coverage, if applicable, or
25 the person files an application with appropriate documentation
26 to the department within sixty days of employment in the
27 position to affirmatively elect out of coverage under this
28 chapter and elect coverage under the optional plan created in
29 chapter 97E. A decision to elect out of coverage under this
30 chapter is irrevocable upon approval from the system.

31 Sec. 5. Section 97B.42A, Code 1999, is amended by adding
32 the following new subsection:

33 NEW SUBSECTION. 3A. A person who is employed by a school
34 corporation or educational institution and who is covered
35 under the system in this chapter on July 1, 2003, and who is

1 not an active member of another retirement system in the state
2 which is maintained in whole or in part by public
3 contributions or payments, shall remain in coverage under the
4 system on and after July 1, 2003, unless the person files an
5 application with appropriate documentation with the department
6 to elect out of coverage under this chapter and into coverage
7 under the optional plan within one year from July 1, 2003. If
8 a person elects out of coverage, the department shall deem the
9 election a termination of employment for purposes of section
10 97B.53 and the department shall transfer funds from the
11 retirement fund to the member's retirement account in the
12 optional plan created pursuant to chapter 97E in an amount
13 equal to the accumulated contributions of the member, and, for
14 a vested member, the accumulated employer contributions, as of
15 the date of election as provided in section 97B.53, subsection
16 1. A decision to elect out of coverage under this chapter
17 pursuant to this section is irrevocable upon approval from the
18 department.

19 Sec. 6. Section 97B.42A, Code 1999, is amended by adding
20 the following new subsection:

21 NEW SUBSECTION. 5. An employee shall not simultaneously
22 be a member of the optional plan created in chapter 97E and
23 the Iowa public employees' retirement system and must, if
24 coverage is otherwise mandatory under chapter 97B, be a member
25 of either the optional plan created in chapter 97E or the
26 system. A period of service shall not be credited to both the
27 optional plan created in chapter 97E and the system.

28 Sec. 7. Section 97B.42A, Code 1999, is amended by adding
29 the following new subsection:

30 NEW SUBSECTION. 6. Notwithstanding any provision of this
31 section to the contrary, a member of the system who is subject
32 to a qualified order for the purpose of enforcing child,
33 spousal, or medical support obligations or marital property
34 orders pursuant to section 97B.39, shall not be eligible to
35 transfer to the optional plan created in chapter 97E unless

1 the order is modified to apply under the optional plan created
2 in chapter 97E.

3 Sec. 8. NEW SECTION. 97E.1 PLAN CREATED -- DEFINITIONS.

4 1. The "Iowa public school employees' defined contribution
5 retirement plan" is created. The plan is within the
6 department of personnel.

7 2. As used in this chapter unless the context requires
8 otherwise:

9 a. "Defined benefit system" means the Iowa public
10 employees' retirement system created in chapter 97B.

11 b. "Department" means the department of personnel.

12 c. "Member" means an employee who has elected coverage
13 under the plan and who has a retirement account in the defined
14 contribution plan.

15 d. "Plan" or "defined contribution plan" means the Iowa
16 public school employees' defined contribution retirement plan
17 created in this chapter.

18 e. "Plan choice rate" means the amount of the employer
19 contribution as a percentage of payroll of members of the
20 defined contribution plan members that is allocated to the
21 defined benefit system pursuant to section 97E.9 and that is
22 adjusted by the department pursuant to section 97E.10 to
23 actuarially fund the unfunded liabilities and the normal cost
24 rate changes in the defined benefit plan resulting from
25 employee selection of the defined contribution plan pursuant
26 to section 97B.42A.

27 Sec. 9. NEW SECTION. 97E.2 DEFINED CONTRIBUTION PLAN
28 ESTABLISHED -- ASSETS TO BE HELD IN TRUST -- CONTRACTED
29 SERVICES.

30 1. The department shall establish within the public
31 employees' retirement system a defined contribution plan in
32 accordance with this chapter. The plan must be established as
33 a pension plan for the exclusive benefit of members and their
34 beneficiaries and as a "qualified plan" pursuant to section
35 401(a) of the Internal Revenue Code and its implementing

1 regulations. Retirement accounts must be established for each
2 member of the defined contribution plan. Assets of the plan
3 must be held in trust. The plan is established in addition to
4 any retirement, pension, deferred compensation, or other
5 benefit plan administered by the state or a political
6 subdivision.

7 2. The department shall contract for plan administration
8 and use a competitive bidding process when contracting for
9 consulting, educational, investment, recordkeeping, or other
10 services for the plan.

11 3. The department shall contract for a qualified
12 consultant to assist in preparation of the request for bid or
13 request for proposal for plan services.

14 Sec. 10. NEW SECTION. 97E.3 PLAN GOALS.

15 In implementing and administering the defined contribution
16 plan, the department shall consider the following goals for
17 the plan:

18 1. The impact to employers of changes to administrative
19 processes in order to establish the plan is minimized to the
20 extent possible.

21 2. The administrative structure for the plan is configured
22 in an economical and efficient manner.

23 3. Administration and services for the plan is contracted
24 out to the extent possible, but that the department shall
25 provide for the diligent oversight of the contracts.

26 4. Reasonable participant services are provided for and
27 that fees be commensurate with the services.

28 5. Lines of communication and responsibilities are clearly
29 established so that employers or their personnel and payroll
30 officers do not advise members about plan choices or
31 investment alternatives.

32 6. Employers are encouraged to provide paid time for
33 employees to attend educational programs sponsored by the
34 department.

35 Sec. 11. NEW SECTION. 97E.4 DEPARTMENT POWERS AND DUTIES

1 -- RULEMAKING.

2 1. The department has the powers and shall perform the
3 duties regarding the defined contribution plan, as applicable.

4 2. The department shall, in accordance with chapter 17A,
5 adopt rules necessary for the implementation of this chapter,
6 including rules concerning the following:

7 a. Matters necessary for the treatment of the plan as a
8 qualified plan under applicable sections of the Internal
9 Revenue Code.

10 b. The treatment of dormant or inactive accounts.

11 c. The security and privacy of information maintained by
12 the department concerning a member's investments, as required
13 by applicable law.

14 d. Minimum asset, reserve, insurance, or other security
15 requirements intended to ensure the solvency of a contractor
16 used by the department for investment services.

17 e. The commencement of benefits in the plan.

18 Sec. 12. NEW SECTION. 97E.5 ADMINISTRATIVE EXPENSES AND
19 FEES.

20 1. The department may establish a fund within the defined
21 contribution plan for paying the plan's administrative
22 expenses.

23 2. The department may do any of the following:

24 a. Assess fees to pay the reasonable administrative costs
25 of the plan.

26 b. Negotiate with a vendor or vendors for vendor
27 reimbursement of departmental administrative expenses for the
28 plan.

29 3. All fees assessed must be fully disclosed to plan
30 members and treated as public information.

31 4. Costs for the department to provide for contract
32 oversight are included as part of the administrative expenses
33 of the plan.

34 Sec. 13. NEW SECTION. 97E.6 PLAN MEMBERSHIP.

35 Except as otherwise provided in this chapter, a member of

1 the plan means an employee who elected coverage under the plan
2 pursuant to section 97B.42A.

3 Sec. 14. NEW SECTION. 97E.7 TRANSFERS OR ROLLOVERS INTO
4 PLAN -- MEMBERSHIP CREDIT FOR PURPOSES OF VESTING.

5 1. Except as provided in this section, the department
6 shall accept the transfer or rollover of assets from another
7 qualified plan to the member's retirement account. If a
8 member is transferring assets from the defined benefit system,
9 the member shall, for the purposes of becoming vested pursuant
10 to section 97E.8, receive credit for the employee's prior
11 membership service under the defined benefit system.

12 2. a. Money from the defined benefit system shall not be
13 transferred or rolled over to a retirement account unless the
14 money was contributed to the defined benefit system on an
15 after-tax basis.

16 b. To the extent that the transfer or rollover is
17 disallowed under the Internal Revenue Code provisions in
18 effect as of the calendar year immediately preceding the date
19 of the transfer or rollover, a member may not transfer or
20 rollover to a retirement account contributions made under
21 sections 403(b) and 457 of the Internal Revenue Code.

22 Sec. 15. NEW SECTION. 97E.8 VESTING -- MANDATORY
23 TERMINATION OF MEMBERSHIP -- FORFEITURES.

24 1. A member is fully vested with the member's
25 contributions and the income on those contributions from the
26 date that the employee becomes a member of the plan, but is
27 not considered a vested member unless the member meets the
28 criteria under subsection 2.

29 2. A member is not vested with the employer's
30 contributions and the income on those contributions and does
31 not attain the status of a vested member until the member has
32 a total of four years of membership service under the system.

33 3. A member who terminates covered employment before
34 becoming a vested member shall terminate plan membership by
35 removing from the plan the member's entire account balance as

1 provided in section 97E.13. The employer contributions and
2 income on the employer's contributions in the member's
3 retirement account are forfeited and must be allocated as
4 provided in section 97E.9.

5 Sec. 16. NEW SECTION. 97E.9 ALLOCATION OF CONTRIBUTIONS
6 AND FORFEITURES.

7 1. Each plan member's retirement account must be credited
8 with employee contributions calculated as provided in section
9 97B.11.

10 2. Each employer of a plan member shall make contributions
11 to the plan and to the defined benefit system as allocated by
12 this subsection in an amount calculated as provided in section
13 97B.11.

14 a. Each plan member's retirement account shall be credited
15 with the portion of employer contributions calculated by using
16 the rate provided in section 97B.11 minus the plan choice
17 rate.

18 b. The retirement fund of the defined benefit system shall
19 be credited with the remaining employer contributions for that
20 member calculated using the plan choice rate.

21 3. If employer contributions to the member's account and
22 investment income on the employer contributions are forfeited,
23 the department shall allocate the forfeitures under this
24 section to meet the employer contributions obligation provided
25 under subsection 2, paragraph "a", in lieu of direct
26 contributions by the employer and shall increase the
27 contribution amount under subsection 2, paragraph "b", by the
28 amount of the forfeitures used in lieu of the employer
29 contributions.

30 Sec. 17. NEW SECTION. 97E.10 DETERMINATION AND
31 ADJUSTMENT OF PLAN CHOICE RATE AND CONTRIBUTION ALLOCATIONS --
32 RULEMAKING.

33 1. The department shall provide for the periodic review of
34 the sufficiency of the plan choice rate and shall adjust the
35 rate as specified in this section. The department shall adopt

1 procedures to ensure that the data necessary to comply with
2 this section is collected and maintained for all system
3 members.

4 2. The plan choice rate shall be set and adjusted based
5 upon the following factors:

6 a. As determined under subsection 3, the change in the
7 normal cost contribution rate in the defined benefit system
8 that is the result of member selection of the defined
9 contribution plan.

10 b. As determined under subsection 4, the anticipated
11 reduction in defined contribution plan costs because of
12 forfeitures.

13 c. As determined under subsection 5, the sufficiency of
14 the plan choice rate to actuarially fund the defined
15 contribution plan's share of the defined benefit system's
16 unfunded liabilities.

17 3. The change in the normal cost contribution rate must be
18 an amount equal to the difference between the normal cost
19 contribution rate in the defined benefit system that would
20 have resulted if all system members remained in the defined
21 benefit system and the normal cost contribution rate in the
22 defined benefit system for the actual members of the defined
23 benefit system, multiplied by the covered payroll of members
24 in the defined benefit system, divided by the covered payroll
25 of members in the defined contribution plan. The measurements
26 under this subsection must be based on the defined benefit
27 system in effect on the effective date of this Act until the
28 department determines that the defined benefit system has been
29 amended in a manner that significantly affects plan choices
30 available to system members. After the department determines
31 that the defined benefit system has been significantly
32 changed, the measurements in this subsection with respect to
33 members entering the system after the significant change must
34 be made on the basis of the defined benefit system, as
35 amended.

1 4. The anticipated reduction in defined contribution plan
2 costs as a result of forfeitures under section 97E.9 shall be
3 determined as the amount of forfeitures expected during the
4 next fiscal year based on actual forfeitures in the preceding
5 fiscal year, adjusted by taking into account the gains or
6 losses during the preceding fiscal year resulting from
7 forfeitures of greater or lesser amounts than expected,
8 divided by twice the covered payroll of members of the defined
9 contribution plan.

10 5. The sufficiency of the plan choice rate to actuarially
11 fund the appropriate share of the defined benefit system's
12 unfunded liabilities shall be determined as follows:

13 a. The department shall determine the number of years
14 required to actuarially fund the defined benefit plan's
15 unfunded liabilities as of the June 30, 2002, actuarial
16 valuation, which shall be the initial schedule for the defined
17 contribution plan to actuarially fund the plan's share of the
18 unfunded liabilities. The board shall reduce the schedule by
19 one year each year.

20 b. During each subsequent actuarial valuation of the
21 defined benefit system, the department shall determine whether
22 the plan choice rate minus the sum of the amounts provided in
23 subsection 2, paragraphs "a" and "b", is sufficient to pay the
24 unfunded liability obligations within the schedule determined
25 under subsection 5, paragraph "a". If the amount is
26 insufficient to fund the liability over a period of ten years
27 longer than the scheduled period or is more than sufficient to
28 fund the liability over a period of ten years earlier than the
29 scheduled period, the department shall determine to the
30 nearest one-tenth of one percent the amount of the increase or
31 decrease in the plan choice rate that is required to
32 actuarially fund the liabilities according to the established
33 schedule.

34 6. If the department determines that the plan choice rate
35 should be increased or decreased, the plan choice rate shall

1 be increased or decreased accordingly. If the plan choice
2 rate is increased, the allocation of employer contributions to
3 member accounts under section 97E.9 shall be decreased by that
4 rate. If the plan choice rate is decreased, the allocation of
5 employer contributions to member accounts under section 97E.9
6 shall be increased by that rate.

7 7. By November 1 of the year of a determination pursuant
8 to this section that the allocation of employer contributions
9 under section 97E.9 shall be changed, the department shall
10 notify system members, participating employers, employee and
11 employer organizations, the governor, and the legislature of
12 its determination and of the changes required.

13 8. Effective January 1 of the year after a determination
14 under this section, the plan choice rate and the allocation of
15 contributions under section 97E.9 shall be adjusted according
16 to the department's determination.

17 Sec. 18. NEW SECTION. 97E.11 MAXIMUM CONTRIBUTION
18 LIMITATION.

19 The annual additions to a retirement account within the
20 defined contribution plan shall not exceed the annual limits
21 on contributions as specified in section 415 of the Internal
22 Revenue Code of 1986 and adjusted annually by the commissioner
23 of internal revenue.

24 Sec. 19. NEW SECTION. 97E.12 INVESTMENT ALTERNATIVES --
25 NOTICE OF CHANGES -- DEFAULT FUND.

26 1. The department shall contract with a vendor or vendors
27 to provide for at least eight investment alternatives within
28 the defined contribution plan. In providing for the plan's
29 investment alternatives, only a vendor or vendors offering
30 suitable and well-managed investments that is authorized to do
31 business in this state shall be used.

32 2. The investment alternatives shall include at least
33 three that offer plan members the following:

34 a. The ability to materially affect the potential return
35 on amounts in the member's retirement account and shall

1 specify the degree of risk to which those amounts are subject.

2 b. A range of investment alternatives that does all of the
3 following:

4 (1) Provides sound and diversified funds.

5 (2) Offers, under each alternative, a materially different
6 risk and return characteristic than found in the other
7 alternatives.

8 (3) Allows the member or beneficiary to choose among them
9 to achieve a portfolio with an aggregate risk and return
10 characteristic to achieve a point within the risk and return
11 range normally appropriate for the member or beneficiary based
12 on age, income, and individual retirement goals.

13 (4) Tends to minimize through diversification the overall
14 risk of large losses.

15 3. Subject to a competitive bidding process, the
16 investment alternatives may include the investment
17 alternatives offered to the state employees' deferred
18 compensation plan pursuant to section 19A.12B.

19 4. The department shall from time to time review the
20 suitability and management of investment alternatives and may
21 change the alternatives to be offered. The department shall
22 notify affected members of potential changes in alternatives
23 before any changes become effective.

24 5. Assets within each member's retirement account must be
25 invested as directed by the member.

26 6. The department shall provide for a balanced fund to be
27 established as a default investment fund. If a member fails
28 to direct how the member's retirement account is to be
29 invested, the member's entire account balance shall be
30 invested in the default fund.

31 Sec. 20. NEW SECTION. 97E.13 PAYOUT OF ACCOUNT BALANCES
32 WHEN TERMINATING PLAN MEMBERSHIP.

33 Any time after termination of covered employment by a
34 member, a member or the member's beneficiary may terminate
35 plan membership by making a written application to the

1 department and removing the member's account balance from the
2 plan through any combination of the following payout options,
3 each of which is subject to applicable regulations of the
4 internal revenue service:

5 1. A direct rollover to an eligible retirement plan or to
6 an individual retirement account or annuity pursuant to
7 section 401(a)(31) of the Internal Revenue Code.

8 2. A regular rollover to an eligible retirement plan
9 pursuant to section 402(c) of the Internal Revenue Code.

10 3. A lump sum distribution of the member's account
11 balance.

12 Sec. 21. NEW SECTION. 97E.14 DISTRIBUTION OPTIONS FOR
13 PLAN MEMBERS -- RULEMAKING -- MINIMUM DISTRIBUTION
14 REQUIREMENTS -- RESTRICTIONS.

15 1. Subject to the requirements of this chapter and chapter
16 97B, if applicable, a member may, after termination of covered
17 employment, leave the member's account balance in the plan,
18 and the member is eligible for a distribution as provided in
19 this section.

20 2. After termination of covered employment, upon written
21 application to the department, a member may, if provided for
22 by the board, select a distribution option offered pursuant to
23 a contract negotiated by the department with a plan vendor or
24 vendors.

25 3. A member who is less than seventy and one-half years of
26 age who returns to covered employment shall not continue to
27 receive a distribution under this section while the member is
28 actively employed in a covered position.

29 4. The department shall adopt rules under chapter 17A to
30 administer this section and to provide that distributions
31 comply with the minimum distribution requirements established
32 in the Internal Revenue Code.

33 Sec. 22. NEW SECTION. 97E.15 DEATH BENEFITS.

34 A plan member's beneficiary shall be designated and
35 determined pursuant to rules adopted by the department under

1 chapter 17A. Upon written application filed with the
2 department after the death of a plan member, the member's
3 beneficiary is entitled to the member's account balance and
4 all rights established in and subject to this chapter.

5 Sec. 23. NEW SECTION. 97E.16 MINIMUM ACCOUNT BALANCE
6 REQUIRED FOR MEMBERSHIP AFTER TERMINATION -- ADJUSTMENT BY
7 RULE.

8 1. a. If a member's account balance is less than five
9 thousand dollars at the time that the member terminates
10 covered employment, the member shall terminate plan membership
11 by removing the member's account balance from the plan in a
12 manner provided pursuant to section 97E.13.

13 b. If the member fails to remove the member's account
14 balance, the department may close the account by paying to the
15 member a lump sum distribution of the member's entire account
16 balance.

17 2. The department may by rule adjust the minimum account
18 balance provided in this section as necessary to maintain
19 reasonable administrative costs and to account for inflation.

20 Sec. 24. EFFECTIVE DATE. This Act takes effect on July 1,
21 2003.

22

EXPLANATION

23 This bill establishes an option for school employees
24 covered or eligible to be covered under the Iowa public
25 employees' retirement system (IPERS) to elect out of coverage
26 under that system and into a defined contribution plan
27 established by the department of personnel. This bill takes
28 effect on July 1, 2003.

29 Membership in the defined contribution plan is established
30 by the bill. The bill provides that a person hired on or
31 after July 1, 2003, as a school employee, who is eligible for
32 coverage under IPERS has the option of electing out of that
33 coverage and electing coverage under a defined contribution
34 plan established by the department. Active members of IPERS
35 as of July 1, 2003, are given an option to transfer to the

1 defined contribution plan for one year from July 1, 2003. If
2 a member transfers coverage, the department shall transfer
3 moneys to the member's account in the defined contribution
4 plan in an amount equal to the amount the person would be
5 eligible to receive as a refund if they terminated membership
6 under IPERS.

7 The bill provides that the department shall establish the
8 defined contribution plan as a qualified plan pursuant to
9 section 401a of the Internal Revenue Code. The bill provides
10 that the department shall contract for the administration of
11 the plan through a competitive bidding process. The bill
12 authorizes the department to assess fees for the
13 administration of the plan.

14 The bill provides that a member shall be vested in the
15 defined contribution plan when the combination of years in
16 IPERS, if applicable, and the plan equals four. A member who
17 terminates employment prior to vesting shall forfeit the
18 employer's contributions, and investment income on that
19 amount, to the plan which shall otherwise offset contributions
20 required to be made to the plan by that employer.

21 The bill provides that contributions to the plan from
22 employers and employees shall be based on the percentage rates
23 provided members of IPERS. While the entire employee
24 contribution is deposited in member's accounts, a portion of
25 the employer's contributions, as determined by the department,
26 shall be retained and deposited in the IPERS fund to ensure
27 that IPERS remains in a fully funded status. The method of
28 determining the portion transferred to the IPERS retirement
29 fund is established by the bill.

30 The bill provides that at least eight investment choices be
31 provided to members under the defined contribution plan and
32 provides for member selection of investment choices. The bill
33 provides that moneys in a member's account shall be deposited
34 in a balanced fund if the member fails to select an investment
35 option. Distributions to plan members, eligible rollovers of

1 accounts, and death benefit provisions are included in the
2 bill. The bill also provides for an immediate distribution of
3 moneys in a member's account if the account balance is less
4 than \$5,000, or the amount established by the department, at
5 the time the member is terminated from covered employment.

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