

MAR 9 2006
Place On Calendar

HOUSE FILE 2730
BY COMMITTEE ON STATE GOVERNMENT

(SUCCESSOR TO HSB 512)

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
2 employees covered by the Iowa public employees' retirement
3 system.

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

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HF 2730

1 Section 1. NEW SECTION. 97E.1 PLAN CREATED --
2 DEFINITIONS.

3 1. An Iowa public employees' defined contribution
4 retirement plan is created within the office of the treasurer.

5 2. As used in this chapter, unless the context otherwise
6 requires:

7 a. "Board" means the defined contribution advisory board
8 created in section 97E.2.

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

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

13 d. "Plan" means the Iowa public employees' defined
14 contribution retirement plan created in this chapter.

15 e. "Retirement account" means an individual participant's
16 account that includes both employee and employer contributions
17 and investment gains and losses, less any plan administrative
18 expenses.

19 Sec. 2. NEW SECTION. 97E.2 DEFINED CONTRIBUTION ADVISORY
20 BOARD.

21 1. BOARD ESTABLISHED. A board is established to be known
22 as the defined contribution advisory board, referred to in
23 this chapter as the "board". The duties of the board are to
24 review matters relating to the establishment and management of
25 the optional plan. The board shall meet upon the call of the
26 treasurer of the state.

27 2. INVESTMENT REVIEW. The board shall review, at least
28 annually, the alternative products, investments, and services
29 offered by the providers under the plan and the investment
30 information available to members and potential members of the
31 plan on an ongoing basis.

32 3. MEMBERSHIP.

33 a. The board shall consist of six voting members. The
34 voting members shall be as follows:

35 (1) Two public members, appointed by the governor, who are

1 not members of the defined benefit system created in chapter
2 97B or the plan created in this chapter.

3 (2) Two members, appointed by the governor, who are
4 eligible to be members of the plan. Of the two members
5 appointed, one shall be an active member who is an employee of
6 a school district, area education agency, or merged area and
7 one shall be an active member who is not an employee of a
8 school district, area education agency, or merged area.

9 (3) Director of the department of administrative services.

10 (4) One member, appointed by the governor, who represents
11 employers of employees eligible to be members of the plan who
12 are not state employees.

13 b. Four voting members of the board shall constitute a
14 quorum.

15 c. The two public members and the one employer member
16 shall be paid their actual expenses incurred in the
17 performance of their duties and shall receive a per diem as
18 specified in section 7E.6 for each day of service not
19 exceeding forty days per year. The members who are eligible
20 to be a member of the plan and the director of the department
21 of administrative services shall be paid their actual expenses
22 incurred in the performance of their duties as members of the
23 board, and the performance of their duties as members of the
24 board shall not affect their salaries, vacations, or leaves of
25 absence for sickness or injury.

26 d. The appointive terms of the members appointed by the
27 governor are for a period of six years beginning and ending as
28 provided in section 69.19. If there is a vacancy in the
29 membership of the board for one of the members appointed by
30 the governor, the governor has the power of appointment.
31 Gubernatorial appointees to this board are subject to
32 confirmation by the senate.

33 Sec. 3. NEW SECTION. 97E.3 DEFINED CONTRIBUTION PLAN
34 ESTABLISHED -- ASSETS TO BE HELD IN TRUST -- CONTRACTED
35 SERVICES.

1 1. The office of the treasurer shall establish a defined
2 contribution plan in accordance with this chapter. The plan
3 must be established as a pension plan for the exclusive
4 benefit of members and their beneficiaries and as a qualified
5 plan pursuant to section 401(a) of the Internal Revenue Code
6 and its implementing regulations. Retirement accounts must be
7 established for each member of the plan. Assets of the plan
8 must be held in trust. The office of the treasurer shall be
9 the trustee of the plan. The plan is established in addition
10 to any retirement, pension, deferred compensation, or other
11 benefit plan administered by the state or a political
12 subdivision.

13 2. The office of the treasurer shall contract for plan
14 administration and use a competitive bidding process when
15 contracting for services for the plan. Services include
16 consulting, educational, investment, recordkeeping, or other
17 services for the plan.

18 Sec. 4. NEW SECTION. 97E.4 OFFICE OF THE TREASURER --
19 POWERS AND DUTIES -- RULEMAKING.

20 1. The office of the treasurer has the powers and shall
21 perform the duties regarding the plan, as applicable.

22 2. The office of the treasurer shall, in accordance with
23 chapter 17A, adopt rules necessary for the administration of
24 this chapter, including rules concerning the following:

25 a. Matters necessary for the treatment of the plan or
26 plans as a qualified plan under applicable sections of the
27 Internal Revenue Code.

28 b. The treatment of dormant or inactive accounts.

29 c. The security and privacy of information maintained by
30 the office of the treasurer concerning a member's investments,
31 as required by applicable law.

32 d. Minimum asset, reserve, insurance, or other security
33 requirements intended to ensure the solvency of a contractor
34 used by the office of the treasurer for investment services.

35 e. The commencement of benefit payments under the plan.

1 Sec. 5. NEW SECTION. 97E.5 ADMINISTRATIVE EXPENSES AND
2 FEES.

3 1. The office of the treasurer may establish a fund within
4 the plan for paying the plan's administrative expenses.

5 2. The office of the treasurer may do any of the
6 following:

7 a. Assess fees to pay the reasonable administrative costs
8 of the plan.

9 b. Negotiate with a vendor or vendors for vendor
10 reimbursement of administrative expenses for the plan.

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

13 4. Costs for the office of the treasurer to provide for
14 contract oversight are included as part of the administrative
15 expenses of the plan.

16 Sec. 6. NEW SECTION. 97E.6 PLAN MEMBERSHIP.

17 Except as otherwise provided in this chapter, a member of
18 the plan means an employee who elected coverage under the plan
19 pursuant to section 97B.42.

20 Sec. 7. NEW SECTION. 97E.7 TRANSFERS OR ROLLOVERS INTO
21 PLAN.

22 The plan shall accept the rollover and direct transfer of
23 contributions and the income on those contributions from
24 another eligible retirement plan to the member's account. The
25 plan's acceptance of regular rollovers, direct rollovers, and
26 direct transfers from another eligible retirement plan shall
27 only be to the extent permitted by the Internal Revenue Code.
28 The term "direct rollover" includes a rollover of a member's
29 account balance in the system to the plan pursuant to a plan
30 choice election authorized under section 97B.42.

31 Sec. 8. NEW SECTION. 97E.8 VESTING -- ALLOCATION OF
32 CONTRIBUTIONS.

33 1. A member is fully vested in the plan with respect to
34 the member's and employer's contributions and the income from
35 those contributions from the date that the employee becomes a

1 member of the plan.

2 2. Each member's retirement account in the plan shall be
3 credited with member and employer contributions calculated as
4 provided in section 97B.10. Member contributions shall be
5 treated in the same manner as provided for contributions made
6 under section 97B.11 pursuant to section 97B.11A for federal
7 and state income tax purposes.

8 Sec. 9. NEW SECTION. 97E.9 MAXIMUM CONTRIBUTION
9 LIMITATION.

10 The annual additions to a retirement account in the plan
11 shall not exceed the annual limits on contributions as
12 specified in section 415 of the Internal Revenue Code and
13 adjusted annually by the commissioner of internal revenue.

14 Sec. 10. NEW SECTION. 97E.10 INVESTMENT ALTERNATIVES --
15 NOTICE OF CHANGES -- DEFAULT FUND.

16 1. The office of the treasurer shall select providers for
17 the plan to provide for a sound and diversified mix of
18 products, investments, and services from which individual
19 members may select alternatives for the investment of the
20 member's retirement account to achieve the member's financial
21 and retirement goals. At least four of the providers selected
22 shall be insurance companies authorized to issue annuity
23 contracts in this state. The office of the treasurer may
24 limit the providers selected to no more than six. The
25 selection by the office of the treasurer of a provider shall
26 not constitute an endorsement of the provider.

27 2. The office of the treasurer shall from time to time
28 review the suitability and management of the products,
29 investments, and services offered by providers and may change
30 the products, investments, and services to be offered. The
31 office of the treasurer shall notify affected members of
32 potential changes in products, investments, and services
33 before any changes become effective.

34 3. Assets within each member's retirement account must be
35 invested as directed by the member.

1 4. The office of the treasurer shall provide for a
2 balanced alternative investment to be established as a default
3 alternative investment. If a member fails to direct how the
4 member's retirement account is to be invested, the member's
5 entire account balance shall be invested in the default
6 alternative investment.

7 Sec. 11. NEW SECTION. 97E.11 PAYOUT OF RETIREMENT
8 ACCOUNT BALANCES WHEN TERMINATING PLAN MEMBERSHIP.

9 Any time after termination of covered employment by a
10 member, a member or the member's beneficiary may terminate
11 plan membership by making a written application to the office
12 of the treasurer and removing the member's retirement account
13 balance from the plan through any combination of the following
14 payout options, each of which is subject to applicable
15 regulations of the internal revenue service:

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

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

21 3. A lump sum distribution of the member's retirement
22 account balance.

23 Sec. 12. NEW SECTION. 97E.12 DISTRIBUTION OPTIONS FOR
24 PLAN MEMBERS -- RULEMAKING -- MINIMUM DISTRIBUTION
25 REQUIREMENTS -- RESTRICTIONS.

26 1. Subject to the requirements of this chapter and chapter
27 97B, if applicable, a member may, after termination of covered
28 employment, leave the member's retirement account balance in
29 the plan, and the member is eligible for a distribution as
30 provided in this section.

31 2. After termination of covered employment, upon written
32 application to the office of the treasurer, a member may
33 select a distribution option offered pursuant to a contract
34 negotiated by the office of the treasurer with a plan vendor
35 or vendors.

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

5 4. The office of the treasurer shall adopt rules pursuant
6 to chapter 17A to administer this section and to provide that
7 distributions comply with the minimum distribution
8 requirements established in the Internal Revenue Code.

9 Sec. 13. NEW SECTION. 97E.13 DEATH BENEFITS.

10 A plan member's beneficiary shall be designated and
11 determined pursuant to rules adopted by the office of the
12 treasurer under chapter 17A. Upon written application filed
13 with the office of the treasurer after the death of a plan
14 member, the member's beneficiary is entitled to the member's
15 retirement account balance and all rights established in and
16 subject to this chapter.

17 Sec. 14. NEW SECTION. 97E.14 MINIMUM RETIREMENT ACCOUNT
18 BALANCE REQUIRED FOR MEMBERSHIP AFTER TERMINATION --
19 ADJUSTMENT BY RULE.

20 1. a. If a member's retirement account balance is less
21 than the current maximum amount prescribed by the internal
22 revenue service that may be distributed without triggering
23 automatic rollover rights at the time that the member
24 terminates covered employment, the member shall terminate plan
25 membership by removing the member's retirement account balance
26 from the plan in a manner provided pursuant to section 97E.11.

27 b. If the member fails to remove the member's retirement
28 account balance, the office of the treasurer may close the
29 account by paying to the member a lump sum distribution of the
30 member's entire account balance.

31 2. The office of the treasurer may by rule adjust the
32 minimum retirement account balance provided in this section as
33 necessary to maintain reasonable administrative costs and to
34 account for inflation and to ensure compliance with applicable
35 internal revenue service requirements.

1 Sec. 15. Section 97B.1, subsection 2, Code 2005, is
2 amended by adding the following new paragraph:

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

6 Sec. 16. Section 97B.1A, unnumbered paragraph 1, Code
7 Supplement 2005, is amended to read as follows:

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

10 Sec. 17. Section 97B.42, Code 2005, is amended by adding
11 the following new unnumbered paragraphs:

12 NEW UNNUMBERED PARAGRAPH. Notwithstanding any other
13 provision of this section, commencing July 1, 2007, a member
14 in regular service may elect coverage under the defined
15 contribution plan created in chapter 97E, in lieu of
16 continuing or commencing contributions to the Iowa public
17 employees' retirement system or in lieu of opting out of
18 coverage under this chapter pursuant to section 97B.42A.
19 However, the employer's annual contribution in dollars to the
20 defined contribution plan shall not exceed the annual
21 contribution in dollars which the employer would contribute if
22 the employee had elected to remain an active member under this
23 chapter, as set forth in section 97B.11. A member who elects
24 coverage under the defined contribution plan may withdraw the
25 member's accumulated contributions and the member's share of
26 the accumulated employer contributions as provided in section
27 97B.53, effective when coverage under the defined contribution
28 plan commences. A member who is employed in a position as an
29 employee in regular service and who is covered under the
30 system in this chapter on July 1, 2007, must file an election
31 for coverage under the defined contribution described in
32 chapter 97E, with the system and the member's employer within
33 eighteen months of the first day on which coverage commences
34 under the defined contribution plan, or the employee shall
35 remain a member under this chapter and shall not be eligible

1 to elect to participate in the defined contribution plan at a
2 later date. A person who is newly hired in a position as an
3 employee in regular service on or after July 1, 2007, must
4 file an election for coverage under the defined contribution
5 plan with the system and the person's employer within sixty
6 days of commencing employment, or the employee shall not be
7 eligible to elect to participate in the defined contribution
8 plan at a later date. A decision to elect out of coverage
9 under this chapter and to elect to participate in the defined
10 contribution plan is irrevocable upon approval from the
11 system.

12 NEW UNNUMBERED PARAGRAPH. Notwithstanding any provision of
13 this section to the contrary, a member of the system who is
14 subject to a qualified order for the purpose of enforcing
15 child, spousal, or medical support obligations or marital
16 property orders pursuant to section 97B.39 shall not be
17 eligible to transfer to the defined contribution plan created
18 in chapter 97E unless the order is modified to apply under the
19 defined contribution plan created in chapter 97E.

20 Sec. 18. DEFINED CONTRIBUTION ADVISORY BOARD -- INITIAL
21 APPOINTMENTS. Notwithstanding any provision of section 97E.2
22 to the contrary, the term of membership for an initial
23 appointment to the defined contribution advisory board shall
24 be as follows:

25 1. The following shall be appointed for an initial six-
26 year term: One employee member and one public member, as
27 designated by the governor.

28 2. The following shall be appointed for an initial four-
29 year term: One employer member and one public member, as
30 designated by the governor.

31 3. The following shall be appointed for an initial two-
32 year term: One employee member, as designated by the
33 governor.

34 EXPLANATION

35 This bill establishes an option for employees covered or

1 eligible to be covered under the Iowa public employees'
2 retirement system (IPERS) to elect out of coverage under that
3 system and into a defined contribution plan established by the
4 office of the treasurer of state effective July 1, 2007.

5 Membership in the defined contribution plan is established
6 by the bill. The bill provides that a person hired on or
7 after July 1, 2007, in regular service, who is eligible for
8 coverage under IPERS, has the option of electing out of that
9 coverage and electing coverage under a defined contribution
10 plan established by the office of the treasurer. Active
11 members of IPERS in regular service as of July 1, 2007, are
12 given an option for 18 months from July 1, 2007, to transfer
13 to the defined contribution plan. If a member transfers
14 coverage, IPERS shall transfer moneys to the member's account
15 in the defined contribution plan in an amount equal to the
16 amount the person would be eligible to receive as a refund if
17 the person terminated membership under IPERS.

18 The bill provides that the office of the treasurer shall
19 establish the defined contribution plan as a qualified plan
20 pursuant to section 401(a) of the Internal Revenue Code and
21 shall be the trustee of the plan. The bill provides that the
22 office of the treasurer shall contract for the administration
23 of the plan through a competitive bidding process. The bill
24 authorizes the office of the treasurer to assess fees for the
25 administration of the plan.

26 The bill provides for the establishment of a defined
27 contribution advisory board which shall review, at least
28 annually, the investment alternatives provided under the plan.
29 The board consists of six members, to include the director of
30 the department of administrative services, two employee
31 members who would be eligible to be in the plan, one employer
32 member, and two public members. Except for the director of
33 the department of administrative services, the governor
34 appoints the members of the board. Of the two employee
35 members, one shall be a school employee and one shall not.

1 The employer member shall represent employers of employees who
2 are not state employees. The bill further provides transition
3 provisions governing the terms of initial appointments to the
4 board.

5 The bill provides that a member shall be vested in the
6 defined contribution plan immediately.

7 The bill provides that contributions to the plan from
8 employers and employees shall be pretax and based on the
9 contribution percentage rates under IPERS.

10 The bill provides that the treasurer shall select a
11 diversified mix of investment alternatives under the plan and
12 may limit the number of investment providers to no more than
13 six. The bill provides that at least four investment
14 providers be insurance companies authorized to issue annuity
15 contracts in this state. The bill provides that moneys in a
16 member's retirement account shall be deposited in a balanced
17 fund if the member fails to select an investment option.
18 Distributions to plan members, eligible rollovers of accounts,
19 and death benefit provisions are included in the bill. The
20 bill also provides for an immediate distribution of moneys in
21 a member's account if the account balance is less than the
22 maximum amount prescribed by the internal revenue service that
23 can be distributed without triggering automatic rollover
24 rights.

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HOUSE FILE 2730

H-8245

- 1 Amend House File 2730 as follows:
- 2 1. Page 1, line 4, by striking the words "office
3 of the treasurer" and inserting the following: "Iowa
4 public employees' retirement system".
- 5 2. Page 1, line 26, by striking the words
6 "treasurer of the state" and inserting the following:
7 "chief executive officer of the Iowa public employees'
8 retirement system".
- 9 3. Page 3, line 1, by striking the words "office
10 of the treasurer" and inserting the following: "Iowa
11 public employees' retirement system".
- 12 4. Page 3, line 8, by striking the words "office
13 of the treasurer" and inserting the following: "Iowa
14 public employees' retirement system".
- 15 5. Page 3, line 13, by striking the words "office
16 of the treasurer" and inserting the following: "Iowa
17 public employees' retirement system".
- 18 6. Page 3, line 18, by striking the words "OFFICE
19 OF THE TREASURER" and inserting the following: "IOWA
20 PUBLIC EMPLOYEES' RETIREMENT SYSTEM".
- 21 7. Page 3, line 20, by striking the words "office
22 of the treasurer" and inserting the following: "Iowa
23 public employees' retirement system".
- 24 8. Page 3, line 22, by striking the words "office
25 of the treasurer" and inserting the following: "Iowa
26 public employees' retirement system".
- 27 9. Page 3, line 30, by striking the words "office
28 of the treasurer" and inserting the following: "Iowa
29 public employees' retirement system".
- 30 10. Page 3, line 34, by striking the words
31 "office of the treasurer" and inserting the following:
32 "Iowa public employees' retirement system".
- 33 11. Page 4, line 3, by striking the words "office
34 of the treasurer" and inserting the following: "Iowa
35 public employees' retirement system".
- 36 12. Page 4, line 5, by striking the words "office
37 of the treasurer" and inserting the following: "Iowa
38 public employees' retirement system".
- 39 13. Page 4, line 13, by striking the words
40 "office of the treasurer" and inserting the following:
41 "Iowa public employees' retirement system".
- 42 14. Page 5, line 16, by striking the words
43 "office of the treasurer" and inserting the following:
44 "Iowa public employees' retirement system".
- 45 15. Page 5, line 23, by striking the words
46 "office of the treasurer" and inserting the following:
47 "Iowa public employees' retirement system".
- 48 16. Page 5, line 25, by striking the words
49 "office of the treasurer" and inserting the following:
50 "Iowa public employees' retirement system".

H-8245

- 1 17. Page 5, line 27, by striking the words
- 2 "office of the treasurer" and inserting the following:
- 3 "Iowa public employees' retirement system".
- 4 18. Page 5, line 31, by striking the words
- 5 "office of the treasurer" and inserting the following:
- 6 "Iowa public employees' retirement system".
- 7 19. Page 6, line 1, by striking the words "office
- 8 of the treasurer" and inserting the following: "Iowa
- 9 public employees' retirement system".
- 10 20. Page 6, lines 11 and 12, by striking the
- 11 words "office of the treasurer" and inserting the
- 12 following: "Iowa public employees' retirement
- 13 system".
- 14 21. Page 6, line 32, by striking the words
- 15 "office of the treasurer" and inserting the following:
- 16 "Iowa public employees' retirement system".
- 17 22. Page 6, line 34, by striking the words
- 18 "office of the treasurer" and inserting the following:
- 19 "Iowa public employees' retirement system".
- 20 23. Page 7, line 5, by striking the words "office
- 21 of the treasurer" and inserting the following: "Iowa
- 22 public employees' retirement system".
- 23 24. Page 7, lines 11 and 12, by striking the
- 24 words "office of the treasurer" and inserting the
- 25 following: "Iowa public employees' retirement
- 26 system".
- 27 25. Page 7, line 13, by striking the words
- 28 "office of the treasurer" and inserting the following:
- 29 "Iowa public employees' retirement system".
- 30 26. Page 7, line 28, by striking the words
- 31 "office of the treasurer" and inserting the following:
- 32 "Iowa public employees' retirement system".
- 33 27. Page 7, line 31, by striking the words
- 34 "office of the treasurer" and inserting the following:
- 35 "Iowa public employees' retirement system".

By WENDT of Woodbury
JOCHUM of Dubuque

HOUSE FILE 2730

H-8254

- 1 Amend House File 2730 as follows:
2 1. Page 8, line 11, by striking the word
3 "paragraphs" and inserting the following: "paragraph".
4 2. Page 8, lines 13 and 14, by striking the words
5 "member in regular service" and inserting the
6 following: "person who is newly hired in a position
7 as an employee in regular service on or after July 1,
8 2007,".
9 3. Page 8, line 16, by striking the words
10 "continuing or".
11 4. By striking page 8, line 23, through page 9,
12 line 2, and inserting the following: "chapter, as set
13 forth in section 97B.11. A person who is newly hired
14 in a position as an".
15 5. Page 9, line 11, by inserting after the word
16 "system." the following: "For purposes of this
17 paragraph, "a person who is newly hired" does not
18 include a person who was previously a member of the
19 system prior to the date of hire."
20 6. Page 9, by striking lines 12 through 19.
21 7. Page 9, by inserting after line 33 the
22 following:
23 "Sec. ____ . DEFINED CONTRIBUTION PLAN
24 IMPLEMENTATION REPORT. The Iowa public employees'
25 retirement system (IPERS) and the office of the
26 treasurer shall each submit a report to the general
27 assembly by October 1, 2011, concerning the
28 implementation and effectiveness of the optional
29 defined contribution retirement program for employees
30 covered by the Iowa public employees' retirement
31 system as created by this Act. The reports shall
32 include, at a minimum, the percentage of new employees
33 choosing to remain in IPERS and the percentage of new
34 employees choosing the optional defined contribution
35 retirement plan, the average age of employees choosing
36 either retirement plan, and the costs to IPERS of
37 providing this option to new employees."
38 8. By renumbering as necessary.

By KURTENBACH of Story
T. TAYLOR of Linn
TOMENGA of Polk

H-8254 FILED MARCH 14, 2006

HOUSE FILE 2730

H-8317

1 Amend the amendment, H-8254, to House File 2730 as
2 follows:

3 1. Page 1, by striking lines 2 through 4.

4 2. Page 1, line 5, by striking the word
5 "striking" and inserting the following: "inserting
6 after".

7 3. Page 1, line 6, by striking the words "and
8 inserting".

9 4. Page 1, line 7, by inserting before the word
10 "person" the following: "on July 1, 2007, who is not
11 a vested member, or a".

12 5. Page 1, by striking lines 10 through 15 and
13 inserting the following:

14 "____. Page 8, line 23, by inserting after the
15 word "member" the following: "on July 1, 2007, who is
16 not a vested member".

17 _____. Page 8, line 24, by striking the word "may"
18 and inserting the following: "shall".

19 _____. Page 8, line 28, by inserting after the word
20 "member" the following: "who is not a vested member
21 and"."

22 6. Page 1, by striking line 21.

23 7. Page 1, line 33, by inserting after the word
24 "new" the following: "and nonvested".

25 8. Page 1, line 34, by inserting after the word
26 "new" the following: "and nonvested".

27 9. By renumbering as necessary.

By ROBERTS of Carroll

H-8317 FILED MARCH 20, 2006

HSB 512

STATE GOVERNMENT

SUC: led by

SF 02730

HOUSE FILE _____

BY (PROPOSED COMMITTEE ON
STATE GOVERNMENT BILL
BY CHAIRPERSON ELGIN)

Orake, chair
Elgin Wendt.
Schum
Kurtzback
Tomanga
To Taylor

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
2 employees covered by the Iowa public employees' retirement
3 system.

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

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1 Section 1. NEW SECTION. 97E.1 PLAN CREATED --
2 DEFINITIONS.

3 1. An Iowa public employees' defined contribution
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5 2. As used in this chapter, unless the context otherwise
6 requires:

7 a. "Board" means the defined contribution board created in
8 section 97E.2.

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

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

13 d. "Plan" means the Iowa public employees' defined
14 contribution retirement plan created in this chapter.

15 Sec. 2. NEW SECTION. 97E.2 DEFINED CONTRIBUTION BOARD.

16 1. BOARD ESTABLISHED. A board is established to be known
17 as the defined contribution board, referred to in this chapter
18 as the "board". The duties of the board are to establish
19 policy, and review its implementation, in matters relating to
20 the establishment and management of the optional plan.

21 2. PROVIDER SELECTION -- INVESTMENT REVIEW.

22 a. The board shall review and approve, prior to the
23 execution of a contract with the office of the treasurer, the
24 hiring of any plan administrator or any investment provider
25 for the plan.

26 b. At least annually, the board shall review the
27 investment providers and options provided under the plan and
28 shall, in consultation with the office of the treasurer, make
29 investment information available to members and potential
30 members of the plan on an ongoing basis.

31 3. MEMBERSHIP.

32 a. The board shall consist of eleven voting members. The
33 voting members shall be as follows:

34 (1) Two public members, appointed by the governor, who are
35 not members of the defined benefit system created in chapter

1 97B or the plan created in this chapter.

2 (2) Four members, appointed by the governor, who are
3 eligible to be members of the plan. Of the four members
4 appointed, one shall be an active member who is an employee of
5 a school district, area education agency, or merged area and
6 three shall be active members who are not employees of a
7 school district, area education agency, or merged area. Of
8 the three members not employees of a school district, area
9 education agency, or merged area, one shall be an employee of
10 the state, one shall be an employee of a county, and one shall
11 be an employee of a city. Prior to the appointment by the
12 governor of a member of the board under this subparagraph, the
13 constituent group representing the largest number of school
14 district, area education agency, and merged area employees,
15 state employees, county employees, and city employees,
16 respectively, shall submit a slate of at least two nominees
17 per that employee position to the governor for the governor's
18 consideration. The governor is not required to appoint a
19 member from the slate submitted.

20 (3) The treasurer of state.

21 (4) Director of the department of administrative services.

22 (5) Three members, appointed by the governor, who
23 represent employers of employees eligible to be members of the
24 plan. One member shall be a member of a constituent group
25 that represents cities, one shall be a member of a constituent
26 group that represents counties, and one shall be a member of a
27 constituent group that represents local school districts.

28 Prior to the appointment by the governor of a member of the
29 board under this subparagraph, the constituent group
30 representing the largest number of counties, cities, and
31 school districts, respectively, shall submit a slate of at
32 least two nominees per that employer position to the governor
33 for the governor's consideration. The governor is not
34 required to appoint a member from the slate submitted.

35 b. Six voting members of the board shall constitute a

1 quorum.

2 c. The two public members and the three employer members
3 shall be paid their actual expenses incurred in the
4 performance of their duties and shall receive a per diem as
5 specified in section 7E.6 for each day of service not
6 exceeding forty days per year. The members who are eligible
7 to be a member of the plan, the director of the department of
8 administrative services, and the treasurer of state shall be
9 paid their actual expenses incurred in the performance of
10 their duties as members of the board, and the performance of
11 their duties as members of the board shall not affect their
12 salaries, vacations, or leaves of absence for sickness or
13 injury.

14 d. The appointive terms of the members appointed by the
15 governor are for a period of six years beginning and ending as
16 provided in section 69.19. If there is a vacancy in the
17 membership of the board for one of the members appointed by
18 the governor, the governor has the power of appointment.
19 Gubernatorial appointees to this board are subject to
20 confirmation by the senate.

21 Sec. 3. NEW SECTION. 97E.3 DEFINED CONTRIBUTION PLAN
22 ESTABLISHED -- ASSETS TO BE HELD IN TRUST -- CONTRACTED
23 SERVICES.

24 1. The office of the treasurer shall establish in
25 conjunction with the Iowa public employees' retirement system
26 a defined contribution plan in accordance with this chapter.
27 The plan must be established as a pension plan for the
28 exclusive benefit of members and their beneficiaries and as a
29 qualified plan pursuant to section 401(a) of the Internal
30 Revenue Code and its implementing regulations. Retirement
31 accounts must be established for each member of the plan.
32 Assets of the plan must be held in trust. The plan is
33 established in addition to any retirement, pension, deferred
34 compensation, or other benefit plan administered by the state
35 or a political subdivision.

1 2. The office of the treasurer shall contract for plan
2 administration and use a competitive bidding process when
3 contracting for consulting, educational, investment,
4 recordkeeping, or other services for the plan.

5 3. The office of the treasurer shall contract for a
6 qualified consultant to assist in preparation of the request
7 for bids or request for proposals for plan services.

8 Sec. 4. NEW SECTION. 97E.4 PLAN GOALS.

9 In implementing and administering the plan, the office of
10 the treasurer and board shall consider the following goals for
11 the plan:

12 1. The impact to employers of changes to administrative
13 processes in order to establish the plan is minimized to the
14 extent possible.

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

17 3. Administration and services for the plan are contracted
18 out to the extent possible, but the department shall provide
19 for the diligent oversight of the contracts.

20 4. Reasonable participant services are provided for and
21 fees are commensurate with the services.

22 5. Lines of communication and responsibilities are clearly
23 established so that employers or their personnel and payroll
24 officers do not advise members about plan choices or
25 investment alternatives.

26 6. Employers are encouraged to provide paid time for
27 employees to attend educational programs regarding the plan
28 sponsored by the office of the treasurer and the board.

29 Sec. 5. NEW SECTION. 97E.5 OFFICE OF THE TREASURER
30 POWERS AND DUTIES -- RULEMAKING.

31 1. The office of the treasurer has the powers and shall
32 perform the duties regarding the plan, as applicable.

33 2. The office of the treasurer shall, in accordance with
34 chapter 17A, adopt rules necessary for the administration of
35 this chapter, including rules concerning the following:

1 a. Matters necessary for the treatment of the plan as a
2 qualified plan under applicable sections of the Internal
3 Revenue Code.

4 b. The treatment of dormant or inactive accounts.

5 c. The security and privacy of information maintained by
6 the office of the treasurer concerning a member's investments,
7 as required by applicable law.

8 d. Minimum asset, reserve, insurance, or other security
9 requirements intended to ensure the solvency of a contractor
10 used by the office of the treasurer for investment services.

11 e. The commencement of benefit payments under the plan.

12 Sec. 6. NEW SECTION. 97E.6 ADMINISTRATIVE EXPENSES AND
13 FEES.

14 1. The office of the treasurer may establish a fund within
15 the plan for paying the plan's administrative expenses.

16 2. The office of the treasurer may do any of the
17 following:

18 a. Assess fees to pay the reasonable administrative costs
19 of the plan.

20 b. Negotiate with a vendor or vendors for vendor
21 reimbursement of administrative expenses for the plan.

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

24 4. Costs for the office of the treasurer to provide for
25 contract oversight are included as part of the administrative
26 expenses of the plan.

27 Sec. 7. NEW SECTION. 97E.7 PLAN MEMBERSHIP.

28 Except as otherwise provided in this chapter, a member of
29 the plan means an employee who elected coverage under the plan
30 pursuant to section 97B.42.

31 Sec. 8. NEW SECTION. 97E.8 TRANSFERS OR ROLLOVERS INTO
32 PLAN -- MEMBERSHIP CREDIT FOR PURPOSES OF VESTING.

33 1. Except as provided in this section, the office of the
34 treasurer shall accept the transfer or rollover of assets from
35 another qualified plan to the member's retirement account in

1 the plan.

2 2. a. Moneys from the defined benefit system shall not be
3 transferred or rolled over to a retirement account in the plan
4 unless the moneys were contributed to the defined benefit
5 system on an after-tax basis.

6 b. To the extent that the transfer or rollover is
7 disallowed under the Internal Revenue Code provisions in
8 effect as of the calendar year immediately preceding the date
9 of the transfer or rollover, a member shall not transfer or
10 roll over to a retirement account contributions made under
11 section 403(b) or 457 of the Internal Revenue Code.

12 Sec. 9. NEW SECTION. 97E.9 VESTING -- ALLOCATION OF
13 CONTRIBUTIONS.

14 1. A member is fully vested in the plan with respect to
15 the member's and employer's contributions and the income from
16 those contributions from the date that the employee becomes a
17 member of the plan.

18 2. Each member's retirement account in the plan shall be
19 credited with member and employer contributions calculated as
20 provided in section 97B.11.

21 Sec. 10. NEW SECTION. 97E.10 MAXIMUM CONTRIBUTION
22 LIMITATION.

23 The annual additions to a retirement account in the plan
24 shall not exceed the annual limits on contributions as
25 specified in section 415 of the Internal Revenue Code and
26 adjusted annually by the commissioner of internal revenue.

27 Sec. 11. NEW SECTION. 97E.11 INVESTMENT ALTERNATIVES --
28 NOTICE OF CHANGES -- DEFAULT FUND.

29 1. The office of the treasurer shall contract with a
30 vendor or vendors to provide for at least eight investment
31 alternatives within the plan. In providing for the plan's
32 investment alternatives, only a vendor or vendors offering
33 suitable and well-managed investments that are authorized to
34 do business in this state shall be used.

35 2. The investment alternatives shall include at least

1 three that offer plan members the following:

2 a. The ability to materially affect the potential return
3 on amounts in the member's retirement account and to specify
4 the degree of risk to which those amounts are subject.

5 b. A range of investment alternatives that does all of the
6 following:

7 (1) Provides sound and diversified funds.

8 (2) Offers, under each alternative, a materially different
9 risk and return characteristic than found in the other
10 alternatives.

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

17 (4) Tends to minimize through diversification the overall
18 risk of large losses.

19 3. Subject to a competitive bidding process, the
20 investment alternatives may include the investment
21 alternatives offered to the state employees' deferred
22 compensation plan pursuant to section 8A.433.

23 4. The office of the treasurer shall from time to time
24 review the suitability and management of investment
25 alternatives and may change the alternatives to be offered.
26 The office of the treasurer shall notify affected members of
27 potential changes in alternatives before any changes become
28 effective.

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

31 6. The office of the treasurer shall provide for a
32 balanced fund to be established as a default investment fund.
33 If a member fails to direct how the member's retirement
34 account is to be invested, the member's entire account balance
35 shall be invested in the default fund.

1 Sec. 12. NEW SECTION. 97E.12 PAYOUT OF RETIREMENT
2 ACCOUNT BALANCES WHEN TERMINATING PLAN MEMBERSHIP.

3 Any time after termination of covered employment by a
4 member, a member or the member's beneficiary may terminate
5 plan membership by making a written application to the office
6 of the treasurer and removing the member's retirement account
7 balance from the plan through any combination of the following
8 payout options, each of which is subject to applicable
9 regulations of the internal revenue service:

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

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

15 3. A lump sum distribution of the member's retirement
16 account balance.

17 Sec. 13. NEW SECTION. 97E.13 DISTRIBUTION OPTIONS FOR
18 PLAN MEMBERS -- RULEMAKING -- MINIMUM DISTRIBUTION
19 REQUIREMENTS -- RESTRICTIONS.

20 1. Subject to the requirements of this chapter and chapter
21 97B, if applicable, a member may, after termination of covered
22 employment, leave the member's retirement account balance in
23 the plan, and the member is eligible for a distribution as
24 provided in this section.

25 2. After termination of covered employment, upon written
26 application to the office of the treasurer, a member may, if
27 provided for by the board, select a distribution option
28 offered pursuant to a contract negotiated by the office of the
29 treasurer with a plan vendor or vendors.

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

34 4. The office of the treasurer shall adopt rules pursuant
35 to chapter 17A to administer this section and to provide that

1 distributions comply with the minimum distribution
2 requirements established in the Internal Revenue Code.

3 Sec. 14. NEW SECTION. 97E.14 DEATH BENEFITS.

4 A plan member's beneficiary shall be designated and
5 determined pursuant to rules adopted by the office of the
6 treasurer under chapter 17A. Upon written application filed
7 with the office of the treasurer after the death of a plan
8 member, the member's beneficiary is entitled to the member's
9 retirement account balance and all rights established in and
10 subject to this chapter.

11 Sec. 15. NEW SECTION. 97E.15 MINIMUM RETIREMENT ACCOUNT
12 BALANCE REQUIRED FOR MEMBERSHIP AFTER TERMINATION --
13 ADJUSTMENT BY RULE.

14 1. a. If a member's retirement account balance is less
15 than five thousand dollars at the time that the member
16 terminates covered employment, the member shall terminate plan
17 membership by removing the member's retirement account balance
18 from the plan in a manner provided pursuant to section 97E.12.

19 b. If the member fails to remove the member's retirement
20 account balance, the office of the treasurer may close the
21 account by paying to the member a lump sum distribution of the
22 member's entire account balance.

23 2. The office of the treasurer may by rule adjust the
24 minimum retirement account balance provided in this section as
25 necessary to maintain reasonable administrative costs and to
26 account for inflation and to ensure compliance with applicable
27 internal revenue service requirements.

28 Sec. 16. Section 97B.1, subsection 2, Code 2005, is
29 amended by adding the following new subsection:

30 NEW SUBSECTION. cc. "Defined contribution plan" means the
31 Iowa public employees' defined contribution plan created in
32 chapter 97E.

33 Sec. 17. Section 97B.1A, unnumbered paragraph 1, Code
34 Supplement 2005, is amended to read as follows:

35 When used in this chapter and chapter 97E, unless the

1 context otherwise requires:

2 Sec. 18. Section 97B.42, Code 2005, is amended by adding
3 the following new unnumbered paragraphs:

4 NEW UNNUMBERED PARAGRAPH. Notwithstanding any other
5 provision of this section, commencing July 1, 2007, a member
6 in regular service may elect coverage under the defined
7 contribution plan created in chapter 97E, in lieu of
8 continuing or commencing contributions to the Iowa public
9 employees' retirement system. However, the employer's annual
10 contribution in dollars to the defined contribution plan shall
11 not exceed the annual contribution in dollars which the
12 employer would contribute if the employee had elected to
13 remain an active member under this chapter, as set forth in
14 section 97B.11. A member who elects coverage under the
15 defined contribution plan may withdraw the member's
16 accumulated contributions and the member's share of the
17 accumulated employer contributions as provided in section
18 97B.53, effective when coverage under the defined contribution
19 plan commences. A member who is employed in a position as an
20 employee in regular service and who is covered under the
21 system in this chapter on July 1, 2007, must file an election
22 for coverage under the defined contribution described in
23 chapter 97E, with the system and the member's employer within
24 eighteen months of the first day on which coverage commences
25 under the defined contribution plan, or the employee shall
26 remain a member under this chapter and shall not be eligible
27 to elect to participate in the defined contribution plan at a
28 later date. A person who is newly hired in a position as an
29 employee in regular service on or after July 1, 2007, must
30 file an election for coverage under the defined contribution
31 plan with the system and the person's employer within sixty
32 days of commencing employment, or the employee shall remain a
33 member under this chapter and shall not be eligible to elect
34 to participate in the defined contribution plan at a later
35 date. A decision to elect out of coverage under this chapter

1 is irrevocable upon approval from the system.

2 NEW UNNUMBERED PARAGRAPH. Notwithstanding any provision of
3 this section to the contrary, a member of the system who is
4 subject to a qualified order for the purpose of enforcing
5 child, spousal, or medical support obligations or marital
6 property orders pursuant to section 97B.39 shall not be
7 eligible to transfer to the defined contribution plan created
8 in chapter 97E unless the order is modified to apply under the
9 defined contribution plan created in chapter 97E.

10 Sec. 19. DEFINED CONTRIBUTION BOARD -- INITIAL

11 APPOINTMENTS. Notwithstanding any provision of section 97E.2
12 to the contrary, the term of membership for an initial
13 appointment to the defined contribution board shall be as
14 follows:

15 1. The following shall be appointed for an initial six-
16 year term: Two employee members, one employer member, and one
17 public member, as designated by the governor.

18 2. The following shall be appointed for an initial four-
19 year term: One employee member, one employer member, and one
20 public member, as designated by the governor.

21 3. The following shall be appointed for an initial two-
22 year term: One employee member and one employer member, as
23 designated by the governor.

24 EXPLANATION

25 This bill establishes an option for employees covered or
26 eligible to be covered under the Iowa public employees'
27 retirement system (IPERS) to elect out of coverage under that
28 system and into a defined contribution plan established by the
29 office of the treasurer effective July 1, 2007.

30 Membership in the defined contribution plan is established
31 by the bill. The bill provides that a person hired on or
32 after July 1, 2007, in regular service, who is eligible for
33 coverage under IPERS, has the option of electing out of that
34 coverage and electing coverage under a defined contribution
35 plan established by the office of the treasurer. Active

1 members of IPERS in regular service as of July 1, 2007, are
2 given an option for 18 months from July 1, 2007, to transfer
3 to the defined contribution plan. If a member transfers
4 coverage, IPERS shall transfer moneys to the member's account
5 in the defined contribution plan in an amount equal to the
6 amount the person would be eligible to receive as a refund if
7 the person terminated membership under IPERS.

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

15 The bill provides for the establishment of a defined
16 contribution board which shall review and approve all
17 contracts concerning the defined contribution plan and shall
18 provide ongoing review of plan providers and investment
19 options. The board consists of 11 members, to include the
20 treasurer of state, the director of the department of
21 administrative services, four employee members, three employer
22 members, and two public members. Except for the treasurer and
23 director of the department of administrative services, the
24 governor appoints the members of the board. Of the four
25 employee members, one shall be from a school, and three shall
26 be employed by a city, county, and the state, respectively.
27 Of the three employer members, one shall be from a local
28 school district, one from a city, and one from a county. For
29 the seven employee and employer members, the constituent group
30 representing that member shall submit a slate of two names to
31 the governor for the governor's consideration in filling that
32 position. The bill further provides transition provisions
33 governing the terms of initial appointments to the board.
34 The bill provides that a member shall be vested in the
35 defined contribution plan immediately.

1 The bill provides that contributions to the plan from
2 employers and employees shall be based on the percentage rates
3 provided members of IPERS.

4 The bill provides that at least eight investment choices be
5 provided to members under the defined contribution plan and
6 provides for member selection of investment choices. The bill
7 provides that moneys in a member's retirement account shall be
8 deposited in a balanced fund if the member fails to select an
9 investment option. Distributions to plan members, eligible
10 rollovers of accounts, and death benefit provisions are
11 included in the bill. The bill also provides for an immediate
12 distribution of moneys in a member's account if the account
13 balance is less than \$5,000, or the amount established by the
14 treasurer's office, at the time the member is terminated from
15 covered employment.

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