

House Study Bill 697

HOUSE FILE _____
BY (PROPOSED COMMITTEE ON
STATE GOVERNMENT BILL BY
CHAIRPERSON ELGIN)

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

A BILL FOR

1 An Act establishing a deferred retirement option plan for members
2 of the statewide fire and police retirement system and
3 including an implementation provision.

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

5 TLSB 5876HC 81

6 ec/gg/14

PAG LIN

1 1 Section 1. NEW SECTION. 411.6C DEFERRED RETIREMENT
1 2 OPTION PLAN.

1 3 1. For purposes of this section, unless the context
1 4 otherwise requires:

1 5 a. "Applicable percentage" means that percentage, not
1 6 greater than one hundred percentage points, equal to fifty-two
1 7 percentage points plus two percentage points for each month
1 8 for the period between the eligible member's plan eligibility
1 9 month and the month the eligible member commences membership
1 10 in the plan.

1 11 b. "Drop benefit" means, for a participant, an amount
1 12 credited to the participant's account each applicable month
1 13 equal to the member's applicable percentage multiplied by the
1 14 member's participant retirement amount.

1 15 c. "Eligible member" means a member who has attained
1 16 fifty-five years of age with at least twenty-two years of
1 17 membership service.

1 18 d. "Participant account" means an administrative record
1 19 maintained by the system reflecting the participant's
1 20 accumulated drop benefit.

1 21 e. "Participant retirement amount" means the amount equal
1 22 to the monthly retirement allowance the eligible member would
1 23 have received under section 411.6 if the member retired on the
1 24 date the eligible member commenced participation in the plan,
1 25 based on earnings through the previous full quarter of
1 26 earnable compensation earned by the member.

1 27 f. "Plan" means the deferred retirement option plan
1 28 established by this section.

1 29 g. "Plan eligibility month" means the first full calendar
1 30 month in which the participant is an eligible member.

1 31 2. a. An eligible member may elect to participate in the
1 32 deferred retirement option plan as provided in this section.

1 33 A decision by an eligible member to participate in the plan is
1 34 irrevocable. Upon commencing membership in the plan, the

1 35 member shall remain an active member of the system and shall
2 1 have credited to a participant account on behalf of the member

2 2 from the fire and police retirement fund for each month the
2 3 member participates in the plan the member's drop benefit.

2 4 The amounts credited shall be invested by the system in risk=
2 5 free assets of a short-term nature and interest and earnings

2 6 shall not be credited to the member's participant account but
2 7 shall remain with the fire and police retirement fund

2 8 established in section 411.8. In addition, the annual

2 9 readjustment of pensions under section 411.6, subsection 12,

2 10 shall not apply to a participant's drop benefit or to amounts
2 11 credited to the member's participant account.

2 12 b. Upon termination of an eligible member's participation
2 13 in the plan, the eligible member shall be deemed to be retired

2 14 under the system as of that date for purposes of the system

2 15 and shall begin receiving a retirement allowance equal to the
2 16 member's participant retirement amount or such optional

2 17 retirement benefits, based upon that amount, pursuant to

2 18 section 411.6A. In addition, the eligible member shall
2 19 receive the moneys credited to the member's participant
2 20 account while participating in the plan. The eligible member
2 21 shall select, upon written application to the system, whether
2 22 to receive the amount in the member's participant account in
2 23 the form of a lump sum distribution or as a rollover to an
2 24 eligible retirement plan as defined in section 411.6B.
2 25 c. If an eligible member terminates participation in the
2 26 plan prior to the date selected by the member upon commencing
2 27 membership in the plan and the termination is not due to the
2 28 death or disability of the member under this chapter, then the
2 29 system shall assess a twenty-five percent penalty on the
2 30 amount credited to the member's participant account prior to
2 31 distributing the amount to the member. The penalty amount
2 32 shall be transferred to and remain with the fire and police
2 33 retirement fund.

2 34 3. To participate in the plan, an eligible member shall
2 35 make written application to the system. The application shall
3 1 include the following:

3 2 a. The month the eligible member intends to commence
3 3 participation in the plan.

3 4 b. The eligible member's selection of a plan termination
3 5 date. The plan termination date shall be either three, four,
3 6 or five years after the date the eligible member commences
3 7 membership in the plan. However, for the two-year period
3 8 beginning with the first of the month following the
3 9 implementation date of this section, an eligible member
3 10 between sixty-two and sixty-four years of age may also select
3 11 a plan termination date that is one or two years after the
3 12 date the eligible member commences membership in the plan.

3 13 4. Participation in the plan by an eligible member does
3 14 not guarantee continued employment. Contributions required
3 15 from members and participating cities shall continue based on
3 16 the earnable compensation of an eligible member participating
3 17 in the plan. However, contributions made while an eligible
3 18 member participates in the plan shall remain with the
3 19 retirement fund and shall not be subject to a withdrawal of
3 20 contributions under section 411.23.

3 21 5. The system's actuary, while making the annual valuation
3 22 of the assets and liabilities of the fire and police
3 23 retirement fund, shall determine whether establishment and
3 24 operation of the plan created in this section has resulted in
3 25 an increased actuarial cost to the system. If the actuary
3 26 determines that the plan has resulted in an increased
3 27 actuarial cost to the system, then, notwithstanding any
3 28 provision of section 411.8 to the contrary, the system shall
3 29 increase the members' contribution rate as necessary to cover
3 30 the increased cost of the plan created in this section.

3 31 6. This section shall not be implemented until the system
3 32 has received a favorable ruling from the internal revenue
3 33 service regarding the plan as provided in this section. Upon
3 34 receiving the favorable ruling, the board shall establish the
3 35 implementation date of the plan.

4 1 EXPLANATION

4 2 This bill establishes a deferred retirement option plan
4 3 (DROP) for members of the municipal fire and police retirement
4 4 system (MFPRSI) created in Code chapter 411.

4 5 The bill provides that members of MFPRSI who are at least
4 6 55 years of age and have at least 22 years of service are
4 7 eligible to participate in the DROP plan. The DROP plan
4 8 provides that an eligible member can delay retirement,
4 9 continue working for a set number of additional years, and
4 10 have a portion of the retirement allowance they otherwise
4 11 would have received if they had retired instead of
4 12 participating in the DROP plan deposited in an account that is
4 13 then distributed to them when they eventually retire.
4 14 However, the member's retirement allowance is set at the time
4 15 the member enters the DROP plan.

4 16 Prior to participating in the DROP plan, a member shall
4 17 submit an application to the system indicating when they
4 18 intend to start participation in the DROP plan and when they
4 19 intend to terminate their participation in the plan and
4 20 retire. The bill permits an eligible member to elect to
4 21 participate in the DROP plan for three, four, or five years.
4 22 However, for the two-year period beginning on the
4 23 implementation date of this section, an eligible member
4 24 between the ages of 62 and 64 can elect to participate in the
4 25 DROP plan and terminate their participation in one or two
4 26 years.

4 27 Upon electing to participate in the DROP plan, the eligible
4 28 member continues to work but has a portion of the retirement

4 29 allowance they would have received if they had decided to
4 30 retire credited to an account. The amount credited is equal
4 31 to a percentage of the retirement allowance they would have
4 32 received. The percentage rate is determined by starting with
4 33 52 percent and adding 2 percent per month, up to a maximum of
4 34 100 percent, based upon the number of months between the month
4 35 the member first became eligible to participate in the DROP
5 1 plan and the month the member actually participates. The bill
5 2 provides that the amount deposited in the member's account
5 3 does not accrue interest or dividends. Upon termination from
5 4 the DROP plan, the eligible member begins to receive a
5 5 retirement allowance based upon the amount the member would
5 6 have received when the member commenced participation in the
5 7 DROP plan plus the amount in the member's account. If the
5 8 member terminates participation in the plan prior to the date
5 9 set by the member and the termination is not due to the
5 10 member's death or disability, MFPRSI shall withhold 25 percent
5 11 of the amount in the account as a penalty. The bill provides
5 12 that participation in the DROP plan does not guarantee
5 13 continued employment.
5 14 The bill also provides that if the fire and police
5 15 retirement system actuary determines that the DROP plan has
5 16 increased the actuarial cost of the system, the contribution
5 17 rate paid by the members shall be increased to cover this
5 18 increased cost.
5 19 The bill finally provides that the DROP plan shall not be
5 20 implemented until the system receives a favorable ruling from
5 21 the internal revenue service. Upon receiving a favorable
5 22 ruling, the board shall establish the implementation date of
5 23 the plan.
5 24 LSB 5876HC 81
5 25 ec:nh/gg/14.1