

Public Retirement  
Systems Committee  
Presentation



# Peace Officers' Retirement, Accident and Disability System (POR)

Presented by:

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December 8, 2021

# Governance

- › Board of Trustees
  - Commissioner of Public Safety – Stephan K. Bayens (Chairperson)
  - Treasurer of State – Michael L. Fitzgerald
  - Governor's Appointee – Mark Oiler (Chief Actuary, Principal Financial Group)
  - Active Member Representative – Robert C. Conrad (Trooper, Iowa State Patrol)
  - Retired Member Representative – Michael Metzger (Retired Captain, Iowa State Patrol)
- › *Iowa Code, 97A*
- › *Iowa Administrative Code - 661*

# General Plan Overview

- › Fund Value at 7/1/2021: \$807,593,863
  
- › Membership: Total of 1,248
  - › Actives: 547
  - › Retirees/Beneficiaries: 654
  - › Inactives: 47
  
- › Total Annual Pension Benefits: \$36,523,969
  - œ Average annual benefit: \$55,847
  
- › Total Annual Covered Payroll: \$49,109,332
  - œ Average annual salary: \$89,779
  
- › Total Contributions (FY 2021)
  - œ Members: \$5,457,794
  - œ State: \$17,711,497 plus additional \$5 million

# Membership Provisions

- Sworn peace officers of the Iowa Department of Public Safety
  - œ Division of Criminal Investigation
  - œ Division of Narcotics Enforcement
  - œ Division of Intelligence
  - œ Iowa State Patrol Division
  - œ State Fire Marshal Division
  
- Earnings while a member of POR are exempt from Social Security (if sworn after March 1986 must pay Medicare 1.45%)
  - œ No retirement benefits received from Social Security

## Benefit Provisions

- › Benefit based on years of service and highest 3 years of Compensation
- › Retirement at age 55 with 22 years of service
  - › Benefit is 60.5% after 22 years of service and then increases by 2.75% per year, up to 32 years of service.
  - › Maximum benefit of 88%
  - › Mandatory retirement age is age 65
- › Service retirement benefit is paid as a Joint and 50% Survivor
  - › Seven (7) optional forms of payment available at retirement
- › Post-retirement benefit escalator: a percentage based on wage increase provided for active members of the same rank. Also, a flat dollar amount (\$15 to \$35 per month) based on years since retirement.

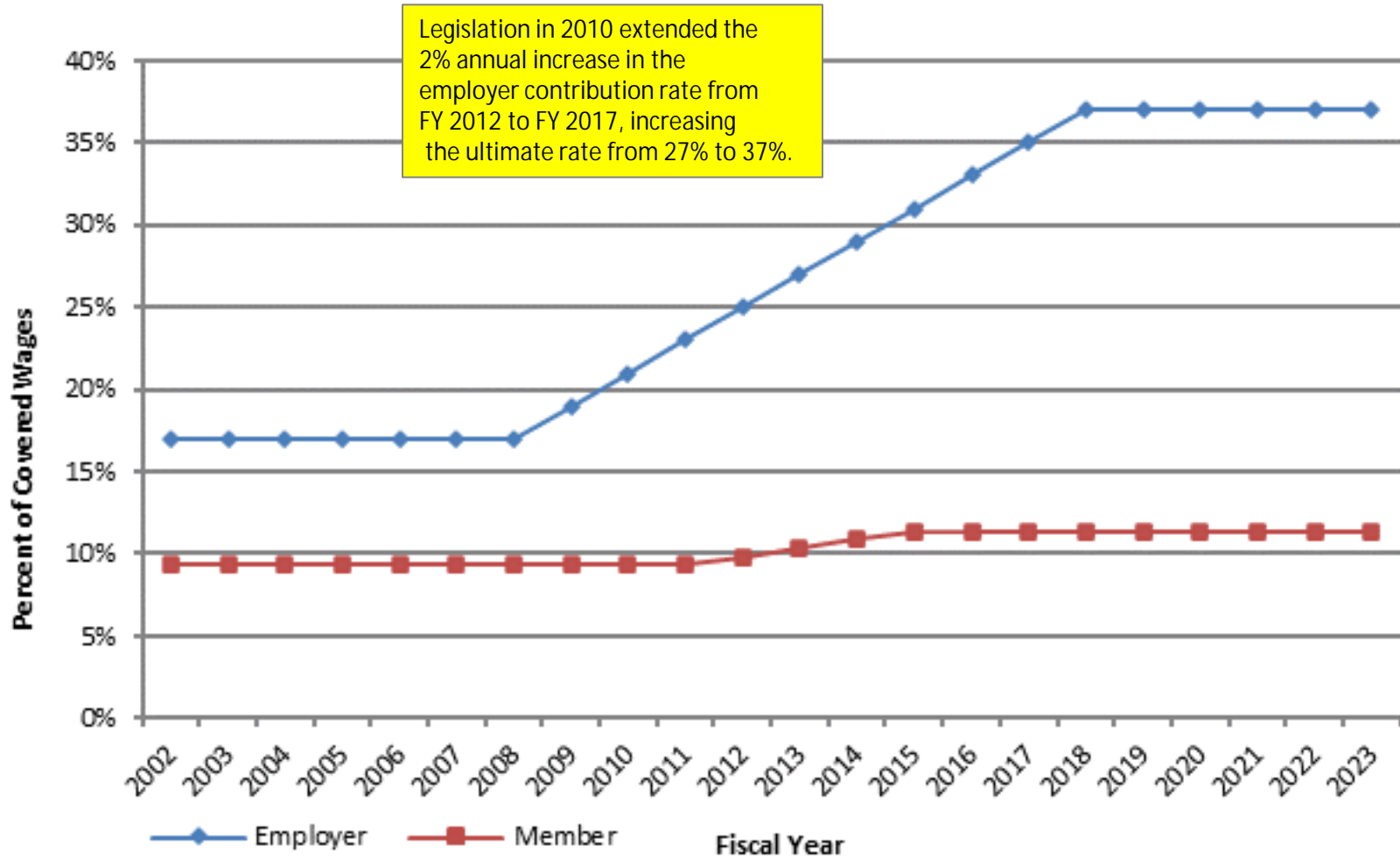
## Benefit Provisions

- › Eligibility for vested benefit
  - œ Four years of service
  - œ Benefit payable at age 55
  
- › Ancillary benefits provided
  - œ Line of Duty Death Benefit of \$100,000
  - œ Accidental and Ordinary Disability Monthly Benefits
  - œ Accidental and Ordinary Death Monthly Benefits

# Funding Provisions

- › Current Contribution Rates
  - œ Member contribution rate: 11.40%
  - œ State statutory contribution: 37.00%
  - œ State supplemental contribution: \$5 M until Plan is 85% funded
  
- › Contribution rates have changed over the years, most recently as a result of legislation in the 2010 session

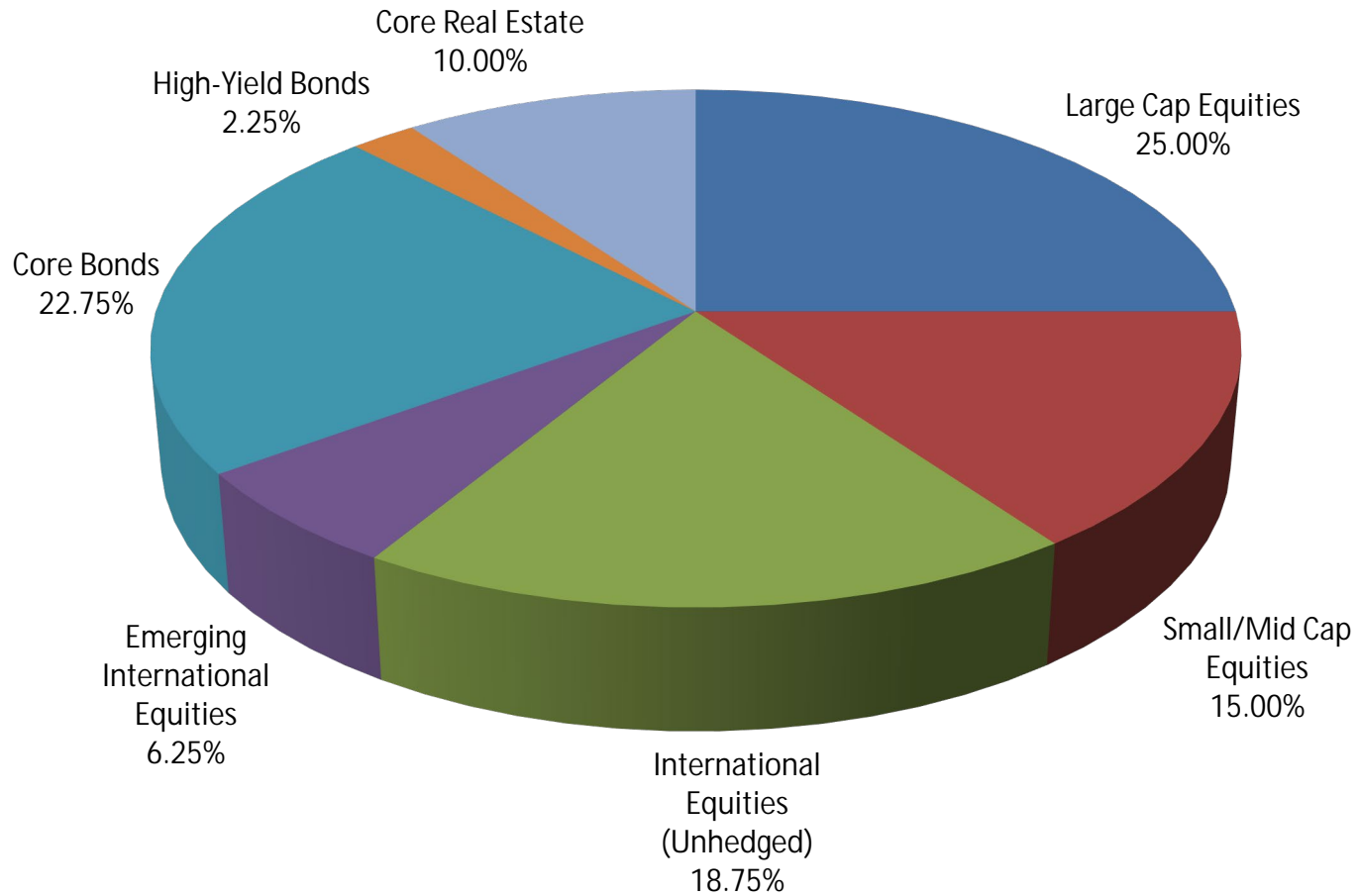
# Statutory Contribution Rates



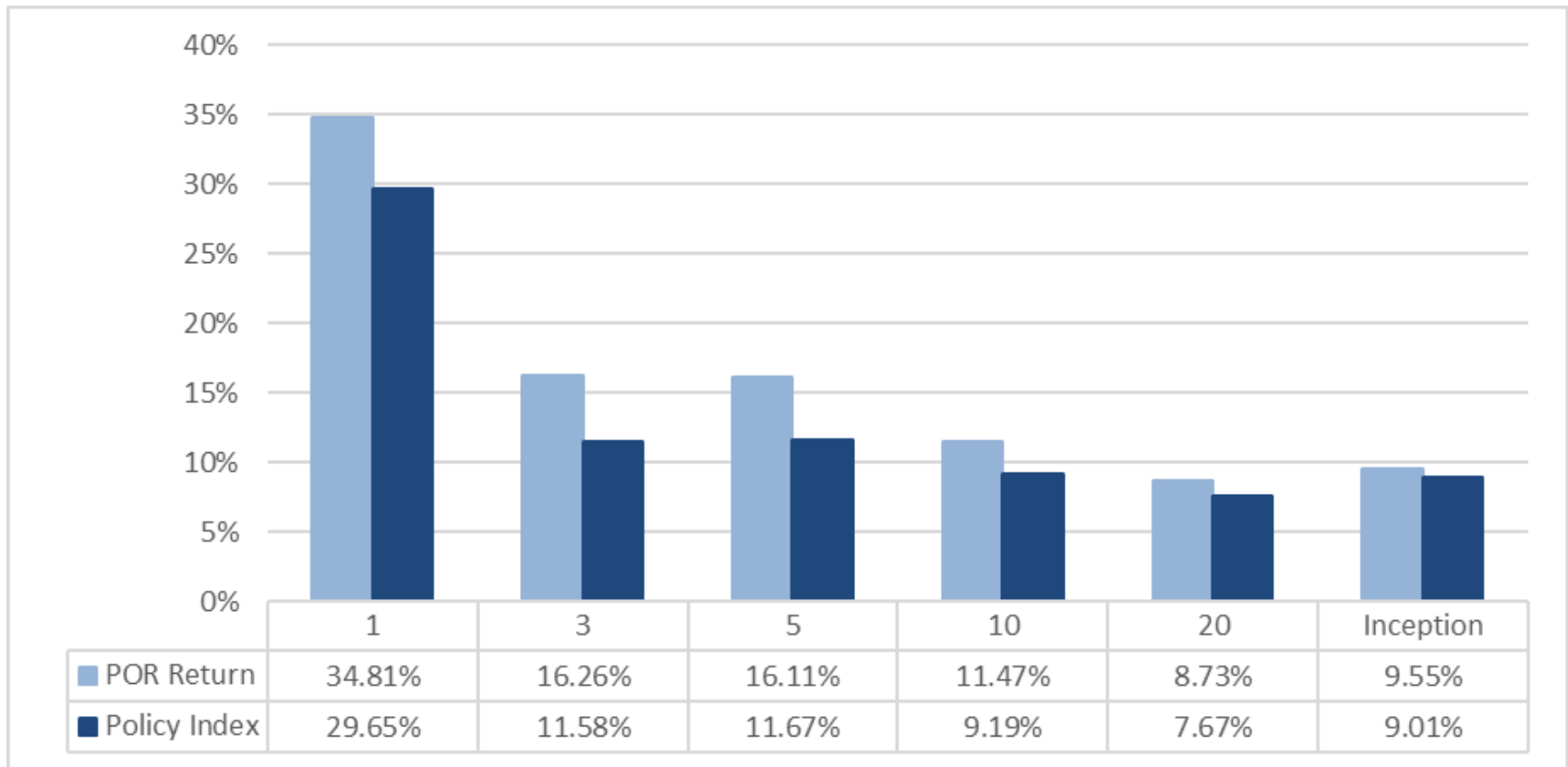


# Target Asset Allocation

## As of 7/1/2021

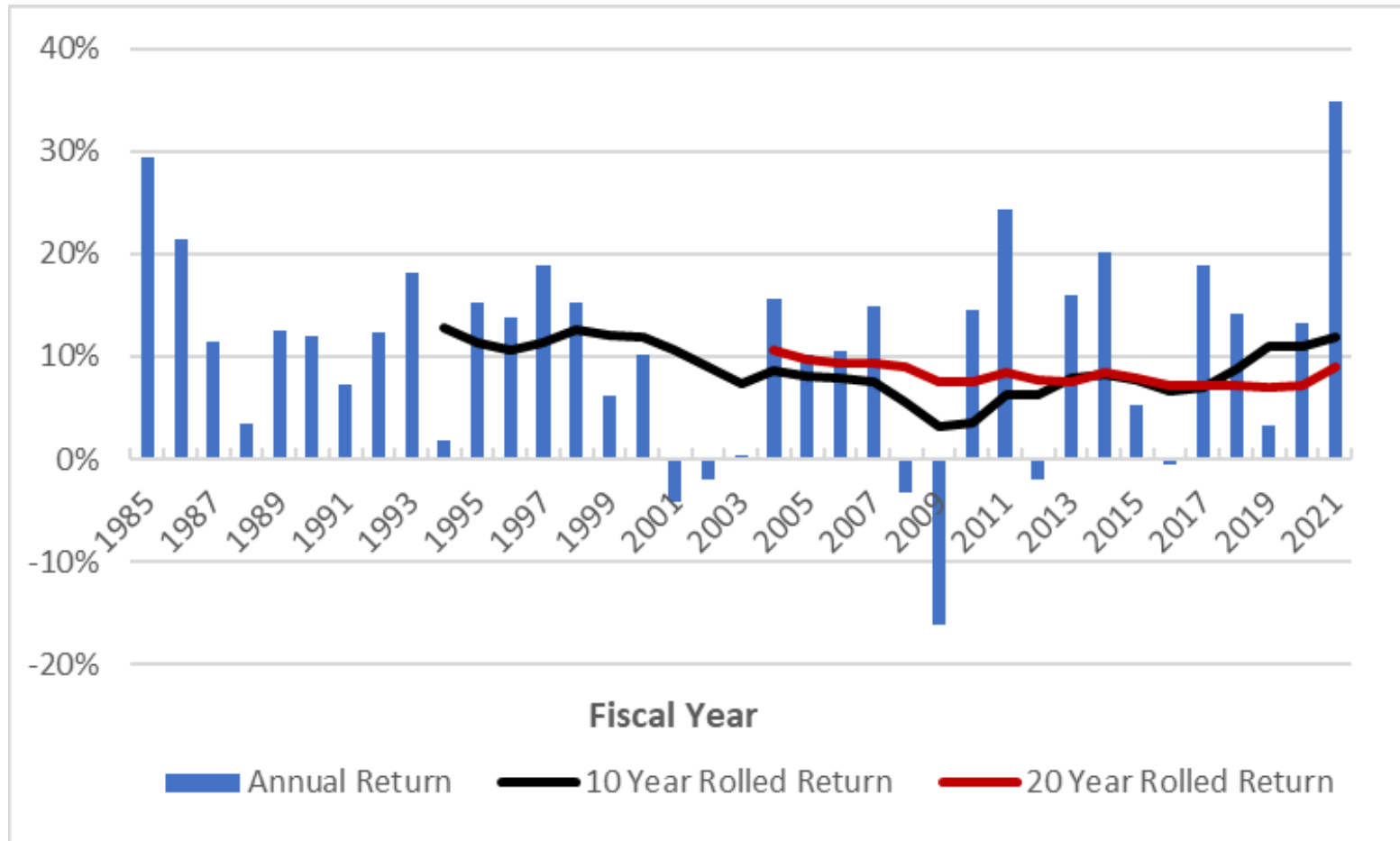


# Investment Performance History



Note: Current investment return assumption, which is forward-looking, is 7.0%.

# POR Rolling Fund Returns (1985 – 2021)



Returns are much smoother over longer periods of time, like 20 and 30 years

# Funding a Retirement Program



$$C + I = B + E$$

C: Contributions  
I: Investment Income

B: Benefits  
E: Expenses

# Actuarial Valuation Process

- ☐ The valuation process can be viewed as a budgeting process. Like a budget, we make use of information we know as of a certain date, and using assumptions, we estimate what we think will happen in the future.
- ☐ Member data and asset data are provided by the System staff. Benefit provisions are in statute.
- ☐ Assumptions and Funding methodology are determined by the Board of Trustees, with input from the actuary and other professionals.

## Inputs

Member Data  
Asset Data  
Benefit Provisions  
Assumptions  
Funding Methodology



## Results

Actuarial Value of Assets  
Actuarial Accrued Liability  
Net Actuarial Gain or Loss  
Funded Ratio  
Actuarial Contribution Rate

# Actuarial Valuations

- › Actuarial process is a ***budgeting tool*** that allocates the cost of the benefits to different years of service worked by members
- › Valuations monitor funding progress and the sufficiency of the statutory contribution rates
- › Methodology used for POR is *Entry Age Normal* which develops costs as a level percent of pay over a member's working career
  - 3 Produces a stable cost, as a rate of pay
  - 3 By design, dollar amounts of contributions will increase with expected increases in covered payroll

# Actuarial Assumptions

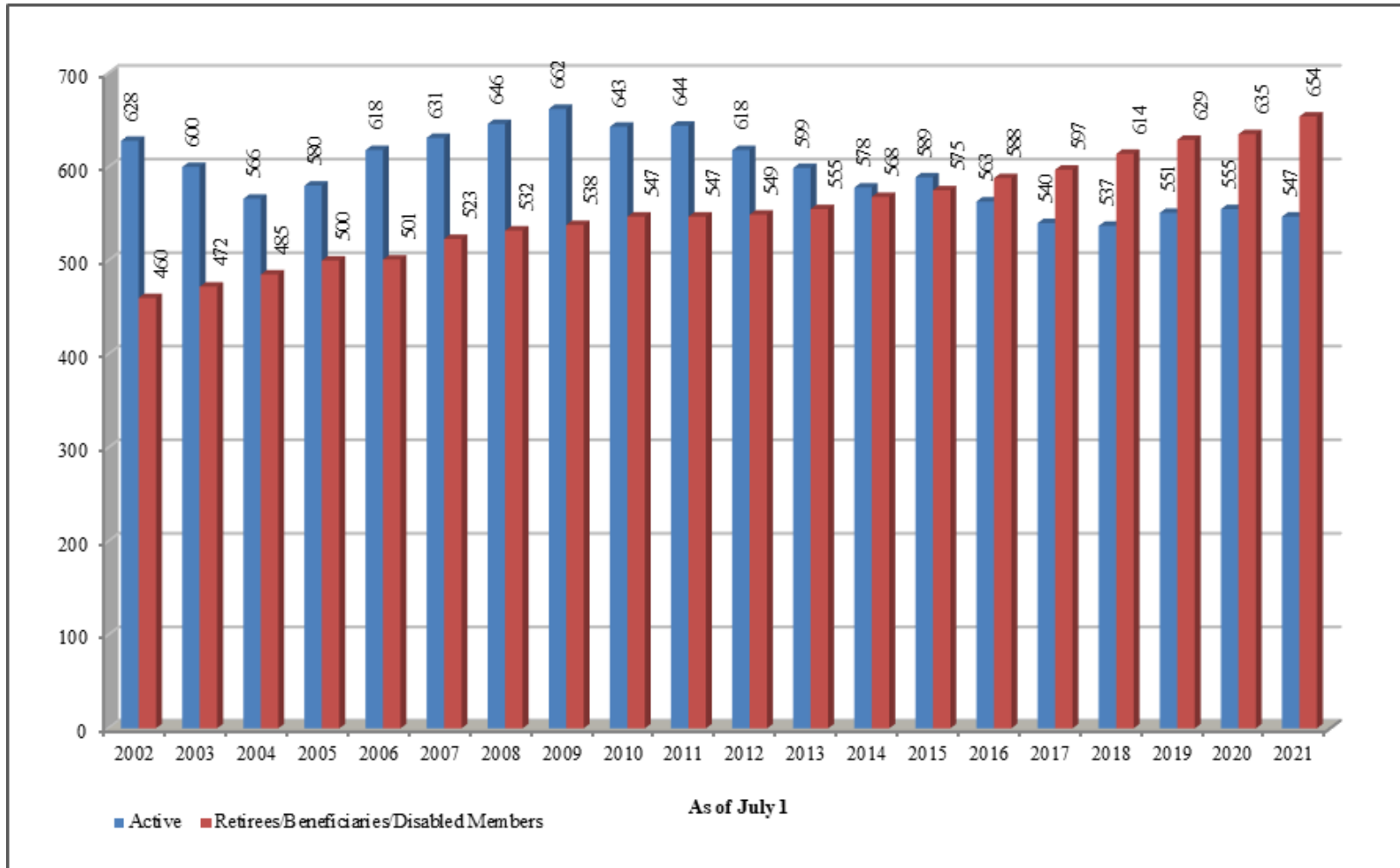
## Key assumptions used in the 2021 valuation

- § Investment return assumption is 7.0%
- § Mortality assumption is RP-2014 Mortality Table with 1 year age setback and generational mortality improvements

## Experience studies performed at least every 5 years

- § Next study to be performed in 2022 and presented to the Board of Trustees no later than June 2022
- § Changes in assumptions may impact the funded ratio and the projected date the System reaches 85% funded ratio

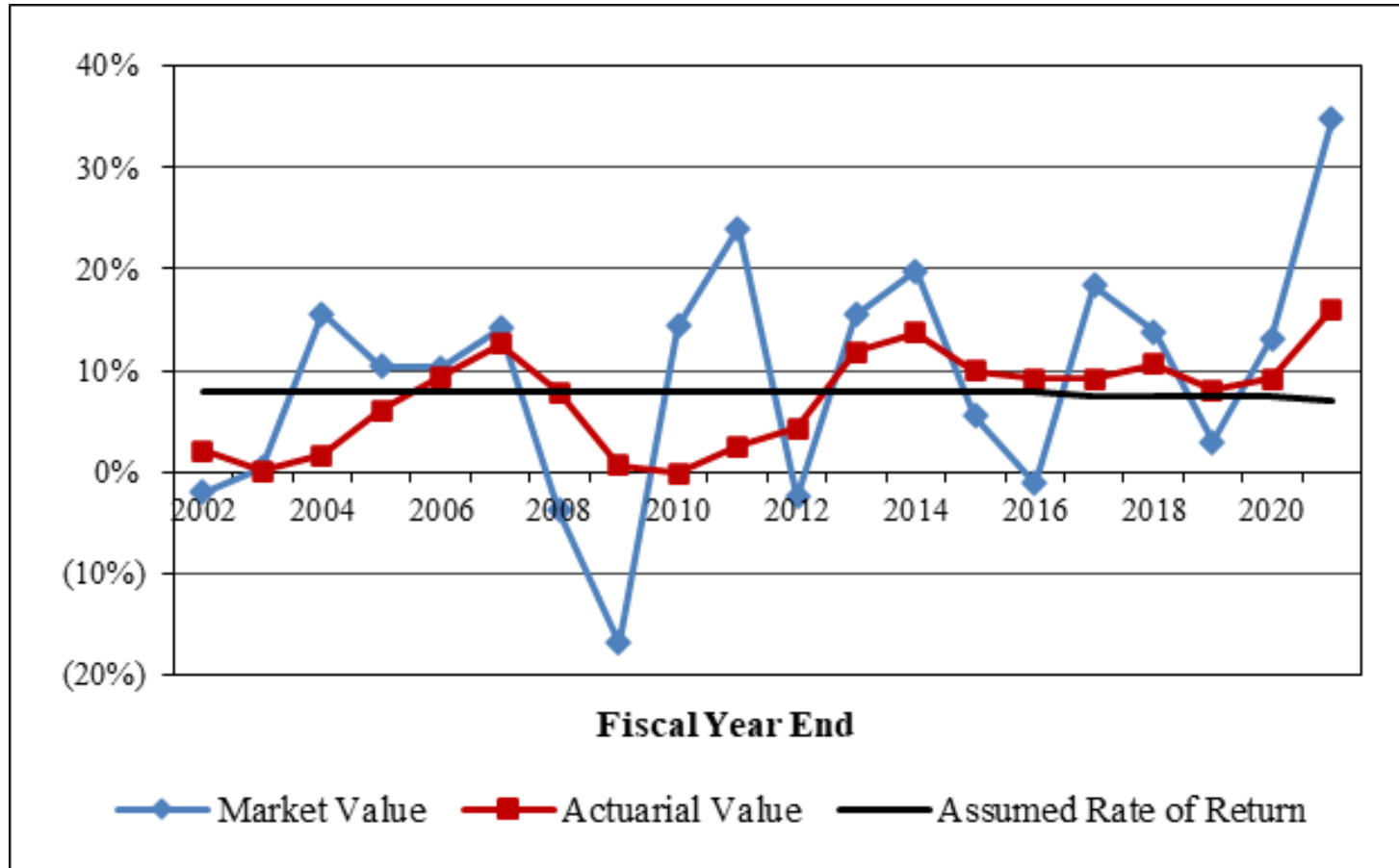
# POR Membership



The number of active members has declined more than 15% over this time period which has a negative impact on the System's funding.



# Returns on Market and Actuarial Assets



An asset smoothing method is used to average out the volatility of asset returns and provide stability to the funding of the System.

# Valuation Results: Funded Status

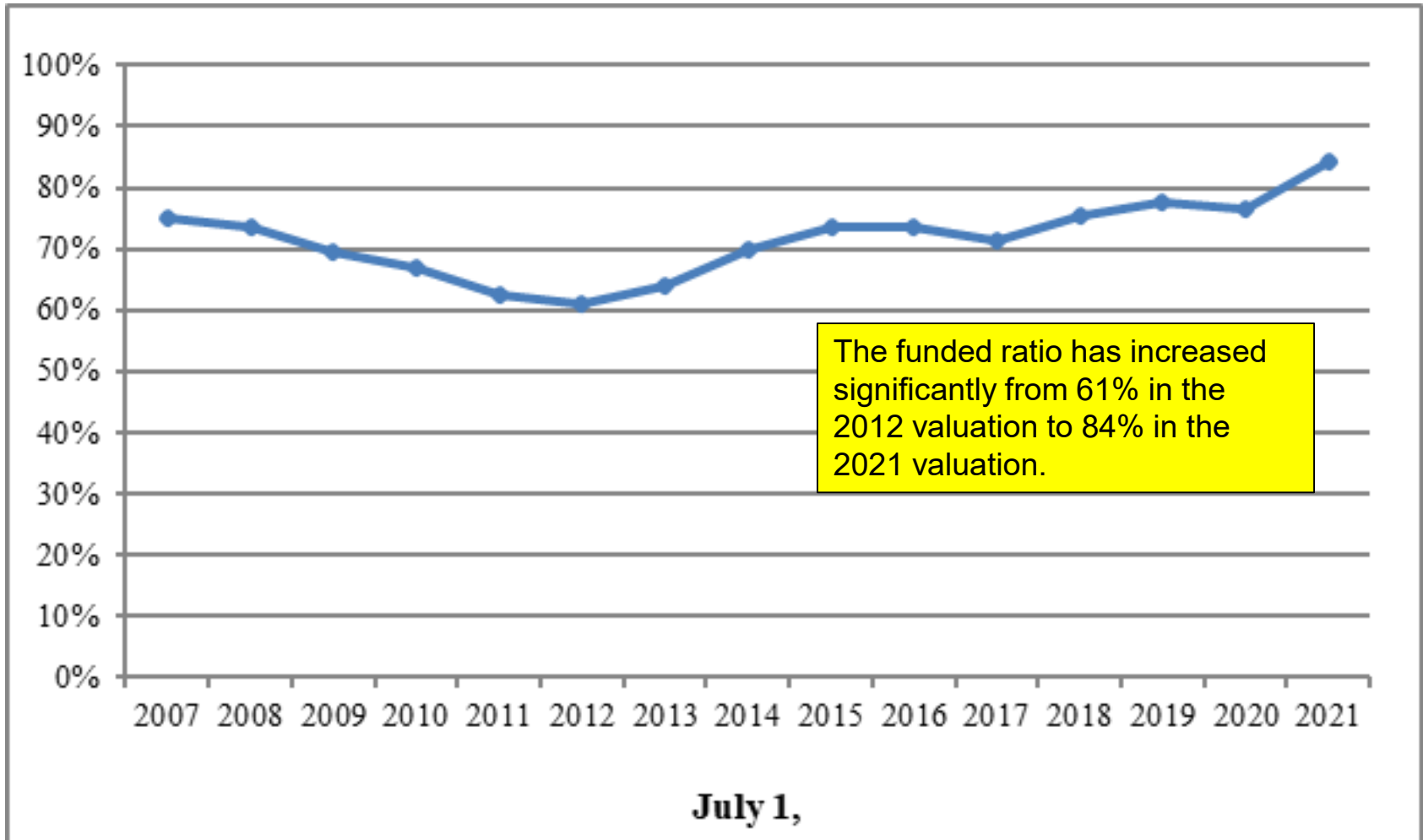
(\$ in Millions)

	<u>As of July 1,</u>	
	<b>2021</b>	<b>2020</b>
Actuarial Accrued Liability (AAL)	\$780	\$751
Actuarial Value of Assets (AVA)	<u>658</u>	<u>574</u>
Unfunded Actuarial Accrued Liability	\$122	\$177
<b>Funded Ratio (AVA/AAL)</b>	<b>84%</b>	<b>76%</b>
Market Value Assets	\$808	\$605
Funded Ratio (MVA/AAL)	104%	80%

## Change in the Unfunded Actuarial Accrued Liability (UAAL)

UAAL July 1, 2020	\$177.4
• Contributions below actuarial rate	0.4
• Expected decrease from amortization	(2.0)
• Investment experience	(51.7)
• Liability experience	(1.9)
• Other experience	(0.1)
UAAL July 1, 2021	\$122.1

# Historical Funded Ratio



# Valuation Results: Contributions

## Fiscal Year Beginning

7/1/2021

7/1/2020

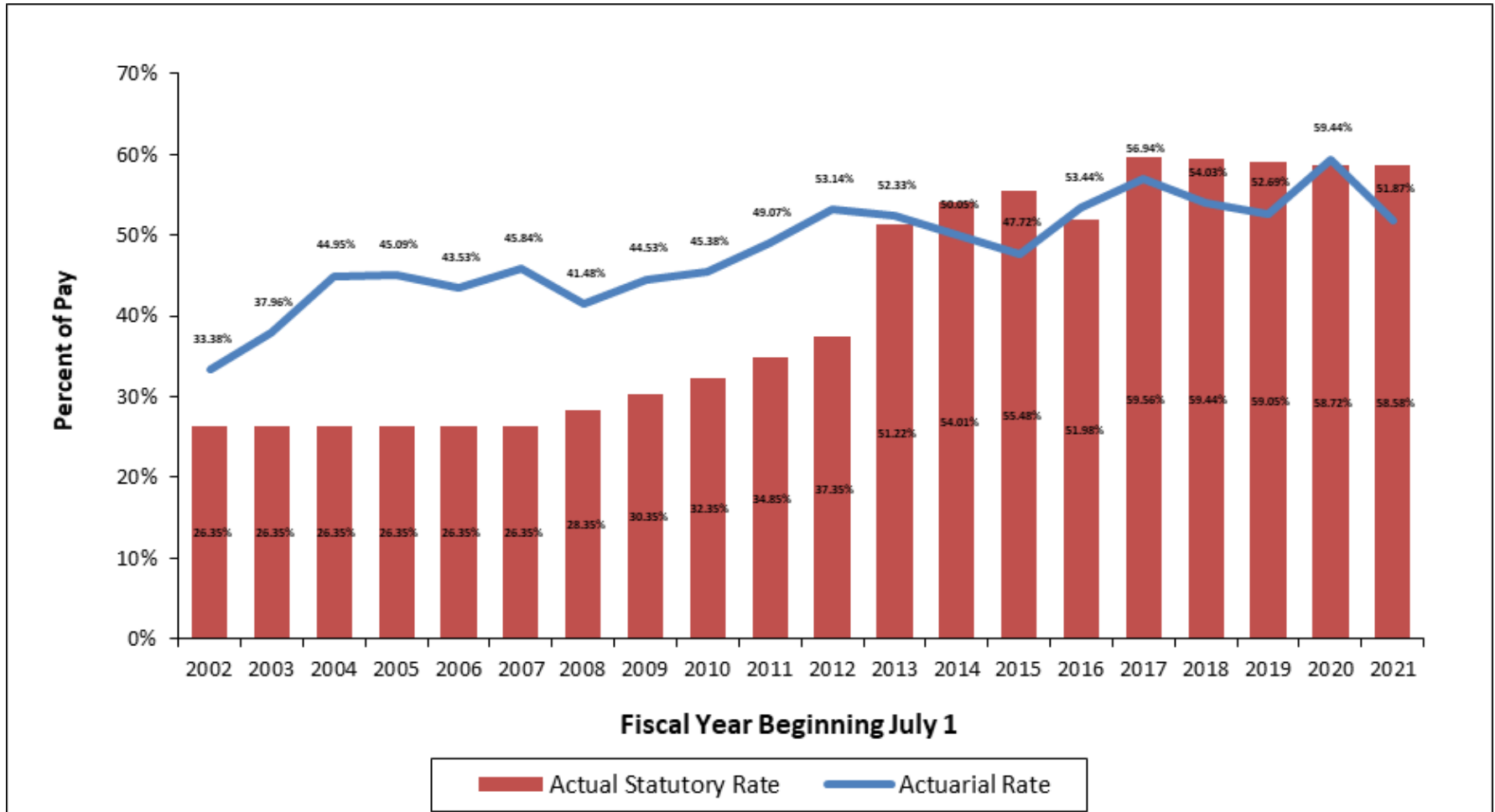
Normal Cost	30.09%	30.12%
Administrative Expenses	0.59%	0.50%
UAL Payment	<u>21.19%</u>	<u>28.82%</u>
<b>Total Actuarial Contribution Rate</b>	<b>51.87%</b>	<b>59.44%</b>
Member Rate	<u>(11.40%)</u>	<u>(11.40%)</u>
<b>Employer Rate</b>	<b>40.47%</b>	<b>48.04%</b>
State Fixed Contribution Rate	(37.00%)	(37.00%)
Supplemental Contribution*	(10.18%)	(10.32%)
<b>Contribution Shortfall/(Margin)</b>	<b>(6.71%)</b>	<b>0.72%</b>

\* \$5 million State supplemental contribution scheduled for the fiscal year. Note, without the State supplemental contribution there would be a contribution shortfall.

## Change in Contribution Rate

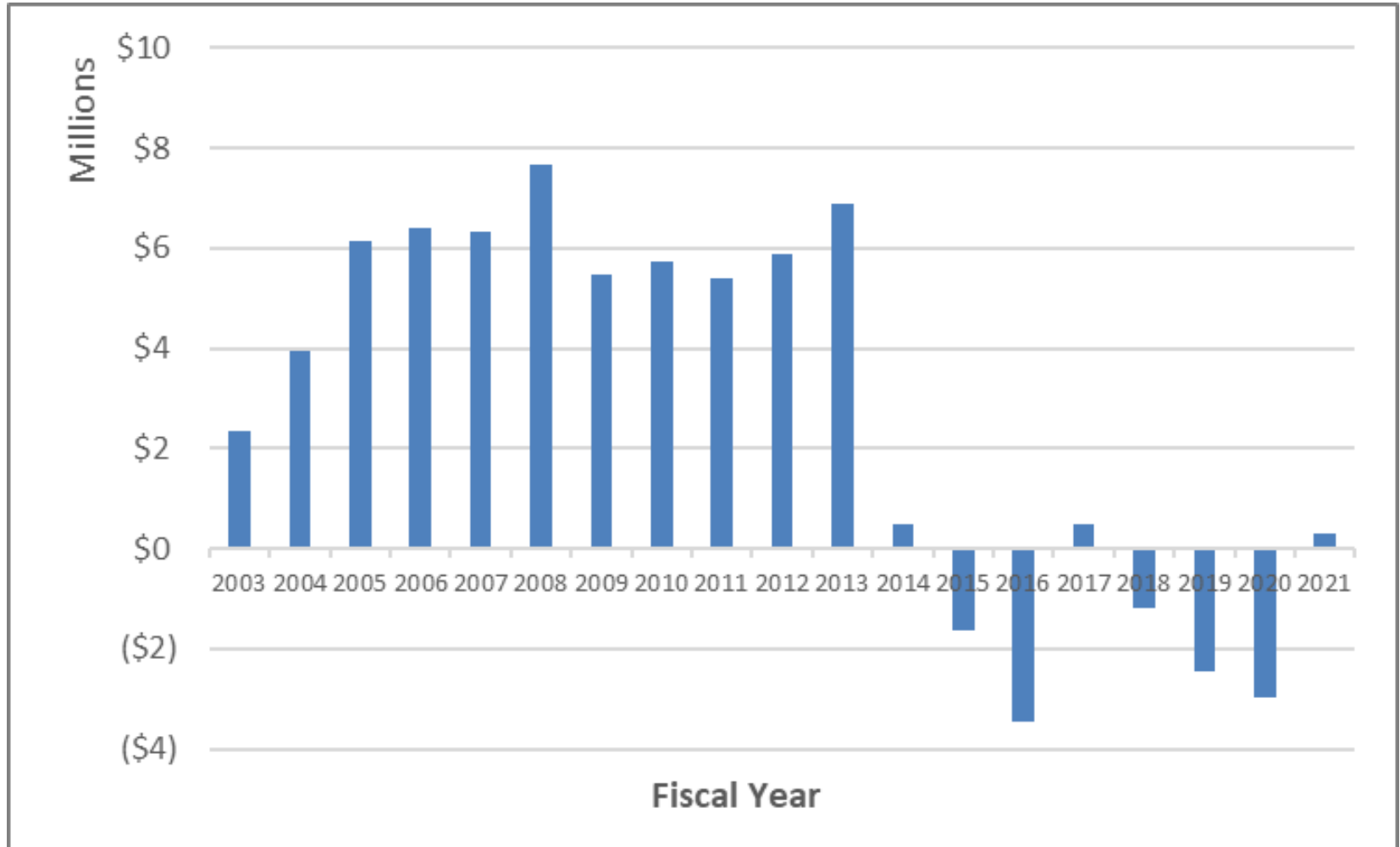
<b>§ Actuarial Contribution Rate 7/1/20</b>	<b>59.44%</b>
<b>§ Change due to:</b>	
– Asset experience	(7.78%)
– Liability experience	(0.29%)
– Other experience	0.48%
– Change in normal cost rate	(0.03%)
– Contributions less than actuarial rate	<u>0.05%</u>
<b>§ Actuarial Contribution Rate 7/1/21</b>	<b>51.87%</b>

# Historical Contribution Rates



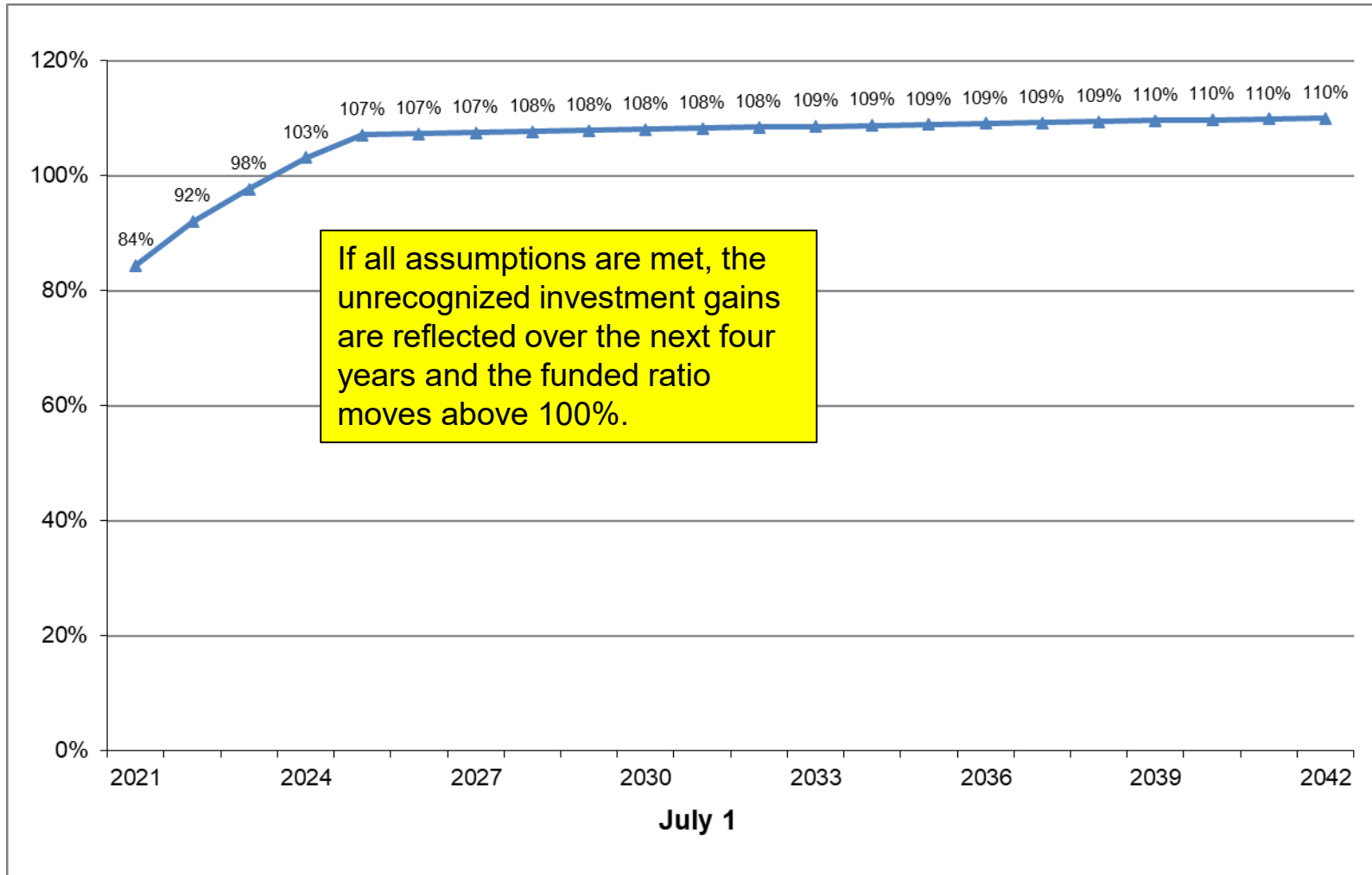
One of the risks with a funding policy that uses fixed contribution rates is the length of time required to make changes to the contribution rates.

# Contribution Shortfall/(Margin)



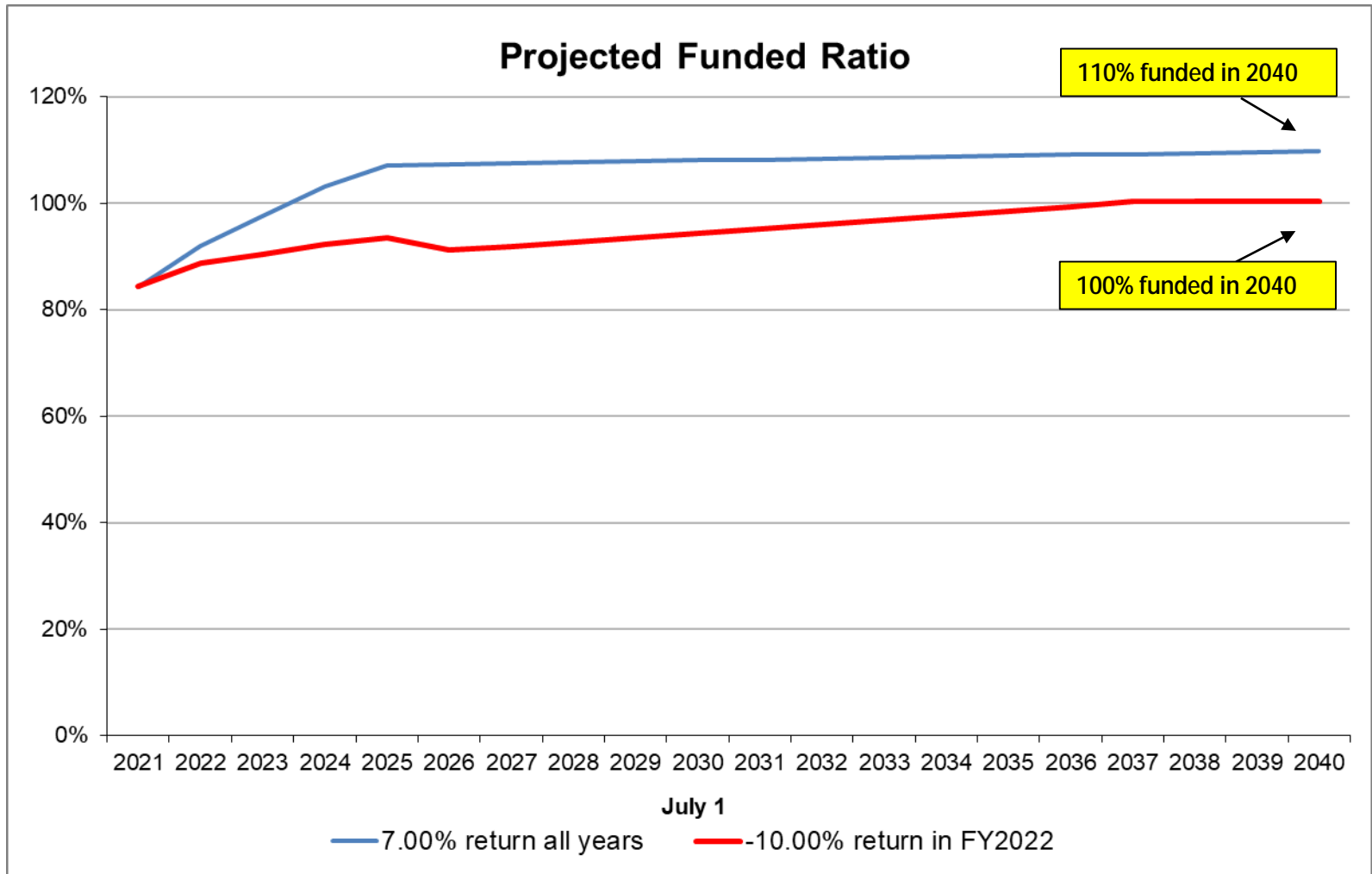


# Projected Funded Ratio



Projections assume all actuarial assumptions are met each year in the future and all contributions are made as scheduled, including the \$5 million supplemental contributions until the System is 85% funded.

# Sensitivity Analysis: Varying Returns

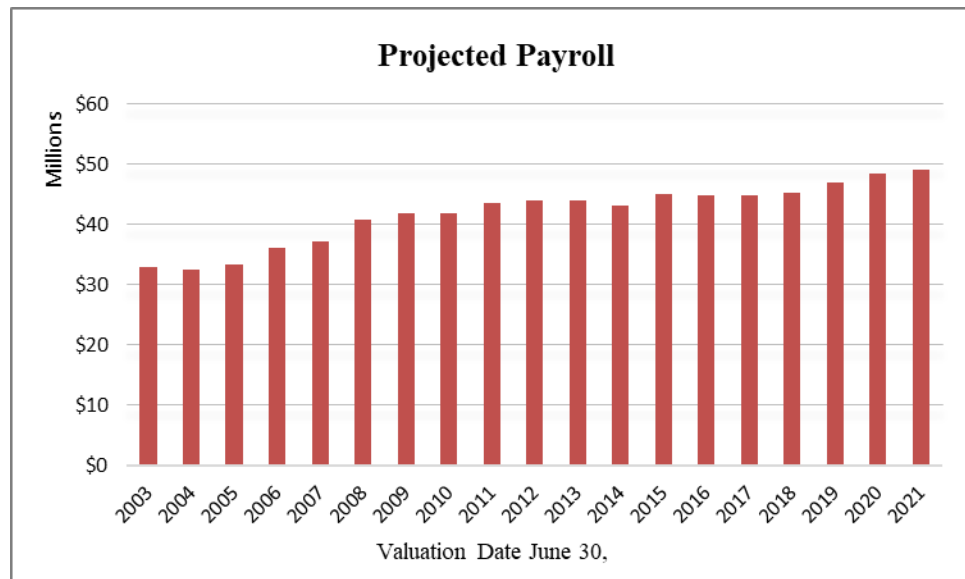


Projections assume all actuarial assumptions, other than investment return, are met each year in the future and all contributions are made as scheduled.

# Risk Analysis: Payroll Growth



When the number of active members decreases, covered payroll usually does not increase as assumed, resulting in slower progress in funding the UAAL.



# Summary Comments

- Ø Favorable results this year are largely due to the extremely strong return of 34.8% for FY 2021
  - § Funded ratio is 84% so the additional \$5 million in State contributions is applicable for the current year
  - § Future investment experience can reduce or eliminate the contribution margin and extend the need for additional supplemental contributions from the State
  
- Ø Full experience study is performed every five years. Next study will be completed before the 2022 valuation.
  - § Changes to the assumptions could also impact the date at which the System is expected to reach the benchmark of an 85% funded ratio.