

MINUTES

PUBLIC RETIREMENT SYSTEMS COMMITTEE

November 2 - 3, 1993

Temporary Co-chairpersons Senator John Kibbie and Representative Dorothy Carpenter called the Public Retirement Systems Committee meeting to order on November 2, 1993, at 10:00 p.m. in Room 22 of the Statehouse. In addition to temporary Co-Chairpersons Kibbie and Carpenter, the following members were present:

Senator William Dieleman
Senator Richard Drake
Senator Mike Gronstal
Senator Sheldon Rittmer
Representative John Connors
Representative Chuck Gipp
Representative Dennis Renaud

Also present at the meeting were other interested individuals and representatives of the various retirement systems, as well as individuals presenting testimony to the Committee.

PRELIMINARY BUSINESS

After the roll was called, temporary Co-chairperson Kibbie called for the election of permanent Committee Co-chairpersons. Representative Connors moved and Senator Rittmer seconded the motion, that the temporary Co-chairpersons be named permanent Co-chairpersons. The motion was unanimously approved.

Upon a motion by Representative Connors, which was seconded by Senator Rittmer, the proposed rules were adopted on a voice vote and a copy of the adopted rules is attached. Representative Connors asked whether the Final Report to the Legislative Council would contain recommendations approved by only one house, and staff of the Legislative Service Bureau responded that while such recommendations would not be included in the recommendations of the Committee, they would be noted in the Final Report.

Representatives of the various groups of public employees were present to provide recommendations for improving one or more of the public retirement systems. In addition, individuals representing each of the public retirement systems were present to explain them.

TEACHERS INSURANCE AND ANNUITY ASSOCIATION - COLLEGE RETIREMENT EQUITIES FUND (TIAA-CREF) PRESENTATION - MS. MARY JO SMALL, ASSOCIATE VICE PRESIDENT, UNIVERSITY OF IOWA

Co-chairperson Kibbie introduced the first speaker, Ms. Mary Jo Small, an Associate Vice President at the University of Iowa, who was accompanied by Mr. Donald Volm with the State Board of Regents. Ms. Small presented to the Committee an explanation of the Teachers Insurance and Annuity Association--College Retirement Equities Fund (TIAA-CREF). She explained the differences between a defined benefit plan and a defined contribution plan, such as TIAA-CREF. Ms. Small stated that the Iowa Public Employees' Retirement System (IPERS) is an example of a defined benefit plan where the employer guarantees a certain level of benefits that take into account the salary level and the length of service of the individual employee.

Ms. Small explained that in a defined benefit plan, the employer invests a portion of the employee's salary. The advantage to the employee of a defined benefit plan is the certainty that the employer must provide the guaranteed benefit, which makes retirement planning simpler, Ms. Small observed. One disadvantage of a defined benefit plan, according to Ms. Small, is the possibility of inflation seriously eroding the purchasing power of the guaranteed benefit. This deficiency can be addressed by making post retirement adjustments such as IPERS has made, she said.

As for defined contribution plans, such as TIAA-CREF, Ms. Small noted that the emphasis is on the rate of contribution for retirement investments, and that no guarantee is made to employees concerning a specific level of retirement benefits. She noted that benefits result from the amount of money invested and the return on this investment for each individual employee. Ms. Small observed that the return on investments is primarily a function of the amount of time the investment is held, the investment choices made, and the market forces during both the pay-in and the pay-out phases. The only guarantee by the employer in a defined contribution plan is the rate of contributions. She stated that events such as the stock market decline in October of 1987 have a negative effect on the retirement benefits of defined contribution plans. From the employees' point of view there is no certainty as to the level of benefits provided, and post retirement adjustments will occur based upon the value of the investments, she added.

Ms. Small noted that there are advantages to the employee in defined contribution plans. She observed that one of these advantages in TIAA-CREF is portability, in that an employee moving to another academic setting can maintain the same retirement plan. Ms. Small stated that while the employee's benefits will fall with market declines, the employee is also able to benefit from upward movement of the market forces. Ms. Small also mentioned that one of the benefits for the employer in such a setting is that the employer does not have to manage the retirement funds, but instead, that management is done externally. The

employee can choose between several investment possibilities such as annuities, equity funds and money market funds, Ms. Small added.

Ms. Small mentioned that 401(k) plans (plans that provide for deferring an employee's compensation) can be used to supplement defined benefit plans. She also said that plans such as TIAA-CREF are authorized under section 403(b) of the Internal Revenue Code. Board of Regents employees had until recently only two investment choices--TIAA, a traditional annuity, or CREF, an equity fund, Ms. Small noted. Ms. Small explained that in the 1980s, additional choices were added including a money market fund, a bond fund, a social choice fund, and, most recently, an overseas fund. Ms. Small stated that at the time of the employee's retirement, the employee's contributions are annuitized to determine an actuarially appropriate level of benefits. Ms. Small noted that TIAA benefits are affected by long-term interest rates during the benefits payout period. For instance, she stated that as interest rates were rising during the 1970s, TIAA retirement benefits were also rising. As long-term interest rates are falling during the 1990s, retiree benefits are also falling, she added. Ms. Small said that there is not a dramatic increase or decrease in retiree benefits from year to year and gave as an example the period from 1973 to 1993, in which the largest year-to-year increase was 7.4 percent, while the largest decrease was 8.8 percent. She stated that CREF payout levels fluctuate much more dramatically. The payout is determined on May 1 of each year for the subsequent year. She personally remembers the effect on retiree benefits in the Iowa City community in 1973 when CREF payout levels fell by 17 percent, but in general CREF has enabled retirees to stay ahead of inflation. In the 20-year period since 1973, according to Ms. Small, a CREF recipient would have received an increase in 13 of the years and a decrease in seven of the years.

Ms. Small then recapped the history of TIAA-CREF and the Board of Regents' involvement with the plan. Ms. Small explained that TIAA was founded by the Carnegie Foundation for the Advancement of Teaching in 1918, to serve the academic community nationwide, and in 1952, CREF was added as a companion to the TIAA program of annuities. By 1992, 1.5 million educators and members of the academic communities were accumulating benefits in the TIAA-CREF system Ms. Small added. The Board of Regents joined TIAA-CREF in 1944, prior to the establishment of IPERS, and two Attorney General's opinions, one in 1948 and the other in 1971, have affirmed the authority of the State Board of Regents to establish participation in the TIAA-CREF system, Ms. Small observed. Ms. Small explained that the 1971 opinion also noted that the legislation establishing the IPERS system in 1953 reiterated the authority of the Board of Regents to continue the TIAA-CREF program as long as participation was on a voluntary basis. Ms. Small stated that Board of Regents' employees have the choice of participating in IPERS or TIAA-CREF. Ms. Small noted that benefits to the institutions using TIAA-CREF are twofold, in that employees must assume the risk of adequately funding their retirement plans and the use of a retirement plan which is the standard in the national higher education community keeps the Board of Regents'

institutions competitive. She noted that in surveys taken to determine what retirement benefits other institutions are providing, the Board of Regents has found that almost all private institutions and 44 of the 50 states participate in TIAA-CREF or an equivalent defined contribution plan. She ended by thanking the Committee for the opportunity to appear and by adding that the continued current level of contribution by the state is crucial to maintaining the quality of staff and education at the institutions of higher education governed by the State Board of Regents.

Senator Drake asked what percentage of the employee's wage is paid by the state into TIAA-CREF, and Ms. Small responded that the state pays 10 percent of the employee's salary and the employee pays 5 percent. Senator Drake noted that the employer's percentage is almost double the size of the state contribution under IPERS. In response to a question from Senator Drake regarding the maximum covered salary at the 10 percent contribution rate, Ms. Small responded that the limits are set by the Internal Revenue Service and they have just been changed to a ceiling of \$150,000. Senator Drake said that for certain employees, the state would contribute \$15,000. Ms. Small agreed and they both agreed that there were a number of employees, particularly at the University of Iowa School of Medicine and University Hospitals, who would receive this maximum contribution. Senator Drake asked about taxation of these contributions and Ms. Small responded that tax is paid only when the employee begins to withdraw the retirement funds. Senator Drake then asked how the contribution by the state is shown on a salary schedule. Ms. Small responded that the contribution appears under the benefits column, not under the salary column. Senator Drake expressed his compliments on the summary presented by Ms. Small and his concerns about the costs to the state when looking at comprehensive employee benefits. He said that he understood the importance of the program when it came to remaining competitive on the national level. Ms. Small expressed her concern that it was essential to the recruitment efforts of the institutions to continue participation in TIAA-CREF.

Senator Dieleman asked who pays the administrative costs of buying and selling stocks and bonds. Ms. Small said that one of the benefits of TIAA-CREF is its external administration, and all of the costs are covered by TIAA-CREF except an administrative charge of approximately .035 percent.

Senator Rittmer asked if the employer contribution rate is the same in other states. Mr. Volm responded that the average contribution in most states is the same as the Board of Regents' plan. He mentioned that at Purdue University, the employer pays the full 15 percent.

Co-chairperson Carpenter asked if the choice between TIAA-CREF is available to all Board of Regents employees. Ms. Small responded that those employees earning less than \$7800 per year and temporary employees could not choose TIAA-CREF. Co-chairperson Carpenter remarked that there is a significant number of employees who are nonacademic and who do not need the portability feature. She then asked what percentage of nonacademics use TIAA-CREF. Ms.

Small indicated that she did not have statistics prepared for that question, but she would estimate that approximately 95 percent of all eligible employees choose the TIAA-CREF option. Co-chairperson Carpenter said providing these benefits to all employees is an extremely expensive operation and she can understand the importance of portability for academics, but not for other employees. Ms. Small replied that the philosophy of the Board of Regents has been to offer the same benefits to all employees. In response to Representative Carpenter's question as to whether this was typical of other states, Ms. Small answered that it varies from state to state.

Representative Renaud asked if IPERS has a portability feature, and Ms. Small responded that it does not.

Co-chairperson Kibbie asked for comparative statistical information on private colleges and universities and the other members of the Big Ten, and Ms. Small stated that she would provide that information. Co-chairperson Kibbie thanked Ms. Small and Mr. Volm for their presentation.

JUDICIAL RETIREMENT SYSTEM--PRESENTATION BY THE IOWA JUDGES ASSOCIATION

Appearing for the Iowa Judges Association were the Honorable Louis A. Lavorato, Justice, Iowa Supreme Court and President of the Iowa Judges Association; the Honorable David B. Hendrickson, Eighth Judicial District Court Judge; and the Honorable Arthur E. Gamble, Fifth Judicial District Court Judge.

Judge Gamble read a written statement that is on file at the Legislative Service Bureau. He stated that the question before the Committee is whether the judicial pension, as part of an overall package of judicial compensation, is adequate to maintain a competent and independent judiciary to meet the complex challenges of crime and civil litigation in the 1990s and beyond. Judge Gamble said that there has been an explosion of litigation in the courts, with a 45 percent increase in court filings and only a 2 percent increase in the number of judges since 1983. He said judges are sacrificing higher incomes and earning capacities to serve on the bench, which is considered the highest honor to be bestowed upon a lawyer. He expressed concern that adequate salaries be paid to keep the best and brightest on the bench and that an adequate pension be provided to encourage longevity on the bench.

Judge Gamble noted that the 1993 report of the Judicial Compensation and Benefits Commission made the following recommendations:

1. Judicial salaries should be increased at commensurate salary levels or in the same percentage as raises for state employees.
2. Judicial pensions should be increased to 60 percent of salary rather than the current 50 percent.
3. The senior judge program should be funded from the general fund rather than the Judicial Retirement Fund.

Judge Gamble stated that the Iowa Judges Association strongly supports these recommendations. He also said that the Association recognizes that the Judicial Retirement System has a large unfunded liability of \$24.7 million, according to William M. Mercer, Incorporated, the actuary of the System.

Judge Gamble expressed the belief that the reason for the deficit is because the State of Iowa has failed to live up to its constitutional and statutory obligations to finance the System. He quoted Article V, Section 18 of the Iowa Constitution, a 1967 Attorney General's Opinion, and Iowa Code section 602.9104 as the basis for his statement.

Judge Gamble stated that a proposal from the 1993 Session to increase the judge's contribution rate from 4 percent to 5 percent was only a band-aid approach, raising \$133,000 to be applied to a \$24 million deficit. It would also mean a 1 percent reduction in salary for the judges, Judge Gamble concluded.

Judge Gamble expressed the Iowa Judges Association's belief that the senior judge program should be funded from the general fund instead of the Judicial Retirement Fund. He stated as more judges participate in the senior judge program, the cost grows and increases the liability to the Judicial Retirement Fund. He said that since the State benefits from the senior judge program, the State should pay for it. He stated that the cost for the program today with 26 active senior judges is \$391,865 per year. The cost to the State for the full-time equivalent of 6.5 judges which these 26 senior judges represent would be over \$659,000, and if they were fully staffed judgeships, the cost would be over \$1 million per year, according to Judge Gamble. He also explained that a judge retiring in 1993 would receive a pension which is 3 percent times the number of years of service times the average of his or her last three years of salary at the time of retirement up to 50 percent of salary. He said that a judge who seeks senior judge status receives no salary but his or her pension is 3 percent times the years of service times the current judicial salary up to 50 percent of current salary. When judicial salaries are raised, then the senior judges' pensions are raised as well. Senior judges under the age of 65 receive the state's share of the medical insurance premium of the State's Blue Cross/Blue Shield Plan while senior judges over 65 receive no health insurance benefits, according to Judge Gamble.

Judge Gamble explained that the Iowa Judges Association and the Judicial Department have been cooperating with the General Assembly to compensate the Judicial Retirement Fund for the drain imposed by the senior judge program. The General Assembly passed legislation two years ago establishing a standing unlimited appropriation to accomplish this compensation, but the legislation was vetoed by Governor Branstad, Judge Gamble added.

Judge Gamble recognized the assistance of the General Assembly in passing Senate File 422 which appropriated funds from the salary adjustment fund to the judicial retirement fund for the current fiscal year a sum equal to 1 percent of the base salaries of all justices, judges, and magistrates of the judicial department. This legislation provided a minor measure of relief, stated Judge Gamble. He continued by noting that Senate File 413 as passed by the Senate in the 1993 Session raises approximately \$2 million in court fees, and that \$1 million of those funds are to be allocated to a program to train ambulance personnel through the community colleges. Judge Gamble observed that in the past the Legislature has reserved dollars raised through court fees to fund the judicial system and he believes that the ambulance training program should be funded through the general fund, with the funds generated by the fee increase devoted to the judicial system.

Senator Rittmer stated that using general fund dollars to fund the senior judge program would not make any difference since it is the State which must meet these obligations anyway. Judge Gamble responded that the State had not met its obligations.

Representative Connors noted that the judges have in good faith continued to make their 4 percent contributions to the pension fund. Judge Gamble indicated that the judges have not waived their right to challenge this payment. He noted that the Judicial Retirement System is the only public retirement system mentioned in the Iowa Constitution.

Co-chairperson Carpenter commented that the senior judge program is an excellent benefit for judges, but a very costly program for the State. Co-chairperson Carpenter noted that originally an escalator had applied for the lifetime of a senior judge. Now that escalator ends at age 78, she added. She said that the Judicial Retirement System is funded differently from the rest of the public retirement systems. Co-chairperson Carpenter commented that either the filing fees must be raised or the number of filings must increase in order to improve the funding for the System. Judge Gamble expressed his concern that increasing filing fees could put the court system out of reach of some Iowans.

It was noted that the Judicial Retirement System has the shortest number of years of service (16 2/3) required to qualify for full benefits.

Senator Dieleman stated that the senior judge program is beneficial for both the State and the retirees. Judge Gamble observed that the judges see the senior

judge program as part of the entire pension plan and that it is important for the retention of the brightest and best judges.

Senator Gronstal suggested that perhaps one of the reasons that the judges do not litigate the issue is because they know that the General Assembly could limit their pay raises. In response, Judge Gamble noted that the Iowa Judges Association did not plan to litigate. Senator Gronstal then asked what it would take to adequately fund the Judicial Retirement System. Judge Gamble replied that passage of an amended Senate File 413 would improve the funding situation.

Representative Connors noted that he did not feel threatened by Judge Gamble's comments and observed that the Attorney General's opinion was not legally binding. Judge Gamble questioned whether an Attorney General's opinion was binding on the Legislature and several members of the Committee responded that the General Assembly is not bound by an Attorney General's opinion.

Senator Rittmer asked if there is any additional retirement benefit for judges who remain active after 16 2/3 years elapse. Judge Gamble responded that there would be an advantage, in that benefits would be based upon a higher salary. Judge Gamble noted that in the 1980s, 20 percent of judges were under 50 years of age and now, 45 percent are under age 50.

Co-chairperson Kibbie stated that he thinks the Committee and the Legislature should address the underfunding problem concerning the Judicial Retirement System. He noted that spousal benefits are greater under the Judicial Retirement System. He suggested that aggressively collecting unpaid fines would be one way of improving the funding. Co-chairperson Kibbie suggested checking for unpaid fees assessed against individuals seeking driver's licenses, and Senator Drake observed that there is such a pilot program in Polk County now.

ORGANIZATIONS WITH RECOMMENDATIONS CONCERNING THE PEACE OFFICERS' RETIREMENT SYSTEM

Co-chairperson Kibbie welcomed the next panel of speakers, Mr. Ron Reid with the Iowa State Patrol Supervisors Association, Mr. Rick Conn with the Iowa State Troopers Association, and Mr. Blaine Goff with the Retired Troopers and Agents Association. All three presenters submitted written summaries of their comments, which are on file with the Legislative Service Bureau.

Mr. Conn noted that the Iowa State Troopers Association and the Iowa State Patrol Supervisors Association have identical proposals, and that Mr. Reid would present these proposals. Mr. Reid noted that in 1990, these organizations had raised concerns with the Committee that the Peace Officers' Retirement System

(PORS) did not compare favorably to similar systems in surrounding states. He indicated that legislative changes since that time had greatly improved the system.

Mr. Goff, who represents the Retired Troopers and Agents Association, asked the Committee to consider increasing benefits for surviving spouses. According to Mr. Goff, 54 of the 61 surviving spouses of his organization's members receive less than \$700 per month and this amount is not adequate to keep ahead of inflationary pressures. During discussion the Committee noted that perhaps in 1995 or 1996, there may be enough state funds available so that the General Assembly could address the needs of surviving spouses.

LEAGUE OF IOWA MUNICIPALITIES

Mr. Kent Sovern, Director of Legislative Services for the League of Iowa Municipalities, was the next speaker to address the Committee. Mr. Sovern summarized a written statement, which is on file with the Legislative Service Bureau. Mr. Sovern indicated that one of the most costly unfunded mandates for cities in Iowa is the Municipal Fire and Police Retirement System of Iowa (MFPRSI). He complimented the MFPRSI Board of Trustees for its efforts in providing a smooth transition from multiple, locally operated systems to a statewide system.

Mr. Sovern then asked the Committee and the Legislature to consider the following changes to Chapter 411:

1. Work-related injuries suffered by police officers or fire fighters should be adjudicated by the Industrial Commissioner and compensated according to the provisions of the workers' compensation statutes. He noted that the statute should be amended to state clearly that the heart and lung presumptions are rebuttable in contested case proceedings.
2. Hospitalization and medical costs that are now "out-of-system costs" should be included in the total system cost.
3. The Legislature should remove the minimum contribution rates for the employer and the employee and move immediately to the 1996 objective of a 60 percent employer-40 percent employee split of the total system costs. The Board of Trustees should be given the authority and the responsibility to set

the employer and employee contribution rates based on a 60-40 split according to reasonable actuarial recommendations.

The Committee further discussed the process concerning applications for disability benefits, and noted that the number of disability applications has declined since the establishment of the statewide system.

NOON LUNCHEON RECESS

The Committee recessed at noon for lunch.

PRESENTATIONS FROM ORGANIZATIONS PRIMARILY CONCERNED WITH THE IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Co-chairperson Carpenter reconvened the Committee at 1:00 p.m. and introduced the following panel of speakers to address IPERS: Mr. Craig Downing, representing the Iowa Retired School Personnel Association (IRSPA); Mr. Donald Nelson, representing the School Administrators of Iowa; Ms. Jan Reinicke, representing the Iowa State Education Association; Mr. Dick Rattray, with the IPERS Improvement Association; Mr. Don Kerr, representing the Iowa Association of Community College Trustees; and Mr. Jason Bridie, with the Iowa Association of School Boards.

Mr. Downing noted that he and his wife, Marian, are Co-presidents of the IRSPA. He indicated that the name of the organization was changed last year to accommodate other school personnel who are not teachers. Mr. Downing provided a written copy of his statement which is on file with the Legislative Service Bureau.

Mr. Downing expressed appreciation to the Legislature for setting aside \$2.85 million from the IPERS fund in anticipation of using that money for benefit increases for current retirees. He stated that the IRSPA is concerned about proposals to loan IPERS money at reduced rates to the state and merge underfunded retirement systems with IPERS. He urged the Committee to maintain the actuarial soundness of the IPERS system.

Mr. Downing noted that the IRSPA recommends that of the \$2.85 million, the Legislature should provide a 4 percent benefit increase to pre-1976 retirees, a 3 percent increase to the 1976-82 group of retirees, and a 2 percent increase to the 1982-86 group of retirees. He added that there are two other areas to be addressed:

1. Those persons receiving less than \$300 per month and who worked for more than 20 years should receive at least \$400-500 a month.
2. Those persons who retired after 1986 should begin receiving dividends to counteract the effects of inflation upon their retirement benefits.

Senator Rittmer asked if there was information available as to the maximum benefit level for retirees. Mr. Downing agreed to provide the information.

Senator Gronstal asked if there was a logical reason for the proposed increases in dividends for the different groups. Mr. Downing responded that the proposal was based upon what seemed fair, in that those receiving lower benefits would receive the higher percentage increase. Senator Gronstal agreed that the proposal seemed fair.

Mr. Nelson provided a written statement on behalf of the School Administrators of Iowa, which is on file with the Legislative Service Bureau. He expressed appreciation for the increases in IPERS benefits provided by the General Assembly. He asked that the General Assembly not allow any government borrowing of IPERS funds for other purposes and that employees be allowed to buy back other years of service without any restrictions.

Ms. Reinicke provided a written statement on behalf of the ISEA, which is on file with the Legislative Service Bureau. She noted that she anticipates receiving the results of a study undertaken by the IPERS Division, which projects the future of the IPERS fund. Ms. Reinicke stated that the ISEA proposes changing the "Rule of 92" to a "Rule of 90" to reward the career employee, and to make IPERS more comparable with benefits in other states and in other employment categories in Iowa. This proposal would also result in cost savings to educational institutions, due to the early retirement of higher paid educators, Ms. Reinicke added. Ms. Reinicke's second recommendation is to raise the covered wage ceiling. She said that even though progress has been made to raise the wage ceiling, Iowa is the only state which has wage ceilings in its retirement system. Her third recommendation is that current retirees continue to receive additional benefit increases. Ms. Reinicke's final recommendation is that the legislators continue to safeguard the use of the IPERS funds.

Senator Drake asked if the ISEA had considered proposing extra credit for years of service beyond 30 years. Ms. Reinicke replied that the ISEA had considered the possibility, but it conflicts with the concept of encouraging early retirement.

Senator Rittmer asked if health insurance is a concern for those individuals choosing early retirement. Ms. Reinicke responded that it is the number one concern and perhaps health insurance concerns would be resolved by the federal

government. She indicated that offering health insurance is an option available to school districts and should be explored.

Co-chairperson Carpenter asked if the recommendations presented by Ms. Reinicke were prioritized and Ms. Reinicke responded affirmatively.

Mr. Rattray provided a written statement on behalf of the IPERS Improvement Association, which is on file with the Legislative Service Bureau. Mr. Rattray noted that the IPERS Improvement Association is a statewide organization with over 4,000 members. He expressed concern about proposals to use the IPERS fund to pay the tax refunds owed by the state of Iowa to pensioners. Mr. Rattray expressed the need to standardize reporting, disclosure, and accountability for public plans, as is done now with private plans under ERISA. He also proposed making the dividend payments to retirees permanent or phasing in a cost of living adjustment (COLA) within the next two years. He noted that individuals getting ready to retire need to have good information about how to deal with their retirement funds.

Mr. Kerr, representing the Iowa Association of Community College Trustees, appeared next and provided a written statement which is on file with the Legislative Service Bureau. He said that the Association recommends to the Committee that the persons at community colleges who are not vested in the IPERS program and who desire to enroll in the alternate program, TIAA-CREF, be allowed to transfer both the employer and employee contributions to the alternate program instead of just the employee contribution, as is currently provided for in the statute. He stated that the community college trustees and the community college presidents recommend that subsection 9 of Iowa Code section 260C.23 be amended to be made consistent with section 294.16.

Co-chairperson Carpenter asked if each individual community college determines the rate for the employer contribution to TIAA-CREF and Mr. Kerr responded that the rate was not established in the Iowa Code and that currently the personnel directors of the community colleges are meeting to determine the procedure. Co-chairperson Carpenter expressed hope that the contribution rate would not exceed that required by IPERS, even though the Board of Regents' institutions contribute a higher rate. Mr. Kerr noted that the employees of community colleges are members of collective bargaining units. Senator Gronstal noted that the Code does provide that the rates should be substantially tied to the rates established by the Regents.

Mr. Bridie appeared representing the Iowa Association of School Boards, and a written copy of his testimony is on file with the Legislative Service Bureau. He stated that the school boards are very concerned about the welfare of their employees after their retirement and the Association supports the increase in the percentage multiplier to 60 percent of covered wages and also the movement to increase the ceiling on covered wages.

Co-chairperson Carpenter asked if these improvements would be a burden for the school boards and Mr. Bridie indicated that his Association's major concern is in keeping and attracting quality employees.

The Committee then recessed for ten minutes at 1:50 p.m. and Co-chairperson Carpenter reconvened the Committee at 2:00 p.m.

PRESENTATIONS FROM ORGANIZATIONS PRIMARILY CONCERNED WITH IPERS SPECIAL CLASSIFICATIONS

Co-chairperson Carpenter introduced the next panel of speakers; Mr. Ken Runde, with the Iowa State Sheriffs and Deputies Association; Mr. Larry Hardy, representing the Iowa Corrections Association; Mr. Joe Crook, with the Fifth Judicial District Department of Correctional Services; Mr. David Constable, representing the Airport Firefighters; Mr. Lon Lindenberg, representing the Iowa Fish and Game Conservation Officers Association; and Mr. Paul Tinder with the Iowa State Fire Marshal's Association.

Mr. Runde provided a written statement on behalf of the Iowa State Sheriffs and Deputies Association, which is on file with the Legislative Service Bureau. He said that the Association is proposing that in addition to the current statute, which provides for full benefits at age 55 with 22 years of service, the statute be amended to provide full benefits to sheriffs and deputies with 25 years of service, regardless of age. He also spoke of the need for escalators to be built into the system for all IPERS employees.

In response to a question from Representative Connors regarding the cost of the proposed Code changes concerning the years of service to earn full benefits, Mr. Runde said that the employee would pay a 2.25 percent increase and the employer would pay over 3 percent more.

Senator Dieleman expressed his appreciation that the Association is willing to pay its share for the proposed benefit enhancement. Senator Rittmer wondered if the counties were willing to pay an increase in the employer contribution in accordance with the proposal.

Co-chairperson Kibbie commented that when contributions are increased in order to increase benefits overall, the burden falls upon the younger members to pay the benefit increase for members nearing retirement. Mr. Runde said that the active members have indicated a willingness to pay the higher contribution rate.

Senator Rittmer commented that the support of the counties would be helpful because of concerns regarding unfunded mandates from local units of government.

Mr. Hardy appeared for the Iowa Corrections Association, noting that the Association is a private organization of persons generally involved in the corrections field, but is not connected with the Department of Corrections. A copy of his written statement is on file with the Legislative Service Bureau. He said that his organization recommends that the following occupations be added to the protection occupation classification: nurses and psychologists employed in a corrections institution; intensive supervision parole and probation officers; and residential advisors working in community-based corrections.

Mr. Crook noted that he is employed by the Fifth Judicial District Department of Correctional Services, and that he was speaking on behalf of a group of parole and probation officers who are seeking inclusion in the protection occupation classification. His written testimony is on file with the Legislative Service Bureau. He asked for the inclusion of probation and parole officers and residential advisors and counselors in the protection occupation classification due to the hazardous nature of their duties and the high stress of their jobs.

Senator Rittmer inquired as to the cost of inclusion of parole and probation officers in the protection occupation classification and Mr. Crook stated that the chief fiscal officer of the Fifth Judicial District Department of Correctional Services had indicated that there were adequate funds for that district (with a contribution increase). Mr. Crook and Mr. Hardy indicated that the persons affected by this proposal are willing to pay the increased contribution rate.

Co-chairperson Carpenter asked about statistics concerning death and injury to these individuals, and Mr. Hardy indicated that fortunately, there have been no deaths in Iowa, but there has been an increase in discipline reports. Co-chairperson Carpenter requested that Mr. Hardy provide statistics concerning deaths or injuries for individuals included in his proposal. She noted that just being in a stressful job does not qualify an individual for special benefits, but that the concern is for individuals who are in positions involving physical danger. In response to further questions, Mr. Hardy noted that the legislation concerning the protection occupations which was enacted in 1988 covered correctional officers and gave the directors of the Department of Corrections and the Department of Personnel authority to define the job classifications. Mr. Hardy stated that food service workers, housekeepers and maintenance personnel, and correctional counselors were included in the protection occupation classification as a result of this legislation.

Co-chairperson Kibbie noted that the contribution rates for the protection occupations are 5.94 percent for the employee and 8.91 percent for the employer, with a total of 14.95 percent.

Mr. Constable appeared on behalf of the airport firefighters. Mr. Constable provided written information concerning the hours worked by airport firefighters, which is on file with the Legislative Service Bureau. Mr. Constable noted that there

are 24 airport firefighters both in Sioux City and Des Moines, who work shifts of 24 hours on duty and 48 hours off duty. In a three-week rotation, the airport firefighters work 52-hour work weeks, which reflects a work week which is 32 percent longer than the average state workers, he added. The airport firefighters work under the National Guard and are considered state employees, even though the federal government picks up all the costs for these employees, Mr. Constable noted. In response to a question by Co-chairperson Kibbie, Mr. Constable said that other airports have firefighters who work under different plans. He said that there are no administrative positions for airport firefighters, which is difficult for firefighters who are injured and would like to remain active.

Representative Connors asked if the airport firefighters had tried to negotiate a shorter work week, and Mr. Constable responded that in 1986, under the Fair Labor Standards Act, the federal government had reduced their work week from 56 hours to 53. He said they had not tried to negotiate a shorter work week since then and mentioned that the federal firefighters work a 72-hour work week.

Senator Rittmer asked if Mr. Constable considered his job to be more stressful than that of a city firefighter and Mr. Constable responded that the jobs were equally stressful. He also said that the city of Des Moines pays its firefighters much more than the airport firefighters receive.

Representative Connors asked if the airport firefighters are affiliated with the international firefighters and Mr. Constable responded that they are not. In response to further questions by Representative Connors, Mr. Constable stated that there had been no recent deaths of airport firefighters, but that two members are on disability.

Mr. Lindenberg appeared before the Committee for the Iowa Fish and Game Conservation Officers Association and his written statement is on file with the Legislative Service Bureau. Mr. Lindenberg stated that the Association is not seeking increased retirement benefits, but is proposing that Iowa Code section 70A.20, subsection 4, be amended to provide for the exemption of employees who are covered by disability insurance in a collective bargaining agreement from the State of Iowa's disability program. Three different insurance companies have refused to provide supplemental disability insurance policies for the members of his Association, Mr. Lindenberg added.

Mr. Tinder provided a written statement on behalf of the Iowa State Fire Marshal's Association, which is on file with the Legislative Service Bureau. He expressed concern about the arson investigators who have been hired since July 1, 1988, and are included in the IPERS protection occupation classification instead of the Peace Officers' Retirement System, which covers those arson investigators hired prior to July 1, 1988. These recently hired arson investigators would like to be included in PORS and the Association supports this change, Mr. Tinder explained.

PRESENTATION FROM ORGANIZATIONS PRIMARILY CONCERNED WITH THE MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA (CHAPTER 411)

Co-chairperson Carpenter introduced the final panel of speakers for the day: Mr. Tom Fey and Mr. Jack Reed, representing the Iowa State Association of Professional Firefighters; and Mr. Rick Ahlstrom, representing the Iowa State Police Association.

Mr. Fey provided a written copy of his remarks, as well as a document entitled "Professional Fire Fighting Hazardous Job Study". These documents are on file with the Legislative Service Bureau. Mr. Fey and Mr. Reed said that the firefighters are concerned about two components of the Municipal Fire and Police Retirement System of Iowa (MFPRSI), the graduated contribution rate and elimination of additional service credits at age 55, being in conflict with the federal Age Discrimination in Employment Act (ADEA). Mr. Fey expressed support for standardization of the formula for calculating the escalator. Mr. Fey also expressed the concerns of firefighters about the growing number of legal challenges by municipalities against firefighters who request retirement due to disabilities. The final concern raised by Mr. Fey relates to maintaining the presumptive heart and lung language in chapter 411. Mr. Fey and Mr. Reed referred to the booklet they had provided which sets out statistics pertaining to the hazards of firefighting.

Mr. Ahlstrom stated that the Iowa State Police Association is not requesting any changes to chapter 411. However, he said his Association disagrees with the recommendations proposed by the Iowa League of Municipalities. With respect to the issues pertaining to ADEA compliance, Mr. Ahlstrom said that the Association is waiting to learn about the costs of the changes before taking a position as an organization. He stated that the major concern is the retroactive payback of contributions by members who have contributed at a higher rate. Mr. Ahlstrom also noted that the Code is clear -- any changes to chapter 411 which bring increased costs must be paid by the employee.

Co-chairperson Carpenter thanked all of the individuals presenting testimony, and then noted that the primary issue facing the Committee is resolving the funding of the Judicial Retirement System.

General discussion ensued concerning the Judicial Retirement System. Both Co-chairpersons noted that the Committee must find a way of putting this system on a sound financial footing.

RECESS

Upon the motion of Representative Connors, the Committee recessed for the day at 3:30 p.m.

RECONVENTION

Co-chairperson Kibbie reconvened the Public Retirement Systems Committee at 9:06 a.m. on Wednesday, November 3, 1993, in Senate Room 22. In addition to the members who were present the previous day, Representative Darrell Hanson was also present. While not a member of the Committee, Senator Wally Horn was also present during portions of the meeting.

THE MUNICIPAL FIRE AND POLICE RETIREMENT SYSTEM OF IOWA (CHAPTER 411)

Co-chairperson Kibbie introduced the first panel of speakers, Mr. Dennis Jacobs, Executive Director of the Municipal Fire and Police Retirement System of Iowa (MFPRSI), and Mr. James Dillman, an actuary with TPF & C in Minneapolis, the actuaries for the MFPRSI. Mr. Jacobs noted that he was accompanied by Mr. Dean Johnson, the Des Moines City Treasurer and a member of the Board of Trustees of the MFPRSI.

A written report prepared by the MFPRSI, as well as a report of the July 1, 1993, actuarial valuation of the system is on file with the Legislative Service Bureau. Mr. Jacobs briefly summarized the history of the MFPRSI since the establishment in 1990 of the consolidated statewide system. He said that the Board of Trustees has consolidated the assets of the local fire and police retirement systems that existed in 49 cities prior to the consolidation with Northern Trust of Chicago as the custodian bank.

Mr. Jacobs stated that the long-term investment policy of the Board of Trustees is to have a 50-50 split between debt and equities with 2/3 domestic investment and 1/3 global investment. He said the System is using recognized investment managers.

Mr. Jacobs indicated that the transition process was a challenge, but he emphasized the cooperation of the cities involved. He then directed the Committee to his report, to examine the profile of the membership as of June 30, 1992. The average age of the 3,850 active members is 40.2 years with an average of years of service at 14.3. As for the 2,452 current retirement beneficiaries, the average age is 65.9 years. The average annual retirement benefit is \$12,922.

Mr. Jacobs then referred the Committee to the service retirement benefit formula set forth in his report and noted that the multiplier increases to 60 percent beginning July 1, 1994. In examining the benefits, Mr. Jacobs pointed out that the average number of disability retirements has declined from a five-year average of

55.6 per year from 1987 to 1991, to 32.7 per year from January 1, 1992, to June 30, 1993.

Mr. Jacobs referred to the summary of assets in his report, and noted that the investment return for the one-year period ending June 30, 1993, was 13.3 percent. He noted that the rate of return is due in large part to the positive performance of the stock market. Mr. Jacobs stated that the Board of Trustees is concerned that the MFPRSI is not fully funded based upon the standards of Government Accounting Standards Board (GASB). He said that the Board of Trustees hopes to improve the funding status through prudent and aggressive investment strategies.

Mr. Jacobs referred to a list of six areas of concern facing the Board of Trustees. He noted the Board's concern that current escalators are not equitable, and stated that the Board is attempting to resolve this issue.

According to Mr. Jacobs, disability litigation is a continuing area of concern. He observed that some of the litigation pertains to the heart-lung presumption, while other cases involve administrative processes. Mr. Jacobs stated that the MFPRSI has been successful in litigation thus far. He expressed the belief once it becomes clear what the courts hold, there will be a decline in litigation.

Mr. Jacobs stated that the reduction in the state's contribution to the System has resulted in higher contributions by the cities. He asked on behalf of the Board of Trustees that the state return to its original contribution rate of 3.79 percent of covered payroll, which would generate \$4.4 million, instead of maintaining the contribution ceiling which was set at \$2.9 million during the 1992 Second Extraordinary Session.

Financing a plan which is fully funded under GASB principles is a priority for the Board of Trustees, Mr. Jacobs emphasized. He also said that another area which concerns the Board is the federal government's interest in taxing public and private pension funds through a transaction tax.

Mr. Jacobs directed the Committee's attention to the following recommendations for statutory changes found in the report:

1. Reemployment within the retirement system after retirement. Amend chapter 411 to address the following:
 - a. Coverage as a member.
 - b. The continuation of contributions.
 - c. Recalculation of the retirement benefit.
 - d. Continuation of the benefit payment.

2. Plan qualification under the Internal Revenue Code:
 - a. Conforming language to comply with the qualified plan requirements of the Internal Revenue Service (IRS).
 - b. Compliance with the federal Older Workers Benefit Protection Act. Provide language which is retroactive to October 16, 1992.
 - (1) Eliminate the age 55 cap on accrual of credits for years of service beyond 22 years.
 - (2) Eliminate the graduated contribution rates.
3. Correct archaic language in section 411.6 pertaining to workers' compensation offset.
4. Restore the state's contribution to the System at 3.79 percent of covered payroll.
5. Remove restrictions on investments in companies that do business in South Africa.
6. Resolve escalator inequities, if a proposal is agreed upon by the Board of Trustees.

Co-chairperson Kibbie asked whether the reduction in the percentage multiplier used in calculating disability benefits, from 66 2/3 percent to 60 percent, was responsible for the decrease in disability claims. Mr. Jacobs responded that the decrease in the multiplier may be responsible in part for the decline and noted that the advantages for obtaining accidental disability benefits are that the medical cost for the ongoing disability will be paid by the city and the retirement benefits for accidental disability are tax-exempt under federal and state law.

Representative Hanson requested that the figures on page 4 of Mr. Jacob's report, pertaining to membership characteristics, be supplied in median figures, instead of averages; Mr. Jacobs stated that he would provide the median figures.

Representative Connors stated that in reference to the reemployment issue, the Attorney General had issued an opinion which stated that an individual is either active or retired, but not both.

In response to further comments by Representative Connors, Mr. Jacobs said that an intensive analysis had been conducted with respect to the issue of the reemployment of the Des Moines fire chief and that there was no clear guidance in chapter 411 as to how to handle this situation. Mr. Jacobs noted that other public retirement systems take different approaches with respect to the treatment of retired members who are reemployed.

Senator Dieleman asked what is needed to comply with the ADEA as a result of the amendments enacted in the Older Workers Benefit Protection Act. Mr. Jacobs answered that as of 1990, the older workers who were active in the system have paid a higher contribution rate and this Code provision must be amended retroactively to October 16, 1992, in order to comply with federal law. Mr. Jacobs explained that under the current statute, accrual of credits for years of service beyond 22 years terminates at age 55, but under the federal ADEA, age is not a legitimate reason to disallow accrual of credits. He indicated that the Board of Trustees will submit bill drafts to effect these changes.

Senator Dieleman then asked about the removal of prohibitions on investing in those companies doing business with South Africa. Mr. Jacobs responded that the Board of Trustees supports the elimination of the investment restrictions. Senator Drake mentioned that the Treasurer of State has also proposed a change in this policy.

Co-chairperson Kibbie said that he anticipates the same request from the IPERS Board. He suggested that the Committee explore the issue with the investment officers when they provide testimony. Senator Gronstal expressed the belief that the policy of not investing in South Africa has been successful and that the country has made great strides towards eliminating apartheid.

Senator Gronstal asked Mr. Jacobs to provide legal research concerning the changes recommended due to the ADEA, as well as information pertaining to the costs of those changes.

Senator Gronstal asked about the investment strategy of the Board of Trustees, particularly concerning the bond portfolio. Mr. Jacobs emphasized that the Board is actively monitoring the investment strategy and that it is a dynamic program.

Mr. James Dillman, the actuary for the MFPRSI, of TPF & C, Minneapolis, Minnesota, directed the Committee to his handout pertaining to the July 1, 1993, actuarial valuation results. Mr. Dillman directed the Committee to information pertaining to the present value of projected benefits, the decrease in the percentage of covered payroll which is included as the state's contribution, and the estimated pension obligation for 1994 using two different assumption rates. Mr. Dillman noted that the unfunded projected benefit obligation of \$159.7 million, using a GASB No. 5 analysis, does not take into account the future service of active members and thus is not the most accurate method for determining funding needs.

Co-chairperson Carpenter asked if Mr. Dillman had computed any projections concerning when the System would be fully funded on a GASB basis and Mr. Dillman responded that perhaps in a 10-year time frame it would reach a 90 percent funded basis.

RECESS

The Committee recessed at 10:10 a.m. and reconvened at 10:22 a.m.

PRESENTATION CONCERNING THE IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (IPERS)

Co-chairperson Kibbie introduced the next panel of speakers: Mr. Greg Cusack, Chief Benefits Officer of the IPERS Division; Ms. Betsy Sanders, Chief Investment Officer of the IPERS Division; and Ms. Patrice Beckham, the actuary of the System, with Milliman & Robertson, Inc., of Omaha, Nebraska. After the introductions, Mr. Cusack distributed comprehensive notebooks to the Committee, as well as a notification concerning increases in the covered wage and percentage multiplier, and statistics concerning IPERS performance measurers. The documents are on file with the Legislative Service Bureau.

Mr. Cusack directed the Committee to data in the IPERS notebooks pertaining to the decisions to increase the percentage multiplier to 60 percent and the covered wage to \$38,000. In response to a question by Representative Connors, Mr. Cusack stated that the Legislature had remedied the problem relating to reemployment of retired members, by requiring four months instead of one month to elapse before reemployment.

With regard to the graph relating to the demographics of active members, Mr. Cusack noted that almost half of all active and retired members are school personnel, 18.9 percent are state employees, while the remainder are county, city and other public employees.

Mr. Cusack noted that only 1,634 active members of the system are eligible for the rule of 92. Mr. Cusack noted that this group had decreased by 40 percent during the last two years.

Mr. Cusack stated that the average years of service of retirees is 20 years of service and the average retiree's benefit is 40 percent of the employee's average final compensation.

Mr. Cusack indicated that while most retirees receive an average benefit of \$354 per month, there has also been a significant increase in those retirees receiving over \$1,000 per month.

Mr. Cusack reviewed the demographic information in the IPERS notebooks. In response to a comment by Representative Hanson, Mr. Cusack indicated that he would provide the information concerning median figures as well as averages.

In response to a question by Senator Dieleman, Mr. Cusack stated that on the average, a retired member will receive in the form of benefits, an amount in excess of the member's contributions within four to seven years. Mr. Cusack stated that members who retired many years ago are receiving benefits as a result of contributions by younger generations.

Senator Rittmer expressed concern about individuals who retired after July 1, 1986, but before the benefit enhancements were enacted in the 1990 Legislation. Mr. Cusack responded that 43 percent of the retired members are not receiving a dividend check. Mr. Cusack said the IPERS Division is examining the costs of using a 58 percentage multiplier for those individuals retiring between July 1, 1993, and June 30, 1994, in the event that the General Assembly wishes to increase the benefits for these individuals.

Co-chairperson Carpenter noted that there are probably some retirees already receiving more than 60 percent of their highest three-year average salary, Mr. Cusack agreed, noting that the Legislature has maintained a fair and flexible system through the use of dividends.

Co-chairperson Kibbie commented that reducing the retirement age is a costly benefit enhancement.

Mr. Cusack noted that all employees of the community colleges will have the option by July 1, 1994, of choosing between IPERS or TIAA-CREF. Since 1990, those newly hired employees, who were members of TIAA-CREF at another institution have been able to remain in TIAA-CREF, he added. Mr. Cusack stated that the IPERS Division is developing information to assist employees in making a choice and referred to the Vision software which has been developed to assist members in calculating potential IPERS benefits. Mr. Cusack indicated that IPERS would probably be a better choice for the long-time employee, while the newer employee might benefit more by choosing the TIAA-CREF system.

Mr. Cusack noted that the IPERS Division has retained tax counsel and been advised that the limitations of section 415 of the federal Internal Revenue Code apply to buy-ins and probably to buy-backs representing refunds taken before January 1, 1975, the effective date of the applicable federal law. Mr. Cusack explained that section 415 limits the amount of contributions which a member may make to the member's account during a given year and accordingly, some members may have to spread these activities over several years. Mr. Cusack noted that many applications are pending. He added that while the administrative consequences of assuring that the section 415 limitations are not exceeded will be

burdensome, the consequence of a violation may be severe, and may result in the plan losing its qualified tax status.

Representative Hanson referred to statistics provided concerning combined IPERS and Social Security benefits and noted that he is hesitant to raise the covered wage due to the number of higher-income employees nearing retirement. He indicated that he had contacted the Social Security Administration in 1990 and the information he received reflected a higher level of benefits than that contained in the statistics provided by IPERS. He gave as an example an individual with a salary of \$23,000-24,000 and 30 years of service, who would receive from IPERS and Social Security a combined benefit which would compute at 102 percent of pre-retirement gross income. Mr. Cusack responded that he had taken his numbers from a 1980 publication by the Social Security Administration and that therefore, Representative Hanson's figures were probably more accurate.

Mr. Cusack reviewed the following recommendations by the IPERS Division:

- ◆ Continue the course charted by the 1990 Legislature by incrementally raising the covered wage ceiling by \$3,000 per year.
- ◆ Retain the maximum benefit formula at 60 percent.
- ◆ Resist further proposals to lower either the "Rule of 92" or the 3 percent per year reduction for each year of early retirement.
- ◆ Continue to prepare a plan to index the value of a member's earned benefit from the time of termination from public service until retirement.
- ◆ Renew and increase the various dividends paid to already retired members -- to the extent that funding, and meeting other priorities, allows.
- ◆ Review, in the context of greater inclusiveness, how coverage for "temporary" or "substitute" employees should be addressed.
- ◆ Establish the minimum amount of money a retired, reemployed member between ages 65 and 70 can earn before having retirement benefits suspended for the remainder of the calendar year.
- ◆ Review the cost assigned to purchasing buyins; adjust for greater equity.

- ♦ Allocate future available margins (those beginning with the actuarial valuation of the System as of June 30, 1994), after providing for the scheduled covered wage increase, as follows: one-third toward prefunding future increases in the covered wage; one-third toward retiree dividend increases, not to exceed a 2.5 percent dividend increase in any given year; and one-third toward implementing the indexing of benefits for terminated vesteds.

Next, Ms. Beckham directed the Committee to the funding status of IPERS. Ms. Beckham's report is included in the notebook provided by the IPERS Division. Ms. Beckham explained the different methods for determining a plan's funded status, which is a more crucial item in the private sector because of the frequency of plan terminations. She said that the focus for a public system is on the ongoing and annual costs and what is affordable and sustainable. Ms. Beckham then explained the different methodologies for measuring liabilities and noted that using the entry age normal cost method, an actuarial cost method, IPERS, funded ratio is 101.5 percent. If the benefit enhancements announced, effective July 1, 1994, are reflected, the funded ratio is 98.5 percent, she added, which is close to the theoretically perfect 100 percent.

Ms. Beckham noted that the Projected Benefit Obligation (PBO) and Accumulated Benefit Obligation (ABO) are presently required disclosures for public systems under the GASB Statement for disclosure of pension information and although they are often used in discussing the funding status of public systems, Ms. Beckham observed that these measures are not very helpful for public systems because they do not take into account future service. Ms. Beckham stated that GASB will soon be releasing a new exposure draft on pension accounting and financial reporting for pension plans, which will eliminate the concept of PBO and utilize the unfunded actuarial liability in required disclosures and reporting, which relates directly to the System's funding. She explained that GASB has recognized that comparability is secondary to the internal funding of the Systems and therefore, future disclosures will focus on the accrued liability.

Co-chairperson Carpenter asked if this new accounting and financial reporting system will improve the status of the other public retirement systems which are not as well-funded as IPERS. Ms. Beckham said that the new standards will provide a more accurate reflection as to what the Systems' unfunded accrued actuarial liabilities are.

Ms. Beckham stated that if IPERS does not wish the required contribution rate to exceed the statutory rate of 9.45 percent, it is important that the actuarial cost method used will allocate the costs as a level percent of payroll and that the

method will use a technique that spreads gains and losses over a period of time to ensure that the contribution rate is generally stable. She concluded that the aggregate cost method is appropriate for IPERS. She also indicated that Milliman & Robertson is comfortable with IPERS' recommended change in the interest rate assumption to 6.75 percent.

Ms. Beckham then reviewed some funding concerns, and noted that Milliman & Robertson believes it is important to value the liability of the dividends as permanent on-going payments, rather than as two-year commitments, to ensure continuation of the dividends at the current level in the future. She noted that this methodology change can only be reflected in the regular valuation if the permanent commitment to the dividends is made through statutory change. Another concern raised by Ms. Beckham is the covered wage base and how it is funded. Ms. Beckham cautioned that in using actuarial gains to fund these increases, there is significant exposure if actual experience does not produce the actuarial gain. The change in the interest rate assumption, effective in 1994, will provide a significant margin, part of which Ms. Beckham recommends using, to begin prefunding future increases in the covered wage base.

Representative Hanson asked whether the actuary could make accurate projections if the formula was changed to provide a certain multiplier, such as 60 percent, for a covered wage base of \$42,000, with a 50 percent multiplier applied to income above that amount, and Ms. Beckham responded that this would not pose a problem in making actuarial projections.

Senator Rittmer asked what percentage of members earn less than \$35,000 per year and Mr. Cusack said he would provide this information.

Co-chairperson Carpenter expressed concern about raising the interest rate assumption at this time and asked whether this would become a trend. Ms. Sanders said that in making the decision to increase the interest rate assumption, she took into account the one-time actuarial gain as a result of the change in the way liabilities are valued.

Ms. Sanders directed the Committee to the results of a 10-year projection study conducted by Milliman & Robertson on behalf of the IPERS Division. Ms. Sanders explained that the focus of the study is to investigate what benefit improvements (in the areas of retiree dividends, the covered wage base, and the funding of these improvements), could be granted, given varying combinations of the actuarially assumed interest rate and actual yield rate on trust assets, and given that the total required contribution rate shall not, in general, exceed 9.45 percent. She noted that the July 1, 1993, figures in the report are based upon a 60 percent benefit formula effective July 1, 1994, and a \$38,000 covered wage base effective January 1, 1994. Ms. Sanders reviewed the other projection techniques, assumptions, and general comments concerning the study which are listed in the report of the study included in the notebook distributed by the IPERS Division.

LUNCHEON RECESS

At noon, Co-chairperson Kibbie recessed the meeting for lunch and Co-chairperson Carpenter reconvened the Committee at 12:30 p.m., with Ms. Sanders continuing her presentation.

CONTINUATION OF IPERS PRESENTATION

Ms. Sanders discussed several of the scenarios provided in the 10-year projection study to show dynamic interplay between the rate of assumption and actual yield rate. Co-chairperson Carpenter commented that at some point the Committee may need to consider reducing the contribution rate.

Senator Drake said he was concerned with raising the covered wage beyond \$55,000, because it may be more important to improve benefits for members in the lower income brackets.

PRESENTATION CONCERNING THE PEACE OFFICERS' RETIREMENT SYSTEM (PORS)

Co-chairperson Carpenter introduced the next panel of speakers: Mr. Paul Wieck, Commissioner of Public Safety; Mr. Scott Willman, an actuary with the Wyatt Company of Minneapolis, Minnesota, the actuary for PORS; and Mr. Jeffrey Slocum, an investment consultant with Jeffrey Slocum & Associates of Minneapolis, Minnesota. Mr. Wieck began the presentation by introducing two individuals who accompanied him, Mr. Larry Thornton of the Treasurer of State's Office and Mr. Carroll Bidler from the Department of Public Safety. The following documents were provided to the Committee: Commissioner Wieck distributed his written statement; Mr. Willman distributed charts summarizing the most recent actuarial valuation, as well as a copy of the actuarial valuation; and Mr. Slocum distributed executive summaries of investments for the quarters ending June 30 and September 30, 1993. These documents are on file with the Legislative Service Bureau.

Commissioner Wieck observed that the most noteworthy item of discussion is the performance of the fund. Since 1990, the fund's performance has exceeded expectations, Commissioner Wieck explained. Commissioner Wieck recommended that the current state contribution rate of 18 percent be maintained, without pursuing additional funding.

Commissioner Wieck expressed concern about the disparity that exists among special agents and fire inspectors, as some are in PORS and others are in

the protection occupation classification of IPERS. He said there are basically two kinds of benefits paid to individuals performing the same job functions. Commissioner Wieck stated that the Committee should consider including all Department of Public Safety peace officers in PORS, to eliminate morale problems created by the disparity in benefits and to facilitate transfers between divisions within the department.

Commissioner Wieck also stated that the Committee should give consideration to pretax treatment of employee contributions.

Mr. Willman provided actuarial details of the retirement system. He directed the Committee to the charts he had provided, which included a contribution summary, the determination of contribution requirements, the determination of the normal contribution rate, measures of liabilities, the funded status of accrued benefits, a comparison of liabilities to assets, demographic information, and actuarial assumptions. Mr. Willman noted that the fund's outstanding investment performance is responsible for the improvements in funded status.

Mr. Willman explained the different methods of valuing liabilities and noted that the funded status has increased from 93 percent in 1992 to 101.7 percent in 1993 using the actuarial balance sheet liability measure, although the funded status is only 81.3 percent according to GASB No. 5 standards. Mr. Willman observed that PORS has moved closer to full funding using GASB principles.

Mr. Slocum first discussed the executive summary for the period ending September 30, 1993. He remarked that the fund uses a more aggressive investment funding strategy than many public pension plans, which accounts for its improved performance. He observed that the fund still has almost one-half of its investment in fixed income investments.

Mr. Slocum indicated that the fund managers are actively engaged in a selection process to diversify which should further the fund's assets, increase return and lower volatility. In acknowledging the fund's good performance, Mr. Slocum noted that the smaller size of the PORS fund makes it much easier to manage than a fund the size of IPERS and it is therefore more able to respond efficiently to certain anomalies in market performance.

In response to Representative Connors' questions as to priorities, Mr. Slocum recommended staying with the current contribution rate by the state and considering pretax treatment of contributions by the members of the system.

Committee discussion ensued concerning pretax treatment of employee contributions. Co-chairperson Carpenter stated that the federal Internal Revenue Code limits the total amount an employee can receive in tax deferred benefits, and the plan administrator must keep track of these amounts to assure compliance with section 415. She said that in order to give pretax treatment to employee

contributions, PORS will also have to become a qualified plan, which means that the ADEA issues raised by the MFPRSI must be addressed with PORS as well. Co-chairperson Carpenter requested that the panel provide actuarial information concerning the costs of these statutory changes. Co-chairperson Carpenter noted that as chapter 97A is currently written, these costs would have to be paid by the members. Co-chairperson Carpenter stated that the state may lose state tax dollars if the contributions to the public retirement systems by members receive pretax treatment and indicated that with respect to IPERS members only, the loss of state revenue would be several million dollars.

PRESENTATION CONCERNING THE JUDICIAL RETIREMENT SYSTEM

Co-chairperson Carpenter introduced the final panel of speakers, Ms. Peggy Sullivan, Director of Finance and Personnel for the Judicial Department; Mr. Michael Bollin, actuary for the System, of William M. Mercer in Kansas City; and Mr. Jeffery Slocum, who is also the investment consultant for the Judicial Retirement System (JRS). Co-chairperson Carpenter noted that she is most concerned about the funding of this System and that the Committee should consider a funding basis which is more closely related to the covered wage base and the cost of benefits, rather than dependent upon the collection of court fees.

Ms. Sullivan distributed a brief summary of membership demographics and benefits. Mr. Bollin distributed a handout which is a review of the past and present funded status of the JRS. Mr. Slocum distributed executive summaries concerning the fund's performance for the quarters ending June 30 and September 30, 1993. These documents are on file with the Legislative Service Bureau.

Mr. Bollin indicated that he had been asked to focus on the funded status of the plan and the changes concerning the funding status over the last several years. Mr. Bollin first discussed the market value of assets and the projected benefit obligation from 1988-1993. The projected benefit obligation has increased from \$30 million to \$47.8 million throughout this period, and the market value of assets has increased from \$11.2 million to \$23.1 million, Mr. Bollin noted. Mr. Bollin explained that the difference between the projected benefit obligation and the market value of assets is the unfunded pension obligation. Next, Mr. Bollin discussed the assets as a percentage of the projected benefit obligation. In 1988, the assets equaled 37 percent of the projected benefit obligation and increased to 48 percent of the obligation by 1993, he added. He said that this trend will probably continue over the next several years.

Senator Gronstal asked what it would take to adequately fund the System and Mr. Bollin responded that an additional \$1.5 million per year for the next 20 years would adequately fund the plan.

Senator Drake asked if hiring more judges was taken into account in the actuarial determinations and Mr. Bollin responded that it was not.

In response to questions by Co-chairperson Carpenter concerning the costs of the senior judge program, Mr. Bollin discussed the alternate method of financing the senior judge program described in the 1992 Actuarial Valuation, which is included in the notebook prepared for the Committee by the Legislative Service Bureau. He explained that this funding method recognizes the expected benefits of the senior judge program as a percentage of the salary of the classification of judge. This funding method would require a 27 percent contribution for senior judges under the age of 78 who became senior judges before January 1, 1993, and for those senior judges entering the program after January 1, 1993, the contribution would be 21 percent of the annual earnings. Co-chairperson Carpenter stated that she prefers an approach which funds the senior judge program separately from the rest of the retirement plan. Mr. Bollin responded to a question by Co-chairperson Carpenter by stating that the annual cost of funding the senior judges under the alternate method would be less than one-half million dollars, using 21 percent, and at 27 percent, the cost would be \$579,000. Co-chairperson Carpenter noted that if the contributions in filing fees are expressed in terms of covered wages, the contribution rate for FY 1993-94 would be 15.58 percent. Co-chairperson Carpenter reiterated her concern that funding through filing fees is unrelated to the costs of the System.

In response to a request by Co-chairperson Carpenter, Mr. Bollin said he would provide a computation of the costs of the senior judge program if the escalator is reduced to 75 percent or 50 percent of the increase in salary of an active judge. Co-chairperson Carpenter noted that the highest escalator in the other systems is 33 1/3 percent. She said that the cost of the senior judges receiving a 100 percent escalator is too high.

In response to a question by Senator Drake, the panel members noted that the judges also receive Social Security benefits. Co-chairperson Kibbie noted that the spousal benefits for the judges are much higher than those provided in other public retirement systems.

Co-chairperson Carpenter noted that the cost of the senior judge program is one-third of the cost of the entire Judicial Retirement System. She remarked that judges can retire with full benefits after fewer years of service than other state employees.

Senator Rittmer expressed the belief that 20 years is too long to wait to adequately fund the System.

Mr. Slocum discussed investment returns. In discussing the background of the fund, Mr. Slocum said that the earlier investments had been very conservative prior to 1988. He said that the investment strategy has been restructured,

although it is still heavily weighted in equities, and that the investment return is improving as a result of the new investment strategy.

Mr. Slocum stated that the investment return for fiscal year 1993 was 13.1 percent, as opposed to the 10.7 percent reported by the State Auditor. Mr. Slocum indicated that he would like to broaden the portfolio to include foreign stocks. In response to a question from Co-chairperson Carpenter, Mr. Slocum said that the fund is managed by the Treasurer of State's office.

DISCUSSION

The Committee received written statements by the American Federation of State, County, and Municipal Employees (AFSCME)/Iowa Council 61 and Mr. Doug Kern. These documents are on file with the Legislative Service Bureau.

Senator Drake suggested holding a meeting during the first week of Session. Co-chairpersons Kibbie and Carpenter agreed to schedule the meeting.

Senator Drake discussed the need to address the age discrimination issues in MFPRSI and PORS.

Co-chairperson Kibbie said one important change requiring legislation for IPERS concerns increasing dividends by 4 percent for the older retirees, 3 percent for the middle group, and 2 percent for those retiring since 1986. He also mentioned the need to address the issues pertaining to qualified plan tax status for MFPRSI and PORS.

Co-chairperson Carpenter said she expected the General Assembly to consider increasing filing fees and noted that Senate File 413 is currently awaiting action in the House Appropriations Committee.

The members agreed that they would like to have a meeting during the first week of Session, after receiving the information requested from various groups. Upon discussion, the Committee noted that Mr. Cusack had indicated he would provide cost information concerning increasing the percentage multiplier to 58 percent for FY 1993-94.

The Committee discussed the state contribution to TIAA-CREF for the community colleges and whether the state contribution would have to be at the 10 percent level provided for employees of the Regents' institutions. The Committee also questioned if there would be uniformity among the various community colleges as to the TIAA-CREF plans. The Committee requested that this information be provided by representatives of the community colleges.

ADJOURNMENT

Upon a motion by Representative Connors, the Committee adjourned at 3:14 p.m.

Respectfully submitted,

Carolyn T. Lumbard

Legal Counsel

2907PC

RULES

PUBLIC RETIREMENT SYSTEMS COMMITTEE

1. Six members shall constitute a quorum, but a lesser number of members may adjourn or recess the Committee in the absence of a quorum.
2. A majority vote of those present is necessary to carry any action; however, no recommendations to the Legislative Council or General Assembly may be adopted without the affirmative votes of at least three members of each house.
3. Whenever Mason's Manual of Legislative Procedure does not conflict with the rules specifically adopted by the Committee, Mason's Manual of Legislative Procedure shall govern the deliberations of the Committee.
4. Meetings shall be set by motion before adjournment, or by call of the Co-Chairpersons of the Committee if meetings are necessary before the date set in motion.
5. Rules shall be adopted by the affirmative votes of at least three members of each house and may only be changed or suspended by a similar vote of the Committee.

Adopted:

November 2, 1993