REPORT ON THE
BENEFIT ENHANCEMENT STUDY FOR
IOWA PUBLIC EMPLOYEES'
RETIREMENT SYSTEM

Submitted by
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EXECUTIVE SUMMARY

The Iowa Public Employees' Retirement System (IPERS) has requested an analysis of the IPERS benefit plan and organizational structure and procedures. The purpose of the study is to develop recommendations to improve the equity and delivery of the IPERS benefit programs and to further safeguard the integrity of the IPERS pension fund and to ensure it is used for the exclusive benefit of IPERS members and their beneficiaries. The study identifies the relative strengths and weaknesses of IPERS by comparing it to national and regional public employee retirement systems (PERS) and the study makes recommendations for changes in benefits and in policies and procedures involved in considering benefit enhancements.

The thrust of the study is to obtain an objective assessment of IPERS retirement benefits, disability benefits and death benefits, to determine if these benefits are fair and equitable and how they might be improved. In performing these tasks, we have measured IPERS in terms of generally accepted pension standards and by comparing IPERS to other PERS, nationally and regionally.

We have reviewed IPERS structure and governance and procedures. The purpose of this portion of the study is to get an unbiased assessment of how IPERS compares organizationally to other PERS and to address the following questions:

-- How can procedures be improved in the formulation and consideration of proposed benefit enhancements?

-- How can IPERS safeguard fund assets to ensure that they are used for the exclusive benefit of members and beneficiaries?

Our report includes estimated actuarial cost implications associated with the major proposed benefit improvements. A more detailed actuarial analysis to determine the cost implications of each proposed change, such as removing the dollar cap from the service retirement benefit formula, would be required before such changes are enacted into law by the Iowa State Legislature. This would be provided by the IPERS Actuary.

IPERS is a dynamic and progressive retirement system, in terms of its financing, benefit administration and administrative systems. Moreover, IPERS has recently taken steps to improve its member services and internal administration. At the same time, some IPERS benefit provisions-- the heart of any retirement system-- are ripe for revision so the System will be even more responsive to the needs of current and future members. The Report discusses these benefits and makes recommendations to modify them. The Report also discusses procedural issues and make recommendations for the formulation and consideration of proposed benefit enhancements. Recommendations are also made to further safeguard the integrity of the Fund and to ensure it is used for the exclusive benefit of IPERS members and beneficiaries.

The Report is intended to facilitate discussion and consensus building on procedural and substantive issues among stakeholders who have an interest in the well-being of IPERS. In that regard, our proposed changes (except for the salary and service caps) should be viewed as possible solutions and not the only solution. A variation of the proposed change or something completely different can emerge as each stakeholder merges their thoughts with the whole. Stakeholders include public employees, retirees, their families, public employers, employee and employer associations, the Governor, the Legislature, the administrators of

IPERS, and last but not least, the Director of the Department of Personnel who is responsible for IPERS administration.

Part I of the Report addresses the question: Are IPERS benefits fair, equitable and flexible. Part II considers how IPERS structure and governance compare to the public plan universe and how IPERS procedures can be improved to ensure IPERS can best formulate and consider proposed benefit enhancements. Part II also addresses how IPERS can best safeguard Fund assets to ensure assets are used for the exclusive benefit of members and beneficiaries. Part III of the Report prioritizes recommendations and presents estimated cost implications of the main recommendations.

Our recommendations are summarized as follows:

A. Benefits Program

1. Remove the maximum covered wage base limit (salary cap) currently set at $41,000 for 1995 and increasing to $55,000 in 2000.
2. Remove the 30 year maximum limit on credited service.
3. Change the normal retirement eligibility requirements to the earlier of
    - age 65, or
    - age 62 with 20 or more years of service, or
    - age 55 if age plus service equals 85

    Early retirement eligibility would remain at age 55 with 4 or more years of service. The reduction for early commencement would also remain at .25%

per year of early retirement. The years of early retirement would be from retirement date to the earliest of the normal retirement dates.

4. Increase the minimum monthly retirement benefit from $50 to a schedule of $200 to $400 based on service at retirement.
5. Modify the interest credited to a member's contribution account.
6. Modify the service connected death benefit to provide a survivor option.
7. Provide for an automatic post-retirement cost of living adjustment to replace the dividend program.
8. Change the disability benefit to provide a minimum benefit equal to 33-1/3% of final average salary.
9. Modify the death benefit to provide a lump sum benefit of three years' salary after three years of service.
10. Increase the amount an IPERS retiree can earn without a reduction in the retiree's pension.

B. Organizational Structure and Governance

1. Establish an IPERS Board of Trustees
2. Establish an IPERS Benefits and Investment Board
3. Establish an IPERS Benefits Board

INTRODUCTION

Certain IPERS features and provisions have a significant bearing on our study. They include:

1. **The Covered Wage in the IPERS Benefit Formula**

   The stated goal of IPERS "... is to raise the maximum covered wage to $55,000" (p.13, CAFR, FYE June 30, 1994). The IPERS benefit formula is 2% of FAS up to the covered wage base ($41,000 in 1995), increasing $3,000 each year until, in 2000 it reaches $55,000 for each year of service (maximum 30 years). In 20 years the $55,000 maximum covered wage base will adversely impact the majority of IPERS current members. It is important to note that IPERS supports increasing the covered wage from its current level for two reasons: first to provide adequate retirement benefits to its members; second, to ensure the future actuarial liability is explicitly recognized in the valuation of assets and liabilities. IPERS is currently well funded and wants to remain that way in the future.

2. **Membership and Benefits**

   IPERS is a multiple employer plan covering approximately 141,000 employees in a wide range of job titles. 2,700 public employers participate in IPERS on behalf of their employees. As of July 1, 1994 the average age of an IPERS member was 44.2, the average service credit 10.7 years, and the average covered wage was $22,968.

   Of IPERS 54,000 retires (as of June 30, 1994) the average monthly annuity was $366 monthly (or $4,392 yearly) based on an average of 20 years of credited service. Recent retirees, for example those retiring in 1994, receive an average monthly benefit of $754 (or $9,048 yearly) based on an average of 22 years of credited service.

It is noteworthy that the average benefit payments for retirees prior to January 1, 1976 is one-third the amount of those who retired after July 1, 1986 and for those retiring between January 1, 1976 and June 30, 1986, it is one-half the amount of those who retired after July 1, 1986.

Number Retirees	Average Credited Service	Average Monthly Benefit	Average Yearly Benefit
Prior to 1/1/76: 7,400	20.47	$162	$1,944
Between 1/1/76 and 6/30/86: 21,832	18.87	$263	$3,156
After 7/1/86: 25,062	20.64	$517	$6,204

IPERS covers employees of cities, counties, school districts, the State of Iowa and other public entities. Contribution rates (both employee and employer) vary by employee "category." Rates as of June 30, 1994 are as follows:

Group	Employee	Employer	Total
Regular Employees	3.70	5.75	9.45
Sheriffs	6.92	10.39	17.31
Protected Occupations	5.94	8.91	14.85

Benefits vary by the foregoing groups. As explained in the Report, there are special provisions for certain peace officers groups.

3. Organization and Structure

IPERS is a division of the Iowa Department of Personnel. The IPERS Division is directed by the Director of the Department of Personnel. The Iowa Code provides that IPERS shall have a Chief Benefits Officer and a Chief Investment Officer. These Officers direct the IPERS benefits and investment programs. The Operations Unit and the Legal and Communications Unit provide the necessary support for IPERS programs.

IPERS contains four components:

- Membership and Benefits Administration, headed by the Chief Benefits Officer;
- Investment Policy and Administration, headed by the Chief Investment Officer;
- Operation Unit, headed by the Operations Manager;
- Legal and Communication Unit, headed by the Legal and Communication Unit Manager.

The foregoing features -- in terms of benefits, membership and structure "set the stage" for a consideration of IPERS benefits in terms of adequacy, flexibility and responsiveness. The overview also sets the stage to a consideration of how benefits can be enhanced, and how organizational structure can best lend itself to being responsive to the formulation and consideration of benefit enhancements.

PART I: REVIEW OF BENEFIT PROVISIONS OF THE IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (IPERS)

A. Comparative Review of IPERS Benefits

The report begins by comparing key provisions of IPERS to the provisions of 85 public employee retirement systems ("PERS") throughout the United States. IPERS is a "consolidated" system covering many categories of public employees, including employees of schools, the State, counties, cities and other units of government. The national sample used in our study includes the main statewide systems. In our analysis, where appropriate, we also make reference to how IPERS benefits compare to those of retirement systems covering special groups only, such as police, firefighters and education employees. We have also measured IPERS benefits against generally recognized benchmarks used in the pension industry to evaluate the adequacy of retirement benefits. These benchmarks measure benefits in terms of income replacement ratios. For example, it is generally maintained that a retirement allowance should permit a career employee at normal retirement age to retire with a pension which with Social Security will permit the retiree to maintain his or her pre-retirement standard of living.

Our analysis assesses the relative strengths and weaknesses of IPERS. The analysis identifies features of IPERS that differ from national practices. The analysis also identifies features of the IPERS that compare favorably with features in other public plans. Viewed as a whole, IPERS benefits compare favorably to those of other PERS. In certain instances, however, IPERS benefits fall somewhat below the national standard.

Our report also compares IPERS benefit provisions to those of several regional statewide PERS including Arkansas, Illinois, Kansas, Minnesota, Missouri, Nebraska, Oklahoma, South Dakota and Wisconsin. In addition, IPERS is compared to several other public retirement plans within Iowa, such as Peace Officers' Retirement System, Des Moines Teachers, and TIAA/CREF. This comparison is important in assessing how competitive IPERS is within Iowa and with PERS in adjoining states and others selected for the sample due to their comparability in size of membership, composition, and benefits.

A comparison of the key features of IPERS to 85 other PERS and to regional and Iowa PERS is summarized as follows:

1. **Social Security Coverage**

   Employees in 69 of 85 PERS including IPERS, are provided with Social Security benefits; members of 16 systems are not. In those systems that do not provide Social Security, the benefits provided by the System are somewhat greater than in Systems with Social Security. Membership in Social Security is mandatory for members of IPERS. IPERS benefits are generally comparable to those provided in other Social Security states.

2. **Retirement Age and Service Requirements**

   Normal Retirement

   PERS generally provide that a member will be eligible for "normal retirement" with full, unreduced service retirement benefits upon attaining a specified age, e.g., age 62, and after completing a specified number of years of credit, e.g., 10 years of credited service.

IPERS is not favorably competitive with national practices since it does not permit "normal retirement" at age 62 with 10 years or less of credited service. Rather, IPERS requires 30 or more years of credited service for retirement at age 62 with an unreduced benefit, thus limiting considerably the number of IPERS members who will be eligible. IPERS also permits a member to retire with unreduced benefits if his/her age plus service equals "92". The rule of 92 provides some but not a great deal of flexibility.

Early Retirement

Eligibility for early retirement benefits in public pension plans, like normal service retirement, most often requires attainment of a stated age and completion of a specified number of years of service, for example, age 55 and 5 years of service. Early retirement differs from "normal retirement" insofar as early retirement results in a reduction in benefits for each year the benefit is payable prior to normal retirement age. The reduction is either an actuarial reduction or a fixed percentage reduction.

The IPERS early retirement provision is in line with national practices, providing early retirement at age 55 with 4 years of service with a 3% (.25% per month) actuarial discount for each year early retirement precedes "normal retirement". However, the reduction of .25% per month applies to each month a member retires prior to age 65, unless the rule of 92 is met prior to age 65 in which case there is no reduction. This makes IPERS early retirement benefits less competitive than those of a system where the reductions are for retirement prior to age 62.

3. **Vesting**

IPERS is among the most progressive PERS in the U.S. in providing a four-year vesting. The benefit is payable as early as age 55.

4. **Employee Contributions**

Approximately 90% of all PERS require mandatory employee contributions. Most private sector defined benefit plans, in contrast, do not require employee contributions. If a pension plan, public or private sector, requires employee contributions, the plan should provide somewhat proportionately greater benefits than a noncontributory plan, reflecting the added value attributable to employee contributions. IPERS requires regular members to contribute 3.7% of salary.* This is an average contribution rate for public pension plans. Most contributory public plans require employee contributions in the range of 3 to 5%.

5. **Benefit Formula Multiplier**

Under a defined benefit plan, benefits are calculated by multiplying a fraction times years of credited service times a salary base. This fraction is referred to as a "service fraction", "benefit formula multiplier" or "accrual rate." The IPERS Plan benefit formula multiplier is 2%. This is right in line with national practices with plans having Social Security coverage. Plans without Social Security coverage have on average a somewhat higher benefit formula multiplier. However, the formula is subject to two caps, a maximum service credit cap and a maximum dollar cap. Under the IPERS Plan, a member cannot accrue service credit after he or she

* Special subgroups are required to make additional contributions (See page 2).

achieves 30 years of credited service. Moreover, benefits are capped at a percentage of final average salary not to exceed a dollar cap ($41,000 in 1995).

This means that certain long service career IPERS members are not receiving any pension credit for their service beyond 30 years. Their pension benefit is, in effect, frozen except for the affect of salary increases in the last three years of service (below the salary cap) which would result in a greater benefit. Service credit caps are found in some public plans, but it is more commonly the practice to provide either a greater service fraction or a lesser service fraction once a member accrues 20 or 30 years of service. Salary caps are now unique to IPERS. Consider the following:

4 OUT OF 85 PERS WITH SERVICE CREDIT CAPS	
PERS	**Limitations On Benefits**
Georgia TRS	40 years
Indiana PERF	45 years
IPERS	30 years
Vermont TRS	40 years

The foregoing shows that IPERS has the most restrictive service credit cap among the 4 PERS out of 85 PERS in our sample with caps.

The average benefit formula multiplier used among the 85 plans in our survey is 1.8%. Accordingly, the IPERS service fraction formula is above the national average.

Prior to 1995, two states employed salary caps (IPERS and Oklahoma PERS and TRS). Oklahoma removed the cap for PERS in 1994 and for TRS in 1995. The net impact of the wage and service caps adversely impact some current retirees. If the schedule is not modified, it will impact a majority of IPERS members in future years.

6. **Salary Base**

Defined benefit pension plans calculate benefits by multiplying years of service times a benefit formula times a "salary base," referred to as "final average salary," "average final salary" or "average compensation". The salary base represents the highest earnings over a specified number of years or months of service. 55 of the 85 PERS surveyed use a three-year salary base, as does IPERS. In this respect IPERS is competitive with other public plans.

7. **Post-retirement Supplements (COLAs)**

Under the IPERS COLA program, dividends are paid annually (each November) to IPERS members who retired on or before June 30, 1986 (June 30, 1990 effective in 1996). Under the program, the amount of the dividend depends on when the member retired. The dividends are calculated as a percentage of the monthly benefit payment the member received for the preceding year, or the most recently received benefit payment whichever is greater.

As of FYE June 30, 1994 there were 54,294 retired members. The dividend paid in November, 1993 to members who retired prior to June 30, 1986 was $6,807,607 or

2.7% of the $246,123,627 paid to all retirees as of June 30, 1994. The 1994 dividend was 3.5% of the total expected payments. Comparing IPERS to other PERS, one can make the following observations: IPERS, like most statewide PERS, provides COLAs to its retirees. However, the COLAs are granted only on an ad-hoc basis by the Legislature. Moreover, COLAs are not tied to a fixed formula and are not provided on an automatic basis as is the case in many PERS. In addition, in IPERS COLAs are currently not paid to those who retired since 1986. Since 1986 the cost-of-income has increased by approximately 35% and 54% of IPERS retirees have received COLA increases totalling approximately 20% to 30% based on year of retirement. However, 46% of the IPERS retirees received no COLA increases at all. Beginning in 1996, those who retired between July 1, 1986 and June 30, 1990 will be included in the dividend program making approximately 75% of the retirees covered.

IPERS does have a minimum benefit program according to which retirees at age 65 with at least 10 years of service receive a minimum benefit of $50 per month. Many PERS, especially teacher systems, have greater minimum benefit programs. For example, the New York State Teachers' Retirement System provides a minimum of $6,000 to members who retired prior to 1968 with 30 or more years of service. Based on these observations and as discussed more fully below, IPERS while meeting some retiree needs is not competitive with many PERS.

8. **Disability Benefits**

IPERS provides disability benefits for members who become permanently and totally disabled after four or more years of credited service. The disability benefit is equal to the service retirement benefit accrued to date but with no reduction for receipt thereof prior to normal retirement age. The disability benefit is not reduced either by Social Security disability or Workers' Compensation.

The amount of the benefit, as well as the service requirement for eligibility (4 years of service) do not differ depending upon whether or not the disability was incurred in the performance of duty (service-connected). Moreover, since the standard for award of disability benefits is that the member be "permanently and totally disabled" disability benefits are not provided in instances where a member is unable to perform the duties of his job, unless the member is also found to be permanently and totally disabled.

When compared to other PERS, IPERS does not fit the national pattern insofar as it provides the same level of benefits to disabled members regardless of whether or not the disability was incurred in the performance of duty. In terms of the standard for determining disability, most PERS use an occupational standard as opposed to a total disability standard. Moreover, most PERS provide a somewhat greater benefit where a disability is incurred in the performance of duty.

In terms of disability benefit levels, IPERS is somewhat low among PERS. IPERS provides the accrued normal benefit with no age reduction to a disabled member.

This benefit may be adequate for some members, for instance those with 15 or more years of service. However, depending upon the nature of the disability, the benefit may be inadequate for members disabled with fewer years of service, for instance less than 15 years of service. In many PERS it is common practice to provide a minimum disability benefit payable regardless of years of service, sometimes requiring 5 or 10 years of service before eligibility, for example, for a retirement allowance equal to 33⅓% of final average salary, unless, using the service retirement benefit formula, a greater benefit is payable. Moreover, most PERS provide a greater benefit where disability is service-connected in origin.

9. **Deaths Benefits**

IPERS provides the same level of death benefits to a survivor regardless of whether death was the result of service-connected accident or injury. Many PERS provide a greater benefit where death is the result of a service-connected accident or otherwise was incurred in the performance of duty. The IPERS death benefit is payable at any age and has no service requirement. In this respect it is competitive. However, the level of the death benefits-- 1/30th of one years' salary (after one year of service) up to one years' salary with 30 years of service-- is not competitive. Many PERS provide death benefits based on multiples of salary e.g., 1, 2 or 3 years of salary after 1, 2 or 3 years of service. A greater benefit may be provided where there is a service-connected death, for example, a pension equal to 50% of final average salary for the life of the survivor.

B. Comparison of Key Features of IPERS to National Sample of 85 Public Employee Retirement Systems (PERS)*

85 PERS	IPERS
A. Social Security Coverage 69 of the 85 plans included in the survey provide coverage under the OASDHI program; 16 systems do not.	Yes
B. Integration** Of the 69 PERS with Social Security coverage, 58 were not integrated and 11 were formally integrated with Social Security benefits.	Not integrated
C. Normal Retirement Age and Service Requirement Most PERS require a minimum age and/or years of service in order to qualify for normal retirement age at 65 or earlier, 52 plans permit normal retirement age at 62 with 10 years or less of service. 15 states permit normal retirement at any age with 30 or more years of service.	Age 65 with less than 30 years of service Age 62 with 30 or more years of service Age plus years of service equal 92.
D. Early Retirement The most common age for allowing early retirement is age 55 with some minimum service, followed by age 50.***	Age 55 with 4 years of service with a 3% reduction per year of early retirement

* State of Wisconsin, Retirement Research Committee, 1992 Comparative Study of Major Public Employee Retirement Systems. The survey includes retirement programs for general employees and teachers.,

** Integration means that the benefit formula explicitly recognizes or includes Social Security benefits.

*** 22 PERS use an early retirement reduction of 3% to 5.9%; 19 PERS use a reduction of 6% or more.

85 PERS	IPERS
E. Vesting 50% of PERS require 5 or less years of service to vest, the remaining 50% require more than 5 years for vesting.	4 years of service
F. Employee Contributions 72 PERS are contributory; 26 plans have employee contributions of 0-5%; 42 plans, over 5%; 13 plans are non-contributory.	Yes, 3.7% of covered wage base for general membership, higher for peace officer sub-grouping.
G. Employer "Pick-up" 65 of 72 contributory PERS have adopted IRC Section 414(h) employer "pick-up" arrangements.	Effective January 1, 1995
H. Post-retirement COLA 60 of 85 plans in the data base provide some sort of permanent post-retirement adjustment plan to protect annuity purchasing power; 25 of the 85 plans provide ad-hoc adjustments.*	Periodic ad-hoc increases based on actuarial soundness (limited to pre-June 30, 1986 retirees. June 30, 1990 effective 1996)
I. Employer Contributions Employer contribution rates vary from plan to plan depending upon several factors including actuarial assumptions and funding methodology, unfunded past service liabilities and amortization periods used in calculating contribution rates.	5.75% of covered wage base
J. Benefit Formula Multiplier Of the 69 plans which also provide Social Security coverage, the average benefit formula is approximately 1.8+%	2% of FAS up to covered wage base of $41,000 (increases $3,000 each year until reaches $55,000) for each year of service (maximum 30 years)

* 31 plans provide a CPI-3% or greater increase; 17 plans provide compounded increases; 8 plans provide a CPI-2.5% or less increase.

85 PERS	IPERS
K. Salary Base 55 plans use 3 years; 19 plans use 5 years	FAS: Average of highest 3 years
L. Ordinary Disability Most PERS provide ODR with minimum benefit.	4 years of service Accrued normal benefit with no age reduction
M. Service-connected Disability Most PERS provide larger benefit for service-connected disability than for ODR.	4 years of service Accrued normal benefit with no age reduction
N. Ordinary Death Most PERS provide benefit based multiples of salary (1, 2, 3 x salary)	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service
O. Service-Connected Death Most PERS provide a greater benefit than for Ordinary Death, e.g., pension of 50%.	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service

C. Comparison of Key Features of IPERS to Regional Consolidated PERS

1. Arkansas Public Employees' Retirement System

Arkansas	IPERS
A. Social Security Coverage Yes, 100% coverage	Yes
B. Integration Not integrated	Not integrated
C. Normal Retirement Age and Service Requirement Age 65 with 10 years of service Any age with 30 or more years of service	Age 65 with less than 30 years of service Age 62 with 30 or more years of service Age plus years of service equal 92.
D. Early Retirement Age 55 with 10 years of service with a 6% reduction per year of early retirement	Age 55 with 4 years of service with a 3% reduction per year of early retirement
E. Vesting 10 years of service	4 years of service
F. Employee Contributions No	Yes, 3.7% of covered wage base for general membership, higher for peace officer sub-grouping.
G. Employer "Pick-up" Not applicable	Effective January 1, 1995
H. Post-retirement COLA Automatically, as a formal commitment written into the plan document based on increases in CPI (3% maximum)	Periodic ad-hoc increases (limited to pre-June 30, 1986 retirees. June 30, 1990 effective in 1996)
I. Employer Contributions Statutorily at specific rate (10% of salary)	Statutorily at specific rate (5.75% of covered wage base)

Arkansas	IPERS
J. <u>Benefit Formula Multiplier</u> 1.55% of FAS for each year of service Maximum benefit 100% of FAS	2% of FAS up to covered wage base of $41,000 (increases $3,000 each year until reaches $55,000) for each year of service (maximum 30 years)
K. <u>Salary Base</u> FAS: Average of last 60 months	FAS: Average of highest 3 years
L. <u>Ordinary Disability</u> 10 years of service Accrued normal benefit with no age reduction	4 years of service Accrued normal benefit with no age reduction
M. <u>Service-connected Disability</u> 10 years of service Accrued normal benefit with no age reduction	4 years of service Accrued normal benefit with no age reduction
N. <u>Ordinary Death</u> 5 years of service Same as retirement with option limitations or a specified minimum	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service
O. <u>Service-Connected Death</u> 5 years of service Same as retirement with option limitations or a specified minimum	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service

2. State Employees' Retirement System of Illinois

Illinois	IPERS
A. Social Security Coverage Yes, 92% coverage	Yes
B. Integration Not integrated	Not integrated
C. Normal Retirement Age and Service Requirement Age 60 with 8 years of service Any age with 35 or more years of service	Age 65 with less than 30 years of service Age 62 with 30 or more years of service Age plus years of service equal 92.
D. Early Retirement Age 55 with 30 years of service with a 6% reduction per year of early retirement	Age 55 with 4 years of service with a 3% reduction per year of early retirement
E. Vesting 8 years of service	4 years of service
F. Employee Contributions Yes, 4% of salary	Yes, 3.7% of covered wage base for general membership, higher for peace officer sub-grouping.
G. Employer "Pick-up" Yes	Effective January 1, 1995
H. Post-retirement COLA Automatically, as a formal commitment written into the plan document at a specific rate (3%)	Periodic ad-hoc increases (limited to pre-June 30, 1986 retirees. June 30, 1990 effective in 1996)
I. Employer Contributions Statutorily at specific rate or Broad certified rate based on agency status (3.95% and 5.57% of salary for 1994)	Statutorily at specific rate (5.75% of covered wage base)

Illinois	IPERS
J. <u>Benefit Formula Multiplier</u> 1% of FAS first 10 years of service, 1.10% for next 10 years; 1.30% for next 10 years 1.50% thereafter for members covered by Social Security Maximum benefit 75% of FAS	2% of FAS up to covered wage base of $41,000 (increases $3,000 each year until reaches $55,000) for each year of service (maximum 30 years)
K. <u>Salary Base</u> FAS: Average of highest 4 years salary in last 10 years	FAS: Average of highest 3 years
L. <u>Ordinary Disability</u> 1.5 years of service 50% of current salary less Social Security to age 65. After age 65 projected retirement benefit.	4 years of service Accrued normal benefit with no age reduction
M. <u>Service-connected Disability</u> Any age or service 75% of current salary less Worker's Compensation to age 65. After age 65 projected retirement benefit.	4 years of service Accrued normal benefit with no age reduction
N. <u>Ordinary Death</u> 1.5 years of service 30% of FAS ($400 maximum), if eligible children increase to 80% of FAS ($600 maximum) (3% increase per year) Minimum benefit is 50% of retirement benefit less Social Security	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service
O. <u>Service-Connected Death</u> Any age or service 50% of current salary (increases to 75% maximum if eligible children) less Worker's Compensation (3% increase per year)	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service

3. **Kansas Public Employees' Retirement System**

Kansas	IPERS
A. Social Security Coverage Yes, 100% coverage	Yes
B. Integration Not integrated	Not integrated
C. Normal Retirement Age and Service Requirement Age 65 Age 62 with 10 years of service Age plus years of service equal 85	Age 65 with less than 30 years of service Age 62 with 30 or more years of service Age plus years of service equal 92.
D. Early Retirement Age 55 with 10 years of service with a 2.4% reduction per year of early retirement from ages 65 to 60 and 7.2% per year from age 60 to 55	Age 55 with 4 years of service with a 3% reduction per year of early retirement
E. Vesting 10 years of service	4 years of service
F. Employee Contributions Yes, 4% of salary	Yes, 3.7% of covered wage base for general membership, higher for peace officer sub-grouping.
G. Employer "Pick-up" Yes	Effective January 1, 1995
H. Post-retirement COLA Periodic ad-hoc increases granted by the Legislature	Periodic ad-hoc increases (limited to pre-June 30, 1986 retirees. June 30, 1990 effective in 1996)
I. Employer Contributions Statutorily based on annual actuarial valuation (3.3% of salary for State/School Employees and 2.3% for Local Employees in 1995 increasing by .1% per year until reach valuation rates)	Statutorily at specific rate (5.75% of covered wage base)

Kansas	IPERS
J. <u>Benefit Formula Multiplier</u> 1.75% of FAS for each year of service	2% of FAS up to covered wage base of $41,000 (increases $3,000 each year until reaches $55,000) for each year of service (maximum 30 years)
K. <u>Salary Base</u> FAS: average of highest 3 years	FAS: Average of highest 3 years
L. <u>Ordinary Disability</u> Any age or service 66.67% of current salary less Social Security and 50% of Worker's Compensation to age 65. After age 65 projected retirement benefit.	4 years of service Accrued normal benefit with no age reduction
M. <u>Service-connected Disability</u> Any age or service 66.67% of current salary less Social Security and 50% of Worker's Compensation to age 65. After age 65 projected retirement benefit.	4 years of service Accrued normal benefit with no age reduction
N. <u>Ordinary Death</u> Any age or service - 150% of salary plus accumulated employee contribution 15 years of service or eligible to retire - Accrued benefit paid as joint and survivor option at members retirement date	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service
O. <u>Service-Connected Death</u> Any age or service 150% of salary plus $50,000 plus accumulated employee contributions plus 50% of FAS less Worker's Compensation	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service

4a. Minnesota Public Employees' Retirement Association

Minnesota (Local Employees)	IPERS
A. Social Security Coverage Yes, 96% coverage	Yes
B. Integration Not integrated	Not integrated
C. Normal Retirement Age and Service Requirement Social Security Retirement Age (currently 65 increasing to 66 and 67 over time)	Age 65 with less than 30 years of service Age 62 with 30 or more years of service Age plus years of service equal 92.
D. Early Retirement Age 55 with 3 years of service Any age with 30 years of service Reduction of about 6% per year of early retirement	Age 55 with 4 years of service with a 3% reduction per year of early retirement
E. Vesting 3 years of service	4 years of service
F. Employee Contributions Yes, 4.23% of salary	Yes, 3.7% of covered wage base for general membership, higher for peace officer sub-grouping.
G. Employer "Pick-up" Yes	Effective January 1, 1995
H. Post-retirement COLA Automatically, as a formal commitment written into the plan document based on CPI (3.5% maximum) and investment performance (3.985% in 1995)	Periodic ad-hoc increases (limited to pre-June 30, 1986 retirees. June 30, 1990 effective in 1996)
I. Employer Contributions Statutorily at specific rate (4.48% in 1995)	Statutorily at specific rate (5.75% of covered wage base)

Minnesota (Local Employees)	IPERS
J. Benefit Formula Multiplier 1.5% of FAS for each year of service Maximum benefit 100% of FAS	2% of FAS up to covered wage base of $41,000 (increases $3,000 each year until reaches $55,000) for each year of service (maximum 30 years)
K. Salary Base FAS: average of highest 60 consecutive months	FAS: Average of highest 3 years
L. Ordinary Disability 3 years of service Accrued normal benefit less Worker's Compensation	4 years of service Accrued normal benefit with no age reduction
M. Service-connected Disability 3 years of service Accrued normal benefit less Worker's Compensation	4 years of service Accrued normal benefit with no age reduction
N. Ordinary Death 3 years of service Joint and survivor option to spouse or dependent child	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service
O. Service-Connected Death 3 years of service Joint and survivor option to spouse or dependent child	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service

4b. Minnesota State Retirement System

Minnesota (State Employees)	IPERS
A. Social Security Coverage Yes, 100% coverage	Yes
B. Integration Not integrated	Not integrated
C. Normal Retirement Age and Service Requirement Age 65 Age plus years of service equal 90	Age 65 with less than 30 years of service Age 62 with 30 or more years of service Age plus years of service equal 92.
D. Early Retirement Age 55 with 3 years of service with an actuarial equivalent reduction per year of early retirement	Age 55 with 4 years of service with a 3% reduction per year of early retirement
E. Vesting 3 years of service	4 years of service
F. Employee Contributions Yes, 4.15% of salary	Yes, 3.7% of covered wage base for general membership, higher for peace officer sub-grouping.
G. Employer "Pick-up" Yes	Effective January 1, 1995
H. Post-retirement COLA Automatically, as a formal commitment written into the plan document based on CPI (3.5% maximum) and investment performance	Periodic ad-hoc increases (limited to pre-June 30, 1986 retirees. June 30, 1990 effective in 1996)
I. Employer Contributions Based on annual actuarial valuation (4.2% in 1995)	Statutorily at specific rate (5.75% of covered wage base)

Minnesota (State Employees)	IPERS
J. <u>Benefit Formula Multiplier</u> 1.5% of FAS for each year of service Maximum benefit 75% of FAS	2% of FAS up to covered wage base of $41,000 (increases $3,000 each year until reaches $55,000) for each year of service (maximum 30 years)
K. <u>Salary Base</u> FAS: average of highest 60 consecutive months	FAS: Average of highest 3 years
L. <u>Ordinary Disability</u> 3 years of service Accrued normal benefit with no age reduction	4 years of service Accrued normal benefit with no age reduction
M. <u>Service-connected Disability</u> 3 years of service Accrued normal benefit with no age reduction	4 years of service Accrued normal benefit with no age reduction
N. <u>Ordinary Death</u> Age 55 and 3 years of service Accrued normal benefit with age reduction	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service
O. <u>Service-Connected Death</u> Age 55 and 3 years of service Accrued normal benefit with age reduction	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service

5a. Missouri State Employees' Retirement System

Missouri (State Employees)	IPERS
A. Social Security Coverage Yes, 100% coverage	Yes
B. Integration Not integrated	Not integrated
C. Normal Retirement Age and Service Requirement Age 65 with 4 years of service Age 60 with 15 years of service Age 50 and age plus service equal 80	Age 65 with less than 30 years of service Age 62 with 30 or more years of service Age plus years of service equal 92.
D. Early Retirement Age 55 with 10 years of service with an actuarial equivalent reduction per year of early retirement	Age 55 with 4 years of service with a 3% reduction per year of early retirement
E. Vesting 10 years of service	4 years of service
F. Employee Contributions No	Yes, 3.7% of covered wage base for general membership, higher for peace officer sub-grouping.
G. Employer "Pick-up" Not applicable	Effective January 1, 1995
H. Post-retirement COLA Automatically as a formal commitment written into the plan document; (80% CPI, 4% minimum, 5% maximum or 65% base benefit)	Periodic ad-hoc increases (limited to pre-June 30, 1986 retirees. June 30, 1990 effective in 1996)
I. Employer Contributions Based on annual actuarial valuation (10.69% in 1995)	Statutorily at specific rate (5.75% of covered wage base)

Missouri (State Employees)	IPERS
J. Benefit Formula Multiplier 1.6% of FAS for each year of service	2% of FAS up to covered wage base of $41,000 (increases $3,000 each year until reaches $55,000) for each year of service (maximum 30 years)
K. Salary Base FAS: average of highest 36 consecutive months	FAS: Average of highest 3 years
L. Ordinary Disability Any age or service 60% of monthly salary less Social Security and Worker's Compensation to age 65. After age 65 projected retirement benefit.	4 years of service Accrued normal benefit with no age reduction
M. Service-connected Disability Any age or service 60% of monthly salary less Social Security and Worker's Compensation to age 65. After age 65 projected retirement benefit	4 years of service Accrued normal benefit with no age reduction
N. Ordinary Death 5 years of service Accrued normal benefit with no age reduction	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service
O. Service-Connected Death 5 years of service Accrued normal benefit with no age reduction	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service

5b. Missouri Local Government Employees' Retirement System

Missouri (Local Employees)	IPERS
A. Social Security Coverage Yes, 98% coverage	Yes
B. Integration Not integrated	Not integrated
C. Normal Retirement Age and Service Requirement Age 60 with 5 years of service Age plus years of service equal 80	Age 65 with less than 30 years of service Age 62 with 30 or more years of service Age plus years of service equal 92.
D. Early Retirement Age 55 with 5 years of service with 6% reduction per year of early retirement	Age 55 with 4 years of service with a 3% reduction per year of early retirement
E. Vesting 5 years of service	4 years of service
F. Employee Contributions No	Yes, 3.7% of covered wage base for general membership, higher for peace officer sub-grouping.
G. Employer "Pick-up" Not applicable	Effective January 1, 1995
H. Post-retirement COLA Automatically determined as a formal commitment written into the plan document based on CPI (4% maximum)	Periodic ad-hoc increases (limited to pre-June 30, 1986 retirees. June 30, 1990 effective in 1996)
I. Employer Contributions Based on annual actuarial valuation	Statutorily at specific rate (5.75% of covered wage base)

Missouri (Local Employees)	IPERS
J. Benefit Formula Multiplier 1.5% of FAS for each year of service	2% of FAS up to covered wage base of $41,000 (increases $3,000 each year until reaches $55,000) for each year of service (maximum 30 years)
K. Salary Base FAS: Average of highest 36 consecutive months	FAS: Average of highest 3 years
L. Ordinary Disability 5 years of service Accrued normal benefit with no age reduction	4 years of service Accrued normal benefit with no age reduction
M. Service-connected Disability Any age or service Accrued normal benefit with no age reduction	4 years of service Accrued normal benefit with no age reduction
N. Ordinary Death 5 years of service Accrued normal benefit	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service
O. Service-Connected Death Any age or service Accrued normal benefit	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service

6a. **Nebraska Public Employees Retirement System - Defined Contribution Plan - State Employees**

Nebraska (State Employees)	IPERS
A. Social Security Coverage Yes, 100% covered	Yes
B. Integration Integrated	Not integrated
C. Normal Retirement Age and Service Requirement Age 65	Age 65 with less than 30 years of service Age 62 with 30 or more years of service Age plus years of service equal 92.
D. Early Retirement Age 55 with 5 years of service	Age 55 with 4 years of service with a 3% reduction per year of early retirement
E. Vesting 5 years of service	4 years of service
F. Employee Contributions Yes, 3.6% of first $24,000 of salary 4.8% of excess	Yes, 3.7% of covered wage base for general membership, higher for peace officer sub-grouping.
G. Employer "Pick-up" Yes	Effective January 1, 1995
H. Post-retirement COLA No	Periodic ad-hoc increases (limited to pre-June 30, 1986 retirees. June 30, 1990 effective 1996)
I. Employer Contributions 156% of employee rate	Statutorily at specific rate (5.75% of covered wage base)

Nebraska (State Employees)	IPERS
J. Benefit Formula Multiplier Not Applicable Benefit a lump sum of account balance (employee plus employer contributions plus investment income)	2% of FAS up to covered wage base of $41,000 (increases $3,000 each year until reaches $55,000) for each year of service (maximum 30 years)
K. Salary Base Not Applicable	FAS: Average of highest 3 years
L. Ordinary Disability 1 year of service Annuity equivalent of account balance	4 years of service Accrued normal benefit with no age reduction
M. Service-connected Disability 1 year of service Annuity equivalent of account balance	4 years of service Accrued normal benefit with no age reduction
N. Ordinary Death 5 years of service Annuity equivalent of account balance	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service
O. Service-Connected Death 5 years of service Annuity equivalent of account balance	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service

6b. Nebraska Public Employees Retirement System - Defined Contribution Plan - County Employees

Nebraska (County Employees)	IPERS
A. Social Security Coverage Yes, 100% covered	Yes
B. Integration Not integrated	Not integrated
C. Normal Retirement Age and Service Requirement Age 65	Age 65 with less than 30 years of service Age 62 with 30 or more years of service Age plus years of service equal 92.
D. Early Retirement Age 55 with 5 years of service	Age 55 with 4 years of service with a 3% reduction per year of early retirement
E. Vesting 5 years of service	4 years of service
F. Employee Contributions Yes, 4% of salary	Yes, 3.7% of covered wage base for general membership, higher for peace officer sub-grouping.
G. Employer "Pick-up" Yes	Effective January 1, 1995
H. Post-retirement COLA No	Periodic ad-hoc increases (limited to pre-June 30, 1986 retirees. June 30, 1990 effective in 1996)
I. Employer Contributions 6% of salary	Statutorily at specific rate (5.75% of covered wage base)

Nebraska (County Employees)	IPERS
J. <u>Benefit Formula Multiplier</u> Not Applicable Benefit a lump sum of account balance (employee contribution plus investment income)	2% of FAS up to covered wage base of $41,000 (increases $3,000 each year until reaches $55,000) for each year of service (maximum 30 years)
K. <u>Salary Base</u> Not Applicable	FAS: Average of highest 3 years
L. <u>Ordinary Disability</u> 1 year of service Annuity equivalent of account balance	4 years of service Accrued normal benefit with no age reduction
M. <u>Service-connected Disability</u> 1 year of service Annuity equivalent of account balance	4 years of service Accrued normal benefit with no age reduction
N. <u>Ordinary Death</u> 5 years of service Annuity equivalent of account balance	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service
O. <u>Service-Connected Death</u> 5 years of service Annuity equivalent of account balance	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service

7. Oklahoma Public Employees Retirement System

Oklahoma	IPERS
A. Social Security Coverage Yes, 100% covered	Yes
B. Integration Not integrated	Not integrated
C. Normal Retirement Age and Service Requirement Age 62 with 6 years of service Age plus year of service equal 80 (90 if hired after June 30, 1992)	Age 65 with less than 30 years of service Age 62 with 30 or more years of service Age plus years of service equal 92.
D. Early Retirement Age 55 with 10 years of service with a 4.8% reduction per year of early retirement	Age 55 with 4 years of service with a 3% reduction per year of early retirement
E. Vesting 8 years of service	4 years of service
F. Employee Contributions Yes, 2% of salary ($25,000 maximum) phasing in to 3.5% of total salary in 1998	Yes, 3.7% of covered wage base for general membership, higher for peace officer sub-grouping.
G. Employer "Pick-up" Yes	Effective January 1, 1995
H. Post-retirement COLA Periodic ad hoc increases at the discretion of the Board of Legislation (3% July 1994)	Periodic ad-hoc increases (limited to pre-June 30, 1986 retirees. June 30, 1990 effective in 1996)
I. Employer Contributions Statutorily at specific rate (11.50% of first $25,000 phasing in to 12.50% of total salary in 1998)	Statutorily at specific rate (5.75% of covered wage base)

Oklahoma	IPERS
J. Benefit Formula Multiplier 2% of FAS for each year of service (determined separately for pre July 1994 and post July 1994 service and FAS)	2% of FAS up to covered wage base of $41,000 (increases $3,000 each year until reaches $55,000) for each year of service (maximum 30 years)
K. Salary Base FAS: Average of highest 3 consecutive years in last 10 years	FAS: Average of highest 3 years
L. Ordinary Disability 8 years of service Accrued normal benefit with no age reduction	4 years of service Accrued normal benefit with no age reduction
M. Service-connected Disability 8 years of service Accrued normal benefit with no age reduction	4 years of service Accrued normal benefit with no age reduction
N. Ordinary Death 6 years of service Accumulated contribution plus 50% of members accrued normal benefit	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service
O. Service-Connected Death 6 years of service Accumulated contribution plus 50% of members accrued normal benefit	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service

8. South Dakota Employees Retirement System

South Dakota	IPERS
A. Social Security Coverage Yes, 100% covered	Yes
B. Integration Not integrated	Not integrated
C. Normal Retirement Age and Service Requirement Age 65 with 5 years of service Age 55 and age plus service equals 85	Age 65 with less than 30 years of service Age 62 with 30 or more years of service Age plus years of service equal 92.
D. Early Retirement Age 55 with 5 years of service with a 3% reduction per year of early retirement	Age 55 with 4 years of service with a 3% reduction per year of early retirement
E. Vesting 5 years of service	4 years of service
F. Employee Contributions Yes, 5% of salary	Yes, 3.7% of covered wage base for general membership, higher for peace officer sub-grouping.
G. Employer "Pick-up" Yes	Effective January 1, 1995
H. Post-retirement COLA Automatically as a formal commitment written into the plan document (3.1% in 1992 and 3% from 1988 to 1991 inclusive)	Periodic ad-hoc increases (limited to pre-June 30, 1986 retirees. June 30, 1990 effective in 1996)
I. Employer Contributions Statutorily at specific rate (5% of salary)	Statutorily at specific rate (5.75% of covered wage base)

South Dakota	IPERS
J. Benefit Formula Multiplier 1.3% of FAS for each year of service (minimum 2.0% of FAS for each year of service minus Social Security)	2% of FAS up to covered wage base of $41,000 (increases $3,000 each year until reaches $55,000) for each year of service (maximum 30 years)
K. Salary Base FAS: Average of highest 12 consecutive quarters during last 40 calendar quarters	FAS: Average of highest 3 years
L. Ordinary Disability 3 years of service 50% of highest salary in 3 previous years plus 10% for each child under 18 less Social Security less Workers Compensation to age 65. After age 65 projected retirement benefit.	4 years of service Accrued normal benefit with no age reduction
M. Service-connected Disability Any age or service 50% of highest salary in 3 previous years plus 10% for each child under 18 less Social Security less Workers Compensation to age 65. After age 65 projected retirement benefit.	4 years of service Accrued normal benefit with no age reduction
N. Ordinary Death 1 year of service 40% of FAS plus 10% per child until age 18 less Social Security to age 65. After age 65 50% of retirees projected retirement benefit.	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service
O. Service-Connected Death 1 year of service 40% of FAS plus 10% per child until age 18 less Social Security to age 65. After age 65 50% of retirees projected retirement benefit.	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service

9. Wisconsin Retirement System

Wisconsin	IPERS
A. Social Security Coverage Yes, 98.84% covered	Yes
B. Integration Not integrated	Not integrated
C. Normal Retirement Age and Service Requirement Age 65 with 5 years of service Age 57 with 30 or more years of service	Age 65 with less than 30 years of service Age 62 with 30 or more years of service Age plus years of service equal 92.
D. Early Retirement Age 55 with 5 years of service; percent reduction varies by service	Age 55 with 4 years of service with a 3% reduction per year of early retirement
E. Vesting 5 years of service	4 years of service
F. Employee Contributions Yes, 6.2% of salary	Yes, 3.7% of covered wage base for general membership, higher for peace officer sub-grouping.
G. Employer "Pick-up" Yes	Effective January 1, 1995
H. Post-retirement COLA Automatically as a formal commitment written into the plan document based on investment performance (4.4% in 1993, 6.3% in 1992, 3.6% in 1991, 11.3% in 1990, 4.1% in 1989)	Periodic ad-hoc increases (limited to pre-June 30, 1986 retirees. June 30, 1990 effective in 1990)
I. Employer Contributions Result of annual actuarial valuation (6.2% of salary in 1994)	Statutorily at specific rate (5.75% of covered wage base)

Wisconsin	IPERS
J. Benefit Formula Multiplier 1.6% of FAS for each year of service Maximum benefit 65% of FAS	2% of FAS up to covered wage base of $41,000 (increases $3,000 each year until reaches $55,000) for each year of service (maximum 30 years)
K. Salary Base FAS: Average of highest 3 years	FAS: Average of highest 3 years
L. Ordinary Disability 5 years of service Normal benefit based on current salary and service at age 65 with age reduction	4 years of service Accrued normal benefit with no age reduction
M. Service-connected Disability Any age or service Normal benefit based on current salary and service at age 65 with age reduction	4 years of service Accrued normal benefit with no age reduction
N. Ordinary Death Age 60 and 5 years of service Joint and survivor option to spouse or dependent child	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service
O. Service-Connected Death Age 60 Joint and survivor option to spouse or dependent child	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service

D. Comparison of Key Features of IPERS to Regional Education/Teacher PERS

1. Arkansas Teachers' Retirement System

Arkansas	IPERS
A. Social Security Coverage Yes, 100% coverage	Yes
B. Integration Not integrated	Not integrated
C. Normal Retirement Age and Service Requirement Age 60 with 10 years of service. Any age with 30 or more years of service.	Age 65 with less than 30 years of service Age 62 with 30 or more years of service Age plus years of service equal 92.
D. Early Retirement Any age with 25 years of service with a 5% reduction per year of early retirement	Age 55 with 4 years of service with a 3% reduction per year of early retirement
E. Vesting 10 years of service	4 years of service
F. Employee Contributions Yes, 6% of salary if hired prior July 1, 1991 No, for new employees	Yes, 3.7% of covered wage base for general membership, higher for peace officer sub-grouping.
G. Employer "Pick-up" No	Effective January 1, 1995
H. Post-retirement COLA Automatically as formal commitment written into the plan document based on CPI (3% maximum)	Periodic ad-hoc increases (limited to pre-June 30, 1986 retirees. June 30, 1990 effective in 1996)
I. Employer Contributions Statutorily at specific rate (12% of salary)	Statutorily at specific rate (5.75% of covered wage base)

Arkansas	IPERS
J. <u>Benefit Formula Multiplier</u> 2.05% of FAS for each year of contributory service. 1.29% of FAS for each year of noncontributory service	2% of FAS up to covered wage base of $41,000 (increases $3,000 each year until reaches $55,000) for each year of service (maximum 30 years)
K. <u>Salary Base</u> FAS: Average of last 60 months' salary	FAS: Average of highest 3 years
L. <u>Ordinary Disability</u> 10 years of service Accrued normal benefit with no reduction for early commencement	4 years of service Accrued normal benefit with no age reduction
M. <u>Service-connected Disability</u> 10 years of service Accrued normal benefit with no reduction for early commencement	4 years of service Accrued normal benefit with no age reduction
N. <u>Ordinary Death</u> 5 years of service Greater of optional benefit, 10% of member's covered salary, or $50 per month	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service
O. <u>Service-Connected Death</u> 5 years of service Greater of optional benefit, 10% of member's covered salary, or $50 per month	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service

2. Illinois State Teachers' Retirement System

Illinois	IPERS
A. <u>Social Security Coverage</u> No	Yes
B. <u>Integration</u> Not integrated	Not integrated
C. <u>Normal Retirement Age and Service Requirement</u> Age 62 with 5 years of service Age 60 with 10 years of service Age 55 with 30 years of service	Age 65 with less than 30 years of service Age 62 with 30 or more years of service Age plus years of service equal 92.
D. <u>Early Retirement</u> Age 55 with 20 years of service with 6% reduction per year of early retirement	Age 55 with 4 years of service with a 3% reduction per year of early retirement
E. <u>Vesting</u> 5 years of service	4 years of service
F. <u>Employee Contributions</u> Yes, 8% of salary (6½% for interest, ½% for COLA and 1% for death benefits)	Yes, 3.7% of covered wage base for general membership, higher for peace officer sub-grouping.
G. <u>Employer "Pick-up"</u> Yes	Effective January 1, 1995
H. <u>Post-retirement COLA</u> Automatically, as a formal commitment written into the plan document at a specified rate (3% increases from 1988 to 1992)	Periodic ad-hoc increases (limited to pre-June 30, 1986 retirees. June 30, 1990 effective in 1996)
I. <u>Employer Contributions</u> Statutorily at a specific rate (6.7% of salary in 1993)	Statutorily at specific rate (5.75% of covered wage base)

Illinois	IPERS
J. Benefit Formula Multiplier 1.67% of FAS first 10 years of service, 1.90% for next 10 years, 2.10% for next 10 years, 2.30% thereafter Maximum benefit 75% of FAS	2% of FAS up to covered wage base of $41,000 (increases $3,000 each year until reaches $55,000) for each year of service (maximum 30 years)
K. Salary Base FAS: Average of highest 4 consecutive years in last 10 years	FAS: Average of highest 3 years
L. Ordinary Disability 3 years of service 40% of salary Permanent: 35% salary/potentially higher if retirement formula allows	4 years of service Accrued normal benefit with no age reduction
M. Service-connected Disability Any age or service 60% of salary	4 years of service Accrued normal benefit with no age reduction
N. Ordinary Death 1.5 years of service Lump sum (reduced if retired) plus the currently payable survivor benefit	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service
O. Service-Connected Death 1.5 years of service Lump sum (reduced if retired) plus the currently payable survivor benefit	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service

3. Minnesota Teachers Retirement Association

Minnesota	IPERS
A. Social Security Coverage Yes	Yes
B. Integration Not integrated	Not integrated
C. Normal Retirement Age and Service Requirement Social Security Retirement Age (currently 65 increasing to 66 and 67 over time)	Age 65 with less than 30 years of service Age 62 with 30 or more years of service Age plus years of service equal 92.
D. Early Retirement Age 55 with 3 years of service with an actuarial reduction (4-5%) per year prior to Social Security retirement age.	Age 55 with 4 years of service with a 3% reduction per year of early retirement
E. Vesting 3 years of service	4 years of service
F. Employee Contributions Yes, 4.5% of salary for employees with Social Security coverage and 8.5% of salary for those without Social Security coverage	Yes, 3.7% of covered wage base for general membership, higher for peace officer sub-grouping.
G. Employer "Pick-up" Yes	Effective January 1, 1995
H. Post-retirement COLA Automatically, as a formal commitment written into the plan document based on increases in CPI (maximum 3.5%) and investment performance (6.017% increase in 1994)	Periodic ad-hoc increases (limited to pre-June 30, 1986 retirees. June 30, 1990 effective in 1996)
I. Employer Contributions Statutorily at specific rate (same as employee contribution plus 3.64% to amortize unfunded liability)	Statutorily at specific rate (5.75% of covered wage base)

Minnesota	IPERS
J. <u>Benefit Formula Multiplier</u> (hired after 7/1/89) 1.5% of FAS for each year of service Maximum benefit of 100% of FAS	2% of FAS up to covered wage base of $41,000 (increases $3,000 each year until reaches $55,000) for each year of service (maximum 30 years)
K. <u>Salary Base</u> FAS: Average of highest 5 consecutive years	FAS: Average of highest 3 years
L. <u>Ordinary Disability</u> 3 years of service Total and permanent disability benefit	4 years of service Accrued normal benefit with no age reduction
M. <u>Service-connected Disability</u> 3 years of service Total and permanent disability benefit	4 years of service Accrued normal benefit with no age reduction
N. <u>Ordinary Death</u> Accumulated contributions plus interest	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service
O. <u>Service-Connected Death</u> Accumulated contributions plus interest	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service

4a. Public School Employees Retirement System of Missouri

Missouri (Teachers)	IPERS
A. Social Security Coverage 4% covered	Yes
B. Integration Not integrated	Not integrated
C. Normal Retirement Age and Service Requirement Age 60 with 5 years of service Age 55 with 25 years of service Any age with 30 years of service or more	Age 65 with less than 30 years of service Age 62 with 30 or more years of service Age plus years of service equal 92.
D. Early Retirement Age 55 with 5 years of service Any age with 25 years of service Reduction percent varies depending on age	Age 55 with 4 years of service with a 3% reduction per year of early retirement
E. Vesting 5 years of service	4 years of service
F. Employee Contributions Yes, 10% of salary (6⅔% for Social Security covered members)	Yes, 3.7% of covered wage base for general membership, higher for peace officer sub-grouping.
G. Employer "Pick-up" Yes	Effective January 1, 1995
H. Post-retirement COLA Automatically, as formal commitment written into the plan document based on increases in CPI (5% maximum, 65% total maximum increase)	Periodic ad-hoc increases (limited to pre-June 30, 1986 retirees. June 30, 1990 effective in 1996)
I. Employer Contributions Result of annual actuarial valuation (10% of salary in 1993)	Statutorily at specific rate (5.75% of covered wage base)

Missouri (Teachers)	IPERS
J. Benefit Formula Multiplier 1.41% of FAS for each year of service if covered by Social Security 2.10% of FAS for each year if not covered by Social Security	2% of FAS up to covered wage base of $41,000 (increases $3,000 each year until reaches $55,000) for each year of service (maximum 30 years)
K. Salary Base FAS: Average of highest 60 consecutive months	FAS: Average of highest 3 years
L. Ordinary Disability 5 years of service 50% of salary or 90% of accrued normal benefit (at age 60) with no age reduction	4 years of service Accrued normal benefit with no age reduction
M. Service-connected Disability 1 year of service 50% of salary or 90% of accrued normal benefit (at age 60) with no age reduction	4 years of service Accrued normal benefit with no age reduction
N. Ordinary Death 2 years of service 20% of salary for spouse plus 16.67% for each dependent child or parent	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service
O. Service-Connected Death 2 years of service 20% of salary for spouse plus 16.67% for each dependent child or parent	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service

4b. Non-Teacher School Employees' Retirement System of Missouri

Missouri Non-Teacher	IPERS
A. Social Security Coverage Yes, 100% coverage	Yes
B. Integration Not integrated	Not integrated
C. Normal Retirement Age and Service Requirement Age 60 with 5 years of service Any age with 30 or more years of service	Age 65 with less than 30 years of service Age 62 with 30 or more years of service Age plus years of service equal 92.
D. Early Retirement Age 55 with 5 years of service; reduction varies depending on age	Age 55 with 4 years of service with a 3% reduction per year of early retirement
E. Vesting 5 years of service	4 years of service
F. Employee Contributions Yes, 4% of salary	Yes, 3.7% of covered wage base for general membership, higher for peace officer sub-grouping.
G. Employer "Pick-up" Yes	Effective January 1, 1995
H. Post-retirement COLA Periodic ad-hoc increases each year based on increases in CPI (4.70% in 1992, 4% in 1989 through 1991, 3.7% in 1988)	Periodic ad-hoc increases (limited pre-June 30, 1986 retirees. June 30, 1990 effective in 1996)
I. Employer Contributions Result of annual actuarial valuation (Statute limits to 4.5% of salary) (4% of salary in 1992)	Statutorily at specific rate (5.75% of covered wage base)

Missouri Non-Teacher	IPERS
J. Benefit Formula Multiplier 1.25% of FAS for each year of service	2% of FAS up to covered wage base of $41,000 (increases $3,000 each year until reaches $55,000) for each year of service (maximum 30 years)
K. Salary Base FAS: Average of highest 60 consecutive months' salary	FAS: Average of highest 3 years
L. Ordinary Disability 5 years of service 90% of accrued normal benefit with no age reduction	4 years of service Accrued normal benefit with no age reduction
M. Service-connected Disability 5 years of service 90% of accrued normal benefit with no age reduction	4 years of service Accrued normal benefit with no age reduction
N. Ordinary Death No	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service
O. Service-Connected Death No	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service

5. **Nebraska Public Employees Retirement System - School Plan**

Nebraska	IPERS
A. <u>Social Security Coverage</u> Yes	Yes
B. <u>Integration</u> Not integrated	Not integrated
C. <u>Normal Retirement Age and Service Requirement</u> Age 65 with 5 years of service Age 60 and age plus years of service equal 90	Age 65 with less than 30 years of service Age 62 with 30 or more years of service Age plus years of service equal 92.
D. <u>Early Retirement</u> Age 60 with 5 years of service with 3% reduction per year of early retirement Any age with 35 years of service with a 3% reduction per year of early retirement	Age 55 with 4 years of service with a 3% reduction per year of early retirement
E. <u>Vesting</u> 5 years of service	4 years of service
F. <u>Employee Contributions</u> Yes, 6.31% of salary	Yes, 3.7% of covered wage base for general membership, higher for peace officer sub-grouping.
G. <u>Employer "Pick-up"</u> Yes	Effective January 1, 1995
H. <u>Post-retirement COLA</u> Separate employer contributions into Fund for COLA; COLA paid when fund sufficient	Periodic ad-hoc increases (limited to pre-June 30, 1986 retirees. June 30, 1990 effective in 1996)
I. <u>Employer Contributions</u> 101% of employee contributions plus .7% for COLA fund	Statutorily at specific rate (5.75% of covered wage base)

Nebraska	IPERS
J. Benefit Formula Multiplier 1.73% of FAS for each year of service	2% of FAS up to covered wage base of $41,000 (increases $3,000 each year until reaches $55,000) for each year of service (maximum 30 years)
K. Salary Base FAS: Average of highest 3 years salary	FAS: Average of highest 3 years
L. Ordinary Disability 6 months of service Accrued normal benefit with no age reduction	4 years of service Accrued normal benefit with no age reduction
M. Service-connected Disability 6 months of service Accrued normal benefit with no age reduction	4 years of service Accrued normal benefit with no age reduction
N. Ordinary Death 20 years of service Accrued normal benefit with no age reduction	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service
O. Service-Connected Death 20 years of service Accrued normal benefit with no age reduction	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service

6. Oklahoma Teachers' Retirement System

Oklahoma	IPERS
A. Social Security Coverage Yes, 98% covered	Yes
B. Integration Not integrated	Not integrated
C. Normal Retirement Age and Service Requirement Age 62 with 10 years of service Age plus years of service equal 80 (90 if hired after June 30, 1992)	Age 65 with less than 30 years of service Age 62 with 30 or more years of service Age plus years of service equal 92.
D. Early Retirement Age 55 with 10 years of service with a 6.67% reduction per year of early retirement Any age with 30 years of service	Age 55 with 4 years of service with a 3% reduction per year of early retirement
E. Vesting 10 years of service	4 years of service
F. Employee Contributions Yes, 7% of pay (Wage Cap removed July 1, 1995)	Yes, 3.7% of covered wage base for general membership, higher for peace officer sub-grouping.
G. Employer "Pick-up" Yes	Effective January 1, 1995
H. Post-retirement COLA Periodic ad-hoc increases at the discretion of the Legislature (5% increase in 1990)	Periodic ad-hoc increases (limited to pre-June 30, 1986 retirees. June 30, 1990 effective in 1996)
I. Employer Contributions Statutorily at specific rate (7% of salary in 1993 increasing to 18% by 2004)	Statutorily at specific rate (5.75% of covered wage base)

Oklahoma	IPERS
J. <u>Benefit Formula Multiplier</u> 2% of FAS for each year of service (Wage Cap removed July 1, 1995)	2% of FAS up to covered wage base of $41,000 (increases $3,000 each year until reaches $55,000) for each year of service (maximum 30 years)
K. <u>Salary Base</u> FAS: Average of highest 3 years (5 years of hired after June 30, 1992)	FAS: Average of highest 3 years
L. <u>Ordinary Disability</u> 10 years of service Accrued normal benefit with no age reduction	4 years of service Accrued normal benefit with no age reduction
M. <u>Service-connected Disability</u> 10 years of service Accrued normal benefit with no age reduction	4 years of service Accrued normal benefit with no age reduction
N. <u>Ordinary Death</u> If member is eligible for retirement, spouse may elect 100% J&S plus $18,000 lump sum if hired prior to July 1, 1992, otherwise accumulated employee contribution	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service
O. <u>Service-Connected Death</u> If member is eligible for retirement, spouse may elect 100% J&S plus 18,00 lump sum if hired prior to July 1, 1992, otherwise accumulated employee contribution.	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service

E. Comparison of Key Features of IPERS to Other Iowa Public Plans

1. Peace Officers' Retirement Accident and Disability System

PORS	IPERS
A. Social Security Coverage Medicare only for employees hired after 1987.	Yes
B. Integration Not integrated.	Not integrated
C. Normal Retirement Age and Service Requirement Age 55 with 22 years of service.	Age 65 with less than 30 years of service Age 62 with 30 or more years of service Age plus years of service equal 92.
D. Early Retirement None	Age 55 with 4 years of service with a 3% reduction per year of early retirement
E. Vesting 4 years of service	4 years of service
F. Employee Contributions Yes, 9.35% of salary	Yes, 3.7% of covered wage base for general membership, higher for peace officer sub-grouping.
G. Employer "Pick-up" Yes	Effective January 1, 1995
H. Post-retirement COLA Annual adjustments provided by statute (see 97A.6(14))	Periodic ad-hoc increases (limited to pre-June 30, 1986 retirees. June 30, 1990 effective in 1996)
I. Employer Contributions Statutorily at specific rate (18% of salary)	Statutorily at specific rate (5.75% of covered wage base)

PORS	IPERS
J. <u>Benefit Formula Multiplier</u> 54% FAS if 22 years of service plus .6% of FAS for service over 22 for up to 8 years	2% of FAS up to covered wage base of $41,000 (increases $3,000 each year until reaches $55,000) for each year of service (maximum 30 years)
K. <u>Salary Base</u> FAS: Average of highest 3 years	FAS: Average of highest 3 years
L. <u>Ordinary Disability</u> Any age or service 50% of FAS with 5 years of service; 25% of FAS with less than 5 years	4 years of service Accrued normal benefit with no age reduction
M. <u>Service-connected Disability</u> Any age or service 60% of FAS; or, if member has 22 years of service, the service retirement allowance, if greater	4 years of service Accrued normal benefit with no age reduction
N. <u>Ordinary Death</u> Any age or service Lump sum equal to 50% of salary or a pension equal to 40% of FAS subject to provisions of 97A.6(8)	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service
O. <u>Service-Connected Death</u> Any age or service 50% of final salary to eligible beneficiaries and additional pension for each child (See 97A.6(8))	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service

2. **Municipal Fire and Police Retirement System of Iowa**

MFPRSI	IPERS
A. Social Security Coverage No	Yes
B. Integration Not integrated	Not integrated
C. Normal Retirement Age and Service Requirement Age 55 with 22 or more years of service	Age 65 with less than 30 years of service Age 62 with 30 or more years of service Age plus years of service equal 92.
D. Early Retirement Age 55 with 4 years of service. 1/22 of FAS for each year of service. No COLA adjustment.	Age 55 with 4 years of service with a 3% reduction per year of early retirement
E. Vesting 4 years of service	4 years of service
F. Employee Contributions Yes, 9.35% (effective July 1, 1995) of salary	Yes, 3.7% of covered wage base for general membership, higher for peace officer sub-grouping.
G. Employer "Pick-up" Yes, effective January 1, 1995	Effective January 1, 1995
H. Post-retirement COLA Biannual adjustment of 25% of difference in current rate of salary and salary for rate at retirement.	Periodic ad-hoc increases (limited to pre June 30, 1986 retirees. June 30, 1990 effective in 1996.)
I. Employer Contributions Statutorily at specific rate (not less than 17% of salary)	Statutorily at specific rate (5.75% of covered wage base)

MFPRSI	IPERS
J. Benefit Formula Multiplier 60% of FAS if 22 years of service, plus .6% of FAS for service over 22 years up to 8 years Maximum benefit of 64.8% FAS	2% of FAS up to covered wage base of $41,000 (increases $3,000 each year until reaches $55,000) for each year of service (maximum 30 years)
K. Salary Base FAS: Average of highest 3 years	FAS: Average of highest 3 years
L. Ordinary Disability Any age or service 50% of FAS if 5 years of service 25% of FAS if less than 5 years of service	4 years of service Accrued normal benefit with no age reduction
M. Service-connected Disability Any age or service 60% of FAS plus .6% of FAS for service greater than 22 years	4 years of service Accrued normal benefit with no age reduction
N. Ordinary Death 1 year of service Lump sum equal to 50% of salary to beneficiary or to spouse. Pension equal to 40% of FAS plus for each child 6% of salary of highest grade and pay scale of an active firefighter or police officer Minimum spouses pension 20% of salary of highest grade and pay scale	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service
O. Service-Connected Death Any age or service 50% of FAS plus for each child 6% of salary highest grade and pay scale of an active firefighter or police officer Minimum spouse's pension 20% of salary of highest grade and pay scale	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service

3. TIAA/CREF Retirement Program

TIAA/CREF	IPERS
A. <u>Social Security Coverage</u> Yes	Yes
B. <u>Integration</u> Not integrated	Not integrated
C. <u>Normal Retirement Age and Service Requirement</u> Any age or service selected	Age 65 with less than 30 years of service Age 62 with 30 or more years of service Age plus years of service equal 92.
D. <u>Early Retirement</u> No.	Age 55 with 4 years of service with a 3% reduction per year of early retirement
E. <u>Vesting</u> Immediate	4 years of service
F. <u>Employee Contributions</u> Yes, 1/3 of total contribution required	Yes, 3.7% of covered wage base for general membership, higher for peace officer sub-grouping.
G. <u>Employer "Pick-up"</u> Yes	Effective January 1, 1995
H. <u>Post-retirement COLA</u> No	Periodic ad-hoc increases (limited pre June 30, 1986 retirees. June 30, 1990 effective in 1996)
I. <u>Employer Contributions</u> 2/3 of total contribution required. 0-5 years of service - 10% of first $4,800 of salary and 15% of excess Over 5 years of service - 15% of salary	Statutorily at specific rate (5.75% of covered wage base)

TIAA/CREF	IPERS
J. Benefit Formula Multiplier Not applicable Annuity based on accumulated contributions plus earnings	2% of FAS up to covered wage base of $41,000 (increases $3,000 each year until reaches $55,000) for each year of service (maximum 30 years)
K. Salary Base Not applicable	FAS: Average of highest 3 years
L. Ordinary Disability 1-5 years service - 20% of contribution for each year of service paid if becomes disabled Over 5 years of service - 100% of contribution paid	4 years of service Accrued normal benefit with no age reduction
M. Service-connected Disability 1-5 years service - 20% of contribution for each year of service paid if becomes disabled Over 5 years of service - 100% of contribution paid	4 years of service Accrued normal benefit with no age reduction
N. Ordinary Death No	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service
O. Service-Connected Death No	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service

4. State of Iowa Judicial Retirement Fund

Judicial Fund	IPERS
A. Social Security Coverage Yes	Yes
B. Integration Not integrated	Not integrated
C. Normal Retirement Age and Service Requirement Age 65 with 6 years of service Any age with 25 or more years of service	Age 65 with less than 30 years of service Age 62 with 30 or more years of service Age plus years of service equal 92.
D. Early Retirement Age 55 with 20 years of service with an actuarial equivalent reduction for each year of early retirement.	Age 55 with 4 years of service with a 3% reduction per year of early retirement
E. Vesting No	4 years of service
F. Employee Contributions Yes, 4% of salary	Yes, 3.7% of covered wage base for general membership, higher for peace officer sub-grouping.
G. Employer "Pick-up" Yes	Effective January 1, 1995
H. Post-retirement COLA Senior Judges receive 75% of salary increases of active judges.	Periodic ad-hoc increases (limited to pre June 30, 1986 retirees. June 30, 1990 effective in 1996)
I. Employer Contributions Statutorily at specific rate (23.7% of salary)	Statutorily at specific rate (5.75% of covered wage base)

Judicial Fund	IPERS
J. Benefit Formula Multiplier 100% of FAS Maximum of $242,280 in 1994	2% of FAS up to covered wage base of $41,000 (increases $3,000 each year until reaches $55,000) for each year of service (maximum 30 years)
K. Salary Base FAS: Average of last 3 years	FAS: Average of highest 3 years
L. Ordinary Disability No	4 years of service Accrued normal benefit with no age reduction
M. Service-connected Disability No	4 years of service Accrued normal benefit with no age reduction
N. Ordinary Death No	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service
O. Service-Connected Death No	Any age or service Accumulated employee contributions plus 1/30 of member's salary times years of service

F. Key Provisions of IPERS in Need of Revision

In Sections A and B we analyzed the relative strengths and weaknesses of IPERS and compared IPERS to a national sample with a feature-by-feature comparison of IPERS to these plans. As a whole, IPERS benefits compared favorably to those of other PERS but fell somewhat below in certain instances. In Sections C and D we narrowed our analysis by comparing IPERS to PERS and education/teacher PERS in the Iowa geographic region. In Section E, we compared IPERS to other Iowa systems.

This Section discusses the strengths and weaknesses of IPERS based upon our analyses and generally recognized standards for measuring the adequacy of benefits in the pension industry. Alternative recommendations for strengthening benefits are included in this Section.

1. Retirement Age and Service Requirements for Service Retirement

a. *Normal Retirement*

Normal retirement age is age 65. Unreduced benefits can begin the earlier of age 62 with 30 years of service, or when age plus service equals 92. This means that a member can retire on an unreduced benefit at age 64, but only if he has at least 28 years of service, or as early as age 55 if he has 37 years of service. Neither the age 62/30 years provision nor the "rule of 92" provides any amount of flexibility or equity.

On a national level, as discussed above, the IPERS normal service retirement provisions are not favorably competitive. Of the regional plans studied, all provide a more favorable combination of normal retirement dates except for the Minnesota Public Employees' Retirement Association (see page 22ff) and the Minnesota Teachers Retirement Association (see page 44AA). The

Minnesota plans use Social Security Retirement Age as normal retirement date. This is currently set at age 65, but will increase to age 66 by 2005 and age 67 by 2022. It should also be noted that Oklahoma PERS and TRS increased the Rule of 80 provisions in their plans to the Rule of 90 for employees hired after January 1, 1992. This change, plus an increase in employee contributions, appears to be a trade-off for removing the maximum limit on salary in the Oklahoma plans. Hence, the change does not reflect a national or a regional trend but is particular to Oklahoma. The primary normal retirement eligibility in the Oklahoma plans still remains at age 62 with 6 or 10 years of service, respectively.

A combination of normal retirement eligibilities that are balanced as to age and service best meets the needs of most plan members. For this reason, we recommend IPERS age and service requirements for normal retirement be changed from

- age 65

  or

- age 62 with 30 or more years of service

  or

- age plus service equal 92.

to:

- age 65

  or

- age 62 with 20 or more years of service

  or

- age 55 <u>and</u> age plus service equal 85.

b. Early retirement

Almost all of the regional plans studied provide for early retirement at age 55 with 5 or 10 years of service. The Nebraska TRS early retirement provision is age 60 with 5 years of service or 35 years regardless of age. Reductions for each year of early retirement vary, but 5% per year appears to be the average.

IPERS early retirement eligibility of age 55 with 4 years of service is in line with regional plans as well as with the national sample and is, in fact, positively, competitive. However, under current provisions reductions for early retirement are calculated back from age 65 or, if earlier, 62/30 or the rule of 92. If normal retirement age is modified as suggested above, the reduction for each year of early retirement would change from age 65 to the earlier of age 62 and 20 years of service or age 55 and age plus service equals 85.

2. Service Retirement Benefit Formula

The IPERS benefit formula multiplier of 2% of final average salary (FAS) for each year of service compares very favorably with the majority of public plans in the country. The State of Wisconsin Comparative Study of Major Public Employee Retirement Systems determined the average benefit multiplier of the plans studied to be 1.8%; the U.S. Department of Labor Bureau of Labor Statistics in its survey of over 5,000 public sector plans puts the average at 1.9%*. Both studies also indicated that 65% of the plans use a three year average in determining the final average salary as does IPERS.

* U.S. Department of Labor, Bureau of Labor Statistics, July 1994, Employee Benefits in State and Local Governments, 1992

The weakness of the IPERS benefit formula is that it adversely affects the long service and higher paid employees. With service limited to a maximum of 30 years, members with service exceeding the maximum suffer a reduction in benefit. A member with 25 years of service receives 50% of FAS, or 2% for each year, whereas a member with 35 years of service is subject to the maximum benefit of 60% of FAS. This equals a service fraction of 1.71% for each year. Salary increases received by a member who has reached the maximum years of service (30) do result in a greater benefit since they are reflected in the salary base or FAS. This fact is explicitly recognized in the IPERS guiding goals. However, the 30-year maximum cap still results in lower benefits for most long-service members.

The salary cap places a second constraint on the benefit. The salary cap is currently $41,000, is scheduled to rise to $55,000 by the year 2000. IPERS is the only remaining statewide PERS in the nation with this feature. Oklahoma PERS removed its salary cap in 1994 as part of a major revision of that system; Oklahoma TRS removed the salary cap in 1995. The Oklahoma PERS 1994 Annual Report sums up the situation when it states:

> The salary cap was originally implemented in the 1960's in order to limit retirement income benefits to an estimated amount approximating a portion of the average salary of rank and file public employees. The resulting limitation was designed to keep higher paid employees from receiving benefits in excess of 'normal' retirement needs. The problem with this type of provision is that state employee salaries have grown with inflation to the point that they exceeded what at one time was considered amounts to be earned only by higher paid employees.
>
> . . . Each time the limitation was raised, the System incurred a significant increase in unfunded liability because contributions received by the System were insufficient to offset the resulting increased future benefit obligation. The salary cap has become generally discredited as a plan provision by pension experts, and only two states still employ the limitation. In order to minimize the immediate increase in future benefits (for higher paid employees), the salary cap will be phased out over a period of time. The removal of the salary cap has necessitated a change in the formula for determining contributions . . .

The service and salary caps in the IPERS plan (no service credit after 30 years and no benefits calculated on wages above $41,000 for 1995) prevent higher paid, long-service members of IPERS from accruing the same retirement benefits expressed as a percent of FAS as the relatively lower paid, shorter service employees. Our analysis (shown in the table on the next page) shows the IPERS benefits and in doing so takes into account the level of Social Security benefits also provided to IPERS members. (We believe it is appropriate to recognize Social Security benefits in measuring adequacy of total retirement income and, in fact, this is a stated goal for IPERS.)

By continuing to impose both a service and salary cap, IPERS actually penalizes its long service, higher-paid members. In this regard it should be noted that Social Security benefits intentionally are skewed in favor of the lower paid. The reasoning behind this is that employees with a salary history below the Social Security covered wage base need a post-retirement income that is a greater percentage of their pre-retirement income (replacement ratio) than employees whose wage history is above the Social Security wage base for purchasing basic goods and services. It is further assumed in Social Security theory that the higher paid have a discretionary portion of pre-retirement income that can be applied toward savings and thus need not be replaced by Social Security. For this reason, qualified pension plans integrated with Social Security benefits permit employees whose earnings are above the Social Security wage base to receive pension credit on those excess earnings not "offset" by a percentage of Social Security whereas earnings below the wage base may be offset by Social Security. The service and salary caps in IPERS deny higher paid members the opportunity to make up some of the difference lost under Social Security.

Consider four members at age 65 in 1995. Two members, have a final average of salary (FAS) of $30,000 and $65,000 retire after a career of 25 years; and two members with the same FAS retire after a longer career of 35 years. The accrual rate and replacement ratio for each are shown below.

IPERS PLUS SOCIAL SECURITY BENEFITS						
Member	Service	FAS	Per Year Accrual Rate	Replacement Ratio		
				IPERS	Soc Sec*	Total
1	25	$ 30,000	2.00%	50.0%	42.8%	92.8%
2	25	65,000	1.17	29.2	22.2	51.4
3	35	30,000	1.71	60.0	42.8	102.8
4	35	65,000	1.00	35.1	22.2	57.3
* assumes 35 years of earnings history from all employers						

The foregoing table shows that only one retiring member -- the individual with 25 years of service and a final average salary of $30,000 -- receives the full IPERS accrual rate. These four cases illustrate the design problem created by the salary and service caps.

In view of the foregoing, we recommend the service and salary cap restrictions be removed. We recommend that a phase-in period of five to seven years for lifting the restrictions be adopted so as to smooth the impact on the funded status of the plan. There could also be a corresponding phase-in of uncapped member contributions which would help finance the benefit enhancement.

We are recommending the removal of the service and salary caps for the reasons stated above. We are also recommending that the total benefits a retiree is eligible to receive from IPERS be subject to an overall cap. An overall cap on retirement benefits will ensure that IPERS retirees will not be receiving retirement allowances larger than the salaries they received while working. In order to achieve this goal, we are recommending that retirement benefits be capped so that no IPERS retiree will receive a retirement allowance in excess of 100% of his or her final average salary. This cap would be designed to include one-half of the retiree's Primary Insurance Amount (PIA) of federal Social Security benefits. One-half of PIA represents that portion of Social Security benefits financed by employer contributions. For an employee who wages have been approximately equal to the Social Security wage base over his or her career, one-half of PIA would equal approximately 15% of final average salary. Therefore, a cap of 100% of final salary less one-half of PIA equal to 15% of final average salary would result in a system benefit equal to 85% of final average pay salary.

It should be noted that the federal Internal Revenue Code in Section 415 also contains limits on contributions made to and benefits received from tax-qualified retirement plans. These limits apply to IPERS since it is a tax-qualified defined benefit plan. According to Section 415 of the Code, a defined benefit plan including IPERS cannot pay a benefit in excess of 100% of compensation as that term is defined in the law. The IRS also has a limit on the amount of compensation that can be used in determining a benefit ($150,000 in 1995).

Accordingly, we believe a system cap coupled with the Internal Revenue Code limitations will provide appropriate safeguards to ensure that benefits are capped at an appropriate level.

3. Post-Retirement Cost-of-Living Adjustments (COLA)

The IPERS COLA dividend program was recently expanded to include all retirees prior to June 30, 1990. The program currently provides an adequate post-retirement cost-of-living adjustment (COLA) benefit. However, the program needs strengthening. Under the current program increases are granted by the Legislature on an ad hoc basis; retirees have no assurance as to when or how much they will receive in a COLA increase. Moreover, the Legislature determines when the covered group will be extended to include new class-years of retirees, and this has not always been done on a timely basis. As stated above, the COLA dividends are not tied to a fixed or pre-determined formula since the amount of COLA dividend payments are dependent upon the realization of "excess assets" to fund the benefit. We believe that a benefit of this importance should a permanent ongoing provision and should be pre-funded in part or wholly on a sound actuarial basis. *

Under the current COLA program, as noted above, increases are related to "excess earnings". The question as to "whom" these excess earnings should be allocated in the IPERS defined benefit plan, i.e., retirees or current members, could lead to tension between active and retired IPERS members. Therefore, we are recommending that benefit enhancements, and in particular COLA adjustments, be funded by a source other than being explicitly tied to "excess" investment earnings. We believe it would be more straightforward to finance benefit improvements through additional employer or employee contributions as determined to be required to pre-fund such enhancements on a sound actuarial basis.

* Delaware PERS has adopted a new COLA program that is partially prefunded by additional (fixed) employer contributions. The sate legislature can supplement increases as well over a fixed period of time.

The COLA program should be spelled out in the Code. The formula should be based on a recognized standard such as the consumer price index (CPI) and should be subject to an annual maximum cap e.g., 80% of increases in the CPI, limited to 3% of a retiree's or beneficiary's retirement allowance. Since current salary generally reflects recent inflationary pressures, a waiting period would be appropriate. Retirees need not receive COLAs until they have been retired for some period of time. We recommend a three year waiting period and that for service retirees and terminated vested retirees the COLA not be payable prior to attaining age 62. Such a provision, if in effect on July 1, 1995, would provide 80% of the increase in the Consumer Price Index for the preceding year, subject to a 3% maximum, for all members retired prior to June 30, 1992.

A new COLA program should cover disability retirees (regardless of age) and surviving spouses and other beneficiaries under joint-and-survivor options elected by retirees.* For example, if a retiree elected a 100% joint and survivor option, his or her beneficiary would receive the same COLA the retiree would have received. We would recommend that the COLA be applied to the survivor's annuity under the same formula as would be applied to the retiree's benefit, i.e., after the retiree would have been or was retired for three years.

In addition, the IPERS COLA program for older retirees with small benefits should be increased. The current IPERS minimum benefit is $50.00 per month for retirees who retire at age 65 with 10 or more years of service. We recommend this amount be increased over a three year period to $200.00 per month. Alternatively, subject

* Disabled retirees do not have the ability to supplement their income to the same extent as service retirees.

to cost considerations we recommend consideration be given to adopting a schedule of minimum retirement benefits based on the number of years of service a member had at retirement:

Years of Service	Benefit (Monthly)*
10 - 20 20 - 30 Over 30	$200.00 $300.00 $400.00
* Prorated for service over 20 @ $10 a month per year of service.	

4. **Terminated Vested Benefits**

IPERS permits employees to separate from service with a vested retirement benefit after four years of service. The benefit is payable at age 65 on an unreduced basis and as early as age 55. We recommend that COLA be applied to the retirement allowance of terminated vested members in the same manner as to service retirees i.e., once the terminated vested employee has commenced payment, been in receipt for 3 years and attained age 62.

5. **Disability Benefits**

As does IPERS, PERS throughout the nation most often provide a disability retirement benefit for members who become permanently disabled prior to attaining normal retirement age. IPERS provides a disability retirement allowance for a member who is found to be permanently and totally disabled after four or more years of service. The benefit is equal to the IPERS service retirement benefit accrued to date, but with no actuarial reduction for receipt prior to normal retirement age. As stated above, in some instances, particularly where an employee is disabled with less than 15 years of service, the current benefit level may be inadequate. Accordingly, we recommend that IPERS adopt a minimum disability retirement benefit to provide that a permanently disabled member would be eligible to receive the greater of a pension equal to 33-⅓% of FAS or the normal service retirement benefit accrued to date and payable without regard to age. As stated above, we also recommend that any new COLA program also be applied to the retirement allowance of disabled employees, regardless of their age.

We believe disability benefits provided by a PERS should be coordinated with Social Security Disability Benefits and Workers' Compensation benefits also received by a disability retiree. Members of IPERS may also be covered by long-term disability insurance made available by their respective public employers. Coordination of all disability benefits -- IPERS, Social Security Disability, Workers' Compensation and long-term disability insurance benefits -- to insure adequacy, avoid duplication and prevent benefit (and therefore cost) shifting from one source to another requires a separate study. In the interim we recommend that in order to avoid duplication of benefits the IPERS disability benefits program should also be amended to provide that the IPERS disability benefit (33-⅓% or the service retirement benefit, if greater) will be reduced to the extent that, when added to all other publicly-financed disability benefits and insurance the member is eligible to receive, the total exceeds 80% of the member's final average salary.

A cap of 80% is recommended in recognition of the fact that Social Security Disability benefits are exempt from income taxation. Workers' Compensation benefits and IPERS disability benefits may also be exempt from income taxation where the disability was incurred in the performance of duty. In order to coordinate these benefits, IPERS should require a disabled employee to certify to IPERS as to the nature and amount of all disability benefits, from all other sources, as a prerequisite for receipt of IPERS disability benefits. This reporting would provide experience data which could be used to evaluate the adequacy of the IPERS disability program on an ongoing basis.

6. Death Benefits

When a member of IPERS dies in service, IPERS currently provides a benefit equal to the return of member contributions plus one year's salary for a member with 30 or more years of service. For members with less than 30 years service, the benefit is proportionately reduced. Eligibility is immediate, and there are no age or service requirements.

We recommend that the survivor benefit be increased to provide greater protection for the younger, shorter-service employee. An appropriate benefit would be equal to salary times years of service (maximum 3 years) for non-service connected (ordinary) deaths. This benefit would be payable according to the following schedule:

Service	Benefit
Upon employment	1 years salary
1-2 years of service	2 years salary
3 or more years	3 years salary

For longer service members, the members accrued normal retirement benefit would be payable as a 100% joint-and-survivor annuity if greater.

We also recommend that where a member's death is the result of an accident incurred in the performance of duty a survivor pension be payable equal to 50% of the member's final average salary. The regular death benefit would be payable if greater. The service-connected death benefit would be reduced by survivor benefits received under Social Security, Workers' Compensation or other employed-financed insurance benefits where total benefits exceed 80% of FAS. The benefit would be payable only to a surviving spouse, dependent children or dependent parents. The benefit would be automatically indexed under the new COLA program.

7. **Reemployment of Retired IPERS Members**

Current law provides that an IPERS member who is reemployed in a covered position is subject to an earnings limitation ($7,440 in 1994) if the member is between ages 55 and 65. IPERS pension benefits are suspended for the month in which the retiree's wages exceed the earnings limitation and for each of the following months in the calendar year. Earnings limitations do not apply to a member who is elected to public office unless the member is reelected to the same position for another term. There are no earnings limitations in IPERS on a member's earnings after the member has attained age 65. A retired member who is reemployed in a covered position is required to make employee contributions to IPERS. The reemployment period is considered a separate period of service, and benefits received as a result of this service are computed as a separate annuity.

We recommend that the current program be revised to create a two-tiered approach for retirees who have not attained age 65. We would continue the current provisions where a retiree is reemployed and earnings do not exceed the current statutory amount ($7440 in 1994) or some new higher amount (e.g., $15,000). Where earnings exceed this amount we recommend consideration be given to a new program which would remove the current unnecessary roadblock in front of a retiree ready and willing to work and needed for a job in covered service. Under the new provision, a retiree would be entitled to apply to the Department of Personnel to receive permission to be reemployed for a two-year period in covered service, provided that his or her prospective employer certified that the job could not be readily otherwise filled and that the job required the particular skills and experience of the retired IPERS member. If the Department of Personnel so certifies, the retiree could be reemployed in covered service and continue to receive his or her full IPERS pension. Earnings in reemployment would be unlimited unless the retiree returned to work for his or her former employer. In the latter case, earnings in retirement prior to age 65 would be limited to the difference between the retiree's no option retirement allowance and the retiree's final average salary.

As under current law, no limitations would apply after a retiree attained age 65.

8. **Interest credited to member's contribution accounts**

Current law provides that member contributions are credited with interest according to a formula specified in the statute. The formula is tied to the average cost of securities. This figure is currently 4.5% annually. We recommend that a new provision be added to the law crediting interest on member contribution accounts at the same rate as is used in the valuation to estimate the investment return on the funds as a whole. This figure is currently 6.75% annually.

PART II: REVIEW OF IPERS ORGANIZATIONAL STRUCTURE AND GOVERNANCE

A. Organization, Governance and Legal Structure

1. Overview

The Request for Proposal (RFP) for IPERS Benefit Enhancement Plan Study requests an assessment of IPERS current benefit plan and an assessment of its organizational structure and governance. Specifically, the RFP requests a review of the organizational structure and governance insofar as it relates to "...the formulation and consideration of proposed benefit enhancements... " The RFP also asks for a consideration of "...the most efficient and member responsive organizational structure..." and for recommendations "... to further safeguard the integrity of the Fund in its use for the exclusive benefit of IPERS members and their beneficiaries."

In addressing these questions, the RFP asks for a comparison of IPERS structure and governance to that of the public plan universe. In providing these deliverables, the Report addresses the following:

-- Overview of IPERS organization and governance;

-- Comparison of key features of IPERS organization and governance to other PERS;

-- Review of the pension policy process by which changes are made in IPERS benefits;

-- Recommendations for strengthening the process of formulating and considering proposed benefit enhancements;

-- Recommendations for safeguarding the integrity of the Fund.

As explained below, various patterns of organizational structures and legal guarantees exist among the statewide PERS. These features provide the framework in which benefit programs are delivered and in which pension fund assets are safeguarded.

2. Organization of IPERS

a. *Status as a division of Department of Personnel*

IPERS is a division of the Iowa Department of Personnel, hereinafter referred to as the "Department." Section 19A.1 (Creation of department of personnel - responsibilities) provides that the Department is the central agency responsible for state personnel management, including employee benefits:

> Employee benefits include the Iowa Department of Public Safety Peace Officers Retirement System and Iowa Public Employees' Retirement System, <u>which are maintained as distinct and independent systems under the department.</u> (Emphasis added.)

Accordingly, IPERS has the status as a distinct and independent "System" under the Department.

b. *Role of Department of Personnel in the Administration of IPERS*

Section 19A.1A sets forth the powers and duties of the Director of the Department. The Director of the Department is appointed by the Governor, subject to confirmation by the Senate. The Director serves at the pleasure of the Governor and is subject to reconfirmation after four years in office.

Section 19A.1A of the Code gives the Director the power to "...plan, direct, coordinate, and execute the powers, duties, and functions of the Department." The duties of the Director are spelled out in Section 19A.8. According to Chapter 19A, the Department is responsible for managing IPERS through the Director who, in turn, is authorized to "... plan direct, coordinate and execute" this function.

Chapter 97B of the Iowa Code sets forth the IPERS organization, governance and legal structure. The Code provides that IPERS is administered by the Department through the IPERS Chief Benefits Officer and Chief Investment Officer. The Department is empowered by the Code in Section 97B.4 to govern and administer IPERS and exercise the following powers, among others:

-- adopt, amend or rescind rules;
-- employ persons;
-- execute contracts with outside parties;
-- make expenditures;
-- require reports, make recommendations;
-- take other action deemed necessary for the administration of IPERS.

The authority of the Department covers both benefits and investment policies, procedures and administration.

c. *Immunity from legal process*

The Code provides that the Department, together with members of the IPERS Investment Board (discussed below) and the State Treasurer, are immune from suit for their actions and omissions that do not involve malicious or wanton misconduct.

d. *Iowa Public Employees' Retirement Fund*

The Code creates a special fund, known as the "Iowa Public Employees' Retirement Fund," hereinafter referred to as the "Retirement Fund." The Retirement Fund holds all monies in IPERS. The State Treasurer is the custodian and trustee of the Retirement Fund. Authority with respect to the investments held by the Retirement Fund is shared by the Department and the "Investment Board" whose composition and powers and duties are discussed below. The Department is specifically authorized by statute to execute the disposition of monies in the Retirement Fund in accordance with the "investment policy and goal statement." The investment policy and goal statement is developed jointly by the Investment Board in cooperation with the Department. The Director of the Department is an Ex-officio member of the Investment Board.

e. *Composition, Powers and Duties of the Investment Board*

The Investment Board is composed of nine members:

Six members are appointed by statute by the Governor for a six year term:

-- a retired member of IPERS;
-- a member of IPERS who is an employee of a school district, area education agency, or merged school area;
-- an active member of IPERS who is not an employee of a school;
-- a member who is an executive of a domestic life insurance company;

- a member who is an executive of a state or national bank operating within the State;
- a member who is an executive of an industrial corporation within the State.

Three members are designated by statute as follows:

- the Director of the Department of Personnel (ex-officio);
- a member of the Senate, appointed by the President of the Senate;
- a member of the House, appointed by the Speaker.

3. Legal Guarantees of IPERS Pension Benefits and Rights

Section 97B.65 of the Code provides legal protection to IPERS members of pension benefits and rights. In effect, the Code protects IPERS pension benefits accrued to date from legislative diminishment, impairment or repeal to the extent such benefits are funded.

Section 97B.65 reads as follows:

> Revision rights reserved -- increase of benefits -- rates of contribution.
>
> The right is reserved to the general assembly to alter, amend , or repeal any provision of this chapter or any application thereof to any person, provided, however, that to the extent of the funds in the retirement system the amount of benefits which at the time of any such alteration, amendment, or repeal shall have accrued to any member of the system shall not be repudiated, provided further, however, that the amount of benefits accrued on account of prior service shall be adjusted to the extent of any unfunded accrued liability then outstanding. Any increase enacted in benefits or retirement allowance under this chapter shall be accompanied by a change in the employer and employee contribution rates necessary to support such increase, all determined in accordance with sound actuarial principles and methods.

4. **Guiding Goals for Future Changes in Iowa Public Employee Retirement Systems**

Section 97D.1 of the Code ("Guiding goals for future changes in public retirement systems- social security- portability") contains a broad statement of policy and principles, to guide IPERS. Because of its broad sweep, this Code Section should be considered in connection with a review of IPERS governance. Section 97D.1 is summarized as follows:

a. *Guidelines for making changes in systems*

It is the intent of the Legislature that "...legislative proposals for changes in specific Iowa public employee retirement systems should be considered <u>within the context of all Iowa systems</u>, with emphasis on <u>equity and equality</u> among systems." (emphasis added)

The following goals are specified in Section 97D.1 to apply to consideration of proposed changes:

Subject	Goal
1. Benefit Enhancements	Select those benefit enhancement options which most successfully deliver the greatest good to the greatest number of employees
2. Kinds of Benefits to be Selected	Choose those options which best correct existing inequities between and among the various retirement groups in the state
3. Guiding Twin Objectives	Determine those options which most ably serve the twin objectives of attracting and retaining quality employees
4. Benefits to be avoided	Avoid enacting further incentives toward earlier retirement with full benefits

Subject	Goal
5. Equity among groups	Avoid further splintering of benefits by disproportionate enhancement of benefits for one group beyond those available to another

b. *Social Security Coverage*

The Public Retirement Systems Committee established by Section 97D.4 (see Sub-Section 6.1 below) is charged with periodically weighing "...the advantages and disadvantages of establishing participation in the federal social security systems for members operating under Chapters 97A and 411..."

c. *Portability Guidelines*

The Public Retirement Systems Committee is charged to consider "... proposals to achieve greater portability of pension benefits between the various public retirement systems in the state." The Code also charges the Committee to give special attention to "...the actuarial cost of transfers of value from one system to another."

5. Analysis of Cost of Proposed Changes

Section 97D.2 stipulates that when the Public Retirement Systems Committee or a standing committee recommends a proposal for ...a change in a public retirement system... the proposal must be accompanied by an actuarial fiscal note estimating the cost of the proposed change.

6. **Establishment of a Public Retirement Systems Committee**

Section 97D.4 establishes the Public Retirement Systems Committee. As noted above, the Code provides that the Committee shall consider proposals to achieve greater portability of pension benefits between the various public retirement systems in the State. The Committee shall also give special attention to the actuarial cost of transfers of value from one system to another. The structure, powers, and duties of the Committee are specified in the statute as follows:

a. *Membership and Governance*

Five members of the Senate appointed by the Majority Leader of the Senate in consultation with the Minority Leader;

Five members of the House appointed by the Speaker of the House in consultation with the Minority Leader;

The Committee shall elect a Chairperson and Vice Chairperson; meetings shall be called by the Chairperson or a majority of the members.

b. *Powers and Duties*

1. Develop and recommend retirement standards and a coherent state policy on public retirement systems;
2. Continuously survey pension and retirement developments in other states and in industry and business and periodically review the state's policy and standards in view of these developments and changing economic and social conditions;
3. Review the provisions in the public retirement systems in effect in this state;

4. Review individually sponsored bills relating to the public retirement systems;
5. Review proposals from interested associations and organizations recommending changes in the state's retirement laws;
6. Study the feasibility of adopting a consolidated retirement system for the public employees of this state;
7. Make recommendations to the General Assembly.

c. *The Committee in operation*

The Public Retirement Systems Committee is convened each year following the end of the legislature session. Before the end of each year the Committee receives a report from IPERS. The report contains a system overview, analysis of significant trends, and recommendations. The IPERS report, together with testimony and recommendations received from employer and employee associations, representatives, lobbyists and members of the Legislature, provides a foundation for the Committee's legislative program for the next legislation session. As discussed in Section B which follows, the Committee provides a forum through which the IPERS Chief Benefits Officer can present the IPERS legislative program to the Legislature. The Committee also provides a forum within the Legislature for the formulation of pension legislation for the next session.

B. Review of IPERS Policies, Procedures and Practices in the Formulation and Consideration of Proposed Benefit Enhancements

1. Overview

A review of IPERS organization, legal structure, guiding goals and legislative committee process establishes the framework in which IPERS actually operates. A review of IPERS actual procedures and practices in the formulation and consideration of proposed benefit enhancements is necessary in order to gain an understanding of how, in fact, IPERS operates as a PERS. In actual practice IPERS has taken a proactive and central role in the legislative process in the formulation and considerations of benefit enhancements. The Chief Benefits Officer, with the support of the Director of Personnel, has been instrumental in this role. He delivers to the Legislature the demographic and economic information and analysis needed to properly evaluate the merits of proposed benefit pension enhancements. The Chief Benefits Officer, with the assistance of staff, develops a comprehensive set of policy recommendations accompanying the data and analysis that is submitted to the Public Retirement Systems Committee. By law as well as by practice, the Chief Benefits Officer and the Chief Investment Officer are largely independent of political control -- both from the Legislature and the Governor. As mentioned elsewhere, the Personnel Director has sought to ensure their independence by removing their tenure from the political process insofar as the incumbent Chief Benefits and Investment Officers can be removed only for cause after being on the job for six months. The Legislature and the Governor depend upon IPERS Benefits and Investment Officers not only for actuarial data and analyses but also for programmatic recommendations and opinions as to whether a pension bill should be enacted or signed into law.

In the Section of the Report which follows, the role of the "key players" in the process of formulating and considering benefits enhancements is considered. While the role of each individual is important in and of itself, it is the interaction of the key players which best gives a picture of the process.

2. **Role of the Director of Personnel**

As discussed above, the Director of Personnel, acting on behalf of the Department of Personnel, is statutorily responsible for the administration of IPERS. These responsibilities include the formulation and consideration of proposed benefit enhancements.

Although the Director is given broad powers, the code contains significant limitations on the Director's role as head of IPERS. First, it should be kept in mind that the Director is appointed by the Governor, subject to confirmation by the Senate, serves at the pleasure of the Governor and is subject to reconfirmation after four years in office (Code Section 19A.1A). Second, the Code establishes a separate trust, the "Iowa Public Employees' Retirement Fund" of which the State Treasurer is custodian and trustee (Code Section 97B.7). The Code provides that the Director of Personnel (acting for the Department) is authorized to "...execute the disposition and investment of monies in the retirement fund in accordance with the investment policy and goal statement established by the Investment Board" (Code Section 97B.2.b.). Thus, within the investment policy process, the Director of Personnel plays a limited, although significant role, sharing power with the Investment Board upon which the Director sits as an ex-officio member. This dispersion of power -- in terms of investments of IPERS assets -- leads one to make the following observation: While IPERS can be categorized as an "agency" type PERS, at least when viewed in terms of the investment of fund assets, IPERS has some features of a corporate PERS. This is because investment authority in IPERS is exercised by a statutory board, and assets are held in a separate trust. Moreover, as stated above, the Chief Investment Officer, although appointed by the Director is protected by the merit system and can be removed only for cause. It is also noteworthy that the Chief Investment Officer is appointed by the Director in consultation with the Investment Board, further bolstering the independence of the Chief Investment Officer. In this regard, the investment policy statement adopted by the Investment Board states, in part:

> In the event that it should be necessary to fill the chief investment officer position, the Board may consult with and make hiring recommendations to the Director of the Department of Personnel.

The Chief Benefits Officer, as well, is covered by the merit system and can be removed only for cause. However, in exercising the responsibilities of overall governance of IPERS benefits, the Director of Personnel does not share power with a "Benefits Board," comparable to the IPERS Investment Board, nor does the Code call for the formulation of a "benefits policy and goal statement" similar to the investment policy and goal statement as established by the Investment Board in consultation with the Department of Personnel. (As noted above, the Code does contain in Section 97D.1 a statement of guiding goals for the Legislature to keep in mind in making future changes in public retirement systems.)

The IPERS Division is directly accountable, organizationally, to the Director of Personnel. The Division is administered through four unit managers: Chief Investment Officer, Chief Benefits Officer, Legal and Communications Manager, and the Operations Manager.

Notwithstanding the foregoing, the Director of Personnel, by practice, in good part has delegated the day-to-day operations of IPERS to the four unit managers. The Director has given wide latitude to these unit managers and, accordingly, is involved in the day-to-day operations of IPERS only when necessary or appropriate, for example, meeting with IPERS staff department heads and personnel to discuss administrative reorganization plans. In summary, the Director is supportive to the Chief Benefits and Investment Officers and has given them wide latitude in formulating and implementing benefit and investment policies.

In terms of the formulation and consideration of benefit enhancements, the Director sees IPERS role as providing information and input to the Legislature. IPERS does this by preparing its report to the Public Retirement Systems Committee, including recommendations for changes in benefits.

As noted above, the Director is appointed by the Governor. In actual practice the Governor has not directly involved his office either in the administration of IPERS or in developing retirement system policies, procedures or benefits programs. The Governor's office does consult IPERS on pending legislation, and the Governor must sign or veto all pension bills.

The Department of Management with the Executive Department of the Governor must approve the IPERS budget request. This power has not been used, directly or indirectly, to impact the process of the formulation or consideration of benefit enhancements. The Executive Counsel does review IPERS requests for reimbursement for business travel expenses or attendance at professional conferences. However, the IPERS investment staff is exempt from this review.

3. **Role of the Chief Benefits Officer**

The Chief Benefits Officer sees an important aspect of his role as keeping the Director of Personnel informed about IPERS policies, procedures and benefits. The Chief Benefits Officer will request a "sign-off" from the Director of Personnel on significant policy matters. In other administrative decisions, the Chief Benefits Officer will exercise his own judgement.

The Chief Benefits Officers sees his position as necessitating a pro-active approach in formulating and presenting a vision of IPERS to the Legislature, culminating in the Annual Report to the Public Retirement System Committee. In the course of formulating the IPERS Vision and preparing the Annual Report, the Chief Benefits Officer gathers data and information from the IPERS staff, and solicits the views of IPERS members and retirees. He appears before constituent groups and maintains ongoing communications with employer and employee associations through their legislative representatives. Through the IPERS benefits appeal process where he handles member claims he is able to identify benefits or procedures in IPERS in need of revision.

In the Annual Report to the Public Retirement Systems Committee, the Chief Benefits Officer presents updates on the Committee IPERS demographics, provides actuarial cost estimates on alternative proposals and formulates recommendations to promote equity among members in a broad-based manner consistent with the policy guiding goals in the Code. After the legislative program of the Public Retirement Systems Committee is formulated, the Chief Benefits Officers may be called upon to provide technical assistance to the Standing Committees of the Legislature as they prepare or consider implementing legislation. The Chief Benefits Officer routinely meets with the Chairpersons of the Standing Committees in early January and assists the Legislative Service Bureau in drafting pension legislation.

In summary, the role of the Chief Benefits Officer is comprehensive and multifaceted. He plays a key role in the process of formulating and considering benefit enhancements. In practice he represents the membership, interfaces with lobbying groups, provides information to the Governor and Legislature, and articulates goals and makes recommendations to enhance the IPERS programs. Although these responsibilities are not specifically set forth in the Code, they have, in practice, been delegated to the Chief Benefits Officer by the Director of Personnel. The extent to which the Chief Benefits Officer has been successful in formulating benefit enhancements is due, in part, to the cooperative relationship that exist with the Director of Personnel. The success of the incumbents in this process is also due, in part, to their personal professional qualifications and experience.

4. **Role of the Legislature on the Formulation and Consideration of Benefit Enhancements**

Each house of the Legislature has a Standing Committee with jurisdiction over pension legislation. It is ultimately the Legislature which is the central body responsible for formulation and consideration of IPERS benefit enhancements. As explained above the Legislature relies to a substantial degree on direct input from IPERS -- from the Chief Benefits Officer and by way of the Annual Report to the Joint Interim Committee and other submissions made to the Legislature including draft legislation.

5. **Summary of Findings**

IPERS is a division under the Department of Personnel. Nevertheless, it possesses a considerable degree of independence from the Director of Personnel, the Governor and the Legislature. Moreover, IPERS has forged a significant and constructive role in assisting the Legislature and the Governor in formulating and considering benefit enhancements. IPERS does this by providing data and actuarial analysis, and by making policy recommendations and assisting in their implementation, while the Legislature must enact benefit enhancements and the Governor must sign or veto legislation. IPERS, through its Chief Benefits and Investment Officers occupies an important place in the pension policy making process in Iowa.

C. Comparison of Key Features of IPERS Organization and Governance to Other PERS

A PERS can be classified in terms of its structure and governance according to one of the following types along a continuum from weak to strong:

Weak	Type	Features
↓	Departmental	No board - part of a department of state government.
↓	Agency	No board of trustees or board with no employee representatives. An agency of state government.
↓	Hybrid	Appointed board of trustees with employee representatives.
Strong	Corporate	Elected board of trustees with employee representatives.

IPERS can be classified as a "departmental" or "agency" PERS. As such, IPERS is administered by and is a part of the Department of Personnel and does not have a separate legal identity or structure outside of the department within which it is located. The Iowa Code, however, does refer to the IPERS as a "...distinct and independent..." system under the department, as is also the Iowa Department of Public Safety Peace Officers Retirement System. (Code Section 19A.1). The status of IPERS as a "distinct and independent" system under the Department of Personnel allows one to also classify IPERS as an "agency" PERS. The precise classification is not as important as generally placing a PERS along a continuum for analysis.

In our ongoing research on 50 statewide PERS which include education employees (including IPERS), we have found that IPERS is, in fact, the only statewide PERS "departmental" PERS. Four other PERS have similar structures, but are somewhat more autonomous since they are separate agencies within their respective state governments. As separate state agencies, these IPERS are not merely part of another agency of state government as is IPERS.

At the other end of the spectrum from departmental or agency PERS are those PERS that can be classified as "corporate." Corporate PERS, as we define the term, essentially have the same kind of broad powers that corporations have under state law. Corporate governance rests with an elected Board of Trustees. Trustees, in turn, elect from among their membership a Chairperson and Board Officers, appoint a PERS chief executive office (usually called an Executive Director) and exercise other powers granted by the State Legislature. A corporate PERS has been described as follows:

> an independent board of trustees; few or no government controls on policy setting; independent budget authority; independent accounting methods; independent from state civil service regulations; the right to sue and be sued; the right to own property including its own headquarters; and total responsibility for investment of the pension funds.*

Of 50 statewide PERS we have examined, 22 can be classified as corporate. We have also reviewed the organizational structure and governance of the other Iowa public employee systems.** We have found that two of the three defined benefit PERS in Iowa has an independent Board of Trustees responsible for governing the system. One of theses PERS,

* Suzanne Saunders Taylor, Public Employee Retirement Systems: The Structure and Politics of Teacher Pensions (ILR Press, New York State, School of Industrial and Labor Relations, Cornell University, 1986), p. 14.

** The Municipal Fire and Police Retirement Systems of Iowa and Iowa Department of Public Safety System have Board of Trustees. The State of Iowa Judicial Fund does not have a Board of Trustees. TIAA-CREF, administered by the Board of Regents, is a national defined contribution plan which the Board of Regents makes available to education employees. As such, it is not comparable to the defined benefit plans in structure.

the Public Safety Peace Officers' Retirement, Accident and Disability System (PORS), is also administered by the Department of Personnel. PORS has a Board of Trustees provided by the Iowa Code, Section 97A.5. By statute The Board has "... general responsibility for the proper operation of the system..." The composition of the Board is as follows:

- Commissioner of Public Safety (chairperson);
- Treasurer of the State;
- An actively engaged member of the System chosen by secret ballot by the members of the system for a two year term.

The Department of Personnel provides administrative services.

In between "agency" PERS and "corporate" PERS we identified 23 PERS that exhibit features of both types. We refer to these as "hybrid" PERS. A hybrid PERS has a board of trustees, but the board does not include among its members elected employee trustees.

While IPERS may be classified as a "departmental" or "agency" PERS, IPERS also shares some significant features with the stronger "hybrid" and even "corporate" type PERS. Although IPERS is not a separate legal entity, as noted above, the Code specifically recognizes IPERS as a "...distinct and independent..." entity under the Department of Personnel. (Code Section 19A.1). It is also noteworthy that the Code establishes a separate legal trust fund known as the "Iowa Public Employees Retirement Fund" to hold IPERS plan assets. The Code further establishes a nine-member Investment Board with statutory authority. Insofar as the Investment Board exercises fiduciary control over plan assets, albeit shared with the Director of Personnel, IPERS exhibits a key characteristic of a "corporate" PERS: namely, legal authority over pension fund assets.

In conclusion, IPERS exhibits organizational and governance features common to many other statewide PERS. Viewed in terms of investments, IPERS exhibits characteristics of a "corporate" PERS. In particular, IPERS plan assets are invested by a legally constituted investment board, and Code has created a separate trust fund to hold these assets. In terms of benefit policies and procedures, however, IPERS is atypical of public pension funds and stands at the other end of the organizational spectrum. Viewed from the perspective of the formulation and consideration of benefit enhancements, IPERS is more accurately described as a "departmental" or "agency" PERS. This is because IPERS does not have an appointed or elected board of trustees or pension board responsible for formulating benefit policies and procedures and for generally overseeing the administration of the system.

D. Recommendations with Respect to IPERS Organizational Structure as it Relates to the Formulation and Consideration of Proposed Benefit Enhancements

1. Overview

The primary purpose of a retirement system is to deliver service retirement, disability retirement and survivor benefits efficiently to its members, retirees and beneficiaries. A PERS not only must efficiently deliver benefits to its members but also must be able to formulate needed changes in benefits on an ongoing basis.

> The heart of a retirement system is the benefit program it provides. At first blush, one might expect benefit design to be static: Once the program has been designed very few changes are required. Experience has shown this is not the case, as changes generally occur in most systems on a regular basis.*

PERS benefits are dynamic and evolving. Many PERS, for example, have two or more tiers; others have carved out special provisions for teachers, public safety officers and other groups. In many PERS, changes are being made in "normal" or "early" retirement age and service provisions, cost-of-living adjustment (COLA) programs providing for retiree benefit increases and benefit formulas. IPERS itself is dynamic. As previously noted, the RFP for the present study requests a review of the IPERS organizational structure as it relates to "...the formulation and consideration of proposed benefit enhancements..." The RFP also requests recommendations for "...the most efficient and member responsive organizational structure.." and recommendations "...to further safeguard the integrity of the Fund

* Thomas P. Bleakney and Jane D. Pacelli, Benefit Design in Public Employee Retirement Systems, Government Finance Officers Association, 1994, p. 1.

and its use for the exclusive benefit of IPERS members and their beneficiaries." Each of these objectives requires a pension system that 1) is responsive to the needs of its active and retired members; 2) has working knowledge about good pension benefit design; 3) has a technically skilled staff and support system on hand to formulate and evaluate alternative proposals; and 4) has the necessary independence to ensure that benefit enhancements (and changes in investment policy as well) are made solely in the interests of plan members and beneficiaries.

A review of the actual procedures and practices followed by IPERS in formulating and considering benefit enhancements, responding to members' needs, and in making investment decisions, clearly establishes that IPERS is highly responsive, representative, and has the expertise necessary to carry out its functions in a professional manner. As described in the previous Section, the Director of Personnel, as head of IPERS, has effectively delegated responsibility to the Chief Benefits Officer and to the Chief Investment Officer with respect to benefits and investment policy formulation and implementation. With respect to the formulation and consideration of proposed benefit enhancements, the Chief Benefits Officer is well informed about the needs of members and retirees, speaking before constituent groups, hearing the views of lobbyists and advocates representing employees and employers, developing the comprehensive report for the Joint Interim Committee, providing actuarial cost analyses and other information to the Standing Committees of the Legislature, and advising the Legislature and Governor on pension legislation.

As previously noted, the Iowa Code in Section 19A.1 provides that the Iowa Public Safety Peace Officers' Retirement, Accident, and Disability System (PORS) and IPERS "...are maintained as distinct and independent systems within the Department." This language can be construed not only to signify that these systems are distinct and independent from each other but also that it is the intent of the Legislature that their status as an independent entity, albeit within the Department, is to be upheld. The recommendations that follow are offered with the intent of strengthening the independence of IPERS "...to further safeguard the integrity of the Fund in its use for the exclusive benefit of IPERS members and their beneficiaries." With this goal in mind, we believe that the establishment of a Board of Trustees for IPERS, or alternatively, a Benefits and Investment Board or a Benefits Board (as a counterpart to the current Investment Board) would go a long way to strengthening IPERS. These recommendations would do so by ensuring that decisions affecting IPERS' benefits, financing and administration are made collectively by a body of persons appointed or elected to a Board by virtue of their knowledge of benefits or investments, position in state government, or position as a representative of a constituent group of employees. ***Our recommendations are not to suggest or imply that at the present time decisions with respect to IPERS policies and procedures outside of the investment area are made unilaterally or arbitrarily without consultation with interested groups and individuals and without expert advise. As explained above, this is decidedly not the case. Rather, our recommendations would, in effect, institutionalize practices already followed in IPERS.***

Just as there is no "best form" of government in an absolute sense, so, too, it can be said there is no "best form" for a PERS. A case in point is the New York State and Local Employees' and Policemen's and Firemen's Retirement System. Founded 75 years ago, the System has flourished as a sole Trusteeship without a Board of Trustees under the direction and control of the New York State Comptroller. The State Comptroller is directly elected by the voters every four years. In recent years, the Comptroller has appointed actuarial, investment and benefits advisory committees. Although legislation has from time to time been introduced to create a Board of Trustees, it has not been enacted. Notwithstanding its organizational structure as a sole Trusteeship, the System has successfully challenged attempts by the political branches of state government to diminish or impair actuarial funding or to otherwise endanger benefits. This being said to illustrate the point that organizational structure per se does not dictate whether or not a PERS is properly run, we nevertheless have a policy preference for representative government, and, in case of PERS, for a broad-based board structure. As previously noted in this report, IPERS already possesses many of the features of a strong "corporate" PERS. Accordingly, one could take the position that the IPERS organizational structure is a strong as it needs to be to accomplish the system's goals and that there is no compelling reason to change the current organizational structure.

If we compare IPERS' features to those often associated with a "corporate" PERS, we see, in fact, that IPERS compares favorably:

	Features associated with corporate PERS	IPERS
1.	Constitutional and/or legal guarantees protecting the fund and its benefits from impairment	Yes
2.	Authority to appoint System actuary	Yes
3.	Significant role in framing investment policies and procedures and selection managers	Yes
4.	Significant role in framing benefit policies and procedures	Yes
5.	Senior staff protected by the merit system	Yes
6.	Strong investment board	Yes
7.	Strong benefits board	No
8.	Board of trustees with elected members	No

As discussed below, while the current IPERS organizational structure has worked well under the direction of the incumbent Governor and Director of Personnel, we believe that a multiple-member Board would provide the necessary "checks and balances" to prevent attempted "pension raids" or to otherwise counter policies that could negatively affect the integrity of the Fund in its use for the exclusive benefit of IPERS members and their beneficiaries.

The RFP has requested that we prioritize our recommendations ranking them accordingly. As discussed below, our preference is for a Board of Trustees structure or a unified "Benefits and Investment Board." Our third priority recommendation is for a Benefits Board with comparable responsibilities to the current Investment Board. We rank this third because we have concerns about a possible fragmentation in policy making between investments and benefits that could occur if these two boards were to adopt policies without coordination. As discussed elsewhere in the report, assets and liabilities must be dealt with in a consistent manner in a defined benefit plan.

We are recommending as our highest priority that IPERS adopt a Board of Trustees structure. A full-fledged IPERS Board of Trustees responsible both for investment and benefits policies would strengthen the process of formulating and considering proposed benefit enhancements. A Board of Trustees would also safeguard the integrity of the Fund and its use for the exclusive benefit of IPERS' members and their beneficiaries. Establishing a full Board of Trustees would institutionalize what is already practiced in the process of formulating and considering proposed benefit enhancements. Moreover, the establishment of a board would place ultimate responsibility for benefit enhancements in the hands of a group of fiduciaries by law to act solely in the interests of the members and the beneficiaries of the System.

The significant and representative role currently played by IPERS in the benefit enhancement process today is largely due to the personal, professional and leadership qualities as well as the experience of the current Director of Personnel and Chief Benefits Officer. Their proactive role has been discussed in this Report. The effectiveness of IPERS has been bolstered by the respect held for the IPERS professional staff by the Governor, Legislature, the Director of Personnel and by employer and employee associations. A tone of independence and objectivity has been set by the action of the Director of Personnel in providing that the positions of Chief Benefits Officer and Chief Investment Officer are civil service merit positions and that the occupants of these positions can be removed only for cause.

IPERS has been successful to date. The effectiveness of IPERS in the future formulation and consideration of proposed benefit enhancements, as well as the protection of the overall integrity of the Fund and its use for the exclusive benefit of IPERS members and their beneficiaries, can be enhanced if a Board is established to govern IPERS. This Board should have authority to 1) set benefit policy; 2) develop a legislative program; 3) conduct an annual review of the general policies and procedures utilized by the System in administering benefits; 4) adopt the IPERS budget ; and 5) in conjunction with the Director of the Department of Personnel hire the Chief Benefits Officer and other staff professionals .

In the course of reviewing the policies and procedures of IPERS in the benefits area, it has become clear that there is a close working relationship between the Chief Investment Officer and the Chief Benefits Officer. The interrelationship between assets (investments) and liabilities (benefits) and the policies relating to each in a defined benefit plan is central to a sound pension system. This interrelationship is appreciated in IPERS because its investment policies and strategies are crafted to be consistent with the actuarial and funding objectives of the System. Any change in the organizational structure of IPERS should be designed to reinforce the current coordination and interaction between investment and benefits policies. Separate or competing boards on benefits and investments would be counterproductive. Accordingly, the recommendations that follow below are predicated on the assumption that if any formal organizational changes are made in IPERS, these changes should be made with the objective of coordinating benefit and investment policies. At the same time, any changes should recognize that each policy area requires special expertise , technical advisors and specialized professional staff, and each should have a subcommittee or separate advisory committee to guide its deliberations within the overall structure of the Retirement System.

As part of each of our recommendations, we are recommending that IPERS continue as part of the Department of Personnel. If a full Board of Trustee is established, we are recommending that the Director of Personnel be designated by statute as Chief Executive Officer of IPERS, reporting to the Board of Trustees and responsible for carrying out the Board's directives. We are recommending this significant role for the Director of Personnel because we believe this recommendation will increase the likelihood that the Governor and Legislative will enact a board structure for IPERS. Keeping IPERS as part of the Department of Personnel and maintaining the Director of Personnel as head of IPERS provide needed continuity between the current structure and a new and more representative structure.

2. **Summary of Recommendations**

#1

The most desirable long-term change in the IPERS organizational structure would be for the Legislature to enact and the Governor to sign into law a statute creating an IPERS Board of Trustees. The Board of Trustees would be charged generally with governing IPERS.* IPERS would remain as part of the Department of Personnel, and the Director of Personnel would remain the statutory head of IPERS.** The Board of Trustees, in consultation with the Director of Personnel,

* Iowa Code Section 97A.5 provides that the Board of Trustees of the Public Safety Peace Officers' Retirement, Accident, and Disability System (PORS) shall be vested with the responsibility for the proper operation of the system. Similar language could be adopted for IPERS.

** Implementation of this proposal would require the Legislature to establish a clear division of responsibility between the Board and the Director of Personnel in order to avoid conflict situations as well as to provide a mechanism to resolve any disputes between the Board and the Director.

would appoint the successors to the present Chief Benefits Officer and Chief Investment Officer. Membership on the Board of Trustees could include the current nine members of the IPERS Investment Board who would be appointed in the same manner as under current law. Three additional Board Members who have expertise in retirement benefits could be appointed. These three additional members would be appointed by the Governor for six year terms, as is the case currently with the outside members on the Investment Board. Three other additional Board Members could be elected from the active IPERS membership. This would result in a 15-member Board.

An IPERS Board of Trustees would be authorized to govern IPERS and establish its policies, procedures and legislative program. The Director of Personnel, as the Chief Executive Officer of IPERS, would report to the full Board and be responsible for carrying out Board directives. It is anticipated that a new Board would develop a policy and goal statement covering both investments and benefits. The positions of Chief Benefits and Investment Officers would continue to be statutory in nature. The Code could be amended to provide that the Chief Benefits and Investment Officers be required to submit an annual report directly to the Governor and Legislature on the state of the System. This would allow the Governor and Legislature to receive information on the System directly from the IPERS Officers who are responsible for administering the IPERS benefits and investment programs, thereby further strengthening the accountability and oversight by the Executive and Legislative branches of government. The Board could have two Standing Committees, the Investment Committee and the Benefits Committee. The Chairperson of the Board should be elected from the membership of the Board.

The Chairpersons of the two Standing Committees should be elected by the members of each Committee.

#2

As an alternative to the Board of Trustees, we would recommend the enactment of a Benefits and Investment Board. The powers of this Board would include those already granted by statute to the current Investment Board. Additional powers would be added with respect to actuarial, administrative and benefits policies and procedures. The composition of this Board would include all of the current members of the Investment Board, and three additional members who have special expertise in retirement benefits. The Board could have two subcommittees, one for benefits and one for investments. The Board would have authority to appoint the successors to the present Chief Benefits Officer and Chief Investment Officer in consultation with the Director of Personnel. It is anticipated that the new Board would develop a policy and goal statement covering both investments and benefits.

#3

As discussed, IPERS currently has a strong Investment Board with considerable powers. It does not have a counterpart in the benefits area. If the Legislature does not enact a Board of Trustees or a unified Benefits and Investment Board for IPERS, we would recommend that it enact a Benefits Board which would be the counterpart to the current Investment Board. The Benefits Board would exercise powers comparable to those of the Investment Board.

PART III: PRIORITIZATION OF RECOMMENDATIONS (IPERS)

A. Benefits Program

In assigning priority levels to each of the recommendations, subjective judgements enter the decision making process. Those affecting the greatest number of members, correcting the more serious deficiencies or simplest to enact were assigned the first priority. The COLA and rehire provisions were assigned the second priority as the dividend program and current rehire provision can continue to serve temporarily until these provisions are enacted. The third priority was assigned to those provisions requiring more discussion and study.

Recommendation	Priority Level
Change benefit formula by removing salary cap and removing service cap (to be phased in over a five to seven year period) and imposing cap of 100% of final average salary (FAS) including one-half of Primary Social Security (PIA)	# 1
Change Normal Retirement Age and Service Requirements to Age 65 or Age 62 with 20 with more years of service or Age 55 or older if age plus service equals 85	# 1
Increase minimum COLA program for long-time, low-income retirees to provide a benefit of $200 to $400 a month for retirees from 10 to 30 years of service (prorated)	# 1
Modify interest credited to member's contribution accounts to the rate used in the valuation to estimate the investment return on the funds as a whole	# 1
Modify the Death Benefit to provide that where death is the result of an accident incurred in the performance of duty the regular death benefit will be payable, or, alternatively a survivor pension equal to 50% FAS payable to surviving spouse, dependent children or dependent parents and subject to the COLA	# 1

Recommendation	Priority Level
Change Post-retirement COLA to provide; • a fixed, automatic formal based on 80% of the CPI and subject to a 3% per year cap; • to be prefunded on an actuarial basis; • to be applied to service retirees 3 years after retirement; • to be applied to disability retirees at any age three years after retirement for disability; • to be applied to a survivor death benefit annuity at any age three years after benefit commences; • to be applied to joint-and-survivor option payments in the same manner as would have been provided to the retiree applied to the amount of the optional benefit	# 2
Modify the Reemployment of Retired IPERS Members under age 65 to increase the amount an IPERS retiree can earn without a reduction in the retiree's pension	# 2
Modify the Disability Benefit to Provide a Minimum Benefit equal to 33 1/3% FAS; coordinated with other employer-financed disability benefits and insurance by reducing benefit when total equals 80% of FAS	# 3
Modify the Death Benefit to provide that benefits be paid according to the following schedule: Service: — Benefit: up to one year — one years' salary one to two years — two years' salary three or more years — three years' salary or, if greater, the member's accrued normal retirement benefit payable as a 100% joint-and-survivor annuity	# 3

As a part of our review of the IPERS benefit program and our recommendations, we prepared *estimates* of the cost implications of several of the changes and present them in the table below. Before doing so, however, we would like to make some general comments on contributions.

The "cost" of a pension plan is the payout of the benefits promised plus the expenses of administering the plan and trust offset by the investment income generated by accumulated assets. The choice of an actuarial cost method and the selection of actuarial assumptions determine the timing of the accumulation and not the actual cost.

The actuarial assumptions should be reasonable, in the aggregate, taking into account the experience of the plan and reasonable expectations, and which, in combination, reflect the actuary's best estimate of anticipated experience under the plan. The actuary may accomplish this through either explicit and/or implicit assumptions. Explicit assumptions are assumptions that stand on their own, for example, the 1983 Group Annuity Mortality Table. Implicit assumptions are a combination of assumptions or a composite assumption to approximate several explicit rates. Examples of an implicit assumption are the interest rate and salary increase factors used in IPERS. The interest rate includes not only the expected real rate of returns but also inflation and expenses. Similarly, the salary increase factor includes merit, promotion and inflation.

The interest rate and salary increase factors currently used by IPERS also appear to anticipate future, but not yet legislated, increases in the salary cap and the generation of investment gains to provide funds for the dividend program. With the recommended removal of the salary cap and the formalization of a COLA program within the IPERS plan, IPERS will most likely revisit its economic assumptions.

We have, therefore, prepared our estimates on two bases. The first is based on the current actuarial methods and assumptions used in determining the annual contribution rate, while the second is based on a revised interest rate and salary increase factor to reflect the removal of the salary cap and institutionalizing the COLA provision. While we do not identify these assumptions, we believe them to be reasonable. It is our position that the plan's actuary working with the plan sponsor is the best judge as to the actual combination of assumptions to be used and we do not wish to color anyone's judgement. We do recommend that projection valuations using alternative assumptions be performed once a decision on benefit changes has been made. The results shown are rough estimates of the annual contribution as of July 1, 1995 as a level percentage of covered payroll and are for illustrative purposes only. Final cost information should be prepared by the plan actuary once a final set(s) of recommendations are adopted. The annual contribution rate is the total contribution required as compared to the mandated employee plus employer rate of 9.45% of covered payroll. The rate shown is based on each of the preceding recommendations being included.

Recommendation	Annual Contribution Rate	
	Current Assumptions	Alternative Assumptions
Current Plan (est 1995)	7.50%	n.a
Remove salary cap and service maximum	15.00%	6.25%
Change normal retirement eligibility requirements	17.25%	8.00%
Provide an annual automatic postretirement COLA	33.50%	16.00%
Modify the disability and death benefit provisions	37.25%	19.00%

B. Organizational Structure and Governance

	Priority Level
1. Establish a Board of Trustees with powers to establish policy, direct administration, hire staff, including two standing committees (benefits and investments), including the current Investment Committee membership, three benefits experts and three members elected from the active membership of IPERS	#1
2. Establish a Benefits and Investment Board expanding the membership of the Board to include the current Investment Board plus three experts in the benefits area	#2
3. Establish a Benefits Board with powers and membership similar to Investment Board	#3