

PUBLIC RETIREMENT SYSTEMS COMMITTEE

MEMBERSHIP

Senator John P. Kibbie
Temporary Co-chairperson
Senator Michael W. Connolly
Senator Richard F. Drake
Senator Michael E. Gronstal
Senator Sheldon Rittmer

Representative Mona Martin
Temporary Co-chairperson
Representative John H. Connors
Representative Chuck Gipp
Representative Don Gries
Representative Rick Larkin

AGENDA

Thursday, October 26, 1995

Friday, October 27, 1995

Room 22, State Capitol

THURSDAY

- 10:00 - 10:15 a.m. Preliminary Business
Elect co-chairs
Adopt rules
Request third meeting and extension of time
- 10:15 - 11:15 a.m. Presentations from Organizations Primarily Concerned with IPERS Special Classifications
Bill Hutchins, Iowa State Sheriffs and Deputies Association
Jean Kuehl, Beth Lenstra, Iowa Corrections Association
Gary Hinzman, 6th Judicial District Department of Corrections
Dale Pradovich, Airport Firefighters
- 11:15 a.m.- 12:15 p.m. Presentation of Consultants Report Concerning the Iowa Public Employees' Retirement System
Joseph Metz, Buck Consultants
- 12:15 - 1:00 p.m. Lunch
- 1:00 - 2:00 p.m. Presentation Concerning the Iowa Public Employees' Retirement System (IPERS - Chapter 97B)
Greg Cusack, Chief Benefits Officer
- 2:00 - 2:30 p.m. Committee questions for Consultant and IPERS
- 2:30 - 2:45 p.m. Break
- 2:45 - 4:00 p.m. Presentations from Organizations Primarily Concerned with the Iowa Public Employees' Retirement System (IPERS)
Walt Galvin, Iowa Retired School Personnel Association
Gaylord Tryon, School Administrators of Iowa
Lowell Dauenbaugh, Iowa State Education Association
Dick Rattray, IPERS Improvement Association
Dr. Gene Gardner, Iowa Association of Community College Trustees
Jason Bridie, Iowa Association of School Boards
Ted Anderson, AFSCME
- 4:00 - 4:30 p.m. Teachers Insurance and Annuity Association - College Retirement Equities Fund Presentation
Mary Jo Small, Associate Vice President, The University of Iowa
Ted Williams, State Board of Regents

FRIDAY

- 9:00 - 9:30 a.m. Judicial Retirement System Presentation by Iowa Judges Association
The Honorable Louis A. Lavorato, Justice, Iowa Supreme Court
- 9:30 - 10:00 a.m. Presentations from Organizations Primarily Concerned with the Municipal Fire and
Police Retirement System of Iowa (Chapter 411)
Thomas Fey, Jack Reed, Pres., Iowa Association of Professional Firefighters
Rick Ahlstrom, Iowa State Police Association
- 10:00 - 10:30 a.m. Presentations from Organizations Primarily Concerned with the Peace Officers'
Retirement System
Major Jon Wilson, Iowa State Patrol
Diane Reid, Iowa State Troopers Association
Gail Schwab, Iowa State Patrol Supervisors Association
Fred Burger, Retired Troopers and Agents Association
- 10:30 a.m.- 12:00 noon Presentation Concerning the Municipal Fire and Police Retirement System of Iowa (Chapter 411)
Dennis Jacobs, Executive Director
- 12:00 - 1:00 p.m. Lunch
- 1:00 - 1:30 p.m. Presentation concerning the Judicial Retirement System (Chapter 602, Article 9)
Peggy Sullivan, Director of Finance and Personnel, Judicial Department
- 1:30 - 3:00 p.m. Presentation Concerning the Peace Officers' Retirement System (PORS - Chapter 97A)
Carroll Bidler, Director of Administrative Services
- 3:00 - 3:30 p.m. Committee discussion and directions to staff
Set next meeting date



Legislative
Service
Bureau

MINUTES

Public Retirement Systems Committee

October 26 and 27, 1995

First and second of three meetings

MEMBERS PRESENT

Senator John Kibbie, Co-chairperson
Senator Michael Connolly
Senator Richard Drake
Senator Michael Gronstal
Senator Sheldon Rittmer

Representative Mona Martin, Co-chairperson
Representative John Connors
Representative Chuck Gipp
Representative Don Gries
Representative Rick Larkin

MEETING IN BRIEF

Minutes prepared by Gregg
Halstead, Legal Counsel
(515) 281-3189

Organizational staffing by Ed
Cook, Legal Counsel
(515) 281-3994

1. Procedural Business.
2. Iowa Public Employees' Retirement System (IPERS)
3. Teachers Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF)
4. Judicial Retirement System
5. Municipal Fire and Police Retirement System (MFPRSI)
6. Peace Officers' Retirement System (PORS)
7. Committee Discussion and Future Business
8. Written Materials Filed With the Legislative Service Bureau

COMMITTEE BUSINESS

1. Procedural Business

Call to Order. Temporary Co-Chairpersons Senator John Kibbie and Representative Mona Martin called the interim meeting of the Iowa Public Employees' Retirement System Committee to order at 10:00 a.m., Thursday, October 26, 1995, in Committee Room 22 of the Statehouse in Des Moines, Iowa.



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Preliminary Business. Senator Kibbie and Representative Martin were unanimously elected the permanent Co-Chairpersons of the Committee. The rules were also adopted by the Committee.

Adjournment. The meeting recessed after the first day's business on Thursday, October 26, 1995, at 4:20 p.m. The second day of the meeting began on Friday, October 27, 1995, at 9:00 a.m. and adjourned after the second day's business at 1:45 p.m.

Next Meeting. The Committee tentatively set the date for the third meeting of the Committee, subject to Legislative Council approval of the Committee's request for a third meeting date, on December 14, 1995. (The Legislative Council approved the request on November 29, 1995.)

2. Iowa Public Employees' Retirement System (IPERS)

a. Buck Consultants' Report.

Presentation by Mr. Joseph Metz, government consultant, and Mr. Ralph Jensen, actuary consultant.

(1) Overview. Buck Consultants was hired by IPERS to conduct an independent study concerning IPERS benefits. Mr. Metz indicated that although the study focused on benefits and not funding or actuarial concerns, the cost of benefits was considered in making recommendations. In conducting the study, Buck compared key features of IPERS to other state and national employee retirement plans. Mr. Metz began by providing the Committee with a working definition of what is a "good pension". He defined a "good pension" as one that should enable a career employee to retire at a normal retirement age with pension and social security benefits that will permit the retiree to maintain his or her preretirement standard of living. In addition, a "good pension" should allow retirees to receive increases in their pensions as inflation increases. In considering pension policy, Mr. Metz indicated that pensions are for retirement and should not be used to promote a particular social policy. Mr. Metz stated that IPERS is basically on target in achieving the goal of providing a "good pension". He noted that IPERS is an "A1" system that is well funded, properly administered, and generally provides good benefits. However, Buck Consultants did recommend to the Committee numerous revisions to IPERS.

(2) Recommendations:

a) Salary Cap. The covered wage ceiling whereby only the first \$41,000 of a member's annual wages (to be increased to the first \$55,000 of a member's annual wages by the year 2000) used to calculate retirement benefits should be eliminated. Rationale: Buck states that the covered wage ceiling does not appropriately reward wages, for example, the annual two percent benefit is only one percent for a member who earns \$82,000 per year. Buck notes that Iowa is the only state with a covered wage

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ceiling and predicts that Iowa will suffer adverse consequences in the areas of employee recruitment and turnover if the covered wage ceiling is not eliminated. Mr. Jensen stated that the covered wage ceiling creates problems for the funding of IPERS as it involves the continual starting and stopping of the system. Buck considers removal of the salary cap as one of the two most important recommendations.

b) Credited Service. The service credit cap, whereby if a member works more than 30 years he or she does not receive any additional benefit, should be eliminated. Rationale: Buck notes that only four other states have service caps. Buck is cognizant of the potential situation that if the service cap is eliminated, a member who works 40 years, for example, could receive from his or her pension and social security benefits, an annual retirement income above 100 percent of the member's final annual working income. In this situation, Buck recommends adjusting the pension benefit downward such that the combined pension and social security benefits do not exceed the member's annual working income. Mr. Metz noted that this would be a relatively rare situation as most members work on average only 20 years within the IPERS system. Buck considers removal of the credited service cap as one of the two most important recommendations.

c) Retirement eligibility. The normal retirement eligibility requirements should be changed to the earlier of age 65, age 62 with 20 or more years of service, or age 55 if age plus years of service equals 85 (the Rule of 85). Early retirement eligibility would remain at age 55 with four or more years of service. The benefit reduction for early commencement would also remain at .25 percent per year of early retirement. The years of early retirement would be from the retirement date to the earliest of the normal retirement dates. Rationale: Adoption of the Rule of 85 would increase flexibility for retiring members.

d) Minimum benefits. The current minimum monthly benefit of \$50 should be increased to \$200 - \$400 per month depending on a member's years of service. Rationale: Buck states that this will decrease the poverty rate of certain state retirees by increasing the amount of their pensions.

e) Interest credited. The interest credited to a member's contribution account should be increased from 4.5 percent annually to 6.75 percent annually.

f) Survivor benefits. The service-connected death benefit should be modified to provide a survivor option. Rationale: Modifying the service-connected death benefit would make IPERS competitive with other public employee retirement systems.

g) COLA. An automatic post-retirement cost of living adjustment (COLA) should be provided to replace the current dividend program.



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Rationale: Mr. Metz noted that a COLA would preserve the value of a pension from being reduced over time by inflation.

h) Disability benefits. The disability benefit should be changed to provide a minimum benefit equal to 33-1/3 percent of the final average salary. *Rationale:* Modifying the disability benefit would make IPERS competitive with other public employee retirement systems.

i) Death benefits. The death benefit should be modified to provide a lump sum benefit of three year's salary after three years of service. *Rationale:* Buck is seeking to provide greater protection for the younger, shorter-service member who dies while employed in the system.

j) Retiree earnings. The amount an IPERS retiree can earn without a reduction in the retiree's pension should be increased. *Rationale:* Buck advocates that retirees should be given more flexibility to let them go back to work, still receive a full pension, and not participate in IPERS if there is a real need for older workers.

k) Organizational structure. Buck advocates the establishment of an IPERS Board of Trustees, or alternatively, an IPERS Benefits and Investment Board or an IPERS Benefits Board (as a counterpart to the current IPERS Investment Board). *Rationale:* Buck believes that the creation of one of these boards would strengthen the independence of IPERS in that decisions affecting IPERS' benefits, financing, and administration would be made collectively by a body of persons appointed or elected to an IPERS board by virtue of their knowledge of benefits or investments, position in state government, or position as a representative or a constituent group of employees.

l) Health insurance. Although not a formal recommendation from the consultant, Mr. Metz stated that it is important to consider health insurance when thinking about retirement income. For example, the existence or nonexistence of health insurance will in many cases determine when and whether an employee can afford to retire. Mr. Metz noted that 50 percent of states provide health insurance to their retired public employees.

(3) Discussion. Senator Gronstal expressed his opinion that the timetables for the removal of the covered wage ceiling and the service credit cap need to be studied. In response to a question from Senator Connolly, Mr. Metz and Mr. Jensen stated that based on their estimates, IPERS could adequately fund all of the Buck recommendations.

b. IPERS Report.

Presentation by Mr. Greg Cusack, Chief Benefits Officer; Elizabeth Sanders, Chief Investment Officer; and Patrice Beckham, Consulting Actuary, Milliman & Robertson



(1) Introduction. The key issues for pension benefit policy are what can be paid pay for and what ought to be paid for. In formulating pension policy, Mr. Cusack indicated that one must realize that it is impossible to have a "neutral" or "no social policy" retirement system since any decision made is predicated on some societal choice. In establishing pension policy, Mr. Cusack cautioned the Committee to consider the younger state workers. He indicated that choices made today, if they result in providing too many benefits for current or soon-to-be retirees, could result in Iowa adopting a defined contribution plan for younger workers which would penalize career and lower-pay employees.

(2) Orienting principles for a sound pension system. Mr. Cusack relayed the following principles for the Committee to consider, in addition to the statutory principles found in Iowa Code chapter 97D, for designing a balanced and fiscally sound pension system:

a) Total retirement payout from public sources, social security, and IPERS should not exceed 100 percent of a member's pre retirement income.

b) Members should pay their proportionate share of benefit enhancements they receive.

c) Intergenerational equity should be preserved.

d) Individual equity is not the best indicator of plan design balance.

e) Proposed benefit enhancements should be evaluated as to their effect on plan design ten years in the future.

(3) Consensus recommendation of constituent advisory group and IPERS.

The constituent advisory group includes representatives of various interest groups concerned with IPERS and was formed by IPERS to provide input on retirement issues.

The following were agreed to by all parties:

a) Remove the salary cap and, by giving credit to years of service beyond 30, allow a maximum payout of 70 percent of a member's average highest three years of salary.

b) Increase the minimum benefits paid to persons who retired with at least 10 years of service.

c) Change the existing dividend program to an annually adjusted, ad hoc COLA program.

d) Fix the interest credited to members' accounts to a target rate of 0.5 percent to 1 percent over comparable one year interest rates for certificates of deposit.

e) Allow retired members who wish to resume employment with IPERS' covered employers the right to elect noncoverage for that reemployment period; also, change the "penalty" for exceeding the cap on reemployment



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earnings from total cessation of IPERS' benefits for the remainder of the calendar year to a reduction in IPERS' benefits of \$.50 for each \$1.00 in earning above the cap.

f) IPERS and the groups will work to develop a plan to provide some postretirement health care assistance to IPERS' members.

(4) Further study items.

The constituent group believes further study is needed on the following:

- * An IPERS' proposal to index the value of terminated vested members' benefits from the day of termination over time until those members' eventual retirement.
- * Buck Consultants' recommendations regarding death benefit and disability payouts.

(5) No consensus items.

No consensus was reached by the constituent group on the following proposals:

- * Buck Consultants' recommendation to adopt the Rule of 85. IPERS is opposed to this change while most of the constituent groups support this change.
- * An IPERS' proposal to allow persons to have an "early retirement" based on the Rule of 85 so long as the persons fund the cost of this unreduced benefit at the time of retirement.

(6) Actuarial report - covered wage ceiling.

Ms. Patrice Beckham noted that the current covered wage ceiling masks IPERS' liabilities in the future. She noted that current actuarial projections are based on the covered wage ceiling and this practice fails to account for higher wages likely to be paid 20 to 40 years from now and the likely increase in the covered wage ceiling. As a result, the system undervalues the benefits for younger employees and therefore does not accurately reflect the likely future liabilities of the system. She estimated that removing the covered wage ceiling would result in additional liabilities of \$9.9 to \$12.2 billion. Senator Gronstal wondered whether an increase in the IPERS interest rate assumption from the current 6.75 percent to 7.75 percent would completely fund any liabilities resulting from removing the covered wage ceiling. Ms. Beckham indicated that a more detailed analysis would need to be done. Ms. Sanders noted that the average interest rate assumption for public employee retirement systems in the country is about 8 percent but she indicated that IPERS would tend to err toward a more conservative assumption.

(7) Organizational structure.

Mr. Cusack indicated that the Department of Personnel is working on a response to the consultants' recommendation of establishing some form of



a benefits board. He agreed that inclusion of constituent groups in the planning process is good but he indicated some concern with empowering these groups with benefits authority through a formal board. Ms. Linda Hanson, Director, Department of Personnel, indicated that IPERS recommendations are not controlled by an individual person in the department but are formulated by the department using a team approach. She noted that ultimate authority in setting IPERS policy rests with the legislature, and she indicated that forming a benefits board may usurp some of the legislature's control of benefits policy. Senator Connolly expressed his support for some form of a benefits board.

c. Presentations from IPERS constituent groups.

(1) Iowa State Sheriff's and Deputies Association.

Presentation by Mr. Bill Hutchins; Mr. Bill Sage, Chairperson of the Legislative Committee; and Mr. Marv Van Huffman, Marion County Sheriff and incoming President of the Association.

* *Recommendation:* Change the normal retirement eligibility requirements to allow retirement upon 25 years of service without any age requirement from the current 22 years of service and age 55. The current requirement should be kept for those who can qualify earlier under this criteria.

* *Rationale:* Law enforcement has become more stressful and more dangerous over the last few years to where it has become a job for "young people." Implementing the recommendation would save money and increase safety as younger officers would replace older retiring officers.

(2) Iowa Corrections Association.

Presentation by Mr. Gary Hinzman, 6th Judicial District Department of Corrections and Ms. Jean Kuehl.

* *Recommendation:* All institutional and community-based corrections occupation classes should be included in the definition of "protected occupations" under IPERS.

* *Rationale:* Corrections workers are exposed to the offender population and a myriad of dangerous situations all day on the job. Corrections workers consistently cite personal safety as their number one job-related concern. Including some but not all job classifications within protected occupations creates divisiveness between employees.

(3) Airport Firefighters Association.

Presentation by Mr. Dale Pradovich.

* *Recommendation:* A presumption should be created that any heart or lung problems experienced by firefighters be considered job-related for purposes of disability benefits.



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* *Rationale:* Firefighters are occasionally exposed to poison gas and noxious fumes. Bearing the burden to prove causation often makes proving that a disability is work-related extremely difficult. Firefighters employed by the state should be treated the same as firefighters and police officers employed by other governmental units.

(4) Iowa Retired School Personnel Association.

Presentation by Mr. Walt Galvin, Legislative Director.

* *Recommendations:*

- Establishing a minimum monthly benefit for people who have served in public employment for 10, 20, or 30 years.
- Implement a cost of living adjustment for current retiree beneficiaries.
- Examine the possible establishment of a health care package for the currently retired.

* *Rationale:* Mr. Galvin stated that the average pre-1976 retiree with 20 years of service receives a monthly benefit of less than \$163.

(5) School Administrators of Iowa.

Presentation by Mr. Gaylord Tryon, Executive Director.

* *Recommendations: Priority issues:*

- Elimination of the covered wage ceiling; and giving credit to years of service beyond 30 up to a 70 percent maximum.
- Establish an IPERS Board of Trustees that includes representation from various constituent groups.
- Maintain the fiscal integrity of the IPERS fund if additional improvements are adopted by increasing the contribution rates for both employers and employees and by increasing the current interest assumption rate.

* *Additional priority issues:*

- Change the retirement eligibility requirement to the rule of 85.
- Provide an option for surviving spouses of members who die before retirement to elect payment through an annuity rather than a lump sum.

* *Rationale:* It is not good public policy to subject IPERS members to the covered wage ceiling while members of other pension systems do not face a wage ceiling. A new IPERS board would give constituent groups more influence over the process of suggesting benefit enhancements.

(6) Iowa State Education Association.

Presentation by Mr. Lowell Duenbaugh.

* *Recommendations (listed in order of priority):*

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- Change the retirement eligibility requirement to the rule of 85 or age 62 with 20 or more years of service.
- Remove the covered wage ceiling.
- Give credit to years of service over 30.
- Provide an annually adjusted ad hoc cost of living adjustment to benefits.
- Provide improved death benefits to surviving spouses.
- Establish retiree health care coverage.
- Adopt a single Board of Trustees structure for IPERS to include both benefits and investments.

* *Discussion:*

- Teaching has changed tremendously over the last 25 years due to the introduction of computers and other state-of-the-art technologies. The adoption of the Rule of 85 would allow many older teachers to retire which would make way for younger teachers who are more knowledgeable about and more comfortable with the latest technologies.
- The Association could support increasing both the employers' and the employees' contribution rates in order to pay the cost of any benefit enhancements.
- Removing the salary cap would allow for a more accurate assessment of the fund's future liabilities. The Association could support an extra assessment on people who would benefit from this change.

(7) *IPERS Improvement Association.*

Presentation by Mr. Dick Rattray, President.

- * The Association supports providing a cost of living adjustment for retirees, modifying the current Rule of 92 to the Rule of 90, and modifying the covered wage ceiling and the service credit cap. Mr. Rattray stressed the importance of protecting the fiscal soundness of IPERS when considering new benefit enhancements. He also requested that the Association be included as a member of any new IPERS benefits board.

(8) *Iowa Association of Community College Trustees.*

Presentation by Dr. Gene Gardner, Legislative Chair.

* *Recommendations:*

- Remove the covered wage ceiling and maintain an actuarially sound IPERS program. This is the Association's top priority.
- Adopt the Buck Consultants' proposals regarding normal retirement eligibility, increasing the minimum monthly retirement benefit, providing for an automatic post-retirement cost of living adjustment, increasing the death benefit, increasing the amount an IPERS retiree can earn



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without a reduction in benefits, and establishing an IPERS Board of Trustees or an IPERS Benefits and Investment Board.

* *Discussion:* Mr. Gardner noted that benefits for community college members are less than those of other states and those of employees of Iowa's Board of Regents' universities.

(9) Iowa Association of School Boards.

Presentation by Mr. Jason Bridie.

* The Association supports considering the modification of the current rule of 92 for normal retirement and eliminating the service credit cap. Mr. Bridie added that Iowa needs to improve its retirement benefits if it hopes to stay number one nationally in educational standards.

(10) American Federation of State and County Municipal Employees.

Presentation by Mr. Ted Anderson.

* *Recommendations:*

- Eliminate the covered wage ceiling.
- Change normal retirement eligibility from the Rule of 92 to the Rule of 85.
- Legislatively consider an early retirement program.
- Add more classifications of community-based corrections officers to the protected class status.
- Adopt the changes recommended by the airport firefighters.

3. Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF).

Presentation by Ms. Mary Jo Small, Associate Vice President, University of Iowa; and Mr. Ted Williams, State Board of Regents.

Overview. Ms. Small described the retirement fund for Regents' institutions. She noted that unlike the other state retirement plans in Iowa which are defined benefit plans, TIAA-CREF is a defined contribution plan wherein the state makes a certain payment into the plan along with the member, and the member's retirement is based on how his or her investments do over time. Ms. Small then provided the Committee with a brief historical overview of these pension plans. She noted that the considerations in establishing this system were to provide immediate vesting, portability, and no continuing liability for the employer. The advantages of the system from an educational institution viewpoint is that the risk is shifted to the employee, there are no administrative costs for the institution, and, since the system is the national standard for college employee retirement, it aids in teacher recruitment.

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Discussion. Senator Drake expressed concern about the security of the contributions and investments made in this fund. Mr. Richard Saunders from the University of Iowa stated that the fund is very professionally invested and that the investments are carefully monitored even though the University does not investigate or audit the funds controlled by the plan on its own.

4. Judicial Retirement System.

a. Judicial Department.

Presentation by Ms. Peggy Sullivan, Director of Finance and Personnel.

Ms. Sullivan summarized the recent results from a recent actuarial report and indicated that, depending on the valuation method used, the system's unfunded liabilities had either stayed the same or had been reduced by the end of the last fiscal year. She indicated that with the legislative changes to the Senior Judge Program, it should take about 15 years for the system to become actuarially sound.

b. Iowa Judges Association.

Presentation by the Honorable Louis A. Lavorato, Justice of the Iowa Supreme Court and Co-Chairperson of the Iowa Judges Association.

The Association expressed its support for the Legislature's actions in placing the system on track to becoming actuarially sound. The Association made no requests for any changes in the system but urged the Committee to maintain the state's commitment to make a 23.7 percent contribution to the system, to make up the shortfall created last year when the full 23.7 percent was not appropriated, and to continue the additional \$5,000 compensation for senior judges.

5. Municipal Fire and Police Retirement System of Iowa (MFPRSI).

a. Municipal Fire and Police Retirement System.

Presentation by Mr. Dennis L. Jacobs, Executive Director and Mr. Dean Johnson, Treasurer of the City of Des Moines.

(1) Recommendations.

- * Allow the retirement board to update medical protocols.
- * Clarify the timing concerning eligibility for escalation of benefits.
- * Provide that the retirement system is subject to marital property orders.
- * Provide for the interest to be charged cities for any unfunded liabilities.
- * Allow portability of service between this system and the Peace Officers Retirement System.



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(2) Issues facing the system:

- * Establishing a standardized escalation program. Mr. Jacobs indicated that such a program may be recommended by the system once actuarial information is received.
- * Presumptions and disability determination concerns. The Committee raised some concern over a situation in Des Moines where the pension board determined that a firefighter was fit to return to work but the employer determined that the firefighter was not able to return.

b. Iowa State Police Association.

Presentation by Mr. Richard Ahlstrom.

(1) Recommendations:

- * Provide a standardized automatic escalator for pensions.
- * Provide pretax treatment for employee contributions under the state income tax.
- * Allow the escalator for people who retire after 22 years but have not yet reached age 55.
- * Provide benefits to surviving spouses similar to benefits under PORS.
- * Consider, once the fund is sound, increasing the percentage applied to calculate benefits for additional years of service.

c. Iowa Association of Professional Firefighters.

Presentation by Mr. Jack Reed, President and Mr. Charles Gribble, Legal Counsel.

(1) Recommendations:

- * Provide pretax treatment for employee contributions for the state income tax.
- * Provide inclusion of infectious diseases and cancer within the presumption that a disease or illness is job-related.
- * Provide full retirement at 22 years of service with the escalator without attaining the age of 55.
- * Adopt a standardized escalator for the system.

6. Peace Officers Retirement System (PORS).

a. Peace Officers Retirement System.

Presentation by Mr. Carroll Bidler, Director of Administrative Services.

(1) Recommendations:

- * Provide for portability of benefits between PORS and MFPRSI.

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- * Establish contribution rates for the system based on PORS actuarial information and not on MFPRSI.

(2) Discussion:

- * Mr. Bidler reviewed the recent actuarial report with the Committee. He noted that the accumulated benefit of the system had increased even though the funded percentage of the system had decreased. This apparent inconsistency is due to the fact that the funded percentage of the system was calculated on the cost value and not on the market value of the fund.

b. Iowa State Troopers Association and Iowa State Patrol Supervisors Association. Presentation by Ms. Diane Reid and Mr. Gail Schwab.

(1) Recommendations:

- * Maintaining the current contribution levels into the system and provide that employee contributions be on a pre tax basis for state taxes. Increase from .6 percent to 1.5 percent the benefit for each additional year of service from 22 years to 30 years of service.
- * Increase the escalators.
- * Increase the minimum benefit for surviving spouses.
- * Provide escalator benefits for members who vest with 22 years of service regardless of age.

7. Committee Discussion and Future Business.

Numerous Committee members expressed a desire for the cost figures of pursuing the various recommended changes to the respective retirement systems. Representative Gries noted that the Committee should study the costs of providing health coverage to early retirees who do not have Medicare. Co-chairperson Kibbie suggested that if legislative changes are ultimately made, they should be made together in one comprehensive bill and not done piecemeal in a multitude of bills.

8. Written Materials Filed with the Legislative Service Bureau.

Pre Meeting Distributions:

- ◇ Buck Consultants' Report. Submitted by Mr. Joseph Metz, government consultant of Buck Consultants.
- ◇ IPERS report to the General Assembly. Submitted by Mr. Greg Cusack, Chief Benefits Officer of IPERS.
- ◇ PORS and chapter 411 reports regarding portability between the systems. Submitted by Mr. Carroll Bidler, Director of Administrative Services of PORS.
- ◇ IPERS report regarding a hybrid formula. Submitted by Mr. Greg Cusack, Chief Benefits Officer of IPERS.



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Meeting Distributions:

- ◇ Public Retirement Systems Committee. Submitted By Mr. Bill Hutchins, Iowa State Sheriffs and Deputies Association.
- ◇ Four Corrections documents. Community-based corrections protected class category; comparison of duties chart; use of force continuum for the 6th Judicial District; and continuum of force model developed by the Federal Judicial Center. Submitted by Mr. Gary Hinzman, 6th Judicial District Department of Corrections.
- ◇ Iowa Corrections Association Report to the Retirement Committee. Submitted by Ms. Jean Kuehl, Iowa Corrections Association.
- ◇ Airport Firefighters Association report on presumption. Submitted by Mr. Dale Pradovich, Airport Firefighters.
- ◇ Three IPERS documents. Report on required contribution rate as a consequence of certain priorities; consensus recommendations of constituent advisory groups; and Milliman & Robertson report on IPERS. Submitted by Mr. Greg Cusack, Chief Benefits Officer of IPERS.

IPERS Organizations Distributions:

- ◇ Titled by association name. Submitted by Mr. Walt Galvin, Legislative Director of the Iowa Retired School Personnel Association.
- ◇ Two documents. Recommendations to the Committee; and IPERS comparability study. Submitted by Mr. Gaylord Tryon of the School Administrators of Iowa.
- ◇ Summary of testimony. Submitted by Mr. Lowell Duenbaugh of the Iowa State Education Association.
- ◇ Goals for 1996. Submitted by Mr. Dick Rattray of the IPERS Improvement Association.
- ◇ Letter to the Committee. Submitted by Dr. Gene Gardner of the Iowa Association of Community College Trustees.
- ◇ IPERS testimony. Submitted by Mr. Jason Bridie of the Iowa Association of School Boards.
- ◇ Recommendations of AFSCME. Submitted by Mr. Ted Anderson, Council 61 of AFSCME.

TIAA-CREF Distributions:

- ◇ Statement prepared by Mary Jo Small to the Committee. Submitted by Ms. Mary Jo Small, Associate Vice President of the University of Iowa.

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MFPRSI Distributions:

◇ Three documents. Comments on chapter 411, states with presumptive cancer laws, and 1994 death and injury survey. Submitted by Mr. Jack Reed, President of the Iowa Association of Professional Firefighters.

◇ Report to the Committee. Submitted by Mr. Dennis L. Jacobs, Executive Director of MFPRSI.

PORS Distributions:

◇ Proposed improvements, 1996 Legislative Session. Submitted by Ms. Diane Reid of the Iowa State Troopers Association and Mr. Gail Schwab of the Iowa State Patrol Supervisors Association.

◇ Three documents. Actuarial report as of July 1, 1995, proposed legislation, and funding analysis. Submitted by Mr. Carroll Bidler of PORS.

Judicial Retirement Distribution:

◇ Seven-page document. Submitted by Ms. Peggy Sullivan, Director of Finance and Personnel of the Judicial Department.

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PUBLIC RETIREMENT SYSTEMS COMMITTEE

MEMBERSHIP

Senator John P. Kibbie
Co-chairperson

Senator Michael W. Connolly

Senator Richard F. Drake

Senator Michael E. Gronstal

Senator Sheldon Rittmer

Representative Mona Martin
Co-chairperson

Representative John H. Connors

Representative Chuck Gipp

Representative Don Gries

Representative Rick Larkin

TENTATIVE AGENDA

Thursday, December 14, 1995

Room 22, State Capitol

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|------------------------|---|
| 10:00 a.m.- 10:15 a.m. | Call to order
Approval of Minutes |
| 10:15 a.m.- 10:45 a.m. | Dennis Jacobs, Executive Director,
Municipal Fire and Police Retirement System |
| 10:45 a.m.- 12:00 p.m. | Greg Cusack, Chief Benefits Officer,
Iowa Public Employees' Retirement System |
| 12:00 p.m.- 1:00 p.m. | Lunch |
| 1:00 p.m. - | Committee Discussion
Recommendations |



Legislative
Service
Bureau

MINUTES

Public Retirement Systems Committee

December 14, 1995

Third and Final meeting

MEMBERS PRESENT

Senator John Kibbie
Co-chairperson
Senator Michael Connolly
Senator Richard Drake
Senator Michael Gronstal
Senator Sheldon Rittmer

Representative Mona Martin
Co-chairperson
Representative John Connors
Representative Chuck Gipp
Representative Don Gries
Representative Rick Larkin

MEETING IN BRIEF

Minutes prepared by
Rick Nelson, Legal Counsel,
515/242-5822

Organizational staffing by
Ed Cook, Legal Counsel
515/281-3994

1. Procedural Business.
2. Municipal Fire and Police Retirement System (MFPRSI).
3. Iowa Public Employees' Retirement System (IPERS).
4. Peace Officers' Retirement System (PORS).
5. Discussion.
6. Recommendations.
7. Written Materials Provided for the Meeting.

COMMITTEE BUSINESS

1. Procedural Business.

Call to Order. Co-Chairpersons Senator John Kibbie and Representative Mona Martin called the interim meeting of the Public Retirement System Committee to



Public Retirement Systems Committee

order at 10:10 a.m., Thursday, December 14, 1995, in Committee Room 22 of the Statehouse in Des Moines, Iowa.

Minutes Approved. The minutes of the October 26 and 27, 1995, meetings of the Public Retirement Systems Committee were approved without change.

Adjournment. The meeting was adjourned at 3:20 p.m.

2. Municipal Fire and Police Retirement System of Iowa (MFPRSI).

◆ Presentation by Mr. Dennis L. Jacobs, Executive Director.

Standardized Escalator Program. Mr. Jacobs summarized a proposed alternative escalator program for retirement benefits recently recommended by the board of trustees for MFPRSI. The current approach for periodic increases in the monthly benefits for eligible retirees based on the earnable compensation of the active membership in the same rank in the city from which the member retired. This approach results in disparate treatment for retirees due to the link between the level of increase and the earnable compensation change in the particular city involved. The proposed alternative involves a formula whereby each year the members' and beneficiaries' monthly benefits would be increased by the combination of 1.5 percent, and a flat dollar amount based on a schedule that increases with the number of years of retirement.

The alternative approach recommended by MFPRSI meets the four objectives identified by MFPRSI as desirable in an alternative escalator program:

- (1) Maintains current projected plan costs, as determined by consulting actuaries.
- (2) Provides for equitable increases across membership.
- (3) Provides for regular and consistent increases.
- (4) Decreases plan complexity.

Mr. Jacobs indicated that predictability of benefit amount was a priority with members; therefore, the percentage increase remains static over time and does not change based on inflation. Mr. Jacobs indicated that the standardized escalator provides an approximate annual 4 percent increase. Mr. Jacobs also added that the board of trustees recommends that the formula be reviewed and reevaluated by the General Assembly six years, beginning in the year 2002.

3. Iowa Public Employees' Retirement System (IPERS).

◆ Presentation by Mr. Greg Cusack, Chief Benefits Officer, accompanied by Ms. Elizabeth Sanders, Chief Investment Officer, and Ms. Patrice Beckham, Consulting Actuary, Milliman & Robertson.

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Mr. Cusack presented the Committee with the actuarial data concerning the costs of the various recommendation made to the Committee. Based on this data, Mr. Cusack made two sets of alternative recommendations regarding IPERS benefit enhancements.

Each alternative has five components, and the first four are identical:

(1) Immediate removal of the covered wage base and implementing a lower benefit multiplier for salary levels over \$55,000. Mr. Cusack indicated that this will facilitate being able to accurately recognize IPERS' projected liabilities. Mr. Cusack indicated that if this recommendation is adopted, he would recommend to the IPERS investment board that the existing interest rate assumption be increased from 6.75 percent to 7/50 percent. Based on this increase, Mr. Cusack indicated that some additional benefit enhancements would be considered.

(2) Increasing minimum benefits to existing retirees, prorated from 10 to 30 years of service, ranging from \$200-\$400 per month.

(3) Adjusting the interest rate credited to members' accounts to 1 percent above one-year interest rates on certificates of deposit.

(4) Providing annual dividend adjustments of up to 3 percent for current retirees, commencing after the retirees' original benefit purchasing power has declined to 80 percent.

(5) The fifth and final component of each alternative differs. The first recommendation which IPERS recommends, provides for a payment of 1.5 percent dividend every other year to future retirees, with the same "decline in purchase power to 80 percent" provision recommended for current retirees. A second recommendation modifies retirement eligibility by adopting the "Rule of 85" (age plus years of service totaling 85 would constitute "normal retirement eligibility"). While expressing a preference for the first alternative, Mr. Cusack emphasized that both approaches are responsible, and neither would jeopardize the fund. Mr. Cusack noted that raising the service year cap above 30 years is not recommended, because it is too costly and thus, interferes with the ability to make the other benefit changes. Regarding the Buck study of the IPERS system which was presented to the Committee at its previous meeting, Mr. Cusack stated that IPERS' cost projections actually came in lower (approximately 15 vs. 19 percent), and that those who conducted the Buck study acknowledged that not all the recommendations could be implemented at once.

4. Peace Officers' Retirement System (PORS).

◆ Presentation by Mr. Carroll Bidler, Director of Administrative Services.

Mr. Bidler presented an actuarial report regarding the cost to the system of a proposal to allow early retirement at age 50 rather than 55 with a percentage



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reduction in benefits for each year at early retirement. Four reduction schedules were prepared -- for a 1 percent, 2 percent, 3 percent, and 4 percent reduction in benefits for each year of early retirement between ages 50 and 55. It was determined that an approximately 7 percent reduction for each year of early retirement was the break-even point to keep the early retirement proposal cost-neutral to the system.

5. Discussion.

Salary Cap Removal for IPERS. Removing the salary cap has the potential effect of providing high salaried individuals retiring within the next 5 years a benefit they have not paid for. Options for handling this would include somehow "buying" some or all of the time or utilizing a "high 5 or 7 year" calculation, which would level off a dramatic increase in benefits. Mr. Cusack indicated he would provide the Committee with examples of how to deal with this concern.

Co-chairperson Martin expressed concern over the cost at the local government level for removing the salary cap and requiring contributions, from both the employee and employer, on the employee's full salary. The cost is projected to be \$2.4 million at the state level.

Senator Connolly noted that the recommendation preferred by IPERS still leaves the 30-year service cap in place, which is not consistent with one of the Buck report's top recommendations. Mr. Cusack maintained that the IPERS system cannot afford to incorporate the service cap with all the other recommendations without an increase in the contribution rate. Senator Gronstal commented that, according to the Buck report, a 19 percent contribution rate would be necessary to implement all the recommendations.

Representative Larkin noted that the recommendations do not include reference to protected classifications of employees. The reason, indicated Mr. Cusack, was that there is no increase in system liability -- the various protected classifications of employees have indicated that they are willing to pay an increased amount to cover themselves, provided that older individuals are not grandfathered in. Representative Gipp commented that this may become a problem with an increasing number of employee groups seeking protected status.

Co-chairperson Kibbie addressed the question of when a temporary or substitute employee/retiree becomes covered again for IPERS, and suggested that this issue may need to be discussed in committee. A "temporary" employee making over \$300 after two quarters is considered covered.

6. Recommendations.

a. Representative Connors moved that the Committee recommend the first four points shared by the IPERS alternative recommendations (see section 3 above). The motion passed unanimously on voice vote.

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b. Senator Gronstal moved that the Committee recommend adopting a Rule of 88 in combination with extending the service cap to 35 years of service (based on the savings resulting from the Rule of 88), at whatever percentage could be obtained at a 9.45 percent contribution rate. The motion failed for lack of the necessary votes by the House members.

c. Senator Connolly moved that the Committee recommend the Rule of 85 (which would essentially result in passage of the IPERS second alternative recommendation). In support of the motion, Senator Connolly cited estimates of 5,000 teachers entering retirement, clearing the way for younger teachers to enter the system, and curbing the flow of young teachers out-of-state for lack of jobs. The motion failed.

d. Representative Connors moved that the Committee recommend the fifth point of the preferred IPERS recommendation -- providing COLA for future retirees in the form of a 1.5 percent dividend payable every other year, commencing after the purchasing power of the retirees benefit has declined to 80 percent. The motion passed.

e. Senator Gronstal moved that the Committee recommend adoption of the special classifications recommendations. The normal retirement eligibility requirements for sheriffs and deputies would be changed to allow retirement after 25 years of service without an age requirement. The current 22 years of service and age 55 requirements would be retained if they facilitate an earlier retirement for those qualifying thereunder. Additionally, all institutional and community-based corrections occupation classes would be included in the "protected occupations" definition under IPERS. Further, the presumption would be created that any heart or lung problems experienced by any member of a protected occupation would be considered job-related for disability benefit purposes. The motion passed.

f. Representative Connors proposed that the Committee recommend several provisions related to the Peace Officers' Retirement system (PORS). There would be portability of credit for service between PORS and the Municipal Fire and Police Retirement System (MFPRSI). Contribution rates for the system would be based on PORS actuarial information, rather than MFPRSI. Service benefits would increase from .6 percent to 1.5 percent for each additional year of service between 22 and 30 years of service. All 25 percent escalators would be increased to 30 percent, and all 12.5 percent escalators would be increased to 15 percent. Full escalator benefits would be provided for members who vest with 22 or more years of service regardless of age. The minimum benefit for surviving spouses would be increased from 20 to 25 percent of compensation for a senior patrol officer. The motion passed. An earlier motion by Senator Connolly, for the same recommendation excluding the service benefit provision, failed.

g. Senator Gronstal moved that the Committee recommend that the proposal to provide pre-tax treatment for employee contributions under all public retirement systems be referred to the appropriate legislative committee for consideration. The motion passed unanimously.



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h. Senator Gronstal moved that the Committee recommend, regarding the MFPRSI, that the retirement board be allowed to update medical protocols, that retired members must be retired on or before the effective date of the readjustment (escalation) to be eligible for readjustment, and that the retirement system be subject to marital property orders. Additionally, interest would be charged to cities for unfunded liabilities, and portability of credit for service would be allowed between MFPRSI and PORS. A standardized escalator would be provided whereby the monthly benefits of members and beneficiaries would be increased by a combination of 1.5 percent and a flat dollar amount based on the number of years retired. A review of the formula every six years by the General Assembly, beginning on the year 2002, would occur. The motion passed. A substitute motion adding a six-year sunset provision on the escalator proposal failed.

i. The Committee also adopted a proposal to establish a separate IPERS benefits board with broad membership and to encourage IPERS to develop a plan for legislative consideration to provide some means of postretirement health care assistance to IPERS retirees.

7. Written Materials Provided for the Meeting.

- a. List of recommendations presented to the Committee.
- b. Matrix of retirement benefits, submitted by Jean Kuehl, Assistant Director, Sixth Judicial District Department of Correctional Services.
- c. House File 382.
- d. Rules for Committee action.
- e. Fiscal note on House File 60.
- f. Study of Occupational Injuries and Deaths, submitted by Sally Chandler Halford, Iowa State Department of Corrections.
- g. Revenue Impact for State Pre-Tax Employee Pension Contributions memorandum, submitted by Dwayne Ferguson, Legislative Fiscal Bureau.
- h. Escalator clause endorsement, submitted by Verlin R. Fairbanks, Secretary-Treasurer/Acting President, Iowa Association of Retired Firefighters.
- i. Cost Estimates of Proposed Changes in Plan Benefits, submitted by Carroll Bidler, Director of Administrative Services, Iowa State Department of Public Safety.
- j. IPERS Benefit Enhancement Recommendations, submitted by Greg Cusack, Chief Benefits Officer, and Elizabeth Sanders, Chief Investment Officer, Iowa Department of Personnel.
- k. 1996 Legislative Recommendations, submitted by Dennis L. Jacobs, Executive Director, Municipal Fire and Police Retirement System of Iowa.

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