

# PUBLIC RETIREMENT SYSTEMS COMMITTEE

## *MEMBERSHIP*

*Senator Sheldon Rittmer*

*Co-chairperson*

*Senator Michael Connolly*

*Senator Richard Drake*

*Senator John Kibbie*

*Senator Mary Lundby*

*Representative Mona Martin*

*Co-chairperson*

*Representative John Connors*

*Representative Chuck Gipp*

*Representative Danny Holmes*

*Representative Rick Larkin*

## TENTATIVE AGENDA

Thursday, December 14, 2000

Room 118, State Capitol

10:00 a.m. – 10:15 a.m. Preliminary Business

### **Governor's Task Force on IPERS Governance and Structure**

10:15 a.m. – 12:00 noon Patti Walden Allen, Task Force Facilitator  
Joanne Stockdale, Chair, Task Force  
Lowell Dauenbaugh, Vice Chair, Task Force

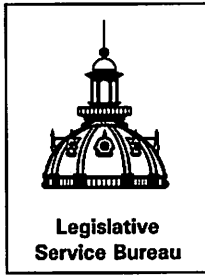
12:00 – 1:00 p.m. Lunch

### **Discussion of Defined Contribution Options under IPERS**

1:00 p.m. – 2:00 p.m. Tom Koob, Assistant Vice President, TIAA-CREF

2:00 p.m. – 3:00 p.m. Greg Cusack, Chief Benefits Officer, IPERS

3:00 p.m. – ??? Committee discussion and recommendations  
Adjournment



# MINUTES

## Public Retirement Systems Committee

December 14, 2000

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### MEMBERS PRESENT:

Senator Sheldon Rittmer,  
Cochairperson  
Senator John Kibbie  
Senator Mary Lundby

Representative Mona Martin,  
Cochairperson  
Representative John Connors  
Representative Chuck Gipp  
Representative Danny Holmes  
Representative Richard Larkin

## MEETING IN BRIEF

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

Minutes prepared by: Rick  
Nelson, Legal Counsel  
(515) 242-5822

- I. Procedural Business.
  - II. Governor's Task Force on IPERS Governance and Structure.
  - III. Defined Contribution Options Under IPERS.
  - IV. Written Materials on File With the Legislative Service Bureau.
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## **Public Retirement Systems Committee**

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### **I. Procedural Business.**

#### **A. Call to Order.**

The Public Retirement Systems Interim Study Committee was called to order at 10:15 a.m. on Thursday, December 14, 2000, in Room 118 of the State Capitol.

#### **B. Opening Remarks.**

Cochairperson Martin welcomed Committee members, and provided background information regarding the rationale for the meeting. She indicated that the Legislative Council authorized the Public Retirement Systems Committee created in Iowa Code section 97D.4 to meet once during the 2000 legislative interim to review the report of the Governor's Task Force on IPERS Structure and Governance and to review defined contribution options for persons covered by IPERS. Cochairperson Martin referenced a memorandum prepared by Ed Cook, Legal Counsel, Legislative Service Bureau, summarizing the appointment by the Governor of the Task Force members, the recommendations of the Task Force, previous studies by the IPERS Committee of IPERS governance and structure, and issues related to defined contribution plan versus defined benefit plan pension plan alternatives. She commented that it was not anticipated that this would be a meeting out of which recommendations would be forthcoming, but rather that the purpose of the meeting was to obtain information on both topics.

#### **C. Adjournment.**

The meeting recessed for lunch at 11:25 a.m., reconvened at 1:06 p.m., and adjourned for the day at 3:07 p.m.

### **II. Governor's Task Force on IPERS Governance and Structure.**

#### **A. Overview.**

Ms. Patti Walden Allen, Task Force Facilitator, introduced Ms. Joanne Stockdale, Chairperson of the Task Force, and Mr. Lowell Dauenbaugh, Vice Chairperson of the Task Force, and provided background information regarding the formation of the Task Force and a progress report regarding recommendations. Ms. Walden Allen indicated that the Governor had appointed the 14-member Task Force to review the way IPERS is structured and governed, with the objective of improving effectiveness and efficiency, and that the Task Force had been meeting since April 2000. The four legislative members appointed to the Task Force were Senator Freeman, Senator Kibbie, Representative Martin, and Representative Larkin. An outside consulting firm, Independent Fiduciary Services, Inc., was retained to provide assistance to the Task Force in addressing its charge.



**B. Findings and Recommendations.**

Ms. Stockdale, Chairperson of the Task Force, provided information relating to an assessment of the current strengths and weaknesses of IPERS, and the recommendations process which the Task Force used. Ms. Stockdale indicated that IPERS currently ranks in the top 20 percent nationally in terms of the investment stability and for public retirement systems, and that the Task Force determined that customer services for its members were generally regarded as satisfactory. Problems identified by the Task Force include concerns at the constituency level regarding the security of the system, management expertise, and beneficiary qualification. A more significant issue concerns the formation of an independent board of trustees.

Ms. Stockdale summarized the activities of the consulting firm in assisting the Task Force. Independent Fiduciary Services surveyed over 80 pension systems, and conducted numerous interviews with the management and membership of IPERS. Based on the preliminary information, two primary alternative recommendations were identified. Either an independent board of trustees could be established, or the investment board should be given more independence with an executive director who is not also serving as executive director of the Department of Personnel. Ms. Stockdale indicated that the recommendation regarding the establishment of an independent board of trustees was rejected by the Task Force, based upon the recognition that while unique, the current system is performing at a level where a major modification does not appear warranted. A compromise proposal of preliminary recommendations was eventually unanimously agreed upon:

- Keep IPERS within the Department of Personnel.
- Establish an independent executive director for IPERS to be appointed by the Governor with Senate confirmation, in recognition of the potential for a conflict of interest. A job description for this position should be codified and require the director to have a substantial background in pension administration.
- Establish an independent investment board for IPERS. Many of the powers of the current investment board should be codified, rather than implicitly recognized. The membership on the board should include three constituent group members appointed by the Governor from nominations submitted by the applicable constituent group. Three public members with substantial institutional investment experience would also be included. The current nonvoting position for the director of the Department of Personnel on the investment board would be eliminated and the Treasurer of State would be included as a voting member. Legislative members would also be included on the new board. The board would have the authority to select the actuary and to adopt any relevant actuarial assumptions.



## **Public Retirement Systems Committee**

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- Establish a constituent advisory committee in statute. The committee needs broad membership to include many employer and employee representatives. However, the voting members of the committee should have an equal number of employee and employer representatives with an additional voting member agreed upon by the other voting members.

### **C. Committee Discussion.**

Several Committee members contributed their perspectives and observations regarding the findings and recommendations of the Task Force. It was noted that balance is essential to maintaining the viability of IPERS when an inevitable economic downturn occurs. Committee members indicated basic support for the recommendations, with the key being an independent executive director overseeing IPERS. It was suggested that the recommendations might better be addressed during the upcoming legislative session, rather than in the 2002 Session of the General Assembly when benefit policy is usually considered. Cochairperson Martin thanked Task Force members, noting that it was obvious that a great deal of effort and compromise had been employed. Unit managers for IPERS in attendance indicated that they were hopeful that the recommendations would not be ignored. Cochairperson Martin challenged the Task Force membership to remain cohesive as attention turned to more detailed aspects of the recommendations.

## **III. Defined Contribution Options Under IPERS.**

### **A. TIAA-CREF.**

Tom Koob, Assistant Vice President, Consulting Services Division, Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF), addressed the Committee concerning his organization, and defined contribution and defined benefit plans in general. Mr. Koob provided a chronology of the formation of TIAA-CREF, indicating that it is a nonprofit organization that provides retirement benefits through a defined contribution plan to many educational institutions and other groups. Mr. Koob reviewed the fundamental differences between defined benefit and defined contribution plans, and indicated that changing workforce trends and increasing government regulation on traditional retirement plans have made defined contribution plans more attractive to employers and employees. The number of private-sector employees in defined contribution plans has risen dramatically, and many public-sector employers with a current defined benefit plan are studying or permitting a defined contribution alternative to the traditional pension plan. Mr. Koob indicated that although many issues need to be considered if an entity wishes to establish an optional defined contribution retirement plan, and that the issues can be complicated, they can be resolved in a way that protects members of both the new defined contribution plan and the traditional defined benefit plan. Issues identified include whether existing employees should be permitted to participate, time limits on making the decision to participate, status of benefits if an employee chooses to opt out, whether the plan is bundled or unbundled, and determining which categories of employees are eligible to participate. Mr. Koob commented that one



of the most significant aspects of a change from a defined benefit to a defined contribution plan concerns the shift in culture or philosophy, with an employee removed from investment decisions in a defined benefit plan and actively involved under a defined contribution plan.

### **B. IPERS Perspective.**

Mr. Greg Cusack, Chief Benefits Officer, IPERS, addressed the Committee concerning the current debate over defined benefit and defined contribution plans. He indicated that a retirement system must take into account all of its members, including both younger, more mobile employees and older career employees. He expressed concern that the debate has turned into an "either-or" discussion with employees having to choose between a defined benefit and defined contribution alternative. He indicated that the current portability study the Legislature required IPERS to conduct and report on by September 1, 2001, would focus, in part, on defined contribution options. Mr. Cusack indicated that while he has no preconceived ideas as to how to make IPERS even better for all, his belief is that the best system for all employees and employers would likely encompass a mix of both defined contribution and defined benefit components.

### **C. Committee Discussion.**

Several Committee members commented regarding the cultural shift represented by a change from a defined benefit to a defined contribution plan. It was noted that one perspective regarding the distinction between the two approaches would involve the employer making decisions regarding a defined contribution plan, versus the Legislature making decisions regarding a defined benefit plan, and that the prospect of uninformed employees making investment decisions could be viewed as unsettling. Mr. Koob responded that an investment allocation service is available from TIAA-CREF for employees, that employees are not obligated to invest in the stock market, and that education of employees is important. While it was acknowledged that portability is an attractive feature, concern was expressed regarding the ability to provide actuarially for the soundness of the system, and guarantee benefits, if an employee had the option to move from a defined benefit to a defined contribution system. Mr. Koob indicated that it is possible to ensure the financial stability of a defined contribution plan.

## **IV. Written Materials on File With the Legislative Service Bureau.**

1. Public Retirement Systems Committee – Background Information Memorandum
2. Independent Fiduciary Services, Inc. Report To The Governor's Task Force To Study Iowa Public Employees Retirement System Structure and Governance
3. Task Force To Study Iowa Public Employees Retirement System Structure and Governance, November 30, 2000, Meeting Summary
4. IPERS Update On Current Plan Design



## **Public Retirement Systems Committee**

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5. Fixed Rates Versus Variable Rates For Public Safety Workers Covered By IPERS Memorandum
6. Government Defined Contribution Plans Created or Significantly Expanded by 1999-2000 State Legislation Chart
7. States With ORP-Type Plans Booklet
8. Buck Consultants, Inc. Report and Recommendations on the Issues of Converting IPERS' Existing Defined Benefit Plan to a Defined Contribution Plan
9. Buck Consultants, Inc. Report On the Benefit Enhancement Study For Iowa Public Employees' Retirement System
10. Plan Design: A Review of Current Public Pension Issues
11. Pensions and Retirement Plan Enactments in 2000 State Legislatures: Preliminary Report
12. Alternatives to Traditional State Employee Retirement Plans
13. Pensions and Retirement Plan Issues in 1999 State Legislatures
14. Defined Benefit/Defined Contribution Plans Educational Seminar

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