

## MEMORANDUM

**TO:** CO-CHAIRPERSONS SENATOR SHELDON RITTMER AND REPRESENTATIVE MONA MARTIN, MEMBERS, AND STAFF

**FROM:** ED COOK

**DATE:** December 7, 2000

**RE:** PUBLIC RETIREMENT SYSTEMS COMMITTEE – BACKGROUND INFORMATION

### I. OVERVIEW:

The Legislative Council has authorized the Public Retirement Systems Committee created in section 97D.4 to meet once during the 2000 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." This memorandum, and the attached materials, is designed to provide some background concerning the issues to be considered during this interim.

### II. IPERS Governance and Structure

#### A. Governor's Task Force

On February 24, 2000, Governor Vilsack appointed a 14-member task force to review the way IPERS is structured and governed. The four legislative members appointed were Senator Freeman, Senator Kibbie, Representative Martin, and Representative Larkin. Independent Fiduciary Services, Inc. was retained by the Iowa Department of Personnel through the task force to assist the task force in studying the issue. Information on the meetings of the task force, including summaries and transcripts of each task force meeting, the charge to the task force, and the members of the task force can be accessed through the task force website at [www.state.ia.us/government/idop/taskforcehome.htm](http://www.state.ia.us/government/idop/taskforcehome.htm). The task force has been meeting throughout the summer and fall.

At its meeting on November 30, the task force, by unanimous vote, made the following recommendations:

That IPERS remain within the Department of Personnel; however, an executive director of IPERS will be appointed and the Governor shall appoint the executive director for a 4-year term, subject to Senate confirmation. A job description for the executive director position would be included in statute. In addition, an investment board, of an odd-number of voting

members, but not more than 9, shall be established with the membership on that board consisting of the treasurer of state; three individuals, not including the treasurer or the legislative members, with investment experience; IPERS constituent members, and legislative members. The Governor, from nominations submitted by the appropriate constituent group, would appoint the IPERS constituent members. The powers of the investment board would be similar to that which is currently enjoyed by the current investment board, and would likely include adoption of the applicable investment assumption rate and other actuarial assumptions. In addition, a benefits advisory committee of not more than 15 members would also be established. The membership on the board would include both employer and employee representatives. The task force also recommended that current inconsistencies in the Iowa Code that were identified by the task force consultant be remedied.

A task force report, incorporating the recommendation of the task force as well as including other supporting documentation, is being drafted but is not yet finalized.

#### B. Previous IPERS Governance and Structure Studies.

The Governor's task force, and this interim, is not the first time governance and structure issues concerning IPERS were considered by the public retirement systems committee. In 1995, Buck Consultants Inc., in its report on benefit enhancements for IPERS, included an extensive section discussing governance and structure issues. Its recommendation was to establish a board of trustees, or alternatively, to establish a benefits board in addition to the current investment board structure. Later, the 1996 public retirement bill, enacted at 1996 Iowa Acts, chapter 1187, section 73, provided as follows:

Sec. 73. STUDY CONCERNING ORGANIZATIONAL STRUCTURE OF THE IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM. The public retirement systems committee established in section 97D.4 shall study the feasibility of changing the organizational structure and governance of the Iowa public employees' retirement system. The committee shall consider the recommendations of the Buck Consultants Inc. report submitted to the Iowa public employees' retirement system in 1995, the Iowa public employees' retirement system division, and the department of personnel. The public retirement systems committee shall submit a report to the general assembly on or before January 31, 1998, containing its findings and recommendations.

On September 1, 1997, the Director of the Iowa Department of Personnel submitted a letter to the interim committee

recommending that the current structure of IPERS remain intact. During the 1997 interim committee meetings, the Director indicated that the Department of Personnel did not support establishment of an independent board of trustees to govern IPERS but was willing to consider establishment of a benefits advisory board. The interim committee, however, made no formal recommendation concerning changes to IPERS's structure.

### C. Attachments

I have attached several documents to this memorandum concerning governance and structure issues. Many of the documents attached were previously submitted to the public retirement committee during the 1997 interim and the portion of the 1995 Buck Consultant report dealing with governance.

## III. Defined Contribution options.

### A. Overview.

Pension plans can generally be characterized as either a defined benefit or a defined contribution plan. Most public pension systems operate a defined benefit plan, although several states have considered, and have added, a defined contribution alternative to the traditional pension plan. The primary difference between the two types of pension plans is that a defined contribution plan provides only that the employer guarantee a certain contribution to an employee's pension account while a defined benefit plan guarantees a certain benefit upon an employee's retirement. Under a defined contribution plan, the employer's financial obligation ends upon making a contribution to the employee's account; with a defined benefit plan, the employer's financial obligation is to provide sufficient resources to pay a specific benefit to all employees upon their retirement, generally determined by a formula based upon the years of service and salary of each particular employee.

### B. 1996 Public Retirement Bill

Similarly to the issue concerning governance, this interim is not the first time the public retirement systems committee has considered defined contribution options for IPERS. The 1996 public retirement bill, enacted at 1996 Iowa Acts, chapter 1187, section 69, provided as follows:

Sec. 69. IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM - DEVELOPMENT OF PROPOSALS FOR ESTABLISHING A DEFINED CONTRIBUTION OPTION AND FOR CONVERTING THE SYSTEM INTO A DEFINED CONTRIBUTION PLAN - REPORT. The Iowa public employees' retirement system

division, in consultation with the public retirement systems committee established in section 97D.4, shall develop a proposal concerning various alternatives for establishing a defined contribution option for members of the Iowa public employees' retirement system in addition to the current defined benefit plan and a proposal concerning various alternatives for converting the Iowa public employees' retirement system into a defined contribution plan by terminating the current defined benefit plan and establishing a defined contribution plan. On or before September 1, 1997, the Iowa public employees' retirement system division shall file a report with the legislative service bureau, for distribution to the public retirement systems committee, which contains proposals for establishing a defined contribution option and for converting the Iowa public employees' retirement system into a defined contribution plan. The report shall also contain actuarial information concerning the costs of the proposals.

As a result of the directive in this section of the bill, as well as the directive in section 74 of the bill for IPERS to conduct a comprehensive examination of plan design for IPERS, IPERS contracted with Buck Consultants to study, among other issues, the desirability of converting IPERS to a defined contribution plan. The recommendation of Buck Consultants in its August 1997 report was not to convert IPERS to a defined contribution plan but to instead enhance the current IPERS defined benefit plan. IPERS, in a document dated November 18, 1997, also recommended retaining the existing defined benefit design with some suggested modification. The interim committee did not make any formal recommendations concerning this issue.

#### C. Attachments

I have attached several documents to this memorandum concerning the defined benefit vs. defined contribution issue. As one might imagine, the number of articles discussing this issue is quite voluminous and I have only included a select few. I have also attached some of the documents previously submitted to the Public Retirement Committee during the 1997 interim, specifically including the Buck Consultants report of August 1997.