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MEMO

Thursday, December 14, 2000

TO: Honorable Members  
Pension Subcommittee  
State Government Committee  
The Senate  
House of Representatives

FROM: Greg Cusack   
Chief Benefits Officer  
Iowa Public Employees' Retirement System

RE: "Fixed Rates" vs. "Variable Rates" for Public Safety Workers Covered by  
IPERS

In my 1999 report to the General Assembly<sup>1</sup>, I recommended that IPERS move to a *fixed rate* contribution for public safety employees, mirroring the statutory contribution rate for regular members in place for over 20 years. This proposal accompanied other our recommendations for attaining *parity* between and among IPERS' public safety covered employees and those covered under the State's other two public safety retirement systems: the Iowa Municipal Fire and Police Retirement System (IMFPRS) and the Peace Officer Retirement System (PORS)<sup>2</sup>.

The Legislature did concur with our *parity* recommendations and, with a phase-in proposal for the higher costs designed by Senator Sheldon Rittmer, enacted both disability and other *parity* benefits for IPERS' public safety workers. Frankly, we thought that the fixed rate portion of our recommendations had been enacted, too. On that assumption, we declared to our affected employers last summer changed contribution rates designed to "phase in" the full cost of these *parity* enhancements.

To our chagrin, we only recently discovered that the Legislature did not, in fact, place the mandate for our moving to fixed rates in the Iowa Code. Consequently, we must follow existing law in applying floating contribution rates as discerned by our actuary. Unless the Legislature acts in the 2001 session to place fixed rates in the Code, the following are the rates which our

<sup>1</sup> To the Governor and General Assembly: A Report Regarding, and Recommendations for Plan Design, Multi-Year Benefit Enhancements and Contribution Rates for the Iowa Public Employees' Retirement System, November 1999.

<sup>2</sup> The complete report, upon which IPERS' *parity* recommendations were based, was co-authored in 1998 by IPERS, the MFPRSI and PORS and was entitled, *Report to the Iowa Legislative Committee on Public Retirement Systems: Comprehensive Examination of Benefit Programs & Related Issues Pertaining to Public Safety Classifications within IPERS, POR & MFPRSI.*

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actuary has certified we must put into effect next July 1, 2001. (Please note that these are substantially higher, for our Protection Occupation covered folks, than we had declared for these same employers last summer.)

**Sheriffs, Deputy Sheriffs & Airport Firefighters:** 13.75% (employer 8.25%; employee 5.50%). *Rates announced in June 2000: 13.98%.*

**Protection Occupation:** 15.49% (employer 9.29%; employee 6.20%)  
*Rates announced in June 2000: 14.76%*

While we at IPERS believe a fixed rate would have the significant advantage of giving cost predictability for covered employers of covered public safety workers in the future, I must note that sentiment for fixed rates is far from uniform among our Constituent Group's public safety representatives.

One last piece of information: it is the conclusion of IPERS' managers and our actuary that without fixed rates no future SAAM payment can be made to public safety workers, as their annually fluctuating rates are designed to precisely meet the Fund's required contributions for the fiscal year and thus no "surplus" can, in fact, exist from which to pay their members a SAAM distribution. (This was another reason why we had recommended fixed rates.)

Please let me know if you have any questions or if I can be of any assistance on this matter going forward.

Enclosure

**From the 1999 Report: TO THE GOVERNOR AND GENERAL ASSEMBLY: A REPORT REGARDING, AND RECOMMENDATIONS FOR PLAN DESIGN, MULTI-YEAR BENEFIT ENHANCEMENTS AND CONTRIBUTION RATES FOR THE IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM**

Recommendation # 6) Establishing Fixed Contribution Rates for Public Safety Members by Which Future Benefit Enhancements Would Be Paid

*That, effective July 1, 2000, fixed contribution rates, sufficient to fund existing benefits and expanded disability, be established for public safety member and their employers<sup>3</sup>; and that the other recommendations of the benefit parity study for IPERS' memberships be purchased over time from within the margin created by these fixed rates.*

**Discussion**

One of the recommendations of the benefit *parity* study performed in 1998 was that IPERS establish a fixed contribution rate for its special group membership.<sup>4</sup> The current floating rate structure was devised in 1988 as part of the agreement whereby IPERS' special groups received a more favorable retirement formula (same payout but with fewer service years required). The floating rate above the 9.45% which paid for the core level of benefits enjoyed by all IPERS' members was to be annually determined by IPERS' actuary and was to reflect the cost of the *additional* benefits enjoyed by the public safety membership.

While this has worked well in the years since, the very fact that it is precisely determined by IPERS' actuary every year means that no "margin" accumulates wherein surpluses develop that could be used to purchase additional benefits. For example, had the rates assessed the special groups five years ago been retained, they would have paid for most, if not all, of the additional costs of the expanded disability program we are recommending as our number one priority.

Further, fixed rates bring predictability to budget planning, not only for members, but for their employers.

Lastly, the fixed rates would also allow special groups' members to enjoy a Supplemental Account for Active Member (SAAM) distribution when one becomes payable in the future.<sup>5</sup> Floating rates, precisely because they are exactly what the System needs to cover its liabilities for that portion of the membership, will never allow a SAAM distribution.

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<sup>3</sup> Our actuary recommends **two** fixed rates until such time as we have achieved true parity between and among IPERS' special service groups: one for the sheriffs, deputy sheriffs, and airport firefighters, and the other for the protection occupation groups.

<sup>4</sup> Please see *Report to the Iowa Legislative Committee on Public Retirement Systems: "Comprehensive Examination of Benefit Programs & Related Issues Pertaining to Public Safety Classifications within IPERS, POR, & MFPRSI"*, submitted on November 2, 1998, p.18.

<sup>5</sup> A SAAM would not be allowable until all unfunded liabilities represented by parity enhancements had, in fact, been fully paid for.

**We recommend that the Legislature adopt the additional benefit enhancements for IPERS' special groups, and that IPERS be instructed to implement them as sufficient margin becomes available within the new fixed contribution rates for these groups.<sup>6</sup> These additional benefit enhancements from the 1998 benefits *parity* report, are:**

1. Equalize number of years required to establish 60% formula at 22<sup>7</sup>
2. Provide same credit per year of service<sup>8</sup> for at least 30 years of service<sup>9</sup>
3. Provide same credit per year of service<sup>10</sup>

Also, consistent with the *parity* report, the above additional enhancements assume that the existing two special groups, which currently have their own benefit disparities *between* them, would be combined into one.<sup>11</sup>

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<sup>6</sup> It is very likely that this would mean the full implementation of these various enhancements would take several years. Our suggested method is very similar to the approach taken by the 1990 General Assembly when it directed us to increase the formula multiplier from 50% to 60%, as well as to annually increase the ceiling in the then covered wage ceiling. IPERS was directed to attain these goals, and the pace was determined by our keeping within the existing contribution rates.

<sup>7</sup> Currently, members of the PORS and MFPRSI – and sheriffs, deputy sheriffs, and airport fire fighters in IPERS (27% of IPERS' members who in public safety related positions) – earn 60% for 22 years of service, while the remaining 73% of IPERS' public safety members must work 25 years to earn 60%. The value of each year of service for those who earn 60% after 22 years is 2.727% for each year of service, while it is but 2.4% for those who accrue 60% at 25 years.

<sup>8</sup> Members of MFPRSI, PORS and IPERS' sheriffs, deputy sheriffs, and airport firefighters receive 1.5% credit for years of service beyond 22, while the rest of IPERS' special service members receive 1%.

<sup>9</sup> Members of the MFPRSI and IPERS' sheriffs, deputy sheriffs, and airport firefighters can receive credit for up to eight years of service beyond the 22 necessary to earn 60%. Members of the POR can receive credit for up to 10 years beyond 22 years of service, while the rest of IPERS' special groups can only receive credit for a maximum of 5 years of service beyond 22.

<sup>10</sup> Members of MFPRSI, PORS and IPERS' sheriffs, deputy sheriffs, and airport firefighters receive 1.5% credit for years of service beyond 22, while the rest of IPERS' special service members receive 1%.

<sup>11</sup> *Report to the Iowa Legislative Committee on Public Retirement Systems: "Comprehensive Examination of Benefit Programs & Related Issues Pertaining to Public Safety Classifications within IPERS, POR, & MFPRSI"*, p.20.