



Public Retirement Systems Committee

Minutes

December 16, 1998

First and Final meeting

MEMBERS PRESENT

- Senator Sheldon Rittmer, Jr., Co-chairperson
- Senator Richard Drake
- Senator John Kibbie
- Senator Mary Lundby
- Representative Mona Martin, Co-chairperson
- Representative John Connors
- Representative Jack Drake
- Representative Chuck Gipp
- Representative Rick Larkin

MEETING IN BRIEF

Minutes prepared by Rick Nelson, Legal Counsel
Organizational staffing by Ed Cook, Legal Counsel

1. Procedural Business.
2. Presentation of Study.
3. Testimony of Interested Organizations.
4. Discussion.
5. Written Materials Filed With the Legislative Service Bureau.

COMMITTEE BUSINESS

1. Procedural Business.

Call to Order. The Public Retirement Systems Interim Study Committee was called to order at 10:07 a.m. on Wednesday, December 16, 1998, in Room 116 of the State Capitol.

Preliminary Business. All Committee members were in attendance, with the exception of Senator Michael Connolly. Representative John Connors moved that proposed rules be adopted, and they were approved by the Committee.

Adjournment. The meeting recessed for lunch at 12:10 p.m., reconvened at 1:19 p.m., and adjourned at 2:15 p.m.

2. Presentation of Study.

Mr. Carroll Bidler, Director of Administrative Services, Peace Officers' Retirement System (PORS); Mr. Greg Cusack, Chief Benefits Officer, Iowa Public Employees' Retirement System (IPERS); Mr. Dennis Jacobs, Executive Director, Municipal Fire and Police Retirement System of Iowa (MFPRSI); and Ms. Nancy Williams, Consultant, William Mercer, Inc., addressed the Committee concerning the November 2, 1998, study entitled "Comprehensive Examination of Benefit Programs & Related Issues Pertaining to Public Safety Classifications within IPERS, PORS, & MFPRSI." The report was required by the retirement legislation passed during last year's legislative session, 1998 Iowa Acts, ch. 1217, House File 2496, and was the primary focus of the meeting.

Mr. Jacobs provided an overview and timelines of the discussion process, culminating in the recommendations contained in the report. Mr. Jacobs reviewed the directive in H.F. 2496

requiring that representatives of PORS, IPERS, and MFPRSI conduct a study, with the technical assistance of an external consultant, and issue a report relating to an analysis of benefit plans, analysis of administrative requirements, and consideration of a uniform actuarial reporting method for the public safety classifications within the three systems. Mr. Jacobs also described the process through which the consulting firm of William Mercer, Inc., was selected, and indicated that the representatives conducted meetings beginning in April and concluding in November 1998. Following the overview, the primary recommendations relating to each of the three main focus areas of the report were discussed, with Mr. Bidler, Mr. Cusack, Mr. Jacobs, and Ms. Williams each participating in the discussion. In an effort to consolidate the discussion and emphasize the key components of the report, they will be referred to jointly as "presenters."

a. Analysis of Benefit Plans. The presenters indicated that the guiding principle in considering changes to the current benefit plans for public safety classifications within the three retirements systems was parity of benefits and not mere equality of benefits. In addition, the presenters concluded in the study that attempts to provide trade-offs in granting and reducing benefits would be difficult at best, could result in litigation, and would not be recommended. Based on this, the presenters made the following recommendations and established a priority order for the recommendations based upon the number of individuals affected and the disparity between the financial value of the current benefits.

1. Priority recommendations.

- Priority A:
 - Provide Social Security supplemental benefit for all PORS and MFPRSI members.
 - Provide disability coverage for members of both public safety classifications within IPERS.
- Priority B:
 - Equalize the number of years required to establish the 60 percent benefit formula among all the affected groups by reducing the number of years required for IPERS protected occupation members to receive 60 percent.
- Priority C:
 - Provide credit for at least 30 years of service with the same 1.5 percent credit applied for each additional year of service over 22 years of service. (IPERS protected occupation members).
- Priority D:
 - Establish a fixed contribution rate structure for both IPERS public safety classifications.
- Priority E:
 - Improve both preretirement and postretirement death benefits for both IPERS public safety classifications.

The presenters also addressed two additional special situations of concern to the non-IPERS retirement systems (PORS and MFPRSI):

- Provide an additional insurance program for members hired prior to April 1, 1986. (Members hired after that date are covered by Medicare.)
- Provide some supplemental benefits for single members of both systems.

2. Discussion.

Analysis of Benefit Plans. With respect to the Analysis of Benefit Plans discussion, Ms. Williams indicated that the representatives initially focused on reaching a consensus regarding the definitions of some of the terms utilized. In response to a question from Senator Mary Lundby, Mr. Cusack indicated that an analysis of parity and equality of member costs, as well as benefits, was also undertaken, but that additional actuarial analysis is needed. Mr. Cusack noted that the representatives determined that benefit enhancements

should take place within existing funding parameters without an increase in contributions, unless both employees and employers agreed otherwise. It was also noted that the representatives made a concerted effort to be cognizant of the impact on requests by a majority of members of the retirement systems which can result when more narrowly drawn recommendations impacting a subgroup of members are enacted.

Strategic Plan. Ms. Williams commented that she advocates the articulation by the Committee of a benefits philosophy for use in formulating a strategic plan, after the Committee has analyzed and absorbed the report's recommendations. It was noted that the representatives considered several concepts in addition to those set forth above, whereby a reduction or trade-off in current benefit plan provisions would occur in exchange for the establishment of additional benefit provisions. It was determined not to pursue those additional concepts, based upon identification of several complicating issues, including:

- o An inability to treat fairly both the current and future active members,
- o The absence of financial comparability between the benefits being considered for modification and those to be added in the future,
- o The existence of questions concerning the contract right to benefits for those currently under the plans, and
- o Questions concerning the ability to feasibly implement the changes in an equitable manner, given the likelihood that changes will occur over extended time periods.

b. Analysis of Administrative Requirements. The presenters indicated that the guiding principle for any consideration of combining administrative functions between each retirement system was each system's fiduciary responsibility to serve their members. The study concluded that any cost savings in combining functions would not be great, especially compared with the advantages of the current structure in meeting the needs of its members, and that accordingly the focus should be on maintaining separate systems but providing comparable benefits (parity) between them. The only recommendation of the study was to combine the two special classifications groups in IPERS into one classification with comparable benefits as described in the study's analysis of benefit plans. Specific factors identified influencing the recommendation against consolidation included the following:

- **Cross-Subsidization of Financial Obligations Could Occur.** The potential for cross-subsidization of financial obligations (benefit liabilities) among the consolidating members and employers would exist.
- **Difficult Legal and Fiduciary Issues Would Develop.** The creation of substantive legal and fiduciary questions pertaining to governance and administration of the plans would occur.
- **Elimination or Reduction in the Memberships' Active Role in Governance.** A significant change would occur in the governance of the retirement systems whereby the active role in governance by law enforcement and public safety workers and their employers would be eliminated or, at a minimum, diluted.
- **Servicing of the Specific Needs of the Individual Membership Groups Would Be Adversely Affected.** A significant reduction in the ability to effectively service the specific needs of the individual membership groups can be anticipated.
- **IRS Qualification Concerns.** Issues could develop adversely impacting the ability to maintain qualified plan status under the IRS Code due to the IRS requirement to administer the plan for the "exclusive benefit" of the membership.
- **Other Concerns.** Other identified concerns include: difficulty in resolving complex topics associated with the established of a consolidated system or the transfer of selected groups, such as resolution of funding differences of the plans, to include determination of the use of excess funds or the identification of a funding source to meet underfunded liabilities, determination of the correct governance model to be adopted, identification of issues associated with establishment of the fiduciaries for the system, resolution of benefit plan

differences and expectations, resolution of actuarial methodology differences and assumptions, identification and resolution of policy differences, establishment of administrative requirements and expectations for the plans, establishment of plan qualification under the IRS Code, and identification of the level of accountability to the individual membership and their employers.

Discussion. Co-chairperson Representative Mona Martin noted the concept of enhanced "economies of scale" favoring consolidation, and commented that a table reflecting the pluses and minuses of consolidation would be useful. In response to a question from Representative Chuck Gipp, Ms. Williams indicated that in her experience an elected, rather than appointed, retirement system board is preferable, and that while unusual, incorporation of IPERS within the Department of Personnel is not unique to Iowa and can work provided that an independent board exists.

c. Actuarial Reporting Requirement. The presenters' recommendation was to continue to allow each retirement system to adopt its own "official" actuarial reporting method. However, each retirement system would also issue an additional actuarial report to the Legislature using a common actuarial method, with some common assumptions, for each affected retirement system. The presenters recommended using the projected unit credit method as the common actuarial method.

3. Testimony of Interested Organizations.

The Committee received testimony from several organizations representing individuals affected by the retirement systems subject to the report.

Airport Fire Fighters -- Mr. LaVerne Schroeder. Mr. Schroeder indicated that his organization supports the passage of disability benefits for IPERS special classifications during the 1999 legislative session and supports the remainder of the report but feels it can be addressed during the normal year, (2000 legislative session) for consideration of public retirement changes.

Iowa Association of Chiefs of Police and Peace Officers -- Officer Michael DeKruif. Officer DeKruif indicated his organization supports the passage of disability benefits during the 1999 legislative session, and urges consideration of reducing the retirement benefit differences between small-town police, who are covered by IPERS, and larger town police, covered by MFPRSI, in order to enhance the ability of small towns to recruit and retain police officers.

Iowa State Sheriffs and Deputies Association -- Ms. Susan Cameron, Hutchins and Associates, Chief Deputy Ken Runde, Chief Deputy Bill Sage. The Association supports early passage of disability benefits during the 1999 legislative session so as to permit implementation of the benefit by July 1, 1999, and supports the priority ranking of the benefits proposed in the study.

Iowa Professional Firefighters Association -- Mr. Tom Fey. The Iowa Professional Firefighters Association supports the study recommendation not to consolidate the retirement systems, and believes that the federal Social Security offset recommendation may have some merit but feels that the Association needs more time to consider the proposal.

Iowa State Troopers Association -- Ms. Diane Reid; Iowa State Patrol Supervisors Association, Sgt. Gail Schwab. The Associations support passage of disability benefits during the 1999 legislative session, agree with the proposal to combine the two public safety groups under IPERS for purposes of retirement and to enhance the death benefit under IPERS, and are willing to consider the Social Security offset proposal but feel the proposal needs further study. Both Associations still support the legislative proposals made, but not enacted, during the 1998 legislative session. (Proposals included additional credit for extra years of service, improved escalator benefits, and retirement with 30 years of service regardless of age.)

Iowa Retired Peace Officers' Association -- Mr. Richard J. Reddick. The Association supports granting every retiree from PORS a credit of 1.5 percent for each year of service over 22 years of service for up to a maximum of eight additional years of service, and supports adding a retired member of PORS to the system's board of directors.

4. Committee Discussion.

Representative Connors initiated a discussion regarding plans for the 1999 legislative session

relating to retirement systems and the recommendations contained in the study. Co-chairperson Martin responded that the purpose of the meeting was strictly to obtain information, and that at the present time additional meetings are not scheduled. Senator John Kibbie expressed interest in putting preliminary language together in the form of one or more study bills relating to the recommendations contained in the study, and indicated a desire that the state make a diligent effort to pay its retirement system obligations. Co-chairperson Martin commented that she will discuss the information obtained at the meeting with legislative leadership. The Committee was adjourned without making any formal recommendations.

5. Written Materials Filed With the Legislative Service Bureau.

- a. Report to the Iowa Legislative Committee on Public Retirement Systems, "Comprehensive Examination of Benefit Programs and Related Issues Pertaining to Public Safety Classifications Within IPERS, PORS and MFPRSI," filed by Mr. Bidler, Mr. Cusack, Mr. Jacobs, and Ms. Williams.
- b. Prepared Remarks, Mr. George F. Maybee, President of Iowa League of Cities and Mayor of Boone.
- c. State Police Officers Council -- Statement concerning report, filed by Ms. Reid.
- d. Letter, Mr. Richard Reddick, retired Iowa State Peace Officers Association.
- e. AFSCME Iowa Council 61 -- letter concerning report, filed by Ms. Jan Corderman, President.
- f. Iowa Professional Firefighters Association -- letter concerning report, filed by Mr. Fey.
- g. Resolution in favor of disability coverage -- various public safety associations.



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