



# MINUTES

## Public Retirement Systems Committee

November 2-3, 2005

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### MEMBERS PRESENT:

Senator Mark Ziemann,  
Co-chairperson  
Senator Michael Connolly  
Senator Steve Kettering  
Senator John Kibbie  
Senator Doug Shull

Representative Jeff Elgin,  
Co-chairperson  
Representative Jack Drake  
Representative Marcella Frevert  
Representative Pam Jochum  
Representative Walt Tomenga

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## MEETING IN BRIEF

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

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

- I. Procedural Business.
- II. Overview of Public Retirement Systems in Iowa.
- III. Judicial Retirement System.
- IV. Iowa Public Employees' Retirement System (IPERS).
- V. Municipal Fire and Police Retirement System of Iowa (MFPRS).
- VI. Peace Officers' Retirement System (PORS).
- VII. Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF).
- VIII. Committee Discussion — Next Meeting.
- IX. Materials Filed With the Legislative Services Agency.



## Public Retirement Systems Committee

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

**Call to Order.** The Public Retirement Systems Interim Study Committee was called to order at 10:00 a.m. on Wednesday, November 2, 2005, in Room 116 of the State Capitol.

**Preliminary Business.** Temporary Co-chairpersons Zieman and Elgin were elected permanent Co-chairpersons, and the proposed rules governing the operation of the Committee were adopted. Co-chairperson Elgin provided opening remarks during which he welcomed Committee members and expressed confidence that the Committee can build upon the work of previous committees and continue to monitor and refine the Iowa Public Employees' Retirement System (IPERS) as necessary.

**November 2.** The Committee recessed for lunch at 11:06 a.m., reconvened at 12:31 p.m., and recessed for the day at 3:50 p.m.

**November 3 Call to Order and Adjournment.** The Committee was called to order at 9:03 a.m. on Thursday, November 3, 2005, in Room 116 of the State Capitol. The meeting recessed for lunch at 12:00 p.m., reconvened at 1:05 p.m., and adjourned for the day at 2:25 p.m.

### **II. Overview of Public Retirement Systems in Iowa.**

Mr. Ed Cook, Senior Legal Counsel, Legislative Services Agency, provided background information regarding the formation and operation of the Committee and an overview of general pension principles and the component systems which comprise IPERS. Mr. Cook described the unique status of the pension committee as being established in and governed by statute. Mr. Cook summarized the provisions of Code section 97D.4 regarding the Committee's duties to review public retirement systems provisions, standards, and proposals and to make related recommendations to the General Assembly, and summarized the statutory guidelines establishing basic policy parameters. He emphasized the Committee's importance in evaluating and recommending proposed changes to the funding mechanisms specified in statute, commented that the years of experience possessed by many Committee members and staff lends a valuable degree of continuity to the Committee's work, and provided information relating to available resource material regarding the retirement systems, pension funding, and actuarial concepts.

Mr. Cook indicated that the basic defined benefit pension funding formula is relatively uncomplicated, based upon the principle that contributions plus investment return, minus expenses, equals benefits. More challenging is ensuring that both sides of the equation equal out. He stated that IPERS, and the other statewide pension plans, avoid the pitfalls of a private, "pay-as-you-go" approach. The goal of periodic system review is to evaluate whether current investment results, utilizing the time value of money, will be adequate to fund the cost of future benefits, discounted to today's dollars. There are three different actuarial methods utilized to determine contribution rates, and different public retirement



systems within the state utilize different methods, but all with the ultimate objective of trying to determine what contribution level is necessary each year to pay anticipated future benefits.

Mr. Cook also described the four main public retirement systems within the state — IPERS, the Municipal Fire and Police Retirement System (MFPRSI), the Department of Public Safety Peace Officers' Retirement, Accident, and Disability System (PORS), and the Judicial Retirement System. He explained that within IPERS, there are actually three basic plans — general membership comprised of teachers and state, city, and local employees, and two special membership classifications for protection occupations and for sheriffs and deputy sheriffs. In total, then, there are six different systems or classifications, which vary regarding retirement age without benefit reduction and social security benefit availability.

### **III. Judicial Retirement System.**

#### **A. System Presentation.**

Mr. David Boyd, State Court Administrator, accompanied by Ms. Peggy Sullivan, Director of Finance and Personnel, Judicial Branch, provided a summary and overview of the Judicial Retirement System, a review of applicable financial information, and a partially completed actuarial report. Mr. Boyd indicated that the system is strictly open to judges and does not include other court system employees. There are presently 194 active members within the system and 142 retired members or surviving spouses. Mr. Boyd stated that the basic judicial retirement benefit is limited to 60 percent of current salary, and summarized eligibility requirements relating to years of service and attainment of a specified age. He reviewed a chart depicting the calculation of state (employer) contributions to the system over the past several years, indicating that the statutorily prescribed contribution rate of 23.7 percent of covered payroll has not been met, resulting in a cumulative contribution shortfall of \$13 million and a growing unfunded liability. He also reviewed an actuarial update indicating that as of July 1, 2005, the funded ratio of assets to liabilities of the system is now 77 percent.

Committee discussion included a request for information relating to the system's investment managers, portability of benefits when a magistrate becomes a judge eligible for membership in the system (conversion from IPERS to the judicial system is possible, with some limitations regarding years of service eligibility), and the observation that even if the \$13 million had been received in employer contributions, \$23 million is actually necessary to make the system actuarially sound.

#### **B. Iowa Judges Association.**

Judge John Nahra, speaking on behalf of the Iowa Judges Association, accompanied by Judge Larry Eisenhower, expressed the association's interest in continued consideration of H.F. 729, introduced during the 2005 Legislative Session and providing in part for modifications relating to the judicial retirement program, including increasing the percentage multiplier for each year of service up to a maximum of 20 years of service from 3 to 3.25



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percent. Judge Nahra observed that an attractive and competitive compensation and benefits package is critical in being able to recruit top quality attorneys to judicial positions.

### **IV. Iowa Public Employees' Retirement System (IPERS).**

#### **A. System Presentation.**

**System Funding.** Ms. Donna Mueller, Chief Executive Officer, and Ms. Pat Beckham, Consulting Actuary, presented preliminary information regarding IPERS funding and investment performance, indicating that a final actuarial valuation report will be completed and distributed to members in December 2005. Ms. Mueller stated that as of June 30, 2005, the growth of net investment portfolio assets has reached \$18.745 billion, which has surpassed previous peak growth levels and represents a recovery from reduced-growth years. She also stated that for the fiscal year ending June 30, 2005, the fund earned an 11.25 percent return, ranking in the top quartile for similar pension funds and exceeding an actuarial assumption rate of 7.5 percent, indicating that IPERS is meeting its obligation to provide excellent investment returns. With regard to the provision of services, a survey indicated that approximately 96 percent of 237 public employers surveyed felt that the overall value of IPERS is very good or excellent, more than three-fourths of employers said that incorporation of the plan as part of an employee benefit package assists in recruiting and retaining employees, and over 98 percent of 1,068 IPERS members rated the fund's overall performance as very good or excellent. These results were subject to independent verification by an outside firm, which rated IPERS higher than peer median survey results.

**Member Considerations.** Ms. Mueller characterized IPERS administration costs as substantially lower and member-to-staff ratios significantly higher than peer median levels. She cautioned, however, that a large population of "baby boomers" will become eligible for benefits in the future, which could impact these results. She noted that a mandate contained in Code chapter 97B provides for a maximum of 65 percent of salary at 35 years of service, which few retirees earn, and that IPERS has never been intended as a sole source of retirement income, but rather an annuity which, when added to social security, other optional retirement savings mechanisms such as nonqualified deferred compensation plans, and personal savings, provides for retirement. The benefits formula includes years of service, average high three-year annual salary, and a multiplier. Statistics and profiles relating to retirees and active (contributing) members of IPERS indicate that the number of retirees has increased by 19.3 percent and the number of active members has increased by 4.9 percent from 1999 through 2005, and that approximately 49 percent of active members are employed in a public school system. A chart depicting IPERS benefit payments broken down by county was presented, with the comment that 88.4 percent of benefits paid through IPERS remain in the state of Iowa. Ms Mueller indicated that employer-sponsored early retirement incentives have an impact on retirement behavior, primarily in terms of applying for benefits earlier and for a longer duration than might initially have been assumed. Additionally,



she noted that the number of retirees returning to the workforce is anticipated to increase, and represents the fastest growing segment of the IPERS population.

**Special Service Classifications.** Ms. Mueller addressed the two special service classifications within IPERS, Protection Occupations and Sheriffs and Deputy Sheriffs, noting that they constitute 4 percent of IPERS membership, and explaining that these classifications were originally created to provide for the retirement of public servants working in public safety occupations characterized by shorter career lengths attributable to the occupations' inherent physical demands. These groups are subject to separate valuation and contribution rate calculations, and there are ongoing requests for expanded classifications.

**Inflation Adjustments.** Ms. Mueller stated that IPERS does not offer a cost-of-living or inflationary increase mechanism per se, in contrast to many other plans, but that a November dividend payment for pre-July 1990 retirees is paid and can only be increased if actuarial certification that the increase can be supported by current contribution rates is received. The dividend has not been increased since 2002. Additionally, for post-July 1990 retirees, a favorable experience dividend is available, based upon a multiplier frozen at 1.07 percent since 2003 and paid from an account which is projected to be depleted in approximately nine to 10 years. A chart was referred to comparing the November dividend and favorable experience dividend payouts over the past several years with Consumer Price Index (CPI) increases, with the observation that the CPI increases have outpaced these inflationary adjustment mechanisms.

**Funding Issues.** With regard to IPERS funding issues, the basic principles underlying benefit payments were reviewed – that contributions from active members and employers, invested and increased by investment income, yield lifetime retirement benefits, death benefits, and refunds. Employer contribution levels for IPERS were illustrated to be lower than public pension plan median levels. Both Ms. Mueller and Ms. Beckham stated that a key issue for IPERS concerns the fact that the funded ratio of assets to liabilities is 88.7 percent, and that investment returns are unlikely to improve the funded status of the fund. Even with favorable investment returns, the funded percentage has been decreasing since 2000. Accordingly, increased contribution levels appear necessary to reverse this trend and adequately fund the system, and Ms. Beckham expressed the opinion that it is unlikely that the situation will improve any other way, and that the long-term viability of the system is compromised. Charts depicting historical changes in unfunded liability and normal cost were reviewed, with increases again noted for both. Ms. Beckham cited as contributing factors to the increase in the normal cost of the system benefit enhancements, changes in actuarial assumptions, and demographic experience, and that it is the interplay of these factors, rather than the sole impact of any given one, which has caused the increase.

Committee discussion included the impression that Iowa is ranked near the bottom in benefit levels based upon a national study, the fact that the state was one of the last to remove salary caps, and that, as previously stated, the impact of the lack of a cost-of-living adjustment, and the fact that normal cost would be increasing gradually regardless of



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enhancements and assumption changes. In response to a question regarding the importance of acting very soon to correct the unfunded liability problem, Ms. Mueller stated that the longer the problem persists, the more expensive it will ultimately become to fix it. Ms. Mueller noted that consideration of H.F. 729 would keep the issue in focus, and that a technical corrections bill will also be submitted for consideration during the upcoming legislative session.

### **B. IPERS Investment Board.**

Mr. David Creighton, Sr., Chief Executive Officer of the Bryton Companies, and a member of the IPERS Investment Board, described the function of the board as fiduciary trustees of the IPERS trust fund, with the obligation to take action to preserve the fund through the making of investment policy decisions reflecting an acceptable level of risk. The board is also responsible for informing the Committee when the board perceives there is a need to take action in relation to trust assets. Mr. Creighton indicated that the board had just completed an asset allocation review, during which various options for solving the unfunded liability problem were considered, including relying solely on investment performance, decreasing benefits, and increasing contribution rates. The board concluded that solving the problem through investment policy would require an 11 percent rate of return every year through 2014, which has not historically been accomplished and is not considered by the board to be a reasonable course of action, and that a contribution level increase is necessary to restore balance.

### **C. IPERS Benefits Advisory Committee.**

Mr. Lowell Dauenbaugh, Chairperson, Benefits Advisory Committee (BAC), summarized the formation and operation of the committee. Mr. Dauenbaugh indicated that the committee was formed in 2002 and is comprised of 14 constituent groups including both employee and employer groups. The committee provides input and assistance relating to the formulation and evaluation of policies relating to IPERS. Mr. Dauenbaugh stated that the BAC has reviewed IPERS actuarial studies, has previously requested that action be taken to resolve the unfunded liability problem, and supports H.F. 729 despite the fact that it was not a BAC-originated proposal. The BAC also supports an approach whereby contributions would be increased 1 percent annually for a four-year period, which would accelerate the timing, but not the ultimate amount, of the contribution rate increase contained in H.F. 729, and supports maintaining the current 60-40 employer-employee contribution rate split. Mr. Dauenbaugh indicated that the gap between the contribution percentage and normal cost has been narrowing over the past several years, which is of concern because the decreasing gap represents the amount available to pay down the unfunded liability. Additionally, the BAC recommends that IPERS be given statutory authority to adjust contribution rates, and recommends the establishment of a Board of Trustees for IPERS to provide independent oversight.



**D. Organizations Primarily Concerned With IPERS.**

**Iowa Association of School Boards.** Mr. Len Cockman, Director of Human Resources for the association, and BAC member, reminded the Committee that nearly 50 percent of the membership of IPERS is employed by public schools, and stated that IPERS is regarded as a significant retention, if not recruitment, tool by school districts. He indicated that the association regards soundness of the system as vital, recognizes that an increase in contribution rates is probably necessary, and would advocate for an appropriation to offset the increased cost for teachers if contribution rates increase. He additionally indicated that in the event that additional state funding is not received, shared contribution rates on a 50-50 basis between employers and employees would be appropriate.

**Iowa League of Cities.** Ms. Lorelei Heisinger, representing the league, noted that pensions have been identified by league members as one of their top priorities for the 2006 Legislative Session. She indicated that league members recognize the necessity of a contribution increase to offset the unfunded liability problem and advocate for resolution of the issue in the near term rather than delaying it further. She indicated that the league opposes broadening the protection occupation classification and any new benefits or expansion of existing benefits.

**IPERS Improvement Association.** Ms. Jamie Garr, representing the association, and a BAC member, mentioned that the association has been in existence since 1960, and has a dual purpose of seeking benefit increases while protecting the IPERS fund. Ms. Garr said that association members recognize the need for a contribution increase and are willing to share in that increase if necessary to safeguard the fund and maintain their current benefits. She also indicated opposition to an increase in benefits until the funding problem is solved and to any effort to privatize the IPERS fund, such as converting it to a defined contribution plan. She indicated member support for H.F. 729.

**E. Additional Presentations Primarily Related to IPERS.**

Mr. Edward Moses, IPERS member and former President of the State of Iowa Employees Association, provided an account of the history of retirement planning in Iowa, the inception of IPERS in 1953, and developments since that time which he feels have had a significant impact on the fund. Mr. Moses stated the opinion that IPERS is placing more emphasis on the retirement benefits of relatively newer retirees at the expense of older employees who built the fund, and provided examples which he indicated support this contention. He maintained that prior to the passage of S.F. 2245 in 1996, IPERS was not underfunded, and that benefit increases beginning at that point have resulted in a giant deficit funnel. He encouraged replacing the current Rule of 88 with the former Rule of 92 in determining eligibility for retirement, and reintroducing a mechanism to reduce the retirement formula for more highly compensated members of IPERS.



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Mr. Richard Wilkey, former Des Moines City Manager, related a set of circumstances occurring during the late 1970s involving a dispute with the Des Moines City Council, ultimately leading to his loss of coverage under IPERS for a seven-year period. He has sought to recover the amount of benefits he estimates to have been lost as a result, indicates that the city council has agreed to contribute the employer share, and is requesting legislative authority to purchase service credit at his then-existing wage level and recalculate as if his coverage had been uninterrupted. Mr. Wilkey said that in discussion with IPERS relating to his proposal, concern was expressed regarding a potential conflict with federal law. In response, he would propose to add a severability clause rendering the provision null and void in the event of a federal law conflict.

Mr. Jim West, a lobbyist appearing on his own behalf for purposes of his presentation, described the impact of legislative changes to Code chapter 97B in 1998 concerning the cost to IPERS members to buy back service in which they received a refund when they reenter IPERS covered employment. Mr. West characterized as unfair instances where IPERS retained employer contributions which had been made by a member's employer on behalf of the member, and the accumulated earnings on those contributions, but the member does not receive a credit against the full actuarial cost of a buyback for the retained employer contributions and the earnings on those contributions. He encouraged the Committee to support allowing a credit against the full actuarial cost of a buyback of service by a member under IPERS reflective of the amount previously contributed to the system by that member and not refunded to the member.

### **V. Municipal Fire and Police Retirement System of Iowa (MFPRSI).**

#### **A. System Presentation.**

**Overview.** Mr. Dennis Jacobs, Executive Director, MFPRSI, and Mr. Donn B. Jones, Consulting Actuary, provided background information and a status report regarding the actuarial soundness of the system. Mr. Jacobs related that the system resulted from the consolidation of local systems in the early 1990s into a single statewide system, placed under the direction of a board of trustees, with five initial goals codified in Code chapter 411. He reviewed the ongoing and major program activities of the system; provided membership profiles for the approximately 7,500 active members, nonactive members with deferred benefits, and members and beneficiaries in pay status; indicated that the vast majority of members continue to reside in the state; summarized the basic benefit program providing a maximum retirement with 30 or more years of service at 82 percent; and provided a list of the cities of 8,000 population or more whose current and former police and fire personnel are covered under the system.

A table illustrating benefit activity since the creation of the system was supplied, with the notation that the system is experiencing, on average, 12 fewer disabilities per year in comparison to disability experience by the local systems prior to consolidation, which has had a positive impact on liability costs. Regarding investment performance, Mr. Jacobs said the





investment experience has been successful, with an appreciation in the market value of the system's assets of \$895 million since consolidation, and an average investment return of 8.6 percent, which exceeds the actuarial assumption rate of 7.5 percent.

**Issues.** Mr. Jacobs identified several issues facing the system, including lower investment returns projected for capital markets resulting in a revised allocation policy, which will make it more difficult to exceed actuarial interest rate assumptions; a decline in the funded status of the plan due to a substantive decline in the equity markets; the fact that state funding has been frozen for the past several years at an appropriated dollar amount below the original commitment of 3.79 percent, resulting in a cumulative shortfall of over \$30 million; and the cost of compliance with federal veteran's reemployment laws. Mr. Jones provided information relating to the methodology used to establish city contribution rates and the operational application of the aggregate cost method. Valuation figures for assets and liabilities were supplied, investment returns for the previous fiscal year were 12.2 percent, and it was noted that the plan's funded status is 92 percent. Mr. Jacobs indicated that based on the required contribution rate from cities for Fiscal Year 2007, funding will decrease to 27.75 percent (from 28.21 percent in Fiscal Year 2006), and that if full state funding occurred, the city contribution rate would be reduced even further by 2.39 percentage points.

**Discussion.** Committee discussion included the impact on required contributions if full state funding were received, the fact that employee contribution rates increased significantly when consolidation occurred, that the benefits and retirement age requirements are comparable to other states, the lack of portability with IPERS, and inquiries regarding investment managers and investment costs. There were also questions regarding the frozen state contribution level, the response to which was that the intent of the original legislation provided for a benefit increase for employees without placing an undue burden on cities, leading to the commitment level of 3.79 percent, which was subsequently subject to a freeze on all standing unlimited appropriations in 1992. It was observed that the high city contribution rate has the effect of discouraging hiring.

## **B. Organizations Primarily Concerned With MFPRSI.**

**Iowa League of Cities.** Ms. Lorelei Heisinger, again representing the league, indicated that the league supports the establishment of a reasonable split in contributions between the cities and covered employees, the removal of city funding level minimums and imposition of maximum contribution ceilings, and restoration of full state funding. She noted that the 17 percent statutory minimum contribution rate for cities has in some years resulted in overfunding of the system; provided contribution rate comparisons between MFPRSI and the other retirement systems, revealing higher rates for both the employer and employee under MFPRSI; and charted the growth in costs under the system to member cities. The league opposes any expansion of benefits.



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With regard to one such benefit, the Deferred Retirement Option Program (DROP), Ms. Heisinger stated that actuarial reviews have indicated an increased cost to cities will result, and that it cannot be accurately predicted that DROP will encourage early retirement.

Concerning a proposal to include overtime in earnable compensation, the league requests that this be analyzed and approached cautiously, again based on the potential for cost increases, negative impact on the availability of services for special events, and the possibility of inconsistent application among member cities.

Ms. Heisinger additionally related a continued request for clarification that the presumption that heart and lung disease is job-related in establishing an accidental disability benefit is rebuttable, and that interest charged on newly discovered liabilities of cities arising out of consolidation to the merged system in 1992 be eliminated.

**Iowa Association of Professional Firefighters.** Mr. Tom Fey, representing the association, and Mr. Jack Reed, association President, presented four primary recommendations in connection with MFPRSI from the association's perspective. The current contribution amounts of a 17 percent minimum for the cities and 9.35 percent for members should be maintained, and it was stated that the cities' contribution rate is actually a bargain when the fact that the cost of workers' compensation is included in the system, and that the cities do not pay social security tax, is taken into account. The association supports legislation to adopt a DROP plan option on a no-cost basis, which would help members pay health insurance premiums and also benefit cities from a long-term budgeting perspective. When funding is available, the association supports an increase in the maximum pension to 90 percent, given that members do not receive Social Security benefits and pay health insurance premiums for a potentially substantial period of time with early retirement. Finally, the association supports legislation that would clarify that cities may not charge the costs associated with on-the-job injuries to a member's health insurance. Mr. Fey distributed a sample benefit calculation assuming retirement amounts at 66 percent and 82 percent, respectively.

**Iowa State Police Association.** Mr. Lynn Cripps and Mr. Marty Pottenbaum, from the association, also advanced several recommendations, substantially similar to those presented in connection with the Iowa Association of Professional Firefighters. Current contribution levels should be maintained, a maximum pension amount of 90 percent should be established when funding is available, a no-cost DROP plan should be established on a fiscally responsible basis, and overtime should be included in a member's earnable compensation for purposes of calculating retirement benefits. If a DROP plan were proposed which would result in any cost to the system, the association would not support the proposal. Committee discussion included whether the MFPRSI governing board has taken a position on the DROP concept, and it was noted that they are in the process of analyzing whether there are any costs which would be associated with offering the option. It was noted that overtime should be included in the interests of equity, given that Social Security benefits are not received by members.



## **VI. Peace Officers' Retirement System (PORS).**

### **A. System Presentation.**

Mr. Dave Heuton, Director of Administrative Services, PORS, presented and summarized the system's most recent actuarial valuation report. Mr. Heuton indicated that recent investment losses, a reduction in active members in the system due to recent budget constraints, and the payment of the minimum specified contribution level have placed significant financial stress on the system. Mr. Heuton did note that additional troopers are now being hired. Based upon the most recent actuarial valuation of the system, the total contribution rate should be 45.09 percent, or 18.74 percentage points greater than the minimum required rate from the members and the state. The funded percentage of assets to liabilities of the system is 89.6 percent. Mr. Heuton then addressed the Committee concerning possible options in granting certain members of the system service credit under PORS for prior public safety employment. Mr. Heuton noted that a study request regarding benefits enhancement — to 88 or 90 percent after 30 years is slated for consideration at the next PORS board of trustees meeting. Mr. Heuton also distributed an executive summary relating to entities selected to manage the system's investments, and associated costs.

### **B. Organizations and Presentations Primarily Concerned With PORS.**

**Retirement Portability.** Mr. Steve E. Bogle, Assistant Director of the Iowa Division of Criminal Investigation, made it clear that he was not appearing on behalf of the division, but rather representing a group concerned with the question of retirement portability for officers. Mr. Bogle explained that several current members of PORS were previously covered under MFPRSI and left that employment, without receiving a refund, when they joined PORS. He indicated that when the two systems were amended effective July 1, 1996, the legislative intent was to allow portability, including a retroactive clause permitting the transfer of benefits, and that due to unforeseen interpretations by the PORS Board and the Board of Administrators for the 411 system, the retroactive transfer of benefits was not implemented, resulting in only one officer able to retroactively transfer his benefits. Mr. Bogle acknowledged that the impacted individuals are a small group in number, but stated that efforts on their behalf have been ongoing since 1998. The group seeks passage of a modified version of H.F. 592, which would grant them service time under PORS for this prior MFPRSI service. The modified request would provide that the cost of granting this service credit be provided by a state appropriation of around \$1.8 million.

**Iowa State Troopers Association.** Ms. Betsy Dittmore, representing the association, said the association supports not increasing the employee contribution rate under the system, and supports an option being made available for certain members in the Iowa Department of Public Safety who did not receive years of service credit for time served in positions transferred from IPERS to PORS, to purchase at an actuarial cost those years of service for credit to PORS. Ms. Dittmore indicated that there is prior precedent for proposals of this nature, and that the proposal would be limited to and revenue-neutral to PORS, is limited to



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those members who had previously served in positions in the Department of Public Safety that were transferred to PORS in 1994, and would benefit members in both supervisory and nonsupervisory positions in all divisions of the department.

**Iowa State Patrol Supervisors Association.** Mr. Tom Fey, representing the association, indicated that no recommendations concerning any benefit enhancements would be advanced at this time without further actuarial analysis. Mr. Fey stated that the association does support the position of the Iowa State Troopers Association.

### **VII. Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF).**

Mr. Tom Koob, Director of Institutional Client Services, TIAA-CREF, discussed the several advantages of defined contribution retirement plans over traditional defined benefit plans (the form utilized by the state's retirement plans). He indicated that defined contribution plans are always fully funded and provide enhanced portability and investment involvement to members. If a defined contribution plan is established, the plan should provide for a minimum total contribution rate of 12 percent; investment choice without inclusion of any speculative fund; distribution options; and adequate education, guidance, and advice. Mr. Koob maintained that the defined contribution option model has worked well for higher education, including eligible Board of Regents and community college employees in Iowa.

Mr. Koob acknowledged that while employees derive the rewards of investment performance, they conversely bear the risk of adverse impact in the event of poor performance. Mr. Koob characterized a defined benefit plan participant as essentially passive in nature, in contrast to a defined contribution plan participant who is actively engaged in investment decision making. In introducing a defined contribution plan into a defined benefit environment, the decisions include determining whether the defined contribution option applies strictly to newly hired employees or also to existing employees, what time limits for making the election should be imposed, whether a choice should be offered between the two forms of plan, and what form of rollover will be incorporated. He noted that while providing a defined contribution option will not solve an unfunded liability problem, by the same token, an employee choosing it will at least not exacerbate it.

Committee discussion included a historical perspective on the development of defined contribution plans as a mechanism for college professors to freely relocate without impacting their retirement plan, the observation that employees with defined benefit plans still have the option to pursue 401(k)-type plans or deferred compensation plans on their own, the perception that many defined contribution plans have very high investment fees associated with them, and the probability that defined contribution plans are really more suited to highly compensated, rather than rank-and-file, employees.



### **VIII. Committee Discussion — Next Meeting.**

Committee members indicated general agreement that the meeting had been productive, and requested that a list of recommendations from the various groups, and a status report on bills in progress, be prepared and distributed to members. It was determined that an additional meeting would be appropriate when the IPERS actuarial report has been finalized. Members agreed on holding the meeting at 10:00 a.m., Wednesday, December 21, 2005, in Room 116 of the State Capitol to discuss various proposals concerning public retirement issues.

### **IX. Materials Filed With the Legislative Services Agency.**

The materials listed were distributed at or in connection with the November 2 and 3 meeting and are on file with the Legislative Services Agency. The materials may be accessed from the "Additional Information" link on the Committee's Internet page:

<http://www.legis.state.ia.us/asp/Committees/Committee.aspx?id=57>.

1. MFPRSI — Reply to Committee request for information, submitted by MFPRSI.
2. PORS Historical Data, submitted by PORS.
3. PORS — Issue Brief on IPERS covered service, submitted by Mr. Dave Heuton.
4. PORS — Prior Service Actuarial Study, submitted by Mr. Heuton.
5. PORS — Fund Investment Information, submitted by Office of the Treasurer of State.
6. IPERS — Committee Presentation, submitted by Ms. Donna Mueller and Ms. Patrice Beckham.
7. IPERS — Investment Service Contractors, submitted by Ms. Mueller and Ms. Beckham.
8. Judicial Branch Presentation, submitted by Mr. David Boyd.
9. Judicial Branch — Fund Investment Information, submitted by Office of the Treasurer of State.
10. MFPRSI — Iowa League of Cities Presentation, submitted by Ms. Lorelei Heisinger.
11. MFPRSI — Iowa Professional Firefighters, submitted by Mr. Tom Fey and Mr. Jack Reed.
12. MFPRSI — Public Comment, submitted by Mr. Richard Roepsch.
13. PORS — Iowa State Patrol Supervisors Association Presentation, submitted by Mr. Fey.
14. PORS — Iowa State Troopers Association Presentation, submitted by Ms. Betsy Dittimore.



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15. PORS — Retirement Portability with MFPRSI — Public Comment, submitted by Mr. Steve Bogle.
16. IPERS — Benefits Advisory Committee Presentation, submitted by Mr. Lowell Dauenbaugh.
17. IPERS — Benefits Advisory Committee Resolution, submitted by Mr. Dauenbaugh.
18. IPERS — IPERS Investment Board Presentation, submitted by Mr. David Creighton, Sr.
19. IPERS — Iowa Association of School Boards Presentation, submitted by Mr. Len Cockman.
20. IPERS — Iowa League of Cities Presentation, submitted by Ms. Heisinger.
21. IPERS — Public Comment, submitted by Mr. Edward Moses.
22. IPERS — Buyback Proposal — Public Comment, submitted by Mr. Jim West.
23. IPERS — Actuarial Valuation Report.
24. Judicial Retirement System — Actuarial Report.
25. MFPRSI Actuarial Report.
26. PORS — Actuarial Valuation Report (draft).