

*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"*

*NOVEMBER 2, 1998*

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## **A. REQUIREMENTS OF STUDY**

The Iowa General Assembly in *House File 2496, Section 115, Act of the 1998 General Assembly*, directed representatives of three of Iowa's Public Retirement Systems to conduct a study, with the technical assistance of an external consultant, and to issue a report concerning the findings. The study, pertaining to the public safety classifications within the individual systems, was directed at the following three subjects:

### **I. Analysis of Benefit Plans**

*Consider appropriate benefit enhancements to each system:*  
- *including the availability of enhanced disability benefits &*  
- *the applicability of federal social security benefits*

*Consider establishment of a benefit structure which takes into account the applicability or in-applicability of federal social security contributions and benefits and which provides comparable and equitable benefits for members of each system.*

*Consider establishment of equitable contribution rates for both employers and employees, including consideration of the mechanism to establish the contribution rates.*

### **II. Analysis of Administrative Requirements**

*Review the functions of each retirement system under examination and consideration of how to perform those functions in an efficient manner that meets the needs of the members of each retirement system.*

*Consider member service needs of both active and retired members of each retirement system under examination shall be made in examining each item for consideration in this subsection. Include consideration of transferring certain groups of employees from one system to another.*

*Consider applicable federal and state legal requirements concerning public retirement systems, to include consideration of the obligations currently established for qualified plans under the federal Internal Revenue Code.*

### **III. Actuarial Reporting Requirement**

*Consider establishing a uniform actuarial reporting method for all retirement systems under consideration to assist the public retirement systems committee in examining the relative financial condition of each retirement system*

In the conduct of the study, the System's representatives performed the following within the timeframe identified.

### **Process and Timeline for Completion of Study**

1. Developed outline of study and communicated to Associations in letter format, requesting their input prior to finalization of study outline. (By June 30)
2. Developed complete program descriptions and framework for review and analysis. (By June 15)
3. Coordinated with legislative committee concerning process, etc.; obtained approval of committee to proceed with RFP for hiring of consultant. (June 5)
4. Finalized Request for Proposal (RFP) and transmitted RFP to identified vendors [Forwarded final copy to legislative committee leadership & Legislative Service Bureau) (June 8, 1998) RFP distributed to five candidate firms.
5. Written inquiries concerning the contents and nature of the work required by the Request For Proposal received from two firms within timeline provided by RFP. (by June 22, 1998)
6. Response to written inquiries sent to all firms. (June 26, 1998)
7. Bid responses to RFP received (by July 8, 1998) from 4 firms.  
[AON Consulting - Buck Consulting - Seagal Consulting - Mercer Inc.]
8. The representatives of the three systems each independently reviewed and scored the responses and together selected a firm to provide the services (Mercer Inc.) (July 8 - 18)
9. Submitted recommendation concerning selection of consultant to legislative committee, via Legislative Service Bureau (Ed Cook), with outline of basis for selection of firm; obtained Committee's approval (July 21, 1998)]
10. Established contract with selected consulting firm, Mercer Inc. (August 1, 1998)
11. Submitted relevant information to Mercer and coordinated analysis with consultants (during August and Sept.), extensive communication with consultant and systems' representatives.
12. Systems' representatives developed drafts of report and reviewed extensively with consultant. Report revised and modified based upon the consultant's suggestions and commentary. Final draft of report developed as a collaborative effort with the firm. (Sept.- October)
13. Prepared final draft of report. Transmitted to Associations' representatives for comments by Associations to the Legislative Committee. (By November 2)
14. Submission of formal report to legislative committee (By November 2)
15. Future participation in various legislative committee meetings and development of written and verbal responses to legislative inquiries (November, 1998 - April, 1999).
16. Conduct of additional analysis and actuarial cost reviews at the request of the Legislative Committee. (at request of Legislative Committee)



## B. DISCUSSION OF FINDINGS

Each of the three subjects is addressed individually in this report with detailed supporting information provided within the attachments, as referenced within the narrative. The concepts discussed herein are a result of an analysis of the information contained within the attachments in concert with discussions with the representatives of the consultant (William M. Mercer, Inc.).

### I. ANALYSIS OF BENEFIT PLANS:

In evaluating the benefit plans and formulating concepts for consideration by the legislature, the following definitions and applications were utilized:

*"Equality means the state of being equal, of the same quantity, size, number, etc."*

Under such an approach the retirement systems would provide to the members, benefit plans which are nearly *identical one to another*.

*"Parity means the state of being the same in power, value, etc., similar"*

Under such an approach, the retirement systems would provide to the members, benefit plans which are *similar to each other* and which have the same approximate value.

### II. ANALYSIS OF ADMINISTRATIVE REQUIREMENTS

In evaluating the administrative requirements and potential organizational changes, the focus was on the interest of the membership of the plans, in accordance with the *exclusive benefit rule* of the Internal Revenue Code, which stipulates that plans must be administered *solely for the benefit of employees and their beneficiaries*. The rule also provides that plan assets *must not be diverted* to purposes other than the exclusive benefit of employees or their beneficiaries.

### III. ACTUARIAL REPORTING REQUIREMENT

In analyzing the a neutral actuarial reporting requirement, the emphasis was placed on the *established professional standards in the actuarial industry*, whereby retirement plans are valued and evaluated on an ongoing basis.

## I. ANALYSIS OF BENEFIT PLANS

In the development of the study concerning the benefit plans, the System's representatives were guided by the following:

### *Premises Concerning Benefit Equality and Parity*

- 1) *The General Assembly has directed an analysis of the benefits pertaining to the public safety workers within three retirement systems for the purpose of understanding what changes would be necessary to establish either "equality" or "parity" of pension benefits.. The analysis **did not consider** either the addition or elimination of any group of workers from the public safety worker classifications currently established for the systems, as such was not part of the legislative mandate for this study.*
- 2) *This study has been conducted in the context of the guiding goals established by the General Assembly in Iowa Code Chapter 97D. Specifically, that "proposals for changes in specific public retirement systems should be considered within the context of all public retirement systems within the state, with emphasis on equity and equality among the systems." [97d.1(1)]*
- 3) *The comments contained herein are intended to provide the framework for discussion, by giving the General Assembly an analysis by which "equality" or "parity" between and among the three systems can be assessed, and by identifying various changes by which such equality of parity could be established.*
- 4) *The comments are provided with the recognition contribution rates for the individual memberships and their employers have historically been established as a result of the negotiation process during the legislative process. It is reasonable for **individual membership associations** to request that benefit changes await the ability of the individual retirement system to fund increased costs without additional contributions from the employers or the membership.*

*Additionally, it is reasonable for the **employers** to expect that additional contribution costs not be established to fund benefit growth without their endorsement.*

*Therefore, the discussion provided herein is framed within the context of the contribution rates remaining the same unless the employers and employees agree to a change.*



## I. ANALYSIS OF BENEFIT PLANS (continued)

- 5) *The discussion identifies concepts which are intended to establish equality or parity among the membership groups' benefits, thereby, reducing the demand for changes which occurs as a result of differing plan features. The discussion anticipates that changes to the benefit plans can only occur over extended time periods and that benefit plans that are the same in every detail would be difficult if not impossible to establish.*

### PROGRAM PROVISIONS AND CONCEPTS

*Table A - "CURRENT RETIREMENT PROGRAM PROVISIONS" briefly describes the current benefit plans of the retirement systems (see page 12 & 13).*

*Table B - "CONCEPT ONE - EQUALITY OF BENEFITS" outlines the changes that would be necessary over a period of time to create "equality of benefits", by the extension of each of the current benefits, to all public safety members of the individual retirement systems (see page 14 & 15).*

*Table C - "CONCEPT TWO - PARITY OF BENEFITS" describes an approach to benefit plan change to create "parity of benefits", by the extension of selected benefits over a period of time. The potential benefit changes are listed in the order of priority, determined based upon the number of individuals affected and the disparity between the financial value of the benefits. The legislature could then adopt a legislative policy defining benefit parity as existing at a specified level of benefits (see page 15 & 16).*

*Several additional concepts were evaluated, in great detail, whereby a reduction or trade-off in current benefit plan provisions would occur in exchange for the establishment of additional benefit provisions. Due to a number of complex issues, such a Concept is not being submitted:*

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

## I. ANALYSIS OF BENEFIT PLANS (continued)

Tables A, B, and C address each of five topics:

*A. Retirement Benefit Formulas*

Currently, differences exist between the systems in the retirement formulas provided for the individual groups and in the absence of Social Security coverage for POR and MFPRSI members. Examples of the impact of the differing retirement formulas are shown on *Charts 1 & 2 (see page 10 & 11)*.

*B. Disability Coverage*

Currently, the POR & MFPRSI systems provide a disability program for their membership. IPERS does not have a comparable disability program.

The POR and MFPRSI disability program provides for two types of disability retirement: accidental (work related) provides a 60% formula, ordinary disability provides a 50% formula, both are permanent disability programs, defined to be greater than one year in expected length.

IPERS has a different disability program. In essence, it mirrors the standards of Social Security disability and is not comparable to the program provided under POR and MFPRSI. To qualify for an IPERS disability, a member must retire because of disability, and qualify for and begin receiving payments from Social Security for disability. The member then receives from IPERS only what their accumulated years of service provides through the standard formula, with no reduction for taking an early retirement.

*C. Death Benefit Provisions (Survivor Benefit)*

Currently, POR and MFPRSI provide a survivor benefit to the surviving spouse and dependent children of a deceased member of the system, both prior to and following retirement.

IPERS does not provide a comparable benefit program for its members during pre-retirement, nor does it provide a standard non-reduced member benefit upon retirement which provides the member's spouse a fifty percent annuity benefit upon the member's death.

*D. Contribution Requirements*

Current contribution rates for the various membership groups and their employers differ due to a number of factors that have developed over the



## **I. ANALYSIS OF BENEFIT PLANS (continued)**

history of the individual plans. Certain of the significant contributors to the differences in contribution rates are as follows:

- 1) demographic differences within the individual plan populations,
- 2) legislative changes in which benefits were granted and contribution rates established as a result of negotiations during the legislative process, and
- 3) differences in the actuarial methods being utilized and the assumptions adopted for the individual plans.

Current contribution rates for the various plans are also a reflection of the willingness of individual membership groups and their employers to provide certain levels of benefits.

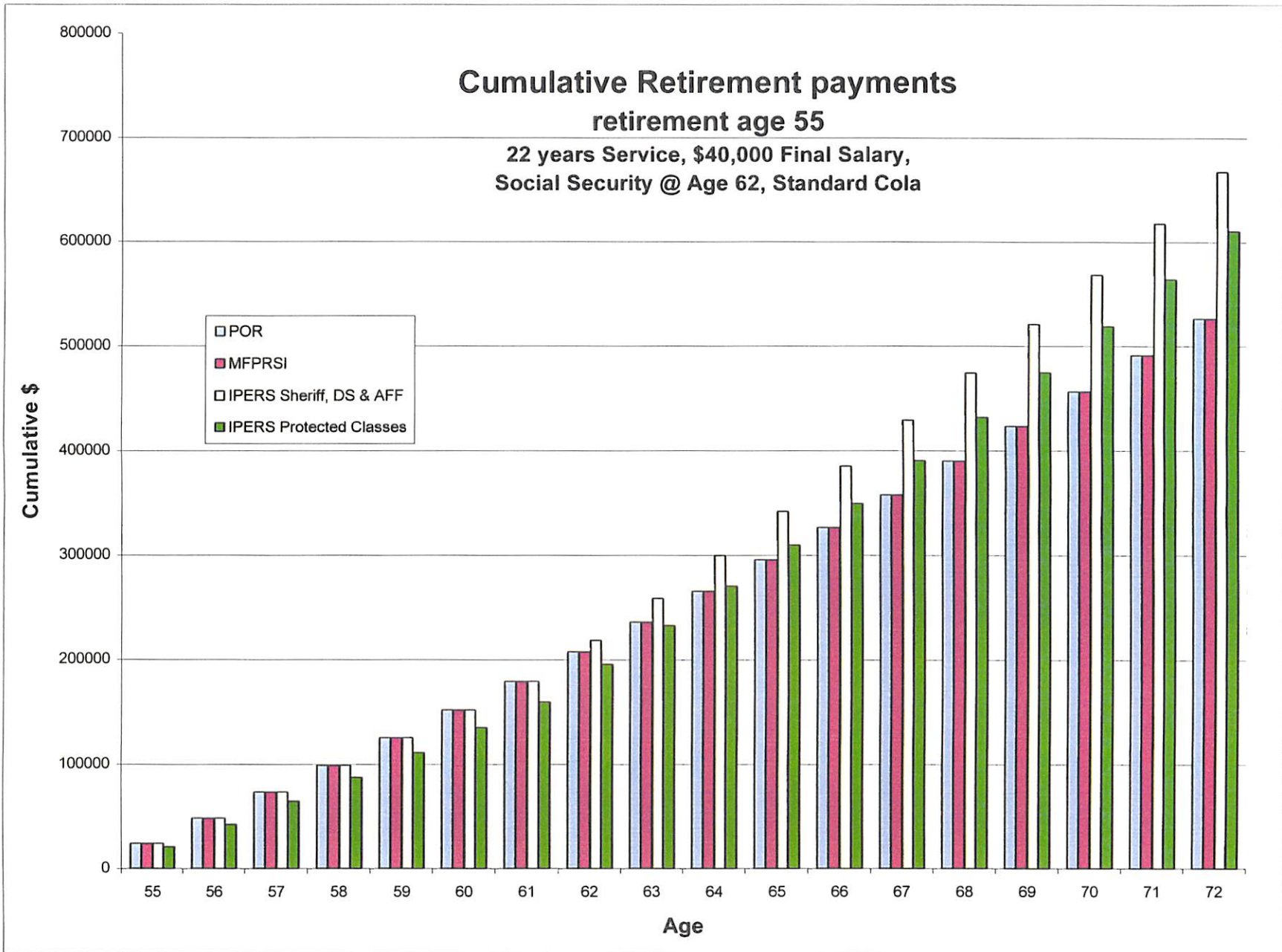
### *E. Special Situations*

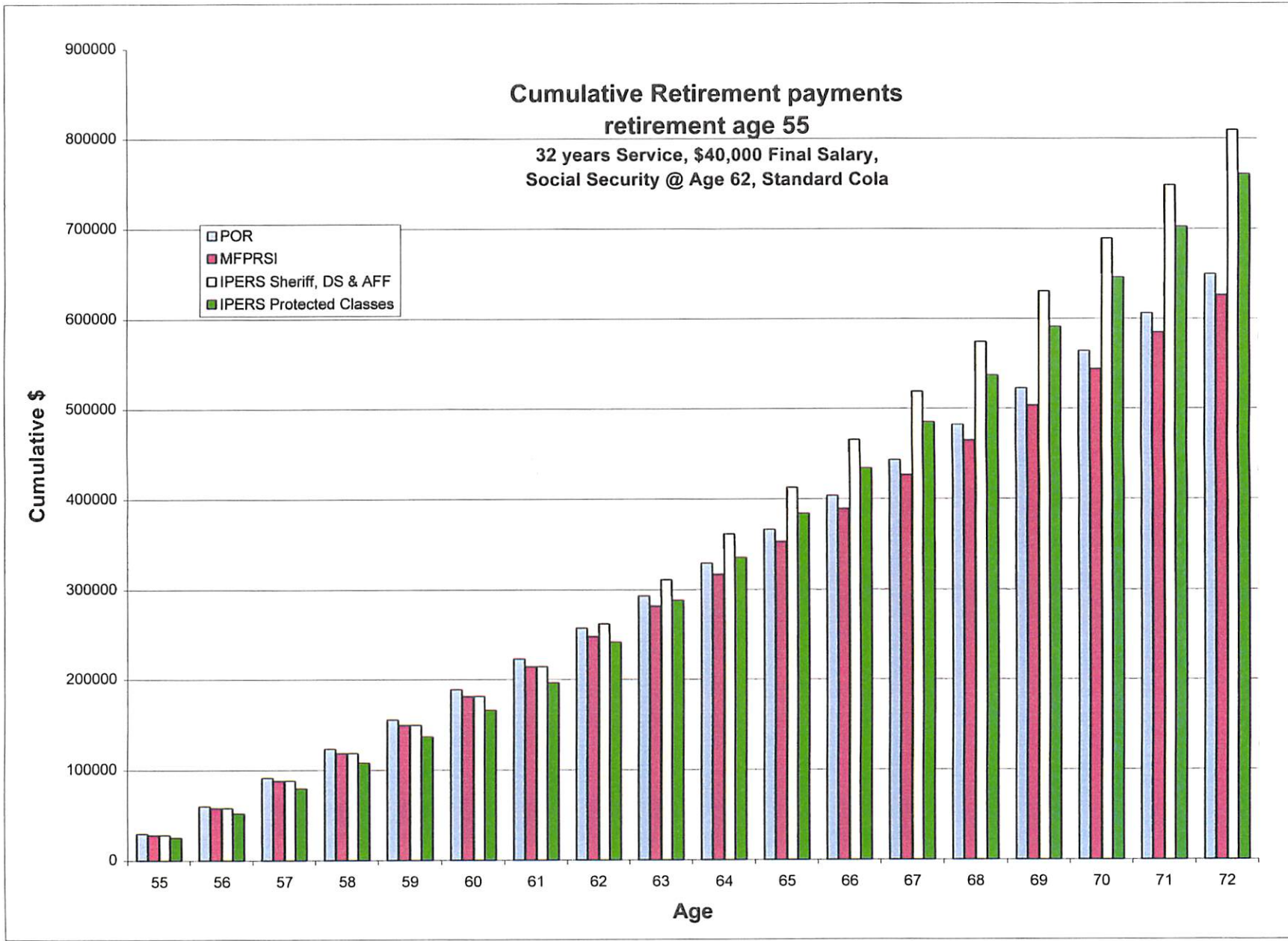
- 1) *Non Medicare covered members*: individual members of POR and MFPRSI who were employed prior to April 1986 are not covered by Medicare and therefore, do not have post-retirement health insurance coverage provided, in any form.
- 2) *Difference in the benefit program for single members vs. married members*: the benefit plan for members of POR & MFPRSI provides a joint and 50% annuities program for the married member of the systems, the single members receive only the single life annuity portion of this program.

A detailed description of the retirement programs and associated contributions currently provided under each retirement system has been developed by the System's representatives and analyzed with the consultant. This description describes the *differences existing between the retirement plans*, and provides *examples of the current benefits payable* under each program. See Attachments I and I - B:

*Attachment I - A "RETIREMENT BENEFIT PLAN COMPARISON - NARRATIVE DESCRIPTION"* is a detailed description of the benefit plans, contribution rate requirements, and population of the retirement systems.

*Attachment I - B "RETIREMENT BENEFIT PLAN COMPARISON - BENEFIT EXAMPLES"* provides a detailed breakdown of the benefit formula and dollars being paid under the current benefit structures in place for the individual plans.







**TABLE A**

**CURRENT RETIREMENT PROGRAM PROVISIONS**

**IPERS  
SHERIFFS/DEPUTIES &  
AIRPORT FIRE  
FIGHTERS**

**IPERS  
PROTECTION  
CLASSIFICATIONS**

**POR**

**MFPRSI**

(1) Items to be considered are identified by the color RED

<p><b>A. RETIREMENT FORMULAS</b></p> <p><b>1 State Retirement Systems (f)</b></p> <p><i>Normal Formula</i></p> <p><i>Years Required to Establish</i></p> <p><i>Years of Extra Credit</i></p> <p><i>Credit for Each Extra Year</i></p> <p><i>Maximum Formula</i></p>	<p>Standard</p> <p>60%</p> <p>22</p> <p>8</p> <p>1.50%</p> <p>72.00%</p>	<p>Low</p> <p>60%</p> <p>25</p> <p>5</p> <p>1.00%</p> <p>65.00%</p>	<p>Highest</p> <p>60%</p> <p>22</p> <p>10</p> <p>1.50%</p> <p>75.00%</p>	<p>Standard</p> <p>60%</p> <p>22</p> <p>8</p> <p>1.50%</p> <p>72.00%</p>
<p><b>2 Social Security Coverage or Equivalent</b></p> <p><i>Sample S.S. Benefit % (2)</i></p> <p><i>Eligibility Age</i></p> <p><i>Examples of Total Payout %</i></p> <p>(2) Social Security benefit % decreases as individual's wages increase.</p>	<p>Yes</p> <p>23.00%</p> <p>62</p> <p>83.00 - 95.00%</p>	<p>Yes</p> <p>23.00%</p> <p>62</p> <p>83.00 - 88.00 %</p>	<p>No</p> <p>0.00%</p> <p>n/a</p> <p>75.00%</p>	<p>No</p> <p>0.00%</p> <p>n/a</p> <p>72.00%</p>
<p><b>B. DISABILITY COVERAGE</b></p> <p><i>Work Related Formula</i></p> <p><i>Non -Work Related Formula</i></p>	<p>No</p> <p>Worker's Compensation</p> <p>Social Security Disability</p>	<p>No</p> <p>Worker's Compensation</p> <p>Social Security Disability</p>	<p>Yes</p> <p>60.00%</p> <p>50.00%</p>	<p>Yes</p> <p>60.00%</p> <p>50.00%</p>

**TABLE A**

**CURRENT RETIREMENT PROGRAM PROVISIONS**

**IPERS  
SHERIFFS/DEPUTIES &  
AIRPORT FIRE  
FIGHTERS**

**IPERS  
PROTECTION  
CLASSIFICATIONS**

**POR**

**MFPRSI**

(1) Items to be considered are identified by the color RED

<p><b>C. DEATH BENEFITS</b></p> <p>1 <i>Pre-retirement provision for spouse &amp; dependents</i></p> <p>2 <i>Post-retirement provision for spouse &amp; dependents</i></p>	<p>No</p> <p>Single lump sum payout based on formula</p> <p>Single Life Annuity; reduction in benefit to obtain joint annuity, available to any designated contingent annuitant; no dependent benefit.</p>	<p>No</p> <p>Single lump sum payout based on formula</p> <p>Single Life Annuity; reduction in benefit to obtain joint annuity, available to any designated contingent annuitant; no dependent benefit.</p>	<p>Yes</p> <p>50% Spousal Annuity &amp; dependent benefit</p> <p>Joint &amp; 50% Life Annuities &amp; dependent benefit</p>	<p>Yes</p> <p>50% Spousal Annuity &amp; dependent benefit</p> <p>Joint &amp; 50% Life Annuities &amp; dependent benefit</p>
<p><b>D. CONTRIBUTION REQUIREMENTS</b></p>	<p>Both member and employer rates float</p>	<p>Both member and employer rates float</p>	<p>Member's rate fixed, employer's floats, with a minimum rate of 17%</p>	<p>Member's rate fixed, employer's floats, with a minimum rate of 17%</p>
<p><b>E. SPECIAL SITUATIONS</b></p> <p>1 <i>All Members covered by Medicare - Individuals hired pre 1986</i></p> <p>2 <i>Benefit program the same for single and married members</i></p>	<p>Yes</p> <p>Yes</p>	<p>Yes</p> <p>Yes</p>	<p>No</p> <p>If hired pre 1986 not covered</p> <p>No</p>	<p>No</p> <p>If hired pre 1986 not covered</p> <p>No</p>

**TABLE B**

**CONCEPT ONE -  
EQUALITY OF BENEFITS**

**IPERS  
SHERIFFS/DEPUTIES &  
AIRPORT FIRE  
FIGHTERS**

**IPERS  
PROTECTION  
CLASSIFICATIONS**

**POR**

**MFPRSI**

**DESCRIPTION OF  
ITEMS FOR  
CONSIDERATION**

(1) Items modified are shown in red & yellow.

<b>A. RETIREMENT FORMULAS</b>					
<b>1 State Retirement Systems (f)</b>					
<i>Normal Formula</i>	Standard 60%	<b>Standard</b> 60%	Highest 60%	Standard 60%	1) Equalize the number of years 'to establish the 60% formula at 22 yrs. 2) Provide credit for at-least 30 years. 3) Provide the same credit per year - 1.5%
<i>Years Required to Establish</i>	22	<b>22</b>	22	22	
<i>Years of Extra Credit</i>	8	<b>8</b>	10	8	
<i>Credit for Each Extra Year</i>	1.50%	<b>1.50%</b>	1.50%	1.50%	
<i>Maximum Formula</i>	72.00%	<b>72.00%</b>	75.00%	72.00%	
<b>2 Social Security Coverage or Equivalent</b>	Yes	Yes	<b>Yes</b>	<b>Yes</b>	4) Provide Social Security supplement beginning at age 62.
<i>Sample S.S. Benefit % (2)</i>	23.00%	23.00%	<b>Actuarial formula</b>	<b>Actuarial formula</b>	
<i>Eligibility Age.</i>	62	62	<b>62</b>	<b>62</b>	
<i>Examples of Total Payout %</i>	83.00 - 95.00%	<b>83.00 - 95.00 %</b>	<b>Equivalent benefit</b>	<b>Equivalent benefit</b>	
(2) Social Security benefit % decreases as individual's wages increase.					
<b>B. DISABILITY COVERAGE</b>	<b>Yes</b>	<b>Yes</b>	Yes	Yes	5) Provide comparable disability coverage to non-covered groups, adjusted for any worker's compensation and/or S.S. Disability benefit
<i>Work Related Formula</i>	<b>Worker's Compensation and 60%</b>	<b>Worker's Compensation and 60%</b>	60.00%	60.00%	
<i>Non -Work Related Formula</i>	<b>Social Security Disability and 50%</b>	<b>Social Security Disability and 50%</b>	50.00%	50.00%	



**TABLE B**

**CONCEPT ONE -  
EQUALITY OF BENEFITS**

**IPERS  
SHERIFFS/DEPUTIES &  
AIRPORT FIRE  
FIGHTERS**

**IPERS  
PROTECTION  
CLASSIFICATIONS**

**POR**

**MFPRSI**

**DESCRIPTION OF  
ITEMS FOR  
CONSIDERATION**

(1) Items modified are shown in red & yellow.

<p><b>C. DEATH BENEFITS</b></p> <p>1 <i>Pre-retirement provision for spouse &amp; dependents</i></p> <p>2 <i>Post-retirement provision for spouse &amp; dependents</i></p>	<p>Yes</p> <p>50% Spousal Annuity &amp; dependent benefit</p> <p>Joint &amp; 50% Life Annuities &amp; dependent benefit</p>	<p>Yes</p> <p>50% Spousal Annuity &amp; dependent benefit</p> <p>Joint &amp; 50% Life Annuities &amp; dependent benefit</p>	<p>Yes</p> <p>50% Spousal Annuity &amp; dependent benefit</p> <p>Joint &amp; 50% Life Annuities &amp; dependent benefit</p>	<p>Yes</p> <p>50% Spousal Annuity &amp; dependent benefit</p> <p>Joint &amp; 50% Life Annuities &amp; dependent benefit</p>	<p>6) Provide improved death benefits to non-covered groups</p>
<p><b>D. CONTRIBUTION REQUIREMENTS</b></p>	<p>Member's rate fixed, employers' floats, with a minimum rate to be determined.</p>	<p>Member's rate fixed, employers' floats, with a minimum rate to be determined.</p>	<p>Member's rate fixed, employers' floats, with a minimum rate of 17%.</p>	<p>Member's rate fixed, employers' floats, with a minimum rate of 17%.</p>	<p>7) Establish fixed rate structure for IPERS groups.</p>
<p><b>E. SPECIAL SITUATIONS</b></p> <p>1 <i>II Members covered by Medicare - Individuals hired pre 1986</i></p> <p>2 <i>Benefit program the same for single and married members</i></p>	<p>yes</p> <p>Yes</p>	<p>yes</p> <p>Yes</p>	<p>Yes</p> <p>Yes</p>	<p>Yes</p> <p>Yes</p>	<p>8) Additional insurance program for non-covered members.</p> <p>9) Supplemental benefit.</p>

**TABLE C**

**CONCEPT TWO -  
PARITY OF BENEFITS**

**IPERS  
SHERIFFS/DEPUTIES &  
AIRPORT FIRE  
FIGHTERS**

**IPERS  
PROTECTION  
CLASSIFICATIONS**

**POR**

**MFPRSI**

**DESCRIPTION OF  
ITEMS FOR  
CONSIDERATION**

(H) Category I (A, B, C) items shown in orange/tan (I) Category II (A, B) items shown in green.

<b>A. RETIREMENT FORMULAS</b>					
<b>1 State Retirement Systems (f)</b>					
<i>Normal Formula</i>	Standard 60%	Standard 60%	Highest 60%	Standard 60%	(B) Equalize the number of years required
<i>Years Required to Establish</i>	22	22	22	22	'to establish the 60% formula at 22 yrs.
<i>Years of Extra Credit</i>	8	8	10	8	(C) Provide credit for at-least 30 years.
<i>Credit for Each Extra Year</i>	1.50%	1.50%	1.50%	1.50%	(C) Provide the same credit per year - 1.5%
<i>Maximum Formula</i>	72.00%	72.00%	75.00%	72.00%	
<b>2 Social Security Coverage or Equivalent</b>	Yes	Yes	Yes	Yes	(A) Social Security
<i>Sample S.S. Benefit % (2)</i>	23.00%	23.00%	Actuarial formula	Actuarial formula	supplemental benefit
<i>Eligibility Age</i>	62	62	62	62	beginning at age 62.
<i>Examples of Total Payout %</i>	83.00 - 95.00%	83.00 - 95.00 %	Equivalent benefit	Equivalent benefit	
(2) Social Security benefit % decreases as individual's wages increase.					
<b>B. DISABILITY COVERAGE</b>	Yes	Yes	Yes	Yes	(A) Comparable disability coverage for
<i>Work Related Formula</i>	Worker's Compensation and 60%	Worker's Compensation and 60%	60.00%	60.00%	non-covered groups, adjusted for any
<i>Non -Work Related Formula</i>	Social Security Disability and 50%	Social Security Disability and 50%	50.00%	50.00%	worker's compensation and/or S.S. Disability benefit



**TABLE C**

**CONCEPT TWO -  
PARITY OF BENEFITS**

**IPERS  
SHERIFFS/DEPUTIES &  
AIRPORT FIRE  
FIGHTERS**

**IPERS  
PROTECTION  
CLASSIFICATIONS**

**POR**

**MFPRSI**

**DESCRIPTION OF  
ITEMS FOR  
CONSIDERATION**

(1) Category I (A, B, C) items shown in orange/tan. (1) Category II (A, B) items shown in green.

<b>C.</b>	<b>DEATH BENEFITS</b>	Yes	Yes	Yes	Yes	(E) Improved death benefits to non-covered groups
1	Pre-retirement provision for spouse & dependents	50% Spousal Annuity & dependent benefit	50% Spousal Annuity & dependent benefit	50% Spousal Annuity & dependent benefit	50% Spousal Annuity & dependent benefit	Pre-retirement death benefit
2	Post-retirement provision for spouse & dependents	Joint & 50% Life Annuities & dependent benefit, with changes as noted for E-2.	Joint & 50% Life Annuities & dependent benefit, with changes as noted for E-2.	Joint & 50% Life Annuities & dependent benefit	Joint & 50% Life Annuities & dependent benefit	Post-retirement death benefit, this change should not occur unless E 2 is first implemented.
<b>D.</b>	<b>CONTRIBUTION REQUIREMENTS</b>	Establish fixed rate structure for IPERS groups.	Establish fixed rate structure for IPERS groups.	Member's rate fixed, employers' floats, with a minimum rate of 17%.	Member's rate fixed, employers' floats, with a minimum rate of 17%.	(D) Establish fixed rate structure for IPERS groups.
<b>E.</b>	<b>SPECIAL SITUATIONS</b>					<b>SPECIAL SITUATION</b>
1	All Members covered by Medicare - Individuals hired pre 1986	yes	yes	Yes	Yes	Additional insurance program for non-covered members.
2	Benefit program the same for single and married members	Yes	Yes	Yes	Yes	Supplemental benefit for single member



**CONCEPT TWO - CONSIDERATION OF CHANGES TO ESTABLISH "PARITY"**

**PRIORITY** : based upon the number of individuals affected and the disparity between the financial value of the benefits.

		<b>AFFECTED GROUP(S)</b>
<b>A</b>	<b>Social Security supplement benefit, beginning at age 62. Benefit to be determined by actuarial formula.</b>	All POR & MFPRSI Members
<b>A</b>	<b>Comparable disability coverage for non-covered groups adjusted for any worker's compensation and/or S.S. Disability benefit .</b>	Both IPERS Groups
<b>B</b>	<b>Equalize the number of years required to establish 60% formula.</b>	IPERS Protected Group Classification
<b>C</b>	<b>Provide credit for at-least 30 years of service.</b>	IPERS Protected Group Classification
<b>C</b>	<b>Provide the same credit per year - 1.5%</b>	IPERS Protected Group Classification
<b>D</b>	<b>Fixed rate structure for IPERS groups.</b>	Both IPERS Groups
<b>E</b>	<b>Improved death benefits to non-covered groups</b> - Pre-retirement death benefit - Post-retirement death benefit.	Both IPERS Groups

**SPECIAL SITUATIONS:**

<b>1</b>	<b>Additional insurance program for non-covered members.</b>	All POR & MFPRSI Members, hired prior to April 1, 1986.
<b>2</b>	<b>Supplemental benefit for single members.</b>	Non-married active POR & MFPRSI Members.

## **II. ANALYSIS OF ADMINISTRATIVE REQUIREMENTS**

The establishment of the Chapter 411 retirement plan provisions in the 1930's and the Chapter 97A retirement provisions in 1949 were designed to serve **specific** post-retirement needs. These two Code Chapters provide the retirement plan for police and fire personnel in **cities** required to have civil service (411) and for the public safety employees of the **State** Department of Public Safety (97A).

The establishment of special groups within IPERS occurred to address the retirement needs of the public safety workers within that system, which are employees of **various levels of government**. These individual retirement systems have historically met the requirements of the individual plans.

A detailed description of the *functional activities* provided by the individual systems is contained in *Attachment II "DESCRIPTION OF FUNCTIONS AND SERVICES"* to this document. Additionally, an extensive description of many of the *Federal and State legal requirements* under which the systems are governed is also contained within *Attachment II* to this document.

The following **CONCEPT** is submitted for consideration by the Legislative Committee. This concept was developed based upon the following:

- a) the identification and examination of the complex functions carried out by the individual retirement Systems,
- b) the consideration of the extensive legal requirements which govern the Systems' activities, and
- c) the identification and review of the issues associated with consolidation, as delineated in Exhibit A.

### **CONCEPT**

- 1) **Maintain the separate systems consistent with existing statutes.** *Exhibit A* delineates the *several substantive issues* connected with consolidation of systems. Specific reasons for not pursuing consolidation are delineated within the Exhibit.
- 2) **Provide the opportunity for comparable benefits.** As discussed under Section I of this report, this change would contribute to a *reduction of future pressure* for benefit increases which is prompted by differences in the plans.

**II. ANALYSIS OF ADMINISTRATIVE REQUIREMENTS  
(CONTINUED)**

- 3) Combine the two groups within IPERS into a single group. Would contribute to the *uniform treatment* of those individuals covered by social security and those not covered by social security.

The social security covered members would be in one group within IPERS, the non-social security covered members would be in two separate systems (POR & MFPRSI).

Each of the systems will continue to be responsive to their memberships and their employers, with each of the benefit plans being similar or identical.



## **Exhibit A - Issues Associated with Transfer or Consolidation**

For the following reasons, which were believed to be of importance to the members of the Iowa Legislature, consolidation is hereby not recommended:

- 1) *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. The individual Systems have been supported by contributions from the membership and their employers to meet the actuarial requirements of each plan. Under a consolidated system, which would combine such liabilities and assets, the historical efforts of the individual groups and their employers to finance their plans may not be recognized, leading to a strong potential for cross-subsidization of liabilities.
- 2) *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. Currently, the separate Systems are designed to meet the "exclusive benefit rule" of the IRS Code. Combining plans with different policies and legal requirements would create legal challenges associated with the establishment and administration of policies. Additionally, significant questions would be created pertaining to the ongoing ability to meet the fiduciaries' obligations for those individuals charged with governance and administration of the resulting system.
- 3) *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.
- 4) *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. For example, law enforcement and public safety workers require significant benefit counseling due to their earlier retirement age and the availability of a disability program. Such service is dependent upon the clear and undivided focus of the Systems' administrations on the specific requirements of these unique groups.
- 5) *Issues Could Develop Adversely Impacting the Ability to Maintain Qualified Plan Status Under the IRS Code.* Problems associated with the "qualified plan status" under the IRS Code could develop due to the IRS requirement to administer the plan for the "exclusive benefit" of the membership. Additionally, the anti-cutback rule, IRS funding standards, as well as differences between the plans as they have been governed and administered could create issues.

**Exhibit A - Issues Associated with Transfer or Consolidation (continued)**

- 6) *Difficulty in Resolving Complex Topics Associated with the Establishment of a Consolidated System or the Transfer of Selected Groups. The following describes only some of the substantive topics requiring evaluation and a determination of the proper course of action, prior to finalization of any decision to consolidate.*
- a) *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 under-funded liabilities. (State General Fund used to make up any shortfalls?)*
  - b) *Determination of the correct governance model to be adopted (consistent with the national model act?).*
  - c) *Identification of issues associated with establishment of the fiduciaries for the system (selection by and for, and expertise in?).*
  - d) *Resolution of benefit plan differences and expectations.*
  - e) *Resolution of actuarial methodology differences and assumptions.*
  - f) *Identification and resolution of policy differences.*
  - g) *Establishment of administrative requirements and expectations for the plans.*
  - h) *Establishment of plan qualification under the IRS Code.*
  - i) *Identification of the level of accountability to the individual memberships and their employers.*



### **III. ACTUARIAL REPORTING REQUIREMENT**

The legislative committee has expressed interest in the establishment of a common reporting tool by which the retirement systems would report their actuarial status. In response to this request, an examination of the current actuarial approaches utilized by the retirement systems has been performed.

A discussion of detailed information concerning these actuarial methods and assumptions is contained within *Attachment III - "ACTUARIAL METHOD AND ASSUMPTIONS"* to this document

For the consideration of the legislative committee, the following *CONCEPT* is provided, by which the individual systems may uniformly report to the legislative committee, while maintaining their individual actuarial methods.

#### *CONCEPT*

- 1) IPERS to conduct and report a separate actuarial valuation of the assets and liabilities for its public safety groups. This will bring about a separation of their groups' assets and liabilities from the overall IPERS actuarial valuation, thereby, providing for increased certainty of the costs associated with the public safety groups' benefits.
- 2) Each system conduct an actuarial valuation of their assets and liabilities utilizing the following method and assumptions. The purpose of this additional valuation would be for common reporting to the General Assembly.
  - a) Method: Projected Unit Credit
  - b) Interest Rate Assumption 7.75%.
  - c) Valuation of Assets:  
Four year rolling average of gains and losses versus the assumption
  - d) Inflation Rate 3.25%
  - e) Salary Growth 5.25%
- 3) Additionally, each system continue to utilize for financing of their systems, the established actuarial method and assumptions, as endorsed by their Board of Trustees or governing official. This information will also be reported to the General Assembly for consideration of benefit enhancements.



## **ATTACHMENTS**

- Attachment I - A*      *"RETIREMENT BENEFIT PLAN COMPARISON  
- NARRATIVE DESCRIPTION"*
- Attachment I - B*      *"RETIREMENT BENEFIT PLAN COMPARISON  
- BENEFIT EXAMPLES"*
- Attachment II*            *"DESCRIPTION OF FUNCTIONS AND SERVICES"*
- Attachment III -*        *"ACTUARIAL METHODS AND ASSUMPTIONS"*

**ATTACHMENT I -A**

**RETIREMENT**

**BENEFIT  
NARRATIVE**

**PLAN  
DESCRIPTION**

**COMPARISON**

**AS OF**

**11/2/98**

**[BENEFIT STUDY COMPA OF  
BENEFITS NAR2.XLS]**

**IPERS**  
**SHERIFFS/DEPUTIES &**  
**AIRPORT FIRE FIGHTERS**

**IPERS**  
**PROTECTION CLASSIFICATIONS**

**POR**

**MFPRSI**

**MEMBERSHIP**  
 [See Exhibit  
 I- A (a)]

	as of 3/31/98	as of 3/31/98	as of 6/30/98	as of 6/30/98
Types	A. ^Sheriffs/deputy sheriffs and Airport safety officers	B, ^ Conservation Peace Officer, Correctional Officer, DOT Peace Officer, Fire Prevention Inspector Small Town Peace Officers/ Marshals, Small Town Firefighters.	All peace officers employed by the Department of Public Safety	Police officers and firefighters in cities included in civil service as set forth in Iowa Code Section 411.2 and 411.3
<b>Population Totals</b>				
13640	1679	4135	1019	6807
<b>Actives</b>				
9285	1439	3481	631	3734
<b>Retired Members</b>				
2910	155	347	310	2098
<b>Retired Beneficiaries</b>				
895	14	23	67	791
<b>Terminated Vested</b>				
550	71	284	11	184



**IPERS**  
**SHERIFFS/DEPUTIES &**  
**AIRPORT FIRE FIGHTERS**

**IPERS**  
**PROTECTION CLASSIFICATIONS**

**POR**

**MFPRSI**

**RETIREMENT  
 BENEFITS  
 AGE/SERVICE**

<b>Normal Retirement</b>	At age 55 or older	At age 55 or older	At age 55 or older	At age 55 or older	
<b>Provision</b>	22 years of service	25 years of service	22 years of service	22 years of service	All utilize 22 years as basis for 60% formula, except Protected classes in IPERS which must serve 25 years to achieve full 60% formula.
<b>Percentage of highest 3 years of salary</b>	60%	60%	60%	60%	
<b>Maximum Retirement</b>					
<b>Provision</b>	30 years of service	30 years of service	32 years of service	30 years of service	Differing maximum years of creditable service; POR has 32, the remainder 30.
<b>Percentage of Salary</b>	72%	65%	75%	72%	Maximum benefit formula from retirement system ranges from 65% to 75%; when add in social security % difference is much greater.
	For years beyond 22, an additional 1.5% is added for each year of service not to exceed 8 years; total formula of 72%.	For years beyond 25, an additional 1.0% is added for each year of service not to exceed 5 years; total formula of 65%.	For years beyond 22, an additional 1.5% is added for each year of service not to exceed 10 years; total formula of 75%.	For years beyond 22, an additional 1.5% is added for each year of service not to exceed 8 years; total formula of 72%.	Differing percentage for extra years of service (i.e. beyond 22 or beyond 25).
<b>Formula Calculation</b>	Each year of service earns 2.73% of formula benefit up to 60% at 22 years.	Each year of service earns 2.4% of formula benefit up to 60% at 25 years.	Each year of service earns 2.73% of formula benefit up to 60% at 22 years.	Each year of service earns 2.73% of formula benefit up to 60% at 22 years.	Per year formula differs due to difference in the number of years that is required to achieve 60% formula.
<b>Retirement Formula</b>	[Earnable Compensation x 60% with 22 years of service].plus [Earnable Compensation x 1.5% for each year of service from 23 - 30] = maximum of 72%	[Earnable Compensation x 60% with 25 years of service].plus [Earnable Compensation x 1.0% for each year of service from 25 -30] = maximum of 65%	[Earnable Compensation x 60% with 22 years of service].plus [Earnable Compensation x 1.5% for each year of service from 23 - 32] = maximum of 75%	[Earnable Compensation x 60% with 22 years of service].plus [Earnable Compensation x 1.5% for each year of service from 23 -30] = maximum of 72%	
<b>Special Provision</b>			Special provision for POR, members, may retire at age 50 or older if have 22 years of service. The retirement benefit is reduced by an actuarial adjustment based upon the number of years of early retirement in advance of age 55.		Special early retirement provision for POR members.

**IPERS**  
**SHERIFFS/DEPUTIES &**  
**AIRPORT FIRE FIGHTERS**

**IPERS**  
**PROTECTION CLASSIFICATIONS**

**POR**

**MFPRSI**

**DISABILITY**  
**BENEFITS**

<b>Provision</b>	Yes, at any age, if member is vested and receives social security or railroad retirement disability. Disability program is not comparable due to difficult qualification standards.	Yes, at any age, if member is vested and receives social security or railroad retirement disability. Disability program is not comparable due to difficult qualification standards.	Yes, granted by system based upon medical board evaluation (private doctors chosen by Board of Trustees), two types of permanent disability (ordinary or accidental), no temporary disability.	Yes, granted by system based upon medical board evaluation (University of Iowa Hospitals), two types of permanent disability (ordinary or accidental), no temporary disability.	<p>POR &amp; MFPRSI have almost identical disability programs, one difference is that MFPRSI utilizes the U. of Iowa Hospital &amp; Clinics as its Medical Board (required by statute) and POR's Board of Trustees has the authority to contract with a medical facility of its choosing. The disability program for IPERS is very limited, the individual must be totally and completely disabled from performing any type of work.</p>
<b>Standard for Disability</b>	Qualifying for and receipt of disability as established by Social Security Administration or Railroad Retirement.	Qualifying for and receipt of disability as established by Social Security Administration or Railroad Retirement.	Individual must be a member in service when they or their employer applies for the disability. To establish the disability, the member must be "permanently disabled from performing the duties of a peace officer." Permanent disability is determined to be those disabilities which will extend beyond one year.	Individual must be a member in service when they or their employer applies for the disability. To establish the disability, the member must be "permanently disabled from performing the duties of a peace officer or a fire fighter." Permanent disability is determined to be those disabilities which will extend beyond one year.	
<b>Percentage Formula</b>	Unreduced formula based on the accrued benefit the member has developed to date. Allows members to retire prior to age 55.	Unreduced formula based on the accrued benefit the member has developed to date. Allows members to retire prior to age 55.	50% for ordinary or 60% for accidental unless have established a higher % through years of service, 25% for ordinary if less than 5 years of service.	50% for ordinary or 60% for accidental unless have established a higher % through years of service, 25% for ordinary if less than 5 years of service.	Difference in formula benefits; POR & MFPRSI have almost identical programs, IPERS differs.
<b>Eligibility Determination</b>	Retire at any age if establish eligibility for social security or railroad retirement disability.	Retire at any age if establish eligibility for social security or railroad retirement disability.	Retire at any age upon establishment of permanent disability, based upon system's determination.	Retire at any age upon establishment of permanent disability, based upon system's determination.	Difference in entity that determines disability.

**IPERS**  
**SHERIFFS/DEPUTIES &**  
**AIRPORT FIRE FIGHTERS**

**IPERS**  
**PROTECTION CLASSIFICATIONS**

**POR**

**MFPRSI**

**SOCIAL SECURITY**  
**BENEFITS**

**Medicare Coverage**

Yes

Yes

Yes, if hired on or after April 1, 1986

Yes, if hired on or after April 1, 1986

**Social Security Coverage**

Yes

Yes

No

No

Significant coverage difference. Leading to substantial difference in post retirement income, as provided by the public employers. IPERS covered, POR & MFPRSI not covered.

**Formula percentages**

Range of % dependent upon salary level; higher % at lower levels of pay.: 30 - 40% range for wages below \$50,000. Declines significantly above that level.

Range of % dependent upon salary level; higher % at lower levels of pay.: 30 - 40% range for wages below \$50,000. Declines significantly above that level.

0%

0%

**Notes:**

Members not covered under social security but who receive a social security benefit due to other employment will have their SS benefit reduced because of the non-covered pension from the public retirement systems.

Members not covered under social security but who receive a social security benefit due to other employment will have their SS benefit reduced because of the non-covered pension from the public retirement systems.

Note: pre April 1, 1986 members are not covered by Medicare, a significant problem.

Note: pre April 1, 1986 members are not covered by Medicare, a significant problem.

Additional problem - members hired prior to April 1, 1986, are not covered by Medicare upon retirement.



**IPERS**  
**SHERIFFS/DEPUTIES &**  
**AIRPORT FIRE FIGHTERS**

**IPERS**  
**PROTECTION CLASSIFICATIONS**

**POR**

**MFPRSI**

**POST  
 RETIREMENT  
 INCREASES**

**Provisions**

Post June 1990 retirees:  
 Favorable Experience Dividends.  
 An annual payment calculated  
 using the retiree's prior years  
 annual benefit, number of years  
 retired, and a percentage to be  
 determined annually by IPERS,  
 capped at 3%.

Post June 1990 retirees: Favorable  
 Experience Dividends. An annual  
 payment calculated using the retiree's  
 prior years annual benefit, number of  
 years retired, and a percentage to be  
 determined annually by IPERS, capped  
 at 3%.

Pre July 1990: Cola - Lump sum  
 payout capped at 3% of ( monthly  
 benefit plus previous years lump);  
 limited to 80% of CPI

Pre July 1990: Cola - Lump sum payout  
 capped at 3% of ( monthly benefit plus  
 previous years lump); limited to 80% of  
 CPI

Yes, directly related to increases in  
 earnable compensation for active  
 members in positions of the same  
 rank as the member at retirement.  
 Rates vary between 15% and  
 33 1/3 % based upon the type of  
 retirement; rates vary between  
 15% and 33 1/3 %.

Members who vest (terminate)  
 prior to age 55 are not eligible for  
 escalation of benefits after starting  
 benefits at age 55 or older.

Yes, annual adjustment each July 1  
 of 1.5% increase over prior year's  
 monthly pension plus a set dollar  
 amount based on the number of  
 years of retirement. The set dollar  
 amount is based upon a schedule  
 which increases as individual  
 continue in retirement. Members who  
 terminate service (other than due to  
 disability) prior to age 55 are not  
 eligible for annual adjustment  
 (escalation) of benefits.

Members who vest (terminate) prior  
 to age 55 are not eligible for  
 escalation of benefits after starting  
 benefits at age 55 or older.

Differences exist among systems and  
 in treatment within the individual  
 systems.

**SURVIVOR  
BENEFITS**

**Pre Retirement Death  
Benefits**

Yes, lump sum prior to retirement, based upon formula as follows:  
Member's accumulated contributions + [member's highest year of covered wage x years of service/30]

Yes, lump sum prior to retirement, based upon formula as follows: Member's accumulated contributions + [member's highest year of covered wage x years of service/30]

Yes, if member has at least one year of service; if single, beneficiary receives lump sum; if married, surviving spouse has choice between lump sum or a lifetime annuity of 50% or 40% dependent upon whether the death was work related.; with a minimum payout provision.

Yes, if member has at least one year of service; if single, beneficiary receives lump sum; if married, surviving spouse has choice between lump sum or a lifetime annuity of 50% or 40% dependent upon whether the death was work related.; with a minimum payout provision.

POR & MFPRSI - basic benefit plan provides a lifetime annuity of either 50% or 40% to the surviving spouse and a dependent child benefit. IPERS provides a single lump sum payout to the named beneficiary. .

**Post Retirement Death  
Benefits**

Yes, if the member has retired and elected an option providing such a distribution.

Yes, if the member has retired and elected an option providing such a distribution.

Yes, spousal benefit of 50%; also surviving dependent benefit for children under 18 or up to 22 if in school; member and spouse may choose an option prior to retirement which replaces the spousal benefit; service retirement only.

Yes, spousal benefit of 50%; also surviving dependent benefit for children under 18 or up to 22 if in school; member and spouse may choose an option prior to retirement which replaces the spousal benefit; service retirement only.

POR & MFPRSI - basic benefit plan provides a death benefit to the surviving spouse as part of the basic retirement plan, a 50% lifetime annuity to the surviving spouse and a dependent child benefit.. IPERS provides the retiree the option of choosing a spousal benefit. The default death benefit payable to the designated beneficiary is limited to the remainder of the member's accumulated contributions, if not yet paid out to the retiree..

**RETIREMENT  
OPTIONS**

<b>Provision</b>	Yes, provided for by statute which allows for various choices as to death benefit payouts upon death of retiree, with spousal sign-off.	Yes, provided for by statute which allows for various choices as to death benefit payouts upon death of retiree, with spousal sign-off.	Yes, authorized by statute, established by administrative rules, retiring member with sign-off by spouse may elect an option which adjusts the monthly benefit payable to the retiree and the potential death benefit payable; for service retirements only.	Yes, authorized by statute, established by administrative rules, retiring member with sign-off by spouse may elect an option which adjusts the monthly benefit payable to the retiree and the potential death benefit payable, for service retirement only.	Only difference is the manner in which the options are established.
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**IPERS**  
**SHERIFFS/DEPUTIES &**  
**AIRPORT FIRE FIGHTERS**

**IPERS**  
**PROTECTION CLASSIFICATIONS**

**POR**

**MFPRSI**

**SERVICE  
PURCHASE or  
TRANSFER OF  
CREDIT**

<b>Former Service</b>	Yes, once vested - can buy-back IPERS service	Yes, once vested - can buy-back service	IPERS Yes, if member is laid off and then recalled, can buy-back	Yes, if member is laid off, refunds and then recalled, can buy-back	Buy-backs limited in POR & MFPRSI to only if laid off.
<b>Other Service</b>	Yes, once vested - can buy-in, from other systems	Yes, once vested - can buy-in, from other systems	Yes, only from MFPRSI, can transfer if vested, amount transferred is average of liability between the two systems for the specific service in question.	Yes, only from POR, can transfer if vested, amount transferred is average of liability between the two systems for the specific service in question.	Transfer of credit limited in POR & MFPRSI to between these two systems, due to substantial difference in benefits when compared to IPERS.
<b>Military Service</b>	Yes, once vested - can buy-in, military service	Yes, once vested - can buy-in, military service	Yes, limited to 4 years credit granted	Yes, limited to 4 years credit granted	
	Active duty only, if not eligible to receive military pension based on same time period.	Active duty only, if not eligible to receive military pension based on same time period.			



**IPERS  
SHERIFFS/DEPUTIES &  
AIRPORT FIRE FIGHTERS**

**IPERS  
PROTECTION CLASSIFICATIONS**

**POR**

**MFPRSI**

**CONTRIBUTIONS**

**TO RETIREMENT**

**SYSTEMS**

<b>Member</b>	Sheriff/Deputy Sheriffs 6.34%	Protection Occupations 5.61%	9.35%	9.35%
	Airport Firefighters 6.34%			
<b>Employer</b>	Sheriff/Deputy Sheriffs 9.51%	Protection Occupations 8.41%	17.00%	17.00%
	Airport Firefighters 9.51%			

**TO SOCIAL**

**SECURITY/MEDICARE**

<b>Member</b>	Sheriff/Deputy Sheriffs 7.65%	Protection Occupations 7.65%	1.45%	1.45%
	Airport Firefighters 7.65%			
<b>Employer</b>	Sheriff/Deputy Sheriffs 7.65%	Protection Occupations 7.65%	1.45%	1.45%
	Airport Firefighters 7.65%			

**TO WORKERS**

**COMPENSATION**

<b>Member</b>	Sheriff/Deputy Sheriffs 0.00%	Protection Occupations 0.00%	0.00%	0.00%
	Airport Firefighters 0.00%			
<b>Employer</b>	Sheriff/Deputy Sheriffs 3.55%	Protection Occupations Range 3.55%	0.45%	0.00%
	Airport Firefighters 14.80%	14.80%		(not determinable)

**TOTAL  
CONTRIBUTIONS**

**IPERS**

**IPERS**

**PORS**

**MFPRSI**

<b>Member</b>	Sheriff/Deputy Sheriffs 13.99%	Protection Occupations 13.26%	10.80%	10.80%
	Airport Firefighters 13.99%			
<b>Employer</b>	Sheriff/Deputy Sheriffs 20.71%	Protection Occupations Range 19.61%	18.90%	18.45%
	Airport Firefighters 31.96%	30.86%		

**NOTES ON  
 CONTRIBUTIONS**

**CONTRIBUTION  
 RATES TO  
 RETIREMENT  
 SYSTEMS**

Employer contribution rate to retirement system established at a minimum of 17% by statute or as required by actuarial valuation.

Employer contribution rate to retirement system established at a minimum of 17% by statute or as required by actuarial valuation.

Overall contributions levels differ significantly due to differences in benefit provisions; in particular the issues of social security and disability coverage.

**WORKER'S  
 COMPENSATION  
 COSTS**

Workers comp. rates vary between different groups - Peace Officers versus Fire Fighter. And by whether the employer is self insured or purchases a plan from a private insurer.

Workers comp. rates vary between different groups - Peace Officers versus Fire Fighter. And by whether the employer is self insured or purchases a plan from a private insurer.

Coverage for State POR members is limited worker's compensation coverage. Program is for temporary disability and medical expenses only. Costs of worker's comp. is rate assigned to all Dept. of Public Safety workers, for 2 year disability program.

Worker's compensation costs vary, depending upon coverage and whether employer self insures; coverage by cities is often self insured for temporary disability and medical expense only. Program coverage can be limited to less than two year period with maximum payout cap.

Assistance provided by Iowa Insurance Division & Iowa League of Cities

Assistance provided by Iowa Insurance Division & Iowa League of Cities

Worker's comp. rate provided by Dept. of Personnel

**IPERS**  
**SHERIFFS/DEPUTIES &**  
**AIRPORT FIRE FIGHTERS**

**IPERS**  
**PROTECTION CLASSIFICATIONS**

**POR**

**MFPRSI**

**VESTING**

Age 55 or 4 years of service

Age 55 or 4 years of service

4 years of service

4 years of service





**IPERS**  
**SHERIFFS/DEPUTIES &**  
**AIRPORT FIRE FIGHTERS**

**IPERS**  
**PROTECTION CLASSIFICATIONS**

**POR**

**MFPRSI**

**EXHIBIT I - A (a)**

<b>PAGE 2</b>	<b>MEMBERSHIP</b>	<b>DISTRIBUTION</b>	
	<b>as of 3/31/98</b>	<b>as of 3/31/98</b>	<b>as of 6/30/98</b>
<b>EMPLOYER:</b>		<b>STATE OF IOWA</b>	
<b>TYPE</b>		<b>CONSERVATION OFFICERS</b>	
Population Totals		199	
Actives		145	
Retired Members		46	
Retired Beneficiaries		6	
Terminated Vested		2	
<b>EMPLOYER:</b>		<b>STATE OF IOWA</b>	<b>STATE OF IOWA</b>
<b>TYPE</b>		<b>B. STATE DOT WEIGHT OFFICERS</b>	
Population Totals		131	1019
Actives		118	631
Retired Members		9	310
Retired Beneficiaries		0	67
Terminated Vested		4	11
<b>EMPLOYER:</b>		<b>CITIES</b>	<b>CITIES</b>
<b>TYPE</b>		<b>B. CITY FIRE FIGHTER</b>	
Population Totals		184	6807
Actives		161	3734
Retired Members		0	2098
Retired Beneficiaries		0	791
Terminated Vested		23	184
<b>EMPLOYER:</b>		<b>CITIES</b>	
<b>TYPE</b>		<b>B. CITY POLICE</b>	
Population Totals		1311	
Actives		1038	
Retired Members		119	
Retired Beneficiaries		7	
Terminated Vested		147	

IPERS  
SHERIFFS/DEPUTIES &  
AIRPORT FIRE FIGHTERS

IPERS  
PROTECTION CLASSIFICATIONS

POR

MFPRSI

**EXHIBIT I - A (a)**

PAGE 3	MEMBERSHIP	DISTRIBUTION		
	as of 3/31/98	as of 3/31/98	as of 6/30/98	as of 6/30/98
COUNTIES TOTAL 1616	1616			
STATE TOTAL 3722	63	2640	1019	
CITIES TOTAL 8302		1495		6807
TOTAL MEMBERSHIP				
13640	1679	4135	1019	6807

**ATTACHMENT**

**I - B**

**RETIREMENT BENEFIT PLAN COMPARISON**

**BENEFIT EXAMPLES**

**ASSUMPTIONS;**

1) BENEFITS PER MONTH BEGINNING AT RETIREMENT AT AGE 55

2) BENEFITS INCREASED BY ANNUAL COLA, UTILIZING STANDARD FORMULA

3) FOR COMPARISON PURPOSE, SALARY INCREASED BY INFLATION RATE OF: 3.50%

4) ASSUMED LEVELS OF FINAL SALARY FOR TWO EXAMPLES: \$40,000 and  
\$60,000

AS OF 11/2/98

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EXAMPLE ONE	SYSTEMS	Age	SALARY ADJUSTED FOR INFLATION						
			FINAL ANNUAL SALARY		\$45,901		\$50,891		
				Monthly \$ Benefit 55	Annual % of Salary	Monthly \$ Benefit 59	Annual % of Adjusted Salary	Monthly \$ Benefit 62	Annual % of Adjusted Salary
<b>ONE - A</b>			<b>Yrs. Service</b>	<b>22</b>		<b>22</b>		<b>22</b>	
	POR			2000	60.00%	2180	56.99%	2340	55.18%
	MFPRSI	Police & Fire Fighters		2000	60.00%	2180	56.99%	2340	55.18%
	IPERS	Sheriff/deputy Sheriff	System Benefit	2000	60.00%	2180	56.99%	2340	55.18%
			Social Security					919	21.67%
			TOTAL	2000	60.00%	2180	56.99%	3259	76.85%
	IPERS	Protected Classes	System Benefit	1760	52.80%	1950	50.98%	2090	49.28%
			Social Security					919	21.67%
			TOTAL	1760	52.80%	1950	50.98%	3009	70.95%
<b>ONE - B</b>			<b>Yrs. Service</b>	<b>25</b>		<b>25</b>		<b>25</b>	
	POR			2150	64.50%	2340	61.18%	2510	59.19%
	MFPRSI	Police & Fire Fighters		2150	64.50%	2340	61.18%	2510	59.19%
	IPERS	Sheriff/deputy Sheriff	System Benefit	2150	64.50%	2340	61.18%	2510	59.19%
			Social Security					1006	23.72%
			TOTAL	2150	64.50%	2340	61.18%	3516	82.91%
	IPERS	Protected Classes	System Benefit	2000	60.00%	2210	57.78%	2370	55.88%
			Social Security					1006	23.72%
			TOTAL	2000	60.00%	2210	57.78%	3376	79.61%



**ONE - C**

			<b>Yrs. Service</b>	<b>30</b>		<b>30</b>		<b>30</b>	
	POR			2400	72.00%	2600	67.97%	2780	65.55%
MFPRSI	Police & Fire Fighters			2400	72.00%	2600	67.97%	2780	65.55%
IPERS	Sheriff/deputy Sheriff	System Benefit		2400	72.00%	2600	67.97%	2780	65.55%
		Social Security						<u>1137</u>	<u>26.81%</u>
		TOTAL		2400	72.00%	2600	67.97%	3917	92.36%
IPERS	Protected Classes	System Benefit		2167	65.00%	2400	62.74%	2570	60.60%
		Social Security						<u>1137</u>	<u>26.81%</u>
		TOTAL		2167	65.00%	2400	62.74%	3707	87.41%

**ONE - D**

			<b>Yrs. Service</b>	<b>32</b>		<b>32</b>		<b>32</b>	
	POR			2500	75.00%	2700	70.59%	2880	67.91%
MFPRSI	Police & Fire Fighters			2400	72.00%	2600	67.97%	2780	65.55%
IPERS	Sheriff/deputy Sheriff	System Benefit		2400	72.00%	2600	67.97%	2780	65.55%
		Social Security						<u>1190</u>	<u>28.06%</u>
		TOTAL		2400	72.00%	2600	67.97%	3970	93.61%
IPERS	Protected Classes	System Benefit		2167	65.00%	2400	62.74%	2570	60.60%
		Social Security						<u>1190</u>	<u>28.06%</u>
		TOTAL		2167	65.00%	2400	62.74%	3760	88.66%

**ONE - E**

			<b>Yrs. Service</b>	<b>35</b>		<b>35</b>		<b>35</b>	
	POR			2500	75.00%	2700	70.59%	2880	67.91%
MFPRSI	Police & Fire Fighters			2400	72.00%	2600	67.97%	2780	65.55%
IPERS	Sheriff/deputy Sheriff	System Benefit		2400	72.00%	2600	67.97%	2780	65.55%
		Social Security						<u>1239</u>	<u>29.22%</u>
		TOTAL		2400	72.00%	2600	67.97%	4019	94.77%
IPERS	Protected Classes	System Benefit		2167	65.00%	2400	62.74%	2570	60.60%
		Social Security						<u>1239</u>	<u>29.22%</u>
		TOTAL		2167	65.00%	2400	62.74%	3809	89.82%

EXAMPLE TWO	FINAL ANNUAL SALARY		SALARY ADJUSTED FOR INFLATION					
		\$60,000	\$68,851		\$76,337			
SYSTEMS	AGES	Monthly \$ Benefit 55	Annual % of Salary	Monthly \$ Benefit 59	Annual % of Adjusted Salary	Monthly \$ Benefit 62	Annual % of Adjusted Salary	
<b>TWO - A</b>		<b>Yrs. Service</b>	<b>22</b>	<b>22</b>	<b>22</b>	<b>22</b>		
	POR		3000	60.00%	3240	56.47%	3560	55.96%
MFPRSI	Police & Fire Fighters		3000	60.00%	3240	56.47%	3560	55.96%
IPERS	Sheriff/deputy Sheriff	System Benefit	3000	60.00%	3240	56.47%	3560	55.96%
		Social Security					<u>1213</u>	<u>19.07%</u>
		TOTAL	3000	60.00%	3240	56.47%	4773	75.03%
IPERS	Protected Classes	System Benefit	2640	52.80%	2920	50.89%	3130	49.20%
		Social Security					<u>1213</u>	<u>19.07%</u>
		TOTAL	2640	52.80%	2920	50.89%	4343	68.27%
<b>TWO - B</b>		<b>Yrs. Service</b>	<b>25</b>	<b>25</b>	<b>25</b>	<b>25</b>		
	POR		3225	64.50%	3480	60.65%	3630	57.06%
MFPRSI	Police & Fire Fighters		3225	64.50%	3480	60.65%	3700	58.16%
IPERS	Sheriff/deputy Sheriff	System Benefit	3225	64.50%	3480	60.65%	3830	60.21%
		Social Security					<u>1264</u>	<u>19.87%</u>
		TOTAL	3225	64.50%	3480	60.65%	5094	80.08%
IPERS	Protected Classes	System Benefit	3000	60.00%	3320	57.86%	3560	55.96%
		Social Security					<u>1264</u>	<u>19.87%</u>
		TOTAL	3000	60.00%	3320	57.86%	4824	75.83%

**TWO - C**

			<b>Yrs. Service</b>	<b>30</b>		<b>30</b>		<b>30</b>	
	POR			3600	72.00%	3820	66.58%	4000	62.88%
MFPRSI	Police & Fire Fighters			3600	72.00%	3820	66.58%	4000	62.88%
IPERS	Sheriff/deputy Sheriff	System Benefit		3600	72.00%	3820	66.58%	4000	62.88%
		Social Security						<u>1325</u>	<u>20.83%</u>
		TOTAL		3600	72.00%	3820	66.58%	5325	83.71%
IPERS	Protected Classes	System Benefit		3250	65.00%	3600	62.74%	3860	60.68%
		Social Security						<u>1325</u>	<u>20.83%</u>
		TOTAL		3250	65.00%	3600	62.74%	5185	81.51%

**TWO - D**

			<b>Yrs. Service</b>	<b>32</b>		<b>32</b>		<b>32</b>	
	POR			3750	75.00%	4030	70.24%	4270	67.12%
MFPRSI	Police & Fire Fighters			3600	72.00%	3880	67.62%	4120	64.77%
IPERS	Sheriff/deputy Sheriff	System Benefit		3600	72.00%	3820	66.58%	4000	62.88%
		Social Security						<u>1350</u>	<u>21.22%</u>
		TOTAL		3600	72.00%	3820	66.58%	5350	84.10%
IPERS	Protected Classes	System Benefit		3250	65.00%	3600	62.74%	3860	60.68%
		Social Security						<u>1350</u>	<u>21.22%</u>
		TOTAL		3250	65.00%	3600	62.74%	5210	81.90%

**TWO - E**

			<b>Yrs. Service</b>	<b>35</b>		<b>35</b>		<b>35</b>	
	POR			3750	75.00%	4030	70.24%	4270	67.12%
MFPRSI	Police & Fire Fighters			3600	72.00%	3880	67.62%	4120	64.77%
IPERS	Sheriff/deputy Sheriff	System Benefit		3600	72.00%	3880	67.62%	4120	64.77%
		Social Security						<u>1383</u>	<u>21.74%</u>
		TOTAL		3600	72.00%	3880	67.62%	5503	86.51%
IPERS	Protected Classes	System Benefit		3250	65.00%	3600	62.74%	3860	60.68%
		Social Security						<u>1383</u>	<u>21.74%</u>
		TOTAL		3250	65.00%	3600	62.74%	5243	82.42%

***ATTACHMENT II***

***DESCRIPTION OF FUNCTIONS AND SERVICES***

**November 2, 1998**



SERVICES OF IOWA'S PUBLIC RETIREMENT SYSTEMS -

Performed by Administrative Personnel and external professional service firms, in accordance with State and Federal statutory and regulatory requirements.  
**(See Exhibit II - (a))**

**PURPOSES:**

The public retirement systems are established under State law for the stated purpose of executing the various programs in a manner that provides for the following:

- a) Management of the pension plan in accordance with the requirements of the governing statute and established administrative rules and policies, applicable federal regulations and federal statutes (including IRS code requirements),
- b) Continuity of programs in a financial sound and prudent manner, and
- c) Delivery of the best possible services to the individual members of the retirement system and their beneficiaries.

## Legal Requirements

The legal requirements which govern the systems and with which they must adhere are identified on **Exhibit II - (b)** to this section, entitled *Federal and State Law Requirements Applicable to Public Retirement Systems*.

The services of the retirement systems are designed to comply with the comprehensive nature of the legal requirements. Individual services have been developed and are administered in a manner which addresses specific legal mandates. The categories of legal requirements are as follows:

### Federal

- I. Tax Qualification Requirements (including qualified plan provision)
- II. Social Security Coverage
- III. Reporting and Disclosure
- IV. Age Discrimination
- V. Sex Discrimination

### State

- VI. MFPRSI Requirements
- VII. POR Requirements
- VIII. IPERS Requirements

## Retirement System Services

The services provided by the retirement system are described below. A detailed description of the individual services and the activities therein is provided in *Exhibit A* to this section.

- 1) **Benefit Services – Purpose:** Performed by Administrative Personnel  
Establishment and administration of the benefit delivery program(s) of the System and delivery of information for the actuary in the conduct of the annual actuarial valuation.
- 2) **Actuarial Services Purpose:** Performed by Administrative Personnel Staff and Contractual Firms  
Delivery of actuarial advice to the System and provision of the ongoing valuation of the System's financial position, to assure the accurate valuation and reporting of the system's liabilities, assets and contribution requirements.
- 3) **Legal Services Purpose:** Performed by Legal Counsel (Internal & External)  
Delivery of ongoing legal services to the System for the purpose of accurate delivery of information and the establishment of appropriate decisions, to include:
  - a) interpretation of the governing statutes and administrative rules and polices,
  - b) representation of the system in legal negotiations and in administrative and judicial proceedings and litigation,
  - c) interpretation of federal requirements (qualified plan, IRS Code, etc.)
  - d) development of legal documents and contracts on behalf of the system,
  - e) provision of the legal counsel and advice to the system's governing authority and to the legislature.
- 4) **Auditing Services Purpose:** Performed by State Auditor &/or External Audit Firm  
Provision of audits on an annual basis that are consistent with the requirements of the State of Iowa.
- 5) **Investment Services Purpose:** Provided by Administrative Staff with Support from Legal Counsel and external investment consultant(s) & external investment management firms  
Provide for the establishment and ongoing delivery of a diversified investment policy which meets and surpasses the funding requirements of the plan, as determined by the system's actuary.

6) Accounting Services  
Purpose

Performed by Administrative Personnel  
Provide for the creation and ongoing administration of accurate financial and benefit accounting information, and provide for an accurate set of accounting reports concerning the system.

7) Custody Services  
Purpose

Performed by External Custodial Bank and Administrative Personnel  
Provide for the ongoing custody of the System's financial assets and to provide accurate accounting for said assets.

8) Management Services  
Purpose

Performed by Administrative Personnel and Governing Board or Official  
Provide for the management of the retirement system, its personnel and contractual relationships in accordance with the statutory mandates and the requirements of federal regulations and statutes.

9) Information Services  
& Reporting  
Purpose

Performed by Administrative Personnel  
Provide for the delivery of a comprehensive program concerning the retirement system to educate and inform the membership, their employers, the Iowa General Assembly and other interested parties and officials.

***EXHIBIT II - (a) DETAILED DESCRIPTION OF SERVICES***



**1) Benefit Services**

**Performed by Administrative Personnel**

**Purpose:**

**Establishment and administration of the benefit delivery program(s) of the System and delivery of information for the actuary in the conduct of the annual actuarial valuation.**

- a) Execution of the defined benefit and disability application and counseling process (note: IPERS disability program is substantially less substantive than the POR and MFPRSI requirements).
- b) Establishment and maintenance of the membership and benefit record keeping system for each type of membership (active, retired, vested), to include management of the service purchase programs for vested members.
- c) Execution of a monthly benefit payroll process, to include the mechanism for issuance of warrants and for direct deposits into banking accounts; which includes member retirement, refund and death payments.
- d) Collection and verification of data pertaining to active and retired members from employers and receipt of contributions on a scheduled basis from the employers on behalf of the members and employers.
- e) Execution of an appeal process for members who desire to appeal determinations
- f) Annual membership reporting process
- g) Collection and reporting of the withholding for federal and state taxes
- h) Administration of the benefit program(s) of the system consistent with the requirements of the governing statute and with applicable federal statutes.
- i) Compliance with federal IRS levy requirements and judicial decisions pertaining to marital property orders and child support orders and related orders (spousal and medical support or care).
- j) Delivery of a comprehensive communication program to the membership, the employers and to interested parties.
- k) Counseling of individual members and their beneficiaries concerning the retirement programs of the system and the individual retirement options, which they may select, including estimates of benefits at varying retirement ages.

**2) Actuarial Services**

**Performed by Administrative Personnel Staff and Contractual Firms**

**Purpose**

**Delivery of actuarial advice to the System and provision of the ongoing valuation of the System's financial position, to assure the accurate valuation and reporting of the system's liabilities, assets and contribution requirements.**

- a) Development and adoption by the Board of Trustees and/or governing official(s) of actuarial policies and assumptions in concert with the System's actuary.**
- b) Development, maintenance and transmittal of data to the actuarial firm, pertaining to the membership and financial status of the system for the purpose of the annual valuation.**
- c) Conduct of periodic review of the actuarial assumptions for the purpose of revision of said assumptions.**
- d) Assessment of the financial implications and concept review pertaining to proposed modifications to the benefit program(s) of the system (legislative initiatives).**

### 3) Legal Services

Performed by Legal Counsel (Internal & External)

#### **Purpose**

Delivery of ongoing legal services to the System for the purpose of accurate delivery of information and the establishment of appropriate decisions, to include:

- a) interpretation of the governing statutes and administrative rules and polices,
  - b) representation of the system in legal negotiations and in administrative and judicial proceedings and litigation,
  - c) interpretation of federal requirements (qualified plan, IRS Code, etc.)
  - d) development of legal documents and contracts on behalf of the system,
  - e) provision of the legal counsel and advice to the system's governing authority and to the legislature.
- 
- a) Provision of ongoing legal advice to the Board of Trustees and/or governing officials concerning their obligations under both the enabling statute and administrative rules and applicable federal statutes; including fiduciary law and federal taxation requirements
  - b) Provision of legal support to the administration in the operational activities of the System; including legal interpretations, benefit determinations and appeals/litigation
  - c) Drafting of appropriate legal agreements and contracts to provide for the establishment of external services
  - d) Representation of the System in judicial proceedings and litigation and in administrative proceedings, where applicable.
  - e) Performance of legislative monitoring and the drafting of legislative proposals
  - f) Review and drafting of appropriate administrative policies, rules and regulations and review of handbooks, forms and other forms of external communication.

**4) Auditing Services**

**Performed by State Auditor &/or External Audit Firm**

**Purpose: Provision of audits on an annual basis that are consistent with the requirements of the State of Iowa.**

- a) **Provision of periodic audits of the financial records of the System, its operational activities; including internal control issues pertaining to the payment of benefits and the maintenance of records under the system and procedural issues and statutory compliance.**
- b) **Delivery of an annual audit report to the Board of Trustees and/or governing authority of the System and to the Iowa General Assembly and the Office of the Governor of the State.**
- c) **Provision of ongoing advice concerning the financial record keeping and accounting of the System.**
- d) **Provision of assistance concerning the requirements of and statements issued by the Governmental Accounting Standards Board (GASB).**

## 5) Investment Services

Provided by Administrative Staff with Support from Legal Counsel and external investment consultant(s)& external investment management firms

**Purpose:** Provide for the establishment and ongoing delivery of a diversified investment policy which meets and surpasses the funding requirements of the plan, as determined by the system's actuary.

- a) Development of an investment policy that is consistent with state statutory requirement and federal policy, and with prudent management practices. Included within the policy consideration of the various issues confronting the investment practices of large public pension systems, including the establishment of program objectives and risk control measures. Periodically obtain adoption by the Board/governing officials of the System's formal investment policy.
- b) In conjunction with legal counsel, review with the Board of Trustees and/or the governing officials the relevant issues facing them as fiduciaries.
- c) Formulate various asset allocation strategies which represent various risk/reward outcomes, for consideration of the Board of Trustees and/or governing officials of the System, which are based on the financial needs of the System (current and proposed actuarial requirements).
- d) Obtain approval of an appropriate strategy that will meet the Board of Trustees and/or governing officials performance and risk expectations and the financial needs of the System
- e) Develop implementation strategies, for the investment of the asset allocation strategy, consistent with reasoned performance objectives and efficient management of System's resources. Evaluate and recommend investment consultants, investment partnerships and other investment strategies, and investment management firms, and make appropriate recommendations to the Board of Trustees and/or governing officials for their decision.
- f) With legal counsel develop draft contracts for execution by the System and the investment firms, to include performance fees as appropriate. Negotiate contracts with investment managers and investment partnerships to establish favorable terms for the System
- g) Provide periodic performance analysis to the Board of Trustees and/or governing officials concerning activities of investment managers over time



- h) Represent the System in relationships with investment firms to effect necessary management of ongoing relationships**
- i) Manage the external relationships with investment firms and consultants to insure compliance with contractual requirements, performance objectives, qualitative aspects of the firm, general service issues, and with expectations of the system. Report to the Board of Trustees and/or governing officials concerning the various firms compliance with contractual requirements and concerning the necessity to terminate investment management firms or other external relationships, as necessary.**
- k) Formulate proposals concerning investment concepts and alternatives for consideration by the Board of Trustees and/or governing officials.**

**6) Accounting Services**

**Performed by Administrative Personnel**

**Purpose**

**Provide for the creation and ongoing administration of accurate financial and benefit accounting information, and provide for an accurate set of accounting reports concerning the system.**

- a) Provide accounting services related to both benefit records, financial asset positions and financial reports**
- b) Maintain compliance with audit requirements of the State of Iowa and compliance with applicable procedural requirements.**
- c) Maintain compliance with the requirements of the Governmental Accounting Standards Board and with appropriate control requirements**
- d) Conduct periodic reviews of accounting procedures and accounting/financial reports**
- e) Maintain an accurate and secure financial and accounting reporting system**
- f) Provide portfolio accounting services, to include management of the accounting support (asset accounting) provided by the external custodial bank and conduct thorough reviews of their reports.**

**7) Custody Services**

**Performed by External Custodial Bank and Administrative Personnel**

**Purpose**

**Provide for the ongoing custody of the System's financial assets and to provide accurate accounting for said assets.**

- a) **Establish and manage relationship with a qualified master custodian banks for the delivery of the global custody and accounting services to the System.**
- b) **Services include**
  - 1) **custody to include trade settlement,**
  - 2) **proper accounting for all transactions and asset positions,**
  - 3) **performance and related evaluation tools,**
  - 4) **reconciliation of all asset accounts,**
  - 5) **cash management services,**
  - 6) **execution of a security lending program.**
- c) **Provision of ongoing accounting reports and related information concerning the investment activity of the System and its agents**
- d) **Conduct of regular reviews of the services of the custodial bank in accordance with requirements of the executed contract.**

**8) Management Services**

Performed by Administrative Personnel and Governing Board or Official

**Purpose**

Provide for the management of the retirement system, its personnel and contractual relationships in accordance with the statutory mandates and the requirements of federal regulations and statutes.

- a) Setting of policy for the deliverance of benefits, investment, budget, reporting, goals, and administrative rules in accordance with the governing statute
- b) Recruitment, employment, and evaluation of personnel
- c) Compliance with governing statute and various state and federal legal requirements.
- d) Provide best possible service and information to members, employers, legislature and its staff, the office of the Governor, and interested parties.
- e) Provide accurate reports and information concerning activities of the System and its programs.
- f) Assure that the System is providing best service available to its members in the most efficient and accurate way
- g) Direct and oversee actuarial activities of the System in accordance with policy of the Board of Trustees and/or governing officials.
- h) Coordinate investment activities consistent with the expectations and policies of the Board of Trustees and/or governing officials.
- i) Management of external relationships of the System in conformity with legal and contractual requirements and mandates.
- j) Develop and administer implementation of a strategic plan and budget for the system.
- k) Management of facility and development and information technology and communication services.
- l) Provision of training and education opportunities for the members of the Board of Trustees and/or governing officials and administrative personnel.

**9) Information Services & Reporting**

Performed by Administrative Personnel

**Purpose**

Provide for the delivery of a comprehensive program concerning the retirement system to educate and inform the membership, their employers, the Iowa General Assembly and other interested parties and officials.

- a) Creation and distribution to employers and membership of a benefit handbook which defines the overall services, benefits, and procedures of the System
- b) Distribution of information to employers and membership concerning legislative changes to government statute and the System's administrative rules as they are provided
- c) Provision of information to the Iowa General Assembly for consideration in developing and implementing changes in the governing statute
- d) Maintenance of communications with representative associations for determination of issues and concerns of members
- e) Explanation of System's responsibilities and services to members, employer personnel, legislative members, etc. so they are more aware of all the System's services to allow for the enhanced delivery of services.
- f) Provision of accurate and educational information to the membership to enable them to make educated decisions about their retirement
- g) Development and delivery of the following documents:
  - 1. benefit handbook
  - 2. flash report - summary of Board Meeting activities
  - 3. minutes of Board meetings
  - 4. newsletter
  - 5. annual statements
  - 6. outreach visits
  - 7. annual report

*Exhibit II - (b)*

*Federal and State Law Requirements Applicable to Public Retirement Systems*

**November 2, 1998**



**FEDERAL**

**I. TAX QUALIFICATION REQUIREMENTS**

- A. IRC § 72 Taxation of Distributions.** Imposes rules relating to taxation of distributions from qualified plans, including governmental plans.
- B. IRC § 401(a)(1) Formal Plan Required.** Plan provisions must be in writing.
- C. IRC § 401(a)(2) Exclusive Benefit Rule.** Plan assets must be used exclusively for the benefit of participants and beneficiaries.
- D. IRC § 401(a)(7) Vesting.** Pre-ERISA vesting standards must be met. Specifically, participants must be 100% vested upon plan termination or discontinuance of employer contributions.
- E. IRC § 401(a)(8) Forfeitures.** Forfeitures may not be used to increase plan benefits.
- F. IRC § 401(a)(9) Required Distributions.** Distributions to a participant must commence no later than April 1 of the calendar year following the later of the calendar year in which the participant attains age 70½ or in which he or she retires.
- G. IRC § 401(a)(16) Maximum Benefits.** Benefits or contributions may not exceed IRC § 415 limits.
- H. IRC § 401(a)(17) Maximum Compensation.** Annual compensation includible for plan purposes may not exceed \$150,000 (indexed--currently \$160,000).
- I. IRC § 401(a)(25) Actuarial Assumptions.** The plan must specify actuarial assumptions in a manner that precludes employer discretion in order to provide definitely determinable benefits.
- J. IRC § 402 Plan distributions.** Distribution notice and rollover rules.

**K. IRC § 414(h) Pick-ups.**

Rules allowing a governmental entity to treat certain employee contributions as employer contributions for income tax purposes (pre-tax).

**L. IRC § 415 Limitations on Contributions and Benefits.**

Specifies dollar and percentage of pay limits and provides special rules for plans maintained for police officers and firefighters.

**M. IRC § 3405 Withholding.**

Governs required elections regarding withholding from distributions.

**N. IRC § 4974 Excise Tax Relating to Minimum Distributions.**

Imposes 50% excise tax on payee (participant) resulting from the failure of plan to make required minimum distribution under § 401(a)(9).

**O. IRC § 6652(i) Penalty for Failure to Give Rollover Notice.**

Plan must provide a written explanation to each person who receives a distribution eligible for rollover treatment.

**II. SOCIAL SECURITY COVERAGE**

**A. IRC § 3121(b)(7)(F) Coverage of state and local employees.**

Effective for services performed after 07/01/91, as a general rule, employees of state and local governments who were not already covered by a state voluntary agreement or a retirement system in connection with their employment are automatically covered by Social Security, and their wages are subject to FICA.

**B. Social Security Status of 411 Members and POR Members.**

With a few exceptions (made by employing city) members of the 411 and POR Systems are not covered by Social Security, members of the IPERS system are covered by Social Security. All individuals hired after April 1, 1986 are covered by Medicare. Prior to that date, the non-public safety workers were covered by Medicare.

**III. REPORTING AND DISCLOSURE**

**A. Reg. § 1.7476-2 Notice to Interested Parties.** If a plan requests a determination letter from the IRS regarding the plan's qualified status, notice must be given to "interested parties."

**B. Various Tax Reporting.** The plan must provide certain tax information to the IRS on Form 1099R.

**C. IRC § 219(g) Active Participant Status.** Employers must indicate on Form W-2 whether an employee was an "active participant" in a pension plan for the calendar year of the report.

**D. Reg. § 1.6012-3 Unrelated Business Taxable Income.**

Plan fiduciaries must file Form 990-T if the plan has unrelated business taxable income of at least \$1,000 during a year.

**E. Reg. § 1.401-1(a)(2) Disclosures to Participants and Beneficiaries.**

Plan must be communicated to employees in order to be qualified.

**F. IRC § 402 Plan distributions.**

Notice of distribution rights, including rollover, must be given to participants and beneficiaries.

#### **IV. AGE DISCRIMINATION**

##### **A. ADEA Age Discrimination in Employment Act.**

Generally prohibits age discrimination in the terms, conditions and privileges of employment. Specific exception applies with respect to maximum hiring ages for police officers and firefighters.

##### **B. OWA Older Workers' Benefit Protection Act.**

Amended ADEA to specifically extend the prohibition against age discrimination to employee benefit plans, including governmental plans.

#### **V. SEX DISCRIMINATION**

##### **A. Title VII Civil Rights Act of 1964.**

Prohibits employment discrimination (including benefit discrimination) on the basis of sex.

STATE

**VI. KEY MFPRSI (CHAPTER 411) REQUIREMENTS**

- A. § 411.2 Participation by Cities.** Generally mandates participation in 411 system by cities whose police officers or firefighters are appointed under civil service.
- B. § 411.3 Membership.** Police officers and firefighters employed by participating cities are required to become members of the system as a condition of employment.
- C. § 411.5 Administration.** Vests responsibility for the establishment and operation of the system in the board of trustees created under § 411.36. Establishes the duties of the actuary and requirements for the adoption of tables, rates and assumptions. Sets out qualification requirements relating to the Internal Revenue Code.
- D. § 411.6 Benefits.** Sets out benefit categories payable by the system and the formulas for each category.
- E. § 411.6A Benefits.** Sets out available optional forms of benefits.
- F. § 411.7 Management of Fund.** Sets out investment duties and powers of the board.
- G. § 411.8 Method of Financing.** Establishes member and employer contributions.
- H. § 411.13 Exemption from Execution.** Anti-alienation provision.
- I. § 411.20 State Appropriation.** Establishes state contribution.
- J. § 411.22 Subrogation.** Liability of third parties.
- K. § 411.35 Statewide System.** Established consolidated statewide system and terminated local systems.

**L. § 411.36 Board of Trustees.**

Created board for statewide system.

**M. § 411.38 City Obligations.**

Established obligations of cities related to the consolidation.

## **VII. KEY POR (CHAPTER 97A) REQUIREMENTS**

**A. § 97A.2 Participation by State.**

States that this system provides certain retirement and other benefits for peace officers of the Iowa Department of Public Safety.

**B. § 97A.3 Membership.**

Peace officer members of the Iowa Department of Public Safety are members of this system upon passing a physical and mental examination and graduating from the Department's training school for peace officers.

**C. § 97A.4 Service Creditable.**

Provides that service of less than 6 months is not creditable as service and service of 6 months to 12 months is creditable of one year of service.

**D. § 97A.5 Administration.**

Vests responsibility for the establishment and operation of the system in the board of trustees created in this section consisting of the Commissioner of Public Safety, the State Treasurer, and one member elected from the membership. Establishes duties of actuary and requirements for the adoption of tables, rates, and assumptions. Establishes a medical board who shall pass upon the medical examinations required by the system.

**E. § 97A.6 Benefits.**

Sets out benefit categories payable by the system and the formulas for each category.

**F. § 97A.6A Benefits.**

Provides for the Board to approve optional benefits that are the actuarial equivalent of the normal benefits.



- G. § 97A.6B Rollovers of members' accounts.** Provides for the payment of a rollover distribution to a qualified retirement plan.
- H. § 97A.7 Management of Funds.** Sets out investment duties and powers of the board and provides that the State Treasurer is the custodian of the funds.
- I. § 97A.8 Method of Financing.** Establishes member and employer contributions.
- J. § 97A.9 Military service exceptions.** Provides for service credit for certain military service.
- K. § 97A.12 Exemption from Execution.** Anti-alienation provision.
- L. § 97A.14 Hospitalization and Medical Attention.**  
Provides for the system to pay hospital, nursing, and medical services for injuries or diseases incurred while in the performance of duties. Any funds from workers' compensation of other source for such specific purpose to offset cost to system.
- M. § 97A.16 Withdrawal of Contributions --Repayment.**  
Members who terminate service may withdrawal contributions. Members who are laid off and withdrawal contributions may repay contributions if recalled to service.
- N. § 97A.17 Optional transfers with chapter 411.**  
Provides an option to transfer benefits between POR and MFPRSI upon change of employment between systems.

**VIII. KEY IPERS PROVISIONS (CHAPTER 97B)**

- A. § 97B.1 System created within the Department of Personnel.
  
- B. § 97B.1A Definition section for critical terms used throughout Chapter 97B, including, to cite just a few, *member, wages, contributions, employer, employee, first month of entitlement, retirement, service, leave of absence, and covered wages.*
  
- C. § 97B.4 Administration of system is to be “through the chief investment officer and chief benefits officer”; provides for adoption of rules, submission of an annual report, and immunity for actions which do not involve “malicious or wanton misconduct.”
  
- D. § 97B.5 Department may employ such staff as necessary for the administration of the system.
  
- E. § 97B.7 Creates the separate Trust Fund for System monies, makes the Treasurer of the State the trustee for the Fund, and specifies the prudent person standard for investment of the Fund. Further declares that “all moneys” in the Fund are to be “used for the exclusive benefit of the members and their beneficiaries or contingent annuitants....”
  
- F. § 97B.8 Creates an Investment Board of 9 members for the System.
  
- G. § 97B.9-14 Establishes that contributions for the regular members of the System be at a combined 9.45%, provides for the pre-tax “pick-up” of employee contributions by the employer, and provides for the regular payment of contributions from employers to the System.

**H. § 97B.15**

Allows department to adopt rules under Chapter 17A.

**I. § 97B.17-19**

Requires that the department maintain records for each member, and allows records containing social security numbers and specific account values to be kept as confidential; directs the System to provide members with an annual statement of their account, and provides for revisions to erroneous records.

**J. § 97B.20-32**

Appeals process available to aggrieved members, both within and without the System.

**K. § 97B.39**

Discusses rights not transferable or subject to legal process

**L. § 97B.42**

Mandatory membership for most public employees; prohibition against an employee having coverage from two different retirement systems for the same position.

**M. § 97B.42A**

Provides that certain positions entitle the member to elect out of IPERS' coverage, if notice is given in a timely manner.

**N. § 97B.45**

Identifies the normal retirement dates for regular members of the System.

**O. § 97B.47 & 50**

Early retirement

**P. § 97B.48**

Payment of monthly allowances.

**Q. § 97B.48A**

Earnings limitations for reemployed members under age 65, and specifies how additional value from a reemployment period is to be used to enhance the existing benefit.

**R. § 97B.49A**

Monthly payment of allowance calculations in general.

- S. § 97B.49B** Defines *protection occupations*, the calculation of their monthly benefits, and the determination of additional contributions required.
- T. § 97B.49C** Defines *sheriffs, deputy sheriffs, and airport fire fighters*, the calculation of their monthly benefits, and the determination of additional contributions required.
- U. § 97B.49D** Describes the hybrid formula which can be used as an alternative method of determining monthly benefits for members with **both regular and special** service periods.
- V. § 97B.49F** COLAS due members who retired before June 30, 1990 **and the *Favorable Experience Dividend*** available to those who retired on or after July 1, 1990.
- W. § 97B.49G** The percentage multiplier used in member benefits at different periods of time, and extra permanent benefits granted longer retired members.
- X. § 97B.49I** Allows IPERS to handle QDROs. Establishes our “excess benefits plan.”
- Y. § 97B.49H** Establishes the active member supplemental accounts.
- Z. § 97B.51** Optional payouts available to retired members (allowing various death benefits to be available to members selecting them).
- AA. § 97B.52** Payments to beneficiaries.
- BB. § 97B.52A** Necessity of attaining a *bona fide* retirement (severance of service and duration of time out of covered employment requirements).
- CC. § 97B.53** Refund options for persons who terminate covered employment and do not retire.

**DD. § 97B.53B**

Allows for rollovers of members' accounts.

**EE. § 97B.61**

Requirement for annual actuarial evaluation.

**FF. § 97B.66,72-80**

Various sections governing buy-back of refunded previous IPERS' service and buy-ins of public service elsewhere.

**GG. § 97B.70**

Computation of interest to members' accounts.

**HH. § 97B.81**

Allows members to purchase leave of absence time.

**ATTACHMENT III**

**III. ACTUARIAL METHOD AND ASSUMPTIONS**

**DISCUSSION OF RETIREMENT SYSTEMS' ACTUARIAL**

**METHODOLOGIES AND ASSUMPTIONS**

AS OF

11/02/98

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## IPERS

### ACTUARIAL COST METHOD

**ENTRY AGE NORMAL ACTUARIAL COST METHOD:** Under this method, a total contribution rate is determined which consists of two parts: (i) the normal cost rate and (ii) the unfunded actuarial accrued liability (UAAL) rate. The entry age normal cost method has the following characteristics:

(i) The annual normal costs for each individual active member are sufficient to accumulate the value of the member's pension at time of retirement

(ii) Each annual normal cost is a constant percentage of the member's year by year projected compensation. The entry age normal actuarial cost method allocates the actuarial present value of each member's projected benefits on a level basis over the member's compensation between the entry age of the member and the assumed exit ages.

### COST CALCULATION METHOD

The portion of the actuarial present value allocated to the valuation year is called the normal cost. The portion of the actuarial present value not provided for by the actuarial present value of future normal costs is called the actuarial accrued liability. Deducting the actuarial value of assets from the actuarial accrued liability determines the unfunded actuarial accrued liability (UAAL). The difference between the statutory contribution rate (9.45%) and the normal cost rate is used to finance the UAAL and the number of years necessary to finance the unfunded actuarial accrued liability as a level percent of member payroll is determined

## POR

**AGGREGATE ACTUARIAL COST METHOD:** Under this method, the normal cost (the portion of the total cost of pension benefits under this plan allocated to the current year under this actuarial cost method) is determined by multiplying the normal cost accrual rate for the current year by the total valuation earnings for active participants under the assumed retirement age on the current valuation date.

An actuarial accrued liability, as such, is not determined under the Aggregate Actuarial Cost Method; all past and future costs are funded over the future. The normal cost accrual rate for the current year is:

1) the actuarial present value of projected pension benefits for all participants determined using the assumptions shown below for normal cost, minus the actuarial value of assets (as reported by the System), both as of the current valuation date, divided by

2) the actuarial present value of the expected future valuation earnings for all active participants from the current valuation date to the assumed retirement age.

The normal cost accrual rate for the current year is:

1. The actuarial present value of projected pension benefits for all participants determined using the assumptions shown below for normal cost, minus the actuarial value of assets (as reported by the System), both as of the current valuation date, divided by

2. The actuarial present value of the expected future valuation earnings for all active participants from the current valuation date to the assumed retirement age.

## MFPRSI

**AGGREGATE ACTUARIAL COST METHOD:** Under this method, the normal cost (the portion of the total cost of pension benefits under this plan allocated to the current year under this actuarial cost method) is determined by multiplying the normal cost accrual rate for the current year by the total valuation earnings for active participants under the assumed retirement age on the current valuation date. An actuarial accrued liability, as such, is not determined under the Aggregate Actuarial Cost Method; all past and future costs are funded over the future. The normal cost accrual rate for the current year is:

1) the actuarial present value of projected pension benefits for all participants determined using the assumptions shown below for normal cost, minus the actuarial value of assets (as reported by the System), both as of the current valuation date, divided by

2) the actuarial present value of the expected future valuation earnings for all active participants from the current valuation date to the assumed retirement age.

The normal cost accrual rate for the current year is:

(a) the actuarial present value of projected and actual pension benefits for all participants determined using the assumptions shown in Table 1, minus the actuarial value of assets, minus the present value of future contributions by members, all as of the current valuation date, divided by

(b) the actuarial present value of the expected future valuation earnings for all active participants from the current valuation date to the assumed retirement age.

**IPERS**

**POR**

**MFPRSI**

**VALUATION OF ASSETS**

Assets are valued at the expected value at the valuation date (based on the assumed rate of investment return) plus 25% of the difference between the market value and expected value.

Assets are valued at market value as of the end of the fiscal year.

The preliminary actuarial value is equal to the prior year's actuarial value (starting with market value as of July , 1992) adjusted for contributions, disbursements, and expected return on investments. This preliminary value is then increased by 25% of investment gains (losses) during the four prior plan years but not before July 1, 1992.

**INTEREST RATE**

7.50%

8%

7.50%

**MORTALITY TABLE**

1983 GAM

1971 GAM, (evaluation of mortality rates and related assumptions currently underway by Board of Trustees).

1971 GAM, (evaluation of mortality rates and related assumptions currently underway by Board of Trustees).

