



Peace Officers' Retirement, Accident and Disability System (POR)



Presented by:

Jim Wittenwyler, Administrative Services Director
Iowa Department of Public Safety

Patrice A. Beckham, Consulting Actuary
Cavanaugh Macdonald Consulting, LLC

December 6, 2023

Governance



- Board of Trustees
 - Commissioner of Public Safety – Stephan K. Bayens
 - Treasurer of State – Roby Smith
 - Governor’s Appointee – Mark Oiler (Chief Actuary, Principal Financial Group)
 - Active Member Representative – Robert C. Conrad (Trooper, Iowa State Patrol)
 - Retired Member Representative – Michael Metzger (Retired Captain, Iowa State Patrol)
- *Iowa Code, 97A*
- *Iowa Administrative Code – 661*



Membership



- Division of Criminal Investigation
- Division of Narcotics Enforcement
- Division of Intelligence
- Iowa State Patrol Division
- State Fire Marshal Division



General Plan Overview



- Fund Value at July 1, 2023: \$681,343,286
- Membership: Total of 1,321
 - Actives: 588
 - Retirees/Beneficiaries: 679
 - Inactives: 54
- Total Annual Pension Benefits: \$40,381,280
 - Average annual benefit: \$59,472
- Total Annual Covered Payroll: \$56,089,142
 - Average annual salary: \$95,390
- Total Contributions (FY 2023)
 - Members: \$5,990,767
 - State: \$18,721,480 plus additional \$5 million

General Plan Overview

- Earnings while a member of POR are exempt from Social Security (if sworn after March 1986 must pay Medicare 1.45%)
 - No retirement benefits received from Social Security



Benefit Provisions



- Benefit based on years of service and highest 3 years of compensation
- Retirement at age 55 with 22 years of service
 - Benefit is 60.5% after 22 years of service and then increases by 2.75% per year, up to 32 years of service.
 - Maximum benefit of 88%
 - Mandatory retirement age is age 65
- Service retirement benefit is paid as a Joint and 50% Survivor
 - Seven (7) optional forms of payment available at retirement
- Post-retirement benefit escalator: a percentage based on wage increase provided for active members of the same rank. Also, a flat dollar amount (\$15 to \$35 per month) based on years since retirement.

Benefit Provisions

- Eligibility for vested benefit
 - Four years of service
 - Benefit payable at age 55
- Ancillary benefits provided
 - Line of Duty Death Benefit of \$100,000
 - Accidental and Ordinary Disability Monthly Benefits
 - Accidental and Ordinary Death Monthly Benefits



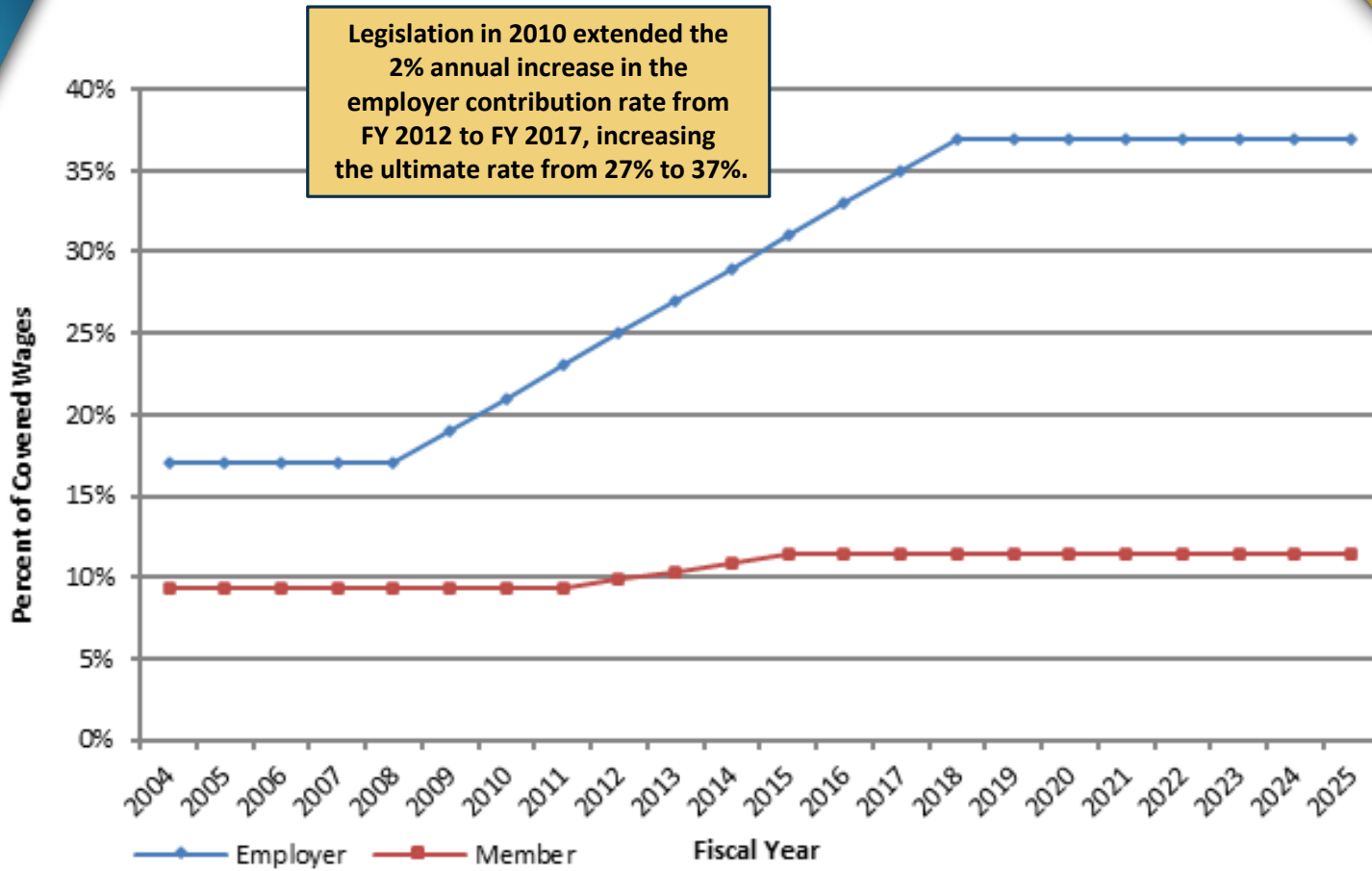
Funding Provisions



- Current Contribution Rates
 - Member contribution rate: 11.40%
 - State statutory contribution: 37.00%
 - State supplemental contribution: \$5 M until Plan is 85% funded
- Contribution rates have changed over the years, most recently as the result of legislation in the 2010 session

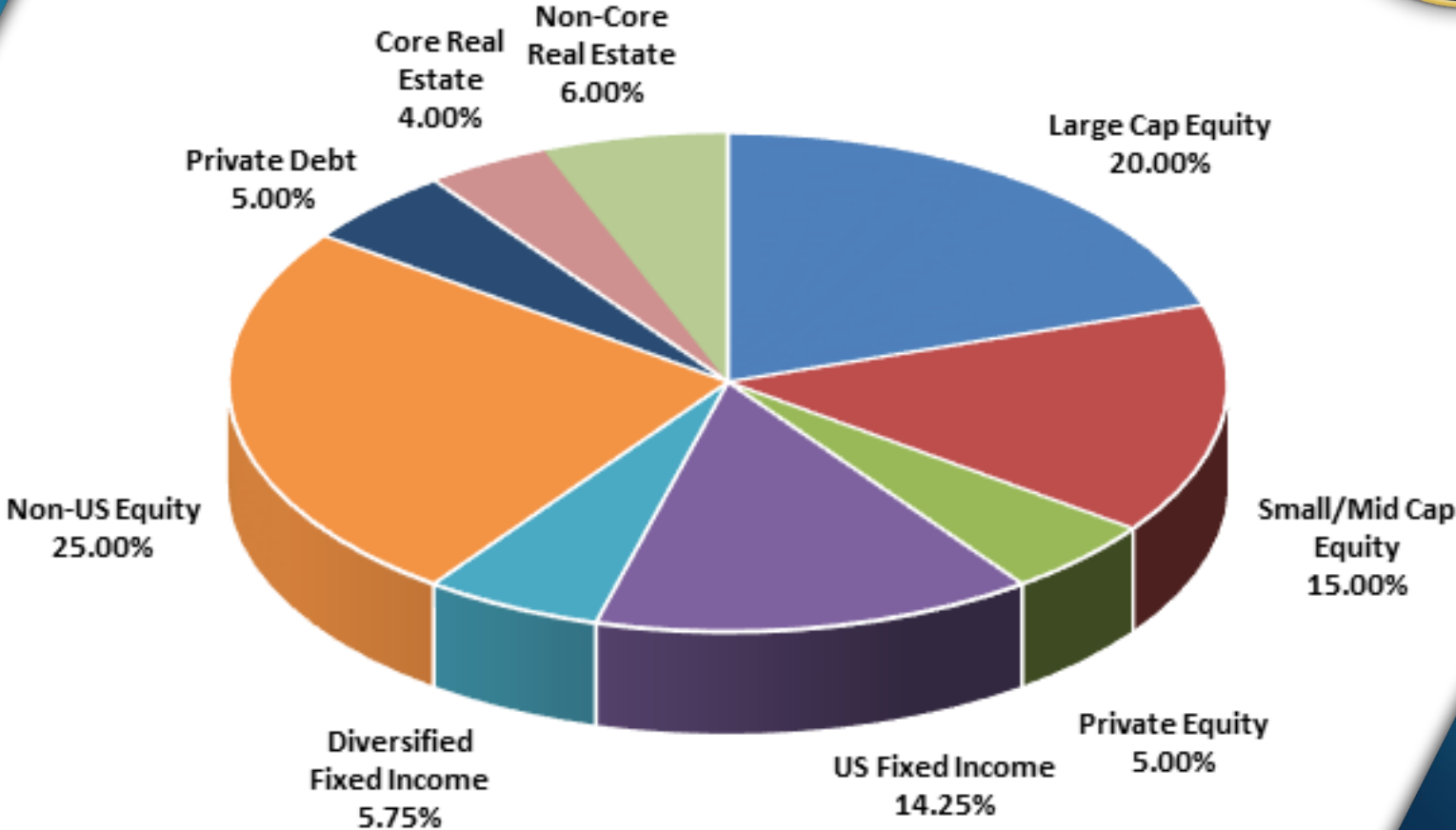


Statutory Contribution Rates

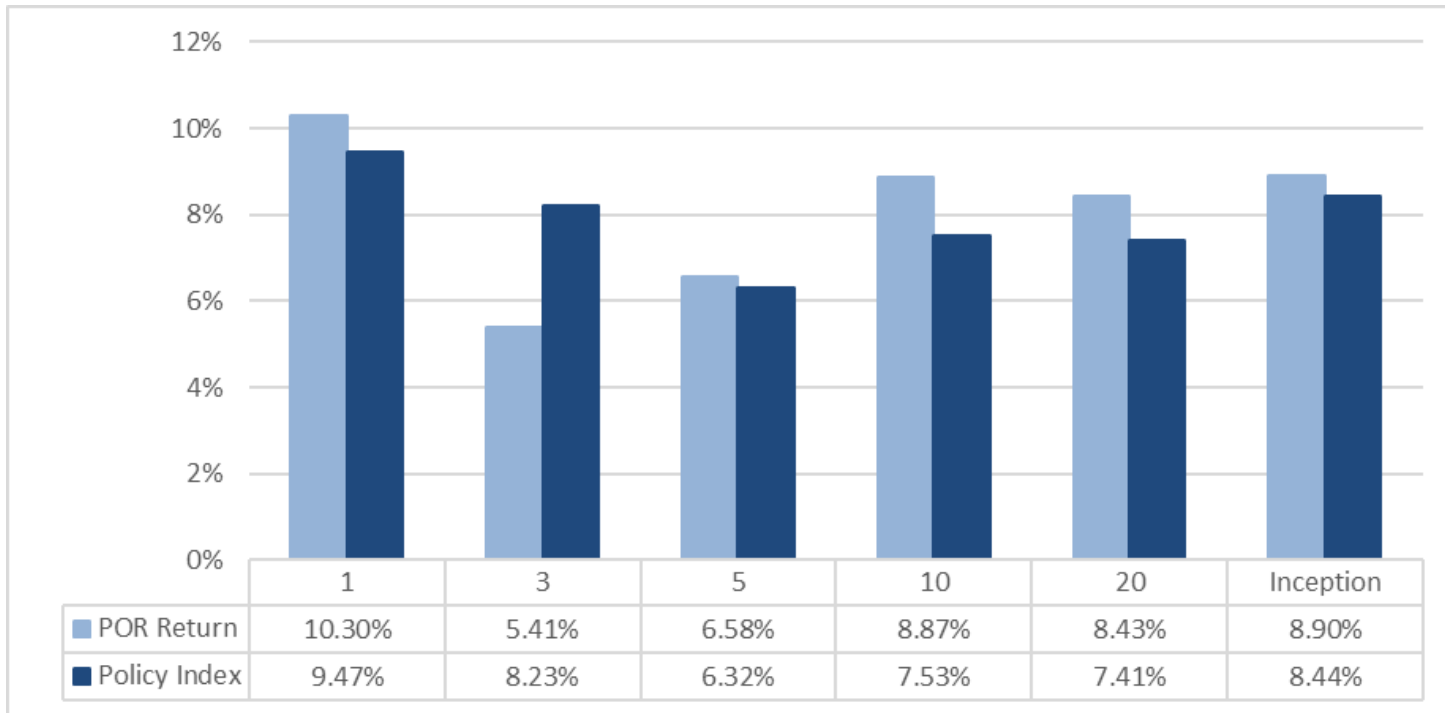


Target Asset Allocation

As of 7/1/2023

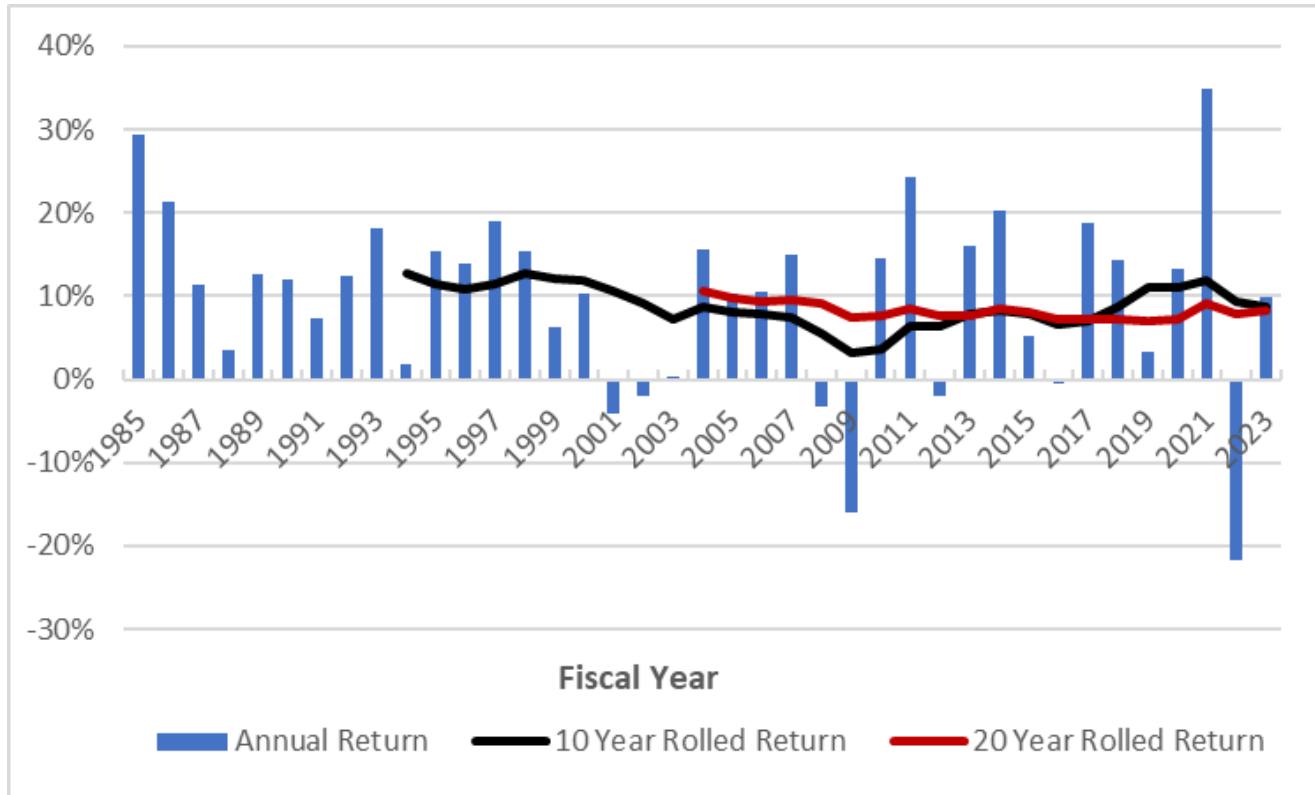


Investment Performance History



Note: Current investment return assumption, which is forward-looking, is 6.50%.

POR Rolling Fund Returns (1985 – 2023)



Returns are much smoother over longer periods of time, like 20 or 30 years.

Actuarial Valuation Process



- The valuation process can be viewed as a budgeting process. Like a budget, we make use of information we know as of a certain date, and using assumptions, we estimate what we think will happen in the future.
- Member data and asset data are provided by the System staff. Benefit provisions are in statute.
- Assumptions and funding methodology are determined by the Board of Trustees, with input from the actuary and other professionals.

Inputs

Member Data
Asset Data
Benefit Provisions
Assumptions
Funding Methodology



Results

Actuarial Value of Assets
Actuarial Accrued Liability
Funded Ratio
Actuarial Contribution Rate
Contribution Deficiency/Margin

What Impacted the 2023 Actuarial Valuation



- **Actual versus expected experience for FY 2023**
 - Investment return on market value of assets for FY 2023 was 9.9%
 - Return on actuarial (smoothed) value was 4.8% which generated an actuarial loss of \$11.5 million
 - Net liability loss of \$11.6 million primarily due to salary and post-retirement escalator increases larger than expected by assumptions.



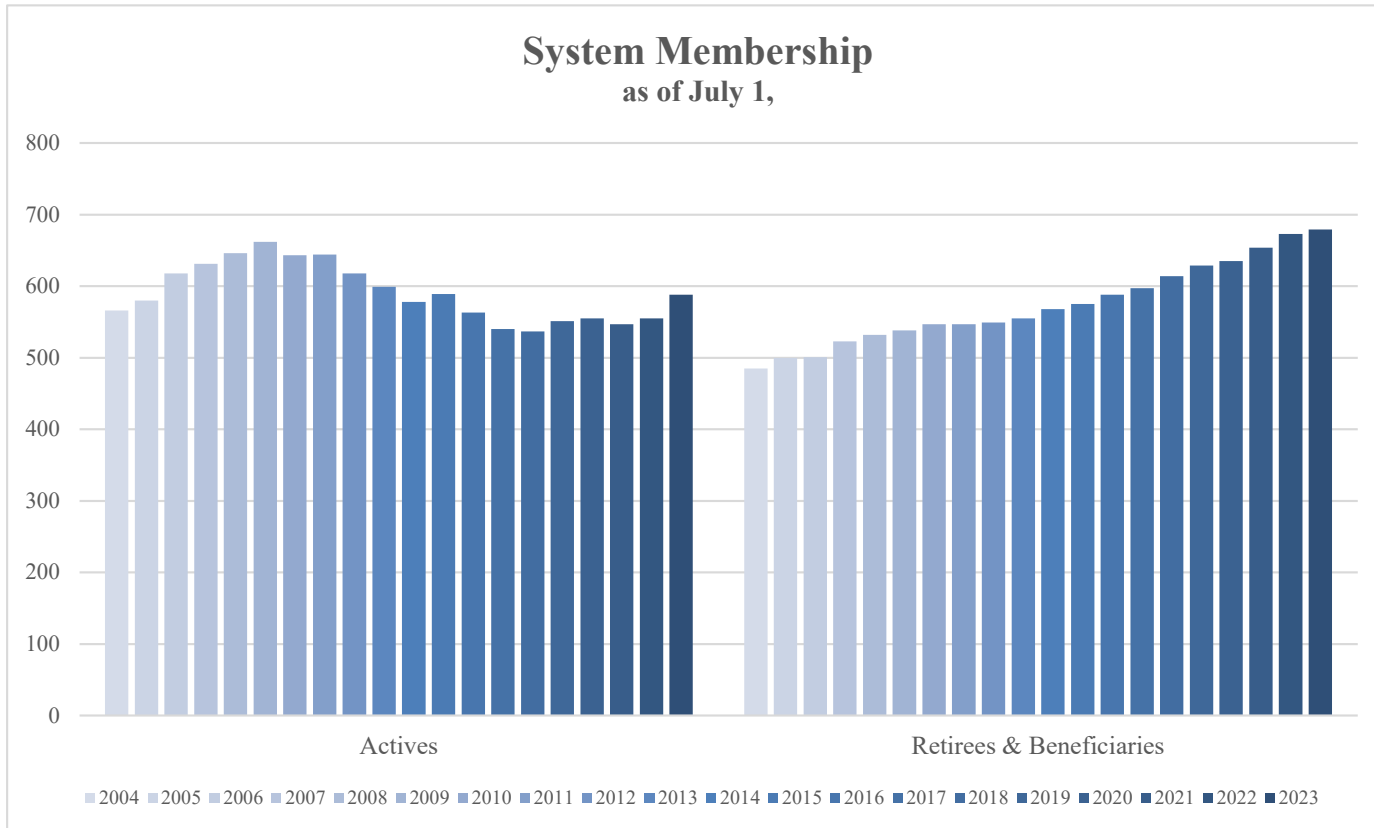
What Impacted the 2023 Actuarial Valuation

■ Senate File 513

- Designated peace officers in the Department of Transportation under section 321.477, Code 2023, who had fewer than 10 years of membership service were transferred to the Department of Public Safety and became members of POR.
- As a result, 28 employees whose retirement benefits were provided under the Iowa Public Employees Retirement System (IPERS) are now covered by POR. Years of service accrued under IPERS also transferred to POR.
- POR will receive assets equal to the increase in the System's liabilities so no impact on the UAAL.
- Covered payroll increased 10.8% due to more active members along with higher salary increases.

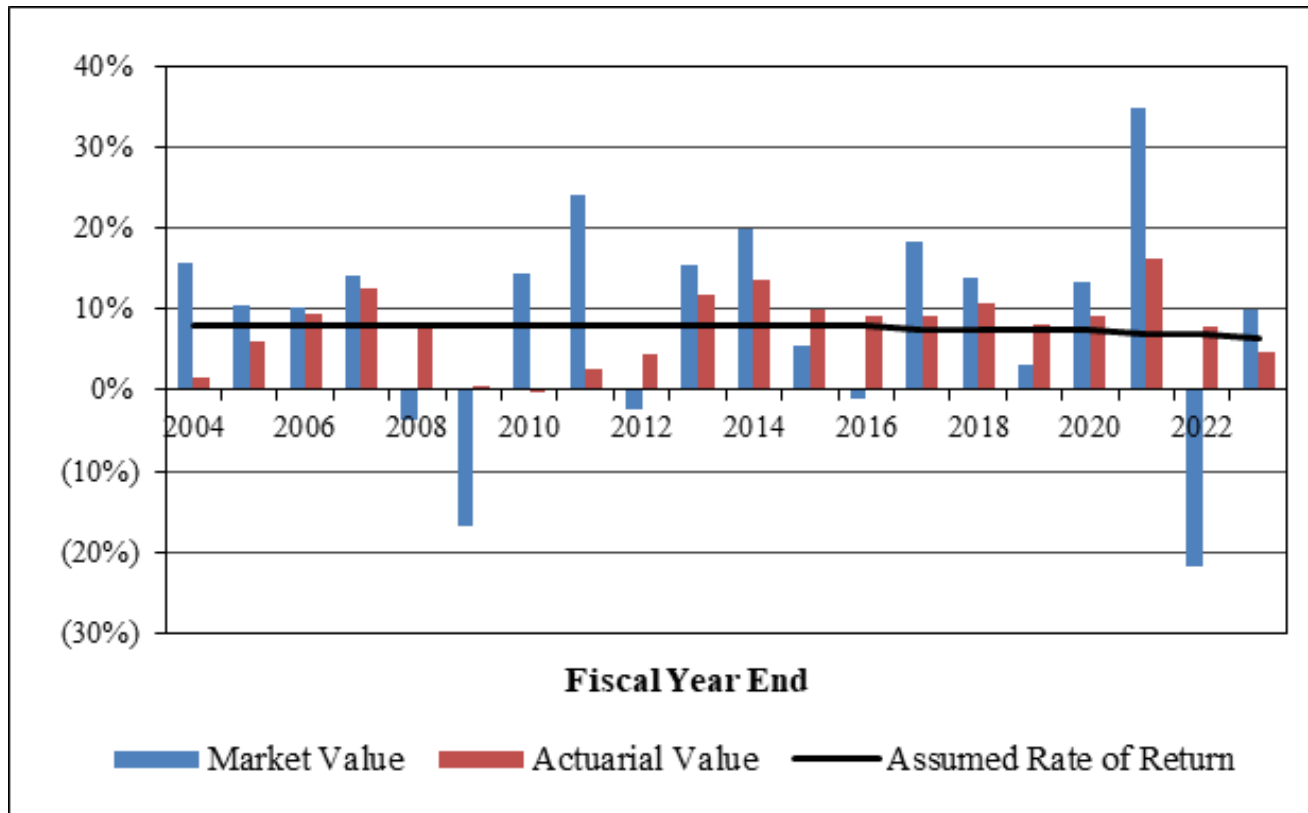


POR Membership



The active membership has fluctuated over this period, but inactive members (retirees and beneficiaries) have steadily increased.

Returns on Market and Actuarial Assets



An asset smoothing method is used to average out the volatility of asset returns and provide stability to the funding of the System.

Valuation Results: Funded Status

(\$ in Millions)



As of July 1,

	2023	2022
Actuarial Accrued Liability (AAL)	\$935	\$884
Actuarial Value of Assets (AVA)	<u>\$729</u>	<u>\$701</u>
Unfunded Actuarial Accrued Liability	\$207	\$184
Funded Ratio (AVA/AAL)	78%	79%
Market Value Assets	\$681	\$625
Funded Ratio (MVA/AAL)	73%	71%

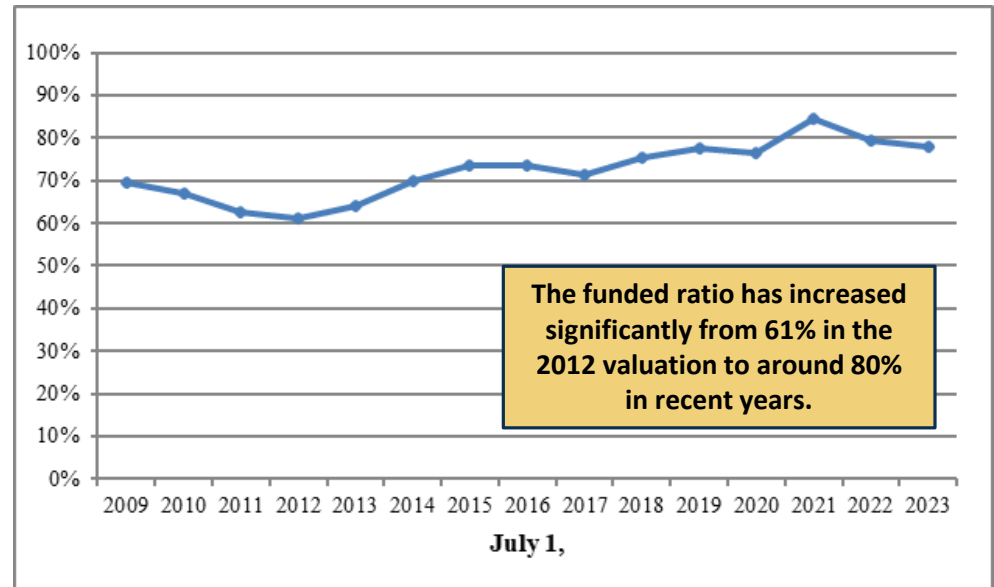
Change in the Unfunded Actuarial Accrued Liability (UAAL)



UAAL July 1, 2022	\$183.7
• Contributions below actuarial rate	3.7
• Expected decrease from amortization	(3.4)
• Investment experience	11.5
• Liability experience	11.6
• Other experience	(0.6)
UAAL July 1, 2023	\$206.5



Historical Funded Ratio



Valuation Results: Contributions



	<u>Fiscal Year Beginning</u>	
	<u>7/1/2023</u>	<u>7/1/2022</u>
Normal Cost	35.32%	35.33%
Administrative Expenses	0.64%	0.71%
UAL Payment	<u>30.60%</u>	<u>29.41%</u>
Total Actuarial Contribution Rate	66.56%	65.45%
Member Rate	<u>(11.40%)</u>	<u>(11.40%)</u>
Employer Rate	55.16%	54.05%
State Fixed Contribution Rate	(37.00%)	(37.00%)
Supplemental Contribution*	(8.91%)	(9.88%)
Contribution Shortfall/(Margin)	9.25%	7.17%

* \$5 million State supplemental contribution scheduled for the fiscal year.

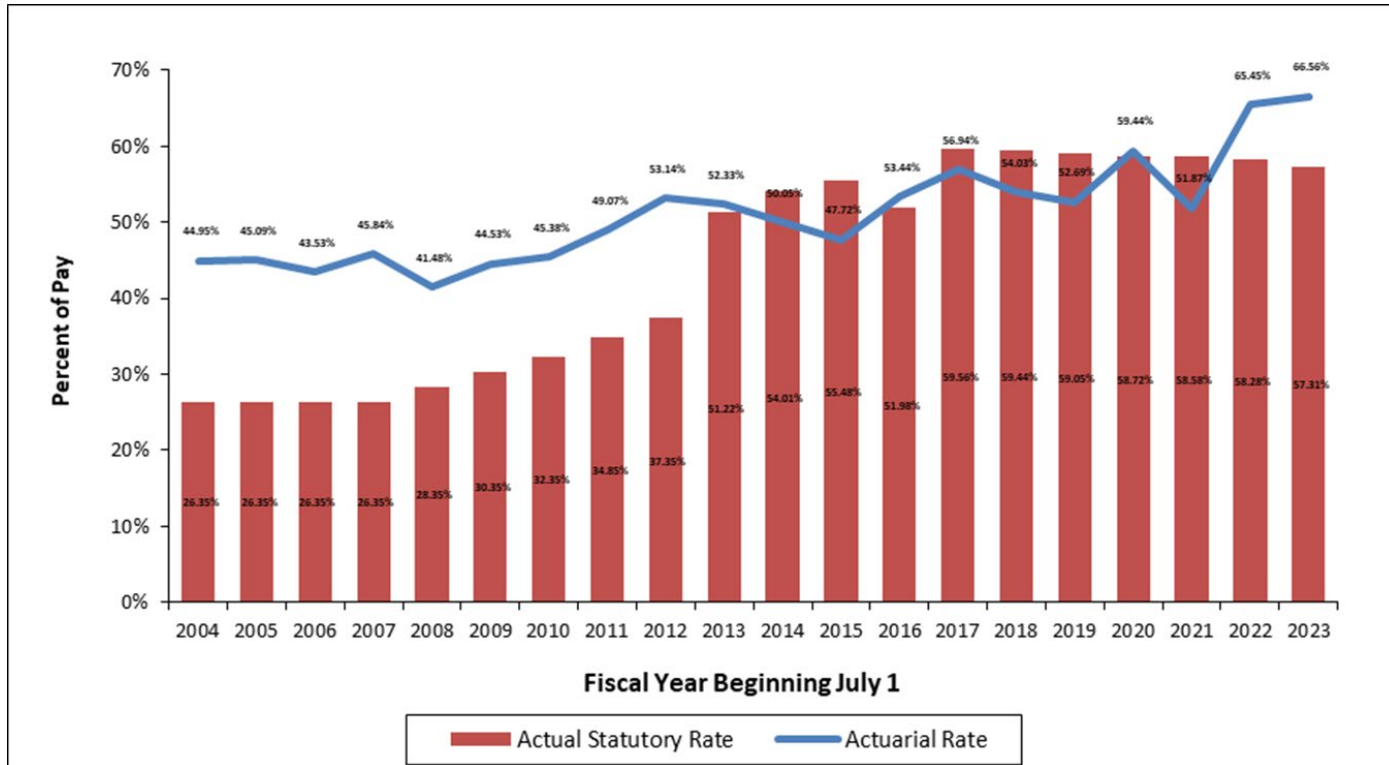
Change in the Contribution Rate



▪ Actuarial Contribution Rate 7/1/22	65.45%
▪ Change due to:	
– Asset experience	1.52%
– Liability experience	1.54%
– Payroll increase higher than expected	(1.25%)
– Change in normal cost rate	0.02%
– Contributions less than actuarial rate	0.49%
– Employees transferred per SF 513	<u>(1.21%)</u>
▪ Actuarial Contribution Rate 7/1/23	66.56%

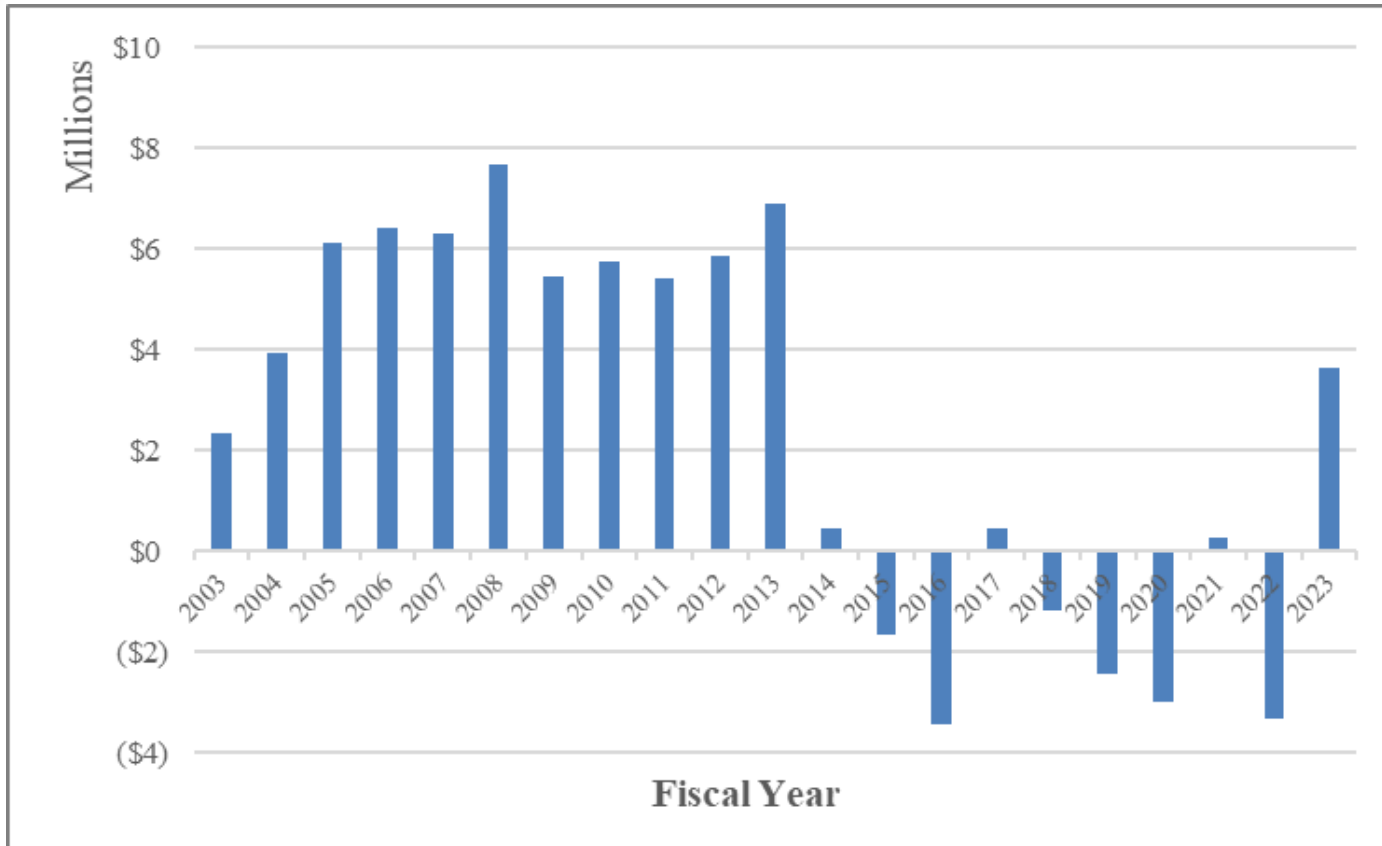


Historical Contribution Rates

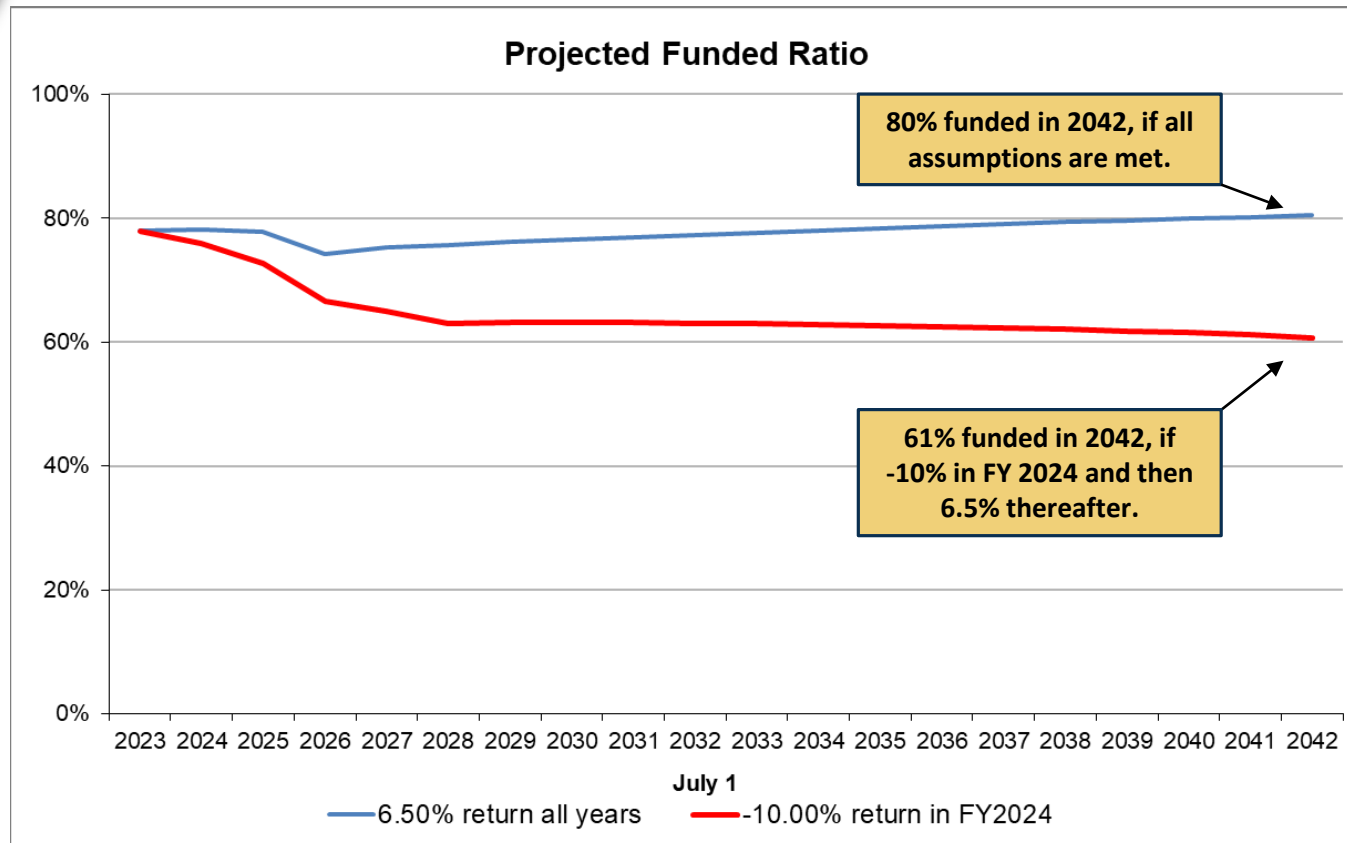


One of the risks with a funding policy that uses fixed contribution rates is the length of time required to make changes to the contribution rates.

Contribution Shortfall/(Margin) for Fiscal Year

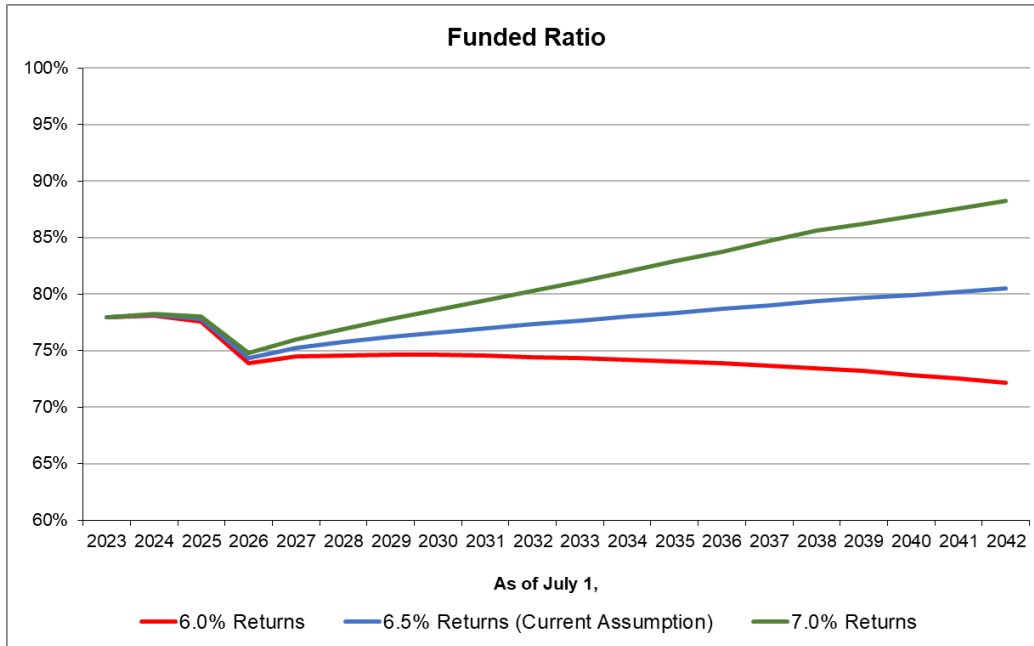


Sensitivity Analysis: Varying Returns



Projections assume all actuarial assumptions, other than investment return in FY 2024, are met each year in the future and all contributions are made as scheduled.

Projected Funded Status

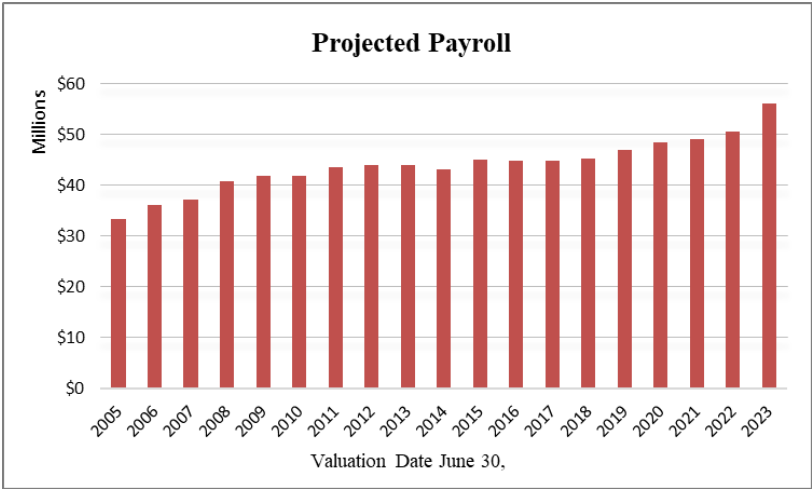


Based on the July 1, 2023 actuarial valuation of POR and assumes all assumptions, other than the investment return shown above, are met in the future.

Risk Analysis: Payroll Growth



With fixed contribution rates, lower contributions result when the number of active members decreases which usually results in lower covered payroll than expected. The result is slower progress in paying off the UAAL.





Summary Comments



- Contribution rate shortfall for FY 2024 of 9.25%, about \$5.2 million
 - Indicates the System is not on track to be fully funded in 20 years as set out in the funding policy.
 - State supplemental contribution of \$5M is expected to be required in the foreseeable future.

Summary Comments

- Long-term financial health of the System is dependent on future investment returns and scheduled contributions, including the \$5 million supplemental payment
 - Currently the funded ratio is projected to remain around 75% to 80% over the next 20 years if all assumptions are met. Actual experience will heavily impact projections from year to year because contribution rates are fixed and do not change with valuation results.
 - Recommend closely monitoring the projected funded status to evaluate whether changes to the funding policy are needed.

