Municipal Fire and Police Retirement System of Iowa – MFPRSI
Iowa Code Chapter 411

The 411 retirement system only serves full- time Professional Fire Fighters and Police Officers employed by 49 cities with over 8,000 citizens each (at the time of inception).

The 411 System is a **sustainable system** that is working well; it is a healthy, well managed fund.

- For the fiscal year ending June 30, 2013, the investment portfolio returned 12.84%.
- A 2012 report by two Maryland think tanks (*Governing Magazine* article included in handout) ; which lists the Iowa Fire and Police Fund is one of the top ten performing public pension funds across the country over the past ten years.
- Since inception 21 years ago, the system has averaged 7.65% return according to the Municipal Fire & Police System of Iowa. The System assumes a 7.5% return.
- Just last week, a report published in *Barron's* financial weekly (news story and chart included in packet) illustrates that Iowa ranks 2nd best for total debt and unfunded pension liability.

The 411 System is **not just a retirement system**.

- The 411 system is unique in that it is not only a pension system, but disability and workers compensation are both covered in the system.
    - It also serves as the disability system for full time police and firefighters.
    - It also provides death benefits to surviving spouses and children. This means cities do not have to shoulder these costs alone - employees also pay in to meet these costs.
    - The 411 System covers ALL workers comp needs and those costs are shared by both the employers and employees who all pay in.
    - In contrast to other retirement systems, including IPERS, employees do not pay into their disability system.

- Most Fire Fighters and Police Officers, covered by the MFPRSI, are not covered by, or eligible for social security benefits. MFPRSI benefits are their sole source of retirement income.
    - Additionally, any Social Security benefits earned by a 411 member from outside income may be reduced by the windfall elimination provision in federal law.

- The cities (employers) do not pay Social Security or workers compensation/disability for firefighters and police officers as they do for other employees under IPERS.
    - Should they have to be required to pay these items, there would be an increased cost. For example, the increase in cost would be 6.2 percent for Social Security and although the rate varies, an average of up to 20 percent for workers compensation/disability.
    - It is rare for employees to pay in or share the cost of disability in other public or private sector settings.

Employer / Employee Contribution

The 411 System employer (city) contribution rate is established annually with a statutory minimum of 17% of payroll. The employer's rate is scheduled to increase from 30.12% of payroll to 30.41% as of July 1, 2014. Over the life of the 411 system, City contribution rates have averaged 21.13%.

Also, the cities' contribution rate will start to decline in future years as the recession era years fall off the five year rolling average and the fund's investments continue to perform at or above the assumed return rate. The employers' contribution rates appear to have peaked and in future years, ~~is~~ are expected to decrease according to the 25 year projection by the System's actuary.

The 411 System employee contribution is fixed in law at 9.4% of earnable compensation. The employee rate is set by statute and does not change unless the law changes.

The 411 System is working the way it was intended to work, and retirement systems are meant to be looked at in the long term.

Until 2012, three major entities had made contributions to the fund since the law was passed in 1992: employers (cities), police/fire members, and the State of Iowa. The state contribution was reduced to $1.5 million and was eliminated at the end of the fiscal year ending June 30, 2012.

<u>State Contribution</u>
As noted above, the state contribution was eliminated in 2012. However, the state contribution is a dollar-for-dollar reduction to the level of contributions the cities pay to the System. If the State were to approve to resume its contribution at the 3.79% rate (approximately $9.8 million), it would lower the total increase in contributions from the cities starting July 1, 2014.

<u>Conclusion:</u>
The Iowa Professional Fire Fighters and the Iowa State Police Association ask that the Legislature maintain the current structure of the system –it is working;

Any proposed permanent changes could dramatically alter a system that is fiscally sound, sustainable and reliable for all the parties involved. The Iowa Professional Fire Fighters and the Iowa State Police Association do not believe the Legislature should change the 411 pension system without concrete evidence and fundamental knowledge of the results; not when you have a system you know works.

Which is evidenced by the study from two Maryland think tanks which list the Iowa Fire and Police Fund is one of the top ten performing public pension funds across the country over the past ten years; and *Barron's* financial weekly illustrates that Iowa ranks 2nd best for total debt and unfunded pension liability.

As members of the 411 System, these benefits are our future and our families plan long term based on these benefits. If the system were not sustainable, and changes were necessary, we would be the first to ask for a solution to ensure a viable future for our loved ones.

<u>The 411 System is strong, healthy, unique, sound and sustainable and created for those who serve to protect.</u>

Are State Pension Funds Paying Wall Street Too Much?

BY: Mike Maciag | August 15, 2012

A recent report by two Maryland think tanks makes the case for state retirement systems to dump Wall Street investment firms for more passive equity index funds.

The study by the conservative-leaning Maryland Tax Education Foundation and Maryland Public Policy Institute outlines fees state pension funds pay investment firms, totaling $7.8 billion nationwide in 2011. This price tag is too high, the authors argue, given their meager returns in recent years.

Pension experts interviewed for this story, though, question the validity of the report, which compares investment firm fees with each plan's net assets. Even with the higher fees, they say additional returns from investment managers outweigh the added cost in the long run, and tossing more money into equity index funds wouldn't diversify portfolios.

"The suggestion that all public pensions should be shifted into index accounts is just not well informed," said Keith Brainard, research director for the National Association of State Retirement Administrators.

Index funds -- more passive than actively-managed funds -- are structured to mirror a market index, typically making up a fourth to a third of a retirement system's total assets, Brainard estimated. These funds also come with fees, but at lower rates than actively-managed funds.

In exchange for higher fees, managers with investment firms pledge to beat the stock market.
State pension systems paid fees averaging 0.409 percent of beginning-of-year assets in fiscal year 2011, according to the report.

By investing 80 to 90 percent of portfolios in index funds, the study estimates retirement systems could pocket more than $6 billion annually in payments otherwise going to investment firms.

"This would be a safer, more responsible use of system resources than paying Wall Street management firms millions of dollars each year to deliver sub-par results on public stocks and bonds and risky private alternative investments," the report states.

But Brainard of NASRA, whose members are directors of public retirement systems, says funds can't attain true diversification if nearly all their money is tied to market indices. Fund managers often shift money between active and passive funds depending on market conditions.

No one disputes that firms failed to meet targets in recent years. The report cites S&P Dow Jones Indices data showing 84 percent of actively-managed U.S. equity funds failed to achieve benchmarks in 2011. But in the long run, Brainard argues pension funds usually earn back fee costs. "[The report's authors] are overlooking the potential value that is being added," he said.

Fees paid by Missouri state, local and public school employee retirement systems, as calculated as a percentage of assets, topped all others for fiscal year 2011. Combined fees for the three retirement systems totaled $506.7 million, or 1.4 percent of beginning-of-year net assets.

Accordingly, one of these pension funds, the Missouri State Employees' Retirement System, reported a 7.1 percent annualized return for the 10-year period up through June 2011, the highest rate of all state funds surveyed in a recent report by investment firm Cliffwater.

Of the 69 funds the firm surveyed, the following systems recorded the strongest performance over 10 years:

Rank	System	10-Year Annualized Return
1	**MOSERS**	**7.10%**
2	**South Dakota Retirement System**	**7.00%**
3	**Oklahoma Teachers' Retirement System**	**6.90%**
4	**Texas CDRS**	**6.90%**
5	**Delaware PERS**	**6.70%**
6	**Louisiana State Employees' Retirement System (LASERS)**	**6.70%**
7	**Iowa Fire & Police**	**6.70%**
8	**Washington State Inv Board**	**6.70%**
9	**Massachusetts PRIM**	**6.50%**
10	**Oregon PERS**	**6.50%**

After the Missouri systems, the Oregon Public Employees Retirement System and Maryland State Retirement and Pension System paid the next-highest fees as a percentage of beginning-of-year assets.

Much of the report focuses on Maryland's performance, which the authors argue lagged behind others in recent years despite paying higher Wall Street fees. The Maryland Tax Education Foundation compiled data showing the system's returns trailed six nearby state pension funds by an average of 0.9 percent over the past 10 years.

Jeffery Hooke, an investment banker who serves as chairman of the foundation, co-authored the report with Michael Tasselmyer of the Maryland Public Policy Institute, which has received funding from the conservative Cato Institute and is a member of the State Policy Network, a national group of "free-market think tanks."

Many of these pension funds face pressure to assume lower rates of return. Shifting money to index funds would only exacerbate this, said Lisa Lindsley, director of capital strategies for the American Federation of State, County and Municipal Employees.

The amount of assets funds allocate to index funds typically relates to specific investment objectives. "I think we need to allow the governing structure of the pension funds to work," Lindsley said.

Some systems, including the California Public Employees' Retirement System, are actively negotiating with firms to push down fees.

"We really encourage our trustees to look at the predatory nature of investment managers," Lindsley said.

Howard Pohl, a principal at Chicago-based investment firm Becker, Burke Associates, faulted the report for not examining how well funds achieved their individual objectives. Some funds are more aggressive than others, with performance relative to different mixes of assets.

While the funds require higher fees, Pohl said it's more important to assess whether the actively-managed funds translate into larger returns. In general, these returns trump the cost when compared to passive index accounts over longer periods exceeding a decade, he said.

But few funds have fared well in recent years.

"We've been in a period of non-selectivity in the markets," Pohl said. "An index in that environment should do better."

Pohl also questioned why the report compared fees to beginning-of-year net assets rather than to totals at

the end of the year.

"The implication that all these plans all over the country are being duped by these city slickers from Wall Street is extremely naïve and not supported by the facts," he said.

Data

The Maryland Public Policy Institute compiled net assets and investment fees from major state retirement systems' comprehensive annual financial reports. Some figures were summed from multiple systems; specific CAFR reports used are listed on pages 4 and 5 of the report.

Figures listed are in million dollars.

Select State:
--Select All--

State	Fiscal Year	Year-Starting Assets	Year-Ending Assets	Management Fees	Fee % of Beginning-of-Year Assets
Alabama	2011	25,435.65	25,092.79	14.234	0.056
Alaska	2011	13,807.67	16,489.64	90.162	0.653
Arizona	2011	27,978.79	33,531.45	150.121	0.537
Arkansas	2010	13,152.80	14,612.07	51.912	0.395
California	2011	334,495.65	401,194.34	858.942	0.257
Colorado	2010	35,036.94	41,135.79	153.924	0.439
Connecticut	2011	21,869.59	25,183.67	89.625	0.410
Delaware	2011	6,372.54	7,648.78	22.302	0.350
Florida	2011	107,179.99	126,579.72	354.999	0.331
Georgia	2011	59,604.13	69,563.89	35.08	0.059
Hawaii	2009	10,846.79	8,815.29	80.504	0.742
Idaho	2011	10,410.58	12,377.60	41.851	0.402
Illinois	2011	50,085.91	59,452.46	297.667	0.594
Indiana	2011	22,182.16	25,755.67	137.421	0.620
Iowa	2011	19,878.08	23,082.13	41.933	0.211
Kansas	2011	11,369.74	13,468.85	47.586	0.419
Kentucky	2011	25,753.16	30,292.27	92.432	0.359

This article was printed from: **http://www.governing.com/blogs/by-the-numbers/gov-state-pension-funds-pay-wall-street-investment-fees.html**

Report: Iowa's state debt ranks 2nd-best nationally; Nebraska is No. 1

Barron's financial weekly says Iowa stacks up better than 48 other states in the management of it tax-supported debt and unfunded public employee pensions.

The influential business publication, using an analysis by Eaton Vance Corp. – one of the nation's oldest investment management firms - ranks Nebraska first in the United States in management of its financial obligations. Iowa is second, followed by South Dakota and North Carolina. The best states had little debt and low pension obligations.

The worst states are Connecticut, ranked last; followed by Illinois, Hawaii and Alaska.

Barron's quotes Nebraska Gov. Dave Heineman as saying, "We believe in a fundamental financial principle that they've never heard of in Washington. We don't spend money we don't have. It keeps you out of trouble every day." It notes that Nebraska has virtually no tax-supported debt and the country's lowest unfunded pension obligation. Nebraska offers a "cash balance" pension plan, which is a cross between a traditional pension and a 401(k) plan that has been adopted by some companies, including IBM.

Barron's, produced by Dow Jones & Co., a division of News Corp., said in this week's edition that despite ominous headlines about municipal bonds – given Detroit's bankruptcy and Puerto Rico's problems – most of the $3.7 trillion market is in excellent financial condition. State and local governments face problems with unfunded pensions and health-care obligations, but their total financial obligations generally look manageable, when measured against revenue, personal income, and the size of state economies.

Tags: Barron's, Dow Jones News Corp., IBM, Iowa, Nebraska Gov. Dave Heineman

How Does Your State Rate?

The table, based on a study by Eaton Vance, reflects debt and unfunded pension liabilities as a percentage of a state's GDP.

State	% of GDP			Bond	Spread Above
	Debt	Unfunded Pension Liability	Debt and Pension Liability[1]	Ratings[2]	AAA 10-Yr Muni[3]
Nebraska	0.0%	0.7%	0.8%	NR/AAA	28
Iowa	0.6	1.5	2.1	Aaa/AAA	12
South Dakota	0.7	2.2	2.9	NR/AA+	34
North Carolina	1.8	1.5	3.4	Aaa/AAA	2
Nevada	1.5	2.2	3.7	Aa2/AA	36
Idaho	1.4	2.6	4.0	Aa1/AA+	26
Kansas	2.3	2.0	4.4	Aa1/AA+	18
North Dakota	0.4	4.0	4.4	Aa1/AA+	23
Florida	2.7	1.7	4.4	Aa1/AAA	17
Arizona	2.2	2.3	4.6	Aa3/AA-	35
Wyoming	0.1	4.7	4.8	NR/AAA	10
Michigan	2.0	2.9	4.9	Aa2/AA-	41
Georgia	2.4	2.7	5.2	Aaa/AAA	3
Utah	2.8	2.4	5.2	Aaa/AAA	0
Alabama	2.3	3.3	5.6	Aa1/AA	13
Tennessee	0.8	5.0	5.8	Aaa/AA+	5
Wisconsin	4.1	1.9	6.0	Aa2/AA	22
New Hampshire	1.8	4.5	6.3	Aa1/AA	14
Arkansas	1.1	5.3	6.4	Aa1/AA	12
Oregon	3.8	2.9	6.7	Aa1/AA+	12
Montana	0.8	6.0	6.7	Aa1/AA	22
South Carolina	2.1	5.0	7.1	Aaa/AA+	3
New York	5.2	2.0	7.2	Aa2/AA	13
Missouri	1.6	5.6	7.2	Aaa/AAA	1
Washington	5.2	2.4	7.5	Aa1/AA+	23
Oklahoma	1.4	6.3	7.7	Aa2/AA+	22
Texas	1.1	6.7	7.8	Aaa/AAA	5
Colorado	1.0%	6.9%	7.9%	Aa1/AA	22
Delaware	3.5	5.0	8.6	Aaa/AAA	0
Indiana	0.9	7.7	8.6	Aaa/AAA	18
Vermont	1.9	6.9	8.8	Aaa/AA+	6
Ohio	2.4	6.6	9.0	Aa1/AA+	21
Minnesota	2.4	7.6	10.0	Aa1/AA+	6
California	4.9	5.7	10.6	A1/A	50
New Mexico	3.4	7.3	10.7	Aaa/AA+	15
Pennsylvania	2.6	8.3	10.8	Aa2/AA	22
Virginia	2.4	8.8	11.2	Aaa/AAA	0
Maine	2.0	11.4	13.4	Aa2/AA	12
Maryland	3.3	11.1	14.5	Aaa/AAA	0
Mississippi	5.1	10.0	15.1	Aa2/AA	20
Rhode Island	4.3	11.9	16.2	Aa2/AA	40
Louisiana	2.7	14.2	16.9	Aa2/AA	20
Kentucky	5.0	12.1	17.2	Aa2/AA-	22
New Jersey	7.0	10.8	17.8	Aa3/AA-	28
West Virginia	3.0	14.9	17.8	Aa1/AA	24
Massachusetts	8.2	11.0	19.2	Aa1/AA+	20
Alaska	1.8	18.4	20.1	Aaa/AAA	3
Hawaii	8.2	14.5	22.7	Aa2/AA	20
Illinois	4.7	20.7	25.3	A3/A-	175
Connecticut	8.1	18.7	26.9	Aa3/AA	33
Puerto Rico	52.2	35.7	87.9	Baa3/BBB-	375

1. Debt and unfunded pension liability totals are rounded.
2. Moody's/Standard & Poor's.
3. In basis points (hundredths of a percentage point).

NR=Not rated because state has no general obligation debt.

Sources: Eaton Vance; Janney Capital Markets

Municipal Fire and Police Retirement System of Iowa

Historical Contribution Rates

Table: Cities Required Contribution Rate

17.00% for the period 1/1/92 – 6/30/93*
19.66% for the period 7/1/93 – 6/30/94
18.71% for the period 7/1/94 – 6/30/95
17.66% for the period 7/1/95 – 6/30/96
17.00% for the period 7/1/96 – 6/30/97*
17.00% for the period 7/1/97 – 6/30/98*
17.00% for the period 7/1/98 – 6/30/99*
17.00% for the period 7/1/99 – 6/30/00*
17.00% for the period 7/1/00 – 6/30/01*
17.00% for the period 7/1/01 – 6/30/02*
17.00% for the period 7/1/02 – 6/30/03*
20.48% for the period 7/1/03 – 6/30/04
24.92% for the period 7/1/04 – 6/30/05
28.21% for the period 7/1/05 – 6/30/06
27.75% for the period 7/1/06 – 6/30/07
25.48% for the period 7/1/07 – 6/30/08
18.75% for the period 7/1/08 – 6/30/09
17.00% for the period 7/1/09 – 6/30/10*
19.90% for the period 7/1/10 – 6/30/11
24.76% for the period 7/1/11 – 6/30/12
26.12% for the period 7/1/12 – 6/30/13++
30.12% for the period 7/1/13 – 6/30/14
30.41% for the period 7/1/14 – 6/30/15

* Rate Certified at statutory minimum of 17.00%

++ Change in actuarial method lowered rate from originally approved rate of 28.08%

http://www.mfprsi.org/employers/contribution-rates/