Interim Public Retirement Systems Committee Presentation

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

Presented by:
Roxann Ryan, Commissioner, Iowa Department of Public Safety
Patrice A. Beckham, Consulting Actuary, Cavanaugh Macdonald Consulting, LLC

December 18, 2017

# Governance

- Board of Trustees
  - Commissioner of Public Safety – Roxann Ryan (Chairperson)
  - Treasurer of State – Michael Fitzgerald
  - Governor's Appointee – Chris Mayer, Actuary (Principal Insurance)
  - Active Member Representative – Trooper Robert Conrad
  - Retired Member Representative – Gail Schwab (Sergeant)

- *Iowa Code*, 97A
- *Iowa Administrative Code* - 661

# Active Membership

- Sworn peace officers of the Iowa Department of Public Safety
  - Division of Criminal Investigation
  - Division of Narcotics Enforcement
  - Division of Intelligence
  - Iowa State Patrol Division
  - State Fire Marshal Division

- Members not covered by Social Security

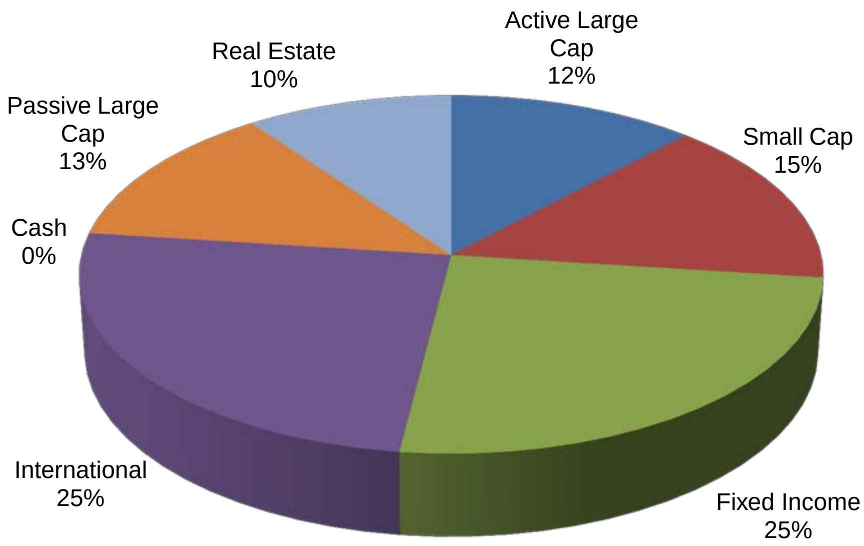
# Plan Overview

- Benefit based on years of service and highest 3 years of Compensation (bi-weekly pay + longevity + meal allowance)
- Service Retirement with 7 optional forms of payment
- Accidental and Ordinary Disability/Death Benefits
- Minimum benefit 60.5% of high 3 years, after 22 years of service and age 55. Increases by 2.75% per year, up to 32 years of service (maximum benefit of 88%).
- Flat Escalator with a percentage based on wage increase provided for active members of the same rank.
- Line of Duty Death Benefit of $100,000
- Earnings while a member of POR are exempt from Social Security (if sworn after March 1986 must pay Medicare 1.45%)

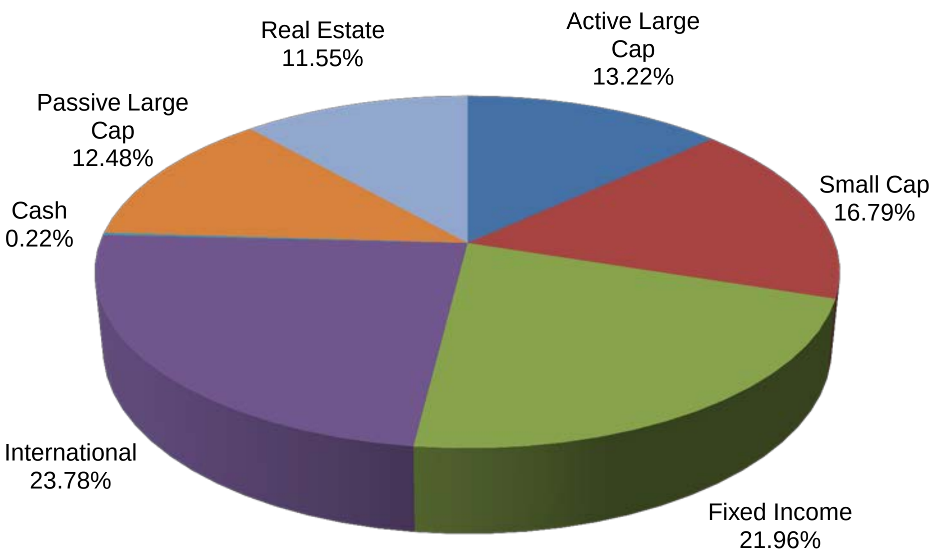
# Asset Allocation

## As of 7/1/2017

### Target Allocation




### Actual Allocation



# Funding a Retirement Program

$$\boxed{C + I = B + E}$$

C: Contributions
I: Investment Income

B: Benefits
E: Expenses

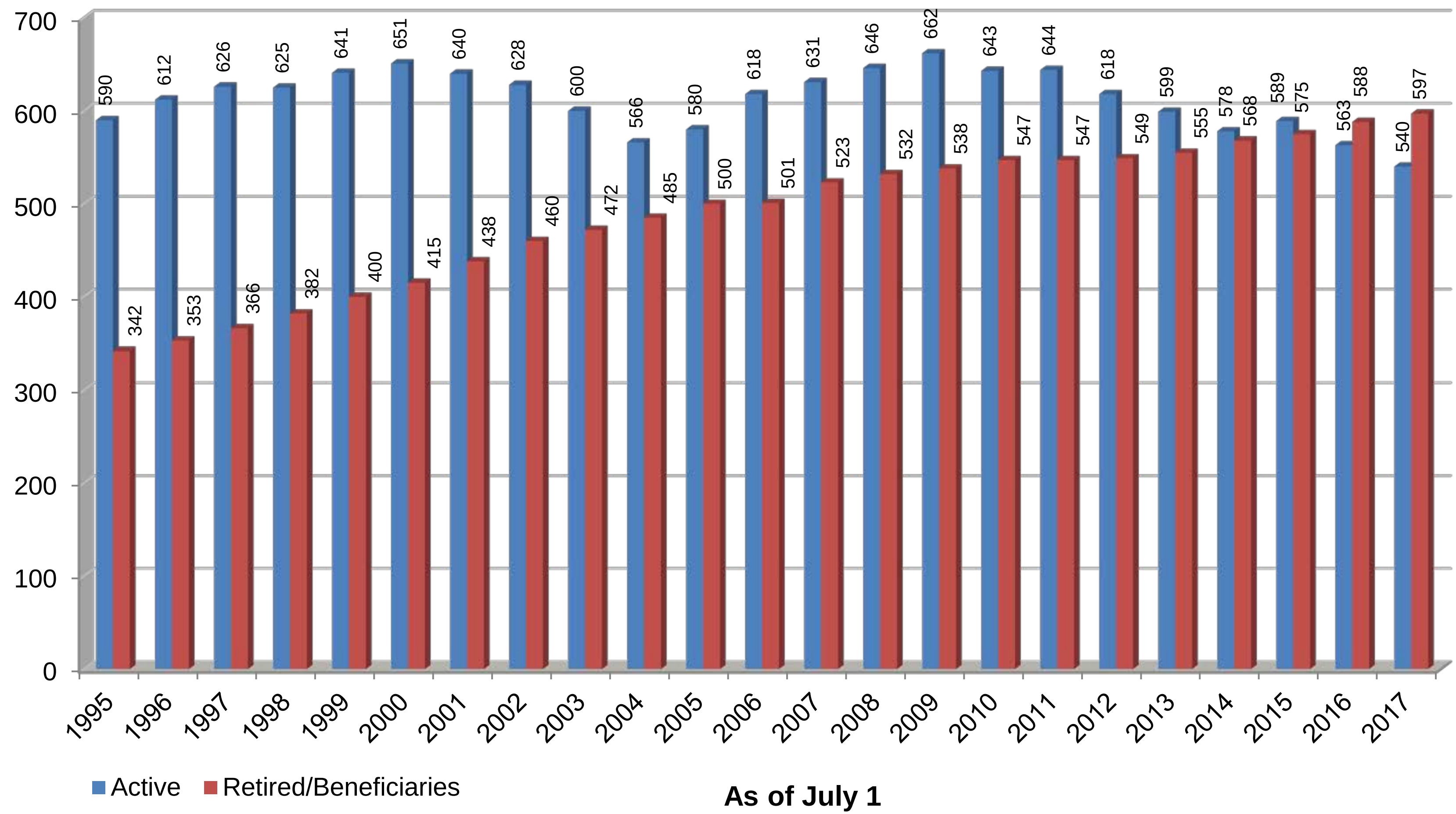
# July 1, 2017 Actuarial Valuation

- No changes in benefit provisions
- Changes resulting from completion of the Experience Study on demographic assumptions (economic assumptions reviewed in 2016)
  - Modified asset valuation method
  - Revised amortization methodology for the UAAL
  - Modified the set of demographic assumptions.  Most significant change was moving to newest mortality table published by Society of Actuaries (RP 2014 Table)

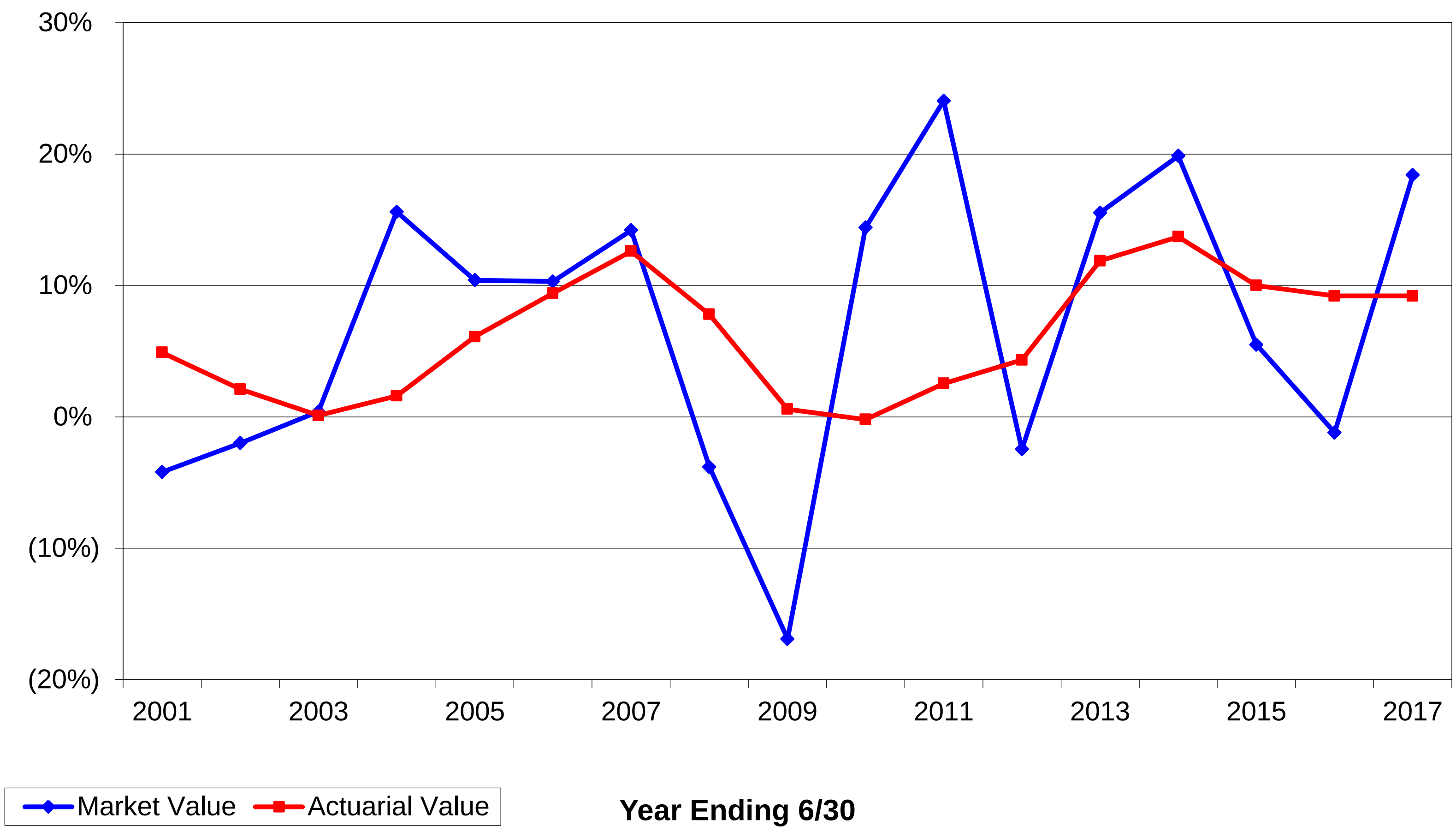
# Experience Study Changes

- Changes to actuarial methods
  - The amortization of the UAAL was changed to a “layered” approach with new pieces of UAAL amortized over a closed 20-year period, beginning with the July 1, 2018 valuation.  The legacy UAAL (at July 1, 2017) continues to be amortized on its current schedule (21 years).
  - The asset smoothing method was modified to recognize investment gains and losses over a five-year period rather than four.
- Cost impact on unfunded actuarial accrued liability
  - Assumption changes increased the actuarial accrued liability by $33.5 million.
  - Change in asset smoothing method decreased the actuarial value of assets by $4.7 million.
  - All changes increased the actuarial contribution rate by 4.05%.

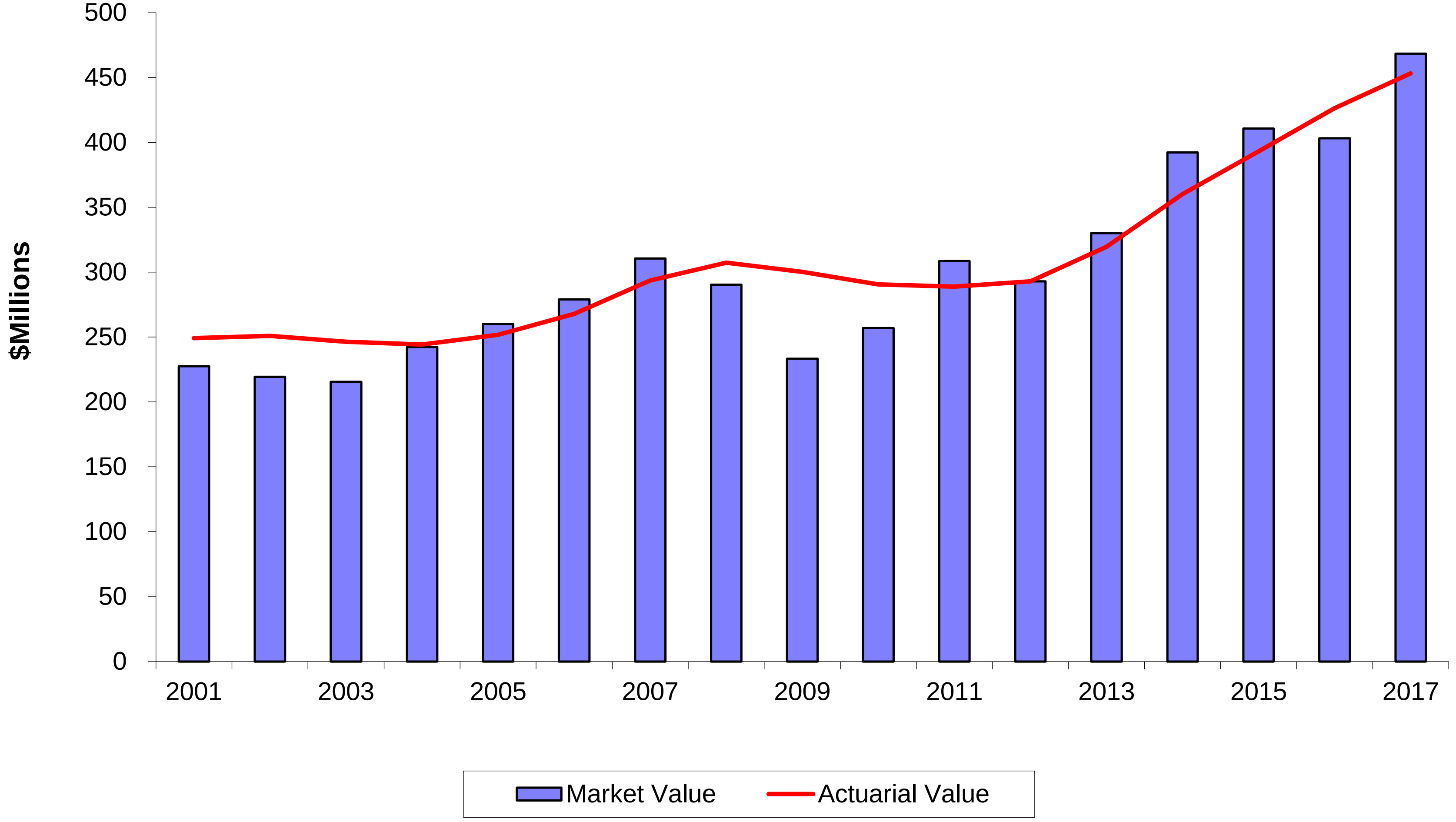
# Peace Officers' Retirement Membership



# Market and Actuarial Return



# Value of Assets – Market and Actuarial



# Key Valuation Measurements
## ($ in Millions)

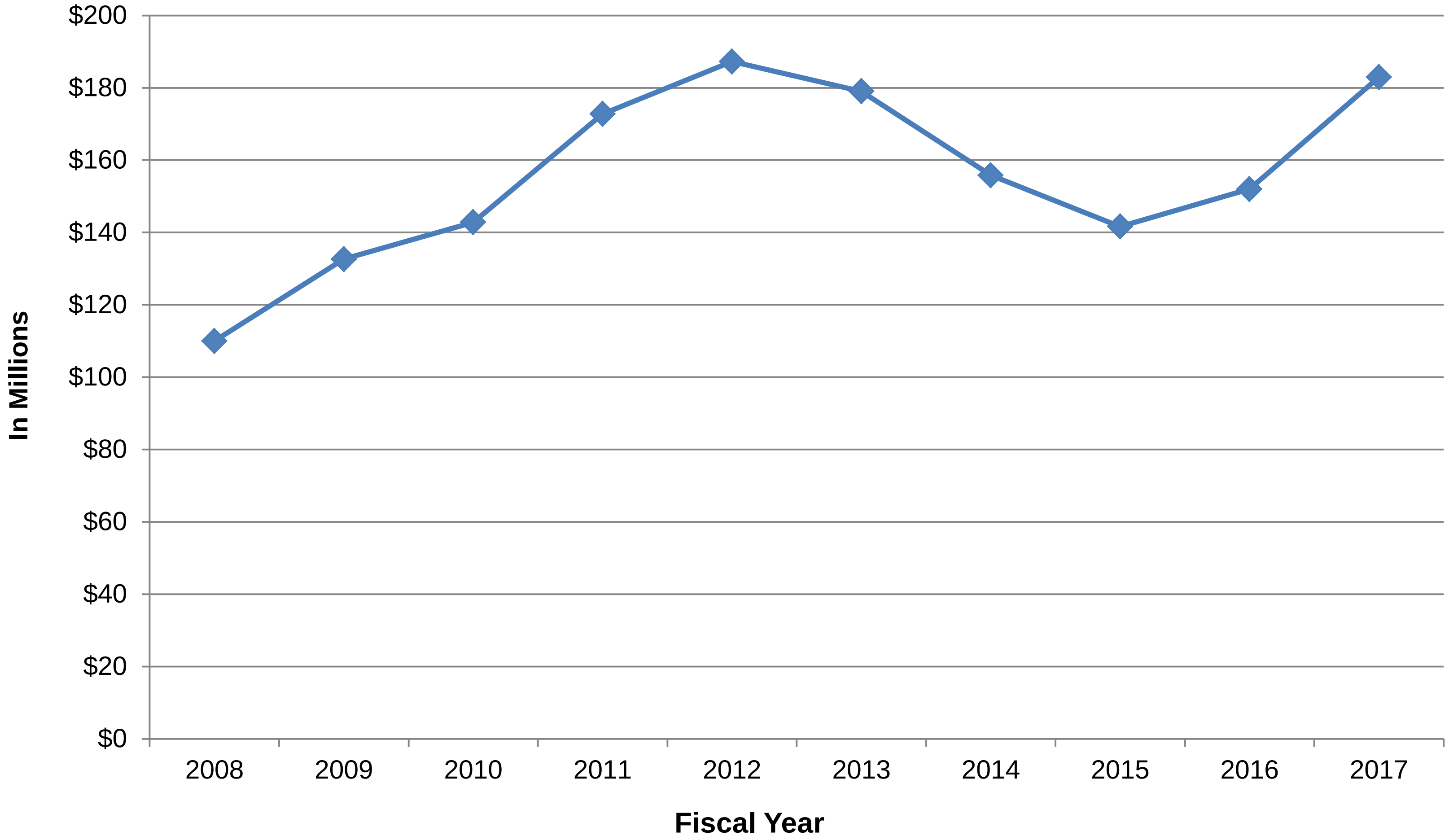
| | As of July 1, | |
|---|---|---|
| | **2017** | **2016** |
| Actuarial Accrued Liability | $636 | $578 |
| Actuarial Assets | 453 | 426 |
| Unfunded Actuarial Accrued Liability | $183 | $152 |
| Funded Ratio (AVA) | 71% | 74% |
| Market Value Assets | $468 | $403 |
| Funded Ratio (MVA) | 74% | 70% |

# Unfunded Actuarial Accrued Liability (UAAL)

| | |
|---|---|
| UAAL July 1, 2016 | $152.0 |
| • Contributions below actuarial rate | 0.7 |
| • Expected increase from amortization | 0.2 |
| • Investment experience | (7.0) |
| • Liability experience* | (1.9) |
| • Assumption changes | 33.5 |
| • Asset valuation method change | 4.7 |
| • Other experience | 0.7 |
| UAAL July 1, 2017 | $182.9 |

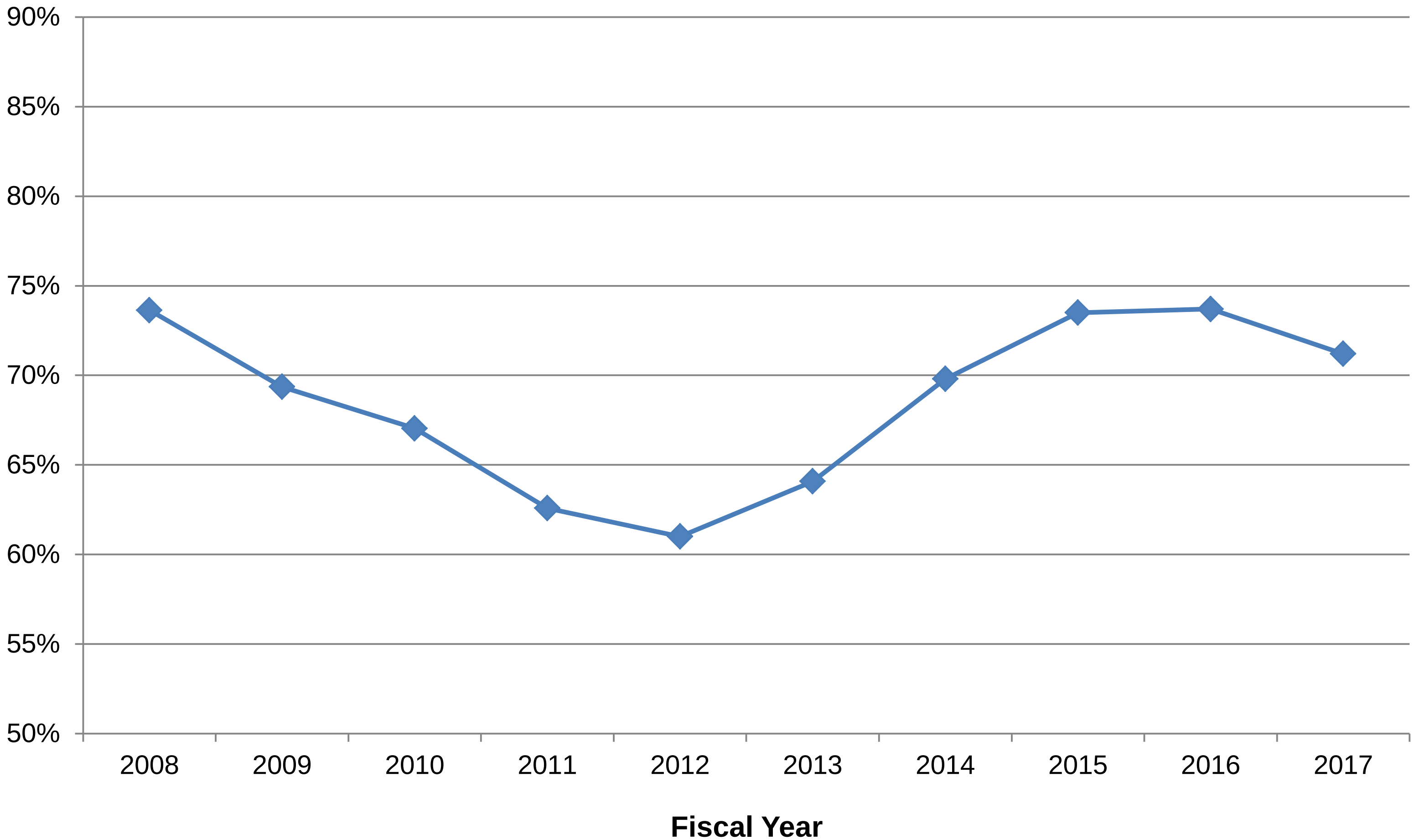
*Salary increases and post-retirement escalator were lower than expected.

# Unfunded Actuarial Accrued Liability




The Entry Age Normal method which reports an unfunded actuarial liability has only been used since 2008.

# Historical Funded Ratio




The Entry Age Normal method has only been used since 2008 so funded ratios are reported for those years only.

# Key Valuation Results

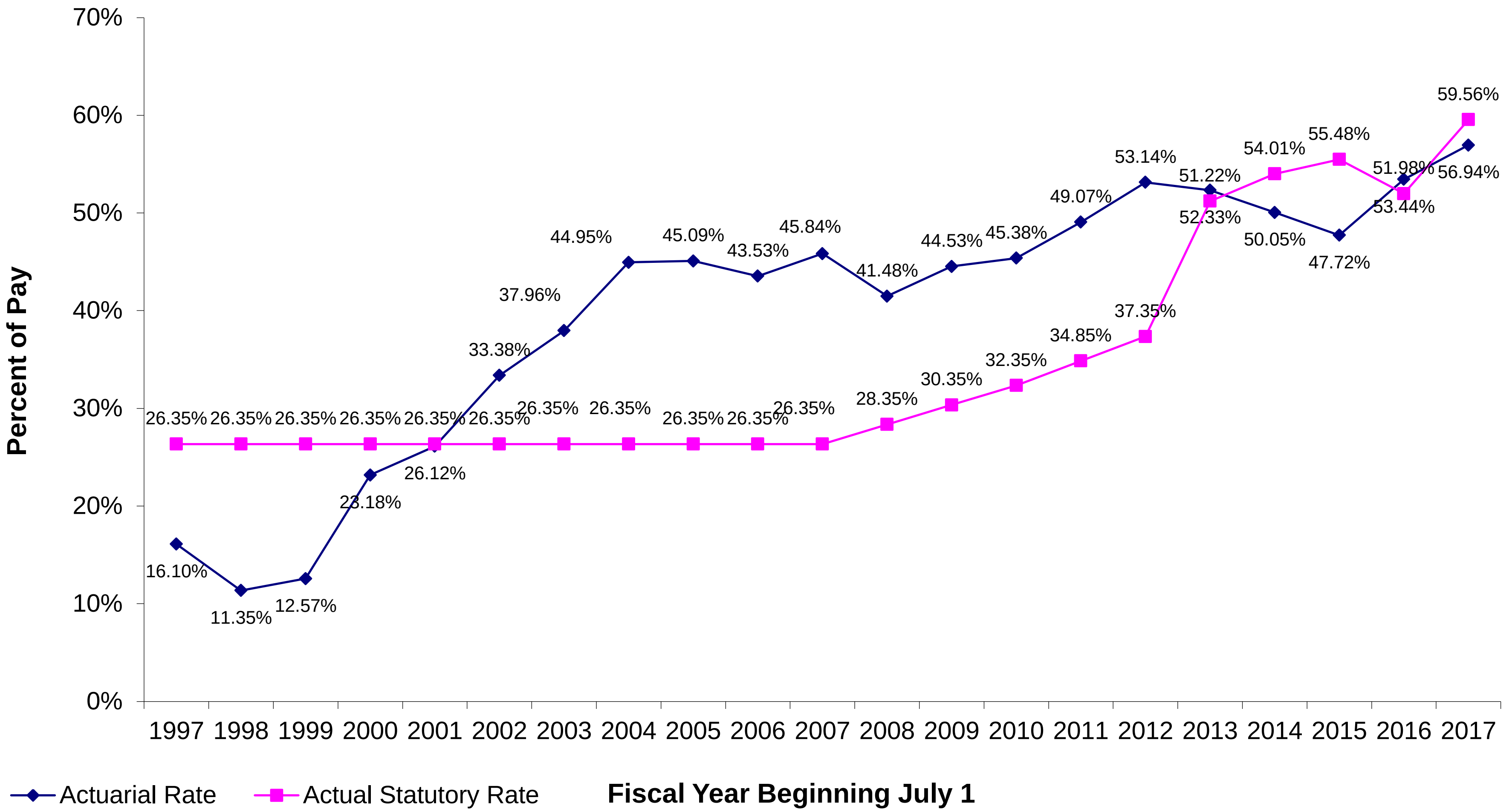
| | Fiscal Year Beginning | |
|---|---|---|
| | **7/1/2017** | **7/1/2016** |
| Normal Cost | 26.51% | 28.70% |
| Administrative Expenses | 0.54% | 0.57% |
| UAL Payment | 29.89% | 24.17% |
| **Total Actuarial Contribution Rate** | **56.94%** | **53.44%** |
| Member Rate | (11.40%) | (11.40%) |
| **Employer Rate** | **45.54%** | **42.04%** |
| State Fixed Contribution Rate | (37.00%) | (35.00%) |
| Supplemental Contribution* | (11.16%) | (5.58%) |
| **Contribution Shortfall/(Margin)** | **(2.62%)** | **1.46%** |

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

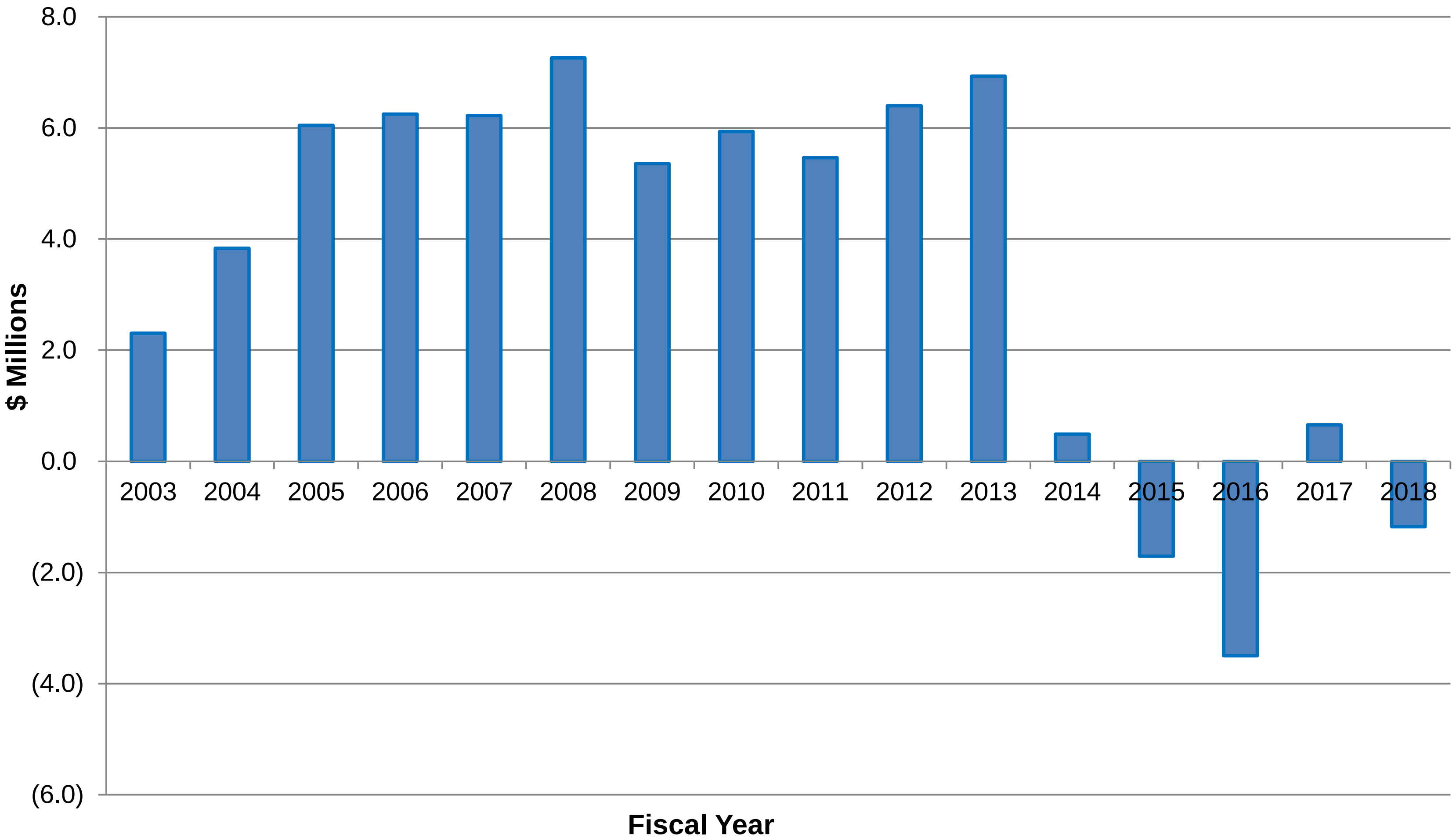
# Change in Contribution Rate

| | |
|---|---|
| ▪ **Actuarial Contribution Rate 7/1/16** | **53.44%** |
| ▪ Change due to: | |
| – Asset experience | (1.10%) |
| – Liability experience | (0.30%) |
| – Other experience (lower payroll growth) | 0.73% |
| – Assumption and method changes | 4.05% |
| – Change in normal cost rate | 0.01% |
| – Contributions less than actuarial rate | 0.11% |
| ▪ **Actuarial Contribution Rate 7/1/17** | **56.94%** |

# Historical Contribution Rates



# Contribution Shortfall

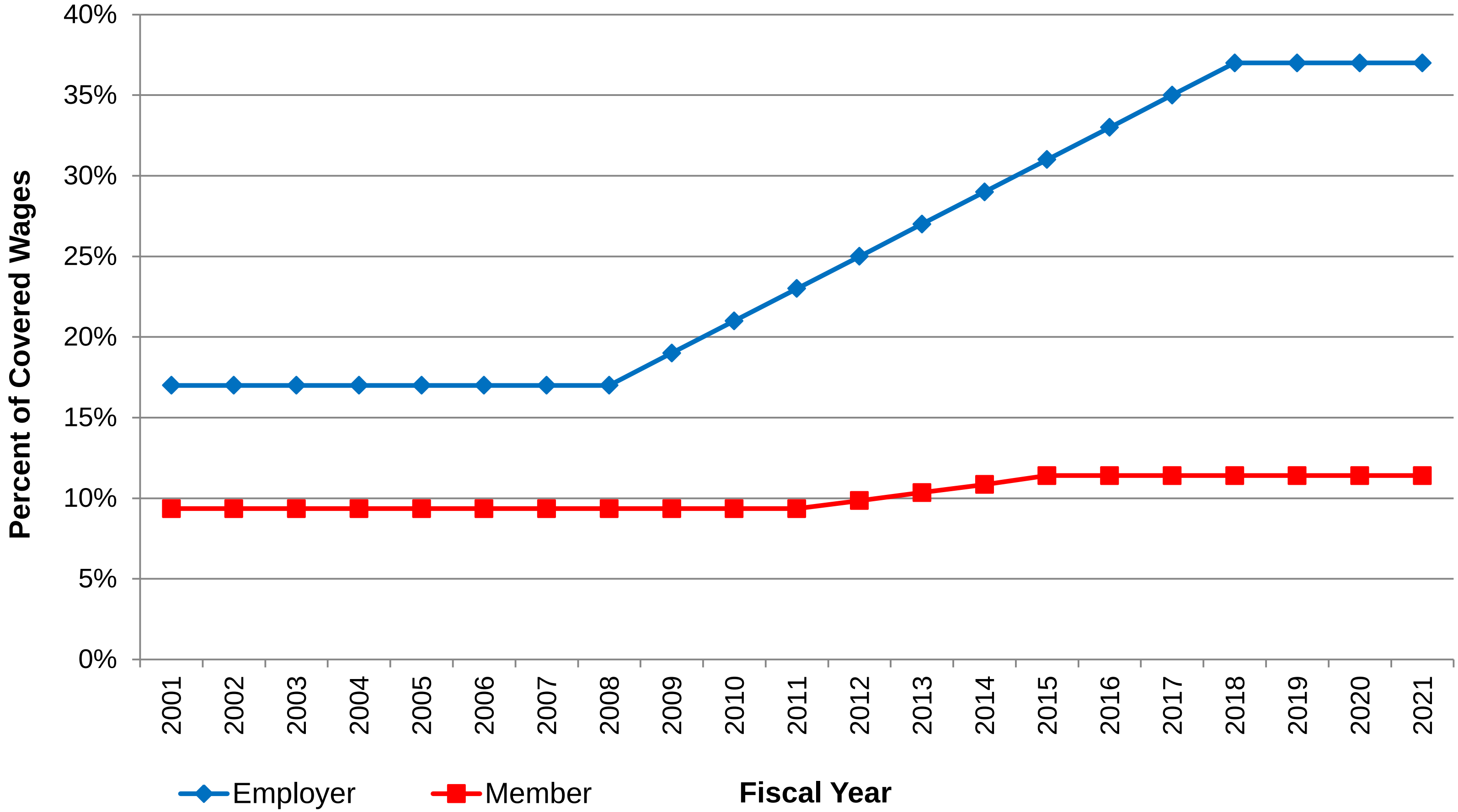


# Changes Made to Improve Funding Status

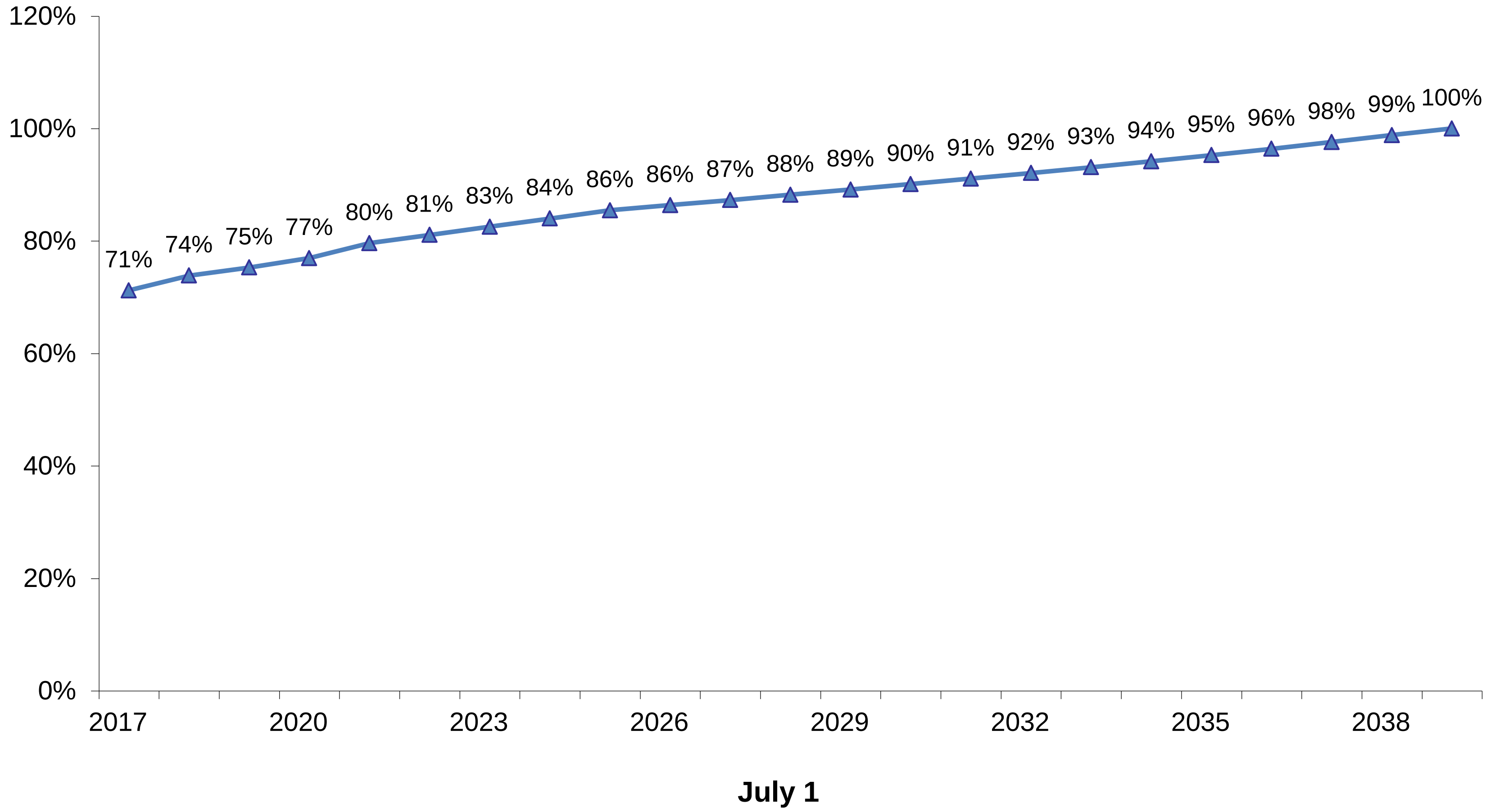
## Changes Made in 2010 Session:

- Clarified the adjustment of pensions pursuant to 97A.6(14)(a)(2a), otherwise known as the flat escalator. Estimated impact on the required contribution rate of 2.24%, or an annual savings of $940,000.
- Extended the annual 2% increase in employer contribution rate from FY2012 to FY2017, increasing to 37% (up from 27%)
- Provided a supplemental general fund appropriation of $5,000,000 beginning in fiscal year 2013 (extended to fiscal year 2014) until the funded ratio reaches 85%
- Increased the employee contribution rate by 0.5% points each year over four years, for a total of 2% (from 9.35% to 11.35%)

# Statutory Contribution Rates
# Fiscal Years 2001-2021



# Projected Funded Ratio




Projections assume all actuarial assumptions are met each year in the future and all contributions are made as scheduled, including the $5 million supplemental contributions until the System is 85% funded.

# Comments

- Contribution margin for FY 2018 of 2.62%
  - Experience study changes resulted in a significant increase in the actuarial accrued liability of $33.5 million and an increase in actuarial contribution rate of 4.05%
  - Return of 18.4% on market value of assets resulted in net deferred asset gain of $15.2 M.
  - State supplemental contribution of $5M is expected for FY 2018

- Long-term financial health is dependent on future investment returns and scheduled contributions, including receipt of the supplemental payment of $5 million until 85% funded.

- Impact of higher contributions on funded ratio will take time to materialize in the valuation results (UAAL)