

FEB 16 2006
STATE GOVERNMENT

HOUSE FILE 2418
BY QUIRK

Passed House, Date _____ Passed Senate, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act creating a deferred retirement option plan for members of
2 the statewide fire and police retirement system.
3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

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HF 2418

1 Section 1. NEW SECTION. 411.6C DEFERRED RETIREMENT
2 OPTION PLAN.

3 1. For purposes of this section, unless the context
4 otherwise requires:

5 a. "Applicable percentage" means that percentage, not
6 greater than one hundred percentage points, equal to fifty-two
7 percentage points plus two percentage points for each month
8 for the period between the eligible member's plan eligibility
9 month and the month the eligible member commences membership
10 in the plan.

11 b. "Drop benefit" means, for a participant, an amount
12 credited to the participant's account each applicable month
13 equal to the member's applicable percentage multiplied by the
14 member's participant retirement amount.

15 c. "Eligible member" means a member who has attained
16 fifty-five years of age with at least twenty-two years of
17 membership service.

18 d. "Participant account" means an administrative record
19 maintained by the system reflecting the participant's
20 accumulated drop benefit.

21 e. "Participant retirement amount" means the amount equal
22 to the monthly retirement allowance the eligible member would
23 have received under section 411.6 if the member retired on the
24 date the eligible member commenced participation in the plan,
25 based on earnings through the previous full quarter of
26 earnable compensation earned by the member.

27 f. "Plan" means the deferred retirement option plan
28 established by this section.

29 g. "Plan eligibility month" means the first full calendar
30 month in which the participant is an eligible member.

31 2. a. An eligible member may elect to participate in the
32 deferred retirement option plan as provided in this section.
33 A decision by an eligible member to participate in the plan is
34 irrevocable. Upon commencing membership in the plan, the
35 member shall remain an active member of the system and shall

1 have credited to a participant account on behalf of the member
2 from the fire and police retirement fund for each month the
3 member participates in the plan the member's drop benefit.
4 The amounts credited shall be invested by the system in risk-
5 free assets of a short-term nature and interest and earnings
6 shall not be credited to the member's participant account but
7 shall remain with the fire and police retirement fund
8 established in section 411.8. In addition, the annual
9 readjustment of pensions under section 411.6, subsection 12,
10 shall not apply to a participant's drop benefit or to amounts
11 credited to the member's participant account.

12 b. Upon termination of an eligible member's participation
13 in the plan, the eligible member shall be deemed to be retired
14 under the system as of that date for purposes of the system
15 and shall begin receiving a retirement allowance equal to the
16 member's participant retirement amount or such optional
17 retirement benefits, based upon that amount, pursuant to
18 section 411.6A. In addition, the eligible member shall
19 receive the moneys credited to the member's participant
20 account while participating in the plan. The eligible member
21 shall select, upon written application to the system, whether
22 to receive the amount in the member's participant account in
23 the form of a lump sum distribution or as a rollover to an
24 eligible retirement plan as defined in section 411.6B.

25 c. If an eligible member terminates participation in the
26 plan prior to the date selected by the member upon commencing
27 membership in the plan and the termination is not due to the
28 death or disability of the member under this chapter, then the
29 system shall assess a twenty-five percent penalty on the
30 amount credited to the member's participant account prior to
31 distributing the amount to the member. The penalty amount
32 shall be transferred to and remain with the fire and police
33 retirement fund.

34 3. To participate in the plan, an eligible member shall
35 make written application to the system. The application shall

1 include the following:

2 a. The month the eligible member intends to commence
3 participation in the plan.

4 b. The eligible member's selection of a plan termination
5 date. The plan termination date shall be either three, four,
6 or five years after the date the eligible member commences
7 membership in the plan. However, for the two-year period
8 beginning with the first of the month following the
9 implementation date of this section, an eligible member
10 between sixty-two and sixty-four years of age may also select
11 a plan termination date that is one or two years after the
12 date the eligible member commences membership in the plan.

13 4. Participation in the plan by an eligible member does
14 not guarantee continued employment. Contributions required
15 from members and participating cities shall continue based on
16 the earnable compensation of an eligible member participating
17 in the plan. However, contributions made while an eligible
18 member participates in the plan shall remain with the
19 retirement fund and shall not be subject to a withdrawal of
20 contributions under section 411.23.

21 5. The system's actuary, while making the annual valuation
22 of the assets and liabilities of the fire and police
23 retirement fund, shall determine whether establishment and
24 operation of the plan created in this section has resulted in
25 an increased actuarial cost to the system. If the actuary
26 determines that the plan has resulted in an increased
27 actuarial cost to the system, then, notwithstanding any
28 provision of section 411.8 to the contrary, the system shall
29 increase the members' contribution rate as necessary to cover
30 the increased cost of the plan created in this section.

31 6. This section shall not be implemented until the system
32 has received a favorable ruling from the internal revenue
33 service regarding the plan as provided in this section. Upon
34 receiving the favorable ruling, the board shall establish the
35 implementation date of the plan.

1 EXPLANATION

2 This bill establishes a deferred retirement option plan
3 (DROP) for members of the municipal fire and police retirement
4 system (MFPRSI) created in Code chapter 411.

5 The bill provides that members of MFPRSI who are at least
6 55 years of age and have at least 22 years of service are
7 eligible to participate in the DROP plan. The DROP plan
8 provides that an eligible member can delay retirement,
9 continue working for a set number of additional years, and
10 have a portion of the retirement allowance they otherwise
11 would have received if they had retired instead of
12 participating in the DROP plan deposited in an account that is
13 then distributed to them when they eventually retire.
14 However, the member's retirement allowance is set at the time
15 the member enters the DROP plan.

16 Prior to participating in the DROP plan, a member shall
17 submit an application to the system indicating when they
18 intend to start participation in the DROP plan and when they
19 intend to terminate their participation in the plan and
20 retire. The bill permits an eligible member to elect to
21 participate in the DROP plan for three, four, or five years.
22 However, for the two-year period beginning on the
23 implementation date of this section, an eligible member
24 between the ages of 62 and 64 can elect to participate in the
25 DROP plan and terminate their participation in one or two
26 years.

27 Upon electing to participate in the DROP plan, the eligible
28 member continues to work but has a portion of the retirement
29 allowance they would have received if they had decided to
30 retire credited to an account. The amount credited is equal
31 to a percentage of the retirement allowance they would have
32 received. The percentage rate is determined by starting with
33 52 percent and adding 2 percent per month, up to a maximum of
34 100 percent, based upon the number of months between the month
35 the member first became eligible to participate in the DROP

1 plan and the month the member actually participates. The bill
2 provides that the amount deposited in the member's account
3 does not accrue interest or dividends. Upon termination from
4 the DROP plan, the eligible member begins to receive a
5 retirement allowance based upon the amount the member would
6 have received when the member commenced participation in the
7 DROP plan plus the amount in the member's account. If the
8 member terminates participation in the plan prior to the date
9 set by the member and the termination is not due to the
10 member's death or disability, MFPRSI shall withhold 25 percent
11 of the amount in the account as a penalty. The bill provides
12 that participation in the DROP plan does not guarantee
13 continued employment.

14 The bill also provides that if the fire and police
15 retirement system actuary determines that the DROP plan has
16 increased the actuarial cost of the system, the contribution
17 rate paid by the members shall be increased to cover this
18 increased cost.

19 The bill finally provides that the DROP plan shall not be
20 implemented until the system receives a favorable ruling from
21 the internal revenue service. Upon receiving a favorable
22 ruling, the board shall establish the implementation date of
23 the plan.

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