



[HF 2680](#) – 411 Retirement System (LSB6363HV.2)
Staff Contacts: Xavier Leonard (515.725.0509) xavier.leonard@legis.iowa.gov
Eric Richardson (515.281.6767) eric.richardson@legis.iowa.gov
Fiscal Note Version – Final Action

[House File 2680](#) relates to public safety personnel retirement systems and the taxation of surviving spouse pension benefits. There are retroactive applicability provisions.

Division I — Civil Service Evaluations — Municipal Fire and Police Retirement System — Certain Benefits

Description

Division I relates to civil service entrance evaluations and benefits for members of the Municipal Fire and Police Retirement System of Iowa (MFPRSI). The Division expands the number of disabilities eligible for an accidental disability benefit and allows retirees who are receiving an ordinary benefit and who are within three years of retirement to apply for an accidental disability benefit. The Division adds a mental health evaluation to the required examination of applicants for civil service. Finally, the Division requires cities to provide mental medical attention for members of the MFPRSI if conditions are met and provides funding options for cities.

Background

Iowa Code chapter [400](#) relates to civil service and requires applicants for the positions of police officer and fire fighter to take entrance examinations to determine whether the applicant meets qualification standards. The examinations are designed to test the mental and physical ability of an applicant to perform the duties of the position.

Iowa Code chapter [411](#) relates to a retirement system for police officers and fire fighters. The chapter provides for the payment of pensions to retired members, members incurring disabilities, and the surviving spouses and dependents of deceased members. The chapter also relates to a disability program for police officers and fire fighters and includes standards for entrance, guidelines for ongoing fitness and wellness, disability pensions, and postdisability retirement compliance requirements.

Based on the July 1, 2023, actuarial valuation, the MFPRSI covers approximately 4,168 active members; 1,206 disabled members; 3,227 retired members and beneficiaries; and 465 vested, terminated members. The current actuarial accrued liability of the MFPRSI is \$3.802 billion, the actuarial value of assets is \$3.215 billion, and the unfunded actuarial liability is \$586.8 million. The ratio of liabilities to assets (funded ratio) of the retirement system is 84.57%.

For FY 2025, members' estimated annual contributions at the current rate of 9.40% total \$35.2 million, and cities' estimated contributions at 22.66% total \$84.9 million. Total covered payroll is \$374.8 million.

Figure 1 below shows the annual employer and employee contribution rates for FY 2021 to FY 2025.

Figure 1 — Annual Contribution Rates

	<u>FY 2021</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>FY 2025</u>
Employer Contribution Rate	25.31%	26.18%	23.90%	22.98%	22.66%
Employee Contribution Rate	9.40%	9.40%	9.40%	9.40%	9.40%
Total	<u>34.71%</u>	<u>35.58%</u>	<u>33.30%</u>	<u>32.38%</u>	<u>32.06%</u>

Iowa Code section [411.8](#) provides that member contribution rates will be increased for any statutory changes, if the increase cannot be absorbed within the current contribution rates, up to a maximum of 11.35%. Costs are then applied 60/40 between the employer and employee. Current member contribution rates are 9.40% of pay.

The MFPRSI provides for both an ordinary and accidental disability benefit for a member in good standing with the System. The medical board determines whether a member is medically able to perform the member’s job duties. If the member is determined to be unable to perform the member’s duties, the MFPRSI decides whether the member is eligible for an ordinary or accidental disability benefit. The compensation for an ordinary disability is 50.0% of the average final compensation, whereas the compensation for an accidental disability is 60.0% of the average final compensation.

Cities are responsible for the payment of all medical costs related to MFPRSI claims under Iowa Code section [411.15](#). Cities cannot use workers’ compensation to cover short-term indemnity or medical cost exposure. Iowa Code section [85.1\(4\)](#) states that workers’ compensation does not apply to “persons entitled to benefits pursuant to Iowa Code chapters [410](#) and 411.”

Assumptions

- Expanding the number of disabilities eligible for an accidental disability benefit and allowing retirees who are receiving an ordinary disability benefit and within three years of retirement to apply for an accidental disability benefit will reduce the funded ratio of the Municipal Fire and Police Retirement Fund by 0.12%, from 84.57% to 84.45%.
- Based on the most recent actuarial valuation report as of July 1, 2023, no increase in costs can be absorbed within the existing contribution rates for FY 2025. The FY 2025 employee contribution rate will need to increase from 9.40% to 9.55%, an increase of 0.15%.
- According to the MFPRSI, the total contribution rate impact of the Bill will be an increase of 0.15% to the members’ contribution rate. The provisions creating the impact include the following:
 - Allowing current ordinary disability retirees within three years of retirement to apply for an accidental disability benefit will increase the total contribution rate by 0.03%.
 - Permitting future ordinary disabilities to be treated as accidental disabilities due to the elimination of the definite time and place requirement and requiring a traceable event for mental injuries that is unusual compared to the typical experiences of police officers and fire fighters in the State will increase the total contribution rate by 0.07%.
 - A 5.00% increase in total future disabilities due to the expansion of accidental disability benefits combined with accidental disability tax advantages will increase member contribution rates by 0.50%.
- All other actuarial assumptions made by the MFPRSI for annual actuarial valuations going forward will be met.
- The MFPRSI may see an increase in administrative costs related to medical exams between approximately \$50,000 and \$100,000 in FY 2025 and \$20,000 and \$50,000 in FY 2026 and

each year thereafter. This includes the implementation and performance of mental health evaluations.

- Medical and administrative costs incurred by cities may increase for all injuries and diseases related to employment, regardless of the type of benefit received from the System.
- There are approximately seven ordinary disability retirements per year.
- Eliminating the link between medical costs and MFPRSI accidental disabilities and requiring medical cost coverage for cumulative injuries may result in additional medical costs being covered by city employers.

Fiscal Impact

Administrative costs for the MFPRSI associated with performing mental health evaluations and medical exams are estimated to increase between \$50,000 and \$100,000 in FY 2025 and between \$20,000 and \$50,000 annually in FY 2026 and each year thereafter. Any increased administrative costs for the MFPRSI will be paid from the Municipal Fire and Police Retirement Fund.

The unfunded actuarial accrued liability of the Municipal Fire and Police Retirement Fund is estimated to increase by approximately \$4.6 million in FY 2025. The funded ratio will decrease from 84.57% to 84.45%.

Increasing members' contribution rate from 9.40% to 9.55% is estimated to have an annual cost of approximately \$562,000, or \$135 per employee. In subsequent fiscal years, this cost may increase based on covered payroll.

Cities under the MFPRSI are required to provide hospital, nursing, and medical attention for members of the police and fire departments. The fiscal impact of **Division I** on cities for additional medical costs cannot be determined at this time but may be significant.

Sources

Iowa League of Cities
Municipal Fire and Police Retirement System of Iowa Actuarial Valuation Report
Municipal Fire and Police Retirement System of Iowa
Legislative Services Agency

Division II — Civil Service Evaluations — Municipal Fire and Police Retirement System — Certain Benefits

Description

Division II of the Bill exempts a deceased public safety officer's pension income from the individual income tax of a surviving spouse who is not disabled or 55 years of age or older.

Division II of the Bill is retroactive to tax years beginning on or after tax year (TY) 2024.

Background

2022 Iowa Acts, [House File 2317](#) (Income Tax Rate Reduction and Exemptions Act), exempted pension and retirement income from the individual income tax if the individual is disabled or 55 years of age or older, or is the surviving spouse of an individual or is a survivor having an insurable interest in an individual, who would have qualified for the pension or retirement pay exemption. Currently, a surviving spouse or survivor with an insurable interest does not qualify for the exemption unless the surviving spouse or survivor is also disabled or at least 55 years of age.

Assumptions

- As of 2022, the MFPRSI had approximately 9,000 members. As of 2023, the Public Safety Officers' Retirement, Accident, and Disability System (PORS) had approximately 1,300 members, while the Iowa Public Employees' Retirement System (IPERS) had approximately 404,000 members, 22 of whom are eligible to receive an exemption under the Bill for a total cost of \$397,000, or approximately \$18,000 in pension income per member. This **Fiscal Note** assumes approximately 100 members of these organizations are eligible under the Bill to receive an annual pension income exemption of \$20,000 each.
- Pension income will increase by 2.0% per year due to inflation beginning in TY 2025.
- The marginal individual income tax rate per tax year is estimated below:
 - TY 2024 = 5.0%
 - TY 2025 = 4.7%
 - TY 2026 and after = 3.9%
- The initial fiscal impact under the Bill will occur in FY 2025 from TY 2024.
- The [income surtax for schools](#) is a local option tax that is based on a taxpayer's Iowa income tax liability. Law changes that lower Iowa income tax liability also lower the amount of income surtax owed by any taxpayer subject to the surtax. For this projection, the surtax is assumed to equal 2.5% of State individual income tax liability.

Fiscal Impact

The proposed exemptions from the individual income tax in HF 2680 are projected to decrease net individual income tax liability and State General Fund revenue by the following amounts:

- FY 2025 = \$100,000
- FY 2026 = \$96,000
- FY 2027 = \$81,000
- FY 2028 = \$83,000
- FY 2029 = \$84,000

The decrease in tax liability is also projected to decrease the statewide local option income surtax for schools by the following amounts:

- FY 2025 = \$3,000
- FY 2026 and beyond = \$2,000

Sources

Municipal Fire and Police Retirement System in Iowa
Iowa Public Employees' Retirement System
Public Safety Officers' Retirement, Accident, and Disability System
Iowa Department of Revenue
Legislative Services Agency analysis

/s/ Jennifer Acton

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The fiscal note for this Bill was prepared pursuant to [Joint Rule 17](#) and the Iowa Code. Data used in developing this fiscal note is available from the Fiscal Services Division of the Legislative Services Agency upon request.
