

IPERS SUBCOMMITTEE
of the
STANDING COMMITTEES ON STATE GOVERNMENT

Report to the Legislative Council
and the Members of the
First Session of the Sixty-fifth General Assembly

FINAL REPORT

IPERS SUBCOMMITTEE

of the

STANDING COMMITTEES ON STATE GOVERNMENT

Representative C. Raymond Fisher, Chairman of the House Committee on State Government and Representatives Richard Drake and Harold McCormick met with the Commissioners of the Employment Security Commission, Mr. James T. Klein, Mr. Abe Clayman, and Mr. George Lundberg and with Mr. Fenton Isaacson and Mr. Denis Sullivan, Consulting Actuaries, from Milliman and Robertson, Inc. in June, 1972. Various suggestions were presented to improve the Iowa Public Employees Retirement System and were noted by the consulting actuaries who agreed to present a proposal to the Subcommittee of the costs of actuarial studies for each of the recommendations.

At the June meeting of the Legislative Council, a request was submitted by Representative Fisher and Senator James A. Potgeter, Chairman of the Senate Committee on State Government, that a joint subcommittee of the Standing Committees on State Government be authorized to meet and make recommendations on changes in the IPERS system. House members appointed to the subcommittee were Representatives Fisher, Drake and McCormick and Senate members appointed were Senator Gene Glenn, Senator Francis Messerly, and Senator John Rhodes. Legislative members of the IPERS Advisory Investment Board, Senator James Griffin and Representative Leonard Andersen, were invited to attend Subcommittee meetings.

Mr. Edmund Longnecker, IPERS Division of the Employment Security Commission, explained that currently the employer and the employee each contribute 3½% of their wages up to \$7,800 to the IPERS program and monthly benefits to retirees are computed on the basis of one-twelfth of 1.45% per year of membership service multiplied by the average annual covered wages of the employee. An employee is vested in the program after eight years employment. The system is actuarially sound, meaning that present employees' contributions are not being used for payments to current retirees.

One of the reasons that the Subcommittee was established is that according to actuarial studies, only a 5.507% contribution rate is needed to fund the system on an actuarially sound basis and approximately \$38,000,000 has accumulated in the IPERS fund. One of the reasons for the surplus in the fund is that employees who terminate their employment before they are vested only receive their contributions plus interest credited and the employer contribution remains in the fund. Another reason is that the interest earnings have been higher than anticipated and the average yield is approximately 6% at the present time.

A series of twenty-one possible improvements to the IPERS system were developed by the Subcommittee, and actuarial studies on

these improvements were conducted by Mr. Isaacson and Mr. Sullivan. The following twenty-one possible improvements were considered:

1. The present system with no benefit changes.
2. Payment of a minimum benefit of \$4.00 per month for each year of membership service.
3. Payment of a minimum benefit of \$5.00 per month for each year of membership service.
4. Retirement at age 62 and benefits unreduced with thirty years of membership service.
5. Retirement at age 60 and benefits unreduced with thirty years of membership service.
6. Retirement at age 55 and benefits unreduced with twenty-five years of membership service.
7. Increase in annual benefit credit from 1.45% for each year of membership service to 1.75%.
8. Increase in annual benefit credit from 1.45% for each year of membership service to 2.00%.
9. Computation of the annual benefit credit of 1.45% for each year of membership service at 2.00% for each year of future membership service.
10. Increase in the covered salary for years after June 30, 1972 from \$7,800 to \$9,000.
11. Increase in the covered salary for years after June 30, 1972 from \$7,800 to \$10,800.
12. Increase in the covered salary for years after June 30, 1972 from \$7,800 to \$12,000.
13. Removal of the limit on covered salary for years after June 30, 1972.
14. Basing the retirement benefits on the average covered salary during the highest 5 of the last 10 years employment (assuming a \$7,800 salary limit).
15. Increase of the retirement benefit credit for each year of prior service from 1.10% to 1.25%.
16. Vesting of a member after five years of membership service rather than eight years membership service.
17. Increase in membership service benefits being paid to retirees as of June 30, 1972 by 20%.

18. Basing retirement benefits on the average salary during the highest 5 of the last 10 years with a \$9,000 salary limit.
19. Basing retirement benefits on the average salary during the highest 5 of the last 10 years with a \$10,800 salary limit.
20. Basing retirement benefits on the average salary during the highest 5 of the last 10 years with a \$12,000 limit.
21. Basing retirement benefits on the average salary during the highest 5 of the last 10 years with no salary limit.

A copy of a listing of the possible improvements and their effects on the current necessary 5.507% contribution level is attached and by this reference made a part of this Report.

The Committee held a public hearing in November and groups affected by IPERS changes (both employers and employees) were allowed to comment upon the twenty-one possible improvements.

Many of the employee associations met together and established a Joint Council on IPERS with a single set of recommendations from the Joint Council. Members of the Joint Council are:

Conservation Park Officers Association
Iowa Association of State, County and Municipal Employees
Iowa Fish and Game Officers Association
Iowa Municipal Finance Association
Iowa School Food Services Association
Iowa State Assessors Association
Iowa State Association of Counties
Iowa State Education Association
Municipal Civil Service Employees Association
State of Iowa Employees Association

The Joint Council recommended the following proposal for improving the Iowa Public Employees Retirement System:

1. Benefits under the IPERS program should vest in the employee after five years instead of eight years as under current law. (Code 1971, 97B.53)
2. Employees who were covered under the Iowa Old Age and Survivors Insurance System as of July 1, 1953 and subsequently have withdrawn their money from that system have the right to reinvest their original contributions with interest.
3. The IPERS program should include a minimum benefit level for hourly employees who have worked ten years or more as follows: \$4.00 per month for each year of membership service for those working 30 hours or less per week, and \$5.00 per month for each year of membership service for those working more than 30 hours per week.

4. Allowance should be made for retirement at age 60 without a loss or decrease in benefits with 30 years of membership service.

5. All law enforcement officers covered by the IPERS program should be able to retire after 25 years of membership service at age 55. The members payments under this plan should be adjusted to keep the program actuarially sound.

6. The monthly formula benefit should be changed to 1.85 percent per year of membership service multiplied by the annual average covered wages instead of 1.45 percent as under present law. (Code 1971, 97B.49)

7. Covered wages as prescribed in Code 1971, 97B.41 be increased from \$7,800 to \$12,000.

Representatives of these groups appeared before the Subcommittee and affirmed their support for the recommendations of the Joint Council. In addition representatives of the Des Moines Education Association, the Cedar Rapids Education Association, and the Polk Suburban Education Association expressed support for the stand of the Iowa State Education Association.

Other groups presenting their positions on the IPERS proposed improvements were:

Iowa Association of School Boards
League of Iowa Municipalities
Iowa State Association of Highway Commission Employees

The Committee recommends:

1. The IPERS system should remain actuarially sound.
2. The 3 1/2% matching contributions by the employer and the employee should not be increased.
3. Benefits under the IPERS program should vest after four years' employment instead of the current eight years.
4. Employees who are vested, current, or retired members of IPERS and who were covered under the Iowa Old Age and Survivors Insurance System at its termination on July 1, 1953 and have withdrawn their money from that system should have the opportunity to reinvest their original contributions together with interest.
5. A minimum monthly retirement benefit of fifty dollars should be paid to all retired members with ten or more years of membership service.

6. Members who have thirty years or more of membership service should be allowed to retire at sixty years of age with no loss in monthly benefits.
7. The covered wages should be increased from \$7,800 per year to \$10,800 per year.
8. The monthly formula benefit should be increased from 1.45% per year of membership service multiplied by the annual average covered wages to 1.50%.
9. It is generally understood that the General Assembly will be required to increase the amount of state aid paid to school districts in the foundation formula in order to assist school districts in meeting their increased financial obligations.