

PENSION AND RETIREMENT PROGRAMS STUDY COMMITTEE

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

State of Iowa
1974

P R O G R E S S R E P O R T

PENSION AND RETIREMENT PROGRAMS STUDY COMMITTEE

The Legislative Council at its July, 1973 meeting authorized the establishment of a study committee as requested by Senate Concurrent Resolution 38, which was transmitted to the Legislative Council at the close of the General Assembly. Senate Concurrent Resolution 38 provides for the Legislative Council to establish a study committee to conduct a comprehensive study of the pension plans and retirement programs available to Iowa public employees. The study is to include, but not be limited to, various benefits available to public employees; the relationship of IPERS benefits to Social Security benefits for public employees covered; investment of pension funds; variable annuities; benefit determination based upon salary levels; plans for early retirement; and comparison of benefits available under the various pension plans and retirement programs. The study committee is to make its final report to the Legislative Council and the General Assembly meeting in 1975.

The Legislative Council appointed the following persons to serve on the Pension and Retirement Programs Study Committee:

Senator C. Joseph Coleman, Clare
Senator Warren E. Curtis, Cherokee
Senator John N. Nystrom, Boone
Representative Richard L. Byerly, Ankeny
Representative John H. Connors, Des Moines
Representative Rollin C. Edelen, Estherville
Representative C. Raymond Fisher, Grand Junction

At the Committee's organizational meeting, Senator Curtis was elected Chairman and Representative Fisher was elected Vice Chairman.

The retirement and pension programs available to Iowa public employees, statutory citation, and number of active members in each for 1972 are as follows:

Iowa Public Employees' Retirement System (Chapter 97B) - 113,119
Judicial Retirement System (Chapter 605A) - 100
Peace Officers' Retirement, Accident and Disability System
(Chapter 97A) - 431
Local Police and Fire Retirement Systems (Chapter 411) - 5,000
(Estimated by consulting actuary)
Local police and fire pension plans (Chapter 410) - No estimate available
Municipal Utility Retirement System (Chapter 412) - No estimate available

A brief outline of each retirement system is attached to this Report.

In addition, certain employees of the Board of Regents Institutions are eligible to select in lieu of IPERS, membership in the Teacher's Insurance Annuity Association and College Equity Retirement Fund. TIAA/CREF is incorporated as a legal reserve life

insurance company in the State of New York, and membership is available to college teachers, administrators, and other higher-salaried college employees throughout the United States. The system provides portability of membership for its members.

The Committee commenced its study by sending a questionnaire to the administrators of each of the public retirement systems and pension programs. Information was requested concerning number of active members, average monthly benefits paid to retirees and survivors, number of retirees, governmental entity's contribution to the system, employee's contribution to the system, value of assets, and investment of assets. Information was obtained for each of the state systems and from approximately twenty of the fifty cities to which questionnaires were sent. Copies of charts illustrating the responses were provided to Committee members and are available in the Office of the Legislative Service Bureau.

Information was provided to Committee members concerning the public retirement plans in other states, including contribution and benefit levels, and this information is also available in the Office of the Legislative Service Bureau.

The Committee obtained information concerning the Old Age, Survivors, Disability and Health Insurance Program (Social Security) which was substantially amended in 1972 to provide automatic increases in benefits as the Consumer Price Index increases by 3% or more. Benefit increases are financed by increases in the wage base. All state employees are covered by Social Security, except for members of the Peace Officers' Retirement System and members of Chapter 411 police and fire systems. The Committee decided that any decisions regarding a level of benefits to be achieved should consider the payments a retiree will receive from Social Security.

The Committee held five meetings during the interim and heard an explanation of each of the systems at an early meeting, followed by a public hearing at which representatives of each of the public retirement systems presented recommendations for improvement. Copies of written statements of persons appearing before the Committee are available in the Office of the Legislative Service Bureau.

Mr. Fenton Isaacson and Mr. Denis Sullivan, Consulting Actuaries for Milliman & Robertson, Incorporated were present at a meeting to discuss the role of the consulting actuary. They have provided the Committee with estimates of the costs of conducting certain actuarial studies.

Other meetings of the Committee were spent discussing the recommendations made during the public hearings and formulating Committee recommendations.

The recommendations of the Pension and Retirement Programs Study Committee are as follows:

1. The Committee recommends the establishment of a central system for investment of funds of the IPERS, Judicial Retirement System, Peace Officers' Retirement System, and Chapter 411 police and fire systems, but the administration of the funds would remain separate. The Committee considered the establishment of a single omnibus retirement system for all state and local employees, but concluded that given the different methods of computing benefits and the different contribution levels presently existing, such a system is not feasible at present. Information received from cities about the investment of funds was largely incomplete, but it appears from the investment information received that a higher rate of return can be achieved if all funds are centrally invested by knowledgeable administrators. The Committee anticipates that a private consultant might be employed to invest the funds.

2. The Committee voted not to take action on the amounts of the various retirement funds which can be invested in equities. The Committee received conflicting testimony about the advisability of investing public funds in common stock which can fluctuate in value, and voted no changes.

3. The Committee recommends that the concept of actuarial soundness is a goal to be achieved for pension plans and retirement programs. A fund is actuarially sound if when a member reaches retirement age, there are sufficient funds available to pay his benefits for the rest of his life without burdening any future members of the system. IPERS is an actuarially sound system. The Peace Officers' System is adding to its assets, but is not yet actuarially sound. The Judicial Retirement System is a pay-as-you-go system and is not actuarially sound, but rather is dependent upon appropriations from the General Assembly for funding. Chapter 411 local police and fire systems are required by law to be actuarially sound. Chapter 410 systems are pay-as-you-go systems.

4. The Committee recommends that investment expenses for IPERS be paid from investment income rather than from the administrative costs of the system. The IPERS Division of the Employment Security Commission suggested the change, and the Committee agreed.

5. The Committee recommends that no action be taken with regard to TIAA/CREF. The Committee recognizes that persons eligible for TIAA/CREF coverage receive higher contributions from their employer than IPERS members and receive higher retirement benefits, but the Committee also believes that the solution to complaints about higher benefits to TIAA/CREF members lies in improvement of the other retirement systems.

6. The Committee requests that the consulting actuaries be employed to conduct actuarial determinations of the following list of studies at a cost of \$50,000 and that the studies be paid from funds available to the General Assembly pursuant to section 2.12 of the Code. A copy of the concurrent resolution requesting authorization for expenditure of the funds is attached to this report.

The studies are:

a. The cost of providing total retirement benefits for IPERS members and for members of the Judicial Retirement System, including Social Security benefits, equal to 60% (70% (80%)) of the average covered wages (highest 3 years average salary) (highest five year average salary) with retirement after thirty years service for IPERS members (or age 65) and after sixteen and two-thirds years service for judges. Also with thirty years service and age 60 for IPERS members and with thirty years service and age 55.

b. The cost of providing total retirement benefits for members of the Peace Officers Retirement System and members of Chapter 411 police and fire systems equal to 60% (70%) (80%) of final average salary (average of highest five years salary) (average of highest three years salary) with retirement at age 55 (50) after twenty-two years service.

c. Cost of postretirement pension adjustments for all systems based upon the Consumer Price Index.

d. What can be achieved by increasing the employer contribution for IPERS members to 7% on \$10,800?

e. Cost of increasing pensions of retired judges based upon the current salary of the judicial position for all past and future retirees (for only those who retire because of age, disability or death).

f. The cost of retiring a judge for disability purposes at 50% of his current salary prior to his having earned sufficient retirement credits.

g. Cost of allowing widows and minor children of members who die with 15 or more years service, but who have not reached 55 years of age to receive a pension rather than only the contributions of the members for firemen and policemen under Chapter 411.

h. The cost of allowing widows to continue receiving a pension even if they remarry for widows of policemen and firemen under Chapter 411.

i. The cost of reducing vesting requirements to 10 years for policemen and firemen under Chapter 411.

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Administered by: Employment Security Commission with advice from IPERS Advisory Investment Board.

Who eligible: Any person employed by the state of Iowa, the counties, the municipalities, and public school districts and all of the political subdivisions and joint planning commissions; but not members of the General Assembly, elective officials in positions for which the compensation is on a fee basis, elective officials of school districts, elective officials of townships, elective officials of political subdivisions who are in part-time positions, graduate medical students while serving as interns or resident doctors in training in any hospital, or county medical examiners and deputy county medical examiners, temporary employees of the General Assembly (They may make application to be covered.), employees of drainage and levee districts not vested (Drainage and levee districts may make application to be covered.), and employees hired for temporary employment of six months or less.

Contribution level: 3½% of matching contributions by employer and employee of covered wages.

Covered wages:

July 4, 1953 - December 31, 1963	\$ 4,000
January 1, 1964 - December 31, 1967	\$ 4,800
January 1, 1968 - December 31, 1970	\$ 7,000
January 1, 1971 - December 31, 1972	\$ 7,800
January 1, 1973 -	\$10,800

Vesting: Four years' service.

Benefit: 1/12 of 1.57% per year of membership service multiplied by average annual covered wages is the monthly benefit.

Normal retirement: Age 65 years. If less than four years' service, a monthly annuity shall be computed by applying the member's accumulated contributions and his employer's matching accumulated contributions and retirement dividends to the annuity tables in use by the Commission.

Retirement at age 55: Monthly retirement allowance reduced by .5% per month for each month that the early retirement date precedes the normal retirement date.

Optional allowances: 1. May elect decreased retirement allowance during lifetime and have the decreased retire-

ment allowance continued to a designated person after the member's death (no death benefit paid).

2. May elect increased retirement allowance during member's lifetime with no death benefit.

3. May elect decreased retirement allowance with a death benefit equal to the excess, if any, of the accumulated contributions by the member and employer. The death benefit is paid to the beneficiary.

4. May elect decreased retirement allowance with provision that if member dies during first 120 months of his retirement, monthly payments will be paid to his beneficiary until 120 monthly payments have been made.

PEACE OFFICERS' RETIREMENT,
ACCIDENT, AND DISABILITY SYSTEM

Who eligible: All members of the divisions of highway safety and uniformed force and criminal investigation and bureau of identification, and the division of drug law enforcement, and the division of beer and liquor law enforcement, except does not include clerical workers.

Administered by: Board of Trustees composed of the Commissioner of Public Safety, the Treasurer of State, and a member of the system chosen by the members of the system.

Contribution level: Members contribute a percentage of their wages based upon their age when becoming a member. The percentage varies from 4.91% at age 20 to 6.50% at age 40 or older. State pays a certain percentage of the earnable compensation of each member to be known as the normal contribution.

Benefits: 1. At age 55 with 22 years' service or age 65 receives an annuity equal to the actuarial equivalent of his accumulated contributions and a pension which together with his annuity equals one-half of his average final compensation which is adjusted each July 1 to equal that of an active member at the same rank as the retiree.

2. If have 5 or more years' service and an ordinary disability will receive an annuity equal to the actuarial equivalent of his accumulated contributions and a pension which together with his annuity equals 90% of 1/70th of his average final compensation multiplied by the number of years of membership service if the retirement allowance exceeds one-half of his average final compensation, otherwise one-half of his average final compensation.

3. If become totally and permanently disabled for duty in the actual performance of duty receive a service retirement allowance if had reached 55 years of age or otherwise shall receive an annuity equal to the actuarial equivalent of his accumulated contributions and a pension of $66 \frac{2}{3}$ % of average final compensation.

4. Members retired for ordinary disability cannot earn compensation which would increase their compensation plus pension to be greater than their average final compensation.

5. If a member dies, his beneficiary will receive either his accumulated contributions and an amount equal to one-half his compensation during the preceding year or a pension which together with the actuarial equivalent of his accumulated contributions equals $\frac{1}{2}$ of his average final compensation, not less than \$50 plus for each child under 18 years of age, \$20 per month.

6. If a member dies in the line of duty, his widow shall receive his accumulated contributions and a pension equal to $\frac{1}{2}$ of the average final compensation plus for each child under 18 years of age, \$20 per month. If there are no widow, children, or parents, the estate receives the ordinary death benefit.

7. The member may elect upon retirement to receive up to 50% of his accumulated contributions in a lump sum and a lesser monthly retirement allowance.

8. Workmen's compensation benefit payments are offset against and in lieu of retirement payments.

9. If a retiree dies while receiving a retirement allowance, his widow will receive half of the amount received by her husband, not less than \$50 per month, plus \$20 per month for each minor child. If the widow dies before her children reach their majority, the guardian will receive \$20 per month for each child.

JUDICIAL RETIREMENT SYSTEM

Administered by: State Comptroller

Who eligible: District Court Judges, District Associate Judges, and Supreme Court Justices.

Contribution rate: Judge pays 4% of his basic salary for services as judge. State contributes such sums as are necessary to finance the system.

Qualify for annuity: Sixty-five years of age and six years as a judge or twenty-five years as a judge.

Amount of annuity: 3% of average annual basic salary for last 3 years as a judge times number of years of service, not to exceed 50% of salary he is receiving at time of separation.

Voluntary retirement for disability: Anyone who has served as a judge for 6 years and believes he is physically or mentally incapacitated may file application for retirement. If after investigation the Attorney General files a report that the judge is physically or mentally disabled, he shall receive annuity based upon his years of service and annual basic salary for last 3 years as a judge.

Annuity for survivor: Surviving spouses of at least 5 years who have not remarried are entitled to an annuity of one-half the amount the judge was receiving or would have received at age sixty-five. The annuity begins on the judge's death if he is at least sixty-five, or on the date the judge would have reached sixty-five, or upon the spouse reaching age sixty, whichever is later.

CHAPTER 410

POLICE AND FIRE PENSION SYSTEMS

Who eligible: Employees of an organized or paid fire department and employees of an organized police department who entered employment before March 2, 1934 or any employee who was making payments under the Chapter prior to July 1, 1971.

Administered by: A board of trustees for each which includes the chief officer of each department, city treasurer, city solicitor or attorney.

Contribution level: City or town levies a tax of 1/8 mill, but it has a population of more than 6,500, it may levy a tax of up to 1/2 mill. Members must pay a fee fixed by the board of trustees not exceeding \$5 and must pay annually an amount equal to 1% per year on the salary. When there is a sufficient balance in the fund to meet charges, the city is not required to levy the tax.

Benefits: Pension equal to 1/2 the salary the retiree received monthly on his retirement date after 22 or more years service and fifty years of age or mentally or physically permanently disabled. Increases in the salary of the rank at which a member retired shall cause his pension to be increased by 50% of the increase. Monthly pensions must be at least \$150.

Survivor Benefit: To unmarried spouse, half the deceased member's total adjusted pension, not less than \$75 per month. If no spouse, to dependent father or mother, \$30 per month. To the guardian of each surviving child under 18 years of age, \$20 per month.

RETIREMENT SYSTEMS OF
POLICEMEN AND FIREMEN (Ch. 411)

Who eligible: Members of a police department who have passed a regular mental and physical civil service examination for policeman, policewoman, or matron and who shall have been duly appointed. Members of a fire department who have passed a regular mental and physical civil service examination for firemen and who shall have been duly appointed to such position.

Administered by: For firemen - the chief officer of the fire department, the city treasurer, the city solicitor or attorney, 2 firemen elected by ballot by the members, and 2 citizens who do not hold any other public office. For policemen - the chief officer of the police department, the city treasurer, the city solicitor or attorney, 2 policemen elected by ballot by the members, and the same 2 citizens as are on the board of fire trustees in a city.

Contribution level: Same as Peace Officers' Retirement, Accident, and Disability System.

Benefits: Same as Peace Officers' Retirement, Accident, and Disability System, except that policemen and firemen who have been members of the system for 15 or more years and whose employment is terminated prior to retirement, other than by death or disability, shall upon attaining retirement age receive a service retirement allowance of $15/22$ of the retirement allowance he would have received at retirement and an additional $1/22$ for each year of employment exceeding 15 years.

By

WHEREAS, the Legislative Council, pursuant to section two point fifty (2.50) of the Code, established an interim study committee to study public pensions and retirement programs under the provisions of Senate Concurrent Resolution thirty-eight (38), which was referred to at the close of the 1973 legislative session; and

WHEREAS, Senate Concurrent Resolution thirty-eight (38) directs the Study Committee to employ a consulting actuary to conduct the necessary research and to submit its recommendations to the General Assembly meeting in 1975; and

WHEREAS, the Pension and Retirement Programs Study Committee has completed its preliminary study of the public pension and retirement programs and has formulated a series of alternatives which require actuarial analysis by the consulting actuaries; and

WHEREAS, the Pension and Retirement Programs Study Committee cannot proceed with its work until actuarial analyses of the various alternative recommendations have been completed; NOW THEREFORE,

BE IT RESOLVED BY THE SENATE, THE HOUSE CONCURRING, That the Legislative Council, on behalf of the General Assembly and the Pension and Retirement Programs Study Committee, is authorized to expend the sum of fifty thousand (50,000) dollars, or so much thereof as may be necessary, from funds appropriated to the General Assembly for expenses of interim committees pursuant to section two point twelve (2.12) of the Code for the costs and expenses of employing actuaries from Milliman & Robertson, Inc. to conduct actuarial studies under the direction of the Pension and Retirement Programs Study Committee.