

F I N A L R E P O R T

PUBLIC RETIREMENT SYSTEMS STUDY COMMITTEE

January, 1986

AUTHORIZATION AND MEMBERSHIP

The Public Retirement Systems Study Committee was established by the Legislative Council to conduct a comprehensive study of the benefits and financing of the Iowa Public Employees' Retirement System, the Peace Officers' Retirement System, the Judicial Retirement System, the local police and fire retirement systems, and the Teachers Insurance Annuity Association-College Retirement Equity Fund. Ten members were initially appointed to serve on the Study Committee and it was granted two meeting days. After the first meeting, four additional members were named and two additional meeting days were approved. Subsequently, a fifth meeting day was approved.

Members of the Study Committee were:

Senator Bob Carr, Dubuque, Co-chairperson
Representative Gene Blanshan, Scranton, Co-chairperson
Senator Joy Corning, Cedar Falls
Senator Bill Dieleman, Pella
Senator Charles Miller, Burlington
Senator John Nystrom, Boone
Senator Forrest V. Schwengels, Fairfield
Senator Joe Welsh, Dubuque
Representative Dorothy Carpenter, West Des Moines
Representative Brian Carter, Mount Pleasant
Representative Jim Cooper, Russell
Representative Minnette Doderer, Iowa City
Representative Don Platt, Muscatine
Representative George Swearingen, Sigourney

SUMMARY OF MEETINGS

Meetings were held on September 4, November 14 and 15, and December 12 and 13.

The September 4 meeting included a presentation from the IPERS Administrators Maurice Baringer and Dennis Jacobs, a determination of requests to the IPERS Division for actuarial cost studies for specific benefit improvements, and a review of pending legislation.

Interested associations and individuals were invited to make ten-minute presentations on November 14 about the present

provisions of their applicable retirement system, pending legislation affecting their retirement system, or proposed legislation affecting benefits or financing. A list of those individuals making presentations and the associations they represent, if any, is attached to this report.

On November 15 the Study Committee heard presentations from the Board of Trustees and actuary of the Peace Officers' Retirement System, the Court Administrator and actuary of the Judicial Retirement System, a representative from the State Board of Regents describing the Teachers Insurance Annuity Association-College Retirement Equity Fund, and cost results of the actuarial studies conducted for IPERS.

On December 12 the Study Committee heard presentations from a staff assistant from the Social Security Administration and from the IPERS administrators discussing Social Security coverage and benefits and discussed financing of chapter 411 police and fire retirement systems and coverage of correctional officers under their special provisions of IPERS.

On December 13, the Study Committee made its recommendations.

The Study Committee received information about and discussed their major public retirement systems and made recommendations both for bill drafts to implement change and for further study.

TIAA-CREF

The Teachers Insurance Annuity Association-College Retirement Equity Fund is a nationwide retirement system for individuals employed by colleges, universities, and research institutes. Employees of the State Board of Regents sign a contract with TIAA-CREF for coverage under that system and are then exempt from coverage under the Iowa Public Employees' Retirement System. TIAA-CREF consists of two different parts. TIAA is a defined contribution system with a fixed benefit and CREF is a defined contribution system with a variable annuity.

As a defined contribution system, benefits are based upon the amount of money contributed by members and their employers. TIAA-CREF is available to employees who earn more than \$7,800 per year.

The University of Iowa has 9,957 individuals who are members of TIAA-CREF. At Iowa State University, this figure is 5,186 and at the University of Northern Iowa, 1,418.

Contributions as a percent of the total salary of an individual are made to TIAA-CREF as follows:

	<u>Employee</u>	<u>Employer</u>
Employee with less than five years of service	3 1/3% of first \$4,800; 5% of balance	6 2/3% of first \$4,800; 10% of balance
Employee with more than five years of service	5%	10%

Study Committee members expressed concern that the state's contribution to TIAA-CREF is ten percent of an employee's total salary while the state's contribution under IPERS is 5.75 percent of a maximum salary of \$21,000. There was also concern that membership in TIAA-CREF is not limited to teaching personnel but is available to all employees of the State Board of Regents who earn more than \$7,800 per year. This situation creates inequities in retirement benefits for state employees who perform identical duties for different state agencies.

The Study Committee made no recommendations relating to TIAA-CREF.

IPERS

The Iowa Public Employees' Retirement System has over 130,000 active members who are employees of the state, counties, cities, and other governmental subdivisions. As of June 30, 1985, there were over 40,000 retirees receiving benefits of over \$107 million during the 1984-1985 fiscal year. Over \$188 million was paid into the Fund during the last fiscal year from contributions of members and employers, but the Fund actually increased by over \$300 million because of earned income from investments. The Fund totaled \$2,581,396,000 as of June 30, 1985.

Employees currently contribute 3.7 percent of covered wages while employers contribute 5.75 percent. Covered wages will be \$22,000 in 1986, \$23,000 in 1987, and \$24,000 thereafter.

The IPERS system is a defined benefit retirement system which means that members will receive retirement benefits on the basis of their five-year average covered wage and years of service not on the employee and employer contributions made to the system. The employer contributions of members who leave the system before retirement remain in the IPERS fund to pay for increased benefits for members who retire from the system.

Many different associations and individuals brought recommendations for change to the Study Committee. There was concern expressed about long-term employees who contribute to the system for more than 30 years but only receive credit for 30 years of service. In addition, some associations asked for a reduction in the penalty for early retirement. Other associations called for an increase in covered wages, a spousal benefit option for spouses of deceased active members, additional benefits for long-term employees, continuation of the lump sum dividend program for

retirees, and a reduction of years of services and retirement ages for those groups presently eligible for retirement under the special IPERS provisions.

The Des Moines Airport Fire Fighters and the Department of Transportation Enforcement Officers asked for special IPERS coverage, the correctional officers requested increasing the classes of employees eligible for special IPERS coverage, and the Conservation Peace Officers asked for benefit improvements similar to those granted to the sheriffs and deputy sheriffs in 1984.

According to the IPERS actuaries from Milliman & Robertson, Inc., 9.45 percent of covered wages is currently being collected from the contributions of employers and employees, but only 7.41 percent is required to fund the present benefits on an actuarially sound basis, including making annual dividend payments to retirees.

The Study Committee asked the IPERS Division to direct the consulting actuaries to conduct cost studies of many of the benefit improvements requested by the interested associations. The results of the cost studies are attached to this report.

As a result of the cost studies, the Study Committee recommends that the following changes be made in the IPERS benefit formula:

1. Allow members of IPERS to retire without penalty at age 62 with at least 30 years of service. (Cost .86 percent of covered payroll)
2. Increase the covered wages for IPERS members to \$25,000 for calendar year 1989 and to \$26,000 beginning January 1, 1990. (Cost .34 percent of covered payroll)
3. Allow the spouse of a deceased active member to elect to receive a pension equal to one half the amount the member would have received upon the member's retirement in lieu of a lump sum payment the spouse is now entitled to receive. However, further study of spousal benefits should continue. (Cost .15 percent of covered payroll)
4. Allow conservation peace officers to be eligible to receive a reduced retirement allowance under their special benefit provisions even though they are not at least 60 years of age or have not completed the required 25 years of service. (The cost of this benefit of 1.5 percent of covered payroll should be borne by the conservation peace officers.)
5. The dividend payments for IPERS retirees should be continued in November, 1986 and November, 1987. Each retiree should receive a minimum payment of \$25. (This cost was included in the cost of current benefits.)

The cost of implementing these recommendations is 1.35 percent of covered payroll, leaving a contribution rate margin of .69 percent of covered payroll. The Study Committee members discussed several different options for improving benefits of employees who have more than 30 years of service but were unable to agree upon a recommendation that would both encourage employees to retire and provide equitable benefits for service beyond 30 years. Therefore, the Study Committee voted to ask the House and Senate Committees on State Government to continue studying the issue and determine a recommendation during the 1986 legislative session.

The Study Committee asked the IPERS Division to conduct several additional cost studies and to transmit the results of these studies to the House and Senate Committees on State Government. They are:

1. Stopping only the employee contribution requirement with the employer continuing contributions when a member reaches 30 years of service.

2. Same as number 1 but requiring the employee to again make contributions when the employee reaches 62 and 65 years of age.

3. Allowing an employee to retire at age 62 without incurring a penalty for retiring before age 65 but providing for a benefit reduction based upon fewer than 30 years of service.

4. Allowing jailers in the county jails to be covered under the special retirement provisions for peace officers.

5. Determining whether other airports in Iowa have fire fighters similar to the ones at the Des Moines International Airport; then determining the cost of bringing those individuals under a special IPERS plan with retirement at age 60 with both 30 and 25 years of service.

The Study Committee adopted the following recommendations for administrative or corrective change suggested by the IPERS Division:

1. Clarify the definition of a retired member so that it only includes members who have not accepted other employment before qualifying for retirement benefits for at least one month.

2. Allow any employee of a school district who terminates a contract with one district at the end of a school year and enters into another contract with a school district for the next school year to count service as uninterrupted rather than restricting the provision to teachers.

3. Insert language in the section relating to retirement allowances for peace officers to clarify that the retirement allowance is calculated on the member's five-year average covered wage as a peace officer.

4. Insert language in the section providing that the early retirement penalty does not apply if the member has retired and is receiving disability benefits from Social Security that the member has retired from IPERS due to disability.

The Study Committee was informed that the Farm Financial Crisis Study Committee had discussed the advisability of using money in the IPERS Fund to make mortgage loans to farmers. Study Committee members noted that IPERS members, especially IPERS retired members, will be very concerned that such a program would damage the actuarial soundness of the Fund. The Study Committee adopted the attached resolution recommending that investments of IPERS funds in Iowa be subject to the same standards as other IPERS investments and that legislative proposals directing the investment of IPERS funds for specific purposes provide that these investments be made only when they meet the prudent person requirements required for all IPERS investments.

JUDICIAL RETIREMENT SYSTEM

The Judicial Retirement System includes 152 active judges of the Supreme Court, Court of Appeals, District Court, and District Associate Judges. It has 51 retired judges, 16 senior judges, 30 spouses receiving annuities, seven retired judges not yet receiving annuities, and one spouse eligible for an annuity when reaching age 60.

In 1984-1985, over \$1 million was paid in annuities to judges and spouses. During this period, the judges contributed \$431,000, the state contributed \$235,000, and filing fees totaled \$1,218,000. The total assets in the fund on June 30, 1985 were \$5,922,000 with an investment income total of \$482,500. Through legislation enacted in 1985 that increases certain fees and earmarks the revenue for the Judicial Retirement System, it is anticipated that revenue will increase by nearly \$852,000.

The Judicial Branch provided the Study Committee with a state-by-state comparison of judicial retirement benefits prepared by the National Center for State Courts. This comparison ranked Iowa tenth in retirement benefits among 13 states which are demographically similar to Iowa. The report states that Iowa ranks low because the maximum benefit is 50 percent of the judge's final three-year average salary. Committee members discussed increasing the percentage of final average salary used to determine benefits while at the same time increasing the years of judicial service required to receive the maximum benefit, but took no action in this area.

Committee members received copies of the actuarial valuation of the Judicial Retirement System as of July 1, 1985. The consulting actuary from William M. Mercer-Meidinger, Inc. stated that the Judicial Retirement Fund is basically in balance except for an amount of \$3,300,000 which is the value of future supplemental contributions required to meet benefits payable in excess of

available funds. The actuary stated that the total estimated contribution as a percent of payroll should equal 33.5 percent which is close to the present contribution level of 29.6 percent plus the four percent contributed by the judges. The actuary concluded that if filing fee revenue can grow at the rate of assumed salary increases, the balance sheet deficit will be eliminated.

The only recommendation made by the Study Committee for the Judicial Retirement System is to survey members to determine whether a judge should be granted an option to receive a reduced annuity during the judge's lifetime which could be continued for a surviving spouse after the judge's death. Present law provides that a surviving spouse receives an annuity equal to half that received by the judge prior to the judge's death.

PEACE OFFICERS' RETIREMENT SYSTEM

The Peace Officers' Retirement System includes 505 active members. It has 100 members receiving service retirement allowances, 32 members receiving disability retirement allowances, 51 spouses receiving benefits, and six children receiving benefits. There are 14 vested terminated members not yet receiving benefits.

In 1984-1985, \$1,711,500 was paid out in benefits. During this period the members contributed \$405,000 while the state contributed \$2,089,000. The total assets in the fund on July 1, 1985 were \$35,886,872.

The consulting actuary from Towers, Perrin, Forster, & Corsby stated that as of July 1, 1985 the difference between liabilities and assets is the present value of the normal cost which is approximately \$43 million. A contribution rate of 29.88 percent of payroll would satisfy the funding method set in the statute, but the present contribution percent is only 19.1 percent with 16 percent contributed by the state and 3.1 percent contributed by the employee. However, the consulting actuary stated that the unfunded liability of the system is less than it has been in the past.

Members of the Peace Officers' Retirement System are not covered under Social Security.

A recommendation made by the Study Committee is to survey members of the Peace Officers' Retirement System concerning their desire for an option for reduced benefits for a member with a continuation of those benefits for a spouse after the member's death.

Another issue that arose relates to those individuals employed by the Department of Public Safety in the Division of Capitol Security who are IPERS members. The Study Committee recommends that the House and Senate Committees on State Government study the

advisability of transferring the Capitol Security personnel to the Peace Officers' Retirement System. It was noted that some individuals employed by the Capitol Security Division have subsequently transferred their employment to the Highway Patrol which is covered by the Peace Officers' Retirement System and may have been unable to retire under PORS with full benefits.

LOCAL POLICE AND FIRE SYSTEMS

Forty-nine cities have paid police and/or fire departments and have established retirement systems under chapter 411. The Study Committee received information from actuarial reports of these systems and from the Polk-Des Moines Taxpayers Association relating to the contributions paid by the cities and the state and the numbers of active and retired members. The contributions required by the cities vary widely from city to city and are based upon the ages and years of service of the active members and the numbers of retired members and spouses and children receiving benefits.

Ten cities pay the employer contributions for Social Security coverage as well as for chapter 411 coverage. The Study Committee learned that the city of Waverly recently argued a case before the Iowa Supreme Court relating to this double coverage, and the Study Committee agreed to await the results of the Iowa Supreme Court decision before making any recommendations in this area.

The Study Committee agreed to include chapter 411 members in its survey to determine the desire for an option for reduced benefits for a member with a continuation of those benefits for a spouse after a member's death.

SOCIAL SECURITY OFFSET

The Study Committee reviewed the provisions of federal legislation that eliminate or reduce windfall Social Security payments to retired government workers. The legislation reduces Social Security benefits paid to spouses who have government pensions earned through their own employment but are not covered under Social Security and to members themselves who have government pensions from their primary employment and Social Security coverage from supplemental employment. The Study Committee made no recommendations on this issue, but will continue its review of the situation.

PENSION COMMISSION

The Study Committee recommends that the General Assembly enact legislation establishing a permanent retirement programs committee so that a corps of members will be knowledgeable about complex pension issues. This committee could review the recommendation of the National Conference of State Legislatures that states adopt defined contribution retirement systems (rather than a defined benefit system such as IPERS) and could study the feasibility of

integrating members of retirement systems not presently covered by Social Security into the Social Security system and adjusting their state retirement system so that total benefits are not reduced.

PRESENTERS TO

PUBLIC RETIREMENT SYSTEMS STUDY COMMITTEE

1. Ed Moses, Ames Citizen
2. Wesley Smith, Hamilton County Engineer, IPERS Improvement Association
3. Gaylord Tryon, Executive Director, Educational Administrators of Iowa
4. Wayne Pos, Retired Teachers Association
5. Bob Rydell, President, Polk-Des Moines Taxpayers Association
6. Jan Reinicke, Iowa State Education Association
7. Keith O'Connell, Superintendent, Turkey Valley School District, Iowa Association of School Administrators
8. Bob Blair, Retired Troopers and Agents
9. Leo Ward, Airport Fire Fighters
10. Roger Nowadzky, League of Iowa Municipalities
11. Scott Bemer, Secretary of Retirement Systems, Cedar Rapids
12. Phil Overby, Ottumwa Citizen
13. Justice Harvey Uhlenhopp, Iowa Judges Association
14. Carl Ades, President, Iowa State Troopers Association
15. Lon Lindenburg, Conservation Peace Officers, Fish and Game Officers and Park Rangers
16. Gordon Sweitzer, Department of Transportation, Enforcement Officers
17. Merrie Murray, Department of Corrections
18. Gene Kennedy, Iowa State Sheriffs and Deputies Association
19. Don McKee, AFSCME
20. Ronald Reid, Iowa State Patrol Supervisors Association
21. Jerry Smith, Iowa Association of Professional Fire Fighters
22. Linda Murken, Iowa Corrections Association
23. Barry Lindahl, Dubuque County Attorney
24. Marian Campbell, Webster City Citizen

IOWA PUBLIC EMPLOYEES RETIREMENT SYSTEM (IPERS)

[Covered Payroll for 1985-1986: \$1,965,600,000]

[Current Contribution Rate: 3.7% Employee, 5.75% Employer, 9.45% Total]

Topic	Additional % over Pre- sent System	\$ Cost Change
Current Contribution Level - 9.45% x \$1,965,600,000 = \$ <u>185,749,200</u>	N/A	N/A
1. Contribution level required for 1985/86, includes dividend plan for retirees (75% - pre 76, 50% - 1/76 - 6/82)	(1.42)	(\$27,911,520) (8.03%)
2. Present system with 5-year average percent excess market over book (equities only)	(.62)	(\$12,186,720) (7.41%)
3. Retirement at age 62 with 30 years of service	.86	16,904,160
4. Stop contributions by employee & employer when employee reaches 30 years of membership service		
A. high 5 average continues to climb	.64	12,579,840
B. high 5 average stops at 30 yrs	.49	9,631,440
5. Increase covered salary above \$24,000		
A. \$1,000 increase	.17	3,341,520
B. \$2,000 "	.34	6,683,040
C. \$3,000 "	.51	10,024,560
6. Spousal annuity upon death of non-retired member - 50% of member's benefit in lieu of lump-sum payment	.15	2,948,400
7. 1 2/3% benefit accrual for each year of service without limit	1.45	28,501,200
8. Establish side by side formulas - money purchase & defined benefit (use 6.5% growth)	2.19	43,046,640
9. 1/2% penalty to age 60 (3%-1st 5 years, 6%-next 5 years)	3.48	68,402,880

10. ½% penalty regardless of when retired before age 62	.71	13,955,760
11. Correctional Officers to age 60/25 years (currently 60/30 years) - prorated (current contribution rates employer - 5.75 + 1.71% employee - 3.7)	1.75	N/A
12. Conservation Officers - 60/25 prorated (current contribution rates employer - 5.75% + 8.43% employee - 3.7%)	1.5	N/A
13. Department of Transportation Enforcement Officers to age 60 with 25 years	9.40	N/A
14. Salary Levels	#	%
- under \$10,000	= 28,200	23.67
- \$10,000-19,999	= 55,000	44.2
- \$20,000-23,999	= 21,000	16.88
- \$24,000-29,999	= 13,700	11.01
- \$ over 30,000	= 6,500	5.23
	N/A	N/A

Recommendation:

The administration of IPERS suggests the implementation of the following:

o Contribution	#1	(1.42)	non legislative
o Equity Value	#2	(.62)	non legislative
o 62/30	#3	.86	legislation required
o Contributions-Stop-30 yr High-5 Avg. frozen	#4B	.49	" "
o Cov/Salary Inc. by \$3000	#5C	.51	" "
o Spousal Annuity	#6	.15	" "

Remaining Margin .03

15. Law Enforcement to Age 55 with 25 Years of Service

	<u>Additional</u>	<u>Total</u>
A. Local Police Officers	- 1.53%	13.84
B. Sheriffs/Deputies	- 2.15%	15.97
C. Conservation Officers	- 4.56%	18.74
D. Correctional Officers	- 2.91%	10.37

1 WHEREAS, the Iowa Public Employees Retirement Fund
2 is a trust fund established to provide retirement
3 benefits to public employees; and

4 WHEREAS, legislative intent, as expressed in
5 present statute, is to fund future benefits when
6 earned during public employment; and

7 WHEREAS, the General Assembly in its 1985 Session
8 placed the Iowa Public Employees Retirement Fund
9 investments under "prudent person" standards; and

10 WHEREAS, the present IPERS law establishes policy
11 that investments shall be made in Iowa under the
12 "prudent person" standards to "enhance the economy of
13 this state, and, in particular, will result in
14 increased employment of the residents of this state;"
15 NOW THEREFORE,

16 BE IT RESOLVED BY THE PUBLIC RETIREMENT SYSTEMS
17 STUDY COMMITTEE, That investments in Iowa by IPERS be
18 subject to the same standards as any other IPERS
19 investment concerning risk, rate of return, and any
20 other requirement to meet the "prudent person"
21 standard.

22 BE IT FURTHER RESOLVED, That legislative proposals
23 directing the investment of IPERS funds for specific
24 purposes provide that these investments be made only
25 when they meet the "prudent person" requirements.

26
27
28
29
30