

**FINAL REPORT**

**PUBLIC RETIREMENT  
SYSTEMS COMMITTEE**

Presented to the Legislative Council  
and the Iowa General Assembly  
February 1996

Prepared by the Legislative Service Bureau



Legislative  
Service  
Bureau

# FINAL REPORT

## PUBLIC RETIREMENT SYSTEMS COMMITTEE

January, 1996

### MEMBERS

Senator John Kibbie  
Co-chairperson  
Senator Michael Connolly  
Senator Richard Drake  
Senator Michael Gronstal  
Senator Sheldon Rittmer

Representative Mona Martin  
Co-chairperson  
Representative John Connors  
Representative Chuck Gipp  
Representative Don Gries  
Representative Rick Larkin

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### AUTHORIZATION AND APPOINTMENT

The Public Retirement Systems Committee is established in section 97D.4 of the Iowa Code. Pursuant to the requirements of that section, the above members of the General Assembly were appointed by legislative leadership to serve on the Committee.

The Legislative Council made the following charge to the Public Retirement Systems Committee:

Review and evaluate all public retirement systems in place in Iowa, including the Iowa Public Employees Retirement System (IPERS), the Municipal Fire and Police Retirement System of Iowa (411), the Department of Public Safety Peace Officers Retirement System (PORS), the Judicial Retirement System, and TIAA-CREF. Consider the recommendations from the systems regarding a combined benefit formula, benefit portability, surviving spouse benefits, and a Department of Corrections study of occupational injuries/deaths of correctional institution and judicial district employees. The Committee may also review an independent consultant's analysis of the IPERS system that is due in September 1995 and make recommendations.



## Public Retirement Systems Committee

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### 1. Committee Proceedings.

a. **Overview.** The Legislative Council authorized three meeting days for the Committee. Meetings were held on October 26, October 27, and December 14, 1995. During the first two meetings, the Public Retirement Systems Study Committee received testimony from various organizations and individuals concerned with public retirement, including the individuals involved with management of the various public retirement systems in the state. During the first meeting of the Committee, Senator John Kibbie and Representative Mona Martin were elected Co-chairpersons of the Committee. At the third meeting, the Committee received an actuarial report concerning the cost of the various proposals involving the Iowa Public Employee's Retirement System. The Committee then made several recommendations for legislative consideration.

#### b. Testimony Received.

(1) **Consultant Study.** Mr. Joseph Metz, Buck Consultants, presented his report concerning IPERS benefit enhancements. Buck Consultants was hired by IPERS to conduct an independent study on the benefits provided by IPERS and to make recommendations. The following recommendations were relayed to the Committee:

- ◇ **Salary cap.** Remove the maximum covered salary cap.
- ◇ **Credited service.** Remove the 30-year maximum limit on credited service.
- ◇ **Retirement eligibility.** Change the normal retirement eligibility requirements to age 65, age 62 with 20 or more years of service, or age 55 if age plus years of service equals 85 (Rule of 85).
- ◇ **Minimum benefits.** Increase the minimum monthly retirement benefit.
- ◇ **Interest credited.** Modify the rate of interest credited to a member's contribution account.
- ◇ **Survivor benefits.** Modify the service-connected death benefit to provide a survivor option.
- ◇ **COLA.** Provide for an automatic postretirement cost-of-living adjustment.
- ◇ **Disability benefits.** Change the disability benefit to provide a minimum benefit of 33 1/3 percent of final average salary.
- ◇ **Death benefits.** Modify the death benefit to provide a lump sum benefit.
- ◇ **Retiree earnings.** Increase the amount an IPERS retiree can earn without a reduction in the retiree's pension.

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◇ **Structure.** Modify the structure of IPERS to provide, in addition to the current investments board, for some form of a benefits board.

(2) **IPERS.** Mr. Greg Cusack, Chief Benefits Officer for IPERS, discussed several recommendations for benefits enhancements for IPERS. He indicated that there is consensus among several constituent groups and IPERS to support several of the Buck recommendations in some form concerning the salary cap, credited service, minimum benefits, a modified COLA, interest credited, retiree earnings, and to try and develop a method to fund postretirement health care. Mr. Cusack indicated that all parties agreed that further study is necessary concerning proposals on death benefit and disability payouts and on indexing the value of terminated vested members' benefits. Mr. Cusack also indicated that there was no agreement on the proposal to change the current retirement Rule of 92 to the Rule of 85, and that IPERS opposes this change.

Following receipt of the actuarial report concerning the cost of various retirement proposals, IPERS made the following recommendations to the Committee:

◇ Immediate removal of the covered wage base for determining benefits while making an adjustment for salaries over \$55,000. Mr. Cusack indicated that removal of this cap would result in a recommendation to the IPERS investment board to increase the existing interest rate assumption used in part for determining the actuarial soundness of the fund from 6.75 percent to 7.5 percent.

◇ Increase minimum benefits.

◇ Modify the interest credited to members' contribution accounts.

◇ Provide for annual dividend adjustments for current retirees.

◇ Provide for a dividend payable to future retirees. Although Mr. Cusack indicated that this is IPERS preferred recommendation, he stated that, as an alternative, the Committee could adopt the Rule of 85 concerning retirement eligibility.

(3) **Iowa State Sheriffs' & Deputies' Association.** The Association recommended a change in the normal retirement eligibility requirements to 25 years of service without any age requirement from the current 22 years of service and age 55.

(4) **Iowa Corrections Association.** The Association recommended that all institutional and community-based corrections classes be included in the definition of "protected occupations" under IPERS.

(5) **Airport Fire Fighters Association.** The Association recommended that any heart or lung problems experienced by fire fighters be presumed to be job related for purposes of disability benefits.



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(6) *Iowa Retired School Personnel Association.* The Association recommended establishing a minimum monthly benefit for people who have served in public employment for 10, 20, or 30 years, implementing a COLA, and examining the establishment of a health care package for the currently retired.

(7) *School Administrators of Iowa.* The organization listed the following Buck recommendations as priority issues: salary cap, credited service, and structure. The organization also supports maintaining the fiscal integrity of the IPERS fund if additional improvements are adopted by increasing the contribution rates for both employers and employees and by increasing the current interest assumption rate. Additional priority issues for the organization are to change the retirement eligibility requirement to the Rule of 85 and to provide an option for surviving spouses of members who die before retirement to elect payment through an annuity rather than a lump-sum.

(8) *Iowa State Education Association.* The Association supports several of the Buck recommendations concerning retirement eligibility, salary cap, credited service, and providing a COLA. In addition, the association supports the establishment of retiree health care coverage and the consultant's recommendation to adopt a Board of Trustees structure for IPERS.

(9) *IPERS Improvement Association.* The Association supports providing a cost-of-living adjustment for retirees, modifying the current Rule of 92 to the Rule of 90, and modifying the wage and covered years ceilings.

(10) *Iowa Association of Community College Trustees.* The Association, as its top priorities, recommends removal of the covered wage cap and the maintenance of an actuarially sound IPERS program. The Association also recommends adopting the Buck proposals regarding retirement eligibility, minimum benefits, a COLA, death benefits, retiree earnings, and structure.

(11) *Iowa Association of School Boards.* The Association supports the consideration of modifying the current Rule of 92 for normal retirement and removing the service cap of 30 years.

(12) *AFSCME.* AFSCME supports removing the salary cap, moving from the Rule of 92 to the Rule of 85 for normal retirement, legislative consideration for an early retirement program, adding more classifications of community-based correction officers to the protected class category, and implementing the recommendations of the Airport Fire Fighters.

c. **Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF).** The Committee received testimony describing the retirement fund for regents institutions. The presenters noted that unlike the other state retirement plans in Iowa, which are considered defined benefit plans, this fund is a defined contribution plan wherein the state makes a certain payment into the plan, along with the prospective retiree, and the person's retirement is based on how their investments do over time.

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d. **Judicial Retirement System.** The Iowa Judges Association addressed the Committee and indicated their appreciation of the steps the Legislature made to make the system actuarially sound. The Association urged the Committee to stay the course as to the state's commitment to make a 23.7 percent contribution to the system, to make up the shortfall created last year when the full 23.7 percent was not appropriated, and to continue the additional \$5,000 compensation for senior judges. The Judicial Department summarized the recent results from the actuarial report and indicated that depending on the valuation method used, the system's unfunded liabilities had either stayed the same or had been reduced by the end of the 1994-1995 fiscal year.

e. **Municipal Fire and Police Retirement System (Chapter 411).**

(1) **Dennis Jacobs, Executive Director.** Mr. Jacobs indicated that the system is proposing recommendations for statutory changes concerning the following issues: updating medical protocols, clarifying the timing concerning eligibility for escalation, marital property orders, the interest to be charged cities for any unfunded liabilities, a standardized escalation program, and portability of service between this system and the Peace Officers Retirement System.

(2) **Iowa Professional Fire Fighters.** The Fire Fighters support pretax treatment under the state income tax for employee contributions, inclusion of infectious diseases and cancer within the presumption that the disease or illness is job related, full retirement at 22 years of service with the escalator without attaining the age of 55, and a standardized escalator for the system.

(3) **Iowa State Police Association.** The Association supports a standardized automatic escalator for pensions, pretax treatment under the state income tax, allowing the escalator for people who retire after 22 years but have not yet reached age 55, providing benefits to surviving spouses similar to benefits under PORS, and considering, once the fund is sound, increasing the percentage applied to calculate benefits for additional years of service.

f. **Peace Officers' Retirement System (PORS).**

(1) **Carroll Bidler, Director of Administrative Services.** Mr. Bidler reviewed the recent actuarial report with the Committee. He indicated that the system supports portability of benefits between PORS and the Municipal Fire and Police Retirement System and wants the contribution rates for the system based on the PORS and not the Municipal Fire and Police Retirement System.

(2) **Iowa State Troopers Association and Iowa State Patrol Supervisors Association.** The Associations support maintaining the current contribution levels into the system and providing that employee contributions be on a pretax basis for state income taxes. The Associations also support increasing from 0.6 percent to 1.5 percent the benefit for each additional year of service from 22 years to 30 years of service, increasing the escalators, increasing the minimum benefit for surviving spouses, and providing escalator benefits for members who vest with 22 or more years of service regardless of age.



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### **2. Recommendations**

The Public Retirement Systems Committee made the following recommendations for legislative consideration:

#### **a. Iowa Public Employees' Retirement Systems (IPERS)**

(1) *Salary Cap.* Immediate removal of the covered wage base for determining benefits while implementing a lower-benefit multiplier for salaries over \$55,000. IPERS is directed to develop a solution to reduce any windfall a retiree may obtain due to the removal of the covered wage base.

(2) *Minimum Benefits.* Increase minimum benefits to provide a benefit of \$200 to \$400 a month for retirees from 10 to 30 years of service.

(3) *Interest Credited.* Modify the interest rate credited to members' contribution accounts to be one percent above the one year interest rate on certificates of deposit.

(4) *COLA - Current Retirees.* Provide for a 1.5 percent dividend payable to future retirees every other year commencing after purchasing power of the retirees' benefit has declined to 80 percent.

(5) *COLA - Future Retirees.* Provide for a 1.5 percent dividend payable to future retirees every other year commencing after purchasing power of the retirees' benefit has declined to 80 percent.

(6) *Organizational Structure.* Establish a separate IPERS benefits board with broad membership on the board.

(7) *Health Insurance.* Encourage IPERS to develop a plan for legislative consideration to provide some postretirement health assistance to IPERS' retirees.

(8) *Retirement Eligibility - Sheriffs and Deputies.* Change the normal retirement eligibility requirements for sheriffs and deputies to allow retirement upon 25 years of service without any age requirement from the current 22 years of service and age 55.

(9) *Protected Occupations.* Include all institutional and community-based corrections occupation classes within the definition of protected occupations under IPERS.

(10) *Disability Benefits.* Establish a presumption that any heart or lung problems experienced by any member of a protected occupation group is considered to be job-related for purposes of obtaining disability benefits.

#### **b. Peace Officers Retirement System (PORS)**

(1) *Portability.* Allow portability of credit for service between PORS and the Municipal Fire and Police Retirement System (MFPRSI).

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(2) *Contribution Rates.* Establish contribution rates for the system based on actuarial information of PORS and on MFPRSI information.

(3) *Service Benefit.* Increase from .6 percent to 1.5 percent the benefit for each additional year of service from 22 to 30 years of service.

(4) *Escalators.* Increase all 25 percent escalators to 30 percent and all 12.5 percent escalators to 15 percent. Also provide full escalator benefits for members who vest with 22 or more years of service regardless of age.

(5) *Surviving Spouse Benefits.* Increase the minimum benefit for surviving spouses from 20 percent to 25 percent of the compensation for a senior patrol officer.

### c. Municipal Fire and Police Retirement System of Iowa (MFPRSI)

(1) *Medical Protocols.* Allow the retirement board to update medical protocols.

(2) *Escalation Timing.* A retired member must be retired on or before the effective date of the readjustment (escalation) to be eligible for the readjustment.

(3) *Marital Property Orders.* Provide that the retirement system is subject to marital property orders.

(4) *Interest to be Charged.* Provide for the interest to be charged cities for any unfunded liabilities.

(5) *Portability.* Allow portability of credit for service between MFPRSI and PORS.

(6) *Standardized Escalator.* Provide that the monthly benefits of members and beneficiaries be increased by a combination of 1.5 percent and a flat dollar amount based on the number of years retired. The escalator would be reviewed by the General Assembly every six years.

### d. All Systems.

◇ *Pretax Treatment.* The proposal to provide pretax treatment for employee contributions under all public retirement systems will be referred to the appropriate legislative committee for consideration.

## 3. Written Materials Filed with the Legislative Service Bureau.

Several written documents were filed with the Legislative Service Bureau during the course of the interim concerning public retirement. The minutes for the October 26-27, 1995, and December 14, 1995, meetings provide a complete list of the documents presented to the Committee:

### a. IPERS Documents.

◇ *Buck Consultants' Report.* Submitted by Mr. Joseph Metz, government consultant of Buck Consultants.



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◇ IPERS report to the General Assembly. Submitted by Mr. Greg Cusack, Chief Benefits Officer of IPERS.

◇ IPERS report regarding a hybrid formula. Submitted by Mr. Greg Cusack, Chief Benefits Officer of IPERS.

◇ IPERS documents. Report on required contribution rate as a consequence of certain priorities; consensus recommendations of constituent advisory groups; Milliman & Robertson report on IPERS; and December 13, 1995 report on IPERS' benefit enhancements. Submitted by Mr. Greg Cusack, Chief Benefits Officer of IPERS.

◇ Study of Occupational Injuries and Deaths, Department of Corrections.

### **b. TIAA-CREF Documents.**

◇ Statement Prepared by Mary Jo Small to the Committee. Submitted by Ms. Mary Jo Small, Associate Vice President of the University of Iowa.

### **c. MFPRSI Documents.**

◇ Report to the Committee and 1996 legislative recommendations. Submitted by Mr. Dennis L. Jacobs, Executive Director of MFPRSI.

### **d. PORS Documents.**

◇ Department of Public Safety documents. Actuarial report as of July 1, 1995, proposed legislation, and funding analysis. Submitted by Mr. Carroll Bidler of PORS.

◇ PORS and chapter 411 reports regarding portability between the systems. Submitted by Mr. Carroll Bidler, Director of Administrative Services of PORS.

### **e. Judicial Retirement Documents**

◇ Report submitted by Ms. Peggy Sullivan, Director of Finance and Personnel of the Judicial Department.

### **f. The following organizations also submitted documents to the Committee:**

- ◇ Iowa State Sheriffs and Deputies Association
- ◇ Iowa Corrections Association
- ◇ Airport Fire Fighters Association
- ◇ Iowa Retired School Personnel Association
- ◇ IPERS Improvement Association
- ◇ Iowa Association of Community College Trustees
- ◇ Iowa Association of School Boards
- ◇ Council 61, AFSCME

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- ◇ Iowa Association of Professional Fire Fighters also submitted a document to the Committee
- ◇ Iowa State Troopers Association
- ◇ Iowa State Patrol Supervisors Association

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