



**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE \_\_\_\_\_ December 7, 2021

Contact: Marlys Gaston  
515/281-5834

Auditor of State Rob Sand today released a report on the Peace Officers' Retirement, Accident and Disability System (System) – Schedule of Employer Pension Amounts.

The report includes the audited Schedule of Employer Pension Amounts required to comply with Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. The Schedule presents the System's employer contributions, net pension liability (asset), deferred outflows of resources, deferred inflows of resources and pension expense as of and for the year ended June 30, 2021.

A copy of the audit report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/audit-reports/>.

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**PEACE OFFICERS' RETIREMENT, ACCIDENT  
AND DISABILITY SYSTEM**

**INDEPENDENT AUDITOR'S REPORT  
SCHEDULE OF EMPLOYER PENSION AMOUNTS**

**JUNE 30, 2021**

**Peace Officers' Retirement, Accident and Disability System**



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Rob Sand  
Auditor of State

November 30, 2021

Peace Officers' Retirement, Accident and Disability System  
Des Moines, Iowa

To the Members of the Peace Officers' Retirement, Accident and Disability System:

I am pleased to submit to you the audit report for the Peace Officers' Retirement, Accident and Disability System – Schedule of Employer Pension Amounts for the year ended June 30, 2021. The audit was performed in accordance with U.S. Auditing Standards and the standards applicable to financial audits contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of Peace Officers' Retirement, Accident and Disability System throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink that reads "Rob Sand".

Rob Sand  
Auditor of State

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**Peace Officers'  
Retirement, Accident and Disability System**

**Officials**

<u>Name</u>	<u>Title</u>
	<b>State</b>
Honorable Kim Reynolds	Governor
Kraig Paulsen	Interim Director, Department of Management
Timothy McDermott	Interim Director, Legislative Services Agency

**Board of Trustees**

Commissioner Stephan Bayens	Chairperson
Honorable Michael L. Fitzgerald	Member
Robert Conrad	Member (through June 30, 2021)
Vacant	Member (through November 16, 2020)
Mark Oiler	Member (through April 30, 2022)
Mike Metzger	Member (through June 30, 2022)

**Agency**

Jim Wittenwyler	Director of Administrative Services, Department of Public Safety
Erinn Castleberry	Secretary, Peace Officers' Retirement, Accident and Disability System
Tessa Lemons	Recording Secretary, Peace Officers' Retirement, Accident and Disability System (through January 21, 2021)
Jasmine Cripps	Recording Secretary, Peace Officers' Retirement, Accident and Disability System (beginning March 31, 2021)



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Independent Auditor's Report

To the Board of Trustees of the Peace Officers' Retirement, Accident and Disability System:

Report on the Financial Statements

We have audited the columns titled 2021 Employer Contributions, Net Pension Liability (Asset), Total Deferred Outflows of Resources, Total Deferred Inflows of Resources and Pension Expense included in the accompanying Schedule of Employer Pension Amounts as of and for the year ended June 30, 2021, and the related notes to the Schedule.

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of the Schedule in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the Schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the 2021 Employer Contributions, Net Pension Liability (Asset), Total Deferred Outflows of Resources, Total Deferred Inflows of Resources and Pension Expense included in the Schedule based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the Schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedule.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the Schedule referred to above presents fairly, in all material respects, the columns titled 2021 Employer Contributions, Net Pension Liability (Asset), Total Deferred Outflows of Resources, Total Deferred Inflows of Resources and Pension Expense as of and for the year ended June 30, 2021.

### Other Matter

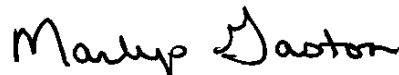
We have audited, in accordance with U.S. generally accepted auditing standards, the financial statements of the Peace Officers' Retirement, Accident and Disability System as of and for the year ended June 30, 2021, and our report thereon, dated November 30, 2021 expressed an unmodified opinion on those financial statements.

### Other Reporting Required by Government Auditing Standards

Our report on the Peace Officers' Retirement, Accident and Disability System's internal control over financial reporting and other tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters required by Government Auditing Standards has been issued with our report on the aforementioned financial statements of the Peace Officers' Retirement, Accident and Disability System dated November 30, 2021. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Peace Officers' Retirement, Accident and Disability System's internal control over financial reporting and compliance.

### Restriction on Use

Our report, a matter of public record, is intended solely for the information and use of the System's management, the Peace Officers' Retirement, Accident and Disability System's Board of Trustees and the management and citizens of the State of Iowa and is not intended to be and should not be used by anyone other than these specified parties.

  
Marlys K. Gaston, CPA  
Deputy Auditor of State

November 30, 2021



Peace Officers'  
 Retirement, Accident and Disability System  
 Schedule of Employer Pension Amounts  
 As of and for the Year ended June 30, 2021

2021 Employer Contributions	Net Pension Liability (Asset) June 30, 2021	Changes of Assumptions	Deferred Outflows of Resources	
			Differences Between Projected and Actual Investment Earnings	Total Deferred Outflows of Resources
\$ 22,711,497	(27,443,586)	34,486,272	9,322,781	43,809,053

See Notes to Schedule of Employer Pension Amounts.

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Deferred Inflows of Resources			
Differences Between Expected and Actual Experience	Differences Between Projected and Actual Investment Earnings	Total Deferred Inflows of Resources	Pension Expense
7,965,491	159,133,390	167,098,881	(18,124,281)

Peace Officers'  
Retirement, Accident and Disability System  
Notes to Schedule of Employer Pension Amounts  
June 30, 2021

**(1) Plan Description**

Plan Membership

The Peace Officers' Retirement, Accident and Disability System is the administrator of a single-employer defined benefit public employee retirement system that is a statewide retirement system for peace officers in the Iowa Department of Public Safety.

Plan Benefits

Plan benefits are established by state statute under Chapter 97A of the Code of Iowa and may be amended only by the State legislature.

1. Service Retirement Benefits – A member may retire with a service allowance after completing twenty-two years of creditable service and attaining the minimum service retirement age of fifty-five. The retirement allowance consists of a pension equal to 60.5% of the member's average final compensation plus an additional 2.75% for each year of service over twenty-two years, not to exceed ten additional years, or a maximum of 88%. The member's average final compensation is the average earnable compensation of the member during the member's highest three years of service as a member of the Iowa Department of Public Safety.
2. Ordinary Disability Retirement Benefits – A member may retire on an ordinary disability retirement allowance, provided the medical board, after a medical examination of the member, has certified the member is mentally or physically incapacitated for further performance of duty and such incapacity is likely to be permanent and the member should be retired. The ordinary disability retirement allowance consists of a pension which is equal to 50% of the member's average final compensation, except if the member has not had five or more years of membership service. Then the member will receive a pension equal to 25% of the member's average final compensation. If the member has had twenty-two or more years of membership service, the member shall receive the greater of the benefit that would be payable under a service retirement if the member were fifty-five years of age or 50% of the member's average final compensation.
3. Accidental Disability Benefit – A member who has become totally and permanently incapacitated for duty as the result of an injury, disease or exposure occurring while in the actual performance of duty will be retired by the Board of Trustees, provided the medical board has certified such member is mentally or physically incapacitated for further performance of duty, such incapacity is likely to be permanent and the member should be retired. Upon retirement for accidental disability, a member will receive an accidental disability retirement allowance which consists of a pension equal to 60% of the member's average final compensation. If the member has had twenty-two or more years of membership service, the member will receive the greater of the benefit payable under a service retirement if the member were fifty-five years of age or 60% of the member's average final compensation.

4. Ordinary Death Benefit – Upon the death of a member who has one or more years of service and no pension payable for accidental death benefits, an amount equal to 50% of the final year of compensation will be payable to the member's beneficiary. If the member was in service at the time of death, the beneficiary, if qualified, may elect to receive a pension equal to 40% of the average final compensation, but not less than an amount equal to 25% of the compensation paid to an active member having the rank of senior patrol officer of the Iowa highway safety patrol payable immediately upon the death of the member. If the member was not in service at the time of death, the pension will be reduced to a prorated service allowance payable commencing when the member would have attained the age of fifty-five.

In addition, immediately upon death, there will be paid for each child of a member a monthly pension equal to 6% of the monthly earnable compensation payable to an active member having the rank of senior patrol officer.

5. Accidental Death Benefit – Upon the death of a member as a result of an accident or exposure occurring in the performance of duty, there will be payable to the member's surviving spouse, children or dependent parent a pension equal to 50% of the average final compensation of the member. If there is no surviving spouse, children or dependent parent, the death will be treated as an ordinary death case and the benefit will be payable to the member's estate.

In addition, immediately upon death, there will be paid for each child of a member a monthly pension equal to 6% of the monthly earnable compensation payable to an active member having the rank of senior patrol officer.

6. Line of Duty Death Benefit – Upon the receipt of evidence and proof the death of a member in service was the direct and proximate result of a traumatic personal injury incurred in the line of duty, the person authorized to receive an accidental death benefit will receive a lump sum payment equal to \$100,000.

7. Adjustments to Pensions – Each July 1 and January 1, if applicable, the following adjustments are made: Monthly earnable compensation payable to an active member of the same rank and position in the salary scale as was held by the retired or deceased member at the time of the member's retirement or death, for July of the current year less that of the preceding July, times the following percentages:

- (1) 40% for members receiving a service retirement allowance and for beneficiaries receiving an accidental death benefit.
- (2) 40% for members with five or more years of membership who are receiving an ordinary disability benefit.
- (3) 40% for members receiving an accidental disability benefit.
- (4) 24% for members with less than five years of membership who are receiving an ordinary disability benefit and for beneficiaries receiving an ordinary death benefit.
- (5) 50% of the amount which would have been added to the benefit of the retired member for surviving spouses, but not less than 25% of the monthly earnable compensation paid to an active member having the rank of senior patrol officer.

Additionally, the following amounts will be added to a member's or beneficiary's monthly pension:

Years Since Retired *	Amount
0 - 4	\$ 15
5 - 9	20
10 - 14	25
15 - 19	30
20 or more	35

\* Measured in whole years.

The way the flat escalator was applied changed effective July 1, 2010. Prior to 2010, the amount increased for each year after retirement.

Surviving children's pensions are adjusted each July to equal 6% of monthly earnable compensation payable to an active member having the rank of senior patrol officer of the state patrol.

Vested Membership – A member leaving covered employment before attaining retirement age but after completing at least four years of covered service is entitled to receive a service retirement allowance upon attaining the minimum service retirement age provided his or her accumulated contributions have not been withdrawn.

Contributions – Contributions to the System are made pursuant to Chapter 97A of the Code of Iowa. Member contribution rates enacted by the 2010 Legislature changed the scheduled contribution rates for both the employee and the employer. Employee contributions increased 0.5% each year, for four years, beginning at 9.35% in fiscal year 2011 and increasing to 11.40% on July 1, 2014. The 11.40% contribution rate beginning July 1, 2014 includes .05% for the cost of the cancer and infectious disease presumption. The employer rate increased 2% from 35% for fiscal year 2017 to 37% for fiscal year 2018 and thereafter. The State also began contributing an additional \$5 million each year, beginning July 1, 2013, until the funded status of the System attains 85%. On May 27, 2016, the Governor signed House File 2459 limiting the additional appropriation for fiscal year 2017 to \$2.5 million. The supplemental contribution returned to \$5.0 million for fiscal year 2018 and is expected to remain at that level.

The member contribution required and contributed was \$5,457,794, representing 11.40% of current year covered payroll. The State contribution required by statute and the amount actually contributed was \$22,711,497. \$5,000,000 of the State contribution was an annual appropriation, which was in addition to the required employer 37% contribution rate. Costs of administering the plan are financed through employer contributions and investment income.

**(2) Summary of Significant Accounting Policies**

A. Basis of Presentation

Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, requires certain information be provided about the System. The Schedule of Employer Pension Amounts (Schedule) provides this required pension information to the State of Iowa for inclusion in its financial statements.

The underlying financial information used to prepare the Schedule is based on the System's financial statements which are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. System contributions are recognized when due and the System has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Schedule is intended to present the information required by GASB Statement No. 68 and not to present the financial position of the System or the State of Iowa.

The System issues a publicly available financial report which includes financial statements and required supplementary information. The report may be obtained by writing to the Iowa Department of Public Safety, Peace Officers' Retirement, Accident and Disability System, Public Safety Building, 215 East 7<sup>th</sup> Street, Des Moines, Iowa 50319.

B. Deferred Outflows of Resources and Deferred Inflows of Resources

Differences Between Projected and Actual Earnings – The differences between projected and actual earnings on System investments are recognized over a five year period. Non-current amounts are presented as deferred outflows of resources and deferred inflows of resources in the Schedule. Current amounts are included as pension expense.

Differences Between Expected and Actual Experience and Changes of Assumptions – The differences between expected and actual experience and changes of assumptions are recognized over the average remaining service life for all members which is 5.46 years. Non-current amounts are presented as deferred outflows of resources or deferred inflows of resources in the Schedule. Current amounts are included as pension expense.

**(3) Net Pension Liability (Asset)**

The components of the net pension liability (asset) of the System at June 30, 2021 are as follows:

Total pension liability	\$ 780,150,277
Plan fiduciary net position	<u>807,593,863</u>
Net pension liability (asset)	<u>\$ (27,443,586)</u>
Plan fiduciary net position as a percentage of the total pension liability	103.52%

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of July 1, 2021 using the following actuarial assumptions and the entry age normal actuarial cost method applied to all periods included in the measurement:

Inflation:	2.50%
Salary increases:	4.00% to 8.50%, including inflation.
Investment rate of return:	7.00% compounded annually, net of investment expense, and including inflation.

Pre-retirement mortality rates were based on the RP-2014 Total Dataset Mortality Table with a one-year age set-back for males and Generational Projection using MP-2016. Post-retirement mortality rates were based on the RP-2014 Total Dataset Mortality Table with a one-year age set-back for males and Generational Projection using MP-2016. Disability mortality rates were based on the RP-2014 Total Dataset Mortality Table with a 4-year age set forward for males and Generational Projection using MP-2016.

The demographic actuarial assumptions used in the valuation are based on the results of the actuarial experience study covering the five-year period ended June 30, 2016. The experience study report is dated June 19, 2017. The set of economic assumptions, including the long-term rate of return, was reviewed more recently. A full report was not issued, but the results were shared with the Board in a presentation dated March 23, 2020.

The long-term expected rate of return on System investments is reviewed as part of the experience study. Several factors are considered in evaluating the long-term rate of return assumption, including the long term historical data, estimates inherent in current market data and an analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Stocks (Large Cap Equities)	25.00%	5.41%
U.S. Stocks (Small Cap Equities)	15.00	6.39
International Equity - Unhedged	18.75	6.28
International Equity - Emerging	6.25	9.92
Core Bonds	22.75	1.09
High-Yield Bonds	2.25	3.81
Core Real Estate	10.00	4.21
Total	100.00%	

Discount Rate – The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed plan contributions from members and the State will be made at the current contribution rates as set in State statute:

- a. Employee contribution rate: 11.40%.
- b. State contribution rate: The lesser of 37.00% of payroll and the actuarial rate, but not less than 17.00% of payroll.
- c. Supplemental State contributions: \$5.0 million until the System is at least 85% funded. Based on the July 1, 2021 actuarial valuation, supplemental payments are expected for the next year.

Based on those assumptions, the System fiduciary net position is projected to be available to make all projected future benefit payments to current members. Therefore, the long-term expected rate of return on System assets was applied to all periods of projected benefit payments to determine the net pension liability (asset). The municipal bond rate was not used in determining the discount rate, but if it were required, the rate would have been 2.13%. The projected future benefit payments for all current plan members were projected through 2120.

Sensitivity Analysis – The sensitivity of the net pension liability (asset) to changes in the discount rate presents the net pension liability (asset) of the System, calculated using the discount rate of 7.00%, as well as the System’s net pension liability (asset) calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current discount rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net pension liability (asset)	\$ 83,792,486	(27,443,586)	(118,031,788)



## Deferred Outflows and Deferred Inflows of Resources

The summary of the amounts of Deferred Outflows of Resources and Deferred Inflows of Resources as of June 30, 2021 is as follows:

	Year of Deferral	Amortization Period	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<b>Deferred Outflows of Resources:</b>						
Changes of assumptions						
	2015	6.51 years	\$ -	-	-	-
	2016	6.48 years	5,433,728	-	3,671,438	1,762,290
	2017	5.96 years	11,032,926	-	5,629,044	5,403,882
	2018	5.54 years	-	-	-	-
	2019	5.41 years	-	-	-	-
	2020	5.54 years	35,037,643	-	7,717,543	27,320,100
	2021	5.46 years	-	-	-	-
			<u>\$ 51,504,297</u>	<u>-</u>	<u>17,018,025</u>	<u>34,486,272</u>
Differences between projected and actual earnings						
	2017	5 years	-	-	-	-
	2018	5 years	-	-	-	-
	2019	5 years	13,984,171	-	4,661,390	9,322,781
	2020	5 years	-	-	-	-
	2021	5 years	-	-	-	-
			<u>\$ 13,984,171</u>	<u>-</u>	<u>4,661,390</u>	<u>9,322,781</u>
Total deferred outflows of resources			<u>\$ 65,488,468</u>	<u>-</u>	<u>21,679,415</u>	<u>43,809,053</u>
<b>Deferred Inflows of Resources:</b>						
Differences between expected and actual experience						
	2015	6.51 years	\$ 517,725	-	517,725	-
	2016	6.48 years	1,281,923	-	866,163	415,760
	2017	5.96 years	620,447	-	316,556	303,891
	2018	5.54 years	2,420,244	-	952,852	1,467,392
	2019	5.41 years	927,163	-	271,895	655,268
	2020	5.54 years	4,562,238	-	1,004,898	3,557,340
	2021	5.46 years	-	1,916,925	351,085	1,565,840
			<u>\$ 10,329,740</u>	<u>1,916,925</u>	<u>4,281,174</u>	<u>7,965,491</u>
Differences between projected and actual earnings						
	2017	5 years	8,504,875	-	8,504,875	-
	2018	5 years	12,041,773	-	6,020,886	6,020,887
	2019	5 years	-	-	-	-
	2020	5 years	24,790,380	-	6,197,595	18,592,785
	2021	5 years	-	168,149,647	33,629,929	134,519,718
			<u>\$ 45,337,028</u>	<u>168,149,647</u>	<u>54,353,285</u>	<u>159,133,390</u>
Total deferred inflows of resources			<u>\$ 55,666,768</u>	<u>170,066,572</u>	<u>58,634,459</u>	<u>167,098,881</u>

Pension Expense

The summary of pension expense for the year ended June 30, 2021 is as follows:

Service cost at end of year	\$ 14,708,238
Interest on total pension liability	51,368,128
Employee contributions	(5,457,794)
Projected earnings on plan investments	(42,072,328)
Expensed portion of current-period differences between projected and actual earnings on plan investments	(33,629,929)
Expensed portion of prior-period change of assumptions	17,018,025
Expensed portion of current-period difference between expected and actual experience in the total pension liability	(351,085)
Expensed portion of prior-period differences between projected and actual earnings on plan investments	(16,061,966)
Expensed portion of prior-period difference between expected and actual experience in the total pension liability	(3,930,089)
Administrative expenses	<u>284,519</u>
Total pension expense	<u>\$ (18,124,281)</u>

Peace Officers'  
Retirement, Accident and Disability System

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Deputy  
Tammy A. Hollingsworth, CIA, Manager  
Premnarayan Gobin, Senior II Auditor  
Edward G. Mollohan, Staff Auditor