

FINAL REPORT

PUBLIC RETIREMENT SYSTEMS

COMMITTEE

**Presented to the Legislative Council
and the Iowa General Assembly
February 1992**

Prepared by the Legislative Service Bureau

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January 1992

AUTHORIZATION AND APPOINTMENT

The Public Retirement Systems Committee is established in Section 97D.4 of the Code of Iowa. The Legislative Council directed that in addition to the duties established for the Committee in Section 97D.4, the Committee should appoint an actuary consultant to study possible courses of action with respect to the retirement systems for public safety peace officers, police officers, and fire fighters covered under Chapters 97A and 411.

The members of the Committee during the 1991 Interim were:

Senator John Kibbie, Co-chairperson
Representative Eugene Blanshan, Co-chairperson
Senator William Dieleman
Senator Richard Drake
Senator Larry Murphy
Senator Jack Nystrom (for first two meetings and telephone conference)¹
Senator Richard Vande Hoef (for the third meeting)
Representative Dorothy Carpenter
Representative Rod Halvorson
Representative Darrell Hanson
Representative Dennis Renaud

COMMITTEE PROCEEDINGS

The Legislative Council authorized three meetings of the Committee during the 1991 Interim. The Committee also held a telephone conference call.

MEETING OF SEPTEMBER 9, 1991

At its first meeting on September 9, the Committee invited representatives of organizations and individuals interested in public retirement systems to testify before the Committee. Mr. Greg Cusack, Deputy Administrator of Benefits for the

¹ Due to the appointment of Senator Jack Nystrom as the Acting Director of the Iowa Department of Commerce, Senator Nystrom resigned from the Senate, and Senator Richard Vande Hoef was appointed to the Committee to replace Senator Nystrom.

Iowa Public Employees' Retirement System (IPERS) Division of the Department of Personnel, provided some background information about IPERS, as well as the Division's recommendations. Mr. Cusack also provided statistical and investment information about IPERS. Mr. Cusack's comments and recommendations were detailed in a report which is on file with the Legislative Service Bureau.

Ms. Rebecca Colton and Ms. Deb McDonough of the Judicial Department provided background information and statistical information concerning the Judicial Retirement System. Ms. Colton provided specific information relating to the Senior Judge Program.

Representing the Iowa Judges Association, the Honorable Allen Donielson, an Iowa Court of Appeals Judge, presented recommendations on behalf of the Association concerning the Judicial Retirement System. Accompanying Judge Donielson to assist with questions from the Committee were District Judges Art Gamble and Anthony Critelli of Des Moines and Carl Peterson of Marshalltown. Judge Donielson noted some of the differences between judges and other state employees.

State Treasurer Michael Fitzgerald and Commissioner Paul Wieck with the Department of Public Safety provided background and statistical information concerning the Public Safety Peace Officers' Retirement, Accident, and Disability System (PORS) established in Chapter 97A. Commissioner Wieck made several recommendations concerning statutory changes. Commissioner Wieck also pointed out some portability problems concerning employees within the Department, due to different retirement systems and classifications. Commissioner Wieck also recommended that consideration should be given to permit pretax contributions on behalf of employees in PORS. Mr. Fitzgerald provided investment information to the Committee.

On behalf of the Iowa Corrections Association, Mr. Larry Hardy recommended that additional employees in the Department of Corrections, the Judicial District Departments of Correctional Services, and the Board of Parole be included in the IPERS protection occupation classification.

Mr. Wesley Smith presented testimony on behalf of the IPERS Improvement Association. Mr. Smith recommended several changes concerning IPERS, including implementing a credit for employment for over 30 years of service, changes concerning options for reduced lifetime benefits in order to provide enhanced benefits to a beneficiary to provide that these options may be changed more easily by the retiree, changes pertaining to death benefits, less flexibility by the government in the operation of IPERS and the investment of IPERS funds, and the continuation of IPERS dividends payments.

Mr. Lon Lindenberg provided information on behalf of the Iowa Fish and Game Conservation Officers Association. Mr. Lindenberg recommended several changes pertaining to the state's disability program, as well as a change relating to early retirement benefits under IPERS.

Speaking on behalf of the State Fire Inspectors, Mr. Jeff Krane recommended changes due to the fact that there are currently three different retirement classifications within the State Fire Marshal's Office, which creates portability issues. Mr. Krane recommended that these employees all be included in the same retirement system using the same classification.

Mr. Gene Kennedy spoke on behalf of the Iowa State Sheriffs and Deputies Association, and recommended statutory changes to IPERS pertaining to years of service in a protection occupation classification for persons transferring from positions as deputy sheriffs and city police officers. Mr. Kennedy also pointed out that increasing health insurance costs are making it more difficult for employees to retire at age 55.

Mr. Don Kerr spoke on behalf of the Iowa Association of Community College Trustees, and recommended that the time frame for the inclusion of community college staff in the Teacher's Insurance and Annuity Association -- College Retirement Equity Fund (TIAA-CREF) retirement program stay on course or be accelerated. Mr. Kerr also recommended a number of changes to IPERS.

Mr. Rick Conn, representing the Iowa State Troopers Association, and Mr. Dan Raper, representing the Iowa State Troopers Supervisors Association, each recommended three changes to PORS. While the presenters disagreed about the priority of these items, they both recommended that employee contributions be made on a pretax basis, that the actuarial soundness of the system should be improved, and that greater portability between the retirement systems established in Chapters 97A, 97B, and 411 is essential.

Mr. Wilbur Johnson spoke on behalf of the Retired Troopers and Agents Association. He provided statistical information concerning retirees from PORS. Mr. Johnson recommended changes pertaining to surviving spouse benefits, dependent children, and the benefit amount for nonservice disability for officers. Mr. Johnson also suggested a cost-of-living adjustment and tax deduction or exemption for PORS retirees. He further recommended that retired officers be represented on the PORS Board, as they are represented on the Board of Trustees for the Statewide Fire and Police Retirement System governed by Chapter 411.

MEETING OF SEPTEMBER 10, 1991

The Committee reconvened on September 10, 1991, and again heard testimony from individuals and organizations interested in the state's public retirement systems. On behalf of the League of Iowa Municipalities, Mr. Kent Sovern made several recommendations concerning the Chapter 411 retirement system. Mr. Sovern provided some background information concerning the transition for creation of the unified statewide system as well.

Mr. Edward Moses provided some background information concerning IPERS and included several specific recommendations which were included in written materials. In particular, Mr. Moses recommended changes pertaining to the percentage multiplier for already retired employees, the creation of an autonomous department to administer IPERS, and changes related to death benefits.

Mr. Al Maupin and Mr. Verlin Fairbanks spoke on behalf of the Iowa Association of Retired Fire Fighters. Mr. Fairbanks noted that the Association is interested in any changes to the Statewide Fire and Police Retirement System which may be included in the Board's transition plan, particularly related to the escalator adjustments to pensions.

Mr. Mike Pondrebarac spoke on behalf of the Des Moines Airport Fire Fighters, and explained that his group is covered by IPERS. Mr. Pondrebarac recommended that in any future legislation expanding benefits for fire fighters, this special classification of fire fighters be included as well.

Speaking on behalf of the American Federation of State, County, and Municipal Employees (AFSCME), Mr. Don McKee reiterated Mr. Pondrebarac's recommendation concerning the treatment of airport fire fighters. Mr. McKee commented that early retirement is less feasible due to the increasing costs of health insurance. Mr. McKee also recommended that the administration of IPERS be removed from the Department of Personnel, and that IPERS be separately administered.

Dr. Robert Denny testified on behalf of the Iowa Retired Teachers Association. Dr. Denny stated that his Association is interested in the protection of the IPERS trust fund, and stated that the fund should not be used to assist underfunded pension programs already in existence, and that it should not be applied to the state budget deficit. Dr. Denny listed a number of specific IPERS recommendations.

On behalf of the School Administrators of Iowa, Mr. E. Kelly Schlapkohl discussed the IPERS Comparability Study conducted by the Association in 1989. Mr. Schlapkohl raised questions related to the covered wage and to the contribution rate in IPERS as compared with TIAA-CREF. Mr. Schlapkohl recommended

removing the covered wage ceiling, increasing contribution rates, changing the benefit formula, allowing credit for years of service based upon actual months of service, increasing maximum benefits, and providing more attractive early retirement incentives.

Ms. Jan Reinicke spoke on behalf of the Iowa State Education Association (ISEA). She praised legislative efforts within the past ten years concerning public retirement systems, and recommended several IPERS changes, including immediately increasing the percentage multiplier to 60 percent and the covered wage to \$40,000. Ms. Reinicke also recommended changes relating to the IPERS interest assumption rate, and noted that the General Assembly should resist any moves to use the IPERS Trust Fund for purposes other than retirement.

Speaking on behalf of the Lands and Waters Officer Association, Mr. Roy Downing discussed the background of a problem relating to the classification of park rangers.

Mr. Richard Lynch, former Executive Director of the Board of Trustees of the Statewide Fire and Police Retirement System, updated the Committee concerning the Board's activities in the transition period to the establishment of the statewide system. Mr. Lynch recommended that cities with terminated systems and underfunded accrued liabilities be permitted to amortize this debt for a period of up to 30 years.

Mr. Steven D. Woodley, City Administrator for the City of Estherville, explained the history of the city's participation in the Chapter 411 retirement system. Mr. Woodley recommended that in cities with populations of less than 8,000 after the 1990 census, those cities be permitted to exclude employees hired after May 3, 1990, from the Chapter 411 retirement system. He also recommended the amortization proposal presented by Mr. Lynch, and repeal of the requirement that the city's contribution rate be at least 17 percent.

Upon discussion at the September 10 meeting, the Committee directed staff to prepare a bill concerning the transfer of assets of terminated city fire and police retirement systems to the statewide Chapter 411 system. The Committee stated that the bill should be drafted so that for overfunded systems, the excess funds should be used to reduce the participating city's contribution rate, and that for underfunded systems, the cities would be allowed to amortize the debt for a period of up to 30 years. In addition, the Committee directed staff to seek additional information from the Judicial Department concerning the costs and savings of the Judicial Retirement System.

Also during discussion at the September 10 meeting, the Committee directed staff to seek further guidance from the Legislative Council concerning the hiring of an actuary to complete the study required by Section 91, Chapter 1240, of the 1990

Iowa Acts. On September 25, 1991, the Legislative Council authorized the Committee to hire an actuary to complete that portion of the study contained in subsection 1 of the section, pertaining to the costs of inclusion of public safety peace officers, fire fighters, and police officers within IPERS and Social Security, at a cost of no more than \$15,000. Upon receiving these directions, the Committee issued a Request for Proposals (RFP).

TELEPHONE CONFERENCE OF OCTOBER 24, 1991

On October 24, 1991, the Committee participated in a telephone conference call to select the actuary from the proposals submitted. After reviewing proposals from C & B Consulting Group in St. Louis, Deloitte & Touche in Minneapolis, Milliman & Robertson, Inc. in Omaha, and TPF & C in Minneapolis, the Committee authorized staff to negotiate a contract with Milliman & Robertson, Inc. The Committee directed staff to require the actuary to include in the study the costs, assuming no change in death or disability benefits, from those benefits available under Chapters 97A and 411. The Committee also designated a subcommittee consisting of Co-chairpersons Kibbie and Blanshan, Representative Carpenter, and Senator Nystrom to answer questions posed by the actuary in completing the study.

MEETING OF DECEMBER 3, 1991

At the Committee's final meeting on December 3, the Committee again heard from representatives of the various retirement systems, as well as the actuary hired by the Committee.

Commissioner Wieck addressed the Committee again, and notified the Committee that although the Department did not include additional funding for PORS in its budget recommendations to the Governor due to planning guidelines issued by the Department of Management, the issue was addressed in a letter to the Department of Management listing issues of concern of the Department of Public Safety.

Mr. Cusack reported to the Committee concerning the margin available for IPERS benefits, and stated that the IPERS' actuary had determined that funding is sufficient to proceed with the scheduled annual increases in the covered wage and the percentage multiplier, but not for additional benefit enhancement. Mr. Cusack provided a report to the Committee, a copy of which is filed with the Legislative Service Bureau, which contained the cost information provided by the actuary concerning various options, as well as the IPERS Division recommendations.

Mr. Denis Sullivan, Consulting Actuary with Milliman & Robertson, Inc., provided his report concerning the actuarial study required pursuant to subsection 1, Section 91, Chapter 1240, 1990 Iowa Acts.

Ms. Judy Bradshaw, Chairperson of the Board of Trustees for the Statewide Fire and Police Retirement System, updated the Committee concerning the Board's transition activities, and also listed areas in which the Board shall be making legislative proposals.

Upon discussion, the Committee recommended two bills and directed staff to make a request on its behalf.

RECOMMENDATIONS

The Public Retirement Systems Committee makes the following recommendations for consideration by the Legislative Council and the 1992 General Assembly:

1. That the General Assembly enact legislation pertaining to the transfer of assets from terminated city fire and police retirement systems to the Statewide Fire and Police Retirement Systems covered under Chapter 411. The proposed bill provides that participating cities that transfer an amount less than that determined by the actuary to be sufficient to fund accrued liabilities may enter into agreements with the Statewide System to amortize the unfunded liabilities for a period of up to 30 years.
2. That the General Assembly enact legislation extending dividends to retirees under IPERS for the next two years at the same level granted for the past two years.
3. That a letter be sent on behalf of the Committee to the Iowa State Police Association, the Iowa Association of Professional Fire Fighters, and the League of Iowa Municipalities, asking these three entities to submit a unified proposal to the Committee by January 15, 1992, pertaining to what should be done with the excess assets of terminated city fire and police retirement systems.

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