



BILL SUMMARY

Iowa Public Employees' Retirement Systems SF 2424

Status of Bill: As passed by the House State Government Committee 12 - 8
Committee: House State Government
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BACKGROUND

Every other year, the Public Employees' Retirement System Committee is required by statute (Code section 97D.4) to meet to hear from representatives of the four public employees' retirement systems in Iowa. The *Benefits Advisory Committee (BAC)*, which meets monthly to discuss IPERS related issues, makes their recommendations to the interim committee. Their recommendations are reviewed by the interim committee and may or may not be included in the proposed recommendations for legislation. Once legislation is drafted, the State Government Committees in the House and Senate review it prior to its being passed to the floor of the respective chamber for approval.

Any change in benefits must be fair to all members of the system – both those currently retired and those active members who are still employed and paying into the system. A balance must be achieved that ensures that the needs of those retired are being addressed while maintaining the fiscal soundness of the system for those who will be retiring in the future.

This bill is the result of the work of the interim committee which met during the past Legislative interim. It makes some of the changes recommended by the committee as well as some additional changes to the four public employees' retirement systems.

The four public employees' retirement systems addressed in this bill: the Peace Officers' Retirement System (Chapter 97A); the Iowa Public Employees' Retirement System (Chapter 97B); the Municipal Fire and Police Officers' Retirement System (Chapter 411); and the Judicial Retirement System (Chapter 602).

The bill passed the Senate on Thursday, April 17 on a vote of 39 – 8.

SUMMARY

Division I
Peace Officers' Retirement System
Sections 1 – 17

Sections 1, 2, 3, 4, 6, 7, 9, 10, 12, 13, 14, 15, 16, 17

These sections, or parts of these sections, delete references to funds in the system that are no longer used.

Section 5

This is similar language used by the 411 system and deals with medical providers. Rather than choosing three physicians to provide medical care, this change allows the used of a single medical provider network.

Code Chapter 97A.5(11) and (12), concerning the actuarial investigation and valuation of the system, is amended to provide that the board of trustees will select the actuarial cost method to be used when conducting the annual actuarial valuation of the system. This section also eliminates the requirement that the aggregate cost method is to be used, since the board will now make the determination of the cost method to be used.

Section 8

Amends current law to provide that a member's disability retirement will cease if the disabled member is under age 55 and become re-employed in another public safety occupation which includes a peace officer under PORS, a member of the protection occupation under IPERS or a sheriff or deputy covered under IPERS.

Section 11

Concerns the determination of the contribution rate paid by the state to the PORS retirement fund. The determination of the "normal contribution rate" paid by the state will be based upon the actuarial valuation of the system using the actuarial cost method selected by the board of trustees.

Provides that the state's normal contribution rate will increase as follows:

- By 2 percentage points per fiscal year, from the current minimum 17 percent, beginning July 1, 2008 (FY 09), until reaching a maximum of 27 percent in FY 2012.
- Beginning July 1, 2012, (FY 2013) the state's contribution rate for a fiscal year shall be the lesser of 27 percent or the normal contribution rate calculated using the actuarial cost method of the system.

Division II Iowa Public Employees' Retirement System Sections 18 – 48

This division contains the items recommended by the interim committee and also includes the items proposed by the Iowa Public Employees Retirement System in a technical bill and a policy bill.

Section 18

Under current law, a member covered by IPERS receives free IPERS service credit for a period of military service when the member leaves from and returns to IPERS-covered employment. There is no provision, however, to award IPERS credit for those who are unable to return to IPERS-covered employment because of injury or disease resulting in death. (IPERS request)

This change provides that in those instances, a member will receive free military service credit. The change in this section would increase death benefits to survivors. It will not impact the overall funding status of IPERS.

Section 19 and 20

Provide that bonuses are not considered covered wages. (IPERS request)

Section 21

Provides that IPERS is not considered a participating agency for purposes of information technology services under the Department of Administrative Services. This means that IPERS is not subject to the IT Governance Board. (IPERS request)

Section 22

Effective July 1, 2008 (FY 09), the annual actuarial valuation will include costs using entry age normal actuarial method. The information will include the actuarially required contribution rate and the actuarially required contribution rate for the system which is equal to the normal cost rate plus the contribution rate necessary to amortize the unfunded actuarial accrued liability over 30 years.

Section 23

Removes the cap on management expenses. Current law caps the management investment expense at 40 basis points. The cap is inconsistent with the use of modern, more complex investment strategies and performance contracting under the Accountable Government Act. (IPERS request)

Section 24

Deals with contributions remitted by employers

Amends current Code to increase the fee from the greater of \$10 to the greater of \$20 which can be charged to an employer for late payment. The bill requires all employers to pay contributions monthly, regardless of the amount of the contributions. Also changes current law to allow the system the option of going to court to collect defaults in payment of contributions from employers in a civil action. Current law says the must collect defaults in a civil action. (IPERS request)

Section 25

This section concerns persons who are not required by law to be covered by IPERS but can elect to opt out of coverage. This section provides that if a person elects out of IPERS coverage and the employer and/or the employee has paid into the fund, no interest will be paid on the adjustment, or settlement of payments.

Section 26

This change would allow IPERS to adjust contribution rates for the benefits currently provided to regular members. Allowing IPERS to adjust contribution rates so the rates fluctuate to address the funding concerns of the system will help to maintain a strong funded status for the system. The change is limited to one half a percentage point and IPERS would notify employers six months in advance of the change. This would be effective July 1, 2011. (IPERS request)

This section also provides that effective July 1, 2011, total percentage paid into the system by members will be as follows:

1. Regular service members: 40 percent paid by employees; 60 percent paid by employers;
2. Protection Occupation: 40 percent paid by employees; 60 percent paid by employers;
3. Sheriffs and deputies: 50 percent paid by employees; 50 percent paid by employers.
4. The percentage of required contribution rate set by the system for a fiscal year cannot vary by more than one-half percentage point from the required contribution rate for the prior fiscal year.

Section 27

Requires contributions remitted by employers to be sent to IPERS monthly. This is a change from current law that requires contributions to be sent monthly if the total contributions by both employee and employer amount to \$100 or more.

Section 28

Concerns payments made to an individual as a result of a decision by the court or by the system. This section of current law is amended to provide that the system may make the payment without certifying to the director of the Department of Administrative Services that the person is entitled to the payment.

Section 29

Amends section of the Code relating to payments to minors to provide that if the sum to be paid is less than the greater of \$25,000 or the amount authorized in section 565B.7 (3), which is currently \$25,000, the funds may be paid to an adult as custodian for the minor. Payments in excess of this amount are to be paid to a court-established conservator. This is a change from current law which sets the maximum amount that can be paid to an adult custodian at \$10,000. (Complies with the Uniform Gift to Minors Act.) (IPERS request)

Section 30

Allows the system to establish, by rule, reasonable fees for costs incurred to perform their duties as required under the law.

Section 31

Adds the following groups to the Protection Occupation under IPERS. (This was a recommendation of the Interim Committee after having been recommended for inclusion by the Benefits Advisory Committee of IPERS.)

- Jailers or detention officers who performs duties such as transportation of inmates, who is certified and employed as a jailer.
- Iowa National Guard personnel whose primary duty is to provide security at Iowa National Guard installations and facilities and who carries or is license to carry a firearm while performing those duties.
- Emergency medical care providers.
- An investigator employed by a county attorney's office who is a certified law enforcement officer and who is deputized as an investigator for the county attorney's office by the sheriff of the county.

Section 32 and 33

Strikes language in the protection occupation and sheriffs and deputies section that relation to annually determining the contribution rates and moves it to the new section under 97B.11 that allows IPERS to float the rate by .5% as necessary.

Section 34

Relates to the determination of the cost of living dividend paid to those who retired prior to 1990. Current law provides that the dividend increases by a percentage that is the lesser of three percent, the percentage increase in the consumer price index, and the percentage certified by the system's actuary that the system can absorb. The bill amends this method of determining the adjustment so that the percentage is calculated by the system's actuary to provide that this amount is determined by comparing the actuarial required contribution rate for the system and the statutory contribution rate. If the actuarial required rate exceeds the statutory rate, the bill provides that the percentage certified by the actuary will be zero. This reflects current practice – it just makes it more clear. This group of retirees has not been receiving an increase in their November dividend check because the system could not absorb it. (IPERS request)

Section 35

Concerns payment of the Supplemental Account for Active Members (SAAM) as it relates to the credit during the next calendar year after the actuary determines there is no unfunded accrued liability. This

section makes the language regarding the use of the SAAM and IPERS funding status consistent with other sections. The SAAM has never been paid. (IPERS request)

Section 36

Concerns a regular IPERS member who has retired due to a disability. IPERS bases eligibility for IPERS regular disability benefits on receipt of federal social security or Railroad Retirement disability benefits. The member will receive disability under IPERS if the person has been determined disabled by social security. This section provides that a vested member who retires from IPERS due to a disability on or after July 1, 2009, may be required to certify annually of the continued eligibility for disability payments under social security. If the system has made disability payments to an individual who is no longer certified as disabled under social security, the individual is required to return all retirement benefits, plus interest, paid by the system following the termination of the federal disability benefits. (IPERS request)

Section 37

Changes to reflect new Code 97B.11, floating rates.

Section 38

Concerns the lump sum death benefit by eliminating a provision requiring a determination of what the lump sum payment would have been if the person had died on June 30, 1984, and a provision that the method of payment to a beneficiary selected by a member does not apply. This removes outdated Code language. (IPERS request)

Section 39

Concerns rollovers of members' account from IPERS to another eligible retirement plan. This section of the Code is amended to reflect Internal Revenue Code changes. The non spouse beneficiaries of a member that are designated as beneficiaries per federal law are allowed to elect to have IPERS pay all or a portion of an eligible distribution to certain eligible retirement plan. Beginning January 1, 2008, Roth individual retirement accounts and annuities are eligible retirement plans for a member, a member's surviving spouse, or a qualified payee under a qualified domestic relations order. **This section takes effect upon enactment and is retroactive to January 1, 2007.** (IPERS request)

Section 40

Adds language to clarify that an increase in benefits will be made only if it can be absorbed within the contribution rates or if the General Assembly authorizes an increase in contribution rates if the increase cannot be paid for within the existing contribution rates.

Section 41

Implements a federal Internal Revenue Code provision allowing members with at least five years of service credit to purchase additional service credits with no requirement for employment. They must pay full actuarial cost. (IPERS request)

Section 42

Allows a vested or retired member to convert regular member service credit to special service credit by paying the actuarial cost.

Section 43

Rollovers – outlines what portion of gross income is eligible for rollover distribution when it is received from a qualified plan under federal IRS. Takes effect upon enactment and retroactively effective to January 1, 2007. (IPERS request)

Section 44

Purchase of service – adds language to provide that a member may purchase any service credit by the means of a direct transfer or pretax amounts, and effective January 1, 2007, any after-tax contributions, from an annuity contract qualified under federal IRS.

Section 45

Repeals section of the Code concerning purchase of service for patient advocates. This section is no longer necessary.

Section 46

Transition provisions for contribution rates for FY 2010-2011.

Section 47

Implementation provisions.

Section 48

Effective dates.

All sections dealing with the floating rate take effect July 1, 2011.

Rollovers of members accounts takes effect upon enactment and is retroactive to January 1, 2007.

Purchase of service section takes effect upon enactment and is retroactive to January 1, 2007.

Division III Statewide Fire and Police Retirement System (411 system) Sections 49 - 51

Section 49 and 50

- Allows the board to determine the actuarial method to be used for the system.
- Requires the annual actuarial valuation to include the following:
 1. Certify the rates of contribution payable by the cities.
 2. Certify the rates of contributions payable by the membership.
- Effective July 1, 2008 (FY 09), the annual actuarial valuation will include costs using entry age normal actuarial method. The information will include the actuarially required contribution rate and the actuarially required contribution rate for the system which is equal to the normal cost rate plus the contribution rate necessary to amortize the unfunded actuarial accrued liability over 30 years.

Section 51

Permits current members of the 411 system with at least five years of service to purchase up to five years of service credit under the system for military service. The member must make written application for the purchase and is required to pay the full actuarial cost of the service.

Division IV Judicial Retirement System Sections 52 - 54

Section 52 – 54

These sections deal with contribution rates paid by the judges and the state. It phases in a 60/40 split in the rates. Under current law, the state's required contribution rate is 23.7 percent of salary. The judges contribute 6%. However, the judges' contribution rate is a fraction based on the amount the state contributes. For example, in FY 07, the state did not contribute the required 23.7%. The state contributed

9.7%. Therefore, the judges contributed 2.3% rather than 6%. In FY 08, the state contributed 22.5% and the judges contributed 5.7%.

This bill strikes the contribution ratio language in current law and establishes contribution rates as follows:

Contribution rates for the judges:

- Beginning July 1, 2008 (FY 09), judges will contribute 7.7%.
- In FY 10, judges will contribute 8.7%.
- For FY 11 and each year until the system attains fully funded status, judges will contribute 9.35%. (The bill changes “fully funded status” from 90% to 100%.)

Contribution rates by the state:

- Beginning July 1, 2008, (FY 09) and each fiscal year until the system attains fully funded status: – 30.6%
- Beginning with the first fiscal year, the contribution rates will be 60/40, which is also the current split in contribution rates for IPERS general membership.

Effective July 1, 2008 (FY 09), the annual actuarial valuation will include costs using entry age normal actuarial method. The information will include the actuarially required contribution rate and the actuarially required contribution rate for the system which is equal to the normal cost rate plus the contribution rate necessary to amortize the unfunded actuarial accrued liability over 30 years using entry age normal. (New Code section 97D.5)

Division V Miscellaneous Provisions

Section 55 – Tax Sheltered Annuities – 403(b)

(A 403(b) plan is a retirement plan for educational and non-profit employees)

This section strikes current law and replaces it as follows. Current law allows employees to choose their provider. The bill changes current law to provide that the investment contracts will either be selected by a competitive bid process conducted by the employer and employees or by participation in the plan established by the Department of Administrative Services (DAS)

1. Allows the director of the Department of Administrative Services to establish a tax-sheltered investment program for eligible employees. The Department may offer the tax sheltered investment program to eligible public employers in the state of Iowa. Eligible employers include community colleges, area education agencies (AEAs) and school districts.
2. a. A separate tax-sheltered investment revolving trust fund is established under the control of DAS. The fund will consist of all moneys deposited under this law and any funds received from other entities in the state of Iowa as well as interest. The director of DAS is the trustee of the fund. Losses to the fund will be charged against the fund. The director is not personally liable for the loss.
 - b. Moneys in the fund will not revert at the end of the fiscal year and interest will be credited to this fund.

Section 56

Sets a ratio for reduced pay for salaried employees, elected to a public office, who take a leave of absence during a portion of a pay period. Provides that the compensation of a salaried employee elected to a municipal, county, state, or federal office, who takes a leave without pay from regular employment for a portion of a pay period, will be reduced by the ratio of the number of days of leave taken to the total number of days in the pay period.

Section 57

Relates to leave of absence for service in elective office. Current law states that a leave of absence granted to a person elected to office cannot exceed six years. This section strikes the six-year cap.

Section 58

Technical. Recommended by IPERS. Concerns voluntary federal social security coverage for certain part-time elected officials. Most public employees are covered by social security. Part-time elected officials are handled differently. Requires part-time elected officials to be notified of the option for social security. If they wish to be covered, they must opt in to social security.

Section 59

Requires that when benefit enhancements are made, the cost estimate for the benefits must be provided using the entry age normal actuarial cost method.

Section 60

Provides that beginning July 1, 2008, all public retirement systems must include in each actuarial valuation or actuarial update the following information:

- The actuarially required contribution rate for the system which is equal to the normal cost rate plus the contribution rate necessary to amortize the unfunded actuarial accrued liability on a level percent of payroll basis over thirty years.
- The normal cost rate which is to be determined for each individual member on a level percentage of salary basis and then summed for all members to obtain the total normal cost.

By providing the information as above, a clearer estimate of the cost of the next year's benefit can be seen.

Section 61, 62, 63, 64 and 65

These sections are basically the same language for the three different entities affected by the change related to 403(b) in Section 58.

Section 61 deals with Chapter 260C -- Community Colleges

Section 62 deals with Chapter 273 -- Area Education Agencies

Section 63 deals with Chapter 294 -- School Districts

Section 64 deals with the transition provisions

Section 65 requires DAS to establish a plan to consist of one or more investment contracts by January 1, 2010

- The current law allowing employees to choose their 403(b) provider stays in effect until the end of this year, December 31, 2008.
- For the initial year, beginning January 1, 2009, the selection process is somewhat different than it will be going forward. This is due to neither DAS nor the local groups being able to come up with a competitive bid so quickly. For this year only (January 1, 2009 through December 31, 2009), the affected entities can choose to go with either DAS, or plans selected by the employer and the employee organizations. If the decision is to enter into an agreement between the applicable employer and employee organizations, the agreement must be made by August 15, 2008.
- By January 1, 2010, DAS is required to establish a plan to consist of one or more investment contracts, on a group or individual basis, acquired from a company, or a salesperson for that company, that is authorized to do business in Iowa and that is eligible to be a vendor for these types of plans.
- DAS will determine which vendors will be authorized to participate. Employee organizations and employers participating in 403 (b) plan will be allowed to assist the department in this decision, spe-

cific only to the initial competitive bid process that will determine the vendors that will be in the program as of January 1, 2010.

- Beginning January 1, 2010, selection of vendors will be either through an agreement with DAS or through a competitive bidding process at the local level.

Amendment Summary

H-8578 by committee on State Government

Allows individuals who left covered employment, took a refund and returned to covered service prior to July 1, 1998, to receive a credit against the actuarial cost to purchase that service equal to the amount of the member's employer's accumulated contributions which were not paid to the member as a refund.

Makes it clear that the cities' workers comp policy, and not the injured worker's own health insurance policy, will pay the cost of the medical care for a person who is injured on the job.

H8583 - to H-8578 Jochum

This relates to the language in the amendment that deals with cities and workers comp policies. This amendment strikes the change in the wording in the amendment that says "cities shall be responsible for" and goes back to current law that states "cities shall provide." There was confusion as to why the change in the language was necessary.

H-8575 by Baudler p. 5, line 14

Provides that a member of the Peace Officers Retirement System (PORS) receiving an accidental disability benefit under the system will not have their pension offset by any workers comp benefits. It applies to any injury, disease, or exposure occurring or aggravated on or after July 1, 2000. (this is the same as SF 112)

H-8575 by Jacobs p. 39, line 11

Strikes all language relating to elected officials and leaves of absence for service in an elective office. (Section 56 and 57)