

TO: City Council

FROM: Tom R. Spread, Third Ward Representative, City of Muscatine

Date: March 3, 2013

Re: Memorandum in Support of Public Employee Pension Reform Resolution

The City of Muscatine presently provides certain pension benefits to its employees. Said benefits are provided to Police Officers and Firefighters under the Municipal Fire and Police Retirement System of Iowa (MFPSI) and to other City employees under the Iowa Public Employees Pension System (IPERS).

As is the case with any defined benefit pension plan, funding requirements are driven by a.) The number of plan participants, b.) Actuarial assumptions relevant to those plan participants, and c.) Investment performance. In recent years, investment performance has been poor; market conditions and the resulting low yields have exacerbated increased funding levels thereby dramatically increasing budgetary requirements necessary to meet future plan benefits. Plan participants do not contribute to Social Security, nor do they receive Social Security Benefits; that said, those who pursue outside employment or post municipal employment have an opportunity to participate in the Social Security program.

The cost and funding structure of public employee pension benefits are established in the Code of the State of Iowa. The City of Muscatine desires to fairly compensate all employees in their retirement. The current structure of public employee pension funding is unsustainable in the near future and in the long term; in short it is becoming an increasing burden on the taxpayer. In my view, the first step in any resolution of the matter is to implore our legislators to take up the matter of pension reform to assure that a fair and equitable benefit is provided to municipal employees in a sustainable manner. Alternatives that may be considered, at a minimum, are funding match requirements for future hires and/or State assistance for the benefit of affected municipalities.

Political reality dictates that it is difficult and undesirable to change existing benefits. It is also noteworthy that the issue is of greater relevance to larger communities in Iowa in as much as many smaller communities have volunteer fire departments and part time police officers. That said, our political leaders in Des Moines should be encouraged to take up the matter of pension funding reform before the matter becomes critical. Failure to engage in any effort to reform the municipal pension system will result in budgetary pressures that will force the Council to consider any and all of the following:

- Additional sources of revenue (tax increases)
- Prioritization and Curtailment of Services
- Reduction of Staff

At my request, Greg Mandsager, City Administrator and Nancy Lueck, Finance Director has provided the following supportive information.

Under the IPERS system the City contribution rate for 2012/2013 is 8.67% and it will increase to 9.27% for 2013/2014. The IPERS employee contribution rate is 5.78% in 2012/2013 and it will increase to 6.18% in 2013/2014. Employer and employee contribution rates for IPERS and increases in those rates are split 60% paid by the employer and 40% paid by the employee. The City and employees also pay Social Security contributions for those employees covered under the IPERS system. Additionally, the City pays for Workers Compensation insurance for these employees.

The MFPSI system requires that the City's contribution rate for 2012/2013 is 26.21% and this rate will increase to 30.12% for 2013/2014. The percent change in this rate is 15.31%. The City's MFPSI rate for 2014/2015 is projected to further increase to 32.26% (an additional 7.1% increase in the rate). Under MFPSI the employee's contribution rate is fixed at 9.4% and the employee does not share in any increases in the overall contribution rate to this system. The City does not carry Workers Compensation for Police and Fire employees, but does have a separate insurance policy to fund medical costs for on-the-job injuries of these employees.

The costs associated with the provision of said benefits to the City's General Fund employees (excluding those funded from Road Use Tax funds) are summarized below:

|               | FY 2102-2013 | Budgeted 2103-2014 | Increase  |
|---------------|--------------|--------------------|-----------|
| IPERS         | \$ 255,257   | \$ 273,479         | \$18,222  |
| Police & Fire | \$1,121,886  | \$1,357,731        | \$235,845 |
| Total         | \$1,377,143  | \$1,631,210        | \$254,067 |

General Fund employees, excluding those funded from Road Use Tax, total 137.50 full-time equivalent employees. For that group, Police have 42 under the MFPSI and Fire has 37 for a total of 79. The balance of the General Fund employees (excluding RUT funded) participate in IPERS; this amounts to approximately 58.5 full time equivalent employees. On a City-wide basis there are a total of 224.8 full time equivalent employees with 79 under MFPSI and 145.80 under IPERS. These numbers reflect year-round employees. There are some seasonal employees and several Council members that have IPERS that are not included in these numbers.

**RESOLUTION NO. \_\_\_\_\_**

**A RESOLUTION TO REQUEST LEGISLATIVE ACTION  
TO ADDRESS THE MUNICIPAL FIRE AND POLICE  
RETIREMENT SYSTEM OF IOWA DILEMMA**

**WHEREAS**, the City Council commends the employees of the City of Muscatine for their efforts in the workplace and desires to compensate them in a fair and sustainable manner; and

**WHEREAS**, by state code the City of Muscatine is required to pay its public employees a pension benefit; and

**WHEREAS**, the provision of pension benefits is fiscally unsustainable at its current and projected levels, and the City of Muscatine asks that the Governor and Legislature give consideration to alternative plan structures and funding mechanisms; and

**WHEREAS**, the mandatory city contributions for Police and Fire pensions are projected to increase by \$235,845 in fiscal year 2013/2014; and

**WHEREAS**, the city contributions for Police and Fire pensions are projected at \$1,357,731 for fiscal year 2013/2014 which is \$703,697 higher than the contribution for fiscal year 2009/2010; and

**WHEREAS**, the City of Muscatine stands ready to assist the State of Iowa and be an active participant in resolving the MFPSI pension dilemma.

**NOW, THEREFORE, BE IT RESOLVED**, that the City Council implores the Governor of the State of Iowa and our State Legislators to take up the matter of public employee pension benefits and funding; to act in a morally and fiscally reasonable manner; to assure that all public employees are fairly compensated in their retirement and; to assure that the City of Muscatine and its taxpaying property owners are not unfairly burdened with the cost of said benefits.

**PASSED, APPROVED, AND ADOPTED** by the City Council for the City of Muscatine, Iowa, this \_\_\_\_\_ day of \_\_\_\_\_ 2013.

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DeWayne Hopkins, Mayor

ATTEST:

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Gregg Mandsager, City Administrator

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**BE IT FURTHER RESOLVED**, that the City Council supports Senate Study Bill (SSB) 1121 which provides for a state appropriation towards the retirement system (MFPSI) of 3.79 percent of the covered earnable compensation of those participating in the system. This percentage is a restoration of previous contribution by the state and provides direct relief to MFPSI cities by reducing the mandated city contribution.

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DeWayne Hopkins, Mayor

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Gregg Mandsager, City Administrator