



IOWA

LEGAL ENVIRONMENT FOR PENSION POLICIES

As of August 2021



MAJOR POLICY SHIFTS

2010

H.B. 2518

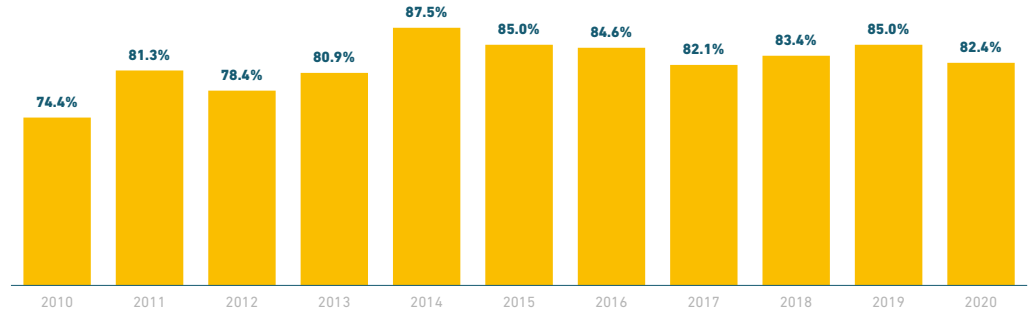
For IPERS new hires and active members, the Iowa Legislature increased the total employee contribution rate from 11.4% to 13.45% of employee salaries. Employers were directed to contribute 8.07% of payroll (60% of the total), while employees contributed 5.38% (40% of the total) — an increase from the 4.7% of payroll they had been contributing previously. The legislature authorized the IPERS board to raise or lower the total contribution rate up to 1% of employee salaries per year in future years, based on actuarially required rates and the Board's funding policy.

For IPERS new hires and active members, the Iowa Legislature (1) adjusted the period used to calculate the final average salary from three years to five years; (2) increased the time required to vest from four years to seven years; and (3) changed the amount of the actuarial reduction for early retirement from 3% to 6% for each year prior to age 65 that an employee elects to retire.

The H.B. 2518 modifications reportedly reduced IPERS unfunded liability by \$674 million and reduced the estimated period to reach full funding from "infinite" to 34 years (based on select actuarial assumptions).

FUNDED RATIO

The graphic below covers the following retirement systems: Iowa Public Employees' Retirement System (IPERS) and Municipal Fire and Police Retirement System of Iowa (MFPRS).



LEGAL ENVIRONMENT FOR FUTURE POLICY EFFORTS

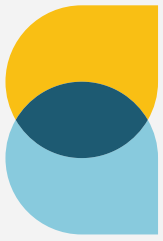
Legislative efforts confined to new hires are excluded from analysis because they rarely face significant legal challenges.

What are some policy options?	Were there relevant policy shifts for active employees or retirees?	Have there been legal challenges?	What are the legal prospects for future changes?*
INCREASE EMPLOYEE CONTRIBUTIONS	YES H.B. 2518 (2010)	NO	<ul style="list-style-type: none"> FAVORABLE as to active employees N/A as to retirees
DECREASE OR ELIMINATE COST-OF-LIVING ADJUSTMENTS	NO	NO	<ul style="list-style-type: none"> FAVORABLE as to active MFPRSI employees and retirees N/A as to active IPERS employees and retirees whose COLAs are ad hoc by legislative approval. Removal of previously granted COLA would likely be treated unfavorably
CHANGE VESTING PERIOD	YES H.B. 2518 (2010)	NO	<ul style="list-style-type: none"> FAVORABLE as to active employees who are non-vested members UNDEVELOPED as to active, vested employees N/A as to retirees
CHANGE BENEFIT CALCULATION	YES H.B. 2518 (2010)	YES Survived legal challenge in <i>Valde v. Employment Appeal Board</i> (2017)	<ul style="list-style-type: none"> FAVORABLE as to active employees UNFAVORABLE as to retirees
INCREASE RETIREMENT AGE	YES (Determined by board)	YES Survived legal challenge in <i>Talbott v. Independent School District of Des Moines</i> (1941)	<ul style="list-style-type: none"> FAVORABLE as to active employees N/A as to retirees

* **FAVORABLE** indicates that the issue survived litigation in the past and/or there is a permissive legal environment for the change.
 * **UNFAVORABLE** indicates that the issue did not survive litigation in the past and/or there is a non-permissive legal environment the change.
 * **UNDEVELOPED** indicates that the issue has not been litigated and/or the current legal environment is unclear as to what the outcome would be.

DISCLAIMER: Equable is not necessarily recommending any of the policy concepts listed above. Some of them may be good ideas, bad ideas, or involve trade-offs between various stakeholders. This document only provides information about the likely legal outcomes of pursuing different policy concepts by stakeholders. The document does not constitute legal advice or representation, and the authors are not liable for any actions taken relying on this information.





IOWA STATE LAW CONTEXT

State Provisions

IOWA CONSTITUTION ARTICLE 1, SECTION 21: “No bill of attainder, ex post facto law, or law impairing the obligation of contracts shall ever be passed.”

Key Opinions

LAGE V. CITY OF MARSHALLTOWN, 212 IOWA 53, 235 N.W. 761 (1931)

The widow of a former member of the police force sued the municipality when it failed to levy a sufficient tax to meet the requirements of its pension fund, claiming that the relationship between the municipality and the pensioner was contractual. The Supreme Court of Iowa held that the government did not have a contractual duty to raise sufficient tax for the pension. *Lage v. City of Marshalltown*, 212 Iowa 53, 235 N.W. 761 at 763. The court determined that the government’s duty to pay pensions was purely statutory. Since nothing in the statute required the municipality to levy a sufficient tax to meet the demands of the pension fund created and maintained thereby, the municipality was not liable for damages. *Id.*

TALBOTT V. INDEPENDENT SCHOOL DISTRICT OF DES MOINES, 230 IOWA 949, 299 N.W. 556 (IOWA 1941)

A retired teacher challenged the IPERS board’s application of a new IPERS retirement age when calculating her retirement plan on the grounds that she had already met all plan requirements, including having reached the original retirement age (55) prior to the change, and that the change violated her contractual rights. The Iowa Supreme Court held that a teacher who is eligible for retirement does not have absolute rights in a pension. The court defined pensions as neither gratuities nor a contractual right. *Talbott v. Independent School District of Des Moines*, 299 N.W. 556 at 557. The court found, without analysis, that the legislature’s method of strengthening the system’s financial security was necessary and that the employee’s rights were not infringed upon. *Id.* at 563.

NELSON V. BOARD OF DIRECTORS OF INDEPENDENT SCHOOL DISTRICT OF SIOUX CITY, 246 IOWA 1079, 70 N.W.2D 555 (IOWA 1955).

Active teachers who had not yet met the plan’s retirement age challenged the board’s liquidation of the state pension system and transfer of teachers to the federal Social Security system. Citing *Talbott*, the Supreme Court of Iowa held that the board’s decision to liquidate the plan complied with the statutes. Because teachers who had already reached retirement age and met the other plan requirements would continue to be paid under that system, the change was permissible. *Nelson v. Board of Directors of Independent School District of Sioux City*, 70 N.W.2d 555 at 556. The court held that employees not yet eligible for retirement did not have vested rights or contractual rights in a retirement system. *Id.* Although the relative benefits of the two systems were not central to the ruling, the court noted — without analysis or discussion — that the district was transferring the teachers to a “more advantageous” federal system (Social Security). *Id.* at 559.

VALDE V. EMPLOYMENT APPEAL BOARD, NO. 17-0266, 2017 IOWA APP. LEXIS 953, (IOWA CT. APP. FILED SEPTEMBER 13, 2017) (UNPUBLISHED)

A retired employee sued the Employment Appeal Board, claiming his constitutional contract and property interests were violated when IPERS used the calendar method to calculate his final average salary instead of the quarter method. The court held that the use of the calendar method rather than the quarter method was not unconstitutional because active employees do not hold property or contract rights in public pension benefits. *Valde v. Employment Appeal Board*, No. 17-0266, 2017 Iowa App. LEXIS 953 at *3. Furthermore, the court cited evidence that the quarter method calculation to which the employee claimed a right had never been implemented. *Id.* at *3, *4.

FOR MORE INFORMATION

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