

## How Public-Safety Pensions Are Increasing Your Taxes

Written by Jeff Ignatius

Thursday, 02 February 2012 06:25

---

- [Buy Paragon NTFS 8 MAC \(en,kr,ja,fr,de,es,it,pt,nl\)](#)
- [Download Adobe Creative Suite 6 Production Premium MAC](#)
- [269.95\\$ Autodesk Maya 2013 MAC \(64-bit\) cheap oem](#)
- [Buy Cheap Adobe After Effects CS5 MAC](#)
- [Download Omni Group OmniGraffle 5 Professional MAC](#)
- [Buy Cheap Lynda.com - Online Marketing Fundamentals](#)
- [9.95\\$ MacItBetter BetterZip 2 MAC cheap oem](#)
- [Discount - Lynda.com - Foundations of Photography: Composition](#)
- [Buy Cheap Infinite Skills - Video and Animation with Adobe Photoshop MAC](#)
- [149.95\\$ CorelDRAW Graphics Suite X6 \(64-bit\) cheap oem](#)
- [Buy Cheap Microsoft Office Excel 2010 Home And Student with SP1 \(32-bit & 64-bit\)](#)
- [279.95\\$ Adobe eLearning Suite 2.5 cheap oem](#)
- [Buy Microsoft Windows Server 2012 Standard](#)

[\(ar,bg,cs,da,de,el,en,es,et,fi,fr,he,hr,hu,it,ja,ko,lt,lv,nb,nl,pl,pt,ro,ru,sk,sl,sr,sv,th,tr,uk\)](#)

State public-employee pension systems are grossly underfunded in general and are financial time bombs for most states. According to the 2010 paper “Are State Public Pensions Sustainable?”, 31 state pension systems will run out of money by 2030 at current benefit and funding levels. (Illinois topped the list, going broke in 2018; Iowa is in better shape than most states, with an estimated expiration date of 2035.)

What’s happening in cities across Iowa with police and firefighter pensions, though, shows the flip side – the short-term budget pain that accompanies a well-funded system when investments perform poorly.

In Davenport, the cost of police and firefighter pensions will increase from roughly \$3.3 million in Fiscal Year 2010 to \$5.5 million next fiscal year and an estimated \$6.6 million in Fiscal Year 2014, according to city Budget Director Alan Guard. Over the four-year period ending in 2014, Guard said, the cumulative additional cost is \$7.75 million.

In Bettendorf, the cost of police and fire pensions increased from roughly \$747,000 in Fiscal Year 2010 to \$1.22 million next fiscal year and an expected \$1.36 million in Fiscal Year 2014, according to City Administrator Decker Ploehn. Over the four-year period ending in 2014, the cumulative additional cost is \$1.62 million.

## How Public-Safety Pensions Are Increasing Your Taxes

Written by Jeff Ignatius

Thursday, 02 February 2012 06:25

---

Cities across Iowa will pay roughly \$69 million combined in Fiscal Year 2013 for police and firefighter pensions compared to just over \$48 million in Fiscal Year 2011.

These increased costs are being borne by citizens through higher taxes. Both Davenport and Bettendorf have raised taxes to deal with the higher pension costs.

And while these higher pension costs are almost certainly temporary – as markets recover, city costs will drop – they present budget problems to cities for at least the next few years.

“These are guys that run into burning buildings when we’re running out,” Guard acknowledged. “And these are guys that stand there and get shot at. ... But at the same time, how are cities supposed to be able to afford this level of benefit for these guys and try to be able to sustain all the services that we’re expected to sustain?”

### Understanding the System

Police and firefighter pensions are funded through the Municipal Fire & Police Retirement System of Iowa (MFPRSI). Employees contribute a fixed 9.4 percent of their salary, while their employers contribute at a variable rate, with a statutory minimum of 17 percent. The problem for city budgets is that the employer contribution is on the rise.

The city-contribution rate is set by the nine-member MFPRSI board to meet actuarial requirements. The board includes four members representing police and firefighters, four members representing cities, and one private citizen – all serving four-year terms.

The employer-contribution rate was 17 percent from fiscal years 1997 through 2003. As a result of market crashes after the September 11, 2001, attacks, it was gradually raised (to a high of 28.21 percent in Fiscal Year 2006) before again dropping to the statutory minimum in Fiscal Year 2010. Since then, it increased to 19.90 percent in Fiscal Year 2011 and 24.76 in the current fiscal year, 2012. Next year’s rate is 26.12 percent, and it’s then expected to increase each year through Fiscal Year 2015.

## How Public-Safety Pensions Are Increasing Your Taxes

Written by Jeff Ignatius

Thursday, 02 February 2012 06:25

---

	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13
MFPRS Contribution Rate	17.00%	19.90%	24.75%	26.12%
Employer Contribution	\$3.3 million	\$4.1 million	\$5.1 million	\$5.5 million
Retiree Contribution	\$747,000	\$962,000	\$1.12 million	\$1.22 million

With 22 years of service at age 55, police and firefighters can retire with 66 percent of the income earned at their high three-year salary average. The maximum benefit level is 82 percent of that average salary for 30 years of service.

This system is different from the retirement system for most public employees in Iowa – the Iowa Public Employees' Retirement System (IPERS). For most workers under IPERS, employers make 60 percent of retirement contributions, while employees make 40 percent. Thus, when the contribution rates go up – as they have the past few years, from 14.08 percent of income in mid-2009 to the current 16.62 percent – employers and employees bear a proportional share of the increase.

On the surface, then, MFPRSI is more favorable to employees than IPERS. At the statutory-minimum city contribution level, police and firefighters pay only 35.6 percent of their pension costs. At the current city-contribution level, police and firefighters only pay 27.5 percent of their pension costs.

But there are other differences that make an apples-to-apples comparison difficult. Unlike typical public employees, most firefighters and police officers don't pay into the Social Security system and aren't eligible for benefits. MFPRSI serves as the disability system for firefighters and police officers. Overtime wages for police and firefighters are not included in pension income and benefit calculations.

The benefits are different, too. IPERS employees get 2 percent of their highest three-year salary average for up to 30 years, and then 1 percent for the next five years. With 30 years of service, IPERS retirees get 60 percent of their highest salaries, while MFPRSI retirees get 82. But, again, IPERS retirees also get Social Security that public-safety retirees don't.

According to Dave Mohlis, a captain in the Waterloo police department and president of the Iowa State Police Association, police and firefighter organizations have compared city benefit

## How Public-Safety Pensions Are Increasing Your Taxes

Written by Jeff Ignatius

Thursday, 02 February 2012 06:25

---

contributions overall and found that employees covered by IPERS actually cost cities more as a percentage of salary. With IPERS, Social Security, workers' compensation, and Medicare contributions combined, employers since 1995 have consistently paid between 31 and 33 percent of salary for those benefits.

The problem with MFPRSI, then, is largely about the variability of the contribution rate. Cities' IPERS contribution rates since 1994 have never been below 8.38 percent and never been above the current 9.97 percent – a difference of 19 percent. With MFPRSI during the same period, however, the difference between the statutory minimum and the maximum (28.21 percent in Fiscal Year 2006) is almost 66 percent – with the contribution rate likely to exceed that previous high in the coming years.

Another small but contributing factor is the state's decision to phase out payments to MFPRSI. At one time, the state contributed 3.79 percent of payroll to the system – an amount that would be more than \$9 million now. Then the contribution level became a flat \$2.7 million – and it's dwindled since then. "The state used to contribute \$1.5 million a year," Guard said. "Now [in the current fiscal year] they contribute zero."

In a larger context, the public-safety-pension issue relates to local control. Cities can't bargain with police and firefighter unions on pensions, yet they have to fund them at state-mandated levels. That's particularly relevant in a legislative session with multiple proposals to limit local-government revenue – including significantly reducing commercial property-tax rates and cutting maximum annual agricultural- and residential-property-tax increases to 2 percent from the current 4 percent.

All this amounts to "basically taking control away from local officials and our ability to fund the level of services that our citizens are asking for," Guard said. "That's not local control. ... Right now, we just point to the state for everything. 'They're screwing us.' ... That's reality. We don't generate the rollback number. We didn't generate the caps. We don't generate the pension contributions. ... It's handed to us."

### What Cities Have Done

To deal with the higher pension costs, Bettendorf has simply raised its Trust & Agency levy by

## How Public-Safety Pensions Are Increasing Your Taxes

Written by Jeff Ignatius

Thursday, 02 February 2012 06:25

---

the amount of the higher pension costs. In Fiscal Year 2010, the portion of that levy dedicated to police and fire pensions was 50.5 cents. In Fiscal Year 2014, it will be 68.3 cents – an increase of nearly 18 cents (or 35 percent) over five years.

Davenport's situation is more complicated, and the impending tax increase is larger as a result. When the city's contribution rate jumped above the statutory minimum from fiscal years 2004 through 2009, Guard said, the city raised its Trust & Agency levy rate 44 cents. It also shifted some employee benefits from the Trust & Agency fund. The goal was to use up a balance in the Road Use fund and thus have a smaller property-tax increase.

In 2006 – when the MFPRSI rate began dropping – the city council cut 44 cents from the property-tax rate, Guard said. The city had intended to make budget cuts, too – including the elimination of a fire truck and 11 positions related to inspections – but that money was ultimately restored. “They cut taxes and cut people,” Guard said. “They hired all 11 people back and never raised taxes.”

In the current fiscal year, he said, the city used \$1 million from the debt-service levy for Trust & Agency, but “that's simply not sustainable.”

In short, he said, “we've done a lot of ... accounting maneuvers – I mean that in a very nice way ... . We tried to use up our fund balances to try to hold off the inevitable” tax increase related to public-safety pensions. He added: “If they had left that 44 cents in there, we wouldn't be having this discussion now.”

So of the city's 96-cent property-tax-rate increase for the coming fiscal year, he said, 78 cents is related to public-safety pensions, Guard said. Of that, 57 cents is making up for previous budget choices, those ultimately unsustainable accounting maneuvers designed to avoid or minimize tax increases. Ten cents will go toward next year's MFPRSI rate increase, and another 11 cents will cover the anticipated Fiscal Year 2014 rate hike.

The Iowa League of Cities has proposed a 60/40 contribution split for new public-safety employees – the same as with IPERS. “When it [the contribution rate] has gone up, my contribution has gone up along with the city's,” Guard said. “I'm not sure that same system should not be in place with the public-safety employees.”

## How Public-Safety Pensions Are Increasing Your Taxes

Written by Jeff Ignatius

Thursday, 02 February 2012 06:25

---

The League of Cities estimated that this would, for a typical municipality in the current year, shift a contribution cost between \$1,302 and \$1,466 from the city to the public-safety employee for each new worker.

Ploehn said that he'd favor reducing the maximum MFPRSI benefit to its previous level of 66 percent for new hires.

Other proposals have included restoring a 3.79-percent state contribution and increasing new employees' contribution rates by 1 percentage point. At a January 27 legislative forum, Davenport Mayor Bill Gluba suggested that the state should cover cities' increased public-safety-pension costs.

But for now, it appears likely that cities and taxpayers will have to live with these additional costs. The Iowa League of Cities noted in a recent update that there's little legislative will for major changes to the system, noting differences between Democrats and Republicans and no commitment from Governor Terry Branstad. It suggested that the best short-term hope for cities is a state appropriation to offset some of the increased costs.

At the January 27 forum, state legislators from Scott County echoed that. Several expressed sympathy for the city's plight; Senator Shawn Hamerlinck (R-Dixon) noted that cities have no control over these costs through collective bargaining, and the state isn't picking up any of the cost. He expressed support for Ploehn's recommendation of reducing the maximum benefit level for new firefighters and police officers.

But Representative Jim Lykam (D-Davenport) said Senate State Government Committee Chair Jeff Danielson won't be taking up systemic public-safety-pension reform this year. He said, however, that Danielson would be working for a state appropriation to help offset the burden on cities.

Nearly all Scott County legislators expressed support for long-term changes to the system.

## How Public-Safety Pensions Are Increasing Your Taxes

Written by Jeff Ignatius

Thursday, 02 February 2012 06:25

---

The police and fire unions, as expected, favor keeping the system as it is now. The Iowa State Police Association's Mohlis said that while his organization is open to discussion, it sees no need for changes; cities were involved in the creation of MFPRSI in the early 1990s and have bargained with their unions fully aware of their pension obligations. "The system is very sound and very equitable," he said. "Their percentages do go up, but they also do go down."