



## **State Court Administration**

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### **JUDICIAL RETIREMENT SYSTEM OVERVIEW**

#### Issue:

Iowa Code section 602.9104 requires that once the Judicial Retirement System (System) reaches “fully funded status” then both the state’s and judges’ contribution rates change from a fixed amount to a variable amount. The System’s funded ratio exceeded 100% for the first time in the July 1, 2021 actuarial report. As a result, beginning in fiscal year 2023 and each succeeding year, contribution rates are being based on the actuarial contribution rate as of July 1<sup>st</sup> of the previous year.

The Iowa Judicial Branch and the Iowa Judges Association have worked together with the System’s actuary to conduct analysis on the variable rate structure required by statute. This analysis shows that the variable rate structure is statistically expected to continue to show large fluctuations from year to year, for both the judges’ individual contribution and the state’s contribution to the System. According to the System’s actuary, the higher a pension system is funded, the more volatile the contribution rate is based on market performance. Because the System is well-funded, the contribution calculation is very susceptible to market return volatility. The Branch and Association are not aware of any other retirement system that has neither set rates from year to year nor caps on how much the rate can fluctuate. The Branch and the Association believe that it is in the best interests of the state and judges to have certainty in budget predictions.

#### Legislative Request:

To return to the fixed contribution rate system set by statute. Section 602.9104 set the judges’ contribution amount at 9.35% and the state’s contribution at 30.6%.

Next steps:

The system's actuary will present a report to the Public Retirement Systems Committee later this year.

Background:

- The System is established in Iowa Code section 602.1611, and Code provisions relating to the functioning of the System can be found in sections 602.9101 through 602.9116.
- The creation of a retirement system is referenced in the Iowa Constitution (added by an amendment in 1962): The general assembly “shall prescribe mandatory retirement for judges of the supreme court and the district court at a specific age and shall provide for adequate retirement compensation.” Iowa Const. Art. 5, § 18.
- The System is administered by the State Court Administrator.
- The State Treasurer:
  - Is responsible for investing the System funds.
  - Designates and monitors a master custody institution that holds securities, settles investment transactions, collects income, and maintains portfolio accounting for the System.
  - Establishes the investment policy for the fund and hires investment management firms to invest the fund's money.
  - Sets guidelines for these investment managers and reviews the managers' performance and compliance on a regular basis.
- FY 24 contribution rates
  - State 15.53% (increase from 14.97% in FY 23)
  - Judges' 10.36% (increase from 9.98% in FY 23)
- The System is unique compared to most public pension plans, particularly those covering general governmental employees, for the following reasons:
  - Its members typically join later in their careers. As such, they do not have the opportunity to work under the system as long as employees who participate in other retirement systems, such as the Department of Public Safety's Peace Officer Retirement System. To provide a meaningful retirement benefit for

- judges in the Judicial Retirement System, the benefit multiplier is higher to produce a comparable benefit with fewer years of service.
- The later entry age for participation in the System also means there is a shorter period over which to accumulate the funds necessary to fund the retirement benefit. This increases the cost of the System.
  - Certain actuarial assumptions in the valuation are very different for a judicial retirement system compared to a general employees' retirement system. Mortality is highly correlated to education and social-economic factors. As a result, the System's actuary assumes judges in the System will live longer on average than the general population, which increases the costs. In addition, termination rates are much lower for judicial retirement systems which also increases the cost.

Justifications for Returning to a Fixed Rate Contribution:

- Budget certainty for the state and judges. The variable rate is expected to widely fluctuate year to year based on market conditions which will make it difficult for the state and judges to budget accordingly.
- Under the current method, there is a 30% chance the judges' contribution rate exceeds 16.00% at some point in the next 10 years and a 19% chance the contribution rate will exceed 18.00%. In the next 20 years, there is a 49% chance the contribution rate exceeds 16.00% and a 36% chance the rate exceeds 18.00%. *See Appendix.*
- The System's actuary further estimates that 17% of the time the judges' contribution rates will exceed 14.75% over a 10-year period. That frequency increases to 26% of the time over a 20-year period. *See Appendix.*
- There is no reverse trigger back to a fixed rate when the System is no longer "fully funded." The System only briefly reached "fully funded" status as of July 1, 2021 and no longer meets the definition of "fully funded".
- The Branch is not aware of any other government pension that has a trigger switching contributions from fixed to variable.

- Good benefits, including a pension at a reasonable cost, are necessary to attract qualified judicial candidates. Over the past dozen years or so, there has been a reduction in the average number of applicants per vacancy and a reduction in the percentage of applicants coming from private practice. For example, in 2009, the average number of applicants per vacant district court position was 12 with 67% of those applicants on average coming from private practice. So far in 2023, the average number of applicants per vacant district court position is 6 with 42% from private practice.

## **APPENDIX**

Estimated **probability** of judges's contribution rate at various interest rates:

<b>Probability of EE Contribution Rate Ever Exceeding Rate Below During the Next 10 Years</b> (based on 1,000 20-Year random scenarios)					
	<u>10.75%</u>	<u>12.00%</u>	<u>14.00%</u>	<u>16.00%</u>	<u>18.00%</u>
Current Method	82%	64%	45%	30%	19%

<b>Probability of EE Contribution Rate Ever Exceeding Rate Below During the Next 20 Years</b> (based on 1,000 20-Year random scenarios)					
	<u>10.75%</u>	<u>12.00%</u>	<u>14.00%</u>	<u>16.00%</u>	<u>18.00%</u>
Current Method	90%	77%	60%	49%	36%

Estimated **frequency** of judges's contribution rate at various interest rates:

<b>Frequency of EE Contribution Rate Exceeding Rate Below Within the Next 10 Years</b> (based on 1,000 20-Year random scenarios)					
	<u>10.75%</u>	<u>11.75%</u>	<u>12.75%</u>	<u>13.75%</u>	<u>14.75%</u>
Current Method	48%	36%	27%	21%	17%

<b>Frequency of EE Contribution Rate Exceeding Rate Below Within the Next 20 Years</b> (based on 1,000 20-Year random scenarios)					
	<u>10.75%</u>	<u>11.75%</u>	<u>12.75%</u>	<u>13.75%</u>	<u>14.75%</u>
Current Method	51%	42%	36%	31%	26%