IOWA JUDICIAL RETIREMENT SYSTEM

STATUS OF JUDICIAL RETIREMENT FUND

PRESENTATION TO PUBLIC RETIREMENT SYSTEMS COMMITTEE

December 11, 2013

JUDICIAL RETIREMENT MEMBERSHIP

ACTIVE MEMBERS (7/1/13):

▪ Supreme Court Justices	7
▪ Court of Appeals Judges	9
▪ District Court Judges	116
▪ District Associate Judges	65
▪ Associate Juvenile Judges	4
▪ Associate Probate Judge	1

Total	202

RETIRED MEMBERS:

▪ Senior Judges and Retired Senior Judges	64
▪ Retired Judges	80
▪ Surviving Spouses	43

Total Receiving Monthly Benefit	187
Inactive - Vested Judges	7

BASIC RETIREMENT BENEFIT:

- Average salary highest three (3) years of service
- Times three and one-fourth percent (3.25%)
- Times years of service
- Equals yearly benefit

Not to exceed sixty-five percent (65%) of highest basic annual salary

ELIGIBILITY FOR RETIREMENT:

Eligibility for retirement is four (4) years of service as a judge **AND** sixty-five (65) years of age **OR** twenty (20) years of service and age fifty (50)

Iowa Judicial Retirement Fund

Brief History

- May 13, 1949 – Established by the 53rd General Assembly – Supreme Court Justices and District Court Judges covered.

  A judge contributes 3% and the State 3%, or so much as necessary to finance the system.

- 1961 – Improvements in benefits and increase in judge's contribution to 4%.

- 1962 – Amendment to the State constitution states that the General Assembly shall prescribe mandatory retirement for judges and provide for adequate retirement compensation.

  Benefits – 3% average annual salary for last three years, times years of service – maximum 50% of current salary. Surviving spouse, if spouse for at least five years prior to judge's death, 50% of amount judge entitled to if spouse is at least 60 years old.

- 1977 – Iowa Senior Judge Act.

- 1981 – Miscellaneous court costs redirected into judicial retirement fund.

- 1984 – District Associate Judges, who were full-time Magistrates, were added to the Judicial Retirement System.

  Surviving spouse must be married to the judge at least one year prior to death to be eligible for benefit.

- 1985 -- Additional court costs redirected into judicial retirement fund.

- 1986 – Judges' contributions are pretaxed for federal taxes.

  Optional annuity election – provides for a judge to elect a reduced amount and that reduced amount or a portion thereof to be paid to the surviving spouse immediately upon the judge's death.

- 1989 – Judge's contribution pretaxed for State taxes.

- 1992 – Early retirement benefits – optional annuity if 55 years of age or 20 years of service.

  Senior judge under the age of 65 – the State will continue to pay State share of insurance until the age of 65.

- 1993 – Retired Senior Judge (age 78) – no longer entitled to increase in benefits when active judges get increase.

- 1994 – Active Senior Judges received 75%, instead of 100%, of the percentage increase that active judges receive.

  Senior Judges are paid an annual salary (July 1st).

  Change in funding of State share to 23.7% instead of filing fees being paid directly to the fund (July 1st).

- 1995 – Senior Judges appointed at the discretion of Supreme Court for 2 year terms.

- July 1, 1998 – Monthly minimum of $500 for judge, or survivor of judge, who retired prior to July 1, 1977.

  Maximum retirement benefit raised to 52% of salary at time of retirement.

  Full-time Associate Juvenile Judges and Associate Probate Judges become members of the Judicial Retirement System.

- July 1, 1999 – State provides State health insurance to Senior Judge and spouse, regardless of age, until the Senior Judge reaches age 78. Also, provided in the same manner to Senior Judge who relinquishes senior status if served as a Senior Judge for at least 6 years.

- July 1, 2000 – Judge's contribution increased from 4% to 5%.

- July 1, 2000 – June 30, 2001 - Maximum retirement benefit raised to 56% of salary.

- July 1, 2001 – Maximum retirement benefit raised to 60% of salary.

- July 1, 2002 – Language change to <u>highest</u> three years salary instead of salary at time of retirement.

- July 1, 2006 – Judge's contribution increased to 6% multiplied by a fraction equal to the actual percentage rate contributed by the State divided by 23.7%.

  Benefit calculation changed to 3.25% of average monthly salary times years of service with maximum of 65% of final salary.

  Retirement eligibility changed to age 65 with minimum of 4 years of service or 20 years of service and age 50.

- July 1, 2008 – Judge's contribution increased from 6% to 7.7% for FY09, 8.7% for FY10 and 9.35% for FY11 and each subsequent fiscal year until the system attains fully funded status

State's contribution increased from 23.7% to 30.6% until system attains fully funded status.

Senior judges become retired senior judges at age 78 unless reappointed by the Supreme Court for an additional two year term.

Source: State Court Administrator's Office
Date: June 18, 2012
s:\acct\judret\judicial retirement history 06-18-2012.doc

This report presents the results of the July 1, 2013 actuarial valuation for the State of Iowa Judicial Retirement Fund (System). The primary purposes of performing an actuarial valuation are to:

- measure and disclose asset and liability measures as of the valuation date;
- determine the employer contribution rate required to fund the System on an actuarial basis;
- determine the experience of the System since the last valuation date; and
- analyze and report on trends in System contributions, assets, and liabilities over the past several years.

Section I of the report is a summary of the principal results of the valuation.

Section II of the report provides detail of the valuation results including the assets, liabilities, and contribution rates.

Section III of the report provides the accounting information for the System and the State including calculation of the Annual Required Contribution, the Net Pension Obligation, and the Annual Pension Cost. Most of this information is necessary for compliance with Statements Number 25 and 27 of the Governmental Accounting Standards Board.

This valuation reflects some assumption changes which were made following a review of all actuarial assumptions. Changes included a reduction in the salary increase assumption from 4.50% to 4.25%, an increase in the retirement rates reflecting earlier retirement ages, and revised assumptions regarding participation in the senior judge program.

The Appendices provide a summary of the data, methods and assumptions used in the preparation of this report. The assumptions and methods used in our calculation are acceptable for purposes of GASB as well as for purposes of determining an appropriate level of contributions to be made to the fund.

The valuation results provide a "snapshot" view of the System's financial condition on the valuation date. As of July 1, 2013, the System has an unfunded actuarial accrued liability (UAAL) of $51 million. The UAAL decreased by $2 million from last year's amount due to various factors. A more complete analysis of the change in the unfunded actuarial accrued liability from July 1, 2012 to July 1, 2013 is shown on page 14.

The highlights of the valuation are:

Funded Status	Actuarial Valuation Date July 1, 2013	July 1, 2012
Using Actuarial Value of Assets		
Actuarial Accrued Liability	$178,725,295	$170,232,283
Actuarial Assets	127,352,986	117,272,451
Unfunded Actuarial Accrued Liability	$ 51,372,309	$ 52,959,832
Funded Ratio	71.3%	68.9%
Using Market Value of Assets		
Actuarial Accrued Liability	$178,725,295	$170,232,283
Market Assets	128,928,834	111,224,878
Unfunded Actuarial Accrued Liability	$ 49,796,461	$ 59,007,405
Funded Ratio	72.1%	65.3%

The total actuarial required contribution rate in the 2013 valuation is lower than last year. The State's portion of the actuarial contribution rate decreased from 31.39% in the 2012 valuation to 29.70% in the 2013 valuation. The statutory contribution rate is 30.60% of pay, resulting in a small contribution surplus of 0.90%, as shown below:

Required Contribution Rate	Actuarial Valuation Date July 1, 2013	July 1, 2012
1. Normal Cost	22.18%	22.03%
2. Amortization Payment	16.87%	18.71%
3. Total Contribution Rate (1) + (2)	39.05%	40.74%
4. Expected Member Contribution Rate	9.35%	9.35%
5. State Contribution Rate (3) - (4)	29.70%	31.39%
6. Statutory Contribution Rate	(30.60%)	(30.60%)
7. Shortfall/(Surplus) (5) - (6)	(0.90%)	0.79%

EXPERIENCE

July 1, 2012 – June 30, 2013

In many respects, an actuarial valuation can be thought of as an inventory process. The inventory is taken as of the actuarial valuation date, which for this valuation is July 1, 2013. On that date, the assets available for the payment of benefits are appraised. The assets are compared with the liabilities of the System, which are generally in excess of assets. The actuarial process leads to a method of determining the contributions needed by members and employers in the future to balance the System assets and liabilities.

Changes in the System's assets and liabilities impacted the change in the actuarial contribution rates between the July 1, 2012 and July 1, 2013 actuarial valuations. On the following pages each component is discussed.

ASSETS

As of July 1, 2013, the System had total funds when measured on a market value basis, of $128.9 million. This was an increase of about $17.7 million from the July 1, 2012 figure of $111.2 million.

The market value of assets is not used directly in the calculation of contribution rates. An asset valuation method is used to smooth the effect of market fluctuations. See page 10 for the detailed development of the actuarial value of assets as of July 1, 2013.

The actuarial value of assets as of July 1, 2013, was $127.4 million. The annualized dollar-weighted rate of return for FY 2012, measured on the actuarial value of assets was approximately 7.9%, and measured on the market value of assets was approximately 15.2%, net of investment expenses. The components of the change in the market and actuarial value of assets for the System (in millions) are set forth below.

	$(millions)	
	Market Value	**Actuarial Value**
Net Assets, July 1, 2012	$111	$117
· Employer and Member Contributions	11	11
· Benefit Payments and Expenses	(10)	(10)
· Investment Income	17	9
Net Assets, July 1, 2013	$129	$127
Estimated Rate of Return	15.2%	7.9%

Due to the strong investment return on the market value of assets for FY 2013 (about 15%), the rate of return on the actuarial value of assets was higher than the assumed rate of 7.5%, resulting in a small actuarial gain on assets. Because of the asset smoothing method, there is now about $2 million of net deferred investment gain that has not been recognized (last year there was $6 million of deferred loss). Absent unfavorable investment experience in future years to offset the recognition of the deferred gain, it will flow through the asset smoothing method and future contribution rates are expected to decrease.

LIABILITIES

The actuarial accrued liability is that portion of the present value of future benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and asset values at the same date is referred to as the unfunded actuarial accrued liability (UAAL). The unfunded actuarial accrued liability will be reduced if the employer's contributions exceed the employer's normal cost for the year, after allowing for interest on the previous balance of the unfunded actuarial accrued liability.

The unfunded actuarial accrued liability as of July 1, 2013 is shown below:

Actuarial Accrued Liability	$ 178,725,295
Actuarial Value of Assets	127,352,986
Unfunded Actuarial Accrued Liability	$ 51,372,309

Factors influencing the UAAL from year to year include actual experience versus that expected based on the actuarial assumptions (both asset and liability), changes in actuarial assumptions, procedures or methods and changes in benefit provisions. The actual experience measured in this valuation is that which occurred during the prior plan year (fiscal year ending 2013). This valuation reflects some assumption changes which were made following a review of all assumptions. Changes included a reduction in the assumed salary increases, some increase in the retirement rates, and revised assumptions regarding participation in the senior judge program. The change in actuarial assumptions increased the UAAL by $0.4 million.

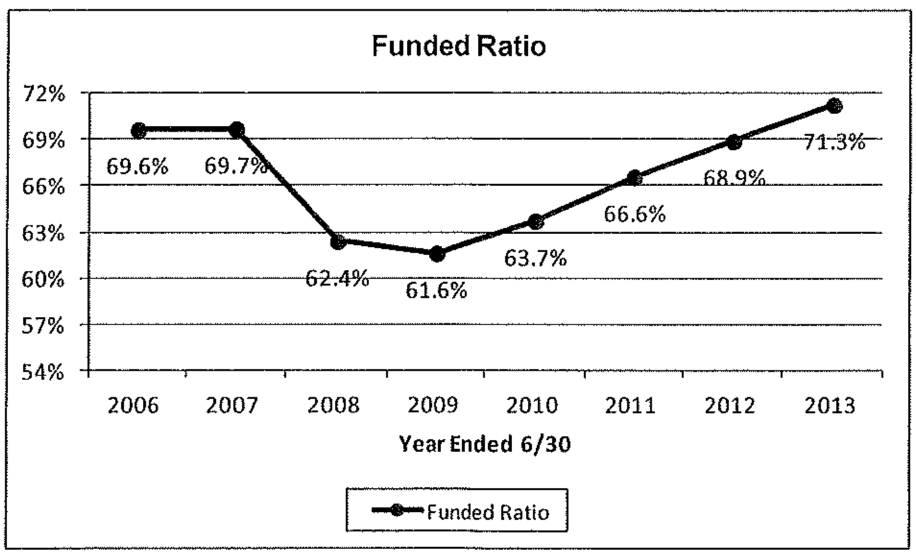
The UAAL decreased from $53 million on July 1, 2012 to $51 million on July 1, 2013. The Fund experienced a total actuarial gain of $0.5 million for the year ending June 30, 2013. Actuarial experience (gain or loss) is measured by comparing the expected UAAL (developed using the actuarial assumptions) and the actual UAAL. The return on the actuarial value of assets was approximately 7.9%, which is slightly higher than the actuarial assumption of 7.5%. This resulted in an actuarial gain of about $0.5 million which decreased the UAAL. There was no meaningful gain or loss on the liabilities.

Between July 1, 2012 and July 1, 2013 the change in the unfunded actuarial accrued liability for the System was as follows (in millions):

	$ millions
Unfunded Actuarial Accrued Liability, July 1, 2012	53.0
• effect of contributions less than the actuarial rate	(0.2)
• expected decrease due to amortization method	(1.0)
• investment experience	(0.5)
• liability experience[1]	0.0
• change in actuarial assumptions	0.4
• change in benefit provisions	0.0
• other actuarial experience	(0.3)
Unfunded Actuarial Accrued Liability, July 1, 2013	51.4

[1] Liability loss was negligible as a percent of AAL

An evaluation of the unfunded actuarial accrued liability on a pure dollar basis may not provide a complete analysis since only the difference between the assets and liabilities (which are both large numbers) is reflected. Another way to evaluate the progress made in the System's funding is to track the funded status, which is the ratio of the actuarial value of assets to the actuarial accrued liability. The funded status is shown in the graph below:



CONTRIBUTION RATES

The funding objective of the System is to pay the normal cost rate plus the amortization of each piece of the unfunded actuarial accrued liability over a 25-year period commencing with the valuation date on which the base was created.

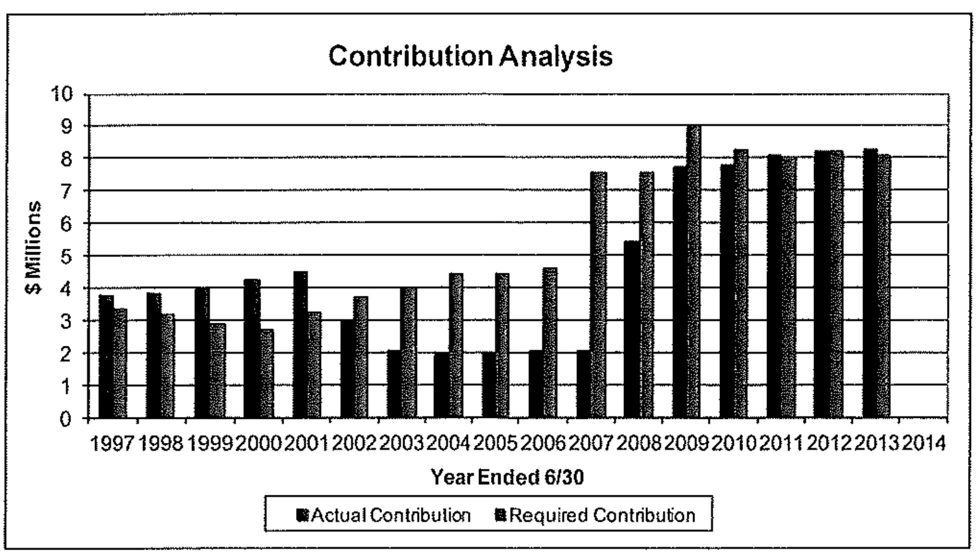
Under the Entry Age Normal cost method, the actuarial contribution rate consists of:

- a "normal cost" for the portion of projected liabilities allocated by the actuarial cost method to service of members during the year following the valuation date,
- an "unfunded actuarial accrued liability contribution" for the excess of the portion of projected liabilities allocated to service to date over the actuarial value of assets.

	Plan Year Beginning	
	July 1, 2013	July 1, 2012
Prior year total contribution rate	40.74%	40.50%
· change due amortization method	(0.81%)	(0.80%)
· change due to asset (gains)/losses	(0.16%)	0.68%
· change due to other actuarial experience	(0.93%)	0.29%
· change due to change in actuarial assumptions	0.14%	0.00%
· change due to actual contribution rate lower than actuarial rate	0.07%	0.07%
Current year total actuarial contribution rate	39.05%	40.74%
Member's contribution rate	(9.35%)	(9.35%)
State's actuarial contribution rate	29.70%	31.39%

Contributions to the System, by the members and the state, are set in statute. The member contribution rate is 9.35%, and the employer contribution rate is 30.60% of pay for a total statutory contribution rate of 39.95%.

The following graph summarizes the actual and the actuarial employer contributions in recent years.



COMMENTS

Over the last four years, the average asset return has been 12%, which is higher than the assumed rate of return of 7.5%. The resulting asset gains, coupled with liability gains, largely due to lower than expected salary increases in several years, have improved the System's funded status. As a result, the actuarial contribution rate is now lower than the statutory contribution rate, although the difference is small. In order for the financing of the plan on a fixed contribution rate basis to be successful, contributions above the actuarial rate must be made to offset the periods where the fixed contribution rate will be below the actuarial contribution rate. If all actuarial assumptions are met in future years, the funded ratio of the System is expected to increase over time. The actual investment experience in future years will heavily impact the funding of the System and the sufficiency of the current statutory contribution rates.

STATE OF IOWA
JUDICIAL RETIREMENT FUND

SUMMARY OF PRINCIPAL VALUATION RESULTS

	Actuarial Valuation as of July 1, 2013	Actuarial Valuation as of July 1, 2012	% Change
1. SUMMARY OF DATA			
Active Judges	202	192	5.20%
Senior Judges and Retired Senior Judges	65	62	4.80%
Retired Judges	79	76	3.90%
Beneficiaries of Deceased Judges	47	48	(2.1%)
Inactive Vested Judges	7	8	(12.5%)
Total Members	400	386	3.60%
2. ACTIVE PARTICIPANT STATISTICS			
Total Compensation	$ 28,278,385	$ 25,760,100	9.80%
Average Compensation	139,992	134,167	4.30%
Average Age	56.47	56.64	(0.3%)
Average Service	11.2	11.8	(5.5%)
3. ASSET AND LIABILITY INFORMATION			
Actuarial Accrued Liability	$ 178,725,295	$ 170,232,283	5.00%
Actuarial Value of Assets	127,352,986	117,272,451	8.60%
Unfunded Actuarial Accrued Liability (UAAL)	51,372,309	52,959,832	(3.0%)
Funded Ratio (Actuarial Value)	71.3%	68.9%	3.40%
Market Value of Assets	128,928,834	111,224,878	15.90%
Funded Ratio (Market Value)	72.1%	65.3%	10.40%
4. CONTRIBUTION INFORMATION			
Normal Cost	22.18%	22.03%	0.70%
UAAL Payment	16.87%	18.71%	(9.8%)
Total Actuarial Contribution	39.05%	40.74%	(4.2%)
Less Member Contribution	(9.35%)	(9.35%)	0.00%
State Contribution	29.70%	31.39%	(5.4%)
Less Statutory Contribution	(30.60%)	(30.60%)	0.00%
Shortfall	(0.90%)	0.79%	(214.6%)

Executive Summary

The Iowa Judicial Retirement Fund

The market value of the Iowa Judicial Retirement Fund (Fund) investments was $140,391,542.10 on September 30, 2013. That is an increase of $11,590,738.38 from the market value on June 30, 2013. For a year over year comparison, the portfolio increased $23,373,151.55 from the market value on June 30, 2012. For the quarter, the Fund had a return of 8.79% before fees. The quarterly performance of the Fund (before fees) ranked in the 3rd percentile of all master trusts reporting to the Trust Universe Comparison Service (TUCS)[1]. The performance before fees was above that of the Policy Index, which had an annualized return of 6.05% for the quarter. (The Policy Index measures the performance of a strictly passive investment strategy, and is the weighted average return that would result if the Fund's assets had been allocated to the passive indices representing each asset class in the exact proportions established in the investment policy.)

The Fund earned an annual return after fees of 19.51% for the year ending September 30, 2013. This performance was above the policy goal of beating inflation by four percentage points (inflation was 1.18% for the one-year period) and above the actuarial interest rate assumption of 7.50%. The Fund's performance for the one-year period was above the Policy Index return of 15.13%. The Fund's annual return (before fees) for the year ranked in the 5th percentile of all master trusts reporting to TUCS. Victory Capital Management showed an 8.21% return for the quarter. For comparison, the S&P 500 Index had a quarterly return of 5.24%. This gave Victory a TUCS ranking of 37th. For the quarter ending September 30, 2013, William Blair, the small cap growth stock manager, had a quarter return of 14.93% versus a 12.80% rate of return for the Russell 2000 Growth. William Blair's performance before fees ranked 3rd in the TUCS small cap growth universe while the Russell 2000 Growth ranked 7th. Wasatch Advisors, the fund's small cap value manager, reported a 10.77% quarter return, which ranked 15th in the TUCS small cap value universe. Wasatch's benchmark is the Russell 2000 Value Index, which had a quarter return of 7.59% and placed 44th in the index of all accounts reporting to TUCS. For the year ending September 30, 2013, Wasatch had a return of 39.74%, ranking them 3rd in the TUCS universe. Baillie Gifford, the international equities index manager for the fund, had a quarterly return of 17.77%, which ranked them 1st in the TUCS universe. Baillie Gifford's benchmark is the MSCI EAFE Index, which experienced a quarter return of 11.56%. For the quarter, Principal Global Investors, the core plus fixed income manager, earned 0.71%, failing to beat its benchmark. Guggenheim, the real estate manager, had a return of 3.21% for the quarter versus the benchmark (70% NCREIF, 30% NAREIF) of 2.87%.

For the three-year period, the Fund has earned an annualized return of 11.15% before fees. This performance is above the policy goal of beating inflation by four percentage points (inflation was 2.33% for the three-year period) and above the actuarial interest rate assumption of 7.50%. The Fund outperformed the Policy Index, which returned 10.77%. The Fund's performance ranks in the 30th percentile of all master trusts reporting to TUCS for the three-year period. Over the five-year period, the Fund has earned an annualized return of 10.18% before fees. This performance met the policy goal of outperforming inflation plus four percentage points (5.34%), and was above the Policy Index return of 8.74%. The Fund ranks in the 11th percentile of the TUCS universe of master trusts for the five-year period. The Fund's Sharpe Ratio, which measures excess return per unit of risk, for the five-year period was 0.65, which was greater than the 0.56 Sharpe ratio for the Policy Index.

[1] Please note that other funds reporting to TUCS may be greatly larger or may have significantly riskier investment policies than the Fund.