



Judicial Retirement System

Presentation to Public Retirement Systems Committee

Presented by:

Robert Gast, State Court Administrator

Jon Cleereman, Director of Finance

Patrice A. Beckham, FSA, Cavanaugh Macdonald Consulting, LLC

December 8, 2021



Governance

- Established in Iowa Code Chapter 602
- Referenced in the State Constitution: 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”.
- System is administered by the State Court Administrator who is appointed by the Supreme Court (note no Board of Trustees)



Judicial Retirement System

- JRS is a Defined Benefit Plan
 - Mandatory participation
 - Amount is based on a formula that is dependent on years of service and salary
 - Benefit paid as lifetime monthly income (annuity)
 - Contributions from both employer and employee
 - Pooled contributions are invested in a trust which is for the exclusive benefit of members of the System
 - Investments are managed by professional investment managers hired by the Treasurer's office



Membership Provisions

- Supreme Court and Court of Appeals judges
- District judges and district associate judges
- Full-time probate judges and juvenile judges
- Magistrates and other employees of the Judicial Branch are members of IPERS



Benefit Provisions

- Benefit is 3.25% of Average Salary (3 highest Basic Annual Salary) times years of service
- Maximum benefit: 65% of Highest Monthly Salary
- Form of payment: benefit is payable for life of judge with 50% continuing to surviving spouse
- Normal Retirement (unreduced benefits): age 65 with 4 years of service or age 50 and 20 years of service
 - Mandatory retirement: age 72 for active judges



Benefit Provisions

- Senior Judge Program
 - Provides additional judicial resources of a minimum of 13 weeks per year per judge
 - Senior judges receive a salary as determined by the General Assembly and an increase in their retirement benefit when active judges receive a salary increase
 - Senior judges may only serve for a total of six years, and not beyond age 78.



Funding Provisions

- Contributions by both judges and the employer are established in statute
- Statutory rates were 9.35% for employees and 30.60% for the state until the System is fully funded. Once full funding is reached, the actuarial contribution rate is split 40% employee/60% employer.
- Judicial Retirement System reached full funding in the July 1, 2021 valuation. Therefore, FY 2023 statutory contribution rates are:
 - ❖ Employee: 9.98%
 - ❖ Employer: 14.97%



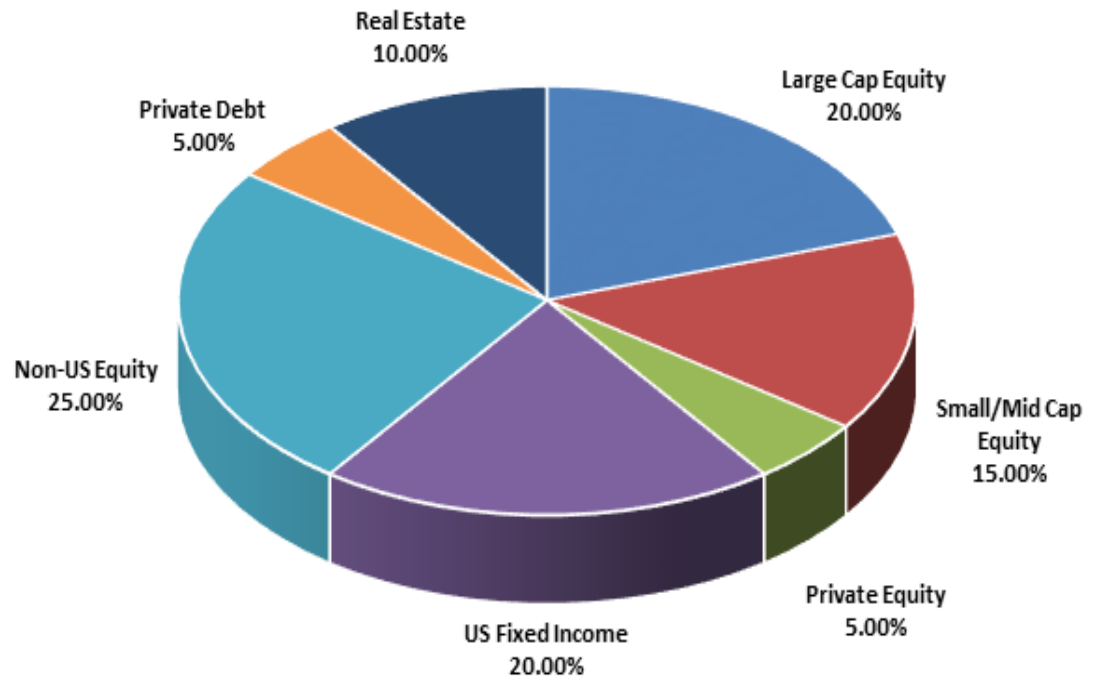
General Plan Overview

- Fund value at 6/30/2021: \$310,164,529
- Membership at 7/1/2021: 438 Total Members
 - Actives: 205
 - Inactive vested: 3
 - Retirees: 177
 - Beneficiaries: 53
- Total FY 2022 Expected Pension Benefits: \$15,209,116
 - Average Annual Benefit: \$66,127
- Total FY 2022 Covered Payroll: \$30,873,786
 - Average Annual Salary: \$150,604
- Total Contributions (FY 2021)
 - Member: \$2,811,044
 - State: \$9,199,743



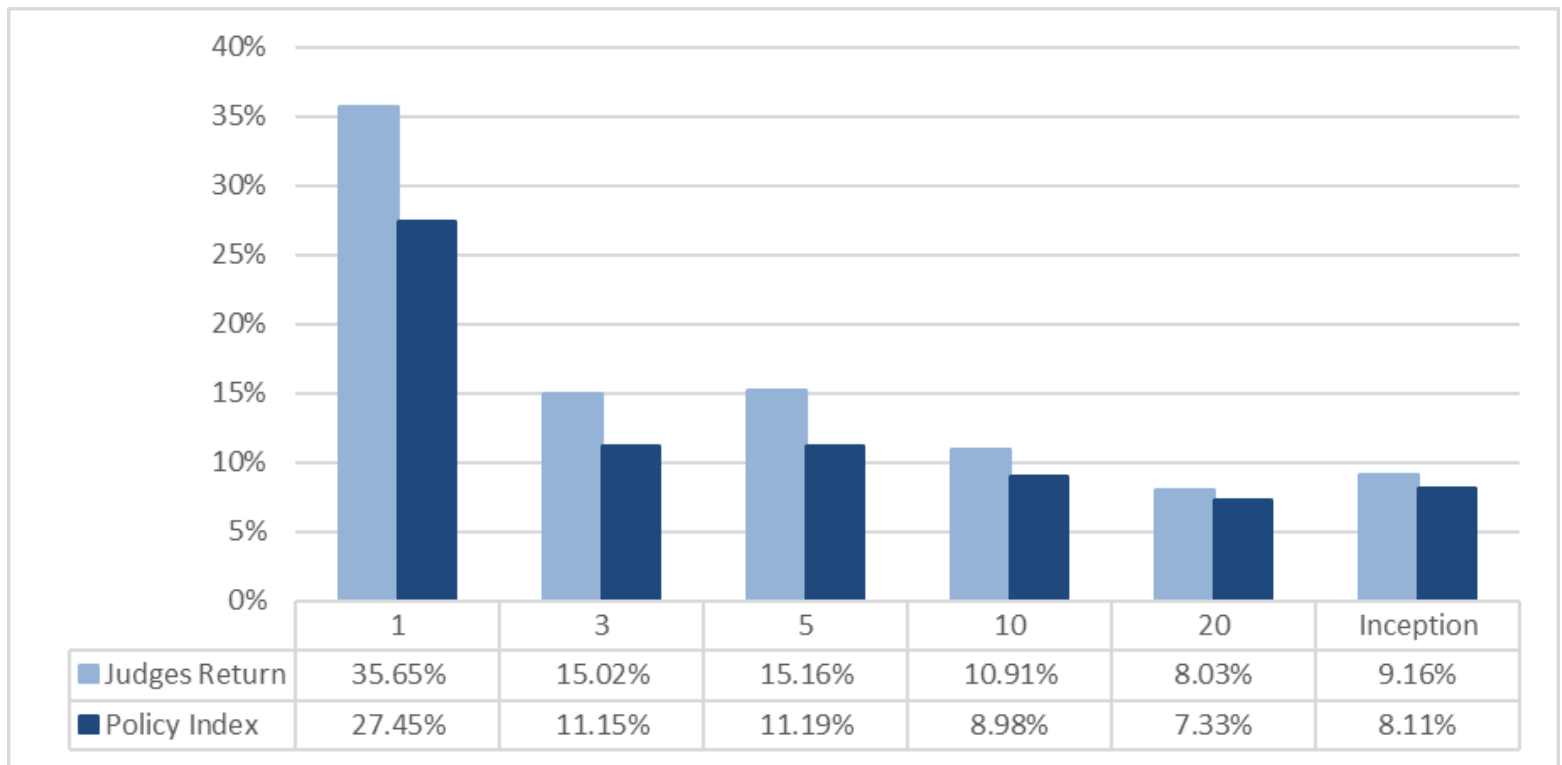
Current Target Asset Allocation

- Funds are invested by the State Treasurer.
- Asset allocation is the key driver of actual returns.





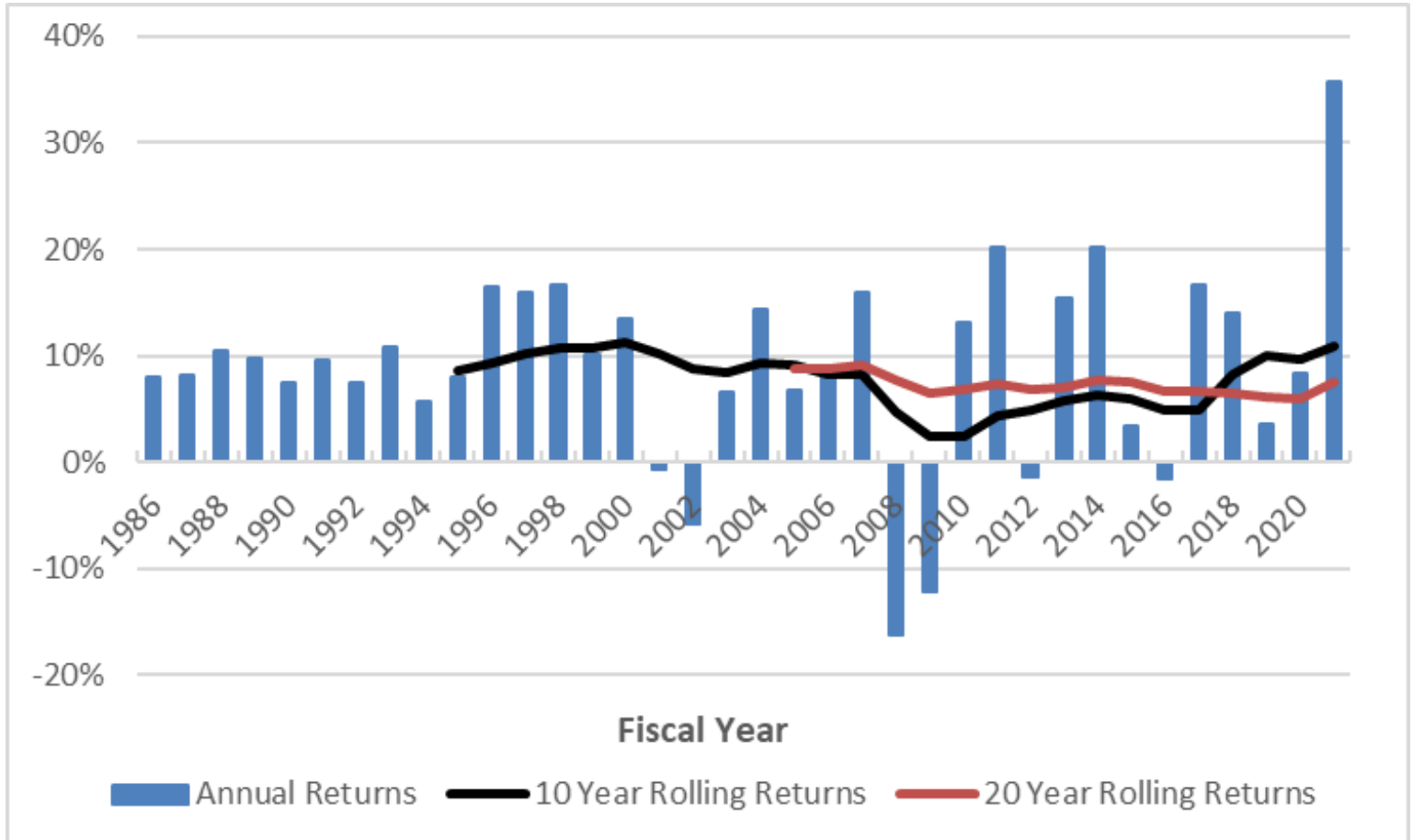
Historical Investment Performance



Note: Current investment return assumption, which is forward looking, is 6.75%.



Rolling Fund Returns (1986 – 2021)



Returns are much smoother over longer periods of time, like 20 years.



Funding of Retirement Systems

- Retirement systems represent a very long-term obligation
- Future benefit amounts are unknown so actuarial assumptions are used to help estimate the amount and timing of future benefit payments
 - The present value of the future benefit payments is the liability of the retirement system (the obligation to the members)
 - Assumptions are usually not selected to be overly aggressive or conservative because costs are being allocated across generations of members and taxpayers
- Each System has a *funding policy* that determines how the liabilities will be funded over time.



Funding of Retirement Systems

- Experience studies are performed every 4-5 years to review all assumptions to ensure they are reasonable and continue to be “best estimates”
- Recommendations in the 2018 Study:
 - Investment return assumption lowered from 7.5% to 6.75%
 - Mortality assumption strengthened to more recent table with a 2-year age setback. Future improvements are modeled using MP-2017 Scale (reflects future increases in life expectancy over time).
 - Other assumptions changed based on actual experience (retirement, termination, salary increases)
- Next study scheduled for 2023



Actuarial Valuation Process

- Valuations assist with monitoring funding progress and evaluating or setting contribution rates
- Actuarial process is a ***budgeting tool*** that allocates the cost of the benefits to different years of service worked by members
- Methodology used for JRS is *Entry Age Normal* which develops costs as a level percent of pay over a member's working career
 - ❖ Produces a stable cost, as a rate of pay
 - ❖ By design, dollar amounts of contributions will increase with expected increases in covered payroll



Actuarial Valuation Process

- Variations of actual experience from that assumed are to be expected from year to year as assumptions are long-term in nature
 - ❖ Deviations are called “*actuarial experience gains or losses*”
 - ❖ Gains are favorable experience (assets are higher than expected or liabilities are lower). Losses are unfavorable experience.
 - ❖ Gains and losses are reflected in the amount of the unfunded actuarial liability in the valuation each year, and impact the actuarial contribution rate.
- “*Actuarially funded*” means that current assets plus the future contributions, along with future investment earnings, are equal to the value of future benefit payments



Basic Funding Equation



$$C + I = B + E$$

C: Contributions
I: Investment Income

B: Benefits
E: Expenses

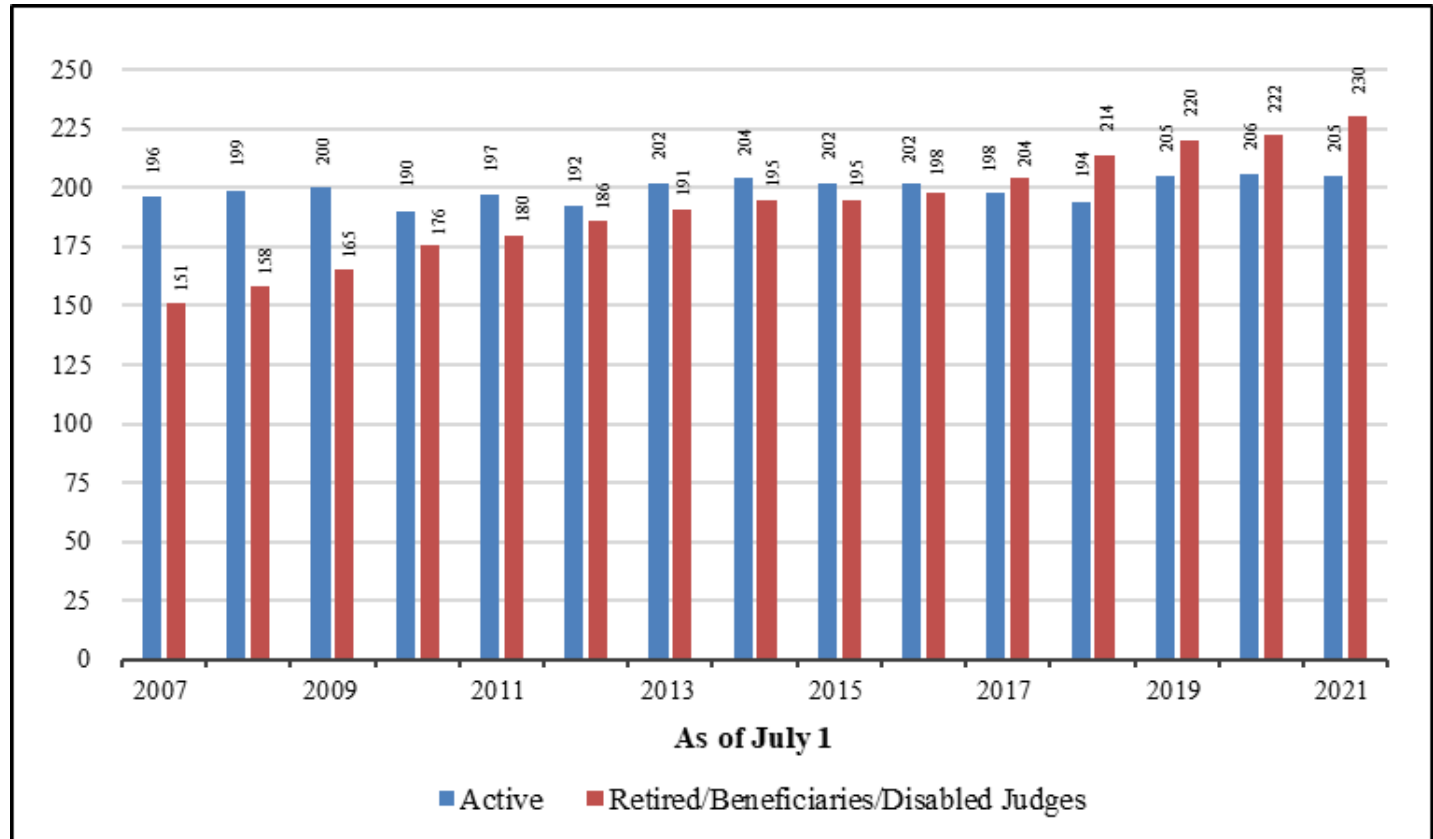


Actuarial Definitions

- **Actuarial Assets:** Smoothed value of assets used in the valuation process (market-related value)
- **Actuarial Liability:** Theoretical amount that should be in the trust, based on the funding plan, i.e., the portion of liability assigned to past years of service.
- **Unfunded Actuarial Liability (UAL):** Actuarial Liability minus Actuarial Assets
- **Funded ratio:** Actuarial Assets divided by Actuarial Liability
- **Actuarial Contribution Rate** = Sum of Normal Cost and UAL Payment (note this may not be the actual contribution made to the System, depending on funding policy)



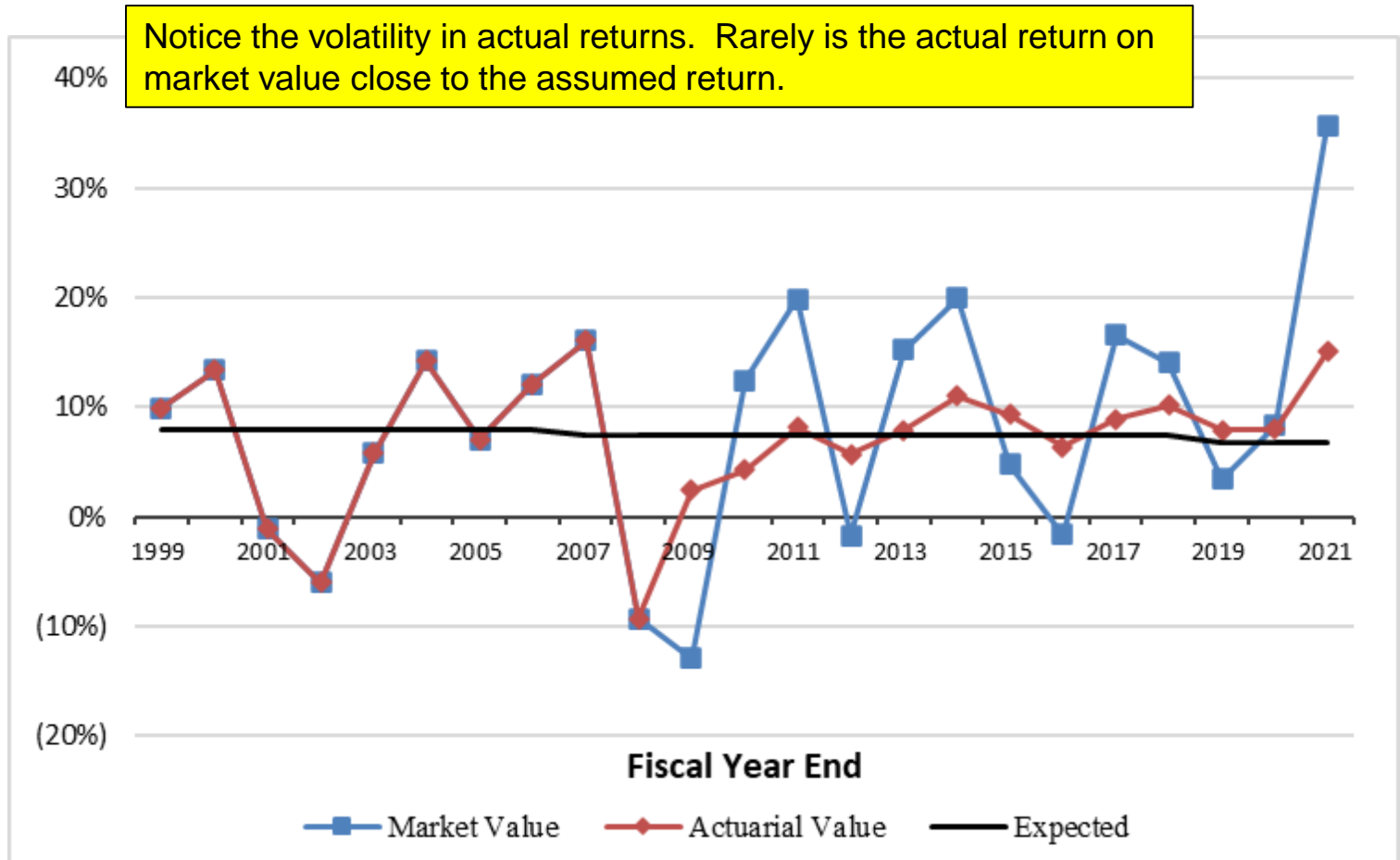
Judicial Historical Membership



Note: While the number of actives has remained relatively stable, the number of retirees/beneficiaries has grown over this time period which has been anticipated in the valuations. This is an indication of the maturity of the System.



Rate of Return (Market and Actuarial Value)



Note: Asset smoothing method was first reflected in the 2009 valuation.



Valuation Results - Funded Status

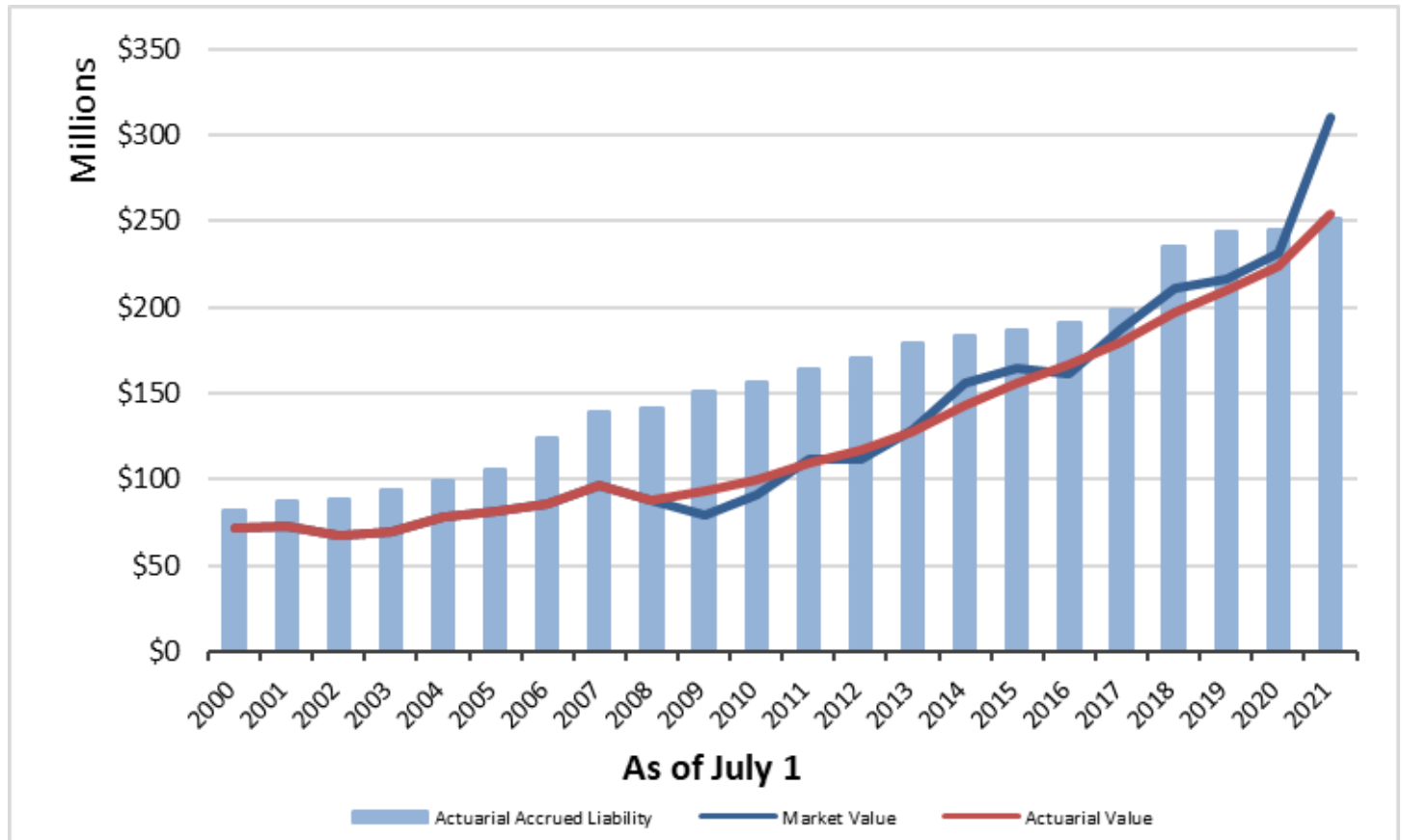
(\$ in Millions)

	<u>As of July 1,</u>	
	<u>2021</u>	<u>2020</u>
1. Actuarial Liability (AL)	\$ 251.2	\$ 245.2
2. Actuarial Assets	<u>254.2</u>	<u>223.8</u>
3. Unfunded AL: (1)-(2)	\$ (3.0)	\$ 21.4
4. Funded Ratio: (2)/(1)	101%	91%
5. Market Value Assets	\$ 310.2	\$ 231.5
6. Funded Ratio: (5)/(1)	123%	94%

Note: numbers may not add due to rounding.



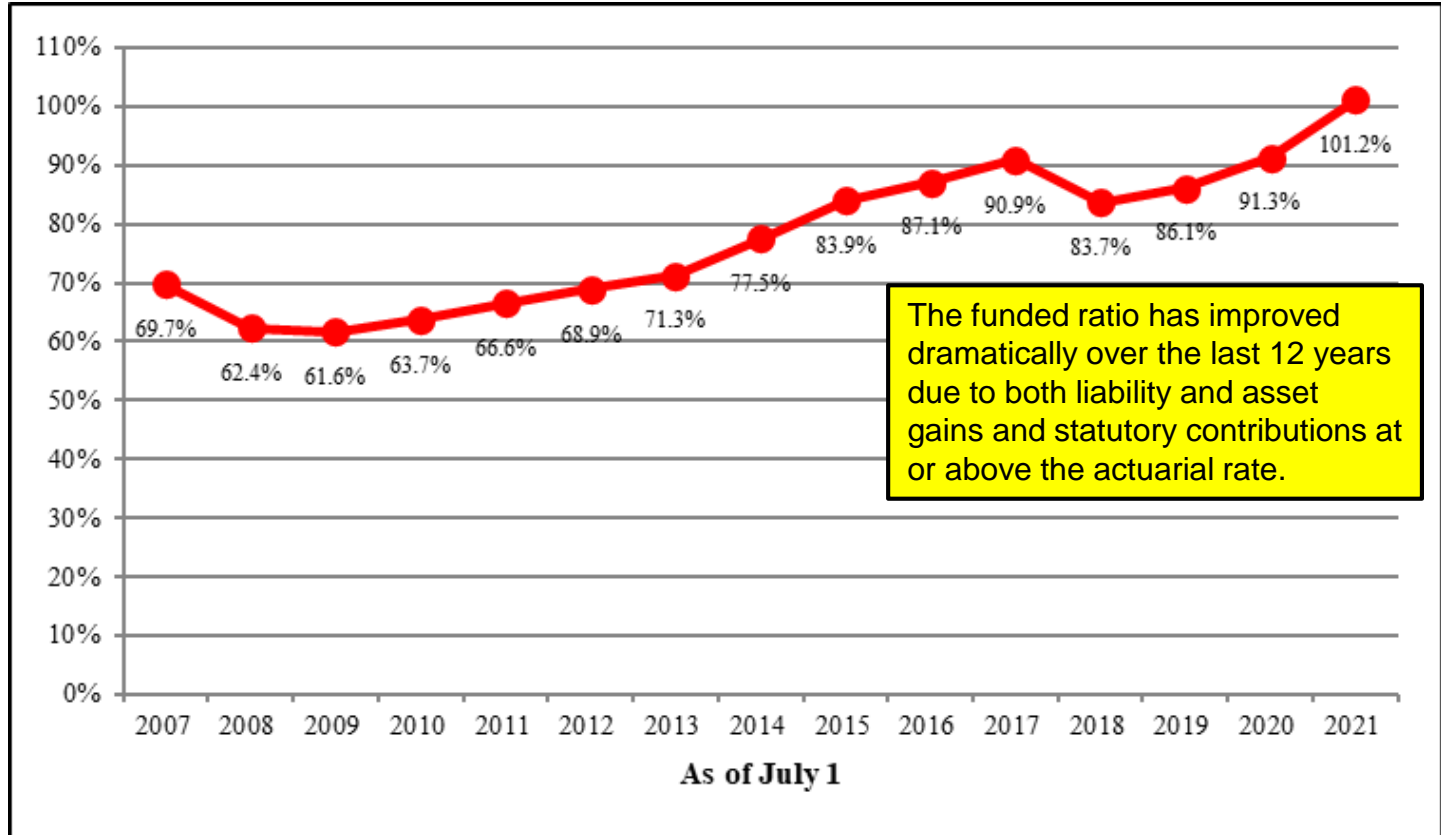
Assets Compared to Actuarial Liability



Note: Actuarial liability tends to increase rather steadily over time while assets are less predictable. Asset smoothing method first used in the 2009 valuation. The increase in the Actuarial Liability in 2018 was due to the assumption changes.



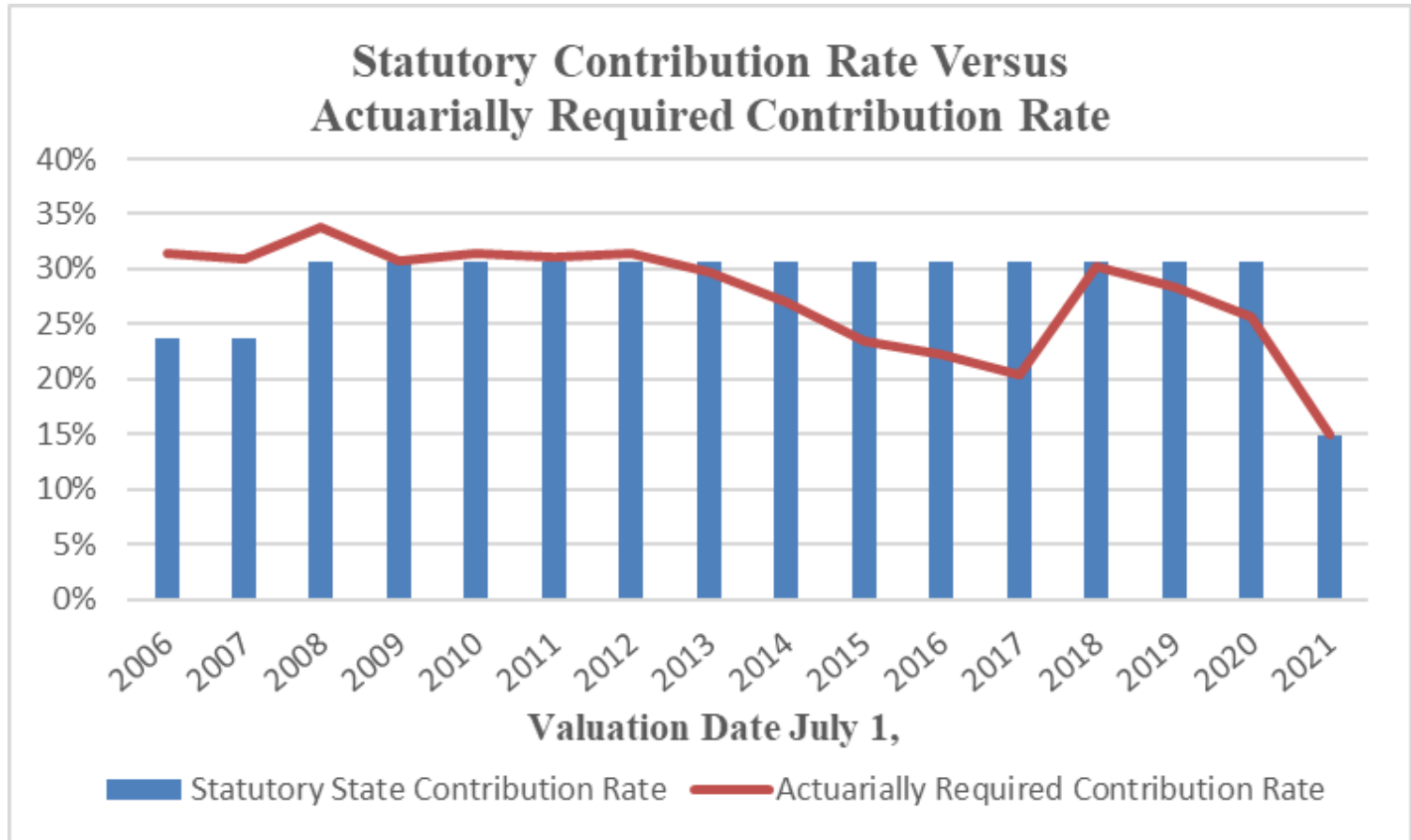
Funded Ratio (Actuarial Assets/Actuarial Liability)



Note: Asset smoothing was first used in the 2009 valuation. Actuarial assumptions were changed in 2018 which resulted in a significant decrease in the funded ratio.



Historical Contribution Rates



Actual contributions have been at or above the actuarial rate since the 2009 valuation.



Valuation Results - Contribution Rates

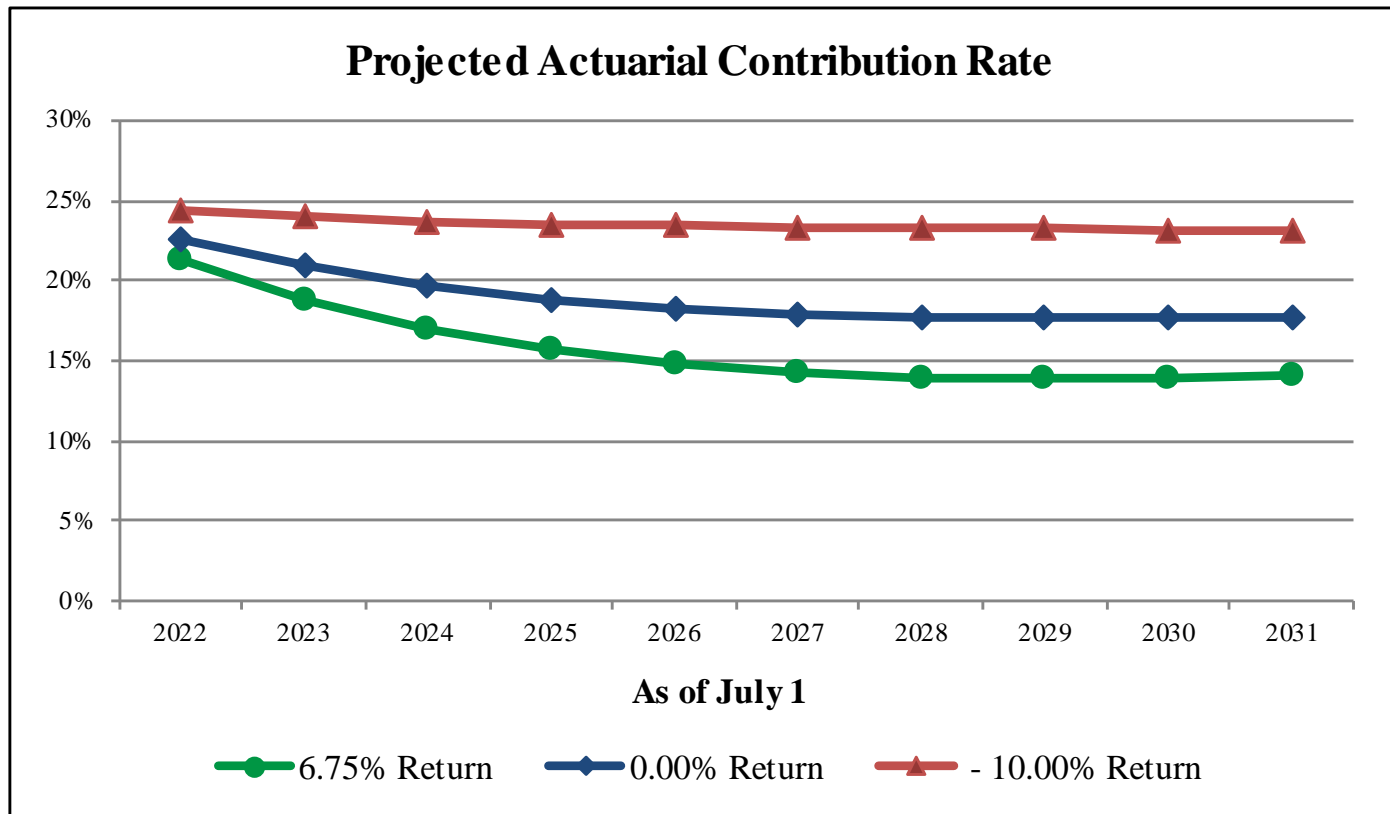
	<u>As of July 1,</u>	
	<u>2021</u>	<u>2020</u>
1. Normal Cost	25.69%	25.77%
2. Unfunded Liability Payment	<u>(0.74%)</u>	<u>9.16%</u>
3. Total Actuarial Contribution Rate (1) + (2)	24.95%	34.93%
4. Statutory Member Rate	<u>9.98%</u>	<u>9.35%</u>
5. State Contribution Rate: (3) – (4)	14.97%	25.58%
6. Statutory State Contribution Rate	N/A	(30.60%)
7. Contribution Margin: (5)-(6)	N/A	(5.02%)

Results of the July 1, 2021 valuation set the contribution rates for the fiscal year beginning July 1, 2022.



Impact of Actual vs Expected Investment Return in FY 2022

- Projections illustrate the impact of different returns in FY 2022 and then 6.75% return thereafter





Summary of 2021 Valuation Results

- Current funded status and outlook for future is positive
 - ❖ Funded ratio of 101% in 2021 valuation
 - ❖ Beginning in FY 2023, the statutory contribution rate will be set equal to actuarial contribution rate since the System is now fully funded
 - ❖ Member and State contributions are expected to vary from year to year, potentially significantly, as the actuarial contribution rate fluctuates due to actual versus expected experience
- Future experience, particularly investment returns, will heavily influence the funding of the System.
 - ❖ General expectations are for lower returns in the next five to ten years
 - ❖ May result in pressure on the contribution rates.