



Judicial Retirement System

Presentation to Public Retirement Systems Committee

Presented by:

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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)



General Plan Overview

- Fund value at 6/30/2023: \$255,447,210
- Membership at 7/1/2023: 467 Total Members
 - Actives: 216 (average age: 54, average service: 9 years)
 - Inactive vested: 4
 - Retirees: 193
 - Beneficiaries: 54
- Total FY 2024 Expected Pension Benefits: \$16,466,868
 - Average Annual Benefit: \$66,667
- Total FY 2024 Covered Payroll: \$33,019,148
 - Average Annual Salary: \$152,866
- Total Contributions (FY 2023)
 - Member: \$3,277,342
 - State: \$4,915,985



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 justices 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.



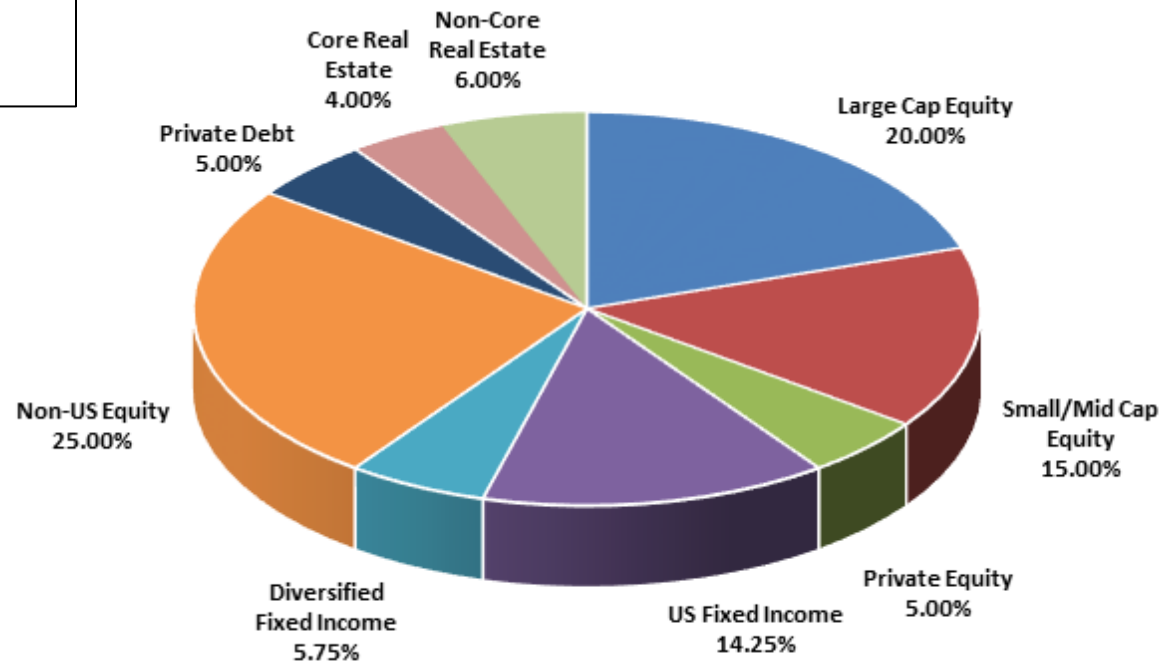
Funding Provisions

- Contributions by both judges and the employer are established in statute
- Statutory rates were 9.35% for employees and 30.60% for the state prior to being fully funded. Once full funding was reached, the actuarial contribution rate is split 40% employee/60% employer.
- Judicial Retirement System reached fully funded status in the July 1, 2021 actuarial valuation.
 - Contribution rates vary each year depending on the results of the actuarial valuation.



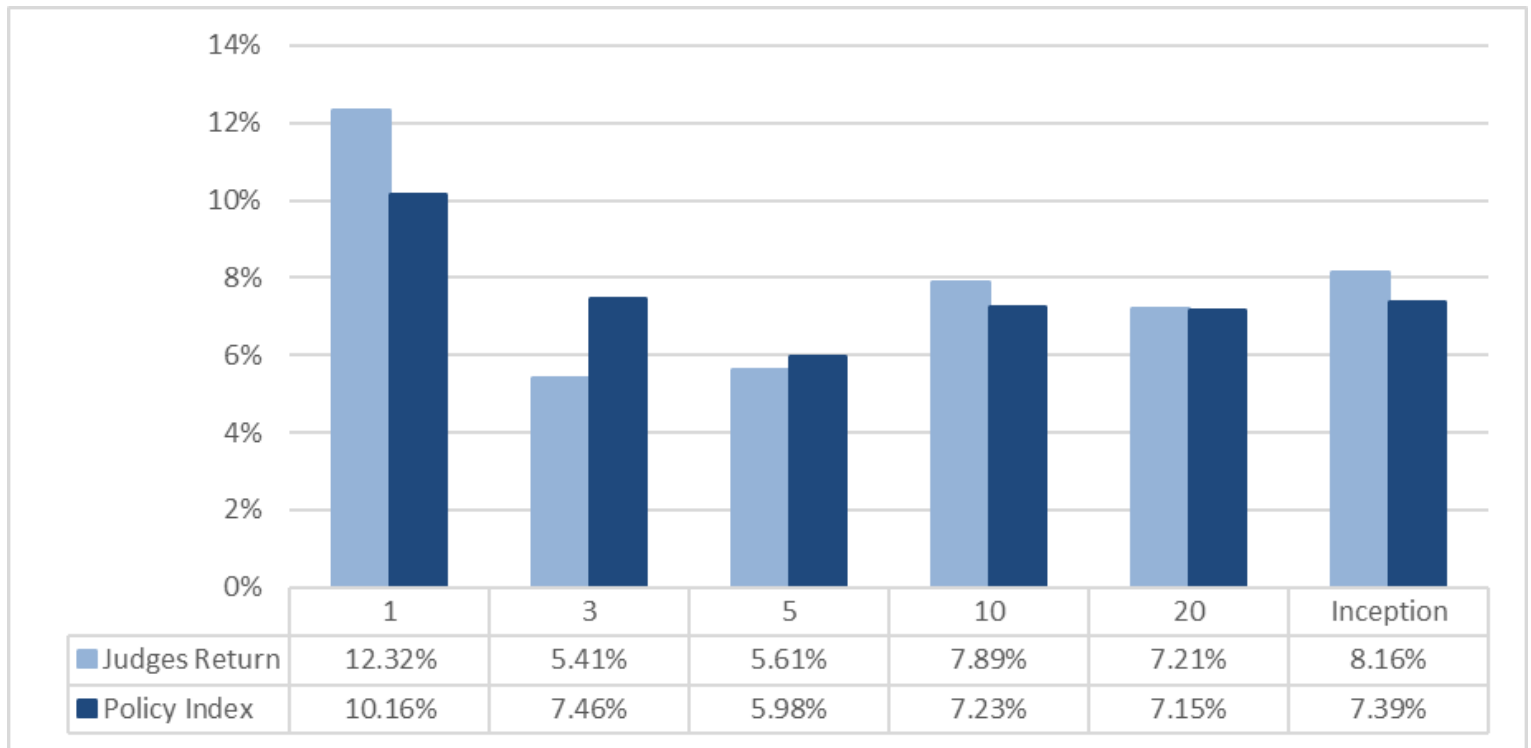
Current Target Asset Allocation

- 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%.



Funding of Retirement Systems

- Retirement systems represent a very long-term obligation with benefit payments that stretch out 80+ years in the future
- Future benefit amounts are unknown so actuarial assumptions are used to help estimate the amount, timing and duration 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 Policies

- Alternate Funding Policies:
 - ❖ Fixed contribution rates for both employee and employer (e.g. Iowa POR)
 - ❖ Fixed contribution rate for employee and actuarial contribution rate for employer (most common in public plans)
 - ❖ Actuarial contribution rate split between the employee and employer (Iowa Judges and IPERS protection occupation and sheriffs & deputies)
 - ❖ Hybrid: actuarial contribution rate with limitation on changes in the contribution rate (IPERS regular membership)
- No “right or wrong” method. All can accumulate sufficient funds to pay benefits when due, but there are inherent strengths and weaknesses.



Actuarial Valuation Process

- Actuarial valuations assist with monitoring funding progress and evaluating fixed contribution rates or setting actuarial-based 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 present value of future benefit payments

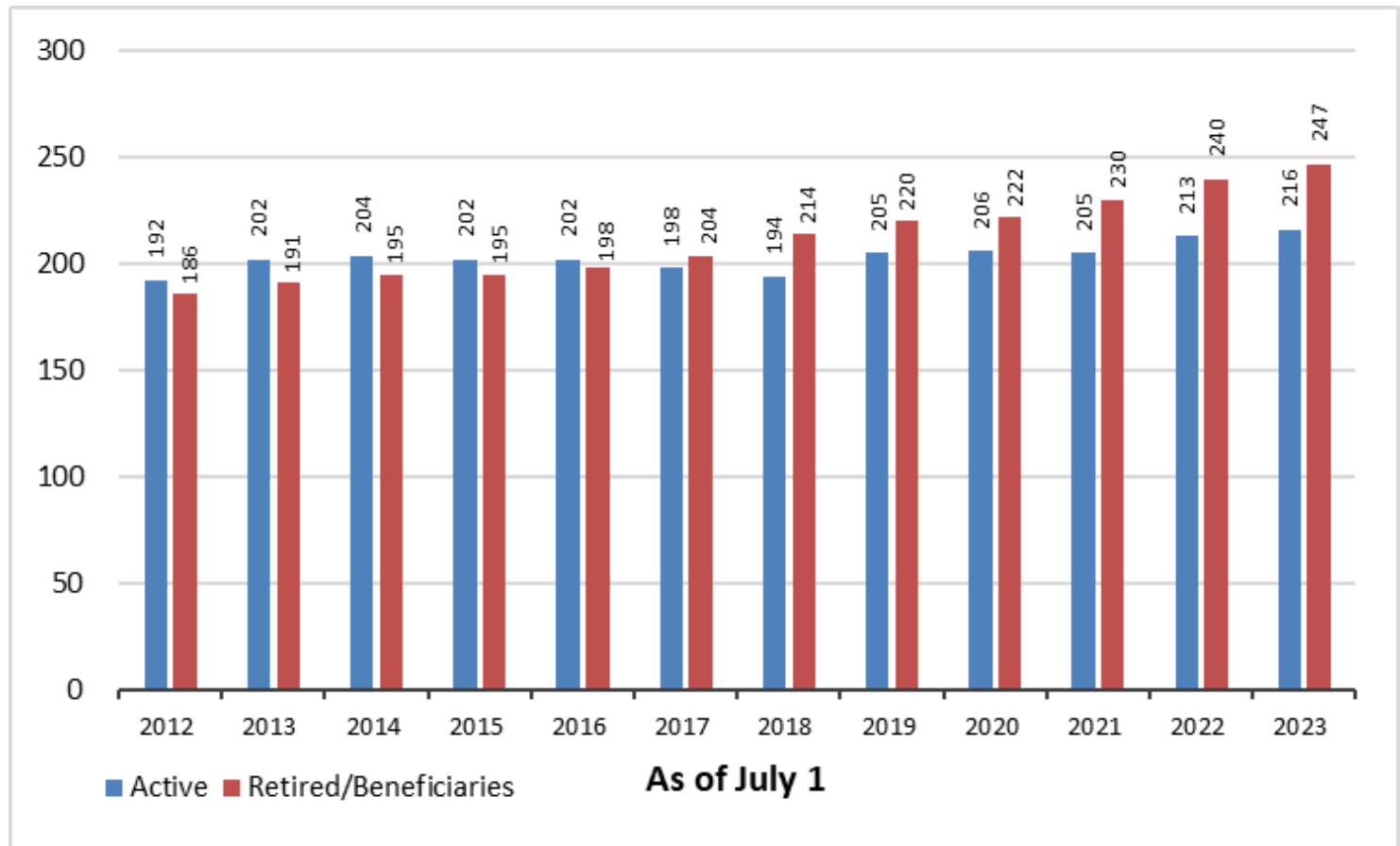


Actuarial Definitions

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



Judicial Historical Membership

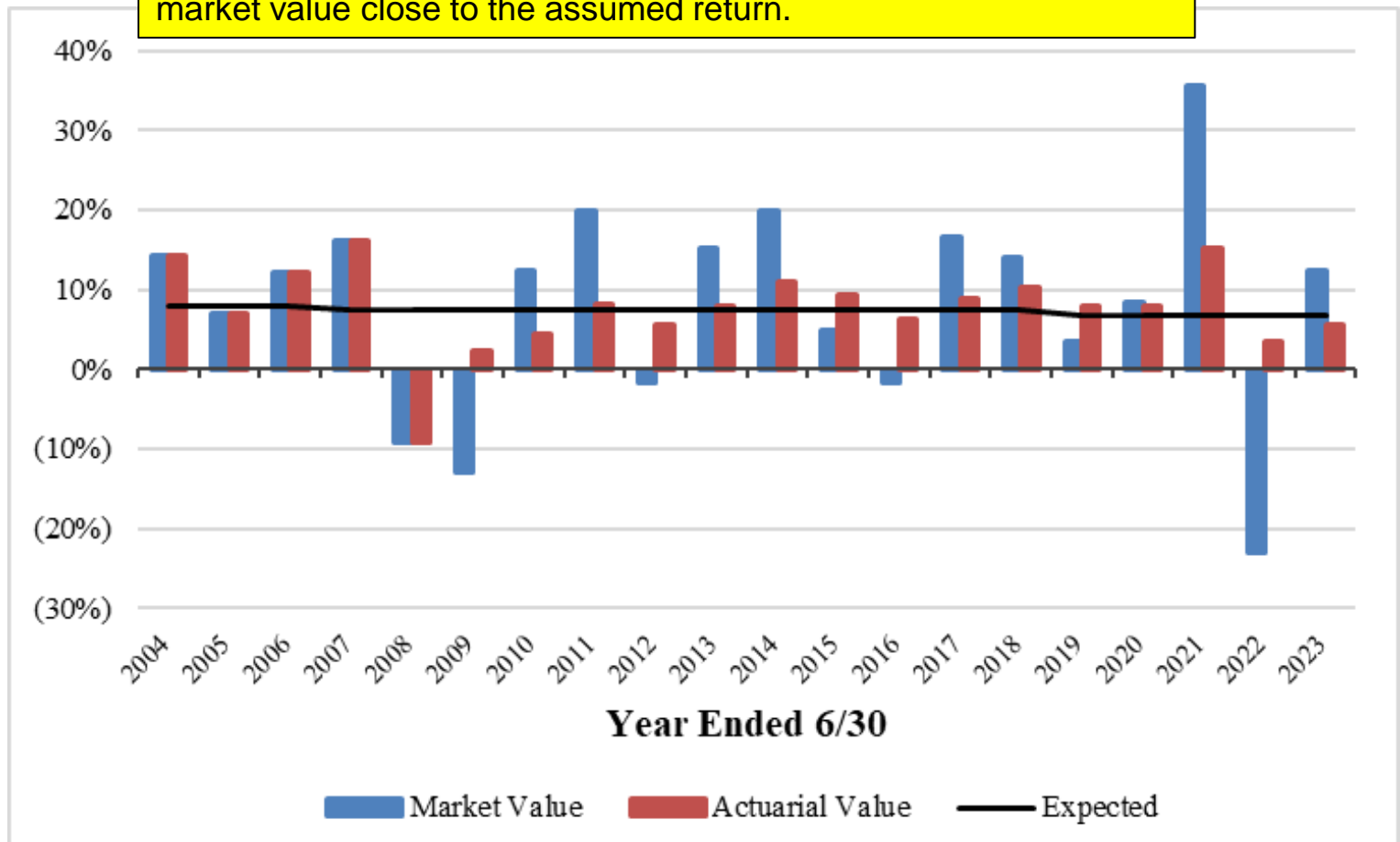


Note: While the number of actives has remained relatively stable, the number of retirees/beneficiaries has grown over this period which has been anticipated in the valuations. This is an indication of the maturity of the System.



Historical Investment Returns (Market and Actuarial Value)

Notice the volatility in actual returns. Rarely is the actual return on market value close to the assumed return.



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



Valuation Results - Funded Status

(\$ in Millions)

	<u>As of July 1,</u>	
	<u>2023</u>	<u>2022</u>
1. Actuarial Accrued Liability (AAL)	\$ 265.8	\$ 260.8
2. Actuarial Assets	<u>265.4</u>	<u>259.7</u>
3. Unfunded AAL: (1)-(2)	\$ 0.4	\$ 1.1
4. Funded Ratio: (2)/(1)	99.8%	99.6%
5. Market Value Assets	\$ 255.4	\$ 235.4
6. Funded Ratio: (5)/(1)	96.1%	90.3%

Note: numbers may not add due to rounding.



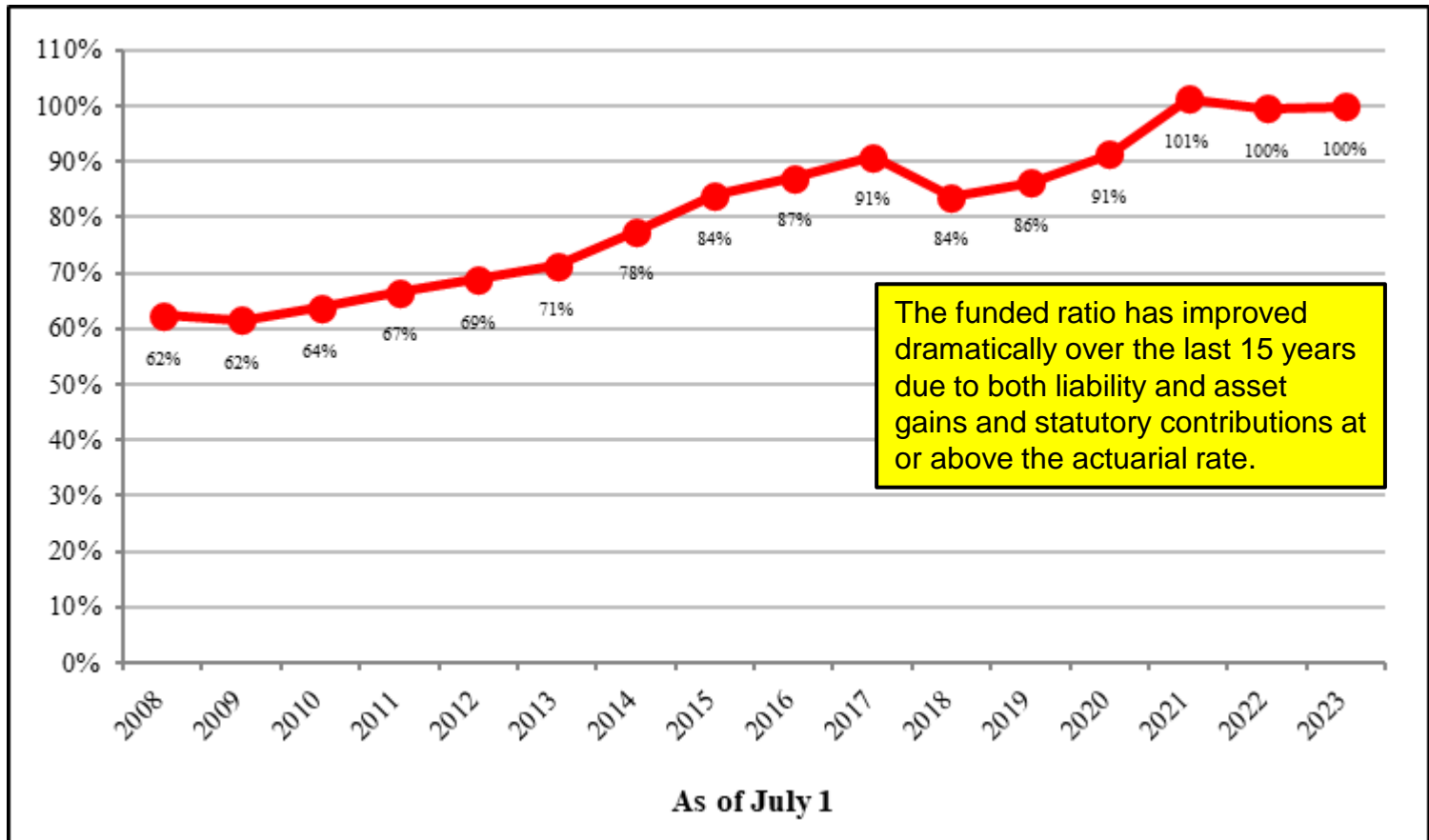
Change in Unfunded Actuarial Accrued Liability

	(\$ Millions)
Unfunded Actuarial Accrued Liability, July 1, 2022	1.1
- Expected change	0.0
- Effect of contribution lag	0.3
- Investment experience	3.3
- Liability/other experience	(4.3)
Unfunded Actuarial Accrued Liability, July 1, 2023	0.4

The return on the actuarial value of assets was 5.5%, resulting in an experience loss of \$3.3 million. The experience gain on liabilities resulted from lower salaries than expected by the assumptions, which also impacted the senior judges' benefit adjustment.



Funded Ratio (Actuarial Assets/Actuarial Liability)



Note: Actuarial assumptions were changed in 2018 which resulted in a significant decrease in the funded ratio.



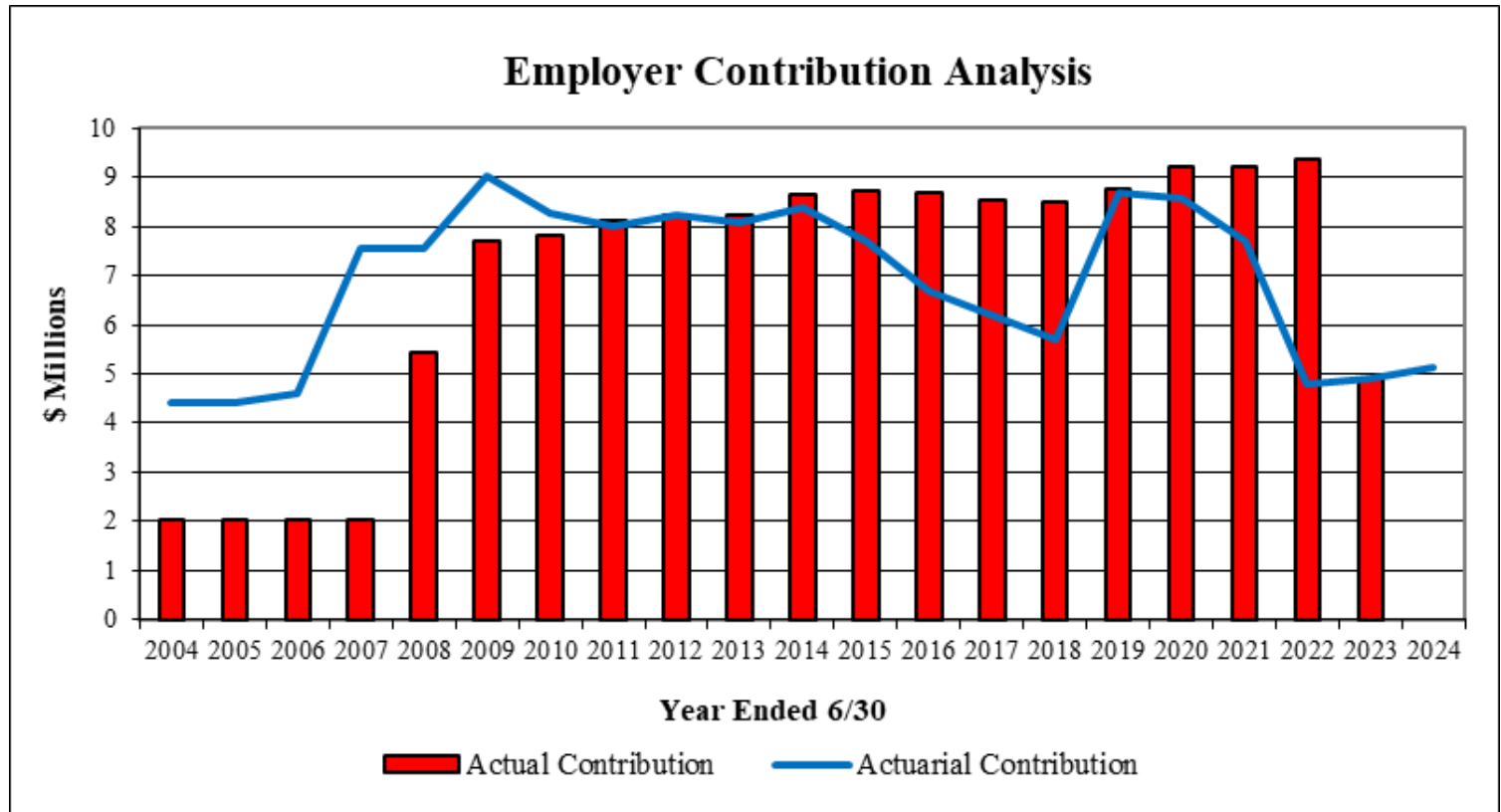
Valuation Results - Contribution Rates

	<u>As of July 1,</u>	
	<u>2023</u>	<u>2022</u>
1. Normal Cost	25.26%	25.62%
2. UAAL Payment	<u>0.06%</u>	<u>0.27%</u>
3. Total Actuarial Contribution Rate (1) + (2)	25.32%	25.89%
4. Member Contribution Rate 40% of (3)	10.13%	10.36%
5. State Actuarial Contribution Rate (3) - (4)	15.19%	15.53%

Results of the July 1, 2023 valuation set the contribution rates for the fiscal year beginning July 1, 2024.



Historical Contributions



Actual contributions have been at or above the actuarial rate over the last 13 years.



Contribution Rates

- Since the System became fully funding in the July 1, 2021 valuation, the actuarial contribution rate is split 40% employee/60% employer.
- Actuarial contribution rates will vary each year as actual experience varies from that expected. Recent results:

Fiscal Year	Valuation	Member Rate	Employer Rate
2023	7/1/2021	9.98%	14.97%
2024	7/1/2022	10.36%	15.53%
2025	7/1/2023	10.13%	15.19%

Prior to FY 2023, fixed contribution rates were 9.35% for judges and 30.60% for the State.



Contribution Rates

- Investment volatility creates volatility in the actuarial contribution rate and, therefore, the employee and employer contribution rates.
- Special study performed in November 2022 to better understand the implications of the current funding policy
 - ❖ 25% chance the employee contribution rate in 2032 valuation will exceed 16.26% (employer rate will exceed 24.38%).
 - ❖ Probability of employee contribution rate exceeding 14.75% sometime during the next 10 years is 40%.
 - ❖ Given the distribution of investment returns, the change in the employee contribution rate in one year could be as high as 3.5%.
 - ❖ Given the results of this study and the variability of the rate, the judges and State would both benefit from moving to a fixed contribution rate for planning purposes.



Impact of Various Fixed Contribution Rates

- Total current contribution rate is 25.32% of pay, with employees paying 10.13%.
- The fixed contribution rate needed to reach 100% funded ratio in 20 years is shown in the table below:

Probability	Fixed Rate
50%	27.0%
60%	32.5%
70%	37.5%
80%	44.5%
90%	53.5%

- There is a 74% probability of being 100% funded in 20 years with the prior fixed contribution rates (9.35% for employees and 30.60% for employer).



Summary of 2023 Valuation Results

- Current funded status and outlook for future is positive
 - ❖ Funded ratio of 99.8% in the 2023 valuation
 - ❖ Since FY 2023, the statutory contribution rate is set equal to actuarial contribution rate since the System reached fully funded status.
 - ❖ 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.
 - ❖ Changes in the employee and employer contribution rates should be expected and could be material if the current funding policy is not changed.