Judicial Retirement System

Presentation to

Public Retirement Systems Committee

Presented by:
Todd Nuccio, State Court Administrator
Patrice A. Beckham, Principal, Cavanaugh Macdonald Consulting, LLC

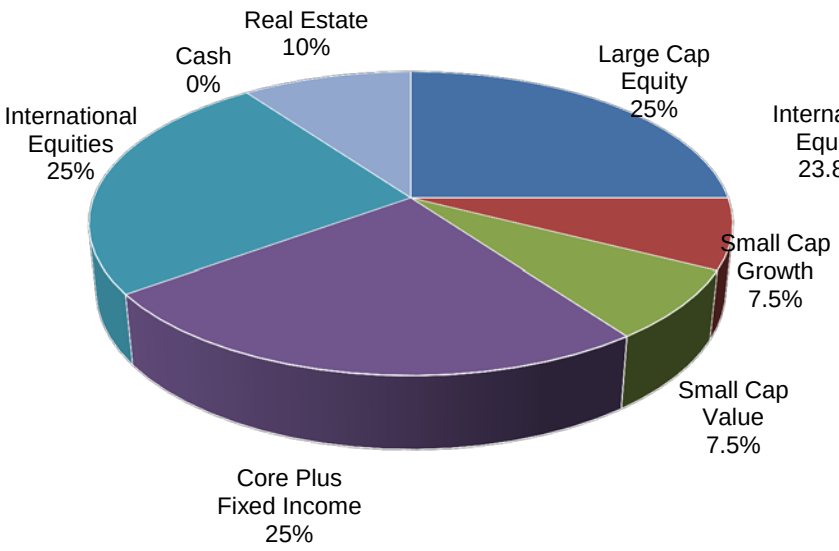
December 18, 2017

Governance

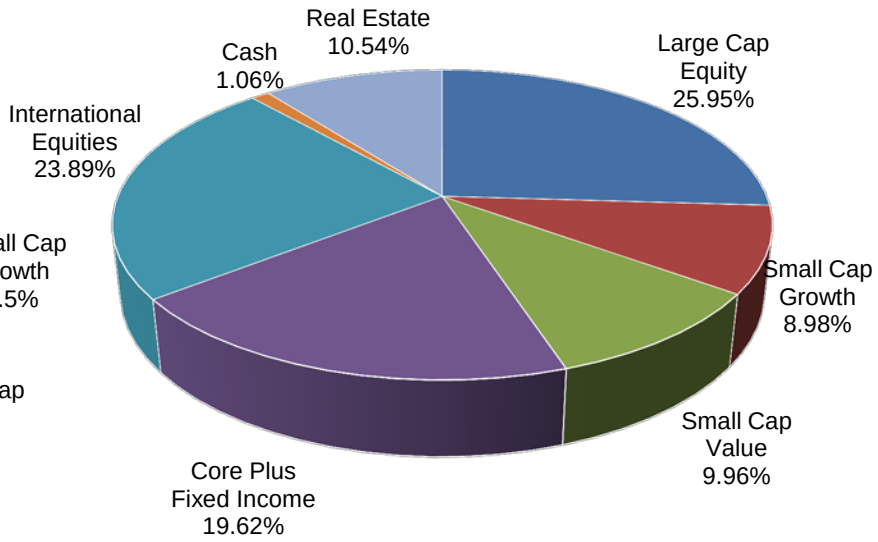
- Established in Iowa Code chapter 602
- Referenced in the State Constitution: General Assembly “shall prescribe mandatory retirement for judges of the supreme court and the district court at a specific age and shall provide for adequate retirement compensation”.
- System is administered by the State Court Administrator who is appointed by the Supreme Court
- Funds are invested by the State Treasurer

Current Asset Allocation

Target Allocation



Actual Allocation



Membership

- 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

Funding

- Contributions by both judges and the employer as established in statute
- Current statutory contribution rates:
  - Employee: 9.35%
  - Employer: 30.60%
- Once fully funded, the contribution rate will vary each year with employees paying 40% and the employer paying 60%

Benefit Overview

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

Benefit Overview

- 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

Funding Retirement Systems

$$C + I = B + E$$

C: Contributions
I : Investment Income

B: Benefits
E: Expenses

Funding of Retirement Systems

- Very long term in nature
- Actuarial assumptions are used to help estimate the amount and timing of future benefit payments
  - Neither overly aggressive nor conservative because costs are being allocated to different generations of members and taxpayers
  - Experience studies are performed on a regular basis to review assumptions and ensure they are reasonable and best estimates
- Valuations assist with monitoring funding progress and funding requirement (contribution rates). Enable adjustments to be made if trends become apparent

Actuarial Valuation Process

- Actuarial process allocates the cost of the benefits to years of service worked by members
  - Past: Actuarial liability
  - Current: Normal cost
  - Future: Future normal costs

- Methodology used 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 cost increase as covered payroll increases

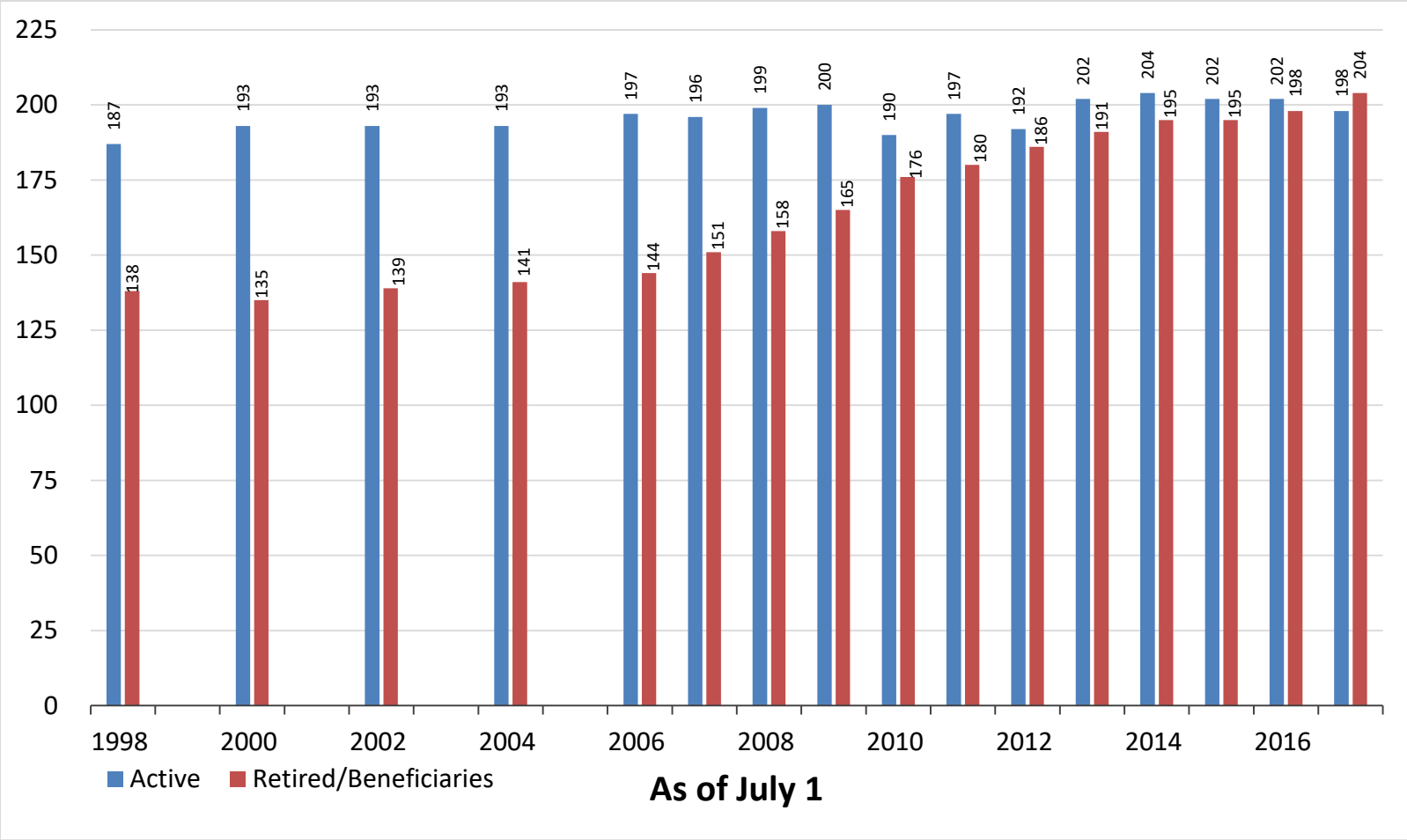
Actuarial Valuation Process

- 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 (assets are higher than expected or liabilities are lower)
  - Reflected in the dollar amount of the unfunded actuarial liability
- “Actuarially funded” means that current assets plus future contributions, along with future investment earnings will equal the value of future benefit payments

Actuarial Valuation Metrics

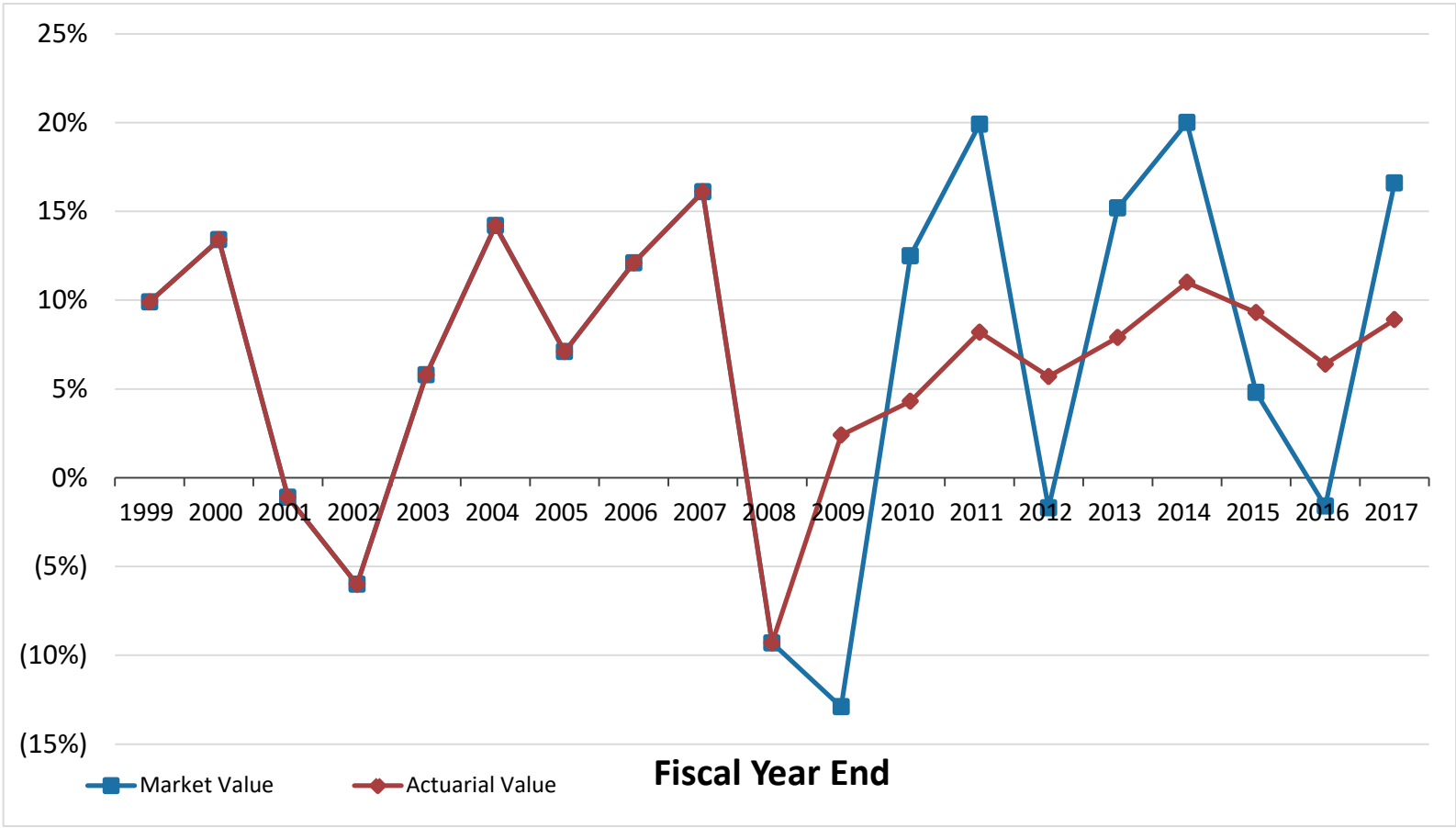
- Actuarial Assets: Smoothed value of assets used in the valuation process
- Unfunded Actuarial Liability (UAL): Actuarial Liability minus Actuarial Assets
- Funded ratio: Actuarial Assets divided by Actuarial Liability
- Actuarial Contribution Rate = Sum of Normal Cost and UAL Payment

Judicial Membership



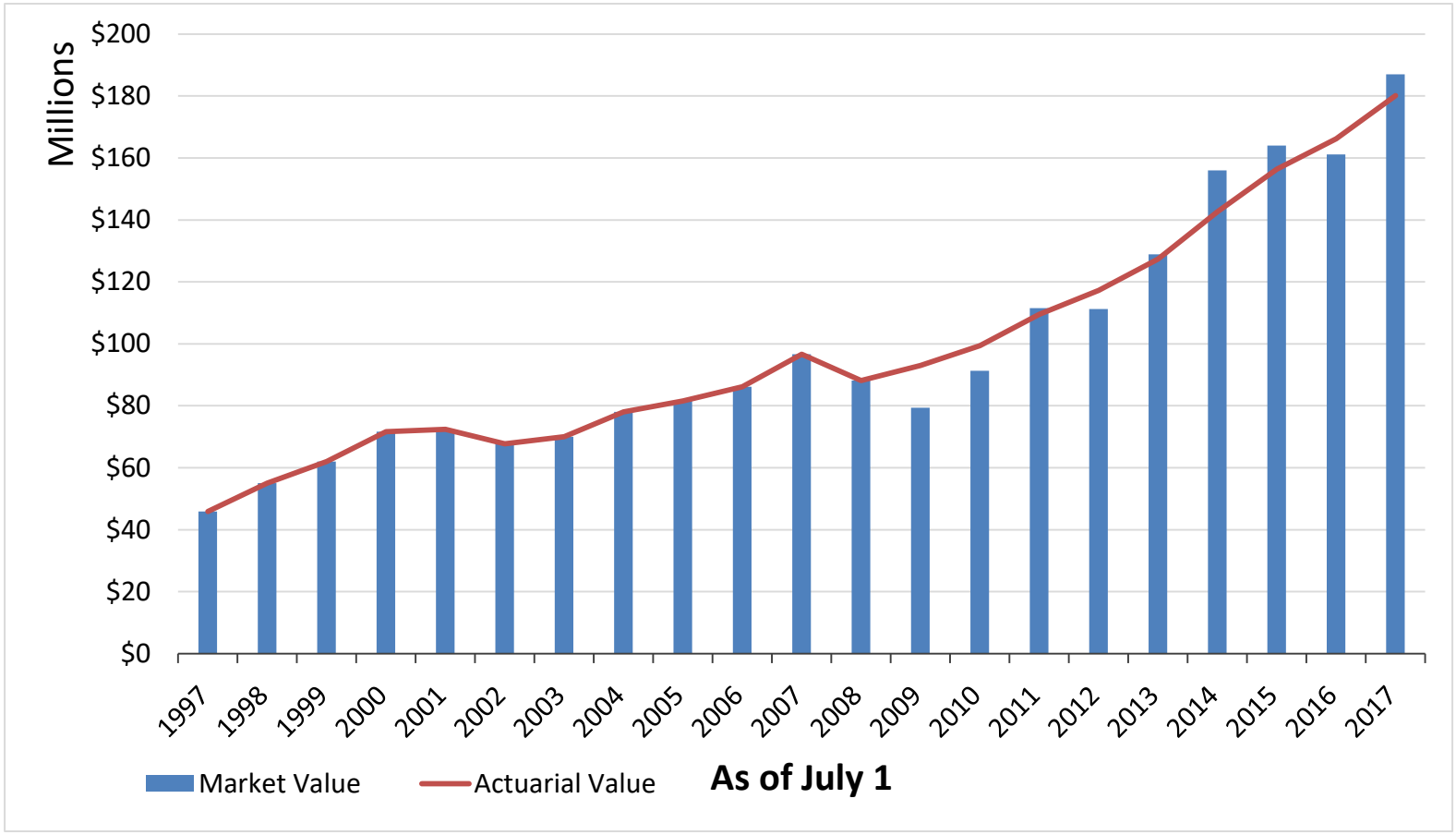
Note: Actuarial valuations were performed every two years prior to 2006.

Rate of Return
(Market and Actuarial Value)



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

Value of Assets: Market and Actuarial



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

Key Valuation Results
($ in Millions)

	As of July 1, 2017	As of July 1, 2016
1. Actuarial Liability	$ 198.2	$ 190.9
2. Actuarial Assets	180.1	166.2
3. Unfunded AL: (1)-(2)	$ 18.1	$ 24.7
4. Funded Ratio: (2)/(1)	91%	87%
5. Market Value Assets	$ 187.0	$ 161.2
6. Funded Ratio: (5)/(1)	94%	84%

Note: numbers may not add due to rounding.

Key Valuation Results

	As of July 1, 2017	As of July 1, 2016
1. Normal Cost	21.92%	21.90%
2. UAL Payment	7.90%	9.66%
3. Total Actuarial Contribution Rate (1) + (2)	29.82%	31.56%
4. Member Rate	(9.35%)	(9.35%)
5. State Rate: (3) – (4)	20.47%	22.21%
6. Statutory Contribution Rate	(30.60%)	(30.60%)
7. Contribution Margin: (5)-(6)	**(10.13%)**	**(8.39%)**

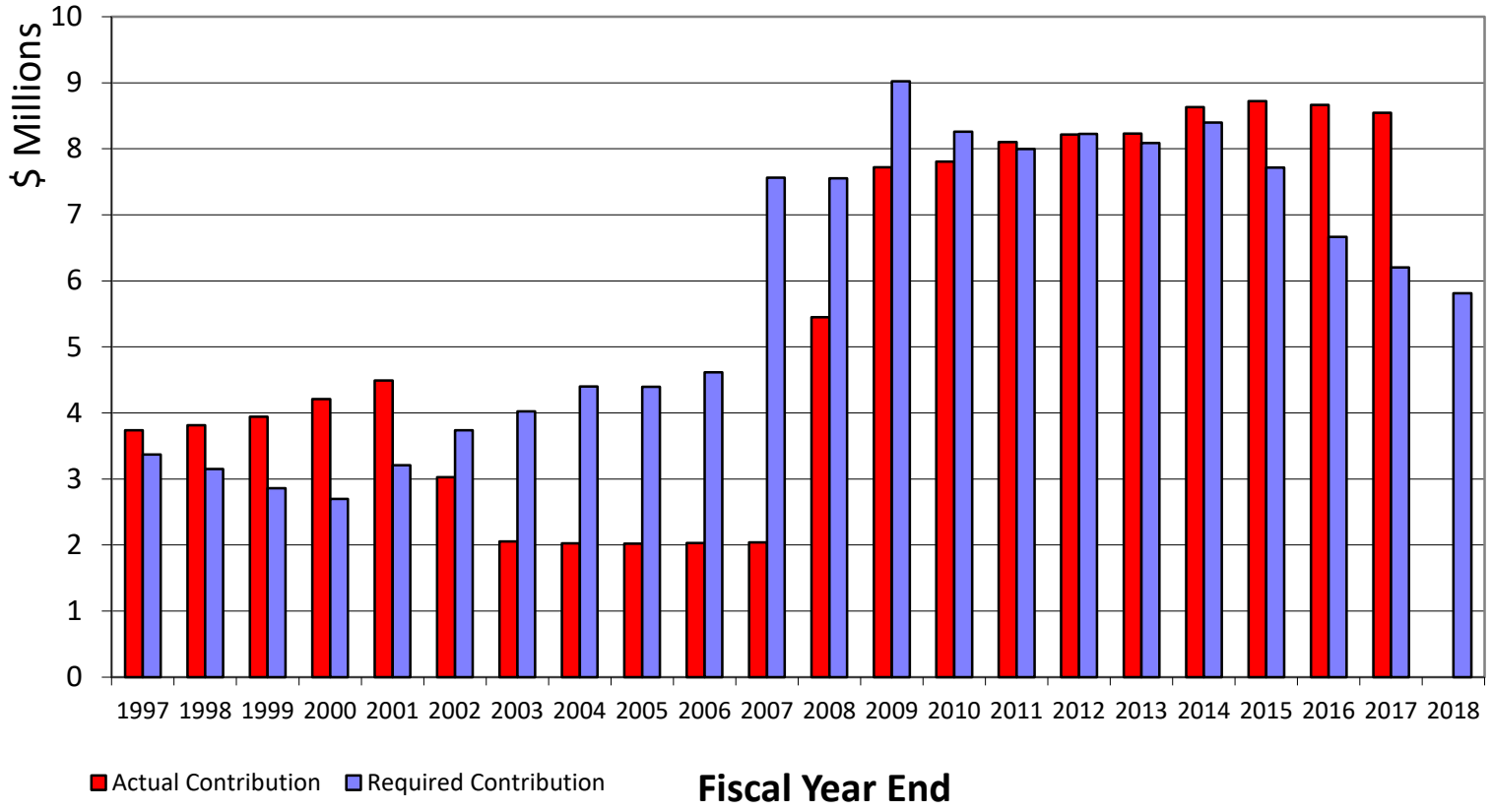
Note: The contribution margin will serve as a cushion to absorb adverse experience in the future or to pay off the UAL more rapidly.

Total Contribution Amounts

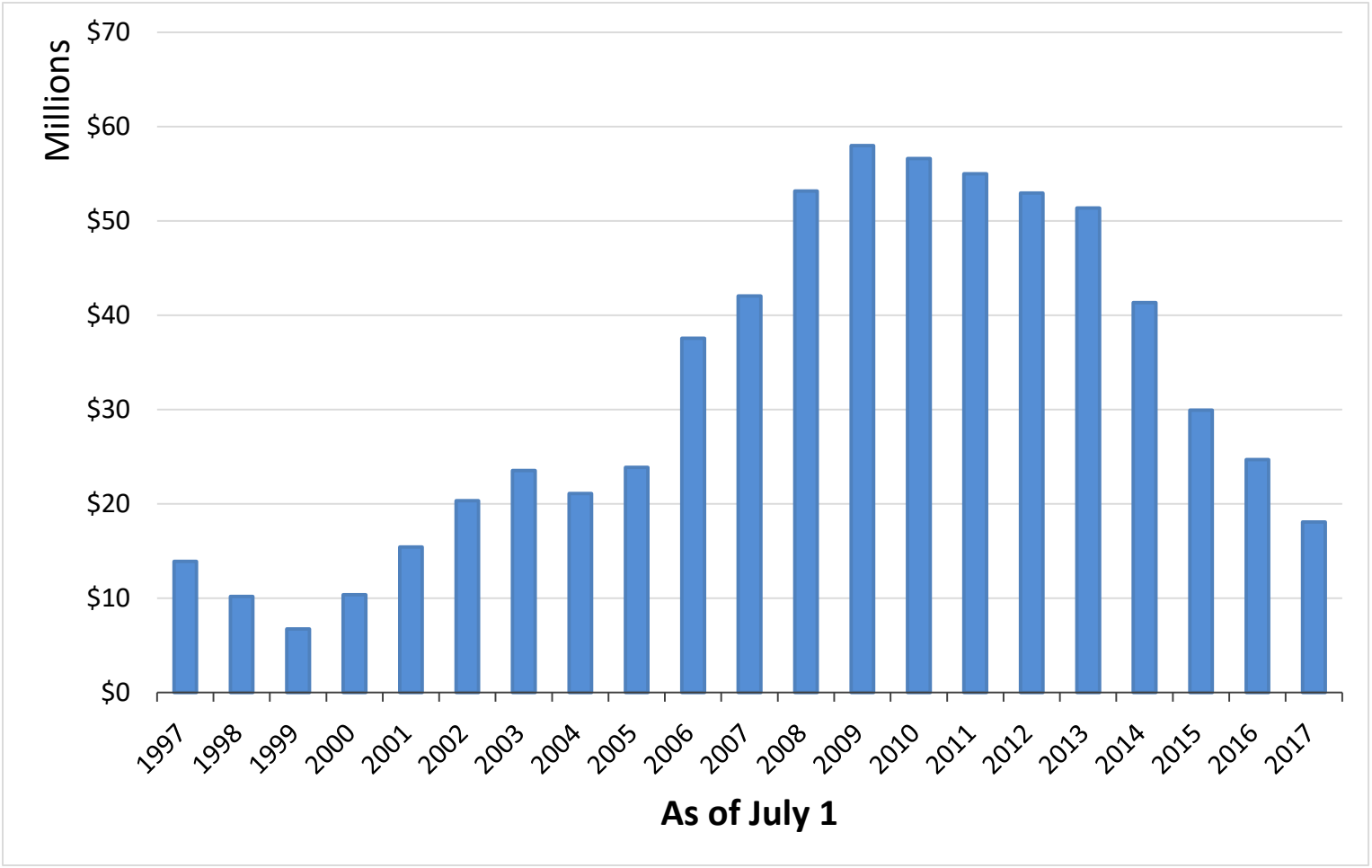
	Fiscal Year End	
	2018*	**2017 (Actual)**
Statutory Contributions		
- Members	$ 2,655,731	$ 2,610,702
- State	8,691,484	8,544,064
Total Statutory Contributions	$11,347,215	$11,154,766

* Estimated using the expected payroll of $28.4M from the 2017 valuation.

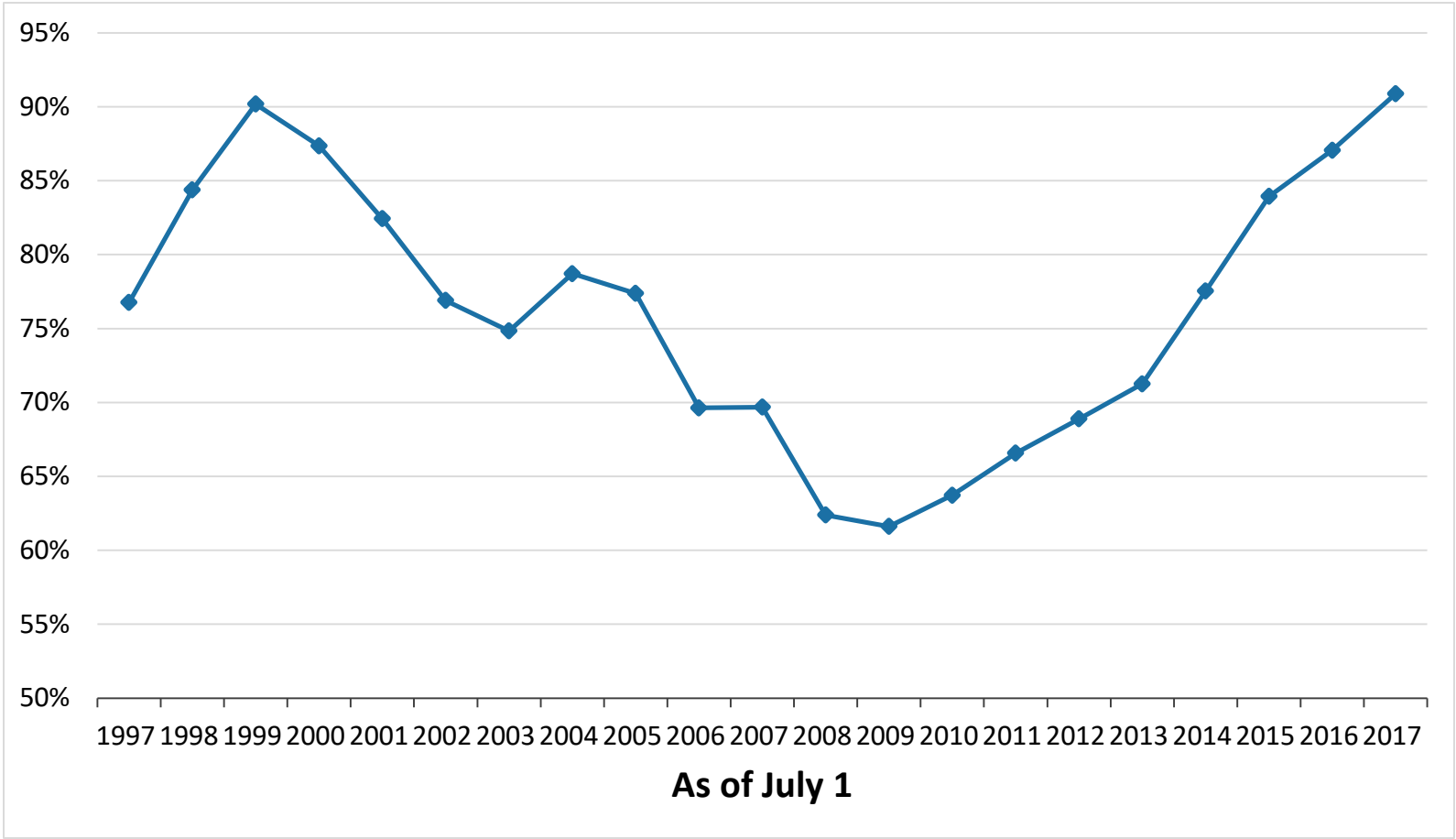
Historical Contributions



Unfunded Actuarial Liability
(Actuarial Liability less Actuarial Assets)



Funded Ratio
(Assets/Actuarial Liability)



Summary of Valuation Results

- Current funded status and outlook for future is positive
  - Funded ratio of 91% in 2017 valuation and projected to be fully funded in 2021, if all assumptions are met in the future
- Experience study to be conducted in spring 2018
  - All assumptions and methods used in the valuation are reviewed and evaluated to ensure they remain “best estimates” of future experience
  - New set of assumptions will be used in the July 1, 2018 valuation
- Future experience, particularly investment returns, will heavily influence the funding of the System and the sufficiency of the current statutory contribution rates.