



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 281-6518

NEWS RELEASE

FOR RELEASE

December 11, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released a report on the Iowa Judicial Retirement System (System) – Schedule of Employer Pension Amounts.

The report includes the audited Schedule of Employer Pension Amounts required to comply with Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. The Schedule presents the System's employer contributions, net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense as of and for the year ended June 30, 2019.

A copy of the report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

#

IOWA JUDICIAL RETIREMENT SYSTEM
INDEPENDENT AUDITOR'S REPORT
SCHEDULE OF EMPLOYER PENSION AMOUNTS
JUNE 30, 2019

Iowa Judicial Retirement System



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 281-6518

November 18, 2019

Iowa Judicial Retirement System
Des Moines, Iowa

To the Members of the Iowa Judicial Retirement System:

I am pleased to submit to you the audit report for the Iowa Judicial Retirement System – Schedule of Employer Pension Amounts for the year ended June 30, 2019. The audit was performed in accordance with U.S. Auditing Standards and the standards applicable to financial audits contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of Iowa Judicial Retirement System throughout the audit. If I or this office can be of any further assistance, please contact me or my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink that reads "Rob Sand". The signature is stylized and written in a cursive-like font.

Rob Sand
Auditor of State

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	4-5
Schedule of Employer Pension Amounts	6-7
Notes to Schedule of Employer Pension Amounts	8-12
Staff	13

Iowa Judicial Retirement System

Officials

Name

Title

State

Honorable Kim Reynolds
David Roederer
Glen P. Dickinson

Governor
Director, Department of Management
Director, Legislative Services Agency

Agency

Honorable Mark S. Cady
Todd Nuccio
Kent Farver

Chief Justice
State Court Administrator
Director of Finance



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

Rob Sand
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0006

Telephone (515) 281-5834 Facsimile (515) 281-6518

Independent Auditor's Report

To the Members of the Iowa Judicial Retirement System:

Report on the Financial Statements

We have audited the columns titled 2019 Employer Contributions, Net Pension Liability, Total Deferred Outflows of Resources, Total Deferred Inflows of Resources and Pension Expense included in the accompanying Schedule of Employer Pension Amounts as of and for the year ended June 30, 2019, and the related Notes to the Schedule.

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of the Schedule in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the Schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the columns titled 2019 Employer Contributions, Net Pension Liability, Total Deferred Outflows of Resources, Total Deferred Inflows of Resources and Pension Expense included in the Schedule based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System's preparation and fair presentation of the Schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedule.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Schedule referred to above presents fairly, in all material respects, the columns titled 2019 Employer Contributions, the Net Pension Liability, Total Deferred Outflows of Resources, Total Deferred Inflows of Resources and Pension Expense as of and for the year ended June 30, 2019, in accordance with U.S. generally accepted accounting principles.

Other Matters

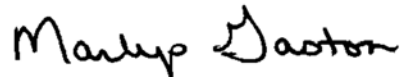
We have audited, in accordance with U.S. generally accepted auditing standards, the financial statements of the Iowa Judicial Retirement System as of and for the year ended June 30, 2019, and our report thereon, dated November 18, 2019, expressed an unmodified opinion on those financial statements.

Other Reporting Required by Government Auditing Standards

Our report on the Iowa Judicial Retirement System's internal control over financial reporting and other tests of its compliance with certain provisions of laws, regulations, contract and grant agreements and other matters required by Government Auditing Standards has been issued with our report on the aforementioned financial statements of the Iowa Judicial Retirement System dated November 18, 2019. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Iowa Judicial Retirement System's internal control over financial reporting and compliance.

Restriction on Use

Our report, a matter of public record, is intended solely for the information and use of the System's management and the management and citizens of the State of Iowa and is not intended to be and should not be used by anyone other than these specified parties.



Marlys K. Gaston, CPA
Deputy Auditor of State

November 18, 2019

Iowa Judicial Retirement System
Schedule of Employer Pension Amounts
As of and for the Year ended June 30, 2019

2019 Employer Contributions	<u>Net Pension Liability</u> June 30, 2019	Changes of Assumptions	Deferred Outflows of Resources		
			Differences Between Projected and Actual Investments Earnings		
				Total Deferred Outflows of Resources	
\$ 8,771,171	27,227,437	20,115,512	8,561,970	28,677,482	

See Notes to Schedule of Employer Pension Amounts.

Deferred Inflows of Resources			
Differences			
Differences	Differences	Total Deferred	Pension
Between	Between	Inflows of	Expense
Expected and	Projected and	Resources	
Actual	Actual		
Experience	Investments		
	Earnings		
3,685,434	13,191,063	16,876,497	9,406,686

Iowa Judicial Retirement System

Notes to Schedule of Employer Pension Amounts

June 30, 2019

(1) Plan Description

Plan Membership

The Iowa Judicial Retirement System (System), a single-employer public employee retirement system (PERS), is the administrator of a defined benefit pension plan.

The System was established to provide pension benefits to judges serving on the Supreme Court, the District Courts and the Court of Appeals.

Plan Benefits

Pursuant to Chapter 602 of the Code of Iowa, a member who has had a total of at least four years of service as a judge of one or more of the above courts and is at least sixty-five years of age or who has twenty years of consecutive service as a judge of one or more of the above courts and has attained the age of fifty years shall qualify for an annuity. The annual annuity of a judge under the System is an amount equal to three and one-fourth percent of the judge's average annual basic salary for the judge's highest three years as a judge multiplied by the judge's years of service or, for a member who meets the definition of a senior judge under section 602.9202 of the Code of Iowa, three and one-fourth percent of the basic senior judge salary multiplied by the judge's years of service, limited to a specified percentage of the highest basic annual salary or basic senior judge salary, as applicable, which the judge is receiving or had received as of the time the judge or senior judge separated from service. The specified percentage is as follows: (1) 50% for judges who retired prior to July 1, 1998, (2) 52% for judges who retired and received an annuity on or after July 1, 1998 but before July 1, 2000, (3) 56% for judges who retired and received an annuity on or after July 1, 2000 but before July 1, 2001, (4) 60% for judges who retire and receive an annuity on or after July 1, 2001 but before July 1, 2006 and (5) 65% for judges who retired and received an annuity on or after July 1, 2006. In addition, the annual annuity for senior judges who became a senior judge before July 1, 1994 is adjusted at the same salary percentage increase as an active judge. The annual annuity for senior judges who became a senior judge on or before July 1, 1994 is adjusted at 75% of the salary percentage increase of an active judge.

Any member who served as a judge for a total of four years or more and is deemed permanently incapacitated, mentally or physically, to perform his/her duties shall be entitled to an annuity that would be the same as computed under a retirement annuity.

The survivor of a judge who qualified for retirement compensation at the time of the judge's death is entitled to receive 50% of the amount the judge was receiving or would have been entitled to receive at the time of their death.

Contributions

Beginning July 1, 2010, judges contribute to the System at the rate of 9.35% multiplied by the basic salary of the judge. Beginning July 1, 2008, and for each subsequent fiscal year until the System attains fully funded status, the State contributes 30.6% of the basic salary of all covered judges. Commencing with the first fiscal year in which the System attains fully funded status, and for each subsequent fiscal year, the State contribution shall be 60% of the required contribution rate.

The member contributions required and contributed were , representing 9.35% of current year covered payroll. The State's contribution required by statute was \$8,771,171. The State's share was based on 30.6% of actual salaries. Costs of administering the plan are financed through State appropriations, member contributions and investment income.

(2) Summary of Significant Accounting Policies

A. Basis of Presentation

Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions, requires certain information be provided about the System. The Schedule of Employer Pension Amounts (Schedule) provides this required pension information to the State of Iowa for inclusion in its financial statements.

The underlying financial information used to prepare the Schedule is based on the System's financial statements which are prepared using the accrual basis of accounting. Plan members' contributions are recognized in the period in which the contributions are due. State contributions are recognized when due and the State has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Schedule is intended to present the information required by GASB Statement No. 68 and not to present the financial position of the System or the State of Iowa.

The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Judicial Retirement System, Iowa Judicial Branch, 1111 East Court Avenue, Des Moines, Iowa 50319.

B. Deferred Outflows of Resources and Deferred Inflows of Resources

Differences Between Projected and Actual Earnings – The differences between projected and actual earnings on System investments are recognized over a five year period. Non-current amounts are presented as deferred outflows of resources and deferred inflows of resources in the Schedule. The current amount is included as pension expense.

Changes of Assumptions – Changes of assumptions are amortized over the average remaining service life for all members, which is 5.13 years for the year ended June 30, 2019. The non-current amounts are presented as deferred outflows of resources in the Schedules. The current amounts are included as pension expense.

Differences Between Expected and Actual Experience – The difference between expected and actual experience is recognized over the average remaining service life for all members, which is 5.13 years. The non-current amount is presented as a deferred inflow of resources in the Schedule. The current amount is included as pension expense.

(3) Net Pension Liability

The components of the net pension liability of the System at June 30, 2019 were as follows:

Net Pension Liability:	
Total pension liability	\$ 243,632,678
Plan fiduciary net position	216,405,241
Net pension liability	<u>\$ 27,227,437</u>
Plan fiduciary net position as a percentage of the total pension liability	88.82%

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of July 1, 2019 using the following actuarial assumptions and the entry age normal actuarial cost method, applied to all periods included in the measurement:

Inflation	2.60%
Salary increases	3.75%, including inflation
Investment rate of return (effective June 30, 2018)	6.75% compounded annually, net of investment expense, including inflation.

Mortality rates were based on the RP-2014 White Collar Mortality Table for males and females, with a two-year age setback and generational improvements using MP-2017.

The actuarial assumptions used in the July 1, 2019 valuation are based on the results of the most recent actuarial experience analysis. The most recent analysis was performed and results were provided on September 28, 2018.

The long-term expected rate of return on System investments is reviewed as part of the experience study. Several factors are considered in evaluating the long term rate of return assumption, including long-term historical data, estimates inherent in current market data and an analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation), along with estimates of variability and correlations for asset class, were developed by the System's investment consultant. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Equity	25.00%	6.08%
Small/Mid Cap Equity	15.00	6.89
International Equity	18.75	6.89
Emerging International Equity	6.25	9.72
Core Bonds	22.75	1.17
High-Yield Bonds	2.25	3.51
Real Estate (Core)	10.00	4.50
Total	<u>100.00%</u>	

Discount Rate – The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed plan contributions from members and the State will be made at the current contribution rates as set in State statute:

- a. Employee contribution rate: 9.35% until the plan is fully funded, after which employees will contribute 40% of the actuarially required contribution rate.
- b. State contribution rate: 30.60% until the plan is fully funded, after which the State will contribute 60% of the actuarially required contribution rate.

Based on those assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments to current members. Therefore, the long-term expected rate of return on System assets was applied to all periods of projected benefit payments to determine the total pension liability. The municipal bond rate was not used in determining the discount rate, but if it were required, the rate would have been 3.50%. The projected future benefit payments for all current plan members were projected through 2118.

Sensitivity Analysis – The sensitivity of the net pension liability to changes in the discount rate presents the net pension liability of the System calculated using the discount rate of 6.75%, as well as what the System’s net pension liability calculated using a discount rate 1% lower (5.75%) or 1% higher (7.75%) than the current discount rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Net pension liability	\$ 53,613,848	27,227,437	4,779,452

Deferred Outflows and Inflows of Resources

The summary of the Deferred Outflows of Resources and Deferred Inflows of Resources as of June 30, 2019 is as follows:

	Year of Amortization Deferral	Period	Balance			Balance End of Year
			Beginning of Year	Additions	Deductions	
Deferred Outflows of Resources:						
Changes of assumptions						
	2015		\$ -	-	-	-
	2016		-	-	-	-
	2017		-	-	-	-
	2018	5.00 years	26,820,682	-	6,705,170	20,115,512
	2019		-	-	-	-
			<u>26,820,682</u>	<u>-</u>	<u>6,705,170</u>	<u>20,115,512</u>
Differences between projected and actual earnings						
	2015	5.00 years	836,593	-	836,593	-
	2016	5.00 years	5,986,296	-	2,993,148	2,993,148
	2017		-	-	-	-
	2018		-	-	-	-
	2019	5.00 years	-	6,961,027	1,392,205	5,568,822
			<u>6,822,889</u>	<u>6,961,027</u>	<u>5,221,946</u>	<u>8,561,970</u>
Total deferred outflows of resources			<u>\$ 33,643,571</u>	<u>6,961,027</u>	<u>11,927,116</u>	<u>28,677,482</u>
Deferred Inflows of Resources:						
Differences between expected and actual experience						
	2015	5.25 years	\$ 1,568,071	-	1,254,456	313,615
	2016	5.14 years	1,521,690	-	711,070	810,620
	2017	5.18 years	531,320	-	167,082	364,238
	2018	5.00 years	2,577,396	-	644,349	1,933,047
	2019	5.13 years	-	327,816	63,902	263,914
			<u>6,198,477</u>	<u>327,816</u>	<u>2,840,859</u>	<u>3,685,434</u>
Differences between projected and actual earnings						
	2015		-	-	-	-
	2016		-	-	-	-
	2017	5.00 years	8,745,378	-	2,915,126	5,830,252
	2018	5.00 years	9,814,415	-	2,453,604	7,360,811
	2019		-	-	-	-
			<u>18,559,793</u>	<u>-</u>	<u>5,368,730</u>	<u>13,191,063</u>
Total deferred inflows of resources			<u>\$ 24,758,270</u>	<u>327,816</u>	<u>8,209,589</u>	<u>16,876,497</u>

Pension Expense

The summary of pension expense for the year ended June 30, 2019 is as follows:

Service cost at end of year	\$ 7,124,148
Interest on total pension liability	15,416,572
Expensed portion of current-period differences between expected and actual experience in the total pension liability	(63,902)
Expensed portion of prior-period differences between expected and actual experience in the total pension liability	(8,145,687)
Employee contributions	(2,680,087)
Projected earnings on plan investments	(14,197,724)
Expensed portion of current-period differences between projected and actual earnings on plan investments	1,392,205
Expensed portion of prior-period differences between projected and actual earnings on plan investments	10,534,911
Administrative expenses	26,250
Total pension expense	<u>\$ 9,406,686</u>

Iowa Judicial Retirement System

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Deputy
Deborah J. Moser, CPA, Manager
Anthony M. Heibult, Senior Auditor II
Preston R Grygiel, Staff Auditor