

**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

December 19, 2023

Contact: Ernest Ruben
515/281-5834

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

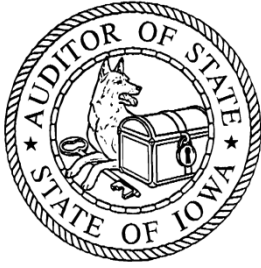
The report includes the audited Schedule of Employer Pension Amounts required to comply with Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. The Schedule presents the System’s employer contributions, net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense as of and for the year ended June 30, 2023.

A copy of the report is available for review on the Auditor of State’s website at [Audit Reports – Auditor of State](#).

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IOWA JUDICIAL RETIREMENT SYSTEM
INDEPENDENT AUDITOR'S REPORT
SCHEDULE OF EMPLOYER PENSION AMOUNTS
JUNE 30, 2023

Iowa Judicial Retirement System



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December 8, 2023

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, 2023. 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, appearing to read "Rob Sand".

Rob Sand
Auditor of State

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditor's Report	5-7
Schedule of Employer Pension Amounts	8-9
Notes to Schedule of Employer Pension Amounts	10-15
Staff	16

Iowa Judicial Retirement System

Officials

Name

Title

State

Honorable Kim Reynolds
Kraig Paulsen
Tim McDermott

Governor
Director, Department of Management
Director, Legislative Services Agency

Agency

Honorable Susan Christensen
Robert Gast
Kent Farver

Chief Justice
State Court Administrator
Director of Finance

Iowa Judicial Retirement System



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Rob Sand
Auditor of State

Independent Auditor's Report

To the Members of the Iowa Judicial Retirement System:

Report on the Audit of the Financial Statements

Opinion

We have audited the columns titled 2023 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, 2023, and the related Notes to the Schedule.

In our opinion, the Schedule referred to above present fairly, in all material respects, the columns titled 2023 Employer Contributions, 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, 2023 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of our report. We are required to be independent of the Iowa Judicial Retirement System, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matters

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Judicial Retirement System as of and for the year ended June 30, 2023, and our report thereon, dated December 8, 2023 expressed an unmodified opinion on those financial statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the Schedule in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the Schedule, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Iowa Judicial Retirement System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Schedule

Our objectives are to obtain reasonable assurance about whether the Schedule as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and Government Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

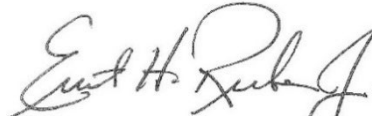
In performing an audit in accordance with GAAS and Government Auditing Standards, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the Schedule, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the Schedule.
- Obtain an understanding of internal control relevant to the audit 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 Iowa Judicial Retirement System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the Schedule.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Iowa Judicial Retirement System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

Our report on the Iowa Judicial Retirement System’s internal control over financial reporting and our 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 December 8, 2023. The purpose of that report is solely 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.



Ernest H. Ruben, Jr., CPA
Deputy Auditor of State

December 8, 2023

Iowa Judicial Retirement System
Schedule of Employer Pension Amounts
As of and for the Year ended June 30, 2023

		Deferred Outflows of Resources		
		Differences Between Expected and Actual Experience	Differences Between Projected and Actual Investments Earnings	Total Deferred Outflows of Resources
2023 Employer Contributions	<u>Net Pension Liability</u> June 30, 2023			
\$ 4,915,985	10,331,866	637,354	55,260,098	55,897,452

See Notes to Schedule of Employer Pension Amounts.

Deferred Inflows of Resources			
Differences Between Expected and Actual Experience	Differences Between Projected and Actual Investments Earnings	Total Deferred Inflows of Resources	Pension Expense
6,788,999	37,402,643	44,191,642	7,639,491

Iowa Judicial Retirement System

Notes to Schedule of Employer Pension Amounts

June 30, 2023

(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. The contributions to the System were made pursuant to section 602.9104 of the Code of Iowa. The system became 100% funded with the July 1, 2021 actuarial valuation. Commencing with the July 1, 2022 actuarial valuation, the State contributions are 60% of the actuarially required contribution and will apply to the fiscal year beginning one year after the valuation.

The member contributions required and contributed were \$3,277,342, representing 9.98% of current year covered payroll. The State’s contribution required by statute was \$4,915,985. The State’s share was based on 14.97% 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. System contributions are recognized when due and the System 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 which 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 amounts are included as pension expense.

Differences Between Expected and Actual Experience – The differences between expected and actual experience are recognized over the average remaining service life for all members, which is 5.95 years. Non-current amounts are presented as a deferred outflows of resources and deferred inflows of resources in the Schedule. The current amounts are included as pension expense.

(3) Net Pension Liability

The components of the net pension liability of the System at June 30, 2023 were as follows:

Net Pension Liability:	
Total pension liability	\$ 265,779,076
Plan fiduciary net position	<u>255,447,210</u>
Net pension liability	<u>\$ 10,331,866</u>
Plan fiduciary net position as a percentage of the total pension liability	96.11%

Actuarial Assumptions – The total pension liability was determined by an actuarial valuation as of July 1, 2023 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, 2023 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	100.00%	

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: 40% of the actuarially required contribution rate.
- b. State contribution rate: 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 3.66%. The projected future benefit payments for all current plan members were projected through 2122.

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	\$ 38,718,136	10,331,866	(13,833,076)

Deferred Outflows and Inflows of Resources

The summary of the Deferred Outflows of Resources and Deferred Inflows of Resources as of June 30, 2023 is as follows:

	Year of Deferral	Amortization Period	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Deferred Outflows of Resources:						
Differences between expected and actual experience	2018	5.00 years	\$ -	-	-	-
	2019	5.13 years	-	-	-	-
	2020	5.69 years	-	-	-	-
	2021	5.80 years	-	-	-	-
	2022	5.72 years	808,686	-	171,332	637,354
	2023	5.95 years	-	-	-	-
			<u>808,686</u>	<u>-</u>	<u>171,332</u>	<u>637,354</u>
Differences between projected and actual earnings	2018	5.00 years	-	-	-	-
	2019	5.00 years	1,392,207	-	1,392,207	-
	2020	5.00 years	-	-	-	-
	2021	5.00 years	-	-	-	-
	2022	5.00 years	73,680,130	-	18,420,032	55,260,098
	2023	5.00 years	-	-	-	-
			<u>75,072,337</u>	<u>-</u>	<u>19,812,239</u>	<u>55,260,098</u>
Total deferred outflows of resources			<u>\$ 75,881,023</u>	<u>-</u>	<u>19,983,571</u>	<u>55,897,452</u>
Deferred Inflows of Resources:						
Differences between expected and actual experience	2018	5.00 years	\$ -	-	-	-
	2019	5.13 years	72,208	-	63,902	8,306
	2020	5.69 years	3,462,190	-	1,287,060	2,175,130
	2021	5.80 years	1,725,900	-	454,184	1,271,716
	2022	5.72 years	-	-	-	-
	2023	5.95 years	-	4,007,352	673,505	3,333,847
			<u>5,260,298</u>	<u>4,007,352</u>	<u>2,478,651</u>	<u>6,788,999</u>
Differences between projected and actual earnings	2018	5.00 years	-	-	-	-
	2019	5.00 years	-	-	-	-
	2020	5.00 years	1,303,326	-	651,663	651,663
	2021	5.00 years	39,841,861	-	13,280,620	26,561,241
	2022	5.00 years	-	-	-	-
	2023	5.00 years	-	12,737,174	2,547,435	10,189,739
			<u>41,145,187</u>	<u>12,737,174</u>	<u>16,479,718</u>	<u>37,402,643</u>
Total deferred inflows of resources			<u>\$ 46,405,485</u>	<u>16,744,526</u>	<u>18,958,369</u>	<u>44,191,642</u>

Pension Expense

The summary of pension expense for the year ended June 30, 2023 is as follows:

Service cost at end of year	\$	8,402,559
Interest on total pension liability		17,056,299
Expensed portion of current-period differences between expected and actual experience in the total pension liability		(673,505)
Expensed portion of prior-period differences between expected and actual experience in the total pension liability		(15,737,429)
Employee contributions		(3,277,342)
Projected earnings on plan investments		(15,613,743)
Expensed portion of current-period differences between projected and actual earnings on plan investments		(2,547,435)
Expensed portion of prior-period differences between projected and actual earnings on plan investments		19,983,571
Administrative expenses		<u>46,516</u>
Total pension expense	\$	<u>7,639,491</u>

Iowa Judicial Retirement System

Staff

This audit was performed by:

Ernest H. Ruben, Jr., CPA, Deputy
Deborah J. Moser, CPA, Manager
Anthony M. Heibult, Senior Auditor II
Anthony G Puetsch, Assistant Auditor