



Finance and Administration Committee Agenda Item 4d

February 20, 2024

Item Name: Judges’ Retirement System II Actuarial Valuation Report and Employer and Employee Contribution Rates

Program: Actuarial Office

Item Type: Action Consent

Recommendation

- Approve the Judges’ Retirement System II Actuarial Valuation Report as of June 30, 2023, and the corresponding transmittal letter to the governor and Legislature.
- Adopt the employer contribution rate of 23.79% and a member contribution rate of 16.75% of salary for members subject to the Public Employees’ Pension Reform Act of 2013 (PEPRA) for the period of July 1, 2024, through June 30, 2025, for the Judges’ Retirement System II.

Executive Summary

The following table summarizes key results from the valuation and shows a comparison of the prior year report.

Comparison of Current and Prior Year Results		
	June 30, 2022	June 30, 2023
Present Value of Benefits	\$3,090,505,511	\$3,386,429,250
Accrued Liability	2,157,506,377	2,361,939,313
Market Value of Assets	2,139,223,765	2,333,468,381
Unfunded Liability/(Surplus)	18,282,612	28,470,933
Funded Status	99.2%	98.8%
Required Employer Contribution Rate	23.58%	23.79%

Strategic Plan

This action item is being presented as part of the regular and ongoing workload of the Actuarial Office and supports the Strategic Plan goal of Pension Sustainability.

Background

The Judges’ Retirement System II (JRS II) began on November 9, 1994, to provide retirement and ancillary benefits to judges elected or appointed on or after that date. The employer

contribution rate from the inception of the plan until June 30, 1996, was set by State statute. Subsequently, the employer contribution rate was determined through an actuarial valuation process. This actuarial valuation sets the employer contribution rate for fiscal year (FY) July 1, 2024 through June 30, 2025.

Analysis

As of June 30, 2023, JRS II has a funded status of 98.8%, having decreased from 99.2% since the prior valuation. This decrease was the result of non-investment losses slightly exceeding investment gains. In FY 2022-23 the fund earned approximately 6.9%.

The actuarial office recommends the board adopt a contribution rate of 23.79% for FY 2024-25. This rate is comprised of 22.62% for the employer normal cost and 1.17% for the amortization of the unfunded liability.

With the enactment of the Public Employees’ Pension Reform Act of 2013 (PEPRA), PEPRA members are required to contribute at least 50% of the total annual normal cost as determined by the actuary.

The following table illustrates a history of the normal cost of the PEPRA group and the resulting employee contribution rate. The employee contribution for the PEPRA group changes if the total normal cost for the PEPRA group changes by 1% or more from the Base Total Normal Cost Rate. The Base Total Normal Cost Rate for PEPRA members was 32.10%. The new Total PEPRA Normal Cost is 33.35%. This results in a change to the PEPRA member contribution rate from 16% to 16.75% for FY 2024-25.

Fiscal Year	Total PEPRA Normal Cost	Employee PEPRA Normal Cost
2017-18	33.562%	16.75%
2018-19	32.104%	16.00%
2019-20	32.760%	16.00%
2020-21	32.56%	16.00%
2021-22	32.62%	16.00%
2022-23	32.43%	16.00%
2023-24	32.36%	16.00%
2024-25	33.35%*	16.75%

* Base Total Normal Cost Rate for members subject to the PEPRA, until the actual PEPRA Total Normal Cost Rate changes by 1% or more.

Budget and Fiscal Impacts

Not Applicable

Benefits and Risks

One risk measurement is the Volatility Ratios (assets/payroll ratio, liability/payroll ratio). The Volatility Ratios for this plan are 6.0 and 6.1, respectively. Both numbers are displayed in the Risk Analysis section of the valuation report. The volatility ratios indicate this plan has a lower risk of large changes to employer rates when it comes to investment earnings and changes in liability when compared to most plans in the PERF.

Another key risk measurement in the June 30, 2023, valuation report is the funded status of the plan. The funded status of a pension plan is defined as the ratio of assets to a plan's accrued liabilities. When below a certain level, this measure indicates whether a plan is at risk of meeting future benefit obligations. The funded status of this plan is 98.8% as of June 30, 2023. The target funded level is 100%.

Attachments

Attachment 1 – Transmittal letter to the governor and Legislature

Attachment 2 – Judges' Retirement System II Actuarial Valuation as of June 30, 2023

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