

JUDGES RETIREMENT SYSTEM OF ILLINOIS

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Illinois State Board of Investment,
Investment Manager



TABLE OF CONTENTS

	<u>Page</u>
LETTER OF TRANSMITTAL	i
FINANCIAL AND STATISTICAL FACTS	ii
 FORTY-FOURTH ANNUAL REPORT	
Membership Statistics	1
Retirements	2
Survivors' Annuities	2
Financial review	3
Results of operation	3
Investments	4
Financing	6
Legislation	7
Annual actuarial valuation	8
Conclusion	8
 AUDITORS' REPORT	
Auditors' statement	11
Balance Sheet	12
Statements of Revenue, Expenses and Changes in Fund Balance	13
Statements of Changes in Financial Position	14
Notes to Financial Statements	15
Statements of Changes in Funded Statutory Reserves	19
Schedule of Administrative Expenses	20
 REPORT OF ACTUARY	
Basis of valuation	22
Membership statistics	22
Actuarial assumptions	24
Results of valuation	25
Valuation procedure	26
Valuation balance sheet	27
Security ratio	31
Projected future pension payouts	32
Normal cost and accrued liabilities	33
Financing the pension obligation	34
Concluding comment	36
 APPENDIX	
Summary of Provisions of the Judges Retirement System	40
Retirement Estimate Charts	42
Statistical Tables	48



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NORMAN E. LENTZ
SECRETARY

A. A. WEINBERG
ACTUARY

TRUSTEES
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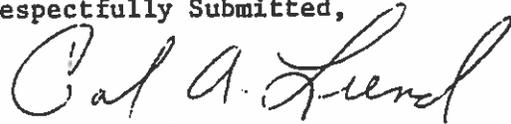
November 7, 1985

Honorable James R. Thompson
Governor, State of Illinois
Springfield, Illinois

Dear Governor Thompson:

On behalf of the Board of Trustees of the Judges Retirement System of Illinois, I submit herewith its FORTY-FOURTH ANNUAL REPORT covering operations of the System for the fiscal year ended June 30, 1985. Note that the security ratio continues to decline and now is 22.9%. Under present funding this ratio will soon be less than 20%.

Respectfully Submitted,



Carl A. Lund,
Chairman



FINANCIAL AND STATISTICAL FACTSJune 30, 1985 and June 30, 1984 in comparison

<u>At Year-End</u>	FISCAL YEAR ENDED	
	<u>June 30, 1985</u>	<u>June 30, 1984</u>
Net Present Assets	\$108,209,963	\$100,647,996
Investment Fund of the Illinois State Board of Investment (at cost)	107,132,974	99,193,192
Effective Yield on Investments at cost	7.1%	7.2%
Number of Active Participants	782	756
Retirement Annuitants	315	287
Survivor Beneficiaries	207	200
Unfunded Accrued Liability	364,287,483	279,389,399
Rate of Funding (Security Ratio)	22.9%	26.5%

For the Year (See Financial Statements, pages 12 - 14)

Net Revenues	\$ 7,561,967	\$ 9,321,131
Net Investment Income and Interest on Cash Balance	7,568,684	6,886,139
Net Realized Gain (Loss) on Sale of Investments	(946,802)	2,768,881
Contributions by Participants	5,147,228	5,140,219
Contributions by State of Illinois	8,527,500	5,645,600
Retirement Annuity Payments	10,164,086	8,803,447
Survivors' Annuity Payments	2,188,472	2,006,566
Administrative Expenses	118,868	115,180



FORTY-FOURTH ANNUAL REPORT OF THE BOARD OF TRUSTEES

Covering the Fiscal Year Ended June 30, 1985

The Forty-Fourth Annual Report of the Board of Trustees of the Judges Retirement System of Illinois for the Fiscal Year ended June 30, 1985 is presented herewith. The report embodies detailed figures on the results of operations for the year together with the Auditor's Report and a report by the Actuary on an actuarial valuation of the assets and liabilities of the System as of the close of the said year.

Membership Statistics

	<u>Participants</u>		<u>Retired</u>	<u>Survivor</u>	
	<u>Active</u>	<u>Inactive</u>	<u>Judges</u>	<u>Annuitants</u>	<u>Totals</u>
Number at July 1, 1984	756	19	287	200	1,262
Additions	<u>81</u>	<u>3</u>	<u>41</u>	<u>15</u>	<u>140</u>
	837	22	328	215	1,402
Deductions	<u>55</u>	<u>4</u>	<u>13</u>	<u>8</u>	<u>80</u>
Number at June 30, 1985	782*	18	315	207	1,322
	—	—	—	—	—

*(Includes 14 members who elected to discontinue contributions, being age 60 or over with at least 20 years of pension credit in the System)

Inactive participants consist of judges who have terminated service and decided to retain their accumulated pension credits in the System.

Retirements. As of June 30, 1985, there were 315 Judges on retirement and in receipt of annual pension payments totalling \$10,537,050. Statistics pertaining to these retirements are as follows:

1. Average annual retirement annuity	\$33,451
2. Average age at retirement	65.3
3. Average age at June 30, 1985	72.1
4. Average years of service	18.1
5. Average annual salary at retirement	\$43,442
6. Proportion of annuitants who are married	82.2%
7. Average annual annuity to an eligible surviving spouse	\$22,926

Survivors' annuities. Spouses in receipt of annuity payments at the close of the fiscal year totalled 194 with annual payments amounting to \$2,250,519 or an average of \$11,601 per year. At the end of the preceding fiscal year there were 186 spouses with annual payments totalling \$2,109,756. The average age of the spouses at the beginning date of their annuities was 63.8 years. Their average age at June 30, 1985 was 73.4 years.

At June 30, 1985, payments to one surviving spouse were in a deferred status pending attainment of age 50. The age of this annuitant was 49.0 years and the survivor annuity will amount to \$3,375 per year.

Minor children. At the close of the year, 13 children of deceased members were in receipt of annuities totalling \$32,875 per year. The average age of these children was 14.7 years. At the beginning date of their annuities, their average age was 11.0 years.

Financial review. The reserves of the System at June 30, 1985 totalled \$108,209,963. The increase in reserves for the year amounted to \$7,561,967. This increase compares with an amount in the preceding year of \$9,321,131. A substantial part of these reserves represented contributions by the participants.

The aforesaid reserves of the System are credited to the reserve accounts designated in the law, as follows:

Reserve for Retirement and Survivors'	
Annuity contributions	\$ 34,388,865
Reserve for the Post-retirement	
Annuity Increases	6,592,137
Reserve for Future Operations	<u>67,228,961</u>
 Total Reserves at June 30, 1985	 \$108,209,963

The "Reserve for Future Operations" represents the balance remaining in the System from State contributions and revenues from investments after giving effect to payments made by the System. This reserve is totally inadequate for meeting the liabilities for the payments to be made in future years to the members and their beneficiaries.

Results of operations. Total revenues accruing to the System for the year ended June 30, 1985 amounted to \$20,296,611. These revenues were derived from the following sources:

Contributions by the Participants	\$ 5,147,228
Appropriations by State of Illinois	8,527,500
Interest credited by the State Treasurer	182,101
Income from Investments - State Investment Board	7,386,583
Loss on Sales of Investments	<u>(946,801)</u>
 Total Revenues	 \$20,296,611

Expenditures by the System for the year totalled \$12,734,645 for the following purposes:

Retirement annuities	\$10,164,086
Survivors' annuities	2,188,472
Refunds and death benefits	263,219
Administrative expenses	<u>118,868</u>
Total Expenditures	<u><u>\$12,734,645</u></u>

Net revenues for the year, representing the excess of total revenues over total expenditures, amounted to \$7,561,967. This compares with net revenues in the preceding fiscal year of \$9,321,131. The net revenues were credited to the appropriate reserves of the System.

Investments. The investment of the net reserves of the System is under the management of the "Illinois State Board of Investment." This agency also manages the investments of the General Assembly Retirement System and the State Employees' Retirement System of Illinois.

Under Article 22A of the Illinois Pension Code governing the Illinois State Board of Investment, the Chairman of the Board of Trustees of each participating retirement system is, ex officio, a member of the State Investment Board.

The assets of the Judges Retirement System are part of the Commingled Fund managed by the Illinois State Board of Investment which had a market value of \$1.863 billion as of June 30, 1985. The assets of the Judges Retirement System were approximately 5.90% of the Commingled Fund and were diversified in the following manner:

<u>Investments at June 30, 1985</u>	<u>At Cost</u>	<u>At Market</u>
U.S. Government and Agency Obligations	\$24,599,750	\$24,619,487
Canadian Obligations	928,205	1,041,917
Corporate Obligations	22,567,248	22,018,441
Convertible Bonds	842,137	839,456
Common Stock and Equity Fund	25,777,771	26,725,928
Convertible Preferred Stock	410,870	413,871
Preferred Stock	60,613	61,316
Real Estate Pooled Funds	5,353,583	6,556,460
Participating Mortgage Pooled Funds	1,759,093	2,751,386
Venture Capital	324,038	365,910
Money Market Instruments	24,613,164	24,661,663
Other Assets, Less Liabilities	<u>(103,498)</u>	<u>(103,702)</u>
	<u>\$107,132,974</u>	<u>\$109,952,133</u>

The Commingled Fund produced a total rate of return (capital appreciation plus income) of 22% for the fiscal year 1985. This is the third highest annual rate of return since the Board was formed in 1970, and compares very favorably with the return of (5.2)% in the previous year. The fund remained in the same diversification pattern which had been established in fiscal year 1984. While it may appear that there was a reduction in the commitment to equities, this was, in reality, a result of a change in the management of the equity portfolio which necessitated moving into cash late in the fiscal year and not being fully reinvested by June 30th.

During the year, the Board conducted an intensive review of the equity portfolio management which culminated in the adoption of a two style approach to equity investment. The styles, as finally selected by the Board, are best characterized as "value" and "growth" oriented. The equity portfolio has been divided with approximately 65% dedicated to the value style and 35% to growth. In addition, the Board decided to implement external management to compliment its internal staff. After an intensive search, the Board retained

the services of six external managers who will follow the value approach and three who are growth managers. As a result of these changes, the Board anticipates a lessening of the volatility of the Fund's equity portfolio and, at the same time, create an investment environment that may enhance performance and may have a positive impact on the total return of the Fund in the future.

Financing. The Board of Trustees of the Judges Retirement System is mandated to submit to the Governor, prior to each regular session of the General Assembly, a report on the appropriation requirements of the System for the ensuing fiscal year. The appropriation consists of the amount of the reserve requirements for meeting the System's accruing obligations, as actuarially determined, under the method of funding specifically prescribed by the governing statute.

The appropriation requirements from the State of Illinois are determined and certified by the Actuary. For the 1986-1987 fiscal year, the Actuary has determined that these requirements will be \$22,250,000. The appropriation requirements have been increasing steadily due to: (1) a slightly larger membership; (2) increases in salaries to the members; and (3) the effect of compulsory retirement. The efforts of the Board of Trustees over the years have been directed towards bringing about a more adequate measure of funding for the System, at least to a level which would result in a security ratio of 66-2/3%. This is the minimum rate which had been recommended by the "Illinois Public Employees Pension Laws Commission." The security ratio is obtained by taking the ratio of the "net present assets" (total present assets less current liabilities) to the total accrued liabilities.

It should be noted that the Board of Trustees has requested from the State each year, appropriations of amounts determined in accordance with the governing law. The pension law, by its specific directive, mandates the State of Illinois to contribute to the Judges Retirement System certain amounts to meet its share of the pension cost. Over the years, however, the appropriation requests of the Board of Trustees have been arbitrarily reduced by the State officials below the amounts specifically mandated in the law and required under the statute. This has resulted in a serious erosion of the "funded" or "security ratio" of the System to a rate which at the close of the year stands at 22.9%. This is the lowest rate of any public employee retirement system in the State of Illinois. The following statement shows the amounts requested by the Board of Trustees for each of the last five fiscal years; the appropriations authorized by the State of Illinois; and the security ratio at the end of each year.

<u>Fiscal Year Ended June 30</u>	<u>Amount Requested from State of Illinois as Provided by Statute</u>	<u>Appropriation by State of Illinois from General Revenue Fund</u>	<u>Rate of Funding (Security Ratio)</u>
1982	\$12,900,000	\$6,541,000	33.3%
1983	14,310,000	7,560,000	30.7%
1984	16,210,000	5,373,100	26.5%
1985	18,670,000	8,248,900	22.9%
1986	20,840,000	9,030,100	Not Yet Determined

LEGISLATION

No substantive changes were made in the pension law relating to the Judges Retirement System during the 1985 session of the General Assembly.

ANNUAL ACTUARIAL VALUATION

Under the law the Actuary is required to make an annual valuation of the liabilities and reserves of the System as of the end of each fiscal year. Such a valuation was completed by the Actuary as of June 30, 1985. Its purpose is to establish the true financial condition of the System as of the end of the fiscal period giving effect to all accrued liabilities for the prescribed benefits. In this valuation a computation is made of the reserves to be maintained by the System for the annuities and benefits currently in force and the reserves to be accumulated for the prospective benefits payable to members presently in service. In accordance with this directive, an actuarial valuation of the System was completed as of June 30, 1985. The results of the valuation are presented later as a part of this report.

Conclusion. This report of the Board discusses all important matters pertaining to the operations of the System during the 1985 fiscal year. The trustees again record their concern regarding the inadequate appropriations by the State of Illinois which have been considerably below the amounts mandated by the pension law for meeting the specific liabilities and reserve requirements of the System.

The appropriations by the State of Illinois have not even been sufficient to meet the minimum actuarial requirements consisting of "normal cost" plus the accruing interest on the unfunded accrued liability. At the end of the 1985 fiscal year, this liability exceeded \$364,000,000. In fact, for the fiscal year ended June 30, 1985, State contributions were sub-

stantially below the actual benefit payouts. It is the stated policy of the Board of Trustees to continue to direct its efforts to bring about adequate annual revenues to meet at least, as a minimum, the System's current needs so as to effect some stabilization of the unfunded accrued liability at the current level.

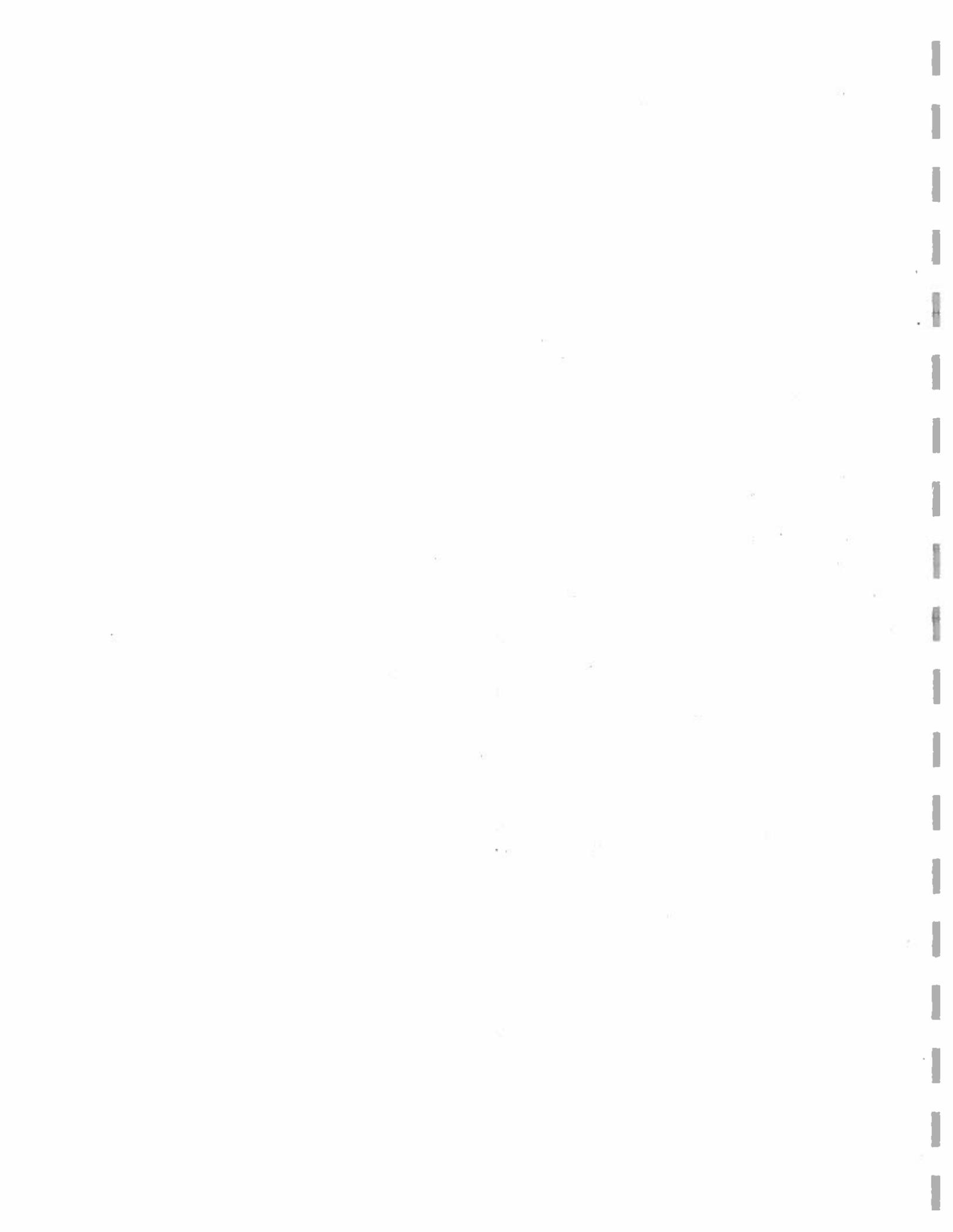
The Board hereby acknowledges with appreciation the dedicated and highly efficient services of the administrative staff and the cooperation of officials of the State of Illinois in every aspect of operations of the System during the year.

Respectfully Submitted,

BOARD OF TRUSTEES
JUDGES RETIREMENT SYSTEM OF ILLINOIS

CARL A. LUND, Chairman
RICHARD J. FITZGERALD, Vice Chairman
WILLIAM G. CLARK
GEORGE M. MAROVICH
JAMES H. DONNEWALD

NORMAN E. LENTZ,
Secretary





Peat, Marwick, Mitchell & Co.
Certified Public Accountants
Peat Marwick Plaza
303 East Wacker Drive
Chicago, Illinois 60601
312-938-1000

AUDITORS' REPORT

Honorable Robert G. Cronson
Auditor General
State of Illinois:

We have examined the balance sheets of the Judges Retirement System of Illinois - State of Illinois as of June 30, 1985 and 1984 and the related statements of revenue, expense, and changes in fund balance, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the Judges Retirement System of Illinois - State of Illinois at June 30, 1985 and 1984 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Our examinations were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examinations of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peat Marwick Mitchell & Co

August 22, 1985

JUDGES RETIREMENT SYSTEM OF ILLINOIS -
STATE OF ILLINOIS

Balance Sheets

June 30, 1985 and 1984

<u>Assets</u>	<u>1985</u>	<u>1984</u>
Cash	\$ <u>1,144,841</u>	<u>1,406,567</u>
Receivables:		
Participants' contributions	13,906	25,702
Refundable annuities	-	1,255
Interest	10,582	14,765
Due from General Assembly Retirement System	<u>17,556</u>	<u>17,027</u>
	<u>42,044</u>	<u>58,749</u>
Investments:		
Held in the Illinois State Board of Investment Commingled Fund - at cost (market value; 1985, \$109,952,133; 1984, \$88,935,165)	107,132,974	99,193,192
Office equipment - at cost, less accumulated depreciation (1985, \$7,524; 1984, \$7,007)	<u>1,828</u>	<u>2,245</u>
	<u>\$ 108,321,687</u>	<u>100,660,753</u>
<u>Liabilities and Fund Balance</u>		
Liabilities:		
Benefits payable	89,019	-
Refunds payable	20,334	9,697
Accounts payable	<u>2,371</u>	<u>3,060</u>
	<u>111,724</u>	<u>12,757</u>
Fund balance:		
Reserved:		
Actuarially determined accrued benefit cost requirements:		
Participants' contributions	34,388,865	32,382,585
Retirement and survivors' annuities in force and deferred survivors' annuities	157,415,057	131,606,634
Present value of liability for accrued retirement credits	<u>280,693,524</u>	<u>216,048,276</u>
	472,497,446	380,037,495
Unreserved (deficit) - unfunded accrued benefit costs requirement - representing an obligation of the State of Illinois	<u>(364,287,483)</u>	<u>(279,389,499)</u>
Fund balance - funded statutory reserves	<u>108,209,963</u>	<u>100,647,996</u>
	<u>\$ 108,321,687</u>	<u>100,660,753</u>

See accompanying notes to financial statements.

JUDGES RETIREMENT SYSTEM OF ILLINOIS -
STATE OF ILLINOIS

Statements of Revenue, Expense, and
Changes in Fund Balance

Years ended June 30, 1985 and 1984

	<u>1985</u>	<u>1984</u>
Revenue:		
Contributions:		
Participants	\$ 5,147,228	5,140,219
State of Illinois	<u>8,527,500</u>	<u>5,645,600</u>
	13,674,728	10,785,819
Net investment income	7,386,583	6,664,887
Interest earned on cash balances	182,101	221,252
Net realized gain (loss) on sale of investments	<u>(946,802)</u>	<u>2,768,881</u>
	<u>20,296,610</u>	<u>20,440,839</u>
Expense:		
Benefits:		
Retirement annuities	9,149,321	7,956,659
Survivors' annuities	2,188,472	2,006,566
Automatic annual increase	<u>1,014,765</u>	<u>846,788</u>
	12,352,558	10,810,013
Refunds	263,219	194,517
Administrative	<u>118,866</u>	<u>115,178</u>
	<u>12,734,643</u>	<u>11,119,708</u>
Excess of revenue over expense	7,561,967	9,321,131
Fund balance at beginning of year	<u>100,647,996</u>	<u>91,326,865</u>
Fund balance at end of year	<u>\$ 108,209,963</u>	<u>100,647,996</u>

See accompanying notes to financial statements.

JUDGES RETIREMENT SYSTEM OF ILLINOIS -
STATE OF ILLINOIS

Statements of Changes in Financial Position

Years ended June 30, 1985 and 1984

	<u>1985</u>	<u>1984</u>
Sources of working capital:		
Working capital provided by operations - excess of revenue over expense	\$ 7,561,967	9,321,131
Add item not requiring working capital - provision for depreciation	<u>416</u>	<u>589</u>
Total sources of working capital	<u>7,562,383</u>	<u>9,321,720</u>
Uses of working capital:		
Investment purchases:		
Amount remitted by Judges Retirement System	1,500,000	1,500,000
Reinvested earnings	6,439,681	9,433,768
Acquisition of equipment	<u>100</u>	<u>138</u>
Total uses of working capital	<u>7,939,781</u>	<u>10,933,906</u>
Net decrease in working capital	\$ <u>(377,398)</u>	<u>(1,612,186)</u>
Elements of net increase (decrease) in working capital:		
Cash	(261,726)	(1,594,343)
Receivables	(16,705)	(8,216)
Benefits payable	(89,019)	816
Refunds payable	(10,637)	(9,697)
Accounts payable	<u>689</u>	<u>(746)</u>
Net decrease in working capital	\$ <u>(377,398)</u>	<u>(1,612,186)</u>

See accompanying notes to financial statements.

JUDGES RETIREMENT SYSTEM OF ILLINOIS -
STATE OF ILLINOIS

Notes to Financial Statements

June 30, 1985 and 1984

(1) Description of System

General

The Judges Retirement System of Illinois - State of Illinois (Judges Retirement System) was established in 1941 and is governed by Chapter 108-1/2, Article 18 of the Illinois Pension Code. The Judges Retirement System covers judges and associate judges of Illinois courts. Participation by judges, either appointed or elected, is mandatory unless the judge files an election not to participate within 30 days.

Pension Benefits

After 10 years of credited service, participants have vested rights to full retirement benefits beginning at age 60, or reduced retirement benefits beginning at age 55. Participants also have vested rights to benefits at age 62 upon attaining between 6 and 10 years of credit. The Judges Retirement System also provides annual automatic annuity increases after retirement, survivors' annuity benefits, temporary and/or total disability benefits, and, under specified conditions, lump-sum death benefits.

Participants who terminate service and are not eligible for an immediate annuity may receive, upon application, a refund of their total contributions. Participants who are no longer married are entitled to refunds of their contributions for survivors. Participants who have at least 20 years of service credit and have attained age 60 may elect to discontinue contributions and have their benefits (retirement and survivors) fixed.

The statutes governing the Judges Retirement System provide for optional contributions by participants, with interest at prescribed rates, to retroactively establish service credits for periods of prior creditable service. The Board of Trustees has adopted the policy that interest payments by a participant, included in optional contributions to retroactively establish service credits, shall be considered an integral part of the participant's investment in annuity expectancies and, as such, shall be included as a part of any refund payable.

Funding

The Judges Retirement System is funded through contributions from participants, State of Illinois appropriations, and investment income. Participants in the Judges Retirement System contribute 7-1/2% of their salaries for retirement annuities, 2-1/2% for survivors' annuities, and 1% for an annual automatic increase in the retirement annuity.

(Continued)

JUDGES RETIREMENT SYSTEM OF ILLINOIS -
STATE OF ILLINOIS

Notes to Financial Statements

(2) Summary of Significant Accounting Policies

Basis of Accounting

The accounting records of the Judges Retirement System are maintained on the accrual basis.

Investments

Investments of the Judges Retirement System are managed by the Illinois State Board of Investment (ISBI) pursuant to Article 22A of the Illinois Pension Code and are held in the Commingled Fund of that Board. Investments of the Judges Retirement System are valued at the cost of its units of participation in the Commingled Fund of the Board.

Accrued Benefit Cost

The calculation of the accrued benefit cost (arising from service credits in periods prior to June 30, 1985 and 1984, respectively) were made by a consulting actuary as of June 30, 1985 and 1984 on the basis of the entry age normal cost method. The significant assumptions underlying the actuarial computations are:

Rate of return on investments	6%
Rate of turnover	A moderate scale consistent with the Judges Retirement System's experience
Mortality basis	1971 Group Annuity Mortality Table (adjusted by the actuary to provide a margin for mortality increase)
Salary increases	5%
Rate of disability	1.0 per 1,000
Assumed average age of retirement	66 years

(Continued)

JUDGES RETIREMENT SYSTEM OF ILLINOIS -
STATE OF ILLINOIS

Notes to Financial Statements

Reserves

The actuarially determined reserves - accrued benefit cost requirements, consist of the amounts necessary to provide in full for the accrued liabilities for annuities and refunds, comprising these components as follows:

- A. Participants' contribution - comprise the retirement and survivors' annuity contribution credits of the members. Part of these contributions are subject to refund in future years upon resignation or death without right to benefits. The remainder is to finance a portion of the annuities for participants in service who may ultimately qualify for retirement and to the eligible survivors of members whose death may occur before or after retirement.
- B. Retirement and survivors' annuities in force and deferred survivors' annuities - constitutes the lifetime requirements, on a present value basis, of the retirement annuities and survivors' annuities granted and in force plus the requirements for prospective survivors' annuities payable upon death of retired members.
- C. Present value of liability for accrued retirement credits - consists of the amounts that must be on hand to finance the State's portion of the accrued pension credits for the participants presently in service who may ultimately qualify for retirement.

The funded statutory reserves of the Judges Retirement System are comprised of three components as follows:

- A. Reserve for participants' contributions - This reserve consists of participants' accumulated contributions.
- B. Reserve for automatic annuity increase - This reserve represents participants' accumulated contributions for the automatic annuity increase plus an equal amount contributed by the State of Illinois plus 4% interest credited on the beginning balance less automatic annuity increased benefits and refunds paid.
- C. Reserve for future operations - This reserve is the balance remaining in the Judges Retirement System from State of Illinois contributions and revenue from investments after consideration of charges for payouts by the Judges Retirement System.

(Continued)

JUDGES RETIREMENT SYSTEM OF ILLINOIS -
STATE OF ILLINOIS

Notes to Financial Statements

Administrative Expenses

Administrative expenses common to the Judges Retirement System and the General Assembly Retirement System are borne 60% by the Judges Retirement System and 40% by the General Assembly Retirement System. Invoices-vouchers covering common expenses incurred are paid by the Judges Retirement System and 40% thereof is allocated to and reimbursed by the General Assembly Retirement System. Administrative expenses allocated to and reimbursed by the General Assembly Retirement System were \$70,178 and \$68,296 for the years ended June 30, 1985 and 1984, respectively.

JUDGES RETIREMENT SYSTEM OF ILLINOIS -
STATE OF ILLINOIS

Statement of Changes in Funded Statutory Reserves

Years ended June 30, 1985 and 1984

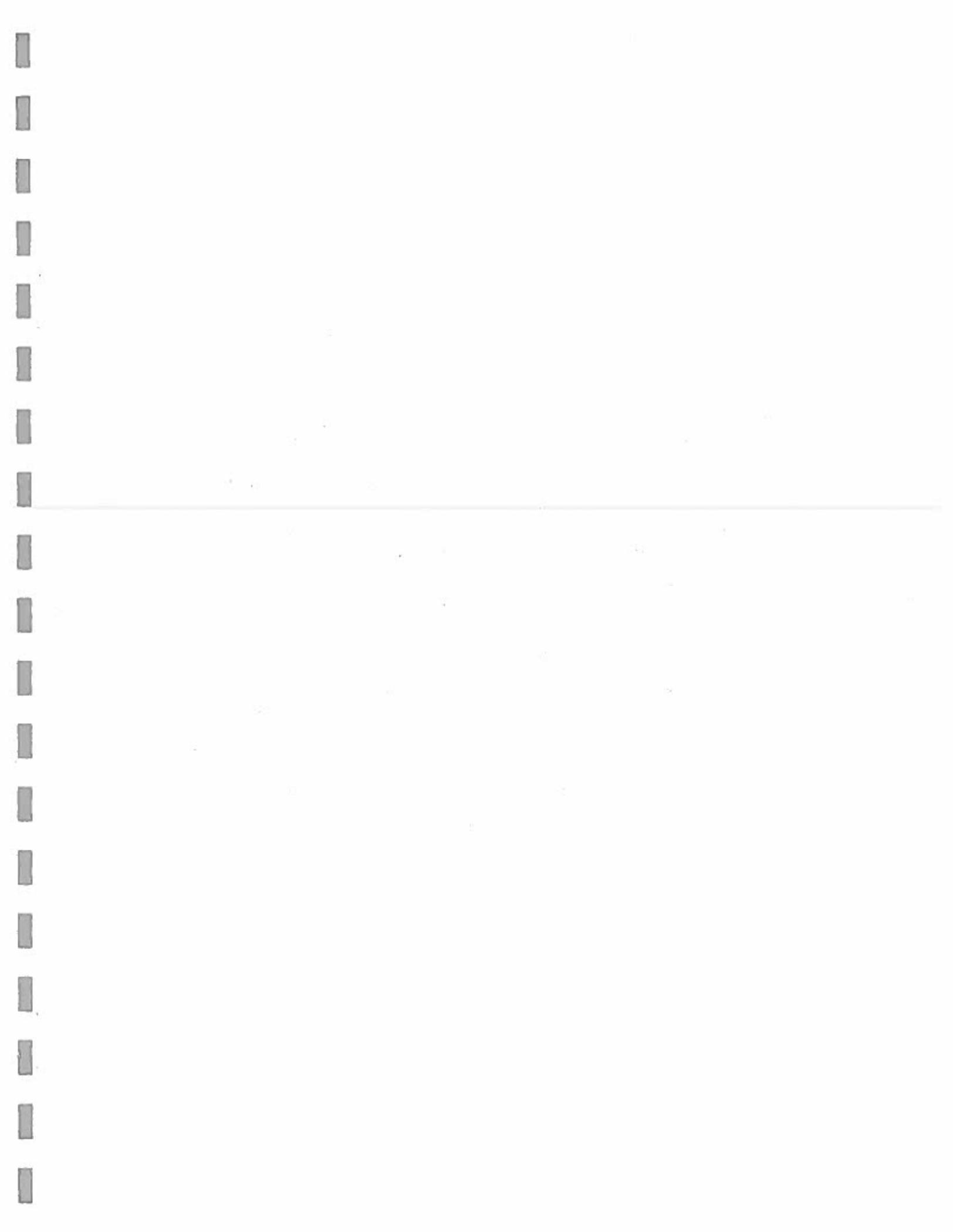
	Total funded reserves	Reserve for participants' contributions		Reserve for automatic annuity increase	Reserve for future operations
		Retirement annuities	Survivors' annuities		
Balance at June 30, 1983	\$ 91,326,865	20,504,563	8,625,514	6,102,502	56,094,286
Add (deduct):					
Excess of revenue over expense	9,321,131	3,505,088	981,262	80,053	4,754,728
Reserve transfers:					
Accumulated contri- butions of members who retired during the year	-	(1,089,464)	(144,378)	-	1,233,842
Reserve for auto- matic annuity increase credited with interest at 4% on the reserve balance at begin- ning of year	-	-	-	244,100	(244,100)
Balance at June 30, 1984	100,647,996	22,920,187	9,462,398	6,426,655	61,838,756
Add (deduct):					
Excess (deficiency) of revenue over expense	7,561,967	3,481,244	969,244	(91,583)	3,203,062
Reserve transfers:					
Accumulated contri- butions of members who retired during the year	-	(2,308,414)	(135,794)	-	2,444,208
Reserve for auto- matic annuity increase credited with interest at 4% on the reserve balance at begin- ning of year	-	-	-	257,066	(257,066)
Balance at June 30, 1985	\$ <u>108,209,963</u>	<u>24,093,017</u>	<u>10,295,848</u>	<u>6,592,138</u>	<u>67,228,960</u>

JUDGES RETIREMENT SYSTEM OF ILLINOIS -
STATE OF ILLINOIS

Schedule of Administrative Expenses

Years ended June 30, 1985 and 1984

	<u>1985</u>	<u>1984</u>
Personal services and related payroll costs	\$ 91,540	88,415
Contractual services:		
Rentals:		
Office equipment	1,275	1,285
Real property	8,262	8,262
Professional and technical services	8,400	7,950
Other	3,071	3,125
Equipment	-	-
Travel	3,023	2,816
Commodities	1,631	1,530
Telecommunications	1,248	1,206
Provision for depreciation	<u>416</u>	<u>589</u>
	\$ <u>118,866</u>	<u>115,178</u>



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A. A. WEINBERG
CONSULTING ACTUARY

REPORT ON AN ACTUARIAL VALUATION OF THE SYSTEM

AS OF JUNE 30, 1985

As required by law an actuarial valuation of the assets and liabilities of the Judges Retirement System of Illinois was completed as of June 30, 1985. The results of this valuation are presented herewith.

Basis of Valuation. The schedule of benefit and contribution provisions of the System forming the basis of this valuation are summarized in the appendix hereof. The actuarial standards and procedures applied in this valuation are the same as used in the preceding fiscal year.

The statistical information and financial data required for the valuation were compiled and tabulated by the administrative staff of the System under the able direction of Norman E. Lentz, Secretary. This data was supplied to us in a complete and excellent form. Detailed statistical tables exhibiting the age and service characteristics of the active and retired members and the survivors' annuities as of June 30, 1985 are presented in the appendix hereof. These statistics are briefly summarized as follows:

Active Participants

Number	782
Annual salaries	\$49,607,000
Average salary	\$63,436
Average age	54.2
Average years of service	9.3
Proportion married	86.1%
Average age of spouses	51.5

Inactive Participants

Number	18
Annual salaries	\$872,000
Average salary	\$48,444
Average age	54.3
Average years of service	10.7
Proportion married	72.2%
Average age of spouses	48.4

Retired Judges

Number	315
Total annual payments	\$10,537,050
Average annual payment	\$33,451
Average age at retirement	65.3
Average years of service	18.1
Average age	72.1

Prospective Survivor Annuitants

Spouses of retired members	259
Average age of retired member	71.8
Average age of spouses	67.2
Total annual prospective annuities	\$5,937,747
Average annual payment	\$22,926

Survivor Annuitants (Spouses)

Number	194
Average age	73.4
Average age at commencement of annuity	63.8
Total annual payments	\$2,250,519
Average annual payment	\$11,601

Survivor Annuitants (Children)

Number	13
Total annual payments	\$32,825
Average annual payment	\$2,525
Average age	14.7
Average age at commencement of annuity	11.0

Survivor's Annuities Deferred

Number	1
Annual payments	\$3,375
Average annual payment	\$3,375
Average age	49.0

ACTUARIAL ASSUMPTIONS

1. Funding Method - Entry Age Normal Cost - This method calls for the computation of benefits accruing to the members during their working years and the accumulation of the required revenues according to the prescribed rates of contribution, for meeting the full cost of these benefits
2. Mortality Standard - 1971 Group Annuity Mortality Table (GAM)
3. Rate of Interest - 6% per annum
4. Assumed average age of retirement - 66 years
5. Rates of turnover without vested rights - for selected ages -

<u>Age</u>	<u>Rate per 1,000</u>
30	40.2
35	20.1
40	8.1
45	3.2
50	1.5
55	Mortality only

6. Rate of Disability - 1.0 per 1,000
7. Assumed salary scale - 5% as the long-term expectancy of the average annual increase in rates of salary from age 30 to the assumed age of retirement

RESULTS OF VALUATION

As of June 30, 1985, the unfunded accrued liability of the System amounted to \$364,287,483. The increase in the unfunded liability for the year was \$84,897,984. This increase resulted principally from inadequate appropriations by the State of Illinois which were considerably below the full funding requirements of the System. The contributions by the State have been consistently less than the amounts necessary to meet each year's accruing pension liabilities plus accrued interest on the unfunded accrued liability at 6% per annum.

The rate of funding at June 30, 1985, otherwise referred to as the "security ratio," was 22.9%. This compares with a rate of 26.5% at June 30, 1984. This rate indicates the extent to which the accrued liabilities for computed pension credits are covered by "Net Present Assets." The "Illinois Public Employees Pension Laws Commission" had decreed over the years that a public retirement system, because of its infinite life, may be considered in a reasonably secure financial condition when the total accrued liabilities are covered by "net present assets" of at least 66-2/3%. It should be noted that the rate of funding for this System is considerably below the minimum level recommended by the Commission and less than the minimum rate specifically mandated by the law governing the System.

The law requires that an annual actuarial valuation of the System be made for the purpose of establishing its current financial condition. In this process, the accrued and prospective liabilities for the prescribed benefits are calculated and the present and prospective assets are determined.

The total accrued liability as established by the said valuation is compared with the "net present assets." The test of actuarial soundness, as stated above, shows the extent to which the total accrued liabilities are covered by net present assets. Any excess of accrued liabilities over the net present assets represents an actuarial reserve deficiency. Conversely, an excess of net present assets over the accrued liabilities constitutes a surplus. The latter condition is extremely rare for retirement systems for public employees.

VALUATION PROCEDURE

In the process of establishing the accrued liabilities, consideration is given to the pension credits currently accruing to the active participants as services are rendered by the employees. Each year of service contributes to the ultimate pension liability. By this method of procedure, assuming adequate reserves are established in accordance with actuarial criteria, assets would be accumulated by the System sufficient at all times to meet, in full, the pension payments to be made by the System to the qualifying Judges and their beneficiaries for their assumed future lifetime.

The principles governing an actuarial valuation are not unlike those that apply in the calculation of pension liabilities in the case of life insurance practice. A computation is made to establish the reserves required to meet the prescribed pension obligations. As in the case of life insurance, the factors of mortality and interest are basic in such a computation. Other factors are applied in retirement system operations, such as rates of employee turnover, the assumed rates of salary progression to the prospective dates of retirement and the ages at which retirement of Judges may occur.

In any actuarial valuation, certain assumptions are made regarding the probable effect of the foregoing factors, among others, in future operations. These assumptions are reexamined periodically in the light of actual operating experience and adjustments are made, as required. Because of the long-term character of pension obligations, a forecast of probable future trends with respect to these factors is made predicated upon the operating experience for prior years. Short-term fluctuations or transitory factors are not to be relied upon as a forecast of possible future trends.

VALUATION BALANCE SHEET

The "Valuation Balance Sheet" presented in the succeeding pages exhibits the financial condition of the System as of June 30, 1985, prepared in accordance with the foregoing procedures. The several items comprising the Balance Sheet are briefly described. The statement differs from the "Financial Balance Sheet" prepared by accountants because it gives effect to all accrued benefit liabilities of an actuarial character determined under the applicable benefit and contribution provisions in accordance with actuarial criteria.

Judges Retirement System of Illinois

COMPARATIVE VALUATION BALANCE SHEETS

June 30, 1985 and June 30, 1984

Statement of Assets, Liabilities and Reserves

A S S E T S

<u>PRESENT ASSETS:</u>	<u>June 30, 1985</u>	<u>June 30, 1984</u>
Cash - State Treasurer	\$ 1,144,841	\$ 1,406,567
Accounts Receivable	42,044	58,749
Investments - Equity of the Judges Retirement System with the Illinois State Board of Investment	107,132,974	99,193,192
Office Equipment (net)	1,828	2,244
Total	<u>\$108,321,687</u>	<u>\$100,660,752</u>
Less, Current Liabilities	111,724	12,756
Net Present Assets	<u>\$108,209,963</u>	<u>\$100,647,996</u>
 <u>DEFERRED ASSETS:</u>		
Amount Receivable from State of Illinois for accrued unfunded pension credits	364,287,483	279,389,499
TOTAL ASSETS	<u><u>\$472,497,446</u></u>	<u><u>\$380,037,495</u></u>

Judges Retirement System of Illinois

COMPARATIVE VALUATION BALANCE SHEETS

June 30, 1985 and June 30, 1984

Statement of Assets, Liabilities and Reserves

ACTUARIAL RESERVE REQUIREMENTS

<u>RESERVE FOR MEMBERS' CONTRIBUTIONS</u>	<u>June 30, 1985</u>	<u>June 30, 1984</u>
For prospective retirement and survivors' annuities on account of active members	\$ 30,268,054	\$ 28,669,817
For future refunds and death benefits - actuarial value of future payments	<u>4,120,811</u>	<u>3,712,768</u>
	\$ 34,388,865	\$ 32,382,585
<u>RESERVE FOR STATE CONTRIBUTIONS</u>		
For prospective retirement and survivors' annuities on account of active members - present value of total liability for accrued pension credits	310,961,578	244,718,093
Less, available members' contribution credits	<u>30,268,054</u>	<u>28,669,817</u>
	\$280,693,524	\$216,048,276
<u>RETIREMENT AND BENEFITS RESERVE</u>		
Actuarial value of retirement and prospective survivors' annuities in force -		
Retirement annuities and survivors' annuities of spouses of retired members	121,207,003	99,805,920
Survivors' annuities in force and deferred	<u>36,208,054</u>	<u>31,800,714</u>
TOTAL LIABILITIES AND RESERVES	<u>\$472,497,446</u>	<u>\$380,037,495</u>

An explanation of the amounts comprising the foregoing Valuation Balance Sheet is presented below:

Present Assets are the assets on hand at the Balance Sheet date as shown by the financial statements as prepared and submitted by the Secretary of the System.

Deferred Assets represent the amounts accrued and unpaid on account of service rendered prior to the "Balance Sheet" date. This item is an indebtedness of the State of Illinois to the System to be discharged by adequate State appropriations in accordance with the method of funding.

Reserve Requirements consist of the amounts necessary to provide in full for the accrued liabilities for annuities and refunds on account of service rendered prior to the Balance Sheet date, comprising three accounts which are described below:

1. Reserve for Members' Contributions represents the amount of the total contribution credits of the members at the Balance Sheet date. Part of these credits is subject to refund upon termination of service in the future due to resignation or death. The remainder is applied for funding part of the annuities payable to participants now in service who may ultimately qualify for retirement, and to prospective survivors of the participants.
2. Reserve for State Contributions consists of the amounts that must be on hand to finance the State's portion of the accrued pension credits for the participants presently in service who may ultimately qualify for retirement at the age assumed for their retirement.

3. Retirement and Benefits Reserve constitutes the amount required to pay the pensions during the future lifetime of the present annuitants (retired members and survivors) in force at the Balance Sheet date and to fund the survivors' annuities that may become payable upon death of the retired participants.

SECURITY RATIO

Under one accepted method, the measure of the stability and security of a retirement system may be established by comparing the accrued and incurred liabilities with the accumulated "net present assets." This method indicates the extent to which the total accrued liabilities of the System are covered by accumulated reserves.

In the case of the Judges Retirement System, it is noted that at June 30, 1985, the ratio of net present assets of \$108,209,963 to the total actuarial reserve requirements of \$472,497,446, as shown in the Valuation Balance sheet, was 22.9%. A minimum security ratio of 66-2/3% for a public retirement system is considered to represent a relatively stable financial condition. For a governmental entity, full reserve coverage of all accrued liabilities is not considered to be an absolute necessity because of the infinite life of government.

Evidence of the low rate of funding is noted in the ratio of investment income to the total revenues of the System. In the 1985 fiscal year, the ratio of investment income to the total revenues was 32.6%. For the 1984 fiscal year, this ratio was 47.2%. The rate has relevance to the

amount of accumulated assets available for investment and producing income for the System. A greater measure of funding should also result in increased revenues from invested assets. Normally, the security ratio should increase in keeping with the upward trend in assets and in the amount of investment income as a proportion of total revenues. This assumes reasonably adequate funding of the pension liabilities and no major liberalizing changes are made in the benefit schedule that may bring about increased costs and liabilities.

PROJECTED FUTURE PENSION PAYOUTS

A projection of probable future pension payouts illustrates the importance of "advance funding" of accruing pension liabilities. The amount of benefit payments that may be attained by the System at various dates in the future based upon present provisions of the law are estimated as follows:

<u>Fiscal Year</u>	<u>Amount of Annual Pension Payments (Millions)</u>
1985 (actual)	12.4
1990	19.0
1995	26.8
2000	35.9
2005	44.9

The foregoing projection is reexamined periodically and effect is given to changes in the plan of operation or other factors that may call for increases in payouts. It clearly points up the necessity of advance or actuarial funding of the retirement system's cost in accordance with the accrual concept which is implicit in all actuarial procedures.

NORMAL COST AND ACCRUED LIABILITIES

Giving effect to all factors that apply in an evaluation of the System, normal cost contribution rates have been formulated and are presented herein. These costs reflect a 6% interest rate assumption and the results of current operations based upon the existing provisions of the retirement plan.

Normal cost. The several components of the total normal cost rate based upon the provisions of the law in effect at June 30, 1985 are as follows:

	<u>% of Payroll</u>
1. Service retirement annuity	26.2%
2. Survivors' annuities	4.8
3. Disability benefits	0.3
4. Refunds and death benefits	0.6
5. Administrative expense	<u>0.3</u>
Total Normal Cost	32.2%
Less, participants' contributions	<u>11.0</u>
Net obligation of the State of Illinois for "normal cost"	<u>21.2%</u>

Unfunded accrued liability. At June 30, 1985, the unfunded accrued liability amounted to \$364,287,483. Assuming that the liability is to be stabilized at approximately this figure and that the State is to contribute only interest at 6% per annum, this payment would amount to \$21,857,250. This amount is equal to 44.1% of the assumed payroll. Thus, the total cost to the State of Illinois for funding the System for normal cost plus the accrual of interest on the accrued liability on the aforesaid basis is 65.3% of payroll at June 30, 1985.

FINANCING THE PENSION OBLIGATION

The cost of a retirement plan for any year is represented by the pension credits being earned by the active participants. These yearly pension credits form a proportionate part of the ultimate retirement annuities payable to the participants when they qualify for retirement by fulfilling the prescribed qualifying conditions.

Pension and benefit payments during any year, therefore, are predicated upon an accumulation of earned pension credits covering a number of productive years which represent the periods of service rendered by the employees. It is the aggregate of these pension credits during the service of the participants which represents the reserves to be accumulated for meeting the pension payments to be made to the qualifying participants during the period on retirement. This current accumulation of pension credits represents the real cost of the System for any fiscal year.

The foregoing illustrates the accrual or actuarial reserve method that is prominent in the operation of any retirement system. Actuarial criteria reflects the accrual concept. It underlies all pension plan operations. Even if a retirement law did not explicitly prescribe the method of funding these accruing pension credits, the accrual principle would automatically apply. Rates of contribution are formulated for the purpose of accumulating reserves for these earned pension credits to meet the ultimate payouts for the prescribed pension benefits. Current revenues accruing from these rates are substantially in excess of the current benefit payouts. These excess

amounts in current revenues create the reserves to be established for meeting the future pension and benefit payments by the System.

In its true concept, therefore, pension cost is a current operating expense of government. It is an obligation which cannot logically be deferred. It has a direct and immediate relationship to the entire fiscal operations of government. There is no short cut method or special formula for funding this cost. A retirement plan is now considered to be a legitimate employee benefit program of governmental concern. The principle that government should bear a measure of responsibility for employees whose productivity has become impaired due to old age or disability is now generally accepted. Since this is the case, government should face up to its responsibility in this area and provide for the cost of pensions on the most practical and economical basis. The only real and economical method for meeting this cost is the one that reflects the accrual principle and provides for this cost as it accrues or is incurred.

Actuarial funding. Several actuarial cost methods are generally recognized for the computation of pension costs and liabilities. In the case of a fixed benefit formula such as that in effect for the Judges Retirement System, two specific methods may appropriately be used, namely, the "Accrued Benefit Method" and "Projected Benefit Method."

The accrued benefit method is generally referred to as the "unit credit," "step-rate" or "single premium" method. It involves the computation of each year's earned pension credit as a "present value" figure as of the attained ages of the members. Obviously, as the ages of the employees

advance, the yearly pension costs increase. These increases in aggregate costs, however, may be curtailed or partially offset by other compensating factors such as current changes in the membership due to separations from service or death of the members.

The "projected benefit method," frequently referred to as "entry-age normal-cost" or "aggregate level cost," provides for the projection of the benefits expected to be earned by the employees and the funds that will be required to meet the cost of these accruing benefits. This is the method employed in determining the funding requirements of the Judges Retirement System. Supplemental liabilities are provided for accrued pension credits previously earned by the members that are unfunded. Ancillary benefits such as for disability or death may be financed on a one-year term basis considering the character of these benefits.

CONCLUDING COMMENT

It should be noted that revenue requirements of the System have been in a consistent upward trend over the years. With the continuous increase in pension payouts which may become more pronounced with the passing years, the trend in revenues may reverse itself. These revenues may decline precipitately if appropriations by the State are not substantially increased in accordance with the accruing cost requirements of the System.

The rate of funding, representing the extent to which the accrued liabilities are covered by net present assets, is at an extremely low level being 22.9% at June 30, 1985. This indicates that considerably larger appropriations by the State of Illinois under the specific

directives of the law, which mandates the State of Illinois to make contributions over and above the contributions by the participants, must be made to meet the System's accrued and accruing pension liabilities.

Some increase in revenues from investments may accrue to the System in future years through the operation of the Illinois State Board of Investment. These increases in revenues, however, will only meet partially the steadily increasing payouts by the System. Larger appropriations by the State of Illinois under the prescribed method of funding is imperative if a condition of relative financial stability and security for the System may be achieved and maintained.

The management of the System by the Board of Trustees and its administration reflect a conscientious, dedicated and constructive approach to all problems arising in its operations.

A. A. WEINBERG

Consulting Actuary

October 9, 1985

A P P E N D I X

Summary of Provisions of the Law
Governing the Judges Retirement System
In Effect June 30, 1985

Retirement Estimate Charts

Statistical Tables

SUMMARY OF PROVISIONS OF THE JUDGES RETIREMENT SYSTEM

(Includes amendments enacted at the 1985 session of the 84th General Assembly. This summary should not be considered as a substitute for the applicable law.)

1. PARTICIPATION AND CONTRIBUTIONS OF MEMBERS

Participation. When a person first becomes a Judge, participation in the System is mandatory unless an "Election Not to Participate" is filed by the Judge within 30 days of the date of notification of this option.

Contributions. Currently members must contribute for the following purposes, by payroll deductions, at the rates indicated:

Retirement Annuity	7.5%
Automatic Annuity Increase	1.0
Survivors' Annuity	<u>2.5</u>
Total	<u>11.0%</u>

A married Judge who files an "Election Not to Participate in the Survivors' Annuity Benefit" or an unmarried Judge is not required to contribute for that benefit, in which case the total contributions would be 8.5% of salary. Contributions for survivors' annuity are not required for an eligible child to qualify for a child's annuity.

Refund of Contributions. A participant who terminates service as a Judge may apply for and receive a refund of total contributions, without interest, provided immediate eligibility to receive a retirement annuity has not been established and the Judge has no immediate plans for returning to service as a Judge.

A member who becomes unmarried, either before or after retirement, is entitled to a refund of contributions made for survivors' annuity.

Discontinuance of Contributions. A participant who has become eligible to receive the maximum rate of annuity (at least 20 years of service credit and is age 60 or over) may elect to discontinue contributions and have benefits (retirement and survivors) "fixed" based upon the average salary for the 12 months of service as a Judge immediately prior to the effective date of such election. This election, once made, is irrevocable.

Member Contributions Not Subject to Federal or State Income Tax Until Distributed. Member contributions on earnings received after January 1, 1982 are picked up as employer contributions and, therefore, that amount of salary is not considered as taxable income for Federal or State Income Tax purposes in the year the compensation is received. However, these retirement contributions will be subject to Federal Income Tax when such amounts are distributed as a retirement annuity, survivors' annuity, lump-sum death benefit or refund.

2. RETIREMENT ANNUITY

Formula. Effective January 1, 1983, the retirement annuity is determined according to the following formula based upon the applicable salary. (See footnote to Estimate Chart No. 1 on following page)

3½% for each of the first 10 years of pension credit;
5% for each year of credit above 10 years;
MAXIMUM is 85% of such average salary after 20 years of credit.

Age and Service Requirements for Retirement.

- (a) Vesting of Pension Credit. Vesting in an annuity occurs after 10 years of credit with the deferred annuity payable beginning at age 60; or between 6 and 10 years of service with the deferred annuity payable beginning at age 62.
- (b) Conditions for Retirement. A member may retire at age 55 with at least 10 years of credit. In such a case the annuity is reduced 1/2 of 1% for each month the member is under age 60; or at age 60 after at least 10 years of credit on an unreduced retirement annuity; or at age 62 after at least 6 years of service credit.

Temporary Total Disability. A member with at least 2 years of service as a Judge who becomes totally disabled and unable to perform the duties as a Judge is entitled to a temporary disability benefit equal to 50% of salary payable during disability but not beyond the end of the term of office.

Total and Permanent Disability. A member who becomes totally and permanently disabled while serving as a Judge having at least 10 years of pension credit is eligible for an unreduced retirement annuity regardless of age.

If disability is service-connected, the annuity is subject to reduction by the amounts received by a participant under the Workmen's Compensation Act and the Workmen's Occupational Diseases Act.

Automatic Annuity Increase. Judges who are covered by this benefit are eligible for an annual increase of 3% in their base retirement annuity. This annual increase is based upon the original grant of annuity and is not compounded. The initial increase is effective in the month of January of the year next following the year in which the first anniversary of retirement occurs.

Suspension of Retirement Annuity. The annuity to any Judge shall be suspended during any period such annuitant is employed for compensation by the State of Illinois or by any County in Illinois.

If the provisions of the Retirement Systems' Reciprocal Act are elected at retirement, any employment which would result in the suspension of benefits under any of the retirement systems being considered would also cause the annuity payable by the Judges Retirement System to be suspended.

ESTIMATE CHART NO. 1

For judges with at least 6 but less than 10 years of service.
Benefits payable at 62 or over.

<u>YEARS OF SERVICE</u>	<u>PER CENT OF SALARY</u>	<u>SALARY BASE*</u>			
		<u>\$68,000</u>	<u>\$73,000</u>	<u>\$80,000</u>	<u>\$85,000</u>
		<u>MONTHLY RETIREMENT ANNUITY</u>			
6	21%	\$1,190	\$1,277	\$1,400	\$1,487
6.5	22.75	1,289	1,383	1,516	1,611
7	24.50	1,388	1,490	1,633	1,735
7.5	26.25	1,487	1,596	1,750	1,859
8	28	1,586	1,703	1,866	1,983
8.5	29.75	1,685	1,809	1,983	2,107
9	31.5	1,785	1,916	2,100	2,231
9.5	33.25	1,884	2,022	2,216	2,355

*For judges who became members of the System prior to January 1, 1983, the salary base for benefits is the final rate of salary.

For judges who became members of the System on and after January 1, 1983, the salary base is the member's average salary during the last year of service.

ESTIMATE CHART NO. 2

For judges with 10 or more years of service.
Benefits payable at age 60 or over.*

YEARS OF SERVICE	PER CENT OF SALARY	SALARY BASE**			
		\$68,000	\$73,000	\$80,000	\$85,000
		MONTHLY RETIREMENT ANNUITY			
10	35%	\$1,983	\$2,129	\$2,333	\$2,479
10.5	37.5	2,125	2,281	2,500	2,656
11	40	2,266	2,433	2,666	2,833
11.5	42.5	2,408	2,585	2,833	3,010
12	45	2,550	2,737	3,000	3,187
12.5	47.5	2,691	2,889	3,166	3,364
13	50	2,833	3,041	3,333	3,541
13.5	52.5	2,975	3,193	3,500	3,718
14	55	3,116	3,345	3,666	3,895
14.5	57.5	3,258	3,497	3,833	4,072
15	60	3,400	3,650	4,000	4,250
15.5	62.5	3,541	3,802	4,166	4,427
16	65	3,683	3,954	4,333	4,604
16.5	67.5	3,825	4,106	4,500	4,781
17	70	3,966	4,258	4,666	4,958
17.5	72.5	4,108	4,410	4,833	5,135
18	75	4,250	4,562	5,000	5,312
18.5	77.5	4,391	4,714	5,166	5,489
19	80	4,533	4,866	5,333	5,666
19.5	82.5	4,675	5,018	5,500	5,843
20 and Over	85 (Max.)	4,816	5,170	5,666	6,020

*A member with 10 or more years of service may claim an annuity as early as age 55 in which case the above amounts would be reduced 1/2 of 1% for each month under age 60.

**See footnote on Chart No. 1 (previous page).

3. SURVIVORS ANNUITY BENEFIT

Qualifying Provisions. A surviving spouse without children, eligible for benefits consideration, may be considered for this benefit at age 50 or over provided marriage to the member had been in effect for at least 1 year immediately prior to the member's death and also on the last day of service.

A surviving spouse with unmarried eligible children of the member may be considered for a survivor's annuity benefit at any age provided the marriage requirements stated above have been met. When all children are disqualified because of death, marriage or attainment of age 18, the spouse's benefit is suspended if the spouse is under age 50 until attainment of such age.

A surviving spouse who remarries prior to attainment of age 50 shall be disqualified for any future benefit payments.

Eligible children of the member under age 18 or who are dependent because of a physical or mental disability may be considered for benefits. Children adopted by the member at least 6 months prior to death have the same status as natural children. A child's annuity can be considered for an eligible child even though the member did not participate in and contribute for the survivor's annuity benefit.

Service Requirement. If the member dies in service as a Judge, the Judge must have at least 1-1/2 years of service credit for the survivors annuity eligibility. If death occurs after termination of service, the deceased member must have at least 10 years of service credit in the System.

Amount of Survivors Annuity. The annuities payable to survivors in the several categories depending on whether the member dies in service or after termination of service, provided qualifying conditions and other requirements have been fulfilled, are as follows:

	<u>DEATH IN SERVICE</u>	<u>DEATH AFTER TERMINATION OR RETIREMENT</u>
(a) Spouse	7-1/2% of salary or 66-2/3% of earned retirement annuity, whichever is greater	66-2/3% of earned retirement annuity
(b) Eligible Children of the Member	5% of salary for each child with maximum for all children of 20% of salary or 66-2/3% of earned pension, whichever is greater	Same as "Death in Service"

Offset by Workmen's Compensation. The survivor's annuity is subject to reduction by any amounts received by a survivor under the Workmen's Compensation Act or the Workmen's Occupational Diseases Act.

4. LUMP SUM DEATH BENEFITS

Lump sum death benefits are considered only if there are no eligible "survivor's annuity" beneficiaries surviving the deceased member.

<u>Conditions for Payment</u>	<u>Benefits Payable</u>
(a) Death before retirement with no survivors eligible to a survivor's annuity	Refund of total contribution credits to nominated beneficiary or estate.
(b) Death after retirement with no survivors eligible to a survivor's annuity	Refund of excess of (a) contributions over, (b) annuity payments. Payable to the nominated beneficiary or estate. If the total of annuities paid equal or exceed contributions, no death benefits are payable.
(c) Death of survivor annuitant with no further survivor's annuity payable	Refund of excess of (a) contributions over, (b) total retirement and survivors payments. The refund is payable to the nominated beneficiary or the estate of the last survivor. If total benefits equal or exceed contributions, no death benefits are payable.

5. TAXATION OF BENEFITS

Retirement and survivor's annuity benefits paid by the Judges Retirement System are subject to Federal Income Tax after considering certain contributions made to the System which may be considered as the member's "cost of annuity" for Federal tax purposes. Such cost would include contributions deducted from salary payments made prior to January 1, 1982, as well as any direct optional payments made by the member. At the time benefits become payable, the System provides the member or survivor detailed information regarding the Federal Income Tax treatment of the benefit to be paid including the amount the recipient is to consider as his or her cost of the annuity.

Benefits paid by the Judges Retirement System are not subject to Illinois State Income Tax.

6. RECIPROCITY

The Retirement Systems' Reciprocal Act (Chapter 108½, Article 20, Illinois Revised Statutes) provides the means of giving effect to pension credits in certain other public retirement systems in Illinois by considering such credits together with credits in the Judges Retirement System for the purpose of determining eligibility to annuities and for computing the annuities that may be payable to participants and their dependents.

Under the "Retirement Systems' Reciprocal Act," each retirement system must consider the provisions of its law in effect on the last date of the last termination of service of the member under any of the systems involved. Earnings under all systems are considered by each system in establishing the salary base on which benefits are to be computed. Public employment is considered in sequence by each system in arriving at the proper graded percentage rate of annuity applicable to the member under its graduated annuity rate schedule. Each system is to pay its proportionate annuity to the annuitant but the total payments by all systems cannot exceed the highest maximum annuity of any of the systems being considered if all of the member's public employment had been credited in that system. No additional contributions are required for this provision to be applicable.

The option of transferring and converting pension credit in another system in terms of the Judges Retirement System formula is still available to any Judge in service on September 5, 1975. This does not mean "a year for year" conversion but consists of the ratio of the benefit rates for the system from which the transfer is being made to the benefit rates of the Judges Retirement System. Since the Judges Retirement System rates are higher than in the case of the other public retirement systems in Illinois, this means, for example, that 4 years of pension credit in another system may result in only 1-1/2 or 2 years of converted pension credit in the Judges Retirement System. An additional contribution may be required from the member.

It is possible the revisions made by amendments to the regular formula of the Reciprocal Act, which became effective in 1975, may result in comparable or greater benefits than those that would be available if the pension credits from another system or systems were transferred and converted into reduced credits in the Judges Retirement System. Furthermore, for the regular formula, no additional payment from the member is required, whereas the transfer and conversion process calls for a substantial contribution, in most cases, on the part of the member.

7. STATE EMPLOYEES GROUP INSURANCE PROGRAM

Annuitants (retirement and survivor) receiving benefits from the Judges Retirement System are eligible to coverage under the State Employees Group Insurance Program. Basic health and life premiums for the retired judge are paid by the State and premiums for any dependent health or optional life coverage are deducted from the monthly benefit. A judge who begins to receive benefits within one year of the date of removal from the payroll is considered an "immediate annuitant" and is eligible to the same health coverage which the judge had under the State program as an employee. A large majority of the retirement annuitants fall in this category and claim the retirement annuity effective the day following termination of service in which case the insurance enrollment is merely transferred from the payroll to the Judges Retirement System.

Although health coverage would remain the same, the member's life insurance coverage could be reduced at retirement since the maximum basic life coverage is \$2,000 for a retirement system annuitant at age 60 or over and optional life coverage which had been elected would be in multiples of up to four times that basic amount.

Cook County judges who are paid a portion of their salary by the County and who have health insurance on their dependents with Cook County rather than with the State Group Plan would not have health coverage for those dependents upon retirement. Such dependents can only be added to the State Group Program through the submission of evidence of insurability which is subject to approval by the carrier or during an open enrollment period.

Survivors who qualify for monthly benefits upon the death of an active member or retired judge then become the annuitant and premiums for that survivor's basic health insurance coverage are paid by the State. A survivor annuitant may elect \$2,000 of life insurance coverage with premiums deducted from the monthly benefit.

TABLE 1. Active Participants Classified by Present Age and Annual Salaries

<u>Age</u>	<u>Number</u>	<u>Annual Salaries</u>	<u>Age</u>	<u>Number</u>	<u>Annual Salaries</u>
30	1	\$ 60,500	55	28	\$1,784,000
32	2	126,000	56	19	1,214,000
33	2	121,000	57	24	1,536,000
34	2	121,000	58	27	1,742,500
			59	23	1,476,000
35	5	307,500			
36	13	806,500	60	30	1,894,500
37	18	1,114,000	61	40	2,606,000
38	17	1,048,500	62	24	1,540,000
39	20	1,235,000	63	22	1,416,000
			64	24	1,560,000
40	15	932,500			
41	20	1,240,000	65	28	1,773,500
42	24	1,507,000	66	11	700,500
43	28	1,754,000	67	18	1,148,000
44	33	2,051,000	68	18	1,163,000
			69	16	1,017,000
45	17	1,048,500			
46	14	901,500	70	8	505,500
47	11	700,500	71	13	864,500
48	17	1,073,500	72	7	458,000
49	24	1,531,500	73	6	359,500
			74	5	322,000
50	15	957,500			
51	12	756,000	75	3	191,000
52	17	1,083,000	76	2	112,500
53	23	1,494,500	77	1	65,500
54	28	1,778,000	78	1	65,500
			79	2	131,000
			81	2	111,000
			82	1	50,500
			84	1	50,500
				<u>1</u>	<u>50,500</u>
			Totals	782	\$49,607,000
				<u><u> </u></u>	<u><u> </u></u>

TABLE 2. Active Participants Classified by Length of Service and Annual Salaries

<u>Years of Service</u>	<u>Number</u>	<u>Annual Salaries</u>
Less than 1 year	80	\$4,921,000
1	24	1,472,000
2	71	4,375,000
3	21	1,280,500
4	69	4,324,500
5	23	1,451,500
6	62	3,920,500
7	25	1,557,000
8	75	4,845,000
9	36	2,262,500
10	41	2,649,000
11	26	1,652,000
12	26	1,682,000
13	30	1,895,000
14	30	1,963,000
15	3	201,000
16	13	850,000
17	10	645,000
18	12	794,500
19	16	1,037,500
20	24	1,561,000
21	13	865,500
22	17	1,121,000
23	5	327,000
24	6	374,500
25	2	103,000
26	6	392,500
27	2	130,500
28	3	205,500
29	3	205,500
30	5	341,500
31	2	135,500
38	<u>1</u>	<u>65,500</u>
Totals	<u>782</u>	<u>\$49,607,000</u>

TABLE 3. Inactive Participants Classified
by Age and Annual Salaries

<u>Age at June 30, 1985</u>	<u>Number</u>	<u>Annual Salaries</u>
37	1	\$ 60,500
44	1	58,000
45	1	45,000
50	1	50,500
51	1	45,000
52	2	95,000
53	1	28,000
54	2	116,000
57	1	45,000
58	1	6,000
59	3	151,500
61	1	58,000
63	1	53,000
69	<u>1</u>	<u>60,500</u>
Totals	18	\$872,000
	<u>==</u>	<u>=====</u>

TABLE 4. Inactive Participants Classified by Length of Service and Annual Salaries

<u>Years of Service At June 30, 1985</u>	<u>Number</u>	<u>Annual Salaries</u>
2	1	\$ 50,500
3	2	113,500
6	2	108,500
7	1	58,000
8	2	56,500
9	1	28,000
10	3	132,500
11	2	108,500
12	1	60,500
14	2	90,000
19	<u>1</u>	<u>65,500</u>
Totals	18	\$872,000

TABLE 6. Retirement Annuitants Classified by Age at Retirement and Annual Payments

<u>Age at Retirement</u>	<u>Number of Annuitants</u>	<u>Amount of Annual Payments</u>
46	1	\$ 23,756
48	1	22,292
51	1	35,147
55	9	221,358
56	8	175,377
57	7	189,404
58	6	180,004
59	9	299,724
60	47	1,194,421
61	14	389,238
62	11	315,454
63	19	635,897
64	15	613,254
65	17	664,284
66	25	866,602
67	13	531,880
68	16	626,593
69	15	556,007
70	23	737,891
71	20	739,916
72	5	167,567
73	3	118,222
74	1	44,541
75	5	202,856
76	7	282,893
77	5	211,709
78	2	85,257
79	2	65,611
80	4	164,226
81	2	84,933
85	1	44,072
88	1	46,665
Totals	315	\$10,537,051

TABLE 5. Retirement Annuitants Classified
by Present Age and Annual Payments

<u>Age</u> <u>June 30, 1985</u>	<u>Number of</u> <u>Annuitants</u>	<u>Annual</u> <u>Payments</u>
55	1	\$ 35,997
56	2	59,301
57	7	201,849
58	2	34,472
59	5	136,744
60	5	156,678
61	3	92,511
62	8	286,514
63	8	278,778
64	11	363,348
65	11	418,618
66	8	271,386
67	16	661,606
68	13	520,169
69	13	499,426
70	19	649,022
71	18	645,428
72	15	606,387
73	13	489,032
74	14	455,528
75	23	734,592
76	15	522,201
77	19	600,768
78	8	208,188
79	6	193,684
80	13	363,448
81	9	174,011
82	5	192,748
83	5	108,263
84	3	94,878
85	2	45,102
86	7	173,776
87	1	44,072
88	1	30,066
89	3	73,077
93	1	24,646
94	1	44,072
97	<u>1</u>	<u>46,665</u>
Totals	<u>315</u>	<u>\$10,537,051</u>

TABLE 7. Prospective Survivors' Annuities
to Spouses of Present Annuitants

Ages at June 30, 1985		Amount of Annual Payments	Ages at June 30, 1985		Amount of Annual Payments
Husband	Wife		Husband	Wife	
56	56	\$ 23,697	66	67	\$ 33,768
57	35	30,807	66	68	32,909
57	43	8,163	67	47	37,117
57	55	23,432	67	60 (2)	64,499
57	56	7,262	67	61	32,051
57	62	5,934	67	62 (3)	101,539
58	48	15,415	67	64 (2)	39,148
58	51	7,566	67	65 (3)	90,099
59	42	6,255	67	67	17,883
59	55	24,206	67	70	26,097
59	57 (2)	50,308	68	60	32,051
59	59	10,395	68	61	28,520
60	56	19,992	68	63 (2)	41,572
60	57	37,117	68	64 (2)	67,609
60	58	10,741	68	65	34,839
60	60	14,167	68	68 (3)	85,224
60	61	22,436	68	69	12,744
61	61	19,358	68	70	30,250
62	51	1,362	69	55	19,262
62	55	12,386	69	61 (2)	62,321
62	61 (3)	94,886	69	62	2,021
62	62	37,117	69	64	32,051
62	63	29,945	69	65 (3)	84,613
63	57	22,186	69	66 (2)	33,426
63	62 (2)	56,519	69	67	37,117
63	63 (2)	63,103	69	70	32,051
64	51	36,042	70	62	12,694
64	55	20,925	70	64 (2)	52,895
64	57	33,131	70	65	37,117
64	60	10,220	70	66 (2)	46,925
64	62 (2)	35,420	70	67 (2)	33,285
64	64 (2)	40,178	70	69 (3)	84,540
64	65 (2)	37,456	70	70 (2)	29,764
65	51	19,863	70	75	16,931
65	55	20,224	70	76	26,154
65	56	31,538	71	52	31,110
65	57	14,088	71	58	17,287
65	58	32,932	71	60 (2)	14,706
65	63 (2)	67,748	71	61 (3)	81,997
65	65	19,734	71	63	24,084
65	66	3,646	71	66 (2)	33,883
65	68	32,051	71	68	39,667
66	55	8,960	71	69	29,382
66	59	10,190	71	70	20,874
66	62 (2)	40,468	71	71	33,768
66	63	20,092	71	72	24,763
66	65	34,539	71	73	32,051

TABLE 7. Prospective Survivors' Annuities
to Spouses of Present Annuitants
(Continued)

Ages at June 30, 1985		Amount of Annual Payments	Ages at June 30, 1985		Amount of Annual Payments
Husband	Wife		Husband	Wife	
72	59 (2)	\$ 52,741	77	73	\$ 37,117
72	63	19,406	77	74	684
72	64	37,117	77	75 (2)	62,186
72	65	31,692	77	79	21,420
72	66	19,940	78	61	28,900
72	67	28,418	78	71	34,327
72	68 (3)	81,234	78	75 (2)	866
72	69	33,768	78	77 (2)	37,738
72	72	36,207	78	79	16,959
73	63	4,375	79	69	22,696
73	64	26,251	79	73	29,382
73	67 (3)	62,579	79	76	32,112
73	68	29,403	80	49	9,662
73	70 (3)	88,280	80	58	17,994
73	71	32,051	80	72	28,437
73	72	18,923	80	75 (2)	38,977
73	73	28,418	80	78 (2)	37,475
73	75	34,284	80	79 (2)	27,164
74	64 (2)	51,745	80	80	27,797
74	66 (2)	37,414	80	81	3,665
74	70 (2)	53,964	81	64	33,150
74	71 (2)	39,040	81	70	16,959
74	73	29,863	81	76	29,382
74	77	32,051	81	79	18,688
74	78	2,830	81	80	1,083
75	61	29,694	82	77	27,310
75	64	31,988	82	78 (2)	51,139
75	66	18,570	82	80	19,139
75	69	20,160	83	75	18,475
75	71	26,973	83	79 (2)	28,243
75	72	33,768	83	81	23,493
75	73 (2)	48,625	84	82	29,963
75	74 (4)	70,447	84	83	4,375
75	75 (4)	89,574	85	78	515
75	77	8,776	86	56	32,909
75	78	28,418	86	69	3,000
75	82	13,505	86	70	2,160
76	68 (2)	40,403	86	75	21,581
76	70 (2)	43,874	86	85	24,953
76	72 (2)	52,792	86	88	29,382
76	73 (3)	94,882	87	84	29,382
76	76 (2)	29,756	88	80	20,044
76	77	4,579	89	74	18,302
76	79	32,051	89	78	4,750
77	55	28,900	94	84	29,382
77	61	30,033	97	88	31,110
77	66	428			
77	68 (2)	36,384		259	\$5,937,755
77	70 (3)	67,629			
77	71	20,267			

TABLE 8. Spouse Annuitants Classified by Age and Annual Payments

<u>Age at 6/30/85</u>	<u>Number</u>	<u>Amount of Annual Payments</u>	<u>Age at 6/30/85</u>	<u>Number</u>	<u>Amount of Annual Payments</u>
42	2	\$ 16,520	75	7	\$ 76,452
			76	5	75,009
48	1	27,933	77	12	166,732
49	1	8,418	78	13	141,668
			79	9	49,036
50	1	12,227			
52	3	28,474	80	4	26,559
53	2	20,444	81	9	128,606
54	4	69,285	82	5	33,768
			83	4	29,880
55	2	38,689	84	5	17,008
56	2	31,233			
58	1	12,801	85	3	40,996
			86	2	29,135
60	1	2,175	87	5	41,523
61	6	100,929	89	4	34,031
62	2	33,403			
63	1	8,025	90	4	33,650
64	3	42,514	91	1	10,885
			92	4	12,829
65	4	58,648	94	2	7,327
66	4	66,519			
67	8	131,381	95	<u>1</u>	<u>2,250</u>
68	8	99,836			
69	8	136,777	Totals	194	\$2,250,517
				<u><u> </u></u>	<u><u> </u></u>
70	8	79,376			
71	6	87,204			
72	9	74,580			
73	4	45,646			
74	4	60,136			

TABLE 9. Child Annuitants Classified
by Age and Annual Payments

<u>Age at 6/30/85</u>	<u>Number</u>	<u>Amount of Annual Payments</u>
9	2	\$ 4,775
11	3	8,550
13	1	2,525
16	3	7,900
17	3	6,950
28	<u>1</u>	<u>2,125</u>
Totals	13	\$32,825
	<u>==</u>	<u>=====</u>

