

JUDGES RETIREMENT SYSTEM OF ILLINOIS

BOARD OF TRUSTEES

JUDGE CARL A. LUND, Chairman
Paris

JUDGE RICHARD J. FITZGERALD, Vice Chairman
Chicago

CHIEF JUSTICE WILLIAM G. CLARK
Chicago

JUDGE GEORGE M. MAROVICH
South Holland

HON. JAMES H. DONNEWALD, State Treasurer
Breese

Norman E. Lentz, Secretary

A. A. Weinberg, Actuary

Illinois State Board of Investment,
Investment Manager

TABLE OF CONTENTS

	<u>Page</u>
LETTER OF TRANSMITTAL	i
FINANCIAL AND STATISTICAL FACTS	ii
 FORTY-FIFTH ANNUAL REPORT	
Membership Statistics	1
Retirements	2
Survivors' Annuities	2
Financial review	3
Results of operations	3
Investments	4
Financing	5
Legislation	7
Annual actuarial valuation	7
Conclusion	8
 AUDITORS' REPORT	
Auditors' statement	9
Balance Sheet	11
Statements of Revenue, Expenses and Changes in Fund Balance	12
Statements of Changes in Financial Position	13
Notes to Financial Statements	14
Statements of Changes in Funded Statutory Reserves	18
Schedule of Administrative Expenses	19
 REPORT OF ACTUARY	
Basis of valuation	20
Membership statistics	20
Actuarial assumptions	22
Results of valuation	23
Valuation procedure	24
Valuation balance sheet	25
Security ratio	29
Projected future pension payouts	30
Normal cost and accrued liabilities	31
Financing the pension obligation	32
Concluding comment	34
 APPENDIX	
Summary of Provisions of the Judges Retirement System	38
Retirement Estimate Charts	40
Statistical Tables	46

JUDGES RETIREMENT SYSTEM OF ILLINOIS

415 ILES PARK PLACE
 SPRINGFIELD, ILLINOIS 62718
 TELEPHONE (217) 782-8500

NORMAN E. LENTZ
 SECRETARY

A. A. WEINBERG
 ACTUARY

January 9, 1987

TRUSTEES
 CHIEF JUSTICE WILLIAM G. CLARK
 JUDGE CARL A. LUND
 CHAIRMAN
 JUDGE RICHARD J. FITZGERALD
 VICE CHAIRMAN
 JUDGE GEORGE M. MAROVICH
 HONORABLE JAMES H. DONNEWALD
 STATE TREASURER

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

Dear Governor Thompson:

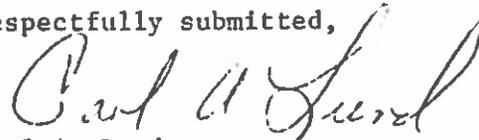
On behalf of the Board of Trustees of the Judges Retirement System of Illinois, I submit its FORTY-FIFTH ANNUAL REPORT covering operations of the System for the fiscal year ended June 30, 1986.

At the time of submitting last year's report, I reported that the security ratio of the System had continued to decline and was, at that time, 22.9%. You will note that the security ratio has now decreased to 20.2%.

I have reported to my fellow Trustees that the report submitted to you by the Governor's Retirement Systems Task Force calls for a substantial increase in the appropriations for the Judges Retirement System. This same information will be reported by me to the participating members of the Illinois judiciary. The Trustees are well aware that interest rate assumptions affect the security ratio. Regardless of what assumed interest rate is used, the Judges Retirement System falls far below the percentage of funding for all of the other State-supported retirement systems in Illinois.

The implementation of the proposals by the Governor's Retirement Systems Task Force will begin to solve the critical problem that confronts the funding of the Judicial Retirement System.

Respectfully submitted,



Carl A. Lund,
 Chairman

FINANCIAL AND STATISTICAL FACTSJune 30, 1986 and June 30, 1985 in comparison

<u>At Year-End</u>	<u>FISCAL YEAR ENDED</u>	
	<u>June 30, 1986</u>	<u>June 30, 1985</u>
Net Present Assets	\$124,419,661	\$108,209,963
Investments held by the Illinois State Board of Investment (at cost)	122,130,095	107,132,974
Effective Yield on Investments At cost	7.0%	7.1%
Number of Active Participants	768	782
Retirement Annuitants	325	315
Survivor Beneficiaries	211	207
Unfunded Accrued Liability	\$490,682,455	\$364,287,483
Rate of Funding (Security Ratio)	20.2%	22.9%

For the Year (See Financial Statements, Pages 11 - 13)

Net Revenues	\$ 16,209,698	\$ 7,561,967
Net Investment Income and Interest on Cash Balance	8,117,127	7,568,684
Net Realized Gain (Loss) on Sales of Investments	7,108,631	(946,802)
Contributions by Participants	5,983,871	5,147,228
Contributions by State of Illinois	9,345,100	8,527,500
Retirement Annuity Payments	11,214,816	10,164,086
Survivors' Annuity Payments	2,401,379	2,188,472
Refunds	600,279	263,219
Administrative Expenses	128,558	118,868

FORTY-FIFTH ANNUAL REPORT OF THE BOARD OF TRUSTEES

Covering the Fiscal Year Ended June 30, 1986

The Forty-Fifth Annual Report of the Board of Trustees of the Judges Retirement System of Illinois for the Fiscal Year ended June 30, 1986 is presented herewith. The report contains 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>Totals</u>
	<u>Active</u>	<u>Inactive</u>	<u>Judges</u>	<u>Annuitants</u>	
Number at July 1, 1985	782	18	315	207	1,322
Additions	<u>28</u>	<u>0</u>	<u>34</u>	<u>22</u>	<u>84</u>
	810	18	349	229	1,406
Deductions	<u>42</u>	<u>7</u>	<u>24</u>	<u>18</u>	<u>91</u>
Number at June 30, 1986	768*	11	325	211	1,315
	—	—	—	—	—

*(Includes 17 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, 1986, there were 325 judges on retirement and in receipt of annual pension payments totalling \$11,651,023. Statistics pertaining to these retirements are as follows:

1. Average annual retirement annuity	\$35,849
2. Average age at retirement	65.0
3. Average age at June 30, 1986	71.8
4. Average years of service	17.9
5. Average annual salary at retirement	\$46,440
6. Proportion of annuitants who are married	82.8%
7. Average annual annuity to an eligible surviving spouse	\$24,571

Survivors' annuities. Spouses in receipt of annuity payments at the close of the fiscal year totalled 199 with annual payments amounting to \$2,553,628 or an average of \$12,832 per year. At the end of the preceding fiscal year there were 194 spouses with annual payments totalling \$2,250,519. The average age of the spouses at the beginning date of their annuities was 64.3 years. Their average age at June 30, 1986 was 73.8 years.

At June 30, 1986, payments to one surviving spouse were in a deferred status pending attainment of age 50. The age of this annuitant was 43.0 years and the survivor annuity will amount to \$4,748 per year.

Minor children. At the close of the year, 12 children of deceased members were in receipt of annuities totalling \$32,550 per year. The average age of these children was 15.6 years. At the beginning date of their annuities, their average age was 12.3 years.

Financial review. The reserves of the System at June 30, 1986 totalled \$124,419,661. The increase in reserves for the year amounted to \$16,209,698. This increase compares with an amount in the preceding year of \$7,561,967. The net revenues were credited to the appropriate reserves of the System. The aforesaid reserves of the System are credited to the reserve accounts designated in the law, as follows:

Reserve for Retirement and Survivors ¹	
Annuity Contributions	\$ 37,223,581
Reserve for the Post-retirement	
Annuity Increases	6,718,636
Reserve for Future Operations	<u>80,477,444</u>
 Total Reserves at June 30, 1986	 \$124,419,661

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, 1986 amounted to \$30,554,729. These revenues were derived from the following sources:

Contributions by the Participants	\$ 5,983,871
Appropriations by State of Illinois	9,345,100
Interest Credited by the State Treasurer	228,637
Income from Investments - State Investment Board.	7,888,490
Gain (Loss) on Sales of Investments	<u>7,108,631</u>
 Total Revenues	 \$30,554,729

Expenditures by the System for the year totalled \$14,345,031 for the following purposes:

Retirement annuities	\$11,214,816
Survivors' annuities	2,401,378
Refunds and death benefits	600,279
Administrative expenses	<u>128,558</u>
Total Expenditures	<u>\$14,345,031</u>

Investments. The investment of the net reserves of the System is under the management of the "Illinois State Board of Investment." That 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 \$2.359 billion as of June 30, 1986. The assets of the Judges Retirement System were approximately 5.81% of the Commingled Fund and were diversified in the following manner:

<u>Investments at June 30, 1986</u>	<u>At Cost</u>	<u>At Market</u>
U.S. Government & Agency Obligations	\$ 25,319,895	\$ 26,534,306
Foreign Obligations	1,317,212	1,532,320
Corporate Obligations	26,104,389	28,009,363
Convertible Bonds	1,029,297	1,125,105
Common Stock and Equity Fund	50,982,325	60,634,062
Convertible Preferred Stock	730,417	786,611
Preferred Stock	424,341	438,084
Real Estate Pooled Funds	7,242,919	8,862,679
Participating Mortgage Pooled Funds	289,676	290,337
Venture Capital	794,232	898,771
Money Market Instruments	7,431,707	7,448,671
Other Assets, Less Liabilities	<u>463,686</u>	<u>465,797</u>
	\$122,130,096	\$137,026,106

The Commingled Fund produced a total rate of return (capital appreciation plus income) of 24.6% for the fiscal year 1986. This is reflective of a strong stock market and a positive bond market.

During the year, the Board fully implemented its new equity strategy. The Board chose "value" and "growth" as the two investment styles and diversified the structure between external and internal management. 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, creation of 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 1987-1988 fiscal year, the Actuary has determined that these requirements will be \$25,175,000. 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 20.2%. 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

year since 1981; 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>
1981	\$11,400,000	\$9,500,000	36.0%
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	20.2%
1987	22,250,000	9,431,900	Not Yet Determined

LEGISLATION

No substantive changes were made in the pension law relating to the Judges Retirement System during the 1986 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, 1986. 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. 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 1986 fiscal year. The trustees again record their great 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 accrued and accruing 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 1986 fiscal year, this unfunded liability exceeded \$490,600,000. In fact, for the fiscal year ended June 30, 1986, State contributions were substantially 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.

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

ARTHUR ANDERSEN & CO.
CHICAGO, ILLINOIS

AUDITORS' REPORT

Honorable Robert G. Cronson
Auditor General
State of Illinois

We have examined the balance sheet of the JUDGES RETIREMENT SYSTEM OF ILLINOIS--STATE OF ILLINOIS as of June 30, 1986, and the related statements of revenue, expense and changes in fund balance and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and the standards for financial audits contained in the U. S. General Accounting Office's Standards for Audits of Governmental Organizations, Programs, Activities and Functions and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements for the year ended June 30, 1985, were examined by other auditors whose report thereon dated August 22, 1985, expressed an unqualified opinion on those statements.

In our opinion, the financial statements referred to above present fairly the financial position of the Judges Retirement System of Illinois--State of Illinois as of June 30, 1986, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The Supplementary Schedules 1 and 2 are presented for purposes of additional analysis and are not a required part of the financial statements of the Judges Retirement System of Illinois--State of Illinois. Our examination was made for the purpose of forming an opinion on the fiscal year 1986 financial statements taken as a whole. The fiscal year 1986 financial information on Supplementary Schedules 1 and 2 has been subjected to the auditing procedures applied in the examination of the fiscal year 1986 financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The fiscal year 1985 financial information on Supplementary Schedules 1 and 2 was examined by other auditors, whose report thereon dated August 22, 1985, expressed that such information is fairly stated in all material respects in relation to the fiscal year 1985 financial statements taken as a whole.

Arthur Andersen & Co.

ARTHUR ANDERSEN & CO.

October 10, 1986

JUDGES RETIREMENT SYSTEM OF ILLINOIS--

STATE OF ILLINOIS

BALANCE SHEETS

JUNE 30, 1986 AND 1985

<u>A S S E T S</u>	<u>1986</u>	<u>1985</u>
Cash	\$ 2,351,774	\$ 1,144,841
Receivables-		
Participants' contributions	\$ 5,600	\$ 13,906
Refundable annuities	2,350	-
Interest	18,672	10,582
Due from General Assembly Retirement System	19,051	17,556
	\$ 45,673	\$ 42,044
Investments held in the Illinois State Board of Investment Commingled Fund--at cost (market value: 1986, \$137,026,106; 1985, \$109,952,133)	\$122,130,095	\$107,132,974
Office equipment--at cost, less accumulated depreciation (1986, \$8,050; 1985, \$7,524)	1,302	1,828
	\$124,528,844	\$108,321,687
	=====	=====
<u>LIABILITIES AND FUND BALANCE</u>		
Liabilities-		
Benefits payable	\$ 11,017	\$ 89,019
Refunds payable	95,726	20,334
Accounts payable	2,440	2,371
	\$ 109,183	\$ 111,724
Fund balance-		
Reserved-		
Actuarially determined accrued benefit cost requirements-		
Participants' contributions	\$ 37,223,581	\$ 34,388,865
Retirement and survivors' annuities in force and deferred survivors' annuities	212,608,346	157,415,057
Present value of liability for accrued retirement credits	365,270,189	280,693,524
	\$615,102,116	\$472,497,446
Unreserved (deficit)--unfunded accrued benefit costs requirement--representing an obligation of the State of Illinois	(490,682,455)	(364,287,483)
Fund balance--funded statutory reserves	\$124,419,661	\$108,209,963
	\$124,528,844	\$108,321,687
	=====	=====

The accompanying notes to financial statements are an integral part of these statements.

JUDGES RETIREMENT SYSTEM OF ILLINOIS--

STATE OF ILLINOIS

STATEMENTS OF REVENUE, EXPENSE AND CHANGES IN FUND BALANCE

FOR THE YEARS ENDED JUNE 30, 1986 AND 1985

	<u>1986</u>	<u>1985</u>
Contributions revenue-		
Participants	\$ 5,983,871	\$ 5,147,228
State of Illinois	9,345,100	8,527,500
	-----	-----
	\$ 15,328,971	\$ 13,674,728
Net investment income	7,888,490	7,386,583
Interest earned on cash balances	228,638	182,101
Net realized gain (loss) on sale of investments	7,108,631	(946,802)
	-----	-----
	\$ 30,554,730	\$ 20,296,610
	-----	-----
Expense-		
Benefits-		
Retirement annuities	\$ 10,031,443	\$ 9,149,321
Survivors' annuities	2,401,379	2,188,472
Automatic annual increase	1,183,373	1,014,765
	-----	-----
	\$ 13,616,195	\$ 12,352,558
Refunds	600,279	263,219
Administrative	128,558	118,866
	-----	-----
	\$ 14,345,032	\$ 12,734,643
	-----	-----
Excess of revenue over expense	\$ 16,209,698	\$ 7,561,967
Fund balance at beginning of year	108,209,963	100,647,996
	-----	-----
Fund balance at end of year	\$124,419,661	\$108,209,963
	=====	=====

The accompanying notes to financial statements
are an integral part of these statements.

JUDGES RETIREMENT SYSTEM OF ILLINOIS--

STATE OF ILLINOIS

STATEMENTS OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED JUNE 30, 1986 AND 1985

	<u>1986</u>	<u>1985</u>
Sources of working capital-		
Working capital provided by operations-- excess of revenue over expense	\$16,209,698	\$7,561,967
Add- Item not requiring working capital--provision for depreciation	526	516
	-----	-----
Total sources of working capital	\$16,210,224	\$7,562,483
	-----	-----
Uses of working capital-		
Investment purchases-		
Amount remitted by Judges Retirement System	\$ -	\$1,500,000
Reinvested earnings	14,997,121	6,439,781
Acquisition of equipment	-	100
	-----	-----
Total uses of working capital	\$14,997,121	\$7,939,881
	-----	-----
Net increase (decrease) in working capital	\$ 1,213,103	\$ (377,398)
	-----	-----
Elements of net increase (decrease) in working capital-		
Cash	\$ 1,206,933	\$ (261,726)
Receivables	3,629	(16,705)
Benefits payable	78,002	(89,019)
Refunds payable	(75,392)	(10,637)
Accounts payable	(69)	689
	-----	-----
Net increase (decrease) in working capital	\$ 1,213,103	\$ (377,398)
	=====	=====

The accompanying notes to financial statements
are an integral part of these statements.

JUDGES RETIREMENT SYSTEM OF ILLINOIS--

STATE OF ILLINOIS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1986 AND 1985

(1) DESCRIPTION OF SYSTEM:

General-

The Judges Retirement System of Illinois--State of Illinois (Judges Retirement System) was established in 1941 as a component unit of the State of Illinois 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.

(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 the ISBI. Investments of the Judges Retirement System are reported at the cost of its units of participation in the Commingled Fund of the ISBI.

Accrued Benefit Cost-

The calculations of the accrued benefit cost (arising from service credits in periods prior to June 30, 1986 and 1985, respectively) were made by a consulting actuary as of June 30, 1986 and 1985, 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

Reserves-

The actuarially determined accrued benefit cost requirements consist of the amounts necessary to provide in full for the following accrued liabilities for annuities and refunds:

(a) Participants' Contributions--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.

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 \$75,652 and \$70,178 for the years ended June 30, 1986 and 1985, respectively.

-18-

JUDGES RETIREMENT SYSTEM OF ILLINOIS--STATE OF ILLINOISSTATEMENT OF CHANGES IN FUNDED STATUTORY RESERVESFOR THE YEARS ENDED JUNE 30, 1986 AND 1985

	Total Funded Reserves	Reserve for Participants' Contributions		Reserve for Automatic Annuity Increase	Reserve for Future Operations
		Retirement Annuities	Survivors' Annuities		
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 contributions of members who retired during the year	-	(2,308,414)	(135,794)	-	2,444,208
Reserve for automatic annuity increase credited with interest at 4% on the reserve balance at beginning of year	-	-	-	257,066	(257,066)
Balance at June 30, 1985	\$108,209,963	\$24,093,017	\$10,295,848	\$6,592,138	\$67,228,960
Add (deduct)-					
Excess (deficiency) of revenue over expense	16,209,698	3,857,730	1,053,899	(137,187)	11,435,256
Reserve transfers-					
Accumulated contributions of members who retired during the year	-	(1,878,922)	(197,990)	-	2,076,912
Reserve for automatic annuity increase credited with interest at 4% on the reserve balance at beginning of year	-	-	-	263,686	(263,686)
Balance at June 30, 1986	\$124,419,661	\$26,071,825	\$11,151,757	\$6,718,637	\$80,477,442

-19-

JUDGES RETIREMENT SYSTEM OF ILLINOIS--STATE OF ILLINOISSCHEDULE OF ADMINISTRATIVE EXPENSESFOR THE YEARS ENDED JUNE 30, 1986 AND 1985

	<u>1986</u>	<u>1985</u>
Personal services and related payroll costs	\$ 97,914	\$ 91,540
Contractual services-		
Rentals-		
Office equipment	1,356	1,275
Real property	5,749	8,262
Professional and technical services	9,900	8,400
Other	2,933	2,972
Equipment	-	100
Travel	2,994	3,023
Commodities	1,712	1,530
Telecommunications	1,474	1,248
Provisions for depreciation	526	516
	-----	-----
	\$128,558	\$118,866
	=====	=====

SUITE 1315
29 EAST MADISON STREET
CHICAGO 60602

TELEPHONE:
(312) 939-7124
(312) 782-4870
(305) 931-8267

A. A. WEINBERG
CONSULTING ACTUARY

REPORT ON AN ACTUARIAL VALUATION OF THE SYSTEM

AS OF JUNE 30, 1986

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, 1986. 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, 1986 are presented in the appendix hereof. These statistics are briefly summarized as follows:

Active Participants

Number	768
Annual salaries	\$54,461,000
Average salary	\$70,913
Average age	54.3
Average years of service	9.7
Proportion married	85.9%
Average age of spouse	51.6

Inactive Participants

Number	11
Annual salaries	\$494,000
Average salary	\$44,909
Average age	55.0
Average years of service	8.73
Proportion married	63.6%
Average age of spouses	48.4

Retired Judges

Number	325
Total annual payments	\$11,651,023
Average annual payment	\$35,849
Average age at retirement	65.0
Average years of service	17.9
Average age	71.8

Prospective Survivor Annuitants

Spouses of retired members	269
Average age of retired members	71.8
Average age of spouses	67.1
Total annual prospective annuities	\$6,609,685
Average annual payment	\$24,571

Survivor Annuitants (Spouses)

Number	199
Average age	73.8
Average age at commencement of annuity	64.3
Total annual payments	\$2,553,628
Average annual payment	\$12,832

Survivor Annuitants (Children)

Number	12
Total annual payments	\$32,550
Average annual payment	\$2,713
Average age	15.6
Average age at commencement of annuity	12.3

Survivor's Annuities Deferred

Number	1
Annual payments	\$4,748
Average annual payment	\$4,748
Average age	43.0

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, 1986, the unfunded accrued liability of the System amounted to \$490,682,455. The increase in the unfunded liability for the year was \$126,394,972. 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, 1986, otherwise referred to as the "security ratio," was 20.2%. This compares with a rate of 22.9% at June 30, 1985. 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 probably 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, 1986, 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, 1986 and June 30, 1985

Statement of Assets, Liabilities and Reserves

A S S E T S

<u>PRESENT ASSETS:</u>	<u>June 30, 1986</u>	<u>June 30, 1985</u>
Cash - State Treasurer	\$ 2,351,774	\$ 1,144,841
Accounts Receivable	45,673	42,044
Investments - Equity of the Judges Retirement System with the Illinois State Board of Investment	122,130,095	107,132,974
Office Equipment (Net)	1,302	1,828
Total	<u>\$124,528,844</u>	<u>\$108,321,687</u>
Less, Current Liabilities	109,183	111,724
Net Present Assets	<u>\$124,419,661</u>	<u>\$108,209,963</u>
 <u>DEFERRED ASSETS:</u>		
Amount Receivable from State of Illinois for accrued unfunded pension credits	490,682,455	364,287,483
TOTAL ASSETS	<u><u>\$615,102,116</u></u>	<u><u>\$472,497,446</u></u>

Judges Retirement System of Illinois

COMPARATIVE VALUATION BALANCE SHEETS

June 30, 1986 and June 30, 1985

Statement of Assets, Liabilities and Reserves

ACTUARIAL RESERVE REQUIREMENTS

<u>RESERVE FOR MEMBERS' CONTRIBUTIONS</u>	<u>June 30, 1986</u>	<u>June 30, 1985</u>
For prospective retirement and survivors' annuities on account of active members	\$ 32,634,923	\$ 30,268,054
For future refunds and death benefits - actuarial value of future payments	<u>4,588,658</u>	<u>4,120,811</u>
	\$ 37,223,581	\$ 34,388,865
<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	397,905,112	310,961,578
Less, available members' contribution credits	<u>32,634,923</u>	<u>30,268,054</u>
	\$365,270,189	\$280,693,524
<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	176,304,234	121,207,003
Survivors' annuities in force and deferred	<u>36,304,112</u>	<u>36,208,054</u>
TOTAL LIABILITIES AND RESERVES	<u>\$615,102,116</u>	<u>\$472,497,446</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 represents 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, 1986, the ratio of net present assets of \$124,419,661 to the total actuarial reserve requirements of \$615,102,116, as shown in the Valuation Balance Sheet, was 20.2%. 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 1986 fiscal year, the ratio of investment income to the total revenues was 49.8%. For the 1985 fiscal year, this ratio was 32.6%. 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>
1986 (actual)	\$13.6
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, 1986 have remained unchanged and 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, 1986, the unfunded accrued liability amounted to \$490,682,455. 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 \$29,440,947. This amount is equal to 54.1% 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 75.3% of payroll at June 30, 1986.

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 20.2% at June 30, 1986. 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 17, 1986

A P P E N D I X

Summary of Provisions of the Law
Governing the Judges Retirement System
In Effect June 30, 1986

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>\$71,560</u>	<u>\$76,785</u>	<u>\$83,600</u>	<u>\$88,825</u>
		<u>(Salaries effective July 1, 1986)</u>			
		<u>MONTHLY RETIREMENT ANNUITY</u>			
6	21%	\$1,252	\$1,343	\$1,463	\$1,554
6.5	22.75	1,356	1,455	1,584	1,683
7	24.50	1,461	1,567	1,706	1,813
7.5	26.25	1,565	1,679	1,828	1,943
8	28	1,669	1,791	1,950	2,072
8.5	29.75	1,774	1,903	2,072	2,202
9	31.5	1,878	2,015	2,194	2,331
9.5	33.25	1,982	2,127	2,316	2,461

*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**			
		\$71,560	\$76,785	\$83,600	\$88,825
		(Salaries effective July 1, 1986)			
		<u>MONTHLY RETIREMENT ANNUITY</u>			
10	35%	\$2,087	\$2,239	\$2,438	\$2,590
10.5	37.5	2,236	2,399	2,612	2,775
11	40	2,385	2,559	2,786	2,960
11.5	42.5	2,534	2,719	2,960	3,145
12	45	2,683	2,879	3,135	3,330
12.5	47.5	2,832	3,039	3,309	3,515
13	50	2,981	3,199	3,483	3,701
13.5	52.5	3,130	3,359	3,657	3,886
14	55	3,279	3,519	3,831	4,071
14.5	57.5	3,428	3,679	4,005	4,256
15	60	3,578	3,839	4,180	4,441
15.5	62.5	3,727	3,999	4,354	4,626
16	65	3,876	4,159	4,528	4,811
16.5	67.5	4,025	4,319	4,702	4,996
17	70	4,174	4,479	4,876	5,181
17.5	72.5	4,323	4,639	5,050	5,366
18	75	4,472	4,799	5,225	5,551
18.5	77.5	4,621	4,959	5,399	5,736
19	80	4,770	5,119	5,573	5,921
19.5	82.5	4,919	5,278	5,747	6,106
20 and over	85 (Max.)	5,068	5,438	5,921	6,291

*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. The Tax Reform Act of 1986 made several changes in the tax treatment of pension payments. The three-year recovery rule was eliminated for any individual whose benefit commences after July 1, 1986, and a portion of the monthly annuity may be excluded as income for tax purposes with the balance considered as taxable income beginning with the first payment. The nontaxable amount of the benefit is determined from the member's tax free cost and the expected return based on the life expectancy of the pensioner at the beginning date of the benefit. Under the Judges Retirement System the member's cost would normally represent contributions prior to January 1, 1982. When benefits become payable, the member or survivor will be provided with information regarding the Federal Income Tax treatment of the benefit and the amount the recipient is to consider as the cost of 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>
31	1	\$ 68,000	60	21	\$1,510,000
33	2	141,000	61	25	1,777,000
34	5	340,000	62	38	2,790,000
			63	23	1,657,000
35	5	340,000	64	21	1,508,000
36	6	413,000			
37	13	904,000	65	23	1,657,000
38	17	1,181,000	66	25	1,777,000
39	17	1,176,000	67	11	783,000
			68	16	1,137,000
40	20	1,385,000	69	16	1,169,000
41	15	1,045,000			
42	23	1,599,000	70	17	1,207,500
43	25	1,755,000	71	7	492,500
44	31	2,173,000	72	11	808,500
			73	6	433,000
45	33	2,301,000	74	4	251,500
46	21	1,453,000			
47	15	1,084,000	75	4	282,000
48	13	919,000	76	1	68,000
49	18	1,269,000	77	2	122,500
			79	1	73,000
50	26	1,850,000			
51	16	1,143,000	80	2	138,500
52	12	846,000	82	1	50,500
53	17	1,213,000	85	1	50,500
54	23	1,682,000			
			Totals	768	\$54,461,000
55	26	1,852,000			
56	24	1,709,000			
57	18	1,284,000			
58	23	1,648,000			
59	27	1,945,000			

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	29	\$1,906,500
1	76	5,307,000
2	21	1,438,000
3	69	4,762,000
4	21	1,438,000
5	65	4,572,000
6	23	1,624,000
7	60	4,247,000
8	25	1,747,000
9	72	5,225,000
10	36	2,550,000
11	41	2,976,000
12	27	1,925,000
13	25	1,809,000
14	28	1,979,000
15	27	1,996,000
16	4	299,000
17	12	887,000
18	8	579,000
19	9	666,000
20	15	1,089,500
21	21	1,514,500
22	11	792,500
23	16	1,200,000
24	5	334,500
25	4	261,500
26	1	68,000
27	6	430,000
28	1	68,000
29	3	233,000
30	2	153,000
31	3	238,000
32	1	73,000
39	<u>1</u>	<u>73,000</u>
Totals	768	\$54,461,000

TABLE 3. Inactive Participants Classified
by Age and Annual Salaries

<u>Age at June 30, 1986</u>	<u>Number</u>	<u>Annual Salaries</u>
38	1	\$ 60,500
46	1	45,000
52	1	50,500
53	2	82,000
54	1	58,000
55	1	28,000
59	1	6,000
61	1	50,500
64	1	53,000
70	<u>1</u>	<u>60,500</u>
Totals	<u>11</u>	<u>\$494,000</u>

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

<u>Years of Service at June 30, 1986</u>	<u>Number</u>	<u>Annual Salaries</u>
3	2	\$113,500
6	1	58,000
8	2	56,500
9	1	28,000
10	3	132,500
12	1	60,500
14	<u>1</u>	<u>45,000</u>
Totals	11	\$494,000
	<u>==</u>	<u>=====</u>

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

<u>Age</u> <u>June 30, 1986</u>	<u>Number of</u> <u>Annuitants</u>	<u>Annual</u> <u>Payments</u>
55	3	\$ 102,317
56	2	85,983
57	3	113,645
58	8	230,420
59	4	121,002
60	8	205,062
61	9	396,944
62	5	169,114
63	8	303,808
64	9	351,861
65	13	437,256
66	11	435,314
67	10	370,867
68	15	629,767
69	13	535,648
70	10	392,620
71	21	749,677
72	20	767,056
73	18	816,163
74	14	569,683
75	14	498,276
76	21	724,396
77	14	527,864
78	18	605,684
79	8	213,356
80	5	152,981
81	11	290,220
82	9	251,121
83	4	167,030
84	3	40,562
85	3	97,224
87	5	94,481
88	1	45,156
89	1	30,781
90	1	9,500
94	1	25,215
95	1	45,156
98	1	47,813
Totals	325	\$11,651,023

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	\$ 24,322
48	1	22,831
51	1	36,064
55	12	330,546
56	9	228,201
57	9	269,407
58	6	184,584
59	12	420,018
60	49	1,361,113
61	16	525,253
62	11	335,979
63	18	672,801
64	14	605,533
65	19	741,687
66	25	891,750
67	14	605,248
68	13	515,360
69	13	498,981
70	22	766,559
71	19	771,197
72	6	240,167
73	6	315,161
74	2	99,353
75	5	237,086
76	6	263,015
77	4	176,420
78	2	87,414
79	2	67,339
80	3	131,546
81	2	96,994
82	1	36,125
85	1	45,156
88	1	47,813
Totals	325	\$11,651,023

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

Ages at June 30, 1986		Amount of Annual Payments	Ages at June 30, 1986		Amount of Annual Payments
Husband	Wife		Husband	Wife	
55	52	\$ 13,649	66	66	\$ 21,542
55	54	13,195	66	67	3,646
55	57	41,367	66	69	32,909
56	46	32,604	67	56	9,200
57	50	35,162	67	60	10,487
57	57	24,387	67	63 (4)	103,148
58	36	31,731	67	64	20,578
58	44	8,779	67	66	35,440
58	56	24,043	67	68	34,626
58	57	7,473	67	69	33,768
58	63	6,112	68	48	38,230
59	49	15,864	68	61 (2)	67,476
59	52 (2)	47,487	68	62	32,909
60	34	22,157	68	63 (2)	69,745
60	43	6,437	68	65 (2)	40,130
60	56	24,932	68	66 (3)	92,751
60	58 (2)	50,668	68	68	18,322
60	60	10,395	68	71	26,796
60	61	18,641	69	61	32,909
61	57	20,528	69	62	29,327
61	58 (3)	118,131	69	64 (2)	42,618
61	59	11,045	69	65 (2)	69,584
61	61 (3)	91,891	69	66	35,825
61	62	23,037	69	69 (2)	54,516
62	62 (3)	69,170	69	70	13,057
63	52	1,361	69	71	31,158
63	56	12,386	70	56	19,765
63	62 (3)	104,032	70	62	30,104
63	63	38,230	70	63	2,021
63	64	30,769	70	65	32,909
64	58	22,765	70	66 (2)	71,570
64	61	41,367	70	67 (2)	34,238
64	63 (2)	58,039	70	68	38,230
64	64	27,786	70	71	32,909
64	73	39,344	71	63	13,001
65	52	39,344	71	65 (2)	54,255
65	56	21,471	71	66 (2)	52,604
65	58	34,069	71	67 (2)	48,214
65	59	12,309	71	68 (3)	72,742
65	61	10,518	71	70 (3)	86,974
65	63 (2)	36,331	71	71	2,203
65	65 (2)	41,233	71	76	17,373
65	66 (2)	38,451	71	77	26,819
66	52	20,382	72	53	31,875
66	56	20,721	72	59	17,790
66	57	32,484	72	61 (2)	15,081
66	58	14,455	72	62 (3)	84,201
66	59	33,920	72	63	41,367
66	64 (2)	69,593	72	64	24,084

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

Ages at June 30, 1986		Amount of Annual Payments	Ages at June 30, 1986		Amount of Annual Payments
Husband	Wife		Husband	Wife	
72	67 (2)	\$ 34,825	77	80	\$ 32,909
72	69	40,857	78	56	29,623
72	70 (2)	59,507	78	62	30,935
72	71	21,433	78	67	428
72	72	34,626	78	69 (2)	37,467
72	73	25,464	78	71 (2)	51,073
72	74	32,909	78	72	20,750
73	60 (2)	54,179	78	74	38,230
73	64	19,913	78	75 (2)	33,768
73	65	38,230	78	76 (2)	63,767
73	66	32,498	79	62	29,623
73	67 (2)	65,742	79	72	35,298
73	68	29,141	79	76 (2)	874
73	69 (3)	83,316	79	78 (2)	38,645
73	70 (2)	73,160	79	80	17,339
73	72	45,334	80	70	23,254
73	73	37,294	80	77	32,929
74	65 (2)	31,348	81	50	9,662
74	68 (3)	64,165	81	73	29,199
74	69	30,126	81	76 (2)	39,897
74	71 (3)	90,639	81	79	2,908
74	72	32,909	81	80 (2)	27,165
74	73	19,360	81	81	28,481
74	74 (2)	74,475	81	82	3,755
74	76	35,312	82	65	34,000
75	65 (2)	53,055	82	71	17,339
75	67 (2)	38,367	82	74	24,084
75	71 (2)	54,950	82	77	30,104
75	72	28,787	82	80	19,175
75	74 (2)	63,509	82	81 (2)	34,935
75	78	32,909	83	78	28,083
75	79	2,895	83	79	31,875
76	62	33,312	83	81	19,609
76	65	32,845	84	80	1,584
76	67	19,027	84	82	23,493
76	70	20,700	85	83	30,811
76	72	27,696	85	84	4,375
76	73	34,626	87	57	33,768
76	74 (2)	49,924	87	70	3,000
76	75 (4)	72,313	87	71	2,209
76	76 (3)	60,928	87	76	22,144
76	78	9,000	88	85	30,104
76	79	29,141	89	81	20,521
76	83	13,807	90	79	4,750
77	69 (2)	41,468	95	85	30,104
77	71 (2)	44,341	98	89	31,865
77	73 (2)	54,248			
77	74 (3)	97,457		269	\$6,609,685
77	77 (2)	30,436			

TABLE 8. Spouse Annuitants Classified by Age and Annual Payments

<u>Age at 6/30/86</u>	<u>Number</u>	<u>Amount of Annual Payments</u>	<u>Age at 6/30/86</u>	<u>Number</u>	<u>Amount of Annual Payments</u>
43	1	\$ 9,298	75	4	\$ 68,839
			76	8	94,927
47	1	4,538	77	4	72,660
49	1	24,829	78	12	166,732
			79	13	174,469
50	1	9,176			
51	1	12,227	80	11	97,115
53	3	28,474	81	3	10,474
54	2	20,444	82	9	128,606
			83	5	33,768
55	4	71,025	84	4	29,880
56	3	62,009			
57	3	37,013	85	4	16,050
58	1	22,289	86	4	65,949
59	2	30,795	87	1	3,125
			88	4	26,842
61	1	2,175			
62	6	101,502	90	4	34,031
63	3	67,171	91	2	17,780
64	1	8,451	92	1	10,885
			93	4	37,335
65	3	42,514			
66	4	54,821	95	2	7,327
67	5	107,886	96	1	2,250
68	8	131,676			
69	7	97,962	Totals	199	\$2,553,627
70	8	136,777			
71	10	126,066			
72	7	98,397			
73	9	74,580			
74	4	72,488			

TABLE 9. Child Annuitants Classified
by Age and Annual Payments

<u>Age at 6/30/86</u>	<u>Number</u>	<u>Amount of Annual Payments</u>
10	2	\$ 4,775
12	3	8,550
14	1	2,525
16	1	3,650
17	3	7,900
21	1	3,025
29	<u>1</u>	<u>2,125</u>
Totals	12	\$32,550
	<u>==</u>	<u>=====</u>

