

**JUDGES'  
RETIREMENT SYSTEM  
OF ILLINOIS**

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**COMPONENT UNIT  
FINANCIAL REPORT**

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**FOR THE FISCAL YEAR ENDED  
JUNE 30, 1992**

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JUDGES'  
RETIREMENT SYSTEM  
OF ILLINOIS

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2101 South Veterans Parkway  
P.O. Box 19255  
Springfield, Illinois 62794 - 9255

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Prepared by the  
Accounting Division

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## **INTRODUCTORY SECTION**

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***Letter of Transmittal***

***Administration, Board of Trustees and Administrative Staff***

***Certificate of Achievement for Excellence in Financial Reporting***



- State Employees' Retirement System of Illinois
- General Assembly Retirement System
- Judges' Retirement System of Illinois

2101 South Veterans Parkway, P.O. Box 19255, Springfield, IL 62794-9255

November 23, 1992

The Board of Trustees and Members  
Judges' Retirement System of Illinois  
Springfield, IL 62794

Dear Board of Trustees and Members:

The component unit annual financial report of the Judges' Retirement System of Illinois (System) for the fiscal year ended June 30, 1992 is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the System. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the System. All disclosures necessary to enable the reader to gain an understanding of the System's financial activities have been included.

The report consists of six sections:

1. An Introductory Section which contains this letter of transmittal and the identification of the administrative organization;
2. The Financial Section which contains the report of the independent public accountants, the financial statements of the System, and the supplementary and additional financial information;
3. The Actuarial Section which contains the report of the Actuary as well as the summary of major actuarial assumptions and certain tables;
4. The Investment Section which contains a summary of the System's investment management approach and selected summary tables, including investment performance;
5. The Statistical Section which contains significant statistical data; and
6. A summary of the System's plan provisions and current legislative changes.

Although the Judges' Retirement System, State Employees' Retirement System and General Assembly Retirement System share a common administration, they are separate entities for legal and financial reporting purposes. Therefore, the financial statements of the Judges' Retirement System do not include balance sheet information nor the results of operations of the State Employees' Retirement System or General Assembly Retirement System.

#### **PLAN HISTORY AND SERVICES PROVIDED**

November 1, 1991 marked the 50th anniversary of the beginning of the System. Established as a Public Employee Retirement System (PERS) by state statute on July 1, 1941, the System commenced operations effective November 1, 1941.

During the past 50 years, the System has grown from 260 active participants in 1941 to more than 800 in 1991. On June 30, 1942 the System had seven annuitants receiving an average monthly benefit of approximately \$300. Today, there are 371 annuitants receiving monthly retirement benefits averaging slightly more than \$4,000 and 268 survivors receiving monthly benefits averaging approximately \$1,500.

The System's investment portfolio, which began as a \$100,000 U.S. Defense Series E Savings Bond, has grown to more than \$180 million and now includes investments in U.S. and foreign bonds and equity securities, venture capital and real estate.

At June 30, 1992, the actuarial determined liability of the System was \$177 thousand while the amount of fund balances for participant contributions and future operations totaled \$83 thousand resulting in an unfunded actuarial liability of \$94 thousand. Today, the accrued actuarial liability of the System is \$423.7 million and the unfunded portion of this liability has grown to a staggering \$236.1 million. Financing the retirement benefits and the need for sound funding of the System will be one of the most important issues facing the System as we look ahead to the future.

We look forward to the next 50 years of growth and challenges and pledge our continued commitment to the System's membership.

## REVENUES

Collections of employer and participant retirement contributions, as well as income from investments, provide the reserves necessary to finance retirement benefits. These income sources totaled \$37,145.6 thousand during the fiscal year ending June 30, 1992, which is a substantial increase from revenue reported for fiscal year 1991, shown as follows:

	1992 (Thousands)	1991 (Thousands)	Increase/(Decrease)	
			(Thousands)	(Percentage)
Contributions:				
Participants	\$ 7,371.6	\$ 7,154.5	\$ 217.1	3.0%
Employer	10,052.1	10,657.4	(605.3)	(5.7%)
Investments	19,721.9	10,784.9	8,937.0	82.9%
Total Revenue	<u>\$ 37,145.6</u>	<u>\$ 28,596.8</u>	<u>\$ 8,548.8</u>	<u>29.9%</u>

As indicated in the total above, a substantial portion of the total revenue is derived from investment income, including the realization of net gains on the sale of investments.

## EXPENSES

The primary expense of a retirement system relates to the purpose for which it is created; namely the payment of benefits. The payments, together with the expense to administer the plan, constitute the total expenses of the System. Expenses of the System for fiscal year 1992 and 1991 are shown below for comparison purposes.

	1992 (Thousands)	1991 (Thousands)	Increase/(Decrease)	
			(Thousands)	(Percentage)
Benefits:				
Retirement annuities	\$ 17,869.1	\$ 16,541.6	\$ 1,327.5	8.0%
Survivors' annuities	5,126.8	4,606.9	519.9	11.3%
Total Benefits Expenses	<u>\$ 22,995.9</u>	<u>\$ 21,148.5</u>	<u>\$ 1,847.4</u>	<u>8.7%</u>
Refunds	280.1	226.7	53.4	23.6%
Administrative expenses	231.4	216.9	14.5	6.7%
Total Expenses	<u>\$ 23,507.4</u>	<u>\$ 21,592.1</u>	<u>\$ 1,915.3</u>	<u>8.9%</u>

The increase in benefit payments resulted primarily from (1) a growth in the number of benefits paid, (2) an increase in the average benefit payment amount, and (3) post retirement annuity increases granted each January 1.

## INVESTMENTS

The System's investments are managed by the Illinois State Board of Investment (ISBI) pursuant to Article 22A of the Illinois Pension Code. For the fiscal year ended June 30, 1992, the total investment return on the market value of assets managed by the ISBI was 11.6% compared to 7.0% during the fiscal year ended June 30, 1991.

## LETTER OF TRANSMITTAL

Total fiscal year 1992 investment income of \$19,721.9 thousand represents a substantial increase of \$8,937.0 thousand (82.9%) over the fiscal year 1991 level of \$10,784.9 thousand mainly due to the realization of substantial net gains on the sale of investments and the strong returns produced by both the fixed income and domestic equity portfolios during the current fiscal year. The System's total investments revenue for fiscal year 1992 and 1991 is shown below for comparison purposes.

	1992 (Thousands)	1991 (Thousands)	Increase/(Decrease)	
			(Thousands)	(Percentage)
Net investments income	\$ 10,853.3	\$ 9,416.1	\$ 1,437.2	15.3%
Net realized gain on sale of investments	8,680.4	1,142.7	7,537.7	659.7%
Interest earned on cash balances	<u>188.2</u>	<u>226.1</u>	<u>(37.9)</u>	<u>16.8%</u>
Total Investments revenue	<u>\$ 19,721.9</u>	<u>\$ 10,784.9</u>	<u>\$ 8,937.0</u>	<u>82.9%</u>

Income from investments has, over the years, become a greater share of the total revenue of the System. For the fiscal year ended June 30, 1992, income from investments represents 53.1% of total fund revenue.

A detailed discussion of investment performance and strategies are provided in the Investment Section of this report.

### FUNDING AND RESERVES

Funding is the process of specifically allocating monies for current and future use. Proper funding includes an actuarial review of the fund balances to ensure that funds will be available for current and future benefit payments.

The actuarial determined liability of the System at June 30, 1992, amounted to \$423.7 million. The fund balances for participant contributions and future operations amounted to \$187.6 million as of the same date. The amount by which the actuarial determined liability exceeds the fund balances is called the "unfunded present value of credited projected benefits." The unfunded present value of credited projected benefits amounts to \$236.1 million and reflects the continuing state policy of appropriating funds at amounts less than the actuarially determined contribution requirement. A detailed discussion of funding is provided in the Actuarial Section of this report.

### ECONOMIC CONDITION AND OUTLOOK

Financing the retirement benefits that are being earned is one of the most important issues facing the Judges' Retirement System. Over the years, a number of organizations have stressed the need for sound funding of the System. In August, 1989, then Governor Thompson signed Senate Bill 95 into law. This Bill provided for the increased funding of the unfunded actuarial liability which has been steadily increasing for the past several years. The amortization period of the unfunded liability was established at 40 years and is scheduled to begin in 1996. In order to defer the cost of a substantial increase in the required employer contributions, a seven year phase-in period was included in the legislation. The seven year phase-in period was to be used to increase the amount of contributions from the current contribution level to that level required for the amortization of the unfunded liability over the 40 year period.

After completion of another difficult spring legislative session involving the state budget, appropriation bills were passed by the General Assembly in early July, 1992 which maintain the System's funding level as provided for during fiscal year 1992. The legislation provides for the appropriation of approximately \$10.2 million of funds to the System for fiscal year 1993. While still insufficient to meet the funding mandate passed by the General Assembly in 1989, in view of the severe reductions made to many state funded programs, we must view this result somewhat favorably.

Other legislation introduced and passed during the 1992 spring session of the General Assembly reflects a positive movement to address the underfunding of the five state financed retirement systems. Specifically, Senate Bill 1949 changed the state's Unclaimed Property Act to provide for a holding period of five instead of

seven years. This will result in the availability of additional funds for the five state financed retirement systems during fiscal year 1993. As a result, the System should receive an additional \$923,000. In addition, the General Assembly also approved legislation which provides for a continuing appropriation of funds due the five state financed retirement systems from unclaimed property receipts. This legislation has the effect of making the annual appropriation of these funds automatic, not requiring specific action of the General Assembly. While the normal level of financing from unclaimed property receipts is small, enactment of this legislation establishes a very positive precedent.

The Governor has indicated publicly that he considers the underfunding of the System an important issue which he intends to address during his administration. Leaders in the General Assembly have also indicated a similar interest. We are, therefore, optimistic that once the state budget crisis is brought under control, legislation which will establish a solid actuarial funding program will be forthcoming.

Assessing the financial status of any retirement system is a difficult task. The valuation of pension liabilities is a complex procedure requiring the application of actuarial techniques. It is not possible to provide a simple measure of the financial status of a retirement system because no universally accepted measure of the financial status presently exists. By any reasonable actuarial standard, however, the System's present financial condition must be described as precarious due to the continually increasing dollar level of the unfunded liability. The events in the financial markets during the past several years serve as a constant reminder of the fact that no source of revenue can be guaranteed and that the ultimate responsibility for a sound funding policy and the related liability for contributions rests ultimately with the State of Illinois.

#### **MAJOR INITIATIVES**

During the past fiscal year, the System completed work on several major projects. Most significant was the development of a new, expanded annual statement for active members and the publication of a tax information brochure specifically designed to explain the tax consequences associated with the System's benefits in accordance with current IRS statutes.

Projects for fiscal year 1993 include the continuation of the development and implementation of an automated benefit calculation system; further expansion of the Field Services program to meet the increased demands of the membership; and the updating of the participant handbook titled "Benefits - Your Rights and Responsibilities" for mailing to the membership during early 1993.

Additionally, in a joint effort, the Judges', General Assembly and State Employees' Retirement Systems will install a new computer system designed to meet their future data processing needs. The current data processing equipment, used to maintain all active members, beneficiaries, benefit recipients and account records of the three state retirement systems, was originally purchased in the late 1970's and, while it is still functioning, the operating systems are no longer being maintained by the vendor. Consequently, the respective Boards of Trustees as well as the management of the three systems felt that it was critical to proceed with this project during the coming fiscal year.

#### **ACCOUNTING SYSTEM AND INTERNAL CONTROL**

This report has been prepared to conform with the principles of governmental accounting and reporting pronounced by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The accrual basis of accounting is used to record the assets, liabilities, revenues and expenses of the Judges' Retirement System. Revenues are recognized in the accounting period in which they are earned, without regard to the date of collection, and expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. The Judges' Retirement System also uses the State of Illinois, Comptroller's Uniform Statewide Accounting System (CUSAS) as a basis for the preparation of the financial statements. In developing the System's accounting system, consideration is given to the adequacy of internal accounting controls. These controls are designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records. Constant effort is directed by the System at improving this level to assure the participants of a financially sound retirement system.

**PROFESSIONAL SERVICES**

Independent consultants are retained by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of the System. Actuarial services are provided by Goldstein & Associates, Chicago, Illinois. The annual financial audit of the System was conducted by the accounting firm of McGladrey & Pullen under the direction of the Auditor General of the State of Illinois. In addition to the annual financial audit, a two year compliance audit was also performed by the auditors. The purpose of the compliance audit was to determine whether the Judges' Retirement System obligated, expended, received and used public funds of the state in accordance with the purpose for which such funds have been authorized by law. The System's investment function is managed by the Illinois State Board of Investment.

**CERTIFICATE OF ACHIEVEMENT**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Judges' Retirement System of Illinois for its component unit financial report for the fiscal year ended June 30, 1991. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

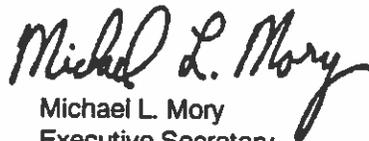
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized component unit financial report, whose contents conform to program standards. Such component unit financial report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Judges' Retirement System of Illinois has received a Certificate of Achievement for the last three consecutive years (fiscal years ended June 30, 1989 through June 30, 1991). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

**ACKNOWLEDGEMENTS**

The preparation of this report reflects the combined efforts of the System's staff under the direction of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship for the assets contributed by the participants in the State of Illinois. On behalf of the Board of Trustees we would like to express our appreciation to the staff and professional consultants who worked so effectively to ensure the successful operation of the System.

Respectfully submitted,

  
Michael L. Mory  
Executive Secretary

  
David M. Richter, CPA  
Accounting Division

JUDGES' RETIREMENT SYSTEM OF ILLINOIS  
BOARD OF TRUSTEES



JUSTICE CARL A. LUND  
Chairman



CHIEF JUSTICE  
BEN K. MILLER  
Vice Chairman



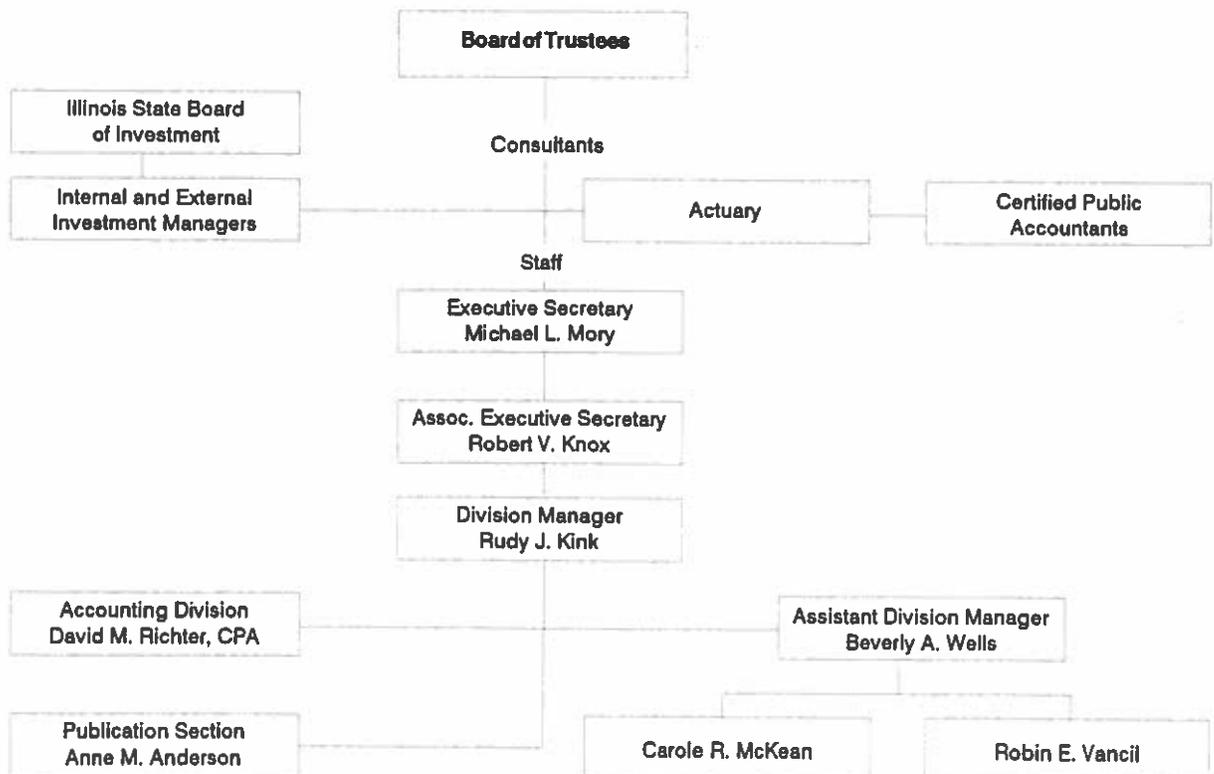
JUDGE  
THOMAS HOFFMAN



JUSTICE  
MICHAEL A. BILANDIC



HON. PATRICK QUINN  
State Treasurer



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

Judges Retirement System of  
Illinois

For its Component Unit  
Financial Report  
for the Fiscal Year Ended  
June 30, 1991

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose component unit financial reports (CUFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

## **FINANCIAL SECTION**

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***Independent Auditor's Report***

***Financial Statements***

***Required Supplementary Information***

***Supplementary Financial Information***

***Additional Financial Information***



**McGLADREY & PULLEN**

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Honorable William G. Holland  
Auditor General, State of Illinois  
Springfield, Illinois

Board of Trustees  
Judges' Retirement System of Illinois  
Springfield, Illinois

We have audited, as special assistant auditors for the Illinois Auditor General, the accompanying balance sheets of the Judges' Retirement System of Illinois as of June 30, 1992 and 1991, and the related statements of revenue, expenses and changes in fund balance for the years then ended. These component unit financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these component unit financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and "Government Auditing Standards" issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the component unit financial statements referred to above present fairly, in all material respects, the financial position of the Judges' Retirement System of Illinois as of June 30, 1992 and 1991, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the component unit financial statements as of and for the years ended June 30, 1992 and 1991, taken as a whole. The supplementary information included on pages 23 through 28 is presented for purposes of additional analysis and is not a required part of the component unit financial statements. Such information as of and for the years ended June 30, 1992 and 1991, has been subjected to the auditing procedures applied in the audits of the component unit financial statements and, in our opinion, is fairly presented in all material respects in relation to the component unit financial statements taken as a whole.

*McGladrey & Pullen*

Springfield, Illinois  
October 15, 1992

## JUDGES' RETIREMENT SYSTEM OF ILLINOIS

### Balance Sheets

June 30, 1992 and 1991

Assets	1992	1991
Cash	\$ 4,122,969	\$ 3,996,379
Receivables:		
Participants' contributions	\$ 189,568	\$ 128,522
Refundable annuities	18,156	23,634
Interest on cash balances	15,230	4,833
Due from General Assembly Retirement System	<u>42,804</u>	<u>37,856</u>
	\$ 265,758	\$ 194,845
Investments - held in the Illinois State Board of Investment Commingled Fund, at cost (Market value: 1992, \$205,231,721 1991, \$189,426,482 ) (Note 3)	\$ 183,415,396	\$ 169,881,722
Equipment, net of accumulated depreciation (Note 8)	<u>24,566</u>	<u>28,623</u>
Total Assets	<u>\$ 187,828,689</u>	<u>\$ 174,101,569</u>
Liabilities and Fund Balance		
Benefits payable	\$ 531	\$ 3,068
Refunds payable	150,579	62,455
Administrative expenses payable (Note 7)	39,403	42,842
Participants' deferred service credit accounts	10,788	4,000
Total Liabilities	<u>\$ 201,301</u>	<u>\$ 112,365</u>
Fund Balance		
Actuarial present value of credited projected benefits (Note 5)	\$ 423,758,708	\$ 385,528,189
Less unfunded present value of credited projected benefits representing an obligation of the State of Illinois	<u>(236,131,320)</u>	<u>(211,538,985)</u>
Total Fund Balance (Note 11)	<u>\$ 187,627,388</u>	<u>\$ 173,989,204</u>
Total Liabilities and Fund Balance	<u>\$ 187,828,689</u>	<u>\$ 174,101,569</u>

See accompanying notes to financial statements.

## JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Revenue, Expenses and Changes in Fund Balance  
Years ended June 30, 1992 and 1991

	1992	1991
Revenue:		
Contributions:		
Participants	\$ 7,371,637	\$ 7,154,549
Employer	10,052,100	10,657,400
Total Contributions revenue	<u>\$ 17,423,737</u>	<u>\$ 17,811,949</u>
Investments:		
Net investments income	\$ 10,853,251	\$ 9,416,140
Interest earned on cash balances	188,236	226,084
Net realized gain on sale of investments	8,680,423	1,142,659
Total Investments revenue	<u>\$ 19,721,910</u>	<u>\$ 10,784,883</u>
Total Revenue	<u>\$ 37,145,647</u>	<u>\$ 28,596,832</u>
Expenses:		
Benefits:		
Retirement annuities	\$ 17,869,115	\$ 16,541,569
Survivors' annuities	5,126,800	4,606,943
Total Benefits expenses	<u>\$ 22,995,915</u>	<u>\$ 21,148,512</u>
Refunds	280,106	226,702
Administrative (Note 7)	231,442	216,848
Total Expenses	<u>\$ 23,507,463</u>	<u>\$ 21,592,062</u>
Excess of Revenue over Expenses	<u>\$ 13,638,184</u>	<u>\$ 7,004,770</u>
Fund Balance at beginning of year	<u>\$ 173,989,204</u>	<u>\$ 166,984,434</u>
Fund Balance at end of year	<u>\$ 187,627,388</u>	<u>\$ 173,989,204</u>

See accompanying notes to financial statements.

## JUDGES' RETIREMENT SYSTEM OF ILLINOIS

### Notes to Financial Statements June 30, 1992 and 1991

#### (1) Reporting Entity

The Judges' Retirement System of Illinois (System) is a component unit of the State of Illinois. The System Trust Fund is considered part of the State of Illinois financial reporting entity and is included in the state's comprehensive annual financial report as a pension trust fund.

The System has developed criteria to determine whether other state agencies, boards or commissions which benefit the members of the System should be included within its financial reporting entity. The criteria include, but are not limited to, whether the System exercises oversight responsibility on financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters, scope of public service and special financing relationships.

Based upon the above criteria, there were no other agencies, boards or commissions which were required to be included within the financial reporting entity.

#### (2) Plan Description

The System is the administrator of a single-employer public employee retirement system (PERS) established and administered by the State of Illinois to provide pension benefits for its participants.

At June 30, 1992 and 1991, the System membership consisted of:

	<u>1992</u>	<u>1991</u>
Retirees and beneficiaries currently receiving benefits:		
Retirement annuities	371	359
Survivors' annuities	<u>268</u>	<u>258</u>
	639	617
 Inactive participants entitled to benefits but not yet receiving them		
	<u>41</u>	<u>29</u>
Total	<u>680</u>	<u>646</u>
 Current Participants:		
Vested	518	545
Nonvested	<u>310</u>	<u>303</u>
Total	<u>828</u>	<u>848</u>

Operation of the System and the direction of its policies are the responsibility of the Board of Trustees of the System.

#### (a) Eligibility and Membership

The Judges' Retirement System covers Judges, Associate Judges and, under certain conditions, the Administrative Director of the Illinois courts. Participation by Judges, either appointed or elected, is mandatory unless the Judge files an election not to participate within 30 days of receipt of notice of this option.

**(b) Contributions**

Participants contribute specified percentages of their salaries for retirement annuities, survivors' annuities and automatic annual increases. Contributions are excluded from gross income for Federal and State income tax purposes.

The total contribution rate is 11% if the participant elects to contribute for their spouse and dependents as shown below:

7.5%	Retirement annuity
2.5%	Survivors' annuity
1.0%	Automatic annual increases
<u>11.0%</u>	

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.

The payment of (1) the required State contributions, (2) all benefits granted under the System and (3) all expenses in connection with the administration and operation thereof are the obligations of the State to the extent specified in Article 18 of the Illinois Pension code.

**(c) Benefits**

The Judges' Retirement System of Illinois 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.

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 full retirement benefits at age 62 upon completing 6 years of credited service or at age 55 upon completing 28 years of credited service. The Judges' Retirement System also provides annual automatic annuity increases for retirees and survivors, survivors' annuity benefits, temporary and/or total disability benefits and, under specified conditions, lump-sum death benefits.

The retirement annuity provided under the system is 3-1/2% for each of the first 10 years of service, plus 5% for each year of service in excess of 10, based upon the applicable final salary. The maximum retirement annuity is 85% of the applicable salary base. Annual automatic increases of 3% of the current amount of retirement annuity are provided.

Participants who terminate service and are not eligible for an immediate annuity may receive, upon application, a refund of their total contributions. Participants or annuitants who are no longer married are entitled to refunds of their contributions for survivors. Participants who are age 60 or over with at least 20 years of service or who are age 60 or over and entitled to receive the maximum rate of annuity by using service credited in another reciprocal system may elect to discontinue contributions and have their benefits "frozen" based upon the applicable salary in effect immediately prior to the effective date of such election. The election, once made, is irrevocable.

**(3) Summary of Significant Accounting Policies and Plan Asset Matters**

**(a) Basis of Accounting**

The financial transactions of the System are recorded on the accrual basis of accounting and in conformity with generally accepted accounting principles. Participant and employer contributions are recognized as revenues in the period in which employee services are performed.

**(b) Method Used to Value Investments**

The System retains all of its available cash in a commingled investment pool managed by the Treasurer of the State of Illinois (Treasurer). All deposits are fully collateralized by the Treasurer. "Available cash" is determined to be that amount which is required for the current operating expenditures of the System. The excess of available cash is transferred to the Illinois State Board of Investment (ISBI) for purposes of long-term investment for the System.

Investments are managed by the ISBI pursuant to Article 22A of the Illinois Pension Code and are maintained in the ISBI Commingled Fund. Such investments are valued at the cost of the System's units of participation in the ISBI Commingled Fund. Units of the ISBI Commingled Fund are issued to the member systems on the last day of the month based on the unit net asset value calculated as of that date. Net investment income of the ISBI Commingled Fund is allocated to each of the member systems on the last day of the month on the basis of percentage of accumulated units owned by the respective systems. Management expenses are deducted monthly from income before distribution. Investment income is recognized when earned.

The investment authority of the ISBI is provided in Illinois Revised Statutes Chapter 108-1/2, Article 22A-112. The ISBI investment authority includes investments in obligations of the U.S. Treasury and other agencies, notes secured by mortgages which are insured by the Federal Housing Commission, real estate, common and preferred stocks, convertible debt securities, deposits or certificates of deposit of federally insured institutions and options. Such investment authority requires that all opportunities be undertaken with care, skill, prudence and diligence given prevailing circumstances that a prudent person acting in like capacity and experience would undertake.

Governmental Accounting Standards Board (GASB) Statement No. 3 entitled "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements" requires certain financial statement disclosure of deposits and investments, such as the disclosure of carrying amounts by type of investment and classification into one of three categories based upon credit risk. Investments in pools managed by other governmental agencies, in general, are to be disclosed but not categorized because they are not evidenced by securities that exist in physical or book entry form.

The System transfers money to the ISBI for investment in the ISBI Commingled Fund. This money is then allocated among various investment managers to pursue a specific investment strategy. All investment transactions are initiated by the investment managers (either internal or external). The transaction settlement information is then forwarded to the agent bank's trust department under a master custodial agreement. Custody of a majority of the actual physical securities is maintained at an agent of the agent bank's trust department using a book-entry system.

Listed on the next page are the ISBI investments, as categorized in the ISBI annual financial report. They are categorized to indicate the level of risk assumed by the ISBI Board at year end. Category I includes investments that are insured or registered or for which the securities are held by the master custodian in the ISBI Board's name. Category II includes uninsured and unregistered investments for which the securities are held by the master custodian in the ISBI Board's name. Category III includes uninsured and unregistered investments for which the securities are held by an agent of the master custodian but not in the ISBI Board's name.

## FINANCIAL STATEMENTS

At June 30, 1992, the ISBI Board's deposits and investments were categorized as follows:

	Category I	Category II	Category III	Cost	Market Value
U.S. Government & Agency					
Obligations	\$ 543,839,646	\$ -	\$ -	\$ 543,839,646	\$ 571,466,100
Foreign Obligations	27,315,635	-	-	27,315,635	28,117,356
Foreign Equity Securities	223,701,749	-	-	223,701,749	221,817,510
Corporate Obligations	750,688,012	-	-	750,688,012	786,650,074
Convertible Bonds	69,310,839	-	-	69,310,839	71,920,483
Common Stock &					
Equity Funds	1,137,385,198	-	-	1,137,385,198	1,404,854,602
Convertible Preferred Stock	16,388,418	-	-	16,388,418	18,796,336
Preferred Stock	10,352,924	-	-	10,352,924	5,527,737
Money Market Instruments	231,800,369	-	-	231,800,369	231,088,936
SUBTOTAL	<u>\$ 3,010,782,790</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,010,782,790</u>	<u>\$ 3,340,239,134</u>
Real Estate Pooled Funds				317,107,108	325,963,498
Non-Marketable Securities				128,411,196	178,844,300
Other assets, less liabilities				20,886,434	20,886,434
TOTAL				<u>\$ 3,477,187,528</u>	<u>\$ 3,865,933,366</u>

The ISBI Board participates in a securities lending program whereby securities are loaned to brokers and, in return, the ISBI Board receives collateral of amounts slightly in excess of the market value of securities loaned. Collateral consists solely of cash, letters of credit, commercial paper and government securities. As of June 30, 1992 and 1991, the ISBI Board had outstanding loaned investment securities having a market value of approximately \$344,993,007 and \$313,109,467, respectively, against which it had received collateral of approximately \$352,913,054 and \$329,552,739, respectively.

The System owns 5.3% of the ISBI Commingled Fund as of June 30, 1992.

### (c) Fixed Assets

Expenditures for fixed assets are capitalized and depreciated over their estimated useful lives.

### (d) Actuarial Experience Review

In accordance with Illinois Revised Statutes, an actuarial experience review is to be performed at least once every five years to determine the adequacy of actuarial assumptions regarding the mortality, retirement, employment, turnover, interest and earnable compensation of the participants and beneficiaries of the System. An experience review was performed as of June 30, 1992.

### (e) 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 \$133,673 and \$129,272 for the years ended June 30, 1992 and 1991, respectively.

## (4) Funding Status and Progress

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of participant service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Judges' Retirement System funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits

when due, and make comparisons among PERS. The measure is the same as the actuarial funding method used to determine contributions to the System Trust Fund discussed in Note 5.

The pension benefit obligation was determined as part of an actuarial valuation as of June 30, 1992. Significant actuarial assumptions used include (a) rates of return on the investment of present and future assets of 8.0% per year (consisting of an inflation component of 4.5% per year and a real rate of return component of 3.5% per year), compounded annually, (b) projected salary increase of 6% per year (consisting of a general increase component of 5% per year, 4.5% of which is attributable to inflation, and a seniority/merit component of 1% per year), compounded annually, (c) mortality rates based upon the UP 1984 Mortality Table, (d) assumed age at retirement ranging from 55 to 75, based upon recent history with the System, (e) 75% of participants are assumed to be married, (f) the age of the spouse is assumed to be 4 years younger than the age of the participant, and (g) the rate of turnover without vested benefits assumes a high scale at younger age levels, becoming progressively lower as age advances.

At June 30, 1992 and 1991, the unfunded pension benefit obligation was \$236,131,320 and \$211,538,985 as follows:

	1992	1991
Pension benefit obligation:		
Retirees & beneficiaries currently receiving benefits	\$ 224,698,818	\$ 203,184,276
Inactive participants not yet receiving benefits	12,856,251	8,637,608
Current Participants:		
Accumulated participant contributions	55,386,220	53,106,096
Employer-financed vested	77,009,396	70,675,585
Employer-financed nonvested	53,808,023	49,924,624
Total Pension benefit obligation	\$ 423,758,708	\$ 385,528,189
Net assets available for benefits, at cost (market value at June 30, 1992 \$209,443,713; June 30, 1991 \$193,533,964)	187,627,388	173,989,204
Unfunded pension benefit obligation	\$ 236,131,320	\$ 211,538,985

There were no benefit changes enacted during fiscal years 1992 or 1991 having a significant impact on the actuarial present value of credited projected benefits and the related unfunded actuarial liability.

The System's actuarial consultant performed an experience review for the five year period ending June 30, 1992. Based upon the results of the review, several changes were made to the actuarial assumptions. These changes had the effect of increasing the pension benefit obligation and the related unfunded pension benefit obligation by \$6,039,968, and were primarily the result of adjustments to expected termination and retirement rates.

**(5) Contributions Required and Contributions Made**

Public Act 86-0273, which was signed into law on August 23, 1989, enacted a funding policy under which, starting with fiscal year 1990, the employer contributions made by the State of Illinois were to be increased incrementally over a seven year period so that by fiscal year 1996, the minimum state employer contribution would be an amount that, when added to other sources of employer contributions, is sufficient to meet the normal cost and amortize the unfunded actuarial liability over forty years as a level percent of payroll as determined under the projected unit credit actuarial cost method.

For each fiscal year, the System's actuary performs an actuarial valuation and computes actuarially determined contribution requirements for the System, using the projected unit credit actuarial cost method. The same actuarial assumptions were used to determine the contribution requirements as are used to compute the pension benefit obligation discussed in Note 4. For fiscal years prior to 1990, the required employer contributions were computed in accordance with the Board of Trustee's approved funding policy of normal cost plus interest on the unfunded actuarial liability. For fiscal years after 1989, required employer contributions have been actuarially determined in accordance with the funding policy legislated by Public Act 86-0273. The state, however, has never funded the System in accordance with the funding policy established by law.

It has been interpreted that the laws of the State of Illinois regarding state finance provide for the Governor and the state legislature to have specific authority to reduce or increase monies appropriated for the employer share of retirement contributions regardless of the rate certified by the Board of Trustees.

The total amount of actuarially determined State of Illinois employer contributions required for the fiscal year ended June 30, 1992 amounted to \$13,160,000. However, the state's employer contributions were not made in accordance with the actuarially determined contribution requirements for fiscal year 1992. The total amount of employer contributions made by the state was \$10,052,100 and consisted of (a) \$9,567,674 normal cost and (b) \$484,426 amortization of the unfunded actuarial accrued liability.

**Schedule of Contributions Required and Contributions Made**

	1992	1991	1990	1989	1988
Covered Payroll	\$ 67,904,000	\$ 66,294,898	\$ 64,670,416	\$ 63,478,721	\$ 62,366,208
Required Employer Contributions	\$ 13,160,000	\$ 12,357,369	\$ 14,329,107	\$ 21,990,938	\$ 20,182,837
Actual Employer Contributions	\$ 10,052,100	\$ 10,657,400	\$ 10,657,400	\$ 9,918,700	\$ 9,137,000
Actual Employer Contribution Rate	14.8%	16.1%	16.5%	15.6%	14.7%
Board of Trustees Recommended Contribution Rate	19.4%	18.6%	22.2%	34.6%	32.4%
Participant Contributions	\$ 7,371,637	\$ 7,154,549	\$ 7,142,961	\$ 6,909,017	\$ 6,885,514
Participant Contribution Rate	10.9%	10.8%	11.0%	10.9%	11.0%

**(6) Historical Trend Information**

Historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 23 - 24.

**(7) Administrative Expenses**

A summary of the administrative expenses for the Judges' Retirement System for fiscal years 1992 and 1991 is as follows:

	1992	1991
Personal services	\$ 131,509	\$ 129,595
Employee retirement contributions paid by employer	2,633	-
Employer retirement contributions	6,237	6,199
Social Security contributions	9,628	9,578
Group insurance	13,791	7,721
Contractual services	44,889	33,231
Travel	5,208	4,857
Printing	3,192	4,492
Commodities	557	1,835
Telecommunications	1,271	1,563
Electronic Data Processing	6,564	8,410
Depreciation	5,430	4,567
Other	533	4,800
Total	<u>\$ 231,442</u>	<u>\$ 216,848</u>

**(8) Equipment**

Fixed assets are capitalized at their cost at the time of acquisition. Depreciation is computed using the straight-line method over the estimated useful life of the asset. The estimated useful lives are as follows: (1) office furniture - 10 years, (2) equipment - 6 years, and (3) certain electronic data processing equipment - 3 years.

A summary of the changes in fixed assets for fiscal years 1992 and 1991 is as follows:

	1992			
	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 41,211	\$ 1,373	\$ -	\$ 42,584
Accumulated Depreciation	(12,588)	(5,430)	-	(18,018)
Equipment, net	\$ 28,623	\$ 4,057	\$ -	\$ 24,566
	1991			
	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 35,380	\$ 16,199	\$(10,368)	\$ 41,211
Accumulated Depreciation	(8,795)	(4,567)	774	(12,588)
Equipment, net	\$ 26,585	\$ 11,632	\$ (9,594)	\$ 28,623

**(9) Accrued Compensated Absences**

Employees of the Judges' Retirement System are entitled to receive compensation for all accrued but unused vacation time and one-half of all unused sick leave earned after January 1, 1984 upon termination of employment. The value of accrued compensated absences as of June 30, 1992 and 1991 were \$16,939 and \$16,407, respectively.

**(10) Pension Disclosure**

All of the System's full-time employees who are not eligible for another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a component unit of the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which state agencies, including the System, participate on a cost-sharing basis. The financial position and results of operations of the SERS for FY1992 and FY1991 and the related GASB Statement 5 employer disclosures are included in the State's Comprehensive Annual Financial Report for the years ended June 30, 1992 and 1991, respectively. The SERS also issues a separate component unit financial report (CUFR).

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established, is included as an integral part of the SERS CUFR. Also included is a discussion of employer and employee obligations to contribute, the authority under which those obligations are established, as well as an explanation of the pension benefit obligation. The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits.

The pension benefit obligation at June 30, 1992 and June 30, 1991 for the SERS as a whole, determined through an actuarial valuation at that date was \$5,600.8 million and \$4,949.9 million, respectively. The SERS net assets available for benefits on these respective dates (valued at cost) were \$3,278.2 million and \$2,981.4 million, leaving unfunded pension benefit obligations of \$2,322.6 million and \$1,968.5 million. The System's FY1992 and FY1991 contribution requirement represented .005% and .005%, respectively of total contributions required of all state agency/department employers participating in the SERS.

Ten-year historical trend information designed to provide information about the SERS progress made in accumulating sufficient assets to pay benefits when due is presented in its separately issued CUFRs for the years ended June 30, 1992 and June 30, 1991, respectively.

Pertinent financial information relating to the System's participation in SERS is summarized as follows:

The System's covered payrolls for FY1992 and FY1991 were \$132.0 thousand and \$130.0 thousand and the payrolls for all System employees were \$132.0 thousand and \$130.0 thousand, respectively.

## FINANCIAL STATEMENTS

The System's (i.e., the employers') actuarially determined contribution requirements for FY1992 and FY1991 were \$6.2 thousand and \$6.2 thousand, respectively, or 4.7% and 4.7% of the System's covered payrolls. For FY1992, the System's and employee contributions actually made were \$6.2 thousand and \$5.3 thousand, respectively, which represents 4.7% and 4.0%, respectively, of the current year covered payroll. For FY1991, the System's and employee contributions actually made were \$6.2 thousand and \$4.9 thousand, respectively, which represents 4.7% and 3.8%, respectively, of the covered payroll.

In addition to providing pension benefits, the State Employees Group Insurance Act of 1971, as amended, requires that certain health, dental and life insurance benefits shall be provided by the State to annuitants who are former State employees. This includes annuitants of the System. Substantially all State employees including the System's employees may become eligible for postemployment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to five thousand dollars per annuitant age 60 and older.

Costs incurred for health, dental and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the year ended June 30, 1992. However, the cost for the State as a whole for all State agencies/departments for dependent health, dental and life insurance for annuitants and their dependents approximated \$119.8 million for fiscal year 1992. Cost information by individual State agency is not available. Payments are made on a pay as you go basis. The System is not the administrator of any of the other post employment benefits described above.

### (11) Analysis of Changes in Fund Balances - Reserved

The funded statutory reserves of the Judges' Retirement System are composed of the following:

(a) Reserve for Participants' Contributions - This reserve consists of participants' accumulated contributions for retirement annuities, survivors' annuities and automatic annual increases.

(b) 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.

#### JUDGES' RETIREMENT SYSTEM OF ILLINOIS Statements of Changes in Fund Balances (Reserved) Years ended June 30, 1992 and 1991

	Participants' Contributions	Future Operations	Total Fund Balance
Balance at June 30, 1990	\$ 56,354,255	\$ 110,630,179	\$ 166,984,434
Add (deduct):			
Excess (deficiency) of revenues over expenses	6,972,363	32,407	7,004,770
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(3,702,661)	3,702,661	-
Balance at June 30, 1991	\$ 59,623,957	\$ 114,365,247	\$ 173,989,204
Add (deduct):			
Excess (deficiency) of revenues over expenses	7,091,532	6,546,652	13,638,184
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(3,117,374)	3,117,374	-
Balance at June 30, 1992	\$ 63,598,115	\$ 124,029,273	\$ 187,627,388

**Analysis of Funding Progress**

Fiscal Year	(1) Net Assets Available for Benefits*	(2) Pension Benefit Obligation**	(3) Percentage Funded (1) ÷ (2)	(4) Unfunded Pension Benefit Obligation (2)-(1)	(5) Annual Covered Payroll	(6) Unfunded Pension Benefit Obligation as a % of Covered Payroll (4) ÷ (5)
1987	\$138,927,534	\$307,064,068	45.2%	\$168,136,534	\$59,266,115	283.7%
1988	146,534,436	335,307,458	43.7%	188,773,022	62,366,208	302.7%
1989	156,238,762	319,402,592	48.9%	163,163,830	63,478,721	257.0%
1990	166,984,434	366,116,393	45.6%	199,131,959	64,670,416	307.9%
1991	173,989,204	385,528,189	45.1%	211,538,985	66,294,898	319.1%
1992	187,627,388	423,758,708	44.3%	236,131,320	67,904,000	347.7%

\* At cost

\*\* The pension benefit obligation information is not available for fiscal years prior to 1987.

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the System's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the public employees' retirement system (PERS). Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the System's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the PERS.

**Revenues by Source and Expenses by Type**

**Revenues by Source**

FY Ended June 30	Participants' Contributions	Employer Contributions			Income from Investments	Total
		State of Illinois	Paid by Participant	Total		
1983	\$ 4,532,645	\$ 7,791,700	\$ -	\$ 7,791,700	\$ 12,424,402	\$ 24,748,747
1984	5,140,219	5,645,600	-	5,645,600	9,655,020	20,440,839
1985	5,147,228	8,527,500	-	8,527,500	6,621,882	20,296,610
1986	5,983,871	9,345,100	-	9,345,100	15,225,759	30,554,730
1987	6,248,636	9,832,000	-	9,832,000	14,240,835	30,321,471
1988	6,885,514	9,137,000	-	9,137,000	9,666,884	25,689,398
1989	6,909,017	9,918,700	-	9,918,700	12,245,936	29,073,653
1990	7,142,961	10,657,400	28,620	10,686,020	13,206,382	31,035,363
1991	7,154,549	10,657,400	-	10,657,400	10,784,883	28,596,832
1992	7,371,637	10,052,100	-	10,052,100	19,721,910	37,145,647

**Expenses by Type**

FY Ended June 30	Benefits	Refunds	Admin. Expenses	Total
1983	\$ 9,704,670	\$ 156,519	\$ 110,597	\$ 9,971,786
1984	10,810,013	194,517	115,178	11,119,708
1985	12,352,558	263,219	118,866	12,734,643
1986	13,616,195	600,279	128,558	14,345,032
1987	15,376,535	283,090	153,973	15,813,598
1988	17,382,718	551,268	148,510	18,082,496
1989	18,776,253	421,138	171,936	19,369,327
1990	19,827,453	275,233	187,005	20,289,691
1991	21,148,512	226,702	216,848	21,592,062
1992	22,995,915	280,106	231,442	23,507,463

**REQUIRED SUPPLEMENTARY INFORMATION**

**Analysis of Employer Contributions - Fiscal Year 1988 through 1992**

Fiscal Year (A)	(1) Covered Payroll	(2) State of Illinois Employer Contributions Required (B)	(3) State of Illinois Employer Contributions Required as a % of Covered Payroll (2) ÷ (1)	(4) State of Illinois Employer Contributions Received	(5) State of Illinois Employer Contributions Received as a % of Covered Payroll (4) ÷ (1)	(6) Contributions Required in Excess of Contributions Received (2) - (4)
1988	\$ 62,366,208	\$ 20,182,837	32.4%	\$ 9,137,000	14.7%	\$ 11,045,837
1989	63,478,721	21,990,938	34.6%	9,918,700	15.6%	12,072,238
1990	64,670,416	14,329,107	22.2%	10,657,400	16.5%	3,671,707
1991	66,294,898	12,357,369	18.6%	10,657,400	16.1%	1,699,969
1992	67,904,000	13,160,000	19.4%	10,052,100	14.8%	3,107,900

(A) = Prior to fiscal year 1988, the Actuary did not determine an "Employer Contribution Required" amount.

(B) = For fiscal year 1988 and 1989, the State of Illinois required employer contributions were computed in accordance with the Board of Trustee's approved funding policy of normal cost plus interest on the unfunded actuarial liability. For fiscal years after 1989, required employer contributions have been computed in accordance with Public Act 86-0273 which was signed into law on August 23, 1989. Public Act 86-0273 enacted a funding plan under which, starting with fiscal year 1990, the state's contribution shall be increased incrementally over a seven year period so that by fiscal year 1996, the minimum state contribution shall be an amount that is sufficient to meet the normal cost and amortize the unfunded actuarial liability over forty years as a level percent of payroll as determined under the projected unit credit actuarial cost method.

**Schedule of Employer Contributions as a Percentage of Covered Payroll**

Fiscal Year	Covered Payroll	State of Illinois Employer Contributions Received	State of Illinois Employer Contributions Received as a % of Covered Payroll
1983	\$ 41,713,000	\$ 7,791,700	18.7%
1984	47,972,000	5,645,600	11.8%
1985	49,607,000	8,527,500	17.2%
1986	54,461,000	9,345,100	17.2%
1987	59,266,115	9,832,000	16.6%
1988	62,366,208	9,137,000	14.7%
1989	63,478,721	9,918,700	15.6%
1990	64,670,416	10,657,400	16.5%
1991	66,294,898	10,657,400	16.1%
1992	67,904,000	10,052,100	14.8%

**SUMMARY OF REVENUES BY SOURCE**  
**Years Ended June 30, 1992 and 1991**

	<u>1992</u>	<u>1991</u>
Contributions:		
Participants	\$ 7,371,637	\$ 7,154,549
Employer:		
General Revenue Fund	\$ 9,815,300	\$ 9,815,300
State Pension Fund	236,800	842,100
Total employer contributions	<u>\$ 10,052,100</u>	<u>\$ 10,657,400</u>
Total contributions revenue	<u>\$ 17,423,737</u>	<u>\$ 17,811,949</u>
Investments:		
Net investments income	\$ 10,853,251	\$ 9,416,140
Interest earned on cash balances	188,236	226,084
Net realized gain on sale of investments	8,680,423	1,142,659
Total Investments revenue	<u>\$ 19,721,910</u>	<u>\$ 10,784,883</u>
Total Revenue	<u>\$ 37,145,647</u>	<u>\$ 28,596,832</u>

**SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS**  
**Years Ended June 30, 1992 and 1991**

	<u>1992</u>	<u>1991</u>
Cash balance, beginning of year	\$ 3,996,379	\$ 3,828,060
Receipts:		
Participant contributions	\$ 7,310,592	\$ 7,109,359
Employer contributions:		
General Revenue Fund	9,815,300	9,815,300
State Pension Fund	236,800	842,100
Interest income on cash balances	177,839	248,556
Reimbursements from General Assembly		
Retirement System	128,725	129,675
Participants' deferred service credit payments	6,788	5,500
Cancellation of refunds	33,029	-
Cancellation of annuities	30,164	42,623
Transfers from Illinois State Board of Investment	8,950,000	7,800,000
Total cash receipts	<u>\$ 26,689,237</u>	<u>\$ 25,993,113</u>
Disbursements:		
Benefit payments:		
Retirement annuities	\$ 17,883,305	\$ 16,568,274
Survivors' annuities	5,139,834	4,623,102
Refunds	225,011	273,240
Administrative expenses	364,497	360,178
Transfers to Illinois State Board of Investment	2,950,000	4,000,000
Total cash disbursements	<u>\$ 26,562,647</u>	<u>\$ 25,824,794</u>
Cash balance, end of year	<u>\$ 4,122,969</u>	<u>\$ 3,996,379</u>

**ADDITIONAL FINANCIAL INFORMATION**

**REVENUES**

Total revenue of \$37,145.6 thousand for FY 1992 was a \$8,548.8 thousand increase from the FY 1991 level of \$28,596.8 thousand. Net income from investments and net realized gains on sales of investments were \$8,937.0 thousand greater than the prior fiscal year primarily due to an increase in the net realized gains on sale of investments. Employer contributions show a decrease of 5.7% (\$605.3 thousand). Participant contributions were \$217.1 thousand (3.0%) higher than for FY 1991.

Revenue Source	FY 92 (Thousands)	FY 91 (Thousands)	Increase/(Decrease)	
			Amount	Percentage
Participant Contributions .....	\$ 7,371.6	\$ 7,154.5	\$ 217.1	3.0%
Employer Contributions .....	10,052.1	10,657.4	(605.3)	(5.7%)
Investment Income .....	19,721.9	10,784.9	8,937.0	82.9%
<b>Total .....</b>	<b>\$ 37,145.6</b>	<b>\$ 28,596.8</b>	<b>\$ 8,548.8</b>	<b>29.9%</b>

**REVENUES BY SOURCE 1992**  
**TOTAL REVENUES**  
**\$ 37,145.6 Thousand**



**REVENUES BY SOURCE 1991**  
**TOTAL REVENUES**  
**\$ 28,596.8 Thousand**



## ADDITIONAL FINANCIAL INFORMATION

Gross investment income for FY 1992 of \$11,518,843 less the Investment Board's administrative expenses of \$665,592 resulted in net investment income of \$10,853,251. This amount, when combined with the net realized gain on sale of investments of \$8,680,423 provided net revenue from investments of \$19,533,674. Net cash transfers from the Illinois State Board of Investment were \$6,000,000 during FY 1992. The balance of investments at cost increased by \$13,533,674 from June 30, 1991 thru June 30, 1992. The following table shows a comparison of investment operations for FY 1992 and FY 1991.

	1992	1991	Increase/(Decrease)	
			Amount	Percentage
Balance at beginning				
of year, at cost .....	\$ 169,881,722	\$ 163,122,923	\$ 6,758,799	4.1%
Cash transferred from ISBI (net) ..	(6,000,000)	(3,800,000)	2,200,000	57.9%
Investment income:				
Commingled Fund income .....	\$ 11,518,843	\$ 10,046,922	\$ 1,471,921	14.7%
Less Expenses .....	(665,592)	(630,782)	34,810	5.5%
Net investment income .....	<u>\$ 10,853,251</u>	<u>\$ 9,416,140</u>	<u>\$ 1,437,111</u>	<u>15.3%</u>
Distributed Net Realized Gain				
on Sale of Investments .....	\$ 8,680,423	\$ 1,142,659	\$ 7,537,764	659.7%
Balance at end				
of year, at cost .....	<u>\$ 183,415,396</u>	<u>\$ 169,881,722</u>	<u>\$ 13,533,674</u>	<u>8.0%</u>
Market value .....	<u>\$ 205,231,721</u>	<u>\$ 189,426,482</u>	<u>\$ 15,805,239</u>	<u>8.3%</u>

In addition, interest on the average balance in the System Trust Fund's account for FY 1992 was \$188,236 compared to \$226,084 during FY 1991 primarily due to lower average interest yields during FY 1992.

### EXPENSES

The number of participants receiving retirement annuities on June 30, 1992 was 3.3% higher than the June 30, 1991 level while the dollar cost of these annuities increased by 8.0% over the FY 1991 level. Higher salaries for current retirees and post retirement annuity increases granted each January 1 resulted in costs rising at a more rapid pace than the number of annuitants. Survivor annuities increased by 3.9% in number with an 11.3% increase in dollar costs. Higher earned retirement annuities of current year deceased annuitants/participants and annual increases granted on January 1 attributed to the increase in survivors annuity cost. Total refunds of \$280.1 thousand for FY 1992 was a \$53.4 thousand (23.6%) increase from the FY 1991 level of \$226.7 thousand.

	FY 92	FY 91	Increase/(Decrease)	
	(Thousands)	(Thousands)	Amount	Percentage
Retirement annuities .....	\$ 17,869.1	\$ 16,541.6	\$ 1,327.5	8.0%
Survivors' annuities .....	5,126.8	4,606.9	519.9	11.3%
Refunds .....	280.1	226.7	53.4	23.6%
Administrative expense .....	<u>231.4</u>	<u>216.9</u>	<u>14.5</u>	<u>6.7%</u>
TOTAL EXPENSES .....	<u>\$ 23,507.4</u>	<u>\$ 21,592.1</u>	<u>\$ 1,915.3</u>	<u>8.9%</u>

### NUMBER OF RECURRING BENEFIT PAYMENTS

	FY Ended June 30, 1991	New Claims Processed During FY 92	Benefits Ceased		Increase/(Decrease)	
			During FY 92	FY Ended June 30, 1992	Amount	Percentage
Retirement .....	359	34	22	371	12	3.3%
Survivors .....	<u>258</u>	<u>28</u>	<u>18</u>	<u>268</u>	<u>10</u>	<u>3.9%</u>
TOTALS .....	<u>617</u>	<u>62</u>	<u>40</u>	<u>639</u>	<u>22</u>	<u>3.6%</u>

## ADDITIONAL FINANCIAL INFORMATION

### RESERVES

As of June 30, 1992, the funds available for payment of current and future benefits were \$187,627.4 thousand as shown in the following schedule:

Assets	FY 92 (Thousands)	FY 91 (Thousands)	Increase (Decrease)
Cash.....	\$ 4,123.0	\$ 3,996.4	\$ 126.6
Receivables (less payables) .....	64.4	82.5	(18.1)
Investments .....	183,415.4	169,881.7	13,533.7
Fixed Assets (net of accumulated depreciation) .....	24.6	28.6	(4.0)
<b>NET ASSETS .....</b>	<b><u>\$ 187,627.4</u></b>	<b><u>\$ 173,989.2</u></b>	<b><u>\$ 13,638.2</u></b>

Total System revenues for FY 1992 of \$37,145.6 thousand less expenditures of \$23,507.4 thousand resulted in a net increase to reserves of \$13,638.2 thousand.

Reserves	FY 92 (Thousands)	FY 91 (Thousands)	Net Increase
Participants' Contributions .....	\$ 63,598.1	\$ 59,624.0	\$ 3,974.1
Future Operations .....	<u>124,029.3</u>	<u>114,365.2</u>	<u>9,664.1</u>
<b>TOTAL RESERVES .....</b>	<b><u>\$ 187,627.4</u></b>	<b><u>\$ 173,989.2</u></b>	<b><u>\$ 13,638.2</u></b>

Participant contributions transferred to the Reserve for Future Operations due to retirement or death of participants during the year amounted to \$3,117.4 thousand.

## **ACTUARIAL SECTION**

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**Actuary's Report**

**Introduction**

**Actuarial Cost Method and Summary of Major Actuarial Assumptions**

**Valuation Results**

**Short-term Solvency Test**

**Analysis of Funding**

**Beneficiaries Added to and Removed From Rolls**

**Schedule of Active Member Valuation Data**

**Reconciliation of Unfunded Actuarial Liability**

**GOLDSTEIN & ASSOCIATES**  
*Consulting Actuaries*

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October 2, 1992

Board of Trustees and Executive Secretary  
Judges' Retirement System of Illinois  
2101 South Veterans Parkway  
P.O. Box 19255  
Springfield, Illinois 62794

ACTUARIAL CERTIFICATION

I have completed the annual actuarial valuation of the Judges' Retirement System of Illinois as of June 30, 1992. The purpose of the valuation was to determine the financial condition and funding requirements of the retirement system.

Since the last actuarial valuation, House Bill 971 which was signed into law on November 19, 1991 as Public Act 87-794 made the following changes in the provisions of the system: (1) a participant may obtain creditable service for up to 2 years of military service that need not have followed service as a judge and need not have been served during wartime provided the participant makes certain contributions to the system; (2) the reduction in retirement annuity for retirement before age 60 shall not apply if the participant has at least 28 years of service; (3) a child's annuity shall be payable so long as the child is under age 22 and a full time student. I have estimated that these changes have a relatively minor impact on the system's total actuarial liability.

Pursuant to the law governing the system, the actuary shall investigate the experience of the system at least once every five years and recommend as a result of such investigation the actuarial assumptions to be adopted. As the actuary, I have completed such an experience analysis for the five year period 1987-1992. Based on this experience analysis, I have made some changes in the actuarial assumptions used for the June 30, 1992 actuarial valuation from the actuarial assumptions used for the June 30, 1991 valuation. I have estimated that the changes made in the actuarial assumptions used for the June 30, 1992 actuarial valuation had the impact of increasing the total actuarial liability by \$6,039,968. I believe that, in the aggregate, the current actuarial assumptions relate reasonably to the past and anticipated experience of the system.

**GOLDSTEIN & ASSOCIATES***Consulting Actuaries*

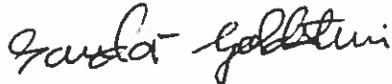
The financing objective of the system is to accumulate assets equal to the value of the system's total actuarial liability determined under the projected unit credit actuarial cost method. Contribution rates have been determined providing for the normal cost plus an amortization of the unfunded actuarial liability as required under Public Act 86-0273. Normal cost rates are expected to remain constant as a percent of payroll, while the amortization contribution rate will increase in equal annual increments until the 1996 fiscal year is reached. The total contribution rate can thus be expected to rise gradually until fiscal year 1996, remain level until fiscal year 2035, and then drop to a constant normal cost rate.

Employer contributions in recent years have been less than that required under this financing plan. For fiscal year 1993, employer contributions are expected to fall \$1,708,970 short of the amount required under Public Act 86-0273.

The asset values used for the valuation were based on the asset information reported by the system. For purposes of the valuation, the book value of the assets of the system (assets valued at cost), less the amount of liabilities, was used.

In my opinion, the following schedule of valuation results fairly presents the financial condition of the Judges' Retirement System of Illinois as of June 30, 1992. The contribution rates determined are in compliance with the provisions of the funding plan enacted under Public Act 86-0273.

Respectfully submitted,



Sandor Goldstein  
Fellow of the Society of Actuaries  
Enrolled Actuary No. 90-3402

## ACTUARIAL SECTION

### INTRODUCTION

Annually, the System's actuarial consultants perform a valuation of the liabilities and reserves of the System in order to make a determination of the amount of contributions required from the state. These results are then certified to the Board.

The Board, in turn, has the duty of certifying an employer contribution amount, required to be paid to the System by the state during the succeeding fiscal year. The employers' contribution amount, together with participants' contributions, income from investments and any other income received by the System, shall be sufficient to meet the cost of maintaining and administering the System on a funded basis in accordance with actuarial requirements, pursuant to Article 18-131 of the Illinois Revised Statutes.

The state's policy on pension funding has been based on variations of the pay as you go approach. As a result, the System has not received the minimum actuarially determined employer contribution amount in recent years.

The underfunding of employer contributions places undue pressure on one of the other major sources of revenue to the System, namely income from investments, to consistently provide an increasing percentage of total fund revenue. In recent years, the higher than assumed rate of return on investments distorts the fact that employer contributions have not kept pace with prior, current, and future estimated benefit costs.

In an attempt to address the pension funding dilemma, the State Legislature passed Public Act 86-0273 in August, 1989, which provided for a standardized funding method (projected unit credit) and a specified term for the amortization of prior unfunded pension costs (40 years, level percentage of payroll). There is a seven-year phase in period of the required employer contributions to attain the 40 year amortization level. The phase-in period began in fiscal year 1990, however, the state has not adequately funded the System with the actuarially required contributions during the first three years of the phase-in period.

### ACTUARIAL COST METHOD AND SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

The System utilizes the projected unit credit actuarial cost method. Under this method, the actuarial liability is the actuarial present value or that portion of a participant's projected benefit that is attributable to service to date on the basis of future compensation projected to retirement. The normal cost represents the actuarial present value of the participant's projected benefit that is attributable to service in the current year, again based on future compensation projected to retirement. Actuarial gains and losses are recognized immediately in the unfunded actuarial liability of the System. However, for purposes of determining future employer contributions, the actuarial gains and losses are amortized over a 40 year period as a level percentage of payroll.

A description of the actuarial assumptions utilized for fiscal year 1992 and fiscal year 1991 follows:

**Mortality Rates:** The UP-1984 Mortality Table was used for the valuation.

**Termination Rates:** Termination rates based on the recent experience of the System were used. The following is a sample of the termination rates that were used:

FY 1992		FY 1991	
Age	Rate of Termination	Age	Rate of Termination
30	.066	30	.060
35	.033	35	.030
40	.013	40	.012
45	.005	45	.045
50	.003	50	.003
55	.000	55	.000

**Disability Rates:** Disability rates based on the recent experience of the System as well as on published disability rate tables were used. The following is a sample of the disability rates that were used for the valuation:

<u>Age</u>	<u>Rate of Disability</u>
30	.00057
35	.00064
40	.00083
45	.00115
50	.00170
55	.00000

**Retirement Rates:** Rates of retirement for each age from 55 to 75 based on the recent experience of the System were used. The following are samples of the rates of retirement that were used:

FY 1992		FY 1991	
<u>Age</u>	<u>Rate of Retirement</u>	<u>Age</u>	<u>Rate of Retirement</u>
55	.051	55	.040
60	.127	60	.100
65	.058	65	.050
70	.104	70	.100
75	1.000	75	1.000

The above retirement rates are equivalent to an average retirement age of approximately 66.

**Salary Increase:** A salary increase assumption of 6.0% per year (consisting of a general increase component of 5% per year, 4.5% of which is attributable to inflation, and a seniority/merit component of 1% per year), compounded annually, was used.

**Interest Rate:** An interest rate assumption of 8.0% per year (consisting of an inflation component of 4.5% per year and a real rate of return component of 3.5% per year), compounded annually, was used.

**Marital Status:** It was assumed that 75% of active participants will be married at the time of retirement.

**Spouse's Age:** The age of the spouse was assumed to be 4 years younger than the age of the participant.

VALUATION RESULTS

Actuarial Liability (reserves):	<u>June 30, 1992</u>	<u>June 30, 1991</u>
For Active Participants:		
Basic retirement annuity	\$ 113,238,709	\$ 102,903,643
Annual increase in retirement annuity	30,009,252	23,686,538
Pre-retirement survivors' annuity	24,646,390	23,330,227
Post-retirement survivors' annuity	15,977,650	21,627,668
Withdrawal benefits	1,099,767	985,908
Disability benefits	1,231,871	1,172,321
Total	<u>\$ 186,203,639</u>	<u>\$ 173,706,305</u>
For Participants Receiving Benefits:		
Retirement annuities	\$ 177,915,715	\$ 160,720,678
Survivor annuities	46,783,103	42,463,598
Total	<u>\$ 224,698,818</u>	<u>\$ 203,184,276</u>
For Inactive Participants	\$ 12,856,251	\$ 8,637,608
Total Actuarial Liability	<u>\$ 423,758,708</u>	<u>\$ 385,528,189</u>
Net Assets, Book Value (Cost)	<u>187,627,388</u>	<u>173,989,204</u>
Unfunded Actuarial Liability	<u>\$ 236,131,320</u>	<u>\$ 211,538,985</u>

SHORT-TERM SOLVENCY TEST

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (primarily cash and investments) are compared with: 1) active and inactive participant contributions on deposit; 2) the liabilities for future benefits to present retired lives; and 3) the liabilities for service already rendered by active and inactive participants. In a system that has been following level percent of payroll financing, the liabilities for service already rendered by active and inactive participants (liability 3) should be partially covered by the remainder of present assets. If the system continues using level cost financing, the funded portion of liability 3 will increase over time, although it is very rare for a system to have its liability 3 fully funded.

Computed Actuarial Values

Fiscal Year	Aggregate Accrued Liabilities For				Percentage of Accrued Liabilities Covered By Net Real Assets		
	(1)	(2)	(3)	Net Real Assets	(1)	(2)	(3)
	Active and Inactive Participant Contributions	Retirement and Survivor Annuitants	Active and Inactive Participants (Employer Financed Portion)				
1983	\$ 31,614,699	\$ 104,787,674	\$ 161,204,995	\$ 91,326,865	100.0%	57.0%	0.0%
1984	35,201,444	131,606,634	213,229,417	100,647,996	100.0	49.7	0.0
1985	37,395,886	157,415,057	277,686,503	108,209,963	100.0	45.0	0.0
1986	40,584,225	212,608,346	361,909,545	124,419,661	100.0	39.4	0.0
1987	44,020,513	154,453,849	108,589,706	138,927,534	100.0	61.4	0.0
1988	47,271,278	171,513,047	116,523,133	146,534,436	100.0	57.9	0.0
1989	50,923,236	168,946,414	99,532,942	156,238,762	100.0	62.3	0.0
1990	56,354,255	185,952,152	123,809,986	166,984,434	100.0	59.5	0.0
1991	59,623,957	203,184,276	122,719,956	173,989,204	100.0	56.3	0.0
1992	63,598,115	224,698,818	135,461,775	187,627,388	100.0	55.2	0.0

**ANALYSIS OF FUNDING**

In an inflationary economy, the value of the dollar decreases. This environment results in employees' pay and retirement benefits increasing in dollar amounts resulting in unfunded accrued liabilities which increase in dollar amounts, all at a time when the actual substance of these items may be decreasing. Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. The ratio of the unfunded accrued liabilities to active employee payroll provides an index which clarifies understanding. The smaller the ratio of unfunded liabilities to active participant payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker.

Fiscal Year	Total Actuarial Liability	Net Assets	Net Assets as a % of Actuarial Liability	Total Unfunded Actuarial Liability	Unfunded Actuarial Liability as a % of Annual Covered	
					Payroll	Payroll
1983	\$ 297,607,368	\$ 91,326,865	30.7%	\$ 206,280,503	\$ 41,713,000	494.5%
1984	380,037,495	100,647,996	26.5%	279,389,499	47,972,000	582.4%
1985	472,497,446	108,209,963	22.9%	364,287,483	49,607,000	734.3%
1986	615,102,116	124,419,661	20.2%	490,682,455	54,461,000	901.0%
1987	307,064,068	138,927,534	45.2%	168,136,534	59,266,115	283.7%
1988	335,307,458	146,534,436	43.7%	188,773,022	62,366,208	302.7%
1989	319,402,592	156,238,762	48.9%	163,163,830	63,478,721	257.0%
1990	366,116,393	166,984,434	45.6%	199,131,959	64,670,416	307.9%
1991	385,528,189	173,989,204	45.1%	211,538,985	66,294,898	319.1%
1992	423,758,708	187,627,388	44.3%	236,131,320	67,904,000	347.7%

**BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS**

Fiscal Year	Annuitants				Survivors				
	Beginning	Additions	Deletions	Ending	Beginning	Additions	Deletions	Ending	Total
1983	262	29	13	278	183	17	14	186	464
1984	278	23	14	287	186	19	5	200	487
1985	287	41	13	315	200	15	8	207	522
1986	315	34	24	325	207	22	18	211	536
1987	325	31	19	337	211	23	11	223	560
1988	337	39	28	348	223	33	14	242	590
1989	348	36	17	367	242	17	17	242	609
1990	367	18	32	353	242	17	14	245	598
1991	353	38	32	359	245	25	12	258	617
1992	359	34	22	371	258	28	18	268	639

**SCHEDULE OF ACTIVE MEMBER VALUATION DATA**

Valuation Date June 30	Active Members			
	Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay
1983	744	\$ 41,713,000	\$ 56,066	15.9%
1984	756	47,972,000	63,455	13.2%
1985	782	49,607,000	63,436	0.0%
1986	768	54,461,000	70,913	11.8%
1987	794	59,266,115	74,642	5.3%
1988	796	62,366,208	78,350	5.0%
1989	821	63,478,721	77,319	(1.3%)
1990	827	64,670,416	78,199	1.1%
1991	848	66,294,898	78,178	0.0%
1992	828	67,904,000	82,010	4.9%

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

	FY 92	FY 91
Unfunded actuarial liability at Beginning of FY	\$ 211,538,985	\$ 199,131,959
Employer contribution requirement of normal cost plus interest on the unfunded liability	\$ 25,553,332	\$ 24,438,147
Actual employer contribution for the year	<u>10,052,100</u>	<u>10,657,400</u>
Increase in unfunded liability due to employer contributions being less than normal cost plus interest on unfunded liability	\$ 115,501,232	\$ 13,780,747
Increase/(Decrease) in unfunded liability due to investment return lower/(greater) than assumed	(6,046,123)	2,422,667
(Decrease) in unfunded liability due to salary increases less than assumed	(2,570,158)	(9,381,039)
Increase in unfunded liability due to changes in assumptions	6,039,968	-
Increase in unfunded liability due to other sources	<u>11,667,416</u>	<u>5,584,651</u>
Total Actuarial (Gains) Losses	\$ 9,091,103	\$ (1,373,721)
Net Increase in unfunded liability for the year	<u>\$ 24,592,385</u>	<u>\$ 12,407,026</u>
Unfunded actuarial liability at End of FY	<u>\$ 236,131,320</u>	<u>\$ 211,538,985</u>

## **INVESTMENT SECTION**

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***Investment Report***

***Investment Portfolio Summary***

***Analysis of Investment Performance***

## INVESTMENT REPORT

By state law the System's investment function is managed by the Illinois State Board of Investment (ISBI Board). The ISBI Board was created in 1969 to provide a means of centralizing the investment management function for public employee pension funds and retirement systems operating in the state. At the end of the fiscal year, in addition to the assets of the Judges' Retirement System, the ISBI Board also managed the investment function for the State Employees' and General Assembly Retirement Systems. As of June 30, 1992, total net assets under management valued at market, amounted to \$3.866 billion. Of the total assets under management, \$205.2 million or 5.3% represented assets of the Judges' Retirement System.

### Management Approach

The ISBI Board manages the Fund in accordance with the "prudent person rule" as adopted by the Illinois General Assembly in 1982. The ISBI Board has established a long-range investment policy which, in line with the prudent person rule, affirms that the Fund's objective is to provide the greatest possible long-term benefits through maximization of the total return of the Fund, within prudent risk parameters. Further, it is the ISBI Board's philosophy that the assets owned by the participating systems and managed by the ISBI Board are held for the exclusive purpose of providing benefits to the participants and annuitants of the respective retirement systems and their beneficiaries. In line with this philosophy, the ISBI Board from time to time evaluates its asset allocation which is considered by many to be the single most important factor in pension investment management. The three major asset classes are: bonds, equities and cash; with smaller positions being allocated to real estate, venture capital and other alternative investments.

### Total Fund Results

The Illinois State Board of Investment Commingled Fund (ISBI Fund) had a market value of \$3.866 billion as of the end of its fiscal year, June 30, 1992. The ISBI Fund had an increase in market value of \$362.9 million for the fiscal year, all of which resulted from net appreciation of assets and net realized yield on investments, as the member systems withdrew nearly \$44 million on a net basis during the fiscal year.

The ISBI Fund's total rate of return for fiscal 1992, net of expenses, was 11.6%. Both domestic equity and fixed income portfolios produced strong returns and the Fund's performance in these sectors was superior relative to market indices. Foreign equity market returns were substantially below those in the U.S.; however, ISBI's global and international managers achieved good absolute returns (i.e. when compared to respective benchmarks) in spite of the weak foreign markets. During fiscal 1992, the performance of non-marketable securities lagged that of publicly traded markets, while downward adjustments in real estate values more than offset cash-on-cash yields, resulting in a negative total real estate return.

During fiscal 1992, the ISBI Board completed an extensive review of investment policies, objectives and performance; culminating in the approval of a comprehensive written objectives and strategies plan for the next three years. The Plan sets a long-term average annual investment rate of return objective of 9.0% for the Fund, or a 4.5% rate of return assuming a 4.5% annual inflation rate. The Plan reaffirms the broadly diversified investment strategy that the ISBI Board has pursued for a number of years, with the belief that this approach will, over the long term, maximize return within a prudent level of investment risk.

The Plan establishes long-term target percentages for each asset category, as well as ranges over which actual asset allocation to these categories can deviate from the long-term targets. The Plan also defines market benchmarks and performance objectives for the total ISBI Fund, for each asset class, and for each individual investment manager, as well as procedures for hiring, monitoring, and terminating external managers.

The ISBI Board believes that this Plan will produce higher rates of return at lower levels of risk in future years. One of the many adjustments resulting from the Plan will be a reduction in the number of external managers in order to eliminate redundancy and achieve greater specialization and economies of scale. This reduction also reflects the continued negative net contributions from member systems. As mentioned earlier, net withdrawals for fiscal 1992 were nearly \$44 million, and are estimated to be approximately \$80 million in fiscal 1993.

### Fixed Income

Substantially all fixed income assets are managed internally by the ISBI except for approximately \$242 million allocated to external high yield and convertible debt managers. All fixed income markets exhibited strong performance during the fiscal year, with high yield securities producing particularly good results. The ISBI internal

account achieved superior results in both the high yield and the investment-grade corporate portion of the portfolio, and produced a 16.3% rate of return for the fiscal year, over 200 basis points higher than the market benchmark. Good performance from the specialty managers further improved the total fixed income return to 17.1% which was the best return for any asset class for the last fiscal year.

Comparative average annual rates of return for the total fixed income portfolio versus benchmark market indices are set forth below:

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>
ISBI	17.1%	11.0%	11.3%
Shearson Lehman G/C	14.2%	10.5%	10.2%
Shearson Lehman Aggregate	14.1%	10.8%	10.6%

### Equity

The ISBI Board remains committed to the policy of having all equity investments for the ISBI fund externally managed. As of June 30, 1992, funds under management by domestic, global, and international equity managers totaled \$1,434 million, \$233 million, and \$91 million, respectively.

For the fiscal year, the U.S. stock market significantly out performed foreign markets, especially when currency movements are included. Therefore, domestic equity managers had the best absolute results, followed by global and international managers respectively. However, managers in all three categories outperformed their respective market benchmarks for the fiscal year. Domestic equity managers produced a rate of return of 15.2% compared to 13.5% for the S&P 500. Global managers earned an impressive 12.8%, as compared to a 1.3% gain for the Morgan Stanley Capital International World Index (MSCI), and international managers earned 4.2%, as compared to a 0.3% loss for the Morgan Stanley Capital International Index for Europe, Australia and the Far East (EAFE).

Although foreign stock markets have under performed the U.S. stock market in the last several years, the ISBI Board believes that there will be periods when the opposite is true, and that over longer periods of time the ISBI Fund's total rate of return will be improved by this diversification.

The composite average annual rates of return for the total equity portfolio, as compared to the S & P 500, are set forth below:

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>
ISBI	14.4%	10.6%	8.7%
S&P 500	13.5%	12.4%	9.8%

### Real Estate

During fiscal 1992, 1991, and 1990, other than a reclassification of a farmland investment, the ISBI Fund made no new commitments to real estate investments. Although the ISBI Fund received a 5% cash-on-cash real estate return for the fiscal year, the asset category was written down more than 16%, resulting in an aggregate negative rate of return of 11.2%. All of the ISBI Fund's investments in real estate are passive and are represented by interests in limited partnerships, trusts, and other forms of pooled investments. The allocation according to property type is 31% retail, 24% office, 13% apartment, 6% warehouse and research and development, with the remaining 26% in mixed use, land and miscellaneous.

Average annual returns for the combined real estate portfolio compared to the market benchmark for unleveraged institutional grade property returns are as follows:

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>
ISBI	(11.2)%	(2.5)%	1.5%
NCREIF	(7.2)%	(1.1)%	2.0%

### Non-Marketable Securities

The 7.4% total rate of return for this asset category during fiscal 1992 lagged the publicly traded equity market returns. The portfolio's largest investment is with the Kohlberg Kravis Roberts leverage buyout limited partnership, which accounts for approximately 70% of this category. Although the 3.9% KKR rate of return for fiscal 1992 was

## INVESTMENT SECTION

disappointing, the long-term track record is good. The remaining investments in this asset class consist primarily of passive interests the ISBI Fund has in limited partnerships and other commingled vehicles that invest in venture capital, management buyouts and other private placement activities.

Average annual returns for additional time periods for this category are set forth below:

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>
ISBI	7.4%	12.6%	11.0%

### Management Expenses

Total operating expenses, including fees to external managers, for the fiscal year were \$12,525,388, as compared to \$11,486,438 for the previous fiscal year. The expense ratio (expenses divided by assets under management) was .32% as compared to .33% last fiscal year. The Judges' Retirement System's share of total operating expenses amounted to \$665,592.

### Additional Information

For additional information regarding the System's investment function, please refer to the Annual Report of the Illinois State Board of Investment, June 30, 1992. A copy of the report can be obtained from the Board at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

### INVESTMENT PORTFOLIO SUMMARY

	June 30, 1992		June 30, 1991	
	<u>Market Value</u>	<u>Percentage</u>	<u>Market Value</u>	<u>Percentage</u>
Fixed Income	\$1,458,154,012	37.7%	\$ 1,375,015,021	39.3%
Equities	1,650,996,186	42.8%	1,473,327,061	42.1%
Real Estate	325,963,498	8.4%	341,066,237	9.7%
Non-Marketable	178,844,300	4.6%	183,670,238	5.2%
Cash equivalents**	251,975,370	6.5%	129,935,529	3.7%
Net assets at market value	<u>\$3,865,933,366*</u>	<u>100.0%</u>	<u>\$ 3,503,014,086*</u>	<u>100.0%</u>
Net assets, at cost	<u>\$3,477,187,528*</u>		<u>\$ 3,153,895,617*</u>	

\* These amounts represent the total assets under management of the Illinois State Board of Investment. The assets of the Judges' Retirement System at market and cost for fiscal year 1992 were \$205,231,721 and \$183,415,396, respectively. For fiscal year 1991 the market and cost values were \$189,426,482 and \$169,881,722, respectively.

\*\* Cash equivalents include other assets less liabilities.

### ANALYSIS OF INVESTMENT PERFORMANCE

	1992	1991	1990	1989	1988
Total Return* - Past 3 years		8.8%			
Total Return* - Past 5 years			8.7%		
Total Return* - year by year	11.6%	7.0%	8.0%	14.3%	2.8%
Actuarial Assumed Rate of Return			8.0%		
Average Net Income Yield*	5.4%	5.2%	5.2%	5.5%	5.6%
Comparative rates of return on fixed income securities					
Total fixed income - ISBI	17.1%	9.0%	5.9%	12.0%	9.3%
Comparison index: Shearson Lehman Government/ Corporate Bond Index	14.2%	10.2%	7.1%	12.3%	7.5%
Comparative rates of return on equities					
Total equities - ISBI	14.4%	7.3%	10.5%	17.0%	(4.6%)
Comparison index: S&P 500	13.5%	7.4%	16.4%	20.6%	(6.9%)

\* Total return is the combined effect of income earned and market appreciation (depreciation). Average net income yield is the income earned for the year divided by the average market value of assets employed.

## **STATISTICAL SECTION**

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***Balance Sheet Assets***

***Balance Sheet Liabilities and Fund Balance***

***Revenues by Source***

***Expenses by Type***

***Benefit Expenses by Type***

***Number of Recurring Benefit Payments***

***Termination Refunds***

***Number on Active Payrolls***

***Active Retirees by State***

***Retirement Annuitants Statistics and Average Monthly Benefits***

***Annuitants by Benefit Range (Monthly)***

***Survivors by Benefit Range (Monthly)***

***Number of Participants***

## STATISTICAL SECTION

### BALANCE SHEET ASSETS

Fiscal Year Ended June 30	Cash	Receivables	Investments at Cost	Fixed Assets Net of Accumulated Depreciation	Total
1983	\$ 3,000,910	\$ 66,965	\$ 88,259,424	\$ 2,696	\$ 91,329,995
1984	1,406,567	58,749	99,193,192	2,245	100,660,753
1985	1,144,841	42,044	107,132,974	1,828	108,321,687
1986	2,351,774	45,673	122,130,095	1,302	124,528,844
1987	2,960,362	50,340	136,121,915	933	139,133,550
1988	935,712	102,135	145,612,106	20,604	146,670,557
1989	656,579	115,778	155,708,987	20,298	156,501,642
1990	3,828,060	173,967	163,122,923	26,585	167,151,535
1991	3,996,379	194,845	169,881,722	28,623	174,101,569
1992	4,122,969	265,758	183,415,396	24,566	187,828,689

### BALANCE SHEET LIABILITIES AND FUND BALANCE

Fiscal Year Ended June 30	Total Liabilities	Reserve for Participant Contributions	Reserve for Automatic Annuity Increase	Reserve for Future Operations	Total
1983	\$ 3,130	\$ 29,130,077	\$ 6,102,502	\$ 56,094,286	\$ 91,329,995
1984	12,757	32,382,585	6,426,655	61,838,756	100,660,753
1985	111,724	34,388,865	6,592,138	67,228,960	108,321,687
1986	109,183	37,223,582	6,718,637	80,477,442	124,528,844
1987	206,016	40,334,357	6,828,951	91,764,226	139,133,550
1988	136,121	47,271,278	-	99,263,158	146,670,557
1989	262,880	50,923,236	-	105,315,526	156,501,642
1990	167,101	56,354,255	-	110,630,179	167,151,535
1991	112,365	59,623,957	-	114,365,247	174,101,569
1992	201,301	63,598,115	-	124,029,273	187,828,689

### REVENUES BY SOURCE

Fiscal Year Ended June 30	Participant Contributions	Employer Contributions			Income From Investments	Total
		State of Illinois	Paid by Participant	Total		
1983	\$ 4,532,645	\$ 7,791,700	\$ -	\$ 7,791,700	\$ 12,424,402	\$ 24,748,747
1984	5,140,219	5,645,600	-	5,645,600	9,655,020	20,440,839
1985	5,147,228	8,527,500	-	8,527,500	6,621,882	20,296,610
1986	5,983,871	9,345,100	-	9,345,100	15,225,759	30,554,730
1987	6,248,636	9,832,000	-	9,832,000	14,240,835	30,321,471
1988	6,885,514	9,137,000	-	9,137,000	9,666,884	25,689,398
1989	6,909,017	9,918,700	-	9,918,700	12,245,936	29,073,653
1990	7,142,961	10,657,400	28,620	10,686,020	13,206,382	31,035,363
1991	7,154,549	10,657,400	-	10,657,400	10,784,883	28,596,832
1992	7,371,637	10,052,100	-	10,052,100	19,721,910	37,145,647

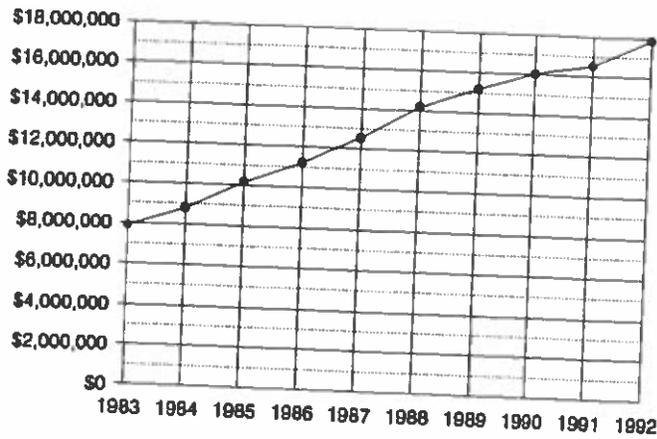
**EXPENSES BY TYPE**

Fiscal Year Ended June 30	Benefits	Refunds	Administrative Expenses	Total
1983	\$ 9,704,670	\$ 156,519	\$ 110,597	\$ 9,971,786
1984	10,810,013	194,517	115,178	11,119,708
1985	12,352,558	263,219	118,866	12,734,643
1986	13,616,195	600,279	128,558	14,345,032
1987	15,376,535	283,090	153,973	15,813,598
1988	17,382,718	551,268	148,510	18,082,496
1989	18,776,253	421,138	171,936	19,369,327
1990	19,827,453	275,233	187,005	20,289,691
1991	21,148,512	226,702	216,848	21,592,062
1992	22,995,915	280,106	231,442	23,507,463

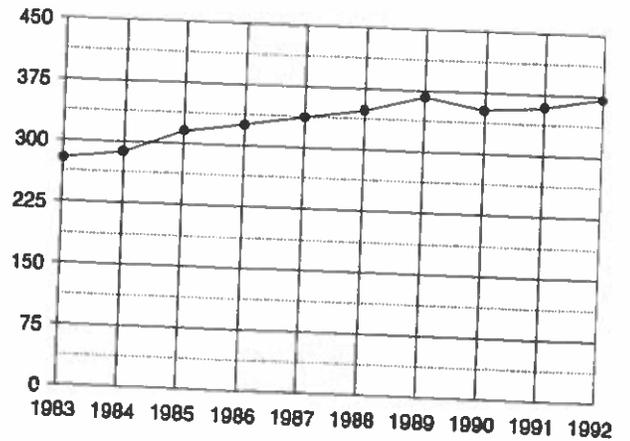
**BENEFIT EXPENSES BY TYPE**

Fiscal Year Ended June 30	Retirement Annuities	Survivors' Annuities	Total
1983	\$ 7,867,674	\$ 1,836,996	\$ 9,704,670
1984	8,803,447	2,006,566	10,810,013
1985	10,164,086	2,188,472	12,352,558
1986	11,214,816	2,401,379	13,616,195
1987	12,557,636	2,818,899	15,376,535
1988	14,193,135	3,189,583	17,382,718
1989	15,194,821	3,581,432	18,776,253
1990	16,043,479	3,783,974	19,827,453
1991	16,541,569	4,606,943	21,148,512
1992	17,869,115	5,126,800	22,995,915

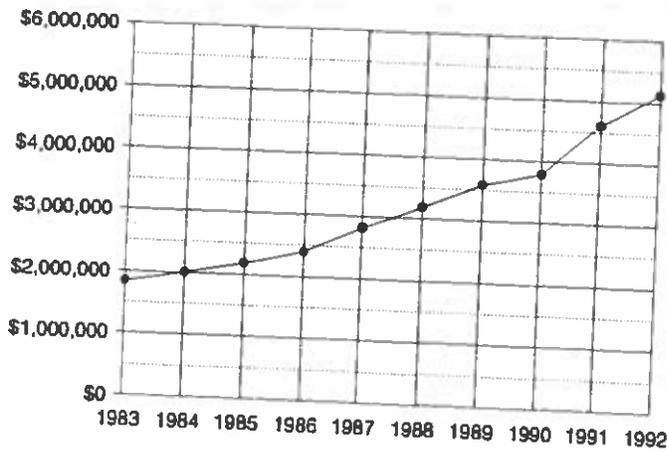
Retirement Annuities



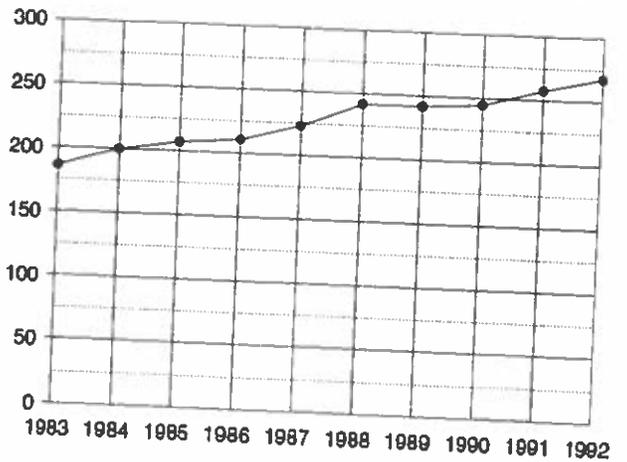
Annuitants



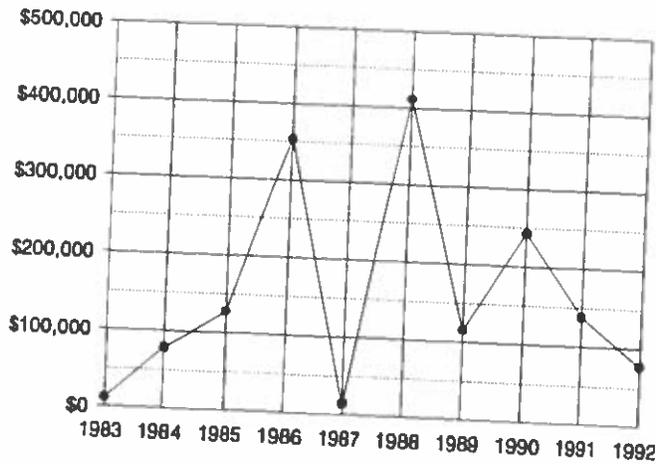
Survivor Annuities



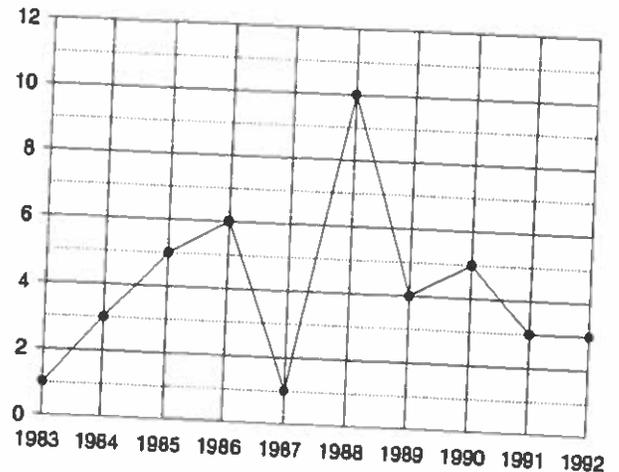
Annuitants



Termination Refunds



Number of Refunds



**NUMBER OF RECURRING BENEFIT PAYMENTS**

<u>at June 30</u>	<u>Retirement Annuities</u>	<u>Survivors' Annuities</u>	<u>Total</u>
1983	278	186	464
1984	287	200	487
1985	315	207	522
1986	325	211	536
1987	337	223	560
1988	348	242	590
1989	367	242	609
1990	353	245	598
1991	359	258	617
1992	371	268	639

**TERMINATION REFUNDS**

<u>Fiscal Year Ended June 30</u>	<u>Number</u>	<u>Amount</u>
1983	1	\$ 11,639
1984	3	78,104
1985	5	127,081
1986	6	352,897
1987	1	14,551
1988	10	411,577
1989	4	115,097
1990	5	242,847
1991	3	137,631
1992	3	76,885

**NUMBER ON ACTIVE PAYROLLS**

<u>at June 30</u>	<u>Supreme Court Justices</u>	<u>Appellate Court Justices</u>	<u>Circuit Court</u>			<u>Retired Judges Recalled</u>	<u>Admin. Office of Courts</u>	<u>Total</u>
			<u>Circuit Judges</u>	<u>Associate Circuit Judges</u>	<u>Total Circuit Court</u>			
1983	7	34	378	312	690	12	1	744
1984	7	33	371	331	702	13	1	756
1985	7	31	380	345	725	18	1	782
1986	7	27	372	348	720	14	-	768
1987	7	31	380	361	741	15	-	794
1988	7	32	371	373	744	13	-	796
1989	7	37	381	386	767	18	-	829
1990	7	34	379	401	780	23	-	844
1991	8	36	387	410	797	27	-	868
1992	7	31	375	395	770	20	-	828

**ACTIVE RETIREES BY STATE**



RETIREMENT ANNUITANTS STATISTICS AND AVERAGE MONTHLY BENEFITS

Fiscal Year Ended June 30	At Retirement			
	Average Age	Average Length of Service *	Average Current Age	Average Current Monthly Benefit
1983	65.6			
1984	65.2	18.2	72.0	\$ 2,478
1985	65.3	17.9	71.9	2,562
1986	65.0	18.1	72.1	2,788
1987	64.9	17.9	71.8	2,987
1988	64.9	18.2	71.9	3,228
1989	65.0	18.0	72.0	3,416
1990	64.7	17.8	72.1	3,617
1991	64.7	17.5	72.4	3,751
1992	64.7	17.5	72.4	3,909
*In years		16.6	72.7	4,076

Annuitants by Benefit Range (Monthly) June 30, 1992

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
\$ 1-500	11	11	3.0	3.0
501-1000	13	24	3.5	6.5
1001-1500	11	35	3.0	9.5
1501-2000	19	54	5.1	14.6
2001-2500	24	78	6.4	21.0
2501-3000	24	102	6.4	27.4
3001-3500	31	133	8.4	35.8
3501-4000	23	156	6.2	42.0
4001-4500	36	192	9.7	51.7
4501-5000	49	241	13.2	64.9
5001-5500	39	280	10.5	75.4
5501-6000	52	332	14.0	89.4
6001-6500	27	359	7.3	96.7
6501-7000	11	370	3.0	99.7
7001-7500	1	371	0.3	100.0

Survivors by Benefit Range (Monthly) June 30, 1992

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
\$ 1-500	61	61	22.7	22.7
501-1000	35	96	13.1	35.8
1001-1500	38	134	14.2	50.0
1501-2000	32	166	11.9	61.9
2001-2500	29	195	10.8	72.7
2501-3000	31	226	11.6	84.3
3001-3500	20	246	7.5	91.8
3501-4000	13	259	4.9	96.7
4001-4500	7	266	2.6	99.3
4501-5000	2	268	0.7	100.0

NUMBER OF PARTICIPANTS

At June 30	Active	Inactive	Total
1983	744		
1984	756	19	763
1985	782	19	775
1986	768	18	800
1987	794	11	779
1988	796	15	809
1989	821	15	811
1990	827	22	843
1991	848	22	849
1992	828	29	877
		41	869

## **PLAN SUMMARY AND LEGISLATIVE SECTION**

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***Plan Summary***

***Legislative Section***

## SUMMARY OF RETIREMENT SYSTEM PLAN

(As of June 30, 1992)

### 1. PURPOSE

The purpose of the System is to establish an efficient method of permitting retirement, without hardship or prejudice, of judges who are aged or otherwise incapacitated, by enabling them to accumulate reserves for themselves and their dependents for old age, disability, death and termination of employment.

### 2. ADMINISTRATION

Responsibility for the operation of the System and the direction of its policies is vested in a Board of Trustees consisting of five members. The administration of the detailed affairs of the System is the responsibility of the Executive Secretary who is appointed by the Board of Trustees. Administrative policies and procedures are designed to ensure an accurate accounting of funds of the System and prompt payment of claims for benefits within the applicable statute.

### 3. EMPLOYEE MEMBERSHIP

All persons elected or appointed as a judge or associate judge of a Court become members of the System unless they file an election not to participate within 30 days of the date they are notified of this option.

### 4. PARTICIPANT CONTRIBUTIONS

Participants are required to contribute a percentage of salary as their share of meeting the various benefits at the rates shown below:

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

A married judge who elects not to participate in the survivors' annuity benefit, or an unmarried judge is not required to make contributions toward the survivors' annuity benefit in which case the total participant contribution rate is 8 1/2% of salary. Contributions for survivors' annuity are not required to qualify an eligible child for a child's annuity.

A participant who is age 60 or over with at least 20 years of service or age 60 or over and entitled to receive the maximum rate of annuity by using service credited in another reciprocal system may elect to discontinue contributions and have benefits "frozen" based upon the applicable salary in effect immediately prior to the effective date of such election. The election, once made, is irrevocable.

### 5. RETIREMENT ANNUITY

#### A. Qualification of Participant

Upon termination of service, a judge is eligible for a retirement at:

- (1) age 60 with at least 10 years of credit
- (2) age 62 with at least 6 years of credit
- (3) age 55 with at least 28 years of service credit
- (4) age 55 with at least 10 years of credit with the annuity reduced 1/2 of 1% for each month under age 60

**B. Amount of Annuity**

The retirement annuity is determined according to the following formula based upon the applicable salary:

3.5% for each of the first 10 years of credit  
5.0% for each year of credit above 10 years

The maximum annuity is 85% of final salary on the last day of employment as a judge after 20 years of service.

**C. Annual Increases in Retirement Annuity**

Post retirement increases of 3% of the current amount of annuity are granted to participants effective in January of the year next following the first anniversary of retirement and in January of each year thereafter.

**D. Suspension of Retirement Annuity**

The retirement annuity to any judge shall be suspended

1. When the annuitant is employed for compensation by the State of Illinois or by any county in Illinois as a judge, or
2. After 75 working days in any calendar year in which the annuitant is employed for compensation by the State of Illinois or by any county in Illinois in any position other than a judge.

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 payment by the Judges' Retirement System to be suspended.

## **6. SURVIVORS' ANNUITY**

**A. Qualification of Survivor**

If death occurs while in service as a judge, the judge must have established 1 1/2 years of credit. If death occurs after termination of service and prior to receipt of retirement annuity, the participant must have established at least 10 years of credit.

An eligible spouse, who has been married to the participant or annuitant for a continuous period of at least one year immediately preceding the date of death, qualifies at age 50 or at any age if there is in the care of the spouse any unmarried children of the member (1) under age 18 or (2) over age 18 if mentally or physically disabled or (3) under age 22 and a full-time student. Eligible surviving children would be entitled to benefits even though the participant did not contribute for the survivors' annuity benefit.

**B. Amount of Payment**

If the participant's death occurs while in service, the surviving spouse would be eligible to 7 1/2%, of salary or 66 2/3% of earned retirement annuity, whichever is greater. Eligible children of the participant would receive 5% of salary for each child with a maximum for all children of 20% of salary or 66 2/3% of earned retirement annuity, whichever is greater.

If the participant's death occurs after termination of service or retirement, the surviving spouse is eligible to 66 2/3% of earned retirement annuity. Eligible children would receive a survivors' annuity equal to the benefit of surviving children of a participant in service.

**C. Annual Increases in Survivors' Annuity**

Increases of 3% of the current amount of annuity are granted to survivors in each January occurring on or after the commencement of the annuity if the deceased participant died while receiving a retirement annuity. In the event of an active participant's death, increases of 3% of the current amount of annuity are granted to survivors effective in January of the year next following the first anniversary of the commencement of the annuity and in January of each year thereafter.

## PLAN SUMMARY

### D. Duration of Payment

When all children, except for disabled children, are ineligible because of death, marriage or attainment of age 18 or age 22 in the case of a full-time student, 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 age 50 would be disqualified for any future benefit payments.

## 7. DEATH BENEFITS

The following lump sum death benefits are considered only if there are no eligible survivors' annuity beneficiaries surviving the deceased participant.

### A. Before Retirement

If the participant's death occurs before retirement, a refund of total contributions in the participant's account.

### B. After Retirement

If the participant's death occurs after retirement, a refund of the excess of contributions over annuity payments, if any.

### C. Death of Survivor Annuitant

Upon death of the survivor annuitant with no further survivors' annuity payable, a refund of excess contributions over total retirement and survivors' annuity payments, if any.

## 8. DISABILITY BENEFIT

### A. Total and Permanent Disability

A participant who becomes totally and permanently disabled while serving as a judge with at least 10 years of credit is eligible for an unreduced retirement annuity regardless of age. If disability is service-connected, the annuity is subject to reduction by amounts received by a participant under the Workmen's Compensation Act and the Workmen's Occupational Diseases Act.

### B. Temporary Total Disability

A participant 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.

## 9. REFUND OF CONTRIBUTIONS

A participant who terminates service as judge may obtain a refund of total contributions made to the System, without interest, provided the participant is not immediately eligible to receive a retirement annuity. By accepting a refund, a participant forfeits all accrued rights and benefits in the System for his or herself and beneficiaries.

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

**LEGISLATIVE AMENDMENTS**

Amendments with an effective date during fiscal year 1992 having an impact on the System were:

**HOUSE BILL 971 (P.A. 87-0794)**

1. Allows a judge who has previously filed a notice of election not to participate in the System to become a participant upon filing with the Board before July 1, 1992 a written recision of such notice.
2. Provides that a participant may apply for creditable service for up to two years of military service that need not have followed service as a judge and need not have been served during wartime. However, to receive credit for this military service, the applicant must make contributions to the System in the amount of (1) employee contributions based upon the judge's rate of compensation on the last day as a participating judge prior to such military service, or on the first date as a participating judge after such military service, whichever is greater, plus (2) an amount equal to the employer's normal cost of the benefit accrued for such military service, plus (3) interest on items (1) and (2) from the date of conclusion of the military service to the date of payment.
3. Provides that the retirement annuity for a participant who retires prior to age 60 with less than 28 years of service in the System shall be reduced 1/2 of 1% for each month the participant's age is under 60 years at the time the annuity commences.
4. Provides that, beginning January 1, 1992, a child's annuity is payable to an unmarried child of a deceased annuitant or participant so long as the child is under age 22 and a full-time student.
5. Allows a judge who has previously elected to discontinue contributions to the System to file a written recision of such election with the Board prior to July 1, 1992. Upon filing such recision, contributions shall resume to the System and the judge shall be required to pay into the System an amount equal to the total of the discontinued contributions plus interest thereon at 5% per annum.
6. Permits service credits earned in any other "participating system" as defined in the Reciprocal Act (Article 20 of the Illinois Pension Code) to be considered for purposes of determining a judge's eligibility to discontinue contributions to the System.

**SENATE BILL 1949 (P.A. 87-0925)**

Changed the state's Unclaimed Property Act to provide for a holding period of five instead of seven years. This will result in the availability of an additional \$50 million which will be divided among the five state financed retirement systems during FY93. As a result of this legislation, the System should receive an additional \$923,000.

**HOUSE BILL 3230 (P.A. 87-0923)**

Provides for a continuing appropriation of funds due the five state financed retirement systems from unclaimed property receipts. This legislation has the effect of making the annual appropriation of these funds automatic, not requiring specific action of the General Assembly. While the normal level of financing from unclaimed property is small, enactment of this legislation establishes a very positive precedent.

**NEW LEGISLATION**

There was no new legislation with effective dates subsequent to June 30, 1992, affecting the operation of the System.