

# Judges' Retirement System of Illinois

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## *Mission Statement:*

*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.*

## Fiscal Year 1998 Highlights

|               |   |
|---------------|---|
| 950           | Total Membership  |
| 898           | Active Contributing Members                               |
| \$356,692,936 | Net Assets Held in Trust for Pension Benefits, fair value |
|               | Contributions:  |
| \$10,832,669  | Employee  |
| \$15,692,152  | Employer  |
| \$55,141,638  | Investment Income   |
| 18.1%         | Investment Return   |
|               | Benefit Recipients:                                       |
| 460           | Retirement Annuities                                      |
| 297           | Survivors' Annuities                                      |
| \$38,632,724  | Benefits Paid   |
| \$747,275,530 | Accrued Actuarial Liability                               |
| \$390,582,594 | Unfunded Actuarial Liability                              |
| 47.7%         | Funded Ratio  |

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**JUDGES' RETIREMENT SYSTEM OF ILLINOIS**

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**A PENSION TRUST FUND  
OF THE STATE OF ILLINOIS**

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**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

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**FOR THE FISCAL YEAR ENDED  
JUNE 30, 1998**

JUDGES'  
RETIREMENT SYSTEM  
OF ILLINOIS

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

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  
RETIREMENT  
SYSTEMS

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

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

December 1, 1998

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

Dear Board of Trustees and Members:

The comprehensive annual financial report of the Judges' Retirement System of Illinois (System) as of and for the fiscal year ended June 30, 1998 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, the identification of the administrative organization and the Certificate of Achievement for Excellence in Financial Reporting;
2. The Financial Section which contains the report of the Independent Auditors, the financial statements of the System and certain required and other supplementary financial information;
3. The Investment Section which contains a report on investment activity, investment policies, investment results and various investment schedules;
4. The Actuarial Section which contains the Actuary's Certification Letter and the results of the annual actuarial valuation;
5. The Statistical Section which contains significant statistical data; and
6. A summary of the System's plan provisions and current legislative changes.

Generally accepted accounting principles require that the financial reporting entity include (1) the primary government (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based on the criteria of the Governmental Accounting Standards Board Statement No. 14, there are no other state agencies, boards or commissions, or other organizations

required to be combined with the System, however, the System is considered to be part of the State of Illinois financial reporting entity, and is to be combined and included in the State of Illinois' comprehensive annual financial report.

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 plan net asset information nor the changes in plan net assets of the State Employees' Retirement System or General Assembly Retirement System.

#### PLAN HISTORY AND SERVICES PROVIDED

The Judges' Retirement System of Illinois (System) was established as a public employee retirement system (PERS) by state statute on July 1, 1941. As of June 30, 1942, the end of the System's first fiscal year of operations, there were a total of 260 participants and the plan net assets valued at cost amounted to approximately \$84 thousand. The fair value of plan net assets at the end of fiscal year 1998 amounted to \$356.7 million and there were 898 active participants.

The mission of the System as prescribed by state statute 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."

Responsibility for 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 state statute.

#### ADDITIONS TO PLAN NET ASSETS

Collections of employer and participant retirement contributions, as well as income from investments, provide the reserves necessary to finance retirement benefits. These revenue sources totaled \$81.666 million during the fiscal year ending June 30, 1998, which is an increase from the amount of revenue reported for fiscal year 1997, shown as follows:

|                | 1998<br>(Millions) | 1997<br>(Millions) | Increase/(Decrease) |              |
|----------------|--------------------|--------------------|---------------------|--------------|
|                |                    |                    | (Millions)          | (Percentage) |
| Contributions: |                    |                    |                     |              |
| Participants   | \$ 10.833          | \$ 10.497          | \$ .336             | 3.2%         |
| Employer       | 15.692             | 13.783             | 1.909               | 13.9%        |
| Investments    | 55.141             | 49.819             | 5.322               | 10.7%        |
| Total Revenue  | <u>\$ 81.666</u>   | <u>\$ 74.099</u>   | <u>\$ 7.567</u>     | <u>10.2%</u> |

As indicated in the above schedule, approximately 70% of the total revenue increase was attributable to an increase in net investments income which was largely the result of significant net appreciation in the fair value of investments.

#### DEDUCTIONS FROM PLAN NET ASSETS

The primary expense of a retirement system relates to the purpose for which it is created; namely the payment of benefits. These payments, together with the expense to administer the plan, constitute the

## 8 Letter of Transmittal

total expenses of the System. Expenses of the System for fiscal year 1998 and 1997 are shown below for comparison purposes.

|                         | 1998<br>(Millions) | 1997<br>(Millions) | Increase/(Decrease) |              |
|-------------------------|--------------------|--------------------|---------------------|--------------|
|                         |                    |                    | (Millions)          | (Percentage) |
| <b>Benefits:</b>        |                    |                    |                     |              |
| Retirement annuities    | \$ 30.131          | \$ 28.369          | \$ 1.762            | 6.2%         |
| Survivors' annuities    | 8.502              | 7.703              | .799                | 10.4%        |
| Total Benefits Expenses | \$ 38.633          | \$ 36.072          | \$ 2.561            | 7.1%         |
| Refunds                 | .568               | .249               | .319                | 128.1%       |
| Administrative expenses | .334               | .316               | .018                | 5.7%         |
| Total Expenses          | \$ 39.535          | \$ 36.637          | \$ 2.898            | 7.9%         |

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. The increase in refunds resulted primarily from an increase in the number of death refunds paid during the current fiscal year.

### INVESTMENTS

The System's investments are managed by the Illinois State Board of Investment (ISBI) pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statutes, using the "prudent person rule". This rule states that fiduciaries shall discharge their duties solely in the interest of the fund participants and beneficiaries and with the degree of diligence, care and skill which prudent men and women would ordinarily exercise under similar circumstances in a like position. The ISBI maintains a wide diversification of investments within this fund which serves to reduce overall risk and increase returns.

Income from investments has over the years, increasingly become a greater share of the total revenue to the System. Net investments income, combined with the net appreciation in the fair value of investments, amounted to \$55.1 million during fiscal year 1998, an increase of \$5.3 million from fiscal year 1997. For fiscal year 1998, total net investments revenue represents 67.5% of the System's total fund revenue.

For fiscal year 1998, the total investment return on the market value of assets managed by the ISBI was 18.1%. The ISBI's total investment return over the last three and five years was 17.8% and 14.2%, respectively.

A detailed discussion of investment performance and strategies is provided in the Investment Section of this report. Information regarding investment professionals providing services to the ISBI can be found in the separately issued ISBI annual financial report. To receive a copy of the ISBI annual financial report, please refer to the ISBI's address which is provided in the Investment Section of this report.

### FUNDING

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 greater the level of funding, the larger the ratio of accumulated assets to the actuarial accrued liability and the greater the level of investment potential.

Senate Bill 533, which was signed into law by Governor Edgar on August 22, 1994 as Public Act 88-0593, enacted a new funding plan for the System. The financing objective of this funding plan requires that

state contributions be paid to the System so that by the end of fiscal year 2045, the ratio of accumulated assets to the actuarial accrued liability will be 90%. For fiscal years 2011 through 2045, the required state contributions are to be computed as a level percentage of participant payroll. For those fiscal years up through 2010, the required state contributions are to be increased incrementally as a percentage of the participant payroll so that by fiscal year 2011 the state is contributing at the required level contribution rate to achieve the financing objective by the end of fiscal year 2045. In addition, the funding legislation also provided for the establishment of a continuing appropriation of the required state contributions to the System. This will, in effect, remove the appropriation of these funds from the annual budgetary process.

The actuarial determined liability of the System using the projected unit credit actuarial cost method at June 30, 1998, amounted to \$747.3 million. The actuarial value of assets (at fair value) amounted to \$356.7 million as of the same date.

A detailed discussion of funding is provided in the Actuarial Section of this report.

### MAJOR INITIATIVES

During fiscal year 1998, the System began parallel processing a newly developed automated benefit calculation system which, in addition to providing automated benefit calculations, also provides for (a) updates to the automated benefit master file, (b) first benefit payment letters which explain to the annuitant or survivor the benefit payment and its tax consequences, and (c) various management reports. It is currently anticipated that this system will be placed into production by the beginning of fiscal year 2000. In addition, the System also mailed an annual benefit statement and two "PANEL" newsletters to each participant, annuitant and survivor.

Projects for fiscal year 1999, include working closely with the State Retirement System's data processing personnel to assure that all of the System's processing programs are "Year 2000" compliant. While the vast majority of the System's processing programs are already "Year 2000" compliant, the participant data base processing programs and data must still be modified to allow for the uninterrupted processing and posting of participant earnings, retirement contributions and retirement service credit to individual participant data base accounts. It is currently anticipated that all such programs will be modified, tested and implemented prior to June 30, 1999. The System will also continue to evaluate the feasibility of enhancing the annual active benefit statement to include a reciprocal system benefit estimate for those participants who have service in another reciprocal system. Additionally, the System will continue to offer pre-retirement, post-retirement and one-on-one counseling seminars at various locations throughout the state

### 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 (GASB) and the American Institute of Certified Public Accountants. The accrual basis of accounting is used to record the financial transactions and activities of the System. Revenues are recognized in the accounting period in which they are earned, without regard to the date of collection, and expenses are recognized when the corresponding liabilities are incurred, regardless of when payment is made. The System also uses the State of Illinois, Statewide Accounting Management System (SAMS) 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. Tax consulting services are provided by the accounting firm of KPMG Peat Marwick, LLP, Chicago, Illinois. The annual financial audit of the System was conducted by the accounting firm of McGladrey & Pullen, LLP under the direction of the Auditor General of the State of Illinois. In addition to the annual financial audit, a one 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 comprehensive annual financial report for the fiscal year ended June 30, 1997. 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 comprehensive annual financial report, whose contents conform to program standards. Such financial report must satisfy both generally accepted accounting principles and applicable legal requirements.

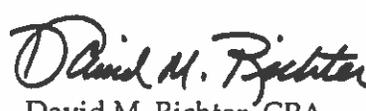
A Certificate of Achievement is valid for a period of one year only. The Judges' Retirement System of Illinois has received a Certificate of Achievement for the last nine consecutive years (fiscal years ended June 30, 1989 through June 30, 1997). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

## ACKNOWLEDGMENTS

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  
MICHAEL A. BILANDIC**  
Chairman



**JUDGE  
MORTON ZWICK**  
(Proxy for Chief Justice Charles E. Freeman)



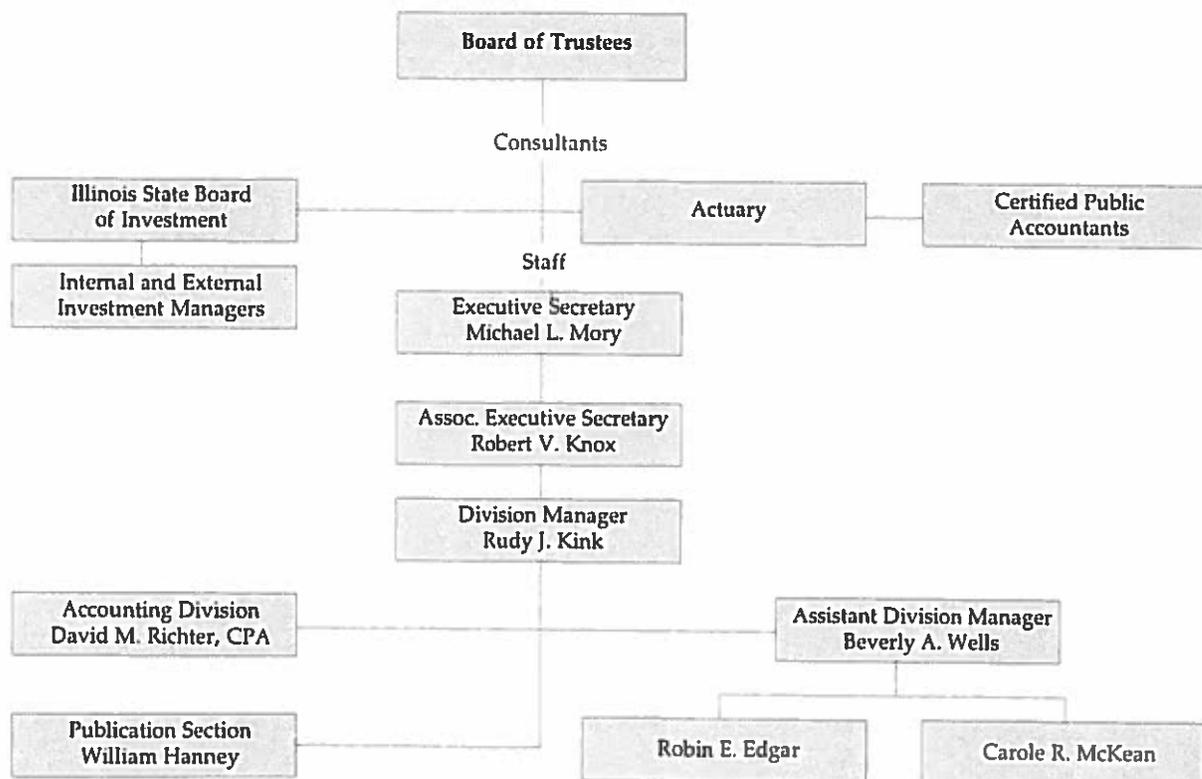
**JUSTICE  
THOMAS E. HOFFMAN**



**JUSTICE  
JOHN L. NICKELS**



**HON. JUDY BAAR TOPINKA**  
State Treasurer



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Judges' Retirement System of Illinois

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 1997

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 comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Douglas R. Ellaworth*  
President

*Jeffrey L. Esall*  
Executive Director

## FINANCIAL SECTION

- Independent Auditor's Report
- Financial Statements:
  - Statements of Plan Net Assets
  - Statements of Changes in Plan Net Assets
  - Notes to Financial Statements
- Required Supplementary Information:
  - Schedule of Funding Progress
  - Schedule of Employer Contributions
  - Notes to Required Supplementary Information
- Supplementary Financial Information:
  - Summary of Revenues by Source
  - Summary Schedule of Cash Receipts and Disbursements



**McGLADREY & PULLEN, LLP**

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

As Special Assistant Auditors for the Auditor General, State of Illinois, we have audited the accompanying statements of plan net assets as of June 30, 1998 and 1997 of the Judges' Retirement System of Illinois and the statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *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 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, 1998 and 1997, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 1998 on our consideration of the Judges' Retirement System of Illinois' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audits were made for the purpose of forming an opinion on the basic financial statements as of and for the years ended June 30, 1998 and 1997, taken as a whole. The schedules of funding progress and employer contributions are not a required part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. The summary of revenues by source and summary schedule of cash receipts and disbursements are not a required part of the financial statements but are supplementary financial information presented for additional analysis. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole. The schedules in the investments, actuarial and statistical sections have not been audited and therefore we do not express an opinion on them.

Springfield, Illinois  
October 30, 1998

*McGladrey & Pullen, LLP*

## JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Plan Net Assets  
June 30, 1998 and 1997

| Assets  | 1998                        | 1997                        |
|---|-----------------------------|-----------------------------|
| Cash  | \$ 6,867,811                | \$ 6,616,999                |
| Receivables:  |                             |                             |
| Participants' contributions   | \$ 216,658                  | \$ 73,065                   |
| Refundable annuities  | 30,077                      | 9,311                       |
| Interest on cash balances   | 30,573                      | 29,060                      |
| Due from General Assembly Retirement System   | 50,124                      | 52,258                      |
|   | <u>\$ 327,432</u>           | <u>\$ 163,694</u>           |
| Investments - held in the Illinois State Board of<br>Investment Commingled Fund at fair value                 | \$349,612,772               | \$307,923,426               |
| Equipment, net of accumulated depreciation  | <u>10,281</u>               | <u>14,018</u>               |
| <b>Total Assets</b>   | <b><u>\$356,818,296</u></b> | <b><u>\$314,718,137</u></b> |
| <b>Liabilities</b>  |                             |                             |
| Benefits payable  | \$ -                        | \$ 2,523                    |
| Refunds payable   | 62,056                      | 62,056                      |
| Administrative expenses payable   | 63,304                      | 79,129                      |
| Participants' deferred service credit accounts  | <u>-</u>                    | <u>13,200</u>               |
| <b>Total Liabilities</b>  | <b><u>\$ 125,360</u></b>    | <b><u>\$ 156,908</u></b>    |
| Net assets held in trust for pension benefits<br>(A schedule of funding progress is<br>presented on page 24.) | <u>\$356,692,936</u>        | <u>\$314,561,229</u>        |
| See accompanying notes to financial statements.   |                             |                             |

## JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Changes in Plan Net Assets  
Years ended June 30, 1998 and 1997

|   | 1998                 | 1997                 |
|---|----------------------|----------------------|
| <b>Additions:</b>                                     |                      |                      |
| <b>Contributions:</b>                                 |                      |                      |
| Participants  | \$ 10,832,669        | \$ 10,497,121        |
| Employer  | 15,692,152           | 13,783,328           |
| Total Contributions                                   | <u>\$ 26,524,821</u> | <u>\$ 24,280,449</u> |
| <b>Investments:</b>                                   |                      |                      |
| Net investments income                                | \$ 11,724,433        | \$ 11,466,594        |
| Net appreciation in fair value of investments         | 43,417,205           | 38,352,244           |
| Total Net Investments Income                          | <u>\$ 55,141,638</u> | <u>\$ 49,818,838</u> |
| <b>Total Additions</b>                                | <u>\$ 81,666,459</u> | <u>\$ 74,099,287</u> |
| <b>Deductions:</b>                                    |                      |                      |
| <b>Benefits:</b>                                      |                      |                      |
| Retirement annuities                                  | \$ 30,130,617        | \$ 28,369,249        |
| Survivors' annuities                                  | 8,502,107            | 7,702,314            |
| Total Benefits  | <u>\$ 38,632,724</u> | <u>\$ 36,071,563</u> |
| Refunds of contributions                              | 568,419              | 249,081              |
| Administrative expenses                               | 333,609              | 316,413              |
| Total Deductions                                      | <u>\$ 39,534,752</u> | <u>\$ 36,637,057</u> |
| <b>Net Increase</b>                                   | <u>\$ 42,131,707</u> | <u>\$ 37,462,230</u> |
| <b>Net assets held in trust for pension benefits:</b> |                      |                      |
| Beginning of year                                     | \$314,561,229        | \$277,098,999        |
| End of year   | <u>\$356,692,936</u> | <u>\$314,561,229</u> |

See accompanying notes to financial statements.

## JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Notes to Financial Statements  
June 30, 1998 and 1997

**(1) Reporting Entity**

Generally accepted accounting principles require that the financial reporting entity include (1) the primary government (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The Judges' Retirement System of Illinois (System) is administered by a Board of Trustees consisting of five persons, which includes the State Treasurer, the Chief of the Supreme Court, ex officio, and three participating judges appointed by the Supreme Court.

Based on the criteria of the Governmental Accounting Standards Board Statement No. 14, there are no other state agencies, boards or commissions, or other organizations required to be combined with the System, however, the System is considered to be part of the State of Illinois financial reporting entity, and is to be combined and included in the State of Illinois' comprehensive annual financial report.

Pursuant to federal tax law and regulations governing the administration of public employee pension plans, the System has established a separate fund for the sole purpose of paying benefits in accordance with Section 415 of the Internal Revenue Code. The receipts and disbursements from the fund for fiscal year 1998 and 1997 were each less than \$30,000. Due to the immaterial nature of the separate fund, these receipts and disbursements have been included in the System's financial statements.

**(2) Plan Description**

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

At June 30, 1998 and 1997, the System membership consisted of:

|   | <u>1998</u> | <u>1997</u> |
|---|-------------|-------------|
| Retirees and beneficiaries<br>currently receiving benefits:                     |             |             |
| Retirement annuities  | 460         | 460         |
| Survivors' annuities  | 297         | 286         |
|   | <u>757</u>  | <u>746</u>  |
| <br>Inactive participants entitled<br>to benefits but not yet<br>receiving them | <br>52      | <br>59      |
| Total   | <u>809</u>  | <u>805</u>  |
| <br>Current Participants:   |             |             |
| Vested  | 593         | 599         |
| Nonvested   | 305         | 282         |
| Total   | <u>898</u>  | <u>881</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**

In accordance with Chapter 40, Section 5/18-133 of the Illinois Compiled Statutes, 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 Chapter 40, Article 5/18 of the Illinois Compiled Statutes.

**(c) Benefits**

After 10 years of credited service, participants have vested rights to full retirement benefits beginning at age 60, or reduced retirement benefits beginning at age 55. Participants also have vested rights to 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 final salary. 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 not 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 maintained and these financial statements have been prepared using the accrual basis of accounting in conformity with generally accepted accounting principles. Participant and employer contributions are recognized as revenues in the period in which employee services are performed. Benefits and refunds are recognized as expenses when due and payable in accordance with the terms of the plan. The System has elected to apply only applicable FASB

Statements and Interpretations issued on or before November 30, 1989, that do not contradict GASB Pronouncements.

**(b) Cash and 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.

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. The ISBI's master custodian is The Northern Trust Company. The agent of the master custodian is the Depository Trust Company.

Investments are managed by the ISBI pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statutes (ILCS) and are maintained in the ISBI Commingled Fund. The ISBI reports securities at fair value. Where appropriate, the fair value includes estimated disposition costs. Fair value for stocks is determined by using the closing price listed on the national securities exchanges as of June 30. Market value for fixed income securities are determined principally by using quoted market prices provided by independent pricing services. For commingled equity funds the net asset value is determined and certified by the commingled equity fund manager as of June 30. Fair value for directly owned real estate investments is determined by appraisals. 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.

The investment authority of the ISBI is provided in Chapter 40, Section 5/22A-112 of the ILCS. 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. The ISBI does not have any one investment which represents 5 percent or more of the ISBI's net assets.

The ISBI participates in a securities lending program at its custodian bank, whereby securities are loaned to brokers and, in return, the ISBI has rights to a portion of a collateral pool. All of the ISBI's securities are eligible for the securities lending program. Collateral consists solely of cash, letters of credit, commercial paper and government securities having a market value equal to or greater than the securities loaned. There are no provisions for ISBI indemnification on the securities lending transactions. As of June 30, 1998 and 1997, the ISBI had outstanding loaned investment securities having market values of \$1,104,715,301 and \$1,159,430,394 respectively; against which it had received collateral with values of \$1,140,181,704 and \$1,191,334,581, respectively.

The ISBI's global and international managers invest in derivative securities. During the year, the ISBI's derivative investments included forward foreign currency contracts, futures, and options. Forward foreign currency contracts are used to hedge against the currency risk in the ISBI's foreign stock and fixed income portfolios. The remaining derivative securities are used to improve yields, or to hedge changes in interest rates.

The ISBI also invests in mortgage-backed securities to maximize yields and to hedge against a rise in interest rates. These securities are based on cash flows from principal and interest payments on

underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates.

The System owns approximately 5.0% of the net investment assets of the ISBI Commingled Fund as of June 30, 1998.

For additional information regarding the ISBI's investments, please refer to the Annual Report of the ISBI as of June 30, 1998. A copy of the report can be obtained from the ISBI at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

ISBI investments, as categorized by ISBI, are categorized to indicate the level of risk assumed by the ISBI at year end. Category I includes investments that are insured or registered or the securities are held by the master custodian in the ISBI's name. Category II includes investments that are uninsured and unregistered with the securities held by the counter-party's agent in the ISBI's name. Category III includes investments that are uninsured and unregistered with the securities held by the counter-party but not in the ISBI's name. Investments in pooled funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

At June 30, 1998, the ISBI's investments were categorized as follows:

|   | <u>Market<br/>Value</u> | <u>Category<br/>I</u>   | <u>Non<br/>Categorized</u> |
|---|-------------------------|-------------------------|----------------------------|
| U.S. Government & Agency<br>Obligations | \$ 1,299,851,793        | \$ 1,299,851,793        | \$                         |
| Foreign Obligations                     | 52,336,197              | 52,336,197              |                            |
| Corporate Obligations                   | 595,698,778             | 595,698,778             |                            |
| Convertible Bonds                       | 13,984,049              | 13,984,049              |                            |
| Common Stock & Equity Funds             | 3,022,271,513           | 1,819,007,244           | 1,203,264,269              |
| Convertible Preferred Stock             | 33,701,030              | 33,701,030              |                            |
| Preferred Stock                         | 9,796,742               | 9,796,742               |                            |
| Foreign Equity Securities               | 1,083,783,967           | 958,185,781             | 125,598,186                |
| Real Estate Funds                       | 250,823,177             | 70,888,479              | 179,934,698                |
| Alternative Investments                 | 361,780,824             |                         | 361,780,824                |
| Money Market Instruments                | 678,360,145             |                         | 678,360,145                |
| Forward Foreign Exchange Contracts      | (306,533)               | (306,533)               |                            |
| Options                                 | 8,760                   | 8,760                   |                            |
| Total Investments                       | <u>\$ 7,402,090,442</u> | <u>\$ 4,853,152,320</u> | <u>\$ 2,548,938,122</u>    |

**(c) Actuarial Experience Review**

In accordance with Illinois Compiled 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, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the System. An experience review was last performed as of June 30, 1997.

**(d) Administrative Expenses**

Expenses related to the administration of the System are financed through investment earnings and employer retirement contributions. These expenses are budgeted and approved by the System's Board of Trustees. Administrative expenses common to the General Assembly Retirement System and the Judges' Retirement System are borne 40% by the General Assembly Retirement System and 60% by the Judges' 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 as of June 30, 1998 and 1997, were \$181,821 and \$181,689, respectively.

**(e) Risk Management**

The System, as part of the primary government of the State, provides for risks of loss associated with workers' compensation and general liability through the State's self-insurance program. The System obtains commercial insurance for fidelity, surety, and property. There have been no commercial insurance claims in the past three fiscal years.

**(4) Funding - Statutory Contributions Required and Contributions Made**

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.

For fiscal years 1998 and 1997, the required employer contributions were computed in accordance with Public Act 88-0593. This funding legislation, which became effective July 1, 1995, provides for a systematic 50 year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%. In addition, the funding plan provides for a 15 year phase-in period to allow the state to adapt to the increased financial commitment. Once the 15 year phase-in period is complete, the state's contribution will then remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved.

The total amount of statutorily required employer contributions for fiscal years 1998 and 1997 were \$15,664,000 and \$13,747,000 respectively. The total amount of employer contributions received from the state during fiscal years 1998 and 1997 were \$15,664,000 and \$13,747,000, respectively.

**(5) Administrative Expenses**

A summary of the administrative expenses for the Judges' Retirement System for fiscal years 1998 and 1997 is as follows:

|  | 1998              | 1997              |
|--|-------------------|-------------------|
| Personal services                                  | \$ 187,564        | \$ 180,713        |
| Employee retirement contributions paid by employer | 7,518             | 7,204             |
| Employer retirement contributions                  | 12,216            | 8,987             |
| Social Security contributions                      | 12,930            | 12,447            |
| Group insurance                                    | 16,310            | 14,073            |
| Contractual services                               | 70,968            | 56,756            |
| Travel   | 8,826             | 7,980             |
| Printing   | 3,689             | 4,259             |
| Commodities  | 631               | 487               |
| Telecommunications                                 | 2,251             | 2,405             |
| Electronic data processing                         | 7,559             | 9,448             |
| Depreciation                                       | 4,097             | 3,534             |
| Other  | (950)             | 8,120             |
| <b>Total</b>                                       | <b>\$ 333,609</b> | <b>\$ 316,413</b> |

**(6) 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 1998 and 1997 is as follows:

|                          | Beginning<br>Balance | 1998       |            | Ending<br>Balance |
|--------------------------|----------------------|------------|------------|-------------------|
|                          |                      | Additions  | Deletions  |                   |
| Equipment                | \$ 52,888            | \$ 360     | \$ (1,689) | \$ 51,559         |
| Accumulated Depreciation | (38,870)             | (4,097)    | 1,689      | (41,278)          |
| Equipment, net           | \$ 14,018            | \$ (3,737) | \$ -       | \$ 10,281         |
|                          |                      | 1997       |            |                   |
|                          | Beginning<br>Balance | Additions  | Deletions  | Ending<br>Balance |
| Equipment                | \$ 43,573            | \$ 9,315   | \$ -       | \$ 52,888         |
| Accumulated Depreciation | (35,336)             | (3,534)    | -          | (38,870)          |
| Equipment, net           | \$ 8,237             | \$ 5,781   | \$ -       | \$ 14,018         |

**(7) 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 December 31, 1983 and prior to January 1, 1998 upon termination of employment. These accrued compensated absences as of June 30, 1998 and 1997 total \$36,972 and \$37,841, respectively and are included as administrative expenses payable.

**(8) Pension Plan**

**Plan Description.** All of the System's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System ("SERS"), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system ("PERS") in which state employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal years 1998 and 1997 are included in the State of Illinois' Comprehensive Annual Financial Report ("CAFR") for the years ended June 30, 1998 and 1997, respectively. The SERS also issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255 or by calling (217)785-7202. The State of Illinois CAFR may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams St., Springfield, Illinois, 62704-1858 or by calling (217)782-2053.

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, are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute, and the authority under which those obligations are established.

**Funding Policy.** The System pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. For fiscal years 1998 and 1997 the employer contribution rates were 6.500% and 4.963%, respectively. Effective for pay periods beginning after December 31, 1991, the State opted to pay the employee portion of retirement for most state agencies with employees covered by the State Employees' and Teachers' Retirement Systems. Generally, this "pickup" of employee retirement was part of the fiscal year 1992 budget process and was, in part, a substitute for salary increases. The pickup is subject to sufficient annual appropriations and those employees covered may vary across employee groups and state agencies. Currently, state officers, judges, general assembly members, and state

university employees are not eligible for the employee pickup.

**Other Post Employment Benefits.** 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 post-employment 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, 1998 and June 30, 1997. However, post-employment costs for the state as a whole for all state agencies/departments for dependent health, dental and life insurance for annuitants and their dependents are disclosed in the State of Illinois Comprehensive Annual Financial Report. Cost information for retirees 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.

(9) **Analysis of Changes in Reserve Balances**

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 pay-outs by the Judges' Retirement System.

| JUDGES' RETIREMENT SYSTEM OF ILLINOIS<br>Statements of Changes in Reserve Balances<br>Years ended June 30, 1998 and 1997 |                                |                      |                              |
|--|--------------------------------|----------------------|------------------------------|
|  | Participants'<br>Contributions | Future<br>Operations | Total<br>Reserve<br>Balances |
| Balance at June 30, 1996   | \$ 82,428,000                  | \$ 194,670,999       | \$ 277,098,999               |
| Add (deduct):  |                                |                      |                              |
| Excess (deficiency) of<br>revenues over expenses   | 10,282,474                     | 27,179,756           | 37,462,230                   |
| Reserve transfers:   |                                |                      |                              |
| Accumulated contributions of participants<br>who retired or died with eligible<br>survivor during the year               | (5,316,102)                    | 5,316,102            | -                            |
| Balance at June 30, 1997   | \$ 87,394,372                  | \$ 227,166,857       | \$ 314,561,229               |
| Add (deduct):  |                                |                      |                              |
| Excess (deficiency) of<br>revenues over expenses   | 10,405,403                     | 31,726,304           | 42,131,707                   |
| Reserve transfers:   |                                |                      |                              |
| Accumulated contributions of participants<br>who retired or died with eligible<br>survivor during the year               | (3,577,449)                    | 3,577,449            | -                            |
| Balance at June 30, 1998   | \$ 94,222,326                  | \$ 262,470,610       | \$ 356,692,936               |

Schedule of Funding Progress <sup>(1)</sup>

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Projected Unit Credit (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------|-------------------------------|---|---------------------------|--------------------|---------------------|---|
| 6/30/97                  | \$814,561,229                 | \$704,460,056   | \$389,898,827             | 44.7%              | \$87,171,000        | 447.3%  |
| 6/30/98                  | 356,692,986                   | 747,275,530   | 390,582,594               | 47.7               | 94,626,000          | 412.8%  |

Schedule of Employer Contributions <sup>(1)</sup>

| Year Ended June 30 | Annual Required Contribution per GASB Statement #25 <sup>(2)</sup> | Percentage Contributed | Annual Required Contribution per State Statute | Percentage Contributed |
|--------------------|--|------------------------|--|------------------------|
| 1997               | \$26,021,939   | 52.8%                  | \$13,747,000                                   | 100%                   |
| 1998               | 28,867,624   | 54.3%                  | 15,664,000                                     | 100%                   |

(1) The required Schedules of Funding Progress and Employer Contributions are to include information for the current year and as many of the prior years as information according to the parameters stipulated in GASB Statement No. 25 is available. The schedules should not include information that does not meet the parameters. The System has only two years of information which does meet the requirements of the parameters, therefore, that is all the information which is presented.

(2) Governmental Accounting Standards Board Statement No. 25 entitled "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans," issued November 1994.

Notes to Required Supplementary Information

- Valuation date ..... June 30, 1998
- Actuarial cost method ..... Projected Unit Credit
- Amortization method:
  - a) For GASB Statement No. 25 reporting purposes .... Level percent of payroll
  - b) Per state statute ..... 15-year phase-in to a level percent of payroll until a 90% funding level is achieved
- Remaining amortization period:
  - a) For GASB Statement No. 25 reporting purposes ... 40 years, open
  - b) Per state statute ..... 47 years, closed
- Asset valuation method ..... Fair Value
- Actuarial assumptions:
  - Investment rate of return ..... 8.0 percent per year, compounded annually
  - Projected salary increases ..... 6.0 percent per year, compounded annually
  - Assumed inflation rate ..... 4.0 percent
  - Group size growth rate ..... 0.0 percent
  - Post-retirement increase ..... 3.0 percent - compounded

**SUMMARY OF REVENUES BY SOURCE**  
 Years Ended June 30, 1998 and 1997

|   | 1998                 | 1997                 |
|---|----------------------|----------------------|
| Contributions:                                |                      |                      |
| Participants                                  | \$ 10,832,669        | \$ 10,497,121        |
| Employer:                                     |                      |                      |
| General Revenue Fund                          | \$ 14,601,800        | \$ 12,889,600        |
| State Pension Fund                            | 1,062,200            | 857,400              |
| Received from reciprocating systems           | -                    | 32,517               |
| Paid by participants                          | 28,152               | 3,811                |
| Total employer contributions                  | <u>\$ 15,692,152</u> | <u>\$ 13,783,328</u> |
| Total contributions revenue                   | <u>\$ 26,524,821</u> | <u>\$ 24,280,449</u> |
| Investments:                                  |                      |                      |
| Net investments income                        | \$ 11,724,433        | \$ 11,466,594        |
| Net appreciation in fair value of investments | 43,417,205           | 38,352,244           |
| Total net investments revenue                 | <u>\$ 55,141,638</u> | <u>\$ 49,818,838</u> |
| Total Revenue                                 | <u>\$ 81,666,459</u> | <u>\$ 74,099,287</u> |

**SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS**  
 Years Ended June 30, 1998 and 1997

|   | 1998                 | 1997                 |
|---|----------------------|----------------------|
| Cash balance, beginning of year                   | \$ 6,616,999         | \$ 4,267,254         |
| Receipts:   |                      |                      |
| Participant contributions                         | \$ 10,606,843        | \$ 10,387,485        |
| Employer contributions:                           |                      |                      |
| General Revenue Fund                              | 14,601,800           | 13,828,600           |
| State Pension Fund                                | 1,062,200            | 857,400              |
| Received from reciprocating systems               | -                    | 86,501               |
| Paid by participants                              | 18,502               | 3,811                |
| Interest income on cash balances                  | 350,779              | 285,083              |
| Reimbursements from General Assembly              |                      |                      |
| Retirement System                                 | 183,955              | 178,290              |
| After tax installment payments                    | 35,074               | 71,656               |
| Cancellation of refunds                           | 37,553               | -                    |
| Cancellation of annuities                         | 17,456               | 25,061               |
| Tax deferred installment payments                 | 43,812               | -                    |
| Transfers from Illinois State Board of Investment | 13,100,000           | 13,500,000           |
| Miscellaneous                                     | 79                   | 25                   |
| Total cash receipts                               | <u>\$ 40,058,053</u> | <u>\$ 39,223,912</u> |
| Disbursements:                                    |                      |                      |
| Benefit payments:                                 |                      |                      |
| Retirement annuities                              | \$ 30,143,565        | \$ 28,388,529        |
| Survivors' annuities                              | 8,511,929            | 7,707,382            |
| Refunds   | 624,150              | 285,415              |
| Administrative expenses                           | 527,597              | 492,841              |
| Total cash disbursements                          | <u>\$ 39,807,241</u> | <u>\$ 36,874,167</u> |
| Cash balance, end of year                         | <u>\$ 6,867,811</u>  | <u>\$ 6,616,999</u>  |



## INVESTMENT SECTION

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- Investment Report
- Investment Portfolio Summary
- Analysis of Investment Performance
- Additional Investment Information

## INVESTMENT REPORT

By state law the System's investment function is managed by the Illinois State Board of Investment (ISBI). The ISBI 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. In addition to the assets of the Judges' Retirement System, the ISBI also manages the investment function for the General Assembly and State Employees' Retirement Systems. All ISBI investments are accounted for in a commingled fund (ISBI Fund). As of June 30, 1998, total net assets under management valued at market, amounted to \$7.380 billion. Of the total market value of assets under management, \$349.6 million or 5% represented assets of the Judges' Retirement System.

A summary of the portfolio's largest holdings, as well as the complete listing of the ISBI portfolio, are included in the ISBI Annual Report. A schedule of fees and commissions paid by brokerage firm and a listing of transactions executed, including transaction value, are also contained in the ISBI Annual Report.

### Management Approach

The ISBI manages its investments in accordance with the "prudent person rule" as adopted by the Illinois General Assembly in 1982. The ISBI has established a long-range investment policy which, in line with the prudent person rule, affirms that the ISBI Fund's objective is to provide the greatest possible long-term benefits through maximization of the total return of the ISBI Fund, within prudent risk parameters. Further, it is the ISBI's philosophy that the assets owned by the participating systems and managed by the ISBI 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 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.

The investment policy of the ISBI establishes asset allocation targets and ranges for each asset class, selected to achieve overall risk and return objectives. The policy is monitored by ISBI and implemented by allocations to investment managers with assignments to invest in specific asset classes, and with specific selection styles and methodologies.

### Investment Results

Even as global economic concerns were mounting, U.S. capital markets posted impressive gains for the period ended June 30, 1998. U.S. stocks and bonds both achieved double digit returns for the period. A good environment for initial public offerings (IPO's) also led to strong returns for many private equity partnerships. The real estate market continued its strong recovery, and posted a double digit return for the fiscal year. The only asset class that was negatively affected by the global events was international equities, in particular emerging markets and Japan. Even for this asset class, with European markets included, the return for the fiscal year was positive.

ISBI total fund earned a rate of return for fiscal 1998, net of expenses of 18.1%. This was well ahead of its long-term objectives of earning 4.5% above the inflation rate and of exceeding the 8.0% assumed actuarial interest rate. The return was slightly below the policy-weighted benchmark return of 18.6%. Over longer time periods, ISBI is ahead of all of its investment objectives. The average annual returns for the three- and five-year periods ended June 30, 1998, were 17.8% and 14.2%, respectively. Over the 16-year period since the adoption of the prudent man legislation, ISBI total portfolio has produced a compounded annual rate of return, net of expenses and charges, of 13.4%, and its net assets have increased by \$6.3 billion.

### U.S. Equities

For the twelve months ended June 30, 1998, U.S. equity markets continued their upward climb. The S&P 500 Index increased 30.2%, and the BARRA All-U.S. Index, a broader representation of the U.S. market, rose 29.5%. Fiscal 1998 is the fourth fiscal year in which U.S. equity markets, driven largely by large capitalization companies,

have posted returns in excess of 25%. Small capitalization stocks, following the pattern set in the three previous fiscal years, grew at a significantly smaller rate, however, as indicated by the Russell 2000 Index return of 16.5%. Within that context, ISBI's U.S. equity portfolio earned a return of 27.6%.

The ISBI's U.S. stock portfolio performance versus the S&P 500 Index is as follows:

|         | <u>1 Year</u> | <u>3 Years</u> | <u>5 Years</u> |
|---------|---------------|----------------|----------------|
| ISBI    | 27.6%         | 26.6%          | 21.1%          |
| S&P 500 | 30.2          | 30.2           | 23.1           |

### Global/International Equities

Foreign stock markets' results were mixed for the fiscal year, overall lagging the U.S. market. European country returns were generally strong, while Japanese and emerging markets posted negative returns. A strengthening dollar further dampened foreign stock returns for U.S. investors. The Morgan Stanley Europe Australia Far East Index ("MSCI EAFE") earned 6.4% in U.S. dollar terms for the fiscal year ended June 30. The Morgan Stanley World Index ("MSCI World"), which includes the U.S. market, increased 17.5% in dollar terms for the same period.

All foreign security accounts are managed by external investment firms. "Global" managers have the discretion to invest in both U.S. as well as foreign securities, while "international" managers are limited to non-U.S. securities; thereby assuring a certain level of diversification. For the fiscal year ISBI's global managers lagged the MSCI World Index, earning 12.1%. ISBI's international portfolio also fell short of its benchmark, increasing 1.7%.

Comparative average annual rates of return for the Global/International equities portfolio versus the market index benchmarks is shown below:

|                        | <u>1 Year</u> | <u>3 Years</u> | <u>5 Years</u> |
|------------------------|---------------|----------------|----------------|
| Global Equities        |               |                |                |
| ISBI                   | 12.1%         | 17.2%          | 14.6%          |
| MSCI World Index       | 17.5          | 19.7           | 16.2           |
| International Equities |               |                |                |
| ISBI                   | 1.7%          | 12.5%          | 12.1%          |
| MSCI EAFE Index        | 6.4           | 11.0           | 10.3           |

### Fixed Income

During fiscal 1998, U.S. fixed income markets showed strength, with interest rates heading lower. The Lehman Aggregate Bond Index earned 10.5% for the 12-month period, while high yield bonds, as represented by the Merrill Lynch High Yield Index, did better with a return of 11.4%.

Substantially all fixed income assets are managed internally, except approximately \$100 million allocated to an external high yield bond manager. The internal account outperformed the Lehman Aggregate Bond index, with a return of 10.9%. Higher returns from the external high yield manager resulted in a total fixed income return of 11.1%.

Comparative average annual rates of return for the total fixed income portfolio versus the market index benchmark is shown below:

|                           | <u>1 Year</u> | <u>3 Years</u> | <u>5 Years</u> |
|---------------------------|---------------|----------------|----------------|
| ISBI                      | 11.1%         | 9.0%           | 8.1%           |
| Shearson Lehman Aggregate | 10.5          | 7.9            | 6.9            |

**Real Estate**

All of ISBI's investments in real estate are passive and are represented by interests in limited partnerships, trusts, and other forms of pooled investments.

Real estate values strengthened during fiscal 1998, and ISBI's real estate investments earned a strong 26.0% rate of return, compared to the NCREIF Real Estate Index return of 16.4%. A significant portion of this return reflected the initial public offering of Equity Office Properties, previously privately held Zell/Merrill Lynch opportunity funds in which ISBI had a significant investment. During fiscal 1998, in order to reach the 5% target allocation for real estate, the Board also made commitments totaling \$195 million to six new real estate limited partnerships. The new partnerships are ABKB/LaSalle Securities Ltd, Apollo Real Estate Investment Fund III, LF Strategic Realty Investors II, Miller Global Properties II, Olympus Real Estate Fund II, and RREEF Venture Capital Fund.

Average annual rates of return for the combined real estate portfolio compared to the market benchmark for unleveraged institution grade property returns is shown below:

|        | <u>1 Year</u> | <u>3 Years</u> | <u>5 Years</u> |
|--------|---------------|----------------|----------------|
| ISBI   | 26.0%         | 14.5%          | 6.4%           |
| NCREIF | 16.4          | 12.2           | 9.0            |

**Alternative Investments**

The alternative investments portfolio consists of passive interests in limited partnerships and other commingled vehicles that invest in venture capital, management buyouts and other private placement activities. ISBI's largest investments are in the Kohlberg Kravis Roberts (KKR) leveraged buyout limited partnerships, which account for almost 70% of this category. Fiscal 1998 was a good year for alternative investments. A strong initial public offering (IPO) market allowed a number of portfolio companies to gain access to the auction markets, thereby producing liquidity and/or actual cash returns to ISBI. Overall, ISBI's Alternative Investments portfolio earned 35.8% for the fiscal year.

The Board made commitments totaling \$45 million to two new limited partnerships in fiscal 1998. Although the current allocation to this asset class is not significantly below the long-term target, in order to maintain the level of investment, new commitments are necessary over time to balance anticipated distributions from maturing partnerships. The new partnerships are GTCR Fund VI and Summit Venture V. Funds for these future commitments will come from cash flow generated from existing alternative investments.

**Management Expenses**

Total operating expenses for the fiscal year were \$15,091,365, compared to \$14,245,218 for the previous fiscal year. The 6% expense increase compares to a growth in investment assets of nearly 18%. Asset-based fees to external managers represent the primary component of operating expenses. Actual expenses will increase as assets increase, but at a lower rate due to volume discounts. In addition, ISBI expanded its use of index funds, which have lower fees than traditional investment management. The resulting expense ratio (expenses divided by average net assets under management) was .22% in fiscal 1998, lower than the .25% expense ratio achieved in fiscal 1997.

**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, 1998. A copy of the report can be obtained from the ISBI at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

## INVESTMENT PORTFOLIO SUMMARY

|                               | June 30, 1998           |               | June 30, 1997           |               |
|-------------------------------|-------------------------|---------------|-------------------------|---------------|
|                               | Market Value            | Percentage    | Market Value            | Percentage    |
| Fixed Income <sup>1</sup>     | \$ 1,961,870,817        | 26.6%         | \$ 1,832,294,575        | 29.0%         |
| Equities                      | 3,065,769,285           | 41.5          | 2,470,905,061           | 39.0          |
| Foreign Equities              | 1,083,783,967           | 14.7          | 1,019,434,063           | 16.1          |
| Real Estate                   | 250,823,177             | 3.4           | 252,606,430             | 4.0           |
| Non-Marketable <sup>2</sup>   | 361,780,824             | 4.9           | 306,053,788             | 4.8           |
| Forward Foreign               |                         |               |                         |               |
| Exchange Contracts            | (306,533)               | -             | 1,008,282               | -             |
| Options                       | 8,760                   | -             | 4,465,309               | .1            |
| Cash equivalents <sup>3</sup> | 656,179,130             | 8.9           | 441,369,634             | 7.0           |
|                               | <u>\$ 7,379,909,427</u> | <u>100.0%</u> | <u>\$ 6,328,137,142</u> | <u>100.0%</u> |

<sup>1</sup>Maturities of one year or longer, including convertible bonds.  
<sup>2</sup>Interests in limited partnerships and other entities which have limited liquidity.  
<sup>3</sup>Cash Equivalents includes other assets, less liabilities.

## ANALYSIS OF INVESTMENT PERFORMANCE

|  | 1998  | 1997  | 1996  | 1995  | 1994   |
|--|-------|-------|-------|-------|--------|
| Total Return* - Past 3 years                           |       | 17.8% |       |       |        |
| Total Return* - Past 5 years                           |       |       | 14.2% |       |        |
| Total Return* - year by year                           | 18.1% | 18.8% | 16.6% | 14.0% | 4.0%   |
| Actuarial Assumed Rate of Return                       |       |       | 8.0%  |       |        |
| Average Net Income Yield*                              | 3.4%  | 3.9%  | 4.0%  | 4.7%  | 4.5%   |
| Comparative rates of return on fixed income securities |       |       |       |       |        |
| Total fixed income - ISBI                              | 11.1% | 9.5%  | 6.6%  | 11.9% | 1.6%   |
| Comparison index:                                      |       |       |       |       |        |
| Shearson Lehman Aggregate                              | 10.5% | 8.2%  | 5.0%  | 12.6% | (1.3%) |
| Comparative rates of return on equities                |       |       |       |       |        |
| Domestic equities - ISBI                               | 27.6% | 26.3% | 25.9% | 21.5% | 5.5%   |
| Comparison index:                                      |       |       |       |       |        |
| S&P 500  | 30.2% | 34.6% | 26.1% | 26.1% | 1.3%   |

\*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.

**ADDITIONAL INVESTMENT INFORMATION**

The following table shows a comparison of ISBI investment operations for fiscal years 1998 and 1997:

|   | 1998           | 1997           | Increase/(Decrease) |            |
|---|----------------|----------------|---------------------|------------|
|   |                |                | Amount              | Percentage |
| Balance at beginning of year,<br>at fair value        | \$ 307,923,426 | \$ 271,897,778 | \$ 36,025,648       | 13.2%      |
| Cash transferred from ISBI (net)                      | (13,100,000)   | (13,500,000)   | (400,000)           | (3.0)%     |
| Net ISBI investments revenue:                         |                |                |                     |            |
| ISBI Commingled Fund income                           | \$ 12,094,326  | \$ 11,874,146  | \$ 220,180          | 1.9%       |
| Less ISBI Expenses                                    | (722,185)      | (700,742)      | 21,443              | 3.1%       |
| Net ISBI investments income                           | \$ 11,372,141  | \$ 11,173,404  | \$ 198,737          | 1.8%       |
| Net appreciation in fair value<br>of ISBI investments | 43,417,205     | 38,352,244     | 5,064,961           | 13.2%      |
| Net ISBI investments revenue                          | \$ 54,789,346  | \$ 49,525,648  | \$ 5,263,698        | 10.6%      |
| Balance at end of year, at fair value                 | \$ 349,612,772 | \$ 307,923,426 | \$ 41,689,346       | 13.5%      |

In addition, interest on the average balance in the System's cash account in the State Treasury for FY 1998 was \$352,292 compared to \$293,190 during FY 1997 primarily due to higher average balances during FY 1998.

## ACTUARIAL SECTION

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- Actuary's Certification Letter
- Introduction
- Actuarial Cost Method and Summary of Major Actuarial Assumptions
- Summary of and Changes to the Plan Provisions
- Valuation Results
- Short-term Solvency Test
- Summary of Accrued and Unfunded Accrued Liabilities (Analysis of Funding)
- Schedule of Retirants and Survivors' Annuitants 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 7, 1998

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

ACTUARIAL CERTIFICATION

We have completed the annual actuarial valuation of the Judges' Retirement System of Illinois as of June 30, 1998. The purpose of the valuation was to determine the financial condition and funding requirements of the retirement system.

Since the date of the last actuarial valuation, there have only been some minor changes in the benefit provisions of the system. These changes did not have an impact on the results of the June 30, 1998 actuarial valuation.

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, we have completed such an experience analysis for the five-year period 1991-1996. Based on this experience analysis, we recommended actuarial assumptions which were adopted by the system's board effective June 30, 1997 and which were used for the current valuation. We believe that, in the aggregate, the current actuarial assumptions relate reasonably to the past and anticipated experience of the system.

Public Act 88-0593, signed into law on August 22, 1994, established the current funding plan for the system. The financing objective under this plan is to have the required State contributions sufficient to bring the total assets of the system up to 90% of the total actuarial liabilities by the end of fiscal year 2045. For fiscal years 2011 through 2045, the required State contributions are to be a level percentage of payroll. For fiscal years 1996 through 2010, the State contribution shall be increased as a percentage of the applicable payroll in equal annual increments so that by fiscal year 2011, the State is contributing at the required rate.

**GOLDSTEIN & ASSOCIATES**  
**Consulting Actuaries**

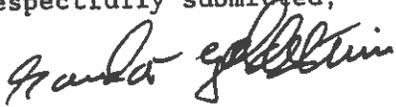
Based on the June 30, 1998 actuarial valuation, we have determined the required State contribution under this funding plan for fiscal year 2000. We have also estimated the required State contributions for future years.

The asset values used for the valuation were based on the audited asset information reported by the system. For purposes of the current valuation, the market value of the assets of the system, less the amount of liabilities, was used.

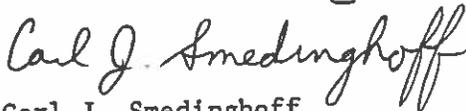
The actuarial liabilities have been valued on the basis of membership data which is supplied by the administrative staff of the system and verified by the system's auditors. We have made additional tests to ensure its accuracy.

In our opinion, the information presented herein fairly presents the financial condition of the Judges' Retirement System of Illinois as of June 30, 1998. We prepared the accompanying Actuarial Cost Method and Summary of Major Actuarial Assumptions. The staff of the retirement system prepared the other supporting schedules in this section and the trend tables in the financial section, based on information contained in our actuarial reports.

Respectfully submitted,



Sandor Goldstein  
Fellow of the Society of Actuaries  
Enrolled Actuary No. 96-3402



Carl J. Smedinghoff  
Associate of the Society of Actuaries

## 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 Chapter 40, Section 5/18-131 of the Illinois Compiled Statutes.

In August, 1994, Governor Edgar signed Senate Bill 533 into law as Public Act 88-0593. This funding legislation, which became effective July 1, 1995, provides that:

For fiscal years 2011 through 2045, the minimum contribution to the System for each fiscal year shall be an amount determined to be sufficient to bring the total assets of the System up to 90% of the total actuarial liabilities of the System by the end of fiscal year 2045. In making these determinations, the required contribution shall be calculated each year as a level percentage of payroll over the years remaining to and including fiscal year 2045 and shall be determined under the projected unit credit actuarial cost method.

For fiscal years 1998 through 2010, the contribution to the System, as a percentage of the payroll, shall be increased in equal annual increments so that by fiscal year 2010 the contribution rate is at the same level as the contribution rate for fiscal years 2011 through 2045.

Beginning in fiscal year 2045, the minimum contribution to the System for each fiscal year shall be the amount needed to maintain the total assets of the System at 90% of the total actuarial liabilities of the System.

The amortization period required by the state's funding plan, as described above, does not meet the parameters of GASB Statement No. 25.

Most importantly, the funding legislation also provides for the establishment of a continuing appropriation of the required employer contributions to the System. This will, in effect, remove the appropriation of these funds from the annual budgetary process.

Although long-term in nature, we believe that this legislation has been an extremely positive step forward which will ensure the long-term financial integrity of the state's retirement systems including the Judges' Retirement System.

For fiscal years 1998 and 1997, the System received the actuarially determined employer contributions in accordance with the state's funding plan described above.

## 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 in accordance with the funding plan established by Public Act 88-0593.

A description of the actuarial assumptions utilized for fiscal year 1998 and fiscal year 1997 follows:

**Dates of Adoption:** The Projected Unit Credit Normal Cost Method was adopted June 30, 1987; all other assumptions were adopted June 30, 1997.

**Mortality Rates:** Active and retired members: The UP-1994 Mortality Table for Males, rated down 1 year.  
Spouses: The UP-1994 Mortality Table for Females.

**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:

| Age         | Rate of Termination |
|-------------|---------------------|
| 30          | .016                |
| 35          | .014                |
| 40          | .012                |
| 45          | .010                |
| 50          | .007                |
| 55          | .005                |
| 60          | .003                |
| 67 and over | .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:

| Age | Rate of Disability | Age         | Rate of Disability |
|-----|--------------------|-------------|--------------------|
| 30  | .00057             | 45          | .00115             |
| 35  | .00064             | 50          | .00170             |
| 40  | .00083             | 55 and over | .00000             |

**Retirement Rates:** Rates of retirement for each age from 55 to 80 based on the recent experience of the System were used. The following are samples of the rates of retirement that were used:

| Age         | Rate of Retirement |
|-------------|--------------------|
| 55          | .060               |
| 60          | .110               |
| 65          | .090               |
| 70          | .131               |
| 75          | .200               |
| 80 and over | 1.000              |

The above retirement rates are equivalent to an average retirement age of approximately 67.

**Salary Increase:** A salary increase assumption of 6.0% per year (consisting of a general increase component of 5% per year, 4.0% of which is attributable to inflation, and a seniority/merit component of 1% per year), compounded annually, was used. In determining total covered payroll, the size of the active group is assumed to remain constant.

**Interest Rate:** An interest rate assumption of 8.0% per year (consisting of an inflation component of 4.0% per year and a real rate of return component of 4.0% 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.

## SUMMARY OF AND CHANGES TO THE PLAN PROVISIONS

Please refer to the Plan Summary and Legislative Section for a summary of the plan provisions and legislative amendments that were evaluated and considered by the actuary during the valuation process.

## VALUATION RESULTS

|                                       | June 30, 1998         | June 30, 1997         |
|---------------------------------------|-----------------------|-----------------------|
| Actuarial Liability (reserves):       |                       |                       |
| For Active Participants:              |                       |                       |
| Basic retirement annuity              | \$ 210,978,847        | \$ 196,793,343        |
| Annual increase in retirement annuity | 63,842,023            | 59,262,663            |
| Pre-retirement survivors' annuity     | 22,712,575            | 21,285,488            |
| Post-retirement survivors' annuity    | 25,163,872            | 23,752,209            |
| Withdrawal benefits                   | 5,661,162             | 5,481,424             |
| Disability benefits                   | 2,240,952             | 2,199,351             |
| Total                                 | <u>\$ 330,599,431</u> | <u>\$ 308,774,478</u> |
| For Participants Receiving Benefits:  |                       |                       |
| Retirement annuities                  | \$ 324,920,193        | \$ 312,728,663        |
| Survivor annuities                    | 74,196,609            | 68,268,708            |
| Total                                 | <u>\$ 399,116,802</u> | <u>\$ 380,997,371</u> |
| For Inactive Participants             | <u>\$ 17,559,297</u>  | <u>\$ 14,688,207</u>  |
| Total Actuarial Liability             | <u>\$ 747,275,530</u> | <u>\$ 704,460,056</u> |
| Net Assets, Fair Value                | <u>356,692,936</u>    | <u>314,561,229</u>    |
| Unfunded Actuarial Liability          | <u>\$ 390,582,594</u> | <u>\$ 389,898,827</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 Assets Available for Benefits* | Covered By   |       |      |
|             | Active and Inactive Participant Contributions | Retirement and Survivor Annuities | Active and Inactive Participants (Employer Financed Portion) |                                    | (1)  | (2)   | (3)  |
| 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  |
| 1993        | 69,139,981                                    | 247,358,088                       | 142,328,365  | 199,679,764                        | 100.0  | 52.8  | 0.0  |
| 1994        | 74,318,731                                    | 256,978,525                       | 147,832,248  | 207,837,018                        | 100.0  | 52.0  | 0.0  |
| 1995        | 79,012,691                                    | 279,270,677                       | 165,402,263  | 214,104,027                        | 100.0  | 48.4  | 0.0  |
| 1996        | 82,428,000                                    | 313,546,389                       | 181,817,867  | 277,098,999                        | 100.0  | 62.1  | 0.0  |
| 1997        | 87,394,372                                    | 380,997,371                       | 236,068,313  | 314,561,229                        | 100.0  | 59.6  | 0.0  |
| 1998        | 94,222,326                                    | 399,116,802                       | 253,936,402  | 356,692,936                        | 100.0  | 65.8  | 0.0  |

\* Net assets are reported at fair value for fiscal years after 1995. For all other fiscal years, net assets are reported at cost (book value).

## SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES (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 | Annual Covered Payroll | Unfunded Actuarial Liability as a % of Annual Covered Payroll |
|-------------|---------------------------|----------------|--|------------------------------------|------------------------|---|
| 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%  |
| 1993        | 458,826,434               | 199,679,764    | 43.5%                                    | 259,146,670                        | 69,610,000             | 372.3%  |
| 1994        | 479,129,504               | 207,837,018    | 43.4%                                    | 271,292,486                        | 70,997,000             | 382.1%  |
| 1995        | 523,685,631               | 214,104,027    | 40.9%                                    | 309,581,604                        | 75,314,000             | 411.1%  |
| 1996        | 577,792,256               | 277,098,999    | 48.0%                                    | 300,693,257                        | 75,996,000             | 395.7%  |
| 1997        | 704,460,056               | 314,561,229    | 44.7%                                    | 389,898,827                        | 87,171,000             | 447.3%  |
| 1998        | 747,275,530               | 356,692,936    | 47.7%                                    | 390,582,594                        | 94,626,000             | 412.8%  |

\* Net assets are reported at fair value for fiscal years after 1995. For all other fiscal years, net assets are reported at cost (book value).

## SCHEDULE OF RETIRANTS AND SURVIVORS' ANNUITANTS ADDED TO AND REMOVED FROM ROLLS

| Fiscal Year | Annuitants |           |           |        | Survivors |           |           |        | Total |
|-------------|------------|-----------|-----------|--------|-----------|-----------|-----------|--------|-------|
|             | Beginning  | Additions | Deletions | Ending | Beginning | Additions | Deletions | Ending |       |
| 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   |
| 1993        | 371        | 39        | 16        | 394    | 268       | 12        | 7         | 273    | 667   |
| 1994        | 394        | 25        | 20        | 399    | 273       | 15        | 14        | 274    | 673   |
| 1995        | 399        | 41        | 25        | 415    | 274       | 16        | 17        | 273    | 688   |
| 1996        | 415        | 55        | 26        | 444    | 273       | 21        | 19        | 275    | 719   |
| 1997        | 444        | 46        | 30        | 460    | 275       | 18        | 7         | 286    | 746   |
| 1998        | 460        | 27        | 27        | 460    | 286       | 26        | 15        | 297    | 757   |

## SCHEDULE OF ACTIVE MEMBER VALUATION DATA

| Valuation Date<br>June 30 | Active Members |                |                    |                           |
|---------------------------|----------------|----------------|--------------------|---------------------------|
|                           | Number         | Annual Payroll | Annual Average Pay | % Increase In Average Pay |
| 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%                      |
| 1993                      | 848            | 69,610,000     | 82,087             | .1%                       |
| 1994                      | 836            | 70,997,000     | 84,925             | 3.5%                      |
| 1995                      | 875            | 75,314,000     | 86,073             | 1.4%                      |
| 1996                      | 866            | 75,996,000     | 87,755             | 2.0%                      |
| 1997                      | 881            | 87,171,000     | 98,946             | 12.8%                     |
| 1998                      | 898            | 94,626,000     | 105,374            | 6.5%                      |

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

|  | <u>FY 98</u>          | <u>FY 97</u>          |
|--|-----------------------|-----------------------|
| Unfunded actuarial liability at Beginning of FY  | \$ 389,898,827        | \$ 300,693,257        |
| Employer contribution requirement of normal cost plus interest on the unfunded liability                                     | \$ 49,815,237         | \$ 40,939,857         |
| Actual employer contribution for the year  | <u>15,692,152</u>     | <u>13,783,328</u>     |
| Increase in unfunded liability due to employer contributions being less than normal cost plus interest on unfunded liability | \$ 34,123,085         | \$ 27,156,529         |
| (Decrease) in unfunded liability due to investment return greater than assumed   | (30,497,137)          | (28,145,182)          |
| (Decrease) in unfunded liability due to salary increases less than assumed   | (10,160,914)          | (7,658,092)           |
| Increase in unfunded liability due to changes in actuarial assumptions   | +                     | 82,588,099            |
| Increase in unfunded liability due to other sources  | <u>7,218,733</u>      | <u>15,264,216</u>     |
| Total Actuarial (Gains)/ Losses  | \$ (88,489,318)       | \$ 62,049,041         |
| Net increase in unfunded liability for the year  | <u>\$ 688,767</u>     | <u>\$ 89,205,570</u>  |
| Unfunded actuarial liability at End of FY  | <u>\$ 390,582,594</u> | <u>\$ 389,898,827</u> |

## STATISTICAL SECTION

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- Asset Balances
- Liabilities and Reserve Balances
- 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)
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Number of Participants

**ASSET BALANCES**

| Fiscal Year<br>Ended<br>June 30 | Cash       | Receivables | Investments*   | Fixed Assets                       |                |
|---------------------------------|------------|-------------|----------------|------------------------------------|----------------|
|                                 |            |             |                | Net of Accumulated<br>Depreciation | Total          |
| 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    |
| 1993                            | 3,449,194  | 2,706,984   | 193,615,328    | 26,065                             | 199,797,571    |
| 1994                            | 5,967,371  | 217,006     | 201,873,106    | 18,434                             | 208,075,917    |
| 1995                            | 5,514,304  | 178,587     | 208,585,962    | 14,298                             | 214,293,151    |
| 1996                            | 4,267,254  | 1,114,097   | 271,897,778    | 8,237                              | 277,287,366    |
| 1997                            | 6,616,999  | 163,694     | 307,923,426    | 14,018                             | 314,718,137    |
| 1998                            | 6,867,811  | 327,432     | 349,612,772    | 10,281                             | 356,818,296    |

\* Investments are reported at fair value after fiscal year 1995. For all other fiscal years investments are reported at cost (book value).

**LIABILITIES AND RESERVE BALANCES**

| Fiscal Year<br>Ended<br>June 30 | Total<br>Liabilities | Reserve for<br>Participant<br>Contributions | Reserve for<br>Future Operations* | Total          |                |
|---------------------------------|----------------------|---|-----------------------------------|----------------|----------------|
|                                 |                      |   |                                   | Reserves       | Total          |
| 1989                            | \$ 262,880           | \$ 50,923,236                               | \$ 105,315,526                    | \$ 156,238,762 | \$ 156,501,642 |
| 1990                            | 167,101              | 56,354,255                                  | 110,630,179                       | 166,984,434    | 167,151,535    |
| 1991                            | 112,365              | 59,623,957                                  | 114,365,247                       | 173,989,204    | 174,101,569    |
| 1992                            | 201,301              | 63,598,115                                  | 124,029,273                       | 187,627,388    | 187,828,689    |
| 1993                            | 117,807              | 69,139,981                                  | 130,539,783                       | 199,679,764    | 199,797,571    |
| 1994                            | 238,899              | 74,318,731                                  | 133,518,287                       | 207,837,018    | 208,075,917    |
| 1995                            | 189,124              | 79,012,691                                  | 135,091,336                       | 214,104,027    | 214,293,151    |
| 1996                            | 188,367              | 82,428,000                                  | 194,670,999                       | 277,098,999    | 277,287,366    |
| 1997                            | 156,908              | 87,394,372                                  | 227,166,857                       | 314,561,229    | 314,718,137    |
| 1998                            | 125,360              | 94,222,326                                  | 262,470,610                       | 356,692,936    | 356,818,296    |

\* The Reserve for Future Operations reflects investments reported at fair value after fiscal year 1995. For all other fiscal years, the Reserve for Future Operations reflects investments reported at cost (book value).

**REVENUES BY SOURCE**

| Fiscal Year<br>Ended<br>June 30 | Participant<br>Contributions | Employer Contributions |                  |              | Net                     |               |
|---------------------------------|------------------------------|------------------------|------------------|--------------|-------------------------|---------------|
|                                 |                              | State of<br>Illinois   | Other<br>Sources | Total        | Investments<br>Revenue* | Total         |
| 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    |
| 1993                            | 9,377,428                    | 11,099,030             | -                | 11,099,030   | 17,528,393              | 38,004,851    |
| 1994                            | 7,822,346                    | 10,766,000             | -                | 10,766,000   | 17,424,885              | 36,013,231    |
| 1995                            | 8,942,657                    | 10,806,000             | 345,577          | 11,151,577   | 16,000,529              | 36,094,763    |
| 1996                            | 9,785,891                    | 12,129,000             | -                | 12,129,000   | 39,756,049              | 61,670,940    |
| 1997                            | 10,497,121                   | 13,747,000             | 36,328           | 13,783,328   | 49,818,838              | 74,099,287    |
| 1998                            | 10,832,669                   | 15,664,000             | 28,152           | 15,692,152   | 55,141,638              | 81,666,459    |

\* The Net Investments Revenue includes both realized and unrealized gains and losses on investments after fiscal year 1995. For all other fiscal years, the Net Investments Revenue includes only realized gains and losses on investments.

## EXPENSES BY TYPE

| Fiscal Year<br>Ended<br>June 30 | Benefits      | Refunds<br>of Contributions | Administrative<br>Expenses | Total         |
|---------------------------------|---------------|-----------------------------|----------------------------|---------------|
| 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    |
| 1993                            | 25,241,058    | 408,113                     | 303,304                    | 25,952,475    |
| 1994                            | 27,234,879    | 332,930                     | 288,168                    | 27,855,977    |
| 1995                            | 29,177,626    | 347,711                     | 302,417                    | 29,827,754    |
| 1996                            | 33,096,800    | 503,455                     | 305,752                    | 33,906,007    |
| 1997                            | 36,071,563    | 249,081                     | 316,413                    | 36,637,057    |
| 1998                            | 38,632,724    | 568,419                     | 333,609                    | 39,534,752    |

## BENEFIT EXPENSES BY TYPE

| Fiscal Year<br>Ended<br>June 30 | Retirement<br>Annuities | Survivors'<br>Annuities | Total         |
|---------------------------------|-------------------------|-------------------------|---------------|
| 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    |
| 1993                            | 19,613,167              | 5,627,891               | 25,241,058    |
| 1994                            | 21,206,102              | 6,028,777               | 27,234,879    |
| 1995                            | 22,701,599              | 6,476,027               | 29,177,626    |
| 1996                            | 26,186,330              | 6,910,470               | 33,096,800    |
| 1997                            | 28,369,249              | 7,702,314               | 36,071,563    |
| 1998                            | 30,130,617              | 8,502,107               | 38,632,724    |

**NUMBER OF RECURRING BENEFIT PAYMENTS**

| at June 30 | Retirement Annuities | Survivors' Annuities | Total |
|------------|----------------------|----------------------|-------|
| 1989       | 367                  | 242                  | 609   |
| 1990       | 353                  | 245                  | 598   |
| 1991       | 359                  | 258                  | 617   |
| 1992       | 371                  | 268                  | 639   |
| 1993       | 394                  | 273                  | 667   |
| 1994       | 399                  | 274                  | 673   |
| 1995       | 415                  | 273                  | 688   |
| 1996       | 444                  | 275                  | 719   |
| 1997       | 460                  | 286                  | 746   |
| 1998       | 460                  | 297                  | 757   |

**TERMINATION REFUNDS**

| Fiscal Year Ended June 30 | Number | Amount     |
|---------------------------|--------|------------|
| 1989                      | 4      | \$ 115,097 |
| 1990                      | 5      | 242,847    |
| 1991                      | 3      | 137,631    |
| 1992                      | 3      | 76,885     |
| 1993                      | 5      | 238,566    |
| 1994                      | 2      | 58,106     |
| 1995                      | 4      | 119,964    |
| 1996                      | 2      | 106,020    |
| 1997                      | 3      | 55,033     |
| 1998                      | 3      | 80,534     |

**NUMBER ON ACTIVE PAYROLLS**

| at June 30 | Supreme Court Justices | Appellate Court Justices | Circuit Court Judges | Retired Judges Recalled | Admin. Office of Courts | Total |
|------------|------------------------|--------------------------|----------------------|-------------------------|-------------------------|-------|
| 1989       | 7                      | 37                       | 767                  | 18                      | -                       | 829   |
| 1990       | 7                      | 34                       | 780                  | 23                      | -                       | 844   |
| 1991       | 8                      | 36                       | 797                  | 27                      | -                       | 868   |
| 1992       | 7                      | 34                       | 781                  | 24                      | -                       | 846   |
| 1993       | 7                      | 36                       | 803                  | 20                      | -                       | 866   |
| 1994       | 7                      | 36                       | 794                  | 19                      | -                       | 856   |
| 1995       | 7                      | 41                       | 825                  | 15                      | 1                       | 889   |
| 1996       | 7                      | 39                       | 819                  | 13                      | 1                       | 879   |
| 1997       | 7                      | 41                       | 832                  | 13                      | -                       | 893   |
| 1998       | 7                      | 41                       | 852                  | 13                      | -                       | 913   |

**ACTIVE RETIREES BY STATE**



**RETIREMENT ANNUITANTS STATISTICS AND AVERAGE MONTHLY BENEFITS**

| Fiscal Year Ended June 30 | At Retirement |                             |                     | Average Current Monthly Benefit |
|---------------------------|---------------|-----------------------------|---------------------|---------------------------------|
|                           | Average Age   | Average Length of Service * | Average Current Age |                                 |
| 1989                      | 65.0          | 17.8                        | 72.1                | \$ 3,617                        |
| 1990                      | 64.7          | 17.5                        | 72.4                | 3,751                           |
| 1991                      | 64.7          | 17.5                        | 72.4                | 3,909                           |
| 1992                      | 64.7          | 16.6                        | 72.7                | 4,076                           |
| 1993                      | 64.9          | 16.9                        | 73.0                | 4,298                           |
| 1994                      | 64.8          | 16.9                        | 73.4                | 4,468                           |
| 1995                      | 65.0          | 16.9                        | 73.4                | 4,736                           |
| 1996                      | 65.0          | 17.2                        | 73.4                | 5,004                           |
| 1997                      | 64.8          | 17.2                        | 73.2                | 5,273                           |
| 1998                      | 64.8          | 17.5                        | 73.5                | 5,537                           |

\*in years

**Annuitants by Benefit Range (Monthly) at June 30, 1998**

| Benefit Range | Total | Cumulative Total | % of Total | Cumulative % of Total |
|---------------|-------|------------------|------------|-----------------------|
| \$ 1-500      | 6     | 6                | 1.3        | 1.3                   |
| 501-1000      | 7     | 13               | 1.5        | 2.8                   |
| 1001-1500     | 8     | 21               | 1.7        | 4.5                   |
| 1501-2000     | 14    | 35               | 3.0        | 7.5                   |
| 2001-2500     | 14    | 49               | 3.0        | 10.5                  |
| 2501-3000     | 23    | 72               | 5.0        | 15.5                  |
| 3001-3500     | 12    | 84               | 2.6        | 18.1                  |
| 3501-4000     | 19    | 103              | 4.1        | 22.2                  |
| 4001-4500     | 28    | 131              | 6.1        | 28.3                  |
| 4501-5000     | 22    | 153              | 4.8        | 33.1                  |
| 5001-5500     | 41    | 194              | 8.9        | 42.0                  |
| 5501-6000     | 42    | 236              | 9.1        | 51.1                  |
| 6001-6500     | 35    | 271              | 7.6        | 58.7                  |
| 6501-7000     | 51    | 322              | 11.1       | 69.8                  |
| 7001-7500     | 69    | 391              | 15.0       | 84.8                  |
| 7501-8000     | 53    | 444              | 11.5       | 96.3                  |
| 8001-8500     | 11    | 455              | 2.4        | 98.7                  |
| 8501-9000     | 5     | 460              | 1.3        | 100.0                 |

**Survivors by Benefit Range (Monthly) at June 30, 1998**

| Benefit Range | Total | Cumulative Total | % of Total | Cumulative % of Total |
|---------------|-------|------------------|------------|-----------------------|
| \$ 1-500      | 37    | 37               | 12.5       | 12.5                  |
| 501-1000      | 24    | 61               | 8.1        | 20.6                  |
| 1001-1500     | 35    | 96               | 11.8       | 32.4                  |
| 1501-2000     | 27    | 123              | 9.1        | 41.5                  |
| 2001-2500     | 32    | 155              | 10.8       | 52.3                  |
| 2501-3000     | 28    | 183              | 9.4        | 61.7                  |
| 3001-3500     | 31    | 214              | 10.4       | 72.1                  |
| 3501-4000     | 27    | 241              | 9.1        | 81.2                  |
| 4001-4500     | 21    | 262              | 7.1        | 88.3                  |
| 4501-5000     | 16    | 278              | 5.4        | 93.7                  |
| 5001-5500     | 15    | 293              | 5.1        | 98.8                  |
| 5501-6000     | 3     | 296              | 1.0        | 99.8                  |
| 6001-6500     | 1     | 297              | 0.2        | 100.0                 |

**NUMBER OF PARTICIPANTS**

|  | At June 30 | Active | Inactive | Total |
|--|------------|--------|----------|-------|
|  | 1989       | 821    | 22       | 843   |
|  | 1990       | 827    | 22       | 849   |
|  | 1991       | 848    | 29       | 877   |
|  | 1992       | 828    | 41       | 869   |
|  | 1993       | 848    | 42       | 890   |
|  | 1994       | 836    | 41       | 877   |
|  | 1995       | 875    | 37       | 912   |
|  | 1996       | 866    | 35       | 901   |
|  | 1997       | 881    | 59       | 940   |
|  | 1998       | 898    | 52       | 950   |



## PLAN SUMMARY AND LEGISLATIVE SECTION

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- Plan Summary
- Legislation

**SUMMARY OF RETIREMENT SYSTEM PLAN**

(As of June 30, 1998)

**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 judge who elects not to participate in the survivors' annuity benefit is not required to make contributions for 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 qualified to receive the maximum rate of annuity 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 annuity 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 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 or for any judge terminating service after July 14, 1995, the highest salary received as a judge for at least 4 consecutive years, whichever is greater, 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 as a judge, or
2. When the annuitant is employed for compensation by the State of Illinois in a permanent position or, after 75 working days in any calendar year in which the annuitant is employed for compensation by the State of Illinois in a temporary 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, and assuming all payments have been made for full survivors' annuity credit, 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, regardless of whether full credit had been established for the survivors' annuity benefit.

If the participant's death occurs after termination of service or retirement, and assuming all payments have been made for full survivors' annuity credit, the surviving spouse would be 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.

The benefit payment amount to a surviving spouse would be a prorated share of the full benefit amount noted above if the participant married or remarried after becoming a participant and elected to contribute for the survivors' annuity benefit prospectively from the date of marriage or remarriage.

**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.

**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 payable to the named beneficiaries or estate of the participant 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.

The following lump sum death benefit is payable to the named beneficiaries or estate of the survivor.

**A. 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. Permanent Total 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 Workers' Compensation Act and the Workers' 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 a 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 the survivors' annuity benefit.

# LEGISLATION

## LEGISLATIVE AMENDMENTS

Legislative amendments with an effective date during fiscal year 1998 having an impact on the System were:

### House Bill 23 (P.A. 90-0507; Effective August 22, 1997)

1. Provides that a person who became a participant before January 1, 1997, and who is not contributing for the survivor's annuity, may elect to make contributions for such annuity by filing written notice of the election with the System's Board no later than April 1, 1998. Once made, the election may not be rescinded. In order to receive full credit for survivor annuity purposes, the participant must pay contributions for all periods of service plus interest.
2. Allows a married participant who elected not to participate in the survivor's annuity provisions and who is still a judge, to elect to participate therein by filing with the System's Board before April 1, 1998 a written rescission of the election not to participate. Once made, the election may not be rescinded. In order to receive full credit for survivor annuity purposes, the participant must pay contributions for all periods of service plus interest.

### Senate Bill 665 (P.A. 90-0448; Effective August 16, 1997)

1. Provides that, until July 1, 1998, an active participant who has at least six years of service as a judge may establish up to two years of service credit for periods during which the participant held elective office as a member of a board of education in this State or a member of the board of trustees of a community college district in this State, by applying to the System's Board in writing and paying to the System an amount equal to (1) employee contributions based on the rate in effect for a judge on the date of becoming a participant in the System and the salary received by the participant on that date, plus (2) the employer's share of the normal cost of the benefits being established, plus (3) interest thereon at the prescribed rate, compounded annually, from the date of membership in the System to the date of payment. However, such credit may not be established for any period for which the participant has received credit under any other pension fund or retirement system subject to the Illinois Pension Code, unless that credit has been terminated.
2. Amends the State Withholding Act and the Judges' Retirement System Article of the Illinois Pension Code to provide a method whereby contributions made to purchase optional service credit or repay prior refunds may be made on a pre-tax basis through payroll deduction.

## NEW LEGISLATION

Legislative amendments with an effective date subsequent to June 30, 1998 having an impact on the System were:

### House Bill 3515 (P.A. 90-0766; Effective August 14, 1998)

1. Provides that an unmarried participant shall, upon making application to the Board, receive a refund of his or her contributions for the survivor's annuity.
2. Provides that any provision requiring the payment of optional contributions by a stated date (rather than the date of withdrawal or retirement), shall be deemed to have been satisfied if (1) on or before the stated date the participant executes a valid irrevocable election to have the contributions made on a pre-tax basis through payroll deduction and, (2) the contributions are in fact paid to the System as provided in the election.

**House Bill 1612 (P.A. 90-0731; Effective July 1, 1999)**

1. Amends the general provisions of the Illinois Pension Code to provide for a method to recognize the existence of an alternate payee's right to receive all or a portion of a member's accrued benefits in a retirement system through the issuance of a Qualified Illinois Domestic Relations Order (QILDRO) pursuant to Section 503(b)(2) of the Illinois Marriage and Dissolution of Marriage Act.