Judges' Retirement System of Illinois

2101 South Veterans Parkway, P. O. Box 19255
Springfield, Illinois 62794-9255
Phone 217-782-8500 · Fax 217-785-7019
Internet: http://www.state.il.us/srs
E-mail: ser@mail.state.il.us

Fiscal Year 2004 Highlights

941	Total Membership
906	Active Contributing Members
$534,579,823	Net Assets Held in Trust for Pension Benefits, fair value
	Contributions:
$13,720,911	Participants
$178,593,095	Employer
$74,012,814	Investment income
	Benefit Recipients:
535	Retirement Annuities
338	Survivors' Annuities
$60,912,895	Benefits Paid
$1,156,092,951	Accrued Actuarial Liability
$621,513,128	Unfunded Actuarial Liability
46.2%	Funded Ratio

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.

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

A Pension Trust Fund of the State of Illinois

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Judges' Retirement Ssystem of Illinois

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

Prepared by the Accounting Division

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

2101 South Veterans Parkway, P. O. Box 19255, Springfield, IL 62794-9255 217-785-7444

December 15, 2004

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 (CAFR) of the Judges' Retirement System of Illinois (System) as of and for the fiscal year ended June 30, 2004 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.

Generally accepted accounting principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The System's MD&A can be found immediately following the report of the independent auditors.

The report consists of six sections:

1. **The Introductory Section** 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** contains management's discussion and analysis, the report of the Independent Auditors, the financial statements of the System and certain required and other supplementary financial information;

3. **The Investment Section** contains a report on investment activity, investment policies, investment results and various investment schedules;

4. **The Actuarial Section** contains the Actuary's Certification Letter and the results of the annual actuarial valuation;

5. **The Statistical Section** contains significant statistical data; and

6. **The Plan Summary and Legislative Section** contains 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 & SERVICES PROVIDED

The Judges' Retirement System was established as a single-employer 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 $84,000. The fair value of plan net assets at the end of the fiscal year 2004 amounted to $534.6 million, and there were 906 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."

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 Statues, 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 is intended to reduce overall risk and increase returns. As further detailed in the Investment Section, the ISBI Commingled Fund earned 16.4%, net of expenses, for the fiscal year ended June 30, 2004.

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.

A new funding plan for the System, enacted in 1994, 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 has, in effect, removed the appropriation of these funds from the annual budgetary process.

On April 7, 2003 Governor Blagojevich signed House Bill 2660 into law as Public Act 93-0002. This legislation authorized the State to issue $10 billion in general obligation bonds for the purpose of making required contributions to the five state-funded retirement systems, including the Judges' Retirement System. On July 1, 2003, the net bond proceeds were allocated and distributed to each of the five state-funded retirement systems based on each system's relative percentage of the total unfunded liability at June 30, 2002. The Judges' Retirement System received an allocation of bond proceeds totaling

$141,955,483 and deposited all of the proceeds into the Illinois State Board of Investment Commingled Fund on July 2, 2003.

The actuarial determined liability of the System using the projected unit credit actuarial method at June 30, 2004, amounted to $1.156 billion. The actuarial value of assets (at fair value) amounted to $534.6 million resulting in an unfunded actuarial liability of $621.5 million as of the same date. A detailed discussion of funding is provided in the Actuarial Section of this report.

ACCOUNTING SYSTEM & INTERNAL CONTROL

This report has been prepared to conform with the principles of governmental accounting and reporting pronounced by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants.

The accrual basis of accounting is used to record the 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. The System's investment function is managed by the Illinois State Board of Investment.

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 compliance attestation examination was also performed by the auditors.

The purpose of the compliance attestation examination was to determine whether the 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.

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, 2003.

The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports. To be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents meet or exceed program standards. This 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 past fifteen consecutive years (fiscal years ended June 30, 1989 through June 30, 2003).

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 & COMMENTS

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 for determining responsible stewardship for the assets contributed by the members 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,

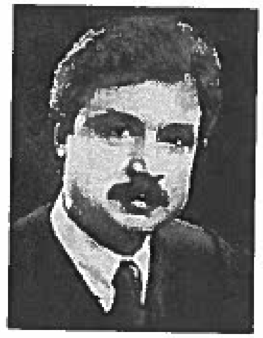
Robert V. Knox

Robert V. Knox
Executive Secretary

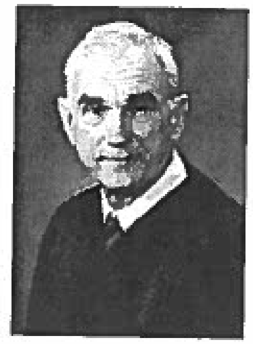
David M. Richter

David M. Richter, CPA
Accounting Division

ADMINISTRATION



JUSTICE
Thomas E. Hoffman
Chairman



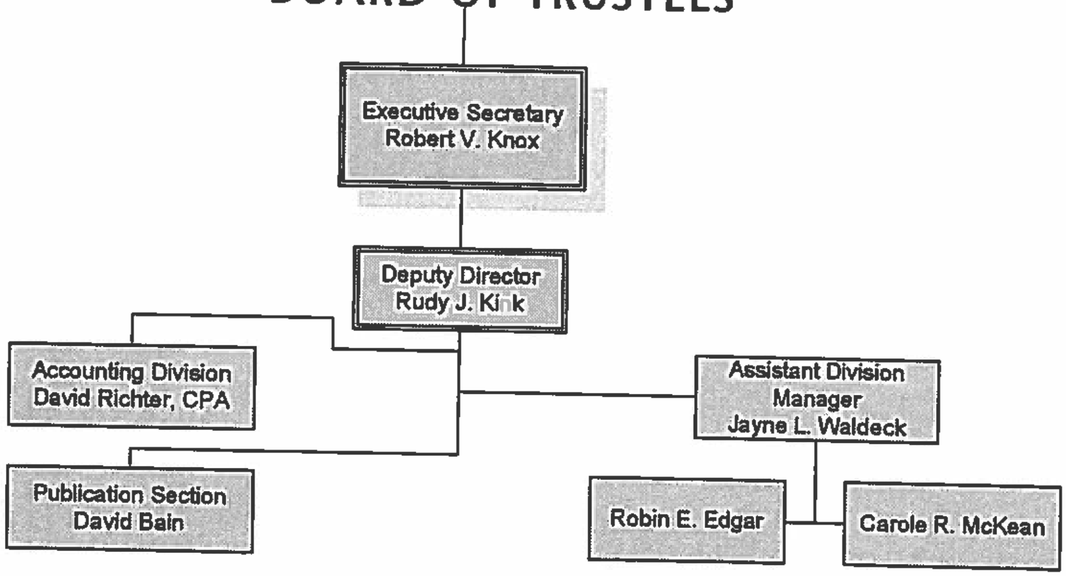
JUSTICE
John J. Bowman
Vice-Chairman

CHIEF JUDGE
Timothy C. Evans

CHIEF JUSTICE
Mary Ann McMorrow

STATE TREASURER
Judy Baar Topinka

BOARD OF TRUSTEES



Advisors, Auditors, and Administrators

Consulting Actuary	Goldstein & Associates Chicago, Illinois
External Auditor	McGladrey & Pullen, LLP Chicago, Illinois
Investments	Illinois State Board of Investment Chicago, Illinois

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, 2003

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.

President

Executive Director

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FINANCIAL SECTION

McGladrey & Pullen
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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, we have audited the accompanying statements of plan net assets of the Judges' Retirement System of Illinois (the System), as of June 30, 2004 and 2003 and the related 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 auditing standards generally accepted in the United States of America and the standards applicable to the 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 plan net assets of the Judges' Retirement System of Illinois as of June 30, 2004 and 2003, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we will also issue, under separate cover, our report dated November 5, 2004 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

The management's discussion and analysis on pages 14 and 15 and the schedules of funding progress and employer contributions on page 26 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

McGladrey & Pullen, LLP is a member firm of RSM International –
an affiliation of separate and independent legal entities.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the System. The introductory section, supplementary financial information on pages 27 and 28, investment section, actuarial section, statistical section and plan summary and legislative section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary financial information on pages 27 and 28 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory, investment, actuarial, statistical and plan summary and legislative sections listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

Schaumburg, Illinois
November 5, 2004

This financial report is designed to provide a general overview of the Judges' Retirement System's finances for all those with an interest in the System's finances.

This section presents management's discussion and analysis of the financial position and performance of the Judges' Retirement System of Illinois (System) for the year ended June 30, 2004. It is presented as a narrative overview and analysis. Readers are encouraged to consider the information presented here in conjunction with the Letter of Transmittal included in the Introductory Section, of the Comprehensive Annual Financial Report.

The System is a defined benefit, single-employer public employee retirement system. It provides services to 906 active judges and approximately 870 benefit recipients. Throughout this discussion and analysis units of measure (i.e. billions, millions, thousands) are approximate, being rounded up or down to the nearest tenth of the respective unit value.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the System's financial reporting which is comprised of the following components:

1. **Basic Financial Statements.** For the fiscal year ended June 30, 2004, basic financial statements are presented for the System. This information presents the net assets held in trust for pension benefits for the System as of June 30, 2004. This financial information also summarizes the changes in net assets held in trust for pension benefits for the year then ended.

2. **Notes to the Financial Statements.** The notes to the Financial Statements provide additional information that is essential to achieve a full understanding of the data provided in the basic financial statements.

3. **Required Supplementary Information.** The required supplementary information consists of two schedules and related notes concerning actuarial information, funded status and required contributions for the System.

4. **Other Supplementary Schedules.** Other schedules include more detailed information pertaining to the System, including schedules of revenues by source, cash receipts and disbursements, and payments to consultants.

FINANCIAL HIGHLIGHTS

- The System's net assets increased by $204.5 million, or 62% during fiscal year 2004. The increase was primarily due to additional employer contributions received from the sale of General Obligation bonds by the State of Illinois and a significant increase in income from investment activity.
- The System was actuarially funded at 46.2% as of June 30, 2004 an increase from 30.7% as of June 30, 2003.
- The overall rate of return for the Illinois State Board of Investment (ISBI) Commingled Fund was 16.4% for fiscal year 2004 compared to .3% for fiscal year 2003.

PLAN NET ASSETS

The condensed Statements of Plan Net Assets reflect the resources available to pay benefits to members, including retirees and beneficiaries, at the end of the years reported. A summary of the System's Plan Net Assets is presented below.

Condensed Statements of Plan Net Assets
(in thousands)

	2004	2003	2002	Increase/(Decrease) from 2003 to 2004 Dollar Change	Percent Change
Cash	$ 13,326.8	$ 7,324.2	$ 6,593.5	$ 6002.6	82.0%
Receivables	536.4	5,362.6	4,718.8	(4,826.2)	(90.0)
Investments, at fair value	521,373.0	317,541.1	332,424.6	203,831.9	64.2
Equipment, net	1.7	2.3	3.1	(0.6)	(26.1)
Total assets	535,237.9	330,230.2	343,740.0	205,007.7	62.1
Liabilities	658.1	176.6	80.7	481.5	272.7
Total plan net assets	$ 534,579.8	$330,053.6	$343,659.3	$ 204,526.2	62.0%

ADDITIONS TO PLAN NET ASSETS

Additions to Plan Net Assets include employer and participant contributions and net income from investment activities. Participant contributions were $13.7 million and $12.9 million for the years ended June 30, 2004 and 2003, respectively. Participant contribution rates are set by statute as a percentage of gross salary. Employer contributions increased to $178.6 million in 2004 from $31.4 million in 2003. This increase was primarily due to additional employer contributions of $142 million received from the sale of General Obligation bonds by the State of Illinois.

DEDUCTIONS FROM PLAN NET ASSETS

Deductions from Plan Net Assets are primarily benefit payments. During 2004 and 2003, the System paid out $61.4 million and $57.3 million, respectively, in benefits and refunds, an increase of approximately 7.1% from 2003. Those higher payments were mainly due to an increase in the number of annuitants as well as a 3% automatic annuity increase paid each year to offset the effects of inflation. The administrative costs of the System represented less than 1% of total deductions in both 2004 and 2003.

FUNDED RATIO

The funded ratio of the plan measures the ratio of net assets against actuarially determined liabilities and is one indicator of the fiscal strength of a pension fund's ability to meet obligations to its members. An annual actuarial valuation is required by statute. The most recent available valuation showed the funded status of the System on June 30, 2004 increased to 46.2% from 30.7% on June 30, 2003. Several reasons for the increase were stronger finacial markets in 2004 and additional employer contributions received from the sale of General Obligation bonds by the State of Illinois.

The amount by which actuarially determined liabilities exceeded net assets was $621.5 million on June 30, 2004 compared to $746.2 million on June 30, 2003.

INVESTMENTS

Investments of the System are combined in a commingled investment pool with the State Employees' Retirement System and the General Assembly Retirement System. Each system owns an equity position in the pool and receives proportionate investment income from the pool in accordance with respective ownership percentage. Investment gains or losses are reported in the Statement of Changes in Plan Net Assets of each retirement system.

Net investment income less expenses of the total ISBI Commingled Fund was approximately $1.5 billion during fiscal year 2004, versus net investment income of $12.7 million during fiscal year 2003, resulting in returns of 16.4% and .3%, respectively.

For the three, five, and ten year period ended June 30, 2004, the ISBI Commingled Fund earned a compounded rate of return of 2.8%, 2.5%, and 9.1%, respectively.

Questions concerning any of the information provided in this report or requests for additional financial information should be sent to the Judges' Retirement System of Illinois, Accounting Division, 2101 S. Veterans Parkway, P. O. Box 19255, Springfield, Illinois 62794

CHANGES IN PLAN NET ASSETS

The condensed Statements of Changes in Plan Net Assets reflect the changes in the resources available to pay benefits to members, including retirees and beneficiaries

Condensed Statements of Changes in Plan Net Assets
(in thousands)

	2004	2003	2002	Increase/(Decrease) from 2003 to 2004 Dollar Change	Percent Change
Additions					
Participant contributions	$ 13,720.9	$ 12,905.0	$ 12,487.3	$ 815.9	6.3%
Employer contributions	178,593.1	31,440.1	27,532.0	147,153.0	468.0
Net investment income/(loss)	74,012.8	(226.1)	(24,493.9)	74,238.9	(32,834.5)
Total additions	266,326.8	44,119.0	15,525.4	222,207.8	503.7
Deductions					
Benefits	60,912.9	56,714.5	52,822.3	4,198.4	7.4
Refunds	439.6	582.5	353.2	(142.9)	(24.5)
Administrative expenses	448.1	427.7	424.2	20.4	4.8
Total deductions	61,800.6	57,724.7	53,599.7	4,075.9	7.1
Net increase/(decrease) in plan net assets	$ 204,526.2	$ (13,605.7)	$ (38,074.3)	$ 218,131.9	(1,603.2)%

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Plan Net Assets
June 30, 2004 and 2003

	2004	2003
Assets		
Cash	$ 13,326,833	$ 7,324,152
Receivables:		
Employer contributions	-	4,858,000
Participants' contributions	430,677	415,822
Refundable annuities	21,635	13,398
Interest on cash balances	10,100	6,757
Due from General Assembly Retirement System	73,994	68,594
Total receivables	536,406	5,362,571
Investments - held in the Illinois State Board of Investment Commingled Fund at fair value	521,372,992	317,541,091
Equipment, net of accumulated depreciation	1,704	2,306
Total Assets	$ 535,237,935	$ 330,230,120
Liabilities		
Benefits payable	405,508	-
Refunds payable	189,164	76,120
Participants' deferred service credit accounts	12,000	9,000
Administrative expenses payable	51,440	91,440
Total Liabilities	658,112	176,560
Net assets held in trust for pension benefits	$ 534,579,823	$ 330,053,560

(A schedule of funding progress is presented on page 26.)

See accompanying notes to financial statements.

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Changes in Plan Net Assets
Years Ended June 30, 2004 and 2003

	2004	2003
Additions:		
Contributions:		
Participants	$ 13,720,911	$ 12,904,997
Employer	178,593,095	31,440,103
Total contributions	192,314,006	44,345,100
Investments:		
Net investment income	8,350,649	7,045,748
Interest earned on cash balances	136,396	157,388
Net appreciation/(depreciation) in fair value of investments	65,525,769	(7,429,253)
Total net investment income/(loss)	74,012,814	(226,117)
Total Additions	266,326,820	44,118,983
Deductions:		
Benefits:		
Retirement annuities	47,965,512	44,507,057
Survivors' annuities	12,947,383	12,207,505
Total benefits	60,912,895	56,714,562
Refunds of contributions	439,575	582,469
Administrative expenses	448,087	427,686
Total Deductions	61,800,557	57,724,717
Net Increase/(Decrease)	204,526,263	(13,605,734)
Net assets held in trust for pension benefits:		
Beginning of year	330,053,560	343,659,294
End of year	$ 534,579,823	$ 330,053,560

See accompanying notes to financial statements.

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Notes to Financial Statements June 30, 2004 and 2003

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 include 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.

At June 30, 2004 and 2003, the System membership consisted of:

	2004	2003
Retirees and beneficiaries currently receiving benefits:		
Retirement annuities	535	539
Survivors' annuities	338	325
	873	864
Inactive participants entitled to benefits but not yet receiving them	35	42
Total	908	906
Current participants:		
Vested	663	660
Nonvested	243	260
Total	906	920

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

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 years 2004 and 2003 were each less than $145,000. 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.

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 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 26 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 eligible to receive the maximum rate of annuity may irrevocably 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 total contribution rate is 11% if the participants elect to contribute for their spouse and dependents as shown below:

7.5%	Retirement annuity
2.5%	Survivors' annuity
1.0%	Automatic annual increases
11.0%	

Participants who have attained age 60 and are eligible to receive the maximum rate of annuity and have not elected to discontinue contributing to the System may irrevocably elect to have their contributions based only on the salary increases received on or after the effective date of such election rather than on the total salary received.

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 when due pursuant to statutory requirements. 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. 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% 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. The ISBI had no credit risk as a result of its securities lending program as the collateral held exceeded the market value of the securities lent. As of June 30, 2004 and 2003, the ISBI had outstanding loaned investment securities having market values of $1,146,769,008 and $676,614,658, respectively, against which it had received collateral with values of $1,402,058,848 and $699,833,455, respectively, in securities for which the ISBI does not have the ability to pledge or sell.

Some of the ISBI managers invest in derivative securities. A derivative security is an investment whose payoff depends upon the value of other assets such as bond and stock prices, a market index, or commodity prices. The ISBI's investments in derivatives are not leveraged. Obligations to purchase (long a financial future or a call option) are held in cash or cash equivalents. In the case of obligations to sell (short a financial future or a put option), the reference security is held in the portfolio. Derivative transactions involve, to varying degrees, credit risk and market risk.

Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake. The ISBI Board and senior management approve these limits, and the risk positions of the investment managers are reviewed on a regular basis to monitor compliance with the limits.

During the year, derivative investments included forward foreign currency contracts, collateralized mortgage obligations (CMO's), futures and options. The remaining derivative securities are used to improve the yields or to hedge changes in interest rates.

Forward foreign currency contracts are used to hedge against the currency risk in the ISBI's foreign stock and fixed income portfolios. Forward foreign currency contracts are agreements to buy or sell specific amounts of a foreign currency at a specified delivery or maturity date for an agreed upon price. As the market value of the forward contracts vary, the ISBI Board records an unrealized gain or loss. Forward foreign currency contracts represent an off-balance sheet obligation, as there are no balance sheet assets or liabilities associated with those contracts. The market value of forward foreign currency contracts outstanding at June 30, 2004 and 2003, were as follows:

	June 30, 2004	June 30, 2003
Forward currency purchases	$ 86,816,176	$ 67,363,443
Forward currency sales	87,241,866	67,381,163
Unrealized gain (loss)	(425,690)	(17,720)

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. As of June 30, 2004 and 2003, the fair value of the ISBI Board's CMO holdings totaled $57,368,826 and $112,763,325, respectively.

The ISBI investment managers utilize financial futures to replicate an underlying security they desire to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security (arbitrage). Financial future contracts are also used to improve the yield or adjust the duration of the portfolio. Financial futures contracts are agreements to buy or sell a specified amount at a specified delivery or maturity date for an agreed upon price. As the market values of the futures contracts vary from the original contract price, a gain or loss is recognized and paid to or received from the clearinghouse. Financial futures represent an off-balance sheet obligation, as there are no balance sheet assets or liabilities associated with those contracts. The cash or securities to meet these obligations are held in the investment portfolio.

The ISBI Board's investment managers utilize options in an effort to add value to the portfolio (collect premiums) or protect (hedge) a position in the portfolio. Options are agreements that give one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specific price (called the strike price) on or before a specified expiration date. As the writer of financial options, the ISBI receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the instrument underlying the option. As the purchaser, the ISBI pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. The following table shows the futures and options positions held by the ISBI as of June 30, 2004:

	Number of Contracts	Contract principal*
Domestic:		
Equity futures purchased	808	$ 230,360,800
Fixed income futures purchased	197	20,523,243
Fixed income futures sold	678	73,536,627
Fixed income written put options	303	385,079
Fixed income written call options	467	553,900

** Contract principal amounts shown represent the market value of the underlying assets the contracts control. These are shown to present the volume of the transactions but does not reflect the extent to which positions may offset one another. These amounts do not represent the much smaller amounts potentially subject to risk. Contract principal values also do not represent actual balance sheet values.*

The System owns approximately 5.0% of the net investment assets of the ISBI Commingled Fund as of June 30, 2004. A schedule of investment expenses is included in the ISBI annual report.

For additional information regarding the ISBI's investments, please refer to the Annual Report of the ISBI as of June 30, 2004. 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 for which 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 counterparty's agent in the ISBI's name.

- Category III includes investments that are uninsured and unregistered with the securities held by the counterparty 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.

ISBI's investments categorized as of June 30, 2004

	Fair Value	Category I	Non Categorized
U.S. Government & Agency Obligations	$ 1,472,563,096	$ 684,975,511	$ 787,587,585
Foreign Obligations	141,984,456	86,831,664	55,152,792
Corporate Obligations	1,384,436,108	434,971,640	949,464,468
Convertible Bonds	2,745,915	2,745,915	-
Common Stock & Equity Funds	5,087,663,744	5,087,663,744	-
Preferred Stock	4,590,819	4,590,819	-
Foreign Equity Securities	1,087,681,488	1,050,170,293	37,511,195
Real Estate Funds	616,134,095	-	616,134,095
Alternative Investments	441,033,580	-	441,033,580
Money Market Instruments	425,397,983	-	425,397,983
Forward Foreign Exchange Contracts	(425,690)	(425,690)	-
Total Investments	$10,663,805,594	$ 7,351,523,896	$ 3,312,281,698

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, 2002.

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 Judges' Retirement System and the General Assembly Retirement System are borne 60% by the Judges' Retirement System and 40% by the General Assembly Retirement System. Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System, and 40% thereof is allocated to and reimbursed by the General Assembly Retirement System. Administrative expenses allocated to and reimbursed by the General Assembly Retirement System as of June 30, 2004 and 2003, were $254,886 and $246,080, 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 2004 and 2003, the required employer contributions were computed in accordance with Public Act 88-0593, as modified by Public Act 93-0002. This funding legislation 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 2004 and 2003 was $36,526,000 and $31,373,000, respectively. The total amount of employer contributions received from the state during fiscal years 2004 and 2003 was $178,481,483, which includes $141,955,483 of additional employer contributions received from the sale of General Obligation bonds by the State of Illinois, and $31,373,000, respectively.

5. Administrative Expenses

A summary of the administrative expenses for the Judges' Retirement System for fiscal years 2004 and 2003 are listed below.

Administrative expenses for fiscal years 2004 and 2003

	2004	2003
Personal services	$247,832	$244,458
Employee retirement contributions paid by employer	9,773	9,431
Employer retirement contributions	33,322	25,277
Social security contributions	16,912	16,854
Group insurance	31,168	29,469
Contractual services	83,573	76,070
Travel	9,772	8,965
Printing	3,362	3,097
Commodities	558	645
Telecommunications	2,295	2,480
Electronic data processing	11,531	10,350
Depreciation	929	1,347
Change in accrued compensated absences	(2,940)	(1,007)
Other	-	250
Total	$448,087	$427,686

6. Equipment

Capital 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.

Summary of the changes in equipment for fiscal years 2004 and 2003

2004

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 43,947	$ 327	$ (4,302)	$ 39,972
Accumulated depreciation	(41,641)	(929)	4,302	(38,268)
Equipment, net	$ 2,306	$ (602)	$ -	$ 1,704

2003

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 43,635	$ 774	$ (462)	$ 43,947
Accumulated depreciation	(40,504)	(1,347)	210	(41,641)
Equipment, net	$ 3,131	$ (573)	$ (252)	$ 2,306

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, 2004 and 2003 total $37,423 and $40,364, respectively and are included in 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 2004 and 2003 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the years ended June 30, 2004 and 2003, 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 its payrolls. For fiscal years 2004 and 2003 the employer contribution rates were 13.439% and 10.321%, respectively.

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 years ended June 30, 2004 and 2003. 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 payouts by the Judges' Retirement System.

Statements of Changes in Reserve Balances
Years Ended June 30, 2004 and 2003

	Participants' Contributions	Future Operations	Total Reserve Balances
Balance at June 30, 2002	$116,811,581	$226,847,713	$343,659,294
Add (deduct):			
Excess of revenues over/(under) expenses	12,463,957	(26,069,691)	(13,605,734)
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(7,401,823)	7,401,823	-
Balance at June 30, 2003	121,873,715	208,179,845	330,053,560
Add (deduct):			
Excess of revenues over expenses	13,468,297	191,057,966	204,526,263
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(4,794,652)	4,794,652	-
Balance at June 30, 2004	$130,547,360	$404,032,463	$534,579,823

Schedule of Funding Progress

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)
6/30/99	$389,761,923	$ 805,587,241	$415,825,318	48.4%	$ 99,200,000	419.2%
6/30/00	422,933,720	871,153,418	448,219,698	48.5	104,000,000	431.0
6/30/01	381,733,581	937,091,513	555,357,932	40.7	109,900,000	505.3
6/30/02	343,659,294	1,020,846,773	677,187,479	33.7	118,700,000	570.5
6/30/03	330,053,560	1,076,231,965	746,178,405	30.7	123,900,000	602.2
6/30/04	534,579,823	1,156,092,951	621,513,128	46.2	127,200,000	488.6

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution per GASB Statement No. 25	Percentage Contributed	Annual Required Contribution per State Statute	Percentage Contributed
1999	$38,631,275	48.4%	$18,293,000	102.2%
2000	40,205,224	53.2	21,388,000	100.0
2001	42,546,928	56.9	24,218,000	100.0
2002	47,277,311	58.2	27,532,000	100.0
2003	53,470,841	58.7	31,373,000	100.0
2004	63,261,895	57.7	36,526,000	100.0 (1)

(1) This percentage excludes the additional employer contributions received from the sale of General Obligation bonds by the State of Illinois. These proceeds were not part of the current fiscal year required contributions.

Notes to Required Supplementary Information

Valuation date: June 30, 2004

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: 41 years, closed

Asset valuation method: Fair value

Actuarial assumptions:

Investment rate of return:	8.0 percent per year, compounded annually
Projected salary increases:	5.5 percent per year, compounded annually
Assumed inflation rate:	4.0 percent
Group size growth rate:	0.0 percent
Post-retirement increase:	3.0 percent per year, compounded annually

SUMMARY OF REVENUES BY SOURCE
Years Ended June 30, 2004 and 2003

	2004	2003
Contributions:		
Participants:		
Participants	$ 13,552,646	$ 12,424,982
Interest paid by participants	105,223	180,070
Transferred from reciprocating systems	63,042	299,945
Total participant contributions	13,720,911	12,904,997
Employer:		
Pension Contribution Fund	151,624,713	-
General Revenue Fund	26,247,001	29,148,000
State Pension Fund	609,769	2,225,000
Paid by participants	111,612	67,103
Total employer contributions	178,593,095	31,440,103
Total contributions revenue	192,314,006	44,345,100
Investments:		
Net investment income	8,350,649	7,045,748
Interest earned on cash balances	136,396	157,388
Net appreciation/(depreciation) in fair value of investments	65,525,769	(7,429,253)
Total net investment income/(loss)	74,012,814	(226,117)
Total revenues	$ 266,326,820	$ 44,118,983

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
Years Ended June 30, 2004 and 2003

	2004	2003
Cash balance, beginning of year	$ 7,324,152	$ 6,593,476
Receipts:		
Participant contributions	13,609,323	12,508,912
Employer contributions:		
Pension Contribution Fund	151,624,713	-
General Revenue Fund	31,105,001	28,509,699
State Pension Fund	609,769	2,225,000
Paid by participants	66,041	46,446
Interest income on cash balances	133,053	165,209
Reimbursements from General Assembly Retirement System	251,961	245,090
After-tax installment payments	3,000	20,915
Cancellation of refunds	-	2,048
Cancellation of annuities, net of overpayments	74,638	94,697
Tax-deferred installment payments	149,972	72,065
Transfers from reciprocating systems	63,042	299,945
Transfers from Illinois State Board of Investment	12,000,000	14,500,000
Miscellaneous	107	150
Total cash receipts	209,690,620	58,690,176
Disbursements:		
Benefit payments:		
Retirement annuities	47,641,912	44,581,830
Survivors' annuities	12,948,351	12,231,304
Refunds	397,240	490,045
Transfers to Illinois State Board of Investment	141,955,483	-
Administrative expenses	744,953	656,321
Total cash disbursements	203,687,939	57,959,500
Cash balance, end of year	$ 13,326,833	$ 7,324,152

SCHEDULE OF PAYMENTS TO CONSULTANTS
Years Ended June 30, 2004 and 2003

	2004	2003
Actuary	$21,500	$17,000
Audit fees	18,110	20,089
Legal services	1,991	990
Financial planner	1,200	300
Medical services	280	350
Total	$43,081	$38,729

INVESTMENT SECTION

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, 2004, total net assets under management valued at market, amounted to $10.443 billion. Of the total market value of assets under management, $521.4 million or approximately 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. The following investment information and analysis has been prepared by the ISBI.

Investment Policy

The ISBI operates under a strategic investment policy that is reviewed and approved at least every two years. The investment objective of the total portfolio is to maximize the rate of return on investments within a prudent level of risk. To achieve this objective, the ISBI invests in different types of assets and uses multiple managers to ensure diversification.

Over an investment cycle, the ISBI seeks to achieve a rate of return that is at least equal to the assumed actuarial interest rate, currently 8.0% per year, and at least equal to the

Asset Allocation

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

In August, 2003, the ISBI engaged the firm of Marquette Associates (Marquette) as its general consultant. Marquette's first task was to perform a complete asset allocation study intended to create an asset allocation policy to most effectively achieve the ISBI's long-term investment objective of an 8.0% compounded rate of return. Marquette was to consider all asset classes and to include appropriate benchmarks with which to evaluate specific managers and the portfolio as a whole. Marquette submitted the final version of its asset allocation study and the associated asset allocation policy to the ISBI Board at their December, 2003 meeting, where the study was accepted and the policy adopted.

The ISBI's new asset allocation reflects a reduced exposure to international equities and private equity. At the same time, the new model calls for increased investments in real estate, but through less aggressive investment vehicles, and a very modest increase to the fixed income portfolio. Finally, the new model makes an allocation to hedge funds through the use of very constrained funds of funds. The ISBI's newly adopted asset allocation policy allocates 45% to domestic equities, 10% to international equities, 25% to fixed income, 10% to real estate, 5% to private equity, and 5% to hedge funds. The actual allocation of the portfolio at June 30, 2004, relative to the target is set forth in the table below.

	Actual Asset Allocation	Policy Target
U.S. Equities	51%	50%
International Equities	11	10
Fixed Income	28	25
Real Estate	6	10
Alternative Investments	4	5
Total	100%	100%

Investment Results

In fiscal year 2004, investors benefited from improvements in the equity markets unknown since the previous century. For fiscal year 2004, the ISBI total fund was up 16.4%, net of expenses. This follows on generally flat returns for fiscal year 2003, and substantial losses for the previous two fiscal years. Not only was the long-term objective of at least equaling the 8.0% assumed actuarial interest rate markedly surpassed, but the portfolio also out-performed the policy-weighted benchmark return of 16.3%. The ISBI total fund return over the three, five and ten year time periods was 2.8%, 2.5%, and 9.1%, respectively.

U.S. Equities

For the twelve months ended June 30, 2004, the Wilshire 5000 Index, a broad representation of the U.S. market, was up 21.2%. Value stocks exceeded growth stocks, with the Russell 3000 Value Index up 22.1%, compared to the Russell 3000 Growth Index up 18.8%. Small capitalization stocks out-performed large capitaliztion stocks, with the Russell 2000 Index up 33.4% compared with the S&P 500 Index up 19.1%. The ISBI's U.S. Equity portfolio was up 21.7% for the fiscal year, slightly above the Wilshire 5000 Index. The ISBI Board, through structure analysis, rebalancing, and risk management, has achieved the objective of tracking the market with predictable consistency. The ISBI's ten-year average annual return of 11.4% shows that even considering the losses in prior years, the U.S. stock market has rewarded the long-term investor.

U.S. EQUITIES

	1 Year	3 Years	5 Years
ISBI	21.7%	1.0%	0.4%
Wilshire 5000 Index	21.2	0.8	(1.0)

International Equities

Foreign markets were the best performing asset class in fiscal year 2004. The Morgan Stanley EAFE Index returned 32.9% for the fiscal year; about twelve percentage points above the U.S. equities index return. The ISBI's international equity portfolio, up 29.8%, lagged the benchmark for the fiscal year. As with the U.S. equity portfolio, the ISBI Board has the twin objectives of limiting tracking error relative to the benchmark and adding value with active management.

INTERNATIONAL EQUITIES

	1 Year	3 Years	5 Years
ISBI	29.8%	4.0%	0.9%
MSCI-EAFE Index	32.9	4.3	0.4

FIXED INCOME	1 Year	3 Years	5 Years
ISBI	0.7%	4.8%	5.6%
Lehman U.S. Univ. Bond Index	1.0	6.7	7.1

REAL ESTATE	1 Year	3 Years	5 Years
ISBI	9.1%	7.5%	6.8%
NCREIF Real Estate Index	9.7	7.7	9.3

Fixed Income

The ISBI fixed income portfolio had a positive return of 0.7% for the fiscal year compared to the Lehman U.S. Universal Bond Index which returned 1.0% for the year. During the fiscal year, the ISBI transitioned all fixed income assets to diversified external managers. The ISBI Board believes that the new structure will minimize the negative surprises such as those experienced in the past, and result in more predictable fixed income returns.

Real Estate

For fiscal year 2004, the ISBI's real estate portfolio earned a 9.1% return. The NCREIF Real Estate Index, a measure of core, operating, non-leveraged real estate, earned 9.7%. Prior to fiscal year 2001, the ISBI Board's real estate policy was to seek higher return real estate opportunities while controlling for risk and investments focused on value-added or opportunistic strategies. However, over the last three fiscal years, the ISBI Board has increased the real estate strategic allocation from 5% to 10% of the total fund with the new allocation targeting 70% of its real estate to core, income producing real estate, with the balance in higher return strategies. Interests in limited partnerships, trusts, and other forms of pooled investments represent ISBI's current investments in real estate.

Alternative Investments

Overall, the ISBI's alternative investments portfolio had a return of 16.9% for the fiscal year. The alternative investments portfolio consists of interests in limited partnerships and other commingled vehicles that invest in venture capital, management buyouts, and other private placement activities. In spite of the setbacks of the previous few fiscal years, long-term results show that alternative investments remain the best performing asset class for the ten-year period ended June 30, 2004.

Management Expenses

Total ISBI expenses for fiscal year 2004 were $17.9 million, compared to $16.8 million for fiscal year 2003. The resulting expense ratio (expenses divided by average net assets) was 0.18% in fiscal year 2004 as compared to 0.23% in fiscal year 2003.

INVESTMENT PORTFOLIO SUMMARY

Investments, at fair value				
U.S. Government and Agency Obligations	$ 1,472,563,096	14.10%	$ 862,128,328	11.05%
Foreign Obligations	141,984,456	1.36	181,133,769	2.32
Corporate Obligations	1,384,436,108	13.26	695,789,042	8.92
Convertible Bonds	2,745,915	0.03	861,871	0.01
Common Stock & Equity Funds	5,087,663,744	48.72	3,772,803,315	48.36
Convertible Preferred Stock	-	0.00	4,263	0.00
Preferred Stock	4,590,819	0.04	4,402,445	0.06
Foreign Equity Securities	1,087,681,488	10.42	1,174,665,480	15.06
Real Estate Funds	616,134,095	5.90	614,846,458	7.88
Alternative Investments	441,033,580	4.22	441,537,163	5.66
Money Market Instruments	425,397,983	4.07	283,727,618	3.64
Forward Foreign Exchange Contracts	(425,690)	0.00	(17,720)	0.00
	10,663,805,594	102.12	8,031,882,032	102.96
Other Assets, Less Liabilities	(221,067,040)	(2.12)	(230,860,822)	(2.96)
Net Assets, at Fair Value	$ 10,442,738,554	100.0%	$7,801,021,210	100.0%

ANALYSIS OF INVESTMENT PERFORMANCE(1)

Total Return* - Past 3 years		2.8%			
Total Return* - Past 5 years			2.5%		
Total Return* - year by year	16.4%	0.3%	(6.9)%	(7.1)%	11.8%
Actuarial Assumed Rate of Return			8.0%		
Average Net Income Yield*	1.7%	2.3%	2.4%	2.6%	2.4%
Comparative rates of return on fixed income securities					
Total fixed income - ISBI	0.7%	8.3%	5.5%	9.5%	4.0%
Comparison index:					
Lehman U.S. Universal Bond Index	1.0%	11.5%	7.7%	10.8%	4.8%
Comparative rates of return on equities					
Domestic equities - ISBI	21.7%	0.9%	(14.6)%	(10.3)%	10.3%
Comparison index:					
Wilshire 5000 Index	21.2%	1.3%	(16.6)%	(15.3)%	9.5%

(1)The Northern Trust Company, the ISBI's master custodian, provides performance rates of return by portfolio, portfolio aggregation and the respective indices in accordance with the Association for Investment Management and Research (AIMR) performance presentation standards.

* 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 of the System for fiscal years 2004 and 2003:

	2004	2003	Increase/(Decrease) Amount	Increase/(Decrease) Percentage
Balance at beginning of year, at fair value	$317,541,091	$ 332,424,596	$(14,883,505)	(4.5)%
Cash transferred to/(from) ISBI, net	129,955,483	(14,500,000)	144,455,483	996.2
Net ISBI investment revenue:				
ISBI Commingled Fund income	9,238,465	7,732,632	1,505,833	19.5
Less ISBI expenses	(887,816)	(686,884)	200,932	29.3
Net ISBI investment income	8,350,649	7,045,748	1,304,901	18.5
Net appreciation/(depreciation) in fair value of ISBI investments	65,525,769	(7,429,253)	72,955,022	982.0
Net ISBI investment income/(loss)	73,876,418	(383,505)	74,259,923	19,363.5
Balance at end of year, at fair value	$521,372,992	$ 317,541,091	$203,831,901	64.2%

In addition, interest on the average balance in the System's cash account in the State Treasury for FY 2004 was $136,396 compared to $157,388 during FY 2003.

ACTUARIAL SECTION

GOLDSTEIN & ASSOCIATES
Actuaries and Consultants

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October 13, 2004

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, 2004. The purpose of the valuation was to determine the financial condition and funding requirements of the retirement system.

There have been no changes in the benefit provisions of the system during the period between the date of the last actuarial valuation and the date of the current 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 1996-2001. Based on this experience analysis, we recommended actuarial assumptions which were adopted by the system's board effective June 30, 2002 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.

Section 5/18-131 of the Illinois Pension Code specifies the funding plan currently in effect 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.

Public Act 93-0002, effective April 7, 2003, authorized the sale of $10 billion in General Obligation Bonds (GOB). On July 1, 2003, the Judges' Retirement System received $141,955,483 from the GOB proceeds. Under changes made to the funding plan by Public Act 93-0002, the State contribution for each year shall not exceed:

1. The State contribution that would have been required had the GOB program not been in effect, reduced by
2. The total debt service for each year for the system's portion of the GOB proceeds.

GOLDSTEIN & ASSOCIATES
Actuaries and Consultants

Based on the June 30, 2004 actuarial valuation, we have determined the required State contribution under this funding plan as modified by Public Act 93-0002 for fiscal year 2006. We have also estimated the required State contributions for future years.

The system's current funding plan does not meet the requirements for amortizing the unfunded liability provided under GASB Statement No. 25. In all other respects, the assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by GASB Statement No. 25.

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, 2004. 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

Sandor Goldstein, F.S.A.
Consulting Actuary

Carl J. Smedinghoff

Carl J. Smedinghoff, A.S.A.
Actuary

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, Senate Bill 533 was signed 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 2004 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.

In April, 2003, House Bill 2660 was signed into law as Public Act 93-0002. This legislation authorized the sale of $10 billion in General Obligation bonds for the purpose of making contributions to the five state financed retirement systems. On July 1, 2003, the System received $141,955,483 of net bond proceeds based on the percentage of the System's actuarial reserve deficiency to the State's total actuarial reserve deficiency at June 30, 2002. In addition, Public Act 93-0002 also modified the existing funding plan by mandating the required State contribution for each fiscal year not exceed (1) the State contributions that would have been required had the General Obligation bond program not been in effect, reduced by (2) the total debt service for each year for the System's portion of the General Obligation bond proceeds.

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 has, in effect, removed 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 2004 and 2003, 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.

DESCRIPTION OF THE ACTUARIAL ASSUMPTIONS UTILIZED FOR FISCAL YEARS 2004 AND 2003

Dates of Adoption: The Projected Unit Credit Normal Cost Method was adopted June 30, 1987; all other assumptions were adopted June 30, 2002.

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, rated down two years.

Salary Increase: A salary increase assumption of 5.5% per year (consisting of a general increase component of 4.5% per year, 4.0% of which is attributable to inflation, and a seniority/merit component of 1.0% 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.

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:

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	.080
60	.220
65	.110
70	.110
75	.200
80 and over	1.000

The above retirement rates are equivalent to an average retirement age of approximately 65.

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.

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

	Aggregate Accrued Liabilities For				Percentage of Accrued Liabilities Covered By Net Real Assets		
Fiscal Year	(1) Inactive Participant Contributions	(2) Active and Retirement and Survivor Annuitants	(3) Inactive Participants (Employer Financed Portion)	Active and Net Assets Available for Benefits*	(1)	(2)	(3)
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
1999	100,902,055	422,297,709	282,387,477	389,761,923	100.0	68.4	0.0
2000	106,785,540	453,439,227	310,928,651	422,933,720	100.0	69.7	0.0
2001	110,566,634	510,326,061	316,198,818	381,733,581	100.0	53.1	0.0
2002	116,811,581	555,922,720	348,112,472	343,659,294	100.0	40.8	0.0
2003	121,873,715	607,038,789	347,319,461	330,053,560	100.0	34.3	0.0
2004	130,547,360	633,302,100	392,243,491	534,579,823	100.0	63.8	0.0

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

VALUATION RESULTS

Actuarial Liability:	June 30, 2004	June 30, 2003
For Active Participants:		
Basic retirement annuity	$ 330,101,044	$ 295,011,344
Annual increase in retirement annuity	104,397,161	93,330,561
Pre-retirement survivors' annuity	30,591,436	27,460,812
Post-retirement survivors' annuity	40,633,446	35,900,380
Withdrawal benefits	5,958,801	5,836,357
Disability benefits	2,067,153	2,104,179
Total	513,749,041	459,643,633
For Participants Receiving Benefits:		
Retirement annuities	516,778,969	497,243,301
Survivor annuities	116,523,131	109,795,488
Total	633,302,100	607,038,789
For Inactive Participants	9,041,810	9,549,543
Total Actuarial Liability	1,156,092,951	1,076,231,965
Net Assets, Fair Value	534,579,823	330,053,560
Unfunded Actuarial Liability	$ 621,513,128	$ 746,178,405

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
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%
1999	805,587,241	389,761,923	48.4%	415,825,318	99,200,000	419.2%
2000	871,153,418	422,933,720	48.5%	448,219,698	104,000,000	431.0%
2001	937,091,513	381,733,581	40.7%	555,357,932	109,900,000	505.3%
2002	1,020,846,773	343,659,294	33.7%	677,187,479	118,700,000	570.5%
2003	1,076,231,965	330,053,560	30.7%	746,178,405	123,900,000	602.2%
2004	1,156,092,951	534,579,823	46.2%	621,513,128	127,200,000	488.6%

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

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

Fiscal Year	Annuitants				Survivors				
	Beginning	Additions	Deletions	Ending	Beginning	Additions	Deletions	Ending	Total
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
1999	460	35	24	471	297	23	19	301	772
2000	471	37	32	476	301	24	17	308	784
2001	476	62	32	506	308	25	17	316	822
2002	506	43	32	517	316	24	19	321	838
2003	517	51	29	539	321	19	15	325	864
2004	539	29	33	535	325	30	17	338	873

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date June 30	Active Members Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay
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%
1999	895	99,200,000	110,838	5.2%
2000	908	104,000,000	114,537	3.3%
2001	910	109,900,000	120,769	5.4%
2002	909	118,700,000	130,583	8.1%
2003	920	123,900,000	134,674	3.1%
2004	906	127,200,000	140,397	4.2%

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

	FY 2004	FY 2003
Unfunded actuarial liability at Beginning of FY	$746,178,405	$677,187,479
Employer contribution requirement of normal cost plus interest on the unfunded liability	86,297,853	80,733,349
Actual employer contribution for the year	178,593,095	31,440,103
Increase/(decrease) in unfunded liability due to employer contributions being less/(greater) than normal cost plus interest on unfunded liability	(92,295,242)	49,293,246
Increase/(decrease) in unfunded liability due to investment return lower/(greater) than assumed	(36,709,772)	27,183,676
Increase/(decrease) in unfunded liability due to salary increases greater/(lower) than assumed	6,291,883	(26,392,926)
Increase/(decrease) in unfunded liability due to other sources	(1,952,146)	18,906,930
Total Actuarial (Gains)/Losses	(32,370,035)	19,697,680
Net increase/(decrease) in unfunded liability for the year	(124,665,277)	68,990,926
Unfunded actuarial liability at End of FY	$621,513,128	$746,178,405

STATISTICAL SECTION

ASSET BALANCES

Fiscal Year Ended June 30	Cash	Receivables	Investments*	Fixed Assets Net of Accumulated Depreciation	Total
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
1999	7,279,856	291,173	382,235,852	8,784	389,815,665
2000	7,752,714	476,829	414,758,248	6,739	422,994,530
2001	8,529,516	613,324	372,637,630	4,306	381,784,776
2002	6,593,476	4,718,760	332,424,596	3,131	343,739,963
2003	7,324,152	5,362,571	317,541,091	2,306	330,230,120
2004	13,326,833	536,406	521,372,992	1,704	535,237,935

* *Investments are reported at fair value after fiscal year 1995. For fiscal year 1995, investments are reported at cost (book value).*

LIABILITIES AND RESERVE BALANCES

Fiscal Year Ended June 30	Total Liabilities	Reserve for Participant Contributions	Reserve for Future Operations*	Total Reserves	Total
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
1999	53,742	100,902,055	288,859,868	389,761,923	389,815,665
2000	60,810	106,785,540	316,148,180	422,933,720	422,994,530
2001	51,195	110,566,634	271,166,947	381,733,581	381,784,776
2002	80,669	116,811,581	226,847,713	343,659,294	343,739,963
2003	176,560	121,873,715	208,179,845	330,053,560	330,230,120
2004	658,112	130,547,360	404,032,463	534,579,823	535,237,935

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

REVENUES BY SOURCE

Fiscal Year Ended June 30	Participant Contributions	Employer Contributions: State of Illinois	Employer Contributions: Other Sources	Employer Contributions: Total	Net Investment Revenue/(Loss)*	Total
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
1999	11,270,131	18,688,816	-	18,688,816	44,613,324	74,572,271
2000	12,005,415	21,388,000	23,577	21,411,577	44,848,449	78,265,441
2001	12,291,097	24,218,000	130,926	24,348,926	(28,464,876)	8,175,147
2002	12,487,303	27,532,000	–	27,532,000	(24,493,880)	15,525,423
2003	12,904,997	31,373,000	67,103	31,440,103	(226,117)	44,118,983
2004	13,720,911	178,481,483	111,612	178,593,095	74,012,814	266,326,820

* *The Net Investment Revenue/(Loss) includes both realized and unrealized gains and losses on investments after fiscal year 1995. For fiscal year 1995, the Net Investment Revenue/(Loss) includes only realized gains and losses on investments.*

EXPENSES BY TYPE

Fiscal Year Ended June 30	Benefits	Refunds of Contributions	Administrative Expenses	Total
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
1999	40,851,598	296,143	355,543	41,503,284
2000	44,218,748	498,183	376,713	45,093,644
2001	48,330,822	633,610	410,854	49,375,286
2002	52,822,314	353,163	424,233	53,599,710
2003	56,714,562	582,469	427,686	57,724,717
2004	60,912,895	439,575	448,087	61,800,557

BENEFIT EXPENSES BY TYPE

Fiscal Year Ended June 30	Retirement Annuities	Survivors' Annuities	Total
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
1999	31,553,425	9,298,173	40,851,598
2000	34,078,117	10,140,631	44,218,748
2001	37,509,685	10,821,137	48,330,822
2002	41,145,096	11,677,218	52,822,314
2003	44,507,057	12,207,505	56,714,562
2004	47,965,512	12,947,383	60,912,895

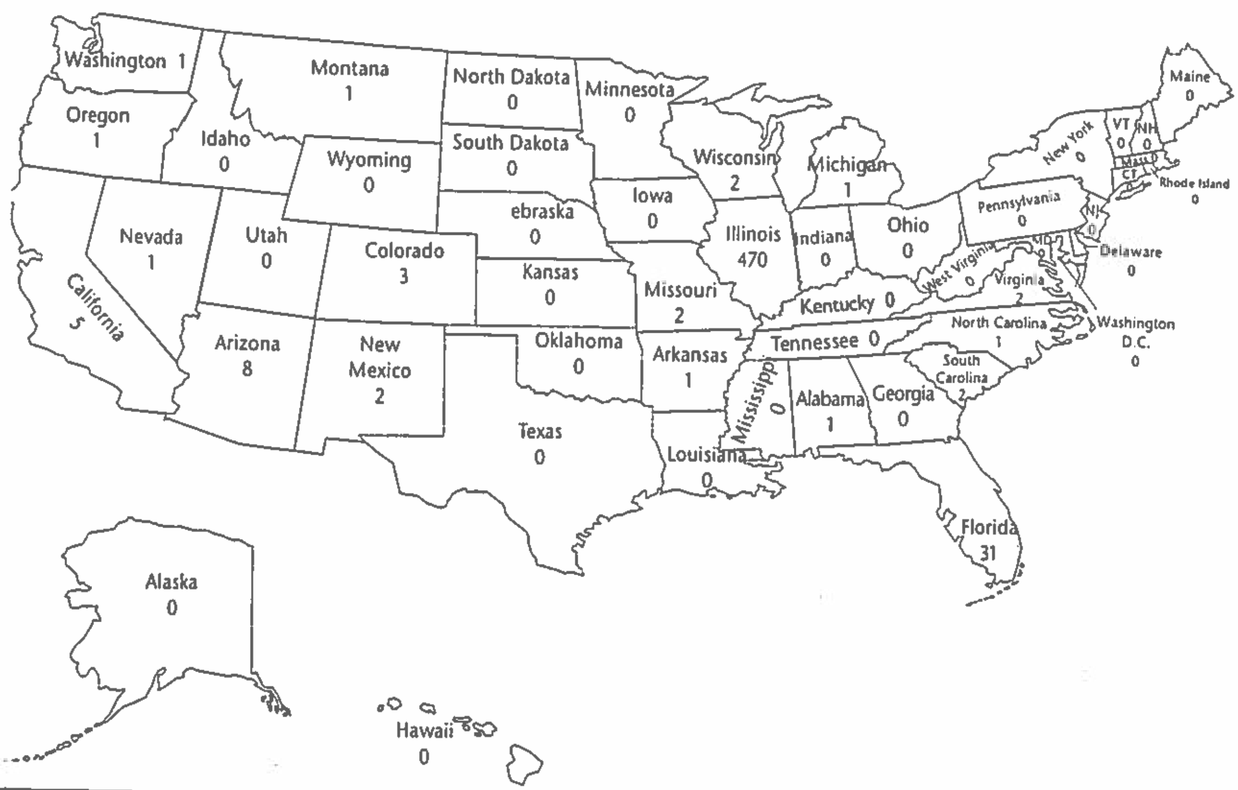
NUMBER OF RECURRING BENEFIT PAYMENTS

On June 30	Retirement Annuities	Survivors' Annuities	Total
1995	415	273	688
1996	444	275	719
1997	460	286	746
1998	460	297	757
1999	471	301	772
2000	476	308	784
2001	506	316	822
2002	517	321	838
2003	539	325	864
2004	535	338	873

NUMBER ON ACTIVE PAYROLLS

On June 30	Supreme Court Justices	Appellate Court Justices	Circuit Court Judges	Retired Judges Recalled	Admin. Office of Courts	Total
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
1999	7	40	855	8	-	910
2000	7	41	854	11	-	913
2001	7	42	857	8	-	914
2002	7	42	855	9	-	913
2003	7	42	862	12	-	923
2004	7	41	847	14	-	909

ACTIVE RETIREES BY STATE



RETIREMENT ANNUITANTS STATISTICS AND AVERAGE MONTHLY BENEFITS

	At Retirement			
Fiscal Year Ended June 30	Average Age	Average Length of Service *	Average Current Age	Average Current Monthly Benefit
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
1999	64.7	16.6	73.6	5,735
2000	64.5	17.4	73.4	6,043
2001	64.3	17.5	72.8	6,431
2002	64.0	17.5	72.6	6,723
2003	63.8	17.8	72.4	7,107
2004	63.5	17.8	72.3	7,418

* in years

NUMBER OF PARTICIPANTS

At June 30	Active	Inactive	Total
1995	875	37	912
1996	866	35	901
1997	881	59	940
1998	898	52	950
1999	895	56	951
2000	908	43	951
2001	910	39	949
2002	909	35	944
2003	920	42	962
2004	906	35	941

TERMINATION REFUNDS

Fiscal Year Ended June 30	Number	Amount
1995	4	$ 119,964
1996	2	106,020
1997	3	55,033
1998	3	80,534
1999	2	15,953
2000	5	138,915
2001	4	124,913
2002	0	–
2003	2	57,588
2004	3	44,569

Annuitants by Benefit Range (Monthly) on June 30, 2004

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-500	1	1	0.2	0.2
501-1000	7	8	1.3	1.5
1001-1500	11	19	2.1	3.6
1501-2000	6	25	1.1	4.7
2001-2500	11	36	2.1	6.8
2501-3000	11	47	2.1	8.9
3001-3500	10	57	1.9	10.8
3501-4000	13	70	2.4	13.2
4001-4500	10	80	1.9	15.1
4501-5000	21	101	3.9	19.0
5001-5500	13	114	2.4	21.4
5501-6000	22	136	4.1	25.5
6001-6500	36	172	6.7	32.2
6501-7000	25	197	4.7	36.9
7001-7500	31	228	5.8	42.7
7501-8000	26	254	4.9	47.6
8001-8500	52	306	9.7	57.3
8501-9000	52	358	9.7	67.0
9001-9500	26	384	4.9	71.9
9501-10000	72	456	13.5	85.4
over 10000	79	535	14.6	100.0

Survivors by Benefit Range (Monthly) on June 30, 2004

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-500	20	20	5.9	5.9
501-1000	34	54	10.1	16.0
1001-1500	19	73	5.6	21.6
1501-2000	28	101	8.3	29.9
2001-2500	21	122	6.2	36.1
2501-3000	29	151	8.6	44.7
3001-3500	22	173	6.5	51.2
3501-4000	21	194	6.2	57.4
4001-4500	31	225	9.2	66.6
4501-5000	38	263	11.2	77.8
5001-5500	24	287	7.1	84.9
5501-6000	26	313	7.7	92.6
6001-6500	19	332	5.6	98.2
6501-7000	3	335	0.9	99.1
7001-7500	2	337	0.6	99.7
7501-8000	1	338	0.3	100.0

PLAN SUMMARY
& LEGISLATIVE SECTION

SUMMARY OF RETIREMENT SYSTEM PLAN

(As of June 30, 2004)

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	2.5%
Total	11.0%

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.

Participants who are eligible to receive the maximum rate of annuity may irrevocably 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.

Participants who have attained age 60 and are eligible to receive the maximum rate of annuity and have not elected to discontinue contributing to the System may irrevocably elect to have their contributions based only on the salary increases received on or after the effective date of such election rather than on the total salary received.

5. RETIREMENT ANNUITY

A. Qualification of Participant

Upon termination of service, a judge is eligible for an unreduced 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 26 years of credit

The retirement annuity of a judge who retires between the ages of 55 and 60 with at least 10 years of credit shall be reduced 1/2 of 1% for each month the judge's age is under age 60.

However, for a judge who retires on or after December 10, 1999, the percentage reduction in retirement annuity shall be reduced by 5/12 of 1% for every month of service in the System in excess of 20 years.

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 under age 18, over age 18 if mentally or physically disabled, or 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.

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.

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

LEGISLATIVE AMENDMENTS

Legislative amendments with an effective date during fiscal year 2004 having an impact on the System.

House Bill 0585 (P.A. 93-0665, effective March 5,2004)
Amends the State Finance Act and provides that , as soon as possible after the effective date, the State Comptroller shall direct and the State Treasurer shall transfer moneys from the Pension Contribution Fund to each of the state-funded retirement systems in amounts equal to the unexpended balance of the fiscal year 2004 appropriations. In addition, the Illinois Pension Code is amended to provide that the state-funded retirement systems shall not submit vouchers for the payment of amounts of state contributions for the remainder of fiscal year 2004.

This legislation only affected the funding methodology for the remainder of fiscal year 2004 and not the total funding amounts. The total fiscal year 2004 employer contributions received by the System were equivalent to the actuarially required contributions.

NEW LEGISLATION

Legislative amendments with an effective date subsequent to June 30, 2004 having an impact on the System.

Senate Bill 1897 (P.A. 93-0685, effective July 8, 2004)
Allows a judge who is receiving a retirement annuity from the System to serve as a part-time employee (not required to work at least 35 hours per week) in any of the following positions without having their retirement benefits suspended, diminished, or otherwise impaired solely as a consequence of such service provided the judge has not elected to participate in the State Employees' Retirement System of Illinois with respect to such service.

- Legislative Inspector General
- Special Legislative Inspector General
- Office of the Legislative Inspector General employee
- Executive Director of the Legislative Ethics Commission
- Legislative Ethics Commission staff

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