

# ANNUAL FINANCIAL REPORT SUMMARY



FOR THE FISCAL YEAR ENDED JUNE 30, 2014

# BOARD OF TRUSTEES

*(as of February 1, 2015)*



*Justice  
Mary Schostok  
Chairperson*



*Judge  
James Moore  
Vice-Chairperson*



*Chief Justice  
Rita Garman*



*Judge  
John Anderson*



*State Treasurer  
Michael Frerichs*



# INTRODUCTION

Dear Participants and Annuitants:

This inaugural Popular Annual Financial Report (PAFR) summarizes the financial condition, investments, and statistical information of the Judges' Retirement System (JRS) for fiscal year 2014. This report is intended to summarize the most pertinent information contained in the 2014 Comprehensive Annual Financial Report.

## **Financial Condition at June 30, 2014**

Based on the market value of assets, the JRS funded ratio at the end of fiscal year 2014 was 34.8 percent, with \$1.5 billion in net pension liability. The System's \$738.7 million in invested assets are managed by the Illinois State Board of Investment. In fiscal year 2014, the rate of return on the System's assets totaled 17.9%, equating to \$110.1 million. For this year, most of the System's asset classes exceeded the applicable benchmark. For the three, five, and ten year period, the compounded annual rate of return equaled 10.4%, 12.3%, and 6.7%, respectively.

## **JRS Operations**

JRS delivers benefits and services to over 2,000 active and inactive participants and annuitants. The Board and staff believe all participants and retirees deserve timely, accurate, and cost effective service. To that end, in Fiscal Year 2014 the System continued to modernize and strengthen the information technology system in order to improve customer service, increase efficiency and improve data security. Examples of those efforts include the redesign of retiree and active member statements, website improvements, and disaster recovery planning and testing.

JRS remains a trusted, low-cost provider of service as our administrative operating expenses were 0.1% of the System's total net position. The JRS staff appreciates the strong support of the JRS Trustees and all external stakeholders. We remain committed to providing quality customer service in a safe and efficient manner in the coming years.



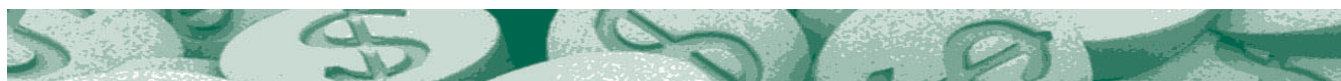
# FISCAL YEAR 2014 FINANCIAL HIGHLIGHTS

- The JRS fiduciary net position at June 30, 2014 was \$776.0 million, representing an increase of \$132.7 million over the previous fiscal year.
- Contributions from judges and the State totaled \$142.7 million, an increase of \$38.1 million over the previous fiscal year.
- The System's return on investments, net of investment management fees, was 17.9% correlating to \$110.1 million. This represents an increase of \$33.2 million over the previous fiscal year.
- Benefit and refund payments totaled \$119.3 million, an increase of \$4.0 million compared to the previous year. Of that amount, \$97.1 million covered retirement annuity payments, \$21.5 million was paid for survivor annuities, and \$687.9 thousand covered refunds.

## Condensed Comparative Statements of Fiduciary Net Position as of June 30

*(rounded to the nearest hundred)*

	2014	Change	2013	Change	2012
Cash	\$32,055,600	\$8,996,000	\$23,059,600	\$12,369,000	\$10,690,600
Receivables	\$5,486,800	(\$2,135,000)	\$7,621,800	(\$589,800)	\$8,211,600
Investments at Fair Value	\$738,704,900	\$125,953,300	\$612,751,600	\$53,612,300	\$559,139,300
Securities Lending Collateral	\$13,475,000	(\$3,060,000)	\$16,535,000	\$10,590,000	\$5,945,000
Equipment, net	\$8,400	\$700	\$7,700	(\$1,600)	\$9,300
<b>Total Assets</b>	<b>\$789,730,700</b>	<b>\$129,755,000</b>	<b>\$659,975,700</b>	<b>\$75,979,900</b>	<b>\$583,995,800</b>
<b>Liabilities</b>	<b>\$13,717,700</b>	<b>(\$2,928,000)</b>	<b>\$16,645,700</b>	<b>\$10,626,300</b>	<b>\$6,019,400</b>
<b>Total Fiduciary net position</b>	<b>\$776,013,000</b>	<b>\$132,683,000</b>	<b>\$643,330,000</b>	<b>\$65,353,600</b>	<b>\$577,976,400</b>



**Condensed Comparative Statements of Changes in Fiduciary Net Position for the Years Ended June 30** *(rounded to the nearest hundred)*

	<b>2014</b>	<b>Change</b>	<b>2013</b>	<b>Change</b>	<b>2012</b>
Participant Contributions	\$15,918,700	(\$449,900)	\$16,368,600	(\$76,200)	\$16,444,800
Employer Contributions	\$126,815,900	\$38,576,300	\$88,239,600	\$24,595,500	\$63,644,100
Investment Income (loss)	\$110,059,000	\$33,172,700	\$76,955,400	\$76,955,400	(\$69,100)
Total Additions	\$252,793,600	\$71,299,100	\$181,494,500	\$101,474,700	\$80,019,800
Benefits	\$118,591,000	\$5,033,600	\$113,557,400	\$6,904,300	\$106,653,100
Refunds	\$687,900	(\$1,063,600)	\$1,751,500	\$1,165,100	\$586,400
Administrative Expenses	\$831,700	(\$300)	\$832,000	\$67,900	\$764,100
Total Deductions	\$120,110,600	\$3,969,700	\$116,140,900	\$8,137,300	\$108,003,600
Net Increase (Decrease) in fiduciary net position	\$132,683,000	\$67,329,400	\$65,353,600	\$93,337,400	(\$27,983,800)



## INVESTMENTS

In fiscal year 2014, investors benefited from positive returns in multiple equity markets, fixed income, real estate, and alternative investments. All JRS asset classes produced positive returns within this environment as the Illinois State Board of Investment's (ISBI) total fund was up 17.9% for fiscal year 2014, net of expenses. The FY 2014 rate of return exceeded its policy benchmark of 16.3%, as well as the assumed actuarial rate of return of 7.00%.

### ISBI Investment Performance (net of fees)

	1 year	3 years	5 years	10 years
Rate of Return	17.9%	10.4%	12.3%	6.7%

The ISBI manages the System's assets as prescribed by law and operates under a strategic investment policy as the 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. The investment policy of the ISBI establishes asset allocation targets and ranges for each asset class, selected to achieve overall risk and return objectives. The plan is implemented by allocating capital to multiple managers across the various asset classes, which allows the portfolio to achieve broad exposure to the market while minimizing overall risk.

### Fiscal Year 2014 Asset Allocation

Asset Class	Actual Allocation	Policy Target
U.S. Equity	30%	30%
U.S. Equity Hedge Funds	10%	10%
International Equity	16%	20%
Commingled Funds	5%	-
Fixed Income	16%	16%
Bank Loans	5%	4%
Real Estate	10%	10%
Private Equity	4%	5%
Real Assets	3%	5%
Cash	1%	-
<b>Total</b>	<b>100%</b>	<b>100%</b>



## FUNDING

On an annual basis, the System's actuary prepares a valuation of the liabilities and assets of the System in order to calculate the required employers' contribution payable by the state, which is then certified by the Board. The employers' contribution amount, together with participants' contributions, investment income, 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 the requirements prescribed by 40 ILCS 5/18-131. These requirements were contained in Public Act 88-0593, which passed the Illinois General Assembly in 1994. This Act, which took effect on July 1, 1995, provides a 50-year schedule of State contributions to the System designed to achieve a 90% funded ratio by fiscal year 2045. This statutory funding plan consisted of two parts: (i) a ramp-up period of required contributions from 1996 to 2010 and (ii) starting in 2011, annual contributions equal to a level percentage of the payroll of active members that will allow the total actuarial value of assets to reach 90% of the total Actuarial Accrued Liability by the end of fiscal year 2045.

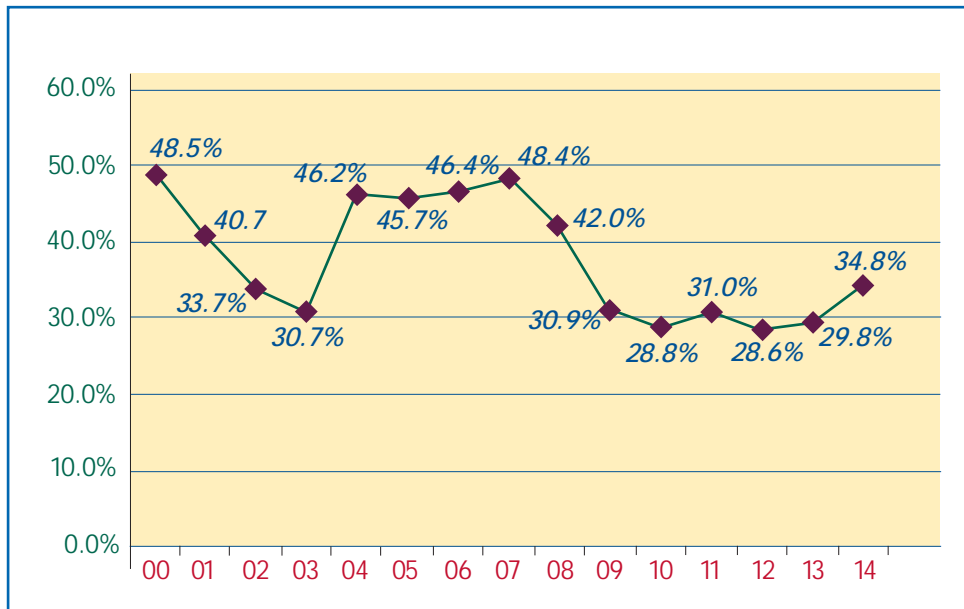
Fiscal Year	Total ARC*	Participant Contributions	Net ER/State ARC	Actual ER/State Contributions	State Contributions as % of Net ARC	Total Contributions as % of Total ARC
2004	\$84.0	\$13.7	\$63.3	\$178.6	282.1%	249.7%
2005	\$71.0	\$13.3	\$57.7	\$32.0	55.5%	63.8%
2006	\$76.7	\$13.8	\$62.9	\$29.3	46.6%	56.2%
2007	\$87.6	\$14.2	\$73.4	\$35.2	48.0%	56.4%
2008	\$90.5	\$15.4	\$75.1	\$47.0	62.6%	69.0%
2009	\$94.2	\$15.8	\$78.4	\$60.0	76.5%	80.5%
2010	\$102.9	\$16.0	\$86.9	\$78.5	90.3%	91.8%
2011	\$112.2	\$16.7	\$95.5	\$62.7	65.7%	70.8%
2012	\$127.3	\$16.4	\$110.9	\$63.6	57.3%	62.8%
2013	\$142.0	\$16.4	\$125.6	\$88.2	70.2%	73.7%
2014	\$141.0**	\$15.9	\$125.1**	\$126.8	101.4%	101.2%

\*Annual Required Contribution as defined in GASB Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.

\*\* Actuarially Determined Contribution as defined in GASB Statement No. 67, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.



## Historical Funding Ratios (Market Value)



### Financial Markets History of Funded Ratios

In addition to state contributions, the funded status for the System is greatly impacted by the global financial markets. The System's portfolio is exposed to the various markets and the funded status fluctuates along with the performance of the markets. As the chart above illustrates, the funding ratio experienced a downturn in fiscal years 2001-2003. This is a reflection of the global financial markets at the time as there was a mild, short-lived recession.

In response to this decline, the legislature approved the issuance of \$10 billion in Pension Obligation bonds intended to bolster the assets of the state retirement systems in order to improve the funded ratios and to stabilize the financial condition of the systems. JRS received approximately \$142 million from the bond proceeds, which is why the funded ratio improved significantly in Fiscal Year 2004.

In 2008, the global economy experienced the worst downturn in over 75 years, which negatively impacted virtually all investors, including JRS. During this unprecedented period, the System experienced back-to-back fiscal years of negative returns on investments. As the graph indicates, the funded ratio experienced significant declines. However, strong performance in recent years is gradually improving the funded ratio of the System.

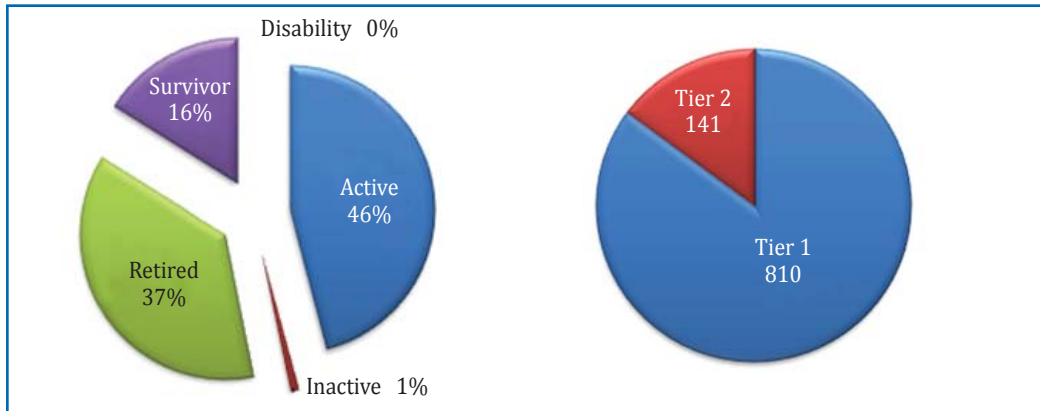
It should also be mentioned that prior to Fiscal Year 2010, the formula used to determine the state's contribution was still in the ramp-up period. Credit rating agencies have consistently opined that ramp-up funding plans are inadequate in eliminating unfunded liabilities. This component also significantly contributed to the declining funded ratio through Fiscal Year 2010.





## STATISTICAL

Retirees	Average Annual Pension	Average Age	Actives
767	\$128,628	71 years	951



Fiscal Year	Retirement	Survivors	Disability	Total Recurring Benefit Payments	Termination Refunds
2005	562	338	-	900	-
2006	581	331	-	912	2
2007	620	326	-	946	3
2008	624	332	1	957	4
2009	647	335	1	983	1
2010	665	334	2	1,001	-
2011	720	327	-	1,047	3
2012	725	331	-	1,056	1
2013	755	323	-	1,078	3
2014	767	333	-	1,100	2

### JRS 2014 Comprehensive Annual Financial Report (CAFR)

The information presented here is a reader-friendly summary of the more detailed 2014 Comprehensive Annual Financial Report (CAFR), which is prepared and presented in conformity with Generally Accepted Accounting Principles. The PAFR is not intended to supplement the CAFR; rather, it is a concise summary of the financial health, investment performance and key accomplishments of the Judges' Retirement System throughout fiscal year 2014. Please visit our website at [https://www.srs.illinois.gov/Judges/annreports\\_jrs.htm](https://www.srs.illinois.gov/Judges/annreports_jrs.htm) to access the complete CAFR.

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