JUDGES RETIREMENT SYSTEM OF ILLINOIS

TABLE OF CONTENTS

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JUDGES RETIREMENT SYSTEM OF ILLINOIS
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TELEPHONE (217) 782-8500

March 11, 1988

The Honorable James R. Thompson
Governor of the State of Illinois
Springfield, IL 62706

Dear Governor Thompson:

On behalf of the Board of Trustees of the Judges Retirement System of Illinois, I submit its 46th Annual Report covering operations of the System for the fiscal year ending June 30, 1987.

My letter which accompanied the 45th Annual Report adversely commented about the security ratio of 20.2%. After first meeting with the Director of the Budget and then together with you and Chief Justice Clark, it became apparent there were questions about the actuarial computations. Sandor Goldstein was subsequently retained as the System's actuary. As shown by this report, certain changes in assumptions were made bringing our System in line with other State Retirement Systems. Mr. Goldstein computes the June 30, 1987, security ratio at 48.6%. This amount will decrease for June 30, 1988, because of the October stock market decline. The Goldstein calculations are indicated by the actuary's enclosed report.

The outside auditor's report draws attention to the System's failure to identify the significant factors resulting in the change in the accrued benefit cost (security ratio change). This failure relates to the inability to adequately access previous actuary practices. This problem should not reoccur.

While the trustees continue to recognize the serious need for increased State contributions to the various retirement systems, we wish to state our appreciation for the cooperation received from both the executive and legislative branches of government.

Yours very truly,

Carl A. Lund, Chairman
Board of Trustees of the
Judges Retirement System of
Illinois

FORTY-SIXTH ANNUAL REPORT OF THE BOARD OF TRUSTEES

Covering the Fiscal Year Ended June 30, 1987

Presented herewith is the Forty-Sixth Annual Report of the Board of Trustees of the Judges Retirement System of Illinois for the Fiscal Year ended June 30, 1987. The report contains detailed figures on the results of operations for the year together with the external Auditor's Report and a report by the Actuary on an actuarial valuation of the assets and liabilities of the System as of the close of said year.

Membership Statistics

	Participants		Retired	Survivor	
	Active	Inactive	Judges	Annuitants	Totals
Number at July 1, 1986	768	11	325	211	1,315
Additions	74	5	31	23	133
	842	16	356	234	1,448
Deductions	48	1	19	11	79
Number at June 30, 1987	794*	15	337	223	1,369

*(Includes 13 active members who elected to discontinue contributions)

Inactive participants consist of judges who have terminated service and decided to retain their accumulated pension credits in the System.

FINANCIAL AND STATISTICAL FACTS

June 30, 1987

At Year-End	June 30, 1987
Net Present Assets	$ 138,946,070
Investments held by the Illinois State Board of Investment (at cost)	$ 136,121,915
Effective Yield on Investments at Cost	5.9%
Number of Active Participants	794
Retirement Annuitants	337
Survivor Beneficiaries	223
Unfunded Accrued Liability	$ 157,880,089
Rate of Funding (Security Ratio)	48.6%

For the Year (See Financial Statements)	
Net Revenues	$ 14,526,408
Net Investment Income and Interest on Cash Balance	7,782,334
Net Realized Gain (Loss) on Sales of Investments	6,458,501
Contributions by Participants	6,248,636
Contributions by State of Illinois	9,832,000
Disability Payments	23,853
Retirement Annuity Payments	12,533,783
Survivors' Annuity Payments	2,818,899
Refunds	283,090
Administrative Expenses	135,437

<u>Retirement Annuitants</u>. As of June 30, 1987, there were 337 judges on retirement and in receipt of annual pension payments totaling $13,054,926. Statistics pertaining to these retirements are as follows:

1.	Average annual retirement annuity	$38,739
2.	Average age at retirement	64.9
3.	Average age at June 30, 1987	71.9
4.	Average years of service	18.2
5.	Average annual salary at retirement	$49,389
6.	Proportion of annuitants who are married	82.2%
7.	Average annual annuity to an eligible surviving spouse	$26,384

<u>Surviving Spouse Annuitants</u>. Spouses in receipt of annuity payments at the close of the fiscal year totaled 208 with annual payments amounting to $2,878,657 or an average of $13,840 per year. At the end of the preceding fiscal year there were 199 spouses with annual payments totaling $2,553,628. The average age of the spouses at the beginning date of their annuities was 64.5 years. Their average age at June 30, 1987, was 74.0 years.

<u>Eligible Children</u>. At the close of the year, 15 children of deceased members were in receipt of annuities totaling $45,174 per year. The average age of these children was 15.9 years. At the beginning date of their annuities, their average age was 13.3 years.

Financial Review. The reserves of the System at June 30, 1987, totaled $138,946,070. The increase in reserves for the year amounted to $14,526,409. This increase compares with an amount in the preceding year of $16,209,698. The net revenues were credited to the appropriate reserves of the System reflecting balances at the end of the year as follows:

Reserve for Retirement and Survivors' Annuity Contributions	$ 40,334,357
Reserve for the Post-retirement Annuity Increases	6,828,951
Reserve for Future Operations	91,782,762
Total Reserves at June 30, 1987	$138,946,070

The "Reserve for Future Operations" represents the balance remaining in the System from State contributions and revenues from investments after giving effect to payments made by the System. This reserve is below the amount recommended for governmental retirement systems.

Results of Operations. Total revenues accruing to the System for the year ended June 30, 1987, amounted to $30,321,471 derived from the following sources:

Contributions by the Participants	$ 6,248,636
Appropriations by State of Illinois . . .	9,832,000
Interest Credited by the State Treasurer	249,015
Income from Investments - State Investment Board	7,418,253
Gain on Sales of Investments.	6,573,567
Total Revenues	$ 30,321,471

Expenditures by the System for the year totaled $15,795,063 for the following purposes:

Retirement annuities.	$12,533,783
Survivors' annuities.	2,818,899
Refunds and death benefits.	283,090
Disability.	23,853
Administrative expenses	135,438
Total Expenditures	$15,795,063

Investments. The investment of the net reserves of the System is under the management of the "Illinois State Board of Investment." The agency also manages the investments of the General Assembly Retirement System and the State Employees' Retirement System of Illinois.

Under Article 22A of the Illinois Pension Code governing the Illinois State Board of Investment, the Chairman of the Board of Trustees of each participating retirement system is, ex officio, a member of the State Investment Board.

The assets of the Judges Retirement System are part of the Commingled Fund managed by the Illinois State Board of Investment which had a market value of $2.597 billion as of June 30, 1987. The assets of the Judges Retirement System were approximately 5.74% of the Commingled Fund and were diversified in the following manner:

Investments at June 30, 1987	At Cost	At Market
U.S. Government & Agency Obligations	$ 31,142,197	$ 30,590,439
Foreign Obligations	1,302,180	1,470,907
Corporate Obligations	22,983,187	24,275,097
Convertible Bonds	1,706,943	1,695,900
Common Stock and Equity Fund	51,780,804	61,486,299
Convertible Preferred Stock	1,160,349	1,293,491
Preferred Stock	285,686	332,112
Real Estate Pooled Funds	8,048,261	10,065,138
Venture Capital	1,422,359	1,579,596
Money Market Instruments	15,194,595	15,233,351
Other Assets, Less Liabilities	1,095,355	1,098,145
	$136,121,916	$149,120,475

The Commingled Fund produced a total rate of return (capital appreciation plus income) of 8.8% for the fiscal year 1987.

STATE BOARD OF INVESTMENTS ACCOUNT COMPARISONS

Fiscal Report Ending	Market Value of Assets	Cost of Assets	Contributions Made By System	Net Investment Income
6-30-79	$48,016,822			
6-30-80	54,659,535	$ 59,903,961	$4,000,000	$4,880,358
6-30-81	59,711,396	70,763,377	5,000,000	5,859,416
6-30-82	62,333,556	77,095,569	-0-	6,333,194
6-30-83	92,203,169	88,180,913	2,000,000	6,233,392
6-30-84	88,935,165	99,193,192	1,500,000	6,664,887
6-30-85	109,952,133	107,132,974	1,500,000	7,386,583
6-30-86	137,026,106	122,130,096	-0-	7,888,490
6-30-87	149,120,475	136,121,916	-0-	7,418,253
			$14,000,000	$52,664,573

Financing. The Board of Trustees of the Judges Retirement System is mandated to submit to the Governor, prior to each regular session of the General Assembly, a report on the appropriation requirement of the System for the ensuing fiscal year. The appropriation consists of the amount of the reserve requirements for meeting the System's accruing obligations, as actuarially determined, under the method of funding specifically prescribed by the governing statute.

The appropriation requirements from the State of Illinois are determined and certified by the Actuary. For the 1987-1988 fiscal year, the Actuary has determined that these requirements will be $25,175,000. The appropriation requirements have been increasing steadily due to: (1) a slightly larger membership; (2) increases in salaries to the members; and (3) the effect of compulsory retirement. The efforts of the Board of Trustees over the years have been directed towards bringing about a more adequate measure of funding for the System, at least to a level which would result in a security ratio of 66-2/3%. This is the minimum rate which had been recommended by the "Illinois Public Employees Pension Laws Commission." The security ratio as of June 30, 1987, was 48.6%. The security ratio is obtained by taking the ratio of the "net present assets" (total present assets less current liabilities) to the total accrued liabilities.

It should be noted that the Board of Trustees has requested from the State each year, appropriations of amounts determined in accordance with the governing law. The pension law, by its specific directive, mandates the State of Illinois to contribute to the Judges Retirement System certain amounts to meet its share of the pension cost. Over the years, however, the appropriation requests of the Board of Trustees have been reduced by the State officials below the amounts specifically mandated in the law and required under the statute.

LEGISLATION

No substantive changes were made in the pension law relating to the Judges Retirement System during the 1987 session of the General Assembly.

ANNUAL ACTUARIAL VALUATION

Under the law, the Actuary is required to make an annual valuation of the liabilities and reserves of the System as of the end of each fiscal year. Such a valuation was completed by the Actuary as of June 30, 1987. Its purpose is to establish the true financial condition of the System as of the end of the fiscal period giving effect to all accrued liabilities for the prescribed benefits. In this valuation a computation is made of the reserves to be maintained by the System for the annuities and benefits currently in force and the reserves to be accumulated for the prospective benefits payable to members presently in service. The results of the valuation are presented later as a part of this report.

Conclusion. This report of the Board discusses all important matters pertaining to the operations of the System during the 1987 fiscal year.

Respectfully Submitted,

BOARD OF TRUSTEES
JUDGES RETIREMENT SYSTEM OF ILLINOIS

CARL A. LUND, Chairman
RICHARD J. FITZGERALD, Vice Chairman
WILLIAM G. CLARK
GEORGE M. MAROVICH
JERRY COSENTINO

NORMAN E. LENTZ,
Secretary

Honorable Robert G. Cronson
Auditor General
State of Illinois

We have examined the balance sheet of the JUDGES RETIREMENT SYSTEM OF ILLINOIS--STATE OF ILLINOIS as of June 30, 1987, and the related statements of revenues, expenses and changes in fund balance and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards and the standards for financial audits contained in the U. S. General Accounting Office's Standards for Audits of Governmental Organizations, Programs, Activities and Functions and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

An actuarial study performed by the new actuary employed by the Judges Retirement System during fiscal year 1987 resulted in a significant reduction in accrued benefit costs as of June 30, 1987, due to changes in certain actuarial assumptions and other material but not identified reasons. Generally accepted accounting principles require disclosure of the effects, if significant, of certain factors affecting the year-to-year change in accrued benefit cost information. As explained in Note 2 to the financial statements, the Judges Retirement System has not identified or disclosed all significant factors affecting the change in accrued benefit cost.

In our opinion, except for the omission of information as discussed in the preceding paragraph, the financial statements referred to above present fairly the financial position of the Judges Retirement System of Illinois--State of Illinois as of June 30, 1987, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles which, except for the change, with which we concur, in the method used to compute the accrued benefit cost as described in Note 2 to the financial statements, were applied on a basis consistent with that of the preceding year.

Our examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedules 1 and 2 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in our examination of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements.

Arthur Andersen & Co.

ARTHUR ANDERSEN & CO.

October 9, 1987

JUDGES RETIREMENT SYSTEM OF ILLINOIS--
STATE OF ILLINOIS

BALANCE SHEET
JUNE 30, 1987

A S S E T S

Cash	$ 2,960,362
Receivables-	
Participants' contributions	$ 11,800
Interest on investments	18,715
General Assembly Retirement System	19,825
	$ 50,340
Investments held in the Illinois State Board of Investment Commingled Fund--at cost (market value: $149,120,475)	$136,121,915
Office equipment--at cost, less accumulated depreciation of $8,419	$ 933
	$139,133,550

LIABILITIES AND FUND BALANCE

Liabilities-	
Benefits payable	$ 3,077
Refunds payable	183,066
Accounts payable	1,338
	$ 187,481
Fund balance-	
Actuarially determined accrued benefit cost	$307,064,068
Less- Unfunded accrued benefit cost requirement--representing an obligation of the State of Illinois	(168,117,999)
Fund balance--funded statutory reserves	$138,946,069
	$139,133,550

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

JUDGES RETIREMENT SYSTEM OF ILLINOIS--

STATE OF ILLINOIS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED JUNE 30, 1987

Revenues-	
Contributions-	
Participants	$ 6,248,636
State of Illinois	9,832,000
	$ 16,080,636
Net investment income	7,418,253
Interest earned on cash balances	249,015
Net realized gain on sale of investments	6,573,567
	$ 30,321,471
Expenses-	
Benefits-	
Retirement annuities	$ 11,206,422
Survivors' annuities	2,818,899
Automatic annuity increase	1,351,214
	$ 15,376,535
Refunds	283,090
Administrative	135,438
	$ 15,795,063
Excess of revenues over expenses	$ 14,526,408
Fund balance at beginning of year	124,419,661
Fund balance at end of year	$138,946,069

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

JUDGES RETIREMENT SYSTEM OF ILLINOIS--

STATE OF ILLINOIS

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED JUNE 30, 1987

Sources of working capital-	
Working capital provided by operations--excess of revenues over expenses	$14,526,408
Add- Item not requiring working capital--provision for depreciation	369
Total sources of working capital	$14,526,777
Use of working capital-	
Reinvested earnings	(13,991,820)
Net increase in working capital	$ 534,957
Elements of net increase in working capital-	
Cash	$ 608,588
Receivables	4,667
Benefits payable	7,940
Refunds payable	(87,340)
Accounts payable	1,102
Net increase in working capital	$ 534,957

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

JUDGES RETIREMENT SYSTEM OF ILLINOIS--

STATE OF ILLINOIS

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1987

(1) DESCRIPTION OF SYSTEM:

General-

The Judges Retirement System of Illinois--State of Illinois (Judges Retirement System) was established in 1941 as a component unit of the State of Illinois and is governed by Chapter 108-1/2, Article 18 of the Illinois Pension Code. The Judges Retirement System covers judges, 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.

Pension Benefits-

After 10 years of credited service, participants have vested rights to full retirement benefits beginning at age 60 or reduced retirement benefits beginning at age 55. Participants also have vested rights to benefits at age 62 upon attaining between 6 and 10 years of credit. The Judges Retirement System also provides annual automatic annuity increases after retirement, survivors' annuity benefits, temporary and/or total disability benefits and, under specified conditions, lump-sum death benefits.

Participants who terminate service and are not eligible for an immediate annuity may receive, upon application, a refund of their total contributions. Participants or annuitants who are no longer married are entitled to refunds of their contributions for survivors. Participants who are entitled to receive the maximum rate of annuity, have at least 20 years of service credit and have attained age 60 may elect to discontinue contributions and have their benefits (retirement and survivors) fixed.

The statutes governing the Judges Retirement System provide for optional contributions by participants, with interest at prescribed rates, to retroactively establish service credits for periods of prior creditable service. The Board of Trustees has adopted the policy that interest payments by a participant, included in optional contributions to retroactively establish service credits, shall be considered an integral part of the participant's investment in annuity expectancies and, as such, shall be included as a part of any refund payable.

Funding-

The Judges Retirement System is funded through contributions from participants, State of Illinois appropriations and investment income. Participants in the Judges Retirement System contribute 7-1/2% of their salaries for retirement annuities, 2-1/2% for survivors' annuities and 1% for an annual automatic increase in the retirement annuity.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting-

The accounting records of the Judges Retirement System are maintained on the accrual basis.

Investments-

Investments of the Judges Retirement System are managed by the Illinois State Board of Investment (ISBI) pursuant to Article 22A of the Illinois Pension Code and are held in the Commingled Fund of the ISBI. Investments of the Judges Retirement System are reported at the cost of its units of participation in the Commingled Fund of the ISBI.

Units of the Commingled Fund of the ISBI 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 Commingled Fund of the ISBI is allocated to each of the member systems on the last day of the month on the basis of percentage of accumulated units owned by the respective systems. Management expenses are deducted monthly from income before distribution. Investment income is recognized when earned.

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

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

The Judges Retirement System transfers money to the ISBI for investment in the Commingled Fund of the ISBI. This money is then allocated among various investment managers to pursue a specific investment strategy. All investment transactions are initiated by the investment managers (either internal or external). The transaction settlement information is then forwarded to the agent bank's trust department under a master custodial agreement.

Custody of a majority of the actual physical securities is maintained at an agent of the agent bank's trust department using a book entry system.

The investments managed by the Commingled Fund of the ISBI are reported by the appropriate credit risk category in the annual financial report of the Illinois State Board of Investment.

Reference should be made to the 1987 annual financial report of the ISBI for additional information relating to the investments of the ISBI. The Judges Retirement System owns 5.7% of the ISBI commingled fund as of June 30, 1987.

Accrued Benefit Cost-

The accrued benefit cost amounts as of June 30, 1987 and 1986, were $307,064,068 and $615,102,116, respectively. The calculations of the accrued benefit cost are made by consulting actuaries as of the end of each fiscal year. The significant methods and assumptions underlying the actuarial computations for the calculations performed as of June 30, 1987 and 1986, are as follows:

	1987	1986
Actuarial method	Projected unit credit cost	Entry age normal
Rate of return on investments	7.5%	6%
Rate of turnover	A moderate scale consistent with the Judges Retirement System's experience	A moderate scale consistent with the Judges Retirement System's experience
Mortality basis	Up-1984 Mortality Table	1971 Group Annuity Mortality Table (adjusted by the actuary to provide a margin for mortality increase)
Salary increase	6.0%	5%
Assumed average age at retirement	66 years	66 years

As shown in the table above, certain actuarial assumptions and the actuarial method were changed in 1987 based on an experience analysis performed by the Judges Retirement System's actuary. Together, the changes reduced the accrued benefit cost by $39,310,833. The change in the assumed rate of return on investments from 6% to 7-1/2% together with the change in the assumed rate of annual salary increases from 5% to 6% reduced the accrued benefit cost by $44,282,324. The change in actuarial cost method from entry age normal method to the alternatively acceptable projected unit credit method increased the accrued benefit cost by $4,971,491.

The remaining decrease of $268,727,215 in accrued benefit cost is attributable to a number of factors which have not been identified by the Judges Retirement System.

The Judges Retirement System and its actuary believe that the new actuarial method and assumptions are preferable taking into consideration the Judges Retirement System's funding and payout experience.

Fund Balance-

The funded statutory reserves of the Judges Retirement System are composed of three components as follows:

(a) Reserve for Participants' Contributions--This reserve consists of participants' accumulated contributions.

(b) Reserve for Automatic Annuity Increase--This reserve represents participants' accumulated contributions for the automatic annuity increase, plus an equal amount contributed by the State of Illinois, plus 4% interest credited on the beginning balance, less automatic annuity increased benefits and refunds paid.

(c) Reserve for Future Operations--This reserve is the balance remaining in the Judges Retirement System from State of Illinois contributions and revenue from investments after consideration of charges for payouts by the Judges Retirement System.

Administrative Expenses-

Administrative expenses common to the Judges Retirement System and the General Assembly Retirement System are borne 60% by the Judges Retirement System and 40% by the General Assembly Retirement System. Invoices/vouchers covering common expenses incurred are paid by the Judges Retirement System and 40% thereof is allocated to and reimbursed by the General Assembly Retirement System. Administrative expenses allocated to and reimbursed by the General Assembly Retirement System were $80,129 for the year ended June 30, 1987.

SCHEDULE 1

JUDGES RETIREMENT SYSTEM OF ILLINOIS--

STATE OF ILLINOIS

STATEMENT OF CHANGES IN FUNDED STATUTORY RESERVES

FOR THE YEAR ENDED JUNE 30, 1987

	Total Funded Reserves	Reserve for Participants' Contributions: Retirement Annuities	Reserve for Participants' Contributions: Survivors' Annuities	Reserve for Automatic Annuity Increase	Reserve for Future Operations
Balance at June 30, 1986	$124,419,661	$26,071,825	$11,151,757	$6,718,637	$80,477,442
Add (deduct)-					
Excess (deficiency) of revenues over expenses	14,526,408	4,308,703	1,065,003	(158,431)	9,311,133
Reserve transfers-					
Accumulated contributions of members who retired during the year	-	(2,003,671)	(259,260)	-	2,262,931
Reserve for automatic annuity increase credited with interest at 4% on the reserve balance at beginning of year	-	-	-	268,745	(268,745)
Balance at June 30, 1987	$138,946,069	$28,376,857	$11,957,500	$6,828,951	$91,782,761

JUDGES RETIREMENT SYSTEM OF ILLINOIS--

STATE OF ILLINOIS

SCHEDULE OF ADMINISTRATIVE EXPENSES

FOR THE YEAR ENDED JUNE 30, 1987

Personal services and related payroll costs	$104,751
Contractual services-	
Rentals-	
Office equipment	1,407
Real property	9,750
Professional and technical services	10,750
Other	3,004
Travel	2,224
Commodities	1,819
Telecommunications	1,364
Provision for depreciation	369
	$135,438

S. Goldstein and Associates
consulting actuaries

180 North LaSalle Street
Suite 700
Chicago, Illinois 60601
(312) 726-5877

November 25, 1987

Board of Trustees
Judges Retirement System of Illinois
415 Iles Park Place
Springfield, Illinois 62718

Re: Actuarial Valuation As Of June 30, 1987

I am pleased to submit my actuarial report on the financial position and funding requirements of the Judges Retirement System of Illinois based on the actuarial valuation as of June 30, 1987.

The report consists of 10 Sections as follows:

I would be pleased to discuss any aspects of this report with you at your convenience.

Respectfully submitted,

Sandor Goldstein

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

A. PURPOSE AND SUMMARY

We have carried out an actuarial valuation of the Judges Retirement System of Illinois as of June 30, 1987. The purpose of the valuation was to determine the financial position and funding requirements of the retirement system. This report is intended to present the results of the valuation. The results of the valuation are summarized below:

1.	Total actuarial liability	$ 307,064,068
2.	Actuarial value of assets	149,183,979
3.	Unfunded actuarial liability	157,880,089
4.	Funded Ratio	48.6%
5.	Employer FY 88 funding requirement of normal cost plus interest on the unfunded liability	$ 20,182,837
6.	Employer FY 88 funding requirement of normal cost plus amount required to pay off unfunded liability over 40 years as a level percent of payroll	15,481,558
7.	Estimated total employer contribution for FY 88	9,137,000
8.	Employer FY 89 funding requirement of normal cost plus interest on the unfunded liability	21,373,468
9.	Employer FY 89 funding requirement of normal cost plus amount required to pay off unfunded liability over 40 years as a level percent of payroll	16,343,272
10.	Actuarial present value of credited projected benefits	$ 307,064,068

B. DATA USED FOR THE VALUATION

Participant Data. The participant data required to carry out the valuation was supplied by the retirement system. The membership of the system as of June 30, 1987 on which the valuation was based is summarized in Exhibit 1. It can be seen that there were 794 active members, 337 members receiving retirement annuities, 208 members receiving surviving spouse's annuities, and 15 members receiving children's annuities included in the valuation. The total active payroll as of June 30, 1987 was $59,266,125.

Exhibit 1

Summary of Membership Data

1. Number of Members.	
(a) Active Members	794
(b) Members Receiving	
(i) Retirement Annuities	337
(ii) Surviving Spouse's Annuties	208
(iii) Children's annuities	15
(c) Inactive Members	15
2. Annual Salaries	
(a) Total salary	$ 59,266,115
(b) Average Salary	74,642
3. Total accumulated employee contributions	$ 39,790,926
4. Annual Annuity Payments	
(a) Retirement Annuities	$ 13,054,926
(b) Surviving Spouse's Annuities	2,878,656
(c) Children's Annuities	45,174

Assets. The asset values used for the valuation were based on the asset information contained in the unaudited statement of assets as of June 30, 1987 prepared by the system. For purposes of the valuation, the book value of the assets of the system less the amount of current liabilities was increased by the average excess of the market value of assets over the book value of assets of the system as of the last three year ends. The resulting actuarial value of assets was $149,183,979. The development of this value is outlined in Exhibit 2.

For the June 30, 1986 actuarial valuation, the book value of the assets of the system was used for the actuarial value of assets. The change in the method of determining the actuarial value of assets increased the actuarial value of assets as of June 30, 1987 by $10,237,910.

Exhibit 2

Actuarial Value of Assets

1. Total book value of assets	$139,133,550
2. Current liabilities	187,481
3. Net assets at book value (1-2)	$138,946,069
4. Average excess of market value of assets over book value of assets over the last three years	10,237,910
5. Actuarial value of assets	$149,183,979

C. RETIREMENT SYSTEM PROVISIONS

The actuarial valuation was based on the provisions of the retirement system in effect as of June 30, 1987 as provided in Article 18 of the Illinois Pension Code.

D. ACTUARIAL ASSUMPTIONS AND COST METHOD

Actuarial Assumptions

The actuarial assumptions used for the June 30, 1987 valuation were based on an experience analysis of the retirement system for the period 1984 through 1987. The major actuarial assumptions used for the valuation are summarized below:

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

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

Age	Rate of Termination
30	.054
35	.030
40	.012
45	.045
50	.003
55	.000

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

Age	Rate of Disability
30	.00057
35	.00064
40	.00083
45	.00115
50	.00170

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

Age	Rate of Retirement
55	.04
60	.10
65	.05
70	.10
75	1.00

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

Salary Increase. A salary increase assumption of 6.0% per year, compounded annually, was used.

Interest Rate. An interest rate assumption of 7.5% per year, compounded annually, was used.

Marital Status. It was assumed that 75% of active members 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 employee.

Impact of Changes In Actuarial Assumptions. For the June 30, 1987 actuarial valuation, a number of changes in actuarial assumptions were made from those used for for the June 30, 1986 actuarial valuation. The most significant changes were an increase in the interest rate assumption from 6.0% to 7.5% and an increase in the salary increase assumption from 5.0% to 6.0%. We have estimated that the combined effect of the change in the interest rate and salary increase assumptions was to decrease the system's total actuarial liability by $44,282,324.

Actuarial Cost Method

The projected unit credit actuarial cost method was used for the June 30, 1987 valuation. For the June 30, 1986 valuation, the entry age normal actuarial cost method was used. We have estimated that the effect of the change from the entry age normal actuarial cost method to the projected unit credit actuarial cost method was to increase the system's total actuarial liability by $4,971,491.

E. ACTUARIAL LIABILITY

The actuarial liability as determined under the valuation for the various classes of members is summarized in Exhibit 3. The total actuarial liability is then compared with the actuarial value of assets in order to arrive at the unfunded actuarial liability.

As of June 30, 1987, the total actuarial liability is $307,064,068, the actuarial value of assets is $149,183,979 and the unfunded actuarial liability, or funded ratio, is 48.6%.

Exhibit 3

Actuarial Liability As Of June 30, 1987

1. Actuarial Liability For Active Members	
(a) Basic retirement annuity	$ 93,059,988
(b) Annual increase in retirement annuity	15,461,734
(c) Pre-retirement survivor's annuity	18,212,701
(d) Post-retirement survivor's annuity	21,763,138
(e) Withdrawal benefits	877,351
(f) Disability benefits	940,055
(g) Total	$150,314,967
2. Actuarial Liability For Members Receiving Benefits	
(a) Retirement annuities	$131,934,497
(b) Survivor annuties	22,519,352
(c) Total	$154,453,849
3. Actuarial Liability For Inactive Members	2,295,252
4. Total Actuarial Liability	$307,064,068
5. Actuarial Value of Assets	$149,183,979
6. Unfunded Actuarial Liability	$157,880,089
7. Funded Ratio	48.6%

F. Employer's Normal Cost

The employer's share of the normal cost for the year beginning July 1, 1987 is developed in Exhibit 4. For the year beginning July 1, 1987, the total normal cost is determined to be $15,281,386, employee contributions are estimated to be $6,519,273, resulting in the employer's share of the normal cost of $8,762,113.

Based on a payroll of $59,266,115, the employer's share of the normal cost can be expressed as 14.78% of payroll.

Exhibit 4

Employer's Normal Cost For Year Beginning July 1, 1987

		Dollar Amount	Per Cent Of Payroll
1.	Basic retirement annuity	$ 9,210,589	15.54%
2.	Annual increase in retirement annuity	1,550,636	2.62
3.	Pre-retirement survivor's annuity	2,012,559	3.40
4.	Post-retirement survivor's annuity	2,094,410	3.53
5.	Withdrawal benefits	150,328	.25
6.	Disability benefits	121,164	.20
7.	Administrative expenses	141,700	.24
8.	Total normal cost	$15,281,386	25.78%
9.	Employee contributions	6,519,273	11.00
10.	Employer's share of normal cost	$ 8,762,113	14.78%

Note. The above figures are based on a total active payroll of $59,266,115 as of June 30, 1987.

G. EMPLOYER'S FUNDING REQUIREMENT FOR YEAR BEGINNING JULY 1, 1987

I. Employer's Actuarial Funding Requirement Of Normal Cost Plus Interest On The Unfunded Liability

A number of organizations that have in the past advocated actuarial funding for public retirement systems have recommended that as a minimum, public employers contribute annually an amount equal to "normal cost plus interest on the unfunded liability". By paying the normal cost each year, the accruing cost of pensions is met as service is rendered by employees. By paying interest on the unfunded actuarial liability, the unfunded actuarial liability is stabilized. Although no attempt is made to pay off the unfunded actuarial liability, this approach is nevertheless considered acceptable for public retirement systems where permanence can be taken for granted and full funding is not regarded as essential.

The employer's funding requirement of normal cost plus interest on the unfunded liability for the year beginning July 1, 1987 is developed in Exhibit 5.

It can be seen from Exhibit 5 that for the year beginning July 1, 1987, the employer funding requirement of normal cost plus interest on the unfunded actuarial liability amounts to $20,182,837. Total state appropriations for the year are estimated to amount to $9,137,000. Thus, employer contributions for the year are expected to fall short of the employer funding requirement by $11,045,837. This deficiency in employer contributions can be expressed as 18.64% of payroll.

Exhibit 5

Funding Requirement For Year Beginning July 1, 1987

1.	Employer's share of normal cost	$ 8,762,113
2.	Interest on the unfunded actuarial liability	11,420,724
3.	Employer's funding requirement of normal cost plus interest on the unfunded actuarial liability	$20,182,837
4.	Estimated employer contribution for the year	9,137,000
5.	Estimate of amount by which employer contributions are expected to fall short of the funding requirement of normal cost plus interest on the unfunded liability	$11,045,837

II. Employer's Actuarial Funding Requirement Of Normal Cost Plus Amount Required To Pay Off Unfunded Liability Over 40 Years As A Level Percent Of Payroll

Paying interest on the unfunded liability is one approach for controlling a retirement system's unfunded liability. There is an alternative to this approach under which contributions toward the unfunded liability are initially somewhat lower but which in the long run can still be considered to be a fiscally sound approach for funding public retirement systems. Under this alternative approach, the unfunded liability is amortized by payments which represent a level percentage of active membership payroll. This is sometimes referred to as the level percentage of payroll amortization approach.

Since the active payroll can be expected to increase over time, the level percentage of payroll amortization approach will require a lower contribution toward the unfunded liability in the earlier years than the "interest only" approach and will require greater contributions in the later years. However, the contribution as a percentage of payroll is expected to remain level over time.

In the early years, the level percentage of payroll payment toward the unfunded liability is less than an amount equal to interest on the unfunded liability, resulting in increases in the unfunded liability for a period of time. Eventually the payroll base will increase to a point where the level percentage of payroll approach should pay off the unfunded liability over the amortization period. A potential risk associated with this approach is that payroll increases are assumed that may not materialize. Nevertheless, the level percentage of payroll amortization approach can represent a fiscally sound approach for funding public retirement systems.

The employer's funding requirement of normal cost plus the amount required to amortize the unfunded liability over 40 years as a level percent of payroll is developed in Exhibit 6.

It can be seen from Exhibit 6 that for the year beginning July 1, 1987, the employer funding requirement of normal cost plus the amount required to amortize the unfunded liability over 40 years as a level percent of payroll amounts to $15,481,558. Actual employer contributions for the year are estimated to amount to $9,137.000. Thus, employer contributions for the year are expected to fall short of meeting the employer funding requirement determined under this basis by $6,344,558. This deficiency in employer contributions can be expressed as 10.71% of payroll.

Exhibit 6

Funding Requirement For Year Beginning July 1, 1987

1. Employer's share of normal cost	$ 8,762,113
2. Amount required to amortize the unfunded liability over 40 years as a level percent of payroll	6,719,445
3. Employer's total funding requirement (1. + 2.)	$15,481,558
4. Estimated employer contribution for the year	9,137,000
5. Estimate of amount by which employer contributions are expected to fall short of meeting the funding requirement (3. - 4.)	$6,344,558

H. STATE APPROPRIATION REQUIREMENTS FOR FISCAL YEAR BEGINNING JULY 1, 1988

The June 30, 1987 actuarial valuation is used to develop the actuarial funding requirements of the system for the year beginning July 1, 1987. For State budgeting purposes, it is necessary to make a projection of the system's actuarial funding requirement for the fiscal year beginning July 1, 1988. Under Section 22-1001 of the Illinois Pension Code, the retirement system is required to submit to the Illinois Economic and Fiscal Commission information regarding the amount required to meet the State's share of the normal cost plus interest on the unfunded liability for the fiscal year commencing July 1, 1988.

We have therefore made some projections to estimate the amount of State appropriations required to meet the system's actuarial funding requirements for the fiscal year commencing July 1, 1988. This has been done under both of the approaches for controlling the system's unfunded liability that were outlined in Section I.

Actuarial Funding Requirement	Required Amount of State Appropriations For FY 89
Normal Cost Plus Interest On The Unfunded Liability	$21,373,468
Normal Cost Plus Amount Required To Amortize Unfunded Liability Over 40 Years As A Level Percent Of Payroll	$16,343,272

Note. The above figures are based on a projected payroll of $61,933,090 for the fiscal year commencing July 1, 1988.

I. Actuarial Present Value of Credited Projected Benefits

In November 1986, the Governmental Accounting Standards Board (GASB) issued Statement No. 5 entitled Disclosure of Pension Information by Public Employee Retirement Systems and State and Local Governmental Employers. The statement established standards of disclosure of pension information by public employee retirement systems.

GASB Statement No. 5 requires the disclosure of the actuarial present value of credited projected benefits as the standardized measure of the accrued pension obligation. This measure represents the discounted value of the amount of benefits estimated to be payable in the future as a result of employee service to date, computed by attributing an equal benefit amount to each year of service of the employee.

It should be noted that the actuarial present value of credited projected benefits is equal to the actuarial liability computed under the projected unit credit actuarial cost method. Thus, since the projected unit credit actuarial cost method was used for the valuation, the total actuarial liability of $307,064,068 as developed in Section E of this report is also the actuarial present value of credited projected benefits that is required to be disclosed under GASB Statement No. 5.

In Exhibit 7 we have shown the actuarial present value of credited projected benefits in the format prescribed in GASB Statement No. 5. It can be seen that the total actuarial present value of credited projected benefits of $307,064,068 is the same as the total actuarial liability under the projected unit credit actuarial cost method.

Exhibit 7.

Actuarial Present Value of Credited Projected Benefits

1. For members in receipt of benefits and for inactive members	$156,749,101
2. For current employees	
Accumulated employee contributions	39,790,926
Employer-financed vested	40,901,596
Employer-financed nonvested	69,622,445
3. Total actuarial present value of credited projected benefits	$307,064,068
4. Net assets available for benefits, at cost (Market value is $151,944,629)	$138,946,069
5. Unfunded actuarial present value of credited projected benefits	$168,117,999

J. CERTIFICATION

This actuarial report has been prepared in accordance with generally accepted actuarial principles and practices and to the best of my knowledge, fairly represents the financial condition of the Judges Retirement System of Illinois as of June 30, 1987.

Respectfully submitted

Sandor Goldstein

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

APPENDIX

Summary of Provisions of the Law

Governing the Judges Retirement System

In Effect June 30, 1987

Retirement Estimate Charts

Statistical Tables

SUMMARY OF PROVISIONS OF THE JUDGES RETIREMENT SYSTEM

(Includes amendments enacted at the 1986 session of the 84th General Assembly. This summary should not be considered as a substitute for the applicable law.)

1. PARTICIPATION AND CONTRIBUTIONS OF MEMBERS

Participation. When a person first becomes a Judge, participation in the System is mandatory unless an "Election Not to Participate" is filed by the Judge within 30 days of the date of notification of this option.

Contributions. Currently members must contribute for the following purposes, by payroll deductions, at the rates indicated:

Retirement Annuity	7.5%
Automatic Annuity Increase	1.0
Survivors' Annuity	2.5
	11.0%

A married Judge who files an "Election Not to Participate in the Survivors' Annuity Benefit" or an unmarried Judge is not required to contribute for that benefit, in which case the total contributions would be 8.5% of salary. Contributions for survivors' annuity are not required for an eligible child to qualify for a child's annuity.

Refund of Contributions. A participant who terminates service as a Judge may apply for and receive a refund of total contributions, without interest, provided immediate eligibility to receive a retirement annuity has not been established and the Judge has no immediate plans for returning to service as a Judge.

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

Discontinuance of Contributions. A participant who has become eligible to receive the maximum rate of annuity (at least 20 years of service credit and is age 60 or over) may elect to discontinue contributions and have benefits (retirement and survivors) "fixed" based upon the applicable salary measure as a Judge immediately prior to the effective date of such election. This election, once made, is irrevocable.

Member Contributions Not Subject to Federal or State Income Tax Until Distributed. Member contributions on earnings received after January 1, 1982 are picked up as employer contributions and, therefore, that amount of salary is not considered as taxable income for Federal or State Income Tax purposes in the year the compensation is received. However, these retirement contributions will be subject to Federal Income Tax when such amounts are distributed as a retirement annuity, survivor's annuity, lump-sum death benefit or refund.

2. RETIREMENT ANNUITY

Formula. Effective January 1, 1983, the retirement annuity is determined according to the following formula based upon the applicable salary. (See footnote to Estimate Chart No. 1 on following page)

3½% for each of the first 10 years of pension credit;
5% for each year of credit above 10 years;
MAXIMUM is 85% of such average salary after 20 years of credit.

Age and Service Requirements for Retirement.

(a) Vesting of Pension Credit. Vesting in an annuity occurs after 10 years of credit with the deferred annuity payable beginning at age 60; or between 6 and 10 years of service with the deferred annuity payable beginning at age 62.

(b) Conditions for Retirement. A member may retire at age 55 with at least 10 years of credit. In such a case the annuity is reduced 1/2 of 1% for each month the member is under age 60; or at age 60 after at least 10 years of credit on an unreduced retirement annuity; or at age 62 after at least 6 years of service credit.

Temporary Total Disability. A member with at least 2 years of service as a Judge who becomes totally disabled and unable to perform the duties as a Judge is entitled to a temporary disability benefit equal to 50% of salary payable during disability but not beyond the end of the term of office.

Total and Permanent Disability. A member who becomes totally and permanently disabled while serving as a Judge having at least 10 years of pension credit is eligible for an unreduced retirement annuity regardless of age.

If disability is service-connected, the annuity is subject to reduction by the amounts received by a participant under the Workmen's Compensation Act and the Workmen's Occupational Diseases Act.

Automatic Annuity Increase. Judges who are covered by this benefit are eligible for an annual increase of 3% in their base retirement annuity. This annual increase is based upon the original grant of annuity and is not compounded. The initial increase is effective in the month of January of the year next following the year in which the first anniversary of retirement occurs.

Suspension of Retirement Annuity. The annuity to any Judge shall be suspended during any period such annuitant is employed for compensation by the State of Illinois or by any County in Illinois.

If the provisions of the Retirement Systems' Reciprocal Act are elected at retirement, any employment which would result in the suspension of benefits under any of the retirement systems being considered would also cause the annuity payable by the Judges Retirement System to be suspended.

ESTIMATE CHART NO. 1

For judges with at least 6 but less than 10 years of service.
Benefits payable at 62 or over.

		SALARY BASE*			
		$75,113	$80,599	$87,780	$93.266
		(Salaries effective July 1, 1987)			
YEARS OF SERVICE	PER CENT OF SALARY	MONTHLY RETIREMENT ANNUITY			
6	21%	$1,314	$1,410	$1,536	$1,632
6.5	22.75	1.424	1,528	1,664	1.768
7	24.50	1,533	1,645	1.792	1,904
7.5	26.25	1.643	1,763	1,920	2,040
8	28	1,752	1,880	2.048	2,176
8.5	29.75	1.862	1,998	2,176	2.312
9	31.5	1,971	2.115	2,304	2,448
9.5	33.25	2,081	2,233	2,432	2,584

*For judges who became members of the System prior to January 1, 1983. the salary base for benefits is the final rate of salary.

*For judges who became members of the System on and after January 1, 1983, the salary base is the member's average salary during the last year of service.

ESTIMATE CHART NO. 2

For judges with 10 or more years of service.
Benefits payable at age 60 or over.*

		SALARY BASE**			
		$75.113	$80,599	$87,780	$93.266
		(Salaries effective July 1. 1987)			
YEARS OF SERVICE	PER CENT OF SALARY	MONTHLY RETIREMENT ANNUITY			
10	35%	$2,190	$2.350	$2,560	$2.720
10.5	37.5	2,347	2,518	2,743	2,914
11	40	2,503	2.686	2,926	3,108
11.5	42.5	2,660	2,854	3.108	3,303
12	45	2,816	3,022	3.291	3,497
12.5	47.5	2.973	3,190	3,474	3.691
13	50	3,129	3,358	3,657	3,886
13.5	52.5	3,286	3.526	3,840	4,080
14	55	3,442	3,694	4,023	4,274
14.5	57.5	3,599	3,862	4.206	4,468
15	60	3,755	4,029	4.389	4,663
15.5	62.5	3.912	4,197	4,571	4.857
16	65	4.068	4,365	4,754	5,051
16.5	67.5	4,225	4.533	4,937	5,246
17	70	4,381	4.701	5,120	5,440
17.5	72.5	4,538	4,869	5.303	5,634
18	75	4,694	5,037	5.486	5,829
18.5	77.5	4.851	5,205	5,669	6.023
19	80	5.007	5,373	5,852	6.217
19.5	82.5	5,164	5.541	6,034	6,412
20 and over	85 (Max.)	5,320	5,709	6.217	6,606

*A member with 10 or more years of service may claim an annuity as early as age 55 in which case the above amounts would be reduced 1/2 of 1% for each month under age 60.

**See footnote on Chart No. 1 (previous page)

3. SURVIVORS ANNUITY BENEFIT

Qualifying Provisions. A surviving spouse without children, eligible for benefits consideration, may be considered for this benefit at age 50 or over provided marriage to the member had been in effect for at least 1 year immediately prior to the member's death and also on the last day of service.

A surviving spouse with unmarried eligible children of the member may be considered for a survivor's annuity benefit at any age provided the marriage requirements stated above have been met. When all children are disqualified because of death, marriage or attainment of age 18, the spouse's benefit is suspended if the spouse if under age 50 until attainment of such age.

A surviving spouse who remarries prior to attainment of age 50 shall be disqualified for any future benefit payments.

Eligible children of the member under age 18 or who are dependent because of a physical or mental disability may be considered for benefits. Children adopted by the member at least 6 months prior to death have the same status as natural children. A child's annuity can be considered for an eligible child even though the member did not participate in and contribute for the survivor's annuity benefit.

Service Requirement. If the member dies in service as a Judge, the Judge must have at least 1-1/2 years of service credit for the survivors annuity eligibility. If death occurs after termination of service, the deceased member must have at least 10 years of service credit in the System.

Amount of Survivors Annuity. The annuities payable to survivors in the several categories depending on whether the member dies in service or after termination of service, provided qualifying conditions and other requirements have been fulfilled, are as follows:

	DEATH IN SERVICE	DEATH AFTER TERMINATION OR RETIREMENT
(a) Spouse	7-1/2% of salary or 66-2/3% of earned retirement annuity, whichever is greater	66-2/3% of earned retirement annuity
(b) Eligible Children of the Member	5% of salary for each child with maximum for all children of 20% of salary or 66-2/3% of earned pension, whichever is greater	Same as "Death in Service"

Offset by Workmen's Compensation. The survivor's annuity is subject to reduction by any amounts received by a survivor under the Workmen's Compensation Act or the Workmen's Occupational Diseases Act.

4. LUMP SUM DEATH BENEFITS

Lump sum death benefits are considered only if there are no eligible "survivor's annuity" beneficiaries surviving the deceased member.

Conditions for Payment	Benefits Payable
(a) Death before retirement with no survivors eligible to a survivor's annuity	Refund of total contribution credits to nominated beneficiary or estate.
(b) Death after retirement with no survivors eligible to a survivor's annuity	Refund of excess of (a) contributions over, (b) annuity payments. Payable to the nominated beneficiary or estate. If the total of annuities paid equal or exceed contributions, no death benefits are payable.
(c) Death of survivor annuitant with no further survivor's annuity payable.	Refund of excess of (a) contributions over, (b) total retirement and survivors payments. The refund is payable to the nominated beneficiary or the estate of the last survivor. If total benefits equal or exceed contributions, no death benefits are payable.

5. TAXATION OF BENEFITS

Retirement and survivor's annuity benefits paid by the Judges Retirement System are subject to Federal Income Tax. The Tax Reform Act of 1986 made several changes in the tax treatment of pension payments. The three-year recovery rule was eliminated for any individual whose benefit commences after July 1, 1986, and a portion of the monthly annuity may be excluded as income for tax purposes with the balance considered as taxable income beginning with the first payment. The nontaxable amount of the benefit is determined from the member's tax free cost and the expected return based on the life expectancy of the pensioner at the beginning date of the benefit. Under the Judges Retirement System the member's cost would normally represent contributions prior to January 1, 1982. When benefits become payable, the member or survivor will be provided with information regarding the Federal Income Tax treatment of the benefit and the amount the recipient is to consider as the cost of annuity.

Benefits paid by the Judges Retirement System are not subject to Illinois State Income Tax.

6. RECIPROCITY

The Retirement Systems' Reciprocal Act (Chapter 108½, Article 20, Illinois Revised Statutes) provides the means of giving effect to pension credits in certain other public retirement systems in Illinois by considering such credits together with credits in the Judges Retirement System for the purpose of determining eligibility to annuities and for computing the annuities that may be payable to participants and their dependents.

Under the "Retirement Systems' Reciprocal Act," each retirement system must consider the provisions of its law in effect on the last date of the last termination of service of the member under any of the systems involved. Earnings under all systems are considered by each system in establishing the salary base on which benefits are to be computed. Public employment is considered in sequence by each system in arriving at the proper graded percentage rate of annuity applicable to the member under its graduated annuity rate schedule. Each system is to pay its proportionate annuity to the annuitant but the total payments by all systems cannot exceed the highest maximum annuity of any of the systems being considered if all of the member's public employment had been credited in that system. No additional contributions are required for this provision to be applicable.

The option of transferring and converting pension credit in another system in terms of the Judges Retirement System formula is still available to any Judge in service on September 5, 1975. This does not mean "a year for year" conversion but consists of the ratio of the benefit rates for the system from which the transfer is being made to the benefit rates of the Judges Retirement System. Since the Judges Retirement System rates are higher than in the case of the other public retirement systems in Illinois, this means, for example, that 4 years of pension credit in another system may result in only 1-1/2 or 2 years of converted pension credit in the Judges Retirement System. An additional contribution may be required from the member.

It is possible the revisions made by amendments to the regular formula of the Reciprocal Act, which became effective in 1975, may result in comparable or greater benefits than those that would be available if the pension credits from another system or systems were transferred and converted into reduced credits in the Judges Retirement System. Furthermore, for the regular formula, no additional payment from the member is required, whereas the transfer and conversion process calls for a substantial contribution, in most cases, on the part of the member.

7. STATE EMPLOYEES GROUP INSURANCE PROGRAM

Annuitants (retirement and survivor) receiving benefits from the Judges Retirement System are eligible to coverage under the State Employees Group Insurance Program. Basic health and life premiums for the retired judge are paid by the State and premiums for any dependent health or optional life coverage are deducted from the monthly benefit. A judge who begins to receive benefits within one year of the date of removal from the payroll is considered an "immediate annuitant" and is eligible to the same health coverage which the judge had under the State program as an employee. A large majority of the retirement annuitants fall in this category and claim the retirement annuity effective the day following termination of service in which case the insurance enrollment is merely transferred from the payroll to the Judges Retirement System.

Although health coverage would remain the same, the member's life insurance coverage could be reduced at retirement since the maximum basic life coverage is $2,000 for a retirement system annuitant at age 60 or over and optional life coverage which had been elected would be in multiples of up to four times that basic amount.

Cook County judges who are paid a portion of their salary by the County and who have health insurance on their dependents with Cook County rather than with the State Group Plan would not have health coverage for those dependents upon retirement. Such dependents can only be added to the State Group Program through the submission of evidence of insurability which is subject to approval by the carrier or during an open enrollment period.

Survivors who qualify for monthly benefits upon the death of an active member or retired judge then become the annuitant and premiums for that survivor's basic health insurance coverage are paid by the State. A survivor annuitant may elect $2,000 of life insurance coverage with premiums deducted from the monthly benefit.

TABLE 1. Active Participants Classified by Present Age and Annual Salaries

Age	Number	Annual Salaries	Age	Number	Annual Salaries
32	1	$ 71,560	60	27	$2,045,025
33	1	76,785	61	20	1,509,575
34	4	291,465	62	25	1,870,405
			63	35	2,684,370
35	8	577,705	64	22	1,662,690
36	6	429,360			
37	10	720,825	65	19	1,443,240
38	15	1,099,525	66	21	1,587,980
39	19	1,385,765	67	25	1,874,190
			68	8	598,605
40	21	1,528,885	69	14	1,028,560
41	27	1,984,370			
42	19	1,390,990	70	14	1,079,760
43	25	1,848,065	71	10	758,990
44	29	2,148,390	72	6	438,465
			73	12	920,010
45	36	2,664,985	74	6	462,300
46	33	2,420,545			
47	22	1,610,895	75	3	219,905
48	14	1,062,495	76	3	225,130
49	15	1,120,425	77	1	76,785
			78	1	83,600
50	19	1,401,440	79	1	76,785
51	27	2,017,310			
52	17	1,292,850	80	1	76,785
53	13	978,895	81	2	142,285
54	18	1,359,185	83	1	50,500
55	26	1,987,095	86	1	50,500
56	27	2,018,900			
57	26	1,952,565	Totals	794	$59,266,025
58	16	1,197,210			
59	22	1,661,100			

TABLE 2. Active Participants Classified by Length of Service and Annual Salaries

Years of Service	Number	Annual Salaries
Less than 1 year	72	$5,266,115
1	25	1,816,715
2	75	5,511,255
3	22	1,589,995
4	69	5,021,240
5	21	1,513,210
6	63	4,668,210
7	20	1,488,675
8	58	4,336,535
9	25	1,837,615
10	72	5,506,255
11	31	2,324,450
12	40	3,063,675
13	26	1,952.565
14	24	1,837,160
15	27	2,015,720
16	26	2,020.035
17	4	313,955
18	8	622,685
19	7	532,270
20	9	685.840
21	12	906,380
22	14	1,043,480
23	9	703,105
24	14	1,061,150
25	3	230,355
26	2	153,570
27	2	141,560
28	5	378.700
30	3	243,985
31	2	160,385
32	2	165.610
33	1	76.785
40	1	76,785
Totals	794	$59,266,025

TABLE 3. Inactive Participants Classified by Age and Annual Salaries

Age At June 30, 1987	Number	Annual Salaries
38	1	$71,560
39	1	60,500
47	2	116,560
48	1	76,785
50	1	76,785
53	1	50,500
54	2	82,000
55	1	58,000
56	1	28,000
60	1	76,785
62	1	50,500
65	1	53,000
71	1	60,500
Totals	15	$861,475

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

Years of Service at June 30, 1987	Number	Annual Salaries
3	2	$113,500
4	1	71,560
6	2	134,785
8	1	50,500
10	4	195,060
11	1	37,000
12	1	76,785
13	1	60,500
14	1	45,000
16	1	76,785
Totals	15	$861,475

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

Age June 30, 1987	Number of Annuitants	Annual Payments
55	1	$ 23,695
56	3	102,910
57	4	191,116
58	4	173,986
59	8	236,955
60	7	269,478
61	8	205,720
62	12	605,429
63	8	375.173
64	9	363,681
65	9	419,426
66	14	507,255
67	13	573,022
68	11	380,881
69	16	710,732
70	15	674,449
71	17	694,545
72	19	698,252
73	18	719.227
74	17	793,804
75	16	696,947
76	15	570,342
77	18	629,944
78	12	476,594
79	14	458,490
80	8	218,524
81	5	156,351
82	9	283.903
83	7	227,699
84	4	171,355
85	3	40,563
86	2	99,571
88	5	96,686
89	1	46,240
90	1	31,497
91	1	9,500
95	1	25,784
96	1	46,240
99	1	48,960
Totals	337	$13,054,926

TABLE 6. Retirement Annuitants Classified by Age at Retirement and Annual Payments

Age at Retirement	Number of Annuitants	Amount of Annual Payments
46	1	$ 24,888
51	1	36,981
55	12	359,051
56	10	282,914
57	10	328,437
58	7	247,905
59	12	429,432
60	50	1,531,572
61	19	686,628
62	13	480,342
63	21	877,429
64	14	621,262
65	20	849,293
66	24	920,963
67	14	659,950
68	12	520,632
69	15	637,195
70	24	911,107
71	16	695,778
72	6	246,806
73	5	278,695
74	2	86,991
75	7	362,612
76	6	272,402
77	4	180,996
78	2	89,573
79	2	69,068
80	3	134,990
81	2	99,709
82	1	36,125
85	1	46,240
88	1	48,960
Totals	337	$13,054,926

TABLE 7. Spouse Annuitants Classified by Age and Annual Payments

Age at 6/30/87	Number	Amount of Annual Payments	Age at 6/30/87	Number	Amount of Annual Payments
44	1	$ 9,298	75	4	$ 72,489
			76	4	68,839
47	1	13,885	77	8	94,927
48	1	4,538	78	4	72,660
			79	12	166,732
50	1	24,829			
51	1	9,176	80	13	174,469
52	1	12,227	81	11	90,186
54	4	60,238	82	4	11,557
			83	8	102,355
55	1	6,453	84	5	33,768
56	3	67,495			
57	3	62,009	85	4	29,880
58	3	37,013	86	4	16,050
59	2	37,510	87	4	65,949
			89	2	5,242
60	2	30,795			
62	1	2,175	91	4	34,031
63	6	101,502	92	2	17,780
64	5	129,406	93	1	10,885
			94	4	37,335
65	1	8,451			
66	3	42,514	96	1	4,927
67	5	98,333	97	1	2,250
68	9	203,893			
69	8	131,676	Totals	208	$2,878,657
70	10	199,021			
71	8	136,777			
72	10	126,066			
73	9	136,486			
74	9	74,580			

TABLE 8. Child Annuitants Classified by Age and Annual Payments

Age at 6/30/87	Number	Amount of Annual Payments
11	2	$ 4,775
13	4	12,389
15	3	9,942
17	4	12,918
22	1	3,025
30	1	2,125
Totals	15	$45,174