# JUDGES' RETIREMENT SYSTEM OF ILLINOIS

# COMPONENT UNIT FINANCIAL REPORT

## FOR THE FISCAL YEAR ENDED JUNE 30, 1990

JUDGES' RETIREMENT SYSTEM
OF ILLINOIS

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

Prepared by the
Accounting Division

Printed by Authority of the State of Illinois

# *Introductory Section*

**Letter of Transmittal**

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

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

SRS STATE RETIREMENT SYSTEMS

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

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

November 15, 1990

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

Dear Board of Trustees and Members:

The component unit annual financial report of the Judges' Retirement System of Illinois (System) for the fiscal year ended June 30, 1990 is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the System. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the System. All disclosures necessary to enable the reader to gain an understanding of the System's financial activities have been included.

The report consists of six sections:

1. An Introductory Section which contains this letter of transmittal and the identification of the administrative organization;

2. The Financial Section which contains the report of the independent public accountants, the financial statements of the System, and the supplementary and additional financial information;

3. The Actuarial Section which contains the report of the Actuary as well as the summary of major actuarial assumptions and certain tables;

4. The Investment Section which contains a summary of the System's investment management approach and selected summary tables, including investment performance;

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

6. A summary of the System's plan provisions and current legislative changes.

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

## PLAN HISTORY AND SERVICES PROVIDED

The Judges' Retirement System of Illinois (System) was established as a public employee retirement system (PERS) by state statute on July 1, 1941. The mission of the System as prescribed by state statute is to "establish an efficient method of permitting retirement, without hardship or prejudice, of judges who are aged or otherwise incapacitated, by enabling them to accumulate reserves for themselves and their dependents for old age, disability, death, and termination of employment".

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

The completion of fiscal year 1990 marks the 49th anniversary of the System. The following table highlights certain financial information and membership data during the 49 year history of the System.

| | June 30, | | | |
|---|---|---|---|---|
| | 1942 | 1958 | 1974 | 1990 |
| Number of participants | 260 | 309 | 660 | 849 |
| Number of annuities granted: | | | | |
| Retirement | 7 | 71 | 102 | 353 |
| Survivors | 0 | 35 | 134 | 245 |
| Total assets (net) | $ 83,590 | $ 1,343,088 | $ 25,085,167 | $ 166,984,434 |
| Actuarial liability | $ 177,378 | $ 10,263,909 | $ 76,594,180 | $ 366,116,393 |
| Unfunded actuarial liability | $ 93,788 | $ 8,920,821 | $ 51,509,013 | $ 199,131,959 |
| Total revenues | $ 102,629 | $ 994,168 | $ 5,410,594 | $ 31,035,363 |
| Total expenses | $ 19,039 | $ 708,018 | $ 2,063,397 | $ 20,289,691 |

## REVENUES

Collection of employer and participant retirement contributions, as well as income from investments, provide the reserves necessary to finance retirement benefits. These income sources totaled $31,035.4 thousand during the fiscal year ending June 30, 1990, which is an increase from revenue reported for fiscal year 1989, shown as follows:

| | 1990 (Thousands) | 1989 (Thousands) | Increase/(Decrease) (Thousands) | Increase/(Decrease) (Percentage) |
|---|---|---|---|---|
| Contributions: | | | | |
| Participants | $ 7,143.0 | $ 6,909.0 | $ 234.0 | 3.4% |
| Employer | 10,686.0 | 9,918.7 | 767.3 | 7.7% |
| Investments | 13,206.4 | 12,246.0 | 960.4 | 7.8% |
| Total Revenue | $ 31,035.4 | $ 29,073.7 | $ 1,961.7 | 6.7% |

As indicated in the total above, a substantial portion of the total revenue is derived from investment income, including the realization of substantial gains on the sales of investments, during both fiscal years 1990 and 1989.

## EXPENSES

The primary expense of a retirement system relates to the purpose for which it is created; namely the payment of benefits. The payments, together with the expense to administer the plan, constitute the total expenses of the System. Expenses of the System for 1990 and 1989 are shown below for comparison purposes.

| | 1990 (Thousands) | 1989 (Thousands) | Increase/(Decrease) (Thousands) | Increase/(Decrease) (Percentage) |
|---|---|---|---|---|
| Benefits: | | | | |
| Retirement annuities | $ 16,043.5 | $ 15,194.9 | $ 848.6 | 5.6% |
| Survivors' annuities | 3,784.0 | 3,581.4 | 202.6 | 5.7% |
| Total Benefits Expenses | $ 19,827.5 | $ 18,776.3 | $ 1,051.2 | 5.6% |
| Refunds | 275.2 | 421.1 | (145.9) | (34.6%) |
| Administrative expenses | 187.0 | 171.9 | 15.1 | 8.8% |
| Total Expenses | $ 20,289.7 | $ 19,369.3 | $ 920.4 | 4.8% |

The increase in benefit payments resulted primarily from higher salaries for current retirees and post retirement annuity increases granted each January 1.

## INVESTMENTS

The System's investments are managed by the Illinois State Board of Investment (ISBI) pursuant to Article 22A of the Illinois Pension Code. For the fiscal year ended June 30, 1990, the total investment return on the market value of assets managed by the ISBI was 8.0% compared to 14.3% during the fiscal year ended June 30, 1989.

Total investment income, including net realized gains on the sale of investments, amounted to $13,206.4 thousand during fiscal year 1990, an increase of $960.5 thousand from fiscal year 1989 as shown below for comparison purposes.

| | 1990 (Thousands) | 1989 (Thousands) | Increase/(Decrease) (Thousands) | Increase/(Decrease) (Percentage) |
|---|---|---|---|---|
| Net investments income | $ 9,345.0 | $ 8,837.1 | $ 507.9 | 5.7% |
| Net realized gain on sale of investments | 3,494.0 | 3,259.8 | 234.2 | 7.2% |
| Interest earned on cash balances | 367.4 | 149.0 | 218.4 | 146.6% |
| Total Investments revenue | $ 13,206.4 | $ 12,245.9 | $ 960.5 | 7.8% |

Income from investments has, over the years, increasingly become a greater share of the total revenue of the System. For the fiscal year ended June 30, 1990, income from investments represents 42.6% of total fund revenue compared to 42.1% for fiscal year 1989.

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

## FUNDING AND RESERVES

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

The actuarial determined liability of the System at June 30, 1990, amounted to $366.1 million. The fund balances for participant contributions and future operations amounted to $167.0 million as of the same date. The amount by which the actuarial determined liability exceeds the fund balances is called the "unfunded present value of credited projected benefits." The unfunded present value of credited projected benefits amounts to $199.1 million and reflects the continuing state policy of appropriating funds based upon a percentage of the total amount of benefit payments made to current recipients. A detailed discussion of funding is provided in the Actuarial Section of this report.

## ECONOMIC CONDITION AND OUTLOOK

The state's policy on pension funding has been based on variations of the pay-as-you-go approach. From fiscal year 1973 through fiscal year 1981, the state's contribution was approximately equal to 100% of payout (the dollar amount expected to be paid out in benefits each year).

Beginning in fiscal year 1982, however, state appropriations have been less than 100% of payout. In fiscal year 1982, the appropriation fell to 62.5% of payout, while in fiscal year 1983 the appropriation declined to just over 50 % of payout. These reductions were due in large part to the state's poor fiscal condition. From fiscal year 1984 to fiscal year 1987, the state's appropriation was approximately 60% of payout. The fiscal year 1988 regular contribution was approximately 48% of payout, and the fiscal years 1989 and 1990 contributions were approximately 44% of payout.

Financing the retirement benefits that are being earned is one of the most important issues facing the Judges' Retirement System. Over the years, a number of organizations have stressed the need for sound funding of the System. In August, 1989, Governor Thompson signed Senate Bill 95 into law. This Bill provided for the increased funding of the unfunded actuarial liability which has been steadily increasing for the past several years. The amortization period of the unfunded liability was established at 40 years and is scheduled to begin in 1996. In order to defer the cost of a substantial increase in the required employer contributions, a seven year phase-in period was included in the legislation. The seven year phase-in period was to be used to increase the amount of contributions from the current contribution level to that level required for the amortization of the unfunded liability over the 40 year period. However, the state did not appropriate sufficient monies to cover the employer share of retirement contributions in the first year of the phase-in period.

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

## MAJOR INITIATIVES

During the past fiscal year, the System completed several major projects. Most significant was the publishing of a participant handbook titled "BENEFITS - Your Rights and Responsibilities" as well as the "PANEL", a semi-annual newsletter for active members and annuitants. The System also completed work on developing a procedures manual which will aid the staff of the System and serve as a training tool.

Additionally, the System moved to a new office facility during the past fiscal year. The new facility, constructed and owned by the State Employees' Retirement System, is also the home of the General Assembly Retirement System. Located at 2101 South Veterans Parkway, Springfield, Illinois, the new building is intended to serve the long-term space needs of the System.

Projects for fiscal year 1991 include the development and implementation of an automated benefit calculation system; the implementation of a Field Services program designed to provide valuable information to all members, annuitants and survivors utilizing one-on-one consultation sessions by staff personnel at various locations throughout the state; and the study and possible development of a reciprocal data base for storage and calculation of reciprocal service credits. A new handbook specifically designed for annuitants and survivors is also being developed for publication during fiscal year 1991.

## ACCOUNTING SYSTEM AND INTERNAL CONTROL

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

## PROFESSIONAL SERVICES

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

## CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Judges' Retirement System of Illinois for its component unit financial report for the fiscal year ended June 30, 1989. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

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

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

## ACKNOWLEDGEMENTS

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

Respectfully submitted,

Michael L. Mory      David M. Richter

Michael L. Mory<br>Executive Secretary

David M. Richter, CPA<br>Accounting Division

# JUDGES' RETIREMENT SYSTEM OF ILLINOIS
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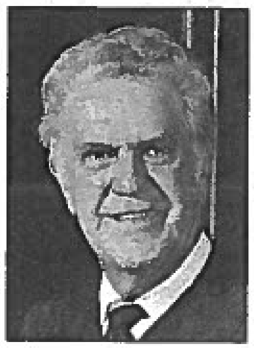

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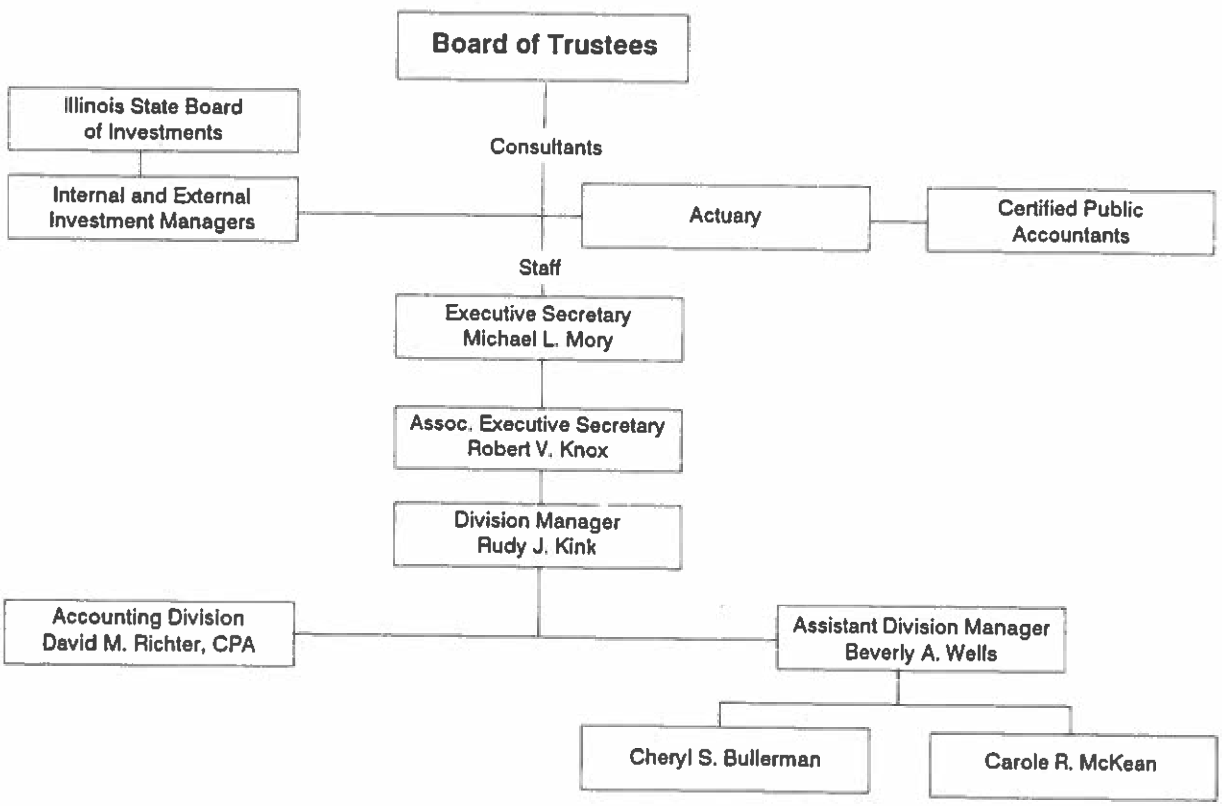


# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Judges Retirement System of Illinois

For its Component Unit
Financial Report
for the Fiscal Year Ended
June 30, 1989

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

President

Executive Director

# *Financial Section*

ARTHUR ANDERSEN & CO.

CHICAGO, ILLINOIS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Honorable Robert G. Cronson
Auditor General
State of Illinois

Board of Trustees
Judges' Retirement System
of Illinois

We have audited, as Special Assistant Auditors for the Auditor General, the accompanying balance sheets of the JUDGES' RETIREMENT SYSTEM OF ILLINOIS as of June 30, 1990 and 1989, and the related statements of revenue, expenses and changes in fund balance for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Judges' Retirement System of Illinois as of June 30, 1990 and 1989, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The statements of supplementary financial information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. This information has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated, in all material respects in relation to the financial statements taken as a whole.

Arthur Andersen & Co.

ARTHUR ANDERSEN & CO.

October 19, 1990

# JUDGES' RETIREMENT SYSTEM OF ILLINOIS

## Balance Sheets
## June 30, 1990 and 1989

| | 1990 | 1989 |
|---|---|---|
| **Assets** | | |
| Cash | $ 3,828,060 | $ 656,579 |
| Receivables: | | |
| Participants' contributions | $ 85,833 | $ 74,296 |
| Refundable annuities | 22,570 | -- |
| Interest on cash balances | 27,305 | 10,993 |
| Due from General Assembly Retirement System | 38,259 | 30,076 |
| Other | -- | 413 |
| | $ 173,967 | $ 115,778 |
| Investments - held in the Illinois State Board of Investment Commingled Fund, at cost (Market value: 1990, $180,672,724 1989, $172,623,478) (Note 3) | $ 163,122,923 | $ 155,708,987 |
| Equipment, net of accumulated depreciation (Note 8) | 26,585 | 20,298 |
| Total Assets | $ 167,151,535 | $ 156,501,642 |
| **Liabilities and Fund Balance** | | |
| Benefits payable | $ 2,246 | $ 2,569 |
| Refunds payable | 108,993 | 222,737 |
| Administrative expenses payable (Note 7) | 54,862 | 37,574 |
| Participants' deferred service credit accounts | 1,000 | -- |
| Total Liabilities | $ 167,101 | $ 262,880 |
| Fund Balance | | |
| Actuarial present value of credited projected benefits (Note 5) | $ 366,116,393 | $ 319,402,592 |
| Less unfunded present value of credited projected benefits representing an obligation of the State of Illinois | (199,131,959) | (163,163,830) |
| Total Fund Balance (Note 10) | $ 166,984,434 | $ 156,238,762 |
| Total Liabilities and Fund Balance | $ 167,151,535 | $ 156,501,642 |

See accompanying notes to financial statements.

# JUDGES' RETIREMENT SYSTEM OF ILLINOIS

## Statements of Revenue, Expenses and Changes in Fund Balance
## Years ended June 30, 1990 and 1989

| | 1990 | 1989 |
|---|---|---|
| Revenue: | | |
| Contributions: | | |
| Participants | $ 7,142,961 | $ 6,909,017 |
| Employer | 10,686,020 | 9,918,700 |
| Total Contributions revenue | $ 17,828,981 | $ 16,827,717 |
| Investments: | | |
| Net investments income | $ 9,344,932 | $ 8,837,104 |
| Interest earned on cash balances | 367,446 | 149,055 |
| Net realized gain on sale of investments | 3,494,004 | 3,259,777 |
| Total Investments revenue | $ 13,206,382 | $ 12,245,936 |
| Total Revenue | $ 31,035,363 | $ 29,073,653 |
| Expenses: | | |
| Benefits: | | |
| Retirement annuities | $ 16,043,479 | $ 15,194,821 |
| Survivors' annuities | 3,783,974 | 3,581,432 |
| Total Benefits expenses | $ 19,827,453 | $ 18,776,253 |
| Refunds | 275,233 | 421,138 |
| Administrative (Note 7) | 187,005 | 171,936 |
| Total Expenses | $ 20,289,691 | $ 19,369,327 |
| Excess of Revenue over Expenses | $ 10,745,672 | $ 9,704,326 |
| Fund Balance at beginning of year | $ 156,238,762 | $ 146,534,436 |
| Fund Balance at end of year | $ 166,984,434 | $ 156,238,762 |

See accompanying notes to financial statements.

# JUDGES' RETIREMENT SYSTEM OF ILLINOIS

## Notes to Financial Statements

**June 30, 1990 and 1989**

### (1) Reporting Entity

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

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

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

### (2) Plan Description

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

At June 30, 1990 and 1989, the System membership consisted of:

| | 1990 | 1989 |
|---|---|---|
| Retirees and beneficiaries currently receiving benefits: | | |
| Retirement annuities | 353 | 367 |
| Survivors' annuities | 245 | 242 |
| | 598 | 609 |
| Inactive participants entitled to benefits but not yet receiving them | 22 | 22 |
| Total | 620 | 631 |
| Current Participants: | | |
| Vested | 520 | 513 |
| Nonvested | 307 | 308 |
| Total | 827 | 821 |

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

#### (a) Eligibility and Membership

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

#### (b) Contributions

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

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

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

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

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

### (c) Benefits

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

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

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

Participants who terminate service and are not eligible for an immediate annuity may receive, upon application, a refund of their total contributions. Participants or annuitants who are no longer married are entitled to refunds of their contributions for survivors. Participants who are 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 retirement and survivors benefits "frozen."

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

### (a) Basis of Accounting

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

### (b) Method Used to Value Investments

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

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

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

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

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

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

At June 30, 1990, the ISBI Board's deposits and investments were categorized as follows:

| | Category I | Category II | Category III | Cost | Market Value |
|---|---|---|---|---|---|
| U.S. Government Obligations | $ 530,697,981 | $ -- | $ -- | $ 530,697,981 | $ 536,758,724 |
| Foreign Obligations - Bonds | 29,171,342 | -- | -- | 29,171,342 | 30,585,412 |
| Foreign Obligations - Equities | 236,300,748 | -- | -- | 236,300,748 | 257,453,355 |
| Corporate Obligations | 605,698,908 | -- | -- | 605,698,908 | 624,021,097 |
| Convertible Bonds | 87,617,344 | -- | -- | 87,617,344 | 89,026,037 |
| Common Stock & Equity Funds | 806,663,978 | -- | -- | 806,663,978 | 971,106,831 |
| Convertible Preferred Stock | 19,201,322 | -- | -- | 19,201,322 | 18,618,822 |
| Preferred Stock | 8,843,304 | -- | -- | 8,843,304 | 4,557,144 |
| Money Market Instruments | 220,423,414 | -- | 8,152,344 | 228,575,758 | 228,575,758 |
| SUBTOTAL | $ 2,544,618,341 | $ -- | $ 8,152,344 | $ 2,552,770,685 | $ 2,760,703,180 |
| Real Estate Pooled Funds | | | | 264,541,797 | 338,205,156 |
| Venture Capital | | | | 127,365,419 | 157,978,812 |
| Other assets, less liabilities | | | | 26,879,580 | 26,889,929 |
| TOTAL | | | | $ 2,971,557,481 | $ 3,283,777,077 |

The ISBI Board participates in a securities lending program whereby securities are loaned to brokers and, in return, the ISBI Board receives collateral of amounts slightly in excess of the market value of securities loaned. Collateral consists solely of cash, letters of credit, commercial paper and government securities. As of June 30, 1990 and 1989, the ISBI Board had outstanding loaned investment securities having a market value of approximately $332,849,772 and $148,865,699, respectively, against which it had received collateral of approximately $337,371,274 and $151,843,013, respectively.

The System owns 5.5% of the ISBI Commingled Fund as of June 30, 1990.

### (c) Fixed Assets

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

### (d) Actuarial Experience Review

In accordance with Illinois Revised Statutes, an actuarial experience review is to be performed at least once every five years to determine the adequacy of actuarial assumptions regarding the mortality, retirement, employment, turnover, interest and earnable compensation of the participants and beneficiaries of the System. An experience review was performed as of June 30, 1987.

### (e) Administrative Expenses

Administrative expenses common to the Judges' Retirement System and the General Assembly Retirement System are borne 60% by the Judges' Retirement System and 40% by the General Assembly Retirement System. Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System and 40% thereof is allocated to and reimbursed by the General Assembly Retirement System. Administrative expenses allocated to and reimbursed by the General Assembly Retirement System were $119,787 and $101,651 for the years ended June 30, 1990 and 1989, respectively.

## (4) Funding Status and Progress

The amount shown below as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of participant service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess the Judges' Retirement System funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among PERS. The measure is the same as the actuarial funding method used to determine contributions to the System Trust Fund discussed in Note 5.

The pension benefit obligation was determined as part of an actuarial valuation as of June 30, 1990. Significant actuarial assumptions used include (a) rates of return on the investment of present and future assets of 8.0% per year, compounded annually, (b) projected salary increase of 6% per year, compounded annually, (c) mortality rates based upon the UP1984 Mortality Table and (d) assumed age at retirement ranging from 55 to 75, based upon recent history with the System.

At June 30, 1990 and 1989, the unfunded pension benefit obligation was $199,131,959 and $163,163,830 as follows:

| | 1990 | 1989 |
|---|---|---|
| Pension benefit obligation: | | |
| Retirees & beneficiaries currently receiving benefits | $185,952,152 | $168,946,414 |
| Inactive participants not yet receiving benefits | 6,441,295 | 5,815,477 |
| Current Participants: | | |
| Accumulated participant contributions | 50,788,720 | 44,897,390 |
| Employer-financed vested | 73,014,185 | 43,821,372 |
| Employer-financed nonvested | 49,920,041 | 55,921,939 |
| Total Pension benefit obligation | $366,116,393 | $319,402,592 |
| Net assets available for benefits, at cost (market value at June 30, 1990 $184,534,235; June 30, 1989 $173,153,253) | 166,984,434 | 156,238,762 |
| Unfunded pension benefit obligation | $199,131,959 | $163,163,830 |

Public Act 86-0273, which was signed into law on August 23, 1989, enacted several changes in the benefit provisions of the System effective January 1, 1990. These changes provide for (1) 3% automatic annual increases in retirement annuities based on the current amount of annuity instead of the originally granted amount of annuity and (2) a 3% automatic annual increase in the amount of survivors' annuities based on the current amount of annuity.

These benefit changes enacted under Public Act 86-0273 had the effect of increasing the actuarial present value of credited projected benefits and the related unfunded actuarial liability by $30,071,594 during fiscal year 1990.

## (5)Contributions Required and Contributions Made

In previous fiscal years, employer contributions made by the State of Illinois were based on the payout requirements of the System and were not actuarially determined. Prior to fiscal year 1988, employer contributions were made at a level of approximately 60% of the payout requirements of the System. During fiscal years 1988 and 1989, the level of employer contributions decreased to approximately 44% of the payout requirements of the System.

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

For each fiscal year, the System's actuary performs an actuarial valuation and computes actuarially determined contribution requirements for the System, using the projected unit credit actuarial cost method. The same actuarial assumptions were used to determine the contribution requirements as are used to compute the pension benefit obligation discussed in Note 4. For fiscal years prior to 1990, the required employer contributions were computed in accordance with the Board of Trustee's approved funding policy of normal cost plus interest on the unfunded actuarial liability. For fiscal year 1990, required employer contributions were actuarially determined in accordance with the funding policy legislated by Public Act 86-0273. The state, however, has not followed the funding policy established by law for the fiscal year ended June 30, 1990.

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

The total amount of actuarially determined State of Illinois employer contributions required for the fiscal year ended June 30, 1990 amounted to $14,329,107. However, the state's employer contributions were not made in accordance with the actuarially determined contribution requirements for fiscal year 1990. The total amount of employer contributions made by the state was $10,657,400 and consisted of (a) $7,911,760 normal cost and (b) $2,745,640 amortization of the unfunded actuarial accrued liability.

Schedule of Contributions Required and Contributions Made

| | 1990 | 1989 | 1988 | 1987 |
|---|---|---|---|---|
| Covered Payroll | $64,670,416 | $63,478,721 | $62,366,208 | $59,266,115 |
| Required Employer Contributions | $14,329,107 | $21,990,938 | $20,182,837 | not available |
| Actual Employer Contributions | $10,657,400 | $9,918,700 | $9,137,000 | $9,832,000 |
| Actual Employer Contribution Rate | 16.5% | 15.6% | 14.7% | 16.6% |
| Board of Trustees Recommended Contribution Rate | 22.2% | 34.6% | 32.4% | not available |
| Participant Contributions | $7,142,961 | $6,909,017 | $6,885,514 | $6,248,636 |
| Participant Contribution Rate | 11.0% | 10.9% | 11.0% | 10.5% |

## (6) Historical Trend Information

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

## (7) Administrative Expenses

A summary of the administrative expenses for the Judges' Retirement System for fiscal years 1990 and 1989 is as follows:

| | 1990 | 1989 |
|---|---|---|
| Personal services | $126,964 | $107,023 |
| Retirement contributions | 7,878 | 6,742 |
| Social Security contributions | 7,116 | 3,325 |
| Group insurance | 6,420 | 3,780 |
| Contractual services | 29,065 | 28,086 |
| Travel | 3,933 | 3,328 |
| Printing | 4,666 | 718 |
| Commodities | 1,026 | 1,067 |
| Telecommunications | 1,947 | 1,915 |
| Electronic Data Processing | 5,605 | 10,689 |
| Depreciation | 2,640 | 2,706 |
| Other | (10,255) | 2,557 |
| Total | $187,005 | $171,936 |

## (8) Equipment

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

A summary of the changes in fixed assets for fiscal years 1990 and 1989 is as follows:

| 1990 | Beginning Balance | Additions | Deletions | Ending Balance |
|---|---|---|---|---|
| Equipment | $ 29,679 | $ 10,055 | $ (4,354) | $ 35,380 |
| Accumulated Depreciation | (9,381) | (2,640) | 3,226 | (8,795) |
| Equipment, net | $ 20,298 | $ 7,415 | $ (1,128) | $ 26,585 |

| 1989 | Beginning Balance | Additions | Deletions | Ending Balance |
|---|---|---|---|---|
| Equipment | $ 29,266 | $ 3,841 | $ (3,428) | $ 29,679 |
| Accumulated Depreciation | (8,662) | (2,706) | 1,987 | (9,381) |
| Equipment, net | $ 20,604 | $ 1,135 | $ (1,441) | $ 20,298 |

## (9) Accrued Compensated Absences

Employees of the Judges' Retirement System are entitled to receive compensation for all accrued but unused vacation time and one-half of all unused sick leave earned after January 1, 1984 upon termination of employment. The value of accrued compensated absences as of June 30, 1990 and 1989 were $13,103 and $24,297, respectively.

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

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

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

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

JUDGES' RETIREMENT SYSTEM OF ILLINOIS
Statements of Changes in Fund Balances (Reserved)
Years ended June 30, 1990 and 1989

| | Participants' Contributions | Future Operations | Total Fund Balance |
|---|---|---|---|
| Balance at June 30, 1988 | $ 47,271,278 | $ 99,263,158 | $ 146,534,436 |
| Add (deduct): | | | |
| Excess (deficiency) of revenues over expenses | 6,505,209 | 3,199,117 | 9,704,326 |
| Reserve transfers: | | | |
| Accumulated contributions of participants who retired or died with eligible survivor during the year | (2,853,251) | 2,853,251 | -- |
| Balance at June 30, 1989 | $ 50,923,236 | $105,315,526 | $156,238,762 |
| Add (deduct): | | | |
| Excess (deficiency) of revenues over expenses | 6,916,551 | 3,829,121 | 10,745,672 |
| Reserve transfers: | | | |
| Accumulated contributions of participants who retired or died with eligible survivor during the year | (1,485,532) | 1,485,532 | -- |
| Balance at June 30, 1990 | $ 56,354,255 | $110,630,179 | $166,984,434 |

## (11) Pension Disclosure

All of the System's full-time employees who are not eligible for another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a component unit of the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which state agencies, including the System, participate on a cost-sharing basis. The financial position and results of operations of the SERS for FY1990 and FY1989 and the related GASB Statement 5 employer disclosures are included in the State's Comprehensive Annual Financial Report for the years ended June 30, 1990 and 1989, respectively. The SERS also issues a separate component unit financial report (CUFR).

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

The pension benefit obligation at June 30, 1990 and June 30, 1989 for the SERS as a whole, determined through an actuarial valuation at that date was $4,538.1 million and $3,752.1 million, respectively. The SERS net assets available for benefits on these respective dates (valued at cost) were $2,795.6 million and $2,580.2 million, leaving unfunded pension benefit obligations of $1,742.5 million and $1,171.9 million. The System's FY1990 and

FY1989 contribution requirement represented .006% and .005%, respectively of total contributions required of all state agency/department employers participating in the SERS.

Ten-year historical trend information designed to provide information about the SERS progress made in accumulating sufficient assets to pay benefits when due is presented in its separately issued CUFRs for the years ended June 30, 1990 and June 30, 1989, respectively.

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

The System's covered payrolls for FY1990 and FY1989 were $127.0 thousand and $107.0 thousand and the payrolls for all System employees were $127.0 thousand and $107.0 thousand, respectively.

The System's (i.e., the employers') actuarially determined contribution requirements for FY1990 and FY1989 were $7.9 thousand and $6.7 thousand, respectively, or 6.2% and 6.3% of the System's covered payrolls. For FY1990, the System's and employee contributions actually made were $7.9 thousand and $4.7 thousand, respectively, which represents 6.2% and 3.7%, respectively, of the current year covered payroll. For FY1989, the System's and employee contributions actually made were $6.7 thousand and $6.9 thousand, respectively, which represents 6.3% and 6.4%, respectively, of the covered payroll.

## (12) Change in Reporting Requirements

The Governmental Accounting Standards Board (GASB) issued Statement No. 9 entitled "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting" effective for fiscal years beginning after December 15, 1989 with earlier application encouraged but not required. This Statement established certain standards for the reporting of entity cash flows.

The provisions of GASB Statement No. 9 are applicable to proprietary funds, nonexpendable trust funds, and governmental entities that use proprietary fund accounting. Public employee retirement systems (PERS) and pension trust funds are exempt from the requirement to present a statement of cash flows. In addition, pension trust funds are not required to present a statement of changes in financial position.

Since the GASB encourages earlier application of GASB Statement No. 9, the System Trust Fund has elected to early implement the requirements of Statement No. 9 and, therefore, is not including a statement of changes in financial position for the fiscal years ended June 30, 1990 and 1989.

## Analysis of Funding Progress

| Fiscal Year | (1) Net Assets Available for Benefits* | (2) Pension Benefit Obligation** | (3) Percentage Funded (1) ÷ (2) | (4) Unfunded Pension Benefit Obligation (2)-(1) | (5) Annual Covered Payroll | (6) Unfunded Pension Benefit Obligation as a % of Covered Payroll (4) ÷ (5) |
|---|---|---|---|---|---|---|
| 1987 | $138,927,534 | $307,064,068 | 45.2% | $168,136,534 | $59,266,115 | 283.7% |
| 1988 | 146,534,436 | 335,307,458 | 43.7% | 188,773,022 | 62,366,208 | 302.7% |
| 1989 | 156,238,762 | 319,402,592 | 48.9% | 163,163,830 | 63,478,721 | 257.0% |
| 1990 | 166,984,434 | 366,116,393 | 45.6% | 199,131,959 | 64,670,416 | 307.9% |

* At cost

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

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

## Revenues by Source and Expenses by Type

Revenues by Source

| FY Ended June 30 | Participants' Contributions | Employer Contributions: State of Illinois | Paid by Participant | Total | Income from Investments | Total |
|---|---|---|---|---|---|---|
| 1981 | $ 3,625,128 | $ 9,797,000 | $ -- | $ 9,797,000 | $ 6,064,175 | $ 19,486,303 |
| 1982 | 3,777,339 | 6,703,000 | -- | 6,703,000 | 6,612,346 | 17,092,685 |
| 1983 | 4,532,645 | 7,791,700 | -- | 7,791,700 | 12,424,402 | 24,748,747 |
| 1984 | 5,140,219 | 5,645,600 | -- | 5,645,600 | 9,655,020 | 20,440,839 |
| 1985 | 5,147,228 | 8,527,500 | -- | 8,527,500 | 6,621,882 | 20,296,610 |
| 1986 | 5,983,871 | 9,345,100 | -- | 9,345,100 | 15,225,759 | 30,554,730 |
| 1987 | 6,248,636 | 9,832,000 | -- | 9,832,000 | 14,240,835 | 30,321,471 |
| 1988 | 6,885,514 | 9,137,000 | -- | 9,137,000 | 9,666,884 | 25,689,398 |
| 1989 | 6,909,017 | 9,918,700 | -- | 9,918,700 | 12,245,936 | 29,073,653 |
| 1990 | 7,142,961 | 10,657,400 | 28,620 | 10,686,020 | 13,206,382 | 31,035,363 |

Expenses by Type

| FY Ended June 30 | Benefits | Refunds | Admin. Expenses | Other | Total |
|---|---|---|---|---|---|
| 1981 | $ 8,242,283 | $ 283,044 | $ 94,644 | $ -- | $ 8,619,971 |
| 1982 | 8,947,827 | 285,589 | 101,270 | (156,910) | 9,177,776 |
| 1983 | 9,704,670 | 156,519 | 110,597 | -- | 9,971,786 |
| 1984 | 10,810,013 | 194,517 | 115,178 | -- | 11,119,708 |
| 1985 | 12,352,558 | 263,219 | 118,866 | -- | 12,734,643 |
| 1986 | 13,616,195 | 600,279 | 128,558 | -- | 14,345,032 |
| 1987 | 15,376,535 | 283,090 | 153,973 | -- | 15,813,598 |
| 1988 | 17,382,718 | 551,268 | 148,510 | -- | 18,082,496 |
| 1989 | 18,776,253 | 421,138 | 171,936 | -- | 19,369,327 |
| 1990 | 19,827,453 | 275,233 | 187,005 | -- | 20,289,691 |

## Analysis of Employer Contributions - Fiscal Year 1988 through 1990

| Fiscal Year (A) | (1) Covered Payroll | (2) State of Illinois Employer Contributions Required (B) | (3) State of Illinois Employer Contributions Required as a % of Covered Payroll (2) ÷ (1) | (4) State of Illinois Employer Contributions Received | (5) State of Illinois Employer Contributions Received as a % of Covered Payroll (4) ÷ (1) | (6) Contributions Required in Excess of Contributions Received (2) — (4) |
|---|---|---|---|---|---|---|
| 1988 | $ 62,366,208 | $ 20,182,837 | 32.4% | $ 9,137,000 | 14.7% | $ 11,045,837 |
| 1989 | 63,478,721 | 21,990,938 | 34.6% | 9,918,700 | 15.6% | 12,072,238 |
| 1990 | 64,670,416 | 14,329,107 | 22.2% | 10,657,400 | 16.5% | 3,671,707 |

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

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

## SUMMARY OF REVENUES BY SOURCE
### Years Ended June 30, 1990 and 1989

| | 1990 | 1989 |
|---|---|---|
| Contributions: | | |
| Participants | $ 7,142,961 | $ 6,909,017 |
| Employer: | | |
| General Revenue Fund | $ 10,371,100 | $ 9,130,800 |
| State Pension Fund | 286,300 | 787,900 |
| Paid by Participants | 28,620 | -- |
| Total employer contributions | $ 10,686,020 | $ 9,918,700 |
| Total contributions revenue | $ 17,828,981 | $ 16,827,717 |
| Investments: | | |
| Net investments income | $ 9,344,932 | $ 8,837,104 |
| Interest earned on cash balances | 367,446 | 149,055 |
| Net realized gain on sale of investments | 3,494,004 | 3,259,777 |
| Total Investments revenue | $ 13,206,382 | $ 12,245,936 |
| Total Revenue | $ 31,035,363 | $ 29,073,653 |

## SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
### Years Ended June 30, 1990 and 1989

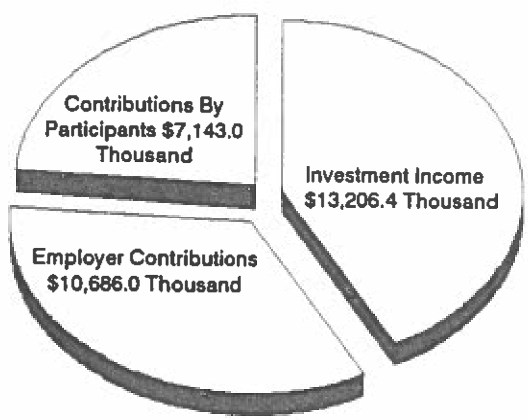
| | 1990 | 1989 |
|---|---|---|
| Cash balance, beginning of year | $ 656,579 | $ 935,712 |
| Receipts: | | |
| Participant contributions | $ 7,131,424 | $ 6,893,371 |
| Employer contributions: | | |
| General Revenue Fund | 10,371,100 | 9,130,800 |
| State Pension Fund | 286,300 | 787,900 |
| Paid by Participants | 28,620 | -- |
| Interest income on cash balances | 351,134 | 146,449 |
| Reimbursements from General Assembly Retirement System | 111,614 | 95,882 |
| Participants' deferred service credit payments | 1,000 | -- |
| Transfers from Illinois State Board of Investment | 11,425,000 | 2,000,000 |
| Total cash receipts | $ 29,706,192 | $ 19,054,402 |
| Disbursements: | | |
| Benefit payments: | | |
| Retirement annuities | $ 16,043,108 | $ 15,190,051 |
| Survivors' annuities | 3,806,824 | 3,576,210 |
| Refunds | 388,978 | 303,403 |
| Administrative expenses | 295,801 | 263,871 |
| Transfer to Illinois State Board of Investment | 6,000,000 | -- |
| Total cash disbursements | $ 26,534,711 | $ 19,333,535 |
| Cash balance, end of year | $ 3,828,060 | $ 656,579 |

## REVENUES

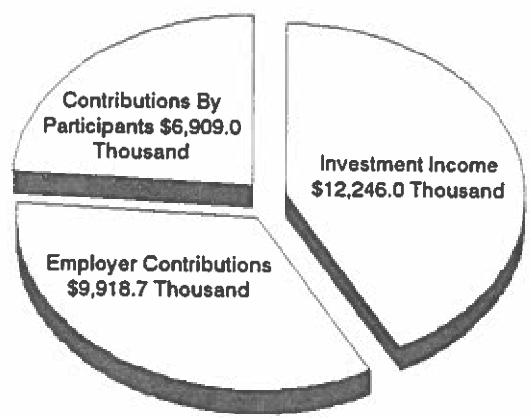
Total revenue of $31,035.4 thousand for FY 1990 was a $1,961.7 thousand increase from the FY 1989 level of $29,073.7 thousand. Net income from investments and net realized gains on sales of investments were $960.4 thousand greater than the prior fiscal year. Employer contributions show an increase of 7.7% ($767.3 thousand). Participant contributions were $234.0 thousand (3.4%) higher than for FY 1989.

| Revenue Source | FY 90 (Thousands) | FY 89 (Thousands) | Increase/(Decrease) Amount | Increase/(Decrease) Percentage |
|---|---|---|---|---|
| Participant Contributions | $ 7,143.0 | $ 6,909.0 | $ 234.0 | 3.4% |
| Employer Contributions | 10,686.0 | 9,918.7 | 767.3 | 7.7% |
| Investment Income | 13,206.4 | 12,246.0 | 960.4 | 7.8% |
| Total | $ 31,035.4 | $ 29,073.7 | $ 1,961.7 | 6.7% |

REVENUES BY SOURCE 1990
TOTAL REVENUES
$31,035.4 Thousand




REVENUES BY SOURCE 1989
TOTAL REVENUES
$29,073.7 Thousand



Gross investment income for FY1990 of $9,905,020, less the Investment Board's administrative expenses of $560,088, resulted in net investment income of $9,344,932. This amount, when combined with the net realized gain on sale of investments of $3,494,004, provided net revenue from investments of $12,838,936. Net cash transfers from the Illinois State Board of Investment were $5,425,000 during FY 1990. The balance of investments at cost increased by $7,413,936 from June 30, 1989 thru June 30, 1990. The following table shows a comparison of investment operations for FY 1990 and FY 1989.

| | 1990 | 1989 | Increase/(Decrease) Amount | Percentage |
|---|---|---|---|---|
| Balance at beginning of year, at cost | $ 155,708,987 | $ 145,612,106 | $10,096,881 | 6.9% |
| Cash transferred from ISBI (net) | (5,425,000) | (2,000,000) | 3,425,000 | 171.3% |
| Investment income: | | | | |
| Commingled Fund income | $ 9,905,020 | $ 9,258,174 | $ 646,846 | 7.0% |
| Less Expenses | (560,088) | (421,070) | 139,018 | 33.0% |
| Net investment income | $ 9,344,932 | $ 8,837,104 | $ 507,828 | 5.7% |
| Distributed Net Realized Gain on Sale of Investments | $ 3,494,004 | $ 3,259,777 | $ 234,227 | 7.2% |
| Balance at end of year, at cost | $ 163,122,923 | $ 155,708,987 | $ 7,413,936 | 4.8% |
| Market value | $ 180,672,724 | $ 172,623,478 | $ 8,049,246 | 4.7% |

In addition, interest on the average balance in the System Trust Fund's account for FY 1990 was $367,446 compared to $149,055 during FY 1989 primarily due to higher monthly average balances maintained by the System during FY 1990.

## EXPENSES

The number of participants receiving retirement annuities on June 30, 1990 was 3.8% below the June 30, 1989 level while the dollar cost of these annuities increased by 5.6% over the FY 1989 level. Higher salaries for current retirees and post retirement annuity increases granted each January 1 resulted in costs rising at a more rapid pace than the number of annuitants. Survivor annuities increased by 1.2% in number with a 5.7% increase in dollar costs primarily due to annual increases granted on January 1. Total refunds of $275.2 thousand for FY 1990 was a $145.9 thousand (34.6%) decrease from the FY 1989 level of $421.1 thousand.

| | FY 90 (Thousands) | FY 89 (Thousands) | Increase/(Decrease) Amount | Percentage |
|---|---|---|---|---|
| Retirement annuities | $ 16,043.5 | $ 15,194.9 | $ 848.6 | 5.6% |
| Survivors' annuities | 3,784.0 | 3,581.4 | 202.6 | 5.7% |
| Refunds | 275.2 | 421.1 | (145.9) | (34.6%) |
| Administrative expense | 187.0 | 171.9 | 15.1 | 8.8% |
| TOTAL EXPENSES | $ 20,289.7 | $ 19,369.3 | $ 920.4 | 4.8% |

## NUMBER OF RECURRING BENEFIT PAYMENTS

| | FY Ended June 30, 1989 | New Claims Processed During FY 90 | Benefits Ceased During FY 90 | FY Ended June 30, 1990 | Increase/(Decrease) Amount | Percentage |
|---|---|---|---|---|---|---|
| Retirement | 367 | 18 | 32 | 353 | (14) | (3.8%) |
| Survivors | 242 | 17 | 14 | 245 | 3 | 1.2% |
| TOTALS | 609 | 35 | 46 | 598 | (11) | (1.8%) |

## RESERVES

As of June 30, 1990, the funds available for payment of current and future benefits were $166,984.5 thousand as shown in the following schedule:

| Assets | FY 90 (Thousands) | FY 89 (Thousands) | Increase (Decrease) |
|---|---|---|---|
| Cash | $ 3,828.1 | $ 656.6 | $ 3,171.5 |
| Receivables (less payables) | 6.9 | (147.1) | 154.0 |
| Investments | 163,122.9 | 155,709.0 | 7,413.9 |
| Fixed Assets (net of accumulated depreciation) | 26.6 | 20.3 | 6.3 |
| NET ASSETS | $ 166,984.5 | $ 156,238.8 | $ 10,745.7 |

Total System revenues for FY 1990 of $31,035.4 thousand less expenditures of $20,289.7 thousand resulted in a net increase to reserves of $10,745.7 thousand.

| Reserves | FY 90 (Thousands) | FY 89 (Thousands) | Net Increase |
|---|---|---|---|
| Participants' Contributions | $ 56,354.3 | $ 50,923.2 | $ 5,431.1 |
| Future Operations | 110,630.2 | 105,315.6 | 5,314.6 |
| TOTAL RESERVES | $ 166,984.5 | $ 156,238.8 | $ 10,745.7 |

Participant contributions transferred to the Reserve for Future Operations due to retirement or death of participants during the year amounted to $1,485.5 thousand.

# *Actuarial Section*

**S. Goldstein and Associates**
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Suite 4220
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October 24, 1990

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

ACTUARIAL CERTIFICATION

I have completed the annual actuarial valuation of the Judges' Retirement System of Illinois as of June 30, 1990. The purpose of the valuation was to determine the financial condition and funding requirements of the retirement system. The same actuarial assumptions were used for the June 30, 1990 valuation as were used for the June 30, 1989 valuation.

Senate Bill 95 which was signed into law on August 23, 1989 as Public Act 86-0273 made a number of changes in the provisions of the system. The major changes enacted under Public Act 86-0273 are as follows: (1) Provides that the 3% automatic annual increase in retirement annuity shall be based on the current amount of annuity instead of the original amount of annuity; (2) Provides for 3% automatic annual increases in survivor's annuities, based on the current amount of annuity; and (3) Provides that annual State appropriations shall be sufficient to meet the normal cost and amortize the unfunded liability over 40 years as a level percent of payroll, after an initial phase-in period ending June 30, 1996. I have estimated that the benefit changes enacted under Public Act 86-0273 resulted in an increase of approximately 8.9% in the system's total actuarial liability.

Pursuant to the law governing the system, the actuary shall investigate the experience of the system at least once every five years and recommend as a result of such investigation the actuarial assumptions to be adopted. As the actuary, I have completed such an experience analysis for the three years ending June 30, 1987 and the assumptions used for the current valuation were based on that study. I believe that, in the aggregate, the current actuarial assumptions relate reasonably to the past and anticipated experience of the system.

S. Goldstein and Associates
consulting actuaries

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

Employer contributions in recent years have been less than that required under this new financing plan. Fiscal year 1990 was the first year for which the financing plan established under Public Act 86-0273 was in effect. For fiscal year 1991, employer contributions are expected to fall $1,767,600 short of the amount required under Public Act 86-0273.

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

In my opinion, the following schedule of valuation results fairly presents the financial condition of the Judges' Retirement System of Illinois as of June 30, 1990. The contribution rates determined are in compliance with the provisions of the funding plan enacted under Public Act 86-0273.

Respectfully submitted,

Sandor Goldstein

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

## INTRODUCTION

For many years, the state's contribution to the System Trust Fund has been based on projected benefit payments (payout). For fiscal year 1990, regular state appropriations were made at a level of 44% of the System Trust Fund projected payout.

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

Based upon the state's funding method described above, the System, in recent years, has not received the minimum actuarially determined employer contribution amount.

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

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

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

A description of the actuarial assumptions utilized for Fiscal Year 1990 and Fiscal Year 1989 follows:

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

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

| 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 8.0% 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.

## VALUATION RESULTS

| | June 30, 1990 | June 30, 1989 |
|---|---|---|
| Actuarial Liability (reserves): | | |
| For Active Participants: | | |
| Basic retirement annuity | $ 102,764,317 | $ 89,859,711 |
| Annual increase in retirement annuity | 23,684,089 | 14,074,271 |
| Pre-retirement survivors' annuity | 23,324,065 | 17,949,976 |
| Post-retirement survivors' annuity | 21,842,953 | 20,836,705 |
| Withdrawal benefits | 978,486 | 892,479 |
| Disability benefits | 1,129,036 | 1,027,559 |
| Total | $ 173,722,946 | $ 144,640,701 |
| For Participants Receiving Benefits: | | |
| Retirement annuities | $ 149,803,290 | $ 142,037,121 |
| Survivor annuities | 36,148,862 | 26,909,293 |
| Total | $ 185,952,152 | $ 168,946,414 |
| For Inactive Participants | $ 6,441,295 | $ 5,815,477 |
| Total Actuarial Liability | $ 366,116,393 | $ 319,402,592 |
| Assets, Book Value (Cost) | 166,984,434 | 156,238,762 |
| Unfunded Actuarial Liability | $ 199,131,959 | $ 163,163,830 |

## 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 participant contributions on deposit; 2) the liabilities for future benefits to present retired lives; and 3) the liabilities for service already rendered by active participants. In a system that has been following level percent of payroll financing, the liabilities for active participant contributions on deposit (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.

The State of Illinois, however, has funded the System based on benefit payout, a level which increases over time reflecting a larger work force and higher salary levels.

### Computed Actuarial Values

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

## 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. (It should be noted that the improvement reflected in the following schedule for recent years results primarily from significant realized gains on the sale of investments and the change in the actuarial interest rate assumption from 7.5% to 8.0% during fiscal year 1989.)

| 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 |
|---|---|---|---|---|---|---|
| 1983 | $ 297,607,368 | $ 91,326,865 | 30.7% | $ 206,280,503 | $ 41,713,000 | 494.5% |
| 1984 | 380,037,495 | 100,647,996 | 26.5% | 279,389,499 | 47,972,000 | 582.4% |
| 1985 | 472,497,446 | 108,209,963 | 22.9% | 364,287,483 | 49,607,000 | 734.3% |
| 1986 | 615,102,116 | 124,419,661 | 20.2% | 490,682,455 | 54,461,000 | 901.0% |
| 1987 | 307,064,068 | 138,927,534 | 45.2% | 168,136,534 | 59,266,115 | 283.7% |
| 1988 | 335,307,458 | 146,534,436 | 43.7% | 188,773,022 | 62,366,208 | 302.7% |
| 1989 | 319,402,592 | 156,238,762 | 48.9% | 163,163,830 | 63,478,721 | 257.0% |
| 1990 | 366,116,393 | 166,984,434 | 45.6% | 199,131,959 | 64,670,416 | 307.9% |

## BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

| Fiscal Year | Annuitants | | | | Survivors | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Beginning | Additions | Deletions | Ending | Beginning | Additions | Deletions | Ending | Total |
| 1981 | 233 | 40 | 5 | 268 | 165 | 14 | 8 | 171 | 439 |
| 1982 | 268 | 10 | 16 | 262 | 171 | 22 | 10 | 183 | 445 |
| 1983 | 262 | 29 | 13 | 278 | 183 | 17 | 14 | 186 | 464 |
| 1984 | 278 | 23 | 14 | 287 | 186 | 19 | 5 | 200 | 487 |
| 1985 | 287 | 41 | 13 | 315 | 200 | 15 | 8 | 207 | 522 |
| 1986 | 315 | 34 | 24 | 325 | 207 | 22 | 18 | 211 | 536 |
| 1987 | 325 | 31 | 19 | 337 | 211 | 23 | 11 | 223 | 560 |
| 1988 | 337 | 39 | 28 | 348 | 223 | 33 | 14 | 242 | 590 |
| 1989 | 348 | 36 | 17 | 367 | 242 | 17 | 17 | 242 | 609 |
| 1990 | 367 | 18 | 32 | 353 | 242 | 17 | 14 | 245 | 598 |

## RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

| | FY90 | FY89 |
|---|---|---|
| Unfunded actuarial liability at Beginning of FY | $ 163,163,830 | $ 188,773,022 |
| Employer contribution requirement of normal cost plus interest on the unfunded liability | $ 19,518,963 | $ 21,990,938 |
| Actual employer contribution for the year | 10,657,400 | 9,918,700 |
| Increase in unfunded liability due to employer contributions being less than normal cost plus interest on unfunded liability | $ 8,861,563 | $ 12,072,238 |
| (Decrease) in unfunded liability due to investment return greater than assumed | (1,623,709) | (1,054,000) |
| (Decrease) in unfunded liability due to increase in interest rate assumption from 7.5% to 8.0% | -- | (17,527,568) |
| (Decrease) in unfunded liability due to salary increases less than assumed | (7,810,598) | (8,688,000) |
| Increase in unfunded liability due to benefit increases enacted under Public Act 86-0273 | 30,071,594 | -- |
| Increase/(Decrease) in unfunded liability due to other sources | 6,469,279 | (10,411,862) |
| Total Actuarial (Gains) Losses | $ 27,106,566 | $ (37,681,430) |
| Net Increase/(Decrease) in unfunded liability for the year | $ 35,968,129 | $ (25,609,192) |
| Unfunded actuarial liability at End of FY | $ 199,131,959 | $ 163,163,830 |

## *Investment Section*

# INVESTMENT REPORT

By state law the System's investment function is managed by the Illinois State Board of Investment (ISBI Board). The ISBI Board was created in 1969 to provide a means of centralizing the investment management function for public employee pension funds and retirement systems operating in the state. At the end of the fiscal year, in addition to the assets of the Judges' Retirement System, the ISBI Board also managed the investment function for the State Employees' and General Assembly Retirement Systems. As of June 30, 1990, total net assets under management valued at market, amounted to $3.284 billion. Of the total assets under management, $180.7 million or 5.5% represented assets of the Judges' Retirement System.

## Management Approach

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

## Total Fund Results

The Illinois State Board of Investment Commingled Fund (ISBI Fund), totaled $3.284 billion at market value at the end of its fiscal year, June 30, 1990.

Although this represents an increase in market value of $235 million, fiscal year 1990 was disappointing in that the rate of return was 8.0%. The ISBI Board's long-term strategy has been very defensive for some time, in view of the fact there has been relatively little, if any, new investment capital received by the ISBI Board from its member systems. On a comparative basis with other funds, the ISBI Fund's assets are deployed in a broader diversification; a smaller percentage of the ISBI Fund's total assets are allocated to equity securities; and there is a greater concentration of equity securities being managed by "value" oriented external managers - all of these factors, in the ISBI Board's opinion, reduce risk and volatility, but also may result in lower rates of return, particularly during periods when equities generally perform well.

Nonetheless, when viewed over the eight year period since the adoption of the prudent person legislation, the ISBI Fund has produced a compounded annual rate of return of 14.1% and net assets have increased by $2.2 billion, of which only $115 million represented new contributions from member systems.

During the fiscal year 1990, the ISBI Board completed its previously announced long-term strategy of engaging active external managers to manage the ISBI Fund's equity portfolio. Except for an $80 million internally managed "growth" portfolio, all of the ISBI Fund's equity securities are now managed externally by domestic, international or global active managers.

As the last step in implementing the foregoing strategy, the ISBI Board, assisted by Pension Consulting Alliance, selected four external domestic managers, all of whom have different investment philosophies and all of whom, except Disciplined Investment Advisors, are new managers. Those selected were: Disciplined Investment Advisors, The Marshall Plan, Southeastern Asset Management, and T-K Capital.

## Fixed Income

The return of the fixed income component for the fiscal year was negatively impacted by the (1.5%) return on high-yield bond holdings. Since the ISBI Board began any significant investing in the high-yield sector in November, 1987, the compound annual return through June 30, 1990, for the high-yield component has been 8.5%.

Comparative returns of the composite of the funds allocated to the fixed income managers and the benchmark indices are set forth below:

| | 1 Year | 3 Years | 5 Years |
|---|---|---|---|
| ISBI | 5.9% | 9.0% | 10.1% |
| Shearson Lehman G/C | 7.1% | 9.0% | 10.3% |
| Shearson Lehman Aggregate | 7.8% | 9.4% | 10.6% |

## Equity

The equity component underwent significant changes during the fiscal year. The five global and international managers selected by the ISBI Board at the end of the last fiscal year were funded $50 million each during the first half of the fiscal year. Adding the preexisting global account of $51 million managed by Templeton, the total international/global allocation amounted to $301 million or about 20% of the equity portion of the ISBI Fund. The resources were derived from the two internally managed domestic equity portfolios, the larger one of which was permanently discontinued. In addition, one externally managed domestic equity portfolio was discontinued for performance reasons. The four new domestic equity managers are being funded in the first quarter of fiscal year 1991. As of June 30, 1990, funds under management by domestic, global, and international equity managers totaled $1,166 million, $209 million, and $100 million, respectively.

The composite return of the funds managed by all of the equity managers was 10.5% versus the S&P 500's return of 16.4% for the fiscal year. Returns for additional time periods are set forth below:

| | 1 Year | 3 Years | 5 Years |
|---|---|---|---|
| ISBI | 10.5% | 7.3% | 14.0% |
| S&P 500 | 16.4% | 9.3% | 17.3% |

## Real Estate

The combined real estate portfolio is well diversified by property location, having 25% of its assets in the Western States, 13% in the Midwest, 23% in the South, 17% in the East, 18% in Canada, and 3% in the United Kingdom. The allocation according to property type is 32% retail, 25% office, 15% apartment, 14% warehouse and research and development, with the remaining 14% in mixed use, land and miscellaneous. No new investments were approved by the ISBI Board in fiscal year 1990. The market value of the real estate portfolio amounts to 10.3% of the total ISBI Fund, which is at the ISBI Boards' target allocation for real estate.

Returns for the combined real estate portfolio compared to the benchmark index for unleveraged institutional grade property returns are as follows:

| | 1 Year | 3 Years | 5 Years |
|---|---|---|---|
| ISBI | 6.1% | 7.7% | 8.2% |
| NCREIF | 5.3% | 6.3% | 6.5% |

## Non-Marketable Securities

During the fiscal year, the ISBI Board committed $15 million to Premiere Partners I Limited Partnership which will invest in farmland primarily in Illinois and Indiana. This venture will hold title on an unleveraged basis in prime farmland enhancing the total portfolio's diversification while providing a hedge against inflation. The venture capital portion of this category which is represented by investments in Frontenac Venture IV & V, Golder Thoma Cressey Fund II, John Hancock L.P. II, Menlo Ventures III, and Prudential Ventures II, and accounts for less than 20% of the total assets in this category, had disappointing investment results on a combined basis. Compound annual returns have ranged from flat to 8% since funding for these investments began about six years ago. The fiscal year return on the Kohlberg, Kravis, Roberts investment, which has a market value in excess of $115 million and represents nearly three quarters of the non-marketable allocation, was 14.3%.

Returns for additional time periods on the composite for this category are set forth below:

| | 1 Year | 3 Years | 5 Years |
|---|---|---|---|
| ISBI | 7.0% | 11.2% | 9.2% |

## Management Expenses

Total operating expenses for the fiscal year were $9,915,278 as compared to $7,382,920 for the previous fiscal year. The expense ratio (expenses divided by assets under management) increased from .26% to .31% as a result of the fees of the new global and international managers. The Judges' Retirement System's share of total operating expenses amounted to $560,088.

## Additional Information

For additional information regarding the System's investment function, please refer to the Annual Report of the Illinois State Board of Investment, June 30, 1990. A copy of the report can be obtained from the Board at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

## INVESTMENT PORTFOLIO SUMMARY

| | June 30, 1990 | | June 30, 1989 | |
|---|---|---|---|---|
| | Market Value | Percentage | Market Value | Percentage |
| Fixed Income | $ 1,280,391,270 | 39.0% | $ 1,121,947,822 | 36.8% |
| Equities | 1,415,536,152 | 43.1% | 1,273,481,163 | 41.8% |
| Real Estate | 338,205,156 | 10.3% | 289,133,658 | 9.5% |
| Non-Marketable | 157,978,812 | 4.8% | 104,600,570 | 3.4% |
| Cash equivalents** | 91,665,687 | 2.8% | 260,098,919 | 8.5% |
| Net assets at market value | $ 3,283,777,077* | 100.0% | $ 3,049,262,132* | 100.0% |
| Net assets, at cost | $ 2,971,557,481* | | $ 2,752,152,181* | |

* These amounts represent the total assets under management of the Illinois State Board of Investment. The assets of the Judges' Retirement System at market and cost for fiscal year 1990 were $180,672,724 and $163,122,923, respectively. For fiscal year 1989 the market and cost values were $172,623,478 and $155,708,967, respectively.

** Cash equivalents includes other assets less liabilities.

## ANALYSIS OF INVESTMENT PERFORMANCE

| | 1990 | 1989 | 1988 | 1987 | 1986 |
|---|---|---|---|---|---|
| Total Return* - Past 3 years | | 8.3% | | | |
| Total Return* - Past 5 years | | | 11.5% | | |
| Total Return* - year by year | 8.0% | 14.3% | 2.5% | 8.8% | 24.6% |
| Actuarial Assumed Rate of Return | | 8.0% | | 7.5% | 6.0% |
| Average Net Income Yield* | 5.2% | 5.7% | 5.6% | 5.3% | 6.4% |

Comparative rates of return on fixed income securities

| | 1990 | 1989 | 1988 | 1987 | 1986 |
|---|---|---|---|---|---|
| Total fixed income - ISBI | 5.9% | 12.0% | 9.3% | 5.7% | 17.9% |
| Comparison index: Shearson Lehman Government/ Corporate Bond Index | 7.1% | 12.3% | 7.5% | 4.7% | 20.6% |

Comparative rates of return on equities

| | 1990 | 1989 | 1988 | 1987 | 1986 |
|---|---|---|---|---|---|
| Total equities - ISBI | 10.5% | 17.0% | (4.6%) | 14.4% | 36.5% |
| Comparison index: S&P 500 | 16.4% | 20.6% | (6.9%) | 25.1% | 35.7% |

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

# *Statistical Section*

Balance Sheet Assets

Balance Sheet Liabilities and Fund Balance

Revenues by Source

Expenses by Type

Benefit Expenses by Type

Number of Recurring Benefit Payments

Termination Refunds

Active Retirees by State

Number on Active Payrolls

Retirement Annuitants Statistics and Average Monthly Benefits

Number of Participants

## BALANCE SHEET ASSETS

| Fiscal Year Ended June 30 | Cash | Receivables | Investments at Cost | Fixed Assets Net of Accumulated Depreciation | Total |
|---|---|---|---|---|---|
| 1981 | $ 989,338 | $ 44,055 | $ 70,763,377 | $ 3,104 | $ 71,799,874 |
| 1982 | 2,356,261 | 128,493 | 74,123,555 | 3,389 | 76,611,698 |
| 1983 | 3,000,910 | 66,965 | 88,259,424 | 2,696 | 91,329,995 |
| 1984 | 1,406,567 | 58,749 | 99,193,192 | 2,245 | 100,660,753 |
| 1985 | 1,144,841 | 42,044 | 107,132,974 | 1,828 | 108,321,687 |
| 1986 | 2,351,774 | 45,673 | 122,130,095 | 1,302 | 124,528,844 |
| 1987 | 2,960,362 | 50,340 | 136,121,915 | 933 | 139,133,550 |
| 1988 | 935,712 | 102,135 | 145,612,106 | 20,604 | 146,670,557 |
| 1989 | 656,579 | 115,778 | 155,708,987 | 20,298 | 156,501,642 |
| 1990 | 3,828,060 | 173,967 | 163,122,923 | 26,585 | 167,151,535 |

## BALANCE SHEET LIABILITIES AND FUND BALANCE

| Fiscal Year Ended June 30 | Total Liabilities | Reserve for Participant Contributions | Reserve for Automatic Annuity Increase | Reserve for Future Operations | Total |
|---|---|---|---|---|---|
| 1981 | $ 34,953 | $ 24,196,382 | $ 5,344,469 | $ 42,224,070 | $ 71,799,874 |
| 1982 | 61,794 | 26,594,491 | 5,688,541 | 44,266,872 | 76,611,698 |
| 1983 | 3,130 | 29,130,077 | 6,102,502 | 56,094,286 | 91,329,995 |
| 1984 | 12,757 | 32,382,585 | 6,426,655 | 61,838,756 | 100,660,753 |
| 1985 | 111,724 | 34,388,865 | 6,592,138 | 67,228,960 | 108,321,687 |
| 1986 | 109,183 | 37,223,582 | 6,718,637 | 80,477,442 | 124,528,844 |
| 1987 | 206,016 | 40,334,357 | 6,828,951 | 91,764,226 | 139,133,550 |
| 1988 | 136,121 | 47,271,278 | -- | 99,263,158 | 146,670,557 |
| 1989 | 262,880 | 50,923,236 | -- | 105,315,526 | 156,501,642 |
| 1990 | 167,101 | 56,354,255 | -- | 110,630,179 | 167,151,535 |

## REVENUES BY SOURCE

| Fiscal Year Ended June 30 | Participant Contributions | Employer Contributions | | | Income From Investments | Total |
|---|---|---|---|---|---|---|
| | | State of Illinois | Paid by Participant | Total | | |
| 1981 | $ 3,625,128 | $ 9,797,000 | $ -- | $ 9,797,000 | $ 6,064,175 | $ 19,486,303 |
| 1982 | 3,777,339 | 6,703,000 | -- | 6,703,000 | 6,612,346 | 17,092,685 |
| 1983 | 4,532,645 | 7,791,700 | -- | 7,791,700 | 12,424,402 | 24,748,747 |
| 1984 | 5,140,219 | 5,645,600 | -- | 5,645,600 | 9,655,020 | 20,440,839 |
| 1985 | 5,147,228 | 8,527,500 | -- | 8,527,500 | 6,621,882 | 20,296,610 |
| 1986 | 5,983,871 | 9,345,100 | -- | 9,345,100 | 15,225,759 | 30,554,730 |
| 1987 | 6,248,636 | 9,832,000 | -- | 9,832,000 | 14,240,835 | 30,321,471 |
| 1988 | 6,885,514 | 9,137,000 | -- | 9,137,000 | 9,666,884 | 25,689,398 |
| 1989 | 6,909,017 | 9,918,700 | -- | 9,918,700 | 12,245,936 | 29,073,653 |
| 1990 | 7,142,961 | 10,657,400 | 28,620 | 10,686,020 | 13,206,382 | 31,035,363 |

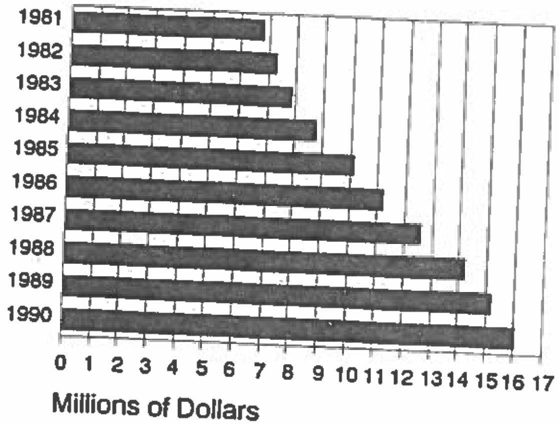
## EXPENSES BY TYPE

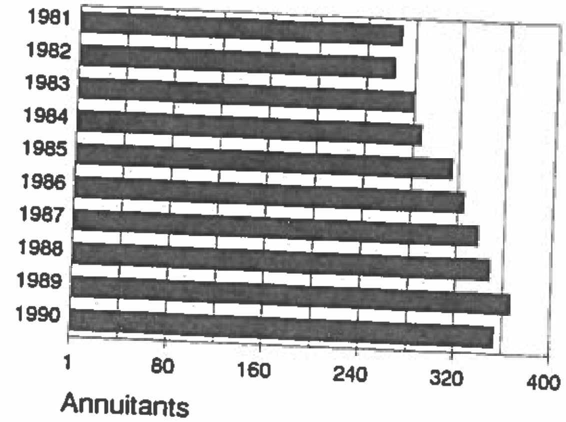
| Fiscal Year Ended June 30 | Benefits | Refunds | Administrative Expenses | Others | Total |
|---|---|---|---|---|---|
| 1981 | $ 8,242,283 | $ 283,044 | $ 94,644 | $ -- | $ 8,619,971 |
| 1982 | 8,947,827 | 285,589 | 101,270 | (156,910) | 9,177,776 |
| 1983 | 9,704,670 | 156,519 | 110,597 | -- | 9,971,786 |
| 1984 | 10,810,013 | 194,517 | 115,178 | -- | 11,119,708 |
| 1985 | 12,352,558 | 263,219 | 118,866 | -- | 12,734,643 |
| 1986 | 13,616,195 | 600,279 | 128,558 | -- | 14,345,032 |
| 1987 | 15,376,535 | 283,090 | 153,973 | -- | 15,813,598 |
| 1988 | 17,382,718 | 551,268 | 148,510 | -- | 18,082,496 |
| 1989 | 18,776,253 | 421,138 | 171,936 | -- | 19,369,327 |
| 1990 | 19,827,453 | 275,233 | 187,005 | -- | 20,289,691 |

## BENEFIT EXPENSES BY TYPE

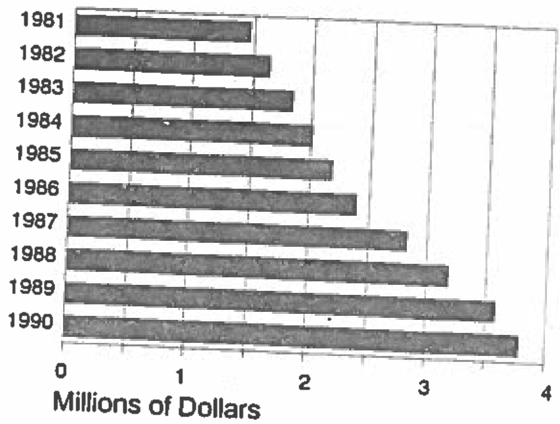
| Fiscal Year Ended June 30 | Retirement Annuities | Survivors' Annuities | Total |
|---|---|---|---|
| 1981 | $ 6,774,105 | $ 1,468,178 | $ 8,242,283 |
| 1982 | 7,302,943 | 1,644,884 | 8,947,827 |
| 1983 | 7,867,674 | 1,836,996 | 9,704,670 |
| 1984 | 8,803,447 | 2,006,566 | 10,810,013 |
| 1985 | 10,164,086 | 2,188,472 | 12,352,558 |
| 1986 | 11,214,816 | 2,401,379 | 13,616,195 |
| 1987 | 12,557,636 | 2,818,899 | 15,376,535 |
| 1988 | 14,193,135 | 3,189,583 | 17,382,718 |
| 1989 | 15,194,821 | 3,581,432 | 18,776,253 |
| 1990 | 16,043,479 | 3,783,974 | 19,827,453 |

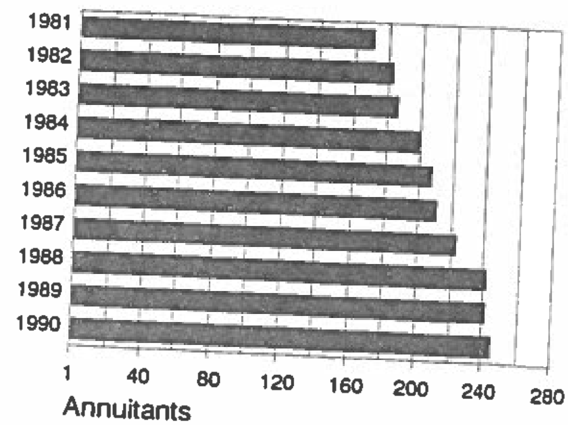
## Retirement Annuities



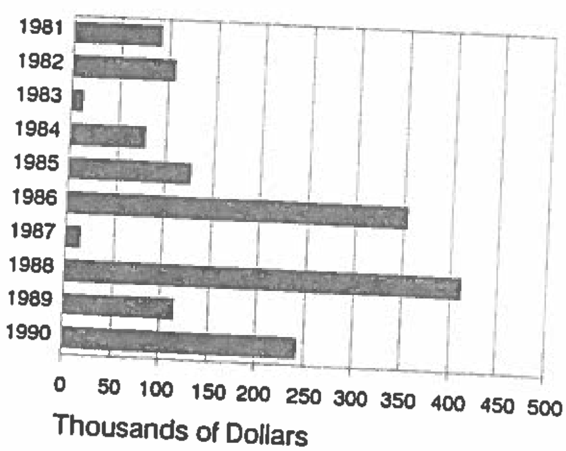



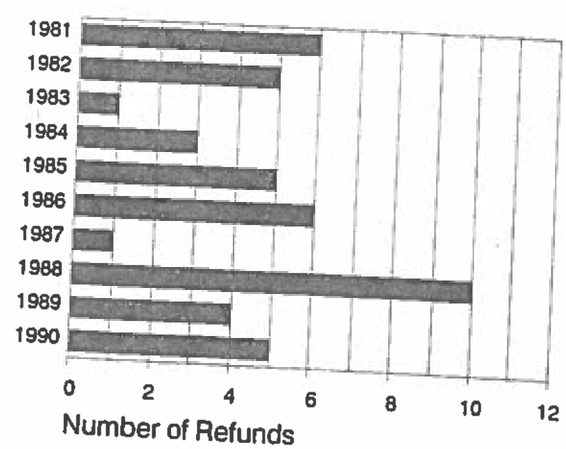

## Survivor Annuities




## Termination Refunds



## NUMBER OF RECURRING BENEFIT PAYMENTS

| at June 30 | Retirement Annuities | Survivors' Annuities | Total |
|---|---|---|---|
| 1981 | 268 | 171 | 439 |
| 1982 | 262 | 183 | 445 |
| 1983 | 278 | 186 | 464 |
| 1984 | 287 | 200 | 487 |
| 1985 | 315 | 207 | 522 |
| 1986 | 325 | 211 | 536 |
| 1987 | 337 | 223 | 560 |
| 1988 | 348 | 242 | 590 |
| 1989 | 367 | 242 | 609 |
| 1990 | 353 | 245 | 598 |

## TERMINATION REFUNDS

| Fiscal Year Ended June 30 | Number | Amount |
|---|---|---|
| 1981 | 6 | $ 91,449 |
| 1982 | 5 | 105,630 |
| 1983 | 1 | 11,639 |
| 1984 | 3 | 78,104 |
| 1985 | 5 | 127,081 |
| 1986 | 6 | 352,897 |
| 1987 | 1 | 14,551 |
| 1988 | 10 | 411,577 |
| 1989 | 4 | 115,097 |
| 1990 | 5 | 242,847 |

## ACTIVE RETIREES BY STATE

| State | Number |
|---|---|
| ALABAMA | 0 |
| ALASKA | 0 |
| ARIZONA | 7 |
| ARKANSAS | 1 |
| CALIFORNIA | 4 |
| COLORADO | 0 |
| CONNECTICUT | 0 |
| DELAWARE | 0 |
| DISTRICT OF COLUMBIA | 0 |
| FLORIDA | 15 |
| GEORGIA | 0 |
| HAWAII | 0 |
| IDAHO | 0 |
| ILLINOIS | 310 |
| INDIANA | 0 |
| IOWA | 0 |
| KANSAS | 0 |
| KENTUCKY | 0 |
| LOUISIANA | 0 |
| MAINE | 0 |
| MARYLAND | 2 |
| MASSACHUSETTS | 0 |
| MICHIGAN | 3 |
| MINNESOTA | 0 |
| MISSISSIPPI | 0 |
| MISSOURI | 1 |
| MONTANA | 0 |
| NEBRASKA | 0 |
| NEVADA | 0 |
| NEW HAMPSHIRE | 0 |
| NEW JERSEY | 0 |
| NEW MEXICO | 0 |
| NEW YORK | 0 |
| NORTH CAROLINA | 2 |
| NORTH DAKOTA | 0 |
| OHIO | 1 |
| OKLAHOMA | 1 |
| OREGON | 0 |
| PENNSYLVANIA | 1 |
| RHODE ISLAND | 0 |
| SOUTH CAROLINA | 0 |
| SOUTH DAKOTA | 0 |
| TENNESSEE | 0 |
| TEXAS | 1 |
| UTAH | 0 |
| VERMONT | 0 |
| VIRGINIA | 2 |
| WASHINGTON | 0 |
| WEST VIRGINIA | 0 |
| WISCONSIN | 2 |
| WYOMING | 0 |
| OTHER COUNTRIES | 0 |
| TOTAL | 353 |

## NUMBER ON ACTIVE PAYROLLS

| at June 30 | Supreme Court | Appellate Court | Circuit Court | Associate Court | Cook County Magistrate | Downstate Magistrate | Retired Judges Recalled | Admin. Court | Total |
|---|---|---|---|---|---|---|---|---|---|
| 1981 | 7 | 32 | 168 | 209 | 137 | 159 | 10 | 1 | 723 |
| 1982 | 7 | 32 | 167 | 206 | 140 | 162 | 12 | 1 | 727 |
| 1983 | 7 | 34 | 168 | 210 | 136 | 176 | 12 | 1 | 744 |
| 1984 | 7 | 33 | 166 | 205 | 152 | 179 | 13 | 1 | 756 |
| 1985 | 7 | 31 | 169 | 211 | 165 | 180 | 18 | 1 | 782 |
| 1986 | 7 | 27 | 166 | 206 | 163 | 185 | 14 | -- | 768 |
| 1987 | 7 | 31 | 170 | 210 | 167 | 194 | 15 | -- | 794 |
| 1988 | 7 | 32 | 165 | 206 | 178 | 195 | 13 | -- | 796 |
| 1989 | 7 | 37 | 170 | 211 | 189 | 197 | 18 | -- | 829 |
| 1990 | 7 | 34 | 176 | 203 | 196 | 205 | 23 | -- | 844 |

## RETIREMENT ANNUITANTS STATISTICS AND AVERAGE MONTHLY BENEFITS

| Fiscal Year Ended June 30 | At Retirement: Average Age | At Retirement: Average Length of Service * | Average Current Age | Average Current Monthly Benefit |
|---|---|---|---|---|
| 1981 | 66.0 | 18.4 | 71.3 | $ 2,267 |
| 1982 | 65.5 | 18.4 | 71.6 | 2,319 |
| 1983 | 65.6 | 18.2 | 72.0 | 2,478 |
| 1984 | 65.2 | 17.9 | 71.9 | 2,562 |
| 1985 | 65.3 | 18.1 | 72.1 | 2,788 |
| 1986 | 65.0 | 17.9 | 71.8 | 2,987 |
| 1987 | 64.9 | 18.2 | 71.9 | 3,228 |
| 1988 | 64.9 | 18.0 | 72.0 | 3,416 |
| 1989 | 65.0 | 17.8 | 72.1 | 3,617 |
| 1990 | 64.7 | 17.5 | 72.4 | 3,751 |

* in years

## NUMBER OF PARTICIPANTS

| At June 30 | Active | Inactive | Total |
|---|---|---|---|
| 1981 | 723 | 31 | 754 |
| 1982 | 727 | 17 | 744 |
| 1983 | 744 | 19 | 763 |
| 1984 | 756 | 19 | 775 |
| 1985 | 782 | 18 | 800 |
| 1986 | 768 | 11 | 779 |
| 1987 | 794 | 15 | 809 |
| 1988 | 796 | 15 | 811 |
| 1989 | 821 | 22 | 843 |
| 1990 | 827 | 22 | 849 |

# Plan Summary and Legislative Section

# SUMMARY OF RETIREMENT SYSTEM PLAN
## (As of June 30, 1990)

### 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 5 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 insure 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% |
| | 11.0% |

A married judge who elects not to participate in the survivors' annuity benefit or an unmarried judge is not allowed to contribute for such benefit and total contributions would be 8.5% of salary. Contributions for survivors' annuity are not required to qualify an eligible child for a child's annuity.

A participant with at least 20 years of service and age 60 or over may elect to discontinue contributions and have benefits "frozen" based upon the applicable salary in effect immediately prior to the effective date of such election. The election, once made, is irrevocable.

### 5. RETIREMENT ANNUITY

A. Qualification of Participant

Upon termination of service, a judge is eligible for a retirement annuity at age 60 with at least 10 years of credit; at age 62 with at least 6 years of credit; or at age 55 with at least 10 years of credit with the annuity reduced 1/2 of 1% for each month under age 60.

B. Amount of Annuity

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

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

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

C. Annual Increases in Retirement Annuity

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

D. Suspension of Retirement Annuity

The retirement annuity to any judge shall be suspended during any period the 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 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 or over age 18 if mentally or physically disabled. Eligible surviving children would be entitled to benefits even though the participant did not contribute for the survivors' annuity benefit.

B. Amount of Payment

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

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

C. Annual Increases in Survivors' Annuity

Increases of 3% of the current amount of annuity are granted to survivors 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, the spouse's benefit is suspended if the spouse is under age 50 until attainment of such age. A surviving spouse who remarries prior to age 50 would be disqualified for any future benefit payments.

## 7. DEATH BENEFITS

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

A. Before Retirement

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

B. After Retirement

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

C. Death of Survivor Annuitant

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

8. DISABILITY BENEFIT

A. Total and Permanent Disability

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

B. Temporary Total Disability

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

9. REFUND OF CONTRIBUTIONS

A participant who terminates service as judge may obtain a refund of total contributions made to the System, without interest, provided the participant is not immediately eligible to receive a retirement annuity.

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

## LEGISLATIVE AMENDMENTS

Amendments with an effective date during fiscal year 1990 having an impact on the System were:

SENATE BILL 95

1. Eliminates from consideration as salary, any imputed income a participant might be receiving resulting from federal law based on the value of group term life insurance provided by the State.

2. Permits a judge whose service terminated before January 26, 1988 and whose pension payments began after January 1, 1988 to establish credit for service as public defender by making application and the payment of required contributions not later than 30 days after the effective date of this bill. This would qualify the member for a recalculation of the retirement annuity to be effective on the first day of the next calendar month beginning at least 30 days after the application is received.

3. Allows the participant to obtain credit in the System by payment for periods during which participant held elective office as a member of the board of trustees of a village and for any consecutive period not exceeding 5 years in appointive office as a member of the zoning board of appeals of the same village provided such period of appointive office terminated within 12 months prior to the date period of elective office commenced. Participant must have at least 6 years service as a judge and the staff of the System must secure certifications from the Illinois Municipal Retirement Fund and from the village.

4. Defines "Average Final Salary" for a participant who terminates service on or after January 1, 1990 as the salary on the last day of employment as a judge; for a participant who terminates after June 30, 1982 and before January 1 , 1990 the average salary for the final year of service; for a participant who terminated after June 30, 1975 and before July 1, 1982 the salary on the last day of employment as a judge.

5. Provides that, beginning January 1, 1990, all automatic annual increases shall be calculated as a percentage of the total annuity payable at the time of the increase including previous increases granted.

6. Beginning January 1, 1990 every survivors' annuity shall be increased on each January 1 occurring on or after the first anniversary of the commencement of the annuity by an amount equal to 3% of the current annuity amount including any previous increases.

7. Provides that a person who would be eligible to receive a survivors' annuity except for the fact that the person has not yet attained age 50 shall be eligible for a monthly distribution provided that payment of such distribution is required by Federal Law.

8. Provides that, upon marriage or remarriage, a participant or annuitant shall receive full credit for the Survivors' Annuity purposes upon payment of the survivors' annuity contributions ordinarily required, repaying in full any sums theretofore refunded, and payment of contributions which would have been made while unmarried, plus interest at 3% per annum compounded.

9. Provides that contributions by the State of Illinois will be increased incrementally over a 7 year period to meet the funding requirements of the System.

10. Requires the System submit to the Governor estimated appropriation requirements on or before January 1 instead of November 1 for the following fiscal year.

11. Removes requirement of certification by the actuary of the amount of each annuity to be granted by the board.

HOUSE BILL 332

1. Includes as a service any period not exceeding 10 years that a participant served as Executive Director of the Home Rule Commission, as assistant corporation counsel in the Chicago Law Department, or as an employee of the Cook County Treasurer subject to certain conditions: (1) The participant must have at least 6 years service credited as a judge; (2) credits accrued to the participant under any other pension fund to be established under this paragraph have been transferred to the System; and (3) the participant has made payment to the System of the amount by which the amount transferred is less than the amount which would have been contributed during the period of time being counted as service based on contribution and salary rates in effect at the date of becoming a participant plus interest on such deficiency at 5% per annum compounded.

2. Provides that:

   (a) persons otherwise eligible to participate in the System who elect to continue participation in the General Assembly Retirement System may not participate in the System for the duration of their continued participation in the General Assembly Retirement System.

   (b) upon terminating such continued participation, a person may transfer credits accumulated in the General Assembly Retirement System to the System, upon payment to the System of the amount by which (1) the employee and employer contributions that would have been required if they had participated in the System during the period for which credit with the General Assembly Retirement System is being transferred, plus interest thereon at the prescribed rate from the date of such participation to the date of payment, exceeds (2) the amounts actually transferred from the General Assembly Retirement System to the System.

## NEW LEGISLATION

There was no new legislation with effective dates subsequent to June 30, 1990, affecting the operation of the System.