Judges' Retirement System of Illinois

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

Mission Statement:

To establish an efficient method of permitting retirement, without hardship or prejudice, of judges who are aged or otherwise incapacitated, by enabling them to accumulate reserves for themselves and their dependents for old age, disability, death and termination of employment.

Fiscal Year 2002 Highlights

944	Total Membership
909	Active Contributing Members
$343,659,294	Net Assets Held in Trust for Pension Benefits, fair value
	Contributions:
$12,487,303	Participants
$27,532,000	Employer
$(24,493,880)	Investment (Loss)
(6.9)% [illegible]	Investment Return (Negative)
	Benefit Recipients:
517	Retirement Annuities
321	Survivors' Annuities
$52,822,314	Benefits Paid
$1,020,846,773	Accrued Actuarial Liability
$677,187,479	Unfunded Actuarial Liability
33.7%	Funded Ratio

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

A Pension Trust Fund of the State of Illinois

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

JUDGES' RETIREMENT
SYSTEM OF ILLINOIS

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

Prepared by the Accounting Division

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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 217-785-7444

December 20, 2002

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

Dear Board of Trustees and Members:

The comprehensive annual financial report (CAFR) of the Judges' Retirement System of Illinois (System) as of and for the fiscal year ended June 30, 2002 is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the System.

To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the System. All disclosures necessary to enable the reader to gain an understanding of the System's financial activities have been included.

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

The report consists of six sections:

1. The Introductory Section contains this letter of transmittal, the identification of the administrative organization and the Certificate of Achievement for Excellence in Financial Reporting;

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

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

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

5. The Statistical Section contains significant statistical data; and

6. The Plan Summary and Legislative Section contains the System's plan provisions and current legislative changes.

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

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

Although the Judges' Retirement System, State Employees' Retirement System and General Assembly Retirement System share a common administration, they are separate entities for legal and financial reporting purposes. Therefore, the financial statements of the Judges' Retirement System do not include plan net asset information nor the changes in plan net assets of the State Employees' Retirement System or General Assembly Retirement System.

PLAN HISTORY & SERVICES PROVIDED

The Judges' Retirement System was established as a single-employer public employee retirement system (PERS) by state statute on July 1, 1941. As of June 30, 1942, the end of the System's first fiscal year of operations, there were a total of 260 participants and the plan net assets valued at cost amounted to approximately $84,000. The fair value of plan net assets at the end of the fiscal year 2002 amounted to $343.7 million, and there were 909 active participants.

The mission of the System as prescribed by state statute is to "establish an efficient method of permitting retirement, without hardship or prejudice, of judges who are aged or otherwise incapacitated, by enabling them to accumulate reserves for themselves and their dependents for old age, disability, death, and termination of employment."

INVESTMENTS

The System's investments are managed by the Illinois State Board of Investment (ISBI) pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statues, using the "prudent person rule".

This rule states that fiduciaries shall discharge their duties solely in the interest of the fund participants and beneficiaries and with the degree of diligence, care and skill which prudent men and women would ordinarily exercise under similar circumstances in a like position.

The ISBI maintains a wide diversification of investments within this fund which is intended to reduce overall risk and increase returns. As further detailed in the Investment Section, this was a most challenging year in virtually all segments of the financial markets.

FUNDING

Funding is the process of specifically allocating monies for current and future use. Proper funding includes an actuarial review of the fund balances to ensure that funds will be available for current and future benefit payments. The greater the level of funding, the larger the ratio of accumulated assets to the actuarial accrued liability and the greater the level of investment potential.

A new funding plan for the System, enacted in 1994, requires that state contributions be paid to the System so that by the end of fiscal year 2045, the ratio of accumulated assets to the actuarial accrued liability will be 90%. For fiscal years 2011 through 2045, the required state contributions are to be computed as a level percentage of participant payroll.

For those fiscal years up through 2010, the required state contributions are to be increased incrementally as a percentage of the participant payroll so that by fiscal year 2011 the state is contributing at the required level contribution rate to achieve the financing objective by the end of fiscal year 2045.

In addition, the funding legislation also provided for the establishment of a continuing appropriation of the required state contributions to the System. This has, in effect, removed the appropriation of these funds from the annual budgetary process.

The actuarial determined liability of the System using the projected unit credit actuarial method at June 30, 2002, amounted to $1.021 billion. The actuarial value of assets (at fair value) amounted to $344 million as of the same date. A detailed discussion of funding is provided in the Actuarial Section of this report.

ACCOUNTING SYSTEM & INTERNAL CONTROL

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

The accrual basis of accounting is used to record the financial transactions and activities of the System. Revenues are recognized in the accounting period in which they are earned, without regard to the date of collection, and expenses are recognized when the corresponding liabilities are incurred, regardless of when payment is made.

Letter of Transmittal

MAJOR EVENTS/ INITIATIVES

During fiscal year 2002, the System installed a newly purchased general ledger accounting system and continued to evaluate and expand upon the services available through the System's internet site. In addition, the System also implemented changes required by the various pension provisions contained in the Economic Growth and Tax Relief Act of 2001 (H.R. 1836) that was passed by Congress and signed into law by President Bush on June 6, 2001.

During fiscal year 2003, the System will continue to evaluate and expand the services available to members through the System's internet site, as well as continuing to offer pre-retirement, post-retirement, and one-on-one counseling sessions at various locations throughout the state. In addition, the State Retirement System's EDP Division will conduct a needs assessment review to identify future computer hardware and information system needs.

Letter of Transmittal

The System also uses the State of Illinois, Statewide Accounting Management System (SAMS) as a basis for the preparation of the financial statements.

In developing the System's accounting system, consideration is given to the adequacy of internal accounting controls. These controls are designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records. Constant effort is directed by the System at improving this level to assure the participants of a financially sound retirement system.

PROFESSIONAL SERVICES

Independent consultants are retained by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of the System. Actuarial services are provided by Goldstein & Associates, Chicago, Illinois. The System's investment function is managed by the Illinois State Board of Investment.

The annual financial audit of the System was conducted by the accounting firm of McGladrey & Pullen, LLP, under the direction of the Auditor General of the State of Illinois. In addition to the annual financial audit, a one year compliance audit was also performed by the auditors.

The purpose of the compliance audit was to determine whether the System obligated, expended, received and used public funds of the state in accordance with the purpose for which such funds have been authorized by law.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Judges' Retirement System of Illinois for its comprehensive annual financial report for the fiscal year ended June 30, 2001.

The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports.

To be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Judges' Retirement System of Illinois has received a Certificate of Achievement for the past thirteen consecutive years (fiscal years ended June 30, 1989 through June 30, 2001).

We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS AND COMMENTS

The preparation of this report reflects the combined efforts of the System's staff under the direction of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and for determining responsible stewardship for the assets contributed by the members in the State of Illinois.

On behalf of the Board of Trustees, we would like to express our appreciation to the staff and professional consultants who worked so effectively to ensure the successful operation of the System.

Respectfully submitted,

Michael L. Mory

Michael L. Mory
Executive Secretary

David M. Richter

David M. Richter, CPA
Accounting Division

Administration

JUSTICE
Thomas E. Hoffman
Chairman

JUSTICE
John J. Bowman
Vice-Chairman

CHIEF JUDGE
Timothy C. Evans

JUDGE
Henry A. Budzinski

STATE TREASURER
Judy Baar Topinka

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Illinois State Board of Investment

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Certificate of Achievement

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Judges' Retirement System of Illinois

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2001

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

President

Executive Director

FINANCIAL SECTION

Independent Auditor's Report

McGladrey & Pullen
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General, State of Illinois
Springfield, Illinois

Board of Trustees
Judges' Retirement System of Illinois
Springfield, Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying statement of plan net assets of the Judges' Retirement System of Illinois, (the System), as of June 30, 2002 and the related statement of changes in plan net assets for the year 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 audit. The financial statements of the Judges' Retirement System of Illinois for the year ended June 30, 2001 were audited by other auditors whose report, dated October 25, 2001, expressed an unqualified opinion on those statements.

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

In our opinion, the 2002 financial statements referred to above present fairly, in all material respects, the plan net assets of the Judges' Retirement System of Illinois as of June 30, 2002, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 13 and 14 and the schedules of funding progress and employer contributions on page 24 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As discussed in Note 10 to the financial statements, the System adopted GASB Statements No. 34, 37 and 38, effective July 1, 2001.

In accordance with Government Auditing Standards, we will also issue, under separate cover, our report dated November 20, 2002 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Independent Auditor's Report

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the System for the year ended June 30, 2002. The introductory section, supplementary financial information on pages 25 and 26, investment section, actuarial section, statistical section and plan summary and legislative section are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The supplementary financial information on pages 25 and 26 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole. The supplementary financial information on pages 25 and 26 for the year ended June 30, 2001 was audited by other auditors whose report, dated October 25, 2001, expressed an unqualified opinion on such information in relation to the basic financial statements taken as a whole. The introductory, investment, actuarial, statistical and plan summary and legislative sections listed in the table of contents were not subjected to the auditing procedures applied in the audit of the basic financial statements for the year ended June 30, 2002 and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

Chicago, Illinois
November 20, 2002

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Management's Discussion & Analysis

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

This section presents management's discussion and analysis of the financial position and performance of the Judges' Retirement System of Illinois (System) for the year ended June 30, 2002. It is presented as a narrative overview and analysis. Readers are encouraged to consider the information presented here in conjunction with the Letter of Transmittal included in the Introductory Section, of the Comprehensive Annual Financial Report.

The System is a defined benefit, single-employer public employee retirement system. It provides services to approximately 900 active judges and nearly 840 benefit recipients. Throughout this discussion and analysis units of measure (i.e. billions, millions, thousands) are approximate, being rounded up or down to the nearest tenth of the respective unit value.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

(1) Basic Financial Statements. For the fiscal year ended June 30, 2002, basic financial statements are presented for the System. This information presents the net assets held in trust for pension benefits for the System as of June 30, 2002. This financial information also summarizes the changes in net assets held in trust for pension benefits for the year then ended.

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

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

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

FINANCIAL HIGHLIGHTS

- The System's net assets decreased by $38.1 million, or 10% during fiscal year 2002. The decrease was primarily due to a downturn in equity markets and increasing benefit payments.
- The System was actuarially funded at 33.7% as of June 30, 2002 a decrease from 40.7% as of June 30, 2001.
- The System's rate of return from investments was a negative 6.9% compared to the prior year investment return of negative 7.1%.

ADDITIONS TO PLAN NET ASSETS

Additions to Plan Net Assets include employer and participant contributions and net income from investment activities. Participant contributions were 12.5 million and 12.3 million for the years ended June 30, 2002 and 2001, respectively. Participant contribution rates are set by statute as a percentage of gross salary. Employer contributions increased to 27.5 million in 2002 from 24.3 million in 2001.

PLAN NET ASSETS

The Statements of Plan Net Assets are presented for the System as of June 30, 2002 and 2001. These financial statements reflect the resources available to pay benefits to members, including retirees and beneficiaries, at the end of the years reported. A summary of the System's Plan Net Assets is presented below.

Condensed Statements of Plan Net Assets
(in thousands)

			Increase/(Decrease)	
	2002	2001	Dollar Change	Percent Change
Cash and cash equivalents	$ 6,593.5	$ 8,529.5	$ (1,936.0)	(22.7)%
Receivables	4,718.8	613.3	4,105.5	669.4
Investments, at fair value	332,424.6	372,637.7	(40,213.1)	(10.8)
Fixed assets, net	3.1	4.3	(1.2)	(27.9)
Total assets	343,740.0	381,784.8	(38,044.8)	(10.0)
Liabilities	80.7	51.2	29.5	57.6
Total plan net assets	$343,659.3	$ 381,733.6	$ (38,074.3)	(10.0)%

Management's Discussion & Analysis

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

This increase was based on contributions required by the State's funding plan.

DEDUCTIONS FROM PLAN NET ASSETS

Deductions from Plan Net Assets are primarily benefit payments. During 2002 and 2001, the System paid out 53.2 million and 49.0 million, respectively, in benefits and refunds, an increase of approximately 8.6% from 2001. Those higher payments were mainly due to an increase in the number of retirees and higher employee salaries on which the payments are based. The administrative costs of the System represented less than 1% of total deductions in both 2002 and 2001.

FUNDED RATIO

The funded ratio of the plan measures the ratio of net assets against actuarially determined liabilities and is one indicator of the fiscal strength of a pension fund's ability to meet obligations to its members. An annual actuarial valuation is required by statute. The most recent available valuation showed the funded status of the System on June 30, 2002 decreased to 33.7% from 40.7% on June 30, 2001.

The amount by which actuarially determined liabilities exceeded net assets was $677.2 million on June 30, 2002 compared to $555.4 million on June 30, 2001. Several reasons for the decrease were weak financial markets in 2001 and 2002, and an increase in actuarial liabilities.

INVESTMENTS

Investments of the System are combined in a commingled investment pool with the State Employees' Retirement System and the General Assembly Retirement System. Each system owns an equity position in the pool and receives proportionate investment income from the pool in accordance with respective ownership percentage.

Investment gains or losses are reported in the Statement of Changes in Plan Net Assets of each retirement system. The rate of return on investments is, therefore, the same for each of the systems.

Net investment losses totaled approximately $24.5 million during 2002, versus net investment losses of $28.5 million in 2001, resulting in returns of negative (6.9)% and (7.1)%, respectively. For the five year period ended June 30, 2002, the System earned a compounded rate of return of 5.2%. The decrease in investment income in 2002 and 2001 was the result of the overall downturn of global financial markets.

CHANGES IN PLAN NET ASSETS

The Statements of Changes in Plan Net Assets are presented for the years ended June 30, 2002 and 2001. These financial statements reflect the changes in the resources available to pay benefits to members, including retirees and beneficiaries.

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

	2002	2001	Increase/(Decrease) Dollar Change	Increase/(Decrease) Percent Change
Additions				
Participant contributions	$12,487.3	$ 12,291.1	$ 196.2	1.6%
Employer contributions	27,532.0	24,348.9	3,183.1	13.1
Net investment (loss)	(24,493.9)	(28,464.9)	3,971.0	14.0
Total additions	15,525.4	8,175.1	7,350.3	89.9
Deductions				
Benefits	52,822.3	48,330.8	4,491.5	9.3
Refunds	353.2	633.6	(280.4)	(44.3)
Administrative expenses	424.2	410.8	13.4	3.3
Total deductions	53,599.7	49,375.2	4,224.5	8.6
Net (decrease) in plan net assets	$(38,074.3)	$(41,200.1)	$ 3,125.8	7.6%

Financial Statements

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Plan Net Assets
June 30, 2002 and 2001

	2002	2001
Assets		
Cash	$ 6,593,476	$ 8,529,516
Receivables:		
Employer contributions	4,205,334	–
Participants' contributions	421,721	511,346
Refundable annuities	9,523	10,252
Interest on cash balances	14,578	29,446
Due from General Assembly Retirement System	67,604	62,280
Total receivables	4,718,760	613,324
Investments - held in the Illinois State Board of Investment Commingled Fund at fair value	332,424,596	372,637,630
Equipment, net of accumulated depreciation	3,131	4,306
Total Assets	$343,739,963	$381,784,776
Liabilities		
Participants' deferred service credit accounts	6,000	3,000
Administrative expenses payable	74,669	48,195
Total Liabilities	80,669	51,195
Net assets held in trust for pension benefits	$343,659,294	$381,733,581

(A schedule of funding progress is presented on page 24.)

See accompanying notes to financial statements.

Financial Statements

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Changes in Plan Net Assets
Years Ended June 30, 2002 and 2001

	2002	2001
Additions:		
Contributions:		
Participants	$ 12,487,303	$ 12,291,097
Employer	27,532,000	24,348,926
Total contributions	40,019,303	36,640,023
Investments:		
Net investment income	8,432,347	10,031,772
Interest earned on cash balances	219,154	455,742
Net (depreciation) in fair value of investments	(33,145,381)	(38,952,390)
Total net investment (loss)	(24,493,880)	(28,464,876)
Total Additions	15,525,423	8,175,147
Deductions:		
Benefits:		
Retirement annuities	41,145,096	37,509,685
Survivors' annuities	11,677,218	10,821,137
Total benefits	52,822,314	48,330,822
Refunds of contributions	353,163	633,610
Administrative expenses	424,233	410,854
Total Deductions	53,599,710	49,375,286
Net (Decrease)	(38,074,287)	(41,200,139)
Net assets held in trust for pension benefits:		
Beginning of year	381,733,581	422,933,720
End of year	$343,659,294	$381,733,581

See accompanying notes to financial statements.

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Financial Statements

Notes to Financial Statements June 30, 2002 and 2001

1. Reporting Entity

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

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

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

Pursuant to federal tax law and regulations governing the administration of public employee pension plans, the System has established a separate fund for the sole purpose of paying benefits in accordance with Section 415 of the Internal Revenue Code. The receipts and disbursements from the fund for fiscal years 2002 and 2001 were each less than $170,000. Due to the immaterial nature of the separate fund, these receipts and disbursements have been included in the System's financial statements.

2. Plan Description

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

a. Eligibility and Membership

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

b. Contributions

In accordance with Chapter 40, Section 5/18-133 of the Illinois Compiled Statutes, participants contribute specified percentages of their salaries for retirement annuities, survivors' annuities and automatic annual increases. Contributions are excluded from gross income for Federal and State income tax purposes.

At June 30, 2002 and 2001, the System membership consisted of:

	2002	2001
Retirees and beneficiaries currently receiving benefits:		
Retirement annuities	517	506
Survivors' annuities	321	316
	838	822
Inactive participants entitled to benefits but not yet receiving them	35	39
Total	873	861
Current participants:		
Vested	613	615
Nonvested	296	295
Total	909	910

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

Financial Statements

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 total contribution rate is 11% if the participants elect to contribute for their spouse and dependents as shown below:

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

The Board of Trustees has adopted the policy that interest payments by a participant, included in optional contributions to retroactively establish service credits, shall be considered an integral part of the participant's investment in annuity expectancies and, as such, shall be included as a part of any refund payable.

The payment of (1) the required State contributions, (2) all benefits granted under the System and (3) all expenses in connection with the administration and operation thereof are the obligations of the State to the extent specified in Chapter 40, Article 5/18 of the Illinois Compiled Statutes.

c. Benefits

After 10 years of credited service, participants have vested rights to full retirement benefits beginning at age 60, or reduced retirement benefits beginning at age 55. Participants also have vested rights to full retirement benefits at age 62 upon completing 6 years of credited service or at age 55 upon completing 26 years of credited service.

The Judges' Retirement System also provides annual automatic annuity increases for retirees and survivors, survivors' annuity benefits, temporary and/or total disability benefits and, under specified conditions, lump-sum death benefits.

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

Participants who terminate service and are not eligible for an immediate annuity may receive, upon application, a refund of their total contributions. Participants or annuitants who are not married are entitled to refunds of their contributions for survivors.

Participants who are eligible to receive the maximum rate of annuity may irrevocably elect to discontinue contributions and have their benefits "frozen" based upon the applicable salary in effect immediately prior to the effective date of such election.

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

3. Summary of Significant Accounting Policies and Plan Asset Matters

a. Basis of Accounting

The financial transactions of the System are maintained and these financial statements have been prepared using the accrual basis of accounting in conformity with generally accepted accounting principles.

Participant and employer contributions are recognized as revenues in the period in which employee services are performed. Benefits and refunds are recognized as expenses when due and payable in accordance with the terms of the plan.

The System has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989, that do not contradict GASB Pronouncements.

b. Cash and Investments

The System retains all of its available cash in a commingled investment pool managed by the Treasurer of the State of Illinois (Treasurer). All deposits are fully collateralized by the Treasurer. "Available cash" is determined to be that amount which is required for the current operating expenditures of the System. The

Financial Statements

excess of available cash is transferred to the Illinois State Board of Investment (ISBI) for purposes of long-term investment for the System.

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

Custody of a majority of the actual physical securities is maintained at an agent of the agent bank's trust department using a book-entry system. The ISBI's master custodian is The Northern Trust Company. The agent of the master custodian is the Depository Trust Company.

Investments are managed by the ISBI pursuant to Chapter 40,Article 5/22A of the Illinois Compiled Statutes (ILCS) and are maintained in the ISBI Commingled Fund. The ISBI reports securities at fair value. Where appropriate, the fair value includes estimated disposition costs.

Fair value for stocks is determined by using the closing price listed on the national securities exchanges as of June 30. Market value for fixed income securities are determined principally by using quoted market prices provided by independent pricing services. For commingled equity funds, the net asset value is determined and certified by the commingled equity fund manager as of June 30. Fair value for directly owned real estate investments is determined by appraisals.

Units of the ISBI Commingled Fund are issued to the member systems on the last day of the month based on the unit net asset value calculated as of that date. Net investment income of the ISBI Commingled Fund is allocated to each of the member systems on the last day of the month on the basis of percentage of accumulated units owned by the respective systems. Management expenses are deducted monthly from income before distribution.

The investment authority of the ISBI is provided in Chapter 40, Section 5/22A-112 of the ILCS. The ISBI investment authority includes investments in obligations of the U.S.Treasury and other agencies, notes secured by mortgages which are insured by the Federal Housing Commission, real estate, common and preferred stocks, convertible debt securities, deposits or certificates of deposit of federally insured institutions and options.

Such investment authority requires that all opportunities be undertaken with care, skill, prudence and diligence given prevailing circumstances that a prudent person acting in like capacity and experience would undertake. The ISBI does not have any one investment which represents 5% or more of the ISBI's net assets.

The ISBI participates in a securities lending program at its custodian bank, whereby securities are loaned to brokers and, in return, the ISBI has rights to a portion of a collateral pool. All of the ISBI's securities are eligible for the securities lending program. Collateral consists solely of cash, letters of credit, commercial paper and government securities having a market value equal to or greater than the securities loaned. There are no provisions for ISBI indemnification on the securities lending transactions. As of June 30, 2002 and 2001, the ISBI had outstanding loaned investment securities having market values of $671,816,775 and $1,011,910,854, respectively, against which it had received collateral with values of $692,016,339 and $1,047,527,926, respectively.

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

The ISBI also invests in mortgage-backed securities to maximize yields and to hedge against a rise in interest rates. These securities are based on cash flows from principal and interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates.

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The System owns approximately 4.0% of the net investment assets of the ISBI Commingled Fund as of June 30, 2002. A schedule of investment expenses is included in the ISBI annual report.

For additional information regarding the ISBI's investments, please refer to the Annual Report of the ISBI as of June 30, 2002. A copy of the report can be obtained from the ISBI at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

ISBI investments, as categorized by ISBI, are categorized to indicate the level of risk assumed by the ISBI at year end.

- Category I includes investments that are insured or registered or the securities are held by the master custodian in the ISBI's name.

- Category II includes investments that are uninsured and unregistered with the securities held by the counter-party's agent in the ISBI's name.

- Category III includes investments that are uninsured and unregistered with the securities held by the counter-party but not in the ISBI's name.

Investments in pooled funds are not categorized because they are not evidenced by securities that exist in physical or book entry form.

c. Actuarial Experience Review

In accordance with Illinois Compiled Statutes, an actuarial experience review is to be performed at least once every five years to determine the adequacy of actuarial assumptions regarding the mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the System.

The System's actuarial consultant performed an experience review for the five-year period ending June 30, 2002. Based upon the results of the review, several changes were made to the actuarial assumptions. These changes had the effect of increasing the actuarial liability and the related unfunded actuarial accrued liability by $28,381,924.

d. Administrative Expenses

Expenses related to the administration of the System are financed through investment earnings and employer retirement contributions. These expenses are budgeted and approved by the System's Board of Trustees.

ISBI's investments categorized as of June 30, 2002

	Fair Value	Category I	Non Categorized
U.S. Government & Agency Obligations	$ 1,057,628,472	$1,057,628,472	$ –
Foreign Obligations	84,261,722	84,261,722	–
Corporate Obligations	807,243,888	807,243,888	–
Convertible Bonds	159,060	159,060	–
Common Stock & Equity Funds	3,573,004,993	1,890,326,983	1,682,678,010
Convertible Preferred Stock	75,520	75,520	–
Preferred Stock	8,051	8,051	–
Foreign Equity Securities	1,231,600,202	1,200,563,087	31,037,115
Real Estate Funds	417,054,183	–	417,054,183
Alternative Investments	414,830,358	–	414,830,358
Money Market Instruments	345,095,683	–	345,095,683
Forward Foreign Exchange Contracts	511,922	511,922	–
Total Investments	$ 7,931,474,054	$ 5,040,778,705	$ 2,890,695,349

Administrative expenses common to the Judges' Retirement System and the General Assembly Retirement System are borne 60% by the Judges' Retirement System and 40% by the General Assembly Retirement System. Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System, and 40% thereof is allocated to and reimbursed by the General Assembly Retirement System. Administrative expenses allocated to and reimbursed by the General Assembly Retirement System as of June 30, 2002 and 2001, were $237,029 and $238,005, respectively.

e. Risk Management

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

4. Funding - Statutory Contributions Required and Contributions Made

For each fiscal year, the System's actuary performs an actuarial valuation and computes actuarially determined contribution requirements for the System, using the projected unit credit actuarial cost method.

For fiscal years 2002 and 2001, the required employer contributions were computed in accordance with Public Act 88-0593. This funding legislation, which became effective July 1, 1995, provides for a systematic 50 year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%.

In addition, the funding plan provides for a 15 year phase-in period to allow the state to adapt to the increased financial commitment. Once the 15 year phase-in period is complete, the state's contribution will then remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved.

The total amount of statutorily required employer contributions for fiscal years 2002 and 2001 was $27,532,000 and $24,218,000, respectively. The total amount of employer contributions received from the state during fiscal years 2002 and 2001 was $27,532,000 and $24,218,000, respectively.

5. Administrative Expenses

A summary of the administrative expenses for the Judges' Retirement System for fiscal years 2002 and 2001 are listed above.

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Administrative expenses for fiscal years 2002 and 2001

	2002	2001
Personal services	$234,352	$240,480
Employee retirement contributions paid by employer	9,385	9,015
Employer retirement contributions	23,557	23,924
Social security contributions	15,906	16,683
Group insurance	30,254	26,271
Contractual services	79,366	75,551
Travel	10,310	9,679
Printing	3,032	3,160
Commodities	427	575
Telecommunications	2,438	2,270
Electronic data processing	7,941	7,350
Depreciation	2,704	3,048
Change in accrued compensated absences	4,561	(7,152)
Total	$424,233	$410,854

Summary of the changes in fixed assets for fiscal years 2002 and 2001

2002

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 44,120	$ 1,529	$ (2,014)	$ 43,635
Accumulated depreciation	(39,814)	(2,704)	2,014	(40,504)
Equipment, net	$ 4,306	$ (1,175)	$ –	$ 3,131

2001

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 47,020	$ 615	$ (3,515)	$ 44,120
Accumulated depreciation	(40,281)	(3,048)	3,515	(39,814)
Equipment, net	$ 6,739	$ (2,433)	$ –	$ 4,306

6. Equipment

Fixed assets are capitalized at their cost at the time of acquisition. Depreciation is computed using the straight-line method over the estimated useful life of the asset. The estimated useful lives are as follows: (1) office furniture - 10 years, (2) equipment - 6 years, and (3) certain electronic data processing equipment - 3 years.

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7. Accrued Compensated Absences

Employees of the Judges' Retirement System are entitled to receive compensation for all accrued but unused vacation time and one-half of all unused sick leave earned after December 31, 1983 and prior to January 1, 1998 upon termination of employment. These accrued compensated absences as of June 30, 2002 and 2001 total $41,371 and $36,810, respectively and are included in administrative expenses payable.

8. Pension Plan

Plan Description. All of the System's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity.

The SERS is a single-employer defined benefit public employee retirement system (PERS) in which state employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems.

The financial position and results of operations of the SERS for fiscal years 2002 and 2001 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the years ended June 30, 2002 and 2001, respectively. The SERS also issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255 or by calling 217-785-7202.

The State of Illinois' CAFR may be obtained by writing to the State Comptroller's Office, Financial Reporting Department, 325 West Adams St., Springfield, Illinois, 62704-1858 or by calling 217-782-2053.

A summary of SERS' benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established, are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute, and the authority under which those obligations are established.

Funding Policy. The System pays employer retirement contributions based upon an actuarially determined percentage of its payrolls. For fiscal years 2002 and 2001 the employer contribution rates were 10.04% and 9.944%, respectively.

Effective for pay periods beginning after December 31, 1991, the State opted to pay the employee portion of retirement for most state agencies with employees covered by the State Employees' and Teachers' Retirement Systems.

The "pickup" is subject to sufficient annual appropriations and those employees covered may vary across employee groups and state agencies. Currently, state officers, judges, general assembly members, and state university employees are not eligible for the employee pickup.

Other Post-Employment Benefits. In addition to providing pension benefits, the State Employees Group Insurance Act of 1971, as amended, requires that certain health, dental and life insurance benefits shall be provided by the state to annuitants who are former state employees. This includes annuitants of the System.

Substantially all state employees including the System's employees may become eligible for post-employment benefits if they eventually become annuitants. Health and dental benefits include basic benefits for annuitants under the state's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to five thousand dollars per annuitant age 60 and older.

Costs incurred for health, dental and life insurance for annuitants and their dependents were not separated from benefits provided to active employees and their dependents for the years ended June 30, 2002 and 2001. However, post-employment costs for the state as a whole for all state agencies/departments for dependent health, dental and life insurance for annuitants and their dependents are disclosed in the State of Illinois' Comprehensive Annual Financial Report.

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Cost information for retirees by individual state agency is not available. Payments are made on a "pay-as-you-go" basis. The System is not the administrator of any of the other post-employment benefits described above.

9. Analysis of Changes in Reserve Balances

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

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

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

Statements of Changes in Reserve Balances
Years Ended June 30, 2002 and 2001

	Participants' Contributions	Future Operations	Total Reserve Balances
Balance at June 30, 2000	$106,785,540	$316,148,180	$422,933,720
Add (deduct):			
Excess of revenues over/(under) expenses	11,830,863	(53,031,002)	(41,200,139)
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(8,049,769)	8,049,769	–
Balance at June 30, 2001	110,566,634	271,166,947	381,733,581
Add (deduct):			
Excess of revenues over/(under) expenses	12,134,141	(50,208,428)	(38,074,287)
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(5,889,194)	5,889,194	–
Balance at June 30, 2002	$116,811,581	$226,847,713	$343,659,294

10. New Accounting Pronouncements

In June, 1999 the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB 34). In June 2001, the GASB issued Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, which amended certain provisions of GASB 34. In June, 2001 the GASB also issued GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, which modified, established, and rescinded certain financial statement disclosure requirements.

Effective July 1, 2001, the System adopted GASB Statements 34, 37, and 38 which had no impact on the System's basic financial statements or its net assets. The adoption of GASB 34 required the System to present Management's Discussion and Analysis (MD&A). The MD&A is considered to be required supplementary information and precedes the financial statements.

11. Subsequent Event

The ISBI Commingled Fund had a decline in its investment portfolio subsequent to year end due to turbulent market conditions. At September 30, 2002, the ISBI Commingled Fund had incurred an approximate $880 million (11.1%) decrease in its investment portfolio due to declines in the domestic and international equity markets.

Required Supplementary Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
6/30/97	$ 314,561,229	$ 704,460,056	$ 389,898,827	44.7%	$ 87,171,000	447.3%
6/30/98	356,692,936	747,275,530	390,582,594	47.7	94,626,000	412.8
6/30/99	389,761,923	805,587,241	415,825,318	48.4	99,200,000	419.2
6/30/00	422,933,720	871,153,418	448,219,698	48.5	104,000,000	431.0
6/30/01	381,733,581	937,091,513	555,357,932	40.7	109,900,000	505.3
6/30/02	343,659,294	1,020,846,773	677,187,479	33.7	118,700,000	570.5

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution per GASB Statement No. 25	Percentage Contributed	Annual Required Contribution per State Statute	Percentage Contributed
1997	$ 26,021,939	52.8%	$ 13,747,000	100.0%
1998	28,867,624	54.3	15,664,000	100.0
1999	38,631,275	48.4	18,293,000	102.2
2000	40,205,224	53.2	21,388,000	100.0
2001	42,546,928	56.9	24,218,000	100.0
2002	47,277,311	58.2	27,532,000	100.0

Notes to Required Supplementary Information

Valuation date: June 30, 2002

Actuarial cost method: Projected Unit Credit

Amortization method:

a. For GASB Statement No. 25 reporting purposes: Level percent of payroll

b. Per state statute: 15-year phase-in to a level percent of payroll until a 90% funding level is achieved

Remaining amortization period:

a. For GASB Statement No. 25 reporting purposes: 40 years, open

b. Per state statute: 43 years, closed

Asset valuation method: Fair value

Actuarial assumptions:

Investment rate of return: 8.0 percent per year, compounded annually

Projected salary increases: 5.5 percent per year, compounded annually

Assumed inflation rate: 4.0 percent

Group size growth rate: 0.0 percent

Post-retirement increase: 3.0 percent per year, compounded annually

Supplementary Financial Information

SUMMARY OF REVENUES BY SOURCE

Years Ended June 30, 2002 and 2001

	2002	2001
Contributions:		
Participants:		
Participants	$ 12,347,458	$ 11,916,064
Interest paid by participants	121,249	223,598
Repayments of contributions refunded	–	14,551
Transferred from reciprocating systems	18,596	136,884
Total participant contributions	12,487,303	12,291,097
Employer:		
General Revenue Fund	25,232,000	22,048,000
State Pension Fund	2,300,000	2,170,000
Paid by participants	–	22,928
Received from reciprocating systems	–	107,998
Total employer contributions	27,532,000	24,348,926
Total contributions revenue	40,019,303	36,640,023
Investments:		
Net investment income	8,432,347	10,031,772
Interest earned on cash balances	219,154	455,742
Net (depreciation) in fair value of investments	(33,145,381)	(38,952,390)
Total net investment (loss)	(24,493,880)	(28,464,876)
Total revenues	$ 15,525,423	$ 8,175,147

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

Years Ended June 30, 2002 and 2001

	2002	2001
Cash balance, beginning of year	$ 8,529,516	$ 7,752,714
Receipts:		
Participant contributions	12,379,198	11,708,475
Employer contributions:		
General Revenue Fund	21,026,666	22,048,000
State Pension Fund	2,300,000	2,170,000
Received from reciprocating systems	–	107,998
Paid by participants	–	22,928
Interest income on cash balances	234,022	461,462
Reimbursements from General Assembly Retirement System	231,705	227,147
After-tax installment payments	81,383	3,000
Cancellation of refunds	20,895	3,724
Cancellation of annuities	79,767	54,074
Tax-deferred installment payments	103,813	252,585
Transfers from reciprocating systems	18,596	166,666
Transfers from Illinois State Board of Investment	15,500,000	13,200,000
Miscellaneous	325	71
Total cash receipts	51,976,370	50,426,130
Disbursements:		
Benefit payments:		
Retirement annuities	41,190,645	37,527,163
Survivors' annuities	11,710,707	10,859,752
Refunds	377,120	605,809
Administrative expenses	633,938	656,604
Total cash disbursements	53,912,410	49,649,328
Cash balance, end of year	$ 6,593,476	$ 8,529,516

Supplementary Financial Information

SCHEDULE OF PAYMENTS TO CONSULTANTS
Years Ended June 30, 2002 and 2001

	2002	2001
Actuary	$17,000	$16,000
Audit fees	20,760	16,002
Tax consultant	–	1,500
Legal services	2,410	1,087
Financial planner	729	1,203
Medical services	420	532
Total	$41,319	$36,324

INVESTMENT SECTION

Investment Section

INVESTMENT REPORT

By state law the System's investment function is managed by the Illinois State Board of Investment (ISBI). The ISBI was created in 1969 to provide a means of centralizing the investment management function for public employee pension funds and retirement systems operating in the state.

In addition to the assets of the Judges' Retirement System, the ISBI also manages the investment function for the General Assembly and State Employees' Retirement Systems. All ISBI investments are accounted for in a commingled fund (ISBI Fund).

As of June 30, 2002, total net assets under management valued at market, amounted to $7.928 billion. Of the total market value of assets under management, $332.4 million or approximately 4% represented assets of the Judges' Retirement System.

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

Investment Policy

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

Over an investment cycle, the ISBI seeks to achieve a rate of return that is at least equal to the assumed actuarial interest rate, currently 8.0% per year, and at least equal to the return of the policy-weighted benchmark, a theoretical "indexed" implementation of ISBI's asset allocation policy.

Asset Allocation

The investment policy of the ISBI Board establishes asset allocation targets and ranges for each asset class, selected to achieve overall risk and return objectives. The policy is implemented by allocations to investment managers with assignments to invest in specific asset classes, with defined security selection styles and methodologies. During fiscal 2002, the ISBI Board reviewed the strategic asset allocation policy, and effective April 1, 2002, made certain changes to the policy. The ISBI Board reduced its allocation to international equities, with increases to U.S. equities, fixed income, and real estate. The policy asset allocation at June 30, 2002 was 46% U.S. equities, 15% international equities, 23% fixed income, 8% real estate, and 8% alternative investments.

The actual asset allocation of the portfolio at June 30, 2002, as relative to the policy target, is set forth in the table below. Fixed income was modestly overweighted relative to the policy target, to compensate for an underweight to private market categories (alternative investments and real estate). As the Board fills the alternatives and real estate categories, the overweight categories will be reduced accordingly.

	Actual Asset Allocation	Policy Target
U.S. Equities	46%	46%
International Equities	16	15
Fixed Income	27	23
Real Estate	5	8
Alternative Investments	5	8
Cash	1	–
Total	100%	100%

Investment Results

World equity markets continued their turbulent corrections during fiscal 2002. The ISBI total fund was down 6.9% for fiscal 2002, net of expenses. This loss follows on a negative result for fiscal 2001, and reflects the ongoing negative stock market environment, both in the U.S. and abroad. While the fund clearly did not meet its long-term objective of exceeding the 8.0% assumed actuarial interest rate, the return was modestly ahead of the policy-weighted benchmark return, which lost 7.3%. For the ten-year period ended June 30, 2002, the fund has beat the actuarial hurdle, with an average annual return of 9.1%.

U.S. Equities

During fiscal 2002, the events of September 11, coupled with growing doubts about the integrity of corporate financial statements, produced a volatile and ultimately declining stock market. Initially hard hit following the September terrorist attack, the stock market

Investment Section

staged a strong recovery through March 2002. However, renewed fears about accounting fraud, coupled with escalating issues in the Middle East, caused the bear market to resume. For the twelve months ended June 30, 2002, the Russell 3000 Index, a broad representation of the U.S. market, lost 17.2%. Continuing the trend of the prior year, value stocks exceeded growth stocks, with the Russell 3000 Value Index losing 7.8%, compared to the Russell 3000 Growth Index loss of 26.4%. Small capitalization stocks continued a three-year streak of outperforming large capitalization stocks, with the Russell 2000 Index losing 8.6%, vs. an 18.0% loss for the S&P 500.

The return on ISBI's U.S. equity portfolio was down 14.6% for the fiscal year, over 250 basis points ahead of the Russell 3000. While a negative return is never the desired result, the portfolio did perform as it was constructed to do; namely, to limit tracking error relative to the benchmark and to add value with active management. The ISBI Board, through structure analysis, rebalancing, and risk management, has achieved the objective of tracking the market with predictable consistency.

The ten-year average annual return of 11.4% shows that even considering the losses in fiscal 2002 and fiscal 2001, the U.S. stock market has rewarded the long-term investor.

International Equities

While foreign markets succumbed to some of the anxieties besetting U.S. equities, on the whole they performed somewhat better. The Morgan Stanley All-Country Free ex US ("MS-AC Free ex US") Index, gave up 8.2% for the fiscal year, about nine percentage points ahead of the U.S. return. As in the U.S., value stocks held up better than growth stocks.

The return on ISBI's international equity portfolio, down 6.3%, outperformed the benchmark by almost 200 basis points for the fiscal year. As with the U.S. equity portfolio, the ISBI Board has the twin objectives of limiting tracking error relative to the benchmark and adding value with active management. The returns for longer time periods demonstrate that the ISBI has met these goals for most time periods.

Fixed Income

During fiscal 2002, earnings fears that hurt the stock market caused the opposite reaction in the bond market, with U.S. Treasuries leading the rally. Continuing disclosures of substantial earnings revisions dampened corporate bond returns, with high yield bonds suffering the most. The Lehman U.S. Universal Bond Index returned 7.7% for the year.

U.S. EQUITIES

	1 Year	3 Years	5 Years
ISBI	(14.6)%	(5.4)%	4.8%
S&P 500 Stock Index	(18.0)	(9.2)	3.7
Russell 3000 Index	(17.2)	(7.9)	3.8

The ISBI fixed income portfolio lagged the benchmark for the fiscal year, earning 5.5%. The cause of this under performance is chiefly because of an above benchmark weighting to corporate issues relative to governments. While this strategy has achieved good long-term results, it has not worked well in the current environment where any credit risk is punished.

The ISBI has traditionally managed substantially all fixed income assets internally. The ISBI is in the process of transitioning 2/3 of the fixed income assets to three diversified external managers. The remaining internal portfolio will be a risk-constrained investment grade portfolio. The ISBI Board believes that the new structure will minimize the negative surprises such as those experienced during fiscal 2002, and result in more predictable fixed income returns.

FIXED INCOME

	1 Year	3 Years	5 Years
ISBI	5.5%	6.3%	6.6%
Lehman U.S. Univ. Bond Index	7.7	7.7	7.2

Real Estate

Real estate provided a safe haven from the stock market during fiscal 2002, with the NCREIF Real Estate Index, a measure of core, operating, non-leveraged real estate, earning 5.9%. The ISBI's real estate portfolio, powered by realizations and mark-to-markets in several opportunity funds, earned a more substantial 11.5%.

INTERNATIONAL EQUITIES

	1 Year	3 Years	5 Years
ISBI	(6.3)%	(4.5)%	0.3%
MS-AC Free ex US Index	(8.2)	(6.2)	(1.7)

Prior to fiscal 2001, the ISBI Board's real estate policy was to seek higher return real estate opportunities while controlling for risk. Therefore, investments focused on value-added or opportunistic strategies. However, over the last two years the ISBI Board has increased the real estate strategic allocation from 5% to 8% of the total fund. At the new allocation level, the ISBI Board felt it was

Investment Section

appropriate to target 50% of its real estate to core, income producing real estate, with the balance in higher return strategies.

The ISBI Board completed searches in fiscal 2002, for funding in early fiscal 2003, which should move the portfolio substantially closer to this goal. All of the ISBI's current investments in real estate are passive and are represented by interests in limited partnerships, trusts, and other forms of pooled investments.

REAL ESTATE

	1 Year	3 Years	5 Years
ISBI	11.5%	7.6%	10.6%
NCREIF Real Estate Index	5.9	10.1	12.5

Alternative Investments

As in the stock market, alternative investments continued to experience fallout from investors' disillusionment with technology. Overall, the ISBI's alternative investments portfolio lost 18.4% for the fiscal year, in line with results in the public stock market. The alternative investments portfolio consists of passive interests in limited partnerships and other commingled vehicles that invest in venture capital, management buyouts, and other private placement activities.

In spite of the setbacks of the last three years, long-term results show that alternative investments remain the best performing asset class for the five and ten-year periods ended June 30.

Management Expenses

Total ISBI expenses for the fiscal year were $18.6 million, compared to $20.6 million for fiscal 2001. The resulting expense ratio (expenses divided by total net assets) was 0.23% in fiscal 2002, compared to 0.24% in fiscal 2001.

Investment Section

INVESTMENT PORTFOLIO SUMMARY

	June 30, 2002		June 30, 2001	
Investments, at fair value				
U.S. Government and Agency Obligations	$ 1,057,628,472	13.34%	$ 1,134,638,341	13.22%
Foreign Obligations	84,261,722	1.06	108,110,344	1.26
Corporate Obligations	807,243,888	10.18	799,240,560	9.31
Convertible Bonds	159,060	0.00	55,706	0.00
Common Stock & Equity Funds	3,573,004,993	45.08	3,777,918,575	44.04
Convertible Preferred Stock	75,520	0.00	3,375,353	0.04
Preferred Stock	8,051	0.00	5,742,468	0.07
Foreign Equity Securities	1,231,600,202	15.53	1,594,371,444	18.59
Real Estate Funds	417,054,183	5.26	349,790,999	4.08
Alternative Investments	414,830,358	5.23	494,792,298	5.77
Money Market Instruments	345,095,683	4.35	345,601,984	4.03
Forward Foreign Exchange Contracts	511,922	0.01	(52,875)	0.00
	7,931,474,054	100.04	8,613,585,197	100.41
Other Assets, Less Liabilities	(3,145,553)	(.04)	(35,503,230)	(0.41)
Net Assets, at Fair Value	$ 7,928,328,501	100.0%	$ 8,578,081,967	100.0%

ANALYSIS OF INVESTMENT PERFORMANCE[1]

	2002	2001	2000	1999	1998
Total Return* - Past 3 years		(1.1)%			
Total Return* - Past 5 years			5.2%		
Total Return* - year by year	(6.9)%	(7.1)%	11.8%	12.9%	18.1%
Actuarial Assumed Rate of Return			8.0%		
Average Net Income Yield*	2.4%	2.6%	2.4%	2.8%	3.4%
Comparative rates of return on fixed income securities					
Total fixed income - ISBI	5.5%	9.5%	4.0%	3.4%	11.1%
Comparison index:					
Lehman U.S. Universal Bond Index	7.7%	10.8%	4.8%	2.7%	10.1%
Comparative rates of return on equities					
Domestic equities - ISBI	(14.6)%	(10.3)%	10.3%	17.3%	27.6%
Comparison index:					
S&P 500	(18.0)%	(14.8)%	7.3%	22.7%	30.2%

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

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

Investment Section

ADDITIONAL INVESTMENT INFORMATION

The following table shows a comparison of ISBI investment operations for fiscal years 2002 and 2001:

	2002	2001	Increase/(Decrease) Amount	Increase/(Decrease) Percentage
Balance at beginning of year, at fair value	$ 372,637,630	$ 414,758,248	$ (42,120,618)	(10.2)%
Cash transferred from ISBI (net)	(15,500,000)	(13,200,000)	2,300,000	17.4
Net ISBI investment revenue:				
ISBI Commingled Fund income	9,226,184	10,939,200	(1,713,016)	(15.7)
Less ISBI Expenses	(793,837)	(907,428)	(113,591)	(12.5)
Net ISBI investment income	8,432,347	10,031,772	(1,599,425)	(15.9)
Net (depreciation) in fair value of ISBI investments	(33,145,381)	(38,952,390)	(5,807,009)	(14.9)
Net ISBI investment (loss)	(24,713,034)	(28,920,618)	(4,207,584)	(14.5)
Balance at end of year, at fair value	$ 332,424,596	$ 372,637,630	$ (40,213,034)	(10.8)%

In addition, interest on the average balance in the System's cash account in the State Treasury for FY 2002 was $219,154 compared to $455,742 during FY 2001.

ACTUARIAL SECTION

Actuary's Certification Letter

GOLDSTEIN & ASSOCIATES
Actuaries and Consultants

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October 4, 2002

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

ACTUARIAL CERTIFICATION

We have completed the annual actuarial valuation of the Judges' Retirement System of Illinois as of June 30, 2002. The purpose of the valuation was to determine the financial condition and funding requirements of the retirement system.

There have been no changes in the benefit provisions of the system during the period between the date of the last actuarial valuation and the date of the current valuation.

Pursuant to the law governing the system, the actuary shall investigate the experience of the system at least once every five years and recommend, as a result of such investigation, the actuarial assumptions to be adopted. As the actuary, we have completed such an experience analysis for the five-year period 1996-2001. Based on this experience analysis, we recommended, and the Board adopted, several changes in the actuarial assumptions used for the June 30, 2002 actuarial valuation. We have estimated that the changes made in the actuarial assumptions used for the June 30, 2002 valuation had the impact of increasing the total actuarial liability by $28,381,924. We believe that, in the aggregate, the current actuarial assumptions relate reasonably to the past and anticipated experience of the system.

Section 5/18-131 of the Illinois Pension Code specifies the funding plan currently in effect for the system. The financing objective under this plan is to have the required State contributions sufficient to bring the total assets of the system up to 90% of the total actuarial liabilities by the end of fiscal year 2045. For fiscal years 2011 through 2045, the required State contributions are to be a level percentage of payroll. For fiscal years 1996 through 2010, the State contribution shall be increased as a percentage of the applicable payroll in equal annual increments so that by fiscal year 2011, the State is contributing at the required rate.

Based on the June 30, 2002 actuarial valuation, we have determined the required State contribution under this funding plan for fiscal year 2004. We have also estimated the required State contributions for future years.

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

Actuary's Certification Letter

GOLDSTEIN & ASSOCIATES
Actuaries and Consultants

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

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

In our opinion, the information presented herein fairly presents the financial condition of the Judges' Retirement System of Illinois as of June 30, 2002. We prepared the accompanying Actuarial Cost Method and Summary of Major Actuarial Assumptions. The staff of the retirement system prepared the other supporting schedules in this section and the trend tables in the financial section, based on information contained in our actuarial reports.

Respectfully submitted,

Sandor Goldstein, F.S.A.
Consulting Actuary

Carl J. Smedinghoff

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

INTRODUCTION

Annually, the System's actuarial consultants perform a valuation of the liabilities and reserves of the System in order to make a determination of the amount of contributions required from the state. These results are then certified to the Board.

The Board, in turn, has the duty of certifying an employer contribution amount, required to be paid to the System by the state during the succeeding fiscal year.

The employers' contribution amount, together with participants' contributions, income from investments and any other income received by the System, shall be sufficient to meet the cost of maintaining and administering the System on a funded basis in accordance with actuarial requirements, pursuant to Chapter 40, Section 5/18-131 of the Illinois Compiled Statutes.

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

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

- For fiscal years 2002 through 2010, the contribution to the System, as a percentage of the payroll, shall be increased in equal annual increments so that by fiscal year 2010 the contribution rate is at the same level as the contribution rate for fiscal years 2011 through 2045.

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

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

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

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

For fiscal years 2002 and 2001, the System received the actuarially determined employer contributions in accordance with the state's funding plan described above.

ACTUARIAL COST METHOD AND SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

The System utilizes the projected unit credit actuarial cost method. Under this method, the actuarial liability is the actuarial present value or that portion of a participant's projected benefit that is attributable to service to date on the basis of future compensation projected to retirement. The normal cost represents the actuarial present value of the participant's projected benefit that is attributable to service in the current year, again based on future compensation projected to retirement.

Actuarial gains and losses are recognized immediately in the unfunded actuarial liability of the System. However, for purposes of determining future employer contributions, the actuarial gains and losses are amortized in accordance with the funding plan established by Public Act 88-0593.

Actuarial Section

DESCRIPTION OF THE ACTUARIAL ASSUMPTIONS UTILIZED FOR FISCAL YEARS 2002 AND 2001

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

Mortality Rates: Active and retired members: The UP-1994 Mortality Table for Males, rated down 1 year. Spouses: For fiscal year 2002, the UP-1994 Mortality Table for Females, rated down two years. For fiscal year 2001, the UP-1994 Mortality Table for Females.

Salary Increase: For fiscal year 2002, a salary increase assumption of 5.5% per year (consisting of a general increase component of 4.5% per year, 4.0% of which is attributable to inflation, and a seniority/merit component of 1.0% per year), compounded annually, was used. For fiscal year 2001, a salary increase assumption of 6.0% per year (consisting of a general increase component of 5.0% per year, 4.0% of which is attributable to inflation, and a seniority/merit component of 1.0% per year), compounded annually, was used. In determining total covered payroll, the size of the active group is assumed to remain constant.

Interest Rate: An interest rate assumption of 8.0% per year (consisting of an inflation component of 4.0% per year and a real rate of return component of 4.0% per year), compounded annually, was used.

Marital Status: It was assumed that 75% of active participants will be married at the time of retirement.

Spouse's Age: The age of the spouse was assumed to be 4 years younger than the age of the participant.

SUMMARY OF AND CHANGES TO THE PLAN PROVISIONS

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

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

Age	Rate of Termination
30	.016
35	.014
40	.012
45	.010
50	.007
55	.005
60	.003
67 and over	.000

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

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

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

	Fiscal Year	
	2002	2001
Age	Rate of Retirement	Rate of Retirement
55	.080	.060
60	.220	.110
65	.110	.090
70	.110	.131
75	.200	.200
80 and over	1.000	1.000

The above retirement rates are equivalent to an average retirement age of approximately 65 for fiscal year 2002 and 67 for fiscal year 2001.

Actuarial Section

SHORT-TERM SOLVENCY TEST

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (primarily cash and investments) are compared with: 1) active and inactive participant contributions on deposit; 2) the liabilities for future benefits to present retired lives; and 3) the liabilities for service already rendered by active and inactive participants. In a system that has been following level percent of payroll financing, the liabilities for service already rendered by active and inactive participants (liability 3) should be partially covered by the remainder of present assets. If the system continues using level cost financing, the funded portion of liability 3 will increase over time, although it is very rare for a system to have its liability 3 fully funded.

COMPUTED ACTUARIAL VALUES

	Aggregate Accrued Liabilities For				Percentage of Accrued Liabilities Covered By Net Real Assets		
Fiscal Year	(1) Active and Inactive Participant Contributions	(2) Retirement and Survivor Annuitants	(3) Active and Inactive Participants (Employer Financed Portion)	Net Assets Available for Benefits*	(1)	(2)	(3)
1993	$ 69,139,981	$247,358,088	$ 142,328,365	$ 199,679,764	100.0%	52.8%	0.0%
1994	74,318,731	256,978,525	147,832,248	207,837,018	100.0	52.0	0.0
1995	79,012,691	279,270,677	165,402,263	214,104,027	100.0	48.4	0.0
1996	82,428,000	313,546,389	181,817,867	277,098,999	100.0	62.1	0.0
1997	87,394,372	380,997,371	236,068,313	314,561,229	100.0	59.6	0.0
1998	94,222,326	399,116,802	253,936,402	356,692,936	100.0	65.8	0.0
1999	100,902,055	422,297,709	282,387,477	389,761,923	100.0	68.4	0.0
2000	106,785,540	453,439,227	310,928,651	422,933,720	100.0	69.7	0.0
2001	110,566,634	510,326,061	316,198,818	381,733,581	100.0	53.1	0.0
2002	116,811,581	555,922,720	348,112,472	343,659,294	100.0	40.8	0.0

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

VALUATION RESULTS

	June 30, 2002	June 30, 2001
Actuarial Liability:		
For Active Participants:		
Basic retirement annuity	$ 292,395,702	$ 267,360,318
Annual increase in retirement annuity	92,337,761	81,525,083
Pre-retirement survivors' annuity	27,512,324	27,965,702
Post-retirement survivors' annuity	35,683,659	31,456,619
Withdrawal benefits	6,069,240	6,164,276
Disability benefits	2,265,778	2,350,915
Total	456,264,464	416,822,913
For Participants Receiving Benefits:		
Retirement annuities	448,870,693	417,422,091
Survivor annuities	107,052,027	92,903,970
Total	555,922,720	510,326,061
For Inactive Participants	8,659,589	9,942,539
Total Actuarial Liability	1,020,846,773	937,091,513
Net Assets, Fair Value	343,659,294	381,733,581
Unfunded Actuarial Liability	$ 677,187,479	$ 555,357,932

SUMMARY OF ACCRUED AND UNFUNDED ACCRUED LIABILITIES (Analysis of Funding)

Actuarial Section

In an inflationary economy, the value of the dollar decreases. This environment results in employees' pay and retirement benefits increasing in dollar amounts resulting in unfunded accrued liabilities which increase in dollar amounts, all at a time when the actual substance of these items may be decreasing. Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. The ratio of the unfunded accrued liabilities to active employee payroll provides an index which clarifies understanding. The smaller the ratio of unfunded liabilities to active participant payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker.

Fiscal Year	Total Actuarial Liability	Net Assets*	Net Assets as a % of Actuarial Liability	Total Unfunded Actuarial Liability	Annual Covered Payroll	Unfunded Actuarial Liability as a % of Annual Covered Payroll
1993	$ 458,826,434	$ 199,679,764	43.5%	$ 259,146,670	$ 69,610,000	372.3%
1994	479,129,504	207,837,018	43.4%	271,292,486	70,997,000	382.1%
1995	523,685,631	214,104,027	40.9%	309,581,604	75,314,000	411.1%
1996	577,792,256	277,098,999	48.0%	300,693,257	75,996,000	395.7%
1997	704,460,056	314,561,229	44.7%	389,898,827	87,171,000	447.3%
1998	747,275,530	356,692,936	47.7%	390,582,594	94,626,000	412.8%
1999	805,587,241	389,761,923	48.4%	415,825,318	99,200,000	419.2%
2000	871,153,418	422,933,720	48.5%	448,219,698	104,000,000	431.0%
2001	937,091,513	381,733,581	40.7%	555,357,932	109,900,000	505.3%
2002	1,020,846,773	343,659,294	33.7%	677,187,479	118,700,000	570.5%

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

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

Fiscal Year	Annuitants Beginning	Annuitants Additions	Annuitants Deletions	Annuitants Ending	Survivors Beginning	Survivors Additions	Survivors Deletions	Survivors Ending	Total
1993	371	39	16	394	268	12	7	273	667
1994	394	25	20	399	273	15	14	274	673
1995	399	41	25	415	274	16	17	273	688
1996	415	55	26	444	273	21	19	275	719
1997	444	46	30	460	275	18	7	286	746
1998	460	27	27	460	286	26	15	297	757
1999	460	35	24	471	297	23	19	301	772
2000	471	37	32	476	301	24	17	308	784
2001	476	62	32	506	308	25	17	316	822
2002	506	43	32	517	316	24	19	321	838

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date June 30	Active Members Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay
1993	848	$ 69,610,000	$ 82,087	.1%
1994	836	70,997,000	84,925	3.5%
1995	875	75,314,000	86,073	1.4%
1996	866	75,996,000	87,755	2.0%
1997	881	87,171,000	98,946	12.8%
1998	898	94,626,000	105,374	6.5%
1999	895	99,200,000	110,838	5.2%
2000	908	104,000,000	114,537	3.3%
2001	910	109,900,000	120,769	5.4%
2002	909	118,700,000	130,583	8.1%

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

	FY 2002	FY 2001
Unfunded actuarial liability at Beginning of FY	$555,357,932	$448,219,698
Employer contribution requirement of normal cost plus interest on the unfunded liability	69,702,792	60,116,922
Actual employer contribution for the year	27,532,000	24,348,926
Increase in unfunded liability due to employer contributions being less than normal cost plus interest on unfunded liability	42,170,792	35,767,996
Increase in unfunded liability due to investment return lower than assumed	54,489,350	61,790,163
(Decrease) in unfunded liability due to salary increases greater than assumed	(11,821,953)	(7,464,258)
Increase in unfunded liability due to changes in actuarial assumptions	28,381,924	–
Increase in unfunded liability due to other sources	8,609,434	17,044,333
Total Actuarial Losses	79,658,755	71,370,238
Net increase in unfunded liability for the year	121,829,547	107,138,234
Unfunded actuarial liability at End of FY	$677,187,479	$555,357,932

STATISTICAL SECTION

Statistical Section

ASSET BALANCES

Fiscal Year Ended June 30	Cash	Receivables	Investments*	Fixed Assets Net of Accumulated Depreciation	Total
1993	$ 3,449,194	$ 2,706,984	$ 193,615,328	$ 26,065	$ 199,797,571
1994	5,967,371	217,006	201,873,106	18,434	208,075,917
1995	5,514,304	178,587	208,585,962	14,298	214,293,151
1996	4,267,254	1,114,097	271,897,778	8,237	277,287,366
1997	6,616,999	163,694	307,923,426	14,018	314,718,137
1998	6,867,811	327,432	349,612,772	10,281	356,818,296
1999	7,279,856	291,173	382,235,852	8,784	389,815,665
2000	7,752,714	476,829	414,758,248	6,739	422,994,530
2001	8,529,516	613,324	372,637,630	4,306	381,784,776
2002	6,593,476	4,718,760	332,424,596	3,131	343,739,963

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

LIABILITIES AND RESERVE BALANCES

Fiscal Year Ended June 30	Total Liabilities	Reserve for Participant Contributions	Reserve for Future Operations*	Total Reserves	Total
1993	$ 117,807	$ 69,139,981	$ 130,539,783	$ 199,679,764	$ 199,797,571
1994	238,899	74,318,731	133,518,287	207,837,018	208,075,917
1995	189,124	79,012,691	135,091,336	214,104,027	214,293,151
1996	188,367	82,428,000	194,670,999	277,098,999	277,287,366
1997	156,908	87,394,372	227,166,857	314,561,229	314,718,137
1998	125,360	94,222,326	262,470,610	356,692,936	356,818,296
1999	53,742	100,902,055	288,859,868	389,761,923	389,815,665
2000	60,810	106,785,540	316,148,180	422,933,720	422,994,530
2001	51,195	110,566,634	271,166,947	381,733,581	381,784,776
2002	80,669	116,811,581	226,847,713	343,659,294	343,739,963

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

REVENUES BY SOURCE

Fiscal Year Ended June 30	Participant Contributions	Employer Contributions: State of Illinois	Employer Contributions: Other Sources	Employer Contributions: Total	Net Investment Revenue/(Loss)*	Total
1993	$ 9,377,428	$ 11,099,030	$ -	$ 11,099,030	$ 17,528,393	$ 38,004,851
1994	7,822,346	10,766,000	-	10,766,000	17,424,885	36,013,231
1995	8,942,657	10,806,000	345,577	11,151,577	16,000,529	36,094,763
1996	9,785,891	12,129,000	-	12,129,000	39,756,049	61,670,940
1997	10,497,121	13,747,000	36,328	13,783,328	49,818,838	74,099,287
1998	10,832,669	15,664,000	28,152	15,692,152	55,141,638	81,666,459
1999	11,270,131	18,688,816	-	18,688,816	44,613,324	74,572,271
2000	12,005,415	21,388,000	23,577	21,411,577	44,848,449	78,265,441
2001	12,291,097	24,218,000	130,926	24,348,926	(28,464,876)	8,175,147
2002	12,487,303	27,532,000	–	27,532,000	(24,493,880)	15,525,423

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

EXPENSES BY TYPE

Fiscal Year Ended June 30	Benefits	Refunds of Contributions	Administrative Expenses	Total
1993	$ 25,241,058	$ 408,113	$ 303,304	$ 25,952,475
1994	27,234,879	332,930	288,168	27,855,977
1995	29,177,626	347,711	302,417	29,827,754
1996	33,096,800	503,455	305,752	33,906,007
1997	36,071,563	249,081	316,413	36,637,057
1998	38,632,724	568,419	333,609	39,534,752
1999	40,851,598	296,143	355,543	41,503,284
2000	44,218,748	498,183	376,713	45,093,644
2001	48,330,822	633,610	410,854	49,375,286
2002	52,822,314	353,163	424,233	53,599,710

BENEFIT EXPENSES BY TYPE

Fiscal Year Ended June 30	Retirement Annuities	Survivors' Annuities	Total
1993	$ 19,613,167	$ 5,627,891	$ 25,241,058
1994	21,206,102	6,028,777	27,234,879
1995	22,701,599	6,476,027	29,177,626
1996	26,186,330	6,910,470	33,096,800
1997	28,369,249	7,702,314	36,071,563
1998	30,130,617	8,502,107	38,632,724
1999	31,553,425	9,298,173	40,851,598
2000	34,078,117	10,140,631	44,218,748
2001	37,509,685	10,821,137	48,330,822
2002	41,145,096	11,677,218	52,822,314

tatistical Section

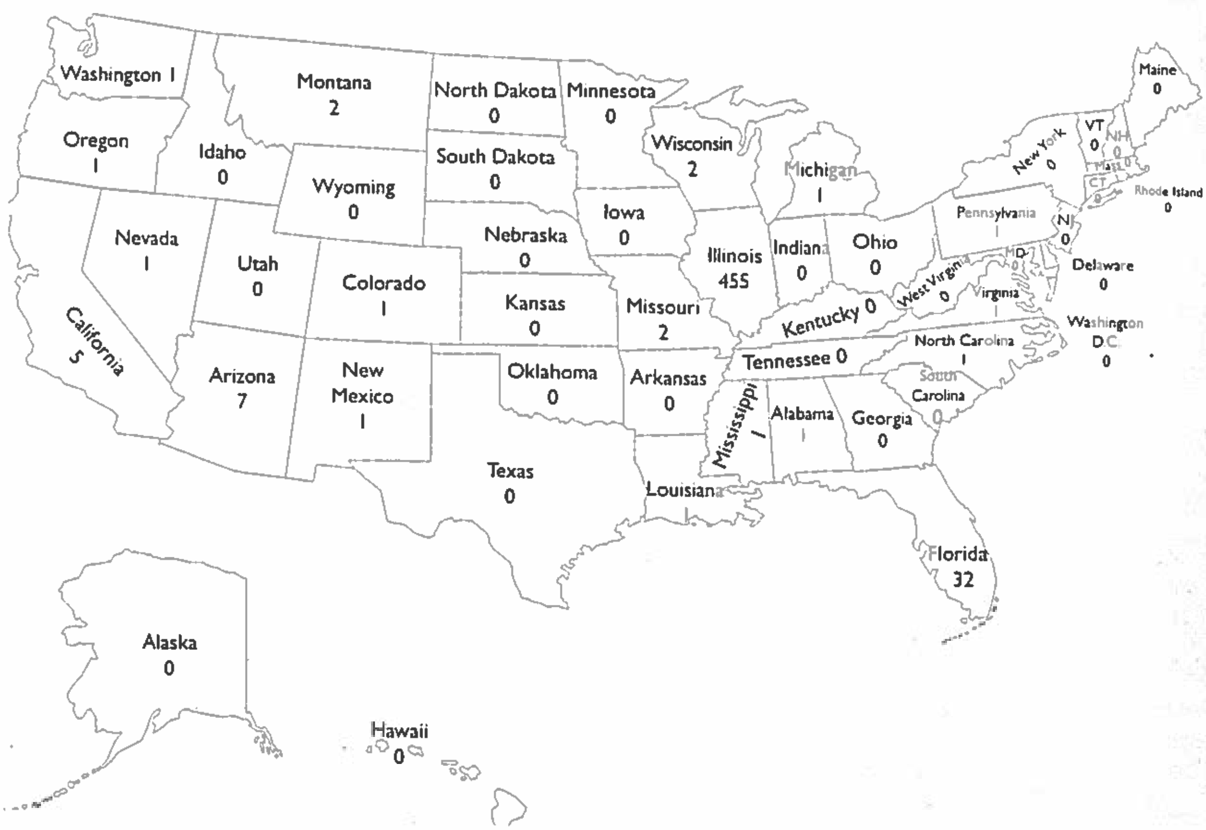
NUMBER OF RECURRING BENEFIT PAYMENTS

On June 30	Retirement Annuities	Survivors' Annuities	Total
1993	394	273	667
1994	399	274	673
1995	415	273	688
1996	444	275	719
1997	460	286	746
1998	460	297	757
1999	471	301	772
2000	476	308	784
2001	506	316	822
2002	517	321	838

NUMBER ON ACTIVE PAYROLLS

On June 30	Supreme Court Justices	Appellate Court Justices	Circuit Court Judges	Retired Judges Recalled	Admin. Office of Courts	Total
1993	7	36	803	20	–	866
1994	7	36	794	19	–	856
1995	7	41	825	15	1	889
1996	7	39	819	13	1	879
1997	7	41	832	13	–	893
1998	7	41	852	13	–	913
1999	7	40	855	8	–	910
2000	7	41	854	11	–	913
2001	7	42	857	8	–	914
2002	7	42	855	9	–	913

CTIVE ETIREES Y STATE



RETIREMENT ANNUITANTS STATISTICS AND AVERAGE MONTHLY BENEFITS

	At Retirement			
Fiscal Year Ended June 30	Average Age	Average Length of Service *	Average Current Age	Average Current Monthly Benefit
1993	64.9	16.9	73.0	$ 4,298
1994	64.8	16.9	73.4	4,468
1995	65.0	16.9	73.4	4,736
1996	65.0	17.2	73.4	5,004
1997	64.8	17.2	73.2	5,273
1998	64.8	17.5	73.5	5,537
1999	64.7	16.6	73.6	5,735
2000	64.5	17.4	73.4	6,043
2001	64.3	17.5	72.8	6,431
2002	64.0	17.5	72.6	6,723

* in years

NUMBER OF PARTICIPANTS

At June 30	Active	Inactive	Total
1993	848	42	890
1994	836	41	877
1995	875	37	912
1996	866	35	901
1997	881	59	940
1998	898	52	950
1999	895	56	951
2000	908	43	951
2001	910	39	949
2002	909	35	944

Statistical Section

TERMINATION REFUNDS

Fiscal Year Ended June 30	Number	Amount
1993	5	$ 238,566
1994	2	58,106
1995	4	119,964
1996	2	106,020
1997	3	55,033
1998	3	80,534
1999	2	15,953
2000	5	138,915
2001	4	124,913
2002	0	–

Annuitants by Benefit Range (Monthly) on June 30, 2002

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-500	3	3	0.6	0.6
501-1000	9	12	1.7	2.3
1001-1500	8	20	1.5	3.8
1501-2000	5	25	1.0	4.8
2001-2500	15	40	2.9	7.7
2501-3000	13	53	2.5	10.2
3001-3500	15	68	2.9	13.1
3501-4000	12	80	2.3	15.4
4001-4500	17	97	3.3	18.7
4501-5000	14	111	2.7	21.4
5001-5500	20	131	3.9	25.3
5501-6000	43	174	8.3	33.6
6001-6500	29	203	5.6	39.2
6501-7000	39	242	7.5	46.7
7001-7500	34	276	6.6	53.3
7501-8000	50	326	9.7	63.0
8001-8500	57	383	11.0	74.0
8501-9000	60	443	11.6	85.6
9001-9500	23	466	4.4	90.0
9501-10000	40	506	7.8	97.8
over 10000	11	517	2.2	100.0

Survivors by Benefit Range (Monthly) on June 30, 2002

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-500	27	27	8.4	8.4
501-1000	25	52	7.8	16.2
1001-1500	22	74	6.9	23.1
1501-2000	24	98	7.5	30.6
2001-2500	25	123	7.8	38.4
2501-3000	32	155	10.0	48.4
3001-3500	21	176	6.5	54.9
3501-4000	27	203	8.4	63.3
4001-4500	34	237	10.6	73.9
4501-5000	31	268	9.7	83.6
5001-5500	25	293	7.8	91.4
5501-6000	21	314	6.5	97.9
6001-6500	4	318	1.2	99.1
6501-7000	2	320	.6	99.7
7001-7500	1	321	.3	100.0

PLAN SUMMARY & LEGISLATIVE SECTION

SUMMARY OF RETIREMENT SYSTEM PLAN
(As of June 30, 2002)

1. PURPOSE

The purpose of the System is to establish an efficient method of permitting retirement, without hardship or prejudice, of judges who are aged or otherwise incapacitated, by enabling them to accumulate reserves for themselves and their dependents for old age, disability, death and termination of employment.

2. ADMINISTRATION

Responsibility for the operation of the System and the direction of its policies is vested in a Board of Trustees consisting of five members. The administration of the detailed affairs of the System is the responsibility of the Executive Secretary who is appointed by the Board of Trustees.

Administrative policies and procedures are designed to ensure an accurate accounting of funds of the System and prompt payment of claims for benefits within the applicable statute.

3. EMPLOYEE MEMBERSHIP

All persons elected or appointed as a judge or associate judge of a Court become members of the System unless they file an election not to participate within 30 days of the date they are notified of this option.

4. PARTICIPANT CONTRIBUTIONS

Participants are required to contribute a percentage of salary as their share of meeting the various benefits at the rates shown below:

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

A judge who elects not to participate in the survivors' annuity benefit is not required to make contributions for the survivors' annuity benefit in which case the total participant contribution rate is 8 1/2% of salary. Contributions for survivors' annuity are not required to qualify an eligible child for a child's annuity.

Participants who are eligible to receive the maximum rate of annuity may irrevocably elect to discontinue contributions and have their benefits "frozen" based upon the applicable salary in effect immediately prior to the effective date of such election.

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

5. RETIREMENT ANNUITY

A. Qualification of Participant

Upon termination of service, a judge is eligible for an unreduced retirement annuity at:

1. Age 60 with at least 10 years of credit
2. Age 62 with at least 6 years of credit
3. Age 55 with at least 26 years of credit

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

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

Plan Summary

B. Amount of Annuity

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

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

The maximum annuity is 85% of final salary on the last day of employment as a judge or for any judge terminating service after July 14, 1995, the highest salary received as a judge for at least 4 consecutive years, whichever is greater, after 20 years of service.

C. Annual Increases in Retirement Annuity

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

D. Suspension of Retirement Annuity

The retirement annuity to any judge shall be suspended:

1. When the annuitant is employed for compensation by the State of Illinois as a judge, or

2. When the annuitant is employed for compensation by the State of Illinois in a permanent position or, after 75 working days in any calendar year in which the annuitant is employed for compensation by the State of Illinois in a temporary position other than a judge.

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

6. SURVIVORS' ANNUITY

A. Qualification of Survivor

If death occurs while in service as a judge, the judge must have established 1 1/2 years of credit. If death occurs after termination of service and prior to receipt of retirement annuity, the participant must have established at least 10 years of credit.

An eligible spouse, who has been married to the participant or annuitant for a continuous period of at least one year immediately preceding the date of death, qualifies at age 50, or at any age if there is in the care of the spouse any unmarried children of the member under age 18, over age 18 if mentally or physically disabled, or under age 22 and a full-time student. Eligible surviving children would be entitled to benefits even though the participant did not contribute for the survivors' annuity benefit.

B. Amount of Payment

If the participant's death occurs while in service, and assuming all payments have been made for full survivors' annuity credit, the surviving spouse would be eligible to 7 1/2% of salary or 66 2/3% of earned retirement annuity, whichever is greater. Eligible children of the participant would receive 5% of salary for each child with a maximum for all children of 20% of salary or 66 2/3% of earned retirement annuity, whichever is greater, regardless of whether full credit had been established for the survivors' annuity benefit.

If the participant's death occurs after termination of service or retirement, and assuming all payments have been made for full survivors' annuity credit, the surviving spouse would be eligible to 66 2/3% of earned retirement annuity. Eligible children would receive a survivors' annuity equal to the benefit of surviving children of a participant in service.