

REPORT DIGEST

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

COMPLIANCE AUDIT

For the Year Ended:
June 30, 2003

Summary of Findings:

Total this audit	0
Total prior audit	0
Repeated from last audit	0

Release Date:

March 11, 2004



State of Illinois
Office of the Auditor General

WILLIAM G. HOLLAND
AUDITOR GENERAL

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INTRODUCTION

This digest covers our compliance audit of the Judges' Retirement System (System) for the year ended June 30, 2003. A financial audit covering the year ending June 30, 2003 is being issued separately.

It should be noted that, pursuant to the Illinois Pension Code, investments of the System are managed by the Illinois State Board of Investment.

There were no material findings of noncompliance disclosed during our audit tests. We commend the System for maintaining effective internal controls.

SUBSEQUENT EVENT

On April 7, 2003, Governor Rod Blagojevich signed House Bill 2660 into law as Public Act 93-0002. This new law authorized the State of Illinois to issue \$10 billion of General Obligation Bonds for the purpose of making contributions to designated retirement systems, which included the Judges Retirement System.

On July 1, 2003, the System received an allocation of \$141,955,483 from the pension bond proceeds. The System deposited the allocation into its master trust account with the Illinois State Board of Investments, on July 2, 2003.

A handwritten signature in black ink, appearing to read "William G. Holland", written over a horizontal line.

WILLIAM G. HOLLAND, Auditor General

WGH:RPU:pp

SPECIAL ASSISTANT AUDITORS

McGladrey & Pullen LLP were our special assistant auditors for this audit.

(Financial Information and Activity Measures are summarized on the reverse page.)

JUDGES' RETIREMENT SYSTEM OF ILLINOIS
INFORMATION FROM FINANCIAL AND COMPLIANCE AUDITS
TWO YEARS ENDED JUNE 30, 2003

OPERATING STATEMENT ANALYSIS	FY 2003	FY 2002
REVENUES: Contributions – Participants	\$ 12,904,997	\$ 12,487,303
Contributions – appropriations & other	<u>31,440,103</u>	<u>27,532,000</u>
Total Contributions	\$ 44,345,100	\$ 40,019,303
Net investment income	7,045,748	8,432,347
Net (depreciation) in fair value of investments	(7,429,253)	(33,145,381)
Interest earned on cash balances	<u>157,388</u>	<u>219,154</u>
Total Revenue	\$ 44,118,983	\$ 15,525,423
EXPENSES: Benefits - Retirement annuities	\$ 44,507,057	\$ 41,145,096
Benefits - Survivors' annuities	<u>12,207,505</u>	<u>11,677,218</u>
Total Benefits	\$ 56,714,562	\$ 52,822,314
Refunds	582,469	353,163
Administration	<u>427,686</u>	<u>424,233</u>
Total Expenses	\$ 57,724,717	\$ 53,599,710
Deficiency of revenues over expenses	<u>\$(13,605,734)</u>	<u>\$(38,074,287)</u>
ANALYSIS OF PLAN INVESTMENTS	FY 2003	FY 2002
Balance at beginning of year, at fair value	\$332,424,596	\$ 372,637,630
Net cash (withdrawn) from investments	<u>(14,500,000)</u>	<u>(15,500,000)</u>
Net investments (1)	<u>\$317,924,596</u>	<u>\$ 357,137,630</u>
Investment income – interest, dividends and other	7,732,632	9,226,184
Investment expenses	<u>(686,884)</u>	<u>(793,837)</u>
Net Investment income (2)	\$ 7,045,748	\$ 8,432,347
Net realized gain (loss) on sale of investments	(25,283,941)	(8,981,058)
Net unrealized (loss) on investments	<u>17,854,688</u>	<u>(24,164,323)</u>
Net appreciation in fair value of investments (3)	\$ (7,429,253)	\$ (33,145,381)
Total net investment income (loss) (4), (2) + (3)	\$ (383,505)	\$ (24,713,034)
Balance at end of year, at fair value (1) + (4)	<u>\$317,541,091</u>	<u>\$ 332,424,596</u>
SELECTED ACCOUNT BALANCES	JUNE 30, 2003	JUNE 30, 2002
Cash	\$ 7,324,152	\$ 6,593,476
Receivables	5,362,571	4,718,760
Investments, at fair value	317,541,091	332,424,596
Property and equipment, net of accumulated depreciation	2,306	3,131
Liabilities	<u>(176,560)</u>	<u>(80,669)</u>
Net Assets Held in Trust for Benefits	\$330,053,560	\$ 342,659,294
Actuarial Accrued Liability	<u>\$(1,076,231,965)</u>	<u>\$(1,020,846,773)</u>
Unfunded Liability	<u>\$ (746,178,405)</u>	<u>\$ (677,187,479)</u>
SUPPLEMENTARY INFORMATION	FY 2003	FY 2002
Number of System employees	7	8
Retirees and beneficiaries currently receiving benefits (unaudited)	864	838
Total members (unaudited)	962	944
Total active members (unaudited)	920	909
Total return on investments (unaudited)3%	(6.9)%
EXECUTIVE SECRETARY		
During Audit Period: Michael L. Mory until December 31, 2002; Robert V. Knox effective January 1, 2003		
Currently: Robert V. Knox		

State of Illinois
Judges' Retirement System of Illinois

Compliance Audit
Year Ended June 30, 2003
Performed as Special Assistant Auditors
for the Auditor General, State of Illinois

Judges' Retirement System of Illinois

Compliance Audit

Year Ended June 30, 2003

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Judges' Retirement System of Illinois

Compliance Audit

Year Ended June 30, 2003

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Judges' Retirement System of Illinois

Compliance Audit

Year Ended June 30, 2003

System Officials

Executive Secretary	Michael L. Mory (until December 31, 2002) Robert V. Knox (effective January 1, 2003)
Associate Executive Secretary	Robert V. Knox (until December 31, 2002)
Division Manager	Rudy J. Kink
Accounting Division Supervisor	David M. Richter
Legal Counsel	Attorney General's Office

System offices are located at:

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

State of Illinois Building
160 North LaSalle Street
Suite N725
Chicago, Illinois 60601

Judges' Retirement System of Illinois

Compliance Audit

Year Ended June 30, 2003

Summary

The compliance audit testing performed in this audit was conducted in accordance with Government Auditing Standards and in accordance with the Illinois State Auditing Act.

Auditor's Reports

The auditor's reports on compliance and on internal control do not contain scope limitations, disclaimers or other significant nonstandard language.

Summary of Audit Findings

There were no audit findings for the year ended June 30, 2003.

Exit Conference

System management reviewed the entire report and waived a formal exit conference.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Special Report on State Compliance Testing as Measured by State Audit Guide Criteria

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have performed special State compliance testing in accordance with the "Audit Guide for Performing Compliance Audits of Illinois State Agencies" (Audit Guide) issued by the Office of the Auditor General of the operations of the Judges' Retirement System of Illinois (System) as of and for the year ended June 30, 2003.

We conducted our special State compliance testing in accordance with the Illinois State Auditing Act (Act); in accordance with the applicable auditing standards which are set forth in the Audit Guide as adopted by the Auditor General pursuant to the Act; and, insofar as such standards are applicable to this special testing, in accordance with Government Auditing Standards issued by the Comptroller General of the United States.

Our examination included such tests of the accounting records and such other procedures as we considered necessary in the circumstances. Our program of tests and other auditing procedures has been separately furnished to you. The procedures for special State compliance testing as required by the Audit Guide were designed to determine with reasonable, but not absolute, assurance:

- A. Whether the audited System has obligated, expended, received and used public funds of the State in accordance with the purpose for which such funds have been appropriated or otherwise authorized by law.
- B. Whether the audited System has obligated, expended, received and used public funds of the State in accordance with any limitations, restrictions, conditions or mandatory directions imposed by law upon such obligation, expenditure, receipt or use.
- C. Whether the audited System has generally complied with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. Whether the audited System is maintaining effective accounting control over revenues, obligations, expenditures, assets and liabilities.

- E. Whether collections of State revenues and receipts by the audited System are in accordance with applicable laws and regulations and whether the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- F. Whether money or negotiable securities or similar assets handled by the audited System on behalf of the State or held in trust by the audited System have been properly and legally administered and whether the accounting and recordkeeping relating thereto is proper, accurate, and in accordance with law.
- G. Whether tests of System fiscal operations reveal no evidence of fraud or dishonesty.
- H. Whether the records, books and accounts of the audited System adequately record its financial and fiscal operations and provide a basis for review of accountability by external auditors.
- I. Whether key financial, statistical, and program data produced by the audited System provide useful information for review of accountability regarding service efforts and accomplishments.

The concept of obtaining reasonable, but not absolute, assurance recognizes that the cost of the audit should not exceed the benefits derived and that judgments need to be made regarding the nature and extent of audit procedures. Special State compliance testing of this type is based upon test samples and would not necessarily disclose all situations of noncompliance which might exist.

There were no findings of noncompliance disclosed by our special State compliance audit tests which are required to be reported in accordance with the Audit Guide.

There were no immaterial findings developed in this special State compliance testing which have been excluded from this report.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor and System management, and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
November 26, 2003

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Special Report on Internal Controls for State Purposes as Measured by State Audit Guide Criteria

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have performed special State compliance testing of the operations of the Judges' Retirement System of Illinois (System) as of and for the year ended June 30, 2003, and we have issued our special report thereon dated November 26, 2003. We have also made a study of the internal controls of the System that we considered relevant to the criteria established by the Office of the Auditor General in Chapter 7 of the "Audit Guide for Performing Compliance Audits of Illinois State Agencies" (Audit Guide). Our study included tests of compliance with such internal controls during the period from July 1, 2002 through June 30, 2003. These tests were performed as a portion of our testing of that System for State compliance purposes. This special report concerns only our State compliance testing.

We conducted our special State compliance testing in accordance with the Audit Guide; applicable auditing standards generally accepted in the United States of America; and applicable Government Auditing Standards issued by the Comptroller General of the United States.

In planning and performing our special State compliance testing, we considered the internal controls in order to determine our auditing procedures for the purpose of reporting on our special State compliance testing and to satisfy the requirements of the Audit Guide, but not to provide an opinion on the internal controls. Accordingly, we do not express such an opinion.

The management of the System is responsible for establishing, maintaining, and monitoring internal controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal controls. Because of inherent limitations in any internal controls, errors or fraud may nevertheless occur and not be detected. Also, projection of any evaluation of internal controls to future periods is subject to the risk that internal controls may become inadequate because of changes in conditions or that the effectiveness of the design and operation of control activities may deteriorate.

For the purpose of this special report, we have classified the significant internal control activities in the following categories:

- System Organization and Management
- Administrative Support Services
- Budgeting, Accounting and Reporting
- Purchasing, Contracting and Leasing
- Expenditure Control
- Personnel and Payroll
- Property, Equipment and Inventories
- Revenues and Receivables
- Claims Processing
- Electronic Data Processing

For all of the internal control categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal controls would not necessarily disclose all matters in the internal control that might be reportable. Reportable matters for State compliance audit purposes involve items coming to our attention relating to significant deficiencies in the design or operation of the internal controls. We understand that internal controls in conformity with the criteria established by your Audit Guide are considered by the Office of the Auditor General to be adequate for State compliance audit purposes in accordance with the Illinois State Auditing Act and related regulations, and that policies or procedures not in conformity with those criteria indicate some inadequacy for such purposes which should be reported.

We noted no matters involving the internal controls that we consider to be significant pursuant to the criteria established by your Audit Guide.

There were no immaterial findings developed relating to the internal controls which have been excluded from this report.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and System management and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
November 26, 2003

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the statements of plan net assets and statements of changes in plan net assets (financial statements) of the Judges' Retirement System of Illinois (System), as of and for the year ended June 30, 2003, and have issued our report thereon dated November 26, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor and System management and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
November 26, 2003

Illinois Retirement System of Illinois

Compliance Audit

Period Ended June 30, 2003

Financial Related Information

Summary

Financial related information presented in this section of the audit includes the following:

Financial Related Schedules:

- Schedule of Appropriations, Expenditures and Lapsed Balances
- Comparative Schedules of Net Appropriations, Expenditures and Lapsed Balances
- Comparative Schedules of Revenue and Expenses
- Comparative Schedules of Administrative Expenses
- Schedule of Changes in Office Equipment
- Reconciliation of Revenue to Cash Receipts and to Deposits Remitted to the State Comptroller
- Schedules of Funding Progress and Employer Contributions
- Explanation of Significant Variations in Revenues
- Explanation of Significant Variations in Expenses
- Analysis of Significant Statement of Plan Net Assets Accounts
- Analysis of Investment Performance (Unaudited)

Analysis of Operations:

- System's Functions and Planning Program
- Progress in Funding the System
- System Employees
- Comparison of Administrative Expenses to Total Expenses
- Emergency Purchases
- Illinois First Projects
- Service Efforts and Accomplishments (Unaudited)
- Subsequent Event

The auditor's report on the supplementary information presented in this section states that it has been subjected to the auditing procedures applied in the audit of the financial statements and, in the auditor's opinion, except for that portion marked "unaudited" on which they express no opinion, it is fairly stated in all material respects in relation to the financial statements taken as a whole.

McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report on Supplementary Information for State Compliance Audit Purposes

Honorable William G. Holland
Auditor General
State of Illinois

We have audited and issued under separate cover the financial statements of the Judges' Retirement System of Illinois (System), as of and for the years ended June 30, 2003 and 2002, and our report thereon dated November 26, 2003, is as follows:

As Special Assistant Auditors for the Auditor General, we have audited the accompanying statements of plan net assets of the Judges' Retirement System of Illinois (the System) as of June 30, 2003 and 2002, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Judges' Retirement System of Illinois as of June 30, 2003 and 2002, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and schedules of funding progress and employer contributions 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.

In accordance with Government Auditing Standards, we have also issued our report dated November 26, 2003, 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the System for the years ended June 30, 2003 and 2002. The supplementary financial information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplementary financial information 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.

Our audits were made for the purpose of forming an opinion on the basic financial statements of the System for the years ended June 30, 2003 and 2002, taken as a whole. The accompanying supplementary information for the years ended June 30, 2003 and 2002, listed in the Table of Contents as Financial Related Information, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the System. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The supplementary information (Financial Related Information) for the years 1998 through 2001 has been derived from financial statements audited by other auditors whose report thereon expressed an unqualified opinion.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and System management, and is not intended to be and should not be used by anyone other than these specified parties.

McGladrey & Pullen, LLP

Schaumburg, Illinois
November 26, 2003

Judges' Retirement System of Illinois

Compliance Audit

Schedule of Appropriations, Expenditures and Lapsed Balances
Fourteen Months Ended August 31, 2003

Appropriated Funds	Appropriations (Net After Transfers)	Expenditures Through June 30, 2003	Lapse Period Expenditures July 1, 2003 Through August 31, 2003	Total Expenditures	Balances Lapsed
Appropriated Funds					
General Revenue Fund					
State's contribution to the System, regular (Public Act 92-0538)	\$ 29,148,000	\$ 29,148,000	\$ -	\$ 29,148,000	\$ -
State Pension Fund					
Annual allocation to the System, pursuant to Section 8.12 of the State Finance Act (Public Act 92-0538)	2,225,000	2,225,000	-	2,225,000	-
Total all appropriated funds	<u>\$ 31,373,000</u>	<u>31,373,000</u>	<u>-</u>	<u>31,373,000</u>	<u>\$ -</u>
Nonappropriated Funds					
Benefits and other nonadministrative expenditures					
Pensions and annuities	\$ -	56,813,134	-	56,813,134	\$ -
Nonrecurring refunds and distributions	-	479,706	-	479,706	-
Refunds, prior calendar year contributions	-	6,248	-	6,248	-
Refunds, not classified elsewhere	-	1,115,916	-	1,115,916	-
	-	<u>58,415,004</u>	-	<u>58,415,004</u>	-
Administrative expenditures					
Personal services	-	390,287	17,143	407,430	-
Employee retirement pickup	-	15,087	632	15,719	-
Retirement contributions	-	40,355	1,773	42,128	-
Social Security contributions	-	26,887	1,202	28,089	-
Group insurance	-	47,143	1,971	49,114	-
Contractual services	-	69,450	24,452	93,902	-
Travel	-	10,235	549	10,784	-
Commodities	-	1,074	-	1,074	-
Printing	-	3,185	-	3,185	-
Electronic data processing	-	15,218	3,322	18,540	-
Telecommunications	-	4,101	32	4,133	-
	-	<u>623,022</u>	<u>51,076</u>	<u>674,098</u>	-
Total nonappropriated funds	<u>\$ -</u>	<u>59,038,026</u>	<u>51,076</u>	<u>59,089,102</u>	<u>\$ -</u>
Grand total, all Funds		<u>\$ 90,411,026</u>	<u>\$ 51,076</u>	<u>\$ 90,462,102</u>	

The above data was taken from System records which have been reconciled to those of the State Comptroller.

Judges' Retirement System of Illinois

Compliance Audit

Comparative Schedules of Net Appropriations, Expenditures
and Lapsed Balances

Years Ended June 30, 2003, 2002 and 2001

	Fiscal Year		
	2003 P.A. 92-0538	2002 P.A. 92-0008	2001 P.A. 91-0706
General Revenue Fund			
Appropriations (net after transfers)	\$ 29,148,000	\$ 25,232,000	\$ 22,048,000
Expenditures, State contributions	29,148,000	25,232,000	22,048,000
Lapsed balances	\$ -	\$ -	\$ -
State Pension Fund			
Appropriations (net after transfers)	\$ 2,225,000	\$ 2,300,000	\$ 2,170,000
Expenditures, annual allocations	2,225,000	2,300,000	2,170,000
Lapsed balances	\$ -	\$ -	\$ -
Grand total, all Funds			
Appropriations (net after transfers)	\$ 31,373,000	\$ 27,532,000	\$ 24,218,000
Total expenditures	31,373,000	27,532,000	24,218,000
Lapsed balances	\$ -	\$ -	\$ -

Judges' Retirement System of Illinois

Compliance Audit

Comparative Schedules of Revenue and Expenses
Years Ended June 30, 2003 and 2002

	2003	2002
Revenue		
Contributions		
Participants	\$ 12,904,997	\$ 12,487,303
Employer	31,440,103	27,532,000
Total contributions	<u>44,345,100</u>	<u>40,019,303</u>
Investments		
Net investment income	7,045,748	8,432,347
Interest earned on cash balances	157,388	219,154
Net (depreciation) in fair value of investments	(7,429,253)	(33,145,381)
Total net investment (loss)	<u>(226,117)</u>	<u>(24,493,880)</u>
Total revenue	<u>44,118,983</u>	<u>15,525,423</u>
Expenses		
Benefits		
Retirement annuities	44,507,057	41,145,096
Survivors' annuities	12,207,505	11,677,218
Total benefits	<u>56,714,562</u>	<u>52,822,314</u>
Refunds of contributions	582,469	353,163
Administrative expenses	427,686	424,233
Total expenses	<u>57,724,717</u>	<u>53,599,710</u>
Deficiency of revenue over expenses	<u>\$ (13,605,734)</u>	<u>\$ (38,074,287)</u>

Judges' Retirement System of Illinois

Compliance Audit

Comparative Schedules of Administrative Expenses
Years Ended June 30, 2003 and 2002

	2003	2002
Personal services	\$ 244,458	\$ 234,352
Employee retirement contributions paid by employer	9,431	9,385
Employer retirement contributions	25,277	23,557
Social Security contributions	16,854	15,906
Group insurance	29,469	30,254
Contractual services	76,070	79,366
Travel	8,965	10,310
Commodities	645	427
Printing	3,097	3,032
Electronic data processing	10,350	7,941
Telecommunications	2,480	2,438
Depreciation	1,347	2,704
Change in accrued compensated absences	(1,007)	4,561
Other	250	-
Total	<u>\$ 427,686</u>	<u>\$ 424,233</u>

Judges' Retirement System of Illinois

Compliance Audit

Schedule of Changes in Office Equipment
Year Ended June 30, 2003

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

This schedule has been reconciled to property reports submitted to the Office of the Comptroller.

Judges' Retirement System of Illinois

Compliance Audit

Reconciliation of Revenue to Cash Receipts and to Deposits
Remitted to the State Comptroller
Years Ended June 30, 2003 and 2002

	2003	2002
Total revenue for the year	\$ 44,118,983	\$ 15,525,423
Add (deduct)		
Net investment income (loss) reinvested in the Illinois State Board of Investment (ISBI) Commingled Fund	(7,045,748)	(8,432,347)
Net depreciation in fair value of investments reinvested in the ISBI Commingled Fund	7,429,253	33,145,381
Administrative expenses allocated to and reimbursable from the General Assembly Retirement System, State of Illinois	246,080	237,029
Receivables (net of refundable annuities)		
Beginning of year	4,707,189	603,072
End of year	(5,349,173)	(4,707,189)
Cash transfers from the ISBI	14,500,000	15,500,000
Participant's current year deferred service credit payments, unearned at year end		
Beginning of year	(6,000)	(3,000)
End of year	9,000	6,000
Cancellation of annuities	94,697	79,767
Cancellation of refunds	2,048	20,895
Current year miscellaneous income netted against administrative expenses	150	325
Current year contributions due from participants netted against refunds payable to those participants	(16,303)	-
Current year tax deferred installment payment refunds	-	1,014
Total cash receipts per books	<u>58,690,176</u>	<u>51,976,370</u>
Add (deduct)		
Deposits in transit:		
Beginning of year	540	-
End of year	-	(540)
Interest on cash balances	(165,209)	(234,022)
Cancellation of annuities	(94,697)	(79,767)
Cancellation of refunds	(2,048)	(20,895)
State Pension Fund allocation receipted in error and subsequently refunded to the State Pension Fund (Fund #0054)	<u>1,111,824</u>	<u>-</u>
Deposits remitted to the State Comptroller for order into the State Treasury	<u>\$ 59,540,586</u>	<u>\$ 51,641,146</u>

Judges' Retirement System of Illinois

Compliance Audit

Schedules of Funding Progress and Employer Contributions

Schedules of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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
06/30/1998	\$ 356,692,936	\$ 747,275,530	\$ 390,582,594	47.7%	\$ 94,626,000	412.8%
06/30/1999	389,761,923	805,587,241	415,825,318	48.4	99,200,000	419.2
06/30/2000	422,933,720	871,153,418	448,219,698	48.5	104,000,000	431.0
06/30/2001	381,733,581	937,091,513	555,357,932	40.7	109,900,000	505.3
06/30/2002	343,659,294	1,020,846,773	677,187,479	33.7	118,700,000	570.5
06/30/2003	330,053,560	1,076,231,965	746,178,405	30.7	123,900,000	602.2

Schedules of Employer Contributions

Year Ended June 30	Annual Required Contribution per GASB Statement No. 25	Percentage Contributed	Annual Required Payroll Contribution per State Statute	Percentage Contributed
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
2003	53,470,841	58.7	31,373,000	100.0

Notes to Required Supplementary Information

Valuation date	June 30, 2003
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	42 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
Postretirement increase	3.0 percent per year, compounded annually

Judges' Retirement System of Illinois

Compliance Audit

Year Ended June 30, 2003

Explanation of Significant Variations in Revenues

Comments on Significant Variations Between Certain Revenue Accounts

	2003	2002	Increase/ (Decrease)	
Contributions from participants	\$ 12,904,997	\$ 12,487,303	\$ 417,694	(1)
Contributions from employer	31,440,103	27,532,000	3,908,103	(2)
Net investment income and interest earned on cash balances	7,203,136	8,651,501	(1,448,365)	(3)
Net (depreciation) in fair of investments	(7,429,253)	(33,145,381)	25,716,128	(3)

- (1) This increase is primarily due to an increase in the amount of optional service purchases during the year ended June 30, 2003.
- (2) The increase is mainly due to an increase in the actuarially determined employer contributions that are required to be paid to the System by the State each fiscal year. The required contributions are computed in accordance with the State's funding legislation (P.A. 88-0593) which became effective July 1, 1995.
- (3) Investments are managed by the Illinois State Board of Investment (ISBI) pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statutes and were maintained in the ISBI Commingled Fund during the year ended June 30, 2003.

These variations are due to the net change in overall market performance, especially in the equity market. Overall, the ISBI's rate of return increased to 0.3 percent during the fiscal year ended June 30, 2003, from a negative 6.9 percent during the fiscal year ended June 30, 2002.

Judges' Retirement System of Illinois

Compliance Audit

Year Ended June 30, 2003

Explanation of Significant Variations in Expenses

Comments on Significant Variations Between Certain Expense Accounts

	2003	2002	Increase/ (Decrease)	
Retirement annuities	\$ 44,507,057	\$ 41,145,096	\$ 3,361,961	(1)
Survivors' annuities	12,207,505	11,677,218	530,287	(2)
Refunds of contributions	582,469	353,163	229,306	(3)

- (1) The increase is due to a net increase in the number of annuitants during the year ended June 30, 2003, as well as new annuitants receiving higher monthly benefits than the annuitants removed during the year. There is also a 3 percent automatic annuity increase each year to offset the effects of inflation.
- (2) The increase is due to a net increase in the number of survivor annuity recipients during the year ended June 30, 2003, as well as new survivor annuity recipients receiving higher monthly benefits than the survivor annuitants removed during the year. There is also a 3 percent automatic annuity increase each year to offset the effects of inflation.
- (3) The increase is primarily due to an increase in the number and amount of termination and survivor's annuity contribution refunds paid during the year ended June 30, 2003.

Judges' Retirement System of Illinois

Compliance Audit

Year Ended June 30, 2003

Analysis of Significant Statement of Plan Net Assets Accounts

	<u>2003</u>	<u>2002</u>
Cash Balances		
Cash in State Treasury	<u>\$ 7,324,152</u>	<u>\$ 6,593,476</u>

The increase in cash balances from the prior year is mainly due to timing differences in the receipts, expenditures, and transfer of funds from the Illinois State Board of Investment (ISBI).

	<u>2003</u>	<u>2002</u>
Receivables		
Employer contributions	\$ 4,858,000	\$ 4,205,334
Participants' contributions	415,822	421,721
Refundable annuities	13,398	9,523
Interest on cash balances	6,757	14,578
Due from General Assembly Retirement System, State of Illinois	68,594	67,604
Total receivables	<u>\$ 5,362,571</u>	<u>\$ 4,718,760</u>

The increase in employer contributions receivable was due to the timing of monthly state contributions received during the year. Two months of state contributions were not received until after June 30, 2003. No receivables were deemed uncollectible at June 30, 2003.

Investments

General information:

Pursuant to Article 22A of the Illinois Pension Code, investments of the Judges' Retirement System of Illinois are managed by the ISBI and are held in the ISBI Commingled Fund. Units of the ISBI Commingled Fund are issued to the member systems on the last day of the month based on the unit net asset value calculated as of that date. Net investment income of the ISBI Commingled Fund is allocated to each of the member systems on the last day of the month on the basis of percentage of accumulated units owned by the respective systems.

Investment portfolio management and performance are the direct responsibility of the ISBI which establishes investment policy and strategy.

Judges' Retirement System of Illinois

Compliance Audit

Year Ended June 30, 2003

Analysis of Significant Statement of Plan Net Assets Accounts (continued)

Investments (continued)

Comparison of the changes in the System's investments held in the ISBI Commingled Fund for the years ended June 30, 2003 and 2002, is summarized as follows:

	<u>2003</u>	<u>2002</u>
Balance at beginning of year, at fair value	\$ 332,424,596	\$ 372,637,630
Net cash (withdrawn) from investments	<u>(14,500,000)</u>	<u>(15,500,000)</u>
	317,924,596	357,137,630
Investment income		
Commingled Fund Income	7,732,632	9,226,184
Expenses	<u>(686,884)</u>	<u>(793,837)</u>
Net investment income	<u>7,045,748</u>	<u>8,432,347</u>
Net (depreciation) in fair value of investments		
Net unrealized gain (loss) on investments	17,854,688	(24,164,323)
Net realized (loss) on sale of investments	<u>(25,283,941)</u>	<u>(8,981,058)</u>
	<u>(7,429,253)</u>	<u>(33,145,381)</u>
Total net investment (loss)	<u>(383,505)</u>	<u>(24,713,034)</u>
Balance at end of year, at fair value	<u>\$ 317,541,091</u>	<u>\$ 332,424,596</u>

Judges' Retirement System of Illinois

Compliance Audit

Year Ended June 30, 2003

Analysis of Investment Performance (Unaudited)

An analysis of investment performance for the years ended June 30, 2003 and 2002, is summarized as follows:

	2003	2002
Total return *	0.3%	(6.9)%
Average net income yield **	2.3	2.4

* 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.

Judges' Retirement System of Illinois

Compliance Audit

Year Ended June 30, 2003

System's Functions and Planning Program

The Judges' Retirement System of Illinois was created effective July 1, 1941, to establish a 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.

The System is governed by Chapter 40, Act 5, Article 18, of the "Illinois Compiled Statutes" and it is administered by a Board of Trustees consisting of five persons, as follows: the State Treasurer, the Chief of the Supreme Court, ex officio and three participating judges appointed by the Supreme Court.

Justice Thomas E. Hoffman is Chairman of the Board of Trustees and Mr. Robert V. Knox is the Executive Secretary of the System. The Executive Secretary is appointed by the Board and is charged with the administration of the detailed affairs of the System.

The System is also responsible for the general administration of the State Employees Group Insurance Program as it applies to eligible annuitants. This includes enrollment, processing life insurance claims and other administrative details related to that program.

Currently, the System utilizes a formal planning program which includes, among other things, operational project planning as well as administrative expense budgeting.

During fiscal year 2003, the System evaluated and expended the services available to members through the System's Internet site. In addition, the State Retirement System's EDP Division commenced work on a needs assessment review to identify future computer hardware and information system needs.

During fiscal year 2004, the System will continue to evaluate and expand the services available to members through the System's Internet site, as well as continue to offer pre-retirement, post-retirement and one-on-one counseling sessions at various locations throughout the State. The State Retirement System's EDP Division will continue to study and evaluate future computer hardware and information system needs.

The information above constitutes System representations and no attempt has been made to evaluate the technical details of the planning or the System's progress toward implementation. Overall, it appears that the System's management and planning procedures are sufficient with regard to the System's needs and statutory requirements.

Judges' Retirement System of Illinois

Compliance Audit

Year Ended June 30, 2003

Progress in Funding the System

The actuarial accrued liability of the System as of June 30, 2003, amounted to approximately \$1,076 million. The actuarial value of assets (at fair value) as of June 30, 2003 amounted to approximately \$330 million, leaving an unfunded actuarial accrued liability of approximately \$746 million. The annual required payroll contribution as computed by the System's actuary for fiscal year 2004 is \$36.5 million. The annual required contribution as computed by the System's actuary for fiscal year 2005 is \$32 million.

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

Public Act 93-0002 became law on April 7, 2003, and authorized the State to issue \$10 billion in general obligation bonds for the purpose of making contributions to the retirement systems. On June 12, 2003, the State issued \$10 billion in General Obligation Bonds, Pension Funding Series of June 2003.

Commencing with fiscal year 2005, the maximum State contribution under Public Act 93-0002 equals the State contribution that would have been required if the general obligation bond contribution had not been made, reduced – but not below zero – by the State's debt service on each system's respective portion of the full \$10 billion of General Obligation Bonds, Pension Funding Series of June 2003.

System Employees

The average number of employees during the years ended June 30, 2003 and 2002 are functionally classified as follows:

	2003	2002
Executive and administrative	3	4
Accounting, bookkeeping and clerical	4	4
	<u>7</u>	<u>8</u>

Judges' Retirement System of Illinois

Compliance Audit

Year Ended June 30, 2003

Comparison of Administrative Expenses to Total Expenses

	<u>2003</u>	<u>2002</u>
Total expenses		
Benefits	\$ 56,714,562	\$ 52,822,314
Refunds	582,469	353,163
Administrative	427,686	424,233
Total expenses	<u>\$ 57,724,717</u>	<u>\$ 53,599,710</u>
Administrative expenses as a percentage of total expenses	<u>0.7%</u>	<u>0.8%</u>

Administrative expenses are not subject to appropriation control but are controlled by budgets adopted by the Board of Trustees. Administrative expenses common to the Judges Retirement System and the General Assembly Retirement System, State of Illinois are paid 60% by the Judges Retirement System and 40% by the General Assembly Retirement System, State of Illinois. Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System of Illinois and 40% thereof is allocated to and reimbursed by the General Assembly Retirement System of Illinois.

Emergency Purchases

No emergency purchases were reported by the System to the Office of the Auditor General during fiscal year 2003.

Illinois First Projects

The System did not receive any funds for Illinois First Projects during fiscal year 2003.

Judges' Retirement System of Illinois

Compliance Audit

Year Ended June 30, 2003

Service Efforts and Accomplishments (Unaudited)

	<u>2003</u>	<u>2002</u>
Membership data		
Active members	920	909
Inactive members	42	35
Total members	<u>962</u>	<u>944</u>
Benefit payments processed		
Recurring		
Retirement annuities (1)	539	517
Survivors' annuities (2)	325	321
Total	<u>864</u>	<u>838</u>
Termination refunds processed	<u>2</u>	<u>-</u>
Retirement counseling*		
Preretirement seminars held	2	4
One-on-one counseling programs held	11	13
Postretirement seminars held	-	-

* Held in conjunction with the General Assembly Retirement System, State of Illinois.

(1) 98% of the fiscal year 2003 retirement annuities were processed in less than 30 days.

(2) 91% of the fiscal year 2003 survivors' annuities were processed in less than 30 days.

Judges' Retirement System of Illinois

Compliance Audit

Year Ended June 30, 2003

Subsequent Event

On April 7, 2003, Governor Rod Blagojevich signed House Bill 2660 into law as Public Act 93-0002. This new law authorized the State of Illinois to issue \$10 billion of General Obligation Bonds for the purpose of making contributions to designated retirement systems. The Judges' Retirement System (JRS) is one of the "designated retirement systems" for the purpose of this new law. In addition, the "Pension Contribution Fund" was created as a special fund in the State Treasury.

On June 12, 2003, the State of Illinois issued \$10 billion of General Obligation Bonds, Pension Funding Series of June 2003, and deposited the net bond proceeds of \$7,317,292,916 into the Pension Contribution Fund. Bond proceeds of \$2,682,707,084 will be utilized (1) to reimburse the General Revenue Fund for the last quarter of the State's fiscal year 2003 required contributions and the total fiscal year 2004 required contributions to the designated retirement systems (\$2,160,000,000); (2) to fund interest payments due December 1, 2003 and June 1, 2004 on the General Obligation Bonds, Pension Funding Series of June 2003 (\$481,038,334); and (3) bond issuance and other costs (\$41,668,750).

The net bond proceeds of \$7,317,292,916 were allocated among the five state-funded retirement systems to reduce their actuarial reserve deficiencies as provided in P.A. 93-0002. Pursuant to the amendments to the General Obligation Bond Act (30 ILCS 330/7.2) contained in the act, the Governor's Office of Management and Budget has determined the percentage distribution of the proceeds. The allocation of the proceeds was based on the percentage distribution of the State's total actuarial reserve deficiency as of June 30, 2002.

JRS received an allocation of bond proceeds equal to \$141,955,483 on July 1, 2003. The monies were deposited into its Master Trust account with the Illinois State Board of Investment, on July 2, 2003.

REPORT DIGEST

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

FINANCIAL AUDIT

For the Year Ended:
June 30, 2003

Release Date:

February 10, 2004



State of Illinois
Office of the Auditor General
WILLIAM G. HOLLAND
AUDITOR GENERAL

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SYNOPSIS

- ◆ The unfunded liability of the System was \$746 million at June 30, 2003. The System's funded ratio at that date was 30.7%.
 - ◆ Approximately \$142 million of bond proceeds were deposited into the System's investment account on July 2, 2003 as a result of P.A. 93-0002. This new law authorized the State of Illinois to issue \$10 billion in General Obligation bonds for the purpose of making contributions to designated retirement systems.
-

INTRODUCTION

This digest covers our financial audit of the System for the year ended June 30, 2003. A compliance audit covering the year ending June 30, 2003 is being issued separately.

The System shares administrative staff and common administrative expenses with the General Assembly Retirement System (GARS). The GARS reimburses the System for 40 percent of the administrative costs incurred.

It should be noted that, pursuant to the Illinois Pension Code, the Illinois State Board of Investment manages the investments of the System.

UNDERFUNDING OF THE SYSTEM

The actuarial accrued liability was valued at \$1,076 million at June 30, 2003. The actuarial value of assets (at fair value) totaled approximately \$330 million at June 30, 2003. The difference between the liability and the assets of \$746 million reflects the unfunded liability of the System at June 30, 2003. The Judges' Retirement System had a funded ratio of 30.7% at June 30, 2003.

Unfunded liability at June 30, 2003 totals \$746 million

SUBSEQUENT EVENT

On April 7, 2003, Governor Rod Blagojevich signed House Bill 2660 into law as Public Act 93-0002. This new law authorized the State of Illinois to issue \$10 billion of General Obligation Bonds for the purpose of making contributions to designated retirement systems. The Judges Retirement System is one of the designated retirement systems.

\$142 million of bond proceeds were deposited into the System's investment account on July 2, 2003

The Judges Retirement System received an allocation of bond proceeds equal to \$141,955,483 on July 1, 2003. The monies were deposited into its Master Trust account with the Illinois State Board of Investments, on July 2, 2003.

AUDITORS' OPINION

Our auditors state that the June 30, 2003 financial statements of the System are fairly presented.

A handwritten signature in black ink, appearing to read "William G. Holland", written over a horizontal line.

WILLIAM G. HOLLAND, Auditor General

WGH:RPU:pp

SPECIAL ASSISTANT AUDITORS

McGladrey & Pullen LLP were our special assistant auditors for this audit.

**STATE OF ILLINOIS
JUDGES' RETIREMENT SYSTEM
OF ILLINOIS**

FINANCIAL REPORT
YEARS ENDED JUNE 30, 2003 AND 2002
PERFORMED AS SPECIAL ASSISTANT AUDITORS
FOR THE AUDITOR GENERAL, STATE OF ILLINOIS

STATE OF ILLINOIS
JUDGES' RETIREMENT
SYSTEM OF ILLINOIS

FINANCIAL REPORT
YEARS ENDED JUNE 30, 2003 AND 2002
PERFORMED AS SPECIAL ASSISTANT AUDITORS
FOR THE AUDITOR GENERAL, STATE OF ILLINOIS

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JUDGES' RETIREMENT SYSTEM OF ILLINOIS

FINANCIAL STATEMENTS

JUNE 30, 2003 AND 2002

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the Judges' Retirement System of Illinois was performed by McGladrey & Pullen, LLP.

Based on their audit, the auditors expressed an unqualified opinion on the System's financial statements.

McGladrey & Pullen

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying statements of plan net assets of the Judges' Retirement System of Illinois (the System), as of June 30, 2003 and 2002 and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Judges' Retirement System of Illinois as of June 30, 2003 and 2002, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 and 4 and the schedules of funding progress and employer contributions on page 15 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.

In accordance with Government Auditing Standards, we have also issued our report dated November 26, 2003 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the System for the years ended June 30, 2003 and 2002. The supplementary financial information on pages 16 and 17 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplementary financial information on pages 16 and 17 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.

McGladrey & Pullen, LLP

Schaumburg, Illinois
November 26, 2003

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, 2003. 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 920 active judges and approximately 860 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, 2003, 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, 2003. 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 \$13.6 million, or 4% during fiscal year 2003. The decrease was primarily due to a downturn in equity markets and increasing benefit payments.
- The System was actuarially funded at 30.7% as of June 30, 2003 a decrease from 33.7% as of June 30, 2002.
- The overall rate of return for the Illinois State Board of Investment (ISBI) Commingled Fund was a positive .3% for fiscal year 2003 compared to a negative 6.9% for fiscal year 2002.

PLAN NET ASSETS

The Statements of Plan Net Assets are presented for the System as of June 30, 2003 and 2002. 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)

	2003	2002	Increase/(Decrease)	
			Dollar Change	Percent Change
Cash and cash equivalents	\$ 7,324.2	\$ 6,593.5	\$ 730.7	11.1%
Receivables	5,362.6	4,718.8	643.8	13.6
Investments, at fair value	317,541.1	332,424.6	(14,883.5)	(4.5)
Capital assets, net	2.3	3.1	(.8)	(25.8)
Total assets	330,230.2	343,740.0	(13,509.8)	(3.9)
Liabilities	176.6	80.7	95.9	118.8
Total plan net assets	<u>\$330,053.6</u>	<u>\$343,659.3</u>	<u>\$(13,605.7)</u>	<u>(4.0)%</u>

ADDITIONS TO PLAN NET ASSETS

Additions to Plan Net Assets include employer and participant contributions and net income from investment activities. Participant contributions were \$12.9 million and \$12.5 million for the years ended June 30, 2003 and 2002, respectively. Participant contribution rates are set by statute as a percentage of gross salary. Employer contributions increased to \$31.4 million in 2003 from \$27.5 million in 2002.

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 2003 and 2002, the System paid out \$57.3 million and \$53.2 million, respectively, in benefits and refunds, an increase of approximately 7.8% from 2002. 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 2003 and 2002.

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, 2003 decreased to 30.7% from 33.7% on June 30, 2002.

The amount by which actuarially determined liabilities exceeded net assets was \$746.2 million on June 30, 2003 compared to \$677.2 million on June 30, 2002. Several reasons for the decrease were weak financial markets in 2003 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.

Net investment income less expenses of the ISBI Commingled Fund totaled approximately \$12.7 million during fiscal year 2003, versus net investment losses of \$577.9 million during fiscal year 2002, resulting in returns of a positive .3% and a negative 6.9%, respectively. The actual rate of return earned by the System will vary from the return earned on the total ISBI Commingled Fund as the result of overall market conditions at the time of additional investments in or withdrawals from the ISBI Commingled Fund. For the three and five year period ended June 30, 2003, the ISBI Commingled Fund earned a compounded rate of return of a negative 4.6% and a positive 1.8%, respectively.

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

CHANGES IN PLAN NET ASSETS

The Statements of Changes in Plan Net Assets are presented for the years ended June 30, 2003 and 2002. 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)

	2003	2002	Increase/(Decrease)	
			Dollar Change	Percent Change
Additions				
Participant contributions	\$12,905.0	\$ 12,487.3	\$ 417.7	3.3%
Employer contributions	31,440.1	27,532.0	3,908.1	14.2
Net investment (loss)	(226.1)	(24,493.9)	24,267.8	99.1
Total additions	<u>44,119.0</u>	<u>15,525.4</u>	<u>28,593.6</u>	<u>184.2</u>
Deductions				
Benefits	56,714.5	52,822.3	3,892.2	7.4
Refunds	582.5	353.2	229.3	64.9
Administrative expenses	427.7	424.2	3.5	.8
Total deductions	<u>57,724.7</u>	<u>53,599.7</u>	<u>4,125.0</u>	<u>7.7</u>
Net (decrease) in plan net assets	<u>\$(13,605.7)</u>	<u>\$(38,074.3)</u>	<u>\$24,468.6</u>	<u>64.3%</u>

Financial Statements

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Plan Net Assets
June 30, 2003 and 2002

	2003	2002
Assets		
Cash	\$ 7,324,152	\$ 6,593,476
Receivables:		
Employer contributions	4,858,000	4,205,334
Participants' contributions	415,822	421,721
Refundable annuities	13,398	9,523
Interest on cash balances	6,757	14,578
Due from General Assembly Retirement System	68,594	67,604
Total receivables	<u>5,362,571</u>	<u>4,718,760</u>
Investments - held in the Illinois State Board of Investment Commingled Fund at fair value	<u>317,541,091</u>	<u>332,424,596</u>
Equipment, net of accumulated depreciation	<u>2,306</u>	<u>3,131</u>
Total Assets	<u>\$330,230,120</u>	<u>\$343,739,963</u>
Liabilities		
Refunds payable	76,120	-
Participants' deferred service credit accounts	9,000	6,000
Administrative expenses payable	<u>91,440</u>	<u>74,669</u>
Total Liabilities	<u>176,560</u>	<u>80,669</u>
Net assets held in trust for pension benefits	<u>\$330,053,560</u>	<u>\$343,659,294</u>

(A schedule of funding progress is presented on page 15.)

See accompanying notes to financial statements.

Financial Statements

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Changes in Plan Net Assets
 Years Ended June 30, 2003 and 2002

	2003	2002
Additions:		
Contributions:		
Participants	\$ 12,904,997	\$ 12,487,303
Employer	<u>31,440,103</u>	<u>27,532,000</u>
Total contributions	<u>44,345,100</u>	<u>40,019,303</u>
Investments:		
Net investment income	7,045,748	8,432,347
Interest earned on cash balances	157,388	219,154
Net (depreciation) in fair value of investments	<u>(7,429,253)</u>	<u>(33,145,381)</u>
Total net investment (loss)	<u>(226,117)</u>	<u>(24,493,880)</u>
Total Additions	<u>44,118,983</u>	<u>15,525,423</u>
Deductions:		
Benefits:		
Retirement annuities	44,507,057	41,145,096
Survivors' annuities	<u>12,207,505</u>	<u>11,677,218</u>
Total benefits	56,714,562	52,822,314
Refunds of contributions	582,469	353,163
Administrative expenses	<u>427,686</u>	<u>424,233</u>
Total Deductions	<u>57,724,717</u>	<u>53,599,710</u>
Net (Decrease)	<u>(13,605,734)</u>	<u>(38,074,287)</u>
Net assets held in trust for pension benefits:		
Beginning of year	<u>343,659,294</u>	<u>381,733,581</u>
End of year	<u>\$330,053,560</u>	<u>\$343,659,294</u>

See accompanying notes to financial statements.

Financial Statements

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Notes to Financial Statements June 30, 2003 and 2002

I. 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 re-

quired 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 2003 and 2002 were each less than \$155,000. 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, 2003 and 2002, the System membership consisted of:

	2003	2002
Retirees and beneficiaries		
currently receiving benefits:		
Retirement annuities	539	517
Survivors' annuities	<u>325</u>	<u>321</u>
	864	838
Inactive participants entitled to benefits		
but not yet receiving them	<u>42</u>	<u>35</u>
Total	<u>906</u>	<u>873</u>
Current participants:		
Vested	660	613
Nonvested	<u>260</u>	<u>296</u>
Total	<u>920</u>	<u>909</u>

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

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The statutes governing the Judges' Retirement System provide for optional contributions by participants, with interest at prescribed rates, to retroactively establish service credits for periods of prior creditable service.

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

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

c. Benefits

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

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

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

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

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

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 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
<u>11.0%</u>	

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

Financial Statements

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

The System transfers money to the ISBI for investment in the ISBI Commingled Fund. This money is then allocated among various investment managers to pursue a specific investment strategy. All investment transactions are initiated by the investment managers (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. The ISBI had no credit risk as a result of its securities lending program as the collateral held exceeded the market value of the securities lent. As of June 30, 2003 and 2002, the ISBI had outstanding loaned investment securities having market values of \$676,614,658 and \$671,816,775, respectively, against which it had received collateral with values of \$699,833,455 and \$692,016,339, respectively.

Some of the ISBI managers invest in derivative securities. A derivative security is an investment whose payoff depends upon the value of other assets such as bond and stock prices, a market index, or commodity prices. The ISBI's investments in derivatives are not leveraged. Obligations to purchase (long a financial future or a call option) are held in cash or cash equivalents. In the case of obligations to sell (short a financial future or a put option), the reference security is held in the portfolio. Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of

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which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake. The ISBI Board and senior management approve these limits, and the risk positions of the investment managers are reviewed on a regular basis to monitor compliance with the limits.

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

Forward foreign currency contracts are used to hedge against the currency risk in the ISBI's foreign stock and fixed income portfolios. Forward foreign currency contracts are agreements to buy or sell specific amounts of a foreign currency at a specified delivery or maturity date for an agreed upon price. As the market value of the forward contracts vary, the ISBI Board records an unrealized gain or loss. Forward foreign currency contracts represent an off-balance sheet obligation, as there are no balance sheet assets or liabilities associated with those contracts. The market value of forward foreign currency contracts outstanding at June 30, 2003 and 2002, were as follows:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Forward currency purchases	\$ 67,363,443	\$ 29,414,978
Forward currency sales	67,381,163	28,903,056
Unrealized gain (loss)	(17,720)	511,922

The ISBI also invests in mortgage-backed securities to maximize yields and to hedge against a rise in interest rates. These securities are based on cash flows from principal and interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. As of June 30, 2003 and 2002, the fair value of the ISBI Board's CMO holdings totaled \$112,763,325 and \$79,247,018, respectively.

The ISBI investment managers utilize financial futures to replicate an underlying security they desire to hold (sell) in the portfolio. In certain

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

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

The following table shows the futures and options positions held by the ISBI as of June 30, 2003:

	<u>Number of Contracts</u>	<u>Contract principal*</u>
Domestic:		
Equity futures purchased	207	\$ 50,368,275
Fixed income futures purchased	20	2,346,875
Fixed income futures sold	883	103,029,906
Fixed income purchased put options	330	850,125
Fixed income written put options	586	276,005
Fixed income purchased call options	238	12,234
Fixed income written call options	1,220	885,688

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

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The System owns approximately 4.0% of the net investment assets of the ISBI Commingled Fund as of June 30, 2003. 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, 2003. 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. An experience review was last performed as of June 30, 2002.

d. Administrative Expenses

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

Administrative expenses common to the Judges' Retirement System and the General Assembly Retirement System are borne 60% by the Judges' Retirement System and 40% by the General Assembly Retirement System. Invoices/vouchers covering common expenses

incurred are paid by the Judges' Retirement System, and 40% thereof is allocated to and reimbursed by the General Assembly Retirement System. Administrative expenses allocated to and reimbursed by the General Assembly Retirement System as of June 30, 2003 and 2002, were \$246,080 and \$237,029, 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

ISBI's investments categorized as of June 30, 2003

	Fair Value	Category I	Non Categorized
U.S. Government & Agency Obligations	\$ 862,128,328	\$ 862,128,328	\$ -
Foreign Obligations	181,133,769	181,133,769	-
Corporate Obligations	695,789,042	619,009,736	76,779,306
Convertible Bonds	861,871	861,871	-
Common Stock & Equity Funds	3,772,803,315	3,462,973,227	309,830,088
Convertible Preferred Stock	4,263	4,263	-
Preferred Stock	4,402,445	4,402,445	-
Foreign Equity Securities	1,174,665,480	1,144,903,493	29,761,987
Real Estate Funds	614,846,458	-	614,846,458
Alternative Investments	441,537,163	-	441,537,163
Money Market Instruments	283,727,618	-	283,727,618
Forward Foreign Exchange Contracts	(17,720)	(17,720)	-
Total Investments	<u>\$8,031,882,032</u>	<u>\$6,275,399,412</u>	<u>\$ 1,756,482,620</u>

have been no commercial insurance claims in the past three fiscal years.

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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 2003 and 2002, 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 2003 and 2002 was \$31,373,000 and \$27,532,000, respectively. The total amount of employer contributions received from the state during fiscal years 2003 and 2002 was \$31,373,000 and \$27,532,000, respectively.

5. Administrative Expenses

A summary of the administrative expenses for the Judges' Retirement System for fiscal years 2003 and 2002 are listed above.

6. Equipment

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

Administrative expenses for fiscal years 2003 and 2002

	2003	2002
Personal services	\$244,458	\$234,352
Employee retirement contributions paid by employer	9,431	9,385
Employer retirement contributions	25,277	23,557
Social security contributions	16,854	15,906
Group insurance	29,469	30,254
Contractual services	76,070	79,366
Travel	8,965	10,310
Printing	3,097	3,032
Commodities	645	427
Telecommunications	2,480	2,438
Electronic data processing	10,350	7,941
Depreciation	1,347	2,704
Change in accrued compensated absences	(1,007)	4,561
Other	250	-
Total	\$427,686	\$424,233

Summary of the changes in equipment for fiscal years 2003 and 2002

	2003			
	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 43,635	\$ 774	\$ (462)	\$ 43,947
Accumulated depreciation	(40,504)	(1,347)	210	(41,641)
Equipment, net	\$ 3,131	\$ (573)	\$ (252)	\$ 2,306
	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

Financial Statements 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, 2003 and 2002 total \$40,364 and \$41,371, 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 2003 and 2002 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the years ended June 30, 2003 and 2002, 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 2003 and 2002 the employer contribution rates were 10.321% and 10.04%, 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, 2003 and 2002. However, post-employment costs for the state as a whole for all state agencies/departments for dependent health, dental and life insurance for annuitants and their dependents are disclosed in the State of Illinois' Comprehensive Annual Financial Report.

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

Financial Statements

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, 2003 and 2002

	Participants' Contributions	Future Operations	Total Reserve Balances
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
Add (deduct):			
Excess of revenues over/(under) expenses	12,463,957	(26,069,691)	(13,605,734)
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(7,401,823)	7,401,823	—
Balance at June 30, 2003	<u>\$121,873,715</u>	<u>\$208,179,845</u>	<u>\$330,053,560</u>

10. Subsequent Event

On April 7, 2003, Governor Rod Blagojevich signed House Bill 2660 into law as Public Act 93-0002. This new law authorized the State of Illinois to issue \$10,000,000,000 of General Obligation Bonds for the purpose of making contributions to designated retirement systems. The Judges' Retirement System (JRS) is one of the "designated retirement systems" for the purpose of this new law. In addition, the "Pension Contribution Fund" was created as a special fund in the State Treasury.

On June 12, 2003, the State of Illinois issued \$10,000,000,000 of General Obligation Bonds, Pension Funding Series of June 2003, and deposited the net bond proceeds of \$7,317,292,916 into the Pension Contribution Fund. Bond proceeds of \$2,682,707,084 will be utilized (1) to reimburse the General Revenue Fund for the last quarter of the State's fiscal year 2003 required contributions and the total fiscal year 2004 required contributions to the designated retirement systems (\$2,160,000,000); (2) to fund interest payments due December 1, 2003 and June 1, 2004 on the General Obligation Bond, Pension Funding Series of June 2003 (\$481,038,334); and (3) bond issuance and other costs (\$41,668,750).

The net bond proceeds of \$7,317,292,916 were allocated among the five state-funded retirement systems to reduce their actuarial reserve deficiencies as provided in P.A. 93-0002. Pursuant to the amendments to the General Obligation Bond Act (30ILCS 330/7.2) contained in that act, the Governor's Office of Management and Budget has determined the percentage distribution of the proceeds. The allocation of the proceeds was based on the percentage distribution of the State's total actuarial reserve deficiency as of June 30, 2002.

JRS received an allocation of bond proceeds equal to \$141,955,483 on July 1, 2003. The monies were deposited into its Master Trust account with the Illinois State Board of Investment, on July 2, 2003.

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)
6/30/98	\$ 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
6/30/03	330,053,560	1,076,231,965	746,178,405	30.7	123,900,000	602.2

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
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
2003	53,470,841	58.7	31,373,000	100.0

Notes to Required Supplementary Information

Valuation date: June 30, 2003

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: 42 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, 2003 and 2002

	2003	2002
Contributions:		
Participants:		
Participants	\$ 12,424,982	\$ 12,347,458
Interest paid by participants	180,070	121,249
Transferred from reciprocating systems	299,945	18,596
Total participant contributions	<u>12,904,997</u>	<u>12,487,303</u>
Employer:		
General Revenue Fund	29,148,000	25,232,000
State Pension Fund	2,225,000	2,300,000
Paid by participants	67,103	-
Total employer contributions	<u>31,440,103</u>	<u>27,532,000</u>
Total contributions revenue	<u>44,345,100</u>	<u>40,019,303</u>
Investments:		
Net investment income	7,045,748	8,432,347
Interest earned on cash balances	157,388	219,154
Net (depreciation) in fair value of investments	<u>(7,429,253)</u>	<u>(33,145,381)</u>
Total net investment (loss)	<u>(226,117)</u>	<u>(24,493,880)</u>
Total revenues	<u>\$ 44,118,983</u>	<u>\$ 15,525,423</u>

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

Years Ended June 30, 2003 and 2002

	2003	2002
Cash balance, beginning of year	<u>\$ 6,593,476</u>	<u>\$ 8,529,516</u>
Receipts:		
Participant contributions	12,508,912	12,379,198
Employer contributions:		
General Revenue Fund	28,509,699	21,026,666
State Pension Fund	2,225,000	2,300,000
Paid by participants	46,446	-
Interest income on cash balances	165,209	234,022
Reimbursements from General Assembly Retirement System	245,090	231,705
After-tax installment payments	20,915	81,383
Cancellation of refunds	2,048	20,895
Cancellation of annuities	94,697	79,767
Tax-deferred installment payments	72,065	103,813
Transfers from reciprocating systems	299,945	18,596
Transfers from Illinois State Board of Investment	14,500,000	15,500,000
Miscellaneous	150	325
Total cash receipts	<u>58,690,176</u>	<u>51,976,370</u>
Disbursements:		
Benefit payments:		
Retirement annuities	44,581,830	41,190,645
Survivors' annuities	12,231,304	11,710,707
Refunds	490,045	377,120
Administrative expenses	656,321	633,938
Total cash disbursements	<u>57,959,500</u>	<u>53,912,410</u>
Cash balance, end of year	<u>\$ 7,324,152</u>	<u>\$ 6,593,476</u>

*Supplementary Financial Information***SCHEDULE OF PAYMENTS TO CONSULTANTS**
Years Ended June 30, 2003 and 2002

	2003	2002
Actuary	\$17,000	\$17,000
Audit fees	20,089	20,760
Legal services	990	2,410
Financial planner	300	729
Medical services	350	420
Total	<u>\$38,729</u>	<u>\$41,319</u>

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, 2003

JUDGES' RETIREMENT
SYSTEM OF ILLINOIS

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

Prepared by the Accounting Division

Printed by Authority of the State of Illinois



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INTRODUCTORY SECTION

Letter of Transmittal



- 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 15, 2003

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, 2003 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 re-

quired 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 2003 amounted to \$330.1 million, and there were 920 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 Statutes, 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 avail-

able 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, 2003, amounted to \$1.076 billion. The actuarial value of assets (at fair value) amounted to \$330 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

On April 7, 2003, Governor Blagojevich signed House Bill 2660 into law as Public Act 93-0002. This legislation authorized the State to issue \$10 billion in general obligation bonds for the purpose of making required contributions to the five state-funded retirement systems, including the Judges' Retirement System. On July 1, 2003, the net bond proceeds were allocated and distributed to each of the five state-funded retirement systems based on each system's relative percentage of the total unfunded liability at June 30, 2002. The Judges' Retirement System received an allocation of bond proceeds totaling \$141,953,489 and deposited all of the proceeds into the Illinois State Board of Investment Commingled Fund on July 2, 2003.

During fiscal year 2003, the System evaluated and expanded the services available to members through the System's Internet site. In addition, the State Retirement System's EDP Division commenced work on a needs assessment review to identify future computer hardware and information system needs.

During fiscal year 2004, the System will continue to evaluate and expand the services available to members through the System's Internet site, as well as continue to offer pre-retirement, post-retirement, and one-on-one counseling sessions at various locations throughout the state. The State Retirement System's EDP Division will continue to study and evaluate future computer hardware and information system needs.

Letter of Transmittal

EXECUTIVE SECRETARY RETIRES



After 28 years of service with the State Retirement Systems, Judges' Retirement System Executive Secretary Michael L. Mory retired effective December 31, 2002. Mr. Mory assumed control of the State Employees' Retirement System effective November 1, 1974 and in May 1989 was named to the position of Executive Secretary for the Judges and General Assembly Retirement Systems. As a strong advocate for the System's membership, Mr. Mory always strived to ensure the System's long-term financial integrity as well as improve the service provided to the membership.

The System's Board of Trustees and staff would like to express their appreciation to Mr. Mory for his leadership and devotion during his many years of service and wish him the very best in a well-deserved retirement.

The System also uses the State of Illinois, State-wide 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, 2002.

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 fourteen consecutive years (fiscal years ended June 30, 1989 through June 30, 2002).

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

In October, 2002, Associate Executive Secretary Robert V. Knox was named by the Board of Trustees to succeed Mr. Mory effective January 1, 2003.

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

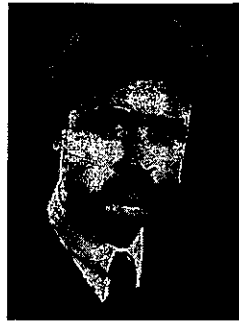
On behalf of the Board of Trustees, we would like to express our appreciation to the staff and professional consultants who worked so effectively to ensure the successful operation of the System.

Respectfully submitted,

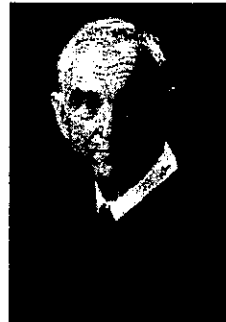
Robert V. Knox
Executive Secretary

David M. Richter, CPA
Accounting Division

Administration



JUSTICE
Thomas E. Hoffman
Chairman



JUSTICE
John J. Bowman
Vice-Chairman



CHIEF JUDGE
Timothy C. Evans

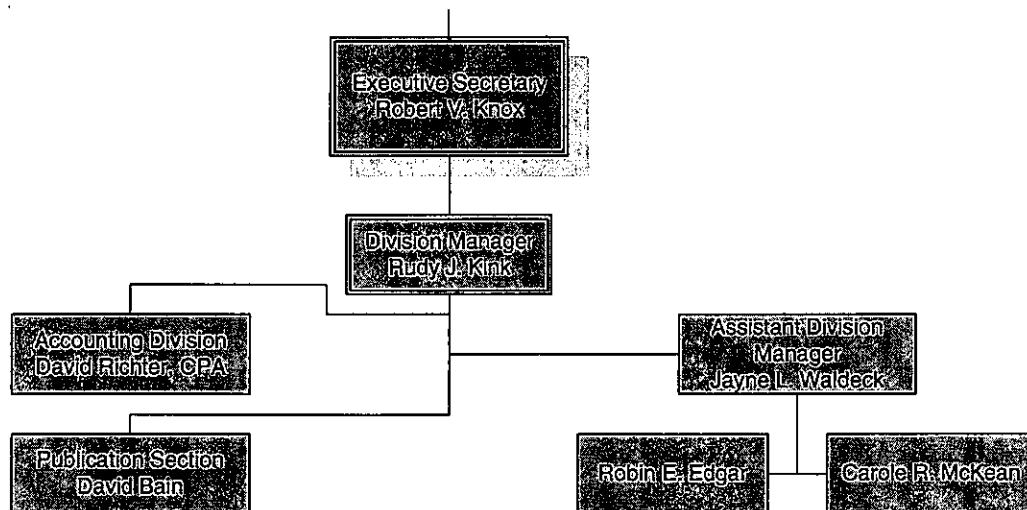


CHIEF JUSTICE
Mary Ann McMorrow



STATE TREASURER
Judy Baar Topinka

BOARD OF TRUSTEES



Advisors, Auditors, and Administrators

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

Certificate of Achievement

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, 2002

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

McGladrey & Pullen

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying statements of plan net assets of the Judges' Retirement System of Illinois (the System), as of June 30, 2003 and 2002 and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Judges' Retirement System of Illinois as of June 30, 2003 and 2002, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 12 and 13 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.

In accordance with Government Auditing Standards, we will also issue, under separate cover, our report dated November 26, 2003 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the System. The introductory section, supplementary financial information on pages 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 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 and, accordingly, we express no opinion on them.

McGladrey & Pullen, LLP

Schaumburg, Illinois
November 26, 2003

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, 2003. 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 920 active judges and approximately 860 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, 2003, 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, 2003. 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 \$13.6 million, or 4% during fiscal year 2003. The decrease was primarily due to a downturn in equity markets and increasing benefit payments.
- The System was actuarially funded at 30.7% as of June 30, 2003 a decrease from 33.7% as of June 30, 2002.
- The overall rate of return for the Illinois State Board of Investment (ISBI) Commingled Fund was a positive .3% for fiscal year 2003 compared to a negative 6.9% for fiscal year 2002.

ADDITIONS TO PLAN NET ASSETS

Additions to Plan Net Assets include employer and participant contributions and net income from investment activities. Participant contributions were \$12.9 million and \$12.5 million for the years ended June 30, 2003 and 2002, respectively. Participant contribution rates are set by statute as a percentage of gross salary. Employer contributions increased to \$31.4 million in 2003 from \$27.5 million in 2002.

PLAN NET ASSETS

The Statements of Plan Net Assets are presented for the System as of June 30, 2003 and 2002. 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)

	2003	2002	Increase/(Decrease) Dollar Change	Percent Change
Cash and cash equivalents	\$ 7,324.2	\$ 6,593.5	\$ 730.7	11.1%
Receivables	5,362.6	4,718.8	643.8	13.6
Investments, at fair value	317,541.1	332,424.6	(14,883.5)	(4.5)
Capital assets, net	2.3	3.1	(.8)	(25.8)
Total assets	330,230.2	343,740.0	(13,509.8)	(3.9)
Liabilities	176.6	80.7	95.9	118.8
Total plan net assets	\$330,053.6	\$343,659.3	\$ (13,605.7)	(4.0)%

Management's Discussion & Analysis

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 2003 and 2002, the System paid out \$57.3 million and \$53.2 million, respectively, in benefits and refunds, an increase of approximately 7.8% from 2002. 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 2003 and 2002.

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, 2003 decreased to 30.7% from 33.7% on June 30, 2002.

The amount by which actuarially determined liabilities exceeded net assets was \$746.2 million on June 30, 2003 compared to \$677.2 million on June 30, 2002. Several reasons for the decrease were weak financial markets in 2003 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.

Net investment income less expenses of the ISBI Commingled Fund totaled approximately \$12.7 million during fiscal year 2003, versus net investment losses of \$577.9 million during fiscal year 2002, resulting in returns of a positive .3% and a negative 6.9%, respectively. The actual rate of return earned by the System will vary from the return earned on the total ISBI Commingled Fund as the result of overall market conditions at the time of additional investments in or withdrawals from the ISBI Commingled Fund. For the three and five year period ended June 30, 2003, the ISBI Commingled Fund earned a compounded rate of return of a negative 4.6% and a positive 1.8%, respectively.

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

CHANGES IN PLAN NET ASSETS

The Statements of Changes in Plan Net Assets are presented for the years ended June 30, 2003 and 2002. 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)

	2003	2002	Increase/(Decrease)	
			Dollar Change	Percent Change
Additions				
Participant contributions	\$12,905.0	\$12,487.3	\$417.7	3.3%
Employer contributions	31,440.1	27,532.0	3,908.1	14.2%
Net investment (loss)	(226.1)	(24,493.9)	24,267.8	99.1%
Total additions	44,119.0	15,525.4	28,593.6	184.2%
Deductions				
Benefits	56,714.5	52,822.3	3,892.2	7.4%
Refunds	582.5	353.2	229.3	64.9%
Administrative expenses	427.7	424.2	3.5	.8%
Total deductions	57,724.7	53,599.7	4,125.0	7.7%
Net (decrease) in plan net assets	\$(13,605.7)	\$(38,074.3)	\$24,468.6	64.3%

Financial Statements

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Plan Net Assets

June 30, 2003 and 2002

	2003	2002
Assets		
Cash	<u>\$ 7,324,152</u>	<u>\$ 6,593,476</u>
Receivables:		
Employer contributions	4,858,000	4,205,334
Participants' contributions	415,822	421,721
Refundable annuities	13,398	9,523
Interest on cash balances	6,757	14,578
Due from General Assembly Retirement System	68,594	67,604
Total receivables	<u>5,362,571</u>	<u>4,718,760</u>
Investments - held in the Illinois State Board of Investment Commingled Fund at fair value	<u>317,541,091</u>	<u>332,424,596</u>
Equipment, net of accumulated depreciation	<u>2,306</u>	<u>3,131</u>
Total Assets	<u>\$330,230,120</u>	<u>\$343,739,963</u>
Liabilities		
Refunds payable	76,120	-
Participants' deferred service credit accounts	9,000	6,000
Administrative expenses payable	<u>91,440</u>	<u>74,669</u>
Total Liabilities	<u>176,560</u>	<u>80,669</u>
Net assets held in trust for pension benefits	<u>\$330,053,560</u>	<u>\$343,659,294</u>
<i>(A schedule of funding progress is presented on page 24.)</i>		
<i>See accompanying notes to financial statements.</i>		

Financial Statements

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Changes in Plan Net Assets
Years Ended June 30, 2003 and 2002

	2003	2002
Additions:		
Contributions:		
Participants	\$ 12,904,997	\$ 12,487,303
Employer	31,440,103	27,532,000
Total contributions	<u>44,345,100</u>	<u>40,019,303</u>
Investments:		
Net investment income	7,045,748	8,432,347
Interest earned on cash balances	157,388	219,154
Net (depreciation) in fair value of investments	<u>(7,429,253)</u>	<u>(33,145,381)</u>
Total net investment (loss)	<u>(226,117)</u>	<u>(24,493,880)</u>
Total Additions	<u>44,118,983</u>	<u>15,525,423</u>
Deductions:		
Benefits:		
Retirement annuities	44,507,057	41,145,096
Survivors' annuities	12,207,505	11,677,218
Total benefits	<u>56,714,562</u>	<u>52,822,314</u>
Refunds of contributions	582,469	353,163
Administrative expenses	<u>427,686</u>	<u>424,233</u>
Total Deductions	<u>57,724,717</u>	<u>53,599,710</u>
Net (Decrease)	<u>(13,605,734)</u>	<u>(38,074,287)</u>
Net assets held in trust for pension benefits:		
Beginning of year	<u>343,659,294</u>	<u>381,733,581</u>
End of year	<u>\$330,053,560</u>	<u>\$343,659,294</u>

See accompanying notes to financial statements.

Financial Statements

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Notes to Financial Statements June 30, 2003 and 2002

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 re-

quired 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 2003 and 2002 were each less than \$155,000. 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, 2003 and 2002, the System membership consisted of:

	2003	2002
Retirees and beneficiaries currently receiving benefits:		
Retirement annuities	539	517
Survivors' annuities	325	321
	<u>864</u>	<u>838</u>
Inactive participants entitled to benefits but not yet receiving them	42	35
Total	<u>906</u>	<u>873</u>
Current participants:		
Vested	660	613
Nonvested	260	296
Total	<u>920</u>	<u>909</u>

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

The statutes governing the Judges' Retirement System provide for optional contributions by participants, with interest at prescribed rates, to retroactively establish service credits for periods of prior creditable service.

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

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

c. Benefits

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

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

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

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

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

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.

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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
<u>11.0%</u>	

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

Financial Statements

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

The System transfers money to the ISBI for investment in the ISBI Commingled Fund. This money is then allocated among various investment managers to pursue a specific investment strategy. All investment transactions are initiated by the investment managers (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. The ISBI had no credit risk as a result of its securities lending program as the collateral held exceeded the market value of the securities lent. As of June 30, 2003 and 2002, the ISBI had outstanding loaned investment securities having market values of \$676,614,658 and \$671,816,775, respectively, against which it had received collateral with values of \$699,833,455 and \$692,016,339, respectively.

Some of the ISBI managers invest in derivative securities. A derivative security is an investment whose payoff depends upon the value of other assets such as bond and stock prices, a market index, or commodity prices. The ISBI's investments in derivatives are not leveraged. Obligations to purchase (long a financial future or a call option) are held in cash or cash equivalents. In the case of obligations to sell (short a financial future or a put option), the reference security is held in the portfolio. Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of

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which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake. The ISBI Board and senior management approve these limits, and the risk positions of the investment managers are reviewed on a regular basis to monitor compliance with the limits.

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

Forward foreign currency contracts are used to hedge against the currency risk in the ISBI's foreign stock and fixed income portfolios. Forward foreign currency contracts are agreements to buy or sell specific amounts of a foreign currency at a specified delivery or maturity date for an agreed upon price. As the market value of the forward contracts vary, the ISBI Board records an unrealized gain or loss. Forward foreign currency contracts represent an off-balance sheet obligation, as there are no balance sheet assets or liabilities associated with those contracts. The market value of forward foreign currency contracts outstanding at June 30, 2003 and 2002, were as follows:

	June 30, 2003	June 30, 2002
Forward currency purchases	\$ 67,363,443	\$ 29,414,978
Forward currency sales	67,381,163	28,903,056
Unrealized gain (loss)	(17,720)	511,922

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

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

The following table shows the futures and options positions held by the ISBI as of June 30, 2003:

The ISBI also invests in mortgage-backed securities to maximize yields and to hedge against a rise in interest rates. These securities are based on cash flows from principal and interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. As of June 30, 2003 and 2002, the fair value of the ISBI Board's CMO holdings totaled \$112,763,325 and \$79,247,018, respectively.

The ISBI investment managers utilize financial futures to replicate an underlying security they desire to hold (sell) in the portfolio. In certain

	Number of Contracts	Contract principal*
Domestic:		
Equity futures purchased	207	\$ 50,368,275
Fixed income futures purchased	20	2,346,875
Fixed income futures sold	883	103,029,906
Fixed income purchased put options	330	850,125
Fixed income written put options	586	276,005
Fixed income purchased call options	238	12,234
Fixed income written call options	1,220	885,688

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

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The System owns approximately 4.0% of the net investment assets of the ISBI Commingled Fund as of June 30, 2003. 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, 2003. 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. An experience review was last performed as of June 30, 2002.

d. Administrative Expenses

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

Administrative expenses common to the Judges' Retirement System and the General Assembly Retirement System are borne 60% by the Judges' Retirement System and 40% by the General Assembly Retirement System. Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System, and 40% thereof is allocated to and reimbursed by the General Assembly Retirement System. Administrative expenses allocated to and reimbursed by the General Assembly Retirement System as of June 30, 2003 and 2002, were \$246,080 and \$237,029, 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

ISBI's investments categorized as of June 30, 2003

	Fair Value	Category I	Non Categorized
U.S. Government & Agency Obligations	\$ 862,128,328	\$ 862,128,328	\$ —
Foreign Obligations	181,133,769	181,133,769	—
Corporate Obligations	695,789,042	619,009,736	76,779,306
Convertible Bonds	861,871	861,871	—
Common Stock & Equity Funds	3,772,803,315	3,462,973,227	309,830,088
Convertible Preferred Stock	4,263	4,263	—
Preferred Stock	4,402,445	4,402,445	—
Foreign Equity Securities	1,174,665,480	1,144,903,493	29,761,987
Real Estate Funds	614,846,458	—	614,846,458
Alternative Investments	441,537,163	—	441,537,163
Money Market Instruments	283,727,618	—	283,727,618
Forward Foreign Exchange Contracts	(17,720)	(17,720)	—
Total Investments	\$8,031,882,032	\$6,275,399,412	\$1,756,482,620

have been no commercial insurance claims in the past three fiscal years.

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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 2003 and 2002, 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 2003 and 2002 was \$31,373,000 and \$27,532,000, respectively. The total amount of employer contributions received from the state during fiscal years 2003 and 2002 was \$31,373,000 and \$27,532,000, respectively.

5. Administrative Expenses

A summary of the administrative expenses for the Judges' Retirement System for fiscal years 2003 and 2002 are listed above.

6. Equipment

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

Administrative expenses for fiscal years 2003 and 2002

	2003	2002
Personal services	\$244,458	\$234,352
Employee retirement contributions paid by employer	9,431	9,385
Employer retirement contributions	25,277	23,557
Social security contributions	16,854	15,906
Group insurance	29,469	30,254
Contractual services	76,070	79,366
Travel	8,965	10,310
Printing	3,097	3,032
Commodities	645	427
Telecommunications	2,480	2,438
Electronic data processing	10,350	7,941
Depreciation	1,347	2,704
Change in accrued compensated absences	(1,007)	4,561
Other	250	
Total	\$427,686	\$424,233

Summary of the changes in equipment for fiscal years 2003 and 2002

	2003			Ending Balance
	Beginning Balance	Additions	Deletions	
Equipment	\$ 43,635	\$ 774	\$ (462)	\$ 43,947
Accumulated depreciation	(40,504)	(1,347)	210	(41,641)
Equipment, net	<u>\$ 3,131</u>	<u>\$ (573)</u>	<u>\$ (252)</u>	<u>\$ 2,306</u>
	2002			Ending Balance
	Beginning Balance	Additions	Deletions	
Equipment	\$ 44,120	\$ 1,529	\$ (2,014)	\$ 43,635
Accumulated depreciation	(39,814)	(2,704)	2,014	(40,504)
Equipment, net	<u>\$ 4,306</u>	<u>\$ (1,175)</u>	<u>\$ -</u>	<u>\$ 3,131</u>

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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, 2003 and 2002 total \$40,364 and \$41,371, 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 2003 and 2002 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the years ended June 30, 2003 and 2002, 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 2003 and 2002 the employer contribution rates were 10.321% and 10.04%, 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, 2003 and 2002. However, post-employment costs for the state as a whole for all state agencies/departments for dependent health, dental and life insurance for annuitants and their dependents are disclosed in the State of Illinois' Comprehensive Annual Financial Report.

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

Financial Statements

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.

10. Subsequent Event

On April 7, 2003, Governor Rod Blagojevich signed House Bill 2660 into law as Public Act 93-0002. This new law authorized the State of Illinois to issue \$10,000,000,000 of General Obligation Bonds for the purpose of making contributions to designated retirement systems. The Judges' Retirement System (JRS) is one of the "designated retirement systems" for the purpose of this new law. In addition, the "Pension Contribution Fund" was created as a special fund in the State Treasury.

On June 12, 2003, the State of Illinois issued \$10,000,000,000 of General Obligation Bonds, Pension Funding Series of June 2003, and deposited the net bond proceeds of \$7,317,292,916 into the Pension Contribution Fund. Bond proceeds of \$2,682,707,084 will be utilized (1) to reimburse the General Revenue Fund for the last quarter of the State's fiscal year 2003 required contributions and the total fiscal year 2004 required contributions to the designated retirement systems (\$2,160,000,000); (2) to fund interest payments due December 1, 2003 and June 1, 2004 on the General Obligation Bond, Pension Funding Series of June 2003 (\$481,038,334); and (3) bond issuance and other costs (\$41,668,750).

Statements of Changes in Reserve Balances Years Ended June 30, 2003 and 2002

	Participants' Contributions	Future Operations	Total Reserve Balances
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
Add (deduct):			
Excess of revenues over/(under) expenses	12,463,957	(26,069,691)	(13,605,734)
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(7,401,823)	7,401,823	
Balance at June 30, 2003	\$121,873,715	\$208,179,845	\$330,053,560

The net bond proceeds of \$7,317,292,916 were allocated among the five state-funded retirement systems to reduce their actuarial reserve deficiencies as provided in P.A. 93-0002. Pursuant to the amendments to the General Obligation Bond Act (30ILCS 330/7.2) contained in that act, the Governor's Office of Management and Budget has determined the percentage distribution of the proceeds. The allocation of the proceeds was based on the percentage distribution of the State's total actuarial reserve deficiency as of June 30, 2002.

JRS received an allocation of bond proceeds equal to \$141,955,483 on July 1, 2003. The monies were deposited into its Master Trust account with the Illinois State Board of Investment, on July 2, 2003.

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)
6/30/98	\$ 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
6/30/03	330,053,560	1,076,231,965	746,178,405	30.7	123,900,000	602.2

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
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
2003	53,470,841	58.7	31,373,000	100.0

Notes to Required Supplementary Information

Valuation date: June 30, 2003

Actuarial cost method: Projected Unit Credit

Amortization method:

- For GASB Statement No. 25 reporting purposes: Level percent of payroll
- Per state statute: 15-year phase-in to a level percent of payroll until a 90% funding level is achieved

Remaining amortization period:

- For GASB Statement No. 25 reporting purposes: 40 years, open
- Per state statute: 42 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, 2003 and 2002

	2003	2002
Contributions:		
Participants:		
Participants	\$ 12,424,982	\$ 12,347,458
Interest paid by participants	180,070	121,249
Transferred from reciprocating systems	299,945	18,596
Total participant contributions	<u>12,904,997</u>	<u>12,487,303</u>
Employer:		
General Revenue Fund	29,148,000	25,232,000
State Pension Fund	2,225,000	2,300,000
Paid by participants	67,103	-
Total employer contributions	<u>31,440,103</u>	<u>27,532,000</u>
Total contributions revenue	<u>44,345,100</u>	<u>40,019,303</u>
Investments:		
Net investment income	7,045,748	8,432,347
Interest earned on cash balances	157,388	219,154
Net (depreciation) in fair value of investments	<u>(7,429,253)</u>	<u>(33,145,381)</u>
Total net investment (loss)	<u>(226,117)</u>	<u>(24,493,880)</u>
Total revenues	<u>\$ 44,118,983</u>	<u>\$ 15,525,423</u>

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS

Years Ended June 30, 2003 and 2002

	2003	2002
Cash balance, beginning of year	<u>\$ 6,593,476</u>	<u>\$ 8,529,516</u>
Receipts:		
Participant contributions	12,508,912	12,379,198
Employer contributions:		
General Revenue Fund	28,509,699	21,026,666
State Pension Fund	2,225,000	2,300,000
Paid by participants	46,446	-
Interest income on cash balances	165,209	234,022
Reimbursements from General Assembly Retirement System	245,090	231,705
After-tax installment payments	20,915	81,383
Cancellation of refunds	2,048	20,895
Cancellation of annuities	94,697	79,767
Tax-deferred installment payments	72,065	103,813
Transfers from reciprocating systems	299,945	18,596
Transfers from Illinois State Board of Investment	14,500,000	15,500,000
Miscellaneous	150	325
Total cash receipts	<u>58,690,176</u>	<u>51,976,370</u>
Disbursements:		
Benefit payments:		
Retirement annuities	44,581,830	41,190,645
Survivors' annuities	12,231,304	11,710,707
Refunds	490,045	377,120
Administrative expenses	656,321	633,938
Total cash disbursements	<u>57,959,500</u>	<u>53,912,410</u>
Cash balance, end of year	<u>\$ 7,324,152</u>	<u>\$ 6,593,476</u>

Supplementary Financial Information

SCHEDULE OF PAYMENTS TO CONSULTANTS
Years Ended June 30, 2003 and 2002

	2003	2002
Actuary	\$17,000	\$17,000
Audit fees	20,089	20,760
Legal services	990	2,410
Financial planner	300	729
Medical services	350	420
Total	<u>\$38,729</u>	<u>\$41,319</u>

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, 2003, total net assets under management valued at market, amounted to \$7.801 billion. Of the total market value of assets under management, \$317.5 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. This policy is implemented by allocations to investment managers with assignments to invest in specific asset classes, with defined security selection styles and methodologies.

The targeted policy asset allocation at June 30, 2003 was 46% U.S. equities, 15% international equities, 23% fixed income, 8% real estate, and 8% alternative investments. The actual allocation of the portfolio at June 30, 2003, relative to the target is set forth in the table below.

Investment Results

World equity markets continued their corrections during fiscal year 2003. The ISBI total fund was up 0.3% for fiscal 2003, net of expenses. This follows on a negative result for fiscal 2002. While the long-term objective of exceeding the 8.0% assumed actuarial interest rate was not met, the return also lagged the policy-weighted benchmark return of 3.5%. The ISBI total fund return over the three, five and ten year time periods was a negative 4.6% and a positive 1.8% and 7.8%, respectively.

	Actual Asset Allocation	Policy Target
U.S. Equities	49%	46%
International Equities	15	15
Fixed Income	22	23
Real Estate	8	8
Alternative Investments	6	8
Total	<u>100%</u>	<u>100%</u>

U.S. Equities

For the twelve months ended June 30, 2003, the Russell 3000 Index, a broad representation of the U.S. Market, was up a modest 0.8%. Growth stocks exceeded value stocks, with the Russell 3000 Growth Index up 2.8%, compared to the Russell 3000 Value Index down 1.2%. Large capitalization stocks outperformed small capitalization stocks, with the S&P 500 Index up 0.3% compared with the Russell 2000 Index down 1.6%. The ISBI's U.S. equity portfolio was up 0.9% for the fiscal year, slightly above the Russell 3000 Index. The ISBI Board, through structure analysis, rebalancing, and risk management, has achieved the objective of tracking the market with predictable consistency. The ISBI's ten-year average annual return on U.S. equities of 9.8% shows that even considering the losses in prior years, the U.S. stock market has rewarded the long-term investor.

International Equities

Foreign markets succumbed to some of the anxieties besetting U.S. Equities. The Morgan Stanley All-Country Free ex US ("MS-AC Free ex US") Index was negative 4.2% for the fiscal year, about four percentage points below the U.S. return. The ISBI's international equity portfolio, down 7.5%, lagged the benchmark for the fiscal year. As with the U. S. equity portfolio, the ISBI Board has the twin objectives of limiting tracking error relative to the benchmark and adding value with active management.

Fixed Income

The ISBI fixed income portfolio had a positive return of 8.3% for the fiscal year compared to the Lehman U.S. Universal Bond Index which returned 11.5% for the year. During the fiscal year, the ISBI transitioned approximately two-thirds of the fixed income assets to three diversified external managers. The remaining internal portfolio was structured to 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 year 2002, and result in more predictable fixed income returns.

Investment Section

U.S. EQUITIES			
	1 Year	3 Years	5 Years
ISBI	0.9%	(8.8)%	(0.3)%
S&P 500 Stock Index	0.3	(11.2)	(1.6)
Russell 3000 Index	0.8	(10.5)	(1.1)

INTERNATIONAL EQUITIES			
	1 Year	3 Years	5 Years
ISBI	(7.5)%	(11.8)%	(2.6)%
MS-AC Free ex US Index	(4.2)	(12.5)	(2.8)

FIXED INCOME			
	1 Year	3 Years	5 Years
ISBI	8.3%	7.7%	6.1%
Lehman U.S. Univ. Bond Index	11.5	10.0	7.4

Investment Section

REAL ESTATE			
	1 Year	3 Years	5 Years
ISBI	2.2%	6.8%	6.1%
NCREIF Real Estate Index	5.2	8.6	10.2

Real Estate

The ISBI's real estate portfolio earned 2.2%. NCREIF Real Estate Index, a measure of core, operating, non-leveraged real estate, earned 5.2%. Prior to fiscal year 2001, the ISBI Board's real estate policy was to seek higher return real estate opportunities while controlling for risk and investments focused on value-added or opportunistic strategies. However, over the last three years, the ISBI Board has increased the real estate strategic allocation from 5% to 8% of the total fund with the new allocation targeting 50% of its real estate to core, income producing real estate, with the balance in higher return strategies. The ISBI's current investments in real estate are represented by interests in limited partnerships, trusts, and other forms of pooled investments.

Alternative Investments

Overall, the ISBI's alternative investments portfolio lost 4.9% for the fiscal year. The alternative investments portfolio consists of interests in limited partnerships and other commingled vehicles that invest in venture capital, management buyouts, and other private placement activities. In spite of the setbacks of the last few years, long-term results show that alternative investments remain the best performing asset class for the ten-year period ended June 30, 2003.

Management Expenses

Total ISBI expenses for fiscal year 2003 were \$16.8 million, compared to \$18.6 million for fiscal year 2002. The resulting expense ratio (expenses divided by average net assets) was 0.23% in fiscal year 2003 and fiscal year 2002.

Investment Section

INVESTMENT PORTFOLIO SUMMARY

	June 30, 2003		June 30, 2002	
Investments, at fair value				
U.S. Government and Agency Obligations	\$ 862,128,328	11.05%	\$ 1,057,628,472	13.34%
Foreign Obligations	181,133,769	2.32	84,261,722	1.06
Corporate Obligations	695,789,042	8.92	807,243,888	10.18
Convertible Bonds	861,871	0.01	159,060	0.00
Common Stock & Equity Funds	3,772,803,315	48.36	3,573,004,993	45.08
Convertible Preferred Stock	4,263	0.00	75,520	0.00
Preferred Stock	4,402,445	0.06	8,051	0.00
Foreign Equity Securities	1,174,665,480	15.06	1,231,600,202	15.53
Real Estate Funds	614,846,458	7.88	417,054,183	5.26
Alternative Investments	441,537,163	5.66	414,830,358	5.23
Money Market Instruments	283,727,618	3.64	345,095,683	4.35
Forward Foreign Exchange Contracts	(17,720)	0.00	511,922	0.01
	<u>8,031,882,032</u>	<u>102.96</u>	<u>7,931,474,054</u>	<u>100.04</u>
Other Assets, Less Liabilities	(230,860,822)	(2.96)	(3,145,553)	(0.04)
Net Assets, at Fair Value	<u>\$ 7,801,021,210</u>	<u>100.0%</u>	<u>\$ 7,928,328,501</u>	<u>100.0%</u>

ANALYSIS OF INVESTMENT PERFORMANCE⁽¹⁾

	2003	2002	2001	2000	1999
Total Return* - Past 3 years		(1.6)%			
Total Return* - Past 5 years			1.6%		
Total Return* - year by year	0.3%	(6.9)%	(7.1)%	11.8%	12.9%
Actuarial Assumed Rate of Return			9.0%		
Average Net Income Yield*	2.3%	2.4%	2.6%	2.4%	2.8%
Comparative rates of return on fixed income securities					
Total fixed income - ISBI	8.3%	5.5%	9.5%	4.0%	3.4%
Comparison index:					
Lehman U.S. Universal Bond Index	11.5%	7.7%	10.8%	4.8%	2.7%
Comparative rates of return on equities					
Domestic equities - ISBI	0.9%	(14.6)%	(10.3)%	10.3%	17.3%
Comparison index:					
S&P 500	0.3%	(18.0)%	(14.8)%	7.2%	22.7%

⁽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 2003 and 2002:

	2003	2002	Increase/(Decrease)	
			Amount	Percentage
Balance at beginning of year, at fair value	\$332,424,596	\$ 372,637,630	\$ (40,213,034)	(10.8)%
Cash transferred from ISBI (net)	(14,500,000)	(15,500,000)	(1,000,000)	(6.5)
Net ISBI investment revenue:				
ISBI Commingled Fund income	7,732,632	9,226,184	(1,493,552)	(16.2)
Less ISBI Expenses	(686,884)	(793,837)	(106,953)	(13.5)
Net ISBI investment income	7,045,748	8,432,347	(1,386,599)	(16.4)
Net (depreciation) in fair value of ISBI investments	(7,429,253)	(33,145,381)	25,716,128	77.6
Net ISBI investment (loss)	(383,505)	(24,713,034)	24,329,529	98.4
Balance at end of year, at fair value	\$317,541,091	\$ 332,424,596	\$ (14,883,505)	(4.5)%

In addition, interest on the average balance in the System's cash account in the State Treasury for FY 2003 was \$157,388 compared to \$219,154 during FY 2002.

ACTUARIAL SECTION

Actuary's Certification Letter

GOLDSTEIN & ASSOCIATES
Actuaries and Consultants

29 SOUTH LaSALLE STREET SUITE 735
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PHONE (312) 726-5877 FAX (312) 726-4323

October 7, 2003

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, 2003. The purpose of the valuation was to determine the financial condition and funding requirements of the retirement system.

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

Pursuant to the law governing the system, the actuary shall investigate the experience of the system at least once every five years and recommend, as a result of such investigation, the actuarial assumptions to be adopted. As the actuary, we have completed such an experience analysis for the five-year period 1996-2001. Based on this experience analysis, we recommended actuarial assumptions which were adopted by the system's board effective June 30, 2002 and which were used for the current valuation. We believe that, in the aggregate, the current actuarial assumptions relate reasonably to the past and anticipated experience of the system.

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

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

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

Actuary's Certification Letter

GOLDSTEIN & ASSOCIATES

Actuaries and Consultants

Based on the June 30, 2003 actuarial valuation, we have determined the required State contribution under this funding plan as modified by Public Act 93-0002 for fiscal year 2005. We have also estimated the required State contributions for future years.

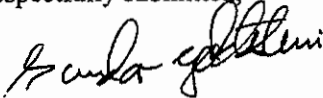
The system's current funding plan does not meet the requirements for amortizing the unfunded liability provided under GASB Statement No. 25. In all other respects, the assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by GASB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

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

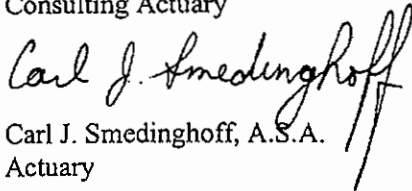
The actuarial liabilities have been valued on the basis of membership data, which is supplied by the administrative staff of the system and verified by the system's auditors. We have made additional tests to ensure its accuracy.

In our opinion, the information presented herein fairly presents the financial condition of the Judges' Retirement System of Illinois as of June 30, 2003. 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, A.S.A.
Actuary

Actuarial Section

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 2003 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 2003 and 2002, the System received the actuarially determined employer contributions in accordance with the state's funding plan described above.

ACTUARIAL COST METHOD AND SUMMARY OF MAJOR ACTUARIAL ASSUMPTIONS

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

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

DESCRIPTION OF THE ACTUARIAL ASSUMPTIONS UTILIZED FOR FISCAL YEARS 2003 AND 2002

Actuarial Section

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

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

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

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

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

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

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:

Age	Rate of Retirement
55	.080
60	.220
65	.110
70	.110
75	.200
80 and over	1.000

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

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

Fiscal Year	Aggregate Accrued Liabilities For				Percentage of Accrued Liabilities Covered By Net Real Assets		
	(1) Active and Inactive Participant Contributions	(2) Retirement and Survivor Annuities	(3) Active and Inactive Participants (Employer Financed Portion)	Net Assets Available for Benefits*	(1)	(2)	(3)
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
2003	121,873,715	607,038,789	347,319,461	330,053,560	100.0	34.3	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

Actuarial Liability:	June 30, 2003	June 30, 2002
For Active Participants:		
Basic retirement annuity	\$ 295,011,344	\$ 292,395,702
Annual increase in retirement annuity	93,330,561	92,337,761
Pre-retirement survivors' annuity	27,460,812	27,512,324
Post-retirement survivors' annuity	35,900,380	35,683,659
Withdrawal benefits	5,836,357	6,069,240
Disability benefits	2,104,179	2,265,778
Total	<u>459,643,633</u>	<u>456,264,464</u>
For Participants Receiving Benefits:		
Retirement annuities	497,243,301	448,870,693
Survivor annuities	109,795,488	107,052,027
Total	<u>607,038,789</u>	<u>555,922,720</u>
For Inactive Participants	<u>9,549,543</u>	<u>8,659,589</u>
Total Actuarial Liability	<u>1,076,231,965</u>	<u>1,020,846,773</u>
Net Assets, Fair Value	<u>330,053,560</u>	<u>343,659,294</u>
Unfunded Actuarial Liability	<u>\$ 746,178,405</u>	<u>\$ 677,187,479</u>

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
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%
2003	1,076,231,965	330,053,560	30.7%	746,178,405	123,900,000	602.2%

* 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				Survivors				Total
	Beginning	Additions	Deletions	Ending	Beginning	Additions	Deletions	Ending	
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
2003	517	51	29	539	321	19	15	325	864

Actuarial Section

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date June 30	Active Members			
	Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay
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%
2003	920	123,900,000	134,674	3.1%

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

	FY 2003	FY 2002
Unfunded actuarial liability at Beginning of FY	\$ 677,187,479	\$ 555,357,932
Employer contribution requirement of normal cost plus interest on the unfunded liability	80,733,349	69,702,792
Actual employer contribution for the year	31,440,103	27,532,000
Increase in unfunded liability due to employer contributions being less than normal cost plus interest on unfunded liability	49,293,246	42,170,792
Increase in unfunded liability due to investment return lower than assumed	27,183,676	54,489,350
(Decrease) in unfunded liability due to salary increases lower than assumed	(26,392,926)	(11,821,953)
Increase in unfunded liability due to changes in actuarial assumptions	-	28,381,924
Increase in unfunded liability due to other sources	18,906,930	8,609,434
Total Actuarial Losses	19,697,680	79,658,755
Net increase in unfunded liability for the year	68,990,926	121,829,547
Unfunded actuarial liability at End of FY	\$ 746,178,405	\$ 677,187,479

STATISTICAL SECTION

Statistical Section

ASSET BALANCES

Fiscal Year Ended June 30	Cash	Receivables	Investments*	Fixed Assets	
				Net of Accumulated Depreciation	Total
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
2003	7,324,152	5,362,571	317,541,091	2,306	330,230,120

* 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
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	187,394,372	227,166,857	314,561,229	314,718,137
1998	125,360	94,222,326	262,470,610	356,692,936	356,818,296
1999	53,742	100,902,055	288,859,868	389,761,923	389,815,665
2000	60,810	106,785,540	316,148,180	422,933,720	422,994,530
2001	51,195	110,566,634	271,166,947	381,733,581	381,784,776
2002	80,669	116,811,581	226,847,713	343,659,294	343,739,963
2003	176,560	121,873,715	208,179,845	330,053,560	330,230,120

* 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			Total	Net Investment Revenue/(Loss)*	Total
		State of Illinois	Other Sources	Total			
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	
2003	12,904,997	31,373,000	67,103	31,440,103	(226,117)	44,118,983	

* 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.

Statistical Section

EXPENSES BY TYPE

Fiscal Year Ended June 30	Benefits	Refunds of Contributions	Administrative Expenses	Total
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
2003	56,714,562	582,469	427,686	57,724,717

BENEFIT EXPENSES BY TYPE

Fiscal Year Ended June 30	Retirement Annuities	Survivors Annuities	Total
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
2003	44,507,057	12,207,505	56,714,562

Statistical Section

NUMBER OF RECURRING BENEFIT PAYMENTS

On June 30	Retirement Annuities	Survivors' Annuities	Total
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
2003	539	325	864

NUMBER ON ACTIVE PAYROLLS

On June 30	Supreme Court Justices	Appellate Court Justices	Circuit Court Judges	Retired Judges Recalled	Admin. Office of Courts	Total
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
2003	7	42	862	12	-	923

ACTIVE RETIREES BY STATE



Statistical Section

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
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
2003	63.8	17.8	72.4	7,107

* in years

NUMBER OF PARTICIPANTS

At June 30	Active	Inactive	Total
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
2003	920	42	962

Statistical Section

TERMINATION REFUNDS

Fiscal Year Ended June 30	Number	Amount
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	-
2003	2	57,588

**Annuitants by Benefit Range
(Monthly)
on June 30, 2003**

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
\$ 1-500	1	1	0.2	0.2
501-1000	9	10	1.7	1.9
1001-1500	7	17	1.3	3.2
1501-2000	6	23	1.1	4.3
2001-2500	12	35	2.2	6.5
2501-3000	15	50	2.8	9.3
3001-3500	12	62	2.2	11.5
3501-4000	15	77	2.8	14.3
4001-4500	10	87	1.9	16.2
4501-5000	15	102	2.8	19.0
5001-5500	21	123	3.9	22.9
5501-6000	31	154	5.8	28.7
6001-6500	33	187	6.1	34.8
6501-7000	31	218	5.8	40.6
7001-7500	36	254	6.7	47.3
7501-8000	39	293	7.2	54.5
8001-8500	53	346	9.8	64.3
8501-9000	49	395	9.1	73.4
9001-9500	62	457	11.5	84.9
9501-10000	60	517	11.1	96.0
over 10000	22	539	4.0	100.0

**Survivors by Benefit Range
(Monthly)
on June 30, 2003**

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
\$ 1-500	21	21	6.5	6.5
501-1000	30	51	9.2	15.7
1001-1500	22	73	6.8	22.5
1501-2000	25	98	7.7	30.2
2001-2500	23	121	7.1	37.3
2501-3000	30	151	9.2	46.5
3001-3500	23	174	7.1	53.6
3501-4000	21	195	6.5	60.1
4001-4500	32	227	9.8	69.9
4501-5000	34	261	10.5	80.4
5001-5500	27	288	8.3	88.7
5501-6000	20	308	6.1	94.8
6001-6500	14	322	4.3	99.1
6501-7000	2	324	.6	99.7
7001-7500	0	324	.0	99.7
7501-8000	1	325	0.3	100.0

PLAN SUMMARY & LEGISLATIVE SECTION

Plan Summary

**SUMMARY OF RETIREMENT SYSTEM PLAN
(As of June 30, 2003)**

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.

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.

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.

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.

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.

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. 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.

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

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:

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.

Retirement Annuity	7.5%
Automatic Annual Increase	1.0%
Survivors' Annuity	2.5%
Total	<u>11.0%</u>

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

B. Amount of Annuity

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

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

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

C. Annual Increases in Retirement Annuity

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

D. Suspension of Retirement Annuity

The retirement annuity to any judge shall be suspended:

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

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

6. SURVIVORS' ANNUITY**A. Qualification of Survivor**

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

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

B. Amount of Payment

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

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

Plan Summary

The benefit payment amount to a surviving spouse would be a prorated share of the full benefit amount noted above if the participant married or remarried after becoming a participant and elected to contribute for the survivors' annuity benefit prospectively from the date of marriage or remarriage.

C. Annual Increases in Survivors' Annuity

Increases of 3% of the current amount of annuity are granted to survivors in each January occurring on or after the commencement of the annuity if the deceased participant died while receiving a retirement annuity.

In the event of an active participant's death, increases of 3% of the current amount of annuity are granted to survivors effective in January of the year next following the first anniversary of the commencement of the annuity and in January of each year thereafter.

D. Duration of Payment

When all children, except for disabled children, are ineligible because of death, marriage or attainment of age 18 or age 22 in the case of a full-time student, the spouse's benefit is suspended if the spouse is under age 50 until attainment of such age.

7. DEATH BENEFITS

The following lump sum death benefits are payable to the named beneficiaries or estate of the participant only if there are no eligible survivors' annuity beneficiaries surviving the deceased participant.

A. Before Retirement

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

B. After Retirement

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

The following lump sum death benefit is payable to the named beneficiaries or estate of the survivor.

A. Death of Survivor Annuitant

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

8. DISABILITY BENEFIT

A. Permanent Total Disability

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

B. Temporary Total Disability

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

9. REFUND OF CONTRIBUTIONS

A participant who terminates service as a judge may obtain a refund of total contributions made to the System, without interest, provided the participant is not immediately eligible to receive a retirement annuity. By accepting a refund, a participant forfeits all accrued rights and benefits in the System for his or herself and beneficiaries.

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

LEGISLATIVE AMENDMENTS

Legislative Section

Legislative amendments with an effective date during fiscal year 2003 having an impact on the System.

House Bill 2660 (P.A. 93-0002, effective April 7, 2003)

Authorizes the State to issue \$10 billion of general obligation bonds (GOB) for the purpose of making required contributions to the five state-funded retirement systems, including the Judges' Retirement System. The net GOB proceeds are to be allocated to each of the five state-funded retirement systems based on each system's relative percentage of the total unfunded liability at June 30, 2002.

Modifies the existing funding plan by stating that, beginning in fiscal year 2005, and continuing through the life of the GOB program, the required state contribution to each system shall not exceed the contribution which would have been required had the GOB program not been effected, reduced by the total debt service for that year, including principal and interest, for that system's portion of the GOB proceeds.

NEW LEGISLATION

There were no legislative amendments with an effective date subsequent to June 30, 2003 having an impact on the System.