

State of Illinois
Judges' Retirement System

Compliance Examination

For the Year Ended June 30, 2009
Performed as Special Assistant Auditors for
the Auditor General, State of Illinois

BKD_{LLP}
CPAs & Advisors

**Judges' Retirement System
of the State of Illinois
Compliance Examination
For the Year Ended June 30, 2009**

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**Judges' Retirement System
of the State of Illinois
Compliance Examination
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The financial statements of the Judges' Retirement System of Illinois for the year ended June 30, 2009, are published in a separate document and are supported herein by reference.

* Unaudited information is presented for informational purposes only and is not intended to be presented in conformity with accounting principles generally accepted in the United States of America.

Judges' Retirement System of the State of Illinois

June 30, 2009

System Officials

Acting Executive Secretary
Division Manager
Accounting Division Supervisor
Legal Counsel

Timothy B. Blair
Position vacant
David M. Richter, CPA
Attorney General's Office

Office Locations

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



STATE
RETIREMENT
SYSTEMS

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

Internet: <http://www.state.il.us/srs>

E-Mail: ser@mail.state.il.us

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

April 6, 2010

BKD, LLP
Certified Public Accountants
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Decatur, IL 62525-1580

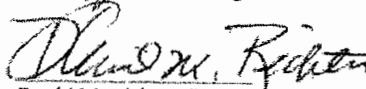
We are responsible for the identification of, and compliance with, all aspects of laws, regulations, contracts, or grant agreements that could have a material effect on the operations of the System. We are responsible for and we have established and maintained an effective system of internal controls over compliance requirements. We have performed an evaluation of the System's compliance with the following assertions during period ended June 30, 2009. Based on this evaluation, we assert that during the year ended June 30, 2009 the System has materially complied with the assertions below.

- The 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.
- The 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.
- The System has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- The State revenues and receipts collected by the system are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- The money or negotiable securities or similar assets handled by the System on behalf of the State or held in trust by the System have been properly and legally administered, and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

Yours very truly,

Judges' Retirement System of Illinois


Timothy B. Blair, Acting Executive Secretary


David M. Richter, CPA, Accounting Division Supervisor



Compliance Report

**Judges' Retirement System
of the State of Illinois
Compliance Report Summary
June 30, 2009**

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

Accountants' Reports

The Independent Accountants' Report on State Compliance, on Internal Control Over Compliance, and on Supplementary Information for State Compliance Purposes does not contain scope limitations, disclaimers or other significant non-standard language.

Summary of Findings

Number of	Current Report	Prior Report
Findings	None	2
Repeated findings	None	None
Prior recommendations implemented or not repeated	2	1

Details of the findings are presented in a separately tabbed report section.

Summary of Findings and Recommendations

Item No.	Page	Description	Finding Type
Current Findings			
	7	No matters are reportable	
Prior Finding Not Repeated			
A	8	Journal Entry Review	
B	8	Credit Card Policy	

Exit Conference

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

**Independent Accountants' Report on State Compliance,
on Internal Control Over Compliance, and on Supplementary
Information for State Compliance Purposes**

Honorable William G. Holland
Auditor General
State of Illinois
and
The Board of Trustees
Judges' Retirement System of the State of Illinois

Compliance

As Special Assistant Auditors for the Auditor General, we have examined the Judges' Retirement System of the State of Illinois' (System) compliance with the requirements listed below, as more fully described in the *Audit Guide for Financial Audits and Compliance Attestation Engagements of Illinois State Agencies* (Audit Guide) as adopted by the Auditor General, during the year ended June 30, 2009. The management of the Judges' Retirement System of the State of Illinois is responsible for compliance with these requirements. Our responsibility is to express an opinion on the System's compliance based on our examination.

- A. The 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. The 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. The System has complied, in all material respects, with applicable laws and regulations, including the State uniform accounting system, in its financial and fiscal operations.
- D. State revenues and receipts collected by the System are in accordance with applicable laws and regulations and the accounting and recordkeeping of such revenues and receipts is fair, accurate and in accordance with law.
- E. Money or negotiable securities or similar assets handled by the System on behalf of the State or held in trust by the System have been properly and legally administered and the accounting and recordkeeping relating thereto is proper, accurate and in accordance with law.

We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants; the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States; the Illinois State Auditing Act (Act); and the Audit Guide as adopted by the Auditor General pursuant to the Act; and, accordingly, included examining, on a test basis, evidence about the System's compliance with those requirements listed in the first paragraph of this report and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the System's compliance with specified requirements.

In our opinion, the System complied, in all material respects, with the requirements listed in the first paragraph of this report during the year ended June 30, 2009.

Internal Control

The management of the System is responsible for establishing and maintaining effective internal control over compliance with the requirements listed in the first paragraph of this report. In planning and performing our examination, we considered the System's internal control over compliance with the requirements listed in the first paragraph of this report as a basis for designing our examination procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Audit Guide, issued by the Illinois Office of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of the System's internal controls over compliance. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over compliance.

A *deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with the requirements listed in the first paragraph of this report on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a requirement listed in the first paragraph of this report will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance with the requirements listed in the first paragraph of this report was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. There were no immaterial findings that have been excluded from this report.

Supplementary Information for State Compliance Purposes

As Special Assistant Auditors for the Auditor General, we have audited the basic financial statements of the System as of and for the years ended June 30, 2009 and 2008, and have issued our report thereon dated February 2, 2010. The accompanying supplementary information, as listed in the table of contents as Supplementary Information for State Compliance Purposes, is presented for purposes of additional analysis and is not a required part of the basic financial statements of the System. The Supplementary Information for State Compliance Purposes, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit 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.

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

BKD, LLP

April 6, 2010

**Judges' Retirement System
of the State of Illinois**

Schedule of Findings

June 30, 2009

Current Findings

No matters are reportable.

**Judges' Retirement System
of the State of Illinois
Schedule of Findings
June 30, 2009**

Prior Findings Not Repeated

A. Finding – Journal Entry Review

During the prior audit, we noted the System did not have a process for review of financial journal entries by a person independent of the person that initiates them. (Finding Code No. 08-1)

During the current audit, we noted the System implemented a process to have all financial journal entries reviewed by an independent person.

B. Finding – Credit Card Policy

During the prior audit, we noted the System did not have a written policy relating to the use, reporting and safeguarding of their purchasing card. (Finding Code No. 08-2)

During the current audit, we noted the policy was approved and based upon our sample testing properly followed.

**Supplementary Information
for State Compliance Purposes**

Judges' Retirement System of the State of Illinois

Supplementary Information for State Compliance Purposes

Summary

June 30, 2009

Supplementary Information for State Compliance Purposes presented in this section of the report includes the following:

- Fiscal Schedules and Analysis:
 - Schedule of Appropriations, Expenditures and Lapsed Balances
 - Comparative Schedules of Net Appropriations, Expenditures and Lapsed Balances
 - Comparative Schedules of Revenues and Expenses
 - Comments on Significant Variations Between Certain Revenue Accounts
 - Comparative Schedules of Administrative Expenses
 - Analysis of Significant Variations in Expenses
 - Schedule of Changes in State Property
 - Schedule of Reconciliation of Revenue to Cash Receipts and to Deposits Remitted to the State Comptroller
 - Schedules of Funding Progress and Employer Contributions
 - Analysis of Significant Statement of Plan Net Asset Accounts
 - Analysis of Investment Performance (Unaudited)

- Analysis of Operations:
 - System's Functions and Planning Program
 - Progress in Funding the System
 - Rates of Return (Unaudited)
 - System Employees
 - Comparison of Administrative Expenses to Total Expenses
 - Proceeds from General Obligation Bonds, Pension Funding Series June 2003 (Unaudited)
 - Schedule of Contributions/Deductions and Effect on Investments
 - Service Efforts and Accomplishments (Unaudited)

The accountants' report that covers the Supplementary Information for State Compliance Purposes presented in the Compliance Report Section states that it has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in the accountants' 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 basic financial statements taken as a whole.

Fiscal Schedules and Analysis

**Judges' Retirement System
of the State of Illinois**
Schedule of Appropriations, Expenditures and Lapsed Balances
For the Fourteen Months Ended August 31, 2009

	Appropriations (Net After Transfers)	Expenditures Through June 30, 2009	Lapse Period Expenditures July 1, 2008 through August 31, 2009	Total Expenditures	Balances Lapsed
General Revenue Fund					
State's contribution to the System, regular (Public Act 95-0734)	\$ 59,983,000	\$ 59,983,000	\$ —	\$ 59,983,000	\$ —
Total all appropriated funds	<u>\$ 59,983,000</u>	<u>59,983,000</u>	<u>—</u>	<u>59,983,000</u>	<u>\$ —</u>
Nonappropriated Funds					
Benefits and other nonadministrative expenditures					
Pensions and annuities		85,991,774	—	85,991,774	
Nonrecurring refunds and distributions		391,366	—	391,366	
Refunds, prior calendar year contributions		57,943	—	57,943	
Refunds, not elsewhere classified		<u>200,000</u>	<u>—</u>	<u>200,000</u>	
		<u>86,641,083</u>	<u>—</u>	<u>86,641,083</u>	
Administrative expenditures					
Personal services		376,469	16,254	392,723	
Employee retirement pickup		15,070	651	15,721	
Retirement contributions		79,304	3,423	82,727	
Social Security contributions		27,776	1,208	28,984	
Group insurance		72,142	2,835	74,977	
Contractual services		160,104	9,806	169,910	
Travel		6,580	—	6,580	
Purchase of investments		—	—	—	
Commodities		955	25	980	
Printing		—	4,020	4,020	
Equipment		767	—	767	
Electronic data processing		4,603	2,802	7,405	
Telecommunications		3,064	266	3,330	
Automotive		<u>2,048</u>	<u>113</u>	<u>2,161</u>	
		<u>748,882</u>	<u>41,403</u>	<u>790,285</u>	
Total nonappropriated funds		<u>87,389,965</u>	<u>41,403</u>	<u>87,431,368</u>	
Grand total, all Funds		<u>\$ 147,372,965</u>	<u>\$ 41,403</u>	<u>\$ 147,414,368</u>	

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

**Judges' Retirement System
of the State of Illinois**
**Comparative Schedules of Net Appropriations,
Expenditures and Lapsed Balances**
For the Years Ended June 30, 2009, 2008 and 2007

	Fiscal Year		
	2009 P.A. 95-0734	2008 P.A. 95-0348	2007 P.A. 94-0798
General Revenue Fund			
Appropriations (net after transfers)	\$ 59,983,000	\$ 46,872,500	\$ 35,236,800
Expenditures, State contributions	<u>59,983,000</u>	<u>46,872,500</u>	<u>35,236,800</u>
Lapsed balances	\$ <u> </u>	\$ <u> </u>	\$ <u> </u>

**Judges' Retirement System
of the State of Illinois**
Comparative Schedules of Revenues and Expenses
For the Years Ended June 30, 2009 and 2008

	2009	2008
Revenue		
Contributions		
Participants	\$ 15,763,410	\$ 15,443,114
Employer	<u>59,983,000</u>	<u>46,977,961</u>
Total contributions	<u>75,746,410</u>	<u>62,421,075</u>
Investments		
Net investment income	12,235,805	15,181,515
Interest earned on cash balances	334,625	661,567
Net appreciation (depreciation) in fair value of investments	<u>(135,286,901)</u>	<u>(53,819,542)</u>
Total net investment income (loss)	<u>(122,716,471)</u>	<u>(37,976,460)</u>
Total revenue	<u>(46,970,061)</u>	<u>24,444,615</u>
Expenses		
Benefits		
Temporary disability	81,674	47,643
Retirement annuities	68,876,522	64,863,585
Survivors' annuities	<u>16,861,343</u>	<u>15,601,364</u>
Total benefits	<u>85,819,539</u>	<u>80,512,592</u>
Refunds of contributions	449,309	842,003
Administrative expenses	<u>565,588</u>	<u>500,396</u>
Total expenses	<u>86,834,436</u>	<u>81,854,991</u>
Revenue over (under) expenses	\$ <u>(133,804,497)</u>	\$ <u>(57,410,376)</u>

Judges' Retirement System of the State of Illinois

Comments on Significant Variations Between Certain Revenue Accounts For the Years Ended June 30, 2009 and 2008

	2009	2008	Increase (Decrease)
Contributions from participants	\$ 15,763,410	\$ 15,443,114	\$ 320,296 (1)
Contributions from employer	59,983,000	46,977,961	13,005,039 (2)
Net investment income and interest earned on cash balances	12,570,430	15,843,082	(3,272,652) (3)
Net appreciation (depreciation) in fair value of investments	(135,286,901)	(53,819,542)	(81,467,359) (3)

(1) This increase is primarily due to an increase in the amount of optional service purchases and an increase in the total covered payroll during the year ended June 30, 2009.

(2) This increase is due to the State's funding plan (Public Act 88-0593 as modified by Public Act 93-0002 and Public Act 94-0004).

(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, 2009.

These variations are due to the net change in overall market performance, especially in the equity markets. Overall, the ISBI's rate of return decreased to a negative 20.1 percent during the fiscal year ended June 30, 2009, from negative 6.2 percent during the fiscal year ended June 30, 2008.

**Judges' Retirement System
of the State of Illinois**
Comparative Schedules of Administrative Expenses
For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Personal services	\$ 274,906	\$ 251,377
Employee retirement contributions paid by employer	11,005	10,066
Employer retirement contributions	57,909	41,677
Social Security contributions	20,289	18,624
Group insurance	52,484	52,796
Contractual services	122,747	98,437
Travel	5,972	3,942
Commodities	686	546
Printing	4,020	4,375
Electronic data processing	5,183	9,310
Telecommunications	2,331	2,292
Automotive	1,513	1,049
Depreciation	1,114	1,420
Change in accrued compensated absences	<u>5,429</u>	<u>4,485</u>
Total	<u>\$ 565,588</u>	<u>\$ 500,396</u>

**Judges' Retirement System
of the State of Illinois**
Analysis of Significant Variations in Expenses
For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>	<u>Increase (Decrease)</u>
Retirement annuities	\$ 68,876,522	\$ 64,863,585	\$ 4,012,937 (1)
Survivor annuities	16,861,343	15,601,364	1,259,979 (2)
Refunds of contributions	449,309	842,003	(392,694) (3)

(1) This increase is due to a net increase in the number of annuitants during the year ended June 30, 2009, 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) This increase is due to a net increase in the number of survivor annuitants during the year ended June 30, 2009, as well as new survivor 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.

(3) This decrease is primarily due to a decrease in the amount of death, termination, and survivor refunds partially offset by an increase in the amount of error contribution refunds during the year ended June 30, 2009.

**Judges' Retirement System
of the State of Illinois**
Schedule of Changes in State Property
For the Year Ended June 30, 2009

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Equipment	\$ 32,818	\$ 537	\$ —	\$ 33,355
Accumulated depreciation	<u>(28,923)</u>	<u>(1,114)</u>	<u>—</u>	<u>(30,037)</u>
Equipment, net	<u>\$ 3,895</u>	<u>\$ (577)</u>	<u>\$ —</u>	<u>\$ 3,318</u>

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

Judges' Retirement System of the State of Illinois

Schedule of Reconciliation of Revenue to Cash Receipts and to Deposits Remitted to the State Comptroller For the Years Ended June 30, 2009 and 2008

	2009	2008
Total revenue for the year	\$ (46,970,061)	\$ 24,444,615
Add (deduct)		
Net investment income reinvested in the Illinois State Board of Investment (ISBI) Commingled Fund	(12,235,805)	(15,181,515)
Net (appreciation) depreciation in fair value of investments reinvested in the ISBI Commingled Fund	135,286,901	53,819,542
Administrative expenses allocated to and reimbursable from the General Assembly Retirement System, State of Illinois	204,009	184,047
Receivables (net of refundable annuities)		
Beginning of year	4,172,458	228,550
End of year	(25,325,252)	(4,172,458)
Cash transfers from ISBI	30,500,000	30,400,000
Cancellation of annuities, net of overpayments	173,500	122,199
Cancellation of administrative expenses	—	708
Current year miscellaneous income netted against administrative expense	275	230
Total cash receipts per book	85,806,025	89,845,918
Add (deduct)		
Deposits in transit:		
Beginning of year	398	—
End of year	(5,036)	(398)
Cash in transit:		
Beginning of year (NSF item)	43,034	(3,455)
End of year	—	(43,034)
Interest on cash balances	(360,036)	(660,943)
Cancellation of annuities	(173,500)	(118,745)
Cancellation of refunds	—	—
Cancellation of administrative expenses	—	(708)
Miscellaneous	1,500	—
Deposits remitted to the State Comptroller for order into the State Treasury	\$ 85,312,385	\$ 89,018,635

Judges' Retirement System of the State of Illinois

Schedules of Funding Progress and Employer Contributions For the Years Ended June 30, 2009 and 2008

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)
6/30/04	\$ 534,579,823	\$1,156,092,951	\$ 621,513,128	46.2%	\$127,200,000	488.6%
6/30/05	564,999,447	1,236,512,156	671,512,709	45.7	128,700,000	521.8
6/30/06	599,234,149	1,291,394,861	692,160,712	46.4	135,400,000	511.2
6/30/07	670,090,950	1,385,339,573	715,248,623	48.4	142,900,000	500.5
6/30/08	612,680,574	1,457,336,054	844,655,480	42.0	143,700,000	587.8
6/30/09	616,849,071	1,548,509,535	931,660,464	39.8	155,645,000	598.6

* For fiscal years prior to 2009, the actuarial value of assets was equal to the fair value of assets. Beginning in fiscal year 2009, the actuarial value of assets was equal to the fair value of assets adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.

Schedule 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
2004	\$ 63,261,895	57.7%	\$ 36,526,000	100.0% (1)
2005	57,749,460	55.4	31,991,000	100.0
2006	62,927,993	46.4	29,189,400	100.0
2007	73,371,653	48.0	35,236,800	100.0
2008	75,134,070	62.4	46,872,500	100.0
2009	78,386,597	76.5	59,983,000	100.0

(1) This percentage excludes the additional employer contributions received from the sale of General Obligation bonds by the State of Illinois. These proceeds were not part of the current fiscal year required contributions.

Judges' Retirement System of the State of Illinois

Schedules of Funding Progress and Employer Contributions For the Years Ended June 30, 2009 and 2008

Notes to Required Supplementary Information

Valuation date	June 30, 2009
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	30 years, open
(b) Per State Statute	36 year, closed
Asset valuation method	Fair value, adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.
Actuarial assumptions:	
Investment rate of return	8.0 percent per year, compounded annually
Projected salary increases	5.0 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
Mortality Rates:	
Active and retired members	The UP-1994 Mortality Table for Males, rated down 2 years
Survivors	The UP-1994 Mortality Table for Females, rated down 1 year

Judges' Retirement System of the State of Illinois

Analysis of Significant Statement of Plan Net Asset Accounts For the Years Ended June 30, 2009 and 2008

Cash Balances

	2009	2008
Cash in State Treasury	\$ <u>17,991,016</u>	\$ <u>19,411,250</u>

The decrease 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).

Receivables

	2009	2008
Employer contributions	\$ 24,992,915	\$ 3,906,042
Participants' contributions	263,353	175,767
Refundable annuities	20,413	14,545
Interest on cash balances	13,239	38,650
Administrative expense reimbursement	26,420	—
Due from General Assembly Retirement System, State of Illinois	55,745	51,999
Total receivables	\$ <u>25,372,085</u>	\$ <u>4,187,003</u>

The increase in receivables was due to an increase in employer contributions receivable from the State. No receivables were deemed uncollectible at June 30, 2009.

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 the State of Illinois**
Analysis of Significant Statement of Plan Net Asset Accounts
For the Years Ended June 30, 2009 and 2008

Investments (continued)

Comparison of the changes in the System's investments held in the ISBI Commingled Fund for the years ended June 30, 2009 and 2008 is summarized as follows:

	<u>2009</u>	<u>2008</u>
Balance at beginning of year, at fair value	\$ 589,155,697	\$ 658,193,724
Net cash transferred (from) investments	<u>(30,500,000)</u>	<u>(30,400,000)</u>
	<u>558,655,697</u>	<u>627,793,724</u>
Investment income		
Commingled Fund Income	14,354,450	17,361,610
Expenses	<u>(2,118,645)</u>	<u>(2,180,095)</u>
Net investment income	<u>12,235,805</u>	<u>15,181,515</u>
Net appreciation (depreciation) in fair value of investments		
Net unrealized gain (loss) on investments	(67,881,101)	(84,864,265)
Net realized gain (loss) on sales of investments	<u>(67,405,800)</u>	<u>31,044,723</u>
Net appreciation (depreciation) in fair value of investments	<u>(135,286,901)</u>	<u>(53,819,542)</u>
Total net investment income (loss)	<u>(123,051,096)</u>	<u>(38,638,027)</u>
Balance at end of year, at fair value	<u>\$ 435,604,601</u>	<u>\$ 589,155,697</u>

**Judges' Retirement System
of the State of Illinois
Analysis of Investment Performance (Unaudited)
For the Years Ended June 30, 2009**

An analysis of investment performance for the years ended June 30, 2009 and 2008 is summarized as follows:

	<u>2009</u>	<u>2008</u>
Total return*	(20.1)%	(6.2)%

* Total return is the combined effect of income earned and market appreciation (depreciation).

Analysis of Operations

Judges' Retirement System of the State of Illinois

Analysis of Operations For the Years Ended June 30, 2009 and 2008

System's Functions and Planning Program

The Judges' Retirement System of Illinois (System) 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 (Board) and Mr. Timothy B. Blair is the Acting 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 2009, the System evaluated and expanded the services available to members through the System's Internet site, and continued to offer pre-retirement, post-retirement and one-on-one counseling sessions at various locations throughout the State.

During fiscal year 2010, the System will further 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 throughout the State.

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.

**Judges' Retirement System
of the State of Illinois
Analysis of Operations
For the Years Ended June 30, 2009 and 2008**

Progress in Funding the System

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 percent. 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 percent 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 those 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 Bond, Pension Funding Series of June 2003.

In June 2005, Public Act 94-0004 became law. This legislation further modified the funding plan by reducing the amount of required employer contributions for fiscal years 2006 and 2007 that would have otherwise been required under Public Act 88-0593, as modified by Public Act 93-0002. This act specified the appropriation amounts for fiscal years 2006 and 2007. The required State contributions for fiscal years 2008 through 2010 will then 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 of a 90% funded status by the end of fiscal year 2045.

**Judges' Retirement System
of the State of Illinois
Analysis of Operations
For the Years Ended June 30, 2009 and 2008**

Public Act 96-0043 became law on July 15, 2009. As required under PA 96-0043, the method for determining the actuarial value of assets used to determine the employer contribution rate was changed beginning with the June 30, 2009 valuation. The method was changed from the market/fair value to a smoothed value. The smoothed value recognizes actuarial investment gains or losses for each fiscal year, beginning with FY09, in equal amounts over the ensuing five-year period. The System incurred an actuarial loss of \$166.6 million in FY09. Per statutory requirement, 20% is recognized in the actuarial value of assets as of June 30, 2009, and recognition of the remaining 80%, or \$133.3 million, will be deferred and recognized in equal amounts over the next four valuations. Depending on whether the total net deferral is an investment gain or loss, the smoothing method will produce a contribution rate that is more or less than the rate based on the market/fair value. As of the June 30, 2009 valuation the total net deferral is a \$133.3 million loss, resulting in a contribution that is lower than it would be if the assets were valued at market/fair value.

The actuarial accrued liability of the System at June 30, 2009, amounted to approximately \$1,548.5 million. The actuarial value of assets (at smoothed value) at June 30, 2009 amounted to approximately \$616.8 million. The difference between the actuarial accrued liability and the actuarial value of assets of \$931.7 million reflects the unfunded actuarial accrued liability of the System at June 30, 2009. The System had a funded ratio (at smoothed value) of 39.8% at June 30, 2009.

The value of assets at June 30, 2009 using the market/fair value (valuation method used June 30, 2008) would have been \$478.9 million, giving rise to an unfunded accrued liability of approximately \$1,069.6 million. When using the market/fair value the System would have had a funded ratio of 30.9% at June 30, 2009.

The market/fair value of the assets of the fund, that were available for benefits, had decreased from \$612.7 million as of June 30, 2008 to \$478.9 million as of June 30, 2009. This decrease is due to the unfavorable return on fund assets. The actuarial value of the assets of \$616.8 million at June 30, 2009, is \$137.9 million higher than the market/fair value of the assets due to recognition of only 20% of the actuarial loss in fiscal year 2009.

The Governmental Accounting Standards Board (GASB) has promulgated Statements No. 25 and 27 that mandate, among other things, the use of market or market related (actuarial) asset value. Prior to the valuation as of June 30, 2009, it was agreed that market/fair value, without adjustment, would be used for all actuarial purposes. Under Public Act 96-0043, effective in the June 30, 2009 valuation, the contribution projections would be set based on the actuarial value of assets. Funding status determinations and the Annual Required Contributions (ARC) were calculated based on the actuarial value of assets. Had this change not been enacted, the ARC and the statutory contribution would have been higher and as noted, the funding status would be 30.9% rather than the 39.8%.

**Judges' Retirement System
of the State of Illinois
Analysis of Operations
For the Years Ended June 30, 2009 and 2008**

State required contributions to the System for the next five fiscal years are noted in the table below.

Year Ended June 30	Required State Contribution (in millions)
2010	\$ 78.8
2011	90.3
2012	93.7
2013	98.0
2014	102.1

The Schedule of Funding Progress (in millions) for fiscal years ending June 30, 2008 and 2009 are noted in the table below.

Actuarial Valuation Date	Actuarial Value of Assets*	Accrued Liability (AAL-Projected Unit Credit)	Funded Ratio	Unfunded Actuarial Accrued Liability (UAAL)	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered payroll
6/30/08	\$ 612.7	\$ 1,457.3	42.0%	\$ 844.7	\$ 143.7	587.8%
6/30/09	616.8	1,548.5	39.8	931.7	155.6	598.6

*Market value through FY08. Five-year smoothing beginning in FY09.

The Schedule of Employer Contributions (in millions) for the fiscal years ending June 30, 2008 and 2009 are noted in the table below.

Year Ended June 30	Employer Contributions	Annual Required Contribution per GASB Statement #25	Percentage Contributed	Annual Required Contribution per State Statute	Percentage Contributed
2008	\$ 46.9	\$ 75.1	62.4%	\$ 46.9	100.0%
2009	60.0	78.4	76.5	60.0	100.0

The Government Accounting Standards Board (GASB) requires disclosure of the Annual Required Contribution (ARC) under a standard funding methodology. Amounts shown as the ARCs for each year are different from the contributions required by State statute. The cumulative difference between the ARC and the annual required contribution per State statute represents the net pension obligation (NPO). The NPO is \$413.4 million at June 30, 2009, which is an increase of \$27.4 million from the June 30, 2008 NPO of \$386.0 million.

**Judges' Retirement System
of the State of Illinois
Analysis of Operations
For the Years Ended June 30, 2009 and 2008**

Rates of Return (Unaudited)

Pursuant to Article 22A of the Illinois Pension Code, investments of the Judges' Retirement System of Illinois are managed by the Illinois State Board of Investment (ISBI) and are held in the ISBI Commingled Fund. ISBI operates under a long-range investment plan with the objective to maximize the total rate of return. The objectives set forth are as follows:

- At least equal to the assumed actuarial interest rate, currently 8.0% per year.
- At least equal to the return of a composite benchmark of market indices in the same proportions as the Board's asset allocation policy targets

The investment return for FY08 and FY09, net of fees, was (5.8%) and 2.51% respectively. The overall rate of return for the Illinois State Board of Investment (ISBI) Commingled Fund was (20.1%) for fiscal year 2009 compared to (6.2%) for fiscal year 2008. The ISBI's total fund performance lagged the composite benchmark by (3.1%) for the year ended June 30, 2009. The investment return also lagged the 8.0% actuarial return assumption.

**Judges' Retirement System
of the State of Illinois
Analysis of Operations
For the Years Ended June 30, 2009 and 2008**

System Employees

The average number of employees during the years ended June 30, 2009 and 2008 are functionally classified as follows:

	2009	2008
Executive and administrative	3	3
Accounting, bookkeeping and clerical	3	3
Total employees	6	6

Comparison of Administrative Expenses to Total Expenses

	2009	2008
Total expenses		
Benefits	\$ 85,819,539	\$ 80,512,592
Refunds	449,309	842,003
Administrative	565,588	500,396
Total expenses	\$ 86,834,436	\$ 81,854,991
Administrative expenses as a percentage of total expenses	0.7%	0.6%

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 70 percent by the Judges' Retirement System and 30 percent 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 the applicable percent is allocated to and reimbursed by the General Assembly Retirement System of Illinois.

**Proceeds from General Obligation Bonds, Pension Funding Series June 30, 2003
(Unaudited)**

Public Act 93-0002 (Act) became effective on April 7, 2003, and 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 was a "designated retirement system" for the purpose of this law.

**Judges' Retirement System
of the State of Illinois
Analysis of Operations
For the Years Ended June 30, 2009 and 2008**

On June 12, 2003, the State of Illinois issued \$10 billion of General Obligation Bonds, Pension Funding Series June 2003. The net bond proceeds were allocated among the five state-funded retirement systems to reduce their actuarial reserve deficiencies as provided in the Act.

The Judges' Retirement System received their allocation of bond proceeds on July 1, 2003. The Judges' Retirement System's portion of the allocation was \$141,955,483. The monies were deposited into the Master Trust Account with the Illinois State Board of Investment (Board) on July 2, 2003. The Board initially approved investing the pension bond proceeds in separate index funds. These index funds were subsequently liquidated and combined with the Board's other investments and invested in accordance with the asset allocation policy of the Board during the year ended June 30, 2004. The Board estimates the return on the pension bond proceeds earned an annual rate of return of negative 20.1% during the year ended June 30, 2009, which is the same as the overall return for the Board's investment portfolio.

Schedule of Contributions/Deductions and Effect on Investments

Below is a schedule of contributions received by the System and expenditures of the System for benefits and operations and the effect of these transactions on the System's investments.

	<u>2009</u>	<u>2008</u>
Contributions		
Participant Contributions	\$ <u>15,763,410</u>	\$ <u>15,443,114</u>
Employer Contributions		
State of Illinois	59,983,000	46,872,500
Paid by Participants	<u>—</u>	<u>105,461</u>
Total Employer Contributions	<u>59,983,000</u>	<u>46,977,961</u>
Total Contributions	<u>75,746,410</u>	<u>62,421,075</u>
Deductions		
Temporary Disability Benefits	81,674	47,643
Retirement Benefits	68,876,522	64,863,585
Survivor Benefits	16,861,343	15,601,364
Refunds	449,309	842,003
Administrative Expenses	<u>565,588</u>	<u>500,396</u>
Total Deductions	<u>86,834,436</u>	<u>81,854,991</u>
Investments Used to Pay Benefits and Expenses	\$ <u>(11,088,026)</u>	\$ <u>(19,433,916)</u>

**Judges' Retirement System
of the State of Illinois**
Analysis of Operations
For the Years Ended June 30, 2009 and 2008

Service Efforts and Accomplishments (Unaudited)

	<u>2009</u>	<u>2008</u>
Membership data		
Active members	968	957
Inactive members	<u>23</u>	<u>25</u>
Total members	<u>991</u>	<u>982</u>
Benefit payments processed		
Recurring		
Temporary disability	1	1
Retirement annuities (1)	647	624
Survivors' annuities (2)	<u>335</u>	<u>332</u>
Total	<u>983</u>	<u>957</u>
Termination refunds processed	<u>1</u>	<u>4</u>
Retirement counseling*		
One-on-one counseling programs held	23	28
Preretirement seminars held	5	2

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

(1) 98.3 percent of the fiscal year 2009 retirement annuities were processed in less than 30 days.

(2) 100 percent of the fiscal year 2009 survivors' annuities were processed in less than 30 days.