REPORT DIGEST

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

COMPLIANCE AUDIT
For the Year Ended:
June 30, 1996

Summary of Findings:

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

Release Date:
April 23, 1997

State of Illinois
Office of the Auditor General

WILLIAM G. HOLLAND
AUDITOR GENERAL

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Springfield, IL 62703
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INTRODUCTION

This digest covers our compliance audit of the System for the year ended June 30, 1996. A financial audit covering the year ending June 30, 1996 was previously issued.

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 fiscal controls.

FUTURE REPORTING REQUIREMENTS

In November 1994, the Governmental Accounting Standards Board issued Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans". This Statement requires that plan assets be reported at fair value, rather than at cost. In addition, this Statement establishes a new financial reporting framework that will result in significant changes to the financial statements as well as the required supplementary information. The requirements of this Statement are effective for periods beginning after June 15, 1996, with earlier implementation encouraged. If comparative financial statements are presented, restatement of the prior year financial statements is required.

{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, 1996

FINANCIAL OPERATIONS	FY 1996	FY 1995
REVENUES		
Contributions:		
Participants	$ 9,785,891	$ 8,942,657
State General Revenue Fund	11,268,000	9,815,300
State Pension Fund	861,000	990,700
Other	-	345,577
Net investment income	10,383,841	10,785,719
Net realized gain on sale of investments	19,661,969	4,927,137
Other	274,272	287,673
Total Revenue	$ 52,234,973	$ 36,094,763
EXPENSES		
Benefits:		
Retirement annuities	$ 26,186,330	$ 22,701,599
Survivors' annuities	6,910,470	6,476,027
Refunds	503,455	347,711
Administration	305,752	302,417
Total Expenses	$ 33,906,007	$ 29,827,754

SELECTED ACCOUNT BALANCES	JUNE 30, 1996	JUNE 30, 1995
Cash	$4,267,254	$5,514,304
Receivables	$1,114,097	$178,587
Investments, at cost	$227,231,772	$208,585,962
Property and equipment, net of accumulated depreciation	$8,237	$14,298
Liabilities	$188,367	$189,124
Net Assets Available for Benefits	$232,432,993	$214,104,027
Actuarial Pension Obligation	$577,792,256	$523,685,631
Unfunded Pension Liability	$345,359,263	$309,581,604

SUPPLEMENTARY INFORMATION	FY 1996	FY 1995
Number of System employees (shared with General Assembly Retirement System)	8	8
Number of retirees and beneficiaries currently receiving benefits	719	688
Inactive members not yet receiving benefits	35	37
Current Members:		
Vested	576	606
Nonvested	290	269

EXECUTIVE SECRETARY

During Audit Period: Michael L. Mory
Currently: Michael L. Mory

Funding ratio at 48.0% if current market value method is used

The System intends to adopt this Statement beginning with the fiscal year ending June 30, 1997. One effect of this Statement will be to increase the net assets by the difference between fair value and cost of the net assets on the date of adoption. The Statement, however, allows for different valuation methods of assets related to some function of market value (i.e. smoothing of market values over time or current market values) for determining funded status and the annual required contribution. If the System had implemented Statement No. 25 at June 30, 1996 and used the current market value method, the net assets available for benefits would have been $277,098,999 resulting in a funding ratio of 48.0%.

Funding ratio at 40.2% with investments valued at cost

At present, investments are valued at cost or book value as specified by State law. Thus, implementation of Statement No. 25 will require a change to existing State law to comply with generally accepted accounting principles. Net assets available for benefits at cost at June 30, 1996 were $232,432,993 resulting in a funding ratio of 40.2%.

WILLIAM G. HOLLAND, Auditor General

WGH:KMA:pp

SPECIAL ASSISTANT AUDITORS

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

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

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PART I

PART I

McGLADREY & PULLEN, LLP

Certified Public Accountants and Consultants

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) for the year ended June 30, 1996.

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 Comptroller's Uniform Statewide 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 tests which are required to be reported in accordance with the Audit Guide.

As required by the Audit Guide, immaterial findings developed in this special State compliance testing and excluded from this report have been reported in a separate letter to your office.

This report is intended for the information of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and the System's management. However, this report is a matter of public record and its distribution is not limited.

McGladrey & Pullen, LLP

Springfield, Illinois
October 18, 1996

McGLADREY & PULLEN, LLP
Certified Public Accountants and Consultants

REPORT ON COMPLIANCE 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 financial statements of the Judges' Retirement System of Illinois (System), as of and for the year ended June 30, 1996, and have issued our report thereon dated October 18, 1996.

We conducted our audit in accordance with generally accepted auditing standards and 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.

Compliance with laws, regulations and contracts applicable to the System is the responsibility of the System's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the System's compliance with certain provisions of laws, regulations and contracts. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

This report is intended for the information of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor and the System's management. However, this report is a matter of public record and its distribution is not limited.

McGladrey & Pullen, LLP

Springfield, Illinois
October 18, 1996

McGLADREY & PULLEN, LLP

Certified Public Accountants and Consultants

SPECIAL REPORT ON INTERNAL CONTROL STRUCTURE 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, 1996, and have issued our report thereon dated October 18, 1996. We have also made a study of the internal control structure and those internal control policies and procedures 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 procedures during the period from July 1, 1995 through June 30, 1996. These tests were performed as a portion of our testing of that System for State compliance purposes. This report concerns only our State compliance testing.

We conducted our special State compliance testing in accordance with the Audit Guide; applicable generally accepted auditing standards; 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 control structure in order to determine our auditing procedures for the purpose of reporting on our special State compliance testing and to satisfy certain requirements of the Audit Guide, but not to provide assurance on the internal control structure. Accordingly, we do not express such an opinion.

The management of the System is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure polices and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the proper financial reporting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this special report, we have classified the significant internal control structure policies and procedures 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 and Equipment
- Revenues and Receivables
- Electronic Data Processing

For all of the internal control structure 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 control structure would not necessarily disclose all matters in the internal control structure 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 control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in its financial reporting. We also understand that policies and procedures 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 control structure and its operation that we consider to be significant.

We noted immaterial matters involving the internal control structure and its operation that we have reported to the management of the System, and which have been reported to you in a separate letter to your office dated October 18, 1996.

This report is intended for the information of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor and the System's management. However, this report is a matter of public record and its distribution is not limited.

McGladrey & Pullen, LLP

Springfield, Illinois
October 18, 1996

McGLADREY & PULLEN, LLP

Certified Public Accountants and Consultants

REPORT ON INTERNAL CONTROL STRUCTURE 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 financial statements of the Judges' Retirement System of Illinois (System) as of and for the year ended June 30, 1996, and have issued our report thereon dated October 18, 1996.

We conducted our audit in accordance with generally accepted auditing standards and 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.

The management of the System is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the System for the year ended June 30, 1996, we obtained an understanding of the internal control structure. With respect to the internal control structure, 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors and irregularities 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 structure and its operations that we consider to be material weaknesses as defined above.

We noted immaterial matters involving the internal control structure and its operation that we have reported to the management of the System , and which have been reported to you, in a separate letter to your office dated October 18, 1996.

This report is intended for the information of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor and the System's management. However, this report is a matter of public record and its distribution is not limited.

McGladrey & Pullen, LLP

Springfield, Illinois
October 18, 1996

McGLADREY & PULLEN, LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION FOR STATE COMPLIANCE PURPOSES

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the Judges' Retirement System Of Illinois (System), as of and for the year ended June 30, 1996, and have issued our report thereon dated October 18, 1996. These financial statements and the supplementary information referred to below are the responsibility of System management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Illinois State Auditing Act (Act); the auditing standards which are set forth in the Audit Guide as adopted by the Auditor General pursuant to the Act; and in so far as such standards are applicable, in accordance with Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of the Judges' Retirement System of Illinois taken as a whole. The accompanying supplementary information, as listed in the Table of Contents of Part I, is presented for the purpose of additional analysis and is not a required part of the financial statements of the Judges' Retirement System of Illinois. Such information, 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 financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

McGladrey & Pullen, LLP

Springfield, Illinois
October 18, 1996

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

SCHEDULE OF APPROPRIATIONS, EXPENDITURES AND LAPSED BALANCES FOR FISCAL YEAR 1996
Fifteen Months Ended September 30, 1996

APPROPRIATED FUNDS	Appropriations (Net after Transfers)	Expenditures Through June 30, 1996	Lapse Period Expenditures July 1, 1996 Through Sept. 30, 1996	Total Expenditures	Balances Lapsed
General Revenue Fund:					
State contributions to the System, regular (S.B. 925)	$ 11,268,000	$ 11,268,000	$ -	$ 11,268,000	$ -
State Pension Fund:					
Annual allocation to the System, pursuant to Section 8.12 of the State Finance Act (S.B. 925)	861,000	861,000	-	861,000	-
Total all appropriated funds	$ 12,129,000	$ 12,129,000	$ -	$ 12,129,000	$ -

NON-APPROPRIATED FUNDS	Appropriations (Net after Transfers)	Expenditures Through June 30, 1996	Lapse Period Expenditures July 1, 1996 Through Sept. 30, 1996	Total Expenditures	Balances Lapsed
Benefits and other nonadministrative expenditures:					
Pensions and annuities	$ -	$ 33,119,680	$ -	$ 33,119,680	$ -
Non-recurring refunds and distributions	-	473,461	-	473,461	-
Refunds, not elsewhere classified	-	5,227	-	5,227	-
	-	33,598,368	-	33,598,368	-
Administrative expenditures:					
Personal services	-	271,144	11,940	283,084	-
Employee retirement pickup	-	10,861	478	11,339	-
Retirement contributions	-	12,944	570	13,514	-
Social security contributions	-	18,579	833	19,412	-
Group insurance	-	22,052	959	23,011	-
Contractual services	-	61,242	6,443	67,685	-
Travel	-	9,475	826	10,301	-
Commodities	-	681	290	971	-
Printing	-	3,412	398	3,810	-
Equipment	-	738	-	738	-
Electronic data processing	-	13,137	5,420	18,557	-
Telecommunications	-	2,703	1,330	4,033	-
	-	426,968	29,487	456,455	-
Total non-appropriated funds	$ -	$ 34,025,336	$ 29,487	$ 34,054,823	$ -

Note:

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

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

COMPARATIVE SCHEDULES OF REVENUE AND EXPENSES
Years Ended June 30, 1996 and 1995

	1996	1995
Revenue:		
Contributions:		
Participants	$ 9,785,891	$ 8,942,657
State of Illinois:		
General Revenue Fund	11,268,000	9,815,300
State Pension Fund	861,000	990,700
Employers, other than State of Illinois	-	345,577
Total contributions revenue	21,914,891	20,094,234
Investments:		
Net investment income	10,383,841	10,785,719
Net realized gain on sale of investments	19,661,969	4,927,137
Interest earned on cash balances	274,272	287,673
Total investment revenue	30,320,082	16,000,529
Total revenue	52,234,973	36,094,763
Expenses:		
Benefits:		
Retirement annuities	26,186,330	22,701,599
Survivors' annuities	6,910,470	6,476,027
Total benefits	33,096,800	29,177,626
Refunds	503,455	347,711
Administrative	305,752	302,417
Total expenses	33,906,007	29,827,754
Excess of revenue over expenses	$ 18,328,966	$ 6,267,009

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

COMPARATIVE SCHEDULES OF ADMINISTRATIVE EXPENSES
Years Ended June 30, 1996 and 1995

	1996	1995
Personal services	$ 169,850	$ 163,348
Employee retirement contributions paid by employer	6,804	6,194
Employer retirement contributions	8,108	10,141
Social security contributions	11,647	11,266
Group insurance	13,806	20,370
Contractual services	60,266	55,957
Travel	7,886	7,721
Commodities	662	451
Printing	3,666	4,639
Electronic data processing	10,725	10,976
Telecommunications	2,420	1,583
Depreciation	6,474	7,095
Other	3,438	2,676
Total	$ 305,752	$ 302,417

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

RECONCILIATION OF REVENUE TO CASH RECEIPTS AND DEPOSITS REMITTED TO THE STATE COMPTROLLER
Years Ended June 30, 1996 and 1995

	1996	1995
Total revenue for the year	$ 52,234,973	$ 36,094,763
Add (deduct):		
Investment income reinvested in the Illinois State Board of Investment Commingled Fund	(10,383,841)	(10,785,719)
Realized gain on sale of investments reinvested in the Illinois State Board of Investment Commingled Fund	(19,661,969)	(4,927,137)
Administrative expenses allocated to and reimbursable from the General Assembly Retirement System, State of Illinois	168,592	167,928
Receivables (net of refundable annuities):		
Balance at July 1	159,520	189,395
Less balance at June 30	(1,106,848)	(159,520)
Cash transfers from the Illinois State Board of Investment	11,400,000	9,000,000
Participant's current year deferred service credit payments, unearned at year end:		
Balance at July 1	(74,120)	(53,183)
Balance at June 30	58,250	74,120
Cancellation of annuities	28,654	51,720
Current year refunds netted against revenue	-	85,740
Current year deferred service credit payment refunds	-	13,258
Current year miscellaneous income netted against expenses	-	25
Current year contributions due from participants netted against refunds paid to those participants	(25,216)	-
Total cash receipts per book	32,797,995	29,751,390
Add (deduct):		
Deposits in transit:		
Beginning of period	-	7,151
End of period	(796,739)	-
Interest on cash balances	(276,771)	(277,392)
Cancellation of annuities	(28,654)	(51,720)
Deposits remitted to the State Comptroller for order into the State Treasury	$ 31,695,831	$ 29,429,429

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

SCHEDULE OF CHANGES IN OFFICE EQUIPMENT
Year Ended June 30, 1996

	Beginning Balance	Purchases	Deletions	Ending Balance
Equipment	$ 44,338	$ 590	$ (1,355)	$ 43,573
Accumulated depreciation	(30,040)	(6,474)	1,178	(35,336)
Equipment, net	$ 14,298	$ (5,884)	$ (177)	$ 8,237

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

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

SCHEDULE OF ACTUARIALLY DETERMINED PRESENT VALUE OF CREDITED PROJECTED BENEFITS, RESERVE REQUIREMENTS AND FUNDED RESERVES

Years Ended June 30, 1996 and 1995

	1996	1995
Actuarial liability for active members:		
Basic retirement annuity	$ 154,650,600	$ 142,987,748
Annual increase in retirement annuity	41,213,503	38,031,464
Pre-retirement survivors' annuity	34,544,160	31,467,512
Post-retirement survivors' annuity	19,348,019	18,929,600
Withdrawal benefits	1,244,442	1,166,671
Disability benefits	1,599,454	1,495,112
Total actuarial liability for active members	252,600,178	234,078,107
Actuarial liability for members receiving benefits:		
Retirement annuities	255,803,549	225,811,621
Survivor annuities	57,742,840	53,459,056
Total actuarial liability for members receiving benefits	313,546,389	279,270,677
Actuarial liability for inactive members	11,645,689	10,336,847
Present value of credited projected benefits	577,792,256	523,685,631
Funded reserves:		
Participants' contributions (members' payroll contribution rate, 11%)	82,428,000	79,012,691
Future operations, amount available for future benefit payments not provided in other reserves	150,004,993	135,091,336
Total funded reserves	232,432,993	214,104,027
Unfunded present value of credited projected benefits representing an obligation of the State of Illinois	$ 345,359,263	$ 309,581,604

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

SCHEDULE OF UNFUNDED PRESENT VALUE OF CREDITED PROJECTED BENEFITS

For Fiscal Years 1987 through 1996

	Present Value of Credited Projected Benefits For						
	(1)	(2)	(3)		Portion of Accrued Liabilities Covered by Net Real Assets		
Valuation Date	Active and Inactive Member Contributions	Retirement and Survivor Annuitants	Active and Inactive Members (Employer Financed Portion)	Net Real Assets	(1)	(2)	(3)
6/30/87	44,020,513	154,453,849	108,589,706	138,927,534	100	61.4	-
6/30/88	47,271,278	171,513,047	116,523,133	146,534,436	100	57.9	-
6/30/89	50,923,236	168,946,414	99,532,942	156,238,762	100	62.3	-
6/30/90	56,354,255	185,952,152	123,809,986	166,984,434	100	59.5	-
6/30/91	59,623,957	203,184,276	122,719,956	173,989,204	100	56.3	-
6/30/92	63,598,115	224,698,818	135,461,775	187,627,388	100	55.2	-
6/30/93	69,139,981	247,358,088	142,328,365	199,679,764	100	52.8	-
6/30/94	74,318,731	256,978,525	147,832,248	207,837,018	100	52.0	-
6/30/95	79,012,691	279,270,677	165,402,263	214,104,027	100	48.4	-
6/30/96	82,428,000	313,546,389	181,817,867	232,432,993	100	47.8	-

	Funding			
Valuation Date	Reserve Requirement	Net Real Assets	Unfunded Accrued Liabilities	Rate of Funding
6/30/87	307,064,068	138,927,534	168,136,534	45.2
6/30/88	335,307,458	146,534,436	188,773,022	43.7
6/30/89	319,402,592	156,238,762	163,163,830	48.9
6/30/90	366,166,393	166,984,434	199,131,959	45.6
6/30/91	385,528,189	173,989,204	211,538,985	45.1
6/30/92	423,758,708	187,627,388	236,131,320	44.3
6/30/93	458,826,434	199,679,764	259,146,670	43.5
6/30/94	479,129,504	207,837,018	271,292,486	43.4
6/30/95	523,685,631	214,104,027	309,581,604	40.9
6/30/96	577,792,256	232,432,993	345,359,263	40.2

The rate of funding, otherwise referred to as the "security ratio", represents the extent to which accrued liabilities for the computed pension credits are covered by "net real assets". Expressing the "net real assets" available for pension credits as a percentage of the "reserve requirement" provides one indication of the System Trust Fund's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the public employees' retirement system (PERS).

ANALYSIS OF OPERATIONS
Years Ended June 30, 1996 and 1995

Progress In Funding The System

The present value of credited projected benefits of the System at June 30, 1996 amounted to $577.8 million. The assets available at June 30, 1996 amounted to $232.4 million, leaving an unfunded present value of credited projected benefits of $345.4 million.

In August 1994, Governor Edgar signed Senate Bill 533 into law as Public Act 88-0593. This funding legislation, became effective on July 1, 1995 (fiscal year ending June 30, 1996), and provided 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 new 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.

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

ANALYSIS OF OPERATIONS
Years Ended June 30, 1996 and 1995

Comments On Significant Variations Between Certain Revenue Accounts

	1996	1995	Increase (Decrease)	
Contributions from employers, other than State of Illinois	$ -	$ 345,577	$ (345,577)	(1)
Net realized gain on sale of investments	19,661,969	4,927,137	14,734,832	(2)

(1) During fiscal year 1995, two judges transferred service from other agencies to the Judges' Retirement System. There were no such transfers in fiscal year 1996.

(2) Investments are managed by the Illinois State Board of Investment (ISBI) pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statutes and are maintained in the ISBI Commingled Fund. During fiscal year 1996, domestic and foreign equity markets posted impressive returns for the period. A good environment for initial public offerings (IPO's) also led to strong returns for many private equity partnerships. Fixed income, struggling against interest rates trading slightly upward, posted modest returns marginally lower than the coupon return. Real estate, after many years of declining, showed some stabilization during fiscal year 1996, with a return roughly equal to the cash on cash rate of return. Due to the termination of two external investment managers and some reallocation of investments, a large amount of investments were liquidated and reinvested. As a result of the liquidation of investments, realized gains increased and unrealized gains decreased in fiscal year 1996.

ANALYSIS OF OPERATIONS
Years Ended June 30, 1996 and 1995

Comments On Significant Variations Between Certain Expense Accounts

	1996	1995	Increase (Decrease)	
Refunds	$ 503,455	$ 347,711	$ 155,744	(1)

(1) During fiscal year 1995, twenty survivor refunds amounting to $225,000 were paid out. In fiscal year 1996, only five survivor refunds were paid out totaling $110,000. Furthermore, there were not any death before retirement refunds paid out in fiscal year 1995. In fiscal year 1996, there were two death before retirement refunds paid out in the amount of $233,000.

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

ANALYSIS OF OPERATIONS
Years Ended June 30, 1996 and 1995

Comparison Of Administrative Expenses To Total Expenses	1996	1995
Total Expenses:		
Benefits	$ 33,096,800	$ 29,177,626
Refunds	503,455	347,711
Administrative	305,752	302,417
Total expenses	$ 33,906,007	$ 29,827,754
Administrative expenses as a percentage of total expenses	1.0%	1.0%

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 of Illinois and the General Assembly Retirement System, State of Illinois are paid 60% by the Judges' Retirement System of Illinois 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, State of Illinois.

Cash Balances	1996	1995
Cash in State Treasury	$ 4,267,254	$ 5,514,304

The decline in cash in State Treasury is primarily attributable to a decrease in the anticipated cash needs of the System as well as a $939,000 receipt for employer contributions not being received until after year end.

Receivables	1996	1995
Participants' contributions	$ 98,035	$ 89,180
Employer contributions	939,000	-
Refundable annuities	7,249	19,067
Interest on cash balances	20,953	23,452
Due from General Assembly Retirement System	48,860	46,888
Total receivables	$ 1,114,097	$ 178,587

Employer contributions of $939,000 were not received until after year end due to the warrant not being received and a replacement warrant was subsequently issued in its place. No receivables were deemed uncollectible at June 30, 1996.

ANALYSIS OF OPERATIONS
Years Ended June 30, 1996 and 1995

Investments

General information:

Pursuant to Article 22A of the Illinois Pension Code, investments of the Judges' Retirement System of Illinois (System) are managed by the Illinois State Board of Investment (ISBI) and are held in the Commingled Fund of the ISBI. Units of the 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 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. Realized gains and losses on sale of investments are distributed at fiscal year end to the respective systems on the same allocation basis.

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

Comparison of the changes in the System's investments held in the Commingled Fund for the years ended June 30, 1996 and 1995 are summarized as follows:

	1996	1995
Balance at beginning of year, at cost	$ 208,585,962	$ 201,873,106
Cash transferred from the ISBI, net	(11,400,000)	(9,000,000)
	197,185,962	192,873,106
Investment income:		
Commingled Fund income	11,165,975	11,490,719
Expenses	(782,134)	(705,000)
Net investment income	10,383,841	10,785,719
Net realized gain on sale of investments	19,661,969	4,927,137
Balance at end of year, at cost	$ 227,231,772	$ 208,585,962
Market value	$ 271,897,778	$ 243,816,001

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

ANALYSIS OF OPERATIONS
Years Ended June 30, 1996 and 1995

Analysis of investment performance (unaudited):

An analysis of investment performance for the years ended June 30, 1996 and 1995 is summarized as follows:

	1996	1995
Total return *	16.6 %	14.0 %
Average net income yield *	4.0	4.7

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

System Employees

The average number of employees during the years ended June 30, 1996 and 1995 are functionally classified as follows:

	1996	1995
Executive and administrative	4	4
Accounting, bookkeeping and clerical	4	4
Total	8	8

Compliance with Statutory Mandates

As part of our compliance audit for the year ended June 30, 1996, we performed certain procedures to determine whether the System was in compliance with all statutory mandates specifically applicable to it. No instances of noncompliance by the System with any parts of its enabling legislation were noted.

Future Reporting Requirements

In November 1994, the Governmental Accounting Standards Board adopted Statement No. 25 (Statement) entitled "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans". The Statement requires that the investments of defined benefit pension plans be reported at their fair (market) value rather than at cost, or amortized cost, as currently required. In addition, the Statement establishes new financial reporting standards which will result in format changes to the financial statements as well as the required supplementary information and may also affect the actuarial determined contribution requirements.

The requirements of the Statement are effective for periods beginning after June 15, 1996, (i.e. fiscal year ending June 30, 1997), with earlier implementation encouraged but not required. If comparative financial statements are presented, restatement of the prior year financial statements is required.

The System intends to adopt the Statement beginning with its fiscal year ending June 30, 1997. The effect of this statement will be to increase the net assets by the difference between fair value and cost of the net assets on the date of adoption.

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

ANALYSIS OF OPERATIONS
Years Ended June 30, 1996 and 1995

The statement allows for different valuation methods of assets for actuarial purposes, but all are required to reflect some function of market value (i.e. smoothing of market values over time or current market values) for determining funded status and the annual required contribution. If the System could have implemented Statement No. 25 at June 30, 1996 and used the current market value method, the net assets available for benefits would have been $277,098,999, resulting in a funding ratio of 48.0%. However, implementation of Statement No. 25 is precluded as current state law requires the reporting of net assets at cost or book value, but not at market value, as required by the Statement.

	1996	1995
Service Efforts and Accomplishments (Unaudited)		
Membership data:		
Active members	866	875
Inactive members	35	37
Total members	901	912
Benefit payments:		
Recurring:		
Retirement annuities (1)	444	415
Survivor's annuities (2)	275	273
Total	719	688
Retirement counseling*:		
Pre-retirement seminars held	5	5
One-on-one counseling programs held	21	15
Post-retirement seminars held	3	1

* Held in conjunction with the General Assembly Retirement System.

(1) Since December 1995, over 95% of the current fiscal year retirement annuities were processed in less than 30 days.

(2) Since December 1995, 100% of the current fiscal year survivor's annuities were processed in less than 30 days.

PART II

SYSTEM'S FUNCTIONS AND PLANNING PROGRAM
JUNE 30, 1996

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 and the Chief Justice of the Supreme Court, ex officio and three participating judges appointed by the Supreme Court.

Chief Justice Michael A. Bilandic is Chairman of the Board of Trustees, and Mr. Michael L. Mory is Executive Secretary of the System. The Secretary is appointed by the Board and is charged with the administration of the detailed affairs of the System. The administrative offices of the System are located at 2101 South Veterans Parkway, Springfield, Illinois.

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.

In August 1994, Governor Edgar signed Senate Bill 533 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 new 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.

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

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

MAJOR INITIATIVES

Projects for fiscal year 1997 include continuing to work towards the final implementation phase of an automated benefit calculation system as well as conducting a study to evaluate the feasibility of enhancing the annual active benefit statement to include a reciprocal system benefit estimate for those members who have service in another reciprocal system.

Additionally, the System will continue to offer the following increasingly popular field service programs at various locations throughout the state:

Pre-Retirement Seminars - This program is designed to assist participants who are planning to retire within the next twelve years to realistically assess their future needs and life-styles and take steps to achieve their selected future goals. The program focuses on estate and financial planning as well as total entitlement packages available from the System, Social Security Administration and deferred compensation.

Post-Retirement Seminars - This program is designed to assist annuitants and survivors to understand the benefits available to them, and assist them in the continued reassessment of the goals established prior to retirement. The program focuses on continued financial planning, Social Security and System benefits.

One-on-One Counseling - This program provides an opportunity for participants, annuitants and survivors to meet one-on-one with a System staff member to discuss their retirement plans or benefits.

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 regards to the System's needs and statutory requirements.

McGLADREY & PULLEN, LLP

Certified Public Accountants and Consultants

JUDGES' RETIREMENT SYSTEM OF ILLINOIS
REPORT OF IMMATERIAL FINDINGS

Honorable William G. Holland
Auditor General
State of Illinois

Attention: Karen Appelbaum

Dear Mr. Holland:

As required by the Audit Guide, any immaterial findings excluded from the audit report on our compliance audit of the Judges' Retirement System of Illinois for the year ended June 30, 1996 are to be reported in a separate letter to your Office. Presented below are the findings of this type we developed in our audit.

1. FINDING: TRAVEL

We noted one instance where the System had not filed a report in accordance with The State Finance Act on a timely basis.

The State Finance Act requires that the biannual Travel Headquarters Report (TA-2) be filed by January 15 and July 15 of each year according to the guidelines set forth in the Illinois Compiled Statutes (30-ILCS 105/12-3). The report due January 15, 1996 was not filed until July 10, 1996.

The condition was an isolated instance caused by human error. (96-1)

Recommendation:

We recommend that the System file the TA-2 by the deadlines that are specified in the State Finance Act.

Agency Response:

This report is filed twice yearly. In fiscal year 96, the filing dates were changed. Due to an oversight, the January filing was late. We have adjusted our follow-up file to prevent this in the future.

FINDING: STATE EMPLOYMENT RECORDS ACT

We noted that the Agency Workforce Report, which is required to be filed with the Index Department (Secretary of State) on a fiscal year basis, was filed incomplete.

According to the State Employment Records Act (5 ILCS 410), all state agencies are required to include the number of contractual employees and openings filled by new hires and promotions in the reports filed with the Index Department. The Agency Workforce Report originally filed did not include the number of contractual employees, openings filled by new hires and promotions.

This condition, due to the System's misunderstanding of the filing requirements, was brought to the System's attention in October 1996 during our audit field work and an amended report listing the required information was forwarded by the System to the Secretary of State in November 1996. (96-2)

Recommendation:

We recommend the System carefully review the filing requirements of the State Employment Records Act and implement the necessary procedures to ensure that the reports are accurate and complete when filed.

Agency Response:

Due to an oversight, the bottom four lines of this form were not completed. An amended form was filed. The form will be completed in its entirety in the future.

PRIOR PERIOD IMMATERIAL FINDINGS NOT REPEATED

There were no prior period immaterial findings as of June 30, 1995.

McGladrey & Pullen, LLP

Springfield, Illinois
October 18, 1996

REPORT DIGEST

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

FINANCIAL AUDIT
For the Year Ended:
June 30, 1996

Release Date:
February 6, 1997

State of Illinois
Office of the Auditor General

WILLIAM G. HOLLAND
AUDITOR GENERAL

Iles Park Plaza
740 E. Ash Street
Springfield, IL 62703
(217) 782-6046

SYNOPSIS

- The unfunded liability of the System for pension benefits was $345.4 million at June 30, 1996. This unfunded liability increased over $35 million during FY 1996.

INTRODUCTION

This digest covers our financial audit of the System for the year ended June 30, 1996. A compliance audit covering the year ending June 30, 1996 will be 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 System's investments are managed by the Illinois State Board of Investment.

UNDERFUNDING OF THE SYSTEM

Unfunded Liability Increased $35.8 million during FY 1996

Net assets available for benefits (at cost) totaled approximately $232.4 million at June 30, 1996. The pension obligation was valued at $577.8 million at June 30, 1996. The difference between the pension obligation and the net assets available for benefits of $345.4 million reflects the unfunded liability of the System at June 30, 1996. The unfunded liability increased approximately $35.8 million during FY 1996.

Unfunded Liability at June 30, 1996 totals $345.4 million

An analysis of dollar amounts of net assets available for benefits, pension obligation, and unfunded liability should not be viewed in isolation. Expressing the net assets available for benefits as a percentage of the pension obligation provides one indication of funding status. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the System. The following chart presents funding progress for the past five years.

Year Ended June 30	(1) Net Assets Available for Benefits	(2) Pension Obligation	(3) Percentage Funded (1)÷(2)	(4) Unfunded Liability (2)-(1)	(5) Annual Increase In Unfunded Liability
1992	$187.7	$423.8	44.3%	$236.1	24.6
1993	199.7	458.8	43.5%	259.1	23.0
1994	207.8	479.1	43.4%	271.3	12.2
1995	214.1	523.7	40.9%	309.6	38.3
1996	232.4	577.8	40.2%	345.4	35.8

NOTE: Amounts in chart are shown in millions of dollars.

FY 96 Marks 1st Year for New State Funding Law

A new State funding law became effective in FY 1996 changing State retirement funding practices. Public Act 88-0593 provides for a stated 50-year funding plan which includes a 15 year phase-in period. State contributions are to be made through a continuing appropriation instead of the annual budgetary process. The law is designed to increase pension funding incrementally, until a 90% funded level is achieved.

AUDITORS' OPINION

Our auditors state that the June 30, 1996 financial statements of the System are fairly presented.

WILLIAM G. HOLLAND, Auditor General

WGH:KMA:pp

SPECIAL ASSISTANT AUDITORS

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

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McGLADREY & PULLEN, LLP

Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the 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 Illinois Auditor General, we have audited the accompanying financial statements, as listed in the table of contents, of the Judges' Retirement System of Illinois as of and for the years ended June 30, 1996 and 1995. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and 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 financial position of the Judges' Retirement System of Illinois as of June 30, 1996 and 1995, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated October 18, 1996 on our consideration of the Judges' Retirement System of Illinois' internal control structure and a report dated October 18, 1996 on its compliance with laws and regulations.

Our audits were made for the purpose of forming an opinion on the basic financial statements as of and for the years ended June 30, 1996 and 1995, taken as a whole. The supplementary information, included on pages 13 through 15, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

McGladrey & Pullen, LLP

Springfield, Illinois
October 18, 1996

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Balance Sheets
June 30, 1996 and 1995

	1996	1995
Assets		
Cash	$ 4,267,254	$ 5,514,304
Receivables:		
Participants' contributions	$ 98,035	$ 89,180
Employer contributions	939,000	-
Refundable annuities	7,249	19,067
Interest on cash balances	20,953	23,452
Due from General Assembly Retirement System	48,860	46,888
	$ 1,114,097	$ 178,587
Investments - held in the Illinois State Board of Investment Commingled Fund, at cost (Market value: 1996, $271,897,778; 1995, $243,816,001)	$227,231,772	$208,585,962
Equipment, net of accumulated depreciation	8,237	14,298
Total Assets	$232,621,360	$214,293,151
Liabilities and Fund Balance		
Liabilities		
Benefits payable	$ -	$ 6,043
Refunds payable	62,056	62,505
Administrative expenses payable	68,061	46,456
Participants' deferred service credit accounts	58,250	74,120
Total Liabilities	$ 188,367	$ 189,124
Fund Balance		
Actuarial present value of credited projected benefits	$577,792,256	$523,685,631
Less unfunded present value of credited projected benefits representing an obligation of the State of Illinois	(345,359,263)	(309,581,604)
Total Fund Balance	$232,432,993	$214,104,027
Total Liabilities and Fund Balance	$232,621,360	$214,293,151

See accompanying notes to financial statements.

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Revenue, Expenses and Changes in Fund Balance
Years ended June 30, 1996 and 1995

	1996	1995
Revenue:		
Contributions:		
Participants	$ 9,785,891	$ 8,942,657
Employer	12,129,000	11,151,577
Total Contributions revenue	$ 21,914,891	$ 20,094,234
Investments:		
Net investments income	$ 10,383,841	$ 10,785,719
Interest earned on cash balances	274,272	287,673
Net realized gain on sale of investments	19,661,969	4,927,137
Total Investments revenue	$ 30,320,082	$ 16,000,529
Total Revenue	$ 52,234,973	$ 36,094,763
Expenses:		
Benefits:		
Retirement annuities	$ 26,186,330	$ 22,701,599
Survivors' annuities	6,910,470	6,476,027
Total Benefits	$ 33,096,800	$ 29,177,626
Refunds	503,455	347,711
Administrative	305,752	302,417
Total Expenses	$ 33,906,007	$ 29,827,754
Excess of Revenue over Expenses	$ 18,328,966	$ 6,267,009
Fund Balance at beginning of year	$214,104,027	$207,837,018
Fund Balance at end of year	$232,432,993	$214,104,027

See accompanying notes to financial statements.

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Notes to Financial Statements
June 30, 1996 and 1995

(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 includes the State Treasurer, the Chief of the Supreme Court, ex officio, and three participating judges appointed by the Supreme Court.

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

(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.

At June 30, 1996 and 1995, the System membership consisted of:

	1996	1995
Retirees and beneficiaries currently receiving benefits:		
Retirement annuities	444	415
Survivors' annuities	275	273
	719	688
Inactive participants entitled to benefits but not yet receiving them	35	37
Total	754	725
Current Participants:		
Vested	576	606
Nonvested	290	269
Total	866	875

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

(a) Eligibility and Membership

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

(b) Contributions

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.

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

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

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

The payment of (1) the required State contributions, (2) all benefits granted under the System and (3) all expenses in connection with the administration and operation thereof are the obligations of the State to the extent specified in 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 28 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 no longer married are entitled to refunds of their contributions for survivors. Participants who are age 60 or over with at least 20 years of service or who are age 60 or over and entitled to receive the maximum rate of annuity by using service credited in another reciprocal system may 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. The election, once made, is irrevocable.

(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.

(b) Cash and Investments

The System retains all of its available cash in a commingled investment pool managed by the Treasurer of the State of Illinois (Treasurer). All deposits are fully collateralized by the Treasurer. "Available cash" is determined to be that amount which is required for the current operating expenditures of the System. The 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 and are maintained in the ISBI Commingled Fund. Such investments are valued at the cost of the System's units of participation in the ISBI Commingled Fund. Units of the ISBI Commingled Fund are issued to the member systems on the last day of the month based on the unit net asset value calculated as of that date. Net investment income of the ISBI Commingled Fund is allocated to each of the member systems on the last day of the month on the basis of percentage of accumulated units owned by the respective systems. Management expenses are deducted monthly from income before distribution. Investment income is recognized when earned.

The investment authority of the ISBI is provided in Chapter 40, Article 5/22A of the Illinois Compiled Statutes. 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 System owns approximately 4.9% of the net investment assets of the ISBI Commingled Fund as of June 30, 1996.

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.

At June 30, 1996, the ISBI's investments were categorized as follows:

	Market Value	Category I	Non Categorized
U.S. Government & Agency Obligations	$ 272,041,711	$ 272,041,711	$
Foreign Obligations	46,497,033	46,497,033	
Corporate Obligations	655,882,887	655,882,887	
Convertible Bonds	12,356,980	12,356,980	
Common Stock & Equity Funds	1,844,773,931	1,614,256,117	230,517,814
Convertible Preferred Stock	11,539,034	11,539,034	
Preferred Stock	15,685,986	15,685,986	
Foreign Equity Securities	455,997,213	326,226,819	129,770,394
Real Estate Funds	243,308,942		243,308,942
Alternative Investments	274,289,456		274,289,456
Money Market Instruments	620,820,839	21,369,810	599,451,029
Forward Foreign Exchange Contracts	1,154,317	1,154,317	
Loaned Securities	959,943,956		959,943,956
Total Investments	$ 5,414,292,285	$ 2,977,010,694	$ 2,437,281,591

The ISBI participates in a securities lending program whereby securities are loaned to brokers and, in return, the ISBI receives collateral of amounts slightly in excess of the market value of securities loaned. Collateral consists solely of cash, letters of credit, commercial paper and government securities. As of June 30, 1996 and 1995, the ISBI had outstanding loaned investment securities having a market value of approximately $959,943,956 and $593,757,824, respectively, against which it had received collateral of approximately $994,346,404 and $609,981,555, respectively.

(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, employment, turnover, interest and earnable compensation of the participants and beneficiaries of the System. An experience review was performed as of June 30, 1992.

(d) Administrative Expenses

Administrative expenses common to the Judges' Retirement System and the General Assembly Retirement System are borne 60% by the Judges' Retirement System and 40% by the General Assembly Retirement System. Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System and 40% thereof is allocated to and reimbursed by the General Assembly Retirement System. Administrative expenses allocated to and reimbursed by the General Assembly Retirement System were $168,592 and $167,928 for the years ended June 30, 1996 and 1995, respectively.

(4) Funding Status and Progress

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

The pension benefit obligation was determined as part of an actuarial valuation as of June 30, 1996. Significant actuarial assumptions used include (a) rates of return on the investment of present and future assets of 8.0% per year (consisting of an inflation component of 4.5% per year and a real rate of return component of 3.5% per year), compounded annually, (b) projected salary increase of 6% per year (consisting of a general increase component of 5% per year, 4.5% of which is attributable to inflation, and a seniority/ merit component of 1% per year), compounded annually, (c) mortality rates based upon the UP 1984 Mortality Table, (d) assumed age at retirement ranging from 55 to 75, based upon recent history with the System, (e) 75% of participants are assumed to be married, (f) the age of the spouse is assumed to be 4 years younger than the age of the participant, and (g) the rate of turnover without vested benefits assumes a high scale at younger age levels, becoming progressively lower as age advances.

At June 30, 1996 and 1995, the unfunded pension benefit obligation was $345,359,263 and $309,581,604 as follows:

	1996	1995
Pension benefit obligation:		
Retirees & beneficiaries currently receiving benefits	$ 313,546,389	$ 279,270,677
Inactive participants not yet receiving benefits	11,645,689	10,336,847
Current Participants:		
Accumulated participant contributions	71,463,189	69,049,571
Employer-financed vested	104,447,078	96,997,859
Employer-financed nonvested	76,689,911	68,030,677
Total Pension benefit obligation	$ 577,792,256	$ 523,685,631
Net assets available for benefits, at cost (market value at June 30, 1996 $277,098,999; June 30, 1995 $249,334,066)	232,432,993	214,104,027
Unfunded pension benefit obligation	$ 345,359,263	$ 309,581,604

There were no benefit changes enacted during fiscal years 1996 or 1995 having a significant impact on the actuarial present value of credited projected benefits and the related unfunded actuarial liability.

(5) 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. The same actuarial assumptions were used to determine the contribution requirements as are used to compute the pension benefit obligation discussed in Note 4.

For fiscal year 1995, the required employer contributions were computed in accordance with Public Act 86-0273 which was signed into law on August 23, 1989. Public Act 86-0273 enacted a funding plan under which, starting with fiscal year 1990, the state's contribution was to be increased incrementally over a seven year period so that by fiscal year 1996, the minimum state contribution would be an amount sufficient to meet the normal cost and amortize the unfunded actuarial liability over forty years as a level percentage of payroll as determined under the projected unit credit actuarial cost method.

For fiscal year 1996, 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 new 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.

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

The total amount of actuarially determined contributions required for the fiscal year ended June 30, 1996 amounted to $20,489,000 and consisted of (a) $20,041,000 normal cost and (b) $448,000 amortization of the unfunded actuarial accrued liability. Contributions totaling $21,914,891 ($12,129,000 employer and $9,785,891 employee) were made during fiscal year 1996 and consisted of (a) $21,466,891 normal cost and (b) $448,000 amortization of the unfunded actuarial liability.

A comparison of the actuarially determined funding requirement for the fiscal year ended June 30, 1996, versus the actual funding shows that the state's employer contributions were made in accordance with the actuarially determined employer contribution requirements for the fiscal year.

	Pension Contributions			
	Required			Received
	Normal Cost	Amortization of Unfunded Liability	Total	
Participants	$ 8,360,000	$ -	$ 8,360,000	$ 9,785,891
Percent of Pay	11.00%	-	11.00%	12.88%
Employer:				
State of Illinois	11,681,000	448,000	12,129,000	12,129,000
Percent of Pay	15.37%	.59%	15.96%	15.96%
Total	$ 20,041,000	$ 448,000	$ 20,489,000	$ 21,914,891
Percent of Pay	26.37%	.59%	26.96%	28.84%
Participant Payroll	$ 75,996,000			

(6) Historical Trend Information

Historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 13-14.

(7) Administrative Expenses

A summary of the administrative expenses for the Judges' Retirement System for fiscal years 1996 and 1995 is as follows:

	1996	1995
Personal services	$ 169,850	$ 163,348
Employee retirement contributions paid by employer	6,804	6,194
Employer retirement contributions	8,108	10,141
Social Security contributions	11,647	11,266
Group insurance	13,806	20,370
Contractual services	60,266	55,957
Travel	7,886	7,721
Printing	3,666	4,639
Commodities	662	451
Telecommunications	2,420	1,583
Electronic data processing	10,725	10,976
Depreciation	6,474	7,095
Other	3,438	2,676
Total	$ 305,752	$ 302,417

(8) Equipment

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

A summary of the changes in fixed assets for fiscal years 1996 and 1995 is as follows:

1996	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 44,338	$ 590	$(1,355)	$ 43,573
Accumulated Depreciation	(30,040)	(6,474)	1,178	(35,336)
Equipment, net	$ 14,298	$ (5,884)	$ (177)	$ 8,237

1995	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 41,545	$ 3,141	$ (348)	$ 44,338
Accumulated Depreciation	(23,111)	(7,095)	166	(30,040)
Equipment, net	$ 18,434	$ (3,954)	$ (182)	$ 14,298

(9) Accrued Compensated Absences

Employees of the Judges' Retirement System are entitled to receive compensation for all accrued but unused vacation time and one-half of all unused sick leave earned after January 1, 1984 upon termination of employment. These accrued compensated absences as of June 30, 1996 and 1995 total $29,697 and $26,437, respectively and are included as administrative expenses payable.

(10) Pension Disclosure

All of the System's full-time employees who are not eligible for another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS). The SERS is a single-employer defined benefit public employee retirement system (PERS) in which state agencies, including the System, participate on a cost-sharing basis.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established, is included as an integral part of the SERS Comprehensive Annual Financial Report (CAFR). Also included is a discussion of employer and employee obligations to contribute, the authority under which those obligations are established, as well as an explanation of the pension benefit obligation.

The pension benefit obligation at June 30, 1996 and June 30, 1995 for the SERS as a whole, determined through an actuarial valuation at that date was $7.391 billion and $6.988 billion, respectively. The SERS net assets available for benefits on these respective dates (valued at cost) were $4.397 billion and $3.923 billion, leaving unfunded pension benefit obligations of $2.994 billion and $3.065 billion. The System's FY1996 and FY1995 contribution requirement represented .005% and .006%, respectively of total contributions required of all state agency/department employers participating in the SERS.

Ten-year historical trend information designed to provide information about the SERS progress made in accumulating sufficient assets to pay benefits when due is presented in its separately issued CAFR for the year ended June 30, 1996.

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

The System's covered payrolls for FY1996 and FY1995 were $169.9 thousand and $163.3 thousand and the payrolls for all System employees were $169.9 thousand and $163.3 thousand, respectively.

The System's (i.e., the employers') actuarially determined contribution requirements for FY1996 and FY1995 were $8.1 thousand and $10.1 thousand, respectively, or 4.8% and 6.2% of the System's covered payrolls. For FY 1996, the System's and employee contributions actually made were $8.1 thousand and $6.8 thousand, respectively, which represents 4.8% and 4.0%, respectively, of the current year covered payroll. For FY 1995, the System's and employee contributions actually made were $10.1 thousand and $6.2 thousand, respectively, which represents 6.2% and 3.8%, respectively, of the covered payroll.

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 year ended June 30, 1996. However, post-employment costs for the state as a whole for all state agencies/departments for 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.

(11) Analysis of Changes in Fund Balances - Reserved

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

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

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

JUDGES' RETIREMENT SYSTEM OF ILLINOIS
Statements of Changes in Fund Balances (Reserved)
Years ended June 30, 1996 and 1995

	Participants' Contributions	Future Operations	Total Fund Balance
Balance at June 30, 1994	$ 74,318,731	$ 133,518,287	$ 207,837,018
Add (deduct):			
Excess (deficiency) of revenues over expenses	8,940,523	(2,673,514)	6,267,009
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(4,246,563)	4,246,563	-
Balance at June 30, 1995	$ 79,012,691	$ 135,091,336	$ 214,104,027
Add (deduct):			
Excess (deficiency) of revenues over expenses	9,282,436	9,046,530	18,328,966
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(5,867,127)	5,867,127	-
Balance at June 30, 1996	$ 82,428,000	$ 150,004,993	$ 232,432,993

(12) Future Reporting Requirements

In November, 1994, The Governmental Accounting Standards Board adopted Statement No. 25 (Statement) entitled "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans". The Statement requires that the investments of defined benefit pension plans be reported at their fair (market) value rather than at cost, or amortized cost, as currently required. In addition, the Statement establishes new financial reporting standards which will result in format changes to the financial statements as well as the required supplementary information and may also affect the actuarially determined contribution requirements.

The requirements of the Statement are effective for periods beginning after June 15, 1996, (i.e. fiscal year ending June 30, 1997), with earlier implementation encouraged but not required. If comparative financial statements are presented, restatement of the prior year financial statements is required.

The System intends to adopt the Statement beginning with its fiscal year ending June 30, 1997.

Analysis of Funding Progress

Fiscal Year	(1) Net Assets Available for Benefits*	(2) Pension Benefit Obligation	(3) Percentage Funded (1) ÷ (2)	(4) Unfunded Pension Benefit Obligation (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded Pension Benefit Obligation as a % of Covered Payroll (4) ÷ (5)
1987	$ 138,927,534	$ 307,064,068	45.2%	$ 168,136,534	$ 59,266,115	283.7%
1988	146,534,436	335,307,458	43.7%	188,773,022	62,366,208	302.7%
1989	156,238,762	319,402,592	48.9%	163,163,830	63,478,721	257.0%
1990	166,984,434	366,116,393	45.6%	199,131,959	64,670,416	307.9%
1991	173,989,204	385,528,189	45.1%	211,538,985	66,294,898	319.1%
1992	187,627,388	423,758,708	44.3%	236,131,320	67,904,000	347.7%
1993	199,679,764	458,826,434	43.5%	259,146,670	69,610,000	372.3%
1994	207,837,018	479,129,504	43.4%	271,292,486	70,997,000	382.1%
1995	214,104,027	523,685,631	40.9%	309,581,604	75,314,000	411.1%
1996	232,432,993	577,792,256	40.2%	345,359,263	75,996,000	454.4%

* At cost

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

Revenues by Source and Expenses by Type

Revenues by Source

FY Ended June 30	Participants' Contributions	Employer Contributions: State of Illinois	Employer Contributions: Other Sources	Employer Contributions: Total	Income from Investments	Total
1987	$ 6,248,636	$ 9,832,000	$ -	$ 9,832,000	$ 14,240,835	$ 30,321,471
1988	6,885,514	9,137,000	-	9,137,000	9,666,884	25,689,398
1989	6,909,017	9,918,700	-	9,918,700	12,245,936	29,073,653
1990	7,142,961	10,657,400	28,620	10,686,020	13,206,382	31,035,363
1991	7,154,549	10,657,400	-	10,657,400	10,784,883	28,596,832
1992	7,371,637	10,052,100	-	10,052,100	19,721,910	37,145,647
1993	9,377,428	11,099,030	-	11,099,030	17,528,393	38,004,851
1994	7,822,346	10,766,000	-	10,766,000	17,424,885	36,013,231
1995	8,942,657	10,806,000	345,577	11,151,577	16,000,529	36,094,763
1996	9,785,891	12,129,000	-	12,129,000	30,320,082	52,234,973

Expenses by Type

FY Ended June 30	Benefits	Refunds	Admin. Expenses	Total
1987	$ 15,376,535	$283,090	$153,973	$ 15,813,598
1988	17,382,718	551,268	148,510	18,082,496
1989	18,776,253	421,138	171,936	19,369,327
1990	19,827,453	275,233	187,005	20,289,691
1991	21,148,512	226,702	216,848	21,592,062
1992	22,995,915	280,106	231,442	23,507,463
1993	25,241,058	408,113	303,304	25,952,475
1994	27,234,879	332,930	288,168	27,855,977
1995	29,177,626	347,711	302,417	29,827,754
1996	33,096,800	503,455	305,752	33,906,007

Analysis of Employer Contributions - Fiscal Year 1988 through 1996

Fiscal Year (A)	(1) Covered Payroll	(2) State of Illinois Employer Contributions Required (B)	(3) State of Illinois Employer Contributions Required as a % of Covered Payroll (2) ÷ (1)	(4) State of Illinois Employer Contributions Received	(5) State of Illinois Employer Contributions Received as a % of Covered Payroll (4) ÷ (1)	(6) Contributions Required in Excess of Contributions Received (2) - (4)
1988	$ 62,366,208	$ 20,182,837	32.4%	$ 9,137,000	14.7%	$ 11,045,837
1989	63,478,721	21,990,938	34.6%	9,918,700	15.6%	12,072,238
1990	64,670,416	14,329,107	22.2%	10,657,400	16.5%	3,671,707
1991	66,294,898	12,357,369	18.6%	10,657,400	16.1%	1,699,969
1992	67,904,000	13,160,000	19.4%	10,052,100	14.8%	3,107,900
1993	69,610,000	12,808,000	18.4%	11,099,030	15.9%	1,708,970
1994	70,997,000	14,924,000	21.0%	10,766,000	15.2%	4,158,000
1995	75,314,000	17,367,000	23.1%	10,806,000	14.3%	6,561,000
1996	75,996,000	12,129,000	16.0%	12,129,000	16.0%	-

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

(B) = For fiscal year 1988 and 1989, the State of Illinois required employer contributions were computed in accordance with the Board of Trustee's approved funding policy of normal cost plus interest on the unfunded actuarial liability. For fiscal years 1990 through 1995, required employer contributions were computed in accordance with Public Act 86-0273. Public Act 86-0273 enacted a funding plan under which, starting with fiscal year 1990, the state's contribution was to be increased incrementally over a seven year period so that by fiscal year 1996, the minimum state contribution would be an amount sufficient to meet the normal cost and amortize the unfunded actuarial liability over forty years as a level percent of payroll as determined under the projected unit credit actuarial cost method. For fiscal year 1996, 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 new 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.

Schedule of Employer Contributions as a Percentage of Covered Payroll

Fiscal Year	Covered Payroll	State of Illinois Employer Contributions Received	State of Illinois Employer Contributions Received as a % of Covered Payroll
1987	$ 59,266,115	$ 9,832,000	16.6%
1988	62,366,208	9,137,000	14.7%
1989	63,478,721	9,918,700	15.6%
1990	64,670,416	10,657,400	16.5%
1991	66,294,898	10,657,400	16.1%
1992	67,904,000	10,052,100	14.8%
1993	69,610,000	11,099,030	15.9%
1994	70,997,000	10,766,000	15.2%
1995	75,314,000	10,806,000	14.3%
1996	75,996,000	12,129,000	16.0%

SUMMARY OF REVENUES BY SOURCE
Years Ended June 30, 1996 and 1995

	1996	1995
Contributions:		
Participants	$ 9,785,891	$ 8,942,657
Employer:		
General Revenue Fund	$ 11,268,000	$ 9,815,300
State Pension Fund	861,000	990,700
Received from reciprocating systems	-	267,909
Paid by participants	-	77,668
Total employer contributions	$ 12,129,000	$ 11,151,577
Total contributions revenue	$ 21,914,891	$ 20,094,234
Investments:		
Net investments income	$ 10,383,841	$ 10,785,719
Interest earned on cash balances	274,272	287,673
Net realized gain on sale of investments	19,661,969	4,927,137
Total investments revenue	$ 30,320,082	$ 16,000,529
Total Revenue	$ 52,234,973	$ 36,094,763

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
Years Ended June 30, 1996 and 1995

	1996	1995
Cash balance, beginning of year	$ 5,514,304	$ 5,967,371
Receipts:		
Participant contributions	$ 9,730,284	$ 9,065,971
Employer contributions:		
General Revenue Fund	10,329,000	9,815,300
State Pension Fund	861,000	990,700
Received from reciprocating systems	-	267,909
Paid by participants	-	77,668
Interest income on cash balances	276,771	277,392
Reimbursements from General Assembly Retirement System	166,620	166,495
Participants' deferred service credit payments	5,666	38,235
Cancellation of annuities	28,654	51,720
Transfers from Illinois State Board of Investment	11,400,000	9,000,000
Total cash receipts	$ 32,797,995	$ 29,751,390
Disbursements:		
Benefit payments:		
Retirement annuities	$ 26,195,918	$ 22,756,165
Survivors' annuities	6,923,762	6,488,979
Refunds	478,687	498,418
Administrative expenses	446,678	460,895
Total cash disbursements	$ 34,045,045	$ 30,204,457
Cash balance, end of year	$ 4,267,254	$ 5,514,304

McGLADREY & PULLEN, LLP

Certified Public Accountants and Consultants

JUDGES' RETIREMENT SYSTEM OF ILLINOIS
REPORT OF IMMATERIAL FINDINGS

Honorable William G. Holland
Auditor General
State of Illinois

Attention: Karen Appelbaum

Dear Mr. Holland:

As required by the Audit Guide, any immaterial findings excluded from the audit report on our compliance audit of the Judges' Retirement System of Illinois for the year ended June 30, 1996 are to be reported in a separate letter to your Office. Presented below are the findings of this type we developed in our audit.

1. FINDING: TRAVEL

We noted one instance where the System had not filed a report in accordance with The State Finance Act on a timely basis.

The State Finance Act requires that the biannual Travel Headquarters Report (TA-2) be filed by January 15 and July 15 of each year according to the guidelines set forth in the Illinois Compiled Statutes (30-ILCS 105/12-3). The report due January 15, 1996 was not filed until July 10, 1996.

The condition was an isolated instance caused by human error. (96-1)

Recommendation:

We recommend that the System file the TA-2 by the deadlines that are specified in the State Finance Act.

Agency Response:

This report is filed twice yearly. In fiscal year 96, the filing dates were changed. Due to an oversight, the January filing was late. We have adjusted our follow-up file to prevent this in the future.

2. FINDING: STATE EMPLOYMENT RECORDS ACT

We noted that the Agency Workforce Report, which is required to be filed with the Index Department (Secretary of State) on a fiscal year basis, was filed incomplete.

According to the State Employment Records Act (5 ILCS 410), all state agencies are required to include the number of contractual employees and openings filled by new hires and promotions in the reports filed with the Index Department. The Agency Workforce Report originally filed did not include the number of contractual employees, openings filled by new hires and promotions.

This condition, due to the System's misunderstanding of the filing requirements, was brought to the System's attention in October 1996 during our audit field work and an amended report listing the required information was forwarded by the System to the Secretary of State in November 1996. (96-2)

Recommendation:

We recommend the System carefully review the filing requirements of the State Employment Records Act and implement the necessary procedures to ensure that the reports are accurate and complete when filed.

Agency Response:

Due to an oversight, the bottom four lines of this form were not completed. An amended form was filed. The form will be completed in its entirety in the future.

PRIOR PERIOD IMMATERIAL FINDINGS NOT REPEATED

There were no prior period immaterial findings as of June 30, 1995.

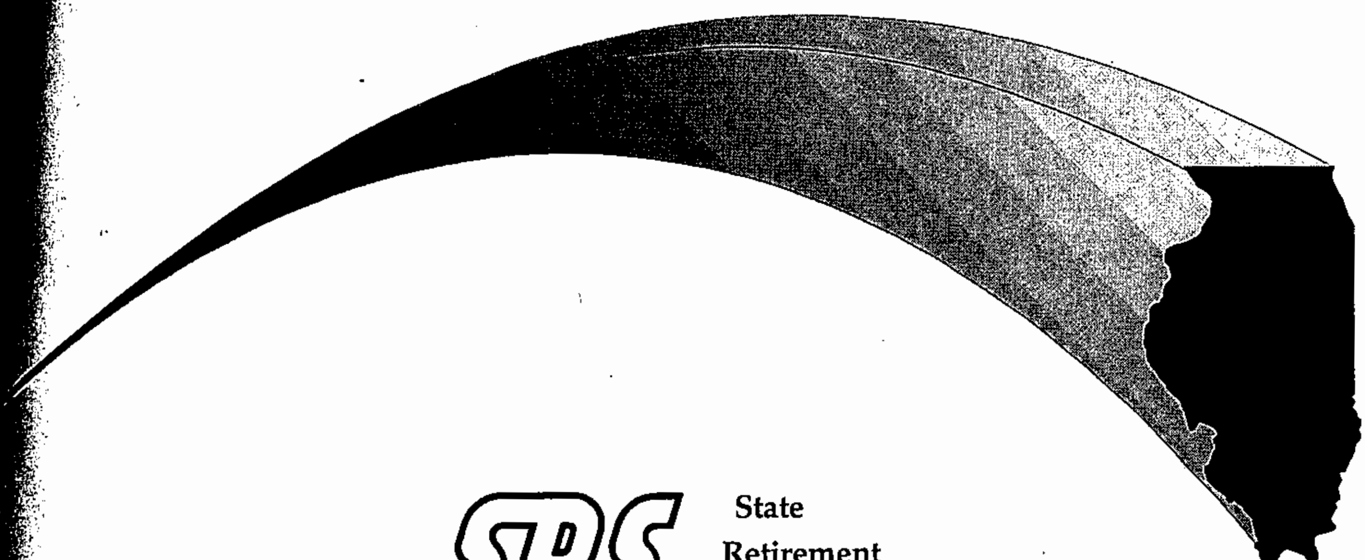
McGladrey & Pullen, LLP

Springfield, Illinois
October 18, 1996

JUDGES' RETIREMENT SYSTEM OF ILLINOIS - PENSION TRUST FUND OF THE STATE OF ILLINOIS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 1996



SRS State Retirement Systems

Judges' Retirement System of Illinois

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

Mission Statement:

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

Fiscal Year 1996 Highlights

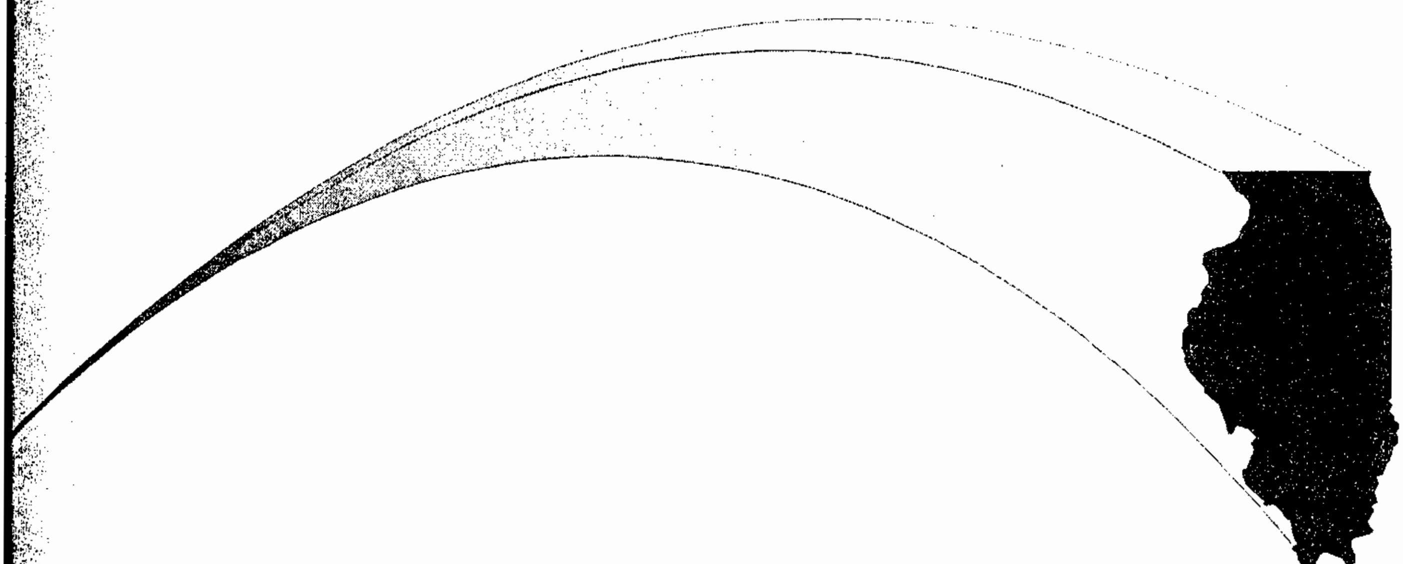
901	Total Membership
866	Active Contributing Members
$232,432,993	Net Assets Available for Benefits
	Contributions:
$9,785,891	Employee
$12,129,000	Employer
$30,320,082	Investment Income
16.6%	Investment Return
	Benefit Recipients:
444	Retirement Annuities
275	Survivors' Annuities
$33,096,800	Benefits Paid
$577,792,256	Accrued Actuarial Liability
$345,359,263	Unfunded Actuarial Liability
40.2%	Funded Ratio

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

A PENSION TRUST FUND
OF THE STATE OF ILLINOIS

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
JUNE 30, 1996



JUDGES'
RETIREMENT SYSTEM
OF ILLINOIS

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

Prepared by the
Accounting Division

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INTRODUCTORY SECTION

- Letter of Transmittal
- Administration, Board of Trustees and Administrative Staff
- Certificate of Achievement for Excellence in Financial Reporting

STATE RETIREMENT SYSTEMS

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

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

November 29, 1996

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 of the Judges' Retirement System of Illinois (System) as of and for the fiscal year ended June 30, 1996 is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the System. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the System. All disclosures necessary to enable the reader to gain an understanding of the System's financial activities have been included.

The report consists of six sections:

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

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

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

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

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

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

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 balance sheet information nor the results of operations of the State Employees' Retirement System or General Assembly Retirement System.

PLAN HISTORY AND SERVICES PROVIDED

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

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

REVENUES

Collections of employer and participant retirement contributions, as well as income from investments, provide the reserves necessary to finance retirement benefits. These revenue sources totaled $52.235 million during the fiscal year ending June 30, 1996, which is a significant increase from the amount of revenue reported for fiscal year 1995, shown as follows:

	1996 (Millions)	1995 (Millions)	Increase/(Decrease) (Millions)	(Percentage)
Contributions:				
Participants	$ 9.786	$ 8.943	$ .843	9.4%
Employer	12.129	11.151	.978	8.8%
Investments	30.320	16.001	14.319	89.5%
Total Revenue	$ 52.235	$ 36.095	$ 16.140	44.7%

As indicated in the above schedule, approximately 90% of the total revenue increase was attributable to an increase in investment income which was largely the result of significant net realized gains on the sale of investments.

EXPENSES

The primary expense of a retirement system relates to the purpose for which it is created; namely the payment of benefits. These payments, together with the expense to administer the plan, constitute the total expenses of the System. Expenses of the System for fiscal year 1996 and 1995 are shown below for comparison purposes.

	1996 (Millions)	1995 (Millions)	Increase/(Decrease) (Millions)	(Percentage)
Benefits:				
Retirement annuities	$ 26.186	$ 22.702	$ 3.484	15.3%
Survivors' annuities	6.911	6.476	.435	6.7%
Total Benefits Expenses	$ 33.097	$ 29.178	$ 3.919	13.4%
Refunds	.503	.348	.155	44.5%
Administrative expenses	.306	.302	.004	1.3%
Total Expenses	$ 33.906	$ 29.828	$ 4.078	13.7%

The increase in benefit payments resulted primarily from (1) a growth in the number of benefits paid, (2) an increase in the average benefit payment amount, and (3) post retirement annuity increases granted each January 1.

INVESTMENTS

The System's investments are managed by the Illinois State Board of Investment (ISBI) pursuant to Chapter 40 Article 5/22A of the Illinois Compiled Statutes. For the fiscal year ended June 30, 1996, the total investment return on the market value of assets managed by the ISBI was 16.6% compared to 14.0% during the fiscal year ended June 30, 1995.

Total fiscal year 1996 investment income of $30.320 million represents a significant increase of $14.319 million (89.5%) over the fiscal year 1995 level of $16.001 million. The System's total investments revenue for fiscal year 1996 and 1995 is shown below for comparison purposes.

	1996 (Millions)	1995 (Millions)	Increase/(Decrease) (Millions)	Increase/(Decrease) (Percentage)
Net investments income	$ 10.384	$ 10.786	$ (.402)	(3.7)%
Net realized gain on sale of investments	19.662	4.927	14.735	299.1%
Interest earned on cash balances	.274	.288	(.014)	(4.9)%
Total Investments revenue	$ 30.320	$ 16.001	$14.319	89.5%

For the fiscal year ended June 30, 1996, income from investments represents 58.0% of total fund revenue.

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

FUNDING AND RESERVES

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

The actuarial determined liability of the System at June 30, 1996, amounted to $577.8 million. The fund balances for participant contributions and future operations amounted to $232.4 million as of the same date. The amount by which the actuarial determined liability exceeds the fund balances is called the "unfunded present value of credited projected benefits." The unfunded present value of credited projected benefits amounts to $345.4 million. A detailed discussion of funding is provided in the Actuarial Section of this report.

ECONOMIC CONDITION AND OUTLOOK

Financing the retirement benefits that are being earned is one of the most important issues facing the Judges' Retirement System. In prior years, a number of individuals and organizations stressed the need for sound funding of the state's retirement systems including the Judges' Retirement System. Although previous attempts have been made at providing an adequate funding level to the System, none have been very successful.

In August, 1994, Governor Edgar signed Senate Bill 533 into law as Public Act 88-0593. This funding legislation, which became effective on July 1, 1995, (i.e. fiscal year 1996), 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 new 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.

Most importantly, the new funding legislation also provides for the establishment of a continuing appropriation of the required employer contributions to the System. This will, in effect, remove the appropriation of these funds from the annual budgetary process. Although long-term in nature, we believe this legislation is an extremely positive step forward which will ensure the long-term financial integrity of the state's retirement systems including the Judges' Retirement System.

Besides the new funding plan, there were no other recent legislative changes having a significant impact on the funding of the System.

Assessing the financial status of any retirement system is a difficult task. The valuation of pension liabilities is a complex procedure requiring the application of actuarial techniques. It is not possible to provide a simple measure

...al status of a retirement system because no universally accepted measure of the financial status ...ts. The passage of a new funding plan by the state's General Assembly should ensure that benefits, ...esently accrued and those that will be earned in the future, will continue to be provided for in a timely ...nt manner.

...ITIATIVES

...iscal year 1997 include continuing to work towards the final implementation phase of an automated ...lation system as well as conducting a study to evaluate the feasibility of enhancing the annual active ...ment to include a reciprocal system benefit estimate for those members who have service in another ...stem.

..., the System will continue to offer the following increasingly popular field service programs at ...tions throughout the state.

...ement Seminars - This program is designed to assist participants who are planning to retire within the ...elve years to realistically assess their future needs and life-styles and take steps to achieve their ...future goals. The program focuses on estate and financial planning as well as total entitlement ...s available from the System, Social Security Administration and deferred compensation.

...irement Seminars - This program is designed to assist annuitants and survivors to understand the ...available to them, and assist them in the continued reassessment of the goals established prior to ...nt. The program focuses on continued financial planning, Social Security and System benefits.

...One Counseling - This program provides an opportunity for participants, annuitants and survivors to ...e-on-one with a System staff member to discuss their retirement plans or benefits.

...ING SYSTEM AND INTERNAL CONTROL

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

...ONAL SERVICES

...t consultants are retained by the Board of Trustees to perform professional services that are essential ...ve and efficient operation of the System. Actuarial services are provided by Goldstein & Associates, ...linois. Tax consulting services are provided by the accounting firm of KPMG Peat Marwick, Chicago, ...annual financial audit of the System was conducted by the accounting firm of McGladrey & Pullen, ...the direction of the Auditor General of the State of Illinois. In addition to the annual financial audit, ...compliance audit was also performed by the auditors. The purpose of the compliance audit was to ...whether the Judges' Retirement System obligated, expended, received and used public funds of the ...ordance with the purpose for which such funds have been authorized by law. The System's investment ...managed by the Illinois State Board of Investment.

...ATE OF ACHIEVEMENT

...ment Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of ...nt for Excellence in Financial Reporting to the Judges' Retirement System of Illinois for its comprehen- ...financial report for the fiscal year ended June 30, 1995. The Certificate of Achievement is the highest ...gnition for excellence in state and local government financial reporting.

...be awarded a Certificate of Achievement, a government unit must publish an easily readable and ...ganized comprehensive annual financial report, whose contents conform to program standards. ...ial report must satisfy both generally accepted accounting principles and applicable legal require-

A Certificate of Achievement is valid for a period of one year only. The Judges' Retirement System of Illinois ha received a Certificate of Achievement for the last seven consecutive years (fiscal years ended June 30, 1989 throug June 30, 1995). We believe our current report continues to conform to the Certificate of Achievement progran requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

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 as a means for determining responsible stewardship for the assets contributed by the participants in the State of Illinois. On behalf of the Board of Trustees we would like to express our appreciation to the staff and professional consultants who worked so effectively to ensure the successful operation of the System.

Respectfully submitted,

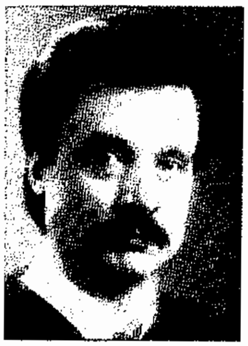
Michael L. Mory
Executive Secretary

David M. Richter, CPA
Accounting Division

JUDGES' RETIREMENT SYSTEM OF ILLINOIS
BOARD OF TRUSTEES

CHIEF JUSTICE
MICHAEL A. BILANDIC
Chairman

JUSTICE
WILLIAM E. HOLDRIDGE



JUSTICE
THOMAS E. HOFFMAN

JUSTICE
JOHN L. NICKELS

HON. JUDY BAAR TOPINKA
State Treasurer

Board of Trustees

Consultants

Illinois State Board of Investment

Internal and External Investment Managers

Actuary

Certified Public Accountants

Staff

Executive Secretary
Michael L. Mory

Assoc. Executive Secretary
Robert V. Knox

Division Manager
Rudy J. Kink

Accounting Division
David M. Richter, CPA

Publication Section
Libby Shawgo-Kilby

Assistant Division Manager
Beverly A. Wells

Robin E. Edgar

Carole R. McKean

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, 1995

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.

Government Finance Officers Association of the United States and Canada Corporation Seal Chicago

Arthur R. Lynch
President

Jeffrey L. Esser
Executive Director

FINANCIAL SECTION

- Independent Auditor's Report

- Financial Statements:
  Balance Sheets
  Statements of Revenue, Expenses and Changes in Fund Balance
  Notes to Financial Statements

- Required Supplementary Information:
  Analysis of Funding Progress
  Revenues by Source and Expenses by Type
  Analysis of Employer Contributions
  Schedule of Employer Contributions as a Percentage of Covered Payroll

- Supplementary Financial Information:
  Summary of Revenues by Source
  Summary Schedule of Cash Receipts and Disbursements

McGLADREY & PULLEN, LLP
Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

To the 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 Illinois Auditor General, we have audited the accompanying financial statements, as listed in the table of contents, of the Judges' Retirement System of Illinois as of and for the years ended June 30, 1996 and 1995. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and 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 financial position of the Judges' Retirement System of Illinois' as of June 30, 1996 and 1995, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated October 18, 1996 on our consideration of the Judges' Retirement System of Illinois' internal control structure and a report dated October 18, 1996 on its compliance with laws and regulations.

Our audits were made for the purpose of forming an opinion on the basic financial statements as of and for the years ended June 30, 1996 and 1995, taken as a whole. The supplementary information, included on pages 24 through 26, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

McGladrey & Pullen, LLP

Springfield, Illinois
October 18, 1996

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Balance Sheets
June 30, 1996 and 1995

	1996	1995
Assets		
Cash	$ 4,267,254	$ 5,514,304
Receivables:		
Participants' contributions	$ 98,035	$ 89,180
Employer contributions	939,000	-
Refundable annuities	7,249	19,067
Interest on cash balances	20,953	23,452
Due from General Assembly Retirement System	48,860	46,888
	$ 1,114,097	$ 178,587
Investments - held in the Illinois State Board of Investment Commingled Fund, at cost (Market value: 1996, $271,897,778; 1995, $243,816,001)	$227,231,772	$208,585,962
Equipment, net of accumulated depreciation	8,237	14,298
Total Assets	$232,621,360	$214,293,151
Liabilities and Fund Balance		
Liabilities		
Benefits payable	$ -	$ 6,043
Refunds payable	62,056	62,505
Administrative expenses payable	68,061	46,456
Participants' deferred service credit accounts	58,250	74,120
Total Liabilities	$ 188,367	$ 189,124
Fund Balance		
Actuarial present value of credited projected benefits	$577,792,256	$523,685,631
Less unfunded present value of credited projected benefits representing an obligation of the State of Illinois	(345,359,263)	(309,581,604)
Total Fund Balance	$232,432,993	$214,104,027
Total Liabilities and Fund Balance	$232,621,360	$214,293,151

See accompanying notes to financial statements.

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Revenue, Expenses and Changes in Fund Balance
Years ended June 30, 1996 and 1995

	1996	1995
Revenue:		
Contributions:		
Participants	$ 9,785,891	$ 8,942,657
Employer	12,129,000	11,151,577
Total Contributions revenue	$ 21,914,891	$ 20,094,234
Investments:		
Net investments income	$ 10,383,841	$ 10,785,719
Interest earned on cash balances	274,272	287,673
Net realized gain on sale of investments	19,661,969	4,927,137
Total Investments revenue	$ 30,320,082	$ 16,000,529
Total Revenue	$ 52,234,973	$ 36,094,763
Expenses:		
Benefits:		
Retirement annuities	$ 26,186,330	$ 22,701,599
Survivors' annuities	6,910,470	6,476,027
Total Benefits	$ 33,096,800	$ 29,177,626
Refunds	503,455	347,711
Administrative	305,752	302,417
Total Expenses	$ 33,906,007	$ 29,827,754
Excess of Revenue over Expenses	$ 18,328,966	$ 6,267,009
Fund Balance at beginning of year	$214,104,027	$207,837,018
Fund Balance at end of year	$232,432,993	$214,104,027

See accompanying notes to financial statements.

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Notes to Financial Statements
June 30, 1996 and 1995

(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 includes the State Treasurer, the Chief of the Supreme Court, ex officio, and three participating judges appointed by the Supreme Court.

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

(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.

At June 30, 1996 and 1995, the System membership consisted of:

	1996	1995
Retirees and beneficiaries currently receiving benefits:		
Retirement annuities	444	415
Survivors' annuities	275	273
	719	688
Inactive participants entitled to benefits but not yet receiving them	35	37
Total	754	725
Current Participants:		
Vested	576	606
Nonvested	290	269
Total	866	875

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

(a) Eligibility and Membership

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

(b) Contributions

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.

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

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

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

The payment of (1) the required State contributions, (2) all benefits granted under the System and (3) all expenses in connection with the administration and operation thereof are the obligations of the State to the extent specified in 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 28 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 no longer married are entitled to refunds of their contributions for survivors. Participants who are age 60 or over with at least 20 years of service or who are age 60 or over and entitled to receive the maximum rate of annuity by using service credited in another reciprocal system may 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. The election, once made, is irrevocable.

(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.

(b) Cash and Investments

The System retains all of its available cash in a commingled investment pool managed by the Treasurer of the State of Illinois (Treasurer). All deposits are fully collateralized by the Treasurer. "Available cash" is determined to be that amount which is required for the current operating expenditures of the System. The 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 and are maintained in the ISBI Commingled Fund. Such investments are valued at the cost of the System's units of participation in the ISBI Commingled Fund. Units of the ISBI Commingled Fund are issued to the member systems on the last day of the month based on the unit net asset value calculated as of that date. Net investment income of the ISBI Commingled Fund is allocated to each of the member systems on the last day of the month on the basis of percentage of accumulated units owned by the respective systems. Management expenses are deducted monthly from income before distribution. Investment income is recognized when earned.

The investment authority of the ISBI is provided in Chapter 40, Article 5/22A of the Illinois Compiled Statutes. 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 System owns approximately 4.9% of the net investment assets of the ISBI Commingled Fund as of June 30, 1996.

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.

At June 30, 1996, the ISBI's investments were categorized as follows:

	Market Value	Category I	Non Categorized
U.S. Government & Agency Obligations	$ 272,041,711	$ 272,041,711	$
Foreign Obligations	46,497,033	46,497,033	
Corporate Obligations	655,882,887	655,882,887	
Convertible Bonds	12,356,980	12,356,980	
Common Stock & Equity Funds	1,844,773,931	1,614,256,117	230,517,814
Convertible Preferred Stock	11,539,034	11,539,034	
Preferred Stock	15,685,986	15,685,986	
Foreign Equity Securities	455,997,213	326,226,819	129,770,394
Real Estate Funds	243,308,942		243,308,942
Alternative Investments	274,289,456		274,289,456
Money Market Instruments	620,820,839	21,369,810	599,451,029
Forward Foreign Exchange Contracts	1,154,317	1,154,317	
Loaned Securities	959,943,956		959,943,956
Total Investments	$ 5,414,292,285	$ 2,977,010,694	$ 2,437,281,591

The ISBI participates in a securities lending program whereby securities are loaned to brokers and, in return, the ISBI receives collateral of amounts slightly in excess of the market value of securities loaned. Collateral consists solely of cash, letters of credit, commercial paper and government securities. As of June 30, 1996 and 1995, the ISBI had outstanding loaned investment securities having a market value of approximately $959,943,956 and $593,757,824, respectively, against which it had received collateral of approximately $994,346,404 and $609,981,555, respectively.

(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, employment, turnover, interest and earnable compensation of the participants and beneficiaries of the System. An experience review was performed as of June 30, 1992.

(d) Administrative Expenses

Administrative expenses common to the Judges' Retirement System and the General Assembly Retirement System are borne 60% by the Judges' Retirement System and 40% by the General Assembly Retirement System. Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System and 40% thereof is allocated to and reimbursed by the General Assembly Retirement System. Administrative expenses allocated to and reimbursed by the General Assembly Retirement System were $168,592 and $167,928 for the years ended June 30, 1996 and 1995, respectively.

(4) Funding Status and Progress

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

The pension benefit obligation was determined as part of an actuarial valuation as of June 30, 1996. Significant actuarial assumptions used include (a) rates of return on the investment of present and future assets of 8.0% per year (consisting of an inflation component of 4.5% per year and a real rate of return component of 3.5% per year), compounded annually, (b) projected salary increase of 6% per year (consisting of a general increase component of 5% per year, 4.5% of which is attributable to inflation, and a seniority/ merit component of 1% per year), compounded annually, (c) mortality rates based upon the UP 1984 Mortality Table, (d) assumed age at retirement ranging from 55 to 75, based upon recent history with the System, (e) 75% of participants are assumed to be married, (f) the age of the spouse is assumed to be 4 years younger than the age of the participant, and (g) the rate of turnover without vested benefits assumes a high scale at younger age levels, becoming progressively lower as age advances.

At June 30, 1996 and 1995, the unfunded pension benefit obligation was $345,359,263 and $309,581,604 as follows:

	1996	1995
Pension benefit obligation:		
Retirees & beneficiaries currently receiving benefits	$ 313,546,389	$ 279,270,677
Inactive participants not yet receiving benefits	11,645,689	10,336,847
Current Participants:		
Accumulated participant contributions	71,463,189	69,049,571
Employer-financed vested	104,447,078	96,997,859
Employer-financed nonvested	76,689,911	68,030,677
Total Pension benefit obligation	$ 577,792,256	$ 523,685,631
Net assets available for benefits, at cost (market value at June 30, 1996 $277,098,999; June 30, 1995 $249,334,066)	232,432,993	214,104,027
Unfunded pension benefit obligation	$ 345,359,263	$ 309,581,604

There were no benefit changes enacted during fiscal years 1996 or 1995 having a significant impact on the actuarial present value of credited projected benefits and the related unfunded actuarial liability.

(5) 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. The same actuarial assumptions were used to determine the contribution requirements as are used to compute the pension benefit obligation discussed in Note 4.

For fiscal year 1995, the required employer contributions were computed in accordance with Public Act 86-0273 which was signed into law on August 23, 1989. Public Act 86-0273 enacted a funding plan under which, starting with fiscal year 1990, the state's contribution was to be increased incrementally over a seven year period so that by fiscal year 1996, the minimum state contribution would be an amount sufficient to meet the normal cost and amortize the unfunded actuarial liability over forty years as a level percentage of payroll as determined under the projected unit credit actuarial cost method.

For fiscal year 1996, 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 new 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.

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

The total amount of actuarially determined contributions required for the fiscal year ended June 30, 1996 amounted to $20,489,000 and consisted of (a) $20,041,000 normal cost and (b) $448,000 amortization of the unfunded actuarial accrued liability. Contributions totaling $21,914,891 ($12,129,000 employer and $9,785,891 employee) were made during fiscal year 1996 and consisted of (a) $21,466,891 normal cost and (b) $448,000 amortization of the unfunded actuarial liability.

A comparison of the actuarially determined funding requirement for the fiscal year ended June 30, 1996, versus the actual funding shows that the state's employer contributions were made in accordance with the actuarially determined employer contribution requirements for the fiscal year.

	Pension Contributions			
	Required			Received
	Normal Cost	Amortization of Unfunded Liability	Total	
Participants	$ 8,360,000	$ -	$ 8,360,000	$ 9,785,891
Percent of Pay	11.00%	-	11.00%	12.88%
Employer:				
State of Illinois	11,681,000	448,000	12,129,000	12,129,000
Percent of Pay	15.37%	.59%	15.96%	15.96%
Total	$ 20,041,000	$ 448,000	$ 20,489,000	$ 21,914,891
Percent of Pay	26.37%	.59%	26.96%	28.84%
Participant Payroll	$ 75,996,000			

(6) Historical Trend Information

Historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented on pages 24 - 25.

(7) Administrative Expenses

A summary of the administrative expenses for the Judges' Retirement System for fiscal years 1996 and 1995 is as follows:

	1996	1995
Personal services	$ 169,850	$ 163,348
Employee retirement contributions paid by employer	6,804	6,194
Employer retirement contributions	8,108	10,141
Social Security contributions	11,647	11,266
Group insurance	13,806	20,370
Contractual services	60,266	55,957
Travel	7,886	7,721
Printing	3,666	4,639
Commodities	662	451
Telecommunications	2,420	1,583
Electronic data processing	10,725	10,976
Depreciation	6,474	7,095
Other	3,438	2,676
Total	$ 305,752	$ 302,417

(8) Equipment

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

A summary of the changes in fixed assets for fiscal years 1996 and 1995 is as follows:

1996	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 44,338	$ 590	$(1,355)	$ 43,573
Accumulated Depreciation	(30,040)	(6,474)	1,178	(35,336)
Equipment, net	$ 14,298	$ (5,884)	$ (177)	$ 8,237

1995	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 41,545	$ 3,141	$ (348)	$ 44,338
Accumulated Depreciation	(23,111)	(7,095)	166	(30,040)
Equipment, net	$ 18,434	$ (3,954)	$ (182)	$ 14,298

(9) Accrued Compensated Absences

Employees of the Judges' Retirement System are entitled to receive compensation for all accrued but unused vacation time and one-half of all unused sick leave earned after January 1, 1984 upon termination of employment. These accrued compensated absences as of June 30, 1996 and 1995 total $29,697 and $26,437, respectively and are included as administrative expenses payable.

(10) Pension Disclosure

All of the System's full-time employees who are not eligible for another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS). The SERS is a single-employer defined benefit public employee retirement system (PERS) in which state agencies, including the System, participate on a cost-sharing basis.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established, is included as an integral part of the SERS Comprehensive Annual Financial Report (CAFR). Also included is a discussion of employer and employee obligations to contribute, the authority under which those obligations are established, as well as an explanation of the pension benefit obligation.

The pension benefit obligation at June 30, 1996 and June 30, 1995 for the SERS as a whole, determined through an actuarial valuation at that date was $7.391 billion and $6.988 billion, respectively. The SERS net assets available for benefits on these respective dates (valued at cost) were $4.397 billion and $3.923 billion, leaving unfunded pension benefit obligations of $2.994 billion and $3.065 billion. The System's FY1996 and FY1995 contribution requirement represented .005% and .006%, respectively of total contributions required of all state agency/department employers participating in the SERS.

Ten-year historical trend information designed to provide information about the SERS progress made in accumulating sufficient assets to pay benefits when due is presented in its separately issued CAFR for the year ended June 30, 1996.

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

The System's covered payrolls for FY1996 and FY1995 were $169.9 thousand and $163.3 thousand and the payrolls for all System employees were $169.9 thousand and $163.3 thousand, respectively.

The System's (i.e., the employers') actuarially determined contribution requirements for FY1996 and FY1995 were $8.1 thousand and $10.1 thousand, respectively, or 4.8% and 6.2% of the System's covered payrolls. For FY 1996, the System's and employee contributions actually made were $8.1 thousand and $6.8 thousand, respectively, which represents 4.8% and 4.0%, respectively, of the current year covered payroll. For FY 1995, the System's and employee contributions actually made were $10.1 thousand and $6.2 thousand, respectively, which represents 6.2% and 3.8%, respectively, of the covered payroll.

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 year ended June 30, 1996. However, post-employment costs for the state as a whole for all state agencies/departments for 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.

(11) Analysis of Changes in Fund Balances - Reserved

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

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

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

JUDGES' RETIREMENT SYSTEM OF ILLINOIS
Statements of Changes in Fund Balances (Reserved)
Years ended June 30, 1996 and 1995

	Participants' Contributions	Future Operations	Total Fund Balance
Balance at June 30, 1994	$ 74,318,731	$ 133,518,287	$ 207,837,018
Add (deduct):			
Excess (deficiency) of revenues over expenses	8,940,523	(2,673,514)	6,267,009
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(4,246,563)	4,246,563	-
Balance at June 30, 1995	$ 79,012,691	$ 135,091,336	$ 214,104,027
Add (deduct):			
Excess (deficiency) of revenues over expenses	9,282,436	9,046,530	18,328,966
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(5,867,127)	5,867,127	-
Balance at June 30, 1996	$ 82,428,000	$ 150,004,993	$ 232,432,993

(12) Future Reporting Requirements

In November, 1994, The Governmental Accounting Standards Board adopted Statement No. 25 (Statement) entitled "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans". The Statement requires that the investments of defined benefit pension plans be reported at their fair (market) value rather than at cost, or amortized cost, as currently required. In addition, the Statement establishes new financial reporting standards which will result in format changes to the financial statements as well as the required supplementary information and may also affect the actuarially determined contribution requirements.

The requirements of the Statement are effective for periods beginning after June 15, 1996, (i.e. fiscal year ending June 30, 1997), with earlier implementation encouraged but not required. If comparative financial statements are presented, restatement of the prior year financial statements is required.

The System intends to adopt the Statement beginning with its fiscal year ending June 30, 1997.

Analysis of Funding Progress

Fiscal Year	(1) Net Assets Available for Benefits*	(2) Pension Benefit Obligation	(3) Percentage Funded (1) ÷ (2)	(4) Unfunded Pension Benefit Obligation (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded Pension Benefit Obligation as a % of Covered Payroll (4) ÷ (5)
1987	$ 138,927,534	$ 307,064,068	45.2%	$ 168,136,534	$ 59,266,115	283.7%
1988	146,534,436	335,307,458	43.7%	188,773,022	62,366,208	302.7%
1989	156,238,762	319,402,592	48.9%	163,163,830	63,478,721	257.0%
1990	166,984,434	366,116,393	45.6%	199,131,959	64,670,416	307.9%
1991	173,989,204	385,528,189	45.1%	211,538,985	66,294,898	319.1%
1992	187,627,388	423,758,708	44.3%	236,131,320	67,904,000	347.7%
1993	199,679,764	458,826,434	43.5%	259,146,670	69,610,000	372.3%
1994	207,837,018	479,129,504	43.4%	271,292,486	70,997,000	382.1%
1995	214,104,027	523,685,631	40.9%	309,581,604	75,314,000	411.1%
1996	232,432,993	577,792,256	40.2%	345,359,263	75,996,000	454.4%

* At cost

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

Revenues by Source and Expenses by Type

Revenues by Source

FY Ended June 30	Participants' Contributions	Employer Contributions: State of Illinois	Employer Contributions: Other Sources	Employer Contributions: Total	Income from Investments	Total
1987	$ 6,248,636	$ 9,832,000	$ -	$ 9,832,000	$ 14,240,835	$ 30,321,471
1988	6,885,514	9,137,000	-	9,137,000	9,666,884	25,689,398
1989	6,909,017	9,918,700	-	9,918,700	12,245,936	29,073,653
1990	7,142,961	10,657,400	28,620	10,686,020	13,206,382	31,035,363
1991	7,154,549	10,657,400	-	10,657,400	10,784,883	28,596,832
1992	7,371,637	10,052,100	-	10,052,100	19,721,910	37,145,647
1993	9,377,428	11,099,030	-	11,099,030	17,528,393	38,004,851
1994	7,822,346	10,766,000	-	10,766,000	17,424,885	36,013,231
1995	8,942,657	10,806,000	345,577	11,151,577	16,000,529	36,094,763
1996	9,785,891	12,129,000	-	12,129,000	30,320,082	52,234,973

Expenses by Type

FY Ended June 30	Benefits	Refunds	Admin. Expenses	Total
1987	$ 15,376,535	$283,090	$153,973	$ 15,813,598
1988	17,382,718	551,268	148,510	18,082,496
1989	18,776,253	421,138	171,936	19,369,327
1990	19,827,453	275,233	187,005	20,289,691
1991	21,148,512	226,702	216,848	21,592,062
1992	22,995,915	280,106	231,442	23,507,463
1993	25,241,058	408,113	303,304	25,952,475
1994	27,234,879	332,930	288,168	27,855,977
1995	29,177,626	347,711	302,417	29,827,754
1996	33,096,800	503,455	305,752	33,906,007

Analysis of Employer Contributions - Fiscal Year 1988 through 1996

Fiscal Year (A)	(1) Covered Payroll	(2) State of Illinois Employer Contributions Required (B)	(3) State of Illinois Employer Contributions Required as a % of Covered Payroll (2) ÷ (1)	(4) State of Illinois Employer Contributions Received	(5) State of Illinois Employer Contributions Received as a % of Covered Payroll (4) ÷ (1)	(6) Contributions Required in Excess of Contributions Received (2) - (4)
1988	$ 62,366,208	$ 20,182,837	32.4%	$ 9,137,000	14.7%	$ 11,045,837
1989	63,478,721	21,990,938	34.6%	9,918,700	15.6%	12,072,238
1990	64,670,416	14,329,107	22.2%	10,657,400	16.5%	3,671,707
1991	66,294,898	12,357,369	18.6%	10,657,400	16.1%	1,699,969
1992	67,904,000	13,160,000	19.4%	10,052,100	14.8%	3,107,900
1993	69,610,000	12,808,000	18.4%	11,099,030	15.9%	1,708,970
1994	70,997,000	14,924,000	21.0%	10,766,000	15.2%	4,158,000
1995	75,314,000	17,367,000	23.1%	10,806,000	14.3%	6,561,000
1996	75,996,000	12,129,000	16.0%	12,129,000	16.0%	-

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

(B) = For fiscal year 1988 and 1989, the State of Illinois required employer contributions were computed in accordance with the Board of Trustee's approved funding policy of normal cost plus interest on the unfunded actuarial liability. For fiscal years 1990 through 1995, required employer contributions were computed in accordance with Public Act 86-0273. Public Act 86-0273 enacted a funding plan under which, starting with fiscal year 1990, the state's contribution was to be increased incrementally over a seven year period so that by fiscal year 1996, the minimum state contribution would be an amount sufficient to meet the normal cost and amortize the unfunded actuarial liability over forty years as a level percent of payroll as determined under the projected unit credit actuarial cost method. For fiscal year 1996, 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 new 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.

Schedule of Employer Contributions as a Percentage of Covered Payroll

Fiscal Year	Covered Payroll	State of Illinois Employer Contributions Received	State of Illinois Employer Contributions Received as a % of Covered Payroll
1987	$ 59,266,115	$ 9,832,000	16.6%
1988	62,366,208	9,137,000	14.7%
1989	63,478,721	9,918,700	15.6%
1990	64,670,416	10,657,400	16.5%
1991	66,294,898	10,657,400	16.1%
1992	67,904,000	10,052,100	14.8%
1993	69,610,000	11,099,030	15.9%
1994	70,997,000	10,766,000	15.2%
1995	75,314,000	10,806,000	14.3%
1996	75,996,000	12,129,000	16.0%

SUMMARY OF REVENUES BY SOURCE
Years Ended June 30, 1996 and 1995

	1996	1995
Contributions:		
Participants	$ 9,785,891	$ 8,942,657
Employer:		
General Revenue Fund	$ 11,268,000	$ 9,815,300
State Pension Fund	861,000	990,700
Received from reciprocating systems	-	267,909
Paid by participants	-	77,668
Total employer contributions	$ 12,129,000	$ 11,151,577
Total contributions revenue	$ 21,914,891	$ 20,094,234
Investments:		
Net investments income	$ 10,383,841	$ 10,785,719
Interest earned on cash balances	274,272	287,673
Net realized gain on sale of investments	19,661,969	4,927,137
Total investments revenue	$ 30,320,082	$ 16,000,529
Total Revenue	$ 52,234,973	$ 36,094,763

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
Years Ended June 30, 1996 and 1995

	1996	1995
Cash balance, beginning of year	$ 5,514,304	$ 5,967,371
Receipts:		
Participant contributions	$ 9,730,284	$ 9,065,971
Employer contributions:		
General Revenue Fund	10,329,000	9,815,300
State Pension Fund	861,000	990,700
Received from reciprocating systems	-	267,909
Paid by participants	-	77,668
Interest income on cash balances	276,771	277,392
Reimbursements from General Assembly Retirement System	166,620	166,495
Participants' deferred service credit payments	5,666	38,235
Cancellation of annuities	28,654	51,720
Transfers from Illinois State Board of Investment	11,400,000	9,000,000
Total cash receipts	$ 32,797,995	$ 29,751,390
Disbursements:		
Benefit payments:		
Retirement annuities	$ 26,195,918	$ 22,756,165
Survivors' annuities	6,923,762	6,488,979
Refunds	478,687	498,418
Administrative expenses	446,678	460,895
Total cash disbursements	$ 34,045,045	$ 30,204,457
Cash balance, end of year	$ 4,267,254	$ 5,514,304

ACTUARIAL SECTION

- Actuary's Report
- Introduction
- Actuarial Cost Method and Summary of Major Actuarial Assumptions
- Valuation Results
- Short-term Solvency Test
- Summary of Accrued and Unfunded Accrued Liabilities
- Reconciliation of Unfunded Actuarial Liability
- Schedule of Retirants and Survivors' Annuitants Added To and Removed From Rolls
- Schedule of Active Member Valuation Data

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October 2, 1996

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

ACTUARIAL CERTIFICATION

I have completed the annual actuarial valuation of the Judges' Retirement System of Illinois as of June 30, 1996. The purpose of the valuation was to determine the financial condition and funding requirements of the retirement system.

Since the last actuarial valuation, there have been no changes in the benefit provisions of the system.

Pursuant to the law governing the system, the actuary shall investigate the experience of the system at least once every five years and recommend, as a result of such investigation, the actuarial assumptions to be adopted. As the actuary, I performed such an experience analysis for the five-year period 1987-1992. Based on this experience analysis, I recommended actuarial assumptions which were adopted by the system's board effective June 30, 1992 and which were used for the current valuation. I believe that, in the aggregate, the current actuarial assumptions relate reasonably to the past and anticipated experience of the system.

Senate Bill 533, which was signed into law on August 22, 1994 as Public Act 88-0593, enacted a new funding plan 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.

GOLDSTEIN & ASSOCIATES
Consulting Actuaries

Based on the June 30, 1996 actuarial valuation, I have determined the required State contribution under this funding plan for fiscal year 1998. I have also estimated the required State contributions for future years.

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 book value of the assets of the system (assets valued at cost), less the amount of liabilities, was used. In order to comply with the requirements of GASB Statement No. 25, the market value of the assets of the system was used in estimating the required State contributions for fiscal year 1999 and later.

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. I have made additional tests to ensure its accuracy.

In my opinion, the following schedule of valuation results fairly presents the financial condition of the Judges' Retirement System of Illinois as of June 30, 1996. The contribution rates determined are in compliance with the provisions of the funding plan enacted under Public Act 88-0593.

Respectfully submitted,

Sandor Goldstein

Sandor Goldstein
Fellow of the Society of Actuaries
Enrolled Actuary No. 96-3402

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.

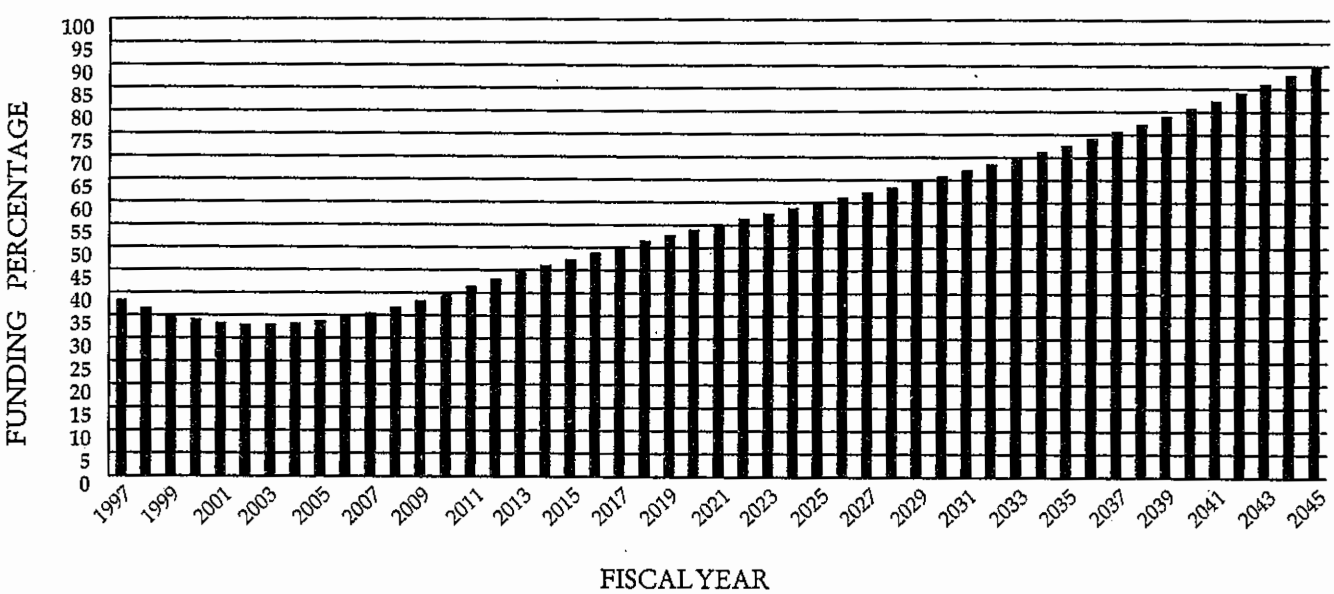
In August 1994, Governor Edgar signed Senate Bill 533 into law as Public Act 88-0593. This funding legislation, which became effective on July 1, 1995, provides for a systematic 50 year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%. In addition, the new 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.

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

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

Based upon the state's actual funding method described above, fiscal year 1996 marked the first year the System received the minimum actuarially determined contribution amount.

The System's actuary has projected valuation results commencing with fiscal year 1997. The projection was based on the results of the June 30, 1996 actuarial valuation and the same actuarial assumptions as were used for the valuation. The required employer contributions to the System were calculated in accordance with the contribution requirements in the funding plan established under Public Act 88-0593. Displayed below is a graph of the System's projected funded status which shows the 90% funding level being achieved in fiscal year 2045.



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.

A description of the actuarial assumptions utilized for fiscal year 1996 and fiscal year 1995 follows:

Dates of Adoption: The Projected Unit Credit Normal Cost Method was adopted June 30, 1987; all other assumptions were adopted June 30, 1992.

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

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

Age	Rate of Termination	Age	Rate of Termination
30	.066	45	.005
35	.033	50	.003
40	.013	55	.000

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

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

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

Age	Rate of Retirement	Age	Rate of Retirement
55	.051	70	.104
60	.127	75	1.000
65	.058		

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

Salary Increase: A salary increase assumption of 6.0% per year (consisting of a general increase component of 5% per year, 4.5% of which is attributable to inflation, and a seniority/merit component of 1% 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 4.5% per year and a real rate of return component of 3.5% per year), compounded annually, was used.

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

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

VALUATION RESULTS

Actuarial Liability (reserves):	June 30, 1996	June 30, 1995
For Active Participants:		
Basic retirement annuity	$ 154,650,600	$ 142,987,748
Annual increase in retirement annuity	41,213,503	38,031,464
Pre-retirement survivors' annuity	34,544,160	31,467,512
Post-retirement survivors' annuity	19,348,019	18,929,600
Withdrawal benefits	1,244,442	1,166,671
Disability benefits	1,599,454	1,495,112
Total	$ 252,600,178	$ 234,078,107
For Participants Receiving Benefits:		
Retirement annuities	$ 255,803,549	$ 225,811,621
Survivor annuities	57,742,840	53,459,056
Total	$ 313,546,389	$ 279,270,677
For Inactive Participants	$ 11,645,689	$ 10,336,847
Total Actuarial Liability	$ 577,792,256	$ 523,685,631
Net Assets, Book Value (Cost)	232,432,993	214,104,027
Unfunded Actuarial Liability	$ 345,359,263	$ 309,581,604

SHORT-TERM SOLVENCY TEST

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

Computed Actuarial Values

	Aggregate Accrued Liabilities For				Percentage of Accrued Liabilities Covered By Net Real Assets		
Fiscal Year	(1) Active and Inactive Participant Contributions	(2) Retirement and Survivor Annuitants	(3) Active and Inactive Participants (Employer Financed Portion)	Net Real Assets	(1)	(2)	(3)
1987	$44,020,513	$154,453,849	$108,589,706	$138,927,534	100.0%	61.4%	0.0%
1988	47,271,278	171,513,047	116,523,133	146,534,436	100.0	57.9	0.0
1989	50,923,236	168,946,414	99,532,942	156,238,762	100.0	62.3	0.0
1990	56,354,255	185,952,152	123,809,986	166,984,434	100.0	59.5	0.0
1991	59,623,957	203,184,276	122,719,956	173,989,204	100.0	56.3	0.0
1992	63,598,115	224,698,818	135,461,775	187,627,388	100.0	55.2	0.0
1993	69,139,981	247,358,088	142,328,365	199,679,764	100.0	52.8	0.0
1994	74,318,731	256,978,525	147,832,248	207,837,018	100.0	52.0	0.0
1995	79,012,691	279,270,677	165,402,263	214,104,027	100.0	48.4	0.0
1996	82,428,000	313,546,389	181,817,867	232,432,993	100.0	47.8	0.0

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

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

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
1987	$ 307,064,068	$ 138,927,534	45.2%	$ 168,136,534	$ 59,266,115	283.7%
1988	335,307,458	146,534,436	43.7%	188,773,022	62,366,208	302.7%
1989	319,402,592	156,238,762	48.9%	163,163,830	63,478,721	257.0%
1990	366,116,393	166,984,434	45.6%	199,131,959	64,670,416	307.9%
1991	385,528,189	173,989,204	45.1%	211,538,985	66,294,898	319.1%
1992	423,758,708	187,627,388	44.3%	236,131,320	67,904,000	347.7%
1993	458,826,434	199,679,764	43.5%	259,146,670	69,610,000	372.3%
1994	479,129,504	207,837,018	43.4%	271,292,486	70,997,000	382.1%
1995	523,685,631	214,104,027	40.9%	309,581,604	75,314,000	411.1%
1996	577,792,256	232,432,993	40.2%	345,359,263	75,996,000	454.4%

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

Fiscal	Annuitants				Survivors				
Year	Beginning	Additions	Deletions	Ending	Beginning	Additions	Deletions	Ending	Total
1987	325	31	19	337	211	23	11	223	560
1988	337	39	28	348	223	33	14	242	590
1989	348	36	17	367	242	17	17	242	609
1990	367	18	32	353	242	17	14	245	598
1991	353	38	32	359	245	25	12	258	617
1992	359	34	22	371	258	28	18	268	639
1993	371	39	16	394	268	12	7	273	667
1994	394	25	20	399	273	15	14	274	673
1995	399	41	25	415	274	16	17	273	688
1996	415	55	26	444	273	21	19	275	719

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date June 30	Active Members: Number	Annual Payroll	Annual Average Pay	% Increase In Average Pay
1987	794	$ 59,266,115	$ 74,642	5.3%
1988	796	62,366,208	78,350	5.0%
1989	821	63,478,721	77,319	(1.3%)
1990	827	64,670,416	78,199	1.1%
1991	848	66,294,898	78,178	0.0%
1992	828	67,904,000	82,010	4.9%
1993	848	69,610,000	82,087	.1%
1994	836	70,997,000	84,925	3.5%
1995	875	75,314,000	86,073	1.4%
1996	866	75,996,000	87,755	2.0%

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

	FY 96	FY 95
Unfunded actuarial liability at Beginning of FY	$ 309,581,604	$ 271,292,486
Employer contribution requirement of normal cost plus interest on the unfunded liability	$ 36,647,236	$ 32,004,884
Actual employer contribution for the year	12,129,000	11,151,577
Increase in unfunded liability due to employer contributions being less than normal cost plus interest on unfunded liability	$ 24,518,236	$ 20,853,307
Increase/(Decrease) in unfunded liability due to investment return lower/(greater) than assumed	(13,671,404)	237,092
Increase/(Decrease) in unfunded liability due to salary increases greater/(less) than assumed	9,999,484	8,198,328
Increase in unfunded liability due to retirements during the year	-	6,275,319
Increase in unfunded liability due to other sources	14,931,343	2,725,072
Total Actuarial (Gains)/Losses	$ 11,259,423	$ 17,435,811
Net increase in unfunded liability for the year	$ 35,777,659	$ 38,289,118
Unfunded actuarial liability at End of FY	$ 345,359,263	$ 309,581,604

INVESTMENT SECTION

- Investment Report
- Investment Portfolio Summary
- Analysis of Investment Performance
- Additional Investment Information

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, 1996, total net assets under management valued at market, amounted to $5.437 billion. Of the total market value of assets under management, $271.9 million or 4.9% represented assets of the Judges' Retirement System.

Management Approach

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

For fiscal 1996, the ISBI monitored the long-range investment policies for conformance with the new three-year plan adopted on July 1, 1995. A number of changes to the strategic asset allocation targets are included in the new plan. The allocation to international equities was increased from 5% to 10%; the real estate allocation was reduced from 10% to 5%; and cash was eliminated as a strategic asset class (with a corresponding increase in the fixed income allocation).

Investment Results

Led by U.S. stocks, capital markets posted impressive gains during fiscal 1996. U.S. and international stocks achieved double digit returns for the period. A good environment for initial public offerings (IPO's) also led to strong returns for many private equity partnerships. Fixed income, struggling against interest rates trending slightly upward, posted modest returns marginally lower than the coupon return. Real estate, after many years of declining values, showed some stabilization during fiscal 1996, with a return roughly equal to the cash on cash rate of return.

ISBI investments earned a total rate of return for fiscal 1996, net of expenses, of 16.6%, well ahead of its long-term objectives of earning 4.5% above the inflation rate; of exceeding the 8.0% assumed actuarial interest rate; and of outperforming the policy-weighted benchmark return of 15.7%. Over longer time periods, the ISBI Fund is comfortably ahead of its investment objectives. The average annual returns for the three and five year periods ended June 30, 1996, were 11.4% and 11.6%, respectively. Over the 14-year period since the adoption of the prudent man legislation, the ISBI Fund has produced a compounded annual rate of return, net of expenses and charges, of 12.6%, and its net assets have increased by $4.4 billion.

Domestic Equities

For the twelve months ended June 30, 1996, U.S. equity markets soared. The S&P 500 Index increased 26.1%, and the BARRA All-U.S. Index, a broader representation of the domestic market, rose 26.2%. Small capitalization stocks, as measured by the Russell 2000 Index, grew at a slightly smaller rate of 23.9%. Within that context, the ISBI Fund's domestic equity portfolio, which is all managed by external investment firms, earned a return of 25.9%, roughly in line with the broad indices.

The ISBI Fund's domestic stock portfolio has outperformed the S&P 500 Index for both the three and five year periods ended June 30, 1996 as shown below:

	1 Year	3 Years	5 Years
ISBI	25.9%	17.3%	16.1%
S&P 500	26.1	17.2	15.7

Global/International Equities

Foreign stock markets overall rivalled the U.S. in total return for the fiscal year. However, a generally strengthening dollar, particularly in Japan, somewhat dampened foreign stock returns for U.S. investors. The Morgan Stanley Europe Australia Far East Index ("MSCI EAFE") earned 13.6% in U.S. dollar terms for the fiscal year ended June 30, less than half the 28.9% local currency return. The Morgan Stanley World Index ("MSCI World"), which includes the U.S. market, increased 19.0% in dollar terms for the same period.

All foreign security accounts are managed by external investment firms. "Global" managers have the discretion to invest in both domestic as well as foreign securities, while "international" managers are limited to non-U.S. securities; thereby assuring a certain level of diversification. For the fiscal year the ISBI Fund's global managers performed roughly in line with the MSCI World Index, earning 18.8%. The ISBI Fund's international portfolio outperformed its benchmark, increasing 18.4%, compared to 13.6% for the EAFE Index.

Comparative average annual rates of return for the Global/International equities portfolio versus the market index benchmarks is shown below:

	1 Year	3 Years	5 Years
Global Equities			
ISBI	18.8%	13.4%	14.2%
MSCI World Index	19.0	13.6	12.5
International Equities			
ISBI	18.4%	13.7%	11.1%
MSCI EAFE Index	13.6	10.8	10.3

Fixed Income

During fiscal 1996, U.S. fixed income markets were impacted by uncertainty about the direction of inflation, with interest rates drifting higher. The Lehman Aggregate Bond Index earned 5.0% for the 12-month period, while high yield bonds, as represented by the Merrill Lynch High Yield Index, did somewhat better with a return of 9.4%.

Substantially all fixed income assets are managed internally, except approximately $78 million allocated to an external high yield bond manager. The internal account outperformed the Lehman Aggregate Bond index, with a return of 5.8%. Higher returns from the external high yield manager resulted in a total fixed income return of 6.6%.

Comparative average annual rates of return for the total fixed income portfolio versus the market index benchmark is shown below:

	1 Year	3 Years	5 Years
ISBI	6.6%	6.6%	10.5%
Shearson Lehman Aggregate	5.0	5.3	8.3

Real Estate

All of the ISBI Fund's investments in real estate are passive and are represented by interests in limited partnerships, trusts, and other forms of pooled investments.

Real estate values stabilized during fiscal 1996, and real estate investments included in the ISBI Fund's portfolio earned a 5.5% rate of return, very close to the portfolio's income return. The ISBI believes that the portfolio is well-positioned for steady performance going forward.

Average annual rates of return for the combined real estate portfolio compared to the market benchmark for unleveraged institution grade property returns is shown below:

	1 Year	3 Years	5 Years
ISBI	5.5%	(1.4)%	(4.2)%
NCRIEF	9.5	6.0	1.5

Alternative Investments

The alternative investments portfolio consists of passive interests in limited partnerships and other commingled vehicles that invest in venture capital, management buyouts and other private placement activities. The portfolio's largest investment is with the Kohlberg Kravis Roberts (KKR) leveraged buyout limited partnership, which accounts for almost 80% of this category. Fiscal 1996 was a good year for alternative investments. A strong initial public offering (IPO) market allowed a number of portfolio companies to gain access to the auction markets, thereby producing liquidity and/or actual cash returns to the ISBI Fund. In addition, a number of transactions in the KKR portfolio, including the dispositions of First Interstate and Safeway stock, produced strong cash flow for the ISBI Fund. Overall, the category earned 35.1% for the fiscal year.

The ISBI made commitments totalling $37.5 million to four new limited partnerships in fiscal 1996. Although the current allocation to this asset class is not significantly below the long-term target, in order to maintain the level of investment, new commitments are necessary over time to balance anticipated distributions from maturing partnerships. The new partnerships are Summit Ventures IV; Golder, Thoma, Cressey, Rauner Fund V; Madison Dearborn Capital Partners II; and Interwest Partners VI. Funds for these future commitments will come from cash flow generated from existing alternative investments.

Management Expenses

Total operating expenses, primarily fees to external managers, for the fiscal year were $15,511,389, compared to $13,859,829 for the previous fiscal year. The expense ratio (expenses divided by average net assets under management) was .30% in fiscal 1996, compared to .31% in fiscal 1995.

Additional Information

For additional information regarding the System's investment function, please refer to the Annual Report of the Illinois State Board of Investment, June 30, 1996. A copy of the report can be obtained from the ISBI at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

INVESTMENT PORTFOLIO SUMMARY

	June 30, 1996			
	Cost	Percentage	Market Value	Percentage
Fixed Income[1]	$ 1,642,047,952	35.7%	$ 1,662,844,282	30.6%
Equities	1,455,525,138	31.6	2,051,373,589	37.7
Foreign Equities	471,436,838	10.3	560,500,860	10.3
Real Estate	248,646,781	5.4	243,308,942	4.5
Non-Marketable[2]	152,231,154	3.3	274,289,456	5.0
Cash equivalents[3]	631,771,908	13.7	644,499,316	11.9
	$ 4,601,659,771	100.0%	$ 5,436,816,445	100.0%

	June 30, 1995			
	Cost	Percentage	Market Value	Percentage
Fixed Income[1]	$ 1,631,919,678	39.4%	$ 1,706,080,032	35.6%
Equities	1,393,118,587	33.6	1,839,365,276	38.4
Foreign Equities	382,488,822	9.2	434,791,884	9.1
Real Estate	254,994,362	6.2	249,380,026	5.2
Non-Marketable[2]	141,814,677	3.4	223,541,441	4.7
Cash equivalents[3]	337,390,954	8.2	338,111,358	7.0
	$ 4,141,727,080	100.0%	$ 4,791,270,017	100.0%

[1]Maturities of one year or longer, including convertible bonds.
[2]Interests in limited partnerships and other entities which have limited liquidity.
[3]Cash Equivalents includes other assets, less liabilities.

ANALYSIS OF INVESTMENT PERFORMANCE

	1996	1995	1994	1993	1992
Total Return* - Past 3 years		11.4%			
Total Return* - Past 5 years			11.6%		
Total Return* - year by year	16.6%	14.0%	4.0%	12.1%	11.6%
Actuarial Assumed Rate of Return			8.0%		
Average Net Income Yield*	4.0%	4.7%	4.5%	4.7%	5.4%
Comparative rates of return on fixed income securities					
Total fixed income - ISBI	6.6%	11.9%	1.6%	15.6%	17.1%
Comparison index:					
Shearson Lehman Aggregate	5.0%	12.6%	(1.3%)	11.8%	14.1%
Comparative rates of return on equities					
Domestic equities - ISBI	25.9%	21.5%	5.5%	13.7%	15.2%
Comparison index:					
S&P 500	26.1%	26.1%	1.3%	13.6%	13.5%

*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.

ADDITIONAL INVESTMENT INFORMATION

Gross investment income for FY 1996 of $11,165,975 less the ISBI's administrative expenses of $782,134 resulted in net investment income of $10,383,841. This amount, when combined with the net realized gain on sale of investments of $19,661,969, provided net revenue from investments of $30,045,810. Net cash transfers from the Illinois State Board of Investment were $11,400,000 during FY 1996. The balance of investments at cost increased by $18,645,810 from June 30, 1995 thru June 30, 1996. The following table shows a comparison of investment operations for FY 1996 and FY 1995.

	1996	1995	Increase/(Decrease) Amount	Increase/(Decrease) Percentage
Balance at beginning of year, at cost	$ 208,585,962	$ 201,873,106	$ 6,712,856	3.3%
Cash transferred from ISBI (net)	(11,400,000)	(9,000,000)	2,400,000	26.7%
Investment income:				
Commingled Fund income	$ 11,165,975	$ 11,490,719	$ (324,744)	(2.8)%
Less Expenses	(782,134)	(705,000)	77,134	10.9%
Net investment income	$ 10,383,841	$ 10,785,719	$ (401,878)	(3.7)%
Distributed Net Realized Gain on Sale of Investments	$ 19,661,969	$ 4,927,137	$ 14,734,832	299.1%
Balance at end of year, at cost	$ 227,231,772	$ 208,585,962	$ 18,645,810	8.9%
Market value	$ 271,897,778	$ 243,816,001	$ 28,081,777	11.5%

In addition, interest on the average balance in the System's Trust Fund account for FY 1996 was $274,272 compared to $287,673 during FY 1995 primarily due to lower average balances during FY 1996.

STATISTICAL SECTION

- Balance Sheet Assets
- Balance Sheet Liabilities and Fund Balance
- Revenues by Source
- Expenses by Type
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- Number of Participants
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- Number of Recurring Benefit Payments
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- Active Retirees by State

BALANCE SHEET ASSETS

Fiscal Year Ended June 30	Cash	Receivables	Investments at Cost	Fixed Assets Net of Accumulated Depreciation	Total
1987	$ 2,960,362	$ 50,340	$ 136,121,915	$ 933	$ 139,133,550
1988	935,712	102,135	145,612,106	20,604	146,670,557
1989	656,579	115,778	155,708,987	20,298	156,501,642
1990	3,828,060	173,967	163,122,923	26,585	167,151,535
1991	3,996,379	194,845	169,881,722	28,623	174,101,569
1992	4,122,969	265,758	183,415,396	24,566	187,828,689
1993	3,449,194	2,706,984	193,615,328	26,065	199,797,571
1994	5,967,371	217,006	201,873,106	18,434	208,075,917
1995	5,514,304	178,587	208,585,962	14,298	214,293,151
1996	4,267,254	1,114,097	227,231,772	8,237	232,621,360

BALANCE SHEET LIABILITIES AND FUND BALANCE

Fiscal Year Ended June 30	Total Liabilities	Reserve for Participant Contributions	Reserve for Automatic Annuity Increase	Reserve for Future Operations	Total
1987	$ 206,016	$ 40,334,357	$ 6,828,951	$ 91,764,226	$ 139,133,550
1988	136,121	47,271,278	-	99,263,158	146,670,557
1989	262,880	50,923,236	-	105,315,526	156,501,642
1990	167,101	56,354,255	-	110,630,179	167,151,535
1991	112,365	59,623,957	-	114,365,247	174,101,569
1992	201,301	63,598,115	-	124,029,273	187,828,689
1993	117,807	69,139,981	-	130,539,783	199,797,571
1994	238,899	74,318,731	-	133,518,287	208,075,917
1995	189,124	79,012,691	-	135,091,336	214,293,151
1996	188,367	82,428,000	-	150,004,993	232,621,360

REVENUES BY SOURCE

FiscalYear Ended June 30	Participant Contributions	Employer Contributions			Income From Investments	Total
		State of Illinois	Other Sources	Total		
1987	$ 6,248,636	$ 9,832,000	$ -	$ 9,832,000	$ 14,240,835	$ 30,321,471
1988	6,885,514	9,137,000	-	9,137,000	9,666,884	25,689,398
1989	6,909,017	9,918,700	-	9,918,700	12,245,936	29,073,653
1990	7,142,961	10,657,400	28,620	10,686,020	13,206,382	31,035,363
1991	7,154,549	10,657,400	-	10,657,400	10,784,883	28,596,832
1992	7,371,637	10,052,100	-	10,052,100	19,721,910	37,145,647
1993	9,377,428	11,099,030	-	11,099,030	17,528,393	38,004,851
1994	7,822,346	10,766,000	-	10,766,000	17,424,885	36,013,231
1995	8,942,657	10,806,000	345,577	11,151,577	16,000,529	36,094,763
1996	9,785,891	12,129,000	-	12,129,000	30,320,082	52,234,973

EXPENSES BY TYPE

Fiscal Year Ended June 30	Benefits	Refunds	Administrative Expenses	Total
1987	$ 15,376,535	$ 283,090	$ 153,973	$ 15,813,598
1988	17,382,718	551,268	148,510	18,082,496
1989	18,776,253	421,138	171,936	19,369,327
1990	19,827,453	275,233	187,005	20,289,691
1991	21,148,512	226,702	216,848	21,592,062
1992	22,995,915	280,106	231,442	23,507,463
1993	25,241,058	408,113	303,304	25,952,475
1994	27,234,879	332,930	288,168	27,855,977
1995	29,177,626	347,711	302,417	29,827,754
1996	33,096,800	503,455	305,752	33,906,007

BENEFIT EXPENSES BY TYPE

Fiscal Year Ended June 30	Retirement Annuities	Survivors' Annuities	Total
1987	$ 12,557,636	$ 2,818,899	$ 15,376,535
1988	14,193,135	3,189,583	17,382,718
1989	15,194,821	3,581,432	18,776,253
1990	16,043,479	3,783,974	19,827,453
1991	16,541,569	4,606,943	21,148,512
1992	17,869,115	5,126,800	22,995,915
1993	19,613,167	5,627,891	25,241,058
1994	21,206,102	6,028,777	27,234,879
1995	22,701,599	6,476,027	29,177,626
1996	26,186,330	6,910,470	33,096,800

NUMBER OF RECURRING BENEFIT PAYMENTS

at June 30	Retirement Annuities	Survivors' Annuities	Total
1987	337	223	560
1988	348	242	590
1989	367	242	609
1990	353	245	598
1991	359	258	617
1992	371	268	639
1993	394	273	667
1994	399	274	673
1995	415	273	688
1996	444	275	719

TERMINATION REFUNDS

Fiscal Year Ended June 30	Number	Amount
1987	1	$ 14,551
1988	10	411,577
1989	4	115,097
1990	5	242,847
1991	3	137,631
1992	3	76,885
1993	5	238,566
1994	2	58,106
1995	4	119,964
1996	2	106,020

NUMBER ON ACTIVE PAYROLLS

at June 30	Supreme Court Justices	Appellate Court Justices	Circuit Court Judges	Retired Judges Recalled	Admin. Office of Courts	Total
1987	7	31	741	15	-	794
1988	7	32	744	13	-	796
1989	7	37	767	18	-	829
1990	7	34	780	23	-	844
1991	8	36	797	27	-	868
1992	7	34	781	24	-	846
1993	7	36	803	20	-	866
1994	7	36	794	19	-	856
1995	7	41	825	15	1	889
1996	7	39	819	13	1	879

ACTIVE RETIREES BY STATE

RETIREMENT ANNUITANTS STATISTICS AND AVERAGE MONTHLY BENEFITS

Fiscal Year Ended June 30	At Retirement: Average Age	At Retirement: Average Length of Service *	Average Current Age	Average Current Monthly Benefit
1987	64.9	18.2	71.9	$ 3,228
1988	64.9	18.0	72.0	3,416
1989	65.0	17.8	72.1	3,617
1990	64.7	17.5	72.4	3,751
1991	64.7	17.5	72.4	3,909
1992	64.7	16.6	72.7	4,076
1993	64.9	16.9	73.0	4,298
1994	64.8	16.9	73.4	4,468
1995	65.0	16.9	73.4	4,736
1996	65.0	17.2	73.4	5,004

* in years

Annuitants by Benefit Range (Monthly) at June 30, 1996

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-500	7	7	1.6	1.6
501-1000	9	16	2.0	3.6
1001-1500	12	28	2.7	6.3
1501-2000	14	42	3.2	9.5
2001-2500	18	60	4.1	13.6
2501-3000	24	84	5.4	19.0
3001-3500	18	102	4.1	23.1
3501-4000	27	129	6.1	29.2
4001-4500	22	151	5.0	34.2
4501-5000	38	189	8.5	42.7
5001-5500	39	228	8.7	51.4
5501-6000	53	281	11.9	63.3
6001-6500	43	324	9.7	73.0
6501-7000	57	381	12.8	85.8
7001-7500	34	415	7.7	93.5
7501-8000	25	440	5.6	99.1
8001-8500	4	444	0.9	100.0

Survivors by Benefit Range (Monthly) at June 30, 1996

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-500	43	43	15.6	15.6
501-1000	24	67	8.7	24.3
1001-1500	40	107	14.5	38.8
1501-2000	25	132	9.1	47.9
2001-2500	35	167	12.7	60.6
2501-3000	20	187	7.3	67.9
3001-3500	29	216	10.5	78.4
3501-4000	27	243	9.8	88.2
4001-4500	14	257	5.1	93.3
4501-5000	10	267	3.7	97.0
5001-5500	6	273	2.3	99.3
5501-6000	2	275	0.7	100.0

NUMBER OF PARTICIPANTS

At June 30	Active	Inactive	Total
1987	794	15	809
1988	796	15	811
1989	821	22	843
1990	827	22	849
1991	848	29	877
1992	828	41	869
1993	848	42	890
1994	836	41	877
1995	875	37	912
1996	866	35	901

PLAN SUMMARY AND LEGISLATIVE SECTION

- **Plan Summary**
- **Legislation**

SUMMARY OF RETIREMENT SYSTEM PLAN
(As of June 30, 1996)

1. PURPOSE

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

2. ADMINISTRATION

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

3. EMPLOYEE MEMBERSHIP

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

4. PARTICIPANT CONTRIBUTIONS

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

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

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

A participant who is qualified to receive the maximum rate of annuity may elect to discontinue contributions and have benefits "frozen" based upon the applicable salary in effect immediately prior to the effective date of such election. The election, once made, is irrevocable.

5. RETIREMENT ANNUITY

A. Qualification of Participant
Upon termination of service, a judge is eligible for a retirement annuity at:
(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 28 years of credit
(4) age 55 with at least 10 years of credit with the annuity reduced 1/2 of 1% for each month under age 60

B. Amount of Annuity
The retirement annuity is determined according to the following formula based upon the applicable salary:

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

The maximum annuity is 85% of final salary on the last day of employment as a judge 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 (1) under age 18 or (2) over age 18 if mentally or physically disabled or (3) 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.

...payment amount to a surviving spouse would be a prorated share of the full benefit amount ...above if the participant married or remarried after becoming a participant and elected to ...bute 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. A surviving spouse who remarries prior to age 50 would be disqualified for any future benefit payments.

7. DEATH BENEFITS

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

A. Before Retirement
If the participant's death occurs 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.

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

8. DISABILITY BENEFIT

A. 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.

A 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 amendments with an effective date during fiscal year 1996 having an impact on the System were:

SENATE BILL 114 (P.A. 89-0136)

There were several substantive changes to the Pension Code, as well as the State Finance Act, which were included in this bill. The provisions of the bill which affect the operations of the System are as follows:

1. Defines final average salary for participants who terminate service on or after the effective date of this legislation as the salary on the last day of employment as a judge, or the highest salary received by the participant for employment as a judge in a position held by the participant for at least four consecutive years, whichever is greater.

2. Allows a participant to rescind his or her election to discontinue contributions by (1) filing with the System's Board prior to July 1, 1996 a letter cancelling the election to discontinue contributions and (2) paying to the System an amount equal to the total of the discontinued contributions plus interest thereon at 5% per annum.

NEW LEGISLATION

There were no legislative amendments with an effective date subsequent to June 30, 1996, affecting the operation of the System.