Judges' Retirement System of Illinois

A Pension Trust Fund of the State of Illinois

The Illinois Old State Capitol

Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012

Judges' Retirement System of Illinois

2101 South Veterans Parkway, P. O. Box 19255
Springfield, Illinois 62794-9255
Phone 217-782-8500 • Fax 217-557-5154
Internet: http://www.state.il.us/srs
Email: jrs@srs.illinois.gov

On the Cover

The Old State Capitol is a Greek Revival-style building that served as Illinois' fifth statehouse, the first to be located in Springfield. The building was the seat of state government and a center of Illinois political life from 1839 to 1876. During the dramatic years leading up to the Civil War, the building had an important role in the political struggle between Stephen Douglas and Abraham Lincoln.

Lincoln visited the building frequently as both a lawyer and politician, serving in the building during his last term in the Illinois House of Representatives and delivering the famous 1858 "House Divided" speech in Representatives Hall. The building was also the scene of the assassinated President's final laying-in-state on May 3-4, 1865.

The Capitol was completely reconstructed in the 1960s. In 1961 the building was designated a National Historic Landmark and in 1966 was listed on the National Register of Historic Places.

Fiscal Year 2012 Highlights

983	Total Membership
968	Active Contributing Members
$577,976,367	Net Assets Held in Trust for Pension Benefits, fair value
	Contributions
$16,444,796	Participants
$63,644,099	Employer
$(69,096)	Investment (Loss)
	Benefit Recipients
725	Retirement Annuities
331	Survivors' Annuities
$106,653,095	Benefits Paid
$2,021,715,796	Actuarial Accrued Liability
$601,219,999	Actuarial Value of Assets
$1,420,495,797	Unfunded Actuarial Liability
29.7%	Funded Ratio

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.

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, 2012

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

SRS STATE RETIREMENT SYSTEMS

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

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

January 9, 2013

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

Dear Board of Trustees and Members:

The comprehensive annual financial report (CAFR) of the Judges' Retirement System of Illinois (System) as of and for the fiscal year ended June 30, 2012 is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the System.

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

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

The report consists of six sections:

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

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

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

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

5. The Statistical Section contains significant statistical data; and

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

Generally accepted accounting principles require that the financial reporting entity include:

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

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

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

PLAN HISTORY & SERVICES PROVIDED

The Judges' Retirement System was established as a single-employer public employee retirement system (PERS) by state statute on July 1, 1941. As of June 30, 1942, the end of the System's first fiscal year of operations, there were a total of 260 participants and the plan net assets valued at cost amounted to approximately $84,000. The fair value of plan net assets at the end of fiscal year 2012 amounted to approximately $578.0 million, and there were 968 active participants.

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

INVESTMENTS

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

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

The ISBI maintains a wide diversification of investments within this fund which is intended to reduce overall risk and increase returns. As further detailed in the Investment Section, the ISBI Commingled Fund earned 0.1%, net of expenses, for the fiscal year ended June 30, 2012.

FUNDING

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

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

For fiscal years up through 2010, the required state contributions, except for fiscal years 2006 and 2007, were to be increased incrementally as a percentage of the participant payroll so that by fiscal year 2011 the state is contributing at the required level contribution rate to achieve the financing objective by the end of fiscal year 2045. For fiscal years 2012 and 2011, the statutorily required state contributions were $63,628,000 and $62,377,000, respectively. The total amount of contributions received from the state for fiscal years 2012 and 2011 was $63,628,000 and $62,428,783, respectively.

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

The actuarial determined liability of the System using the projected unit credit actuarial cost method at June 30, 2012, amounted to $2,021.7 million. The actuarial value of assets amounted to $601.2 million resulting in an unfunded accrued actuarial liability of $1,420.5 million as of the same date. A detailed discussion of funding is provided in the Actuarial Section of this report.

ACCOUNTING SYSTEM & INTERNAL CONTROL

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

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

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

In developing the System's accounting system, consideration is given to the adequacy of internal accounting controls. These controls are designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records. The concept of reasonable assurance regognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits requires estimates and judgements by management. Constant effort is directed by the System at improving this level to assure the participants of a financially sound retirement system.

PROFESSIONAL SERVICES

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

The annual financial audit of the System was conducted by the accounting firm of BKD, LLP, under the direction of the Auditor General of the State of Illinois. In addition to the annual financial audit, a compliance attestation examination is also performed by the auditors.

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

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Judges' Retirement System of Illinois for its comprehensive annual financial report for the fiscal year ended June 30, 2011.

The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports. To be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, whose contents meet or exceed program standards. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Judges' Retirement System of Illinois has received a Certificate of Achievement for the past twenty-three consecutive years (fiscal years ended June 30, 1989 through June 30, 2011).

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

ACKNOWLEDGMENTS & COMMENTS

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

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

Respectfully submitted,

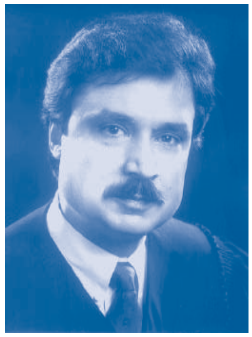
Timothy B. Blair

Timothy B. Blair
Executive Secretary

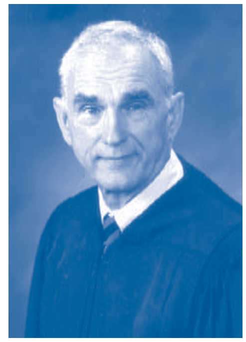
David M. Richter

David M. Richter, CPA
Accounting Division

ADMINISTRATION



JUSTICE
Thomas E. Hoffman
Chairman



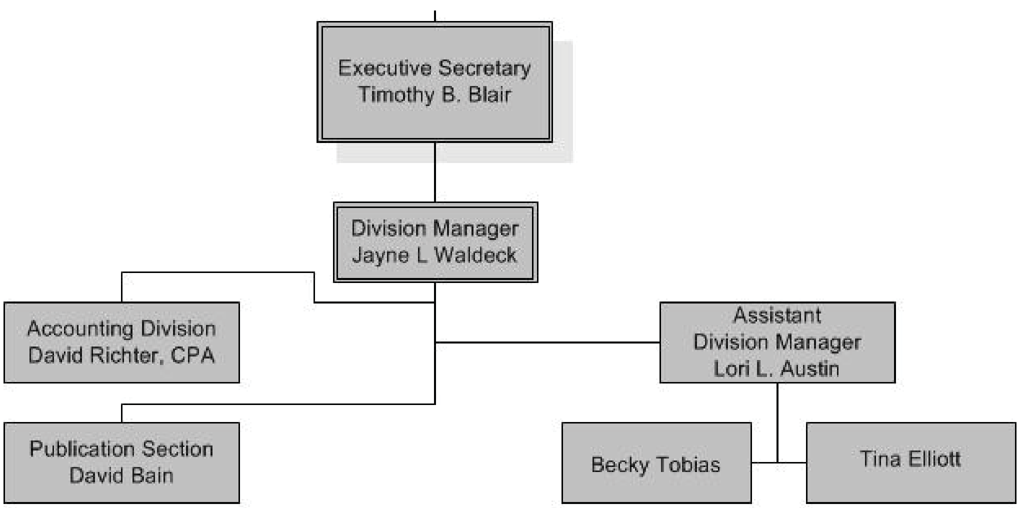
JUSTICE
John J. Bowman
Vice-Chairman

CHIEF JUDGE
Timothy C. Evans

CHIEF JUSTICE
Thomas L. Kilbride

STATE TREASURER
Dan Rutherford

BOARD OF TRUSTEES



Advisors, Auditors, and Administrators

Consulting Actuary	Gabriel, Roeder, Smith & Company Chicago Illinois
External Auditor	BKD,LLP Decatur, Illinois
Investments	Illinois State Board of Investment Chicago,Illinois

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, 2011

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.

Christopher P Morrill
President

Jeffrey R. Esser
Executive Director

FINANCIAL SECTION

BKD LLP
CPAs & Advisors

225 N. Water Street, Suite 400
P.O. Box 1580
Decatur, IL 62525-1580
217.429.2411 Fax 217.429.6109 www.bkd.com

Independent Auditors' Report

The Honorable William G. Holland
Auditor General
State of Illinois

and

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

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the Judges' Retirement System of the State of Illinois (System), as of and for the years ended June 30, 2012 and 2011 as listed in the table of contents. 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 did not audit the 2012 and 2011 financial statements of the Illinois State Board of Investment, an internal investment pool of the State of Illinois, which statements represent 96 percent, 97 percent, and (.19) percent, respectively in 2012, and 96 percent, 97 percent, and 57 percent, respectively, in 2011 of total assets, net assets held in trust for pension benefits, and total additions of the System. Those financial statement were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Illinois State Board of Investment is based solely on the report of the other auditors.

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

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2012 and 2011, and the changes in its plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated January 9, 2013 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress, the schedule of employer contributions and notes to required supplementary information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the System's basic financial statements as a whole. The supplementary financial information in the financial section and the accompanying introductory, investment, actuarial, statistical and plan summary and legislative sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary financial information as noted in the table of contents has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audits, the procedures performed as described previously, and the report of the other auditors, the supplementary financial information as noted in the table of contents is fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory, investment, actuarial, statistical and plan summary and legislative sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we express no opinion on them.

BKD, LLP

January 9, 2013

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

This section presents management's discussion and analysis of the financial position and performance of the Judges' Retirement System of Illinois (System) for the years ended June 30, 2012 and 2011. It is presented as a narrative overview and analysis. Readers are encouraged to consider the information presented here in conjunction with the Letter of Transmittal included in the Introductory Section, of the Comprehensive Annual Financial Report.

The System is a defined benefit, single-employer public employee retirement system. It provides services to 968 active judges and 1,056 benefit recipients. Throughout this discussion and analysis units of measure (i.e. billions, millions, thousands) are approximate, being rounded up or down to the nearest tenth of the respective unit value.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

1. Basic Financial Statements. For the fiscal years ended June 30, 2012 and 2011, basic financial statements are presented for the System. This information presents the net assets held in trust for pension benefits for the System as of June 30, 2012 and 2011. This financial information also summarizes the changes in net assets held in trust for pension benefits for the years then ended.

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

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

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

FINANCIAL HIGHLIGHTS

- The System's net assets decreased by $28.0 million and increased by $82.7 million during fiscal years 2012 and 2011, respectively. These changes were primarily due to a $28.7 million decrease in investments (excluding securities lending collateral) offset by a $0.7 million increase in cash and receivables during fiscal year 2012 and a $1.4 million increase in cash and a $81.3 million increase in investments (excluding securities lending collateral) during fiscal year 2011.
- The System was actuarially funded at 29.7% as of June 30, 2012 a decrease from 31.5% as of June 30, 2011. For fiscal years 2012 and 2011, the actuarial value of assets equals the fair value of assets adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.
- The overall rate of return for the Illinois State Board of Investment (ISBI) Commingled Fund was 0.1% for fiscal year 2012 compared to 21.7% for fiscal year 2011.

The condensed Statements of Plan Net Assets reflect the resources available to pay benefits to members, including retirees and beneficiaries, at the end of the years reported. A summary of the System's Plan Net Assets is presented below.

Condensed Statements of Plan Net Assets
(in thousands)

	As of June 30,			Increase/(Decrease) from	
	2012	2011	2010	2011 to 2012	2010 to 2011
Cash	$ 10,690.6	$ 18,015.8	$ 16,644.5	$ (7,325.2)	$ 1,371.3
Receivables	8,211.6	221.3	261.5	7,990.3	(40.2)
Investments, at fair value *	565,084.3	595,055.6	512,705.5	(29,971.3)	82,350.1
Equipment, net	9.3	3.3	3.9	6.0	(0.6)
Total assets	583,995.8	613,296.0	529,615.4	(29,300.2)	83,680.6
Liabilities*	6,019.4	7,335.8	6,339.2	(1,316.4)	996.6
Total plan net assets	$ 577,976.4	$ 605,960.2	$ 523,276.2	$ (27,983.8)	$ 82,684.0

** Including securities lending collateral*

ADDITIONS TO PLAN NET ASSETS

Additions to Plan Net Assets include employer and participant contributions and net income from investment activities. Participant contributions were $16.4 million and $16.7 million for the years ended June 30, 2012 and 2011, respectively. Participant contribution rates are set by statute as a percentage of gross salary. Employer contributions increased to $63.6 million in 2012 from $62.7 million in 2011. This increase was the result of the State's funding plan.

DEDUCTIONS FROM PLAN NET ASSETS

Deductions from Plan Net Assets are primarily benefit payments. During 2012 and 2011, the System paid out $107.2 million and $101.4 million, respectively, in benefits and refunds, an increase of approximately 5.8%. These higher payments were mainly due to an increase in the number of annuitants as well as a 3% automatic annuity increase paid each year. The administrative costs of the System represented less than 1% of total deductions in both 2012 and 2011.

FUNDED RATIO

The funded ratio of the plan measures the ratio of the actuarial value of assets against actuarially determined liabilities and is one indicator of the fiscal strength of a pension fund's ability to meet obligations to its members. An annual actuarial valuation is required by statute. The most recent available valuation showed the funded status of the System on June 30, 2012 decreased to 29.7% from 31.5% on June 30, 2011. The major reason for the decline was the lingering effect of prior investment performance on the smoothed market value of assets. The amount by which actuarially determined liabilities exceeded the actuarial value of assets was $1,420.5 million on June 30, 2012 compared to $1,337.9 million on June 30, 2011.

INVESTMENTS

Investments of the System are combined in a commingled investment pool with the State Employees' Retirement System and the General Assembly Retirement System. Each system owns an equity position in the pool and receives proportionate investment income from the pool in accordance with respective ownership percentage. Investment gains or losses are reported in the Statement of Changes in Plan Net Assets of each retirement system.

The net investment income of the total ISBI Commingled Fund was approximately $5.0 million during fiscal year 2012, versus $2.0 billion during fiscal year 2011, resulting in returns of 0.1% and 21.7%, respectively. The actual rate of return earned by the System will vary from the return earned on the total ISBI Commingled Fund as a result of overall market conditions at the time of additional investments in or withdrawals from the ISBI Commingled Fund. For the three, five, and ten year period ended June 30, 2012, the ISBI Commingled Fund earned a compounded rate of return of positive 10.0%, negative 0.1%, and positive 5.2%, respectively.

The ISBI is exposed to general market risk. This general market risk is reflected in asset valuations fluctuating with market volatility. Any impact from market volatility on the ISBI's investment portfolio depends in large measure on how deep the market downturn is, how long it lasts, and how it fits within fiscal year reporting periods. The resulting market risk and associated realized and unrealized gains and losses could significantly impact the ISBI's financial condition.

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

The condensed Statements of Changes in Plan Net Assets reflect the changes in the resources available to pay benefits to members, including retirees and beneficiaries.

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

	For the Year Ended June 30,			Increase/(Decrease) from	
	2012	2011	2010	2011 to 2012	2010 to 2011
Additions					
Participant contributions	$ 16,444.8	$ 16,725.2	$ 16,001.6	$ (280.4)	$ 723.6
Employer contributions	63,644.1	62,694.4	78,509.8	949.7	(15,815.4)
Investment income/(loss)	(69.1)	105,253.4	42,532.3	(105,322.5)	62,721.1
Other	–	5.0	–	(5.0)	5.0
Total additions	80,019.8	184,678.0	137,043.7	(104,658.2)	47,634.3
Deductions					
Benefits	106,653.1	100,719.8	91,569.7	5,933.3	9,150.1
Refunds	586.4	652.2	510.5	(65.8)	141.7
Administrative expenses	764.1	622.0	563.4	142.1	58.6
Total deductions	108,003.6	101,994.0	92,643.6	6,009.6	9,350.4
Net increase/(decrease) in plan net assets	$ (27,983.8)	$82,684.0	$44,400.1	$(110,667.8)	$ 38,283.9

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Plan Net Assets

June 30, 2012 and 2011

	2012	2011
Assets		
Cash	$ 10,690,635	$ 18,015,766
Receivables:		
Employer contributions	7,953,510	–
Participants' contributions	186,463	148,637
Refundable annuities	1,485	8,895
Interest on cash balances	4,155	8,261
Due from General Assembly Retirement System	65,961	55,523
Total Receivables	8,211,574	221,316
Investments - held in the Illinois State Board of Investment Commingled Fund at fair value	559,139,279	587,794,578
Securities lending collateral with State Treasurer	5,945,000	7,261,000
Equipment, net of accumulated depreciation	9,326	3,377
Total Assets	583,995,814	613,296,037
Liabilities		
Benefits payable	711	5,331
Refunds payable	–	527
Administrative expenses payable	73,736	68,971
Securities lending collateral	5,945,000	7,261,000
Total Liabilities	6,019,447	7,335,829
Net assets held in trust for pension benefits	$ 577,976,367	$ 605,960,208

See accompanying notes to financial statements.

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Statements of Changes in Plan Net Assets
Years Ended June 30, 2012 and 2011

	2012	2011
Additions:		
Contributions:		
Participants	$ 16,444,796	$ 16,725,191
Employer	63,644,099	62,694,460
Total contributions	80,088,895	79,419,651
Investments:		
Net investment income	13,408,141	12,025,283
Interest earned on cash balances	86,203	109,280
Net appreciation (depreciation) in fair value of investments	(13,563,440)	93,118,822
Total investment income (loss)	(69,096)	105,253,385
Other:		
Miscellaneous	–	5,000
Total Additions	80,019,799	184,678,036
Deductions:		
Benefits:		
Temporary disability	–	72,613
Retirement annuities	87,161,263	82,076,983
Survivors' annuities	19,491,832	18,570,146
Total benefits	106,653,095	100,719,742
Refunds of contributions	586,455	652,193
Administrative expenses	764,090	622,045
Total Deductions	108,003,640	101,993,980
Net Increase (Decrease)	(27,983,841)	82,684,056
Net assets held in trust for pension benefits:		
Beginning of year	605,960,208	523,276,152
End of year	$ 577,976,367	$ 605,960,208

See accompanying notes to financial statements.

JUDGES' RETIREMENT SYSTEM OF ILLINOIS

Notes to Financial Statements June 30, 2012 and 2011

1. Reporting Entity

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

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

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

Pursuant to federal tax law and regulations governing the administration of public employee pension plans, the System has established a separate fund for the sole purpose of paying benefits in accordance with Section 415 of the Internal Revenue Code. The receipts and disbursements from the fund for fiscal years 2012 and 2011 were each less than $760,000. Due to the immaterial nature of the separate fund, these receipts and disbursements have been included in the System's financial statements.

At June 30, 2012 and 2011, the System membership consisted of:

	2012	2011
Retirees and beneficiaries currently receiving benefits:		
Retirement annuities	725	720
Survivors' annuities	331	327
	1,056	1,047
Inactive participants entitled to benefits but not yet receiving them	15	16
Total	1,071	1,063
Current participants:		
Vested	627	633
Nonvested	341	335
Total	968	968

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

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. The plan is comprised of two tiers of contribution requirements and benefit levels. Tier 1 pertains to participants who first became a participant of the System prior to January 1, 2011. Tier 2 pertains to participants who first became a participant of the System on or after January 1, 2011.

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 thirty 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 annual increases. Tier 1 participants contribute based on total annual compensation. Beginning January 1, 2011, Tier 2 participants contribute based on an annual compensation not to exceed $106,800 with limitations for future years increased by the lesser of 3% or the annual percentage increase in the Consumer Price Index. The calendar year 2012 rate is $110,004. Contributions are excluded from gross income for Federal and State income tax purposes.

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

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

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

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

The 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

Retirement Annuity: Tier 1

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

The retirement annuity provided 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.

Retirement Annuity: Tier 2

Participants have vested rights to full retirement benefits at age 67 with at least 8 years of credited service or reduced retirement benefits at age 62 with at least 8 years of credited service.

The retirement annuity provided is 3% for each year of service based upon the applicable final average salary. The maximum retirement annuity is 60% of the applicable final average salary. Annual automatic increases equal to the lesser of 3% or the annual change in the Consumer Price Index are provided.

Other Benefits:

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

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

3. Summary of Significant Accounting Policies & 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 when due pursuant to statutory requirements. Benefits and refunds are recognized as expenses when due and payable in accordance with the terms of the plan.

b. Cash

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.

c. Implementation of New Accounting Standard

GASB Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions – An Amendment to GASB Statement No. 53", was established to enhance comparability and improve financial reporting by clarifying the circumstances in which hedge accounting should continue when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The ISBI implemented this Statement for the year ending June 30, 2012.

d. General Litigation

The System is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the plan net assets or the changes in plan net assets of the System.

e. Methods Used to Value Investments

Investments are managed by the ISBI pursuant to Chapter 40, Article 5/22A of the Illinois Compiled Statutes (ILCS) and are maintained in the ISBI Commingled Fund.

Investments owned are reported at fair value as follows: (1) U.S. Government and Agency, Foreign and Corporate Obligations, Convertible Bonds – prices quoted by a major dealer in such securities; (2) Common Stock and Equity Funds, Preferred Stock, Foreign Equity Securities, Forward Foreign Currency Contracts and Options: (a) Listed – closing prices as reported on the composite summary of national securities exchanges; (b) Over-the-counter – bid prices; (3) Money Market Instruments – average cost which approximates fair values; (4) Real Estate Investments – fair values as determined by the ISBI and its investment managers; (5) Alternative Investments (Private Equity, Hedge Funds, Bank Loans, and Infrastructure Funds) - fair values as determined by the ISBI and its investment managers; and (6) Commingled Funds - fair values as determined by the ISBI and its investment managers.

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

The investment authority of the ISBI is provided in Chapter 40, Section 5/22A-112 of the ILCS. 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.

f. Actuarial Experience Review

In accordance with Illinois Compiled Statutes, an actuarial experience review is to be performed at least once every five years to determine the adequacy of actuarial assumptions regarding the mortality, retirement, disability, employment, turnover, interest and earnable compensation of the members and beneficiaries of the System. An experience review was last performed as of June 30, 2010 resulting in the adoption of new assumptions as of June 30, 2011.

g. Administrative Expenses

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

For fiscal year 2012, administrative expenses common to the Judges' Retirement System and the General Assembly Retirement System are allocated 75% to the Judges' Retirement System and 25% to the General Assembly Retirement System. For fiscal year 2011, administrative expenses common to the Judges' Retirement System and the General Assembly Retirement System were allocated 70% to the Judges' Retirement System and 30% to the General Assembly Retirement System. Invoices/vouchers covering common expenses incurred are paid by the Judges' Retirement System, and the appropriate amount is allocated to and reimbursed by the General Assembly Retirement System. Administrative expenses allocated to and reimbursed by the General Assembly Retirement System as of June 30, 2012 and 2011, were $224,439 and $226,995, respectively.

h. Risk Management

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

i. Use of Estimates

In preparing financial statements in conformity with U.S. generally accepted accounting principles, the System makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

j. Reclassifications

Certain fiscal year 2011 amounts have been reclassified to conform to the fiscal year 2012 presentation. These reclassifications have not changed the fiscal year 2011 results.

4. Investments

Summary of the ISBI Fund's investments at fair value by type	June 30, 2012	June 30, 2011
U.S. govt. and agency obligations	$ 958,131,279	$ 1,367,098,751
Foreign obligations	385,628,617	37,951,769
Corporate obligations	656,977,663	762,833,382
Common stock & equity funds	3,253,103,566	3,380,198,858
Commingled funds	225,608,712	256,817,374
Foreign equity securities	2,012,774,573	2,195,201,185
Foreign preferred stock	592,156	40,032
Hedge funds	1,026,725,785	1,075,584,754
Real estate funds	967,346,450	780,336,465
Private equity	679,423,383	629,256,286
Money market instruments	255,922,180	303,501,465
Real assets	507,019,665	455,984,316
Bank loans	328,593,596	253,447,070
Forward foreign currency contracts	(43,859)	(353)
Total investments	$11,257,803,766	$11,498,251,354

Deposits

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, the System's and ISBI's deposits may not be returned. All non-investment related bank balances at year-end are insured or collateralized with securities held by the Illinois State Treasurer or agents in the name of the State Treasurer. As of June 30, 2012 and 2011, the ISBI had non-investment related bank balances of $25,096,663 and $119,804, respectively. Of the June 30, 2012 cash balance, $24,854,573 represents the transfer of the Illinois Power Agency Trust funds. This cash was held by the State Treasurer pending transfer to State Street Bank and Trust Company for investment. The transfer of these funds to State Street Bank and Trust for investment occurred on July 19, 2012. During fiscal year 2007, a Credit Risk Policy was implemented by the ISBI staff and formally adopted by the ISBI Board in July of 2007. The policy outlines the control procedures used to monitor custodial credit risk. These assets are under the custody of State Street Bank and Trust Company. State Street Bank and Trust Company has an AA- Long-term Deposit/Debt rating by Standard & Poor's and an Aa2 rating by Moody. Certain investments of the ISBI with maturities of 90 days or less would be considered cash equivalents; these consist of short-term investment funds and U.S. Treasury bills with maturities of 90 days or less, which are not subject to the custodial credit risk. For financial statement presentation and investment purposes, the ISBI reports these types of cash equivalents as Money Market Instruments within their investments. As of June 30, 2012 and 2011, the ISBI had investment related bank balances of $20,601,170 and $12,234,333, respectively. These balances include USD and foreign cash balances. The USD cash balances had no exposure to custodial credit risk as a result of the passage of the Dodd Frank Wall Street Reform and Consumer Protection Act ("Dodd Frank Act") in July, 2010. The FDIC must provide unlimited deposit insurance coverage for balances held in US dollar non-interest bearing transaction accounts (DDAs) for a period of two years, beginning on December 31, 2010 and ending on December 31, 2012. At any given point and time, the foreign cash balances may be exposed to custodial credit risk.

Investment Commitments

The ISBI's real estate and private equity investment portfolios consist of passive interests in limited partnerships. The ISBI had outstanding commitments to these limited partnerships of approximately $478 million and $344 million, as of June 30, 2012 and 2011, respectively. Also, at the end of fiscal year 2012 and 2011, the ISBI had outstanding commitments of $196 million and $321 million, respectively, to separate real estate accounts. Also at the end of fiscal year 2012 and 2011, the ISBI had outstanding amounts of $63 million and $102 million, respectively, committed to real assets. The ISBI would fund outstanding commitments by utilizing available cash and then selling liquid securities in the portfolio as necessary.

Investment Liquidity

The ISBI holds investments in hedge funds, real estate funds, private equity funds and real assets that are considered illiquid by the very nature of the investment. Market risk exists with respect to these investments as the ISBI may not be able to exit from the investments during periods of significant market value declines.

Alternative Investments

The ISBI's investments in hedge funds are structured to achieve a diversified hedged equity fund-of-funds portfolio. Capital is allocated to a select group of hedge fund managers that invest predominately in equity securities, both long and short. The investments shall be managed with the intent of preserving capital in a declining market and in a rising market they will generate a smaller return than the overall equity market.

The ISBI's investments in Private Equity and Real Estate funds represent investment vehicles used for making investments in various equity and debt securities according to the investment strategies as determined by the fund managers at the commencement of the fund.

Investment strategies of Private Equity funds include, but are not limited to, leveraged buyouts, venture capital, growth capital and mezzanine capital.

Investment strategies of Real Estate investments include, but are not limited to, the purchase, development, ownership, management, rental and/or sale of real estate for profit. In May, 2011, RLJ Lodging Fund II, a limited partnership investment, was exchanged by the ISBI for 1,035,092 shares of restricted common stock as a result of an initial public offering (IPO) transaction conducted by RLJ Lodging Trust. Due to the fact that this holding is currently restricted for sale as a result of a lock-up agreement in place that specifies that during the period that commences 180 days from the date of the initial IPO the holders of the shares will not, without prior written consent of the underwriting group, directly or indirectly offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant for sale of, or otherwise dispose or transfer such shares. As of June 30, 2011, this holding is an illiquid asset as a result of this restriction. During fiscal year 2012, the restriction attached to these shares expired and 1,043,923 in RLJ Lodging Trust shares were sold in March 2012. This included an additional amount of 8,831 shares received by the ISBI during the fiscal year.

Certain real estate investments are leveraged whereby partnerships have been established to purchase properties through a combination of contributions from the ISBI and through acquisition of debt. At June 30, 2012, real estate equities of approximately $967 million are reported at estimated fair value. Of this amount, $795 million is equity and $172 million is long term debt. At June 30, 2011 real estate equities of approximately $780 million were reported at estimated market value. Of this amount, $669 million was equity and $111 million was long term debt.

Required repayment of real estate debt, which is non-recourse debt is as follows as of June 30, 2012 and 2011:

Debt Maturities Year Ending June 30	2012	2011
2013	$ 38,336,179	$ 37,099,137
2014	-	-
2015	39,603,847	40,070,463
2016	28,761,199	33,400,000
2017	64,845,576	-
	$171,546,801	$110,569,600

The ISBI's investments in Real Assets represent pooled investment vehicles used to seek capital appreciation and current income by acquiring, holding, financing, refinancing and disposing of infrastructure investments and farmland assets. Real Assets include various public works (e.g. bridges, tunnels, toll roads, airports, public transportation and other public works) that are made typically as a part of a privatization initiative on the part of a government entity.

A Commingled fund is a kind of mutual fund or common trust fund which consists of multiple kinds of assets from several accounts combined together. 'Commingling' these separate assets mitigates risk for the trader through investment diversification and reduces the cost of managing each account separately. Commingled funds are also called "pooled funds" and "master trusts".

Concentration of Credit Risk and Credit Risk for Investments

The ISBI's portfolio of investments is managed by professional investment management firms. These investment management firms are required to maintain diversified portfolios. Each investment manager must comply with risk management guidelines individually assigned to them as part of their investment management agreement. The ISBI did not have any single issuer investment that exceeded 5% of the total net assets of the fund as of June 30, 2012 and 2011. At June 30, 2012, Commingled funds totaled approximately $226 million. Of this amount, approximately $165 million is invested in fixed income securities. At June 30, 2011, Commingled funds totaled approximately $257 million. Of this amount, approximately $215 million is invested in fixed income securities. These securities are not rated. The table to the right presents the quality ratings of debt securities held by the ISBI as of June 30, 2012 and 2011.

	Moody's Quality Rating	2012	2011
U.S. Government and Agency obligations	AAA	$ 955,072,566	$ 1,355,098,991
	AA	3,054,072	-
	Not Rated	4,641	11,999,760
Total U.S. govt. and agency obligations		$ 958,131,279	$ 1,367,098,751
Foreign Obligations	AAA	$ 186,587,716	$ –
	AA	70,836,832	2,972,737
	A	38,941,615	9,187,174
	BAA	17,922,423	–
	BA	13,976,279	7,107,320
	B	16,044,688	17,263,610
	CAA	1,411,638	–
	Not rated	39,907,426	1,420,928
Total Foreign Obligations		$ 385,628,617	$ 37,951,769
Corporate Obligations			
Bank and Finance	AAA	$ –	$ 7,075,122
	AA	6,229,998	46,441,423
	A	65,118,722	110,462,063
	BAA	46,729,424	14,653,097
	BA	13,870,851	8,808,672
	B	17,295,104	17,167,398
	Not Rated	1,045	802
Total Bank and Finance		$ 149,245,144	$ 204,608,577
Collateralized Mortgage Obligations	AAA	$ 1,076,456	$ 10,711,049
	Not Rated	–	2,781,477
Total Collateralized Mortgage Obligations		$ 1,076,456	$ 13,492,526
Industrial	AA	$ 36,473,262	$ 36,746,537
	A	29,602,573	50,163,160
	BAA	75,478,624	81,696,395
	BA	59,680,342	62,382,115
	B	193,691,505	167,590,259
	CAA	10,775,593	9,516,061
	Not Rated	6,530,791	17,752,514
Total Industrial		$ 412,232,690	$ 425,847,041
Other	AA	$ 1,127,225	$ 2,941,058
	A	22,075,563	12,003,588
	BAA	7,428,269	7,027,751
	BA	19,369,553	36,360,024
	B	43,572,387	51,094,875
	CAA	–	5,582,749
	Not rated	850,376	3,875,193
Total Other		$ 94,423,373	$ 118,885,238
Total Corporate Obligations		$ 656,977,663	$ 762,833,382
Money Market	Not Rated	$ 255,922,180	$ 303,501,465
Total Money Market		$ 255,922,180	$ 303,501,465

Custodial Credit Risk for Investments

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the ISBI will not be able to recover the value of investments or collateral securities that are in the possession of a counterparty. As of June 30, 2012 and 2011, there were no investments that were uninsured and unregistered, securities held by the counterparty or by its trust department or agent but not in the ISBI's name.

Interest Rate Risk

The ISBI manages its exposure to fair value losses arising from interest rate risk by diversifying the debt securities portfolio and maintaining the debt securities portfolio to an effective weighted duration between 80% and 120% of the benchmark index.

Duration is the measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's fair value. The effective duration measures the sensitivity of market price to parallel shifts in the yield curve. As of June 30, 2012 and 2011, the ISBI benchmarked its debt security portfolio to Barclay's Capital Intermediate U.S. Government/Credit Bond Index. At June 30, 2012 and 2011, the effective duration of the Barclay's Capital Intermediate U.S. Government/Credit Bond Index was 3.9 years. At the same point in time, the effective duration of the ISBI debt security portfolio at June 30, 2012 and 2011 was 4.6 years. The table below shows the detail of the duration by investment type as of June 30, 2012 and 2011.

	2012		2011	
Investment Type	Fair Value	Effective Weighted Duration Years	Fair Value	Effective Weighted Duration Years
U.S. Govt. and Agency Obligations				
U.S. Government	$ 383,122,214	6.7	$ 479,422,631	6.9
Agency	575,009,065	2.7	887,676,120	3.6
Foreign Obligations	385,628,617	6.1	37,951,769	4.3
Corporate Obligations				
Bank & Finance	149,245,144	3.9	204,608,577	4.2
Collateralized Mortgage Obligations	1,076,456	2.2	13,492,526	2.1
Industrials	412,232,690	4.0	425,847,041	4.4
Other	94,423,373	4.2	118,885,238	4.2
Total	$ 2,000,737,559		$2,167,883,902	

Foreign Currency Risk

The ISBI's international portfolio is constructed on the principles of diversification, quality growth, and value. Risk of loss arises from changes in currency exchange rates. International managers may also engage in transactions to hedge currency at their discretion.

Certain investments held in infrastructure funds trade in a reported currency of Euro-based dollars valued at $53,539,234 and $50,878,191 as of June 30, 2012 and 2011, respectively. The table below presents the foreign currency risk by type of investment as of June 30, 2012 and 2011.

	2012		2011	
Currency	Foreign Equity Securities & Foreign Preferred Stock	Foreign Obligations	Foreign Equity and Foreign Preferred Securities	Foreign Obligations
Australian Dollar	$ 82,314,617	$ 16,469,771	$ 109,809,451	$ –
Brazilian Real	49,364,844	–	62,981,703	–
Canadian Dollar	126,199,484	27,179,367	144,335,493	–
Chilean Peso	1,098,684	2,308,184	–	–
Czech Koruna	536,589	2,520,227	–	–
Danish Krone	27,321,050	4,165,438	25,279,264	–
Egyptian Pound	1,810,173	–	1,549,693	–
English Pound Sterling	374,618,002	32,868,184	388,163,730	–
Euro Currency	394,894,819	103,642,653	550,189,912	–
Hong Kong Dollar	127,339,809	2,384,108	83,691,016	–
Hungarian Forint	1,457,562	–	1,711,349	–
Indonesian Rupian	9,446,308	–	1,735,957	–
Israeli Shekel	2,619,603	28,742	4,293,903	–
Japanese Yen	191,615,229	65,481,682	249,633,309	–
Malaysian Ringgit	7,106,044	2,848,977	–	–
Mexican Peso	20,566,508	13,648,235	10,577,337	–
Moroccan Dirham	219,512	–	–	–
New Zealand Dollar	5,008,123	1,783,525	4,812,384	–
Norwegian Krone	24,657,161	6,403,137	25,479,679	–
Philippine Peso	2,219,444	–	–	–
Polish Zloty	2,949,201	8,408,688	–	–
Singapore Dollar	42,090,664	3,813,610	51,977,284	–
South African Rand	25,078,599	4,116,002	11,571,713	–
South Korean Won	71,317,427	13,526,890	62,696,222	–
Swedish Krona	27,254,280	10,680,201	35,264,901	–
Swiss Franc	138,838,635	7,455,551	154,181,296	–
Thailand Baht	3,954,203	4,274,188	–	–
Turkish Lira	2,811,622	–	–	–
Foreign investments denominated in U.S. Dollars	248,658,533	51,621,257	215,305,621	37,951,769
Total	$ 2,013,366,729	$ 385,628,617	$ 2,195,241,217	$ 37,951,769

Securities Lending

The ISBI participates in a securities lending program with Credit Suisse AG, New York Branch who acts as securities lending agent. Securities are loaned to brokers and, in return, the ISBI receives cash and non-cash collateral. All of the securities are eligible for the securities lending program. Collateral consists solely of cash and government securities having a fair value equal to or exceeding 102% of the value of the loaned securities (105% for non-U.S. securities). In the event of borrower default, Credit Suisse AG, New York Branch provides the ISBI with counterparty default indemnification. Investments in the cash collateral account represent securities that were distributed to the ISBI in connection with the in-kind redemption of the ISBI's ownership in the State Street Bank and Trust Company Quality Funds for Short-Term Investment ("Quality D"). Credit Suisse is not responsible for any losses with regards to these legacy investments. This arrangement subjects the ISBI to credit risk as the credit quality of these investments may decline over time. The credit risk on the legacy investments is the risk of a possible loss arising from the inability of a counterparty to meet its obligations. These losses could include the loss of principal, interest and/or decreased expected cash flows in any of the investments held in the ISBI's cash collateral account. In the event a counterparty defaults on its obligations, the ISBI would need to credit the cash collateral account with the amount of the default to make the account whole so that once loaned securities are returned, the cash pledged by borrowers is returned to them. As of June 30, 2012 and 2011, respectively, the collateral received exceeded the fair value of the securities loaned. As of June 30, 2012 and 2011, there were outstanding loaned investment securities having fair values of $115,655,166 and $221,448,333, respectively; against which collateral was received with a fair value of $120,556,697 and $230,083,146, respectively. Collateral received at June 30, 2012 and 2011 consisted of $72,452,520 and $216,717,213, respectively, in cash and $48,104,177 and $13,987,903, respectively, in securities for which the ISBI does not have the ability to pledge or sell.

The cash collateral received is invested in a short-term investment pool having a fair value of $67,901,315 and $211,162,204 as of June 30, 2012 and 2011, respectively. This investment pool had an average duration of 32.42 days and 31.18 days as of June 30, 2012 and 2011, respectively. Any decrease in the fair value of invested cash collateral is recorded by the ISBI as unrealized losses and reported as a component of the investment income/loss on the ISBI's Statement of Changes in Net Assets.

Cash and cash equivalents included in the System's Statement of Plan Net Assets consist of deposits held in the State Treasury. The Illinois Office of the Treasurer invests the deposits held and allocates investment income on a monthly basis.

The State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank Group to lend the State Treasurer's securities to broker–dealers and banks pursuant to a form of loan agreement.

During fiscal years 2012 and 2011, Deutsche Bank Group lent U.S. Treasury and U.S. Agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregated market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%.

The State Treasurer did not impose any restrictions during fiscal years 2012 and 2011 on the amount of the loans of available, or the eligible securities. In the event of borrower default, Deutsche Bank Group provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank Group is obligated to indemnify the State Treasurer if the Deutsche Bank Group loses any securities, collateral or investments of the State Treasurer in Deutsche Bank Group's custody. Moreover, there were no losses during the fiscal years 2012 and 2011 resulting from a default of the borrowers or Deutsche Bank Group.

During fiscal years 2012 and 2011, the State Treasurer and borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank Group and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2012 were $4,556,511,251 and $4,551,829,732, respectively. The securities lending collateral invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2011 were $3,456,373,500 and $3,446,138,880, respectively. The System's portion of securities lending collateral that was invested in repurchase agreements as of June 30, 2012 and June 30, 2011 were $5,945,000 and $7,261,000, respectively.

Derivative Securities

In fiscal year 2010, the ISBI implemented GASB Statement No. 53 Accounting and Financial Reporting for Derivative Instruments with respect to investments held in derivative securities. A derivative security is an investment whose payoff depends upon the value of other assets such as commodity prices, bond and stock prices, or a market index. The ISBI invests in derivative instruments including forward foreign currency contracts, futures, rights and warrants. The ISBI's derivatives are considered investment derivatives.

Foreign currency forward contracts (FX forwards) are used to protect against the currency risk in the ISBI's foreign equity portfolio. A foreign currency forward contract is an agreement to buy or sell a specific amount of a foreign currency at a specified delivery or maturity date for an agreed-upon price. Fluctuations in the market value of foreign currency forward contracts are marked to market on a daily basis. These investments are reported at fair value in the investment section of the ISBI's Statement of Net Assets. The gain or loss arising from the difference between the original contracts and the closing of such contracts is recognized in the net increase/decrease in the fair value of investments in the ISBI's Statement of Changes in Net Assets. In May 2011, the ISBI removed language from the investment management agreements allowing managers to hedge foreign currencies and/or to hedge equity positions.

The ISBI's investment managers use financial futures to replicate an underlying security they wish to hold (sell) in the portfolio. In certain instances, it may be beneficial to own a futures contract rather than the underlying security (arbitrage). Additionally, financial futures are used in the ISBI's fixed income portfolio to adjust portfolio strategy and overall portfolio duration. A financial futures contract is an agreement to buy or sell a specific amount at a specified delivery or maturity date for an agreed-upon price. As the fair values of the futures contract vary from the original contract price, a gain or loss is recognized and paid to or received from the clearinghouse. The gain or loss is recognized in the net increase/decrease in the fair value of investments in the ISBI's Statement of Changes in Net Assets. Financial futures represent an off-balance sheet obligation, as there are no balance sheet assets or liabilities associated with those contracts. The cash or securities to meet these obligations are held in the ISBI's investment portfolio.

The ISBI's investment managers use options in an attempt to add value to the portfolio (collect premiums) or protect (hedge) a position in the portfolio. Financial options are an agreement that gives one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price, called the strike price, on or before a specified expiration date. As a writer of financial options, the ISBI receives a premium at the outset of the agreement and bears the risk of an unfavorable change in the price of the financial instrument underlying the option. All written financial options are recognized as a liability in the ISBI's Statement of Net Assets. As a purchaser of financial options, the ISBI pays a premium at the outset of the agreement and the counterparty bears the risk of an unfavorable change in the price of the financial instrument underlying the option. The gain or loss associated with options is recognized in the net increase/decrease in the fair value of investments in the ISBI's Statement of Changes in Net Assets.

Rights and warrants allow the ISBI's investment managers to replicate an underlying security they wish to hold (sell) in the portfolio. Rights and warrants provide the holder with the right, but not the obligation, to buy or sell a company's stock at a predetermined price. Rights usually expire after a few weeks and warrants can expire from one to several years. Under certain circumstances, a type of warrant called Participatory Notes (P-Notes) are used in the portfolio by the ISBI's investment managers that are not registered to trade in domestic Indian Capital Markets. P-Notes are issued by Indian-based brokerage firms against an underlying Indian security permitting holders to get a share in the income from the security. These investments are reported at fair value in the investment section of the ISBI's Statement of Net Assets within the common stock and foreign equity classifications. The gain or loss associated with rights and warrants is recognized in the net increase/decrease in the fair value of investments in the ISBI's Statement of Changes in Net Assets.

The fair values of the forward contracts are estimated based on the present value of their estimated future cash flows. Futures contracts are exchange traded instruments where the fair value is determined by the equilibrium between the forces of supply and demand. The fair value of a right or warrant closely tracks the intrinsic value of the underlying stock and can be determined either by formulaic methodology (most commonly Black-Scholes) or intrinsic value methodology.

The table below presents the investment derivative instruments aggregated by type that were held by the ISBI as of June 30, 2012 and 2011.

	Changes in Fair Value		Fair Value at Year End		Notional Amount Number of Shares	
	2012	2011	2012	2011	2012	2011
FX Forwards	$ (1,693,910)	$(15,460,385)	$ (43,859)	$ (353)	n/a	n/a
Futures	n/a	n/a	n/a	n/a	(16,717,412)	65,250
Options	2,744,205	–	2,811,004	–	27,000	–
Rights	(166,937)	840,746	30,249	162,133	153,435	901,548
Warrants	(9,022,293)	16,898,459	68,676,781	66,421,545	7,663,933	5,272,322
	$ (8,138,935)	$ 2,278,820	$ 71,474,175	$ 66,583,325	(8,873,044)	6,239,120

The table below shows the futures positions held by the ISBI as of June 30, 2012 and 2011.

	2012		2011	
	Number of Contracts	Contract Principal*	Number of Contracts	Contract Principal*
Equity Futures Purchased	1,410	$92,997,500	1,305	$85,836,375
Fixed Income Futures Purchased	382	48,411,940	–	–
Fixed Income Futures Sold	421	63,940,695	–	–

** Contract principal amounts shown represent the market value of the underlying assets the contracts control. These are shown to present the volume of the transactions but do not reflect the extent to which positions may offset one another. These amounts do not represent the much smaller amounts potentially subject to risk. Contract principal values also do not represent actual recorded values reported in the ISBI's Statement of Net Assets.*

Derivative transactions involve, to varying degrees, credit risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to terms. Derivatives which are exchange traded are not subject to credit risk. No derivatives held are subject to custodial credit risk. Market risk is the possibility that a change in interest (interest rate risk) or currency rates (foreign currency risk) will cause the value of a financial instrument to decrease or become more costly to settle. The market risk associated with derivatives, the prices of which are constantly fluctuating, is regulated by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and management of the ISBI and the risk positions of the investment managers are reviewed on a periodic basis to monitor compliance with the limits. As of June 30, 2012, the ISBI held futures contracts whose underlying instruments were exposed to interest rate risk but there were no GASB 53 reportable elements. As of June 30, 2011, the ISBI held no derivatives subject to interest rate risk. The ISBI has not adopted a formal policy specific to master netting arrangements.

The ISBI's derivative investments in foreign currency forward contracts are held with counterparties. The credit ratings and net exposure as of June 30, 2012 and 2011 for the counterparties are as follows:

	2012			2011		
Moody's Rating	Fair Value	Net Exposure	Percentage of Net Exposure	Fair Value	Net Exposure	Pecentage of Net Exposure
Aa3	$ 45,189	$ 45,189	11.50%	$ 188	$ 188	0.01%
Aa2	46,885	46,885	12.00%	–	–	–
A3	84,367	84,367	21.59%	2,736,018	2,736,018	99.99%
A2	64,971	64,971	16.62%	–	–	–
A1	3,119	3,119	0.80%	–	–	–
Baa1	146,228	146,228	37.42%	–	–	–
	$ 390,759	$ 390,759	100.00%	$ 2,736,206	$2,736,206	100.00%

The following table presents the fair value of derivative investments exposed to foreign currency risk as of June 30, 2012 and 2011:

	2012				2011			
Currency	FX Forwards	Rights	Warrants	Options	FX Forwards	Rights	Warrants	Options
Australian Dollar	$ (85,578)	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Brazilian Real	1,589	–	–	–	–	–	–	–
Canadian Dollar	(13,256)	10,733	–	–	–	–	–	–
Chilean Peso	1,450	1,296	–	–	–	–	–	–
Columbian Peso	(15,312)	–	–	–	–	–	–	–
Czech Koruna	9,411	–	–	–	–	–	–	–
Danish Krone	(30)	–	–	–	–	–	–	–
Egyptian Pound	(148)	–	–	–	–	–	–	–
English Pound Sterling	49,917	–	–	–	–	–	–	–
Euro Currency	118,889	18,220	6,103	–	(391)	153,078	–	–
Hong Kong Dollar	234	–	–	–	–	9,055	–	–
Indonesian Rupiah	(619)	–	–	–	–	–	–	–
Japanese Yen	(19,071)	–	–	–	38	–	–	–
Malaysian Ringgit	(1,234)	–	–	–	–	–	–	–
Mexican Peso	27,008	–	–	–	–	–	–	–
New Zealand Dollar	46,885	–	–	–	–	–	–	–
Norwegian Krone	4,157	–	–	–	–	–	–	–
Polish Zloty	(32,461)	–	–	–	–	–	–	–
Singapore Dollar	(13,207)	–	–	–	–	–	–	–
South African Rand	14,798	–	–	–	–	–	–	–
South Korean Won	23,502	–	–	–	–	–	–	–
Swedish Krona	(154,835)	–	–	–	–	–	–	–
Swiss Franc	(5,251)	–	–	–	–	–	–	–
Thailand Baht	(697)	–	–	–	–	–	–	–
Investments denominated in U.S. dollars	–	–	68,670,678	2,806,363	–	–	66,421,545	–
	$ (43,859)	$ 30,249	$ 68,676,781	$2,806,363	$ (353)	$ 162,133	$66,421,545	$ –

Other Information

The System owns approximately 5% of the net investment assets of the ISBI Commingled Fund as of June 30, 2012 and 2011. A schedule of investment expenses is included in the ISBI's annual report.

For additional information on ISBI's investments, please refer to their Annual Report as of June 30, 2012. A copy of the report can be obtained from the ISBI at 180 North LaSalle Street, Suite 2015, Chicago, Illinois 60601.

5. Administrative Expenses

A summary of the administrative expenses for the Judges' Retirement System for fiscal years 2012 and 2011 are listed below.

Administrative expenses for fiscal years 2012 and 2011

	2012	2011
Personal services	$366,182	$306,465
Employee retirement contributions paid by employer	6,582	7,769
Employer retirement contributions	125,275	85,811
Social security contributions	27,118	22,786
Group insurance	83,480	57,549
Contractual services	127,216	115,903
Travel	3,585	4,514
Printing	3,025	3,555
Commodities	713	752
Telecommunications	2,705	2,696
Information technology	8,367	5,446
Automotive	2,871	1,979
Depreciation	1,766	922
Change in accrued compensated absences	5,064	5,898
Loss on disposal of equipment	141	-
Total	$764,090	$622,045

6. Funding - Statutory Contributions Required & Contributions Made

On an annual basis, a valuation of the liabilities and reserves of the System is performed by the System's actuarial consultants in order to determine the amount of contributions statutorily required from the State of Illinois. For fiscal years 2012 and 2011, the actuary used the projected unit credit actuarial method for determining the proper employer contribution amount.

For fiscal years 2012 and 2011, the required employer contribution was computed in accordance with the State's funding plan. This funding legislation provides for a systematic 50-year funding plan with an ultimate goal to fund the cost of maintaining and administering the System at an actuarial funded ratio of 90%.

In addition, the funding plan provides for a 15 year phase-in period to allow the state to adapt to the increased financial commitment. Since the 15-year phase-in period ended June 30 2010, the state's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved.

The total amount of statutorily required employer contributions for fiscal years 2012 and 2011 was $63,628,000 and $62,377,000, respectively. The total amount of employer contributions received from the state during fiscal years 2012 and 2011 was $63,628,000 and $62,428,783, respectively.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

The funded status of the System as of June 30, 2012, the most recent actuarial valuation date, is listed below:

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
$601,219,999	$2,021,715,796	$1,420,495,797	29.7%	$171,498,000	828.3%

Additional information on the latest actuarial valuation is as follows.

Valuation date: June 30, 2012

Actuarial cost method: Projected Unit Credit

Amortization method:

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

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

Remaining amortization period:

a. For GASB Statement No. 25 reporting purposes: 30 years, open

b. Per state statute: 33 years, closed

Asset valuation method:

Fair value, adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.

Actuarial assumptions:

Investment rate of return:	7.0 percent per year, compounded annually
Projected salary increases:	4.0 percent per year (consisting of an inflation component of 3.0% per year and a seniority/ merit component of 1.0% per year), compounded annually
Assumed inflation rate:	3.0 percent
Group size growth rate:	0.0 percent
Post-retirement increase:	Tier 1: 3.0 percent per year, compounded annually Tier 2: 3.0 percent per year or the annual change in the Consumer Price Index, whichever is less, compounded annually

Mortality Rates:

Active and retired members: The UP-1994 Mortality Table for Males, rated down 3 years. Survivors: The UP-1994 Mortality Table for Females, rated down 2 years.

7. Pension Plan & Other Post-Employment Benefits

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

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

The financial position and results of operations of the SERS for fiscal years 2012 and 2011 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the years ended June 30, 2012 and 2011, respectively. The SERS also issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255 or by calling 217-785-7202.

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

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

Funding Policy. The System pays employer retirement contributions based upon an actuarially determined percentage of its payrolls. For fiscal years 2012, 2011, and 2010 the employer contribution rates were 34.190%, 27.988%, and 28.377%, respectively. The System's contributions to SERS for fiscal years 2012, 2011, and 2010 were $125,275, $85,811, and $79,061, respectively, and were equal to the required contributions for each fiscal year.

Other Post-Employment Benefits. The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits.

However, Public Act 97-0695, effective June 30, 2012, alters the contributions to be paid by the State, annuitants, survivors and retired employees under the State Employees Group Insurance Act. This Act requires the Director of Central Management Services to, on an annual basis, determine the amount that the State should contribute. The remainder of the cost of coverage shall be the responsibility of the annuitant, survivor or retired employee. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes $5,000.

The State pays the System's portion of employer costs for the benefits provided. The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expenditure by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

8. Analysis of Changes in Reserve Balances

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

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

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

9. Accrued Compensation Absences

Employees of the Judges' Retirement System are entitled to receive compensation for all accrued but unused vacation time and one-half of all unused sick leave earned after December 31, 1983 and prior to January 1, 1998 upon termination of employment. These accrued compensated absences as of June 30, 2012 and 2011 total $59,615 and $54,551, respectively and are included in administrative expenses payable.

Statements of Changes in Reserve Balances
Years Ended June 30, 2012 and 2011

	Participants' Contributions	Future Operations	Total Reserve Balances
Balance at June 30, 2010	$ 166,360,698	$ 356,915,454	$ 523,276,152
Add (deduct):			
Excess of revenues over expenses	16,338,675	66,345,381	82,684,056
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(15,131,713)	15,131,713	–
Balance at June 30, 2011	$ 167,567,660	$ 438,392,548	$ 605,960,208
Add (deduct):			
Excess of revenues over (under) expenses	15,858,341	(43,842,182)	(27,983,841)
Reserve transfers:			
Accumulated contributions of participants who retired or died with eligible survivor during the year	(5,879,351)	5,879,351	–
Balance at June 30, 2012	$ 177,546,650	$ 400,429,717	$ 577,976,367

10. Equipment

Capital assets over $100 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.

Summary of the changes in equipment for fiscal years 2012 and 2011

2012

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 30,838	$ 7,856	$(9,399)	$ 29,295
Accumulated depreciation	(27,461)	(1,766)	9,258	(19,969)
Equipment, net	$ 3,377	$ 6,090	$ (141)	$ 9,326

2011

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	$ 33,468	$ 458	$(3,088)	$ 30,838
Accumulated depreciation	(29,627)	(922)	3,088	(27,461)
Equipment, net	$ 3,841	$ (464)	$ –	$ 3,377

11. New Accounting Pronouncement

GASB Statement No. 67, "Financial Reporting for Pension Plans", was established to provide improved financial reporting by state and local governmental pension plans. The scope of the Statement addresses accounting and financial reporting for the activities of pension plans that are administered through trusts that have the specific characteristics. For defined benefit pension plans, the Statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability for benefits provided through the pension plan. The System is required to implement this Statement for the year ending June 30, 2014.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets * (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b-a]/c)
6/30/07	$670,090,950	$1,385,339,573	$715,248,623	48.4%	$142,900,000	500.5%
6/30/08	612,680,574	1,457,336,054	844,655,480	42.0	143,700,000	587.8
6/30/09	616,849,071	1,548,509,535	931,660,464	39.8	155,645,000	598.6
6/30/10	619,925,786	1,819,447,826	1,199,522,040	34.1	161,164,000	744.3
6/30/11	614,596,203	1,952,539,400	1,337,943,197	31.5	169,155,000	791.0
6/30/12	601,219,999	2,021,715,796	1,420,495,797	29.7	171,498,000	828.3

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Required Contribution per GASB Statement No. 25	Percentage Contributed	Annual Required Contribution per State Statute	Percentage Contributed
2007	$ 73,371,653	48.0%	$ 35,236,800	100.0%
2008	75,134,070	62.4	46,872,500	100.0
2009	78,386,597	76.5	59,983,000	100.0
2010	86,916,418	90.3	78,832,000	99.6
2011	95,490,182	65.4	62,377,000	100.1
2012	110,923,357	57.4	63,628,000	100.0

Notes to Required Supplementary Information

Valuation date: June 30, 2012

Actuarial cost method: Projected Unit Credit

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

Remaining amortization period:
- a. For GASB Statement No. 25 reporting purposes: 30 years, open
- b. Per state statute: 33 years, closed

Asset valuation method: Fair value, adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.

Actuarial assumptions:

Investment rate of return:	7.0 percent per year, compounded annually
Projected salary increases:	4.0 percent per year (consisting of an inflation component of 3.0% per year and a seniority/ merit component of 1.0% per year), compounded annually
Assumed inflation rate:	3.0 percent
Group size growth rate:	0.0 percent
Post-retirement increase:	Tier 1: 3.0 percent per year, compounded annually Tier 2: 3.0 percent per year or the annual change in the Consumer Price Index, whichever is less, compounded annually

Mortality Rates:

Active and retired members: The UP-1994 Mortality Table for Males, rated down 3 years.

Survivors: The UP-1994 Mortality Table for Females, rated down 2 years.

SUMMARY OF REVENUES BY SOURCE
Years Ended June 30, 2012 and 2011

	2012	2011
Contributions:		
Participants:		
Participants	$ 16,305,260	$ 16,428,912
Interest paid by participants	63,644	217,575
Receipts from reciprocal systems	75,892	–
Repayment of refunds	–	78,704
Total participant contributions	16,444,796	16,725,191
Employer:		
Pension Contribution Fund	–	47,386,951
General Revenue Fund	63,628,000	15,041,832
Received from reciprocal systems	16,099	–
Paid by participants	–	265,677
Total employer contributions	63,644,099	62,694,460
Total contributions revenue	80,088,895	79,419,651
Investments:		
Net investment income	13,408,141	12,025,283
Interest earned on cash balances	86,203	109,280
Net appreciation (depreciation) in fair value of investments	(13,563,440)	93,118,822
Total investment revenue (loss)	(69,096)	105,253,385
Other:		
Miscellaneous	–	5,000
Total revenues	$ 80,019,799	$ 184,678,036

SCHEDULE OF PAYMENTS TO CONSULTANTS
Years Ended June 30, 2012 and 2011

	2012	2011
Actuary	$ 26,000	$ 31,000
Audit fees	39,932	23,994
Legal services	2,012	2,126
Financial planner	703	1,468
Medical services	94	199
Total	$ 68,741	$ 58,787

SUMMARY SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
Years Ended June 30, 2012 and 2011

	2012	2011
Cash balance, beginning of year	$ 18,015,766	$ 16,644,537
Receipts:		
Participant contributions	16,312,068	16,582,220
Employer contributions:		
Pension Contribution Fund	–	47,386,951
General Revenue Fund	55,674,490	15,041,832
Received from reciprocal systems	16,099	–
Paid by participants	–	265,677
Interest income on cash balances	90,309	114,412
Reimbursements from General Assembly Retirement System	214,000	236,884
Transfers from reciprocal systems	75,892	–
Cancellation of annuities, net of overpayments	33,538	82,924
Cancellation of administrative expenses	–	5,888
Tax-deferred installment payments	19,010	16,261
Repayment of refunds	–	139,470
Transfers from Illinois State Board of Investment	28,500,000	71,200,000
Miscellaneous	100	5,345
Total cash receipts	100,935,506	151,077,864
Disbursements:		
Benefit payments:		
Temporary disability	–	72,613
Retirement annuities	87,184,592	82,140,890
Survivors' annuities	19,499,251	18,571,448
Refunds	586,981	686,156
Transfer to Illinois State Board of Investment	–	47,386,951
Administrative expenses	989,813	848,577
Total cash disbursements	108,260,637	149,706,635
Cash balance, end of year	$ 10,690,635	$ 18,015,766

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INVESTMENT SECTION

INVESTMENT REPORT

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

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

As of June 30, 2012, total net assets under management valued at market, amounted to $11.284 billion. Of the total market value of assets under management, $559.1 million or approximately 5% represented assets of the Judges' Retirement System.

A summary of the portfolio's largest holdings, as well as the complete listing of the ISBI portfolio, are included in the ISBI Annual Report. A schedule of fees and commissions paid by brokerage firms and a listing of transactions executed, including transaction value, are also contained in the ISBI Annual Report. The following investment information and analysis has been prepared from information provided by the ISBI. Investment performance returns are prepared by State Street Bank. Investment activities are presented on a trade date basis and measurements are calculated using time weighted rates of return consistent with investment industry standards.

INVESTMENT POLICY

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

EMERGING & MINORITY PARTICIPATION

In accordance with Public Act 96-006, the ISBI Board continues to put forth best efforts to comply with the goals outlined in the ISBI's following policies: the Emerging and Minority Investment Manager and Minority and Illinois Broker Policy, the Fiduciary Diversification Policy, and the Minority Contract/Service Utilization Policy. The aforementioned policies exemplify the ISBI Board's commitment to providing opportunities for businesses owned by minorities, females and persons with disabilities, as well as increasing the racial, ethnic and gender diversity of its fiduciaries.

As of fiscal year 2012, the ISBI allocated 21.6% of its assets to minority and female-owned firms, of which 10.3% was allocated to emerging firms. 18.0% of ISBI's assets were allocated to minority-owned investment firms, and 4.4% to female-owned investment firms. Some investment firms qualify as both female-owned and minority-owned. Within asset classes, the ISBI has allocated 30.1% of equities, 17.6% of fixed income and 1.4% of alternatives to minority and female-owned firms. Alternatives include allocations to Real Estate funds and Private Equity funds.

The ISBI Board has established a goal of allocating 20% of brokerage commissions to broker dealers owned by females, minorities, or persons with disabilities. Investment firms are required to execute trades directly with disadvantaged broker dealers and are prohibited from utilizing step-outs. During fiscal year 2012, utilization of such broker dealers by the ISBI Board's investment advisers exceeded the Policy goals: approximately 44.9% utilization for domestic equity advisers, 28.9% utilization for fixed income advisers (based on par value) and 28.3% utilization for international equity advisers. The ISBI Board's investment advisers also exceeded the Policy goal to direct 25% of trades to Illinois-based broker/dealers: approximately 51.4% utilization by domestic and international equity advisers and 27.6% utilization by fixed income advisers (based on par value).

In monitoring the utilization of disadvantaged broker dealers, the ISBI has retained a third party transaction cost analysis service provider to ensure the ISBI Board's investment managers operate in a manner consistent with best execution practices.

ASSET ALLOCATION

The investment policy of the ISBI establishes asset allocation targets and ranges for each asset class, selected to achieve overall risk and return objectives. This policy is implemented by allocations to investment managers with assignments to invest in specific asset classes, with defined security selection styles and methodologies.

The asset allocation policy for fiscal year 2012 is set forth on page 39.

	Actual Asset Allocation	Policy Target
U.S. Equity	29%	30%
U.S. Equity Hedge Funds	9	10
International Equity	18	20
Commingled Funds	2	-
Fixed Income	18	17
Bank Loans	3	3
Real Estate	9	10
Private Equity	6	5
Real Assets	4	5
Cash	2	-
Total	100%	100%

INVESTMENT RESULTS

In fiscal year 2012, investors benefitted from positive returns in U.S. equity, fixed income, real estate and private equity as measured by market indices. The ISBI's total fund was up 0.1% for fiscal year 2012, net of expenses. This follows positive returns of 21.7% and 9.1% for fiscal year 2011 and fiscal year 2010, respectively, with negative returns of 20.1% and 6.2% for fiscal year 2009 and fiscal year 2008, respectively.

The ISBI Board continues to be concerned with the under-performance of specific managers; however, most of the ISBI's current managers have exceeded their individual benchmarks since inception.

REAL ESTATE

In fiscal year 2012, the ISBI's Real Estate portfolio earned a return of 5.3%. The NFI-ODCE (NCREIF Fund Index Open-End Diversified Core Equity), a measure of core, leveraged, open-end real estate funds, earned a return of 11.3%. In the last 12 months, the ISBI has rebalanced its portfolio to meet the 80% Core/20% Non-Core real estate strategy.

New investing is planned for fiscal year 2013 as additional capital remains within the core separate accounts. The downturn in the real estate market slowed the separate account investment pace; however, the real estate portfolio is scheduled to be fully funded by end of calendar year 2013. The ISBI's Real Estate portfolio is invested primarily through interests in separate accounts, limited partnerships, trusts, and other forms of pooled investments.

REAL ESTATE

	1 Year	3 Years	5 Years
ISBI	5.3%	4.2%	(4.6)%
NCREIF Real Estate Index	11.3	7.4	(1.8)

U. S. EQUITIES

In fiscal year 2012, the Russell 3000 Index, a broad representation of the U.S. market, was up 3.8%. Growth stocks exceeded value stocks with the Russell 3000 Growth Index up 5.1%, compared to the Russell 3000 Value Index up 2.6%. Large capitalization stocks outperformed small capitalization stocks with the S&P 500 up 5.5%, compared to a negative 2.1% return for the Russell 2000. The ISBI's U.S. equity portfolio was up 1.3% for fiscal year 2012, 2.5% below the Russell 3000. The portfolio's exposure to small and middle capitalization stocks detracted from overall performance. Through structure analysis, rebalancing and risk management, the domestic equity portfolio continues to track the market with predictable consistency to achieve its objective.

U.S. EQUITIES

	1 Year	3 Years	5 Years
ISBI	1.3%	16.8%	0.8%
Russell 3000 Index	3.8	16.7	0.4

INTERNATIONAL EQUITIES

The Morgan Stanley ACWI ex US Index is a broad index of global equities, including emerging markets but excluding the United States. In fiscal year 2012 that index returned a negative14.4%, or 18.2% below the U.S. index. The ISBI's International Equity portfolio was down 10.7%, 3.7% above the ACWI ex US Index.

INTERNATIONAL EQUITIES

	1 Year	3 Years	5 Years
ISBI	(10.7)%	10.3%	(3.1)%
MSCI-EAFE Index	(14.4)	7.8	(4.0)

FIXED INCOME

In fiscal year 2012 the ISBI Fixed Income portfolio had a return of 6.8%, compared to the 7.4% return for the Barclay's Capital Universal Bond Index. Exposure to the lower volatility Government Credit Intermediate sector detracted from the performance of the overall fixed income portfolio.

FIXED INCOME

	1 Year	3 Years	5 Years
ISBI	6.8%	6.0%	4.2%
Barclays Capital Universal Index	7.4	7.6	6.8

U. S. EQUITY HEDGE FUNDS

The ISBI U.S. Equity Hedge Fund portfolio had a return of negative 4.3% for fiscal year 2012, compared to the negative 10.7% return for the HFRX Equity Hedge Index.

Besides monitoring hedged equity performance, the ISBI Board looked critically at how the hedged equity portfolio is structured and the level of fees paid. The consequence was a higher level of confidence in the existing portfolio structure, and an aggressive re-negotiation of, and reduction in, fees.

Although this process continued through the end of the fiscal year and concluded early in fiscal year 2013, the consequence will constitute total savings exceeding $5 million annually going forward.

U.S. EQUITY HEDGE FUNDS

	1 Year	3 Years	5 Years
ISBI	(4.3)%	4.1%	(0.6)%
HFRX Equity Hedge	(10.7)	(1.6)	(6.3)

PRIVATE EQUITY

In fiscal year 2012, the ISBI's Private Equity portfolio return was 7.6%. On average, the ISBI invests $100M each year among five to six private equity opportunities.

The Private Equity portfolio consists of interests in limited partnerships and other commingled vehicles that invest in management buyouts, venture capital, and other private placement equity strategy activities. The Private Equity asset class has recovered from previous market disruptions and continues to be one of the best performing asset classes since its inception date. Although the asset class is recovering, in fiscal year 2012, the ISBI's portfolio did not keep up with the portfolio benchmark return of 9.5%.

ADMINISTRATIVE EXPENSES

The ISBI's total expenses for fiscal year 2012, based on $11.3 billion in total assets, were $36.4 million, compared to $37.2 million based on $11.5 billion in total assets for fiscal year 2011. The resulting expense ratio (expenses divided by average fair value of assets) was .33% for fiscal year 2012, as compared to .35% for fiscal year 2011. Decreased aggregate expenses in fiscal year 2012 were mainly a result of reduced fees paid to investment managers. The ISBI's fees paid to investment advisory firms are aggressively managed which has contributed to the reduction in the cost of investment advisory services.

INVESTMENT PORTFOLIO SUMMARY

	June 30, 2012		June 30, 2011	
Investments, at fair value				
U.S. Govt. and Agency Obligations	$ 958,131,279	8.49%	$ 1,367,098,751	11.86%
Foreign Obligations	385,628,617	3.42	37,951,769	0.33
Corporate Obligations	656,977,663	5.82	762,833,382	6.62
Domestic Common Stock & Equity Funds	3,253,103,566	28.83	3,380,198,858	29.32
Commingled Funds	225,608,712	2.00	256,817,374	2.23
Foreign Equity Securities	2,012,774,573	17.84	2,195,201,185	19.04
Foreign Preferred Stock	592,156	0.01	40,032	0.00
Hedge Funds	1,026,725,785	9.10	1,075,584,754	9.33
Real Estate Funds	967,346,450	8.57	780,336,465	6.77
Private Equity	679,423,383	6.02	629,256,286	5.46
Money Market Instruments	255,922,180	2.27	303,501,465	2.63
Real Assets	507,019,665	4.49	455,984,316	3.96
Bank Loans	328,593,596	2.91	253,447,070	2.20
Foreign Currency Forward Contracts	(43,859)	0.00	(353)	0.00
	11,257,803,766	99.77	11,498,251,354	99.75
Other Assets, Less Liabilities	26,132,919	.23	29,373,670	0.25
Net Assets, at Fair Value	$ 11,283,936,685	100.0%	$ 11,527,625,024	100.00%

ANALYSIS OF INVESTMENT PERFORMANCE

	2012	2011	2010	2009	2008
Total Return* - Past 3 years	10.0%				
Total Return* - Past 5 years	(0.1)%				
Total Return* - year by year	0.1%	21.7%	9.1%	(20.1)%	(6.2)%
System's Actuarial Assumed Rate of Return	7.0%		8.0%		

Comparative rates of return on fixed income securities					
Total fixed income - ISBI	6.8%	5.7%	5.5%	(2.4)%	5.3%
Comparison index:					
Barclays Capital Universal Index	7.4%	4.8%	10.6%	4.9%	6.2%
Comparative rates of return on equities					
U.S. equities - ISBI	1.3%	33.9%	17.3%	(25.1)%	(12.7)%
Comparison index:					
Russell 3000 Index	3.8%	32.4%	15.7%	(26.6)%	(12.5)%

State Street Bank and Trust, the ISBI's master custodian, provides performance rates of return by portfolio, portfolio aggregation and the respective indices.

Time weighted methodology, based upon market values, is used when calculating performance.

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

ADDITIONAL INVESTMENT INFORMATION

The following table shows a comparison of ISBI investment operations of the System for fiscal years 2012 and 2011:

	2012	2011	Increase/(Decrease) Amount	Increase/(Decrease) Percentage
Balance at beginning of year,				
at fair value	$ 587,794,578	$ 506,463,522	$ 81,331,056	16.1%
Cash transferred (from) ISBI, net	(28,500,000)	(23,813,049)	(4,686,951)	(19.7)
Net ISBI investment revenue:				
ISBI Commingled Fund income	15,223,558	13,926,694	1,296,864	9.3
Less ISBI expenses	(1,815,417)	(1,901,411)	85,994	4.5
Net ISBI investment income	13,408,141	12,025,283	1,382,858	11.5
Net apprec/deprec in fair value				
of ISBI investments	(13,563,440)	93,118,822	(106,682,262)	(114.6)
Net ISBI investment revenue	(155,299)	105,144,105	(105,299,404)	(100.1)
Balance at end of year, at fair value	$ 559,139,279	$ 587,794,578	$ (28,655,299)	(4.9)%

In addition, interest on the average balance in the System's cash account in the State Treasury for FY 2012 was $86,203 compared to $109,280 during FY 2011.

ACTUARIAL SECTION

GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries
20 North Clark Street
Suite 2400
Chicago, IL 60602-5111
312.456.9800 phone
312.456.9801 fax
www.gabrielroeder.com

October 26, 2012

Board of Trustees and Executive Secretary
Judges' Retirement System of Illinois
P. O. Box 19255
2101 S. Veterans Parkway
Springfield, Illinois 62794-9255

CONFIDENTIAL

Re: Actuarial Certification

At your request, we have performed the annual actuarial valuation of the assets and liabilities of the Judges' Retirement System of Illinois ("JRS") as of June 30, 2012. This valuation has been performed to measure the funding status of the System and determine the employer statutory contribution rate for the year beginning July 1, 2013, and ending June 30, 2014. In addition, it includes disclosure information required under GASB Statement No. 25 and Statement No. 27.

The required statutory contribution rate has been determined under the Projected Unit Credit Cost Method, providing for a 90 percent funding of total actuarial liabilities by fiscal year 2045 as required by 40 ILCS Section 5/18-131(c). Contribution rates are determined according to P.A. 93-0589 reflecting the infusion of the proceeds from the sale of general obligation bonds. The contribution rates reflect the impact of P.A. 96-0889, which created a second tier for future members of JRS hired after December 31, 2010.

The required statutory contribution rates and amounts for fiscal year beginning July 1, 2013, as determined in the June 30, 2012, actuarial valuation are shown below.

	Total
Required Rate	74.091%
Required Contribution	126,808,000

The system's current funding plan satisfies the requirements for amortizing the unfunded liability provided under GASB Statement No. 25 for the fiscal year ending June 30, 2014. The assumptions and methods used to develop the normal cost and actuarial accrued liability meet the requirements of GASB Statement No. 25.

Pursuant to P.A. 96-0043, for purposes of determining statutory contribution rates for fiscal year 2013 an actuarial value of the System's assets was used. The actuarial value of assets is assumed to earn a rate of return equal to the System's actuarially assumed rate of return. The liabilities have been valued based on financial and employee data, which is supplied by the administrative staff of the System and verified by the System's auditor. We did not audit this data, but have reviewed the statistical support and concluded that the data is reasonable and consistent with the prior year's data.

Gabriel Roeder Smith & Company

Board of Trustees and Executive Secretary
October 26, 2012
Page 2

For the actuarial valuation as of June 30, 2012, the assumed rate of return used to discount liabilities and project assets was 7.0 percent.

In our opinion, the calculations also comply with the requirements of Illinois state law and, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board except as noted above. All of our work conforms with generally accepted actuarial principles and practices, and to the Actuarial Standards of Practice issued by the Actuarial Standards Board.

We certify that the information presented herein is accurate and fairly portrays the actuarial position of JRS as of June 30, 2012. We prepared the accompanying Summary of Actuarial Cost Method and Major Actuarial Assumptions, but the JRS staff prepared the other supporting schedules in this section and the trend tables in the financial section, based on information supplied in our report.

The undersigned are Members of the American Academy of Actuaries (MAAA) as indicated, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

Gabriel, Roeder, Smith & Company

By: Alex Rivera

Alex Rivera, FSA, EA, MAAA
Senior Consultant

By: David T Kausch

David Kausch, FSA, EA, MAAA
Senior Consultant

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Gabriel Roeder Smith & Company

INTRODUCTION

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

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

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

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

- For fiscal years 1996 through 2010, the contribution to the System, as a percentage of the payroll, shall be increased in equal annual increments so that by fiscal year 2010 the contribution rate is at the same level as the contribution rate for fiscal years 2011 through 2045.

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

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

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

The amortization period required by the state's funding plan, as described above, meets the parameters of GASB Statement No. 25.

In April, 2003, House Bill 2660 was signed into law as Public Act 93-0002. This legislation authorized the sale of $10 billion of General Obligation bonds for the purpose of making contributions to the five state-financed retirement systems. This legislation also modified the funding plan by mandating that, beginning in fiscal year 2005, the required state contribution for each fiscal year not exceed the state contributions that would have been required had the General Obligation bond program not been in effect, reduced by the total debt service for each year for the System's portion of the General Obligation bond proceeds.

In June, 2005, Senate Bill 0027 was signed into law as Public Act 94-0004. This legislation further modified the funding plan by reducing the amount of required employer contributions for fiscal years 2006 and 2007 that would have otherwise been required under Public Act 88-0593, as modified by Public Act 93-0002. The required state contributions for fiscal years 2008 through 2010 were then to be increased incrementally as a percentage of the participant payroll so that by fiscal year 2011 the state would be contributing at the required level contribution rate to achieve the financing objective of a 90% funded status by the end of fiscal year 2045.

The total amount of statutorily required employer contributions for fiscal years 2012 and 2011 was $63,628,000 and $62,377,000, respectively. The total amount of employer contributions received from the state during fiscal years 2012 and 2011 was $63,628,000 and $62,428,783, respectively.

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 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 as previously described.

A description of the actuarial assumptions utilized for fiscal years 2012 and 2011 follows:

Dates of Adoption: The Projected Unit Credit Actuarial Cost Method was adopted June 30, 1987; the interest rate assumption was adopted June 30, 2010; all other assumptions were adopted June 30, 2011.

Asset Valuation Method: The actuarial value of assets is equal to the fair value of assets adjusted for any actuarial gains or losses from investment return incurred in the fiscal year recognized in equal amounts over the five year period following that fiscal year.

Mortality Rates: Active and retired members: The UP-1994 Mortality Table for Males, rated down 3 years. Survivors: The UP-1994 Mortality Table for Females, rated down 2 years. No adjustment is made for post-disabled mortality. The mortality table used is a static table with no provision for future mortality improvement.

Salary Increase: A salary increase assumption of 4.0% per year (consisting of an inflation component of 3.0% per year and a seniority/merit component of 1.0% per year), compounded annually, was used. In determining total covered payroll, the size of the active group is assumed to remain constant.

Interest Rate: An interest rate assumption of 7.0% per year compounded annually, was used.

Marital Status: It was assumed that 75% of active participants are married. Actual marital status at benefit commencement is used for retirees.

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

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

Age	Rate of Termination	Age	Rate of Termination
30	.0128	50	.0058
35	.0110	55	.0042
40	.0094	60	.0024
45	.0076	65	.0007

It is assumed that terminated participants will not be rehired. The rates apply only to participants who have not fulfilled the service requirement necessary for retirement at any given age.

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

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

Retirement Rates: Tier 1 rates of retirement for each age from 55 to 80 and Tier 2 rates of retirement for each age from 62 to 80 based on the recent experience of the System were used. The following are samples of the rates of retirement that were used:

Tier 1		***Tier 2***	
Age	Rate of Retirement	Age	Rate of Retirement
55	.080	62	.300
60	.220	65	.160
65	.110	67	.300
70	.110	70	.120
75	.200	75	.200
80	1.000	80	1.000

The above retirement rates are equivalent to an average retirement age of 62.6 for Tier 1 and 67.6 for Tier 2.

Experience Review: Pursuant to state law, the System had the actuary's perform this review for the five year period ended June 30, 2010, which was updated for values as of June 30, 2011.

NOTE: The System retained the services of a new actuary for the fiscal year ended June 30, 2012. The actuarial assumptions have been recommended by the actuary and adopted by the System's Board of Trustees, at the dates indicated previously.

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
2003	517	51	29	539	321	19	15	325	864
2004	539	29	33	535	325	30	17	338	873
2005	535	51	24	562	338	24	24	338	900
2006	562	41	22	581	338	12	19	331	912
2007	581	67	28	620	331	19	24	326	946
2008	620	44	40	624	326	31	25	332	956
2009	624	60	37	647	332	19	16	335	982
2010	647	41	23	665	335	19	20	334	999
2011	665	83	28	720	334	14	21	327	1,047
2012	720	29	24	725	327	20	16	331	1,056

SUMMARY OF AND CHANGES TO THE PLAN PROVISIONS

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

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 Assets		
Fiscal Year	(1) Active and Inactive Participant Contributions	(2) Retirement and Survivor Annuitants	(3) Active and Inactive Participants (Employer Financed Portion)	Actuarial Value of Assets*	(1)	(2)	(3)
2003	$ 121,873,715	$ 607,038,789	$ 347,319,461	$ 330,053,560	100.0%	34.3%	0.0%
2004	130,547,360	633,302,100	392,243,491	534,579,823	100.0	63.8	0.0
2005	135,440,555	690,111,273	410,960,328	564,999,447	100.0	62.2	0.0
2006	142,846,641	730,339,241	418,208,979	599,234,149	100.0	62.5	0.0
2007	145,242,498	819,153,160	420,943,915	670,090,950	100.0	64.1	0.0
2008	152,455,812	856,958,002	447,922,240	612,680,574	100.0	53.7	0.0
2009	157,840,805	934,047,891	456,620,839	616,849,071	100.0	49.1	0.0
2010	166,360,698	1,070,374,455	582,712,673	619,925,786	100.0	42.4	0.0
2011	167,567,660	1,244,264,760	540,706,980	614,596,203	100.0	35.9	0.0
2012	177,546,650	1,289,080,804	555,088,342	601,219,999	100.0	32.9	0.0

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

VALUATION RESULTS

Actuarial Liability:	June 30, 2012	June 30, 2011
For Active Participants:		
Pension benefits	$ 524,822,298	$ 446,333,592
Cost-of-living adjustments	175,220,406	160,010,745
Death benefits	23,401,757	–
Pre-retirement survivors' annuity	–	35,418,406
Post-retirement survivors' annuity	–	53,628,273
Withdrawal benefits	1,976,773	5,353,553
Disability benefits	1,358,560	1,828,530
Total	726,779,794	702,573,099
For Participants Receiving Benefits:		
Retirement annuities	1,108,702,441	1,076,051,387
Survivor annuities	180,378,363	168,213,373
Total	1,289,080,804	1,244,264,760
For Inactive Participants	5,855,198	5,701,541
Total Actuarial Liability	2,021,715,796	1,952,539,400
Actuarial Value of Assets	601,219,999	614,596,203
Unfunded Actuarial Liability	$ 1,420,495,797	$ 1,337,943,197

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	Actuarial Value of Assets *	Actuarial Value of Assets as a % of Actuarial Liability	Total Unfunded Actuarial Liability	Annual Covered Payroll	Unfunded Actuarial Liability as a % of Annual Covered Payroll
2003	$ 1,076,231,965	$ 330,053,560	30.7%	$ 746,178,405	$ 123,900,000	602.2%
2004	1,156,092,951	534,579,823	46.2%	621,513,128	127,200,000	488.6%
2005	1,236,512,156	564,999,447	45.7%	671,512,709	128,700,000	521.8%
2006	1,291,394,861	599,234,149	46.4%	692,160,712	135,400,000	511.2%
2007	1,385,339,573	670,090,950	48.4%	715,248,623	142,900,000	500.5%
2008	1,457,336,054	612,680,574	42.0%	844,655,480	143,700,000	587.8%
2009	1,548,509,535	616,849,071	39.8%	931,660,464	155,645,000	598.6%
2010	1,819,447,826	619,925,786	34.1%	1,199,522,040	161,164,000	744.3%
2011	1,952,539,400	614,596,203	31.5%	1,337,943,197	169,155,000	791.0%
2012	2,021,715,796	601,219,999	29.7%	1,420,495,797	171,498,000	828.3%

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

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

	Active Members			
Valuation Date June 30	Number	Annual Payroll	Annual Average Pay	% Increase/(decrease) In Average Pay
2003	920	$123,900,000	$134,674	3.1%
2004	906	127,200,000	140,397	4.2%
2005	928	128,700,000	138,685	(1.2)%
2006	917	135,400,000	147,655	6.5%
2007	957	142,900,000	149,321	1.1%
2008	957	143,700,000	150,157	0.6%
2009	968	155,645,000	160,790	7.1%
2010	966	161,164,000	166,836	3.8%
2011	968	169,155,000	174,747	4.7%
2012	968	171,498,000	177,167	1.4%

RECONCILIATION OF UNFUNDED ACTUARIAL LIABILITY

	FY 2012	FY 2011
Unfunded actuarial liability at beginning of fiscal year	$ 1,337,943,197	$ 1,199,522,040
Contributions due	158,158,157	129,342,352
Contributions paid	82,844,597	62,694,460
Increase in unfunded liability due to contributions due being less than contributions paid	75,313,560	66,647,892
Increase in unfunded liability due to investment return lower than assumed	27,522,701	31,451,544
Decrease in unfunded liability due to salary increases lower than assumed	(19,671,785)	(17,743,557)
Increase in unfunded liability due to changes in assumptions other than interest rate assumption	–	15,622,518
Increase in unfunded liability due to new actuary	1,124,270	–
Increase (decrease) in unfunded liability due to other sources	(1,736,146)	42,442,760
Total Actuarial Losses	7,239,040	71,773,265
Net increase in unfunded liability for the year	82,552,600	138,421,157
Unfunded actuarial liability at end of fiscal year	$ 1,420,495,797	$ 1,337,943,197

STATISTICAL SECTION

The tables in this section present historical financial information as well as certain historical demographic information pertaining to participants and benefit recipients.

Financial Schedules:

These schedules present information pertaining to assets, liabilities, reserves, and changes in net assets over a 10-year period.

Participant Demographic Schedules:

These schedules present certain information pertaining to active and inactive participants over a 10-year period.

Benefit Recipient Demographic Schedules:

These schedules present certain information pertaining to benefit recipients, benefit types, average monthly benefits, ranges of monthly benefits, and location of retirees.

ASSET BALANCES

Fiscal Year Ended June 30	Cash	Receivables	Investments	Securities lending collateral with State Treasurer	Fixed Assets Net of Accumulated Depreciation	Total
2003	$ 7,324,152	$ 5,362,571	$ 317,541,091	$ -	$ 2,306	$ 330,230,120
2004	13,326,833	536,406	521,372,992	-	1,704	535,237,935
2005	11,788,710	2,945,326	550,350,071	-	3,278	565,087,385
2006	16,363,642	301,575	582,604,390	-	4,289	599,273,896
2007	11,697,990	262,335	658,193,724	-	3,323	670,157,372
2008	19,411,250	4,187,003	589,155,697	-	3,895	612,757,845
2009	17,991,016	25,372,085	435,604,601	-	3,318	478,971,020
2010	16,644,537	261,482	506,463,522	6,242,000	3,841	529,615,382
2011	18,015,766	221,316	587,794,578	7,261,000	3,377	613,296,037
2012	10,690,635	8,211,574	559,139,279	5,945,000	9,326	583,995,814

LIABILITIES AND RESERVE BALANCES

Fiscal Year Ended June 30	Total Liabilities	Reserve for Participant Contributions	Reserve for Future Operations	Total Reserves	Total
2003	$ 176,560	$121,873,715	$208,179,845	$330,053,560	$330,230,120
2004	658,112	130,547,360	404,032,463	534,579,823	535,237,935
2005	87,938	135,440,555	429,558,892	564,999,447	565,087,385
2006	39,747	142,846,641	456,387,508	599,234,149	599,273,896
2007	66,422	145,242,498	524,848,452	670,090,950	670,157,372
2008	77,271	152,455,812	460,224,762	612,680,574	612,757,845
2009	94,943	157,840,805	321,035,272	478,876,077	478,971,020
2010	6,339,230	166,360,698	356,915,454	523,276,152	529,615,382
2011	7,335,829	167,567,660	438,392,548	605,960,208	613,296,037
2012	6,019,447	177,546,650	400,429,717	577,976,367	583,995,814

NUMBER OF PARTICIPANTS

At June 30	Active	Inactive	Total
2003	920	42	962
2004	906	35	941
2005	928	34	962
2006	917	30	947
2007	957	33	990
2008	957	25	982
2009	968	23	991
2010	966	20	986
2011	968	16	984
2012	968	15	983

CHANGES IN NET ASSETS

Fiscal Year

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Additions										
Participant contributions	$ 12,904,997	$ 13,720,911	$ 13,268,530	$ 13,833,096	$ 14,152,973	$ 15,443,114	$ 15,763,410	$ 16,001,619	$ 16,725,191	$ 16,444,796
Employer contributions:										
State of Illinois	31,373,000	178,481,483	31,991,000	29,189,400	35,236,800	46,872,500	59,983,000	78,509,810	62,428,783	63,628,000
Other sources	67,103	111,612	52,009	148,511	-	105,461	-	-	265,677	16,099
Total employer contributions	31,440,103	178,593,095	32,043,009	29,337,911	35,236,800	46,977,961	59,983,000	78,509,810	62,694,460	63,644,099
Net investment income/(loss)	(226,117)	74,012,814	50,848,968	61,329,673	98,157,681	(37,976,460)	(122,716,471)	42,532,318	105,253,385	(69,096)
Miscellaneous	-	-	-	-	-	-	-	-	-5,000	–
Total additions to/(deductions from) plan net assets	44,118,983	266,326,820	96,160,507	104,500,680	147,547,454	24,444,615	(46,970,061)	137,043,747	184,678,036	80,019,799
Deductions										
Benefit Payments:										
Temporary disability	-	-	-	-	-	47,643	81,674	139,775	72,613	–
Retirement annuities	4,507,057	47,965,512	50,718,643	54,553,869	60,911,363	64,863,585	68,876,522	73,439,970	82,076,983	87,161,263
Survivors' annuities	2,207,505	12,947,383	13,820,917	14,443,234	14,704,503	15,601,364	16,861,343	17,990,012	18,570,146	19,491,832
Total benefit payments	56,714,562	60,912,895	64,539,560	68,997,103	75,615,866	80,512,592	85,819,539	91,569,757	100,719,742	106,653,095
Refunds:										
Termination	57,588	44,569	-	160,035	25,310	83,572	29,417	-	81,210	55
Other	524,881	395,006	740,497	661,602	595,267	758,431	419,892	510,555	570,983	586,400
Total refunds	582,469	439,575	740,497	821,637	620,577	842,003	449,309	510,555	652,193	586,455
Administrative expenses	427,686	448,087	460,826	447,238	454,210	500,396	565,588	563,360	622,045	764,090
Total deductions from plan net assets	57,724,717	61,800,557	65,740,883	70,265,978	76,690,653	81,854,991	86,834,436	92,643,672	101,993,980	108,003,640
Change in net assets	$ (13,605,734)	$ 204,526,263	$ 30,419,624	$ 34,234,702	$ 70,856,801	$ (57,410,376)	$ (133,804,497)	$ 44,400,075	$ 82,684,056	$ (27,983,841)

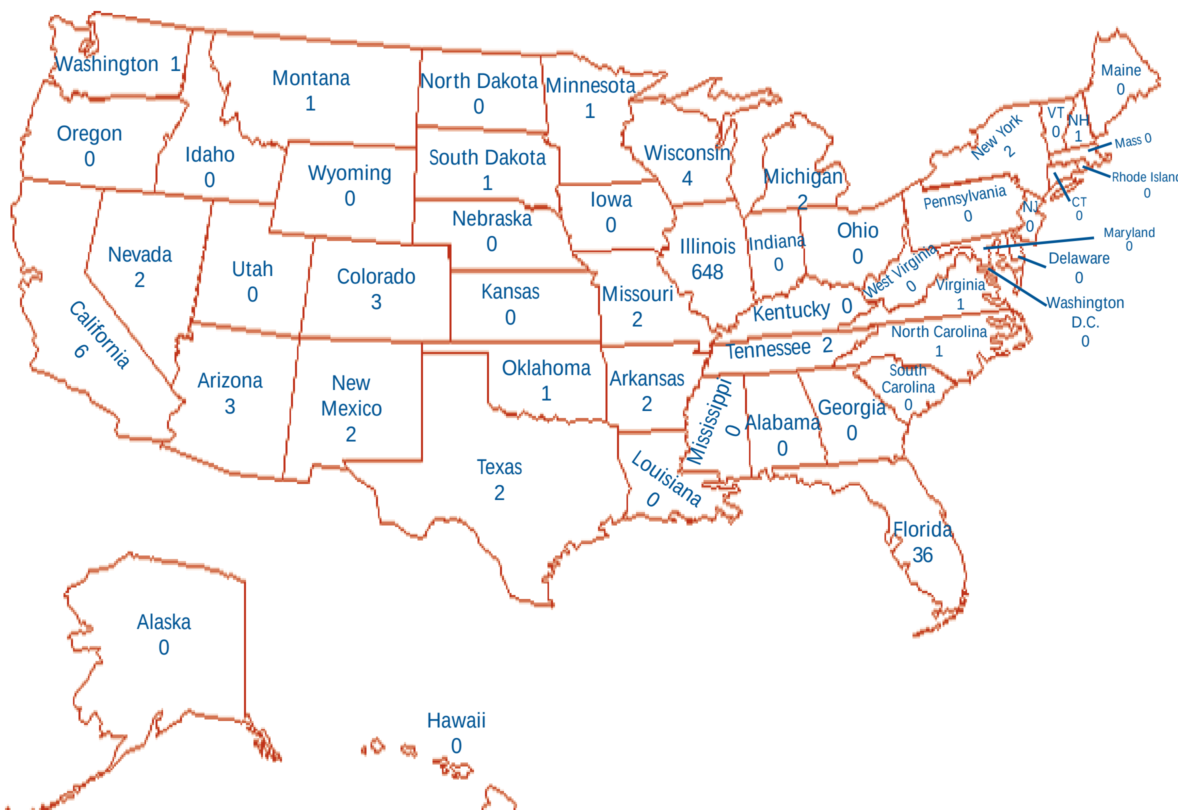
NUMBER OF RECURRING BENEFIT PAYMENTS/ TERMINATION REFUNDS

On June 30	Retirement Annuities	Survivors' Annuities	Temporary Disability	Total Recurring Benefit Payments	Termination Refunds
2003	539	325	–	864	2
2004	535	338	–	873	3
2005	562	338	–	900	-
2006	581	331	–	912	2
2007	620	326	–	946	3
2008	624	332	1	957	4
2009	647	335	1	983	1
2010	665	334	2	1,001	–
2011	720	327	–	1,047	3
2012	725	331	–	1,056	1

NUMBER ON ACTIVE PAYROLLS

On June 30	Supreme Court Justices	Appellate Court Justices	Circuit Court Judges	Retired Judges Recalled	Total
2003	7	42	862	12	923
2004	7	41	847	14	909
2005	7	40	862	21	930
2006	7	41	852	18	918
2007	7	41	888	22	958
2008	7	41	885	25	958
2009	7	40	892	30	969
2010	7	39	894	27	967
2011	7	38	896	27	968
2012	7	37	903	21	968

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
2003	63.8	17.8	72.4	$ 7,107
2004	63.5	17.8	72.3	7,418
2005	63.4	17.5	72.3	7,730
2006	63.2	17.4	72.3	8,015
2007	62.9	17.6	71.9	8,443
2008	62.6	17.3	71.7	8,685
2009	62.5	17.2	71.4	9,098
2010	62.4	17.1	71.5	9,379
2011	62.4	17.1	71.2	9,797
2012	62.4	17.0	71.6	10,118

* in years

Annuitants by Benefit Range (Monthly) on June 30, 2012

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$1-1000	9	9	1.2%	1.2%
1001-2000	12	21	1.7	2.9
2001-3000	15	36	2.1	5.0
3001-4000	22	58	3.0	8.0
4001-5000	18	76	2.5	10.5
5001-6000	22	98	3.0	13.5
6001-7000	28	126	3.9	17.4
7001-8000	43	169	5.9	23.3
8001-9000	48	217	6.6	29.9
9001-10000	51	268	7.0	36.9
10001-11000	77	345	10.6	47.5
11001-12000	75	420	10.4	57.9
12001-13000	186	606	25.7	83.6
13001-14000	90	696	12.4	96.0
14001-15000	22	718	3.0	99.0
15001-16000	7	725	1.0	100.0

Survivors by Benefit Range (Monthly) on June 30, 2012

Benefit Range	Total	Cumulative Total	% of Total	Cumulative % of Total
$ 1-1000	32	32	9.7%	9.7%
1001-2000	27	59	8.1	17.8
2001-3000	28	87	8.5	26.3
3001-4000	21	108	6.3	32.6
4001-5000	32	140	9.7	42.3
5001-6000	50	190	15.1	57.4
6001-7000	54	244	16.3	73.7
7001-8000	40	284	12.1	85.8
8001-9000	40	324	12.1	97.9
9001-10000	6	330	1.8	99.7
10001-11000	1	331	0.3	100.0

Average Benefit Payments
Fiscal Years 2003 through 2012

Retirement Effective Dates	0-5	5-10	10-15	15-20	20-25	25-30	30+
				Years Credited Service			
Period 7/1/02 to 6/30/03							
Average monthly benefit	$ 7,815	$ 8,210	$ 5,069	$ 6,172	$ 9,332	$ 9,851	$ 10,019
Average final average salary	$ 10,104	$ 11,378	$ 10,805	$ 11,632	$ 11,187	$ 11,590	$ 11,787
Number of retired members*	3	3	4	5	19	6	5
Period 7/1/03 to 6/30/04							
Average monthly benefit	$ 9,181	$ 4,590	$ 5,531	$ 8,642	$ 9,002	$ 10,091	$ 9,617
Average final average salary	$ 11,651	$ 11,694	$ 10,616	$ 11,815	$ 11,507	$ 11,872	$ 11,315
Number of retired members*	4	4	5	5	10	3	1
Period 7/1/04 to 6/30/05							
Average monthly benefit	$ 9,175	$ 6,309	$ 6,586	$ 8,298	$ 9,985	$ 10,632	$ -
Average final average salary	$ 11,960	$ 11,790	$ 11,158	$ 12,227	$ 11,747	$ 12,508	$ -
Number of retired members*	10	5	11	7	7	7	-
Period 7/1/05 to 6/30/06							
Average monthly benefit	$ 8,866	$ 7,057	$ -	$ 6,896	$ 9,468	$ 10,508	$ 10,650
Average final average salary	$ 12,139	$ 12,744	$ -	$ 12,595	$ 12,194	$ 12,363	$ 12,744
Number of retired members*	8	2	-	10	16	3	1
Period 7/1/06 to 6/30/07							
Average monthly benefit	$ 9,421	$ 7,967	$ 7,254	$ 8,636	$ 10,491	$ 11,322	$ 11,179
Average final average salary	$ 13,050	$ 13,152	$ 12,896	$ 12,752	$ 12,810	$ 13,320	$ 13,152
Number of retired members*	6	6	7	12	22	7	3
Period 7/1/07 to 6/30/08							
Average monthly benefit	$ 6,171	$ 8,394	$ 7,169	$ 9,912	$ 10,005	$ -	$ 11,570
Average final average salary	$ 9,595	$ 12,900	$ 12,512	$ 13,612	$ 12,880	$ -	$ 13,612
Number of retired members*	2	7	13	3	15	-	1
Period 7/1/08 to 6/30/09							
Average monthly benefit	$ 9,940	$ 9,313	$ 7,026	$ 7,699	$ 11,863	$ 12,369	$ 12,225
Average final average salary	$ 13,429	$ 14,113	$ 13,894	$ 13,708	$ 14,135	$ 14,552	$ 14,383
Number of retired members*	7	9	6	4	23	6	5
Period 7/1/09 to 6/30/10							
Average monthly benefit	$ 9,462	$ 9,855	$ 7,369	$ 7,372	$ 11,687	$ 9,670	$ 7,055
Average final average salary	$ 13,408	$ 14,306	$ 13,328	$ 13,830	$ 14,183	$ 14,814	$ 14,525
Number of retired members*	6	4	6	6	15	2	2
Period 7/1/10 to 6/30/11							
Average monthly benefit	$ 2,489	$ 4,922	$ 7,023	$ 11,074	$ 12,284	$ 12,760	$ 13,422
Average final average salary	$ 14,158	$ 12,927	$ 13,404	$ 14,724	$ 14,619	$ 14,720	$ 15,373
Number of retired members*	1	4	10	25	29	9	5
Period 7/1/11 to 6/30/12							
Average monthly benefit	$ 847	$ 3,601	$ 7,891	$ 10,649	$ 12,140	$ 12,420	$ 12,166
Average final average salary	$ 6,915	$ 13,897	$ 14,722	$ 14,825	$ 14,482	$ 14,612	$ 14,314
Number of retired members*	1	3	7	10	5	2	1

** The number of retired members excludes new retirements with retroactive benefit start dates prior to the beginning of the period as well as resumptions of retirement benefits with original benefit start dates prior to the beginning of the period.*

PLAN SUMMARY AND LEGISLATIVE SECTION

SUMMARY OF RETIREMENT SYSTEM PLAN

(As of June 30, 2012)

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.

The Plan is comprised of two tiers of contribution requirements and benefit levels. Tier 1 pertains to participants who first became a participant of the System prior to January 1, 2011. Tier 2 pertains to participants who first became a participant of the System on or after January 1, 2011.

The provisions below apply to both Tier 1 and Tier 2 participants except where noted.

2. Administration

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

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

3. Employee Membership

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

4. Participant Contributions

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

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

Tier 1 participants contribute based on total annual compensation. Tier 2 participants contribute based on a statutorily capped compensation amount which is increased each year by 3% or the annual percentage increase in the Consumer Price Index, whichever is less.

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

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

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

5. Retirement Annuity

A. Qualification of Participant

Tier 1: Upon termination of service, a judge is eligible for an unreduced retirement annuity at:

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

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

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

Tier 2: Upon termination of service, a judge is eligible for an unreduced retirement annuity at:

1. Age 67 with at least 8 years of credit

The retirement annuity of a judge who retires between the ages of 62 and 67 with at least 8 years of credit shall be reduced ½ of 1% for each month the judge's age is under 67.

B. Amount of Annuity

Tier 1: 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 the applicable final average salary.

For participants who first serve as a judge before August 10, 2009 and terminate service on or after July 14, 1995, final average salary is the salary on the last day of employment as a judge or the highest salary received for employment as a judge in a position held for at least 4 consecutive years, whichever is greater.

For participants who first serve as a judge on or after August 10, 2009 and before January 1, 2011, final average salary is the average monthly salary during the 48 consecutive months of service within the last 120 months of service in which the total salary was the highest.

Tier 2: The retirement annuity is determined according to the following formula based upon the applicable final average salary:

- 3.0% for each year of credit

The maximum annuity is 60% of the applicable final average salary. The applicable final average salary is the average monthly salary during the 96 consecutive months of service within the last 120 months of service in which the total salary was the highest. The salary for any calendar year is capped in accordance with the statute governing the System. The cap is increased each year by 3% or the annual percentage increase in the Consumer Price Index, whichever is less.

C. Annual Increases in Retirement Annuity

Tier 1: 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.

Tier 2: Post retirement increases to the current amount of annuity in an amount equal to the lesser of 3% or the annual percentage increase in the Consumer Price Index for All Urban Consumers are granted to participants effective in January of the year next following the first anniversary of retirement and in January of each year thereafter, but in no event prior to age 67.

D. Suspension of Retirement Annuity

Tier 1: 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 other than legal counsel in the Office of the Governor or Chief Deputy Attorney General (assuming the annuitant does not participate in any pension fund or retirement system under the Illinois Pension Code with respect to such service and, has filed prior to July 1, 2005, a written election with the System), or

3. 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.

The retirement annuity to any judge shall not be suspended:

1. If the annuitant accepts employment in any teaching or non-teaching capacity with a state college or university as long as the annuitant did not elect the provisions of the Reciprocal Act upon retirement with the State Universities Retirement System, or

2. If the annuitant accepts employment in an administrative or teaching position with a secondary school district as long as the district level positions participate in the Teachers' Retirement System of Illinois and are not considered state positions which participate in the State Employees' Retirement System of Illinois, or

3. If the annuitant serves as a part-time employee (not required to work at least 35 hours per week) in any of the following positions and has not elected to participate in the State Employees' Retirement System of Illinois with respect to such service.

- Legislative Inspector General
- Special Legislative Inspector General
- Office of the Legislative Inspector General Employee
- Executive Director of the Legislative Ethics Commission
- Legislative Ethics Commission staff

Tier 2: The retirement annuity being paid is suspended when an annuitant is employed on a full time basis and becomes a member or participant of the Judges' Retirement System Article or any other Article of the Illinois Pension Code.

6. Survivor's Annuity

A. Qualification of Survivor

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

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

B. Amount of Payment

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

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

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

C. Annual Increases in Survivors' Annuity

Tier 1: 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.

Tier 2: Increases to the current amount of annuity in an amount equal to the lesser of 3% or the annual percentage increase in the Consumer Price Index for All Urban Consumers are granted to survivors. Such increases are payable on each January 1 occurring on or after the commencement of the annuity if the deceased participant died while receiving a retirement annuity or, in other cases, on each January 1 occurring on or after the first anniversary of the commencement of the annuity, but in no event prior to age 67.

D. Duration of Payment

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

7. Death Benefit

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

A. Before Retirement

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

B. After Retirement

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

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

A. Death of Survivor Annuitant

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

8. Disability Benefit

A. Permanent Total Disability

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

B. Temporary Total Disability

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

9. Refund of Contributions

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

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

LEGISLATIVE AMENDMENTS

Legislative amendments with an effective date during fiscal year 2012 having an impact on the System.

Senate Bill 1671 (P.A. 97-0530; effective August 23, 2011)

Requires all pension funds and retirement systems to comply with the federal Heroes Earnings Assistance and Relief Tax Act of 2008 (P.L. 110-245).

House Bill 3813 (P. A. 97-0651; effective January 5, 2012)

Adds a requirement to the General Provisions of the Illinois Pension Code that any reasonable suspicion by an appointed trustee of a false statement or a falsified record being submitted or permitted by a person covered by the Illinois Pension Code shall be imediately referred to the board of trustees.

Senate Bill 0179 (P. A. 97-0694; effective June 18, 2012)

Amends the Illinois State Auditing Act. Authorizes the Auditor General to contract with or hire an actuary to serve as the State Actuary. Sets forth the duties of the State Actuary. Changes the manner in which the minimum required State contribution is certified. Provides for the State Actuary to provide input regarding the actuarial assumptions of the State-funded retirement systems.

NEW LEGISLATION

There were no legislative amendments with an effective date subsequent to June 30, 2012 having an impact on the System.