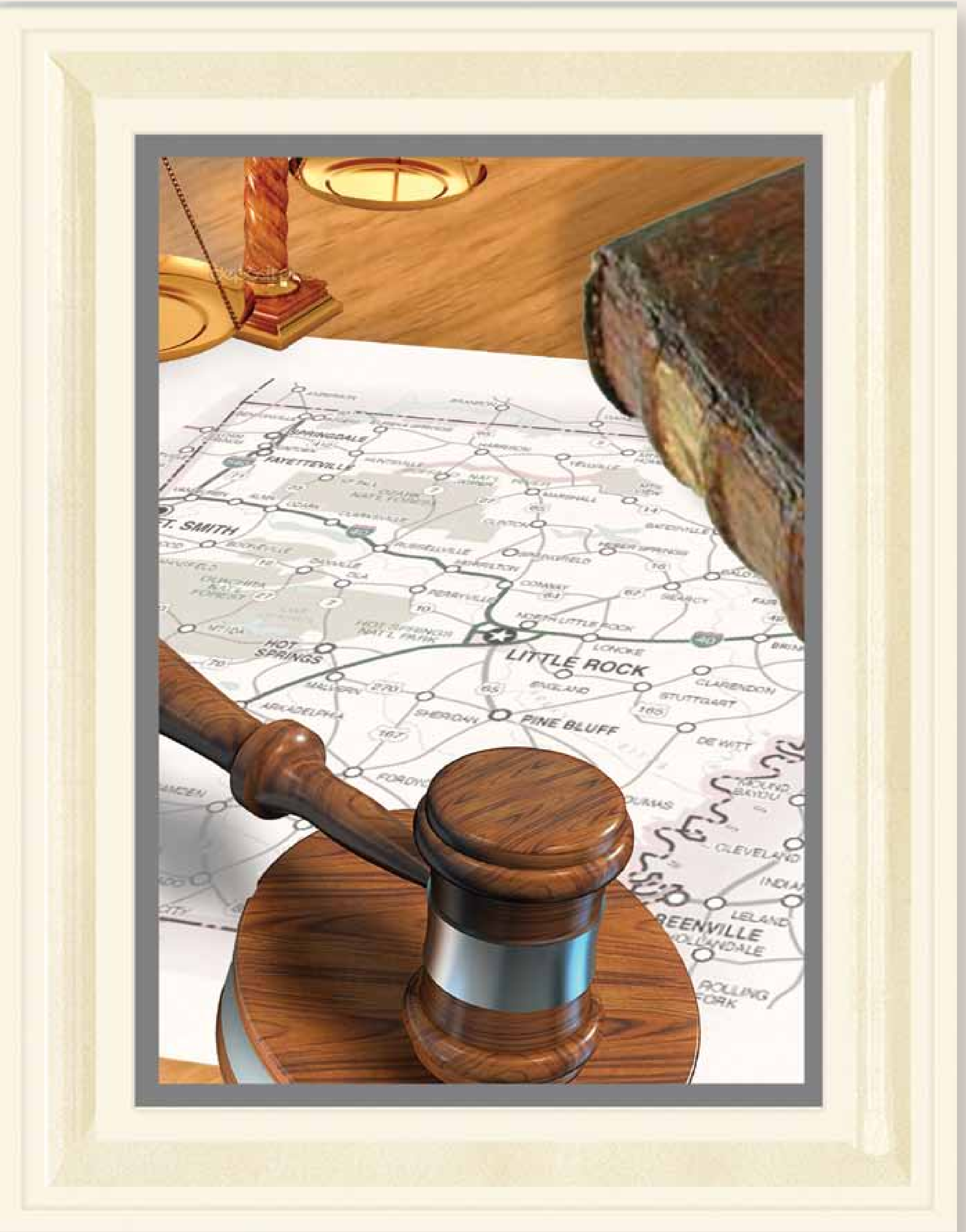
# Arkansas Judicial Retirement System




## Annual Financial Report 2011

# Arkansas Judicial Retirement System

A Pension Trust Fund of the State of Arkansas

Comprehensive

# Annual Financial Report

For the Year Ended

June 30, 2011

Gail H. Stone, Executive Director
Michele Williams, Deputy Director

Prepared by
Arkansas Public Employees Retirement System
124 West Capitol Avenue, Suite 400
Little Rock, AR  72201

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# INTRODUCTION



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A Brief History

# Arkansas Judicial Retirement System

Established on March 28, 1953, with the passage of Act 365, the Arkansas General Assembly created the Arkansas Judicial Retirement System (AJRS).

This System provides for the retirement of all Circuit Judges, Court of Appeals Judges and Supreme Court Justices. Act 399 of 1999 created a Tier II benefit plan for all persons who become members of the System after the effective date of this Act. Any active member of the System prior to the effective date of Act 399 had until the end of the term in office in which the member is serving on the effective date to elect coverage under Tier II.

Act 744 of 2009 permits Tier I judges with at least 20 years of judicial service to continue making 6% employee contributions in exchange for a 2.5% increase in benefits for each additional year of service. The maximum benefit payable is 75% of final salary.

The statutes providing for and governing the Arkansas Judicial Retirement System may be found in Chapters 2 and 8 of Title 24 of the Arkansas Code Annotated. The administration and control of the System is vested in the Board of Trustees. The Board is appointed by the Arkansas Judicial Council.

This annual financial report, which covers the period from July 1, 2010 through June 30, 2011, provides comprehensive information about the System including statements of financial condition, investment objectives and policy, an actuarial report, historical and statistical information on active members, annuitants and benefit payments, as well as a description of the retirement plan.

## Membership Information As Of June 30, 2011

| ACTIVE MEMBERS | |
|---|---|
| Number | 141 |
| Average Age | 57.6 years |
| Average Years Service | 15.3 years |
| Average Annual Salary | $137,149 |

| 2011 RETIRED MEMBERS | | |
|---|---|---|
| | Age and Service | Disability |
| Retired Members | 3 | N/A |
| Average Age | 68.3 years | N/A |
| Average Service | 14.2 years | N/A |
| Average Monthly Benefit | $5,427.96 | N/A |

| TOTAL RETIREES | |
|---|---|
| Retired Members | 120 |
| Average Monthly Benefit | $6,304 |

# ARKANSAS JUDICIAL RETIREMENT SYSTEM



GAIL H. STONE, Executive Director
124 West Capitol, Suite 400
Little Rock, AR 72201

December 30, 2011

Dear AJRS Members:

The Arkansas Judicial Retirement System (AJRS) is pleased to present the Annual Financial Report for the period ending June 30, 2011. The report is designed to provide a clear and concise picture of the financial conditions of the System. The report includes the following sections:

- Introduction
- Financial
- Investment
- Actuarial
- Statistical

## Accounting System

The accrual basis of accounting is used to record the assets, liabilities, revenues, and expenses of the Arkansas Judicial Retirement System Trust Fund. Revenues are recognized in the accounting period in which they are earned, without regard to date of collection, and expenses are recorded when incurred, regardless of when payment is made. Investments are reported at market values determined by the custodial agent. The agent's determination of market value includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates.

## Revenues

The fiscal year 2011 revenue from employer and employee contributions totaled $5.2 million. This amount is $539,348 more than fiscal year 2010.

Court fees for fiscal year 2011 were $902,797, the same amount as fiscal year 2010.

Phone Number (501) 682-7800 FAX Number (501) 682-7825 WATS Line 1-800-682-7377

Miscellaneous income items were a gain of $13,905 for fiscal year 2011, an increase of $15,098 from fiscal year 2010.

Net investment gain for fiscal year 2011 was $30.4 million after investment expenses of $839,070 (see page 25), an increase of $15.0 million from fiscal year 2010. Overall, the System's revenues increased by $15.6 million from fiscal year 2010.

### Expenses

Benefit payments for fiscal year 2011 were $9.0 million, or $142,454 less than fiscal year 2010. Administrative expenses were $48,919, of which $14,900 was for professional fees and $28,426 was transferred to APERS for indirect administrative costs.

### Funding

The System is funded through contributions from the State, employees and investment income. The general financial objective of the System is to establish and receive contributions which, expressed as a percentage of active member payroll, will remain approximately level from generation to generation.

### Investments

In accordance with the Investment Code contained in the Arkansas Code Annotated (A.C.A.), Title 24, Chapter 2, the Board of Trustees is required to invest the funds in conformity with the "prudent investor rule." The Investment Code permits the Board to establish an investment policy based upon certain investment criteria and allows the Board to retain professional investment advisors to assist the Board in making investments. The Board has established an investment policy that reflects the level of risk that is deemed appropriate for the Fund. The investment advisor retained by the Board is listed on the schedule of professional services' contractors.

### Professional Services

Professional services are provided to AJRS by a firm selected by the AJRS Board of Trustees to aid in the efficient and effective management of the System. A listing for this firm as well as other professional services' contractors retained by AJRS is shown on page 12 of this report.

### Acknowledgments

This report is the result of the combined efforts of the Arkansas Public Employees Retirement System staff under the direction of the Arkansas Judicial Retirement System Board of Trustees. Its purpose is to provide complete and reliable information as a basis for making management decisions, as a means for determining compliance with legal provisions, and as a means for determining responsible stewardship over the assets contributed by the members and employers.

Robert Edwards

Judge Robert Edwards
Chairman, AJRS Board

Gail H. Stone

Gail H. Stone
Executive Director

## Board of Trustees



## Administrative Office


**Gail  H. Stone, Executive Director**

Arkansas Judicial Retirement System

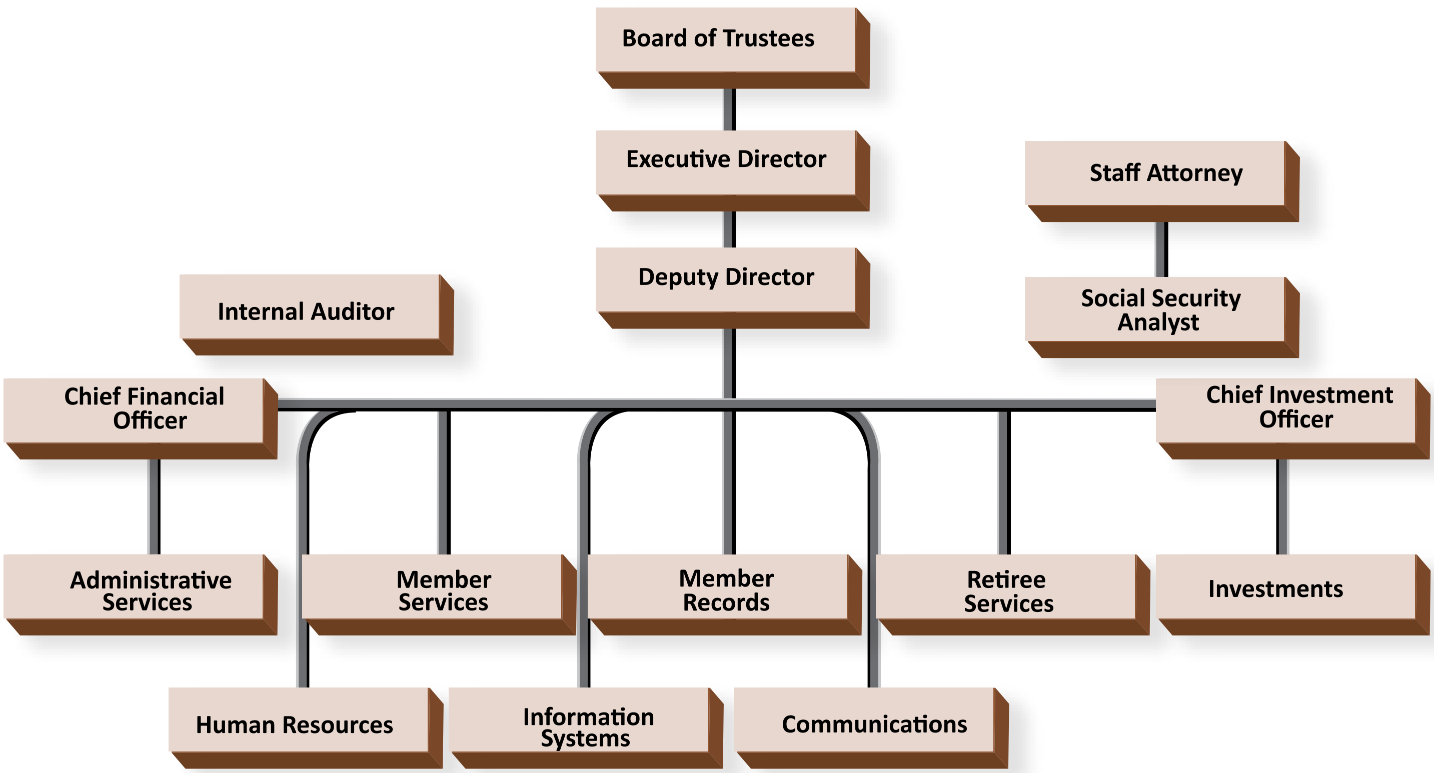
124 West Capitol Avenue, Suite 400

Little Rock, AR  72201

501-682-7800

1-800-682-7377

## Organizational Chart




### Administration Staff

| | |
|---|---|
| Gail Stone | Executive Director |
| Michele Williams | Deputy Director |
| Jay Wills | Attorney |
| Craig Blackard | Internal Auditor |
| William Dull | Chief Financial Officer |
| Carlos Borromeo | Chief Investment Officer |
| Susan Bowers | Associate Director, Investments |
| Becky Walker | Human Resources Manager |
| Jacobia Twiggs | Member Services Manager |
| Jon Aucoin | Communications Manager |
| Phillip Norton | Information Systems Manager |
| Allison Woods | Member Records Manager |
| Abbi Bruno | Retiree Services Manager |

## Professional Consultants

Custodian Bank
**The Bank of New York Mellon**
One Mellon Center
500 Grant Street
Pittsburg, PA  15258

Actuary
**Gabriel, Roeder, Smith & Company**
Actuaries & Consultants
One Towne Square, Suite 800
Southfield, MI  48076

Investment Consultant
**Callan Associates Inc.**
120 N. LaSalle Street, Suite 2100
Chicago, IL 60602

## Investment Managers

**Wellington Management Company**
280 Congress Street
Boston, MA  02110

**Robeco Investment Management**
One Beacon Street, 30th Floor
Boston, MA  02108

**Batterymarch Financial Management, Inc.**
200 Clarendon Street
Boston, MA  02116

**Capital Guardian Trust Co.**
333 South Hope Street
Los Angeles, CA  90017

**MacKay Shields**
9 West 57th Street
New York,  NY  10019

# FINANCIAL



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## Statement of Plan Net Assets

| ASSETS | 6/30/11 | 6/30/10 |
|---|---|---|
| Cash and Cash Equivalents | $ 4,232,845 | $ 6,918,476 |
| Receivables: | | |
| Contributions | 247,655 | 0 |
| Investment Principal Receivable | 181,035 | 221,679 |
| Accrued Investment Income Receivable | 587,889 | 519,004 |
| Total Receivables | 1,016,579 | 740,683 |
| Investments At Fair Value: | | |
| Government Securities: | | |
| U.S. Government Securities | 11,420,575 | 11,373,812 |
| U.S. Government Agency Securities | 5,705,428 | 6,785,408 |
| Corporate Securities: | | |
| Fixed Income Commingled | 44,475,196 | 14,218,845 |
| Collateralized Obligations | 7,041,312 | 6,233,924 |
| Corporate Bonds | 29,784,187 | 24,140,407 |
| Common Stock | 42,500,488 | 55,218,022 |
| International Securities: | | |
| Global Commingled | 25,625,960 | 19,628,156 |
| Global Corporate Fixed Income | 554,717 | 0 |
| Forwards | (5,929) | 0 |
| Global Equity | 817,765 | 0 |
| Total Investments | 167,919,699 | 137,598,574 |
| Fixed Assets, Net* | 0 | 0 |
| TOTAL ASSETS | 173,169,123 | 145,257,733 |
| LIABILITIES | | |
| Accrued Expenses and Other Liabilities | 258,787 | 213,416 |
| Investment Principal Payable | 2,113,222 | 1,730,177 |
| TOTAL LIABILITIES | 2,372,009 | 1,943,593 |
| NET ASSETS HELD IN TRUST FOR PENSION BENEFITS | $170,797,114 | $143,314,140 |

(A schedule of Funding Progress is presented on page 24).

* Assets owned by the System are fully depreciated.

## Statement of Changes In Plan Net Assets

| ADDITIONS | 6/30/11 | 6/30/10 |
|---|---|---|
| Contributions: | | |
| Employer | $ 4,303,921 | $ 3,753,808 |
| Employee | 860,565 | 871,330 |
| Court Fees | 902,797 | 902,797 |
| Total Contributions | 6,067,283 | 5,527,935 |
| Investment Income: | | |
| Interest | 2,590,263 | 1,227,591 |
| Dividends | 1,074,442 | 795,848 |
| Currency Loss | (24,556) | 0 |
| Investment Gain | 27,648,608 | 14,086,844 |
| Total Investment Income | 31,288,757 | 16,110,283 |
| Less: Investment Expense | 838,810 | 671,173 |
| Net Investment Income | 30,449,947 | 15,439,110 |
| Other Additions: | | |
| Miscellaneous Additions | 13,905 | (1,193) |
| TOTAL ADDITIONS | 36,531,135 | 20,965,852 |
| DEDUCTIONS | | |
| Benefits | 8,983,419 | 9,125,873 |
| Refunds of Contributions | 15,823 | 22,782 |
| Administrative Expenses | 48,919 | 49,021 |
| TOTAL DEDUCTIONS | 9,048,161 | 9,197,676 |
| NET INCREASE (DECREASE) | 27,482,974 | 11,768,176 |
| NET ASSETS | | |
| Beginning of Year | 143,314,140 | 131,545,964 |
| End of Year | $170,797,114 | $143,314,140 |

# Notes To The Financial Statements

## Description of the System

General information - The Arkansas Judicial Retirement System (AJRS) is a single employer, defined benefit pension plan established on March 28, 1953.

This system provides for the retirement of all Circuit Judges, Court of Appeals Judges, and Supreme Court Justices. The laws governing operations of AJRS are set forth in Ark. Code of 1987 (Annotated) 24-8-201 through 24-8-228 and 24-8-701 through 24-8-717. The administration and control of the System is vested in the Board of Trustees of AJRS, which includes five (5) members selected by the Arkansas Judicial Council.

Membership - As of June 30, 2011, there was one participating employer in the plan. In addition, supplemental contributions are paid to the system from the Constitutional and Fiscal Agencies Fund in accordance with Section 8 of Act 922 of 1983. As of June 30, 2011 and 2010, membership was as follows:

| | 6/30/11 | 6/30/10 |
|---|---|---|
| Retirees and Beneficiaries Receiving Benefits | 120 | 121 |
| Terminated Plan Members Entitled To But Not Receiving Benefits | 4 | 3 |
| Active Plan Members | 141 | 136 |

Contributions – Contribution provisions are established by state law and may be amended only by the Arkansas General Assembly. The contribution rate of each member of the System shall be 6% of annual salary (A.C.A. 24-8-209) for Tier I and 5% of annual salary (A.C.A. 24-8-706) for Tier II. When a judge is certified as eligible for retirement, no further contribution shall be required of him (A.C.A. 24-8-211) for Tier I and (A.C.A. 24-8-712) for Tier II. The employer contribution rate is 12% of salaries paid. In addition to the 12% employer rate and the statutory fees, the Chief Fiscal Officer of the State is required to transfer from the Constitutional and Fiscal Agencies Fund an amount that is equal to the difference between the mandatory contribution rate and the actuarially determined rate necessary to fund the plan (A.C.A. 24-8-210).

Plan Administration – Costs for administering the plan are paid out of the investment earnings.

Benefit Eligibility - An active member in Tier I with a minimum of ten (10) years of credited service may voluntarily retire upon reaching sixty-five (65) years of age or thereafter upon filing a written application with the Board. Any other Tier I member who has a minimum of twenty (20) years of credited service may retire regardless of age, and any deferred judge or justice who has served at least fourteen (14) years shall be eligible for benefits upon reaching age sixty-five (65) years. In all cases of age and service retirement for judges or justices elected after July 1, 1983 and remaining in Tier I, the member must have a minimum of eight (8) years of actual service as a Justice of the Supreme Court or a judge of the Circuit Courts or the Court of Appeals. An active or former member in Tier II may retire at age 65 with eight (8) or more years of credited service, or after twenty (20) years of credited service regardless of age.

Increases After Retirement -For any person who was a member on or before June 30, 1983, the retirement benefits are increased or decreased from time to time as the salary for the particular judicial office is increased or decreased. For all judges or justices first elected after July 1, 1983, and who have received retirement benefits from the system for at least 12 full calendar months, the retirement benefits are increased each July 1st by 3%. Authority for post retirement increases are: Tier I-(1) A.C.A. 24-8-218 (c) (1) (B) for judges first elected prior to July 1, 1983 and (2) A.C.A. 24-8-223 for judges first elected after 7-1-83; Tier II-A.C.A. 24-8-715.

## Notes To The Financial Statements (Continued)

Funded Status and Funding Progress - Pension Plans - The funded status of the plan as of June 30, 2011, the most recent actuarial date, is as follows (dollar amounts in thousands):

| Plan | (1) Actuarial Value of Assets | (2) Actuarial Accrued Liability (AAL) | (3) Unfunded (Excess) AAL (UAAL) (2 - 1) | (4) Funded Ratio (1/2) | (5) Annual Covered Payroll | (6) UAAL (Excess) As Percentage of Covered Payroll (3/5) |
|---|---|---|---|---|---|---|
| Judicial Retirement System | $165,377 | $186,635 | $21,258 | 88.6% | $19,338 | 110% |

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

Actuarial Assumptions - The information presented in the required supplemental schedules was determined as part of the actuarial valuations at the date indicated. Additional information as of the latest actuarial valuation date follows:

| | |
|---|---|
| Valuation Date | June 30, 2011 |
| Actuarial Cost Method | Entry Age |
| Amortization Method: | Level Percent of Payroll |
| Remaining Amortization Period | 30-Year Open |
| Asset Valuation Method | 4-year smoothed market |
| Actuarial Assumptions: | |
| Investment Rate of Return | 7.5% |
| Projected Salary Increases | 4.0% |
| Including Price Inflation At | 3.0% |
| Post-Retirement Cost-of-Living Increases: | |
| Pre July 1, 1983 Retirees | Increased with increases in active Judges pay. |
| Post June 30, 1983 Retirees | 3.0%, Compounded. |
| Mortality Table | RP-2000 Combined Healthy Mortality Table For Males Setback 1 year and RP-2000 Combined Healthy Mortality Table For Females Setback 2 years |

# Summary of Significant Accounting Policies

## Cash and Cash Equivalents

Deposits are carried at cost and are included in "Cash and Cash Equivalents". Cash and cash equivalents include demand accounts, cash in state treasury and short-term investment funds (STIF). The cash is invested in the STIF through daily sweeps of excess cash by the System's custodial bank. The Short-term Investment Fund is a bank sponsored commingled fund which invests in U.S. Government and Agency securities and other short-term instruments. State Treasury Management Law governs the management of funds held in the State Treasury (Cash in State Treasury) and it is the responsibility of the Treasurer of State to ensure the funds are adequately insured and collateralized. Cash and equivalents totaled $4,232,845 at June 30, 2011. This total consisted of cash deposits with financial institutions of $52,530, STIF accounts in the amount of $4,149,254, and $31,062 cash in state treasury.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover deposits or will be able to recover collateral securities. The System's deposit policy is to place deposits only in collateralized or insured accounts. As of June 30, 2011 none of the System's bank balance of $52,530 was exposed to custodial credit risk. The foreign currency cash balance of $34,530 was subject to custodial credit risk.

## Investments

Arkansas Code Annotated 24-2-601 thru 24-2-619 authorizes the Board to Trustees of the Arkansas Judicial Retirement System to have full power to invest and reinvest monies of the system and to hold, purchase, sell, assign, transfer or dispose of any of the investments, or proceeds of the investment in accordance with the prudent investor rule. Security transactions and any resulting gains or losses are accounted for on a trade basis. Net investment income includes net appreciation in the fair value of investments, interest income, dividend income and total investment expense, which includes investment management and custodial fees and all other significant investment related costs. The Code also states the system shall seek to invest not less than five percent (5%) nor more than ten percent (10%) of the System's portfolio in Arkansas related investments. AJRS recognizes a legal responsibility to seek to invest in the Arkansas economy, while realizing its primary, legal, and fiduciary commitment is to beneficiaries of the retirement system, under the prudent investor rule.

Asset allocation guidelines have been established as follows:

| Asset Allocation | Target | Lower Limit | Upper Limit |
|---|---|---|---|
| Domestic Equities | 41% | 36% | 46% |
| International Equities | 15% | 10% | 20% |
| Fixed Income | 44% | 39% | 49% |

Investments are reported at fair value as determined by the custodian bank. The bank's determination of fair values includes, among other things, using pricing services or quotes by independent brokers at current exchange rates.

As of June 30, 2011, the System had the following investments:

| Investment Type | Fair Value |
|---|---|
| U.S. Government Securities | $ 11,420,575 |
| U.S. Government Agency Securities | 5,705,428 |
| Collateralized Obligations | 7,041,312 |
| Domestic Equity Commingled | 29,362,438 |
| Domestic Stock | 42,500,488 |
| High Yield Income Fund | 14,077,307 |
| Commercial Loans | 1,035,451 |
| Corporate Bonds | 29,784,187 |
| Global Corporate Fixed | 554,717 |
| Global Equity | 817,765 |
| Forwards | (5,929) |
| International Equity Pooled Fund Units | 25,625,960 |
| Total | $167,919,699 |

Custodial Credit Risk – Custodial credit risk for investments is the risk that in the event of failure of the counterparty to a transaction, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the System's name. The System's investment policy for custodial credit risk is described below. Within the System's total $167,919,699 investments at June 30, 2011 there were no investments exposed to custodial credit risk.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. Also, investments can be highly sensitive to changes in interest rates due to their terms or characteristics. The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increased interest rates.

| | | Investment Maturities (in years) | | | |
|---|---|---|---|---|---|
| Investment Type | Fair Value | Less than 1 | 1 - 5 | 6 - 10 | More than 10 |
| US Government Securities | $11,420,575 | $7,018,830 | $ 0 | $ 2,489,831 | $ 1,911,914 |
| US Government Agency | 5,705,428 | 0 | 0 | 0 | 5,705,428 |
| Collateralized Obligations | 7,041,312 | 0 | 0 | 333,827 | 6,707,485 |
| Corporate Bonds | 29,784,187 | 0 | 8,030,834 | 10,122,620 | 11,630,733 |
| High Yield Income fund | 14,077,307 | 0 | 14,077,307 | 0 | 0 |
| Global Corporate Fixed | 554,717 | 0 | 0 | 0 | 554,717 |
| Commercial Loans | 1,035,451 | 0 | 1,035,451 | 0 | 0 |
| Total | $69,618,977 | $7,018,830 | $23,143,592 | $12,946,278 | $26,510,277 |

Mortgage-Backed Securities – As of June 30, 2011 the System held mortgage-backed securities of approximately $5 million at fair value. The overall return or yield on mortgage-backed securities depends on the amount of interest collected over the life of the security and the change in the market value. Although the System will receive the full amount of principal if prepaid, the interest income that would have been collected during the remaining period to maturity, net of any market adjustment is lost. Accordingly, the yields and maturities of mortgage-backed securities generally depend on when the underlying mortgage loan principal and interest are repaid. If market rates fall below a mortgage loan's contractual rate, it is generally to the borrower's advantage to repay the existing loan and obtain new lower financing. In addition to changes in interest rates, mortgage loan prepayments depend on other factors such as loan type and geographic location of the related properties. At June 30, 2011 the System held no mortgage-backed securities that were considered as highly sensitive to changes in interest rates.

Asset-Backed Securities – As of June 30, 2011 the System held asset-backed securities with a fair value of approximately $2 million. These securities represent interests in various trusts consisting of pooled financial assets other than mortgage loans conveyed by the issuing parties. The System's ability to recover the amount of principal invested in these securities depends on the performance and quality of the trust assets. At June 30, 2011 the System held no asset-backed securities that were considered as highly sensitive to changes in interest rates.

Corporate Bonds – As of June 30, 2011, the System held corporate bonds with a fair value of approximately $30 million. Corporate bonds are debt instruments that are issued by private corporations. They have a term maturity, and can have either a fixed or variable interest rate. Variable interest rate bonds have adjustments that are made periodically and vary directly with movements in interest rates. As of June 30, 2011, the System held no securities that were considered highly sensitive to changes in interest rates.

Foreign Currency Risk – A foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The System does not have a formal policy for foreign currency risk. All foreign currency investments are in equities, fixed income, cash and forward contracts. The System's exposure to foreign currency at June 30, 2011 was as follows:

| Currency | % | Fair Value |
|---|---|---|
| British Pound Sterling | 35.29% | $(199,352) |
| Euro Currency | 64.71% | (365,615) |
| Total Fair Value | 100.00% | $(564,967) |

Pooled Funds – AJRS has approximately $26 million invested in international pooled funds. APERS could be indirectly exposed to credit and market risks associated with forward currency contracts to the extent that these pooled funds hold forward currency contracts for purposes of managing exposure to fluctuations in foreign exchange rates.

Credit Risk – Credit risk of investments is the risk that the issuer or other counterparty will not meet its obligation. This credit risk is measured by the credit quality of investments in debt securities as described by nationally recognized statistical rating organizations. The System does not have a formal investment policy for credit risk. The System's exposure to credit risk as rated by Standard and Poor's (S&P) and Moody's Investor Service as of June 30, 2011 is as follows:

| Standard & Poor's | | Moody's Investor Service | |
|---|---|---|---|
| Rating | Fair Value | Rating | Fair Value |
| AGY | $17,126,003 | AGY | $17,126,003 |
| AAA | 1,539,523 | Aaa | 1,972,535 |
| AA | 1,561,482 | Aa | 2,685,644 |
| A | 12,334,569 | A | 8,229,458 |
| BBB | 13,259,262 | Baa | 15,809,329 |
| BB | 10,448,979 | Ba | 10,309,300 |
| B | 9,389,253 | B | 9,450,975 |
| CCC or below | 3,302,704 | C or below | 3,466,019 |
| Not Rated | 657,202 | Not Rated | 569,714 |
| Totals | $69,618,977 | Totals | $69,618,977 |

The Bank of New York Mellon provided the above summaries of S&P and Moody's ratings.

Concentration of Credit Risk – The concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer (not including investments issued or guaranteed by the U.S. government, investments in mutual funds or external investment pools). Each investment manager retained by the System has its own individualized investment policy regarding the concentration of credit risk. None of the System's investments in any one issuer (other than those issued or guaranteed by the U.S. Government) represented more than five percent (5%) of total investments.

Derivative - Derivative instruments are financial contracts or agreements whose values depend on the values of one or more underlying assets, reference rates, and/or financial indexes. Derivative instruments include futures contracts, forward contracts, swap contracts, options contracts, and forward foreign currency exchange. AJRS, though its external investment managers, could hold such instruments. The external investment managers may enter these certain investments on behalf of AJRS, primarily to enhance the performance and reduce the volatility of its portfolio. The external investment managers could enter into swaps and futures contracts to gain or hedge exposure to certain markets and to manage interest rate risk. AJRS' external investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. AJRS' external investment managers anticipate that the counterparties will be able to satisfy their obligations under the contracts. Investments in limited partnerships and commingled funds may include derivatives that are not shown in any derivative totals. The external investment managers do invest in mortgage-backed securities which are reported at fair value in the Statement of Plan Net Assets, and are based on the cash flows from interest and principal payments by the underlying mortgages. Therefore, they are sensitive to prepayments by mortgages which are likely in a declining interest rate environment, therefore reducing the value of the securities. The external investment managers invest in mortgage-backed securities to diversify AJRS' portfolio and increase return while minimizing the extent of risk.

| **Foreign Currency Forward Contracts** | | | |
|---|---|---|---|
| Payables | Notional | FMV | Gain/Loss |
| Payable in GBP/Receivable in US$ | $(211,462) | $(208,680) | $ 2,782 |
| Payable in EUR/Receivable in US$ | $(382,644) | $(391,355) | $(8,711) |
| | $(594,106) | $(600,035) | $(5,929) |

## Legally Required Reserves

A description of reserve accounts and their balances for years ended June 30, 2011 and 2010 are as follows:

The Members' Deposit Account ("MDA") represents members' contributions held in trust until member's retirement, at which time contributions are transferred to the Retirement Reserve Account, described below. The Employers' Accumulation Account accumulates employers' contributions to be used in providing the reserves required for transfer to the Retirement Reserve Account as members retire or become eligible for disability benefits. The Retirement Reserve Account is the account to which member contributions, interest on those contributions, and employer contributions are transferred upon member retirement.

| | 6/30/11 | 6/30/10 |
|---|---|---|
| Members Deposit Account* | $ 11,827,138 | $ 11,473,650 |
| Members Deposit Account Interest Reserve | 698 | 698 |
| Employer Accumulation Account | 57,041,523 | 28,407,408 |
| Deferred Annuity Account | 839,352 | 664,740 |
| Retirement Reserve Account | 101,088,403 | 102,767,644 |
| Total | $170,797,114 | $143,314,140 |

* Includes $4,952 that is a partial payment of a refund.

Actuarial Computed Liabilities - The total unfunded actuarial computed liability of the System as adjusted to fair value, based on Entry Age Normal Cost Method which is the Projected Benefit Method with a supplemental cost, used for determining required contributions as appears in the actuarial valuation, was $(21,257,898) as of June 30, 2011.

| Actuarial Present Value of | (1) Total Present Value | (2) Portion Covered By Future Normal Cost Contributions | (3) Actuarial Accrued Liabilities (1)-(2) |
|---|---|---|---|
| Benefits to be paid to current retirees, beneficiaries and future beneficiaries of current retirees | $102,379,008 | $ 0 | $102,379,008 |
| Age and service allowances based on total service likely to be rendered by present active members | 112,995,162 | 30,699,612 | 82,295,550 |
| Separation benefits (refunds of contributions and deferred allowances) likely to be paid to present active and inactive members | 1,679,710 | 835,048 | 844,662 |
| Disability benefits likely to be paid to present active members | 1,018,208 | 985,821 | 32,387 |
| Death in service benefits likely to be paid on behalf of present active members | 1,721,158 | 637,884 | 1,083,274 |
| Total | $219,793,246 | $33,158,365 | $186,634,881 |
| Applicable Assets (Funding Value) | 165,376,983 | 0 | 165,376,983 |
| Liabilities to be covered by future contributions | $ 54,416,263 | $33,158,365 | $ 21,257,898 |

Actuarial Cost Method and Assumptions - The Board engages an independent firm of actuaries to estimate the present value of actuarial accrued liability and the pension benefit obligations for the purpose of determining required reserves for current and terminated participants, retired individuals and beneficiaries, and for the determination of employer contribution rates.

Actuarial accrued liabilities are those future periodic payments including lump sum distributions that are attributable to the service employees have rendered to date and the plan provisions of the System. The present value of actuarial accrued liabilities is calculated based on the entry age actuarial cost method with benefits based on projected salary increases. The schedule above presents the primary actuarial assumptions used in the actuarial report dated June 30, 2011. The actuarial assumed interest rate of 7.5% was allocated to appropriate actuarial accrued liabilities.

Actuarial Gains and Losses - Actuarial gains and losses result from the differences between the actuarial accrued liability amount computed by the actuary and those same amounts reflected in the required supplemental schedules as of the date of the actuarial report. The net actuarial gain or loss increases or decreases the unfunded actuarial accrued liability based on the annual actuarial valuation. The 2011 actuarial gains and losses were due to routine adjustments of actuarial assumptions and methodology as well as normal experience gains and losses. The resulting actuarial loss was $3.0 million.

# Required Supplementary Information

The historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is required supplementary information. Required supplementary information is included immediately following the notes to the financial statements.

## Schedule of Employer Contributions

For Fiscal Years 1996-2011

| Fiscal Year | Annual Required Contribution | Percentage Contributed (1) |
|---|---|---|
| 1996 | 3,291,509 | 100 |
| 1997 | 4,441,390 | 100 |
| 1998 | 3,650,957 | 100 |
| 1999 | 3,160,812 | 100 |
| 2000 | 3,183,709 | 100 |
| 2001 | 3,136,072 | 100 |
| 2002 | 3,319,233 | 100 |
| 2003 | 4,065,638 | 100 |
| 2004 | 4,126,190 | 100 |
| 2005 | 4,774,986 | 100 |
| 2006 | 4,904,699 | 100 |
| 2007 | 5,182,016 | 100 |
| 2008 | 5,144,958 | 100 |
| 2009 | 4,466,571 | 100 |
| 2010 | 4,667,612 | 100 |
| **2011** | **5,220,623** | **100** |

(1) Amounts are included per Act 922 of 1983, which authorizes an annual transfer from the Constitutional Officers Fund and the State Central Services Fund to provide full actuarial funding for the System. Because of the timing of this annual transfer, the actual percentage contributed in any single fiscal year may vary from the annual required contribution amount.

## Schedule of Funding Progress (000)

| Valuation Date June 30 | (1) Actuarial Value of Assets | (2) Entry Age Actuarial Accrued Liability (AAL) | (3) Unfunded Accrued Liability (UAAL) (2 - 1) | (4) Funded Ratio (1/2) | (5) Annual Covered Payroll | (6) UAAL* As Percentile of Covered Payroll (3/5) |
|---|---|---|---|---|---|---|
| 6/30/98 | 77,175 | 71,274 | (5,901) | 108.3% | 13,084 | (45%) |
| 6/30/99 | 91,783 | 82,776 | (9,007) | 110.9% | 13,891 | (65%) |
| 6/30/00 | 107,059 | 83,211 | (23,848) | 128.7% | 14,371 | (166%) |
| 6/30/01 | 119,191 | 116,073 | (3,118) | 102.7% | 14,869 | (21%) |
| 6/30/02 | 124,212 | 124,734 | 522 | 99.6% | 15,487 | 3% |
| 6/30/03 | 126,520 | 137,925 | 11,405 | 91.7% | 15,935 | 72% |
| 6/30/04 | 129,065 | 141,775 | 12,710 | 91.0% | 16,282 | 78% |
| 6/30/05 | 135,062 | 150,580 | 15,519 | 89.7% | 16,638 | 93% |
| 6/30/06 | 145,050 | 156,510 | 11,459 | 92.7% | 17,009 | 67% |
| 6/30/07 | 159,587 | 157,373 | (2,215) | 101.4% | 17,334 | (13%) |
| 6/30/08 | 169,061 | 165,747 | (3,314) | 102.0% | 18,074 | (18%) |
| 6/30/09 | 167,433 | 180,166 | 12,732 | 92.9% | 18,875 | 67% |
| 6/30/10 | 165,244 | 182,912 | 17,668 | 90.3% | 18,630 | 95% |
| **6/30/11** | **165,377** | **186,635** | **21,258** | **88.6%** | **19,338** | **110%** |

Note: Dollars in thousands.

* Unfunded Actuarial Accrued Liability

## Supporting Schedules

### Schedule of Investment Expense

| | 6/30/11 | 6/30/10 |
|---|---|---|
| Custodian bank fees | $ 14,155 | $ 15,000 |
| Investment Consulting Fee | 47,000 | 45,000 |
| Investment Manager Fees | 777,915 | 611,173 |
| Transaction Fee | (260) | 0 |
| Total | $838,810 | $671,173 |

### Schedule of Payments for Professional Consultants

| | 6/30/11 | 6/30/10 |
|---|---|---|
| Gabriel, Roeder, Smith & Company | $14,900 | $15,530 |
| TOTAL PAYMENTS FOR PROFESSIONAL CONSULTANTS | $14,900 | $15,530 |

For fees paid to investment managers, please see "Schedule of Investment Fees" shown on page 39 in the Investment Section of this report.

### Schedule of Administrative Expense

| | 6/30/11 | 6/30/10 |
|---|---|---|
| Communications: | | |
| Printing and advertising | $1,373 | $ 2,662 |
| Travel | 1,281 | 777 |
| Maintenance & General Operations | | |
| Services and Charges: | | |
| Professional Fees and Services | 14,900 | 15,530 |
| Bank & Federal Service Charges | 2,939 | 2,454 |
| Total Service and Charges | 17,839 | 17,984 |
| Transfer to APERS for Administration | 28,426 | 27,598 |
| Total Administrative Expenses | $48,919 | $49,021 |

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# INVESTMENTS

Report on Investments

Outline of Investment Policies

Actual vs. Target Asset Allocation

Manager Distribution

Performance Comparisons:
- Fiscal Years 2007 through 2011
- Current Year and Preceding 3-Year & 5-Year Rates of Return

Portfolio Characteristics

List of Ten Largest Assets Held:
- Fixed Income Holdings
- Equity Holdings
- International Equity Holdings

Schedule of Brokerage Commissions

Schedule of Investment Fees

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CALLAN ASSOCIATES INC

October 4, 2011

SAN FRANCISCO
NEW YORK
CHICAGO
ATLANTA
DENVER

AJRS' investment program objective is to provide plan participants with retirement benefits. This is accomplished by the implementation of a carefully planned and executed long-term investment program. The Board of Trustees (Board) has exclusive control of all retirement system investments and is responsible for establishing investment objectives, strategies, and policies.

The Board is charged with the responsibility of investing the Systems' assets to provide for the benefits of the members of the systems. To achieve that goal the Board follows a policy of preserving capital while seeking means of enhancing revenues and protecting against undue losses in any particular investment area. The Board diversifies the investment of the assets among classes of securities to reduce risk while maximizing the long-range return.

**Asset Allocation**

Based on its analysis of capital and money market return patterns, both historical and projected, the Board considers the following asset allocation targets to be consistent with the return requirements and risk tolerance of the fund:

| | |
|---|---|
| Domestic Equity | 41% |
| Non-Domestic Equity | 15% |
| Domestic Fixed Income | 44% |

The Fund benchmark is the return that would have been achieved if the Fund had been invested: 41% in the Russell 3000 Index, 15% in the Morgan Stanley Capital International Europe, Australia, Far East Index, and 44% in the Barclays Capital Aggregate Bond Index.

**Total Fund Goals**

The System's primary funding goal is to achieve and maintain a funded status that provides for the security of retirement income to participants in the Plan.

The Board's investment objective, as per the Investment Policy Statement, shall be to achieve a rate of return on the System's assets of at least two and one-half percent (2.5%) above the rate of inflation and a total return of the actuarially assumed rate of seven and one-half percent (7.5%).

**Total Fund Returns**

For the fiscal year 2011 AJRS produced a return of 21.73%. This return exceeded the fund benchmark, as described above, by 2.62%.

120 N. LA SALLE ST., SUITE 2100, CHICAGO, IL 60602. TELEPHONE 312-346-3536 FACSIMILE 312-346-1356

The five-year annualized return of 4.72% fell short of the Fund's benchmark by 0.47%. In the Callan Public Fund Universe, AJRS' total fund performance ranks at the 50th percentile for five years. The five year return did not exceed the actuarially assumed interest rate of 7.5%.

The performance calculations presented above were prepared by the Systems' custodial bank using a time-weighted rate of return methodology based upon the market value of assets.

CAI

Very truly yours,

Ryan Ball

R. Ryan Ball, CFA
Vice President

# Outline Of Investment Policies

## Introduction

The basic policy of the Board shall be to provide all the benefits specified by law to the members of the Arkansas Judicial Retirement System and their beneficiaries.

The Board shall manage the System's funds as provided by Ark. Code Ann. 24-2-601 through 24-2-619 (1997), and shall manage the funds of the System in accordance with the prudent investor rule, by giving consideration to both the funded and unfunded actuarial accrued liabilities and the period of time necessary to amortize all unfunded actuarial accrued liabilities, the anticipated long term return from both equities and bonds, the need for short term liquidity for disbursements to beneficiaries, the general economic conditions, the effects of inflation or deflation, and any other material actuarial, fiscal, or economic factors. The Board shall at all times act solely in the best interest of the beneficiaries of the System.

## Investment Objectives

The Board's investment objective shall be to achieve a rate of return on the system's assets of at least two and one-half percent above the rate of inflation and a total return of the actuarially assumed rate of 7.5%.

In pursuing this objective the Board shall attempt to maximize the total return in both income and capital appreciation, but with the greater emphasis being on the appreciation of capital. However, the effort to obtain maximum returns must be consistent with prudent risk-taking, and short-term fluctuations in market value shall be considered secondary to long-term results. The Board shall review individual investment decisions in context of the entire trust fund and as a part of an overall investment strategy and with risk and return objectives being reasonably suited to the entire fund.

## Asset Allocation

The Board, with advice by investment consultants and investment managers, shall cause the System's funds to be invested primarily in equities and fixed income securities.

The System frequently has cash from dividends, interest, sale of securities, and contributions, and it is invested in very short-term, or overnight, investments. The Board is authorized to delegate its investment functions.

Accordingly, the Board has employed investment managers that invest in both equities and fixed income securities and has employed a custodian bank that makes overnight investments with cash.

The Board, after consultation with investment consultants and investment managers, periodically will determine the allocation to be made with the System's assets. The Board currently has allocated 41% of the funds to domestic equity investments, 44% to domestic fixed income securities, 15% to international equities, with ranges of plus or minus 5% to be tolerated as transitory occurrences. Thus, the current asset allocation is to be as follows:

| | |
|---|---|
| Domestic Equities | 36% to 46% |
| Int'l Equities | 10% to 20% |
| Fixed Income | 39% to 49% |

## Review Of Investment Processes

The Board is authorized to directly manage the System's funds or to delegate its investment function.

Currently the Board has delegated its investment function to investment managers and has delegated investment discretion to the Managers, by separate contract. The duties and responsibilities of each of the investment managers retained by the board shall include the following:

A. Manage the assets the Manager holds in accordance with the policy guidelines and objectives expressed in this statement. If some deviation from this statement is deemed prudent and desirable by both the Board and Manager, they may accordingly modify in writing this policy statement.

B. Demonstrate satisfactory performance in investing the System's funds. In evaluating a Manager's performance the Board will give consideration to the investment conditions during the evaluation period, the Manager's style of investment, and these investment

## Outline Of Investment Policies

### Review Of Investment Processes
(Continued)

guidelines. The Board will determine the length of a reasonable demonstration period, but each Manager's performance will be reviewed at least annually. The Manager's performance will be compared against a neutral benchmark of 41% Russell 3000 Index and 44% Barclays Aggregate Index, and 15% MSCI EAFE Index as well as against a universe of similarly managed funds in the Investment Consultant's database. The Board may also consider how proxies are voted, the stockbrokers employed by the Investment Manager and the commissions paid to them.

C. Promptly informing the Board of significant changes in the Manager's corporate structure or strategies, including but not limited to the following:

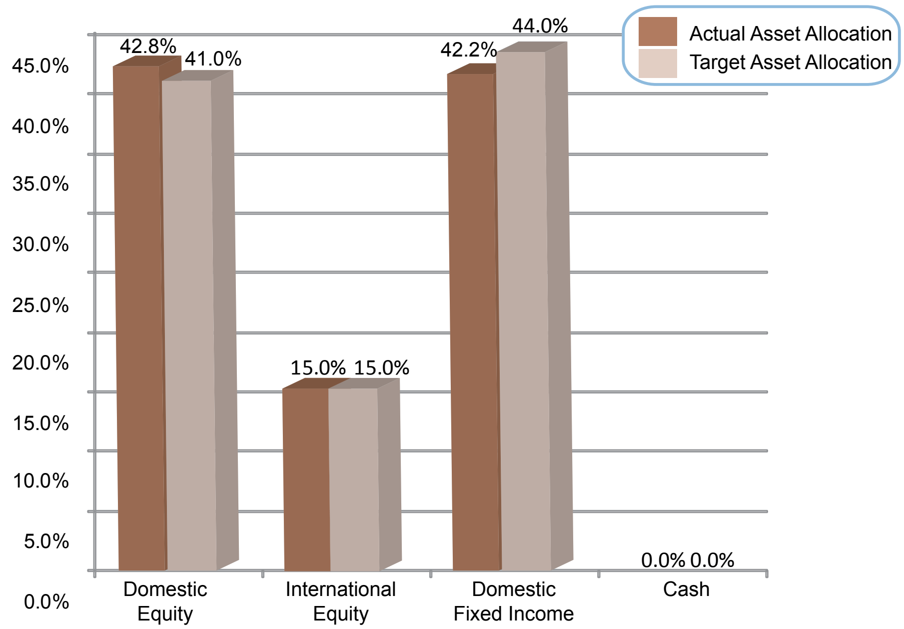
1. Substantive changes in investment strategy, portfolio structure and market value of managed assets,

2. The Manager's progress in meeting the investment objectives set forth in this statement, and

3. Significant changes in the ownership, affiliations, organizational structure, financial condition, professional personnel staffing, or clientele of the Manager.

D. Comply with all of the duties and responsibilities the Manager has as a fiduciary. In addition, the Fund's assets are to be invested with the care, skill, prudence, and diligence that a prudent professional investment manager would use in similar circumstances.

## Actual versus Target Asset Allocation




The graph to the left shows the Fund's asset allocation as of June 30, 2011. The green column represents the Actual asset allocation; the brown column represent the Target asset allocation as outlined in the investment policy statement.

The table below gives a further breakdown of the asset allocations, showing the difference in percentage and actual dollar amounts between the Actual and Target allocations.

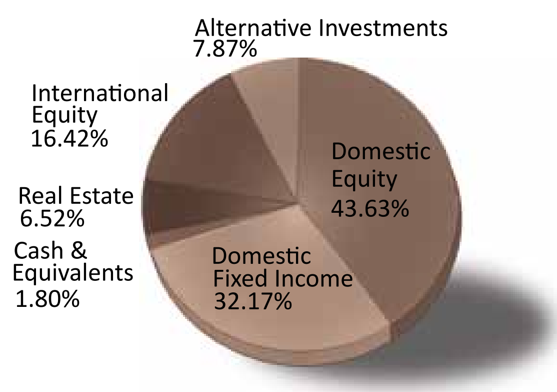
| Asset Class For Year Ended 6/30/11 | $ 000s Actual | Percent Actual | Percent Target | Percent Difference | $ 000s Difference |
|---|---|---|---|---|---|
| Domestic Equity | $ 73,055 | 42.80% | 41% | 1.80% | 3,057 |
| International Equity | 25,626 | 15.00% | 15% | 0.00% | 17 |
| Fixed Income | 72,034 | 42.20% | 44% | (1.80%) | (3,085) |
| Cash | 11 | 0.00% | 0% | 0.00% | 11 |
| Total* | $170,726 | 100.00% | 100% | | |

* Total asset class does not include cash at local bank and non-investment receivables.

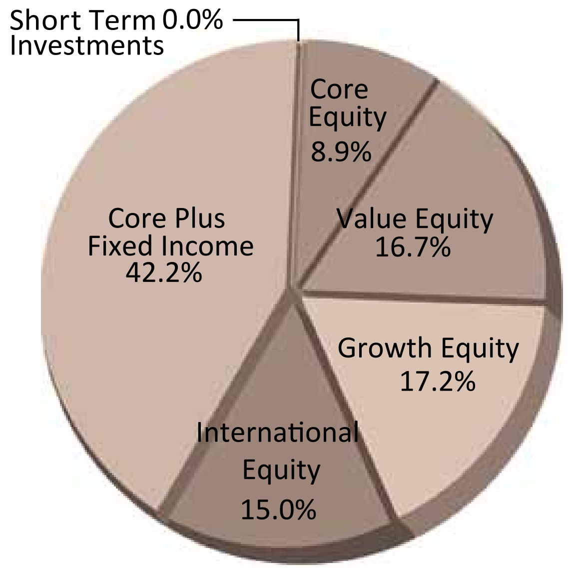
## Public Plan Sponsor Database

The chart to the right shows the average percentage of asset allocations for the Public Plan Sponsor Database.

Due to different asset allocation of Public Plans, percentages will not equal 100%.



## Manager Distribution for Fiscal Year 2011




### Investment Portfolio Distribution
### 6/30/11
### (Market Value)

| | |
|---|---|
| **Core Equity** | Market Value |
| Batterymarch Financial Management | $15,226,039 |
| **Value Equity** | |
| Robeco Boston Partners | 28,466,128 |
| **Growth Equity** | |
| Wellington Management Co. | 29,362,438 |
| **International Equity** | |
| Capital Guardian | 25,625,960 |
| **Core Plus Fixed Income** | |
| MacKay Shields LLC | 72,034,002 |
| **Short Term Investments** | |
| AJRS General Fund | 11,429 |
| **Total Investments** | $170,725,996 |

## Performance Comparison For Fiscal Years Ended June 30

| Fiscal Years Ended June 30 | 6/30/11 | 6/30/10 | 6/30/09 | 6/30/08 | 6/30/07 |
|---|---|---|---|---|---|
| Total Fund: | | | | | |
| Arkansas Judicial Retirement System | 21.73% | 12.07% | (15.94)% | (4.00)% | 14.41% |
| Callan Total Public Fund Median | 21.35 | 12.92 | (18.00) | (4.65) | 17.30 |
| Inflation (Consumer Price Index) | 4.06 | 1.36 | (1.98) | 5.55 | 2.67 |
| Equities: | | | | | |
| Arkansas Judicial Retirement System | 35.58% | 15.93% | (28.10)% | (11.79)% | 19.59% |
| Callan Total Equity Database Median | 34.19 | 16.89 | (26.11) | (12.02) | 20.08 |
| Russell 3000 Index | 32.37 | 15.72 | (26.56) | (12.69) | 20.07 |
| International Equities: | | | | | |
| Arkansas Judicial Retirement System | 31.44% | 9.83% | (30.17)% | (9.37)% | 25.69% |
| Callan Total Non-US Equity Database Median | 31.68 | 8.99 | (30.89) | (8.63) | 27.82 |
| MSCI EAFE Index | 30.36 | 5.92 | (31.35) | (10.61) | 27.00 |
| Fixed Income: | | | | | |
| Arkansas Judicial Retirement System | 7.63% | 10.04% | (1.62)% | 5.72 % | 6.07% |
| Callan Total Fixed Income Database Median | 4.97 | 11.04 | 5.09 | 5.97 | 6.16 |
| Barclays Capital Aggregate Index | 3.90 | 9.50 | 6.05 | 7.12 | 6.12 |

Source: Callan Associates Inc. (CAI database contains returns of over 115 Public retirement funds.)

Returns Reported Gross of Fees

## Performance Comparison Current Year and Preceding 3-Year & 5-Year Rates of Return

| | | Annualized | |
|---|---|---|---|
| Fiscal Years Ended June 30 | 6/30/11 | 3-Year | 5-Year |
| Total Fund: | | | |
| Arkansas Judicial Retirement System | 21.73 % | 4.67 % | 4.72 % |
| Callan Total Public Fund Median | 21.35 | 4.29 | 4.77 |
| Inflation (Consumer Price Index) | 4.06 | 1.12 | 2.30 |
| Equities: | | | |
| Arkansas Judicial Retirement System | 35.58 % | 4.16 % | 3.58 % |
| Callan Total Equity Database Median | 34.19 | 5.60 | 4.90 |
| Russell 3000 Index | 32.37 | 4.00 | 3.35 |
| International Equities: | | | |
| Arkansas Judicial Retirement System | 31.44 % | 0.27 % | 2.81 % |
| Callan Total Non-US Equity Database Median | 31.68 | 0.07 | 3.00 |
| MSCI EAFE Index | 30.36 | (1.77) | 1.48 |
| Fixed Income: | | | |
| Arkansas Judicial Retirement System | 7.63 % | 5.23 % | 5.49 % |
| Callan Total Fixed Income Database Median | 4.97 | 7.19 | 6.91 |
| Barclays Capital Aggregate Index | 3.90 | 6.46 | 6.52 |

Source: Callan Associates Inc. (CAI database contains returns of over 115 Public retirement funds.)

Returns Reported Gross of Fees

# Portfolio Characteristics

| | 6/30/11 | 6/30/10 |
|---|---|---|
| **Selected Bond Characteristics:** | | |
| Yield to Maturity (Market) | 4.72% | 4.82% |
| Current Yield | 3.65 | 3.47 |
| Average Coupon Rate | 4.01 | 3.68 |
| Average Maturity | 7.11Yrs. | 6.14Yrs. |
| **Quality Breakdown** | | |
| AAA (Includes Govts. & Agencies) | 27.40% | 35.70% |
| AA | 3.80 | 4.40 |
| A | 11.60 | 11.10 |
| BAA | 22.20 | 27.30 |
| Below BAA | 32.70 | 21.50 |
| *Cash | 2.30 | |
| **Selected Stock Characteristics:** | | |
| Average P/E Ratio | 12.00x | 15.88x |
| Estimated Earnings Growth Rate (Next 5 Years) | 12.26% | 12.97% |
| Current Yield | 1.79% | 1.26% |

* Includes Short Term Investment Fund

Source: Callan Associates

## List of Ten Largest Assets Held

Fixed Income Holdings (By Market Value)

| | Par | Description | Coupon | Maturity | 6/30/11 Market Value |
|---|---|---|---|---|---|
| 1) | 2,333,333 | U.S. Treasury Note | 0.750% | 11/30/2011 | $2,339,610 |
| 2) | 796,667 | U.S. Treasury Note | 3.125% | 5/15/2021 | 794,428 |
| 3) | 466,667 | U.S. Treasury Bond | 3.875% | 8/15/2040 | 427,294 |
| 4) | 343,439 | FNMA Pool #0745140 | 5.000% | 11/1/2035 | 366,676 |
| 5) | 275,000 | Citigroup Inc. | 8.125% | 7/15/2039 | 344,127 |
| 6) | 321,313 | FNMA Pool #0745275 | 5.000% | 2/1/2036 | 343,053 |
| 7) | 311,262 | FNMA Pool #0725423 | 5.500% | 5/1/2034 | 338,945 |
| 8) | 293,861 | FHLMC Pool #C0-1649 | 5.500% | 10/1/2033 | 319,859 |
| 9) | 275,000 | Capital One Capital III | 7.686% | 8/15/2036 | 281,188 |
| 10) | 216,667 | FNMA 30 yr TBA | 6.500% | 7/1/2041 | 245,308 |
| | | | | **Total** | **$5,800,488** |

Equity Holdings (By Market Value)

| | Shares | Description | 6/30/11 Market Value |
|---|---|---|---|
| 1) | 28,245 | JP Morgan Chase & Co. | $1,156,350 |
| 2) | 34,070 | Wells Fargo & Co. | 956,004 |
| 3) | 45,820 | Pfizer Inc. | 943,892 |
| 4) | 11,284 | Berkshire Hathaway Inc. | 873,269 |
| 5) | 7,805 | Chevron Corp. | 802,666 |
| 6) | 14,185 | Viacom Inc. | 723,435 |
| 7) | 10,790 | Johnson & Johnson | 717,751 |
| 8) | 6,825 | Occidental Petroleum Corp. | 710,073 |
| 9) | 23,015 | Microsoft Corp. | 598,390 |
| 10) | 17,385 | Ebay Inc. | 561,014 |
| | | **Total** | **$8,042,844** |

International Equity Holdings (By Market Value)*

| | Description | 6/30/11 Market Value* |
|---|---|---|
| 1) | CG Non-US Small Cap Fund | $1,438,379 |
| 2) | Softbank | 509,834 |
| 3) | BNP Paribas | 473,209 |
| 4) | Danone | 471,640 |
| 5) | SAP AG | 442,133 |
| 6) | Tesco Plc | 434,481 |
| 7) | Pernod Ricard | 429,452 |
| 8) | Murata Manufacturing Co Ltd | 409,780 |
| 9) | UBS AG | 396,394 |
| 10) | Samsung Electronics Co Ltd | 376,906 |
| | **Total** | **$5,382,208** |

* Market Value represents AJRS percentage of investment in international equity commingled fund.

# Schedule of Brokerage Commissions

| Broker | Number of Shares Traded | Total Commission | Commission Per Share |
|---|---|---|---|
| | 6/30/11 | | |
| Investment Technology Group | 171,867 | $ 3,598 | 0.02 |
| Goldman Sachs & Co. | 165,589 | 3,446 | 0.02 |
| Citigroup Global Markets Inc. | 113,276 | 2,539 | 0.02 |
| Weeden & Co. | 141,950 | 2,177 | 0.02 |
| Knight Securities | 99,030 | 2,137 | 0.02 |
| J.P. Morgan Securities Inc. | 99,970 | 2,060 | 0.02 |
| CS First Boston Global | 125,715 | 1,908 | 0.02 |
| Citation Financial Group | 89,581 | 1,792 | 0.02 |
| Barclays Capital Inc. | 64,100 | 1,385 | 0.02 |
| Liquidnet Inc. | 58,815 | 1,291 | 0.02 |
| Stifel Nicolaus & Co., Inc. | 54,738 | 1,274 | 0.02 |
| Sanford C. Bernstein & Co. LLC | 43,734 | 1,203 | 0.03 |
| Broadcourt Capital Corp. | 27,285 | 1,091 | 0.04 |
| Instinet Corp. | 102,351 | 1,016 | 0.01 |
| Pipeline Trading Systems LLC | 43,700 | 946 | 0.02 |
| UBS Securities LLC | 54,245 | 904 | 0.02 |
| ISI Group Inc. | 23,890 | 710 | 0.03 |
| Merrill Lynch Pierce Fenner & Smith Inc. | 31,910 | 672 | 0.02 |
| Morgan Stanley & Co., Inc. | 40,310 | 634 | 0.02 |
| Keefe Bruyette & Woods | 21,310 | 525 | 0.02 |
| BNY Convergex | 34,960 | 524 | 0.02 |
| Jefferies & Co. | 28,679 | 493 | 0.02 |
| Baird, Robert W. & Co. | 22,355 | 493 | 0.02 |
| SJ Levinson & Sons LLC | 9,120 | 365 | 0.04 |
| Pulse Trading LLC | 18,855 | 331 | 0.02 |
| Others (includes 23 brokerage firms) | 145,190 | 2,741 | 0.02 |
| **Totals** | **1,832,525** | **$36,255** | **0.02** |

## Schedule of Investment Fees

| | 6/30/2011 | | |
|---|---|---|---|
| | Market Value | Fee | Basis Points |
| **Domestic Equity Managers** | | | |
| Loomis, Sayles* | $ 0 | $30,489 | 0.38 |
| Batterymarch Financial Management | $15,266,039 | $123,760 | 0.85 |
| Wellington Management Co. | $29,362,438 | $85,570 | 0.55 |
| Robeco Boston Partners | $28,466,128 | $155,987 | 0.58 |
| Total Domestic Equity | $73,094,605 | $395,806 | |
| **International Equity Manager** | | | |
| Capital Guardian Trust | $25,625,960 | $171,357 | 0.30 |
| **Fixed Income Manager** | | | |
| MacKay Shields LLC | $72,034,002 | $210,752 | 0.67 |
| Total Manager Fees | | $777,915 | |
| **Other Services** | | | |
| Bank of New York Mellon (Custodian) | | $ 14,155 | |
| Callan Associates (Consultant) | | $ 47,000 | |
| Total Other Services | | $ 61,155 | |
| **Total Investment Service Fees** | | **$839,070** | |

* Terminated as Investment Manager in September 2010.

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# ACTUARIAL



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November 29, 2011

The Board of Trustees
Arkansas Judicial Retirement System
Little Rock, Arkansas

Dear Board Members:

***The basic financial objective of the Arkansas Judicial Retirement System (AJRS) as provided in the Arkansas Code is to establish and receive contributions which, expressed as percents of active member payroll, will remain approximately level from generation to generation of Arkansas citizens and when combined with present assets and future investment return will be sufficient to meet the financial obligations of AJRS to present and future benefit recipients.***

The financial objective is addressed within the annual actuarial valuation. The valuation process develops contribution rates that are sufficient to fund the plan's normal cost (i.e., the cost assigned by the valuation method to the year of service about to be rendered) as well as to fund unfunded actuarial accrued liabilities as a level percent of active member payroll over a period of up to 30 years. The most recent valuations were completed based upon population data, asset data, and plan provisions as of June 30, 2011.

The AJRS administrative staff provides the actuary with data for the actuarial valuation. The actuary relies on the data after reviewing it for internal and year-to-year consistency. The actuary summarizes and tabulates population data in order to analyze longer term trends.

The actuarial report included the following supporting schedules for use in the Comprehensive Annual Financial Report.

**Actuarial Section**

- Summary of Assumptions Used
- Summary of Actuarial Methods and Assumptions
- Active Member Valuation Data
- Short Condition Test
- Analysis of Financial Experience
- Analysis of Financial Experience – Gains and Losses by Risk Area

**Financial Section**

- Schedule of Funding Progress

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Page 2

Assets are valued on a market related basis that recognizes each year's difference between actual and assumed investment return over a closed four year period.

Actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits, and longevity among retired lives. These assumptions are adopted by the Board after considering the advice of the actuary and other professionals. The assumptions and the methods comply with the requirements of Statement No. 25 of the Governmental Accounting Standards Board. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed. The June 30, 2011 valuations were based upon assumptions that were recommended in connection with a study of experience through the period 2001-2006.

***On the basis of the June 30, 2011 actuarial valuation and the benefits and contribution rates then in effect, it is our opinion that the Judicial Retirement System is satisfying the general financial objective of level-percent-of-payroll financing.***

Respectfully submitted,

Norman L. Jones, FSA, MAAA Mita D. Drazilov, ASA, MAAA David L. Hoffman

NLJ:sac

# Summary of Assumptions Used For Arkansas Judicial Actuarial Valuations

## Assumptions adopted by Board of Trustees after consulting with the Actuary

## Economic Assumptions

The investment return rate used in making the valuation was 7.5% per year, compounded annually (net after administrative and investment expenses).

Pay increase assumptions for individual active members are shown on page 47. Part of the assumption for each age is for a merit and/or seniority increase, and the other 4.0% recognizes wage inflation. This wage inflation assumption consists of 3.0% for price inflation and 1.0% for real wage growth. The wage inflation assumption was revised for the June 30, 2007 valuation.

Total active member payroll is assumed to increase 4.0% per year, which is the portion of the individual pay increase assumptions recognizing inflation.

The number of active members is assumed to continue at the present number.

## Non-Economic Assumptions

The mortality table used to measure retired life mortality was the RP-2000 Combined Healthy mortality table for males setback 1 year and the RP-2000 Combined Healthy mortality table for females setback 2 years. Related values are shown on page 46. The mortality rates used in evaluating disability allowances were the RP-2000 Combined Healthy mortality tables, set forward 10 years for males and set forward 10 years for females. This table and values are shown on page 46. Based upon the experience observed in the most recent experience study for APERS, it appears that the current table provides for an approximate 15% margin for future mortality improvement.

The probabilities of retirement for members eligible to retire are shown on page 48.

The probabilities of withdrawal from service, death-in-service, disability, or other reasons are shown for sample ages on page 47.

Normal cost. Normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using an individual entry-age actuarial cost method having the following characteristics:

- The annual normal cost for each individual active member, payable from the date of employment to the date of retirement, is sufficient to accumulate the value of the member's benefit at the time of retirement.
- Each annual normal cost is a constant percentage of the member's year-by-year projected covered pay.

The normal cost and the present value of future normal cost is based on the benefit levels of Tier Two members. The present value of benefits is based on the benefit levels available to each member. The accrued liability is the difference between the present value of benefits and the present value of normal cost.

Funding value of assets (cash & investments) was determined by phasing in differences between actual market return and the assumed rate of return over a four-year period.

The data about persons now covered and about present assets was furnished by the System's administrative staff. Although examined for general reasonableness, the data was not audited by the actuary.

The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (M.A.A.A.).

## Summary of Actuarial Methods and Assumptions

| | |
|---|---|
| Valuation Date | June 30, 2011 |
| Actuarial Cost Method | Entry Age |
| Amortization Method | Level Percent-of-Payroll |
| Remaining Amortization Period | 30-Year Open |
| Asset Valuation Method | 4-year smoothed market |
| Actuarial Assumptions: | |
| Investment Rate of Return | 7.5% |
| Projected Salary Increases | 4.0% |
| Including Price Inflation At | 3.0% |
| Post-Retirement Cost-of-Living Adjustments: | |
| Pre July 1, 1983 Retirees | Increased with increases in active Judges pay. |
| Post June 30, 1983 Retirees | 3.0%, Compounded. |
| Mortality Table | RP-2000 Combined Healthy Mortality Table For Males Setback 1 year and RP-2000 Combined Healthy Mortality Table For Females Setback 2 years. |

### Pre-July 1, 1983 Hires*

| Sample Ages | Present Value of $1 Monthly for Life | | Present Value of $1.00 Monthly for Life Increasing 3% Annually | | Future Life Expectancy (Years) | | Sample Ages | $100 Benefit Increasing 3.0% Annually | Portion of Age 65 Lives Still Alive | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Men | Women | Men | Women | Men | Women | | | Men | Women |
| 50 | $143.36 | $147.93 | $ 200.83 | $211.69 | 31.73 | 35.49 | 65 | $100.00 | 100% | 100% |
| 55 | 135.52 | 141.53 | 184.35 | 197.14 | 27.09 | 30.77 | 70 | 115.93 | 93 | 95 |
| 60 | 125.48 | 133.14 | 165.40 | 180.08 | 22.61 | 26.17 | 75 | 134.39 | 82 | 87 |
| 65 | 113.36 | 122.74 | 144.57 | 160.93 | 18.40 | 21.78 | 80 | 155.80 | 66 | 76 |
| 70 | 99.61 | 110.71 | 122.79 | 140.52 | 14.59 | 17.75 | 85 | 180.61 | 45 | 60 |
| 75 | 84.39 | 97.07 | 100.55 | 119.21 | 11.19 | 14.08 | | | | |
| 80 | 68.47 | 82.31 | 78.95 | 97.82 | 8.27 | 10.85 | | | | |

For disabled members, mortality rates from the mortality table are set forward 10 years.

* Single Life Retirement Values. Based on RP-2000 Combined Mortality Tables and 7.5% Interest, 6/30/11

# Summary of Actuarial Methods and Assumptions

## Separation from Active Employment Before Age and Service Retirement

| 6/30/11 Valuation | | | | | | |
|---|---|---|---|---|---|---|
| Percent of Active Members Separating Within The Next Year | | | | | | |
| Sample Ages | Years of Service | Male | | Female | | Withdrawal For Other Reasons (Male and Female) |
| | | Death | Disability | Death | Disability | |
| | 0 | | | | | 10.00% |
| | 1 | | | | | 6.00 |
| | 2 | | | | | 4.20 |
| | 3 | | | | | 3.36 |
| | 4 | | | | | 3.02 |
| 30 | 5+ | 0.02% | 0.04% | 0.01% | 0.05% | 0.70 |
| 35 | | 0.04 | 0.04 | 0.02 | 0.05 | 0.70 |
| 40 | | 0.05 | 0.10 | 0.03 | 0.18 | 0.70 |
| 45 | | 0.07 | 0.13 | 0.05 | 0.20 | 0.70 |
| 50 | | 0.10 | 0.25 | 0.07 | 0.28 | 0.70 |
| 55 | | 0.16 | 0.45 | 0.11 | 0.38 | 0.70 |
| 60 | | 0.30 | 0.71 | 0.20 | 0.51 | 0.70 |
| 65 | | 0.56 | 0.83 | 0.38 | 0.62 | 0.70 |

## Pay Increase Assumptions for an Individual Member

| 6/30/11 Valuation | | | |
|---|---|---|---|
| Sample Ages | Merit & Seniority | Base (Economic) | Increase Next Year |
| 30 | 0.00% | 4.00% | 4.00% |
| 35 | 0.00 | 4.00 | 4.00 |
| 40 | 0.00 | 4.00 | 4.00 |
| 45 | 0.00 | 4.00 | 4.00 |
| 50 | 0.00 | 4.00 | 4.00 |
| 55 | 0.00 | 4.00 | 4.00 |
| 60 | 0.00 | 4.00 | 4.00 |
| 65 | 0.00 | 4.00 | 4.00 |

# Summary of Actuarial Methods and Assumptions

Probabilities of Retirement for Members Eligible to Retire

| 6/30/11 Valuation | | | |
|---|---|---|---|
| Retirement Ages | Percent of Eligible Active Members Retiring Within Next Year | Retirement Ages | Percent of Eligible Active Members Electing Early Retirement Within Next Year |
| 50-51 | 6% | 62-64 | 2% |
| 52-53 | 8 | | |
| 54 | 10 | | |
| 55-56 | 12 | | |
| 57-59 | 14 | | |
| 60-61 | 18 | | |
| 62-79 | 30 | | |
| 80-over | 100 | | |

For Tier I, a member was assumed eligible to retire at age 50 with 20 years of service, or at age 65 with 10 years of service. A member was assumed eligible to retire early at age 62 with 14 years of service.

For Tier II, a member was assumed eligible to retire at age 50 with 20 years of service, or at age 65 with eight years of service. A member was assumed eligible to retire early at age 62 with eight years of service.

## Schedule of Active Member Valuation Data

Active Members - Historic Comparative Schedule

| Valuation Date June 30 | Number | Annual Valuation Payroll ($ Millions) | Average Pay Dollars | Average Pay % Increase |
|---|---|---|---|---|
| 1991 | 112 | $ 7.6 | $ 67,981 | N/A |
| 1992 | 112 | 7.9 | 70,679 | 4.0% |
| 1993 | 117 | 10.0 | 85,286 | 20.7 |
| 1994 | 117 | 10.5 | 89,783 | 5.3 |
| 1995 | 119 | 11.0 | 92,287 | 2.8 |
| 1996 | 121 | 11.7 | 96,810 | 4.9 |
| 1997 | 125 | 12.4 | 99,376 | 2.7 |
| 1998 | 125 | 13.1 | 104,673 | 5.3 |
| 1999 | 129 | 13.9 | 107,679 | 2.9 |
| 2000 | 130 | 14.4 | 110,545 | 2.7 |
| 2001 | 131 | 14.9 | 113,502 | 2.7 |
| 2002 | 133 | 15.5 | 116,441 | 2.6 |
| 2003 | 134 | 15.9 | 118,915 | 2.1 |
| 2004 | 134 | 16.3 | 121,505 | 2.2 |
| 2005 | 134 | 16.6 | 124,161 | 2.2 |
| 2006 | 134 | 17.0 | 126,933 | 2.2 |
| 2007 | 134 | 17.3 | 129,358 | 1.9 |
| 2008 | 137 | 18.1 | 131,929 | 2.0 |
| 2009 | 138 | 18.9 | 136,775 | 3.7 |
| 2010 | 136 | 18.6 | 136,984 | 0.2 |
| **2011** | **141** | **19.3** | **137,149** | **0.1** |

## Short Condition Test

The AJRS funding objective is to meet long-term benefit promises through contributions that remain approximately level from year to year as a percent of member payroll.

If the contributions to the System are level in concept and soundly executed, the System will ***pay all promised benefits when due—the ultimate test of financial soundness.*** Testing for level contribution rates is the long-term test. ***A short condition test*** is one means of checking a system's progress under its funding program. In a short condition test, the plan's present assets (cash and investments) are compared with:

1) Member accumulated contributions;
2) The liabilities for future benefits to present retired lives;
3) The employer financed portion of liabilities for service already rendered by non-retired members.

In a system that has been following the discipline of level percent of payroll financing, active member contributions (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets. In addition, the liabilities for service already rendered by active members (liability 3) will be partially covered by the remainder of present assets. The larger the funded portion of liability 3, the stronger the condition of the System.

| | Entry Age Accrued Liability | | | | Portion of Present Values Covered By Valuation Assets | | | |
|---|---|---|---|---|---|---|---|---|
| Val'n Date: June 30 | (1) Active Member Contr. | (2) Retirees and Benef. | (3) Active Members (Employer Financed Portion) | Present Assets | (1) | (2) | (3) | Total |
| | | | ($ in Thousands) | | | | | |
| 1994 | $ 3,720 | $ 25,161 | $25,263 | $ 37,310 | 100% | 100 % | 33% | 69% |
| 1995(a) | 4,261 | 28,845 | 26,627 | 41,095 | 100 | 100 | 30 | 69 |
| 1996(a) | 4,828 | 32,063 | 26,561 | 51,478 | 100 | 100 | 55 | 81 |
| 1997 | 5,418 | 33,295 | 26,944 | 63,284 | 100 | 100 | 91 | 96 |
| 1998 | 6,067 | 33,218 | 31,989 | 77,175 | 100 | 100 | 118 | 108 |
| 1999 | 6,817 | 38,040 | 32,486 | 91,783 | 100 | 100 | 144 | 119 |
| 1999(a) | 6,817 | 38,040 | 37,919 | 91,783 | 100 | 100 | 124 | 111 |
| 2000(a) | 7,740 | 39,255 | 36,217 | 107,059 | 100 | 100 | 166 | 129 |
| 2001(a) | 8,522 | 54,712 | 52,839 | 119,191 | 100 | 100 | 106 | 103 |
| 2002(a) | 9,316 | 54,216 | 61,202 | 124,212 | 100 | 100 | 99 | 99 |
| 2003 | 10,147 | 74,060 | 53,718 | 126,520 | 100 | 100 | 79 | 92 |
| 2004 | 10,948 | 74,227 | 56,600 | 129,065 | 100 | 100 | 78 | 91 |
| 2005 | 10,254 | 79,560 | 60,766 | 135,062 | 100 | 100 | 74 | 90 |
| 2006 | 11,078 | 79,739 | 65,692 | 145,050 | 100 | 100 | 83 | 93 |
| 2007(a) | 11,906 | 82,165 | 63,302 | 159,587 | 100 | 100 | 103 | 101 |
| 2008 | 11,825 | 81,712 | 72,211 | 169,061 | 100 | 100 | 105 | 102 |
| 2009 | 12,689 | 103,249 | 62,964 | 167,433 | 100 | 100 | 82 | 94 |
| 2009(a) | 12,689 | 103,249 | 64,227 | 167,433 | 100 | 100 | 80 | 93(b) |
| 2010 | 11,474 | 102,200 | 69,238 | 165,244 | 100 | 100 | 74 | 90(c) |
| **2011** | **11,822** | **102,379** | **72,434** | **165,377** | **100** | **100** | **71** | **89(d)** |

(a) After changes in benefit provisions and/or actuarial assumptions and methods.
(b) 73% on a market value basis. (c) 78% on a market value basis. (d) 92% on a market value basis.

## Retirees and Beneficiaries Tabulated By Attained Age

| | 6/30/11 | | | | | |
|---|---|---|---|---|---|---|
| | Retirees | | Survivors/ Beneficiaries | | Total | |
| Attained Age | No. | Annual Allowances | No. | Annual Benefits | No. | Annual Allowances |
| 53 | 0 | $ 0 | 3 | $166,287 | 3 | $ 166,287 |
| 58 | 1 | 76,840 | 0 | 0 | 1 | 76,840 |
| 59 | 2 | 143,175 | 1 | 41,954 | 3 | 185,129 |
| 60 | 2 | 191,089 | 1 | 50,275 | 3 | 241,364 |
| 61 | 1 | 81,754 | 0 | 0 | 1 | 81,754 |
| 63 | 5 | 399,396 | 0 | 0 | 5 | 399,396 |
| 64 | 3 | 228,999 | 2 | 117,835 | 5 | 346,834 |
| 65 | 4 | 356,414 | 0 | 0 | 4 | 356,414 |
| 66 | 5 | 427,334 | 3 | 187,421 | 8 | 614,755 |
| 67 | 0 | 0 | 1 | 56,574 | 1 | 56,574 |
| 68 | 6 | 358,904 | 2 | 113,179 | 8 | 472,083 |
| 69 | 3 | 284,481 | 2 | 121,197 | 5 | 405,678 |
| 70 | 4 | 358,383 | 2 | 117,306 | 6 | 475,689 |
| 71 | 3 | 109,788 | 1 | 78,531 | 4 | 188,319 |
| 72 | 4 | 283,816 | 0 | 0 | 4 | 283,816 |
| 73 | 4 | 372,246 | 0 | 0 | 4 | 372,246 |
| 74 | 6 | 509,931 | 0 | 0 | 6 | 509,931 |
| 75 | 3 | 244,129 | 1 | 59,128 | 4 | 303,257 |
| 76 | 6 | 556,391 | 0 | 0 | 6 | 556,391 |
| 77 | 3 | 261,185 | 2 | 109,551 | 5 | 370,736 |
| 78 | 1 | 83,518 | 0 | 0 | 1 | 83,518 |
| 79 | 4 | 338,049 | 0 | 0 | 4 | 338,049 |
| 80 | 2 | 166,887 | 1 | 54,775 | 3 | 221,662 |
| 81 | 2 | 164,194 | 0 | 0 | 2 | 164,194 |
| 82 | 2 | 181,887 | 2 | 109,551 | 4 | 291,438 |
| 83 | 1 | 81,754 | 2 | 109,551 | 3 | 191,305 |
| 84 | 0 | 0 | 3 | 167,923 | 3 | 167,923 |
| 85 | 3 | 335,051 | 1 | 54,775 | 4 | 389,826 |
| 86 | 2 | 168,877 | 0 | 0 | 2 | 168,877 |
| 87 | 1 | 126,648 | 0 | 0 | 1 | 126,648 |
| 88 | 1 | 85,781 | 1 | 54,775 | 2 | 140,556 |
| 90 | 1 | 81,754 | 0 | 0 | 1 | 81,754 |
| 91 | 1 | 84,439 | 1 | 54,775 | 2 | 139,214 |
| 94 | 0 | 0 | 1 | 54,775 | 1 | 54,775 |
| 105 | 0 | 0 | 1 | 54,775 | 1 | 54,775 |
| **Totals** | **86** | **$7,143,094** | **34** | **$1,934,913** | **120** | **$9,078,007** |

## Active Members By Attained Age and Years of Service

**Tier I**

| Attained Age | 0-4 | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30 Plus | No. | Total Valuation Payroll |
|---|---|---|---|---|---|---|---|---|---|
| | 6/30/11 Valuation Years of Service to Valuation Date | | | | | | | | |
| 45-49 | 0 | 0 | 1 | 1 | 0 | 0 | 0 | 2 | $ 272,514 |
| 50-54 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 55-59 | 0 | 0 | 1 | 1 | 2 | 0 | 0 | 4 | 545,028 |
| 60 | 0 | 0 | 0 | 0 | 1 | 0 | 1 | 2 | 272,514 |
| 61 | 0 | 0 | 3 | 1 | 1 | 0 | 0 | 5 | 685,760 |
| 62 | 0 | 0 | 0 | 1 | 1 | 1 | 0 | 3 | 408,771 |
| 63 | 0 | 0 | 0 | 1 | 1 | 0 | 1 | 3 | 408,771 |
| 64 | 0 | 0 | 0 | 0 | 3 | 1 | 0 | 4 | 545,028 |
| 65 | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 2 | 272,514 |
| 66 | 0 | 0 | 0 | 1 | 0 | 1 | 1 | 3 | 417,718 |
| 67 | 0 | 0 | 0 | 1 | 1 | 0 | 0 | 2 | 272,514 |
| 68 | 0 | 0 | 1 | 0 | 1 | 0 | 0 | 2 | 276,989 |
| 69 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 1 | 136,257 |
| 70 | 0 | 0 | 1 | 0 | 1 | 0 | 0 | 2 | 272,514 |
| **Totals** | **0** | **0** | **7** | **10** | **12** | **3** | **3** | **35** | **$4,786,892** |

**Tier II**

| Attained Age | 0-4 | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30 Plus | No. | Total Valuation Payroll |
|---|---|---|---|---|---|---|---|---|---|
| | Years of Service to Valuation Date | | | | | | | | |
| 35-39 | 2 | 1 | 2 | 0 | 0 | 0 | 0 | 5 | $ 687,997 |
| 40-44 | 5 | 3 | 1 | 2 | 0 | 0 | 0 | 11 | 1,507,777 |
| 45-49 | 1 | 4 | 2 | 1 | 1 | 0 | 0 | 9 | 1,235,260 |
| 50-54 | 1 | 5 | 3 | 1 | 2 | 0 | 0 | 12 | 1,635,084 |
| 55-59 | 5 | 3 | 7 | 4 | 4 | 4 | 0 | 27 | 3,687,889 |
| 60 | 0 | 2 | 1 | 2 | 1 | 0 | 0 | 6 | 822,017 |
| 61 | 1 | 0 | 0 | 0 | 0 | 2 | 0 | 3 | 408,771 |
| 62 | 1 | 2 | 1 | 0 | 0 | 1 | 2 | 7 | 953,799 |
| 63 | 2 | 0 | 1 | 0 | 0 | 2 | 1 | 6 | 817,542 |
| 64 | 1 | 1 | 1 | 0 | 0 | 2 | 0 | 5 | 685,760 |
| 65 | 0 | 2 | 0 | 0 | 0 | 0 | 0 | 2 | 272,514 |
| 67 | 2 | 3 | 0 | 0 | 0 | 0 | 1 | 6 | 842,624 |
| 68 | 1 | 0 | 0 | 0 | 0 | 0 | 1 | 2 | 285,936 |
| 69 | 0 | 0 | 0 | 0 | 1 | 1 | 0 | 2 | 276,989 |
| 70 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 1 | 145,204 |
| 72 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 140,732 |
| 73 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 145,204 |
| **Totals** | **22** | **26** | **19** | **10** | **10** | **12** | **7** | **106** | **$14,551,099** |

**Averages**

| Group | No. | Age | Service | Annual Pay |
|---|---|---|---|---|
| Tier I | 35 | 62.7 | 20.7 | $136,768 |
| Tier II | 106 | 56.0 | 13.5 | $137,275 |

## Analysis of Financial Experience

Actual experience will never (except by coincidence) coincide exactly with assumed experience. Gains and losses often cancel each other over a period of years, but sizable year to year fluctuations are common. Detail on the derivation of the experience gain (loss) is shown below.

| For the Year Ended June 30, 2011 | 6/30/11 | 6/30/10 |
|---|---|---|
| ( 1) UAAL* at start of year | $ 17,668,103 | $ 12,732,240 |
| ( 2) Normal cost from last valuation | 4,471,167 | 4,494,134 |
| ( 3) Employer contributions | 5,220,623 | 4,667,612 |
| ( 4) Interest accrual: (1)*.075+[(2)-(3)]* .0375 | 1,297,003 | 948,413 |
| ( 5) Expected UAAL before changes: (1) + (2) - (3) + (4) | 18,215,650 | 13,507,175 |
| ( 6) Change in benefits | 0 | 0 |
| ( 7) Expected UAAL after changes: (5) + (6) | 18,215,650 | 13,507,175 |
| ( 8) Actual UAAL at end of year | 21,257,898 | 17,668,103 |
| ( 9) Gain (loss): (7) - (8) | $ (3,042,248) | $ (4,160,928) |
| (10) Gain (loss) as percent of actuarial accrued liabilities at start of year: $182,911,619 | (1.7)% | (2.3)% |
| | | |
| Last year's accrued liability | $182,911,619 | $180,165,651 |

* Unfunded actuarial accrued liability.

## Analysis of Financial Experience Gains and Losses By Risk Area

For the Fiscal Period
July 1, 2010 to June 30, 2011

| Type of Risk Area | Gain/(Loss) in Period $ in Millions | Gain/(Loss) in Period Percent of Liabilities |
|---|---|---|
| ECONOMIC RISK AREAS | | |
| Pay Increases<br>If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss. This includes gains and losses related to Tier I pre-July 1, 1983 retired member increases. | $4.1 | 2.2 % |
| Investment Return<br>If there is greater investment return than assumed, there is a gain. If less return, a loss. | (9.2) | (5.0)% |
| NON-ECONOMIC RISK AREAS | | |
| Age & Service Retirements<br>If members retire at older ages or with lower final average pays than assumed, there is a gain. If younger ages or higher average pays, a loss. | 2.6 | 1.4 % |
| Disability Retirements<br>If there are fewer disabilities than assumed, there is a gain. If more, a loss. | 0.0 | 0.0 % |
| Death-in-Service Benefits<br>If there are fewer claims than assumed, there is a gain. If more, a loss. | 0.3 | 0.2 % |
| Withdrawal<br>If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss. | 0.5 | 0.3 % |
| Retiree Mortality<br>If there are fewer deaths than assumed, there is a loss. If more, a gain. | (0.6) | (0.3)% |
| Other<br>Gains and losses resulting from group size change, data adjustments, timing of financial transactions, additional contributions and miscellaneous unidentified sources. | (0.7) | (0.4)% |
| Experience Gain/(Loss) | $(3.0) | (1.7)% |

# Summary of Plan Provisions July 1, 2011

| TIER I | TIER II |
|---|---|

## Description

**TIER I:** Elected or appointed prior to the effective date of Act 399 of 1999 and who do not elect to participate in Tier II.

**TIER II:** Elected or appointed after the effective date of Act 399 of 1999 or electing to participate in Tier II.

## Regular Retirement

**TIER I:** An active member may retire at age 65 with 10 or more years of credited service, or after 20 years of credited service regardless of age. Persons who become members after June 30, 1983, must also have at least 8 years of actual service as a justice of the Supreme Court, or as a judge of the Circuit Courts or the Court of Appeals.

**TIER II:** An active member or former member may retire at age 65 with 8 or more years of credited service, or after 20 years of credited service regardless of age.

## Compulsory Retirement

**TIER I:** Any judge or justice who attains 70 years of age during a term of office to which he has been elected may complete the term without forfeiting rights to retirement benefits. Any judge or justice who is not eligible to retire at age 70 may continue to serve as judge until completion of the term in which there has accrued sufficient credited service to retire. Otherwise, judges or justices must retire by their 70th birthday or lose their retirement benefits.

**TIER II:** Any judge or justice who attains 70 years of age during a term of office to which he has been elected may complete the term without forfeiting rights to retirement benefits. Any judge or justice who is not eligible to retire at age 70 may continue to serve as judge until completion of the term in which there has accrued sufficient credited service to retire. Otherwise, judges or justices must retire by their 70th birthday or lose their retirement benefits.

## Final Salary

**TIER I:** A member's salary at the end of the last judicial office.

**TIER II:** A member's salary at the end of the last judicial office.

## Age and Service Annuity

**TIER I:** Sixty percent of the judge's final salary, for life. Each year of additional service after twenty (20) years of judicial service, the benefit shall be increased by two and one half percent (2.5%) with a maximum benefit payable of seventy-five percent (75%) of the judge's final salary.

**TIER II:** 3.2% of the salary of the last judicial office held multiplied by the number of years of service not to exceed 80% of the salary of the last judicial office held.

## Deferred Retirement

**TIER I:** An inactive member who has 14 or more years of credited service and left judicial service before attaining age 65 will be entitled to an age and service annuity beginning at age 65. Persons who become members after June 30, 1983 must also have at least 8 years of actual service as a justice of the Supreme Court, or as a judge of the Circuit Courts or the Court of Appeals.

**TIER II:** An inactive member who has 8 or more years of credited service and left judicial service before attaining age 65 will be entitled to an age and service annuity beginning at age 65.

# Summary of Plan Provisions July 1, 2011

| TIER I | TIER II |
|---|---|
| **Disability Retirement** | |
| An active member with 3 or more consecutive years of credited service who becomes totally and permanently disabled may be retired and receive a disability annuity computed in the same manner as an age and service annuity. The 3 years service is not required for persons who were members before July 1, 1983. | An active member with 3 or more consecutive years of credited service who becomes totally and permanently disabled may be retired and receive a disability annuity computed in the same manner as an age and service annuity, except that the benefit shall not be less than 25.6% of final salary. |
| **Early Retirement** | |
| A member who became a member before July 1, 1983, and who has 18 but less than 20 years credited service may retire, regardless of age, and receive an immediate annuity. The amount is the full age and service amount reduced proportionately for service less than 20 years.<br><br>A member with 14 years credited service may retire between ages 62 and 65 and receive an immediate annuity. The amount is the full age and service amount reduced 1/2 of 1% for each month retirement age is younger than age 65. Persons who become members after June 30, 1983, must also have at least 8 years of actual service as a justice of the Supreme Court, or as a judge of the Circuit Courts, or the Court of Appeals. | A member with 8 years credited service may retire between ages 62 and 65 and receive an immediate annuity. The amount is the full age and service amount reduced 1/2 of 1% for each month retirement age is younger than age 65. |
| **Survivor Benefits** | |
| Upon the death of a member with 3 or more years of service, before or after retirement, an annuity of 67% of the judge's final salary is payable to the following survivors (shared if there is more than one eligible survivor):<br><br>• A surviving spouse married to the judge more than 1 year at the time of death.<br><br>• A minor child of the judge.<br><br>The 3-year service requirement is not required of those who became members prior to July 1, 1983. | Upon the death of a member with 3 or more years of service, before or after retirement, an annuity of 67% of the judge's benefit, but not less than 17.152% of the final salary, is payable to the following survivors (shared if there is more than one eligible survivor):<br><br>• A surviving spouse married to the judge more than 1 year at the time of death.<br><br>• A minor child of the judge.<br><br>The 3-year service requirement is not required of those who became members prior to July 1, 1983. |

## Summary of Plan Provisions July 1, 2011

### Increases after Retirement

**TIER I**

For any person who was a member on or before June 30, 1983, the retirement benefits are increased or decreased from time to time as the salary for the particular judicial office is increased or decreased.

For all judges or justices first elected after June 30, 1983, and who have received retirement benefits from the system for at least 12 full calendar months, the retirement benefits are increased each July 1st by 3%.

**TIER II**

For all judges or justices who have received retirement benefits from the system for at least 12 full calendar months, the retirement benefits are increased each July 1st by 3%.

### Member Contributions

**TIER I**

Active members contribute 6% of their salaries. Members with 20 or more years of service and members age 65 or older with 10 or more years of service do not contribute to the retirement system. At any time a member is accruing the additional 2.5% of final salary benefit, member contributions will be required. If a member leaves service before becoming eligible to retire, accumulated contributions may be refunded.

**TIER II**

Active members contribute 5% of their salaries. Members with 25 or more years of service do not contribute to the retirement system. If a member leaves service before becoming eligible to retire, accumulated contributions may be refunded.

# STATISTICAL



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## Schedule of Revenues By Source

| Year Ending June 30 | Employee Contributions | Employer & Other Entity Contributions | Court Fees | Misc. | Investment Income | Total |
|---|---|---|---|---|---|---|
| 2007 | 811,739 | 4,279,219 | 902,797 | 15,629 | 21,257,249 | 27,266,633 |
| 2008 | 803,022 | 4,231,183 | 902,797 | 74,660 | (7,438,553) | (1,426,891) |
| 2009 | 816,348 | 3,500,600 | 902,797 | 68,631 | (25,971,792) | (20,683,416) |
| 2010 | 871,330 | 3,753,808 | 902,797 | (1,193) | 15,439,110 | 20,965,852 |
| **2011** | **860,565** | **4,303,921** | **902,797** | **13,905** | **30,449,948** | **36,531,135** |

## Schedule of Expenses By Type

| Year Ending June 30 | Benefit Payments | Refunds | Administrative Expenses | Total |
|---|---|---|---|---|
| 2007 | 7,119,046 | 0 | 56,922 | 7,175,968 |
| 2008 | 7,308,028 | 42,372 | 58,544 | 7,408,944 |
| 2009 | 8,235,694 | 20,505 | 59,194 | 8,315,393 |
| 2010 | 9,125,873 | 22,782 | 49,021 | 9,197,676 |
| **2011** | **8,983,419** | **15,823** | **48,919** | **9,048,161** |

## Schedule of Benefit Expenses By Type*

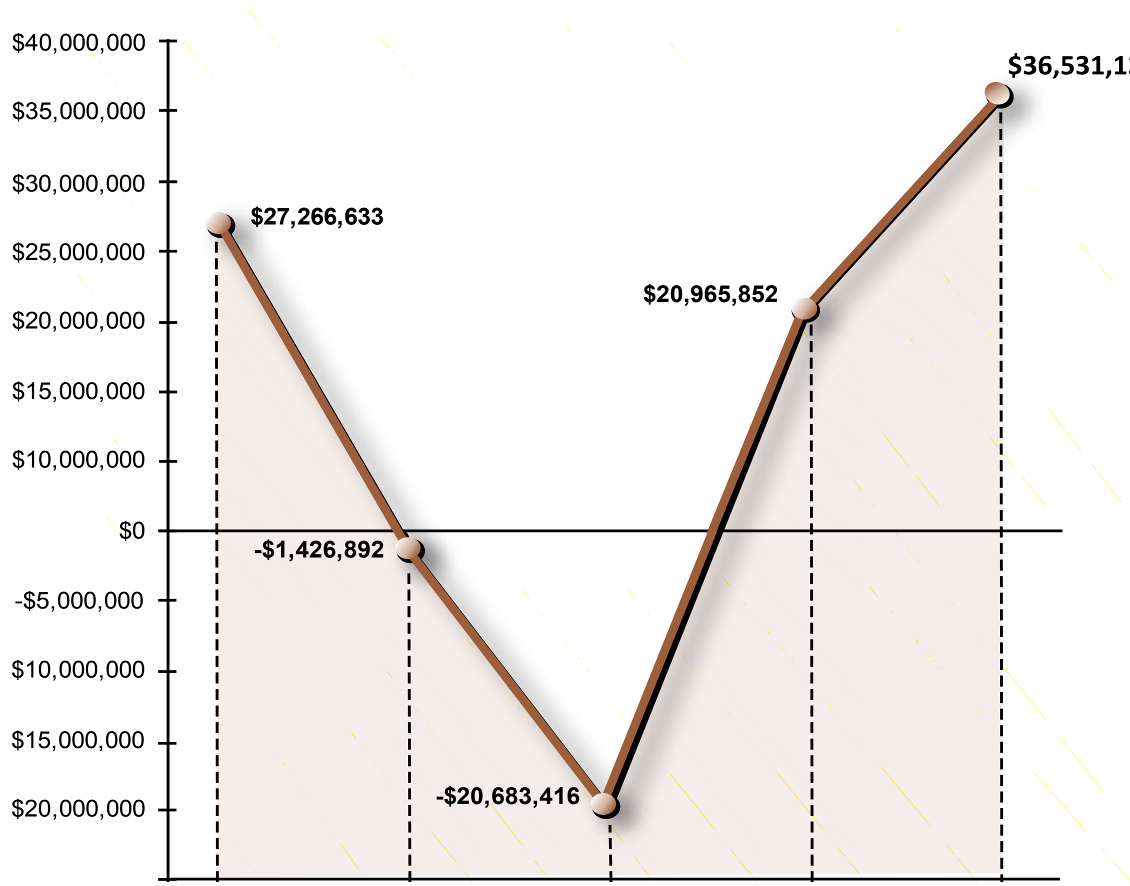
| Year Ended June 30 | Age & Service | | Disability Retirees |
|---|---|---|---|
| | Retirees | Survivors | |
| 2007 | 5,657,487 | 1,536,228 | 148,797 |
| 2008 | 5,764,682 | 1,588,875 | 152,438 |
| 2009 | 7,266,337 | 1,742,101 | 157,724 |
| 2010 | 7,254,889 | 1,642,645 | 159,842 |
| **2011** | **7,032,265** | **1,824,181** | **110,829** |

* Expenses are based on June 30 benefit amounts annualized.

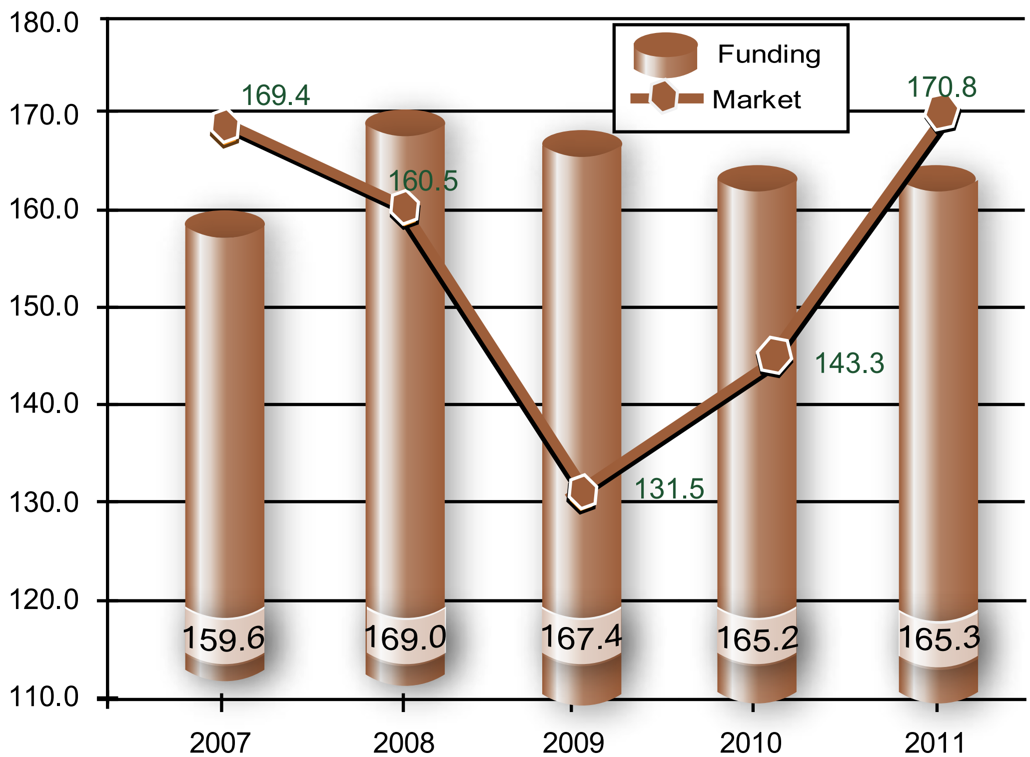
## Schedule of Retired Members By Type of Benefit

| Type of Annuity | Number | Annual Annuities | Annual Liabilities |
|---|---|---|---|
| | | as of 6/30/11 | |
| Age & Service Retirees | | | |
| Life | 9 | $ 722,638 | $ 7,055,712 |
| Life Continuing to Survivor | 75 | 6,309,627 | 74,083,440 |
| Totals | 84 | 7,032,265 | 81,139,152 |
| Beneficiaries of Age & Service Retirees | 32 | 1,824,181 | 18,645,456 |
| Total Age & Service Retirees and Beneficiaries | 116 | 8,856,446 | 99,784,608 |
| Disability Retirees | | | |
| Life | 1 | 74,901 | 543,204 |
| Life Continuing to Survivor | 1 | 35,928 | 467,304 |
| Totals | 2 | 110,829 | 1,010,508 |
| Beneficiaries of Disability Retirees | 0 | 0 | 0 |
| Total Disability Retirees and Beneficiaries | 2 | 110,829 | 1,010,508 |
| Death in Service Beneficiaries | 2 | 110,732 | 1,583,892 |
| Grand Total of All Retirees & Beneficiaries | **120** | **$9,078,007** | **$102,379,008** |

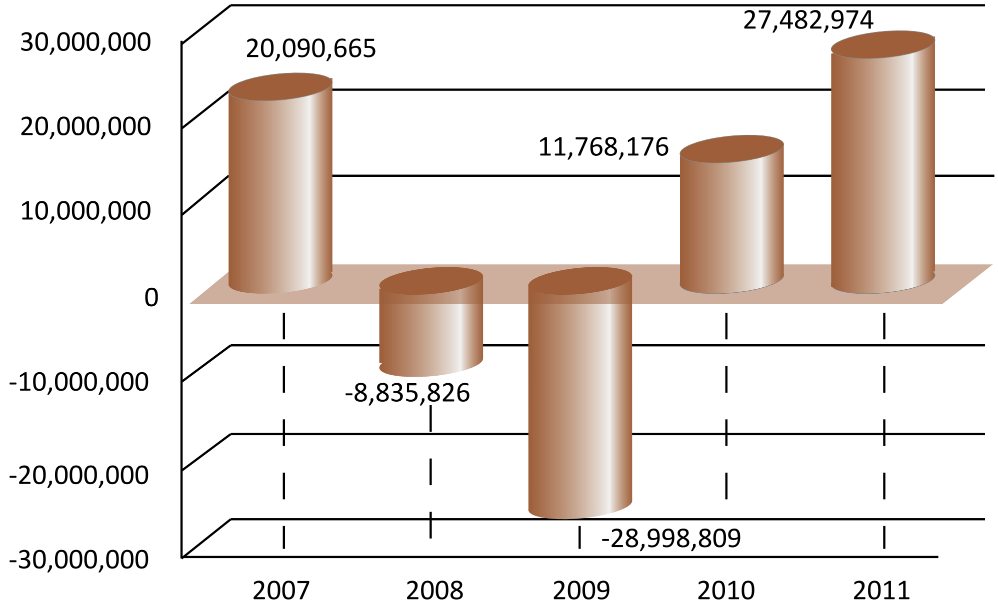
## Revenues for Fiscal Years 2007-2011



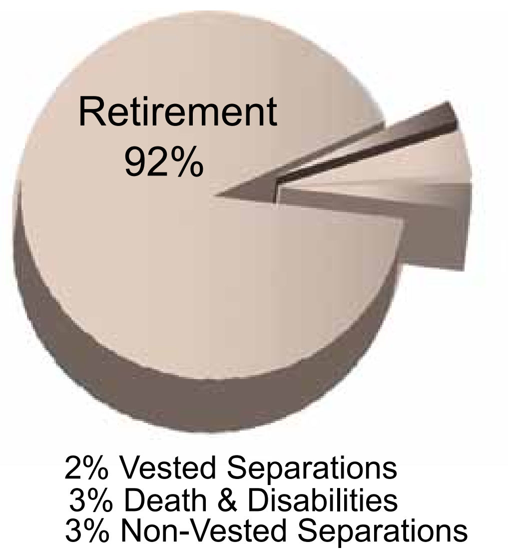

## Comparison of Market Values Fiscal Years 2007-2011



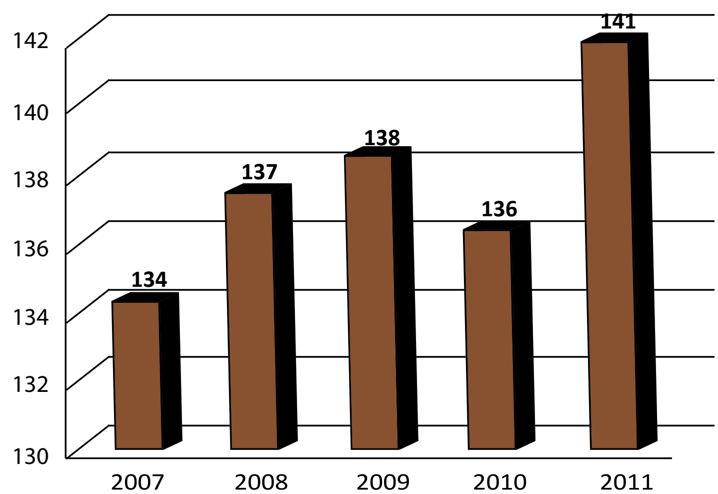
Change in Plan Net Assets
2007 - 2011



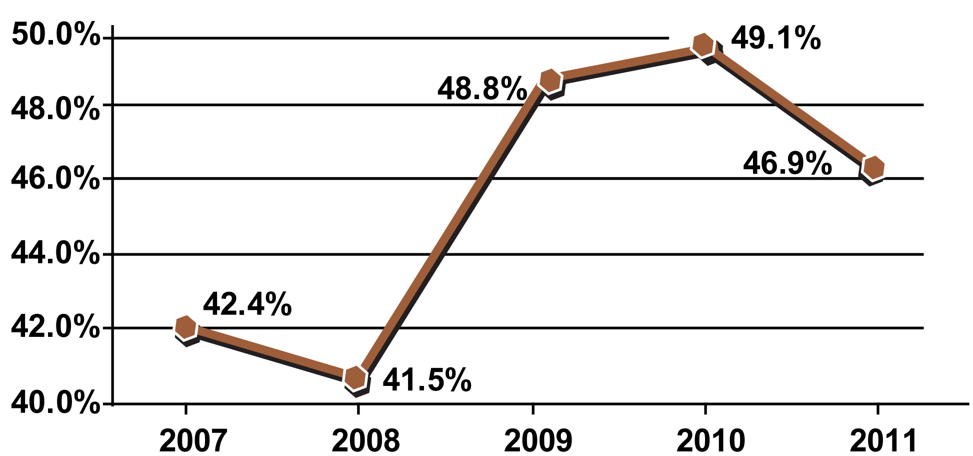

Expected Termination
from Active
Employment for
Current Active
Members




Active Membership
2007-2011




Annual Benefits As a
Percent of Payroll
2007- 2011



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