Arkansas Judicial Retirement System

Annual Financial Report 2012

Arkansas Judicial Retirement System

A Pension Trust Fund of the State of Arkansas

Annual Financial Report

For the Year Ended

June 30, 2012

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, 2011 through June 30, 2012, 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.

System Highlights

as of June 30, 2012

ACTIVE MEMBERS

Number	140
Average Age	58.5 years
Average Years Service	15.8 years
Average Annual Salary	$137,155

2012 Retirees
(Includes DROP participants)

	Age and Service	Disability
Retired Members	3	N/A
Average Age	65.7 years	N/A
Average Service	18.5 years	N/A
Average Monthly Benefit	$7,186	N/A

Total Retirees
(Including DROP Participants, Disability Recipients, & Death-In-Service Beneficiaries)

Retired Members	123
Average Monthly Benefit	$6,325

ARKANSAS JUDICIAL RETIREMENT SYSTEM

124 West Capitol, Suite 400
Little Rock, AR 72201

December 30, 2012

Dear AJRS Members:

The Arkansas Judicial Retirement System (AJRS) is pleased to present the Annual Financial Report for the period ending June 30, 2012. 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 2012 revenue from employer and employee contributions totaled $5.52 million. This amount is just over $355,000 more than fiscal year 2011.

Court fees for fiscal year 2012 were $814,993, which is $87,804 less than fiscal year 2011.

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

Miscellaneous income totaled $9,904 for fiscal year 2012, a decrease of $4,001 from fiscal year 2011.

Net investment gain for fiscal year 2012 was $2.15 million after investment expenses of $861,557 (see page 26), a decrease of $28.30 million from fiscal year 2011. Overall, the System's revenues decreased by $28.04 million from fiscal year 2011.

Expenses

Benefit payments for fiscal year 2012 were $9.28 million, or $296,681 more than fiscal year 2011. Administrative expenses were $67,798, of which $31,400 was for professional fees and $29,279 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 in 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

Arkansas Judicial Retirement System
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

Arkansas Judicial Retirement System Organizational Chart

Ms. Gail Stone
Executive Director

Ms. Michele Williams
Deputy Director

Mr. Jay Wills
Staff Attorney

Ms. Ashley McAdoo
Chief Financial Officer

Mr. Carlos Borromeo
Chief Investment Officer

Ms. Susan Bowers
Assistant Director of Investments

Ms. Jacobia Twiggs
Manager, Member Services Section

Ms. Abbi Bruno
Manager, Retiree Services Section

Ms. Allison Woods
Manager, Member Records Section

Ms. Becky Walker
Manager, Human Resources

Mr. Phillip Norton
Manager, Information Services Section

Mr. Jon Aucoin
Manager, Communications Section

Outside Professional Service Providers

CUSTODIAL BANK
The Bank of New York Mellon
One Mellon Center
500 Grant Street
Pittsburgh, PA 15258

ACTUARY
Gabriel, Roeder, Smith & Co.
Actuaries and Consultants
One Towne Square, Suite 800
Southfield, MI 48076

INVESTMENT CONSULTANT
Callan Associates, Inc.
120 North LaSalle Street
Suite 2100
Chicago, IL 60602

INVESTMENT MANAGERS

Wellington Management Company
280 Congress Street
Boston, MA 02210

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

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

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

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

FINANCIAL

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Basic Financial Statements

Statement of Plan Net Assets - As of June 30

ASSETS	2012	2011
Cash and Cash Equivalents	$ 6,284,765	$ 4,232,845
Receivables:		
Deceased Retirant Receivable	(3,797)	0
Contributions	0	247,655
Investment Principal Receivable	147,483	181,035
Accrued Investment Income Receivable	704,223	587,889
Total Receivables	847,909	1,016,579
Investments At Fair Value:		
Government Securities:		
U.S. Government Securities	13,662,812	11,420,575
U.S. Government Agency Securities	6,067,686	5,705,428
Corporate Securities:		
Fixed Income Commingled	42,836,003	44,475,196
Collateralized Obligations	6,238,133	7,041,312
Corporate Bonds	30,628,622	29,784,187
Common Stock	41,700,492	42,500,488
International Securities:		
Global Commingled	22,316,285	25,625,960
Global Corporate Fixed Income	827,521	554,717
Forwards	(10,346)	(5,929)
Global Equity	591,278	817,765
Total Investments	164,858,486	167,919,699
TOTAL ASSETS	171,991,160	173,169,123
LIABILITIES		
Accrued Expenses and Other Liabilities	299,114	258,787
Investment Principal Payable	1,756,028	2,113,222
TOTAL LIABILITIES	2,055,142	2,372,009
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$169,936,018	$170,797,114

(A schedule of Funding Progress is presented on page 25).

Basic Financial Statements

Statement of Changes to Plan Net Assets - As of June 30

ADDITIONS	2012	2011
Contributions:		
Employer	$ 4,640,182	$ 4,303,921
Employee	879,762	860,565
Court Fees	814,993	902,797
Total Contributions	6,334,937	6,067,283
Investment Income:		
Interest	2,642,652	2,590,263
Dividends	1,010,014	1,074,442
Currency Loss	59,174	(24,556)
Investment Gain	(701,308)	27,648,608
Total Investment Income	3,010,532	31,288,757
Less: Investment Expense	861,557	838,810
Net Investment Income	2,148,975	30,449,947
Other Additions:		
Miscellaneous Additions	9,904	13,905
TOTAL ADDITIONS	8,493,816	36,531,135
DEDUCTIONS		
Benefits	9,280,100	8,983,419
Refunds of Contributions	7,014	15,823
Administrative Expenses	67,798	48,919
TOTAL DEDUCTIONS	9,354,912	9,048,161
NET INCREASE (DECREASE)	(861,096)	27,482,974
NET ASSETS		
Beginning of Year	170,797,114	143,314,140
End of Year	$169,936,018	$170,797,114

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, 2012, 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, 2012 and 2011, membership was as follows:

	2012	2011
Retirees and Beneficiaries Receiving Benefits	123	120
Terminated Plan Members Entitled To But Not Yet Receiving Benefits	4	4
Active Plan Members	140	141

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. 24-8-708) 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 State Central Services 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 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 (A.C.A. 24-8-215). 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 (A.C.A. 24-8-710).

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. 24-8-717.

Funded Status and Funding Progress - Pension Plans - The funded status of the plan as of June 30, 2012, 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	$167,796	$195,455	$27,658	85.8%	$19,202	144%

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, 2012
Actuarial Cost Method	Entry Age
Amortization Method:	Level Percent-of-Payroll
Remaining Amortization Period	30-Year Open
Asset Valuation Method	4-year smoothed market with 25% corridor
Actuarial Assumptions:	
Investment Rate of Return	7.25%
Projected Salary Increases	3.50%
Including Price Inflation At	2.75%
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 - Retired Life	RP-2000 mortality tables projected to 2020 using projection scale BB.
- Disability	RP-2000 Combined Healthy Mortality Table set forward 10 years for males and forward 10 years for females.

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 $6,284,765 at June 30, 2012. This total consisted of cash deposits with financial institutions of $70,264, STIF accounts in the amount of $6,182,823, and $31,678 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, 2012 none of the System’s bank balance of $70,264 was exposed to custodial credit risk. The foreign currency cash balance of $32,427 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%) or 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, 2012, the System had the following investments:

Investment Type	Fair Value
U.S. Government Securities	$ 13,662,812
U.S. Government Agency Securities	6,067,686
Collateralized Obligations	6,238,133
Domestic Equity Commingled	27,918,061
Domestic Stock	41,700,492
High Yield Income Fund	14,539,979
Commercial Loans	377,963
Corporate Bonds	30,628,622
Global Corporate Fixed	827,521
Global Equity	591,278
Forwards	(10,346)
International Equity Pooled Fund Units	22,316,285
Total	$164,858,486

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 $164,858,486 investments at June 30, 2012 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	$13,632,812	$ -	$ 6,854,413	$ 4,166,606	$ 2,541,793
Agency Debentures	1,475,074	-	1,475,074	-	-
Agency Pooled	4,592,612	-	-	-	4,502.612
Collateralized Obligations	6,238,133	1,902,034	-	794,810	3,541,289
Corporate Bonds	30,628,622	260,484	8,043,059	10,756,811	11,568,268
High Yield Income fund	14,539,979	-	14,539,979	-	-
Global Corporate Fixed	827,521	-	-	-	827,521
Commercial Loans	377,963	-	377,963	-	-
Total	$72,342,716	$2,162,518	$31,290,488	$15,718,227	$23,171,483

Asset-Backed Securities – As of June 30, 2012 the System held asset-backed securities with a fair value of approximately $5 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 would depend on the performance and quality of the trust assets. At June 30, 2012 the System held no asset-backed securities that were considered as highly sensitive to changes in interest rates.

Corporate Bonds – As of June 30, 2012, the System held corporate bonds with a fair value of approximately $30.6 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, 2012, 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, 2012 was as follows:

Currency	%	Fair Value
British Pound Sterling	20.95%	$(181,617)
Euro Currency	79.05%	(685,101)
Total Fair Value	100.00%	$(866,718)

Pooled Funds – AJRS has approximately $22.3 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, 2012 is as follows:

Standard & Poor's		Moody's Investor Service	
Rating	Fair Value	Rating	Fair Value
AAA	$ 1,296,915	Aaa	$21,099,650
AA	21,674,381	Aa	2,329,279
A	11,938,991	A	7,246,077
BBB	12,869,194	Baa	18,224,814
BB	3,739,825	Ba	3,017,079
B	16,404,438	B	16,466,083
CCC or below	3,309,931	C or below	3,161,267
Not Rated	1,109,042	Not Rated	798,468
Totals	$72,342,717	Totals	$72,342,717

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 as of June 30, 2012

Security Description	Net Notional Long/(Short)	Unrealized Gain/(Loss)
Euro	$678,338	$ (7,718)
British Pound Sterling	$193,424	$ (2,628)
	$871,762	$ (10,346)

Mortgage-Backed Securities – As of June 30, 2012 the System held mortgage-backed securities of approximately $1.6 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, 2012 the System held no mortgage-backed securities that were considered as highly sensitive to changes in interest rates.

Mortgage-Backed TBA

Description	Cusip	Notional	Fair Mkt Value	Duration	Credit Rating
FNMA 30YR 6.00% 07/01/2042	F6012BR07	$ 500,000	$ 549,455	2.00	AA+/Aa
FNMA 15YR 4.50% 07/01/2027	D4512CG07	$300,000	$321,516	2.12	AA+/Aa
GNMA 30YR 6.50% 07/15/2042	G6512BR07	$650,000	$744,985	1.97	AAA/Aaa
		$1,450,000	$1,615,956		

Legally Required Reserves

A description of reserve accounts and their balances for years ended June 30, 2012 and 2011 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.

	2012	2011
Members Deposit Account*	$12,371,179	$11,827,138
Members Deposit Account Interest Reserve	698	698
Employer Accumulation Account	55,909,965	57,041,523
Deferred Annuity Account	921,936	839,352
Retirement Reserve Account	100,732,240	101,088,403
Total	$169,936,018	$170,797,114

* For 2012, includes $14,855 related to a partial purchase of service.

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 $27,658,407 as of June 30, 2012.

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	$107,413,008	$ 0	$107,413,008
Age and service allowances based on total service likely to be rendered by present active members	115,148,681	29,609,808	85,538,873
Separation benefits (refunds of contributions and deferred allowances) likely to be paid to present active and inactive members	2,448,912	976,274	1,472,638
Disability benefits likely to be paid to present active members	960,632	987,759	(27,127)
Death in service benefits likely to be paid on behalf of present active members	1,700,414	643,192	1,057,222
Total	227,671,647	32,217,033	195,454,614
Applicable Assets (Funding Value)	167,796,207	0	167,796,207
Liabilities to be covered by future contributions	$59,875,440	$32,217,033	$ 27,658,407

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 assumptions and methods utilized in the latest actuarial valuation are listed below.

Valuation Date	June 30, 2012
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent-of-Payroll
Remaining Amortization Period	30-Year Open
Asset Valuation Method	4-year smoothed market with 25% corridor
Actuarial Assumptions:	
Investment Rate of Return	7.25%
Projected Salary Increases	3.50%
Including price inflation at	2.75%
Cost-of-living adjustments	Pre July 1, 1983 Retirees: Increased with increases in active Judges pay. Post June 30, 1983 Retirees: 3.0%, Compound.

Retirees and beneficiaries receiving benefits	123
Terminated plan members entitled to but not yet receiving benefits	4
Active plan members	140
Total	267

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, 2012. The actuarial assumed investment rate of return of 7.25% 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 2012 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 $447,074.

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.

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 Employer Contributions

For Fiscal Years 1996-2012

Fiscal Year	Annual Required Contribution	Percentage Contributed #
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
2012	5,465,079	100

Schedule of Funding Progress

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%
6/30/12	167,796	195,455	27,658	85.8%	19,202	144%

Note: Dollars in thousands.

* Unfunded Actuarial Accrued Liability

Notes to Required Supplementary Information:

Schedule of Administrative Expenses

	2012	2011
Communications:		
Printing and advertising	$ 816	$ 1,373
Travel	3,153	1,281
Services and Charges:		
Professional Fees and Services	31,400	14,900
Bank & Federal Service Charges	3,150	2,939
Total Services and Charges	34,550	17,839
Transfer to APERS for Administration	29,279	28,426
Total Administrative Expenses	$67,798	$48,919

Schedule of Investment Expenses

	2012	2011
Custodian bank fees	$ 11,317	$ 14,155
Investment Consulting Fee	48,880	47,000
Investment Manager Fees*	801,103	777,915
Transaction Fee	257	(260)
Total	$861,557	$838,810

Schedule of Payments to Professional Consultants

	2012	2011
Gabriel, Roeder, Smith & Company	$31,400	$14,900

* For fees paid to investment managers, please see “Schedule of Investment Fees” shown on page 42 in the Investment Section of this report.

INVESTMENTS

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Chief Investment Officer's Report

ARKANSAS JUDICIAL RETIREMENT SYSTEM

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

Dear Members,

On behalf of the Investment Department, it is my pleasure to present the *Investment Section* of the AJRS' *Annual Financial Report* for the fiscal year ended June 30, 2012.

Performance and Stability

For fiscal year 2012, the AJRS investment portfolio closed with total investments of $164,858,486. The investment return for the fiscal year was 1.78% net of all fees and expenses. The second half of 2011 provided encouragement as fiscal year 2011 closed and fiscal year 2012 began. The global rally in equity markets seemed to be continuing based on classic valuation measures. Equities appeared to be reasonable valued on a historical basis. The S&P was trading at about 13.5x forward earnings which were below the 15-year average of 17x. However, the seemingly positive financial market environment was about to change as the global economic environment dominated the news.

Fiscal Year 2012 Financial Market Recap

The European sovereign debt crisis will probably be remembered as the major economic event of 2011. It dominated the headlines and drove overall sentiment. However, there were other significant global events: political upheaval in the Middle East; a terrible earthquake and tsunami in Japan which caused the Fukushima disaster; S&P downgraded the credit rating of the United States, and the blowup of investment bank MF Global which resulted in the 7th largest bankruptcy in U.S. history.

With that background, the US stock market went nowhere. The S&P 500 closed 2010 at 1,257.64 and closed 2011 at 1,257.60. The index fell just four one hundredths of a point; the smallest annual price change since 1947.

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

The U.S. Federal Reserve committed to ZIRP (zero interest rate policy) at least until mid-2013 and announced it will provide forecasts on its intentions for 12 months. These quarterly forecasts are a first in Fed policy. With ZIRP having an obvious lower bound, nominal rates cannot drop below zero, the Fed also instituted a purchase program on longer dated Treasuries in an attempt to bring down longer term rates and further flatten the yield curve. Dubbed by the press as "Operation Twist," it pushed 10- and 30-year interest rates to historic lows.

Inflation was fairly benign. Headline CPI dropped slightly in late 2011 to an annualized rate of 3.4% while Core CPI (excluding food and energy) rose to 2.2%. With 10-year Treasury rates below 2%, investors suffered negative real yields for the safety of U.S. Government obligations.

American consumers remained defensive due in large part to high unemployment, stagnant wages, and weak housing prices. Unemployment did fall below 9% (8.5% at 2011 year-end).

The first quarter of 2012 was a favorable environment for equities in the U.S. as well as around the world. The rise was rather sharp, +12.6% for the S&P 500 which is the best quarterly rise since the third quarter of 2009. International equities also participated as the MSCI EAFE Index rose 10.9%.

After a sharp spike in interest rates in mid-March many market prognosticators declared the bond market to be dead, again. However, yields did fall lower by the close of the first quarter and the Barclays Aggregate index did manage a fractional gain for 1Q12.

Turmoil in Europe continued to be the major news in the second quarter of 2012, right up to the final day of the System's fiscal year end. Spain and Cyprus both formally requested bailout funds from the European Central Bank. Spain's bailout was the fourth bailout of the five PIIGS countries joining Portugal, Ireland, and Greece. Spain requested $125 billion to shore up its faltering banking system, and Cyprus requested €2 billion, or 10% of its GDP. Italy avoided a bailout due in part to a stronger fiscal position; despite a very high debt-to-GDP ratio.

While Europe continued to capture the headlines, the U.S. had its own issue, namely the "fiscal cliff." Given the political impact of the fiscal cliff and the timing of the presidential and congressional elections, the financial markets expected little progress until the 11th hour, reminiscent of the debt ceiling debate standoff in the fall of 2011. The economic forecasts of the "cost" of the possible congressional inaction to avoid the fiscal cliff vary between 3-5% of GDP.

Late in the second quarter, the city of Stockton, California became the largest city in U.S. history to declare Chapter 9 bankruptcy. Stockton, CA was followed by San Bernardino, CA and Mammoth Lakes, CA as those two cities have also filed for bankruptcy. Bankruptcy filings were not contained to the state of California, as Central Falls, RI and Jefferson County, AL both filed for bankruptcy, as did Harrisburg, PA and Boise County, ID, but the latter two claims were rejected. Since 2010, there have been twenty-eight (28) municipal bankruptcy filings, and seven city and local bankruptcy filings. How the bankruptcies will impact investors in those municipal bonds is not completely clear, however, municipal bankruptcies dating back to 1981 do indicate that bondholders historically have not been forced to take a principal "haircut" in the event of a municipal bankruptcy.

Portfolio Thoughts

As I write this section, the U.S. elections are behind us. However, turbulence will more than likely continue in the U.S. economy. There will be a fiscal cliff facing the President and Congress in January 2013. To summarize the situation, the fiscal cliff could lead to the largest single-year drop in the annual deficit as a percentage of the economy since 1969. But because it would be so abrupt and arbitrary, it could also throw the country into a recession when more than $500 billion would be taken out of the economy. With the uncertainty of the U.S. fiscal cliff and the continued unresolved European situation, I fully expect turbulence and volatility to continue in the financial markets. I am hopeful that the third quarter of 2012 (first quarter of fiscal year 2013) is a positive indication, as the system returned approximately 5.49% in the third quarter of 2012.

Conclusion

Our country and the world continues to face some daunting financial challenges ahead. In my view, the good news is that the AJRS investment policies are built on cornerstones of broad diversification and sound governance. Those two foundations have served well over the years, and will likely continue to do so well into the future.

I would like to thank each of the Board of Trustees, the ultimate fiduciaries, for embracing an investment structure that allows the System to continue to seek above average results. The investment staff is committed to placing the system in the best position to continue to face the challenges of the global financial markets and to ensure that the System's assets are positioned to provide long-term financial stability for you, the members.

Respectfully yours,

Carlos Borromeo
Chief Investment Officer

Callan

Callan Associates Inc.
120 North LaSalle Street
Suite 2100
Chicago, IL 60602

Main 312.346.3536
Fax 312.346.1356

www.callan.com

August 20, 2012

Dear Trustees:

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 2012 AJRS produced a return of 1.78%. This return trailed the fund benchmark, as described above, by 1.68%.

Callan

The five-year annualized return of 2.3% fell short of the Fund's benchmark by 0.64%. In the Callan Public Fund Universe, AJRS' total fund performance ranks at the 48th 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.

Sincerely,

R. Ryan Ball, CFA
Vice President

Investment Policy Summary

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, and 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 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:

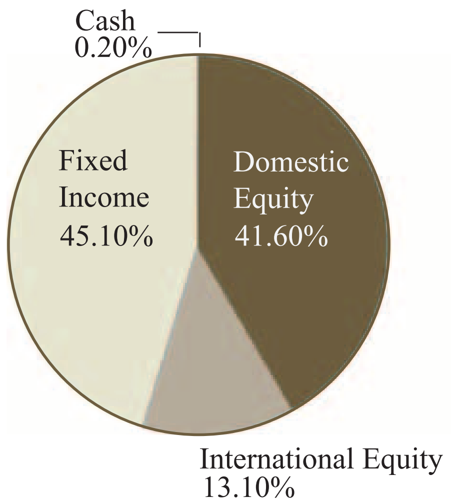
1. Substantive changes in investment strategy, portfolio structure and market value of managed assets,

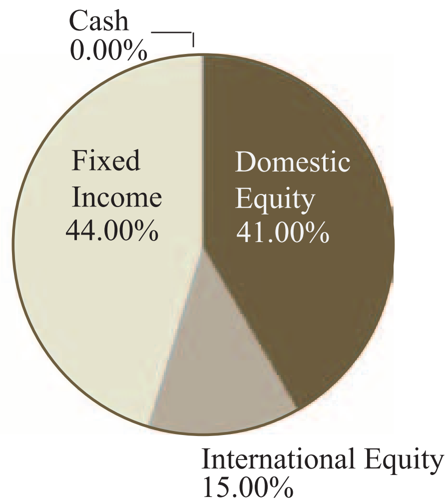
2. The Manager's progress in meeting the investment objectives set forth in this statement, and

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

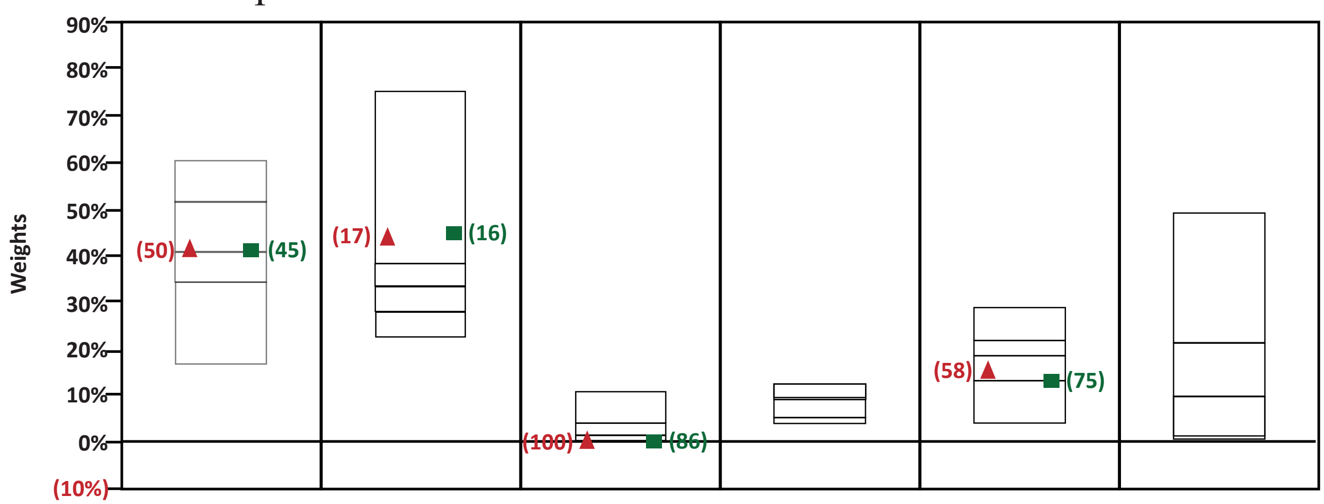




Asset Class For Year Ended 6/30/12	$ 000s Actual	Percent Actual	Percent Target	Percent Difference	$ 000s Difference
Domestic Equity	$70,735	41.60%	41.00%	0.60%	978
International Equity	22,316	13.10%	15.00%	(1.90%)	(3,204)
Fixed Income	76,783	45.10%	44.00%	1.10%	1,922
Cash	304	0.20%	0.00%	0.20%	304
Total*	$170,138	100.00%	100.00%		

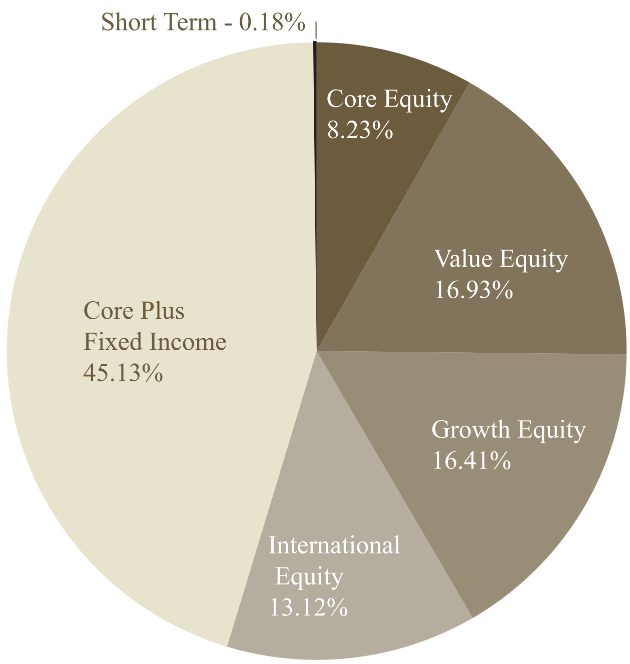
* Total asset class does not include cash at local bank and non-investment receivables.

Public Plan Sponsor Database



	Domestic Equity	Domestic Fixed-Income	Cash & Equivalents	Real Estate	International Equity	Alternatives
10th Percentile	63.46	75.61	10.70	12.37	28.85	49.15
25th Percentile	51.44	38.34	4.01	9.37	21.73	21.11
Median	40.97	33.39	1.37	9.04	18.51	9.74
75th Percentile	34.44	27.85	0.33	5.16	13.12	1.29
90th Percentile	16.46	22.45	0.02	3.85	3.90	0.57
Fund ■	41.57	45.13	0.18	-	13.12	-
Target ▲	41.00	44.00	0.00	-	15.00	-
% Group Invested	93.33%	100.00%	66.67	36.67%	76.67%	26.67%

Manager Distribution for Fiscal Year 2012



Investment Portfolio Distribution
2012
(Market Value)

	Market Value
Core Equity	
Batterymarch Financial Management	$ 14,005,142
Value Equity	
Robeco Boston Partners	28,811,510
Growth Equity	
Wellington Management Co.	27,918,061
International Equity	
Capital Guardian	22,316,285
Core Plus Fixed Income	
MacKay Shields LLC	76,783,022
Short Term Investments	
AJRS General Fund	303,757
Total Investments	$170,137,777

Schedule of Comparative Investment Results
Fiscal Years Ended 2008 through 2012

Fiscal Years Ended June 30	2012	2011	2010	2009	2008
Total Fund:					
Arkansas Judicial Retirement System	1.78%	21.73%	12.07%	(15.94)%	(4.00)%
Callan Total Public Fund Median	1.16	21.35	12.92	(18.00)	(4.65)
Inflation (Consumer Price Index)	1.58	4.06	1.36	(1.98)	5.55
Equities:					
Arkansas Judicial Retirement System	1.49%	35.58%	15.93%	(28.10)%	(11.79)%
Callan Total Equity Database Median	0.36	34.20	16.87	(26.12)	(12.02)
Russell 3000 Index	3.84	32.37	15.72	(26.56)	(12.69)
International Equities:					
Arkansas Judicial Retirement System	(12.33)%	31.44%	9.83%	(30.17)%	(9.37)%
Callan Total Non-US Equity Database Median	(12.56)	31.71	8.99	(30.99)	(8.63)
MSCI EAFE Index	(13.83)	30.36	5.92	(31.35)	(10.61)
Fixed Income:					
Arkansas Judicial Retirement System	6.94%	7.63%	10.04%	(1.62)%	5.72 %
Callan Total Fixed Income Database Median	7.39	4.98	11.46	5.09	5.97
Barclays Capital Aggregate Index	7.47	3.90	9.50	6.05	7.12

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

Schedule of Comparative Investment Results
For the Current Year and the Preceding 3-Year and 5-Year Rates of Return

		Annualized	
Fiscal Years Ended June 30	2012	3-Year	5-Year
Total Fund:			
Arkansas Judicial Retirement System	1.78%	11.56%	2.30 %
Callan Total Public Fund Median	1.16	11.73	1.86
Inflation (Consumer Price Index)	1.58	2.33	2.08
Equities:			
Arkansas Judicial Retirement System	1.49%	16.85%	0.23%
Callan Total Equity Database Median	0.36	16.99	1.18
Russell 3000 Index	3.84	16.73	0.39
International Equities:			
Arkansas Judicial Retirement System	(12.33)%	8.17%	(4.34) %
Callan Total Non-US Equity Database Median	(12.56)	7.83	(4.48)
MSCI EAFE Index	(13.83)	5.96	(6.10)
Fixed Income:			
Arkansas Judicial Retirement System	6.94%	8.19 %	5.67 %
Callan Total Fixed Income Database Median	7.39	8.30	7.14
Barclays Capital Aggregate Index	7.47	6.93	6.79

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

Returns Reported Gross of Fees

Portfolio Characteristics

	2012	2011
Selected Bond Characteristics:		
Yield to Maturity (Market)	4.00%	4.72%
Current Yield	3.43	3.65
Average Coupon Rate	3.86	4.01
Average Maturity	6.79Yrs.	7.11Yrs.
Quality Breakdown		
AAA (Includes Govts. & Agencies)	28.10%	27.40%
AA	4.40	3.80
A	15.10	11.60
BAA	29.50	22.20
Below BAA	18.10	32.70
*Cash	4.80	2.30
Selected Stock Characteristics:		
Average P/E Ratio	13.29x	12.00x
Estimated Earnings Growth Rate (Next 5 Years)	12.37%	12.26%
Current Yield	2.85%	1.79%

* Includes Short Term Investment Fund

Source: Callan Associates

Returns Reported Gross of Fees

Top Ten Largest Holdings

Fixed Income Holdings (By Market Value)

	Par	Description	Coupon	Maturity	Market Value
1)	2,250,000	U.S. Treasury Note	1.000%	07/15/2013	$2,267,145
2)	1,427,500	U.S. Treasury Note	2.125%	08/15/2021	1,500,431
3)	850,000	U.S. Treasury Note	2.000%	04/30/2016	896,487
4)	737,500	Federal Nat'l Mtg Assn.	2.240%	07/06/2015	737,537
5)	652,500	U.S. Treasury Bond	3.000%	05/15/2042	683,389
6)	412,500	Citigroup Inc.	8.125%	07/15/2039	550,477
7)	520,000	U.S. Treasury Note	1.750%	05/15/2022	524,228
8)	412,500	Capital One Capital III	7.686%	08/15/2036	415,594
9)	368,023	FNMA Pool # 0745140	5.000%	11/01/2035	399,320
10)	337,500	Entergy Gulf States Louisiana	5.590%	10/01/2035	392,212
		Total			$8,366,820

Equity Holdings (By Market Value)

	Shares	Description	Market Value
1)	38,210	Wells Fargo & Co.	$1,277,742
2)	13,704	Berkshire Hathaway Inc.	1,141,954
3)	44,720	Pfizer Inc.	1,028,560
4)	48,820	General Electric Co.	1,017,409
5)	10,425	Exxon Mobil Corp.	892,067
6)	23,445	JP Morgan Chase & Co.	837,690
7)	11,590	Johnson & Johnson	783,020
8)	22,460	Microsoft Corp.	687,051
9)	19,335	Comcast Corp.	618,140
10)	18,920	US Bancorp	608,467
		Total	$8,892,100

International Equity Holdings (By Market Value)

	Description	Market Value*
1)	CG Non-US Small Cap Fund	$1,035,174
2)	Pernod Ricard SA	559,380
3)	Softbank	546,891
4)	Roche Hldg Genus	523,075
5)	HSBC Holdings Plc	474,054
6)	Prudential	450,413
7)	AIA Group Ltd	415,937
8)	Danone	406,654
9)	Imperial Tobacco Group Plc	376,817
10)	BNP Paribas	375,251
	Total	$5,163,646

* 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
Goldman Sachs & Co.	267,466	$ 4,138.33	0.02
Investment Technology Group	154,912	2,136.93	0.01
J.P. Morgan Securities Inc.	117,010	2,106.14	0.02
Citigroup Global Markets Inc.	138,917	2,066.87	0.01
Instinet Corp.	174,783	1,829.73	0.01
Citation Group	87,588	1,550.20	0.02
Stifel, Nicolaus & Co., Inc.	60,925	1,533.04	0.03
Weeden & Co.	89,070	1,381.76	0.02
RBC Capital Markets LLC	60,115	1,281.45	0.02
Morgan Stanley & Co., Inc.	88,653	1,185.97	0.01
Liquidnet Inc.	53,714	1,154.54	0.02
Keefe, Bruyette & Woods	48,893	1,003.66	0.02
Credit Suisse First Boston	45,470	975.79	0.02
Sanford C. Bernstein & Co., LLC	20,020	780.47	0.04
Barclays Capital Inc.	22,460	693.85	0.03
ISI Group Inc., NY	22,380	667.60	0.03
Knight Equity Markets L.P.	30,471	609.42	0.02
Nomura Secs Intl Inc.	55,210	569.70	0.01
Cowen and Company LLC	12,050	482.00	0.04
Merrill Lynch Professional Clearing	11,810	352.95	0.03
UBS Securities LLC	11,315	285.60	0.03
Cantor Fitzgerald & Co., Inc.	12,400	282.00	0.04
Knight Direct LLC	17,270	267.20	0.02
Bny Convergex	17,033	255.50	0.02
Broadcourt Capital Corp.	6,365	254.60	0.04
Others (Includes 18 Brokerage Firms)	56,077	1,385.15	0.02
Totals	1,682,377	$29,230.45	0.02

Schedule of Investment Fees

Domestic	Market Value	Fee	Basis Points
Equities			
Batterymarch Financial Management	$14,005,142	$115,651	0.85
Wellington Management Co.	27,918,061	153,118	0.55
Robeco Boston Partners	28,811,510	156,111	0.58
Total Domestic Equity	$70,734,713	$424,880	
Fixed Income			
MacKay Shields LLC	$76,783,022	$221,840	0.30
International Equity			
Capital Guardian Trust	$22,316,285	$ 154,383	0.67
Total Investment Manager Fees		$ 801,103	
Other Services			
Bank of New York Mellon (Custodian)		$ 11,317	
Callan Associates (Consultant)		48,880	
Total Other Services		$ 60,197	
Total Investment Fees		$ 861,299	

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November 28, 2012

The Board of Trustees
Arkansas State Police Retirement System
Little Rock, AR

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 find 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, 2012.

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

The Board of Trustees
November 28, 2012
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, 2012 valuations were based upon assumptions that were recommended in connection with a study of experience covering the period 2006-2011.

On the basis of the June 30, 2012 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.

Mita Drazilov is a Member of the American Academy of Actuaries (MAAA) and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

Mita Drazilov David L. Hoffman

Mita D. Drazilov, ASA, MAAA David L. Hoffman

MDD:DLH:bd

Gabriel Roeder Smith & Company

Summary of Actuarial Assumptions

Economic Assumptions

The investment return rate used in making the valuation was 7.25% per year, compounded annually (net after administrative and investment expenses).

Pay increase assumptions for individual active members are shown on page 51. Part of the assumption for each age is for a merit and/or seniority increase, and the other 3.50% recognizes wage inflation. This wage inflation assumption consists of 2.75% for price inflation and 0.75% for real wage growth. The wage inflation assumption was revised for the June 30, 2012 valuation.

Total active member payroll is assumed to increase 3.50% a 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 tables used to measure retired life mortality were the RP-2000 mortality tables projected to 2020 using projection scale BB. Related values are shown on page 50. 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. Related values are shown on page 50. Based upon the experience observed in the most recent experience study for APERS, it appears that the current table provides for approximately 8 years of future mortality improvement. Adopted 2012.

(Concluded on the following page.)

The probabilities of retirement for members eligible to retire are shown on page 52. Adopted 2012.

The probabilities of withdrawal from service, death-in-service and disability are shown for sample ages on page 51. Adopted 2012.

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 (MAAA).

Summary of Actuarial Methods

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest valuation date follows:

Valuation Date	June 30, 2012
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent-of-Payroll
Remaining Amortization Period	30-Year Open
Asset Valuation Method	4-year smoothed market with 25% corridor
Actuarial Assumptions:	
Investment Rate of Return	7.25%
Projected Salary Increases	3.50%
Including price inflation at	2.75%
Cost-of-living adjustments	Pre July 1, 1983 Retirees: Increased with increases in active Judges pay. Post June 30, 1983 Retirees: 3.0%, Compound.

Retirees and beneficiaries receiving benefits	123
Terminated plan members entitled to but not yet receiving benefits	4
Active plan members	140
Total	267

Single Life Retirement Values

Sample Ages	Present Value of $1 Monthly for Life		Present Value of $1 Monthly for Life Increasing 3% Annually		Future Life Expectency (Years)	
	Men	Women	Men	Women	Men	Women
50	$148.24	$151.62	$210.65	$218.65	32.99	35.59
55	140.64	144.96	194.10	203.31	28.37	30.90
60	131.19	136.37	175.47	185.59	23.94	26.34
65	119.78	125.79	154.95	165.79	19.74	21.98
70	106.30	113.43	132.82	144.60	15.83	17.93
75	90.97	99.45	109.73	122.53	12.26	14.25
80	74.57	84.09	86.87	100.14	9.13	10.95

Sample Attained Ages	$100 Benefit Increasing 3% Annually	Portion of Age 65 Lives Still Alive	
		Men	Women
65	$100.00	100%	100%
70	115.93	94%	95%
75	134.39	85%	88%
80	155.80	71%	76%
85	180.61	52%	61%

* Single Life Retirement Values. Based on RP-2000 Mortality Tables projected to 2020 using projection scale BB.

For disabled members, rates are from the RP-2000 Combined Healthy mortality table, set forward 10 years for males and set forward 10 years for females.

Decrement And Pay Increase Assumptions for Active Members

		Percent of Active Members Separating Within the Next Year					Pay Increase Assumptions For Individual Member		
		Male		Female					
Sample Ages	Years of Service	Death	Disability	Death	Disability	Withdrawal	Merit & Seniority	Base (Economic)	Increase Next Year
	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%	0.85%	0.00%	3.50%	3.50%
35		0.04%	0.04%	0.02%	0.05%	0.85%	0.00%	3.50%	3.50%
40		0.05%	0.10%	0.03%	0.18%	0.85%	0.00%	3.50%	3.50%
45		0.07%	0.13%	0.05%	0.20%	0.85%	0.00%	3.50%	3.50%
50		0.10%	0.25%	0.08%	0.28%	0.85%	0.00%	3.50%	3.50%
55		0.17%	0.45%	0.12%	0.38%	0.85%	0.00%	3.50%	3.50%
60		0.29%	0.71%	0.21%	0.51%	0.85%	0.00%	3.50%	3.50%
65		0.50%	0.83%	0.38%	0.62%	0.85%	0.00%	3.50%	3.50%

Probabilities of Retirement for Members Eligible to Retire

Retirement Ages	Percent of Eligible Active Members Retiring Within Next Year	Percent of Eligible Active Members Electing Early Retirement Within Next Year
50	4%	
51	4%	
52	6%	
53	6%	
54	8%	
55	10%	
56	10%	
57	12%	
58	12%	
59	12%	
60	14%	
61	14%	
62	20%	2%
63	20%	2%
64	20%	2%
65-69	24%	
70-74	30%	
75 & 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 Member - Historic Comparison Schedule

Valuation Date	Active Members			
		Valuation Payroll		
June 30	No.	$ Millions	Average	% Incr.
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%
2012	140	19.2	137,155	0.0%

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 Present Assets			
Valuation Date June 30	(1) Active Members Contr.	(2) Retirees and Benef.	(3) Active Member (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(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)
2012	12,356	103,628	74,263	167,796	100%	100%	70%	88%
2012(a)	12,356	107,413	75,685	167,796	100%	100%	63%	86% (e)

(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. (e) 87% on a market value basis.

Retirees and Beneficiaries Tabulated by Attained Age

Attained Age	Retirees		Survivor Beneficiaries		Total	
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances
54			3	$ 169,579	3	$ 169,579
59	1	$ 79,145			1	79,145
60	2	147,470	1	43,212	3	190,682
61	2	196,822	1	51,783	3	248,605
62	1	84,207			1	84,207
64	6	501,648	1	81,893	7	583,541
65	3	235,869	2	119,478	5	355,347
66	5	446,408			5	446,408
67	5	440,153	4	254,468	9	694,621
68	1	84,207	1	56,574	2	140,781
69	6	365,855	1	60,156	7	426,011
70	3	293,016	3	179,039	6	472,055
71	3	278,206	2	119,073	5	397,279
72	3	113,082	1	80,887	4	193,969
73	4	289,460			4	289,460
74	3	261,184			3	261,184
75	6	519,917			6	519,917
76	3	246,548	1	60,902	4	307,450
77	6	565,563			6	565,563
78	3	266,407	2	109,551	5	375,958
79	1	86,023			1	86,023
80	4	340,712			4	340,712
81	2	169,441	1	54,775	3	224,216
82	2	166,692	1	65,224	3	231,916
83	2	187,344	2	109,551	4	296,895
84	1	81,754	2	109,551	3	191,305
85			3	167,923	3	167,923
86	2	212,202	1	54,775	3	266,977
87	2	168,877	1	42,891	3	211,768
88	1	130,448			1	130,448
89			1	54,775	1	54,775
91	1	81,754			1	81,754
92	1	84,439	1	54,775	2	139,214
95			1	54,775	1	54,775
106			1	54,775	1	54,775
TOTALS	**85**	**$ 7,124,853**	**38**	**$ 2,210,385**	**123**	**$ 9,335,238**

Active Members by Attained Age and Years of Service - Tier I

Attained Age	Years of Service to Valuation Date: 0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	Totals: No.	Valuation Payroll
45-49			1					1	$ 136,257
50-54				1				1	136,257
55-59			1			1		2	272,514
60				1		1		2	272,514
61						1	1	2	272,514
62			2	2	1			5	685,760
63				1	1	1		3	408,771
64				1		1	1	3	408,771
65					2	1		3	408,771
66				1				1	136,257
67				1		1	1	3	417,718
68					1			1	136,257
69				1	1			2	276,989
70				1				1	136,257
71			1		1			2	272,514
Totals			**5**	**10**	**7**	**7**	**3**	**32**	**$ 4,378,121**

Group	No.	Averages: Age	Service	Annual Pay
Tier One	32	63.4	21.8	$136,816

Active Members by Attained Age and Years of Service - Tier II

Attained Age	Years of Service to Valuation Date							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
35-39	1		1					2	$ 272,514
40-44	4	4	3	2				13	1,787,003
45-49	1	3	1	2				7	962,746
50-54	2	2	4	1	4			13	1,771,341
55-59	4	5	6	4	2	6		27	3,687,889
60	2				1			3	408,771
61			2	2	1			5	685,760
62	1	1				2		4	545,028
63	1	2	1			1	2	7	953,799
64	1	1	1			2	1	6	817,542
65	1	1	2			1		5	685,760
66		2						2	272,514
67								0	0
68	2	3					1	6	842,624
69	1						1	2	285,936
70					1	1		2	276,989
71					1			1	145,204
72	1							1	136,257
73							1	1	140,732
74							1	1	145,204
Totals	**22**	**24**	**21**	**11**	**10**	**13**	**7**	**108**	**$ 14,823,613**

		Averages		
Group	**No.**	**Age**	**Service**	**Annual Pay**
Tier Two	108	57.1	14.0	$137,256

Analysis of Experience

Actual experience will not (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.

	2012	2011
1) UAAL* at start of year	$ 21,257,898	$ 17,668,103
2) Normal cost from last valuation	4,647,948	4,471,167
3) Employer contributions	5,465,079	5,220,623
4) Interest accrual: (1) * .075 + [(2)-(3)]*.0375	1,563,700	1,297,003
5) Expected UAAL before changes: (1)+(2)-(3)+(4)	22,004,467	18,215,650
6) Change in benefits/assumptions	5,206,866	0
7) Expected UAAL after changes: (5) + (6)	27,211,333	18,215,650
8) Actual UAAL at end of year	27,658,407	21,257,898
9) Gain(loss): (7) - (8)	$(447,074)	$(3,042,248)
10) Gain(loss) as percent of actuarial accrued liabilities at start of year: $186,634,881	(0.2)%	(1.7)%
Last year's accrued liability	$186,634,881	$182,911,619

Analysis of Experience by Risk Area

Type of Risk Area	Gain (Loss) During Year	
	$ in Millions	Percent of Liabilities
ECONOMIC RISK AREAS		
Pay Increases. 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.	$3.5	1.9 %
Investment Return. If there is greater investment return than assumed, there is a gain. If less return, a (loss).	(6.9)	(3.7)%
NON-ECONOMIC RISK AREAS		
Age & Service Retirements. If members retire at older ages or with lower final average pays than assumed, there is a gain. If younger ages or higher average pays, a (loss).	2.5	1.3 %
Disability Retirements. If there are fewer disabilities than assumed, there is a gain. If more, a (loss).	0.0	0.0 %
Death-in-Service Benefits. If there are fewer claims than assumed, there is a gain. If more, a (loss).	0.0	0.0 %
Withdrawal. If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a (loss).	0.0	0.0 %
Retiree Mortality. If there are fewer deaths than assumed, there is a (loss). If more, a gain.	0.9	0.5 %
Other. Gains and losses resulting from group size change, data adjustments, timing of financial transactions, additional contributions and miscellaneous unidentified sources.	(0.4)	(0.2)%
Experience Gain/(Loss)	**$(0.4)**	**(0.2)%**

Summary of Provisions Considered July 1, 2012

Tier One	Tier Two
Description	
Elected or appointed prior to the effective date of Act 399 of 1999 and who do not elect to participate in Tier Two.	Elected or appointed after the effective date of Act 399 of 1999 or elected to participate in Tier Two.
Regular Retirement	
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 or Chancery Courts or the Court of Appeals.	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	
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.	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	
The annual salary for the last judicial office held.	The annual salary for the last judicial office held.
Age & Service Annuity	
60% 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.	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

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 or the Chancery Courts or the Court of Appeals.

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.

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 of 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.

A member with 14 years of 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 that 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 Court or Chancery Courts or the Court of Appeals.

A member with 8 years of 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 benefit is payable to the following survivors (shared if there is more than one eligible survivor):

- A surviving spouse married to the judge more than 1 year at the time of death.
- A minor child of the judge.

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 final salary, is payable to the following survivors (shared if there is more than one eligible survivor):

- A surviving spouse married to the judge more than 1 year at the time of death.
- A minor child of the judge.

The 3-year service requirement is not required of those who became members prior to July 1, 1983.

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 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%.

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

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 would be required. If a member leaves service before becoming eligible to retire, accumulated contributions may be refunded.

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
2003	795,852	3,162,016	903,622	47,966	5,304,538	10,213,994
2004	801,072	3,223,394	902,797	17	15,959,909	20,887,189
2005	816,200	3,872,189	902,797	15,322	10,895,937	16,502,445
2006	823,899	4,001,902	902,797	10	11,467,730	17,196,338
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
2012	**879,762**	**4,640,182**	**814,993**	**9,904**	**2,148,975**	**8,493,816**

Schedule of Expenses by Type

Year Ending June 30	Benefit Payments	Refunds	Administrative Expenses	Total
2003	5,799,943	964	38,613	5,839,520
2004	6,438,128	0	40,085	6,478,213
2005	6,776,490	6,491	42,733	6,825,714
2006	7,064,031	0	46,486	7,110,517
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
2012	**9,280,100**	**7,014**	**67,798**	**9,354,912**

Schedule of Benefit Expenses by Type*

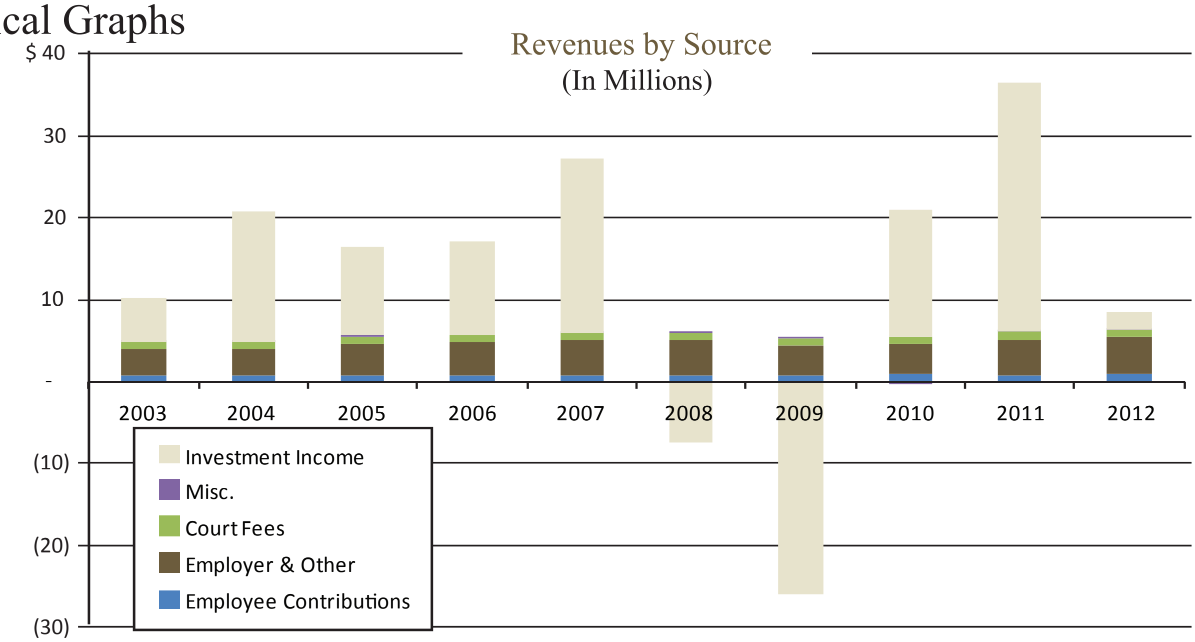
Year Ended June 30	Age & Service Retirees	Age & Service Survivors	Disability Retirees
2003	4,841,242	1,532,412	75,636
2004	4,754,790	1,779,788	77,201
2005	5,243,125	1,820,472	78,905
2006	5,320,958	1,656,576	80,635
2007	5,657,487	1,536,228	148,797
2008	5,764,682	1,588,875	152,438
2009	7,266,337	1,742,101	157,724
2010	7,254,889	1,642,645	159,842
2011	7,032,265	1,824,181	110,829
2012	**7,010,699**	**2,096,331**	**114,154**

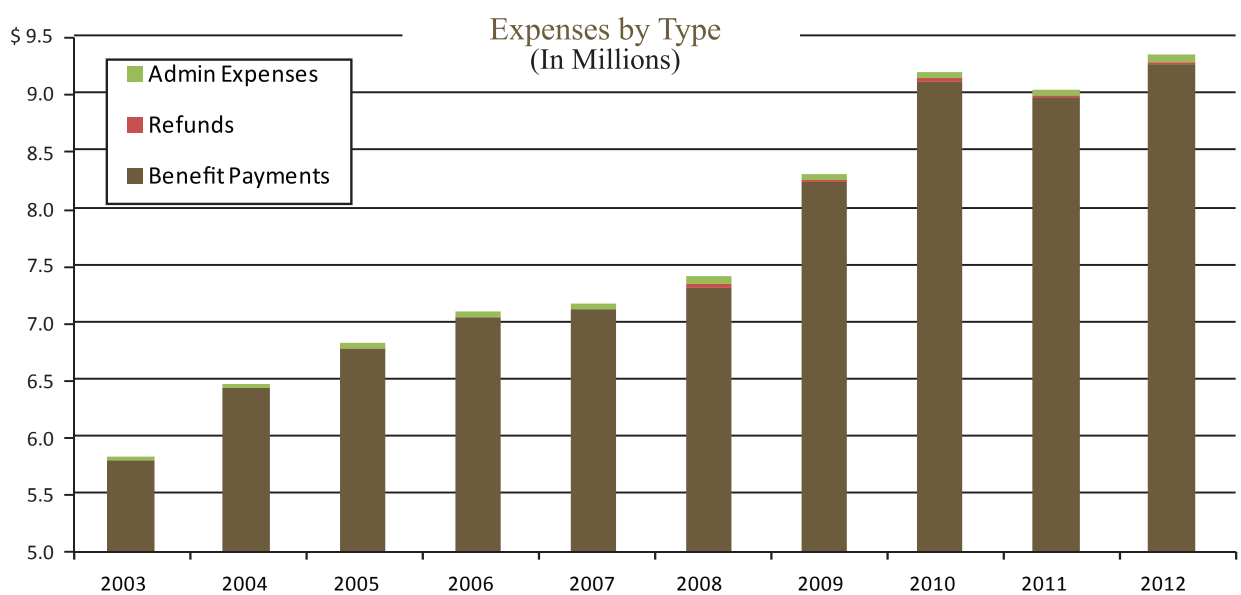
* Expenses are based on June 30 benefit amounts annualized.

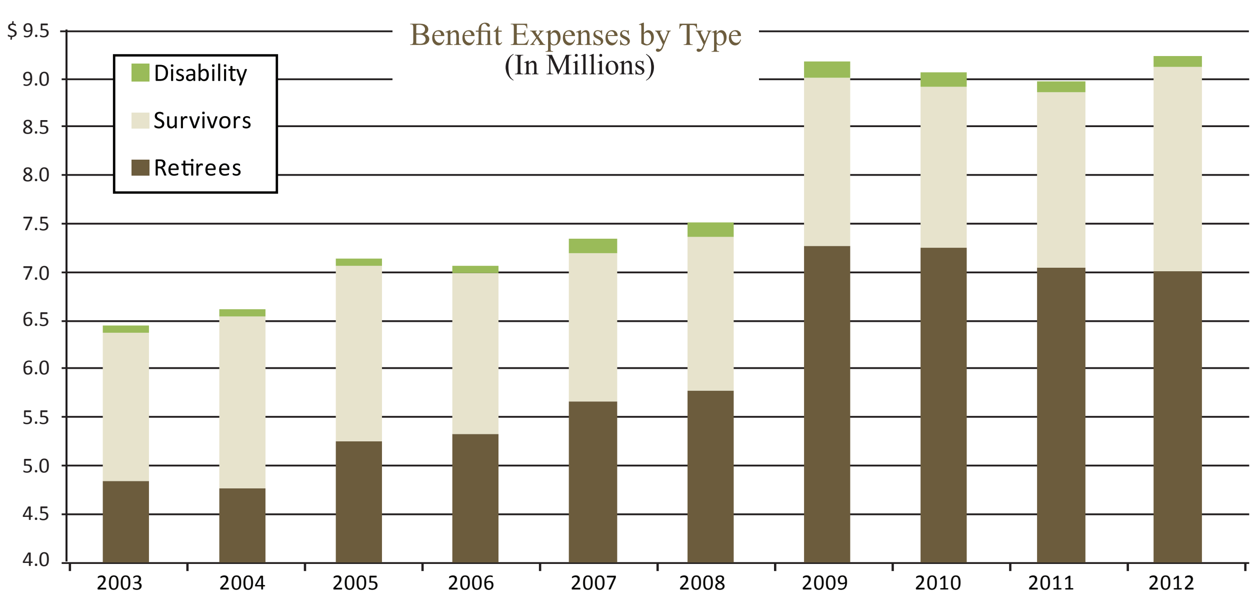
Schedule of Retired Members by Type of Benefit

Type of Annuity	Number	Annual Annuities	Annual Liabilities
Age & Service Retirees			
Life	9	$ 741,448	$ 7,423,944
Life Continuing to Survivor	74	6,269,251	76,242,108
Totals	83	7,010,699	83,666,052
Beneficiaries of Age & Service Retirees	36	2,096,331	20,960,592
Total Age & Service Retirees and Beneficiaries	119	9,107,030	104,626,644
Disability Retirees			
Life	1	77,148	613,644
Life Continuing to Survivor	1	37,006	497,724
Totals	2	114,154	1,111,368
Beneficiaries of Disability Retirees	0	0	0
Total Disability Retirees and Beneficiaries	2	114,154	1,111,368
Death in Service Beneficiaries	2	114,054	1,674,996
Grand Total of All Retirees & Beneficiaries	123	$9,335,238	$107,413,008

Statistical Graphs







The source data for all 3 charts can be found on page 65.

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