

Arkansas Judicial Retirement System

Annual Financial Report 2013

Pulaski County Courthouse



Arkansas Judicial Retirement System



A Pension Trust Fund of the State of Arkansas

Annual Financial Report **For the Year Ended** **June 30, 2013**

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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White County Courthouse

INTRODUCTION

A History of AJRS and System Highlights

Letter of Transmittal

Board of Trustees

AJRS Senior Staff

Outside Professional Service Providers

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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, 2012 through June 30, 2013, 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, 2013

Active Members		
Number	140	
Average Age (yrs.)	58.7	
Average Service (yrs.)	15.9	
Average Annual Salary	\$ 139,898	
<hr/>		
2013 Retirees		
	Age and Service	Disability
Retired Members	7	NA
Average Age (yrs.)	65.7	NA
Average Service (yrs.)	18.5	NA
Average Monthly Benefit	\$ 7,939.73	NA
Total Retired Members	125	
Average Monthly Benefit	\$ 6,635.25	

Letter of Transmittal

ARKANSAS JUDICIAL RETIREMENT SYSTEM

December 30, 2013

BOARD OF TRUSTEES

ROBERT EDWARDS, Chairman
Circuit Judge

GAYLE FORD
Circuit Judge (Retired)

MARK HEWETT
Circuit Judge

CHARLES YEARGAN
Circuit Judge

JIM GUNTER
Supreme Court Justice (Retired)

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

Dear AJRS Members:

The Arkansas Judicial Retirement System (AJRS) is pleased to present the Annual Financial Report for the period ending June 30, 2013. 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 2013 revenue from employer and employee contributions totaled \$5.82 million. This amount is \$298,739 more than fiscal year 2012.

Court fees for fiscal year 2013 were \$740,293, which is \$74,700 less than fiscal year 2012.

Miscellaneous income totaled \$40,696 for fiscal year 2013, an increase of \$30,792 from fiscal year 2012.

Net investment gain for fiscal year 2013 was \$23.71 million after investment expenses of \$996,353, an increase of \$21.56 million from fiscal year 2012. Overall, the System's revenues increased by \$21.81 million from fiscal year 2012.

Expenses

Benefit payments for fiscal year 2013 were \$9.45 million, or \$168,450 more than fiscal year 2012. Administrative expenses were \$55,591, of which \$16,580 was for professional fees and \$30,157 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.



Judge Robert Edwards
Chairman, AJRS Board



Gail H. Stone
Executive Director

Arkansas Judicial Retirement System Board of Trustees

The Honorable Robert Edwards, Chair

Circuit Judge
1600 E. Booth, Suite 500
Searcy, AR 72143

The Honorable Gayle Ford

Retired Circuit Judge
113 Grand Lane
Mena, AR 71953

The Honorable Mark Hewett

Circuit Judge
901 South B Street
Fort Smith, AR 72901

The Honorable Charles Yeargan

Circuit Judge
P.O. Box 820
Murfreesboro, AR 71958

The Honorable Jim Gunter

Retired Supreme Court Justice
1804 South Grady
Hope AR, 70801

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 Senior Staff

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. Jennifer Taylor

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

Batterymarch Financial Management, Inc. Capital Guardian Trust Co.
200 Clarendon Street 333 South Hope Street
Boston, MA 02116 Los Angeles, CA 90017

MacKay Shields
1345 Avenue of the Americas
New York, NY 10105

Robeco Investment Management Wellington Management Company
One Beacon Street, 30th Floor 280 Congress Street
Boston, MA 02108 Boston, MA 02210



Polk County Courthouse

FINANCIAL

Basic Financial Statements

Statement of Plan Net Position

Statement of Changes in Plan Net Position

Notes to the Financial Statements

Required Supplementary Information

Schedule of Employer Contributions

Schedule of Funding Progress

Notes to Required Supplementary Information

Schedule of Administrative Expenses

Schedule of Investment Expenses

Schedule of Payments to Professional Consultants

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Basic Financial Statements

Statement of Plan Net Position - As of June 30

	2013	2012
ASSETS		
Cash and Cash Equivalents	\$ 7,553,400	\$ 6,284,765
Receivables:		
Deceased Retirant Receivable	0	(3,797)
Contributions	249,315	0
Investment Principal Receivable	432,090	147,483
Accrued Investment Income Receivable	717,069	704,223
Total Receivables	<u>1,398,474</u>	<u>847,909</u>
Investments At Fair Value:		
Government Securities:		
U.S. Government Securities	12,867,300	13,662,812
U.S. Government Agency Securities	5,044,263	6,067,686
Corporate Securities:		
Fixed Income Commingled	12,857,234	14,539,979
Collateralized Obligations	5,686,789	6,238,133
Corporate Bonds	27,309,166	30,628,622
Common Stock	45,032,206	41,700,492
Domestic Equity Commingled	29,842,341	27,918,061
International Securities:		
Global Commingled	28,911,092	22,316,285
Global Corporate Fixed Income	2,250,001	827,521
Forwards	28,295	(10,346)
Global Equity	0	591,278
Real Estate	13,885,316	0
Commercial Loans	606,133	377,963
Total Investments	<u>184,320,136</u>	<u>164,858,486</u>
TOTAL ASSETS	193,272,010	171,991,160
LIABILITIES		
Accrued Expenses and Other Liabilities	294,592	299,114
Investment Principal Payable	<u>2,267,257</u>	<u>1,756,028</u>
TOTAL LIABILITIES	2,561,849	2,055,142
NET POSITION RESTRICTED FOR PENSION BENEFITS	<u>\$ 190,710,161</u>	<u>\$ 169,936,018</u>

The accompanying notes are an integral part of these financial statements.

A Schedule of Funding Progress is presented on page 27.

Basic Financial Statements

Statement of Changes in Plan Net Position - For the Year Ended June 30

	2013	2012
ADDITIONS		
<u>Contributions:</u>		
Employer	\$ 4,931,998	\$ 4,640,182
Employee	886,685	879,762
Court Fees	740,293	814,993
Total Contributions	6,558,976	6,334,937
<u>Investment Income:</u>		
Interest	2,501,667	2,642,652
Dividends	1,500,436	1,010,014
Currency Loss	(3,460)	59,174
Investment Gain	20,703,915	(701,308)
Total Investment Income	24,702,558	3,010,532
Less: Investment Expense	996,353	861,557
Net Investment Income	23,706,205	2,148,975
<u>Other Additions:</u>		
Miscellaneous Additions	40,696	9,904
TOTAL ADDITIONS	30,305,877	8,493,816
DEDUCTIONS		
Benefits	9,448,550	9,280,100
Refunds of Contributions	27,593	7,014
Administrative Expenses	55,591	67,798
TOTAL DEDUCTIONS	9,531,734	9,354,912
NET INCREASE (DECREASE)	20,774,143	(861,096)
NET POSITION		
Beginning of Year	169,936,018	170,797,114
End of Year	\$ 190,710,161	\$ 169,936,018

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

Description of the System

Plan Description

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, 2013 and 2012, membership was as follows:

	2013	2012
Retirees and beneficiaries receiving benefits	125	123
Terminated plan members entitled to but not yet receiving benefits	4	4
Active plan members	140	140
Total	269	267

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). Additionally, supplemental contributions are paid to the system from the Constitutional and Fiscal Agencies Fund in accordance with Section 8 of Act 922 of 1983.

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

The funded status of the plan as of June 30, 2013, the most recent actuarial date, is as follows (dollar amounts in thousands):

Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2 - 1)	(4) Funded Ratio (1/2)	(5) Annual Covered Payroll	(6) UAAL as a Percentage of Covered Payroll (3/5)
6/30/2013	\$182,596	\$203,134	\$20,537	89.9%	\$19,586	105%

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.

Legally Required Reserves

A description of reserve accounts and their balances for years ended June 30, 2013 and 2012 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 Deferred Annuity Account is the reserve account established to cover estimated retirement benefits to inactive vested members who are not currently receiving benefit payments. The Retirement Reserve Account is the account to which member contributions, interest on those contributions, and employer contributions are transferred upon member retirement.

	2013	2012
Members Deposit Account*	\$ 12,396,561	\$ 12,371,179
Members Deposit Account Interest Reserve	698	698
Employer Accumulation Account	63,078,004	55,909,965
Deferred Annuity Account	2,270,952	921,936
Retirement Reserve Account	112,963,946	100,732,240
Total	<u>\$ 190,710,161</u>	<u>\$ 169,936,018</u>

* Includes \$14,855 related to partial purchase of service for both fiscal year 2012 and 2013.

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 cash equivalents totaled \$7,553,400 at June 30, 2013. This total consisted of cash deposits with financial institutions of \$5,154, STIF accounts in the amount of \$7,515,153, and \$33,093 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, 2013 none of the System’s bank balance of \$5,154 was exposed to custodial credit risk. The foreign currency cash balance of \$302,608 was subject to custodial credit risk.

Deposit and Investment Risk Disclosures

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	37 %	32 %	42 %
International Equities	15 %	10 %	20 %
Fixed Income	40 %	35 %	45 %
Real Estate	8 %	3 %	13 %

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, 2013, the System had the following investments:

Investment Type	Fair Value*
Government Securities	
US Government Securities	\$ 12,867,300
Agency Debentures	1,317,545
Agency Pooled Securities	3,726,718
Corporate Securities	
Collateralized Obligations	5,686,789
Corporate Bonds	27,309,166
High Yield Income Fund	12,857,234
Domestic Equity Commingled	29,842,341
Common Stock	45,032,206
International Securities	
Global Commingled	28,911,092
Global Corporate Fixed	2,250,001
Forwards	28,295
Commercial Loans	606,133
Real Estate Commingled	13,885,316
	<u>\$ 184,320,136</u>
* Principal only	

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's external fixed income investment manager uses the measurement of effective duration to mitigate the interest rate risk of the fixed income investments. The fixed income investment manager monitors and reports the effective duration on a monthly basis. The effective duration of the investment portfolio is required to be +/- 10% of the benchmark's duration. The benchmark for the U.S. fixed income markets is the Barclays Capital U.S. Aggregate Bond Index. As of June 30, 2013, the System had the following debt security investments and maturities:

Investment Type	Fair Value*	Investment Maturity (In Years)			
		Less than 1	1 - 5	6 - 10	More than 10
US Government Securities	\$ 12,867,300	\$ 1,300,455	\$ 6,482,294	\$ 2,074,480	\$ 3,010,071
Agency Debentures	1,317,545	0	1,317,545	0	0
Agency Pooled Securities	3,726,718	0	0	0	3,726,718
Collateralized Obligations	5,686,789	1,479,777	0	744,993	3,462,019
Corporate Bonds	27,309,166	354,935	4,564,153	11,243,306	11,146,772
High Yield Income Fund	12,857,234	0	12,857,234	0	0
Global Corporate Fixed	2,250,001	0	0	1,305,458	944,543
Commercial Loans	606,133	0	606,133	0	0
	<u>\$ 66,620,886</u>	<u>\$ 3,135,167</u>	<u>\$ 25,827,359</u>	<u>\$ 15,368,237</u>	<u>\$ 22,290,123</u>
* Principal only					

Asset-Backed Securities – As of June 30, 2013 the System held asset-backed securities with a fair value of approximately \$1.1 million. Asset-Backed Securities (ABS) are bonds or notes backed by loan paper or accounts receivable originated by banks, credit card companies, or other credit providers. The originator of the loan or accounts receivable paper sells it to a specially created trust, which repackages it as securities. Similar to Collateralized Mortgage Obligation on page 24, asset-backed securities have been structured as pass-through securities and as structures with multiple bond classes. The System's ability to recover the amount of principal invested in these securities depends on the performance and quality of the trust assets.

Corporate Bonds – As of June 30, 2013, the System held corporate bonds with a fair value of approximately \$27.3 million. Corporate bonds are a debt security issued by a corporation. The backing for the bond is usually the payment ability of the company, which is typically money to be earned from future operations. In some cases, the company's physical assets may be used as collateral for bonds. They usually have a fixed 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.

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, 2013 was as follows:

Currency	%	Fair Value
British Pound Sterling	36.3%	\$ (216,576.28)
Euro Currency	63.7%	(380,007.00)
Total Fair Value	<u>100.0%</u>	<u>\$ (596,583.28)</u>

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 has a formal investment policy for credit risk. Exposure to a single issuer is limited to 5%. 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, 2013 is detailed on the following pages. The Bank of New York Mellon provided the detail of S&P and Moody's ratings.

Pooled Funds – AJRS has approximately \$28.9 million invested in international pooled funds. AJRS 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

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 \$184,320,136 investments at June 30, 2013 there were no investments exposed to custodial credit risk.

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.

The System's exposure to credit risk as of June 30, 2013 was as follows:

Credit Risk - Moody's Quality Ratings

Investment Type and Fair Value	Aaa	Aa	A	Baa
Government Securities				
US Government Securities \$	12,867,300	0	0	0
Agency Debentures \$	1,317,545	0	0	0
Agency Pooled Securities \$	3,726,718	0	0	0
Corporate Securities				
Collateralized Obligations \$	1,092,937	1,202,549	234,016	208,645
High Yield Income Fund \$	0	0	0	0
Corporate Bonds \$	0	517,923	6,460,505	16,030,463
International Securities				
Global Corporate Fixed \$	0	0	0	1,086,655
Commercial Loans \$	0	0	0	0
	19,004,500	1,720,472	6,694,521	17,325,763

Credit Risk - S & P Quality Ratings

Investment Type and Fair Value	AAA	AA	A	BBB
Government Securities				
US Government Securities \$	12,867,300	0	0	0
Agency Debentures \$	1,317,545	0	0	0
Agency Pooled Securities \$	3,726,718	0	0	0
Corporate Securities				
Collateralized Obligations \$	1,779,982	441,320	827,752	234,016
High Yield Income Fund \$	0	0	0	0
Corporate Bonds \$	0	1,467,510	9,886,151	9,890,249
International Securities				
Global Corporate Fixed \$	0	0	0	1,452,280
Commercial Loans \$	0	0	0	0
	19,691,545	1,908,830	10,713,903	11,576,545

Ba	B	C or below	NR	Fair Value *
0	0	0	0	12,867,300
0	0	0	0	1,317,545
0	0	0	0	3,726,718
0	639,423	1,845,975	463,243	5,686,789
0	12,857,234	0	0	12,857,234
2,395,638	786,362	590,037	528,238	27,309,166
744,121	419,225	0	0	2,250,001
174,375	0	431,758	0	606,133
3,314,134	14,702,244	2,867,770	991,481	66,620,886

BB	B	CCC or below	NR	Fair Value *
0	0	0	0	12,867,300
0	0	0	0	1,317,545
0	0	0	0	3,726,718
0	448,300	1,717,522	237,897	5,686,789
0	12,857,234	0	0	12,857,234
2,947,172	957,812	946,825	1,213,447	27,309,166
378,496	419,225	0	0	2,250,001
0	174,376	431,757	0	606,133
3,325,668	14,856,947	3,096,104	1,451,344	66,620,886

The System does invest in mortgage-backed securities (MBS) which are reported at fair value in the *Statement of Plan Net Position*. MBS entitle their holders to receive both principal and interest payments from the payments made by the borrowers of the underlying mortgages over the lives of those loans. A MBS depends on the underlying pool or mortgage loans to provide cash flow to make principal and interest payments on the security. The life of a mortgage that underlies a MBS can be shortened by several economic events, including borrower refinancing. When interest rates decline and remain low, borrowers could refinance their existing loans which causes MBS holders to be repaid more quickly than originally anticipated, which is known as “prepayments.” Prepayments reduce the weighted average life of the security, and are a form of market risk assumed by the holders of MBS. Alternatively, when interest rates rise, the refinancing of existing mortgages slows. If interest rates remain high for long periods of time fewer borrowers refinance their mortgages. As a result MBS holders are repaid over longer periods of time, which is known as “extension risk.” Extension risk increases the weighted average life of the security and is another form of market risk assumed by holders of MBS.

A collateralized mortgage obligation (CMO) is a MBS that is comprised of classes of bonds created by prioritizing the cash flows of the underlying mortgage pool. This redistributes prepayment risk and/or credit risk among the various bond classes in the CMO structure. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. CMOs may be collateralized by whole-loan mortgages, mortgage pass-through securities, or stripped mortgage-backed securities. of June 30, 2013 the System held approximately \$5.86 million of collateralized obligations, of which, \$3.50 million were collateralized mortgage obligations.

The System does invest in MBS and CMO for diversification and to enhance fixed income returns. MBS are subject to credit risk, the risk that the borrower will be unable to meet its obligations. They are also subject to prepayment risk, which is the risk that a payment will be made in excess of the regularly scheduled principal payment. Prepayment risk is comprised of two risks: call risk, the risk that prepayments will increase when interest rates have declined, and extension risk, the risk that prepayments will decrease when interest rates have increased.

Mortgage - Backed Securities - As of June 30, 2013 the System held mortgage-backed securities of approximately \$3.73 million. At June 30, 2013 the System held no mortgage-backed securities that were considered as highly sensitive to changes in interest rates.

Derivatives

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 into 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 manager does invest in mortgage-backed securities which are reported at fair value in the *Statement of Plan Net Position*, 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 manager may invest in mortgage-backed securities to diversify AJRS' portfolio and increase return while minimizing the extent of risk.

As of June 30, 2013 the System had the following currency forwards and mortgage-backed TBA investments.

Foreign Currency Forward Contracts	Net Notional Long/(Short)	Unrealized Gain/(Loss)
Euro Currency	\$ 259,711	\$ 8,070
British Pound Sterling	667,776	20,225
	<u>\$ 927,487</u>	<u>\$ 28,295</u>

Mortgage-Backed TBA Description	Cusip	Notional	Fair Mkt Value	Duration	Credit Rating
FNMA 30YR 6.00% 07/01/2043	01F060675	\$ 500,000	\$ 546,406	3.2	A/A1-/A
GNMA 30YR 6.50% 07/15/2042	01N062672	650,000	743,742	3.8	A/A1-/A
FNMA 15 YR 4.50% 07/15/2028	01F042475	<u>300,000</u>	<u>321,352</u>	3.2	A-NR/A
		<u>\$ 1,450,000</u>	<u>\$ 1,611,500</u>		

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, 2013
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.

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, 2013. 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 2013 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 gain was \$7,925,507.

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 \$20,537,315 as of June 30, 2013.

	(1) Total Present Value	(2) Portion Covered By Future Normal Cost Contributions	(3) Actuarial Accrued Liabilities (1)-(2)
Actuarial Present Value of			
Benefits to be paid to current retirees, beneficiaries, and future beneficiaries of current retirees	\$ 114,770,112	\$ 0	\$ 114,770,112
Age and service allowances based on total service likely to be rendered by present active members	115,743,567	29,996,968	85,746,599
Separation benefits (refunds of contributions and deferred allowances) likely to be paid to present active and inactive members	2,587,490	991,347	1,596,143
Disability benefits likely to be paid to present active members	985,274	1,003,009	(17,735)
Death-in-service benefits likely to be paid on behalf of present active members	1,680,058	641,459	1,038,599
Total	\$ 235,766,501	\$ 32,632,783	\$ 203,133,718
Applicable Assets (Funding Value)	182,596,403	0	182,596,403
Liabilities to be covered by future contributions	<u>\$ 53,170,098</u>	<u>\$ 32,632,783</u>	<u>\$ 20,537,315</u>

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

Fiscal Year Ended June 30	Annual Required Contribution	Percent Contributed#
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%
2013	5,672,291	100%

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age (AAL) (b)	UAAL (b) - (a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	UAAL* as a Percentage of Covered Payroll [(b-a)/(c)]
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	0%
6/30/08	169,061	165,747	(3,314)	102.0%	18,074	0%
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%
6/30/13	182,596	203,134	20,537	89.9%	19,586	105%

*Unfunded Actuarial Accrued Liability

Note: Dollars in thousands.

Notes to Required Supplementary Information:

Schedule of Administrative Expenses

	<u>2013</u>	<u>2012</u>
Communications:		
Printing and advertising	\$ 1,309	\$ 816
Travel	3,934	3,153
Services and Charges:		
Professional Fees and Services	16,580	31,400
Bank & Federal Service Charges	3,611	<u>3,150</u>
Total Service and Charges	<u>20,191</u>	<u>34,550</u>
Transfer to APERS for Administration	<u>30,157</u>	<u>29,279</u>
Total Administrative Expenses	<u><u>\$ 55,591</u></u>	<u><u>\$ 67,798</u></u>

Schedule of Investment Expenses

	<u>2013</u>	<u>2012</u>
Custodian Bank Fees	\$ 15,285	\$ 11,317
Investment Consultant Fee	50,835	48,880
Investment Manager Fees*	929,862	801,103
Transaction Fees	371	257
Total Investment Expenses	<u><u>\$ 996,353</u></u>	<u><u>\$ 861,557</u></u>

Schedule of Payments to Professional Consultants

	<u>2013</u>	<u>2012</u>
Gabriel, Roeder, Smith & Company	\$ 16,580	\$ 31,400

* For fee paid to investment managers, please see "Schedule of Investment Fees" shown on page 45 in the Investments Section of this report.



Sebastian County Courthouse

INVESTMENTS

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Chief Investment Officer's Report

ARKANSAS JUDICIAL RETIREMENT SYSTEM

BOARD OF TRUSTEES

ROBERT EDWARDS, Chairman
Circuit Judge

GAYLE FORD
Circuit Judge (Ret.)

MARK HEWETT
Circuit Judge

CHARLES YEARGAN
Circuit Judge

JIM GUNTER
Supreme Court Justice (Ret.)

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

Dear Members,

Oh behalf of the AJRS' Investment Department, it is my pleasure to present the *Investment Section* of the AJRS' *Annual Financial Report* for the fiscal year ended June 30, 2013.

Performance and Stability

For fiscal year 2013, the AJRS investment portfolio closed with total assets of \$190,717,191. The investment return for the fiscal year was 13.86% net of all fees and expenses. The second half of 2012 provided fiscal year 2013 with a nice start as global equity indices posted solid gains for the 3rd quarter of 2012, and the U.S. indices advanced 5-7% across the board.

During the fiscal year we saw the Dow Jones Industrial Average surpass its previous October 2007 all-time high of 14,198. But we also saw interest rates in the U.S. spike higher by over 100 basis points.

Fiscal Year 2013 Financial Market Recap

The third quarter of 2012 was dominated by macro events. The quarter started with the LIBOR fixing scandal and culminated with the Federal Reserve announcement of "open-ended" bond purchases, which was dubbed "QE3", or, "QE-Infinity", as the Fed displayed its intent to continue with quantitative easing. The Fiscal Cliff continued to loom; China's economy continued to slow; Iran and Israel continued to engage in an escalation of tension over nuclear capabilities; the European Central Bank continued to walk down a path of debt mutualization; and the U.S. Presidential election kicked into high gear.

With that background, domestic equities remained reasonably priced from a forward P/E perspective as the valuations remained at a discount to longer term averages. The same situation was also seen in the non-US equity markets. Despite, or perhaps due to, what appeared to be reasonable valuations, the S&P 500 index achieved a post-2008 high in mid-September. Strong corporate profit margins kept corporate earnings rising. Equity volatility remained fairly low. But the positives did not ease fears as equity mutual funds hemorrhaged capital. Investors worried about the possibility of another 2008-type market decline, or worse, a 1987-like collapse.

In the fixed income markets, the 10-year US Treasury opened and closed the third quarter with a yield of 1.60%, and stayed in a 50bp range, touching 1.39% in July and 1.90% in September. The 1.39% intraday low was the lowest reading in a generation. Concerns over a sputtering US economy coupled with woes in Europe caused rates to hit record lows in July before ECB President Mario Draghi made a bold proclamation to “do whatever it takes to preserve the Euro”. In September, rates rose sharply after the Fed announced that it would spend \$40 billion per month to purchase mortgage securities, continue Operation Twist until the end of 2012, and keep rates low through mid-2015. The US central bank appeared committed to keeping the financial markets flush with liquidity while attempting to improve the labor markets. What was powerful about this stimulus was the fact that the Fed made their commitment open-ended. Interest rates fell going into quarter-end as concerns over the global economic slowdown mounted.

The fourth quarter of 2012 was not without its own events. The financial markets started the quarter on the upside as economic data indicated an improving U.S. economy. The combination of low mortgage rates, rising house prices, higher stock prices, and better employment gave a boost to housing and consumer confidence. However, there was the quadrennial Presidential election in November. The nation, and the world, continued its’ fixation on the “fiscal cliff”. Super storm Sandy slammed into the East Coast. The Fed implemented yet another round of quantitative easing by converting Operation Twist into outright purchases. The Fed also reaffirmed its pledge to keep interest rates “low for long” by removing the 2015 target date and adopting unemployment and inflation targets instead. The Fed basically suggested that the US unemployment rate would need to improve to 6.5% provided inflation remains below 2.5%. The fourth quarter ended on a downturn as the “Fiscal Cliff” turned into a fiasco which pushed investors to the sidelines as expectations for going over the cliff rose.

The U.S. economy was able to bounce back in the first quarter of 2013. An eleventh hour resolution of the fiscal cliff negotiations was agreed to. Concerns over the Federal sequestration (\$1.2 billion) remained front and center. However, consumer spending, exports, and investments in real estate all reported solid gains. The data showed that any drag to economic growth came from government, where the expected declines in spending continued. The fiscal squeeze in the last quarter of 2012 and the first quarter of 2013 was almost unprecedented, which made the continued economic growth even more remarkable. The drop in total government spending since October 2012 was the largest six-month contraction since the end of the Korean War in the mid-1950s. The decline in defense spending over those 2 quarters was greater than the drop following the withdrawal from Vietnam in 1972.

Europe continued to be a challenge in the first quarter. Much of the Euro-zone remained entrenched in a deep recession. Failed elections in Italy left that country without a government. The financial markets did not like Troika’s demands that Cyprus impose a levy on all bank deposits and a precondition to receiving bailout funds. In China, manufacturing slipped and equities retreated as the government looked to balance growth and inflation risks. In Japan, an aging population coupled with ineffective monetary and fiscal policies crimped consumer spending and failed to stimulate economic activity in any meaningful way. And lastly, tensions in the Korean peninsula were renewed later in the quarter with war rhetoric between the new leaders of the North and South, as well as the United States.

After reaching a new all-time high in May, global markets turned a hard corner in the June as better U.S. economic data brought a sudden change of stance by the Federal Reserve. When 2013 began, the combination of modest growth coupled with the Fed’s continued asset purchases kept U.S. interest rates low and credit spreads on a tightening track as investors reached for yield. But a surprisingly strong labor report, which included upward revisions to prior months, made the U.S. economy look even better. The stronger data and outlook pushed interest rates higher, and Fed officials threw fuel on the fire by suggesting for the first time that the decision to reduce asset purchases could come within a few months. At the Fed’s press conference after the June meeting Fed Chairman Bernanke outlined their base case plan for ending the third, and presumably final, QE program. If the economy remained on course,

the Fed would begin to reduce its purchases later this year, tapering to zero around the middle of 2014. Bernanke reassured the markets that short term rates would remain highly accommodative for a considerable time after the asset purchase program ends. New York Fed President William Dudley reiterated this stance the next day. However, the markets dismissed any attempt by the Fed to taper its own rhetoric and technicals in the market quickly deteriorated. The U.S. Treasury yield curve steepened to 213bps from the 2-year to the 10-year as the 10-year note yield rose 36bps during the month. As interest rates gapped higher, U.S. stocks reacted negatively.

The S&P Index fell -1.5% in June, and other equity indexes around the globe sold off. The greater impact was felt in asset classes that had become very independent on low interest rates: high yield debt, emerging market bonds, and commodities. Both stocks and bonds were able to rebound as the second quarter, and our fiscal year end came to a close.

Portfolio Thoughts

As I wrote this report, since the end of the fiscal year, there were a few events that gave the financial markets some pause. In July, events in Washington, D.C. began to heat up again. The national economic fiscal year ended September 30th and Congress needed to pass either a 2014 budget, or, some form of continuing resolution authorizing government operations. At the same time, the debt ceiling was expected to be reached again sometime in October or November. In August, geopolitical risk intensified on news that the U.S. might engage in tactical military strikes against Syria. In September, the President's front-runner to succeed Chairman Bernanke withdrew his name from consideration. Fed Vice Chair Janet Yellen became the favorite to succeed Chairman Bernanke. In addition, at the September 2013 Federal Reserve Federal Open Market Committee meeting, the Fed stated that the "Committee decided to keep the target range for the federal funds rate at 0 to 0.25% and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6.50%..." On that statement alone, interest rates moved lower quickly, from 2.89% to 2.67% in a single trading session.

Conclusion

I would like to thank each of the Board of Trustees, the ultimate fiduciaries of AJRS, for embracing the current investment structure that allowed AJRS to achieve strong results for the members and the Arkansas taxpayers. AJRS' 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 AJRS assets are positioned to provide long-term financial stability for you, the members.

Respectfully yours,



Carlos Borromeo
Chief Investment Officer

Investment Consultant's Report



Callan Associates Inc.
120 North LaSalle Street
Suite 2400
Chicago, IL 60602



Main 312.346.3536
Fax 312.346.1356

www.callan.com

September 3, 2013

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	37%
International Equity	15%
Domestic Fixed Income	40%
Real Estate	8%

The Fund benchmark is the return that would have been achieved if the Fund had been invested: 37% in the Russell 3000 Index, 15% in the Morgan Stanley Capital International Europe, Australia, Far East Index, 40% in the Barclays Capital Aggregate Bond Index and 8% in the NCREIF Fund Index - Open End Diversified Core Equity Real Estate 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%).

Callan

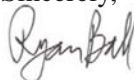
Total Fund Returns

For the fiscal year 2013 AJRS produced a return of 14.42%. This return exceeded the fund benchmark, as described above, by 3.50%.

The five-year annualized return of 5.95% was in line with the Fund's benchmark return of 5.94%. In the Callan Public Fund Universe, AJRS' total fund performance ranks at the 25th 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 37% of the funds to domestic equity investments, 40% 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	32% to 42%
Int'l Equities	10% to 20%
Fixed Income	35% to 45%
Real Estate	3% to 13%

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 37% Russell 3000 Index and 40% Barclays Aggregate Index, 15% MSCI EAFE Index, and 8% NFI-ODCE Equal Weight net, 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.

Asset Allocation

Actual versus Target Asset Allocation as of June 30, 2013

AJRS is within the range of target allocations in the policy targets. This target should be confirmed based on AJRS ongoing asset allocation discussions. The current target allocation was updated to reflect the new core real estate allocation effective January 1, 2013, and is as follows:

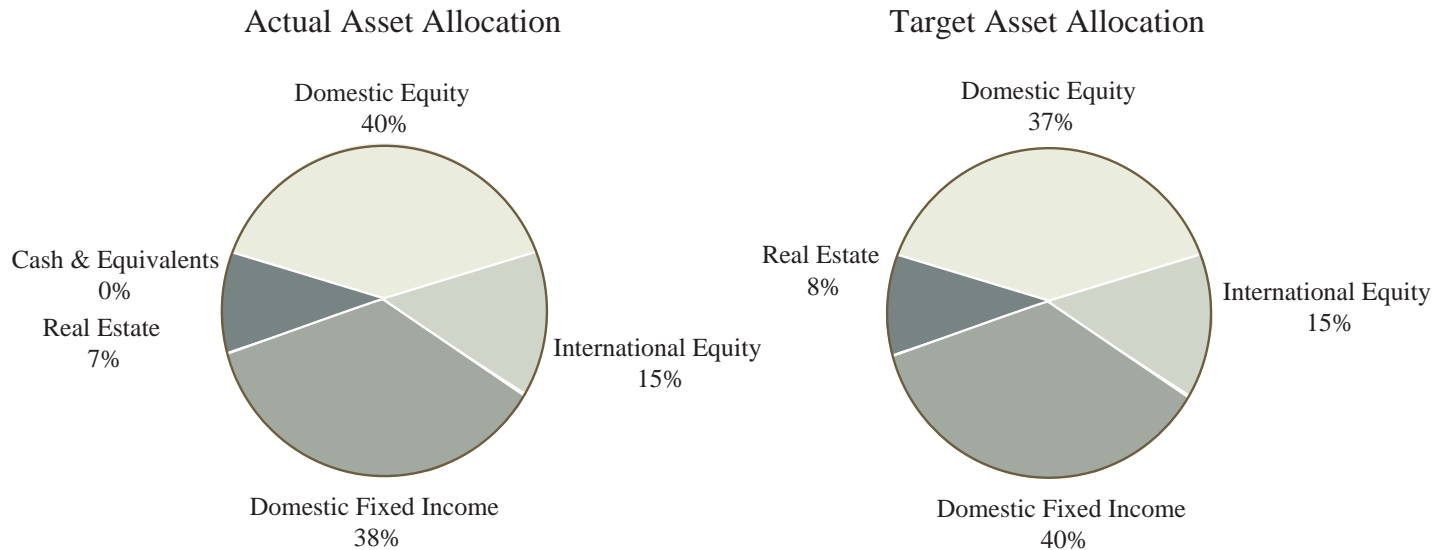


Table may not add to 100% due to rounding.

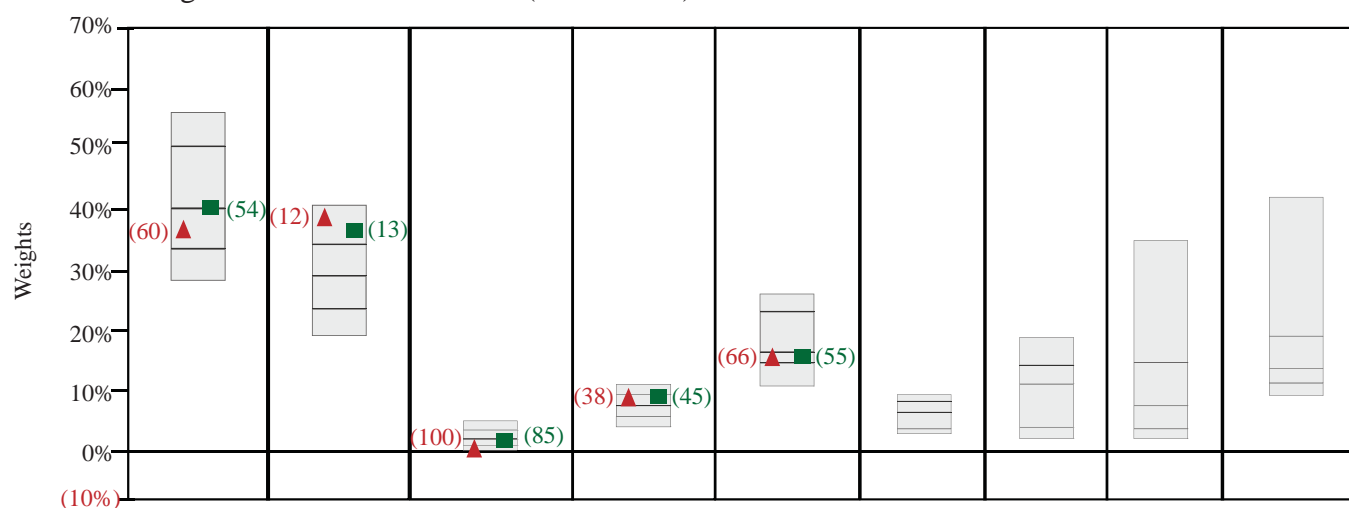
Asset Class	Actual \$000s	Percent Actual	Percent Target	Percent Difference	\$ 000s Percent
Domestic Equity	\$ 75,725	39.7%	37.0%	2.7%	5,160
International Equity	28,911	15.2%	15.0%	0.2%	304
Domestic Fixed Income	71,953	37.7%	40.0%	-2.3%	-4,334
Real Estate	14,022	7.4%	8.0%	-0.6%	-1,235
Cash	106	0.1%	0.0%	0.1%	106
Total*	<u>\$ 190,717</u>	<u>100.0%</u>	<u>100.0%</u>		

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

* Totals may not add due to rounding

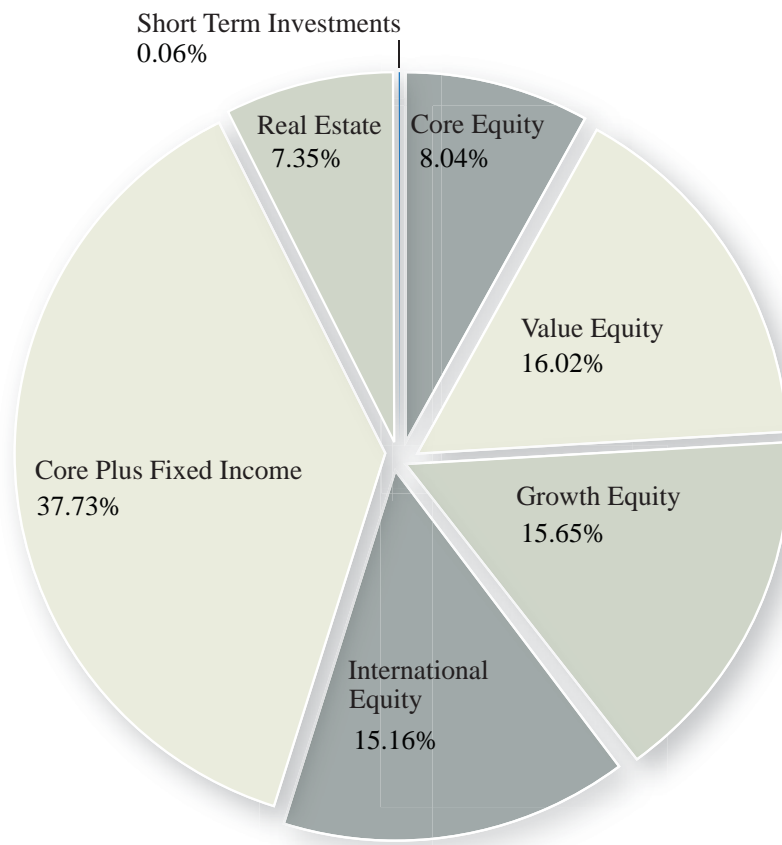
Public Plan Sponsor Database

Asset Class Weights vs Public Fund - Mid (100mm-1B)



	Domestic Equity	Domestic Fixed Income	Cash & Equivalents	Real Estate	International Equity	Intl Fixed-Inc	Alternative	Global Balanced	Global Equity Broad
10th Percentile	55.17	41.65	2.86	10.27	24.08	9.99	18.62	32.20	39.88
25th Percentile	49.63	35.42	1.78	8.83	20.09	8.67	13.95	15.33	19.82
Median	40.50	29.27	0.73	6.81	15.51	6.59	10.27	8.89	14.20
75th Percentile	33.64	24.29	0.21	5.21	14.32	3.70	4.59	4.63	11.30
90th Percentile	28.31	20.02	0.03	3.84	10.12	3.27	2.42	2.79	9.07
Fund	39.71	37.73	0.06	7.35	15.16	-	-	-	-
Target	37.00	40.00	0.00	8.00	15.00	-	-	-	-

Manager Distribution for Fiscal Year 2013



Totals may not add to 100% due to rounding.

Investment Portfolio Distribution 2013 (Market Value)

Strategy & Investment Manager	Market Value
Core Equity	
Batterymarch Financial Management	\$ 15,333,527
Value Equity	
Robeco Boston Partners	30,549,086
Growth Equity	
Wellington Management Co.	29,842,341
International Equity	
Capital Guardian	28,911,092
Core Plus Fixed Income	
MacKay Shields LLC	71,952,604
Real Estate	
Invesco Core Real Estate	14,022,160
Short Term Investments	
AJRS General Fund	106,381
Total Investments	<u>\$ 190,717,191</u>

Schedule of Comparative Investment Results

Fiscal Years Ended 2009 through 2013

Fiscal Years Ended June 30	2013	2012	2011	2010	2009
Total Fund:					
Arkansas Judicial Retirement System	14.42%	1.78%	21.73%	12.07%	(15.94)%
Callan Total Public Fund Median	11.99	1.20	20.87	12.91	(17.13)
Inflation (Consumer Price Index)	1.75	1.58	4.06	1.36	(1.98)
Equities:					
Arkansas Judicial Retirement System	22.94%	1.49%	34.58%	15.93%	(28.10)%
Callan Total Equity Database Median	22.91	0.46	34.22	16.87	(26.12)
Russell 3000 Index	21.46	3.84	32.37	15.72	(26.56)
International Equities:					
Arkansas Judicial Retirement System	21.00%	(12.33)%	31.44%	9.83%	(30.17)%
Callan Total Non-US Equity Database Median	18.69	(12.53)	31.71	8.99	(30.99)
MSCI EAFE Index	18.62	(13.83)	30.36	5.92	(31.35)
Fixed Income:					
Arkansas Judicial Retirement System	4.84%	6.94%	7.63%	10.04%	(1.62)%
Callan Total Fixed Income Database Median	0.88	7.34	5.00	11.47	5.09
Barclays Capital Aggregate Index	(0.69)	7.47	3.90	9.50	6.05

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

Fiscal Years Ended June 30	2013	Annualized 3-Year	5-Year
Total Fund:			
Arkansas Judicial Retirement System	14.42%	12.33%	5.95%
Callan Total Public Fund Median	11.99	11.02	5.32
Inflation (Consumer Price Index)	1.75	2.46	1.34
Equities:			
Arkansas Judicial Retirement System	22.94%	19.15%	7.12%
Callan Total Equity Database Median	22.91	18.72	7.98
Russell 3000 Index	21.46	18.63	7.25
International Equities:			
Arkansas Judicial Retirement System	21.00%	11.71%	1.35%
Callan Total Non-US Equity Database Median	18.69	11.16	0.84
MSCI EAFE Index	18.62	10.04	(0.63)
Fixed Income:			
Arkansas Judicial Retirement System	4.84%	6.46%	5.49%
Callan Total Fixed Income Database Median	0.88	4.66	5.97
Barclays Capital Aggregate Index	(0.69)	3.51	5.19

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

Portfolio Characteristic for Fiscal Year Ended June 30, 2013 and 2012

	2013	2012
Selected Bond Characteristics:		
Yield to Maturity (Market)	3.81%	4.00%
Current Yield	3.32	3.43
Average Coupon Rate	3.76	3.86
Average Maturity	7.14Yrs.	6.79Yrs.
Quality Breakdown		
AAA (Includes Govts. & Agencies)	28.10%	28.10%
AA	2.70	4.40
A	15.30	15.10
BAA	19.80	29.50
Below BAA	27.80	18.10
*Cash	6.30	4.80
Selected Stock Characteristics:		
Average P/E Ratio	16.17x	13.29x
Estimated Earnings Growth Rate (Next 5 Years)	11.77%	12.37%
Current Yield	1.70%	2.85%

* Includes Short Term Investment Fund

Source: Callan Associates

Ten Largest Holdings

As of June 30, 2013

Fixed Income Holdings (By Market Value)

	Par	Description	Market Value
1)	1,282,500	U.S. Treasury Note 0.75% 03/31/2018	\$ 1,248,334
2)	553,750	U.S. Treasury Note 1.75% 05/15/2023	518,620
3)	378,750	U.S. Treasury Note 1.00% 05/31/2018	372,239
4)	325,000	U.S. Treasury Note 1.00% 07/15/2013	325,114
5)	206,250	Citigroup Inc. 8.125% 07/15/2039	272,403
6)	150,000	Pacific Life Insurance Co. 7.90% 12/30/2023	194,796
7)	168,750	Entergy Gulf States Louisiana 5.59% 10/01/2024	193,205
8)	187,500	Federal Home Loan Mortgage Corp. 2.00% 08/14/2017	187,881
9)	162,500	GNMA 30yr TBA 6.50% 07/15/2043	182,863
10)	201,250	U.S. Treasury Bond 2.75% 08/15/2042	173,705
			<u>\$ 3,669,160</u>

Equity Holdings (By Market Value)

	Shares	Description	Market Value
1)	2,755	Berkshire Hathaway Inc.	\$ 308,312
2)	7,000	Wells Fargo & Co.	288,890
3)	9,204	Pfizer Inc.	257,797
4)	2,821	Exxon Mobil Corp.	254,900
5)	4,825	JP Morgan Chase & Co.	254,712
6)	5,277	Citigroup Inc.	253,126
7)	2,303	Occidental Petroleum Corp.	205,452
8)	2,385	Johnson & Johnson	204,776
9)	7,726	Cisco Systems Inc.	188,018
10)	4,566	Microsoft Corp.	157,741
			<u>\$ 2,373,724</u>

International Equity Holdings (By Market Value)

	Shares	Description	Market Value*
1)	3,082	Roche Holding Genus	\$ 766,856
2)	8,418	ASML Holdings NV	664,757
3)	1,925	Keyence	614,265
4)	142,078	AIA Group Ltd	601,756
5)	10,680	BNP Paribas	583,500
6)	9,950	Softbank Corp	580,883
7)	35,266	Prudential	576,604
8)	7,856	Schneider Electric SA	569,912
9)	6,076	Murata Manufacturing Co LTD	462,500
10)	3,950	Pernod Ricard SA	437,969
			<u>\$ 5,859,002</u>

* 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
INSTINET Corp.	455,356	\$ 5,956.37	\$ 0.01
J.P. Morgan Securities, Inc.	346,895	5,277.50	0.02
Goldman Sachs & Co.	350,445	4,153.05	0.01
Citigroup Global Markets, Inc.	167,481	2,706.01	0.02
Citation Group	192,245	2,464.65	0.01
Sanford C. Bernstein & Co. LLC	181,775	2,163.24	0.01
Investment Technology Group	116,147	2,129.53	0.02
Liquidnet Inc.	93,190	1,807.69	0.02
Weeden & Co.	116,740	1,751.10	0.02
SJ Levinson & Sons LLC	95,440	1,213.89	0.01
UBS Securities LLC	76,120	1,069.40	0.01
Stiel, Nicolaus & Co. LLC	55,405	1,011.51	0.02
RBC Capital Markets LLC	46,987	996.05	0.02
Keefe, Bruyette & Woods	43,606	943.22	0.02
Credit Suisse First Boston	52,805	850.75	0.02
ISI Group Inc.	23,540	812.20	0.03
Broadcourt Capital Corp.	24,645	753.00	0.03
Getgo Execution Svcs, LLC	49,610	544.83	0.01
Morgan Stanley & Co. Inc.	29,285	487.11	0.02
Cowen and Company LLC	13,480	413.50	0.03
Barclays Capital Inc.	13,190	337.60	0.03
Knight Equity Markets L.P.	12,375	261.50	0.02
Suntrust Capital Markets, Inc.	7,075	218.90	0.03
Dahlman Rose & Co. LLC	6,375	215.18	0.03
State Street Brokerage Svcs	6,300	189.00	0.03
Others (includes 22 brokerage firms)	83,750	1,530.89	0.02
	<u>2,660,262</u>	<u>\$ 40,257.67</u>	\$ 0.02

Schedule of Investment Fees

Equities	Market Value	Fee	Basis Points
Batterymarch Financial Management	\$ 15,333,527	\$ 128,092	0.85
Wellington Management Co.	29,842,341	150,877	0.55
Robeco Boston Partners	30,549,086	179,147	0.58
	<u>\$ 75,724,954</u>	<u>\$ 458,116</u>	
Fixed Income			
MacKay Shields LLC	\$ 71,952,604	\$ 227,944	0.30
International Equity			
Capital Guardian	\$ 28,911,092	\$ 185,058	0.67
Real Estate			
Invesco Core Real Estate	\$ 14,022,160	<u>\$ 58,744</u>	0.80
Total Investment Manager Fees		<u>\$ 929,862</u>	
Other Services			
Bank of New York Mellon (Custodian)		\$ 15,285	
Callan Associates (Consultant)		50,835	
Total Other Services		<u>\$ 66,120</u>	
Total Investment Fees		<u><u>\$ 995,982</u></u>	

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Pike County Courthouse

ACTUARIAL

Actuary's Certification Letter

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Insert Separator Page

Actuary's Certification Letter



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November 12, 2013

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 progress towards meeting this financial objective is illustrated in the Schedule of Funding Progress and the Schedule of Employer Contributions.

We performed an actuarial valuation and issued an actuarial valuation report for AJRS as of June 30, 2013. The purpose of the June 30, 2013 annual actuarial valuation was to determine the contribution requirements for the fiscal year ending June 30, 2015, to measure the System's funding progress, and to provide actuarial information in connection with applicable Governmental Accounting Standards Board Statements. The valuation should not be relied upon for any other purpose. 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, 2013.

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 12, 2013
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, 2013 valuations were based upon assumptions that were recommended in connection with a study of experience through the period 2006-2011.

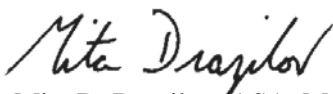
Future actuarial measurements may differ significantly from those presented in the annual valuations due to such factors as experience differing from that anticipated by actuarial assumptions, or changes in plan provisions, actuarial assumption/methods or applicable law. Due to the limited scope of the assignment, we did not perform an analysis of the potential range of future measurements.

The signing actuaries are independent of the plan sponsor.

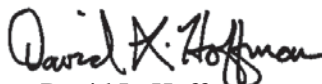
On the basis of the June 30, 2013 actuarial valuation and the benefits and contribution rates then in effect, it is our opinion that the Judicial Retirement System is satisfying the general financial objective of level-percent-of-payroll financing.

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 D. Drazilov, ASA, MAAA



David L. Hoffman

MDD: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 53. 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 53. 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 53. 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.

The probabilities of retirement for members eligible to retire are shown on page 54. Adopted 2012.

The probabilities of withdrawal from service, death-in-service and disability are shown for sample ages on page 53. 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 below 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, 2013
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 increase in active Judges pay. Post June 30, 1983 Retirees: 3.0 Compound.
Retirees and beneficiaries receiving benefits	125
Terminated plan members entitled to but not yet receiving benefits	4
Active plan members	<u>140</u>
Total	<u>269</u>

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 Expectancy (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%

Decrement And Pay Increase Assumptions for Active Members

Sample Ages	Years of Service	Percent of Active Members Separating Within the Next Year				Withdrawal	Pay Increase Assumptions For Individual Member		
		Men Death	Men Disability	Women Death	Women Disability		Merit and 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	Percentages 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 and Over	100%	

For Tier One, 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 Two, a member was assumed eligible to retire at age 50 with 20 years of service, or at age 65 with 8 years of service. A member was assumed eligible to retire early at age 62 with 8 years of service.

Schedule of Active Member Valuation Data

Active Member - Historic Comparison Schedule

Valuation Date June 30	Number	Active Members		
		Valuation Payroll		
		\$ 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%
2013	140	19.6	139,898	2.0%

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.

Valuation Date June 30	Entry Age Accrued Liability			Present Assets	Portion of Present Values Covered By Present Assets				
	(1) Active Member Contributions	(2) Retirees and Benefits	(3) Active Member (Employer Financed Portion)		(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 (a)	12,356	107,413	75,685	167,796	100%	100%	63%	86% (e)	
2013	12,397	114,770	75,967	182,596	100%	100%	73%	90% (f)	

(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. (f) 94% on a market value basis.

Retirees and Beneficiaries Tabulated by Attained Age

Attained Ages	Retirees		Survivor Beneficiaries		Total	
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances
55			3	\$ 174,100	3	\$ 174,100
58	1	\$ 102,102			1	102,102
60	1	81,519			1	81,519
61	2	151,894	1	44,508	3	196,402
62	2	202,726	1	53,336	3	256,062
63	3	211,591			3	211,591
64	1	109,006	1	55,871	2	164,877
65	6	516,698	1	84,350	7	601,048
66	3	242,945	1	64,320	4	307,265
67	5	458,165			5	458,165
68	5	453,358	4	261,004	9	714,362
69	1	86,733	1	57,706	2	144,439
70	7	520,919	1	61,961	8	582,880
71	3	301,806	3	185,555	6	487,361
72	4	387,141	2	122,062	6	509,203
73	3	116,474	1	83,314	4	199,788
74	4	297,188			4	297,188
75	3	269,019			3	269,019
76	6	533,744			6	533,744
77	3	252,309	1	62,729	4	315,038
78	6	580,024			6	580,024
79	3	273,528	2	111,742	5	385,270
80	1	88,604			1	88,604
81	4	348,440			4	348,440
82	2	173,706	1	55,871	3	229,577
83	2	170,883	1	67,181	3	238,064
84	2	192,964	1	55,871	3	248,835
85	1	83,389	2	111,742	3	195,131
86			3	171,281	3	171,281
87	2	217,751	1	55,871	3	273,622
88	2	172,254			2	172,254
89	1	134,361			1	134,361
92	1	83,389			1	83,389
93	1	86,128	1	55,871	2	141,999
96			1	55,871	1	55,871
TOTALS	91	\$ 7,900,758	34	\$ 2,052,117	125	\$ 9,952,875

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

Attained Ages	Years of Service to Valuation Date							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
50-54			1		1			2	\$ 277,964
55-59									
60				1		1		2	277,964
61				1		1		2	277,964
62						1	1	2	277,964
63			1	2		1	1	5	699,475
64					1	1	1	3	416,946
65				1		1	1	3	416,946
66					2		1	3	416,946
67					1			1	138,982
68					1	1	1	3	426,072
69					1			1	138,982
70				1	1			2	287,090
71				1				1	138,982
72			1		1			2	277,964
Totals			3	7	9	7	6	32	\$ 4,470,241

Group	No.	Averages		
		Age	Service	Annual Pay
Tier One	32	64.4	23.2	\$ 139,695

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

Attained Ages	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	\$ 143,547
40-44	3	4	4					11	1,540,213
45-49	4	2	3	2				11	1,533,367
50-54	2	3	3	3	4			15	2,098,421
55-59	2	3	8	3	4	5		25	3,483,680
60	1			1		1		3	421,511
61	3		1			1		5	694,910
62			1	1	2			4	555,928
63	1	1				2		4	555,928
64	1		3				2	6	833,892
65	1	1	1			1	1	5	694,910
66	1		3				1	5	699,475
67		1	1					2	277,964
68									
69	2		3				1	6	859,476
70	1							1	148,108
71					1			1	138,982
72	1							1	143,547
73									
74							1	1	143,547
75							1	1	148,108
Totals	24	15	31	10	11	10	7	108	\$ 15,115,514

Group	No.	Averages		
		Age	Service	Annual Pay
Tier Two	108	57.0	13.7	\$ 139,958

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.

	2013	2012
1) UAAL* at start of year	\$ 27,658,407	\$ 21,257,898
2) Normal cost from last valuation	4,513,478	4,647,948
3) Employer contributions	5,672,291	5,465,079
4) Interest accrual: (1) * .0725 + [(2) - (3)]* .03625	1,963,228	1,563,700
5) Expected UAAL before changes: (1) + (2) - (3) + (4)	28,462,822	22,004,467
6) Changes in benefits/assumptions	0	5,206,866
7) Expected UAAL after changes: (5) + (6)	28,462,822	27,211,333
8) Actual UAAL at end of year	20,537,315	27,658,407
9) Gain(Loss): (7) - (8)	\$ 7,925,507	\$ (447,074)
10) Gain(Loss) as percent of actuarial accrued liabilities at start of year: \$195,454,614	4.1%	(0.2)%
Last year's accrued liability	\$ 195,454,614	\$ 186,634,881

* Unfunded actuarial accrued liability.

Analysis of Experience by Risk Area

During the period July 1, 2012 to June 30, 2013

Type of Risk Area	Gain (Loss) During Year	
	(\$ in millions)	% of Accrued Liabilities
ECONOMIC RISK AREAS		
Pay Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a (loss).	\$ 1.3	0.7%
Investment Return. If there is greater investment return than assumed, there is a gain. If less return, a (loss).	5.6	2.9%
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).	0.8	0.4%
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).	0.4	0.2%
Retired Mortality. If there are fewer deaths than assumed, there is a loss. If more, a gain. This includes gains and losses related to Tier I pre-July 1, 1983 retired member increases.	0.8	0.4%
Other. Gains and losses resulting from group size change, data adjustments, timing of financial transactions, additional contributions and miscellaneous unidentified sources.	(1.0)	(0.5)%
Experience Gains/(Loss)	<u>\$ 7.9</u>	<u>4.1%</u>

Summary of Plan Provisions

July 1, 2013

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 and Service Annuity

60% of the judge's final salary, for life.

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.

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.

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.

Tier One

Tier Two

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 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.

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.

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.



Hempstead County Courthouse

STATISTICAL

Schedule of Revenues by Source

Schedule of Expenses by Type

Schedule of Benefit Expenses by Type

Schedule of Retired Members by Type of Benefit

Statistical Graphs

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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
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
2013	886,685	4,931,998	740,293	40,696	23,706,205	30,305,877

Schedule of Expenses by Type

Year Ending June 30	Benefit Payments	Administrative Expenses	Refunds	Total
2004	\$ 6,438,128	\$ 40,085	\$ 0	\$ 6,478,213
2005	6,776,490	42,733	6,491	6,825,714
2006	7,064,031	46,486	0	7,110,517
2007	7,119,046	56,922	0	7,175,968
2008	7,308,028	58,544	42,372	7,408,944
2009	8,235,694	59,194	20,505	8,315,393
2010	9,125,873	49,021	22,782	9,197,676
2011	8,983,419	48,919	15,823	9,048,161
2012	9,280,100	67,798	7,014	9,354,912
2013	9,448,550	55,591	27,593	9,531,734

Schedule of Benefit Expenses by Type*

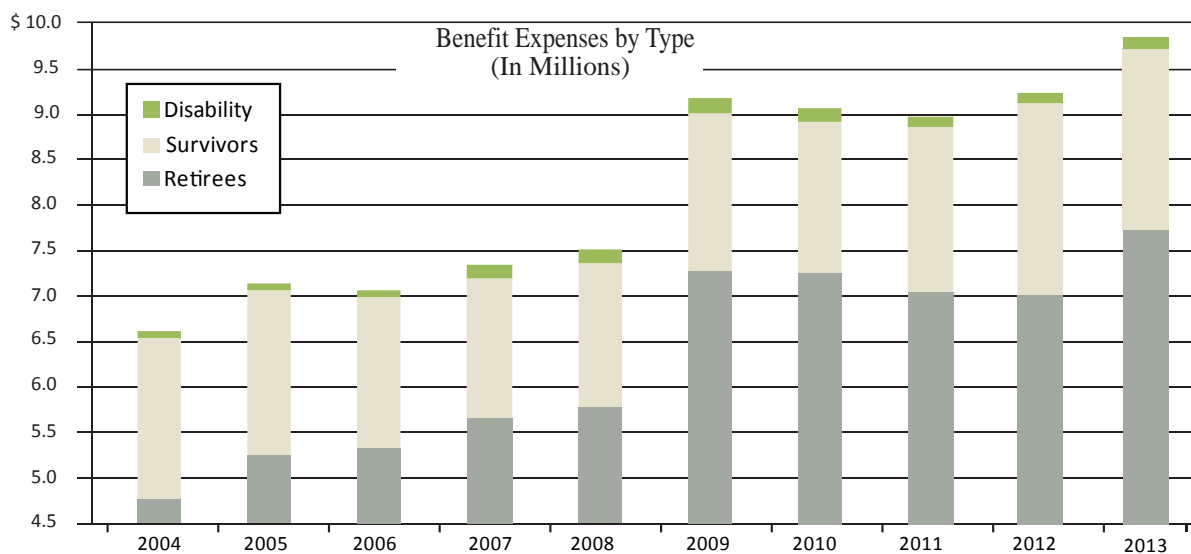
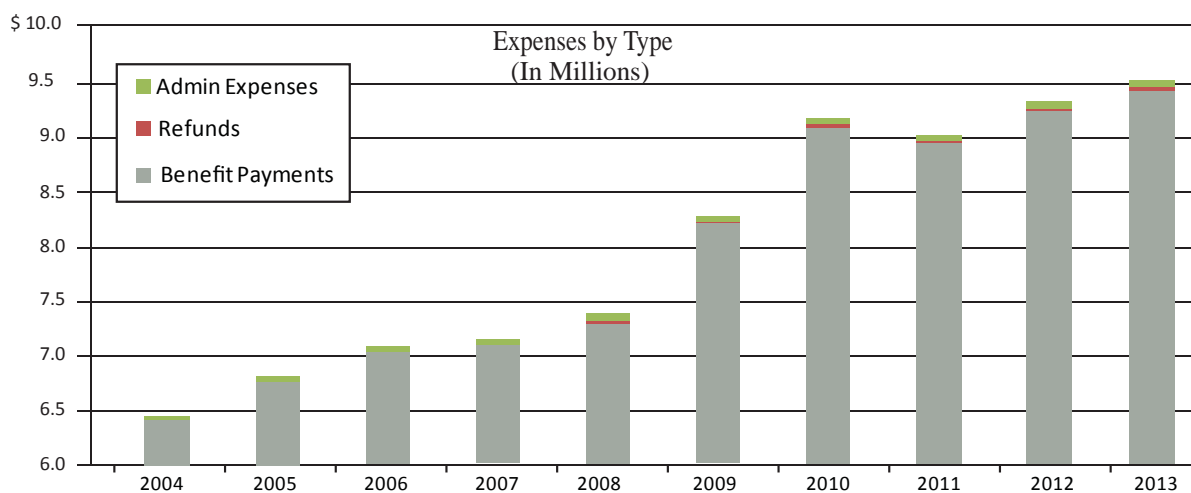
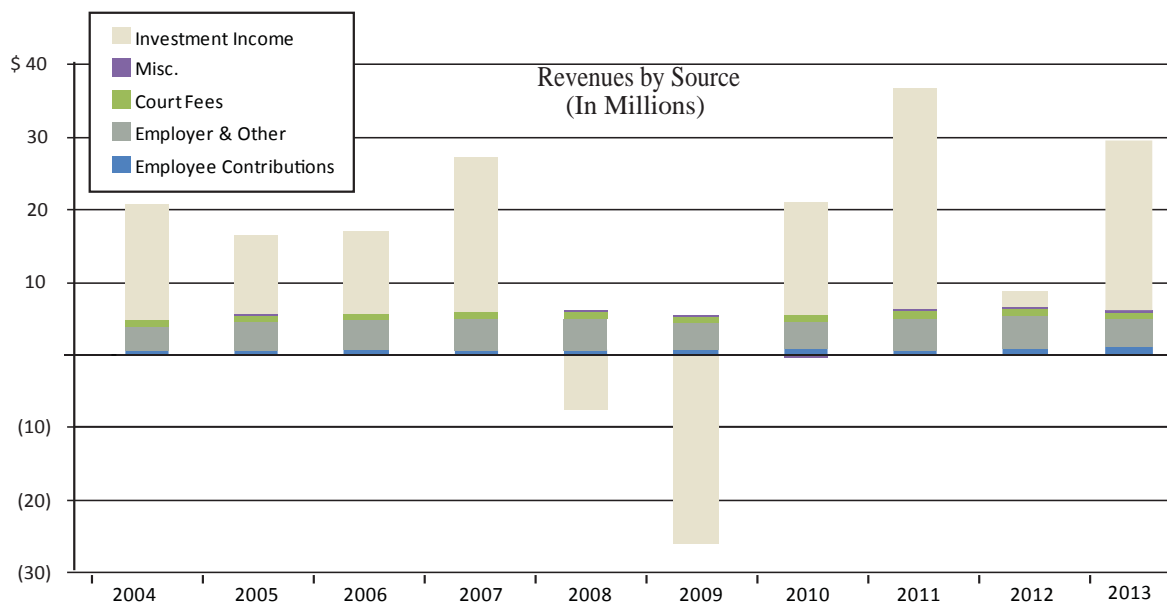
Year Ended June 30	Age and Service		Disability
	Retirees	Survivors	Retirees
2004	\$ 4,754,790	\$ 1,779,788	\$ 77,201
2005	5,243,125	1,820,472	78,905
2006	5,320,958	1,656,576	80,635
2007	5,657,487	1,536,228	148,797
2008	5,764,682	1,588,875	152,438
2009	7,266,337	1,742,101	157,724
2010	7,254,889	1,642,645	159,842
2011	7,032,265	1,824,181	110,829
2012	7,010,699	2,096,331	114,154
2013	7,783,179	1,992,752	117,579

* Benefit 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 and Service Retirees			
Life	10	\$ 778,587	\$ 7,574,328
Life Continuing to Survivor	79	7,004,592	84,549,120
Totals	89	7,783,179	92,123,448
Beneficiaries of Age and Service Retirees	33	1,992,752	20,558,508
Total Age and Service Retirees and Beneficiaries	122	9,775,931	112,681,956
Disability Retirees			
Life	1	79,463	602,340
Life Continuing to Survivor	1	38,116	499,656
Totals	2	117,579	1,101,996
Beneficiaries of Disability Retirees	0	0	0
Total Disability Retirees and Beneficiaries	2	117,579	1,101,996
Death-in-Service Beneficiaries	1	59,365	986,160
Total of all Retirees and Beneficiaries	125	\$ 9,952,875	\$ 114,770,112

Statistical Graphs



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

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ARKANSAS JUDICIAL RETIREMENT SYSTEM

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