



AJRS

**ARKANSAS JUDICIAL RETIREMENT SYSTEM**

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**Annual Financial Report 2015**



# Arkansas Judicial Retirement System

A Pension Trust Fund of the State of Arkansas



## Annual Financial Report

For the Fiscal Year Ended June 30, 2015

Gail H. Stone, Executive Director

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

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Circuit Judge

**GAYLE FORD**  
Circuit Judge (Retired)

**MARK HEWETT**  
Circuit Judge (Retired)

**CHARLES YEARGAN**  
Circuit Judge

**MARICA HEARNSBERGER**  
Circuit Judge

**GAIL H. STONE**  
AJRS Executive Director

## INTRODUCTION

A Brief History

System Highlights

Letter of Transmittal

Board of Trustees

AJRS Senior Staff

Outside Professional Service Providers

## A Brief History

### Arkansas Judicial Retirement System

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

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

The System provides for the retirement of all circuit judges, court of appeals judges and Arkansas Supreme Court justices. Act 399 of 1999 created a Tier II benefit plan for all persons who become members of the System after August 1, 1999. Any active member of the System prior to August 1, 1999 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.

This annual financial report, which covers the period from July 1, 2014 through June 30, 2015, 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, 2015

### ACTIVE MEMBERS

|                        |            |
|------------------------|------------|
| Number                 | 139        |
| Average Age (yrs.)     | 58.6       |
| Average Service (yrs.) | 16.4       |
| Average Annual Salary  | \$ 160,489 |

### 2015 RETIREES

|                         | Age and Service | Disability |
|-------------------------|-----------------|------------|
| Retired Members         | 14              | NA         |
| Average Age (yrs.)      | 69.5            | NA         |
| Average Service (yrs.)  | 0.0             | NA         |
| Average Monthly Benefit | \$ 7,128.52     | NA         |
| Total Retired Members   | 137             |            |
| Average Monthly Benefit | \$ 7,198.27     |            |

## Letter of Transmittal



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Circuit Judge

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Circuit Judge (Retired)

**MARK HEWETT**  
Circuit Judge (Retired)

**CHARLES YEARGAN**  
Circuit Judge

**MARCIA HEARNSBERGER**  
Circuit Judge

**GAIL H. STONE**  
AJRS Executive Director

January 2, 2016

Dear AJRS Members:

The Arkansas Judicial Retirement System (AJRS) is pleased to present the Annual Financial Report for the period ending June 30, 2015. 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.

### Funding

The System is funded through contributions from the state and employees as well as 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 A.C.A. Title 24, Chapter 2, the Board 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 Board 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 AJRS staff under the direction of the Board. 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 Marcia Hearnberger**

Circuit Judge  
Garland County Courthouse, Room 304  
Hot Springs, AR, 71901

**Administrative Office**

**Gail Stone** - Executive Director  
Arkansas Judicial Retirement System  
124 West Capitol Avenue, Suite 400  
Little Rock, AR 72201  
501-682-7800  
1-800-682-7377

## AJRS Senior Staff



**Ms. Gail Stone**

Executive Director



**Mr. Jay Wills**

Chief Counsel



**Mr. Jason Willett**

Chief Financial Officer



**Mr. Carlos Borromeo**

Chief Investment Officer



**Ms. Susan Bowers**

Assistant Director of Investments



**Ms. Allison Woods**

Director of Benefits Administration



**Mr. Phillip Norton**

Director of Information Technology



**Ms. Becky Walker**

Director of Operations



**Ms. Jacobia Twiggs**

Manager, Educational Outreach



**Ms. Jennifer Taylor**

Manager, Retiree Services Section



**Mr. Jon Aucoin**

Manager, Communications Section

## Outside Professional Service Providers

### Custodian Bank

The Bank of New York Mellon  
Pittsburgh, PA 15258

### Actuary

Gabriel, Roeder, Smith & Co.  
Southfield, MI 48076

### Investment Consultant

Callan Associates, Inc.  
Chicago, IL 60602

### Investment Managers

Batterymarch Financial Management, Inc.  
Boston, MA 02116

Capital Guardian Trust Co.  
Los Angeles, CA 90017

Invesco Real Estate  
Dallas, TX 75240

MacKay Shields  
New York, NY 10105

Boston Partners  
Boston, MA 02108

Wellington Management Company  
Boston, MA 02210



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**CHARLES YEARGAN**  
Circuit Judge

**MARICA HEARNSBERGER**  
Circuit Judge

**GAIL H. STONE**  
AJRS Executive Director

## FINANCIAL

### Basic Financial Statements

- Statement of Fiduciary Net Position
- Statement of Changes in Fiduciary Net Position
- Notes to the Financial Statements

### Required Supplementary Information

- Schedule of Employer Contributions
- Schedule of Funding Progress
- Schedule of Changes in the Net Pension Liability and Related Ratios
- Schedule of the Net Pension Liability
- Schedule of Investment Returns

### Notes to Required Supplementary Information

- Schedule of Administrative Expenses
- Schedule of Investment Expenses
- Payments for Professional Consultants

## Management's Discussion and Analysis

To help facilitate a better understanding of the financial condition of the Arkansas Judicial Retirement System (AJRS or the System) as of June 30, 2015, management has prepared this narrative analysis. This narrative is intended to supplement the System's financial statements, and, as such, should be read in conjunction with these statements, which are presented on page 16 and page 17.

### Revenues

The fiscal year 2015 revenue from employer and employee contributions totaled \$6.03 million. This amount is \$245,846 less than fiscal year 2014. Court fees for fiscal year 2015 were \$609,388, which is \$155,495 less than fiscal year 2014.

Net investment gain for fiscal year 2015 was \$9.97 million after investment expenses of \$1,203,702, a decrease of \$19.821 million from fiscal year 2014. Overall, the System's total additions decreased by \$20.227 million from fiscal year 2014. The primary reason for this large decrease was the lower investment return achieved in fiscal year 2015.

### Expenses

Benefit payments for fiscal year 2015 were \$10.763 million, or \$796,851 more than fiscal year 2014. Administrative expenses were \$137,951, of which \$24,615 was for professional fees and \$106,303 was transferred to the Arkansas Public Employment Retirement System for indirect administrative costs.

**STATEMENT OF FIDUCIARY NET POSITION**  
As of June 30, 2015

|   | 2015                  | 2014                  |
|---|-----------------------|-----------------------|
| <b>ASSETS</b>                                       |                       |                       |
| Cash and Cash Equivalents                           | \$ 2,614,398          | \$ 2,303,730          |
| <b>Receivables</b>                                  |                       |                       |
| Contributions                                       | 288,901               | 254,997               |
| Deceased Retirant Receivable                        | 1,212                 | 899                   |
| Investment Principal Receivable                     | 339,825               | 168,321               |
| Accrued Investment Income Receivable                | 818,379               | 609,793               |
| <b>Total Receivables</b>                            | <b>1,448,317</b>      | <b>1,034,010</b>      |
| <b>Investments, At Fair Value</b>                   |                       |                       |
| Government Securities                               |                       |                       |
| U.S. Government Securities                          | 21,175,809            | 19,479,909            |
| U.S. Government Agency Securities                   | 2,799,386             | 1,647,651             |
| Futures   | (43,034)              | 33,337                |
| Corporate Securities                                |                       |                       |
| Fixed Income Commingled                             | 13,863,986            | 13,984,184            |
| Collateralized Obligations                          | 3,195,731             | 4,698,737             |
| Corporate Bonds                                     | 34,339,069            | 30,544,947            |
| Common Stock  | 53,724,351            | 54,232,785            |
| Domestic Equity Commingled                          | 36,595,418            | 35,450,908            |
| International Securities                            |                       |                       |
| Global Commingled                                   | 34,114,766            | 34,834,138            |
| Global Corporate Fixed Income                       | 2,640,989             | 2,955,347             |
| Forwards  | (12,959)              | (883)                 |
| Emerging Markets                                    | 445,194               | 449,387               |
| Real Estate   | 17,678,979            | 15,433,610            |
| Commercial Loans                                    | 616,430               | 654,296               |
| <b>Total Investments</b>                            | <b>221,134,115</b>    | <b>214,398,353</b>    |
| <b>TOTAL ASSETS</b>                                 | <b>225,196,830</b>    | <b>217,736,093</b>    |
| <b>LIABILITIES</b>                                  |                       |                       |
| Accrued Expenses and Other Liabilities              | 314,968               | 305,552               |
| Investment Principal Payable                        | 1,758,112             | 0                     |
| <b>TOTAL LIABILITIES</b>                            | <b>2,073,080</b>      | <b>305,552</b>        |
| <b>NET POSITION RESTRICTED FOR PENSION BENEFITS</b> | <b>\$ 223,123,750</b> | <b>\$ 217,430,541</b> |

The accompanying notes are an integral part of these financial statements.  
A schedule of funding progress is on page 40.

## STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the year ended June 30, 2015

|                                | 2015                  | 2014                  |
|--------------------------------|-----------------------|-----------------------|
| <b>ADDITIONS</b>               |                       |                       |
| Contributions                  |                       |                       |
| Employer                       | \$ 5,078,901          | \$ 5,345,572          |
| Employee                       | 946,149               | 925,324               |
| Court Fees                     | 609,388               | 764,883               |
| <b>Total Contributions</b>     | <b>6,634,438</b>      | <b>7,035,779</b>      |
| Investment Income              |                       |                       |
| Interest                       | 2,804,513             | 2,608,166             |
| Dividends                      | 1,908,027             | 1,780,295             |
| Currency Gain/(Loss)           | (192,891)             | 65,620                |
| Investment Gain                | 6,655,877             | 26,439,314            |
| <b>Total Investment Income</b> | <b>11,175,526</b>     | <b>30,893,395</b>     |
| Less: Investment Expense       | 1,203,702             | 1,100,282             |
| <b>Net Investment Income</b>   | <b>9,971,824</b>      | <b>29,793,113</b>     |
| Other Additions                |                       |                       |
| Miscellaneous Additions        | 2,092                 | 6,873                 |
| <b>TOTAL ADDITIONS</b>         | <b>16,608,354</b>     | <b>36,835,765</b>     |
| <b>DEDUCTIONS</b>              |                       |                       |
| Benefits                       | 10,762,871            | 9,966,020             |
| Refunds of Contributions       | 14,320                | 18,836                |
| Administrative Expenses        | 137,951               | 130,529               |
| <b>TOTAL DEDUCTIONS</b>        | <b>10,915,142</b>     | <b>10,115,385</b>     |
| <b>NET INCREASE (DECREASE)</b> | <b>5,693,212</b>      | <b>26,720,380</b>     |
| <b>NET POSITION</b>            |                       |                       |
| Beginning of Year              | 217,430,541           | 190,710,161           |
| End of Year                    | <u>\$ 223,123,753</u> | <u>\$ 217,430,541</u> |

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



## NOTES TO THE FINANCIAL STATEMENTS

## Note 1: Plan Description

AJRS is a single-employer, defined benefit pension plan established on March 28, 1953.

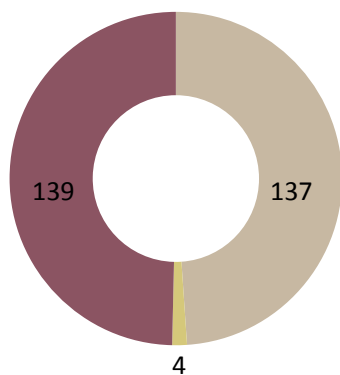
The System provides for the retirement of all circuit judges, court of appeals judges, and Supreme Court justices. The laws governing operations of AJRS are set forth in Arkansas Code of 1987 Annotated (A.C.A.) §§ 24-8-201 through 24-8-228 and §§ 24-8-701 through 24-8-717. The administration and control of the System is vested in the Board of Trustees of the Arkansas Judicial Retirement System (the Board), which includes five members selected by the Arkansas Judicial Council.

## Membership

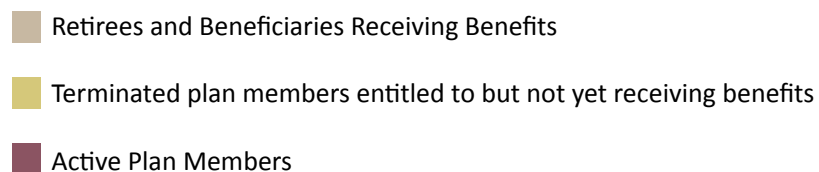
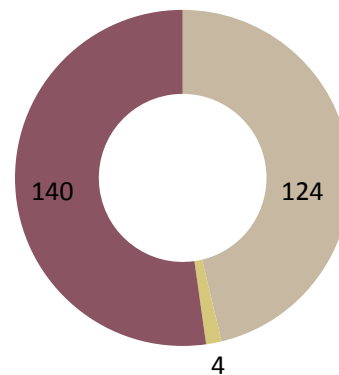
As of June 30, 2015 and 2014, membership was as follows:

| MEMBERSHIP   | 2015       | 2014       |
|--|------------|------------|
| Retirees and Beneficiaries Receiving Benefits                      | 137        | 124        |
| Terminated plan members entitled to but not yet receiving benefits | 4          | 4          |
| Active Plan Members  | 139        | 140        |
| <b>TOTAL</b>   | <b>280</b> | <b>268</b> |

2015 Membership



2014 Membership



### 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 is 6% of annual salary for Tier I (A.C.A. § 24-8-209) and 5% of annual salary for Tier II (A.C.A. § 24-8-706). When a judge is certified as eligible for retirement, no further contribution is required of him for Tier I (A.C.A. § 24-8-211) or for Tier II (A.C.A. § 24-8-708). 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 investment earnings.

### Benefits

An active member in Tier I with a minimum of 10 years of credited service may voluntarily retire upon reaching 65 years of age or thereafter upon filing a written application with the Board. Any other Tier I member who has a minimum of 20 years of credited service may retire regardless of age, and any judge or justice who has served at least 14 years is eligible for benefits upon reaching age 65. 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 8 years of actual service as a justice of the Arkansas State Supreme Court or a judge of the circuit courts or the Arkansas Court of Appeals (A.C.A. § 24-8-215). An active or former member in Tier II may retire at age 65 with 8 or more years of credited service or after 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 on or 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%. Post retirement increases for members are authorized in A.C.A. sections as follows:

Tier I judged first elected prior to July 1, 1983: § 24-8-218 (c) (1) (B)

Tier I judged first elected after July 1, 1983: § 24-8-223

Tier II judges: § 24-8-717

### Funded Status and Funding Progress

The funded status of the plan as of June 30, 2015, the most recent actuarial date, is as follows (dollar amounts in thousands):

| Valuation Date | (1)<br>Actuarial<br>Value of<br>Assets | (2)<br>Actuarial<br>Accrued<br>Liability<br>(AAL) | (3)<br>Unfunded<br>AAL<br>(UAAL)<br>(2 - 1) | (4)<br>Funded<br>Ratio<br>(1/2) | (5)<br>Annual<br>Covered<br>Payroll | (6)<br>UAAL as a<br>Percentage of<br>Covered<br>Payroll<br>(3/5) |
|----------------|--|---|---|---------------------------------|-------------------------------------|--|
| 6/30/2015      | \$ 215,448                             | \$ 254,714  | \$ 39,266                                   | 84.6%                           | \$ 22,308                           | 176%   |

## Note 2: Summary of Significant Accounting Policies

### Basis of Accounting

AJRS accounts and records are maintained using fund accounting principles, and its financial statements are prepared using the accrual basis of accounting. Contributions and other revenues are recorded in the accounting period in which they are earned, and expenses are recognized when due and payable in accordance with the terms of the System.

### Use of Estimates

The preparation of the System's financial statements in conformity with accounting principles generally accepted in the U.S. requires the System administrator to make significant estimates and assumptions that affect various data in the report, including the following:

- The net position restricted for pensions at the date of the financial statements
- The net pension liability and other actuarial information presented in Note 5
- The required supplementary information as of the benefit information date
- The changes in fiduciary net position during the reporting period

Estimates may also be involved in formulating disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from these estimates.

### Cash and Cash Equivalents

Cash and cash equivalents include demand accounts, cash in state treasury, and short-term investment funds (STIF). The STIF accounts are created through daily sweeps of excess cash by the System's custodian bank into a bank-sponsored commingled fund that is invested in U.S. Government and agency securities and other short-term instruments.

### Risks and Uncertainties

Certain data in this report – including contributions to the System and the net pension liability, as well as other actuarial information in Note 5 and the required supplementary information – has been formulated based on certain projections about interest rates, inflation rates, and employee compensation and demographics. Due to the dynamic nature of these factors, it is possible that these projections will need to be revised in the near term. Moreover, because of the uncertainties inherent in making such projections, the effect of any such changes could be material to the financial statements.

### Note 3: Legally Required Reserves

A description of reserve accounts and their balances for the years ended June 30, 2015 and 2014 are as follows:

The Members' Deposit Account (MDA) represents members' contributions held in trust until each 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.

|  | 2015                  | 2014                  |
|--|-----------------------|-----------------------|
| Members Deposit Account                  | \$ 12,665,310         | \$ 13,309,917         |
| Members Deposit Account Interest Reserve | 698                   | 698                   |
| Employer Accumulation Account            | 96,866,600            | 89,701,771            |
| Retirement Reserve Account               | 112,149,007           | 112,698,183           |
| Deferred Annuity Account                 | 1,442,136             | 1,719,972             |
| <b>TOTAL</b>                             | <b>\$ 223,123,751</b> | <b>\$ 217,430,541</b> |

#### Note 4: Deposits and Investments

The deposits and investments of the System are exposed to risks that have the potential to result in losses. The following information discloses risks related to credit, interest rate and foreign currency risks, as well as policies related to these risks.

##### Deposits

Deposits are carried at cost and are included in "cash and cash equivalents". Cash and cash equivalents consisted of cash deposits with financial institutions of \$24,119, STIF accounts in the amount of \$2,589,799, and \$480 cash in state treasury. 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.

##### 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 collateral securities held by an outside party. The System's deposit policy is to place deposits only in collateralized or insured accounts. As of June 30, 2015, the System's only deposits exposed to potential custodial credit risk were those holding its foreign currency balance of \$96,831. The System holds foreign currency in banks outside the United States as a result of transactions by international investment managers.

##### Investments

Arkansas Code Annotated §§ 24-2-601 through 24-2-619 authorize the Board 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 fees for investment management, custodial fees, and all other significant investment related costs.

Arkansas Code Annotated § 24-2-608 also states the System shall seek to invest not less than 5% or more than 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. As stated in A.C.A. § 24-2-608 (d), "nothing in this section shall in any way limit or impair the responsibility of a fiduciary to invest in accordance with the prudent investor rule set forth in §§ 24-2-610 – 24-2-619."

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 custodian bank's determination of fair values includes, among other things, using pricing services or quotes by independent brokers at current exchange rates, as available.

As of June 30, 2015, the System had the following investments:

| INVESTMENT TYPE                 | Fair Value*           |
|---------------------------------|-----------------------|
| <b>GOVERNMENT SECURITIES</b>    |                       |
| U.S. Government Securities      | \$ 21,175,809         |
| Agency Debentures               | 671,152               |
| Agency Pooled                   | 2,128,234             |
| <b>CORPORATE SECURITIES</b>     |                       |
| Collateralized Obligations      | 3,195,731             |
| Corporate Bonds                 | 34,339,069            |
| High Yield Income Fund          | 13,863,986            |
| Domestic Equity Commingled      | 36,595,418            |
| Common Stock                    | 53,724,351            |
| <b>INTERNATIONAL SECURITIES</b> |                       |
| Global Commingled               | 34,114,766            |
| Emerging Markets                | 445,194               |
| Global Corporate Fixed          | 2,640,989             |
| Forwards                        | (12,959)              |
| <b>FUTURES</b>                  | (43,034)              |
| <b>COMMERCIAL LOANS</b>         | 616,430               |
| <b>REAL ESTATE COMMINGLED</b>   | 17,678,979            |
|                                 | <u>\$ 221,134,116</u> |

\* Principal only



### 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 (a) uninsured, (b) not registered in the name of the government, and (c) held by either the counterparty or the counterparty's trust department or agent but not in the System's name. As of June 30, 2015, there were no investments exposed to custodial credit risk.

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. Investments can be highly sensitive to changes in interest rates due to their terms or characteristics. Interest rate risk is the greatest risk faced by an investor in the debt securities market since the price of a debt security will often move in the opposite direction of the change in interest rates.

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, 2015, 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         |
| U.S. Government Securities | \$ 21,175,809        | \$ 0                           | \$ 13,021,967        | \$ 4,330,655         | \$ 3,823,186         |
| Agency Debentures          | 671,152              | 0                              | 671,152              | 0                    | 0                    |
| Agency Pooled              | 2,128,234            | 0                              | 0                    | 0                    | 2,128,234            |
| Collateralized Obligations | 3,195,731            | 1,021,330                      | 341,017              | 0                    | 1,833,384            |
| Corporate Bonds            | 34,339,069           | 1,204,547                      | 10,587,191           | 10,309,687           | 12,237,645           |
| High Yield Income Fund     | 13,863,986           | 0                              | 13,863,986           | 0                    | 0                    |
| Emerging Markets           | 445,194              | 0                              | 0                    | 445,194              | 0                    |
| Global Corporate Fixed     | 2,640,989            | 0                              | 345,195              | 1,249,898            | 1,045,896            |
| Commercial Loans           | 616,430              | 0                              | 616,430              | 0                    | 0                    |
|                            | <u>\$ 79,076,594</u> | <u>\$ 2,225,877</u>            | <u>\$ 39,446,938</u> | <u>\$ 16,335,433</u> | <u>\$ 21,068,345</u> |

\* Principal only

### Foreign Currency Risk

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, 2015 was as follows:

| CURRENCY               | %        | Fair Value | Fixed Income | Cash      | Forward Contracts |
|------------------------|----------|------------|--------------|-----------|-------------------|
| British Pound Sterling | 142.65%  | \$ 3,302   | \$ 662,734   | \$ 71,808 | \$ (731,239)      |
| Euro Currency          | (42.65)% | (987)      | 348,428      | 25,024    | (374,439)         |
| Total Fair Value       | 100.0%   | \$ 2,315   | \$ 1,011,161 | \$ 96,831 | \$ (1,105,678)    |

### 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 Bank of New York Mellon provided the detail of Standard & Poor's (S&P) and Moody's ratings (see overleaf).

The System's exposure to credit risk as of June 30, 2015, was as follows:

### Moody's Credit Rating Dispersion Detail by Credit Rating

| Investment Type and Fair Value | Aaa                  | Aa                | A                   |
|--------------------------------|----------------------|-------------------|---------------------|
| Government Securities          |                      |                   |                     |
| U.S. Government Securities     | \$ 21,175,809        | \$ 0              | \$ 0                |
| Agency Debentures              | 671,152              | 0                 | 0                   |
| Agency Pooled                  | 1,095,825            | 0                 | 0                   |
| Corporate Securities           |                      |                   |                     |
| Collateralized Obligations     | 910,568              | 378,562           | 201,213             |
| High Yield Income Fund         | 0                    | 0                 | 0                   |
| Corporate Bonds                | 0                    | 500,571           | 8,233,492           |
| International Securities       |                      |                   |                     |
| Emerging Markets               | 0                    | 0                 | 0                   |
| Global Corporate Fixed         | 0                    | 0                 | 406,543             |
| Commercial Loans               | 0                    | 0                 | 0                   |
|                                | <u>\$ 23,853,354</u> | <u>\$ 879,133</u> | <u>\$ 8,841,248</u> |

### S&P's Credit Rating Dispersion Detail by Credit Rating

| Investment Type and Fair Value | AAA               | AA                   | A                    |
|--------------------------------|-------------------|----------------------|----------------------|
| Government Securities          |                   |                      |                      |
| U.S. Government Securities     | \$ 0              | \$ 21,175,809        | \$ 0                 |
| Agency Debentures              | 0                 | 671,152              | 0                    |
| Agency Pooled                  | 0                 | 1,323,029            | 0                    |
| Corporate Securities           |                   |                      |                      |
| Collateralized Obligations     | 910,568           | 378,562              | 150,282              |
| High Yield Income Fund         | 0                 | 0                    | 0                    |
| Corporate Bonds                | 0                 | 1,453,511            | 10,178,584           |
| International Securities       |                   |                      |                      |
| Emerging Markets               | 0                 | 0                    | 0                    |
| Global Corporate Fixed         | 0                 | 0                    | 0                    |
| Commercial Loans               | 0                 | 0                    | 0                    |
|                                | <u>\$ 910,568</u> | <u>\$ 25,002,063</u> | <u>\$ 10,328,866</u> |

\* Principal only. Totals may not add due to rounding.

| Baa                  | Ba                  | B                   | C or below          | NR                  | Fair Value*          |
|----------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| \$ 0                 | \$ 0                | \$ 0                | \$ 0                | \$ 0                | \$ 21,175,809        |
| 0                    | 0                   | 0                   | 0                   | 0                   | 671,152              |
| 0                    | 0                   | 0                   | 0                   | 1,032,409           | 2,128,234            |
| 0                    | 341,017             | 150,282             | 1,121,958           | 92,131              | 3,195,731            |
| 0                    | 7,556,710           | 6,307,277           | 0                   | 0                   | 13,863,986           |
| 20,025,677           | 2,930,326           | 2,448,104           | 0                   | 200,900             | 34,339,069           |
| 0                    | 210,500             | 0                   | 0                   | 234,694             | 445,194              |
| 1,143,913            | 510,116             | 580,418             | 0                   | 0                   | 2,640,989            |
| 0                    | 174,485             | 0                   | 441,945             | 0                   | 616,430              |
| <u>\$ 21,169,590</u> | <u>\$11,723,153</u> | <u>\$ 9,486,080</u> | <u>\$ 1,563,903</u> | <u>\$ 1,560,134</u> | <u>\$ 79,076,594</u> |

| BBB                  | BB                  | B                   | CCC or below        | NR                  | Fair Value*          |
|----------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| \$ 0                 | \$ 0                | \$ 0                | \$ 0                | \$ 0                | \$ 21,175,809        |
| 0                    | 0                   | 0                   | 0                   | 0                   | 671,152              |
| 0                    | 0                   | 0                   | 0                   | 805,205             | 2,128,234            |
| 201,213              | 341,017             | 0                   | 1,049,023           | 165,066             | 3,195,731            |
| 0                    | 7,556,710           | 6,307,277           | 0                   | 0                   | 13,863,986           |
| 14,672,009           | 4,387,750           | 1,841,766           | 288,063             | 1,517,386           | 34,339,069           |
| 234,694              | 0                   | 0                   | 0                   | 210,500             | 445,194              |
| 2,009,947            | 50,625              | 580,418             | 0                   | 0                   | 2,640,989            |
|                      |                     | 174,485             | 441,945             |                     | 616,430              |
| <u>\$ 17,117,862</u> | <u>\$12,336,101</u> | <u>\$ 8,903,945</u> | <u>\$ 1,779,031</u> | <u>\$ 2,698,157</u> | <u>\$ 79,076,594</u> |

### Concentration of Credit Risk

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 or 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 5% of total investments.

### Mortgage-Backed Securities

The System invests in mortgage-backed securities (MBSs) which are reported at fair value in the *Statement of Fiduciary Net Position*. MBSs 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. An MBS depends on the underlying pool of mortgage loans to provide cash flow to make principal and interest payments on the security. The life of a mortgage that underlies an MBS can be shortened by several economic events, including borrower refinancing. When interest rates decline and remain low, borrowers may refinance their existing loans which causes MBS holders to be repaid more quickly than originally anticipated, and 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 MBSs. 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 MBSs.

A collateralized mortgage obligation (CMO) is an MBS that is composed of classes of bonds created by prioritizing the cash flows of the underlying mortgage pool. This redistributes prepayment risk and 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. As of June 30, 2015, the System held approximately \$2.911 million of collateralized obligations.

The System invests in MBSs and CMOs for diversification and to enhance fixed income returns. In addition to the risks outlined above, MBSs are subject to credit risk, the risk that the borrower will be unable to meet its obligations.

As of June 30, 2015, the System held approximately \$2.128 million in mortgage-backed securities, none of which were considered as highly sensitive to changes in interest rates.

#### Asset-Backed Securities

As of June 30, 2015, the System held asset-backed securities with a fair value of approximately \$285 thousand. Asset-backed securities (ABSs) 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 the collateralized mortgage obligations described above, ABSs 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, 2015, the System held corporate bonds with a fair value of approximately \$34.34 million. Corporate bonds are a debt security issued by a corporation. The backing for the bond is usually the ability of the company to pay the debt, which is typically based on money to be earned from future operations. In some cases, the company's physical assets may be used as collateral for bonds. Such bonds 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.

#### Pooled Funds

AJRS has approximately \$34.114 million invested in international pooled funds. AJRS could be indirectly exposed to credit and market risks associated with currency forward contracts to the extent that these pooled funds hold currency forward contracts for purposes of managing exposure to fluctuations in foreign exchange rates.

### Derivative Instruments

Derivative instruments are financial contracts or agreements whose values depend on the values of one or more underlying assets, reference rates, or financial indexes. Derivative instruments include futures contracts, forward contracts, swap contracts, options contracts, and forward foreign currency exchange. At any given time, AJRS, through its external investment managers, may hold such instruments. The external investment managers may enter into these investments on behalf of AJRS, primarily to enhance the performance and reduce the volatility of its portfolio. The external investment managers may 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 by evaluating the counterparties before approval, establishing credit limits for each counterparty, and employing procedures for monitoring exposure to credit risk. 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 MBSs, which are reported at fair value in the *Statement of Fiduciary Net Position*. Because MBSs are based on the cash flows from interest and principal payments of the underlying mortgages, they are sensitive to prepayments on mortgages in a declining interest rate environment that could reduce the value of the securities. The external investment manager may invest in MBSs to diversify AJRS' portfolio and increase return while minimizing the extent of risk.

As of June 30, 2015, the System had the following currency forwards:

| FOREIGN CURRENCY FORWARD CONTRACTS | Unrealized Gain/(Loss) |
|------------------------------------|------------------------|
| European Euro Currency             | \$ 338                 |
| British Pound Sterling             | (13297)                |

As of June 30, 2015, the System had the following mortgage-backed TBA:

| MORTGAGE-BACKED TBA   | CUSIP     | Notional   | Fair Mkt Value | Duration | Credit Rating |
|-----------------------|-----------|------------|----------------|----------|---------------|
| FNMA 4.00% 07/01/2045 | 01F040677 | \$ 806,787 | \$ 805,204     | 28.68    | AA+/Aaa       |



As of June 30, 2015, the System had the following U.S. Treasury futures:

| Future Description          | Maturity Date | CUSIP     | Notional        | Unrealized Gain/(Loss) |
|-----------------------------|---------------|-----------|-----------------|------------------------|
| U.S. 2-year Treasury Future | 9/29/2015     | 99F183I5A | \$ (52,107,125) | \$ (41,034)            |
| U.S. 5-year Treasury Future | 9/29/2015     | 99F217I5A | \$ 3,816,250    | \$ (2,000)             |
|                             |               |           | \$ (48,290,875) | \$ (43,034)            |

## Note 5: Net Pension Liability

The components of the net pension liability of the System at June 30, 2015, were as follows:

|  |                |
|--|----------------|
| Total Pension Liability  | \$ 254,713,985 |
| Plan Fiduciary Net Position  | \$ 223,123,751 |
| Net Pension Liability  | \$ 31,590,234  |
|  |                |
| Plan fiduciary net position as a percentage of total pension liability | 87.60%         |

### Investments

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return were provided by the plan's investment consultant. For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2015, these best estimates, provided by the plan's investment consultant, are summarized in the following table:

| Asset Class           | Target Allocation | Long-Term Expected Real Rate of Return |
|-----------------------|-------------------|--|
| Broad Domestic Equity | 37.0%             | 6.82%                                  |
| International Equity  | 15.0              | 6.88                                   |
| Real estate           | 8.0               | 5.04                                   |
| Cash Equivalents      | 0.0               | 0.02                                   |
| Domestic Fixed        | 40.0              | 0.83                                   |
| <b>TOTAL</b>          | <b>100%</b>       |  |

|  |       |
|--|-------|
| Total Real Rate of Return                    | 4.29% |
| Plus: Price Inflation - Actuary's Assumption | 2.50  |
| Less: Admin and Investment Expenses*         | (0.1) |
| Net Expected Return                          | 6.69% |

\*This may overstate the investment expense because the investment market assumptions are based upon passive management. Our assumption for investment expense includes the cost of active management.

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 4.6%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

#### Discount Rate

A single discount rate of 6.25% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 6.25%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

#### Sensitivity of the Net Pension Liability

The following presents the net pension liability of the System, calculated using the discount rate of 6.25%, as well as what the System's net pension liability would be if it were calculated using a discount rate of one percentage point lower (5.25 %) or one percentage point higher (7.25%) than the current rate:

|                       | 1% Decrease<br>5.25% | Current Discount Rate<br>6.25% | 1% Increase<br>7.25% |
|-----------------------|----------------------|--------------------------------|----------------------|
| Net pension liability | \$ 60,992,117        | \$ 31,590,234                  | \$ 6,653,353         |

The Board engages an independent firm of actuaries to (1) estimate the present value of actuarial accrued liabilities (AALs) and pension benefit obligations so they can then (2) determine the reserves and employer contribution rates that are required to meet the System's obligations to current and terminated participants, retired individuals, and beneficiaries.

AALs 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 AALs is calculated based on the entry age actuarial cost method with benefits based on projected salary increases. The actuarial assumed investment rate of return of 6.25% was allocated to appropriate actuarial accrued liabilities.

#### Actuarial Gains and Losses

Actuarial gains and losses result from the differences between the AAL 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 AAL based on the annual actuarial valuation. The 2015 actuarial gains and losses were due to routine adjustments of actuarial assumptions and methodology, as well as normal experience gains and losses. The resulting actuarial loss was \$9,428,557.

#### 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 \$39,266,434 as of June 30, 2015.

|   | (1)<br>Total<br>Present<br>Value | (2)<br>Portion Covered<br>By Future<br>Normal Cost<br>Contributions | (3)<br>Actuarial Accrued<br>Liabilities<br>(1)-(2) |
|---|----------------------------------|---|--|
| <b>ACTUARIAL PRESENT VALUE OF</b>   |                                  |   |  |
| Benefits to be paid to current retirees,<br>beneficiaries, and future beneficiaries of<br>current retirees                            | \$ 143,898,474                   | \$ 0  | \$ 143,898,474                                     |
| Age and service allowances based on total<br>service likely to be rendered by present active<br>members                               | 149,567,354                      | 41,248,959  | 108,318,395  |
| Separation benefits (refunds of contributions<br>and deferred allowances) likely to be paid to<br>present active and inactive members | 2,857,281                        | 1,391,430   | 1,465,851  |
| Disability benefits likely to be paid to present<br>active members  | 1,139,622                        | 1,426,572   | (286,950)  |
| Death-in-service benefits likely to be paid on<br>behalf of present active members  | 2,187,946                        | 869,731   | 1,318,215  |
| <b>TOTAL</b>  | <b>\$ 299,650,677</b>            | <b>\$ 44,936,692</b>  | <b>\$ 254,713,985</b>                              |
| Applicable Assets (Funding Value)   | 215,447,551                      | 0   | 215,447,551  |
| Liabilities to be covered by future<br>contributions  | <b>\$ 84,203,126</b>             | <b>\$ 44,936,692</b>  | <b>\$ 39,266,434</b>                               |

## 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.

### SCHEDULE OF EMPLOYER CONTRIBUTIONS

| Year Ended<br>June 30 | Annual Required<br>Contribution | Percent<br>Contributed |
|-----------------------|---------------------------------|------------------------|
| 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                    |
| 2014                  | 6,117,327                       | 100                    |
| 2015                  | \$ 5,690,381                    | 100%                   |

Obtained from 6/30/2015 Actuarial Valuations



The percentage contributed 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<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Entry Age<br>(AAL)<br>(b) | UAAL<br>(b) - (a) | Funded Ratio<br>(a)/(b) | Annual<br>Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage of<br>Covered Payroll<br>[(b-a)/(c)] |
|--------------------------------|--|---------------------------|-------------------|-------------------------|-------------------------------------|--|
| 6/30/96                        | \$ 51,478                              | \$ 63,452                 | \$ 11,974         | 81.1 %                  | \$ 11,714                           | 102 %  |
| 6/30/97                        | 63,284                                 | 65,657                    | 2,373             | 96.4                    | 12,422                              | 19   |
| 6/30/98                        | 77,175                                 | 71,274                    | (5,901)           | 108.3                   | 13,084                              | 0  |
| 6/30/99                        | 91,783                                 | 82,776                    | (9,007)           | 110.9                   | 13,891                              | 0  |
| 6/30/00                        | 107,059                                | 83,211                    | (23,848)          | 128.7                   | 14,371                              | 0  |
| 6/30/01                        | 119,191                                | 116,073                   | (3,118)           | 102.7                   | 14,869                              | 0  |
| 6/30/02                        | 124,212                                | 124,734                   | 522               | 99.6                    | 15,487                              | 3  |
| 6/30/03                        | 126,520                                | 137,925                   | 11,405            | 91.7                    | 15,935                              | 72   |
| 6/30/04                        | 129,065                                | 141,775                   | 12,710            | 91.0                    | 16,282                              | 78   |
| 6/30/05                        | 135,062                                | 150,580                   | 15,519            | 89.7                    | 16,638                              | 93   |
| 6/30/06                        | 145,050                                | 156,510                   | 11,459            | 92.7                    | 17,009                              | 67   |
| 6/30/07                        | 159,587                                | 157,373                   | (2,215)           | 101.4                   | 17,334                              | 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  |
| 6/30/14                        | 201,792                                | 208,006                   | 6,213             | 97.0                    | 19,782                              | 31   |
| 6/30/15                        | \$ 215,448                             | \$ 254,714                | 39,266            | \$ 84.6                 | \$ 22,308                           | 176 %  |

UAAL is Unfunded Actuarial Accrued Liability

Note: Dollars in thousands.

## SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

| Last 10 Fiscal Years  | 2015                   | 2014                  |
|---|------------------------|-----------------------|
| <b>TOTAL PENSION LIABILITY</b>  |                        |                       |
| Service cost  | \$ 5,342,168.00        | \$ 5,319,836.00       |
| Interest  | 14,883,382             | 14,607,426            |
| Changes in benefit terms  | 0                      |                       |
| Differences between expected and actual experience                                | 12,969,853             | (5,751,106)           |
| Changes of assumptions  | 24,290,229             | 0                     |
| Benefit payments  | (10,762,871)           | (9,966,020)           |
| Refunds   | (14,320)               | (18,836)              |
| <b>NET CHANGE IN TOTAL PENSION LIABILITY</b>                                      | <b>46,708,441</b>      | <b>4,191,300</b>      |
| <b>TOTAL PENSION LIABILITY, BEGINNING OF YEAR</b>                                 | <b>208,005,544</b>     | <b>203,814,244</b>    |
| <b>TOTAL PENSION LIABILITY, END OF YEAR (A)</b>                                   | <b>\$ 254,713,985</b>  | <b>\$ 208,005,544</b> |
| <b>PLAN FIDUCIARY NET POSITION</b>  |                        |                       |
| Employer contributions  | \$ 5,690,381           | \$ 6,117,327          |
| Employee contributions  | 946,149                | 925,324               |
| Net investment income   | 9,971,823              | 29,793,113            |
| Benefit payments  | (10,762,871)           | (9,966,020)           |
| Refunds   | (14,320)               | (18,836)              |
| Administrative expense  | (137,951)              | (130,528)             |
| <b>NET CHANGE IN PLAN FIDUCIARY NET POSITION</b>                                  | <b>5,693,211</b>       | <b>26,720,380</b>     |
| <b>PLAN FIDUCIARY NET POSITION, BEGINNING OF YEAR</b>                             | <b>217,430,540</b>     | <b>190,710,161</b>    |
| <b>PLAN FIDUCIARY NET POSITION, END OF YEAR (B)</b>                               | <b>\$ 223,123,751</b>  | <b>\$ 217,430,541</b> |
| <b>NET PENSION LIABILITY, END OF YEAR (A) - (B)</b>                               | <b>\$ \$31,590,234</b> | <b>\$ (9,424,997)</b> |
| <b>PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY</b> | <b>87.60%</b>          | <b>104.53%</b>        |
| <b>COVERED-EMPLOYEE PAYROLL</b>   | <b>\$ 22,308,000</b>   | <b>\$ 19,781,628</b>  |
| <b>NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL</b>          | <b>141.61%</b>         | <b>(47.65%)</b>       |

## SCHEDULE OF NET PENSION LIABILITIES

## APERS

| FY Ending<br>June 30, | Total Pension<br>Liability | Plan Net<br>Position | Net Pension<br>Liability | Plan Net<br>Position as<br>a % of Total<br>Pension<br>Liability | Covered Payroll | Net<br>Pension<br>Liability<br>as a % of<br>Covered<br>Payroll |
|-----------------------|----------------------------|----------------------|--------------------------|---|-----------------|--|
| 2014                  | \$ 208,005,544             | \$ 217,430,541       | \$ (9,424,997)           | 104.53%   | \$ 19,781,628   | (47.65)%   |
| 2015                  | \$254,713,985              | \$223,123,751        | \$31,590,234             | 87.60%  | \$22,308,000    | 141.61%  |

## SCHEDULE OF INVESTMENT RETURNS

Annual money-weighted rate of return,  
net of investment expense

| 2015  | 2014   |
|-------|--------|
| 4.60% | 15.63% |

## Notes to Required Supplementary Information

### SCHEDULE OF ADMINISTRATIVE EXPENSES

As of June 30, 2015

|                                      | 2015              | 2014              |
|--------------------------------------|-------------------|-------------------|
| <b>COMMUNICATIONS</b>                |                   |                   |
| Printing and Advertising             | \$ 2,044          | \$ 4,075          |
| Travel                               | 1,596             | 1,638             |
| <b>SERVICES AND CHARGES</b>          |                   |                   |
| Professional Fees and Services       | 24,615            | 16,800            |
| Bank & Federal Service Charges       | 3,393             | 3,353             |
| <b>TOTAL SERVICE AND CHARGES</b>     | <b>28,008</b>     | <b>20,153</b>     |
| Transfer to APERS for Administration | 106,303           | 104,663           |
| <b>TOTAL ADMINISTRATIVE EXPENSES</b> | <b>\$ 137,951</b> | <b>\$ 130,529</b> |

NOTE: Admin expenses will change once pension expense amount is adjusted based upon actuarially determined net pension liability

### SCHEDULE OF INVESTMENT EXPENSES

As of June 30, 2015

|                                  | 2015                | 2014                |
|----------------------------------|---------------------|---------------------|
| Custodian Bank Fees              | \$ 14,899           | \$ 14,600           |
| Investment Consultant Fee        | 55,002              | 52,868              |
| Investment Manager Fees*         | 1,133,801           | 1,032,574           |
| Transaction Fees                 | 0                   | 240                 |
| <b>TOTAL INVESTMENT EXPENSES</b> | <b>\$ 1,203,702</b> | <b>\$ 1,100,282</b> |

### PAYMENTS FOR PROFESSIONAL CONSULTANTS

As of June 30, 2015

|                                  | 2015      | 2014      |
|----------------------------------|-----------|-----------|
| Gabriel, Roeder, Smith & Company | \$ 24,615 | \$ 16,800 |

\* For fee paid to investment managers, please see the schedule of investment fees shown on page 64 in the Investments Section of this report.



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Circuit Judge (Retired)

**MARK HEWETT**  
Circuit Judge (Retired)

**CHARLES YEARGAN**  
Circuit Judge

**MARICA HEARNSBERGER**  
Circuit Judge

**GAIL H. STONE**  
AJRS Executive Director

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Investment Consultant's Report

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Schedule of Investment Fees

## Chief Investment Officer's Report



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 Circuit Judge (Retired)

**CHARLES YEARGAN**  
 Circuit Judge

**MARCIA HEARNSBERGER**  
 Circuit Judge

**GAIL H. STONE**  
 AJRS Executive Director

## Chief Investment Officer's Report

Dear Members,

Oh behalf of the AJRS Investment Department, it is my pleasure to present the Investment Section of the APERS' Annual Financial Report for the fiscal year ended June 30, 2015.

### Performance and Stability

For fiscal year 2015, the AJRS investment portfolio closed with total investments of \$221,134,115. The investment return for the fiscal year was 5.06%.

The second half of 2014 provided headwind for fiscal year 2015 as global equity indices posted negative returns in the second half of 2014. The MSCI Index fell 5.88% in the 3rd quarter of 2014, and it fell 4.93% in the 4th quarter of 2014, while the S&P Index posted gains of 1.13% and 4.93% in the same quarters respectively.

During the fiscal year we saw the Dow Jones Industrial Average achieve a new high of 18,351. But we also saw interest rates in the U.S. on a roller coaster ride as the Federal Reserve contemplated raising interest rates.

### Fiscal Year 2015 Financial Market Recap

As we began the 2015 fiscal year, the third quarter of 2014 presented some economic questions, notably whether Japan's "Abenomics" would succeed or fail and if U.S. growth could continue accelerating. Also creating uncertainty were the economic slowdowns in China and Europe as well as weakness in developing market economies, including Brazil, Argentina, Venezuela, Ukraine, and Russia.

Geopolitical events became a priority during the quarter, with Western and Middle-Eastern countries coming to Iraq's aid with air strikes on Islamic State. Hostilities continued in the Russia/Ukraine crisis as well amid rising sanctions from the West and signs of capital flight from Russia. In China, unrest in Hong Kong from pro-democratic protestors seeking free elections again placed the spotlight on how China will respond to domestic instability. The People's Bank of China injected billions into the banking system in an effort to stimulate growth. Another important event was a management disjunction that cropped up at a major fixed income investment manager which caused a sudden increase in outflows from its funds and added to uncertainty in the fixed income markets. Lastly, fears related to an Ebola outbreak added to the list of concerns.

As the quarter continued it became apparent that growth in the Eurozone economies had stalled. Adding to the situation, both the actual inflation and the inflation expectations fell further below target, which set off alarm bells at the European Central Bank (ECB). By the end of the quarter, the ECB had cut interest rates and was designing an asset backed and covered bond purchase program to ease credit conditions, boost growth, and help move inflation back up to target. The Eurozone bond markets decisively pushed down core European government bond yields. German bunds, which historically have similar interest rate levels to U.S. treasuries, rallied to interest rate levels more comparable to Japanese government bonds.

Growth in the U.S. bumped along at a pace of roughly 2%. The unemployment rate continued to decline, which brought it to the upper range of the Fed's long-term normal range of 5-6%. The Fed continued to taper their purchase program. At each meeting leading up to the end 3Q14 the Fed modestly pulled forward their anticipated rate hike schedule.

With the Fed apparently moving towards a tightening policy, the US Dollar (US\$) broke out of its year-long doldrums and quickly moved to multi-year highs.

The final quarter of 2014 was focused on a deteriorating investor sentiment. Borrowing costs in Europe closed the calendar year well below levels in the U.S. In Germany, Italy and Spain; their 10-year rates fell to 0.54%, 1.89% and 1.61% respectively. By comparison, the benchmark 10-year rate in the U.S. closed the year at 2.17%. The US dollar strengthened across most global currencies, and U.S. domestic equities rose. A rapid decline in energy prices also drove sentiment as crude oil prices collapsed roughly 40% in the 4th quarter.

Adding to sentiment woes was weaker growth and low inflation in Europe, as well as instability in Greece from opposition party leaders looking to end austerity. ECB Chairman Mario Draghi left open the possibility of asset purchases as a means to stimulate growth. Japan's economy also struggled with growth and low inflation. Economic activity faltered as a controversial sales tax levy earlier in the year stunted consumer demand which in turn prevented inflation from reaching the Bank of Japan's target of 2%. Lastly, the situation in Russia was being watched as the Russian economy deteriorated under the weight of stringent sanctions and weak prices for oil, a major source of revenue for the government. The situation led to a precipitous decline in the ruble, which fell 47% in the quarter and more than 76% in the calendar year. Policy leaders reacted by raising borrowing rates from 10.5% to 17% in December to provide support for the currency.

During the first quarter of 2015, the civil strife in Yemen added a new concern to the list of geopolitical risks. But geopolitical risks were not a major market driver. The divergence between the U.S. Federal Reserve, which seemed to be on a path towards rate hikes somewhere in 2015, and the rest of the world, was a market driver. The divergence created a wave of risk aversion that pushed yields lower, credit spreads wider, and the US\$ higher.

The Federal Reserve removed the word "patience" from its language in March but still sounded more dovish, which prompted the U.S. Treasury markets to price in a longer glide path for Fed tightening.

The global financial markets also continued to focus on the direction of oil prices, which was lower. Declining energy prices exacerbated disinflationary tendencies. A burgeoning scandal at Brazil's Petrobras provided a reminder to investors that idiosyncratic risk is alive and well in the emerging markets. The troubled state-owned oil giant was downgraded to junk status in February, which dampened any investor appetite for EM corporate debt.

Central banks around the world embarked on a wave of monetary easing as nearly three quarters of the key central banks loosened policy during the first quarter of 2015.

The second quarter of 2015 saw the U.S. and Europe generate positive momentum, while China and many emerging market economies saw their economies slow or even contract. As the second quarter of the year progressed, the concerns about the looming Greek debt crisis and the falling



Chinese equity market reduced any appetite for risk which may have existed. Just about every asset class came under pressure, including stocks, bonds, and commodities.

The third quarter did not start off well as the uncertainty continued and the timing of any Federal Reserve interest rate hike weakened market sentiment. Low market liquidity made the price volatility even worse in both debt and equity markets. The price of West Texas Intermediate (WTI) crude saw dramatic price movement, from \$58.12 per barrel to a multi-year low of \$38.93. China devalued its currency and the surprise move sparked a panic-like sell off across all world markets.

### Conclusion

The past fiscal year has definitely been volatile. Economic uncertainty, as well as volatility across all asset classes, all major indices, and the currency markets, along with numerous unsettling geopolitical events, has made the past fiscal year and the beginning of the upcoming fiscal year challenging.

I would like to thank each member of the Board of Trustees, the ultimate fiduciaries of APERS, for embracing the current investment structure that allowed APERS to achieve strong results for our members and the Arkansas taxpayers. APERS' 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 APERS 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](http://www.callan.com)

August 26, 2015

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 (7.25%).

## Callan

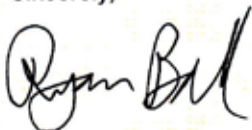
**Total Fund Returns**

For the fiscal year 2015 AJRS produced a return of 5.06%. This return exceeded the fund benchmark, as described above, by 1.22%.

The five-year annualized return of 11.57% outperformed the Fund's benchmark return of 10.37%. In the Callan Public Fund Universe, AJRS' total fund performance ranks at the 18<sup>th</sup> percentile for five years. The five year return did exceed the actuarially assumed interest rate of 7.25%.

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  
Senior Vice President

## Investment Policy Summary

### INTRODUCTION

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

At all times acting solely in the best interest of the beneficiaries of the System, the Board shall manage the System's funds as provided by Arkansas Code of 1987 Annotated (A.C.A.) §§ 24-2-601 through 24-2-619, operating on the principles of the prudent investor rule. This will include devoting careful consideration to the following factors:

- both the funded and unfunded AALs,
- the period of time necessary to amortize all unfunded AALs,
- 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.

### INVESTMENT OBJECTIVES

The Board's investment objective shall be to achieve a rate of return on the System's assets of at least 2.5% above the rate of inflation and a total return of the actuarially assumed rate of 7.5%, which was lowered to 6.25% effective July 1, 2015.

In pursuing this objective the Board shall attempt to maximize the total return in both income and capital appreciation but with greater emphasis on capital appreciation. However, the effort to obtain maximum returns must be consistent with prudent risk-taking, and short-term fluctuations in market value should be considered secondary to long-term results. The Board shall review individual investment decisions as follows:

- in the context of the entire trust fund,
- as a part of an overall investment strategy, and
- with reasonable objectives for risk and return.

## 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 has a targeted allocation of 37% to domestic equity investments, 40% to domestic fixed income securities, 15% to international equities, and 8% to real estate with ranges of plus or minus 5% to be tolerated as transitory occurrences. Thus, the current asset allocation is to be as follows:

| ASSET CLASS            | Range      |
|------------------------|------------|
| Domestic Equities      | 32% to 42% |
| International 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 hired by the Board shall include the following:

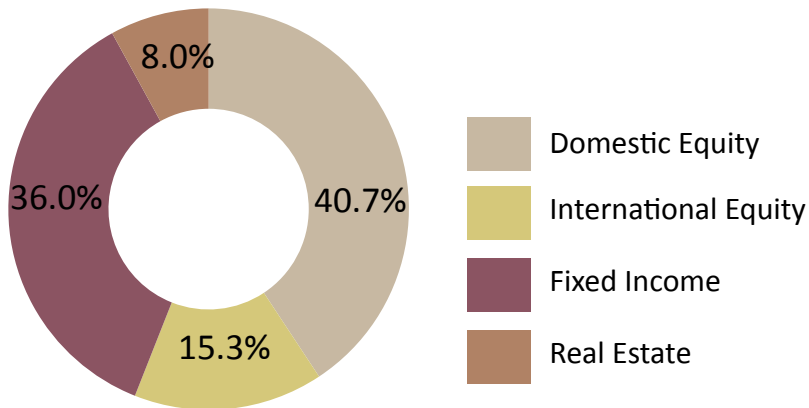
- A. Each must manage the assets it holds in accordance with the policy guidelines and objectives expressed in this statement. If some deviation from this statement is deemed prudent and desirable by both the Board and manager, they may accordingly modify this policy statement in writing.
- B. Each must 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, to the manager's style of investment, and to 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, which stockbrokers the investment manager employs, and what commissions are paid to them.
- C. Managers must keep the Board apprised of their progress in meeting the investment objectives set forth in this statement and must promptly inform the Board of significant changes in any of the following:
  - 1. the manager's investment strategy or portfolio structure,
  - 2. the market value of managed assets, and
  - 3. the ownership, affiliations, organizational structure, financial condition, professional personnel staffing, or clientele of the manager.
- D. Each manager must comply with all of the duties and responsibilities the manager has as a fiduciary. In addition, the System'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

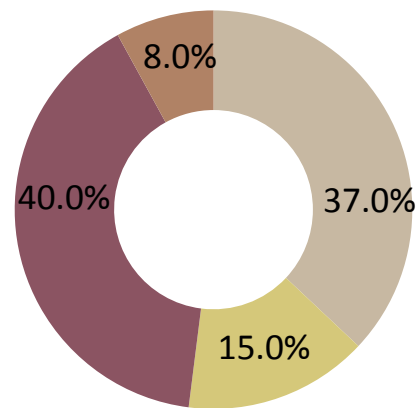
Actual versus Target asset allocation as of June 30, 2015

AJRS' actual asset allocation is within the target range set by its investment policy. This target should be confirmed based on AJRS' ongoing asset allocation discussions. The current target allocation is as follows:

Actual Asset Allocation



Target Asset Allocation



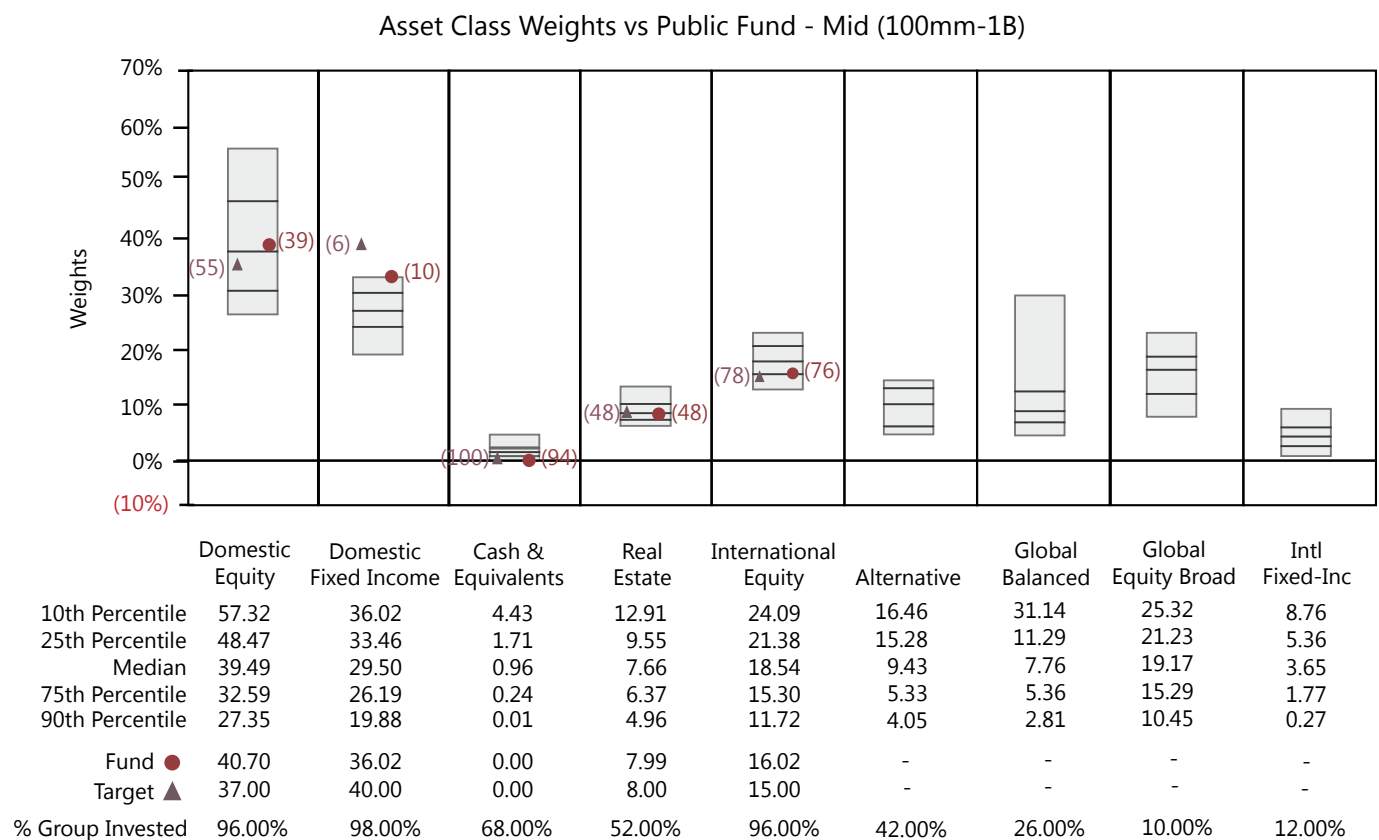
| Asset Class          | \$000s<br>Actual | Percent<br>Actual | Percent<br>Target | Percent<br>Difference | \$000s<br>Difference |
|----------------------|------------------|-------------------|-------------------|-----------------------|----------------------|
| Domestic Equity      | \$ 90,811        | 40.7%             | 37.0%             | 3.7%                  | \$ 8,256             |
| International Equity | 34,115           | 15.3              | 15.0              | 0.3                   | 646                  |
| Fixed Income         | 80,359           | 36.0              | 40.0              | (4.0)                 | (8,890)              |
| Real Estate          | 17,834           | 8.0               | 8.0               | 0.0                   | (16)                 |
| Cash                 | 4                | 0.0               | 0.0               | 0.0                   | 4                    |
| Total*               | \$ 223,123       | 100.0%            | 100.0%            |                       |                      |

\* 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

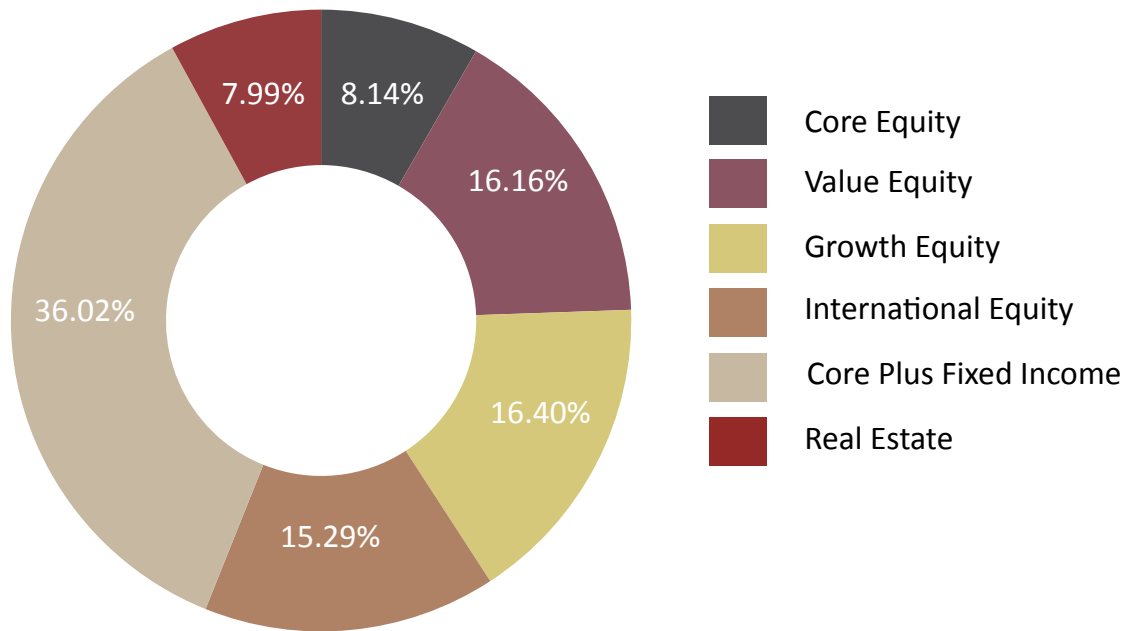
The illustration below shows the average percentage of asset allocations by asset type for the Public Plan Sponsor Database. Because different public funds allocate assets differently, percentages will not equal 100%.





## Manager Distribution

As of June 30, 2015



| Strategy & Investment Manager          | Market Value          |
|--|-----------------------|
| <b>CORE EQUITY - 8.14%</b>             |                       |
| Batterymarch Financial Management      | \$ 18,163,624         |
| <b>VALUE EQUITY - 16.16%</b>           |                       |
| Boston Partners                        | 36,052,367            |
| <b>GROWTH EQUITY - 16.40%</b>          |                       |
| Wellington Management Co.              | 36,595,418            |
| <b>INTERNATIONAL EQUITY - 15.29%</b>   |                       |
| Capital Guardian                       | 34,114,766            |
| <b>CORE PLUS FIXED INCOME - 36.02%</b> |                       |
| MacKay Shields LLC                     | 80,359,500            |
| <b>REAL ESTATE - 7.99%</b>             |                       |
| Invesco Core Real Estate               | 17,834,174            |
| <b>SHORT TERM INVESTMENTS - 0.00%</b>  |                       |
| AJRS General Fund                      | 4,157                 |
| <b>TOTAL INVESTMENTS</b>               | <b>\$ 223,124,006</b> |

Totals may not add to 100% due to rounding.

## Schedule of Comparative Investment Results

As of June 30, 2015

Fiscal Years Ended 2011 through 2015

|  | 2015    | 2014   | 2013   | 2012     | 2011   |
|--|---------|--------|--------|----------|--------|
| <b>TOTAL FUND</b>                              |         |        |        |          |        |
| Arkansas Judicial Retirement System            | 5.06%   | 16.09% | 14.42% | 1.78%    | 21.73% |
| Callan Total Public Fund Median                | 3.17    | 16.03  | 11.86  | 1.31     | 20.63  |
| Inflation (Consumer Price Index)               | (0.38)  | 2.04   | 1.75   | 1.58     | 4.06   |
| <b>EQUITIES</b>                                |         |        |        |          |        |
| Arkansas Judicial Retirement System            | 9.18%   | 23.49% | 22.94% | 1.49%    | 34.58% |
| Callan Total Equity Database Median            | 7.38    | 24.78  | 22.16  | 1.74     | 32.96  |
| Russell 3000 Index                             | 7.29    | 25.22  | 21.46  | 3.84     | 32.37  |
| <b>INTERNATIONAL EQUITIES</b>                  |         |        |        |          |        |
| Arkansas Judicial Retirement System            | (1.41)% | 21.28% | 21.00% | (12.33)% | 31.44% |
| Callan Total Non-U.S. Equities Database Median | (2.95)  | 20.29  | 14.61  | (13.15)  | 29.92  |
| MSCI EAFE Index                                | (4.22)  | 23.57  | 18.62  | (13.83)  | 30.36  |
| <b>FIXED INCOME</b>                            |         |        |        |          |        |
| Arkansas Judicial Retirement System            | 1.16%   | 7.55%  | 4.84%  | 6.94%    | 7.63%  |
| Callan Total Fixed Income Database Median      | 1.60    | 5.10   | 0.79   | 7.50     | 5.27   |
| Barclays Capital Aggregate Index               | 1.86    | 4.37   | 0.69   | 7.47     | 3.90   |

Source: Callan Associates Inc. (CAI database contains returns of over 115 Public retirement funds.)  
Returns are reported gross of fees.

## Schedule of Comparative Investment Results

As of June 30, 2015

For the Current Year and the Preceding 3-Year and 5-Year Rates of Return

|  | 2015    | Annualized |        |
|--|---------|------------|--------|
|  |         | 3-Year     | 5-Year |
| <b>TOTAL FUND</b>                              |         |            |        |
| Arkansas Judicial Retirement System            | 5.06%   | 11.75%     | 11.57% |
| Callan Total Public Fund Median                | 3.17    | 10.48      | 10.66  |
| Inflation (Consumer Price Index)               | (0.38)  | 1.13       | 1.80   |
| <b>EQUITIES</b>                                |         |            |        |
| Arkansas Judicial Retirement System            | 9.18%   | 18.35%     | 17.93% |
| Callan Total Equity Database Median            | 7.38    | 17.85      | 17.43  |
| Russell 3000 Index                             | 7.29    | 17.73      | 17.54  |
| <b>INTERNATIONAL EQUITIES</b>                  |         |            |        |
| Arkansas Judicial Retirement System            | (1.41)% | 13.10%     | 10.76% |
| Callan Total Non-U.S. Equities Database Median | (2.95)  | 10.87      | 9.14   |
| MSCI-EAFE Index                                | (4.22)  | 11.97      | 9.54   |
| <b>FIXED INCOME</b>                            |         |            |        |
| Arkansas Judicial Retirement System            | 1.16%   | 4.49%      | 5.59%  |
| Callan Total Fixed Income Database Median      | 1.60    | 2.21       | 4.02   |
| Barclays Capital Aggregate Index               | 1.86    | 1.83       | 3.35   |

Source: Callan Associates Inc. (CAI database contains returns of over 115 Public retirement funds.)  
Returns are reported gross of fees.

## Portfolio Characteristics

As of June 30, 2015

|   | 2015      | 2014      |
|---|-----------|-----------|
| <b>SELECTED BOND CHARACTERISTICS</b>          |           |           |
| Yield to Maturity (Market)                    | 3.52%     | 2.95%     |
| Current Yield                                 | 3.31%     | 3.21%     |
| Average Coupon Rate                           | 3.69%     | 3.69%     |
| Average Maturity                              | 7.57 yrs. | 7.36 yrs. |
| <b>QUALITY BREAKDOWN</b>                      |           |           |
| AAA (Includes Govts. & Agencies)              | 31.10%    | 30.30%    |
| AA  | 2.30%     | 2.60%     |
| A   | 14.20%    | 15.00%    |
| BAA   | 33.40%    | 32.60%    |
| Below BAA                                     | 18.40%    | 17.20%    |
| Cash*   | 0.60%     | 2.30%     |
| <b>SELECTED STOCK CHARACTERISTICS</b>         |           |           |
| Average P/E Ratio                             | 19.87x    | 18.34x    |
| Estimated Earnings Growth Rate (Next 5 Years) | 11.93%    | 12.09%    |
| Current Yield                                 | 1.53%     | 1.59%     |

\* Includes short term investment fund

Source: Callan Associates Inc.

### Top Ten Largest Holdings

As of June 30, 2015

#### FIXED INCOME HOLDINGS (BY MARKET VALUE)

|     | Par       | Description        | Coupon  | Maturity   | Market Value         |
|-----|-----------|--------------------|---------|------------|----------------------|
| 1)  | 5,130,000 | U.S. Treasury Note | 0.750 % | 3/31/2018  | \$ 5,103,940         |
| 2)  | 3,350,000 | U.S. Treasury Note | 2.250   | 4/30/2021  | 3,420,149            |
| 3)  | 2,205,000 | U.S. Treasury Note | 2.500   | 5/15/2024  | 2,242,728            |
| 4)  | 1,670,000 | U.S. Treasury Bond | 2.875   | 5/15/2043  | 1,591,460            |
| 5)  | 1,515,000 | U.S. Treasury Note | 1.000   | 5/31/2018  | 1,515,470            |
| 6)  | 1,400,000 | U.S. Treasury Note | 2.500   | 8/15/2023  | 1,430,184            |
| 7)  | 825,000   | Citigroup Inc.     | 8.125   | 7/15/2039  | 1,184,172            |
| 8)  | 965,000   | U.S. Treasury Bond | 2.750   | 11/15/2042 | 897,749              |
| 9)  | 820,000   | U.S. Treasury Note | 1.250   | 10/31/2018 | 822,821              |
| 10) | 815,000   | U.S. Treasury Note | 0.500   | 1/31/2017  | 814,747              |
|     |           |                    |         |            | <u>\$ 19,023,419</u> |

#### EQUITY HOLDINGS (BY MARKET VALUE)

|     | Shares | Description                 | Market Value         |
|-----|--------|-----------------------------|----------------------|
| 1)  | 23,111 | JP Morgan Chase & Co.       | \$ 1,566,001         |
| 2)  | 23,239 | Wells Fargo & Co.           | 1,306,961            |
| 3)  | 9,551  | Berkshire Hathaway Inc.     | 1,299,987            |
| 4)  | 14,182 | Capital One Financial Corp. | 1,247,591            |
| 5)  | 30,132 | Pfizer Inc.                 | 1,010,326            |
| 6)  | 17,568 | Citigroup Inc.              | 970,456              |
| 7)  | 9,612  | Johnson & Johnson           | 936,786              |
| 8)  | 10,500 | Occidental Petroleum Corp.  | 816,585              |
| 9)  | 6,509  | Apple Inc.                  | 816,391              |
| 10) | 27,971 | Cisco Systems               | 768,084              |
|     |        |                             | <u>\$ 10,739,168</u> |

#### INTERNATIONAL EQUITY HOLDINGS (BY MARKET VALUE)

|     | Shares  | Description                       | Market Value*       |
|-----|---------|-----------------------------------|---------------------|
| 1)  | 107,634 | AIA Group Ltd                     | \$ 704,691          |
| 2)  | 6,776   | ASML Holdings NV                  | 702,462             |
| 3)  | 1,221   | Keyence Corp.                     | 659,079             |
| 4)  | 10,268  | Novo Nordisk A/S B                | 559,438             |
| 5)  | 1,993   | Roche Holding AG                  | 558,524             |
| 6)  | 22,590  | Prudential Plc                    | 543,954             |
| 7)  | 9,151   | Softbank Corp.                    | 539,035             |
| 8)  | 3,015   | Murata Manufacturing Co. Ltd      | 526,152             |
| 9)  | 16,695  | Hamamatsu Photonics KK            | 492,461             |
| 10) | 5,879   | Compagnie Financiere Richemont SA | 478,190             |
|     |         |                                   | <u>\$ 5,763,987</u> |

\*Market Value represents AJRS percentage of investment in international Equity Commingled fund.  
Totals may not add due to rounding.

## Schedule of Brokerage Commissions

As of June 30, 2015

| BROKERAGE FIRM                           | Number of<br>Shares Traded | Total<br>Commission | Commission<br>Per Share |
|--|----------------------------|---------------------|-------------------------|
| Citigroup Global Markets Inc.            | 50,663                     | \$ 7,759            | \$ 0.15                 |
| J P Morgan Securities Inc.               | 218,493                    | 3,340               | 0.02                    |
| Goldman Sachs & Co.                      | 135,294                    | 2,217               | 0.02                    |
| Credit Suisse                            | 100,553                    | 1,883               | 0.02                    |
| Weeden & Co.                             | 85,200                     | 1,278               | 0.02                    |
| Keefe Bruyette and Woods                 | 51,149                     | 1,088               | 0.02                    |
| Merrill Lynch Pierce Fenner & Smith Inc. | 76,846                     | 980                 | 0.01                    |
| Instinet Corp.                           | 85,865                     | 951                 | 0.01                    |
| ITG Inc.                                 | 76,771                     | 768                 | 0.01                    |
| UBS Securities LLC                       | 35,504                     | 759                 | 0.02                    |
| Sanford C. Bernstein & Co.               | 107,294                    | 1,286               | 0.01                    |
| Barclays Capital Inc.                    | 41,274                     | 512                 | 0.01                    |
| Morgan Stanley & Co. Inc.                | 35,774                     | 500                 | 0.01                    |
| SJ Levinson & Sons LLC                   | 26,703                     | 492                 | 0.02                    |
| Deutsche Bank Securities Inc.            | 14,332                     | 393                 | 0.03                    |
| Wells Fargo Securities LLC               | 8,446                      | 338                 | 0.04                    |
| RBC Capital Markets LLC                  | 26,434                     | 232                 | 0.01                    |
| Liquidnet Inc.                           | 10,659                     | 213                 | 0.02                    |
| ISI Group Inc.                           | 8,370                      | 198                 | 0.02                    |
| Stifel Nicolaus                          | 5,842                      | 149                 | 0.03                    |
| Wedbush Morgan Securities Inc.           | 3,572                      | 143                 | 0.04                    |
| FBR Capital Markets & Co.                | 3,466                      | 131                 | 0.04                    |
| Longbow Securities LLC                   | 2,675                      | 107                 | 0.04                    |
| Raymond James & Assoc Inc.               | 3,650                      | 95                  | 0.03                    |
| Robert W Baird & Co. Inc.                | 2,220                      | 89                  | 0.04                    |
| Others (Includes 13 Brokerage Firms)     | 22,597                     | 379                 | 0.02                    |
|  | 1,239,646                  | \$ 26,280           | \$ 0.02                 |

Totals may not add due to rounding.

## Schedule of Investment Fees

As of June 30, 2015

| EQUITIES                            | Market Value  | Fee          | Basis Points |
|-------------------------------------|---------------|--------------|--------------|
| Batterymarch Financial Management   | \$ 18,163,624 | \$ 155,694   | 0.85         |
| Wellington Management Co.           | 36,595,418    | 200,592      | 0.55         |
| Boston Partners                     | 36,052,367    | 201,784      | 0.58         |
| Total Equity                        | \$ 90,811,409 | \$ 558,070   |              |
|                                     |               |              |              |
| FIXED INCOME                        |               |              |              |
| Mackay Shields LLC                  | \$ 80,359,500 | \$ 239,700   | 0.30         |
|                                     |               |              |              |
| INTERNATIONAL EQUITY                |               |              |              |
| Capital Guardian Trust              | \$ 34,114,766 | \$ 219,509   | 0.67         |
|                                     |               |              |              |
| REAL ESTATE                         |               |              |              |
| Invesco Core Real Estate            | \$ 17,834,174 | \$ 116,522   | 0.80         |
| TOTAL INVESTMENT MANAGER FEES       |               | \$ 1,133,802 |              |
|                                     |               |              |              |
| OTHER SERVICES                      |               | Fee          |              |
| Bank of New York Mellon (Custodian) |               | \$ 14,899    |              |
| Callan Associates (Consultant)      |               | 55,002       |              |
| TOTAL OTHER SERVICES                |               | 69,901       |              |
| TOTAL INVESTMENT FEES               |               | \$ 1,203,702 |              |



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Circuit Judge

GAIL H. STONE  
AJRS Executive Director

## ACTUARIAL

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## Actuary's Certificate Letter



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November 30, 2015

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, 2015. The purpose of the June 30, 2015 annual actuarial valuation was to determine the contribution requirements for the fiscal year ending June 30, 2017 and to measure the System's funding progress. The actuarial valuation report 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, 2015. In addition, a separate report was issued (dated November 17, 2015) to provide actuarial information for GASB Statement No. 67 and GASB Statement No. 68.

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. We are not responsible for the accuracy and completeness of the information provided by the administrative staff.

The actuarial valuation report and GASB Statement No. 67 and No. 68 report contain the following supporting schedules for use in the Actuarial and Financial Sections of 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

The Board of Trustees

November 30, 2015

Page 2

### Financial Section

Schedule of Funding Progress

Schedule of Changes in Net Pension Liability and Related Ratios

Schedule of the Net Pension Liability

Schedule of Contributions

Notes to Schedule of Contributions

For actuarial valuation purposes, 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 the Actuarial Standards of Practice. 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, 2015 valuation was based upon assumptions that were recommended in connection with a study of experience through the period 2006-2011 and a subsequent economic assumption study. The investment return, price inflation and wage inflation assumptions were changed for the June 30, 2015 valuation.

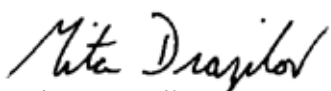
Future actuarial measurements may differ significantly from those presented in the annual valuations due to such factors as experience differing from that anticipated by actuarial assumptions, or changes in plan provisions, actuarial assumption/methods or applicable law. Due to the limited scope of the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

The signing individuals are independent of the plan sponsor.

***On the basis of the June 30, 2015 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 D. Drazilov and Heidi G. Barry are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

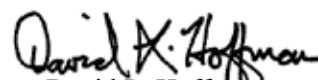
Respectfully submitted,



Mita D. Drazilov, ASA, MAAA



Heidi G. Barry, ASA, MAAA



David L. Hoffman

MDD:bd

## Summary of Actuarial Assumptions

### ECONOMIC ASSUMPTIONS

**The investment return rate** used in making the valuation was 6.25% per year, compounded annually (net after investment expenses). The investment return assumption was revised for the June 30, 2015 valuation.

**Pay increase assumptions** for individual active members are shown on page D-3. Part of the assumption for each age is for a merit and/or seniority increase, and the other 3.25% recognizes wage inflation. This wage inflation assumption consists of 2.50% for price inflation and 0.75% for real wage growth. The wage inflation assumption was revised for the June 30, 2015 valuation.

**Total active member payroll** is assumed to increase 3.25% 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 72. 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 72. Based upon the experience observed in the most recent experience study for APERS, it appears that, at the time of the study, 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 74. Adopted 2012.

**The probabilities of withdrawal** from service, **death-in-service** and **disability** are shown for sample ages on page 73. 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; and

- Each annual normal cost is a constant percentage of the member's year-by-year projected covered pay.

The normal cost, the present value of future normal cost and the present value of benefits are 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 future normal cost.

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

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

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

## Summary of Actuarial Methods

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

|                               |  |
|-------------------------------|--|
| Valuation Date                | June 30, 2015  |
| Actuarial Cost Method         | Entry Age  |
| Amortization Method           | Level Percent-of-Payroll   |
| Remaining Amortization Period | 28-Year Closed   |
| Asset Valuation Method        | 4-Year Smoothed Market with 25% Corridor   |
| Actuarial Assumptions:        |  |
| Investment Rate of Return     | 6.25%  |
| Projected Salary Increase     | 3.25%  |
| Including Price Inflation at  | 2.50%  |
| Cost-of-Living Adjustments    | Pre July 1, 1983 retirees: Increased with increases in active judges pay.<br>Post June 30, 1983 retirees: 3% compound. |

|  | Numbers    |
|--|------------|
| Retirees and Beneficiaries Receiving Benefits                        | 137        |
| # Terminated Plan Members Entitled to But Not Yet Receiving Benefits | 4          |
| Active Plan Members  | 139        |
| <b>TOTAL</b>   | <b>280</b> |

# Includes DROP participants.

### Single Life Retirement Values

As of June 30, 2015

| Sample<br>Ages | Present Value of<br>\$1 Monthly for Life |           | Present Value of<br>\$1 Monthly for Life<br>Increasing 3% Annually |           | Future Life<br>Expectancy (Years) |       |
|----------------|--|-----------|--|-----------|-----------------------------------|-------|
|                | Men                                      | Women     | Men  | Women     | Men                               | Women |
| 50             | \$ 164.26                                | \$ 168.65 | \$ 239.67  | \$ 250.44 | 32.99                             | 35.59 |
| 55             | 154.63                                   | 160.07    | 218.09   | 230.04    | 28.37                             | 30.90 |
| 60             | 143.02                                   | 149.36    | 194.61   | 207.34    | 23.94                             | 26.34 |
| 65             | 129.36                                   | 136.56    | 169.59   | 182.83    | 19.74                             | 21.98 |
| 70             | 113.67                                   | 121.98    | 143.44   | 157.39    | 15.83                             | 17.93 |
| 75             | 96.28                                    | 105.90    | 116.96   | 131.66    | 12.26                             | 14.25 |
| 80             | 78.11                                    | 88.66     | 91.43  | 106.26    | 9.13                              | 10.95 |

| Sample<br>Attained<br>Ages | \$100 Benefit<br>Increasing 3% Annually | Portion of Age 65<br>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

As of June 30, 2015

| Sample<br>Ages | Years<br>Service | Percent of Active Members<br>Separating Within the Next Year |            |        |            | Pay Increase Assumptions<br>For Individual Member |                      |                   |                       |
|----------------|------------------|--|------------|--------|------------|---|----------------------|-------------------|-----------------------|
|                |                  | Male   |            | Female |            | Withdrawal  | Merit &<br>Seniority | Base<br>(Economy) | Increase<br>Next Year |
|                |                  | Death  | Disability | Death  | Disability |   |                      |                   |                       |
|                | 0                |  |            |        |            | 10.00%  |                      |                   |                       |
|                | 1                |  |            |        |            | 6.00  |                      |                   |                       |
|                | 2                |  |            |        |            | 4.20  |                      |                   |                       |
|                | 3                |  |            |        |            | 3.36  |                      |                   |                       |
|                | 4                |  |            |        |            | 3.02  |                      |                   |                       |
| 30             | 5+               | 0.02%  | 0.04%      | 0.01%  | 0.05%      | 0.85  | 0.00%                | 3.25%             | 3.25%                 |
| 35             |                  | 0.04   | 0.04       | 0.02   | 0.05       | 0.85  | 0.00                 | 3.25              | 3.25                  |
| 40             |                  | 0.05   | 0.10       | 0.03   | 0.18       | 0.85  | 0.00                 | 3.25              | 3.25                  |
| 45             |                  | 0.07   | 0.13       | 0.05   | 0.20       | 0.85  | 0.00                 | 3.25              | 3.25                  |
| 50             |                  | 0.10   | 0.25       | 0.08   | 0.28       | 0.85  | 0.00                 | 3.25              | 3.25                  |
| 55             |                  | 0.17   | 0.45       | 0.12   | 0.38       | 0.85  | 0.00                 | 3.25              | 3.25                  |
| 60             |                  | 0.29   | 0.71       | 0.21   | 0.51       | 0.85  | 0.00                 | 3.25              | 3.25                  |
| 65             |                  | 0.50   | 0.83       | 0.38   | 0.62       | 0.85  | 0.00                 | 3.25              | 3.25                  |

Pay increase assumptions are age based only, and not service based.

## Probabilities of Retirement for Members Eligible to Retire

| Retirement Ages | Percentages of Eligible Active Members Retiring Within Next Year | Percentages of Eligible Active Members Electing Early Retirement Within Next Year |
|-----------------|--|---|
| 50              | 4%   |   |
| 51              | 4  |   |
| 52              | 6  |   |
| 53              | 6  |   |
| 54              | 8  |   |
| 55              | 10   |   |
| 56              | 10   |   |
| 57              | 12   |   |
| 58              | 12   |   |
| 59              | 12   |   |
| 60              | 14   |   |
| 61              | 14   |   |
| 62              | 20   | 2%  |
| 63              | 20   | 2   |
| 64              | 20   | 2   |
| 65-69           | 24   |   |
| 70-74           | 30   |   |
| 75 & Over       | 100  |   |

For Tier 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<br>Date<br>June 30 | Active Members in Valuation |             |                   |           | UAAL<br>Financing<br>Period | Computed<br>Employer<br>Contribution<br>Rate |
|------------------------------|-----------------------------|-------------|-------------------|-----------|-----------------------------|--|
|                              | Number                      | Average Pay | Averages in Years |           |                             |  |
|                              |                             |             | Age               | Service @ |                             |  |
| 1992                         | 112                         | \$ 70,679   | 52.4 yrs.         | 9.8 yrs.  | 21 yrs.                     | 28.29%                                       |
| 1993                         | 117                         | 85,286      | 52.5              | 9.6       | 20                          | 29.56  |
| 1994                         | 117                         | 89,783      | 53.0              | 10.0      | 19                          | 29.39  |
| 1995 (a)                     | 119                         | 92,287      | 53.4              | 10.0      | 18                          | 37.37  |
| 1996 (a)#                    | 121                         | 96,810      | 53.8              | 10.4      | 17                          | 29.62  |
| 1997                         | 125                         | 99,376      | 53.5              | 10.1      | 16                          | 24.22  |
| 1998                         | 125                         | 104,673     | 54.5              | 11.2      | *                           | 22.47  |
| 1999 (a)                     | 129                         | 107,679     | 54.1              | 10.4      | *                           | 21.92  |
| 2000                         | 130                         | 110,545     | 54.4              | 10.7      | *                           | 21.87  |
| 2001 (a)                     | 131                         | 113,502     | 55.0              | 11.1      | *                           | 26.00  |
| 2002 #                       | 133                         | 116,441     | 55.9              | 11.9      | 30                          | 25.77  |
| 2003                         | 134                         | 118,915     | 54.9              | 10.0      | 30                          | 29.34  |
| 2004                         | 134                         | 121,505     | 55.6              | 10.5      | 30                          | 29.46  |
| 2005                         | 134                         | 124,161     | 55.9              | 10.9      | 30                          | 30.44  |
| 2006                         | 134                         | 126,933     | 56.7              | 11.6      | 30                          | 29.36  |
| 2007 #                       | 134                         | 129,358     | 56.9              | 11.8      | *                           | 24.20  |
| 2008                         | 137                         | 131,929     | 57.8              | 12.6      | *                           | 24.59  |
| 2009 (a)                     | 138                         | 136,775     | 56.2              | 15.0      | 30                          | 27.43  |
| 2010                         | 136                         | 136,984     | 57.1              | 15.4      | 30                          | 29.08  |
| 2011                         | 141                         | 137,149     | 57.6              | 15.3      | 30                          | 29.93  |
| 2012 #                       | 140                         | 137,155     | 58.5              | 15.8      | 30                          | 31.46  |
| 2013                         | 140                         | 139,898     | 58.7              | 15.9      | 30                          | 29.12  |
| 2014 #                       | 140                         | 141,297     | 59.7              | 16.8      | 29                          | 25.09  |
| 2015                         | 139                         | 160,489     | 58.6              | 16.4      | 28                          | 26.86  |
| 2015 #                       | 139                         | \$ 160,489  | 58.6 yrs.         | 16.4 yrs. | 28 yrs.                     | 37.99%                                       |

(a) After changes in benefit provisions.

# Revised actuarial assumptions and/or methods.

\* Retirement System was fully funded.

@ Includes reciprocal service for Tier One members on and after June 30, 2006 and Tier Two members on and after June 30, 2009.

Employer contributions are the total of all types of revenue to the System except member contributions by payroll deduction and investment return. Employer contributions include court fees and Act 922 transfers.

## 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.

## 10-Year Comparative Statement (\$ in Thousands)

| Valuation Date<br>June 30 | Entry Age Accrued Liability        |                              |  |                | Portion of Present Values Covered By Present Assets |      |     |       | Market Value Total |
|---------------------------|------------------------------------|------------------------------|--|----------------|---|------|-----|-------|--------------------|
|                           | (1)<br>Active Member Contributions | (2)<br>Retirees and Benefits | (3)<br>Active Member (Employer Financed Portion) | Present Assets | (1)   | (2)  | (3) | Total |                    |
|                           |                                    |                              |  |                |   |      |     |       |                    |
| 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(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    | 73%                |
| 2010                      | 11,474                             | 102,200                      | 69,238   | 165,244        | 100   | 100  | 74  | 90    | 78                 |
| 2011                      | 11,822                             | 102,379                      | 72,434   | 165,377        | 100   | 100  | 71  | 89    | 92                 |
| 2012(a)                   | 12,356                             | 107,413                      | 75,685   | 167,796        | 100   | 100  | 63  | 86    | 87                 |
| 2013                      | 12,397                             | 114,770                      | 75,967   | 182,596        | 100   | 100  | 73  | 90    | 94                 |
| 2014(a)                   | 13,310                             | 113,468                      | 81,228   | 201,792        | 100   | 100  | 92  | 97    | 105                |
| 2015                      | 12,665                             | 131,922                      | 85,837   | 215,448        | 100   | 100  | 83  | 94    | 97                 |
| 2015(a)                   | \$12,665                           | \$ 143,898                   | \$ 98,150  | \$ 215,448     | 100%  | 100% | 60% | 85%   | 88%                |

(a) After changes in benefit provisions and/or actuarial assumptions and methods.

## Retirees and Beneficiaries Tabulated by Attained Age

| Attained<br>Ages | Retirees |                      | Survivor Beneficiaries |                      | Total |                      |
|------------------|----------|----------------------|------------------------|----------------------|-------|----------------------|
|                  | No.      | Annual<br>Allowances | No.                    | Annual<br>Allowances | No.   | Annual<br>Allowances |
| 52               | 1        | \$ 35,935            |                        | \$ 188,406           | 1     | \$ \$35,935          |
| 57               |          |                      | 3                      |                      | 3     | 188,406              |
| 60               | 1        | 108,320              |                        |                      | 1     | 108,320              |
| 62               | 1        | 86,484               |                        | 47,219               | 1     | 86,484               |
| 63               | 3        | 208,098              | 1                      | 119,565              | 4     | 255,317              |
| 64               | 2        | 215,072              | 2                      |                      | 4     | 334,637              |
| 65               | 4        | 336,774              |                        | 64,320               | 4     | 336,774              |
| 66               | 4        | 341,643              | 1                      | 89,487               | 5     | 405,963              |
| 67               | 6        | 548,165              | 1                      | 72,360               | 7     | 637,652              |
| 68               | 3        | 257,741              | 1                      |                      | 4     | 330,101              |
| 69               | 5        | 501,132              |                        | 222,675              | 5     | 501,132              |
| 70               | 5        | 480,966              | 3                      | 64,923               | 8     | 703,641              |
| 71               | 4        | 298,081              | 1                      | 65,734               | 5     | 363,004              |
| 72               | 9        | 755,981              | 1                      | 200,623              | 10    | 821,715              |
| 73               | 4        | 418,445              | 3                      | 133,263              | 7     | 619,068              |
| 74               | 5        | 510,005              | 2                      | 88,388               | 7     | 643,268              |
| 75               | 2        | 113,430              | 1                      |                      | 3     | 201,818              |
| 76               | 5        | 440,085              |                        |                      | 5     | 440,085              |
| 77               | 4        | 405,074              |                        | 62,980               | 4     | 405,074              |
| 78               | 6        | 580,158              | 1                      | 66,549               | 7     | 643,138              |
| 79               | 3        | 282,740              | 1                      |                      | 4     | 349,289              |
| 80               | 6        | 636,035              |                        | 128,640              | 6     | 636,035              |
| 81               | 3        | 295,809              | 2                      |                      | 5     | 424,449              |
| 83               | 4        | 390,299              |                        | 64,320               | 4     | 390,299              |
| 84               | 2        | 191,818              | 1                      | 71,272               | 3     | 256,138              |
| 85               | 2        | 188,747              | 1                      | 64,320               | 3     | 260,019              |
| 86               | 2        | 204,716              | 1                      | 128,640              | 3     | 269,036              |
| 87               | 1        | 96,000               | 2                      | 131,253              | 3     | 224,640              |
| 88               |          |                      | 2                      | 64,320               | 2     | 131,253              |
| 89               | 2        | 238,544              | 1                      |                      | 3     | 302,864              |
| 90               | 1        | 96,000               |                        |                      | 1     | 96,000               |
| 91               | 1        | 142,544              |                        | 64,320               | 1     | 142,544              |
| 92               |          |                      | 1                      | 64,320               | 1     | 64,320               |
| 95               | 1        | 96,900               | 1                      | 64,320               | 2     | 161,220              |
| 98               |          |                      | 1                      |                      | 1     | 64,320               |
| TOTALS           | 102      | \$ 9,501,741         | 35                     | \$ 2,332,217         | 137   | \$ 11,833,958        |

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

| Attained<br>Age | Years of Service to Valuation Date |     |       |       |       |       |         | Totals |                      |
|-----------------|------------------------------------|-----|-------|-------|-------|-------|---------|--------|----------------------|
|                 | 0-4                                | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30 Plus | No.    | Valuation<br>Payroll |
| 50-54           |                                    |     |       | 1     | 1     |       |         | 2      | \$ 320,000           |
| 55-59           |                                    |     |       |       |       |       |         |        |                      |
| 60              |                                    |     |       |       |       |       |         |        |                      |
| 61              |                                    |     |       |       |       |       |         |        |                      |
| 62              |                                    |     |       | 1     |       | 1     |         | 2      | 320,000              |
| 63              |                                    |     |       |       |       | 1     |         | 1      | 160,000              |
| 64              |                                    |     |       |       |       | 1     | 1       | 2      | 320,000              |
| 65              |                                    |     |       | 3     |       | 1     | 1       | 5      | 801,500              |
| 66              |                                    |     |       |       |       | 1     |         | 1      | 160,000              |
| 67              |                                    |     |       |       | 2     | 1     |         | 3      | 480,000              |
| 68              |                                    |     |       |       |       | 2     | 1       | 3      | 480,000              |
| 69              |                                    |     |       |       | 1     |       |         | 1      | 160,000              |
| 70              |                                    |     |       |       | 1     | 1     | 1       | 3      | 486,500              |
| 71              |                                    |     |       |       | 1     |       |         | 1      | 160,000              |
| 72              |                                    |     |       | 1     |       |       |         | 1      | 166,500              |
| Totals          |                                    |     |       | 6     | 6     | 9     | 4       | 25     | \$ 4,014,500         |

| Group    | No. | Age  | Averages<br>Service | Annual Pay |
|----------|-----|------|---------------------|------------|
| Tier One | 25  | 65.5 | 25.2                | \$ 160,580 |

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

| Attained<br>Age | Years of Service to Valuation Date |     |       |       |       |       |         | Totals |                      |
|-----------------|------------------------------------|-----|-------|-------|-------|-------|---------|--------|----------------------|
|                 | 0-4                                | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30 Plus | No.    | Valuation<br>Payroll |
| 35-39           | 2                                  | 1   |       |       |       |       |         | 3      | \$ 481,500           |
| 40-44           | 2                                  | 2   | 4     | 1     |       |       |         | 9      | 1,444,000            |
| 45-49           | 2                                  | 4   | 2     | 3     | 2     |       |         | 13     | 2,083,000            |
| 50-54           |                                    | 4   | 4     | 1     | 4     | 2     |         | 15     | 2,408,000            |
| 55-59           | 5                                  | 2   | 4     | 4     | 2     | 4     | 1       | 22     | 3,524,500            |
| 60              |                                    |     | 3     | 1     |       |       |         | 4      | 640,000              |
| 61              |                                    |     | 3     | 2     | 3     | 1     |         | 9      | 1,440,000            |
| 62              | 2                                  |     |       |       |       | 1     |         | 3      | 481,500              |
| 63              | 2                                  | 1   |       | 1     |       | 1     |         | 5      | 800,000              |
| 64              | 1                                  |     | 2     |       | 2     | 1     |         | 6      | 961,500              |
| 65              | 1                                  | 1   |       |       |       | 2     |         | 4      | 640,000              |
| 66              |                                    | 1   | 3     |       |       |       | 1       | 5      | 800,000              |
| 67              |                                    | 1   | 1     |       |       |       | 1       | 3      | 480,000              |
| 68              |                                    | 1   | 2     | 2     |       |       | 1       | 6      | 961,500              |
| 69              |                                    |     | 2     |       |       |       |         | 2      | 320,000              |
| 71              |                                    | 2   | 1     |       |       |       | 1       | 4      | 661,500              |
| 72              | 1                                  |     |       |       |       |       |         | 1      | 166,500              |
| Totals          | 18                                 | 20  | 31    | 15    | 13    | 12    | 5       | 114    | \$ 18,293,500        |

| Group    | No. | Age  | Averages<br>Service | Annual Pay |
|----------|-----|------|---------------------|------------|
| Tier Two | 114 | 57.1 | 14.4                | 160,469    |

## 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.

|   | 2015           | 2014           |
|---|----------------|----------------|
| 1) UAAL* at Start of Year   | \$ 6,213,273   | \$ 20,537,315  |
| 2) Normal Cost from Last Valuation  | 4,613,337      | 4,570,120      |
| 3) Employer Contributions   | 5,690,381      | 6,117,327      |
| 4) Interest Accrual: $(1) \times .0725 + [(2) - (3)] \times .03625$                           | 411,419        | 1,432,869      |
| 5) Expected UAAL Before Changes: $(1) + (2) - (3) + (4)$                                      | 5,547,648      | 20,422,977     |
| 6) Changes in Benefits/Assumptions/Methods  | 24,290,229     | 687,778        |
| 7) Expected UAAL After Changes: $(5) + (6)$   | 29,837,877     | 21,110,755     |
| 8) Actual UAAL at End of Year   | 39,266,434     | 6,213,273      |
| 9) Gain(Loss): $(7) - (8)$  | \$ (9,428,557) | \$ 14,897,482  |
| 10) Gain(Loss) as Percent of Actuarial Accrued Liabilities<br>at Start of Year: \$208,005,544 | (4.5)%         | 7.3%           |
| Last Year's Accrued Liability   | \$ 208,005,544 | \$ 203,133,718 |

## Analysis of Experience - Gains/(Losses) by Risk Area

During the period July 1, 2014 to June 30, 2015

| Type of Risk Area   | Gain (Loss) During Year |                        |
|---|-------------------------|------------------------|
|   | (\$ in Millions)        | Percent of Liabilities |
| <b>ECONOMIC RISK AREAS</b>  |                         |                        |
| <b>Pay Increases</b><br>If there are smaller pay increases than assumed, there is a gain. If greater increases, a (loss).   | \$ (10)                 | (4.8)%                 |
| <b>Investment Return</b><br>If there is greater investment return than assumed, there is a gain. If less return, a (loss).  | 3.3                     | 1.6                    |
| <b>NON-ECONOMIC RISK AREAS</b>  |                         |                        |
| <b>Age &amp; Service Retirements</b><br>If members retire at older ages or with lower final average pays than assumed, there is a gain. If younger ages or higher average pays, a (loss).           | 1.0                     | 0.5                    |
| <b>Disability Retirements</b><br>If there are fewer disabilities than assumed, there is a gain. If more, a (loss).  | 0.0                     | 0.0                    |
| <b>Death-in-Service Benefits</b><br>If there are fewer claims than assumed, there is a gain. If more, a (loss).   | 0.2                     | 0.1                    |
| <b>Withdrawal</b><br>If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a (loss).  | 1.1                     | 0.5                    |
| <b>Retiree Mortality</b><br>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. | (4.5)                   | (2.2)                  |
| <b>Other</b><br>Gains and losses resulting from group size change, data adjustments, timing of financial transactions, additional contributions and miscellaneous unidentified sources.             | (0.5)                   | (0.3)                  |
| <b>Experience Gains/(Losses)</b>  | <b>\$ (9.4)</b>         | <b>(4.5)%</b>          |



## Summary of Plan Provisions

The Old Contributory Plan is available to persons who became members of APERS before January 1, 1978. The Non-Contributory Plan applies to all persons first hired after January 1, 1978 and before July 1, 2005 in APERS-covered employment. The New Contributory Plan applies to all persons hired after July 1, 2005 in APERS-covered employment or Non-Contributory members who elected to participate in the New Contributory Plan.

| 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.

Tier One

Tier Two

**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.

Tier One

Tier Two

**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.



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AJRS Executive Director

## STATISTICAL

Schedule of Revenues by Source

Schedule of Expenses by Type

Schedule of Benefit Expenses by Type

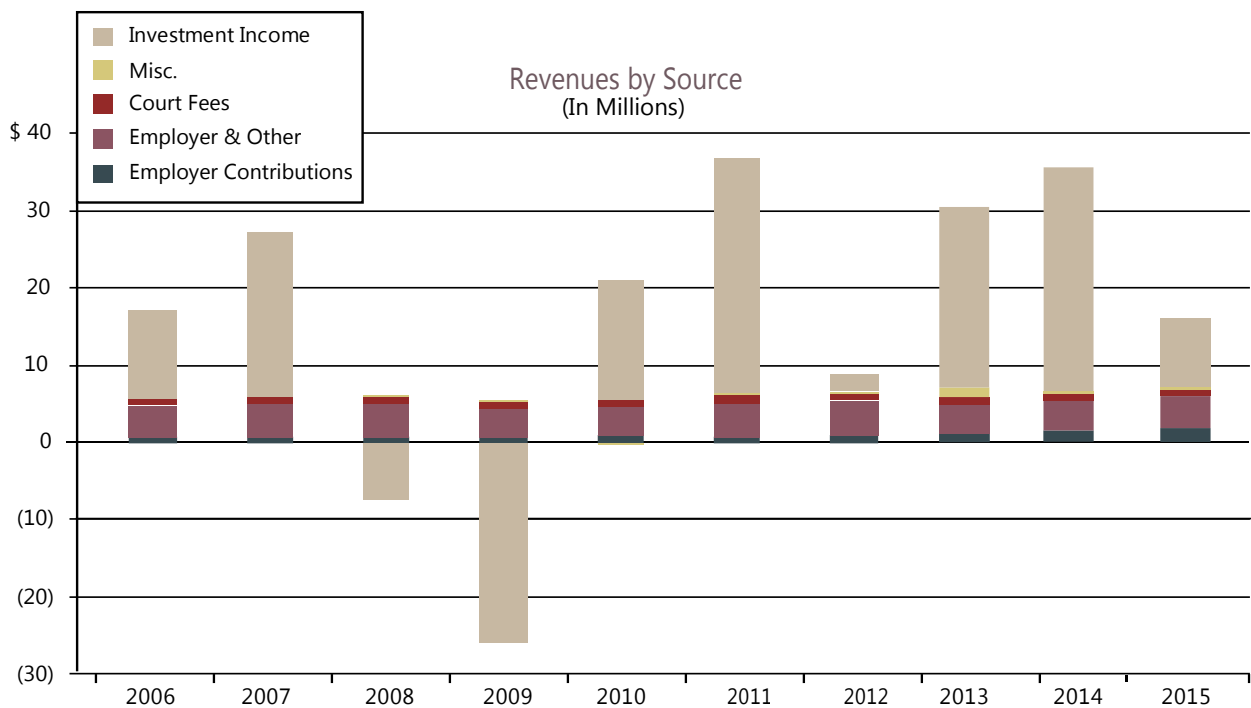
Schedule of Retired Members by Type of Benefit

Statistical Graphs

## Schedule of Revenues by Source

For the year ended June 30, 2015\*

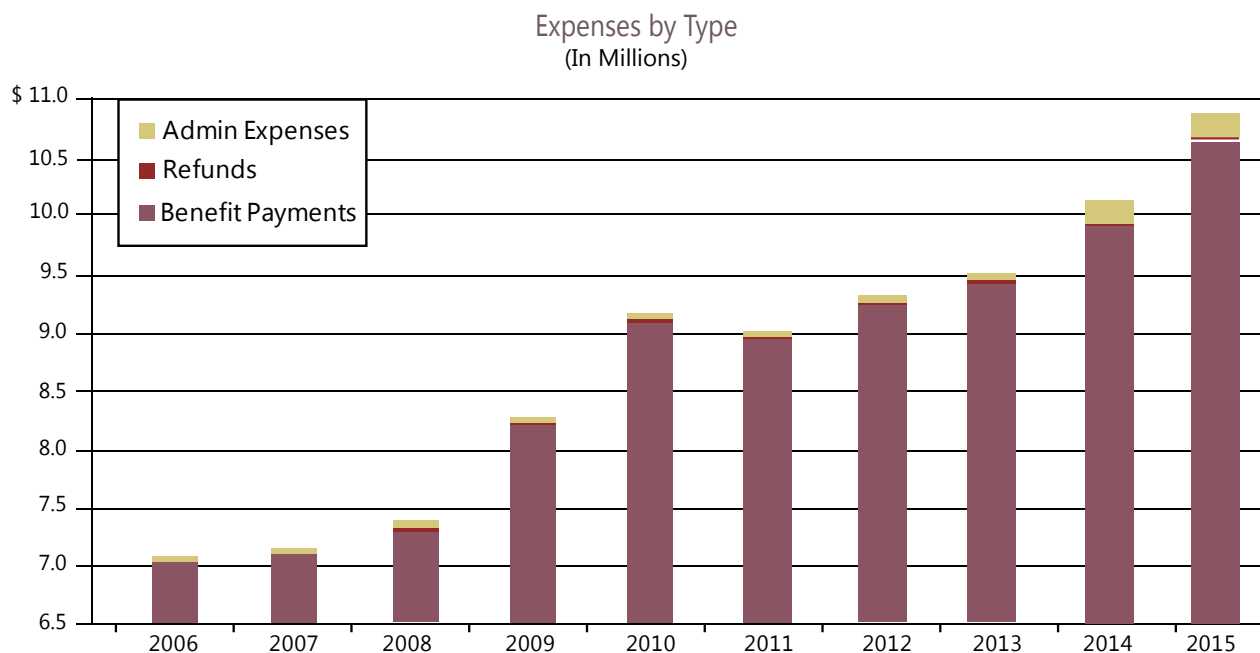
| Year<br>Ending<br>June 30 | Employee<br>Contributions | Employer &<br>Other Entity<br>Contributions | Court Fees | Misc.    | Investment<br>Income | Total         |
|---------------------------|---------------------------|---|------------|----------|----------------------|---------------|
| 2006                      | \$ 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    |
| 2014                      | 925,324                   | 5,345,572                                   | 764,883    | 6,873    | 29,793,113           | 36,835,765    |
| 2015                      | \$ 946,149                | \$ 5,078,901                                | \$ 609,388 | \$ 2,092 | \$ 9,971,824         | \$ 16,608,354 |



## Schedule of Expenses by Type

For the year ended June 30, 2015\*

| Year Ending<br>June 30 | Benefit<br>Payments | Refunds   | Administrative<br>Expenses | Total         |
|------------------------|---------------------|-----------|----------------------------|---------------|
| 2006                   | \$ 7,064,031        | \$ 0      | \$ 46,486                  | \$ 7,110,517  |
| 2007                   | 7,119,046           | 0         | 56,922                     | 7,175,968     |
| 2008                   | 7,308,028           | 42,372    | 58,544                     | 7,408,944     |
| 2009                   | 8,235,694           | 20,505    | 59,194                     | 8,315,393     |
| 2010                   | 9,125,873           | 22,782    | 49,021                     | 9,197,676     |
| 2011                   | 8,983,419           | 15,823    | 48,919                     | 9,048,161     |
| 2012                   | 9,280,100           | 7,014     | 67,798                     | 9,354,912     |
| 2013                   | 9,448,550           | 27,593    | 55,591                     | 9,531,734     |
| 2014                   | 9,966,020           | 18,836    | 130,529                    | 10,115,385    |
| 2015                   | \$ 10,762,871       | \$ 14,320 | \$ 137,951                 | \$ 10,915,142 |



\* Expenses are annualized based on June 30 benefit amounts.

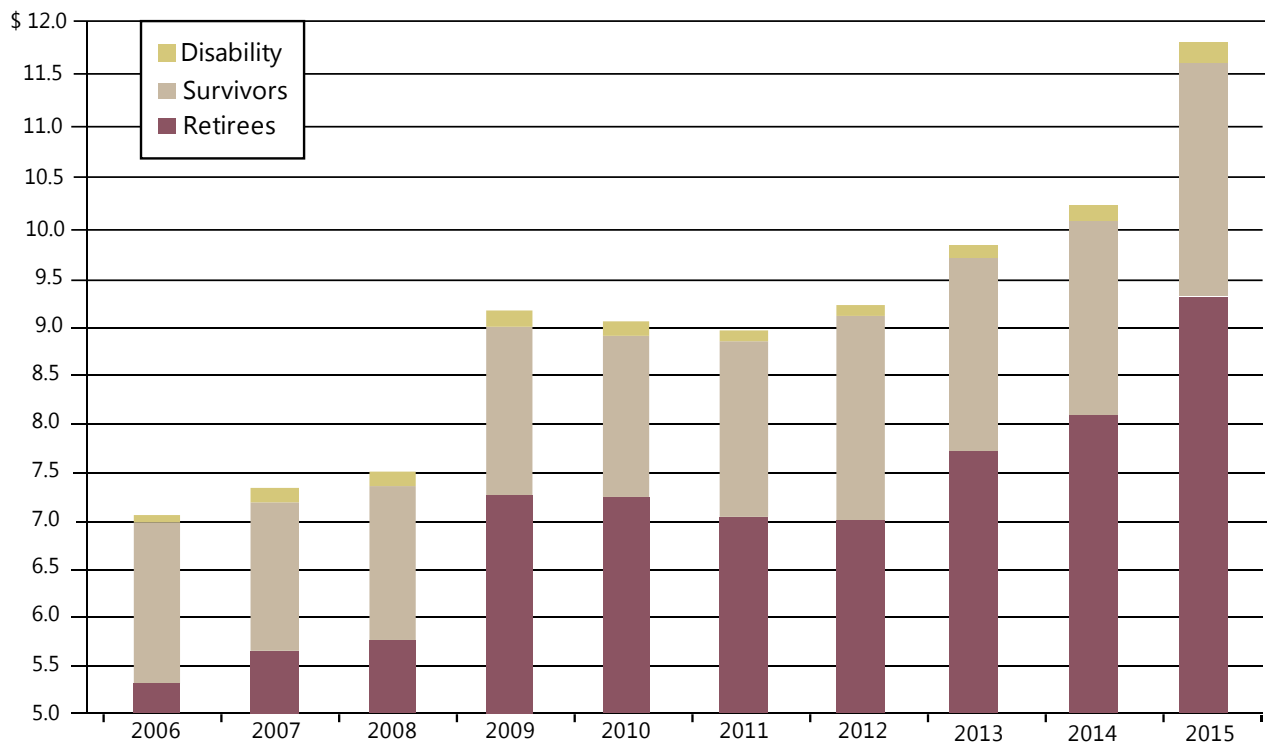
NOTE: Admin expenses will change once pension expense amount is adjusted based upon actuarially determined net pension liability.

## Schedule of Benefit Expenses by Type

For the year ended June 30, 2015 \*

| Year Ended<br>June 30 | Age and Service |              | Disability |
|-----------------------|-----------------|--------------|------------|
|                       | Retirees        | Survivors    | Retirees   |
| 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    |
| 2014                  | 8,020,300       | 1,916,865    | 121,106    |
| 2015                  | \$ 9,377,001    | \$ 2,206,257 | \$ 124,740 |

Benefit Expenses by Type  
(In Millions)



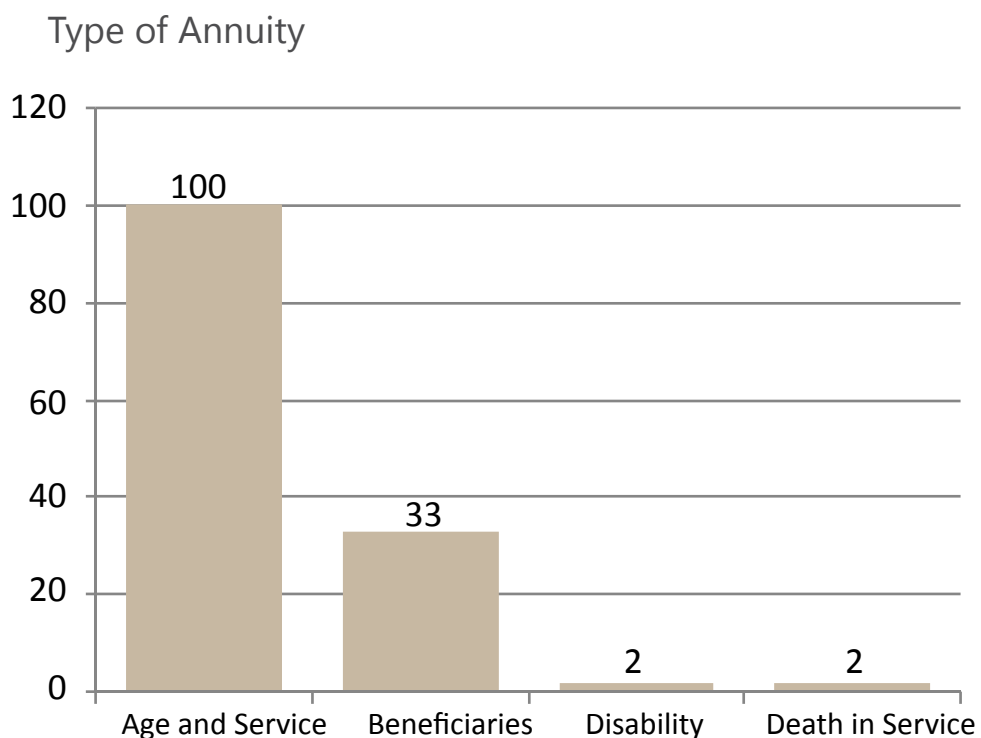
\* Expenses are annualized based on June 30 benefit amounts.



## Schedule of Retired Members by Type of Benefit

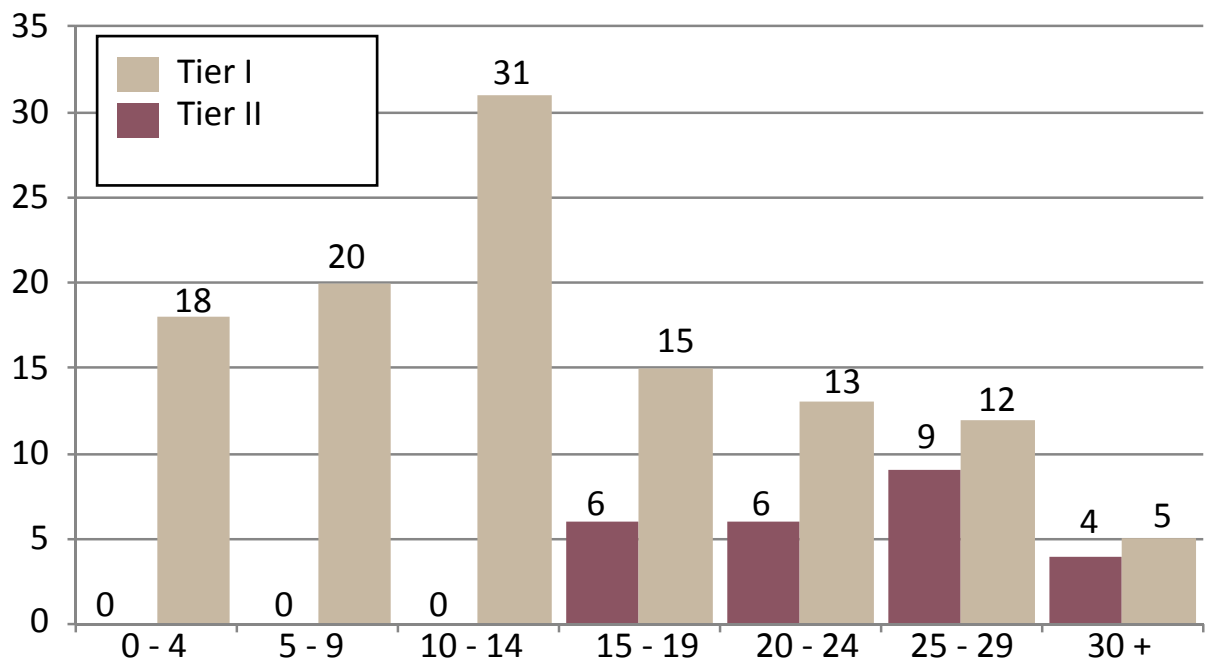
As of June 30, 2015

| Type of Annuity   | Number     | Annual Annuities     | Annual Liabilities    |
|---|------------|----------------------|-----------------------|
| <b>AGE AND SERVICE RETIREES</b>                         |            |                      |                       |
| Life  | 10         | \$ 834,815           | \$ 8,057,253          |
| Life Continuing to Survivor                             | 90         | 8,542,186            | 110,096,145           |
| <b>TOTALS</b>   | <b>100</b> | <b>9,377,001</b>     | <b>118,153,398</b>    |
| <b>BENEFICIARIES OF AGE AND SERVICE RETIREES</b>        | <b>33</b>  | <b>2,206,257</b>     | <b>22,499,014</b>     |
| <b>TOTAL AGE AND SERVICE RETIREES AND BENEFICIARIES</b> | <b>133</b> | <b>11,583,258</b>    | <b>140,652,412</b>    |
| <b>DISABILITY RETIREES</b>                              |            |                      |                       |
| Life  | 1          | 84,302               | 605,930               |
| Life Continuing to Survivor                             | 1          | 40,438               | 550,189               |
| <b>TOTALS</b>   | <b>2</b>   | <b>124,740</b>       | <b>1,156,119</b>      |
| <b>BENEFICIARIES OF DISABILITY RETIREES</b>             | <b>0</b>   | <b>0</b>             | <b>0</b>              |
| <b>TOTAL DISABILITY RETIREES &amp; BENEFICIARIES</b>    | <b>2</b>   | <b>124,740</b>       | <b>1,156,119</b>      |
| <b>DEATH-IN-SERVICE BENEFICIARIES</b>                   | <b>2</b>   | <b>125,960</b>       | <b>2,089,943</b>      |
| <b>TOTAL RETIREES &amp; BENEFICIARIES</b>               | <b>137</b> | <b>\$ 11,833,958</b> | <b>\$ 143,898,474</b> |

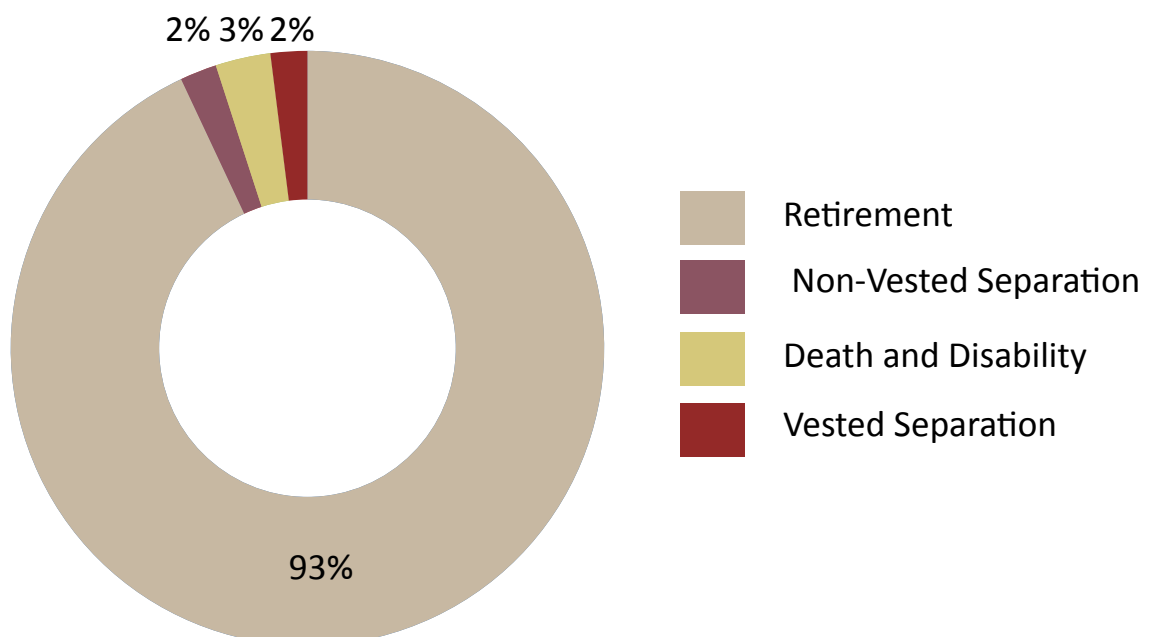


## Statistical Graphs

Active Members for Tier I and Tier II



Projected Separation of Current Membership



**ARKANSAS JUDICIAL RETIREMENT SYSTEM**

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