On Dec. 5, Gov. Quinn signed SB 1, the comprehensive pension reform bill, into law (Public Act 98-599). The bill’s components, mostly based on an earlier conference committee report, represent compromise language hashed-out by legislative leaders. Both chambers approved the bill almost simultaneously Dec. 3. (See Pages 2-3 for SURNS synopsis of the law. View the House roll call. View the Senate roll call.)

The main elements of the reform package include:

- Reduction of the Automatic Annual Increase for current or future Tier 1 retirees
- Automatic Annual Increase deferments for future Tier 1 retirees
- Capping pensionable earnings for Tier 1 participants
- Delaying the retirement age for current Tier 1 state workers under age 45
- Eliminating the use of sick and vacation days for service credit or pensionable earnings for future participants
- Changes to the Effective Rate of Interest
- Reduction of employee contributions (1%) for Tier 1 participants
- Funding guarantees
- The option for 5% of present Tier 1 participants to join a new defined-contribution plan

SURS staff is analyzing the 327-page law to determine its full impact on members, employers and the System in general. A team has been assigned the task of breaking down the bill section by section to come up with an implementation and communication plan.

“Regardless of the legal challenges that have been filed, SURS must move forward to develop a well-thought-out implementation plan, including a comprehensive way to communicate to our members,” said Executive Director William Mabe. “We need to fully understand all the components of this law in order to create the necessary internal processes. It’s going to be a huge undertaking for our staff. It’s not something that happens overnight.”

SURS also will work with the other affected pension systems to identify technical problems within the law.

SURS fully understands the affect pension reform will have on its members. “We know this may mean a financial loss for many of our members,” said Mabe. “Numerous lawsuits have been filed challenging the constitutionality of the law. We expect more to come.”

SURS sees the funding guarantees contained in the legislation as positive steps toward improving the financial health of the System. “The key to the success of these funding reforms will depend on the discipline exercised by both current and future legislatures in honoring the funding guarantees,” added Mabe.

The law will go into effect June 1, unless a stay is granted by the courts.

SURS staff is preparing a list of answers to Frequently Asked Questions for members. The list will be posted on the SURS website when complete, along with any updates to the synopsis. Members will also receive a Special Edition Advocate outlining which pension reform provisions affect them. The editions will be broken out by groups – annuitants/survivors, Tier 1 members, Tier 2 members, and SMP members. In addition, SURS Outreach Department will be hosting on-campus presentations and webinars, as well as working with SUAA on seminars. All times and locations will be posted on SURS website when finalized.

**Life Events Tab Added To SURS Website**

SURS has added a new, very helpful informational tab to our website homepage titled Life Events.

Information under this tab is broken down into events that might occur as members progress through life such as: starting work for a SURS employer, family changes, preparing for retirement, turning 65, returning to work after retirement, death and other helpful sections.

Look for the new Life Events tab among the drop-down menus near the top of the SURS homepage just above the photos of our community colleges and universities.
SURNS Staff Continues to Provide Great Service

By: William E. Mabe, Executive Director

The past few months have been both challenging and rewarding for SURNS staff.

Beginning in November, over 24,000 SURNS annuitants began the process of selecting a Medicare Advantage provider. Our staff, however, had been preparing for several months for the influx of calls, member visits, and forms.

An “increase-in-traffic” plan of action started on Nov. 12, the first day of enrollment, and continued through Dec. 13, the final day of enrollment. During that time, the SURNS call center handled 17,862 calls, an increase of 82.7% over the same time last year, and the insurance team processed 22,000 enrollment forms. Also, more than 3,250 members visited our office in Champaign during that period, an increase of 415% from a year ago.

For our staff, it was rewarding to be able to serve our members by answering their questions and making sure their forms were properly completed. Members said they felt much more at ease after speaking to a SURNS Member Service Representative.

On the heels of Medicare Advantage enrollment came the passage of SB 1, the pension reform legislation. Our staff has formed a team to identify any technical problems within the bill and to develop an implementation plan. SURNS is responsible for implementing the mandated changes to an already complex pension code. The work will take months and involve every department within our System from accounting to application development. Just as importantly, we are developing a communication plan for members and employers. We want to make sure everyone receives accurate information to the best of our knowledge.

We ask for your patience as we review the legislation and complete our plans and procedures. We will keep you up to date as we go forward via our website.

Speaking of our website, SURNS has added the convenience of electronic signatures and submissions for many forms. Also just added is a Life Events tab on the homepage tool bar. Information under this tab will be broken down into events that may occur as a member progresses through life such as starting work for a SURNS employer, family changes, preparing for retirement, turning 65, returning to work after retirement, survivor benefits and other helpful sections.

SURNS commitment to provide our members with exceptional service and timely benefits will continue into 2014. We look forward to serving you.

Legislative Update: Pension Reform

Summary of Senate Bill 1 as Adopted by the General Assembly on Dec. 3, 2013

By: Jeff Houch, Legislative Liaison

Automatic Annual Increase (AAI)

Current and future Tier 1 retirees will receive automatic annual increases starting January 1, 2015, that will be 3% of the lesser of (i) the total annuity payable at the time of the increase, including previously granted increases or (ii) $1,000 multiplied by the number of years of creditable service upon which the annuity is based.

The $1,000 multiplier will be adjusted for inflation using the Consumer Price Index-Urban (CPI-u) each year thereafter. The CPI-u adjustment to the $1,000 multiplier shall be equal to the annual unadjusted percentage increase in the CPI-u for the 12 months ending with the preceding September. These adjustments will be cumulative and compounded and the first adjustment will occur with the AAI effective January 1, 2016.

Example:

If a member’s annual retirement annuity is $35,000, and they have 30 years of service credit, the Automatic Annual Increase (AAI) as calculated with 3% compounding interest would be $1,050, increasing the annual retirement annuity to $36,050. The same member’s AAI calculated using the formula provided under the new law (PA 98-599) takes the member’s years of service (30 years), multiplied by $1,000. That amount of $30,000 is then multiplied by 3%, producing an increase of $900, which when added to that member’s annual retirement annuity of $35,000 increases the annual retirement annuity to $35,900. Because the new rate produces a lower increase, that member would receive the increase of $900 as provided by the new formula.

Tier 1 members who retire on or after July 1, 2014, will not be eligible to receive the following automatic annual increases based on their ages as of June 1, 2014:

- Age 50 or over - will not receive their 2nd automatic annual increase;
- Age 47 to under age 50 - will not receive their 2nd, 4th, or 6th automatic annual increase;
- Age 44 to under age 47 - will not receive their 2nd, 4th, 6th, or 8th automatic annual increase;
- Under age 44 - will not receive their 2nd, 4th, 6th, 8th, or 10th automatic annual increase.

The changes to the AAI do not apply to the Tier 2 retirement and survivors insurance AAIs, the Tier 1 survivors insurance annuity AAI, or the Tier 1/Tier 2 disability benefit and disability retirement annuity AAIs.
Retirement Age

The retirement age would be set on a sliding scale based on the member’s age at the time the law takes effect, which is June 1, 2014.

The retirement age formula in the law essentially adds four months to the statutory retirement age for every year that a member is under age 46 at the time the bill takes effect.

An additional four months is added to the retirement age for every year of a member’s age until the total delay in retirement reaches five years. The five-year delay in retirement age is designed to affect all members age 31 or younger in Tier 1.

For members 46 and older at the time the bill takes effect, the current retirement ages and eligibility remain in force.

It is unclear at this time whether the retirement age delay applies to retirement eligibility under the “30 and Out” eligibility criterion. SURS will seek future legislative clarification on this issue.

Pensionable Earnings Limitation

Pensionable earnings for Tier 1 members shall not exceed the Tier 2 Wage Base (as adjusted for inflation).

For reference, the FY2015 Tier 2 Wage Base is $110,631.26.

Tier 1 participants who are receiving earnings exceeding the Tier 2 Wage Base as of June 1, 2014, are grandfathered and pensionable earnings are limited to the participant’s annualized rate of earnings as of June 1, 2014, or the annualized rate of earnings immediately preceding the expiration, renewal or amendment of a collective bargaining agreement that is in effect on June 1, 2014.

Tier 1 Employee Contribution Decrease

Beginning July 1, 2014, Tier 1 employee contributions are decreased by 1% of earnings.

Tier 2 and SMP employee contribution rates remain unchanged.

Effective Rate of Interest

In order to reduce the size of pensions determined by the money purchase calculation, the law changes the interest rates used in the formula to a reduced floating rate.

The new floating rate is the interest rate on a 30-year U.S. Treasury bond plus 75 basis points (0.75%).

This is significantly lower than the rate determined by the SURS board, which is currently 7% and is used for portable plan refunds, portable plan lump sum payments, and additional annuities among other purposes.

This is also lower than the rate determined by the Comptroller (6.75%) which is annually applied to money purchase accounts.

Optional Defined Contribution Plan

Up to 5% of Tier I active participants will be able to freeze their current defined benefit pension plan benefits and join a new defined contribution benefit plan that will be in effect until the day they retire.

The DC plan is open to active Tier I members only and would begin no earlier than July 1, 2015, pending approval from the IRS. Members would have one opportunity to irrevocably elect membership in the new DC plan. A member would need to work at least 5 years in order to be vested in the DC plan.

If a member joins the DC plan, he or she would have his or her creditable service frozen on that date for purposes of determining a DB benefit. To determine a member’s eligibility for a DB benefit after the member switches to the DC plan, SURS would use the member’s service credit accumulated under both the DB plan and the DC plan at retirement.

Upon retirement, members would receive a DB annuity, plus equal payments from an accumulated DC retirement account until those funds are exhausted.

State Pension Contributions

The State must contribute on a funding schedule to ensure SURS is 100% funded by 2044 as a level percentage of payroll. In addition, the state shall make annual supplemental payments beginning FY 2016 that represent 10% of the savings produced under the pension reform. Furthermore, when some of the state’s pension obligation bonds mature in 2019, the state will automatically earmark additional payments to SURS and the other state pension systems.

These two streams of payments will be in addition to the state’s regularly set pension contribution, and will be appropriated every year until the systems’ funding status reaches 100%.

If the state does not pay its annual contribution to SURS within a set period of time, SURS could go to court to force the state to pay the contribution. This enforcement provision, however, can be altered or repealed by the General Assembly in the future.
After a nearly flat 0.5% return in Fiscal Year 2012, the SOURS investment program ended Fiscal Year 2013 with a strong return of 12.5%, net of investment management fees.

The portfolio exceeded the policy portfolio benchmark return by 0.1% with investment manager outperformance, particularly in the fixed income, international equity, and opportunity fund portfolios, being the largest contributor.

When compared to other large public funds, the performance of the SOURS portfolio is quite competitive. The portfolio’s 12.5% return exceeded the 11.9% return of the Public Funds Index and ranked above median in a universe of large public plans for the past 12 months.

World equity markets generally responded positively to signs of economic growth, albeit modest growth, over the course of the fiscal year. Fixed income markets, however, did not fare as well, with concerns that the Federal Reserve will begin tapering bond purchases in response to a recovering economy.

As of June 30, 2013, the defined benefit plan is valued at over $14.8 billion while the Self-Managed Plan (SMP) is valued at approximately $1.2 billion.

The table below illustrates the performance of the overall SOURS investment portfolio relative to the policy portfolio, as of June 30, 2013.

It is noteworthy that SOURS has historically demonstrated robust investment performance over longer time periods, earning an 8.5% annualized rate of return over the past 25 years, exceeding both the policy portfolio return and the 7.75% assumed rate of return.

Many of the accomplishments occurring during Fiscal Year 2013 were related to the implementation of the asset/liability study approved by the Board in June 2011. A summary of these outputs follows:

- An asset structure analysis was completed and implemented in the fixed income and Treasury Inflation Protected Securities (TIPS) asset classes. This restructuring resulted in the implementation of an unconstrained fixed income investment mandate as well as a rebalancing of the assets managed by existing investment managers.
- Commitments totaling $400 million to both core and non-core private real estate managers were approved during the fiscal year, with the goal of transitioning the portfolio toward the 10% target real estate allocation approved by the Board in the June 2011 asset/liability study.
- In addition, SOURS committed approximately $300 million in additional funds to the private equity portfolio to maintain vintage year diversification. Importantly, these new private equity commitments included $75 million in commitments to a private equity provider whose mandate is to identify and invest with general partners that are at least 51% owned by minorities, females, and persons with a disability (MFDB).
- Another significant accomplishment in Fiscal Year 2013 was the continued expansion of the Manager Diversity Program (MDP), which focuses on qualified MFDB investment management firms. As of June 30, 2013, the MDP is valued at approximately $1.5 billion. In total, assets under management with MFDB firms are approaching $3.7 billion or 25.1% of the Total Fund.

For additional information on the results of Fiscal Year 2013 and strategy for Fiscal Year 2014, please see the SOURS Fiscal Year 2014 Investment Plan, located on the SOURS website.

The continuing challenge to SOURS remains the funding status of the Plan. Despite strong long term returns, SOURS remains substantially underfunded.

- SOURS is approximately 43.7% funded as of June 30, 2013 (using the market value of assets method).
- The unfunded liability is approximately $19.3 billion. It is important to note, however, that SOURS received the full FY 2013 contribution of $1.4 billion from the State of Illinois.

### Investment Performance*

**As of June 30, 2013**

<table>
<thead>
<tr>
<th></th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
<th>20 Years</th>
<th>25 Years</th>
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<tbody>
<tr>
<td>SOURS</td>
<td>12.5%</td>
<td>11.8%</td>
<td>5.3%</td>
<td>7.7%</td>
<td>8.0%</td>
<td>8.5%</td>
</tr>
<tr>
<td>Policy Portfolio</td>
<td>12.4%</td>
<td>12.1%</td>
<td>5.5%</td>
<td>7.8%</td>
<td>7.8%</td>
<td>8.0%</td>
</tr>
</tbody>
</table>

*Net of investment management fees
Note: Assets and liabilities are estimated and unaudited through June 30, 2013. During 2009, the asset valuation method was changed, which resulted in a five-year smoothing method being utilized. The fund has an actuarial value funding ratio of 41.5% at the end of fiscal year 2013, utilizing a 7.75% assumed rate of investment return.

2014 Fiscal Year-To-Date Results

Rallies in the U.S. and non-U.S. equity markets continued in the first quarter of Fiscal Year 2014, resulting in significant gains to the total SURS investment portfolio. The SURS real estate portfolio also performed well for the period.

Fixed income investments provided slightly positive returns during the quarter. For the September 30, 2013, quarter, the SURS investment portfolio returned 5.4%, net of fees, ahead of the policy portfolio return of 5.2%.

As of September 30, 2013, SURS is approximately 45.0% funded, a slight improvement from the position at the end of Fiscal Year 2013. The statutory contribution from the State of Illinois for Fiscal Year 2014 is $1.5 billion. Consistent funding from the State of Illinois will continue to strengthen the financial condition of the Plan.

In October 2013, the SURS Board of Trustees completed a comprehensive search for a general investment consultant with the selection of NEPC. NEPC is a highly qualified, nationally recognized firm with extensive experience advising large public plans similar to SURS. The role of the consultant is critical, with the potential to meaningfully influence the future direction of the SURS portfolio. SURS looks forward to partnering with NEPC in the coming years.
Self-Managed Plan News

The Self-Managed Plan (SMP) is SERS’ defined-contribution plan. Assets were in excess of $1.27 billion, as of Sept. 30, 2013, which equates to an average account balance of $71,256 per each of the 17,844 SMP participants. These figures are up from a year ago on Sept. 30, 2012, where the average balance was $61,348 with 16,905 participants, an increase of 16.1% and 5.5% respectively.

The 10-year average asset allocation as of June 30, 2013 was 70.7% Equities and 28% Fixed Income. The remaining 1.3% was attributable to Real Estate.

SERS continues to work with Fidelity and TIAA/CREF on communication literature. It is our intent to expand upon the amount of the communication which SERS members receive. Up till now much of the content has focused on the accumulation stage and the different types of investments available.

In 2014 we intend to expand our lines of communication to assist you in looking at how much income you will derive from, not only the SERS SMP Plan, but also your other investment vehicles such as 403(b)s, Traditional IRAs, Roth IRAs, Social Security, etc.

Income replacement will become a focal point for many members, particularly members who are approaching their anticipated retirement date. Many people have a goal to replace anywhere from 65-80 percent of their pre-retirement income. It is critical for each member to know with some degree of certainty the amount of income they will need in retirement.

Please take time to review the assortment of calculators, articles and links available in the SMP Tools section of your Member Website, accessible from the SERS website, www.sers.org.

There are many items on the Fidelity and TIAA/CREF websites that you might find useful in assisting you with planning for your retirement. Please take advantage of the many useful items available.

SMP webinars are now offered quarterly. These webinars are for Self-Managed Plan participants who are new to SERS or just wanting information regarding SMP procedures – including transfers, service credit purchases, service credit accumulation, and contact information. A computer with speakers or a headset and high-speed internet service is required to attend these events. To register, go to the SERS website (www.sers.org) and click on the Seminars & Webinars link.

Tot. Active FULL TIME vs. PART TIME EMPLOYMENT as of September 30, 2013

<table>
<thead>
<tr>
<th></th>
<th>Full Time</th>
<th>Part Time</th>
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</thead>
<tbody>
<tr>
<td>SMP</td>
<td>3,013</td>
<td>8,854</td>
</tr>
<tr>
<td>Portable</td>
<td>4,573</td>
<td>15,340</td>
</tr>
<tr>
<td>Traditional</td>
<td>3,769</td>
<td>10,832</td>
</tr>
<tr>
<td>Default</td>
<td>13,964</td>
<td>22,739</td>
</tr>
<tr>
<td>Total</td>
<td>25,319</td>
<td>56,229</td>
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</table>
SIRS counselors play a vital role in educating members about benefits through private appointments, presentations, campus visits and other outreach initiatives.

During Fiscal Year 2013, counselors met with 2,264 members in person and conducted 1,036 counseling sessions via telephone. Members within four years of retirement can schedule private appointments that are 30 minutes long and are specific to the member’s personal SIRS history. Some of the topics discussed include retirement amounts, death and survivor benefits and insurance.

Counselors also complete written estimates for members who request them in lieu of having a counseling appointment. In FY 2013, the counseling team reached out to hundreds of inactive members who were eligible to retire by proactively sending written estimates. A total of 1,733 written estimates were completed last fiscal year.

All members are surveyed electronically after appointments, and 66 percent responded for FY 2013. Counselors achieved a member-satisfaction rating of 97.6 percent for the fiscal year. Some of the words members used to describe counselors in these surveys were: outstanding, knowledgeable, professional, excellent, helpful, courteous, compassionate, caring and friendly.

Counselors undergo a very intensive training program before they can start meeting with members. This process can last as long as two years depending on the person’s prior experience with SIRS.

“The counselors do an exceptional job. They are very knowledgeable and truly care about our members. They enjoy helping them understand their SIRS benefits,” said Counseling Manager Suzanne Mayer, who leads a nine-person team with more than 170 combined years of experience with SIRS.

Since July 2012, two SIRS counselors have been located at SIRS Naperville Outreach office. These counselors spend a great deal of time traveling to employers in the region and also conduct in-office counseling appointments.

When visiting campuses throughout the state, counselors hold one-on-one meetings, give group presentations and attend employer-hosted benefits fairs. Counselors are often on the road two or three times a week during the middle of the fall and spring semesters, which are the busiest times of the year for the department.

Over the last two years, SIRS has expanded member education in as many ways as possible. Those efforts include initiating post-retirement seminars, creating webinars, expanding seminars to the Naperville office and generally trying to reach more people through use of new technologies.

Any time there are changes to benefits, SIRS retirement counselors are at the forefront of member-education efforts. In November and December, counselors were called on to assist in educating members about Medicare Advantage Enrollment.

As SIRS begins to develop education efforts outlining recently passed pension reform legislation, counselors will again be relied upon to ensure members are aware of how these changes affect them personally.

**Nearing retirement?**

- Members within four years of retirement can schedule a private appointment with a SIRS retirement counselor or request a written estimate every 12 months.
- To request a counseling appointment via the SIRS Member Website, go to www.surs.org and click on Member Access to log in. Once you have logged in, click on the Retirement Counseling link on the left and submit the required information.
- Appointments can be held at the SIRS office in Champaign, on your local campus, or over the phone.
- If you are interested in having a counselor visit your campus, have your human resources office contact SIRS.

SIRS retirement counselors keep members informed
**Trustee Engstrom honored**

Trustees and staff presented Trustee John Engstrom a plaque at the annual employee luncheon Oct. 2 to recognize his hard work during his four years on the State Universities Retirement System Claims Panel.

Engstrom gave generously of his time, traveling to Champaign bimonthly for hearings and lengthy discussions. His knowledge of state statute regarding SURS retirement and insurance benefits, as well as his insight into the claims process was invaluable.

He is KPMG Professor Emeritus of Accountancy at Northern Illinois University. His teaching and research specialty is governmental and not-for-profit accounting. He co-authored one of the leading textbooks in the field, “Essentials of Accounting for Governmental and Not-for-Profit Organizations.”

Houch began his career at SURS in 2011. His role primarily consists of working closely with key legislators and staff to educate those individuals on the complexities of SURS and the potential effects legislation would have on the system.

Houch was nominated for the award by his co-workers.

**Houch named SURS Employee of the Year**

Legislative Liaison Jeff Houch has been named the State Universities Retirement System Employee of the Year for 2013. He worked extremely hard during the past year to provide the most accurate information possible to members, employers, legislators and fellow employees.

Besides updating staff on pension reform, Houch played a key role in the new return-to-work policies by outlining requirements, working closely with employers and helping communicate these requirements to all SURS stakeholders. He also has represented SURS at various functions, often speaking to groups with little notice.

Houch was nominated for the award by his co-workers.

**2014 Payment Schedule**

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<thead>
<tr>
<th>All Annuity Payments</th>
<th>Disability Payments</th>
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<td>December 1</td>
<td>December 31</td>
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**CMS Extends Dependent Eligibility Verification Audit Forms Deadline**

The deadline for returning Dependent Eligibility Verification Audit (DEVA) forms is now January 31, 2014.

In October, the Illinois Department of Central Management Services (CMS) retained the services of HMS Employer Solutions (HMS) to conduct a Dependent Eligibility Verification Audit.

SURS members should continue to call the HMS Employer Solutions call center with their questions – 877-658-0596.

The current audit affects retirees with covered dependents, but active state employees will also be audited. Dependents could be a spouse/civil union partner, dependent child or dependent parent.

Please note that the State Universities Retirement System does not endorse any provider of financial advice. Members seeking financial advice or planning assistance are encouraged to carefully select credentialed professionals.

**Communications Manager:** Beth Spencer   **Graphic Designer/Publications Editor:** Joel Fellers

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