The Advocate

SURS

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2007 Benefit Payment Schedule

The following is the schedule for SURS monthly benefit payments during 2007:

On the first working day of the month, all electronic fund transfers (EFTs) for disability retirement allowances, retirees, survivors, beneficiary annuitants, and reversionary annuities are made. Dates for these payments are: March 1, April 2, May 1, June 1, July 2, August 1, September 4, October 1, November 1, and December 3.

On the last working day of the month, all paper checks and statements are mailed and disability EFTs are deposited. Dates for these payments are: March 30, April 30, May 31, June 29, July 31, August 31, September 28, October 31, November 30, and December 31.

Around the 15th of the month, SURS submits a pre–notification to the financial institutions receiving EFTs, allowing them to list any corrections in account transmittal information to us. Any direct deposit changes received at SURS after the pre–notification is processed will result in a paper check being mailed directly to the bank for the first month.❑

New SMP Service Credit Payment Options

SURS statutes allow for the purchase of eligible service credit. In the past, Self-Managed Plan (SMP) members were limited to using after-tax dollars or a rollover from a qualified plan to purchase this credit.

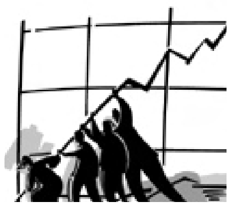
As of January 1, 2007, eligible SMP members have an additional method of payment for purchasing eligible service credit. This new method is an irrevocable payroll deduction plan. It allows your SURS-covered employer to withhold contributions from your salary on a before-tax basis.

In addition to the tax benefits, this will give you the option of budgeting for smaller monthly payments in lieu of making one large lump sum payment.

To qualify, you must be currently employed by a SURS-covered employer and have received at least 9 months of earnings in the previous 12 months.

(continued on p. 5)

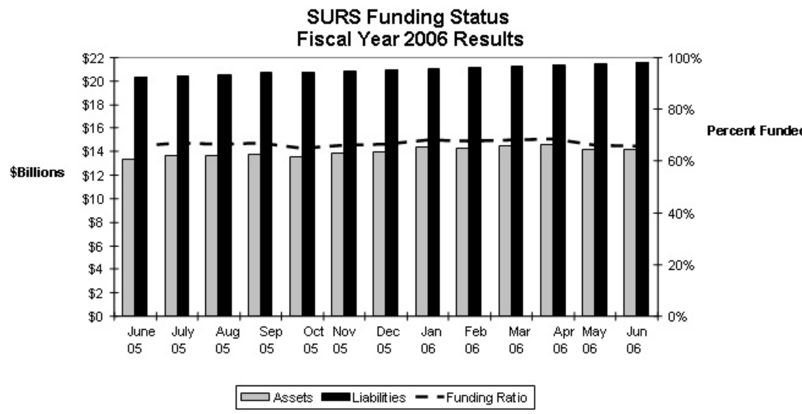
February 2007



Investment Update

Fiscal Year 2006 Investment Results

SURS experienced strong investment results during fiscal year 2006, posting a net of fee return of 11.7%. The portfolio matched the policy portfolio benchmark return for the fiscal year and has posted double digit returns for three consecutive years.



A number of significant accomplishments occurred during the year, as referenced below.

- Total combined fund assets in the defined benefit and defined contribution plans achieved all-time high levels in excess of $14.6 billion, continuing to rank SURS as one of the largest 100 pension plans in the U.S.
- For the fiscal year ended June 30, 2006, the defined benefit portfolio achieved above benchmark returns in six of the eight primary asset classes. Investment returns exceeded their appropriate benchmarks in Non-U. S. equity, global equity, private equity, core plus fixed income, Treasury Inflation Protected Securities (TIPS) and Real Estate Investment Trust Securities (REITS).
- The System's return on investment exceeded the assumed actuarial rate of return for the period, but the funding ratio declined from 65.6% to 65.4%. The decrease in the funding ratio was primarily the result of less money being contributed to the fund for the fiscal year ending June 30, 2006 than would be required on an actuarial basis.
- The Self-Managed Plan (SMP) completed its eighth year of existence and has grown to over $440 million in assets.

During the fiscal year, the real estate asset class funding was completed to achieve an asset allocation level of 6%, as directed by the Board of Trustees in a comprehensive asset/liability study conducted during fiscal year 2004.

Going forward, the System will continue to be proactive in addressing challenges, striving to seek beneficial investment opportunities for SURS while remaining cognizant of risk objectives.

Fiscal Year-to-Date 2007 Investment Results

Fiscal Year 2007 is off to a good start, with the SURS portfolio posting a net-of-fee return of 4.2% from July 1, 2006 through September 30, 2006. This total fund return exceeded the policy portfolio benchmark return of 4.0%. Investments in real estate and real estate investment trusts provided the strongest return for the quarter. Equity markets, both in the U.S. and abroad, also rallied significantly. Bond markets experienced gains in the quarter as well. The diversification of the SURS portfolio continues to be beneficial in Fiscal Year 2007. ❑

From the Desk Of:

Dan M. Slack, Executive Director

I am using my column for this issue of the Advocate to attempt to peer into the future. I would like to tell you about the challenges confronting SURS as we move into 2007 and beyond.

SURS has had excellent investment returns for the past three fiscal years: 17.0% for FY 2004, 10.4% for FY 2005, and 11.7% for FY 2006. Markets have been robust for the first five months of FY 2007 (July – November 2006). However, the housing market has been slowing markedly and domestic auto sales are down. Some experts are predicting that there may be a market correction in 2007. Some are not. The Board of Trustees has developed a well-structured asset allocation that should continue to serve SURS well. The trustees and staff continually monitor SURS's asset allocation and investments and determine whether any changes should be made.

If no further changes in the law are made, the funding for SURS and the other state-funded retirement systems will get back on the "ramp" for fiscal year 2008. During their spring 2007 legislative session, the legislature and the governor will consider the state budget for fiscal year 2008. The two years of reduced funding to SURS as a result of Public Act 94-4 took place in fiscal years 2006 and 2007. In fiscal year 2007, SURS received $252 million as the state contribution. The SURS Board of Trustees has certified the required state contribution to SURS for fiscal year 2008 at approximately $340 million.

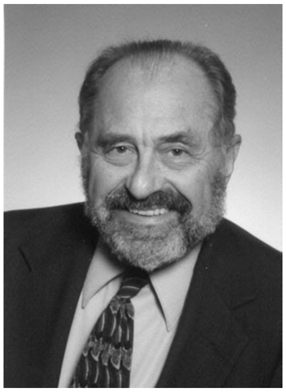
The difficulty that the governor and the legislature will face is that the required contributions to all of the state-funded retirement systems will increase by $600 to $700 million between fiscal years 2007 and 2008. Coincidentally, the Commission on Government Forecasting and Accountability has estimated revenue growth from FY 2007 to FY 2008 to be $600 million. I have great concern about the state's ability to meet the required state contributions to SURS and the other systems without some form of increased revenue to the state.

It is possible that there could be some lump-sum approach to the issue of pension funding. In 2003, the state issued $10 billion in bonds and used about 74% of the proceeds to pay down the unfunded liability of the systems. If interest rates are favorable, more bonds could be issued. The sale or lease of various state assets has also been discussed in Springfield. If such sales or leases take place, it would be very prudent for the state to allocate a portion of the proceeds to the pension systems.

On a national level, we will continue to see challenges to defined benefit plans, in both the private and the public sector. SURS is somewhat unique in the public sector by offering our participants the choice of defined benefit versus defined contribution plans. As this national debate plays out, our defined benefit participants should be aware that their benefits are moderate in cost, and often below what a much smaller private sector employer would pay in retirement contributions for its employees.

We will see increasing attention given to the cost of retiree health care for public sector employees. The Governmental Accounting Standards Board has mandated that governments begin estimating and showing on their financial reports the liability associated with such benefits (called other post-employment benefits or "OPEBs"). This is a separate issue from retirement benefits. SURS does not provide OPEBs, but the state does, and OPEB reporting will soon appear on the state's financial reports.❑

We Are Still Assets



By: Mitchell Vogel, SURS Board President

We have heard explosive rhetoric from political candidates, the news media, and a wide variety of talking heads about the underfunding in our public defined benefit pension plans. There were two common threads in that rhetoric. They used words like "nightmare," "tragic," and even "unsolvable." This was indeed unfortunate; nightmares usually feature unknown monsters and ogres who seldom are vanquished. The problems our pensions face are caused by real people who made real mistakes. Very simply, they chose to fund their priorities by underfunding our pensions. Unlike nightmares, the solution can be found and accomplished by real people making the right decisions.

The second thread in the explosive rhetoric was that no real solutions were suggested. The most common suggestion was that "task forces," blue ribbon panels, and joint study committees be established to investigate the underfunding. Since I have been on the SURS Board, we have cooperated with a number of special task forces investigating the problem. All have made recommendations and the problem of under funding remains.

I would like to suggest something different. I was president of the largest faculty and staff union in Illinois for almost 20 years. One thing I learned during those years was that our colleges and universities contain both faculty and staff employees who are capable of solving many problems. And since we are facing a serious underfunding problem and not a "nightmare," I think our annuitants and pension participants are capable of solving this problem.

Underfunding is more of a problem for the state than our annuitants and participants since our pensions are constitutionally guaranteed, but in a few short years, pension debt will be the driving force for state's budgeteers. Obviously, we all have a stake in the state's economic welfare. Underfunding does create serious long and short term problems. At present, SURS has been forced to sell some of its investments in order to make those constitutionally guaranteed pension payments. Sales which have limited the amount of funds we can earn in interest. For example, the $500 million in investments we sold recently would have earned over $50 million in interest this year. Money which could have been spent or more likely invested in a very productive fashion.

The state would have little concern making the normal payments on a year to year basis but making up for the previously underfunded years is as one governmental official stated a "very daunting task." Some political leaders have made a number of suggestions:

- Slash other state funding priorities until the debt is erased.
- Sell or lease off state assets such as the toll roads or lottery in order to cover expenses. SURS is already selling hundreds of millions of dollars in investments.
- Sell state General Obligation Bonds in order to spread out and defer the debt.
- Eliminate the existing defined benefit plan for new members and replace it with a cheaper program for the state.
- Increase the state's income tax rate in order to create greater revenue.

What I am suggesting is that we rely upon the creativity and intelligence of our higher education annuitants and pension participants for the best answers. In the past, I know some of our state's and nation's problems have been solved by those in the academic world and I know this problem can be solved in the same fashion.

I would like to hear from you about potential solutions. I can't promise a new car or big cash prize for the best idea. But I can promise you that we will deliver your ideas to our state's decision makers. We know they will take them seriously and hopefully our pension funds will be more secure. Please send your suggestions to mvogel@surs.org. ❑

Self-Managed Plan Funds

Freedom Funds 2045 and 2050 have joined the lineup of seven Fidelity lifecycle funds already available to participants in the SMP. These new additions are appropriate for participants whose targeted retirement dates are close to the years identified in the fund names. In September, SMP fund offerings were further expanded when TIAA-CREF implemented its series of Lifecycle Funds 2010-2040. The funds offer participants the opportunity to invest in a diversified portfolio of TIAA-CREF options managed by investment professionals. The funds are designed to change asset allocation over time to become more conservative as the targeted retirement year approaches.

The series of Fidelity Freedom Funds also became the default fund for the SMP. Previously, the default funds were the Fidelity Puritan Fund and the TIAA-CREF default allocation of 60% CREF Stock Account and 40% CREF Bond Account. Any participant whose overall allocation to funds in the SMP does not equal 100% will have contributions invested in the appropriate Fidelity Freedom Fund based upon the participant's year of birth.

On February 1, 2007, the line-up of SMP investement options expanded to include three additional offerings, the American Beacon Large Cap Value Plan Ahead Fund, the Buffalo Small Cap Fund, and the Fidelity Real Estate Investment Portfolio Fund. These offerings further diversity the SMP actively-managed investment options by providing exposure to large cap value and small cap growth style areas and the real estate asset class. Information about each of these funds may be found on the SURS website at www.surs.org. ❑

SMP Service Credit

(continued from p. 1)

Your monthly salary must accommodate a minimum monthly deduction of at least $50. Your eligible service credit must be verified.

Participation in the payroll deduction option reduces your taxable income. Since you will not pay federal income taxes on the payroll deduction contribution, this type of payment will be taxed after your retirement. Contact SURS or visit www.surs.org for more information about this option. ❑

Actuarial Results

The SURS Board adopted the results of the recent five year study presented by the SURS actuary. These results may cause a slight decrease in the amount provided by the Money Purchase formula.

The change in factors will affect retirements that begin on or after September 2, 2007. The Estimator on the SURS Member Website has been updated to calculate retirements after this date using the new factors. Both new and old factors are available for review at www.surs.org. ❑

Effective Interest Rates

The effective rate of interest for fiscal year 2007-2008 has been set by the SURS Board at 8.5% for the Traditional and Portable options.

The effective rate of interest for the Money Purchase Formula has been determined by the State Comptroller at 8% for fiscal year 2007-2008.

Both rates apply from July 1, 2007, through June 30, 2008. ❑

SURS Summary

Who participates in SURS?

- 52% of SURS participants are professors and teachers.
- 48% are support staff, such as custodians, grounds keepers, and clerical staff.
- At least 65% of SURS participants earn $50,000 or less per year.
- 79% of SURS participants are full-time employees.
- 76% of the benefit recipients live in Illinois.

Defined Benefit Plan Membership

Benefit Recipients	41,638
Active Members	71,759
Inactive Members	67,743
Total	181,140

Self-Managed Plan

Benefit Recipients	29
Active Members	9,110
Inactive Member	4,863
Total	14,002

What sort of benefits do SURS retirees receive?

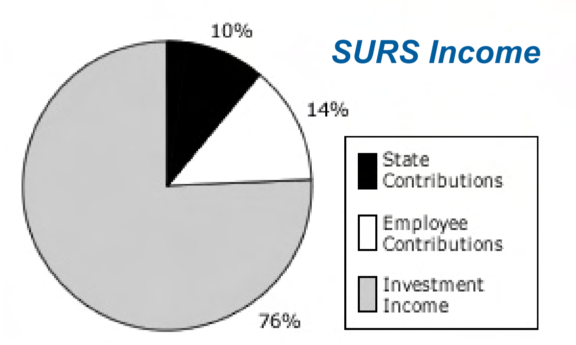
69% of SURS benefit recipients receive $2,600 or less per month. SURS participants don't contribute to or receive Social Security – and neither the state nor their employer contributes to Social Security on their behalf. Private sector employers contribute 6.2% of pay for Social Security for their employees. SURS participants will not receive a benefit from Social Security upon retirement from SURS-covered employment. In addition, SURS is a disability program, as SURS participants are not eligible for Social Security disability. SURS annuitants who also qualify for Social Security benefits may be affected by the Windfall Elimination Provision or the Government Pension Offset, resulting in an offset of Social Security benefits.

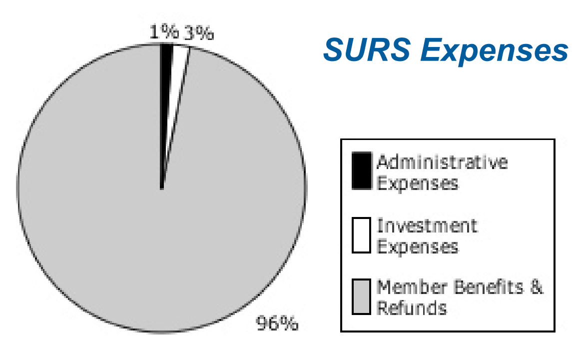
What does it cost to pay for the SURS benefits?

The cost to the employer to provide the whole range of SURS benefits in fiscal year 2007 will be 10.82% of pay – equivalent to a private sector employer providing 4.6% of employee pay into a retirement plan. That number will vary from year to year.

How does SURS receive its income and how is it spent?

In Fiscal Year 2006, SURS received $209,651,367 in state contributions, $292,392,188 in employee contributions, and $1,596,496,213 in investment income. SURS spent $29,685,842 on investment expenses, $1,137,988,053 on member benefits and refunds, and $12,161,924 on administrative expenses. ❑





Employee of the Year: Robin R. Heintz

Board president Mitchell Vogel, Employee of the Year Robin Heintz, and Executive Director Dan Slack.

Robin Heintz was named 2006 Employee of the Year during the annual SURS Employees' Recognition Luncheon in September. This award is the most prestigious peer recognition an employee can receive.

As a member of the Benefit Support team, Robin plays an integral part in the coordination of the SURS Benefit Summary Statements. In 2006, additional changes were required to adjust the interest calculation from academic to fiscal year.

In the nominations for this award, SURS staff noted her excellent understanding of the System, as well as her ongoing commitment to maintain excellent records and document historical decision making for use today and in the future.

Robin's commitment to her work, to her co-workers, and to the System sets a positive example for the entire organization. ❑

Change Of Address Form

SURS no longer requires that you sign and return an address verification. If your address has changed, please complete the form below. Providing false information or failing to provide true information may be a felony and may subject you to criminal prosecution. Return this form to: SURS, 1901 Fox Drive, Champaign, IL 61820.

If your address is correct, you do not need to return this form.

____
Name

____
Street

____
City, State, Zip

____
Home Phone Email Address

____
Sign and Date

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.

Member Service Representative
1–800–275–7877
217–378–8800 (C–U Area)

Internet
www.surs.org

***The Advocate* is published by the State Universities Retirement System. We welcome your comments.**

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