The Advocate

SURS · Universities Retirement System · State of Illinois

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Editorial

On April 4, the Illinois General Assembly passed the governor's pension bonding legislation (HB 2660). The bill authorizes the state to issue up to $10 billion of pension obligation bonds. The bond proceeds would first be used to pay the state's required pension contribution to SURS and the other state contributory retirement systems $1.8 billion in state fiscal year 2004 (FY'04). The excess proceeds would be applied to pay system unfunded liabilities, thus reducing future required state pension contributions. It is expected that the savings to the state from the projected reduced pension contribution requirements would match the state's debt service cost for the bonds.

SURS publicly supported the governor's bonding initiative. It was the only realistic alternative to the one other policy option under serious consideration, a "pension contribution holiday" in FY'04. One problem with the contribution holiday concept is that Illinois has already had its contribution holiday. That happened during the first half of the 1980's when the state was struggling with a budget crisis similar to the current one. Funding that should have gone to the retirement systems was instead diverted to other spending programs.

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House Bill 3511, "Boards and Commissions"

By: James Hacking, Executive Director

With the approval of the new administration's pension obligation bonding initiative (HB 2660) by the State Senate on April 4, SURS has avoided the disastrous financial consequences that would have resulted from a "pension contribution holiday" next fiscal year (see Editorial). However, HB 3511, the "Boards and Commissions" bill, contains provisions that pose a different but equally ominous threat. Of the bill's four provisions that relate to SURS, two of them are cause for serious concern. First is the provision that would cause *all* the terms of office of our governor-appointed trustees to expire on June 30, in order to grant the governor the ability to make all new appointments. The second provision would allow the governor to appoint the SURS Executive Director.

We believe these provisions have the potential to wipe out the entire governance of SURS and would not be in the best interests of the system's 165 thousand participants and beneficiaries. Here is why.

First, the SURS Board consists of nine trustees, *all of whom are appointed by the governor,* to serve six-year staggered terms. Three of those terms end this June 30. Three more will end two years from that date. Unlike other public retirement systems, SURS has no trustees who are not governor-appointed and no trustees who are directly elected by the membership.

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Editorial

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The consequences of that policy choice made over twenty years ago are still with us. For example, instead of being over 90% funded as the systems could have been, had they been properly funded back then, the systems have funding ratios in the 50% range. What is worse, the failure to properly fund the retirement systems in the early '80s has more than doubled the cost of the systems. In the case of SURS, the past and projected future cost of the system through FY 2045 is estimated at just under $64 billion; had SURS been properly funded in the 1980's, that cost would be about $30.3 billion.

Additionally, a pension contribution holiday would have other serious consequences for a number of reasons. First, pension liability growth never takes a holiday; it never stops growing. Second, the Illinois state constitution guarantees that earned benefits will be paid. Finally, since we are still in the early stages of the 50–year funding program that began in state FY'96, SURS still has negative "cash flow" (i.e. total benefit payments exceed total contributions). These factors, if coupled with a suspension of contributions would cause SURS's already anemic funding ratio (i.e. 59%) to plummet further, as its unfunded liability explodes. That would most certainly get the attention of the bond rating agencies — just as it did in the 1980s — and they could lower the state's bond rating, thus driving up the state's cost for debt service.

Given the magnitude of the state's projected budget deficit (estimated at $5 billion), the only other realistic alternative to the governor's pension bonding initiative would seem to be a broad–based sales and/or income tax increase. However, that option is not under serious discussion. Supporting HB 2660 was, therefore, the only rational choice.

James Hacking
Executive Director

Legislative Update

There are a number of legislative bills affecting SURS that were introduced this spring. The following is a brief synopsis of these bills.

HB 2660 Authorizes the Governor's pension obligation bond program. See the Editorial article on page 1.

HB 3511 This is known as the "Boards and Commissions" bill. You can read more about this bill on page 1.

HB 3183 SURS's administrative bill. It makes a number of technical corrections in the law. It eliminates obsolete language and enables SURS to function more smoothly. The two most significant provisions in this bill are: 1) provisions to allow Qualified Illinois Domestic Relations Orders to work better for SMP participants; and 2) provisions to allow participants with adult disabled children to use more sophisticated estate planning techniques with SURS benefits to provide for such children.

HB 3185 Removes the current requirement that persons purchasing military service must pay the employer contribution as well as the employee contribution.

HB 1544 Increases the retirement formula for public safety officers and increases the required contribution to SURS for public safety officers.

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House Bill 3511

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Second, the SURS trustees are not compensated. They do not receive per diem. Their reimbursements for SURS related–business expenses are governed by the rules of the Higher Education Travel Control Board and those expenses are closely audited.

Third, the SURS Board hires the system's Executive Director, who serves at the pleasure of the Board. I, of course, am the Director. I am a professional retirement system administrator. I am *not* a political appointee. SURS is the third public retirement system where I have served as Executive Director.

Fourth, the SURS trustees and the Executive Director are fiduciaries, a point that distinguishes us from the members of most other boards and commissions. Article I of the Illinois Pension Code and the federal tax laws that govern the system require that we, as fiduciaries, act prudently and *solely and exclusively in the interests of the system's participants and beneficiaries.* The personal assets of the system's fiduciaries are potentially at risk for any failure to adhere to these prudent person and exclusive benefit standards.

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Finally, state law specifically charges the SURS Board with responsibility for management of the system and its $9.5 billion in assets.

If the governor were to replace all the trustees and the Director, as he would have the authority to do under the provisions of HB 3511, *the entire institutional memory of SURS at the governance level would be eliminated,* thus disrupting the continuity and stability that are the reasons for having trustees serve staggered terms.

Additionally, the trustees, old or newly appointed, would not be able to decide to whom they delegate responsibility for the day–to–day management of the system, thus impairing their statutory duty to manage the system. Indeed, with the governor appointing the Executive Director, as opposed to having the Director serve at the pleasure of the Board, SURS could become a "house divided."

As a final point, current law states that any governor in the course of a four–year term already has the power to name two–thirds of the SURS trustees. We do not anticipate that these HB 3511 provisions will bring about any increase in efficiency or generation of any savings. Nor would they make the trustees and the Executive Director more accountable to the governor, since existing state and federal tax laws require that, as fiduciaries, the trustees and the Director must *act solely and exclusively in the interests of the SURS participants and beneficiaries.* The bill may yet be amended so that it will not apply to SURS. ❑

Investment Update

SURS investment results for the first six months of the fiscal year can best be described as disappointing. For the first six months of fiscal year 2003, SURS's total fund had a total return of –5.9%. The table below indicates that on a relative basis, SURS results compare favorably to the market goal for all of the periods presented.

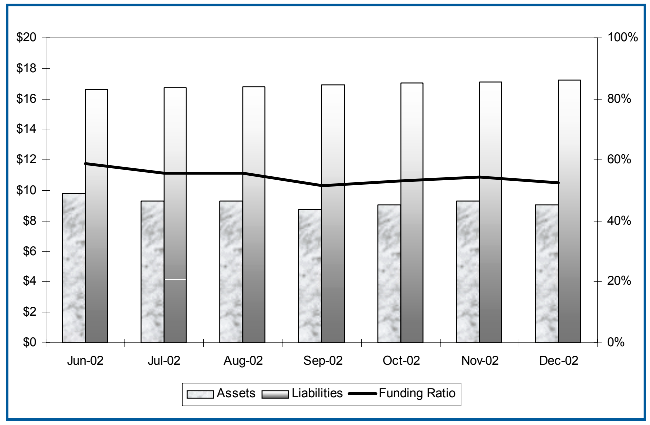
	Fiscal Y–T–D	1 Year Ended	3 Years Ended	5 Years Ended	10 Years Ended
SURS	–5.9%	–9.6%	–6.1%	2.6%	7.9%
Market Goal	–6.2%	–9.6%	–7.1%	2.0%	7.4%

Results for the six months ended December 31, 2002, were negatively affected by nearly all asset classes. The only asset class to post a positive gain during this period was fixed income, which posted a 6.3% return. All of the equity–related asset classes posted negative returns. U.S. equities, non–U.S. equities, and real estate investment trust securities declined 10.3%, 24.8%, and 9.4%, respectively.

The decline in equity markets during the first six months of the fiscal year is due primarily to three factors. First, the continued fallout from corporate scandals; second, the continuation of the worldwide economic slowdown; and finally, the geopolitical uncertainties with both Iraq and North Korea have also shaken investor confidence. Until these three events have stabilized, the decline in equity markets is likely to continue.

A beneficiary of these uncertain times is U.S. government bonds, whose yields have been driven to near record lows. While positive in the short–run, investors who have increased their investment in these assets will undoubtedly be disappointed when yields begin to increase and prices fall.

As the chart below indicates, the continued decline in asset values along with the ever–growing liabilities of the system eroded SURS funding ratio even further than beginning of the fiscal year levels. As of December 31, 2002, the projected funding ratio for SURS stood at 52.5%.❑



Fidelity Transition Complete

Fidelity Replaced ICMA–RC on April 1, 2003

Fidelity
1–800–343–0860
www.fidelity.com/atwork

The transition of Self-Managed Plan (SMP) account assets from ICMA–RC to Fidelity is complete. Exchanges between Fidelity investment options or transfers to and from Fidelity can now be completed. In addition, general balance and transaction information is available from Fidelity.

Fund	Holding Period	Short–Term Trading Fee
Spartan Extended Market Index	90 Days	0.75%
Fidelity Diversified International	30 Days	1.00%
Fidelity Low-Priced Stock Fund*	90 Days	1.50%
Fidelity Four In One Index Fund*	90 Days	0.50%
Spartan Total Market Index Fund*	90 Days	0.50%
Spartan International Index Fund*	90 Days	1.00%

**Assets from ICMA are not being transferred to these funds.*

Please note that there are short–term trading fees for the funds shown in the chart to the right. Short–term trading fees are intended to discourage short–term trading in certain funds. The fees may be charged if an investor withdraws money from certain funds within a short time of investing. These fees are paid back to the fund and protect remaining shareholders from incurring additional costs due to short–term trading activity. For more information on these fees or your Fidelity investment options, contact Fidelity**.** Fidelity's Retirement Services Specialists are available Monday through Friday from 7:00 A.M. to 11:00 P.M. CT.

ICMA will be available to answer questions regarding SMP accounts throughout the year. At the close of business on 7/31/03, ICMA will deactivate the RC VantageLine (voice response unit) and VantageLink (account access via internet) for SURS. Participants will have the ability to address any questions after this date with an RC Investor Services Representative at 1–800–735–7202.❑

Meet the Board: Fred Giertz

In July 1995, Professor Giertz was appointed by the Governor to serve as a participant trustee to the State Universities Retirement System Board. He has been a professor of Economics and a member of the Institute of Government and Public Affairs at the University of Illinois at Urbana–Champaign since 1980. He received his Ph.D. in economics from Northwestern University in Evanston, Illinois in 1970. He is a former president of the Illinois Economics Association and was vice president of the Midwest Economics Association. He also serves as Executive director of the National Tax Association.

Professor Giertz's major research interests are in the areas of public finance, public choice, and regional economic development. He specializes in state and local taxation and expenditure issues with an emphasis on the state of Illinois. He also monitors the Illinois economy and produces a monthly index of state economic activity. He has served as a consultant for a number of state government and private organizations, including the Illinois Bureau of the Budget, the Illinois Department of Revenue, the Office of the Comptroller, the Illinois Senate Revenue and Appropriations Committees, the Illinois Department of Lottery, the Federal Reserve Bank of Chicago, the Metropolitan Planning Council, the Metropolitan Pier and Exposition Authority, the Illinois Tax Foundation, and the Illinois State Chamber of Commerce.

Professor Giertz follows general macroeconomic issues, especially as they impact Illinois. He also writes frequently on Illinois budget issues in the publication *State Tax Notes*. At the University of Illinois, he has been a long–time member of the Urbana–Champaign Senate and has served on a number of university committees. He was also a member of the University's Athletic Board.❑

SMP FAQ's

The following Frequently Asked Questions were created as a result of the December 2002 Self–Managed Plan (SMP) survey results.

Why are the employer contributions several months behind? Generally, employer contributions are sent to the Service Providers within two working days after the money is received from the State. As the State's fiscal situation deteriorated last year, State contributions to SURS slowed dramatically, although the timing of the State's contributions fully complied with Illinois and federal law.

In an effort to increase the timeliness of state contributions, SURS staff met with the Comptroller's office to discuss the issue and explain how the delayed payments were affecting SMP participants. Additionally, in mid–December, SURS obtained a legal opinion from its counsel that confirmed SURS's ability to use funds accumulated in the SMP forfeiture account as an alternative to waiting for State payments. The SMP forfeiture account contains employer contributions that were returned to SURS when non-vested participants terminated. This, however, is only a *temporary* solution. Once the balance of forfeited amounts (currently about three months) are exhausted, this problem may develop again.

You may have noticed that several months of employer contributions were deposited in your account(s) in late December and early January. This ability to use the SMP forfeiture account, when it is of sufficient size, will allow more consistent deposits of employer contributions into SMP accounts.

How do I change Providers for the SMP plan? First you must decide if you are moving money from the existing account, changing future allocations, or both. Monies from an existing account in the SMP are moved to another Provider by completing a Provider–to–Provider Transfer Form, which is only available from SURS. The form is completed with the desired changes and forwarded to the "from" Provider.

Future Provider allocations (the percentage of money sent to each Provider) can be changed either on the SURS Member Website or by calling and speaking to a SURS Benefits Counselor. Should you wish to do both, call SURS to change the future allocation and request a Provider–to–Provider Transfer Form.

What fees are being charged by SURS for being the Service Agent of the SMP? SURS does not charge SMP Participants fees for administering the Plan. SURS administrative expenses are paid by the State. The only fees paid by SMP Participants are the expense charges for the investment options. The expense ratio of each investment option is listed on the quarterly performance sheet mailed with the Unified Statement.

What are the ticker symbols for the SMP investment options? Ticker symbols are letters that identify a security for trading purposes. The symbols for each mutual fund are given below. Note that TIAA–CREF's investment options are variable annuities and do not have ticker symbols.

ING Funds

Fund Name	Ticker
Ariel	ARGFX
ING Balanced I	AETFX
ING Bond I	AETBX
ING Growth I	AEGRX
ING Index Plus Large Cap I	AELIX
ING International Growth I	AEIGX
Janus Worldwide	JAWWX
MFS Massachusetts Inv A	MITTX
MFS Research A	MFRFX
MFS Total Return A	MSFRX
Neuberger Berman Genesis Trust	NBGEX

Fidelity Funds

Fund Name	Ticker
Fidelity Contrafund	FCNTX
Fidelity Diversified International	FDIVX
Fidelity Growth & Income Portfolio	FGRIX
Fidelity Growth Company Fund	FDGRX
Fidelity Low-Priced Stock Fund	FLPSX
Fidelity Magellan Fund	FMAGX
Fidelity Puritan Fund	FPURX
Fidelity U.S. Bond Index Fund	FBIDX
Fidelity Four-in-One Index Fund	FFNOX
PIMCO Total Return (Admin)	PTRAX
Spartan Extended Market Index Fund	FSEMX
Spartan International Index	FSIIX
Spartan Total Market Index Fund	FSTMX
Spartan U.S. Equity Index Fund	FUSEX

Legislation

(cont. from pg. 2)

HB 1544 Increases the retirement formula for public safety officers and increases the required contribution to SURS for public safety officers.

SB 517 Requires the adoption and implementation of a responsible contractor policy for all Illinois public pension fund investments in real estate under which the property owner or manager must demonstrate that construction and operation workers are paid fair wages and benefits.

SB 518 Requires Illinois public pension funds to allocate specified portions of brokerage business to firms that are based in Illinois and to firms that are minority–owned businesses or female–owned businesses.

SB 588 Provides a one–time inflation–related annuity adjustment for all SURS annuitants who retired prior to January 1, 1980.

SB 1510 Exempts the private equity investments made by Illinois public pension funds from disclosure under the Freedom of Information Act.

SB 589 Increases the minimum death benefit paid as the result of the death of a SURS annuitant from $1,000 to $5,000. In addition, it authorizes SURS to seek a ruling from the IRS that the death benefit is not subject to federal income tax.

Military Leave

Upon the war in Iraq, a number of SURS participants were called to active duty. A participating employee who is called to duty in the armed forces of the United States is entitled to up to five years of free service credit for such service, provided that the employee received a discharge other than dishonorable and the employee again becomes a participating employee under SURS within one year after discharge.

Under the Public Employee Armed Services Rights Act, any SURS active participant who is a member of either the Illinois National Guard or any branch of the Armed Forces Reserve will maintain all of his or her pension rights and benefits, as well as disability benefits, if placed on active duty status. ❑

Benefit Check Stubs

On March 30, 2003, benefit recipients who receive their benefits through electronic transfer stopped receiving a paper statement in the mail. SURS made this change in an effort to produce statements in the most cost–effective manner.

These recipients will now only obtain a paper statement when a change is made to their bank, address, or net benefit amount. Net benefit amount changes include Automatic Annual Increases, a change in federal income tax withholdings, or a change in voluntary deductions.

Recipients are encouraged to call their bank for confirmation of a received payment or view their payment summary information on the SURS Member Website. For those without a computer at home, check your local library to see if they offer an open computer lab. ❑

Notary Reminder

SURS cannot accept another person's signature on any correspondence unless we have a **notarized** copy of the legal document that proves that this person or business has been appointed as your Power of Attorney, Trustee, Conservator, or Guardian. To avoid delays in processing any changes, please be sure to mail SURS a copy of this notarized legal documentation. SURS cannot accept faxed documentation. ❑

What To Do When Springfield is Examining Benefits? Join SUAA

By: Bob Harper, SUAA President

For SURS members, annuities and health benefits are crucial to our well–being. In turn, these depend in large part on decisions made in Springfield. During these tough times, the Governor and the legislature are looking at ways to fund State pension obligations. Among the State's largest current and future obligations are the pension and healthcare payments for SURS participants and annuitants, government workers, and schoolteachers. Thus, benefits are under scrutiny.

In times like these, those who depend on SURS and health benefits from the State must be ready to take a stand to protect them. The most effective way to do this is to work together with one voice. For all current and future SURS retirees and survivors, the strongest voice we have is the State Universities Annuitants Association (SUAA). For more than 30 years, SUAA has been our voice in Springfield; pushing for improvement of our benefits during the good times and defending them in times like these.

In times like these, those who depend on SURS and health benefits from the State must be ready to take a stand to protect them.

SUAA's voice is based on numbers and SUAA's strength is based on members. The number of SUAA members not only determines our ability to lobby effectively, but also funds the organization's budget.

Membership will reach 10,000 by the end of the 2003 fiscal year on June 30, a 35% increase from 2000. If you join SUAA before June, your membership will be valid until June 30, 2004. Check the SUAA website at www.suaa.org or call the toll free number at 888–547–8473 for membership information. ❑

SURS Retiree Has Highest Recorded Service Credit

Eugene A. Hunter was hired as a Building Service Worker in 1950 by then–president of Illinois State Normal University (ISNU), Mr. Raymond W. Fairchild. Eugene originally took the job upon suggestion of his father, Mr. Eugene F. Hunter, Sr., who was the first African–American Foreman at Illinois State University. Eugene wanted the job to save enough money to buy his first car, a 1952 Chevy. Now, with 52.5 years of service credit, he has decided that it is time to retire.

Eugene has witnessed a lot of University history while working at ISU. He remembers the debate over whether or not to drop the "Normal" in the University's name in 1964. He has seen buildings torn down and built, and has watched the campus grow from facilitating 3,500 students to over 21,000 students. His only extended absence from ISU occurred when he was stationed in Ansbach, Germany, for 11 months and 22 days during the Korean War. Returning as a disabled war veteran, Eugene was unable to attend college on a track scholarship as he had planned.

Eugene says that the thing he enjoyed most about his job was getting the chance to interact with the faculty, staff, and students. He can recount several stories of student mishaps that he claimed, "Looked like something out of the movie *Animal House*." During his career at ISU, he worked in every building on campus and consequently met most of the people that the buildings are named after.

When asked what made him decide that it was time to retire, Eugene responded, "Well, I knew it was time when it just stopped being fun." Hunter officially retired from ISU on January 1, 2003. He plans to spend most of his retirement traveling and just taking it easy. ❑

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