

The



Advocate

A Publication of the State Universities Retirement System of Illinois

Vol. 16, No. 2

Legislative Summary

There were a number of legislative bills affecting SURS that were introduced this spring. Among the most important was the effort to set the state budget for state fiscal year 2008. The session was very contentious and a budget could not be reached in the regular session. Instead, the legislature endured a record overtime session before sending a budget to the governor. That budget then received amendatory vetoes. Whether the General Assembly will attempt to override those vetoes is unknown at the present. However, throughout the entire process, the state-funded retirement systems, including SURS, have been appropriated the full amount required under the current funding law.

P.A. 95-348

This Act provides the state budget for fiscal year 2008. In this Act, SURS received the entire amount the Board of Trustees certified as the required contribution for the fiscal year. This fiscal year's appropriation is discussed in more detail in the Board President Mitchell Vogel's column and in Executive Director Dan Slack's column.

(continued on p. 6)

Parker Named Associate Executive Director



Judith Parker has been named the Associate Executive Director of SURS. This new position was added to assist the Executive Director in implementing board policies related to fund administration and overseeing all aspects of system operations.

SURS, she held the positions of Interim Benefits Manager, Benefits Counselor, and Payroll Clerk at Illinois State University. Parker has a Bachelor of Arts from Eastern Illinois University. □

Parker has been the Deputy Director of Member Services at SURS for the past 16 years. Prior to that, she was a Benefits Counselor. Before her career at

September 2007

- 2 *Investment Update*
- 3 *From the Desk of: Dan Slack, Executive Director*
- 4 *Members Tackle Funding Situation, by Mitchell Vogel, Board President*
- 5 *SMP Survey Results, SMP Information*
- 6 *SURS Participates in Lobby Day*
- 7 *Identity Protection, Pre-Retirement Seminars*

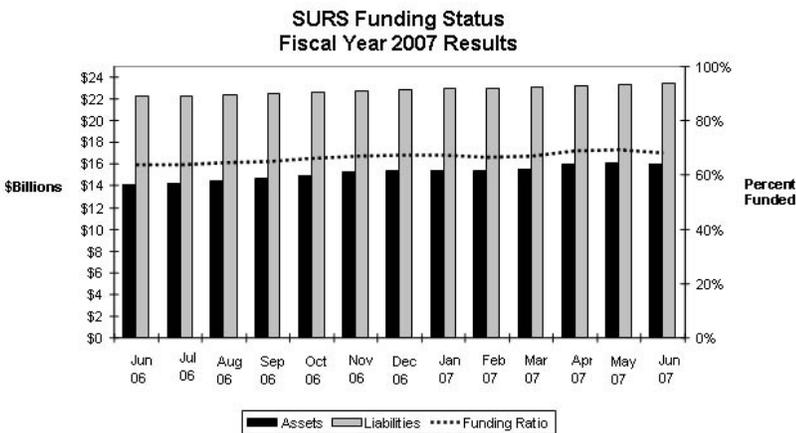


Investment Update

Fiscal Year 2007 Investment Results

SURS finished fiscal year 2007 with a preliminary return of 18.3%, comfortably exceeding the 17.6% benchmark return. Strong equity markets, both in the United States and abroad, drove returns for the year. With the strong showing in fiscal year 2007, the SURS portfolio has posted double digit returns for four consecutive years. The 18.3% return in the current fiscal year is the highest return since fiscal year 1997, when the SURS portfolio returned 21.4%.

A number of significant accomplishments occurred during the year:



- Total combined fund assets in the defined benefit and defined contribution plans exceeded \$16.5 billion, continuing to rank SURS as one of the largest 100 pension plans in the U.S.
- The System’s preliminary funding ratio at the end of the fiscal year was estimated at 68.3%.
- The Self-Managed Plan (SMP) completed its ninth year of existence and has grown to over \$525 million in assets.

SURS completed several noteworthy projects in the past year, each designed to enhance a particular facet of the SURS investment operation. During the fiscal year, SURS completed a search for a Master Custodian and securities lending provider, with The Northern Trust Company and Credit Suisse retained for each respective role. Net revenue to SURS from securities lending activities is expected to be at least \$10 million annually, a significant increase. In addition, Marco Consulting was retained to provide institutional proxy voting and reporting services for the System’s domestic equity investments. Also, SURS expanded its investments in Real Estate Investment Trusts (REITs) to include diversified investments in both domestic and global securities, providing greater opportunities for enhanced returns. Finally, a watch list was developed to better monitor and communicate with those investment managers with performance or organizational issues.

In the coming year, an ambitious work plan includes searches for an Emerging Manager Fund of Funds provider and a stock-based enhanced equity index provider. Also slated for fiscal year 2008 is an asset/liability study to verify the optimal asset allocation for the SURS investment portfolio. Consideration of limited allocations to alternative investment strategies will also be considered. Going forward, the System will continue to be proactive in addressing challenges and striving to seek beneficial investment opportunities for SURS while remaining cognizant of risk objectives. □

From the Desk of...

Dan M. Slack, Executive Director

Whew! It has been quite the summer, as the governor and the legislature have struggled to put together a budget for state fiscal year 2008. As explained below, the state budget for FY 2008 will include for SURS the entire amount certified as required by the SURS Board of Trustees.

As you may know, the current funding law requires the SURS Board of Trustees to certify to the governor and the General Assembly the required state contribution to SURS for the fiscal year. In doing so, the Board of Trustees considers the annual actuarial valuation done by the actuaries hired by the System. These actuaries look at the System demographics, assets, and liabilities, and use that data to prepare a required funding contribution in accordance with current state law. This provides for state contributions sufficient to bring SURS to a 90% funded status by state fiscal year 2045.

This process is done with one fiscal year in between. That is, the actuarial valuation for state fiscal year 2006 is used to determine the required contribution for state fiscal year 2008. That is because it takes several months to prepare the audited financial statements and the corresponding actuarial valuation at the close of a fiscal year. The certification by the Board of Trustees must be made in November of the intervening fiscal year, and the governor and the legislature will prepare a budget in the legislative session next spring for the upcoming fiscal year.

In November 2006, the Board of Trustees certified the required contribution for state fiscal year 2008 (which began July 1, 2007) as \$340,320,000 (the “certified amount”). During this spring and summer, as the legislature and the governor have worked through budget issues, there has been no appetite among any of them to pay into the state-funded retirement systems less than the certified amount.

The legislature and the governor passed a one-month budget for July 2007, as a part of the budget process this summer. That one-month budget appropriated to SURS 1/12 of the certified amount.

Ultimately, the House of Representatives and the Senate reached agreement on a 12-month budget (H.B. 3866). This bill appropriates to SURS the entire amount certified by the SURS Board of Trustees. The governor made some amendatory vetoes of this bill. None of the amendments reduced the appropriation to SURS. At the time of this writing, it’s unclear whether the General Assembly will attempt to override the amendatory vetoes.

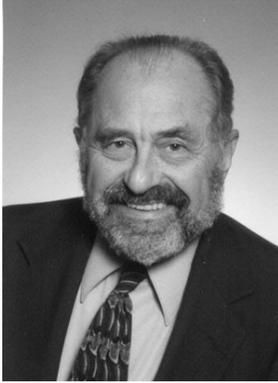
There are two more years left in the “ramp” set forth in the 1995 funding law before the required contributions to the state achieve a non-increasing level percent of pay status, at which point the pension portion of the state budget will be relatively fixed. However, getting through the next two years will be increasingly difficult. Using the fiscal year 2006 actuarial valuation, the required state contribution to SURS in

fiscal 2009 will increase by \$132.6 million to \$472.9 million and will increase by an additional \$133.3 million to \$606.2 million in fiscal 2010. For all state-funded systems, the increase in contributions for each of the next two years is approximately \$650 million each year.

Finally, a word of caution. The bull market has had a huge run. SURS has now had four successive years of double-digit investment return. That run will not continue forever. It is entirely possible that returns in fiscal year 2008 could be lower than SURS’s assumed 8.5% rate of investment return, or even negative. As always, SURS is a long-term investor with an investment horizon stretching out at least 30 years, so temporary downturns in the market are not cause for alarm, just as the recent positive years are not cause for excessive celebration. □



Members Tackle Funding Situation



**By: Mitchell Vogel,
SURS Board President**

On August 23, Governor Blagoyovich signed a budget with some line item vetoes reducing the budget. Relatively speaking, our pension funding did better than most state agencies and better than SURS has received in the past few years. This was due in part

to SURS's increased lobbying activities and your efforts in contacting legislators and governmental leaders.

Of course, the problem isn't solved. Underfunding is still a major concern facing our pensions. However, this year's state budget allows us to maintain and slightly improve our financial situation while we plan a more complete and long-lasting solution. It is evident to our governmental leaders that solutions similar to those listed below are necessary.

Thank you to those who responded to my call for proposals to correct the state's pension funding problems. The 126 writers went above and beyond their immediate responsibilities.

The good news is that almost all legislators acknowledge that a serious problem exists. The bad news is that they can't agree on how to solve it. The proposals submitted by you were all delivered to members of the governor's office and key legislative leaders. In fact, at a dinner SURS held for members of the Legislature's Senate and House Pension Committees, your proposals were the focus for much of the discussion.

More importantly, many of the proposals being debated in Springfield incorporate your suggestions.

- There was unanimity that a solution must be found sooner rather than later. The longer we are underfunded, the more costly the solution.
- All but three respondents indicated that creating a separate and less costly pension program for new hires would be counter productive. Besides being divisive, it was pointed out that any savings generated by a new program would not be realized for another 20-30 years.

- An abandonment of a defined benefit plan (DB Plan) in favor of a defined contribution plan (DC Plan) would be harmful for many participants. Some stated that this proposal had the same flaws as President Bush's proposed abandonment of Social Security. Only three writers favored the idea.

- 33 writers insisted that the state not sell or lease any of its assets in order to solve the funding problems. Another 12 thought that leasing the lottery might be appropriate, but not the toll roads. Four more felt that leasing the toll roads would be appropriate, but not the lottery. However, six writers stated that SURS is already selling off some of its assets by cashing out some of its more fluid investments, thus losing out on some valuable revenue. One writer suggested that the state sell the toll roads to the pension systems as a way of solving the present and future problem of funding.

- 56 writers indicated a need for tax increases. An increase in the state's income tax was suggested by 25 writers. An unspecified tax increase by 26 and a Gross Receipts tax by 5. It should be noted that the majority of respondents submitted proposals before the governor began his campaign for the Gross Receipts Tax.

- The majority of writers who advocated a tax increase indicated their preference for a temporary tax until the underfunding problem is solved. It was pointed out by a number of writers that the state has had no recent problems making its annual payments for its annual share of pension costs. Only the catch-up from previous underfunding caused major concerns.

- A evenly debated proposal dealt with the issuance of General Obligation Bonds. 22 writers favored this approach while 23 opposed it. It would involve the state, not SURS, issuing bonds at a rate below what we anticipate our future investment income to be. This proposal was done on a limited basis three years ago and proved to be successful on a smaller scale.

- A number of writers just wrote in to express their frustration with the process and indicated their opinion that our state leaders were and are negligent. A handful suggested that SURS become litigious and file civil and criminal charges against the state.

As you can see, SURS participants and annuitants are not only concerned with the future of their pension plans, but they are knowledgeable about the causes of underfunding and the possible solutions. It is also interesting that our governmental leaders are debating the same issues that were raised by our writers. Again, thank you for your comments and support. □

Self-Managed Plan Survey Results

The 2007 SMP Participant Survey conducted earlier this year provided feedback to SURS regarding several areas of the plan. This online survey was sent to every SMP participant with a valid email address on file with SURS. In total, 913 members completed the survey and 306 left additional comments. Some of the topics included beneficiary changes, buying time, changing Providers, receipt of employer contributions, switching funds, and vesting. Many of the comments and questions received are addressed in the SMP Member Guide and appear as SMP FAQ on the SURS website (www.surs.org). Specific questions may be addressed by calling the SURS Call Center to speak with a SURS staff member. □

Self-Managed Plan Information

Each upcoming issue of the *Advocate* will include information about SMP-related topics. This issue explains the Unified Statements and the process for the receipt and deposit of employee contributions and state match.

Receipt and Deposit of Employee Contributions and State Match

The payroll process requires an employer to provide SURS with:

- A data file with detailed payroll information for each employee
- Funds representing the employee pension contributions and employer contributions from federal, grant, or other non-state appropriated sources

The employer utilizes the SURS Employer Website to reconcile the data file and fund totals to be remitted and then electronically transmits the data file. The funds are then sent electronically via the ACH system to SURS's lockbox at The Northern Trust. By using these methods, the time required to receive contributions, post them to the members' accounts and forward the SMP member funds to the appropriate Providers is approximately three days.

For the employer contributions paid through state appropriations, a payment from the state is usually received between the 20th and 25th of each month. The state match funds due to SMP members is automatically forwarded to the Providers upon receipt of this state payment. □

Unified Statements

The Unified Statement is a compilation of data received each quarter from both investment Providers. The statement information provides beginning and ending balances for the quarter, investment gains/losses, contributions, and other transaction details. SURS relies on the Providers for timely and accurate account information for its members. Under normal processing, the Unified Statements are available on the SURS Member Website and mailed to members by the 20th business day of the month following the quarter end. This schedule depends on receiving timely information from the Providers. All members receive an annual paper statement for the quarter ending September 30. Members using only one Provider are not mailed a statement for the remaining three quarters of the year. However, all member statements are available on the SURS Member Website. Members who have investments with both Providers receive a paper statement after each quarter end. Members who do not wish to receive a paper copy of the Unified Statement can notify SURS of this by calling the SURS Call Center. At this time, SURS does not email statements, but members can request an email notification to alert them when statements are available on the SURS Member Website. □

SURS Participates in Lobby Day

On April 25, the Higher Education Legislative Coalition sponsored a Lobby Day in Springfield. This event brought employees and retirees to Springfield to educate state legislators about the funding needs of higher education, including pensions. Speakers addressing the crowd included University of Illinois president Joseph White, Southern Illinois University president Glenn Poshard, and our own SURS board president, Mitchell Vogel.



Executive Director Dan Slack (left) talks with Rep. Robert Molaro



Board president Mitchell Vogel (left) talks with Rep. Richard Bradley while in the background Rep. Rich Brauer (left) talks with board member Robert Hilgenbrink

In order to gain a member perspective, SURS interviewed 14 members about their concerns regarding the current funding situation. The comments from these interviews were used to create a video that detailed why SURS needs to be fully funded and reminded lawmakers that our members rely on their SURS benefit as their primary source of retirement security.

Perhaps the most successful activity was the dinner held the night before Lobby Day for SURS board members and state legislators. After showing the video, board members had a chance to voice their concerns and engage in a discussion about possible solutions to the problem. SURS also held an open house in the cafeteria of the capitol building during Lobby Day.

Board and staff members were available to speak to legislators and distribute funding information about SURS, its participants, and the importance of adequate state funding. □

Legislative Summary

(continued from p. 1)

HB 857

P.A. 95-83 is SURS's administrative bill. It makes a number of technical corrections to the SURS portion of the Illinois Pension Code. In addition to correcting statutory cross-references and eliminating obsolete provisions, it allows the comptroller to make payments to SURS by electronic funds transfer. In addition, it makes SURS subject to the same goals for usage of emerging investment managers as other Illinois public funds, removing a separate statutory goal that had become out-of-date.

P.A. 95-279

Amends the Illinois Pension Code. Provides that, beginning on the effective date, legally adopted children shall be entitled to the same benefits as other children, and no child's or survivor's benefit shall be disallowed because the child is an adopted child.

Identity Theft Protection

SURS is committed to keeping your personal information safe and free from identity theft. We safeguard your data and protect your identity by:

- Collecting, using, and disclosing member information in accordance to state and federal laws
- Setting policies and procedures for carefully handling member information
- Conducting background checks on all employees and providing security training
- Limiting employee access to sensitive information
- Disposing of sensitive documents by shredding methods that meet the highest security standards
- Protecting against unauthorized access to member data using data encryption, authentication, and virus detection technology
- Requiring employers who do business with SURS to comply with privacy laws
- Auditing SURS security practices
- Having a Business Continuity plan in place and testing it annually

You can help protect your identity by shredding paperwork with your personal information, not using obvious passwords such as your mother's maiden name, never clicking on links sent in unsolicited emails, and by not giving out personal information on the phone, through the mail, or over the Internet unless you are sure you know who you are dealing with. □

Pre-Retirement Seminars

SURS is offering four pre-retirement seminars at its office in Champaign this fall. These popular one-day seminars cover universal issues related to retirement and financial planning. The information presented will closely follow the format used in past seminars.

The seminars are scheduled for September 12, October 9, October 30, and November 21. They will be held at SURS, 1901 Fox Drive, Champaign, from 8 A.M. to 3 P.M. Topics will include SURS benefits, legal affairs, and financial planning. The enrollment fee is \$15 per member and \$5 for a non-member guest. Lunch will not be provided. □

Retirement Seminar Application

Do not send any money yet. When your enrollment is accepted, you will be notified of the fee due.

Name

Social Security #

Street

City, State, Zip

Home phone

Work phone

Email address

Date I wish to attend

Anticipated retirement date (doesn't commit you to retiring)

Guest Name

Return to: Karen Maggio, SURS, 1901 Fox Drive, Champaign, IL 61820 or fax to (217) 378-9800

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.**

Editor: Kendra Iffland

Printed by the authority of the State of Illinois

RETIREMENT BOARD

Mitchell Vogel, President; Alice Palmer, Vice President; Robert Hilgenbrink, Treasurer; Christine Boardman, Mark Donovan, Pat McKenzie, Michael J. Mackey, Michael A. Pizzuto, and John M. Schultz

Dan Slack, Executive Director