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RISING TO THE CHALLENGE

The Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2020
A COMPONENT UNIT OF THE STATE OF ILLINOIS



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Teamwork, proactive steps and new work environments **help SURS succeed** during pandemic.



A MESSAGE FROM THE EXECUTIVE DIRECTOR

This has been a challenging year, but SURS staff did an outstanding job adapting by quickly adopting new work parameters. In March when we were faced with the pandemic and the need to pivot the entire staff to working remotely, our IT team made the transition as quick, smooth and painless as possible. Our staff developed and orchestrated SURS “Work from Home” plan that provided more than 140 staff the ability to work from home all within a time frame of two to three days. The transition required the procurement and coordination of hundreds of pieces of equipment needed for off-site work, technical support and online training. This was all done without any interruption to member services.

In the middle of the COVID-19 work transition, staff successfully redesigned SURS Self-Managed Plan - renamed the SURS Retirement Savings Plan (RSP), created a new Plan Choice microsite and began work on the new SURS Deferred Compensation Plan (DCP).

Working with Voya, Alliance Bernstein and Cammack, staff members from the SMP team, Investments, Member Services, IT, Applications Development, Communications, Legal and Finance helped create and implement the new RSP. The redesigned plan is managed by a single recordkeeper and offers defined contribution members a custom investment solution along with traditional member-directed funds.

The new Plan Choice microsite provides new web experiences for our members to choose their retirement plan, select beneficiaries, and make enhanced and informed income investment decisions.

We are excited to offer a new voluntary 457(b) supplemental savings plan, called the SURS Deferred Compensation Plan, beginning in 2021. The plan will provide members an avenue to save more and generate additional income in retirement. Most active SURS members employed by a state university, community college or other government entity will be able to participate. Participation will be voluntary, but encouraged.

To increase our efficiency, SURS began to replace outdated technology systems and add new programs. Our 25-year-old pension administration system (PAS) is obsolete and difficult to support. We worked with Linea Solutions to assess our needs and develop a long-term PAS replacement strategy. We also modernized our finance, human resources (HR), compliance tracking and contract management systems.

SURS continued our commitment to diversity this year with a search for our first chief diversity officer. The addition of a chief diversity officer will advance our efforts to create awareness and belonging amongst staff; develop important relationships with key leaders, communities and organizations; and build upon our existing money manager diversity program.

For the eighth consecutive year, SURS received its full annual certified state contribution. The fiscal year 2020 payment was \$1,854,692,000 with the final payment being received in early July. However, the defined benefit plan continues to be severely underfunded due to shortfalls in prior year contributions from the state. Our staff has and will continue to work with legislators and the governor’s office to help ensure future funding.

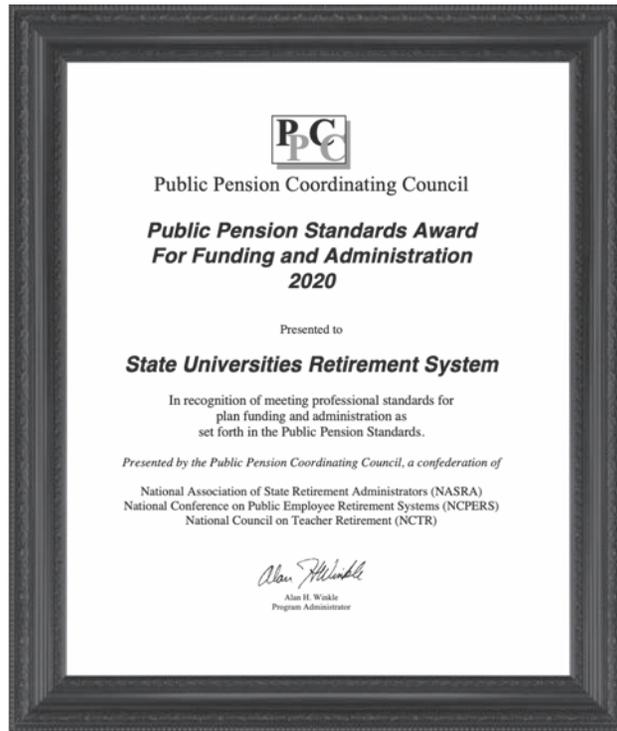
I want to thank our incredible staff and board of trustees for their hard work and commitment to providing excellent service to all members during this difficult year. We are committed to securing and delivering the retirement benefits promised to our members.

Martin Noven
Executive Director



INTRODUCTION

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LETTER OF TRANSMITTAL



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www.surs.org

December 11, 2020

Board of Trustees and Executive Director
 State Universities Retirement System
 1901 Fox Drive
 Champaign, IL 61820

I am pleased to present the 79th Comprehensive Annual Financial Report for the State Universities Retirement System of Illinois (SURS or the System, a component unit of the State of Illinois) for the fiscal year ended June 30, 2020.

The System was established in 1941 for the benefit of the employees of the state universities, community colleges, and certain other state educational and scientific agencies, and the survivors, dependents, and other beneficiaries of those employees. Our vision is to continue to be a respected leader among public pension funds. The SURS staff works hard to perform at the highest customer service level for our members who dedicate their careers to education.

The management of SURS is responsible for the compilation and accuracy of the financial, investment, actuarial, and statistical information contained in this report. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of SURS.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. SURS' internal controls over financial reporting are designed to provide reasonable assurance regarding safekeeping of assets and reliability of financial records in accordance with generally accepted accounting principles. These controls include appropriate segregation of duties and responsibilities, and sound practices in the performance of those duties. The cost of a control should not exceed the benefits likely to be derived. The valuation of costs and benefits requires estimates and judgments by management. The objective of internal controls is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

SURS maintains an internal audit program that employs the services of three internal auditors to determine that all controls implemented are as designed. The internal audit personnel use a detailed internal audit program to provide a continuing review of the SURS internal controls and to report audit findings and recommendations for improvements to the SURS Board of Trustees. There are inherent limitations in the effectiveness of any system of internal controls, including the possibility of human error and the circumvention or overriding of controls.

The Illinois Pension Code requires an annual audit of the financial statements of the System by independent accountants selected by the State Auditor General. This requirement has been complied with, and the independent auditor's unmodified report on the System's 2020 financial statements has been included in this report.

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The System's MD&A can be found starting on page 16 of the report.

Profile

SURS is the administrator of a cost-sharing, multiple-employer public employee retirement system established July 21, 1941, to provide retirement annuities and other benefits for employees, survivors and other beneficiaries of those employees of the state universities, community colleges, and certain other state educational and scientific agencies. SURS services 61 employers and approximately 241,000 members and annuitants. The plans administered by SURS include a defined benefit plan established in 1941 and a defined contribution plan established in 1998. SURS is governed by an 11-member board of trustees that includes four members elected, two annuitants elected, and five members appointed by the Governor, of which one is the appointed chair of the Illinois Board of Higher Education.

Funding

SURS is funded through contributions from non-employer, employer and employee contributions as well as investment earnings. The State of Illinois, a non-employer contributing entity, provides funding from two sources: the General Revenue Fund and the State Pensions Fund, which is funded with proceeds from unclaimed property. Annually, the SURS actuary determines the annual "statutory contribution" needed to meet current and future benefit obligations in accordance with the Illinois Pension Code, which sets forth the manner of calculating the statutory contribution under the Statutory Funding Plan. The Statutory Funding Plan requires the state to contribute annually an amount equal to a constant percent of pensionable (capped) payroll necessary to allow the System to achieve a 90% funded ratio by fiscal year 2045, subject to any revisions necessitated by actuarial gains or losses, or actuarial assumptions. All of the \$1.85 billion statutory contribution for fiscal year 2020 was received by July 8, 2020. As of June 30, 2020, the plan net position as a percentage of the total pension liability was 39.05%. The funding issue confronting SURS continues to represent a challenge to the System. Although the statutory contribution requirement was met in fiscal year 2020, the Statutory Funding Policy creates a perpetual contribution variance of underfunding the System in earlier years. In later years, the statutory contribution would exceed a contribution equal to normal cost plus a 30-year closed period level percent of pay amortization of the unfunded liability. Further information is presented in the Required Supplementary Information related to employer contributions and the funding of the plan.

Investments

Investments are made under the authority of the prudent expert rule, which states that fiduciaries must discharge their duties with the care, skill, prudence, and diligence that a prudent person acting in a like capacity and familiar with such matters would use under conditions prevailing at the time. This standard has enabled the System to invest in different types of asset classes seeking to increase return while lowering risk through diversification.

The System retains professional investment firms who serve as fiduciaries and are afforded full discretion to manage the assets entrusted to them in accordance with written policies and guidelines established by the SURS Board of Trustees. The goal is to optimize the long-term return of the System's investments.

Since the coronavirus outbreak, markets have been experiencing a period of heightened uncertainty. It is important to understand that pensions are long-term investments. SURS has a diverse investment portfolio designed to protect against market risk and produce steady returns over a long-term period.

The SURS defined benefit assets held in trust decreased slightly to \$19.6 billion. The SURS defined contribution (Self-Managed Plan) assets increased from \$2.7 billion to \$3.0 billion. Taken as a whole, the SURS portfolio of investments produced a return of 2.64%, net of fees, for the year ended June 30, 2020.

The "Investment" section of this report contains yield information, a summary of SURS' investment portfolio, and a summary of the investment objectives and policies.

Legislation

Due to the public health emergency caused by the coronavirus, the General Assembly held a condensed, special legislative session from May 20 through May 24 in Springfield. Among other items, the General Assembly approved an operating budget for fiscal year 2021, the Governmental Emergency Administration Act, and information about the proposed graduated income tax constitutional amendment.

Three bills comprised the operating budget for fiscal year 2021: Public Act 101-630, which provides revenues; Public Act 101-637, which makes appropriations; and Public Act 101-636, which makes changes in the law necessary to implement the appropriations. Revenues for the budget are provided by borrowing up to \$5 billion from the federal government to be repaid within a 10-year period.

Public Act 101-640, The Governmental Emergency Administration Act makes changes necessary to facilitate governmental operations during the public health emergency caused by the coronavirus. Specifically, it allows meetings under the Open Meetings Act to be conducted remotely via audio or videoconference, without a physical quorum of the members of the public body present, if certain requirements are met to provide transparent meeting access to the public.

Public Act 101-610 Suburban and Downstate Police/Fire Investment Consolidation allows Tier II police officers and firefighters to retire at age 60 (instead of age 67) without a reduced retirement annuity under the special formula for police officers and firefighters. It also requires the Governor to designate the chairperson of the SURS Board of Trustees (instead of the chairperson of the Illinois Board of Higher Education automatically serving as the chairperson of the SURS Board of Trustees) and makes a technical change related to the accelerated pension benefit payment option for Tier I and Tier II vested, inactive members.



LETTER OF TRANSMITTAL

Major Initiatives and Changes

In March of 2020, SURS closed to the public and most of the staff began working from home to protect their health. Our staff has risen to the work challenges caused by the coronavirus outbreak and will continue to change and adapt when necessary. As we have adopted new working conditions, our members have seen the same excellent service, delivery of benefits and fiduciary responsibility they have come to expect. Benefit checks are going out on time, our call center is fully operational and retirement counselors are conducting appointments remotely.

Although we are coping with the COVID-19 pandemic, we continue to move forward with major initiatives and changes at SURS.

- The following changes occurred to SURS Board of Trustees in fiscal year 2020
 - In August 2019, Mitchell Vogel, SURS annuitant and former board member, was selected to fill a vacancy on the SURS Board of Trustees by the elected SURS trustees. The vacancy was created when elected annuitant board member John Engstrom resigned after the June 2019 board meeting.
 - In March 2020, Gov. Pritzker appointed Scott Hendrie to the board. Trustee Hendrie’s term will expire in June 2021.

- SURS staff worked diligently to complete IT, administration and member service projects.
 - Several new software packages were implemented to assist the administrative support teams.
 - Sage Intacct – a cloud-based financial management and services software
 - ADP – cloud-based human capital management solution
 - Agiloft - software for contract lifecycle management that will be used for legal and compliance
 - A pension administration system assessment was done by the consulting firm Linea. This was the first step of many as SURS moves forward with the replacement of the pension administration system.
 - Renovations to the Champaign headquarters began. The call center and the counselor offices are being restructured to make more room for the growing staff. Just under 6,000 sq. ft. are being renovated.
 - New security and life safety tool updates, such as perimeter and interior monitoring of the main office, were completed.
 - Work continued on the redesign of the Self-Managed Plan (SMP) and implementation of a new supplemental plan. On Sept. 1, 2020, we launched the redesigned SMP, renamed the SURS Retirement Savings Plan (RSP). The new SURS Deferred Compensation Plan (DCP) will be rolled out in 2021.

Awards and Recognition

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to SURS for its component unit financial report for the fiscal year ended June 30, 2019. This is the thirty-sixth consecutive year the System has earned this award.

To be awarded the Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. The report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

The Public Pension Coordinating Council (PPCC), a coalition of three national associations that represents more than 500 of the largest pension plans in the U.S., awarded SURS the *Public Pension Standards Award for Funding and Administration*. Public Pension Standards are a benchmark to measure public defined benefit plans in the areas of retirement system management, administration and funding.



LETTER OF TRANSMITTAL

Acknowledgements

This report was prepared through the combined effort of the SURS staff under the leadership of the SURS Board of Trustees. It is intended to provide reliable information to its users for making decisions and for determining responsible stewardship for the assets contributed by the members and the State of Illinois.

The report is made available to the Governor, the State Auditor General, the members of the General Assembly, participating employers and to other interested persons by request. We thank all those whose impact on Illinois' universities and community colleges guide the future. We hope they will find this report informative. A copy of this report and our Annual Report Summary will be available on our website, www.surs.org.

Respectfully submitted,

Tara R. Myers
Chief Financial Officer

BOARD OF TRUSTEES



John Atkinson
Chairperson
Appointed



Collin Van Meter
Vice Chairperson
Elected



John Lyons
Treasurer
Appointed



Aaron Ammons
Elected



Richard Figueroa
Appointed



Jamie-Claire Flaherty
Appointed



J. Fred Giertz
Elected



Scott Hendrie
Appointed



Steven Rock
Elected



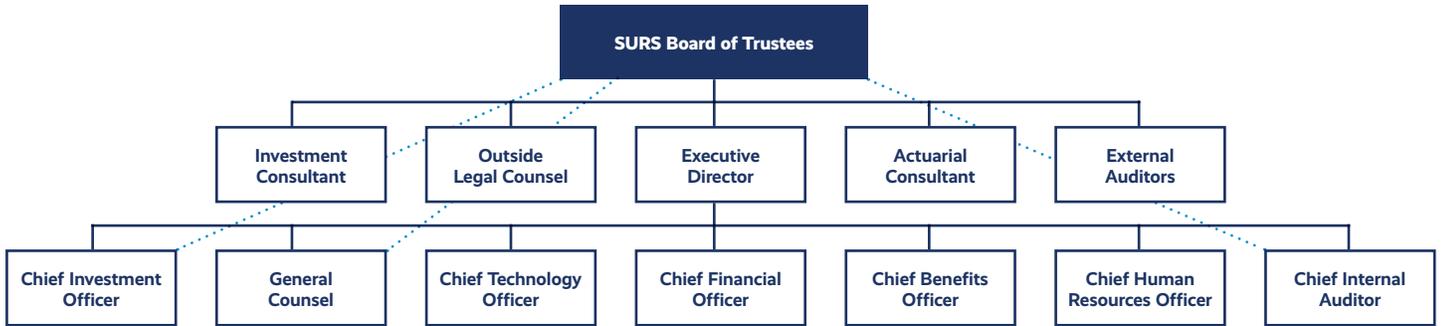
Antonio Vasquez
Elected



Mitchell Vogel
Elected



ORGANIZATIONAL CHART




EXECUTIVE TEAM

Executive Director.....	Martin Noven
Chief Investment Officer.....	Doug Wesley
General Counsel.....	Bianca Green
Chief Technology Officer.....	Jefferey Saiger
Chief Financial Officer.....	Tara Myers
Chief Benefits Officer.....	Suzanne Mayer
Chief Human Resources Officer.....	Brenda Dunn
Chief Internal Auditor.....	Jacqueline Hohn



CONSULTING AND PROFESSIONAL SERVICES

Actuary

Gabriel, Roeder, Smith & Co.

Auditor

BKD, LLP (Acting as Special Assistant Auditor for the Illinois Office of Auditor General)

Legal Counsel

Foley & Lardner LLP
Ice Miller LLP
Mayer Brown LLP
Reinhart Boemer Van Deuren

Consultants and Other Vendors

A&R Mechanical Contractors Inc.
Advanced Audio and Lighting
Barber & Deatley, Inc.
enChoice, Inc.
Ernst & Young Global Limited
Glass, Lewis & Co., LLC
Huber & Associates, Inc.
Levy, Ray & Shoup, Inc.
Linea Solutuions, Inc.
Mesirow Insurance Services
MRC Information Technology, Inc.
Seico, Inc
Stocks Office Furniture
Zones, LLC

Master Trustee and Custodian

The Northern Trust Company

Investment Consultants, Measurement and Counsel

Callan
Meketa Investment Group

Manager Diversity Program Investment Advisors

ARP Investments
Ativo Capital Management
Basis Investment Group
Channing Capital Management
EARNEST Partners
Fairview Capital Partners
Franklin Templeton Real Estate Advisors
Garcia Hamilton & Associates
Gladius Capital Management
GlobeFlex Capital
LM Capital Group
Lombard Odier Asset Management
Long Wharf Capital
LongTail Alpha
Matarin Capital Management
Muller and Monroe Asset Management
Pugh Capital Management
Ramirez Asset Management
Strategic Global Advisors
Xponance

Investment Advisors

Adams Street Partners
Aksia TorreyCove Partners
Alinda Capital Partners
AQR Capital Management
Aspect Capital
Bivium Capital Partners
BlackRock Institutional Trust Company
Blackstone Group
Blue Vista Capital Management
Brookfield Asset Management
Cabot Properties
Campbell & Company
Carlyle Property Partners
Colchester Global Investors
Credit Suisse Asset Management
Crow Holdings
Deutsche Bank
Dune Capital Management
Franklin Templeton Real Estate Advisors
Heitman Capital Management
J.P. Morgan Asset Management
KKR Prisma
Macquarie Capital
Mesirow Financial Investment Management
Mondrian Investment Partners
Neuberger Berman
Northern Trust Asset Management
Oaktree Capital Management
Pacific Alternative Asset Management Company
Pacific Investment Management Company
Pantheon Ventures
Parametric Clifton
Prudential Fixed Income
RhumbLine Advisers
StepStone Real Estate Group
T. Rowe Price
UBS Realty Investors
Wellington Management Company
Westbrook Partners
Xponance

Bivium Manager Investment Advisors

GIA Partners
Integrity Fixed Income Management
LM Capital Group
New Century Advisors
RVX Asset Management

Xponance Manager Investment Advisors

ARGA Investment Management
Brown Capital Management
Denali Advisors
Forsight Global
Martin Investments
Rondure Global
Solstein Capital
Strategic Global Advisors

Self-Managed Plan Service Providers

Fidelity Investments
Teachers Insurance Annuity Association

Schedule of Fees and Commissions can be found in the Investment Section Supporting Schedules, pages 68-70.