4/4/06 SURSMAC Meeting
Report to A/P Council
Prepared by Jake Baggott, SURSMAC member

The Spring SURSMAC meeting convened on April 4th in Champaign, IL. Subcommittees (Legislative & Benefits) met at 10:30 and the full committee meeting began at 12:00 p.m. Minutes from the Fall meeting were reviewed and approved (copy attached). The financial update was given by Mr. Dan Allen. In summary, SURS investment returns for the year-to-date stand at 10.4%. SURS fund assets total $14.29 billion and existing liabilities are $21.15 billion, resulting in a funding ratio of 67.6%, up 2% from the beginning of the year. Bond sale investment returns are at approximately 14% which exceeds the hurdle rate of 7.2%

Discussion regarding the new 6% rule (PA 94-4) focused on how the calculations would occur. See attached explanation from SURS dated (March 2006). Since that meeting SB 49 amends this act relative to the 6% rule and new exemptions (see attached Legislative update).

SURS legislative priorities are focused on Funding Issues. Next Spring, following the Fall elections is considered a critical time for pension funding. SURS is currently bidding out its lobbying contract and hopes to focus its lobbying efforts on the funding issue.

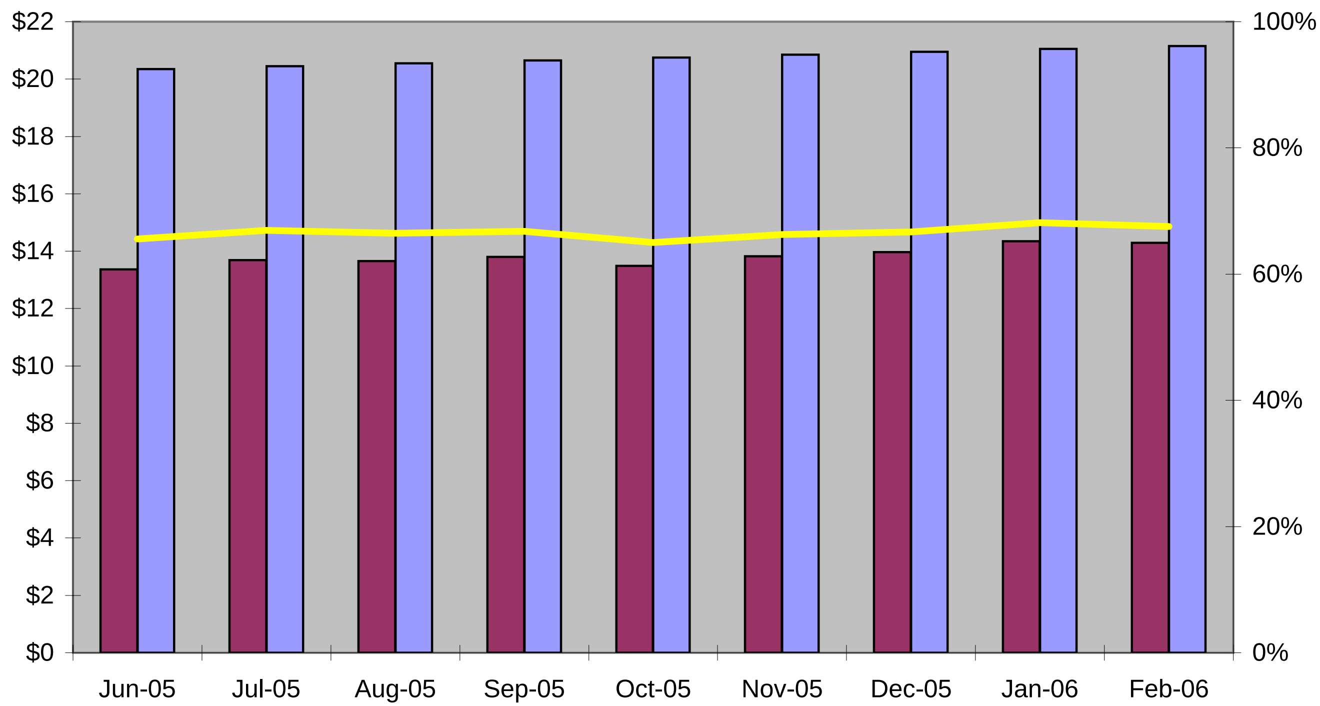
Constitutional protections of the SURS system and benefits were discussed. The Illinois Constitution does provide protection against diminishment of existing benefits for existing employees. However, the Sklodowski Illinois Supreme Court case established that neither retirement systems nor participants have any constitutional or vested contractual right to enforce statutory funding obligations.

Below are observations about SURS participants:

- 52% of SURS participants are professors and teachers.
- 48% are staff employees, such as janitors, groundskeepers and secretaries.
- SURS participants and annuitants live throughout the state.
- At least 65% of SURS participants earn $50,000 or less per year.
- 79% of SURS participants are full-time employees.
- 57% of SURS participants work at the universities.
- 35% work at the community colleges, including the City Colleges of Chicago.
- 8% work at other entities such as the state scientific surveys.
- SURS has 72,000 active and 65,000 inactive participants and 40,000 benefit recipients.[1]
- They work for 68 different employers across the state.

[1] Numbers are rounded to the nearest thousand and are as of June 30, 2005.

STATE UNIVERSITIES RETIREMENT SYSTEM



		Assets		Estimated Liabilities	Funding Ratio	Rate of Return Month	FYTD
Jun-05	$	13.36	$	20.35	65.6%		
Jul-05		13.69		20.45	66.9%	2.6%	2.6%
Aug-05		13.66		20.55	66.5%	0.3%	2.9%
Sep-05		13.80		20.65	66.8%	1.4%	4.3%
Oct-05		13.49		20.75	65.0%	-1.8%	2.4%
Nov-05		13.82		20.85	66.3%	2.6%	5.1%
Dec-05		13.97		20.95	66.7%	1.6%	6.8%
Jan-06		14.35		21.05	68.2%	3.3%	10.3%
Feb-06		14.29		21.15	67.6%	0.1%	10.4%

Note: Assets and liabilities are estimated through February 28, 2006.

State Universities Retirement System Investment Update

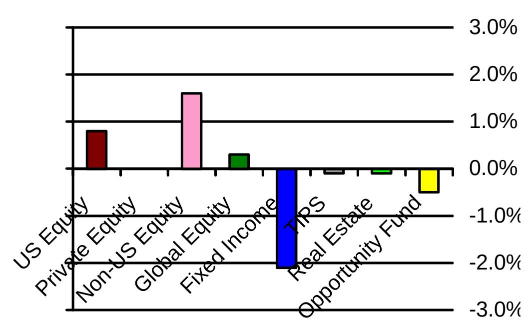
March 27, 2006
Volume 16, Issue 7

		January 2006	Fiscal Y-T-D	1 Year Ended[1]	3 Years Ended[1]	5 Years Ended[1]	10 Years Ended[1]
	SURS TOTAL FUND	3.3%	10.3%	13.5%	16.6%	5.1%	9.1%
	Market Goal / Policy Portfolio	3.4%	10.5%	13.9%	17.0%	5.2%	8.7%
	Public Funds Index	3.0%	9.8%	13.2%	16.1%	5.3%	8.5%
EQUITIES	U.S. Equity Portfolio	3.4%	9.7%	12.3%	18.2%	2.1%	9.1%
	Performance Benchmark	3.6%	10.1%	13.2%	18.7%	2.1%	9.2%
	Private Equity Portfolio	3.3%	8.5%	18.1%	10.6%	-4.6%	28.9%
	Performance Benchmark	5.3%	8.9%	19.7%	23.5%	4.5%	14.4%
	Non-U.S. Equity Portfolio	6.6%	24.2%	25.8%	29.8%	6.8%	6.9%
	Performance Benchmark	7.0%	24.7%	26.9%	30.1%	7.3%	7.4%
	Global Equity Portfolio	5.0%	16.4%	18.6%	22.6%	11.4%	11.4%
	Performance Benchmark	4.5%	15.2%	17.0%	21.7%	10.3%	10.3%
FIXED INCOME	Core / Core Plus	0.3%	0.8%	3.2%	4.9%	6.5%	6.8%
	Performance Benchmark	0.1%	0.3%	2.3%	4.4%	6.0%	6.3%
	TIPS	0.2%	0.5%	3.0%	6.0%	7.9%	8.3%
	Performance Benchmark	0.0%	0.1%	2.9%	5.3%	7.3%	7.7%
REAL ESTATE	Direct Real Estate	3.9%	6.2%	6.2%	6.2%	6.2%	6.2%
	Performance Benchmark	4.4%	9.3%	9.3%	9.3%	9.3%	9.3%
	RE Investment Trust Securities	6.9%	13.2%	30.7%	31.6%	21.1%	23.7%
	Performance Benchmark	7.2%	14.4%	33.0%	32.4%	20.3%	22.9%
	Opportunity Fund						
	SURS	5.4%	11.3%	14.9%	15.5%	10.5%	11.3%
	Performance Benchmark	4.9%	13.4%	18.0%	15.9%	10.8%	11.3%

U.S. Equity Benchmark –Wilshire 5000 Index; Private Benchmark –Wilshire 5000 Index +500 bp (reported quarterly in arrears); Non-U.S. Equity Benchmark –MSCI All Country World Ex-U.S. Index; Global Equity Benchmark –MSCI World Index; Core Fixed Income Benchmark – Lehman Brothers Universal Bond Index; TIPS Benchmark – Lehman Brothers U.S. TIPS Index; Real Estate Benchmark – Wilshire Real Estate Securities Index; Opportunity Fund Benchmark – Blended combination of the individual portfolio benchmarks. [1] or since inception, whichever is less

	$'s (in millions)	Actual %	Interim Target %
U.S. Equity	$ 5,646	39.3%	38.5%
Private Equity	572	4.0%	4.0%
Non-U.S. Equity	2,879	20.1%	18.5%
Global Equity	768	5.3%	5.0%
Fixed Income	3,001	20.9%	23.0%
TIPS	560	3.9%	4.0%
Opportunity Fund	218	1.5%	2.0%
Real Estate	705	4.9%	5.0%
Total Fund	$ 14,349	100.0%	100.0%

Actual v. Policy Deviation
As of January 31, 2006



Legislative update

The legislature has just concluded its Spring 2006 session. There are two pieces of legislation passed this Spring that you might find of interest. These bills will go to the Governor for his consideration.

Senate Bill 49

Senate Bill 49, or SB 49, makes several changes to the "6% provision" made last year in Public Act 94-4. The 6% provision requires employers to pay to SURS the actuarial value of any increase in benefits caused by earnings increases in excess of 6% year-over-year during a participant's final rate of earnings period. The 6% provision does not cap or limit a participant's benefit, it merely requires the participant's employer to pay SURS the actuarial value of a portion of a participant's benefit, where the limit is exceeded. SURS has promulgated a rule on the 6% provision as enacted. Of course, if SB 49 is enacted into law, SURS will modify the rule to reflect the changes in the law.

Here is a summary of the changes to the 6% provision made by SB 49:

- Earnings increases are measured on a full-time equivalent basis. This means, for example, that the employer of a part-time employee whose work goes from 40% time to 50% time, but at the same rate of pay, is not subject to the 6% provision.

- Exemptions created:

    - All persons who have not been employees for more than 10 years at the time of retirement.

    - Overloads, including summer contracts, solely for academic instruction, in excess of the standard number of instruction hours for a full-time employee occurring during the academic year that the overload is paid, and paid at the same or lesser rate of pay based on the participant's current salary rate and work schedule.

    - Overtime, where the employer certifies it is necessary for the educational mission.

    - Promotion to a position that existed and was filled for no less than one academic year at an average salary rate paid for other similar positions, that is one of the following:

        - To a higher classification under the State Universities Civil Service System.

        - A tenure or tenure-track position.

        - To a position recommended on a promotional list created by the Illinois Community College Board.
    - Earnings increases paid after July 1, 2011, but before July 1, 2014, pursuant to a contract or collective bargaining agreement entered into on or after June 1, 2005, but before July 1, 2011.

- Change in method for billing employers.

Budget implementation bill (BIMP)

Senate Bill 1977 is the budget implementation bill. Among other things, this bill creates the Pension Stabilization Fund. In years in which the state's estimated general funds revenues exceed the prior fiscal year's estimated general funds revenues by 4% or more, 0.5% of the excess would go into the Pension Stabilization Fund, to be distributed to the five state-funded retirement systems in addition to any amount appropriated for that year. In the case where this happened for two or more fiscal years, 1% of the excess would go into the Pension Stabilization Fund. Unfortunately, SURS does not expect to see any revenue from the Pension Stabilization Fund for fiscal year 2007. The legislative Commission on Government Forecasting and Accountability has done an analysis of the legislation and has forecast that no revenue would be transferred to this Fund in fiscal year 2007.

State Universities Retirement System of Illinois

Serving Illinois Community Colleges and Universities

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Legal Department

The 6% Rule: Employer Contributions for Benefit Increases Resulting from Earnings Increases Exceeding 6%, 80 Ill.Adm.Code 1600.122 (March 2006).

I. Legislative Background: Public Act 94-4

Effective June 1, 2005, Public Act 94-4 enacted Section 15-155(g) of the Illinois Pension Code (40 ILCS 5/15-155(g)). The new section requires employers to pay "the present value of the increase in benefits resulting from the portion of the increase in earnings that is in excess of 6%" in "any academic year used to determine the final rate of earnings" (or "FRE"). As mandated, the State Universities Retirement System has adopted guidelines ("the 6% rule") implementing Section 15-155(g). The 6% rule will become effective in late March 2006.

II. How the 6% Calculation Works

The 6% calculation does not apply to retirements where the benefit was highest under the Money Purchase formula. If the retirement benefit was highest under the General Formula:

Step 1: The participant's monthly retirement annuity is calculated as normal.
Step 2: The "base amount," is calculated under the General Formula. However, earnings increases are limited to 6% per academic year. Some increases are exempt from the limitation, as discussed below. For final 48-month FRE periods, partial academic years in the beginning are disregarded.
Step 3: The difference between Step 1 and the Step 2 is the "benefit increase."
Step 4: The employers are billed the present value of the "benefit increase," which is called the "employer cost." The present value is calculated using actuarial tables matching the type of benefit received and demographics. A single-life table is used for Traditional retirees having no survivor.

III. Exempt Earnings Increases

1) **Vacation pay** and **unused sick leave paid under a collective bargaining agreement** are exempt.

2) Earnings increases paid under **contracts or collective bargaining agreement entered into or renewed before June 1, 2005**, are grandfathered. Once a member gives notice of the intent to retire, grandfathered earnings must be paid within 4 years of the contract expiration date, unless another date was in the contract before June 1, 2005. A grandfathered contract may be amended or renegotiated after June 1, 2005, if there is no increase in FRE earnings (unless the grandfathered contract had a salary reopener provision) and if the expiration date remains unchanged. If an earnings increase is paid outside the scope of a grandfathered contract, the exemption will not apply to that increase. However, other increases paid within the grandfathered contract's scope will remain exempt.

IV. How Employers are Billed

Once a retirement annuity is finalized, the System will perform the 6% calculation and send notice to the affected employer(s) quoting the employer cost. The employer has 30 days during which it can contest the employer cost. Absent any contest, the employer will be formally billed on the 15th of the second calendar month following the notice date. Once formally billed, the employer will have 30 days to pay the bill. If the employer cost is contested and upheld, then the employer must pay the employer cost within 30 days after a final non-appealable decision by either the Board of Trustees or a court.

MINUTES
Meeting of the State Universities Retirement System Members Advisory Committee October 18, 2005

On April 12, 2005, the members of the State Universities Retirement System Members Advisory Committee (SURSMAC) were notified that a meeting would convene October 18, 2005, at noon, in the SURS Training Room, 1901 Fox Drive, Champaign, Illinois. The meeting convened at the time and location set forth in the notice of the meeting.

The following SURS staff were present for the meeting: Mr. Dan Allen, Chief Investment Officer; Mr. Larry Curtis, Employer Representative; Ms. Karen Maggio, Executive Assistant; Ms. Jennifer Natschke, Employer Representative; Ms. Judy A. Parker, Deputy Director of Member Services; Ms. Judy Rathgeber, Deputy Director of Member Outreach; Mr. Dan M. Slack, Acting Executive Director and General Counsel; and Mr. Doug Steele, Application Development.

The following members of SURSMAC were present for the meeting: Mr. Ken Andersen, University of Illinois, Urbana; Mr. Paul Anthony, SIU at Edwardsville; Mr. Jake Baggott, SIU at Carbondale; Mr. J.P. Barrington, John A. Logan College; Ms. Donna Blackwell, SIU at Edwardsville; Mr. Jay Brooks, SIU Carbondale; Mr. Jim Carlson, Illinois State University; Ms. Joyce Changnon, State Water Survey; Mr. Gregory Clemons, William Rainey Harper College; Ms. Janet Davis, University of Illinois; Ms. Kathy Dehen, University of Illinois at Springfield; Mr. Fred J. Ebeid, Western Illinois University; Mr. Robert Getz, William Rainey Harper College; Mr. Steve Goodwin, Illinois State University; Ms. Mary Griesinger, Northeastern Illinois University; Ms. Debbie Griest, State Geological Survey; Mr. Jay H. Lambrecht, University of Illinois at Chicago; Mr. James Lockard, Northern Illinois University; Mr. Shawn Marshall, University of Illinois at Chicago; Mr. Don H. Naylor, SUAA; Ms. Susan H. Orban, University of Illinois; Mr. Larry Sallberg, Northern Illinois University; Mr. Daniel Sarhage, University of Illinois at Chicago; Mr. Hugh Satterlee, SUAA; Ms. Nancy Sherer, Western Illinois University; Mr. Allen Shub, Northeastern Illinois University; Mr. Stephen D. Smith, University of Illinois at Chicago; and Ms. Kimberly Villanueva, Illinois Community College Trustees Association.

CALL TO ORDER

Ms. Changnon called the meeting to order.

Old Business

There was no old business to come before the committee.

Approval of Minutes

Upon a motion and a second, the committee approved the Minutes from the SURSMAC meeting held on April 12, 2005.

SURS UPDATE

Mr. Steele updated the committee on 2005 Legislative Changes, System Impact, and discussed the following:

Current Files:

- MAA – Member Annual Account

Contributions, interest, service credit for each academic year

- MAY – Member Academic Year Beginning Balance

Total contributions and interest at the beginning of an each academic year.

This is the balance that interest is calculated on for the academic year.

File Changes

- MAA – Contributions and interest for each "posting year"
- MAY – Total contributions and interest at the beginning of each "posting year".
- New File: MSC – Member Service Credit by Academic Year.

Our Plan

- Identify all programs that use these files. (300)
- Review all programs to identify which ones need changed, what changes are needed. (200)

- Identify programs that don't have to be modified with the first phase of changes.
- Create the new MSC file and a function to populate it with history from the MAA.
- Create a function to adjust the MAA, moving activity occurring after 6/30/05 from the 9/1/04 MAA into a 7/1/05 MAA.
- Create a "year end" process to create the member's account balance (MAY) for the fiscal year 7/1/05.
- Create a function to bring the Interest Rate file up to date.
- Modify and test all programs changes.

Critical Areas

- Interest calculations – this includes member account interest, purchase calculations involving interest, retirement calculations, etc.
- Service credit – everything using/updating the service credit in the MAA file had to be changed to use the new MSC file.
- MSL Processing to update the member accounts – this includes interest recalcs, service credit recalcs, claim processing, payroll processing, contribution adjustments, etc.

User Testing

- Week of 8/29/05, 9/5/05 and 9/12/05 – Meeting with all testers.
- 9/13/05 – Refresh the test system. User will be asked to stay out of the test system for the remainder of the week.
- 9/15/05-9/16/05 - Move all program changes for the first phase to the test system and begin running initialization functions (move service credit into MSC file, adjust the MAA, run year end process, run monthly interest distribution for July).
- 9/19/05-9/20/05 – Users review the results of the initialization programs. If July interest is OK, run monthly interest distribution for August.
- 9/21/05 – User testing begins.

Ms. Rathgeber and Ms. Parker gave a presentation on the impacts of the Legislation and discussed the following:.

- Member Education

- Benefit calculations
- Member Education
- 2-year ends – June 30, and August 31st.
- 2 interest rates – SURS Board will set the effective rate of interest for everything but the money purchase formula. The State of Illinois' Comptroller's Office will set the effective rate of interest for the money purchase formula.
- Member Education
- Group Presentations
  - Explain the changes
- Print Material
  - Statements
  - Member Guides
  - Option Choice Booklet
- Website – the new SURS website will be launched in November.
- Benefit Calculations – the interim period requires hand calculations, which SURS staff have been doing since August 2005.
- Interim period requires hand calculations
- Temporary reductions in productivity are expected, but will be temporary.
- Changes in processing times – refunds before the changes were processed in 30 to 49 days, currently around 68 days. Retirements are being prioritized in the following manner: claims are being processed for all where information was received prior to August 1st. Some backlog may occur, however, it will never be what it was several years ago because successful training has been conducted for staff members; they are fully trained and can test and calculate. The question was posed by SURSMAC: "What can we tell our employees?" Ms. Parker and Ms. Rathgeber noted that members should submit requested information to SURS as soon as possible; this helps claims be processed quicker.
- System testing – SURS has committed heavy resources to get the testing completed, currently SURS is ½ done with the testing and should be completed within the next 30 days. Once testing is done, the regular processing timeframe will resume.
- Resources
- Other Issues, all members in the SURS Traditional and Portable plans will have two account balances, one at June 30, and one at August 31st each year.

- Medicare Referendum – Ms. Rathgeber noted that this is a personal election that will need to be filed with the employer. For members who were employed March 31, 1986, and before as a continuous employee, they can make a one-time election to participate in Medicare. It is expected this will impact between 8,000 and 10,000 members of SURS. Notice to the employer will be by the end of November, and in February election forms will be sent to employees, who will file the election with their employer, who will make the Medicare deduction of 1.4% starting with their next budget year. The question was asked by SURSMAC: "Why would an employee elect to participate in Medicare?" Ms. Rathgeber indicated that if the employee was a community college employee, single, never married, it may be helpful in the long run as the College Insurance Plan is not as good as the State of Illinois Group Insurance Plan. If an employee is in the State plan, it remains primary if you don't have Medicare. There are no refunds once an employee elects to contribute to Medicare. Any SURS member who was employed April 1, 1986, or after, is already in Medicare. If the State would change the insurance program, Medicare could be helpful. If a ballot (election) is not received by the employer, the member will not participate in Medicare. This Medicare Referendum was designed as a cost savings to the state. Ms. Rathgeber indicated that all employers were asked to submit a contact name from their agency to SURS, so that all questions regarding the referendum can be forwarded to that contact at each agency.
- 6% Employer Payment – for an employee who receives an increase in salary in excess of 6%, the employer will be responsible for paying to SURS, the actuarial equivalent needed to pay for that increase. SURS has received actuarial tables from the actuary, but the mechanics of how this process will work are still being put together. It appears that SURS will not look at partial academic years, or vacation paid at termination (however, this is not a final decision at this time). Discussion is being held at SURS to determine the pros and cons of putting together a calculation on the SURS website for the 6% calculation. More details will be available once the details have been worked through.

Ms. Parker and Ms. Rathgeber indicated that benefit summary statements will probably go out in February 2006, due to all the changes that need to be made to the programs at SURS to accommodate for the dual interest rates.

NEW BUSINESS

There was no new business brought forward.

Committee Reports

Mr. Sallberg reported on the Benefits Committee meeting held earlier in the day. The committee discussed the following: uncertainty of funding benefits and health benefits, pension obligation bonds, obligation bonds, extra state revenue earmarked for the pensions funds, sale of state asset proceeds earmarked for the pension funds, 3% COLA (automatic annual increase (AAI)) from SURS - the General Assembly needs to be made aware that members pay ½% of the AAI as part of their contribution to SURS each payroll. The committee also discussed tax increases, revenue enhancements, health insurance negotiations, leaving benefit structure as it is currently, reducing benefits, paying more for those benefits, paying the same for those benefits and those impacts, and that legislators should continue to be updated on how important keeping funding levels to the pension funds are.

Mr. Andersen reported on the Legislative Committee meeting held earlier in the day. The committee expressed concern with the search process for the Executive Director, given the article in a recent Crain's magazine. The committee also discussed that members should be able to purchase Peace Corps time – that would necessitate a statute change, the cost of military service, and the Pension Advisory Committee meeting coming up this Friday. The following motion was made, seconded, and approved by SURSMAC to be forwarded to the SURS Board of Trustees:

SURSMAC supports the following:

1. **Sale of general obligation bonds to fund the pension systems;**
2. **Sales of State of Illinois assets (proceeds to reduce state pension liability);**
3. **Excess revenue earmarked to the pension systems;**

4. **Full funding of SURS;**

5. **No negative changes in benefits for current members of SURS;**

6. **Modest increase in State of Illinois income tax dedicated to pension funding, with a sunset period;**

7. **No changes to the 1995 funding legislation;**

8. **No change to the AAI (cola) provision. Current retirees have never caught up from losses from the 1970s, and ½% of the member contribution is dedicated to AAI costs.**

Date of Next Meeting

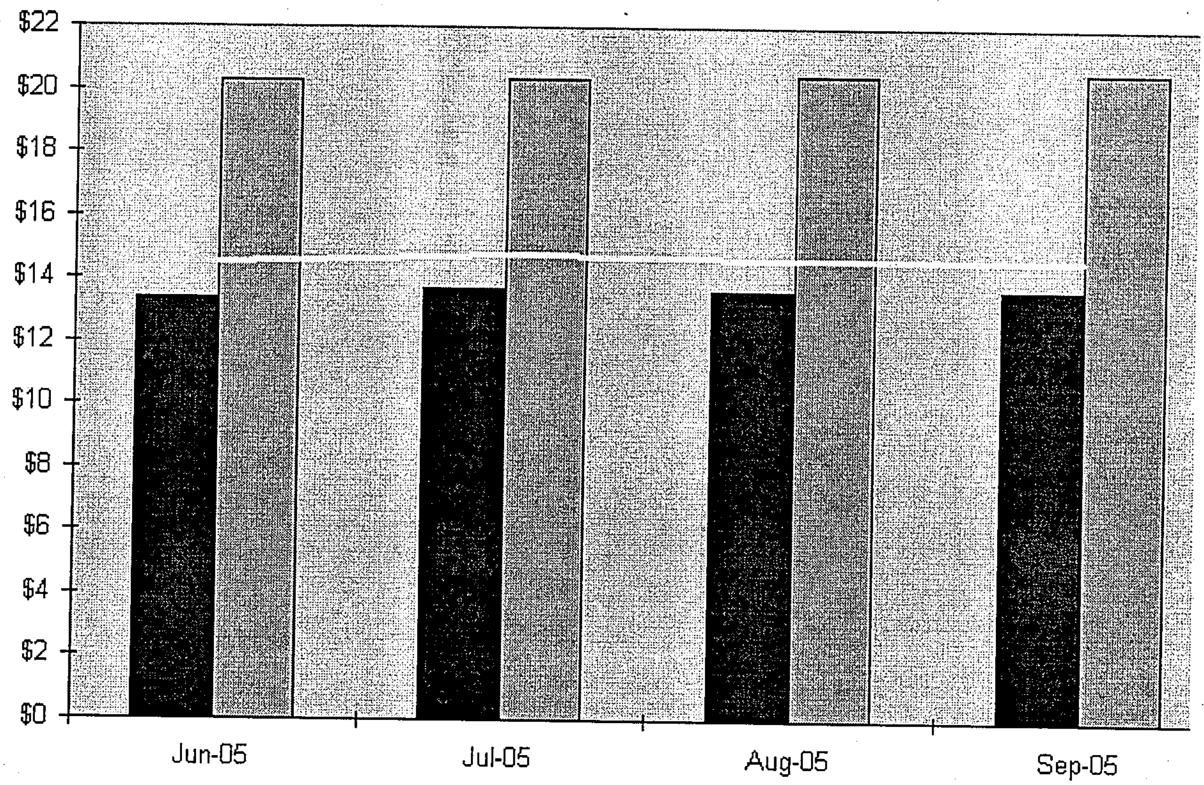
The next meeting of SURSMAC will be held on April 4, 2006, at the SURS office.

General Discussion

Mr. Naylor noted that SUAA would like to step up its efforts to contact members to make sure that members understand the health insurance issues that they will be faced with next year. Ms. Sherer suggested that each chapter have an active membership.

SURS FINANCIAL UPDATE

Mr. Allen updated SURSMAC on the financial status of the system, and distributed the following chart, which shows the financial status of the SURS fund as of September 30, 2005:



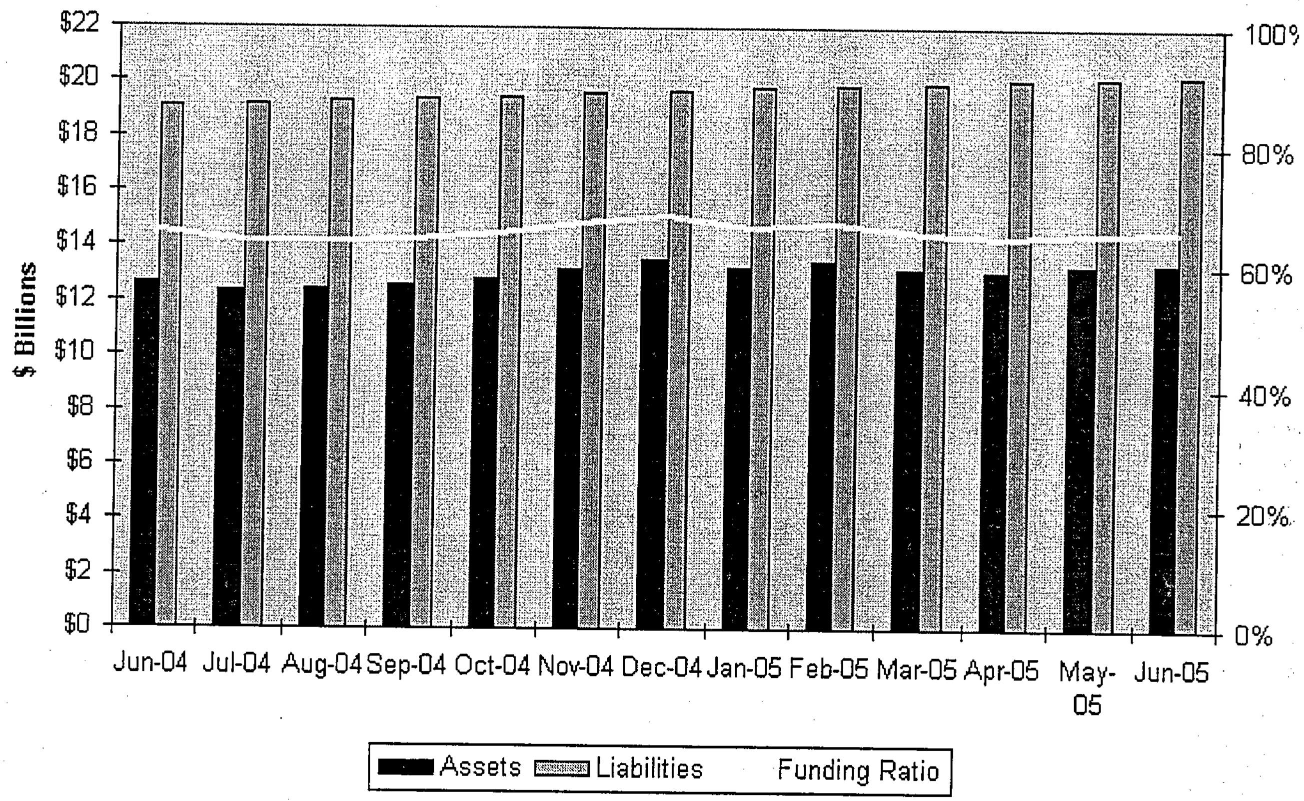
	Assets	Estimated Liabilities	Funding Ratio	Rate of Return Month	Rate of Return FYTD
6/30/2005	13.39	20.28	65.9%		
7/31/2005	13.69	20.38	67.2%	2.6%	2.6%
8/31/2005	13.66	20.48	66.7%	0.3%	2.9%
9/30/2005	13.726	20.58	66.7%	0.4%	3.3%

Note: Assets and liabilities are estimated through September 30, 2005.

Mr. Allen noted that the SURS building was paid in full on October 1, 2005, and that SURS currently pays out $85 million a month in SURS benefits and annuities; the state appropriation is $25 million a month. With the recent change to the funding level of SURS, the state appropriation will now be

$15 million a month. SURS now has a net cash shortfall of $750 million. The SMP plan now has $350 million in assets.

Mr. Allen presented the following chart, which outlines the financial status of SURS as of June 30, 2005:



	Assets	Estimated Liabilities	Funding Ratio	Rate of Return Month	Rate of Return FYTD
Jun-04	$ 12.61	$ 19.08	66.0%		
Jul-04	12.33	19.18	64.3%	-2.0%	-2.0%
Aug-04	12.42	19.28	64.4%	1.0%	-1.0%
Sep-04	12.56	19.38	64.8%	1.5%	0.5%
Oct-04	12.80	19.48	65.7%	1.8%	2.4%
Nov-04	13.18	19.58	67.3%	3.4%	5.9%
Dec-04	13.52	19.68	68.7%	3.0%	9.1%
Jan-05	13.24	19.78	66.9%	-1.7%	7.2%
Feb-05	13.43	19.88	67.6%	1.9%	9.2%
Mar-05	13.17	19.98	65.9%	-1.3%	7.8%
Apr-05	13.05	20.08	65.0%	-0.9%	6.9%
May-05	13.30	20.18	65.9%	2.1%	9.1%
Jun-05	13.39	20.28	66.0%	1.2%	10.4%

Mr. Allen also gave a breakdown of SURS assets:

Investment	%
Domestic equities	39.5
Private equities	3
International equities	18.5
Global	5
Fixed	23.5
TIPS	4
Real Estate	4.5
Opportunity Fund	2

Mr. Allen noted that the real estate investment trust securities were one of the best returns from last fiscal year. SURS is trying to invest 6% in real estate. International returns were 16% last fiscal year as well.

SURS LEGISLATIVE, AND LEGAL UPDATE

Mr. Slack updated the committee on the SURS Board of Trustee appointments. In spring of 2004, Trustee Nancy DeSombre retired and was replaced, other terms expired, Trustee Talat Othman resigned due to personal business concerns, and 6 new trustees have been appointed since 2004. On October 5, 2005, Alice Palmer was appointed to the SURS Board. Dr. Stanley Rives did not seek reappointment to the Board, and Dr. J. Fred Giertz. There have been many SURS staff changes as well - Mr. James Hacking left SURS in August to serve as the Executive Director of an Arizona pension fund. SURS is working with DHR International, a search firm, to find a new Executive Director of SURS. Resumes are being received and reviewed. Mr. Slack is a candidate, and Mr. Allen is serving on the staffing committee to find a new director. It is hoped that a new director can be hired at the December Board meeting of the SURS Board. The committee discussed what qualifications they would like to see in the new director, and SURS presented SURSMAC a copy of the ad that was placed in Pensions and Investments magazine on August 22, 2005:

The State Universities Retirement System of Illinois (SURS) is seeking an Executive Director. SURS ranks as one of the 100 largest pension plans in the United States. The office, headquartered in

Champaign, Illinois, provides benefit services to over 180,000 members throughout the world.

The Executive Director's primary function is to provide advice and counsel to the SURS Board of Trustees and oversee day-to-day administration of the system. The Executive Director implements Board policies with respect to: fund administration, investment management, information dissemination, system operations, and effective control measures to assure compliance with state law.

Applicants must possess at minimum: (1) a bachelor's degree and an advanced degree in business administration, public administration, accounting, political science, or law from an accredited college or university, (2) knowledge of, and extensive experience with, pension fund investment structures and modern portfolio theory, (3) a minimum of 5 years' experience at the executive level in pension fund administration, including asset management, benefit administration, and statutory and regulatory compliance, (4) a minimum 5 years' experience managing, developing, and motivating staff, and (5) superior communication skills across all media, including at least 5 years' experience working with state legislatures and other public bodies.

Compensation and benefits based on qualifications and experience. Please send resume, cover letter, and compensation requirements by September 2, 2005, to Executive Director, c/o DHR International, 10 South Riverside Plaza, Suite 2220, Chicago, IL 60606.

SURSMAC reviewed the ad and after discussion, felt that the ad covered the qualifications they would like the Executive Director to have, it was moved, seconded, and approved to accept the ad.

Mr. Slack gave an overview of Public Act 94-04:

- Create an Advisory Commission on Pension Benefits to prepare a report to the Governor and the General Assembly by November 1, 2005.
- Removes the SURS Board of Trustee's power to set the effective rate of interest credited to member contributions for money purchase formula retirements and gives that power to the state Comptroller. This change is effective beginning July 1, 2005.

- Requires a member's employer to pay SURS the actuarial value of increased benefits because of earnings increases during the final rate of earnings period in excess of 6% over the prior year's earnings. This provision does not limit member pensions, but requires the employer to pay directly for any increased benefits resulting. This provision does not apply to earnings increases, which are paid pursuant to contracts, which are in effect prior to the effective date of this legislation. The effective date is the date the Governor signed the bill.
- Removes the money purchase formula as a method of calculating retirement benefits for all persons hired on or after July 1, 2005.
- Every benefit enhancement enacted in the future must expire after 5 years unless renewed by the legislature and the Governor. Every benefit enhancement enacted in the future must be fully funded.
- Reduces the state contribution to SURS for fiscal year 2006 (July 1, 2005, through June 30, 2006) from approximately $365 million to approximately $167 million.
- Reduces the state contribution to SURS for fiscal year 2007 (July 1, 2006, through June 30, 2007) from approximately $432 million to approximately $252 million.

Mr. Slack has attended the meetings of the Advisory Committee on Pensions. The committee consists of Governor appointed members, the legislative leaders, union representatives, representatives that the legislative leaders appointed, and executive directors from SURS, TRS, and SERS. The first meeting was held on September 23, with meetings to be held every Friday following, with the report to be issued by November 1st. The group has been discussing cost of living adjustments, automatic annual increases, normal retirement age, and funding of the systems. Mr. Roland Burris is the chairman of the committee. Some issues that have been raised include:

- Benefit levels have not caused problems for the pension funds; the benefit levels in Illinois are in line with other pension funds around the country.
- Cost is in the moderate to low end.
- Low level funding of the pension systems is what has caused the problems.

Mr. Slack indicated that at the next meeting of the Pension Advisory Committee, the following would be reviewed:

- Ways to fund the systems, including pension obligation bonds, general obligation bonds, bonds issued by the state and guaranteed by the state.
- Dynamic scoring with a floor (the idea is when revenue exceeds the floor, that excess would be earmarked for the pension funds).
- State asset sales, with revenue to go to the pension funds.
- Incentives to delay retirement – employees would work longer, contribute more, stay retired a shorter time, and thus liability for the pension funds would be lower.

The following will be discussed further this Friday to determine if they should be discussed in further detail at later time:

- 1995 funding law, review, and consider different funding levels at different date.
- Benefit changes for new hires.
- Revenue enhancement, tax increases.
- Dedicated revenue sources.

The public is invited to attend these meetings.

Mr. Slack discussed integrity of SURS investments. There have been articles in the news recently about a TRS Board member and investment issues. Mr. Slack noted that SURS, acting on this information, sent letters to all SURS investment consultants, everyone SURS has contract with, to confirm whether those funds has paid a fee to a Trustee or affiliated company. A 2nd letter was sent to those parties as well to see if any paid fees to a 3rd party marketing firm who had a contract in relation to SURS. Every consultant and contact responded, everyone responded no, except for one. That one was Martin Currie, who at the time was only based in Scotland, Martin Currie hired a third party to represent them, that firm was eventually hired by Martin Currie. Martin Currie now has office in United States.

The question was asked by SURSMAC: "What is the benefit of the traditional plan now that the money purchase is gone for new hires?" Mr. Slack indicated that he and Dr. J. Fred Giertz had recently discussed this, and noted that SURS has felt in the past that the choice process should be changed somehow; the highest appeal type for SURS is the retirement choice election. There has been discussion that a 2^{nd} choice should be offered 5 or 10 years after a member has made their original election.

The question was asked by SURSMAC: "What purpose is the effective rate of interest (ERI) used?" The ERI is used for portable refunds, death benefits, survivor benefits, and other calculations at SURS. The Public Act 94-04 stated that the Comptroller would now set the ERI for the money purchase formula only. The SURS Board has set the ERI for fiscal year 2006 at 8½ % and for fiscal year 2007 at 8½%, while the Comptroller has set the ERI for money purchase for fiscal year 2006 at 8½%, and for fiscal year 2007 at 8%. The question was asked about diminishment of benefits if the interest rate was set at 9% by SURS and 7% by the Comptroller. Mr. Slack indicated that the law, SURS believes, makes the Comptroller now a fiduciary for SURS, with respect to the money purchase ERI. The committee discussed this.

Mr. Slack discussed the Joint Committee on Administrative Rules (JCAR). SURS follows the following process for submitting rules:

1. Draft rule is presented to the SURS Board for their approval.
2. SURS files rule with JCAR.
3. JCAR then publishes the rule in the Illinois Register.
4. 1^{st} notice period is 60 days to 1 year.
5. Public comments can be taken on rule.
6. SURS members can comment on rule by using the SURS website, www.surs.org, click to comment on rules.
7. Public comments on rule then closes according to timeframe set forth.
8. 2^{nd} notice in Illinois Register is completed.
9. Rule then goes to JCAR for hearing.

Mr. Slack indicated that the comment period for the 6% rule will be shut off at the 60-day period, and the rule will be available for public comment by the end of the month. Mr. Slack indicated that he has spoken to the University Presidents group and there is some anger towards SURS regarding this rule. SURS did not seek this legislation; it was put together by the General Assembly. There will be a lot of administrative work for SURS to administer this rule, it is hopeful that the money purchase formula will be excluded from the rule.

Mr. Slack discussed the Employer Contributions for Benefit Increases Resulting from Earnings Increases Exceeding 6%; the current draft language is below:

Employer Contributions for Benefit Increases Resulting from Earnings Increases Exceeding 6%

a) Purpose. This Section implements 40 ILCS 5/15-155(g).

b) Calculation of the Employer Cost. Where a monthly benefit is calculated from the final rate of earnings ("the FRE") under 40 ILCS 5/15-112, the "present value of the increase in benefits" as described in 40 ILCS 5/15-155(g) ("the Employer Cost") will be calculated as follows:

1) A monthly benefit ("the Gross Benefit") is calculated using the FRE. If the participant had employment with more than one employer during the FRE period, then a Gross Benefit is calculated for each employer using only the earnings with that employer during the FRE period.

2) A monthly benefit ("the Adjusted Benefit") is calculated using Adjusted Earnings to the extent they fall within the FRE period. "Adjusted Earnings" for an academic year are 106% of the earnings not excluded for FRE purposes (whether or not the earnings are actually in the FRE period) paid in the previous academic year by the same employer.

A) Where the FRE is the average annual earnings during the 48 consecutive calendar month period ending with the last day of final termination of employment, the earnings of any partial academic year at the beginning of the FRE period will be disregarded.

B) If the participant had employment with more than one employer during the FRE period, an Adjusted Benefit is calculated for each employer using its respective Adjusted Earnings.

3) The Adjusted Benefit is subtracted from the Gross Benefit to determine the "Benefit Increase." Where there are multiple employers, each employer's Adjusted Benefit is subtracted from its respective Gross Benefit to determine that employer's "Benefit Increase."

4) The Employer Cost equals the actuarial present value of the Benefit Increase. This calculation will use actuarial tables provided by the System's actuary from time to time. The actuarial table used will correspond with the type of monthly benefit that is provided to the participant (e.g., single-life annuity, 50% joint and survivor annuity, 75% joint and survivor annuity, or 100% joint and survivor annuity). Notwithstanding the above, a single-life annuity table will be used where a Traditional Benefit Package participant has no eligible survivor at the time of retirement and has not elected to receive a refund of accumulated survivors insurance contributions.

c) Grandfathering Clause. 40 ILCS 5/15-155(g) does not apply to earnings increases paid during the FRE period to participants under contracts or collectively bargained agreements entered into, amended, or renewed before June 1, 2005. For the purposes of this Section,

1) A contract or collective bargaining agreement is entered into, amended, or renewed on the earliest of the following:

A) the date the governing body of the employer voted to accept the contract or collective bargaining agreement;
B) the date the contract or collective bargaining agreement was executed in final form by parties; or
C) the date the parties to the contract or collective bargaining agreement reached a tentative agreement regarding the terms of the contract or collective bargaining agreement, and that tentative agreement is approved by the governing body of the employer on or after June 1, 2005, without any change to its terms,

other than pursuant to modifications that do not alter the grandfathered status of the contract of collective bargaining agreement.

2) A contract or collective bargaining agreement will not exempt earnings increases paid under it if the contract or collective bargaining agreement is amended or renegotiated after June 1, 2005, to have the effect of: 1) increasing the earnings usable for the FRE (except where the increase is the result of a salary reopener provision, which provision was a part of the contract or collective bargaining agreement prior to June 1, 2005); or 2) extending the expiration date of the contract (in such case, the earnings will be exempted only through the original expiration date of the contract).

3) Any earnings increase in excess of 6% a member accrues pursuant to a contract or collective bargaining agreement, which is provided to the member within four years of the expiration date of such contract or collective bargaining agreement, unless a different time period is otherwise specifically provided for in such contract or collective bargaining agreement, shall be exempt from employer contributions.

d) Employer Billing.

1) Initial Notice. After finalization of a participant's benefit, the System will send a notice to an employer containing the Employer Cost and the earnings from which the Employer Cost was derived. The notice will state that employer will be billed for the Employer Cost with respect to the participant's benefit on the 15th day (or the following business day if the 15th day falls on a holiday or a weekend) of the second calendar month following the date of the notice. *For example,* if the notice is dated January 10, 2006, the employer will be billed on March 15, 2006.

2) The employer will have 30 days from the date of the notice during which it may contest the earnings stated in the

notice. Once a staff determination is made by the Deputy Director of Member Services in answer to the contest, the employer must abide by the formal hearing procedures set forth in Section 1600.80 of this Part as if the employer were a "participant, annuitant, or beneficiary" under that Section to appeal the determination to the Claims Committee of the Board of Trustees of the System.

3) **Billing. The bill for the Employer Cost will be sent on the 15th day (or the following business day if the 15th day falls on a holiday or a weekend) of the second calendar month following the date of the notice. The employer must pay the lump-sum amount specified in the bill within 30 days of its receipt, except as to any contested amounts. The employer must pay any contested amount within 30 days of a final non-appealable decision.**

ADJOURN

There was no further business to come before SURSMAC; it was moved and seconded that the meeting adjourn.

Respectfully submitted,

Judith A. Rathgeber
Deputy Director-Member Outreach

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