

November 18<sup>th</sup>, 2009

To: Administrative Professional Staff Council

From:  Jake Baggott, AP Representative to SURSMAC

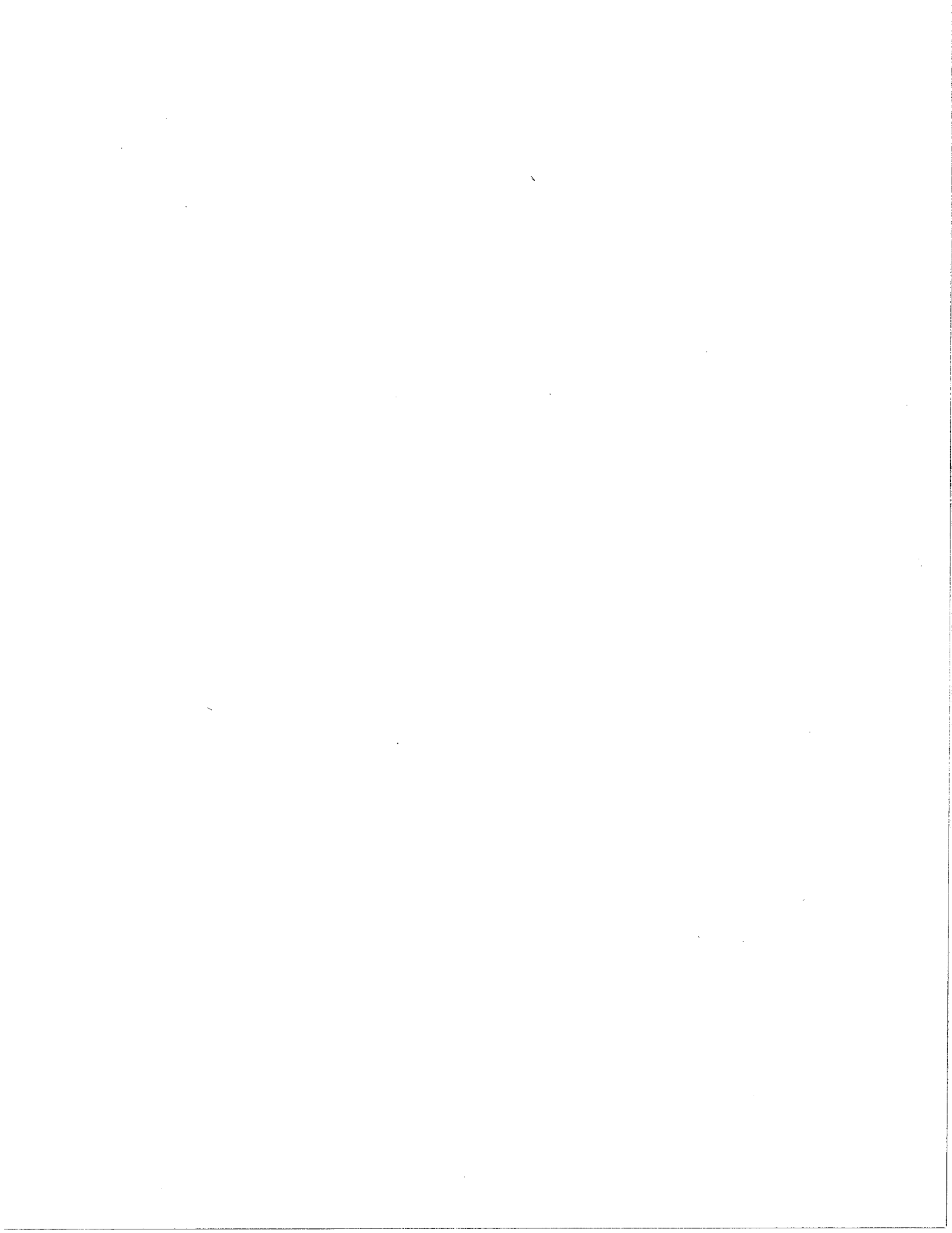
Re: State University Retirement System Member Advisory Committee (SURSMAC)  
Report on Fall 2009 Meeting held October 13<sup>th</sup>, 2009 in Champaign, IL

The Fall meeting focused largely upon funding issues, investment updates, recent legislation and the results of the Board of Directors Election. Highlights of the meeting included:

- The search for an Executive Director has resumed and finalist candidate are expected to be interviewed at the December 2009 BOD meeting. Judy Parker remains the Interim Executive Director
- The FY2011 ERI has been recommended to the BOD at 7.5% for approval at the December BOD meeting. The Controller will establish the MPF ERI (currently at 7.5%) after the first of the calendar year.
- Boards of Director Elections results were reviewed. 8,718 active member ballots were counted and 12,522 annuitant ballots were tabulated. This is roughly 11% of eligible voters.
- The new BOD are attempting to meeting in shorter time frames and less frequently, thereby delegating more of the routine work to committees.
- FY2010 state contributions as a result of the approved bond sale are \$702.5 million. As of this date no plans are in effect to sell bonds.
- PA 96-753 requires Pension systems to "invest in Illinois". SURSMAC has concerns that this will interfere with wise investment strategies and the Boards fiduciary duties.
- HJR 0065 established a Pension Modernization Task Force to review and make recommendations to the Governor by November 2009. See [www.illinois.gov/gov/pensionreform](http://www.illinois.gov/gov/pensionreform) for updates.
- Investments earnings were up 13.5% YTD, and the MTD earnings were positive at 3.85% as of September 2009. Assets reach a high of approximately \$16 billion and are now at \$11.1 billion. Funding ration is at 46%
- SURSMAC passed two resolutions addressing the state and it's responsibility to adequately fund and make timely payments to the retirement system and expressing caution of the wisdom of requiring the Chair of the SURS BOD to also serve as the Chair of IBHE and the potential of conflicts in time commitments and fiduciary duties.

The meeting concluded and the Spring meeting will be April 6<sup>th</sup>, 2010.

Attachments: Minutes from April 19<sup>th</sup> 2009  
Resolutions.



# 1  
SURSMAC Resolution Adopted October 13, 2009

**The Necessity of Timely State Contributions to SURS**

- Whereas, It is the State's obligation under the Continuing Appropriation Act to provide timely funding of SURS;
- Whereas, The State of Illinois has not yet set a date for sale of the Pension Obligation Bonds designed to fund SURS in FY 2010;
- Whereas, The State has not yet provided the required state contribution for July and only \$8.5M for August and September resulting in a shortfall of approximately \$125M;
- Whereas, Failure to make these payments further weakens the funding status of SURS and is detrimental to active and retired members by forcing sale of assets to provide required benefits and forgoing interest on existing assets and funds not received;
- Resolved, That SURSMAC calls upon the governor to establish a firm deadline for the sale of pension obligation bonds in the immediate future;
- Resolved: That the legislature and governor ensure timely contributions to SURS until the proceeds from the bonds are available; and
- Resolved: That in the future all funds due to SURS shall be paid in full on the stipulated due dates.

# 2  
SURSMAC Resolution Adopted October 13, 2009

- Resolved, That SURSMAC expresses concern about the legal requirement that the chair of the Illinois Board of Higher Education also serve as chair of the State Universities Retirement System Board of Trustees.





State Universities Retirement System of Illinois

Serving Illinois Community Colleges and Universities .

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AGENDA

State Universities Retirement System  
Members Advisory Committee  
October 13, 2009

Time	Item
10:30 a.m.	<b>Call Meeting to Order</b> Introductions Approve minutes from April 19, 2009 Presenter: Jake Baggott
10:40 a.m.	<b>Legislative Activity</b> <b>Executive Director Search</b> Presenter: Judy Parker
	<b>Investment Update</b> Presenter: Dan Allen
	<b>Legal Update</b> <b>Rulemaking</b> Presenter: Kelly Jenkins
	<b>Furloughs</b> Presenter: Angie Lieb
	<b>Lunch</b> <b>Committee Meetings</b>
	<b>Committee Reports</b> Benefits Committee Legislative Committee
1:50 p.m.	Other Business Set April meeting date (Tuesday's in April 6, 13, 20, 27)

## MINUTES

### **State Universities Retirement System**

#### **Members Advisory Committee**

**April 14, 2009**

On October 14, 2008, the members of the State Universities Retirement System Members Advisory Committee (SURSMAC) were notified that a meeting would convene at 10:30 a.m., on April 14, 2009, in the Training Center, State Universities Retirement System (SURS) office, 1901 Fox Drive, Champaign, Illinois. The meeting convened at the time and location set forth in the notice of the meeting.

The following members of SURSMAC were present:

Ken Andersen, UIUC; Paul Anthony, SIU Edwardsville; Jeff Ashley, Eastern Illinois University; Jake Baggott, SIU at Carbondale; Debbie Bayne, SIU at Edwardsville; Sue Benton, College of DuPage; Linda Brookhart, SUAA; Judy Burgess, Northern Illinois University; Jim Carlson, Illinois State University; Gregory Clemons, William Rainey Harper College; Janet Davis, University of Illinois; Kathy Dehen, University of Illinois at Springfield; John Drea, Western Illinois University; David Drechsel, Governors State University; Sherwood Edwards, College of DuPage; Henri Gillet, University of Illinois; Steve Goodwin, Illinois State University; Mary Griesinger, Northeastern Illinois University; Mia Igyarto, William Rainey Harper College; James Lockard, Northern Illinois University; Shawn Marshall, University of Illinois at Chicago; Kathy Mathewson, Heartland Community College; Brad McCormick, John A Logan College; Tom Morelock, Civil Service System; Cindi Norton Williams, UIUC; Henry Owen, Northeastern Illinois University; Teresa Rademacher, Civil Service System; Terri Rentfro, John A. Logan College; Bill Rupert, WIU; Steven Verhulst, Southern Illinois University Carbondale; Leo Welch, Southwestern Illinois College; and H. F. Williamson, U of I Urbana.

The following SURS staff members were present: Mr. Dan Allen, Chief Investment Officer; Mr. Larry Curtis, Member Services Representative; Mr. Kelly Jenkins, General Counsel; Ms. Angela Lieb, Director of Member Services; Ms. Karen Maggio, Executive Assistant; Ms. Judith A. Parker, Interim Executive Director; and Mr. Doug Steele, Applications Development.

Mr. Baggott called the meeting to order and introductions were made by all attending.

#### APPROVAL OF MINUTES

Upon a motion and a second, the minutes from the meeting of October 14, 2008, were approved with amendment to the attendance record.

## LEGISLATIVE ACTIVITY

On April 21<sup>st</sup>, the General Assembly will be back in session. The Governor has made several proposals for new employees, but no legislation has been drafted yet. Some of the new proposals include changing retirement age to 67, changing the early retirement age to 62, changing the cost of living increases, a flat 2% under general formula, 8 year average on the final rate of earnings, including only base compensation in the final rate of earnings, imposing a pension contribution holiday, and existing members pay in an additional 2% contribution. Linda Brookhart noted that SB750 content includes an education bill to lower real estate tax. The Taxpayers Advisory Board is due to release a report on May 22<sup>nd</sup>. SB1734 was a bill that introduced legislation to consolidate the retirement systems and improve ethics. Public Act 96-006 addressed ethics as well. Ms. Parker noted that the SURS Board set the Effective Rate of Interest at 8% for Fiscal Year 2010, the Comptroller's office set the money purchase ERI at 7 ½%.

## EXECUTIVE DIRECTOR SEARCH

Ms. Parker updated the committee on the search for an Executive Director for SURS. Mr. Slack left on December 18, 2008. Ms. Parker was named Interim Executive Director. The SURS Board of Trustees put out a Request for Proposal for an Executive Search Firm to conduct a search for Executive Director. The passage of Public Act 96-006 in April changed the make-up of the SURS Board. The SURS Board elected to place the search on hold as their terms as Board members would be ending. The Teachers Retirement System Executive Director was terminated as a result of PA 96-006. TRS has an interim director at this time. The new board will consist of 11 members. Four will be appointed by the Governor. Four will be elected contributing participants of SURS. Two will be elected annuitants of SURS. The Chair of the SURS Board will be the Chair of the Illinois Board of Higher Education, which is Carrie Hightman. There will be an election process for a new SURS Board. SURS staff is in the process of putting together procedures and a process for the election. The SURS Executive Committee has reviewed those procedures and SURS staff will put those into place this week. Mr. Jenkins updated the committee on how the election process will work and noted that updates will be continually posted on the SURS website. There is a deadline of 90 days to complete the election. SURS is putting together emergency rules in order to complete the election. On April 15<sup>th</sup> the official announcement will be made. Candidates will have until May 13<sup>th</sup> to file petitions. Annuitants will need 100 signatures of other SURS annuitants, and contributing members will need 400 signatures of other contributing members of SURS. Annuitants must be retired for at least one year prior to the election. On May 15<sup>th</sup>, it will be determined if an election is needed, depending on the number of candidates. From the annuitant candidates, only one can be from the University of Illinois (all campus sites), from the contributing candidates, only 2 can be from the University of Illinois (all campus sites). SURS will mail ballots May 29<sup>th</sup>. All ballots must be received by SURS on June 17<sup>th</sup> by 10:00 a.m. They have to be delivered by US mail or overnight mail service. No ballots can be delivered by campus mail, be bundled, or hand delivered to SURS. On June 17<sup>th</sup>, the Executive Director will announce the winners of the election. The Governor has until June 2 to pick his appointees to the SURS Board. One-half of the Governors appointees will serve for 3 years, and one-half will serve for 6 years. There will be random drawings to determine who serves how many years.

## INVESTMENT UPDATE

Mr. Allen presented the Investment update. His presentation is incorporated into these minutes on page \_\_ through \_\_.

## FINAL RATE OF EARNINGS UPDATE

Ms. Lieb updated the committee on the final rate of earnings. In 2005, legislation passed that impacted the final rate of earnings calculations for academic employees. For members of SURS who terminated after February 28, 2009, only 12-month employees will have the final 48-month calculation figured in the final rate of earnings calculations. Employees who are employed 9 months but paid over 9 or 12 months, for example, will only be eligible for the high 4 year final rate of earnings calculation. SURS anticipates that it will begin to see a shift in when members elect to retire based on this change.

Ms. Lieb also updated the committee on the process of sending email notification to members on the status of their retirement calculations. The process was implemented in phases, the first phase being implemented in June 2008, and the second phase was implemented in March 2009.

## DEFAULT PLAN

Mr. Steele presented an Analysis of the SURS Default Retirement Plan Options. The committee would like to further discuss this at a future SURSMAC meeting.

## COMMITTEE REPORTS

Ms. Davis reported from the Benefits Committee. The committee discussed maintaining what benefits currently available and the need to look at benefits as people are living longer.

Mr. Andersen moved adoption of the following two resolutions. The motion was seconded and approved by SURSMAC.

### **SURSMAC Resolution on the Need to Protect the Current Pension System for Employees of Public Colleges and Universities**

Whereas, The State of Illinois has significantly underfunded its pension systems by legislative and gubernatorial decisions from FY 1981 to FY 1991 and FY 2006 to FY 2009 creating an unfunded liability of over \$ 54.4B as of June, 2008, the largest dollar amount in the nation;

Whereas, the state's contribution to public faculty and staff's benefits is less than in most states because it does not contribute the FICA tax of 7.65%;

Whereas, the State's contribution to the SURS pension system is equivalent to a private sector employer providing social security and approximately 3.35% of salaries into a retirement program such as TIAA/CREF;



Whereas, Illinois faculty at public institutions fall behind their IBHE comparison peer groups in benefits;

Whereas: Participants have continually paid their full share to the retirement system and the interest on their contributions served to decrease the state's liability for pension shortfalls;

Whereas, Failure of the state to make its mandated contributions is the dominant cause of the shortfall in full funding of the state pension systems;

Whereas, The Governor's proposals would exacerbate the gap in benefits between Illinois public institutions and other colleges and universities competing to hire away top quality faculty;

Whereas, The budget proposal offered by the governor calls for rewriting existing law on funding of pensions to continue the underfunding of state pension debts;

Resolved, That SURSMAC calls upon the legislature and governor to recognize the necessity of fully funding its pension obligations in amounts established in existing state law;

Resolved: That the legislature and governor recognize the negative impact on retention of faculty and staff by requiring any increase in contributions from current employees, thus further widening the gap in salaries and total compensation compared to peer institutions as documented by AAUP surveys and current IBHE reports available to the faculty;

Resolved: That the state undertake the necessary steps which must include revenue enhancement to enable the state to remain solvent and meet its obligations to participants in the pension system, and

Resolved: That SURSMAC urges its members and faculty, staff and students to contact legislators personally to stress the need to deal with this issue of unmet pension obligations.

### **SURSMAC Resolution on Proposed Consolidation of Pension Investment Systems**

Whereas, the proposal by Treasurer Alexi Giannoulis to merge the investment functions of the state-funded retirement systems has been introduced in the legislature this year (SB 1734);

Whereas, the issues raised by the Treasurer concerning ethics issues have been addressed in the legislation proposed this year such as HB3722;

Whereas, the SURS Board\* strongly supports ethics standards and transparency and recommends that these issues be addressed separately from any proposal to mix trust fund assets and combine investment functions;

Whereas, the SURS Board\* has noted that the Commingling Proposal (1) increases the risk of improper conduct; (2) will not result in savings for SURS; and (3) ignores SURS' responsibilities for the Self-Managed Plan (SMP);

Resolved, that SURSMAC supports legislation that will strengthen the ethics provisions and transparency for those administering the state-funded pensions systems and will apply to SURS as well as the other systems; and

Resolved, that SURSMAC recommends that any proposal to mix trust fund assets should exclude SURS given its record of low cost, high performance, risk appropriate investment.

\* See the January 2009 Report from the SURS Board on "Concerns about Commingling SURS' Pension Trust Funds" available at <http://www.surs.org/pdfs/invinfo/Commingling.pdf> ).

Mr. Baggott thanked Ms. Parker for her work at SURS and encouraged members of the committee to contact media, co-workers, and General Assembly members concerning these issues.

#### NEXT MEETING DATE

The next meeting of SURSMAC was scheduled for October 13, 2009.

There being no further business to come before the committee, the meeting adjourned.

Respectfully submitted,

Ms. Judith A. Parker  
Interim Executive Director

JP:km