Funding of the

State Universities Retirement System

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A history of SURS funding:
Prior to 1989, §15-155 provided that the employer contribution should be "sufficient to meet the requirements of this Article in accordance with actuarial determinations." The statute further provided that in no event were employer contributions from State appropriations to be less than an amount which, when added to contributions from other sources, is less than the total accruing normal costs plus interest at the prescribed rate on the unfunded accrued liabilities.

P.A. 86-273
Effective August 23, 1989, P.A. 86-273 attempted to add some particularity. It provided:

> "Starting with the fiscal year which ends in 1990, the State's contribution shall be increased incrementally over a 7 year period so that by the fiscal year which ends in 1996, the minimum contribution to be made by the State shall be an amount that, when added to other sources of employer contributions, is sufficient to meet the normal cost and amortize the unfunded liability over 40 years as a level percentage of payroll, determined under the projected unit credit actuarial cost method. The State contribution, as a percentage of the applicable employee payroll, shall be increased in equal annual increments over the 7 year period until the funding requirement specified above is met."

People ex rel. Sklodowski v. State
The General Assembly and the Governor did not live up to the provisions of this amended §15-155. A class action suit was brought against the State for failure to live up to the provisions of the funding program established in P.A. 86-273. That case went to the Illinois Supreme Court, where the court ruled, in 1994, that participants and retirement systems had neither a constitutional nor a vested contractual right to enforce statutory funding obligations.

P.A. 88-593
While *Sklodowski* was pending, the legislature passed, and Governor Edgar signed P.A. 88-593. P.A. 88-593 created the 50-year funding program under which the retirement systems have been funded since State fiscal year 1996. Its provisions are:

- 90% funding target
- 15-year funding ramp (State fiscal years 1996-2010) to get up to the amount required in the remaining 35 years

- FY 2011 through FY 2045 – minimum contribution to the System in an amount sufficient to bring the total assets of the System up to 90% of the total actuarial liabilities by the end of FY 2045 (using a level percentage of payroll and the projected unit credit actuarial cost method)
- Continuing appropriation authority given to the retirement systems

Conversion from book to market value

In State fiscal year 1997, in order to comply with new GASB standards, SURS began to carry its assets on its books at market value rather than book value. This change alone increased SURS's funding level from 54.5% to 79.4% in that year.

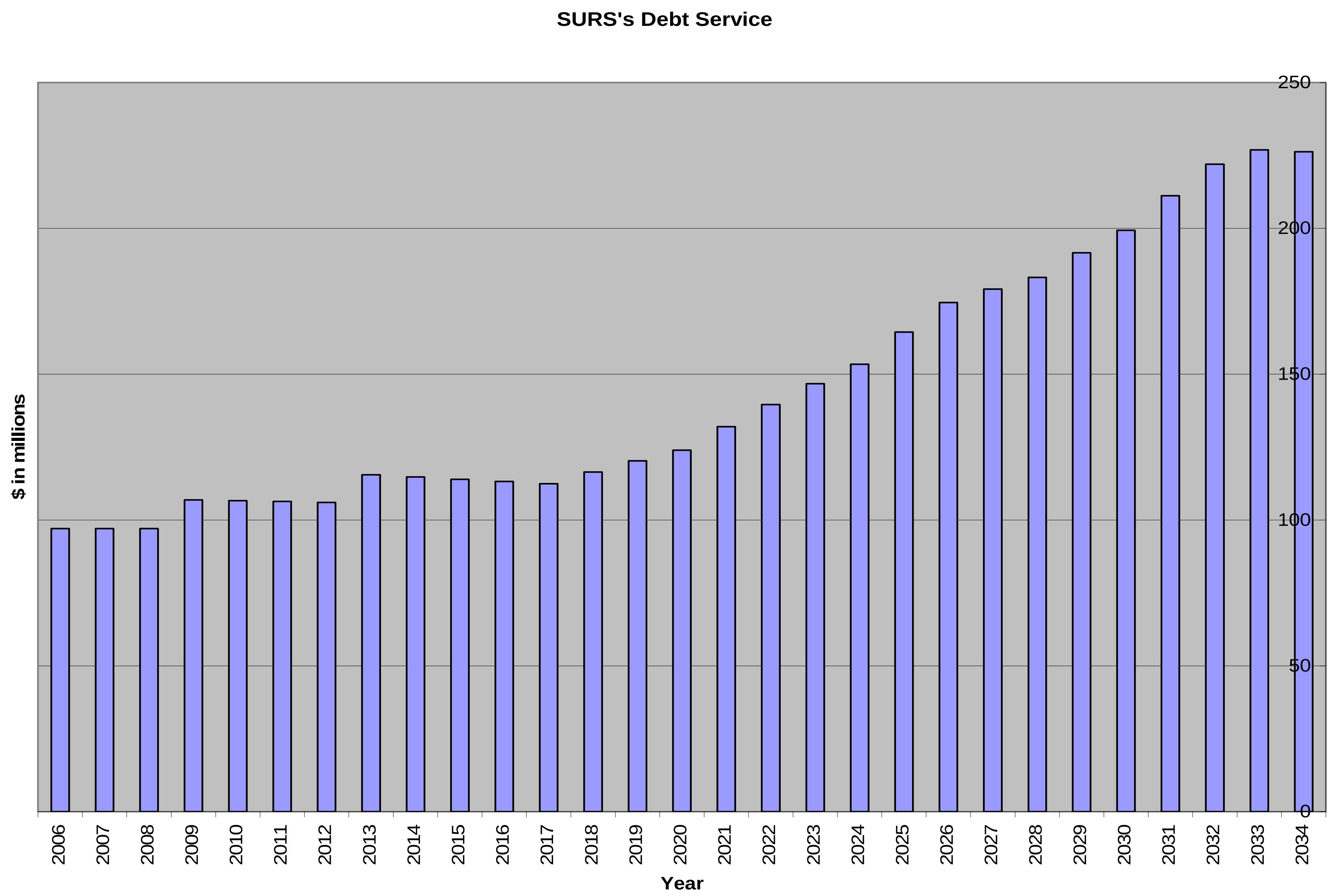
P.A. 93-2

On July 2, 2003, SURS received $1.432 billion in bond proceeds, pursuant to P.A. 93-2. Through June 2006, SURS has had a return of 44.3% on the bond proceeds, for an annualized rate of return of 13.0%.

The initial influx of the bond proceeds positively affected the funding status of SURS, moving it upward 8% to 62%. However, there are two ways in which the bond issue was less than optimal:

1. Instead of providing the full proceeds to the systems to pay down the unfunded liability, the state used part of the proceeds to pay 5 fiscal quarters (4Q FY'03 & all FY'04) of the already required state contribution – only $7.4 billion of the $10 billion in bond proceeds went to reduce the pension systems' unfunded liabilities; and

2. The legislation providing for the bonds mandated that future contributions to the retirement systems would be limited by the amount the required state contribution would have been without the issuance of bonds, less that year's proportionate share of the debt service on the bonds. In the first several years of the bond program, SURS's share of the debt service is approximately $100 million per year and it increases gradually thereafter throughout the 30-year bonding period to approximately $225 million per year. SURS's share of the debt service is shown on the chart on the following page. P.A. 93-2 provides that the amount SURS would otherwise receive as a state contribution will be reduced by the proportionate debt service on the bonds while they are outstanding.


SURS's Debt Service
$ in millions
Year
0
50
100
150
200
250
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
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2032
2033
2034

P.A. 94-4

Last year, the General Assembly passed and the Governor signed P.A. 94-4. This legislation took the state-funded retirement systems "off the ramp," providing a much lower state contribution for State fiscal years 2006 and 2007.

P.A. 94-4 set the contribution to SURS at $166,641,900 for State fiscal year 2006 and at $252,064,100 for State fiscal year 2007. P.A. 94-4 also eliminated the money purchase formula for persons hired after June 30, 2005.

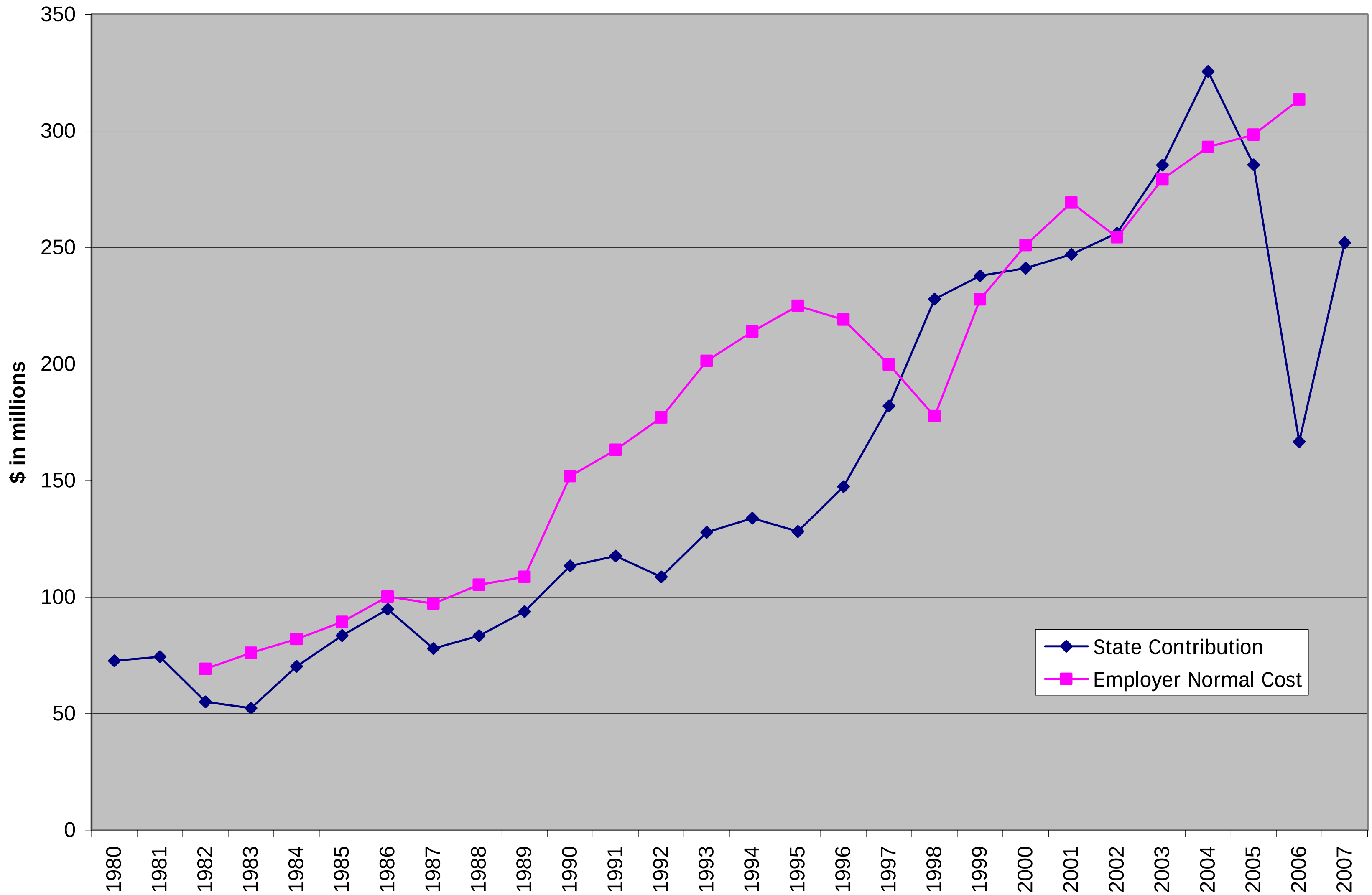
In addition, this Act gave the authority to set the effective rate of interest for the money purchase formula to the State Comptroller, created a requirement that the employers pay SURS the actuarial value of retirement benefits resulting from pay increases in excess of 6% year over year during the final rate of earnings period, and required all new benefits to sunset after 5 years and to have a dedicated funding source.

The chart to the right shows the FY2007 state contribution mandated by P.A. 94-4, and the estimated contributions for the following 5 fiscal years, assuming that the funding pattern returns to the 50-year funding program established by P.A. 88-593.

The estimated employer normal cost (both SURS and SMP) for fiscal year 2007 is $349.6 million. As noted in the chart, SURS will only receive $252 million in FY 2007. Thus, another $97.6 million is added to the unfunded liability.

	Required State Contribution (in Millions)*		
Fiscal	33% of New Members to SMP		
Year	SURS	SMP	Total
2008	$338.9	$41.4	$380.3
2009	463.1	49.8	512.9
2010	590.7	55.6	646.3
2011	612.5	61.4	673.9
2012	635.6	67.3	702.9
2013	659.8	73.5	733.3

An historical comparison (which excludes the 2003 bond proceeds) follows this paragraph. "Employer normal cost" is the cost to provide the benefits that are earned by active participants in the System for that year's service. Any time that the state contribution is not paying the employer normal cost, the liabilities of the System are increased. The state has essentially determined to pay later, with interest.



$ in millions
350
300
250
200
150
100
50
0
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
State Contribution
Employer Normal Cost

Payment of the normal cost only does not pay any portion of the unfunded accrued actuarial liability (UAAL). Standard pension funding as established by the Governmental Accounting Standards Board Statements No. 25 and 27, called the “annual required contribution” or “ARC,” requires payment by the employer of the total normal cost for the fiscal year, plus an amount sufficient to amortize the UAAL over a prescribed period of time (currently 31 years). The net State ARC for FY 2007 is approximately $660 million.

Fiscal Year	(1) Total ARC*	(2) Member Contributions	(3) (1) - (2) Net State ARC	(4) Actual State Contribution	(5) (4) / (3) State Cont. as Percent of Net ARC
1993	$651.8	$175.7	$476.1	$ 127.8	26.85 %
1994	706.8	183.1	523.7	133.8	25.55
1995	739.5	185.9	553.6	128.1	23.14
1996	787.1	197.0	590.1	147.4	24.97
1997	634.8	202.2	432.6	182.0	42.08
1998 **	512.1	221.7	290.4	227.8	78.44
1999	509.2	213.0	296.2	237.9	80.32
2000	547.8	222.5	325.3	241.1	74.11
2001	548.1	221.6	326.5	247.1	75.69
2002	686.9	251.6	435.3	256.1	58.84
2003	843.8	246.3	597.5	285.3	47.74
2004	934.8	243.8	691.0	1,757.5	254.36
2005	859.7	251.9	607.8	285.4	46.96
2006	914.9	252.9	662.0	180.0	27.19
2007	968.3				

The chart to the left provides an interesting comparison of the State contribution over the years as a percent of the net State ARC, or actuarially required contribution. Notice that the total ARC went down for FY1998 as a result of the change from book to market.

There has been a lot of discussion about whether the public pension systems are “better off” now than they were before. The chart below shows the contributions into the System for fiscal years 2004 through 2007, with some “might have been” comparisons:

Fiscal Year	Actual & legislated State Contributions (plus actual or projected Federal/grant funds)	Projected State Contributions w/ bond program & w/o 94-4	Projected State Contributions w/o bond program & w/o 94-4
2004	$351.3	$351.3	$351.3
2005	$312.8	$312.8	$407.1
2006	$206.6	$364.9	$462.0
2007	$292.1	$431.9	$529.0
Total	$1,162.8	$1,460.9	$1,749.4
Bond proceeds	$1,432	$1,432	
Total w/ bond proceeds	$2,594.8	$2,892.9	$1,749.4

	33% of New Members to SMP			
			Total Contribution	
	SURS Cont.	SMP Cont.	$	% of Pay
2008	$ 338.878	$ 41.441	$ 380.320	10.61
2009	463.052	49.832	512.885	13.80
2010	590.654	55.563	646.217	16.77
2011	612.529	61.361	673.890	16.86
2012	635.570	67.338	702.908	16.95
2013	659.788	73.541	733.328	17.04
2014	685.389	79.942	765.331	17.11
2015	712.425	86.546	798.972	17.19
2016	740.939	93.373	834.312	17.26
2017	771.061	100.466	871.527	17.32
2018	802.959	107.819	910.778	17.38
2019	836.855	115.426	952.281	17.44
2020	872.776	123.312	996.087	17.49
2021	910.820	131.447	1,042.267	17.54
2022	951.171	139.849	1,091.020	17.58
2023	993.834	148.540	1,142.374	17.62
2024	1,039.100	157.534	1,196.633	17.65
2025	1,086.931	166.841	1,253.772	17.68
2026	1,137.592	176.495	1,314.087	17.70
2027	1,191.159	186.530	1,377.689	17.73
2028	1,247.798	196.958	1,444.755	17.75

	33% of New Members to SMP			
			Total Contribution	
	SURS Cont.	SMP Cont.	$	% of Pay
2029	$ 1,307.573	$ 207.801	$ 1,515.374	17.76 %
2030	1,370.630	219.096	1,589.726	17.78
2031	1,437.099	230.897	1,667.996	17.79
2032	1,507.313	243.268	1,750.580	17.80
2033	1,581.350	256.239	1,837.589	17.81
2034	1,659.436	269.828	1,929.265	17.82
2035	1,741.683	284.037	2,025.720	17.83
2036	1,828.465	298.928	2,127.393	17.83
2037	1,919.723	314.470	2,234.193	17.84
2038	2,015.607	330.731	2,346.338	17.84
2039	2,116.376	347.746	2,464.121	17.85
2040	2,222.203	365.561	2,587.764	17.85
2041	2,333.425	384.253	2,717.678	17.85
2042	2,450.334	403.837	2,854.171	17.85
2043	2,573.098	424.348	2,997.446	17.85
2044	2,702.047	445.852	3,147.899	17.86
2045	2,837.422	468.387	3,305.809	17.86
Total	$50,885.065	$7,855.429	$58,740.494	

The chart on this page shows the projected State contributions through State fiscal year 2045, based upon current actuarial assumptions, and the June 30, 2006, actuarial valuation.