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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

P.A. 86-273, effective August 23, 1989, 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 that participants and retirement systems have neither a constitutional or a vested contractual right to enforce statutory funding obligations.

P.A. 88-593

While *Sklodowski* was pending, the legislature passed, and the Governor signed, P.A. 88-593. P.A. 88-593 created the 50-year funding program under which the retirement systems have been funding 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 an amount sufficient to bring the total assets of the System p 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

P.A. 88-593 was NOT a profile in courage. As the charts below show, the state continued to pay even less than the accruing normal costs during the early years of the ramp.

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' 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.[1] Through February 2006, SURS has had a return of 42.7% on the bond proceeds, for an annualized rate of return of 14.3%.

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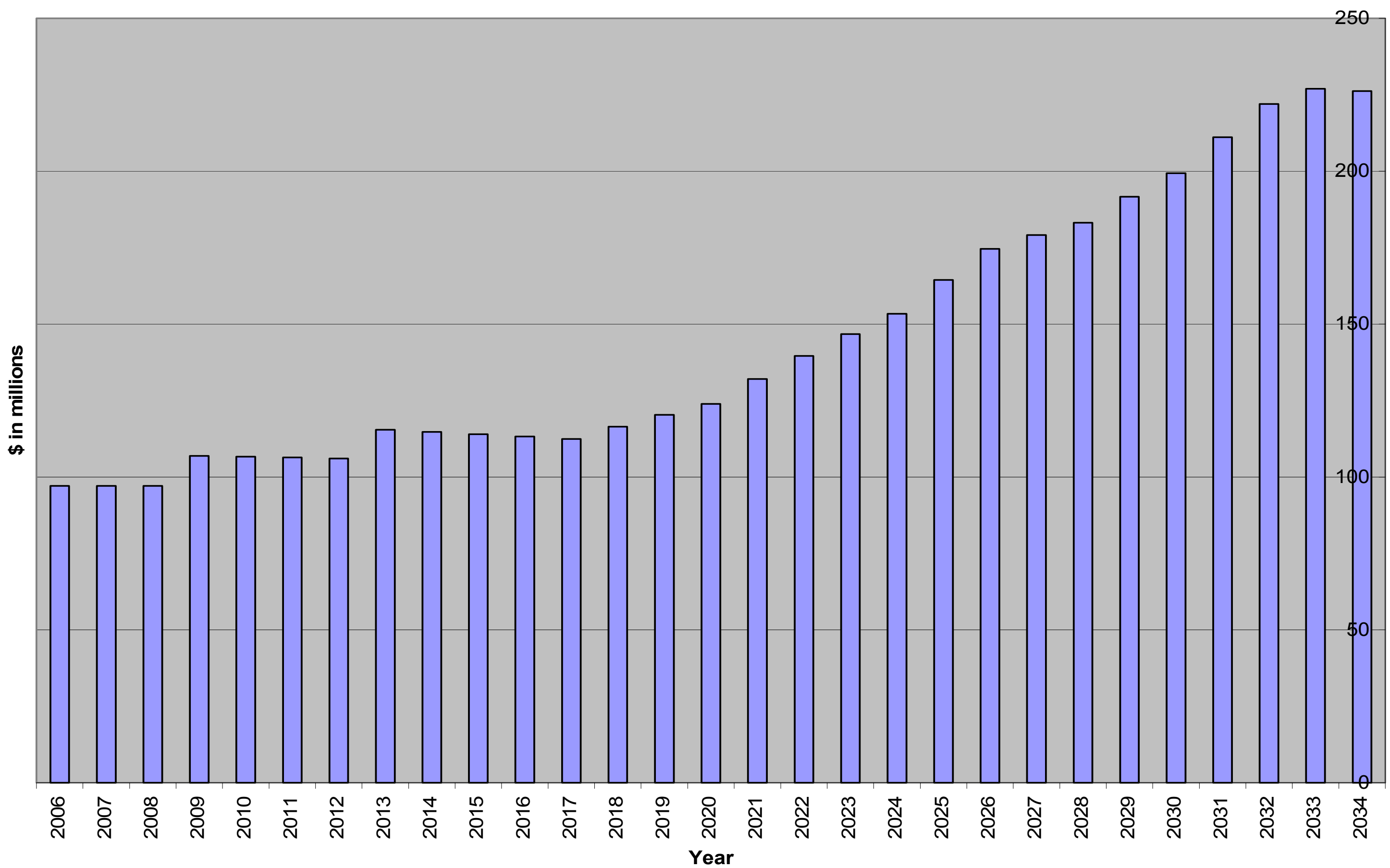
[1] The influx of the bond proceeds positively affected the funding status of SURS, moving it upward 8% to 62%. However, the legislation providing for the bonds mandated that future contributions to the retirement systems would be limited by the amount the required state contribution would have been 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' 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.

Fiscal Year	Actual & legislated State Contributions (excluding bond proceeds)	Bond Proceeds	State Contributions w/ bond program & w/o 94-4	State Contributions w/o bond program & w/o 94-4
2004	$351.3	$1,432	$351.3	$351.3
2005	$312.8		$312.8	$407.1
2006	$166.6		$364.9	$462.0
2007	$252.1		$431.9	$526.2

The bond proceeds, while welcome, have the debt service component. SURS' 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' "debt service"



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.

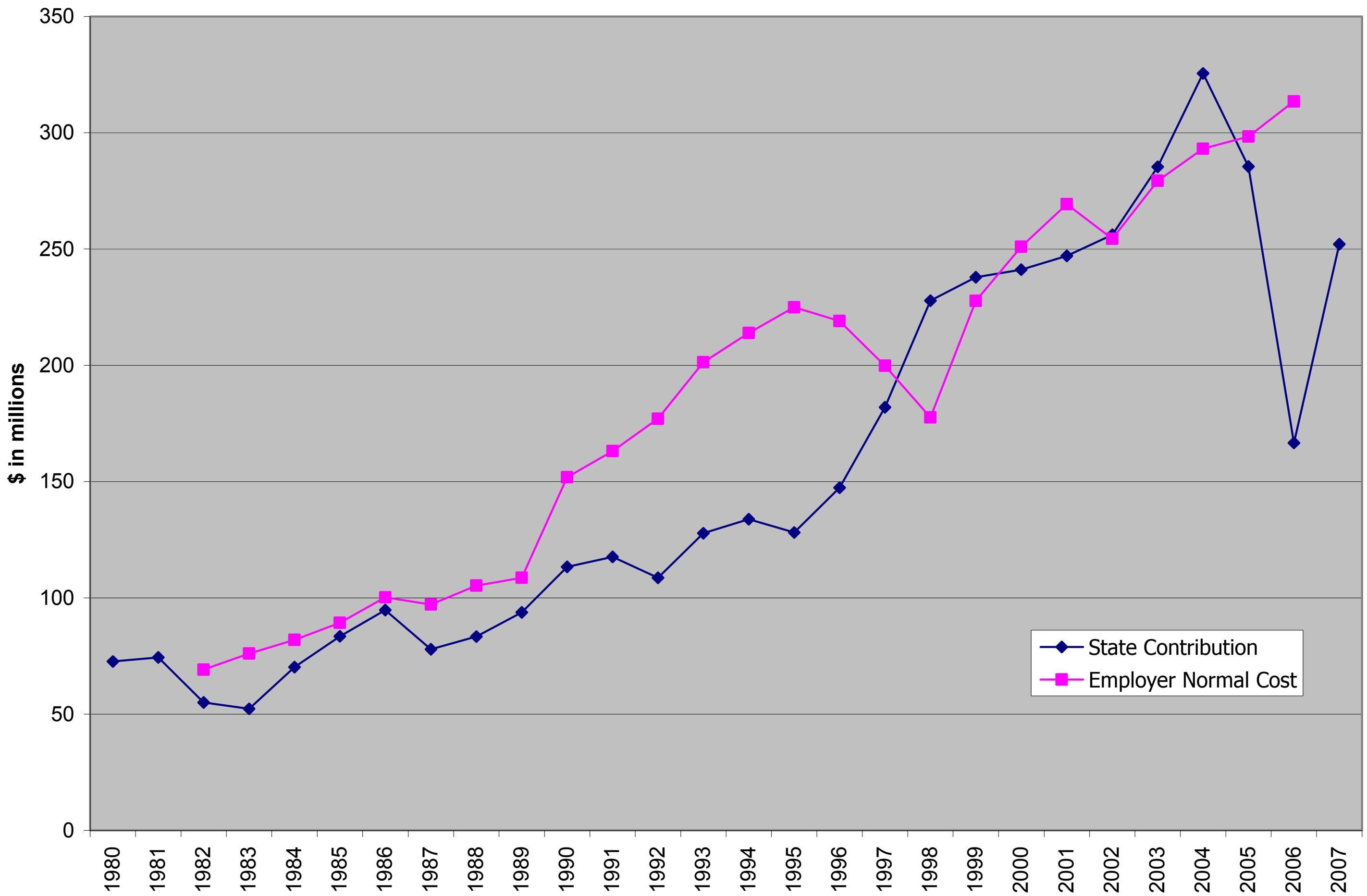
Fiscal Year	Required State Contribution (in Millions)* 33% of New Members to SMP		
	SURS	SMP	Total
2007	$215.9	$36.1	$252.0
2008	311.9	46.0	357.9
2009	405.0	51.5	456.5
2010	515.4	57.0	572.4
2011	624.9	62.8	687.7
2012	649.1	68.8	717.9

The estimated employer normal cost for fiscal year 2007 for the defined benefit plan (column called "SURS" in the chart) is $313.5 million. The estimated total employer normal cost (both DB and DC) for fiscal year 2007 is $349.6 million.[2]

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

[2] 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 2006 is approximately $660 million.

employer normal cost, the liabilities of the system are increased. The state has in essence determined to pay later, with interest.



Another historical comparison:

STATE UNIVERSITIES RETIREMENT SYSTEM OF ILLINOIS
ANALYSIS OF EMPLOYEE AND EMPLOYER CONTRIBUTIONS

	Employee Contributions (a)	Employer Contributions: Federal, Trust & Grant Funds (b)	Employer Contributions: State Appropriations (c)	Total Employer Contributions Rec'd (b+c)	Mandated Employer Contribution (d)	Shortfall in Employer Contribution (b+c)-(d)	% change	SURS Funding Ratio
Combined								
1982	8,564,835	1,353,566	47,179,244	48,532,810	182,000,000	(133,467,190)		40.4%
1983	10,358,852	1,202,154	44,778,954	45,981,108	203,400,000	(157,418,892)	17.9%	47.5%
1984	13,241,862	1,492,163	59,347,314	60,839,477	216,400,000	(155,560,523)	-1.2%	46.3%
1985	17,789,803	2,414,333	70,354,535	72,768,868	241,600,000	(168,831,132)	8.5%	50.6%
1986	23,026,322	2,883,022	80,050,568	82,933,590	266,600,000	(183,666,410)	8.8%	60.4%
1987	28,259,107	2,997,038	67,702,523	70,699,561	210,800,000	(140,100,439)	-23.7%	63.9%
1988	32,503,101	3,067,497	70,696,700	73,764,197	274,400,000	(200,635,803)	43.2%	60.9%
1989	39,137,719	3,918,709	80,212,229	84,130,938	293,100,000	(208,969,062)	4.2%	64.0%
1990	47,996,721	4,584,587	100,500,100	105,084,687	362,300,000	(257,215,313)	23.1%	63.5%
1991	56,421,725	6,679,699	100,352,600	107,032,299	401,800,000	(294,767,701)	14.6%	63.3%
1992	66,929,872	8,243,670	89,266,600	97,510,270	439,700,000	(342,189,730)	16.1%	63.0%
1993	75,010,790	9,865,933	104,728,100	114,594,033	476,100,000	(361,505,967)	5.6%	65.8%
1994	83,569,119	10,821,545	102,015,800	112,837,345	523,700,000	(410,862,655)	13.7%	60.3%
1995	93,922,138	11,855,996	102,236,700	114,092,696	553,600,000	(439,507,304)	7.0%	63.4%
1996	105,100,206	12,580,171	123,911,000	136,491,171	590,100,000	(453,608,829)	3.2%	68.5%
1997	115,755,797	13,251,208	159,547,000	172,798,208	432,600,000	(259,801,792)	-42.7%	79.4%
1998	127,876,786	15,104,944	201,624,000	216,728,944	290,400,000	(73,671,056)	-71.6%	85.8%
1999	143,241,307	16,510,841	217,632,189	234,143,030	296,200,000	(62,056,970)	-15.8%	85.3%
2000	156,830,988	19,041,984	224,587,000	243,628,984	325,300,000	(81,671,016)	31.6%	88.2%
2001	175,530,289	23,446,689	232,604,000	256,050,689	326,500,000	(70,449,311)	-13.7%	72.1%
2002	202,612,310	26,779,607	240,424,000	267,203,607	436,900,000	(169,696,393)	140.9%	58.9%
2003	217,686,925	29,921,175	269,646,000	299,567,175	597,500,000	(297,932,825)	75.6%	53.9%
2004	231,435,357	33,205,560	311,740,000	344,945,560	691,000,000	(346,054,440)	16.2%	66.0%
Total	2,072,801,931	261,222,091						
Combined Total	2,072,801,931	261,222,091						
All Employers-Total	2,072,801,931	261,222,091						

Note: Definition of Mandated ER Contribution:
For 1982 - 1991 Normal Cost plus 40-yr amortization of UAAL
For 1991 - 1996 Normal Cost plus Interest plus 40-yr amortization of UAAL
For 1997 - 2004 Net ARC (Total ARC less member contributions)

Note: Employee Contribution information is based upon the academic year; employer contribution totals determined by actuary based upon the fiscal year.

STATE UNIVERSITIES RETIREMENT SYSTEM OF ILLINOIS
ANALYSIS OF EMPLOYEE AND EMPLOYER CONTRIBUTIONS

		Employer Contributions						
	Employee Contributions (a)	Federal, Trust & Grant Funds (b)	State Appropriations (c)	Total Employer Contributions Rec'd (b+c)	Mandated Employer Contribution (d)	Shortfall in Employer Contribution (b+c)-(d)	% change	SURS Funding Ratio
Universities, allied agencies								
1982	6,480,302	1,308,388	34,431,392	35,739,780	132,823,521	(97,083,741)		40.4%
1983	7,774,908	1,146,350	32,679,661	33,826,011	148,441,232	(114,615,220)	18.1%	47.5%
1984	10,038,284	1,398,363	43,311,644	44,710,007	157,928,626	(113,218,619)	-1.2%	46.3%
1985	13,588,978	2,247,523	51,344,709	53,592,232	176,319,575	(122,727,343)	8.4%	50.6%
1986	17,761,703	2,692,510	58,420,870	61,113,380	194,564,564	(133,451,184)	8.7%	60.4%
1987	21,870,147	2,729,389	49,409,272	52,138,661	153,841,748	(101,703,087)	-23.8%	63.9%
1988	24,963,307	2,771,226	51,594,421	54,365,647	200,257,001	(145,891,354)	43.4%	60.9%
1989	30,273,154	3,382,246	58,538,850	61,921,096	213,904,253	(151,983,157)	4.2%	64.0%
1990	37,327,010	4,048,124	73,344,929	77,393,053	264,406,382	(187,013,329)	23.0%	63.5%
1991	43,568,320	5,771,183	73,237,284	79,008,467	293,233,465	(214,224,998)	14.6%	63.3%
1992	48,781,546	7,111,412	65,146,726	72,258,138	320,892,869	(248,634,731)	16.1%	63.0%
1993	54,777,943	8,624,589	76,430,522	85,055,111	347,457,573	(262,402,462)	5.5%	65.8%
1994	61,144,873	9,509,636	74,451,086	83,960,722	382,196,032	(298,235,310)	13.7%	60.3%
1995	69,280,621	10,464,879	74,612,299	85,077,178	404,017,039	(318,939,861)	6.9%	63.4%
1996	77,048,529	11,131,867	90,430,194	101,562,061	430,654,723	(329,092,663)	3.2%	68.5%
1997	84,620,031	11,865,342	116,437,331	128,302,673	315,711,292	(187,408,619)	-43.1%	79.4%
1998	93,306,670	13,508,765	147,145,108	160,653,873	211,933,794	(51,279,921)	-72.6%	85.8%
1999	104,045,792	14,700,541	158,827,877	173,528,418	216,166,631	(42,638,213)	-16.9%	85.3%
2000	113,456,155	16,793,502	163,903,495	180,696,997	237,403,799	(56,706,802)	33.0%	88.2%
2001	126,720,947	20,585,153	169,754,298	190,339,451	238,279,558	(47,940,107)	-15.5%	72.1%
2002	146,214,770	23,579,560	175,461,331	199,040,891	318,849,430	(119,808,539)	149.9%	58.9%
2003	155,758,739	26,323,490	196,787,534	223,111,024	436,055,240	(212,944,217)	77.7%	53.9%
2004	163,927,219	29,282,061	227,507,716	256,789,777	504,291,500	(247,501,722)	16.2%	66.0%
Total	1,512,729,948	230,976,099						
Community Colleges	560,071,983	30,245,992						
All Employers-Total	2,072,801,931	261,222,091						

Note: Definition of Mandated ER Contribution:
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Community Colleges								
1982	2,084,533	45,178	12,747,852	12,793,030	49,176,479	(36,383,449)		40.4%
1983	2,583,944	55,804	12,099,293	12,155,097	54,958,768	(42,803,672)	17.6%	47.5%
1984	3,203,578	93,800	16,035,670	16,129,470	58,471,374	(42,341,904)	-1.1%	46.3%
1985	4,200,825	166,810	19,009,826	19,176,636	65,280,425	(46,103,789)	8.9%	50.6%
1986	5,264,619	190,512	21,629,698	21,820,210	72,035,436	(50,215,226)	8.9%	60.4%
1987	6,388,960	267,649	18,293,251	18,560,900	56,958,252	(38,397,352)	-23.5%	63.9%
1988	7,539,794	296,271	19,102,279	19,398,550	74,142,999	(54,744,449)	42.6%	60.9%
1989	8,864,565	536,463	21,673,379	22,209,842	79,195,747	(56,985,905)	4.1%	64.0%
1990	10,669,711	536,463	27,155,171	27,691,634	97,893,618	(70,201,984)	23.2%	63.5%
1991	12,853,405	908,516	27,115,316	28,023,832	108,566,535	(80,542,703)	14.7%	63.3%
1992	18,148,326	1,132,258	24,119,874	25,252,132	118,807,131	(93,554,999)	16.2%	63.0%
1993	20,232,847	1,241,344	28,297,578	29,538,922	128,642,427	(99,103,505)	5.9%	65.8%
1994	22,424,246	1,311,909	27,564,714	28,876,623	141,503,968	(112,627,345)	13.6%	60.3%
1995	24,641,517	1,391,117	27,624,401	29,015,518	149,582,961	(120,567,443)	7.0%	63.4%
1996	28,051,677	1,448,304	33,480,806	34,929,110	159,445,277	(124,516,166)	3.3%	68.5%
1997	31,135,766	1,385,866	43,109,669	44,495,535	116,888,708	(72,393,173)	-41.9%	79.4%
1998	34,570,116	1,596,179	54,478,892	56,075,071	78,466,206	(22,391,135)	-69.1%	85.8%
1999	39,195,515	1,810,300	58,804,312	60,614,612	80,033,369	(19,418,757)	-13.3%	85.3%
2000	43,374,833	2,248,482	60,683,505	62,931,987	87,896,201	(24,964,214)	28.6%	88.2%
2001	48,809,342	2,861,536	62,849,702	65,711,238	88,220,442	(22,509,204)	-9.8%	72.1%
2002	56,397,540	3,200,047	64,962,669	68,162,716	118,050,570	(49,887,854)	121.6%	58.9%
2003	61,928,186	3,597,685	72,858,466	76,456,151	161,444,760	(84,988,608)	70.4%	53.9%
2004	67,508,138	3,923,499	84,232,284	88,155,783	186,708,500	(98,552,718)	16.0%	66.0%
Total	560,071,983	30,245,992						
Universities	1,512,729,948	230,976,099						
All Employers-Total	2,072,801,931	261,222,091						

Note: Definition of Mandated ER Contribution:

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For 1997 - 2004 Net ARC (Total ARC less member contributions)

Note: Employee Contribution information is based upon the academic year; employer contribution

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
1992	$610.1	$170.4	$439.7	$108.6	24.71 %
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	915.0				

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.

The chart on the next page shows the projected State contributions through State fiscal year 2045, based upon current actuarial assumptions, and based on the June 30, 2005, actuarial valuation.

	33% of New Members to SMP			
			Total Contribution	
	SURS Cont.	SMP Cont.	$	% of Pay
2007	$ 215.939	$ 36.125	$ 252.064	7.35
2008	311.941	45.966	357.907	10.06
2009	405.015	51.465	456.480	12.37
2010	515.355	57.043	572.398	14.94
2011	624.942	62.793	687.734	17.29
2012	649.116	68.772	717.888	17.38
2013	674.498	74.976	749.474	17.46
2014	701.261	81.389	782.650	17.54
2015	729.498	88.016	817.514	17.61
2016	759.298	94.884	854.182	17.68
2017	790.746	102.027	892.772	17.74
2018	824.039	109.430	933.469	17.80
2019	859.413	117.093	976.506	17.86
2020	896.885	125.036	1,021.921	17.90
2021	936.544	133.232	1,069.776	17.95
2022	978.552	141.706	1,120.259	17.99
2023	1,022.996	150.471	1,173.467	18.03
2024	1,070.124	159.545	1,229.669	18.06
2025	1,119.916	168.937	1,288.852	18.08
2026	1,172.618	178.677	1,351.295	18.11
2027	1,228.351	188.802	1,417.153	18.13

	33% of New Members to SMP			
			Total Contribution	
	SURS Cont.	SMP Cont.	$	% of Pay
2028	$ 1,287.262	$ 199.322	$ 1,486.584	18.15 %
2029	1,349.441	210.267	1,559.709	18.16
2030	1,415.022	221.668	1,636.691	18.18
2031	1,484.154	233.590	1,717.745	18.19
2032	1,557.164	246.085	1,803.249	18.20
2033	1,634.108	259.172	1,893.280	18.21
2034	1,715.224	272.873	1,988.097	18.21
2035	1,800.720	287.200	2,087.920	18.22
2036	1,890.695	302.160	2,192.856	18.23
2037	1,985.246	317.787	2,303.033	18.23
2038	2,084.563	334.142	2,418.705	18.23
2039	2,188.943	351.268	2,540.211	18.24
2040	2,298.534	369.204	2,667.738	18.24
2041	2,413.691	388.023	2,801.715	18.24
2042	2,534.689	407.735	2,942.424	18.24
2043	2,661.724	428.387	3,090.111	18.24
2044	2,795.142	450.041	3,245.183	18.24
2045	2,935.182	472.742	3,407.924	18.25
Total	$52,518.552	$7,988.050	$60,506.602	

Who are the people who participate in SURS?

- 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.[3]
- They work for 68 different employers across the state.

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

What sort of benefits do SURS retirees receive?

69% of SURS benefit recipients receive $2,600 or less per month.

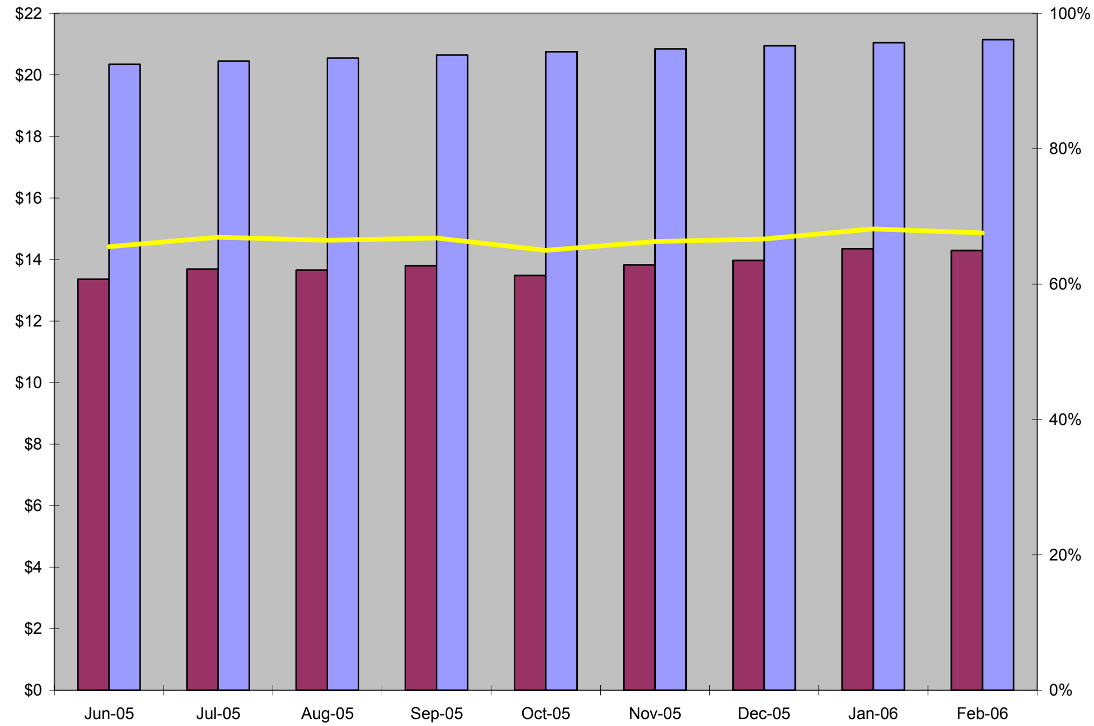
SURS participants don't contribute to or receive Social Security – and neither the state nor their employer contributes to Social Security on their behalf.[4] SURS participants will not receive a benefit from Social Security upon retirement. In addition, SURS is a disability program, as SURS participants are not eligible for Social Security disability.

What does it cost to pay for the SURS benefits?

The cost to the employer to provide the whole range of SURS benefits in fiscal year 2007 will be 10.82% of pay. That number will vary from year to year, particularly under the statutorily required projected unit credit actuarial method.

[4] Private sector employers have a payroll cost of 6.2% for Social Security that is not paid by employers of SURS participants. Many participants of the State Employees Retirement System also participate in Social Security and the state makes the 6.2% payroll cost for those persons.

What has SURS' investment return been?



	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	13.796	20.65	66.8%	1.4%	4.3%
Oct-05	13.486	20.75	65.0%	-1.8%	2.4%
Nov-05	13.823	20.85	66.3%	2.6%	5.1%
Dec-05	13.969	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%

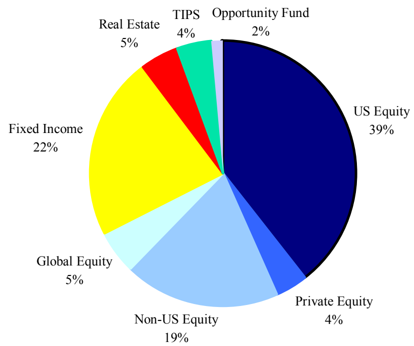
Note: Assets and liabilities are estimated through February 28, 2006.

	1/06	FY to date	1 yr ended 1/06	3 yrs ended…	5yrs ended…	10 yrs ended…
SURS	**3.3%**	**10.3%**	**13.5%**	**16.6%**	**5.1%**	**9.1%**
Benchmark	**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%**

SURS has slightly lagged the benchmark[5] over the one-year and three-year periods, is basically even with the market return over the five-year period, and has beat the market return over the ten-year period. The Public Funds Index is the average return of a universe of SURS' peers. SURS has generally outperformed this index.

[5] The "benchmark" is the return of the indices to which SURS has benchmarked its managers. This is also called the "policy portfolio".

SURS' investment allocation[6] is:



SURS has 35 direct investment managers, of which 19 are minority-owned or female-owned. SURS also has 29 indirect investment managers, all of which are minority-owned or female-owned. Minority-owned and female-owned investment managers invest 11% of the system's total assets. 46% of SURS' portfolio is indexed or passively managed.

[6] Chart is as of December 31, 2005.

SURRS' actuarial assumptions:

SURS' current actuarial assumptions, including a 33% election of the SMP (SURS' defined contribution plan) by new hires, will be examined as a regular part of the every-five-year actuarial experience study after the 2006 fiscal year. In the last several valuations, we have noted that the participation in SMP has been substantially lower than expected, with about 10-12% of new hires choosing the SMP.

- ***Plan Choice:***
  - 45% of new hires select the Portable Benefit Package
  - 33% of new hires select the Self-Managed Plan
- ***Rate of Investment Return.*** For all purposes under the system the rate of investment return is assumed to be 8.5% per annum.
- ***Effective Rate of Interest:*** The assumed rate credited to member accounts is 9.0% per annum.
- ***Annual Compensation Increases.*** Each member's compensation is assumed to increase by 5.5% each year, 4% reflecting salary inflation and 1.5% reflecting standard of living increases. That

Service Year	Additional Increase
0	.0400
1	.0300
2	.0175
3	.0175
4	.0175
5	.0100

rate is increased for members with less than 6 years of service:

- ***Mortality.*** The mortality assumption for retirees, beneficiaries and disabilities are based on the 1994 Group Annuity Mortality Table with a one-year age setback for males and no age setback for females. The assumed mortality rates for active members are 75% of those for retirees.

- ***Disability.*** A table of disability incidence with sample rates:

Age	Males	Females
20	0.0002	0.0002
30	0.0010	0.0010
40	0.0018	0.0018
50	0.0042	0.0042
60	0.0071	0.0071
70	0.0100	0.0100

- ***Retirement.*** Upon eligibility, active members are assumed to retire as set forth at the right:

Age	All
50	.200
51	.200
52	.200
53	.200
54	.250
55	.100
56	.090
57	.080
58	.080
59	.100
60	.150
61	.150
62	.175
63	.175
64	.175
65	.250
66	.200
67	.200
68	.200
69	.250
70	1.000

- General Turnover. A table of termination rates based on experience in the 1996-2001 period. The assumption is a table of turnover rates by years of service. A sample of these rates follows:

Years of Service	All Members
0	.275
1	.250
2	.200
3	.175
4	.150
5	.125
6	.100
7	.090
8	.075
9	.060
10	.050
15	.030
20 & Over	.020

- Part time members with less than 3 years of service are assumed to terminate at the valuation date.

- Operational Expenses. The amount of operational expenses incurred in the latest fiscal year are supplied by SURS staff and incorporated in the Normal Cost.

-

- Marital Status. Members are assumed to be married in the following proportions:

Age	Males	Females
20	25 %	40 %
30	70	75
40	80	80
50	85	80
60	85	70

- Spouse Age. The female spouse is assumed to be 3 years younger than the male spouse.

- Loads in Final Average Salary. None

State Universities Retirement System of Illinois

Serving Illinois Community Colleges and Universities 1901 Fox Drive • Champaign, IL

(217) 378-8800 • (217) 378-9801 (FAX)

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.

ADVISORY COMMISSION ON PENSION BENEFITS

COMMISSION REPORT AND RECOMMENDATIONS FOR GOVERNOR ROD BLAGOJEVICH AND THE ILLINOIS GENERAL ASSEMBLY

LETTER FROM COMMISSION CHAIR ROLAND BURRIS

November 1, 2005

Governor Rod Blagojevich
207 State Capitol
Springfield, Illinois 62706

General Assembly
Illinois State Senate
Illinois House of Representatives
Springfield, Illinois 62706

The Honorable Governor Blagojevich and Members of the Illinois General Assembly:

The Advisory Commission on Pension Benefits (the "Commission") was mandated under Senate Bill 27 to "consider and make its recommendations concerning changing the age and service requirements, automatic annual increase benefits, and employee contribution rates of the State-funded retirement systems and other pension-related issues as determined by the Commission. On or before November 1, 2005, the Commission shall report its findings and recommendations to the Governor and the General Assembly."

The Commission met five times between September 23 and October 27, 2005. After extensive and productive discussions of the State Retirement Systems, the Commission crafted several recommendations for your consideration. The final vote on these recommendations was 13-2 in favor of the recommendations; the recommendations and votes are attached hereto. The Commission's recommendations do not affect earned pension benefits of current State employees or pension benefits being received by current retirees.

Respectfully submitted,
Roland Burris
Advisory Commission on Pension Benefits, Chair

COMMISSION MEMBERSHIP

Membership in the Advisory Commission on Pension Benefits consists of the following individuals:

- The Honorable Roland Burris, Chair
- *Representative Bob Molaro
- *Senator Jeff Schoenberg
- Representative Jim Watson
- Senator John Jones
- Executive Director Jon Bauman (TRS)
- Executive Director Bob Knox (SERS)

- Executive Director Dan Slack (SURS)
- Director John Filan
- Hank Scheff (AFSCME)
- Rich Frankenfeld (IEA)
- Ed Smith (LIUNA)
- Jim Dougherty (IFT)
- Brian Rainville (Teamsters)
- Tom Balanoff (SEIU)

* Denotes current members of the Commission on Government Forecasting and Accountability (formerly Illinois Economic and Fiscal Commission).

COMMISSION RECOMMENDATIONS

The Advisory Commission on Pension Benefits recognizes that the nature of funding the State of Illinois Pension Systems is a significant issue that affects both employees and the State as a whole. This issue mandates the full involvement and participation by both labor and management. Therefore, this Commission suggests that the Governor and General Assembly adopt an agreed bill process to ensure the full participation of labor and management and that the agreed bill should include the following:

Recommendations

1. The Commission recommends that the State adopt means by which to dedicate revenues in excess of a specific target percentage of growth towards the additional funding of the pension systems when those targets are met, and establish a minimum when those targets are not met.

2. The Commission recommends that if the State sells certain assets, then 100% of the resulting revenues should be dedicated towards reducing liabilities, including the Pension Systems' unfunded liabilities, as a component part of a broader plan to reduce those unfunded liabilities.

3. The Commission recommends that the General Assembly consider creating incentives for employees to continue working beyond the year when they achieve the maximum pension percentage as a means to reduce the State's pension costs.

4. The Commission recommends that the General Assembly consider the issuance of Pension Obligation Bonds as quickly as practicable as a financing instrument to reduce the State's pension costs, as long as (1) there are favorable market conditions and (2) the issuance of such POBs is a component part of a broader plan to reduce the Pension Systems' unfunded liabilities.

5. The Commission recommends that the General Assembly should explore new revenue sources dedicated to reducing the Pension Systems' debt, as a component part of a broader plan to reduce the Pension Systems' unfunded liabilities.

6. The Commission affirms the significance of the benefit reforms achieved in the 2005 Spring legislative session, and also affirms that, at the present time, most SERS, TRS and SURS benefits and employee contributions are comparable to other public pension systems in the United States. The Commission further recommends that the General Assembly should regularly review, as part of the agreed bill process as well as their normal budgetary review process, the affordability of the Pension Systems' plan provisions regarding benefits and make an affirmative determination thereon.

COMMISSION VOTES ON RECOMMENDATIONS

- The Honorable Roland Burris, Chair - Yes
- Representative Bob Molaro - Yes
- Senator Jeff Schoenberg - Yes
- Representative Jim Watson - No
- Senator John Jones - No
- Executive Director Jon Bauman (TRS) - Yes
- Executive Director Bob Knox (SERS) - Yes
- Executive Director Dan Slack (SURS) - Yes
- Director John Filan - Yes
- Hank Scheff (AFSCME) - Yes
- Rich Frankenfeld (IEA) - Yes
- Ed Smith (LIUNA) - Yes
- Jim Dougherty (IFT) - Yes
- Brian Rainville (Teamsters) – Yes
- Tom Balanoff (SEIU) – Yes

Final Vote Count: 13-2 in favor of the Commission Recommendations