

Final Rate of Earnings Calculation Change

If you are already retired or if you are an hourly or 12-month contract employee during your Final Rate of Earnings Period, the following does not apply to you.

Section 15-112 of the Illinois Pension Code determines how SURS calculates the final rate of earnings (FRE). It states that every SURS participant shall have his or her FRE determined by using the high four consecutive academic years of earnings. It further states that only a subset of participants, those paid on an hourly basis and those who receive an annual salary paid over 12 months, are entitled to a second FRE calculation – the 48 consecutive calendar month period ending with the last day of employment. For example, a nine-month contract paid over 12 months does not qualify. For those entitled to both calculations, the FRE is the higher of the two. Since 1990, SURS had given *all* participants both FRE calculations.

In early 2004, as part of a comprehensive effort to better conform its practices to the statutory provisions under which it operates, SURS published the “first notice” of a rule which closely follows the provisions of Section 15-112. SURS received many comments regarding this rule and took them into consideration in preparing its “second notice” version to JCAR (Joint Committee on Administrative Rules). Most importantly, SURS included a transition period in the rule, so that those persons who are in their FRE period on March 1, 2005, will continue to receive both FRE calculations.

This rule was considered by JCAR on January 11, 2005. JCAR indicated its full support for SURS’s ongoing efforts to comprehensively review its practices and ensure conformance to statute. JCAR approved the rule, but issued a formal written Recommendation to SURS to seek legislative authority

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Self-Managed Plan Now Offers Life Cycle Funds

Background

Life cycle funds are “funds of funds” that invest in more than one asset class, typically stocks and bonds, similar to balanced funds. The primary difference is that most balanced funds do not change their asset allocation over long periods of time, that is, they choose a neutral point (e.g. 60% stock and 40% bond) and then hold the allocation within a reasonable band around the neutral point. Life cycle funds are designed to change asset allocation over time as a member ages and approaches retirement. These funds are ideal choices for SMP participants who:

- Struggle to make the right investment choice
- Worry about the choice(s) they made
- Forget to rebalance on a periodic basis

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SURS Certifies the Required State Contribution for Fiscal Year 2006

Serious State Budget Problem Expected

By Jim Hacking, Executive Director



On November 9, 2004, SURS advised the Governor and the State Comptroller of the fiscal year 2006 (FY'06) state contribution amount required by the fifty-year retirement system funding program (Pub. Act 88-592) that has been in effect since FY'96. The required amount, which is determined actuarially based on the System's June 30, 2004, fiscal year-end results, is \$364.9 million. Although an estimated \$40 million will be received by SURS from non-state funding sources, the remainder — \$324.9 million — will come from the state's General Revenue Fund and the state's unclaimed property fund, which is called the state's Pension Fund.

SURS and the other four state contributory retirement systems have now been operating under the statutory funding program for ten years. This funding program is designed to assure that each of the systems will have assets sufficient to cover 90% of their liabilities for present and earned future benefits no later than the end of state fiscal year 2045.

The SURS-required state contribution for FY'06 turned out to be \$12.1 million less than had been anticipated (\$364.9 million versus \$377 million), based on the actuarial projection done at the end of the System's 2003 fiscal year.

In the aggregate, the total state required contributions for the five state systems is \$2.2 billion for FY'06. This compares with a total required contribution for state FY'05 of \$1.8 billion. In addition, the state is obligated to pay the debt service on the \$10 billion of pension obligation bonds (POBs) that were issued last year. The projected debt service in FY'06 is \$427.1 million systems as of that date was \$35.1 billion.

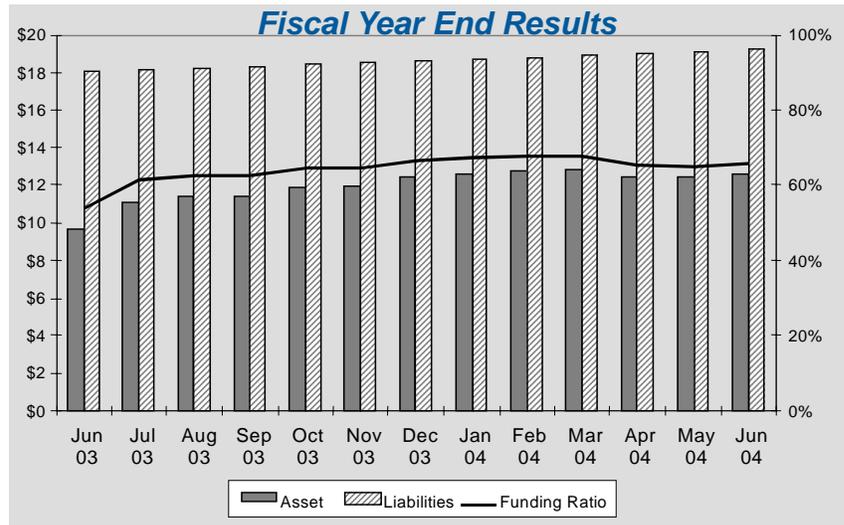
Since the state's required retirement system contributions and payments to the holders of the POB's will increase in FY'06 by an estimated \$633 million, the state will have to contend with another serious budgetary problem. The General Assembly's Economic and Fiscal Commission's latest forecast for state revenue growth, which was released on November 17, 2004, indicates that the state will only have an additional \$325 million available to accommodate increased spending needs. This is far less than what is needed to fully fund the retirement systems and pay the bond holders, not to mention the increased funding that the state's Medicaid Program will require, along with other health-related programs.

Although the Governor's Office of Management and Budget indicated that it is too early to tell what the state's revenue situation will be in state FY'06, the current forecast is certainly not encouraging. The Governor's blue-ribbon commission that was established earlier this year to come up with options to deal with – and solve – the chronic underfunded condition of the state's contributory retirement systems is continuing to meet and is actively discussing a variety of options ranging from benefit reductions to revenue enhancements. The Commission is also considering a recommendation to issue POB's in sufficient quantity to pay off two major portions of the retirement systems' collective unfunded liabilities, which totaled \$35.1 billion as of June 30, 2004. If this could be done and if the retirement systems could generate a rate of return on the bond proceeds sufficient to fully cover the debt service (both principal and interest) on the bonds, the state's budget situation would improve dramatically and the state's future required contributions to the systems would decline by more than 50%. □



Investment Update

SURS's investment portfolio posted an impressive absolute return of 17.0% for fiscal year 2004 (FY'04). The portfolio met or exceeded its benchmark in five of the seven individual asset class portfolios and fell only marginally short in the U.S. equity portfolio.



In addition to the strong investment return of the portfolio, there were a number of other significant accomplishments during the year:

- Total fund assets in both the defined benefit and defined contribution plan exceeded \$12.8 billion as of June 30, 2004, ranking SURS as one of the top 100 pension plans in the U.S.
- Proceeds of more than \$1.4 billion from the General Obligation debt issued by the State of Illinois were invested on July 3, 2003, and were in place to capture the strong market performance throughout the fiscal year.
- The additional \$1.4 billion contribution, coupled with the strong investment returns, raised the System's funding ratio to 66.0% on June 30, 2004, from 53.9% on June 30, 2003.
- Five of the seven individual asset class portfolios posted investment returns that equaled or exceeded their benchmarks.
- The international equity portfolio underwent a major reconstruction during the fiscal year and posted an above-benchmark return.
- The Self-Managed Plan (SMP) finished its sixth complete year and grew by more than \$75 million to \$273 million due in part to the strong investment returns in the financial markets and positive cash flow.

During FY'04, the System also completed a comprehensive asset/liability study. The results indicated that there was no additional benefit to be gained by increasing the overall risk level of the fund. Rather, the results suggested that several minor changes would yield the same expected return with a small decline in risk.

These changes included a small (3%) shift from one income-producing asset class, fixed income securities, to another income producing asset class, real estate. A second minor change resulted in the recognition of a Global Equity asset class with an initial total fund allocation of 4%, which was funded from a corresponding reduction of 2% from U.S. equities and 2% from international equities. □

SURS Board Has Two New Trustees

Christine Boardman



Christine Boardman is the President of the Service Employees International Union (SEIU) Local 73. Prior to this position, she was the Executive Assistant to the President & Public Division Director of SEIU Local 73. Ms. Boardman was Chief of Staff at SEIU Local 46 and a Senior Field Representative for SEIU District 925. She has also served as a Union Representative for the United Electrical, Radio & Machine Workers of America. She was appointed by Senate President Emil Jones to the Pension Laws Commission and was Vice President of the Illinois State Federation of Labor AFL–CIO. Ms. Boardman is also a member of the Chicago Federation of Labor AFL–CIO, Chicago Bar Association, Illinois State Bar Association, and the American Bar Association. □

Mitchell Vogel



Mr. Vogel is Vice–President of the Illinois Federation of Teachers and a member of the national AFT’s Higher Education Council, as well as Editor in Chief of *American Academic: A Journal of the American Federation of Teachers*. He served as President of University Professionals of Illinois Local 4100 of the American Federation of Teachers for over 16 years. He also served as Chair of the Educational Leadership Department and Chair of the Faculty Assembly.

Mr. Vogel taught courses in teacher education and school administration at Northeastern Illinois University. He also conducted and published research in public administration, school-community relations, and school finance. He is currently Chair of the Board of Directors Illinois Citizen Action, the largest grassroots coalition in Illinois, as well as Vice-Chair of the Chicago Jewish Labor Committee. He received both the Kellogg and Danforth Awards for Teaching and Scholarship. Mr. Vogel has been married for 42 years to Bonnie and is the father of Marla and Deanne. He is also the proud grandfather of Nicole, Marissa, and Kyle. □

2005 Benefit Payment Schedule

The following is the schedule for SURS monthly benefit payments during 2005:

On the first working day of the month, all electronic fund transfers (EFTs) for disability retirement allowances, retirees, survivors, beneficiary annuitants, and reversionary annuities are made. Dates for these payments are: January 3, February 1, March 1, April 1, May 2, June 1, July 1, August 1, September 1, October 3, November 1, December 1, and January 3, 2006.

On the last working day of the month, all paper checks and statements are mailed, and disability EFTs are deposited. Dates for these payments are: January 31, February 28, March 31, April 29, May 31, June 30, July 29, August 31, September 30, October 31, November 30, December 30, and January 31, 2006.

Around the 15th of the month, SURS submits a pre–notification to the financial institutions receiving EFTs, allowing them to list any corrections in account transmittal information to us. Any direct deposit changes received at SURS after the pre–notification is processed will result in a paper check being mailed directly to the bank for the first month. Therefore, requests for changes in direct deposit must be received by SURS prior to the 10th of the month. □

Benefit Summary Statements

Benefit Summary Statements were mailed in November 2004. SURS had approximately 76,000 active participants and 55,000 inactive participants. Of those, 13,000 participants had invalid addresses on file and did not receive a statement. We strongly encourage members to keep SURS informed of any address changes so we can continue to provide you with the latest benefit information.

Approximately 826 participants received their statements through Web Delivery this year. These members were notified by email when their new statements became available online instead of waiting to receive a paper copy in the mail. To register for this option, visit the Member Website by clicking on “Member Access” at www.surs.org. Then, choose “Web Delivery Options” from the bottom of the homepage. You can also choose to receive notification of the latest *Advocate* through Web Delivery instead of receiving a paper copy in the mail. When you register, be sure to use a valid email address. □

Death Notification

SURS needs to be notified immediately of member deaths in order to avoid overpayment of benefits and provide beneficiaries with their death benefit. The employer does not notify SURS when a death is reported, so it is imperative that you contact us directly.

The longer you wait to report a death, the longer you will receive an inaccurate benefit. The survivor will then be responsible for paying back any overpayments made to SURS. □

Self-Managed Plan

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Fidelity's LifeCycle Funds

Fidelity's LifeCycle funds, known as Freedom Funds, utilize an actively managed, proprietary risk control strategy. Freedom funds are designed to offer participants “one-stop” fund shopping by investing in a combination of up to 19 Fidelity equity, fixed-income, and money market funds. Each Freedom Fund allocates its assets among these underlying funds according to an asset allocation strategy that becomes more conservative as the fund nears its target date. The funds are identified with the target retirement date (i.e. 2010 Fund). The Freedom Funds are designed in five-year increments based upon a member's projected retirement date.

Fidelity's Freedom Funds charge members the expenses on the underlying funds, as well as a small management fee, currently capped at .08%. The combined total expense ratio for these funds as of March 31, 2004, ranges from 0.68% for the Freedom Income Fund to 0.91% for the Freedom 2040 Fund.

TIAA-CREF's Life Cycle Funds

TIAA-CREF currently does not offer life cycle funds to plan participants. They are, however, in the process of establishing a series of funds that should be available in late spring. While we are unsure of the exact details of the funds TIAA-CREF will offer, we do expect that there may be some fundamental differences. First, the TIAA-CREF funds may invest in additional asset classes such as inflation-linked bonds and real estate. Second, we expect that the residual allocation to equities will be larger than the Fidelity series of funds, having an ending equity allocation of 30% or more. Finally, it is anticipated that the TIAA-CREF funds will be priced lower than those offered by Fidelity.

Life cycle funds represent an attractive option for SMP members who have neither the time nor desire to carefully manage their retirement assets and are therefore being recommended for inclusion as an investment option. More information on these funds is available by calling a Fidelity or TIAA-CREF representative or visiting their websites. □

FRE Change

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for the transition period. We anticipate that this new rule will become effective March 1, 2005.

For retirements after the transition period of the rule, the following will apply:

- All participants will continue to have their FRE calculated using the highest four consecutive academic years of service.
- Participants who are hourly employees, or who receive a 12-month salary paid over 12 months as is explained in the text of the rule, will also have their FRE calculated using the 48 consecutive calendar month period ending with the last day of employment.

Members who do not otherwise qualify but who wish to have a final 48 consecutive calendar month calculation are able to do so by planning their retirements to coincide with the end of the academic year (the 12-month period that begins on the first day of the fall term or September 1 for those employers that do not have fall terms).

The final text of this rule will be posted as soon as it becomes available on the SURS website, www.surs.org, under News Features. □

2004 Employee of the Year: Shannon Gordon



Shannon Gordon receives Employee of the Year award from SURS Board of Trustees President Stan Rives (left) and SURS Executive Director James Hacking.

Shannon Gordon was named 2004 Employee of the Year during the annual SURS Employees' Recognition Luncheon on September 24, 2004. This award is the most prestigious peer recognition an employee can receive.

As a Member Service Representative for the Insurance team, Shannon works closely with Central Management Services (CMS) to enroll members in their desired insurance options, update their information, and reconcile discrepancies. In their nominations, staff members noted Shannon's excellent long-term work history with SURS. They commended her dedication to the System, commitment to team and co-workers, as well as her willingness to go above and beyond to create positive working relationships with members and agency representatives.

Besides the excellent example she sets each day, Shannon also played a critical role in the automation of coordinating data systems with CMS. This process improved both the efficiency and effectiveness with which information is shared between the two agencies and now allows for work to be completed by pressing one button instead of 50. Shannon's positive attitude, as well as her willingness to take on additional responsibilities and learn new things, makes her a role model for the entire organization. □

2004 Employer Seminar a Success

During the last three weeks of October 2004, SURS Employer Representatives Larry Curtis, Jennifer Natschke, and team leader Marge Martinie, conducted the 2004 Annual Employer Seminar series. The seminars were held at SURS, NIU, Rend Lake, and Governors State. Over 140 college and university staff members attended this year. For the first time, attendees were able to register online for one of five seminars.

The central theme of this year's seminar was Advanced Reporting Techniques. Jennifer and Larry led attendees through a series of lectures, demonstrations, and exercises. Participants learned skills to accurately report information pertaining to retirement, disability, and purchase claims. Executive Director, James Hacking, and SURS General Counsel, Dan Slack, discussed SURS financial status, rules, and legislative issues.

Accompanied by workbooks and various handouts, participants felt the interactive seminar was a success and will enhance their ability to complete required SURS reporting. □

Ready to Retire?

If you are at least four years away from retirement, you can schedule a counseling appointment. When you call to schedule, SURS will send you a Retirement Estimate Request form. You are not required to retire on the date you list on this form. Your counselor needs this information to provide you with a projected monthly retirement annuity amount at your appointment.

This form must be completed and returned within two weeks from the date you make your appointment. If SURS does not receive your completed form by this deadline, your appointment will be cancelled. ☐

SUAA Reaches Out to New Members

By: Don Naylor

The State Universities Annuitants Association (SUAA) is offering membership not only to retirees and survivors, but also to current employees at all state universities and community colleges. SUAA focuses its efforts on preserving and improving retirement benefits for more than 168,000 SURS participants. Goals for 2005 include maintenance of reasonable health care coverage, sound funding for SURS, and restoration of the two years service credit for accumulated sick leave.

Anyone interested in these events may go to the SUAA website to sign up for action alerts or other retiree information from the list serv. To sign up for SUAATalk list serv, send an email to majordomo@eiu.edu. Skip the subject line and type “subscribe suaatalk” on the first line of the text box. On the second line, type “end” to get automatically added.

SUAA extends membership to all who are not currently members including retirees, survivors, disabled persons, and current employees. For an information packet, call 888-547-8473 or visit the website at www.suaa.org. ☐

Pre-Retirement Seminars

SURS is offering two pre-retirement seminars at its office in Champaign. These popular one-day seminars cover universal issues related to retirement and financial planning. The information presented will closely follow the format used in past seminars.

The seminars are scheduled for April 23 and June 25. They will be held at SURS, 1901 Fox Drive, Champaign, from 8 A.M. to 3 P.M. Topics will include SURS benefits, legal affairs, and financial planning. The enrollment fee is \$20 per member and \$10 for a non-member guest. Lunch and refreshments are included in the fee. ☐

Retirement Seminar Application

Do not send any money yet. When your enrollment is accepted, you will be notified of the fee due.

Name	Social Security #
Street	City, State, Zip
Home phone	Work phone
Email address	Date I wish to attend
Anticipated retirement date (doesn't commit you to retiring)	Guest Name

Return to: Karen Maggio, SURS, 1901 Fox Drive, Champaign, IL 61820 or fax to (217) 378-9800