

The

Advocate



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SURS Nets \$5.8 Million in Litigation Settlement

A SURS legal action against Qwest Communications has added more than \$5.8 million to the SURS pension trust fund.

“The dollars recovered are added right to the pension fund bottom line,” noted SURS Executive Director Dan Slack. “As an additional benefit, SURS has made clear that corporate responsibility to shareholders is an important part of the SURS investment policy.”

The monetary recovery resulted from SURS pursuing legal action against Qwest Communications International, Inc. alleging that Qwest artificially inflated its stock price and bond values. SURS sued Qwest independently rather than taking a share of a class action settlement in 2005. SURS estimated its share of the class recovery would have been only \$37,000. By taking separate action, SURS achieved a recovery more than 150 times as large.

SURS Board of Trustees President Mitchell Vogel stated, “SURS members should take comfort in SURS’s continued vigilance in protecting their pension trust fund investments.” He added, “We’re proud of the retirement system staff’s efforts and this superb result.” □

2008 Benefit Payment Schedule

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: March 3, April 1, May 1, June 2, July 1, August 1, September 2, October 1, November 3, December 1, and January 2, 2009.

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: March 31, April 30, May 30, June 30, July 31, August 29, September 30, October 31, November 26, December 31, and January 30, 2009.

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. □

March 2008

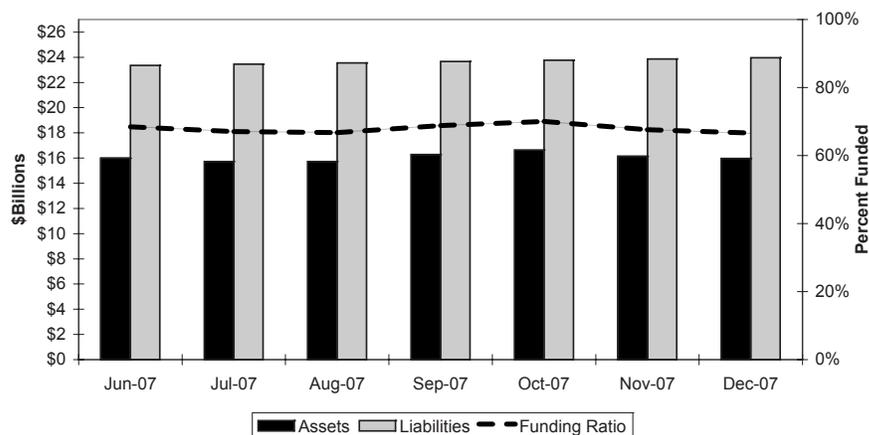
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Investment Update

Fiscal Year to Date Investment Results

As of December 31, 2007, the SURS investment portfolio is valued at over \$16.0 billion. For the first six months of Fiscal Year 2008, the portfolio returned 1.9%, net of investment management fees. This total fund return matched the policy portfolio benchmark return of 1.9%. The portfolio is broadly diversified and is invested in U.S. and non-U.S. stocks and bonds, real estate and private equities.



Volatility has significantly increased in both stock and bond markets during the first half of Fiscal Year 2008. The diversification of the SURS portfolio has been especially beneficial. The fixed income component of the SURS investment portfolio provided strong returns in the first six months of the fiscal year, largely in response to declining interest rates in the U.S. The Lehman Aggregate Index, a broad fixed income index, returned 5.9% during the fiscal year-to-date period. Treasury Inflation Protection Securities (TIPS), a subset of the fixed income universe, performed particularly well during the period, returning 9.7%, as measured by the Lehman U.S. TIPS Index. TIPS provide a hedge against inflation by increasing in value in response to an increase in anticipated inflation. Equity markets produced mixed results for the first six months of the fiscal year, with the strongest returns provided by non-U.S. equity markets. The MSCI All Country World ex-U.S. Index, a broad benchmark measuring the performance of equity markets outside the United States, returned 3.9% during the period. However, U.S. equity markets declined slightly on housing concerns and fears of an economic slowdown. The Wilshire 5000 Index, a measure of performance for the broad U.S. equity market, declined by 1.8% for the six months ending December 31, 2007.

As of December 31, 2007, SURS's projected funding ratio was 66.6%, a slight decline from the 68.4% funding ratio at the beginning of the fiscal year. □

Sub-Prime

In lieu of board president Mitchell Vogel's column, the SURS investment department contributed this article.

It's hard to read a newspaper or watch the evening news without hearing about the distress in the sub-prime mortgage market. You may have read or heard about large institutions suffering significant losses as a result of investing in these types of securities. Rest assured that SURS's exposure to and impact from the sub-prime mortgage market is

minimal. Approximately 1% of the portfolio is invested in sub-prime securities and the performance impact is estimated to be less than 0.1% through November 30, 2007. SURS's investments are high quality, broadly diversified, and professionally managed, continuing to provide retirement security for our members and annuitants.

Sub-prime mortgage securities are complicated securities that are collateralized by loans made to

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From the Desk of... Dan M. Slack, Executive Director



Here we go again! It's time for the state budget for state fiscal year 2009 (beginning July 1, 2008) to be determined.

The SURS Board of Trustees has provided the General Assembly and the Governor with the required state contribution to SURS. The Board of Trustees determines the

required contribution by calculating the amount required under the 50-year funding program established by the legislature in the mid-1990s by P.A. 88-593. For FY 2009, that amount is \$450,216,000. This is an increase of 32% over the required amount for the current fiscal year of \$340,320,000.

Please note that this discussion refers to the funding of the defined benefit programs maintained by SURS; the Traditional Benefit Package and the Portable Benefit Package. The Self-Managed Plan is a defined contribution plan, and the state contributions to it are appropriated and paid in full each year. That is because the right to receive the state contribution is constitutionally protected in the SMP.

While at first glance 32% may seem like a large increase, bear in mind that this increase was designed into the 50-year funding program. That program calls for a 15-year "ramp" to a 35-year period of contributions at a level percent of payroll.

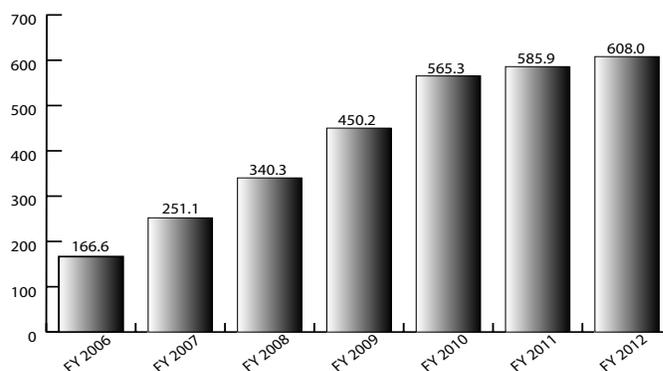
We are in year 13 right now. There are two more years of noticeable increases in the required state contribution to SURS and then the contributions are at a level percent of payroll, increasing if and as payroll increases. Varying investment returns will also impact the required contribution from year to year.

It is important to remember that the increasing costs to the state are the direct result of the failure to adequately fund the retirement system in past years. While each and every one of you paid your employee contribution into SURS every paycheck without fail, the state has consistently failed to pay the contribution required to comply with appropriate pension funding under the standards set forth by the Governmental Accounting Standards Board.

The state's 50-year funding plan will pay off 90% of that accrued debt by FY 2045.

But don't be fooled! The increasing state contribution is not because your benefits are too generous or too costly. The increasing state contribution is the mathematical function of amortizing the debt accrued by the state to the retirement system over decades of under-funding. The retirement system actuaries have determined the cost of the defined benefit plan benefits for FY 2009 as 9.94% of estimated payroll, or \$327.7 million.

Required State Contributions (in millions)



This is a critical year for the state to maintain the discipline to adhere to the funding program. There will be a lot of demands – and very worthy ones – on the state budget. Bear in mind that SURS is only one of the five state-funded retirement systems. While SURS has certified an increase in required contribution for FY 2009 of \$110.9 million, the combined year-over-year increase for all of the state-funded retirement systems is \$724.6 million. That is a large collective increase in a year when the economy is weakening and state revenues are not increasing as hoped.

The state's economic situation is anemic, and revenues in the current fiscal year are below the level anticipated. The state's FY 2008 budget anticipated \$1.6 billion in revenue growth. The most recent briefing from the Commission on Government Forecasting and Accountability estimated that it is possible that revenue growth in FY 2008 could struggle to reach \$1 billion. Should that be the case, the state will enter FY 2009 with a \$600 million budget "hole."

It will be another difficult year in Springfield as the Governor and the General Assembly craft the next state budget. As you talk to your legislator, remind him or her of the importance of maintaining the discipline to fund the retirement systems in accordance with the current funding law. □

Power of Attorney: What You Need to Know

The decision to retire is a momentous one. Good retirement planning involves asserting control over the unknown. One question to ask is, “Will I be able to make financial decisions for as long as I live?” As a prudent measure, many choose to appoint an agent through what is known as a Power of Attorney (POA).

An agent appointed with a POA can step in the shoes of the person signing the POA (known as the “principal”) and make the decisions with the same authority that the principal originally had. For example, a POA can provide access to retirement benefits if you become incapacitated due to illness or injury. As useful as a POA can be, a bad agent could cause much financial damage. Therefore, your first priority is to select an agent who has your highest confidence in his or her abilities and loyalty.

To protect the principal, POAs are subject to strict interpretation. No one, not even the courts, can enforce a POA beyond the authority that is granted under it. There have been a number of instances when SURS has received a POA, but was unable to grant the agent the type of control that may have been intended due to the language in the POA. The following is a short list of items you should discuss with your attorney when drafting a POA to give your agent the proper scope of authority to access to your SURS benefits when you need them most. This article is not a substitute for personal legal advice and should not be construed as legal advice to you.

Is it a durable POA?

All POAs remain in effect until the POA is revoked or terminated or when the principal dies. A durable POA will remain effective even if the principal becomes legally incapacitated. A nondurable POA will be revoked by law if the principal is legally incapacitated. This article focuses on the durable POA because it can be used to continue access to retirement benefits in the event that you become legally incapacitated due to a mental or physical condition.

To what extent will the agent be able to transact business with SURS?

To allow your agent to conduct business with SURS on your behalf, the POA should grant the authority

to manage accounts and make transactions involving SURS benefits. Frequently, a POA is drafted by default to give total control over retirement benefits to the agent. For instance, the Illinois Statutory Short Form Power of Attorney for Property (755 ILCS 45/3-3) allows the agent to contribute, withdraw, and make payment elections concerning the benefits of any retirement plan. Without modification, SURS will grant an agent under such a POA full access to the timing and manner of payments. The agent will be able to make address changes, sign benefit applications, and direct payments to bank accounts of his or her choosing. If you are uncomfortable with this level of control, then it would be prudent to have language in the POA limiting the scope of authorized acts of the agent with respect to retirement benefits.

Will the agent be able to change beneficiary designations?

SURS will not permit an agent to change beneficiary designations unless the authority to do so is explicitly contained in the POA. Please contact SURS if you have a beneficiary designation on file that was signed by a POA without this authority. Even if the power to generally designate beneficiaries is present, SURS will not permit an agent to name himself or herself as beneficiary unless a provision authorizing self-gifting is also present in the POA. Self-gifting may make sense if the agent is a close family member who is already a beneficiary. However, it might present serious conflict of interest issues.

When is the POA to begin and when is it to end?

The POA should clearly state when it is to take effect. Usually, the begin date is a date certain or the date a court determines your legal disability. A date certain is simpler, but also runs the risk of activating an agency when you do not need it. A POA will never extend beyond the death of the principal. You may want to consider stating the conditions or the date when the POA will terminate. Otherwise, you run the risk of forgetting years later that you have an agent authorized to act for you. If a POA is revoked in writing, please be sure to send the revocation to SURS and any other institution that received the POA.

Will there be successor agents?

If the agent becomes incapable or unwilling to act under the POA, a successor(s) may need to be ap-

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pointed. Having a line of succession in the POA will save time and allow the successor agent to step in at a time when you might not be able to draft a new POA yourself.

Have the agents provided specimen signatures?

Although not required in Illinois, an agent's specimen signature is a safeguard against fraud. Because SURS will not have as much information concerning the agent on file, the POA will often be the only means to verify the agency and the identity of the agent.

Has the POA been notarized and witnessed?

Have your signature on the POA notarized and witnessed to aid the court in determining the validity of the POA in the event of a challenge.

Has the POA been reviewed by legal counsel?

A POA is a very powerful legal document, forms for which can be bought or copied at little expense. Because of their legal ramifications, it is important to have an attorney review the POA to make sure the agent is given only what he or she needs to meet your needs, no more and no less. □

Disclaimer Reminder

All aspects of administration of the State Universities Retirement System (SURS), including but not limited to benefit calculation and payment, must comply with state and federal law. No employee of SURS has the authority to bind the System to take action contrary to law, even in the event of misstatement of fact or law.

Furthermore, while SURS correspondence reflects the current understanding of the law, this could change as a result of court opinions, statutory changes, or other matters (e.g., Attorney General opinions). Accordingly, SURS is required under law to correct any mistake in benefit amount, even after payments have begun.

Use of any information from SURS letters, forms, or any other document provided by SURS is for general information only and does not represent personal tax or legal advice either express or implied. You must seek professional legal or tax advice for personal income tax questions and other legal assistance. □

Sub-Prime Cont.

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borrowers characterized as sub-prime. What makes a borrower sub-prime? It could be a variety of things, such as low credit scores, little credit history, or loans with other types of observable credit risks such as high loan-to-value, low documentation provided to verify income, or second lien priority. These loans are packaged by Wall Street into residential mortgage-backed securities and structured into slices ("tranches") that can be priced and rated from AAA down to BBB-, based on the credit risk inherent in each tranche. AAA rated issues are best protected from the prospect of increasing borrower delinquencies and defaults, while lower rated tiers are less protected. It is important to note that mortgage securities can be comprised of sub-prime borrower loans and still maintain very high ratings from the rating agencies due to the structure of the credit enhancement to the most senior tranches. Looking at the SURS investment portfolio, of the small amount invested in sub-prime mortgage securities, approximately 96% are AAA rated, the highest possible credit rating.

What has happened to cause the unrest in the sub-prime mortgage market? Rising interest rates as well as stagnant or declining home values have resulted in increased delinquencies and defaults among sub-prime borrowers. As a result, prices of sub-prime mortgage securities have declined significantly, especially in the lower credit tranches.

Despite the weakness of the sub-prime market, the SURS fixed income portfolio is performing above benchmark on a fiscal year-to-date basis, returning a preliminary 6.03% vs. the 5.63% return of the Lehman Aggregate Index, through November 30, 2007. Rest assured that the SURS Board of Trustees, staff, external consultant, and investment managers will continue to monitor the impact of the sub-prime mortgage market on the overall investment portfolio. □

New Board Member: Marva Williams

Marva Williams was appointed to the SURS Board of Trustees on December 27, 2007, for a six year term. Williams has served as a Senior Program Officer for Chicago Local Initiatives Support Corporation since June 2007. She serves as a program officer in four Chicago communities participating in the New Communities Program, a comprehensive community development initiative.

From 1996-2007, Williams was the Senior Vice President of the Woodstock Institute. Her program areas include community development finance institutions (CDFI), financial services, and community reinvestment coalition-building. She is also the coordinator of the CRA Coalition. She has presented expert testimony on community development finance issues to the US Senate Banking, Housing, and Urban Affairs Committee, and the Illinois General Assembly.

Williams is involved in many community development finance efforts. She was a member of the Community Advisory Council of the Federal Reserve Bank from 2004-2007 and is a volunteer with the North Side Community Federal Credit Union. She is a member of the National Partnership on Financial Education, which is convened by the Consumer Federation of America, and has served as an adjunct lecturer at University of Illinois at Chicago (UIC) College of Urban Planning and Policy Analysis.

Williams was selected by LaSalle Bank to receive the 2004 Tom Gobby Community Leadership Award for her commitment to helping lower-income households access the financial mainstream and develop assets. She was recognized by National Center of Poverty Law for her work on financial literacy and by Illinois Representative Eddie Washington for supporting the establishment of a state community reinvestment policy.

Williams holds a Master of Urban and Regional Planning from the University of Pittsburgh and a Ph.D. in urban planning and public policy from Rutgers University's Bloustein School of Planning and Public Policy. □

Is Your Beneficiary Designation Correct?

It is extremely important that you maintain a current beneficiary designation with SURS. When a significant event occurs in your life such as marriage, birth, death, divorce, or any other change in family status, contact SURS to update your designation or visit the SURS Member Website at www.surs.org. □

SURS Assist

SURS does not endorse SURS Assist and is not affiliated with this program or any other financial institution that may offer retirement planning, with the exception of our Self-Managed Plan Providers.

If you have questions about choosing a retirement plan or would like additional information about retiring with SURS, please contact a SURS Benefits Counselor at 1-800-275-7877 or 378-8800 in the Champaign-Urbana area. □

Effective Interest Rates

The effective rate of interest for fiscal year 2008-2009 has been set by the SURS Board at 8.5% for the Traditional and Portable options.

The effective rate of interest for the Money Purchase Formula has been determined by the State Comptroller at 8.5% for fiscal year 2008-2009.

Both rates apply from July 1, 2008, through June 30, 2009. □

Employee of the Year 2007: Karen Maggio



Board president Mitchell Vogel (left), Employee of the Year Karen Maggio, and Executive Director Dan Slack.

Karen Maggio was named 2007 Employee of the Year during the annual SURS Employees' Recognition Luncheon. This award is the most prestigious peer recognition an employee can receive.

As an Executive Assistant, Karen keeps everyone at SURS on track. In their recommendations, staff noted her thorough understanding of SURS policies, eagerness to learn the new Human Resources and special filing document process, and her willingness to assist fellow employees.

Karen's pleasant disposition, dedication to her co-workers, and phenomenal work ethic are qualities that make her a role model for the entire organization. The employees and trustees of the State Universities Retirement System commend you and wish you many years of continued success. □

Self-Managed Plan Fund Change

Two changes to investment offerings in the Self-Managed Plan (SMP) became effective February 1, 2008. The Fidelity Growth and Income Portfolio is no longer an eligible SMP investment option due to prolonged underperformance of the fund relative to its benchmark. The Hartford Capital Appreciation Y Fund is a new addition to the line up of available options and is considered a suitable replacement for the Fidelity Growth and Income Portfolio. Participants invested in the Growth and Income Portfolio are encouraged to transfer those assets to another SMP investment option and to change future allocations to another SMP investment option.

If a participant is invested in the Fidelity Growth and Income Portfolio, directs contributions to the Fidelity Growth and Income Portfolio, or both, assets will be transferred automatically if no action is taken. Contributions originally set up to be invested in the Fidelity Growth and Income Portfolio were redirected to the Hartford Capital Appreciation Fund on February 1, 2008. All balances still invested in the Fidelity Growth and Income Portfolio will be moved automatically to the Hartford Capital Appreciation Y Fund on May 1, 2008.

Transferring Balances With the Same Provider

On any business day, assets already invested in an SMP investment option may be transferred to another investment option offered by the same Pro-

vider by calling that Provider or using the Provider's website. SURS does not need to be notified of this change.

Transferring Balances by Changing Providers

Once per calendar quarter, assets already invested in an SMP investment option may be transferred to another investment option offered by a different SMP Provider by using a Provider-to-Provider Transfer Form. This form is available on the SURS website (www.surs.org) and by calling SURS. After completing the form, the participant mails it to the Provider who currently holds the investment. This Provider forwards the form and assets to be transferred to the Provider who is to receive the assets. The participant receives confirmations from both Providers showing the transfer of assets.

Changing Future Allocations With the Same Provider

Changes to the percentage of contributions allocated between investment options offered by the same Provider may be done by contacting that Provider. SURS does not need to be notified of this change.

Changing Future Allocations Between Providers

Changes to the percentage of contributions allocated to each Provider may be done via the SURS Member Website or by calling SURS. □

Please note that the State Universities Retirement System does not endorse any provider of financial advice. Members seeking financial advice or planning assistance are encouraged to carefully select credentialed professionals.

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www.surs.org

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