



# The Advocate

## Budget Adds Buyout Options

The fiscal year 2019 state budget includes an accelerated pension buyout option for vested, inactive members; a 3 percent automatic annual increase (AAI) buyout option for Tier I members; and increased employer contributions for employee raises over 3 percent.

On June 4, a full-year state budget for FY 2019 was signed into law by Gov. Rauner. The actual

budget bill (PA 100-0586) appropriates \$1,585,109,800 for SURS' annual required state contribution. The certified FY 2019 state contribution to SURS is \$1,655,154,000. Under the State Pension Funds Continuing Appropriation Act, SURS is entitled to the amount of the certified state contribution each year. If the appropriated amount in the budget bill is less than the certified contribution, SURS can and will seek payment of the full certified contribution from the state comptroller.

The FY 2019 budget implementation law (PA 100-0587) was also signed. It amends the Illinois Pension Code to provide two accelerated pension payment options (buyouts) and a reduction to the "6% Salary Increase Cap" that impacts employer payments.

**See BUDGET on Page 7**



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## Newcomer, two incumbents win board election

Steven Rock and Collin Van Meter were elected on May 2 to serve on the SURS Board of Trustees by the System's active members. John Engstrom was elected to serve as an annuitant trustee. Their six-year terms began July 15.

Rock, a current trustee, has taught economics at a number of Illinois institutions over the years. Most recently, he was at Western Illinois University (1990-2018). Prior to that he worked at Northern Illinois University (1986-1990), Illinois Institute of Technology (1978-1986), and the University of Illinois Chicago (1975-1978). He has a doctorate from Northwestern University.

Van Meter is a member of the Information Technology Services Unit at South-



Steven Rock



Collin Van Meter



John Engstrom

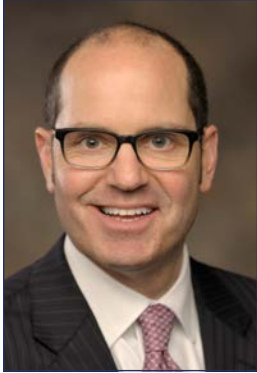
ern Illinois University Edwardsville. He assists faculty, staff and students with the implementation and utilization of educational technology across the university. Van Meter has worked in the IT field for the last 13 years.

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## FROM THE EXECUTIVE DIRECTOR

# Working to Serve You Better

Fiscal year 2019 will be a year of opportunity and hard work at SURS. As is explained in detail in the cover story Budget Adds Buyout Options, the state Legislature in May approved two optional buyout



**Martin Noven**

plans for eligible SURS members. These two plans offer irrevocable accelerated benefit payments to eligible members.

SURS staff will be working

over the next several months to develop an implementation plan. We will then create the programming to implement the procedures and calculate buyout payments. It will be a very intricate process. We will communicate details to all eligible members as soon as possible.

Staff has updated our online retirement estimator to take into consideration the reduction to the Money Purchase Factors that will occur on July 2, 2019. This factor

change affects only SURS members whose benefit is determined to be highest under the Money Purchase calculation. By using the online estimator, members can see how their retirement benefit may decrease after the effective date and will be able to adjust their retirement date if necessary.

We are in the process of restructuring the Self-Managed Plan (SMP) to better address the retirement needs of the growing percentage of our members who are electing this option as their core retirement plan. Our SMP team has begun working with a dedicated defined contribution consultant to identify the most secure, appropriate and cost-effective investments for our members.

To better understand what changes SURS needs to make in coming years regarding technology, personnel, education and space requirements, SURS is undergoing an operational review.

Suggestions from our consulting firm will help us plan for future updates and expansions in order to provide the best service possible to our members.

We will be reporting these findings and future changes to members as they are implemented.

The optional hybrid plan created by PA 100-0023 will be implemented if and when the Legislature passes a trailer bill that would enable SURS to create the plan. Efforts to pass the bill have stalled. As a result, the plan implementation is on hold.

Finally, SURS outreach team is working on new educational materials – including virtual seminars, webinars and videos – to help members make well-informed plan choice decisions at the start of their careers. We have found that many of our new members default into a retirement plan rather than making a deliberate choice.

This education effort will also include useful information on income replacement in retirement, what percentage of your working income you will need to maintain a good standard of living, what supplemental savings plans you should consider and the cost of health care.

If you have questions or issues you would like addressed, please contact me at [mnoven@surs.org](mailto:mnoven@surs.org).

### SURS Fiscal Year 2018 Appropriation

Month	Total Received	Total Due	Amount Owed
July 2017	\$683,300	\$146,140,417	\$145,457,117
August 2017	\$644,000	\$146,140,417	\$145,496,417
September 2017	\$73,443,558	\$146,140,417	\$72,696,858
October 2017	\$146,412,797	\$146,140,417	(\$272,350)
November 2017	\$161,125,917	\$146,140,417	(\$14,985,500)
December 2017	\$171,039,417	\$146,140,417	(\$24,899,000)
January 2018	\$264,001,583	\$125,410,851	(\$138,590,732)
February 2018	\$819,000	\$125,410,851	\$124,591,851
March 2018	\$123,497,384	\$125,410,851	\$1,913,467
April 2018	\$127,043,003	\$125,410,851	(\$1,632,152)
May 2018	\$234,907,351	\$125,410,851	(\$109,496,500)
June 2018	\$251,002,992	\$125,410,851	(\$125,592,141)
Total FYE	\$1,554,620,272	\$1,629,307,606	\$74,687,334
July 2018	\$74,687,334		
Total (as of July 25)	\$1,629,307,606	\$1,629,307,606	\$0

**Total Certified FY 2019 Appropriation**  
\$1,655,154,000 (\$758,000 of \$137,929,500 due was paid as of July 25)

**Total FY 2017 Appropriation**  
\$1,671,426,000  
Paid in full by Sept. 22, 2017

**Total FY 2016 Appropriation**  
\$1,601,480,000  
Paid in full by Aug. 26, 2016

**Total FY 2015 Appropriation**  
\$1,544,200,000  
Paid in full by Aug. 26, 2015

**Total FY 2014 Appropriation**  
\$1,509,766,000  
Paid in full by July 30, 2014

# INVESTMENT UPDATE

## 2018 Fiscal Year-To-Date Investment Results

Despite weak financial markets during the first quarter of calendar 2018, the SURS portfolio returned +7.2 percent for the fiscal year-to-date period, net of fees, exceeding the +7.1 percent return of the policy portfolio benchmark.

Both U.S. and non-U.S. equity markets posted double digit returns for the fiscal year-to-date period. U.S. equity markets produced the highest returns during the period, returning +10.5 percent, as measured by the Dow Jones U.S. Total Stock Market Index. Non-U.S. markets followed closely, returning +10.2 percent, as measured by the MSCI All Country World ex-U.S. Index.

Rising rates in the U.S. led to small declines in U.S. fixed income markets in the first calendar quarter of 2018 and also in the fiscal year-to-date period. The Bloomberg Barclays U.S. Aggregate Index, a broad index of investment grade fixed income securities, returned -0.2 percent during the period.

Investments in the commodities and emerging market debt markets provided positive returns during the

period. The Bloomberg Commodity Index returned +6.9 percent during the period, while a custom index of emerging market debt securities returned +5.5 percent.

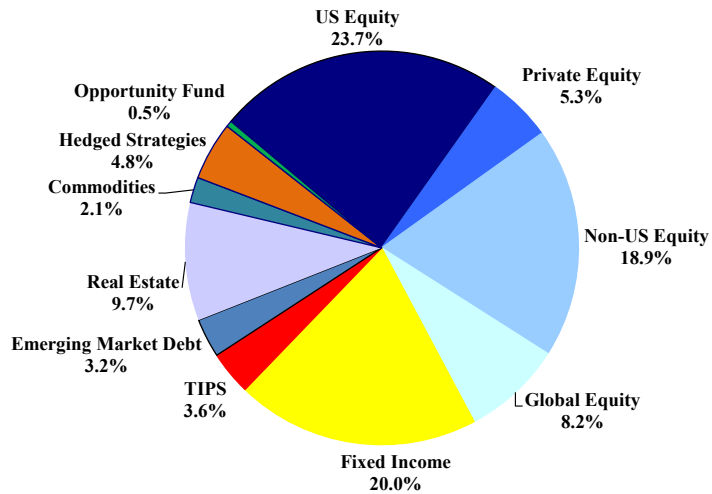
The SURS investment portfolio is broadly diversified across several asset classes in an attempt to appropriately manage the risk of the overall portfolio. The pie chart above illustrates the asset allocation of the portfolio, as of March 31, 2018.

As of March 31, 2018, the SURS investment portfolio is valued at ap-

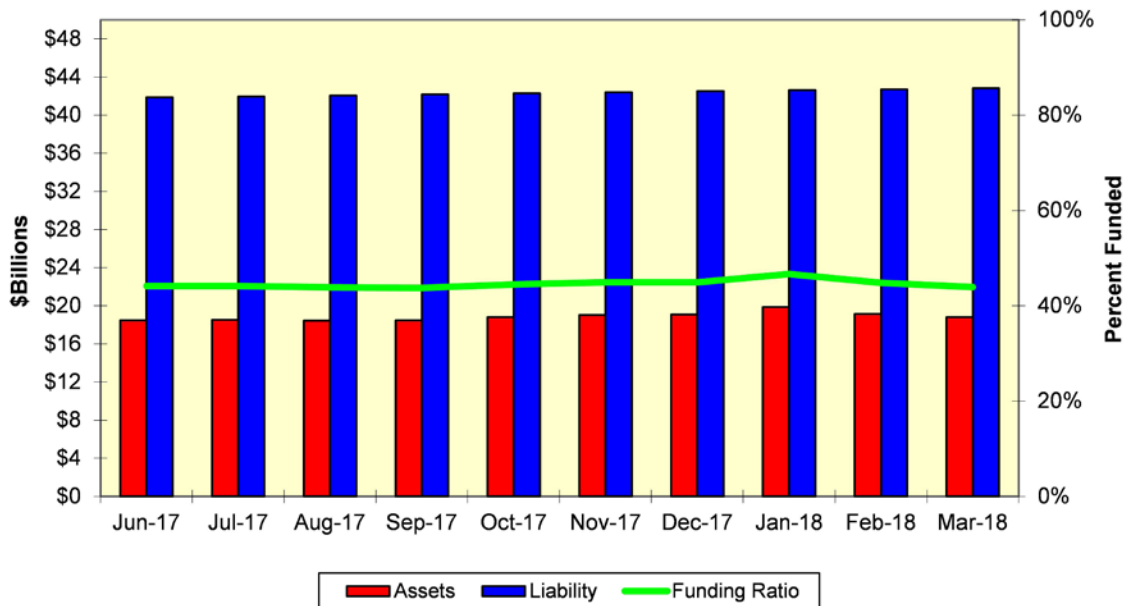
proximately \$18.8 billion, compared to \$18.5 billion, as of June 30, 2017.

As shown in the bar chart below, estimated liabilities as of March 31, 2018, are \$42.8 billion, resulting in an unfunded liability of approximately \$24.0 billion (using the market value of assets method).

The projected funding ratio is estimated to be 43.9 percent, using the market value of assets method, compared to the 44.2 percent funding ratio at the beginning of the fiscal year.



## SURS Projected Funding Status 2018 Fiscal Year-to-Date Results



Note: Assets and liabilities are estimated and unaudited through Mar. 31, 2018. The fund has an actuarial value funding ratio of 44.4 percent at the end of fiscal year 2017, utilizing a 7.25 percent assumed rate of return



## LEGISLATIVE UPDATE

### Optional Hybrid Plan Update

The General Assembly has not passed legislation that would implement the Optional Hybrid Plan created by Public Act 100-0023 (effective July 6, 2017). House Amendment #2 to Senate Bill 779 contains the changes required for SURS to move forward in obtaining IRS approval for the plan. The legislation advanced to third reading in the House, but was not called for a floor vote. The bill would have to pass the House and Senate to become law. It is currently in the House Rules Committee.

### Buyouts

As part of the FY 2019 budget (Public Act 100-0587), the General Assembly provided two buyout options for eligible SURS members: (1) a buyout of pension benefits for vested inactives; and (2) a buyout of automatic annual increases (AAIs) on retirement and survivor's annuities for Tier 1 members.

The buyout of pension benefits for vested inactives is available to individuals no longer working for a SURS employer who have a minimum of five years of service credit and began participation in SURS before Jan. 1, 2011, or who have a minimum of 10 years of service credit and began participation in SURS on or after Jan. 1, 2011. The buyout is a lump-sum payment equal to 60 percent of the present value of the pension benefits to which the member is entitled under SURS.

The buyout of the AAIs on retirement and survivor's annuities for Tier I members is available to individuals who first became participants in SURS before Jan. 1, 2011. The individual must meet the age and service credits necessary for retirement under SURS: any age with 30 years of service; age 55 with eight years of service; and age 62 with five years of service. (NOTE: There are also special age and service credit requirements to retire under the alternative formula for police and firefighters.) The buyout is a lump-



sum payment equal to 70 percent of the present value of the difference between: (1) the 3 percent compounded AAI (beginning the Jan. 1 after retirement); and (2) an AAI equal to 1.5 percent of the originally granted annuity (beginning the Jan. 1 on or after the later of age 67 or one year after retirement). In exchange for the buyout, the member will have his or her future AAIs on retirement and survivor's annuities calculated using the reduced and delayed AAIs.

Eligible members can elect a buyout option until June 30, 2021. Buyouts will be made available at a future date determined by the SURS Board of Trustees and will be financed through the issuance of \$1 billion in bonds (for the State Employees Retirement System, SURS, and Teachers Retirement System, combined). The buyout options are not available for Self-Managed Plan participants or existing retirees.

### 6% to 3% Rule

Additionally, as part of the FY 2019 budget, the General Assembly changed the "6% Rule" to a "3% Rule." Prior to PA 100-0587, the employer was responsible for paying the cost of pension benefits attributable to salary increases in excess of 6 percent during the period of

time used to calculate an employee's pension. (Generally, for Tier I employees this period is the highest four consecutive academic years of employment, and for Tier II employees it is the highest eight out of the last 10 consecutive academic years of employment.)

Now, for academic years beginning on or after July 1, 2018, if a salary increase exceeds 3 percent and occurs during the period of time used to calculate an employee's pension, the employer must pay the present value of the cost of the pension benefits attributable to that salary increase. However, contracts and collective bargaining agreements entered into, amended or renewed prior to June 4, 2018, remain subject to the "6% Rule."

### Voluntary Supplemental DC Plan

This spring, the General Assembly also passed legislation that creates an optional, supplemental defined contribution plan for SURS members. SURS members can make voluntary employee contributions to this plan to supplement the retirement benefits provided by the state. Specifically, for Tier II members who are limited by the Tier II pensionable earnings limit that is not indexed to the Social Security Wage Base, the supplemental plan will allow contributions on earnings above the earnings limit (which is \$113,644.91 for FY 2019).

Additionally, as Tier II members have a reduced defined benefit when compared to Tier I members, the supplemental defined contribution plan will provide a low-cost, efficient and well-run option to help close the gap between what a Tier II member needs to maintain his or her standard of living in retirement and the amount of the actual retirement benefits provided by the state.

SURS will notify members when the supplemental defined contribution plan is implemented. Under the legislation, participation in the supplemental defined contribution plan is available to all employees who are participants in SURS.

# Money Purchase Factors to Change Next Year

On July 2, 2019, the factors used to calculate SURS retirement benefits under the Money Purchase calculation will change. The changes to the factors are a result of SURS recent actuarial experience study that recommended a reduction of the assumed rate of investment return and updated mortality tables to reflect an overall increased life expectancy.

The SURS board voted in March to reduce the long-term assumed rate of investment return from 7.25 percent to 6.75 percent. This rate impacts Money Purchase factors used in calculating retirement benefits. When SURS calculates a retirement benefit, all eligible calculation types are performed and the annuity is based on the calculation that provides the highest benefit.

For members retiring on or after July 2, 2019, under the Money Purchase calculation, the change in factors will result in an average 5 to 6 percent reduction in their monthly annuity. Members can offset the reduction by delaying retirement by approximately six to seven months for active participants and nine months for inactive participants.

The changes to the Money Purchase factors will not affect:



- Current annuitants
- Survivor benefit recipients
- Self-Managed Plan members
- Members who began participation on or after July 1, 2005
- Members whose benefit is highest under the General Formula calculation

Retirement calculations are unique to each individual member. For this reason, SURS encourages all members who are considering retirement in the next two years and who might be affected by the Money Purchase

factor changes to log in to their account on the SURS Member Website and utilize the benefit estimator.

By calculating estimates for retirement dates before and after the July 2, 2019, effective date, members can gain a clearer picture of how the factor changes could impact benefits.

For more information, read the Money Purchase Factor Change Fact Sheet at [www.surs.org/fact-sheets-charts-brochures](http://www.surs.org/fact-sheets-charts-brochures) or view the Money Purchase Factor Change Video at [www.surs.org/videos](http://www.surs.org/videos).

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## SELF-MANAGED PLAN UPDATE

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The Self-Managed Plan (SMP) is SURS defined contribution plan. Participant assets were approximately \$2.29 billion as of March 31, 2018, which equates to an average account balance of \$109,296 per each of the 20,972 SMP participants. These figures are up from the March 31, 2017, average balance of \$96,192 with 20,464 participants, an increase of 13.6 percent and 2.5 percent respectively.

The average asset allocation as of March 31, 2018, was 51.9 percent Equities, 30 percent Balanced and 16.2 percent Fixed Income. The remaining 1.9 percent was attributable to Real Estate.

SURS is pleased to announce that

Cammack Retirement Group has been contracted to provide consulting services to the SMP. The SMP has reached nearly \$2.3 billion in assets. SURS felt that it was time to hire a consultant dedicated strictly to the plan. In the past, one consultant had been working with both the defined benefit and defined contribution plans. Plans are in place to explore numerous areas that impact SMP members with a goal of continuing to improve the SMP for members.

If you are new to the SMP or would like to learn more about the plan, SURS offers a quarterly webinar titled “Navigating the SMP.” Dates are posted on the SURS website as soon as they are set. The

next webinar is scheduled for Aug. 9 at 9:30 a.m. If interested in enrolling in the webinar, please log on to the SURS website and click on the Seminars & Webinars box.

SURS also offers individual counseling appointments for those nearing retirement. If you are within four years of retirement, you may either enroll via your SURS Member Website homepage or contact SURS at 800-275-7877 to request an appointment. During this 30-45 minute appointment, discussion centers around topics such as service credit, retirement options, health insurance, the application and retirement process, taxes and return to work restrictions.



## INSIDE SURS

# IT team plays major role behind the scenes

The IT Infrastructure and Operations team is responsible for some of the most vital, even if often unseen, roles at the State Universities Retirement System.

Director of IT Infrastructure and Operations Cindy Gones leads the team. She has worked for SURS for 37 years, starting as a consultant before becoming an employee 21 years ago. Six of the 10 team members joined SURS at the same time as Gones.

The primary mission of the team is to provide highly available infrastructure, excellent support, and innovation in the delivery of information technology products and services that promote the enablement and productivity of SURS.

Some of the major areas the team is responsible for include helpdesk support, pension benefits application system administration and support, IT infrastructure, telecommunications, printing, operations, security (cyber and physical), and business continuity.

“Life is never dull in IT. Due to the fast paced changes in technology we are required to constantly learn new things and keep our skills sharp,” Gones said. “We have the opportunity to work both on individual projects as well as group projects; we all enjoy collaborating to solve business problems and satisfying staff.”

The team has been busy the last several years upgrading the network and infrastructure to support current and upcoming initiatives. Some of those initiatives that have already been completed include:

- Implemented a Voice over Internet Protocol (VoIP) phone system and Contact Center Management. This allows SURS to better serve members via phone and email.
- Replaced the Data Center Uninterruptible Power Source (UPS) to ensure continuous power to the network.
- Migrated disaster recovery to a cloud-based solution that would allow for SURS to get back up and running quickly offsite should a disaster occur.



- Upgraded and expanded the security camera system for SURS offices.

IT projects in process or planned include:

- Building safety refresh of data center fire suppression system, building access controls and fire alarm system
- Office 365 implementation
- Windows 10 desktop migration
- IT operational consolidation

“The biggest challenge we face as an IT organization is the need for constant agility to adapt to ever-changing requirements and workload,” Gones said. “New legislation that impacts pensions systems always leads to major unplanned projects; requiring us to juggle time, resources and finances to make sure we can comply with the new requirements.”

“Another challenging area is cyber security. As malicious actors continue to evolve their attack vectors in the search of vulnerabilities, so too must we evolve our defense posture to safeguard our member data. Every SURS employee is also a member; we treat data as if it is our own, because it really is.”

## ELECTION from Front Page

Van Meter has a bachelor’s degree in political science from Illinois College and a master’s degree in computer management and information systems from SIUE.

There was one elected annuitant seat open on the board. Engstrom, a current board member, was the only candidate to return petitions with the necessary 100 signatures to qualify for the seat. For that reason, it was not necessary to hold an annuitant-trustee election.

Engstrom, who is retired from Northern Illinois University, began serving a new six-year term on July 15.

SURS conducted the election from April 2 - May 1, 2018, with three candidates vying to fill two active board member terms.

Voting was handled by Election-America, an impartial election service company.

The vote totals were: Steven Rock - 2,925; Collin Van Meter - 1,797; and Tim Spila - 1,775. There were 72,453 SURS members eligible to vote.

# SURS, consultant working on asset-liability study

SURS recently retained Pension Consulting Alliance, LLC (PCA) as its new general investment consultant. As one of its first key assignments, PCA is working with staff and the board of trustees on an asset-liability (AL) study to determine an appropriate long-term investment allocation policy for SURS assets.

This is a critical step as the continued growth of SURS assets is a necessary component to achieving long-term sustainability. SURS last conducted an AL study in 2014.

Two key considerations of the study are determining the key investment beliefs and objectives of the board, and the review of functional roles of SURS' assets.

Given the challenging funded status of the System and the growing cash flow requirements to pay benefits, it is critical that any allocation policy approved by the board generate returns that meet or exceed SURS' long-term investment objectives, while seeking to minimize the potential for near-term negative surprises.

The AL study will be organizing



“Given the complexities in the global investment markets today, policy-makers need to remain vigilant and focused on how specific asset types and investment vehicles will best serve the System.”

**Neil Rue**

PCA managing director

SURS' assets within a functional framework rather than the traditional descriptive-oriented asset-based

framework, which means that assets will be grouped by similar risk profiles, rather than asset class name.

“Given the complexities in the global investment markets today, policy-makers need to remain vigilant and focused on how specific asset types and investment vehicles will best serve the System,” said Neil Rue, managing director at PCA.

“A functional-oriented/purpose-driven investment policy helps bring the needed clarity to the allocation process.”

## BUDGET from Front Page

Changes to the Illinois Pension Code include:

- **Pension Buyout for Vested, Inactive Members** – this option offers a pension buyout in an amount estimated at 60 percent of the present value of pension benefits for all members who have a vested pension but are no longer active members of SERS, SURS and TRS.
- **3 Percent Automatic Annual Increase (AAI) Buyout** – this option provides retiring Tier I members an option to have their AAI calculated at 1.5 percent of the originally granted retirement annuity and delayed until the later of the Jan. 1 after they turn 67 or 1 year after retirement in exchange for an accelerated pension benefit payment equal to 70 percent of the difference between the present value of the AAI under the Tier I provision (3 percent compounded annually, beginning on the Jan. 1 after retirement) and the present value of an AAI of 1.5 percent of the originally granted retirement annuity, beginning on the Jan. 1 after the later of age 67 or 1 year after retirement. The reduced and delayed AAI also

applies to any applicable survivor's benefits.

- **Percentage of Salary Increase Requiring Employer Payment** – this change reduces the percentage of salary increase in the final average earnings period requiring employer contributions from 6 percent to 3 percent starting for academic years beginning in FY 2019. Any pension costs due to a salary increase over 3 percent will be covered by the employer, except for increases covered under certain contracts or collective bargaining agreements entered into, amended or renewed prior to June 4, 2018 (which are subject to the 6 percent requirement).

These changes do not apply to members enrolled in the SURS Self-Managed Plan or retirees.

The law stipulates that the buyouts take effect “as soon as possible.” SURS is reviewing the laws and determining what processes and programs are needed for proper implementation.

More detailed summaries of PA 100-0586 and PA 100-0587 are available at [www.surs.org/legislation](http://www.surs.org/legislation).

# SURS Educational Seminars & Webinars

## SEMINARS

### Defined Benefit Retirement Education Seminars

#### Champaign (9 a.m.-2:15 p.m.)

Sept. 27 – University Employees (State Insurance)

Oct. 10 – Community Colleges (CIP Insurance)

Oct. 23 – University Employees (State Insurance)

Nov. 8 – Community Colleges (CIP Insurance)

#### Naperville (9 a.m.-2:15 p.m.)

Oct. 4 – Community Colleges (CIP Insurance)

Nov. 1 – University Employees (State Insurance)

## WEBINARS

### Navigating the Self-Managed Plan

Aug. 9 (9:30-11 a.m.)

Nov. 15 (9:30-11 a.m.)

### From Here to Retirement

Sept. 20 (12-1 p.m.)

### Money Purchase Factor Change

Oct. 24 (1:30-2:30 p.m.)

### Understanding Your SURS Benefits – Tier I & II

Nov. 7 (9:30-11 a.m.)

### Choosing Your Retirement Plan

These plan choice webinars are presented each month for Tier II members who have not yet made a retirement plan choice. Tier II members are SURS participants who first begin their SURS (or other eligible Illinois reciprocal system) participation on or after Jan. 1, 2011.

Webinars will be presented from 9:30-11 a.m. on Aug. 28, Sept. 25, Oct. 30, Nov. 27, Dec. 18.

For additional information about seminars and webinars, and to register, go to [www.surs.org/seminars-webinars](http://www.surs.org/seminars-webinars).



## Virtual seminar available for Tier II SURS members

SURS is offering a virtual seminar for Tier II members enrolled in the Traditional or Portable Plans who are close to retirement. Members who began contributing to SURS on or after Jan. 1, 2011, are Tier II.

The seminar includes a general SURS overview presentation, a Social Security presentation and two different presentations on insurance benefits after retirement – one on State Insurance (SEGIP) for university employees and one on the College Insurance Program (CIP) for community college employees.

Go to [surs.org/seminars-webinars](http://surs.org/seminars-webinars) for more information about this seminar.

## Stay Informed! Keep Email Updated

To make sure you receive all important information from SURS, you must keep your email address up to date and open emails SURS sends you. If you do not open emails, eventually your address will be tagged as “inactive” and removed from our list. The best way to update all of your personal information is through the secure Member Website.



**Member Website Login**

You can safely update your email address, phone number(s), home address and beneficiaries by clicking the “Member Website Login” button in the top right-hand corner of the SURS website at [www.surs.org](http://www.surs.org). If you have not registered on the Member Website, you will need your SURS Member ID number, the last four digits of your Social Security number and your birthdate to go through the easy registration process.

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**Executive Director:** Martin Noven

*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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