

SURS Has New Executive Director

After months of researching the best candidate for the job, the SURS Board of Trustees selected Dan Slack as the new Executive Director of SURS at their December 9, 2005 meeting. Slack has been General Counsel of the State Universities Retirement System of Illinois since September 1998. From 1991 until joining the System, he provided legal advice to SURS as contract counsel. He has been filling the role of interim Executive Director since James Hacking's departure in August 2005.

Slack graduated from the University of Illinois with a Bachelor of Arts degree in 1978 and a Juris Doctor in 1983. Between undergraduate and law school, he worked in the shipping business in New Orleans. From 1983 to 1985, he was a lawyer with the firm of Elliott & McClure in Bourbonnais. He was also an Illinois Assistant Attorney General from 1985 through 1989 and served as Director of the Attorney General's regional office in Rock Island.

From 1989 until joining SURS, Slack was a lawyer and partner since 1993 in private practice with the firm of Thomas, Mamer & Haughey in Champaign, where he concentrated in pension law, estate planning, business representation and real estate.

Slack is married and has three daughters. His hobbies are all mountain related. □

Legislative Update

The legislature has concluded its Spring 2006 session. There are two pieces of legislation passed this spring that you might find of interest. These bills will go to the Governor for his consideration.

Senate Bill 49

Senate Bill 49 (SB 49) makes several changes to the "6% provision" made last year in Public Act 94-4. The 6% provision requires employers to pay to SURS the actuarial value of any increase in benefits caused by earnings increases in excess of 6% year-over-year during a participant's final rate of earnings period. The 6% provision does not cap or limit a participant's benefit, it merely requires the participant's employer to pay SURS the actuarial value of a portion of a participant's benefit, where

the limit is exceeded. SURS has promulgated a rule on the 6% provision as enacted. Of course, if SB 49 is enacted into law, SURS will modify the rule to reflect the changes in the law.

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Investment Update

Fiscal Year-to-Date Results

As of March 31, 2006, the SURS investment portfolio is valued at nearly \$14.5 billion. The portfolio is broadly diversified and is invested in U.S. and international stocks and bonds, real estate and private equities.

The SURS investment portfolio is off to a strong start for the first nine months of the fiscal year, posting a net of fee return of 12.2%. This total fund return matched the policy portfolio benchmark return of 12.2%. The portfolio's investments in stocks proved most beneficial to the SURS portfolio as equity markets staged significant rallies in the first nine months of FY'06.

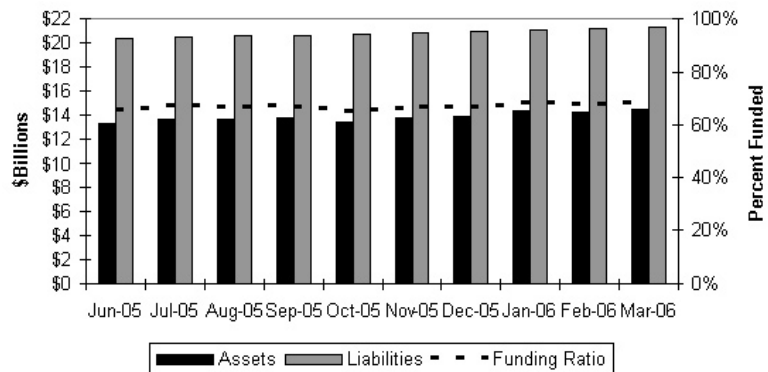
International equity markets provided the strongest returns, and the U.S. equity markets also surged in the period. The MSCI All Country World ex-US Index, a broad benchmark measuring the performance of equity markets outside the United States, returned 27.9% from July 1, 2005, through March 31, 2006. The Wilshire 5000 Index, a measure of performance for the broad U.S. equity market, returned 12.1% during the same period. Fixed income markets, however, declined slightly during the first nine months of the fiscal year in response to rising interest rates in the United States. The Lehman Brothers Universal Index, a broad measure of the performance of fixed income markets in the U.S., returned -0.2% for the fiscal year-to-date period.

As of March 31, 2006, SURS's projected funding ratio was 68.0%, a modest improvement from the 65.6% funding ratio at the beginning of the fiscal year.

Manager Development Program Implementation

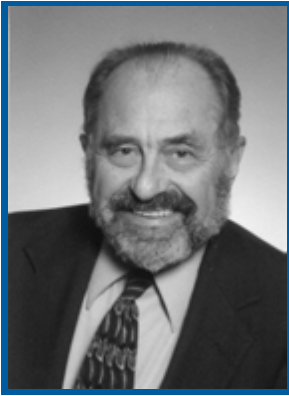
The fixed income portion of the Manager Development Program (MDP) has recently been implemented, and three fixed income firms have been awarded allocations in the program. The three fixed income firms join the eight domestic equity firms already in place in the MDP. The Manager Development Program was created by the SURS Board of Trustees in March 2004 in response to the call by the then-named Senate Select Committee on Public Pension Investments to increase the utilization of minority and female-owned investment management firms. When fully implemented, the initial allocations to the MDP will total approximately \$230 million. The remaining segment of the Manager Development Program, the non-U.S. equity component, will be implemented in the coming months with the anticipated hiring of one or two additional investment management firms. □

Fiscal Year-To-Date Results



Here They Go Again!

By: Mitchell Vogel, SURS Board President



Here they go again! In my first column, I commented on how many in the economic forecasting and prescription business viewed us and our pension under funding as a liability. I commented at the time that I saw us as assets and hence this series of columns began. Well, now it has happened again.

On February 28, the Research Director for the Civic Federation issued a number of recommendations for the improvement of our pension systems solvency. The Civic Federation of Chicago is a very influential force in Illinois. It was founded in 1894 and is funded primarily by major corporate and professional service firms in the Chicago area. While the report called for an end to under funding, it also criticized the composition of public pension boards. In fact, this criticism appeared to be their major focus at a public meeting.

According to the report, a major problem with the Board's composition was that the trustees were too beholden to the annuitants and participants of the system. There was no criticism of the Board's investment strategies, their stewardship of the funds and their operating procedures. However, the report was concerned that no one on the Board was speaking for what the Civic Federation considered to be

the public interest. They claimed that the Boards "favored the interests" of their employees and their annuitants and "lacked independent citizen representation."

What they didn't mention was that Illinois state law requires public pension boards and their trustees to operate as "fiduciaries" of the system. In other words, the decisions made by the trustees must be made utilizing the criteria of what is in the best interests of the annuitants and participants. Questions of public interest must be secondary.

There is obviously a disconnect between the law requiring SURS trustees utilizing a fiduciary criteria and the Civic Federation's criteria of "public interest." The public interest has legitimate social, political, and economic needs that our public pension funds can work to ameliorate. We have done that. We have increased our investments in Illinois industries, increased our use of women and minority investment managers, we have cut off investing with those guilty of sexual harassment and recently are developing programs to divest investment in Sudan. We have found ways to do this without jeopardizing the overall health of your fund. These adaptations in our investment strategy are secondary to our primary aim. For example, we can find profitable Illinois industries which will produce good returns on your investment. Our fiduciary responsibility can be met as long as we are beholden to our fund and its annuitants and participants. It must remain the prime focus. If we adopted the Civic Federation's plan, the well being of the fund would be secondary.

What the Civic Federation cites as a liability is, in reality, an asset. □

Thank You

Dear Members,

Please allow this note to serve as a formal thank you to the almost 200 writers who emailed me concerning the search for a SURS Executive Director. I am sorry I couldn't respond to each of you personally, but I want you to know I appreciated your comments about the desired characteristics and experience for the important position. I am sure our choice of Dan Slack met your criteria. Thank you for your advice and counsel.

- Mitch Vogel

From the Desk Of...

Dan M. Slack, Executive Director

I am pleased and honored to have been chosen by the Board of Trustees to be the Executive Director of SURS. I first began to work for SURS as outside legal counsel in 1991. In 1998, I joined SURS as its General Counsel, and also became its Associate Executive Director in 2003. I am fortunate to have a job where I have a very clear mission – to act to preserve and protect the benefits of all of you.

During these past 15 years I have continually been impressed by the service orientation of the SURS staff. The employees of SURS take pride in providing high quality service to our membership. We plan to continue our efforts to provide such service to you.

When I first began to do work for SURS in the early 1990s, the big issue was adequate funding of the System. Fifteen years later, the big issue remains adequate funding of the System. The Board of Trustees has established adequate and secure funding as a matter of the highest priority.

With the enactment of Public Act 94-4 in the 2005 legislative session, the state contributions to SURS were fixed for state fiscal years 2006 and 2007 at \$167 million and \$252 million, respectively. Had P.A. 94-4 not been enacted, SURS would have

received \$325 million and \$392 million, respectively, as the state contributions to SURS. The big test for the state will come in the spring of 2007, when the state budget for fiscal year 2008 is developed. Absent further legislation, the state will return to the 50-year funding program designed to move SURS to a 90% funded status by fiscal year 2045. This will require the state to



“The employees of SURS take pride in providing high quality service to our membership”

increase the contribution to SURS by an expected \$100 million. The actual amount of increase will

be known after the actuarial valuation for the current fiscal year (2006) is completed and the five year actuarial experience study is done this fall.

So far this fiscal year, SURS’s investment return has exceeded our expectations. The fiscal-year-to-date return through April has been 14.0%, bringing SURS funding ratio to 68.5%.

In closing, I want to thank the many of you who have been kind enough to express your confidence in me. I will do my utmost to live up to all of your expectations. □

New Counseling Appointment Procedure

Effective February 1, 2006, members can make an appointment with a retirement counselor after they have completed and returned a Retirement Estimate Request Form.

If you are interested in meeting with a counselor, call SURS to request an appointment. We will then send you a Retirement

Estimate Request form. You will have 120 days to complete this form and return it to our office.

Upon receipt of this form, we will send you a letter asking you to contact us to schedule an appointment time.

This new process helps our retirement counselors provide you

with the most accurate information for your appointment.

You must be within four years of retirement eligibility to request an appointment. Eligible members can receive a written estimate or counseling appointment once every 12 months. □

SURS Welcomes Kelly Jenkins as General Counsel

The SURS Board of Trustees has selected Kelly Jenkins for the position of General Counsel. Jenkins replaces Dan Slack, who accepted the position of Executive Director of SURS.

Before joining SURS, Jenkins was General Legal Counsel for Montana Public Employees' Retirement Board. In this position, he represented the Board of Trustees in administrative contested cases and served on the Management Team. Prior to his career at Montana Public Employees' Retirement Board, Jenkins was the sole owner of a private law practice. He provided a wide range of civil law services and authored a successful statewide ballot initiative specifying lobbyist financial disclosure standards.



Jenkins received his Bachelor of Science from the University of Wyoming and his Juris Doctor from Northwestern University Law School. He is a member of the National Association of Public Pension Attorneys (NAPPA). He now resides in Champaign with his wife, Carrie. □

Douglas Wesley is New SURS Deputy CIO

The SURS Board of Trustees selected Douglas Wesley as the Deputy Chief Investment Officer. He is responsible for the day-to-day investment operations of the defined benefit (DB) plan. He replaces Dan Allen, who accepted the position of Chief Investment Officer.

Wesley received his Bachelor of Science and Masters from the University of Illinois. He became a CFA charterholder in 2003. Before rejoining SURS, he was a Senior Investment Officer for Indiana PERF. Prior to that, Wesley served as an Investment Officer, Investment Analyst, and Internal Auditor for SURS. He has been married to Miki for over ten years and has a daughter, Hannah and a son, Samuel. □



Attention: Inactive Participants

Are you...

- A member of SURS, but are no longer actively working for a community college or university in Illinois?
- At least age 55 with eight or more years of service credit, or at least age 62 with five years of service credit?

If so, you may be among the number of inactive SURS participants who are eligible to receive retirement benefits. Most participants are not aware that they can receive their SURS benefits and continue working outside of our system. For more information or to obtain an application for benefits, we encourage you to contact a SURS Benefits Counselor. □

Legislative Update

(continued from p. 1)

Here is a summary of the changes to the 6% provision made by SB 49:

Earnings increases are measured on a full-time equivalent basis. This means, for example, that the employer of a part-time employee whose work goes from 40% time to 50% time, but at the same rate of pay, is not subject to the 6% provision.

Exemptions created:

- All persons who have not been employees for more than 10 years at the time of retirement.
- Overloads, including summer contracts, solely for academic instruction, in excess of the standard number of instruction hours for a full-time employee occurring during the academic year that the overload is paid, and paid at the same or lesser rate of pay based on the participant's current salary rate and work schedule.
- Overtime, where the employer certifies it is necessary for the educational mission.
- Promotion to a position that existed and was filled for no less than one academic year at an average salary rate paid for other similar positions, that is one of the following:
 1. A higher classification under the State Universities Civil Service System.
 2. A tenure or tenure-track position.
 3. A position recommended on a promotional list created by the Illinois Community College Board.
- Earnings increases paid after July 1, 2011, but before July 1, 2014, pursuant to a contract or collective bargaining agreement entered into on or after June 1, 2005, but before July 1, 2011.
- Change in method for billing employers.

Budget Implementation Bill (BIMP)

Senate Bill 1977 is the budget implementation bill. Among other things, this bill creates the Pension

Stabilization Fund. In years in which the state's estimated general funds revenues exceed the prior fiscal year's estimated general funds revenues by 4% or more, 0.5% of the excess would go into the Pension Stabilization Fund, to be distributed to the five state-funded retirement systems in addition to any amount appropriated for that year. In the case where this happened for two or more fiscal years, 1% of the excess would go into the Pension Stabilization Fund. Unfortunately, SURS does not expect to see any revenue from the Pension Stabilization Fund for fiscal year 2007. The legislative Commission on Government Forecasting and Accountability has done an analysis of the legislation and has forecast that no revenue would be transferred to this Fund in fiscal year 2007. □

SURS Conducts First Electronic Survey

One of our ongoing goals is to respond to member concerns in order to provide you with the best possible service. In May, SURS conducted its first ever electronic survey to gain valuable feedback from our members. Specifically, the survey addressed the following issues:

- The degree to which our services meet your needs and expectations
- Your satisfaction with SURS retirement plan offerings and benefits
- Your level of confidence in SURS management and funding conditions
- How well we are communicating with you
- Your overall satisfaction with SURS

Hundreds of active members and annuitants were randomly emailed an invitation to take this survey, which was hosted externally by Inquisite. The external hosting ensured the confidentiality and anonymity of our members. In total, we received 1,169 active member responses and 722 annuitant responses. The results from this survey will be featured in a future issue of the *Advocate*. Thank you to all who participated. □

Benefit Payment Schedule

The following is the schedule for SURS monthly benefit payments during 2006:

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: July 3, August 1, September 1, October 2, November 1, December 1, and January 2, 2007.



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: July 31, August 31, September 29, October 31, November 30, December 29, and January 31, 2007.

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. □

Domestic Partner Insurance Benefits

Please note that the following information applies to state of Illinois employees covered by the State Group Insurance Act.

In response to a letter from the Director of the Department of Central Management Services, the Executive Director of the State Universities Retirement System sent the following notice:

“All employees and benefit recipients, without exception, of the State Universities Retirement System are extended the domestic partner health, dental, and vision benefits referred to in Governor Blagojevich’s news release of May 8, 2006.”

Who is Eligible for the Domestic Partner Benefit?

The AFSCME agreement of July 2004 negotiated health benefits for employees who have an eligible same-sex domestic partner. Effective July 1, 2006, unrelated, same-sex individuals who reside in the same household and have a financial and emotional interdependence, consistent with that of a

married couple for a period of not less than one year and continue to maintain such arrangement are eligible for medical, dental, and vision benefits through the State of Illinois Group Insurance Program. The minimum age of a domestic partner is 19 years old. Neither the member, nor the domestic partner, may be married at the time of enrollment. If either partner gets married at any time after the enrollment, the domestic partner’s coverage must be terminated. If both parties are State members, one may not waive coverage as a member to become a dependent of the other member. Please note, dependent children of the domestic partner cannot be added to the member’s coverage unless the member legally adopts or obtains legal guardianship of the children.

For more information regarding domestic partner benefits, contact Central Management Services at 1-800-442-1300. □

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.

Member Service Representative

1-800-275-7877

217-378-8800 (C-U Area)

Internet

www.surs.org

***The Advocate* is published by the State Universities Retirement System. We welcome your comments.**

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