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committed
to service

COMPREHENSIVE ANNUAL FINANCIAL REPORT



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Our commitment to service is **reflected in our accomplishments and plans.**

A MESSAGE FROM OUR EXECUTIVE DIRECTOR

In fiscal year 2019, SURS began working on several new initiatives to further improve efficiency and enhance member services.

We created a far-reaching, seven-year plan for the modernization of our IT operations that will include updating our data center, upgrading our cloud-based software, forms automation, and advanced information security and recovery.

Website updates and process improvements will also be included in the modernization process. We are planning visual, navigational and security improvements to our SURS website, our Member Website and the Employer Website.

We have expanded our staff and facilities. The addition of IT engineers, project managers and member service representatives (MSRs) is helping improve our processes and reduce our claims processing and call center wait times. In fiscal year 2019, MSRs calculated over 8,600 claims, answered over 100,000 calls and held over 5,000 group and individual counseling sessions. The average member satisfaction rate for counseling sessions and service calls was 95%. In the midst of these developments, staff implemented two state-mandated buyout programs that involved major retooling of SURS programs and processes as well as the creation of an extensive education program for members; initiated a redesign of our Self-Managed Plan and the creation of a new supplemental savings plan; and began researching improvements to our plan choice tools. All of which, when completed, will greatly help members with retirement income.

In September 2018, SURS Board of Trustees approved an asset liability study to determine an appropriate long-term asset allocation investment policy. Our investment team has begun implementing a new functional-based asset allocation strategy based on the study. The new portfolio structure is designed to improve long-term returns with reduced volatility and downside risk measures.

SURS continues to be committed to providing opportunities for investment management firms and broker/dealers owned by minorities, women and persons with a disability (MWDB). This summer, SURS held its first Diverse Managers Week in Champaign. Thirty MWDB-owned firms met with SURS investment staff and consultants with the goal of increasing SURS asset allocation to MWDB firms.

For the seventh consecutive year, SURS received its full annual certified state contribution. The fiscal year 2019 payment was \$1,655,154,000, with the final payment being received at the end of July 2019. However, the defined benefit plan continues to be severely underfunded due to shortfalls in prior year contributions from the state. Our staff has and will continue to work with legislators and the governor's office to help ensure future funding.

Finally, I want to thank our staff and board of trustees for their hard work and commitment to providing quality, friendly and efficient service. We are all committed to giving and doing our best in the coming year.

Martin Noven
Executive Director



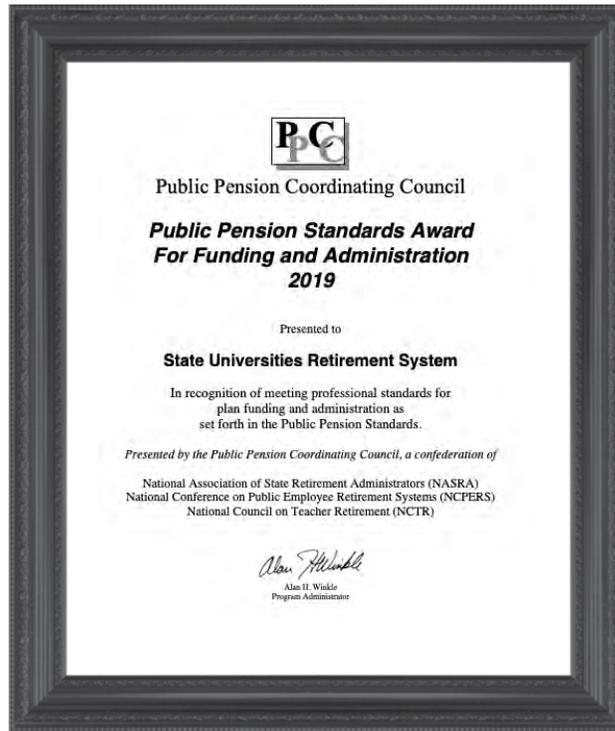


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awards



letter of transmittal



1901 Fox Drive, Champaign, IL 61820-7333
800-275-7877 • 217-378-8800 • (Fax) 217-378-9800
www.surs.org

December 11, 2019

Board of Trustees and Executive Director
State Universities Retirement System
1901 Fox Drive
Champaign, IL 61820

I am pleased to present the 78th Comprehensive Annual Financial Report for the State Universities Retirement System of Illinois (SURS or the System, a component unit of the State of Illinois) for the fiscal year ended June 30, 2019.

The System was established in 1941 for the benefit of the employees of the state universities, community colleges, and certain other state educational and scientific agencies, and the survivors, dependents, and other beneficiaries of those employees. Our vision is to continue to be a respected leader among public pension funds. The SURS staff works hard to perform at the highest customer service level for our members who dedicate their careers to education.

The management of SURS is responsible for the compilation and accuracy of the financial, investment, actuarial, and statistical information contained in this report. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of SURS.

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. SURS internal controls over financial reporting are designed to provide reasonable assurance regarding safekeeping of assets and reliability of financial records in accordance with generally accepted accounting principles. These controls include appropriate segregation of duties and responsibilities, and sound practices in the performance of those duties. The cost of a control should not exceed the benefits likely to be derived. The valuation of costs and benefits requires estimates and judgments by management. The objective of internal controls is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

SURS maintains an internal audit program that employs the services of three internal auditors to determine that all controls implemented are as designed. The internal audit personnel use a detailed internal audit program to provide a continuing review of the SURS internal controls and to report audit findings and recommendations for improvements to the SURS Board of Trustees. There are inherent limitations in the effectiveness of any system of internal controls, including the possibility of human error and the circumvention or overriding of controls.

The Illinois Pension Code requires an annual audit of the financial statements of the System by independent accountants selected by the State Auditor General. This requirement has been complied with, and the independent auditor's unmodified report on the System's 2019 financial statements has been included in this report.

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The System's MD&A can be found starting on page 16 of the report.

Profile

SURS is the administrator of a cost-sharing, multiple-employer public employee retirement system established July 21, 1941, to provide retirement annuities and other benefits for employees, survivors and other beneficiaries of those employees of the state universities, community colleges, and certain other state educational and scientific agencies. SURS services 61 employers and approximately 237,000 members and annuitants. The plans administered by SURS include a defined benefit plan established in 1941 and a defined contribution plan established in 1998. SURS is governed by an 11-member board of trustees that includes four members elected, two annuitants elected, and five members appointed by the Governor, of which the chairperson is the appointed chair of the Illinois Board of Higher Education.

letter of transmittal

Funding

SURS is funded through contributions from non-employer, employer and employee contributions as well as investment earnings. The State of Illinois, a non-employer contributing entity, provides funding from two sources: the General Revenue Fund and the State Pensions Fund, which is funded with proceeds from unclaimed property. Annually, the SURS actuary determines the annual "statutory contribution" needed to meet current and future benefit obligations in accordance with the Illinois Pension Code, which sets forth the manner of calculating the statutory contribution under the Statutory Funding Plan. The Statutory Funding Plan requires the state to contribute annually an amount equal to a constant percent of pensionable (capped) payroll necessary to allow the System to achieve a 90% funded ratio by fiscal year 2045, subject to any revisions necessitated by actuarial gains or losses, or actuarial assumptions. The majority of the \$1.66 billion statutory contribution for fiscal year 2019 was received through continuing appropriation based on 40 ILCS 15/1.1(b). As of June 30, 2019, the plan net position as a percentage of the total pension liability was 40.71%. The funding issue confronting SURS continues to represent a challenge to the System. Although the statutory contribution requirement was met in fiscal year 2019, the Statutory Funding Policy creates a perpetual contribution variance of underfunding the System in earlier years. In later years, the statutory contribution would exceed a contribution equal to normal cost plus a 30-year closed period level percent of pay amortization of the unfunded liability. Further information is presented in the Required Supplementary Information related to employer contributions and the funding of the plan.

Investments

Investments are made under the authority of the prudent expert rule, which states that fiduciaries must discharge their duties with the care, skill, prudence, and diligence that a prudent person acting in a like capacity and familiar with such matters would use under conditions prevailing at the time. This standard has enabled the System to invest in different types of asset classes seeking to increase return while lowering risk through diversification.

The System retains professional investment firms who serve as fiduciaries and are afforded full discretion to manage the assets entrusted to them in accordance with written policies and guidelines established by the Board of Trustees. Our goal is to optimize the long-term return of the System's investments.

The SURS defined benefit assets held in trust increased to \$19.7 billion. The "Investment" section of this report contains yield information, a summary of SURS investment portfolio, and a summary of the investment objectives and policies. Taken as a whole, the SURS portfolio of investments produced a return of 6%, net of fees, for the year ended June 30, 2019. The SURS investment program has a long-term horizon. The returns, net of fees, are 8.8% over the last three years and 9.7% over the last 10 years. The SURS defined contribution (Self-Managed Plan) assets increased from \$2.5 billion to \$2.7 billion.

Legislation

Public Act 100-0587 was signed into law June 4, 2018, and contains the following:

- Offers a buyout equal to 60% of the present value of pension benefits for vested inactive members.
- Offers a buyout equal to 70% of the present value of the difference between the Tier 1 Automatic Annual Increase (AAI) and a reduced and delayed AAI (1.5% simple, delayed until the later of age 67 or 1 year after retirement) for Tier 1 members.
- Authorizes the issuance of \$1 billion worth of bonds to finance the buyout payments under the State Employees' Retirement System (SERS), the Teachers' Retirement System (TRS) and SURS.
- Reduces the 6% rule to 3%.

Public Act 101-0242 signed into law on August 9, 2019, ensures that members who take the Vested Inactive Buyout preserve any applicable retiree and survivor's health insurance benefits upon receipt of the buyout payment.

Public Act 101-0010 signed into law on June 5, 2019, creates the FY 2020 Budget Implementation Act to make changes in state programs that are necessary to implement the state budget for fiscal year 2020. The law also repeals the 3% rule and reenacts the 6% rule, as well as extends the existing accelerated pension benefit payment options for three years (from June 30, 2021 to June 30, 2024).

Public Act 100-0769 signed into law August 10, 2018, creates optional, supplemental defined contribution plans under SURS and TRS.

letter of transmittal

Public Act 100-0624 signed into law July 20, 2018, corrects the Governor's Salary Rule that was enacted as part of Public Act 100-0023. The act removes the requirement that SURS use an employee's full-time equivalent earnings for purposes of the calculation, changes the term academic/school year to state fiscal year, clarifies that SURS will not "double charge" on normal cost amounts previously paid by the employer during the state fiscal year, gives SURS the ability to recover delinquent amounts under the law, and makes the changes apply retroactively to the effective date of Public Act 100-0023.

Major Initiatives and Changes

In fiscal year 2019, the makeup of SURS board changed dramatically; staff initiated several new member programs; we prepared for expansion; and the IT and facilities teams worked to strengthen the System's security.

- There were major changes to SURS Board of Trustees in fiscal year 2019.
 - In July 2018, three elected trustees Steven Rock, Collin Van Meter and John Engstrom began serving six-year terms.
 - In April 2019, Gov. Pritzker appointed Richard Figueroa, Jamie-Clare Flaherty and John Lyons to the board. Trustee Figueroa is serving out the remainder of a six-year term that will expire in June 2021. Trustees Flaherty and Lyons are serving out the remainder of six-year terms that expire in June 2024.
 - In June 2019, Trustee Engstrom resigned from the board after serving more than 10 years as a trustee. He was later replaced by SURS annuitant and former board member Mitchell Vogel.
- SURS staff worked diligently to complete IT, safety and member service projects.
 - We completed programming, communications and education efforts to implement two state-mandated buyout options for members. Over 3.5 total work years of effort was spent modifying approximately 400 individual programs.
 - Our member service representatives calculated over 8,600 claims, answered over 100,000 calls and held over 5,000 group and individual counseling sessions.
 - Renovations to the office building adjacent to our Champaign headquarters were completed to facilitate staff and equipment relocation. Over 15,000 sq. ft. were renovated.
 - Office 365; a cloud-based mail, productivity and collaboration platform was introduced internally.
 - SURS implemented new security and life safety tools, such as perimeter and interior monitoring of the main office.
 - The data center UPS system was replaced to better safeguard member data and SURS equipment.
 - Preliminary work began to redesign the Self-Managed Plan and implement a new supplemental plan.

Awards and Recognition

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to SURS for its component unit financial report for the fiscal year ended June 30, 2018. This is the thirty-fifth consecutive year the System has earned this award.

To be awarded the Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. The report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

The Public Pension Coordinating Council (PPCC), a coalition of three national associations that represents more than 500 of the largest pension plans in the U.S., awarded SURS the Public Pension Standards Award for Funding and Administration. Public Pension Standards are a benchmark to measure public defined benefit plans in the areas of retirement system management, administration and funding.

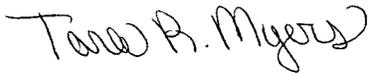
letter of transmittal

Acknowledgements

This report was prepared through the combined effort of the SURS staff under the leadership of the SURS Board of Trustees. It is intended to provide reliable information to its users for making decisions and for determining responsible stewardship for the assets contributed by the members and the State of Illinois.

The report is made available to the Governor, the State Auditor General, the members of the General Assembly, participating employers and to other interested persons by request. We thank all those whose impact in Illinois' universities and community colleges guide the future. We hope they will find this report informative. A copy of this report and our Annual Report Summary will be available on our website, www.surs.org.

Respectfully submitted,



Tara R. Myers
Chief Financial Officer

board of trustees



John Atkinson
Chairperson
Appointed



Collin Van Meter
Vice Chairperson
Elected



John Lyons
Treasurer
Appointed



Aaron Ammons
Elected



Richard Figueroa
Appointed



Jamie-Clare Flaherty
Appointed



J. Fred Giertz
Elected



Steven Rock
Elected

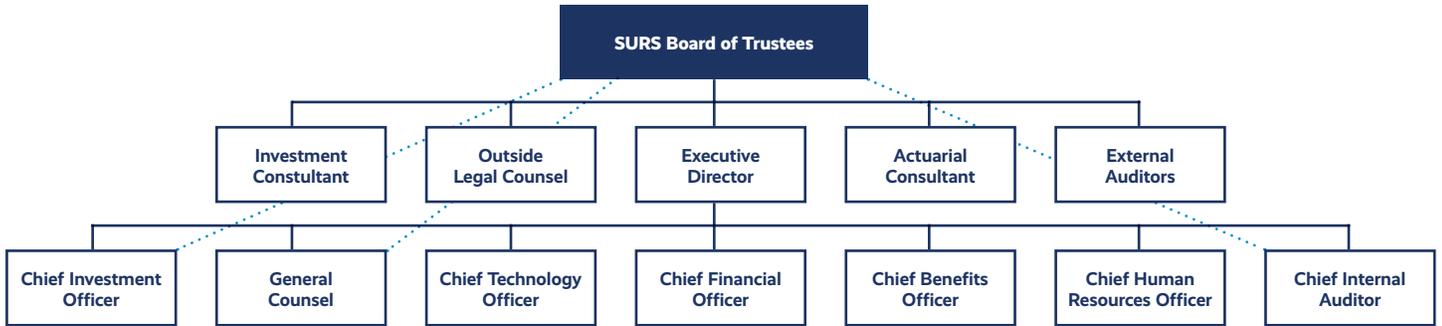


Antonio Vasquez
Elected



Mitchell Vogel
Elected

organizational chart



executive team

Executive Director.....	Martin Noven
Chief Investment Officer.....	Doug Wesley
General Counsel.....	Bianca Green
Chief Technology Officer.....	Jefferey Saiger
Chief Financial Officer.....	Tara Myers
Chief Benefits Officer.....	Suzanne Mayer
Chief Human Resources Officer.....	Brenda Dunn
Chief Internal Auditor.....	Jacqueline Hohn

consulting and professional services

Actuary

Gabriel, Roeder, Smith & Co.

Auditor

BKD, LLP (Acting as Special Assistant Auditor for the Illinois Office of Auditor General)

Legal Counsel

Burke Burns & Pinelli, Ltd.
Ice Miller LLP
Jackson Walker LLP
Mayer Brown LLP
Squire Patton Boggs

Consultants and Other Vendors

Accenture LLP
Barber & Deatley, Inc.
Glass Lewis & Co. LLC
LRWL Inc.
Mesirow Insurance Services
Seico, Inc
Stocks Office Furniture
Zones, LLC

Master Trustee and Custodian

The Northern Trust Company

Investment Consultants, Measurement and Counsel

Callan
NEPC, LLC
Meketa Investment Group

Investment Advisors

Adams Street Partners
Alinda Capital Partners
AQR Capital Management
BlackRock Institutional Trust Company
Blue Vista Capital Management
Brookfield Asset Management
CastleArk Management
Colchester Global Investors
Crow Holdings
Deutsche Bank
Dune Capital Management
Fidelity Institutional Asset Management
Franklin Templeton Real Estate Advisors
Heitman Capital Management
Invesco
J.P. Morgan Asset Management
KKR Prisma
Macquarie Capital
Mesirow Financial Investment Management
Mondrian Investment Partners
Neuberger Berman
Northern Trust Asset Management
Oaktree Capital Management

Pacific Alternative Asset Management Company
Pacific Investment Management Company
Pantheon Ventures
Parametric Clifton
Progress Investment Management Company
Prudential Fixed Income
RhumbLine Advisers
State Street Global Advisors
StepStone
T. Rowe Price
TCW
UBS Realty Investors
Wellington Management Company

Manager Diversity Program Investment Advisors

Ativo Capital Management
Basis Management Group
Channing Capital Management
Denali Advisors
EARNEST Partners
Fairview Capital Partners
Franklin Templeton Real Estate Advisors
Garcia Hamilton & Associates
Gladius Capital Management
GlobeFlex Capital
LM Capital Group
Matarin Capital Management
Muller and Monroe Asset Management
Piedmont Investment Advisors
Pugh Capital Management
Smith Graham & Company
Strategic Global Advisors

Progress Investment Management Company

Emerging Manager Investment Advisors
Affinity Investment Advisors
ARGA Investment Management
Brown Capital Management
Denali Advisors
Garcia Hamilton & Associates
GIA Partners
Integrity Fixed Income Management
LM Capital Group
New Century Advisors
Piedmont Investment Advisors
Ramirez Asset Management
Rondure Global
Solstein Capital
Strategic Global Advisors

Self-Managed Plan Service Providers

Fidelity Investments
Teachers Insurance Annuity Association