

2018

**MEMBER
FOCUSED**

ANNUAL FINANCIAL
REPORT SUMMARY



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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 233,000 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.

BOARD OF TRUSTEES



Tom Cross
Chairperson
Appointed



John Engstrom
Vice Chairperson
Elected



Dennis Cullen
Appointed
Treasurer



Aaron Ammons
Elected



Mark Cozzi
Appointed



J. Fred Giertz
Elected



Paul R. T. Johnson Jr.
Appointed



Craig McCrohon
Appointed

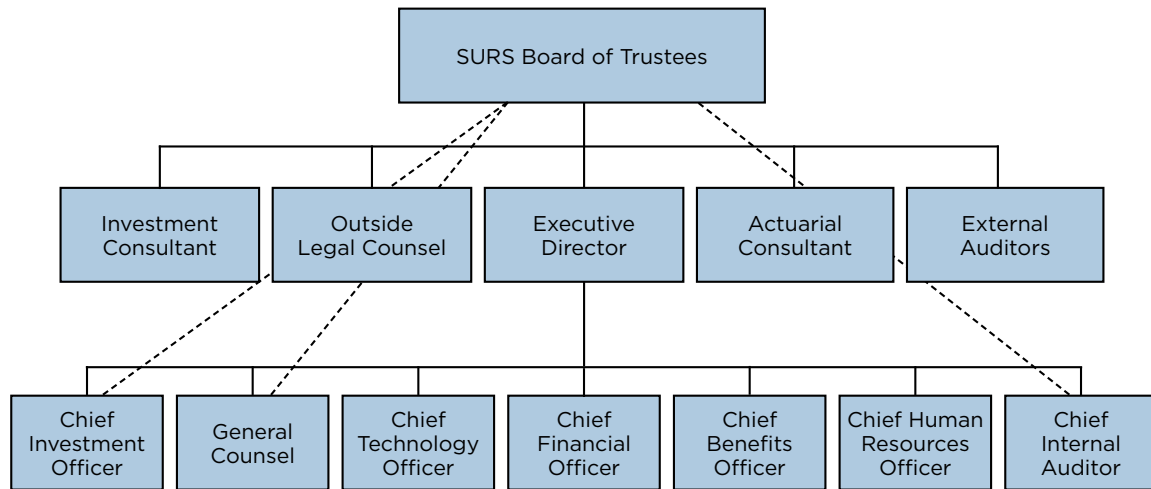


Steven Rock
Elected



Antonio Vasquez
Elected

ORGANIZATIONAL CHART



EXECUTIVE TEAM

Executive Director	Martin Noven
Chief Investment Officer	Douglas 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	Steve Hayward

AWARDS & RECOGNITION

Excellence in Financial Reporting Award



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 FY 2017 financial report. It was the 34th consecutive year the System has earned the award. To be awarded the certificate, 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.



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.

A MESSAGE FROM OUR EXECUTIVE DIRECTOR



Being Member Focused is more than just the theme of our 2018 Annual Report. It's a core value that guides our daily efforts as an organization.

Fiscal year 2018 was a busy and productive year at SURS. Enhancing services to our members remains a top priority. Technological enhancements will enable us to better serve our members while enjoying operational efficiencies. Our investment portfolio has continued to outperform its benchmarks.

In FY 18, we united our member services and outreach teams under one director for better, more cohesive customer service. We enhanced our member materials, making the information accessible and more focused on life-long savings and income replacement.

We increasingly leveraged technology to deliver many of these materials electronically, allowing us to reduce costs in some areas and increase services in others. In FY 18, we brought on a new chief technology officer to execute a multi-year strategy that is expected to further improve how we interact with members while enhancing security.

SURS investment portfolio returned 8.2% for FY 18, net of fees, exceeding the policy portfolio return of 7.86% and the 6.75% assumed rate of return. The investment team completed extensive searches for a defined benefit plan general investment consultant, critical to achieving long-term sustainability for the plan, and a defined contribution consultant for our Self-Managed Plan to provide improved services for SMP members.

It should be noted that on June 12, 2018, the Governor signed Public Act 100-0587 into law. This law provides for an accelerated pension buyout option for vested, inactive members; a 3% automatic annual increase (AAI) buyout option for Tier I members; and increases in employer contributions for employee raises over 3%. Our staff is working to determine the processes and create the programs necessary for the implementation of these programs. We will keep our members apprised of our progress in the coming months.

SURS remains dedicated to providing the highest level of service to our members and employers. Staff at all levels strive to provide exceptional service and to maintain stewardship of public dollars.

A handwritten signature in black ink, appearing to read 'Martin Noven'. The signature is fluid and cursive, with a long horizontal stroke at the end.

Martin Noven
Executive Director

MEMBERSHIP

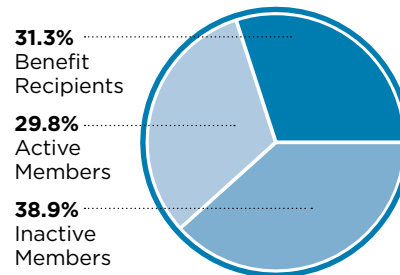
DEFINED BENEFIT - TRADITIONAL & PORTABLE PLANS

At June 30, 2018, membership was:

Benefit Recipients*	66,169
Active Members	62,844
Inactive Members	82,115
	211,128

*Does not include lump-sum refund recipients

Defined Benefit Plan



Number of Benefit Recipients 5-Year Summary

Fiscal Year	Survivors	Disability	Contribution Refunds	Retirement	Disability Retirement Allowance
2014	8,144	634	4,734	50,237	391
2015	8,342	656	4,144	51,631	391
2016	8,481	671	4,376	53,596	398
2017	8,614	643	4,433	54,902	386
2018	8,844	651	4,269	56,293	381

Average Annuity Payments For Retirees as of June 30, 2018

	Years of Credited Service						Total
	0-10	11-15	16-20	21-25	26-29	30+	
Number of Retirees	15,282	8,319	8,118	9,267	7,851	7,456	56,293
Avg Monthly Annuity	\$846	1,767	2,878	4,330	5,542	7,105	3,333
Final Average Salary	\$41,198	43,645	54,034	63,879	71,532	78,962	56,389
Avg Credited Service	6.69	13.32	18.52	23.39	27.94	32.37	18.49

DEFINED CONTRIBUTION - SELF-MANAGED PLAN

SURS is the plan sponsor and administrator of a defined contribution plan established as of Jan. 1, 1998, by the Illinois General Assembly as an amendment to the Illinois Pension Code through Illinois Public Act 90-0448. This plan is referred to as the Self-Managed Plan (SMP) and is offered to employees of all SURS employers who elect to participate. This plan is a qualified money purchase pension plan under Section 401(a) of the Internal Revenue Code. The assets of the SMP are maintained under a trust administered by the SURS Board of Trustees in accordance with the Illinois Pension Code, and are made up of the account balances of individual members.

At June 30, 2018, membership was:

Benefit Recipients	739
Active Members	12,106
Inactive Members	9,759
	22,604

At June 30, 2018, the number of SMP participating employers was:

Universities	9
Community Colleges	39
Allied Agencies	8
State Agencies	2
	58

Note: Excluded from the employer totals above is the State of Illinois, a non-employer contributing entity.

CUSTOMER SERVICE

Mission

To secure and deliver the retirement benefits promised to our members.

Major Initiatives

In fiscal year 2018, SURS staff worked to implement legislative changes, advance investment policy, strengthen the System's security, create new educational tools and complete a board election.

- Technology is always at the forefront of efficiency and security, and over the years SURS has consistently improved our systems and updated our equipment. This past year our IT team:
 - Deployed a cloud-based VOIP solution to enhance the service rendered to our members.
 - Migrated to a cloud-hosted Disaster Recovery solution; thereby reducing our recovery time from days to hours.
 - Began a migration to a cloud-hosted email and collaboration suite that will allow for optimized workforce interactions.
 - Added a chief technology officer (CTO) to oversee future updates. The CTO will manage application development and research, as well as facility operations.
- SURS united its member services and outreach teams under one director for better, more cohesive customer service. Education efforts focused on providing useful, electronic information to help members in all stages of their careers prepare for retirement, including webinars, online information, and email communication.
- In February 2018, the SURS Board of Trustees approved hiring PCA as its general investment consultant for a five-year term.
- In March 2018, the board hired Cammack Retirement Group as the System's defined contribution consultant.
- In April 2018, the Self-Managed Plan began working with a dedicated defined contribution (DC) consultant to improve member education and fund choices.
- SURS held a board election April 2 – May 1, 2018. Steven Rock and Collin Van Meter were elected by the System's active members. John Engstrom was elected by annuitants. All are serving six-year terms which began July 15, 2018. Voting was handled exclusively by Election-America, an impartial election service company.

SURS Member Services/Outreach Statistics – Fiscal Year 2018

Counseling

Individual Retirement Counseling Appointments.....	5,161
Written Retirement Estimates Mailed.....	1,054
Campus Visits.....	105
Retirement Education Seminars	13
Benefit Fairs.....	13
Webinars/Group Presentations.....	79
Average Member Satisfaction Rating	98%

Call Center

Incoming Calls.....	112,331
Member Satisfaction Rating	98%

Lobby Visits

Walk-in Visits	9,468
Member Satisfaction Rating	94%

Electronic Service

SURS Website Page Views.....	984,679
SURS Member Website Visits	470,882
SURS Employer Website Visits.....	9,916
Webmails Received.....	4,606
Informational Emails Sent To Members.....	807,831

Claims Processed

Retirement.....	2,624
Refund.....	4,269
Death	1,638
Disability.....	537

Support Services

Items Mailed.....	215,116
Documents Scanned.....	523,337

Number of SURS Employees (full-time equivalents) – 10-Year Summary

Fiscal Year	Human Resources & Administration	Investments & Accounting	Member Services & Outreach	Information Systems & Support Services	Self-Managed Plan	Total
2009	9.55	11.30	59.50	29.75	4.00	114.10
2010	10.55	11.80	62.50	29.75	3.70	118.30
2011	10.55	12.80	62.00	29.75	3.70	118.80
2012	9.90	9.65	65.80	28.75	3.70	117.80
2013	10.90	10.65	69.00	26.75	3.70	121.00
2014	12.00	10.55	67.00	26.25	4.20	120.00
2015	13.00	11.55	72.00	24.25	4.20	125.00
2016	14.00	11.55	73.00	22.25	4.20	125.00
2017	14.00	13.55	73.00	22.25	4.20	127.00
2018	14.00	14.00	68.00	30.00	3.00	129.00

FINANCIAL

Financial Highlights for Fiscal Year 2018

- Contributions from the State and employers were \$1,677.3 million, a decrease of \$40.1 million (2.3%) from FY 2017.
- The System's benefit payments were \$2,497.9 million, an increase of \$114.1 million (4.8%) for FY 2018.
- The System's return on investment, net of investment management fees, was 8.2% for FY 2018.
- The System's net position at the end of fiscal year 2018 was \$21.8 billion, an increase of \$1.1 billion or 5.6%.

Financial Analysis of the System

The State Universities Retirement System serves 211,128 members in its defined benefit plan and 22,604 members in its Self-Managed Plan. The funds needed to finance the benefits provided by SURS are accumulated through the collection of member and employer contributions and through income on investments. The total net position of the System increased from \$20.7 billion as of June 30, 2017 to \$21.8 billion as of June 30, 2018. This \$1.1 billion change was chiefly due to an increase in investments.

Condensed Statement of Plan Net Position

Reporting Entity Total (\$ in millions)	2018	2017	Change Amount	Change %
Cash and short-term investments	\$ 672.5	\$ 558.0	\$ 114.5	20.5
Receivables and prepaid expenses	145.9	366.3	(220.4)	(60.2)
Pending investment sales	290.2	420.2	(130.0)	(30.9)
Investments and securities lending collateral	22,158.2	20,874.1	1,284.1	6.2
Capital assets, net	6.1	6.3	(0.2)	(3.2)
Total assets	23,272.9	22,224.9	1,048.0	4.7
Payable to brokers-unsettled trades	603.5	806.7	(203.2)	(25.2)
Securities lending collateral	779.6	704.4	75.2	10.7
Other liabilities	68.3	58.7	9.6	16.4
Total liabilities	1,451.4	1,569.8	(118.4)	(7.5)
Total plan net position	\$ 21,821.5	\$ 20,655.1	\$ 1,166.4	5.6

Overall, net position increased by \$1,166.4 million, or 5.6%, mainly due to the total investment income. The increase in receivables and prepaid expenses is largely due to the increase in the receivable from brokers for unsettled trades at fiscal year-end as a result of a larger number of trades outstanding for fiscal year 2018 compared to 2017.

Condensed Statement of Changes in Plan Net Position

Reporting Entity (\$ in millions)	2018	2017	Change Amount	Change %
Employer contributions	\$ 48.0	\$ 46.0	\$ 2.0	4.3
Non-employer contributing entity contributions	1,629.3	1,671.4	(42.1)	(2.5)
Member contributions	366.9	363.9	3.0	0.8
Net investment income	1,758.8	2,260.7	(501.9)	(22.2)
Total additions	3,803.0	4,342.0	(539.0)	(12.4)
Benefits	2,497.9	2,383.8	114.1	4.8
Refunds	123.8	118.9	4.9	4.1
Administrative expense	14.9	15.3	(0.4)	(2.6)
Total deductions	2,636.6	2,518.0	118.6	4.7
Net increase (decrease) in plan net position	\$ 1,166.4	\$ 1,824.0	\$ (657.6)	(36.1)

Additions to plan net position are in the form of employer and member contributions and returns on investment funds. For fiscal year 2018, non-employer contributing entity contributions decreased by \$42.1 million due to lower employer contributions from the State of Illinois as a result of Public Act 100-0023. Employer contributions increased by \$2.0 million or 4.3%. Member contributions increased by \$3.0 million or 0.8%. The investment net income for fiscal year 2018 was \$1,758.8 million for the System, representing a \$501.9 million decrease from the prior year. For the defined benefit plan, the overall rate of return was 8.2% (net of all investment management fees).

FUNDING

SURS is funded through 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 FY 2045, subject to any revisions necessitated by actuarial gains or losses, or actuarial assumptions. The majority of the \$1.6 billion statutory contribution for FY 2018 was received through continuing appropriation based on 40 ILCS 15/1.1(b). As of June 30, 2018, the plan net position as a percentage of the total pension liability was 41.27%.

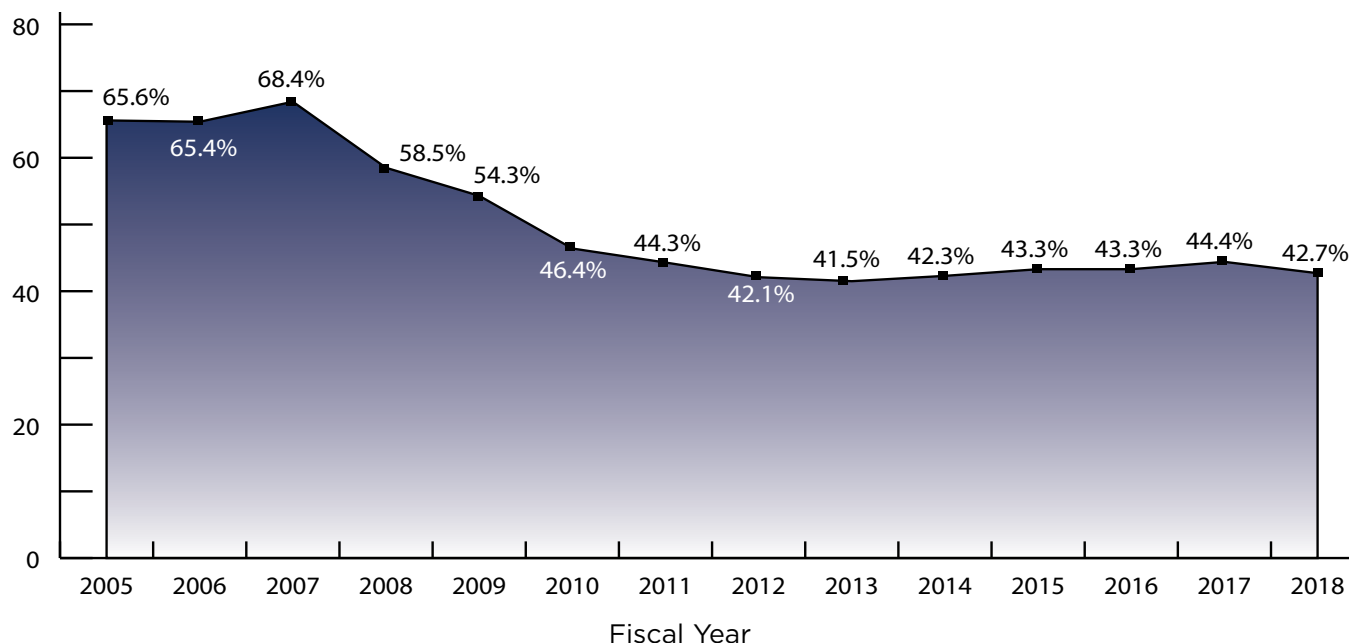
The funding issue confronting SURS continues to represent a challenge to the System. Although the statutory contribution requirement was met in fiscal year 2018, the Statutory Funding Policy creates a perpetual contribution variance of underfunding the System in earlier years. In later years, the statutory contribution would exceed a contribution equal to normal cost plus a 30-year closed period level percent of pay amortization of the unfunded liability.

Schedule of Contributions from Employers and Other Contributing Entities (\$ thousands)

Fiscal Year	Actuarially Determined Contribution	Actual Contribution		Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
		Employers	Other Contributing Entities			
2009	\$ 874,032	\$ 34,360	\$ 417,257	\$ 422,415	\$3,463,922	13.04%
2010	1,003,331	34,166	662,429	306,736	3,491,071	19.95
2011	1,259,048	36,547	737,048	485,453	3,460,838	22.35
2012	1,443,348	45,596	940,219	457,533	3,477,166	28.35
2013	1,549,287	41,874	1,359,607	147,806	3,533,858	39.66
2014	1,560,524	43,899	1,458,965	57,660	3,522,246	42.67
2015	1,622,656	39,934	1,488,591	94,130	3,606,536	42.38
2016	1,811,060	39,348	1,542,946	228,765	3,513,108	45.04
2017	1,864,843	38,386	1,612,165	214,292	3,458,320	47.73
2018	1,862,033	39,659	1,568,221	254,153	3,470,226	46.33

Historical Funding Ratios

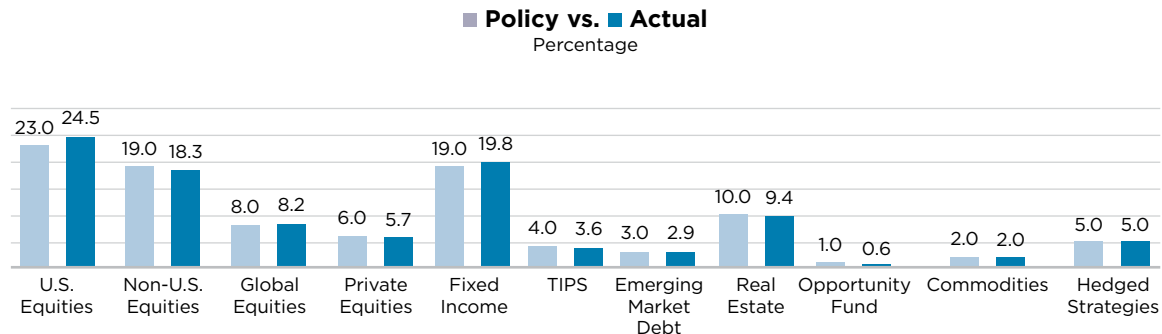
Starting with fiscal year 2009, the funding ratios were calculated using the actuarial value of assets. Prior to FY 2009, the market value of assets were used.



INVESTMENTS

Investment Policy

The investment policy of SURS provides an efficient allocation of assets to achieve overall risk and return objectives. Periodically, asset allocation studies are conducted and the results of these studies guide the setting of investment policy. An asset/liability study will be finalized in fiscal year 2019. The prior study completed in June 2014 resulted in slight modifications to SURS' asset allocation targets and incorporated three additional asset classes: emerging market debt, hedged equities, and commodities. The modified long-term strategic asset allocation targets are shown in the following chart. These strategic asset allocation targets will be implemented over time to allow for proper diversification.



Investment Objectives

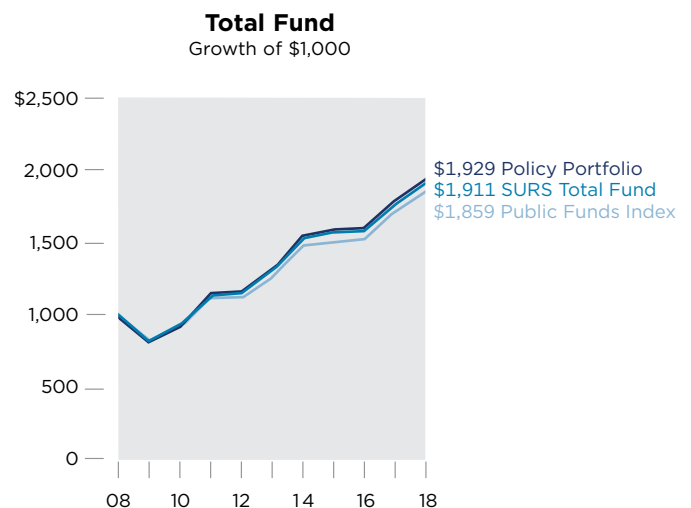
The investment objective of the total portfolio is to produce annualized investment returns, net of all management fees, which exceed the return of a composite market benchmark or policy portfolio. The policy portfolio is comprised of market indices, which are consistent with the overall asset allocation. The policy portfolio reflects a passive implementation of the investment policy. The strategic policy portfolio is comprised of the benchmarks shown below. Comparisons of total fund performance are also made with a universe of public pension funds implementing generally comparable investment policies. The public pension fund index used for comparative purposes is the BNY Mellon Public Funds > \$1 Billion Index.

Fiscal Year 2018 Results

For the fiscal year ended June 30, 2018, SURS total fund returned 8.2%, surpassing the market goal, or policy portfolio, by 0.3%. SURS' one-year return lagged that of the median public pension fund return, as measured by the BNY Mellon Public Funds > \$1 Billion Index, by 0.4%. For the period, 10 of the 12 asset class portfolios – U.S. equity, non-U.S. equity, global equity, private equity, fixed income, TIPS, emerging market debt, direct real estate, REITs, and commodities – met or exceeded the returns of their respective benchmarks. Strong absolute returns were experienced in U.S. equity, global equity, private equity, direct real estate, and commodities.

Self-Managed Plan

Fiscal year 2018 marks the twentieth complete year of the Self-Managed Plan (SMP). As of June 30, 2018, the SMP had accumulated plan assets of approximately \$2.5 billion. This represents an increase of approximately \$330 million since the end of fiscal year 2017. Contributing to the growth in plan assets was a market-related increase of \$259 million. During the past several years, SMP participants have continued to maintain a balanced exposure to equities. In aggregate, the total funds invested by SMP participants have an allocation of 75% equity, 23% fixed income, and 2% real estate. This was a 5% increase in the equity allocation as compared to last year's position.



EMPLOYERS

Number of defined benefit plan participating employers

	2018
Universities	9
Community Colleges	39
Allied Agencies	11
State Agencies	<u>2</u>
	61

Note: Excluded from the employer totals above is the State of Illinois, a non-employer contributing entity.

SURS Participating Employers

Black Hawk College	Lincoln Land Community College
Carl Sandburg College	McHenry College
Chicago State University	Moraine Valley Community College
City Colleges of Chicago	Morton College
College of DuPage	Northeastern Illinois University
College of Lake County	Northern Illinois University
Danville Area Community College	Northern Illinois University Foundation
Eastern Illinois University	Oakton Community College
Elgin Community College	Parkland College
Governors State University	Prairie State College
Heartland Community College	Rend Lake College
Highland Community College	Richland Community College
ILCS Section 15-107(I) Members	Rock Valley College
ILCS Section 15-107(c) Members	Sauk Valley College
Illinois Board of Examiners	Shawnee College
Illinois Board of Higher Education	Southern Illinois University – Carbondale
Illinois Central College	Southern Illinois University – Edwardsville
Illinois Century Network	South Suburban College
Illinois Community College Board	Southeastern Illinois College
Illinois Community College Trustees Association	Southwestern Illinois College
Illinois Eastern Community College	Spoon River College
Illinois Mathematics and Science Academy	State Universities Civil Service System
Illinois State University	State Universities Retirement System
Illinois Valley Community College	Triton College
John A. Logan College	University of Illinois – Alumni Association
John Wood Community College	University of Illinois – Chicago
Joliet Junior College	University of Illinois – Foundation
Kankakee Community College	University of Illinois – Springfield
Kaskaskia College	University of Illinois – Urbana
Kishwaukee College	Waubonsee Community College
Lake Land College	Western Illinois University
Lewis & Clark Community College	William Rainey Harper College



State Universities Retirement System of Illinois
A Component Unit of the State of Illinois

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