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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 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. Four trustees are elected by active SURS members, two trustees are elected by retired SURS members, and five trustees are appointed by the governor of Illinois (one of whom is the chairperson of the Illinois Board of Higher Education). The governor designates the board chairperson from among the eleven trustees. All appointed trustees must be approved by the Illinois Senate. Trustees serve six-year terms.

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

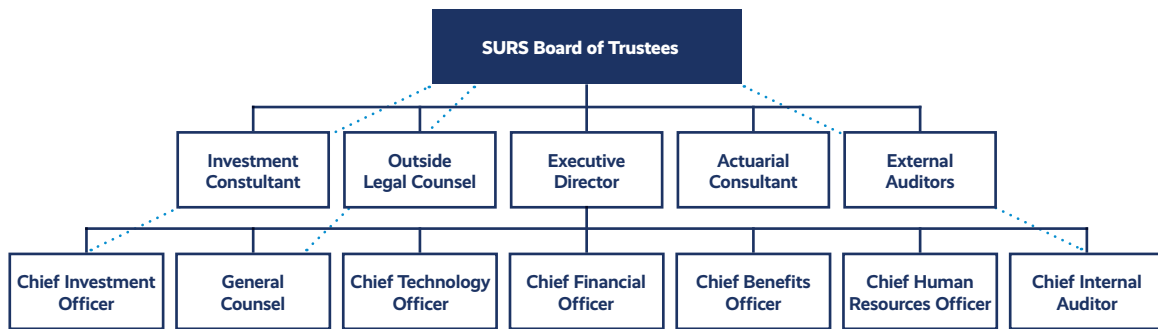


Antonio Vasquez
Elected



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

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 2018 financial report. It was the 35th 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.



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 112,000 calls and held over 5,200 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.

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

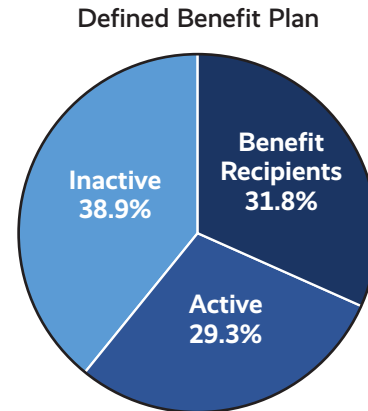
Membership

DEFINED BENEFIT – TRADITIONAL & PORTABLE PLANS

At June 30, 2019, membership was:

Benefit Recipients*	67,842
Active Members	62,589
Inactive Members	83,044
	213,475

*Does not include lump-sum refund recipients



Number of Benefit Recipients 5-Year Summary

Fiscal Year	Survivors	Disability	Contribution Refunds	Retirement	Disability Retirement Allowance
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
2019	8,973	599	4,158	57,890	380

Average Annuity Payments For Retirees as of June 30, 2019

	Years of Credited Service						Total
	0-10	11-15	16-20	21-25	26-29	30+	
Number of Retirees	15,803	8,622	8,392	9,449	8,079	7,545	57,890
Avg Monthly Annuity	\$871	\$1,817	\$2,933	\$4,424	\$5,658	\$7,251	\$3,390
Final Average Salary	\$41,971	\$44,560	\$54,853	\$64,680	\$72,325	\$79,997	\$57,129
Avg Service Credit	6.66	13.32	18.53	23.39	27.95	32.33	18.42

DEFINED CONTRIBUTION – SELF-MANAGED PLAN

SURS is the plan sponsor and administrator of a defined contribution plan established as of January 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, 2019, membership was:

Benefit Recipients	871
Active Members	12,531
Inactive Members	10,033
	23,435

At June 30, 2019, 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 and Changes

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 112,000 calls and held over 5,200 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.

SURS MEMBER SERVICES/OUTREACH STATISTICS – FISCAL YEAR 2019

Counseling

Individual Retirement Counseling Appointments.....	5,231
Written Retirement Estimates Mailed.....	936
Campus Visits.....	86
Retirement Education Seminars.....	14
Benefit Fairs.....	11
Webinars/Group Presentations.....	58
Average Member Satisfaction Rating.....	99%

Call Center

Incoming Calls.....	112,122
Member Satisfaction Rating.....	90%

Lobby Visits

Walk-in Visits.....	8,949
Member Satisfaction Rating.....	96%

Electronic Service

SURS Website Page Views.....	1,040,320
SURS Member Website Visits.....	452,287
SURS Employer Website Visits.....	15,721
Webmails Received.....	4,994
Informational Emails Sent To Members.....	895,406

Claims Processed

Retirement.....	3,110
Refund.....	4,158
Death.....	1,378
Disability.....	464

Support Services

Items Mailed.....	275,514
Documents Scanned.....	519,587

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
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
2019	13.00	15.00	75.00	31.00	3.00	137.00

Financial

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2019

- Contributions from the state and employers were \$1,713.3 million, an increase of \$36.0 million, or 2.1% from fiscal year 2018.
- The System's benefit payments were \$2,617.2 million, an increase of \$119.3 million or 4.8% for fiscal year 2019.
- The System's return on investment, net of investment management fees, was 6.0% for fiscal year 2019.
- The System's net position at the end of fiscal year 2019 was \$22.4 billion, an increase of \$625.4 million or 2.9%.

Financial Analysis of the System

The State Universities Retirement System serves 213,475 members in its defined benefit plan and 23,435 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 \$21.8 billion as of June 30, 2018 to \$22.4 billion as of June 30, 2019. This \$0.6 billion change was chiefly due to an increase in investments.

Condensed Statement of Plan Net Position

Reporting Entity (\$ in millions)	2019	2018	Change Amount	Change %
Cash and short-term investments	\$ 819.4	\$ 672.5	\$ 146.9	21.8
Receivables and prepaid expenses	224.4	145.9	78.5	53.8
Pending investment sales	360.5	290.2	70.3	24.2
Investments and securities lending collateral	22,510.7	22,158.2	352.5	1.6
Capital assets, net	9.8	6.1	3.7	60.7
Total assets	<u>23,924.8</u>	<u>23,272.9</u>	<u>651.9</u>	<u>2.8</u>
Payable to brokers-unsettled trades	483.3	603.5	(120.2)	(19.9)
Securities lending collateral	876.6	779.6	97.0	12.4
Other liabilities	<u>118.0</u>	<u>68.3</u>	<u>49.7</u>	<u>72.8</u>
Total liabilities	<u>1,477.9</u>	<u>1,451.4</u>	<u>26.5</u>	<u>1.8</u>
Total plan net position	<u>\$22,446.9</u>	<u>\$21,821.5</u>	<u>\$ 625.4</u>	<u>2.9</u>

Overall, net position increased by \$625.4 million, or 2.9%, 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 2019 compared to 2018.

Condensed Statement of Changes in Plan Net Position

Reporting Entity (\$ in millions)	2019	2018	Change Amount	Change %
Employer contributions	\$ 58.1	\$ 48.0	\$ 10.1	21.0
Non-employer contributing entity contributions	1,655.2	1,629.3	25.9	1.6
Member contributions	368.6	366.9	1.7	0.5
Net investment income	<u>1,292.4</u>	<u>1,758.8</u>	<u>(466.4)</u>	<u>(26.5)</u>
Total additions	<u>3,374.3</u>	<u>3,803.0</u>	<u>(428.7)</u>	<u>(11.3)</u>
Benefits	2,617.2	2,497.9	119.3	4.8
Refunds	115.0	123.8	(8.8)	(7.1)
Administrative expense	<u>16.7</u>	<u>14.9</u>	<u>1.8</u>	<u>12.1</u>
Total deductions	<u>2,748.9</u>	<u>2,636.6</u>	<u>112.3</u>	<u>4.3</u>
Net increase (decrease) in plan net position	<u>\$ 625.4</u>	<u>\$ 1,166.4</u>	<u>\$ (541.0)</u>	<u>(46.4)</u>

Additions

Additions to plan net position are in the form of employer and member contributions and returns on investment funds. For fiscal year 2019, non-employer contributing entity contributions increased by \$25.9 million due to higher contributions from the state of Illinois as a result of a change in the plan election assumptions due to the provisions of Public Act 100-0023. Employer contributions increased by \$10.1 million or 21.0%. Member contributions increased by \$1.7 million or 0.5%. Net investment income for fiscal year 2019 was \$1,292.4 million for the System, representing a \$466.4 million decrease from the prior year. For the defined benefit plan, the overall rate of return was 6.0% (net of all investment management fees).

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.

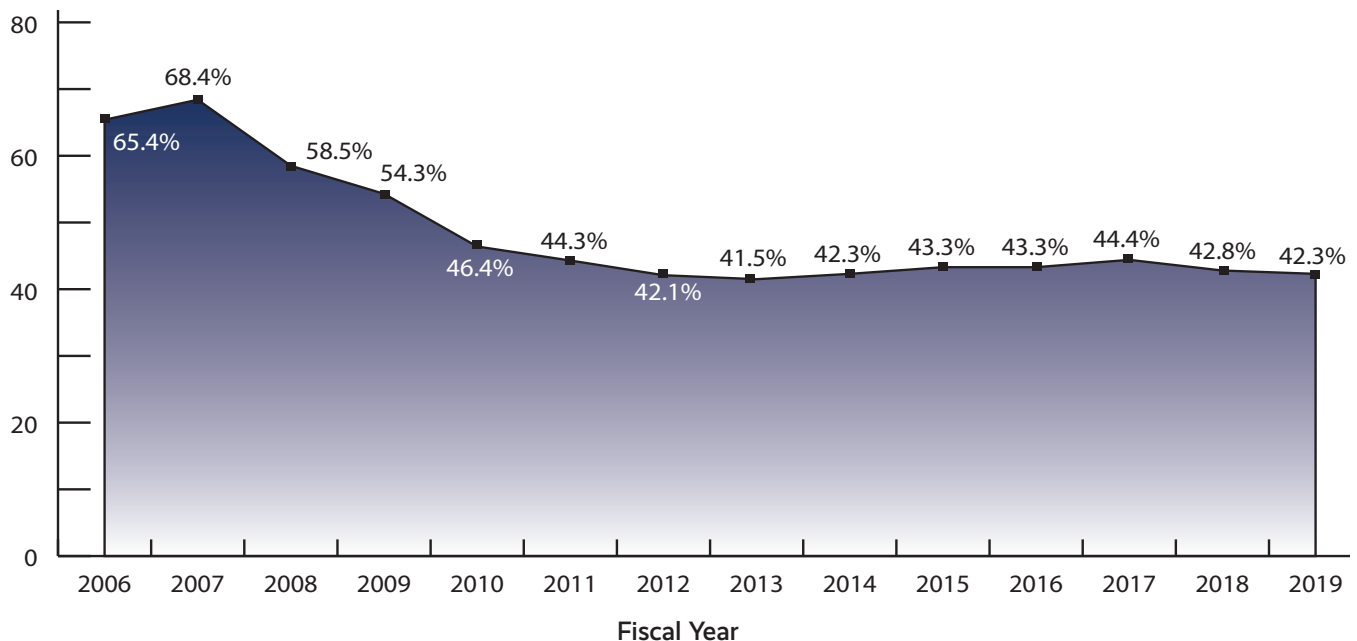
The majority of the \$1.66 billion statutory contribution for fiscal year 2019 was received through continuing appropriation based on 40 ILCS 15/1.1(b). As of June 30, 2019, the plan net position as a percentage of the total pension liability was 40.71%. The funding issue confronting SURS continues to 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.

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			
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	94,131	3,606,537	42.38
2016	1,811,060	39,348	1,542,946	228,766	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
2019	2,239,366	49,415	1,592,639	597,312	3,506,650	46.83

Historical Funding Ratios

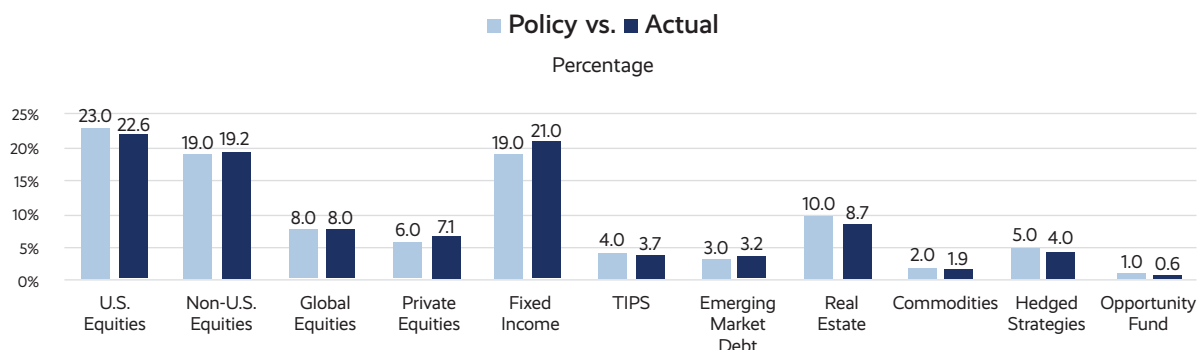
Starting with fiscal year 2009, the funding ratios were calculated using the actuarial value of assets. Prior to FY 2009, the market value of assets were used.



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 completed to provide an efficient allocation of assets to achieve overall risk and return objectives. The asset/liability study completed in September 2018 will result in significant structural changes to SURS asset allocation targets over the next few years. The foundation of these changes will be a transition from conventional asset classes to functional asset classes as the basis of portfolio weighting. The transition to functional classes will begin during fiscal year 2020. The long-term strategic asset allocation targets in place during FY 2019 are shown in the following chart.



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.

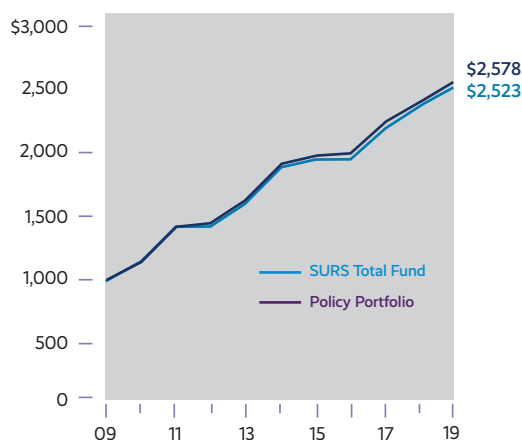
Fiscal Year 2019 Results

For the fiscal year ended June 30, 2019, SURS total fund returned 6.0%, trailing the market goal, or policy portfolio, by 0.8%. For the period, six of the 12 asset class portfolios – global equity, TIPS, emerging market debt, REITs, direct real estate, and commodities – met or exceeded the returns of their respective benchmarks. Strong absolute returns were experienced in U.S. equity, global equity, private equity, fixed income, emerging market debt, REITs, and direct real estate.

Long-Term Investment Results

For the 10-year period ended June 30, 2019, SURS total fund earned an annualized total return, net of all investment management expenses, of 9.7%. This trailed the policy portfolio benchmark by 0.2% annualized. This performance is best illustrated by the growth of \$1,000 invested in SURS total fund and the policy portfolio during the past 10 years. The ending points indicate that \$1,000 invested in SURS total fund would have grown to \$2,523, while the same \$1,000 invested in the policy portfolio would have grown to \$2,578. (See chart at right)

Total Fund
Growth of \$1,000



Self-Managed Plan

Fiscal year 2019 marks the 21st complete year of the Self-Managed Plan (SMP). As of June 30, 2019, the SMP had accumulated plan assets of approximately \$2.7 billion. This represents an increase of approximately \$229 million since the end of fiscal year 2018. Contributing to the growth in plan assets was a market-related increase of \$163 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 74% equity, 24% fixed income, and 2% real estate. This was a 1% decrease in the equity allocation as compared to last year's position.

Employers

Number of defined benefit plan participating employers

	2019
Universities	9
Community Colleges	39
Allied Agencies	11
State Agencies	2
	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 County 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(l) Members	Rock Valley College
ILCS Section 15-107(c) Members	Sauk Valley College
Illinois Board of Examiners	Shawnee College
Illinois Board of Higher Education	South Suburban College
Illinois Central College	Southeastern Illinois College
Illinois Community College Board	Southern Illinois University – Carbondale
Illinois Community College Trustees Association	Southern Illinois University – Edwardsville
Illinois Department of Innovation and Technology	Southwestern Illinois College
Illinois Eastern Community Colleges	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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