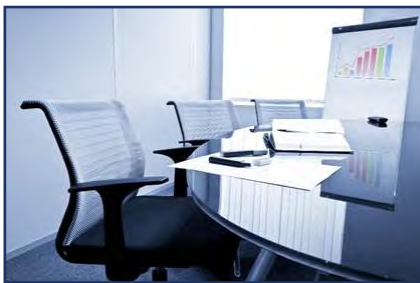


INSIGHTS

CANDIDATES FOR TRUSTEE ELECTION ANNOUNCED

Six candidates have met the requirements to be included on the ballot for SURS board election set for May 1. Voting will take place April 1 – May 1.



SURS members will elect three active-member trustees and one annuitant trustee.

Two of the active-member trustee seats are for six-year terms, and the remaining seat is for a three-year term created by an unexpired six-year term. The annuitant trustee seat is for a six-year term.

Candidates are listed in ballot order determined by a blind drawing. To read the biographies submitted by each candidate [click here](#). [Cont. on Page 8](#)

Active-Member Trustee Candidates

Six-year term

(Active-member voters will select two candidates.)

Randall Miller

City Colleges of Chicago

Antonio Vasquez

City Colleges of Chicago

Collin Van Meter

University of Illinois at Urbana-Champaign

Active-Member Trustee Candidate

Three-year term

*(Unopposed. Will not appear on the ballot) **

Kristi Barnwell

University of Illinois at Springfield

Annuitant Trustee Candidates

(Annuitant voters will select one candidate.)

Greg Dobbins

Joliet Jr. College

Steven Rock

Western Illinois University

ANNUAL REPORT POSTED

The SURS 2023 Annual Comprehensive Financial Report is available for members to review on surs.org. Click [here](#) to see the full report.

The 108-page report is divided into five sections – Introduction, Financial, Investment, Actuarial and Statistical - to make it easier to find pertinent information.

This report was prepared through the combined effort of the SURS staff under the leadership of the SURS Board of Trustees. ▶



MESSAGE FROM THE EXECUTIVE DIRECTOR

I'm pleased to welcome both John Lyons, the new chair of the SURS Board of Trustees, and Michael Schlachter, our new Chief Investment Officer (CIO).



SUZANNE
MAYER

Chair Lyons has served as an appointed trustee since April 2019. He has been a collaborative and decisive board member who supports other trustees and staff while working in the best interest of our members. Since becoming executive director, I have valued his leadership and appreciated working with him to accomplish SURS goals.

CIO Schlachter replaces Doug Wesley who retired as SURS CIO on March 1. Michael was hired in November 2023 and worked alongside Doug as CIO designee to become familiar with the System and staff. He has an impressive background in investment consulting and advising public and corporate pension clients. We are happy and fortunate to have him on board. (Read more on Page 3.)

On Feb. 21, Gov. Pritzker presented his FY

2025 budget that appropriated SURS full, certified annual required state contribution of \$2,212,810,000. That's good news. The governor's budget also proposed legislative changes intended to help strengthen long-term funding for the five state pension systems and review whether Tier II provides Social Security-equivalent benefits. (Read more on Page 6.)

Finally, at the March 1 SURS board meeting, trustees approved an auto escalation feature for SURS Deferred Compensation Plan (DCP) participants that will automatically increase their contributions at regular intervals by a set amount until a preset maximum is achieved. The annual contribution increases will allow SURS members to save more for a secure retirement.



DCP participants will receive comprehensive information on auto escalation from SURS in the coming months. Participants will be able to opt out of the escalation feature if they wish. Implementation will start July 1, 2024. (Read more on Page 5.)

| FISCAL YEAR 2024 APPROPRIATION | | PREVIOUS YEARS |
|--------------------------------|--------------------|---|
| FY 2024 TOTAL | \$2,133,335,000.00 | FY 2023 Appropriation \$2,118,567,000 Fully paid June 2, 2023 |
| DUE TO DATE | \$1,422,223,333.44 | FY 2022 Appropriation \$2,101,279,000 Fully paid June 27, 2022 |
| RECEIVED TO DATE | \$1,422,223,333.44 | FY 2021 Appropriation \$1,995,767,000 Fully paid June 10, 2021 |
| PERCENTAGE PAID | 100% | |

LYONS APPOINTED SURS CHAIR

John Lyons has taken over as chairman of SURS Board of Trustees. He was appointed in November by Gov. Pritzker. He replaces John Atkinson who stepped down as chair to head Intersect Illinois.

Lyons has served as an appointed SURS trustee since 2019 and was elected board treasurer by his fellow trustees. He chairs the board's Governance and Executive Committees as well as serving on the board's

Investment, Diversity, and Legal & Legislative Committees.

Lyons is a partner at the law firm DLA Piper LLP (US). He has practiced law in Illinois for the past 33 years focusing on corporate restructuring and governance. ▀



SURS NEW CIO



The SURS Board of Trustees has hired Michael Schlachter, CFA, as the System's new chief investment officer (CIO). Schlachter replaces Doug Wesley who recently retired.

Schlachter was most recently a managing director and senior portfolio manager for Los Angeles Capital Management and Equity Research. Prior to that he spent the majority of his career in

investment consulting at Wilshire Associates and Mercer Investment Consulting where he advised public and multinational corporate pension clients.

SURS conducted a nationwide search to fill the CIO position with the assistance of Korn Ferry.

Schlachter received his Master of Business Administration from the University of Chicago Booth School of Business and his B.A. from Princeton University. ▀

RETIREMENT CREATES OPENING FOR NEW DEFINED CONTRIBUTION PLAN MANAGER

Keith Johnson, SURS Retirement Savings Plan (RSP) manager, is retiring effective May 1. Johnson has managed the SURS core defined contribution plan since 2013. He joined SURS in 1997 as a Member Service Representative. He is only the second defined contribution plan manager since the plan was established in 1998.

In January of 2019, Johnson and his team began working with AllianceBernstein, CapTrust and Voya to redesign the core defined contribution plan, which at the time was called the Self-Managed Plan. Renamed the RSP, the new plan provides members lower fees, improved plan offerings, and a new lifetime income solution (the LIS) that serves as the default investment option. The RSP was launched in September of 2020.

With Johnson's departure, SURS will combine the two defined contribution plans – the RSP and the DCP – under one manager. Mark Rowe, who is currently a SURS senior project manager (PM) working with the recordkeeper on DCP projects and was also the implementation PM for the introduction of the RSP and DCP plans, has been picked as the new Defined Contribution Plan Manager. Rowe has been with SURS for four and a half years. Prior to coming to SURS, he was the IT director with The National Council of Teachers of English. ▀

INVESTMENT UPDATE

Market Backdrop

The conditions surrounding markets in the latter half of 2023 were turbulent. Severe wildfires caused irreparable damage and displaced thousands on the Hawaiian island of Maui in August. Tensions in the Middle East boiled over in Q4 as the conflict between Israel and Palestine escalated. Piracy and armed robbery of ships rose in 2023 as tension resurged in the Red Sea and the Indian Ocean. US consumer sentiment has been incredibly poor, as budgets face the consequences of sustained high prices on goods and services.

In the second half of 2023, the S&P 500 gained over 7% and the Nasdaq returned nearly 11%. Given the context above, how was this possible? Enter the hero of the story: the Magnificent Seven. This aptly named group of mega-cap technology stocks (consisting of Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta Platforms, and Tesla) averaged a 111% return in 2023, driving the markets and even pushing them to all-time highs. It was this strength that helped provide strong absolute returns for pensions like SURS.

Elsewhere, both developed and emerging markets showed strong returns as major central banks worldwide largely paused

interest rate hikes and foreign currencies showed strength compared to the US dollar. The exception to this was China, where the country saw a -11.2% return in 2023 on the back of a continued slowdown in growth, issues in the property sector, and ongoing tensions with the US.

SURS Performance

The SURS investment portfolio returned 8.6% net of fees, trailing the policy benchmark return of 9.7%. The portfolio continues to outperform on a medium and long-term basis. These two statements are to be expected; the funding status and resulting defensive nature of the portfolio leads to an expectation that there will be underperformance in strong equity markets. However, when considering entire market cycles (especially periods of time that feature significant market dislocations), this defensive stature should prove to be an asset.

The results shown in the table below help to illustrate this idea. As mentioned above, SURS investments underperformed the policy portfolio in the calendar year. However, there was outperformance over every period longer than a year, even as far as the last 30 years. Outperformance was heightened over the three and five-year periods; this is because the portfolio's downside protection helped produce periods of outperformance during the market declines in 2020 and 2022.

Investment Performance* as of December 31, 2023

| | 1 Year | 3 Years | 5 Years | 10 Years | 20 Years | 30 Years |
|-------------------------|--------|---------|---------|----------|----------|----------|
| SURS | 8.6% | 5.3% | 8.7% | 6.7% | 7.1% | 7.8% |
| Policy Portfolio | 9.7% | 4.0% | 8.0% | 6.5% | 7.0% | 7.6% |

**Net of investment management fees*

As of Dec. 31, 2023, the defined benefit plan is valued at \$23.4 billion while the Retirement Savings Plan (RSP) is valued at \$4 billion (including forfeiture and disability reserve assets). SURS also offers a new supplemental defined contribution 457(b) plan, the Deferred Compensation Plan (DCP). Assets in the DCP were \$44 million, as of Dec. 31, 2023. ▾

Defined Contribution Plan News

Retirement Savings Plan (RSP)

The RSP is SURS' core defined contribution plan. In the RSP, member contributions of 8% and employer (state of Illinois) contributions of 7.6% are placed in an account

established in the member's name.

Throughout their careers, RSP participants have the option to choose where to invest their

money within the SURS investment fund lineup. The lineup consists of 15 different investment options across the major asset classes, as well as the SURS Lifetime Income Strategy (LIS). The LIS is a flexible target date portfolio that includes a unique built-in secure income feature. RSP members who prefer a more hands-off approach might choose to take advantage of this professionally-managed option. As members approach retirement, there are several distribution options available, depending on each member's individual situation.

SURS offers a variety of ways to assist with retirement planning including quarterly webinars "Navigating the RSP" and "RSP Distribution Options." Dates and times are posted on the SURS [website](#).

RSP assets were \$3.7 billion, as of Dec. 31, 2023, which equates to an average account balance of \$167,363 per each of the 23,884 RSP participants. The RSP experienced an

increase in plan assets of 18.75% from a year ago. The RSP enrollment figure increased 3.1% year over year.

The average asset allocation as of Dec. 31, 2023, was 56.5% Equities, 22.5% Balanced Funds and 17.7% Fixed Income. The remaining 3.3% was attributable to Real Estate.

SURS Deferred Compensation Plan (DCP)

The SURS DCP is a supplemental 457 (b) plan designed to complement the SURS core retirement plans (Traditional, Portable, and Retirement Savings Plans). The DCP is a relatively new plan, the first contributions to the plan were accepted in the spring of 2021. As of July 1, 2023, all newly certified members* are automatically enrolled into the plan unless they opt out during the opt-out window.

Members can contribute as little as \$10 or 1% of earnings per pay-check on a pre-tax or Roth basis, up

to a maximum of \$23,000 for 2024. The DCP has the same recordkeeper and investment lineup as the RSP. Members who are automatically enrolled in the plan contribute 3% pre-tax to the default investment option, the SURS LIS.

DCP assets are \$44 million as of Dec. 31, 2023. Current enrollment in the DCP is 8,438. ▲

**Active SURS members employed by employers eligible to participate in the DCP.*

Effective July 1, 2024, SURS will implement automatic escalation for DCP participants. Previously automatically enrolled DCP participants still in default status will see a 1% increase in their pre-tax contribution each year, up to a maximum default contribution cap of 10%. Members can change their deferral settings at any time.



RSP and DCP members at all stages of their careers may schedule an individual appointment with a SURS Defined Contribution Account Representative. Appointments can be scheduled at www.sursrsp.timetap.com. Representatives are available to discuss investments options, how the SURS LIS works in regard to purchasing income over several years as well as many other topics.

LEGISLATIVE UPDATE

FY 2025 Governor's Introduced Budget

Gov. Pritzker delivered a combined 2024 State of the State and FY 2025 Budget Address on February 21 in Springfield. The governor's introduced budget appropriates the full, certified annual required state contribution of \$2,212,810,000 to SURS for FY 2025.



The governor's introduced budget also proposes the following legislative changes for the state-funded retirement systems:

- Adjust the funding target from 90% of assets to liabilities by the end of FY 2045 to 100% of assets to liabilities by the end of FY 2048;
- Make additional contributions from retired debt service obligations between FY 2030 and FY 2040 to reduce unfunded liabilities and save an estimated \$5.1 billion in future state contributions, according to the Governor's Office of Management and Budget;
- Implement fixed length amortization strips to prevent major fluctuations in state contributions towards the end of the amortization period, beginning in FY 2035; and
- Examine the need to increase the Tier II pensionable earnings limit to the Social Security Wage Base to ensure SURS and TRS (and, with respect to state police officers, SERS) remain Social Security replacement plans.

Legislators continue to discuss the Tier II safe harbor issue, as well as other concerns with Tier II raised by stakeholder organiza-

tions. Several bills have been introduced in the House and Senate to facilitate these discussions. SURS will keep members updated on the progress of legislation through our newsletters and legislative website: www.surs.org/legislation.

Background on Tier II Safe Harbor

SURS members do not participate in Social Security during their SURS-covered employment. As a result, federal law requires SURS to provide a pension benefit that is at least as good as the member would have received if they had participated in Social Security during their SURS-covered employment. Failure to meet this requirement means that SURS no longer serves as a Social Security replacement plan for that member and that member must participate in Social Security in addition to SURS.

To easily determine whether a plan qualifies as a Social Security replacement plan, the federal government developed a series of safe harbor tests. SURS' external actuaries and legal counsel have noted that Tier II members could fail safe harbor tests in the future. To prevent failure, they recommend that the Tier II pensionable earnings limit be increased to at least 90.5% of the Social Security Wage Base. Making this change would fix the safe harbor issue for all Tier II members for all time, barring any hypothetical changes to safe harbor requirements at the federal level or benefit reductions at the state level. The cost of the change is estimated at approximately \$1.53 billion between now and FY 2045 (or \$423.8 million on a present value basis). ▲

PROTECTING YOUR PERSONAL INFORMATION ONLINE

At SURS, protecting member information is a top priority.

SURS has a dedicated team of information security professionals and an Information Technology team that supports and monitors many systems and tools to ensure member information is secure.

With the ever-increasing threat of cyber security attacks and with some help from the Cyber Security and Infrastructure Security Agency we would like to share some helpful information.

Phishing and or Email Scams

What to watch for:

- Unrecognizable or unverified sender address.
- Requests to send personal and or financial information.
- Misspelled words or poor grammar.
- A sense of urgency to follow links or open attachments.
- Free or greatly discounted goods or services.
- The tone of the email that is strange or doesn't match the subject.

When in doubt, verify by calling or initiating communication via another channel to the originating organization. Always hover your mouse over links to verify that the destination address shown is not shortened or redirecting to a different domain.



Keep systems and applications current

Having the latest security software, web browser, and operating system is the best defense against viruses, malware, ransomware, and other online threats.

Considering the increased intensity and volume of cyberattacks we want to remind members that SURS will never ask for your personal information via email or text.

Use strong passwords

- Make passwords long and strong using capital and lowercase letters with numbers and symbols.
- Use random strings and or memorable phrases.
- Use unique account names and unique passwords for every account.
- Change passwords on a regular basis.
- Use a password manager (application).

Turn on multifactor authentication (MFA)

MFA provides extra security by confirming our identities when logging in to accounts, like entering a code texted to a phone or generated by an authenticator application. Many account providers now offer additional ways for you to verify who you are before you conduct business on that site.

Connect with Caution

Carefully use Wi-Fi hotspots. Limit the type of business you conduct and adjust the security settings on your device to limit who can access your machine.

When banking and shopping, check to be sure the sites are security enabled. Look for web addresses with "Https," which means the site takes extra measures to help secure your information. Sites beginning with "Http://" are not secure. ▴

1099-R TAX FORMS AVAILABLE ON SURS MEMBER WEBSITE

Retirees and Beneficiaries: Your 1099-R forms have been mailed.

Members may log in to the SURS secure Member Website and print a copy if needed. The 1099-R forms can be found under the "My Payment" tab or in the quick links under "Tax Statements."

If you do not have Internet access and would like to request a print version be mailed to you, please contact SURS Call Center at (800) 275-7877. ▲



SPRING AND SUMMER WEBINARS

SURS is offering multiple informational webinars over the spring and summer months. Go to <https://surs.org/events/> to find dates and times.

- **Tier I Members** – Understanding Your SURS Benefits
- **Tier I Members** – Police and Fire Members
- **Tier II Members** – New Hire Presentation
- **Tier II Members** – Understanding Your SURS Benefits
- **Tier II Members** – Police and Fire Members
- **Defined Benefit Q&A Session**
- **State Employees Health Insurance**
- **CIP Health Insurance**
- **Lifetime Income Strategy (LIS) Calculator Workshop**
- **Defined Benefit Retirement Estimator Workshop**

CANDIDATES ANNOUNCED CONT.

Trustee candidates circulated petitions from Oct. 1, 2023 – Jan. 31, 2024. Active-member candidates were required to obtain 400 signatures from active members. Annuitant candidates were required to obtain 100 signatures from annuitant members. All petition signatures have been verified by SURS staff.

Eligible SURS members will receive voting materials via email, if they have a valid email on file with SURS, or by U.S. mail if they do not. Voting materials will include biographical information on each candidate and will be sent from the impartial election services company, YesElections. ▲

** Ms. Barnwell's seat on the board will be contingent upon the outcome of the election for the two, six-year contributing terms.*

Although Ms. Barnwell is unopposed, she may not ultimately be declared the winner of the three-year term seat until the outcome of the six-year term election is known due to the legal restrictions relating to the make-up of SURS board. See SURS Administrative Rule 1600.730.

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