



MINUTES

**Meeting of the Administration Committee
of the Board of Trustees of the
State Universities Retirement System
9:00 a.m., Thursday, October 30, 2014
The Northern Trust
50 South LaSalle Street, Global Conference Center
Chicago, Illinois 60603**

The following Trustees were present: Mr. Antonio Vasquez, Chair; Ms. Lindsay Anderson, Ms. Jacqueline Berger, Dr. John Engstrom, Mr. Paul R. T. Johnson Jr., Mr. Andrew Matthews, Mr. Craig McCrohon, Ms. Dorinda Miller, Mr. Peter Newell and Mr. Mitchell Vogel.

Others present: Mr. William Mabe, Executive Director; Mr. Michael Weinstein, General Counsel; Mr. Daniel Allen, Chief Investment Officer; Ms. Kimberly Pollitt and Mr. Joseph Duncan, Senior Investment Officers; Mr. John Cross, Mr. Alex Ramos and Mr. Shane Willoughby, Investment Officers; Ms. Phyllis Walker, Chief Financial Officer; Ms. Lou Ann Fillingham, Senior Investment Accounting Officer; Mr. Jeffrey Houch, Legislative Liaison; Ms. Marilyn Branson, Investment Governance and Compliance Officer; Ms. Lori Kern, Executive Assistant; Ms. Mary Pat Burns of Burke, Burns & Pinelli; Ms. Leslie Thompson, Ms. Amy Williams and Ms. Kristen Brundirks of Gabriel Roeder Smith & Company; Mr. Douglas Moseley, Ms. Kristin Finney-Cooke and Mr. Kevin Cress of NEPC; Ms. Patti Somerville-Koulouris of the Northern Trust Company; Mr. Mr. Tony Crescenzi, Mr. Jay Jacobs, Mr. Michael Chandra and Mr. Ignzio Galaz of PIMCO.

Administration Committee roll call attendance was taken. Trustee Berger, present; Trustee Engstrom, present; Trustee Figueroa, absent; Trustee Matthews, present; Trustee Miller, present; Trustee Vasquez, present.

PRELIMINARY DISCUSSION OF THE ACTUARIAL VALUATION REPORT AND CERTIFICATION FOR FY 2016

Ms. Phyllis Walker introduced Ms. Leslie Thompson, Ms. Amy Williams and Ms. Kristen Brundirks of Gabriel Roeder Smith & Company (GRS). Ms. Thompson provided an overview of the June 30, 2014, Valuation with an eye toward the certification of the statutory contribution. Ms. Thompson reported that the assumptions and methods used in the actuarial valuation as of June 30, 2014, are for the most part unchanged with the exception of the assumed investment rate of return which has decreased to 7.25%. Ms. Thompson then discussed the key findings of the valuation noting the funding ratio increased from 41.5% to 42.3% and this happened even with the decrease in the assumed investment return. The funding ratio on a market value basis

also increased from 43.7% to 46.5%. The market value of assets is \$17.4 Billion; the actuarial value of assets is \$15.8 Billion. This positive difference is from deferred gains on investments that will flow in the future.

The Statutory Contribution rate went up mainly due to \$87.6 million related to the assumption change and had downward pressure on it because of the positive investment performance of the plan. Ms. Thompson advised that the statutory contribution for fiscal year 2016 amounts to \$1.6 billion. Ms. Thompson commented that GRS does not recommend the statutory funding policy. They recommend a policy more in line with actuarial standards of practice that have a normal cost plus a 30-year amortization period which is \$1.9 billion. This is higher than the statutory contribution but this leads SURS more quickly and in a more appropriate timeframe to the 100% funded ratio that is the target.

In summary, Ms. Thompson noted that the Board has sent the message that a funding policy that targets 100% funding is recommended to ensure the financial health of the System. The Board recently decreased the investment return assumption from 7.75% to 7.25% which will be effective with the June 30, 2014 actuarial valuation, and the Board approved an experience study covering the period June 30, 2010 through June 30, 2014 to analyze the demographic assumptions.

Ms. Walker stated that the proposed net state contribution results from the statutory contribution calculated by GRS under the statutory funding policy less SURS estimation of the trust, federal funds and other sources. Ms. Walker noted that in December GRS will present the final valuation report and we will also have the preliminary state actuary report.

After the actuarial discussion, Ms. Phyllis Walker requested that the Board certify \$1,601,480,000 as the proposed net state contribution for Fiscal Year 2016.

Trustee John Engstrom made the following motion:

- That the proposed state contribution to the State Universities Retirement System for Fiscal Year 2016 be certified in the amount of \$1,601,480,000.

Trustee Mitch Vogel seconded and the motion carried with all Trustees present voting in favor.

Ms. Walker also requested that the contribution to the Community College Health Insurance Security Fund for Fiscal Year 2016 be certified in the amount of \$4,624,625.

Trustee Engstrom made the following motion:

- That the required state contribution to the Community College Health Insurance Security Fund for Fiscal Year 2016 be certified in the amount of \$4,624,625.

Trustee Andrew Matthews seconded and the motion carried with all Trustees present voting in favor.

Copies of the GRS document, “Preview of June 30, 2014 Valuation Results,” the draft NASRA Issue Brief: Public Pension Plan Investment Return Assumptions for October 2014, and the draft SURS Actuarial Valuation Report As of June 30, 2014, are incorporated as a part of these Minutes as [Exhibit 1](#), [Exhibit 2](#) and [Exhibit 3](#). Copies of the staff memorandums, entitled “Fiscal Year 2016 Certification of Projected State Contribution and Community College Health Insurance Security Fund Contribution and Recommendation for the Effective Date of Change to Money Purchase Factors from the 2014 Economic Assumption Study,” “Proposed State Contribution for Fiscal Year 2016” and “Required State Contribution to the Community College Health Insurance Security Fund for Fiscal Year 2016,” are incorporated as a part of these Minutes as [Exhibit 4](#), [Exhibit 5](#) and [Exhibit 6](#).

CONSIDERATION/RECOMMENDATION OF MONEY PURCHASE IMPLEMENTATION

Ms. Amy Williams provided a presentation of the impact of the new preliminary money purchase factors. Under the current provisions of the plan (excluding pension reform) any time there is a change in the investment return assumption or mortality assumption that requires a change in the money purchase factors. GRS has completed one portion of the study of assumptions in which the investment return assumption was decreased from 7.75% to 7.25% and will be completing the second portion of that study in looking at the mortality assumption which will be presented at the February Board meeting. Right now the impact due to the investment return assumption on the money purchase factors is known; however, the full impact will not be known until after the mortality assumptions have been studied.

Ms. Williams discussed the percentage change in the factors and the members benefit as a result of a change in the money purchase factors due to that investment return assumption change, for a younger member the decrease in benefit if they retired at the same point and time would be approximately 5%; however, the older the member gets, the lesser the impact. When the discount rate decreases and mortality assumes longer life expectancy, the money purchase converts to a lower monthly benefit amount. The impact is a result of a change in the money purchase factors.

Ms. Walker recounted that at the June 2014 Administration Committee meeting, GRS presented the results of the economic assumption study and a recommendation was made to approve lowering of the long-term assumed rate of investment return for the Money Purchase Factors (annuitization rate under Rule 2) and other actuarial tables from 7.75% to 7.25% effective as of July 2, 2015, based on the change in the interest rate assumptions. However, she noted that SURS will not know the full impact on the factors until after the experience study which will not be presented until February 2015. Therefore, Ms. Walker suggested establishing an implementation date of September 2, 2015, in order to provide SURS members additional time to access appropriate resources and financial advisors to make an informed retirement decision and it will allow SURS’ staff to plan for a surge in retirement application and secure the necessary resources to service these request on a timely basis.

Trustee Engstrom expressed concerned as to whether the September 2015 date is appropriate. Discussion regarding implementing a later date of January 2016 or July 2016 continued. Ms. Walker noted that timing of the effective date for the new money purchase factors is at the

discretion of the Board. Ms. Burns remarked that the Board should consider past practice on this issue noting that they want to be mindful of what is prudent for the System. Ms. Burns then asked Ms. Thompson if moving the date to July 2016 would have a material adverse economic impact on the System. Ms. Thompson stated that changing the Money Purchase Factor implementation effective date to July 2016 would not materially impact SURS financial condition.

At the conclusion of the discussion, Trustee Engstrom made the following motion:

- That the long-term assumed rate of investment return of 7.25% for the Money Purchase Factors (annuitization rate under Rule 2) effective date be extended to January 4, 2016, in order to allow dissemination of information regarding the change in factors and allow a prudent and meaningful period of time for consideration by members.

Trustee Paul R.T. Johnson seconded and the motion.

Discussion continued as Trustees were concerned as to how this would affect SURS staff and the System as a whole. Ms. Burns noted that as long as this doesn't effect state dollars, then from a legal perspective the Board could be comfortable with the January 2016 date. Ms. Walker indicated that first and foremost, staff wants to do what is best for the SURS membership and the System. With this being said, staff is prepared to try and implement the September 2015 date; however, as long as there is no impact on the System, staff is not opposed to the January 2016 date.

The motion carried with all Trustees present voting in favor.

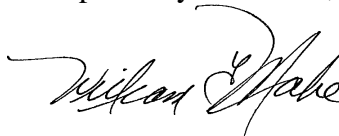
A copy of the staff memorandum entitled "Recommendation for Effective Date of Change to Money Purchase Factors – 2014 Economic Assumption Study" is included as part of these Minutes as [Exhibit 7](#).

PUBLIC COMMENT

There were no public comments presented to the Administration Committee.

Since there was no further business before the Committee, Trustee Matthews moved that the meeting be adjourned. The motion was seconded by Trustee Engstrom and carried with all Trustees present voting in favor.

Respectfully submitted,



Mr. William E. Mabe
Secretary, Board of Trustees

WEM:lk