



MINUTES

**Meeting of the Governmental Affairs Committee
of the Board of Trustees of the
State Universities Retirement System
9:20 a.m., Friday, December 13, 2013
Northern Trust
50 South LaSalle Street, London Room B9
Chicago, Illinois 60603**

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

Others present: Mr. William Mabe, Executive Director; Mr. Michael Weinstein, General Counsel; Mr. Daniel Allen, Chief Investment Officer; Mr. Douglas Wesley, Deputy Chief Investment Officer; Ms. Phyllis Walker, Chief Financial Officer; Mr. Steve Hayward, Director of Internal Audit; Mr. Albert Lee, Associate General Counsel; Mr. Jeffrey Houch, Legislative Liaison; Ms. Pamela Butler, Director of Outreach; Ms. Angela Lieb, Director of Member Services; Ms. Lori Kern and Ms. Karen Hipskind, Executive Assistants; Ms. Mary Pat Burns of Burke, Burns & Pinelli; Mr. Steve Zahn of Governmental Consulting, Inc.; Ms. Linda Brookhart of SUAA; Dr. John Shuler, of SURSMAC; Ms. Patti Somerville-Koulouris of the Northern Trust Company; and Ms. April VanBuren of WBEZ Radio.

Governmental Affairs Committee roll call attendance was taken. Trustee Anderson; present; Trustee Matthews, present; Trustee McCrohon, present.

APPROVAL OF MINUTES

Trustee Lindsay Anderson presented the Minutes from the Governmental Affairs Committee meeting of September 13, 2013. Trustee Andrew Matthews moved:

- That the Minutes from the September 13, 2013 Governmental Affairs Committee meeting be approved as presented.

Trustee Craig McCrohon seconded and the motion carried with all Trustees present voting in favor.

CHAIRPERSON'S REPORT

Trustee Anderson congratulated Mr. Houch on his recent marriage and for all of his hard work on behalf of SURS. She also thanked Mr. Mabe and SURS staff for their professionalism and responsiveness during the recent session of the General Assembly.

Trustee Vasquez and Trustee Vogel were not present when roll call was taken; however, they entered the meeting at 9:20 a.m. and 9:25 a.m. respectively.

LEGISLATIVE UPDATE

Mr. Houch and Mr. Zahn provided a summary regarding Senate Bill 1 (Pension Reform) which was adopted by the Illinois General Assembly on December 4, 2013. Mr. Houch noted that pension reform will impact everyone covered by SURS, including Tier 2 members and current annuitants. Mr. Houch noted that the biggest change is to the automatic annual increase, which is now tied to a threshold compared to the former calculation. The legislation also introduced automatic annual increase "skipping periods" following retirement, depending on the age of the member as of the effective date of the pension reform. Mr. Houch noted that some benefits such as the "30 and out provision" were not clarified through the legislation, so SURS will need to take a closer look at this and get further clarification. Other changes include: adjusting the rate from 3% compounding to years of service multiplied by \$1,000 and applying 3% against that total. The \$1,000 dollar amount will be changed each year to keep up with inflation. Employee contributions rates were reduced 7% versus 8% and for public safety officers, the contribution rate will be reduced to 8½% from 9½%. The effective rate of interest schedule will change as well, which will impact the money purchase and the prescribed rate. An optional defined contribution fund has been developed, which is limited to the first 5% of Tier 1 active population. The employer rate will be variable and cannot be less than 3% or exceed the employer normal cost for Tier 1 benefit members.

Mr. Houch and Mr. Zahn also updated the Committee on the funding changes introduced by pension reform. The General Assembly included in the pension reform legislation language to become 100% funded by 2044. Mr. Houch and Mr. Zahn then explained the language from pension reform legislation that outlines the procedures to compel the state to make the appropriation payments and actions that SURS can take to ensure the funding payments are made. Mr. Zahn noted that SURS will have to ensure that the appropriation amount that has been certified for fiscal year 2015 as certified today is the contribution that will be certified and received. This will be something that will need to be addressed each year.

Discussion amongst the group ensued regarding what could happen with the pension reform legislation if a court would deem that a part of the pension reform is unconstitutional. For instance, if the section changing the cost-of-living adjustments was determined to be unconstitutional or "tossed", the funding mechanism changes from pension reform would be "tossed" as well.

Mr. Houch noted that GRS is conducting a study that mirrors the language of the pension reform bill. In a previous study conducted by GRS, which was similar to the pension reform that recently passed, it showed that there could be an estimated 30-year savings of state contribution requests of \$25 billion, a \$4.8 billion immediate savings in unfunded liability, and a reduction of \$300 to \$400 million for the fiscal year 2016 state appropriation request.

Mr. Houch that approximately 66% of current annuitants retired under the money purchase formula, and with the pension reform changes many members may decide to retire before pension reform goes into effect.

Mr. Weinstein noted that the new defined contribution plan will have to be “qualified” by the IRS and a determination letter from the Internal Revenue Service is required. Mr. Lee noted that the process to obtain a determination letter from the IRS is lengthy during an off cycle period qualification filing, which this new plan would fall under. SURS should know the 5% participation rate in the new defined contribution plan by June 1, 2014. Mr. Wesley noted that the estimated number of participants in the new defined contribution plan is approximately 3,000 members, and he indicated that these members would have to absorb their own administrative expenses to operate the plan.

Ms. Butler and Ms. Lieb reported that SURS experienced a large increase in phone calls and front desk reception traffic during the recent Medicare Advantage election period for annuitants. This increase in service requests is expected to continue throughout pension reform. SURS will continue to increase its educational services provided to members as well as continuing to prepare staff for the influx of requests.

Mr. Weinstein, Ms. Burns, and Mr. Zahn outlined some additional changes made by the PA 98-598 through the pension reform legislation which states that all litigation brought by or against the Board and/or SURS shall be prosecuted or defended by the Attorney General. The Board has had the authority since 1975 to utilize the Attorney General or its own counsel and with this change in legislation, the authority to use counsel, other than the Attorney General, has been taken away from the Board. Mr. Weinstein and Ms. Burns met with the Attorney General’s office yesterday to discuss the changes and after discussion, that office is considering designating both Mr. Weinstein and Mr. Lee as “Special Assistant Attorney Generals” for the four administrative review cases that are currently pending. The Attorney General continues to refer to SURS as a “State Agency”; however, both Ms. Burns and Mr. Weinstein agree that SURS is only a “State Agency” when the statute specifically defines “State Agency” to include SURS.

A complete summary of Mr. Houch’s “Legislative Update” is incorporated as a part of these Minutes as [Exhibit 1](#).

Mr. Mabe and Mr. Zahn discussed the annual SURS Legislative Event. This event is normally hosted by SURS and SUAA, held in Springfield and coordinated with the SURS Board meeting. However, due to scheduling conflicts with the legislature calendar, it was decided that the event would still be held but that it would not be held in conjunction with the regular March Board meeting. That way if Trustees wanted to participate, they could do so

at their leisure. After discussion, it was suggested that the March Board meeting be moved to Champaign, as opposed to Springfield or Chicago. Trustee Anderson asked for the Trustees to consider this change and suggested that the Committee follow-up and make a decision on this suggested change at the next meeting.

RULEMAKING UPDATE

Mr. Weinstein and Mr. Lee reported on SURS' proposed rulemaking noting that all of the suggested changes are minor technical issues to help administer and clarify provisions of the Freedom of Information Act and other matters of SURS benefits administration.

A copy of staff memorandum entitled "Proposed Rulemakings" and a red-line version of the proposed changes are incorporated at part of these Minutes as [Exhibit 2](#) and [Exhibit 3](#).

Trustee Matthews moved:

- That the Board approve the filing of the proposed amendments to Title 80, Part 1600 of the Illinois Administrative Code substantially in the form presented with the Joint Committee on Administrative Rules and the Office of the Secretary of State.

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

Mr. Weinstein gave a brief update on the status of pending rules noting that there is only one rule currently pending before the Joint Committee on Administrative Rules ("JCAR") pertaining to "Rules of Practice - Nature and Requirements of Formal Hearings". This amendment to the Rules and Practice clarifies that staff has the responsibility to make initial determinations as to applications for benefits and that staff may submit a Response to any Statement of Claim that is filed with the Claims Panel. This rule is currently in Second Notice stage and it is anticipated to be approved in January.

Mr. Weinstein then informed the Board that SURS is required to adopt a Regulatory Agenda for Administrative Rules every six months. The proposed Regulatory Agenda for January 2014 was then presented.

Trustee Matthews moved:

- That the January 2014 Regulatory Agenda be approved as presented.

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

A copy of the "SURS January 1, 2014 Regulatory Agenda" is incorporated as a part of these Minutes as [Exhibit 4](#).

INFORMATIONAL ITEMS NOT REQUIRING COMMITTEE ACTION

Mr. Weinstein indicated that there are no informational items to present to the Governmental Affairs Committee.

PUBLIC COMMENT

There were no public comments presented to the Governmental Affairs Committee.

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

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "William E. Mabe".

Mr. William E. Mabe
Secretary, Board of Trustees

WEM:lk