



MINUTES

**Meeting of the Legal & Legislative Committee
of the Board of Trustees of the
State Universities Retirement System
9:00 a.m., Friday, September 11, 2015
State Universities Retirement System
1901 Fox Drive, Main Conference Room
Champaign, Illinois 61820**

The following Trustees were present: Ms. Lindsay Anderson, Chair; Mr. Aaron Ammons, Mr. Dennis Cullen (via conference call), Dr. John Engstrom, Dr. Fred Giertz, Mr. Francis Idehen Jr., Mr. Paul R.T. Johnson Jr., Mr. Craig McCrohon, Ms. Dorinda Miller, Dr. Steven Rock, Mr. Antonio Vasquez.

Others present: Mr. W. Bryan Lewis, Executive Director; Mr. Andrew Matthews, Chief Operating Officer; Mr. Daniel Allen, Chief Investment Officer; Ms. Phyllis Walker, Chief Financial Officer; Mr. Albert Lee, Interim General Counsel; Ms. Brenda Dunn, Director of Human Resources; Ms. Allison Kushner, Compliance and Governance Officer; Ms. Kristen Houch, Legislative Liaison; Mr. Douglas Steele, Director of Application Development; Mr. Chris Hansen, Director of Operations; Ms. Angela Lieb, Director of Member Services; Ms. Suzanne Mayer, Director of Outreach; Ms. Lori Kern and Ms. Karen Hipskind, Executive Assistants; Ms. Mary Pat Burns of Burke, Burns & Pinelli; Ms. Linda Brookhart of The State Universities Annuitant Association.

Legal & Legislative Committee roll call attendance was taken. Trustee Anderson, present; Trustee Giertz, present; Trustee Rock, present.

Per the motion approved at the Board meeting on September 10, 2015, Trustee Dennis Cullen is allowed to participate via conference call for all meetings on September 10 & September 11, 2015, pursuant to Section 7(c) of the Open Meetings Act.

APPROVAL OF MINUTES

Trustee Lindsay Anderson presented the Minutes from the Legal & Legislative Committee meeting of June 11, 2015. Trustee Steven Rock made the following motion:

- That the Minutes from the June 11, 2015 Legal & Legislative Committee Meeting be approved as presented.

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

CHAIRPERSON'S REPORT

Trustee Lindsay Anderson thanked the legislative team for all of their hard work in Springfield and for providing the Board with continued updates throughout the summer session.

Trustee Anderson reported that the Attorney General chose not to appeal the Illinois Supreme Court's decision on Public Act 98-599 to the U.S. Supreme Court. She then asked Ms. Mary Patricia Burns to provide a more detailed explanation to the Committee.

Ms. Burns assured the Committee that SURS Legal Counsel and Staff closely monitor the actions of the Attorney General in the legal representation of SURS.

RULEMAKING

Mr. Albert Lee remarked that at the June Board Meeting staff had proposed some rulemakings regarding Return to Work Affected Annuitant Rules and Employer Appeals. The Board approved those rulemakings, in substance, but asked that staff come back to them with more information regarding the return to work regulatory scheme. Mr. Lee then provided a summary of post-retirement employment rules that are applicable to SURS retirees and employers.

Trustee Anderson remarked that one of the concerns raised at the last board meeting that prompted this discussion was that some of the institutions were stating that they wouldn't re-hire any SURS annuitants. SURS Board indicated that they wanted to get a better understanding of the rules and they also discussed the possibility of communicating this to the employers. Ms. Suzanne Mayer then provided the Committee a brief background and summary regarding the education, outreach efforts and tools that have been provided to all SURS-covered employers to aid them in understanding and administering the rules.

After discussion, Mr. Lee remarked that SURS Staff will proceed as usual with rule presented in June 2015.

Copies of the staff memorandums entitled "Return to Work and Affected Annuitant Rules", and "Affected Annuitant Employer Education" are incorporated as a part of these Minutes as [Exhibit 1](#) and [Exhibit 2](#).

LEGISLATIVE UPDATE

Ms. Kristen Houch introduced Mr. Steve Zahn of Zahn Governmental Solutions and Ms. Janet Jones of Janet Jones Consulting. Ms. Houch then provided a legislative update on bills that have passed both chambers, resolutions adopted, the Fiscal Year 2016 appropriations bills, and SURS-related legislation that has been filed since June 1, 2015.

A complete summary of Ms. Houch's "Legislative Update for Regular Session 2015" is incorporated as a part of these Minutes as [Exhibit 3](#).

Ms. Houch also referred to the memo entitled "How a Bill Becomes a Law in Illinois" and explained the difference between a bill and a resolution.

A copy of the staff memorandum, entitled "How a Bill Becomes a Law in Illinois" is incorporated as a part of these Minutes as [Exhibit 4](#).

2016 LEGISLATIVE AGENDA DISCUSSION

Ms. Houch and Mr. Andrew Matthews presented the Spring 2016 Legislative Proposal noting that SURS staff reviewed Illinois law and recommended a legislative proposal codifying the default investment alternative under the Self-Managed Plan (“SMP”).

Trustee Aaron Ammons asked if a member could change plans once they elected to be in the SMP plan. Mr. Matthews explained that once a member elects to participate in a plan, whether it’s Traditional, Portable, or SMP; it is a one-time, irrevocable decision. Once a member elects to participate in the SMP plan, at any point and time, the member can go into their account and manage their account as they see fit. Mr. Matthews stated that the vast majority of SMP members make active selections of the funds that they prefer and this is a very small population (only 3.6%) that we are talking about defaulting into the default investment alternative in the SMP program specifically.

Trustee Steven Rock made the following motion:

- That SURS Staff be authorized to pursue a legislative proposal regarding SMP default investments.

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

A copy of the staff memorandum, entitled “Spring 2016 Legislative Proposal” is incorporated as a part of these Minutes as [Exhibit 5](#).

PUBLIC COMMENT

There were no public comments presented to the Legal & Legislative Committee.

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

Respectfully submitted,



Mr. W. Bryan Lewis
Secretary, Board of Trustees

WBL:lk



State Universities Retirement System of Illinois

Serving Illinois Community Colleges and Universities

1901 Fox Drive • Champaign, IL 61820-7333
(217) 378-8800 • (217) 378-9801 (FAX)
Legal Department

MEMORANDUM

To: Legal & Legislative Committee

From: Albert J. Lee, Interim General Counsel

Date: August 27, 2015

Re: Return to Work and Affected Annuitant Rules

I. EXECUTIVE SUMMARY

This memorandum provides a summary of post-retirement employment rules applicable to SURS retiree and employers. Please note that the earnings limitation rules do not apply to Portable lump-sum retirees. None of the rules apply to Self-Managed Plan retirees.

A. Rules for Retirees

- 1. 60-Day Waiting Period.** A retiree must wait 60 days before returning to employment with a SURS-covered employer, or else be subject to retirement cancellation, SURS re-participation, and be required to return any benefits received.
- 2. Monthly Earnings Limit (Retirements Before Age 60).** A retiree who retired before age 60 forfeits the employer-funded portion of the annuity if monthly pay exceeds the monthly retirement annuity.
- 3. Annual Earnings Limit (Retirements At or After Age 60).** A retiree who retired at or after age 60 who receives annual pay that is more than the difference between the “highest annual earnings” and the base annual annuity forfeits the excess pay, which is taken out of the employer-funded portion of the annuity.
- 4. Reparticipation.** If an employer certifies that a retiree is hired in a position that is on a permanent and continuous basis or at least 9 months in duration, then the retiree has the option to forego the annuity and resume active participation in SURS. Upon a subsequent retirement, the retiree will receive an annuity that includes the additional service credit and earnings.
- 5. Tier 2 Annuity Suspension.** If a Tier 2 retiree becomes a participant in another retirement system or pension fund governed by the Illinois Pension Code and is employed full-time, then the annuity is suspended during that employment. Tier 1 retirees are not subject to this limitation.

B. Rules for Employers

1. **“Affected” Annuitants.** If an employer employs an annuitant who is receiving an annuity of at least \$10,000 per year and is paid more than 40% of his or her highest annual earnings, then any employer that employs that annuitant (also known as an “affected annuitant”) in a subsequent academic year will be liable for the monthly annuity multiplied by twelve.
2. **Employer Reporting.** In addition to any other reporting requirements, employers are required to report to SURS any retiree employments that may result in the cancellation or reduction of a retirement annuity.

II. REEMPLOYMENT RULES FOR RETIREES

Sections 15-139, 15-139.1, and 15-139.5 of the Illinois Pension Code provide rules that discourage employment of annuitants by SURS-covered employers. These post-retirement employment rules impose a number of restrictions on annuitants and employers.

A. 60-Day Waiting Period

Under Section 15-139(a), if an annuitant returns to employment within 60 days after the beginning of the retirement annuity payment period, then the annuity is cancelled and payments must be returned. The annuitant resumes SURS participation from the date of employment.

B. Monthly Earnings Limit

Under Section 15-139(b), if an annuitant who retired before age 60 receives monthly post-retirement compensation over the monthly retirement annuity, then he or she forfeits the employer-funded portion of the annuity.

Example 1:

Employee-funded portion of annuity: \$2,000 per month

Employer-funded portion of annuity: \$3,000 per month

Total Monthly Annuity: \$5,000 per month

Post-Retirement Compensation: \$6,000 per month

Reduced Monthly Annuity: \$2,000 per month (Employee-funded portion of annuity only)

C. Annual Earnings Limit

Under Section 15-139(b), if an annuitant who retired at or over age 60 receives post-retirement compensation that is over the difference between the highest annual earnings and the initial annual retirement annuity, then he or she forfeits the employer-funded portion of the annuity by that overage.

Example 2:

Highest Annual Earnings (HAE): \$80,000 per year

Initial Annuity w/o AAI (IA):	\$50,000 per year
HAE – IA =	\$30,000 per year
Post-Retirement Compensation (PRC):	\$32,000 per year
Overage (= PRC – (HAE – IA)):	\$2,000
Total Unreduced Annuity:	\$5,000 per month
Employer-funded Annuity with AAI:	\$3,000 per month
<u>Minus the Overage:</u>	<u>– \$2,000</u>
Remaining Employer-funded Annuity with AAI:	\$1,000 per month
<u>Plus Employee-funded Annuity with AAI:</u>	<u>+ \$2,000 per month</u>
Reduced Monthly Annuity	\$3,000 per month

D. Reparticipation

Under Section 15-139(c), if an employer certifies that an annuitant’s employment will be “permanent and continuous” or expected span at least 9 months, then the annuitant is given the option to suspend his or her annuity and reparticipate in SURS. During the reemployment period, the annuitant accrues service and earnings credits, which will be used to calculate an additional annuity that is payable upon a second retirement. Death benefits in the event of the annuitant’s death during the reemployment consist of accumulated contributions as of the date of retirement minus any annuity payments received. Survivors insurance benefits are payable if a survivors insurance beneficiary existed at the time of initial retirement. If the annuitant is terminated before 9 months of reemployment, then the contributions made during the reemployment are refunded and the annuity is resumed.

E. Tier 2 Annuity Suspension

Under Section 15-139.1, if a Tier 2 retiree becomes a member or participant in another reciprocal retirement system or pension fund (other than SURS), then the annuity is suspended during that employment. Upon termination, the annuity resumes and is recalculated if provided for under Article 15.

III. REEMPLOYMENT RULES FOR EMPLOYERS

A. Employment of Affected Annuitants

Section 15-139.5 of the Illinois Pension Code added an employer cost-shifting provision that was effective as of August 16, 2012. In academic years beginning on or after August 1, 2013, any employer that employs or re-employs an “affected annuitant” in a non-civil service position is required to make a contribution to SURS that is 12 times the amount of the gross monthly retirement annuity after any reduction due to application of the monthly or annual earnings limit. The provision does not prevent an employer from hiring an affected annuitant, but rather, imposes an additional cost for doing so.

An annuitant becomes an “affected annuitant” on September 1st of the academic year following the academic year in which he or she earned post-retirement compensation in excess of 40% of the highest annual earnings. Compensation from federal, corporate, foundation, or trust funds or State grants that name a principal investigator is excluded. Annuitants who receive an annuity that is less than \$10,000 per year are excluded. Once an annuitant becomes an affected annuitant, he or she remains so, except during periods that an annuitant suspends the annuity and reparticipates in SURS. The employer is obligated to determine “affected annuitant” status and may require the annuitant to disclose prior employment and earnings history. If contributions are delayed because of an employer’s failure to properly make the “affected annuitant” determination, then the contribution amount is doubled.

Contributions are waived if the affected annuitant elects to suspend the annuity and reparticipate in SURS. Contributions are waived for one academic year if the employer employs the affected annuitant in order to continue critical operations in the event of either an employee’s unforeseen illness, accident, or death or a catastrophic incident or disaster. “Critical operations” consist of teaching, medical, student welfare, and other services that are critical to the mission of the employer.

To aid enforcement, Section 15-139.5(a) imposes reporting requirements on employers within 60 days of any annuitant hiring. Employers are required to provide SURS with information pertaining to the contract, compensation rate, anticipated length of employment, and compensation from federal, corporate, foundation, or trust fund or State grants. Additionally, as a matter of agency practice, SURS requests actual compensation and employment information within 30 days after the end of an academic year.

Whenever the System determines that an employer is liable for a contribution, it must notify the employer and certify the amount of the contribution. The employer may pay the required contribution without interest at any time within one year after receipt of the certification. If the employer fails to pay within that year, then interest is charged at the prescribed rate of interest, compounded annually from the 366th day after receipt of the certification. If the employer fails to make complete payment within 2 years, then the System may deduct the amounts from funds appropriated to the employer through the State Comptroller.

B. Employer Reporting

In addition to the reporting requirements, above, SURS regulations require the employer to report any annuitant employment that would cause a reduction or cancellation of a retirement benefit.



State Universities Retirement System of Illinois

Serving Illinois Community Colleges and Universities

1901 Fox Drive • Champaign, IL 61820-7333
(217) 378-8800 • (217) 378-9802 (FAX)

To: Legal & Legislative Committee
 From: Suzanne Mayer, Director of Outreach
 Date: September 11, 2015
 Re: Affected Annuitant Employer Education

Section 15-139.5 of the Illinois Pension Code added an employer cost-shifting provision that was effective as of August 16, 2012 (affected annuitant provision). In academic years beginning on or after August 1, 2013, any employer that employs or re-employs an “affected annuitant” in a non-civil service position is required to make a contribution to SURS. The following provides a summary of education and tools provided to all SURS-covered employers to aid them in understanding and administering the post-retirement rules outlined in this provision.

Educational Events

- **Return to Work Workshops (2) – September 2012**
 - Focused on breaking down Section 15-139.5 and collecting input from employers on administrative procedures and rulemaking.
- **Return to Work Comprehensive Webinar – January 2013**
 - Provided a detailed breakdown of the rules of the provision and included a detailed question and answer session to address employer concerns and misunderstandings.
- **Return to Work Reporting Webinars (3) – July 2013**
 - Provided training on required employer reporting of annuitants returning to work. Introduced employers to return to work reporting screens on the SURS employer website.
- **Return to Work Refresher Webinar – August 2013**
 - Reviewed both the rules of the provision and the process for required reporting of annuitants returning to work.
- **2014 Employer Seminars (5) – April-June 2014**
 - Included return to work education as an agenda topic during SURS annual all-day employer education seminars. Reviewed provision rules and reporting requirements.
- **2015 Employer Seminars (3) – May-June 2015**
 - Included return to work education as an agenda topic during SURS annual all-day employer education seminars. Reviewed provision rules and reporting requirements.

Tools & Materials

- **Employer Website Annuitant Inquiry Function**
 - Look-up function added to the SURS Employer website allowing employer contacts to view any annuitant’s highest annual earnings, earnings limitation, and whether the annuitant has been reported as an “affected annuitant” by any employer.

- **Employer Website Help Text Rollovers**
 - Included on each step of the Return to Work reporting process on the Employer website. Employer contacts can rollover a question mark icon next to each step for detailed explanations of information required and instructions on how to complete the step.
- **Formal Memo addressing questions**
 - Distributed to all employer contacts in May 2014. Addressed specific employer concerns related to return to work rules and administration.
- **Employment after Retirement Fact Sheet**
 - Distributed to SURS employers during educational events and also available to both employers and membership via SURS website. Covers Section 15-139 & 139.5 Employee and Employer employment after retirement restrictions.
- **Return to Work FAQs**
 - Distributed to employer contacts and posted on SURS Employer website in August 2015. Provides answers to frequently asked employer questions regarding return to work rules and administration.

In addition to the above outlined events, tools and materials, dialogue and training continuously occurs with employer contacts through conference calls, individual calls, and email correspondence. Employer Services staff handle approximately 300 email and telephone inquiries from employer contacts each month.



State Universities Retirement System of Illinois

Serving Illinois Community Colleges and Universities

1901 Fox Drive • Champaign, IL 61820-7333
(217) 378-8800 • (217) 378-9801 (FAX)

Legal Department

Regular Session 2015

Bills Passed Both Chambers

House Bill 422 – Actuarial Experience Study Every Three Years

Sponsors – Representative Thomas Morrison and Senator Michael Connelly

HB 422 requires an actuarial experience study to occur at least once every three years (instead of at least once every five years) for the General Assembly Retirement System, State Employees Retirement System, State Universities Retirement System, Teachers Retirement System, and Judges Retirement System.

HB 422 takes effect immediately upon becoming law.

Status: Governor Rauner signed into law on 8/3/2015 as Public Act 99-0232 (House Vote: 113-0-0; Senate Vote: 54-0-0).

House Bill 3484 – State Retirement Systems Administrative Technical Changes

Sponsors – Representative Elaine Nekritz and Senator Daniel Biss

HB 3484 makes the following technical changes to strengthen the oversight and administration of the State Universities Retirement System:

- Clarifies that the final rate of earnings formula for a person with more than 36 months of prior service applies to individuals with service credit before September 1, 1941;
- Codifies a definition of "plan year," which is referenced in statute but never defined;
- Clarifies that interest calculated on a refund to reestablish service credit begins on the date the refund was issued by SURS (instead of the date received by the member); and
- Clarifies that both active and inactive participants may purchase optional service credit, but only active participants can purchase optional service credit through pre-tax paycheck deductions.
- Clarifies language allowing SURS to require information from any benefit recipient and from any employer of a current or former participant that is necessary for the proper administration of the System.

HB 3484 also makes technical changes for three of the other State-funded retirement systems (General Assembly Retirement System, State Employees Retirement System, and Teachers Retirement System).

HB 3484 takes effect immediately upon becoming law.

Status: Governor Rauner signed into law on 8/24/2015 as Public Act 99-0450 (House Vote: 111-0-0; Senate Vote: 58-0-0).

Senate Bill 1334 – Aspirational Minority, Female, and Disabled Goals for State Contracts Sponsors – Senator James F. Clayborne, Jr. and Representative Arthur Turner

SB 1334 establishes that, beginning January 1, 2016, it is the aspirational goal for a retirement system, pension fund, or investment board under the Illinois Pension Code to use emerging investment managers for not less than 20% of total funds under management.

Additionally, SB 1334 establishes that it is the aspirational goal that not less than 20% of investment advisors be minorities, females, and persons with disabilities.

Finally, SB 1334 establishes that it is the aspirational goal to utilize businesses owned by minorities, females, and persons with disabilities for not less than 20% of contracts awarded for information technology services, accounting services, insurance brokers, architectural and engineering services, and legal services.

SB 1334 takes effect immediately upon becoming law.

Status: Governor Rauner signed into law on 8/25/2015 as Public Act 99-0462 (Senate Vote: 53-0-0; House Vote: 103-8-1).

Senate Bill 1761 – No Investments in Companies that Boycott Israel Sponsors – Senator Ira I. Silverstein and Representative Sara Feigenholtz

SB 1761 prohibits investments in companies that boycott Israel and streamlines the current divestiture policies for Iran and Sudan.

SB 1761 defines boycotting Israel as "engaging in actions that are politically motivated and are intended to penalize, inflict economic harm on, or otherwise limit commercial relations with the State of Israel or companies based in the State of Israel or in territories controlled by the State of Israel."

Additionally, SB 1761 creates the Illinois Investment Policy Board, consisting of 4 members appointed by the Governor and 3 members appointed by each of the Boards of the State Universities Retirement System, Teachers Retirement System, and Illinois State Board of Investments, respectively. The Illinois Investment Policy Board will identify all Iran-restricted companies, Sudan-restricted companies, and

companies that boycott Israel and develop a list of restricted companies for the retirement systems.

The Illinois Investment Policy Board will also send a written notice to a company informing it of its status on the list of restricted companies and that it may become subject to divestiture by the retirement systems and will collect information from each retirement system regarding investments sold, redeemed, divested, or withdrawn from the list of restricted companies in accordance with the Act.

SB 1761 takes effect immediately upon becoming law.

Status: Governor Rauner signed into law on 7/23/2015 as Public Act 99-0128 (Senate Vote: 49-0-3; House Vote: 102-0-0).

Fiscal Year 2016 Appropriation Bills

Senate Bill 842 – Fiscal Year 2016 Budget Implementation

Sponsors – President John J. Cullerton and Representative Barbara Flynn Currie

SB 842 authorizes the use of \$190,000,000 from the State Pensions Fund as part of the annual required State contribution to the State Universities Retirement System for Fiscal Year 2016.

SB 842 also makes other changes unrelated to SURS.

Status: Governor Rauner signed into law on 7/9/2015 as Public Act 99-0008 (Senate Vote: 33-22-2; House Vote: 65-48-0).

Senate Bill 2030 – Fiscal Year 2016 Required State Contribution

Sponsors – President John J. Cullerton and Speaker Michael J. Madigan

SB 2030 appropriates the annual required State contribution to the State Universities Retirement System, as certified by the SURS Board of Trustees (\$1,601,480,000).

Specifically, SB 2030 appropriates \$1,411,480,000 from the General Revenue Fund and \$190,000,000 from the State Pensions Fund to SURS for the Fiscal Year 2016 State contribution.

SB 2030 also appropriates \$4,624,625 from the Education Assistance Fund to SURS for deposit into the Community College Health Insurance Security Fund for the Fiscal Year 2016 State contribution to the College Insurance Program ("CIP"). This amount represents the full Fiscal Year 2016 State contribution to CIP, as certified by the SURS Board of Trustees.

Status: Governor Rauner vetoed on 6/25/2015; total veto stands as of 7/15/2015 (Senate Vote: 33-24-1; House Vote: 65-51-0).

Resolutions Adopted

House Resolution 146 – Urge Federal Repeal of the Government Pension Offset and Windfall Elimination Provision

Sponsor – Representative Mary E. Flowers

House Resolution 146 urges the United States Congress to introduce and pass legislation repealing the Government Pension Offset and the Windfall Elimination Provision. These federal laws reduce the Social Security benefits of certain public sector retirees and their survivors.

Status: Resolution Adopted in the House on 4/17/2015.

House Resolution 531 – Fee Reductions for Reductions in State Aid to Municipalities

Sponsor – Representative Emanuel Chris Welch

House Resolution 531 urges members of the General Assembly not to implement any cuts to State aid to municipalities unless those cuts are matched by equally proportionate reductions in fees for financial services paid by State agencies, including fees for all financial services, including cash management, investment management, and debt management.

Additionally, House Resolution 531 urges that, if the General Assembly cuts State aid to municipalities, all State agencies request that the firms that provide financial services to them reduce fees by an equally proportionate amount.

Lastly, House Resolution 531 urges State agencies not to make any payments to firms that refuse to reduce fees for financial services by the set amount until they have first met all of their other financial obligations.

Status: Resolution Adopted in the House on 5/30/2015.

Senate Resolution 317 – Tier 2 Pension Impact Study

Sponsor – Senator Daniel Biss

Senate Resolution 317 urges the Teachers Retirement System and State Universities Retirement System to pursue an Internal Revenue Service ruling on the compliance of Tier 2 with safe harbor provisions under the Internal Revenue Code.

Senate Resolution 317 also resolves that TRS and SURS provide a detailed analysis of the financial impact that the Governor's proposal would have on people currently in Tier 1 and that the report be completed prior to consideration of the Governor's proposal to move Tier 1 participants into Tier 2.

Senate Resolution 317, as amended, is identical to House Resolution 358.

Status: Resolution Adopted as Amended in the Senate on 5/31/2015 (Vote: 37-18-1).

SURS-Related Legislation Filed Since June 1, 2015

House Bill 4256 – SURS Basic Compensation Limitation **Sponsor – Representative Jeanne M. Ives**

HB 4256 limits basic compensation to the gross basic rate of salary or wages payable by an employer for individuals who first become participants of the State Universities Retirement System on and after the effective date.

HB 4256 does not change the definition of pensionable earnings under Section 15-111, which consists of basic compensation plus extra compensation for summer teaching, overtime, or other extra service.

Status: House Referred to Rules Committee on 7/28/2015.

House Bill 4259 – SURS Participation Limited to Public Employees **Sponsor – Representative Martin J. Moylan**

HB 4259 prospectively excludes certain private employers from participation in the Illinois Municipal Retirement Fund, State Universities Retirement System (SURS), and the Teachers Retirement System.

Specifically, HB 4259 excludes individuals who begin employment with the following employers on or after the effective date from participation under SURS: certain associations of community college boards, the Association of Illinois Middle-Grade Schools, the Illinois Association of School Administrators, the Illinois Association for Supervision and Curriculum Development, the Illinois Principals Association, the Illinois Association of School Business Officials, and the Illinois Special Olympics.

HB 4259 also gives the SURS Board of Trustees final determination as to whether a person is an employee covered under SURS.

Status: House Referred to Rules Committee on 7/28/2015.

House Resolution 668 – Divestiture from Small-Dollar Lenders, Payday Loans, and Predatory Lenders **Sponsor – Representative Arthur Turner**

HR 668 resolves that the State-funded retirement systems (the General Assembly Retirement System, State Employees Retirement System, State Universities Retirement System, Teachers Retirement System, and Judges Retirement System) review their

investments in any entity that supports small-dollar lenders, payday loans, and predatory lenders and urges them to divest from such entities (including investments in JLL Partners Fund V, LLC).

Additionally, HR 668 urges the State-funded retirement systems to develop policies and procedures to prevent investments from being made in small-dollar lenders, payday loan lenders, and predatory lenders in the future.

Finally, HR 668 resolves that each of the State-funded retirement systems submit a report, on or before January 1, 2016, to the General Assembly and the Governor regarding any investment currently held by that retirement system in any entity that supports small-dollar lenders, payday loans, and predatory lenders (including any investments held in JLL Partners Fund V, LLC).

Status: House Referred to Rules Committee on 7/28/2015.

Senate Bill 2156 – No Severance Payments Count towards Pensions
Sponsor – Senator Bill Cunningham

SB 2156 clarifies existing law prohibiting severance payments from counting towards the calculation of pensions under the State Universities Retirement System.

Status: Senate Referred to Assignments Committee on 7/14/2015.

Senate Bill 2159 – No Taxpayer or Tuition Funding of Certain Performance-Based Bonus Payments
Sponsor – Senator Bill Cunningham

SB 2159 prohibits performance-based bonus payments awarded by public universities that result in an increase in the final rate of earnings under the State Universities Retirement System from being paid with taxpayer or tuition funds.

Status: Senate Referred to Assignments Committee on 7/14/2015.

Senate Bill 2162 – Exclude Housing and Vehicle Allowances from Pensions
Sponsor – Senator Michael Connelly

SB 2162 excludes amounts paid for housing allowances and vehicle allowances from the pensions of individuals who first become participants of Illinois Municipal Retirement Fund, State Universities Retirement System, and Teachers Retirement System on and after the effective date.

Status: Senate Referred to Assignments Committee on 7/28/2015.

Senate Bill 2163 – Public Notice before Approval of Salary Increases above 6%
Sponsor – Senator Michael Connelly

SB 2163 requires the Board of Trustees of each public university to post a public notice with the following information 30 days prior to voting whether to increase an employee's earnings above 6% from the previous academic year, for any academic year used to determine the final rate of earnings under the State Universities Retirement System: (1) the name and position of the person receiving the increase in earnings; (2) the amount of the increase in earnings expressed as a dollar amount and percentage; and (3) the present value of the increase in pension benefits resulting from the increase in earnings in excess of 6%.

SB 2163 also makes similar changes for employers covered under the Teachers Retirement System.

Status: Senate Referred to Assignments Committee on 7/28/2015.



State Universities Retirement System of Illinois

Serving Illinois Community Colleges and Universities

1901 Fox Drive • Champaign, IL 61820-7333
 (217) 378-8800 • (217) 378-9801 (FAX)
 Legal Department

Memorandum

To: SURS Board of Trustees
 From: Kristen Houch, Legislative Liaison
 Date: August 28, 2015
 Subject: How a Bill Becomes a Law in Illinois

Legislative Procedure

The General Assembly consists of two chambers: the House and the Senate. Each bill must be read on three separate days in each chamber, a bill must pass both chambers in the same form, and a bill must follow the same process for passage in both chambers.

After a legislator introduces a bill (in either the House or the Senate), there are six key steps that the bill must follow before it can be sent to the Governor (in the following order): Introduction in the First Chamber; 1st, 2nd, and 3rd Readings in the First Chamber; Passage by the First Chamber; Introduction in the Second Chamber; 1st, 2nd, and 3rd Readings in the Second Chamber; and Passage by the Second Chamber.

After a bill is read into the record for the first time (1st Reading), it is sent to Rules Committee in the House or Assignments Committee in the Senate. (All bills must go through Rules and Assignments Committees.) Rules or Assignments Committee can assign the bill to a committee.

Generally, pension bills are heard in House Personnel and Pensions Committee and Senate Licensed Activities and Pensions Committee. The committee can hold a hearing to consider the bill (and any amendments), and if the bill passes out of the committee, it is read for a second time (2nd Reading) and can be further amended on the floor.

Once a bill has been read for a second time (2nd Reading), it can be moved to 3rd reading (after any additional amendments) and called for a final vote of the chamber. If the bill receives the requisite number of votes*, it repeats the same process in the Second Chamber.

If the Second Chamber amends the bill, it must return to the First Chamber for concurrence. If the First Chamber concurs with the amendment, then the bill is sent to the Governor. If the First Chamber does not concur with the amendment, then the bill returns to the Second Chamber. If the Sponsor in the Second Chamber recedes from the amendment, then the bill is sent to the Governor without the amendment. If the Sponsor in the Second Chamber refuses to recede from the amendment, then a

Conference Committee meets to recommend a compromise bill. If both chambers pass the compromise bill, then it is sent to the Governor.

Executive Branch Procedure

Once a bill passes both chambers, the First Chamber has 30 calendar days to send it to the Governor.

Once a bill arrives on the Governor's desk, the Governor has 60 calendar days to act on it. The Governor can: sign it into law, veto it, amendatorily veto it, or veto or reduce specific line items in it (for appropriation bills). If the Governor does not act on the bill within 60 calendar days, it automatically becomes law.

After a bill is vetoed, amendatorily vetoed, line-item vetoed, or reduction-vetoed, the First Chamber has 15 calendar days upon returning to Session to override the Governor's veto, amendatory veto, line-item veto, or line-item reduction veto (or to accept the Governor's amendatory veto). After the First Chamber acts and immediately delivers the bill to the Second Chamber, the Second Chamber has 15 calendar days to take the same action as follows:

- A total veto requires a three-fifths vote of both chambers to override (71 in the House and 36 in the Senate). If both chambers fail to override a total veto, the Governor's veto stands (the bill does not become law). If both chambers override a total veto, the bill becomes law.
- An amendatory veto requires a three-fifths vote of both chambers to override (71 in the House and 36 in the Senate). If both chambers fail to override an amendatory veto, the Governor's amendatory veto stands (the bill does not become law). If both chambers override the Governor's amendatory veto, the bill becomes law in the form in which it originally passed both chambers.
- Both chambers can accept an amendatory veto on a majority vote (60 in the House and 30 in the Senate). If both chambers accept the amendatory veto, the bill is presented to the Governor, and if the Governor certifies the changes, then the bill becomes law with the Governor's changes. If the Governor does not certify the changes, then the bill is returned to the First Chamber as a vetoed bill.
- A specific line-item veto requires a three-fifths vote of both chambers to override (71 in the House and 36 in the Senate). If both chambers fail to override a line-item veto, the Governor's line-item veto stands (the line-item does not become law). If both chambers override the line-item veto, the line-item becomes law in the form in which it originally passed both chambers. However, the line-items that have not been vetoed automatically become law upon the Governor's line-item veto of the bill.

- A specific line-item reduction requires a majority vote of both chambers to override (60 in the House and 30 in the Senate). If both chambers fail to override a line-item reduction, the reduced amount becomes law. If both chambers override the line-item reduction, the line item becomes law in the form in which it originally passed both chambers. However, the line-items that have not been reduced automatically become law upon the Governor's line-item reduction veto of the bill.

The Effective Date of Bills*

Prior to June 1st, bills generally require a majority vote (60 in the House and 30 in the Senate) to immediately become law. If a bill passes prior to June 1st and does not have an effective date, it generally takes effect on January 1st of the following calendar year.

However, after May 31st, bills require a three-fifths vote (71 in the House and 36 in the Senate) to become law prior to June 1st of the following calendar year.

Beginning January 1st, the requisite number of votes needed to pass a bill with an immediate effective date returns to a majority (60 in the House and 30 in the Senate).

Resolutions

Resolutions do not carry the force of law and are not legally-binding. This means that, while a resolution may urge a particular action to be taken, it cannot legally compel any individual or entity to take such action.

Resolutions can be adopted in the House, Senate, or jointly by both chambers. Many resolutions are congratulatory or commemorative in nature, but resolutions are not limited to any particular subject matter.

Any resolution calling for the expenditure of state funds must be adopted on a recorded vote of the majority (60 in the House and 30 in the Senate).

Resolutions are only valid during the General Assembly in which they are adopted (for a period of up to two years until a new General Assembly convenes on the second Wednesday in January during an odd-numbered year).



State Universities Retirement System of Illinois

Serving Illinois Community Colleges and Universities

1901 Fox Drive • Champaign, IL 61820-7333
(217) 378-8800 • (217) 378-9801 (FAX)
Legal Department

Memorandum

To: SURS Board of Trustees
From: Kristen Houch, Legislative Liaison
Date: August 28, 2015
Subject: Spring 2016 Legislative Proposal

SURS staff reviewed Illinois law and recommended the following proposal for the 2016 Spring Legislative Session:

Legislative Proposal

The proposed legislation amends subsection (d) of Section 15-158.2 of the SURS Article of the Illinois Pension Code to provide safe harbor protection for the SURS Board of Trustees in providing a default investment alternative under the Self-Managed Plan ("SMP").

Background

The SURS Board of Trustees has provided a default investment alternative since enactment of the SMP on January 1, 1998, pursuant to Section 5.4 of the Second Restatement of the Self-Managed Plan. SURS members have six months after certification of employment to make a one-time, irrevocable election to participate in the SMP. Under the SMP, participants contribute 8% of their salary and the State contributes 7.6% of the participant's salary (less a portion for disability benefits) to the participant's account balance for investment in funds selected by the participant.

Upon electing to participate in the SMP, participants have the option to allocate their account balances to up to 51 funds offered by two providers, Fidelity Investments and TIAA-CREF. Over the past 10 years, only 3.6% of 14,232 SURS members who selected the SMP on their plan election form failed to provide any direction for the investment of funds in their account balances. These 517 members were automatically enrolled into a life-cycle or targeted-retirement-date fund.

Currently, if a participant fails to indicate how his or her account balance should be split between Fidelity Investments and TIAA-CREF, then 100% of the account balance is automatically enrolled in a life-cycle or targeted-retirement-date fund with Fidelity Investments. If the participant directs his or her account balance to be split (50-50) with Fidelity Investments and TIAA-CREF but does not provide further investment direction, then 50% of the account balance is invested in a life-cycle or targeted-retirement-date fund with Fidelity Investments and 50% of the account balance is invested in a life-cycle or targeted-retirement-date fund with TIAA-CREF.

Fidelity Investments and TIAA-CREF send quarterly notices to all SMP participants that detail their account balances and investment returns from each fund (including the life-cycle or targeted-retirement-

date fund). SMP participants can make transfers among funds offered by the same provider on a daily basis and can transfer funds to a different provider on a quarterly basis.

National Standards

The United States Department of Labor requires a “qualified default investment alternative” to meet the following requirements:¹

- (1) Participants and beneficiaries must have been given an opportunity provide investment direction but failed to do so.
- (2) A notice must be furnished to participants and beneficiaries in advance of the first investment in the qualified default investment alternative and annually thereafter.
- (3) Material, such as investment prospectuses, provided to the plan for the qualified default investment alternative must be furnished to participants and beneficiaries.
- (4) Participants and beneficiaries must have the opportunity to direct investments out of a qualified default investment alternative as frequently as from other plan investments, but at least quarterly.
- (5) Fees that can be imposed on a participant who opts out of participation in the plan or who decides to direct their investments must be limited.
- (6) The qualified default investment alternative must offer a broad range of investment alternatives.
- (7) The qualified default investment alternative may consist of:
 - A product with a mix of investments that takes into account the individual’s age or retirement date (such as a life-cycle or targeted-retirement-date-fund);
 - An investment service that allocates contributions among existing plan options to provide an asset mix that takes into account the individual’s age or retirement date (such as a professionally-managed account);
 - A product with a mix of investments that takes into account the characteristic of the group of employees as a whole, rather than each individual (such as a balanced fund); or
 - A capital preservation product for only the first 120 days of participation.
- (8) The qualified default investment alternative must be managed by an investment manager, plan trustee, plan sponsor, or committee comprised primarily of employees of the plan sponsor

¹ U.S. Department of Labor, Employee Benefits Security Administration, “Regulation Relating to Qualified Default Investment Alternatives in Participant-Directed Individual Account Plans,” <http://www.dol.gov/ebsa/newsroom/fsQDIA.html>

that is a named fiduciary, or be an investment company registered under the Investment Company Act of 1940.

(9) The qualified default investment alternative generally cannot invest participant contributions in employer securities.

Proposed Language

(40 ILCS 5/15-158.2)

(d) Employee Direction. Employees who are participating in the program must be allowed to direct the transfer of their account balances among the various investment options offered, subject to applicable contractual provisions. The participant shall not be deemed a fiduciary by reason of providing such investment direction. A person who is a fiduciary shall not be liable for any loss resulting from such investment direction and shall not be deemed to have breached any fiduciary duty by acting in accordance with that direction. A participant shall be treated as providing such investment direction with respect to contributions and earnings which, in the absence of an investment election by the participant, are invested by the System in a default investment alternative selected by the Board. The System shall provide reasonable notice to the participant of the right to provide investment direction and how, in the absence of such investment direction, contributions and earnings will be invested. Neither the System nor the employer guarantees any of the investments in the employee's account balances.