

The

Advocate



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Letter to SURS Participants and Annuitants

Dear SURS members,

SURS trustees and staff pride themselves on conducting their activities in accordance with the law and with high ethical standards.

Since early August, the press has reported on allegations of wrongdoing in connection with the awarding of investment contracts at the Teachers' Retirement System of the State of Illinois (TRS). The allegations are that a rogue trustee of TRS, in conjunction with outside legal counsel and other third parties, sought payment for himself or as he directed in return for investment management contracts with TRS. In addition, certain "finder's fees" earned by third parties with respect to TRS' investments have been criticized. In response to these news stories, SURS has taken the following actions:

Letters to Vendors

SURS sent letters to all of its investment managers, as well as other major vendors, asking them to confirm in writing:

- If they had paid any fee to a current or former SURS trustee or staff member (or their associates) in conjunction with the award or retention of a SURS contract.
- If they had paid a fee to any third party in conjunction with the award or retention of a SURS contract.

Contract Form Changes

SURS revised its standard Investment Management Agreement to require the up-front disclosure of any fees paid to any third parties in connection with the awarding of a SURS contract. In addition, such disclosure is mandated by federal securities law.

Independent Investment Consultant

SURS employs an investment consultant, Ennis Knupp + Associates of Chicago, that receives 100 percent of its income from its pension fund clients. It maintains independence by taking no fees from investment managers or any other entities that might seek to do business with its pension fund

clients such as SURS.

Statutory Compliance and Filings

SURS requires its trustees and staff to comply with the State Officials and Employees Ethics Act. SURS requires its trustees and management staff to file annual Statements of Economic Interest with the Secretary of State. SURS supports efforts to increase openness and transparency in the investment of public pension funds, as well as increased penalties against wrongdoers.

Future Actions

The Board of Trustees has directed staff to review ways to strengthen SURS's Investment Guidelines. Those staff proposals will be considered by the trustees at an upcoming Investment Committee meeting. At future meetings, the trustees will consider other possible actions, such as increased fiduciary education programs for trustees and staff and improved methods for tracking communications to SURS by current and potential vendors.

SURS will continue to work hard to provide you with ethical, cost-effective administration of your retirement system. If you have any questions or concerns, please contact SURS's interim Executive Director, Dan Slack, at: P.O. Box 2710, Champaign, IL 61825-2710. ☐

– Mitchell Vogel, Board President & Dan Slack,
interim Executive Director

Fall 2005

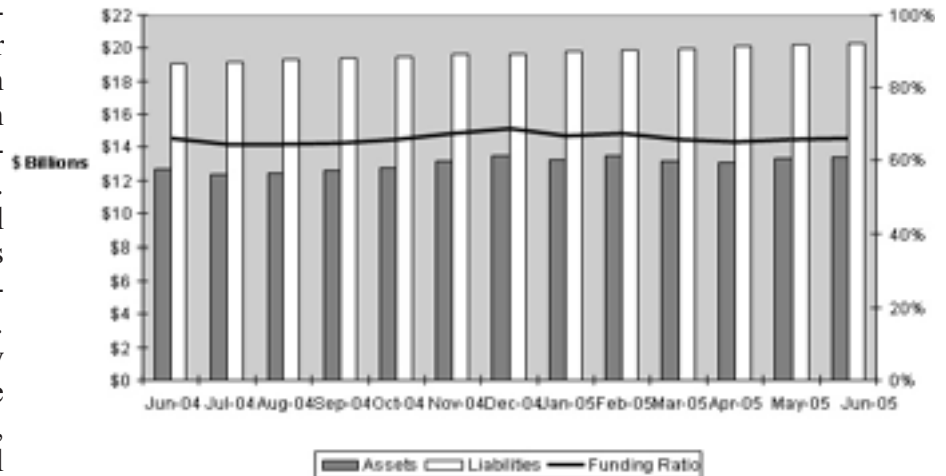
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Investment Update

SURS experienced strong investment results during fiscal year 2005, posting a net of fee return of 10.4%. This total fund return fell just short of the policy portfolio benchmark return of 10.5%. Strong returns in the international equity and real estate markets were the biggest drivers of investment returns for the fiscal year. The SURS international equity portfolio increased 15.7% for the one-year period ending June 30, 2005. SURS publicly traded real estate investment trusts (REITs) also provided strong returns, increasing 33.3%.

Fiscal Year to Date Results



Projected asset values and liabilities as of June 30, 2005, are \$13.39 billion and \$20.28 billion, respectively. This results in an estimated funding ratio of 66.0%, unchanged from the funding ratio at the beginning of the fiscal year. □

Board Appointments

- Dr. Alice Palmer was appointed by Governor Blagojevich as an annuitant trustee on October 3, 2005. Her term will expire on June 30, 2011. Prior to her employment at the University of Illinois, Dr. Palmer was an Illinois state senator from 1991-1996. She was the Founding Executive Director of Chicago Cities in Schools and Creator and Founding Director of the Chicago Metropolitan YMCA Youth and Government Program. Dr. Palmer obtained her PhD in Educational Administration from Northwestern University, her M.A. in Urban Studies from Roosevelt University, and her B.S. in English from Indiana University.
- Mr. Robert Hilgenbrink was appointed as a participant trustee on October 20, 2005. His term will expire on June 30, 2011. He is currently the Vice President for Administrative Services at Southwestern Illinois College. Prior to that, he was the Vice President of Finance & Operations and College Treasurer at Waubensee Community College. Mr. Hilgenbrink has also served as Vice President of Business Services of Heartland Community College. He received his M.A. in Economics from Western Illinois University and his B.A. in History from Quincy College.
- The Governor also reappointed Mark Donovan as trustee. He has been an employee of the University of Illinois at Chicago for the past 20 years. Currently, he is the Executive Director of Facilities Management and Capital Programs. Mr. Donovan's term will expire in June 30, 2011. □

President's Column: From One Asset to Another

The title of this article stems from my belief, despite the counterclaims of one "pension expert" who sees us as liabilities, that we have the skills and experiences to continue to provide important benefits to society.

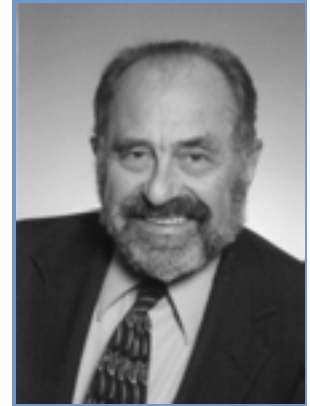
In the last issue, I gave out an email address to expedite that interaction. I was pleased to receive well over a hundred responses.

Many of you wrote in response to the news that the previous Executive Director of SURS had resigned his position to begin employment in Arizona. Your concerns centered on the selection process for his successor.

The SURS Board shares your concerns. I feel the most important job for any governing board is the selection of a Chief Executive Officer. This is true for the selection of college or university presidents. It is true for the selection of a corporate board. And it is certainly true for the SURS Board. Our most important task will be the selection of an Executive Director for the State Universities Retirement System.

Let me also point out that this selection is our responsibility. Elected public officials, like all citizens, have a right to express their views on this or any other subject. To my knowledge, no public official has contacted any member of the Board about this position. The SURS Board will select an Executive Director who has experience in the

pension field with the appropriate credentials. In fact, we are already in the process of doing just that. We have received applications from some very qualified candidates and we are confident that we will select someone before the end of the year who will continue the tradition of the previous Executive Director.



There are other agenda items that have recently concerned the SURS Board (subsequent columns will deal with the underfunding issue). One is found on the front page of this Advocate. This letter to you from our interim Executive Director and myself was generated by the recent indictments of two officials of another state pension board. There is no need to rehash the details because the media has certainly done a good job of that. What *is* important is to identify those SURS policies that differentiate it from other pension systems. The front page letter identifies those investing rules and regulations that are either in place or soon to be enacted to protect your pensions and retirement.

As you can see, we have been quite busy. If you desire more information on these issues or wish to share your views with me, please utilize my email address: mvogel@surs.org. □

Medicare Referendum

Public Act 94-415 directs SURS to conduct a Medicare Referendum. This is a special option for all SURS members that have been continuously employed with the same SURS employer on or before March 31, 1986. Those hired after March 31, 1986, already contribute to Medicare. SURS will notify you if you are eligible for this option.

If eligible, you will decide whether or not you want to make an individual election to contribute to Medicare to receive credits. You are not voting on Social Security. This election is your one and only

chance to participate in Medicare as part of your current SURS-covered employment.

Additional information about this election will be mailed to eligible members.

Those who elect to participate will have 1.45% deducted from their paycheck and sent to Social Security to add to or accumulate Medicare credits. If you participate, your employer will also pay 1.45%, based on your gross pay. These deductions are anticipated to begin on July 1, 2006. □

SURS Wins First Securities Litigation Case

In July 2002, SURS filed a lawsuit against WorldCom and various defendants associated with the company seeking recovery for losses suffered as a result of the implosion of that company. WorldCom itself subsequently filed for bankruptcy, but the case continued against other defendants, principally the investment banks that underwrote WorldCom bonds that had been purchased on SURS's behalf by its investment managers.

In making the decision to file this suit, the board of trustees determined that chances were good of recovering substantially more through active litigation instead of being a passive member of the class action

securities litigation case filed against the same defendants.

The decision to pursue this case has been amply rewarded. In October, SURS received over \$4 million as a result of a settlement reached with the defendants in the case. This recovery is double the estimated recovery if SURS had done nothing and remained a passive member of the class. In addition, SURS has already received its settlement significantly ahead of class members, who will have to wait months, or longer, to obtain payment.

SURS has developed a securities litigation policy to determine the appropriate actions

in securities litigation matters. Pursuant to this policy, SURS has also opted out of the class action and filed its own lawsuit against Qwest and related defendants. In addition, SURS is a co-lead plaintiff in class action securities litigation against Alstom, a French company, and is seeking to be lead plaintiff in a class action securities case against pharmaceutical company AstraZeneca. SURS is also a representative plaintiff in class action litigation against Health-South and Sears, Roebuck & Co.

In all of these cases, SURS seeks to act as a long-term institutional owner, interested in maximizing value on behalf of SURS participants and beneficiaries. □

Employee of the Year

Shelly Wood was named 2005 Employee of the Year during the annual SURS Employees' Recognition Luncheon in September. This award is the most prestigious peer recognition an employee can receive.

As an accountant, Shelly reconciles payroll from the SURS employers and conducts edits to ensure that member accounts are correct. In the nominations for this award, SURS staff noted the efficient manner in which she completes her work, her level of honesty and integrity, as well as her ongoing commitment to "finding the right answer" and completing the task correctly and on time. Shelly also works hard to create and maintain positive working relationships with a wide array of agency representatives from across the state.

Recent resignations and retirements of staff in the accounting department have left behind a lot of extra work. Most commendable is the excellent job Shelly has done in seamlessly assuming these additional responsibilities. In a short time, she has grown into an invaluable resource to SURS. Shelly's pleasant disposition, eagerness to learn, and phenomenal work ethic are qualities that make her a role model for the entire organization. □



Shelly Wood receives the Employee of the Year award from interim Executive Director Dan Slack (left) and Board President Mitchell Vogel (right).

Benefit Calculation Changes

Public Act 94-004 was signed by the Governor on June 1, 2005. Since that time, SURS staff has been working to determine its impact on our members and implement the changes necessary to comply with the new legislation. *Please note: if you were already an annuitant before the legislation was signed, it does not impact your benefits.*

Since September 1, 1969, the Money Purchase Formula has been one of the calculations used in determining a participant's retirement annuity amount. Public Act 94-004 eliminates the SURS Money Purchase Formula for SURS members first hired after June 30, 2005. For this reason, our calculation programs must be altered to prohibit the calculation of the Money Purchase Formula for those members.

The new legislation also changes the interest rates used for participants who are eligible for the Money Purchase Formula calculation. The responsibility for setting this rate has been transferred to the State Comptroller. The effective rate of interest set by the SURS Board of Trustees will still be applied to purchases of service and other benefit calculation types. As a result, SURS must create and maintain a separate contribution and interest balance to use in retirement and survivor benefit calculations to ensure that the proper interest rates are applied to these calculations.

The specific language in the legislation requires that we change the long-standing SURS practice

of calculating interest based upon the Academic Year. Beginning July 1, 2005, interest is calculated based on the Fiscal Year. To accomplish this:

- 10 months of interest will accrue at the Fiscal Year 04–05 rate of 8% for the period September 1, 2004, through June 30, 2005, based on the contribution and interest balance as of August 31, 2004.
- For Fiscal Year 05–06, interest will accrue at the effective rate of 8.5%, based on the contribution and interest balance as of June 30, 2005.

All of these changes demand radical adjustments to SURS's calculation procedures. These modifications require major redesign and testing of all affected programs and calculations. In the interim, SURS staff members are performing manual calculations. Once the system modifications are complete, our ability to process claims in a timely manner will be restored.

At that point, we will be able to implement the changes necessary to produce the 2005 SURS Benefit Summary Statements. Usually, it takes over three months to prepare the 130,000 statements for mailing. This year, we anticipate that the statement mailings will begin in February 2006 and continue into March. SURS appreciates your continued patience as we implement these changes. □

New Look For SURS Website

The SURS website has been redesigned to offer members a new look, better organization, and more information.

Some of the added features of the new site include the addition of Frequently Asked Questions, a search feature, and a text-only version of the site.

Visit the new website today at www.surs.org. □



Please note that the State Universities Retirement System does not endorse any provider of financial advice. Members seeking financial advice or planning assistance are encouraged to carefully select professionals.

Member Service Representative

1-800-275-7877

217-378-8800 (C-U Area)

Internet

www.surs.org

***The Advocate* is published by the State Universities Retirement System. We welcome your comments.**

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