The Advocate

SURS

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Budget

With No FY'05 Budget Agreement, SURS Relies On Continuing Appropriation Authority

As of the start of the state's fiscal year on July 1, a budget agreement was nowhere in sight. SURS will rely on its statutory continuing appropriation authority to assure the continued flow of state contributions to help meet the cost of the monthly annuity and benefit payroll and fund the accounts of those who participate in the SURS Self–Managed Plan. In a transmittal letter to State Comptroller Dan Hynes that accompanied the SURS voucher for the state's July contribution payment for the retirement system, SURS Director Jim Hacking cited section 15–165 of the Illinois Pension Code (40 ILCS 5/15–165) as the statutory basis for the system's continuing appropriation authority. Under that authority, the state is obligated to provide the funding for the retirement system at the full amount certified by the system last November.

The transmittal letter stated in part:

> "State contributions to SURS are time–sensitive because they help to cover the cost of the monthly annuity/ benefit payroll for the defined benefit plan which we administer. In addition, SURS administers a defined contribution plan (the SMP), under which the employer (i.e., state) contributions for participant accounts are constitutionally guaranteed. SMP employer contributions cannot be deposited into participant accounts until the funds are received from the state. Timeliness of state contributions is therefore critical."

Despite many negotiation sessions between the Governor and the four caucus leaders of the General Assembly over the last few weeks, there is still no consensus on how much the state should budget for spending programs during fiscal year '05 and the sources for the necessary funding to close a very large budget gap. While theAdministra- tion's budget proposals would increase state spending significantly in FY'05, the Governor continues to reiterate his opposition to any broad–based tax increase (even a temporary one) to provide needed funding. But three of the four caucus leaders in the General Assembly are equally determined to resist the increased state borrowing the Administration's budget would necessarily entail.

August 2004

Having missed the constitutional deadline of May 31, any budget agreement (or any other legislation) must now have the support of a three–fifths majority in both Senate and House to be approved. Therefore, although the Democrats have a majority in both chambers, some Republican votes will be needed to enact an FY'05 budget.

Now that the new fiscal year has begun, some kind of short–term appropriation will be needed to assure that essential state services are paid for and employee payrolls are funded throughout the rest of July. Comptroller

Hynes indicated that a budget (or at least a short–term continuing appropriation) must be enacted before July 12, if the state is to be able to meet its employee payroll obligations on July 16.

In response, on July 1, the Illinois House of Representatives unanimously passed (107 – 0) appropriation legislation designed to assure that all essential state services, including state agency payrolls, will be funded through the end of the month of July. This same legislation was then approved by the Senate and signed by the Governor. The Governor is continuing to call lawmakers into special sessions in the hope that this tactic will bring pressure to bear upon the caucus leaders to be accomodating to the budget proposals. However, with each special session day costing $17 thousand and with no budget agreement among the leaders, lawmakers in Springfield are feeling hostage to a process in which they have no part — and that may be causing further resentment. ❑

Legislative Update

Mattis v. SURS

The Illinois Supreme Court issued its opinion in the Mattis case, written by Chief Justice McMorrow, on May 20, 2004. The ruling vindicated SURS's position. The Supreme Court held that SURS had correctly interpreted the provisions of the law relating to the (now–repealed) early retirement option.

Military Service

SURS's statutory provisions grant up to five years of free service credit for military service that interrupts SURS–covered employment. In June, the SURS Board of Trustees authorized staff to prepare a rule that will allow a participant who is on military leave to make contributions during that leave in an amount equal to the total contributions that the participant would have been able to make were he or she not on leave. Staff will prepare this rule during the second half of 2004. ❑

Editorial note

Reaction to the Report of the Governor's Commission on State Pensions and its Proposed Application of the Concept of "Cyclical Budgeting" to Retirement System Funding

By Jim Hacking, Executive Director

After meeting several times during April and May, the Governor's 11 member Commission on State Pensions filed an interim report with the Governor's office on May 27. The substance of that report was presented by the Commission's Chairperson, James Annable, at a June 17 hearing before the General Assembly's Economic and Fiscal Commission.

The Governor's Commission was created to come up with long–term solutions to the chronically underfunded status of the state contributory retirement systems. However, the Governor's Office of Management and Budget (GOMB) promptly reduced the Commission's mandate in order to have it focus on what the state should do to fund the retirement systems in the coming fiscal year, 2005 (FY'05), which began July 1.

After hearing a number of presentations from GOMB's staff, its retained actuaries and other experts, the Commission merely decided to set forth the already well–known menu of policy options for dealing with retirement system funding in FY'05. Those options ranged from fully funding the retirement systems, as current state law requires, to reducing that funding to the level proposed in the Administration's FY'05 budget recommendations.

However, the centerpiece of the Commission's report is the proposed application of the concept of "cyclical budgeting" (or the "cyclical adjustment principle" as it is sometimes called) to retirement system funding. Essentially, the concept suggests that in good economic times, when state revenues are high and rising, some of the excess revenue should be set aside to fund essential services and programs when economic conditions are bad and revenues are diminished.

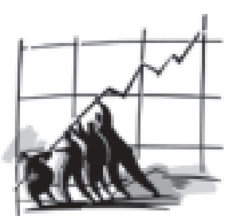
In the context of a state's total budget, the concept can be — and has been — usefully applied. Indeed, many states, including Illinois, created "rainy day" reserves in the late 1990's to help balance their budgets during economic downturns.

However, under no circumstances should the concept of cyclical budgeting be applied to govern the pattern of funding for Illinois' chronically underfunded state retirement systems. Here is why. First, retirement system liabilities grow all the time and are only modestly impacted — if at all — by cyclical economic and revenue patterns and any such impacts are short–term. That is why retirement system funding is normally tied to actuarial liability growth projections.

Second, by providing the retirement systems with more funding than is actuarially required in good economic times and less than actuarially required in bad economic times, the state would end up ignoring the cyclical nature of the financial markets. In good economic times, the financial markets tend to be up, with securities relatively expensive, and likely overvalued; in bad economic times, markets tend to be down, with securities relatively inexpensive, and likely undervalued. Overfinancing retirement systems in good times and underfinancing them in bad times would amount to a strategy of "buying high" and "selling low" — just the opposite of what should be the objective, "buying low" and "selling high."

So what should be the discipline and pattern for retirement system funding? The answer is simple and well known. Each year, contributions should be provided that are sufficient to cover that year's addition to liability (which actuaries call "normal cost"), plus interest on the existing unfunded liability, plus an amortization payment to pay off the unfunded liability over a period of 30 to 40 years. Unfortunately, this normal pattern for retirement system funding has never been followed in Illinois and that is why the state's retirement systems are so chronically underfinanced.

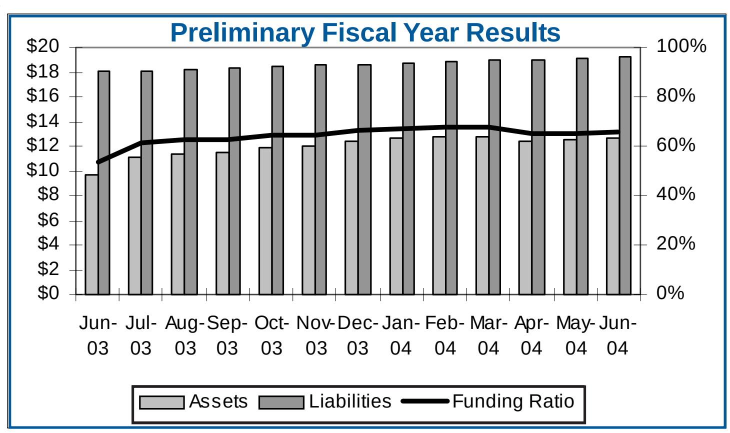
What the state retirement systems need is not cyclical budgeting concepts novelly applied to govern state funding requirements. What they need are contributions made in accordance with an actuarially disciplined pattern that ties contribution amounts to liability projections so that those contributions coming in during good times and bad can be invested for the long–term to take advantage of the miracle of compound rates of return. ❑



Investment Update

SURS finished fiscal year 2004 with a preliminary return of 16.9%. As of May 31, SURS's results were slightly behind that of the composite market benchmark, so it is anticipated that the composite market benchmark rose slightly more than 17% during the fiscal year.

Projected asset values and liabilities as of June 30, 2004, are $12.64 billion and $19.23 billion. This results in an estimated funding ratio of 65.8%.



This chart indicates the increase in value of the general obligation (GO) bonds used to reduce the System's liabilities. As the chart shows, investing the GO bond proceeds in SURS's existing asset allocation resulted in additional gains of more than $225 million relative to both of the conservative approaches suggested by key State officials last June. ❑

Projection of Bond Proceed Values as of June 30, 2004 ($ in millions)

Proceeds Distributed to SURS on July 2, 2003			$1,431.99
	Return On Investment	$ Increase (Decrease)	Ending Value
Treasury Bills (T–Bills)	1.0%	14.32	$1,446.31
Fixed Income	0.4%	5.01	1,437.00
SURS Projected Actual	16.9%	242.01	1,674.00
Difference between SURS Actual and T–Bills			227.69
Difference between SURS and Fixed Income			$237.00

Self-Managed Plan Update

Investment Option Changes

In June, the SURS Board of Trustees approved the addition of the TIAA–CREF Large–Cap Growth Index Fund, a new investment option in the Self–Managed Plan (SMP). The Board also approved the staff recommendation to terminate the CREF Growth Account as an investment option in the SMP due to poor performance.

Fidelity Fund Change

The Fidelity Low–Priced Stock Fund closed to all new SMP participants on July 30, 2004. By removing the pressure of heavy cash flows, Fidelity believes that Low–Priced Stock Fund Portfolio Manager Joel Tillinghast will retain the ability to invest the Fund's assets according to its objectives.

Participants who **had** a balance in the Low–Priced Stock Fund as of July 30, 2004, can continue to invest in the Fund and request exchanges, as well as direct contribution elections (if any) to the Fund.

Participants who **did not have** a balance in the Low–Priced Stock Fund by July 30, 2004, will not be able to invest in the Fund by requesting exchanges or directing contribution elections into the Fund.

Distribution Amendment

The Self–Managed Plan has been amended to provide "de minimis" distributions from the plan for participants who have terminated their SURS–covered employment, have less than $5,000 in their account, and are not vested (have less than five years of service). Participants will have the opportunity to roll their funds to an IRA or other tax–advantaged retirement plan.

The SMP has approximately 1,500 such participants. Experience shows that individuals with such small amounts in a retirement plan who have left their employer often forget about the accounts, fail to keep the retirement plan updated as to their address, and cannot be located years in the future when a distribution would otherwise be made.

There is also an administrative convenience and cost savings to SURS by the mandatory distribution of such accounts. It increases the average account size of the plan, which can be helpful in negotiating lower fees with investment providers – ultimately redounding to the benefit of all SMP participants. In addition, administrative costs such as printing, postage, and personnel time are reduced. ❑

Governor Appoints Three New Trustees

Mark Donovan

Mark Donovan has been an employee of the University of Illinois at Chicago for the past 20 years. Currently, he is the Associate Vice Chancellor for Facilities Management.

Mr. Donovan obtained his bachelor of arts degree in Political Science from John Carroll University in Cleveland, Ohio. He completed his masters of public administration at the Illinois Institute of Technology in Chicago, Illinois. In addition to his work for the University of Illinois, Mr. Donovan is a member of the Association of Physical Plant Administrators of Universities and Colleges, the Building Owners and Managers Association, and the Association of College Administration Professionals.

Michael Mackey

Michael Mackey is a senior managing director for Mesirow Insurance Services, Inc. division. In this capacity, Mr. Mackey oversees the company's Public Sector Risk Management Practice, which services an array of public sector organizations such as cities, counties, villages, parks, school districts, and public transportation authorities.

Mr. Mackey is a well–known, highly regarded professional in the insurance industry with his extensive experience serving the risk management needs of organizations in both the public and private sector. Prior to joining Mesirow Insurance Services, Mr. Mackey was a managing director for a major insurance brokerage firm based in Chicago.

From 1991 to 1993 Mr. Mackey was an account manager at Aon Reinsurance Agency, handling underwriting analysis and placement in the reinsurance assumed market. He is a current director of the International Visitors Center of Chicago and the previous director of governmental affairs for the Professional Independent Insurance Agents of Illinois (PIIAI). Mr. Mackey received a bachelor of business degree in finance from Loyola University Business School in 1990. From 1990 to 1996, he proudly served as a military reservist in the Illinois Army National Guard. Mr. Mackey is currently a member of the Executives' Club of Chicago.

Michael Pizzuto

Michael Pizzuto has developed extensive experience in all areas of the real estate industry over the past 22 years. His career began in 1981 as an accountant with Peat, Marwick and Mitchell. As an auditor, his clients included such firms as J.M.B. Realty, Urban Investment, Fidinam, and numerous other real estate entities.

In 1984, Mr. Pizzuto joined V.M.S. Realty where his responsibilities included acquisition analysis, syndication structuring, and due diligence work. His main area of concentration was multifamily housing, with additional analyses performed on major commercial and hotel investments. Mr. Pizzuto joined the firm of New Frontier Development in late 1985 as the Director of Finance.

In 1988, he formed the Stough Group, for the purpose of acquiring and developing housing in the Chicago metropolitan area. In 1991, The Stough Group's focus turned to contract development and construction while continuing to concentrate on senior housing development.

Mr. Pizzuto received a B.S. in accounting in 1981 at the University of Illinois in Urbana. He received his J.D. degree in 1986 from DePaul College of Law in Chicago. He is a C.P.A. with membership in the Illinois C.P.A. Society and the American Institute of C.P.A.'s. He is also a member of the Illinois Bar Association, the American Bar Association, as well as a licensed real estate broker in Illinois. ❑

Private Equity Fund

State Universities Retirement System is teaming up with sister agencies Illinois Municipal Retirement Fund and Public School Teachers' Pension and Retirement Fund of Chicago to form a private equity fund that will target underserved markets. The fund has already received $25 million in commitments from each of the Systems for a total of $75 million, and will seek additional public sector partners that could increase the fund's size to $100 million or more.

The fund will have a dual investment objective. The first objective will be to invest in minority or female–led or focused private equity partnerships. The second objective will be to invest in smaller Illinois or Midwest–based private equity funds, focusing on regional economic development. Both of these groups have historically had difficult times in raising funds from institutional investors, yet many have raised successful funds and generated competitive returns in the asset class.

The three pension funds have been working on this effort since last fall. Recently, they selected Muller & Monroe (M2), a Chicago–based private equity advisor, to act as the general partner. M2's three investing partners have extensive backgrounds working in the private equity industry. M2 will be responsible for evaluating and selecting the private equity partnerships that will become the fund's investments.

It is anticipated that the remaining work to formalize this pioneering cooperative effort will be completed by mid–summer. The fund should be making its first partnership investment later this year. ❑

Service Credit

Reminder

You may qualify for service credit in addition to your regular SURS employment. This includes credit for leaves of absence, disability leave, unused sick leave, prior service, military service, other public employment (OPE), Illinois reciprocal systems, and repayment of a separation refund.

If you think you may qualify for additional service, contact a SURS Member Service Representative at 1–800–ASK–SURS or 217–378–8800 in the Champaign–Urbana area. Do not contact your employer regarding qualification.

Public Act 93–553

Public Act 93–553 was signed into law on August 20, 2003. It states that a retired State of Illinois Group Insurance Plan member may elect to become a dependent of their spouse, if their spouse is also a State of Illinois Group Insurance Plan Member.

Members may elect to become a dependent of their spouse at the time they retire, during Benefits Choice, or within 60 days after a qualifying change in status. Contact SURS for the necessary forms.

Retirees choosing to waive their health insurance coverage as a retiree in order to receive insurance as a dependent will continue to be provided with Basic Life coverage.

Medicare Eligibility

The State of Illinois Group Insurance Program now requires you to apply for Medicare if you are eligible through a current or former spouse. Contact Social Security to see if you are eligible. Failure to do so may result in a reduction of your insurance benefits. SURS strives to keep you informed of any changes that might affect your benefits. However, we cannot counsel you regarding Medicare eligibility or regulations.

Contact the Social Security Administration (SSA) at 1–800–772–1213 to find out if you are eligible for Medicare based on your work history or the work history of a spouse. You must request written confirmation of your eligibility or ineligibility from SSA and send a copy to Central Management Services (CMS). For any further questions regarding this matter, contact CMS at 1–800–442–1300. ❑

Member Services Division Increases Service

With the addition of five new trained counselors, SURS is now able to expand its services to members who are within four years of retirement eligibility. A member can receive one estimate per year in any of the following ways:

- One–on–one counseling session at SURS or on your campus
- Telephone counseling session
- Written request

An estimate request form must be completed and returned to the SURS office prior to receiving these services. Contact a SURS Benefits Counselor for more detailed information.

For those members who are more than four years away from retirement, enhancements have been made to our Member Website. You now have immediate access after you register, which enables the Benefit Estimator to fill in most of your information for you. We encourage you to take advantage of this great planning tool.

In addition to these enhanced services, the Member Services Division has also reduced the average processing time for many of our claims. Last fiscal year, we processed over 2,700 retirements, which was an all time high for any fiscal year. This fiscal year we have reduced our average processing time from 15 days to 10 days after all information has been received from both the member and employer. ❑

SUAA Offers New Website Feature

By: Don Naylor

The State Universities Annuitants Association (SUAA) now offers an online legislative action center. Anyone can access the SUAA website at www.suaa.org to use the new grassroots advocacy center. Capqiz software helps users identify, learn about, and contact elected officials at the federal, state, and local levels. Messages can be sent to elected officials by email or by a letter that can be printed and sent through the postal service. All a user needs to do is enter their home zip code to find names and contact information for their legislative district.

The site also allows users to learn about important issues, recent votes, current legislation, photos, biographies, election results, and more. The “Megavote” feature allows users to sign up to receive automatic emails to learn how elected officials vote on legislation each week.

Questions about the new service can be answered by calling 888–547–8473 or emailing suua@springnet1.com. ❑

Pre–Retirement Seminars

SURS is offering three pre–retirement seminars at its office in Champaign. These popular one–day seminars cover universal issues related to retirement and financial planning. The information presented will closely follow the format used in past seminars.

The seminars are scheduled for October 23, November 20, and December 4. They will be held at SURS, 1901 Fox Drive, Champaign, from 8 A.M. to 3 P.M. Topics will include SURS benefits, legal affairs, and financial planning. The enrollment fee is $20 per member and $10 for a non–member guest. Lunch and refreshments are included in the fee.

Retirement Seminar Application

Do not send any money yet. When your enrollment is accepted, you will be notified of the fee due.

Name	Social Security #
Street	City, State, Zip
Home phone	Work phone
Email address	Date I wisht to attend
Anticipated retirement date (doesn't commit you to retiring)	Guest Name

Return to: Karen Maggio, SURS, 1901 Fox Drive, Champaign, IL 61820 or fax to (217) 378-9800

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 credentialed professionals.

Member Service Representative
1–800–275–7877
217–378–8800 (C–U Area)

Internet
www.surs.org

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