



The **Advocate**

Vol. 13, No. 3

Changes in Retirement Process

Service credit for unused sick leave

Did you sign a written retirement agreement with your employer before January 23, 2004? If so, please review this article carefully. You need to send a signed copy of that agreement to SURS no later than April 22, 2004.

Since the mid to late 1980s, SURS had allowed participants to obtain service credit for unused, unpaid sick leave based upon an extension of the schedule set forth in the relevant statute (§15-113.4 of the Illinois Pension Code).

In 2003, SURS proposed a rule that would formally establish a two-year service credit schedule for unused sick leave. This rule came before the Joint Committee on Administrative Rules (JCAR), a legislative committee that reviews all rules prepared by state agencies, on November 18, 2003. JCAR unanimously voted to oppose the proposed rule, stating that the statute limits sick leave service credit to one year. In response to this legislative determination, SURS has amended the rule to conform to the JCAR objection.

SURS understands that some participants may have already made irrevocable retirement decisions based upon the past practice of SURS regarding unused, unpaid sick leave. In order to avoid disruption for such participants, this rule will not apply to persons who entered into written retirement agreements prior to January 23, 2004, for a retirement date not beyond January 22, 2008.

The SURS Board of Trustees has added a law change to its legislative priority list for 2004 that implements a two-year schedule for service credit for unused sick leave.

Determination of final rate of earnings (FRE) period

The statute that defines FRE (§15-112 of the Pension Code) sets forth two alternative periods over which an employee's FRE is calculated. All employees have their final rate of earnings calculated over the four consecutive years in which the employee's earnings were the highest. In addition, employees who are paid on an hourly basis, or who receive an **annual** salary in installments during 12 months of each academic year, have their FRE calculated over the 48 consecutive calendar month period ending with the last day of final termination of employment.

In January 1990, SURS began to assume every employee was eligible to have the second FRE period

February 2004

- 2** *Legislative Update
Illinois Budget Problems Continue*
- 3** *Investment Update*
- 4** *Meet the Board*
- 5** *Self-Managed Plan Reminder & Member Website
Offers Immediate Access*
- 6** *Benefit Payment Schedule*
- 7** *Filling out the W-4P Form, Address Verification &
Employee of the Year*
- 8** *Pre-Retirement Seminars*

calculation. This assumption appears to be contrary to statute. In order to more closely conform its practices to the statutory provisions, SURS has proposed a rule that determines which employees are eligible for the second calculation. However, SURS understands that some participants may have already made irrevocable retirement decisions based upon the past practices of SURS. In order to avoid changing the rules for these participants, SURS is studying the best way to implement this change by looking at options such as a delayed effective date for the change, or a “grandfathering” of participants who entered into such retirement decisions before a certain date.

Definition of “retirement pay” and “severance or separation pay”

The statute that defines FRE (§15–112 of the Pension Code) states that certain earnings of an employee are excluded from the calculation of the FRE. Among the items excluded are “retirement pay” and “severance or separation pay,” as well as “payments from an employer for the period used in determining FRE for any purpose other than ... services rendered.” These excluded items of earnings have not been statutorily defined. In order to provide better guidance to employers and employees, SURS has proposed a rule that defines these terms.

In conclusion...

Check the SURS website at www.surs.org to view and comment on pending rules. Although the volume may not permit a response to each person who submits a comment, all will be carefully considered. □

Legislative Update

At the December board meeting, the SURS Board of Trustees prepared its legislative platform items and its list of legislative priorities for 2004. Given the state’s budget situation, the primary priority will be to ensure that the state continues to make the payments required under the current pension funding laws. The legislative priorities for SURS for 2004 are:

- **Strongly oppose any cutback in the state contributions required to bring SURS to a 90% funding level by fiscal year 2045.**
- Strongly support a targeted inflation adjustment for (pre–1980) annuitants and their survivors who have suffered purchasing power losses. As of December 12, 2003, there are 1,289 such annuitants, with an average age of 88. There are 421 such survivors of deceased annuitants, with an average age of 81.
- Support increasing the statutory schedule for service credit for unused, unpaid sick leave from 1 year to 2 years.
- Oppose all investment restrictions, mandates, or directives that could impair the trustees’ fiduciary responsibilities, as set forth in Section 1–109 of the Illinois Pension Code.
- Support increasing the \$1,000 death benefit to a non–taxable \$5,000.
- Support allowing veterans who joined SURS after September 1, 1974, to purchase military service in the same manner as participants purchase service for other public employment. □

note

Editorial



Illinois Budget Problems Continue With Implications For Retirement System Funding

By James Hacking, Executive Director

The latest “Economic and Revenue Update” from the Illinois General Assembly’s Economic and Fiscal Commission was released late last year. It indicates that, due to a significant inflow of funds from the federal government, the state’s revenues through the end of October are nearly \$890 million higher than at the same time

last year. However absent the increased federal funding, the state's net base revenues are actually \$91 million less than they were last year. This suggests that, at least for now, the state's budget problems are continuing and that raises the question of how the state will come up with the contributions required for SURS and the other state contributory retirement systems during the next state fiscal year (FY'05).

We should remember that during the early 1980's when the state had budget problems just as it has today, much of the funding that should have gone to the retirement systems was diverted to other spending programs. The consequences of that policy are still with us. For example, had the retirement systems been properly funded in the 1980's, they would be over 90% funded today, despite the recent losses due to the stock market decline. Instead, the funding ratios of the systems are mostly in the 50% range. Moreover, by depriving the systems of needed funding and the compound interest on that funding, the cost of the systems more than doubled. In the case of SURS, the cost of the system through fiscal year 2045 is estimated at \$64 billion; had SURS been properly funded in the '80s, that cost would have been \$30.3 billion.

The existing challenge for the state is how to provide the \$1.9 billion that it will owe to the retirement systems in FY'05. To come up with the \$1.8 billion in funding needed in fiscal year 2004, the state elected to borrow money in the credit markets. However, that option may not be available next year, due to the prospect of rising interest rates. As a result, the state may either meet its contribution requirements by raising revenue and/or reducing other state spending, ignoring its funding obligations by seeking a legislated "pension contribution holiday," or by resorting to some kind of legislatively-sanctioned legerdemain.

Unfortunately, if the state fails to provide the retirement system contributions that it will owe, there will be serious consequences. Pension liabilities will continue to grow and the Illinois state constitution guarantees that those liabilities for benefits will be paid. Also, the retirement systems' negative cash flow will continue and the amount of that negative cash flow (estimated at \$420 million for SURS in the current fiscal year) will increase substantially. These factors, if coupled with a suspension of or reduction in contributions, will cause the retirement systems' anemic funding ratios to plummet, as their unfunded liabilities rapidly rise. That will surely get the attention of the state's bond rating agencies, just as it did in the 1980's, and they will likely lower its bond rating, thus driving up the state's cost for borrowing.

In anticipation of the consequences that would result if the state fails to meet its retirement system contribution obligations, the only responsible course of action is for the state to raise income or sales taxes and/or reduce other state program spending. However, given the political "pain" that either of these strategies would entail, we should realistically expect that the state's budget planners will do little at this point except hope that accelerating economic growth will lift the state's revenue boat high enough to avoid these difficult choices.



Investment Update

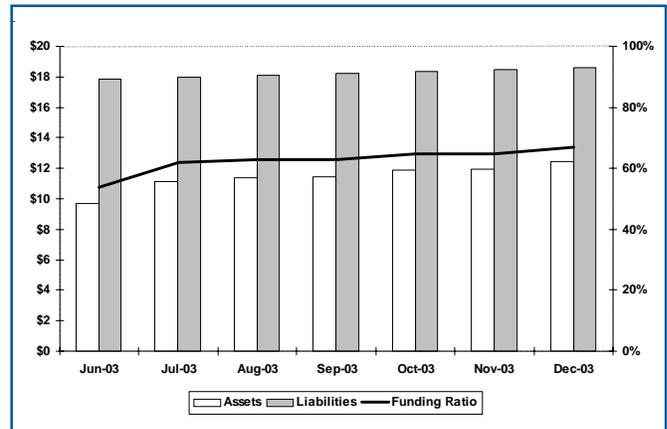
Fiscal Year Investment and Actuarial Valuation Results

SURS finished the fiscal year ending June 30, 2003, with a positive 2.9% return (net of fees), avoiding a third consecutive year of negative investment returns. While the investment return was positive, it fell just short of the policy portfolio (composite market) benchmark return of 3.0%. Four of the five individual asset class portfolios met or exceeded their respective benchmarks. The following table indicates that over the long-term, SURS has met or exceeded its benchmark return.

	FY 2003	Annualized		
		3 Years	5 Years	10 Years
SURS	2.9%	(4.1%)	2.3%	8.3%
Policy Portfolio	3.0%	(4.4%)	1.7%	7.8%

The System also recently received its annual actuarial valuation report from Gabriel, Roeder, Smith & Company. The purpose of the annual valuation is to determine the funding status as of the valuation date, as well the contribution amount for fiscal year 2005. Results of the valuation report indicate that as of June 30, 2003, the System had accumulated 53.9% of the required assets to fund future liabilities. The total net assets available for benefits were \$9,714.5 million and the total liabilities of the System were \$18,025.0 million. This is a decline from the prior year's funding level of 59.2%.

The annual actuarial valuation report also develops the required employer (State of Illinois) contribution amount for fiscal year 2005. The required employer contribution for fiscal year 2005 will be \$310.0 million, a decrease of \$39.9 million from the amount appropriated for fiscal year 2004. This decrease is due to the fact that SURS received an additional distribution of assets totaling \$1.43 billion from the State of Illinois as a result of the recently completed General Obligation Bond issuance related to the pension systems. These proceeds were received by SURS on July 2, 2003, and have been invested in the asset allocation strategy adopted by the Trustees during fiscal year 2003.



Fiscal Year 2004 Investment Results

SURS experienced strong investment results during the first six months of the fiscal year, posting a net of fee return of 13.5%. Equity markets worldwide account for the primary driver of the total fund results. U.S. equity markets, as measured by the Wilshire 5000 Index, have risen 16.6% and international equity markets, as measured by the MSCI All Country World ex-US Index, have increased 27.3% during this same period.

As of December 31, 2003, SURS's projected funding ratio had increased to 66.9%, due in part to the additional \$1.43 billion contribution from the State of Illinois and the strong investment returns generated by the SURS portfolio.

Effective Rate of Interest

At their December meeting, the SURS Board of Trustees approved an 8% effective rate of interest for academic year September 1, 2004 through August 31, 2005. The effective rate of interest is the rate credited to member accounts in the defined benefit plans based upon the combined balance of member and employer contributions and interest at the close of the academic year. The decision to leave the rate unchanged was due to the good long-term investment results of the System. □



Meet the Board: Talat Othman

Mr. Othman was appointed to the SURS Board of Trustees in July 1995. He is Chairman and Chief Executive Officer of Grove Financial, Inc., an international investment management firm located in Long Grove, Illinois, and past chairman and CEO of Dearborn Financial, Inc. in Arlington Heights, Illinois.

Mr. Othman attended Northwestern University in Chicago. He is married and has three sons, one daughter, and ten grandchildren.

From 1956–77, Mr. Othman was associated with the Harris Trust and Savings Bank in Chicago, Illinois as Vice President and Division Administrator of the International Money Management Division. While at the Harris, he served as a member of the Asset/Liability Committee and also the Senior International Credit Committee. He

spoke and wrote frequently on International Monetary issues. From 1978–83, Mr. Othman was General Manager and Chief Executive Officer of the Saudi Arab Finance Corporation, Luxembourg and General Manager of the Saudi Investment Group, Jeddah, Saudi Arabia.

In addition to his current responsibilities as Chairman and Chief Executive Officer of Grove Financial, Inc., Mr. Othman has previously served as Chairman of the Board for Dansk International Designs, Ltd., Mt. Kisco, New York; Director of Bank One Wisconsin Corporation, Milwaukee; Hartmarx Corporation, Chicago, Illinois; Director of Harken Energy Corporation, Dallas, Texas; Tejas Power Corp. and EZ Serve Corp., Houston, Texas; and Pathogenesis Corp., Skokie, Illinois. He is currently an Advisory Board Member of Ovation Pharmaceuticals, Inc., Lincolnshire, Illinois.

Mr. Othman has been involved in many civic and professional organizations. Currently, he is a member of the Board of Governors of St. Jude Children's Research Hospital and the Advisory Council of the Center for Middle Eastern Studies at the University of Chicago. He is President of the Arab–American Business and Professional Association, Illinois. He also served on the Dean's Council of the Kennedy School of Government at Harvard University. Governor Jim Edgar honored Mr. Othman by proclaiming Nov. 1, 1997 as Talat M. Othman Day in Illinois. □

Self-Managed Plan Reminder

If you wish to reallocate **new** contributions to a different Provider, contact SURS by phone or through the SURS Member Website at www.surs.org. Click on *Member Access* and log on with your password. This will grant you access to your Participant Home Page. Click on *Provider Allocation History* to see which Provider(s) you have allocated your contributions to. To change your Provider allocation, click on *Update*.

Transferring assets to another Provider using the Provider-to-Provider Transfer form does not change which Provider will receive new contributions.

Once you have chosen a different Provider, you must contact them to choose what percentage of your contribution you want to be invested in which fund(s). Under *Administration* on the menu at the top, choose *Home Page*. From here, you can click on the link of the Provider of your choice.

From Fidelity's homepage, click on the *Access My Account* button on the left. From TIAA-CREF's homepage, click on the *Account Access* tab from the menu at the top. You will need to register as a user for these sites if you have not done so. □

Member Website Offers Immediate Access

SURS has revised the registration process for the **Member Website** so that newcomers are granted instant access to the site instead of waiting to receive a password in the mail.

For privacy reasons, SURS is trying to limit the use of Social Security Numbers (SSN) as identification. **Member Website** Registration now requires the last four digits of your SSN, your SURS Member ID, and your birth date. Your Member ID is available on Benefit Summary Statements, Unified Statements, benefit check stubs, and other SURS-generated correspondence.

If you previously registered using your SSN, you will enter it into the User Name field to log on. You will then be asked to select a User Name, but your password will remain the same. If you still need to register, visit the **Member Website**. From the Member Website [Logon screen](#), select *Register as New User*. From this screen, complete the four-step process.

Step 1 — Member Website Registry

Enter your Member ID, last four digits of your SSN, date of birth, email address, and confirmation of your email address (you will receive an email regarding your registration).

Step 2 — User Name and Password

Choose a User Name and Password that will be easy for you to remember. After entering a User Name and Password that meet the provided guidelines, select the Next button.

Step 3 — SURS Internet Policy

Review the SURS Internet Policy and select the Next button.

Step 4 — Congratulations!

You have successfully registered for the SURS Member Website and can access your information instantly by selecting the Logon button. You will use the User Name and Password you created to access the Member Website.

Benefit Payment Schedule

The following is the schedule for SURS monthly benefit payments during 2004:

First Working Day of Month	All electronic fund transfers (EFTs) for disability retirement allowances, retirees, survivors, beneficiary annuitants, and reversionary annuities.
Payment Dates	Jan. 2, Feb 2, March 1, April 1, May 3, June 1, July 1, Aug. 2, Sept. 1, Oct. 1, Nov. 1, Dec. 1
Last Working Day of Month	All paper checks and statements mailed. Disability EFTs deposited.
Payment Dates	Jan. 30, Feb. 27, March 31, April 30, May 28, June 30, July 30, Aug. 31, Sept. 30, Oct. 29, Nov. 30, Dec. 30

Around the 15th of the month, SURS submits a pre-notification to the financial institutions receiving EFTs, allowing them to list any corrections in account transmittal information to us. Any direct deposit changes received at SURS after the pre-notification is processed will result in a paper check being mailed directly to the bank for the first month. Therefore, requests for changes in direct deposit must be received by SURS prior to the 10th of the month. □

Filling out the W-4P Form

Though it is not an annual requirement, annuitants can change their federal tax withholding with SURS at any time during the year. This form is available on our website at www.surs.org.

Here are a few important things to keep in mind while filling out the W-4P tax form for a Withholding Certificate for Pension or Annuity Payments:

- If you check the box for line 1, do not complete lines 2 or 3.
- You must designate both your marital status *and* your number of allowances in line 2.
- You must complete line 2 if you intend to complete line 3.
- Under current law, you cannot designate a specific dollar amount to be withheld. However, you can designate an additional amount to be withheld on line 3.
- SURS cannot advise you on what tax exemptions are best for you. Please contact your financial advisor or tax consultant.

Address Verification

All benefit recipients, regardless of whether or not their funds are directly deposited, receive annuity statements in January and July. The annual verification of address form is now attached to the bottom of the January statement. This section needs to be returned to SURS by April 15, 2004. July statements will include health and life insurance information, complete with contact numbers for Minnesota Life. Current SURS beneficiaries will also be listed for review in the July statements.

Employee of the Year: Bret Lucas



Bret Lucas receives Employee of the Year award from SURS Board of Trustees Vice President Pat McKenzie (left) and SURS Executive Director James M. Hacking.

Bret Lucas was named 2003 Employee of the Year during the annual SURS Employees' Recognition Luncheon on September 26, 2003. This award is the most prestigious peer recognition an employee can receive.

As the Web Specialist, Bret develops and maintains internal and external websites for SURS. His willingness to listen, effectively collaborate, train, and mentor staff were just some of the commendable virtues recognized in his nominations from SURS staff for Employee of the Year.

In addition to these qualities, staff also noted his critical role in the development of our intranet, the Virtual Information Center (VIC). This included working with all departments and training individual staff members who contribute to the intranet. VIC

helps SURS manage its vast array of information in the most efficient manner so that staff can respond to member needs quickly. Bret's positive attitude, professionalism, patience, and commitment to SURS are characteristics that make him a role model for the entire organization.

Pre-Retirement Seminars

SURS is offering three pre-retirement seminars at its office in Champaign this spring. 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 March 13, April 17, and June 12. 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 wish 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

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

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Printed by the authority of the State of Illinois: 156,000 copies

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