



The Advocate

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Executive Director Martin Noven greets Christopher Hine at the SURS office in Champaign.

Welcome Martin Noven, New Director

After many years advising state and local governments about public employee retirement plan design, the State Universities Retirement System's new executive director saw the opening as his opportunity to have a more direct impact.

Martin Noven became executive director Nov. 2, and he has spent his early days at SURS focusing on the retirement preparedness of the System's members.

"Our goal is to make sure all of our

members are able to maintain their standard of living in retirement. We need to let our members know if they are on track to replace an adequate amount of their pre-retirement income and help them address any projected shortfall," he said.

Noven came to SURS after more than nine years with TIAA (Teachers Insurance and Annuity Association of America).

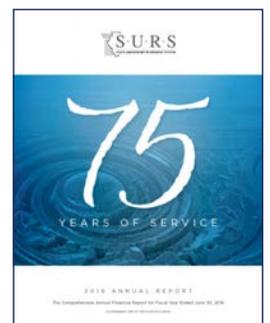
See **NOVEN** on Page 7

FY 2016 Annual Financial Report Available

SURS 105-page annual report outlining assets; liabilities; employer contributions; investment policies, objectives and performance highlights; manager fees; membership and benefit statistics and more is available online for members to review.

The theme of the report for fiscal year 2016 is SURS 75th anniversary. The book is sprinkled with historic facts and photos and is available to view or print from the System's website at www.surs.org/annual-financial-report.

See **REPORT** on Page 7



FROM THE EXECUTIVE DIRECTOR

SURS Is Here to Help Through Challenging Times

I am delighted to start 2017 as the new executive director of SURS. I am incredibly grateful for the warm welcome I have received from the board, staff and our members. While SURS has a great reputation, I did not expect to find such a high-performing, hard-working, committed and member-focused staff when I walked in the door.

It is no secret that now is a challenging time for SURS and our members. As the state continues to operate without a budget and the backlog of unpaid bills continues to grow, proposals to both underfund the pension systems and to reduce member benefits are inevitable.

Senate Bill 11, the bipartisan bill that is currently being considered by the Senate as part of a “grand bargain,” would delay payments to SURS and require Tier I employees to choose between what a number of stakeholders consider to be two types of benefit reductions. While it may be unlikely that the bill will become law in its current form, there



Martin Noven

is a chance that a pension proposal could pass this session. In my short time here at SURS, I have already made several trips to Springfield to make lawmakers aware of the impact of these proposals on SURS and our members.

I am committed to doing what I can to help members address these challenges. A top priority of mine is enhancing the information and tools available to members and employers.

If a pension proposal passes, our members may need tools to help them evaluate choices they could be required to make. Regardless of whether a proposal passes, we are proactively exploring new avenues through which our members can better determine whether they will be able to maintain their standard of living in retirement and what can be done to close any gaps.

We are also working to enhance the information and tools available to new hires choosing among the Traditional, Portable and Self-Managed retirement plans.

Thank you for the privilege of serving as your executive director. Please do not hesitate to let me and the SURS staff know if there is anything we can do to better serve you.

Jim Cagle Named SURS 2016 Employee of the Year

Jim Cagle, senior network administrator, was honored as SURS Employee of the Year for 2016 during the employee luncheon on Sept. 16 in Champaign.

Cagle began his career at SURS in 1997 in the Information Technology Services Division. Prior to that, he was with Cagle and Associates and served as an IT consultant to the System.

During the past year, Cagle managed the System’s Core Technologies Network upgrade, helping to bring the project in on time and without interruption to SURS daily business routine. The upgrade ensures SURS staff and members enjoy increased performance, security and standardization of their network technologies.



Jim Cagle

“Jim often works evenings and weekends to reboot servers, complete upgrades and fix problems so that our daily business is not hindered,” said Director of Operations Chris Hansen.

“He is always available on short notice even when on vacation or during his personal time. The time he spends working off hours to ensure everything is running smoothly often goes unnoticed, but is much appreciated by staff.”

Cagle’s team members often look to him for direction and advice on problems. Programmers consult with him when they struggle with why a program is failing or how a server or application should be configured.

The accounting and human resources departments also rely on him for accounting and compliance program support and administration.

Cagle was nominated and selected for the award by his co-workers.

INSIDE SURS

Legal and Legislative Team – Keeping SURS on Track

The legal and legislative team's responsibility is to make sure SURS complies with the Illinois Pension Code and other laws governing the State Universities Retirement System by issuing legal opinions to the SURS Board of Trustees and its staff, drafting rules and policy, and reviewing draft legislation.

Article 15 of the Illinois Pension Code covers topics including plan eligibility, retirement eligibility, benefit calculations, post-retirement employment limitations, disability and death benefits, permissible investments of the SURS trust, and the makeup of the board of trustees. Additionally, SURS is subject to federal tax, nondiscrimination, and securities laws.

The legal and legislative team is comprised of a general counsel, who also serves as the ethics officer and second Freedom of Information Act (FOIA) officer; an associate general counsel; a compliance officer, who also serves as first FOIA officer; a legislative liaison; and a legal assistant. The general counsel and associate general counsel work closely together to monitor all legal issues and to provide guidance to SURS staff as they assist members and employers in accordance with the Illinois Pension Code.

The SURS ethics officer oversees annual mandatory ethics training for staff and trustees, advises the staff on ethics issues as they arise, and submits ethics reports and training plans to the state inspector general's office.

The legal team has developed an in-house system to track mandated reports that must be filed with state entities such as the governor's office, General Assembly, auditor general, Executive Ethics Commission, secretary of state, Commission on Government Forecasting and Accountability, State Universities Civil Service System, and the



comptroller. These reports relate to topics including investments, investment managers, Self-Managed Plan participation, legislative consultant expenditures, FOIA requests, ethics training, ethnic and gender information for staff members and vendors, and travel reports.

The SURS legislative liaison works closely with the General Assembly and legislative consultants to monitor and provide feedback on proposed legislation that may affect SURS members or plan administration. The legislative liaison also keeps SURS trustees and staff up to date on critical legislative information and assists in-house counsel in

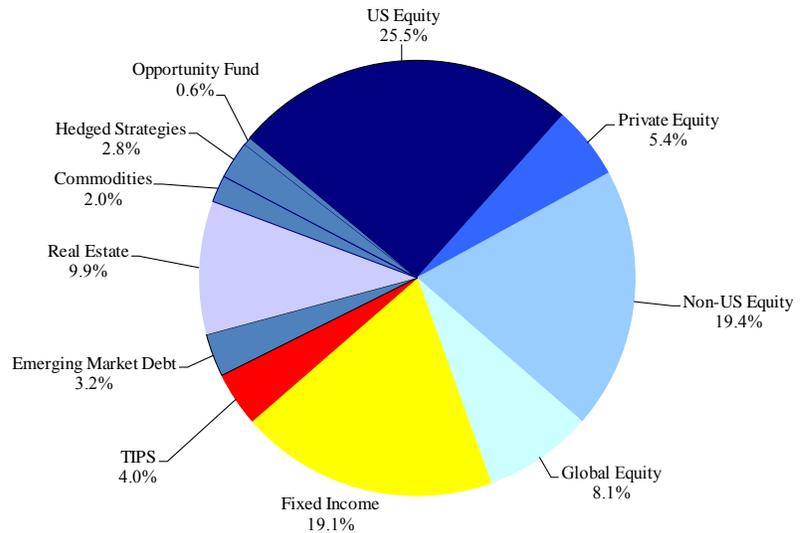
drafting technical corrections bills, administrative rules and legislative proposals that have been approved by the board of trustees.

The Legislation tab of the SURS website (www.surs.org) contains links to information regarding legislation pertinent to SURS from current and past General Assemblies, ways to contact your legislator, legislative district maps, House and Senate calendars, live coverage of House and Senate sessions, House and Senate committee meetings, recent rules changes that have been accepted and entered into the Illinois Register, and the Illinois Pension Code (40 ILCS 5/Art. 15).

INVESTMENT UPDATE

2017 Fiscal Year-To-Date Investment Results

The SURS investment portfolio produced a positive return during the first quarter of fiscal year 2017, driven by strong global equity market returns. Through September 30, 2016, the portfolio returned +3.5 percent, net of fees. This total fund return exceeded the +3.4 percent policy portfolio benchmark return. Non-U.S. Equities were the best performing assets during the period, returning 6.9 percent, as measured by the Morgan Stanley Capital International All Country World ex-U.S. Index (ACWI ex-U.S.). SURS' exposure to U.S. equity markets and Emerging Market Debt also proved beneficial, with those markets gaining 4.4 percent and 3.2 percent, respectively, as measured by the Dow Jones U.S. Total Stock Market Index and a custom blend of JP Morgan Emerging Market Debt indices. Fixed income markets produced a small positive return for the quarter (+0.46 percent), as measured by the Barclays Capital Aggregate Index, in spite of the prospect of an imminent interest rate hike in the U.S.

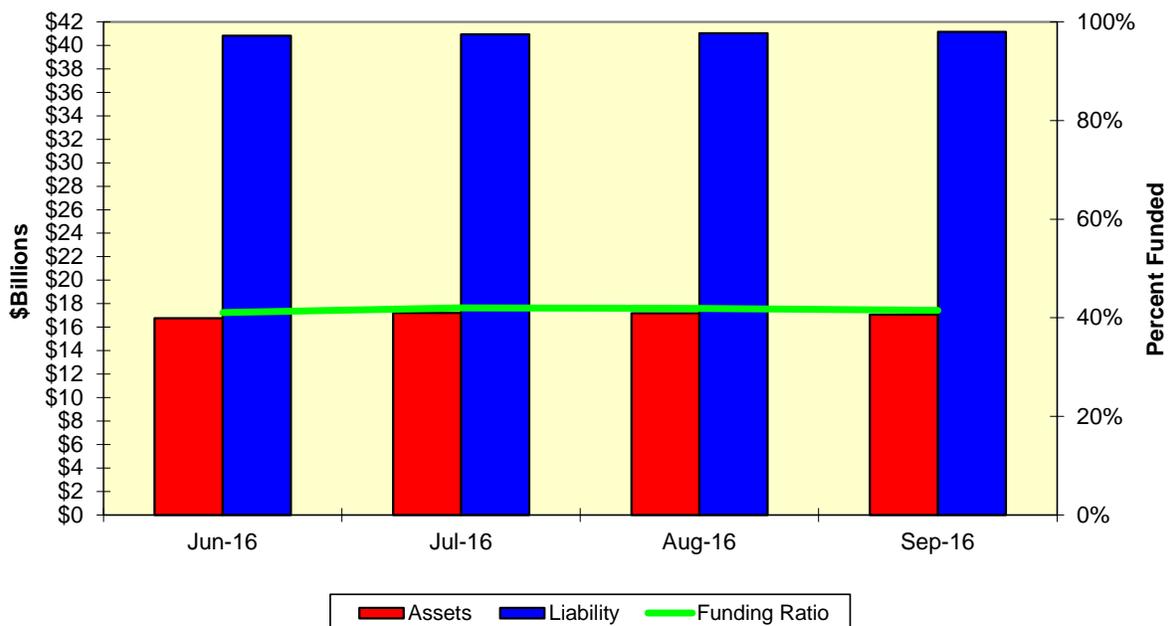


The SURS investment portfolio is broadly diversified across several asset classes in an attempt to appropriately manage the risk of the overall portfolio. The pie chart below illustrates the asset allocation of the SURS investment portfolio, as of September 30, 2016.

As of September 30, 2016, the SURS investment portfolio is valued at approximately \$17.2 billion, compared to \$16.9 billion, as of June

30, 2016. As shown in the bar chart, estimated liabilities, as of September 30, 2016, are \$41.2 billion, resulting in an unfunded liability of approximately \$24.2 billion (using the market value of assets method). The projected funding ratio is estimated to be 41.4 percent, using the market value of assets method, slightly lower than the 41.6 percent funding ratio at the beginning of the fiscal year.

SURS Projected Funding Status 2017 Fiscal Year-to-Date Results



Note: Assets and liabilities are estimated and unaudited through Sept. 30, 2016. The fund has an actuarial value funding ratio of 43.3 percent at the end of fiscal year 2016, utilizing a 7.25 percent assumed rate of return

SURS Fiscal Year 2017 Appropriation

Month	Total Received	Total Due	Amount Owed	Percentage Received
July 2016	\$555,516	\$139,285,500	\$138,729,984	0.4%
August 2016	\$72,636,749	\$139,285,500	\$67,648,751	51.4%
September 2016	\$92,778,021	\$139,285,500	\$46,507,479	66.6%
October 2016	\$76,331,610	\$139,285,500	\$62,953,890	54.8%
November 2016	\$114,698,196	\$139,285,500	\$24,587,304	82.3%
December 2016	\$144,413,164	\$139,285,500	(\$5,127,664)	103.7%
<u>January 2017</u>	<u>\$139,485,411</u>	<u>\$139,285,500</u>	<u>(\$199,911)</u>	<u>100.1%</u>
Total to date	\$639,898,667	\$974,998,500	\$335,099,833	65.6%

Proposed FY 2018 Appropriation \$1,753,685,000	Total FY 2016 Appropriation \$1,601,480,000, paid by Aug. 26, 2016	Total FY 2014 Appropriation \$1,509,766,000, paid by July 30, 2014
Total FY 2017 Appropriation \$1,671,426,000	Total FY 2015 Appropriation \$1,544,200,000, paid by Aug. 26, 2015	Total FY 2013 Appropriation \$1,402,800,000, paid by July 30, 2013

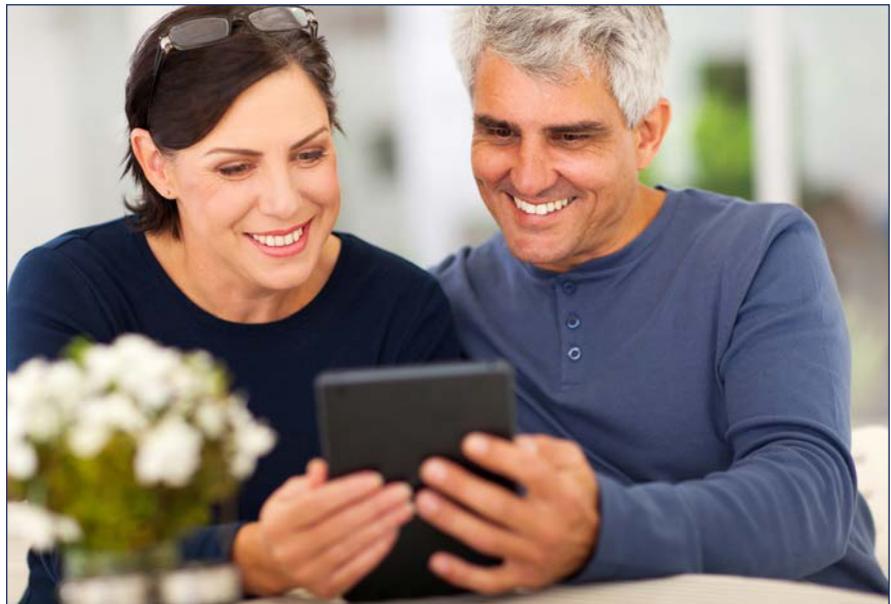
SELF-MANAGED PLAN UPDATE

The Self-Managed Plan (SMP) is SURS' defined contribution plan. Plan assets were in excess of \$1.8 billion, as of Sept. 30, 2016, which equates to an average account balance of \$89,450 per each of the 20,237 SMP participants. The SMP experienced an increase in plan assets from \$1.5 billion a year ago. The SMP enrollment figure increased 2 percent year over year.

The average asset allocation as of Sept. 30, 2016, was 51.2 percent Equities, 29.5 percent Balanced Funds and 17.1 percent Fixed Income. The remaining 2.2 percent was attributable to Real Estate.

As more SMP members approach retirement, we want to remind you of the variety of ways we are able to assist you as you plan. SURS offers SMP Pre-Retirement seminars in the spring of each year. Spring 2017 dates are April 5 in our Champaign office and April 12 in our Naperville location. SURS also offers a quarterly webinar, "Navigating the SMP." The next webinar is scheduled for Feb. 9. Dates are posted on the SURS website as soon as they are set. For more information and to register, go to www.surs.org/seminars-webinars.

SURS also offers individual counseling appointments for those



nearing retirement. If you are within four years of retirement you may schedule an appointment with a SURS counselor. To schedule, you may either log on to your SURS member website and click the link in the "attention box" or phone SURS at 800-275-7877. During this 30-45 minute appointment, discussion centers around topics such as service credit, retirement options, health insurance, the application and retirement process, taxes, and return to work restrictions. Due to the recent increase in demand for counseling appointments we have added additional resources to

accommodate the needs of SMP members.

Members at any point in their career may meet with a Fidelity or TIAA guidance consultant to review investment options and discuss long-term retirement goals. Visit www.netbenefits.com/surs to sign up for a confidential consultation.

In the fall of 2017, SURS will be conducting a survey of all SMP members. This survey is conducted every three years with the purpose of ascertaining how well the plan is serving member needs. We look forward to your feedback.

LEGISLATIVE UPDATE

Pension Reform Update Senate Bill 11 Filed

The House and Senate returned to Springfield on Jan. 9 and 10 for the “lame duck” session of the 99th General Assembly. On Jan. 9, President Cullerton filed Senate Amendment 1 to Senate Bill 17, a pension reform proposal impacting several retirement systems in the state. The amendment represented an agreement between the Senate president and the Senate Republican leader as part of a “grand bargain” on the state budget. The amendment was not called for a vote, and the bill



died when the Senate adjourned sine die for the 99th General Assembly on Jan. 10.

On Jan. 11, President Cullerton re-introduced the legislation in the 100th General Assembly as Senate Bill 11. The Senate Executive Committee heard subject matter testimony on the legislation, and it advanced to Third Reading on Jan. 24. It could be called for a vote when the Senate

returns to session in February. SURS will continue to closely monitor this legislation and will keep members informed of the progress of all pension reform proposals through the legislative page of the SURS website (www.surs.org/legislation).

Senate Bill 11 requires each Tier I employee (i.e., each employee who first became a participant of SURS before Jan. 1, 2011, and who is not in the Self-Managed Plan) to elect one of two options: (1) To accept a reduced and delayed automatic annual increase in retirement (the lesser of 3 percent or ½ of the increase in CPI-U, non-compounded, beginning at the earlier of age 67 or five years after retirement); or (2) To keep the current Tier I automatic annual increase in retirement (3 percent compounded, beginning the January after retirement).

Each Tier I employee who elects to accept the reduced and delayed automatic annual increase in retirement will receive a payment of 10 percent of his or her employee contributions made before the effective date of the election, which will not count towards his or her pension; pay reduced employee contributions moving forward (7.2 percent for regular employees and 8.55 percent for public safety employees); and have his or her future earnings increases count towards his or her

pension. Each Tier I employee who elects to keep the current Tier I automatic annual increase in retirement will not have his or her future earnings increases count towards his or her pension.

Employees will generally have between Jan. 1, 2018, and March 31, 2018, to choose between the two options. Failure to choose an option means that the employee will be deemed to have chosen to keep the current cost of living adjustment in retirement. Retirees, employees in the Self-Managed Plan and employees who first became members of SURS on or after Jan. 1, 2011, are not required to choose between the two options.

Veto Session

SB 1059

Gov. Rauner vetoed Senate Bill 1059 on July 29, 2016. Senate Bill 1059 would have allowed Self-Managed Plan members who take a lump-sum distribution of their vested account balances while retirement eligible to receive State Employees Group Health Insurance benefits upon returning to work with a SURS-covered employer. Under current law, the only way that a Self-Managed Plan member can receive State Employees Group Health Insurance benefits while retirement eligible is to annuitize his or her vested account balances upon distribution. The governor’s veto was not overridden, and Senate Bill 1059 failed to become law.

SB 1751

Rep. Will Guzzardi (D-Chicago) filed House Amendment 3 to Senate Bill 1751 on Nov. 30, 2016. The amendment prohibits the state-funded retirement systems from investing in companies that enter into a contract with the federal government to build a wall between the border of the United States and Mexico. House Amendment 3 was adopted, and Senate Bill 1751 was called for a vote in the House on Dec. 1, 2016. It received 56 “yes” votes – just four votes shy of the requisite number for passage. The bill died when the 99th General Assembly adjourned sine die, but it could be reintroduced in the 100th General Assembly.

Budget

A portion of the annual required state contribution to SURS for fiscal year 2017 was contained in the Stopgap Budget (Public Act 99-0523 and Public Act 99-0524). The remainder of the annual required state contribution to SURS for fiscal year 2017 will be made as a continuing appropriation under the State Pension Funds Continuing Appropriation Act. As of December 2016, SURS has received approximately \$500.4 million from the State for fiscal year 2017. SURS expects full payment of the annual required state contribution for fiscal year 2017 by Aug. 31, 2017.

REPORT from Front Page

Award-winning financial reporting

For the 32nd consecutive year, SURS has earned the Government Finance Officers Association of the United States and Canada's (GFOA) Certificate of Achievement for Excellence in Financial Reporting for our FY 2015 annual report.

To be awarded the Certificate of Achievement, SURS must publish an easily readable and efficiently organized report whose contents conform to program standards, generally accepted accounting principles and applicable legal requirements.

In addition, the Public Pension Coordinating Council (PPCC), a coalition of three national associations that represent more than 500 of the largest pension plans in the U.S., awarded SURS the Public Pension Standards Award for Funding and Administration. Public pension standards are a benchmark to measure public defined benefit plans in the areas of retirement system management, administration and funding.

NOVEN from Front Page

As senior director for government markets, he was responsible for leading TIAA's approach to core retirement plans for state and local governments nationwide, supporting best practices for public sector retirement plans and providing guidance to public officials. Before becoming a senior director at TIAA, Noven filled the role of regional vice president and associate general counsel.

Prior to joining TIAA, Noven worked for the office of the Illinois state treasurer. He began as a legal intern in 1993 and rose to the position of deputy treasurer before leaving in 2007. Roles he filled in the treasurer's office along his path to becoming deputy treasurer included inspector general, chief legal counsel, and deputy chief of staff for law and policy.

"The board of trustees is very pleased to welcome Martin Noven to SURS," Chairperson Tom Cross said. "He has the broad experience needed to guide the system at this critical time. We are confident he will serve the membership well."

Noven, who grew up in Chicago, graduated from

SURS By The Numbers

As of June 30, 2016

Total Market Assets - DB	\$17.0 billion
Total Market Assets - DC	\$1.8 billion
Accrued Actuarial Liabilities	\$40.9 billion
Unfunded Actuarial Liabilities	\$23.2 billion
Net FY2016 Investment Income	\$17.0 million
FY2016 Investment Return	0.2%
20-Year Investment Return	7.3%
FY2016 Actuarial Funding Ratio	43.3%
Total Members	230,364
Defined Benefit Members	208,886
Defined Contribution Members	21,478
Average Monthly Retirement Annuity	\$3,226
Total Employers	61

the University of Illinois at Urbana-Champaign with a bachelor's degree in speech communication. He then obtained his juris doctorate from the University of Texas School Of Law. He has moved to Champaign along with his wife and two children.

"Before I took the position I had an opportunity to talk to a number of our members as well as the vendor community. Everyone I talked to had very positive things to say about SURS. All of those opinions were confirmed when I walked in the door," Noven said.

"The SURS staff is a group of very competent, hard-working, mission-driven employees who work very well together. That's not something you find everywhere. I was delighted to find such a high-functioning team, and a very kind, generous and welcoming team. The fact everyone is so focused on serving our members makes SURS a fantastic organization to be a part of."

Noven replaced Interim Executive Director William Mabe, who served in the role since June when former Executive Director W. Bryan Lewis resigned to take a position in Pennsylvania.

Help Us Improve Our Website. Please Take Our Survey.



SURS has prepared a short survey asking members for their feedback on our website.

This anonymous survey gives you the chance to tell us what you think about our site and how we might improve it. We hope you can take a few minutes to take the 13-question survey.

Your input is needed so we may better serve you and ensure we are meeting your expectations.

Take the survey at www.surveymonkey.com/r/SURS

Educational Seminars & Webinars

For additional information about seminars and webinars, go to www.surs.org/seminars-webinars.

Webinars

Plan Choice

February 28, 9:30 a.m.-11 a.m.

March 27, 9:30 a.m.-11 a.m.

April 25, 9:30 a.m.-11 a.m.

May 30, 9:30 a.m.-11 a.m.

Understanding Your SURS Benefits

March 16, 9 a.m.-10:30 a.m.

Navigating the Self-Managed Plan

February 9, 9:30 a.m.-11 a.m.

Seminars – Defined Benefit Members

Retirement Education Seminars – Champaign

March 23, 9:30 a.m.-3:30 p.m. (CIP Insurance)

April 4, 9:30 a.m.-3:30 p.m. (State Insurance)

April 13, 9:30 a.m.-3:30 p.m. (CIP Insurance)

May 3, 9:30 a.m.-3:30 p.m. (State Insurance)

Retirement Education Seminars – Naperville

March 30, 9 a.m.-3 p.m. (State Insurance)

April 25, 9 a.m.-3 p.m. (CIP Insurance)

Post-Retirement Seminar – Champaign

May 17, 9 a.m.-12:15 p.m.

Seminars – SMP Members

Pre-Retirement Seminar – Champaign

April 5, 9 a.m.-2:30 p.m.

Pre-Retirement Seminar – Naperville

April 12, 9:30 a.m.-2:30 p.m.

Board Meetings Schedule

All times and locations are subject to change.

Thursday, Feb. 2, 2017 (9 a.m. – 5 p.m.)

Friday, Feb. 3, 2017 (9 a.m. – 1 p.m.)

Investment Committee and Investment Forum
Chicago

Thursday, March 9, 2017 (9 a.m. – 5 p.m.)

Friday, March 10, 2017 (9 a.m. – 12 p.m.)

Committee and Board Meetings
Champaign

Thursday, April 20, 2017 (9 a.m. – 5 p.m.)

Investment Committee Meeting

Chicago

Thursday, June 8, 2017 (9 a.m. – 5 p.m.)

Friday, June 9, 2017 (9 a.m. – 12 p.m.)

Committee and Board Meetings
Chicago

Thursday, Sept. 14, 2017 (9 a.m. – 5 p.m.)

Friday, Sept. 15, 2017 (9 a.m. – 12 p.m.)

Committee and Board Meetings
Champaign

Thursday, Oct. 19, 2017 (9 a.m. – 5 p.m.)

Investment Committee Meeting

Champaign

Thursday, Dec. 7, 2017 (9 a.m. – 5 p.m.)

Friday, Dec. 8, 2017 (9 a.m. – 12 p.m.)

Committee and Board Meetings
Chicago

2017 Payment Schedule

All Annuity Payments

February 1

March 1

March 31

May 1

June 1

June 30

August 1

September 1

September 29

November 1

December 1

Disability Payments

February 28

March 31

April 28

May 31

June 30

July 31

August 31

September 29

October 31

November 30

December 29

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.

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State Universities Retirement System

1901 Fox Drive, Champaign, IL 61820

toll free 800-275-7877

direct 217-378-8800

www.surs.org



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