

SURS2015

Annual Financial
Report Summary



TABLE OF CONTENTS

Board of Trustees	1
Administrative Staff	2
A Message from Our Executive Director	3
Membership	4
Defined Benefit Plan	
– Breakdown of Membership	
– Number of Benefit Recipients	
– Average Annuity Payments for Retirees	
Defined Contribution Plan	
– Breakdown of Membership	
– Breakdown of Participating Employers	
Customer Service	5
Mission	
Major Initiatives	
Customer Service Statistics	
Number of SURS Employees	
Financial	6
Condensed Statement of Plan Net Position	
Condensed Statement of Changes in Plan Net Position	
Funding	7
Schedule of Employer Contributions	
Historic Funding Ratios	
Investments	8
Investment Policy	
Investment Objectives	
Policy Portfolio	
Investment Results	
Employers & SURS Employer Representatives	9
Breakdown of Participating Employers	
Employer Representatives Statistics	

Profile

SURS is the administrator of a cost-sharing, multiple-employer public employee retirement system established July 21, 1941, to provide retirement annuities and other benefits for employees, survivors and other beneficiaries of those employees of the state universities, community colleges, and certain other state educational and scientific agencies. SURS services 61 employers and 228,000 members and annuitants. The plans administered by SURS include a defined benefit plan established in 1941 and a defined contribution plan established in 1998. SURS is governed by an 11-member board of trustees that includes four elected active members, two elected annuitants and five members appointed by the governor, one of which is the chairperson.

Excellence in Financial Reporting Award



The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to SURS for its component unit financial report for the fiscal year ended June 30, 2014. This is the thirty-first consecutive year the System has earned this award.

BOARD OF TRUSTEES



Lindsay Anderson
Chairperson
Appointed



John Engstrom
Vice Chairman
Elected



Dorinda Miller
Treasurer
Elected



Jacqueline Berger
Elected



Dennis Cullen
Appointed



Richard Figueroa
Appointed



Paul R. T. Johnson Jr.
Appointed



Craig McCrohon
Appointed



Antonio Vasquez
Elected



Mitchell Vogel
Elected

ADMINISTRATIVE STAFF



Front Row (left to right)

Deputy Chief Investment Officer Douglas Wesley, Chief Investment Officer Daniel L. Allen, Executive Director W. Bryan Lewis, and Chief Operating Officer Andrew Matthews

Back Row (left to right)

Director of Internal Audit Steven L. Hayward, Chief Financial Officer Phyllis Walker, Director of Human Resources Brenda Dunn, Director of Application Development and Research Douglas J. Steele, Director of Outreach Suzanne Mayer, Director of Member Services Angela Lieb, and Director of Operations M. Christopher Hansen

A MESSAGE FROM OUR EXECUTIVE DIRECTOR



December 21, 2015

2015 was a dynamic year for SURS with the hiring of new executive leadership, the appointment and election of new trustees, an Illinois Supreme Court pension decision, and a global economy with uneven expansion patterns. Through it all, SURS remains a strong administrator of benefits for our members and their families. We received 100% of our statutory contribution from the State of Illinois and continued to enhance our efficient service to members.

In 2015, the investment fund earned a 2.9% return, net of fees. While lower than recent annual returns, the investment fund continues to produce positive long-term returns with a focus on reducing risk in the portfolio. The portfolio has earned an average return of 11.2% over the last five years, 8.2% over the last 20 years, and 9.2% over the last 30 years.

A well-diversified asset allocation continues to help produce positive risk adjusted returns in a global economy that has not maintained consistent growth patterns in recent years. We continue to manage these changing conditions by focusing on risk measurement and monitoring the investment implementation to help assure the financial soundness of the System.

We achieved high levels of customer satisfaction in 2015 as measured by our member surveys and feedback from our members and annuitants. Our focus on the member remains critical to our success and we continue to put an emphasis on meeting the pension benefit needs of all members.

While the defined benefit plan continues to be underfunded because of not consistently receiving full contributions from the State in prior years, solid investment returns and consistency in contributions for the past four years have us on the right path to a strong funded position in the future.

In addition to focusing on investment asset diversification and excellent service, SURS has made progress during the past year in the following areas:

- Improving organizational leadership in operations and compliance
- Updating information technology systems
- Expansion of member education and outreach efforts
- Education and training of staff
- Strategic planning

SURS remains an efficient provider of services with a focus on continuous improvement. The total operating expenses were 0.08% of the System's assets.

Our most valuable resource remains our employees. With the support of the SURS board members and the commitment to strive to be a better organization each year, we look forward to continuing to serve and delivering the retirement benefits promised to our members.

Sincerely,

A handwritten signature in black ink, appearing to read "Mr. D. J. [unclear]". The signature is fluid and cursive, written over a white background.

MEMBERSHIP

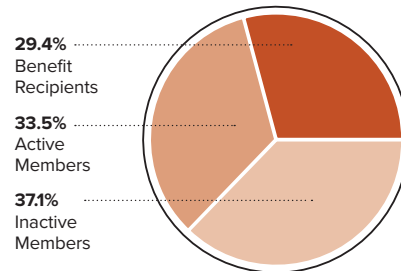
DEFINED BENEFIT – TRADITIONAL & PORTABLE PLANS

At June 30, 2015, membership was:

Benefit Recipients*	61,020
Active Members	69,381
Inactive Members	76,984
	207,385

*Does not include lump-sum refund recipients

Defined Benefit Plan



Number of Benefit Recipients 5-Year Summary

Fiscal Year	Survivors	Disability	Contribution Refunds	Retirement	Disability Retirement Allowance
2011	7,578	709	4,489	42,682	401
2012	7,870	715	4,618	45,548	399
2013	8,001	688	4,528	48,142	398
2014	8,144	634	4,734	50,237	391
2015	8,342	656	4,144	51,631	391

Average Annuity Payments For Retirees as of June 30, 2015

	Years of Credited Service						Total
	0–10	11–15	16–20	21–25	26–29	30+	
Number of Retirees	13,435	7,512	7,416	8,727	7,264	7,277	51,631
Avg Monthly Annuity	\$ 781	1,648	2,706	4,021	5,183	6,611	3,172
Final Average Salary	\$ 38,416	41,594	51,412	60,959	68,769	75,265	54,050
Avg Credited Service							18.83

DEFINED CONTRIBUTION – SELF-MANAGED PLAN

SURS is the plan sponsor and administrator of a defined contribution plan established as of January 1, 1998, by the Illinois General Assembly as an amendment to the Illinois Pension Code through Illinois Public Act 90-0448. This plan is referred to as the Self-Managed Plan (SMP) and is offered to employees of all SURS employers who elect to participate. This plan is a qualified money purchase pension plan under Section 401(a) of the Internal Revenue Code. The assets of the SMP are maintained under a trust administered by the SURS Board of Trustees in accordance with the Illinois Pension Code, and are made up of the account balances of individual members.

At June 30, 2015, membership was:

Benefit Recipients	432
Active Members	11,928
Inactive Members	8,476
	20,836

At June 30, 2015 and 2014, the number of SMP participating employers was:

	2015	2014
Universities	9	9
Community Colleges	39	39
Allied Agencies	8	13
State Agencies	2	1
	58	62

CUSTOMER SERVICE

Mission

To secure and deliver the retirement benefits promised to our members.

Major Initiatives

In fiscal year 2015, the SURS staff united to implement legislative changes, strengthen the System and work on programs that would benefit its members. SURS will continue to be the trusted source for information and guidance.

Legislative Changes

Public Act 97-0695 was signed into law on June 12, 2012, reforming state retiree health insurance. Several lawsuits were filed challenging the constitutionality of this law. Kanerva vs Weems was the consolidated case. On August 28, 2014, the Sangamon County Circuit Court judge ordered the state to stop deducting the monthly percentage-of-annuity health premiums from retiree and survivor annuities. The decision further required the refunding of insurance premiums by June 15, 2015. SURS received approximately \$23.4 million from Central Management Services to repay the premiums that were deducted from annuitants' checks from July 1, 2013, through September 1, 2014.

SURS staff:

- Reviewed and updated 3,000 addresses in preparation for the Opt-Out Notice mailing
- Processed over 34,000 annuitant insurance refunds
- Issued letters to approximately 2,000 deceased members' beneficiaries

SURS has until June 30, 2016, to return monies that cannot be paid to members to the State Treasurer.

Investment Strategy

The investment staff implemented a cash overlay program in August 2014. This program provides SURS the ability to efficiently implement changes to asset allocation targets. In addition, the program assists the System in managing daily portfolio cash flows.

Information Technology

Several information technology improvements were made in fiscal year 2015 including:

- Implementing a new method for developing targeted email campaigns to the membership
- Redesigning the Employer Website
- Launching a SURS Facebook page
- Developing and implementing a new procurement/business page
- Creating a board portal for use by the board and staff. The usage of iPads eliminates the production and mailing of board books.

SURS Member Services/Outreach Statistics – Fiscal Year 2015

Counseling		Lobby Visits	
Individual Retirement Counseling Appointments	3,880	Walk-in Visits	4,955
Written Retirement Estimates	1,034	Customer Satisfaction	98%
Campus Visits	108	Electronic Service	
Pre-retirement Seminars	12	SURS Website Homepage Views	1,034,760
Post-retirement Seminars	2	SURS Member Website Visits	482,249
Educational Webinars	20	Webmails	4,311
Benefit Fairs	21	Informational Emails Sent To Members	418,249
Customer Satisfaction	98%	Claims Processed	
Call Center		Retirement	3,788
Incoming Calls	117,106	Refund	4,144
Customer Satisfaction	92%	Death	590
		Disability	1,298

Number of SURS Employees (full-time equivalents) — 5-Year Summary

Fiscal Year	Human Resources & Administration	Investments & Accounting	Member Services & Outreach	Information Systems & Support Services	Self-Managed Plan	Total
2011	10.55	12.80	62.00	29.75	3.70	118.80
2012	9.90	9.65	65.80	28.75	3.70	117.80
2013	10.90	10.65	69.00	26.75	3.70	121.00
2014	12.00	10.55	67.00	26.25	4.20	120.00
2015	13.00	11.55	72.00	24.25	4.20	125.00

FINANCIAL

Financial Highlights

- Contributions from the state and employers were \$1,590.9 million, an increase of \$30.8 million (2%) from the previous year.
- The System's benefit payments increased by \$139.6 million (6.9%) for fiscal year 2015.
- The System's return on investment, net of investment management fees, was 2.9% for fiscal year 2015.
- The System's net position increased by \$240.5 million (1.3%) for fiscal year 2015.

Financial Analysis of the System

The State Universities Retirement System serves 207,385 members in its defined benefit plan and 20,836 members in its Self-Managed Plan. The funds needed to finance the benefits provided by SURS are accumulated through the collection of member and employer contributions and through income on investments. The total net position of the System increased from \$19.0 billion as of June 30, 2014, to \$19.2 billion as of June 30, 2015. This \$0.2 billion change was chiefly due to an increase in investments offset by a decrease in securities lending collateral of \$0.1 billion.

Condensed Statement of Plan Net Position

Reporting Entity Total (\$ in millions)	2014	2013	Change Amount	Change %
Cash and short-term investments	\$ 749.2	\$ 792.3	\$ (43.1)	(5.4)
Receivables and prepaid expenses	242.0	163.3	78.7	48.2
Pending investment sales	422.7	444.2	(21.5)	(4.8)
Investments and securities lending collateral	19,179.7	18,900.5	279.2	1.5
Capital assets, net	6.2	6.1	0.1	1.6
Total assets	20,599.8	20,306.4	293.4	1.4
Payable to brokers-unsettled trades	600.8	635.2	(34.4)	(5.4)
Securities lending collateral	752.4	664.3	88.1	13.3
Other liabilities	30.1	30.9	(0.8)	(2.6)
Total liabilities	1,383.3	1,330.4	52.9	4.0
Total plan net position	\$ 19,216.5	\$ 18,976.0	\$ 240.5	1.3

Overall, net position increased by \$240.5 million, or 1.3%, mainly due to the increase in investments attributable to the positive return on defined benefit plan investments of 2.9%. The increase in receivables and prepaid expenses is largely due to the increase in the receivable from brokers for unsettled trades at fiscal year-end as a result of a larger number of trades outstanding for fiscal year 2015 compared to 2014.

Condensed Statement of Changes in Plan Net Position

Reporting Entity (\$ in millions)	2014	2013	Change Amount	Change %
Employer contributions	\$ 46.7	\$ 50.2	\$ (3.5)	(7.0)
Non-employer contributing entity contributions	1,544.2	1,509.8	34.4	2.3
Member contributions	340.0	348.6	(8.6)	(2.5)
Net investment income	593.6	2,914.2	(2,320.6)	(79.6)
Total additions	2,524.5	4,822.8	(2,298.3)	(49.7)
Benefits	2,160.9	2,021.2	139.7	6.9
Refunds	108.6	107.7	0.9	0.8
Administrative expense	14.5	14.3	0.2	1.4
Total deductions	2,284.0	2,143.2	140.8	6.2
Net increase in plan net position	\$ 240.5	\$ 2,679.6	\$ (2,439.1)	(91.0)

Additions to plan net position are in the form of employer and member contributions and returns on investment funds. For fiscal year 2015, non-employer contributing entity contributions increased by \$34.4 million due to higher employer contributions from the State of Illinois as required by Public Act 88-0593. Employer contributions decreased by \$3.5 million or 7%. Member contributions decreased by \$8.6 million or 2.5%. The investment net income for fiscal year 2015 was \$593.6 million for the System, representing a \$2.3 billion decrease from the prior year. For the defined benefit plan, the overall rate of return was 2.9% (net of all investment management fees).

FUNDING

The State of Illinois, a non-employer contributing entity, provides funding from two sources: the General Revenue Fund and the State Pensions Fund. Annually, the SURS actuary determines the annual "Statutory Contribution" needed to meet current and future benefit obligations in accordance with the Pension Code. The determination of the total employer contributions for fiscal year 2015 was based on Public Act 98-0680, which appropriated \$1,544.2 million.

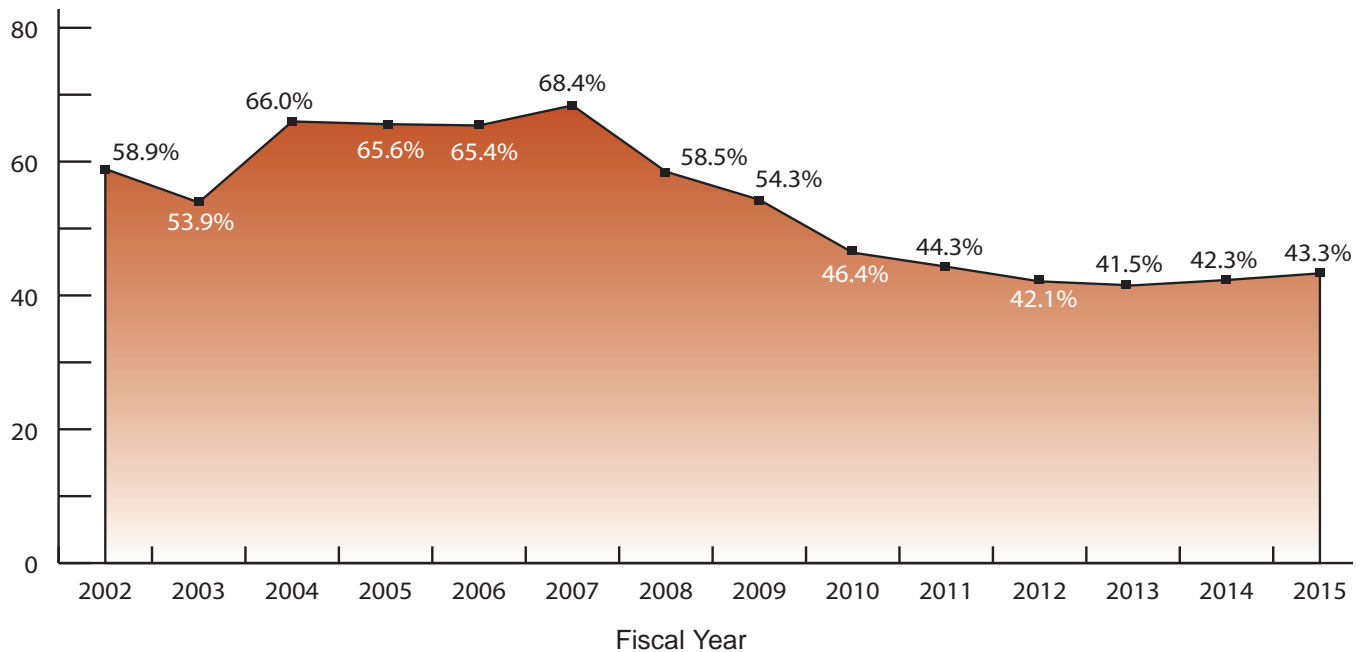
The Pension Code sets forth the manner of calculating the statutory contribution under the Statutory Funding Plan. The Statutory Funding Plan requires the state to contribute annually an amount equal to a constant percent of pensionable (capped) payroll necessary to allow the System to achieve a 90% Funded Ratio by fiscal year 2045, subject to any revisions necessitated by actuarial gains or losses, or actuarial assumptions.

Schedule of Contributions from Employers and Other Contributing Entities (\$ thousands)

Fiscal Year	Actuarially Determined Contribution	Actual Contribution		Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
		Employers	Other Contributing Entities			
2006	\$ 662,041	\$ 37,822	142,196	\$ 482,023	\$3,054,100	5.89%
2007	705,900	37,079	224,064	444,757	3,180,985	8.21%
2008	707,537	38,031	306,914	362,592	3,303,220	10.44%
2009	874,032	34,360	417,257	422,415	3,463,922	13.04%
2010	1,003,331	34,166	662,429	306,736	3,491,071	19.95%
2011	1,259,048	36,547	737,048	485,453	3,460,838	22.35%
2012	1,443,348	45,596	940,219	457,533	3,477,166	28.35%
2013	1,549,287	41,874	1,359,607	147,806	3,533,858	39.66%
2014	1,560,524	43,899	1,458,965	57,660	3,522,246	42.67%
2015	1,622,656	39,934	1,488,591	94,130	3,606,536	42.38%

Historical Funding Ratios

Starting with fiscal year 2009, the funding ratios were calculated using the actuarial value of assets. Prior to FY 2009, the market value of assets were used.



INVESTMENTS

Investment Policy

The investment policy of SURS provides an efficient allocation of assets to achieve overall risk and return objectives. Periodically, asset allocation studies are conducted and the results of these studies guide the setting of investment policy. An asset/liability study completed in June 2014 resulted in slight modifications to SURS' asset allocation targets and incorporated three additional asset classes: emerging market debt, hedged equities, and commodities. The modified long-term strategic asset allocation targets are:

- 23.0% invested in U.S. equities
- 19.0% in non-U.S. equities
- 8.0% in global equities
- 6.0% in private equities
- 19.0% in fixed income
- 4.0% in treasury inflation-protected securities (TIPS)
- 3.0% in emerging market debt
- 10.0% in direct real estate (through funds) and real estate investment trust securities (REITs)
- 2.0% in commodities
- 5.0% in hedged strategies
- 1.0% in the Opportunity Fund

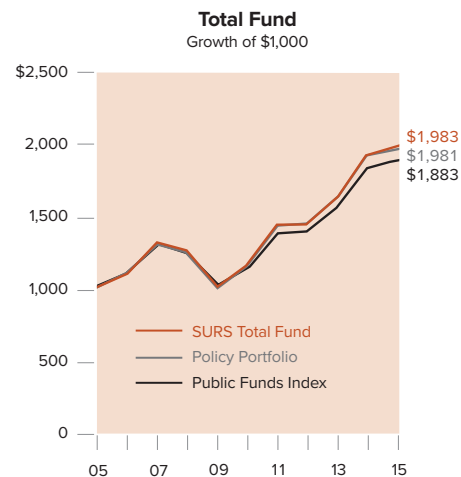
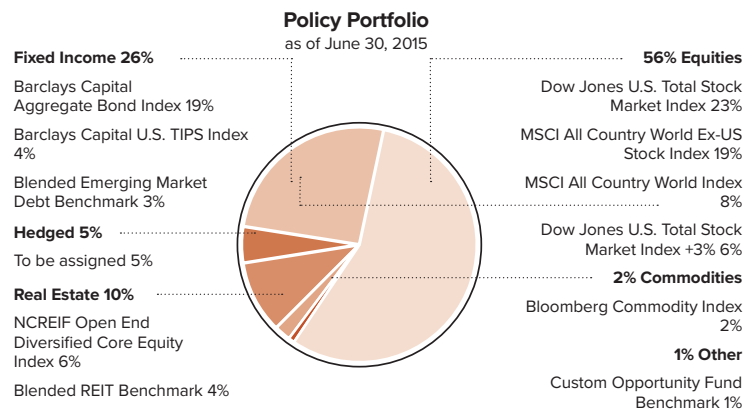
These strategic asset allocation targets will be implemented over time to allow for proper diversification.

Investment Objectives

The investment objective of the total portfolio is to produce annualized investment returns, net of all management fees, which exceed the return of a composite market benchmark or policy portfolio. The policy portfolio is comprised of market indices, which are consistent with the overall investment policy. The policy portfolio reflects a passive implementation of the investment policy. See chart at right.

Long-Term Investment Results

The 10-year period ended June 30, 2015, provided returns that have matched the overall benchmark. SURS total portfolio earned an annualized total return, net of all investment management expenses, of 7.1%. As shown in the investment results table, over the long term, SURS total fund returns are consistent with its market goal (policy portfolio) and more favorable than the median public pension funds benchmark. This consistent performance is best illustrated by the growth of \$1,000 invested in SURS total fund, the policy portfolio and median public funds index during the past 10 years. The ending points indicate that \$1,000 invested in SURS total fund would have grown to \$1,983, while the same \$1,000 invested in the policy portfolio and median public funds index would have grown to \$1,981 and \$1,883, respectively.



Fiscal Year 2015 Results

For the fiscal year ended June 30, 2015, SURS total fund returned 2.9%, matching the market goal, or policy portfolio. SURS' one-year return exceeded that of the median public pension fund return, as measured by the Investorforce Public DB > \$1 Billion Index, by 0.3%. For the period, six of the nine asset class portfolios, including U.S. equity, non-U.S. equity, global equity, direct real estate, REITs and the Opportunity Fund, met or exceeded the returns of their respective benchmarks. Strong absolute returns were experienced in U.S. equity, private equity, direct real estate and the Opportunity Fund.

Self-Managed Plan

Fiscal year 2015 marks the seventeenth complete year of the Self-Managed Plan (SMP). As of June 30, 2015, the SMP had accumulated plan assets of approximately \$1.75 billion. This represents an increase of \$169 million since the end of fiscal year 2014. Contributing to the growth in plan assets was a market-related increase, net of asset withdrawals, of approximately \$90 million. During the past several years, SMP participants have continued to maintain a balanced exposure to equities. In aggregate, the total funds invested by SMP participants have an allocation of 71% equity, 27% fixed income, and 2% real estate. This was a 1% decrease in the equity allocation as compared to last year's position.

EMPLOYERS

Number of defined benefit participating employers

	2015	2014
Universities	9	9
Community Colleges	39	39
Allied Agencies	11	15
State Agencies	2	2
	61	65

Note: Excluded from the employer totals above is the State of Illinois, a non-employer contributing entity.

SURS Participating Employers

Black Hawk College	Lincoln Land Community College
Carl Sandburg College	McHenry College
Chicago State University	Moraine Valley Community College
City Colleges of Chicago	Morton College
College of DuPage	Northeastern Illinois University
College of Lake County	Northern Illinois University
Danville Area Community College	Northern Illinois University Foundation
Eastern Illinois University	Oakton Community College
Elgin Community College	Parkland College
Governors State University	Prairie State College
Heartland Community College	Rend Lake College
Highland Community College	Richland Community College
ILCS Section 15-107(l) Members	Rock Valley College
ILCS Section 15-107(c) Members	Sauk Valley College
Illinois Board of Examiners	Shawnee College
Illinois Board of Higher Education	Southern Illinois University – Carbondale
Illinois Central College	Southern Illinois University – Edwardsville
Illinois Century Network	South Suburban College
Illinois Community College Board	Southeastern Illinois College
Illinois Community College Trustees Association	Southwestern Illinois College
Illinois Eastern Community College	Spoon River College
Illinois Mathematics and Science Academy	State Universities Civil Service System
Illinois State University	State Universities Retirement System
Illinois Valley Community College	Triton College
John A. Logan College	University of Illinois — Alumni Association
John Wood Community College	University of Illinois — Chicago
Joliet Junior College	University of Illinois — Foundation
Kankakee Community College	University of Illinois — Springfield
Kaskaskia College	University of Illinois — Urbana
Kishwaukee College	Waubonsee Community College
Lake Land College	Western Illinois University
Lewis & Clark Community College	William Rainey Harper College

SURS EMPLOYER REPRESENTATIVES

SURS employer representatives work with each of our 61 employer's human resources departments to resolve issues concerning member claims, terminations and employee certifications. The team conducts new-hire training and provides state-required fraud reporting instruction for each school.

SURS introduced a redesigned Employer Website in March with a number of improvements designed to enhance ease of use and improve productivity for employers. The site had 154,107 visits in FY 2015.

SURS Employer Representative Statistics Fiscal Year 2015

Employer Phone Inquiries.....	2,278
Employer Email Inquiries	2,512
Employer Training Webinars.....	25
Employer Training Seminars.....	3
Employer Workshops.....	2



State Universities Retirement System of Illinois
A Component Unit of the State of Illinois

1901 Fox Drive • Champaign, Illinois 61820
Toll Free 800-275-7877 • Direct 217-378-8800
www.surs.org