

ANNUAL FINANCIAL REPORT

2017 SUMMARY



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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 approximately 232,000 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 members elected, two annuitants elected, and five members appointed by the governor, of which the chairperson is the appointed chair of the Illinois Board of Higher Education.

BOARD OF TRUSTEES



Tom Cross
Chairperson
Appointed



Dorinda Miller
Vice Chairperson
Elected



John Engstrom
Treasurer
Elected



Aaron Ammons
Elected



Mark Cozzi
Appointed



Dennis Cullen
Appointed



J. Fred Giertz
Elected



Paul R. T. Johnson Jr.
Appointed



Craig McCrohon
Appointed



Steven Rock
Elected



Antonio Vasquez
Elected

ADMINISTRATIVE STAFF



Seated left to right: Director of Operations Chris Hansen, Director of Human Resources Brenda Dunn and Director of Internal Audit Steven L. Hayward.

Standing left to right: Chief Investment Officer Douglas Wesley, Director of Outreach Suzanne Mayer, General Counsel Bianca T. Green, Executive Director Martin Noven, Director of Member Services Angie Lieb, Chief Financial Officer Phyllis Walker, and Director of Application Development and Research Douglas J. Steele.

AWARDS & RECOGNITION

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 FY 2016 financial report. It was the thirty-third consecutive year the System has earned the award. To be awarded the certificate, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. The report must satisfy both generally accepted accounting principles and applicable legal requirements.



The Public Pension Coordinating Council (PPCC), a coalition of three national associations that represents 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.

A MESSAGE FROM OUR EXECUTIVE DIRECTOR



Building Futures
is not only the
theme of this
year's annual
report but
our long-term
objective at SURS.

Our goal is to help members select the most appropriate retirement plan option for their needs, to encourage participation in payroll deduction programs offered by their employers, and to provide education on insurance, beneficiaries, reciprocity and Social Security benefits. We strive to provide sound information that will prepare members for a secure future with a lifetime of income.

We are currently working with legislators and the other state retirement systems to create the new optional hybrid retirement plan outlined in Public Act 100-23. This plan will include both a defined benefit and a defined contribution component and will be available to new hires and to existing Tier II members. The hybrid plan will not affect Tier I members, retirees or Self-Managed Plan members. When the plan is complete, we will provide detailed information to our affected members so they can make informed decisions about their retirement choices.

For the past six years, SURS has received 100% of our state funding and although the plan continues to be underfunded because we did not receive full contributions from the state in prior years, recent payments along with solid investment returns, allow us to build a stronger fund.

In 2017, the SURS portfolio delivered a net of fee return of 12.2%, approximately 50 basis points above the policy portfolio. From a long-term prospective, the SURS portfolio has performed well, earning an 8.2% annualized rate of return over the past 25 years, well in excess of both the policy portfolio return and the 7.25% assumed rate of return.

We continue to build and enhance our technology to provide better security and communications for our members. In 2017, we completed a major network infrastructure upgrade that included next-generation firewalls and endpoint security, allowing us to greatly increase our level of protection.

Our staff continues to receive glowing reviews from members and employers alike for their top-notch service, professionalism and knowledge. I would like to personally thank them for their hard work and dedication this past year.

At SURS, we have built a great team of professionals to manage your benefits. All of our efforts are with you and your retirement security in mind.

A handwritten signature in black ink, appearing to read 'Martin Noven'.

Martin Noven
Executive Director

MEMBERSHIP

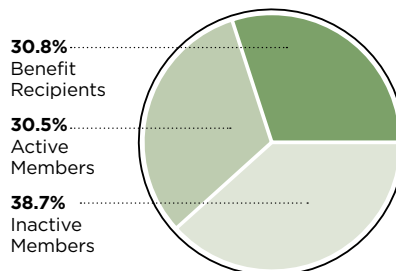
DEFINED BENEFIT - TRADITIONAL & PORTABLE PLANS

At June 30, 2017, membership was:

Benefit Recipients*	64,545
Active Members	64,117
Inactive Members	81,316
	209,978

*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
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
2016	8,481	671	4,376	53,596	398
2017	8,614	643	4,433	54,902	386

Average Annuity Payments For Retirees as of June 30, 2017

	Years of Credited Service						Total
	0-10	11-15	16-20	21-25	26-29	30+	
Number of Retirees	14,735	8,096	7,884	9,136	7,684	7,367	54,902
Avg Monthly Annuity	\$823	1,726	2,823	4,224	5,431	6,960	3,278
Final Average Salary	\$40,284	42,992	53,160	63,026	70,795	78,065	55,679
Avg Credited Service							18.58

DEFINED CONTRIBUTION - SELF-MANAGED PLAN

SURS is the plan sponsor and administrator of a defined contribution plan established as of Jan. 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, 2017, membership was:

Benefit Recipients	533
Active Members	11,852
Inactive Members	9,503
	21,888

At June 30, 2017, the number of SMP participating employers was:

Universities	9
Community Colleges	39
Allied Agencies	8
State Agencies	2
	58

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

CUSTOMER SERVICE

Mission

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

Major Initiatives

During fiscal year 2017, SURS staff has continued to enhance business processes and modernize technology.

- Completed Phase II of a multi-year infrastructure upgrade project to support increased bandwidth requirements and to position SURS for meeting the business requirements associated with increased video conferencing and telephony enhancements.
- The Department of Central Management Services (CMS) hired a third-party vendor to assist with the administration of the State Employees Group Insurance Programs by providing a new web-based enrollment website. Due to this transfer of responsibility, SURS implemented changes in order to receive monthly member insurance premium data to facilitate premium deductions from SURS retiree and survivor benefits.
- SURS published its first issue of an employer targeted newsletter, *Employer Insight*.
- A new, enhanced online claim status feature was added to the SURS member website allowing members to easily track the progress of their retirement claims by logging into their SURS account.

SURS Member Services/Outreach Statistics - Fiscal Year 2017

Counseling

Individual Retirement Counseling Appointments	4,871
Written Retirement Estimates Mailed	1,123
Campus Visits	103
Retirement Education Seminars	12
Benefit Fairs	19
Webinars/Group Presentations	53
Average Member Satisfaction Rating	99%

Call Center

Incoming Calls	111,790
Member Satisfaction Rating	93%

Lobby Visits

Walk-in Visits	9,850
Member Satisfaction Rating	98%

Electronic Service

SURS Website Page Views	903,538
SURS Member Website Visits	440,433
SURS Employer Website Visits	14,648
Webmails Received	4,513
Informational Emails Sent To Members	681,989

Claims Processed

Retirement	2,671
Refund	4,433
Death	1,471
Disability	591

Support Services

Items Mailed	329,269
Documents Scanned	530,248

Number of SURS Employees (full-time equivalents) — 10-Year Summary

Fiscal Year	Human Resources & Administration	Investments & Accounting	Member Services & Outreach	Information Systems & Support Services	Self-Managed Plan	Total
2008	10.55	10.05	61.50	33.75	3.25	119.10
2009	9.55	11.30	59.50	29.75	4.00	114.10
2010	10.55	11.80	62.50	29.75	3.70	118.30
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
2016	14.00	11.55	73.00	22.25	4.20	125.00
2017	14.00	13.55	73.00	22.25	4.20	127.00

FINANCIAL

Financial Highlights for Fiscal Year 2017

- Contributions from the state and employers increased by \$69.8 million (4.2 percent) to \$1,717.5 million.
- The System's benefit payments increased by \$102.0 million (4.5 percent).
- The System's return on investment, net of investment management fees, was 12.2 percent.
- The System's net position at the end of fiscal year was \$20.7 billion, an increase of \$1.8 billion (9.7 percent).

Financial Analysis of the System

The State Universities Retirement System serves 209,978 members in its defined benefit plan and 21,888 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 \$18.8 billion as of June 30, 2016 to \$20.7 billion as of June 30, 2017. This \$1.8 billion change was chiefly due to an increase in investments and an increase in securities lending collateral liabilities.

Condensed Statement of Plan Net Position

Reporting Entity Total (\$ in millions)	2017	2016	Change Amount	Change %
Cash and short-term investments	\$ 558.0	\$ 731.6	\$ (173.6)	(23.7)
Receivables and prepaid expenses	366.3	287.6	78.7	27.4
Pending investment sales	420.2	433.9	(13.7)	(3.2)
Investments and securities lending collateral	20,874.1	18,857.8	2,016.3	10.7
Capital assets, net	6.3	6.3	-	-
Total assets	22,224.9	20,317.2	1,907.7	9.4
Payable to brokers-unsettled trades	806.7	853.4	(46.7)	(5.5)
Securities lending collateral	704.4	602.1	102.3	17.0
Other liabilities	58.7	30.6	28.1	91.8
Total liabilities	1,569.8	1,486.1	83.7	5.6
Total plan net position	\$ 20,655.1	\$ 18,831.1	\$ 1,824.0	9.7

Overall, net position increased by \$1,824.0 million, or 9.7%, mainly due to the total investment income. 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 2017 compared to 2016.

Condensed Statement of Changes in Plan Net Position

Reporting Entity (\$ in millions)	2017	2016	Change Amount	Change %
Employer contributions	\$ 46.0	\$ 46.2	\$ (0.2)	(0.4)
Non-employer contributing entity contributions	1,671.4	1,601.5	69.9	4.4
Member contributions	363.9	355.3	8.6	2.4
Net investment income	2,260.7	20.2	2,240.5	11,091.6
Total additions	4,342.0	2,023.2	2,318.8	114.6
Benefits	2,383.8	2,281.8	102.0	4.5
Refunds	118.9	111.6	7.3	6.5
Administrative expense	15.3	15.2	0.1	0.7
Total deductions	2,518.0	2,408.6	109.4	4.5
Net increase (decrease) in plan net position	\$ 1,824.0	\$ (385.4)	\$ 2,209.4	573.3

Additions to plan net position are in the form of employer and member contributions and returns on investment funds. For fiscal year 2017, non-employer contributing entity contributions increased by \$69.9 million due to higher employer contributions from the State of Illinois as required by Public Act 88-0593. Employer contributions decreased by \$0.2 million or 0.4%. Member contributions increased by \$8.6 million or 2.4%. The investment net income for fiscal year 2017 was \$2,260.7 million for the System, representing a \$2.2 billion increase from the prior year. For the defined benefit plan, the overall rate of return was 12.2% (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. Public Act 99-0524 appropriated \$190 million of the annual required state contribution for fiscal year 2017 from the State Pensions Fund. This meant SURS received the remaining \$1,481,426,000 from the General Revenue Fund for FY 2017 under the State Pension Funds Continuing Appropriation Act.

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 percent Funded Ratio by fiscal year 2045, subject to any revisions necessitated by actuarial gains or losses, or actuarial assumptions. As of June 30, 2017, the plan net position as a percentage of the total pension liability was 42.04 percent.

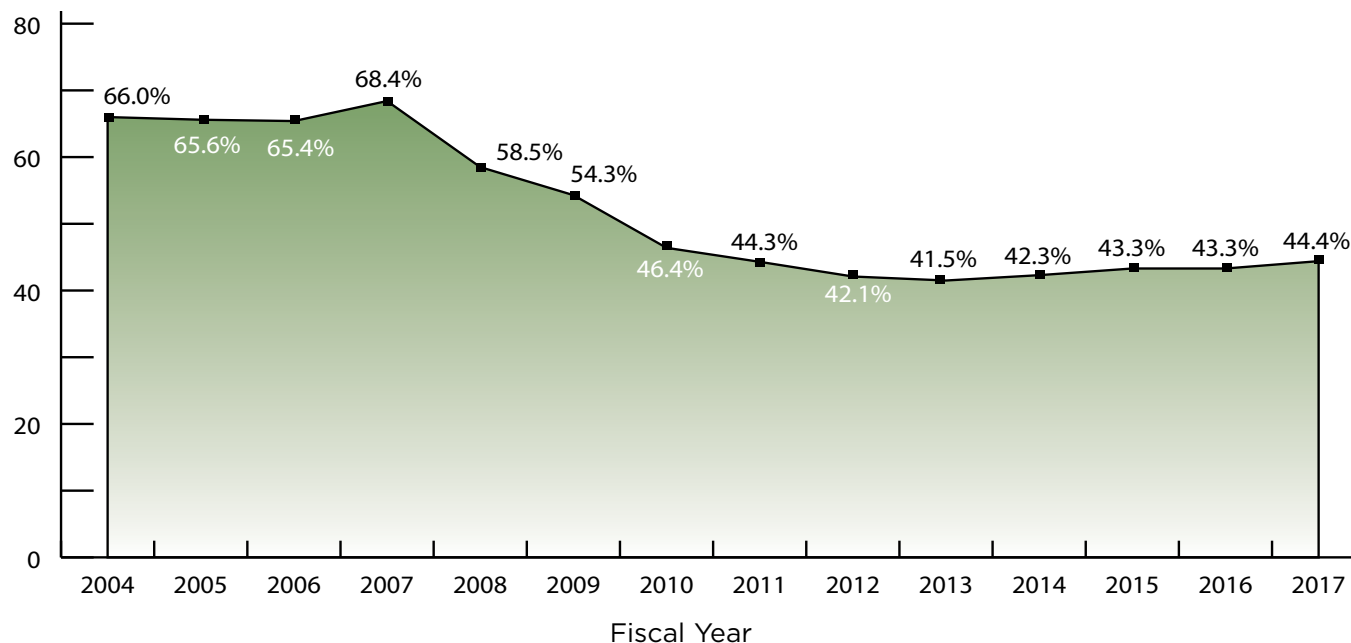
Schedule of Contributions from Employers and Other Contributing Entities (\$ thousands)

Fiscal Year	Actuarially Determined Contribution	Actual Contribution		Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
		Employers	Other Contributing Entities			
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%
2016	1,811,060	39,348	1,542,946	228,765	3,513,108	45.04%
2017	1,864,843	38,386	1,612,165	214,292	3,458,320	47.73%

*The fiscal year 2016 amounts shown above have been corrected from the prior year reporting.

Historical Funding Ratios

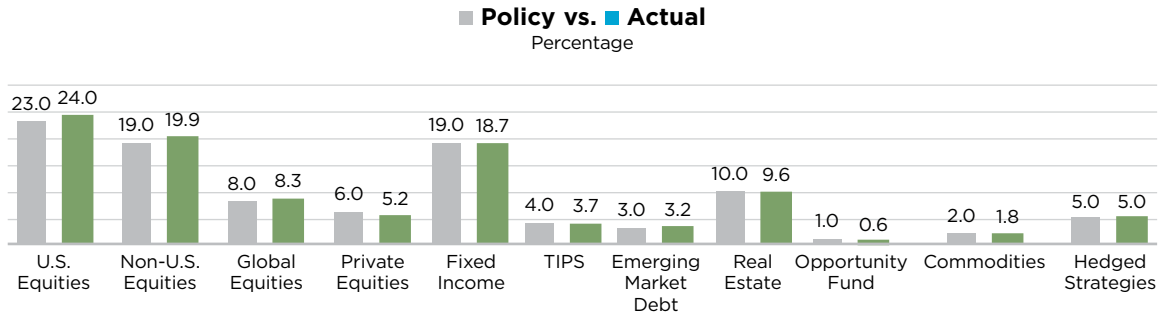
Starting with fiscal year 2009, the funding ratios were calculated using the actuarial value of assets. Prior to FY 2009, the market value of assets were used.



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 shown in the following chart. These strategic asset allocation targets will be implemented over time to allow for proper diversification.



Investment Objectives

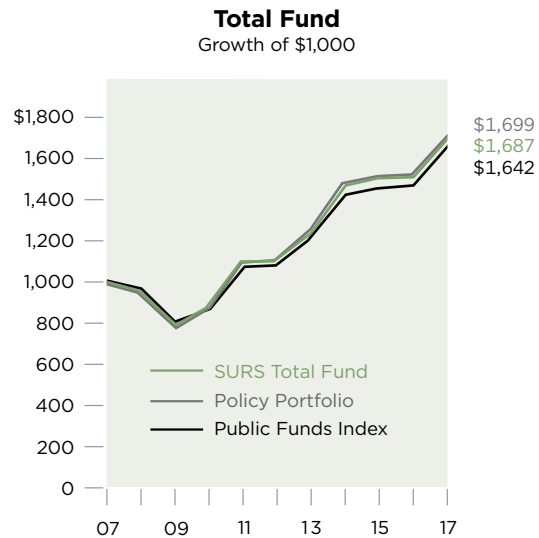
The investment objective of the total portfolio is to produce annualized investment returns, net of all management fees, which exceed the return of a composite market benchmark or policy portfolio. The policy portfolio is comprised of market indices, which are consistent with the overall asset allocation.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

Fiscal Year 2017 Results

For the fiscal year ended June 30, 2017, SURS total fund returned 12.2%, surpassing the market goal, or policy portfolio, by 0.5%. SURS' one-year return lagged that of the median public pension fund return, as measured by the InvestorForce Public DB > \$1 Billion Index, by 0.1%. For the period, nine of the 12 asset class portfolios, including U.S. equity, non-U.S. equity, global equity, fixed income, TIPS, emerging market debt, direct real estate, hedged strategies and commodities met or exceeded the returns of their respective benchmarks. Strong absolute returns were experienced in U.S. equity, non-U.S. equity, global equity, private equity, fixed income, emerging market debt, direct real estate, hedged strategies and the Opportunity Fund.

Self-Managed Plan

Fiscal year 2017 marks the 19th complete year of the Self-Managed Plan (SMP). As of June 30, 2017, the SMP had accumulated plan assets of approximately \$2.17 billion. This represents an increase of approximately \$345 million since the end of fiscal year 2016. Contributing to the growth in plan assets was a market-related increase, net of asset withdrawals, of \$266 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 70% equity, 28% fixed income, and 2% real estate. This was a 1% increase in the equity allocation as compared to last year's position.



EMPLOYERS

Number of defined benefit plan participating employers

	2017
Universities	9
Community Colleges	39
Allied Agencies	11
State Agencies	2
	61

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 SERVICES

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 training and provides state-required fraud reporting instruction for each school.

SURS Employer Services Statistics Fiscal Year 2017

Employer Phone Inquiries.....	1,489
Employer Email Inquiries.....	2,354
Employer Training Webinars.....	3
Electronic Requests Processed.....	31,995



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

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