

SURSMAC Report to NEIU Faculty Senate

SURSMAC 14-Apr-2009 Meeting Topics

Executive Director Search

Dan Slack, the SURS Executive Director, left the organization in Dec 2008 to accept another position. The Interim Executive Director is Ms. Judith Parker, who was formerly Associate Executive Director. The search for a new Executive Director stopped as a result of the signing into law on 03-Apr-2009 of PA 96-0006.

Impact of PA 96-0006

This new public law, enacted in the name of ethics reform, calls for changing the composition of SURS Board of Trustee and replacing the existing 9-member, Governor-appointed board by 30-Jun-2009, the end of FY 2009. The SURS statement of 06-Apr-2009 indicates that the “new board will consist of 11 trustees: 4 appointed by the Governor, 4 active participants elected by the participants of the System, and 2 annuitants elected by the annuitants of the System. The Chair of the SURS Board will be the Chairperson of the Illinois Board of Higher Education.” This means that SURS must hold elections must be before the end-of-June 2009 in order to elect 6 members of the new board and that the search for a new SURS Executive Director has been delayed to give the new board an opportunity to make its own selection. SURS members should have received a 15-Apr-2009 letter outlining the election process.

Governor Quinn’s FY 2010 Proposed Operating Budget

The proposed changes to SURS provisions would, in effect, create a two-tier system.

For new SURS participants, the budget proposes:

- Retirement age changes from 60 to 67 for unreduced benefits, from 55 to 62 for reduced benefits
- Benefit formula base would change from the 4 highest years + overload + overtime to the average of the last 8 years, credited service would go from 36.3 years to 35 years and earnings for those not covered by Social Security would go from 2.2% to 2.0% (and be 1.5% for those covered by Social Security)
- COLA would go from a compounded 3% to the un compounded lesser of 50% of CPI or 3%
- Employee contributions would be one percentage point less than the current required rates

For current SURS participants, the budget proposes that the SURS employee contribution would go from 8% to 10%, an increase of 2 percentage points.

In addition, a pension holiday is being proposed. This means that the state would suspend payments to SURS effective 31-Mar-2009 for the remainder of FY 2009 (about \$105 million) and all of FY 2010.

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Other Proposed Legislation

- SB 234** - -This bill would provide “that an employee is entitled to receive service credit for up to 2 years (now up to one year) of unused sick leave.”
- SB 303** - -This bill has to do with let SURS participants change benefit plans. This change, once made, would be irrevocable.
- SB 304** - -This bill would require that all newly eligible SURS participants be automatically enrolled in a defined contribution plan (instead of a defined benefits plan).
- SB 320** - -This bill would provide for additional exemptions to the 6% rule used to determine the final rate of earnings.
- SB 1734** - -This bill would create ILPERS (Illinois Public Employees’ Retirement System) by combining the five State-funded retirement systems.
- SB 2020** - -This bill would provide for AAI increases to pre-1980 annuitants.

Investments

October 2008 was the worst month ever for the SURS investment portfolio, which fell 13.5% the month.

Although the financial markets began a turnaround in early March 2009, still the SURS portfolio is down 28.6% for FY 2009.

SURS is selling assets, roughly \$60-\$75 million) to meet liabilities.

Portfolio rebalancing is underway.

Final Rate of Earnings

The Illinois Administrative “Code defines a participant’s final rate of earnings by reference to average annual earnings over either the last 48 months of consecutive service or the 4 consecutive academic years during which the participant’s earnings were highest.” Soon, retirements on September 1 will get credit for the full academic year.

Retirees can get earnings status via email and will soon be able to get that information online.

Two SURSMAC Resolutions

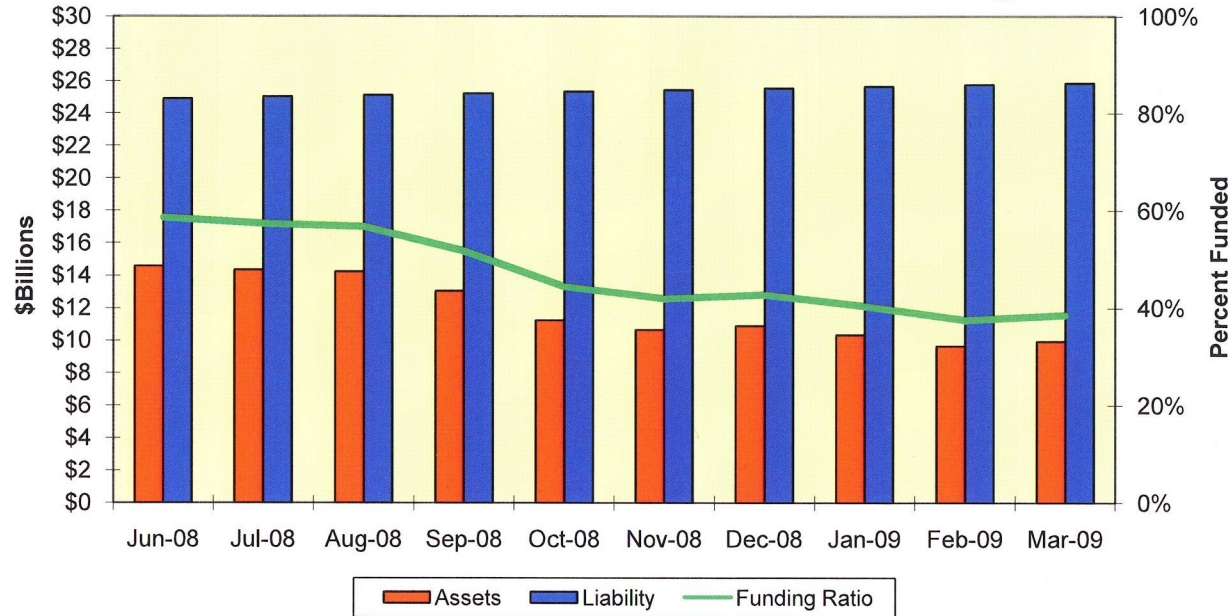
The first dealt with the need to protect the current pension system for employees of public colleges and universities.

The second dealt with the proposed consolidation of pension investment funds.

Both are attached.

STATE UNIVERSITIES RETIREMENT SYSTEM

SURS Funding Status
Fiscal Year-to-Date Results



	Assets	Estimated Liabilities	Funding Ratio	Rate of Return	
				Month	FYTD
Jun-08	\$ 14.59	\$ 24.92	58.5%		
Jul-08	14.35	25.03	57.4%	-1.2%	-1.2%
Aug-08	14.26	25.13	56.7%	-0.2%	-1.4%
Sep-08	13.06	25.24	51.7%	-8.1%	-9.4%
Oct-08	11.25	25.35	44.4%	-13.5%	-21.7%
Nov-08	10.66	25.46	41.9%	-4.4%	-25.1%
Dec-08	10.91	25.57	42.7%	2.9%	-22.9%
Jan-09	10.36	25.68	40.4%	-4.8%	-26.7%
Feb-09	9.67	25.78	37.5%	-6.1%	-31.2%
Mar-09	9.96	25.89	38.5%	3.7%	-28.6%

Note: Assets and liabilities are estimated and unaudited through March 31, 2009.

Adopted April 14, 2009

SURSMAC Resolution on the Need to Protect the Current Pension System for
Employees of Public Colleges and Universities

- Whereas, The State of Illinois has significantly underfunded its pension systems by legislative and gubernatorial decisions from FY 1981 to FY 1991 and FY 2006 to FY 2009 creating an unfunded liability of over \$ 54.4B as of June, 2008, the largest dollar amount in the nation;
- Whereas, The state's contribution to public faculty and staff's benefits is less than in most states because it does not contribute the FICA tax of 7.65%;
- Whereas, The State's contribution to the SURS pension system is equivalent to a private sector employer providing social security and approximately 3.35% of salaries into a retirement program such as TIAA/CREF;
- Whereas, Illinois faculty at public institutions fall behind their IBHE comparison peer groups in benefits;
- Whereas, Participants have continually paid their full share to the retirement system and the interest on their contributions served to decrease the state's liability for pension shortfalls;
- Whereas, Failure of the state to make its mandated contributions is the dominant cause of the shortfall in full funding of the state pension systems;
- Whereas, The Governor's proposals would exacerbate the gap in benefits between Illinois public institutions and other colleges and universities competing to hire away top quality faculty;
- Whereas, The budget proposal offered by the governor calls for rewriting existing law on funding of pensions to continue the underfunding of state pension debts;
- Resolved, That SURSMAC calls upon the legislature and governor to recognize the necessity of fully funding its pension obligations in amounts established in existing state law;
- Resolved, That the legislature and governor recognize the negative impact on retention of faculty and staff by requiring any increase in contributions from current employees, thus further widening the gap in salaries and total compensation compared to peer institutions as documented by AAUP surveys and current IBHE reports available to the faculty;
- Resolved, That the state undertake the necessary steps which must include revenue enhancement to enable the state to remain solvent and meet its obligations to participants in the pension system, and
- Resolved, That SURSMAC urges its members and faculty, staff and students to contact legislators personally to stress the need to deal with this issue of unmet pension obligations.

Adopted April 14, 2009

SURSMAC Resolution on Proposed Consolidation of Pension Investment Systems

- Whereas, The proposal by Treasurer Alexi Giannoulias to merge the investment functions of the state-funded retirement systems has been introduced in the legislature this year (SB 1734);
- Whereas, The issues raised by the Treasurer concerning ethics issues have been addressed in other legislation proposed this year such as HB3722;
- Whereas, The SURS Board* strongly supports ethics standards and transparency and recommends that these issues be addressed separately from any proposal to mix trust fund assets and combine investment functions;
- Whereas, The SURS Board* has noted that the Commingling Proposal (1) increases the risk of improper conduct; (2) will not result in savings for SURS; and (3) ignores SURS' responsibilities for the Self-Managed Plan (SMP);
- Resolved, That SURSMAC supports legislation that will strengthen the ethics provisions and transparency for those administering the state-funded pensions systems and will apply to SURS as well as the other systems; and
- Resolved, That SURSMAC recommends that any proposal to mix trust fund assets should exclude SURS given its record of low cost, high performance, risk appropriate investment.

- * See the January 2009 Report from the SURS Board on "Concerns About Commingling SURS' Pension Trust Funds" available at:

<http://www.surs.org/pdfs/invinfo/Commingling.pdf>

State Universities Annuitants Association

3085 Stevenson Drive, Suite 301

Springfield, Illinois 62703



suaa@suaa.org

217.585.2370

RESPONSE TO THE GOVERNOR'S FY 2010 BUDGET

- We commend Governor Quinn for courageously recognizing the State's fiscal deficit and proposing an increase in the income tax.
- We appreciate that in this time of economic turmoil, the Governor has recognized that investment in public higher education is part of the solution.
- We are committed to supporting efforts by the Governor and the General Assembly to increase revenue in a fair and equitable way to meet the needs of the people of Illinois, especially at all levels of the public education system.

HOWEVER,

- We must say **NO** to the Governor's proposals that would place much of the burden for closing the budget gap on the State's employees, including those at our colleges and universities, and on retirees.
- We must say **NO** to increased employee pension contributions that would force employees to pay for past administrations reneging on its obligation to appropriately fund that system.
- We must say **NO** to another proposed "pension holiday" which would further undermine the integrity of the university pension system.
- We must say **NO** to the creation of a 2nd tier benefit system for future employees, when the evidence is clear that present benefits are neither extravagant compared to other public pensions nor unduly costly in comparison to the alternatives.
- We must say **NO** to increased health insurance premiums, particularly those that would most adversely affect our oldest and most vulnerable retirees.