

University of Illinois
Urbana-Champaign Senate
(Final; Information)

SUR.15.01 Report on SURSMAC* Meeting November 18, 2014

SURSMAC met at the SURS headquarters in Champaign from 10:30 a.m. to 1:45 p.m. The meeting consisted of presentations by SURS staff, discussion of key issues and a brief business meeting. The major focus of the meeting was the number of changes that will be taking place at SURS and with regard to the retirement system in the next six months to a year. We attended the meeting representing the Senate along with Laura Czys from University Office for Human Resources.

SURSMAC chair, John Shuler (UIC), chaired the meeting and welcomed the participants who introduced themselves. This was followed by approval of the minutes of the April 9, 2013, meeting. Shuler then outlined the challenges facing SURS and SURSMAC during the coming year. These will include adapting to policies of the new Governor and to the changes that will occur when William Mabe steps down April 1 as Executive Director of SURS and when the SURS Board of Trustees starts to work after the elections and appointments of members occurs next summer. Shuler also noted the changes which have occurred as a result of the court decision on retiree health care and which may occur as a result of the court challenges on pensions.

Albert Lee, Associate General Counsel provided a summary of the current legal activity concerning the pension reform law. He noted that we will know a lot more on November 20 when Sangamon County Circuit Judge John Belz holds a hearing. In his presentation and in answering the questions what arose, Lee outlined the range of possible outcomes that could occur. For example, it is possible that the Judge could decide that the decision in the Kanerva health care case is a precedent for the pension reform case and decide accordingly. It is then a question of whether and how quickly the case will be appealed to the Supreme Court. Regarding the ordered refunds of health insurance premiums, Lee was not certain of the timing and whether or not there would be requests for payment of contingency fees from this fund.

Jeff Houch, SURS Legislative Liaison, joined Lee to present the legislative update. He predicted relatively little activity during the veto session starting that afternoon. Regarding pension bills, he thinks it is unlikely that there will be an attempt to propose again the normal cost shift bill in the lame duck session. He also feels it is unlikely that the expiration of "temporary" tax increase will be overturned in good part because the Republicans have opposed it and the Democrats may feel unwilling to help the new Governor by attempting to pass it. Though Rauner's platform was not specific on many issues, one likely pension reform plan he will propose will start with a "freeze" on all pension benefits already earned so that current retirees are not affected. From that date on, everyone will be moved to a 401(k)-style retirement plans. A major problem, as Houch noted, is that the savings from such a plan don't occur until years or decades to come principally because of the resulting reductions in contributions to the defined benefit plans.

William Mabe, Executive Director, made a brief report on the "state" of SURS. He noted that the funding ratio was 48.5% on June 30, 2014; an increase from 43.7% a year earlier. He briefly discussed the SURS "Agenda 2015 Investment Plan" (September, 2014) copies of which were provided. He noted the uncertainties about how funding will proceed given the decisions to be made about (a) the "temporary" income tax increase by the governor and the legislature and (b) the law suits contesting the pension bill. He noted that between 2000 and 2014 the number of active members of SURS has been fairly steady around 70,000 while the number of individuals receiving benefits has about doubled from around 30,000 to 60,000. If future changes include more emphasis on 401(k)-type plans especially for new employees, this will further erode the number of individuals contributing to the defined benefits plans. For SURS in particular, this

would occur if more individuals selected the self-managed plan (SMP). An increase has occurred recently as around 18% of the new hires chose the SMP compared to the current 12-15% in that plan.

Dan Allan, Chief Investment Officer, joined Mr. Mabe and reported that the SURS portfolio had earned an annualized rate of return of 18.2% for the fiscal year ending June 30, 2014. He summarized some of the elements of the long term plans for the SURS Investment Program. In particular, there have been changes in the strategic targets for the share of the portfolio in public equity (down); fixed income (up slightly), and alternatives such as private equity and real estate (up).

Suzanne Mayer, interim Director of Outreach, reported on the programs that had been established to help the SURS staff hand the high demand during the spring and summer. Group counseling sessions introduced with such a good effect that they plan to continue them on a regular basis.

Mabe and Shuler than continued the discussion of the number of changes that will be occurring at SURS in particular and regarding the pension system in general. As noted, there will be a new SURS Executive Director and probably some turnover on the SURS Board of Trustees. A search firm has been selected to lead search for the new Executive Director choice. It seems likely that an interim Director will be chosen once Mabe retires. There will also be a new General Counsel as of February, 2015. Mabe is confident that SURS will continue to have a solid leadership team after these changes.

Mabe concluded his presentation by discussing his hopes for improving the role of SURSMAC in (a) providing advice to the SURS Executive Director and Board of Trustees as the representative of the SURS members and (b) providing information to those members about the actions being taken by SURS. As he and Shuler noted, one element of this change will be to revise the Constitution and Bylaws of SURSMAC. It will then be possible to improve the procedures by which SURSMAC representatives are chosen and the effectiveness of the group. Mabe indicated that he would be willing to begin the revision process.

Shuler concluded the program by discussing the key characteristics he feels the new Executive Director should have. These included expertise on pension management, strong consensus building and leadership skills, and the ability to communicate effectively with the SURS constituencies including SURSMAC. He concluded the meeting with a brief summary of what he hoped to accomplish as we prepare for the spring meeting which will include selecting a Chair (his term ends but he is willing to serve another) and Vice Chair (currently vacant).

There was a brief discussion of possible dates for the spring meeting. The meeting was adjourned at about 1:45 p.m.

H.F. (Bill) Williamson
John Kindt
UIUC Senate Representatives

*SURSMAC is the State University Retirement System Members Advisory Committee to the SURS Board of Trustees. Members are faculty and staff representing the various institutions and agencies affected by SURS: public universities, community colleges, state surveys, and retiree organizations. It normally meets twice a year in October and April at SURS headquarters at 1901 Fox Drive in Champaign.