State Universities Retirement System (SURS) Employee Forum

President Jack Thomas and Steven D. Cunningham
April 3, 2012
Overview

• Pension Funding Status and History
  – The Urgent Need for Reform

• Goals of Pension Stabilization verses Reform

• SURS Options and Alternatives
State Funding Contribution History

- Employer (State) Normal Cost
- Payment of Unfunded Liabilities (State)
- Employee Normal Cost
- SURS replaces Social Security (OASDI) for SURS and TRS participants.
- FY1990 – 40 year funding plan created with a 7 year ramp up toward a level percentage of payroll as of FY1996.
- 1995 (FY1996) – 50 year funding plan created with a 15 year ramp up toward a level percentage of payroll as of FY2011 as necessary to bring the total assets of the system up to 90% of the total actuarial liabilities by the end of FY2045.

Source: State Universities Retirement System of Illinois
State Funding Contribution History

- 1997 – conversion of asset valuation from book to market value.
- FY2003 to FY2011 - $17.8 billion General Obligation Bonds issued for the five (5) State retirement systems.
- Historic State funding lapses have resulted in the accrual of extreme future unfunded liabilities. There would be no unfunded liability if the annual payments of Normal Cost had been fulfilled.

Source: State Universities Retirement System of Illinois
## Summary of Financial Condition

**State Retirement Systems Combined – FY2011**

<table>
<thead>
<tr>
<th>System</th>
<th>Accrued Liability</th>
<th>Net Assets</th>
<th>Unfunded Liability</th>
<th>Funded Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>TRS</td>
<td>$81,299.70</td>
<td>$37,471.30</td>
<td>$43,828.40</td>
<td>46.1%</td>
</tr>
<tr>
<td>SURS</td>
<td>$31,514.30</td>
<td>$14,274.00</td>
<td>$17,240.30</td>
<td>45.3%</td>
</tr>
<tr>
<td>SERS</td>
<td>$31,395.00</td>
<td>$10,970.80</td>
<td>$20,424.20</td>
<td>34.9%</td>
</tr>
<tr>
<td>JRS</td>
<td>$1,952.50</td>
<td>$606.00</td>
<td>$1,346.50</td>
<td>31.0%</td>
</tr>
<tr>
<td>GARS</td>
<td>$298.40</td>
<td>$60.40</td>
<td>$238.00</td>
<td>20.2%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$146,459.90</strong></td>
<td><strong>$63,382.50</strong></td>
<td><strong>$83,077.40</strong></td>
<td><strong>43.3%</strong></td>
</tr>
</tbody>
</table>

($ In Millions)

*Funding Ratio: Assets/Liabilities*

Source: Commission on Government Forecasting and Accountability – November 2011 – Monthly Briefing
State of Illinois Unfunded Public Pension Obligations

(Dollars in Billions)


(At end of Fiscal Year, FY 2003-04 sale of Pension Bonds)
Total Retirees, Public Pension Systems
TRS, SERS, SURS, JRS, GARS

FY2000: 108,709
FY2001: 114,109
FY2002: 119,730
FY2003: 136,920
FY2004: 141,846
FY2005: 148,940
FY2006: 152,845
FY2007: 158,799
FY2008: 163,502
FY2009: 168,398
FY2010: 174,620
## SURS Cash Flow and Asset Liquidation

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012 (Projected)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employer (State)</strong></td>
<td>451,607,066</td>
<td>696,595,341</td>
<td>773,594,666</td>
<td>979,500,000</td>
</tr>
<tr>
<td>Contributions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Employee Contributions</strong></td>
<td>273,292,053</td>
<td>274,999,557</td>
<td>260,177,436</td>
<td>265,000,000</td>
</tr>
<tr>
<td><strong>Total Contributions</strong></td>
<td>724,899,119</td>
<td>971,594,898</td>
<td>1,033,772,102</td>
<td>1,244,500,000</td>
</tr>
<tr>
<td>**Benefit Payments/</td>
<td>1,427,564,096</td>
<td>1,536,879,026</td>
<td>1,682,419,743</td>
<td>1,800,000,000</td>
</tr>
<tr>
<td><strong>Expense</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Asset Sales (Shortfall)</strong></td>
<td>(702,664,977)</td>
<td>(565,284,128)</td>
<td>(648,647,641)</td>
<td>(555,500,000)</td>
</tr>
</tbody>
</table>

Source: State Universities Retirement System of Illinois
## 1995 Funding Plan - Projections for the State Retirement Systems

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>As of 1/1/2011 State Contribution % of Payroll</th>
<th>SURS As of 1/1/2012 State Contribution % of Payroll</th>
<th>Employee Contribution % of Payroll</th>
<th>Total Employee Contribution</th>
<th>Unfunded Liabilities</th>
<th>Funded Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>21.1%</td>
<td>26.19%</td>
<td>8.4%</td>
<td>1,565.8</td>
<td>87,409.6</td>
<td>40.0%</td>
</tr>
<tr>
<td>2013</td>
<td>22.4%</td>
<td>35.23%</td>
<td>8.4%</td>
<td>1,638.8</td>
<td>95,570.0</td>
<td>37.1%</td>
</tr>
<tr>
<td>2015</td>
<td>24.7%</td>
<td></td>
<td>8.4%</td>
<td>1,791.9</td>
<td>103,793.9</td>
<td>37.0%</td>
</tr>
<tr>
<td>2020</td>
<td>24.8%</td>
<td></td>
<td>8.5%</td>
<td>2,257.2</td>
<td>124,400.8</td>
<td>37.0%</td>
</tr>
<tr>
<td>2025</td>
<td>24.7%</td>
<td></td>
<td>8.5%</td>
<td>2,856.5</td>
<td>143,793.1</td>
<td>37.5%</td>
</tr>
<tr>
<td>2030</td>
<td>24.8%</td>
<td></td>
<td>8.6%</td>
<td>3,603.5</td>
<td>156,664.1</td>
<td>39.7%</td>
</tr>
<tr>
<td>2035</td>
<td>26.7%</td>
<td></td>
<td>8.6%</td>
<td>4,537.2</td>
<td>152,879.3</td>
<td>45.9%</td>
</tr>
<tr>
<td>2040</td>
<td>26.7%</td>
<td></td>
<td>8.6%</td>
<td>5,687.4</td>
<td>116,237.9</td>
<td>60.5%</td>
</tr>
<tr>
<td>2045</td>
<td>26.7%</td>
<td></td>
<td>8.6%</td>
<td>7,122.8</td>
<td>29,532.1</td>
<td>90.0%</td>
</tr>
</tbody>
</table>

Source: Commission on Government Forecasting and Accountability Monthly Briefing May 2010 & State Universities Retirement System 1/1/2012
# Summary of Employer (State) Contributions to the SURS as a Percent of Total Payroll

<table>
<thead>
<tr>
<th>DB Base</th>
<th>FY2011</th>
<th>FY2012</th>
<th>FY2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Contribution $</td>
<td>% of Total Pay</td>
<td>Contribution $</td>
</tr>
<tr>
<td>Employer Normal Cost</td>
<td>$362,665</td>
<td>10.14%</td>
<td>$423,974</td>
</tr>
<tr>
<td>Unfunded Actuarial Accrued Liability</td>
<td>$479,974</td>
<td>13.42%</td>
<td>$553,130</td>
</tr>
<tr>
<td>Total DB Statutory Cost*</td>
<td>$842,639</td>
<td>23.56%</td>
<td>$977,104</td>
</tr>
<tr>
<td>DC Base – Self-Managed Plan Cost**</td>
<td>$45,503</td>
<td>7.60%</td>
<td>$42,381</td>
</tr>
<tr>
<td>Total Cost of SURS Plan</td>
<td>$888,142</td>
<td>21.27%</td>
<td>$1,019,485</td>
</tr>
</tbody>
</table>

DB – Defined Benefit Plan
DC – Defined Contribution Plan
Source: State Universities Retirement System
Pension Protection Clause of the 1970 Illinois Constitution

“Membership in any pension or retirement system of the State, any unit of local government or school district, or any agency or instrumentality thereof, shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired.”


http://www.illinoissenatedemocrats.com/phocadownload/PDF/PensionDocs/madirrevisedpensionclausearticle.pdf
Options for Stabilizing the State Pension Systems

1. **Continue** into an unprecedented funding crisis, with unpredictable results.

2. **Amend** the Constitution to weaken the Pension Protection Clause.

3. **Statutorily reduce** benefits for current participants, leading to extended litigation and uncertainty.

4. **Establish** an alternative funding model to reduce the unsustainable burden on the state budget.
Public Act 96-0889  
(effective for participants hired on or after January 1, 2011)

<table>
<thead>
<tr>
<th></th>
<th>Tier I</th>
<th>Tier II</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employee Contribution</strong></td>
<td>8% for Defined Benefit</td>
<td>8% for Defined Benefit</td>
</tr>
</tbody>
</table>
| **Retirement Age**     | SURS retirement annuities can begin when any of the following conditions are met:  
• At least age 62 and have 5 or more years of service  
• Any age with 30 years of service | Age 67 with at least 10 years of service                                  |
| **Reduced Formula Early Retirement** | Reduced formula for retirement before age 60 for employees with less than 30 years of service who are at least age 55 with 8 or more years of service.  
Benefits reduced by $\frac{1}{2}$% for each month the employee is under age 60 for early retirement between ages 55 and 60. | Reduced formula for retirement before age 67 for employees who are at least age 62 with 10 or more years of service.  
Benefits reduced by $\frac{1}{2}$% for each month the employee is under age 67. |
### Public Act 96-0889
(effective for participants hired on or after January 1, 2011)

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<th>Tier I</th>
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</tr>
</thead>
</table>
| Defined Benefit Formula| Final Rate of Earnings for General Formula Benefits based on the highest average annual earnings during 4 consecutive years of service.  
  - General Formula (2.2% per year of service)  
  - Money Purchase Formula (available for employees hired prior to July 1, 2005)  
  - Separate Police Officer and Firefighter Formula | Final Rate of Earnings for General Formula benefit based on highest average monthly salary during 8 consecutive years of service (within the last 10 years of employment) |
| Limit on Pension Amount| 80% of the highest average annual earnings during the 4 consecutive years of service. | Includible compensation and any annual eligible earning will be limited to $106,800 (adjusted by the Consumer Price Index formula) below |
| Annual Cost of Living Adjustment (COLA) | Automatic annual COLA increase of 3.0% | A retired employee, who has obtained age 67, will have their originally granted annuity increased by the lesser of 3% or one-half of the annual increase in the Consumer Price Index during the preceding calendar year as determined by the Public Pension Division of the Department of Insurance. |
| Survivor Annuity      | An eligible survivor will receive 50% of the employee’s earned retirement annuity. | An eligible survivor will receive 66 2/3% of the employee’s earned retirement annuity. |
SB512 Amendment 2
(effective for participants hired on or after January 1, 2011)

Benefit Options

The bill requires participants who earned service prior to January 1, 2011 (Tier 1 participants) to make an election to participate under one of the following benefit formulas:

• Option I: The traditional or portable benefit package;
• Option II: The revised benefit package (Tier II); or
• Option III: The self-managed plan

Source: State of Illinois – Filed November 2011
SB512 Amendment 2
(effective for participants hired on or after January 1, 2011)

Employee Contributions

• Beginning July 1, 2013, Tier I participants who elect to continue participation under their Tier I formula will make contributions equal to **15.31%** of pay (currently 8% of Pay).

• FY2017 and beyond – percentage of salary equal to the actuarially determined normal cost minus the employer contributions to a maximum of **17.31%** (currently 8% of Pay).

• Self Managed Plan participants will contribute 6% of pay and may elect to increase contributions (currently 8% of Pay).

Source: State of Illinois – Filed November 2011
SB512 Amendment 2

Employer (State) Contributions

- The maximum state normal cost contribution rate for all benefit options would be limited to 6% of payroll.

Unfunded Liability

- State unfunded liability contributions for fiscal years 2014 – 2045 are determined as a percentage of State revenue.

Source: State of Illinois – Filed November 2011
Institute of Government and Public Affairs (IGPA)

Additional Reform Principles

• Sustainable contribution rates among university employers, SURS participants, and the State of Illinois.

• Retirement Security - secure and reliable fund sources.

• Implementation of a stable State funding plan for unfunded liabilities.

• Effective replacement of Social Security.

• Fulfill Constitutional intent and participant reliance on plan.

• Maintain a competitive pension plan that is sufficient to recruit and retain employees in regional, national, and global market places.

Source: Fiscal Sustainability and Retirement Security - Institute of Government and Public Affairs (February 2012)
IGPA - Tier I
(employees hired prior to January 1, 2011)

- No Change in Benefits – Recognize Constitution

- Effective Rate of Interest (ERI) linked to stable Market Indices (e.g., Long-Term Government Bonds) used to calculate the Money Purchase Option

- Revised Normal Cost Funding
  - Phased Implementation of University Contributions (no more than 3% of pay)
  - Phased Increase in Employee Contributions – clearly linked to benefit stabilization (e.g., actual cost of COLA – no more than 3% of pay)
  - Maintain State as the “Residual Contributor” of Normal Cost - not less than 6.2%

- State maintains stable payment plan for unfunded liabilities

Source: Fiscal Sustainability and Retirement Security - Institute of Government and Public Affairs (February 2012)
## Tier I – Defined Benefit Comparison
Current Plan. vs. IGPA. vs. SB 512

<table>
<thead>
<tr>
<th></th>
<th>Current Plan</th>
<th>SB512</th>
<th>IGPA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employee Contribution</strong></td>
<td>8%</td>
<td>FY14 to FY17; 15.31% FY17 and beyond; up to 17.31%</td>
<td>11% Maximum</td>
</tr>
<tr>
<td><strong>University Contribution</strong></td>
<td>None</td>
<td>None</td>
<td>3% Maximum</td>
</tr>
<tr>
<td><strong>State Contribution</strong></td>
<td>State NC Contribution (12.71%)</td>
<td>6%</td>
<td>Normal Cost or 6.2% whichever is greater</td>
</tr>
<tr>
<td><strong>State Unfunded Liability Contributions</strong></td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Fiscal Sustainability and Retirement Security - Institute of Government and Public Affairs (February 2012) and the State of Illinois
IGPA Hybrid Revised Tier II Plan

• “Hybrid” – a combined Defined Benefit + Defined Contribution plan. This model is increasingly adopted by private and public sector to balance retirement security, human resource, and fiscal needs.

• The Hybrid Plan Defined Contribution component would replace the current SMP option available under tier I and tier II.

• All new employees joining after effective date will be enrolled in the revised plan.

• Tier I and current Tier II participants may also elect to transfer to this new plan.

Source: Fiscal Sustainability and Retirement Security
- Institute of Government and Public Affairs (February 2012)
# IGPA Hybrid Defined Benefit Component

<table>
<thead>
<tr>
<th></th>
<th>Current Tier II (January 1, 2011)</th>
<th>IGPA Tier II Hybrid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Multiplier</td>
<td>2.2% per year below Social Security wage limit for each year of service</td>
<td>1.5% per year for each year of service (no income limit)</td>
</tr>
<tr>
<td>Vesting Period</td>
<td>10 years</td>
<td>Step schedule with 100% vesting after 6 years of service</td>
</tr>
<tr>
<td>Employee Contribution</td>
<td>8%</td>
<td>7%</td>
</tr>
<tr>
<td>State Contribution Defined Benefit</td>
<td>6%</td>
<td>6.2%*</td>
</tr>
</tbody>
</table>

* The overall state contribution (DB+BC) should always be equivalent to Federal FICA requirements for Social Security

Source: Fiscal Sustainability and Retirement Security  
- Institute of Government and Public Affairs (February 2012)
## IGPA Hybrid Defined Contribution Component*

<table>
<thead>
<tr>
<th>Employee Contribution</th>
<th>1% + additional voluntary contributions subject to Federal limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>University Contribution</td>
<td>1% + up to an additional 2% to match any additional voluntary employee contributions</td>
</tr>
<tr>
<td>*Centrally managed</td>
<td></td>
</tr>
</tbody>
</table>

*Centrally managed

Source: Fiscal Sustainability and Retirement Security - Institute of Government and Public Affairs (February 2012)
IGPA Fiscal Outcomes

• These measures combined will reduce the State’s contribution by over $265 million per year and are consistent with SB512 in terms of total reductions of State contribution requirements.
Pending Legislation

• SB512 - Public Employees Benefits - Tech
• HB5791 - Pension Code – Actuary - Every 3 Years
• HB5754 – Pension Code – Self-Managed Plans
• HB5790 - Pension Code - Unused Sick Leave Credit
• SB3569 - Pension Code - Salary –No Sick/Vacation
• HB5377 - Pension Code - State Funded Reduce COLA
• HB5488 - Pension Stabilization Act
• HB5351 - Pension Code Funding
• HB5350 - Pension Code - Funding 3/5 Vote
• HB3116 - Pension Abuse Abatement
• HB3904 – Pension Code – Leaves – Labor Organizations
• HB4996 – Pension Code – SURS – Return to Work
• HB3857 – Pension Code – Leaves – Labor Organizations
• SB2803 – Public Employee Benefits – Tech
• HB4622 – Pension Code – IMRF – Social Security (Amendment I)
• HB4519 – Public Employee Benefits – Tech
• HB4629 – Public Employee Benefits – Tech
• SB2674 – Public Employee Benefits – Tech
• SB3327 – Public Employee Benefits – Tech
• HB467– Pension Defined Contribution – Employer Contributions