

SURS Members Advisory Committee

Report of the meeting held at SURS HQ, Champaign, April 6, 2004

Profs. Jay Lambrecht (LIB) and Stephen D. Smith (MSCS) represented the UIC faculty.

THE GOOD NEWS:

- 1) An infusion of \$1.432 billion from last year's bond sale and a year-to-date rate of return of 16% on all invested funds has led to an improvement in the SURS funding ratio from 54% to 66.8% since June 30, 2003 (90% is the eventual target).
- 2) SURS ignored State advice to invest the bond funds very conservatively, resulting in earnings that are at least \$186 million higher than they would have been.
- 3) The Call Center now fields more than 100,000 calls per year with hold time reduced to an average of less than one minute and a 45-day turnaround for full retirement processing (down from 180 days a few years ago).
- 4) The Constitution of the State of Illinois guarantees (in Article 13, Section 5) that "Membership in any pension or retirement system of the State _ or any agency or instrumentality thereof, shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired."
- 5) State law still requires that annual pension fund allocations be "continuing appropriations," not subject to reduction without a change in the law.

THE BAD NEWS:

- 1) The Governor's budget proposes to underfund the state pension systems by more than \$2 billion for FY2005-08, and by nearly \$1 billion more in FY2009-13. This might appear to be a desirable short-term saving for a cash-strapped state, but the long-term debt increase would be catastrophic -- an additional \$20.778 billion in obligation to the systems by 2045 (when by law the systems must reach the 90% funding ratio). The effect would be to borrow money from the pension funds (at a rate of about 8.5%) rather than from the credit markets (at a rate lower than 6%).
- 2) An early retirement incentive program instituted several years ago for members of the State Employees Retirement fund (one of the non-university state pension plans) will cost the state \$3.8 billion, not the originally estimated \$700 million.
- 3) SURS will have a negative cash flow of \$420 million this year even without the governor's proposed underfunding. Assets are being sold to pay retirees.
- 4) Illinois continues to have the largest unfunded pension obligations of any state.
- 5) A proposal to require public entities to begin to account for all their long-term obligations (such as retiree health care) beginning in 2007 will make the pension plans and their underfunding look like even more of a burden on the state.

THE NEUTRAL NEWS:

- 1) The governor soon will appoint a blue-ribbon panel of eleven experts to propose solutions to the problems with funding the state pension plans.
- 2) Group health benefits are being negotiated between CMS and AFSCME for the next 4-year period. These benefits end up being applied to all members.
- 3) There has been no change in the status of a suit against SURS (the Mattis case, now with the Illinois Supreme Court) or in SURS suits against WorldCom or Qwest.
- 4) SURS legal counsel is trying to clarify some SURS rules to bring them into line with state statutes. It seems likely that the statutes require:
 - a) A calculation of "final rate of earnings" (FRE, based on the 4 highest consecutive years of earnings) that, for teaching faculty, is based on four 12-month "academic years" beginning on the first day of the fall term, rather than on 48 months that begin at any other time. If adopted, this rule might not affect most faculty; the FRE isn't a factor in the annuity calculation for the majority, who retire under money purchase rules. In that case, the clarification is relevant only if the annuity would exceed 80% of the FRE.
 - b) Exclusion of any "retirement income" in the calculation of FRE. The intention is to exclude from the annuity calculation any artificial last-minute payments given as an incentive to retire, rather than for services rendered.
 - c) A one-year limit on service credit for unused sick leave (see #2 in the next section).

RESOLUTIONS ADOPTED FOR SURS ACTION:

- 1) In the interests of equity, recent legislation that allows union members to include compensable sick leave in the calculation of their final rate of earnings for retirement should be extended to all SURS members.
- 2) The recent reduction (to one year) in the amount of non-compensable sick leave that can be considered for service credit should be reversed (back to two years).
- 3) Members should be given sufficient warning of any change in the method of calculating the FRE for retirement.

INFORMATION AND ACTION:

- 1) The State Universities Annuitants Association soon will have a Web site with relevant information about legislation, and with a simple way to e-mail legislators. This will be at www.suaa.org.
- 2) A "talking points document" has been created to inform your communications with legislators. It will be made available to you as soon as possible. SURS is asking members to contact their legislators and write letters to the editor in support of the existing statutory funding program (Pub. Act 88-593 as amended by Pub. Act 93-0002) and in opposition to retirement systems reductions in the Governor's budget.