SPRING 2021

State University Retirement System

Understanding the new Retirement Savings Plan

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INTRODUCTION

In fall of 2020, the State University Retirement System rolled out the newly rebranded SURS Retirement Savings Plan (RSP). A revamp of the existing SURS Self-Managed Plan, these changes extended beyond a new name to include a different plan administrator, new investment option lineup, and an additional income option for retirees. This article is a deeper dive into the newly introduced Lifetime Income Strategy and Secure Income Portfolio choices within the Retirement Savings Plan.

Summary of Acronyms and Terms

As we outline our research, please keep in mind the following acronyms:

SURS = State Universities Retirement System. New employees must choose one of three options within six months of employment. Once elected, the decision is irrevocable and applicable for life. The options are:

- Traditional, which is the default, defined-benefit plan. Income at retirement is generally based on your final average salary and years of service.
- Portable, which is also a defined benefit plan with more flexibility for withdrawal or rollover after termination or retirement. Like traditional, income at retirement is based on your final average salary and years of service.
- Retirement Savings Plan, which is a defined contribution plan and the focus of this article. Unlike the traditional and portable plans, income at retirement is based on the final value of the account.

RSP = SURS Retirement Savings Plan (formerly SURS Self-Managed Plan). Within RSP are three investment options:

- SIP = SURS Secure Income Portfolio – a pre-determined portfolio comprised of 50% stocks and 50% bonds used to fund annual withdrawal amounts (set at retirement) with a guarantee of continued income for life if the portfolio is used up before you die.
- LIS = SURS Lifetime Income Strategy – a target date portfolio comprised of a mix of stocks and bonds that automatically adjusts to become more conservative as you approach retirement age.
- Core Funds – Lineup of funds, each targeted toward a specific asset class which include a Stable Value fund and various Bond, US Stock, and International Stock options.

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SURS RSP and Health Insurance as a Retiree

What it takes to qualify for retiree health insurance benefits has been a common point of confusion for the SURS RSP plan with the recent introduction of the LIS and SIP options. We begin by reviewing the qualifications for retiree health insurance benefits. For all SURS retirement plans (Traditional, Portable, and RSP), a participant must acheive at least 5 years (Tier I) or 10 years (Tier II) of service credit to be eligible for any retiree health insurance benefit. After earning 20 years of service credit, a retiree's health insurance cost is fully covered by the State of Illinois. However, the retiree may still be responsible for dependent and Medicare costs.

After meeting the years of service requirement above, at retirement, those in the SURS RSP must also do ONE of the following to qualify for health insurance through SURS (State University Retirement System, 2020):

1. Annuitize the entire balance of your SURS RSP account by converting your investment portfolio into a guaranteed stream of monthly income for life. This annuity will generally be administered for SURS through Principal Insurance company, or at TIAA if you still have funds in your RSP portfolio invested at TIAA.
2. Move at least 50% of your RSP portfolio balance into the new SIP and activate the lifetime income benefit. When selecting this option, all RSP investment funds not otherwise annuitized must be first moved into the LIS portfolio. Next, with all non-annuitized RSP funds in the LIS portfolio, at least 50% of those LIS funds must then be moved into the SIP with its guaranteed income benefit. After moving all funds into the LIS and activation of at least 50% of your LIS fund total into the guaranteed SIP, any LIS funds not in the SIP may be moved back to RSP Core Funds or withdrawn.
3. A combination of Options 1 & 2 – for example, you could use 1/3rd of your RSP account to buy an annuity through Principal. With the remaining RSP balance, allocate 50% to the SIP for lifetime income and 50% to the LIS or Core Funds for periodic withdrawal.

We have commonly heard the misconception that participants must use the new SIP to maintain health insurance, **which is not true**. Electing an annuity remains an option.

Overview of Income Elections at Retirement That Qualify for Health Insurance

While the rollout of the RSP does add an option to maintain an investment balance after retirement, it is important to understand your retirement health insurance benefit is still tied to an income benefit. It is possible to retire (or separate from service) from the University, keep your RSP account balance fully invested and later annuitize or activate an income benefit when you need the insurance benefit.

EXAMPLE 1

A University Employee has 20 years of service at age 50, at which point she leaves university employment to pursue a second career with a private sector employer. The new employer offers health insurance. The employee leaves her account balance with the SURS RSP, which allows the balance to continue to grow. At age 63, she fully retires from her private sector position and needs health insurance. At this point, she activates one of the RSP income options to qualify for health insurance as a State of Illinois retiree.

AGE 55

Separates from university employment

AGE 55 - 63

SURS RSP remains invested and grows

Health insurance through new employer

AGE 63

Retires and activates income option to qualify for health insurance

Keep in mind, a withdrawal of any funds from your SURS RSP account prior to either annuitization or activation of your LIS income plan will forfeit your insurance benefit for life.

OVERVIEW OF THE INCOME OPTIONS

The following is a summary of the Income Options, comparing an Annuity to the Secure Income Plan (SIP):

ANNUITY	SURS SECURE INCOME PORTFOLIO (SIP)
Insurance contract between you and an insurance company in which you make an initial purchase of the contract in exchange for a lifetime stream of income.	This is the new option introduced under the 2020 RSP rollout.
Your initial purchase price (premium) is generally the balance of your RSP account at the time of annuitization. You can increase that purchase by rolling in outside funds from a 403b, IRA or other source (all of which will increase your monthly income payment).	Like an annuity, this guarantees an annual level of income. This guaranteed income amount is based on your account balance and withdrawal rate as determined at the time you activate.
Your income stream is a monthly payment and guaranteed for your lifetime. The payment amount is determined by your age (life expectancy) and current annuity rates (related to projected interest rates).	The account continues to be invested in a mixture of stocks and bonds, from which your annual payments are made. • If investments perform well and your account balance grows, your guaranteed income can rise. • If investments underperform, your income stays the same and you withdraw money out of your own funds invested in the SIP. If your SIP account is depleted entirely, the insurance company continues paying your guaranteed income for your life. • Amounts in the SIP are subject to an additional fee for insuring income, which will reduce investment performance.
You may select from the following options: • Single-Life – pays a benefit for your life only. The payments cease when you die. • Joint-Life – pays a benefit for your life and continues payments to your spouse after your death. Generally, options are to continue the original payment (100%) or a reduced payment such as 50%. After the death of you and your spouse, no benefit remains. • Single or Joint Life with Period Certain – Adds a period of years for which payments would continue to a beneficiary after your death. For example, a 10-year Period Certain would pay benefits for the longer of your life or for 10 years. If you die before year 10, the payments continue to your beneficiary until the 10th anniversary. If you die after year 10, no benefits are paid to a beneficiary.	If any funds remain in your SIP account after death, they are payable to your beneficiary.

The Value of Retiree Health Insurance under SURS

There may be cases where an individual chooses to forgo their SURS retiree health insurance benefits, but before making that irrevocable decision, it is important to understand what you are entitled to and what those health insurance benefits are worth.

How SURS Retiree Health Insurance works with Medicare

Those in the SURS RSP are also required to participate in Medicare. While working, you pay into the Medicare system. When you turn age 65, you must sign up for Medicare. If you are still working and covered by your University insurance, you only need to enroll in Medicare Part A, but can delay Part B until you retire.

Medicare has three parts:

- Part A, which covers Hospital services and is generally free for those age 65+
- Part B, which covers doctor visits and other outpatient services. Part B has a monthly premium starting at $148.50 (2021); cost can increase based on income.
- Part D, which covers prescription drug costs

Once you retire and become a SURS annuitant age 65 or older, you are required to enroll in the Total Retiree Advantage Illinois (TRAIL) plan, managed through Illinois Central Management Services (CMS). This is a Medicare Advantage plan, which means it combines Medicare Part A, Part B, Part D and a Medicare Supplemental Policy (commonly known as a Medigap policy). Even under the TRAIL program, you still must pay the Medicare Part B premiums yourself. The State of Illinois subsidizes (or entirely covers) the rest of your supplemental health cost.

How much is this SURS health insurance subsidy worth?

For a retiree with 20 or more years of service, age 65 or older, and on Medicare, the value of this benefit is around $156.63 per month or $1,879.56 per year. This is based on the amount the State of Illinois covers of the cost of the Advantage Plan (Illinois Central Management Services, 2021).

For a retiree with 20 or more years of service and under the age of 65, the SURS health insurance benefit is significantly more valuable. Prior to Medicare eligibility, the State picks up the entire cost of their health insurance. For those retiring before age 65, the cost of health insurance can be an obstacle to being able to retire early. For those in their 50's or 60's, a private health insurance policy can easily cost $1,000-$2,000 per month.

So, the first question you must ask yourself when choosing which RSP investment options to use is, how important is the Retiree Health Insurance to you? If you plan to retire early (before age 65) and are not covered under a spouse or other plan, this benefit can be extremely valuable. Once you reach age 65 and enroll in Medicare, there is still a benefit, but it is significantly less. If you plan to retire early and have access to other insurance, there is a financial incentive paid to you by CMS if you are eligible for SURS retiree health benefits, and decline coverage by SURS (Ilinois Department of Central Management Services, 2018).

Detailed look at the Secure Income Portfolio (SIP)

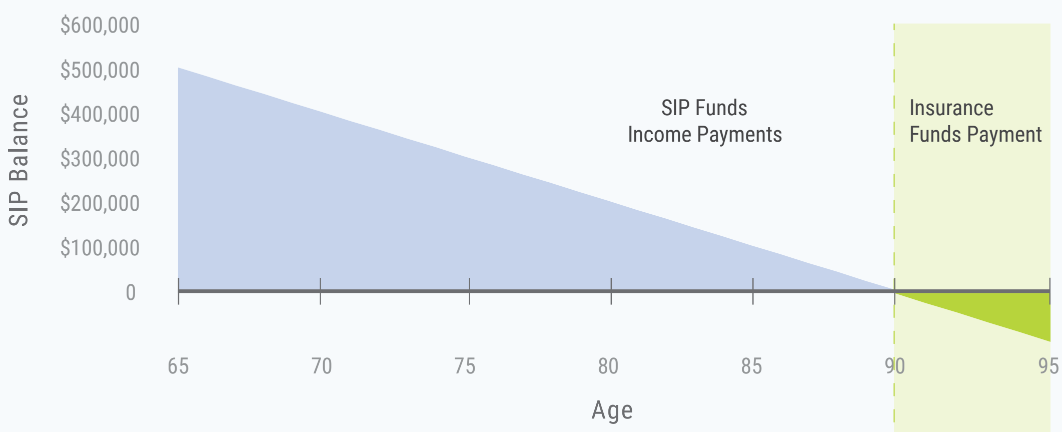
How does the guarantee of lifetime income work?

The income guarantees provided under the SIP are not a new concept, they have been around in the private insurance and annuity world for a long time. Traditionally, this type of contract is called a Guaranteed Lifetime Withdrawal Benefit. Under this benefit, you are guaranteed the ability to withdraw a set percentage of your account balance each year. If your account balance, as determined on your birthday, has grown in the past year, your guaranteed income will go up. If your account balance shrinks, your guaranteed income stays level. Your guaranteed income can increase, but never decrease below the highest amount it ever reaches. In the industry, this is often referred to as a "high-water mark".

While this sounds nice in theory, it is worth gaining a clear understanding of the insurance company's guarantee. The insurance company promises that you will receive the same level of annual income for the remainder of your life, but there is no guarantee that any principal remains in your account at your death. In other words, you spend your own SIP money first and only benefit from this contract if you outlive the balance of your SIP account which is when the insurance company continues to pay your guaranteed annual income.

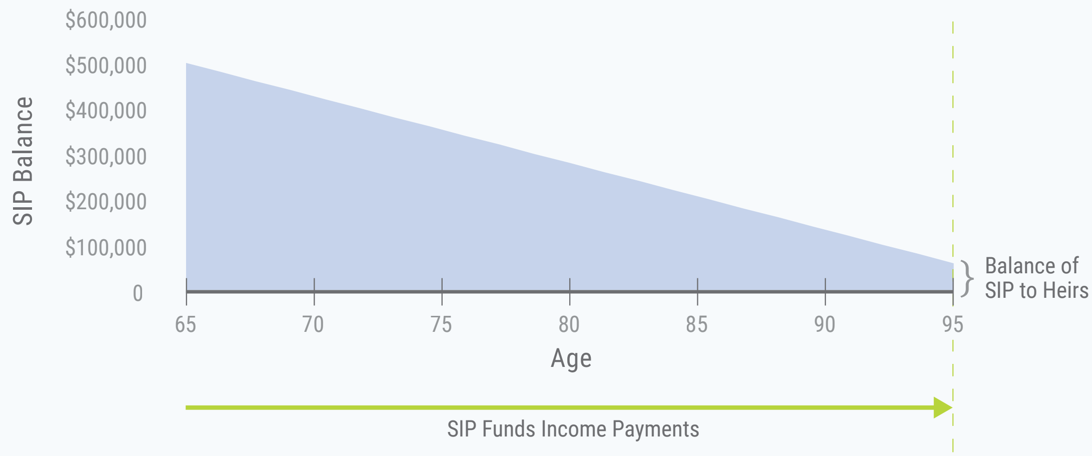
EXAMPLE 2

Imagine you retire at age 65 with an account balance of $500,000 and a 4% Lifetime Blended Withdrawal Rate. You are entitled to $20,000 per year in guaranteed income. Based on your annual withdrawals and poor market performance, your account balance is depleted by age 90. The insurance company steps in to continue your $20,000 annual income until your death at age 95. No balance remains in the account for your beneficiaries. In exchange for a higher annual insurance cost, you have received 5 years of income paid by the insurance company after your portfolio was depleted.



EXAMPLE 3

Same facts as Example 2 ($500,000 portfolio, 4% withdrawal rate, $20,000 income) but, due to better market performance than in Example 2, your account has $50,000 remaining at your death at age 95. Your heirs would receive the $50,000 after your death, however the decline in the value of your account from $500,000 to $50,000 has been used to fund your annual income payments. In this example, the insurance company never pays a benefit despite the insurance fees paid throughout your lifetime. You have used your own money plus investment returns to cover your income stream.



What is the risk of outliving my portfolio?

The key question here is: What are the chances that I will deplete my portfolio and need the lifetime income guarantee?

Markets are unpredictable, as is how long you will live. Nobody can reliably know or predict these factors in advance. The SIP is invested in an allocation of 50% bond and 50% stock holdings (State University Retirement System, 2020). Average long-term historical returns of a 50/50 portfolio are around 8%, but actual yearly returns have varied between -15% to 25% (Shea, 2021). Timing matters, as having a period of poor market returns in the early years of retirement can result in rapid depletion of your SIP account balance.

One possible way to assess this risk of depleting your portfolio is to use a Monte Carlo simulation. This simulation predicts the probability of different outcomes for a portfolio, by using historical data on investment returns to project thousands of different return scenarios of a given portfolio. Vanguard provides a free Monte Carlo simulator on their website, which we will use in Example 4 (Vanguard).

EXAMPLE 4

While we used a 4% withdrawal rate for simplicity in examples 2 & 3, current SIP guarantees for a participant retiring at age 65 are 3.3% (Alliance Bernstein, 2021). Using this 3.3% withdrawal rate per year, historical data on market return rates, and a Monte Carlo simulator analysis, the table below shows the probability that funds remain in your account at the following ages.

AGE	PROBABILITY OF SOME SIP BALANCE REMAINING
85	99%
95	97%
105	93%

In other words, if you live until age 85, there is about a 1% chance you would run out of money before death. In that 1% case, having a guarantee of income from the insurance company would ensure you continue to receive income even though your SIP account is empty.

Cost vs. Benefit of the SIP Guaranteed Income Insurance

The probabilities and risk as presented above can be difficult to understand. It may be easier to think of the SIP like purchasing any other insurance policy. With insurance guarantees, you pay a premium to transfer risk. In this case, you transfer the risk of depleting your portfolio to zero before you die. The SIP insurance cost "premium" comes in the form of increased expenses for that portion of your portfolio invested in the SIP. For a 65-year-old participant in SURS with their entire RSP balance invested into the SIP, that added expense is 1.07%. This results in total expenses of 1.17% annually, as compared to the LIS-only expenses of 0.10% (Alliance Bernstein, 2021). You do not pay this cost directly, rather it is deducted from your portfolio and reduces your expected returns over time.

EXAMPLE 5

You retire at age 65 with a balance of $1,000,000 in your RSP account and opt to put 100% of your RSP balance into the SIP. With a 3.3% withdrawal rate, your guaranteed income would be $33,000 per year. To cover the cost of the lifetime income guarantee, your insurance expense is 1.07% or $10,700 per year. Again, you would not pay this insurance cost directly but would see it as an annual deduction against investment returns.

Assuming your annual investment returns are 7% per year (before expenses) and you withdraw $33,000 per year (not adjusted for inflation). Your net return (after expenses) is 5.83% annually, calculated as the 7% gross return less the SIP expense of 1.17%. After 15 years, your account would grow to $1.58 million.

EXAMPLE 6

Same facts as Example 5, except you decline the more expensive SIP guaranteed income feature and instead invest your $1,000,000 portfolio in the LIS portfolio. Assuming the same average investment return of 7% (before expenses) less the LIS expenses of 0.10% and the same $33,000 per year withdrawals, your account balance grows to $1.90 million after the same 15-year time period.

	ENDING PORTFOLIO VALUE
100% SIP (Example 5)	**$1,580,000**
100% LIS (Example 6)	**$1,900,000**
Difference in value	**$320,000**

Comparing Examples 5 & 6, the total cost of SIP insurance is $320,000 in lost returns simply due to the cost of insurance (annual added cost of insurance plus foregone earnings growth on the amounts used to pay the annual premiums).

The point of these two examples is to show that the insurance cost is not negligible. The insurance guarantee in the SIP portfolio will significantly reduce your returns over a normal retirement life expectancy. This will result in either less principal remaining for your beneficiaries, or less income to spend through retirement. The risk in using the LIS option only and forgoing the more expensive insurance premium of the SIP is that poor market performance could halt your income when your account balance is depleted. That is, you run out of income while still living. The examples above illustrate the cost of transferring that risk via insurance to ensure your lifetime income can never run out.

Deciding when to transfer money into the SIP?

Up to this point, we have looked at the "insurance cost" assuming you moved money into the SIP at retirement. However, SURS is recommending that you gradually shift into the SIP through the prearranged glidepath (the default option) starting about age 50 for an anticipated age 65 retirement. In doing so, your account balance is slowly shifted from the low-cost, index-based investment funds of the LIS into the SIP (but, with the added insurance expense).

The rationale for the gradual shift of RSP funds into the SIP portfolio is to "average into" the withdrawal rates. In other words, each time you move funds into the SIP, those funds are locked into that year's current withdrawal rate, which is based on prevailing market interest rates and your age at the time of contribution. Withdrawal rates affect your guaranteed monthly payment: withdrawal rates are higher when interest rates are higher, and lower when interest rates are lower. When you retire, each SIP contribution is averaged against your total lifetime contributions to the SIP and weighted to create an Average Lifetime Blended Withdrawal Rate.

EXAMPLE 7

Imagine you contributed $100,000 to the SIP (by transferring $100,000 of your RSP balance into the SIP) for each of the three years leading up to your retirement. For each transfer, the interest rate guaranteed for that period was as follows:

Time Period	Contribution	Current Blended Withdrawal Rate
Year 1	$100,000	4.0%
Year 2	$100,000	3.5%
Year 3	$100,000	3.3%
Lifetime Contributions	**$300,000**	
Average Lifetime Blended Withdrawal Rate		**3.6%**

This is an overly simplified formula to illustrate, but in this example your Average Lifetime Blended Withdrawal Rate is determined from a formula of: [$100,000 (Year 1 Contribution) ÷ $300,000 (Lifetime Contributions) x 4%] + [$100,000 (Year 2 Contribution) ÷ $300,000 (Lifetime Contributions) x 3.5%] + [$100,000 (Year 3 Contribution) ÷ $300,000 (Lifetime Contributions) x 3.3%].

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EXAMPLE 7 continued

In this example, interest rates are declining as time goes on which decreases the guaranteed withdrawal rate each year. By adding funds into the SIP over time, the participant ends up with a 3.6% Average Lifetime Blended Withdrawal Rate. If that same participant had retired in year 3 and waited to move her entire balance to SIP at that time, the final Average Lifetime Blended Withdrawal Rate would have only been 3.3%. This averaging effect avoids point-in-time interest rate risk, which is the risk of waiting to transfer into the SIP portfolio until the year you wish to retire. If interest rates are lower the year you retire and move into the SIP portfolio, a lower interest rate lowers the guaranteed income rate for your entire portfolio.

While this averaging strategy does protect against falling interest rates, it also increases the cost of insurance as more and more of your RSP balance is invested in the higher cost SIP portfolio. In general, paying higher costs drags on investment performance over time. This may be a worthwhile trade-off of overall higher guaranteed withdrawal rate for higher insurance cost, but you should understand the impact of averaging. Under default settings, the RSP will begin moving your account into the SIP approximately 15 years ahead of your target retirement age. As compared to the 0.10% expense of the LIS portfolio with no guaranteed lifetime income, the expenses will rise over time as your allocation into the SIP increases. By retirement, those expenses will be as high as 1.17%. (Alliance Bernstein, 2021)

EXAMPLE 8

Imagine you had a balance of $405,000 in your SURS account on your 50th birthday and you continue to work and contribute to the RSP based on a salary of $50,000. You opt into the LIS portfolio with a guaranteed income setting of 0 (meaning no funds are allocated to the SIP and all your funds remain invested in the LIS target date portfolio). Assuming your portfolio generated the average expected return of the LIS each year, your account balance would be approximately $1,505,000 million on your 65th birthday.

If you transferred your entire balance of SURS RSP into the SIP on your 65th birthday, using guaranteed rates as of Q1 2021, your Average Lifetime Blended Withdrawal Rate would be 3.28%. With your account balance, you would have a minimum guaranteed income of $49,364 per year.

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EXAMPLE 9

Same facts as Example 8 (age 50, RSP balance $405,000, salary $50,000), except that at age 50, you opt into the LIS with an SIP election of 100 (meaning your account would gradually shift your entire account into the SIP over the next 15 years until age 65 retirement). The overall risk level between stocks and bonds would remain remarkably close to Example 8, but you would be locking in the prevailing guaranteed withdrawal rate each year on the portion of your balance reallocated to the SIP. With the gradual transfer into the SIP, your insurance guarantee slowly increases expenses on a larger and larger portion of your SIP portfolio.

Your ending balance on your 65th birthday would be approximately $1,368,000. Using guaranteed rates as of Q1 2021, your Average Lifetime Blended Withdrawal Rate would be 3.55%. With your account balance, you would have a minimum guaranteed income of $48,584 per year.

SUMMARY OF EXAMPLE 8 VS. EXAMPLE 9

Example	Ending Account Value	Average Lifetime Blended Withdrawal Rate	Minimum Guaranteed Income
Single Transfer At Age 65 (Example 8)	$1,505,000	3.28%	$49,364/year
Gradual Transfer Age 50-65 (Example 9)	$1,368,000	3.55%	$48,584/year
Difference	**$137,000**	**(0.27%)**	**$780/year**

Even though the two portfolios in both examples performed similarly from age 50 to age 65, the insurance fees from the gradual transfer into the SIP in Example 9 reduced your total account balance by $137,000 or 9% over that period.

In these examples, the sooner you invest in the SIP, the higher your Average Lifetime Blended Withdrawal Rate will be (3.55% vs. 3.28%). Interest rates are determined based on current economic conditions and your age. Economic conditions cannot be predicted. We do know that, holding economic conditions constant, guaranteed rates will go down as you approach your 65th birthday and begin to rise again beyond that age. The reason for these changes is not explained in the SURS RSP plan documents, but likely has to do with various investment and mortality factors that the insurance companies assume in their models.

If you were planning to retire at 65 and know that guaranteed interest rates will decline as you age, it does follow that your guaranteed withdrawal rate will be higher by transferring your RSP into the SIP sooner (holding economic conditions constant). On the other hand, the added insurance expenses also drag on total investment account performance, which reduces the base upon which future income is drawn.

Keep in mind, Examples 8 & 9 are holding constant the economic conditions that may impact interest rates over the 15-year periods in the examples. Unfortunately, nobody can predict the future or what will happen to interest rates over fifteen years. The graduated transfer into the SIP is designed to protect against decreasing interest rates as you near retirement, but the tradeoff is that it comes with the added cost of the lifetime guarantee insurance cost of earlier transfers into the SIP portfolio.

SIP Guaranteed Income vs. Annuities

The final question to ask is, how does the SIP and LIS compare to purchasing an annuity with your account balance at retirement? Prior to the introduction of the SURS RSP Plan, purchasing an annuity with your entire account balance was the only option that would qualify you for health insurance benefits. Introducing the SIP allows for another choice, but the annuity option remains, or some combination of the two.

In many ways, the annuity purchased at retirement is a simpler choice. In exchange for an upfront premium, the insurance company will pay you a fixed income for a set period, usually for life. You transfer your SURS RSP balance to an annuity with Principal Life Insurance Company as the insurer. Once your annuity purchase is made, Principal would make monthly payments to you for the remainder of your life. These payments would be fixed and would not adjust for inflation or market factors.

EXAMPLE 10

Your account balance at age 65 is $1,505,000 million (as in example 8, in which you kept your portfolio in the LIS and did not transfer any funds to the SIP prior to retirement). If you converted your entire RSP account balance at your retirement to a Single-Life annuity, you would receive monthly income of $476.56 per $100,000 (Principal Life Insurance Company, 2021). Based on your account balance, this would translate to $86,066.74 per year for as long as you live. You may elect survivor benefits for your spouse, but this option will reduce your monthly payments.

Comparing Guaranteed Income of SIP to Traditional Annuity

Example	Ending Account Value	Guaranteed Income	Death Benefit	Inflation Adjustment
Secure Income (Example 8)	$1,505,000	$49,364/year	Possible	Possible
Secure Income (Example 9)	$1,368,000	$48,584/year	Possible	Possible
Annuity (Example 10)	$1,505,000	$86,067/year	No	No

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EXAMPLE 10 continued

You will notice there is a sizeable difference in income between the traditional annuity illustrated in Example 10 vs. the guaranteed SIP income in Example 9. The traditional annuity provides over $37,000 more per year which translates to a 77% higher annual income.

This difference in income is due to an insurance concept called Mortality Credits. Your insurance benefit under the traditional annuity is only guaranteed for life. Once you die, payments stop. This is true if you die a year into a retirement or live another 40 years. When insurance companies sell annuities, they have thousands of policyholders and benefit from a large pool of participants. They know that some of the participants will die early. When this happens, the income paid to that participant will be less than the premiums paid. This surplus is reserved by the insurance company and used to pay income to other long-lived participants whose lifetime payouts exceed the initial premiums paid.

As a reminder, there are two downsides to the traditional annuity as compared to the SIP. First, income is fixed for life with a traditional annuity and will not go up over time. In contrast, the SIP has the potential that guaranteed income could increase if the underlying investments perform well. Second, no remainder value passes to your heirs under an annuity. If SIP investments perform well during retirement, the balance of the account in SIP is preserved and will be paid to your beneficiaries after your death. With the SIP, you are trading the possibility of a legacy gift to heirs for a lower annual guaranteed income than what you get using a traditional annuity with no death benefit left to heirs.

Making a Decision

At this point, choosing an option may feel overwhelming. This is understandable. The options presented under the RSP are complex and take considerable time and financial expertise to fully understand. On top of this, to make the "right" choice, you must correctly predict future economic conditions, your needs and even your own life expectancy, an impossible task.

Like many financial decisions, the only way to move forward is to weigh the factors you know to be true, then make the best decision possible based on the information you have today. The following is a non-exhaustive list of factors to consider which may influence your choice:

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Legacy

Is it important for you to preserve your SURS RSP account balance to leave a gift to family, friends, or charity after you pass away?

YES This may weight towards taking the SIP as any remainder balance may be left to beneficiaries. See Health Insurance for other considerations.

NO This may weight towards the annuity as the guaranteed income will be highest under this option.

Other Savings / Investments

Do you have other savings or investments? This could include supplemental retirement savings such as 403bs, IRAs, Roth IRAs.

YES This may weight towards taking the annuity. The higher annuity income stream could reduce the need to draw income from these other assets, which in turn may allow you to use those other savings vehicles for supplemental spending needs and/or asset preservation for legacy goals.

NO This may weight towards using the SIP for 50% or more of your LIS to provide guaranteed lifetime income. The remainder of your RSP account is left in the LIS or Core funds to allow for periodic withdrawals for unexpected or planned needs beyond your guaranteed income.

Other Retirement Income Sources

Do you have other reliable streams of income in retirement, such as Social Security, non-SURS pensions, rental, or business income?

YES This may weight towards using the SIP as you may have more capacity to trade off lower annual income for the potential for asset growth over time. See Health Insurance for other considerations.

NO This may weight towards the annuity to ensure maximum annual income in a manner that will not run out regardless of how long you live or investment performance.

Health Insurance

Is it important for you to have health insurance premiums subsidized by the State of Illinois after retirement?

YES This may weight towards taking either the SIP or annuity to preserve the subsidized health insurance benefit. This would be especially important if you were planning to retire before age 65, which is the age of eligibility for Medicare.

NO This does not necessarily mean you should not take either the annuity or SIP, but it does open the possibility of making other choices within your SURS RSP account.

Parting Thoughts

After investing considerable time to research, understand, and analyze the changes brought about by the new SURS RSP, I have some parting thoughts. All the information prior to this section was presented using facts as provided by SURS or AllianceBernstein. Examples and illustrations were designed to educate you on options and the potential impacts of choosing one option vs. another. The remainder of this discussion is my opinion on these changes to SURS RSP defined contribution plan (which replaced the SURS Self-Managed Plan).

The overwhelming conclusion of this research and analysis is that the new RSP plan options are incredibly complex. It has taken me nearly 6 months to fully digest the changes in SURS, consider the impact of those changes, and then dig for answers to the questions raised. While I have gained a much better understanding of this plan, there is still more to learn.

I am concerned that the average SURS participant has neither the time nor the expertise necessary to make informed decisions about the new RSP retirement options. A similar plan was rolled out to the multi-national conglomerate corporation United Technologies in 2012. An economist from Boston College best summed up my sentiments in this New York Times article saying, “My concern about all these products is that they are complicated and have opaque charges…Given the information in the brochure, my Ph.D. in economics leaves me ill-equipped to say whether this is a good buy.” (Bernard, 2012)

I believe there is much room for improvement to provide greater transparency of the inner workings of these new plan options. The plan documentation lacks the detail for many key components, including current withdrawal rates or the formulas that determine lifetime guaranteed withdrawal averages. I was only able to obtain this information by escalating requests from the SURS representatives to AllianceBernstein representatives, and finally to the Manager of the SURS RSP Program. While I was able to obtain current withdrawal rates offered by age, I was only able to confirm that the formula that I developed to estimate lifetime averages is “far too simple but may provide a very rough estimate.”

The SURS RSP program manager was unable to provide me with the formulas to calculate withdrawal rates and referred me to the LIS calculator. While the LIS calculator is accessed through the SURS member portal, you are first directed to a calculator on AllianceBernstein’s website. I am uncomfortable that a public pension system would refer their participants to a third-party website to calculate the impact of crucial decisions on their retirement pension. Even more worrisome, the calculator acts like a black box, not allowing users to see the inner workings of the calculations. A calculator is only as good as the assumptions made. Without understanding those assumptions, how are we to trust the results?

Beyond the complexity of this plan and lack of transparency on how plan options work, the plan materials given to participants are one-sided. The documents created by SURS and AllianceBernstein feel more like marketing brochures encouraging participants to opt into the SIP with insurance rather than educational materials designed to help participants make an informed choice. For participants spending most of their career at a SURS covered employer, the RSP will represent one of their largest financial assets. I believe that plan materials should give more weight to the benefits of a traditional annuity instead of simply extolling the virtues of the SIP.

In fact, many of the materials presented by SURS were not actually written by SURS. By doing a quick internet search on AllianceBernstein and Secure Income Portfolio, you will find this plan is a product developed in the early 2010s and marketed to corporations for their 401k offerings. You can find remarkably similar brochures and materials designed for participants in these corporate retirement plans. White labeling is common, and no one expects SURS to reinvent the wheel, but work must be done to provide a fair comparison of options.

Ultimately, some of this complexity is unavoidable without action by the Illinois Legislature. The requirement for the annuitization of the SURS RSP account balance is statutorily tied to the health insurance benefit. The easiest fix would be for updating of legislation to allow SURS participants more flexibility in usage of their account balances post-retirement without forfeiting insurance benefits. Barring this, the SIP is a clever solution to allow some access to principal while still annuitizing the account. As SURS cannot control the actions of elected officials, but does have control over information presented to RSP participants, I would reemphasize my calls for added transparency and balance in the materials for RSP participants that will allow comparisons of the SIP and traditional annuity options.

For further reading, please visit our Blog at https://www.bluestemfa.com/resources. Here you will find various articles regarding SURS changes over time.

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Example 3
Withdrawal rate based on Q1 2020 (Alliance Bernstein, 2021), Probabilities determined from Vanguard Monte Carlo Simulation (Vanguard), Portfolio assumes 50% Bond / 50% Stock Portfolio.

Example 6 & 7
Average rates of returns based on prior 35-year average returns ending 12/31/2020 (Shea, 2021) of each asset class comprised in the LIS and SIP portfolios. Account balance figures rounded to nearest $1,000 for these examples. Average Lifetime Blended Withdrawal Rate was calculated as:

$$\sum \frac{\text{Current Period Contribution to SIP}}{\text{Lifetime Contributions to SIP}} \times \text{Blended Rate by Age for Current Quarter}$$

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