

**GENERAL ASSEMBLY RETIREMENT SYSTEM OF ILLINOIS
MEETING NO. 250**

**MINUTES OF THE ANNUAL MEETING OF THE
BOARD OF TRUSTEES**

APRIL 15, 2015

A regular meeting of the Board of Trustees of the General Assembly Retirement System convened at 9:00 a.m. on Wednesday, April 15, 2015, in Room 627A Capitol Building, Springfield, Illinois.

Roll call was taken with the following trustees present:

Senator James Clayborne, Jr., Chairman
Representative David Harris, Vice-Chairman
Senator Don Harmon
Senator Bill Brady
Representative Elaine Nekritz
Representative Michael Zalewski
Representative Daniel Pierce, Retired

Others in attendance were:

Timothy Blair, Secretary
Jeff Houch, Assistant to Secretary
Jayne Waldeck, GARS Manager
Steve Bochenek, GARS Legal Counsel
William Atwood, Illinois State Board of Investment
Paul Wood, Gabriel Roeder Smith & Company
Ryan Gunderson, Gabriel Roeder Smith & Company
Ray Long, Chicago Tribune
Mike Riopell, Daily Herald
Andrew Freiheit, House Republican Staff

With a quorum present, the meeting was called to order by Chairman Clayborne at 9:00 a.m.

PUBLIC COMMENTS

Chairman Clayborne asked if there were any members of the public in attendance who wished to make comments. There were none.

ELECTION OF 2015 OFFICERS

Chairman Clayborne announced the election of officers for 2015 was in order and opened the meeting for nominations for Chairman. Representative Nekritz moved to nominate Chairman Clayborne and Vice-Chairman Harris for re-election. Senator Harmon seconded the motion. There being no other nominations, nominations were closed and all present voted to re-elect Chairman Clayborne and Vice-

Chairman Harris. Chairman Clayborne and Vice-Chairman Harris thanked the Board for the continued support.

FELONY FORFEITURE AND REFUND POLICY

Chairman Clayborne referred the Board to a memo outlining changes to the Felony Forfeiture Board Policies as requested by the Board at the January 9, 2015 GARS Board meeting, and requested Secretary Blair briefly explain the changes. Secretary Blair informed the Board that GARS Policies would now require the suspension of a GARS retirement benefit at the time of a felony conviction or a felony guilty plea, rather than on the date of sentencing.

In addition, the draft policy provides that all benefits paid to an annuitant prior to a felony forfeiture refund will be considered a return of employee contributions. Therefore, the amount of all future felony forfeiture refunds will be reduced by the amount of employee contributions returned to the convicted felon prior to the suspension of benefits.

Following discussion, Senator Harmon moved to adopt the new felony forfeiture and refund policy as presented. Senator Brady seconded the motion and all Trustees voted in the affirmative.

REPRESENTATIVE KEITH FARNHAM FELONY FORFEITURE

Chairman Clayborne referred the Board to the Attorney General's Opinion regarding the felony forfeiture of the benefits of Representative Keith Farnham. He reviewed the opinion and noted Attorney General Madigan's conclusion that "Farnham's felony conviction requires forfeiture of his retirement benefits under the General Assembly Retirement System pursuant to section 2-156 of the Pension Code." Secretary Blair then reviewed a March 20, 2015 letter to Representative Farnham notifying him of the suspension of benefits on March 19, 2015, and an April 2, 2015 letter notifying him of the April 15, 2015 Board meeting and his right to present a case for the retention of his GARS benefit. Both letters were sent by certified mail and no response was received.

After a brief discussion Vice-Chairman Harris moved to terminate the benefit of Representative Farnham. The motion was seconded by Representative Nekritz and all voted in favor. Secretary Blair was instructed to inform Representative Farnham of the Board's decision. A copy of the Attorney General's opinion is made a part of these minutes as Exhibit A.

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT (ISBI)

William Atwood, ISBI Executive Director, referred the Board's attention to the ISBI Flash Report dated February 28, 2015 and noted the portfolio's total market value was \$15.609 billion, up from \$14.501 billion at February 28, 2014. Director Atwood noted the total ISBI portfolio is up 7.7%, gross of fees, for the 1 year period ended February 28, 2014, the same as the benchmark return over the same time period. He continued by noting the Fixed Income portfolio was up 1.7%, gross of fees, while the U.S. Equity portfolio (excluding hedge funds) was up 11.4%, compared to their respective benchmark returns of 4.8% and 14.1%. The Hedge Fund of Funds portfolio was up 6.3%, compared to a benchmark return of 4.1%.

Director Atwood continued the review of the asset classes by noting for the year ended February 28, 2015, the Non-U.S. Equity portfolio had returned 1.4% (benchmark up 0.9%) while the Real

Estate portfolio was up 13.3% (benchmark up 9.8%). He concluded his report by pointing out the Real Asset portfolio was up 11.9% (benchmark up 4.8%) and the Private Equity portfolio was up 20.1%.

Chairman Clayborne thanked Director Atwood for his informative report and excused him from the remainder of the meeting. Representative Nekritz moved to accept the ISBI report as presented by Director Atwood. Representative Pierce seconded the motion and all were in favor. A copy of this report is maintained in the ISBI Office and attached to these minutes as Exhibit B.

GARS ACTUARIALLY DETERMINED CONTRIBUTION POLICY

Paul Wood and Ryan Gunderson, Consulting Actuaries of Gabriel Roeder Smith and Company, presented to the Board two recommendations for funding policies that will allow GARS to comply with Governmental Accounting Standards Board (GASB) Statements 67 and 68. These new statements require the reporting of an Actuarially Determined Contribution (ADC) in the Comprehensive Annual Financial Reports. After a brief review and discussion, Vice-Chairman Harris moved to adopt the funding policy based on the annual payment of the system's normal cost plus an amount that will amortize the GARS unfunded liability over 20 years. Representative Nekritz seconded the motion and all were in favor.

GARS OPT-OUT ASSUMPTION

Mr. Wood presented to the Board a new actuarial assumption that would take into account that many newly-elected members of the General Assembly are declining GARS participation. Based on a review of the recent opt-out patterns of legislators, Mr. Wood recommended the Board adopt an assumption that assumes 50% of all newly elected legislators would choose to decline GARS participation. After a review, Representative Nekritz moved to adopt the recommended assumption and Vice-Chairman Harris seconded the motion, which passed unanimously.

MINUTES OF PREVIOUS MEETING

Chairman Clayborne presented the minutes of Meeting No. 249 held on January 9, 2015, for approval. Copies of the minutes were previously submitted to the trustees for preliminary review. Representative Pierce moved for acceptance of the minutes as presented. Vice-Chairman Harris seconded the motion and all were in favor.

REPORT OF CHAIRMAN

Chairman Clayborne had nothing to report.

REPORT OF TRUSTEES

The trustees did not offer a report.

REPORT OF SECRETARY

Financial Statements and Report of Administrative Expenses. The financial statements for the period ending December 31, 2014 and March 31, 2015 were submitted by Secretary Blair. He briefly reviewed each schedule and told the Board the employer contributions continue to be received in a timely manner. Following a review of the reports submitted and a brief discussion, Representative Zalewski moved to adopt the financial statements of December 31, 2014 and March 31, 2015.

Representative Pierce seconded the motion and all were in favor. These reports are made a part of these minutes as Exhibit C.

Financial Audit Review. Secretary Blair noted for the Board that the FY 2014 Financial Audit had been released by the Auditor General and contained two material findings. The first finding is due to a vacancy in the internal auditor position for a significant portion of the fiscal year. An internal auditor was hired on October 1, 2014. The second finding noted weaknesses in the verification of certain census data submitted to GARS by the Comptroller's Office. Secretary Blair noted that processes and procedures were being developed that should prevent the audit finding from being repeated in FY 2015.

IT Cost Allocation Methodology and FY 2015 Supplemental Request. Secretary Blair referred the Board to a memo detailing an FY 2014 draft immaterial audit finding that will apply to SERS, JRS and GARS due to the lack of an IT cost allocation methodology among the systems. In order to avoid a repeat finding, Secretary Blair asked the Board to adopt an IT cost allocation methodology that will require each system, including GARS, to pay the pro rata cost of the total SRS IT budget based on the proportion of each system's percentage of the total combined membership. The GARS portion would amount to 0.44% of the total annual IT budget of the 3 systems combined. This percentage would be reviewed periodically and adjusted as necessary.

In addition to the cost allocation methodology, Secretary Blair requested an increase of \$26,400 in the FY 2015 GARS budget in order to pay for the GARS portion of the projected FY 2015 IT budget. Representative Nekritz moved to approve the IT cost allocation methodology as presented and the additional \$26,400 in the FY 2015 GARS budget. Vice-Chairmen Harris seconded the motion and all trustees voted in the affirmative.

FY 2016 Preliminary Budget Request. Secretary Blair referred the trustees to the line items detailing the FY 2015 budget, projected FY 2015 spending, and the FY 2016 preliminary budget request. Specifically, the Personal Services (and related) and Group Insurance line items reflect large decreases from FY 2015 to FY 2016, \$29,850 and \$11,225, respectively, due to the elimination of an Accountant paid from the combined JRS/GARS budget. This position will be paid by SERS in the future and JRS/GARS will be charged for the amount of time actually spent on JRS and GARS accounting work.

The IT line item is expected to increase by \$24,150 from FY 2015 to FY 2016 due to the allocation of actual IT expenditures as outlined in the previous section detailing the IT allocation methodology adopted by the Board.

Overall, the preliminary FY 2016 budget is \$12,400, or 3.2%, less than the FY 2015 budget of \$392,600. Following a brief discussion, Representative Pierce moved to approve the FY 2016 Preliminary Budget. Representative Zalewski seconded the motion and it passed unanimously.

Annuities and Refunds for Approval. Division Manager Jayne Waldeck directed the trustees' attention to the reports reflecting nine new retirement annuities totaling \$46,310.62 per month. In addition, a termination refund of \$10,774.50 was paid since the last meeting. There being no questions regarding these annuities and refunds, Vice-Chairman Harris moved for approval. Representative Nekritz seconded the motion and all were in favor. These reports are attached to these minutes as Exhibit D.

UNFINISHED BUSINESS

There was no unfinished business to be discussed.

NEW BUSINESS

There was no new business to be discussed.

ADJOURNMENT

There being no further business to be brought before the Board, Representative Nekritz moved to adjourn at 10:40 a.m. Her motion was seconded by Vice-Chairman Harris and passed with an affirmative vote of all trustees.

Chairman Clayborne reminded the Board the next meeting is scheduled for the first Wednesday of the 2015 Fall Veto Session.

Secretary

Date: _____

APPROVED:

Senator James Clayborne, Jr., Chairman