

**GENERAL ASSEMBLY RETIREMENT SYSTEM OF ILLINOIS
MEETING NO. 249
MINUTES OF A REGULAR MEETING OF THE
BOARD OF TRUSTEES**

JANUARY 9, 2015

A regular meeting of the Board of Trustees of the General Assembly Retirement System convened at 1 p.m. on Friday, January 9, 2015, in Room S721 of the Bilandic Building, Chicago, 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 Daniel Pierce, Retired

Absent was:

Representative Dan Burke

Others in attendance were:

Timothy B. Blair, Secretary
Jayne L. Waldeck, GARS Manager
Jeff Houch, Assistant to Secretary
William Atwood, Director, Illinois State Board of Investment
Alex Rivera, Consulting Actuary, Gabriel Roeder Smith & Company
Paul Wood, Consulting Actuary, Gabriel Roeder Smith & Company
John Amdor, Legislative Director for Representative Nekritz

With a quorum present, Chairman Clayborne called the meeting to order at 1:00 p.m.

PUBLIC COMMENTS

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

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT (ISBI)

William Atwood, ISBI Executive Director, distributed copies of the Flash Report dated November 30, 2014, and discussed portfolio performance over the last year. He indicated that the portfolio is doing well, even though a few of the portfolios were underperforming their respective benchmarks. Director Atwood continued by noting the total portfolio had provided an 8.7% return, gross of fees, over the 12 month period ending November 30, 2014 compared to a benchmark rate of return of 8.1% over the same period. He then briefly highlighted the relative performance of several assets classes and the relevant benchmarks.

Director Atwood concluded his report and entertained a few questions. Following a brief discussion, Representative Harris moved to approve the report as presented. Senator Harmon seconded the motion and all were in favor. Chairman Clayborne thanked Director Atwood for his report and excused him from the meeting. The ISBI Flash Report is made part of these minutes as Exhibit A.

MINUTES OF PREVIOUS MEETING

Chairman Clayborne presented the minutes of Meeting No. 248 held on October 29, 2014, for approval. Copies of the minutes were previously submitted to the trustees for preliminary review. Representative Nekritz moved to approve the minutes of the October 29, 2014 GARS Board meeting. Representative Pierce seconded the motion and all were in favor.

ACTUARIAL VALUATION AS OF JUNE 30, 2014 FINAL REVIEW

Alex Rivera and Paul Wood of Gabriel, Roeder, Smith & Company (GRS), Consulting Actuaries, distributed the final version of the June 30, 2014 actuarial valuation. Mr. Rivera introduced himself and informed the Board there would be three items discussed; the State Actuary's report and the GRS/GARS response, stress testing and potential options for adopting a funding policy for financial reporting purposes.

State Actuary's Report. Mr. Rivera began by noting the State Actuary's report concluded that the assumptions and methodology used for the FY 2014 valuation were an improvement over those used in the last two valuations and voiced his agreement with the State Actuary that the current statutory funding plan does not comply with Actuarial Standards of Practice. Mr. Rivera continued by noting the State Actuary recommended conservative actuarial assumptions. He stated that GRS believes actuarial assumptions should be set based on expectations of future experience and that the current GARS assumptions are reasonable.

Mr. Rivera continued by reviewing the remainder of the State Actuary's recommendations. A letter outlining all of State Actuary's recommendations and the GRS/GARS response to these recommendations is attached and made a part of these minutes as Exhibit B.

Stress Test. Mr. Rivera referred the Board to a handout detailing the result of various stress testing scenarios, as recommended by the State Actuary. Some scenarios used a 4% rate of return (static and variable) to project the future funded ratio of GARS and the resulting effect on State contributions. In addition, the effect of volatility assuming the current long term return of 7% annually was provided.

The impact of applying a 4% rate of return, static or variable, significantly reduces the funded ratio of GARS over the remainder of the funding plan, thus greatly increasing the required State contributions to GARS through FY 2045. The stress testing results are made a part of these minutes as Exhibit C.

Funding Policy. Mr. Wood continued the GRS presentation by distributing a handout containing information on possible funding policies for the consideration of the Board. He began by noting the implementation of Governmental Accounting Standards Board (GASB) Statement #67 requires, for financial reporting purposes, an "Actuarially Determined

Contribution” or ADC. In order to comply, the Board should consider the adoption of a funding policy.

Mr. Wood provided that a funding policy should include a reasonable cost allocation methodology, adequate actuarial assumptions, an asset smoothing method, and a reasonable period and methodology for the amortization of unfunded liabilities. He briefly reviewed several funding policy possibilities and offered to answer any questions of the Board. The trustees requested Mr. Wood to provide several funding policy options for the Board’s consideration at the April meeting. They also requested a list of the funding policies adopted by other public retirement systems in Illinois. Mr. Wood promised to provide the requested information prior to the April meeting.

Chairman Clayborne asked if there was a motion to approve the FY 2014 actuarial valuation and to certify the required FY 2016 employer contribution of \$16,073,000, or 126.700% of projected payroll. Representative Nekritz moved to approve the FY 2014 actuarial valuation and certify the FY 2016 employer contribution. Representative Harris seconded the motion and all Trustees present voted in the affirmative.

REPORT OF CHAIRMAN CLAYBORNE

Chairman Clayborne informed the trustees that several of the terms of the ISBI members had expired, meaning there could be a significant change in ISBI membership in the near future.

REPORT OF ANY TRUSTEE

There were no reports offered.

REPORT OF ADMINISTRATIVE SECRETARY

Secretary Blair briefly reviewed the financial statements of March 31, 2014, June 30, 2014 and September 30, 2014. He very briefly reviewed the Financial Statements as well as the requested 2015 GARS administrative budget. Senator Brady moved to approve the financial statements as presented, as well as the final 2015 administrative budget. Senator Harmon seconded the motion and all were in favor.

REPORT OF MANAGER

Jayne Waldeck, Division Manager, reported one retirement annuity for approval in the monthly amount of \$1,011.15 as well as one survivor annuity in the amount of \$1,083.40 per month. Following a brief discussion, Representative Harris moved to approve the annuities. Representative Nekritz seconded the motion, which passed unanimously.

UNFINISHED BUSINESS

Senator Brady requested the Board discuss the felony suspension and forfeiture process. He then specifically asked the status of the retirement benefits of Representatives Keith Farnham and Constance Howard. Secretary Blair noted Representative Farnham is scheduled for sentencing on March 19, 2015, and Representative Howard is scheduled for sentencing in April 2015. He continued that current Board policy provides that GARS retirement benefits are suspended upon the sentencing of the convicted felon. At that time an opinion is requested

from the Attorney General inquiring whether the felony is related to the member's official duties. If the Attorney General thinks the felony is related to official duties, the GARS Board terminates the benefit and the member is eligible for a refund of all employee contributions.

Senator Brady followed up by asking two questions: 1) Can GARS suspend a retirement benefit prior to sentencing? And 2) when sentenced, could GARS deduct retirement benefits already paid to the member from the employee contributions refunded to the member? Following some additional discussion of relevant case law and the felony forfeiture process, Senator Brady moved to suspend the retirement benefits of Representatives Farnham and Howard immediately and to not refund any contributions to them until the Board has the opportunity to take further action. His motion failed for lack of a second.

Senator Brady expressed his opinion that legislation should be drafted to avoid the refunding of all employee contributions to retirees in cases where retirement benefits have been paid. He further opined that he would like a policy accelerating the Board's right to suspend benefits to the time of conviction.

In response to Senator Brady's motion, Senator Harmon motioned to allow the suspension of a member's benefit upon felony conviction or a guilty plea, rather than upon sentencing, for all future felony convictions. He further moved that staff process no refunds to a convicted felon until the Board has the opportunity to review the request. Staff was then directed to discuss with legal counsel whether GARS can suspend annuity payments of a convicted felon prior to sentencing. This would include any member convicted of a felony on or after today. Senator Harmon's motions were seconded by Senator Brady and passed unanimously.

NEW BUSINESS

There was no new business to be discussed.

ADJOURNMENT

There being no further business to be brought before the Board, Senator Harmon moved to adjourn at 3:25 p.m. His motion was seconded by Representative Harris and passed with an affirmative vote of all trustees present.

Chairman Clayborne reminded the Board the next meeting is scheduled for April 15, 2015, in Springfield.

Timothy B. Blair, Administrative Secretary

Date: _____

APPROVED:

Senator James Clayborne, Jr., Chairman