

**JUDGES' RETIREMENT SYSTEM OF ILLINOIS
MEETING NO. 330
MINUTES OF THE REGULAR MEETING
OF THE BOARD OF TRUSTEES**

April 29, 2016

A meeting of the Board of Trustees of the Judges' Retirement System convened on Friday, April 29, 2016, at 10 a.m. in Room N-1810 of the Michael Bilandic Building, 160 North LaSalle Street, Chicago, Illinois.

Roll Call was taken with the following trustees in attendance:

Justice Mary S. Schostok, Chairperson
Justice James R. Moore, Vice Chairman
Rodrigo Garcia, Proxy for State Treasurer Michael Frerichs
Judge Debra Walker, Proxy for Chief Justice Rita Garman

Absent was:

Judge John C. Anderson

Others present:

Timothy B. Blair, Administrative Secretary
Jayne L. Waldeck, Division Manager
Jeff Houch, Assistant to Secretary
William Atwood, Illinois State Board of Investment
Johara Farhadieh, Illinois State Board of Investment
Alex Rivera, Gabriel Roeder Smith & Company

With a quorum present, Chairperson Schostok called the meeting to order at 10 a.m.

PUBLIC COMMENTS

Chairperson Schostok asked if any members of the public wished to address the Board. There were no members of the public in attendance.

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT (ISBI)

William Atwood, ISBI Director, distributed copies of the Quarterly Review dated December 31, 2015 and reviewed the performance of the ISBI portfolio and selected asset classes. As of December 31, 2015, Mr. Atwood noted the total portfolio lost 3.2% fiscal year to date, net of fees, and added the fiscal year to date return lagged the total portfolio's benchmark, which lost 2.0%. Mr. Atwood continued by reviewing the fiscal year to date performance of several asset classes, noting the fixed income and U.S Equity portfolios had underperformed their respective benchmarks in the first 6 months of FY 2016.

Mr. Atwood introduced to the Board Johara Farhadieh, Deputy Executive Director/Investments of ISBI, to review the remaining asset classes. She noted for the Board that over the first 6 months of FY 2016, the Hedge Fund of Funds portfolio lost 0.5%, compared to the benchmark return of -0.3%, while the non-U.S. Equity portfolio returned 1.0%, significantly outperforming the benchmark return of -4.6%.

Mr. Atwood and Ms. Farhadieh then offered to answer any questions of the Board. After a few questions and discussion, Chairperson Schostok thanked Mr. Atwood and Ms. Farhadieh for the report and excused them from the remainder of the meeting. Vice Chairman Moore moved to approve the ISBI

report. Trustee Walker seconded the motion and it passed unanimously. A copy of the December 31, 2015 Quarterly Review is maintained in the ISBI office and made part of these minutes as *Exhibit A*.

REPORT OF CONSULTING ACTUARIES

Alex Rivera, Consulting Actuary, Gabriel Roeder Smith and Company, distributed to the Board an Experience Review for the three fiscal years ended June 30, 2015. The Review included an analysis of the investment return, inflation and salary growth assumptions, as well as the retirement, termination and mortality assumptions.

Mr. Rivera noted the key recommendations of the review included a reduction of the assumed rate of investment return from 7.00% to 6.75% to better align to market expectations on future investment returns and to better reflect a reasonable standard for capital market assumptions, while also adopting a mortality table that includes provisions for generational mortality improvements and a decrease in retirement rates. Mr. Rivera then reviewed the recommendations to increase Tier 1 termination rates and create new Tier 2 retirement and termination rates. Adoption of the recommended assumptions would increase the unfunded liabilities of JRS by an estimated \$123.6 million and the required annual State contribution to JRS by more than \$11 million.

After varying questions and a in depth discussion on the merits of the recommended assumptions and the methodology used in the analysis, Secretary Blair offered the option of the Board to carefully review the recommended assumptions before taking official action at the July Board meeting. The trustees agreed and directed Mr. Rivera to return for further review in July.

MINUTES OF PREVIOUS MEETING

The minutes of Meeting No. 329 held on January 15, 2016, were presented by Chairperson Schostok for approval. Copies of these minutes were previously submitted to all trustees for preliminary review. On a motion offered by Trustee Walker and seconded by Vice Chairman Moore, the minutes of the meeting held January 15, 2016 were unanimously approved.

READING OF COMMUNICATIONS

There were no communications to review.

REPORT OF CHAIRPERSON

Chairperson Schostok offered no report.

REPORT OF ANY TRUSTEE

Vice Chairman Moore noted that he did not have a full report but wanted to acknowledge the work of Jeff Houch, Assistant to the Secretary, in the drafting and Senate passage of the JRS Tier 2 technical corrections legislation.

REPORT OF SECRETARY

FY 2016 Supplemental Budget Request. Secretary Blair presented a request for a \$37,088 increase in the FY 2016 operations budget. An expected shortfall is due to a portion of the approved FY 2016 operations budget was used to pay a portion of the FY 2015 IT cost allocation, due to an internal voucher processing error. In addition, the funding for the accounting cost was not included in the approved FY 2016 operations budget, as the methodology was approved after the adoption of the

operations budget. Vice Chairman Moore moved to approve the additional \$37,088 in the FY 2016 operations budget. Trustee Walker seconded the motion and all present voted in the affirmative.

Preliminary Review of FY 2017 Operations Budget. Secretary Blair presented the FY 2017 Preliminary Operations Budget Request. He offered the Budget Request represents no increase over the FY 2016 budgeted amount when including the FY 2016 supplemental request approved by the Board. Secretary Blair reviewed the items having a cost impact on the FY 2017 budget, noting the inclusion of \$30,000 for a full scope actuarial audit, as recommended by the State Actuary. In addition, the request includes an increase of \$15,000 for other actuarial work and a \$5,000 increase for attorney's fees.

The total FY 2017 JRS budget request totaled \$1,011,175, a decrease of \$13 from the FY 2016 budget. Following review of the information presented to the Board, Trustee Walker moved to approve the preliminary FY 2017 budget. Vice Chairman Moore seconded the motion and all were in favor.

Financial Statements ending December 31, 2015 and March 31, 2016. Secretary Blair reviewed the financial statements and noted for the Board that JRS had withdrawn a net amount of \$4.5 million from ISBI between July 1, 2015 and March 31, 2016. He added that JRS staff projects fund transfers to ISBI during fiscal year 2016 will be at least \$10.5 million if the System continues to receive State contributions in a timely manner. Following the review, Trustee Walker moved to approve the financial statements. Trustee Garcia seconded the motion and it passed unanimously. Official copies of these Financial Statements have been made a part of these minutes as Exhibit B.

FY 2016 Funding Update. Secretary Blair informed the Board that the Comptroller's Office had forwarded to JRS the \$11 million "catch-up" State payment in mid-April, representing the skipped November State contribution. He noted the Comptroller's Office recently advised JRS staff that the May and June State contributions will be made in full and on schedule.

Compliance Audit Review. Secretary Blair noted for the Board there were two findings in the FY 2015 JRS Compliance Audit. The first finding was due to the lack of an internal auditor for a portion of the audit period. The other finding was for the failure to submit the annual ethics training certification documents to the Chief Justice of the Illinois Supreme Court. Secretary Blair noted both findings were accepted by JRS staff and that internal procedures are being implemented to ensure the ethics training certification requirements are met annually.

Legislative Review. Jeff Houch, Assistant to the Secretary, referred the Board to his report and noted the JRS administrative package contained in SB 2362 passed the Senate unanimously on April 19, 2016, and was assigned to the House Rules Committee. He told the Board that he expected the House to consider the legislation prior to the conclusion of the spring legislative session.

Trustee Walker noted several bills would reduce JRS funding or allow for the suspension of the continuing appropriation for the State contributions to JRS. Secretary Blair noted the Board could take a position on proposals that would reduce funding or suspend the JRS continuing appropriation. Trustee Walker moved to adopt an official Board position of opposition for any legislation that would reduce or delay JRS funding. Vice Chairman Moore seconded the motion and it passed unanimously.

REPORT OF THE MANAGER

Annuities and Refunds for Approval. Jayne Waldeck, Division Manager, reported twenty-five retirement annuities processed since the last Board meeting totaling \$288,531.37 per month and nine

survivor annuity benefits processed totaling \$38,377.53 per month. A review of the refunds for approval reflected five error refunds and four survivor annuity contribution refunds totaling \$133,006.05. There being no questions, Trustee Walker moved for approval of the annuities and refunds as presented and Vice Chairman Moore seconded the motion. The motion passed unanimously.

Deaths of Members. Ms. Waldeck reported the deaths of ten JRS members since the January meeting. This report is made a part of these minutes as *Exhibit C*.

OLD BUSINESS

No old business was reported.

NEW BUSINESS

No new business was reported.

ADJOURNMENT

There being no further business to be brought before the Board, Trustee Walker moved to adjourn at 11:45 a.m. Her motion was seconded by Vice Chairman Moore and passed unanimously. Chairperson Schostok added the next meeting of the Board is scheduled for Friday, July 29, 2016, at 10:00 a.m. and the meeting adjourned.

Timothy B. Blair, Secretary

Date: _____

APPROVED:

Chairperson Mary S. Schostok