

**JUDGES' RETIREMENT SYSTEM OF ILLINOIS
MEETING NO. 311
MINUTES OF THE REGULAR MEETING
OF THE
BOARD OF TRUSTEES**

JULY 29, 2011

The regular meeting of the Board of Trustees of the Judges' Retirement System convened on Friday, July 29, 2011, 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 Thomas E. Hoffman, Chairman
Justice Themis N. Karnezis, Proxy for Chief Justice Thomas L. Kilbride
Justice John J. Bowman
Judge Moshe Jacobius, Proxy for Chief Judge Timothy Evans
Dan Rutherford, State Treasurer

Others present:

Timothy B. Blair, Secretary
Jayne L. Waldeck, Manager, Judges' Retirement System
William Atwood, Illinois State Board of Investment
Sandor Goldstein, Consulting Actuary
Edmund P. Michalowski, State Treasurer's Office

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT (ISBI)

William Atwood, Director of ISBI distributed draft copies of the Flash Report (Executive Summary) for the period ending June 30, 2011, and addressed the Board. He called attention to the portion of the report reflecting a 21.2% return for FY 11 and a 5.1% return for the calendar year to date. The FY 11 benchmark totaled 18.9% while the calendar year to date benchmark was 3.6%. Director Atwood pointed out the portfolio outperformed the benchmark significantly, which it should do in strong markets because of the aggressive nature of the portfolio.

Director Atwood reviewed for the Board various actions taken at the June meeting of ISBI. Based on an asset allocation study performed by ISBI consultant Marquette and Associates, ISBI has decided to maintain the current target asset allocation levels. Recommendations were made, however, to change investments within the current allocations. Specifically, Marquette suggested making a 5% allocation to the non-U.S. Bond portfolio from the Fixed Income

allocation. The current portfolio contains no non-U.S. bonds. The Board will be doing a search over the next 6 months to choose a non-U.S. bond portfolio manager.

Regarding the domestic equity portfolio, the Marquette recommendation was to increase exposure to small-cap and mid-cap equities. In addition, ISBI accepted the recommendation to shift away from active managers to index managers in the mid-cap and large-cap equity sectors and retain active management in the small-cap sector. ISBI also adopted the recommendation of shifting 3% of the international equity portfolio to index managers.

Director Atwood then informed the Board the biggest change adopted by ISBI is in the real estate allocation. He pointed out that real estate currently makes up 6.8% of the total invested assets, while the target allocation is 10%. The Board has decided to increase participation in real estate in order to participate in expected improvement in the sector. Director Atwood pointed out that over the last several years the real estate allocation has lagged its index and hurt the overall performance of the portfolio. ISBI plans to “de-risk” the real estate portfolio by shifting 80% of these assets to “core” or lower leverage real estate.

A copy of the Flash Report is maintained in the ISBI office (Exhibit A).

5 YEAR ANALYSIS OF ACTUARIAL ASSUMPTIONS

Sandor Goldstein, Consulting Actuary, was present at the meeting to present to the Board the 5 Year “Experience Analysis” of all actuarial assumptions. Mr. Goldstein explained this experience analysis provides “best estimates” of future experience generally derived from an extrapolation of past experience, with possible modification for changes anticipated in the future.

Mr. Goldstein reviewed the Mortality Rates assumption and proposed for active members and pensioners to use the UP-1994 Mortality Table for Males, rated down 3 years; and for survivors the UP-1994 Mortality Table for Females rated down 2 years.

In regard to the Termination Rates assumption, Mr. Goldstein explained that the number of terminations of active members over the last five years has been 89.9% of the number expected according to current assumptions. He proposed to reduce the assumed rates of termination for all ages by 20% to reflect actual experience.

Retirement rates over the past five years have been fairly close to the number expected according to the assumed rates of retirement. Mr. Goldstein proposed to continue to use the same Retirement Rates assumption as used for the June 30, 2010 actuarial valuation.

After an examination of the system’s disability experience over the last five years, Mr. Goldstein proposed to continue to use the same assumed rates of disability that have been used for previous valuations.

For the past five years, a Salary Increase assumption of 5% per year has been used. After examining the actual increases in salaries that have occurred over the past five years, Mr. Goldstein proposed to reduce the salary increase assumption from 5% per year to 4% per year.

Mr. Goldstein estimated the recommended changes in the actuarial assumptions would increase the total actuarial liabilities of the system by approximately \$12.9 million, or 0.7%. Discussion was held resulting in a motion by Treasurer Rutherford to accept the assumptions recommended by Mr. Goldstein. Trustee Karnezis seconded the motion and all were in favor.

MINUTES OF PREVIOUS MEETING

The minutes of Meeting No. 310 held on April 1, 2011, were presented by Chairman Hoffman for approval. Copies of these minutes were previously submitted to all trustees for preliminary review. On motion by Trustee Karnezis and seconded by Chairman Hoffman, the Board unanimously approved the minutes of the April 1, 2011 meeting as submitted.

READING OF COMMUNICATIONS

There were no communications to be presented to the Board.

REPORT OF THE CHAIRMAN

Chairman Hoffman informed those present that he had nothing to report and asked Secretary Blair, for the benefit of Treasurer Rutherford, to report on the status of the system's Request for Tax Exempt Status. Secretary Blair provided a brief history of the IRS deciding that all public retirement systems should apply/reapply for an IRS tax qualified status. The application was submitted to the IRS on January 31, 2009. Approximately 1 ½ years later, JRS received notice that the IRS had followup questions. Those questions have since been answered and no further information has been received at this time and this issue is still pending.

REPORT OF THE SECRETARY

Financial Statements – March 31, 2011 & June 30, 2011. Secretary Blair called attention to the Financial Statements and Report of Administrative Expenses for the year ended June 30, 2011. The Statement of Cash Receipts, Disbursements and Balances indicate the System had withdrawn from ISBI a total of \$71.2 million in FY 11 to pay benefits. In March, after receipt of the proceeds of a General Obligation bond sale, the system transferred to ISBI almost \$47.4 million. Consequently, the net FY 11 withdrawals from ISBI amounted to approximately \$24 million.

At the end of FY 10 (June 30, 2010), JRS assets totaled approximately \$523 million. At the end of March 2011, according to ISBI, JRS assets have grown to almost \$592 million over the first nine months of FY 11 even though benefits have been paid out of the fund. The total projected net fund transfers from ISBI during FY 12 is \$52 million assuming a 4 month "lag" in the receipt of State contributions. Secretary Blair informed those present we have already received half of the July FY 12 State contribution.

Secretary Blair next directed the Board members' attention to the FY 11 Statement of Budget, Expenses and Balances through June 30, 2011, indicating a total budget of \$691,870. JRS spent \$607,055.51 through June 30, 2011, with Secretary Blair commenting we expect a budget variance of \$70,584.86 after all FY 11 expenses have been paid. Following a brief discussion, Trustee Karnezis moved to approve the Financial Statements for the periods ending March 31, 2011 and June 30, 2011. Trustee Bowman seconded the motion and all were in favor. Official copies of these financial statements have been placed on file and made part of the minutes of this meeting as **Exhibit B**.

Final Review of FY 12 Operations Budget. Secretary Blair presented the final review of the FY 12 Operations Budget for the Judges' Retirement System. He indicated that based on an annual review of membership, the previously approved allocation of expenses between the JRS and the General Assembly Retirement System (GARS) of 70%/30% should be changed to 75%/25%. This change would shift \$45,670 in expenses from GARS to JRS in FY 12.

In addition to the change in the shared allocation between JRS and GARS, Secretary Blair indicated the Group Insurance line item increased due to higher than estimated insurance premiums. The Retirement line item was reduced slightly due to a small decrease in the FY SERS employer contribution rate.

Following review of the Operations Budget details, Trustee Bowman, on the condition of GARS Board approval, moved for approval of the change to the 75%/25% allocation for FY 12 and the other minor changes from the April 1, 2011 preliminary budget. Trustee Karnezis seconded the motion and all were in favor.

Identity Protection Policy. Secretary Blair presented a proposed Identity Protection Policy to be adopted by the Board pursuant to the recently enacted Identity Protection Act. Secretary Blair explained that this policy was drafted from a template provided by the Illinois Attorney General. After a brief discussion, Trustee Rutherford moved to approve the Identity Protection Policy. Trustee Karnezis seconded the motion and all were in favor.

REPORT OF MANAGER

Annuities and Refunds for Approval. Ms. Waldeck reviewed the listings of 11 retirement annuities processed since the last meeting totaling \$95,344.36 per month. Following review of the list, Trustee Karnezis moved for approval with Trustee Bowman seconding the motion. All were in favor. She also reported ten survivor annuity benefits were processed in the amount of \$62,861.63 per month. Trustee Karnezis moved for approval of the payment of the survivor annuities with Trustee Bowman seconding his motion. All were in favor. Also submitted for the review of the Board were seven error refunds totaling \$31,859.20, three survivor annuity refunds and one termination refund totaling \$67,128.34. Trustee Karnezis moved to approve the payment of these refunds with Trustee Bowman seconding the motion. The motion passed unanimously.

Deaths of Members. Ms. Waldeck reviewed the list of twelve members whose deaths were reported during this period. This report is made part of these minutes as **Exhibit C.**

OLD BUSINESS

Civil Union Policy. With the enactment of the Civil Union legislation that became law on June 1, 2011, the Judges' Retirement System has created a policy in conjunction with the administration of this law. The policy reads as follows: "The Judges' Retirement System will administer the plan in compliance with the plain language and legislative intent of the Illinois Religious Freedom Protection and Civil Union Act."

NEW BUSINESS

Reappointment to Board. Chairman Hoffman advised the Board members present that Justice Bowman was reappointed by the Supreme Court to serve as a trustee of the Judges' Retirement System Board.

ADJOURNMENT

There being no further business to be brought before the Board, Trustee Karnezis moved to adjourn at 11:10 a.m., seconded by Trustee Bowman. Chairman Hoffman announced the next scheduled meeting will be Friday, October 28, 2011.

Timothy B. Blair, Secretary

Date: _____

APPROVED:

Chairman