

JUDGES' RETIREMENT SYSTEM OF ILLINOIS
MEETING NO. 326
MINUTES OF THE REGULAR MEETING
OF THE BOARD OF TRUSTEES
March 27, 2015

A meeting of the Board of Trustees of the Judges' Retirement System convened on Friday, March 27, 2015, 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
Judge 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
Jeff Houch, Assistant to Secretary
William Atwood, Illinois State Board of Investment
Alex Rivera, Gabriel Roeder Smith & Company
Paul Wood, Gabriel Roeder Smith & Company

With a quorum present, Chairperson Schostok called the meeting to order at 10 a.m. and introduced to the Board Mr. Rodrigo Garcia, appointed to serve on the JRS Board of Trustees as the proxy for Treasurer Michael Frerichs.

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 Flash Report dated February 28, 2015 and reviewed the performance of the ISBI portfolio and selected asset classes. As of February 28, 2015, Mr. Atwood noted the total portfolio provided a 3.4% fiscal year to date return, gross of fees, and added the fiscal year to date return slightly lagged the total portfolio's benchmark return of 3.6%. Mr. Atwood continued by briefly reviewing the fiscal year to date performance of several of the asset classes, noting the fixed income and U.S Equity portfolios had underperformed their respective benchmarks in the first 8 months of FY 2015.

Mr. Atwood then offered to answer any questions the Board may have. Trustee Garcia asked Mr. Atwood to review the Manager Status Report provided in the Flash Report. Mr. Atwood explained the meaning of managers being assigned a specific status, including: In Compliance, Alert, On Notice, or

Termination. He noted that all current ISBI portfolio managers except 4 were considered In Compliance by the ISBI Board and that the remaining 4 were on Alert for various reasons, including underperformance and professional turnover.

Chairperson Schostok thanked Mr. Atwood for his informative report and excused him from the remainder of the meeting. Trustee Walker moved to approve the ISBI report with Vice Chairman Moore seconding the motion, which passed unanimously. A copy of the February 28, 2015 ISBI Flash Report is maintained in the ISBI office and made part of these minutes as *Exhibit A*.

ACTUARIALLY DETERMINED CONTRIBUTION POLICY

Alex Rivera and Paul Wood of Gabriel, Roeder, Smith & Company (GRS), Consulting Actuaries, distributed a handout containing two contribution, or funding policies for the Board's consideration, as requested at the January JRS Board meeting. Mr. Wood reminded the Board 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 the unfunded liabilities. He then referred the Board to the handout and reviewed the recommended funding policies.

The first contribution policy provided for the annual payment of the normal cost of JRS, plus an amount that would amortize the unfunded liability over 30 years as a level dollar annual payment. The second contribution policy provided for the annual payment of the normal cost of JRS, plus a 25 year level percent of payroll closed amortization period for the unfunded liability. Mr. Wood reviewed the impact of the two policies on the required employer contributions and future projected financial condition of JRS and compared these to the current statutory funding plan. He then answered several questions from the Board.

After further discussion, Trustee Walker moved to adopt the funding policy which provides for the annual payment of JRS' normal cost and amortizing the unfunded liability over 25 years as a level percent of payroll. Trustee Garcia seconded the motion and all present voted in the affirmative.

MINUTES OF PREVIOUS MEETING

The minutes of Meeting No. 325 held on January 9, 2015, were presented by Chairperson Schostok for approval. Copies of these minutes were previously submitted to all trustees for preliminary review. On a motion by Vice Chairman Moore and seconded by Trustee Walker, the minutes of the meeting held January 9, 2015 were unanimously approved.

READING OF COMMUNICATIONS

Chairperson Schostok provided a copy of the letter appointing Mr. Rodrigo Garcia as the proxy for State Treasurer Michael Frerichs. Chairperson Schostok congratulated Mr. Garcia for his appointment and welcomed him to the Board.

REPORT OF CHAIRPERSON

Chairperson Schostok reported to the Board how pleased she was with the recent operations of ISBI. For the benefit of Trustee Garcia she explained that she was an ISBI Trustee and that the Board had been working very hard on the investment portfolios, including the Deferred Compensation portfolio and investment alternatives offered to Deferred Compensation participants. Chairperson Schostok

noted that there were several new ISBI members, including Treasurer Frerichs, Comptroller Munger, and three members appointed by Governor Rauner.

REPORT OF ANY TRUSTEE

There were no reports by other trustees.

REPORT OF SECRETARY

Preliminary Review of FY 2016 Operations Budget. Secretary Blair reviewed the Executive Summary of the FY 2016 Preliminary Budget Request. He explained that the Budget Request represents a 2.13% decrease over the current year budgeted amount. He further explained that the budget information provided for the Board's review shows allocations for JRS and GARS with a 75%/25% split between the two systems based on the number of members and annuitants. Secretary Blair reviewed the items having a cost impact on the FY 2016 budget, including a decrease in Personal Services, Employer Retirement and Group Insurance. The Contractual Services and Information Technology lines have been increased from FY 2016, based primarily on a new IT cost allocation methodology that resulted from an FY 2014 audit finding.

The total requested FY 2016 JRS budget request was \$981,900, a decrease of \$17,200 from the FY 2015 budget. Following review of the information presented to the Board, brief discussion was held. Trustee Walker moved to approve the preliminary budget as presented pending approval by the GARS Board at their April meeting. Vice Chairman Moore seconded the motion and all were in favor.

Financial Statements ending December 31, 2014. Secretary Blair reviewed the financial statements and noted for the Board that JRS has transferred \$12 million to the ISBI between July 1 and December 31, 2014. He added the System projects fund transfers to the ISBI during fiscal year 2015 will be \$20 million, assuming the System continues to receive State contributions from the Comptroller's Office in a timely manner. Following the review, Trustee Walker moved to approve the financial statements. Vice Chairman Moore seconded the motion, which passed unanimously. Official copies of these Financial Statements have been made a part of these minutes as Exhibit B.

FY 2015 Funding Update. Secretary Blair informed the Board that JRS continues to receive the certified State contributions in a timely manner and expects that to continue for the foreseeable future.

Fiduciary Liability Insurance Update. Secretary Blair informed the Board that the fiduciary liability insurance policy discussed at the January Board meeting was now in effect. The policy became effective January 22, 2015 and provides \$3 million in coverage to the JRS Trustees and staff.

Financial Audit Review. Secretary Blair noted for the board that there were two Category 2 findings in the FY 2014 JRS financial audit. One finding was due to the lack of an internal auditor for a portion of the audit period. The other finding was for weaknesses in internal controls over earnings and census data reported by the Administrative Office of the Illinois Courts (AOIC), even though there were no errors noted when the external auditors reviewed the earnings and demographic data of 40 members. The System accepted both findings and noted that an Internal Auditor had been hired and that procedures would be worked out with the AOIC to prevent a repeated census data finding in FY 2015. Trustee Walker and Chairperson Schostok offered to help in discussions with the AOIC if needed.

Tier 2 Board Policies. Secretary Blair presented several Tier 2 Board policies for review and consideration. The Board suggested delaying consideration until the July board meeting in order to provide more time for review. Secretary Blair agreed to hold these items on the agenda for the July meeting.

FY 2015 Supplemental Budget Request and IT Cost Allocation Methodology. Secretary Blair presented an IT cost allocation methodology for the Board's consideration, as well as a request for an \$81,000 increase in the FY 2015 operations budget. Although not finalized, the FY 2014 Compliance Audit will note an immaterial audit finding due to the lack of a formal IT cost allocation methodology. The adoption of the methodology and supplemental funds should prevent a repeat finding in the FY 2015 Compliance Audit.

The methodology provides for allocating IT cost between SERS, JRS and GARS based on the membership of each system. The JRS portion would equal 1.35% of annual IT costs. Trustee Walker moved to approve the cost allocation methodology and the additional \$81,000 in the FY 2015 operations budget. Vice Chairman Moore seconded the motion and all Trustees voted in the affirmative.

Legislative Update. Jeff Houch, Assistant to the Secretary, reported that he did not expect any legislation that affects JRS to become law during the 2015 spring legislative session. He also noted that he thought it's the intention of the General Assembly to hold all significant legislation that would affect the State-funded systems until the Supreme Court has determined the constitutionality of the pension reform legislation that was passed in 2013.

REPORT OF THE MANAGER

Annuities and Refunds for Approval. Secretary Blair reviewed eleven retirement annuities processed since the last Board meeting totaling \$115,397.83 per month and three survivor annuity benefits processed totaling \$25,980.60 per month. A review of the refunds for approval reflected one termination refund and one survivor annuity contribution refund totaling \$59,406.74. One error refund in the amount of \$5,592.43 was processed due to the early payoff of an installment agreement. There being no questions, Trustee Walker moved for approval of the annuities and Vice Chairman Moore seconded the motion. The motion passed unanimously.

Deaths of Members. Secretary Blair reported the deaths of eleven 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 12:05 p.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 31, 2015, at 10:00 a.m. and the meeting adjourned.

Timothy B. Blair, Secretary

Date: _____

APPROVED:

Chairperson Mary S. Schostok