

**JUDGES' RETIREMENT SYSTEM OF ILLINOIS
MEETING NO. 345**

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

October 25, 2019

The annual meeting of the Board of Trustees of the Judges' Retirement System convened on Friday, October 25, 2019, 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 (by phone)
Justice James R. Moore, Vice-Chairperson
Judge John C. Anderson
Judge Debra Walker, Proxy for Chief Justice Lloyd Karmeier

Absent was:

Rodrigo Garcia, Proxy for State Treasurer Michael Frerichs

Others present:

Timothy B. Blair, Administrative Secretary
Jeff Houch, Assistant to Administrative Secretary
Angie Ackerson, Manager, Judges' Retirement System
Johara Farhadieh, Executive Director/CIO, Illinois State Board of Investment
Scott Richards, Senior Investment Officer, Illinois State Board of Investment
Alex Rivera, Consulting Actuary, Gabriel Roeder Smith & Company
Jeff Tebeau, Consulting Actuary, Gabriel Roeder Smith & Company

With a quorum present, Vice-Chairperson Moore called the meeting to order at 10:00 a.m. A motion was made by Trustee Walker to allow Chairperson Schostok to participate by phone. Trustee Anderson seconded the motion and it passed unanimously.

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)

Johara Farhadieh, ISBI Director, distributed copies of her presentation to the Illinois Senate Special Committee on State and Pension Fund Investments on October 23, 2019. She provided a summary of her presentation which focused on ISBI's efforts relating to diversity and inclusion through their Emerging and Minority Manager Program. She noted that 69.2% of ISBI's Board of Trustees and staff are minority or non-minority female. She also indicated ISBI is partnering with BlackRock, a \$6 trillion asset manager, to trade ISBI's \$19 billion portfolio with MWDBE firms and has received a commitment from CEO Larry Fink to trade their full \$6 trillion portfolio with MWDBE firms as well. Director Farhadieh is a member of the newly created Emerging Broker Council to hold BlackRock accountable to this agreement.

Currently, 36% of ISBI's assets are managed by emerging and minority investment firms, which is the highest allocation in ISBI's history. Part of the steep increase from 2018 (25.5%) to 2019 was due to Rock Creek, originally a women-owned firm who previously merged with Wells Fargo and in 2019, left Wells Fargo and returned to MWDBE status. She also indicated ISBI paid \$24 million in fees to MWDBE managers as of June 30, 2018, with Latino and African American MWDBE managers receiving 68.2% of the \$24 million. Director Farhadieh clarified that fees paid to MWDBE managers have increased while overall fees which have decreased by approximately \$80 million in the last three years.

Scott Richards, Senior Investment Officer of ISBI, distributed copies of the Quarterly Review dated June 30, 2019 and reported that in FY 2019 the total portfolio returned 7.1%, net of fees, slightly outperforming the benchmark return of 7.0%. He added the portfolio totaled more than \$19.1 billion on that date, up by \$828 million since June 30, 2018 and ranked in the 27th percentile against peers over the 2019 fiscal year. Of the seven asset classes, only fixed income and real estate underperformed with the other five outperforming their custom benchmarks.

Mr. Richards continued by reviewing the performance of selected asset classes, pointing out the Fixed Income portfolio returned 7.5%, net of fees, in FY 2019, trailing the benchmark return of 8.1%. Emerging Markets Debt was the strongest performing fixed income asset class, gaining 10.1% during the past fiscal year while the High Yield Fixed Income portfolio returned only 3.5% in FY 2019, compared to its benchmark return of 7.5%. Core Fixed Income was up 8.2% and Opportunistic Debt returned 6.9%.

Mr. Richards continued his report by noting the U.S. Equity portfolio returned 10.3%, outperforming the broad U.S. equity market by 1.3%. The International Equity portfolio gained 1.2%, outperforming the benchmark by 0.9%. The Private Equity portfolio was the strongest performing asset class and gained 19.8%, net of fees, in FY 2019, and outperformed the benchmark return of 12.7%. The Infrastructure Composite portfolio was up 13.6%, outperforming the benchmark return of 5.2%. The Real Estate Composite portfolio returned 5.4% net of fees, underperforming the benchmark of 6.6%.

Chairperson Schostok thanked Director Farhadieh and Mr. Richards for their reports and excused them from the remainder of the meeting. Trustee Walker moved to approve the ISBI report and Vice-Chairperson Moore seconded the motion, which passed unanimously. A copy of the June 30, 2019 Quarterly Review is maintained in the ISBI office and made part of these minutes as *Exhibit A*.

REPORT OF CONSULTING ACTUARIES

Alex Rivera and Jeff Tebeau of Gabriel, Roeder, Smith & Company, distributed draft copies of the FY 2019 JRS actuarial valuation. Mr. Rivera began by summarizing the July changes in actuarial assumptions, noting the investment return assumption was reduced from 6.75% to 6.5%. Turnover rates and retirement rates were also updated to better reflect observed experience and the mortality tables were updated using scale MP-2018. The changes in actuarial assumptions decreased the actuarial accrued liability as of June 30, 2019, by \$37.7 million.

Mr. Tebeau reported the funded ratio, on a market value basis, increased from 37.21% at June 30, 2018, to 38.42% at June 30, 2019, and the State contribution requirement increased from \$144.2 million in FY 2020 to \$148.6 million in FY 2021. Mr. Tebeau provided a recount of assets and liabilities and noted the FY 2019 liability experience was 0.48% higher due to 10% more retirees than expected but was offset by the 0.52% positive change in actuarial assumption. Funded ratios are expected to

steadily increase to 50% funded status in 2034 when the state contribution cap is lifted and then rapidly increase after 2034 to reach 90% funding status in 2045. After 2019, benefits are projected to exceed State and employee contributions; Mr. Tebeau added that from 2020 to 2033, the percentage of investment income needed to pay ongoing benefits is projected to increase from approximately 19 percent to 88 percent.

Following a review of projected benefits and contributions over the remainder of the funding plan, Vice-Chairperson Moore moved to accept the draft valuation and certify the \$148.6 million FY 2021 employer contribution. Trustee Walker seconded the motion, and all were in favor. Chairperson Schostok thanked Mr. Rivera and Mr. Tebeau and excused them from the remainder of the meeting.

MINUTES OF PREVIOUS MEETING

The minutes of Meeting No. 344 held on July 26, 2019, were presented by Chairperson Schostok for approval. Copies of these minutes were previously submitted to all trustees for preliminary review. On a motion by Trustee Walker and seconded by Trustee Anderson, the minutes of the meeting held July 26, 2019 were unanimously approved.

ELECTION OF 2020 OFFICERS

Chairperson Schostok announced the annual election of officers for the ensuing year was in order and opened the meeting for nominations. Vice-Chairperson Moore nominated Chairperson Schostok to remain Chairperson and Trustee Anderson seconded the motion. There being no further nominations, the nominations were closed. The vote which followed resulted in the unanimous re-election of Chairperson Schostok for calendar year 2020.

Chairperson Schostok opened the meeting for nominations for Vice-Chairperson. Trustee Walker nominated Vice-Chairperson Moore to continue as Vice-Chairperson for 2020. Trustee Anderson seconded the nomination. There being no further nominations, the nominations were closed. The vote which followed resulted in the unanimous re-election of Vice-Chairperson Moore for 2020.

Trustee Walker nominated Timothy Blair for re-election as Administrative Secretary for 2020. Vice-Chairperson Moore seconded the motion. No further nominations were forthcoming, and nominations were closed. The vote resulted in the unanimous re-election of Timothy Blair as JRS Administrative Secretary for calendar year 2020.

READING OF COMMUNICATIONS

There were no communications to report.

REPORT OF CHAIRPERSON

Chairperson Schostok opened the floor to discuss a recent actuarial study completed by Gabriel, Roeder, Smith & Company to identify the cost impact to JRS if Tier 2 judges who have Tier 1 reciprocal service become grandfathered into Tier 1. The study, based on the actuarial valuation as of June 30, 2018, identified 167 Tier 2 judges that would be eligible based on reported reciprocal service and assumed that no retroactive contributions would be collected above the annual salary maximum rates determined by the Department of Insurance. After discussion, the Board requested another study using the actuarial valuation as of June 30, 2019 to identify the impact to the System if contributions and interest are collected above the annual salary maximum for Tier 2 judges. Secretary Blair was instructed

request a revised actuarial analysis. He also confirmed the first actuarial analysis was shared with the Illinois Judges' Association.

REPORT OF ANY TRUSTEE

Trustee Walker reported that she received a phone call from Chief Justice Anne Burke's assistant indicating that she would be appointed to continue to serve as proxy on the JRS Board of Trustees.

REPORT OF SECRETARY

Financial Statements of September 30, 2019. Secretary Blair reviewed the financial statements for the quarter ended September 30, 2019. He noted that during the quarter JRS had total receipts of \$37.8 million and expenditures of approximately \$40.7 million. Secretary Blair added the September 30, 2019 cash balance was \$23.2 million, slightly less than the \$26 million target. He estimated the total amount to be transferred from ISBI during FY 2020 would be \$2.4 million but could be lower if state contributions are received as scheduled.

Trustee Walker moved to approve the financial statements for the quarter ended September 30, 2019. Vice-Chairperson Moore seconded the motion, which passed unanimously. Official copies of these Financial Statements have been placed on file and made a part of these minutes as *Exhibit B*.

Final Review of FY 2020 Administrative Budget. Secretary Blair presented the FY 2020 Final Operations Budget noting an increase of \$58,600, or 6.27%, from the FY 2019 budget. He reviewed the items having a cost impact on the FY 20 budget, including a \$32,125 increase in the Personal Services line due primarily to a \$33,000 payment in retroactive steps owed to three employees and a \$9,300 increase due to the annualization of the steps granted in April 2019. He also noted a \$27,675 increase in the Retirement line due to the increase in the Personal Services line and the SERS employer contribution rate increasing from 51.614% in FY 19 to 54.290% in FY 20. In addition, the request included a decrease of \$14,050 in the Contractual line (professional services) due primarily to an expected reduction in actuarial services, reflecting the completion of the three-year experience review in FY 2019.

The FY 20 JRS budget request totaled \$1,004,775, an increase of \$58,600 from the FY 19 budget. Following review, Trustee Walker moved to approve the final FY 2020 Administrative Budget. Vice-Chairperson Moore seconded the motion, which passed unanimously.

2020 Meeting Dates. Secretary Blair presented the proposed calendar year 2020 meeting dates. Following brief discussion, Trustee Walker moved to accept the following meeting dates for 2020: January 10; March 27; July 31; and October 30. All meetings will begin at 10 a.m. and will be held in Room N-1810 of the Bilandic Building, 160 North LaSalle Street, Chicago. Trustee Anderson seconded the motion, and all were in favor.

FY 2020 Funding Update. Secretary Blair informed the Board that the System has received all employer required contributions for FY 2020, noting the Comptroller's Office is current in making the state contributions and the November contribution is expected prior to the end of the month.

REPORT OF ASSISTANT TO EXECUTIVE SECRETARY

Legislative Review. Jeff Houch, Assistant to the Secretary, referred the Board to his report and noted Public Act 101-546 requires public retirement systems to report presumed abandoned property

to the State Treasurer's office beginning on November 1, 2020 and annually thereafter. Public retirement systems are required to report the benefit funds held in a fiduciary capacity but are not required to turn them over to the State Treasurer.

BOARD POLICIES

Jeff Houch, Assistant to the Secretary, provided a description of two proposed changes to Board policy relating to the limiting of contributions and a clarification regarding the frequency of medical statement requirements for disabled child beneficiaries. Secretary Blair provided a description of a proposed change to clarify the types of payments accepted by a surviving spouse when paying JRS remaining survivor contributions before becoming eligible for benefits.

Limiting of Contributions Using Reciprocal Service. Mr. Houch provided an overview of existing board policy as it relates to participants becoming eligible for maximum benefits using reciprocal service. Upon making the election to limit contributions, participants continue to earn service credit but only contribute to the System on future salary increases. Since there is no statutory limitation that prohibits a judge from applying for reciprocal retirement benefits when the same service is being used to reach maximum benefits and maintain eligibility to limit contributions, staff recommended updating the JRS Policy. The recommended amendment specifies that if a judge has limited contributions using reciprocal service and then retires from that reciprocal system while that service is needed to maintain maximum benefits, the judge must pay to JRS an amount determined by the Board that is equal to the amount he or she would have contributed if such service credit from that reciprocal system was excluded from the onset of the contribution limitation, plus interest at the actuarially assumed rate.

Medical Statement Requirement for Permanently Disabled Child Beneficiaries. Mr. Houch explained the current board policy that requires each disability recipient to furnish, at least annually, a medical statement from a licensed and practicing physician certifying the continuance of disability. Staff recommended the Board allow the annual medical statement to be waived in cases in which the evidence supports that the beneficiary is permanently disabled.

Tier 2 Limiting Contributions and Tier 2 Salary Limitation. Mr. Houch explained the statutory provision that allows a Tier 2 judge to limit contributions once maximum benefits are achieved. Staff recommended the Board clarify that if a Tier 2 judge limits contributions after reaching the maximum annuity rate, such contributions shall be based on the increase to the Tier 2 salary limitation.

Payment Types Accepted from Qualified Survivor. Secretary Blair reviewed the Board policy that specifies when a member terminates employment prior to full payment of an installment agreement, the participant is given the option of paying the balance on a post-tax basis in a lump sum. In the death of a participant, the qualified survivor may complete the payment within 60 days following notification from the System. Staff recommended the Board clarify that any payments received from a qualified survivor must be a lump-sum post-tax payment.

Trustee Walker moved to adopt the proposed board policy changes. The motion was seconded by Trustee Anderson and all were in favor.

REPORT OF THE MANAGER

Annuities and Refunds for Approval. Ms. Ackerson presented twenty-five retirement annuities processed since the last Board meeting totaling \$284,312.17 per month and two survivor annuities

processed totaling \$8,271.71 per month. A review of the Refunds for Approval included one Death After Retirement Refund, one Termination Refund, and three Survivor Annuity Contribution Refunds totaling \$165,874.73. Following brief discussion, Trustee Walker moved for approval of the annuities and refunds as presented. Trustee Anderson seconded the motion and it passed unanimously.

Death of Members. Ms. Ackerson reported the deaths of five JRS members since the July meeting. This report is made a part of these minutes as *Exhibit C*.

OLD BUSINESS

Secretary Blair distributed a handout detailing trustee training opportunities offered by ISBI. Trustee Walker requested notification of any 2020 trustee training opportunities that are offered online. Secretary Blair indicated he would provide the trustees with additional training opportunities offered through another organization, the International Foundation of Employee Benefit Plans (IFEBP).

NEW BUSINESS

No new business was reported.

ADJOURNMENT

There being no further business to be brought before the Board, Trustee Anderson moved to adjourn at 11:35 a.m. His motion was seconded by Vice-Chairperson Moore and passed unanimously. Chairperson Schostok added the next meeting of the Board is scheduled for Friday, January 10, 2020, at 10 a.m. and the meeting adjourned.

Timothy B. Blair, Secretary

Date: _____

APPROVED:

Chairperson Mary S. Schostok