

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

MINUTES OF THE REGULAR MEETING
OF THE BOARD OF TRUSTEES

April 27, 2021

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, April 27, 2021, at 10:00 a.m. To protect the health of staff, trustees, and members of the public during the COVID-19 pandemic, this meeting was held electronically from the SERS administrative office in Springfield, as allowed under Section 7 of the Open Meetings Act (5 ILCS 120/7).

The following trustees were in attendance by videoconference:

Susana A. Mendoza, Chairperson
David Morris, Vice-Chairperson
Barbara Baird, Elected Retired Trustee
Renee Friedman, Appointed Trustee
Tad Hawk, Elected Active Trustee
Carl Jenkins, Appointed Trustee
Stephon Mittons, Elected Active Trustee
Danny Silverthorn, Appointed Trustee
John Tilden, Elected Retired Trustee

Absent:

Shaun Dawson, Elected Active Trustee

Others in attendance were:

Timothy Blair, Executive Secretary
Alan Fowler, Manager, Accounting Division
Casey Evans, Chief Internal Auditor
Jeff Houch, Assistant to Executive Secretary
James Stivers, Internal Counsel
Robert Cooper, Manager, Administrative Services Division
Jessica Blood, Recording Secretary
Johara Farhadieh, Executive Director, Illinois State Board of Investment
Frank Benham, Managing Principal, Meketa Investment Group
Martha Merrill, AFSCME 31

Chairperson Mendoza called the meeting to order at 10:00 a.m. with a quorum present.

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT

Johara Farhadieh, Executive Director of the Illinois State Board of Investment (ISBI), began the ISBI presentation by discussing the ISBI portfolio construction. She pointed out that due to the fund being overweight in the rate sensitive composite, the portfolio

performed well during the pandemic, placing ISBI in the top decile when ranked among peers. Additionally, ISBI recently made asset allocation decisions to provide further protection during down markets, with significant exposure to long term treasuries as well as equities to allow the portfolio to gain during bull markets.

Director Farhadieh continued her presentation by highlighting that ISBI will continue its strategy to ensure vintage year diversification within the private equity portfolio. She then moved on to discuss active management versus passive management within the portfolio, noting that approximately 2/3rds of the portfolio is passively managed while 1/3rd of the portfolio is actively managed. Director Farhadieh noted that broad exposure to the equities markets coupled with low fees has allowed the fund to perform in the top decile. She then concluded her remarks and turned over the presentation to Frank Benham of Meketa Investment Group.

Mr. Benham reported on the portfolio's performance for the quarter ended December 31, 2021, noting that the return for the quarter was 8.8%, exceeding the benchmark by 30 basis points. Two items greatly contributed to that strong return, the results of the 2020 Presidential Election, and the announcement of two viable Covid 19 vaccinations. Both items cleared up uncertainties that existed in the marketplace, providing optimism for investors that caused a rally in the equities market. Mr. Benham noted that during the period the Equities Composite returned 15.2%. Contributing to the robust return for the quarter was the US Equities composite return of 14.5%, the Small Cap composite return of 32.7%, the Developed Foreign Equity composite return of 15.6%, and the Emerging Markets Equity composite return of 19.5%.

Mr. Benham continued his report by discussing the Private Equity portfolio, which returned 10.9% for the quarter ended September 30, 2020. He pointed out that the Real Estate portfolio and Infrastructure portfolio had modest gains during the quarter ending December 30, 2020 but it is expected such asset classes will rebound in the next quarter. Mr. Benham concluded his report by offering to answer any questions. None were offered.

Ms. Farhadieh continued the ISBI report by noting ISBI's Diversity initiatives, which are highlighted by the fact that 38.8% of the portfolio is managed by Minority, Women, Disabled persons owned investment managers. This amount is up from the 24% allocation during 2017. She then stated that ISBI recently allocated capital to 7 such firms that actively manage investments. After some discussion regarding Minority, Women, and Disabled owned firms, Trustee Friedman moved to approve the ISBI Quarterly Review for the period ended December 31, 2020 and Trustee Silverthorn seconded the motion. A rollcall vote was taken, and the motion passed unanimously. A copy of the report is maintained in the SERS office and made a part of these minutes as *Exhibit A*.

MINUTES OF THE JANUARY 12, 2021 BOARD MEETING

The minutes of the Board meeting held January 12, 2021, were presented to the trustees by Chairperson Mendoza. Copies of these minutes were previously provided to each trustee for review. Trustee Friedman moved to approve the minutes as submitted and

Trustee Hawk seconded the motion. A rollcall vote was taken, and the motion passed unanimously.

REPORT OF CHAIRPERSON MENDOZA

Chairperson Mendoza began her report by stating that the estimated current bill backlog for the State totaled approximately \$3.7 billion; one year ago, it was \$7.3 billion and two years ago it was \$6.2 billion after adjusting for Debt Transparency Act agency reports. She stated that April 2020 state-based revenues declined by more than \$2.7 billion from the previous year due to the COVID pandemic, which restricted the efforts of the Comptroller's office to further reduce the bill backlog.

Chairperson Mendoza then added that the current \$3.7 billion backlog does not include more than \$3.6 billion in short term emergency, interfund and investment borrowing and reminded the Board that this borrowing must be repaid. She then noted the American Rescue Plan, which allocates \$13.2 billion to state and local governments to make up for budget shortfalls due to the pandemic. She stated that the stimulus funds should first go toward paying back the \$3.2 billion borrowed and not for new spending.

She stated that SMP Global and Moody's Investor Service had upgraded the outlook on Illinois' general obligation bonds from negative to stable, noting that this is the result of the shared fiscal discipline that has been practiced over the last few years, and signals that Illinois is heading in a better direction.

She concluded her report by stating that the Comptroller's office has continued to prioritize payments to healthcare, social services, education, and the pension systems. She offered to answer any questions from the Board. There were none.

REPORT OF ANY TRUSTEE

Chairperson Mendoza asked if any trustee would like to offer a report. No trustee offered a report.

REPORT OF AUDIT & COMPLIANCE COMMITTEE

Chief Internal Auditor Casey Evans began his report by reminding the Board that statements of economic interest and supplemental statements of economic interest are due May 3rd.

Mr. Evans reported the Committee met prior to the Board meeting and approved a change to the FY 21 audit plan. He stated the Committee reviewed an IT Audit focusing on security, including among several other items, social engineering and patch updating. Mr. Evans noted the focus was due to significant increases in social engineering attempts and hackers exploiting unpatched vulnerabilities in systems. He stated the audit contained 18 recommendations reviewed by the Committee, including implementation of multi-factor authentication, providing additional staff security awareness training, enhanced patch management, and implementation of several new policies. Mr. Evans reported the

Committee requested he monitor progress and provide updates at the July and October Board meetings.

Mr. Evans stated the Committee reviewed an audit of the 2021 automatic annual increases, noting all automatic annual increases were correct. He added he also reviewed the calculations of SERS employees' retirement benefits, and the calculations of lump sum payments for unused benefit time and no issues were noted.

Mr. Evans concluded his report by offering to answer questions from the Board. None were offered.

REPORT OF RULES AND PERSONNEL COMMITTEE

Jeff Houch, Assistant to the Executive Secretary, reported the Committee approved several proposed rules. The first would amend current rules to follow the direction of the court when offsetting SERS occupational disability benefits by Workers' Compensation lump sum awards. If the Workers' Compensation settlement letter indicates the duration of the award, SERS will base the offset length as indicated in the settlement award.

Mr. Houch reported the Committee approved a rule to allow SERS to offset expenses related to hospital and medical costs only if the expenses have already been incurred at the time of the settlement or award of such expenses. Workers' Compensation awards for future medical expenses will not be offset.

Mr. Houch summarized a current rule that requires the system to pay for hospital records when substantiating the continuance of a disability benefit. He stated the Committee had approved a change in the rule that would allow the system to pay for these reports at its discretion rather than be required to do so. Mr. Houch concluded his report by offering to answer questions from the Board. There were none.

REPORT OF THE EXECUTIVE SECRETARY

Preliminary FY 22 Operations Budget Request. Secretary Blair presented the FY 22 operations budget request, noting an increase of \$1,337,036 or 7.78%, over the FY 21 budget. He noted the increase was due to several factors, including a \$400,000 increase in the Group Insurance line, a \$621,573 increase in the Personal Services line for CBA steps and a 3.95% COLA increases for all employees, and a \$407,780 increase in the Retirement line due to the increase in the Personal Services line and an increase in the SERS employer contribution rate to 56.169% in FY 22.

Secretary Blair then noted a \$384,000 decrease in the Contractual line due to a reduction in temporary help and the number of retirees on contract. He added that other factors contributed to the decrease in the Contractual line, including conducting online workshops for FY 22, providing annual statements online only, and no Board election in FY 22.

Trustee Baird urged that an effort be made to reinstate the in-person workshops as quickly and safely as possible. Secretary Blair and Chairperson Mendoza agreed that efforts would be made to reinstate workshops when more is known about immunity and safely returning to business as usual.

Chairperson Mendoza asked if there were any questions regarding the FY 22 budget request. There being none, a motion was made by Trustee Friedman to approve the budget as presented and Trustee Jenkins seconded the motion. A roll call vote was taken, and the motion passed unanimously.

FY 21 Funding Update. Secretary Blair stated that the monthly contributions continue to be submitted in a very timely manner, adding that the May contribution had been received in April.

Back-Wage Processing Update. Secretary Blair noted that processing of the pension recalculations from the 2011 wage freeze had been completed and should be fully paid by June. He stated that processing of the recalculations from the 2016 wage freeze were ongoing. Secretary Blair told the Board that the process is now more automated and should increase the number of adjustments being paid starting in May, adding that he hoped for completion by the end of 2021.

Buyout Update. Secretary Blair noted the COLA buyout program had a year-to-date participation rate of 25% with approximately \$152 million processed, adding that the total buyout program did not have much interest. Trustee Mittons asked if a higher-than-average retirement rate is anticipated in the next several years. Secretary Blair noted that the State workforce has steadily declined since 2002 and that the SERS workforce has gotten younger in the last several years. He stated that a review of the retirement rates would be conducted in 2022 but noted uncertainty as to how the pandemic will affect the review. Trustee Morris requested an actuarial report of Tier I and Tier II employees who are vested for the Board to review retirement eligibility.

Legislative Update. Jeff Houch reported on legislation the system is currently monitoring. Senate Bill 396 provides the full certified GRF contribution to SERS for FY 22. Senate Bill 1055 (as amended by Senate Amendment #1) provides that if SERS fails to process a retirement claim within four weeks of receiving a completed application, it shall award a lump sum payment to that member that totals 10% of the monthly benefit owed. He mentioned that the System has had multiple conversations with the legislative sponsor, legislative staff, members of the Senate Pensions committee, and the group who initiated the bill and that the bill in its current form is unlikely to pass.

Mr. Houch then summarized Senate Bill 1056, which is an omnibus bill that includes provisions to amend the required minimum distribution age under the Internal Revenue Code from 70.5 to 72; authorize SERS to indemnify financial institutions as it relates to collecting overpaid benefits to bank accounts of deceased members and survivors; and eliminate the biennial reporting requirement under the Social Security Enabling Act. Mr.

Houch added that SB 1056 also provides that State police or conservation officers may elect to transfer service credit associated with public safety related employment from IMRF and Cook County to SERS as well as allowing the conversion of SERS regular formula service credit to non-coordinated alternative formula service credit if he or she pays the necessary costs.

Mr. Houch continued by discussing House Bill 3004 (as amended by House Amendment #1), a bill that prohibits any trustee of a retirement system or investment board from being employed by any pension fund, investment board, or retirement system under the Illinois Pension Code, or by any vendor of a pension fund, investment board or retirement system under the Illinois Pension Code for a period of 12 months after he or she ceases to be a board member.

Chairperson Mendoza asked if there were any questions from the Board regarding the legislative report. Trustee Morris inquired about defined benefits versus defined contribution as it applies to SURS. Mr. Houch briefly discussed the SURS self-managed plan. Chairperson Mendoza asked if there were any further questions. None were offered.

SECOND QUARTER FY 2021 FINANCIAL STATEMENTS

Alan Fowler, Accounting Division Manager, presented the financial statements for the second quarter of FY 21. He noted the system did not have to sell any investments for the quarter compared to the same quarter of the previous fiscal year when \$54 million was needed to pay benefits. Mr. Fowler added that the COLA buyout reimbursement is \$10 million more than the previous quarter, signaling more people are taking advantage of the program. He noted that retirement annuities this quarter were \$25.6 million higher compared to the same quarter of FY 20, due primarily to the 3% annual COLA increase.

Mr. Fowler concluded his report by noting that the FY 20 annual financial report had been released, adding that a link would be sent to the trustees to view the report on the system's website. He noted that the report contained information on Tier I and Tier II that would be helpful to the trustees with regards to their previous discussion on the topic.

Chairperson Mendoza asked if there were any questions. Hearing none, she asked for a motion to approve the second quarter FY 21 financial statements as presented. Trustee Silverthorn moved approval. The motion was seconded by Trustee Hawk. A rollcall vote was taken, and the motion passed unanimously. A copy of the financial statements is made a part of these minutes as *Exhibit B*.

APPROVAL OF EXECUTIVE COMMITTEE MINUTES

The trustees had previously been furnished with copies of the December 2020 and January, February, and March 2021 Executive Committee minutes for review. There being no changes to the minutes, Trustee Silverthorn moved to approve the minutes. Trustee Tilden seconded the motion. A rollcall vote was taken, and the motion passed unanimously.

OLD BUSINESS

Chairperson Mendoza asked if there was any old business. There was no old business.

NEW BUSINESS

Chairperson Mendoza asked if there was any new business. There was no new business.

PUBLIC COMMENTS

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

ADJOURNMENT

There being no further business to be brought before the Board, Chairperson Mendoza called for a motion to adjourn. Trustee Friedman offered the motion and Trustee Baird seconded. A rollcall vote was taken, and the motion passed unanimously. The meeting adjourned at 11:23 a.m.

Susanna Mendoza, Chairperson

Date: _____

ATTEST:

Timothy Blair, Executive Secretary

Date: _____