

**STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS**

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

**April 27, 2010**

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, April 27, 2010, at 10:00 A.M. in the System's Springfield office located at 2101 South Veterans Parkway with videoconference location at the Bilandic Building, Room 14-612, 100 West Randolph Street, Chicago, IL.

The following trustees were in attendance:

State Comptroller Daniel Hynes, Chairman  
Lori Laidlaw, Vice Chairwoman  
Thomas Allison, Trustee  
Renee Friedman, Trustee  
Joyce King, Trustee  
David Morris, Trustee  
Michael Noser, Trustee  
Patricia Ousley, Trustee  
Maria Pelaez-Peterson, Trustee  
Patricia Rensing, Trustee  
Danny Silverthorn, Trustee  
Harold Sullivan, Jr., Trustee  
Virginia Yates, Trustee

Others in attendance were:

Timothy Blair, Acting Executive Secretary  
Dave Rolf, Attorney  
William Atwood, Director, Illinois State Board of Investment  
Linsey Schoemehl, Illinois State Board of Investment  
Larry Stone, Internal Auditor  
Gerald Mitchell, Chief Information Systems Officer  
Dave O'Brien, Manager, Administrative Services Division  
Loren Iglarsh, Office of the Comptroller  
Allan Mayer, Office of the Comptroller  
Barbara Baird, Manager, SERS Chicago  
Dawn Blakeman, Recording Secretary

Chairman Hynes presided, and called the meeting to order at 10:10 a.m. with a quorum present.

**MINUTES OF FEBRUARY 9, 2010 BOARD MEETING**

The minutes of the meeting of the Board of Trustees held February, 9, 2010 were presented to the members by Chairman Hynes for approval. Copies of these minutes were previously mailed to each trustee for preliminary review. Trustee Noser noted an error on the spelling of his name. Acting Secretary

Blair noted the error would be corrected and new minutes distributed. There being no additional questions, corrections or additions, Vice Chairwoman Laidlaw moved to approve the minutes as submitted. Trustee Rensing seconded the motion, and all were in favor.

### **REPORT OF THE CHAIRMAN**

Chairman Hynes indicated he had no report.

### **REPORT OF INTERNAL AUDITOR**

Larry Stone, addressed the Board, and summarized his accomplishments since his last report to the Board.

**Field Services Audit** - A Field Services Audit was completed to determine processes which can be performed in a more effective and efficient manner while helping to deliver a better service to our members and benefit recipients. The following was found:

1. Online Benefit Estimators for Retirement, Level Income and Refund Repayment
2. Online Account Access
3. Online Benefit Application
4. Retirement Coordinator Access Enhancement
5. Online Workshop Registration
6. Educational Enhancements
7. Electronic Notification
8. Electronic Surveys

**Personnel/Payroll Audit** – The overall objective of the Personnel/Payroll review is to verify employees receiving a payroll warrant are in fact employees, timekeeping records are accurate, and lump sum payroll payments to departing employees are correct.

**Death Match Results** - The death match, which is now completed monthly rather than quarterly, has been completed for the period of January 2010 thru March 2010. Monthly payments scheduled to decedents identified by the Internal Auditor were:

January 2010	\$44,396.34
February 2010	22,523.47
March 2010	<u>53,865.75</u>
<b>Total</b>	<b>\$120,785.66</b>

Vice Chairwoman Laidlaw moved acceptance of the Internal Auditor's report for this period. Trustee Silverthorn seconded the motion, and all were in favor.

### **SECOND QUARTER FINANCIAL REPORT**

Acting Secretary Blair presented the financial report for the second quarter of Fiscal Year 2010. Acting Secretary Blair indicated that the amount required to be transferred from ISBI increased during this period (\$119,000,000) from the same period last year (\$84,000,000) as the result of decreased employer contributions over the same time period (\$111,500,000). A statutory change in the way employer contributions are submitted to SERS caused the decrease in employer contributions and the resulting increase in transfers from ISBI.

Acting Secretary Blair noted that in January 2010, proceeds from the State sale of General Obligation Bonds, in the amount of approximately \$720,000,000, were forwarded to ISBI. These proceeds represented the General Revenue Fund portion of the FY 2010 employer contribution to SERS. This large employer contribution will be reflected in the third quarter financial statements.

Following questions, on motion by Trustee Ousley, seconded by Vice Chairwoman Laidlaw, and by unanimous vote, the Board approved the financial reports as presented for the period October 1, 2009 through December 31, 2009.

A copy of the financial report is attached as Exhibit B.

### **PRELIMINARY REVIEW OF FY 2011 BUDGET**

The preliminary budget for the fiscal year July 1, 2010 through June 30, 2011 was presented. Copies of the executive summary, as well as a detailed budget, were previously provided to the trustees for review prior to the meeting. The final budget submission will occur at the July 2010 meeting. Approval of the budget at this meeting will allow the staff to continue operating after July 1, 2009, until final approval later in July.

The proposed operating budget for FY 2011 is \$15,563,700, representing an increase of 10.9%, or \$1,529,600, or more than the FY 2010 budget amount of \$14,034,100.

Personal Services will increase \$371,800 from FY 2010 budgeted amounts, a 7.73% increase. The budget includes no annual increases for merit compensation employees, per the CMS pay plan. It does include cost of living adjustments pursuant to the AFSCME collective bargaining agreement for employees covered by the agreement. Termination pay for 6 employees and 2 temporary (75 day) employees are also included.

The Board certified employer contribution rate of 30.253% (from 28.377%) will result in an increase of \$202,700 in the retirement line when compared to the FY 2010 budgeted amount, a 14.84% increase.

Group insurance premiums are budgeted with a 6% increase (\$62,700) from the FY 2010 amount, contractual services has increased 15.82% (\$292,100) due primarily to improvements to the employee parking lot and the Board of Trustees election.

The IT department budget increases \$524,100, or 12.3%, from the FY 2010 budgeted amount. This increase is the result of filling vacancies, the employer retirement contribution rate and group insurance premium increases, extensive employee training, and expected increases in auditing/management service fees.

Following questions and discussion, Vice Chairwoman Laidlaw presented a motion to approve the preliminary FY 2011 budget request. Trustee Silverthorn seconded the motion and all were in favor.

### **REPORT OF EXECUTIVE SECRETARY**

Legislation Public Act 96-0889 (SB 1946) – Acting Secretary Blair provided the Trustees with actuarial information and a summary of the “Tier 2” benefits for future members of SERS contained in Public Act 96-0889. The Act increased the normal retirement age to 67 for future SERS members covered by the regular formula and age 60 for future members covered by the alternative formula. The Act also reduced COLAS for future retirees and capped pensionable salary at the 2010 Social Security Wage

Base. The lone benefit increase provided for future members of SERS was a survivor benefit equal to 66 2/3% of the deceased's retirement benefit.

Acting Secretary Blair outlined the estimated impact of the Act as calculated by the System's actuaries. The actuaries have estimated the Act will reduce the long-term actuarial liability of SERS by \$30 billion and will decrease the required State contributions to SERS by \$6.5 billion between FY 2011 and FY 2045.

Fiduciary Insurance - Acting Secretary Blair updated the Trustees on research into the purchase of fiduciary insurance for the Trustees of SERS. He will prepare and RFP, contact insurance brokers regarding the cost of fiduciary insurance at various liability levels and report back to the trustees at the July meeting.

IT Update on Modernization Conversion - Gerry Mitchell, Chief Information System Officer, provided the Trustees with a list of the accomplishments and goals of the IT Division. Mr. Mitchell reported that IT infrastructure upgrades are well underway. The training of current employees is on schedule and several employees with the skills to help us move forward have been added to the IT staff. In addition, outside vendors acting as mentors are helping the IT Division prepare and train employees for the new environment.

Trustee Sullivan requested that for the various IT projects that Trustees be provided with the impact the project will have on the operations of the retirement system and how SERS members will benefit.

## **EXECUTIVE COMMITTEE MEETING MINUTES**

The trustees had previously been furnished with copies of the January, February and March, 2010, Executive Committee minutes for review. Trustee Noser had a question regarding whether Trustees may attend meetings of the Executive Committee. Acting Secretary Blair informed him the Executive Committee meetings are open to all members of the Board and promised to send the Executive Committee schedule to all Trustees.

Trustee Noser asked for an explanation of the adoption of the attorney's recommendations by the Executive Committee and how the decisions in those recommendations are reflected in the Executive Committee minutes. Dave Rolf, Attorney for the Board, informed the Board that all recommendations adopted by the Executive Committee are denials. Trustee Noser asked that denials contained in the attorney's adopted recommendations be included in the Executive Committee minutes. Following the discussion, with there being no further changes to these minutes, Vice Chairwoman Laidlaw moved for the adoption of the minutes. Trustee Rensing seconded the motion, which prevailed by the affirmative vote of all trustees.

## **OLD BUSINESS**

There was no old business brought before the Board.

## **NEW BUSINESS**

Acting Secretary Blair informed Trustees of a proposal to make the FY 2011 employer contribution to SERS by the private placement of General Obligation Bonds of the State of Illinois with the System, rather than contributing cash. Acting Secretary Blair provided specifics of the proposal and how the asset allocation of SERS would be affected by the proposal. After a discussion of legal, fiduciary and in-

vestment issues and several questions, Trustee Friedman made a motion to adopt a Board resolution in opposition to the proposal. Trustee Morris seconded the motion and all were in favor.

**REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT**

William Atwood, Director of the Illinois State Board of Investment distributed draft copies of the Flash Report (Executive Summary) for the period ending March 31, 2010, and addressed the Board. He called attention to the portion of the report reflecting a 15.2% return for the fiscal year to date and a 3.0% return for the calendar year to date. Director Atwood reviewed the performance of the various asset classes and several of the investment managers. Director Atwood then answered several technical questions raised by the trustees, including questions about problems with current managers and other vendors. Chairman Hynes thanked Director Atwood for his informative report.

Trustee Yates moved to accept the Flash Report of the Illinois State Board of Investment for the period ending March 31, 2010 and Vice Chairwoman Laidlaw seconded the motion, which passed un-animously. A copy of this report is maintained in the office of the Illinois State Board of Investment.

**ADJOURNMENT**

There being no further business to be brought before the Board, Trustee Silverthorn moved for adjournment at **12:00** P.M. The adjournment motion was seconded by Trustee Rensing and all were in favor.

\_\_\_\_\_  
Daniel W. Hynes, Chairman

Date: \_\_\_\_\_

ATTEST:

\_\_\_\_\_  
Timothy Blair, Acting Executive Secretary

Date: \_\_\_\_\_