

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

**MINUTES OF THE REGULAR MEETING
OF THE BOARD OF TRUSTEES**

April 19, 2011

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, April 19, 2011, 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:

Judy Baar Topinka, Chairperson
Lori Laidlaw, Vice Chairperson
Thomas Allison, Trustee
Renee Friedman, Trustee
Maria Pelaez-Peterson, Trustee
Joyce King, Trustee
David Morris, Trustee
Michael Noser, Trustee
Patricia Ousley, Trustee
Patricia Rensing, Trustee
Danny Silverthorn, Trustee
Virginia Yates, Trustee

Absent:

Harold Sullivan, Jr., Trustee

Others in attendance were:

Timothy Blair, Executive Secretary
Steve Bochenek, Attorney
Markus Veile, Assistant Comptroller
William Atwood, Director, Illinois State Board of Investment
Gerald Mitchell, Chief Information Systems Officer
Dave O'Brien, Manager, Administrative Services Division
Nicholas Merrill, Manager, Accounting Division
Tom Davis, Davis American
Jeff Sychowski, Davis American
Loren Iglarsh, Office of the Comptroller
Patricia Belk, SERS Chicago Office
Dawn Blakeman, Recording Secretary

Chairman Topinka presided, and called the meeting to order at 10:00 a.m. with a quorum present.

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, 2011, and addressed the Board. He called attention to the portion of the report reflecting an 18.9% return for the fiscal year to date (140 basis points above the benchmark) and a 3.6% return for the calendar year to date. Di-

rector Atwood briefly reviewed the performance of the various asset classes as well as the performance of some of the investment managers within each class.

Trustee Freidman questioned the effect of the investment return assumption change (from 8.5% to 7.75%) on the ISBI portfolio. Director Atwood explained that the asset allocation had remained unchanged even given the assumption change, primarily due to the uncertainty of employer funding. Director Atwood further provided that he did not expect any significant changes in asset allocation even if employer funding becomes more reliable and predictable.

Trustee Noser asked about the accountability of ISBI in relation to SERS. Director Atwood pointed out that ISBI is a public body which holds open meetings and that the Chairperson of SERS, Comptroller Topinka, sits as a member of ISBI. He also said he believes that ISBI is doing everything required by statute as expected by the SERS Board. Regarding the ISBI investment managers, Trustee Noser asked about the method of selecting such managers. Director Atwood outlined the ISBI process of selecting asset managers and answered related follow-up questions.

Trustee Friedman asked Director Atwood about any historical problems with State Street Bank. Director Atwood provided background information about a breach of fiduciary duty concerning a charge against State Street Bank made by Calpers due to currency transactions. Director Atwood then outlined changes that resulted from a review of the currency trading experience of ISBI. The main change was requiring all currency trades to be time-stamped so they may be reviewed at any time. He reviewed several other changes the Board has made in approaches to trading and discussed their effect on the reporting of net-of-fees returns numbers on some asset classes.

Director Atwood then provided the Board with information on the initial investment of \$745.5 million in proceeds from the State's February General Obligation Bond sale. He reviewed a document that provided the investment managers who received proceeds and how the proceeds were invested. For the rest of FY 11, Director Atwood told the Board that SERS (along with JRS and GARS) will need about \$90 million per month in order to pay benefits.

Trustee Morris moved to accept the Flash Report of the Illinois State Board of Investment for the period ending March 31, 2011 and Vice Chairperson Laidlaw seconded the motion, which passed unanimously. A copy of this report is maintained in the office of the Illinois State Board of Investment. Chairperson Topinka and the Trustees thanked Director Atwood for his informative report and excused him from the remainder of the meeting.

MINUTES OF JANUARY 20, 2011 BOARD MEETING

The minutes of the meeting of the Board of Trustees held January, 20, 2011 were presented to the members by Chairperson Topinka for approval. Copies of these minutes were previously provided to each trustee for preliminary review. Trustee Ousley moved to approve the minutes as submitted. Trustee Noser seconded the motion, and all were in favor.

REPORT OF THE CHAIRMAN

Chairperson Topinka indicated she had no report but thanked everyone for their support during her knee replacement rehabilitation.

REPORT OF EXECUTIVE SECRETARY

FY 2012 Appropriation

Secretary Blair informed the Board that HB 3697 had passed both chambers of the General Assembly and was awaiting signature by Governor Quinn. The bill provides an \$899.5 million GRF

appropriation to SERS, representing the entire GRF portion of the FY 12 contribution, as certified by the Board of Trustees. Secretary Blair noted that HB 124 provides an additional \$62.6 million in GRF to SERS in FY 12. The bill has passed the Senate, but has not yet received a vote in the House.

During further discussion, Secretary Blair informed that Trustees that SERS now has the statutory authority to submit monthly vouchers in the amount of 1/12 of the FY 12 GRF appropriation, but that those contributions may not be made in a timely manner. Chairperson Topinka provided that the Comptroller’s Office is trying to provide retirement contributions in a timelier manner, but that there is still a huge backlog of unpaid bills that must also be addressed.

Fiduciary Insurance

Secretary Blair introduced Tom Davis of Davis-American, Ltd. to provide an update to the trustees on the proposed fiduciary liability insurance policy. Mr. Davis began by telling the Board that he had worked closely with Dave Rolf since the last board meeting to address Mr. Rolf’s concerns after reviewing the initial proposed fiduciary liability policy. Mr. Davis informed that Trustees that the proposed ULLICO premium had increased by \$34,702 due primarily to increasing the retention amount from \$100,000 to \$500,000.

Trustee Allison asked Mr. Davis if \$100,000 in defense coverage was enough given the cost of legal representation. Mr. Davis answered by pointing out that if a lawsuit is a result of funding issues the coverage would allow enough money to go to court and have the charges dismissed. Mr. Davis pointed out that if the charges aren’t dismissed, other coverage in the policy would pay for defense costs, subject to separate deductibles. Steve Bochenek, attorney for the Board, then pointed out that the policy does provide only \$100,000 in coverage for funding lawsuits.

Chairman Topinka further asked about the \$100,000 limit on coverage in the case of funding lawsuits. Mr. Davis provided that after \$100,000 had been spent by ULLICO on funding lawsuits, the next \$500,000 would have to be paid by SERS before ULLICO would provide additional coverage. Mr. Bochenek disagreed and told the Board that ULLICO would only pay \$100,000 in the case of a funding lawsuit. Mr. Davis then agreed with Mr. Bochenek but then pointed out the policy would provide additional coverage if the funding lawsuit provide other allegations.

Based on the discussion of the policy limits in regards to a funding lawsuit, Trustee Allison asked Mr. Davis the cost of increasing the limit to \$200,000. Mr. Davis offered to look into the cost of the additional \$100,000 in coverage. After further discussion, Trustee Allison made a motion to purchase the ULLICO policy and purchase the additional \$100,000 in coverage if Mr. Davis could purchase this additional coverage for less than \$17,000. The motion was seconded by Trustee Silverthorn and a roll call vote was taken.

Allison	Yes	Rensing	Yes
Friedman	Yes	Silverthorn	Yes
King	Present	Yates	Yes
Morris	Yes	Laidlaw	No
Noser	Yes	Topinka	Yes
Ousley	Yes	Peterson	Yes

The motion carried with ten affirmative votes, one no vote and one abstention.

IT Update on Modernization

Gerry Mitchell, CISO of SERS, provided an update on the SRS Modernization efforts. Mr. Mitchell pointed out the recent IT accomplishments include the scoping and prioritization of the Ac-

tive Member functions for the ongoing re-engineering project. In addition, staff continues to modify the current computer systems to accommodate Tier 2 requirements.

Recently, the Secretary of State notified SERS that they would no longer provide microfiche creation services. Consequently, IT is making modifications to move reports that were on microfiche to software that will allow them to be viewed on-line. The Division also continues to perform system remediations to address the security concerns found during a recent security assessment performed by CMS.

Mr. Mitchell informed the Trustees that SERS received an immaterial audit finding regarding the lack of testing of the System's Disaster Recovery Plan (DRP). A review of the plan shows it needs significant updating to reflect current technology and more disaster scenarios. One scenario that is not included in the current BRP, but needs to be added to the plan is a disaster at the Comptroller's office. SERS is dependent upon the Comptroller's office for the processing of member contributions and payments. Chairperson Topinka said the Comptroller's Office will share a copy of their DRP so that SERS will better understand the availability of Comptroller's computer systems that may be expected in the event of a disaster.

Mr. Mitchell reported an imaging system cost analysis has been completed and noted the important benefits of the imaging system include better control of access to member files and more effective disaster recovery. Mr. Mitchell reported the first year cost for implementation is projected to be \$582,512 with over half of the cost related to increased staff needed to support the use of the imaging system. No changes in the building will be required to accommodate the imaging system and once the imaging system is implemented and the backfile conversion is completed, the Lektrievers which house the paper files will be removed, freeing up space for a desired Call Center.

Mr. Mitchell informed the Board that IBM is the only vendor who has a master contract with the State for imaging systems and he considers IBM too expensive and complex to be considered. Thus, Mr. Mitchell recommended an IFB to procure a system.

In his cost analysis, Mr. Mitchell considered two options for the backfile conversion, outsourcing and in-house. Outsourcing would allow the conversion to be completed in approximately one year at an estimated cost of \$1,300,000 and union approval would be required. The in-house option would take an estimated 3.5 years, requiring the hiring and training of additional staff as well as the acquisition of additional offsite office space to perform the work. The cost of this option is estimated to be \$3,894,100. Mr. Mitchell recommended the outsourcing option and provided an RFP would be developed to obtain the vendor. The Board approved both the IFB for procurement of the imaging system and the RFP for the outsourcing of the backfile conversion. Mr. Mitchell promised to inform the board of the results of the RFP before contracting with any vendor.

Trustee Laidlaw requested approval of the IFP & RFP. Seconded by Trustee Rensing and all were in favor.

SECOND QUARTER FINANCIAL REPORT

Nicholas Merrill, Manager of the Accounting Division, presented the financial report for the second quarter of Fiscal Year 2011. Mr. Merrill noted there weren't any significant changes from the second quarter of FY 2010. The employer contribution rate increased from 26.535% of payroll to 27.988% of payroll, resulting in an increase \$5.3 million when compared to the previous fiscal year.

Mr. Merrill indicated that the amount required to be transferred from ISBI increased during this period (\$210,000,000) from the same period last year (\$180,000,000). Mr. Merrill noted that in March 2011, proceeds from the State sale of General Obligation Bonds, in the amount of approximately \$745,500,000, were forwarded to ISBI. These proceeds represented the General Revenue

Fund portion of the FY 2011 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, 2010 through December 31, 2010.

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

PRELIMINARY REVIEW OF FY 2012 BUDGET

The preliminary budget for the fiscal year July 1, 2011 through June 30, 2012 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 2011 meeting. Approval of the budget at this meeting will allow the staff to continue operating after July 1, 2011, until final approval later in July.

The proposed operating budget for FY 2012 is \$17,281,100, representing an increase of 10.86%, or \$1,692,700, over the FY 2011 budget amount of \$15,588,400.

Personal Services will increase \$274,500 from FY 2011 budgeted amounts, a 5.29% 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 9 employees and 2 temporary (75 day) employees are also included.

The Board certified employer contribution rate of 34.19% (from 30.253%) will result in an increase of \$298,700 in the retirement line when compared to the FY 2011 budgeted amount, a 19% increase.

Group insurance premiums are budgeted with a 6% increase (\$70,000) from the FY 2011 amount, contractual services has increased 7.74% (\$163,900) due to the purchase of fiduciary liability insurance.

The IT department budget increased \$1,006,900, or 21.63%, from the FY 2011 budgeted amount. This increase is the result of filling vacancies and the increase in the employer retirement contribution rate and group insurance premiums.

Following questions and discussion, Trustee Silverthorn presented a motion to approve the preliminary FY 2012 budget request. Vice-Chairwoman Laidlaw seconded the motion and all were in favor.

EXECUTIVE COMMITTEE MEETING MINUTES

The trustees had previously been furnished with copies of the January, February and March, 2011, Executive Committee minutes for review.

Following the discussion, with there being no further changes to these minutes, Trustee Yates 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

Secretary Blair announced to the Trustees that Joyce King was not running for re-election to the Board. As this would be Trustee King's last meeting as a member of the Board, Secretary Blair presented a resolution, adopted by the unanimous vote of all members, to Trustee King thanking her for her exemplary service to the Board.

CLOSED SESSION FOR PERSONEL MATTERS

Vice-Chairperson Laidlaw made a motion to go into closed session to consider the appointment, employment, compensation, discipline, performance or dismissal of specific employees of the State Employees' Retirement System. The motion was seconded by Trustee Silverthorn. A roll call vote was taken with ten trustees in attendance voting in the affirmative. Trustee King and Trustee Yates abstained.

Vice Chairperson Laidlaw made a motion to return to open session. The motion was seconded by Trustee Silverthorn. A roll call vote was taken and all trustees voted in the affirmative.

Upon reconvening open session, Vice Chairperson Laidlaw made a motion to allow the Executive Secretary to enter into negotiations under the guidelines established in the closed session. Trustee Rensing seconded the motion and all Trustees voted in the affirmative.

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.

Judy Baar Topinka, Chairperson

Date: _____

ATTEST:

Timothy Blair, Executive Secretary

Date: _____