

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

MINUTES OF THE REGULAR MEETING
OF THE BOARD OF TRUSTEES

April 17, 2012

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, April 17, 2012, 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
Shirley Byrd, Trustee
Renee Friedman, Trustee
David Morris, Trustee
Michael Noser, Trustee
Patricia Ousley, Trustee
Patricia Rensing, Trustee
Danny Silverthorn, Trustee
Harold Sullivan, Jr., Trustee

Absent:

Thomas Allison, Trustee
Virginia Yates, Trustee

Others in attendance were:

Timothy Blair, Executive Secretary
Dave Rolf, Attorney
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
Denise Connelly, Manager, Human Resources
Alexis Sturm, Office of the Comptroller
Barbara Baird, Manager, SERS Chicago Office
Loren Iglarsh, Office of the Comptroller
Alice Johnson, Nurses Association
Dawn Blakeman, Recording Secretary

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

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT

William Atwood, Director of the Illinois State Board of Investment (ISBI) distributed draft copies of the Flash Report (Executive Summary) for the period ending February 29, 2012, and addressed the Board. He first called attention to the portion of the report reflecting a total portfolio market value of slightly over \$11.434 billion (approximately 95% SERS assets). Mr. Atwood noted the portfolio returned 1.5% for the fiscal year to date, slightly outpacing the benchmark, and a 6.3% return for the calendar year to date.

Director Atwood briefly reviewed the performance of the various asset classes as well as the performance of some of the investment managers within each class. He specifically noted that the fixed income portfolio provided a fiscal year to date return of 5.3%, while the domestic equity portfolio returned 3.5%. Both asset classes trailed their respective benchmarks by approximately 0.5%. A problematic area continues to be the real estate portfolio, which returned 1.9% fiscal year to date while the custom real estate benchmark returned 6.1% over the same time period.

Trustee Freidman asked Director Atwood about the benchmarks used to measure the performance of the total portfolio and the various assets classes. Director Atwood noted the Flash Report returns are gross of fees and pointed out the actual total portfolio return net of fees is closer to 1.25% year to date, as fees for the portfolio are about 25 basis points. Director Atwood then briefly referred the Board to the Investment Performance Analysis Report, which provides the total returns and net of fees returns for several ISBI investment managers for 1, 3, 5 and 7 year periods ending February 29, 2012. This report is provided by ISBI at the request of the SERS Board.

Trustee Ousley moved to accept the ISBI Flash Report for the period ending February 29, 2012, and Trustee Silverthorn seconded the motion, which passed unanimously. A copy of this report is maintained in the office of the Illinois State Board of Investment and attached to these minutes as Exhibit A. Chairperson Topinka and the Trustees thanked Director Atwood for his report and excused him from the remainder of the meeting.

MINUTES OF JANUARY 19, 2012 BOARD MEETING

The minutes of the meeting of the Board of Trustees held January, 19, 2012, were presented to the members by Chairperson Topinka for approval. Copies of these minutes were previously provided to each trustee for preliminary review. Vice Chairperson Laidlaw moved to approve the minutes as submitted. Trustee Rensing seconded the motion, and all were in favor.

REPORT OF THE CHAIRMAN

Chairperson Topinka informed the Board that an employee appreciation luncheon had been scheduled and that all trustees were invited immediately following the conclusion of the meeting.

IT UPDATE ON MODERNIZATION

Gerry Mitchell, Chief Information System Officer (CISO) of SERS serves as the SRS Ethics Officer. He reminded the Board members that all Statements of Economic Interest must be submitted to the System or the Secretary of State by May 1, 2012.

Mr. Mitchell provided an update of the ongoing SERS IT modernization efforts. Phase 2 of the Active Member systems' re-engineering continues and includes the development of a bridge to keep the new and old systems in synchronization. The integration of the new imaging system with our new computer systems has been completed. The Help Desk system that was being piloted has been implemented.

The Imaging System has been implemented and the backfile conversion is underway. Four Lektrivers of member files have been converted to digital images thus far and the shredding of those files will commence pursuant to the Record Retention Act. Mr. Mitchell described the indexing approach being used during the backfile conversion. Trustee Sullivan asked Mr. Mitchell about the ability to "break up" the imaged file for quicker workflow. Trustee Friedman asked about the ability to use a search tool in the imaging system, as can be done with PDFs. Trustee Sullivan followed up by recommending the use of a sort button and offered to check into the availability of that type of tool.

Business Continuity planning (BCP) efforts continue and discussion with "Hot Site" vendors is underway. Mr. Mitchell pointed out the IT budget request includes \$350,000 to implement the BCP in case of a disaster.

REPORT OF EXECUTIVE SECRETARY

Internal Auditor Update. Executive Secretary Blair informed the Trustees the System is still looking for a Chief Internal Auditor. The job was offered to an excellent applicant but she decided to accept the Chief Internal Auditor position with the Department of Central Management Services (CMS). Therefore, no audits were completed during the audit period. Dawn Blakeman performed the monthly death match, and the amount of potential overpayments detected was \$42,259.23. Vice Chairperson Laidlaw expressed concern over the vacancy and Secretary Blair responded that he is anxious to hire an auditor, but he reiterated his highest priority is getting an energetic and experienced auditor to help with the administration of the System.

Preliminary Review of FY 2013 Budget. Executive Secretary Blair presented the preliminary FY 2013 budget. Copies of the executive summary, as well as the de-

tailed budget, were previously provided to the trustees for review prior to the meeting. The final budget submission will occur at the July 2012 meeting. Approval of the budget at this meeting will allow the staff to continue operating after July 1, 2012, until the final approval in July.

The requested operating budget for FY 13 is \$21,363,400, an increase of 13.91%, or \$2,608,100 more than the FY 12 budget amount of \$18,755,300. Personal services are increased \$57,300 from the FY 12 budget, a 1.04% increase. There are no annual step increases or cost of living adjustments budgeted for bargaining unit employees. The proposed budget does include a 3% increase for merit compensation employees. Executive Secretary Blair noted that CMS, who has the authority to approve or deny a Department's requested merit compensation salary increases, will probably deny the request to grant merit compensation increases, even with Board approval.

The Board certified rate of 37.987% (from 34.190%) will result in an increase of \$231,300 to the FY 12 budget amount, a 12.26% increase. Group insurance premiums are budgeted with a 15% increase (\$209,900) from the FY 12 amount, as the rates are not currently known. The telecommunications line has increased 45.7% (\$40,000) from FY 12 primarily due to the possible addition of a call center in FY 13.

The requested IT budget has increased by \$2,364,700, or 39.10% from the FY 12 budget amount. The requested increase is the result of filling vacancies and adding 10 positions to continue and expand the current modernization efforts.

Following a brief discussion, Trustee Morris inquired about the employer pickup of retirement contributions for merit compensation employees. Executive Secretary Blair provided the Trustees with details of the history of the employer pickup. The 4% employee contributions for all coordinated regular formula State employees were picked up by the State until 2003. In 2003, the 4% pickup was eliminated immediately for all merit compensation employees under the purview of the Governor. The 4% pickup for employees covered by the AFSCME collective bargaining agreement (CBA) was phased-out but the CBA provided two additional 2% salary increases to cover the cost of the employee contributions. Merit compensation employees were not provided salary increases to cover the cost of the 4% employee contribution.

Executive Secretary Blair noted SERS merit compensation employees work for the SERS Board of Trustees and are not under the direct purview of the Governor. Since the elimination of the "official" employer pickup for merit compensation employees in 2003, the SERS Board has provided money in the annual budgets to pay the 4% employee contribution so SERS. Executive Secretary Blair further noted that merit compensation employees still have not been granted salary increases and aren't expected to receive any in the foreseeable future. Essentially, removing the employee pickup would reduce the salary of merit compensation employees after more than 5 years of stagnant salary levels.

After further discussion, Vice Chairperson Laidlaw moved to approve the preliminary FY 13 budget. The motion was seconded by Trustee Silverthorn and all were in favor.

House Resolution 706. Executive Secretary Blair informed the Board that House Resolution 706 provides for funding the retirement systems in FY 13 at the employer contribution rates certified by the various Boards of Trustees. While not necessarily a guarantee of FY 13 funding, the resolution does classify retirement system funding as non-discretionary spending in FY 13.

SECOND QUARTER FINANCIAL REPORT

Nicholas Merrill, Manager of the Accounting Division, presented the financial report for the second quarter of FY 12. Of note was an increase in employer contributions of \$242 million when compared to the second quarter of FY 11. The significant increase in employer contributions is primarily due to an increase in the employer contribution rate from 27.988% of payroll in FY 12 to 34.190% of payroll in FY 13, and more timely GRF payments. Because of these factors, Mr. Merrill indicated that the amount required to be transferred from ISBI to pay benefits decreased by \$172 million during this period when compared to the same period last year (\$210 million compared to \$38 million).

During the reporting period, the payment of benefits increased by \$32.5 million when compared to the 2nd quarter of FY 11, with \$28.3 million being the result of increased retirement benefits.

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, 2011 through December 31, 2011.

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

EXECUTIVE COMMITTEE MEETING MINUTES

The trustees had previously been furnished with copies of the January, February and March, 2012, Executive Committee minutes for review.

Trustee Noser questioned the January Executive Committee minutes, which noted a "friend of Ms. Newton's" in a list of others present at the meeting. Executive Secretary Blair promised to follow up with Dawn Blakeman, who prepares the Executive Committee minutes. Following the discussion, with there being no further changes to these minutes, Trustee Rensing moved for the adoption of the minutes. Trustee Morris 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

There was no new business brought before the Board.

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: _____