

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

MINUTES OF A REGULAR MEETING  
OF THE BOARD OF TRUSTEES

April 21, 2015

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, April 21, 2015, at 10:00 a.m. in the System's Springfield Office located at 2101 South Veterans Parkway with a videoconference location at the Bilandic Building, Room N-703, 160 North LaSalle Street, Chicago, IL.

The following trustees were in attendance:

Leslie Geissler Munger, Chairperson  
Shirley Byrd, Retired Trustee  
David Morris, Active Trustee  
Patricia Ousley, Active Trustee  
Robert Fierstein, Active Trustee  
Alan Latoza, Retired Trustee  
Thomas Allison, Appointed Trustee  
Renee Friedman, Appointed Trustee

Absent:

Danny Silverthorn, Appointed Trustee  
Harold Sullivan, Appointed Trustee

Others in attendance were:

Timothy Blair, Executive Secretary  
Jeff Houch, Assistant to Executive Secretary  
Steve Bochenek, Attorney  
William Atwood, Director, Illinois State Board of Investment  
Paul Wood, Consulting Actuary, Gabriel, Roeder, Smith & Co.  
Alex Rivera, Consulting Actuary, Gabriel, Roeder, Smith & Co.  
Alan Fowler, Manager, Accounting Division  
David O'Brien, Manager, Administrative Services Division  
Gerry Mitchell, Chief Information System Officer  
Casey Evans, Chief Internal Auditor  
Alexis Sturm, Office of the Comptroller  
Barbara Baird, Manager, SERS Chicago Office  
Jennifer Staley, Recording Secretary

Chairperson Munger presided and called the meeting to order at 10:05 a.m. with a quorum present.

PUBLIC COMMENTS

Chairperson Munger asked if there were any members of the public in either the Springfield or Chicago location who wished to address the Board. There were none.

## CONSIDERATION OF ACTIVE TRUSTEE APPOINTMENT – ROBERT FANTI

Vice-Chairperson Lori Laidlaw, elected active Trustee, retired on April 1, 2014 and therefore became ineligible to continue to serve as an active member trustee. Her term was set to expire July 14, 2016. Robert Fanti, SERS active member, expressed interest in completing the remainder of Vice-Chairperson Laidlaw's term. Chairperson Munger asked if anyone wished to make the nomination. Trustee Ousley nominated Robert Fanti and Trustee Byrd seconded the motion.

Chairperson Munger continued by asking if there were any discussion on the nomination. Trustee Allison asked if the Board had the authority to fill the vacancy and Secretary Blair answered in the affirmative. He noted there had been instances of the Board filling a vacancy in an elected trustee position, most recently Alan Latoza to finish the term of elected Trustee Virginia Yates. Chairperson Munger asked about the submission of Mr. Fanti as the appointee and Trustee Friedman asked if anyone else had been solicited. Secretary Blair said that Mr. Fanti had submitted his name and that no additional interest had been sought.

Trustee Friedman suggested the vacancy be announced and interest solicited from all active members. Comptroller Munger asked if it were imperative to fill the position soon. Secretary Blair offered there was concern over the ability to gather a quorum for holding meetings, but there wasn't an emergency or deadline. After a voice vote, a roll call vote was requested by Comptroller Munger.

Trustee Allison	Yes	Trustee Latoza	Yes
Trustee Byrd	Yes	Trustee Morris	Yes
Trustee Fierstein	Yes	Trustee Ousley	Yes
Trustee Friedman	No	Chairperson Munger	No

As seven affirmative votes are required for all Board business, the motion failed 6-2. Secretary Blair was directed to announce the vacancy on the SERS website and email all active members with the announcement. In addition, he was asked to formulate a policy for the filling of elected trustee vacancies to be presented to the Board at the July meeting.

## REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT (ISBI)

William Atwood, ISBI Director, distributed copies of the Executive Summary dated February 28, 2015, and addressed the Board. He began by noting the entire portfolio returned 7.4% (net of fees) over the year ended February 28, 2015, while the benchmark returned 7.5%. Director Atwood then pointed out that over that period the Fixed Income portfolio returned 1.4%, compared to a benchmark return of 4.8%. The Non-U.S. Fixed Income Portfolio and its benchmark both lost 9.1% over the period, mainly as a result of the strong dollar.

Director Atwood continued the review by noting the U.S. Equity portfolio, excluding Hedge Funds, returned 11.2% over the year ended February 28, 2015, compared to the benchmark return of 14.1%. He briefly reviewed the returns of several asset classes and also noted that ISBI had five new members since the January meeting, including Comptroller Munger, Treasurer Frerichs and three members appointed by Governor Rauner.

Director Atwood asked if there were any questions. Trustee Allison asked him to review the management status report. Director Atwood noted that Chicago Equity Partners were on alert due to manager turnover and ULLICO is on alert for having too much cash on hand.

Director Atwood then noted that Herndon Capital Management and Ariel were on alert due to poor performance.

Comptroller Munger asked if there were any additional questions for Director Atwood. There were none. A copy of the report is maintained in the ISBI office and made a part of these minutes as Exhibit A. Chairperson Munger thanked Director Atwood for his report and excused him from the remainder of the meeting.

#### REVIEW OF ACTUARIALLY DETERMINED CONTRIBUTION POLICIES

Alex Rivera and Paul Wood of Gabriel, Roeder, Smith & Company (GRS), Consulting Actuaries, distributed a handout containing two funding policies for the Board's consideration, as requested at the January Board meeting. Mr. Wood reminded the Board that a funding policy should include a reasonable cost allocation methodology, adequate actuarial assumptions, an asset smoothing method and a reasonable period and methodology for the amortization of the unfunded liabilities. He then referred the Board to the handout and reviewed the recommended funding policies.

The first contribution policy provided for the annual payment of the SERS normal cost, plus an amount that would amortize the unfunded liability over 30 years as a level dollar annual payment. The second contribution policy provided for the annual payment of the normal cost of SERS, plus a 25 year level percent of payroll closed amortization period for the unfunded liability. Mr. Wood reviewed the impact of the two policies on the required employer contributions and future projected financial condition of SERS and compared these to the current statutory funding plan.

After a discussion regarding the differences in the recommended funding policies and the need to strengthen the statutory funding plan, Trustee Friedman moved to adopt the funding policy which provides for the annual payment of SERS' normal cost and amortizing the unfunded liability over 25 years as a level percent of payroll. Trustee Morris seconded the motion and all were in favor.

Trustee Friedman then made a motion that Chairperson Munger talk to the legislature about replacing the statutory funding plan with the funding policy adopted by the Board. Trustee Allison seconded the motion and all were in favor.

#### MINUTES OF THE JANUARY 13, 2015 BOARD MEETING

The minutes of the Board meeting held January 13, 2015 were presented to the members by Chairperson Munger. Copies of these minutes were previously provided to each trustee for preliminary review. Trustee Byrd moved to approve the minutes as submitted. Trustee Fierstein seconded the motion and all were in favor.

#### REPORT OF CHAIRPERSON MUNGER

Chairperson Munger reported the Comptroller's FY 16 budget request had been submitted to the General Assembly with a 10% reduction from FY 15, and \$500,000 in the FY 15 budget would be returned to GRF. In addition, the IOC will implement a statewide accounting and financial management system for a projected cost of \$250 million over five years, with eventual savings projected at \$750 million annually. The implementation of a new system will greatly simplify the financial reporting process and provide greater overall transparency.

## REPORT OF ANY TRUSTEE

Chairperson Munger asked if any other trustees would like to offer a report. No other trustee offered a report. Trustee Allison noted the status of the appointed trustees have changed as Governor Rauner had withdrawn all current trustees appointment messages from the Senate. Secretary Blair explained that none of the 6 appointed trustees had been confirmed, with only 3 Trustees; Friedman, Allison and Silverthorn considered holdover trustees. Trustee Munger asked Secretary Blair to provide her with a list of all current trustees that includes the status of those trustees.

## ELECTION OF VICE-CHAIRPERSON

Chairperson Munger announced an election for Vice-Chairperson was in order due to the retirement of Vice-Chairperson Laidlaw. She opened the floor for nominations and Trustee Ousley nominated Trustee Morris to serve as Vice-Chairperson through the end of calendar year 2015. Trustee Latoza seconded the motion and all were in favor. Chairperson Munger congratulated Vice-Chairperson Morris on his election.

## REPORT OF AUDIT AND COMPLIANCE COMMITTEE – VICE-CHAIRPERSON MORRIS

Vice-Chairperson Morris, Chairman of the Audit and Compliance Committee reported that during the Audit and Compliance Committee meeting held before the Board meeting, Chief Internal Auditor Casey Evans reported on the status of the 2014 external financial audit and provided an update on internal audit activity. He briefly reviewed three audit findings and noted that steps had been taken to avoid repeat findings in FY 2015.

## REPORT OF CHIEF INFORMATION SYSTEMS OFFICER (CISO)

Ethics. Gerry Mitchell, CISO and Ethics Officer, reminded the Board the annual Statements of Economic Interest are due to the Secretary of State's Office by May 1, 2015. He also reported the annual ethics training is approaching. This is paper-based training that requires a signature when the training has been completed and will be mailed to all Trustees. Current statute requires all Trustees to complete ethics training.

Systems Modernization. Mr. Mitchell continued by informing the board that progress continues on the re-engineering of the active member system, including the development of a member website that will provide members with account and estimated benefit information. The new website will be launched to the active membership in May.

Mr. Mitchell then noted the switch to a new telephone system using Voice Over Internet Protocol (VOIP) technology had been completed successfully. There will be significant savings over the long term when compared to the old phone system. In addition, the new VOIP systems will allow for the easier implementation of a call center in the future.

Computer Security. Mr. Mitchell noted the firewall had recently been upgraded to the latest version and that Dell had been contracted to perform a security vulnerability assessment and penetration testing.

Risk Assessment. The System continues its remediation efforts from the recent risk assessment. Bids had been received for securing the stairwell and adding locks to the internal

first floor lobby doors. Mr. Mitchell noted the State Police had recently been engaged to provide physical security training to SERS staff. He noted this training would be in addition to the annual Security Awareness Training currently required of all managers and staff.

## REPORT OF THE EXECUTIVE SECRETARY

Preliminary Review of FY 2016 Operations Budget. Secretary Blair presented the preliminary FY 16 budget for review. He noted the FY 16 budget request is 0.63% lower than the FY 15 budget and added that he expects the final FY 16 budget to be presented at the July meeting to contain further significant reductions.

Chairperson Munger asked if there were any questions. Trustee Allison asked if there would be a reduction in headcount in FY 16. Secretary Blair noted that there may be a reduction in headcount but the decrease in the budget request was due to other factors that have allowed a reduction in IT costs and other operating expenses.

Hearing no further questions, Chairperson Munger asked if there was a motion to approve the preliminary FY 16 budget. Trustee Ousley moved passage of the budget as presented. The motion was seconded by Trustee Latoza and all present voted in the affirmative.

### July Board Meeting Date.

Due to a scheduling conflict Chairperson Munger asked if the Board would consider changing the date of the Board meeting scheduled for July 21<sup>st</sup>. After a brief discussion Trustee Allison moved to change the meeting date to July 14<sup>th</sup> at 10 a.m. Trustee Ousley seconded the motion and all voted in the affirmative.

### IT Cost Allocation Methodology.

Secretary Blair presented an IT cost allocation methodology for the Board's consideration. Although not finalized, the FY 2014 Compliance Audit will note an immaterial audit finding due to the lack of a formal IT cost allocation methodology between SERS, the Judges Retirement System (JRS) and the General Assembly Retirement System (GARS). The adoption of the methodology should prevent a repeat finding in the FY 2015 Compliance Audit.

The proposed methodology provides for allocating IT cost between SERS, JRS and GARS based on the membership of each system. The SERS portion would equal 98.21% of annual IT costs. Trustee Byrd moved to approve the cost allocation methodology. Trustee Ousley seconded the motion and all present voted in the affirmative.

### Fiduciary Insurance Update.

Secretary Blair informed the Board the fiduciary liability insurance had been renewed on April 20<sup>th</sup>, with a guarantee that the premium for the following year could not go up.

### Legislative Update.

Secretary Blair re-introduced to the Board Jeff Houch, Assistant to the Executive Secretary. Mr. Houch noted that only one bill, HB 422, has been passed by the House. The bill requires an actuarial experience review to be completed every three years, rather than the current five year requirement.

## SECOND QUARTER FINANCIAL STATEMENTS

Alan Fowler, Accounting Division Manager, presented the financial statements for the second quarter of FY 15. Mr. Fowler noted that in comparison to the second quarter of FY

14, there was an increase in employer contributions of approximately \$16.2 million, due mainly to the increased employer contribution rate for FY 15. He also noted that retirement annuities increased by \$27.0 million when compared with the same quarter of the previous fiscal year. This increase is typical and generally the result of the statutory 3% COLAs provided to retirees in January and an increase in the number of retirees from the previous year. Trustee Allison moved to approve the 2<sup>nd</sup> quarter financial statements as presented. Trustee Ousley seconded the motion and all trustees voted in the affirmative. Copies of these financial statements are attached to these minutes as Exhibit B.

#### APPROVAL OF EXECUTIVE COMMITTEE MINUTES

The trustees had previously been furnished with copies of the January, February and March 2015 Executive Committee minutes for review. There being no changes to these minutes, Trustee Ousley moved to approve as submitted. Vice-Chairperson Morris seconded the motion, which prevailed by the affirmative vote of all trustees.

#### OLD BUSINESS

Chairperson Munger asked if there was any old business for discussion. There was none.

#### NEW BUSINESS

Chairperson Munger asked if there was any new business to be brought before the Board. Secretary Blair presented to the Board a retirement resolution for Vice-Chairperson Laidlaw, who retired from the Illinois Department of Corrections on April 1, 2015, and also resigned from the Board of Trustees on that date. Trustee Ousley moved to adopt the retirement resolution. Trustee Fierstein seconded the motion and all were in favor. The resolution is made a part of these minutes as Exhibit C.

#### ADJOURNMENT

There being no further business to be brought before the Board, Trustee Ousley moved for adjournment at 12:15 p.m. The adjournment was seconded by Trustee Morris and all were in favor.

Chairperson Munger thanked the Trustees for their participation in the meeting and reminded the Board the July meeting had been moved to July 14, 2015 at 10 a.m.

\_\_\_\_\_  
Leslie Geissler Munger, Chairperson

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

ATTEST:

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

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