

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS  
MINUTES OF THE REGULAR MEETING  
OF THE BOARD OF TRUSTEES

April 24, 2018

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, April 24, 2018, 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:

Susana A. Mendoza, Chairperson  
David Morris, Vice-Chairperson  
Thomas Allison, Appointed Trustee  
Yasmin Bates-Brown, Appointed Trustee  
Shaun Dawson, Elected Active Trustee  
Renee Friedman, Appointed Trustee  
Tad Hawk, Elected Active Trustee  
Carl Jenkins, Appointed Trustee  
Danny Silverthorn, Appointed Trustee  
John Tilden, Elected Retired Trustee

Absent:

Alan Latoza, Elected Retired Trustee  
Stephen Mittons, Elected Active Trustee

Others in attendance were:

Timothy Blair, Executive Secretary  
Jeff Houch, Assistant to Executive Secretary  
Steve Bochenek, System Attorney  
Chris Maley, Illinois Office of the Comptroller  
Chasse Rehwinkel, Illinois Office of the Comptroller  
Alan Fowler, Manager, Accounting Division  
Casey Evans, Chief Internal Auditor  
Staceyann Cabey-Kaufmann, Internal Auditor  
Kevin Rademacher, Manager, IT Division  
Robert Cooper, Manager, Administrative Services Division  
LaVondra Hinton, Acting Manager, SERS Chicago Office  
Jessica Blood, Recording Secretary  
Loren Iglarsh, SERS Retiree  
Kim Nicholl, Senior Vice President and Consulting Actuary, Segal Consulting  
Geoff Bridges, Consulting Actuary, Segal Consulting  
Jake Libauskas, Consulting Actuary, Segal Consulting  
David Kausch, Chief Actuary, Gabriel, Roeder, Smith & Co.  
Alex Rivera, Consulting Actuary, Gabriel, Roeder, Smith & Co.  
Ryan Gunderson, Consulting Actuary, Gabriel, Roeder, Smith & Co.  
Jason Franken, Consulting Actuary, Foster & Foster

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

## PUBLIC COMMENTS

Chairperson Mendoza 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.

## MINUTES OF THE JANUARY 9, 2018 BOARD MEETING

The minutes of the Board meeting held on January 9, 2018, were presented to the members by Chairperson Mendoza. Copies of these minutes were previously provided to each trustee for preliminary review. Vice-Chairperson Morris moved to approve the minutes as submitted. Trustee Allison seconded the motion and all were in favor.

## REPORT OF CHAIRPERSON MENDOZA

Chairperson Mendoza began her report by providing an update on the state's bill backlog, stating that it stood at \$8.059 billion, down from \$12.7 billion one year ago. She mentioned that increased revenues, including bond proceeds, were instrumental in reducing the backlog. She added that her office continues to prioritize payments to education, human service providers, debt service and pensions.

Chairperson Mendoza then gave an update on HB 3649, the Debt Transparency Act (DTA), reminding the Board that the legislation now allows state officials and the public to have a monthly view of state agency liabilities, interest penalties and levels of deficit spending. She added that legislators would now have up to date information when considering the next fiscal year's budget. Chairperson Mendoza then directed the attention of the Board to an addendum to the April DTA report which showed the significant increase in the state's late payment interest penalties over the last 20 years.

Chairperson Mendoza then provided an update on HB 5814, sponsored by Representative McSweeney, that would require late payment interest penalties to be accounted for in gubernatorial budgets as liabilities. She stated that the bill had unanimous support in the House and was now on its way to the Senate.

Chairperson Mendoza then provided an update on HB 5121, the Truth in Hiring Act. She stated that the bill would prohibit the practice of using appropriations from various state agencies to pay personnel costs for individuals working directly for the Governor's office, thereby ensuring the funds are used for services appropriate to their respective agencies. She added that the bill passed with unanimous support in the House and is on its way to the Senate, where it is expected to pass.

Chairperson Mendoza then moved on to an update on the FY19 budget submission for the Office of the Comptroller. She added that the amount requested was the same as the FY18 submission of \$2.4 million and a 10% reduction from FY15. She noted that this request is the lowest budget request from General Revenue Funds from the Office of the Comptroller in 20 years.

Trustee Friedman inquired about a proposal that would allow pension funds to buy vendor claims at a lower interest rate. Chasse Rehwinkel responded that the State Treasurer's Office had proposed a vendor assistance program so they would be able to buy outstanding late accounts receivable at a lower rate than currently available. This would provide a return to their portfolio while also providing liquidity to ensure vendors are paid on time without the

state incurring excessive penalties. Trustee Allison inquired if this would reduce the amount of interest and Chasse replied that it would going forward.

Chairperson Mendoza concluded her report by offering to answer any additional questions from the Board. None were offered.

### REPORT OF ANY TRUSTEE

Chairperson Mendoza asked if any trustee would like to offer a report. None did.

### REVIEW OF ACTUARIAL PROPOSALS

Executive Secretary Blair explained to the Board that the current actuarial services contract would end June 30<sup>th</sup> and a request for proposal had been posted. He added that three firms submitted qualifying bids – Segal Consulting, Gabriel, Roeder, Smith & Co. and Foster & Foster. He noted the RFP scoring sheet, stating that all three firms had close scores with Gabriel, Roeder, Smith & Co. being the top scorer. He then opened the floor to the actuarial firms' representatives to present their proposals.

Segal Consulting. Kim Nicholl, Geoff Bridges and Jake Libauskas presented the proposal of Segal Consulting. Ms. Nicholl began the Segal presentation by noting the staff who would perform certain roles for SERS, along with their credentials, and then turned the presentation over to Jake Libauskas. Mr. Libauskas highlighted Segal's experience with large and complex retirement systems around the country and emphasized Segal's familiarity with issues facing the Illinois public retirement systems in working with the Illinois Commission on Government Forecasting and Accountability.

Mr. Libauskas turned the presentation over to Geoff Bridges, who discussed the upcoming Actuarial Standards of Practice (ASOPs) and how these would affect the way Segal would assess and disclose risk for SERS. Ms. Nicholl concluded the presentation by summarizing Segal Consulting's strengths relative to SERS and noted Segal has no limitation of liability due to internal auditing and their quality of work. Trustee Jenkins inquired as to their trend in client retention and whether they had lost any significant funds. Ms. Nicholl replied they had lost the Chicago Teachers' Pension Fund to a competitive bid, but noted the clients listed in the presentation that had all been gained in the last eight years.

Comptroller Mendoza opened the floor to questions from members of the Board. No further questions were offered.

Gabriel, Roeder, Smith & Co. Alex Rivera, Ryan Gunderson and David Kausch presented the proposal for Gabriel, Roeder, Smith & Co. (GRS). Mr. Kausch began the presentation by reviewing the firm's history and qualifications. Mr. Rivera noted the firm's extensive experience with Illinois retirement systems and added that each system is served by dedicated teams to ensure that quality service is provided on a timely basis. He added that their various consulting teams share information to ensure consistency when providing services such as impact statements. Mr. Rivera concluded his portion of the presentation by stating that their firm has a significant level of risk management with quality assurance standards that provide four levels of review.

Mr. Rivera then turned the presentation over to Mr. Gunderson, who expanded on their firm's experience with SERS. He stated that the firm understands the complexity of SERS

and the actuarial valuation process with respect to the underfunded position of the plan, statutory funding requirements, the impact of assumption changes on contribution patterns and the tiered benefit structure.

Mr. Gunderson continued by stating that GRS had always provided SERS with key deliverables in a timely manner; including funding and accounting actuarial valuations, economic and full experience reviews, State Actuary responses, contribution rate certifications, nearly 100 pension reform cost impact statements and actuarial equivalence factors. He concluded by noting that GRS can deliver outstanding service based on experience developed over the years of working with SERS, proprietary valuation software designed specifically for public sector pension funds, experience in modifying valuations for proposed legislation, and the dedicated teams that work solely on SERS plans.

Chairperson Mendoza then opened the floor to questions from the Board. Trustee Allison inquired whether their firm had any limitation on liability. Mr. River stated that they did have liability limits, however the limits are negotiable. Chairperson Mendoza asked if it was negotiable to not have limits on liability. Mr. Rivera stated that unlimited liability may be difficult but could be discussed.

Trustee Friedman asked if their firm was insured. Mr. Rivera stated that they had insurance ranging from \$2-\$5 million depending on the size of the account and structure of the contract. Trustee Friedman then asked if they had ever been found liable for anything and Mr. Rivera stated they never had.

Trustee Bates-Brown inquired as to the diversity make-up of Gabriel, Roeder, Smith & Co. Mr. Kausch stated that they make an effort to hire on an equal opportunity basis as well as support the American Black Actuaries Association through speaking engagements and scholarships. He added that their firm's gender make-up is diverse at all levels, however it is difficult to find racially diverse candidates for some actuarial positions.

Trustee Jenkins asked about the GRS client retention rate. Mr. Rivera stated the retention rate is very strong, adding that they had lost the Municipal Employees' Annuity and Benefit Fund of Chicago recently. This loss was offset with the addition of the Illinois Department of Insurance, the Chicago Teachers' Pension Fund and Montgomery County Teachers' Pension Fund of Maryland. Mr. Kausch added that their last year saw record performance as well as the return of the Michigan Municipal Employees' Retirement System after losing that bid five years earlier.

Chairperson Mendoza asked if there were any other questions from the Board. No further questions were offered.

Foster & Foster. Jason Franken presented the proposal for Foster & Foster. Mr. Franken started his presentation by summarizing the history, office locations and credentials of the actuaries at Foster & Foster. Mr. Franken stated that an important focus of their firm is education through public pension sessions across the state and country to help clients understand complicated issues and make the best decisions with regards to their funds.

Mr. Franken then spoke to which staff members would be assigned to the SERS account. He noted that the team would be comprised of himself as the lead actuary, two other Fellows

of the Society of Actuaries in charge of the valuation process and various other enrolled actuaries and actuarial students working with the data and calculating liabilities.

Mr. Franken stated that Foster & Foster has over 350 public retirement clients across the country ranging from very small plans to some of over \$20 billion. He added that his firm works with clients comparable to SERS, noting the Metropolitan Water Reclamation District Fund of Chicago, TRS of Louisiana and the Louisiana SERS. He added that Foster & Foster also works with various retirement systems across the country on an auditing basis.

Chairperson Mendoza then opened the floor to questions from the Board. Trustee Allison asked if they had a limitation on liability. Mr. Franken stated they did not have a limitation on liability with any of their current pension fund contracts. Chasse Rehwinkel asked for more information on the composition of the team that would work with SERS. Mr. Franken stated that the team would be comprised of himself as the lead actuarial consultant, Heidi Andorfer as the lead on the valuation process, Paul Barr as the project manager, Julie Franken working on calculations, John Bartz for peer review as well as various actuarial students helping with the data reconciliation and valuation process.

Chairperson Mendoza noted that Foster & Foster does not have a large portfolio of state pension funds and asked how old their current state contracts are as well as if they are trending toward more larger state funds. Mr. Franken stated that the firm had expanded from a regional firm in Florida to other funds around the country with a client focus shifting to several larger municipalities and state funds. He noted that Foster & Foster has worked with the Louisiana TRS, the Louisiana SERS and the Metropolitan Water Reclamation District Fund of Chicago for nearly 7 years. Mr. Franken added that they have recently hired additional staff to help accommodate larger plans.

Chairperson Mendoza asked the Board if there were any further questions. None were offered.

After discussing the various proposals presented and the RFP scoring information, a motion was made by Trustee Hawk to retain Gabriel, Roeder, Smith & Co. as the SERS consulting actuary, with the condition that staff negotiates either eliminating or reducing the limitation on liability at no additional cost. The motion was seconded by Chairperson Mendoza and all were in favor.

### EXECUTIVE SESSION

Comptroller Mendoza made to a motion to go into executive session to discuss personnel matters per 5 ILCS 120/2. Trustee Bates-Brown seconded the motion and the motion carried in a roll call vote:

Trustee Allison	Aye
Trustee Bates-Brown	Aye
Trustee Dawson	Aye
Trustee Friedman	Aye
Trustee Hawk	Aye
Trustee Jenkins	Aye
Trustee Silverthorn	Absent
Trustee Tilden	Aye
Vice-Chairperson Morris	Aye
Chairperson Mendoza	Aye

Comptroller Mendoza introduced the topic of the meeting as a Referral from the Office of the Executive Inspector General (OEIG). Comptroller Mendoza explained that there were two issues stemming from the Referral.

The first issue is whether there is any substance to the allegations referred to by the OEIG. The second issue is that the Referral was directed to Comptroller Mendoza at the System's office and was opened by Executive Secretary Blair as was his ordinary practice for correspondence coming to the System for the Comptroller. This obviously resulted in Executive Secretary Blair becoming aware of the confidential allegations against him.

These matters presented to the Board the questions of how to investigate the allegations and how to protect the confidentiality of similar future communications.

A robust and extended discussion ensued regarding these questions. Ultimately it was decided to refer these matters to the Rules and Personnel Committee of the Board to investigate the allegations and to make recommendations to the Board as to what procedures to adopt to protect the confidentiality of similar future communications.

The Rules and Personnel Committee was directed to report back to the Board at the Board's July 2018 meeting. The Board then voted to return to the open meeting.

#### REPORT OF AUDIT AND COMPLIANCE COMMITTEE

Due to time constraints, the report of the Audit and Compliance Committee was deferred to the next quarterly meeting.

#### REPORT OF CIO

Due to time constraints, the report of the CIO was deferred to the next quarterly meeting.

#### REPORT OF THE EXECUTIVE SECRETARY

FY 2019 Preliminary Operations Budget Request. Secretary Blair presented the preliminary FY 2019 budget for review. He noted the FY 2019 preliminary budget request was increased of \$75,366 or 0.45% from the FY 2018 budget. He noted the proposed budget fully funds the call center and the Chicago office for all of FY 2019.

Chairperson Mendoza asked the Board if there were any questions regarding the FY 2019 preliminary FY 19 budget. There being none, a motion was made by Trustee Friedman to approve the preliminary FY 2019 budget. The motion was seconded by Trustee Tilden and all were in favor.

Legislative Report. Due to time constraints, the legislative report was deferred to the next quarterly meeting.

FY 2018 Funding Update. Due to time constraints, the FY 2018 funding update was deferred to the next quarterly meeting.

REPORT OF ACCOUNTING DIVISION MANAGER

Due to time constraints, the report of the Accounting Division manager was deferred to the next quarterly meeting.

APPROVAL OF EXECUTIVE COMMITTEE MINUTES

The trustees had previously been furnished with copies of the December 2017 and January, February and March 2018 Executive Committee minutes for review. There being no changes to the minutes, Trustee Friedman moved to approve the minutes with the exception of the Bryan Monk and Peter Barbera cases, which would be referred back to the Executive Committee for further consideration. Trustee Tilden seconded the motion, which prevailed by the affirmative vote of all present.

OLD BUSINESS

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

NEW BUSINESS

Chairperson Mendoza asked if there was any new business to be brought before the Board. There was no new business.

ADJOURNMENT

There being no further business to be brought before the Board, Chairperson Mendoza called for a motion to adjourn. Trustee Allison made the motion to adjourn, seconded by Trustee Tilden and the meeting adjourned at 2:05p.m.

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Susana A. Mendoza, Chairperson

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

ATTEST:

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

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