

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

MINUTES OF THE REGULAR MEETING  
OF THE BOARD OF TRUSTEES

April 30, 2019

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, April 30, 2019, 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  
Shaun Dawson, Elected Active Trustee  
Renee Friedman, Appointed Trustee  
Tad Hawk, Elected Active Trustee  
Stephen Mittons, Elected Active Trustee  
Thomas Allison, Appointed Trustee  
John Tilden, Elected Retired Trustee  
Danny Silverthorn, Appointed Trustee  
Alan Latoza, Elected Retired Trustee

Absent:

Carl Jenkins, Appointed Trustee  
Yasmin Bates-Brown, Appointed Trustee

Others in attendance were:

Timothy Blair, Executive Secretary  
Alan Fowler, Manager, Accounting Division  
Casey Evans, Chief Internal Auditor  
Jeff Houch, Assistant to Executive Secretary  
Jennifer Staley, Recording Secretary  
Steve Bochenek, System Attorney  
Chris Maley, Illinois Office of the Comptroller  
Chasse Rehwinkel, Illinois Office of the Comptroller  
Dipesh Mehta, General Counsel, Illinois State Board of Investment  
Ali Wallace-Stone, Investment Consultant, Meketa Investment Group  
Alex Rivera, Consulting Actuary, Gabriel, Roeder, Smith & Co.  
Loren Iglarsh, SERS Retiree and Executive Committee Chairman

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 OCTOBER 30, 2018 BOARD MEETING

The minutes of the Board meeting held on January 15, 2019, were presented to the trustees by Chairperson Mendoza. Copies of these minutes were previously provided to each trustee for preliminary review. Trustee Latoza moved to approve the minutes as submitted. Trustee Mittons seconded the motion, and all were in favor.

### REPORT OF CHAIRPERSON MENDOZA

Chairperson Mendoza provided an update on the estimated bill backlog as of April 30, 2019, which totaled approximately \$6.2 billion. The current backlog represents a significant improvement from the high mark of \$16.7 billion in November of 2017, as provisions were provided in the Fiscal Year 2018 budget that allowed her office to reduce the level. Such provisions included \$6 billion in proceeds from the sale of General Obligation Bonds, interfund borrowing and the ability for the State Treasurer to deploy funds from his investment portfolio towards the backlog. Additionally, the bond proceeds allowed the State to capture \$2.2 billion in Federal reimbursement funds to pay medical bills. Chairperson Mendoza stated that the bill backlog will hover between \$6 billion and \$8 billion in the near term because no specific provisions were included in the Fiscal Year 2019 budget to reduce the backlog.

Chairperson Mendoza continued her report by summarizing key legislation that her office is pursuing during the legislative session. Senate Bill 1238 and House Bill 2117 contain the proposed Managed Care Organization Transparency Act and would provide transparency to the State's Medicaid expenditures. The State uses "Managed Care Organizations" (MCOs) to facilitate the payment of medical services. Many of the MCOs have a poor history of distributing payments to medical providers in a timely manner. The proposed legislation would require the MCOs to publish a quarterly report related to key information associated with the claims submitted by medical providers and the payment status of such claims. Chairperson Mendoza acknowledged that such legislation faces resistance, but the Office of the Comptroller will continue to advocate for the passage of the bill.

Chairperson Mendoza continued by summarizing another initiative of her office, the "Bank on Illinois Act" in Senate Bill 1332. The legislation seeks to provide efficient financial services to low-income residents who rely on high fee providers for their banking needs. The legislation provides that the Comptroller will partner with reputable financial institutions to provide essential low-cost financial products. Chairperson Mendoza concluded her report by telling the Board that she will present her FY 20 budget request to the House and Senate in the days following the Board meeting and that her request remains fiscally prudent.

### REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT

Dipesh Mehta, General Counsel of the Illinois State Board of Investment (ISBI), distributed copies of the Quarterly Review for the period ending December 31, 2018, prepared by Meketa Group. Ali Wallace-Stone, Consultant for Meketa was present to review the performance of the portfolio. Ms. Wallace-Stone began by reviewing the actual and target asset allocations as of December 31, 2018, noting that all asset classes are in line with the policy allocation. She summarized that the total portfolio was down 4% following the 2<sup>nd</sup> quarter of FY 19, however strong performance in the 3<sup>rd</sup> quarter produced a fiscal year to date return of 4.5% for the total portfolio.

Ms. Wallace-Stone then began summarizing the performance of various asset classes, for the quarter ending December 31, 2018. The Fixed Income portfolio trailed the benchmark by 0.7%, attributed to under performance of the Emerging Markets debt and the High Yield composites. The Opportunistic Debt composite was the strongest performing fixed income asset class, gaining 3.0% over the three-month period. For the quarter ending December 31, 2018, the Equities portfolio was down 8.5% but ahead of the benchmark return of -9.3%. In the second quarter, the U.S. Equities portfolio was down 14.0% but outperformed the market index by 0.3% and the portfolio was in the top quartile among peer funds. She reported the Private Equity portfolio has returned 4.7% for the fiscal year, lagging the benchmark return of 9.8%. However, this is a function of the accounting lag associated with the asset class and that it is very likely that such portfolio will exceed the benchmark return by the end of the fiscal year.

Ms. Wallace-Stone finished her prepared remarks by summarizing the Real Assets portfolio returned 2.7% by the end of the second quarter, beating the benchmark return of 1.4%. The Infrastructure composite has been the strongest performing asset class within the Real Asset portfolio, returning 4.0% through December 31, 2018. The Real Estate composite returned 2.3% through the end of the second quarter, trailing the benchmark by 60 basis points. Ms. Wallace-Stone concluded her report by stating that as of April 27, 2019 the total portfolio was valued at \$18.8 billion.

Following some discussion on the procedures and dynamics of monitoring manager performance, Trustee Hawk moved to approve the ISBI Quarterly Review for the period ended December 31, 2018. Vice-Chairperson Morris seconded the motion, which passed unanimously. A copy of the report is maintained in the ISBI office and made a part of these minutes as *Exhibit A*.

#### REPORT OF CONSULTING ACTUARIES

Alex Rivera, Consulting Actuary, Gabriel, Roeder, Smith & Company, distributed a document related to the proposed assumptions for the accelerated pension benefit payment program created by Public Act 100-0587. Mr. Rivera summarized the details of the program and the methodology used to produce the proposed assumptions. Mr. Rivera summarized his recommendation that 21% of eligible “regular formula” members and 28% of eligible “alternative formula” members are assumed to elect the COLA accelerated benefit payment option. Additionally, he recommended that 10% of eligible members are assumed to elect the total accelerated pension benefit payment option.

Mr. Rivera also summarized that it is projected that such program will reduce the State’s Fiscal Year 2019 contribution by \$20,176,000. Following some discussion related to the details of the proposed assumptions, Trustee Latoza motioned to approve the proposed assumptions. Trustee Silverthorn seconded the motion, which passed unanimously. A copy of this document is made a part of these minutes as *Exhibit B*.

#### REPORT OF ANY TRUSTEE

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

#### REPORT OF AUDIT & COMPLIANCE COMMITTEE

There was no report of the Audit Compliance Committee due to the cancellation of the meeting that was scheduled to begin at 9:00 a.m. on April 30, 2019.

## REPORT OF RULES AND PERSONNEL COMMITTEE

Jeff Houch, Assistant to the Executive Secretary, summarized the action of the Rules and Personnel Committee meeting from the preceding day. Mr. Houch stated that the committee authorized staff to pursue rulemaking that provides clarification to the rules related to accelerated pension benefit payments. The rulemaking clarifies that funds used to pay accelerated pension benefit payments shall be transferred from the State Pension Obligation Acceleration Bond Fund to the State Employees' Retirement System trust fund. This clarification reflects the statutory language regarding the method used to facilitate the payment of the Bond Fund revenue to eligible retirement accounts of accelerated pension benefit payment recipients.

## REPORT OF THE EXECUTIVE SECRETARY

FY 20 Preliminary Operations Budget Request. Secretary Blair presented the preliminary FY 20 budget for review. He noted the FY 20 preliminary budget request was increased by \$1,330,155 or 7.51% from the FY 19 budget. Most of the increase is related to the reinstatement of the step increases that were provided in the collective bargaining agreement between the State and AFSCME. Such step increases were withheld since July 1, 2015, but effective April 1, 2019, employees subject to the collective bargaining agreement have been placed on their correct step level. Secretary Blair pointed out that backpay related to the missed steps is not reflected in the preliminary budget, and that such budgetary item will be addressed once the details become finalized. Secretary Blair stated that he intends to present the final FY 20 budget at the October 2019 Board meeting, anticipating that direction on the backpay will be provided by that time. A copy of the preliminary budget is made a part of these minutes as *Exhibit C*.

Chairperson Mendoza asked the Board if there were any questions regarding the FY 20 preliminary budget. There being none, a motion was made by Trustee Silverthorn to approve the preliminary FY 20 budget. The motion was seconded by Trustee Hawk and all were in favor.

Legislative Report. Assistant to the Secretary Jeff Houch summarized a few pending bills that would impact SERS. Mr. Houch also summarized the administration's proposal to adjust the funding formula and transfer of assets of the State-funded retirement systems. Details are still being discussed, but it is likely that legislation may be filed before May 31, 2019. The Board was reminded of the policy adopted at the April 2016 Board meeting that directed staff to oppose any legislation that delays or reduces State funding to SERS. Discussion then focused on the application of that policy if legislation is filed. Following discussion of the report, Trustee Latoza moved to approve the legislative report and the motion was seconded by Trustee Mittons. It passed unanimously. A copy of the legislative report is made a part of these minutes as *Exhibit D*.

FY 2019 Funding Update. Mr. Blair noted that State funding was current and the May contribution was submitted to SERS on April 25, 2019.

Trustee Election. Secretary Blair noted that Trustees Hawk, Mittons and Morris were the only 3 members who qualified for the election of the 3 expiring active member Trustee terms. Consequently, each member will start new 5-year terms effective July 15, 2019. He noted that Trustee Latoza was not seeking another term, so an election for that term would

be held in May. Secretary Blair added that two members have qualified for the election, and ballots will be mailed to approximately 61,000 annuitants on May 1<sup>st</sup>.

### SECOND QUARTER FINANCIAL STATEMENTS

Alan Fowler, Accounting Division Manager, presented the financial statements for the second quarter of FY 2019. Mr. Fowler noted that there was a \$35 million increase in the amount transferred from ISBI for the 2<sup>nd</sup> quarter of Fiscal Year 2019 when compared with same period from the prior fiscal year. This was directly correlated to the increase in benefits paid between the two periods. Mr. Fowler then summarized the primary sources of the cash receipts for the applicable quarter, noting that the State's contribution represents approximately 75% of the cash receipts. Mr. Fowler concluded his presentation by drawing attention to the FY 18 Comprehensive Annual Financial Report (CAFR), which contains wide-ranging information that includes items from all divisions of the organization. Upon conclusion of Mr. Fowler's report, Trustee Latoza moved to approve financial statements and the motion was seconded by Trustee Hawk. It passed unanimously. A copy of the financial statements is made a part of these minutes as *Exhibit E*.

### APPROVAL OF EXECUTIVE COMMITTEE MINUTES

The trustees had previously been furnished with copies of the January, February and March 2018 Executive Committee minutes for review. There being no changes to the minutes, Trustee Silverthorn moved to approve the minutes. Trustee Latoza seconded the motion, which prevailed by the affirmative vote of all present.

### OLD BUSINESS

Chairperson Mendoza asked if there was any old business. 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, but Secretary Blair invited all the trustees and staff to attend the SERS Employees' Club luncheon.

### ADJOURNMENT

There being no further business to be brought before the Board, the meeting adjourned at 11:40 a.m. Chairperson Mendoza thanked the Trustees and reminded them the next meeting is scheduled for June 25, 2019, at 10:00 a.m. in the Springfield Office with the videoconference location in the Bilandic Building.

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Susana A. Mendoza, Chairperson

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

ATTEST:

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

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