

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

**MINUTES OF THE ANNUAL MEETING
OF THE BOARD OF TRUSTEES**

February 9, 2010

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, February 9, 2010, at 10:00 A.M. in the System's Springfield office located at 2101 South Veterans Parkway with videoconference location at the James R. Thompson Center, Room 14-612, 100 West Randolph Street, Chicago, IL.

The following trustees were in attendance:

Lori Laidlaw, Vice Chairman
Thomas Allison
Renee Friedman
David Morris
Michael Noser
Patricia Ousley
Danny Silverthorn
Harold Sullivan, Jr.

Absent was:

State Comptroller Daniel Hynes, Chairman
Joyce King
Maria Pelaez-Peterson
Patricia Rensing
Virginia Yates

Others in attendance were:

Timothy Blair, Acting Executive Secretary
Steve Bochenek, Attorney
William Atwood, Director, Illinois State Board of Investment
Mike Kivi, Consulting Actuary, Gabriel, Roeder, Smith & Company
Alex Rivera, Consulting Actuary, Gabriel, Roeder, Smith & Company
Larry Stone, Internal Auditor
Nicholas Merrill, Manager, Accounting Division
Gerald Mitchell, Chief Information Systems Officer
I. Robert Hicks, Manager, Claims Division
Loren Iglarsh, Office of the Comptroller
Allan Mayer, Office of the Comptroller
Dawn Blakeman, Recording Secretary

Vice Chairman Laidlaw presided, and called the meeting to order at 10:15 a.m. with a quorum present.

February 10, 2010

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 December 31, 2009, and addressed the Board. He called attention to the portion of the report reflecting a 12.4% return for the fiscal year to date and a 14.4% return for the calendar year. Director Atwood reviewed the performance of the various asset classes and several of the investment managers. Director Atwood then answered several technical questions raised by the trustees, including questions about RFPs for custodians and possible losses in the current securities lending program. Vice Chairman Laidlaw thanked Director Atwood for his informative report and excused him from the remainder of the meeting.

Vice-Chairman Laidlaw moved to accept the Flash Report of the Illinois State Board of Investment for the period ending December 31, 2009 and Trustee Morris seconded the motion, which passed unanimously. A copy of this report is maintained in the office of the Illinois State Board of Investment.

SUPPLEMENTAL REPORT OF THE ACTUARY

Mike Kivi and Alex Rivera of Gabriel, Roeder, Smith and Company, Consulting Actuaries, appeared before the Board to present the results of actuarial work conducted to answer several questions and concerns raised by members of the Board at the October 20, 2009 meeting. Mr. Rivera distributed copies of the presentation and addressed the Board.

Review of Funded Ratio

Mr. Rivera reviewed the historical funded status of SERS since 1990 and compared this to the aggregate levels of all public pension plans during the same time period. His review showed that the SERS funded ratio has been significantly lower than the aggregate of all public funds over the time period reviewed. In fact, the aggregate FY 2008 funded ratio for over 100 public funds was 85.3%, compared to the SERS funded ratio of 46.1% for that same fiscal year.

Review of Contributions and Contribution Rates

Mr. Rivera then reviewed the median employee and employer contribution rates between FY 2002 and FY 2009 for all public plans, and compared those results to the employer rates of SERS over the same time period. The median rates for all plans are generally comparable to the employee and employer rates for SERS over the time period reviewed.

Mr. Rivera compared the actual employer contributions to SERS since FY 2001 to the Annual Required Contribution (ARC) as required to be reported by the Governmental Accounting Standards Board (GASB). Mr. Rivera noted the employer contributions to SERS as a % of the ARC have declined dramatically over the time period reviewed, from 124% of the ARC in FY 2001 to a low of 31% of the ARC in FY 2006, before rebounding to 77% in FY 2009.

Review of Investment Return Assumption

Mr. Rivera continued by reviewing the various components of the interest rate assumption and the aggregate interest rate assumptions currently used by public plans. He found the most

common assumption currently in use to be 8%, as compared to the 8.5% currently in use by SERS. Mr. Rivera found that 108 of the 114 systems in the NASRA Public Fund survey used an interest rate assumption of 7.5% to 8.5%. None of the plans in the survey used an assumption greater than 8.5%. Mr. Rivera noted that, based on an asset allocation analysis performed by Marquette Associates, Inc., SERS has a 56.70% chance of earning at least 8.5% over a simulation period of 10 years.

Based on the current investment return assumption of 8.5%, the actuaries have projected that the employer contribution as a percent of payroll will be close to 32% until FY 2033 and then increase to about 35% of payroll through FY 2045. Assuming an 8% investment return assumption, the corresponding contribution rates are projected to be 34% and 37.3%, respectively. Reducing the interest rate assumption to 7.5% results in contribution rates of more than 36% of payroll for many of the years through FY 2033 and then nearly 40% of payroll through FY 2045.

Asset Smoothing

Mr. Rivera discussed the impact of the smoothing of assets on future employer contribution rates and the financial condition of the System. Asset smoothing ultimately has a relatively minor impact on the employer contribution rate, probably less than 0.5% of payroll per year through FY 2045. According to Mr. Rivera, the impact of asset smoothing on the funded ratio of SERS is also likely to be very minimal through FY 2045 (the remainder of the funding plan).

GASB Standards

Mr. Rivera described various funding scenarios advocated by the Governmental Accounting Standards Board. The minimum GASB funding method does not provide for the adequate funding of SERS, but following the alternative minimum GASB funding would result in the State making additional contributions to SERS in the next several fiscal years. Subsequently, the employer contribution rate in years at the end of the funding plan would be significantly less (17.01% in FY 2045) than if the State continues to follow the current statutory funding plan (35.02% in FY 2045).

Following the presentation, the Trustees were afforded the opportunity to discuss the presentation and ask questions of Mr. Rivera and Mr. Kivi. After the discussion, Vice-Chairman Laidlaw thanked Mr. Rivera for his report and following discussion and excused Mr. Kivi and Mr. Rivera from the remainder of the meeting.

MINUTES OF OCTOBER 20, 2009 BOARD MEETING

The minutes of the meeting of the Board of Trustees held October 20, 2009, were presented to the members by Vice Chairman Laidlaw for approval. Copies of these minutes were previously mailed to each trustee for preliminary review. Trustee Noser asked Acting Secretary Blair about the level of detail in the minutes as distributed. Acting Secretary Blair responded that in the past the minutes have been fairly brief and have not provided a lot of detail, but that more details would be provided in the minutes of future Board meetings. There being no additional questions, corrections or additions, Trustee Ousley moved to approve the minutes as submitted. Trustee Silverthorn seconded the motion, and all were in favor.

REPORT OF THE CHAIRMAN

Vice Chairman Laidlaw indicated she had no report.

REPORT OF INTERNAL AUDITOR

Larry Stone, addressed the Board, and summarized his accomplishments since his last report to the Board.

Audit – A Claims audit was completed reviewing estimate procedures and the following was found:

Level Income Estimates did not include the 3% cost of living adjustments.

Estimates mailed or given to walk in individuals were not maintained in member files.

There were no examples provided for level income.

The full social security number was on external communication.

There was no disclaimer on estimates.

Death Match Results - The death match, which is now completed monthly rather than quarterly, has been completed for the period of October 2009 thru December 2009. There were no new overpayments.

Trustee Morris moved acceptance of the Internal Auditor's report for this period. Trustee Silverthorn seconded the motion, and all were in favor.

REPORT OF EXECUTIVE SECRETARY

IT Update on Modernization Conversion - Gerry Mitchell, Chief Information System Officer, provided the Trustees with a list of the accomplishments and goals of the IT Division. Mr. Mitchell reported that IT infrastructure upgrades are well underway. In addition, the training of current employees is on schedule and several employees with the skills to help us move forward have been added to the IT staff.

Fiduciary Insurance - Trustee Allison requested information regarding fiduciary insurance for the Trustees, and provided trustees with some basic information on fiduciary insurance. Acting Secretary Blair was instructed to contact insurance representatives regarding the cost of various types of fiduciary insurance and report back to the trustees at the April meeting.

Trustee Training – Trustee Allison handed out information regarding trustee training and suggested a conference given by the International Foundation of Employee Benefit Plans to be held in Chicago on June 22 – 25, 2010. Trustee Silverthorn moved to accept Trustee Allison's request for trustees to attend the conference, Trustee Noser seconded the motion and all were in favor. Acting Executive Secretary Blair offered to send a letter to all trustees notifying them of the opportunity to attend the trustee training sessions in Chicago.

Reading of Communication – For informational purposes, Acting Secretary Blair provided all Trustees with the copy of a memo from CMS that outlined the State's "revolving door" policy.

Furlough Days – After Acting Secretary Blair reported on the current furlough program mandated for SERS by CMS and the Governor's Office of Management and Budget, Vice Chairman Laidlaw suggested Acting Secretary Blair draft a letter to the Governor's office regarding the discontinuing of furlough days for SERS employees. On motion by Trustee Friedman, seconded by Trustee Noser, the motion passed unanimously.

Code of Ethics – Mr. Bochenek presented the Trustees with an updated Code of Ethics that reflects recent statutory changes that pertain to the SERS Board of Trustees. Following questions, on motion by Trustee Morris, seconded by Trustee Silverthorn, and by unanimous vote, the Board approved to adopt the new Code of Ethics.

Treasurer's Working Group - Recent legislation requires the State Treasurer's office to convene a working group consisting of representatives from the Retirement Systems, pension funds, the Illinois State Board of Investment, persons that provide investment services, and members of the financial industry. This group is charged with reviewing the performance of investment managers and consultants and developing uniform standards for comparison of cost in their services. Acting Secretary Blair offered to be the spokesman for the State Employees' Retirement System. Following discussion, on motion by Trustee Silverthorn, seconded by Trustee Sullivan, the Board unanimously granted Acting Executive Secretary Blair authorization to represent and be the spokesperson for SERS.

FIRST QUARTER FINANCIAL REPORT

Nicholas Merrill, Manager of the Accounting Division, presented the financial report for the first quarter of Fiscal Year 2010.

Mr. Merrill indicated that the amount required to be transferred from ISBI decreased during this period (\$60,000,000) from the same period last year (\$84,000,000) as a result of increased employee and employer contributions.

The Comprehensive Annual Report as of June 30, 2009 has been completed and will be printed and distributed within the next two weeks.

Following questions, on motion by Trustee Noser, seconded by Trustee Friedman, and by unanimous vote, the Board approved the financial reports as presented for the period July 1, 2009 through September 30, 2009.

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

EXECUTIVE COMMITTEE MEETING MINUTES

The trustees had previously been furnished with copies of the October, November and December, 2009, Executive Committee minutes for review. Trustee Noser had a question regarding the Disability/Social Security Administration overpayments. Members of the Executive Committee explained that SERS disability benefits are statutorily required to be offset (or reduced) when other benefits are payable from the Workers' Compensation Commission or the Social Security Administration.

Trustee Noser asked for an explanation of Public Act 95-1043, which allowed certain annuitants to elect to reduce their monthly retirement annuity by 3.825% in order to remove the Social Security offset from any future SERS widow's or survivor's benefit. It was explained that election forms were mailed to all affected members to be completed and returned no later than June 30,

2009. Following this discussion, with there being no changes to these minutes, Trustee Silverthorn moved for adoption as submitted. Trustee Friedman 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 Ousley moved for adjournment at **12:50 P.M.** The adjournment motion was seconded by Trustee Friedman and all were in favor.

Lori Laidlaw, Vice Chairman

Date: _____

ATTEST:

Timothy Blair, Acting Executive Secretary

Date: _____