

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

**MINUTES OF THE REGULAR MEETING
OF THE BOARD OF TRUSTEES**

January 20, 2011

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Thursday, January 20, 2011, 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 N700, 100 West Randolph Street, Chicago, Illinois.

The following trustees were in attendance:

Judy Baar Topinka, Chairperson
Lori Laidlaw, Vice Chairperson
Renee Friedman
David Morris
Michael Noser
Patricia Ousley
Maria Pelaez-Peterson
Patricia Rensing
Dan Silverthorn
Harold Sullivan, Jr.

Absent was:

Thomas Allison
Joyce King
Virginia Yates

Others in attendance were:

Timothy Blair, Executive Secretary
David Rolf, Attorney
Bill Atwood, Illinois State Board of Investment
Jason Huddelston, Office of the Comptroller
Kelly Choate, Attorney General's Office
Joanne Olsen, Attorney General's Office
Lawrence Stone, Internal Auditor
Gerald Mitchell, Chief Information Systems Officer
Barb Baird, Manager, Chicago Office
Nicholas Merrill, Manager, Accounting Division
Tom Davis, Davis American
Jeff Sychowski, Davis American
Loren Iglarsh, Office of the Comptroller
Alexis Sturm, Office of the Comptroller
Dawn Blakeman, Recording Secretary

Chairperson 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

Bill Atwood, Executive Director of the Illinois State Board of Investment (ISBI) distributed draft copies of the Flash Report (Executive Summary) for the period ending December 31, 2010. Mr. Atwood began by calling attention to the portion of the report reflecting a preliminary 14.4% gross return for fiscal year 2011 to date (FYTD), compared to the benchmark return of 14.2%. Mr. Atwood then reviewed the performance of various asset classes and pointed out the fixed income portfolio has returned 2.3% FYTD, compared to the benchmark (BarCap Universal) return of 1.8%. U.S. equities have returned 21.3% FYTD, compared to the benchmark return of 24.5%. Mr. Atwood concluded his review by pointing out that international equity returns have been satisfactory, and as have the returns of the other asset classes.

Mr. Atwood continued his remarks by pointing out the uncertainty in the timing of the employer contributions has caused the Board to reduce investment in illiquid asset classes. For the duration of FY 2011, ISBI has liquidated \$90 million monthly in assets in order to pay retirement benefits. He noted the 96th General Assembly has approved legislation that allows the State to issue bonds in the amount of the FY 2011 retirement contribution and remit the proceeds to the retirement system. Mr. Atwood expects to receive the bond proceeds in March 2011 or earlier, but noted that ISBI will continue to liquidate assets, such as real estate and private equity, until any proceeds from the bond issuance is remitted to ISBI.

Chairperson Topinka pointed out that the State recently has contributed a small portion of the FY 2011 employer contribution to JRS and GARS. In addition, Chairperson Topinka is proposing a legislative change that would allow the Comptroller's Office to pay a portion of the monthly State contribution to the retirement systems, which is not allowed under current statute. Mr. Atwood indicated partial payments would be incredibly helpful, especially if those payments increase the predictability of the employer contribution.

Trustee Noser asked Mr. Atwood about fees associated with the portfolio managers. Mr. Atwood answered by stating the average fee of the portfolio is 37 to 38 basis points, and promised to provide all trustees with net of fee returns. Based on a question from Chairperson Topinka, Mr. Atwood explained the investment manager procurement process used by ISBI. Chairperson Topinka thanked Mr. Atwood for his informative report and excused him from the remainder of the meeting.

Trustee Morriss moved to accept the Flash Report of the Illinois State Board of Investment for the period ending December 31, 2010. Trustee Ousley seconded the motion, which passed unanimously. A copy of this report is maintained in the office of the Illinois State Board of Investment.

MINUTES OF OCTOBER 19, 2010 AND NOVEMBER 10, 2010 BOARD MEETINGS

The minutes of the meetings of the Board of Trustees held October 19, 2010, and November 10, 2010, were presented to the members by Chairperson Topinka for approval. There being two minor corrections, Trustee Rensing moved to approve the minutes as corrected. Trustee Friedman seconded the motion, and all were in favor.

REPORT OF THE CHAIRPERSON

Chairperson Topinka indicated she had no official report, but stated she is looking forward to working with the Board to make SERS the best retirement system in the nation. Chairperson Topinka then introduced Alexis Sturm and Loren Iglarsh of the Comptroller's Office to the Board.

REPORT OF INTERNAL AUDITOR

The System's Internal Auditor, Larry Stone, addressed the Board, and summarized his accomplishments since his last report to the Board. Mr. Stone performed an audit of the system's revenues and receivables to determine if the employer contribution rate agrees with the SERS certified rate for FY 2010 and FY 2011. The audit also was to determine if payment is accurately made to the General Obligation Retirement and Interest Fund in a timely manner once SERS receives the employer portion of the debt service through payroll deduction. There were no recommendations.

The death match for this period identified \$63,462.03 in overpayments that were avoided in November and December. The Claims Division recently took over the duties of completion of the death match. The death matches were completed for October, but the result for that month was not tracked.

Mr. Stone then provided the Board with a revised Internal Audit Charter and Procedures manual and offered to answer any questions the Board may have. Vice-Chairperson Laidlaw moved acceptance of the Internal Auditor's report for this period. Trustee Rensing seconded the motion, all were in favor.

REPORT OF EXECUTIVE SECRETARY

IT Update Gerry Mitchell, CISO of the System, provided an update of the SRS Modernization Activities and Accomplishments. Recent accomplishments include the development of a new Human Resource System, which was implemented December 1, 2010. The savings associated with the attendance system are estimated to total approximately 1,172 personnel hours annually. In addition, the system will reduce paper usage by approximately 3.5 boxes of paper annually and eliminate the need for a 3 part form. The Division also continues to make modifications in the line of business systems in order to implement the Tier 2 benefit structure.

The Division continues to move forward on modernization of all systems and has begun modernization of the Accounting Division and the Active Member System. In addition, the Division has selected a consultant to research the agency's needs in regards to an imaging system. The System currently stores over 10 million pieces of paper and is considering an imaging system to eliminate the storage of these documents, enhance security and improve workflow.

Mr. Mitchell continued by informing the Board that he will present the results of the imaging consultant at the April Board meeting. His April report will provide options for completing the imaging project, as well as options if the Board chooses to delay imaging. Following further discussion and after answering several questions from the Board regarding the imaging system, Mr. Mitchell was thanked by Chairperson Topinka for his informative report.

Fiduciary Liability Insurance Secretary Blair introduced Tom Davis of Davis-American, Ltd. to provide an update to the trustees on the search for fiduciary liability in-

insurance. Mr. Davis thanked the trustees for the Board's attention and distributed information to the Board. Mr. Davis notified the Board that he had proposals from two providers, Hudson/ULLICO and Chartis (formerly AIG). Trustee Noser pointed out that it appears that the ULLICO proposal is a better fit for the Board. Mr. Davis concurred and pointed out some of the advantages of the ULLICO policy, including a substantially lower retention (deductible) level. The ULLICO premium is also lower by about \$4,000.

Mr. Davis pointed out ULLICO policy provides broader coverage than the Chartis policy. Upon further discussion of differences in the proposals and questions posed by several trustees, Mr. Rolf agreed to review the proposals and report back to the Executive Secretary within 2 weeks of the Board meeting. Trustee Silverthorn moved to accept the ULLICO proposal and purchase the policy pending the System's attorney's review of all proposals submitted. Trustee Ousley seconded the motion and all trustees present were in favor.

Legislation and Funding Issues Secretary Blair informed the Board that legislation allowing the State to borrow the required FY 2011 proceeds had passed both chambers of the General Assembly and been signed into law. The legislation also requires the Board to re-certify, by April 1, 2011, the FY 2011 contribution amount assuming the Tier 2 benefit provisions were in effect at the time of certification. Secretary Blair provided the FY 2011 re-certification amount (\$1,173,882,000 or 27.988% of payroll) to the Board. Trustee Morris put forth a motion to approve the re-certification amount, but note in the re-certification that the Board does not think a re-certification is appropriate given the financial condition of the System. Following questions and further discussion, Vice-Chairperson Laidlaw seconded the motion and all trustees voted in the affirmative.

Following re-certification, Trustee Sullivan recommended having legislation drafted that would provide a funding plan that is GASB compliant. Chairperson Topinka voiced support for the recommendation. Executive Secretary Blair offered to have legislation drafted and to ask the other State-funded systems if there is any interest in being included in the legislation. Trustee Sullivan made the motion, which was seconded by Trustee Friedman and approved by an affirmative vote of all trustees present.

FIRST QUARTER FINANCIAL REPORT

Nicholas Merrill, Manager of the Accounting Division, presented the financial report for the first quarter of Fiscal Year 2011.

Mr. Merrill explained the change in the submission of employer contributions to SERS from the historical method of payroll deduction to the recent use of bond proceeds to make the employer contribution to SERS. For FY 2010, this caused almost two thirds of the employer contribution to be submitted to SERS at one time, in January 2010, rather than in roughly equal increments over the course of a year, making cash management challenging. In FY 2011, SERS continues to receive only about one third of the required employer contribution amount through the payment of payrolls, pending the sale of bonds that are to be used to make the FY 2011 GRF contribution.

Mr. Merrill indicated that due to the lack of monthly employer contributions from GRF payrolls, the System has and will continue to draw down \$70,000,000 to \$75,000,000 per month from ISBI in order to pay benefits.

Following further discussion regarding the timing of employer contributions and the funding plan, Trustee Ousley moved to accept the financial report for the first quarter. The

motion was seconded by Trustee Silverthorn and passed unanimously. A copy of this report is on file.

EXECUTIVE COMMITTEE MEETING MINUTES

The trustees had previously been furnished with copies of the October, November and December 2010, Executive Committee minutes for review. Following a short discussion, Trustee Rensing moved for the adoption of the minutes. Trustee Silverthorn seconded the motion, which prevailed by the affirmative vote of all trustees.

OLD BUSINESS

There was no old business to be discussed.

NEW BUSINESS

Closed Session for Personnel Matters Vice-Chairperson Laidlaw made a motion to go into closed session to consider the appointment, employment, compensation, discipline, performance or dismissal of specific employees of the State Employees' Retirement System. The motion was seconded by Trustee Rensing. A roll call vote was taken and all trustees in attendance voted in the affirmative.

Trustee Rensing made a motion to return to open session. The motion was seconded by Trustee Ousley. A roll call vote was taken and all trustees in attendance voted in the affirmative.

ADJOURNMENT

There being no further business to be brought before the Board, Trustee Ousley moved for adjournment at **12:55 P.M.** seconded by Trustee Rensing.

Judy Baar Topinka, Chairperson

Date: _____

ATTEST:

Timothy Blair, Executive Secretary

Date: _____