

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

MINUTES OF THE REGULAR MEETING  
OF THE BOARD OF TRUSTEES

January 9, 2018

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, January 9, 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  
Shaun Dawson, Elected Active Trustee  
Renee Friedman, Appointed Trustee  
Tad Hawk, Elected Active Trustee  
Alan Latoza, Elected Retired Trustee  
Stephen Mittons, Elected Active Trustee  
Danny Silverthorn, Appointed Trustee

Absent:

Thomas Allison, Appointed Trustee  
Yasmin Bates-Brown, Appointed Trustee  
Carl Jenkins, Appointed Trustee  
John Tilden, Elected Retired 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  
William Atwood, Director, Illinois State Board of Investment  
Alex Rivera, Consulting Actuary, Gabriel, Roeder, Smith & Co.  
Ryan Gunderson, Consulting Actuary, Gabriel, Roeder, Smith & Co.  
Alan Fowler, Manager, Accounting Division  
Casey Evans, Chief Internal Auditor  
Kevin Rademacher, Manager, IT Division  
Barbara Baird, Manager, SERS Chicago Office  
Jessica Blood, Recording Secretary  
Loren Iglarsh, SERS Retiree

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.

## REPORT OF CHAIRPERSON MENDOZA

Chairperson Mendoza provided an update on HB 3649, the Debt Transparency Act, by noting the Governor's veto of the bill was overridden by the General Assembly in November. She added that her staff was working on the implementation of the law and that reporting by agencies would begin on January 10<sup>th</sup>. Chairperson Mendoza stated that in addition to the amount of outstanding bills, her office is requiring agencies to report which debt generates interest, the estimated interest cost, and the age of outstanding bills. She added that her office would also require agencies to report which bills are appropriated, as well as whether the outstanding bills would be paid out of dedicated funds or the General Revenue Fund.

Chairperson Mendoza continued her report by providing a bill backlog update, stating that the estimated backlog stood at \$8.938 billion, down nearly half since the bond deal, primarily due to the infusion of nearly \$6.5 billion in bond proceeds. She added that her office started paying the oldest bills after the proceeds were received and within three weeks her office released nearly 73,000 vouchers totaling approximately \$8.8 billion, of which \$4.6 billion was paid for Medicaid bills and \$4 billion for employee health insurance bills. For the payment of the Medicaid bill, the State received more than \$2 billion in federal reimbursements, which were in turn used to pay down additional bills. Chairperson Mendoza mentioned the bill backlog was expected to rise again with the current budget deficit, and added that leadership and cooperation, as well as a balanced budget, would be necessary to keep moving in the right direction.

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

## MINUTES OF THE OCTOBER 31, 2017 BOARD MEETING

The minutes of the Board meeting held on October 31, 2017, were presented to the members 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 Hawk seconded the motion and all were in favor.

## REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT

William Atwood, Director of the Illinois State Board of Investment (ISBI), distributed copies of the Quarterly Review for the period ending September 30, 2017, prepared by Metketa Group. He began by reviewing the actual and target asset allocations as of September 30, 2017, noting that the Fixed Income Composite constituted 30.8% of the portfolio, under the policy target of 37%.

Director Atwood continued by reporting the Credit Composite equaled 7.6% of the ISBI portfolio, well under the 15% target, noting this was due to the Board changing the allocation to credit strategies and increasing the Opportunistic Debt Composite from .9 to 8.0%. The Equity Composite comprised 49.6% of the portfolio, well ahead of the target allocation of 44%. The Private Equity Composite amounted to 3.3% of the portfolio, lagging the policy target of 7%. He added that prior to the deployment of capital to the private equity portfolio, the funds would be allocated to the Equity portfolio.

Director Atwood continued by reviewing the performance of the various asset classes for the nine months ending September 30, 2017, noting the total value of the portfolio was

\$17.79 billion on that date. He added the portfolio had experienced favorable growth with a value at \$18.5 billion as of January 8, 2018. Director Atwood stated the portfolio returned 12.1% over the nine months ended September 30, 2017, ahead of the benchmark of 11.4%. The Fixed Income Composite returned .7%, slightly behind the benchmark of 1.0%, attributing this lag to the High Yield Composite having less risk than the market as a whole. The U.S. Equity Composite returned 18.9%, ahead of the benchmark of 18.7%. The Non-U.S. Equity Composite returned 20.2%, ahead of its benchmark of 19.6%. The Real Assets Composite returned 9.4%. The Real Estate Composite returned 7.5%. The Private Equity Composite returned 17.3%, slightly ahead of its benchmark of 16.8%.

Director Atwood concluded his report by offering to answer any questions. There being none, Chairperson Mendoza asked if there was a motion to adopt the ISBI report ending September 30, 2017. Trustee Mittons moved to approve the ISBI Quarterly Review for the period ended September 30, 2017. 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 and Ryan Gunderson, Consulting Actuaries, Gabriel, Roeder, Smith & Company, distributed FY 2018 and FY 2019 final certification documents for review.

FY 2019 Final Certification. Mr. Rivera began his report by stating that the State Actuary reviewed and approved the assumptions, methodology and calculations used in the preparation of the FY 2017 actuarial valuation and in determining the required FY 2019 State contribution. He added that at the recommendation of the State Actuary, GRS would include the results of the stress test scenarios in the actuarial valuation.

Mr. Rivera referred the Board to the Actuarial Certification letter reviewed and unanimously approved at the October Board meeting and stated there were no changes resulting from the state Actuary's review. The FY 2019 State contribution totaled 51.614% of expected 2019 payroll, or \$2,254,103,000.

FY 2018 Final Recertification. Mr. Rivera noted the preliminary FY 2018 actuarial recertification was also unchanged after review by the State Actuary and totaled 47.342% of expected 2018 payroll, or \$2,115,281,000.

Mr. Rivera concluded his report by informing the Board that after the FY 2018 valuation, GRS would perform a comprehensive experience analysis of all actuarial assumptions, as required by statute, for use in the preparation of the FY 2019 valuation. This comprehensive analysis is in addition to the annual review of the economic assumptions. Vice-Chairperson Morris asked if GRS would separately review Tier 2 assumptions. Executive Secretary Blair offered that for the analysis, there would be seven years of experience which would be used to further refine Tier 2 assumptions.

Chairperson Mendoza asked if there were any questions regarding the actuaries' report. There being none, she requested a motion to approve the FY 2017 actuarial certification and the final certifications of the FY 2018 and FY 2019 State contributions. Trustee Mittons moved to approve the valuation and certifications as presented. Trustee Friedman seconded the motion and it passed unanimously. A copy of these certification documents are 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 IT DIVISION MANAGER

IT Modernization Project. Kevin Rademacher, IT Division manager, began by reporting on the ongoing IT modernization efforts. He stated that the project has been split between three development teams focusing on separate areas of the system – benefit setup, service purchase and accounts receivable/cash receipts. He added that they have made great progress in all areas with the current phase expected to be complete during the March/April timeframe.

Mr. Rademacher stated that there were five consultants working on the project whose contract was extended temporarily until a Request for Proposal (RFP) could be completed within the next few months. In response to a question from Vice-Chairperson Morris, Mr. Rademacher informed the Board that the consultants would be providing technical assistance on the reengineering project. Mr. Rademacher noted that AFSCME had filed a grievance regarding the RFP, but was working with SERS management on a tentative agreement to move the project forward. In response to a question from Trustee Silverthorn, Mr. Rademacher said that the contract would be for a maximum of 5 years, renewable annually.

Cyber Security Strategy. Mr. Rademacher stated that the IT Division is working on replacing every component of the SERS security system. He added that in the last quarter they implemented a new enhanced virus and malware detection system on all servers and workstations. Mr. Rademacher stated that all systems are now being scanned for vulnerabilities on a monthly basis and added that they will continue to implement several additional security components over the next 6 months.

Mr. Rademacher noted that the My Benefits project between CMS and Morneau Shepell was ongoing and IT is correcting retirees' premiums on a regular basis. In response to a question from Chairperson Mendoza, Mr. Rademacher stated that the response from Morneau Shepell when issues arise is to correct individual cases rather than implement a systematic fix. Chairperson Mendoza asked if the IT Division had a process of tracking urgency of issues, responsiveness and correction timelines. Mr. Rademacher stated that the IT Division consistently reports issues on the Morneau Shepell tracking system. He added that SERS management have also reported the issues as part of the executive steering committee over the project.

## REPORT OF AUDIT & COMPLIANCE COMMITTEE

Vice-Chairman Morris referred the Board to Chief Internal Auditor Casey Evans to provide the report of the Audit and Compliance Committee. Mr. Evans began his report by stating that the committee met at 9:00 am to discuss internal audit reports and activity, as well as the status of the ongoing external audit.

Mr. Evans stated that there is an internal audit in progress on IT security, adding that they are reviewing access rights to various IT systems, as well as a review of the physical security of the building and server room, disaster recovery and business continuity. He noted that there would be a comprehensive report on the audit outcome provided at the April meeting.

Mr. Evans stated that they are also currently working on a document imaging audit to evaluate the process by which documents are received from SERS members. He stated the purpose of this audit is to ensure there are good quality controls and backup procedures in place in the case of data loss. He stated that there are no audit findings, but there would be some recommendations that would result in business improvements.

Mr. Evans mentioned an ongoing fraud risk that public pension funds across the country have been facing, in which hackers use personally identifiable information to create or take over online member accounts in order to change direct deposit information and divert member payments. He added that internal audit requested a data query showing multiple payees receiving direct deposit to one bank account, adding that the only finding was five accounts under the care of the Office of the State Guardian. Mr. Evans stated there would be ongoing periodic checks to mitigate the risk of fraud.

Mr. Evans then reported on upcoming audits and projects. He stated that tax return documentation would be requested from disability recipients residing outside Illinois to ensure those recipients are eligible to continue to receive disability benefits. He added there would be routine audits of administrative expenditures, as well as a review of the Field Services workshops to ensure continued content suitability.

Mr. Evans concluded his report by offering to answer questions from the Board. Trustee Friedman asked if members are notified by SERS when changes are made to their direct deposit information. Mr. Evans specified there is no online ability to change direct deposit information, but paper notification would be considered when there is an online option for such changes.

Hearing no further questions from the Board, Vice-Chairperson Morris noted that Trustee Friedman would be stepping down from the Committee and thanked her for her service. He then welcomed Trustee Dawson to the Committee.

#### REPORT OF RULES AND PERSONNEL COMMITTEE

Trustee Latoza referred the Board to Jeff Houch, Assistant to Executive Secretary Blair, to make the report of the Rules and Personnel Committee. Mr. Houch stated that the Committee authorized staff to pursue rulemaking regarding disability benefit eligibility, including a rule to clarify that only active contributing members are eligible for a disability benefit. Mr. Houch concluded his report by offering to answer any questions. None were offered.

#### REPORT OF THE EXECUTIVE SECRETARY

FY 2018 Funding Update. Mr. Blair noted that funding was current and the January contribution had already been submitted to SERS by the Comptroller's Office. He added that there may be a withdrawal from the ISBI portfolio if there is a delay in the February contribution. Chairperson Mendoza asked if there were any questions. There were none.

#### FIRST QUARTER FINANCIAL STATEMENTS

Alan Fowler, Accounting Division Manager, presented the financial statements for the first quarter of FY 2018. Mr. Fowler noted that in comparison to the previous quarter, there was a decrease of \$30 million in the sale of investments. When compared to the first quarter

of FY 2017, Mr. Fowler noted that there was an increase of \$67.0 million in employer contribution and an increase of \$40 million in the sale of investments. In addition, retirement benefits increase by \$33.1 million, due primarily to the 3% COLA in January and an increase in the number of retirees.

Mr. Fowler reiterated that funding was current for the year and concluded his report by offering to answer any questions. Hearing none, Chairperson Mendoza asked if there was a motion to approve the first quarter financial statements ending September 30, 2017, as presented. Trustee Silverthorn moved to approve financial statements and the motion was seconded by Trustee Latoza. It passed unanimously. A copy of the financial statements is made a part of these minutes as *Exhibit C*.

#### APPROVAL OF EXECUTIVE COMMITTEE MINUTES

The trustees had previously been furnished with copies of the October and November 2017 Executive Committee minutes for review. There being no changes to the minutes, Trustee Hawk moved to approve. 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 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, the meeting adjourned at 11:35 a.m. Chairperson Mendoza thanked the Trustees and reminded them the next meeting is scheduled for April 24, 2018, 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: \_\_\_\_\_