

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

January 14, 2020

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, January 14, 2020, at 10:30 a.m. in the System's Springfield office located at 2101 South Veterans Parkway with a videoconference location at the James R. Thompson Center, Room 16-149, 100 W. Randolph St., Chicago, IL.

The following trustees were in attendance:

David Morris, Vice-Chairperson  
Thomas Allison, Appointed Trustee  
Barbara Baird, Elected Retired Trustee  
Yasmin Bates-Brown, Appointed Trustee  
Renee Friedman, Appointed Trustee  
Tad Hawk, Elected Active Trustee  
Stephen Mittons, Elected Active Trustee  
Danny Silverthorn, Appointed Trustee  
John Tilden, Elected Retired Trustee

Absent:

Susana A. Mendoza, Chairperson  
Shaun Dawson, Elected Active Trustee  
Carl Jenkins, 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  
Carla Bettenhausen, Manager, Field Services Division  
Jessica Blood, Recording Secretary  
Chris Maley, Illinois Office of the Comptroller  
Andrew Ranck, Illinois Office of the Comptroller  
Johara Farhadieh, Executive Director, Illinois State Board of Investment  
Scott Richards, Senior Investment Officer, Illinois State Board of Investment  
Alex Rivera, Consulting Actuary, Gabriel, Roeder, Smith & Co.  
Heidi Barry, Consulting Actuary, Gabriel, Roeder, Smooth & Co.  
Loren Iglarsh, SERS Retiree and Executive Committee Chairman

Vice-Chairperson Morris called the meeting to order at 10:30 a.m. with a quorum present.

PUBLIC COMMENTS

Vice-Chairperson Morris 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 THE ILLINOIS STATE BOARD OF INVESTMENT

Johara Farhadieh, Executive Director of the Illinois State Board of Investment (ISBI), began the ISBI presentation by reviewing the utilization of emerging and minority managers

at September 30, 2019, noting that 36.7% of the active portfolio is managed by Minority-owned or Women-owned firms and that \$24 million in annual fees are paid to such firms. Director Farhadieh introduced Scott Richards, ISBI Senior Investment Officer, to present the Quarterly Review dated September 30, 2019. He began by noting that the value of the portfolio on that date was approximately \$19.2 billion, adding that the markets had done very well in the 2<sup>nd</sup> Quarter, as the portfolio was valued at \$20.262 billion on January 13, 2020, an increase of \$1 billion from September 30, 2019.

Mr. Richards began his review of the performance of several asset classes with the Fixed Income portfolio, noting it was up 2.2% for the first quarter and was in the 15<sup>th</sup> percentile among its peer group. He noted that the Credit Composite returned 5.8% for the quarter ending September 30, 2019, outpacing the benchmark return of 4.9%. Mr. Richards continued his report by noting that the Opportunistic Debt portfolio returned 7.8% for the preceding 12-month period, far exceeding the benchmark return of 3.4%, pointing out that the active managers in this space had contributed to the solid performance.

Mr. Richards then discussed the domestic equity portfolio, noting that it had returned 21.8% for the fiscal year to date, placing it in the 8<sup>th</sup> percentile. He stated that the Non-U.S. Equity composite fiscal year to date performance produced a return of 12.1%, exceeding the benchmark of 11.4%. Mr. Richards continued by noting that private equity composite was the strongest performing asset class for the 12-month period ending September 30, 2019 and was up 19.3% for that period, remaining the strongest performing asset class for the 10-year period. Mr. Richards concluded his review by noting that the real estate portfolio produced a return of 5.1% over the last 12 months, underperforming the benchmark by 0.4%, noting that Clarion assets were sold when down 20%, negatively affecting the entire asset class.

Following the conclusion of the portfolio performance review, there was a discussion on the November 2019 COGFA Pension report. Trustee Allison mentioned that this report indicated that the FY 2019 return for SERS was 6.4%. Mr. Richards stated that the actual return was 7.1% and that the discrepancy may be the result of the methodology used to measure such assets and ignored the timing of the cashflows. Secretary Blair agreed with Mr. Richards and mentioned that the COGFA report likely pulled the return from the actuarial valuation, which is less precise than the return measured by ISBI.

Following some discussion on the dynamics of valuing the portfolio, Trustee Silverthorn moved to approve the ISBI Quarterly Review for the period ended September 30, 2019. Trustee Hawk seconded the motion, which passed unanimously. A copy of the report is maintained in the ISBI offices and made a part of these minutes as *Exhibit A*.

#### MINUTES OF THE OCTOBER 29, 2019 BOARD MEETING

The minutes of the Board meeting held on October 29, 2019, were presented to the trustees by Vice-Chairperson Morris. Copies of these minutes were previously provided to each trustee for preliminary review. Trustee Baird moved to approve the minutes as submitted. Trustee Tilden seconded the motion, and all were in favor.

#### REPORT OF CONSULTING ACTUARIES

Vice-Chairman Morris introduced Alex Rivera and Heidi Berry, Consulting Actuaries, Gabriel, Roeder, Smith & Company. Mr. Rivera began the GRS report by directing attention to the FY 2019 actuarial valuation and the FY 2021 certified contribution. He stated the State Actuary report contained a few recommendations, including additional stress testing

scenarios be included in the final valuation. Mr. Rivera stated that additional disclosures had been added to the final valuation, as well as additional information related to the mortality tables. He noted the FY 2021 certified contribution rate did not change from the preliminary valuation approved in October, remaining 54.814% of payroll, or \$2,447,924,00, which includes \$99,425,000 for debt service on the 2003 Pension Obligation Bonds.

Following discussion on the appropriation process and the recent buyout programs, Trustee Allison motioned to approve the June 30, 2019 actuarial valuation and the FY 2021 certified contribution rate. Trustee Bates-Brown seconded the motion, which passed unanimously. A copy of this document is made a part of these minutes as *Exhibit B*.

#### REPORT OF CHAIRPERSON MENDOZA

Chris Maley, Director of Research and Fiscal Reporting, Illinois Office of Comptroller, began by telling the Board that Comptroller Mendoza apologized but that a family health issue had prevented her attendance. He then provided an update on the estimated bill backlog as of January 14, 2019, which totaled an estimated \$6.346 billion, down from \$7.5 billion at the same time last year.

Mr. Maley then reviewed the backlog numbers for the past three calendar years with a low during CY 19 of \$5.5 billion and a high of \$8.8 billion, CY 18 with a low of \$6.4 billion and a high of \$9.1 billion and CY 17 with a low of \$8.9 billion and a high of \$16.7 billion. He noted that over the past two years, the lowest backlog amount in CY 17 had become the highest backlog amount in CY 19. Mr. Maley added that though significant progress has been made, Comptroller Mendoza stresses it is important to remain vigilant in order to keep reducing the backlog while also meeting the state's obligations of full pension payments, payments to vulnerable citizens, K-12, and higher education, and human services.

Mr. Maley concluded his report by stating that the Comptroller's office had made the January 2020 SERS contribution on time. He offered to answer any questions from the Board. There were none.

#### REPORT OF ANY TRUSTEE

Vice-Chairperson Morris asked if any trustee would like to offer a report. Trustee Baird reported that she had received calls from members concerned about the suspension of the Myths and Realities of Retirement workshops and added that a possible cause of low attendance is the difficulty in communicating workshop information to retirees. She added that members always have questions regarding insurance and she is concerned about how these questions will be addressed if the workshops are not reinstated.

#### REPORT OF AUDIT & COMPLIANCE COMMITTEE

Chief Internal Auditor Casey Evans began his report by thanking the trustees for completing all annual training requirements for 2019. He noted that the Secretary of State will be sending out statements of economic interest, adding that he would be sending out instructions via email with regards to those statements as March approaches.

Mr. Evans reported the Committee discussed the recent disability audit, which identified \$924,000 in underpayments and \$248,000 in overpayments, due primarily to instances when SERS staff was unaware of a Worker's Compensation (IWCC) settlement. He recommended improved internal controls be used in the monitoring of IWCC settlements and awards.

Mr. Evans reported on internal audit work being completed on the total buyout program, noting the testing of system accuracy when comparing the results of the model provided by the system's actuaries with the IT systems developed for the implementation of the buyout program. He added that compliance testing had also been done to ensure that staff retained all necessary documentation regarding the total buyout programs. He noted that analysis of demographics was performed to try to explain why the total buyout program has experienced a very low participation rate, when compared to other programs such as the COLA buyout. Mr. Evans concluded his report by stating that the COLA buyout program has a relatively strong participation rate of approximately 23%. He then offered to answer any questions from the Board.

Trustee Mittons asked if there were targeted participation rates for the programs. Secretary Blair stated that the initial actuarial prediction was 25% for the COLA buyout and 10% for the total buyout, but that there were no participation targets. He added that the actuarial assumption for the total buyout had recently been changed to 5%.

#### REPORT OF RULES AND PERSONNEL COMMITTEE

Jeff Houch, Assistant to the Executive Secretary, reported the committee had authorized staff to pursue several rules. The first rule clarifies that for the purpose of eligibility for and duration of SERS non-occupational disability benefits, TRS and SURS service credits may only be considered if the credits have not been used to receive a TRS or SURS retirement benefit, or refunded to the member. Mr. Houch stated that the committee also approved the codification of the methodology used in determining final average compensation for pensions is to be used in determining the final average compensation for non-occupational disability benefits.

Mr. Houch added that the committee approved staff to pursue codification of internal policies related to the collection of overpayments. He then offered to answer any questions from the Board. Trustee Baird questioned if staff would use the base salary or the average salary for a Tier 1 member, whichever is higher. Mr. Houch answered in the affirmative and clarified that if the final average salary is utilized, the period would be pegged to the date in which a member exits the payroll.

#### REPORT OF THE EXECUTIVE SECRETARY

FY 2020 Funding Update. Secretary Blair told the Board that all funding is current and that the Comptroller's Office had provided that the February State contribution would be made on time.

Update on Back-Wage Recalculations. Secretary Blair referred the Board's to a memo outlining the progress of the back-wage calculations by SERS staff. He noted the Board's approval of additional funding for overtime and headcount to assist in the thousands of recalculations. Secretary Blair stated the Pension Section staffing level had been increased with the filling of two Pension & Death Technician II positions. Secretary Blair noted the addition of one Field Service Representative, but added that some turnover was expected in that division with upcoming retirements.

Secretary Blair then updated the Board on the last several months' processing of back wage recalculations with 306 in October, 356 in November and 217 December. He stated the drop in December was due to the calculations of new pensions, adding that the pace would increase in mid-March with full staffing and a significant drop in new claims being processed.

Vice-Chairperson Morris asked about the number of recalculations still to be completed. Secretary Blair stated that he estimated there were approximately 5,000 recalculations left to process, but the exact number is hard to determine. He informed the Board that after the retirement season ends, the goal is to process 1,000 recalculations per month.

Buyout Update. Secretary Blair noted the COLA buyout program had a participation rate of 23.4% and added that approximately \$94 million had been processed for the COLA and total buyout programs, with almost \$78 million in actual payouts having been made.

Workshop Changes. Secretary Blair brought the trustees' attention to a memo outlining changes to workshops offered to retirees. He noted that the low attendance at the Myths and Realities of Retirement (MRR) workshops did not justify the cost of holding these workshops, adding that staff are working toward more effective retiree workshops in the future. Trustee Baird asked if a survey had been sent to determine interest in the workshops, noting the difficulty in communicating with retired members. Secretary Blair added the MRR schedule is included in retiree newsletters and that the system is starting to communicate with retirees by email.

Trustee Bates-Brown stated the importance of getting information to members and suggested that time needed to be taken to reevaluate the way workshops are currently conducted in order to make them more efficient in the future. Trustee Baird suggested the use of educational webinars as well as orientation-based education to reach younger members, in addition to physical workshops.

Secretary Blair continued his update on the workshop changes, noting the Field Services Division Manager is working to update material so that each representative provides the same information. He added that SERS staff would not provide detailed insurance information since the program is currently administered the Department of Central Management Services and Morneau Shepell. Trustee Baird suggested providing members with basic insurance information. Trustee Bates-Brown reminded the Board that while providing the information to members is very important, the details should be worked out by SERS staff regarding the efficient way to deliver such information.

Legislative Report. Jeff Houch, Assistant to the Executive Secretary, directed the Board's attention to Public Act 101-610, which allows a State police officer to purchase up to five years of service credit for out of state or federal law enforcement service, provided that such service is not held in another retirement system. He noted that members must initiate the purchase before January 1, 2023, and pay all the costs necessary to make the system whole.

Mr. Houch stated that the same Act expands the Tier 2 alternative formula to include members excluded from the System's Section 218 Agreement, and allows these members to convert up to eight years of regular service credit to alternative formula service credit, provided they initiate the conversion by December 31, 2020, and pay the cost necessary to make the system whole.

Mr. Houch then reported on Public Act 101-620, which specifically prohibits Illinois public retirement systems from disclosing certain personal information, such as member addresses, dates of birth, phone numbers, email addresses and labor organization status. He offered to answer questions from the Board. There were none. A copy of the legislative report is made a part of these minutes as *Exhibit C*.

## FIRST QUARTER FY 2020 FINANCIAL STATEMENTS

Alan Fowler, Accounting Division Manager, presented the financial statements for the first quarter of FY 2020. Mr. Fowler noted that member contributions were much higher during this quarter as a direct result of the step increases being reinstated, adding this had a direct correlation to the \$37 million reduction in the funds needed from ISBI. He then directed the Board's attention to the inclusion of the buyout program information now included in the financial statement. He noted that there was nearly \$25 million in COLA and Total Buyout program reimbursement payments.

Mr. Fowler concluded his report and offered to answer questions. Hearing none, Vice-Chairperson Morris asked for a motion to approve the first quarter FY 20 financial statements as presented. Trustee Silverthorn moved approval. The motion was seconded by Trustee Hawk and passed unanimously. A copy of the financial statements is made a part of these minutes as *Exhibit D*.

## APPROVAL OF EXECUTIVE COMMITTEE MINUTES

The trustees had previously been furnished with copies of the October, November and December 2019 Executive Committee minutes for review. There being no changes to the minutes, Trustee Baird moved to approve the minutes. Trustee Mittons seconded the motion, which prevailed by the affirmative vote of all present.

## OLD BUSINESS

Vice-Chairperson Morris asked if there was any old business. There was no old business.

## NEW BUSINESS

Vice-Chairperson Morris asked if there was any new business to be brought before the Board. Assistant to the Executive Secretary Houch introduced Jim Stivers, SERS' new General Counsel, to the members of the board.

## ADJOURNMENT

There being no further business to be brought before the Board, the meeting adjourned at 12:05 p.m.

\_\_\_\_\_  
David Morris, Vice-Chairperson

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

ATTEST:

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

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