

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

MINUTES OF THE REGULAR MEETING OF THE BOARD OF TRUSTEES

July 15, 2014

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, July 15, 2014, at 10:00 a.m. in the Bilandic Building, Room N-703, 160 North LaSalle Street, Chicago, IL with a video conference location at the System's Springfield office located at 2101 South Veterans Parkway.

The following trustees were in attendance:

Judy Baar Topinka, Chairperson
Lori Laidlaw, Vice Chairperson
Shirley Byrd, Trustee
David Morris, Trustee
Patricia Ousley, Trustee
Thomas Allison, Trustee
Renee Friedman, Trustee
Danny Silverthorn, Trustee
Alan Latoza, Trustee
Robert Fierstein, Trustee

Absent:

Harold Sullivan, Trustee
Yasmin Bates-Brown

Others in attendance were:

Timothy Blair, Executive Secretary
Steve Bochenek, Attorney
William Atwood, Director, Illinois State Board of Investment
Paul Wood, Consulting Actuary, Gabriel, Roeder, Smith & Co.
Alex Rivera, Consulting Actuary, Gabriel, Roeder, Smith & Co.
Alan Fowler, Manager, Accounting Division
David O'Brien, Manager, Administrative Services Division
Gerry Mitchell, Chief Information System Officer
Barbara Baird, Manager, SERS Chicago Office
Jennifer Staley, Recording Secretary
Tia Sawhney, SERS member

Chairperson Topinka presided and called the meeting to order at 10:10 a.m. with a quorum present.

RATIFICATION OF ELECTION RESULTS

Chairperson Topinka asked Executive Secretary Blair to announce the results of the May election of three active member trustees. Executive Secretary Bair noted for the Board there were four active employees on the ballot in the election for three active member trustee positions. One of the top three vote getters, Cameron Watson, withdrew from consideration after

the election but prior to the July 15th commencement of his term. The remaining three employees on the ballot were David Morris, Patricia Ousley and Robert Fierstein.

Steve Bochenek continued by advising the Board that due to the unique circumstance of the recent election he would suggest a motion to ratify the election results. There is nothing in statute that specifically addresses the situation, but it is clear the Board has the statutory authority to fill a vacancy in an elected trustee position. Mr. Bochenek recommended the Board ratify the election results and appoint Trustee Ousley to the vacancy created by Mr. Watson's failure to accept his position.

Trustee Friedman moved to ratify the election results and appoint Trustee Ousley to fill the term of Cameron Watson due to his resignation from the position to which he was elected prior to the commencement of his term. Vice-Chairperson Laidlaw seconded the motion and all trustees present voted in the affirmative. Executive Secretary Blair informed the Board that for the October Board meeting he would have a policy drafted that could be considered by the Board and used in the future to address similar election situations.

INTRODUCTION OF TRUSTEE FIERSTEIN

Following the ratification of the election results, Executive Secretary Blair introduced Trustee Robert Fierstein to the Board and explained he had met with Trustee Fierstein the previous week to get acquainted and provide some orientation on the operation of the Board and System. Chairperson Topinka welcomed Trustee Fierstein to the Board. Trustee Fierstein thanked Chairperson Topinka and the Board for the warm welcome and added that he was looking forward to working with the members of the Board.

PUBLIC COMMENTS

Chairperson Topinka asked if there were any members of the public who wished to address the Board. Dr. Tia Goss Sawhney, SERS member and the Director of Data Analytics and Research at the Illinois Department of Healthcare and Family Services, introduced herself and addressed the Board. She noted that she was addressing the Board on her personal time as a qualified health insurance actuary. Dr. Goss Sawhney reminded the Board that she had addressed them in April about transparency and that the Board had asked her to be more specific.

Dr. Goss Sawhney stated that SERS is a plan with significant financial challenges with only 32% funding because of the changes made regarding the interest rate and other assumptions during the last quarter. She referred to the annual financial report and stated that if the fund returned employee contributions at 0% interest and paid retirees 40% of what's owed to them there would be nothing left for current employees.

Dr. Goss Sawhney noted the recent Supreme Court decision regarding retiree health insurance was good news in some ways but bad news in other ways, as it signals the State's position on pension funds and she doesn't know where the money is going to come from. She noted the income tax increase is scheduled to expire and that should only make the current situation worse.

Dr. Goss Sawhney continued by stating she didn't know the answers but that she does know there are 130,000 people in SERS whose financial futures depend on the plan. She noted that better information needs to be provided to the public so that an intelligent discussion

may be had regarding how the problem will be solved. Dr. Goss Sawhney noted the SERS reports are hard to read but stated the 2013 report was better.

Dr. Goss Sawhney stated that simple financial information needs to be provided as well as more detailed information for members who are interested. She then added that SERS needs to increase the depth of Board meetings. She gave the examples of the prior Board meeting when the Board approved the actuaries' recommended assumptions changes without asking more questions and noted that no public announcement was made regarding lowering the investment return assumption to 7.25%. Dr. Goss Sawhney added that the FY 2015 contribution was not recertified even though the assumption changes increased the amount of money the State will have to contribute annually to SERS.

Dr. Goss Sawhney concluded by calling upon the Board of Trustees, and the Board's actuaries, to do a much better job of communicating the financial status of SERS and the long term risks associated with SERS and to be transparent. Chairperson Topinka thanked Dr. Goss Sawhney for her time and asked if any of the Trustees had any question. Trustee Allison asked what reports active members and retirees receive from SERS. Executive Secretary Blair answered that generally both groups receive a newsletter with a brief summary of the financial condition of the fund and an annual statement detailing their own benefits. Trustee Allison asked to receive copies of the newsletters going forward.

Trustee Allison then asked about notifying the media of the investment return assumption change. Chairperson Topinka added the other funds had followed SERS' lead in reducing that assumption but that the actual reduction was not officially announced. She added that the staff is not getting information out and that she would rather get the information out.

Trustee Friedman added that the issues involved with pension funding and administration are not simple and that it is difficult to make simple. Dr. Goss Sawhney responded by suggesting SERS provide multiple levels of information and let people find their level.

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT (ISBI)

William Atwood, ISBI Director, distributed copies of the Executive Summary for the period ending May 31, 2014, and addressed the Board. He began by noting the entire portfolio returned 15.5% (gross of fees) for the eleven months ended May 31, 2014, while the benchmark returned 14.3% over the same time period.

Director Atwood continued by noting that over that time period, the Fixed Income portfolio returned 6.0% and the U.S. Equity portfolio, excluding Hedge Funds, returned 20.1%, while their benchmarks returned 5.0% and 22.2%, respectively. Mr. Atwood continued by briefly reviewing the returns of a few more asset classes, noting that most asset classes had outperformed the respective benchmark. He then informed the Board that the markets have generally appreciated since May 31st and that he expects the total FY 2014 return to be 16.0% net of fees, well ahead of the assumption and the policy benchmark.

Director Atwood informed the Trustees that at the June ISBI meeting, the Board formally notified Marquette and Associates, the lead investment consultant, to review the portfolio and recommend changes in portfolio construction given the lower return assumption. He also noted the ISBI required William Blair to appear at the March ISBI meeting and the Board

terminated William Blair at the June meeting. All assets managed by William Blair were transferred to an index fund pending further action.

Director Atwood concluded his report and asked if there were any questions. Trustee Alison noted that two Real Estate managers are lagging the benchmark and asked Director Atwood to comment on them. Director Atwood stated the CBRE Global Investors account is in transition to a commingled fund. He then noted that the numbers don't look correct and that he would follow up with the Board soon to clarify. Regarding Clarion Partners, Mr. Atwood noted the collapse of the Real Estate market as well as the termination of a manager that resulted in the assets being transferred to Clarion.

Trustee Latoza asked if the returns provided by Director Atwood were gross or net of fees. Director Atwood pointed out the report provides returns both gross and net of fees and referred Trustee Latoza to the section of the report that provides net of fees return information. He also noted that some asset classes are only reported gross of fees while others are reported only net of fees.

Chairperson Topinka asked if there were any additional questions for Mr. Atwood. There were none. A copy of the report is maintained in the ISBI office and made a part of these minutes as Exhibit A. Chairperson Topinka thanked Director Atwood for his informative report and excused him from the remainder of the meeting.

MINUTES OF THE APRIL 8, 2014 BOARD MEETING

The minutes of the Board meeting held April 8, 2014 were presented to the members by Chairperson Topinka. Copies of these minutes were previously provided to each trustee for preliminary review. Trustee Morris moved to approve the minutes as submitted. Trustee Byrd seconded the motion and all were in favor.

ELECTION OF RULES AND PERSONNEL COMMITTEE CHAIRPERSON

Chairperson Topinka announced the need to elect a Chairperson for the Rules and Personnel Committee due to the vacancy created by the retirement of Trustee Rensing. After a brief discussion, Vice-Chairperson Laidlaw nominated Trustee Fierstein. Trustee Morris seconded the motion and all Trustees in attendance were in favor.

REPORT OF CHAIRPERSON TOPINKA

Chairperson Topinka had nothing to report.

REPORT OF ANY TRUSTEE

Chairperson Topinka asked if any other trustees would like to offer a report. No other trustee offered a report.

REPORT OF CHIEF INFORMATION SYSTEMS OFFICER (CISO)

Ethics. Gerry Mitchell, CISO and Ethics Officer, reminded the Board the annual ethics training is due and should be turned in by the end of the meeting.

Systems Modernization. Mr. Mitchell continued by informing the board that progress continues on the re-engineering of the active member system, including the implementation of an interactive employer website for retirement coordinators and payroll officers. A retir-

ee/survivor website has also been developed and implemented. The site allows retirees and survivors to access pay stubs, insurance information, annual retiree statements and various SERS forms.

Mr. Mitchell noted that newly redesigned retiree/survivor statements have been distributed and work is underway for the redesign of active member statement. SERS has also implemented the use of member identification numbers to replace the use of Social Security Numbers as the main member identifier. ID cards which provide member identification numbers have been provided to retirees and survivors.

Mr. Mitchell informed the Board the several enhancements have been made to the legacy system to assist the Claims Division in the identification of potential overpayments in order to help prevent overpayments.

Risk Assessment. The System continues its remediation efforts from the recent risk assessment. Lockable doors have been installed in the Accounting Division and Administrative Services Files Section. The interview booths are being upgraded to provide for better privacy and locking cases have been provided to Field Services staff. Locking cabinets have been ordered for several divisions and a contract has been signed for the installation of security cameras. In addition, IT has encrypted all agency PCs and databases and the server software has been upgraded to the latest releases.

Chairperson Topinka asked if there were any questions for Mr. Mitchell. Seeing none she thanked Mr. Mitchell for his hard work and his informative report. Executive Secretary Blair then added the new retiree website is a big step for SERS and that the feedback has been almost universally positive. Trustee Morris then asked if active members can use the website. Mr. Mitchell answered that there really isn't much yet available to active members but there will be much more to come.

THIRD QUARTER FINANCIAL STATEMENTS

Alan Fowler, Accounting Division Manager, presented the financial statements for the third quarter of FY 14. Mr. Fowler noted that in comparison to the third quarter of FY 13, there was an increase in employer contributions of approximately \$121.4 million, due mainly to differences in the timing of GRF contributions. He also noted that retirement annuities increased by \$19.4 million when compared with the previous quarter. This is typical and generally the result of the statutory 3% COLAs provided to retirees in January and an increase in the number of retirees from the previous year.

Mr. Fowler further noted total refunds have increased substantially when compared with the 3rd quarter of FY 13 and the previous quarter of FY 14. The reason was the statutory transfer back to GRF, considered a refund in the financial statements, of some of the GRF employer contributions made in FY 2013. The transfer back to GRF was due to FY 13 payrolls being lower than assumed. He further noted this refund to GRF was financed by the withdrawal of assets from the ISBI investment portfolio.

Chairperson Topinka asked if there were any questions for Mr. Fowler. Seeing none she thanked Mr. Fowler for his report. Copies of these financial statements are made a part of these minutes as Exhibit B.

REPORT OF THE EXECUTIVE SECRETARY

Final Review of FY 2015 Operations Budget. Secretary Blair presented the final FY 15 budget for review and consideration. He noted the main change in the July request is the addition of three positions that were not included in the preliminary budget approved by the Board at the April meeting. An additional employee was requested for the Insurance Section of the Claims Division to help handle the greatly increased number of insurance questions from retirees in a more timely manner. He noted the System has been using retirees to staff a temporary call center during times of expected high volume. Even with the use of the temporary call center the volume of calls has been almost overwhelming at times.

An additional employee was requested for the Vouchering Section of the Claims Division in order to help with the preparation and maintenance of the monthly payroll voucher, which totals about \$160 million per month. With more than 65,000 payees on the monthly voucher, the preparation of the voucher, including the processing of thousands of transactions monthly, requires an additional employee.

The third additional employee requested was an assistant for the Executive Secretary, primarily to help with various duties, including dealing with legislators, Board members, actuaries, attorneys and other stakeholders. Executive Secretary Blair noted the system had traditionally had an Executive Secretary that handled external responsibilities and an Associate Executive Secretary the primarily handled operations. During his first year as Executive Secretary, Executive Secretary Blair eliminated the Associate Executive Secretary position so a Chief Information Systems Officer (CISO) could be hired to rebuild the IT Division.

He also noted that succession planning is important and that it would serve the Board well to have someone at the System that could replace the Executive Secretary, either temporarily or permanently during an emergency. Chairperson Topinka asked if the position would be considered a Deputy Secretary. Executive Secretary Blair answered that it would not be that type of position now but rather would be someone to help with non-clerical duties such as legislative work and other duties that wouldn't routinely be done by Division managers.

Vice-Chairperson Laidlaw commented that she would hope these positions are approved and filled quickly, as a quick turnaround hasn't always happened when creating or filling new positions. Executive Secretary Blair promised to add the staff quickly pending the funding of the positions, the approval of the job descriptions and the approval to post the positions by CMS.

Executive Secretary Blair noted the elimination of funding for one supervisor position in the IT Division. The position was vacant for more than 2 years and the responsibilities have been handled by other employees within IT. Overall, the FY 15 budget request is 2.24% lower than the FY 14 budget. Several factors have allowed the FY 15 decrease, including a reduction in the amount of IT equipment that must be purchased for the modernization efforts, the completion of several facility maintenance projects, and a slight decrease in the funded IT headcount.

Hearing no questions, Chairperson Topinka asked if there was a motion to approve the preliminary FY 15 budget. Trustee Morris moved passage of the budget as presented. The motion was seconded by Trustee Ousley and all members voted in the affirmative.

Legislative Update. Executive Secretary Blair informed the Board that SB 3309 had passed both chambers of the General Assembly and had been forwarded to the Governor. The bill contains a provision that specifically allows SERS to correct benefit calculation errors. In addition, there was some language suggested by the IRS during the determination letter process and a provision pertaining to Medicare-only employer referendums.

Senate Bill 1 Update. Executive Secretary Blair noted for the Board the implementation of SB 1 had been delayed by the Sangamon County Circuit Court. He continued that his concern going forward would be the timing of the eventual Court decision and what the resulting effective date may be. Trustee Allison added that the writing is on the wall regarding the constitutionality of SB 1 after the recent Supreme Court decision regarding the increase in retiree health insurance premiums. Attorney Bochenek clarified for the Board that the Supreme Court didn't overturn the increase in retiree health insurance premiums, but they did send the case back to the Sangamon County Circuit Court, which had originally dismissed the case

Shontell Mitchell Disability Fraud. Mr. Bochenek continued by presenting a potential fraud case involving SERS member Shontell Mitchell, which had been referred to him by Don Williams, supervisor of the Disability Section. The suspected fraud must be presented to the Board to consider referring the potential fraud to the appropriate State's Attorney for review, as required by statute. Ms. Mitchell was receiving a non-occupational disability benefit from SERS while working for an employer outside of Illinois during the same time period. During this time she continued to return signed documents to SERS attesting that she was still disabled and not working.

Mr. Bochenek noted the System had been notified about the possible fraud and contacted the member. She admitted to working and then returned to State employment within 2 weeks. Trustee Allison asked if Ms. Mitchell had returned the money. Mr. Bochenek answered the money had not been returned but a contract would be prepared that would require repayment.

Trustee Friedman made a motion to refer the possible fraud by Shontell Mitchell to the appropriate State's Attorney. Trustee Latoza then asked if there were other similar situations that the Board had acted on in the past. Mr. Bochenek noted the statute is fairly new and this is the first reported case of possible fraud the Board has considered. Trustee Morris seconded Trustee Friedman's motion and all trustee present voted in the affirmative.

Review of Indemnity Act and Pension Code Indemnity. Mr. Bochenek notified the Board of the results of his research on Trustee indemnification as requested at the April Board meeting. He noted the Trustee indemnity provision in the Pension Code is permissive, meaning that the State or SERS is not required to provide Trustee indemnification, but that SERS has always done so. Conversely, indemnification under the State Employees' Indemnification Act is mandatory for all State employees, unless there is "willful and wanton conduct not intended to benefit the State." For the purposes of the Act, Trustees are considered State employees and therefore must be indemnified by the State. Chairperson Topinka asked if the issue of mandatory Trustee indemnification could be considered settled. Attorney Bochenek answered in the affirmative but suggested closely monitoring any proposed legislative changes to the State Employees' Indemnity Act.

Overpayment Review and Update. Executive Secretary Blair informed the Board of a pension overpayment to an SERS retiree. The overpayment period spanned almost 3 years and

amounted to more than \$300,000. He assured the Board the overpayment had been entirely recovered and provided some background to the Trustees.

He began by noting that in January 2014 an Appellate Court had ruled that SERS cannot recoup overpayments due to calculation errors unless the error is discovered within 35 days of the approval of the benefit amount. Executive Secretary Blair began working with the legislature in early March to get error correction legislation passed and the large overpayment was discovered in late April. The correction legislation passed the General Assembly in May and was forwarded to the Governor on June 27th.

Secretary Blair then informed the Board that the Claims Division had worked with IT to create edits in the legacy system in order to identify possible human error. These edits create exception lists that are reviewed by staff before benefits are entered into the system for payment. In addition, current benefit payment amounts were reviewed to see if other errors had occurred. A few minor errors were discovered and these overpayments will be recouped. An additional staff review and a few additional supervisor approvals were added to the Claims Division procedures to try to reduce the probability of human error.

APPROVAL OF EXECUTIVE COMMITTEE MINUTES

The trustees had previously been furnished with copies of the March, April, May and June 2014 Executive Committee minutes for review. There being no changes to these minutes, Trustee Ousley moved to approve. Trustee Morris seconded the motion, which prevailed by the affirmative vote of all trustees.

OLD BUSINESS

Chairperson Topinka asked if anyone had old business to discuss. Chairperson Topinka reminded everyone to complete the required ethics training.

NEW BUSINESS

Chairperson Topinka presented to the Board a resolution for Trustee Noser, who resigned from the SERS Board on January 8, 2014. Vice-Chairperson Laidlaw moved to adopt the resolution. Chairperson Topinka seconded the motion and all were in favor. The resolution is made a part of these minutes as Exhibit C.

Trustee Silverthorn announced to the Board that he had been reappointed to another term by Governor Quinn. Executive Secretary Blair added that Trustee Friedman and Trustee Allison had been reappointed by the Governor, but the appointments were still in the Senate Executive Appointments Committee awaiting confirmation. He added that he had received another appointment letter on July 14, 2014 appointing Yasmin Bates-Brown as a Trustee to complete the term of Michael Noser.

Trustee Ousley asked if Trustee Sullivan was still on the Board. Executive Secretary Blair said that he had completed and returned the required Statement of Economic Interest but that he had recently had very little contact with Trustee Sullivan. He reminded the Board that Trustee Sullivan's term had expired in July 2012 and that he hadn't reapplied. Trustee Allison added that Trustee Sullivan would remain on the Board with the expired term until a replacement is appointed. Trustee Allison asked Secretary Blair to contact Trustee Sullivan about his intentions of remaining on the SERS Board.

ADJOURNMENT

There being no further business to be brought before the Board, Trustee Ousley moved for adjournment at 12:05 p.m. The adjournment was seconded by Trustee Silverthorn and all were in favor. Chairperson Topinka reminded the Board the next meeting of the Board of Trustees was scheduled for October 28, 2014 in the System's Springfield Office.

Judy Baar Topinka, Chairperson

Date: _____

ATTEST:

Timothy Blair, Executive Secretary

Date: _____