

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

July 28, 2020

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, July 28, 2020, at 10:25 a.m. in the System's Springfield office located at 2101 South Veterans Parkway. To protect the health of staff, trustees, and members of the public during the COVID-19 pandemic, this meeting was held electronically from the SERS administrative office in Springfield, as allowed under Public Act 101-640.

The following trustees were in attendance:

Susana A. Mendoza, Chairperson
David Morris, Vice-Chairperson
Carl Jenkins, Appointed Trustee
Yasmin Bates-Brown, Appointed Trustee
Renee Friedman, Appointed Trustee
Tad Hawk, Elected Active Trustee
Stephen Mittons, Elected Active Trustee
John Tilden, Elected Retired Trustee
Danny Silverthorn, Appointed Trustee
Shaun Dawson, Elected Active Trustee
Barbara Baird, Elected Retired Trustee

Others in attendance were:

Timothy Blair, Executive Secretary
Alan Fowler, Manager, Accounting Division
Casey Evans, Chief Internal Auditor
Jim Stivers, General Counsel
Jeff Houch, Assistant to Executive Secretary
Jessica Blood, Recording Secretary
Steve Bochenek, External Counsel
Aaron Evans, External Counsel
Chris Maley, Illinois Office of the Comptroller
Alex Rivera, Consulting Actuary, Gabriel, Roeder, Smith & Co.
Jeff Tebeau, Consulting Actuary, Gabriel, Roeder, Smooth & Co.
Loren Iglarsh, SERS Retiree and Executive Committee Chairman
Andrew Ranck, Illinois Office of the Comptroller
Robert Cooper, Manager, Administrative Services Division
Martha Merrill, AFSCME

Vice-Chairperson Morris called the meeting to order at 10:25 a.m. with a quorum present.

PUBLIC COMMENTS

Vice-Chairperson Morris asked if there were any members of the public who wished to address the Board. There were none.

MINUTES OF THE MAY 26, 2020 BOARD MEETING

The minutes of the Board meeting held on May 26, 2020, were presented to the trustees by Vice-Chairperson Morris. Copies of these minutes were previously provided to each

trustee for preliminary review. Trustee Hawk moved to approve the minutes as submitted. Trustee Tilden seconded the motion, and a rollcall vote was taken:

Trustee Baird - Aye	Trustee Dawson - Aye
Trustee Friedman - Aye	Trustee Hawk - Aye
Trustee Jenkins - Aye	Trustee Mittons - Aye
Trustee Silverthorn - Aye	Trustee Tilden - Aye
Vice-Chairperson Morris - Aye	Chairperson Mendoza – Absent

REPORT OF CONSULTING ACTUARIES

Alex Rivera and Jeff Tebeau, Consulting Actuaries, Gabriel, Roeder, Smith & Company, presented the annual Economic Assumptions Review. Mr. Rivera started the presentation by stating there are no recommended changes to the three key assumptions reviewed. The price assumption impacts both the wage increase assumption and the investment return assumption. In evaluating the price assumption, a survey on the projected treasury inflation protection securities (TIPS) over the prospective 30-year period is projected to annually increase by 2.09%. The current assumption rate used by the System is 2.25%.

Chairperson Mendoza joined the meeting at 10:30 a.m. and assumed the Chair.

Mr. Rivera continued by reviewing the wage inflation assumption, noting that the last few years have been relatively flat, but the recent retroactive step payments and the new AFSCME contract will be factored into the next review. He added that he expects the data for the fiscal year ending June 30, 2020 will indicate an increase in wages but recommended that the System should wait for the data before adjusting the wage inflation assumption.

Mr. Rivera then addressed the investment return assumption, currently set at 6.75%. He noted the key metric in reviewing the assumption is the likelihood of the portfolio exceeding that assumed rate. Mr. Rivera pointed out that when determining the likelihood of the portfolio exceeding assumed rate, they use Meketa's capital market assumptions, as well as a sample of multiple investment consultants' assumption logic to ensure that Meketa is not an outlier. According to Meketa's capital markets assumptions, there is a 62% chance that the portfolio will meet or exceed 6.75% over the next 20 years. The sample of 6 other investment consultants concluded that there is a 57% chance that the portfolio will meet or exceed 6.75% over the next 20 years. Based on the analysis, the actuaries recommended maintaining the 6.75% assumed rate.

Following brief discussion related to the economic assumptions review, Secretary Blair mentioned that no action is required as there are no recommended changes to the current economic assumptions.

REPORT OF CHAIRPERSON MENDOZA

Chairperson Mendoza provided an update on the bill backlog, totaling an estimated \$4.8 billion on June 25, 2020 compared to an estimated backlog of \$6 billion a year earlier. The State ended FY 20 with an estimated backlog of \$5.368 billion, significantly better than the high mark of \$14.7 billion at the end of FY 17.

Chairperson Mendoza explained the reason the backlog has continued to decrease despite the pandemic is similar to how the backlog declined from \$14.7 billion at the end of fiscal year 2017 to \$6.8 billion at the end of fiscal year 2018, and that is borrowing. Six billion in bonds

were issued in November 2017 to pay old bills to help the State to overcome the manufactured budget crisis. Additionally, \$2.7 billion in bonds were recently issued to help tackle the debt. In June 2020, \$1.2 billion in short-term borrowing was used primarily to pay off outstanding medical bills, and also leverage an additional \$652 million in federal reimbursements.

Chairperson Mendoza continued by noting it is too early to gauge the impact of the ongoing pandemic on the State. She mentioned that the State collected \$1.135 billion less than the prior fiscal year's revenues. Part of that revenue decrease is related to the extended tax collection period, which ended July 15, 2020. Chairperson Mendoza concluded her report by stating that the remainder of the fiscal year will be extremely challenging and filled with uncertainty, but that her office remains committed to funding the full certified pension contributions.

REPORT OF ANY TRUSTEE

Chairperson Mendoza asked if any trustee would like to offer a report. Trustee Baird directed the Board's attention to a recent article published by the Illinois Policy Institute related to the Fair Income Tax Constitutional Amendment and its potential impact on the taxation retirement income. Chairperson Mendoza addressed the issue by keying in on the intent of the article, which is to convince voters to vote no on such amendment. She also pointed out that legislation is needed to determine or adjust such tax rates and the legislature can enact such changes without a Constitutional Amendment. She concluded by stating that the Constitutional Amendment will only strengthen the financial condition of the retirement systems and provide added financial security for state retirees.

REPORT OF AUDIT & COMPLIANCE COMMITTEE

Chief Internal Auditor Casey Evans reported that the committee met at 9:00 AM to approve the internal audit charter and the 2-year internal audit plan. Notable audits to be performed in FY 21 include the survivor and death benefits audit that is currently underway, an I.T. audit, contribution refunds, and annual member statements, among others. The survivor and death benefits audit has revealed some underpayments associated with isolated groups of survivors.

Mr. Evans continued by noting that the committee reviewed a recently completed audit of the recalculation of a significant number of retirement benefits caused by the payment of back wages. The audit revealed one overpayment of approximately \$860 out of the 40 claims audited. He added the financial and GAAP audits revealed no findings. Mr. Evans concluded by stating the external financial and compliance audits are underway and are being conducted remotely.

REPORT OF RULES AND PERSONNEL COMMITTEE

Jeff Houch, Assistant to the Executive Secretary, briefly summarized the Rules and Personnel Committee's July 27, 2020 meeting. He stated the approved rules include the mandatory direct deposit of any recurring SERS benefit that first becomes payable on or after January 1, 2021. The requirement could be waived if the member lives out-of-country, demonstrates that payment by direct deposit creates a hardship, or it has been determined that good cause otherwise exists for the payment of the benefit by paper check.

The second rule allows the Executive Secretary to name a designee to the Executive Committee as well as an alternate designee. Additionally, the rules allow the Chairperson of the Board to appoint an alternate designee.

Finally, Mr. Houch summarized a change to the System's internal policy regarding small purchases. He pointed out that the System is not subject to the Illinois Procurement Code, but it has developed policies and procedures that are consistent with the Code. Public Act 100-0043 increased the threshold for the non-competitive procurement of supplies or services, construction, or professional or artistic services from \$50,000 to \$100,000. He stated that the committee approved the recommendation to amend the System's small purchase policy to reflect the change to the Illinois Procurement Code.

THIRD QUARTER FINANCIAL STATEMENTS

Alan Fowler, Accounting Division Manager, presented the financial statements for the third quarter of FY 20. When compared to the third quarter of FY 19, Mr. Fowler noted that SERS has withdrawn \$70 million less from the Illinois State Board of Investments (ISBI) portfolio during the quarter to pay benefits, which is largely due to the Comptroller's office continuing timely pension contributions. He noted a \$30 million increase in benefits paid, due to an increase in the number of annuitants and the January 2020 COLA.

Mr. Fowler concluded his report and offered to answer questions. Hearing none, Chairperson Mendoza asked for a motion to approve the third quarter FY 20 financial statements as presented. Trustee Hawk moved for approval. The motion was seconded by Trustee Silverthorn with a roll call vote and it passed unanimously. A copy of the financial statements is made a part of these minutes as *Exhibit B*.

Trustee Baird - Aye	Trustee Dawson - Aye
Trustee Friedman - Aye	Trustee Hawk - Aye
Trustee Jenkins - Aye	Trustee Mittons - Aye
Trustee Silverthorn - Aye	Trustee Tilden - Aye
Vice-Chairperson Morris - Aye	Chairperson Mendoza - Aye

REPORT OF THE EXECUTIVE SECRETARY

FY 2021 Budget Approval. Secretary Blair introduced the FY 21 budget request of \$19,291,324, representing a 9.02% decrease from FY 20. The decrease is primarily due to a decrease in the personal services and employer retirement contributions lines, as the FY 20 expenditures included significant back pay for bargaining unit employees. The group insurance line was reduced by \$300,000 from FY 20, and reduced travel expenses due to the cancellation of retirement seminars and workshops for the remainder of calendar year 2020.

He added the outlook for FY 21 remains uncertain, but the budget enables the System to continue with benefit adjustments related to the recent backpay issuance. Trustee Hawk motioned to approve the FY 2021 budget, and Trustee Friedman seconded the motion, and a roll call vote was taken:

Trustee Baird - Aye	Trustee Dawson - Aye
Trustee Friedman - Aye	Trustee Hawk - Aye
Trustee Jenkins - Aye	Trustee Mittons - Aye
Trustee Silverthorn - Aye	Trustee Tilden - Aye
Vice-Chairperson Morris - Aye	Chairperson Mendoza - Aye

FY 2021 Funding Update. Secretary Blair noted that State contributions continue to be stable and timely and pointed out that SERS has already received the payment for August.

Benefit adjustments from backpay update. Secretary Blair mentioned that staff is processing back wage adjustments when possible, but the focus continues to be processing new claims and benefit removals.

Buyout Update. Secretary Blair directed the Board to the Buyout payment memo and pointed out that alternative formula members continue to participate at a significantly higher rate when compared to the regular formula members.

Operations Update. Secretary Blair stated that the employees have returned to the office on a rotational basis and the Call Center has reopened. He mentioned that the building remains closed to non-employees and all workshops have been canceled through the end of the year. He expects that the System will not be able to offer workshops and in-person appointments for the foreseeable future and that counseling sessions will continue to be conducted by phone.

Secretary Blair responded to questions regarding safety measures taken, which include the installation of plexiglass, the required temperature checks when employees enter the building, the purchase of masks and sanitizer, updates to the ventilation system, and the implementation of techniques to maintain social distancing.

Secretary Blair then responded to question a question from Vice-Chairperson Morris regarding the development of online training materials to help educate members in lieu of workshops on in-person counseling. Secretary Blair mentioned that the System would develop PowerPoint presentations that include audio narrative.

APPROVAL OF EXECUTIVE COMMITTEE MINUTES

The trustees had previously been furnished with copies of the May and June 2020 Executive Committee minutes for review. There being no changes to the minutes, Trustee Baird moved to approve the minutes. Trustee Bates-Brown seconded the motion, and a roll call vote was taken:

Trustee Baird - Aye	Trustee Dawson - Aye
Trustee Friedman - Aye	Trustee Hawk - Aye
Trustee Jenkins - Aye	Trustee Mittons - Absent
Trustee Silverthorn - Aye	Trustee Tilden - Aye
Vice-Chairperson Morris - Aye	Chairperson Mendoza - Aye

OLD BUSINESS

Chairperson Mendoza asked if there was any old business. There was no old business.

NEW BUSINESS

Chairperson Mendoza asked if there was any new business to be brought before the Board. Mr. Blair mentioned that he has contacted the Governor's office regarding the two vacant trustee positions and that the current appointed trustee positions have all expired, with all appointees continuing to serve as holdovers.

ADJOURNMENT

There being no further business to be brought before the Board, the meeting adjourned at 11:55 a.m. Chairperson Mendoza thanked the Trustees and reminded them the next meeting is scheduled for October 26, 2020, at 10:00 a.m. in the Springfield Office with the videoconference location in Room N-703 of the Bilandic Building.

Susana A. Mendoza, Chairperson

Date: _____

ATTEST:

Timothy Blair, Executive Secretary

Date: _____

