

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

MINUTES OF THE REGULAR MEETING OF THE BOARD OF TRUSTEES

July 20, 2010

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, July 20, 2010, 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:

Daniel W. Hynes, Chairman
Lori Laidlaw, Vice Chairman
Thomas Allison
Renee Friedman
Joyce King
David Morris
Michael Noser
Patricia Ousley
Maria Pelaez-Peterson
Patricia Rensing
Danny Silverthorn
Harold Sullivan, Jr.
Virginia Yates

Others in attendance were:

Timothy Blair, Acting Executive Secretary
Dave Rolf, Attorney
Scott Richards, Illinois State Board of Investment
Alex Rivera, Consulting Actuary
Lawrence Stone, Internal Auditor
Gerald Mitchell, Chief Information Systems Officer
Barb Baird, Manager, Chicago Office
Nicholas Merrill, Manager, Accounting Division
David O'Brien, Manager, Administrative Services Division
David Thompson, Manager, Field Services Division
Loren Iglarsh, Office of the Comptroller
Alexis Sturm, Office of the Comptroller
Dawn Blakeman, Recording Secretary
Dave Loebach, Member

Chairman Hynes presided, and called the meeting to order at 10:00 a.m. with a quorum present.

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT

Scott Richards of the Illinois State Board of Investment distributed draft copies of the Flash Report (Executive Summary) for the period ending June 30, 2010, and addressed the Board. He began by calling attention to the portion of the report reflecting a preliminary 8.93% gross return for fiscal year

2010, with a net return for FY 2010 expected to be 8.64%. Mr. Richards then reviewed the performance of the various assets and pointed out managers that have underperformed. Mr. Richards concluded his report and answered several questions regarding the allocation and reporting of the commingled assets of SERS, the Judges Retirement System and the General Assembly Retirement System. The Trustees expressed interest in seeing the ISBI Flash Report reflect only the assets of SERS.

Chairman Hynes thanked Mr. Richards for his report, and excused him from the remainder of the meeting.

Trustee Morris moved to accept the Flash Report of the Illinois State Board of Investment for the period ending June 30, 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 APRIL 27, 2010 BOARD MEETING

The minutes of the meeting of the Board of Trustees held April 27, 2010, were presented to the members by Chairman Hynes for approval. Copies of these minutes were previously mailed to each trustee for preliminary review.

There being no corrections or additions, Trustee Rensing moved to approve the minutes as submitted. Trustee Noser seconded the motion, and all were in favor.

REPORT OF THE CHAIRMAN

Chairman Hynes indicated he had no report.

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 Chicago Office. The audit recommended updating the Chicago Office procedures manual and requiring the Accounting Division to confirm receipt to the Chicago Office when funds are forwarded from the Chicago Office. The recommendations were accepted by the affected Divisions.

Mr. Stone conducted a Property, Equipment and Inventory Audit. The audit included the review of the master inventory control list and the recent purchase of computer equipment totaling \$82,835. The audit resulted in recommendations to the IT Division to notify Administrative Services within 5 working days of installation and removal of equipment and for the IT Division to convert the inventory control process to an online environment. In addition, it was recommended the projector in the classroom and the scanner in storage should be removed and surplus. The recommendations were accepted by the affected Divisions.

The Purchasing, Contracting and Leasing control audit reviewed all purchases over \$20,000 for compliance with SERS purchasing rules. There were no audit issues identified.

The Employee Fidelity audit reflected that all employees who received additional benefits during FY 2010 were valid.

The death match for this period identified \$52,604.40 in overpayments that were avoided, bringing the FY 2010 total to \$344,696.38.

Mr. Stone concluded his report with a review of the audit priorities for fiscal year 2011.

Vice-Chairperson Laidlaw moved acceptance of the Internal Auditor's report for this period. Trustee King seconded the motion, all were in favor.

THIRD QUARTER FINANCIAL REPORT

Nicholas Merrill, Manager of the Accounting Division, presented the financial report for the third quarter of Fiscal Year 2010.

Mr. Merrill indicated that in the quarter the System transferred slightly more than \$720.7 million to ISBI. The transfer was completed in January after the State successfully completed the bond sale and remitted the proceeds to the System. The \$720.7 million represents the State's General Revenue Fund (GRF) contribution to SERS for FY 2010. Mr. Merrill then stipulated that GRF payrolls were slightly larger than anticipated, and he expects the System will receive \$33 million to \$36 million more from GRF to cover this higher payroll. A voucher will be submitted after a reconciliation process is completed and this amount will be subject to the System's statutory continuing appropriation.

Mr. Merrill then explained to the Trustees that the System maintains enough liquidity in a cash account to pay benefits for two months. Based on questions from several trustees, he explained how cash comes into the system through the payroll process and how the Accounting Division has provided a cash flow projection into ISBI so that the proper cash balance is maintained to pay benefits when due.

Following the discussion, Trustee Allison moved to accept the financial report for the third quarter. The motion was seconded by Trustee Ousley, and passed unanimously. A copy of this report is on file.

FINAL BUDGET REVIEW FOR FY 2011

Acting Executive Secretary Blair referred to the budget presentation reviewed by the Board during the April meeting. The proposed operating budget for FY 2011 is 15,563,700, an increase of 11.08% or \$1,554,300 more than the FY 2010 budget amount of \$14,034,100.

Personal Services will increase \$371,800 to FY 2010 budgeted amounts, a 7.73% increase. The budget includes no increases in merit compensation pay plan, but does include the cost of living adjustment required during FY 2011 for collective bargaining staff. Termination pay for six employees and two 75 day employees are also included. The Board certified employer contribution rate of 30.253% (from 28.377%) will result in an increase of \$202,700 in the retirement line when compared to the FY 2010 budgeted amount, a 14.84% increase.

The IT department budget increases \$524,100 or 12.30% from the FY 2010 budget amount. This increase is the result of filling vacancies, the retirement rate increase, auditing/management services and employee training. The increase in the IT Budget is necessary for the ongoing technology modernization efforts the Board desires to pursue.

Following discussion, Trustee Morris presented a motion to approve the final FY 2011 budget request. Trustee Noser seconded the motion and all Trustees were in favor.

REPORT OF EXECUTIVE SECRETARY

Tier 2 Assumptions

Acting Secretary Blair presented the Trustees with a memo outlining assumptions to be adopted in order to reflect the later retirement ages for employees who become members of SERS after on or after January 1, 2011. Alex Rivera, consulting actuary, provided an overview of the proposed changes to the

assumptions and answered several questions from the Trustees on the proposed changes and the experience in other States where a 2nd benefit tier has been adopted. Trustee Morris presented a motion to approve the proposed assumptions. Trustee Ousley seconded the motion and all Trustees voted in the affirmative.

Legislation

Acting Secretary Blair informed the Board of the ongoing discussions to draft a "trailer bill" that would address many of the administrative and technical problems with the Tier 2 legislation. All of the Systems are working with legislative staff to complete legislation that is ready for passage in the fall Veto Session.

Funding Issues

Acting Secretary Blair outlined the current status of the FY 2011 employer contribution. He explained that current statute allows the System to send vouchers to the Comptroller's Office on a monthly basis for the amount of the FY 2011 employer contribution. Unfortunately, the dire financial condition of the State will preclude the contributions from actually coming into the System in a timely manner. The System has prepared cashflow projections for FY 2011 which assume that no monthly employer contributions will be made to SERS. Chairman Hynes then stated that he would hope that at least a few of the monthly contributions could be made prior to the end of calendar year 2010, after the payment of all FY 2010 vouchers.

Acting secretary Blair then explained that if the State is able to borrow the money through the issuance of General Obligation Bonds, the entire FY 2011 employer contribution could then be made to the System. Several Trustees voiced concern over the uncertain status of the FY 2011 employer contribution and directed the System's attorney to research possible alternatives the Board may pursue to ensure receipt of the FY 2011 employer contribution.

Fiduciary Liability Insurance

Acting Secretary Blair updated the members on the status of fiduciary liability insurance for the Trustees and staff of the System. He has been in contact with a broker that currently provides this type of insurance to several public and private funds throughout the country. Acting Secretary Blair stated that he will continue to look into the issue and hopes to have an action item for the Board at the October 2010 meeting of the Board of Trustees.

IT Update

Mr. Mitchell provided an update on the SRS Modernization Project. Recent accomplishments include the upgrade of the email system to MS Outlook, the refreshing of PCs and the implementation of encryption for laptops. He also reported the Attendance System that is being re-engineered as a pilot project using new technology is going well with completion expected in the fall. With regards to the existing computer systems, Mr. Mitchell reported the impact of the Tier 2 Pension is being assessed.

Appointment of Executive Secretary

Vice Chairperson Laidlaw asked to be recognized and explained to the Board that Acting Secretary Blair had served in the capacity of Acting Executive Secretary since June 2006. She then explained to the Board that she felt the board should consider making Mr. Blair the Executive Secretary of SERS, and made a motion to do so. Trustees Silverthorn seconded the motion which carried with an affirmative vote of all Trustees present.

Due to other commitments, Chairman Hynes asked to be excused from the remainder of the meeting and Vice Chairperson Laidlaw assumed the Chair.

EXECUTIVE COMMITTEE MEETING MINUTES

Dr. David Loebach attended the meeting to appeal to the Board to reverse a decision of the Executive Committee. The Executive Committee decision denied Dr. Loebach a partial refund of military service that had already been purchased. Based on advice from Dave Rolf, attorney for the system, the Board denied Dr. Loebach's request to reconsider his appeal, as an appeals process is already in place. Dr. Loebach was informed of his right to re-appeal to the Executive Committee or challenge the Committee's decision through the Administrative Review Process.

The trustees had previously been furnished with copies of the April, May and June, 2010 Executive Committee meeting minutes for review. There being no changes to these minutes, Trustee Noser moved for adoption as submitted. Trustee Friedman seconded the motion, which prevailed by the affirmative vote of all 12-0, with Trustee Pelaez-Peterson voting present.

OLD BUSINESS

There was no old business to be discussed.

NEW BUSINESS

Acting Secretary Blair informed the Board of an FY 2011 furlough program implemented by the Governor's Office of Management and Budget. The program would require all employees not covered by a collective bargaining agreement to take 24 unpaid furlough days over the course of FY 2011. As the amount of overtime required over the last few years has increased significantly and only a few SERS employees would be affected by the program, Acting Secretary Blair asked the Board's position, as fiduciaries of the System, on the proposed furlough program. After a brief discussion, Trustee Ousley moved to provide the FY 2011 furlough program should be voluntary, due to financial and operational considerations. Trustee Rensing seconded the motion and all Trustees present voted in the affirmative.

ADJOURNMENT

There being no further business to be brought before the Board, Trustee Ousley moved for adjournment at **12:15** A.M. seconded by Trustee Rensing.

Daniel W. Hynes, Chairman

Date: _____

ATTEST:

Timothy Blair, Executive Secretary

Date _____