

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

MINUTES OF THE REGULAR MEETING  
OF THE BOARD OF TRUSTEES

June 25, 2019

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, June 25, 2019, 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  
Carl Jenkins, Appointed Trustee  
Yasmin Bates-Brown, Appointed Trustee  
Renee Friedman, Appointed Trustee  
Tad Hawk, Elected Active Trustee  
Stephen Mittons, Elected Active Trustee  
Thomas Allison, Appointed Trustee  
John Tilden, Elected Retired Trustee  
Danny Silverthorn, Appointed Trustee

Absent:

Shaun Dawson, Elected Active Trustee  
Alan Latoza, Elected Retired 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  
Jennifer Staley, Recording Secretary  
Steve Bochenek, System Attorney  
Chris Maley, Illinois Office of the Comptroller  
Johara Farhadieh, Executive Director, Illinois State Board of Investment  
Ali Wallace-Stone, Investment Consultant, Meketa Investment Group  
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

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.

MINUTES OF THE APRIL 30, 2019 BOARD MEETING

The minutes of the Board meeting held on April 30, 2019, were presented to the trustees by Chairperson Mendoza. Copies of these minutes were previously provided to each trustee

for preliminary review. Trustee Friedman moved to approve the minutes as submitted. Trustee Tilden seconded the motion, and all were in favor.

#### REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT

Johara Farhadieh, Executive Director of the Illinois State Board of Investment (ISBI), started her presentation by noting that there were five new members of ISBI and the Justice Schostok was still serving as the Chairperson and the Treasurer Frerichs is the Vice-Chairperson. She added that Justice Schostok and Treasurer Frerichs, along with Gisela Atatlan and Comptroller Mendoza serve on the ISBI Executive Committee. In addition, Director Farhadieh informed the Board of the creation of a Defined Contribution Committee to oversee improvements in the administrative aspect of the State of Illinois Deferred Compensation Program.

Director Farhadieh told the Board of a recent RFP for a private equity strategic partner, in order to provide competition with the current private equity strategic partner, Hamilton Lane. She then referred the Board to the Quarterly Review for the period ending March 31, 2019 and pointed out the continued underweighting of the Opportunistic Debt and Private Equity asset classes. Director Farhadieh added that assets were being added to those asset classes over time in order to diversify, but that in the meantime assets were being deployed in public market equivalents. She then briefly reviewed the mix of active vs. passive management for the portfolio and concluded her report by introducing Alli Wallace-Stone of Meketa Group to review the performance of the investment portfolio.

Ms. Wallace-Stone began by pointing out that the total portfolio was up 7.4% in the 3<sup>rd</sup> quarter of FY 19, beating the custom benchmark by 50 basis points. She added the outperformance was due to the overweighting of the U.S. Equity class. While the 3<sup>rd</sup> quarter was up 7.4% and outpaced the benchmark, the year to date return totaled 3.1%, and the one-year return was 4.2%. The one-year return put the ISBI portfolio in the 40<sup>th</sup> percentile when compared to other funds in the peer group, while the quarterly return of 7.4% placed ISBI in the 83<sup>rd</sup> percentile when compared to peer funds.

Ms. Wallace-Stone then reviewed the performance of asset classes for the period ending March 31, 2019. The Fixed Income portfolio returned 3.4% in the 3<sup>rd</sup> quarter of FY 19, while the Credit Composite returned 4.0% over the same time period. For the quarter ending March 31, 2019, the Global Equity portfolio returned 12.3%, primarily due to the 15.1% return of the U.S. Equity portfolio during the quarter. Ms. Wallace-Stone concluded her report by noting the Real Assets portfolio returned 0.4% in the 3<sup>rd</sup> quarter, lagging the benchmark return of 3.3%.

Following some discussion on the procedures and dynamics of monitoring manager performance, Trustee Allison moved to approve the ISBI Quarterly Review for the period ended March 31, 2019. Trustee Friedman 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*.

#### REPORT OF CONSULTING ACTUARIES

Alex Rivera and Jeff Teabeau, Consulting Actuaries, Gabriel, Roeder, Smith & Company, distributed the Experience Review for the three-year period ended June 30, 2018. Mr. Rivera began the report by reviewing the economic assumptions, noting the recommendations to decrease the price inflation (to 2.25%), wage growth (to 2.75%) and investment return (to

6.75%) assumptions by 0.25% per annum. He added that due to the unusual circumstances over the last 3 years, there was no recommendation to change the individual salary increase assumption. Mr. Rivera then reviewed the recommended changes to the demographic assumptions, including the adoption of mortality tables based on public sector experience, increasing normal retirement rates and termination rates, and maintaining the current assumption regarding the establishment of 4 ½ months of service credit at retirement.

Mr. Rivera said the adoption of the recommended assumptions would cause SERS' actuarial liability to decrease by \$518 million, or from \$47.9 billion to \$47.4 billion. The resulting decrease in State contributions would be \$31 million if these assumptions would have been used to calculate the FY 20 State contribution, or a decrease from \$2.291 billion to \$2.260 billion. Trustee Allison asked Director Farhadieh if the change in the investment return would cause ISBI to look at the portfolio and she answered in the affirmative.

Following discussion of the proposed assumptions, Trustee Allison motioned to approve the proposed assumptions. Trustee Bates-Brown seconded the motion, which passed unanimously. A copy of this document is made a part of these minutes as *Exhibit B*.

#### EXECUTIVE SESSION – PERSONNEL MATTERS

There was no Executive Session.

#### REPORT OF CHAIRPERSON MENDOZA

Chairperson Mendoza provided an update on the bill backlog, totaling an estimated \$6.6 billion on June 25, 2019, compared to an estimated backlog of \$6.9 billion a year earlier. The current backlog represents a significant improvement from the high mark of \$16.7 billion in 2017. She added the state must continue to focus on the managing the bill backlog, while meeting other obligations, such as making the full pension payments, and funding elementary, secondary and higher education.

Chairperson Mendoza continued her report by summarizing key legislation that her office supported during the spring legislative session. Senate Bill 1321 (Sen. Steans and Rep. Harris) contained several reforms to the State's Medicaid program, including items the Comptroller advocated for in her proposed Managed Care Organization Transparency Act. The State uses "Managed Care Organizations" (MCOs) to facilitate the payment of medical services. Many of the MCOs have a poor history of distributing payments to medical providers in a timely manner. The bill, awaiting the Governor's signature, requires the MCOs to publish a quarterly report related to key information associated with the claims submitted by medical providers and the payment status of such claims.

Chairperson Mendoza summarized another initiative of her office, the "Bank on Illinois Act." The legislation provides that the Comptroller will partner with reputable financial institutions at the local level to provide essential low-cost financial services to low-income residents who oftentimes rely on high fee providers for their banking needs. The legislation passed both chambers of the General Assembly unanimously and will become law upon signature by the Governor. Chairperson Mendoza concluded her report by telling the Board that her FY 20 budget continues to be 10% below the FY 17 level.

#### REPORT OF ANY TRUSTEE

Chairperson Mendoza asked if any trustee would like to offer a report. None did but Secretary Blair introduced Trustee-Elect Barbara J. C. Baird. He noted that Trustee-Elect

Baird won the May 2019 election to replace Trustee Alan Latoza, who chose not to seek another term. Secretary Blair added the Trustee-Elect Baird retired from SERS after 38 years of SERS service, mostly in the System's Chicago Office, and would begin a five-year term on July 15, 2019.

#### REPORT OF AUDIT & COMPLIANCE COMMITTEE

Chief Internal Auditor Casey Evans noted the cancellation of the June 25, 2019, Audit and Compliance Committee and introduced Andrew Van Leer as the new internal auditor and added that he had started working on various audits and helped with the recent Board election. Mr. Evans noted that upcoming audits would be claims-based and focus on the various types of SERS benefits. Mr. Van Leer then introduced himself to the Board, noting that he spent four years at the Auditor General's Office after graduating from Western Illinois University with a degree in accounting. Mr. Evans completed his report by noting the FY 19 external audit had begun with RSM performing the audit.

#### REPORT OF RULES AND PERSONNEL COMMITTEE

Jeff Houch, Assistant to the Executive Secretary, briefly summarized the Rules and Personnel Committee's June 18, 2019 meeting, noting the committee authorized staff to pursue additional rulemaking related to the accelerated pension benefit payment programs. He noted the buyout programs had been extended for three years, to June 2024 in the legislative session, and explained a rule was needed regarding the handling of the rollover of non-taxable contributions.

Mr. Houch added that the rules were needed to implement the changes to disability program contained in HB 1580, which passed both chambers of the General Assembly unanimously. In addition, there are a few Tier 2 survivor benefit items to be addressed in rules, as well as a rule for the employment of adult dependent survivors.

#### THIRD QUARTER FINANCIAL STATEMENTS

Alan Fowler, Accounting Division Manager, presented the financial statements for the third quarter of FY 19. When compared to the third quarter of FY 18, Mr. Fowler noted a \$33 million increase in benefits paid, due to increase in the number of annuitants and the January 2019 COLA. When compared to the FY 18 third quarter, there was an \$88 million decrease in employer contributions, due primarily to the timing of GRF payments. He noted the last FY 19 State contribution was expected in the next few days.

Mr. Fowler concluded his report and offered to answer questions. Hearing none, Chairperson Mendoza asked for a motion to approve the third quarter FY 19 financial statements as presented. Trustee Jenkins moved approval. The motion was seconded by Trustee Allison and passed unanimously. A copy of the financial statements is made a part of these minutes as *Exhibit C*.

#### REPORT OF THE EXECUTIVE SECRETARY

Recertification of FY 19 Contribution. Secretary Blair noted that Public Act 100-0587, which created the accelerated pension benefit payment programs, also required the Board to recertify the FY 19 contribution, taking into consideration the creation of those programs. The FY 19 recertification as calculated by GRS total 51.152% of payroll, or \$2,233,927,000, a reduction of \$20,176,000 from the January 2019 certification amount. The recertified amount includes \$2,145,665,000 for contributions to SERS and \$88,262,000 for debt service on the 2003 pension obligation bonds.

Secretary Blair outlined the provisions of the two buyout programs and added the participation rate in the COLA buyout program was around 23%, which is higher than initially expected, but that the initial interest in the total buyout was less than expected. After some discussion of the programs, as well as a discussion on the cancelled “pension holiday,” a motion was made by Trustee Mittons to recertify the FY 19 employer contribution rate at 51.152% of pay. The motion was seconded by Trustee Bates-Brown and all were in favor.

Legislative Report. Assistant to the Secretary Jeff Houch informed the Board that the FY 20 State budget contained the required SERS employer contribution, as certified by the Board of Trustees in January 2019. In addition the buyout provision was extended to June 2024. He noted a few other bills that affect SERS passed both chambers of the General Assembly and will become law upon signature by the Governor. A copy of the legislative report is made a part of these minutes as *Exhibit D*.

FY 2019 Funding Update. Secretary Blair noted that State contributions continued to be stable and timely.

#### APPROVAL OF EXECUTIVE COMMITTEE MINUTES

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

#### 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. There was no new business, but Secretary Blair reminded the Board of the Trustee training scheduled following adjournment of the Board meeting.

#### 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 29, 2019, 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: \_\_\_\_\_