

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

March 20, 2007

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois was held on Tuesday, March 20, 2007. The meeting convened at 9:30 A.M. in the System's Springfield office located at 2101 South Veterans Parkway.

Roll call was taken with the following trustees present:

Gordon John Mazzotti, Chairman
Loren Iglarsh, Vice Chairman,
Proxy for Daniel Hynes, Comptroller
John Frigo, Proxy for Ginger Ostro, Director,
Governor's Office Of Management and Budget
Lori Gaston
Michele Cusumano
Joseph Pisano

Absent was:

Joyce King

Others in attendance were:

Timothy Blair, Acting Executive Secretary
Larry Stone, Internal Auditor
Nicholas Merrill, Manager, Accounting Division
David O'Brien, Manager, Administrative Services
Scott Richards, Chief Investment Officer,
Illinois State Board of Investment
Cheryl Bullerman, Recording Secretary
Patrick Cummings, Retiree

Chairman Mazzotti presided and called the meeting to order with a quorum present.

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT

Scott Richards, Chief Investment Officer of the Illinois State Board of Investment, distributed copies of a draft of the February 28, 2007 Executive Summary, advising that the numbers reflected in this report are preliminary. The performance of the various asset classes for the current quarter, as well as the fiscal year to date, were reviewed. Mr. Richards advised that the total fund return for the current fiscal year to date is 9.8%. Mr. Richards continued his report with a review of the recent changes made in the portfolio.

Questions raised by the trustees were addressed throughout the presentation. Chairman Mazzotti thanked Mr. Richards for his informative report, and excused him from the remainder of the meeting.

On motion by Trustee Cusumano, seconded by Trustee Iglarsh, and by unanimous vote, the Board accepted the report of the Illinois State Board of Investment as of February 28, 2007. Official copies of this report are on file in the office of the Illinois State Board of Investment.

MINUTES OF PREVIOUS MEETING

Chairman Mazzotti presented the minutes of the January 23, 2007 meeting of the Board of Trustees for approval. The trustees were previously furnished copies of the minutes for preliminary review.

There being no additions or corrections, Trustee Frigo moved approval of the minutes as submitted. Trustee Iglarsh seconded the motion, and all trustees were in favor.

REPORT OF THE CHAIRMAN

Chairman Mazzotti advised that he had nothing to report at this time.

REPORT OF INTERNAL AUDITOR

Larry Stone, Certified Information Systems Auditor, directed attention to the internal auditor's quarterly summary.

Mr. Stone's audit of member accounts included an examination of the detection capabilities of existing employees who left state service as a result of the Early Retirement Incentive or the Alternative Retirement Cancellation Program, and found that it adequately identified those individuals. Mr. Stone found all new hires at correctional facilities to be correctly coded for the alternative retirement formula. Insurance costs for retirees with less than 20 years of service were calculated using the applicable insurance tables, and were found accurate. The death match performed in January, 2007 identified \$32,766 in overpayments. The annual ethics training for the Retirement System will be from March 20, 2007 through April 18, 2007. Priorities for the next reporting period were reviewed.

Trustee Gaston moved acceptance of the quarterly report of the internal auditor, seconded by Trustee Cusumano. The motion passed by unanimous vote.

REPORT OF EXECUTIVE SECRETARY

Funding Proposal Acting Executive Secretary Blair informed the trustees of the governor's funding proposal for the state funded pension systems. The proposal is to transfer the proceeds from the sale of the lottery to the pension systems and to issue \$15.7 billion in pension obligation bonds. The System's actuaries are reviewing these proposals for the long term cost impact.

Legislation. Trustees were advised of legislation recently passed which allows members to purchase layoff time.

Legislation was also recently passed which allows employees of unions representing state employees to become members of SERS provided they had previous service credit in the System.

Public Act 94-0004. Even though several requests have been sent to the Attorney General's office requesting guidance, no response has been received.

SECOND QUARTER FINANCIAL REPORT

Nicholas Merrill, Manager of the Accounting Division, addressed the Board and directed attention to the report for the second quarter of FY 2007.

Mr. Merrill reviewed the changes in the cash receipts, disbursements and balances for this quarter and the fiscal year to date, as well as the same quarter for the previous fiscal year and the previous fiscal year to date. These numbers reflected increases in member contributions, employer contributions, retirement annuities and refunds; however there was a decrease in the sale of investments.

Following a brief discussion, Trustee Gaston moved to accept the financial report for the second quarter as presented. The motion was seconded by Trustee Pisano, and passed unanimously. A copy of this report is on file as Exhibit A.

EXECUTIVE COMMITTEE MINUTES

Copies of the minutes of the January and February, 2007 Executive Committee meetings were previously mailed to all Board members for review.

Trustee Iglarsh informed trustees of an issue regarding participants in the Alternative Retirement Cancellation Program (ARCP) returning to state service and failing to repay the excess contributions paid to them plus interest. This program allowed state employees to leave state service and, upon making application, receive a full refund of their contributions in the System times two. The legislation requires these former members who return to state service, to repay the excess contributions paid to them plus interest within 60 days of their return to service. While several former members have returned to service, the Retirement System has been unable to collect these excess contributions plus interest. Following discussion, the Board instructed the System to provide Trustee Frigo with a listing of these individuals.

There being no corrections or additions to the Executive Committee minutes, Trustee Iglarsh moved for adoption as submitted. Trustee Cusumano seconded this motion, and all were in favor.

FY 2008 BUDGET REQUEST - FIRST REVIEW

The preliminary budget for the fiscal year July 1, 2007 through June 30, 2008 was presented. Copies of the executive summary, as well as a detailed budget, were previously provided to the trustees for their review prior to the meeting. The final budget submission will occur at the July, 2007 meeting. Approval of the budget at this meeting will allow the staff to continue operating after July 1, 2007, until final approval later in July.

The proposed operating budget for FY 2008 is \$12,651,300, a 36% increase over the FY 2007 projected budget.

Personal Services will increase 9.24% over the FY 07 budgeted amount. The Board certified rate of 16.561% will result in an increase in the Retirement line. Other items affecting the increase are group insurance contractual services, printing and electronic data processing. The automotive and equipment line items have been reduced for the next fiscal year.

The increased request for EDP and projects is a result of the recommendations from the Business Process Review and Information Technology Evaluation. A discussion ensued regarding this budget request, and the Board recommended that a task force be formed to study the feasibility of this project, with the Board being informed of their findings.

Following discussion, Trustee Frigo presented a motion to approve the preliminary FY 2008 budget request exclusive of the Line of Business procurement of \$490,000 and the imaging project upon approval of the Secretary of State of \$1,238,500. Trustee Iglarsh seconded the motion. The motion carried with the affirmative vote of Chairman Mazzotti, Vice Chairman Iglarsh, Trustee Frigo, Trustee Gaston, and Trustee Cusumano. Trustee Pisano cast a negative vote.

NEW BUSINESS

Request for Proposal. Acting Executive Secretary Blair advised Board members that it is the System's policy to issue a Request for Proposal (RFP) for actuarial services every five years.

Eight bids were received, and trustees were provided with information on the three companies submitting the lowest bids. The lowest bid came from Gabriel, Roeder, Smith & Co., who is the System's current actuary. Acting Executive Secretary Blair recommended the Board approve the retention of this firm as they are familiar with the System's needs and they have served us well.

On motion by Trustee Frigo, seconded by Trustee Iglarsh, and by unanimous vote, the Board approved the retention of Gabriel, Roeder, Smith and Co. for actuarial services.

OLD BUSINESS

There was no old business to be brought before the board.

ADJOURNMENT

March 20, 2007

There being no further business to be brought before the Board, on motion by Trustee Frigo, seconded by Trustee Iglarsh, and by unanimous vote, the meeting adjourned at 11:00 A.M.

The next regularly scheduled meeting of the board will be held on Tuesday, July 24, 2007, at 9:30 A.M. in the System's Springfield office.

Gordon John Mazzotti, Chairman

Date: _____

ATTEST:

Timothy Blair, Acting , Executive Secretary

Date _____