

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

OCTOBER 17, 2006

The annual meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened at 9:30 A.M. on Tuesday, October 17, 2006 in the System's Springfield office located at 2101 South Veterans Parkway.

Due to the delayed arrival of Chairman Mazzotti, Vice Chairman Iglarsh presided. Roll call was taken with the following trustees in attendance:

Loren Iglarsh, Proxy for Daniel W. Hynes, State Comptroller,
Vice Chairman

John Frigo, Proxy for John Filan, Director, Governor's Office
of Management & Budget

Michele Cusumano

Joyce King

Lori Gaston

Chairman Gordon John Mazzotti arrived during the report of the Executive Secretary.

Others in attendance were:

Timothy Blair, Acting Executive Secretary

Larry Stone, Internal Auditor

Nicholas Merrill, Manager, Accounting Division

William Atwood, Director, Illinois State Board of Investment

Cheryl Bullerman, Recording Secretary

Ross Buie, Retired State Employees' Association
Dan Hankiewicz, Commission on Government Forecasting and
Accountability
Gregg Scott, Commission on Government Forecasting and
Accountability

With a quorum present, the meeting was called to order at 9:30 A./M.

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT

William Atwood, Director of the Illinois State Board of Investment provided Board members with copies of the Illinois State Board of Investment Executive Summary for the period ending August 31, 2006 and addressed the trustees.

Prior to reviewing the August 31 summary, Mr. Atwood advised that the total fund return for the fiscal year 2005 was 11.3% as compared to the benchmark of 11%.

Mr. Atwood then directed the Board's attention to a new section in the executive summary dealing with minority and emerging managers followed by a review of the individual asset allocations.

Mr. Atwood concluded his report by entertaining questions raised by Board members. Vice Chairman Iglarsh thanked him for his informative report, and excused him from the remainder of the meeting.

On motion by Trustee Frigo, and seconded by Trustee Cusumano, the trustees unanimously accepted the Illinois State Board of Investment Report for the period ending August 31, 2006. A copy of this report is maintained in the office of the Illinois State Board of Investment.

MINUTES OF THE PREVIOUS BOARD OF TRUSTEES MEETING

Vice Chairman Iglarsh presented the minutes of the July 25, 2006 Board meeting to the members for approval. The trustees had previously been furnished with copies of the minutes for preliminary review.

Trustee Cusumano moved that the minutes, as submitted, be approved. The motion was seconded by Trustee Frigo, and prevailed by the affirmative vote of all trustees present.

Due to the late arrival of the Chairman, the order of business was changed. The Chairman's report, election of a Vice Chairman, and the appointment of the Executive Committee will be conducted later in this meeting.

REPORT OF INTERNAL AUDITOR

Larry Stone, the System's Internal Auditor, addressed the board and directed their attention to his quarterly report summarizing his accomplishments subsequent to the last Board meeting.

Mr. Stone reviewed the procedural manual for the Administrative Assistant to the Executive Secretary. The manual will be updated to reflect the changes in procedures due to the Open Meetings Act.

The death match completed in September, 2006 identified \$30,722.36 in overpayments.

Pursuant to the Fiscal Control & Internal Auditing Act, Mr. Stone conducted a peer review of the Teachers Retirement System of Illinois. The State Universities Chief Auditor also conducted a peer review of the State Employees' Retirement System internal auditing environment. Two areas identified for improvement included an internal quality self-assessment review should be developed and detailed audit steps should be documented for all audits.

Mr. Stone briefly summarized his priorities for the next reporting period.

REPORT OF EXECUTIVE SECRETARY

Calendar Year 2007 Meeting Dates In order to abide by the Open Meetings Act, it is necessary to post a schedule of meetings for the ensuing year in the System's offices as well as publish the schedule in a state newspaper.

The following meeting dates were agreed upon for calendar year 2007:

Tuesday, January 23

Tuesday, March 20

Tuesday, July 24

Tuesday, October 16

All meetings are held in the Springfield office of the State Employees' Retirement System, 2101 South Veterans Parkway.

Fourth Quarter Financial Report Nicholas Merrill, Manager of the Accounting Division, reviewed the financial statements for the fourth quarter of fiscal year 2006. He noted several changes had occurred subsequent to the last reporting period. Due to the System coming under the Union, employee contributions increased \$2.8 million while employer contributions increased \$2.2 million. The System drew \$184 million from the Illinois State Board of Investment during the fourth quarter. During fiscal year 2006, \$721 million was transferred from the Illinois State Board of Investment. Expenditures for the period ending June 30, 2006 as well as the lapse period were briefly reviewed.

After Mr. Merrill addressed questions, Trustee Frigo moved to accept the financial reports for the quarter ending June 30, 2006, as well as the lapse period of July 1, 2006 through August 31, 2006. Trustee Gaston seconded the motion, and all were in favor.

Official copies of these financial statements have been placed on file and made a part of the minutes of this meeting as Exhibit A.

Allocation of Shared Expenses Acting Secretary Blair reviewed a report regarding the allocation of shared personal services between systems which had been updated for the twelve month period from May 1, 2005 through April 30, 2006. The recap

schedule of shared services indicated that JRS/GARS performed a net \$898 more in services for SERS on a monthly basis. The previous survey for the period of May 1, 2004 through April 30, 2005 reported that JRS/GARS performed a net \$1,453 more in services for SERS on a monthly basis.

There being no questions, Trustee Cusumano moved to accept the allocation of shared services for the twelve month period of May 1, 2005 through April 30, 2006. The motion was seconded by Trustee King, and unanimously passed by an affirmative vote of all trustees present.

Alternative Retirement Cancellation Program. Acting Executive Secretary advised that applications are being processed and checks are being written and mailed.

ACTUARIAL REPORT

The actuarial valuation as of June 30, 2006, is unavailable at this time. Gabriel, Roeder, Smith and Company is awaiting numbers from the Illinois State Board of Investment before their report can be finalized.

CERTIFICATION OF FY 2008 CONTRIBUTION RATE

In accordance with Public Act 88-0593, as amended by Public Acts 93-0002 and 94-0004, the Board must certify the fiscal year 2008 state contribution rate to the governor by November 15 of each year. Due to the System's actuaries being unable to complete their report, the Board will be unable to certify the contribution rate at this time.

Therefore, Chairman Mazzotti called for a special board meeting to be held on Tuesday, November 14, 2006 at 9:30 A.M. in the System's Springfield office to certify the FY 2008 state contribution rate.

Chairman Mazzotti moved to authorize Acting Executive Secretary Blair the authority to certify the FY 2008 state contribution rate after informing all Board members of the rate should the need arise. Trustee Cusumano seconded the motion, and all were in favor.

EXECUTIVE COMMITTEE MEETING MINUTES

Copies of the minutes of the Executive Committee meetings held during July, August and September, 2006 were previously sent to all Board members for review.

There being no changes to these minutes, Trustee Frigo moved for approval as submitted. This motion was seconded by Trustee Gaston, and all members were in favor.

REPORT OF THE CHAIRMAN

Annual Election of Vice-Chairman Chairman Mazzotti informed the members that the annual election of the Vice Chairman for the ensuing year was in order, and opened the floor for nominations.

Trustee Cusumano nominated Trustee Loren Iglarsh for reelection to this position. Trustee Frigo seconded the nomination of Vice Chairman. There being no further nominations, the nominations were closed. The vote which followed, with Vice Chairman Iglarsh abstaining, resulted in the unanimous reelection of Trustee Iglarsh as Vice Chairman of the Board of Trustees for the calendar year 2007.

Appointment of Executive Committee Chairman Mazzotti announced the annual appointments to the Executive Committee were in order, and appointed Loren Iglarsh as the Committee's Chairman, Michele Cusumano, and Timothy Blair. Chairman Mazzotti appointed Lori Gaston to serve on the Committee during the period of time Trustee Cusumano is on a leave of absence.

The Chairman expressed his appreciation for their time and effort serving on this Committee.

NEW BUSINESS

There was no new business to be brought before the Board during this meeting.

OLD BUSINESS

Attorney General Opinion The System has not yet received an opinion from the Attorney General regarding Public Act 94-0004.

Data Processing Audit A business process review and information technology evaluation project is underway by a professional group. This project should offer insight into the future direction of the System's data processing.

EXECUTIVE SESSION

Chairman Mazzotti moved that the Board go into Executive Session pursuant to Section 2(c)(4) of the Open Meetings Act to consider the evidence or testimony presented to this quasi-judicial body, the Board of Trustees of the State Employees' Retirement System (5 ILCS 120(2)(c)(4). Trustee Frigo seconded the motion, which resulted in the following roll call vote:

Chairman Mazzotti	aye
Vice Chairman Iglarsh	aye
Trustee Frigo	aye
Trustee Cusumano	aye
Trustee King	aye
Trustee Gaston	aye

OPEN SESSION

On motion by Trustee Cusumano and seconded by Trustee Gaston, the Board resumed the open session of the meeting.

Trustee Frigo moved the Board authorize Acting Executive Secretary Blair to negotiate a settlement up to and including the amount of \$50,000 in the EEOC complaint against the System. Trustee Gaston seconded the motion, which prevailed by the affirmative vote of all trustees present.

ADJOURNMENT

There being no further business to be brought before the Board,
Trustee King moved to adjourn at 11:50 A.M., seconded by Trustee Frigo.

Acting Secretary Blair reminded Board members that a special meeting for the purpose of certifying the FY 2008 state contribution rate will be posted. The next regularly scheduled meeting will be held on Tuesday, January 23, 2007.

Chairman

Date

ATTEST:

Timothy Blair, Acting Executive Secretary

Date