

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

**OCTOBER 16, 2007**

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 16, 2007, in the System's Springfield office located at 2101 South Veterans Parkway.

Chairman Mazzotti presided, and roll call was taken with the following trustees in attendance:

Gordon John Mazzotti, Chairman  
Loren Iglarsh, Vice Chairman, Proxy for  
Daniel W. Hynes, State Comptroller  
John Frigo, Proxy for Ginger Ostro, Director,  
Governor's Office of Management & Budget  
Michele Cusumano  
Joyce King  
Lori Gaston

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  
Dan Hankiewicz, Commission on Government Forecasting  
and Accountability  
Gregg Scott, Commission on Government Forecasting  
and Accountability  
Bukola Bello, Commission on Government Forecasting  
and Accountability

John Wolters, Attorney, Cavanaugh & O'Hara  
Ross Buie, Retired State Employees Association

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

Chairman Mazzotti informed the Board members of the death of Trustee Joseph Pisano on September 29. Board members observed a moment of silence in his memory.

Trustees requested the System to prepare a resolution honoring Joe for his many years of dedicated service on the Board for presentation to his family.

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

William Atwood, Director of the Illinois State Board of Investment provided the trustees with copies of a report reflecting the performance of the portfolio as of June 30, 2007 which reflected a 17.4% return for the one year period.

Mr. Atwood then distributed copies of the Executive Summary as of August 31, 2007, and continued his report. This summary reflects a 6.5% return for the year to date; however, a negative 1.4% return for the first two months of the fiscal year is shown. He briefly reviewed the performance of the various asset classes, and informed trustees of pending changes in the portfolio.

Mr. Atwood concluded his report by entertaining questions raised by Board members.

On motion by Trustee Gaston, and seconded by Trustee Cusumano, the trustees unanimously accepted the Illinois State Board of Investment report for the period ending August 31, 2007. A copy of this report is maintained in the office of the Illinois State Board of Investment.

Trustees had previously been furnished with information regarding the allocation methodology used by ISBI for the State Employees', Judges and General Assembly Retirement Systems. Approval is being requested in order to strengthen the internal controls for the allocation methodology.

Following review and discussion, on motion by Trustee Frigo, seconded by Vice Chairman Iglarsh, and by unanimous vote, the allocation methodology used by ISBI for the three Systems was accepted.

Chairman Mazzotti thanked Mr. Atwood for his informative report and excused him from the remainder of the meeting.

## **MINUTES OF THE PREVIOUS BOARD OF TRUSTEES MEETING**

Chairman Mazzotti presented the minutes of the July 24, 2007 Board meeting to the members for approval. The trustees had previously been furnished with copies of the minutes for preliminary review.

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

## **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 he nominated Trustee Loren Iglarsh for reelection to this position. Trustee Frigo seconded the nomination. There being no further nominations, the nominations were closed. The vote which followed, with Trustee Iglarsh abstaining, resulted in the unanimous reelection of Trustee Iglarsh as Vice Chairman of the Board of Trustees for the calendar year 2008

**Appointment of Executive Committee** Chairman Mazzotti announced the annual appointments to the Executive Committee were in order, and reappointed Loren Iglarsh as the Committee's Chairman, Michele Cusumano, and Timothy Blair. Chairman Mazzotti appointed Lori Gaston to serve as an alternate on the Committee.

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

## **REPORT OF INTERNAL AUDITOR**

Larry Stone, the System's Internal Auditor, addressed the board and directed attention to his quarterly report summarizing his accomplishments for the first quarter of this fiscal year.

Mr. Stone advised he had completed a biannual audit of Administrative Support Services which included the disposal of computer equipment and compliance with P.A. 93-0306 and Central Management Services updated procedures. This audit also included the adequacy of the Security Contract covering the Springfield Office as well as the adequacy of cost analysis used for agency projects. No audit issues were found.

The death match completed in September, 2007 identified \$34,955 in overpayments.

A lengthy discussion ensued regarding the future EDP needs of the Retirement System and its members. A task force consisting of the Retirement System's Internal Auditor and John Davidson from the Comptroller's office will meet to study the benefit of contracting out User Requirements development. This had been a recommendation of L.R. Wechsler as part of their Information Technology Evaluation and Recommendation Report.

Trustee Cusumano moved for acceptance of the Internal Auditor's report as presented. Trustee Frigo seconded the motion, and all were in favor.

## **REPORT OF EXECUTIVE SECRETARY**

**Calendar Year 2008 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 2008:

Tuesday, January 22  
Tuesday, March 18  
Tuesday, July 22  
Tuesday, October 21

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

**Legislation** Acting Executive Secretary Blair distributed a memorandum regarding 2007 pension legislation, and a brief discussion followed.

**EDP Conversion** Acting Executive Secretary Blair distributed a report prepared by David Thompson, Manager of the Field Services Division and project manager, and David Bain of the Publication Section, regarding the progress being made on non-budgetary recommendations made by the consultants.

**FY 2008 Operational Plan** Trustees were provided with a copy of the Performance Standards, Operational Plan and Internal Audit Plan for fiscal year 2008. Acting Executive Secretary Blair advised that the first section deals with the operational and performance standards for the fiscal year.

Projects for fiscal year 2008 are outlined on page 24 of the booklet with detailed project descriptions following. Several projects from fiscal year 2007 will be continued in this fiscal year. Several new projects for this fiscal year were also reviewed.

Following review, Trustee Cusumano moved approval of the System's Performance Standards, Operation and Internal Audit Plans for FY 2008. Trustee Gaston seconded the motion, and all were in favor.

#### **FOURTH QUARTER FINANCIAL REPORT**

Nicholas Merrill, Manager of the Accounting Division, reviewed the financial statements for the fourth quarter of fiscal year 2007. He also distributed and reviewed an analysis of significant changes from the previous quarter as well as the previous fiscal year.

After Mr. Merrill addressed questions, Trustee Frigo moved to accept the financial reports for the quarter ending June 30, 2007, 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.

## **ACTUARIAL REPORT**

Mike Kivi and Andrew Plautz of Gabriel, Roeder, Smith & Company, consulting actuaries, appeared before the Board in order to present the results of the annual actuarial valuation of the assets and liabilities of the System as of June 30, 2007. They distributed copies of this June 30, 2007 valuation and addressed the Board.

Mr. Kivi advised that the purpose of the valuation is to determine the financial position and funding requirements of the State Employees' Retirement System. The actuarial assumptions used for the June 30, 2007 actuarial valuation are the same as used for the previous year.

The accrued actuarial liability of \$22,280,916,665 in comparison to the assets at market value of \$12,078,908,954 resulted in the unfunded accrued actuarial liability of \$10,202,007,711 as of June 30, 2007. The rate of return for FY 2007 was 16.79% which is significantly greater than the expected investment return of 8.50%. The funding ratio for 2007 was up to 54.21% from 52.22% the previous year.

Mr. Plautz reviewed membership data advising that active membership totaled 67,699 with a base payroll of \$3,566,000,000. As of June 30, 2007, there were 55,265 retirees, survivors, and disabled members receiving a total of \$1,156,000,000.

Following review and discussion, Trustee Frigo moved acceptance of the June 30, 2007 actuarial valuation as presented by Gabriel, Roeder, Smith & Company. Vice Chairman Iglarsh seconded the motion, and all were in favor.

## **CERTIFICATION OF FY 2009 CONTRIBUTION RATE**

While the state contribution to the System is predicated on the statutory formula established under Public Act 88-0593, as modified by Public Acts 93-0002 and 94-0004, the Board must by law, certify the fiscal year 2009 state contribution rate to the Governor. In this regard, the trustees were referred to Gabriel, Roeder, Smith & Company's actuarial valuation.

Following discussion, Trustee Frigo presented a motion to certify the FY 2009 state contribution rate of 21.049%, or \$827,225,000, in accordance with P.A. 88-0593, as modified by P.A. 93-0002 and P.A. 94-0004. This motion was seconded by Trustee Iglarsh, and prevailed by the affirmative vote of all trustees.

## **EXECUTIVE COMMITTEE MEETING MINUTES**

Copies of the minutes of the Executive Committee meetings held during July, August and September, 2007 were previously sent to all Board members for review.

There being no changes to these minutes, Vice Chairman Iglarsh moved for approval of these minutes as submitted. This motion was seconded by Trustee King, and all trustees were in favor

## **NEW BUSINESS**

**Proposed Modified Rule to Provide for Audio/Video Hearings Before the Executive Committee** A modified rule to provide for audio/video hearings before the Executive Committee has been proposed and was presented to the trustees. This rule would allow Executive Committee members to remain in Springfield, with a member of the Chicago staff being present with the petitioner and/or their representative.

This rule change would save travel expenses of the Committee and staff.

Following a brief discussion, Vice Chairman Iglarsh presented a motion to approve the rule change. The motion was seconded by Trustee Gaston, and prevailed by the affirmative vote of all trustees.

**OLD BUSINESS**

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

**ADJOURNMENT**

There being no further business to be brought before the Board, Trustee King moved to adjourn at 11:40 A.M., seconded by Trustee Frigo.

The next regularly scheduled meeting will be held on Tuesday, January 22, 2008.

\_\_\_\_\_  
Gordon John Mazzotti, Chairman

\_\_\_\_\_  
Date

ATTEST:

\_\_\_\_\_  
Timothy Blair, Acting Executive Secretary

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Date