

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

OCTOBER 21, 2008

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 21, 2008, in the System's Springfield office located at 2101 South Veterans Parkway.

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
Lori Laidlaw
Joyce King

Absent was:

Michele Cusumano

Others in attendance were:

Timothy Blair, Acting Executive Secretary
William Atwood, Director, Illinois State, Board of Investment
Mike Kivi, Gabriel, Roeder, Smith & Co.
Alex Rivera, Gabriel, Roeder, Smith & Co.
Larry Stone, Internal Auditor
Nicholas Merrill, Manager, Accounting Division
Cheryl Bullerman, Recording Secretary

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

With a quorum present, Chairman Mazzotti called the meeting to order.

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT

William Atwood, Director of the Illinois State Board of Investment provided the trustees with copies of an executive summary draft for the period ending September 30, 2008.

Mr. Atwood reported that the total fund as of June 30, 2008 was \$11.3 billion, and as of September 30, 2008 was \$10.2 billion, which reflects a significant loss in the first quarter of this fiscal year. The total fund return for the fiscal year to date is -8.0%. The performance of several asset classes were reviewed, and the current market was discussed. Mr. Atwood concluded his report by entertaining questions raised by Board members.

On motion by Vice Chairman Iglarsh, and seconded by Trustee Frigo, the report of the Illinois State Board of Investment for the period ending September 30, 2008 was unanimously accepted. A copy of this report is maintained in the office of the Illinois State Board of Investment.

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 22, 2008 Board meeting to the members for approval. The trustees had previously been furnished with copies of the minutes for preliminary review.

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

REPORT OF THE CHAIRMAN

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

Thereupon Trustee Frigo nominated Trustee Loren Iglarsh for reelection to this position. The motion was seconded by Trustee Laidlaw. There being no further nominations, the nominations were closed.

The vote which followed, with Vice Chairman Iglarsh abstaining, resulted in the unanimous reelection of Loren Iglarsh to the office of Vice Chairman for the calendar year 2009.

Appointment of Executive Committee Chairman Mazzotti announced the annual appointments to the Executive Committee were in order. Thereupon, he reappointed Loren Iglarsh as the Committee's Chairman, Michele Cusumano, and Timothy Blair as Committee members. Chairman Mazzotti appointed Lori Laidlaw 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.

A review of the procedures for the Administrative Assistant to the Executive Secretary revealed they were complete and in sufficient detail to allow a qualified replacement to step into the vacant position.

The death match completed for this period identified \$88,202 in overpayments of which \$20,340 were attributed to the Judges Retirement System.

Mr. Stone recommended a policy be drafted restricting mailings to members and/or benefit recipients. These blind mailings should only be made on behalf of not-for-profit entities with no for-profit associations. Following discussion, the trustees agreed to refer this matter to the System's attorney for review. When a policy is adopted, it will be included in the agency's Directives Manual.

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

REPORT OF EXECUTIVE SECRETARY (ACTING)

Calendar Year 2009 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 and on the web site, as well as publish the schedule in a state newspaper.

The following meeting dates were agreed upon for calendar year 2009, with a possible change in the January meeting date:

Tuesday, January 20
Tuesday, April 28
Tuesday, July 21
Tuesday, October 20

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

FY 2009 Operational Plan Acting Executive Secretary Blair distributed copies of the FY 2009 Operation Plan which reflects the System's performance standards, projects and internal audit plan for this fiscal year.

FOURTH QUARTER FINANCIAL REPORT

Nicholas Merrill, Manager of the Accounting Division, reviewed the financial statements for the fourth quarter of fiscal year 2008. He also distributed and reviewed an analysis of significant changes from the previous quarter as well as the fourth quarter of the previous fiscal year.

Mr. Merrill noted that revenues were up due to an increase in contributions. Benefits were also up in this quarter due to the 3% increases at the beginning of the third quarter. Administrative expenses for the fiscal year including the lapse period were also reviewed.

After Mr. Merrill addressed questions, Trustee Laidlaw moved to accept the financial reports for the quarter ending June 30, 2008. Trustee Frigo 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 Alex Rivera of Gabriel, Roeder, Smith & Company, consulting actuaries, appeared before the Board to present the results of the annual actuarial valuation of the assets and liabilities of the System as of June 30, 2008. They distributed copies of the preliminary valuation and addressed the Board. Trustees were advised that a final copy will be forthcoming in the near future.

Mr. Rivera 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, 2008 actuarial valuation are the same as used for the previous year.

The accrued actuarial liability of \$23,841,280,102 in comparison to the assets at market value of \$10,995,366,485 resulted in the unfunded accrued actuarial liability of \$12,845,912,617 of June 30, 2008. The rate of return for FY 2008 was -5.73% which is significantly less than the expected investment return of 8.50%. The funding ratio for 2008 was down to 46.12% from 54.21% the previous year.

Mr. Rivera reviewed membership data advising that active membership totaled 66,237 with a base payroll of \$3,709,826,341. As of June 30, 2008, there were 56,111 retirees, survivors, and disabled members receiving a total of \$1,226,390,212.

Board members agreed to defer acceptance of the June 30, 2008 actuarial valuation until the final report is received.

CERTIFICATION OF FY 2010 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 2010 state contribution rate to the governor by November 15 of each year.

Following discussion, on motion by Vice Chairman Iglarsh, seconded by Trustee Frigo, and by unanimous vote, the Board granted Acting Executive Secretary Blair authorization to poll each trustee by mail regarding the certification of the fiscal year 2010 contribution rate following receipt and review of the final June 30, 2008 actuarial valuation.

EXECUTIVE COMMITTEE MEETING MINUTES

Copies of the minutes of the Executive Committee meetings held during July, August, and September, 2008 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 Frigo, and all trustees were in favor.

NEW BUSINESS

There was no new business to be presented to the Board at this time.

OLD BUSINESS

There was no old business be brought before the Board at this time.

ADJOURNMENT

There being no further business to be brought before the Board, Trustee King moved to adjourn at 11:25 A.M. The motion was seconded by Trustee Frigo.

The next regular meeting is scheduled to be held on Tuesday, January 20, 2009.

Gordon John Mazzotti, Chairman

Date

ATTEST:

Timothy Blair, Acting Executive Secretary

Date