

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

**MINUTES OF THE ANNUAL MEETING
OF THE BOARD OF TRUSTEES**

October 20, 2009

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, October 20, 2009, at 11:00 A.M. in the System's Springfield office located at 2101 South Veterans Parkway.

The following trustees were in attendance:

Daniel W. Hynes, Chairman
Lori Laidlaw, Vice-Chairman
Thomas Allison
Renee Friedman
Joyce King
David Morris
Michael Noser
Patricia Ousley
Maria Pelaez-Peterson
Patricia Rensing
Danny Silverthorn
Virginia Yates

Absent was:

Harold Sullivan, Jr.

Others in attendance were:

Timothy Blair, Acting Executive Secretary
Steve Bochenek, Attorney
William Atwood, Director, Illinois State Board of Investment
Mike Kivi, Consulting Actuary, Gabriel, Roeder, Smith & Company
Lawrence Stone, Internal Auditor
Nicholas Merrill, Manager, Accounting Division
Gerald Mitchell, Chief Information Systems Officer
Daniel Robertson, Manager, IT Division
Loren Iglarsh, Office of the Comptroller
Allan Mayer, Office of the Comptroller
Dawn Blakeman, Recording Secretary

Chairman Hynes presided, and called the meeting to order at 11:00 a.m. with a quorum present.

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT

William Atwood, Director of the Illinois State Board of Investment distributed draft copies of the Flash Report (Executive Summary) for the period ending August 31, 2009, and addressed the Board. He called attention to

the portion of the report reflecting a 6.7% return for the fiscal year to date and an 8.8% return for the calendar year to date. Director Atwood reviewed the performance of the various asset classes and several of investment managers. Director Atwood then discussed the use of emerging managers and concluded his report by answering several questions raised by the trustees. Chairman Hynes thanked Director Atwood for his informative report and excused him from the remainder of the meeting.

Trustee Ousley moved to accept the Flash Report of the Illinois State Board of Investment for the period ending August 31, 2009 and Vice-Chairman Laidlaw seconded the motion, which passed unanimously. A copy of this report is maintained in the office of the Illinois State Board of Investment.

ACTUARIAL REPORT

Mike Kivi of Gabriel, Roeder, Smith and Company. Consulting actuary, 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, 2009. Mr. Kivi distributed copies of the 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, 2009 actuarial valuation are the same as those used for the previous year. Mr. Kivi noted, however, that the June 30, 2009 actuarial valuation includes a provision to "smooth" assets by spreading out the unexpected FY 2009 investment losses over 5 years pursuant to recently enacted legislation.

The accrued actuarial liability of \$25,298,346,092 in comparison to the actuarial value of assets of \$10,999,953,527 resulted in an unfunded accrued actuarial liability of \$14,298,392,565 at June 30, 2009. Therefore, the funded ratio for FY 2009 was 43.5%, down from 46.1% the previous year. Mr. Kivi then pointed out that if the valuation was based on a market value of \$8,565,739,117 at June 30, 2009, the funded ratio would have been 33.9%.

Mr. Kivi reviewed membership data and advised that active membership at June 30, 2009 totaled 65,599 with a base payroll of \$3,745,116,941. As of June 30, 2009, there were 57,099 retirees, survivors and disabled members receiving a total of \$1,318,356,040 annually.

Following review and discussion, Trustee Friedman moved acceptance of the June 30, 2009 actuarial valuation as presented by Gabriel, Roeder, Smith & Company. Trustee King seconded the motion and all were in favor.

CERTIFICATION OF FY 2011 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, 93-0839, 94-0004 and 96-0043, the Board must by law certify the FY 2011 State contribution to the Governor and General Assembly by November 15 of each year.

Following discussion, Trustee Laidlaw presented a motion to certify the FY 2011 State contribution rate of 30.253% of payroll, or \$1,268,881,000, in accordance with Public Act 88-0593, as modified by Public Acts 93-0002, 93-0839, 94-0004 and 96-0043. The motion was seconded by Trustee King, and prevailed with the affirmative vote of all trustees.

MINUTES OF JULY 21, 2009 BOARD MEETING

The minutes of the meeting of the Board of Trustees held July 21, 2009, were presented to the members by Chairman Hynes for approval. Copies of these minutes were previously mailed to each trustee for preliminary review. There being no corrections or additions, Vice-Chairman Laidlaw moved to approve the minutes as submitted. Trustee Ousley seconded the motion, and all were in favor.

REPORT OF THE CHAIRMAN

Election of 2010 Officers Chairman Hynes informed the Board members that the annual election of the Vice-Chairman for 2010 was in order, and opened the floor for nominations. Chairman Hynes then nominated Trustee Lori Laidlaw for election to the position. The motion was seconded by Trustee Rensing. There being no further nominations, the nominations were closed.

The vote which followed resulted in the unanimous election of Lori Laidlaw to the office of Vice-Chairman for calendar year 2010.

Appointment of Executive Committee Chairman Hynes announced the annual appointments to the Executive Committee were in order. Thereupon, he reappointed Loren Iglarsh as the Committee's Chairman, Vice-Chairman Laidlaw and Acting Executive Secretary Blair as Committee members. The Chairman expressed his appreciation for their time and effort serving on this Committee.

REPORT OF INTERNAL AUDITOR

Larry Stone, addressed the Board, and summarized his accomplishments since his last report to the Board.

Audit – An Administrative Services audit was completed and all areas tested were found to be in compliance with the Division's Goals and Objectives.

Death Match Results - The death match, which is now completed monthly rather than quarterly, has been completed for the period of July 2009 thru September 2009. A total of \$59,575.97 in overpayments was identified.

Update to the Trustee Election Review – Mr. Stone stated he is looking into the feasibility of using electronic ballots for the next Trustee election to be held in May of 2011. The use of electronic ballots should minimize duplicate ballots and further tighten the System's control over the election process. Mr. Stone hopes to have a proposal for the Board at the January Meeting. If this proposal passes, rules would be promulgated.

Trustee Morris moved acceptance of the Internal Auditor's report for this period. Trustee Silverthorn seconded the motion, and all were in favor.

REPORT OF EXECUTIVE SECRETARY

Calendar Year 2010 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 and time were agreed upon for calendar year 2010:

Thursday, January 21
Tuesday, April 27
Tuesday, July 20
Tuesday, October 19

All 2010 meetings will be held in the Springfield office with video conference option in Chicago.

Vice-Chairman Laidlaw moved for acceptance of the Calendar Year 2010 Meeting Dates. Trustee Rensing seconded the motion, and all were in favor.

IT Update on Modernization Conversation - Gerry Mitchell, Chief Information System Officer, provided the Trustees with a list of the accomplishments and goals of the IT Division. Mr. Mitchell reported that IT infra-

structure upgrades are underway as well as training for staff in the new technology. A pilot project using the new technology has also begun.

Renewal of Term Appointment The term of Nicholas C. Merrill, Jr., Manager of the Accounting Division, will expire December 31, 2009. Mr. Merrill has been the Accounting Division Manager since December 30, 1985. Acting Executive Secretary Blair pointed out Mr. Merrill's experience and knowledge and the Trustees voted unanimously to recommend Mr. Merrill be granted another 4 year term, beginning January 1, 2010, as Manager of the Accounting Division.

FOURTH QUARTER FINANCIAL REPORT

Nicholas Merrill, Manager of the Accounting Division, presented the financial report for the fourth quarter of Fiscal Year 2009.

Mr. Merrill indicated that the amount required to be transferred from ISBI decreased during this period (\$82,000,000) from the same period last year as a result of increased employer contributions, and a desired reduction in the Cash Balance. Total benefits increased by \$21 million from the previous fiscal year, primarily as a result of the statutory scheduled 3% increases, which occur every January.

Mr. Merrill then entertained several questions from the Trustees regarding the various types of receipts and disbursements detailed in the financial statements. Following the discussion, Trustee King moved to accept the financial report for the fourth quarter. The motion was seconded by Vice-Chairman Laidlaw, and passed unanimously. A copy of this report is on file.

EXECUTIVE COMMITTEE MEETING MINUTES

The trustees had previously been furnished with copies of the July, August and September 2009 Executive Committee minutes for review. Trustee Morris had a question regarding the denial of certain appeals at the August Committee meeting and the approval of similar appeals at the September Committee. Members of the Executive Committee explained that a policy had been implemented subsequent to the August meeting which allowed the Committee to then approve the similar appeals from the August and September Executive Committee meeting. Therefore, there being no changes to these minutes, Vice-Chairman Laidlaw moved for adoption as submitted. Trustee King seconded the motion, which prevailed by the affirmative vote of all trustees.

OLD BUSINESS

There was no old business brought before the Board.

NEW BUSINESS

Fiduciary Liability Insurance – Trustee Allison mentioned his concern regarding the liability exposure of SERS Trustees and whether the Board should consider looking into Fiduciary Liability Insurance for current Trustees. Upon further discussion, Acting Secretary Blair offered to research the issue and provide the Trustees with information at the January Board meeting.

Trustee Education - Trustee Allison stated Trustees needed to attend seminars, workshops and or conferences regarding trustees. Acting Executive Secretary Blair explained the cost involved and said he would prepare options on Trustee training. Acting Executive Secretary Blair was instructed by Chairman Hynes to prepare options on trustee training with price.

ADJOURNMENT

There being no further business to be brought before the Board, Trustee Rensing moved for adjournment at **1:20** P.M. The adjournment motion was seconded by Trustee Friedman.

Daniel W. Hynes, Chairman

Date: _____

ATTEST:

Timothy Blair, Acting Executive Secretary

Date: _____