

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

October 29, 2013

The annual meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, October 29, 2013, at 10:00 a.m. in the System's Springfield office located at 2101 South Veterans Parkway with a videoconference location at the Bilandic Building, Room N-703, 160 North LaSalle Street, Chicago, IL.

The following trustees were in attendance:

Judy Baar Topinka, Chairperson  
Lori Laidlaw, Vice-Chairperson  
David Morris, Trustee  
Michael Noser, Trustee  
Patricia Ousley, Trustee  
Patricia Rensing, Trustee  
Thomas Allison, Trustee  
Shirley Byrd, Trustee  
Renee Friedman, Trustee  
Danny Silverthorn, Trustee

Absent:

Harold Sullivan, Trustee  
Virginia Yates, Trustee

Others in attendance were:

Timothy Blair, Executive Secretary  
Steve Bochenek, Attorney  
William Atwood, Director, Illinois State Board of Investment  
Paul Wood, Consulting Actuary, Gabriel, Roeder, Smith & Co.  
Alex Rivera, Consulting Actuary, Gabriel, Roeder, Smith & Co.  
Dave O'Brien, Manager, Administrative Services Division  
Nicholas Merrill, Accounting Division  
Alan Fowler, Acting Manager, Accounting Division  
Staci Crane, Chief Internal Auditor  
Gerry Mitchell, Chief Information System Officer  
Alexis Sturm, Office of the Comptroller  
Loren Iglarsh, Office of the Comptroller  
Mike Drake, Office of the Comptroller  
Barbara Baird, Manager, SERS Chicago Office  
Jennifer Staley, Secretary to CISO  
Dawn Blakeman, Recording Secretary

Chairperson Topinka presided and called the meeting to order at 10:05 a.m. with a quorum present.

## PUBLIC COMMENTS

Chairperson Topinka asked if there were any members of the public in the Springfield or Chicago locations who wished to address the Board. There were no public comments offered.

## REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT

William Atwood, Director of the Illinois State Board of Investment (ISBI) distributed copies of the Total Fund Composite Fiscal Year Performance and the Pension Fund Executive Summary for the period ended September 30, 2013. He addressed the Board by first noting in FY 13 the total portfolio provided a return of 14.4% (gross of fees), compared to a benchmark return of 11.8% and the actuarially assumed rate of return of 7.75%.

During FY 13, the Fixed Income portfolio provided a return of 2.4% while the benchmark returned only 0.2% over the same period. The U.S. Equity portfolio (without Hedge Fund of Funds) returned 23.3% in FY 13 and the relevant benchmark returned 21.5%. Director Atwood continued by noting the Hedge Fund of Funds asset class returned 12.4%, gross of fees, in FY 13, compared to the benchmark return of 8.3%. Over the same time period, the non-U.S. Equity portfolio also performed well, returning 16.8%, while the benchmark returned 14.4%.

Director Atwood summarized that FY 13 was very good for the portfolio and that the current slow growth market environment is good for the ISBI portfolio. He then noted that the portfolio provided a 14.4% return during a period of de minimus inflation and continued that although the Real Estate portfolio had been problematic over the years, the Board is confident they are on the right track with the direction of the real estate portfolio.

Director Atwood briefly referred the Board to the Pension Fund Executive Summary Report dated September 30, 2013. For the first 3 months of FY 14, the total portfolio provided a return of 4.9%, compared to a benchmark return of 4.4% and the actuarially assumed return of approximately 1.9%. He then noted the portfolio value at June 30, 2013, was almost \$12.9 billion and the value at October 21, 2013, had increased to \$13.8 billion, or almost \$1 billion over a period of less than 4 months.

Director Atwood continued his report by telling the Board that ISBI had just completed a search for an emerging market bond manager and they are in the middle of a search for an emerging market small cap manager. Both searches are efforts to further diversify the portfolio away from the domestic stock market. He then notified the Board that ISBI terminated the small-cap manager IronBridge and the mid-cap manager Credo Capital Management due to underperformance and fee concerns.

Director Atwood concluded his report by offering to answer any questions from the Board. There being none, a motion to adopt the ISBI report was offered by Trustee Rensing and seconded by Trustee Ousley. All trustees present voted in the affirmative. A copy of the report is maintained in the ISBI office and made a part of these minutes as Exhibit A. Chairperson Topinka thanked Director Atwood for his informative report and excused him from the remainder of the meeting.

## REPORT OF THE ACTUARY

June 30, 2013 Actuarial Valuation and Preliminary FY 15 Employer Contribution Rate. Alex Rivera and Paul Wood, Consulting Actuaries, Gabriel, Roeder, Smith & Company, presented the FY 13 actuarial valuation and the preliminary FY 15 certified employer contribution that will be submitted to the State Actuary for review.

Mr. Rivera began by referring the trustees to a handout summarizing the results of the FY 13 actuarial valuation. He first pointed out that based on the market value of assets, the funded ratio of SERS increased from 33.1% in FY 12 to 35.7% in FY 13 due primarily to favorable investment returns. Based on the actuarial value of assets, the funded ratio decreased slightly from 34.7% in FY 12 to 34.2% in FY 13. He stated this decline is a result of the smoothing of investment gains and losses over the last four years, especially the significant investment losses in FY 09.

Mr. Rivera continued by informing the Board the required employer contribution increased from \$1.663 billion, or 38.435% of payroll in FY 14, to \$1.748 billion, or 40.472% of payroll in FY 15. In addition to the required employer contribution to SERS, pursuant to statute the Board certified a debt service contribution in FY 15 of \$80,656,000, or 1.867% of payroll, to be used towards the repayment of the 2003 pension obligation bonds.

Mr. Rivera continued his presentation by comparing actual FY 13 cashflow to projected FY 14 cashflow. For FY 13, benefit payments and expenses were \$61 million more than combined employee and employer contributions. In FY 14, employer and employee contributions are expected to be \$20 million higher than benefit payments and expenses. He then pointed out the FY 14 statutory employer contribution (“Basic Funding”) is \$254 million less than the annual normal cost plus a 30 amortization payment (the ARC), and the FY 14 statutory employer contribution (“Basic Funding”) is \$236 million less than the ARC.

Mr. Rivera concluded his remarks by noting that he believes the Board should continue to closely monitor the 7.75% investment return assumption and asked if there were any questions before he turned the presentation over to Mr. Wood.

Trustee Noser asked Mr. Rivera about the difference in the “Basic Funding” used in the presentation and the ARC. Mr. Rivera explained that “Basic Funding” refers to the statutory formula used in determining employer contributions while the ARC refers to the GASB 25 funding standard. Trustee Friedman followed up by asking about the increase in the required contribution as a percent of payroll, from 38.435% in FY 14 to 40.472% in FY 15. Mr. Rivera explained that headcount and payroll were both lower than expected in FY 13, so the required FY 15 employer contribution as a percent of payroll increase by more than 2%, even though the actual required contribution in FY 15 as a dollar amount did not increase as might have been expected.

Mr. Wood continued by noting there has been a decrease in the active population and that while a stable active population will be assumed going forward FY 13 payroll was lower than expected. And he further noted that Tier 2 members and the employer will only contribute on compensation up to the Tier 2 salary limitation.

Trustee Friedman then asked how a change in the investment return assumption would affect the required employer contribution. Mr. Rivera noted that the actuaries had reviewed the investment return assumption in July and that decreasing the assumption from 7.75% to 7.5% would increase the required employer contribution by an estimated \$50 million. Mr. Rivera then pointed out the statutory funding plan was almost the same as the ARC, but that

the statutory funding plan required the employer contribution to be reduced through FY 33 by the amount of the annual debt service on the 2003 pension obligation bonds. This reduction for debt service, and funding to a 90% target rather than 100%, were the primary causes for the difference in the “Basic Funding” and the ARC.

Trustee Allison asked if there is still a concern with the backloading of the statutory funding plan. Mr. Rivera noted there is backloading on the current funding plan and the funded ratio is projected to increase significantly only in the last years 8 or 9 years of the funding plan, but that the 7.75% investment return is assumed for the entirety of the plan. Trustee Noser then pointed out a major reason for the dramatic increase in the funded ratio in the later years of the funding plan is the accumulation of significant assets in the portfolio towards the end of the funding plan, which in turn provides significant amounts of investment income thereby increasing the funded ratio.

Mr. Rivera concluded the GRS presentation by telling the Board the GASB 25 standard (ARC funding) was going to be replaced by GASB 67/68 in 2015. The key difference in reporting will be that the unfunded actuarial liability will be on the State’s balance sheet and that the investment return assumption may need to be reduced slightly to comply with the GASB 67/68 requirements.

Vice-Chairperson Laidlaw moved to adopt the FY 13 actuarial valuation and to certify the preliminary FY 15 employer contribution rate as presented by GRS. Trustee Morris seconded the motion and all were in favor. In accordance with Public Act 88-593, as amended, the Board certified State contribution rate for FY 15 is 42.339% of payroll, or \$1,829,086,000. This certified FY 15 rate provides for an employer contribution to SERS in the amount of \$1,748,430,000, or 40.472% of payroll, and debt service for the 2003 pension obligation bonds in the amount of \$80,656,000, or 1.867% of payroll.

#### MINUTES OF THE JULY 16, 2013 BOARD MEETING

The minutes of the meeting of the Board of Trustees held July 16, 2013 were presented to the members by Chairperson Topinka. Copies of these minutes were previously provided to each trustee for preliminary review. Trustee Ousley moved to approve the minutes as submitted. Trustee Rensing seconded the motion and all were in favor.

#### PERSONNEL MATTERS CLOSED SESSION

Trustee Rensing made a motion to go into Closed Session to discuss personnel matters. Trustee Silverthorn seconded the motion. A roll call vote was taken by Recording Secretary Blakeman.

Trustee Morris	Aye	Trustee Silverthorn	Aye
Trustee Rensing	Aye	Trustee Noser	Aye
Trustee Ousley	Aye	Trustee Allison	Aye
Trustee Byrd	Aye	Vice-Chairperson Laidlaw	Aye
Trustee Friedman	Aye	Chairperson Topinka	Aye

The Board returned to Open Session. Chairperson Topinka excused herself to attend another engagement and turned the meeting over to Vice-Chairperson Laidlaw.

#### REPORT OF CHAIRPERSON TOPINKA (BY VICE-CHAIRPERSON LAIDLAW)

Election of 2014 Vice-Chairperson. Vice-Chairperson Laidlaw informed the Board members the election of Vice-Chairperson for calendar year 2014 was in order and opened the floor for nominations. Trustee Rensing nominated Vice-Chairperson Laidlaw for re-election to the position. The motion was seconded by Trustee Morris. There being no further nominations, Vice-Chairperson Laidlaw closed the nominations. The voice vote which followed resulted in the unanimous re-election of Vice-Chairperson Laidlaw for 2014.

Updated Board Manual. Executive Secretary Blair requested consideration of the proposed Board Manual, including revised SERS bylaws. He explained the need to adopt the proposed Board Manual and updated bylaws in order to provide current and future Trustees with more relevant and timely information concerning the roles and responsibilities of Trustees, collectively and individually. Executive Secretary Blair then briefly reviewed the proposed Manual and pointed out that in addition to the current Executive Committee, two new committees would be created. The Audit and Compliance Committee would be made up of the Chairperson and his or her designee plus two Trustees elected by the Board. The Rules and Personnel Committee would be made up of three Trustees elected by the Board. He then offered to answer any questions the Board may have.

Hearing no questions, Vice-Chairperson Laidlaw asked if there was a motion to adopt the revised Board Manual, including the updated bylaws. Trustee Ousley moved to adopt the Board Manual and bylaws. Trustee Friedman seconded the motion, and all were in favor.

2014 Executive Committee. Vice-Chairperson Laidlaw announced the selection of the 2014 Executive Committee was in order. Loren Iglarsh would remain the Committee's Chairman as the designee of Chairperson Topinka. Trustee Rensing nominated Vice-Chairperson Laidlaw as the elected member of the committee and the nomination was seconded by Trustee Silverthorn. As there were no other nominations offered, Vice-Chairperson Laidlaw closed the nominations and accepted the position of Vice-Chairperson of the Executive Committee for 2014. Executive Secretary Blair would be the ex-officio third member of the Executive Committee. Vice-Chairperson Laidlaw expressed her appreciation to the other members of the executive Committee for their time and effort in continuing to serve on the Executive Committee.

Audit and Compliance Committee. After approval of the Board Manual, Executive Secretary Blair informed the Board that two Trustees needed to be elected for the Audit and Compliance Committee for 2014. Vice-Chairperson Laidlaw opened the floor for nominations. Trustee Ousley nominated Trustee Morris as member and Chairman of the Committee and Trustee Silverthorn seconded the nomination. Trustee Rensing then nominated Trustee Friedman as member and Vice-Chairperson of the Committee. Trustee Ousley seconded the motion. Vice-Chairperson Laidlaw asked if there were other nominations. Hearing none, she closed the nominations. After an affirmative vote of all Trustees, Vice-Chairperson Laidlaw thanked the new Committee members.

Rules and Personnel Committee. Vice-Chairperson Laidlaw informed the Board Members of the need to elect 3 Trustees to the Rules and Personnel Committee and opened the floor for nominations. Trustee Ousley nominated Trustee Rensing and Trustee Silverthorn seconded the nomination. Trustee Rensing then nominated Trustee Ousley with Trustee Morris seconding the nomination. Trustee Silverthorn volunteered to serve and Vice-Chairperson Laidlaw seconded. Vice-Chairperson Laidlaw asked if there were other nominations. Hearing none, she closed the nominations and after an affirmative vote of all in attendance thanked the new Committee members.

## REPORT OF ANY TRUSTEE

Vice Chairperson Laidlaw asked if any other trustee would like to offer a report. No other Trustee offered a report.

## REPORT OF CHIEF INFORMATION SYSTEMS OFFICER (CISO)

Web-based Reciprocal System. Mr. Mitchell informed the Board that a web-based Reciprocal System was implemented September 1, 2013 and had been accessed more than 3,900 times. The system provides other retirement systems with access to accurate and detailed information to help with the customer service of mutual members. A webinar was provided to train staff of the other 12 reciprocal systems in the use of the new system and user feedback has been very positive.

Cloud-based Workshop System. Mr. Mitchell reported a Workshop Reservation System was implemented on October 1, 2013 to allow members to register for Field Service workshops online. Field Service staff utilized several webinars to train more than 100 retirement coordinators located throughout the State in the use of the system. In addition, an email was sent announcing the new system to more than 45,000 employees. In the first 10 days of the system there were approximately 11,000 visits to the System with 1,200 members registering for workshops.

Enhanced Death Match Capability. Mr. Mitchell informed the Board that we are now working with the Illinois Department of Public Health (IDPH) in order to enhance the death match capability. This should allow us to continue to reduce benefit overpayments due to the deaths of members going unreported.

Active Member Systems Re-engineering. Mr. Mitchell stressed the re-engineering of the active member systems is now underway with the hopes of getting the system off of the CMS mainframe by July 2014. The process will be complicated by the changes to retiree health insurance as part of the ongoing switch to the Medicare Advantage plans.

Staffing. Mr. Mitchell reported meetings were held with AFSCME, which resulted in an agreement to use consultants to augment and mentor State staff. Since the last Board meeting SERS has hired three full-time State staff and brought on three consultants. Human Resources and IT management continue to work towards filling the remaining IT vacancies.

Security. Mr. Mitchell informed the Board that IT has upgraded the network firewall and implemented an intrusion prevention system. In addition, email security has been upgraded and a new server patching system has been implemented to allow patches to be more timely and consistent. Mr. Mitchell also noted that he was becoming the security administrator over employee access to CMS' Accounting Information System (AIS). He is working with the Division Managers to review AIS access rights and restrict employee access if needed.

Business Continuity/Disaster Recovery Planning. Mr. Mitchell reported the IT systems have been successfully tested on the equipment at the alternate data center. In addition, the generator for the building has been tested and is ready to be installed. Vice-Chairperson Laidlaw asked when the generator would be in place. Dave O'Brien, Administrative Services Division Manager, explained the pad and catwalk will be poured in the next few weeks and

said he expected the transfer switch to be here in mid-November and the generator to be operational by late November.

Risk Assessment. Meetings were held with each Division Manager to discuss risk assessments. All identified risks have been categorized and several have been addressed, including the use of lockable recycle bins and the implementation of a receipt process when payments are dropped off by walk-in customers. In addition, all divisions are taking action to secure documents that contain personal information and the front desk personnel were reminded to use member information sheets that provide Identity Protection Act information and legal disclaimers.

#### REPORT OF CHIEF INTERNAL AUDITOR (CIA)

Vice-Chairperson Laidlaw announced that CIA Crane had asked to be excused from the meeting without providing her report to the Board, as she had to attend training and nothing in her report was time sensitive except for the review of the closed session minutes. CIA Crane was excused from the meeting and Executive Secretary Blair explained to the Board that the CIA report would be delayed until the January Board meeting. After a brief discussion it was decided the CIA's closed meeting minutes would be referred to Attorney Bochenek, who would then recommend to the Board if they should remain confidential at the January Board meeting.

Trustee Rensing offered that staff should ensure closed session minutes are available for review by the Board at the following meeting. Attorney Bochenek and all Trustees agreed. Trustee Friedman then asked for clarification as to why CIA Crane had asked to be excused from the meeting. Vice-Chairperson Laidlaw reiterated that CIA Crane had asked to be excused to attend some training and that there were no time sensitive items on her agenda.

Trustee Friedman stated that leaving the meeting was unprofessional and asked why CIA Crane was allowed to leave. Executive Secretary Blair said he had previously approved the leave request of CIA Crane to attend the training, as the Board meetings have usually been over before. Vice-Chairperson Laidlaw added again that CIA Crane had stated that none of her audits were time sensitive.

#### REPORT OF THE EXECUTIVE SECRETARY

Final Review of FY 2014 Budget. Executive Secretary Blair presented the proposed FY 14 budget for final review. Copies of an executive summary, as well as the detailed budget, were provided to the trustees for review prior to the meeting.

Executive Secretary Blair first noted that the final review of the budget request is normally completed in July but that it had been postponed until October due to the lack of a quorum at the July Board meeting. He then told the Board the final FY 14 budget request is a 4% increase from the FY 13 budget and \$176,000 more than the preliminary budget approved at the April Board meeting. Executive Secretary Blair briefly reviewed the requested changes from the preliminary budget.

Contractual Services. The request for contractual services decreased by \$129,000 from the preliminary April budget, due primarily to a \$160,000 decrease in the fiduciary liability insurance premium.

Equipment. The Department of Human Services has significantly increased the cost of printing services for SERS and other State agencies. Therefore, an increase of \$106,000 was requested in the Equipment line from the preliminary April budget, including \$100,000 to purchase a new offset printer and platemaker to replace the current press, which is 20 years old.

Telecommunications. The request was increased by \$23,600 from the preliminary April budget due to the proposed switch from the current Centrex phone system to the Voice Over IP (VOIP) System. Some of the cost of installing the VOIP system (\$84,000) would be offset by reduced maintenance and line charges and delaying a proposed call center until FY 15.

Information Technology. The requested IT budget was decreased by \$64,600 from the preliminary April budget, mainly due to several vacancies that have not yet been filled in FY 14. The request also reflects the inclusion of several IT contractors that will be used during the ongoing modernization project.

Permanent Improvements. The requested Permanent Improvements budget was increased by \$240,000 from the preliminary April budget, due to costs associated with the installation of the generator (\$200,000), security cameras (\$25,000) and secure access doors in the Accounting Division (\$15,000).

Overall Request. The overall requested increase from the preliminary FY 14 budget approved at the April Board meeting is \$176,000. Trustee Silverthorn offered a motion to approve the final FY 14 budget request. Trustee Ousley seconded the motion, and by unanimous vote, the Board accepted the final FY 14 Budget as presented.

Calendar Year 2014 Meeting Dates. In order to comply with the Open Meetings Act, it is necessary to post a schedule of meetings for the upcoming year in the System's offices and on the website. Trustee Rensing made a motion, seconded by Trustee Ousley, to approve the 2014 meeting dates. All Trustees voted in the affirmative for the following meeting dates for 2014:

Tuesday, January 14  
Tuesday, April 8  
Tuesday, July 15  
Tuesday, October 28

All 2014 meetings will begin at 10 a.m. in the System's Springfield office with a videoconference location in Chicago.

FY 2014 Funding Update. Executive Secretary Blair informed the Trustees that SERS is receiving the GRF portion of the FY 14 employer contributions on a monthly basis, as discussed with the staff of the Comptroller's Office at the beginning of the fiscal year. The non-GRF contributions continue to be collected as non-GRF payrolls are processed.

Administrative Procedures Act. Executive Secretary Blair referred the Board to a memo regarding proposed changes to the Executive Committee. He informed the Board that Administrative Rules have been filed that would allow the implementation of a prehearing conference and change the operation of the Executive Committee to more closely follow the Administrative Procedures Act, with the goal being most member appeals would be settled prior to a formal hearing. He then quickly briefly a flow chart outlining the steps that would ultimately lead to a formal hearing that would comply with the Administrative Procedures Act.



A motion to approve the proposed changes was made by Trustee Rensing. Trustee Friedman seconded the motion and all were in favor.

#### FOURTH QUARTER FINANCIAL STATEMENTS

Alan Fowler, Acting Accounting Division Manager, presented the financial statements for the fourth quarter of FY 13. The only noteworthy change from the same quarter in the prior year is a \$94.4 million increase in employer contributions, due to the higher employer contribution rate and more timely GRF contributions from the Comptroller's Office.

There being no more questions, Trustee Ousley moved to accept the fourth quarter financial statements and Trustee Morris seconded the motion, which passed unanimously. Copies of these financial statements are attached to these minutes as Exhibit B.

#### APPROVAL OF EXECUTIVE COMMITTEE MINUTES

The trustees had previously been furnished with copies of the April, May, June, July, August and September, 2014, Executive Committee minutes for review. There being no changes to these minutes, Trustee Rensing moved to approve. Trustee Ousley seconded the motion, which prevailed by the affirmative vote of all trustees present.

#### OLD BUSINESS

There was no old business to review.

#### NEW BUSINESS

Trustee Rensing asked whether anything had been done about vacancies in the appointed Trustee positions. Executive Secretary Blair stated that nothing had yet been done to fill these vacancies. Trustee Rensing stated Executive Secretary Blair needed work on getting the appointments made so the Board could avoid future quorum problems.

#### ADJOURNMENT

There being no further business to be brought before the Board the meeting was adjourned at 1:25 p.m.

\_\_\_\_\_  
Judy Baar Topinka, Chairperson

Date: \_\_\_\_\_

ATTEST:

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

Date: \_\_\_\_\_