

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

October 28, 2014

The annual meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, October 28, 2014, 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
Alan Latoza, Trustee
Patricia Ousley, Trustee
Yasmin Bates-Brown, Trustee
Thomas Allison, Trustee
Renee Friedman, Trustee
Danny Silverthorn, Trustee
Robert Fierstein, Trustee

Absent:

Harold Sullivan, Trustee
Shirley Byrd, 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.
David Kausch, Consulting Actuary, Gabriel, Roeder, Smith & Co.
Alan Fowler, Manager, Accounting Division
Casey Evans, Chief Internal Auditor
Gerry Mitchell, Chief Information System Officer
Alexis Sturm, Office of the Comptroller
Loren Iglarsh, Office of the Comptroller
Barbara Baird, Manager, Chicago Office
Jennifer Staley, Recording Secretary
Tia Sawhney, SERS member

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. Dr. Tia Goss Sawhney, SERS member

and Director of Data Analytics and Research at the Illinois Department of Healthcare and Family Services and a health insurance actuary, attending at the Chicago location, introduced herself and addressed the Board. She started by noting that SERS is obligated to pay benefits but the State is not obligated to pay the required employer contributions and that the current funded ratio is less than 35%.

Dr. Sawhney continued by stating that according to the 2013 Comprehensive Annual Financial Report (CAFR) the System has enough money to refund all active member contributions and pay 45% of the benefits of current retirees. She noted the significant risk involved with the poor financial condition of SERS and that she doesn't think the risk is being adequately communicated. Chairperson Topinka thanked Dr. Sawhney for her comments.

MINUTES OF THE JULY 15, 2014 BOARD MEETING

The minutes of the meeting of the Board of Trustees held July 15, 2014 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 Latoza seconded the motion and all were in favor.

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT

William Atwood, Director of the Illinois State Board of Investment (ISBI) distributed copies of the Executive Summary for the period ended August 31, 2014. He addressed the Board by first noting in FY 14 the total portfolio provided a return of 18.2% (gross of fees), compared to a benchmark return of 16.3%. The FY 14 total return after fees was 17.9%, still considerably above the benchmark and the 7.75% actuarially assumed rate of return.

During FY 13, the Fixed Income portfolio provided a return of 6.6% while the benchmark returned 5.2% over the same period. The U.S. Equity portfolio (without Hedge Fund of Funds) returned 24.1% in FY 14, lagging the benchmark, which returned 25.2%. Director Atwood continued by noting the Hedge Fund of Fund class returned 14.7%, gross of fees, compared to the benchmark return of 8.5%. Over the same time period, the non-U.S. Equity portfolio also performed well, returning 23.8% in FY 14, while the benchmark returned 22.8%.

Director Atwood noted the Real Estate portfolio returned 14.5% in FY 14 while Real Assets provided a return of 18.5%, gross of fees. Both of these returns considerably outpaced their respective benchmarks.

Director Atwood referred the Board to the portion of the report that provided the results for the first 2 months of FY 15, and noted the total portfolio had provided a return of 0.4%, gross of fees, compared to a benchmark return of 0.8% and the actuarially assumed return of approximately 1.2%. He briefly reviewed the FY 15 return of the various asset classes then noted the portfolio value at August 31, 2014, was almost \$15.2.

Director Atwood continued his report by telling the Board that ISBI had 3 investment managers on the Watch List that will be required to address the ISBI at the December Board meeting. Chicago Equity Partners is a Core Fixed Income Manager due to the retirement of a key senior manager. The ULLICO Fixed Income portfolio is also on watch due to large amounts of cash being held by the Fund, rather than invested. Ariel Investments is a Micro-Cap manager and there are performance concerns.

Director Atwood noted the investment return assumption had been lowered from 7.75% to 7.25% at the April Board meeting. This information was presented to the ISBI at their June meeting. At that meeting the Board asked the investment consultant to review the current asset allocation to see if there should be an allocation change due to the assumption change. At the September meeting, Marquette recommended maintaining the current asset allocation, which is expected to return 7.53% over the long-term under the current asset allocation.

Director Atwood concluded his report by offering to answer questions from the Board. After a few brief questions and responses regarding the Watch List, a motion to adopt the ISBI report was offered by Trustee Silverthorn 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 report and excused him from the remainder of the meeting.

REPORT OF THE ACTUARY

June 30, 2014 Actuarial Valuation and Preliminary FY 16 Employer Contribution Rate. Alex Rivera and Paul Wood, Consulting Actuaries, Gabriel, Roeder, Smith & Company, presented the FY 14 actuarial valuation and the preliminary FY 16 certified employer contribution that will be submitted to the State Actuary for review, in addition to the Governor and the General Assembly.

Mr. Wood began by referring the trustees to a handout summarizing the results of the FY 14 actuarial valuation. He first pointed out that the Board had adopted some new assumptions, including reducing the investment return assumption from 7.75% to 7.25%, at the April Board meeting based on an experience study conducted by GRS. He also noted that the pension reforms from Public Act 98-0599 were not reflected in the valuation due to the recent court injunction.

Mr. Wood continued by explaining that based on the market value of assets, the funded ratio of SERS increased from 35.7% in FY 13 to 36.9% in FY 14, due primarily to significantly higher than expected investment returns in FY 14. Based on the actuarial value of assets, the funded ratio decreased slightly from 34.2% in FY 13 to 33.7% in FY 14. He stated the difference in the funded ratios is a result of the smoothing of investment gains and losses, with some of the recent investment gains being deferred until future years when calculating the actuarial value of assets.

Mr. Wood then compared actual FY 14 cashflow to projected FY 15 cashflow. For FY 14, benefit payments and expenses were \$11 million less than combined employee and employer contributions. In FY 15, employer and employee contributions are expected to be \$64 million less than benefit payments and expenses. He then pointed out the FY 16 statutory employer contribution ("Basic Funding") is \$152 million less than the annual employer normal cost plus a 30 amortization payment (the ARC), and the FY 15 statutory employer contribution ("Basic Funding") is \$236 million less than the ARC. Mr. Wood added that the GASB 25 standard (ARC funding) has been replaced by GASB 67/68. He suggested the Board adopt a formal funding policy in order to measure the adequacy of statutory contributions.

Mr. Wood informed the Board the required employer contribution increased from \$1.748 billion, or 40.472% of payroll in FY 15, to \$2.045 billion, or 43.880% of payroll in FY 16. In

addition to the required employer contribution to SERS, pursuant to statute the Board certified a debt service contribution in FY 16 of \$80,061,000 or 1.718% of payroll, to be used towards the repayment of the 2003 pension obligation bonds. Mr. Wood added the significant increase in the FY 16 contribution is due to the assumption changes adopted at the April Board meeting.

Mr. Wood referred the Board to a comparison of the statutory funding requirements and the new GASB 67 funding methodology. He noted the cost method under GASB 67 is entry age normal, while the statutory funding policy requires the use of the projected unit credit method. Also, GASB 67 requires the use of the lower, blended discount rate to recognize the lack of assets to fund all outstanding liabilities. The GASB 67 funded ratio is 35.0%, compared to the statutory funded ratio of 33.7%. Mr. Rivera added the GASB 67 is only a reporting requirement and funding will still be based on the current statutory funding plan.

After some discussion on the GASB 67 reporting requirements and the statutory funding plan, Executive Secretary Blair asked Mr. Wood and Mr. Rivera to put together some training information that could be provided to the Board at the January or April Board meeting.

Trustee Silverthorn moved to adopt the FY 14 actuarial valuation and to certify the preliminary FY 16 employer contribution rate as presented by GRS. Trustee Ousley 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 16 is 45.598% of payroll, or \$2,124,938,000. This certified FY 16 rate provides for an employer contribution to SERS in the amount of \$2,044,877,000, or 43.880% of payroll, and debt service for the 2003 pension obligation bonds in the amount of \$80,061,000, or 1.718% of payroll.

Chairperson Topinka asked if anyone wanted to make a motion to have the consulting actuaries recommend an actuarial funding policy. Following some additional discussion, Trustee Morris made the motion to have the actuaries present funding policies for the Board to consider adopting. Trustee Ousley seconded the motion and all voted in the affirmative.

REPORT OF CHAIRPERSON TOPINKA

Election of 2015 Vice-Chairperson. Chairperson Topinka informed the Board members the election of Vice-Chairperson for calendar year 2015 was in order and opened the floor for nominations. Chairperson Topinka nominated Vice-Chairperson Laidlaw for re-election to the position. The motion was seconded by Trustee Ousley. Hearing no further nominations, nominations were closed. The voice vote which followed resulted in the unanimous re-election of Vice-Chairperson Laidlaw for 2015.

2015 Executive Committee. Chairperson Topinka announced the selection of the 2015 Executive Committee was in order. Loren Iglarsh would remain the Committee's Chairman as the designee of Chairperson Topinka. Trustee Morris nominated Vice-Chairperson Laidlaw as the elected member of the committee and the nomination was seconded by Trustee Ousley. Hearing no other nominations, Chairperson Topinka closed the nominations. The voice vote which followed resulted in the unanimous re-election of Vice-Chairperson Laidlaw to the Executive Committee for 2015.

Audit and Compliance Committee. Executive Secretary Blair informed the Board that two Trustees needed to be elected for the Audit and Compliance Committee for 2015 and

Chairperson Topinka opened the floor for nominations. Vice-Chairperson Laidlaw nominated Trustee Morris as member and Chairman of the Committee and Trustee Silverthorn seconded the nomination. Hearing no other nominations, Chairperson Topinka closed the nominations. The voice vote which followed resulted in the unanimous re-election of Trustee Morris as Chairman of the Audit and Compliance Committee for 2015.

Vice-Chairperson Laidlaw then nominated Trustee Friedman as Vice-Chairperson of the Committee. Trustee Silverthorn seconded the motion. Chairperson Topinka asked if there were other nominations. Hearing none, she closed the nominations. After an affirmative vote of all Trustees, Chairperson Topinka congratulated Trustee Friedman and thanked the Committee members for their continued service.

Rules and Personnel Committee. Chairperson Topinka informed the Board Members of the need to elect 3 Trustees to the Rules and Personnel Committee and opened the floor for nominations. Vice-Chairperson Laidlaw nominated Trustees Fierstein, Ousley and Silverthorn to serve on the 2015 Rules and Personnel Committee. Trustee Morris seconded the motion. Chairperson Topinka asked if there were other nominations. Hearing none, she closed the nominations and after an affirmative voice vote of all in attendance she thanked the Committee members.

REPORT OF ANY TRUSTEE

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

REPORT OF AUDIT AND COMPLIANCE COMMITTEE

Trustee Morris reported the Audit and Compliance Committee had met the new Chief Internal Auditor Casey Evans and that he would report to the Board shortly. He referred the Board to the Audit Charter that had been approved by the Committee and made a motion for the Board to adopt the charter. Trustee Latoza seconded the motion and all were in favor. He then referred to the 2015-2016 internal audit plan and reported that it had been adopted by the Committee. He moved to adopt the Plan. Trustee Ousley seconded the motion and all those present were in favor.

Trustee Allison then asked whether the Chief Internal Auditor would review the work of the previous auditor. Executive Secretary Blair stated that all work of the prior auditor would be reviewed as part of the 2 year internal audit plan, in addition to all of the required audits and audits that would be done based on the ongoing risk assessment.

REPORT OF CHIEF INFORMATION SYSTEMS OFFICER (CISO)

Systems Modernization. Gerry Mitchell, CISO, reported the new Retiree/Survivor website has been implemented. Over 9,000 members have registered so far with 25,000 members accessing the site in 3 months. More than 500 support calls and 200 support emails have been received with issues primarily centered on the registration process. No major technical problems have been encountered and the website has operated continuously since implementation.

Mr. Mitchell informed the board the redesigned Active Member Statements have been implemented and have been well received. The redesign was a collaborative effort by all Di-

visions. The statements are now available in the imaging system for staff to review when talking with members. The new statements required that the retirement calculations be implemented in the new technology.

Work on the new benefit pending system continues. This effort will allow the System to scan images at the front end of benefit processing rather than after the benefit has been processed. Forms will be scanned as they are received and the barcodes on the forms will allow the system to know who the form should be routed to for processing of benefit claims.

Chairperson Topinka asked how members would interact with SRS and reminded Mr. Mitchell that not everyone keeps up with latest technology. Mr. Mitchell responded that all levels of member expertise will be accommodated, including serving those members who would prefer to come in or talk on the phone with someone about setting up a benefit. Paper forms will still be accepted. Chairperson Topinka asked if a member calls whether they will be able to talk to a person. Mr. Mitchell responded that members will still be able to talk to a person without going through multiple telephone menus.

Disaster Recovery. Mr. Mitchell reported that the disaster recovery test of our main-frame systems was completed successfully. This test is conducted annually.

External Audit. Mr. Mitchell informed the Board the external auditors are performing an extended audit of IT and requesting a lot of detailed information. He noted it appears the IT audit is going well and he does not expect major IT audit findings.

Risk Assessment. Remediation efforts continue and include full wall interview booths for enhanced privacy, locking cabinets to secure confidential documents, security cameras inside and outside of the building, and enhanced procedures and processes to reduce risk. Chairperson Topinka asked if there were any questions for Mr. Mitchell. Trustee Silverthorn asked if the staff levels are now where they need to be for the project. Mr. Mitchell responded that they have been able to find the needed State staff with the right skills.

REPORT OF THE EXECUTIVE SECRETARY

Calendar Year 2015 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 in Springfield and Chicago and on the SERS website. Trustee Latoza moved to adopt the 2015 schedule as presented. The motion was seconded by Trustee Fierstein and all Trustees in attendance voted in the affirmative for the following meeting dates for 2015:

Tuesday, January 13
Tuesday, April 21
Tuesday, July 21
Tuesday, October 27

All 2015 meetings will begin at 10 a.m. The System's Springfield office is located at 2101 South Veteran's Parkway. The Chicago meeting location is Room N-703 of the Bilandic Building, 160 N. LaSalle St. All meetings will be available via videoconference at both locations.

FY 2015 Funding Update. Executive Secretary Blair informed the Trustees that SERS is receiving the GRF portion of the FY 15 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.

Rule on Filling Elected Trustee Vacancies. Executive Secretary Blair referred the Board to a proposed rule that would specify that if an elected trustee resigns or is unable to serve for any reason, the position will be considered vacant and filled pursuant to current law. Vice-Chairperson Laidlaw moved to accept the rule as presented and Trustee Morris seconded the motion. All trustees in attendance voted in the affirmative.

REPORT OF CHIEF INTERNAL AUDITOR (CIA)

Casey Evans, Chief Internal Auditor, began by introducing himself to the Board. He briefly outlined the Internal Audit Charter and the 2 year Audit Plan. He detailed the various statutes that affect the internal auditor and reviewed the role of the internal auditor in the work of providing the best possible service to members. Mr. Evans discussed the issue of fraud prevention and offered to answer any questions the Board would have.

Chairperson Topinka welcomed Mr. Evans and requested that he contact the Comptroller's Internal Auditor with any questions or concerns he may have.

FOURTH QUARTER FINANCIAL STATEMENTS

Alan Fowler, Accounting Division Manager, presented the financial statements for the fourth quarter of FY 14. A noteworthy change from the same quarter in the prior year was a \$19.0 million decrease in employer contributions, due to the timing in the release of GRF contributions from the Comptroller's Office. He noted the GRF contributions are still being received in a timely and SERS is receiving almost \$95 million per month in GRF. Mr. Fowler also noted a sale of investments in the amount of \$58.6 million in order to reimburse GRF for an FY 13 overpayment of the GRF employer contribution.

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 July, August and September, 2014, Executive Committee minutes for review. There being no changes to these minutes, Vice-Chairperson Laidlaw moved to approve. Trustee Fierstein seconded the motion, which prevailed by the affirmative vote of all trustees present.

APPROVAL OF AUDIT AND COMPLIANCE COMMITTEE MINUTES

The trustees had previously been furnished with copies of the April 2014 and July 2014 Audit and Compliance Committee minutes for review. There being no changes to these minutes, Vice-Chairperson Laidlaw moved to approve. Trustee Latoza seconded the motion, which prevailed by the affirmative vote of all trustees present

APPROVAL OF RULES AND PERSONNEL COMMITTEE MINUTES

The trustees had previously been furnished with copies of the December 2013 and January 2014 Rules and Personnel Committee minutes for review. There being no changes to these minutes, Trustee Silverthorn moved to approve. Trustee Fierstein seconded the motion, which prevailed by the affirmative vote of all trustees present.

OLD BUSINESS

There was no old business to review.

NEW BUSINESS

Term Appointments. Executive Secretary Blair explained that several Division Managers were subject to 4 year terms under the Personnel Code. Kathy Yemm, Claims Division Manager, and Dave Thompson, Field Service Division Manager had terms that were set to expire on November 1st and December 1st, respectively. He asked the Board to approve the granting of additional 4 year terms to these managers. After a brief discussion, Vice-Chairperson Laidlaw moved to grant the additional 4 year terms to both managers. Trustee Ousley seconded the motion. All trustees in attendance voted in the affirmative.

Actuarial Standards Board. Executive Secretary Blair informed the Board that the National Association of State Retirement Administrators (NASRA) had prepared a letter in response to the Actuarial Standards Board's (ASB) recent request for comments. NASRA had requested retirement system review and become signatories on the letter. After a brief discussion, the Board asked Secretary Blair to let NASRA know the system does not oppose the letter but was unable to sign on to the letter due to the short amount of time the Board was given to review the issue and proposed response letter.

ADJOURNMENT

There being no further business to be brought before the Board, Vice-Chairperson Laidlaw moved for adjournment at 12:15 p.m. Trustee Silverthorn seconded the motion and all were in favor. Chairperson Topinka reminded all trustees the next Board meeting is scheduled for January 13, 2015 at 10 a.m. in the System's Springfield office and at the Chicago videoconference location.

Chairperson

Date: _____

ATTEST:

Timothy Blair, Executive Secretary

Date: _____