

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

October 27, 2015

The annual meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, October 27, 2015, 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:

Leslie Geissler Munger, Chairperson  
David Morris, Vice-Chairperson  
Shirley Byrd, Trustee  
Alan Latoza, Trustee  
Patricia Ousley, Trustee  
Danny Silverthorn, Trustee  
Robert Fanti, Trustee  
Thomas Allison, Trustee (by telephone)  
Renee Friedman, Trustee (by telephone)  
Carl Jenkins, Trustee (by telephone)

Absent:

Yasmin Bates-Brown, Trustee

Others in attendance were:

Timothy Blair, Executive Secretary  
Steve Bochenek, Attorney  
William Atwood, Director, Illinois State Board of Investment  
Alex Rivera, Consulting Actuary, Gabriel, Roeder, Smith & Co.  
Ryan Gunderson, Consulting Actuary, Gabriel, Roeder, Smith & Co.  
Alan Fowler, Manager, Accounting Division  
Casey Evans, Chief Internal Auditor  
Gerry Mitchell, Chief Information System Officer  
Dave O'Brien, Manager, Administrative Services Division  
Josh Potts, Office of the Comptroller (by telephone)  
Loren Iglarsh, Office of the Comptroller  
Barbara Baird, Manager, Chicago Office  
Jennifer Staley, Recording Secretary  
Dan Hankiewicz, Commission on Government Forecasting and Accountability  
Julie Bae, Commission on Government Forecasting and Accountability  
Jerry Lazzarra, Commission on Government Forecasting and Accountability  
Anthony Bolton, Commission on Government Forecasting and Accountability

Chairperson Munger presided and called the meeting to order at 10:00 a.m. with a quorum of seven trustees present. Vice-Chairperson Morris moved to allow Trustees Allison, Friedman and Jenkins to participate by telephone. Trustee Silverthorn seconded the motion and it passed unanimously.

## INTRODUCTION OF NEW TRUSTEES

Executive Secretary Blair noted for the Board that Robert Fanti was appointed by the Board at the July meeting to fill the vacancy created by the retirement of Trustee Lori Laidlaw. He then noted that Carl Jenkins was appointed by Governor Rauner to fill a vacancy. Trustee Fanti thanked the Board for the opportunity to serve and informed them that he works for the Illinois Department of Corrections at the Sheridan Correctional Center and was in his 25<sup>th</sup> year of service. He is married with two grown children. Chairperson Munger welcomed him to the Board and thanked him for his willingness to serve.

Trustee Jenkins introduced himself and noted that he had been with BMO Harris Bank for 15 years serves. He manages the investment team that invests the bank's capital for affordable housing and small businesses.

## PUBLIC COMMENTS

Chairperson Munger asked if there were any members of the public in the Springfield or Chicago locations who wished to address the Board. Four employees of the Commission on Government Forecasting and Accountability were in attendance but none wished to address the Board.

## MINUTES OF THE JULY 14, 2015 BOARD MEETING

The minutes of the meeting of the Board of Trustees held July 14, 2015 were presented to the members by Chairperson Munger. Copies of these minutes were previously provided to each trustee for preliminary review. Trustee Ousley moved to approve the minutes as submitted. Trustee Fanti 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, 2015 and noted that in addition to the normal report he would also provide a report on the utilization of emerging and minority investment managers at ISBI.

Director Atwood referred the Board to the portion of the report the provided the results for the first 8 months of calendar year 2015, and noted over the period the total portfolio returned 0.5%, net of fees, compared to a benchmark return of -0.2%. Over the same period, the Fixed Income portfolio lost 0.5%, while the benchmark returned 0.6%. The U.S. Equity portfolio (without Hedge Fund of Funds) lost 3.2% in the eight months ended August 31, 2015, lagging the benchmark, which lost only 2.6%.

Director Atwood continued by noting the Hedge Fund of Funds class returned 2.2%, gross of fees, compared to the benchmark return of 0.8%. Over the same time period, the non-U.S. Equity portfolio lost 1.0%, while the benchmark lost 4.6%. The Real Estate portfolio returned 8.4% over the period, while Real Assets provided a return of 18.5%, gross of fees, and the Private Equity Composite returned 9.9%. All of these asset classes significantly outperformed their respective benchmarks.

Director Atwood noted extreme market volatility continues and reported ISBI met in September and elected Marc Levine to serve as Chairperson of the Board. ISBI also voted to move \$650 million from active managers into passively managed funds in an effort to reduce management fees. The Board met again in October and selected Meketa, following the RFP process, as the new general consultant to replace Marquette and Associates.

Director Atwood referred the Board to several documents detailing the ISBI utilization of emerging and minority investment managers and brokers. He provided that 43% of domestic equity brokerage fees went to minority brokers, while 47% of international equity brokerage fees and 42% of domestic fixed income brokerage fees went to minority brokers. The brokerage fees of all three of these assets classes surpassed the utilization goals adopted by ISBI.

Director Atwood offered to answer questions. Copies of these reports are maintained in the ISBI office and made a part of these minutes as Exhibit A. Chairperson Munger thanked Director Atwood for his report and excused him from the meeting.

### REPORT OF THE ACTUARY

June 30, 2015 Actuarial Valuation and Preliminary FY 17 Employer Contribution Rate. Alex Rivera and Ryan Gunderson, Consulting Actuaries, Gabriel, Roeder, Smith & Company, presented the draft FY 15 actuarial valuation and the preliminary FY 17 certified employer contribution that will be submitted to the State Actuary for review, in addition to the Governor and the General Assembly.

Mr. Rivera began by referring the trustees to a handout summarizing the results of the FY 15 actuarial valuation. He first pointed out the pension reforms created by Public Act 98-0599 had been found unconstitutional and therefore were not reflected in the valuation. In addition, the Board had adopted a funding policy at the April meeting for calculating the Actuarially Determined Contribution (ADC) for accounting purposes. Mr. Rivera reminded the Board the adopted policy provided for a State contribution equal to the normal cost of benefits plus a 25 year amortization of the unfunded liabilities at a level percent of payroll.

Mr. Rivera continued that based on the market value of assets, the funded ratio of SERS increased from 36.9% in FY 14 to 37.5% in FY 15. Based on the actuarial value of assets, the funded ratio increased from 33.7% in FY 14 to 36.2% in FY 15. 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. Rivera then compared actual FY 15 cashflow to projected FY 16 cashflow. For FY 15, benefit payments and expenses were \$5 million more than combined employee and employer contributions. In FY 16, employer and employee contributions are expected to be \$128 million more than benefit payments and administrative expenses. He then pointed out the FY 17 statutory employer contribution ("Basic Funding") is \$375 million less than the ADC calculated using the funding policy adopted by the Board at the April meeting.

Mr. Rivera informed the Board the required employer contribution decreased from \$2.045 billion, or 43.880% of payroll in FY 16, to \$2.014 billion, or 42.805% of payroll in FY 17. In addition to the required employer contribution to SERS, pursuant to statute the Board certified a debt service contribution in FY 17 of \$82,969,000 or 1.763% of payroll, to be used towards the repayment of the 2003 pension obligation bonds. Mr. Rivera noted the decrease

in the FY 17 contribution is due to a “hold harmless” provision in the statutory funding plan that prevents the employer contribution from increasing from the FY 16 level.

Mr. Rivera 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. Mr. Rivera added the GASB 67 is only a reporting requirement and funding will still be based on the current statutory funding plan.

Vice-Chairperson Morris asked how Tier 2 affects the financing and funding requirements of SERS. Executive Secretary Blair noted that Tier 2 does help reduce overall liability in the long-term and that separate Tier 2 projections are included as an appendix to the actuarial valuation.

Trustee Latoza moved to adopt the FY 15 actuarial valuation and to certify the preliminary FY 17 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 17 is 44.568% of payroll, or \$2,097,430,000. This certified FY 17 rate provides for an employer contribution to SERS in the amount of \$2,014,461,000, or 42.805% of payroll, and debt service for the 2003 pension obligation bonds in the amount of \$82,969,000, or 1.763% of payroll.

#### REPORT OF CHAIRPERSON MUNGER

2016 Employer Contribution Update. Chairperson Munger reported the Comptroller’s Office would have to delay the November employer contribution to SERS and the other State-funded retirement systems, and might have to delay a portion of December employer contribution, due to reduced State cashflow and the lack of a State budget. She noted that her office planned to catch up and make all required FY 16 contributions by the end of the fiscal year, and hopefully by early in calendar year 2016.

Chairperson Munger noted her office was able to make payments pursuant to continuing appropriations, including the SERS employer contribution, and by Court order, but there are several things that couldn’t be paid. She reiterated that her office would attempt to make all required FY 16 contributions by the end of the fiscal year.

Election of 2016 Vice-Chairperson. Chairperson Munger informed the Board that election of Vice-Chairperson for calendar year 2016 was in order and opened the floor for nominations. Trustee Ousley nominated Vice-Chairperson Morris 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 Morris for 2016.

2016 Executive Committee. Chairperson Munger announced the selection of the 2016 Executive Committee was in order. Loren Iglarsh would remain the Committee’s Chairman as the designee of Chairperson Munger. Trustee Ousley nominated Vice-Chairperson Morris as the elected member of the committee and the nomination was seconded by Trustee Latoza. Hearing no other nominations, Chairperson Munger closed the nominations. The voice vote

which followed resulted in the unanimous re-election of Vice-Chairperson Morris to the Executive Committee for 2016. Executive Secretary Blair would remain on the Executive Committee pursuant to Board policy.

2016 Audit and Compliance Committee. Executive Secretary Blair informed the Board that two Trustees needed to be elected for the Audit and Compliance Committee for 2016 and Chairperson Munger opened the floor for nominations. Trustee Byrd nominated Trustee Morris as Chairperson and Trustee Friedman as Vice-Chairperson. Trustee Silverthorn seconded the nomination. Hearing no other nominations, Chairperson Munger closed the nominations. The voice vote which followed resulted in the unanimous re-election of Trustee Morris and Trustee Friedman a Chairperson and Vice-Chairperson of the Audit and Compliance Committee for 2016.

Executive Secretary Blair added that he would be in contact with Chairperson Munger's office regarding the appointment of a designee to serve on the Committee for 2016. Alexis Sturm had previously served as the Chairperson's designee but she was no longer employed by the Comptroller's Office.

2016 Rules and Personnel Committee. Chairperson Munger informed the Board members of the need to elect three Trustees to the Rules and Personnel Committee and opened the floor for nominations. Vice-Chairperson Morris nominated Trustees Latoza, Fanti and Silverthorn to serve on the 2016 Rules and Personnel Committee. Trustee Ousley seconded the motion. Chairperson Munger asked if there were other nominations. Hearing none, she closed the nominations and after an affirmative voice vote of all in attendance she thanked all members for serving on the various committees.

#### REPORT OF ANY TRUSTEE

Chairperson Munger 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 before the Board meeting and invited Chief Internal Auditor Casey Evans to offer the Committee's report to the Board. Mr. Evans informed the Board that the external auditors were still on sight and the FY 15 audit was progressing smoothly.

He continued by letting the Board know he had performed a review of the process of confirming out of country annuitants are still alive. In addition he, had reviewed the payment of claims by the third party administrator of the optional NCPERS life insurance plan offered to SERS active members and retirees. There were no questions for Vice-Chairperson Morris or Mr. Evans.

#### REPORT OF CHIEF INFORMATION SYSTEMS OFFICER (CISO)

Systems Modernization. Gerry Mitchell, CISO, started his report by noting significant progress has been made on the new benefit pending system. 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 for processing of benefit claims. He

also noted the development of an interactive web based system to allow for the much more efficient tracking of SERS retirees who temporarily return to state employment.

Risk Assessment. Remediation efforts continue and include adding locking doors at the top of the stairwell to secure the second floor, as well as locking doors in the lobby that prevent access to the work areas on the first floor. Staff continues to work with the Illinois State Police to provide enhanced physical security training to all SERS staff, but the scheduling has been difficult.

ERP Meeting and IT Transformation. Mr. Mitchell informed the Board of SERS' interest in participating in the Enterprise Resource Planning (ERP) project being undertaken by the State. He followed up by explaining there is an effort by the Department of Central Management Services (CMS) to consolidate IT resources by bring all IT employees under CMS (IT Transformation). As SERS reports to the Board of Trustees it will ultimately be the Board's decision regarding participation in the proposed IT Transformation.

Mr. Mitchell promised to update the Board as the It Transformation plan develops and more details are provided. Several trustees expressed concern about the lack of details and its potential impact on the SERS modernization project. Trustee Silverthorn suggested further discussion at the January Board meeting and Mr. Mitchell agreed. Trustees Ousley, Latoza and Morris offered concern due to past problems with IT consolidation under CMS.

#### REPORT OF THE EXECUTIVE SECRETARY

Final Review of FY 16 Operations Budget. Executive Secretary Blair referred the Board to the proposed FY 16 budget. He noted FY 2015 spending was almost \$17.9 million and the preliminary FY 16 budget approved at the April Board meeting was \$20.9 million. The final FY 16 request amounted to just over \$18.2 million, \$350,000, or 1.96% higher than FY 15 spending levels.

He noted that several vacancies will not be funded or filled in FY 16, including the Human Resources Division Manager, who transferred back to CMS in April. A few other positions would not be filled following recent retirements, as the modernization allows the workload to be managed by fewer employees. Trustee Fanti moved approval of the FY 16 budget as presented. Trustee Ousley seconded the motion and all were in favor.

Calendar Year 2016 Meeting Dates. In order to comply with the Open Meetings Act, it is necessary to post a schedule of meetings for the upcoming calendar year in the System's offices in Springfield and Chicago and on the SERS website. Vice-Chairperson Morris moved to adopt the 2016 schedule, including the standing committees, as presented. The motion was seconded by Trustee Latoza and all voted in the affirmative for the 2016 meeting dates:

Tuesday, January 12  
Tuesday, April 19  
Tuesday, July 26  
Thursday, October 27

All 2016 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.

Policies on Elected Trustee Vacancies. Executive Secretary Blair referred the Board to a proposed policy that would specify when an elected trustee resigns or is unable to complete a term, the position will be considered vacant and filled by the Board until the next regularly scheduled election, at which time the vacancy would be filled by a vote of the applicable membership. Trustee Ousley moved to accept the rule as presented and Trustee Silverthorn seconded the motion. All trustees in attendance voted in the affirmative.

Consideration of Inclusion Policy. Executive Secretary Blair reviewed an Inclusion Policy that would specify the System would promote diversity in the hiring and procurement processes. The Policy adopts an aspirational goal of 20% and requires the tracking and reporting against the goal. Vice-Chairperson Morris moved adoption of the Inclusion Policy and Trustee Fanti seconded the motion, which passed unanimously.

Legislative Update. Executive Secretary Blair noted there is very little legislative activity and noted that his assistant Jeff Houch had been instrumental in finalizing some legislation and administrative rules.

#### FOURTH QUARTER FINANCIAL STATEMENTS

Alan Fowler, Accounting Division Manager, presented the financial statements for the fourth quarter of FY 15. A significant change from the previous quarter was a \$106.4 million increase in employer contributions, due to the timing in the release of GRF contributions from the Comptroller's Office. Mr. Fowler also noted a \$29.2 million increase in paid benefits when compared to the same quarter of FY 14.

There being no more questions, Trustee Byrd moved to accept the fourth quarter financial statements and Trustee Ousley 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, 2015, Executive Committee minutes for review. There being no changes to these minutes, Vice-Chairperson Morris moved to approve. Trustee Latoza 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 Fierstein Resolution. Executive Secretary Blair offered a resolution to commemorate the service of Trustee Fierstein. Trustee Ousley moved to adopt the resolution. Trustee Silverthorn seconded the motion, and it passed with the affirmative votes of all present.

Executive Secretary Blair informed the Board the Trustee Ousley had informed him of her upcoming retirement. He noted that she had served the State of Illinois for almost 40 years and had served on the Board for almost 7 years, and he thanked her for her service to the State and the Board. All Trustees added their appreciation for Pat's years of service and dedication.

ADJOURNMENT

There being no further business to be brought before the Board, Trustee Ousley moved for adjournment at 12:20 p.m. Trustee Latoza seconded the motion and all were in favor. Chairperson Munger reminded all trustees the next Board meeting is scheduled for January 12, 2016 at 10 a.m. in the System's Springfield office with the Chicago videoconference location.

\_\_\_\_\_  
Chairperson Geissler Munger

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

ATTEST:

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

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