

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

MINUTES OF THE ANNUAL MEETING
OF THE BOARD OF TRUSTEES

October 29, 2019

The annual meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, October 29, 2019, 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:

Susana A. Mendoza, Chairperson
David Morris, Vice-Chairperson
Thomas Allison, Appointed Trustee
Barbara Baird, Elected Retired Trustee
Shaun Dawson, Elected Active Trustee
Tad Hawk, Elected Active Trustee
Carl Jenkins, Appointed Trustee
Danny Silverthorn, Appointed Trustee

Absent:

Yasmin Bates-Brown, Appointed Trustee
Renee Friedman, Appointed Trustee
Stephen Mittons, Elected Active Trustee
John Tilden, Elected Retired Trustee

Others in attendance were:

Timothy Blair, Executive Secretary
Jeff Houch, Assistant to Executive Secretary
Casey Evans, Chief Internal Auditor
Andrew Van Leer, Internal Auditor
Alan Fowler, Manager, Accounting Division
Jessica Blood, Recording Secretary
Steve Bochenek, System Attorney
Chris Maley, Illinois Office of the Comptroller
Andrew Ranck, Illinois Office of the Comptroller
Scott Richards, Senior Investment Officer, Illinois State Board of Investment
Alex Rivera, Consulting Actuary, Gabriel, Roeder, Smith & Co.
Heidi Barry, Consulting Actuary, Gabriel, Roeder, Smith & Co.
Loren Iglarsh, SERS Retiree and Executive Committee Chairman
Thomas Reitz, Governor's Office of Management and Budget
Martha Merrill, AFSCME

Chairperson Mendoza called the meeting to order at 10:00 a.m. with a quorum present.

PUBLIC COMMENTS

Chairperson Mendoza asked if there were any members of the public in either the Springfield or Chicago location who wished to address the Board. There were none.

MINUTES OF THE JUNE 25, 2019 BOARD MEETING

The minutes of the Board meeting held on June 25, 2019, were presented to the trustees by Chairperson Mendoza. Copies of these minutes were previously provided to each trustee for preliminary review. Vice-Chairperson Morris moved to approve the minutes as submitted. Trustee Jenkins seconded the motion, and all were in favor.

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT

Scott Richards, Senior Investment Officer of ISBI, distributed copies of the Quarterly Review dated June 30, 2019 and reported that in FY 19 the total portfolio returned 7.1%, net of fees, slightly outperforming the benchmark return of 7.0%. He added the portfolio totaled more than \$19.1 billion on that date, up by \$828 million since June 30, 2018 and was ranked in the 27th percentile versus their peers over FY 19. Of the seven asset classes, only fixed income and real estate underperformed with the other five outperforming their custom benchmarks.

Mr. Richards continued his report by reviewing the performance of selected asset classes, first pointing out the Fixed Income portfolio returned 7.5%, net of fees, in FY 19, trailing the benchmark return of 8.1%. The Emerging Markets Debt portfolio was the strongest performing fixed income asset class, gaining 10.1% during the past fiscal year, while the High Yield Fixed Income portfolio returned only 3.5% in FY 19, compared to its benchmark return of 7.5%. The Core Fixed Income portfolio gained 8.2% and Opportunistic Debt returned 6.9%.

Mr. Richards continued his report by noting the U.S. Equity portfolio returned 10.3%, outperforming the broad U.S. equity market by 1.3%. Mr. Richards emphasized that approximately 94% of the total portfolio is passively managed, while 6% is actively managed. The International Equity portfolio gained 1.2%, outperforming the benchmark by 0.9%. The Private Equity portfolio was the strongest performing asset class and gained 19.8%, net of fees, in FY 19, and outperformed the benchmark return of 12.7%. The Infrastructure Composite portfolio was up 13.6%, outperforming the benchmark return of 5.2%. The Real Estate Composite portfolio returned 5.4% net of fees, underperforming the benchmark of 6.6%.

Trustee Allison moved to approve the ISBI Quarterly Review for the period ended June 30, 2019. Trustee Baird seconded the motion, which passed unanimously. A copy of the report is maintained in the ISBI offices and made a part of these minutes as *Exhibit A*.

REPORT OF CONSULTING ACTUARIES

Alex Rivera and Heidi Barry, Consulting Actuaries, Gabriel, Roeder, Smith & Company, distributed draft copies of the June 30, 2019 SERS actuarial valuation. Mr. Rivera began by summarizing the recent changes in actuarial assumptions, noting the investment return rate was reduced from 7.0% to 6.75% annually, the price inflation rate was reduced from 2.5% to 2.25% annually, and the wage inflation rate was reduced from 3.0% to 2.75% annually. Turnover rates and normal and early retirement rates were updated to better reflect observed experience and the mortality tables were updated to the PUB-2010 Healthy Retiree and Employee Mortality Tables, with future mortality improvements using scale MP-2018.

Mr. Rivera continued by reviewing the assumptions related to the buyout program, noting that 21% of regular formula employees and 28% of alternative formula employees are

assumed to elect the COLA buyout, and 10% of members are assumed to elect the Total buyout. Such assumptions decreased the actuarial accrued liability as of June 30, 2019, by \$241 million. Mr. Rivera then pointed out that the very limited experience related to the Total buyout program does not support the 10% assumption. Mr. Rivera recommended reducing the Total buyout participation assumption rate from 10% to 5% and extend the program expiration date to June 20, 2024 as provided by Public Act 101-0010. If the assumptions are adjusted, the FY 21 contribution would be reduced by almost \$14 million and the actuarial liability at June 30, 2019 would be reduced by approximately \$164 million.

Ms. Barry continued the GRS report, noting the funded ratio, on a market value basis, increased from 36.44% at June 30, 2018, to 37.69% at June 30, 2019, and described the factors that led to the increase in the funded ratio. After some discussion on the dynamics of the funded ratio, Ms. Barry continued by pointing out that in FY 19 benefit payments exceeded combined employee and employer contributions and that the funding ratio will not significantly improve until FY 33 due the maximum contribution component of the statutory funding plan.

Ms. Barry then noted that the FY 21 statutory employer contribution is \$2,348,499,000 and with the required debt service of \$99,425,000, the total certified amount totals \$2,447,924,000, or 54.831% of payroll. Following review of projected benefits and contributions over the remainder of the funding schedule, Trustee Allison motioned to adopt the 5% Total buyout participation assumption, which was seconded by Vice-Chair Morris, and all were in favor. Following that adoption, Trustee Allison moved to accept the preliminary June 30, 2019 actuarial valuation and preliminary certification of FY 21 State contributions. Trustee Baird seconded the motion, and all voted in the affirmative. A copy of these documents is made a part of these minutes as *Exhibit B*.

REPORT OF AUDIT & COMPLIANCE COMMITTEE

Chief Internal Auditor Casey Evans began his report by noting the committee's action to approve the internal audit charter and the two-year internal audit plan. The audit plan will focus on benefit claims, specifically disability claims and back wage related pension adjustments. Additionally, the plan will include auditing of administrative expenses and IT systems.

Mr. Evans briefly summarized recent audit findings related to cash receipts and receivables noting that it was recommended to improve controls for collections. He continued his report by summarizing auditing efforts related to the COLA buyout program, assuring the Board that the payment amounts tested had been matching, or slightly off due to rounding errors. Mr. Evans concluded his report by reminding the Trustees that they need to undergo ethics and sexual harassment training before the calendar year concludes.

REPORT OF RULES AND PERSONNEL COMMITTEE

Jeff Houch, Assistant to the Executive Secretary, briefly summarized the Rules and Personnel Committee's October 28, 2019 meeting, noting the committee authorized staff to pursue additional rulemaking related to the accelerated pension benefit payment programs, the disability benefit program, and reversionary annuity payment option. Trustee Hawk concluded the Committee report by stating that the committee completed Executive

Secretary Blair's performance review and authorized salary adjustments. Secretary Blair added that the FY 20 operations budget contained funding for merit compensation employee salary adjustments, as these employees had been subject to a pay plan that provided for no salary increases for several years.

EXECUTIVE SESSION – PERSONNEL MATTERS

There was no Executive Session.

REPORT OF CHAIRPERSON MENDOZA

Chairperson Mendoza provided an update on the bill backlog, totaling an estimated \$6.4 billion on October 29, 2019, compared to an estimated backlog of \$7.1 billion a year earlier. She added the state must continue to focus on managing the bill backlog while meeting other obligations, such as making the full pension payments, payments to vulnerable citizens, and funding elementary, secondary and higher education.

Chairperson Mendoza continued her report by summarizing the dynamics related to back wages and interest owed to several thousand state employees. She told the Board the total amount due in wages and interest exceeded \$400 million, and her office was working diligently with agencies to ensure these wages would be paid in a timely manner. As of October 29, 2019, the Comptroller's office had issued \$291 million in back wages and has been working with SERS to ensure the proper employee contributions would be transmitted to the System.

Election of 2019 Vice-Chairperson and Committees. Chairperson Mendoza announced that elections for Vice-Chairperson and committee membership were in order. Trustee Hawk motioned to re-elect Trustee Morris as Vice-Chairperson of SERS. Trustee Silverthorn seconded the motion, which passed unanimously.

2019 Executive Committee. Chairperson Mendoza noted that Loren Iglarsh would continue to serve as Chairman as her designee to the Committee. Trustee Allison then motioned for Vice-Chairperson Morris to continue to serve as the elected member and Vice-Chairperson of the committee and Trustee Hawk to continue to serve as the alternate member. The motion was seconded by Trustee Silverthorn and all voted in the affirmative.

2019 Audit and Compliance Committee. A motion was made by Chairperson Mendoza for Trustees Baird and Dawson to serve as elected members of the committee with Loren Iglarsh serving as Chairperson Mendoza's designee. The motion was seconded by Vice-Chairperson Morris, and the motion passed unanimously.

2019 Rules and Personnel Committee. Trustee Allison motioned for Vice-Chairperson Morris, and Trustees Hawk and Silverthorn to serve as the elected members of the committee. Trustee Baird seconded the motion and it passed unanimously.

REPORT OF ANY TRUSTEE

Chairperson Mendoza asked if any trustee would like to offer a report. None were offered.

REPORT OF THE EXECUTIVE SECRETARY

Calendar Year 2020 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. Trustee Allison moved to adopt the 2020 schedule, including the standing committees, as presented. The motion was seconded by Trustee Silverthorn and all voted in the affirmative for the 2020 meeting dates:

Tuesday, January 14, 2020

Tuesday, April 28, 2020

Tuesday, July 28, 2020

Tuesday, October 27, 2020

All 2020 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.

Final Review of the FY 2020 Budget. Secretary Blair presented to the Board the final operations budget request for FY 20 of \$20,842,460, an increase of \$3,125,480, or 17.64%, over the FY 19 budget. The increase is partially the result of the payment of back wages and interest from missed step increases since July 1, 2015. Including retirement contributions and FICA, the impact of the payments was almost \$1.3 million.

The FY 20 budget request also included funding for additional headcount in order to more quickly complete the recalculation of retirement benefits required by the payment of the back wages to more than 7,000 SERS retirees. Secretary Blair stated that two Pension Techs would be funded, as well as two Benefit Counselors, and in addition recent retirees would be brought in on a short-term basis and overtime would be increased. The overall FY 20 budgetary impact of the additional headcount, including retirement contributions, FICA and insurance, and the returning retirees is \$825,000.

After discussion of the payment of the back wages and workload associated with the recalculation project, Vice-Chairperson Morris directed Secretary Blair to report monthly to the Board regarding the progress on the benefit recalculations. Secretary Blair committed to providing the monthly report and noted that the additional resources provided in the FY 20 budget would allow for the completion of all retirement recalculations more quickly, ideally within a year. Vice-Chairperson Morris moved to approve the proposed FY 20 operations budget. Trustee Dawson seconded the motion, and it passed unanimously.

Buyout Program Update. Secretary Blair mentioned that he will continue to provide quarterly updates on the participation rates of the buyout programs. He mentioned that since the COLA buyout program began, 719 retiring members have elected the COLA buyout payment option, which represents a participation rate of 24.8% of those who were eligible. Furthermore, the System has paid 542 COLA buyout payments, totaling \$52.8 million. He continued by stating that 22 members have elected the Total Buyout payment option, with the average payment being \$148,000.

FY 2020 Funding Update. Executive Secretary Blair informed the Trustees that SERS had received the November contribution and that FY 20 funding is current.

FOURTH QUARTER FINANCIAL STATEMENTS

Alan Fowler, Accounting Division Manager, presented the financial statements for the fourth quarter of FY 19. When compared to the fourth quarter of FY 18, Mr. Fowler noted

the addition of buyout reimbursement and payout lines. He added that the first buyout expenditure occurred in May 2019 and totaled approximately \$29 million. Mr. Fowler then briefly reviewed items from the fourth quarter financial statements, noting the withdrawal of \$357 million in FY 19 from the ISBI portfolio in order to pay monthly benefits.

Mr. Fowler concluded his report and offered to answer questions. Hearing none, Chairperson Mendoza asked for a motion to approve the third quarter FY 19 financial statements as presented. Trustee Jenkins motioned for approval. The motion was seconded by Trustee Allison and passed unanimously. A copy of the financial statements is made a part of these minutes as *Exhibit C*.

APPROVAL OF EXECUTIVE COMMITTEE MINUTES

The trustees had previously been furnished with copies of the June, July, August and September 2019 Executive Committee minutes for review. Secretary Blair noted that he had received communications from Attorney Carl Draper regarding the Committee's decision related to Laura Cadigan's re-appeal. The recent communications were distributed to all trustees. There being no changes to the minutes, Trustee Allison moved to approve the minutes. Trustee Hawk seconded the motion, which prevailed by the affirmative vote of all present.

OLD BUSINESS

Chairperson Mendoza asked if there was any old business. There was no old business.

NEW BUSINESS

Chairperson Mendoza asked if there was any new business to be brought before the Board. There was no new business.

ADJOURNMENT

There being no further business to be brought before the Board, the meeting adjourned at 12:35 p.m. Chairperson Mendoza thanked the Trustees and reminded them the next meeting is scheduled for January 14, 2019, at 10:00 a.m. in the Springfield Office with the videoconference location in Room N-703 of the Bilandic Building.

Susana A. Mendoza, Chairperson

Date: _____

ATTEST:

Timothy Blair, Executive Secretary

Date: _____