

**GENERAL ASSEMBLY RETIREMENT SYSTEM OF ILLINOIS
MEETING NO. 248
MINUTES OF THE ANNUAL MEETING OF THE
BOARD OF TRUSTEES**

October 29, 2014

The annual meeting of the Board of Trustees of the General Assembly Retirement System convened at 11 a.m. on Wednesday, October 29, 2014, in Room N720 of the Bilandic Building, Chicago, Illinois.

Roll Call was taken with the following trustees present:

Senator James Clayborne, Jr., Chairman
Representative David Harris, Vice-Chairman
Senator Don Harmon
Senator Bill Brady
Representative Elaine Nekritz
Representative Daniel Pierce, Retired

Absent was:

Representative Dan Burke

Others in attendance were:

Timothy B. Blair, Secretary
Jayne Waldeck, GARS Manager
William Atwood, Director, Illinois State Board of Investment
Steve Bochenek, GARS Attorney
Alex Rivera, Gabriel Roeder Smith & Company
Paul Wood, Gabriel Roeder Smith & Company
Andrew Freiheit, Chief Legal Counsel & Ethics Officer – Representative Jim Durkin

With a quorum present, the meeting was called to order by Chairman Clayborne at 11 a.m.

PUBLIC COMMENTS

Chairman Clayborne asked if there were any members of the public in attendance who wished to make comments. There were none.

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT

William Atwood, Director of the ISBI, addressed the Board. He referred the Board's attention to the ISBI Flash Report dated September 30, 2014 and noted the portfolio's total market value on that date was \$14.805.1 billion. Director Atwood informed the Board the portfolio returned 18.2% in FY 14, gross of fees, compared with the benchmark return of 16.6%. Gross of fees, the Fixed Income portfolio was up 6.6% in FY 14, while the U.S. Equity portfolio returned 24.1%, compared to their respective benchmark returns of 5.2% and 25.2%. The Hedge Fund portfolio was up 14.7% compared to the benchmark return of 8.5%.

Director Atwood continued by reporting the Non-U.S. Equity portfolio had returned 23.8% (benchmark up 22.8%) while the Real Estate portfolio was up 14.5% (benchmark up

11.8%). He concluded his report by emphasizing that it was a really good year for the portfolio as constructed due to steady, slow economic growth. In addition, several managers, especially in the Real Estate sector made several positive changes.

Director Atwood concluded his report and offered to answer any questions from the Board. Following a brief discussion, Senator Harmon moved to approve the ISBI Report as presented. Representative Harris seconded the motion and all were in favor. Chairman Clayborne thanked Director Atwood and excused him from the rest of the meeting.

MINUTES OF PREVIOUS MEETING

Chairman Clayborne presented the minutes of Meeting No. 247 held on April 9, 2014, for approval. Copies of the minutes were previously submitted to the trustees for preliminary review. Representative Nekritz moved to approve the minutes of the April 9, 2014 GARS Board meeting. Senator Harmon seconded the motion and all were in favor.

ACTUARIAL VALUATION AS OF JUNE 30, 2014

Alex Rivera and Paul Wood, of Gabriel Roeder Smith & Company, Consulting Actuaries, were present and distributed copies of the FY 14 actuarial valuation as of June 30, 2014, to the Board. Mr. Wood informed those present that significant changes of P.A. 98-0599 were not reflected in this valuation due to the Court Order prohibiting implementation. He continued by noting the funded ratio based on the market value of assets, increased from 16.96% to 17.56% from June 30, 2013 to June 30, 2014, while the funded ratio based on the actuarial value of assets, dropped from 16.18% to 15.96% over the same time period.

Mr. Wood continued by noting the employer contribution requirement increased from \$15.8 million, or 122.17% of payroll, in FY 15 to \$16.1, or 166.70% of payroll, million in FY 2016. He then pointed out that under the current statutory funding plan, the funded ratio is projected to decrease to 7.8% in 2029 and then increase rapidly to 90% by 2045. The current and projected low funding could cause serious liquidity concerns and he would recommend the Board establish a funding policy with a 100% funding target and an amortization period of 15 to 20 years.

Mr. Wood was asked about the large number (25) of General Assembly members who have opted to not participate in GARS. He answered that for the short term, their lack of participation in GARS causes additional cash flow problems, but in the long term, there will be less actuarial liability to amortize. Mr. Wood underscored the cash flow problems by noting that both employer contributions and employee contributions must be used to make benefit payments and that until 2033 investment income is needed to pay ongoing benefits. This investment income is therefore not available to be retained in the GARS investment portfolio.

Following some discussion, Vice-Chairperson Harris moved to approve the preliminary actuarial valuation and the FY 16 employer contribution of \$16.1 million, or 166.70% of payroll. Representative Nekritz seconded the motion and all were in favor.

REPORT OF CHAIRMAN

Chairman Clayborne had nothing to report.

REPORT OF ANY TRUSTEE

Representative Pierce commented regarding his position on the Board of Trustees after reading and signing the indemnification agreement. He noted the failure of a trustee to uphold fiduciary standards and gross negligence by a trustee is unacceptable.

REPORT OF ADMINISTRATIVE SECRETARY

Secretary Blair submitted a list of suggested GARS Board meeting dates for 2015. Brief discussion was held and a motion was made by Senator Harmon to approve the following dates:

January 9, 2015, 1:00 p.m. – Chicago
April 15, 2015, 9:00 a.m. – Springfield
October 30, 2015, 10:00 a.m. - Chicago

Representative Harris seconded the motion to approve these dates and all were in favor.

Action on the Financial Statements and the Final 2015 Administrative Budget was deferred to the Board's January meeting.

REPORT OF MANAGER

Jayne Waldeck presented the Annuities and Refunds processed since the last Board meeting for approval. Discussion regarding the charges brought against Representative Keith Farnham was held, as he was on the list of annuities for approval. The GARS felony forfeiture process was explained by Secretary Blair and a discussion of relevant case law was led by Attorney Steve Bochenek, who was present at the meeting to answer legal questions posed by the Board. Trustees asked whether Representative Farnham's pension benefits could be suspended or terminated given the pending felony charges against him.

Secretary Blair explained that if there is a felony conviction, the Board's policy is to forward the specifics of the case, after sentencing, to the Attorney General's Office for an unofficial opinion as to whether the felony occurred in the course of one's duties. Based on the Attorney General's opinion the Board may then take action to suspend or terminate the retirement benefit. After the discussion, no action was taken to suspend or terminate the monthly benefit of Representative Farnham pending a felony conviction and receipt of additional information.

Another GARS retiree, former Representative Connie Howard, has been convicted of a felony but has not been sentenced. The annuity of Representative Howard had been approved by the Board prior to the felony conviction. Attorney Bochenek explained that part of the fiduciary responsibility of each trustee is to follow the Board's felony forfeiture procedures in order to avoid possible charges of a violation of fiduciary duty. That policy provides for a forfeiture of benefits after sentencing.

Following further discussion, Senator Harmon moved to remove Representative Keith Farnham from the list of "Annuities for Approval" dated October 8, 2014, and approve the remainder of the Retirement Annuities as presented. The annuity of Representative Farnham

would be considered after the Board has more information regarding a felony conviction and sentencing. Representative Pierce seconded the motion and questions were entertained. The motion passed with a voice vote.

Senator Harmon moved to approve the Survivor Annuities as submitted and the Refunds for Approval as submitted. Representative Nekritz seconded the motion and all Trustees were in favor.

UNFINISHED BUSINESS

There was no unfinished business to be discussed.

NEW BUSINESS

There was no new business to be discussed.

ADJOURNMENT

There being no further business to be brought before the Board, Senator Harmon moved to adjourn at 12:15 p.m. His motion was seconded by Representative Harris and passed with an affirmative vote of all trustees present.

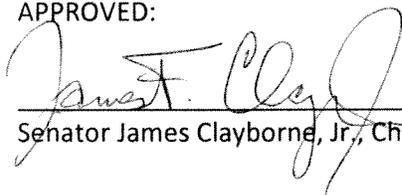
Chairman Clayborne reminded the Board the next meeting is scheduled for January 9, 2015 at 1 p.m. in Chicago.



Timothy B. Blair, Administrative Secretary

Date: 1/9/15

APPROVED:



Senator James Clayborne, Jr., Chairman