

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

October 27, 2016

The annual meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Thursday, October 27, 2016, 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  
John Tilden, Elected Retired Trustee  
Alan Latoza, Elected Retired Trustee  
Stephen Mittons, Elected Active Trustee  
Tad Hawk, Elected Active Trustee  
Robert Fanti, Elected Active Trustee  
Thomas Allison, Appointed Trustee  
Danny Silverthorn, Appointed Trustee

Absent:

Yasmin Bates-Brown, Appointed Trustee  
Carl Jenkins, Appointed Trustee  
Renee Friedman, Appointed Trustee

Others in attendance were:

Timothy Blair, Executive Secretary  
Jeff Houch, Assistant to Secretary  
Steve Bochenek, System Attorney  
William Atwood, Director, Illinois State Board of Investment  
Johara Farhadieh, Deputy 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  
Loren Iglarsh, Executive Committee Chairman  
Barbara Baird, Manager, Chicago Office  
Jennifer Staley, Recording Secretary  
Ascha Nickell, Governor's Office of Management and Budget

Vice-Chairperson Morris presided and called the meeting to order at 10:00 a.m. with a quorum of seven trustees present. He noted Chairperson Munger was on the way.

**PUBLIC COMMENTS**

Vice-Chairperson Morris asked if there were any members of the public in attendance who wished to address the Board. There were none.

## MINUTES OF THE JULY 13, 2016 BOARD MEETING

The minutes of the meeting of the Board of Trustees held July 13, 2016 were presented to the members by Vice-Chairperson Morris. Copies of these minutes were previously provided to each trustee for preliminary review. Trustee Fanti moved to approve the minutes as submitted. Trustee Hawk 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 Quarterly review for the period ended June 30, 2016 and noted that in addition to the normal ISBI report, Deputy Director Johara Farhadieh would provide a report on the utilization of emerging and minority investment managers by ISBI.

Mr. Atwood began his report by noting that in FY 16 the portfolio lost 0.8%, significantly trailing the benchmark return of 0.7%. In FY 16 the Fixed Income portfolio returned 1.4%, while the benchmark returned 5.8%. The U.S. Equity portfolio (without Hedge Fund of Funds) lost 1.8% in FY 16, again significantly lagging the benchmark, which returned 2.1%.

Mr. Atwood reported the Hedge Fund of Funds portfolio lost 9.0% in FY 16, compared to the benchmark return of -5.4%. He reminded the Board of the recent ISBI decision to reduce the Hedge Fund allocation from 10% to 3%. The non-U.S. Equity portfolio lost 7.4%, while the benchmark lost 9.6%. Chairperson Munger entered the meeting and Ms. Farhadieh continued the review of the June 30, 2016 Quarterly Review.

Ms. Farhadieh began by pointing out the Real Estate portfolio returned 10.8% in FY 2016, exactly matching the custom benchmark. The Real Assets portfolio provided a return of 13.6% in FY 16 and the Private Equity Composite returned 6.3%. Mr. Atwood interjected that over the summer the SERS Board lowered the investment return assumption from 7.25% to 7.0% annually, and that reduction resulted in ISBI's consultant recommending minor asset allocation changes in the portfolio.

Ms. Farhadieh then referred the Board to several documents detailing the ISBI utilization of emerging and minority investment managers. She provided the definition of minority and emerging managers and informed the Board that 21.3% of the portfolio was managed by minority managers, while 9.8% of the portfolio was managed by emerging managers. Director Atwood offered to answer questions. Trustee Allison asked about the progress of transferring assets from active to passive management. Ms. Farhadieh answered the process was 95% complete.

Chairperson Munger asked if there were additional questions for ISBI. None were offered. She thanked Director Atwood and Deputy Director Farhadieh for the informative report and excused them from the meeting. Trustee Allison moved to accept the ISBI report. Trustee Tilden seconded the motion and all present voted in the affirmative. Copies of these reports are maintained in the ISBI office and made a part of these minutes as Exhibit A.

## REPORT OF THE ACTUARY

June 30, 2016 Actuarial Valuation and Preliminary FY 18 Employer Contribution Rate.  
Alex Rivera and Ryan Gunderson, Consulting Actuaries, Gabriel, Roeder, Smith & Company,

presented the draft FY 16 actuarial valuation and the preliminary FY 18 certified employer contribution that will be submitted to the Governor and the General Assembly, and to the State Actuary for review.

Mr. Rivera began by referring the trustees to a handout summarizing the results of the FY 16 actuarial valuation. He pointed out the FY 16 valuation included the assumption changes adopted by the Board at the July 13, 2016 meeting. The changes include the reduction of the investment return assumption from 7.25% to 7.0% annually, and mortality tables that reflect future mortality improvement. All assumption changes adopted in July increased the actuarial liability by \$3.824 billion at June 30, 2016.

Mr. Rivera continued that based on the market value of assets, the funded ratio of SERS decreased from 37.5% in FY 15 to 33.0% in FY 16. Based on the actuarial value of assets, the funded ratio decreased from 36.2% in FY 15 to 34.4% in FY 16. He stated the difference in the funded ratios is a result of the smoothing of investment gains and losses.

Mr. Rivera compared actual FY 16 cashflow to projected FY 17 cashflow. For FY 16, benefit payments and expenses were about \$95 million less than combined employee and employer contributions. In FY 17, employer and employee contributions are expected to be \$49 million less than benefit payments and administrative expenses. He then pointed out the FY 18 statutory employer contribution is \$123 million more than projected FY 18 benefits and expenses.

Mr. Rivera informed the Board the required employer contribution increased from \$2.014 billion, or 42.805% of payroll in FY 17, to \$2.328 billion, or 52.095% of payroll in FY 18. In addition to the required employer contribution to SERS, pursuant to statute the Board certified a debt service contribution in FY 18 of \$85,698,000, or 1.918% of payroll, to be used towards the repayment of the 2003 pension obligation bonds (POBs).

Mr. Rivera referred the Board to a comparison of the statutory funding requirements and the actuarially determined contribution (ADC) adopted by the Board. The adopted ADC is equal to the normal cost of the benefits earned in the funding year, plus a payment to amortize the unfunded liabilities over 25 years. Mr. Rivera added the ADC is a GASB 67 reporting requirement and actual funding is still based on the statutory funding plan. For FY 18, the statutory contribution of \$2.328 billion is \$431 million less than the ADC of \$2.759 billion.

Mr. Rivera re-introduced Ryan Gunderson to the Board. Mr. Gunderson continued the GRS report by referring the Board to a chart showing the projected annual contributions, as a percent of payroll, through FY 14, and noted the employer contribution rate to SERS is limited through FY 33 by statutorily required 2003 POB debt service payments. This statutory limitation ends in FY 34, allowing the employer contribution rate to increase and the SERS funded ratio to rise significantly beginning in that year through FY 45.

Vice-Chairperson Morris noted the large number of Tier 1 members who are eligible to retire and added these members have much higher salaries than the Tier 2 members who will replace them after they retire. Mr. Gunderson agreed and noted the actuarial model assumes Tier 1 members that retire will be replaced by Tier 2 members with lower salaries. Vice-Chairperson Morris added Tier 2 members must work longer in order to retire.

Seeing no further questions, Vice-Chairperson Munger asked if there was a motion to approve the draft actuarial valuation. Trustee Morris offered the motion and Trustee Allison seconded the motion. All were in favor.

#### 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 16 audit was progressing smoothly.

He informed the Board that he was looking into the age 70½ required minimum distribution process and options and offered to answer questions. There were no questions for Vice-Chairperson Morris or Mr. Evans.

#### CERTIFICATION OF FY 18 EMPLOYER CONTRIBUTION RATE

Secretary Blair asked for clarification regarding the motion adopting the FY 16 draft valuation and the preliminary FY 18 employer contribution. Chairperson Munger asked for another motion to specifically certify the preliminary FY 18 employer contribution. Trustee Allison moved to certify the contribution rate as presented and Vice-Chairperson Morris seconded the motion. In accordance with Public Act 88-593, as amended, the Board unanimously certified a State contribution rate for FY 18 of 54.013% of payroll, or \$2,413,347,000. This certified FY 18 rate provides for an employer contribution to SERS in the amount of \$2,327,649,000, or 52.095% of payroll, and 2003 POB debt service in the amount of \$85,698,000, or 1.918% of payroll.

#### REPORT OF RULES AND PERSONNEL COMMITTEE

Trustee Latoza reported the Rules and Personnel Committee met at 2 p.m. on Wednesday, October 26<sup>th</sup> with all members present and asked Assistant to the Secretary Jeff Houch to offer the Committee's report to the Board. Mr. Houch reported the Committee had approved two packages of rules for consideration by the Joint Committee on Administrative Rules (JCAR). He provided a brief review of the proposed rules, which include requiring future retirees to enroll in direct deposit and several technical and clarifying rules regarding the disability program. He offered to answer any questions. There were none.

#### REPORT OF CHAIRPERSON MUNGER

2017 Employer Contribution Update. Chairperson Munger reported the Comptroller's Office was able to make the November employer contribution to SERS, but might have to delay the December contribution due to reduced State cashflow. She noted that her office planned to catch up and make all required FY 17 contributions by the end of the FY 17. She concluded by noting the upcoming election and her pleasure in serving as Chairperson of the SERS Board.

Election of 2017 Vice-Chairperson. Chairperson Munger informed the Board the election of Vice-Chairperson for calendar year 2017 was in order and opened the floor for nominations. Trustee Hawk nominated Vice-Chairperson Morris for re-election and the motion was seconded by Trustee Fanti. Hearing no further nominations, Chairperson Munger closed the nominations. The vote which followed resulted in the unanimous re-election of Vice-Chairperson Morris for 2017.

**2017 Executive Committee.** Chairperson Munger announced the selection of the 2017 Executive Committee was in order. Executive Secretary Blair offered that Vice-Chairperson Morris has expressed his willingness to continue to serve on the Committee in 2017 and Trustee Hawk had offered to serve as an alternate for Vice-Chairperson Morris. Trustee Fanti nominated Vice-Chairperson Morris as the elected member of the committee with Trustee Hawk serving as the alternate. 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 2017 and the addition of Trustee Hawk as the alternate.

Executive Secretary Blair noted he would remain on the Executive Committee pursuant to Board policy and Loren Iglarsh offered his willingness to remain the Committee's Chairman as the designee of Chairperson Munger.

**2017 Audit and Compliance Committee.** Executive Secretary Blair informed the Board two Trustees needed to be elected for the Audit and Compliance Committee for 2017 and Chairperson Munger opened the floor for nominations. Trustee Silverthorn nominated Trustee Morris as Chairperson and Trustee Friedman as Vice-Chairperson. Trustee Allison 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 2017.

Executive Secretary Blair added that he would be in contact with Chairperson Munger's office regarding the reappointment of Loren Iglarsh to continue to serve as the Chairperson's designee in 2017.

**2017 Rules and Personnel Committee.** Chairperson Munger informed the Board of the need to elect three Trustees to the Rules and Personnel Committee and opened the floor for nominations. Trustee Hawk nominated Trustees Latoza, Fanti and Silverthorn to serve on the 2017 Rules and Personnel Committee. Chairperson Munger seconded the motion and asked if there were other nominations. Hearing none, she closed the nominations. After an affirmative vote of all in attendance she thanked the members for serving on the committees.

#### **REPORT OF ANY TRUSTEE**

Chairperson Munger asked if any other trustee would like to offer a report. Trustee Tilden asked about the financial impact of not receiving the December employer contribution in a timely manner. Secretary Blair responded that cashflow is monitored closely and noted SERS staff works with ISBI in order to ensure funds are available to pay benefits and expenses as needed. He added that funds had not yet been withdrawn from the ISBI portfolio in FY 17 and that net withdrawals would be zero or very small if all employer contributions are made by the end of FY 17.

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

**Systems Modernization.** Gerry Mitchell, CISO, started his report by noting that CMS had outsourced a portion of the benefits administration system, affecting both active employees and SERS retirees. He noted that significant issues are being experienced, including the unexplained termination of insurance, and missing or inaccurate premiums.

Secretary Blair added that retiring employees are, among other problems, losing insurance at retirement rather than being transferred to SERS payroll and insurance. He noted that steps had been taken, including the addition of temporary call center representatives to handle the increased call volume.

Computer Security and Member Services Website. CISO Mitchell noted security upgrades have been implemented and operating systems continue to be updated in order to prevent data breaches. He concluded his report by adding 17,800 retirees and 24,200 active members had registered for the SRS member services website.

#### REPORT OF THE EXECUTIVE SECRETARY

Calendar Year 2017 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 2017 schedule, including the standing committees, as presented. The motion was seconded by Trustee Silverthorn and all voted in the affirmative for the 2017 meeting dates:

Tuesday, January 10  
Tuesday, April 25  
Tuesday, July 25  
Tuesday, October 31

All 2017 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 17 Funding Update. Executive Secretary Blair noted the previous report by Chairperson Munger

#### FOURTH QUARTER FINANCIAL STATEMENTS

Alan Fowler, Accounting Division Manager, presented the financial statements for the fourth quarter of FY 16. A significant change from the previous quarter was a \$109.9 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 \$36.4 million increase in paid benefits when compared to the same quarter of FY 15.

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

#### APPROVAL OF EXECUTIVE COMMITTEE MINUTES

The trustees had been furnished with copies of the June, July, August and September, 2016, Executive Committee minutes for review. Secretary Blair noted the July minutes should exclude the Roseanne Serpe appeal. She has expressed through her attorney the desire for a personal hearing before the Board approves the minutes containing her written appeal. Trustee Allison moved to approve the minutes as presented, with the exception of the

Serpe portion of the July minutes. Trustee Hawk seconded the motion, which prevailed by the affirmative vote of all trustees present.

**OLD BUSINESS**

There was no old business to review.

**NEW BUSINESS**

There was no new business to review.

**ADJOURNMENT**

There being no further business to be brought before the Board, Chairperson Munger adjourned the meeting and reminded all trustees the next Board meeting is scheduled for January 10, 2017 at 10 a.m. in the System's Springfield office with the Chicago videoconference location available.

\_\_\_\_\_  
Chairperson Susana A. Mendoza

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

**ATTEST:**

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

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