

**GENERAL ASSEMBLY RETIREMENT SYSTEM OF ILLINOIS
MEETING NO. 268**

**MINUTES OF THE ANNUAL MEETING
OF THE BOARD OF TRUSTEES**

October 29, 2021

The annual meeting of the Board of Trustees of the General Assembly Retirement System was held on Friday, October 29, 2021, at 1:00 p.m. in the System's Springfield Office at 2101 S. Veterans Parkway and by videoconference, as allowed under Section 7(e) of the Open Meetings Act (5 ILCS 120/7(e)).

Roll Call was taken with the following trustees in attendance by videoconference:

- Senator Robert Martwick, Chairman
- Senator Dave Syverson, Vice-Chairman
- Senator Napoleon Harris
- Representative Jonathan Carroll
- Representative Charles Meier
- Representative Michael Halpin
- Representative Tom Ryder, Retired (in person at the system's Springfield Office)

Others in attendance were:

- Timothy B. Blair, Secretary
- Jeff Houch, Assistant to Secretary
- Jim Stivers, SRS General Counsel
- Angie Ackerson, GARS Manager
- Johara Farhadieh, Executive Director, Illinois State Board of Investment
- Jennifer Koelle, Investment Officer, Illinois State Board of Investment
- Alex Rivera, Consulting Actuary, Gabriel, Roeder, Smith & Company
- Jeff Tebeau, Consulting Actuary, Gabriel, Roeder, Smith & Company
- Heidi Barry, Consulting Actuary, Gabriel, Roeder, Smith & Company

With a quorum present, Chairman Martwick called the meeting to order at 1:00 p.m.

ELECTION OF 2022 OFFICERS – CHAIRPERSON AND VICE-CHAIRPERSON

Chairman Martwick announced the annual election of officers for the ensuing year was in order and opened the meeting for nominations. Representative Carroll nominated Chairman Robert Martwick to remain Chairman Senator Syverson to serve as Vice-Chairman. The motion was seconded by Representative Halpin.

After no further nominations were offered, Chairman Martwick asked if there was a motion to close the nominations; a motion to close nominations was made by Representative Halpin. Senator Syverson seconded the motion. Ms. Ackerson took roll call and the motion to elect Senator Martwick as Chairman and Senator Syverson as Vice-Chairman was approved unanimously.

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT (ISBI)

Director Farhadieh directed the Board's attention to the ISBI June 30, 2021, Performance Update, highlighting the actual allocation of assets compared to the ISBI policy allocation. She started her presentation by noting ISBI's continued efforts to formulate an asset allocation policy using a barbell approach to increase exposure to high-quality fixed income assets while also seeking returns to meet the 6.5% assumed rate of return by increasing exposure to private equity and higher risk returns in the public equity portfolio. Director Farhadieh noted the Rate Sensitive Composite remains overweight at 25% of the portfolio compared to the policy allocation of 23%, but this sector of the portfolio provides protection during a market downturn while allowing the Fund to capture growth during a market rally.

Director Farhadieh briefly reviewed ISBI's asset deployment strategy regarding active versus passive exposure in the portfolio. She addressed the public market equivalents for private markets where the Fund is underweight, adding that private market assets are allocated yearly and to account for the underweighted asset classes, the Fund deploys assets to a public market equivalent. Director Farhadieh noted that ISBI targets two-thirds exposure to passively managed index funds and one-third of the assets to active managers, and that this approach has allowed the Fund to perform well while minimizing active manager fees. She noted that ISBI seeks to deploy capital with active managers who consistently generate returns above the benchmark.

Director Farhadieh addressed the diversity efforts of ISBI, noting that 35.9% of the portfolio is committed to MWDBE investment managers and for the second year in a row, ISBI was recognized by the American Investment Council as the top-performing private equity portfolio of any public pension fund in the country. She added that 23% of the private equity portfolio is committed to minority and women-owned managers. Director Farhadieh then concluded her presentation by announcing a recent diversity initiative approved by the ISBI Board at their September meeting. The initiative encourages the use of minority and women-owned investment banks in the private market space, specifically the private equity space. She noted ISBI plans to work with private market fund managers to advocate for the use of minority and women-owned investment banks for advisory services, field sourcing, financing, and IPO issuance. Director Farhadieh added the initiative could make this sector of the investment industry a more competitive space and recognized ISBI Investment Officer Jennifer Koelle for her involvement in the effort.

Director Farhadieh then turned the presentation over Jennifer Koelle, ISBI Investment Officer, to review the performance of the portfolio as of June 30, 2021. Ms. Koelle reported that for the one-year period ending June 30, 2021, the total portfolio returned 25.8%, net of fees, significantly outperforming the benchmark return by 3.8%. For the quarter ending June 30, 2021, the total fund returned 7.2%, exceeding the custom benchmark by 2.2%.

Ms. Koelle continued by reviewing the FY 21 performance of selected asset classes, pointing out the Fixed Income portfolio returned 5%, net of fees, outperforming the Barclays U.S. Universal Index during the twelve-month period by 3.9%. She noted the Core Fixed Income portfolio and the Treasury Inflation Protected Securities Composite (TIPS) lost 2.3% and 6.5%, respectively, while the Multi Asset Credit portfolio appreciated by 18.2%, outperforming the benchmark by 4.5%. Ms. Koelle also noted the Private Credit portfolio gained 19.4%,

outperforming the benchmark by 10%, while the Global Equity portfolio returned 43.2%, beating the index by 2.3%. She noted the U.S. Equity portfolio gained 43.4%, lagging the broad U.S. equity market by 80 basis points.

Ms. Koelle continued by reporting that the Non-U.S. Equity portfolio returned 39.2% in FY 21, exceeding the benchmark return by 2%, while the Private Equity portfolio advanced 54.9% and slightly outperformed the benchmark by 1.1%. She concluded her report of the asset classes by adding the Infrastructure Composite returned 11.6% and outperformed the benchmark by 2.5%. Ms. Koelle concluded her presentation by highlighting the Real Estate portfolio returned 13.7% in FY 21, net of fees, and beat the benchmark by 12.2%.

Senator Harris moved to approve the ISBI report, and Representative Halpin seconded the motion. Ms. Ackerson took roll call, and the motion was approved unanimously. Chairman Martwick thanked Director Farhadieh and Ms. Koelle for their reports and excused them from the remainder of the meeting.

A copy of the June 30, 2021 Quarterly Review is maintained in the ISBI office and made part of these minutes as *Exhibit A*.

REPORT OF CONSULTING ACTUARIES

Alex Rivera, Jeff Tebeau, and Heidi Barry of Gabriel, Roeder, Smith & Company, presented draft copies of the FY 21 GARS actuarial valuation. Mr. Rivera began the report, stating the purpose of the valuation is to measure the funded status of the System and determine the State's statutory contribution rate for the year beginning July 1, 2022. He noted that Public Act 100-0023, effective July 6, 2017, modified the State's funding policy to include smoothing State contribution rate increases or decreases due to changes in actuarial assumptions, including investment return assumptions, over a five-year period in equal annual amounts beginning in fiscal year 2018. Mr. Rivera added the current statutory funding policy is intended to produce 90% funded status by 2045. He then turned the presentation over to Heidi Barry to review additional details of the valuation results.

Ms. Barry began by stating that the results of the actuarial valuation were stable from FY 20, noting the actuarial accrued liability was relatively stable, with a slight increase from \$373.5 million on June 30, 2020, to \$373.7 million on June 30, 2021. She stated the market value of assets increased from \$63 million to almost \$80 million during FY 21 and the funded ratio on a market value basis increased from 16.87% to 21.31%.

Ms. Barry then reviewed the actuarial value of assets, which increased from \$63.9 million to \$72.2 million due to smoothing investment gains over a five-year period. She noted the funded ratio on an actuarial basis was lower than the market value due to asset smoothing, but improved from 17.10% on June 30, 2020, to 19.31% on June 30, 2021. Ms. Barry attributed the increase in the funded ratio to excess investment returns and increased funding in FY 21, noting the State contribution is determined using the actuarial value of assets to eliminate large changes that could result from market volatility.

Ms. Barry referred the Board to a slide showing that the funded ratio is expected to steadily increase from 19.3% in 2021 to 35% in FY 33, when the State contribution cap is lifted,

and then rapidly increase to reach 90% funded status in FY 45. She stated that net cash flow is expected to be positive through FY 22 but noted that in FY 23 through FY 41, benefits are projected to exceed State and employee contributions.

Ms. Barry told the Board the FY 23 State contribution, based on the statutory funding plan, is \$27.2 million, a decrease from \$27.8 million in FY 22, due primarily to the extraordinary investment returns in FY 21. She added the Actuarially Determined Contribution (ADC) for FY 23 is \$35.2 million, or 360.551% of payroll compared to \$35.0 million, or 359.953% of payroll, in FY 22. She noted the ADC is designed to be a more actuarially sound policy, with a 14- year amortization period and a 100% funded ratio target. If the ADC were used, the State contribution would be \$8 million higher than the amount calculated under the statutory funding plan. She added that since the System isn't designed to reach a 100% funded status, there will always be a discrepancy between these two numbers.

Ms. Barry noted the next experience review for the period July 1, 2018, through June 30, 2021, will be performed after completion of the June 30, 2021, actuarial valuation with expected implementation of the recommended assumptions beginning with the June 30, 2022, actuarial valuation. At the conclusion of her presentation, she then turned the presentation over to Mr. Jeff Tebeau.

Mr. Tebeau began his presentation by referring to a graph depicting the basic contribution rates through FY 45, the 90% funded ratio target date. He described a sharp decrease in the contribution rate over the next four years due to the law requiring the recognition of excess investment returns over a five-year period. Mr. Tebeau reviewed another graph which projects total annual contributions dropping below annual benefit payments, noting that fewer investment returns will be available to reinvest in the portfolio.

Mr. Tebeau concluded his presentation by reviewing the data used in the valuation. He indicated the active member population has dropped from 124 participants on June 30, 2020, to 122 participants on June 30, 2021. He noted the total number of benefit recipients increased to 316 retirees, 114 survivors and 13 QILDRO recipients, a net increase of 8 from the prior year ending June 30, 2020. Mr. Tebeau noted that the total benefits paid increased from \$25.3 million to \$26.2 million over the last year. Mr. Tebeau offered to answer questions from the Board. No questions were offered.

Seeing there were no questions, Chairman Martwick asked Secretary Blair to review the preliminary certification of FY 23 State contributions. Secretary Blair requested the Board adopt the draft FY 21 valuation and certify the FY 23 State Contribution of \$27,174,000, or 278.648% of projected payroll. Following a review of projected benefits and contributions over the remainder of the funding plan, Representative Meier moved to accept the draft FY 21 valuation and preliminarily certify the \$27,174,000 FY 23 employer contribution. Senator Harris seconded the motion. Ms. Ackerson took roll call, and the motion was approved unanimously. Chairman Martwick thanked Mr. Rivera, Mr. Tebeau, and Ms. Barry and excused them from the remainder of the meeting.

A copy of the presentation is maintained in the GARS office and made part of these minutes as *Exhibit B*.

MINUTES OF PREVIOUS MEETING

Chairman Martwick presented the minutes of Meeting No. 267 held on April 28, 2021, for approval. Copies of the minutes were previously submitted to the trustees for preliminary review. Senator Harris moved to approve the minutes of the April 28, 2021 minutes as presented, and the motion was seconded by Senator Syverson. Ms. Ackerson took roll call, and the motion was approved unanimously.

REPORT OF CHAIRMAN

Chairman Martwick offered no report.

REPORT OF ANY TRUSTEE

There were no reports offered.

REPORT OF ADMINISTRATIVE SECRETARY

June 30, 2021 and September 30, 2021 Financial Statements. Secretary Blair notified the Board that in the fourth quarter of FY 21, GARS was able to transfer \$2.3 million to ISBI and he expects the System will be able to transfer funds to ISBI in the next few fiscal years. He noted GARS is spending about \$2.2 million a month for benefits and operations combined while employer and employee receipts are about \$2.6 million per month. He noted that even after the \$2.3 million transfer, the cash balance was \$5.5 million.

Secretary Blair then reviewed Schedule 3, noting the System's portfolio had increased from \$57 million at the end of FY 20 to \$67 million at the end of FY 21. He reviewed the financial statements for the year that ended June 30, 2021, and the quarter that ended September 30, 2021. He noted that for the year that ended June 30, 2021, GARS had receipts of \$28.6 million, including \$1.25 million in employee contributions and \$27.2 million in employer contributions. In FY 21, GARS disbursements were over \$28.8 million, with \$26 million in annuities paid, \$152,140.19 in refunds paid, and administrative expenses of \$351,077.09.

Secretary Blair continued his report by reviewing the financial statements for the quarter that ended September 30, 2021. He noted total GARS receipts in the first quarter of FY 22 were \$7.2 million, including employer contributions of \$6.8 million. Total disbursements for the first quarter were \$6.65 million in monthly benefits to 319 annuitants, 13 QILDRO alternate payees, and 115 survivors.

Final Review of FY 22 Operations Budget. Secretary Blair requested a \$47,440 increase from the FY 21 budget and attributed \$41,700 of the increase to the comprehensive review of all actuarial assumptions (\$22,000) plus funding the full scope actuarial audit (\$18,000) as recommended by the State Actuary. He reported that Foster and Foster, had been contracted for the full scope actuarial audit and the results will be presented to the Board in January.

Chairman Martwick asked if there were any questions on Secretary Blair's report on the financial statements and FY 22 operations budget request. Seeing none, Chairman Martwick asked for a motion to approve Secretary Blair's report. Senator Harris moved to adopt the June 30, 2021, and September 30, 2021, financial statements as well as the FY 22 operations budget

request of \$400,480. Senator Syverson seconded the motion. Ms. Ackerson took roll call, and the motion was approved unanimously.

Official copies of these Financial Statements have been placed on file and made a part of these minutes as *Exhibit C*.

Representative Tenhouse Overpayment. Secretary Blair briefed the Board that external auditors in FY 18 identified an annuitant, Representative Arthur Tenhouse, had missed an automatic annual increase (AAI) which resulted in an underpayment of \$8,717.10. GARS staff followed the opinion of the auditors and issued a \$8,717.10 payment to Representative Tenhouse. In FY 20, external auditors identified another GARS annuitant they believed was also on the wrong AAI schedule. Staff reviewed that member's account, the applicable statute and Board policy and determined that he was on the correct AAI schedule. Following that conclusion, staff realized that the adjustment to Representative Tenhouse's pension was made erroneously and concluded that he was overpaid by \$13,041.72.

Representative Tenhouse was billed on May 4, 2021, and contacted the System shortly after he received that bill. He stated he was willing to repay GARS but contended he should not have to repay the full gross payment because he already paid the applicable taxes and was unable to recover these taxes through the tax reconciliation process. The IRS code prevents him from either recovering the paid taxes or deducting the full gross repayment from his annual reported income for calendar year 2021. Based on the withholding rates applicable to his GARS income at the time of each overpayment, GARS staff determined the net payment due to GARS would be \$11,753.71.

Jeff Houch added that statute provides that a member's initial AAI shall be applied in January or July, depending on which month is closer to the member's first retirement anniversary date. He also noted that AAIs are not awarded until the member has reached age 60 and been retired at least one full year. Mr. Houch further noted that several years ago, the Board adopted a policy that provides an annuitant who has been retired for at least 1 year and turns age 60 shall receive their first AAI in the month immediately following their 60th birthday. Historically, for a member who receives their first AAI on the month following their 60th birthday, the System has applied subsequent AAIs in either January or July following the initial annual increase, whichever month occurs first. Mr. Houch noted that GARS is the only System that awards automatic annual increases to retirement annuities in months other than January.

Secretary Blair requested the Board approve reducing Representative Tenhouse's overpayment of \$13,041.72 to \$11,753.71. Chairman Martwick recommended the Board approve the reduced overpayment and asked if there was a motion to approve a payment by Representative Tenhouse in the amount of \$11,753.71 as full payment for the benefit overpayment of \$13,041.72. Representative Meier motioned to approve the reduced payment amount and the motion was seconded by Senator Harris. Ms. Ackerson took roll call and the amount of \$11,753.71 was unanimously approved.

Inclusion Policy Amendment. Secretary Blair informed the Board that Public Act 101-0657 increased the aspirational goals of agencies regulated under the Illinois Procurement Code to award 30% of service contracts and purchases to businesses owned by minorities, women, and disabled persons. He added that while Illinois public retirement systems and investment

boards are not subject to the Illinois Procurement Code, GARS staff are recommending increasing the goal target of that policy to 30% to match the law. Secretary Blair noted that a prior GARS Board policy was adopted on October 30, 2015 to establish an aspirational goal to award 20% of service contracts and purchases to businesses owned by MWDBE vendors.

Chairman Martwick asked if there was a motion to approve increasing the inclusions policy aspirational goal from 20% to 30%. Senator Harris made the motion and Senator Syverson seconded the motion. Ms. Ackerson took roll call and all Trustees voted in the affirmative.

2022 Meeting Dates. Secretary Blair submitted a list of suggested GARS Board meeting dates for 2022. The Chicago meetings will be held in Room S721 of the Bilandic Building, 160 North LaSalle Street, and the Springfield meeting will be held in Room 627A of the Capitol Building.

Tuesday, January 11, 2022, 9:00 a.m. – Springfield

Wednesday, April 27, 2022, 9:00 a.m. – Chicago

Friday, October 28, 2022, 1:00 p.m. - Chicago

A motion was made by Representative Halpin to approve the dates. Representative Meier seconded the motion. Ms. Ackerson took roll call, and the motion was approved unanimously.

Suspension of Senator Link's Retirement Claim. Secretary Blair reminded the Board that on September 15, 2020, Senator Terry Link pled guilty to a felony charge but has yet to be sentenced. He indicated that Senator Link had applied for a GARS retirement annuity effective October 1, 2020, but staff suspended the processing of the claim in accordance with Board policy, which provides benefits are suspended on the date of a felony conviction or guilty plea.

Secretary Blair noted that GARS received an unofficial opinion from the Office of the Attorney General on May 28, 2021, which stated the felony charge Senator Terry Link pled guilty to was not connected to his service as a senator. He indicated that staff communicated the opinion to the Board and lifted the benefit suspension based on the Attorney General's opinion, rather than suspending Senator Link's benefits until the October board meeting. Secretary Blair noted that Senator Link had been without health insurance and his annuity since October 1, 2020. He noted that pension benefits were paid retroactively to October 1, 2020.

Secretary Blair noted that only the Board can terminate or reinstate benefits. He added that Senator Link has approximately \$240,000 in retirement contributions and there is no financial risk to GARS until Senator Link recovers this amount through monthly benefit payments. Mr. Houch indicated that Senator Link's benefit payments will not exceed his contributions until August 2023. Secretary Blair said that if the felony is determined to be job-related prior to August 2023, Senator Link will be eligible for a refund of contributions not paid to him in a monthly benefit.

Chairman Martwick clarified that a member who pleads guilty to a felony loses monthly benefits but is entitled to a refund of remaining employee contributions. He noted the Attorney General's opinion indicates that the guilty plea by Senator Link is not connected to his position

as a senator, adding that the Board is not obligated to follow the Attorney General's opinion but has generally done so.

Chairman Martwick indicated the recommendation of the staff is to continue paying monthly benefits to Senator Link unless a subsequent event indicates the felony was job-related, whether at sentencing or through a revised Attorney General's opinion. Mr. Houch reiterated that if this occurred, the System would refund any remaining contributions in the account after subtracting benefits paid.

After discussion, Chairman Martwick asked if there was a motion to approve the resumption of monthly retirement benefits of Senator Terry Link. Senator Harris made a motion to approve, and the motion was seconded by Senator Syverson. Ms. Ackerson took roll call.

Representative Carrol – No vote
Representative Halpin – Yes
Senator Harris – Yes
Representative Meier – No vote

Representative Ryder - Yes
Vice-Chairman Syverson - Yes
Chairman Martwick - Yes

With five trustees voting yes, and two trustees not voting, the motion to reinstate the retirement benefit of Senator Link carried.

FY 22 Funding Update. Secretary Blair stated that the Comptroller's Office is current in making the State contributions and that the November contribution had been received.

REPORT OF MANAGER

GARS Manager Angie Ackerson presented the annuities for approval. Since the last Board meeting, seven new retirement annuities totaling \$35,255.89 per month and one survivor annuity totaling \$3,650.66 per month were processed by GARS staff. She noted that there were two leadership contribution refunds and two error refunds processed, totaling \$14,378.00. Senator Harris moved to approve the annuities as presented, and Representative Meier seconded the motion. Ms. Ackerson took roll call, and the motion was approved unanimously.

UNFINISHED BUSINESS

There was no unfinished business.

NEW BUSINESS

There was no new business.

PUBLIC COMMENTS

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

ADJOURNMENT

There being no further business, Chairman Martwick asked if there was a motion to adjourn. Representative Meier moved to adjourn at 2:30 p.m. His motion was seconded by Representative Halpin. Chairman Martwick reminded the Trustees the next Board meeting

would be held in Springfield on Tuesday, January 11, 2022 at 9 a.m. and the meeting was adjourned.

Timothy B. Blair, Administrative Secretary

Date: _____

APPROVED:

Senator Robert F. Martwick, Chairman