

**JUDGES' RETIREMENT SYSTEM OF ILLINOIS  
MEETING NO. 356**

**MINUTES OF THE REGULAR MEETING  
OF THE BOARD OF TRUSTEES**

**July 29, 2022**

A regular meeting of the Board of Trustees of the Judges' Retirement System of Illinois convened on Friday, July 29, 2022, at 10 a.m. in Room N-1808 of the Michael Bilandic Building, 160 North LaSalle Street, Chicago, Illinois. Trustees were allowed to participate via videoconference under Section 7(e) of the Open Meetings Act (5 ILCS 120/7 (e)).

Roll Call was taken with the following trustees in attendance:

Justice Mary S. Schostok, Chairperson  
Judge Debra Walker, Vice-Chairperson and Proxy for Chief Justice Anne Burke  
Judge John C. Anderson  
Judge Charles M. Feeney (via teleconference)  
Catherine Shannon, Proxy for State Treasurer Michael Frerichs (via teleconference)

Others present:

Timothy B. Blair, Secretary  
Jeff Houch, Assistant to Secretary  
Angie Ackerson, JRS Division Manager  
Johara Farhadieh, Executive Director, Illinois State Board of Investment  
Jennifer Koelle, Investment Officer, Illinois State Board of Investment  
Dipesh Mehta, Deputy Executive Director, General Counsel and Chief Compliance Officer  
Alex Rivera, Consulting Actuary, Gabriel, Roeder, Smith & Company  
Jeff Tebeau, Consulting Actuary, Gabriel, Roeder, Smith & Company (via teleconference)

With a quorum present, Chairperson Schostok called the meeting to order at 10:08 a.m.

**PUBLIC COMMENTS**

Chairperson Schostok asked if any members of the public wished to address the Board. There were no members of the public in attendance, and no public comments were submitted.

**REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT (ISBI)**

Johara Farhadieh, ISBI Executive Director, started her presentation by announcing that ISBI was recognized by the American Investment Council as the top-performing private equity portfolio of any public pension fund in the country for the third year in a row. Of the 176 plans surveyed, she stated ISBI had the highest annualized rate of return over a 10-year period of 19.8%, net of fees, while the median return of all funds was 15.1%.

Director Farhadieh directed the Board's attention to the March 31, 2022, Performance Report and noted the portfolio's market value decreased 3.1%, underperforming the Custom Benchmark by 40 basis points and in-line with the Actual Allocation Benchmark. She indicated the Fund ranked in the 8<sup>th</sup> percentile of its public fund peer group during the quarter and was valued at approximately \$25.05 billion on March 31, 2022.

Director Farhadieh then discussed the Fund's strategic asset allocation and noted that ISBI methodically deploys assets in a public market equivalent for any private asset classes that are underweight. She added ISBI continues to maintain their investment strategy and do not react to the market as the long-term goal is to ensure a 6.75% annual return. She stated that while two-thirds of the portfolio is passively managed, ISBI's goal is to allocate the remaining 33% of assets to investment managers who consistently outperform their respective benchmarks.

Trustee Walker asked for a pause in the ISBI report and introduced Supreme Court Chief Justice Anne Burke who entered the meeting to express her appreciation to Chairperson Schostok for her 10 years of service to the Board of Trustees and members of JRS. Justice Schostok thanked Chief Justice Burke for her visit and the ISBI report resumed.

Director Farhadieh introduced Jennifer Koelle, Investment Officer – Public Markets, to provide an overview of the portfolio's performance. She began her presentation by noting the first and second quarters were challenging for the markets. She reviewed the Fund's performance for the 12-months ending March 31, 2022, noting the Fund gained 8.4%, outperforming the Custom Benchmark and Actual Allocation by 120 and 170 basis points, respectively. She stated the Fund ranked in the 7<sup>th</sup> percentile of its public fund peer group over the one-year period.

Ms. Koelle then reviewed several asset classes, noting the Fixed Income Composite returned 0.9% over the one-year period, outperforming the benchmark return of -4.2%, and the Core Fixed Income and Treasury Inflation Protected Securities Composite (TIPS) returned -3.6% and 4.3%, respectively, for the same period. Ms. Koelle noted the Multi-Asset Credit appreciated by 6.3%, while Private Credit gained 16.9%. She added that the Private Equity portfolio returned 53.4%, while Infrastructure increased 11.2%, and Real Estate returned 22.9%.

Ms. Koelle explained the portfolio's performance was impacted by underperformance in the Emerging Market Equities portfolio, which lost 5.4% but outperformed the MSCI Emerging Markets by 600 basis points. She concluded her summary of the portfolio's asset classes and turned the presentation over to Director Farhadieh.

Director Farhadieh concluded the ISBI presentation by addressing ISBI's diversity efforts and noted that 39.1% of the portfolio is under management by emerging and minority managers. She noted that ISBI attempts to provide transparency regarding MWDBE firms and concluded that approximately 24% of the assets in private equity portfolio are committed to MWDBE firms.

Chairperson Schostok asked if anyone had questions. Hearing none, she asked for a motion to approve the ISBI report. Trustee Anderson moved to approve, and the motion was seconded by Vice-Chairperson Walker. Roll call was taken, and all voted in the affirmative. A copy of the March 31, 2022, Performance Report is maintained in the ISBI office and made part of these minutes as *Exhibit A*.

## **REPORT OF CONSULTING ACTUARIES**

Alex Rivera of Gabriel, Roeder, Smith & Company presented copies of the 2021 Actuarial Experience Study and explained the purpose of the study is to determine the appropriateness of current actuarial assumptions. He indicated the conclusion is to recommend no economic assumption changes.

Mr. Rivera provided an overview of the economic assumptions, stating that the inflation assumption was evaluated using data from several independent investment consulting firms, the Social Security Administration's 2021 Report, and several federal reserve banks, including the Federal Reserve Bank of Cleveland. He indicated that annual inflation forecasts from five investment consulting firms with longer time horizons averaged 2.22 percent. Based on these findings, Mr. Rivera stated GRS recommends maintaining the current long-term inflation assumption of 2.25%.

Mr. Rivera reviewed the wage inflation and salary increase assumptions, indicating that the System's average salary increase rate over the past three years was 2.49%, which compares with the national average of 3.4%. He recommended maintaining the current assumption of 2.50% for wage growth and salary increases.

Mr. Rivera reviewed the investment return assumption, noting that the current target asset allocation and average return figures from Meketa's asset allocation review were used in their analysis. The analysis showed that over a 20-year period the probability of exceeding the 6.5% return assumption is 52%. He reviewed the survey of 12 different investment consultants and referred to the 10-year horizon chart, which indicates that the probability of exceeding the 6.5% return assumption is approximately 40%. He concluded by telling the Board that no change was recommended to the 6.5% investment return assumption.

Mr. Tebeau addressed the demographic assumptions and indicated GRS recommends adopting the most recent mortality table (Pub 2010 Above-Median Income General Retiree Table) for post-retirement mortality, with no adjustment. He indicated GRS recommends increasing the overall retirement and termination rates to reflect recent experience and maintaining the 80% marriage assumption as well as the 10% load assumption for inactive members to account for the increase in benefits that has been observed when a member transitions from inactive to retired status.

After a brief discussion, Chairperson Schostok asked for a motion to adopt the actuarial assumptions as presented. Trustee Walker moved to adopt, and the motion was seconded by Trustee Anderson. Ms. Ackerson took roll call, and all were in favor. Chairperson Schostok thanked Mr. Rivera and Mr. Tebeau and excused them from the remainder of the meeting. A copy of the Experience Review for the period July 1, 2018 through June 30, 2021, is made part of these minutes as *Exhibit B*.

## **MINUTES OF PREVIOUS MEETING**

The minutes of Meeting No. 355 held on March 25, 2022, were presented by Chairperson Schostok for approval. Copies of these minutes were previously submitted to all trustees for preliminary review. Trustee Walker motioned to approve the minutes, and the motion was seconded by Trustee Anderson. Roll call was taken, and all voted in the affirmative.

## **READING OF COMMUNICATIONS**

Justice Schostok asked Secretary Blair if there were any communications to be presented to the Board. There were no communications to report.

## **REPORT OF CHAIRPERSON**

Justice Schostok notified the trustees her current term would end on September 17, 2022, and that she had been notified she would not be reappointed for a fourth term.

## REPORT OF ANY TRUSTEE

Justice Schostok asked if there were any trustee reports. No reports were offered.

## REPORT OF SECRETARY

Final Review of FY 23 Operations Budget. Secretary Blair requested \$1,150,900, a decrease of \$4,020.00 or 0.35%, from the FY 22 budget. He noted the budget request includes a \$26,080 increase in the Personal Services line due to AFSCME steps and 3.95% COLAS in July 2022 for all employees. As a result of the increase in the Personal Services line, Secretary Blair noted a \$2,380 increase in the Retirement line and a \$2,260 increase in the FICA line. He requested a \$7,300 increase in the Group Insurance line due to expected increases in monthly premiums.

Secretary Blair said the requested increases were more than offset by a \$47,760 decrease in the Contractual line due to the full scope actuarial audit in FY 22 and the comprehensive review of all actuarial assumptions only in FY 22. He indicated the Auditor General fee was reduced by \$14,000 because there would only be a compliance in FY 23. After discussion, Chairperson Schostok asked for a motion to approve the FY 23 Operations Budget of \$1,150,900. Trustee Walker moved to approve the request and it was seconded by Trustee Anderson. Ms. Ackerson took roll call, and all were in favor.

March 31, 2022, and June 30, 2022 Financial Statements. Secretary Blair reviewed the financial statements, noting that the System's total receipts for the year were \$174.3 million, and that \$178.2 million in pension benefits were paid. He added that the System disburses \$14.8 million per month in benefits and receives approximately \$14 million in employee and employer contributions. Secretary Blair also informed the Board that JRS is now paying benefits to 975 retirees and 320 survivors.

Secretary Blair indicated \$5.8 million was transferred from the ISBI investment portfolio in FY 2022. He anticipates approximately \$25 million will need to be transferred in FY 23 due to a decrease in State contributions caused by high FY 21 investment returns. Secretary Blair explained that JRS maintains a smaller cash balance in the Treasurer's overnight portfolio as the Comptroller's Office has paid monthly contributions in a very timely manner and has stated its intentions to continue doing so. He added that 93 payments are being paid monthly from the Excess Benefit Fund, which is funded when a portion of the monthly employer contribution is periodically directed to this fund.

Trustee Walker moved to approve the March 31, 2022, and June 30, 2022, financial statements. The motion was seconded by Trustee Anderson. Roll call was taken, and all were in favor. Official copies of these Financial Statements have been made a part of these minutes as *Exhibit C*.

FY 2023 Funding Update. Secretary Blair informed the Board that the Comptroller's Office is current in making the State contributions and that there have been no delayed payments in FY 22. He noted the August payment was received Friday, July 22, 2022.

Automatic Annual Increases for Tier 2 Judges Policy. Mr. Houch presented a proposed policy to clarify when a retired Tier 2 judge becomes eligible for the first annual automatic increase (AAI). He added that Section 18-125.1 of the Pension Code provides that for a Tier 2 judge to receive an AAI to his or her annuity, he or she must attain age 67 and be retired for at least a year. He noted that because pension payments are generally issued on the 19<sup>th</sup> of each month, staff proposes clarifying that judges must meet these requirements by January 1<sup>st</sup> of the calendar year in which the AAI is awarded.

He provided the examples that if a Tier 1 judge separates from service on December 31, 2022, and attains age 67 on December 1, 2023, he or she would receive the first increase effective January 1, 2024. However, if a Tier 2 judge separates from service on December 31, 2022, and attains age 67 on January 2, 2024, he or she would receive the first increase effective January 1, 2025.

Service Credit Purchases of Court of Claims Service Policy. Mr. Houch directed the trustees to a proposed policy seeking to clarify that a judge who purchases JRS service credit for service as a Court of Claims judge (Section 18-112(d)) must provide proof that he or she has accepted a refund from SERS for their service to complete the service credit establishment with JRS. He added that Section 20-120 of the Illinois Pension Code provides that a member of a public retirement system cannot accrue duplicate service credit in multiple systems for the same service, and such policy will ensure compliance.

Board Officers Annual Elections and Roles Policy. Mr. Houch noted that since the creation of the Judges' Retirement System, the Board has elected a Chairperson and Vice-Chairperson annually. He stated that the roles of officers are not defined in statute or board policy. Mr. Houch stated that staff is recommending that the Board amend its policies by defining the roles of these positions as well as the process of electing trustees to those positions.

After a brief discussion regarding the proposed policies, Trustee Walker motioned to approve the Automatic Annual Increases for Tier 2 judges policy, the Service Credit Purchases of Court of Claims Service policy, and the Board Officers Annual Elections and Roles policy as presented by Mr. Houch. Trustee Anderson seconded the motion. Ms. Ackerson took roll call, and all voted in the affirmative.

## **REPORT OF DIVISION MANAGER**

Annuities and Refunds for Approval. Angie Ackerson, Division Manager, reported that since the last meeting, six retirement annuities totaling \$67,326.00 per month and five survivor annuities totaling \$52,878.38 per month had been processed. One death after retirement refund in the amount of \$18,693.74, one termination refund in the amount of \$77,912.99, four survivor annuity contribution refunds totaling \$175,538.72, and five error refunds totaling \$16,127.22 had been processed. There being no questions, Trustee Walker moved to approve the annuities and refunds as presented. The motion was seconded by Trustee Anderson. Roll call was taken, and the motion passed unanimously.

Deaths of Members. Ms. Ackerson reported the deaths of seven JRS members since the March meeting. This report is made a part of these minutes as *Exhibit D*.

## **OLD BUSINESS**

No old business was reported.

## **NEW BUSINESS**

Justice Mary Schostok Board Resolution. Trustee Walker presented Chairperson Schostok with a board resolution honoring her service on the Board. Trustee Walker read the resolution and expressed her appreciation to Chairperson Schostok. Trustee Anderson motioned to approve the resolution and Trustee Walker seconded it. Roll call was taken, and all voted in favor.

**ADJOURNMENT**

There being no further business to be brought before the Board, Trustee Walker moved to adjourn at 11:15 a.m. Her motion was seconded by Trustee Anderson, and all were in favor.

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Timothy B. Blair, Secretary

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

APPROVED:

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Chairperson