

**JUDGES' RETIREMENT SYSTEM OF ILLINOIS
MEETING NO. 353**

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

October 29, 2021

The annual meeting of the Board of Trustees of the Judges Retirement System of Illinois was held on Friday, October 29, 2021, at 10:00 a.m. in the System's Springfield Office at 2101 S. Veterans Parkway, Springfield, Illinois 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:

Justice Mary S. Schostok, Chairperson
Judge Charles M. Feeney
Judge Debra Walker, Proxy for Chief Justice Anne Burke
Judge John C. Anderson
Catherine Shannon, Proxy for State Treasurer Michael Frerichs

Others present:

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

Chairwoman Schostok called the meeting to order at 10:00 a.m. Secretary Blair noted per Public Act 101-0640 and the ongoing COVID-19 public health emergency, it was not prudent to conduct the JRS Board meeting in person and that it would be conducted by virtual means. He also noted for the record that pursuant to the Public Act, the system's Administrative Secretary and General Counsel were physically present at the office. JRS Manager Angie Ackerson called the roll, and a quorum was present.

Chairwoman Schostok welcomed recently appointed Judge Feeney to the Board and asked him to introduce himself. Judge Feeney noted he has served twenty-one years on the bench in the 11th Circuit.

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT (ISBI)

Johara Farhadieh, ISBI 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 second year in a row. She added the Fund has grown approximately 42% in the last five years.

Director Farhadieh directed the Board's attention to the ISBI June 30, 2021, Performance Update and stated the portfolio returned 25.8% in FY 21 and totaled almost \$24.8 billion on June 30, 2021. She then

highlighted the actual allocation of assets in comparison to the policy allocation approved by ISBI. 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. She concluded her portion of the presentation by briefly reviewing ISBI's asset deployment strategy regarding active versus passive exposure in the portfolio.

Director Farhadieh then turned the presentation over Jennifer Koelle, ISBI Investment Officer, to review the performance of individual asset classes. She began by pointing out the Fixed Income portfolio returned 5%, net of fees, for the year ended June 30, 2021, outperforming the benchmark during the period by 3.9%. Ms. Koelle added the Core Fixed Income portfolio and the Treasury Inflation Protected Securities Composite (TIPS) returned -2.3% and 6.5%, respectively, while the Multi Asset Credit portfolio returned 18.2%, outperforming the benchmark by 4.5%. She then noted the Private Credit portfolio returned 19.4%, outperforming the benchmark by 10%, and the Global Equity portfolio returned 43.2%, beating the index by 2.3%. The U.S. Equity portfolio gained 43.4%, lagging the broad U.S. equity market by 80 basis points.

Ms. Koelle continued her report by informing the Board the Non-U.S. Equity portfolio returned 39.2% for the 12 months ended June 30, 2021, 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 review 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%.

Chairperson Schostok thanked Director Farhadieh and Ms. Koelle for their reports and excused them from the remainder of the meeting. Secretary Blair stated that Section 7(e)(6) of the Open Meetings Act requires all votes to be conducted by roll call, so each member's vote on each issue can be identified and recorded. Trustee Walker moved to approve the ISBI report, and Trustee Shannon seconded the motion. Ms. Ackerson took roll call, and the motion was approved unanimously. 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 JRS actuarial valuation. Mr. Rivera stated the purpose of the actuarial valuation is to measure the funded status of the System on June 30, 2021, and to determine the State's contribution rate for FY 23. He added that Public Act 100-0023, effective July 6, 2017, modified the State's funding policy to smooth State contribution rate increases or decreases due to changes in actuarial assumptions, including the investment return assumption, over a five-year period in equal annual amounts.

Mr. Rivera continued his report and noted the current statutory funding policy is intended to produce a 90% funded status by 2045 and indicated 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 the recommended assumptions beginning with the June 30, 2022, actuarial valuation. Mr. Rivera turned the presentation over to Jeff Tebeau to review additional details of the valuation results.

Mr. Tebeau began his presentation by stating that the exceptional FY 21 investment gains increased the funded status by eight percent and decreased the State's contribution requirement by \$9.7 million. He stated that the market value funded ratio increased from 39.04% ending June 30, 2020, to 47.15% as of June 30, 2021, and the required State contribution decreased from \$152.4 million in FY 22 to \$142.7 million in FY 23. The accrued liability as of June 30, 2021, increased slightly from \$2.85 billion to \$2.92 billion as of June 30,

2021, and the market value of assets on June 30, 2021, was just over \$1.37 billion, resulting in a funded ratio of 47.15%. He referred the Board to a slide showing the funded ratio is expected to slowly increase until FY 33, and then rapidly increase after FY 34 to reach 90% funded in FY 45.

Mr. Tebeau continued his report by pointing out that net cash flow is expected to be negative due to benefits and expenses exceeding State and employee contributions and added that from FY 22 to FY 33, the percentage of investment income needed to pay ongoing benefits is projected to increase from approximately 25% to 93%. He noted the FY 2023 Actuarially Determined Contribution is \$174.9 million, which is \$32.2 million higher than the amount calculated under the statutory funding plan. Mr. Tebeau turned the presentation over to Ms. Heidi Barry to review the data used in the valuation.

Ms. Barry began her report by stating the active judge population had remained stable during FY 21, with 944 active judges as of June 30, 2021, compared to 947 active judges as of June 30, 2020. She stated the uncapped earnings increased from \$193.42 million on June 30, 2020, to \$197.89 million on June 30, 2021. Ms. Barry then reported average annual earnings increased from \$204,243 to \$209,634 from FY 20 to FY 21 and stated the System was paying 951 monthly retirement benefits, an increase of 20 since June 30, 2020, and 347 survivor benefits. She concluded her report by asking if there were any questions regarding the actuarial valuation or the preliminary FY 23 State contribution certification.

Seeing there were no questions, Secretary Blair addressed the Board to request they preliminarily certify the FY 23 State Contribution of \$142.659 million, or 91.911% of projected payroll, with approximately \$31.3 million for the employer's portion of the expected normal cost and the additional \$111.325 million for the unfunded liabilities. Following a review of projected benefits and contributions over the remainder of the funding plan, Trustee Walker moved to accept the draft valuation and preliminarily certify the \$142.659 million in FY 23 employer contributions. Trustee Anderson seconded the motion. Ms. Ackerson took roll call, and the motion was approved unanimously. Chairperson Schostok 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 JRS office and made part of these minutes as *Exhibit B*.

APPEAL OF MICHAEL GALLAGHER

Secretary Blair informed the Trustees that a retired justice, Michael Gallagher, requested a personal hearing before the Board to request revocation of his irrevocable 1988 election to not participate in the JRS survivor annuity. Secretary Blair explained to the Board that when Justice Gallagher became a judge on November 1, 1988, he was legally married but in the process of getting a divorce, which was finalized on October 12, 1989. Justice Gallagher completed an irrevocable election not to participate in the survivor's annuity provisions and his employee contributions were reduced to 8.5% of earnings. Because he was legally married at the time of his election to decline participation in the JRS survivor's annuity, the election was irrevocable and there is no statutory authority to allow him to revoke that election. Justice Gallagher contacted JRS in 2008 and again in 2021 to inquire about reinstating survivor benefits for his spouse. Staff declined his request because he signed the irrevocable election in 1988.

Justice Gallagher came before the Board to appeal to revoke his 1988 election to not participate in the survivor annuity benefit. He acknowledged that he signed a form stating he understood he would be ineligible to participate in the survivor annuity at any future time and that he thought the form only applied to his current spouse who he was divorcing. Judge Gallagher indicated there was no other option but to contribute as a married judge, adding that he didn't elect to rescind his prior election not to participate in the survivor's annuity provision during a window that ended on April 1, 1998, because he was not married at that time.

After a discussion between Justice Gallagher and the Trustees, Chairperson Schostok dismissed Justice Gallagher from the meeting. Secretary Blair told the Board a recommendation would be prepared by the System's General Counsel, to be considered by the Board at the January meeting.

MINUTES OF PREVIOUS MEETING

The minutes of Meeting No. 352 held on July 30, 2021, were presented by Chairperson Schostok for approval. Copies of these minutes were previously submitted to all trustees for preliminary review. Trustee Walker made a motion to approve the minutes, and the motion was seconded by Trustee Shannon. Ms. Ackerson took roll call, and the motion was approved unanimously. Judge Feeney abstained from voting since he was not a trustee for the meeting held July 30, 2021.

ELECTION OF 2022 OFFICERS

Chairperson Schostok announced the election of 2022 officers was in order and opened the meeting for nominations. Judge Walker asked Justice Schostok if she was willing to continue to serve as Chairperson. Chairperson Schostok confirmed she was willing to serve, and Trustee Walker moved to nominate Chairperson Schostok as Chairperson in 2022. Chairperson Schostok then nominated Trustee Walker as Vice-Chairperson and Timothy Blair as Administrative Secretary. The nominations were seconded by Trustee Anderson.

Ms. Ackerson took roll call, and the votes resulted in the unanimous re-election of Chairperson Schostok as Chairperson of the JRS Board of Trustees, Judge Walker as Vice-Chairperson of the JRS Board of Trustees, and Timothy Blair as JRS Administrative Secretary for calendar year 2022.

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

Chairperson Schostok offered no report.

REPORT OF ANY TRUSTEE

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

REPORT OF SECRETARY

Financial Statements of September 30, 2021. Secretary Blair reviewed the financial statements for the quarter that ended September 30, 2021. He noted that during the quarter JRS had total receipts of \$38.1 million, disbursements of \$43.5 million, and a cash balance of \$17.9 million. Secretary Blair reported 963 retirement annuities were paid each month, which exceeds the number of sitting judges. He continued by reporting the System is paying 317 survivors and 29 QILDRO alternate payees each month. Secretary Blair also reported the System is paying 120 excess benefits to judges and expects the current Excess Benefit Fund balance will be sufficient to pay the remaining benefits for FY 2022.

Secretary Blair informed the Board that there have been no funds withdrawn from the ISBI portfolio in FY 22, as State contributions continue to be received on a timely basis. He added that he projects the need to withdraw up to \$11.5 million from ISBI in FY 22, if there are State contribution delays in months that are historically low receipting months. He explained the decreased participant contributions in the 1st and 2nd quarters of FY 22 are a result of Tier 2 judges meeting the 2021 annual salary maximum, \$126,375.12.

At the conclusion of Secretary Blair's presentation, Chairperson Schostok asked if there was a motion to approve Secretary Blair's presentation of the financial statements. Trustee Walker moved to approve the September 30, 2021 financial statements. The motion was seconded by Chairperson Schostok. Ms. Ackerson took roll call, and the motion was approved unanimously.

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

2022 Meeting Dates. Secretary Blair presented the proposed calendar year 2022 meeting dates. Chairperson Schostok asked if all trustees had reviewed the meeting dates for 2022: January 14; March 25; July 29; and October 28. All meetings will begin at 10 a.m. in Room N-1810 of the Bilandic Building, 160 North LaSalle Street, Chicago, unless a disaster proclamation requires meetings to be held by videoconference. After a brief discussion, Judge Walker made a motion to approve the 2022 meeting dates; the motion was seconded by Judge Anderson. Ms. Ackerson took roll call, and all were in favor.

FY 2022 Funding Update. Secretary Blair informed the Board that the System has received all required employer contributions for FY 22, noting the Comptroller's Office is current in making the State contributions and the November contribution has already been received.

REPORT OF THE MANAGER

Annuities and Refunds for Approval. Ms. Ackerson presented fifteen retirement annuities processed since the last Board meeting totaling \$174,588.86 per month and five survivor annuities processed totaling \$50,661.73 per month. A review of the refunds for approval included one termination refund and five error refunds, totaling \$2,136.79. Following a brief discussion, Trustee Walker moved for approval of the annuities and refunds as presented. Trustee Anderson seconded the motion. Ms. Ackerson took roll call, and the motion was approved unanimously.

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

OLD BUSINESS

Judge Anderson opened a discussion regarding a recent email sent to members of the Illinois Judges' Association (IJA) that included a fact sheet regarding possible legislative action during the Fall veto session to allow Tier 2 judges who have Tier 1 reciprocal service to be recognized as Tier 1 judges. He suggested contacting the Pension Committees in each chamber and providing an actuarial study to show how this legislation would financially impact JRS and the State. He reminded the Board that they had authorized a 2019 actuarial study to identify the impact to the System should such legislation become law.

Secretary Blair indicated it would cost \$4,500 to update the study and it could be completed before the 2022 spring legislative session. After discussion, the Trustees voted on spending \$4,500 to update the actuarial study or use the 2019 study if legislation is filed. A vote was taken, and four Trustees voted against spending the additional funds to update the existing 2019 study while one voted in favor.

NEW BUSINESS

No new business was reported.

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.

ADJOURNMENT

There being no further business to be brought before the Board, Trustee Walker moved to adjourn at 11:45 a.m. Her motion was seconded by Trustee Anderson. Chairperson Schostok reminded trustees that the next Board meeting is scheduled for Friday, January 14, 2022, at 10 a.m., and the meeting adjourned.

Timothy B. Blair, Secretary

Date: _____

APPROVED:

Chairperson Mary S. Schostok