

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

MINUTES OF A REGULAR MEETING
OF THE BOARD OF TRUSTEES

April 26, 2022

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, April 26, 2022, at 10:05 a.m. in the System's Springfield office located at 2101 South Veterans Parkway. To protect the health of staff, trustees, and members of the public during the COVID-19 pandemic, this meeting was held electronically from the SERS administrative office in Springfield, as allowed under Section 7 of the Open Meetings Act (5 ILCS 120/7).

The following trustees were in attendance in the Springfield office:

David Morris, Vice-Chairperson
Mark Donovan, Appointed Trustee
Jameson Ramirez, Appointed Trustee
Danny Silverthorn, Appointed Trustee

The following trustees were in attendance by videoconference:

Susana A. Mendoza, Chairperson
Barbara Baird, Elected Retired Trustee
Tad Hawk, Elected Active Trustee
Ray Koenig III, Appointed Trustee
Jack Matthews, Elected Active Trustee
John Tilden, Elected Retired Trustee
Melverta Wilkins, Appointed Trustee

Absent:

Carl Jenkins, Appointed Trustee

Others in attendance were:

Timothy Blair, Executive Secretary
Alan Fowler, Manager, Accounting Division
Robert Cooper, Manager, Administrative Services Division
Casey Evans, Chief Internal Auditor
Jeff Houch, Assistant to Executive Secretary
Jessica Blood, Recording Secretary
Chris Maley, Illinois Office of the Comptroller
Andrew Ranck, Illinois Office of the Comptroller
Johara Farhadieh, Executive Director, Illinois State Board of Investment
Scott Richards, Senior Investment Officer, Illinois State Board of Investment
Deneen Taylor, Illinois Federation of Teachers
Martha Merrill, AFSCME Council 31

Sally Cray, SERS Retiree
Debbie Bault, SERS Retiree
Kimberly Beachy, SERS Retiree
Arnold Black, Elected Active Trustee Candidate
Paula Williams, Member of the Public

Chairperson Mendoza called the meeting to order at 10:05 a.m. with a quorum present.

INTRODUCTION OF NEW APPOINTED TRUSTEES

Chairperson Mendoza introduced three new trustees who were recently appointed by Governor Pritzker. Trustees Mark Donovan, Ray Koenig III and Melverta Wilkins each shared a brief introduction of themselves with the Board.

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT

Johara Farhadieh, Executive Director of the Illinois State Board of Investment (ISBI), began her presentation by addressing the conflict in Ukraine and informing the Board that ISBI's exposure to Russian companies is approximately \$40,000 in assets. She added that ISBI has no direct holdings with Russian based companies. Director Farhadieh then gave a brief educational background of ISBI's structure, function, and investment philosophy for the new trustees. She then turned the presentation over to Scott Richards, ISBI Senior Investment Officer, to review the performance of the portfolio and various asset classes.

Mr. Richards began his report by noting that the portfolio had a 14.9% return during the year ending December 31, 2021, which is a 2.5% excess return relative to the custom benchmark. Mr. Richards stated the fixed income portfolio had a 3.2% return for the year ending December 31, 2021, exceeding the benchmark of -1.1%.

Mr. Richards continued by reporting the Global Equity composite delivered a 21.1% return for the one-year period and beat the benchmark by 2.9%, while the U.S. Equity composite returned 24.3% and trailed the benchmark by 1.4%. For the period, the domestic factor composite returned 23.3%, but lagged the custom benchmark by 3.2%. Mr. Richards noted the Non-U.S. Equity composite returned 9.4%, beating the benchmark by .9%.

Mr. Richards stated that the Developed Foreign Equity composite returned 13%, outperforming the benchmark by 1.7% for the one year ending December 31, 2021. The Emerging Markets Equity composite returned 2.9% which outperformed the benchmark of -2.5%. The Private Equity composite had strong performance with a return of 55.8%. The Infrastructure composite returned 11.5%, slightly beating the benchmark of 10.8%. Mr. Richards noted the Real Estate composite returned 19.7%, significantly outperforming the benchmark by 6.1% and attributed this performance to the portfolio being overweight to industrial and underweight to retail property.

Mr. Richards concluded his report by offering to answer any questions from the Board. Trustee Ramirez inquired whether ISBI has considered requesting racial equity audits of

companies that it invests assets with to ensure governance to increase equity and address social justice issues. Director Farhadieh responded that ISBI is familiar with the efforts around racial equity audits. She added that ISBI works closely with BlackRock investments, adding that they were one of the first institutions to agree to a racial equity audit. Director Farhadieh noted that ISBI has a proxy voting policy to support diversity across various public entities, a strong diversity policy and continues to advocate for these efforts in the financial industry.

Trustee Hawk moved to approve the ISBI Quarterly Review for the period ended December 31, 2021. Trustee Silverthorn seconded the motion, which passed unanimously by roll call vote. A copy of the report is maintained in the SERS office and made a part of these minutes as *Exhibit A*.

CONSIDERATION OF ACTIVE MEMBER TRUSTEE APPLICATIONS

Executive Secretary Blair reminded the Board that active Trustee Stephen Mittons retired December 31, 2021 and discussed the process by which active member trustee vacancies are filled by the Board. He then introduced Arnold Black, who was the only active member trustee candidate that met all the requirements to be considered.

Vice-Chairperson Morris moved to elect Arnold Black as an active member trustee. The motion was seconded by Trustee Ramirez and passed unanimously by roll call vote.

MINUTES OF THE JANUARY 11, 2022 BOARD MEETING

The minutes of the Board meeting held January 11, 2022, were presented to the trustees by Chairperson Mendoza. Copies of these minutes were previously provided to each trustee for review. Trustee Hawk moved to approve the minutes and Trustee Tilden seconded the motion. A roll call vote was taken, and the motion passed unanimously.

REPORT OF CHAIRPERSON MENDOZA

Chairperson Mendoza began her report by informing the Board that the state no longer has a bill backlog. She stated that the state's liabilities currently reflect the ongoing processing of bills which averages \$2.5 billion each month. Chairperson Mendoza added that statutory fund deposits known as transfers would be made as the need arises for each respective state fund.

Chairperson Mendoza noted that the state's current accounts payable is \$2.4 billion. One year ago, it was \$3.7 billion and two years ago it was \$7.5 billion after adjusting for Debt Transparency Act agency reports.

Chairperson Mendoza shared that the Comptroller's office has worked to grow the state's budget stabilization fund from the worst in the nation at \$60,000 to \$427 million, a 711,000% increase. She noted that this fund is still far from where it should be at 5-7.5% of state revenues, or \$2-\$3.5 billion, but added the legislature appropriated \$1 billion to the

fund. Chairperson Mendoza stated that she is working to pass legislation that will create automatic deposits to the budget stabilization fund and the pension stabilization fund.

Chairperson Mendoza reminded the Board that her office paid the final payment on funds borrowed from the Federal Reserve's Municipal Liquidity Facility in January 2022. The payment was nearly two years ahead of schedule and saved taxpayers \$82 million in interest costs. Chairperson Mendoza added that in March 2022 her office paid off the final \$297 million of the \$1.5 billion in inter-fund borrowing used to meet the state's obligations between August 2017 and April 2020.

Chairperson Mendoza stated that paying SERS vouchers as quickly as possible each month continues to be a priority for her office, noting that the vouchers were paid ahead of schedule again in April 2022. She added that the legislature had approved \$300 million in additional funding for the pension systems for the current fiscal year, which her office transferred to the pension stabilization fund. Approximately \$64.8 million of those funds is for SERS.

Chairperson Mendoza informed the Board that the state had received its third credit upgrade in less than one year. These mark the first credit upgrades for the state since June 2000, which was followed by 26 credit downgrades.

Chairperson Mendoza reminded the Board that, at the highest point of the bill payment cycle, the oldest voucher was 210 business days old. The current bill payment cycle continues to be well within the thirty-day window, with the oldest voucher being 14 business days old.

Chairperson Mendoza concluded by stating that her office would continue to work toward further credit upgrades for the state and offered to answer any questions.

Trustee Donovan inquired whether each credit upgrade corresponds to basis points or if there was a historical precedent on what they represent. Chairperson Mendoza stated the upgrades translate to lower interest rates, adding that her office went from paying 12% to 3.5% interest on nearly \$17 billion in debt after the first credit upgrade.

Trustee Hawk thanked Chairperson Mendoza for her work and added that he was very proud of what her office has accomplished. In closing, Chairperson Mendoza stated that the paying down of the bill backlog and two of the state's credit upgrades had been accomplished before any federal stimulus money had been received by the state. She added that the work would not have been accomplished without her team, and a legislature and governor that are working toward a better fiscal future for the state.

REPORT OF ANY TRUSTEE

Chairperson Mendoza asked if any trustee would like to offer a report. Trustee Hawk thanked the Board and Executive Secretary Blair for their support and condolences after the passing of his spouse.

REPORT OF AUDIT & COMPLIANCE COMMITTEE

Chief Internal Auditor Casey Evans began his report by reminding the Board of their obligation to submit annual financial disclosure statements and to complete the ethics and sexual harassment discrimination training. He added that there had been changes to the Open Meetings Act training due to the pandemic and advised the Board to review the training as a refresher.

Mr. Evans reported that at a meeting held prior to the Board meeting, the committee discussed continued internal control and fraud risks as well as a revised FY22 audit plan, which was approved.

Mr. Evans discussed the reconciliation of the retirement system's census data, adding that his office is working with all agencies to ensure that member demographics and payroll information submitted to SERS are correct. Mr. Evans informed that Board this continues to be a concern on a national level with regards to skewing actuarial liability, adding that this issue was a statewide audit finding. Mr. Evans noted that 61% of the active members' data has been reconciled with a very low error rate. He stated that the external auditors had tested a three-year period of data and found minimal issues, resulting in no findings for SERS for fiscal years 2019, 2020 and 2021.

Mr. Evans noted that SERS is working to finalize an external financial audit as well as an external compliance audit, adding that he should have an update on these audits for the Board at their July 2022 meeting.

Mr. Evans concluded his report by noting that SERS now has a complete Board of Trustees, which resolves an ongoing audit finding. He offered to answer questions regarding his report. No questions were offered.

REPORT OF RULES AND PERSONNEL COMMITTEE

Jeff Houch, Assistant to the Executive Secretary, summarized the Rules and Personnel Committee's April 25, 2022, meeting, noting the Committee authorized approval of two rule provisions.

Mr. Houch stated the first rule strengthens compliance with the IRS code and codifies the rollover of pre-tax payments from SERS can only be made to pre-tax accounts.

Mr. Houch stated that the second provision would apply the same methodology that is currently used to offset disability benefit amounts for offsetting survivor benefits when beneficiaries are also receiving occupational death benefits from workers' compensation.

Mr. Houch concluded the report by offering to answer any questions. No questions were offered.

Vice-Chairperson Morris added that the Committee had completed Executive Secretary Blair's annual evaluation.

REPORT OF THE EXECUTIVE SECRETARY

Preliminary FY 23 Operations Budget Request. Secretary Blair presented the preliminary FY 23 operations budget request, noting an increase of \$314,638 or 1.83%, over the FY 22 budget. He noted the increase was due to several factors, including a \$420,315 increase in the Personal Services line for CBA step increases and the 3.95% COLA increase for all employees in July 2022. He pointed out a \$49,332 increase in the Retirement line due to the increase in the Personal Services line, which was partially offset by the SERS employer contribution rate decreasing from 56.169% in FY22 to 53.258%. Secretary Blair also noted a \$225,000 increase in the Group Insurance line, which reflects a shortfall of \$150,000 in FY 22 and a projected increase of \$75,000 from the FY 22 amount.

Secretary Blair noted that SERS has begun in-person counseling for members with safeguards in place due to the ongoing pandemic. He added that members are still overwhelmingly choosing remote counseling.

Secretary Blair stated that SERS will begin to hold workshops in May at half capacity at the Springfield office and that membership has expressed high interest in registering. He added that a virtual option would be offered starting in June 2022.

Trustee Baird inquired what workshops were being conducted and whether they would be held in Chicago. Secretary Blair responded that SERS is struggling with scheduling in Chicago due to major renovations on the Bilandic Building but is working with agencies to expand options. He added that the Countdown to Retirement workshop is primarily being conducted to focus on members nearing retirement. Trustee Baird suggested Schaumburg as a potential location for workshops in the future.

Trustee Ramirez inquired how this budget request compared to previous years. Secretary Blair directed the Board's attention to the meeting booklet that shows the budget comparison since 2015. Trustee Ramirez then moved to approve the preliminary FY23 operations budget request as submitted. The motion was seconded by Trustee Silverthorn and passed unanimously by roll call vote. A copy of this budget request is maintained in the SERS office and made a part of these minutes as *Exhibit B*.

Review of Actuarial Audit of June 30, 2020 Valuation. Secretary Blair directed the Board's attention to the results of the actuarial audit of the June 30, 2020 valuation, which found that the valuation results were reasonable with no major deficiencies. Secretary Blair added that the auditing actuary made several recommendations that were considered and agreed upon by the state's actuaries. However, many of these recommendations require legislation changes. Secretary Blair informed the Board that these audits would be conducted on a five-year cycle.

FY22 Funding Update. Secretary Blair told the Board that SERS had received the \$65 million in extra funding from the pension stabilization fund that morning.

IDOC and ISBE Compensation Issues. Secretary Blair informed the Board that non-wage payments made to employees under SERS are not pensionable under statute. SERS discovered in 2016 that the Illinois Department of Corrections (IDOC) had been making significant payments for accumulated holiday time and reporting those payments to SERS as pensionable earnings. This has resulted in thousands of pensions being recalculated and reduced.

In January 2022, SERS became aware that the Illinois State Board of Education (ISBE) had an “Accelerated Compensation for Retirement” plan whereby payments for unused sick and vacation days were spread out over the last 2 to 3 years of employment when employees signed an agreement to retire. It has always been SERS’ contention that payouts for unused benefit time should not be pensionable. Secretary Blair added that several members have appealed the resulting recalculation of their pensions through formal hearings with the SERS Executive Committee and these hearings are ongoing.

Trustee Donovan inquired whether these appeals would be cleared up by the end of the current fiscal year. Secretary Blair responded that the Executive Committee would act on the appeals at the June or July meeting. Trustee Donovan further inquired what the financial liability might be if SERS loses these appeals. Secretary Blair responded that the amount is not material for ISBE, but for IDOC it could be significant.

Trustee Ramirez inquired about precedent and whether the liability might become material in the future. Secretary Blair responded that IDOC is one of the largest agencies.

Trustee Baird inquired as to why these payments are not allowed since lump sum payments for lump sum sick and vacation have traditionally been allowed to have contributions taken for additional service credit. Jeff Houch clarified that these payments were made in a way that ISBE felt avoided the prohibition on these payments being included in employees’ final average compensation.

Trustee Tilden asked whether the IDOC issue transpired on a facility or agency level. Secretary Blair responded that the issue was widespread. Trustee Tilden then asked whether SERS has any safeguards to prevent this from happening. Secretary Blair responded that SERS previously did not have the ability to differentiate these payments from other large payments that are legitimately pensionable, such as overtime. He added that SERS can now determine whether large payments are pensionable. Trustee Tilden asked how many retirees were affected and Secretary Blair responded that he would provide that information to the Board.

Back Wage Claims Update. Secretary Blair stated that, since partially automating the vouchering of these adjustments in late 2020, the system processed and paid 2,620 adjusted benefits, along with 300 to 400 manual adjustments. He added that, while no payments

could be made in December and January, staff were still able to process 260 adjustments in February, 120 in March and 50 in April. Secretary Blair noted that staff are now processing adjustments for members who retired in June 2017 and that approximately 2,300 adjustments remain to be processed.

Chairperson Mendoza inquired how much longer the adjustments might take. Secretary Blair responded that approximately 1,500 adjustments were processed between April and October 2021 and projected a completion date of spring or summer 2023.

Buyout Update. Secretary Blair stated that nearly 10,000 members had made an election regarding the COLA buyout program. Almost 26.2%, or 2,283 members, chose a lump sum payment at retirement, with a total payout of \$257.8 million. He stated the participation rate continues to be higher among alternative formula payees, at nearly 40%, with non-coordinated alternative formula members participating at a 44.1% rate. Secretary Blair reminded the Board that each buyout payment reduces SERS' liability due to the funding for the program coming from bonding. He noted that participation in the total buyout program is much lower with just 87 members electing to participate at a total payout of \$12.7 million.

Legislative Update. Jeff Houch reported on legislation the system is currently monitoring. Public Act 102-0696 is an FY 22 supplemental appropriation that provides approximately \$65 million in addition to the certified amount due to SERS for FY 22.

Mr. Houch stated that the Governor also signed Public Act 102-0698 which appropriates an additional \$43 million to SERS through the Pension Stabilization Fund for FY 23 as well as adjusts the appropriation amount for FY 22 to reflect the increased payroll and contributions due for that fiscal year.

Mr. Houch then summarized House Bill 4292, which extends the expiration date of the accelerated pension benefit payment programs to June 30, 2026 and increases the bond authorization to fund these programs by \$1 billion. He added that he expects the legislature to continue to extend these programs given their popularity.

Mr. Houch continued by discussing House Bill 1568, which lowers the alternative formula Tier 2 retirement age for various law enforcement personnel from age 60 to 55, providing these members have 20 years of service credit.

REPORT OF ACCOUNTING DIVISION MANAGER

Alan Fowler, Accounting Division Manager, presented the financial statements for the second quarter of FY 22. He stated that the system saw an increase of approximately \$100 million in state contributions due to the timing of GRF contributions by the Comptroller's Office and an increase in hiring. He noted that the retirement annuities this quarter increased approximately \$33 million compared to the same quarter of the previous fiscal year, primarily due to the 3% COLA. Mr. Fowler concluded his report by offering to answer any questions from the Board.

Trustee Hawk moved approval of the second quarter FY 22 financial statements as presented. The motion was seconded by Trustee Koenig. A roll call vote was taken, and the motion passed unanimously. A copy of the financial statements is made a part of these minutes as *Exhibit C*.

APPROVAL OF EXECUTIVE COMMITTEE MINUTES

All trustees had previously been furnished with copies of the December 2021 and January, February, and March 2022 Executive Committee minutes for review. There being no changes, Trustee Silverthorn moved to approve the minutes. Trustee Hawk seconded the motion. A roll call vote was taken, and the motion passed unanimously.

OLD BUSINESS

Chairperson Mendoza asked if there was any old business. There was no old business.

NEW BUSINESS

Chairperson Mendoza asked if there was any new business. There was no new business.

PUBLIC COMMENTS

Chairperson Mendoza asked if there were any members of the public who wished to address the Board. There were no members of the public who wished to address the Board.

ADJOURNMENT

There being no further business, Chairperson Mendoza asked for a motion to adjourn. Trustee Hawk moved to adjourn. Trustee Donovan seconded the motion, which passed unanimously by a roll call. The meeting adjourned at 12:07 p.m.

Susana Mendoza, Chairperson

Date: _____

ATTEST:

Timothy Blair, Executive Secretary

Date: _____