

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

MINUTES OF THE REGULAR MEETING
OF THE BOARD OF TRUSTEES

July 26, 2022

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, July 26, 2022, at 10:00 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 by videoconference:

Susana A. Mendoza, Chairperson
David Morris, Vice-Chairperson
Barbara Baird, Elected Retired Trustee
Arnold Black, Elected Active Trustee
Tad Hawk, Elected Active Trustee
Ray Koenig, Appointed Trustee
Jack Matthews, Elected Active Trustee
Jameson Ramirez, Appointed Trustee
John Tilden, Elected Retired Trustee

Absent:

Mark Donovan, Appointed Trustee
Carl Jenkins, Appointed Trustee
Danny Silverthorn, Appointed Trustee
Melverta Wilkins, Appointed Trustee

Others in attendance were:

Timothy Blair, Executive Secretary
Alan Fowler, Manager, Accounting Division
Casey Evans, Chief Internal Auditor
Jeff Houch, Assistant to Executive Secretary, via teleconference
Robert Cooper, Manager, Administrative Services Division
Jessica Blood, Recording Secretary
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 & Co.
Heidi Barry, Consulting Actuary, Gabriel, Roeder, Smith & Co.
Jeff Tebeau, Consulting Actuary, Gabriel, Roeder, Smith & Co.
Chris Maley, Illinois Office of the Comptroller
Martha Merrill, AFSCME Council 31

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

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT

Johara Farhadieh, Executive Director of the Illinois State Board of Investment (ISBI), began the ISBI presentation by informing the Board that ISBI ranked first among domestic public funds in private equity performance for the third year in a row. She stated that the total portfolio returned 8.4% of the 12-month period ending March 31, 2022, placing it in the top decile for public funds for that period. However, the first quarter of Calendar year 2022 saw a loss of 3.1% and the return for Fiscal Year 2022 as of March 31, 2022, is 1.1% and trails the benchmark by 1.2%.

Director Farhadieh directed the Board's attention to chart which compares the actual asset allocation and the targeted asset allocation, noting that establishing a target asset allocation and seeking to achieve that allocation in the portfolio is the primary role of ISBI and significantly influences the portfolio's performance. She reminded the Board of ISBI's "barbell approach" which incorporates ownership of risk-on assets to ensures exposure to high yields during favorable market conditions but protects the portfolio during down markets by ownership of risk-off assets.

Director Farhadieh noted that we are experiencing a unique market due to the recent underperformance in both the equity and fixed income markets, so the portfolio's down market protection features have been diminished. Director Farhadieh concluded her remarks by pointing out that approximately 2/3rds of the portfolio is passively managed while the balance is actively managed, and this dynamic demonstrates ISBI's desire to maintain low investment management fees.

Director Farhadieh then turned the presentation over to Jennifer Koelle, Investment Officer for ISBI. Ms. Koelle began by reviewing the performance of the portfolio and various asset classes for the quarter ending March 30, 2022. Ms. Koelle noted that the total fund composite returned 8.4% for the 1-year period ending March 31, 2022, outperforming the custom benchmark by 1.5%. She stated that the first quarter of Calendar Year 2022 was challenging, but pointed out that the fixed income portfolio's return of 0.9% for the one-year ending March 31, 2022, significantly outperformed it's benchmark return of -4.2%. Driving this outperformance for that 1-year period was the Credit Composite and the Private Credit Composite, which returned 13.6% and 16.9% respectively. Ms. Koelle concluded her review of the fixed income portfolio by demonstrating that the other composites which comprise the fixed income portfolio performed in line with their respective benchmarks.

Ms. Koelle switched to the global equities portfolio, stating that the portfolio returned 10.2% for the 1-year period ending March 31, 2022, exceeding the benchmark return of 6.3%. She stated that much of that return is attributed to the large cap composite of the domestic equity portfolio, which returned 14.4% over the period. Ms. Koelle continued her report by stating that the non-domestic equities portfolio lost 5.5% for the quarter but remained ahead of the benchmark for the fiscal year by 0.6%. She completed her review of the global equities portfolio when she informed the Board that the private equity composite returned 53.4% for the year ended March 31, 2022.

Ms. Koelle then reviewed the real assets composite, which is comprised of the real estate and infrastructure portfolios. She stated that the composite returned 5.5% for the last quarter, and underperformed the benchmark return of 7.1%. She concluded her report by stating the portfolio continues to perform in line with the asset allocation and that it continues to produce returns in excess of the benchmark and assumed rate of return.

Director Farhadieh then highlighted ISBI's diversity efforts, noting that 36% of assets are committed to minority or women owned firms or those owned by a person with a disability. After some discussion with the trustees regarding the portfolio's exposure to cryptocurrency and the impact to the fund from periods of high inflation, Trustee Hawk moved to approve the ISBI Quarterly Review for the period ended March 31, 2022. Trustee Ramirez seconded the motion, which passed unanimously. A copy of the report is maintained in the SERS office and made a part of these minutes as *Exhibit A*.

ANALYSIS AND DISCUSSION OF THE ACTUARIAL EXPERIENCE REVIEW STUDY

Alex Rivera, Heidi Barry, and Jeff Tebeau, Consulting Actuaries, Gabriel, Roeder, Smith & Company, distributed the Experience Review for the three-year period ended June 30, 2021. Mr. Rivera began by discussing the highlights of the study, noting that due to the unusual circumstances over the last 3 years, special consideration was given to analyzing the salary increase assumption and the mortality assumption. For the salary increase assumption review, as back wages were paid in lump sums in calendar year 2019, the analysis included salary data for the preceding 6 years to smooth out the distortion that would otherwise be caused by the lump sum payments. Upon completing the analysis of this data, it was determined the patterns and trends remained consistent with prior years, in that the younger, lower-service demographic experiences higher salary increases than the older, higher-service demographic. Given these dynamics, the recommendation was to not change the individual salary increase assumption.

For the mortality assumption review, Mr. Rivera said that given the experience observed when reviewing the data for Fiscal Year 2021, the GRS team determined to exclude that period from the analysis to preserve the validity of the results. Upon completing the data analysis, it was determined the patterns remained consistent with prior years, and the recommendation was to not change the mortality assumption.

Mr. Rivera continued the report by stating that the various assumptions can be categorized as either economic assumptions or demographic assumptions. He noted that the two most significant economic assumptions are the investment return assumption, currently set at 6.75%, and the price inflation assumption, which is currently 2.25%. Mr. Rivera stated that demographic assumptions are related to the key characteristics and patterns of the membership population.

He stated that the actuarial team is recommending no changes to the price inflation assumption, the wage growth assumption, and the investment return assumption. He acknowledged the current high inflation environment and that the team will continue to

monitor and evaluate the key data for purposes of future recommendations. He noted that they are recommending updating the individual salary increase assumption to reflect recent experience.

Mr. Rivera stated that they are recommending adjusting the mortality table, which will decrease liabilities by approximately 1% and to apply slight adjustments to the retirement rate and turnover rate tables, producing small changes in liabilities. Mr. Rivera concluded his remarks by stating that the net impact of the proposed assumption changes is a 1.6% decrease in liabilities.

Heidi Barry began her summary of the economic assumptions by reminding the Board that the investment return assumption has been 6.75% since Fiscal Year 2019 and then described the various methods used to evaluate reasonableness of the investment return assumption. She stated that although 6.75% is on the aggressive side, that contributing data and the fund's investment asset allocation, the consultants are recommending no change to the assumption. Ms. Barry concluded her report by reviewing the key data and methods that led the team to recommend maintaining the price inflation assumption and wage growth assumption at current rates.

Jeff Tebeau began his summary of the demographic assumptions, by stating that there were more deaths among the retired demographic than expected. As a result, the consulting actuaries recommend incorporating specific mortality tables more in line with post-retirement experience of the System. Such changes will decrease the System's liabilities by approximately 1%.

Mr. Tebeau continued his report by summarizing the methods, key data, and results of the analysis of the retirement rate assumption. The actuaries concluded that the experience supports decreasing the assumption. Mr. Tebeau stated that it is difficult to accurately determine rates for the Tier 2 members because of the low number of retirements, but that experience is expected to increase as that demographic matures which could likely lead to future adjustments.

Mr. Tebeau concluded by discussing the remaining noteworthy demographic assumptions, which include the turnover rate assumption, the inactive reciprocal members load assumption, the service credit purchase assumption, and the buyout program election rate assumption. Mr. Tebeau covered the dynamics of analyzing the related experience, which ultimately led to the team's recommendation to slightly adjust these assumptions.

Following discussion between the trustees and the actuarial consultants regarding the actuarial experience study, Trustee Baird motioned to approve the proposed assumptions. Trustee Hawk seconded the motion, which passed unanimously following a roll-call vote. A copy of this document is made a part of these minutes as *Exhibit B*.

MINUTES OF THE APRIL 26, 2022, BOARD MEETING

The minutes of the Board meeting held April 26, 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 as submitted and Trustee Tilden seconded the motion. A roll-call vote was taken, and the motion passed unanimously. A copy of these minutes is made a part of these minutes as *Exhibit B*.

REPORT OF CHAIRPERSON MENDOZA

Chairperson Mendoza began her report by reminding the Board that the FY 22 supplemental appropriations bill included \$300 million in additional funding for the state's pension systems and that her office had transferred the full amount to the pension stabilization fund and distributed the funds to the retirement systems. About \$64.8 million of that was for SERS. The FY 23 budget included an additional \$200 million for the state's pension systems for FY 23. Her office made the \$200 million transfer to the pension stabilization fund on the first day of the fiscal year, with \$43.2 million directed to SERS. The funding was approved to help reduce the systems' unfunded liabilities by \$1.8 billion.

Chairperson Mendoza added that as of the end of FY 22, total accounts payable is less than \$1.5 billion after adjusting for Debt Transparency Act agency reports, and that the Comptroller's office ended FY 22 with no general revenue fund vouchers. She added that the accounts payable balance is the lowest it has been to close out the fiscal year since 2008. Chairperson Mendoza noted that, in fewer than five years, her office had lowered the bill backlog from \$17 billion to less than \$1.5 billion, for a reduction of 91%. She added that current accounts payable is \$1.6 billion. One year ago, it had been reduced to \$3.9 billion before the state received any federal stimulus funds. The current payment cycle is 12 business days.

Chairperson Mendoza noted 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 \$854 million, up almost 100% from \$427 million in April of this year. She stated that she would like to see 5 to 7.5% of state revenues, or \$2 to \$3.25 billion, in the fund.

Chairperson Mendoza stated that Illinois had received its sixth credit rating upgrade since June 2021. She noted that the state's improved fiscal standing would benefit the pension funds by allowing the Comptroller's office to continue making contributions in a timely manner and make extra payments to the pension systems, ensuring that funds do not need to be drawn down to pay benefits and reducing unfunded liability.

Chairperson Mendoza concluded her report by stating that paying SERS vouchers as quickly as possible continues to be a priority for her office, adding that vouchers had been paid ahead of schedule again for July.

REPORT OF ANY TRUSTEE

Trustee Baird requested to express her concerns about the System's recent efforts to modernize the various workshops offered by the System to the members. She was concerned that such efforts may have eliminated opportunities for members to obtain information involving the transition to retirement. Following some discussion between the

trustees and staff, it was resolved that Field Services staff will be directed to explore alternatives to the education currently provided to employees and prospective retirees.

REPORT OF AUDIT & COMPLIANCE COMMITTEE

Chief Internal Auditor Casey Evans began his report by stating that the Committee met prior to the Board meeting and discussed the audit charter and the two-year audit plan for FY 23 and FY 24.

Mr. Evans noted that FY 23 audits would cover disability, survivor, and retirement benefits, as well as pension adjustments and optional service purchases. He added that retirement lump sum payouts made internally are audited on a regular basis. Mr. Evans stated that the FY 24 audit would focus on IT security.

Mr. Evans stated that the Committee had discussed the annual risk assessment as well as the preliminary results of the internal audit peer review that is conducted every five years. He noted that SERS received a 'generally conforms' opinion, which is the highest opinion possible on this review.

Mr. Evans informed the Board that the system is currently waiting on grades for applicants for the internal auditor position and would start interviews once those are received. He concluded his report by offering to answer questions from the Board. No questions were offered.

REPORT OF RULES & PERSONNEL COMMITTEE

Jeff Houch, Assistant to the Executive Secretary, noted the Committee approved four proposed rules. The first would amend current rules to reflect the new expiration date of the buyout program to June 2026.

Mr. Houch stated the second provision codifies the method by which SERS determines contributions from members who are deployed by the military and receive salary from their agency in accordance with federal law. Deployed members would make contributions based on the total salary credited to his or her SERS account while deployed.

The third provision clarifies that SERS will pay an occupational death benefit to eligible survivors of a member who is killed on the job only if the Workers' Compensation commission awards death benefits under the Workers' Compensation Act or the Workers' Occupational Diseases Act for that member.

The fourth provision codifies the process by which a surviving spouse can verify that he or she was married to the deceased member at the time of death. Mr. Houch concluded his report by offering to answer any questions from the Board. No questions were offered.

REPORT OF THE EXECUTIVE SECRETARY

Final FY23 Operations Budget Request. Secretary Blair presented the final FY 23 operations budget request, noting an increase of \$631,804 or 3.67%, over the FY 22 budget.

He explained the increase was due to several factors, including a \$613,665 increase in the Personal Services line for the 3.95% COLA increase for all employees in July 2022 and scheduled step increases for bargaining unit employees. He pointed out a \$152,306 increase in the Retirement line and a \$48,093 increase in the FICA line, due to the increase in the Personal Services line. Secretary Blair also noted a \$200,000 increase in the Group Insurance line, reflecting a shortfall of \$130,000 in FY 22 and a projected increase of \$70,000 from the FY 22 amount.

Secretary Blair then noted a \$27,258 decrease in the Contractual line due to there being no actuarial or compliance audits scheduled, with a review of economic actuarial assumptions only in FY 23. Secretary Blair then pointed to a \$360,277 decrease in the IT line due to recent and upcoming retirements.

Chairperson Mendoza asked if there were any questions regarding the final FY 23 operations budget request. There being none, Trustee Koenig moved to approve the final FY 23 operations budget request as submitted. The motion was seconded by Trustee Hawk 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*.

FY22 Funding Update. Secretary Blair told the Board that the August State contribution was received on July 22nd, adding that supplemental funding had been released on the first day of FY 23.

Back Wage Claims Update. Secretary Blair stated that the system has processed approximately 450 back wage claims since April, noting that the total remaining was less than 2,000. Secretary Blair added that these numbers should increase after expected hiring in the Pension Section in the coming months.

Buyout Update. Secretary Blair stated that 10,364 members had made an election regarding the COLA buyout program as of July 6, 2022. He stated the participation rates continue to be steady with regular formula members participating at 21%, coordinated alternative formula members at 40.7% and non-coordinated alternative formula members at a 45.4% rate. He noted that the highest payout to date was nearly \$520,000, adding that total payouts were nearly \$300 million for the buyout programs.

Secretary Blair reminded the Board that Public Act 102-0718 recently extended the buyout programs through June 30, 2026, and increased bonding authorization by \$1 billion. He added that each buyout payment reduces SERS' liability due to the funding for the program coming from the bonding authorization.

REPORT OF ACCOUNTING DIVISION MANAGER

Alan Fowler, Accounting Division Manager, presented the financial statements for the third quarter of FY 22. He noted that the retirement annuities in the quarter increased by approximately \$28 million compared to the same quarter of the previous fiscal year, primarily due additional retirements and the 3% COLA.

Mr. Fowler noted that employer contributions from the Comptroller's office continued to be timely, allowing SERS to make benefit payments without selling investments. He concluded his report by offering to answer questions from the Board. None were offered.

Trustee Koenig moved approval of the third quarter FY 22 financial statements as presented. The motion was seconded by Trustee Black. 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 April, May, and June 2022 Executive Committee minutes for review. There being no changes, Trustee Baird moved to approve the minutes. Trustee Koenig 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 and no comments were submitted.

ADJOURNMENT

There being no further business, Chairperson Mendoza asked for a motion to adjourn. Trustee Koenig moved to adjourn. Trustee Hawk seconded the motion, which passed unanimously by roll-call. The meeting adjourned at 12:05 p.m.

Susana Mendoza, Chairperson

Date: _____

ATTEST:

Timothy Blair, Executive Secretary

Date: _____