

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

MINUTES OF THE ANNUAL MEETING
OF THE BOARD OF TRUSTEES

October 25, 2022

The meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, October 25, 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:

David Morris, Vice-Chairperson
Barbara Baird, Elected Retired Trustee
Arnold Black, Elected Active Trustee
Mark Donovan, Appointed Trustee
Tad Hawk, Elected Active Trustee
Ray Koenig, Appointed Trustee
Jack Matthews, Elected Active Trustee
Jameson Ramirez, Appointed Trustee (in person)
Danny Silverthorn, Appointed Trustee (in person)
John Tilden, Elected Retired Trustee
Melverta Wilkins, Appointed Trustee

Absent:

Susana A. Mendoza, Chairperson
Carl Jenkins, Appointed Trustee

Others in attendance were:

Timothy Blair, Executive Secretary (in person)
Alan Fowler, Manager, Accounting Division (in person)
Casey Evans, Chief Internal Auditor (in person)
Yana Zuo, Internal Auditor (in person)
Jeff Houch, Assistant to Executive Secretary (in person)
Samantha Goetz, SERS General Counsel (in person)
Jessica Blood, Recording Secretary (in person)
Aaron Evans, Attorney, Sorling Northrup (in person)
Johara Farhadieh, Executive Director, Illinois State Board of Investment
Scott Richards, Senior Investment Officer, Illinois State Board of Investment
Alex Rivera, 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

Stephen Yokich, Attorney, AFSCME 31 and Illinois Federation of Teachers
Ed Graham, Attorney, Illinois State Board of Education
Sue Taylor, President, Illinois Federation of State Office Educators
Deneen Taylor, Illinois Federation of Teachers
Kimberly Beachy, SERS Retiree (in person)
Sally Cray, SERS Retiree (in person)
Debbie Bault, SERS Retiree (in person)
Mark Wancket, SERS Retiree
Dennis Williams, SERS Retiree

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

MINUTES OF THE JULY 26, 2022, BOARD MEETING

The minutes of the Board meeting held July 26, 2022, were presented to the trustees by Vice-Chairperson Morris. Copies of these minutes were previously provided to each trustee for review. Trustee Koenig moved to approve the minutes as submitted and Trustee Black seconded the motion. A roll-call vote was taken, and the motion passed unanimously. A copy of this document is made a part of these minutes as *Exhibit A*.

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 referring to the ISBI June 30, 2022 Performance Review and the Diversity Policy Review. She first reviewed the asset allocation provided in the Performance Review, noting the long-term goal is for the portfolio to earn the assumed rate of return over the long-term.

Director Farhadieh reported that both equities and fixed income are in negative territory for only the fourth time in history and added that at the September Board meeting, ISBI the private credit allocation and the private equity allocation from 9% to 10%. She then reviewed the weighting of certain private market asset classes and noted the active and passive allocation of the total fund and the major asset classes. Director Farhadieh then introduced Scoot Richards, Senior Investment Officer, to continue the ISBI presentation.

Mr. Richards began his report by telling the Board that the portfolio totaled \$23.2 billion on June 30, 2022 and the one year return on that date was -6.3%, compared to the benchmark return of -5.9%. He then reported the fixed income portfolio lost 6.9% for the year ended June 30, 2022, compared to the benchmark return of -10.9%. He attributed the positive relative performance of the assets class to the Private Credit portfolio beating the relevant benchmark by 12.1% over the period.

Mr. Richards continued the performance review by reporting the U.S Equity portfolio lost 13.9% for the year ended June 30, 2022, outperforming the index by 1%. Over the same period, he reported the Non-U.S. Equity portfolio lost 18.5%, beating the benchmark by

1.4% and the Private Equity portfolio returned 21.7%, or 5% less than the benchmark return of 26.7%. Mr. Richards noted a one-quarter lag in the private equity performance benchmark, affecting the portfolio's comparison to the benchmark. He concluded his report by stating the Real Estate portfolio was the best absolute performing asset class during the year ended June 30, 2022, returning 26.3%. Mr. Richards offered to answer any questions.

Trustee Donovan asked if ISBI expected real estate returns to decrease or become negative. Mr. Richards responded that ISBI doesn't expect negative returns but probably returns in the single digits. In response to additional questioning, Mr. Richards added that the ISBI real estate investments are primarily equity.

Trustee Hawk moved to approve the ISBI Quarterly Review for the period ended June 30, 2022 and Trustee Silverthorn seconded the motion. Roll call was taken and the motion passed unanimously. A copy of the ISBI reports are maintained in the SERS office and made a part of these minutes as *Exhibit B*.

REPORT OF CONSULTING ACTUARIES

Alex Rivera, Consulting Actuary, Gabriel, Roeder, Smith & Company, presented the draft June 30, 2022 actuarial valuation. He began by reporting the State contribution remains flat at about \$2.48 billion and explained the impact of the smoothing of investment returns. Mr. Rivera then noted the growth in the actuarial liability from FY 21 to FY 22 and explained the factors that affected the increase in the funded ratio from 41.14% to 43.98%, based on the actuarial value of assets. He then introduced Jeff Tebeau to continue the GRS presentation

Mr. Tebeau, consulting actuary with Gabriel, Roeder, Smith & Company, referred the Board to a slide showing expected net cash flow, noting a significant increase in negative net cash flow into the future. He added that employer funding remained flat from FY 23 to FY 24, and when including debt service on the 2003 bonds, the total employer cost increased by about \$6 million from FY 23 to FY 24.

Mr. Tebeau then explained the Actuarially Determined Contribution (ADC) adopted by the Board in 2015. The ADC provides for a funding target of 100% with an 18-year amortization period, resulting in a difference of \$522 million in FY 24 when compared to the statutory funding plan.

After discussion regarding nuances of the statutory funding plan and their impact on the system through FY 45, Trustee Silverthorn motioned to approve the draft June 30, 2022 actuarial valuation and the preliminary FY 24 State contribution of 52.657% of payroll, or \$2,589,801,000. Trustee Ramirez seconded the motion, which passed unanimously by roll-call vote. A copy of this document is made a part of these minutes as *Exhibit C*.

REPORT OF AUDIT & COMPLIANCE COMMITTEE

Chief Internal Auditor Casey Evans introduced Yana Zuo as a new internal auditor for SERS and reminded the Board of the required ethics trainings that must be completed by

trustees by the end of 2022, adding that he would send out information regarding the training to the members of the Board.

Mr. Evans reported that the Committee discussed SERS' internal audit analysis of survivor disability benefits, focusing on missed reversionary annuities. He added that SERS has initiated a new process to flag these accounts so that reversionary annuities won't be missed in the future.

Mr. Evans discussed internal audit work on disability benefits, focusing on temporary disability benefits with regards to Workers' Compensation settlements and informed the Board that SERS is working on better communication with the Workers' Compensation Commission to receive timely notification of settlements so correct benefits can be paid to members more quickly.

Mr. Evans continued by updating the Board on the collection of SERS member census data. He reminded the Board that census data is member demographic and payroll information submitted by agencies to SERS that the actuaries rely on for their reports. Mr. Evans added that SERS is working with the Departments of Corrections, Juvenile Justice, and Human Services to find members that have been incorrectly participating in the regular or alternative formula and therefore are either under- or overcontributing to SERS.

Mr. Evans noted that work continues on testing retirement, death and disability benefits and told the Board that he hoped to present these audits at the next meeting. He concluded his report by offering to answer any questions. No questions were offered.

REPORT OF RULES & PERSONNEL COMMITTEE

Jeff Houch, Assistant to the Executive Secretary, noted the Committee authorized technical corrections to two rules. The first would clarify in the administrative code that the length of any voluntary installment payment plan is limited to 5 years (60 months).

Mr. Houch stated the second provision would clarify and modernize the process by which members verify their birth dates when they are unable to provide a birth certificate. Mr. Houch concluded his report by offering to answer any questions from the Board. No questions were offered.

REPORT OF CHAIRPERSON MENDOZA

Chris Maley began the report of Chairperson Mendoza by providing an update on the current accounts payable for the State, which totals approximately \$2.1 billion; one year ago, it was \$4.1 billion.

Mr. Maley reported that the current general revenue payment cycle is 8 business days; one year ago, it was 21 business days. He pointed out that the general fund accounts payable changes every day and is a snapshot of a point in time and noted that last month, the Comptroller's Office recorded the State's lowest general funds accounts payable in over

14 years, at approximately \$894 million. Combined with amounts reported by agencies under the Debt Transparency Act, total general funds accounts payable was \$1.2 billion.

Mr. Maley reported that the general funds accounts payable had not been this low since August 2008 prior to the Great Recession. He added the new low is \$2 million less than in the June 2022 low reported by Comptroller Mendoza at the July Board meeting. Mr. Maley noted the steady progress from the Great Recession and the 736-day budget impasse from 2015 to 2017 and the amount of time required for the State to get on the right path.

Mr. Maley stated that the Office of the Comptroller made the SERS monthly contribution early again this month and concluded the report by offering to answer any questions. No questions were offered.

Election of 2023 Vice-Chairperson and Committee members

Trustee Ramirez moved to nominate the following 2023 officers and standing committee members:

- Vice-Chairperson Morris to continue to serve as Vice-Chairperson of the Board.
- Vice-Chairperson Morris to continue to serve as Vice-Chairperson of the Executive Committee for 2023, with Trustee Hawk to serve as the alternate
- Trustee Baird as the Chairperson of the Audit and Compliance Committee, with Trustee Tilden to serve as Vice-Chairperson.
- Vice-Chairperson Morris, Trustee Hawk and Trustee Silverthorn to serve on the Rules and Personnel Committee, with Vice-Chairperson Morris to serve as Chairperson and Trustee Hawk to serve as Vice-Chairperson.

Trustee Silverthorn seconded the motion. A roll call vote was taken, and all voted in the affirmative.

Executive Secretary Blair informed the Board that he had received the letter from Comptroller Mendoza designating Marvin Becker as the Chairperson of the 2023 Executive Committee, as well as a member of the 2023 Audit and Compliance Committee.

REPORT OF ANY TRUSTEE

Vice-Chairperson Morris asked if there were any trustees who would like to offer a report. No reports were offered.

REPORT OF THE EXECUTIVE SECRETARY

Proposed 2024 Meeting Dates. Secretary Blair brought the Board's attention to the proposed meeting dates for calendar year 2023. Trustee Hawk moved to adopt the proposed 2023 meeting schedule. The motion was seconded by Trustee Baird, and all voted in the affirmative for the 2023 meeting dates:

Tuesday, January 10, 2023 - 10:30 a.m.

Tuesday, April 25, 2023 – 10:00 a.m.

Tuesday, July 25, 2023 – 10 a.m.

Tuesday, October 24, 2023 – 10 a.m.

The System's Springfield office is located at 2101 South Veterans Parkway. The Chicago meeting location is Room N-1808 of the Bilandic Building, 160 N. LaSalle St. All meetings will be available via videoconference at both locations.

Funding Update. Secretary Blair informed the Board that funding is current and that general revenue fund contributions continued to be made on time, adding that the November contribution had already been received from the Comptroller's Office. He noted that no withdrawals from ISBI had been necessary to pay benefits in FY 23, adding that a small drawdown of funds may be necessary toward the end of the FY 23 due to the large number of retirements anticipated.

Back Wage Claims Update. Secretary Blair stated that the system processed approximately 175 back wage claims on the October voucher, adding that SERS processes 125 – 175 back wage claims per month, but that no adjustments would be processed in December or January.

Buyout Update. Secretary Blair informed the Board that SERS has processed 11,000 COLA buyout elections, with nearly 3,000 members electing a lower COLA in exchange for a lump sum payout at retirement. He noted that the largest lump sum payment to date was \$584,000, and that participation rates for nearly all groups exceed assumptions.

Secretary Blair stated that 100 members have elected to participate in the total buyout to date, totaling more than \$14.4 million with an average payment for \$144,000. He added that SERS continues to process buyout vouchers monthly, with two additional vouchers to be reported on during the January meeting of the Board. Secretary Blair concluded his report by offering to answer any questions from the Board. No questions were offered.

REPORT OF ACCOUNTING DIVISION MANAGER

Secretary Blair informed the Board that Alan Fowler, Accounting Division Manager, would be retiring at the end of the year and noted that SERS is currently working on filling the position.

Mr. Fowler presented the financial statements for the fourth quarter of FY 22. He reiterated that no ISBI withdrawals had been necessary due to the timely release of general revenue fund contributions by the Office of the Comptroller. Mr. Fowler noted that retirement annuities increased approximately \$35 million from the same quarter of the previous fiscal year, largely due to the 3% annual COLA and the increase in the number of retirees. He noted that the COLA buyout reimbursement from the State was approximately \$15 million larger than the previous fiscal year and concluded his report by offering to answer any questions from the Board. No questions were offered.

Trustee Hawk moved approval of the fourth quarter FY 22 financial statements as presented. The motion was seconded by Trustee Donovan. Roll call was taken, and the motion passed unanimously. A copy of the financial statements is made a part of these minutes as *Exhibit D*.

Mr. Fowler then addressed the Board, noting the hard work and dedication of his staff and thanked the Board for the opportunity to work with them. Secretary Blair added that under Mr. Fowler's leadership, all three systems had been given the Award for Financial Reporting Excellence every year.

APPROVAL OF EXECUTIVE COMMITTEE MINUTES

All trustees had previously been furnished with copies of the July, August, and September 2022 Executive Committee minutes for review. Secretary Blair gave a brief background of the appeals associated with the Illinois State Board of Education's (ISBE) accelerated vacation pay program. He added that all Board members had been sent the entire administrative record involving the case and other documents submitted by the affected retirees and their attorney. He then discussed the administrative processes that lead to the current vote by the Board.

Trustee Silverthorn moved to approve the July, August, and September 2022 Executive Committee minutes as presented. Trustee Tilden seconded the motion. Lengthy discussion followed regarding the appeals process with the ISBE accelerated vacation pay program related appeals. Following the discussion, Trustee Silverthorn moved to call the question. Trustee Tilden seconded the motion, which passed unanimously. Following the vote to call the question, a roll call vote to approve the July, August, and September 2022 Executive Committee meeting minutes was taken as follows:

Trustee Baird – yes	Trustee Matthews - no
Trustee Black – yes	Trustee Ramirez – yes
Trustee Donovan – yes	Trustee Silverthorn – yes
Trustee Hawk – yes	Trustee Tilden – yes
Trustee Koenig – yes	Vice-Chairperson Morris – yes

The motion carried 9-1.

OLD BUSINESS

Vice-Chairperson Morris asked if there was any old business. There was no old business.

NEW BUSINESS

Vice-Chairperson Morris asked if there was any new business. Secretary Blair informed the Board that Trustee Jenkins indicated he was resigning from the Board due to increased job responsibilities.

Secretary Blair directed the Board's attention to a memorial resolution for late Trustee Friedman. Trustee Baird moved to adopt the resolution in memoriam of late Trustee Friedman as presented. Trustee Silverthorn seconded the motion, which passed by unanimous roll call vote.

PUBLIC COMMENTS

Vice-Chairperson Morris asked if there were any members of the public who wished to address the Board. Debbie Bault, Kimberly Beachy and Sally Cray addressed the Board to express their disappointment with the decision to deny the appeals of the ISBE retirees impacted by the adoption of the Executive Committee minutes.

ADJOURNMENT

There being no further business, Vice-Chairperson Morris asked for a motion to adjourn. Trustee Silverthorn moved to adjourn. Trustee Koenig seconded the motion, which passed unanimously by a roll call vote. The meeting adjourned at 12:16 p.m.

David Morris, Vice-Chairperson

Date: _____

ATTEST:

Timothy Blair, Executive Secretary

Date: _____