

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

MINUTES OF THE REGULAR MEETING  
OF THE BOARD OF TRUSTEES

April 25, 2023

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, April 25, 2023, 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:

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

The following trustees were in attendance by videoconference:

Barbara Baird, Elected Retired Trustee  
Arnold Black, Elected Active Trustee  
Tad Hawk, Elected Active Trustee  
Ray Koenig, Appointed Trustee  
John Tilden, Elected Retired Trustee  
Melverta Wilkins, Appointed Trustee

Absent:

Susana A. Mendoza, Chairperson  
Mark Donovan, Appointed Trustee  
Jack Matthews, Elected Active Trustee

Others in attendance were:

Timothy Blair, Executive Secretary  
Casey Evans, Chief Internal Auditor  
Jeff Houch, Associate Executive Secretary  
Jessica Blood, Recording Secretary  
Johara Farhadieh, Executive Director, Illinois State Board of Investment  
Jennifer Koelle, Investment Officer, Illinois State Board of Investment  
Chris Maley, Illinois Office of the Comptroller  
Martha Merrill, AFSCME Council 31

Vice-Chairperson Morris called the meeting to order at 10:00 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 her presentation by stating that the fund was valued at \$23.2 billion on December 31, 2022, a decline of approximately \$2.7 billion calendar year to date and approximately \$52 million fiscal year to date. She reiterated that equities and fixed income have been in negative territory at the same time only four other times in history and added that the private equity portfolio continues to rank number one in the country against all public pension funds in terms of 10-year long term performance.

Director Farhadieh reviewed the weighting of various asset classes and the active vs. passive allocation of the fund and major asset classes. She noted that approximately 41% of the total fund and 24% of the private equity portfolio is committed to minority and woman owned managers and reminded the Board of ISBI's initiative to encourage inclusivity, including a very successful forum recently held for minority and woman owned asset managers and investment banks.

Director Farhadieh concluded by offering to answer any questions from the Board. Trustee Baird inquired whether ISBI has received any criticism regarding the use of minority and woman owned investment firms. Director Farhadieh noted that while the subject of diversity has become very politicized nationally, ISBI has not received criticism with regards to their inclusion initiatives.

Jennifer Koelle continued the presentation by reporting that the portfolio posted a 4.7% return for the quarter ending December 31, 2022, trailing the benchmark by 0.8%. She noted the fund outperformed the benchmark for the 3, 5, 10-year periods and since inception.

Ms. Koelle reviewed individual asset classes, reporting that the fixed income composite returned 1.3% for the quarter, trailing the benchmark by 90 basis points. The rate sensitive composite returned 1.1%, lagging the index by 0.8% for the quarter. She stated that the Credit composite posted a 1.8% return for the quarter, with multi-sector and private credit lagging the benchmark. Ms. Koelle then touched on the equity classes affecting the return of the Global Equity portfolio. She noted that though the portfolio lagged the benchmark by 1.8%, long term results remain attractive.

Ms. Koelle reported that the Non-U.S. Equity portfolio underperformed with an 11.9% return for the quarter, while the Private Equity portfolio slightly beat the index with a return of 0.5%. She concluded her report by reviewing the Real Assets composite, which returned 0.5% for the quarter. The Real Estate composite was flat for the quarter, lagging the benchmark by 0.3% while the Infrastructure composite posted a strong return at 3.2%, beating the benchmark by 2.3%. Ms. Koelle then offered to answer any questions from the Board. No questions were offered.

Trustee Hawk moved to approve the ISBI Quarterly Review for the period ended December 31, 2022. Trustee Ramirez seconded the motion. A roll-call vote was taken, and

the motion passed unanimously. A copy of the report is maintained in the SERS office and made a part of these minutes as *Exhibit A*.

#### MINUTES OF THE JANUARY 10, 2023 BOARD MEETING

The minutes of the Board meeting held January 10, 2023, were presented to the trustees by Vice-Chairperson Morris. Copies of the minutes were previously provided to each trustee for review. Trustee Silverthorn moved to approve the minutes and Trustee Black seconded the motion. A roll-call vote was taken, and the motion passed unanimously.

#### REPORT OF CHAIRPERSON MENDOZA

Chris Maley presented the report on behalf of Chairperson Mendoza, noting that current general funds accounts payable were \$1 billion, with an adjustment expected due to the submission of agency reports required under the Debt Transparency Act. He added that one year ago, the general funds accounts payable totaled \$2.4 billion. Mr. Maley reported that the current General Revenue Fund payment cycle is 13 business days; one year ago, it was 11 business days. He reminded the Board that both the accounts payable totals and payment cycle change daily and are snapshots in time.

Mr. Maley noted that on Friday, April 21<sup>st</sup>, the Office of the Comptroller posted their lowest general funds accounts payable since July 2008, at \$791 million. He added that estimated accounts payable for that same day once accounting for agency reports under the Debt Transparency Act, are \$941 million.

Mr. Maley stated that one of Comptroller Mendoza's priorities continues to be building up the Budget Stabilization Fund. He added that the fund continues to set new records. The current fund totals \$1.222 billion, compared to \$1.056 billion in January 2023. At the end of March, the Comptroller's Office transferred \$150 million to the fund. This is the first of four anticipated transfers totaling \$850 million before the end of the fiscal year. He reminded the Board that when the pandemic hit, the Budget Stabilization Fund was the worst in the nation at \$60,000.

Mr. Maley informed the Board that since January 2023, the State of Illinois received credit upgrades from S&P Global and Moody's for a total of eight upgrades in two years; prior to that, the State had nothing but downgrades for twenty years straight.

Mr. Maley reiterated the Comptroller's commitment to paying SERS vouchers as quickly as possible each month, noting that the most recent voucher had been paid ahead of time. He concluded his report by offering to answer any questions from the Board. Vice-Chairperson Morris inquired if the Budget Stabilization Fund was projected to reach \$2 billion by the end of the fiscal year. Mr. Maley noted that the fund was estimated to reach \$1.9 billion by June 30<sup>th</sup>.

#### 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 AUDIT & COMPLIANCE COMMITTEE

Chief Internal Auditor Casey Evans began his report by reminding the Board that Statements of Economic Interest and Supplemental Statements are due May 1<sup>st</sup>.

Mr. Evans reported that the Committee revised the FY 23 internal audit plan to complete audits of disability benefits, death and survivor benefits, retirement benefits and perform annual internal control assessment activities. He added that audits of optional service purchases and administrative expenditures were deferred to FY 24, primarily to devote more time to the benefit audits.

Mr. Evans noted that the disability benefit audit covering FY 21 and FY 22 had recently concluded with four findings. He added that management agreed with the recommendations and is working to correct the issues.

Mr. Evans stated that work is being concluded on the audit of survivor and death benefits, noting that most routine benefits are being processed without issue. He added that he would have a more detailed report for the Board in July. Mr. Evans added that the FY 22 financial audit had concluded, noting SERS' received an unmodified audit opinion.

Mr. Evans noted that the upcoming audit season would include an FY 23 compliance examination, financial audit and an expanded IT audit. He concluded his report by stating that the auditors continue to test census data provided by agencies and offered to answer any questions from the Board. No questions were offered.

## REPORT OF RULES & PERSONNEL COMMITTEE

Jeff Houch, Associate Executive Secretary, noted the Committee authorized rulemaking to codify policies that will eliminate administrative burdens and strengthen IRS code compliance with regards to optional service credit purchases done by the pre-tax payroll deduction method, restricting situations in which members can enter into such agreements.

Mr. Houch stated that the Committee performed the annual performance review for Executive Secretary Blair and concluded his report by offering to answer any questions from the Board. No questions were offered.

## REPORT OF THE EXECUTIVE SECRETARY

Preliminary FY 24 Operations Budget Request. Secretary Blair presented the preliminary FY 24 operations budget request, noting an increase of \$134,174, or 0.65% more than the FY 23 budget. He noted that the request does not include COLAs due to ongoing negotiations with the union, adding that the budget reflects the current collective bargaining agreement, including steps. Secretary Blair stated that the increase was due to salaries and related lines, including a \$150,000 increase in the Group Insurance line.

Secretary Blair noted that SERS began workshops in the Chicago office in February and that the Field Services Division is providing workshops at various agencies upon request. He added the first retiree workshop in the Springfield office since the start of the pandemic was held in early April and that the response was overwhelming. Secretary Blair said SERS has scheduled workshops through the end of the year in the Chicago office and will work with various union sub-chapter to provide workshops upon request.

Secretary Blair pointed out that the budget request includes more positions for the call center to provide better customer service during peak call times, noting the high turnover rate of those positions. He informed the Board of technical issues with DoIT's call system vendor and noted that SERS continues to work toward a solution.

Secretary Blair ended his report by reminding the Board that the budget request would increase following the conclusion of contract negotiations and requested a motion to approve the preliminary FY 24 operations budget request. Trustee Ramirez asked if the trustees would get updates on the contract negotiations. Vice-Chairperson Morris stated that negotiations were ongoing, and they hoped to have a ratified contract in July.

Trustee Hawk moved to approve the preliminary FY 24 operations budget request as presented and Trustee Black seconded the motion. After some discussion regarding the workshops and the call system issue, a roll-call vote was taken, and the motion passed unanimously.

Second Quarter FY 23 Financial Statements. Secretary Blair directed the Board's attention to the second quarter FY 23 financial statements, highlighting that SERS withdrew \$35 million to pay benefits due to insufficient employee and employer contributions.

Secretary Blair continued by reporting disbursements totaling \$829 million, reducing the ending cash balance to \$282 million. He noted that the goal going forward is to have an end of month balance of \$280 million to cover payroll for the coming months. He stated that monthly drawdowns of \$20-\$30 million from ISBI are necessary to pay benefits, adding that drawdowns for FY 23 were expected to total approximately \$220 million. Secretary Blair added that the Governor recommended an extra \$43 million for SERS in his budget proposal.

Trustee Silverthorn moved to approve the second quarter FY 23 financial statements as presented. Trustee Black seconded the motion. After some discussion regarding ISBI's investment strategy and the number of state vacancies impacting total contributions, the motion passed unanimously by roll call vote.

Back Wage Processing Update. Secretary Blair informed the Board that in March and April, SERS processed 105 and 205 back wage adjustments. He noted that January 1 retirements are down slightly from previous years and suggested the buyout programs may be reducing seasonality of retirements. Secretary Blair stated that SERS is now processing

adjustments for September 2018 retirements, noting this is less than a year's worth of retirements left to process.

Buyout Update. Secretary Blair told the Board that the COLA buyout continues to be popular for retiring members. Almost half, or 48.3% of non-coordinated alternative formula retirees have participated, compared to regular formula retirees at 20.9%. He noted that SERS processed a \$24 million buyout voucher in April.

Secretary Blair stated that to date, 113 members have taken the total buyout option with a total payout of \$16.3 million. He concluded his report by offering to answer any questions. No questions were offered.

Legislative Update. Jeff Houch reported on legislation that would impact SERS. He began by summarizing HB 2054, because it is the only bill impacting SERS that has passed out of a legislative chamber in the 2023 Session. Mr. House mentioned that such bill loosens educational requirements for Department of Juvenile Justice employees as it relates to eligibility for the Alternative Formula plan, specifically those that work in youth facilities.

Mr. Houch added several bills would provide supplemental funding to the system, noting that HB 3136 and SB 2443 would provide supplemental contributions in addition to the amount certified annually, whenever positive economic conditions exist. HB 1143 diverts portions of the revenues generated from fracking and HB 2664 would match the previously appropriated FY 23 supplemental contribution of \$43 million.

Mr. Houch offered to answer questions from the Board regarding the legislation presented. Trustee Baird voiced concern over HB 1277, which suspends benefits for members indicted of or charged with a felony committed in the line of duty, noting that this would violate a member's right of presumed innocence until proven guilty. Mr. Houch noted that this also creates issues for the system with regards to processing benefits due to the length of time generally existing between someone being charged and being found guilty of a job-connected felony.

Trustee Baird then voiced concern over the efforts to form a tier 3 retirement benefit, stating that if passed, she hoped that system staff only present the benefit as an option, including the positives and negatives, and not pressure membership to take the benefit. Following a brief discussion regarding the proposed tier 3 plan with regards to FICA replacement standards, Mr. Houch concluded his report.

#### APPROVAL OF EXECUTIVE COMMITTEE MINUTES

All trustees had previously been furnished with copies of the December 2022, and January, February, and March 2023 Executive Committee minutes for review. Trustee Hawk moved to approve the December 2022, and the January, February and March 2023 Executive Committee minutes as presented. Trustee Black seconded the motion. A roll-call vote was taken, and the motion passed unanimously.

OLD BUSINESS

Vice-Chairperson Morris asked if there was any old business.

Executive Secretary Blair reminded the Board of the pending litigation of SERS regarding the ISBE vacation payout issue. Jeff Houch added that the plaintiffs had submitted their brief and that SERS has until the first week of May to provide a response.

NEW BUSINESS

Vice-Chairperson Morris asked if there was any new business.

Secretary Blair informed the Board that the appointments for Trustees Koenig, Ramirez, and Wilkins had been confirmed by the Senate. Vice-Chairperson Morris asked if the Board was now full. Executive Secretary Blair responded that there was one vacancy due to former Trustee Jenkins' resignation.

PUBLIC COMMENTS

Vice-Chairperson Morris asked if there were any public comments. None were offered.

ADJOURNMENT

There being no further business, the meeting was adjourned at 11:38 a.m.

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Susana A. Mendoza, Vice-Chairperson

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

ATTEST:

\_\_\_\_\_  
Timothy Blair, Executive Secretary

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