

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

MINUTES OF A REGULAR MEETING
OF THE BOARD OF TRUSTEES

January 10, 2023

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, January 10, 2023, at 10:30 a.m. in the System's Springfield office located at 2101 South Veterans Parkway. The 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 (in person)
David Morris, Vice-Chairperson (in person)
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

Absent:

Carl Jenkins, Appointed Trustee
Melverta Wilkins, Appointed Trustee

Others in attendance were:

Timothy Blair, Executive Secretary (in person)
Casey Evans, Chief Internal Auditor (in person)
Jeff Houch, Assistant to Executive Secretary (in person)
Jessica Blood, Recording Secretary (in person)
Aaron Evans, Attorney, Sorling Northrup
Johara Farhadieh, Executive Director, Illinois State Board of Investment (in person)
Jennifer Koelle, Investment Officer, Illinois State Board of Investment
Chris Maley, Illinois Office of the Comptroller (in person)

Chairperson Mendoza called the meeting to order at 10:30 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 referring to the ISBI September 30, 2022 Performance

Review. She reviewed the asset allocation and indicated at the September ISBI meeting the Board changed the asset allocation policy effective January 1, 2023, to increase the private equity allocation by 1% and the private credit allocation by 1%.

Director Farhadieh repeated from prior meetings that both equities and fixed income are in negative territory for only the fourth time in history. 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 noted that 42% of ISBI assets are committed to woman and minority owned asset managers and outlined a new initiative to use woman and minority owned investment banks and hosting an event for woman and minority owned asset managers and investment banks. She then introduced Jennifer Koelle, Investment Officer, to continue the presentation.

Ms. Koelle reported that the portfolio totaled \$22.2 billion on September 30, 2022 and the one year return on that date was -10.3%, compared to a policy benchmark loss of 10.9%. She added that for the quarter the portfolio lost 4.4%, trailing the policy benchmark by 20 basis points. Ms. Koelle pointed out the portfolio exceeded the benchmark returns and 6.75% return assumption for all periods and ranked in the 11th to 16th percentile when compared to the public funds peer group.

Ms. Koelle started the review of individual assets classes by reporting that over the year ended September 30, 2022, the fixed income portfolio lost 10.9%, compared to the index loss of 14.9%. She continued the performance review by reporting the Global Equity portfolio lost 16.3% for the year, but outperformed the index by almost 5%. She briefly reviewed the equity classes that affected the return of the Global Equity portfolio.

Ms. Koelle reported the Non-U.S. Equity portfolio lost 23.8% for the year ended September 30, 2022, beating the index by 1.9%, and the Private Equity portfolio returned 17.0%, or almost 11% more than the benchmark return of 6.1%. She concluded her report by briefly reviewing the Real Estate and Infrastructure portfolios and offered to answer questions. Trustee Ramirez asked if ISBI had any exposure to digital currency and Director Farhadieh responded that ISBI exposure to digital currency is de minimus.

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

MINUTES OF THE OCTOBER 25, 2022, BOARD MEETING

The minutes of the Board meeting held October 25, 2022, were presented to the trustees by Chairperson Mendoza. Copies of these minutes were previously provided to each trustee for review. Trustee Ramirez moved to approve the minutes as submitted and

Trustee Silverthorn seconded the motion. A roll-call vote was taken, and the motion passed unanimously.

REPORT OF CHAIRPERSON MENDOZA

Chairperson Mendoza reported that current general funds accounts payable was \$2.4 billion with an adjustment expected due to the submission of agency reports required by the Debt Transparency Act. She added that one year prior, the general funds accounts payable totaled just under \$4 billion.

Chairperson Mendoza reported that the current General Revenue Fund payment cycle is 10 business days; one year ago, it was 15 business days. She added the goal is to maintain a payment cycle of less than 30 days and noted that the general funds accounts payable changes every day and is a snapshot of a point in time. In 2022, the Comptroller's Office recorded the State's lowest end of calendar year general funds accounts payable since 2006, at \$1.2 billion, not including agency liabilities. For comparison, Chairperson Mendoza noted that calendar year 2021 ended with \$3.3 billion in general funds accounts payable and the 2020 ended with \$4.5 billion.

Chairperson Mendoza noted the low end of calendar year accounts payable occurred despite generally lower revenues over the fall and winter months which usually results in increased accounts payable when compared to the end of the fiscal year in June. She noted that the recent budget bill directed more than \$1 billion in general funds transfers to other funds before June 30th, including \$850 million to the Rainy Day Fund. Chairperson Mendoza stated that she supported more funds being transferred to the Rainy Day Fund and had proposed legislation to transfer funds to the Pension Stabilization Fund to attempt to reach the 90% funded target sooner.

Chairperson Mendoza reiterated her commitment to paying SERS vouchers each month as quickly as possible and to work closely with SERS to limit the funds withdrawn from ISBI to pay benefits, allowing invested funds to work to benefit the system.

REPORT OF ANY TRUSTEE

Chairperson Mendoza 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 reported the January Audit and Compliance Committee was cancelled and would be rescheduled for February. He noted the ongoing disability audit and noted beginning an audit of survivor and death benefits. Upon completion of those audits, the focus would shift to retirement benefits.

Mr. Evans told the Board the external auditors are nearing completion of the annual financial audit, and it is expected to be clean again this year. He promised a detailed report at the April Board meeting and offered to answer questions. None were offered.

REPORT OF RULES & PERSONNEL COMMITTEE

Jeff Houch, Assistant to the Executive Secretary, informed the Board that the Committee met and authorized two rules. The first clarifies the annual increase in Tier 2 survivor benefits applies to those receiving occupational death benefits and the second clarifies terms pertaining to granting free military service credit. Mr. Houch concluded his report by offering to answer any questions from the Board. No questions were offered.

REPORT OF THE EXECUTIVE SECRETARY

State Actuary's 2022 Report and System Responses. Secretary Blair explained the annual State Actuary process and referred the Board to a document noting the system's responses to the State Actuary's recommendations. He noted the repeated recommendation to change the statutory funding plan to fully fund accrued liabilities over a reasonable period and the Board's agreement with that recommendation as evidenced by the adoption of an Actuarially Determined Contribution (ADC) policy in 2015. All parties agree that the statutory funding plan cannot be changed by the Board of Trustees.

Secretary Blair continued by noting another repeated recommendation is smoothing the impact of assumption changes over a three year period to reflect that experience reviews of all assumptions are completed every three years. He pointed out the staff noted agreement with this recommendation in the system's responses to the State Actuary.

Secretary Blair briefly mentioned that other recommendations pertained to provide certain details and additional disclosures in future valuations and that staff deferred to the System's actuaries to respond to those recommendations. The system's actuaries responded that all recommendations would be considered, as appropriate. He offered to answer any questions. No questions were offered.

Approval of FY 22 Valuation and FY 24 Employer Certification. Secretary Blair referred the Board to the certification documents for the FY 24 employer contribution. He noted that the review of the State Actuary resulted in no substantive changes to the draft actuarial valuation that was approved at the October Board meeting and the FY 24 employer contribution that was preliminarily certified at the October Board meeting did not change.

Secretary Blair stated the FY 24 certified rate was 52.657% of projected payroll, or \$2,589,801,000. He noted the certified amount included some debt service on the 2003 pension obligation bonds, so the FY 24 employer contribution to SERS would amount to almost \$2.5 billion. Secretary Blair added that the ADC adopted in 2015 would result in an additional \$500 million in FY 24, but the ADC doesn't affect the statutory contribution amount.

Vice-Chairperson Morris moved to approve the FY 24 actuarial valuation and to certify the FY 24 employer contribution of \$2,589,801,000, or 52.657% of project payroll. Trustee Hawk seconded the motion. A roll call vote was taken, and all were in favor.

First Quarter FY 23 Financial Statements. Secretary Blair referred the Board to the first quarter FY 23 financial statements and reminded them of Accounting Division Manager Alan Fowler's recent retirement. He reported total receipts of \$765.4 million for the quarter, with employer contributions accounting for most of the total, and added there were no drawdowns from the ISBI investment portfolio for the quarter.

Secretary Blair continued by reporting disbursements totaled \$798.8 million for the quarter which amounted to \$33 million more than the receipts for the quarter. He informed the Board that monthly disbursements are expected to exceed monthly revenues for the foreseeable future, even though employer contributions are paid very timely. Although not reflected in the first quarter financials, he reported that \$35 million was withdrawn from ISBI in December to make up for the cashflow shortfall and another \$10 million was withdrawn in January.

Secretary Blair noted that he would work to minimize the monthly withdrawals, but the most important thing is to ensure the funds are available to pay monthly benefits and expenses. Current projections are that a \$25 million to \$30 million per month withdrawal is needed for the remainder of FY 23 with total withdrawals of \$250 million to \$300 million needed in FY 23, which includes \$31.5 million for the Judges' Retirement System. Based on the size of the \$21 billion investment portfolio, the amount of projected withdrawals is a small portion of invested assets.

Chairperson Mendoza asked Secretary Blair about the legislature's awareness of the cashflow situation. He responded that he informed the Director of the Governor's Office of Management and Budget of the cashflow projections. Trustee Hawk asked if the situation would improve as we progress along the funding ramp. Secretary Blair stated the current cashflow dynamic would continue until the maturity of the pension obligation bonds in 2033.

Following further discussion of the process of managing cashflow with the Comptroller's Office and ISBI, and the history of funding levels and managing cashflow, Secretary Blair noted the Board has limited options to change the funding scenario. He added that SERS' governing statutes specify what benefits must be paid and how the annual employer contribution is to be calculated. Trustee Ramirez added the fix to the cashflow issue is a change to the funding plan.

Chairperson Mendoza added that her proposal to increase funding to the Pension Stabilization Fund would not dramatically increase funding to the systems but would increase funding to the systems during good financial years. She added that Governors could potentially still choose to contribute additional funds in good financial times, like the extra \$500 million recently contributed. Chairperson Mendoza then noted that the addition of a statutory requirement to contribute more in good financial years could also result in credit upgrades for the state.

Trustee Silverthorn made a motion to adopt the first quarter FY 23 financial statements and Trustee Hawk seconded the motion. A roll call vote was taken, and the motion passed unanimously. A copy of the financial statements is maintained in the SERS office and made a part of these minutes as *Exhibit B*.

Funding Update. Secretary Blair repeated that funding from the IOC is current and that GRF contributions continue to be made on time, usually within 10 to 15 days of the submission of the vouchers.

Back Wage Claims Update. Secretary Blair stated that no adjustments were processed in December or January due to the annual COLA process, but would resume on the February voucher. He noted there were about 1,500 adjustments left to process and the system was completing about 175 per month with the goal of finishing the project by the end of calendar year 2023.

Buyout Update. Secretary Blair informed the Board that SERS had processed over 11,500 COLA buyout election forms, with 3,105 members electing a lower COLA in exchange for a lump sum payout at retirement. He noted that the largest lump sum payment was \$584,352 and that participation rates for all groups continue to exceed actuarial assumptions.

Secretary Blair stated that 107 members elected to participate in the total buyout program, totaling more than \$15.4 million in payments with an average payment of \$144,354. He added that SERS continues to process buyout vouchers monthly. Secretary Blair concluded his report by offering to answer any questions from the Board. No questions were offered.

APPROVAL OF EXECUTIVE COMMITTEE MINUTES

All trustees had previously been furnished with copies of the October and November 2022 Executive Committee minutes for review. Trustee Donovan moved to approve the Executive Committee minutes as presented. 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. Secretary Blair told the Board that future meetings would probably be in-person with videoconference options in SERS' Chicago Office and the Springfield Office. He added that workshops were being scheduled in Chicago as the rooms used for workshops were now available following the recent renovations at the Bilandic building.

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 seeking recognition and Secretary Blair reported that no comments had been submitted.

ADJOURNMENT

There being no further business, Chairperson Mendoza asked for a motion to adjourn. Trustee Silverthorn moved to adjourn. Trustee Hawk seconded the motion, which passed unanimously by a roll call vote. The meeting adjourned at 11:40 a.m.

Susanna A. Mendoza, Chairperson

Date: _____

ATTEST:

Timothy Blair, Executive Secretary

Date: _____