

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

MINUTES OF THE REGULAR MEETING
OF THE BOARD OF TRUSTEES

January 9, 2024

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, January 9, 2024, at 10:00 a.m. with videoconference locations in the System's Springfield office located at 2101 South Veterans Parkway and the 4th floor Peoria Room at 555 West Monroe, Chicago, Illinois.

The following trustees were in attendance at the Springfield location:

David Morris, Vice-Chairperson
Arnold Black, Elected Active Trustee
Jack Matthews, Elected Active Trustee
Jameson Ramirez, Appointed Trustee
Danny Silverthorn, Appointed Trustee

The following trustees were in attendance by videoconference at Chicago location:

Susana A. Mendoza, Chairperson
Barbara Baird, Elected Retired Trustee
Ray Koenig III, Appointed Trustee
Mona Naser, Appointed Trustee
Mohamad Nasir, Appointed Trustee
John Tilden, Elected Retired Trustee

The following trustees participated remotely:

Tad Hawk, Elected Active Trustee
Melverta Wilkins, Appointed Trustee

Others in attendance were:

Timothy Blair, Executive Secretary (Chicago)
Casey Evans, Chief Internal Auditor (Springfield)
Jeff Houch, Associate Executive Secretary (Springfield)
Samantha Goetz, SERS General Counsel (Springfield)
Jessica Blood, Recording Secretary (Springfield)
Dipesh Mehta, Deputy Director, Illinois State Board of Investment (Chicago)
Jennifer Koelle, Investment Officer, Illinois State Board of Investment (Chicago)
Chris Maley, Illinois Office of the Comptroller (remote)
Martha Merrill, AFSCME Council 31 (Chicago)

Chairperson Mendoza called the meeting to order at 10:15 a.m. with a quorum present.

INTRODUCTION OF TRUSTEE MONA NASER

Chairperson Mendoza introduced Trustee Mona Naser, who was recently appointed by Governor Pritzker. Trustee Naser shared that she was honored to be on the Board, adding that she's an attorney and partner at Carlson Dash.

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT

Deputy Director Mehta began the ISBI report by reminding the Board that ISBI invests the funds of the State Retirement Systems, including SERS, the Judges' Retirement System, and the General Assembly Retirement System. He then provided an overview of the portfolio, noting the portfolio's value increased by \$1.5 billion in the 12 months ended September 30, 2023. Deputy Director Mehta reviewed the asset allocation and structure of the portfolio and introduced Jennifer Koelle to continue the ISBI report.

Jennifer Koelle, ISBI Investment Officer, directed the Board's attention to the September 30, 2023, Performance Update, noting that the Fund returned 8.6% during the year ending September 30, 2023, underperforming the custom benchmark and allocation benchmark by 100 and 60 basis points, respectively. For the quarter ended September 30, 2023, the portfolio declined 2.3% and lagged the custom benchmark and allocation benchmark by 20 and 30 basis points, respectively.

Ms. Koelle stated the Fixed Income portfolio returned 1.5% for the year ending September 30, 2023, underperforming the benchmark during the period by 10 basis points. She attributed the underperformance to the Core Fixed Income portfolio losing 1.6% for the year ending September 30, 2023, adding the Rate Sensitive portfolio lagged its benchmark by nearly 2%, reflecting ISBI's relatively conservative position in treasuries.

Ms. Koelle reported the Credit Composite returned 8.6% for the year ending September 30, 2023, trailing the benchmark by 4.7% and the Multi Sector Credit Composite returned 13.7%. She reported the Domestic Equity portfolio gained 20% but lagged the U.S. equity market by 50 basis points while the Non-U.S. Equity Composite returned 19.2% for the one-year period, underperforming the index by 100 basis points. Ms. Koelle reported that the Private Equity portfolio returned 3.5%, the Infrastructure portfolio was up 9.9%, and the Real Estate portfolio was the worst performing asset class with a loss of 5.5%, net of fees.

Chairperson Mendoza asked if anyone had questions regarding the ISBI report. Hearing none, she asked for a motion to approve the report. Trustee Hawk moved to approve. The motion was seconded by Trustee Baird, and all voted in the affirmative. A copy of the September 30, 2023, Performance Report is maintained in the ISBI office and made part of these minutes as *Exhibit A*.

MINUTES OF THE OCTOBER 24, 2023 BOARD MEETING

The minutes of the Board meeting held October 24, 2023, were presented by Chairperson Mendoza. Copies of the minutes were previously provided to each trustee for review. Trustee Nasir moved to approve the minutes as presented and Trustee Ramirez seconded the motion. A voice vote was taken, and the motion passed unanimously.

REPORT OF CHAIRPERSON MENDOZA

Chairperson Mendoza began her presentation by noting that as of today, general funds accounts payable is \$2.1 billion with an adjustment expected due to the submission of agency reports required by the Debt Transparency Act. One year ago, accounts payable totaled \$2.4 billion. She stated that the current General Revenue Fund billing cycle is 13 business days compared to 10 business days one year ago. Chairperson Mendoza noted that the current billing cycle was slightly longer compared to one year ago but was much improved over the 210 day billing cycle when she took office. She reminded the Board that general funds accounts payable is a snapshot in time and changes daily.

Chairperson Mendoza stated that the Budget Stabilization Fund totaled \$2 billion for the first time in November 2023 and continues to set new records each month. She reiterated the importance of growing the Budget Stabilization Fund to ensure that the State can withstand economic surprises and continue to pay obligations in a timely manner.

Chairperson Mendoza noted that the State of Illinois received a ninth credit upgrade since June 2021 from Fitch ratings. She noted the upgrade was due in part to the efforts in strengthening the Budget Stabilization Fund and achieve steady and predictable accounts payable. She added that this marks the first time since October 2015 that the State has A- ratings from all three credit agencies.

Chairperson Mendoza reiterated her commitment to paying SERS vouchers as quickly as possible each month, noting that the most recent voucher had been paid ahead of time. She concluded her report by offering to answer any questions. No questions were offered.

REPORT OF ANY TRUSTEE

Chairperson Mendoza asked if any trustees wanted to offer a report. No reports were offered.

REPORT OF AUDIT & COMPLIANCE COMMITTEE

Chief Internal Auditor Casey Evans began his report by noting that the Committee cancelled its quarterly meeting and would meet prior to the April 2024 Board meeting. He provided details of internal and external audit activities during the fourth quarter of 2023. He noted the financial statement audit should be completed in the coming months with no anticipated findings and stated that no findings were expected from the ongoing compliance audit. Mr. Evans added that the IS cyber security review is expected to have findings pertaining to policy development, though no internal control issue findings were expected.

Mr. Evans updated the Board on the System's involvement in the reconciliation of member census data from approximately ninety state agencies, focusing on members who may be participating under the wrong formula. He touched on internal audits currently being conducted, specifically noting termination refunds, alternative formula refunds and survivor refunds. Mr. Evans concluded his report by offering to answer any questions from the Board. No questions were offered.

REPORT OF RULES & PERSONNEL COMMITTEE

Jeff Houch reported that the Rules and Personnel Committee met Monday, January 9th and discussed rulemaking pertaining to the disability program. He stated that the proposed rules would be filed to allow the System to index its gainful activity wage limitation for disability recipients to be consistent with the Social Security Administration. The change would increase the limit to \$4,600 per calendar quarter in 2024. He then offered to answer any questions from the Board. No questions were offered.

REPORT OF THE EXECUTIVE SECRETARY

State Actuary's FY 2023 Report and System Responses. Secretary Blair explained the annual State Actuary process and referred the Board to 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 the smoothing of 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 system agrees with this recommendation in the system's responses to the State Actuary.

Secretary Blair mentioned that other recommendations were to provide additional details and disclosures in future valuations and that staff deferred to GRS to respond to those recommendations. The system's actuaries responded that all recommendations would be considered. After some discussion regarding the investment return assumption, Chairperson Mendoza asked if there were any questions. No questions were offered.

Approval of FY 23 Valuation and FY 25 Employer Certification. Secretary Blair referred the Board to the certification documents for the FY 25 employer contribution. He noted that the review of the State Actuary resulted in no substantive changes to the draft actuarial valuation approved at the October Board meeting and the FY 25 employer contribution that was preliminarily certified at the October Board meeting did not change.

Secretary Blair noted the FY 25 certified rate is 51.180% of projected payroll, or \$2,672,654,000. He added that of the \$2,547,978,000 State contribution to SERS, \$574,378,000 is for the employer's portion of the expected FY 25 normal cost and \$1,973,600,000 is due to the system's unfunded liabilities.

Trustee Silverthorn moved to approve the FY 23 actuarial valuation and to certify the FY 25 employer contribution of \$2,672,354,000, or 51.180% of projected payroll. Trustee Baird seconded the motion. A roll call vote was taken, and all were in favor. A copy of the valuation is maintained in the SERS office and made a part of these minutes as *Exhibit B*.

First Quarter FY 24 Financial Statements. Secretary Blair referred the Board to the first quarter FY 24 financial statements. He reported total employer contributions of \$630 million for the quarter and noted a drawdown of \$90 million in investments to cover the shortfall in contributions when compared to benefit payments.

Secretary Blair reported benefit disbursements averaged \$265 million per month for the quarter. He noted that the \$812.5 million in quarterly disbursements included \$14.8 million for COLA buyouts, which were reimbursed from bond funds; \$5.8 million for refunds and \$5.7 million in administrative expenses. He informed the Board that monthly drawdowns of investments totaling \$50 to \$60 million are expected for the remainder of FY 24. After some discussion regarding the funding of the plan, Secretary Blair reminded the Board that the necessity to draw down investments to cover benefits would remain the status quo for the foreseeable future. He concluded his financial report by offering to answer any further questions. No further questions were offered.

Trustee Baird made a motion to adopt the first quarter FY 24 financial statements and Trustee Koenig 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 C*.

FY 24 Funding Update. Secretary Blair repeated that funding from the IOC is current and that contributions continue to be made on time, recently within days of the submission of the vouchers.

Back Wage Claims Update. Secretary Blair noted that back wage processing is nearly complete, with a few hundred remaining. He noted the remaining calculations were the more complicated reciprocal benefits. Secretary Blair added that no adjustments were paid in December or January due to the annual COLA process but would resume in February.

Buyout Update. Secretary Blair informed the Board that buyout participation rates remain steady with the COLA buyout still being very popular. He added that alternative formula members continue to participate at very high rates, with the largest payout exceeding \$600,000. Secretary Blair reminded the Board that the program is scheduled to sunset in June 2026, with an extension probable due to the program's popularity.

ISBE Litigation Update. Secretary Blair reminded the Board of the Illinois State Board of Education's (ISBE) complaint for administrative review regarding the Board's decision on ISBE's salary spiking program. He informed the Board that SERS won at the circuit court level, but that ISBE had appealed the ruling. Secretary Blair offered to answer any questions regarding his report. No questions were offered.

APPROVAL OF EXECUTIVE COMMITTEE MINUTES

All trustees had previously been furnished with copies of the October and November 2023 Executive Committee minutes for review. Trustee Hawk moved to approve the October and November 2023 Executive Committee minutes as presented. Trustee Tilden seconded the motion. A voice 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 Vice-Chairperson Morris is retiring at the end of April and that Trustee Hawk was not seeking reelection. He noted that SERS would hold an agency-wide lunch to coincide with the April Board meeting and invited all who are able to attend in the Springfield office.

PUBLIC COMMENTS

Chairperson Mendoza asked if there were any public comments. None were offered.

ADJOURNMENT

There being no further business, Chairperson Mendoza asked for a motion to adjourn. Trustee Baird moved to adjourn. Trustee Ramirez seconded the motion, which passed unanimously by voice vote. The meeting was adjourned at 11:10 a.m.

Susana A. Mendoza, Chairperson

Date: _____

ATTEST:

Timothy Blair, Executive Secretary

Date: _____