

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

MINUTES OF THE REGULAR MEETING  
OF THE BOARD OF TRUSTEES

July 25, 2023

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, July 25, 2023, at 10:00 a.m. with videoconference locations in the System's Springfield office located at 2101 South Veterans Parkway and the Peoria Room at 555 West Monroe, Chicago, Illinois.

The following trustees were in attendance at Springfield location:

David Morris, Vice-Chairperson  
Arnold Black, Elected Active Trustee  
Mark Donovan, Appointed 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:

Barbara Baird, Elected Retired Trustee  
Mohamad Nasir, Appointed Trustee  
John Tilden, Elected Retired Trustee

The following trustees participated remotely:

Susana A. Mendoza, Chairperson  
Tad Hawk, Elected Active Trustee  
Melverta Wilkins, Appointed Trustee

Absent:

Ray Koenig III, Appointed Trustee

Others in attendance were:

Timothy Blair, Executive Secretary  
Robert Cooper, Manager, Administrative Service Division  
Casey Evans, Chief Internal Auditor  
Jeff Houch, Associate Executive Secretary  
Jessica Blood, Recording Secretary  
Johara Farhadieh, Executive Director, Illinois State Board of Investment  
Dipesh Mehta, Deputy 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.  
Chris Maley, Illinois Office of the Comptroller  
Martha Merrill, AFSCME Council 31

After a roll call at 10:20 a.m. confirmed a quorum of 9 members, Vice-Chairperson Morris moved to allow three trustees to participate remotely. The motion was seconded by Trustee Baird. A voice vote was taken and the motion passed unanimously. Vice-Chairperson Morris turned the gavel over to Chairperson Mendoza.

#### INTRODUCTION OF TRUSTEE MOHAMAD NASIR

Chairperson Mendoza introduced Trustee Mohamad Nasir, who was recently appointed by Governor Pritzker. Trustee Nasir provided a brief background on his experience, and expressed that he looked forward to serving in this role as a trustee of SERS.

#### REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT

Comptroller Mendoza informed the Board that this would be Johara Farhadieh's last presentation as Executive Director of the Illinois State Board of Investment (ISBI), as she is moving on. Director Farhadieh expressed her appreciation for working with the SERS Board, noting her resignation is effective October 2, 2023. She announced that Dipesh Mehta, who is ISBI Deputy Executive Director, General Counsel and Chief Compliance Officer, is serving as Acting Executive Director during her leave. Chairperson Mendoza thanked Ms. Farhadieh for her dedication and leadership at ISBI and wished her well in her next position.

Ms. Farhadieh turned the presentation over to Deputy Director Mehta to begin the investment report. He directed the Board's attention to the March 31, 2023, Performance Report and noted the Fund is currently valued at \$23.89 billion and returned 3.6% in the first quarter of 2023, increasing the portfolio value by \$732 million in the quarter.

Mr. Mehta then discussed the Fund's strategic asset allocation and noted that ISBI methodically deploys assets in a public market equivalent for any private asset classes that are underweight. He briefly reviewed asset allocation, noting that private market asset classes are underweight 0.6% in Private Equity, 3.3% in Private Credit and 0.9% in Infrastructure while Real Estate is overweight by 1.7%.

Mr. Mehta added ISBI doesn't react to market fluctuations as the long-term goal is to ensure a 6.75% annual return. He stated that two-thirds of the portfolio is passively managed and ISBI's goal is to allocate the remaining assets to strategic partners who consistently outperform their respective benchmarks. Mr. Mehta then introduced Jennifer Koelle to review performance.

Ms. Koelle began her presentation by reviewing the Fund's performance for the 12-months ending March 31, 2023, noting the Fund lost 4.0%, underperforming the Policy Benchmark by 50 basis points and the Actual Allocation Benchmark by 10 basis points. She stated the Fund ranked in the 16<sup>th</sup> percentile of its public fund peer group over the period.

Ms. Koelle then reviewed several asset classes, noting the Fixed Income Composite lost 4% over the one-year period, outperforming the benchmark return by 60 basis points, and the Core Fixed Income and Treasury Inflation Protected Securities Composite (TIPS) lost 6.2% and

6.1%, respectively, for the same period. She noted the Multi-Asset Credit returned 0.7%, while Private Credit gained 3.7%. Ms. Koelle added that the Domestic Equity Composite lost 9.3%, lagging the broad U.S. equity market by 70 basis points, while the International Equities Composite fell 5.9%, underperforming the benchmark by 10 basis points. She noted the Private Equity portfolio returned 0.4%, while Infrastructure was up 12.6%, and Real Estate returned 7.9%.

Ms. Koelle explained the portfolio's performance was impacted by underperformance in the Emerging Market Equities portfolio, which lost 12.1% and underperformed the MSCI Emerging Markets by 140 basis points. She concluded her report and asked if there were any questions.

Chairperson Mendoza asked if anyone had questions. Hearing none, she asked for a motion to approve the ISBI report. Trustee Hawk moved to approve. The motion was seconded by Trustee Ramirez and all voted in the affirmative. A copy of the March 31, 2023, Performance Report is maintained in the ISBI office and made part of these minutes as *Exhibit A*.

#### REPORT OF CONSULTING ACTUARIES

Annual Review of Economic Assumptions. Alex Rivera and Heidi Berry, Consulting Actuaries of Gabriel, Roeder, Smith & Company, provided the annual economic assumption review and stated the review is done to determine if the economic assumptions used for the June 30, 2022, actuarial valuation are still adequate. Mr. Rivera stated they are recommending no changes to the current economic assumptions for the June 30, 2023 actuarial valuation, recommending a 6.75% investment return assumption, a 2.25% price inflation assumption, and a 2.75% wage inflation assumption.

Mr. Rivera continued by stating they recommend using the current SERS investment return assumption of 6.75%, which was developed considering the expected long-term return on assets and the projected funded status of the System. He noted that GRS reviews Meketa's capital market assumptions and short-term and long-term expectations in the analysis as well as eleven independent investment consulting firms. He stated that based on the long-term capital market assumptions, the 20-year period median return is approximately 7.11%, and the likelihood of achieving at least 6.75% over a 20-year period is approximately 55%. Based on these findings, Mr. Rivera stated they believe the current investment return assumption of 6.75% per year is reasonable.

Mr. Rivera then reviewed the inflation assumption, noting that while the CPI-U increased by 9.06% for the 12-month period ending June 30, 2022, the Federal Reserve Bank of Cleveland is projecting stable rates of inflation that are in line with the System's current assumed rate, as current 20-year expected annual inflation is 1.88%. He noted the expected inflation assumption of 12 independent investment consulting firms with a shorter time horizon and the average was 2.53%, while for a longer time horizon was an average of 2.49%.

Mr. Rivera finished his presentation by reviewing the wage inflation and salary increase assumptions, indicating that for the plan year ending June 30, 2022, average salary increases were higher than the assumption. He stated this experience follows increases that were more modest in 2020 and 2021, and therefore, stated they recommend maintaining the 2.5% wage inflation assumption until they've received more data supporting adjusting this assumption.

At the conclusion of his presentation, Chairperson Mendoza asked if there were any questions. Seeing none, Chairperson Mendoza thanked Mr. Rivera and Ms. Barry for their presentations and excused them from the remainder of the meeting. A copy of the GRS Economic Assumption Update Review for the June 30, 2023 actuarial valuation is maintained in the SERS office and made part of these minutes as *Exhibit B*. No motion was required because no assumption changes were recommend.

#### MINUTES OF THE APRIL 25, 2023 BOARD MEETING

The minutes of the Board meeting held April 25, 2023, were presented to the trustees by Chairperson Mendoza. Copies of the minutes were previously provided to each trustee for review. Trustee Silverthorn moved to approve the minutes and Trustee Baird seconded the motion. A voice vote was taken, and the motion passed unanimously.

#### REPORT OF CHAIRPERSON MENDOZA

Chairperson Mendoza began her report by noting that during the 4<sup>th</sup> quarter of FY 23, accounts payable reached \$253 million, the lowest IOC payables to end a fiscal year since FY 08. She added that since June 30<sup>th</sup>, accounts payable have reached a new post-great recession low of \$187 million. Chairperson Mendoza reported that total accounts payable at the end of FY 23 was \$484 million and on July 12<sup>th</sup>, total accounts payable reached a new low of \$418 million.

Chairperson Mendoza noted that the State's Rainy Day Fund has a record balance of \$1.94 billion, with June 30<sup>th</sup> marking the first time since FY 08 that the fund's balance exceeded accounts payable to end a fiscal year. She added that the balance as of today is \$1.942 billion. Chairperson Mendoza stated that the General Revenue Fund adjusted cash balance at the end of FY 23 was \$862 million, which is the first time to end a fiscal year with a positive general revenue fund adjusted cash balance since 2007. She reported that cash on hand at the end of FY 23 was \$1.112 billion, marking the first time the State has ended a fiscal year with more than \$1 billion in GRF cash since 1999. One year ago, accounts payable totaled \$3.9 billion. As of this morning, total accounts payable is \$662 million. Last year, IOC payables was \$1.2 billion: today it's \$431 million.

Chairperson Mendoza reported that the current General Revenue Fund payment cycle is down to single digit days, compared to one year ago at 11 business days. She added that her office would continue to make payments as quickly as possible in her ongoing effort to improve the State's credit ratings. Chairperson Mendoza reminded the Board that each day's accounts payable is a snapshot in time. Last month, her office made a \$200 million transfer to the Pension Stabilization Fund. Over the last two fiscal years, the total investment into the fund has risen to \$700 million and is estimated to lower the State's

pension liability by \$2.4 billion by 2045. Chairperson Mendoza noted that SERS' portion of last month's transfer was more than \$43 million.

Chairperson Mendoza reiterated her commitment to paying SERS' monthly vouchers as quickly as possible, noting the importance of paying pensions in a timely manner and limiting the amount of ISBI drawdowns. She noted that her office is in the process of prepaying pension payments in order to prevent ISBI drawdowns. Chairperson Mendoza concluded her report by offering to answer any questions from the Board. None were offered.

#### 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 that the Committee reviewed the internal audit charter and the two year risk based audit plans for FY 24 and FY 25. He noted that the FY 24 and FY 25 internal audits include IT security, optional service purchases, contribution refunds and required minimum distributions.

Mr. Evans added that the Committee discussed the ongoing survivor and death benefits audit, noting that most routine survivor benefits are paid without error. He noted the growing number of unclaimed survivor and death benefits due to difficulty in locating beneficiaries, and stated that the Committee discussed the ongoing retirement benefits audit and that most routine claims that were tested were free of error.

Mr. Evans mentioned the external financial audit, the biennial compliance examination and the expanded IT review. Trustee Donovan asked if these were all independent auditors. Mr. Evans answered in the affirmative and stated that external auditors are contracted and managed by the Auditor General's office. Trustee Donovan further inquired about timelines for the Board to get results of the audits. Mr. Evans responded that the financial audit should be available in January, with the compliance examination and IT review available in April 2024. He added that compliance examinations within the government arena have numerous requirements and he expects to have findings, though nothing concerning.

Trustee Donovan inquired about the four disability audit findings and Mr. Evans responded that work continues on implementing additional internal controls and improving technology to address these findings.

Mr. Evans concluded his report by offering to answer any further questions from the Board. No questions were offered.

## REPORT OF RULES & PERSONNEL COMMITTEE

Jeff Houch, Associate Executive Secretary, noted the Committee authorized a rule change regarding the how a SERS member is granted the opportunity to reappeal the denial of a prior appeal. He noted that the new rule will require the approval of a majority of the Executive Committee for such a request for a reappeal to be granted. The previous rule provided that only one member could approve a reappeal request.

A brief discussion ensued regarding the structure of the Executive Committee and current procedures, and Mr. House concluded his report.

## REPORT OF THE EXECUTIVE SECRETARY

Third Quarter FY 23 Financial Statements. Secretary Blair presented the third quarter FY 23 financial statements, noting that disbursements surpassed receipts for the first three quarters of FY 23. He added that while the supplemental State contributions have been helpful, drawdowns totaling \$220 million over the course of the year were necessary to pay benefits. Trustee Baird asked whether ISBI drawdowns would continue to be necessary. Secretary Blair added that drawdowns would be necessary for the foreseeable future due to minimal increases in annual employer contributions. Some discussion ensued regarding the funding plan and employer contribution caps.

Trustee Hawk moved to approve the third quarter FY 23 financial statements as presented. Trustee Donovan seconded the motion. After some discussion regarding ISBI drawdowns a voice vote was taken, and the motion passed unanimously.

FY24 Funding and Cashflow Update. Secretary Blair directed the Board's attention to the FY 24 funding and cashflow report, stating that ISBI drawdowns totaling an estimated \$550 million would be necessary to pay benefits in FY 24.

Final FY 24 Operations Budget Request. Secretary Blair presented the final FY 24 operations budget request, noting an increase of \$1,417,756 or 6.84%, over the FY 23 budget. He stated the increase was due to several factors, including a \$461,332 increase in the Personal Services line for the COLA increases of 4% in July 2023 and 2.5% in January 2024, and \$1,200 one-time payments for all bargaining unit employees. He noted a \$203,205 increase in the Retirement line and a \$30,945 increase in the FICA line, due to the increase in the Personal Services line. Secretary Blair also noted a \$100,000 increase in the Group Insurance line.

Secretary Blair added there is a \$7,000 increase in the Travel line due to more in-person meetings and a significant increase in the Printing line due to the upcoming Board election. He noted a \$333,496 increase in the Contractual line, including an \$80,000 increase in the Auditor General fee and \$170,000 for Board election postage and commodities. He concluded his FY 24 operations budget request by noting a \$256,930 increase in the IT line and offered to answer any questions. No questions were offered.

Trustee Silverthorn moved to approve the final FY 24 operations budget as presented. Trustee Hawk seconded the motion and the motion passed unanimously by voice vote.

Backwage Processing Update. Secretary Blair told the Board that as of today, SERS is processing backwage adjustments for June 2019 retirements adding the backwage adjustment processing should be completed in the next few months.

Buyout Update. Executive Secretary Blair informed the Board that the May and June buyout vouchers totaled \$22 million, which is significantly higher than the \$12 million estimate based on prior years. He noted that the program remains popular with eligible members and participation rates remain steady. He concluded his report by offering to answer any questions. No questions were offered.

Legislative Update. Vice-Chairperson Morris requested an update on HB 4098. Jeff Houch responded that the legislation impacts all five state retirement funds and would adjust key provisions of the Tier 2 plan. He stated that the House Personnel and Pensions Committee is holding hearings over the summer and noted that the bill increases the funded ratio target to 100% by 2050, while requiring supplemental contributions be made to the retirement systems every year equal to the deficit between the statutory funding plan and the actuarially determined contribution method.

A lengthy discussion regarding the details of the proposed legislation and the fiduciary implications followed. Mr. Houch reminded the Board that its established Board policy to oppose any legislation that would weaken the financial condition of SERS. Chairperson Mendoza mentioned that credit agencies would be watching the proposed legislation very closely and that the State should consider only those changes to the Tier 2 plan that address non-compliance with the Safe Harbor exemptions to the Social Security Act.

Mr. Houch then touched on SB 1648, which provides that a Tier 2 member whose disability benefit is terminated either because they turn age 65 or they receive disability benefits for 5 years after turning age 60, shall qualify for a retirement annuity without the age reduction applicable to a Tier 2 member who retires before age 67, provided that the member has met the service requirements for a retirement annuity and was disabled at the time his or her disability benefit was terminated.

Mr. Houch mentioned Public Act 103-0004, which appropriates \$1,676,706,990 to SERS, including an additional \$20 million above the General Revenue Fund portion of the FY 24 certified contribution. He noted the Act provides an additional \$43,786,400 as a supplemental contribution for FY 23.

#### APPROVAL OF EXECUTIVE COMMITTEE MINUTES

All trustees had previously been furnished with copies of the April, May and June 2023 Executive Committee minutes for review. After brief discussion regarding one of the cases, Trustee Baird moved to approve the April, May and June 2023 Executive Committee minutes as presented. Trustee Hawk 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. There was no new business.

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 Donovan moved to adjourn. Trustee Ramirez seconded the motion, which passed unanimously by voice vote. The meeting was adjourned at 11:51 a.m.

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Susana A. Mendoza, Chairperson

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

ATTEST:

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

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