

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

MINUTES OF THE REGULAR MEETING
OF THE BOARD OF TRUSTEES

October 24, 2023

A regular meeting of the Board of Trustees of the State Employees' Retirement System of Illinois convened on Tuesday, October 24, 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 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
Mohamad Nasir, Appointed Trustee

The following trustees participated remotely:

Barbara Baird, Elected Retired Trustee
Tad Hawk, Elected Active Trustee
John Tilden, Elected Retired Trustee
Melverta Wilkins, Appointed Trustee

Absent:

Mark Donovan, Appointed Trustee
Ray Koenig III, Appointed Trustee

Others in attendance were:

Timothy Blair, Executive Secretary
Casey Evans, Chief Internal Auditor
Jeff Houch, Associate Executive Secretary
Samantha Goetz, SERS General Counsel
Jessica Blood, Recording Secretary
Dipesh Mehta, Acting 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.
Heidi Barry, Consulting Actuary, Gabriel, Roeder, Smith & Co.
Jeff Tebeau, Consulting Actuary, Gabriel, Roeder, Smith & Co.
Chris Maley, Illinois Office of the Comptroller
Martha Merrill, AFSCME

After a roll call at 10:10 a.m. confirmed a quorum of 7 members, Trustee Nasir moved to allow four trustees to participate remotely. The motion was seconded by Vice-Chairperson Morris. A voice vote was taken and the motion passed unanimously.

MINUTES OF THE JULY 25, 2023 BOARD MEETING

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

REPORT OF THE ILLINOIS STATE BOARD OF INVESTMENT

Dipesh Mehta, Acting Executive Director for ISBI, began the report by reminding the Board that former Executive Director Johara Farhadieh left ISBI and that he was serving as the Acting Director until her successor is selected. He stated that no changes to the asset allocation policy have been made since the last SERS Board meeting, and the portfolio's market value totaled approximately \$24.4 billion as of June 30, 2023. Mr. Mehta mentioned that approximately 43% of its assets are managed by emerging and minority-owned firms and that 57% of the portfolio's assets are passively managed.

Mr. Mehta directed the Board's attention to the ISBI Performance Update for June 30, 2023. He stated that the portfolio gained 6.2% in FY 23, which trailed the benchmark by 60 basis points. Mr. Mehta explained that Fiscal Year 23 was extremely volatile as many significant events occurred, including historic interest rate increases, the collapse of Silicon Valley bank, and the continuation of the Russo-Ukrainian War.

Mr. Mehta turned the presentation over to Scott Richards, ISBI Senior Investment Officer, to review the performance of asset classes. He began by pointing out the Fixed Income portfolio gained 0.5%, net of fees, for the year ended June 30, 2023, outperforming the benchmark by 0.5%. Mr. Richards added the Core Fixed Income portfolio and the Treasury Inflation Protected Securities Composite (TIPS) lost 2.1% and 1.4%, respectively, while the Credit Composite portfolio gained 7.6%, but underperformed the benchmark by 3.8%. He noted the Private Credit portfolio returned 6.7%, underperforming the benchmark by 6.1%, and the Global Equity portfolio gained 12.7% and the U.S. Equity portfolio returned 17.6%.

Mr. Richards continued his report by informing the Board that the Non-U.S. Equity portfolio gained 11.9% for the 12 months ended June 30, 2023, while the Emerging Markets portfolio advanced 2.0%, exceeding the benchmark by 30 basis points, and the Private Equity portfolio advanced 2.4%, exceeding the benchmark by 4.2%. He concluded his review by adding the Infrastructure Composite returned 9.7% and the Real Estate portfolio was the worst performing asset class with a loss of 6.0% in FY 23, net of fees.

Chairperson Mendoza thanked Mr. Mehta and Mr. Richards for the report, and added Trustee Wilkins to the roll. Trustee Nasir moved to approve the ISBI report. Trustee Black seconded the motion, and it was approved unanimously. A copy of the June

30, 2023 Performance Update is maintained in the ISBI office and made part of these minutes as *Exhibit A*.

REPORT OF CONSULTING ACTUARIES

Alex Rivera and Heidi Barry of Gabriel, Roeder, Smith & Company, presented draft copies of the FY 23 SERS actuarial valuation. Mr. Rivera stated the purpose of the actuarial valuation is to measure the funded status of the System on June 30, 2023, and to determine the State's contribution rate for FY 25. He added that Public Act 100-0023, effective July 6, 2017, modified the State's funding policy to smooth State contribution rate increases or decreases due to changes in actuarial assumptions, over a five-year period in equal annual amounts.

Mr. Rivera continued his report and noted the actuarial accrued liability increased from \$52.1 billion on June 30, 2022 to \$53.9 billion on June 30, 2023. He indicated the market value of assets increased by \$1.1 billion, which increased the funded ratio on a market value basis from 42.8% to 43.4%. Mr. Rivera noted that the actuarial value of assets increased from approximately \$22.9 billion to \$24.1 billion due to smoothing, which increased the funded ratio based on the actuarial value of assets from 44.0% to 44.6%. He referred the Board to the slide showing that the funded ratio is expected to slowly increase until FY 33, and then rapidly increase after FY 34 to reach 90% funded in FY 45. Mr. Rivera then turned the presentation over to Ms. Barry.

Ms. Barry began her presentation by stating that for FY 23, employer contributions totaled \$2.7 billion, employee contributions were \$297 million, and benefits and expenses were \$3.2 billion, resulting in negative cash flow of approximately \$208 million. She noted this means the Fund is using assets to pay benefits and the forecast from 2023 to 2033 indicates that the percentage of investment income needed to pay benefits is projected to increase from 25% to 54%. Ms. Barry stated the FY 25 State Contribution rate decreased from 52.657% of payroll to 51.180%, a \$34 million decrease from FY 24, to \$2,672,354,000. She pointed out that the actuarially determined contribution (ADC) is \$3.1 billion, or \$596 million higher than the amount calculated under the statutory funding plan.

Following discussion regarding the annual employer contribution limit associated with the 2003 Pension Obligation Bond (POB) debt service schedule. Vice-Chairman Morris moved to accept the draft FY 23 valuation and preliminarily certify \$2,672,354,000 for the FY 25 employer contribution. Trustee Black seconded the motion, and it was approved unanimously. Chairperson Mendoza thanked Mr. Rivera and Ms. Barry.

Chairperson Mendoza asked if there were any questions regarding the draft June 30, 2023 actuarial valuation or the preliminary FY 25 State contribution. No questions were offered. Vice-Chairperson Morris motioned to approve the draft June 30, 2023 actuarial valuation and the preliminary FY25 State contribution of 51.180% of payroll, or \$2,672,354,000. The motion was seconded by Trustee Black and passed by unanimous voice vote. Copies of these documents are maintained in the SERS office and made part of these minutes as *Exhibit B*.

REPORT OF AUDIT & COMPLIANCE COMMITTEE

Chief Internal Auditor Casey Evans began his report by reminding the Board about the annual training requirements that must be completed by trustees before the end of the year, adding that he would be sending out information regarding the training to the trustees.

Mr. Evans reported that the Committee discussed fraud monitoring the system is conducting in response to a phishing scheme by an attacker using DocuSign to impersonate the retirement system. He noted that the Committee discussed an instance of benefit fraud uncovered during an audit that was referred to the state's attorney in Macon county, adding that the loss to the System was minimal and collection efforts had already begun.

Mr. Evans continued his report by noting the System's involvement in routine external financial and compliance audits, as well as the reconciliation of member census data from approximately ninety state agencies. He mentioned the ongoing audit of survivor and retirement benefit and concluded by offering to answer questions. None were offered.

REPORT OF RULES & PERSONNEL COMMITTEE

Chairperson Mendoza noted that the Rules and Personnel Committee meeting scheduled for Monday, October 23, 2023 had been cancelled and continued to the next agenda item.

REPORT OF CHAIRPERSON MENDOZA

Chairperson Mendoza began her presentation by noting that as of today, general funds accounts payable is \$1.8 billion. One year ago, accounts payable totaled \$2.1 billion. She stated that the current General Revenue Fund billing cycle is 15 business days compared to 8 business days one year ago. Chairperson Mendoza stated that accounts payable hit a 15 year low in June 2023, with her office seeing an expected increase at this point of the fiscal year given the ratio of bills to revenue. For the first quarter of FY 24, the State's general revenue fund had periods with a positive cash balance, including the entire month of July and some days in August.

Chairperson Mendoza reiterated her commitment to paying SERS benefits vouchers as soon as possible, noting the importance of paying benefits on time and eliminating the need to draw down assets to pay benefits. SERS vouchers were once again paid ahead of schedule for October.

Chairperson Mendoza stated that on October 2nd, the office of the Comptroller completed an inter-governmental transfer of \$98.6 million to SERS to fully meet required contributions for FY 23. She offered to answer any questions about her report thus far. No questions were offered.

Election of 2024 Vice-Chair. Chairperson Mendoza moved to nominate Vice-Chairperson Morris to continue to serve as Vice-Chairperson of the Board and asked if there

were any other nominations for Vice-Chair. No further nominations were offered. Nominations were closed. A voice vote was taken and Vice-Chairperson Morris was elected unanimously.

Election of 2024 Committees. Chairperson Mendoza moved to nominate the following 2024 standing committee members:

- Vice-Chairperson Morris to continue to serve as Vice-Chairperson of the Executive Committee, with Trustee Hawk to serve as the alternate,
- Trustee Baird as the Chairperson of the Audit and Compliance Committee, with Trustee Black 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.

Chairperson Mendoza asked if there were any other nominations for the 2024 committees. No further nominations were offered. Nominations were closed and a voice vote was taken; all voted in favor of the nominated 2024 committee members.

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 THE EXECUTIVE SECRETARY

Fourth Quarter FY 23 Financial Statements. Secretary Blair presented the fourth quarter FY 23 financial statements, noting that total receipts for FY 23 were \$3.286 billion, including a \$220 million draw down of investments, which was necessary to pay benefits. He noted that the \$98.6 billion transfer on October 2nd was a GRF payroll reconciliation payment. Secretary Blair stated that the annual reconciliation amount has increased in recent years due to larger than expected payroll growth. He concluded by informing the Board that the System would continue to need draw downs of \$90-\$120 million quarterly and offered to answer any questions regarding his report. No questions were offered.

Trustee Nasir moved to approve the fourth quarter FY 23 financial statements as presented. Trustee Black seconded the motion. The motion passed unanimously by voice vote. A copy of the financial statements is made part of these minutes as *Exhibit C*.

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

- Tuesday, January 9, 2024 – 10:00 a.m.
- Tuesday, April 16, 2024 – 10:00 a.m
- Tuesday, July 30, 2024 - 10:00 a.m
- Tuesday, October 29, 2024 – 10:00 a.m

Funding Update. Secretary Blair provided a brief funding update, noting that the full October contribution was received three days after sending the voucher to the Comptroller's office, ensuring that no draw down of investments was necessary to pay benefits in November.

Backwage Processing Update. Secretary Blair told the Board that SERS has processed all regular adjustments, with a few hundred reciprocal retirement backwages still needing to be processed. He reminded the Board that no backwages would be vouchered in December and January due to COLA increases, adding that what staff doesn't get completed in November should be finished in February or March 2024.

Buyout Update. Executive Secretary Blair informed the Board that 27.2% of retirees have chosen a lump sum payment rather than the Tier 1 COLA. He stated that 3,516 retirees had been paid a total of over \$421 million, with the largest payment being nearly \$600,000. Secretary Blair noted that 134 members have elected to participate in the total buyout program, with a total payout of approximately \$20 million. He reminded the Board that the program has been extended to June 2026, with bond proceeds paying the lump sums and therefore reducing the System's liability.

APPROVAL OF EXECUTIVE COMMITTEE MINUTES

All trustees had been furnished with copies of the July, August and September 2023 Executive Committee minutes for review. Trustee Nasir moved to approve the July, August and September 2023 Executive Committee minutes as presented. Trustee Silverthorn seconded the motion. A voice vote was taken, and the motion passed unanimously.

OLD BUSINESS

Chairperson Mendoza asked if there was any old business. Jeff Houch, Associate Executive Secretary, updated the Board on the status of HB 4098. He noted the bill includes bringing the Tier 2 salary cap in line with the Social Security wage base, allowing Tier 2 members who work at least 35 years to receive unreduced retirement benefits at age 62 and members who work at least 20 years to receive unreduced retirement benefits at age 64, and adjusting the Tier 2 COLA to 3% simple interest.

Mr. Houch reminded the Board that bill also includes a deferred retirement option plan (DROP), which would allow members to continue to work after locking in their retirement benefit. The member would accrue the benefit notionally and wouldn't have access to their retirement benefits until actually separating from service. He noted that SERS has expressed concerns regarding the bill because it has been promoted as cost neutral, but the proposed plan will increase the retirement system's unfunded liability. He concluded by saying that the bill was unlikely to advance during the fall veto session, and offered to answer any questions from the Board. No questions were offered.

NEW BUSINESS

Chairperson Mendoza asked if there was any new business. Executive Secretary Blair informed the Board that terms are expiring for three active trustees and one elected

annuitant trustee. He noted the election cycle to fill these vacancies starts January 2nd, with the election being held in May, adding that a newsletter will be sent out to all active and retired members informing them of the election and how to be a candidate for trustee.

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 Nasir moved to adjourn. Trustee Black seconded the motion, which passed unanimously by voice vote. The meeting adjourned at 11:15 a.m.

Susana A. Mendoza, Chairperson

Date: _____

ATTEST:

Timothy Blair, Executive Secretary

Date: _____