



**MINUTES
Board of Trustees
December 13, 2018**

The regular meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on December 13, 2018 at the Hilton Rosemont, 5550 N. River Road, Rosemont. President Tony Smith called the meeting to order at 3:16 p.m.

A quorum was present.

Roll Call attendance was taken with the following trustees present: Mark Bailey, John Bloomfield, Andy Hirshman, Matt Hower, Tracy Kearney, Laura Pearl, Fred Peronto, Larry Pfeiffer, Mark Shaw, Mark Splitstone, Dan Winter, Cinda Klickna, Vice President and Dr. Tony Smith, President.

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Scottie Bevill, Sr. Investment Officer; Ben Skrodzki, Investment Officer; Bill Thomas, Sr. Investment Officer; Brian Payne, Sr. Investment Analyst; Jana Bergschneider, Chief Financial Officer; Gina Larkin, Chief Human Resources Officer; Stacy Smith, Director of Internal Audit; Marcy Dutton, Chief Legal Counsel; Carlton Lenoir, Chief Benefits Officer; Dave Urbanek, Director of Communications; Bob Jiroutek, Risk Officer; Jeremy Crites, Security Supervisor; Tammy Green, Executive Assistant; Becky Gratsinger and Ian Bray, RVKuhns (Investment Consultant); Andrew Bodewes, Legislative Consultant; and Tiffany Reeves, Reinhart (Fiduciary Counsel).

Visitors present: Christine Williamson, Pensions & Investments and Jack Tucker, IL Education Association-Retired.

APPROVAL OF MINUTES

A draft of the October 29, 2018 minutes of the regular board meeting was sent to the trustees for prior review. On a motion by Laura Pearl, seconded by Mark Bailey, the minutes were approved by unanimous voice vote.

INVESTMENT COMMITTEE REPORT

President Smith presented the consent agenda. All items listed under the consent agenda are enacted by one motion with a roll call vote. No separate discussion of these items is held unless a request is made prior to voting on the motion. Trustee Bailey moved that the Board approve the consent agenda as stated. Trustee Klickna seconded the motion and it passed unanimously with a roll call vote from Trustees Bailey, Bloomfield, Hirshman, Hower, Kearney, Pearl, Peronto, Pfeiffer, Shaw,

Splitstone, Winter, Klickna, and Smith. Motion CARRIED. The following motions were approved by action taken in the consent agenda motion.

1. Approve the private debt tactical plan, as presented.
 - Increase pacing from \$350 million to \$600 million per fiscal year.
2. Accept Staff's presentation of the global equity annual review, as presented.

End of Consent Agenda

Diversifying Strategies

On a motion by Matt Hower, seconded by Tracy Kearney, it was resolved:

To reduce the current diversifying strategies target of 14% to 6.5% (approximately \$2 billion) due to underperformance of funds. Source of funds to be cash and Income strategies.

Roll call resulted in affirmative voice votes from Trustees Bloomfield, Kearney, Splitstone, Hower, and Shaw. A vote of opposition was heard by Trustees Bailey, Hirshman, Pearl, Peronto, Pfeiffer, Winter, Klickna, and Smith. Motion FAILED.

On a motion by Tony Smith, seconded by John Bloomfield, it was resolved:

To change the interim asset allocation target for Diversifying Strategies to 10% of the plan until the conclusion of the next asset allocation study/recommendation.

The asset class is permitted to exceed the 10% target based on market movement, but in instances where the class is above 10% new commitments to the class shall not exceed redemptions.

Roll call resulted in affirmative voice votes from Trustees Bloomfield, Hirshman, Kearney, Pearl, Peronto, Pfeiffer, Splitstone, Winter, and Smith. A vote of opposition was heard by Trustees Bailey, Hower, Shaw, and Klickna. Motion CARRIED.

EXECUTIVE DIRECTOR'S REPORT

FY 2019 and FY 2020 Final Certifications of Funding Requirements

As required by state statute, the Board must certify the state funding requirements in final form after review by the state actuary. Cheiron, the state actuary, found the preliminary report, actuarial assumptions, and calculations of state contribution requirements that were submitted by the Board in October 2018 to be reasonable. No changes in the calculation of the FY 2020 state contribution requirements are required. Since TRS's founding in 1939, TRS has never received an annual contribution from state government that equaled full funding.

The June 30, 2018 actuarial valuation report includes the changes in actuarial assumptions adopted by the Board at its August 2018 meeting. It also makes assumptions about the impact of Public Act 100-0587. Those assumptions would result in a \$112 million reduction in the FY 2019 state contribution to TRS, but the actual change may be different when the amount is recertified by the Board in June 2019. On a motion by Fred Peronto, seconded by Matt Hower, it was resolved:

To accept the results of the final June 30, 2018 actuarial valuation prepared by Segal Consulting and approved by Cheiron, the state actuary:

- Based on Illinois statute, an FY 2020 state funding amount of \$4,813,577,696, including \$500,000 for minimum retirement benefits;
- Based on the Board's funding policy, an FY 2020 state funding amount of \$7,878,670,709, including \$500,000 for minimum retirement benefits;
- An FY 2020 normal cost rate of 19.66 percent of pay, a rate that includes a total employer normal cost rate of 10.66 percent and a member contribution rate of 9.00 percent; and
- An FY 2020 federal contribution rate of 10.66 percent of pay, a rate that is identical to the total employer normal cost rate.

Roll call resulted in affirmative voice votes from Trustees Bailey, Bloomfield, Hirshman, Hower, Kearney, Pearl, Peronto, Pfeiffer, Shaw, Splitstone, Winter, Klickna, and Smith. Motion CARRIED.

TRS Sustainability Project

Discussion continues regarding the approach TRS should take in communicating to its members the current state of the System's long-term finances and what messages should be utilized to engage TRS members, the public and state officials in ways to secure the financial future of the System.

Director Ingram outlined the state of the System's finances with facts that would form the core of any messaging with the sustainability project: TRS's unfunded liability continues to grow due to underfunding by state government, and the System cannot guarantee retirement security for future generations of teachers unless the state's future annual contributions continually meet an actuarial standard for full funding.

For discussion, Director Ingram provided the following materials, including an executive summary and facts/potential solutions to address the sustainability of TRS. Documentation is on file:

- A pension funding reform draft position paper
- A proposed timeline for implementation
- Segal Consulting's summary analysis of the risks and projected outcomes from the current re-amortization proposal
- Economic impact study of TRS member salaries and benefits broken out by legislative district and county.

The Board discussed the importance of educating members on the facts regarding the future of TRS. Trustees raised concerns about the project's proposed timeline due to the recent election, as well as the level of engagement TRS should have with legislators. Trustees were also concerned that the core facts in the suggested messaging were too frank and how those facts may be received as overly provocative by TRS members.

The Board endorsed the release of an information packet to all legislators at the beginning of the new 101st General Assembly but directed staff not to use most of the messaging developed for the sustainability project. The Board further directed staff to place the implementation of the sustainability project on hold pending further discussion.

Enterprise Risk Report

The Board received the TRS enterprise risk management committee's report for December 2018 containing a risk matrix, spotlight report, risk heat map, risk level score, and risk level and trend summary. Since the last year report in 2017, the

committee has reviewed and updated 12 risk category reports. Documentation is on file.

Administrative Rules

Staff resubmitted the administrative rules that included revisions requested by members of the Rules and Personnel committee at its October meeting. Since that meeting, an additional rule has been added that would clarify what types of administratively approved leaves would qualify as service credit for TRS purposes. Documentation is on file. On a motion by Dan Winter, seconded by Larry Pfeiffer, it was resolved:

To promulgate amendments to the TRS Administrative Rules through the JCAR process, as presented.

- establishes general provisions and defines terms for the buyout programs (Section 1650.3300);
- interprets and clarifies the law establishing the Accelerated Annual Increase (AAI) Buyout Program whereby retiring members may elect to receive a lump sum buyout payment equal to 70% of the difference of the present value of the 3% automatic annual increase to retirement annuity and survivor benefits in exchange for a reduced 1.5% automatic annual increase (Section 1650.3310);
- interprets and clarifies the law establishing the Accelerated Pension Benefit (APB) Buyout Program whereby inactive members may elect to receive a lump sum buyout payment equal to 60% of the present value of pension benefits in lieu of receiving pension benefits (Section 1650.3320);
- update to current TRS web page address where trustee candidate petition forms may be obtained (Section 1650.1010); and
- modify ballot signature card verification information from full social security number to last 4 digits of the SSN or Member ID (Section 1650.1050).
- clarifies what types of administratively approved leaves would qualify as service credit for TRS purposes (Section 1650.320).

The motion passed by unanimous voice vote. The Board received a copy of the informational brochure regarding the Tier I AAI program. The brochure may be downloaded from the TRS website, www.trsil.org. For the upcoming retirement season, TRS counselors will provide each member with an estimate illustrating the 3% increase vs the 1.5% increase including the monthly and annual benefit difference that they will give up through age 85. In addition, it is imperative that members seek assistance from a financial planner before making a final decision. Under state law, funding for the AAI Program is generated solely by the

sale of up to \$1 billion in state bonds. The sale of these bonds is the responsibility of the Governor's Office Management and Budget, not TRS. Agreeing to participate in the AAI Program does not guarantee payment.

Quarterly Financial Statements

The financial reports for the quarter ended September 30, 2018 were sent to trustees for review. Documentation is on file. On a motion by Cinda Klickna, seconded by Andy Hirshman, it was resolved:

To approve the financial statement and administrative expenses for the quarter ending September 30, 2018, as presented.

Roll call resulted in affirmative voice votes from Trustees Bailey, Bloomfield, Hirshman, Hower, Kearney, Pearl, Peronto, Pfeiffer, Shaw, Splitstone, Winter, Klickna, and Smith. Motion CARRIED.

Director Ingram requested Board approval for a contract over \$50,000 for the purpose of recruiting a new TRS Chief Technology Officer. Documentation is on file. On a motion by Cinda Klickna, seconded by Tony Smith, it was resolved:

To authorize the Executive Director to enter into a contract in a sum exceeding \$50,000 for the purposes of professional staff recruitment.

Roll call resulted in affirmative voice votes from Trustees Bailey, Bloomfield, Hirshman, Hower, Kearney, Pearl, Peronto, Pfeiffer, Shaw, Splitstone, Winter, Klickna, and Smith. Motion CARRIED.

Miscellaneous Reports

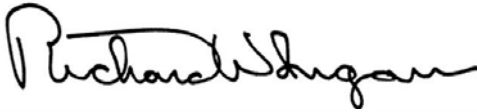
Director Ingram reported that 350,000 member records have been converted into a digital format.

The following reports are on file for the quarter ending September 30, 2018:

- Member Services Statistical Report
- Vendor Pay Report

ADJOURNMENT

There being no further business to be brought before the Board, a motion was made by Mark Bailey, seconded by Matt Hower, to adjourn the meeting at 4:56 p.m. The motion passed by unanimous voice vote.

A handwritten signature in black ink that reads "Richard W. Ingram". The signature is written in a cursive style with a large, prominent initial "R".

Richard W. Ingram, Executive Director

Approved: 3/14/19