



Teachers' Retirement System of the State of Illinois

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Richard W. Ingram, Executive Director

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MINUTES Board of Trustees Special Meeting September 21, 2012

A special meeting of the Board of Trustees of the Illinois Teachers' Retirement System was held on September 21, 2012 at the Springfield office of the Illinois Teachers' Retirement System, 2815 West Washington Street. Molly Phalen, Vice President, called the meeting to order at 8:40 a.m. A quorum was present.

Roll Call attendance was taken with the following trustees present: Chris Koch (via teleconference), President; Molly Phalen, Vice President; Marcia Campbell, Mike Busby (via teleconference), Jan Cleveland, Cinda Klickna, Sharon Leggett, Bob Lyons, Craig McCrohon, Cynthia O'Neill, Janice Reedus, Enrique Vasquez, and Sonia Walwyn (arrives 8:50 a.m.).

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Greg Turk, Director of Investments; Tom Gray, General Counsel; Cynthia Fain, Sr. Assistant General Counsel; Jana Bergschneider, Director of Administration; Rich Frankenfeld, Director of Outreach; Gina Larkin, Director of Human Resources; Sally Sherman, Director of Member Services; Dave Urbanek, Director of Communications; Kathleen Farney, Director of Research; Stacy Smith, Director of Internal Audit; Tassi Maton, Sr. Internal Auditor; Tammy Green, Asst. to the Executive Director; Sue Billington, Executive Assistant; Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel); Andrew Bodewes, Leinenweber & Baroni (Legislative Consultant); Becky Gratsinger and Jim Voytko, RVKuhns (Investment Consultant); Larry Langer and Paul Wilkinson, Buck Consultants (Actuary).

Visitors present:

Dennis Murfin, IRTA

Shirley Dodds, IRTA

Andrew Novorin, House GOP

Joe Sculley, House GOP

Susan Hilton, IASB

Calvin Jackson, IASB

Deanna Sullivan, IASB

Tom LaHood, Senate GOP

Kristen Clark, Governor's Office

Will Lovett, IEA

Jack Casey, IEA-R

Erika Lindley, ED-RED

Kim Fowler, Senate GOP

Andrew Perkins, Senate GOP

Trustee Lyons moved that Trustees Koch and Busby, who are unable to physically attend the meeting due to illness, be allowed to attend the meeting by teleconference. The motion was seconded by Trustee Campbell and passed by a unanimous voice vote.

Director Ingram introduced Craig McCrohon and Enrique Vasquez as the new governor appointed trustees to the Board. Their terms began on September 14, 2012.

During August, Buck Consultants provided a comprehensive review of the System's experience analysis for the five-year period July 1, 2006 through June 30, 2011. Larry Langer and Paul Wilkinson of Buck Consultants reviewed their presentation and recommendations originally discussed at the August Board meeting regarding TRS's actuarial assumptions for the next five-year period. Included was a recommendation to lower the System's assumed rate of investment return from the current 8.50 percent to 8.25, 8.00, or 7.75 percent. The rate of return is the single most important actuarial assumption and affects the reported accrued liability and normal cost, long term funding requirements, and factors used in some benefit and cost calculations. Becky Gratsinger of RVKuhns suggested that the next experience analysis be conducted in two or three years rather than in five years.

RECESS

The meeting recessed at 10:27 a.m. and reconvened at 10:40 a.m.

The Board discussed the actuary's recommendation to lower the salary increase assumption from the current 7.0 percent to 6.5 percent. The salary increase assumption is a composite rate that includes inflation, productivity, seniority, and employment type changes. Many of the trustees felt that the 6.5 percent rate was still too high and thought that 6.0 percent was more realistic for the long term. The actuary agreed that 6.0 percent was within reason. On a motion by Bob Lyons, seconded by Marcia Campbell, it was:

Resolved: To reduce the proposed assumption for expected salary increases from 6.5% to 6.0%.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, O'Neill, Reedus, Vasquez, Walwyn, Phalen, and Koch. A vote of opposition was heard from Trustee McCrohon. Motion CARRIED.

The Board discussed the need to conduct another experience review, including the assumed rate of return, within three years instead of the five years required by

state law due to the volatility of the world economy. On a motion by Cinda Klickna, seconded by Marcia Campbell, it was:

Resolved: To conduct an additional experience review within three years in time for the June 30, 2015 evaluation.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, McCrohon, O'Neill, Reedus, Phalen, and Koch. A vote of opposition was heard from Trustees Vasquez and Walwyn. Motion CARRIED.

The System's current 8.5 percent rate of return was adopted by the Board in 1997. Lowering the assumed rate of return, as recommended, will increase the System's long-term unfunded liability and also increase the state's required annual contribution to TRS. The Board held a lengthy discussion and discussed setting an expected rate of return on investments that is realistic. On a motion by Marcia Campbell, seconded by Cinda Klickna, it was:

Resolved: To lower the expected rate of return on investment assets from 8.5 percent to 8.0 percent.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, O'Neill, Reedus, Vasquez, Walwyn, Phalen, and Koch. A vote of opposition was heard from Trustees Lyons and McCrohon. Motion CARRIED.

On a motion by Jan Cleveland, seconded by Sharon Leggett, it was:

Resolved: To adopt the changes in actuarial assumptions recommended by Buck Consultants, with the exception of the proposed 6.5% expected salary increase, as discussed with the Board of Trustees at the August 23, 2012 regular board meeting and the September 21, 2012 special board meeting and to have those assumptions reflected in the June 30, 2012 actuarial valuation and the FY 2014 state funding requirement. For calculating benefit claims or required payments from members and employers, the assumptions will be effective July 1, 2013. For calculating actuarial gains and losses, the assumptions will be effective July 1, 2012.

The major assumption changes from the five-year experience review are:

- Lowering the expected rate of return on investment assets from 8.5% to 8%
- Lowering the assumed rate of inflation from 3.5% to 3.25%, and

- Recognizing improvements in mortality and adopting a generational mortality table.

Other changes in assumptions are:

- Lower retirement rates,
- Lower rates of disability retirement,
- Lower termination rates,
- Higher accrual of sick leave, partially offset by fewer purchases of optional service,
- Lower utilization of the Early Retirement Option, and
- Different composition of the new hire population.

Also included were findings on the sufficiency of the cost of ERO.

Roll call resulted in affirmative voice votes from Trustees Busby, Campbell, Cleveland, Klickna, Leggett, Lyons, O’Neill, Reedus, Vasquez, Walwyn, Phalen, and Koch. A vote of opposition was heard from Trustee McCrohon. Motion CARRIED.

ADJOURNMENT

On a motion by Molly Phalen, seconded by Jan Cleveland, the meeting adjourned at 11:45 a.m.

Richard W. Ingram, Executive Director

Approved _____