



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 March 30, 2012

The Board of Trustees of the Illinois Teachers' Retirement System held its annual retreat and regular Board meeting on March 28-30, 2012 at Hamburger University, 2815 Jorie Boulevard, Oakbrook, Illinois.

The retreat included educational topics on investments, ethics, public pension issues, and the global economy.

Chris Koch, President, called the regular meeting to order at 9:10 a.m. on March 30, 2012. A quorum was present.

Roll Call attendance was taken with the following trustees present: Marcia Campbell, Cinda Klickna, Sharon Leggett, Bob Lyons, Cynthia O'Neill, Janice Reedus, Sonia Walwyn, Mike Busby (via telephone at 9:40 a.m.), Molly Phalen (Vice President), and Chris Koch (President). Absent: Jan Cleveland

Others present: Dick Ingram, Executive Director; Stan Rupnik, Chief Investment Officer; Tom Gray, General Counsel; Cynthia Fain, Sr. Asst. General Counsel; Gina Larkin, Director of Human Resources; Jana Bergschneider, Director of Administration; Kathleen Farney, Director of Research; Sally Sherman, Director of Member Services; Stacy Smith, Director of Internal Audit; Rich Frankenfeld, Director of Outreach; Dave Urbanek, Public Information Officer; Tammy Green, Asst. to Executive Director; Pat O'Hara, Cavanagh & O'Hara (Fiduciary Counsel); Peter Friedman, Holland & Knight; Becky Gratsinger and John McLaughlin, RV Kuhns (Investment Consultant).

Visitors present: Dennis Murfin, IRTA Rep. and Jim Bauer, Unite Here

EXECUTIVE DIRECTOR'S REPORT

Administrative Purchase

Jana Bergschneider, Director of Administration, requested an increase to the FY 12 budget to complete Phase I and Phase II of the TRS parking lot resurfacing project and provided a preliminary overview of the FY 13 budget. Documentation is on file. The final budget proposal will be presented for approval at the May Board meeting. On a motion by Cinda Klickna, seconded by Marcia Campbell, it was resolved:

To increase the FY 12 budget in the amount of \$305,600 to complete both phases of the parking lot resurfacing project.

Roll Call resulted in affirmative voice votes from Trustees Campbell, Klickna, Leggett, Lyons, O’Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

Strategic Plan

The strategic plan will be discussed at the May Board meeting.

Pension Funding

The Board held a lengthy discussion regarding the future funding of the pension plan and its fiduciary duty to ensure a secure retirement for all of our members. Director Ingram reported on a “new reality” facing TRS today as described in his memo to the board dated February 9, 2012. That memo concluded that TRS can no longer be confident that the General Assembly will appropriate all the money to TRS that is currently required by law. The growing state budget deficit and the System’s \$43 billion unfunded liability could lead to insolvency for TRS in the future if the state does not continue to meet its funding obligations.

Calculations performed by Buck Consultants, the System’s actuary, shows the System could become insolvent by 2030 under a worst-case scenario. Director Ingram has outlined three essential components to solving this problem:

- 1) Use actuarial math to determine contributions and liabilities instead of Illinois political math;
- 2) Enact funding guarantees; and
- 3) Fix the financial inequities of Tier II.

Director Ingram noted that if new revenues are not generated by the General Assembly, the only other way to balance the actuarial equation is that benefits may need to be reduced. The board emphasized that proposals to resolve the pension crisis shall be made from the advocacy groups, and TRS should be the provider of information in all discussions. Director Ingram plans to reach out to TRS members, labor leadership groups, the IRTA board, and conduct town hall meetings throughout the state to talk about this situation.

On a motion by Cynthia O’Neill, seconded by Janice Reedus, it was resolved:

Having heard the report of the Executive Director describing the analysis performed by TRS staff and actuaries evaluating the State of Illinois’ ability to meet its existing future funding obligations, the Board of Trustees hereby resolves that:

The fiscal situation of the State has deteriorated to the point that the Board no longer has confidence that the State will be able to meet its existing funding obligations to TRS.

As a result, the Board believes that action must be taken now to ensure the continued solvency and viability of the plan. This action must be based on the following principles:

1. The impact of any proposal, and all future contributions to the plan, must be determined using generally accepted actuarial principles and standards and not the funding scheme and pension bond limits currently in Illinois law
2. All future contributions must be guaranteed by statutory language substantially similar to that presented to the Governor's pension assembly in February
3. Any changes to the Pension Code must first correct the existing inequities and funding flaws created with the enactment of Tier II and,
4. Any changes to the Pension Code must be based on the simplest and most straightforward changes possible

Further, the Board resolves that it will only certify future contributions that are calculated based on generally accepted actuarial principles and standards.

The Board further resolves to continue to commit the time and expertise of its staff and actuaries as necessary to ensure the accurate analysis of any and all proposals for changes to the Pension Code.

Roll call resulted in affirmative voice votes from Trustees Campbell, Klickna, Leggett, Lyons, O'Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

Cash Withdrawal

Due to the uncertainty of state contribution payments, staff requested a cash withdrawal up to two percent of the main TRS trust fund's total value as of January 31, 2012. On a motion by Bob Lyons, seconded by Sonia Walwyn, it was resolved:

To withdraw up to two percent of the main TRS trust fund's total value, or \$627 million based on the January 31, 2012 ending market value. Dependent on the most efficient source of liquidity, source of funds will be the index accounts, enhanced index accounts, or public markets active investment management accounts that may be overweight to target allocations.

Roll call resulted in affirmative voice votes from Trustees Campbell, Klickna, Leggett, Lyons, O’Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

Real Estate Co-Investment RFP

Staff would like to implement a real estate co-investment program similar to the current private equity program and form a process to invest alongside the most appealing co-investment opportunities being offered by TRS real estate fund managers. Documentation is on file. Staff requested consent to issue an RFP in May for a co-investment advisor. Finalists, policies, and procedures will be presented at the August meeting. On a motion by Cinda Klickna, seconded by Marcia Campbell, it was resolved:

To authorize an RFP for real estate co-investment advisor services.

Roll call resulted in affirmative voice votes from Trustees Campbell, Klickna, Leggett, Lyons, O’Neill, Reedus, Walwyn, Phalen, and Koch. Motion CARRIED.

ADJOURNMENT

On a motion by Marcia Campbell, seconded by Cynthia O’Neill, the meeting adjourned at 11:15 a.m.

Richard W. Ingram, Executive Director

Approved _____