



MINUTES

**Meeting of the Administration Committee
of the Board of Trustees of the
State Universities Retirement System
1:45 p.m., Thursday, June 12, 2014
The Northern Trust
50 South LaSalle, London Room B9
Chicago, Illinois 60603**

The following Trustees were present: Ms. Lindsay Anderson, Chair; Ms. Jacqueline Berger, Dr. John Engstrom, Mr. Richard Figueroa, Mr. Paul R. T. Johnson Jr., Mr. Andrew Matthews, Mr. Craig McCrohon, Ms. Dorinda Miller, Mr. Peter Newell and Mr. Antonio Vasquez.

Others present: Mr. William Mabe, Executive Director; Mr. Michael Weinstein, General Counsel; Mr. Daniel Allen, Chief Investment Officer; Mr. Douglas Wesley, Deputy Chief Investment Officer; Ms. Phyllis Walker, Chief Financial Officer; Mr. Steve Hayward, Director of Internal Audit; Ms. Brenda Dunn, Director of Human Resources; Ms. Angela Lieb, Director of Member Services; Ms. Lou Ann Fillingham, Investment Officer; Ms. Lori Kern, Executive Assistant; Ms. Mary Pat Burns of Burke, Burns & Pinelli; Ms. Leslie Thompson and Ms. Amy Williams of Gabriel, Roeder, Smith & Company; Mr. Douglas Moseley, Ms. Kristin Finney-Cooke and Mr. Kevin Leonard of NEPC; Ms. Patti Somerville-Koulouris of the Northern Trust Company; Mr. Rogier Slingerland of CEM Benchmarking; Ms. Ruth Ann Eledge of Segal Waters Consulting.

Administration Committee roll call attendance was taken. Trustee Berger, present; Trustee Miller, present; Trustee Vasquez, present.

APPROVAL OF MINUTES

Trustee Antonio Vasquez presented the Minutes from the Personnel & Resource Committee meeting of March 21, 2014 and moved that:

- The Minutes from the March 21, 2014 Personnel & Resource Committee Meeting be approved as presented.

Trustee Richard Figueroa seconded and the motion carried with all Trustees present voting in favor.

Trustee Vasquez then presented the closed session Minutes from the Personnel & Resource Committee of March 21, 2014 and moved that:

- The closed session minutes from March 21, 2014, Personnel & Resource Committee meeting be approved and remained closed.

Trustee Figueroa seconded and the motion carried with all Trustees present voting in favor.

CHAIRPERSON'S REPORT

Trustee Vasquez stated that there is no Chairperson Report at this time.

REVIEW AND RECEIPT OF THE ECONOMIC ASSUMPTION STUDY

Ms. Phyllis Walker reminded the Committee that in December, Gabriel Roeder Smith & Company (GRS) presented the "State Actuary Preliminary Report" and their response to the State Actuary (Cheiron) regarding its preliminary report on the assumptions and methods used for SURS June 30, 2013, Actuarial Valuation Report and future valuations. Part of Cheiron's recommendation was for the SURS Board to annually review the economic interest rate assumption, as well as consider lowering the investment return assumption from 7.75% to 7.25%. At that time, the Board informed the State Actuary that SURS was going to wait to make a determination on that recommendation until after they had an opportunity to understand the financial impact of pension reform, perform an asset liability study, and conduct an economic study. The Board felt that any decision regarding the discount rate prior to the June 30, 2014 evaluation would appear premature until they had an opportunity to understand the financial impact of pension reform, perform an asset liability study, and conduct an economic study.

Ms. Walker introduced Ms. Leslie Thompson and Ms. Amy Williams of GRS. Ms. Leslie Thompson presented the results of the economic assumption study noting that this study includes an analysis of three actuarial assumptions which are: 1) investment returns, 2) inflation and 3) payroll growth. Ms. Thompson asked the Committee to keep in mind that all of the recommendations made by GRS are independent of whether or not pension reform is implemented.

Ms. Thompson reported that in evaluating the price and wage inflation assumptions, GRS believes that these are still reasonable and they recommend maintaining the current assumptions of 2.75% for price inflation and 3.75% for general payroll growth which represents 2.75% for inflation and 1.00% for productivity.

Ms. Thompson presented a preview of the estimated valuation as of June 30, 2014, using assumed rates of investment return of 7.25% or lower. A copy of Ms. Thompson's presentation entitled "Economic Assumption Review June 12, 2014" is incorporated as part of the Minutes as [Exhibit 1](#). Ms. Thompson discussed the calculations of the assumed rates of investment return and the implications of changing the rate. She further noted that even though the arithmetic averages lead to a conclusion that 7.75% is still reasonable, when

accounting for future volatility, GRS recommends that SURS Board decrease the investment return assumption to 7.25% or lower for the actuarial valuation as of June 30, 2014. Ms. Amy Williams discussed the implications to the money purchase conversion factors for members. Under pension reform, the money purchase conversion factors would be based on an interest rate that is equal to the 30-year treasury rate plus 75 basis points and the mortality assumption used in the actuarial assumption. Due to pension reform potential change in the calculation of the effective rate of interest, the investment return assumption used for the actuarial valuation would not have an impact on the money purchase conversion factors. However, without pension reform, new money purchase conversion factors are needed whenever the investment return assumptions or mortality assumptions are updated. The timing of the effective date for the new factors is not defined in the statute; therefore, it is at the discretion of the Board. Ms. Williams then discussed the impact that the new money purchase factors would have on member's benefits with and without pension reform. The Committee discussed the current assumptions and the implications of changing these rates.

Trustee Matthews inquired that if moving to 6.75% results in a 50% probability of SURS achieving the long-term investment return, then why shouldn't SURS move to 6.75% now? Ms. Thompson responded that it is GRS's opinion that doing this would be overly conservative and the data doesn't indicate the need for dropping to 6.75% at this time. Discussion continued.

After discussion, Trustee Dorinda Miller moved:

- That the results from the 2014 Economic Assumption Study be approved and filed.

Trustee John Engstrom seconded and the motion carried with all Trustees present voting in favor except for Trustee Craig McCrohon, who opposed.

Copies of the staff memorandum, entitled "Economic Assumption Review Recommendation," the NASRA Issue Brief, and the GRS "SURS 2014 Economic Assumption Review" are incorporated as a part of these Minutes as [Exhibit 2](#), [Exhibit 3](#) and [Exhibit 4](#).

Trustee Miller moved:

- That the long-term assumed rate of investment return be reduced from 7.75% to 7.25% effective with the valuation period as of June 30, 2014, based upon the recommendation of the System's actuary and with the concurrence of the outside investment consultant.

Trustee Engstrom seconded and the motion carried with all Trustees present voting in favor except for Trustee Craig McCrohon and Trustee Johnson, who opposed.

Trustee Paul Johnson moved:

- That the long-term assumed rate of investment return be reduced from 7.75% to 7.25% for the Money Purchase Factors (annuitization rate under Rule 2) and other actuarial tables effective July 2, 2015.

Trustee Miller seconded and the motion carried with all Trustees present voting in favor except for Trustee Craig McCrohon, who opposed.

Trustee Miller moved:

- That the long-term price inflation rate remain at 2.75%.

Trustee Engstrom seconded and the motion carried with all Trustees present voting in favor.

Trustee Engstrom moved:

- That the long-term wage inflation rate remain at 3.75%.

Trustee Andrew Matthews seconded and the motion carried with all Trustees present voting in favor.

RECOMMENDATION TO APPROVE EXPERIENCE STUDY

Ms. Walker presented the request for an actuarial experience study, which will encompass the four-year period from June 30, 2010 through June 30, 2014.

Trustee Engstrom moved:

- That Gabriel Roeder Smith & Company conduct an experience study for the period of 2010 through 2014.

Trustee Miller seconded and the motion carried with all Trustees present voting in favor.

A copy of staff memorandum, entitled "Recommendation of Experience Study" is incorporated as part of these Minutes as [Exhibit 5](#).

ORGANIZATIONAL REVIEW

Mr. Mabe discussed the organization's performance and accomplishments for FY14. He remarked that SURS staff shouldered many additional responsibilities during the past year from pension reform and insurance changes, to superior investment returns, extraordinary customer service efforts, redesigning position descriptions, completion of a compensation study, website enhancements, and endless actuary studies. However, through all of this, SURS has been relentless in making significant strides that reflect its continued commitment to providing extraordinary customer service. Mr. Mabe reported that SURS has received over 1,900 May and June retirement applications and SURS staff will be working extremely hard over the next couple of months calculating these claims.

A copy of staff memorandum, entitled “State Universities Retirement System Fiscal Year 2014 Accomplishments” is incorporated as part of these Minutes as [Exhibit 6](#).

Mr. Mabe then presented the SURS’ Strategic and Operational Plan for FY15 stating that the purpose of the plan is to describe how SURS intends to create long-term value for its members, annuitants, employers and stakeholders. The plan is broken down into five themes (Financial, Customer Service, Human Capital, Internal Processes, and Risk Management). This plan is a systematic approach in which SURS has focused on the important issues and agreed upon priorities that are essential to performance. The initiatives listed in the 2015 Strategic and Operational Plan are focused on performance and productivity. SURS has made a commitment to quality, consistency and improving processes in order to achieve performance and productivity goals which will aid in creating a strong, sustainable pension fund necessary to deliver on the promises made to SURS members.

A copy of staff memorandums, entitled “2015 Strategic and “Operational Planning” and “SURS 2015 Strategic Plan” are incorporated as part of these Minutes as [Exhibit 7](#) and [Exhibit 8](#).

Mr. Mabe also presented the 2015 SURS Business Plan explaining that the Business Plan essentially takes the Strategic Plan and turns it into operational and tactical objectives. All objectives are then owned by the executive staff with ownership cascading down throughout the organization. These objectives will then be evaluated and measured in performance appraisals.

A copy of the “2015 SURS Business Plan” is incorporated as part of these Minutes as [Exhibit 9](#).

Trustee Vasquez commended staff for doing such a wonderful job throughout all of the challenges this past year.

Trustee Vasquez noted that in light of the conversation and the fact that the Committee will be discussing employee compensation and performance, the discussion should take place in closed session. Trustee Miller moved that the Committee go into closed session under the Open Meetings Act to discuss employee matters, pursuant to §2(c)(1). Trustee McCrohon seconded and the motion carried in a roll call vote:

Trustee Anderson	-	Aye
Trustee Berger	-	Aye
Trustee Engstrom	-	Aye
Trustee Figueroa	-	Aye
Trustee Johnson	-	Aye
Trustee Matthews	-	Aye
Trustee McCrohon	-	Aye
Trustee Miller	-	Aye
Trustee Newell	-	Aye

Trustee Vasquez - Aye
Trustee Vogel - Absent

CLOSED SESSION

RETURN TO OPEN SESSION

Upon motion by Trustee Craig McCrohon that was seconded by Trustee Dorinda Miller and carried, the Administration Committee resumed its meeting in open session.

Trustee Miller moved:

- That the results from the 2014 CEM benchmarking Executive Summary be accepted as presented.
- That the results from the 2014 Compensation Study be accepted as presented.
- That the increase in salary and wages of 3% for those staff fully meeting job expectations be approved.
- That \$68,000 be utilized for superior performance recognition and star awards, \$90,000 for reclassification and overtime, and \$68,218 for implementation of the compensation study salary adjustments be approved.
- That an increase of four FTE's be approved for Fiscal Year 2015.

Trustee Engstrom seconded and the motions carried with all Trustees present voting in favor.

FISCAL YEAR 2015 ADMINISTRATIVE EXPENSE AND FY 2015 CAPITAL EXPENDITURE BUDGET

Ms. Walker presented the proposed Administrative Expense and Capital Budget for Fiscal Year 2015, noting that there is an increase of 1.7% in the administrative budget over the prior year's projected actual budget and that the capital budget is 22.8% under the prior year's budget and 15.9% over the projected actual budget. Ms. Phyllis Walker reviewed the aforementioned budget highlighting notable changes over the prior year's budget. Ms. Walker stated that as the focus continues to remain on all public entities, SURS will continue to be committed to thoughtfully examining all areas of operation to maintain a conservative spending approach.

In addition, Ms. Walker reported that this budget reflects the net addition of four new positions (six additional defined benefit/investment FTE positions, less two eliminated positions), the results of a compensation study conducted during FY 2014, and an internal transfer of two positions from investments (one FTE to administration and .75 FTE to finance). Ms. Walker informed the Committee that in order to assist in mitigating the full financial impact of the requested new hires, SURS will continue to monitor and evaluate vacancies as they occur and will continue to move employees strategically, as needed, to fill certain positions, and consider not replacing positions as individuals leave the organization.

Copies of staff memorandum, entitled “Administrative Expense and Capital Budget – Fiscal Year 2015” and “SURS Fiscal Year 2015 Administrative Expense and Capital Budget” presentation are incorporated as part of these Minutes as [Exhibit 10](#) and [Exhibit 11](#).

Trustee Engstrom moved:

- That the Fiscal Year 2015 Administrative Expense Budget be approved as presented.
- That the Fiscal Year 2015 Capital Expenditure Budget be approved as presented.

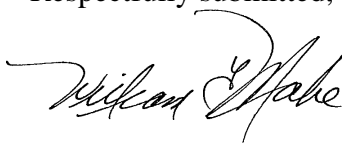
Trustee Miller seconded and the motion carried with all Trustees present voting in favor.

PUBLIC COMMENT

There were no public comments presented to the Administration Committee.

Since there was no further business before the Committee, Trustee Miller moved that the meeting be adjourned. The motion was seconded by Trustee Engstrom and carried with all Trustees present voting in favor.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "William E. Mabe". The signature is written in a cursive style with a large initial "W" and "M".

Mr. William E. Mabe
Secretary, Board of Trustees

WEM:lk