

## **SERS Board Retreat February 17, 2016**

The annual Board Retreat was held at the School Employees Retirement System on February 17, 2106. The meeting convened in open session at 9:03 a.m. and continued with the Pledge of Allegiance. Following the Pledge of Allegiance the roll call was as follows: Catherine Moss, Madonna Faragher, Christine Holland, Barbra Phillips, James Rossler and Daniel Wilson. Ms. Moss excused the absence of Debra Basham, Nancy Edwards and Beverly Woolridge. Also in attendance was Henrique Geigel, representative of the Attorney General, and various members of the SERS staff.

### **Welcome/Overview – Lisa Morris, SERS Executive Director**

Lisa Morris, Executive Director, welcomed everyone to the Retreat and provided an overview of the day's activities. Ms. Morris then asked Mr. Farouki Majeed to begin the Investments session.

### **Investments Introduction/Update**

Farouki Majeed began by outlining the agenda for the morning. He then provided an update on the three-year Investment strategic plan, including a comparison of Pension Fund Data Exchange results. Fees have reduced by 29% compared to three years ago. The asset allocation has shifted by reducing the multi-asset (MAS) allocation from 14% to 10.5%, and the real assets allocation was increased to 14.9% from 10.2%. Further, during the past two-year period, the equity allocation has decreased \$800 million, which was reinvested in global real assets and cash.

Mr. Majeed noted that the investment outlook is weak. Global growth is moderating, financial conditions are tightening, and risks are rising. This will be a difficult year for investment returns, indicating that negative returns should be expected every few years, and historically, one in six years is the norm for such an occurrence.

Concluding his update, Mr. Majeed introduced Michael Hood of J.P. Morgan.

### **Investment Outlook and Return Expectations**

Mr. Hood shared J.P. Morgan's outlook of markets and return expectations, with an overall message that the overall economy is not rapidly growing and returns over the next ten to fifteen years are unlikely to match what has happened in past years. Mr. Hood reported that the outlook for riskier assets looks good compared to government bonds; however, the dollar is likely to depreciate and corporate profit margins are likely to narrow. Following an interactive discussion, the Board thanked Mr. Hood for his presentation.

Concluding Mr. Hood's presentation, the Board took a brief recess at 10:11a.m., and reconvened at 10:23 a.m.

Upon returning, Mr. Majeed introduced John Lake and Chris Moore of Summit Strategies.

### **Return Expectations**

Mr. Lake and Mr. Moore provided Summit's views on capital market assumptions and an economic growth outlook. Due to slowing labor force growth and output growth that was below average, Mr. Moore said the growth potential of the US economy will continue to decline. Combined with headwinds from an aging population, high debt levels, and lackluster productivity growth, long-term growth potential will stay below historical averages. Mr. Moore also reported that emerging markets are not going away; they have become an increasingly large part of the global economy and capital markets.

Following discussions, the Board thanked Mr. Lake and Mr. Moore for their presentation.

Mr. Majeed introduced John McKinley of BlackRock.

### **Sustainable Investment Strategies (ESG)**

Mr. McKinley discussed sustainable investment goals and strategies, otherwise known as Environmental, Social and Governance (ESG), and solutions for investors to incorporate ESG goals into portfolios. He continued to discuss sustainable investing which includes exclusionary screens, ESG factors and impact targets. Mr. McKinley acknowledged that ESG will continue to become an important part of investing in the future with increased pressure on companies to disclose information on their practices related to ESG. The Board thanked Mr. McKinley for his informative presentation.

Concluding investment presentations, the Board recessed at 11:30a.m., and reconvened at 1:01p.m.

Lisa Morris introduced Tom Cavanaugh and Todd Green of Cavanaugh Macdonald to present the Experience Studies and Assumptions.

### **Experience Study and Assumptions**

In preparation for SERS' forthcoming five-year experience study, Tom Cavanaugh, co-founder and chief executive officer of Cavanaugh Macdonald Consulting, LLC, and Todd Green, principal and consulting actuary of Cavanaugh Macdonald Consulting, LLC, reviewed the basic retirement funding structure, the purpose of the actuarial valuation, and the types of actuarial assumptions used in the valuation.

Mr. Green reviewed the basic retirement funding equation ( $C + I = B + E$ ), noting that this equation holds true for any retirement plan you are trying to fund. He also noted that contributions and investment income must always be in balance, and they should equal benefit payments and expenses. Benefits depend on the plan provisions and experience, and contributions depend on short- and long-term assumptions (the actuarial cost method, expected salary growth, etc.).

Continuing the discussion, Mr. Cavanaugh noted the purpose is to compare the actual plan experience with the actuarial assumptions used in the valuation. Based on the results of the study, the actuary may propose changes in actuarial assumptions, and determine the impact of those recommended changes on the pension fund going forward.

The Board thanked Mr. Cavanaugh and Mr. Green for their presentation.

Anne Jewel, Health Care Director, introduced Eric St. Pierre of Gabriel, Roeder, Smith (GRS) & Company.

### **Healthcare Market Leader Presents Sustainable Health Care Strategies**

Mr. St. Pierre, a health care market leader, discussed the effects of the Affordable Healthcare Act, as well as short- and long-term strategies for SERS' health care program. He noted that a number of pressures could impact future health care funding, including recent Board Funding Policy revisions, lower investment earnings, rising medical and prescription medicine costs, and the impending high-value plan excise tax (scheduled to take effect in 2020).

Mr. St. Pierre outlined strategic non-Medicare opportunities for SERS members and retirees:

- Identify, engage and assist individuals who are eligible for early Medicare programs and/or other government programs;
- Consider a wrap-around marketplace plan; and
- Provide and fund a health reimbursement account to be used to purchase healthcare

Further, in pursuing potential next steps, Mr. St. Pierre recommended the following:

- SERS needs to understand and make informed decisions for viable 2017 plan year considerations.
- Waiting an additional year will have a compounded impact on continued deterioration of the healthcare fund, creating a more emergent situation.
- Proactively position SERS' health care program for impending high value Excise Tax in 2020.
- Position SERS for sustaining the highest level of benefits for the highest number of eligible participants, for as long as possible.
- Effective member communication – early and often – will improve success when making any changes.

The Board thanked Mr. St. Pierre for his presentation.

The Board took a recess at 2:36p.m., and reconvened at 2:51 p.m.

Ms. Morris introduced Becky Stone, Senior HR Coordinator, to present the DiSC analysis.

#### **DiSC Analysis**

Ms. Stone began by providing an introduction to the DiSC assessment, noting its use as a tool to assist in simplifying the complexity of human behavior. She stated that SERS has been using this tool since 2008 and as a way to improve communication and build flexibility amongst teams.

Continuing on, the Board utilized the analysis as an interactive session.

#### **Adjournment**

Catherine Moss moved to adjourn the meeting at 3:45 p.m.

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Catherine Moss, Board Chair

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Lisa J. Morris – Secretary