

March 17, 2016

The eight hundred and eightieth meeting of the Retirement Board of the School Employees Retirement System was held in the boardroom at 300 E. Broad Street, Columbus, Ohio, on Thursday, March 17, 2016. The meeting convened in open session at 8:32 a.m. and continued with the Pledge of Allegiance. Following the Pledge of Allegiance, the roll call was as follows: Catherine Moss, Chairperson, Nancy Edwards, Madonna Faragher, Christine Holland, James Rossler, James Rossler, Daniel Wilson, Beverly Woolridge and Barbra Phillips. Also in attendance was Henrique Geigel, representative of the Attorney General, various members of the SERS staff, and members of the public.

**APPROVAL OF MINUTES OF THE RETIREMENT BOARD RETREAT HELD ON
February 17, 2016**

Madonna Faragher moved and James Rossler seconded the motion to approve the minutes of the Retirement Board Retreat meeting held on Wednesday, February 17, 2016. Upon roll call, the vote was as follows: Yea: Barbra Phillips, Madonna Faragher, Christine Holland, James Rossler and Catherine Moss. Abstain: Nancy Edwards, Daniel Wilson and Beverly Woolridge. The motion carried.

**APPROVAL OF MINUTES OF THE RETIREMENT BOARD MEETING HELD ON
February 18, 2016**

Barbra Phillips moved and Christine Holland seconded the motion to approve the minutes of the Retirement Board meeting held on Thursday, February 18, 2016. Upon roll call, the vote was as follows: Yea: Barbra Phillips, Nancy Edwards, Christine Holland, James Rossler, Daniel Wilson and Catherine Moss. Abstain: Madonna Faragher and Beverly Woolridge. The motion carried.

INVESTMENT REPORT

Catherine Moss asked Farouki Majeed to present the Investment Report.

Mr. Majeed introduced John Burns, John Linder and Neil Rue of Pension Consulting Alliance (PCA), one of three investment consultant finalist. The representatives from PCA discussed the firm's organizational structure and consulting capabilities. If selected as SERS' investment consultant, John Burns and John Linder would act as co-leads on the assignment and would be supported by other senior consultants. Mr. Burns then discussed how PCA is a 100% employee owned firm with 32 employees located in Portland, Oregon and New York, NY. Their clients are primarily public defined benefit pension funds. Mr. Burns also discussed policy development and implementation. Mr. Linder spoke about the importance of strategic asset allocation, portfolio monitoring and performance. Mr. Rue discussed PCA's partnership with Cheiron and their approach on asset liability models. Following a question and answer period, Mr. Linder thanked the Board for their time. The Board also thanked the representatives from PCA for their presentation.

Concluding PCA's presentation, the Board took a short recess at 9:35 a.m. and reconvened at 9:40 a.m.

Mr. Majeed introduced Andrew Junkin, David Lindberg and Felicia Bennett of Wilshire. Mr. Junkin provided an overview of the firm, a comparison of SERS' current asset allocation vs. risk allocation, as well as an overview of Wilshire's manager monitoring and Board education capabilities. Mr. Lindberg discussed that Wilshire's goal is to be a trusted advisor with a focus on risk to obtain better quality

returns. He also discussed Wilshire's global footprint with approximately 300 employees in ten offices, including Pittsburgh, PA; their practical research solutions for their clients; and, their knowledge in providing retirements for their clients' members. Ms. Bennett then discussed Wilshire's research team, philosophy on investment structure, implementation, and manager research process. Following a question and answer period, the Board thanked the representatives from Wilshire for their presentation.

Concluding the presentation by Wilshire Associates, the Board took a break at 10:43 a.m. and reconvened at 10:54 a.m.

Mr. Majeed next introduced Summit Strategies. John Lake and Trevor Jackson each updated the Board on their background and length of service with Summit Strategies. Mr. Lake is currently the lead consultant for SERS and Mr. Jackson serves as his back-up. They added that Chris Moore is a member of the team and coordinates ongoing efforts in capital markets research. Summit is 100% employee owned, has a low number of clients per consultant, and works with 23 pension plans. Mr. Jackson stated SERS is one of Summit's largest public pension plan clients. Summit provides Board education, manager monitoring, quarterly performance reports for the Board, and weekly, monthly and quarterly outlook reports for SERS staff, all of which are available on-line. Summit's process includes developing a risk framework, recommending new asset allocations, and developing investment policies. Mr. Lake discussed risk analysis, the use of risk monitoring software, and proposed fees. Following a question and answer period, the Board thanked the representatives from Summit Strategies for their presentation and their past relationship with SERS.

Mr. Majeed recognized the consultant search team and thanked them for their efforts conducting the search. Following further discussion, the Board deferred selection of an investment consultant until the April 21, 2016 Board meeting.

The Board took a break at 12:11 p.m. and reconvened at 1:01 p.m.

Mr. Majeed and Ms. Hai Yen Le presented the Risk Report as of December 31, 2015. The risk presentation included the Total Fund risk forecast and individual asset class contributions to risk. Ms. Le discussed the risk contribution by asset class as well as risk factors, active risk, and asset class correlation.

Mr. Majeed discussed the economic update and quarterly Investment report for the period ending January 31, 2016. The Board thanked Mr. Majeed for his comments and review of the quarterly report.

Julie Deisler provided an annual update on the 2016 proxy season. She began with a brief overview of the proxy voting process then highlighted the changes from the 2015 to the 2016 season in shareholder proposals. SERS' agreement with Institutional Shareholder Services (ISS) expires in 2016. The proxy committee will meet to decide if an RFP should be issued to search for a replacement. The Board thanked Ms. Deisler for her update.

SUMMARY OF INVESTMENT TRANSACTIONS

Barbra Phillips moved and Madonna Faragher seconded that the following summary of investment transactions made in compliance with the Ohio Revised Code Section 3309.15 during the period of

January 1, 2016 through **January 31, 2016** hereby be approved. Upon roll call, the vote was as follows: Yea: Barbra Phillips, Nancy Edwards, Madonna Faragher, Christine Holland, James Rossler, Daniel Wilson, Beverly Woolridge and Catherine Moss. The motion carried.

A. PURCHASES

Asset Class	Approximate Cost (in millions)
US Equities	\$ 102.2
Non-US Equities	102.2
Fixed Income	196.0
Multi-Asset Strategies	n/a
Private Equity Capital Calls	28.8
Real Asset Capital Calls	17.0
Opportunistic	4.6
Cash Equivalents	97.2

B. SALES

Asset Class	Approximate Net Proceeds (in millions)	Approximate Gain/(Loss) (in millions)
US Equities	\$ 94.2	\$ (1.5)
Non-US Equities	104.6	(12.7)
Fixed Income	219.7	1.2
Multi-Asset Strategies	2.0	(0.3)
Private Equity distributions	34.6	n/a
Real Asset distributions	21.1	n/a
Opportunistic	0.3	(0.1)
Cash Equivalents	134.7	0.1

EXECUTIVE DIRECTOR'S UPDATE

The Ohio Retirement Study Council (ORSC)

It has been extremely quiet at the legislature for the last several weeks during the run-up to the primaries. The ORSC was cancelled this month, as were all committee meetings and the General Assembly will now be out for spring break. The next ORSC meeting is tentatively set for April 14th.

Ohio CHECKBOOK.COM Update

All of our information has been uploaded to Checkbook.com and reviewed by Tracy Valentino and Maria Robinson. We have also provided sample "landing page" information, but have not heard back. We will continue to provide updates as they become available.

Legislation

A hearing on HR711 WEP is scheduled for next week – this is very exciting news!

Before the legislature left for Spring break, we had a meeting with Representative Terry Johnson, wherein we highlighted our very successful engagement and

divestment efforts on HJR 6 Divestment. All the systems are meeting with Representative Johnson one-on-one to emphasize the message that each system has a tailored approach that works for them and honors the intent of his resolution.

As expected, HB 305 University of Akron was passed from the House and now goes to the Senate for review. The special budget allocation for the university was removed in the Ways and Means Committee.

Auditor of State Census Data Audit

The Auditor of State's office will be conducting a pension census data examination of SERS records. The audit will consist of selected census data (policies and payroll) provided to OPERS for year-ended December 31, 2015.

Joint Trustees Meeting

Tentative dates (August 3rd or November 2nd) have been identified for this year's Joint Trustees meeting, which will take place at OPERS. Once each system's Board has had an opportunity to review the selected dates, Trustees will be notified. SERS Trustees' preferred date is August 3.

SERS/TOS Custodian

The Treasurer of State's office is scheduled to announce the selection of each retirement system's custodian on March 21st. We will inform you as soon as we learn more.

SERS Electronic Board Meetings

The team has selected a vendor for electronic board meetings. Sheila, Qiana, and IT are working to pilot the software for the April Board meeting.

SERS and Ethics Training

All staff are currently undergoing refresher training on ethics and public records. This is mandatory training for staff every two years.

PENSION FUNDING DISCUSSION

Lisa Morris welcomed John Garrett and Todd Green of Cavanaugh Macdonald. Mr. Garrett began the conversation by discussing pension funding basics, noting that actuarially prefunding benefits solves the equation over each individual member's future lifetime. He then gave an overview of net cash flow, stating that the net external cash flow of an individual member becomes negative during retirement. He explained how the negative cash flow is tied to investment performance, including an assumption of standard deviation of what those numbers should be.

Mr. Garrett noted projection .50% annual reduction in membership. There is a minor impact, over time, when fewer people are being replaced for those retiring. This results in a reduction in the amount of money funding pensions. When there is a probability of expected negative cash flow as a percentage of market value, the question then becomes: When do we recognize this as a problem? A plan can sustain a negative cash flow for a certain period of time, and is expected for a mature pension fund such as SERS.

From a historical standpoint, SERS funded status in 2000 was 100% funded. In 2008, there was a precipitous drop in funding. From a liability comparison, SERS has 58% retired members and beneficiaries; 3.05% deferred vested members and; 38.79% active members. Pay increases have gone flat, so there are also gains to active members not receiving pay increases. Mr. Green noted that every year of experience, is considered in fund status calculation.

Nearly 60% of the accrued liability is for retired members and beneficiaries. About 38% of accrued liability is for active members. The remainder is for deferred vested members. If all the assumptions are being met, it will be indifferent to the funded ratio. Over many years, this is the "expected" outcome. The

problem with negative cash flow is an expression of investment returns. Mr. Green stated that our lower funded status today is due to the 2008-09 loss of one quarter of the assets.

In reviewing the models presented over the last several months, Mr. Garrett stated that not all of the models presented take into account the amortization period of 90%. When asked if there was anything outside of the modeling SERS could be looking at, Mr. Garrett said that we could look at negative asset of cash flow.

Concluding the discussion, Mr. Garrett and Mr. Green noted that continued discussion will be held during the Pension Reform Roundtable. The Board thanked Mr. Garret and Mr. Green for their presentation.

LEGISLATIVE REPORT

STATE LEGISLATION BOARD REPORT 131st General Assembly (Prepared by Laurel Johnson as of March 4, 2016)

HB284 PENSIONS-FEDERAL OFFENSES Mike Dovilla (H7-R-Berea) and Marlene Anielski (H6-R-Walton Hills) To add extortion and perjury and certain federal offenses to the offenses that may result in forfeiture or termination of public retirement system benefits.

Current Status: 01/26/2016 Reported out of House Judiciary Committee

ORSC Position: Approved staff recommendation for passage with amendments

HB305 UNIVERSITY OF AKRON-OPERS MEMBERS Kirk Schuring (H48-R-Canton) To include new nonteaching employees of The University of Akron as members in the Public Employees Retirement System and to make an appropriation for the University's School Employees Retirement System employer surcharge payments.

Current Status: 02/23/2016 Passed in House 94-0

ORSC Position: Approved staff recommendation for passage with amendments

HJR6 DIVEST-TERRORISM SPONSORED COMPANIES Terry Johnson (H90-R-McDermott) To prohibit state agencies and the state's public retirement systems from contracting with and investing in companies with certain business operations in countries designated as state sponsors of terrorism and to require state agencies and public retirement systems to divest investments from such companies.

Current Status: 02/9/2016 Referred to House Government Accountability and Oversight Committee

ORSC Position:

FEDERAL LEGISLATION BOARD REPORT
114th United States Congress
(Prepared by Laurel Johnson as of March 4, 2016)

HR 711

SPONSOR: Rep. Kevin Brady (R-TX)

LAST ACTION: 2/4/2015 Referred to the House Committee on Ways and Means.

CAPTION: Amends title II of the Social Security Act to repeal the windfall elimination provision and protect the retirement of public servants.

COMMENT: The Equal Treatment for Public Servants Act of 2015. Repeals the Windfall Elimination Provision (WEP) and replaces it with a formula that is proportional to their career earnings. HR 711 has 60 co-sponsors, including eight Ohioans: Beatty, Chabot, Johnson, Joyce, Renacci, Ryan, Stivers, and Tiberi.

HR 973

SPONSOR: Rep. Rodney Davis (R-IL)

LAST ACTIONS: 2/13/2015 Referred to the House Committee on Ways and Means.

CAPTION: Amends title II of the Social Security Act to repeal the Government Pension Offset and Windfall Elimination Provisions.

COMMENT: The Social Security Fairness Act of 2015. Repeals the Government Pension Offset (GPO) and WEP. HR 973 has 137 co-sponsors, including six Ohioans: Beatty, Fudge, Joyce, Kaptur, Ryan, and Turner. Companion bill to S 1651.

S 1651

SPONSOR: Sen. Sherrod Brown (D-OH)

LAST ACTIONS: 6/23/2015 Referred to Senate committee. Status: Read twice and referred to the Committee on Finance.

CAPTION: Amends title II of the Social Security Act to repeal the Government Pension Offset and Windfall Elimination Provisions.

COMMENT: The Social Security Fairness Act of 2015. Repeals the Government Pension Offset (GPO) and WEP. S 1651 has 22 co-sponsors. Companion bill to HR 973.

FEBRUARY - MARCH FEDERAL UPDATE
(Prepared by Jim Miller, as of February 28, 2016)

OVERVIEW

The combination of a decidedly different election year that has incumbents very concerned about the anti-government eruption that has taken place; the staking out of positions concerning confirming a new Supreme Court Justice; the almost automatic dismissal of the president's budget; concerns about the decline in the economy and increasing debt; immigration policy; and gun control, as well as other concerns, has the Congress back peddling on almost all contentious issues. Given the limited legislative calendar for this year, the sands of time for this Congress will likely run out by early fall.

HEALTH CARE

In late February, the threat of the Zika virus and concerns about senior citizen use of opioids captured the attention of several different Congressional committees that held hearings on these two issues. Senator Toomey's bill, S. 1913, would allow health plans to restrict at-risk Medicare beneficiaries to a limited number of pharmacies and providers when the patients seek medications. Senator Hatch said that the bill would be "marked up very soon." Some Democrats are concerned that the bill is not broad enough, but both parties seem to agree that preventing so-called "doctor shopping" would save money and lives by eliminating fraudulent and unnecessary prescriptions. Senators Portman and Brown are co-sponsors.

Earlier in the month on a related bill, the Senate Judiciary Committee reported out S. 524, sponsored by Senators Portman and Whitehouse. The bill would direct HHS to develop best practices for pain management and prescribing pain medication and a strategy for disseminating such practices.

The Senate HELP Committee has reported out seven bipartisan bills as its first step in developing their version of the 21st Century Cures Bill that was voted out of the House last July. The second such session is scheduled for March 9 with the final session to finalize their comprehensive biomedical innovation bill to be held in early April.

The debate over the excise tax continues as the Fight for Forty coalition, the Public Sector Healthcare Roundtable, and other groups support repealing the tax. The groups reject the two main arguments in support of the tax – revenue generation and reduced healthcare spending – as being seriously flawed.

The president has expressed a willingness to support adjusting thresholds on high-value health insurance plans by increasing the dollar values at which the tax would go into effect, but he still opposes repeal efforts. This issue will clearly carry over into 2017, with advocates for repeal strengthening their positions and expanding the base of their respective coalitions and stakeholder groups in preparation for next year.

Senator Hatch and Representative Paulsen from Minnesota introduced their Health Savings Act of 2016, S. 2499 and H.R. 4469, intended to simplify and expand Health Savings Accounts and Flexible Spending Accounts. Under the legislation, employee contributions would not count toward the excise tax threshold, and contributions made by employers in lieu of a higher salary would also be excluded.

SOCIAL SECURITY

So far in this session of Congress there has been no mention of mandatory Social Security coverage, and given this being an election year, it is highly unlikely that any serious attempt will be made. It would not be surprising to hear that some comments about mandatory coverage will occur, primarily because candidates at some point may mention it as one tool to boost the Social Security trust fund.

On another front, Representative Brady's WEP reform bill, H.R. 711, now has 60 co-sponsors. However, no hearings have been scheduled yet because Representative Brady is involved in a tough primary fight with three other candidates. According to Ways and Means staff, Brady has been focusing on his campaign, and they are hopeful, assuming Brady wins his primary, that the pathway for the bill will become clearer. If Brady is forced into a run-off which will not occur until May 24, the timetable for the bill could be impacted because of his need to campaign, and competing issues that Speaker Ryan wants him to address as committee chair.

In an interesting twist, the President's budget proposal, while continuing the language of the last 10 years or so pertaining to stronger enforcement of GPO and WEP, also contained Brady language on WEP reform, as well as a revised approach to reforming GPO. If enacted, none of the reforms would be implemented until 2027 which is a problem in and of itself. Since the President's budget is basically dead on arrival, it is difficult to know how this proposal will play into H.R. 711.

FINANCE

On February 19, SEC Chairman White, as a part of her remarks at the "SEC Speaks" event, discussed the SEC agenda for 2016. She said that the SEC will remain focused on finalizing the security-based swap rules required by Dodd-Frank. She also laid out other goals relating to asset management, initiatives related to equity market structure, and reforms to the disclosure regime. In regards to disclosure, additional efforts will be made to further implement the mandate from the FAST Act to simplify and modernize disclosure requirements for public companies. She also said the SEC would consider rules for a universal proxy, and focus on enforcement relating to financial reporting, market structure, and sales of complex financial instruments.

House and Senate finance-related committees have been holding a wide-ranging variety of hearings including the Puerto Rico financial situation, monetary policy and the state of the economy, Dodd-Frank provisions, the flood insurance marketplace, the SEC's budget and agenda, issues relating to the growth industry in terror finance, federal spending and the debt limit, just to mention some of the major issues being addressed by the committees. There has been nothing so far that directly targets the public pension industry.

The House passed seven financial services bills: one to create an SEC Office of the Advocate for Small Business Capital Formation, and others to revise the accredited investor definition, modify the treatment of municipal bonds, update public housing programs, reduce regulatory burdens, and end "Operation Choke Point."

RETIREMENT SECURITY

Neither the SAFE Act nor the PEPTA legislation have been introduced as yet, either as stand-alone bills or as amendments to other bills, but all eyes are on legislation designed to address the Puerto Rico fiscal crisis because of Senator Hatch's previous attempt to incorporate those two bills into the relief package for Puerto Rico. Nonetheless, the rumblings continue as critics of public plans continue their efforts to discredit the funding practices and stability of the public pension sector. Recent examples include the following:

- On February 16, the Pew Charitable Trusts' Public Sector Retirement System Project released a new issue brief entitled, "Making State Pension Investments More Transparent." Of course, the report was completely objective since it was funded by the Arnold Foundation. The report describes what it calls a "widespread problem among public retirement systems of unreported manager fees and expenses," and claiming that there is a need for "greater disclosure in order to provide full transparency on investment costs." The author also wrote a column in *Governing* magazine saying much the same thing, including making reference to the "riskier investment strategies employed by public plans."
- Pew recently announced they will be conducting research on FY 2014 funding levels in the next few weeks. NCTR has raised the question as to how Pew defines net amortization which is to be a part of their study.
- The Arnold Foundation has filed a Freedom of Information request with the Louisiana Teachers Retirement System seeking actuarial information relating to early retirement actuarial reduction factors for 2015. Currently there are seven bills in the Louisiana legislature dealing with public pensions. The bills range from impacting how administrative costs are calculated and paid for to adding unaffiliated citizens to the retirement boards. According to Louisiana plan officials, the Reason Foundation funded by Arnold is heavily involved with these bills.
- The Reason Foundation has produced a *Pension Reform Handbook: A Starter Guide for Reformers* which is a very comprehensive product. Buried in the middle of the text is the real goal – that being to convert plans from DB plans to DC plans.
- Bloomberg Business published an article citing that public pension funds posted their worst returns since 2008, which while true in many cases, fuels the Arnold campaign.
- Arnold has given Pew an additional \$4.85 million through 2019 for its public pension project.

Another interesting development reported in POLITICO was the speculation that in order to make the math work on a corporate integration bill, Senator Hatch allegedly is considering taxing dividends earned by non-profits, especially churches. He is waiting on data from the Joint Committee on Taxation. Such a proposal would most likely surface in 2017, because it would be political dynamite to introduce it during this intense election year. However, the mere mention of the idea serves as a harsh reminder of the budget issues facing the government, and the extent to which new sources of revenue will be sought.

PUERTO RICO

Hearings in both the House and Senate continue relating to the fiscal problems in Puerto Rico, the impact on the bond market and other aspects of the U.S. economy, and what should be the Congressional approach to address the issue. So far, no clear direction has emerged. It does seem clear that both parties, as well as the administration, want to pass legislation to assist Puerto Rico with their financial problems, and want to do so no later than March or April. There is a fear that if they wait until after the conventions, given the limited legislative calendar, that they will run out of time.

As noted earlier, the major concern as it relates to public pension plans is whether or not Chairman Hatch will reintroduce the two noxious provisions impacting public plans, his SAFE Act and the PEPTA legislation. While his December effort was a Pearl Harbor-type surprise attack, this time around the public pension community is geared up to quickly respond if he repeats this attempt.

SUMMARY OF KEY ACTIVITIES

1. Continued briefings for SERS' staff.
2. Participation in the monthly federal relations network call.
3. Discussions with key Congressional staff on pertinent issues.

The Board took a break at 3:39 p.m. and reconvened at 3:50 p.m.

FINAL FILING OF PROPOSED AMENDED AND NEW ADMINISTRATIVE RULES

Legal Counsel discussed with the Retirement Board the following proposed amended administrative rules: 3309-1-06, Ohio-qualified agents and investment managers; 3309-1-37, Surviving spouse or dependent may purchase credit; 3309-1-43, Service credit established under retirement incentive plan; 3309-1-53, Rollover distributions and trustee-to-trustee transfers; 3309-1-55, Responsibility for health care coverage; and 3309-1-62, Retirement plan required by court order; and the proposed new administrative rule 3309-1-24, Ohio service credit and calculation of final average salary, that have been reviewed by JCARR and are ready for final adoption by the Board.

Barbra Phillips moved and Christine Holland seconded that the proposed amended rules 3309-1-06, 3309-1-37, 3309-1-43, 3309-1-53, 3309-1-55, and 3309-1-62, and the proposed new rule 3309-1-24 be adopted. Upon roll call, the vote was as follows: Yea: Barbra Phillips, Nancy Edwards, Madonna Faragher, Christine Holland, James Rossler, Daniel Wilson, Beverly Woolridge and Catherine Moss. The motion carried.

3309-1-06 Ohio-qualified agents and investment managers.

- (A) For purposes of division (A)(4) of section 3309.157 and section 3309.159 of the Revised Code, an investment manager may be designated as an "Ohio-qualified investment manager" if the investment manager and/or any parents, affiliates, or subsidiaries of the investment manager meets the requirements of divisions (A)(1) and (A)(2) of section 3309.159 of the Revised Code.

(B) For purposes of sections 3309.157 and 3309.159 of the Revised Code, "principal place of business" includes an office in which the agent or investment manager regularly provides securities or investment advisory services and solicits, meets with, or otherwise communicates with clients.

~~(C) For purposes of division (E)(4) of section 3309.157 of the Revised Code, "compensation" shall mean the commissions paid on equity securities transactions and the cost or proceeds on fixed income securities transactions.~~

3309-1-37 Surviving spouse or dependent may purchase credit.

~~(A)~~ For purposes of this rule, "dependent" means a "child" or "parent" as those terms are defined in division (A) of section 3309.44 of the Revised Code.

~~(A)~~ (B) The spouse or eligible dependent(s) of a member who died prior to receipt of a disability benefit or service retirement may purchase any service credit that the member would have been eligible to purchase had the member not died. Eligibility shall be determined upon receipt of a written request from the spouse or eligible dependent.

~~(B)~~ (C) The first benefit payment shall begin or adjusted benefit payment shall be effective on the first of the month following the date of purchase or restoration of service credit under this section. If the purchase or restoration of service credit is not necessary to be eligible to receive a benefit under division (A) of section 3309.45 of the Revised Code, the retirement system shall issue a retroactive payment for the period the benefit was payable prior to the date of purchase or restoration.

~~(D)~~ Any purchase or restoration of service credit under section 3309.451 of the Revised Code must be completed before receipt of the first benefit payment by the spouse or eligible dependent.

~~(E)~~ (E) The service credit to be purchased under this section shall be granted in accordance with the current laws and policies of the school employees retirement system in effect at the time of purchase.

3309-1-43 Service credit established under retirement incentive plan.

Authority provided in section 3309.33 of the Revised Code as enacted in Substitute H.B. 410 in the 115th General Assembly.

(A) Upon adoption of a retirement incentive plan in accordance with section 3309.33 of the Revised Code, the employer shall notify the school employees retirement system on an official form approved by the school employees retirement board and attached as an appendix to this rule.

(B) The cost to the employer for each year of credit purchased will be determined by factors recommended by the school employees retirement system actuary which yield an amount equal to the additional liability of the amount purchased. Actuarial cost will be revised no more than once annually and shall apply only to new credit established after such revision is approved by the school employees retirement board.

~~(C)~~

~~(E)~~ (1) Employers may make equal payments to the school employees retirement system for the cost of the year or years of credit purchased over the a-number of years equal to

the number of years purchased under the employer adopted plan. ~~Purchase of partial years is not permitted.~~

After the thirtieth of June of the year in which the service is purchased, interest shall be calculated on the remaining payments at the rate established for other purchased credit.

(2) Purchase of partial years is not permitted.

(3) Notwithstanding paragraph (C)(1) of this rule, governing authorities of community schools shall pay the cost of the service credit purchased in one payment made within thirty days of receipt from SERS of the calculated cost.

- (D) An employee may initiate action to retire under the locally adopted retirement incentive plan in accordance with section 3309.33 of the Revised Code by completing the employee section of a form adopted by the school employees retirement board, and attached as an appendix to this rule, and filing such form with the employer. Subsequently, the form must be completed by the employer and filed with the school employees retirement board within ninety days of the effective date of retirement, but in no event shall it be filed later than the earlier of the last day of the month preceding the date of retirement or the expiration date of the plan. For purposes of section 3309.33 of the Revised Code and this rule, the effective date of the purchase of service under a retirement incentive plan shall be the date SERS receives the completed form.
- (E) Employees who retire under section 3309.33 of the Revised Code shall not forfeit any rights or privileges provided in rules of Chapter 3309-1 of the Administrative Code in existence at the time of retirement.

3309-1-53 Rollover distributions and trustee-to-trustee transfers.

- (A) For purpose of SERS rules, "eligible rollover distribution," or "rollover distribution," means all or any portion of an amount that qualifies as an eligible rollover distribution under section 402(c)(4) of the Internal Revenue Code of 1986, as amended, 26 U.S.C. 402(c)(4), and is paid to a member or the surviving spouse of the member from either:
- (1) Another employer plan qualified under section 401(a) of the Internal Revenue Code, 26 U.S.C. 401(a);
 - (2) An individual retirement account, or annuity other than an endowment contract, under section 408 of the Internal Revenue Code, 26 U.S.C. 408, to the extent that the amount would be a taxable event;
 - (3) A tax-sheltered annuity under section 403(b) of the Internal Revenue Code, 26 U.S.C. 403(b);
 - (4) A governmental deferred compensation plan under section 457 of the Internal Revenue Code, 26 U.S.C. 457; or
 - (5) An annuity plan under section 403(a) of the Internal Revenue Code, 26 U.S.C. 403(a).
- (B)
- (1) The school employees retirement system may accept direct trustee-to-trustee transfers from a 26 U.S.C. 457 deferred compensation plan, a 26 U.S.C. 403(b) tax-sheltered annuity plan, or a plan qualified under 26 U.S.C. 401(k) and eligible rollover distributions only for the purchase of service credit pursuant to section 3309.021, 3309.022, 3309.26, 3309.301, 3309.31, 3309.311, 3309.41, 3309.451, 3309.473, 3309.474, 3309.73, 3309.731 or 3309.75 of the Revised Code, for the payment of back

contributions under rule 3309-1-13 of the Administrative Code, or for the payment of additional liability pursuant to division (A)(1)(c) of section 3309.34 of the Revised Code.

- (2) A member or surviving spouse of a member must be otherwise eligible to purchase the service credit or pay the back contributions pursuant to Chapter 3309. of the Revised Code and SERS rules.
 - (3) The amount of the rollover distribution accepted by the retirement system shall not exceed the amount necessary to fund the benefit attributable to the service credit.
- (C) A member, [alternate payee](#), or otherwise qualified beneficiary of a deceased member who is entitled to a distribution from the retirement system that qualifies as an eligible rollover distribution pursuant to sections 401(a)(31) and 402(f)(2)(A) of the Internal Revenue Code, 26 U.S.C. 401(a)(31) and 402(f)(2)(A), may request that the distribution be paid in a direct rollover to another eligible retirement plan to the extent permitted by sections 401(a)(31) or 408A of the Internal Revenue Code, 26 U.S.C. 401(a)(31) or 26 U.S.C. 408A. A qualified nonspouse beneficiary of a deceased member may only rollover directly to an inherited individual retirement account or annuity to the extent permitted by section 402(c)(11) of the Internal Revenue Code, 26 U.S.C. 402(c)(11).

3309-1-55 Responsibility for health care coverage.

- (A) This rule amplifies division (F) of section 3309.69 of the Revised Code.
- (B) For the purpose of this rule:
- (1) "Age and service retirant" means a former member who is receiving a retirement allowance pursuant to section 3309.34, 3309.35, 3309.36 or 3309.381 of the Revised Code.
 - (2) "Cost paid by the benefit recipient" means the amount equal to the percentage as of January 1, 1998 paid by the benefit recipient multiplied by the system's cost per benefit recipient.
 - (3) "Disability benefit recipient" means a member who is receiving a benefit or allowance pursuant to section 3309.35, 3309.39, 3309.40 or 3309.401 of the Revised Code.
 - (4) "Eligible benefit recipient" means an age and service retirant, disability or survivor benefit recipient who is eligible for health care coverage under this system.
 - (5) "Eligible dependent" means an eligible spouse or child of an eligible benefit recipient.
 - (6) "Health care coverage" means the medical plan and the prescription drug plan offered by this system and the medicare part B premium reimbursement.
 - (7) "Ohio retirement system" means public employees retirement system, state teachers retirement system, school employees retirement system, Ohio police and fire pension fund, or highway patrol retirement system.
 - (8) "Survivor benefit recipient" means a beneficiary receiving a benefit pursuant to section 3309.45 or 3309.46 of the Revised Code.
- (C) Health care coverage provided by this retirement system under sections 3309.69 and 3309.375 of the Revised Code shall pay covered medical expenses for eligible benefit recipients of this retirement system prior to payment under any available coverage from another Ohio retirement system if the available coverage is provided to the individual as the spouse or dependent of another person.

- (D) Health care coverage provided by this system shall pay only the covered medical expenses not paid or reimbursed by any available coverage from another Ohio retirement system if either of the following occur:
- (1) In the case of an eligible benefit recipient, the available coverage is not provided as a dependent of another person, and has been in effect for a longer time than the health care coverage provided by this system;
 - (2) In the case of a dependent, the available coverage is not provided as the dependent of another person or is provided as the dependent of another person but has been in effect for a longer time than the health care coverage provided by this system.
- (E) Except as otherwise provided in this rule, the school employees retirement system shall not be the system responsible for health care coverage for eligible benefit recipients or eligible dependents of eligible benefit recipients of this system who waive or are otherwise eligible for any available coverage from another Ohio retirement system after December 31, 2007.
- (F) Each eligible benefit recipient and eligible dependent enrolled in health care coverage provided by this system shall annually make a report to the system or, an entity designated by the system, stating whether the person has other available coverage. The report shall include any information requested by the system or entity.
- (G)
- (1) If an eligible benefit recipient of this system who also was an eligible benefit recipient of another Ohio retirement system irrevocably waived such health care coverage in this system on or before December 31, 2007 in order to be covered by the other Ohio retirement system, this system shall transfer to the other system annually for covered benefit recipients and dependents for each month covered an amount equal to the sum of:
 - (a) The lesser of this system's average monthly medical including health maintenance organization cost per benefit recipient less the cost paid by the benefit recipient, or the other system's average monthly medical cost including health maintenance organization cost per benefit recipient.
 - (b) The lesser of this system's average monthly cost of the prescription drug program per benefit recipient, or the other system's average monthly cost of the prescription drug program per benefit recipient.
 - (c) The lesser of the monthly cost of the medicare part B premium that would be reimbursed by this system for the benefit recipient, or the monthly cost of the medicare part B premium that would be reimbursed by the other system for the benefit recipient.
 - (2) This system shall transfer the amounts due pursuant to paragraph (G)(1) of this rule no later than the last business day of February each year for the preceding calendar year after the following occur:
 - (a) This system receives from the other system a list containing the names of benefit recipients and the number of months during which the recipients were covered by the other system for the preceding calendar year; and
 - (b) This system prepares an itemized accounting of the amount transferred for each such benefit recipient.
- (H) Where an eligible benefit recipient or dependent of an eligible benefit recipient of this system has waived health care coverage in another Ohio retirement system on or before December

31, 2007, this system shall be responsible to provide health care coverage only if the other system pays annually to this system for covered benefit recipients and dependents for each month covered an amount equal to the sum of:

- (1) The lesser of this system's average monthly medical including health maintenance organization cost per benefit recipient less the cost paid by the benefit recipient, or the other system's average monthly medical cost including health maintenance organization cost per benefit recipient.
- (2) The lesser of this system's average monthly cost of the prescription drug program per benefit recipient, or the other system's average monthly cost of the prescription drug program per benefit recipient.
- (3) The lesser of the monthly cost of the medicare part B premium that would be reimbursed by this system for the benefit recipient, or the monthly cost of the medicare part B premium that would be reimbursed by the other system for the benefit recipient.

(I)

(1)

- (a) Paragraph (G) of this rule is rescinded effective January 1, 2016.
- (b) This system shall transfer the amounts due pursuant to paragraph (G)(1) of this rule for calendar year 2015 no later than the last business day of February 2016 after the following occur:
 - (i) This system receives from the other system a list containing the names of benefit recipients and the number of months during which the recipients were covered by the other system for the preceding calendar year; and
 - (ii) This system prepares an itemized accounting of the amount transferred for each such benefit recipient.

(2) Paragraph (H) of this rule is rescinded effective January 1, 2016.

[-\(J\) Except as otherwise provided in this rule, where an eligible benefit recipient's benefit effective date in this system is the same date as the benefit effective date in another Ohio retirement system, this system shall not be the system responsible for health care coverage if the benefit recipient has less service credit in this system than in the other system. Where the benefit effective dates and service credit are the same in each system, this system shall not be the system responsible for health care coverage if the employee contributions in the account upon which the benefit in this system is based are less than the employee contributions in the account upon which the benefit in the other system is based.](#)

3309-1-62 Retirement plan required by court order.

The specified amount that a member is required to elect pursuant to a court order in division (B)(1)(b)(ii) of section 3309.46 of the Revised Code shall be expressed only as a [specified](#) percentage of the member's retirement allowance.

3309-1-24 [Ohio service credit and calculation of final average salary.](#)

[Service credit that is purchased or obtained under section 3309.022, 3309.474, 3309.73, 3309.731, or 3309.75 of the Revised Code, shall be used in determining eligibility for a retirement allowance or a benefit as provided in Chapter 3309. of the Revised Code, including the calculation of the member's final average salary and total service credit in the school employees retirement system.](#)

FINAL FILING OF PROPOSED AMENDED AND NEW ADMINISTRATIVE RULES



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746
614-222-5853 • Toll-Free 1-866-280-7377 • www.ohsers.org

EARLY RETIREMENT INCENTIVE

NOTICE OF ADOPTION OF
AN EARLY RETIREMENT INCENTIVE PLAN

This is to certify that _____ has established a
EMPLOYER NAME
retirement incentive plan in accordance with Section 3309.33, Ohio Revised Code. The effective date of the incentive plan is _____ and the plan terminates
MONTH, DAY, YEAR
on _____.
MONTH, DAY, YEAR

The maximum service credit purchasable under our plan is _____ year(s) per employee.

The last date an employee can retire with ERI credit is _____.

Signature _____ District Name _____
TREASURER/FISCAL OFFICER

Date _____ District Number _____

Address _____

Phone (_____) _____

FINAL FILING OF PROPOSED AMENDED AND NEW ADMINISTRATIVE RULES



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

300 E. BROAD ST., SUITE 100 • COLUMBUS, OHIO 43215-3746
614-222-5853 • Toll-Free 800-878-5853 • www.ohsers.org

EARLY RETIREMENT INCENTIVE

**EMPLOYEE'S INTENT TO PARTICIPATE IN PLAN
AND EMPLOYER'S ACCEPTANCE OF LIABILITY**

EMPLOYEE
PORTION

I, _____, _____,
EMPLOYEE NAME SOCIAL SECURITY NUMBER

hereby request service credit be purchased for me under the Early Retirement Incentive plan adopted in accordance with Section 3309.33 of the Ohio Revised Code. I have attained age 57 and understand that I must retire within 90 days after receipt of notice from the School Employees Retirement System of Ohio (SERS) that service credit has been purchased in my behalf or I will forfeit the right to such credit.

I authorize release of necessary information by SERS to my employer in connection with the retirement incentive plan.

Signature _____ Date _____

EMPLOYER
PORTION

The above named employee is considering retirement under our retirement incentive plan. The effective date of retirement will be _____
DATE

Please certify the total cost of purchasing _____ year(s) of service for the above named employee. NUMBER OF YEARS

We accept the liability for purchase of the above listed service credit.

Signature _____ District Name _____
AUTHORIZED OFFICER

Date _____ District Number _____

Address _____

Phone (____) _____

This form should be submitted no earlier than 90 days before the employee's retirement date, and no later than the earlier of the retirement date or expiration date of the plan.

INFORMATION SECURITY UPDATE

On behalf of Dale Robertson, Julie Deisler provided an update on the Information Security Program for the third quarter. She noted accomplishments which included ongoing SMART-related initiatives: successful testing of the capacity and performance of the Business Continuity Site Project (CEPP), and the Mobile Device Management (MDM) initiative. Ms. Deisler then provided an update on in-progress security initiatives, which includes: preparing for SMART security assessment; developing a 3- to 5-year strategy for the Information Security Program; completing the annual security benchmark assessment analysis (CSET); deploying MDM solution (Air Watch) into production; and, improving processes related to identity and access management. She also noted that the Board's website will be turned into a secure site (https) within a couple of weeks. Concluding the presentation, Ms. Deisler highlighted 4th quarter initiatives.

Ms. Edwards acknowledged the work Information Security has completed and is working on, and stated that she is looking forward to the July presentation. Ms. Edwards further expressed the need for staff to discuss and present risks and what is being requested of the Board; not solely quarterly reports that focus on activity.

Concluding the Information Security update, Ms. Morris asked Penny Baker and Mark Jarvis from Health Care to provide an update.

HEALTH CARE PLANNING UPDATE

Penny Baker, the Healthcare Department Disability Project Coordinator, continued the discussion of the early Medicare initiative. This initiative seeks to identify and assist those in our non-Medicare coverage, who may be eligible for early Medicare due to a disability, with the process of applying for Medicare. She detailed how the Social Security Administration uses Medicare Qualified Government Employment (MQGE) status in non-Social Security states like Ohio to make Medicare eligibility determinations. Most of SERS' non-Medicare disability retirees would be eligible to apply for Medicare as MQGEs. The anticipated savings would be \$1,500 per member, per month.

A request for proposal (RFP) was released in February for a vendor to provide assistance to members applying for Medicare. The RFP responses have been received with vendor selection and contracting in April. In May, SERS will provide the vendor with claims data in order to identify members who would be most likely to qualify for early Medicare status. Targeted implementation of the program is set for June 2016. The Medicare program rules require a waiting period of between one and two years from the date of the application before Medicare coverage is effective. Following the presentation, Ms. Baker answered questions from the Board on this initiative.

Mark Jarvis, Medical Program Coordinator, reviewed the wraparound coverage initiative for SERS' non-Medicare population. The wraparound coverage would supplement, at no-cost to the member, the coverage obtained in the Marketplace. An RFP was released in early March for a vendor to provide the wraparound coverage beginning January 1, 2017; responses are due April 1st, 2016. A proposed SERS Health Care rule change would allow members enrolled in the Marketplace wraparound coverage to come back onto SERS coverage if the member so chooses.

AMENDMENTS TO R.C. 3309.392

Beverly Woolridge moved and Christine Holland seconded to authorize staff to seek legislation amending Ohio Revised Code section 3309.392 to provide that (1) a recipient of a disability benefit enrolled in SERS' health care coverage must apply for social security disability insurance benefits and hospital insurance benefits under Medicare Part A for which they may be eligible; (2) if a recipient fails without just

cause to apply for hospital insurance benefits under Medicare Part A or to file a copy of the application and acknowledgement of receipt with SERS, the SERS disability benefit shall be suspended until application is made and a copy of the application and acknowledgement is filed with SERS; and (3) a recipient who is entitled to hospital insurance benefits under Medicare Part A and who fails to enroll in such coverage shall cease to be eligible for SERS health care coverage until the recipient enrolls in the coverage. Upon roll call, the vote was as follows: Yea: Barbra Phillips, Nancy Edwards, Madonna Faragher, Christine Holland, James Rossler, Daniel Wilson, Beverly Woolridge and Catherine Moss. The motion carried.

EXECUTIVE SESSION

At 5:07 p.m., Barbra Phillips moved and Christine Holland seconded the motion that the Board go into Executive Session pursuant to section 121.22 (G)(5) of the Ohio Revised Code to review applications for Disability Retirement Benefits. Upon roll call, the vote was as follow: Yea: Barbra Phillips, Nancy Edwards, Madonna Faragher, Christine Holland, James Rossler, Daniel Wilson, Beverly Woolridge and Catherine Moss. The motion carried.

The Board returned to open session at 5:09 p.m.

NOMINATIONS FOR THE VACANT EMPLOYEE MEMBER SEAT

As Chairperson of the SERS Board, Catherine Moss opened the floor to nominations for the vacant employee member seat:

Nominated	Hugh Garside, Jr.	By: Daniel Wilson
Nominated	James Haller	By: Barbra Phillips
Nominated	Edward Sobnosky	By: Beverly Woolridge

As Chairperson of the SERS Board, Catherine Moss declared three applicants as nominees to fill the vacancy of the employee-member seat. Board members shall interview the nominated candidates at the April 21, 2016 Board meeting.

The Board continued with the review of calendar dates and future Board meetings. As a result of a conflict with the May Board meeting date, the Board agreed to change the date to May 24 & 25, 2016.

INTERNAL AUDIT UPDATE

Ms. Phillips asked Joe Bell to present an update on internal audit activities. Mr. Bell provided highlights of three internal audit engagements and noted that these audits are available on the Board's website for review. He also noted that the CY15 Annual Audit Committee Report has been sent to the Ohio Retirement Study Council, and is also available for review on the website. Mr. Bell further stated that he is beginning to prepare for the Internal Audit Plan for FY17 and will work with management through the process.

Ms. Phillips indicated that she is pleased with the audit reports and the progress being made.

CALENDAR DATES FOR FUTURE BOARD MEETINGS

2016

May 24 and 25 (Tues. and Weds.) REVISED

June 16 and 17 (Thurs. and Fri.)
July 21 and 22 (Thurs. and Fri.)
September 15 and 16 (Thurs. and Fri.)
October 20 and 21 (Thurs. and Fri.)
November 17 and 18 (Thurs. and Fri.)
December 15 and 16 (Thurs. and Fri.)

****NOTE: The above dates are *tentative*.**

At 5:21 p.m., Nancy Edwards excused herself from the meeting.

DISPOSITION OF TABLED, (CONTINUED OR NEW) BUSINESS
Board Information Requested

Ms. Morris continued by reviewing the open and closed information items and noted requests made during the February meeting.

Prior to her departure, Ms. Edwards left a written note inquiring of SERS Board Highlights. Chairwoman Catherine Moss noted that SERS Board Highlights is a SERS staff operations matter.

ADJOURNMENT

Catherine Moss moved that the Board adjourn to meet on Thursday, April 21, 2016 for their regularly scheduled meeting. The meeting adjourned at 5.25 p.m.

Catherine Moss– Board Chair

Lisa J. Morris – Secretary