

April 21, 2016

The eight hundred and eighty-ninth 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, April 21, 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, 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 MEETING HELD ON
March 17, 2016**

Madonna Faragher moved and Christine Holland seconded the motion to approve the minutes of the Retirement Board meeting held on Thursday, March 17, 2016. 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.

INVESTMENT REPORT

Catherine Moss asked Farouki Majeed to present the Investment Report.

Farouki Majeed and Nancy Turner began the discussion with the Board regarding the selection of a General Investment Consultant following presentations of finalists at the March Board meeting. After a question and answer period, a motion was made and approved to select Wilshire Associates, Inc. to provide investment consulting services. The Board thanked the consultant search team for their efforts in conducting the search.

SELECTION OF INVESTMENT CONSULTANT

Madonna Faragher moved and Barbra Phillips seconded to select Wilshire Associates, Inc. to provide investment consulting services for SERS for a five year term beginning July 1, 2016 as discussed in the Board meeting held on April 21, 2016, subject to documentation satisfactory to legal counsel and the Chief Investment Officer. Be it further provided that the Executive Director or the Deputy Executive Director is authorized to execute any documents necessary to finalize this selection. 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.

Following the selection of an investment consultant, Mr. Majeed asked Lisa Michalowski and Alex Durbin to present the annual Global Equities portfolio review. Ms. Michalowski introduced Mr. Durbin as a new member of the Investment staff. He began with an overview of Global Equities allocation, performance, portfolio objectives, and moved into an update of the role of the US Equity portfolio highlighting exposures, characteristics, and fees. Ms. Michalowski continued to discuss the portfolio's structure, performance and characteristics. She identified changes to the portfolio from 2014 to 2015 include

reducing the US Equity exposure and overweight exposure, an increase in passive managers, and a reduction in the number of managers and fees from 32 bps to 25 bps.

Mr. Durbin then discussed the Non-US Equity portfolio, highlighting exposures and fees. Ms. Michalowski identified activity to the portfolio, including funding a new manager to replace an underperforming manager and reducing fees from 2014 to 2015 from 34 bps to 31 bps. Continuing, Mr. Durbin discussed exposures, geographical breakdown and characteristics of the portfolio. Ms. Michalowski stated that the FY 2016 Global Equity Objectives included improving portfolio structure and risk/return profile, and rebalancing as appropriate. Following the discussion, the Board thanked Staff for their presentation.

Concluding the presentation, Ms. Michalowski introduced Peter May and Peter Rathjens of Arrowstreet Capital Limited Partnership to conduct a Board Education session on International Equities and Emerging Markets Equities, noting that Arrowstreet was hired as a manager in the Non-US Equity portfolio in 2004. Mr. Rathjens discussed the background of the firm, their philosophy and process. Following the discussion, the Board thanked Messrs. May and Rathjens for their educational session.

Following the education session, the Board took a brief recess at 10:11 a.m., and reconvened at 10:26 a.m.

Mr. Majeed discussed the economic update and monthly Investment report for the period ending February 29, 2016. He informed the Board that staff is conducting an RFP search for a Fixed Income Government Bond manager to better manage risk within the portfolio, particularly in times of stress in credit markets. The Board thanked Mr. Majeed for his comments and review of the monthly report.

SUMMARY OF INVESTMENT TRANSACTIONS

Barbra Phillips moved and Christine Holland seconded that the following summary of investment transactions made in compliance with the Ohio Revised Code Section 3309.15 during the period of **February 1, 2016** through **February 29, 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	\$ 76.6
Non-US Equities	109.7
Fixed Income	206.8
Multi-Asset Strategies	50.0
Private Equity Capital Calls	20.5
Real Asset Capital Calls	n/a
Opportunistic	5.0
Cash Equivalents	117.2

B. SALES

Asset Class	Approximate Net Proceeds (in millions)	Approximate Gain/(Loss) (in millions)
US Equities	\$ 77.9	\$ (0.3)
Non-US Equities	111.0	(11.6)
Fixed Income	217.0	0.9
Multi-Asset Strategies	n/a	n/a
Private Equity distributions	9.3	n/a
Real Asset distributions	4.4	n/a
Opportunistic	1.3	(0.1)
Cash Equivalents	115.9	n/a

Concluding the Investment Report, Catherine Moss asked SERS Actuaries, Cavanaugh Macdonald to present the Five-Year Experience Study.

ACTUARIAL REVIEW – FIVE-YEAR EXPERIENCE

Tracy Valentino introduced John Garrett, Todd Green and Alisa Bennett, and noted that the report includes review of economic and non-economic assumptions that were used over the past five years in the annual actuarial valuations. Mr. Garrett noted the review period studied July 1, 2010 through June 30, 2015. The experience study included all active members, retired members, and beneficiaries of deceased members.

The study examined SERS' demographic and economic assumptions. The demographic assumptions included the likelihood of events that will happen to SERS' members and retirees, such as how long they will remain SERS members and their expected lifespans. The economic assumptions included future economic factors, such as future salary increases and pension fund investment return, over the last five years. These results were then compared with similar data over longer periods of time.

Based on the results of the study, the actuary proposed changes in the following assumptions: withdrawal rates, rates of disability retirement, pre-retirement mortality rates, salary increases, price inflation, wage inflation, and rate of return, which is how much investments will grow over a fiscal year. The actuary recommended reducing the rate of return from 7.75% to 7.50%.

The change in the rate of return directly affects the funded status of the System's pension fund. Based on SERS' actual 2015 financials, had SERS been using the proposed assumptions, the System's unfunded liability on the pension fund would have grown by about \$650 million, dropping SERS' funded status from 68.8% over 27 years to 66.5% over 28 years. Because the entire amount of employer contributions will be needed to fund pensions for the next few years, the solvency period for SERS' health care fund was reduced one year, from 2024 to 2023.

Concluding the presentation, the Board requested the resolution be amended to include the actuarial assumptions, as discussed in the report.

ACTUARIAL FIVE-YEAR EXPERIENCE STUDY
ACTUARIAL ASSUMPTIONS

SERS' actuary, Cavanaugh Macdonald, LLC, discussed with the Board the Five-Year Experience Study prepared by the actuary for the period July 1, 2010 through June 30, 2015. As required under Section 3309.21 of the Ohio Revised Code, in preparing the report, the actuary conducted a study of the mortality and service experience of active members, retirees and beneficiaries of the System, and the actuary reported on the investment return results obtained for the same five-year period.

Based on the results of the study, the actuary recommended that SERS adopt the long-term assumptions, as stated in the report, for the following:

- Rate of Price Inflation – 3.00%
- Rate of Investment Return – 7.50%
- Rate of Wage Inflation – 3.50%
- Rates of Withdrawal – As presented in the report dated April 18, 2016
- Rates of Pre-Retirement Mortality – Using RP-2014 Blue Collar Mortality Table with full generational projection with Scale BB, with male and female rates set back five years
- Rates of Disability Retirement – As presented in the report dated April 18, 2016
- Rates of Retirement – Normal & Early – As presented in the report dated April 18, 2016
- Rates of Non-Disabled Post-Retirement Mortality – Using RP-2014 Blue Collar Mortality Table with full generational projection with Scale BB, 120% of male rates and 110% of female rates
- Rates of Disabled Post-Retirement Mortality – Using RP-2000 Disabled Mortality Table with 90% of male rates and female rates set back five years
- Rates of Salary Increase Due to Merit and Promotion – As presented in the report dated April 18, 2016
- Other Assumptions and Methods (Percent Married, Re-hired Retirees, Actuarial Cost Method, Actuarial Value of Assets, Amortization Method) – As presented in the report dated April 18, 2016
- Other Post-Employment Benefit Assumptions – Changes in participation assumptions for disability retirement and spousal coverage, and additional assumptions for which there was no change, as presented in the report dated April 18, 2016

James Rossler moved and Barbra Phillips seconded the motion to adopt the actuary's recommended long-term assumptions. Upon roll call, the vote was as follows: Yea: Barbra Phillips, Madonna Faragher, Christine Holland, James Rossler, Daniel Wilson, Beverly Woolridge and Catherine Moss. Abstain: Nancy Edwards. The motion carried.

The Board recessed at 12:39p.m., and reconvened at 1:35 p.m.

EXECUTIVE SESSION

At 1:35 p.m., Beverly Woolridge 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 follows: 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 2:09 p.m.

EXECUTIVE SESSION

At 2:13 p.m., Beverly Woolridge moved and Barbra Phillips seconded the motion that the Board convene in Executive Session pursuant to R.C. 121.22 (G)(1) of the Ohio Revised Code to consider the employment and compensation of a public employee. 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.

The Board returned to open session at 2:20 p.m.

SALARY INCREASE FOR CHIEF AUDIT OFFICER

The SERS Audit Committee recommends that Chief Audit Officer Joe Bell receive a 4% increase in salary effective July 1, 2016, prorated .75% for the period March 1, 2015 – June 30, 2016 for an effective percentage of 4%. The question before the Board is whether the Committee’s recommendation shall be adopted. Upon roll call, the vote was as follows: Yea: Barbra Phillips, Madonna Faragher, Christine Holland, James Rossler, Daniel Wilson, Beverly Woolridge and Catherine Moss. The motion carried. (Absent from vote, Nancy Edwards.)

EXECUTIVE SESSION

At 2:21 p.m., Barbra Phillips moved and Beverly Woolridge seconded the motion that the Board convene in Executive Session pursuant to R.C. 121.22 (G)(1) of the Ohio Revised Code to discuss the appointment of a public official. 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.

The Board returned to open session at 3:37 p.m.

Upon return to open session, Board vote was as follows:

	<u>Hugh Garside, Jr.</u>			<u>James Haller</u>			<u>Edward Sobnosky</u>		
	1 st	2 nd	3 rd	1 st	2 nd	3 rd	1 st	2 nd	3 rd
Barbra Phillips				x	x	x			
Nancy Edwards	x	x	x						
Madonna Faragher				x	x	x			
Christine Holland				x	x	x			
James Rossler	x	x	x						
Daniel Wilson	x	x	x						
Beverly Woolridge	x	x	x						
Catherine Moss				x	x	x			

As a result of a tie vote, Julie Brigner, Principal Assistant Attorney General, Ohio Attorney General’s Office, presented a coin toss.

DECLARATION OF ELECTION OF EMPLOYEE MEMBER

I, Catherine Moss, declare James Haller elected to fill the employee member seat for the term ending June 30, 2017.

CERTIFICATION OF ELECTION RESULTS BY THE ATTORNEY GENERAL'S OFFICER

I, Julie E. Brigner, as election judge, monitored the election by the School Employees Retirement System Board held on April 21, 2016, to fill the vacancy in the employee member seat on the Board. I hereby certify that James Haller was duly elected by the Board to fill the vacancy.



Julie E. Brigner, Principal Assistant Attorney General
Ohio Attorney General's Office

April 21, 2016

Date

Concluding the election of an employee member, Ms. Morris asked John Garrett of Cavanaugh Macdonald to come forward for the discussion on Pension Reform.

PENSION REFORM DISCUSSION

The pension funding discussion focused dialogue on review of the Pension Funding Roundtable meeting notes. The Board thanked staff for including pension funding as a discussion item, noting that additional information is needed, and recommended establishing a timetable for further discussion. Additionally, the Board requested health care be included as a discussion item. Concluding the discussion, the Board agreed to continue the discussion during the May Board meeting.

HEALTH CARE PLANNING

Penny Baker, Disability Project Coordinator, provided an update on the early Medicare project in which SERS is contracting with a vendor to assist non-Medicare members with applying for Medicare on the basis of their health status. A vendor has been selected and staff is in the contracting process. Staff has begun to provide claims data to the vendor to assist in identifying the disability recipients most likely to qualify for Medicare.

Mark Jarvis, Medical Program Coordinator, discussed the status of the Marketplace wraparound coverage RFP. He also noted that a vendor has been selected and the Health Care staff is beginning to design the program and negotiate the contract.

Following Ms. Baker and Mr. Jarvis's updates, Anne Jewel, Director Health Care Services, discussed proposed Health Care program changes for 2017. She suggested that the Board consider whether to continue providing a premium subsidy for spouses and dependents, noting that STRS has already eliminated their spousal subsidy and OPERS will be phasing their spousal subsidy out by 2018. To be consistent with eliminating the premium subsidy for spouses and dependents, Ms. Jewel also suggested discontinuing the premium discount program for spouses and dependents. In addition, she suggested that

the premium discount program be discontinued for all non-Medicare retirees in 2017 in order to encourage members to seek coverage through the new Marketplace and SERS wraparound benefit package, which would be good coverage and a more affordable alternative for these members.

The Healthcare department is anticipating only minor benefit changes to the medical coverage in our Medicare program. However, Ms. Jewel presented significant proposed adjustments to benefits in the non-Medicare program for 2017. Specifically, increasing deductibles and out of pocket maximums to control costs and align cost sharing with Marketplace plans were presented as incentives to encourage members to consider the new Marketplace and SERS wraparound benefit package.

The Healthcare department will propose to lower the pharmacy co-payment subsidy currently provided to Medicare enrollees when they are in the Donut Hole. When a member has spent nearly \$3,000 on drugs in a year, Medicare lowers the amount of coverage provided until the member's drug costs reach the next threshold, and the member is said to be in the Donut Hole. Previously, SERS has been reducing members' co-pay during the time they were in the Donut Hole. SERS is proposing to raise the co-pay while members are in the Donut Hole so that it remains level throughout the year, reducing confusion for members and resulting in substantial cost savings to SERS. Ms. Jewel noted that the team is also considering adding a \$250 deductible for brand name drugs for both the Medicare and non-Medicare programs.

Lastly, Ms. Jewel presented results from Optum's annual assessment of SERS health care coverage, which documented SERS' Medicare pricing continues strategically at the Medicare market mid-point, and that benefits continue to be competitive with other Medicare plans.

EXECUTIVE DIRECTOR'S UPDATE

Ohio Retirement Study Council (ORSC)

It has been quiet at the General Assembly, and the April ORSC meeting was cancelled; the next ORSC meeting is tentatively set for May 12. We anticipate presenting our draft budget, along with STRS at the meeting. A draft will be submitted following today's meeting.

OhioCheckbook.com/TOS

As of last Friday (April 15), the pension information was still not live on the Treasurer's website. Staff has been contacted, and a meeting has been scheduled next week pertaining to our information.

The kick-off for the custody transition was this past Tuesday (April 19); all went well. A touch-base call between the Executive Director, and the Deputy Treasurer, Seth Metcalf occurs every two weeks throughout the transition.

New Active Member Newsletter

The first issue of SERS' entirely new active member newsletter, *Future Matters*, was delivered to our members' mailboxes last week. *Future Matters* has two different versions focused toward two different groups of active members: over 45 and under 45. The design and content of the newsletters was heavily influenced by member participation in focus groups held at SERS' headquarters; members of all ages and service credit participated. While the topics covered in the newsletters will be similar, the delivery of the information will be different; and, those closest to retirement will have different retirement planning options than those further away from retirement. Feedback is always welcomed!

Upcoming Meetings of Interest

The five-system Joint Trustees Training has been set for November 2 at OPERS.

The SERO Annual Meeting will be May 11 at the Villa Milano. The Executive Director will be speaking, along with several staff members.

The Executive Director will speak on a panel with Mike Nehf, STRS Executive Director, at the Spring OEA Representative Assembly on May 13.

Once again, SERS will host the OASBO/SERS Joint Legislative and Education Finance Committee on May 26.

On May 11-12, Member Services' Cameron Vaughn will have a SERS' booth at the OAPSE Convention in Cleveland. Cameron will also be presenting during the OAPSE meeting in Cleveland.

Electronic Board Meetings

A few staff members are following today's Board meeting via iPads. In May, Board members will follow along as well to test the product and its usefulness.

HB 520 – Ohio Pension Systems' Omnibus Clean-Up Bill

Representatives Schuring and Ramos introduced their expected bipartisan omnibus pension clean-ups bill last week, HB 520. All of the five systems requested changes were included. SERS will ask for an amendment later requiring disability benefit recipients to apply for early Medicare if they are eligible.

The alternative retirement plan (ARP) mitigating rate will change for the systems; it will be capped at 4%. Very few of SERS' eligible members select an ARP.

HR 711 – WEP Reform

The long-awaited Congressional hearing on HR 711 was held in the House Ways and Means Social Security Subcommittee on March 22. SERS submitted a statement for the record strongly endorsing the "proportional approach" outlined in the bill. We also provided real-life WEP case studies to delegation members serving on the committee and subcommittee, which enabled them to ask supportive questions of the witnesses.

Communications staff fully integrated our social media tools on SERS website into alerts about the hearing and the opportunity for members to submit their own personal letters for the record. Our Congress Web tool on the website was very active in March due to the HR 711 hearing, with 3,496 emails and letters sent using the tool. Approximately 650 emails were sent using the "compose your own messages" feature, which means they were personalizing their messages.

HR 4822 – Public Employee Pension Transparency Act (PEPTA)

On March 21, Senator Nunes reintroduced this legislation which would require pension systems to report their liabilities using a risk-free rate to Treasury for a public database. Failure to do so would result in the state losing its tax-exempt bonding authority. SERS has been in constant contact with our delegation to prevent co-sponsorship of the legislation, and thus far no Ohio legislator has become a co-sponsor.

As a counterpoint to Senator Nunes' claim that public pension systems are not transparent, we update our talking points on what we spend on transparency. Over this current three-year period, for audits, actuarial work, and ORSC oversight, our costs are expected to top \$2.7 million – no small commitment from a system our size.

LEGISLATIVE REPORT

**STATE LEGISLATION BOARD REPORT
131st General Assembly
(Prepared by Laurel Johnson as of April 8, 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.

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

ORSC Position: Approved staff recommendation for passage with amendments

HB476 STATE AGENCY-ISRAEL DISINVESTMENT Kurt Schuring (H48-R-Canton) To prohibit a state agency from contracting with a company that is boycotting Israel or disinvesting from Israel.

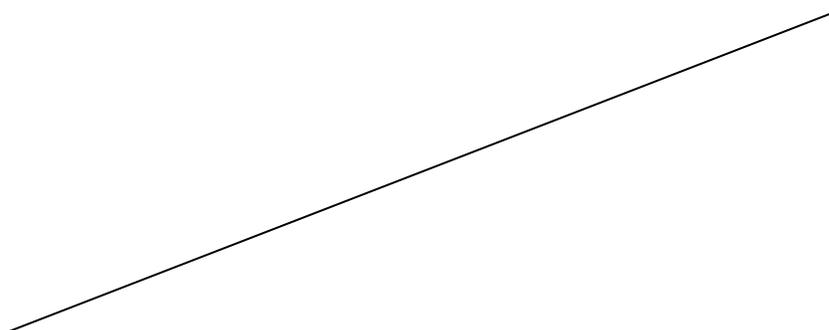
Current Status: 02/24/2016 Introduced

ORSC Position:

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: 02/09/2016 Referred to House Government Accountability and Oversight Committee

ORSC Position:



FEDERAL LEGISLATION BOARD REPORT
114th United States Congress
(Prepared by Laurel Johnson as of April 8, 2016)

HR 711

SPONSOR: Rep. Kevin Brady (R-TX)

LAST ACTION: 3/22/2016 Hearing in the House Ways and Means Social Security Subcommittee.

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 64 co-sponsors, including ten Ohioans: Beatty, Chabot, Gibbs, Johnson, Joyce, Latta, 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 138 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 the Senate 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.

HR 4822

SPONSOR: Sen. Devin Nunes (R-CA)

LAST ACTIONS: 3/21/16 Referred to the House Committee on Ways and Means.

CAPTION: To amend the Internal Revenue Code of 1986 to provide for reporting and disclosure by State and local public employee retirement pension plans.

COMMENT: The Public Employee Pension Transparency Act. Requires reporting the system's liabilities using a risk-free rate to Treasury for a public database; failure to do so would result in the state losing its tax-exempt bonding authority. HR 4822 has eight co-sponsors, but none from Ohio.

MARCH – APRIL FEDERAL UPDATE
(Prepared by Jim Miller, as of April 3, 2016)

OVERVIEW

Other than the Republicans trying to figure out what to do with Donald Trump, and the Democrats with Bernie Sanders, not much else happened in the Congress due to the extended Easter recess.

The debate in the Senate over the President's nominee to the Supreme Court and the infighting among House Republicans over the budget process is slowing the pace in Congress, if indeed it could become any slower. Speaker Ryan is faced with the possibility that if he sticks to his commitment to regular order, the House may not be able to pass a budget or move on to spending bills. Absent getting something done in these critical areas, it becomes difficult to get much else done. So far the predictions made earlier in the year about the lack of productivity during this year's legislative process are holding true.

HEALTH CARE

On March 10, the Senate passed S. 524 by a rare bipartisan vote of 94-1; both Senators Brown and Portman supported the bill. The intent of the bill is to combat the growing epidemic of painkiller and heroin abuse. It would establish grant programs to help state and local governments improve education and treatment for drug abuse, encourage medical providers to reduce unnecessary prescriptions, commit resources to help veterans with addictions, and give local law enforcement and mental health officials tools to lower the death rate from overdoses. A key provision would provide states with incentives to make Naloxone, which can counteract overdoses, more widely available by offering liability protection to officials who distribute it.

The bill now rests in the House where the pathway for it is uncertain; however there are a number of House members on both sides of the aisle who support the need for action on the issue. Plus, in an election year in which the Congress is likely not to pass many bills, addressing the opioid epidemic is a great campaign issue.

AARP released a report showing that prescription drug prices increased at a rate more than six times faster than inflation in 2013. The drugs on average increased in price by 9.4% compared to the overall inflation rate of 1.5%. The report attributes the cost increases to primarily brand name and specialty drugs.

On March 9, the Senate HELP Committee approved seven bills as a part of their effort to produce their version of the House-passed "21st Century Cures Act." This followed their February 9 action where they approved seven bipartisan bills. Included was S.2512 which would provide drug companies with incentives to develop a drug or vaccine for Zika.

The committee plans to complete its package on April 6. The questions then become what is committee's timetable for putting the three packages together, and what are their plans to move the bill through the Senate? As with many other pending issues, the sands of time in this session are running by, so the committee will need to act quickly.

Senators Collins and McCaskill introduced S.2615 which would establish a timeframe for FDA approval of certain applications for generic drugs; create generic priority review vouchers to provide incentives for the development of generic drugs that address medical shortages or instances in which only sole-source drugs are available; and direct the FDA to submit quarterly reports to Congress on the number of new drug applications that have been filed for review.

Chairman Alexander of the HELP Committee has said that this bill may be included in the April 6 session when the committee finalizes the remaining bills to be included in their version of what will become the Senate's "21st Century Cures" bill.

While there continues to be no action on the excise tax which received a two-year delay in implementation, a recent article published in the International Journal of Health Services stated that the Cadillac Tax will “disproportionately harm families with incomes between \$38,500 and \$100,000, while sparing the wealthy.” The article further says the tax will have ripple effects that will also harm lower-income workers.

Representative Tiberi, Chairman of the Ways and Means Health Subcommittee, sent a letter on March 29 signed by more than 25 other members to the HHS Acting Administrator of CMS urging the Administration to delay changes to the Medicare payment system for clinical laboratory tests, known as the Clinical Laboratory Fee Schedule (CLFS). Their fundamental concern is that CMS is rushing to meet an implementation date of January 1, 2017. CMS has not met two of the deadlines required in the rulemaking process, and implementing the new schedule by that date is simply not feasible.

While not all public plans are impacted by proposed cuts for Medicare Advantage payment rates for Employer Group Waiver Plans (EGWPs), the Public Sector Healthcare Roundtable has been very active on the issue, as have been a number of the Ohio Congressional delegation. House members Beatty, Chabot, Gibbs, Johnson, Joyce, Latta, Renacci, Stivers, Turner, and Wenstrup signed onto a letter to the CMS Acting Administrator expressing opposition to the proposed cuts. Senator Portman has joined 12 other Senate Republicans in opposing the cuts. Interestingly, among the Senators signing the letter were Majority Leader McConnell and Finance Chairman Hatch.

SERS played a significant role in accomplishing this level of Congressional support.

SOCIAL SECURITY

The March 22 hearing on H.R.711 went very well, as all witnesses were supportive of the Brady formula as were comments from the members of the House Ways and Means Subcommittee on Social Security. Chairman Brady and Subcommittee Chairman Johnson were forceful in their comments about the need for the legislation, as was Representative Renacci, also a member of the subcommittee. Representative Tiberi, while not a member of the subcommittee, sat in on the hearing and also made very positive comments in support of the bill.

There are a number of factors in play that will impact the passage of this bill. Major ones include the following:

1. **Legislative Calendar Time:** Most of what is accomplished in this Congress will need to be enacted prior to the July conventions. Given that August is the traditional recess, and this being a hotly contested election year, the legislative calendar for September and October will be very slim.
2. **Timing:** Brady has not yet revealed his timetable for moving the bill to the House floor, as well as revealing his strategy for the Senate. He could move it as a stand-alone bill, or attach it to some must-pass legislation. As chairman, he has some flexibility as to how best to proceed.
3. **The Puerto Rico Factor:** As is usually the case in Congressional politics, there are at least two perspectives on the impact the pending relief bill for Puerto Rico could have on the Brady bill. One school of thought suggests that Hatch will use the Brady bill as leverage to get PEPTA and his SAFE Act included in the relief bill because of the public pension crisis in Puerto Rico. The other view, as expressed by Ways and Means staff, suggests that the two bills are on separate time tracks; plus, Brady and Hatch have a good relationship. However, Hatch did not gain his stature as a long-time power player in the Senate by accident, so time will tell as to how he decides to play his cards.
4. **The Loser Factor:** While the NEA and AFSCME submitted letters of supposed neutrality on the bill, they still maintain their position supporting repeal. The IAFF is working the Hill regarding their concern about the number of firefighters who will, according to them, become losers under the Brady bill. Other groups such as the AFT, Latinos for Retirement Security, and the AFL-CIO are expressing concerns about the so-called “loser” factor. There is speculation that Ways and Means is waiting on an “ask” from IAFF. If that happens, the next step will be for that solution to be worked out between Brady and Neal.

5. The GPO Factor: According to staff, Brady is getting pressure to deal with some kind of GPO fix in H.R.711. They see the President's budget proposal as the only one that would really work. However, there are few details available as to how the formula would work, and it could set up another category of losers that could become, in a worst case scenario, a poison pill for the entire bill. The NEA, AFSCME, AFT, and other groups will need to endorse any revised GPO language before it has a chance to move forward, particularly in this election year.

The good news in the discussions on the Brady bill, little mention has been made concerning the mandatory coverage issue. No mention of mandatory coverage was made during the hearing.

FINANCE

The Finance-related committees (Senate Banking and Finance; House Financial Services) have been active in holding a variety of hearings, but almost none related directly to public pension funds. Topics have included implementation issues with free-trade agreements, examining current trends and changes in the fixed income markets, assessing the effects of consumer finance regulations, Treasury's failure to comply with subpoenas, the impact of housing regulations, and the future of housing in America, among other topics.

The two hearings of interest to public plans related to the House Financial Services hearing concerning Puerto Rico's debt crisis and its impact on bond markets, and the Senate Finance hearing on Puerto Rico, in which Senator Hatch expounded on the need for more transparency in public fund accounting (PEPTA), and creating more options for public plans (SAFE Act).

PUERTO RICAN LEGISLATION

The Natural Resources Committee will hold a hearing in early April concerning the Puerto Rico fiscal crisis. So far, sources say there has been no specific inclusion of either the PEPTA or the SAFE Act in the draft bill. That action would likely occur in the Senate version of the bill. The House version is likely to focus on the creation of a federal oversight board to assist Puerto Rico in getting its financial house in order.

The Puerto Rico financial problems are so complex and far reaching that any agreement on a recovery plan is a challenge for the Congress. For example, the Treasury Department would put pension payments to retirees ahead of payments to bondholders, a move that some experts fear that would rattle the municipal bond market.

Senator Hatch is using the public pension crisis in Puerto Rico as the reason that state and local public pension plans should file annual reports with the Treasury Department in the interests of greater transparency.

It is possible that the complexities of this legislation will cause it to move slowly, which could be a break for the Brady bill. It does appear that both parties and the administration want to address the Puerto Rico problem this year, so public plans will need to continue closely monitoring this legislation.

PEPTA

On March 21, Representative Nunes introduced H.R. 4822, his most recent version of the Public Employee Pension Transparency Act which he had previously introduced in previous sessions of the Congress. The bill has eight co-sponsors, but none from Ohio.

It does not appear to be a coincidence that Nunes introduced the bill at the same time the Congress is grappling with ways to resolve the fiscal crisis in Puerto Rico. So far, the House Puerto Rico bill does not specifically include the PEPTA language, but it does include language that would require Puerto Rico to file an actuarial statement for each plan that must contain certain information regarding the "fair market value of the plans' assets and liabilities" that would be determined using a discount rate equal to the high

yield of the 10-year Treasury note, the 30-year Treasury note, and "any other interest rate or rates used by the plan to determine the value of plan assets or liabilities."

In rolling out the bill, Nunes made his usual comments about the need "to bring transparency and financial stability to state and local governments which harbor trillions of dollars in hidden public employee pension debt." This year's introduction did not rival the fanfare of his previous introductions, but of course, drew comments from Andrew Biggs and others saying that "unless the Republican-led Congress steps up, the fetid world of public employee pension financing may remain a danger to taxpayers and government budgets."

A significant number of national organizations, as well as the Ohio pension funds, have repeatedly communicated to members of the delegation and key committee leaders about this legislation.

RETIREMENT SECURITY

The introduction of H.R. 4822, the PEPTA legislation, and the continued concern about noxious pension provisions that could be included in a Puerto Rico relief bill, continue to be on the radar as far as public plans are concerned.

In a more general sense, the drumbeat from Arnold-funded hirelings continues with their consistent messaging about public plan underfunding, lack of transparency, inflated discount rates, the financial threat posed to state and local governments, and the ultimate burden that will be placed on taxpayers. Of course, the final note in their messages always includes the eventual need for bailouts for state and local plans.

A new twist occurred in a March 23 article in the American Thinker, entitled, "Government Exempts Itself from the Rules Everyone Else Should Follow." The thrust of the article suggests that public plans should be governed by a Federal-type of ERISA for government plans. This idea has been mentioned by others more recently, so public plans should be reminded of a similar attempt to do this in the 1980s called PERISA. It will not be a total shock to see the idea proposed once again, and more likely in 2017 because of this election year.

SUMMARY OF KEY ACTIVITIES

1. Met with staff from Representatives Tiberi, Stivers, Jordan, Gibbs, Kaptur, Ryan, Latta, Renacci, Johnson, and Joyce; and from Senator Portman's office.
2. Met with Representative Tiberi.
3. Met with staff from AFSCME, NCSL, NASRA, AARP, and Latinos for Retirement Security.
4. Attended hearing on H.R. 711.
5. Continued monitoring the Puerto Rico legislation.
6. Provided follow-up information to Ohio offices.
7. Follow-up calls with the group that has been working on the Brady bill since last spring.
8. Continued discussions with Ways and Means staff.

MEMBERSHIP APPEAL

Joe Marotta, General Counsel, asked Henrique Geigel, Assistant Attorney General, to provide background information. Mr. Geigel explained the membership appeal process and discussed the materials related to the appeal. He stated that the issue in this appeal is whether Ms. Quigley was an employee of the district or an independent contractor. There is no one factor that determines whether an individual is an employee or an independent contractor, but the common law test looks to whether the individual or the employer has control over the services performed.

REVERE LOCAL SCHOOLS APPEAL – AFFIRM STAFF DETERMINATION

Barbra Phillips moved and Madonna Faragher seconded to affirm the January 4, 2016 SERS Staff determination that Revere Local Schools was the employer of Katharine Quigley and is responsible for the employer and employee contributions plus interest for ten the years of services Ms. Quigley provided to Revere Local Schools from July 1990 through June 2005. 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.

Following the membership appeal, Ms. Morris asked Tracy Valentino to come forward and discuss the draft administrative budget.

REVIEW DRAFT ADMINISTRATIVE BUDGET FOR THE ORSC

Ms. Valentino provided an overview of the FY2017 SERS' Draft Budget, in the ORSC's required format. She stated that in drafting the budget, SERS took a conservative approach to budgeting, tied to the organization's Mission, Vision and Values. For FY2017, the total operating and capital budgets increased 4.3% over the current fiscal year. She also noted the FY2017 Draft Budget includes a required fiduciary audit. Excluding the cost of this mandated audit, the FY2017 Budget is only 2.2% over the FY2016 approved budget. Also included, is the SMART (SERS Member and Retiree Tracking) Project budget summary.

Continuing on, there is an increase of 4%, including a 3% performance-based merit increase for staff and a 5% overall increase in Insurance in the Personnel category. SERS continues to budget health care expenses based on actuarial rates that are derived from actual plan claims experience and health care cost trends supplied by our Actuary. This increase in health care is lower than it has been over the last few years as well as less than the projected national trend assumptions for SERS' plan type.

The Professional Services category reflects an increase of 5%. The increase is being driven by the fiduciary audit mandated by the Ohio Retirement Study Council (ORSC). The ORSC is expected to select a vendor to perform a fiduciary performance audit that includes a review of overall governance, administration and management of our investment portfolio. The audit is expected to occur in the first half of the fiscal year.

The Communications Expense Category remained relatively flat from FY2016. In FY2017, Member Services plans to access more members by increasing its popular remote counseling sessions, while Employer Services will continue Employer outreach efforts coupled with SMART training, preparing Employers for SMART deployment. Even with an election for two employee board member seats budgeted in FY2017, the Postage expense shows a savings from the reversal of the USPS exigent postage surcharge in April 2016.

Ms. Valentino state that the Other Operating Expense category increased slightly, most notably in regard to Computer Support Services. Enhancements and improvements are obligatory to support the transition and integration from MARS to SMART in FY2017; increasing the need for monitoring and reporting hardware and software events on the SERS network. These support enhancements include improvements to the Business Continuity Site and the IT network infrastructure.

The Net Building Occupancy Expense budget decreased 12.2%. In the third quarter of FY2016, business terms were agreed upon with a tenant for a 15 year lease to occupy the entire third floor. Lease renewal

negotiations have been initiated with a fifth floor tenant whose lease will expire in December 2016. This budget reflects tenant remodeling that will begin in May 2016 and continue through the second quarter of FY2017 for the third floor tenant. This budget also includes capital improvement for the Plaza reconstruction, set to break ground in late FY2017, and an upgrade to the building's original security server and associated CCTV equipment. This equipment has reached the end of its useful life. In FY2017, OSERS will remain 100% occupied and continue to operate a safe and efficient environment.

The FY2017 Capital Budget includes a black and white high volume printer for centralized printing, network performance improvements and a test environment build-out for production readiness.

In relation to the SMART, Catherine Moss reported to the Board that she and Dan Wilson met with Sagitec executives to express the Board's displeasure of the delay.

The Board continued with the review of calendar dates and future Board meetings.

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*.**

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 March meeting.

ADJOURNMENT

Catherine Moss moved that the Board adjourn to meet on Tuesday, May 24, 2016 for their regularly scheduled meeting. The meeting adjourned at 5:43 p.m.

Catherine Moss– Board Chair

Lisa J. Morris – Secretary