November 17 and 18, 2016

OATH OF OFFICE

OATH OF OFFICE OF JAMES A. ROSSLER, JR.
MEMBER OF THE RETIREMENT BOARD OF THE
SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

I, JAMES A. ROSSLER, JR., do solemnly swear that I will support the Constitution of the United States and the Constitution of the State of Ohio; that I will not knowingly violate or willfully permit to be violated any of the provisions of law applicable to this Retirement System, and that I will diligently and honestly administer the affairs of the said office and duties as a member of the Retirement Board of the School Employees Retirement System of Ohio during the period for which I was appointed.

JAMES A. ROSSLER, JR.

SWORN TO and SUBSCRIBED before me this 17th day of November, 2016.

Joseph M. Marotta

Notary Public

JOSEPH M. MAROTTA
ATTORNEY AT LAW
Notary Public, State of Ohio
My Commission Has No Expiration
Section 147.03 R.C.

ATTESTED BY:

Helen M. Ninos, Interim Executive Director

Barbra Phillips, Chairperson

The eight hundred and ninety-fifth 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, November 17, 2016. The meeting convened in open session at 8:31 a.m. and continued with the Pledge of Allegiance. Following the Pledge of Allegiance, the roll call was as follows: Barbra Phillips, Chairperson, James Haller, Christine Holland, Catherine Moss, James Rossler, Daniel Wilson, Beverly Woolridge and Madonna Faragher. 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
October 20, 2016

Catherine Moss moved and Madonna Faragher seconded the motion to approve the minutes of the Retirement Board meeting held on Thursday, October 20, 2016. Upon roll call, the vote was as follows: Yea: Madonna Faragher, James Haller, Christine Holland, Catherine Moss, James Rossler, Daniel Wilson, Beverly Woolridge and Barbra Phillips. The motion carried.

Barbra Phillips asked Farouki Majeed to present the Investment Report.

INVESTMENT REPORT

Farouki Majeed asked David Lindberg and Felicia Bennett of Wilshire Associates to come forward and discuss the quarterly performance report. Mr. Lindberg and Ms. Bennett presented the performance report as of September 30, 2016, including economic and capital market highlights, asset class analysis and performance, and Total Fund performance for the third quarter. Following the discussion, the Board thanked the Wilshire team for their comments.

Next, Mr. Majeed updated the Board on the status of the asset allocation study and the agreed input assumptions for various asset classes. He stated staff is looking at the role of hedge funds in the portfolio and Wilshire provided efficient frontier analysis for various MAS allocations. Mr. Majeed noted the asset allocation change approved in June 2013 included reducing MAS to 10% and increasing real assets to 15%. Mr. Majeed also discussed that return assumptions in 2016 are broadly lower for all assets compared to 2013. Goals of the asset allocation study are to improve diversification, increase yield, reduce costs, and avoid unnecessary complexity. David Lindberg added the study will include measuring expected volatility in terms of SERS' funded status. More details about the study will be provided to the Board in December.

Mr. Majeed next provided an economic update and discussed the Investment report for the quarter ending September 2016. The preliminary performance report as of October 30, 2016 was provided to the Board for their information.

SUMMARY OF INVESTMENT TRANSACTIONS

Beverly Woolridge moved and Catherine Moss seconded that the following summary of investment transactions made in compliance with the Ohio Revised Code Section 3309.15 during the period of **September 1, 2016** through **September 30, 2016** hereby be approved. Upon roll call, the vote was as follows: Yea: Madonna Faragher, James Haller, Christine Holland, Catherine Moss, James Rossler, Daniel Wilson, Beverly Woolridge and Barbra Phillips. The motion carried.

A. PURCHASES

Asset Class	Approximate Cost (in millions)
US Equities	$ 91.7
Non-US Equities	203.7
Fixed Income	219.0
Multi-Asset Strategies	n/a
Private Equity Capital Calls	48.4

Real Asset Capital Calls	43.3
Opportunistic	6.7
Cash Equivalents	203.4

B. SALES

Asset Class	Approximate Net Proceeds (in millions)	Approximate Gain/(Loss) (in millions)
US Equities	$ 86.3	$ 14.3
Non-US Equities	168.2	14.5
Fixed Income	179.6	1.7
Multi-Asset Strategies	11.9	5.5
Private Equity distributions	25.7	n/a
Real Asset distributions	23.1	n/a
Opportunistic	1.1	0.1
Cash Equivalents	118.4	n/a

The Board took a break at 10:05 a.m. and reconvened at 10:21 a.m.

EXECUTIVE DIRECTOR'S UPDATE

Ohio Retirement Study Council

The Ohio Retirement Study Council (ORSC) reviewed several systems' budgets, annual valuations, and five-year experience studies at last week's meeting. During the meeting, Ms. Ninos reinforced SERS' 7.5% investment return assumption. Following the meeting, Ms. Ninos spoke with Senator Beagle and reiterated SERS' assumed return; Senator Beagle spoke highly of SERS.

The next meeting of the ORSC is scheduled for Dec. 8, although it may be moved or cancelled due to lame duck session needs.

Advocacy Groups

On November 7, Ms. Ninos and staff met with the new OASBO Executive Director, Jim Rowan, and Barbara Shaner for an update and to discuss the proposed COLA changes. SERS will be hosting the OASBO Joint Legislative and Education Finance Committee meeting in the O'Keefe on February 7, 2017.

Legislation

During the week of November 7, HB 520, the pension funds' omnibus bill, was referred from the House Health & Aging committee, and is headed for a House vote. SERS is hopeful this legislation will wrap up during the lame duck session.

On the proposed COLA changes, SERS continues to discuss legislative strategy. Representative Kirk Schuring has been selected as House Speaker Pro Tem for the next session, and we are hopeful that he is able to continue on the ORSC. By February, we should know who the new ORSC members are.

- On November 10, Centers for Medicare & Medicaid Services (CMS) officially announced the Med A and B premiums and deductibles for 2017. SERS' retirees are among the 30% of Medicare recipients who are subject to artificially high Med B premiums because they are not “held harmless.” Fortunately, CMS has attempted to mitigate the increase, which has been lowered to 10%; however, we still believe that to be unfair, and we are still lobbying our delegation about it because a permanent solution must be found. We are updating our materials on the website and Facebook, and have sent out an email blast to retirees beginning this week.

Media

As an update to last month, the Ohio Hedge Clippers was preparing a report about three of the Ohio retirement non-uniform systems’ hedge fund holdings with a press conference planned in late October to release the report. Because SERS has been persisted in seeking an opportunity to talk with the researcher, Lisa Morris and Farouki Majeed had a very successful conference call with the reporter, updating inaccurate information about SERS holdings and advising that we were already on board with the group’s recommendations. As a result, we were able to mitigate some of the potential negative media coverage, and the group was very complimentary of SERS, specifically in the press conference.

Additional Information

Midwest Diversity Initiative – Julie Deisler informed the Board that SERS has an opportunity to participate in the Midwest Diversity Initiative, which is comprised of a group of institutional investors located in the Midwest who are working to encourage diversity on corporate boards. The coalition's mission is to advance board diversity in companies located in Midwestern states and advocate at those companies for the adoption of board diversity policies that detail how women and minorities are considered as diverse candidates during their director nomination processes. The group will focus on engagement with a number of small and mid-cap companies and may choose to file shareholder proposals in the future.

Fiduciary Performance Audit – Joe Bell stated that the fiduciary performance audit is progressing very well thanks to staff. At this stage, SERS is providing all of the information needed for the auditors. Mr. Bell reminded the Board that this audit is being overseen by the ORSC and that his role is point of contact. SERS is receiving very encouraging feedback. Funston is focused on six areas, and will provide SERS a report on those areas. They are looking at where SERS rates in comparison to its peers.

Funston will have a series of recommendations to assist SERS to achieving the next level of excellence. Those area are: board governance and administration; organizational structure and staffing; investment policy and oversight; legal compliance and IRS regulations; risk management and controls (includes ERM and audit); and IT operations. Thus far, over 31 interviews have been conducted, including Board and staff. They have also reached out to 23 of SERS outside providers. Funston will have follow-up phone calls with staff and then move into the draft report stage. They do not see any red flags; they view SERS as a very well-run organization.

Mr. Bell stated SERS is expecting to see recommendations as we look for continuous improvement. There will be an exit conference in mid-January, and a draft report in early February. In late spring, an addendum to this report will be provide after SMART goes live.

Custodian Transition – The custodian transition is going well. There are still some outstanding items with China and India. Once we get those countries open and take the actions necessary, the transition will be complete.

Private Equity Funds – Recently, all five pension systems received an information request from the State Auditor regarding private equity portfolios. SERS responded with information about how we control the risk of misstatement and the overall risk of investment loss in the private equity portfolio. The Auditor’s staff followed up with additional questions, and plans are currently being made for an on-site discussion. We will be sharing our recent Private Equity Fee Audit report.

GFOA and PPCC Awards – For the 31st consecutive year, Finance has received the GFOA Certificate of Achievement for Excellence in Financial Reporting for its CAFR and SAFR. Finance also received the Public Pension Coordinating Council's "Public Pension Standards Award for Funding and Administration" for 2015. We congratulate our fine staff!

Charity Activities – After Halloween, staff donated a total of 101 pounds of extra Halloween candy for the troops through Operation Gratitude. In addition to the candy, staff also sent a box full of dental care supplies.

Staff is also currently participating in the Salvation Army's Angel Tree program. The program provides children around Central Ohio with gifts for families in need of help. SERS employees are expected to donate at least 75 gifts this year.

Finally, staff is also collecting new or gently used coats, hats, gloves, and scarves for the Cristo Rey School coat drive. These items not only benefit the students at Cristo Rey, but also their families and other local charities.

Five-System Trustee Representative Meeting – SERS received an invitation from the Highway Patrol Retirement system for two Board members from each system to get together in January. Two Board members are currently working with staff to coordinate.

Board Retreat – Ms. Ninos reminded Trustees of SERS upcoming Board Retreat on February 15, and asked if there were any specific topics to discuss. Several Board members offered suggested topics of discussion for the Retreat.

LEGISLATIVE REPORT

STATE LEGISLATION BOARD REPORT
131st General Assembly
(Prepared by Laurel Johnson as of November 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: 09/28/2016 Referred to Senate Criminal Justice

ORSC Position: Approved staff recommendation for passage with amendments

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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: 04/26/2016 House Government Accountability and Oversight, (Second Hearing)

ORSC Position: Staff recommended disapproval

HB520 PUBLIC RETIREMENT SYSTEMS Kirk Schuring, (H48-R-Canton) Dan Ramos, (H56-D-Lorain) To revise the law governing the state's public retirement systems.

Current Status: 05/25/2016 House Health and Aging (Fourth Hearing)

ORSC Position: Approved staff recommendation for passage with amendments

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FEDERAL LEGISLATION BOARD REPORT
114th United States Congress
(Prepared by Laurel Johnson as of November 4, 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 a worker's full career earnings. HR 711 has 130 co-sponsors, including twelve Ohioans: Beatty, Chabot, Gibbs, Johnson, Joyce, Kaptur, Latta, Renacci, Ryan, Stivers, Tiberi, and Turner.

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 155 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 25 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 the Treasury Department for a public database; failure to report would result in the state losing its tax-exempt bonding authority. HR 4822 has eight co-sponsors, but none from Ohio.

OCTOBER – NOVEMBER FEDERAL UPDATE
(Prepared by Jim Miller as of November 4, 2016)

OVERVIEW

Congress returns for the lame duck session on November 14. Members from both parties will be factoring in the election results as a part of establishing the agenda for the remaining weeks of this Congress.

The number-one must-pass measure is legislation to keep the government running through 2017. There are a number of options that may be considered, including another continuing resolution (CR) that would keep the government running until sometime in 2017, one large omnibus bill, or small groups of appropriations bills, sometimes referred to as “minibuses.”

There are a few other bills that might receive consideration during the lame duck session, namely the 21st Century Cures Act, legislation to overhaul the criminal justice system, an energy modernization act, and the National Defense Authorization Act.

On October 18, Social Security announced that a 0.3 percent COLA will be given in 2017. This means that legislation similar to what was passed by the Congress last year to fix the Medicare B premium issue becomes a must-pass bill for the non-covered systems during the lame duck session, and Ohio is well underway with its lobbying efforts.

Due to the contentious elections, it may well be a contentious lame duck session, and if so, the Congress may just do a budget bill, hopefully the Medicare B fix, and call it a day.

The obvious wild card that will have a large influence on the lame duck will be not only the results of the presidential election, but which parties will control the House and Senate and the margins in each chamber.

HEALTHCARE

In reference to the Medicare B premium issue, given the uncertainty of the lame duck session and such little session time after the election, a major bipartisan effort will be required to ensure that the fix is made before the end of the year. As last year, a large coalition including the Public Sector Healthcare Roundtable, the National Coalition on Healthcare, AFSCME, AARP, and many other national groups are leading the way with an effort to fix the premium issue.

The "21st Century Cures Act" is a high priority for the lame duck session according to leaders in both the House and Senate. Recent reports indicate that House Energy and Commerce Chairman, Fred Upton, plans to introduce a new version of the bill after Election Day. This could mean that Upton and Senator Lamar Alexander have reached an agreement on language, as well as costs. If so, the bill could have a good chance at passage. Members are looking for some positive bills on which to end the year.

While not surprising, Matt Fiedler, the chief economist for the White House's Council of Economic Advisers, reinforced in an October speech that the administration still views the excise (“Cadillac”) tax as necessary, given that employer-provided health insurance is exempt from income taxes. He went on to say that the income tax exclusion discourages payment and plan design reforms, and that the excise tax could promote such changes. Clearly, the debate over the excise tax will loom large during the first few months of the new Congress.

On October 14, HHS announced the completion of the rule that implements the replacement for the SGR formula. HHS is accepting comments on the final rule for 60 days, and said the rule will address what it calls the Quality Payment Program, which will require doctors to submit certain data to CMS, such as quality measures and technology use. Medicare would offer two tracks for doctors to choose from, depending on how prepared they are to provide such data and move into alternative payment models. The program is set to go into effect on January 1, 2019.

SOCIAL SECURITY

Since the Congress was on recess, there was no legislative action on Social Security-related issues. There is speculation that H.R. 711, the Brady WEP reform bill, may be undergoing some changes to address some of the issues that surfaced in July that caused the bill to be withdrawn from the mark-up agenda. However, if that is so, nothing has been released for public consumption.

According to Ways and Means staff, the CBO still will not budge on its score for the bill, which differs from that of the SSA actuary. This continues to be a major problem for the bill.

There was some good news in that Speaker Ryan appointed long-time public pension friend Kim Hildred to the Social Security Advisory Board. Kim was staff director on the House Ways and Means Social Security Subcommittee for 18 years, and has a deep understanding of not only Social Security itself, but of the mandatory coverage and GPO/WEP issues as well. She has a strong appreciation of the role that public pension plans play in providing sound retirement security for millions of seniors in this nation.

FINANCE

As was the case for Social Security, there was no legislative activity in the financial committees.

There was an interesting development involving the Consumer Financial Protection Bureau headed by Richard Cordray. A federal appeals court ruled that the structure of the agency is unconstitutional because the president has limited power to dismiss the director. The agency will continue to operate, but the ruling chips away at the authority of the director.

As a part of an SEC enforcement forum, Andrew Ceresney, Director of the Division of Enforcement, included in his remarks comments about the municipal securities market as it relates to public plans. He said his division is primarily focused on two areas: the accurate disclosure of fund liabilities, and public corruption, such as pay-to-play and other schemes related to investments and the safeguarding of assets. He stated that public pension funds now hold more than $3.8 trillion in assets, and the opportunity to earn fees to manage and custody those assets is very valuable.

RETIREMENT SECURITY

Negative activity continues nationally on the retirement security front, but nothing in the Congress because of the recess.

On October 13, ALEC released a new report claiming that state and local government pension plans have liabilities totaling $5.59 trillion. ALEC further claimed that every dollar spent in filling the gap in public pensions is money diverted from core government services. As NCTR pointed out in its response to ALEC, more than 70% of the cost of benefits comes from investment income, and a NASRA report shows that contributions to pension trust funds by state and local governments account for only around 4 percent of all government funding. ALEC has been attacking public plans since the mid-1980s and is consistent in several ways, namely, pushing to convert plans from the DB model to the DC model, use of inflammatory terms such as bailout and bankruptcy, and the tendency to be underwhelmed by facts.

The first public meeting of the Puerto Rico fiscal control board was held in Manhattan. The board was met with dozens of protesters as resistance to the board's authority continues to grow. While it is too soon to know what actions the board will take regarding the problems in the Puerto Rico public pension plan, public plan interest groups across the country will continue to carefully monitor the board's actions because of the policy implications for mainland plans.

Other recent retirement security issues include:

- Moody's projection that public plan liabilities have increased by 40% to a high of $1.75 trillion.

- Milliman's study stating that the largest 100 public plans are funded just below 70%.

- Additional hedge fund scrutiny: in Texas, a board chair recommended the elimination of hedge funds, and in Rhode Island, a fund is reducing hedge funds by 50%.

- Alaska is considering moving forward on issuing pension obligation bonds.

- Economist Teresa Ghilarducci and Blackstone President Tony James have authored a book entitled, "Rescuing Retirement: A Plan to Guarantee Retirement Security for All Americans. They call for universal coverage, including individually owned transparent individual accounts which would be pooled and invested in long-term strategies they suggest would provide better returns than current 401(k) plans.

- An article in Forbes by Chuck Devore entitled, "How You Will Bail Out State Pension Systems." The article focuses on investment returns, and also takes a shot at the Secure Choice concept.

- A blog on the House Ways and Means Committee website called state-sponsored private retirement programs such as Secure Choice plans "a bailout for failing public pension plans." The blog attacks DOL rules designed to facilitate such efforts, and helpfully adds that some state plans are on well on the path to bankruptcy, citing Illinois and New Jersey.

- A recent warning issued by the State of Illinois that it may not have enough money to make its fiscal 2017 payments on time. It is possible that the state's pension plans may have to sell assets to raise the money required to pay retirement benefits, which in turn would reduce investment returns and drive up the unfunded liability.

The above examples reflect the scope of the continuing attacks on public plans, and help the Arnold Foundation and other critics continue their activities.

SUMMARY OF KEY ACTIVITIES

1. Participated in conference call with advocacy groups on H.R. 711.

2. Monitored SSA actions concerning 2017 COLA; made follow-up calls to key Ohio Congressional offices, the Texas Retired Teachers Association, the Public Sector Healthcare Roundtable, and other groups on the Medicare B premium issue.

3. Contacted newly-appointed SSA Advisory Board member, Kim Hildred.

4. Responded to request for information from Joint Economic Committee staff.

Next, Helen Ninos asked Tracy Valentino, Chief Financial Officer, and Shaela Jones, Budget Analyst, to come forward for discussion on SERS' budget planning process.

BUDGET PLANNING UPDATE

Ms. Valentino began by stating that it is always the hope of the Finance department to achieve goals, objectives, and challenges of an annual budget. Ms. Valentino noted the objective is to approach the budget with the ultimate goal of supporting the mission and vision of SERS. It is a zero-based approach, at a very detailed level of information. In preparing the annual budget, staff also looks at the strategic plan relating to continuing level of service. Some of the challenges are always going to be capital projects, and there may be some regulatory mandates such as GASB, which sometimes SERS will not always know about in advance. With these unforeseen mandates, SERS has to be somewhat fluid and have the ability to manage the budget.

During the discussion, Ms. Jones discussed the FY2016 actual budget versus the FY2017 budget. She then discussed a three-year fiscal year view, which was created based on feedback discussion with the Board regarding the presentation and the ability to evaluate on a true apples-to-apples comparison, from an actual verses budget perspective.

Ms. Jones then discussed how the budget comes together, and her role in the process. She stated that the budget formulation information is made available prior to the budget process to each department. Ms. Jones also noted that inflation consideration for purchased items is used to predict the impact inflation may have on labor, energy costs, travel expenses, and to determine the direction and magnitude of change to budgeted administrative expenses. She highlighted that when budgeting for furniture and equipment, CPI is used to aid in calculating the rate of consumer inflation at the national level for common purchases. Inflation may also be used as a guide for determining annual merit increases for the Compensation Committee. Standard travel costs are reviewed taking CPI into consideration; more specifically, it is used to increase or decrease the amount budgeted for out-of-state travel per trip from the previous year, or used to determine whether the amount should be kept constant.

Ms. Valentino followed by stating that SERS strives to be fiscally responsible with its budget, and that a final budget will be ready for the Board's review during the May Board meeting and voted on during the June Board meeting.

Mr. Wilson thanked Ms. Valentino and Ms. Jones' for the presentation, and noted his appreciation for the new format. However, he also advised staff that he would not support a 7% increase over the previous year spending.

EXECUTIVE DIRECTOR SEARCH UPDATE

Gary Hudepohl, Hudepohl and Associates, provided an update on the Executive Director search. He indicated that the number of applicants were lower than what he expected, however, the quality of the applicant pool is very strong. He highlighted reasons why people are not interested: the asset size of SERS (applicants are not interested in moving to a smaller asset size); applicants are not willing to relocate; recruiting in the winter is difficult in Ohio; 5-7 executive directors say this is a very difficult job, and; a number of candidates are nearing retirement. However, Mr. Hudepohl did state that he is very pleased with pool of applicants that have shown interest.

EXECUTIVE SESSION

At 11:17 a.m., Beverly Woolridge moved and Christine Holland seconded the motion that the Board go into Executive Session pursuant to R.C. 121.22 (G)(1) to discuss the employment and compensation of a public employee. Upon roll call, the vote was as follows: Yea: Madonna Faragher, James Haller, Christine Holland, Catherine Moss, James Rossler, Daniel Wilson, Beverly Woolridge and Barbra Phillips. The motion carried.

The Board returned to open session at 12:22 p.m.

Barbra Phillips excused Daniel Wilson from the remainder of the meeting.

EXECUTIVE SESSION

At 1:31 p.m., Beverly Woolridge moved and James Haller seconded the motion that the Board go into Executive Session pursuant to R.C. 121.22 (G)(5) to review applications for Disability Retirement Benefits. Upon roll call, the vote was as follows: Yea: Madonna Faragher, James Haller, Christine Holland, Catherine Moss, James Rossler, Beverly Woolridge and Barbra Phillips. The motion carried.

The Board returned to open session at 2:05 p.m.

HEALTH CARE UPDATE

Anne Jewel, Director of Health Care Services, updated the Board on the Marketplace Wraparound Plan and early Medicare initiatives.

Marketplace Wraparound Plan: The Marketplace Wraparound Plan is a new coverage option in 2017. It is only available to SERS healthcare participants who are not eligible for Medicare and not enrolled in Medicaid.

To date, HealthSCOPE has spoken with some 1,700 SERS members. The federal Marketplace opened on November 1st, and sign-up has begun. Ms. Jewel noted that in the first two weeks, 41 retirees had signed up for Marketplace coverage in order to take advantage of the Wraparound benefits. The Marketplace open enrollment continues until January 31, 2017, however, anyone wanting coverage to begin on January 1 must sign up by December 15, 2016.

Ms. Jewel noted that recent events could dampen enrollment numbers. The uncertainty created by the election of a President and a Congress that are vowing to repeal and replace the Affordable Care Act may discourage enrollment. Ms. Jewel noted that even so, the Marketplace would not disappear overnight due to the change in administration. Replacement legislation will take time to develop and implement. In addition, higher premiums and higher cost sharing make Marketplace plans less attractive in 2017 than they were in 2016. Ohio, in general, was spared the large increases experienced by other states. The statewide average increase was between 2 to 4%, but it can vary considerably by plan. Ms. Jewel noted even with the uncertainty and the increase in prices, for some of SERS' enrollees, the Marketplace is still a more affordable alternative than the SERS non-Medicare plans.

Early Medicare: SERS has hired vendor, Human Arc, to assist retirees in our healthcare program who have disabling medical conditions with applying for Medicare before age 65. Ms. Jewel reported to the Board that the first two SERS retirees assisted by Human Arc have been approved for early Medicare; other approvals are expected soon. Human Arc has 142 applications currently pending with Social Security, and another 58 applications being prepared. Approved members will not begin moving into Medicare coverage until late summer of 2017 at the earliest. This is because there is a one- to two-year waiting period before Medicare becomes effective through this program. Human Arc anticipates trying to contact approximately 55% of our non-Medicare enrollees whom they have determined to be potentially eligible for Social Security disability status.

Ms. Jewel also communicated the status of HealthScope and SERS' Wraparound Program. She discussed about the uncertainty of the environment following the election. The second negative is on higher premiums. Ohio was spared a lot; however, these averages are not a good measure, each individual's experience can be quite different. An example: CareSource changed their rates by 20%; however, they did lower their deductible and cost share – the increase in rates is still of concern.

Also, failure to nurture the marketplace, can cause it to fall on its own accord. If the market fails, there is nothing there as a safety net because the rules have changed. CareSource is the biggest carrier in the Marketplace; they are six plans in Ohio. SERS' retirees can return to SERS. Yet, SERS is in a tough place; we are trying to find decent coverage for what we have now.

The Board recessed at 2:34 p.m.

November 18, 2016

The Board reconvened in session at 8:30 a.m.

Chairperson Barbra Phillips excused the absence of Daniel Wilson and then asked asked Tracy Valentino to introduce the team of Cavanaugh Macdonald.

PENSION AND HEALTH CARE ANNUAL ACTUARIAL VALUATIONS

Tracy Valentino began by requesting John Garrett, Todd Green, and Alisa Bennett with Cavanaugh Macdonald Consulting, LLC to present the results of the Annual Basic Benefits Valuation and the Retiree Health Care Benefits Valuation as of June 30, 2016.

Mr. Garrett began by discussing the goals and objectives of the annual actuarial valuation and the approach used to project both the inflows and outflows over the life of the plan. Mr. Garrett reminded the Board of the recently completed five-year experience study in April of this year, wherein the valuation showed a decrease in the funding status.

Continuing, Mr. Green stated that in trying to fund pension benefits, you must first determine the value of the benefits while projecting services and retirements. The goal is to calculated the present value of the fund, taking into consideration future income and future benefits. The funded ratio of the pension system decreased from 68.1% to 66.7% ($728M of unrecognized investment losses), and the amortization period (the amount of time it takes to pay off all pension liabilities) increased to 28 years as of June 30, 2016 primarily because of the adoption of the new assumptions recommended in the recent experience study. SERS' actuarially determined contribution rate increased from 13.02% to 13.60% for basic benefits, primarily due to changes in the economic and demographic assumptions resulting from the experience study. As of note, Mr. Green stated the Board-adopted funding policy requires the entire 14% employer contribution for funding of basic benefits whenever the funded ratio is less than 70%; thus, the Health Care Fund will only receive 1.5% employer surcharge.

Ms. Bennett presented the health care retiree valuation for the period ending FY2016. She stated the amortization period remains at 30 years. The investment return was 0.1% versus the assumed rate of 5.25%. The funded ratio is 15.38% as of June 30, 2016, and the Annual Required Contribution (ARC) is 5.39% as of June 30, 2016. Ms. Bennett further stated that if the employer surcharge of 1.5% calculated in the 2016 valuation continues, and all other actuarial assumptions are met, the health care fund is projected to remain solvent through 2023. However, Ms. Bennett noted that with the new coverage option, the Medicare Wraparound Plan, there is no experience yet and there is an assumed 10% participation rate. Higher participation will create cost savings for the Plan.

The actuaries then provided comments on the OPEB valuation, GASB 74 and 75. The effective date for pension plans for GASB 74 will be fiscal year ending June 30 2017. GASB 75, the accounting and financial report for employers, the effective date for employers will be fiscal year ending June 30, 2018. GASB wants to divorce accounting and funding in a manner similar to pension changes in GASB 67 and 68. The net OPEB liability will be allocated to employers based on a proportionate share methodology and recorded on employers financial statements. There will be extensive footnote disclosures and supplementary information required. SERS has already begun working on this.

Concluding the presentation, the actuary recommended that the Board set the minimum compensation amount of $23,700 for determination of the FY2018 health care surcharge.

The Board thanked Mr. Garrett, Mr. Green and Ms. Bennett for their presentation.

ALLOCATION OF EMPLOYER CONTRIBUTIONS

Beverly Woolridge moved and Madonna Faragher seconded that after review and discussion of the actuary's *Report on the Annual Basic Benefits Valuation of the School Employees Retirement System of Ohio* (prepared as of June 30, 2016) at the November 2016 Board meeting, the Board accept the actuary's recommended allocation of the 14% employer contribution for fiscal year 2017 as follows: Pension Fund (12.82%), Death Benefit Fund (.05%), and Medicare B Fund (.73%). The remainder (.40%) will also be allocated proportionately to the Pension Fund, Death Benefit Fund and Medicare B Fund in accordance with the funding policy approved by the Board on June 18, 2015. Upon roll call, the vote was as follows: Yea: Madonna Faragher, James Haller, Christine Holland, Catherine Moss, James Rossler, Beverly Woolridge and Barbra Phillips. The motion carried.

HEALTH CARE SURCHARGE

Chistine Holland moved and Beverly Woolridge seconded the motion to accept the recommendation of SERS' actuary, Cavanaugh Macdonald Consulting, LLC, and establish $23,700 as the minimum compensation amount for purposes of the fiscal year 2018 Health Care surcharge. Upon roll call, the vote was as follows: Yea: Madonna Faragher, James Haller, Christine Holland, Catherine Moss, James Rossler, Beverly Woolridge and Barbra Phillips. The motion carried.

ACTUARIAL FACTORS

Following the Annual Actuarial Valuations, Ms. Valentino and Mr. Garrett discussed the actuarial factors, noting these are typically tied to an experience study. A brief description of these factors are below:

Optional Benefit Plan and PLOP Reduction Factors

Option factors are percentages applied against the single life allowance pension calculation to determine a new retiree's and beneficiary's lifetime pension amounts for those who select a joint survivor plan of payment. A PLOP, or partial lump sum option payment, is a cash payment available to a new retiree of 6 to 36 times the unreduced monthly pension. A PLOP reduces the pension based upon age. The option and PLOP factors change in conjunction with mortality tables and the assumed investment return.

The factors supplied by the actuary are higher than the current factors, resulting in very slightly higher pensions for retirees who choose a joint survivor option plan or who choose a PLOP. It is recommended that the new option and PLOP factors be effective for initial benefits paid on and after March 1, 2017.

Early Retirement Incentive Rates

Percentages of pay charged to employers that have adopted an early retirement incentive plan (ERI) and the additional lump sum health care liability charge for those who were not eligible to retire without the ERI credit are established by the actuary every 5 years. It is recommended that the new ERI factors apply to all new plans with an effective date of March 1, 2017 and later.

Re-employed Retiree Annuity Factors

Annuity factors are numbers supplied by the actuary that convert the lump sum amount into monthly lifetime payments. They are based on mortality tables and the assumed investment return. The factors are slightly higher, which means the monthly annuity would be slightly lower. It is recommended that the annuity factors be effective for initial monthly annuities paid on and after March 1, 2017.

Re-employed Retiree Annuity Interest on Contributions

SERS has been paying 4.00% on re-employed retiree contributions since 2006 and recommends reducing the rate to 3.00%, effective March 1, 2017, for the next five years. This is a competitive short-term rate, but less than the assumed investment return to allow for fluctuations.

Re-employed Retiree Annuity – Employer Contributions
Currently, a re-employed retiree receives their own 10% contribution plus 8% from the employer. We recommend continuing with the contribution match at 8% for the next five years. The rationale for 8% is that a re-employed retiree is similar to a college employee who selects an alternative retirement plan. If a regular member held the position instead of a re-employed retiree, SERS would be collecting about 6% of the 14% employer contribution for unfunded accrued liabilities, as we do for college employees who select an ARP.

Interest Rates and Percentages
Recommending changes to the following:

- Interest credited to additional annuity contributions and used in the money purchase calculation has been set at 4.50% since 2006. Recommend reducing this rate to 3.00% to be consistent with the interest paid on re-employed retiree annuity contributions.
- Percent of salary required for purchase of exempted credit has been set at 20.00% since 2006. Recommend this be increased to 24.00% to ensure the pension fund receives the appropriate amount of contributions.

Recommending no changes to the following:
- Interest charged on purchased service and unpaid ERI balances is currently 7.50%. Recommend no change to this rate.

Money Purchase Annuity Factors
Money purchase annuity factors are numbers supplied by the actuary to convert the lump sum amount to a lifetime monthly benefit. They are based on mortality tables and assumed investment return. The new factors are higher than the old, which means the lifetime benefit is lower. Recommend the new factors be effective for benefits paid on and after March 1, 2017.

School Board Service Credit Purchase - Liability Factors
Members who wish to purchase school board service rendered prior to July, 1991, pay a percentage of final average salary, and if the purchase makes them eligible for health care, an additional lump sum amount based on age. The percentages and lump sum amount are calculated by the actuary to be the liability incurred by the system due to the purchase. These percentages are affected by mortality tables. The factors used in the liability calculation will be established by the actuary on an individual basis. There are very few members that utilize this option.

Board and staff discussed not tying the 3.00% retiree interest credit to anything. Ms. Phillips stated the concern is that a retiree re-hire is going to earn more than what a pensioner will earn in retirement.

OPTIONAL BENEFIT PLAN AND PARTIAL LUMP OPTION PLAN REDUCTION FACTORS

SERS staff and the actuary discussed with the Board the factors for optional benefit plans and partial lump-sum option plans (PLOPs) for retirees as provided by Section 3309.46 of the Revised Code, and the statutory requirement that the factors maintain actuarial equivalence. Using the long-term assumptions adopted by the Board in April, 2016, the actuary has calculated revised actuarial equivalent benefit plan and PLOP reduction factors.

Beverly Woolridge moved and James Rossler seconded to adopt the revised actuarial equivalent benefit plan and PLOP reduction factors, as developed by the actuary, to become effective for initial benefits that are paid on and after March 1, 2017. Upon roll call, the vote was as follows: Yea: Madonna Faragher, James Haller, Christine Holland, Catherine Moss, James Rossler, Beverly Woolridge and Barbra Phillips. The motion carried.

EARLY RETIREMENT INCENTIVE RATES

SERS staff and the actuary discussed with the Board the early retirement incentive program under Section 3309.33 of the Revised Code and the actuary's recommendations regarding the percentage of salary required for the purchase of one to five years of additional service credit and for the cost of the additional health care liability. The actuary's recommendation was developed using the long-term assumptions adopted by the Board in April, 2016.

James Rossler moved and Madonna Faragher seconded that the percentage of salary rates and additional health care liability costs, as recommended by the actuary, be adopted for early retirement incentive programs effective on and after March 1, 2017. Upon roll call, the vote was as follows: Yea: Madonna Faragher, James Haller, Christine Holland, Catherine Moss, James Rossler, Beverly Woolridge and Barbra Phillips. The motion carried.

RE-EMPLOYED RETIREE ANNUITY FACTORS

SERS staff and the actuary discussed with the Board the re-employed retiree annuity as provided by Section 3309.344 of the Revised Code, and the factors used to calculate the annuity. Using the long-term assumptions adopted by the Board in April, 2016, the actuary has calculated revised re-employed retiree annuity factors.

Beverly Woolridge moved and Madonna Faragher seconded that these revised re-employed retiree annuity factors, as developed by the actuary, be adopted and become effective for initial re-employed retiree annuities paid on and after March 1, 2017. Upon roll call, the vote was as follows: Yea: Madonna Faragher, James Haller, Christine Holland, James Rossler, Beverly Woolridge and Barbra Phillips. Abstain: Catherine Moss. The motion carried.

RE-EMPLOYED RETIREE ANNUITY – INTEREST ON CONTRIBUTIONS

SERS staff and the actuary discussed with the Board the re-employed retiree annuity as provided by Section 3309.344 of the Revised Code and the statutory requirement that the board determine the rate to be used to credit interest on re-employed retiree annuity account balances prior to the date of retirement.

Madonna Faragher moved and James Rossler seconded to accept the recommendation of SERS staff, after consultation with the actuary, that the rate to be used for crediting interest to re-employed retiree annuity account balances be set at 3.00% effective March 1, 2017. Upon roll call, the vote was as follows: Yea: Madonna Faragher, James Haller, Christine Holland, James Rossler, Beverly Woolridge and Barbra Phillips. Abstain: Catherine Moss. The motion carried.

RE-EMPLOYED RETIREE ANNUITY - AMOUNT OF EMPLOYER CONTRIBUTIONS

SERS staff and the actuary discussed with the Board the re-employed retiree annuity as provided by Section 3309.344 of the Revised Code and the statutory requirement that the Board determine the amount of employer contributions to be credited to the re-employed retiree annuity accounts during periods of employment.

Beverly Woolridge moved and Christine Holland seconded to accept the recommendation of SERS staff, after consultation with the actuary, that the amount of employer contributions credited to re-employed retiree annuity accounts remain at 8.00%. Upon roll call, the vote was as follows: Yea: Madonna Faragher, James Haller, Christine Holland, James Rossler, Beverly Woolridge and Barbra Phillips. Abstain: Catherine Moss. The motion carried.

INTEREST RATES AND PERCENTAGES

SERS staff and the actuary discussed with the Board the need to review and adjust, as necessary, various rates and percentages used in the calculation of purchased service and in various benefit calculations, and the statutory requirement that the Board determine the rates and percentages. After consultation with the actuary, SERS staff made recommendation to the Board that the new percentage set forth below be effective March 1, 2017:

Percentage of Salary Rate for Purchase of Exempt Service	24.00%

SERS staff also made recommendation to the Board that the following rates remain unchanged:

Interest charged on all purchased service and unpaid ERI balances	7.50%
Interest credited on Additional Annuity contributions and interest rate used to calculate Money Purchase annuity	4.50%

Christine Holland moved and James Haller seconded that the recommendations set forth above be adopted. Upon roll call, the vote was as follows: Yea: Madonna Faragher, James Haller, Christine Holland, Catherine Moss, James Rossler, Beverly Woolridge and Barbra Phillips. The motion carried.

MONEY PURCHASE ANNUITY FACTORS

SERS staff and the actuary discussed with the Board the factors used to calculate the amount of the money purchase annuity as provided by Section 3309.36 of the Revised Code. Using the long-term assumptions adopted by the Board in April, 2016, and an interest rate of 3.00%, the actuary has calculated revised money purchase annuity factors.

Beverly Woolridge moved and James Rossler seconded that these revised money purchase factors, as developed by the actuary, be adopted and become effective for initial benefits that are paid on and after March 1, 2017. Upon roll call, the vote was as follows: Yea: Madonna Faragher, James Haller, Christine Holland, Catherine Moss, James Rossler, Beverly Woolridge and Barbra Phillips. The motion carried.

SCHOOL BOARD SERVICE CREDIT PURCHASE

SERS staff and the actuary discussed with the Board the purchase of school board service under Section 3309.311 of the Revised Code and that the cost of the purchase is required to be the additional liability to the system. Using the long-term assumptions adopted by the Board in April, 2016, the factors used in the liability calculation will be established by the actuary on an individual basis.

Madonna Faragher moved and Christine Holland seconded that the factors used in the liability calculation for any purchase of school board service credit will be established by the actuary on an individual basis. Upon roll call, the vote was as follows: Yea: Madonna Faragher, James Haller, Christine Holland, Catherine Moss, James Rossler, Beverly Woolridge and Barbra Phillips. The motion carried.

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

CALENDAR DATES FOR FUTURE BOARD MEETINGS

2016

December 15 and 16 (Thurs. and Fri.)

2017

February 15 Board Retreat (Wed.)
February 16 and 17 (Thurs. and Fri.)
March 16 and 17 (Thurs. and Fri.)
April 20 and 21 (Thurs. and Fri.)
May 18 and 19 (Thurs. and Fri.)
June 15 and 16 (Thurs. and Fri.)
July 20 and 21 (Thurs. and Fri.)
September 21 and 22 (Thurs. and Fri.)
October 19 and 20 (Thurs. and Fri.)
November 16 and 17 (Thurs. and Fri.)
December 21 and 22 (Thurs. and Fri.)

NOTE: The above dates are **tentative.

BOARD INFORMATION REQUESTS AND FOLLOW-UP ITEMS

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

ADJOURNMENT

Barbra Phillips moved that the Board adjourn to meet on Thursday, December 15, 2016 for their regularly scheduled meeting. The meeting adjourned at 9:48 a.m.

Barbra Phillips, Board Chair

Helen M. Ninos, Secretary