

## December 2016



# BOARD

# Highlights

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

### Secretary of State Certifies Member Candidates

On December 12, the Secretary of State certified that current Board members Barbra Phillips and James Haller submitted sufficient petitions to be certified as qualified candidates for two four-year active member seat terms that begin July 1, 2017. Under Ohio law, because only one candidate qualified for each open active member seat, no active member election will be held.

### Board Member Takes Oath

Jeffrey T. DeLeone took his oath of office at this month's Board meeting. DeLeone was appointed to the Board by the Ohio Treasurer. This is his first term.

He is President of Jeff DeLeone & Associates, a business and governmental affairs consulting company, founded in 2002, that advises Fortune 500 companies, industry trade associations, small businesses and corporate executives on navigating the Executive,



General Counsel Joseph Marotta, left, and Appointed Member Jeffrey T. DeLeone, right

Legislative and Regulatory branches of government. He served almost 8 years in multiple roles as a senior advisor to Governor George V. Voinovich and his administration.

DeLeone serves on the Board of Directors of the Ohio Lobbying Association. He is a member of the Ohio Chamber of Commerce and serves on its Energy & Environment, Public Affairs, and Taxation Committees. He is a member of The Ohio State University President's Government Affairs Advisory Committee and a former member of the St. Agatha School Advisory Board.

DeLeone earned his MBA from the Fisher College of Business at The Ohio State University and his Bachelor of Science in Marketing from the University of Colorado at Boulder.

DeLeone's term runs until December 5, 2020.

## External Auditor Presents FY2016 Analysis

David Andrews, engagement partner with SERS' independent external auditor, RSM US LLP, presented the FY2016 Independent Auditor's Report to the Board. The results of the RSM audit produced an unmodified opinion, which means that SERS' financial statements are presented, in all material respects, in accordance with applicable financial reporting framework.

The auditors examined the results of SERS' actuarial evaluations and the Five-Year Experience Study and found that the assumptions are consistent with those in place at other pension systems. They also examined internal controls used in the Information Technology department such as security access, system privileges, and shared administrative rights; evaluated the purchases and sales of investments; and verified contribution data from employers. There were no material findings in any of the audited areas.

As the audit progresses, staff works to assemble the information contained in the *Comprehensive Annual Financial Report* (CAFR), which summarizes SERS' financial health, investment performance, and accomplishments of the last fiscal year (July 1-June 30). The CAFR also provides detailed financial statements, statistical information, and in-depth explanations of the numbers.

We will post a link to the 2016 CAFR on the [Financial Reports section](#) of our website when it is available.

## Asset Allocation Update

SERS' investment staff and Wilshire Associates continue to assess options for resetting the system's asset allocation. While the goal was to provide the Board with recommendations in December, the evaluation of options will continue into the first quarter of 2017.

## SERS Commits to Fixed Income and Opportunistic Investments

The SERS Staff Investment Committee approved two investments, one within the System's fixed income portfolio, and one within the opportunistic portfolio.

In the fixed income portfolio, the committee approved a \$100 million commitment to Loomis Sayles Core Disciplined Alpha, a core bond strategy. This investment is the result of an RFP issued in July.

The opportunistic investment is a \$60 million commitment to HPS Specialty Loan Fund 2016, a direct lending investment strategy.

These investments will be funded from cash reserves.

## Total Fund Update

<b>TOTAL FUND BALANCE</b>		
<b>September 30</b>	<b>October 31</b>	<b>Difference</b>
\$12.78 billion	\$12.62 billion	▼ \$160 million
<b>TOTAL FUND RETURN (net of fees)</b>		
<b>Fiscal Year</b>	<b>Calendar Year</b>	<b>3-Year</b>
▲ 2.73%	▲ 5.52%	▲ 5.62%
<b>TOTAL FUND RETURN vs. BENCHMARK</b>		
<b>Fiscal Year</b>	<b>Calendar Year</b>	<b>3-Year</b>
▲ 0.38%	▲ 0.65%	▲ 0.59%

## Executive Director's Update

### ***H.B. 520 Passes House and Senate***

Earlier this month, H.B. 520 passed both chambers of the Ohio General Assembly. The pension funds' omnibus clean-up bill is now headed to the governor's desk for signature. We anticipate that the bill will become effective in mid- to late-March.

There are two changes that will affect some retirees. SERS will now require disabled retirees under the age of 65 who enroll in SERS' health care to apply for early Medicare. Qualifying for Medicare will entitle disabled retirees to get better health care coverage at a more affordable cost. SERS also will benefit and assist retirees with the application process.

In addition, for people who have accumulated service credit in more than one Ohio public pension system at the same time, they will now have the opportunity to retain all service credit if they choose to retire independently from each system. Independent retirement is currently an option, but the time worked is pro-rated so it does not add up to more than one year of service credit in a calendar or fiscal year.

### ***SERS' CIO Recognized as a Leader Among Public Pension Funds***

Farouki Majeed, SERS' chief investment officer, was recognized as one of the Top 30 Public Pension Plan Chief Investment Officers by Trusted Insight magazine. The magazine recognized CIOs who have "expertly structured their portfolios to mitigate risk while maintaining their long-term goal of capital preservation."

### ***SERS Continues to Oppose Medicare Part B Increase***

As we mentioned last month, SERS retirees and other retired Ohio public employees will see a 10% increase in their 2017 Medicare Part B premiums, and pay \$25 more per month than those who draw Social Security benefits.

Because the Centers for Medicare and Medicaid Services (CMS) did not provide a permanent solution, SERS sent an email blast to over 26,000 retirees, asking them to use our website's grassroots tool to contact their member of Congress. More than 9,000 emails were sent to congressional representatives, including a number from our retirees in other states.

### ***SMART Update***

Staff provided the Board with an update on the development of the new SERS Member and Retiree Tracking (SMART) pension administration computer system.

The project is on target for implementation in early 2017.

## **Year-End Federal Update**

Jim Miller, SERS' federal government relations consultant briefed the Board on health care and pension issues legislators tackled in 2016, and issues to watch for in the coming year. This was Miller's final report to the Board because he will retire at the end of the year. The Board thanked him for his 15 years of dedicated service and the work he did in educating Ohio's legislators on the importance of public pensions.

### **Health Care**

In October, CMS took the unexpected step of reducing the Medicare Part B increase from the expected 22% increase down to 10%. Despite many sending emails, Congress did not act to reduce the CMS proposal any further.

In the lame duck session, Congress is expected to pass the 21<sup>st</sup> Century Cures Act. This act contains the Cancer Moonshot provision and efforts to address opioid addiction and mental health reform.

## **Social Security**

There was no action on Government Pension Offset (GPO) or Windfall Elimination Provision (WEP) legislation in 2016. H.R. 711, the WEP reform bill introduced by Rep. Kevin Brady, stalled in July due to funding issues and the loss of support from key advocacy groups. Rep. Brady is intent on fixing the problems and reintroducing the bill in the next session.

Mandatory Social Security continues to percolate as one of the ways to improve the solvency of Social Security. There is no shortage of think tank research calling for mandatory Social Security because they believe defined benefit pensions are failing and public workers need the Social Security safety net. Mandatory Social Security would significantly lower the pensions and benefits of lower-paid public workers in non-Social Security states like Ohio.

## **What's in Store for 2017?**

Speculation abounds about what will happen in 2017 as the Trump administration assumes control of the White House in January. Retirement security was largely ignored by both parties during the election, so it is difficult to predict what the agenda will be going forward. There has been talk of moving new government employees to a 401(k) plan and any actions of this nature will provide clues to policy positions for state and local government pension plans.

## **Monthly Retirement and Survivor Benefit Transactions**

For December, the SERS Board approved 703 active members for service retirements, and 17 survivor benefits for spouses and/or dependents.

## **February Meeting Dates**

There will not be a Board meeting in January. The next Board meeting will take place Thursday, February 16, and Friday, February 17 (if necessary) at 8:30 a.m.

The *Board Highlights* are a high-level summary of select information discussed during SERS' Board meetings. Details of all Board discussions are contained in the *Board Meeting Minutes*.

Previous *Highlights* and *Minutes* can be accessed on our website at: [www.ohsers.org/board-of-trustees](http://www.ohsers.org/board-of-trustees).

[Click here](#) to view and download a printer-friendly version of this month's *Board Highlights*.

Retiring in the next 12 months? [Click here](#) to register for a *Retiring with SERS* webinar.

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Barbra M. Phillips, *Chair*

Madonna D. Faragher, *Vice-Chair*

Jeffrey T. DeLeone, *Appointed Member*

James Haller, *Employee-Member*

Christine D. Holland, *Employee-Member*

Catherine D. Moss, *Retiree-Member*

James A. Rossler, Jr., *Appointed Member*

Daniel L. Wilson, *Appointed Member*

Beverly A. Woolridge, *Retiree-Member*