October 18, 2018

The nine hundredth and fourteen 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, October 18, 2018. 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: James Rossler, Chairperson, Jeffrey DeLeone, Hugh Garside, James Haller, Christine Holland, Barbra Phillips, Beverly Woolridge and Catherine Moss. James Rossler excused the absence of Board Member Daniel Wilson. Also in attendance was John Danish, 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 September 20, 2018

Catherine Moss moved and Hugh Garside seconded the motion to approve the minutes of the Retirement Board meeting held on Thursday, September 20, 2018. Upon roll call, the vote was as follows: Catherine Moss, Jeffrey DeLeone, Hugh Garside, James Haller, Christine Holland, Barbra Phillips, Beverly Woolridge and James Rossler. The motion carried.

Board Chair James Rossler asked Chief Investment Officer Farouki Majeed to present the Investment Report.

INVESTMENT REPORT

Annual Portfolio Review – Private Equity

Investment Officers Steve Price and Phil Sisson presented the annual Private Equity portfolio review. The role of the portfolio is to provide risk adjusted returns in excess of publicly traded equities. As of June 30, 2018, the market value of the private equity portfolio was $1.37 billion. The portfolio is meeting its goal by exceeding the benchmark over one, three and five years. SERS committed $215 million to three new funds. The favorable exit environment resulted in $400 million in distributions in the past year. The objective for 2019 is to identify one or two new managers and new strategies, as well as lowering fees. Following discussion the Board thanked Mr. Price and Mr. Sisson for their presentation.

Monthly Investment Report

Chief Investment Officer Farouki Majeed discussed the Investment report for the period ending August 31, 2018. The preliminary performance report as of September, 2018 was handed out to the Board for their information. The Fund was $14.45 billion with a FYTD return of 1.83% as of August and 3.0% as of September. The total fund return's exceeded the benchmark for the one, three and five years. Following questions and answers, the Board thanked Mr. Majeed for the presentation.

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 **August 1, 2018** through **August 31, 2018** hereby be approved. Upon roll call, the vote was as follows: Catherine Moss, Jeffrey DeLeone, Hugh Garside, James Haller, Christine Holland, Barbra Phillips, Beverly Woolridge and James Rossler. The motion carried.

A. PURCHASES

Asset Class	Approximate Cost (in millions)
US Equities	$ 47.5
Non-US Equities	105.7
Fixed Income	287.9
Multi-Asset Strategies	30.0
Private Equity Capital Calls	29.4
Real Asset Capital Calls	n/a
Opportunistic	6.5
Cash Equivalents	166.1

B. SALES

Asset Class	Approximate Net Proceeds (in millions)	Approximate Gain/(Loss) (in millions)
US Equities	$ 51.5	$ 6.3
Non-US Equities	104.8	(2.5)
Fixed Income	269.1	(0.6)
Multi-Asset Strategies	n/a	n/a
Private Equity distributions	20.7	n/a
Real Asset distributions	10.3	n/a
Opportunistic	1.7	0.1
Cash Equivalents	306.3	n/a

The Board took a break at 9:25 a.m., and reconvened at 9:37 a.m.

EXECUTIVE DIRECTOR'S UPDATE

Ohio Retirement Study Council

Executive Director Richard Stensrud reported that October's ORSC meeting was cancelled. Mr. Stensrud noted that the next meeting is tentatively scheduled for November 8th.

Advocacy Groups

Mr. Stensrud advised of a scheduled speaking engagement in November with the Ohio Association of Community Colleges. This annual event will include a 'State of SERS' report and SERS' efforts in the employer services area.

Marketplace Wraparound Plan
Mr. Stensrud stated that advocacy continues from members of the Ohio Congressional delegation on our behalf supporting a decision from Health and Human Services/Centers for Medicare and Medicaid Services to extend the three-year pilot program for the marketplace wraparound plan.

WEP "Fairness Formula" Bill
Mr. Stensrud spoke on H.R. 6933, which is a modified version of last session's WEP reform bill. Mr. Stensrud noted that Ways and Means Committee Chairman Brady is attempting to bring forward a partial repeal bill which would involve rebates to existing retirees to offset their WEP experience to date. It would also call for a study of feasibility of the retirement systems reporting to Social Security. The concern is that there would be income being reported that is not covered by Social Security, and questions about what would be done with that reported information. Mr. Stensrud reported that many organizations continue to favor a full repeal versus a partial repeal. Mr. Stensrud noted that staff continues to analyze the proposed legislation, and has asked the bill sponsors for examples of how the modified formula would work for different groups of members, including inactive, unvested members.

Deputy Executive Director Search
Mr. Stensrud provided the Board an update on the Deputy Executive Director search. He advised that first-round interviews are in process, and very close to completion. Mr. Stensrud stated that he will move to second round interviews soon, and he is cautiously optimistic that he will be able to bring the proposed hire before the Board in November.

Five-Year Strategic Planning
Mr. Stensrud updated the Board on SERS' five-year strategic planning process. Mr. Stensrud advised the Board that they should soon be hearing from the facilitator of the strategic planning exercise sometime between the end of this month and early weeks of November, at which time one-on-one interviews will be held to update and discuss the Board's view on where the organization should be headed in the next five years.

Positive Message Campaign
Mr. Stensrud provided the Board with an update on SERS' positive messaging campaign, and noted that SERS' tweet earlier this month on National School Custodian Day was the largest yet; it reached more than 15,000 followers. Staff continues to share facts twice per week via SERS' social media channels and website.

Global Arc Conference
Mr. Stensrud advised that he will be attending a conference of institutional investors in Boston. Mr. Stensrud will be participating on a panel discussing the pros and cons of having non-elected officials making central-bank monetary policy decisions.

LEGISLATIVE REPORT

STATE LEGISLATION BOARD REPORT
132nd General Assembly
(Prepared by Laurel Johnson as of October 5, 2018)

HB49 OPERATING BUDGET Ryan Smith (H93-R-Gallipolis) Creates FY 2018-2019 main operating budget.

Current Status: SERS COLA provisions effective 09/29/2017

SB8 SCHOOL INFRASTRUCTURE AND TECHNOLOGY Randy Gardner (S2-R-Bowling Green), Louis Terhar (S8-R-Cincinnati) To require the Ohio School Facilities Commission to establish a program assisting school districts in purchasing technology and making physical alterations to improve technology infrastructure and school safety and security.

Current Status: Contained SERS' COLA delay amendment. Eff. 3/23/2018

HB708 PUBLIC PENSION DOUBLE DIPPING John Becker (H65-R-Cincinnati) To enact "Double Dippers Inappropriately Privileged (DDIP)" legislation to provide that an individual retiring on or after the effective date of this Act from one of the state's public retirement systems who is re-employed as a public employee will not receive the pension portion of the retirement allowance for the period of employment.

Current Status: Introduced 6/20/2018

FEDERAL LEGISLATION BOARD REPORT
115th United States Congress
(Prepared by Laurel Johnson as of October 5, 2018)

S. 915

SPONSOR: Sen. Sherrod Brown (D-OH)
LAST ACTIONS: 04/24/2017 - 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. Companion bill to H.R. 1205.

COMMENT: The Social Security Fairness Act of 2017. Repeals the GPO and WEP. Has 27 co-sponsors, including Ohioan Senator Brown.

H.R. 1205
SPONSOR: Rep. Rodney Davis (R-IL)
LAST ACTIONS: 03/06/2017 - Referred to the House Subcommittee on Social Security
CAPTION: To amend title II of the Social Security Act to repeal the Government Pension Offset and Windfall Elimination Provisions. Companion bill to S. 915.

COMMENT: The Social Security Fairness Act of 2017. Repeals the GPO and WEP. Has 191 co-sponsors, including seven Ohioans: Beatty, Fudge, Joyce, Kaptur, Ryan, Stivers and Turner.

H.R. 6290
SPONSOR: Rep. Devin Nunes (R-CA)
LAST ACTIONS: 06/28/2018 - 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 (PEPTA). Requires state and local public pension systems to value their liabilities using a "risk-free" rate of return and report that figure to Treasury for a public database; non-compliant States would lose their ability to issue tax-exempt bonds. Currently has only four co-sponsors; none from Ohio.

H.R. 6933
SPONSOR: Rep. Kevin Brady (R-TX)
LAST ACTION: 09/27/2018 - Referred to the House Committee on Ways and Means
CAPTION: To amend title II of the Social Security Act to replace the windfall elimination provision with a formula equalizing benefits for certain individuals with non-covered employment, and for other purposes.

COMMENT: The Equal Treatment of Public Servants Act. Replaces the current arbitrary WEP with a new proportional formula; includes a rebate for current retirees. Has one co-sponsor; none from Ohio.

MEMORANDUM

To: Laurel Johnson, Senior Government Relations Officer

From: Carol Nolan Drake, Federal Liaison

Date: October 3, 2018

Re: Federal Legislative and Regulatory Report

OVERVIEW

Highlights for September and early October included: Senate Judiciary Committee hearings on the nomination of Judge Brett Kavanaugh to assume the vacant position on the U.S. Supreme Court; the continued imposition of tariffs against China by President Trump and sanctions against foreign entities; a tentative deal between the United States and Canada that supports an earlier deal with Mexico to replace NAFTA**;** a spending deal to keep the government open until December 7; the introduction of a bipartisan bill to address the Windfall Elimination Provision (WEP); reporting on the ten year anniversary of the Great Recession; and continued advocacy for the SERS Wraparound Plan.

The House and Senate were in session most of September. In October, the House will not be in session as the members, running for re-election, campaign in their respective districts. The Senate is scheduled to be in session for the month of October other than Columbus Day, October 8, and during the state work period from October 29 through November 12. The Senate has targeted December 14 for sine die adjournment.

The Senate should be in the position to vote on the nomination of Judge Brett Kavanaugh to the U.S. Supreme Court this week. After contentious hearings, the Judiciary Committee voted on September 28 to advance the nomination out of Committee. An additional one-week extension was approved by the Committee and Senate leadership to give time for the FBI to investigate the remaining allegations against the nominee.

Additional tariffs were imposed against China by President Trump on September 17. President Trump said that the U.S. will impose 10 percent tariffs on $200 billion worth of Chinese imports and they could go up to 25% by years-end. President Trump also signed an Executive Order on September 12 which placed sanctions on any foreign entities or individuals who have interfered with or assisted with interfering in U.S. elections. Language was included in the Executive Order to address cyber-attacks.

The NAFTA trade agreement has been renegotiated between the United States, Mexico and Canada. The new trade pact is called USMCA. “It’s not NAFTA redone, it's a brand new deal," President Trump said. The USMCA agreement will need Congressional approval. A potential increase of U.S.-made automobile components subject to trade could be helpful to Ohio’s automakers and workers.

In a bipartisan spending deal, reached before the end of September (the end of the federal fiscal year), Congress and the President agreed to postpone funding for the border wall between Mexico and the U.S. until after the midterm elections. This bill was reported to include $854 billion in spending to keep the federal government open until December 7. The President started the month with comments indicating that he would not mind a government shutdown. Republican leadership was able to convince the President that a shutdown would not be prudent so close to the midterm elections. Federal agencies received funding to carry operations up to December 7 through a continuing resolution. That date gives the House and Senate time to see what transpires in the elections, including whether the House and/or the Senate remain in Republican hands or flip to Democratic control.

MIDTERM ELECTIONS

The House members in Ohio face competitive races. Some media outlets have noted that two Ohio House seats are polling as particularly close ones, those of Rep. Steve Chabot (R-OH) in Ohio's 1st district and Rep. Troy Balderson (R-OH), in the 12th District. The midterm elections for all House seats and 34 seats in the Senate will occur on Tuesday, November 6, 34 days away.

WINDFALL ELIMINATION PROVISION

There was a little bit of excitement on September 27 with **the introduction of H.R. 6933, a bipartisan bill introduced by Chairman of the House Ways and Means Committee, Kevin Brady (R-TX) and Ranking Member Richard Neal (D-MA). The bill, called the "Equal Treatment of Public Servants Act of 2018," would "amend title II of the Social Security Act to replace the windfall elimination provision with a formula equalizing benefits for certain individuals with non-covered employment,** and for other purposes." The bill's introduction came as a surprise after weeks of discussion on the House Tax Reform 2.0 package and whether WEP reform was still one of the Chairman's priorities in 2018. **Chairman Brady has introduced similar bills before, which were H.R. 711 (2015-16) and H.R. 5697 (2014), in previous sessions.** The current bill has language that provides a proportional formula for future Social Security recipients subject to WEP, a "rebate" feature for current recipients impacted by the WEP, an annual COLA adjustment, an amount which is half of the rebate for qualified surviving spouses, and a phase-in period to address some of the stakeholder concerns with previous bills. There are also provisions dealing with reporting and cooperative actions between Social Security and public pension funds. Senator Ted Cruz (R-TX) has sponsored the companion bill in the Senate.

After the introduction, **Chairman Brady and Ranking Member Neal released a joint statement:**

> Introduced by the two of us, this bill is intended to provide relief from the WEP for affected individuals in Texas, Massachusetts, and the rest of the country. Workers nationwide pay into Social Security with the expectation that they will receive the benefits they've earned when they retire. As we have known for some time, WEP, though well intentioned, has treated many of our public servants unfairly. **This legislation is part of continued efforts to ensure that public servants who earn both a Social Security benefit and a pension from a Social Security substitute are treated fairly when it comes to Social Security.**
>
> **We know there is room for improvement, and we encourage feedback on the bill as work continues to address the WEP**. It's time to stand up for our teachers, firefighters, and police officers in our states and all across the country.

The press release that can be viewed here:
https://waysandmeans.house.gov/brady-neal-introduce-legislation-to-ensure-equal-treatment-for-teachers-firefighters-police-officers-and-other-public-servants-when-it-comes-to-social-security/

In summary, the bill includes:

- **A new proportional formula: for an individual who is first eligible for Social Security after 2024 (at the minimum age of 62), the primary insurance amount will be computed or recomputed to include non-covered earnings after 1977**, which shall be treated as included in the individual's adjusted total covered earnings for the calculation. The effective date is January

2025. (Note- some stakeholders representing safety forces were concerned with previous versions that ended the 30 or more years of substantial earnings exception for WEP. The 2025 date provides seven years before the new proportional formula takes effect);

- For individuals whose benefit amount is or will be reduced by the WEP before 2025- the Commissioner of Social Security shall make an **additional monthly payment of $100** to each eligible individual and **an additional monthly payment of $50 to each individual** who is entitled to a benefit on the basis of the wages and self-employment income of such eligible individual. (According to staff, the latter provision is for surviving spouses who will receive one-half of the $100 payment). The effective date for the "rebate" is January 2020;
- **A Cost of Living Adjustment (COLA) clause has been included** which would provide the same COLA adjustment that recipients of Social Security receive each January if a COLA has been approved the previous fall;
- **The Commissioner of Social Security is required to study and test the administrative feasibility of partnering with State and local pension systems**, or other governmental entities, to improve the collection and sharing of information relating to State and local noncovered pensions;
- **The Commissioner will be required to coordinate with State and local pension systems** which show the diversity of systems and individual experiences to explore the development of automated data exchange agreements that facilitate reporting of information relating to noncovered pensions;
- The Commissioner of Social Security shall conclude the study **not later than 4 years after the date of enactment of this Act** and include a discussion how the automated data exchange agreements could be implemented to cover noncovered pensions nationally, including the range of implementation timelines across State and local pension systems, or with other governmental entities.
- **The study should include an estimate of the total amount of noncovered pensions not reported to the Social Security Administration** as a result of noncompliance with voluntary reporting policies. (Note- in previous versions, an enforcement provision became problematic for some stakeholders and was dropped. This provision will provide an actual number of noncovered pensions that for whatever reason were not reported to Social Security.)

Chairman Brady and Ranking Member Neal are interested in hearing from stakeholders on the provisions in the bill. The Committee will consider all feedback when the House returns after the November elections. Stakeholders are encouraged to send feedback to: WEP.feedback@mail.house.gov

SOCIAL SECURITY

Even with the introduction of H.R. 6933, H.R. 1205, the "Social Security Fairness Act of 2017," which would repeal the GPO and WEP, has three more sponsors now. The bill has a total of 191 co-sponsors as of October 3. There are still seven representatives from Ohio who are co-sponsors: Representatives Michael Turner (R-OH), David Joyce (R-OH), Tim Ryan (D-OH), Joyce Beatty (D-OH), Marcia Fudge (D-OH), Steve Stivers (R-OH) and Marcy Kaptur (D-OH). The bill was referred to the House Ways and Means, Subcommittee on Social Security, on March 6, 2017 and has not advanced.

The Bureau of Labor Statistics (BLS) indicated that the release of a decision on the Social Security COLA for January 2019 will occur on Thursday, October 11. Reports are showing that a 2.8 to 3 percent increase could occur. The adjustment is calculated using the Consumer Price Index for Urban Wage Earners and Clerical Workers, or CPI-W. **The Medicare Part B premium for 2019 will be announced after the COLA announcement.** The most recent estimate indicates that premiums for recipients will go up to $135.50 in 2019.

I have also reported on legislation introduced on April 24, 2017 by Senator Sherrod Brown (D-OH), S. 915, the Senate version of the "Social Security Fairness Act of 2017," a bill to amend Title II of the Social Security Act and repeal GPO and WEP. There are now 27 cosponsors of the bill as of October 3, however, Senator Rob Portman (R-OH) is not one of them. The bill has not advanced out of the Committee on Finance.

Speaker Paul Ryan (R-WI) mentioned in mid-September that he believes Republicans will retain control of the House after the November elections. He brought up the need for Republicans to pursue entitlement reform for Medicare, Medicaid and Social Security after he leaves the House. The report from the Social Security Board of Trustees, which was released in June, estimated that Social Security will expend more than it collects in revenue later this year for the first time. By 2034, the $2.9 trillion which includes excess cash could be exhausted**.** We need to keep in mind that 60 votes will be needed in the Senate to move any Social Security bill. There are many suggestions how to address solvency.

PRIVATE MULTI-EMPLOYER PENSION PLANS

The Joint Select Committee on Solvency of Multiemployer Pension Plans has not scheduled any further hearings to date. The report is expected in November. Both Ohio Senators Brown and Portman serve on the Joint Select Committee. Staff members have indicated that meetings are being held to begin working through potential solutions.

TEN YEAR ANNIVERSARY OF LEHMAN BROS COLLAPSE AND GREAT RECESSION

Media reports zeroed in on the ten-year anniversary of the collapse of Lehman Brothers and the financial crisis that ensued, starting in September 2008. In the ten years since then, blame for the Great Recession has been placed on mortgage-backed securities, too much leverage and speculation, a weak federal regulatory environment, the housing bubble, lack of transparency, the role of credit rating agencies, etc. Several high-profile executives of major companies and financial institutions were forced to pay significant penalties, but no one was convicted of criminal charges. Many of the opinion pieces questioned whether a financial collapse could occur again. Bloomberg compiled a series of opinion pieces written by a variety of authors. The opinions can be read here: **https://www.bloomberg.com/view/articles/2018-09-14/lehman-brothers-crash-ten-year-anniversary-opinions**

SERS WRAPAROUND PLAN

SERS and I have continued to maintain direct contact with the staff members at HHS/CMS. During the last conversation in late September, I heard that the agencies are still considering whether to extend the program. I was asked by Jim Mayhew to remind him about the timeline for the decision, which was an excellent opportunity to once again reinforce that SERS needs a favorable decision this fall on the extension. He appreciated the information and told me that he will keep us informed. I followed up with a request to set up a call with James Parker, newly appointed counsel to the Secretary. My request is outstanding. Staff from several House offices, and Senators Brown and Portman's offices have assisted by contacting HHS/CMS officials on SERS' behalf in the past few months. I have continued to reach out to the other offices to maintain contact and seek their support.

I met with Brendan Rose, AARP health care legislative advocate, on September 20 to discuss support by AARP for the SERS Wraparound Program. We have exchanged emails before our meeting. Mr. Rose said that he would talk with AARP leadership and suggested a call or meeting with the Ohio AARP legislative director, Luke Russell. I am working to set up the meeting as soon as possible.

PEPTA

No new co-sponsors have signed on to H.R. 6290, the "PEPTA" bill, as reintroduced by Rep. Devin Nunes (R-CA) on June 28. The bill would "amend the Internal Revenue Code of 1986 to provide for reporting and disclosure by State and local public employee retirement pension plans." There are still no Ohio co-sponsors as of October 3. With the passage of three separate bills that made up the House's Tax Reform 2.0 package, the concern that PEPTA language would be added to any of these bills has subsided in the House at present. We must remain vigilant that the Senate does not insert language as the bills are considered there. Our advocacy will continue with Senators Sherrod Brown (D-OH) and Rob Portman (R-OH).

EDUCATION

On September 28, the bipartisan omnibus spending bill was signed by President Trump, as reported earlier in this report. The bill included funding for the U.S. Department of Education and contained several provisions relating to schools:

- Funding for Safe Schools and Citizenship Education for carrying out activities authorized under ESEA and for the Project School Emergency Response to Violence ("Project Serve") program;
- Funding for carrying out school improvement activities;
- A restriction that no funds appropriated in this Act may be used to prevent the implementation of programs of voluntary prayer and meditation in the public schools; and
- A study by the Comptroller General on the condition of the public school facilities of the United States to include structural integrity, plumbing, heating, ventilation, air conditioning systems, compliance with fire and safety codes, compliance with Federal laws, including the Americans with Disabilities Act of 1990, lighting, indoor air quality, environmental conditions, such as exposure to asbestos, lead, and mold, physical security and sufficient space for instruction.

HEALTH CARE

On September, Judge Elaine Kaplan, the U.S. Court of Federal Claims, ruled that President Trump and Congress's action to stop paying the subsidies violated a government promise to insurance companies participating in the health law. Although Congress did not authorize funding for the subsidies, the Court said the government had a legal obligation to pay them. In this case, *Montana Health Co-Op v. U.S.*, a Montana insurer sued, alleging that it was entitled to federal compensation for subsidy payments under the ACA. In her decision, she said:

> This case arises out of a complaint filed by plaintiff Montana Health Co-op, a health insurer that sells qualified health plans on health care exchanges established by the Patient Protection and Affordable Care Act (ACA)... According to Montana Health, it is owed some $5 million by the federal government, representing cost-sharing reduction payments it claims it was entitled to receive during 2017 under the cost-sharing reduction provision of the ACA, 42 U.S.C. § 18071.
> ……
> The parties' cross-motions present a single, purely legal issue: whether the federal government had a statutory obligation to provide Montana Health with the cost-sharing reduction payments described in § 1402 of the ACA, notwithstanding the lack of appropriations to fund such payments. Montana Health contends that such an obligation was imposed by the plain language of § 1402. The government's central argument, on the other hand, is that Congress could not have intended to impose such an obligation because, while it made arrangements to fund the premium tax credits of § 1401 through a permanent appropriation, it has never appropriated money to fund § 1402 payments, whether on a permanent or annual basis.
>
> In this case, the statutory language clearly and unambiguously imposes an obligation on the Secretary of HHS to make payments to health insurers that have implemented cost-sharing reductions on their covered plans as required by the ACA. It states that:
>
> > An issuer of a qualified health plan making reductions under this subsection shall notify the Secretary of such reductions and the Secretary shall make periodic and timely payments to the issuer equal to the value of the reductions.
>
> …..
> For the reasons set forth above, the government was statutorily obligated to provide Montana Health with cost-sharing reduction payments for the remaining months of 2017. That obligation was not vitiated by Congress's failure to appropriate funds for that purpose. Accordingly, Montana Health is entitled to judgment as to liability as a matter of law.

The full decision may be read here: https://www.leagle.com/decision/infdco20180905c08

There is now one Ohio co-sponsor, Rep. Steve Stivers (R-OH), on H.R. 5963, the "Health Insurance Premium Reduction Act," to delay the reimposition of the Health Insurance Tax (HIT) annual fee on health insurance providers until after 2020. SERS is one of the providers that is subject to the tax in 2018.

PRESCRIPTION DRUGS AND OPIOIDS

The Senate Caucus on International Narcotics Control convened a hearing entitled: *"Stopping the Poison Pills: Combatting the Trafficking of Illegal Fentanyl from China,"* on October 2. Senate committees and the House Energy and Commerce Committee have been particularly active on opioid legislation to help address the crisis. The "**Opioid Crisis Response Act of 2018,"** S. 2680, was passed by the Senate by a vote of 99-1. Both Senators Brown and Portman supported the bill. Reports have indicated that House and Senate leadership have completed negotiations on the final opioid bill. Today, the Senate passed H.R. 6, the House's opioid package, which will make its way to the President for his signature. The Senate bill contained language from Senator Portman's STOP Act, CARA 2.0 and Senator Brown's CRIB Act.

The Senate passed bipartisan legislation on September 17 that impacts the practice of insurance companies keeping pharmacists from talking to customers about ways to save money when filling prescriptions. Reports have indicated that sometimes consumers can pay less for prescription drugs when they pay the out of pocket charge for drugs rather than submitting the claims through their insurance companies. These practices were known as "gag clauses." The House approved the bills, S. 2553, the "Know the Lowest Price Act of 2018," and S. 2554, the "Patient Right to Know Drug Prices Act**,"** on September 25 with bipartisan support, too. The bills are awaiting signature by President Trump.

AARP is continuing to ask its members to fight PhRMA by contacting Congress. The Medicare Part D costs for the donut hole were shifted back to pharmaceutical companies from seniors.

RETIREMENT SECURITY

On September 27, the House passed H.R. 6757, the "Family Savings Act of 2018," to encourage individual and retirement savings. Both Reps. Jim Renacci (R-OH) and Brad Wenstrup (R-OH) were co-sponsors. The final roll call vote was 240-177, with Ohio Republicans supporting it and the four Ohio Democratic members voting against the bill. The bill was part of "Tax Reform 2.0," which Chairman Brady announced earlier in the month that included three bills in total. The other bills passed earlier in the week. SERS had questions on two provisions, namely Sections 109 and 110:

- **Section 109**- the Section created an exemption from the required minimum distribution rules for individuals with account balances less than $50,000. SERS was concerned that the reporting requirement might create an administrative burden. The final version limited the exemption to an "employer" and excluded defined benefit plans.
- **Section 110**- the language included a provision that a "contribution shall not fail to be treated as picked up by an employing unit merely because the employee may make an irrevocable election between the application of two alternative benefit formulas involving the same or different levels of employee contributions." SERS questioned why a pickup provision for public plans would be included in this bill. We were told that the Tennessee delegation members requested the insertion of the provision to provide flexibility for the plans there.

While the bill did not contain previous tax reform ideas like UBIT or concepts including "Rothification," plan simplification or consolidation, we kept engaged with the Ohio House offices to make sure that PEPTA or other like provisions were not added into the bill. Our focus will now turn to the Senate.

As of October 2, Reps. Bob Gibbs (R-OH), Bob Latta (R-OH) and Michael Turner (R-OH) are the only Ohio co-sponsors of H.R. 5282, the companion bill to S. 2526, the "Retirement Enhancement and Savings Act of 2018," or "RESA," a bill introduced on March 8 by Senator Orrin Hatch (R-UT). There are 82 co-sponsors on the House bill. Senator Ron Wyden (D-OR) is the only co-sponsor on the Senate bill to amend the "Internal Revenue Code of 1986 to encourage retirement savings, and for other purposes." Senators Portman and Brown have not become co-sponsors as of October 3.

Senator Patty Murray introduced a bill, the "Women's Pension Protection Act of 2018," to amend the Employee Retirement Income Security Act of 1974 (ERISA) to provide for greater spousal protection under defined contribution plans, and for other purposes. The bill, S. 3436, has 19 co-sponsors, none from Ohio yet. The text of the bill lists these findings:

(1) Approximately 29 percent of households headed by individuals aged 55 through 74 have no defined benefit plan or retirement savings, according to 2016 data from the Survey of Consumer Finances.
(2) Approximately 34 percent of the private sector workforce does not have access to a retirement at the workplace, and only half of the workforce actually participates in a retirement plan.
(3) Women's retirement preparedness often lags significantly behind their male counterparts, resulting in the median retirement income for women in 2014 being just 54 percent of men's retirement income.
(4) Women are 1.5 times as likely as men to live in poverty after age 65.
(5) Women make up ⅔ of low-wage workers, even though they comprise less than half of all workers, and low-wage workers are less likely than other workers to participate in a retirement plan at work.
(6) The cost impact on women who leave the workforce early to become caregivers, in terms of lost wages and Social Security benefits, equals $324,044 in lost retirement savings.
(7) Just one in 5 part-time workers who work a full year are eligible for a retirement plan, and women are almost twice as likely to work part-time as men.
(8) While traditional defined benefit retirement plans have spousal protections, defined contribution retirement plans, which have become increasingly common, currently provide no similar spousal protections.
(9) Every year more than 1,200,000 couples get divorced in the United States. After the family home, retirement savings are the largest asset that must be divided at divorce.
(10) While fees and expenses associated with retirement plans have been in decline, participants have seen direct charges for processing qualified domestic relations orders increase significantly.

On September 26, the Senate unanimously approved a resolution supporting the goals and ideals of National Retirement Security Week (NRSW). The bipartisan resolution, S. Res. 654, was introduced by Sen. Michael Enzi (R-WY) and cosponsored by several Senators, none from Ohio.

SECURITIES AND EXCHANGE COMMISSION (SEC)
On October 1, the SEC issued a press release to announce a Main Street investor initiative:

> The Securities and Exchange Commission today announced that empowering Main Street investors will be the SEC's focus during World Investor Week, which takes place Oct. 1-7, 2018. SEC staff will emphasize both the basics of investing and savings as well as important emerging issues like the rise of initial coin offerings and digital assets, distributed ledger technology, and other innovations. World Investor Week is a global effort promoted by the International Organization of Securities Commissions (IOSCO), with regulators on six continents.

The press release also mentioned that the SEC's Office of Investor Education and Advocacy (OIEA) created a guide for teachers "that provides K-12 educators with information about the basics of saving and investing, planning for retirement, and ways to protect themselves from fraud." The Guide may be viewed here:
https://www.investor.gov/sites/default/files/Teacher_Investing_Guide.pdf

SEC Commissioner Kara Stein, who's term will expire at the end of the year, asked Chairman Jay Clayton and the SEC to expand the scope of its rules on cyber-attacks.

REPORTS
The National Institute on Retirement Security (NIRS) released a report on September 17 that found the retirement savings levels of working age Americans remain deeply inadequate despite economic recovery. According to the press release, the report, "**Retirement in America | Out of Reach for Most Americans?,"** shows that an "analysis of U.S. Census Bureau data reveals that the median retirement account balance among all working individuals is $0.00. The data also indicate that 57 percent (more than 100 million) of working age individuals do not own any retirement account assets in an employer-sponsored 401(k)-type plan, individual account or pension." A copy of the report may be read here:
https://www.nirsonline.org/wp-content/uploads/2018/09/SavingsCrisis_Final.pdf

A report from the Center for Retirement Research at Boston College was released on September 12. The report, "Spillovers from State and Local Pensions to Social Security: Do Benefits for Uncovered Workers Meet Federal Standards?," mentioned mandatory coverage as one of the major issues for non-covered employees.

The paper found that:

- Although public plans satisfy the regulations, uncovered state and local government employees do not always receive Social Security-equivalent resources in retirement because the law regulates benefits only at age 67 (rather than lifetime benefits) and allows for long vesting periods.
- State and local pensions often set very long vesting periods and are increasingly unlikely to grant full cost-of-living adjustments (COLA) after retirement. Yet, they also allow members to collect full benefits at much younger ages than Social Security. Incorporating vesting, the COLA, and the normal retirement age into a generosity test based on lifetime pension wealth shows that some plans fall short, but this finding is very sensitive to the employment patterns of the uncovered employees.
- **A couple of plans that exclude their members from Social Security could soon exhaust the assets in their trust funds and revert to pay-as-you-go systems, endangering future benefits and putting them in violation of federal generosity standards.**

The policy implications of the findings are:

- Federal generosity standards for state and local pensions could be updated to ensure Social Security-equivalent protections.
- **Over time, mandatory enrollment of state and local government employees in Social Security would obviate the need for federal monitoring of their pensions.**

A copy of the paper to review may be accessed here:
http://crr.bc.edu/working-papers/spillovers-from-state-and-local-pensions-to-social-security-do-benefits-for-uncovered-workers-meet-federal-standards/

<u>OTHER MATTERS OF INTEREST</u>

On Tuesday, October 2, **the Senate Committee on Finance met to review the nomination of Andrew M. Saul to be the Commissioner of Social Security**. Mr. Saul, from New York, was nominated by President Trump for the six-year term.

The state of Ohio received $700,000 for a School Safety Grant from the U.S. Department of Justice under the STOP program supported by Reps. Beatty, Stivers and the entire Ohio Delegation.

In last month's report, I mentioned that Russia was dealing with pension reform. China is now facing the need to improve its retirement systems. It has been reported in *Asian Investor* that China is facing a growing poverty level among its citizens. The changes to the public pension system could include letting the managers of corporate pensions invest overseas and opening up some business interests to insurers and fund managers.

Ohio Attorney General Mike DeWine joined 55 other state and territorial attorneys general on September 18 to urge Congress to reauthorize the Violence Against Women Act (VAWA). The letter to Congress was signed by the National Association of Attorneys General's entire membership. Congress did authorize VAWA funding in the spending bill but only until December 7.

<u>ACTIVITIES:</u>

1. Trip to Washington, D.C. on September 19-21 for meetings to discuss Tax Reform 2.0, PEPTA, SERS Wraparound Plan, WEP and pre-election vs. post-election Congressional activity.
2. Appointments with staff from Reps. Renacci and Wenstrup's offices to discuss pension issues, PEPTA, WEP, Tax Reform 2.0 and other priorities of the House Ways and Means Committee.
3. Meeting with federal advocates who represents NAGDCA, AFSCME and CalPERS on tax reform matters, including Rothification, simplification of retirement accounts, WEP, UBIT and PEPTA.

4. Drafted and delivered thank you letters from Executive Director Stensrud to Reps. Renacci and Wenstrup on tax reform matters.
5. Meeting with national AARP Health Care liaison to discuss advocacy for the Wraparound Plan.
6. Participated in the monthly call with the Government Relations Network members.
7. Monitored bills relating to public pensions, health care, prescription drugs and Social Security. Drafted memos on spending bills relating to Department of Education, Tax Reform 2.0 and the introduced bill dealing with the Windfall Elimination Provision.
8. Reviewed bills that were introduced by members of the Ohio delegation or other House/Senate members on issues that could impact SERS, retirement security and/or health care.
9. Reviewed public notices or proposed rules from the SEC and HHS/CMS.
10. Monitored organizations, such as the Social Security Administration, American Benefits Council, AARP and other entities that have policies on pension, investment, and/or health-related issues.
11. Reviewed reports and newsletters from CII, ICGN, NASRA, NCTR, NCPERS, and the Public Sector HealthCare Roundtable.
12. Made calls and sent/responded to emails with representatives from SERS, drafted letters and prepared the monthly Federal Update.

APPROVAL OF AETNA MEDICARE ADVANTAGE PPO CONTRACT

Christine Holland moved and Barbra Phillips seconded to authorize the Executive Director to execute a Medicare Advantage PPO contract between SERS and Aetna for a term of five years beginning January 1, 2019. Execution of the contract is subject to documentation satisfactory to legal counsel. Upon roll call, the vote was as follows: Catherine Moss, Jeffrey DeLeone, Hugh Garside, James Haller, Christine Holland, Barbra Phillips, Beverly Woolridge and James Rossler. The motion carried.

EXECUTIVE SESSION

At 9:49 a.m. Beverly Woolridge moved and Barbra Phillips 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: Catherine Moss, Jeffrey DeLeone, Hugh Garside, James Haller, Christine Holland, Barbra Phillips, Beverly Woolridge and James Rossler. The motion carried.

The Board returned to open session at 9:52 a.m.

The Board continued with the review of calendar dates. Board member Catherine Moss stated that she would not be in attendance for the February Board Meeting.

CALENDAR DATES FOR FUTURE BOARD MEETINGS

2018

November 15 and 16 (Thurs. and Fri.)
December 20 and 21 (Thurs. and Fri.)

2019

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

NOTE: The above dates are **tentative.

BOARD INFORMATION REQUESTS AND FOLLOW-UP ITEMS

Executive Director Richard Stensrud continued by reviewing open and closed information items.

ADJOURNMENT

James Rossler moved that the Board adjourn to meet on Thursday, November 15, 2018 for their regularly scheduled meeting. The meeting adjourned at 9:55 a.m.

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James Rossler, Board Chair

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Richard Stensrud, Secretary