September 21, 2017

The nine hundredth and three 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, September 21, 2017. The meeting convened in open session at 8:35 a.m. and continued with the Pledge of Allegiance. Following the Pledge of Allegiance, the roll call was as follows: Daniel Wilson, Chairperson, Jeffrey DeLeone, James Haller, Christine Holland, Catherine Moss, Barbra Phillips Beverly Woolridge and James Rossler. Also in attendance was Mary Therese Bridge, 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
July 20, 2017

Catherine Moss moved and Barbra Phillip seconded the motion to approve the minutes of the Retirement Board meeting held on Thursday, July 20, 2017. Upon roll call, the vote was as follows: Yea: James Rossler, Jeffrey DeLeone, James Haller, Catherine Moss, Barbra Phillips, Beverly Woolridge and Daniel Wilson. Abstain: Christine Holland. The motion carried.

Chairman Daniel Wilson asked Chief Investment Officer Farouki Majeed to present the Investment Report.

INVESTMENT REPORT

Wilshire Associates Quarterly Performance Report
David Lindberg of Wilshire Associates presented the performance report for the quarter ended June 30, 2017 including economic and capital market highlights, SERS' Total Fund and asset class performance. Wilshire also reported on their state pensions funding study and current expected returns for assets. SERS' investment portfolio has a well-diversified strategy and total fund gross returns during the last three and five years are in the top decile and the last year in the top quarter decile. Individual asset class returns also compared favorably with benchmarks and peer universe. Following discussions it was agreed that Wilshire will present a review of SERS benchmarks at a future meeting. The Board thanked Mr. Lindberg for his comments.

Quarterly Risk Report
Hai Yen Le, Investment Officer, presented the Risk Report as of June 30, 2017. The risk presentation included the Total Fund risk forecast, individual asset class contributions to risk, active risk, asset class correlation and a comparison of realized risk vs. forecasted risk. The Board thanked Ms. Le for the presentation.

Quarterly Investment Report
Farouki Majeed, Chief Investment Officer, provided the economic outlook and discussed the Investment report for the quarter ended June 30, 2017 and month ended July 31, 2017. Economic indicators are stable projecting moderate growth with low inflation. The next few quarters may be impacted by the recent hurricanes. The US equities portfolio is currently at target and the non-US portfolio is overweight. The active risk in the total fund has been steadily declining and excess returns have been maintained, producing an attractive information ratio. The preliminary performance report as of August 30, 2017 was provided to the Board for their information. Mr. Majeed provided a report on SERS' cumulative net value added and benchmark return for the last five fiscal years which is over $546 million. Mr. Majeed updated the Board on the search for a new hedge fund consultant. An RFP was issued with six responses. The search team evaluated the proposals and selected two finalists to bring to the Board in November with a

recommendation. Following questions and answers, the Board acknowledged the Investment staff for their achievements and thanked Mr. Majeed for the presentations.

SUMMARY OF INVESTMENT TRANSACTIONS

Barbra Phillips moved and Beverly Woolridge seconded that the following summary of investment transactions made in compliance with the Ohio Revised Code Section 3309.15 during the period of **June 1, 2017** through **June 30, 2017** hereby be approved. Upon roll call, the vote was as follows: Yea: James Rossler, Jeffrey DeLeone, James Haller, Christine Holland, Catherine Moss, Barbra Phillips, Beverly Woolridge and Daniel Wilson. The motion carried.

A. PURCHASES

Asset Class	Approximate Cost (in millions)
US Equities	$108.3
Non-US Equities	148.9
Fixed Income	301.6
Multi-Asset Strategies	20.1
Private Equity Capital Calls	45.5
Real Asset Capital Calls	7.4
Opportunistic	8.3
Cash Equivalents	309.7

B. SALES

Asset Class	Approximate Net Proceeds (in millions)	Approximate Gain/(Loss) (in millions)
US Equities	$ 113.5	$ 20.1
Non-US Equities	147.0	17.6
Fixed Income	285.2	1.6
Multi-Asset Strategies	0.9	0.3
Private Equity distributions	51.4	n/a
Real Asset distributions	14.7	n/a
Opportunistic	1.2	0.2
Cash Equivalents	164.2	n/a

SUMMARY OF INVESTMENT TRANSACTIONS

Catherine Moss moved and Barbra Phillips seconded that the following summary of investment transactions made in compliance with the Ohio Revised Code Section 3309.15 during the period of **July 1, 2017** through July **31, 2017** hereby be approved. Upon roll call, the vote was as follows: Yea: James Rossler, Jeffrey DeLeone, James Haller, Christine Holland, Catherine Moss, Barbra Phillips, Beverly Woolridge and Daniel Wilson. The motion carried.

A. PURCHASES

Asset Class	Approximate Cost (in millions)
US Equities	$141.4
Non-US Equities	122.3
Fixed Income	327.6
Multi-Asset Strategies	n/a
Private Equity Capital Calls	49.2
Real Asset Capital Calls	0.4
Opportunistic	5.4
Cash Equivalents	361.1

B. SALES

Asset Class	Approximate Net Proceeds (in millions)	Approximate Gain/(Loss) (in millions)
US Equities	$ 132.4	$ 12.5
Non-US Equities	107.0	9.1
Fixed Income	318.0	1.7
Multi-Asset Strategies	58.0	18.8
Private Equity distributions	45.9	n/a
Real Asset distributions	16.0	n/a
Opportunistic	2.7	0.2
Cash Equivalents	299.0	n/a

The Board took a brief recess at 10:13 a.m., and reconvened at 10:29 a.m.

EXECUTIVE DIRECTOR’S UPDATE

SERS Opposes "Rothification" of Retirement Contributions

Executive Director Richard Stensrud stated that on September 7, SERS hosted a foundational meeting for Ohio's public employee interested parties to discuss the potential "Rothification" of retirement savings that could be a major part of federal tax reform.

Mr. Stensrud explained that the term “Rothification” is derived from the Roth IRA that was authorized under federal tax law several years ago. Mr. Stensrud explained that "Rothification" would fundamentally change the way retirement savings in deferred compensation accounts will be taxed. Currently, contributions to deferred compensation retirement accounts are made pre-tax and grow tax free and are taxed at the time of withdrawal. Under the "Rothification" model, contributions to deferred compensation savings accounts would be made after tax, grow tax free, and not be taxed at withdrawal. Mr. Stensrud explained that the change in taxation from the time of withdrawal to the time of contribution would accelerate the receipt of tax revenue, thereby providing an offset to the reduction in tax revenues that would come from an income tax cut.

Mr. Stensrud noted that the key concern raised by the participants at the meeting is that using after-tax money to fund deferred compensation retirement savings accounts will cause people to save less and therefore accumulate less for retirement. Mr. Stensrud noted that an additional concern is that the concept of "Rothification" could be extended to public employee defined benefit pension plans, meaning that the current pre-tax treatment of contributions made to such plans could be changed to after-tax contributions, resulting in less take-home pay.

Mr. Stensrud noted that the participants agreed that any forthcoming tax reform measures should be closely monitored and that key policy makers should be advised of the potential detrimental impact on public employees that could result from "Rothification."

Federal Health Care Legislation

Mr. Stensrud noted that on September 6, a letter was sent to Ohio's two U.S. Senators and all 23 members of the Senate Health, Education, Labor, and Pensions (HELP) Committee thanking them for holding hearings on stabilizing the individual insurance marketplace, and informing them of the early success of SERS' Marketplace Wraparound Plan.

Mr. Stensrud noted that currently, under federal regulations the Marketplace Wraparound Plan is only authorized as a three-year pilot program. Mr. Stensrud noted that staff is in contact with the federal agencies with jurisdiction on rules for this ACA program, requesting that the three-year pilot be extended.

Mr. Stensrud stated that over 500 retirees are currently participating in the program.

Ohio Deferred Compensation

Mr. Stensrud reported as a follow-up to the recommendation in the fiduciary audit that SERS help our members save more for retirement, he met with the Executive Director of Ohio Deferred Compensation. Mr. Stensrud explained that the purpose of the meeting was to gain a better understanding of the deferred compensation landscape for SERS members, and to identify possible ways in which SERS could encourage retirement savings through such plans. Mr. Stensrud stated that the meeting was very productive.

Fiduciary Performance Audit

Mr. Stensrud noted that staff was actively addressing and resolving the various recommendations that came as a result of the report. Mr. Stensrud stated that he will be reporting to the Board on a regular cycle regarding the progress on the recommendations. Mr. Stensrud noted that some recommendations will involve input and/or potential action by Board and he will be presenting those items for the Board's consideration over the next few months.

SERS' 80th Anniversary

Mr. Stensrud informed the Board that SERS is approaching its 80th birthday and that staff will be pushing out communication to our members about this event, and that SERS looks forward to serving our members for another 80 years and beyond.

Financials

Mr. Stensrud asked Chief Financial Officer Tracy Valentino to provide an update of SERS' year-end financials.

Ms. Valentino stated that the information being provided is preliminary, however, the information will not be significantly different than what will be presented in the CAFR. Ms. Valentino noted the following:

- Slight increase in 2017 in employer and employee contribution compared to 2016. This is driven by higher payrolls and a slight increase in membership. SERS' received a lot of applications for retirements in July.
- Health care premiums and drug subsidies have gone down slightly primarily due to federal subsidies.
- Investment income is approximately $1.5B, which is driving the net asset increase.
- Benefits expenses have seen an increase of 5%, driven by higher salary levels at retirement and the COLA awarded in the past year.
- A record number of applicants this summer filed paperwork for retirement.
- There was a decrease in Health Care expenses as staff constantly seeks new ways to contain those costs.
- Refunds and transfers are lower than last year.
- $4 million under budget for the current year.
- Administrative expenses are up slightly due to salaries being slightly higher than expected; also, unplanned retirements, unused leave time and, health benefits were slightly higher.
- Professional services were slightly under budget; also, some custodial banking fees were returned due to erroneous over-charges.
- SMART has been fully realized and fixed assets and depreciation/amortization will begin in the current year.
- Slight increase in health care fund contributions, as investment returns were approximately $30M more this year than last year.

LEGISLATIVE REPORT

STATE LEGISLATION BOARD REPORT
132nd General Assembly
(Prepared by Laurel Johnson as of September 8, 2017)

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

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

FEDERAL LEGISLATION BOARD REPORT
115th United States Congress
(Prepared by Laurel Johnson as of September 8, 2017)

S. 915

SPONSOR: Sen. Sherrod Brown (D-OH)
LAST ACTIONS: 04/24/2017 - Referred to the Committee on Finance
CAPTION: Amends title II of the Social Security Act to repeal the Government Pension Offset and Windfall Elimination Provisions.

COMMENT: The Social Security Fairness Act of 2017. Repeals the GPO and WEP. S.915 has eight co-sponsors.

MEMORANDUM

To: Laurel Johnson, Senior Government Relations Officer

From: Carol Nolan Drake, Federal Liaison

Date: September 6, 2017

Re: Federal Legislative and Regulatory Report for August and early September

OVERVIEW

Highlights for August and early September include: the continued effort in Congress, focused now in the Senate, to address health care issues; relief from the debt ceiling and the potential to tie Congressional action on it to disaster aid for Texas and states hit by Hurricane Harvey; legislation needed on the federal budget by the end of September or the passage of a continuing resolution as a stop gap measure; the funding of the President's wall between the United States and Mexico; the six-month deadline that President Trump gave to Congress to pass legislation to address the DACA program; and the interest by the Administration and leadership in passing a comprehensive tax reform package before the end of the year.

Congress was on a recess during most of the month of August. The House has scheduled a total of 12 days in September for session and five days for district work periods. The Senate has 17 days in session on the September calendar with just two district work days on September 21-22. The schedule leaves little time for the House and Senate to address the pressing issues that must be finalized by the end of this month.

This week, the House and Senate will be taking up legislation to speed federal funding to hard-hit Texas and Louisiana due to Hurricane Harvey's extensive damage. Rep. Rodney Frelinghuysen (R-NJ), Chairman of the House Appropriations Committee, released language to provide **$7.85 billion in emergency funding** to support state and local authorities as they deal with the aftermath of Hurricane Harvey. The President visited Texas twice and pledged his full support to move the necessary funding quickly through Congress. The final appropriation is expected to provide the Federal Emergency Management Agency (FEMA) with enough money to handle the recovery efforts and have some funds left over for new disasters. This is good news, as Hurricane Irma works its way toward Florida and the eastern coastline.

HEALTH CARE

After the **failure of the Senate on July 28 to pass a repeal and replacement bill** for the ACA, also known as "Obamacare," the Senate adjourned at the end of the second week of August for the remainder of the month. The House had already adjourned at the beginning of August. The health care repeal and replace measures, including a last minute "skinny" version of the most recent bill, the "BCRA," did not garner enough votes to pass, with the final vote 49-51 early in the morning of July 28. Republican Senators John McCain (R-AZ), Lisa Murkowski (R-AK) and Susan Collins (R-ME) cast the deciding "No" votes. Vice President Mike Pence was available in the Senate chambers if he was needed to cast the deciding vote and break a 50-50 tie. Vice President Pence's vote was not necessary, however. Immediately thereafter, Senate President Mitch McConnell (R-KY) expressed his frustration with Democratic Senators who would not support the repeal and replacement bills and said, "And our only regret tonight is that we didn't achieve what we had hoped to accomplish."

The lack of Senate passage of an Obamacare repeal and replacement bill was a difficult moment for Senate Republicans. There were stakeholders, such as AARP, national medical, hospital and doctor associations, Democrats and even some Republicans who felt a **bipartisan solution could now emerge.**

Shortly thereafter, Senator Lamar Alexander (R-TN), Chairman of the Senate Health, Education, Labor and Pension Committee (HELP) and Senator Patty Murray (D-WA), Ranking Member, **announced a bipartisan health care hearing schedule for September**. The hearings, entitled "Stabilizing Premiums and Helping Individuals in the Individual Insurance Market for 2018," have been viewed as a way to help kickstart legislation to address the underlying problems with the federal insurance marketplace, the payment of federal subsidies, and the high cost of premiums. Starting on Wednesday, September 6, the full Committee of 12 Republicans and 11 Democrats heard from state insurance commissioners from the states of Oklahoma, Pennsylvania, Washington, Tennessee and Alaska. On Thursday, September 7, the full Committee will hear testimony from several governors, including governors from the states of Massachusetts, Utah, Montana, Tennessee and Colorado.

The full Committee will continue hearings into next week. On September 13, the Committee will hear from five witnesses on the need for solutions that offer states the flexibility they need. On September 14, the full Committee will hear testimony from **"Health Care Stakeholders."** Witnesses include an orthopedic trauma surgeon, the CEO of a health care system, a vice president of Anthem, a regional director of the organization "Young Invincibles," and the director of the South Carolina Department of Insurance.

SERS will be sending a letter to each member of the Senate HELP Committee and both Ohio Senators Brown and Portman, in which SERS Executive Director Richard Stensrud outlines the continued interest in Congress working toward a bipartisan solution for our retirees, and asks for support to extend the Wraparound Program beyond the three-year pilot program for eligible retirees who are under age 65. In the letter, SERS also expresses support for the payment of the cost sharing reduction subsidies (CSRs) until at least the end of 2019 as suggested in the Kasich-Hickenlooper health care letter. (I have included details about the joint letter later in this report.) There are no Ohio members on the Senate HELP Committee, however, I have been in close contact with the health care legislative aides in the Ohio delegation in the House and Senate to discuss these issues.

To complicate the effort by Senate Republicans to repeal and replace Obamacare, **the Senate Parliamentarian, Elizabeth MacDonough, issued an advisory opinion** that the Senate will need to act by September 30 if it still wishes to use the reconciliation process in this fiscal year.

The reconciliation process, which was the legislative vehicle that Republicans wanted to use in both the House and Senate to repeal the ACA, requires that the legislation be limited in scope and be tied to specific budgetary authority before a 51-vote simple majority can be applied. This is the reason why the Senate vote at 49-51 was so close. One more vote in favor would have given Vice President Pence the opportunity to cast the 51st vote and break a tie. **The federal fiscal year expires on September 30 and Parliamentarian MacDonough determined that the reconciliation effort will expire then.** The Senate could begin a new reconciliation process in the next fiscal year, commencing on October 1. Senate President Mitch McConnell (R-KY) has not seemed interested in reviewing health care this fall.

<u>Governor Kasich-Hickenlooper letter</u>

Governors John Kasich (R-OH) and John Hickenlooper (D-CO), along with six Governors from Nevada, Pennsylvania, Alaska, Louisiana, Montana and Virginia, wrote to leadership in the House and Senate on August 30. In the letter, **the bipartisan group of Governors asked Congress "to take immediate steps to make coverage more stable and affordable.** The current state of our individual market is unsustainable and we can all agree this is a problem that needs to be fixed. Governors have already made restoring stability and affordability in this market a priority, and we look forward to partnering with you in this effort."

The Governors said that "changes to our health insurance system should be based on a set of **guiding principles** that include improving affordability and restoring stability to insurance markets. Reforms should not shift costs to states or fail to provide the necessary resources to ensure that the working poor or those suffering from mental illness, chronic illness or addiction can get the care they need."

Based on these guiding principles, they recommended:

- Immediate federal action to stabilize markets.
- Responsible reforms that preserve recent coverage gains and control costs.
- An active federal/state partnership that is based on innovation and a shared commitment to improve overall health system performance.

They recommended that the Trump Administration commit to making the **cost sharing reduction (CSR) payments** and indicated that the National Association of Insurance Commissioners (NAIC), the National Governors Association (NGA), and United States Chamber of Commerce have identified this as an important step. The Congressional Budget Office (CBO) has estimated that any failure to continue the CSRs could cause premiums to rise by 20-25 percent and increase the federal deficit $194 billion over ten years. It would be difficult for retirees on fixed incomes to afford such high premium increases.

In the letter, the Governors also asked Congress to "put to rest any uncertainty about the future of CSR payments by explicitly appropriating federal funding for these payments at least through 2019." **They recommended efforts to help support underserved counties (such as the areas in Ohio that have been hard hit by insurance companies leaving the marketplace).** They supported the continuation of the individual mandate to help keep markets stable in the short term. The Governors pointed out that maximum market participation would be important and the promotion of appropriate enrollment would also help stabilize the market. As the Senate HELP Committee continues working on a bipartisan solution, Governor Kasich has expressed his desire that these ideas will be incorporated into the final bill.

A full copy of the letter and the one-page summary of state reform options can be read here: http://governor.ohio.gov/Portals/0/pdf/Bipartisan%20Governors%20Blueprint.pdf?ver=2017-08-31-094757-317

At the beginning of September, the Trump Administration announced that it would cut the funding for education and communication of the upcoming federal open enrollment period. **The original funding of $100 million will be reduced to $10 million according to media sources.** Democrats have expressed an interest in securing more money for outreach efforts and will be using their leverage on the debt ceiling, funding for Hurricane Harvey, and the federal budget to reduce the spending cut.

SERS Wraparound Program

The regulations, as published in the **Federal Register in 45 CFR Section 146.145, created the opportunity for the establishment of a Wraparound Program** to assist early retirees and part-time workers with out-of-pocket medical costs. The regulations were promulgated in early 2015 and created wraparound coverage as an "excepted benefit" for a pilot program to last no more than three years. Three federal agencies, the Department of Health and Human Services (HHS), the Internal Revenue Service (IRS), and the Department of Labor coordinated on the drafting of the regulations. The regulations permitted a designated entity to offer to retirees who are not yet eligible for Medicare and receive subsidies, to choose coverage in the federal Marketplace and receive "wraparound benefits" to help pay the out-of-pocket costs they have incurred.

SERS began offering the Wraparound Program in January 2017 and it has been quite successful with eligible retirees. Over 500 retirees have signed up for the Program. SERS has been interested in seeking approval from the three federal agencies to either extend the Program beyond the three-year pilot or give it permanent status. On July 12, 2017, SERS' outside counsel, Wade Clark, an attorney for Calfee, Halter, Griswold, LLP, wrote to the Centers for Medicare & Medicaid Services (CMS) and provided comments on the Wraparound Program

To date, **CMS has not indicated what, if anything, it might do** to address the many comments it received from the request for comments to reduce regulatory burdens under the ACA or change/remove the regulations. We do know that the Trump Administration has called for a reduction in all regulations, and Cabinet agencies have been instructed to abolish two rules for every one rule they wish to enact, per the President's executive order.

SERS Director of Health Care, Anne Jewel, Laurel Johnson, and I reached out to our contacts in the health care field and in Congress, to gather information on the viability of extending the three-year pilot program. After some great sleuthing by Director Jewel and Abby Finn, in Rep. Tiberi's office, we were able to **talk with James "Jim" Mayhew, head of the Oversight Group, Center for Consumer Information and Insurance Oversight, CMS,** on August 31. Mr. Mayhew was one of the original staff members from CMS who worked on drafting the regulations. He expressed his pleasure that SERS had taken advantage of the regulations creating the Wraparound Program. He also indicated that he was not aware of any other entity that created a Wrap program. He said that he had already talked with colleagues at the DOL and IRS about our interest in extending the program. I had reached out and left messages for them earlier on the month. Mr. Mayhew told us that he would follow up with them and discuss the request. He indicated that **it was probably too early to determine what the agencies would do and the decision would be made collectively by them.** He did say that if DOL, the IRS and HHS decided to end the program, they would give us sufficient time to plan ahead. Director Jewel told Mr. Mayhew that she would send him the descriptions of the group plan and information on the Wraparound benefits that SERS offers. He said that he will share this information with DOL and IRS. We will remain in contact with Mr. Mayhew and seek to meet with the agency representatives in Washington yet this year.

We agreed that we need to **continue educating the Ohio delegation members on the success of the Wraparound Program.** They would be able to help us advocate before the federal agencies. During my next trip to Washington from September 25-27, I will be visiting the Hill offices and discussing the Program with our colleagues at national organizations to help build leverage. I will also see if Mr. Mayhew and his colleagues at the IRS and DOL would be available for a meeting.

DEBT CEILING

Earlier in the summer, I reported that Treasury Secretary Steven Mnuchin acknowledged that the **debt ceiling must be raised by Congress by the fall** in order to give the United States the authority to pay the bills that have already been approved by Congress. The United States faces the threat of default on its obligations if the debt ceiling is not raised by mid-October. He asked Congress to address the matter before the scheduled August recess, and that did not occur. He believed that Congress should pass a "clean" bill that addressed the debt ceiling without any add-ons. His preference for a clean bill has changed due to the pressing need to fund Hurricane Harvey recovery efforts in Texas and Louisiana. Now, Secretary Mnuchin is asking that the House pass and the Senate immediately thereafter, a bill to address the debt ceiling within the Harvey relief bill. (As of this writing, the House just passed the disaster relief bill today.)

Some conservative House Republicans expressed concern with this bundled approach. They had lobbied Speaker Ryan to tie federal spending cuts or budgetary reforms to the debt-ceiling bill. However, **members of Congress generally do not want to vote against funding for sister states** that experienced such devastation and therefore, leadership believed the relief bill would pass quickly. Democrats, under the leadership of Minority Leader Senator Chuck Schumer (D-NY) have proposed that the debt ceiling be extended for only three months, which would take the negotiations on it and the federal budget up to the end of this year. At present, negotiations are ensuing. President Trump announced this afternoon that he talked with House Minority Leader Nancy Pelosi (D-CA) and Senate Minority Leader Chuck Schumer (D-NY) to cut **a deal for a three-month plan to fund Hurricane Harvey, address the debt ceiling, and provide a continuing resolution until December 15 for funding the federal government.** By mid-afternoon, Senate President Mitch McConnell (R-KY) was appearing on national television to say that he was made aware of the President's deal with Democrats and was having an amendment drafted to include in the bill.

Republicans would have liked to provide the Treasury with enough leeway to manage its finances until after the 2018 mid-term elections. Democrats wanted a shorter time frame so they could extract terms to address the **Deferred Action on Childhood Arrivals (DACA),** the immigration program that President Trump announced yesterday would end in six months without Congressional action. President Trump gave Congress the six-month window of time to enact legislation to deal with the immigration issues for children who came with their parents illegally to the United States. Attorney General Jeff Sessions announced yesterday that the program was created under an executive order by former President Obama and therefore, needed to be addressed in legislation.

PRESIDENT'S BUDGET

The **federal budget must be approved by September 30, 2017 for cabinet agencies, federal workers and federal programs that receive funding**. The President initially demanded that funding for the wall between the United States and Mexico be included in the budget. Over the summer, it became clear that federal funding for the wall would be a concern, and the President backed off his demand.

The House and Senate leadership are discussing the idea of **passing a Continuing Resolution ("CR") to tide them over until December 2017**, a three-month window, and take up the budget issue later in the fiscal year. They could roll the debt ceiling limit, disaster funding for Hurricane Harvey and the Continuing Resolution into a series of fast-moving bills this month to take the weight off these deliberations. The President helped seal the deal earlier today.

The House and Senate is now expected to take up **comprehensive tax reform**. Several articles and news reports have questioned whether the plan for tax reform will occur by the end of this year.

TAX REFORM

At the beginning of the 115th Congress in January, **Republicans anticipated that they would pass health care reform first, and then take up comprehensive tax reform.** The House bill, called the American Health Care Act or "AHCA" did pass in early May but the Senate has been unable to pass its health care bill. The savings stemming from the House-passed version of the AHCA would have provided billions of dollars for Republicans to use to further the tax reform platform. Speaker Paul Ryan (R-WI) stated that the tax reform package would be revenue-neutral and provide the same amount of money that the current tax code raises for the federal government.

The Republicans have also considered the current tax cuts in current law. If those tax cuts are allowed to expire, then reductions could be interpreted as **"savings" for purposes of maintaining revenue neutrality.**

While the details are limited at this stage, we have learned that President Trump, the Senate and the House are working on plans to **streamline and simplify the tax code**, provide tax relief for the middle-class Americans, and improve our economic competitiveness against other countries. One of the ideas that has been identified by the House Ways and Means Committee is to give Americans the ability to file their taxes by using a simple postcard.

As details have slowly emerged, one idea has been getting a fair amount of publicity, which relates to pre- vs. post-tax retirement savings. Speaker Ryan has expressed a desire for Americans to have a tax-free retirement as much as possible. A new term, **"Rothification,"** has been coined to describe the potential use of Roth-type savings vehicles, including IRAs. Roth-type plans require eligible people to pay taxes at their current tax rate now, with the potential to withdraw funds from Roth accounts in the future without tax penalties or consequences. While a Roth savings account or IRA is one form of a retirement savings vehicle, some critics have expressed concerns that tax reform will include this post-tax retirement strategy simply to provide revenue for corporate tax breaks.

One of the best summaries of the pre-vs. post-tax issues for public employers, employees and public pension funds was the column authored by Leigh Snell, Government Relations Director for NCTR. Mr. Snell included his column in the August NCTR newsletter and was included in the SERS daily news clips. In his remarks, Mr. Snell discussed the difference between pre- and post-tax retirement vehicles. He also discussed how difficult it is employees to understand the differences and make the right choices to plan for retirement. He explained the significant impact on employees who work for public employers that offer an employer "pickup" of contributions. A post-tax Roth system of retirement savings could mean less money in workers' take-home pay. For some employees, a combination of savings vehicles is appropriate and a Roth option makes sense. However, a one-size-fits-all approach could limit savings choices.

As Mr. Snell pointed out, **the Roth approach provides more federal revenue on the front end, but may discourage employees as they try to save for retirement.** We already know from several studies and reports from the National Institute on Retirement Security (NIRS) that Americans are not saving enough to prepare for retirement. If employees lose the pre-tax option to save money, some of them may stop saving entirely. Others may opt to save in a Roth account and later realize that their tax rate is lower in retirement.

President Trump made general remarks about tax reform during his rally in Missouri recently. Details are emerging on his preferences, including taking care of middle-class Americans. **Speaker Ryan is very interested in helping people have a "tax-free retirement,"** which is one reason that he has expressed such interest in Roth-style retirement plans.

In order to fully understand the nature of the pre-vs. post-tax retirement savings issues that may arise during tax reform deliberations, Laurel Johnson and I reached out to Keith Overly, executive director of the **Ohio Deferred Compensation program**. Mr. Overly indicated that he was working with the National Association of Government Defined Contribution Administrators (NAGDCA) to educate Congress on the value of pre-tax savings for employees trying to save for retirement. Ohio offers a robust 457 Plan for all public employees to participate in during their working careers. After retirement, they may begin to take withdrawals from the program, if necessary. At age 70½, they must begin taking the minimum required distributions as required under law.

Mr. Overly said that the program has over 200,000 participants and is offered through 1,900 employers. Mr. Overly provided Richard Stensrud, executive director, Laurel Johnson, and me with the opportunity to tour the call center and discuss the program. The number of participants from school-related positions is still relatively low, **approximately 3% primarily due to the numerous plans that are already offered in school systems.** Some of these plans were created before Ohio's deferred compensation program began.

The Deferred Compensation Program received approval earlier in the year from the Ohio General Assembly to begin offering a **Roth-type retirement vehicle**. Mr. Overly indicated that it will take them some time to begin offering the Roth option along with the other pre-tax retirement offerings. Mr. Overly told us that the federal liaison for NAGDCA is Susan White, based in Alexandria, VA. I talked with Ms. White and she recommended that we reach out to Nationwide as well. Ben Brewster, a government relations officer for Nationwide, is based in Washington, D.C., and is one of their point people on tax reform. He joined our coalition recently. We also reached out to our government relations colleagues at Ohio STRS and OPERS, and they also agreed to join the coalition.

Our first meeting on tax reform and other topics occurred during a brief meeting with Rep. Pat Tiberi (R-OH). Rep. Tiberi is a member of the House Ways and Means Committee, one of the key committees working on tax reform. **Rep. Tiberi asked us to provide some background on the Ohio Deferred Compensation program, the number of participants, and participation levels.** He understood the need for both pre-tax and post-tax retirement savings options. We have a follow up meeting with Rep. Tiberi on September 20 and all the coalition members will be attending. Ms. White will be calling in to his office.

We are also meeting with **John Ryan, state director for Senator Sherrod Brown (D-OH) on September 7 at SERS.** The coalition members have been invited by Ms. Johnson to attend. Gideon Bragin, legislative aide for Senator Brown, will call in. Mr. Bragin handles the issues of Social Security, pensions, and tax reform for the Senator. We have also requested a meeting with Senator Portman's (R-OH) legislative aide on tax issues, Zach Rudisill, and his legislative aide on pensions and Social Security, Charlie Bolton.

While I was in Washington at the end of July, I met with Whitney Daffner, the legislative aide on tax issues for Rep. Tiberi and Stephen Hostelley, the legislative aide on pensions and tax issues for Rep. Jim

Renacci (R-OH). Both **Reps. Tiberi and Renacci are on the House Ways and Means Committee, which will be very involved in tax reform.** They asked for additional information that I forwarded to them in August. We will keep the entire delegation informed of these concerns.

BROKAW ACT

Senator Tammy Baldwin (D-WI) reintroduced the "Brokaw Act," S. 1744, on August 3. Senator David Perdue (R-GA) is a co-sponsor. The bipartisan bill has been referred to the Committee on Banking, Housing and Urban Affairs. Senators Portman and Brown have not signed on to the bill as of this date. In her press release, Senator Baldwin indicated that the legislation was necessary to increase transparency and strengthen oversight of activist hedge funds. The bill would:

- Restore transparency to the marketplace by shortening the 10-day 13(d) disclosure window to four days.
- Protect businesses from hedge fund "wolf packs" by identifying these coordinated groups of hedge funds as a single group to require disclosure.
- Require derivative disclosure to prevent activist investors from profiting by secretly voting against the company's interests.

The press release can be viewed here: https://www.baldwin.senate.gov/press-releases/brokaw-act2017

NIRS

The National Institute of Retirement Security (NIRS) released its most recent report on August 23. The study, entitled "Decisions, Decisions: An Update on Retirement Plan Choices for Public Employees and Employers," found that defined benefit "pensions are highly valued by employees in the public sector. Pensions' staying power in the public sector stems from the fact that these systems serve employees, employers, and taxpayers well." NIRS said this new study **finds that public sector employees with retirement plan choice overwhelmingly choose defined benefit (DB) pension plans over 401(k)-type defined contribution (DC) individual accounts.**

Among the eight states studied that offer employees such a choice, the DB pension take-up rates in 2015 were 80 percent or higher in six states. Two of the plans studied had pension take-up rates higher than 95 percent, while Florida and Michigan had take-up rates of 76 percent and 75 percent, respectively. Importantly, the research finds that even when the retirement plan default option favors a DC plan, most employees still select a DB pension plan.

FIDUCIARY RULE

The Department of Labor (DOL) has issued a **fifteen-day comment period on the delay of the Fiduciary Rule until 2019.** The proposed delay was a surprise for stakeholders given the fact that the Administration did not initially challenge the implementation date. Last week, Labor Secretary Alex Acosta filed a proposal to allow for a 15-day comment period on the proposed 18-month delay of key provisions, including the best-interest contract exemption. Without a delay, the provisions are set to take effect Jan. 1, 2018.

SOCIAL SECURITY

During our recent meeting with Rep. Pat Tiberi, he indicated that Rep. Kevin Brady (R-TX), the Chair of the Ways and Means Committee, is still interested in finding a way to address the **Windfall Elimination Provision (WEP) in legislation**. His bill, **H.R. 711,** has not moved in the House, however, there could be other bills moving that could be used to address the WEP. Rep. Tiberi also said that Chairman Brady is hopeful that the Government Pension Offset could be addressed, too. These two issues, GPO and WEP, are of major concern to public employees.

SECURITIES AND EXCHANGE COMMISSION (SEC)

Robert Jackson has been nominated by President Trump to be the Democratic nominee for the vacant position on the SEC. He joins Hester Pierce, the Republican nominee, as they await Senate confirmation. **Following Senate confirmation, the SEC will have a full five-member Commission.**

On September 5, the SEC implemented the T-2 settlement cycle that I discussed in a previous report. The new settlement cycle means that trades will settle in two days, rather than the previous three-day cycle.

CORPORATE GOVERNANCE

The S&P Dow Jones Indices announced that it, too, would limit the listing of companies with dual class shares and voting rights. On July 31, the S&P issued a press release, following its consultation published on April 3, 2017. In the release, the S&P said:

- The S&P Global BMI Indices and S&P Total Market Index will continue to include companies with multiple share classes or with limited or no shareholder voting.
- The S&P Composite 1500® and its component indices will no longer add companies with multiple share class structures. Existing index constituents are grandfathered in and are not affected by this change.
- The methodologies of other S&P and Dow Jones branded indices remain unchanged at this time.

The press release can be viewed here:
https://www.spice-indices.com/idpfiles/spice-assets/resources/public/documents/561162_spdjimulti-classsharesandvotingrulesannouncement7.31.17.pdf?force_download=true

Most investors welcomed the news. The S&P joined other indices in limiting the ability of companies with dual class shares and voting rights from listing on certain indices.

ACTIVITIES:

1. Preparation for trip to Washington, D.C. from September 25-27 for Ohio delegation visits and to meet with representatives from AARP, AFSCME, and other organizations.
2. Discussion with SERS on next steps for health care letter; draft prepared for letter to be sent to all members of the Senate HELP Committee, Ohio's two Senators and leadership.
3. Registration and participation in the webinar offered by the Health Policy Institute of Ohio.
4. Attendance at meeting with Rep. Tiberi in his Columbus district office. Follow-up on questions relating to Ohio's Deferred Compensation Program.
5. Follow-up calls with delegation offices on tax reform, health care, and federal issues.
6. Monitoring bills relating to health care, the federal budget, prescription drugs, and Social Security.
7. Review of introduced bills by members of the Ohio delegation or other members on issues that could impact SERS.
8. Calls, meetings, and emails with representatives of SERS during August.
9. Monitoring relevant House and Senate Committees, Committee hearings, review of public notices or rules from the SEC, CMS, and FDA.
10. Monitoring news organizations and websites such as the Social Security Administration, CII, ICGN, AARP and other interested parties for pension, investment, and health-related issues.
11. Review of reports and newsletters from interested party representatives from organizations such as AARP, CII, NASRA, NCTR, NCPERS, the Public Sector Healthcare Roundtable, and similar organizations.

FUNDING SUSTAINABILITY AND COLA DISCUSSION

Executive Director Richard Stensrud introduced a presentation and discussion regarding the decision that would be made by the Board at an upcoming special meeting regarding the cost-of-living adjustment (COLA) plan for the retirement benefits received by SERS' retirees and beneficiaries.

Mr. Stensrud explained that Todd Green from Cavanaugh Macdonald, SERS' independent actuary, would outline the rationale, process, considerations, and decisions leading to the approval of a COLA plan by the SERS Board in September 2016, and ultimately, the adoption of HB 49, which modifies the COLA criteria and delegates to the SERS Board the authority to make decisions regarding the COLA within certain parameters. Mr. Stensrud noted that Mr. Green would also update the fiscal impact projected by HB 49 and the 2016 COLA plan to incorporate the investment experience from the fiscal year ended June 30, 2017.

Mr. Stensrud noted that the fundamental objectives identified by the Board when the COLA discussion was initiated two years ago was to: (a) Immediately improve the funded status of the pension fund to greater than 70%; (b) Establish a sufficient margin over 70% to enhance long term sustainability and provide downside protection from volatile investment markets; (c) Help the fund stay above the 70% funded status level for as long as possible in order to allow continued funding to flow to and extend the life of the health care fund; and (d) Accelerate the point when the pension fund is projected to achieve a funded status of 90%.

Mr. Green discussed the steps that were taken, beginning in November 2015, to develop a plan for addressing the fiscal objectives noted above. Mr. Green noted that the process included extensive discussion with and input from SERS' advocacy groups. Mr. Green discussed the possible levers to improve the funded status trajectory and explained that because approximately 60% of the accrued liability is for retired members and beneficiaries, and because active members have already experienced benefit changes, the focus of the discussions became centered on the COLA. Mr. Green described the COLA plan approved by the Board in September 2016 and how it would achieve the Board's fiscal objectives.

Mr. Stensrud explained the changes made by HB 49 and how those changes would impact the actuarial valuation. Mr. Stensrud noted the additional steps that would need to be taken to provide the same results under HB 49 as would be achieved under the September 2016 COLA plan.

Mr. Green presented information on the updated projected impact on the system's funded status from HB 49 alone, and the projected funded status with the addition of the 3-year suspension of the COLA called for in the September 2016 COLA plan. Mr. Green noted that under HB 49 alone, SERS would not achieve 70% funded status until 2020. Mr. Stensrud explained that unless and until 70% funded status is achieved, no funding from the employer contribution rate could be used to support the health care fund. Mr. Green discussed and illustrated the improvements in funded status that would be achieved with the addition of the 3-year COLA suspension. Mr. Stensrud noted that with the addition of the 3-year COLA suspension, SERS would be more than 71% funded as of June 30, 2017 and as a result, funding could begin moving to health care in 2018. Mr. Green discussed the additional funding that would provide for health care and how it would impact the life expectancy of the health care fund. Mr. Green also discussed how the projections regarding funded status were very sensitive to investment results and the importance of having a buffer against future negative investment performance.

Mr. Stensrud noted that while the 3-year COLA suspension would provide an immediate improvement to the system's pension and health care funded status, a similar outcome could be achieved through a 7-yer COLA plan that called for COLAs during that period capped at no more than 1% per year. Mr. Stensrud explained that although such a plan might seem more appealing, consideration would have to be given to potential negative factors related to the extended duration of such a reduced COLA plan.

Discussion by the Board followed.

It was determined that the special meeting to consider a potential COLA plan would be held on Monday, October 9th at 8:30 am.

The Board thanked Mr. Green for his presentation.

AUDIT COMMITTEE UPDATE

Audit Chair Barbra Phillips noted that the Audit Committee met Wednesday, September 20th. The meeting was a good reflection that the Chief Audit Officer, Joe Bell, is complying with all of the Institute of Internal Auditor's Standards based upon the external quality assessment report by Plante Moran. She noted that from the report, there were four minor recommendations.

Mr. Bell provided a brief overview of the meeting, which included an overview of accounting and financial reporting standards and processes, and review of Mr. Bell's audit plan. Mr. Bell also briefly discussed 2nd quarter audits, which includes a RFP on the information security program that includes cybersecurity. Following, Mr. Bell provided an overview of his FY18 goals.

The Board thanked Mr. Bell for the update.

NOMINATIONS FOR THE VACANT EMPLOYEE MEMBER SEAT

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

Nominated	Sally Clemmer	By: Christine Holland
Nominated	Hugh Garside, Jr.	By: James Rossler

As Chairperson of the SERS Board, Daniel Wilson declared two applicants as nominees to fill the vacancy of the employee-member seat. Board members shall interview the nominated candidates at the October 10, 2017 Board meeting.

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

CALENDAR DATES FOR FUTURE BOARD MEETINGS

2017

Special meeting – October 9 at 8:30
October 19 and 20 (Thurs. and Fri.)
November 16 and 17 (Thurs. and Fri.)
December 21 and 22 (Thurs. and Fri.)

2018

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

NOTE: The above dates are **tentative.

DISPOSITION OF TABLED, (CONTINUED OR NEW) BUSINESS

Board member Catherine Moss provided a brief overview of the IFEBP Health Care Cost Management conference she participated in, in July, noting that it is a good idea for Board members to attend conferences for educational purposes and networking opportunities with peers.

BOARD INFORMATION REQUESTS AND FOLLOW-UP ITEMS

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

APPROVAL OUT-OF-STATE BOARD TRAVEL

Barbra Phillips moved and Christine Holland seconded the motion that requests by Board Members to attend and receive reimbursement for the following out-of-state conferences and meetings be approved: Upon roll call, the vote was as follows: Yea: James Rossler, Jeffrey DeLeone, James Haller, Christine Holland, Catherine Moss, Barbra Phillips, Beverly Woolridge and Daniel Wilson. The motion carried.

Conference	Attendee	Conference Dates	Conference Location	Estimate of Expenses
IFEBP- 63rd Annual Employee Benefits Conference	Beverly Woolridge	October 21-25, 2017	Las Vegas, NV	$ 5,114.63

ADJOURNMENT

Daniel Wilson moved that the Board adjourn to meet on Monday, October 9, 2017 for a Special Board meeting. The meeting adjourned at 12:32 p.m.

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Daniel Wilson, Board Chair

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Richard Stensrud, Secretary