

October 19, 2017

The nine hundredth and four 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 19, 2017. The meeting convened in open session at 8:33 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 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 21, 2017**

James Rossler moved and Catherine Moss seconded the motion to approve the minutes of the Retirement Board meeting held on Thursday, September 21, 2017. 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.

**APPROVAL OF MINUTES OF THE RETIREMENT BOARD SPECIAL MEETING HELD ON
October 9, 2017**

Catherine Moss moved and Beverly Woolridge seconded the motion to approve the minutes of the Retirement Board Special meeting held on Monday, October 9, 2017. 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.

APPROVAL OF OUT-OF-STATE BOARD TRAVEL

Christine Holland moved and James Haller 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
NCPERS/TEDS Annual Conference	James Rossler	May 12-16, 2018	New York, NY	\$ 3,619.92
NCPERS/TEDS Annual Conference	Barbra Phillips	May 12-16, 2018	New York, NY	\$ 3,520.46
NCPERS/TEDS Annual Conference	Catherine Moss	May 12-16, 2018	New York, NY	\$ 3,512.47

INVESTMENT REPORT

Education Program – Wilshire Benchmark Review

Chief Investment Officer Farouki Majeed introduced the session as a review of asset class benchmarks and stated that over the last five years the Private Equity benchmark was changed from Standard & Poor's 500 Index plus 300 basis points to the Burgiss. All Private Equity and the Hedge Fund benchmark, HFRI Fund of Fund, changed to add a premium of 1% to that benchmark. Mr. Majeed added benchmark returns are all gross of fees which compared to net of fees return of asset class portfolios. Felicia Bennett of Wilshire Associates presented the selection criteria of benchmarks and a review of SERS' individual asset class benchmarks. All of SERS' current benchmarks meet the criteria, except in the case of Private Equity and MAS (hedge funds); they are not investable and unambiguous. It is not possible to create benchmarks that meet the criteria for these private classes. SERS is ahead of their peers in moving to the new Private Equity benchmark, not based on public equity returns. The current benchmarks are appropriate, however, Wilshire believes alternative benchmarks for Real Assets and Non-US Equities are worth considering as they are more representative. The Board thanked Ms. Bennett for her presentation.

Annual Portfolio Review - Private Equity

Investment Officers Steve Price and Phil Sisson presented the annual global private equity portfolio review. Mr. Price provided a market update on private equity and discussed the portfolio's role, objectives and target allocation within SERS' Total Fund. The portfolio has had positive cash flow from distributions in recent years and generated strong returns during fiscal year 2017 and longer periods. Portfolio construction targets for buyouts, venture capital, non-US and special situations are close to or at the optimal portfolio structure and meet the implementation guidelines. Mr. Sisson discussed portfolio management and the focus on fees. Staff reviews and monitors managers quarterly to track progress of investments throughout their life cycle. The monitoring process includes detailed operational due diligence and risk management. Management fees have stabilized at 1.5%, below the industry average of 2%. Participating in co-investments and receiving early bird discounts with some funds aid in reducing fees. Six new commitments were made in FY2017. FY2018 objectives include maintaining the private equity portfolio near its 10% target, improving risk and return characteristics and continuing to seek co-investment opportunities. Staff will seek selective new manager relationships, perform due diligence on current managers, make commitments to new funds and continue to be active in the ILPA. Mr. Majeed added the PE portfolio is self-funded due to the maturity of the portfolio and exit markets have been good over the last few years. The Board thanked Mr. Price and Mr. Sisson for their presentation.

Monthly Investment Report

Farouki Majeed provided the economic outlook and discussed the Investment report for the month ended August 31, 2017. He highlighted the June 30, 2017 performance report on all Ohio Funds presented to the ORSC by their consultant, RV Kuhn. Mr. Majeed noted SERS' overall performance for the quarter was ahead of the other pension funds and for the five year period with lower risk. Mr. Majeed informed the Board the Fund is currently at \$14.1 billion and distributed SERS' preliminary performance report as of September 30, 2017. Following questions and answers, the Board acknowledged the Investment staff for their achievements and thanked Mr. Majeed for the presentation.

SUMMARY OF INVESTMENT TRANSACTIONS

Beverly Woolridge 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, 2017** through **August 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	\$128.7
Non-US Equities	146.8
Fixed Income	419.2
Multi-Asset Strategies	n/a
Private Equity Capital Calls	59.2
Real Asset Capital Calls	6.4
Opportunistic	14.6
Cash Equivalents	266.5

B. SALES

Asset Class	Approximate Net Proceeds (in millions)	Approximate Gain/(Loss) (in millions)
US Equities	\$ 155.9	\$ 21.9
Non-US Equities	114.3	10.4
Fixed Income	382.4	1.5
Multi-Asset Strategies	5.6	2.8
Private Equity distributions	40.6	n/a
Real Asset distributions	14.8	n/a
Opportunistic	2.2	n/a
Cash Equivalents	261.3	n/a

The Board took a break at 10:31 a.m. and reconvened at 10:49 a.m.

EXECUTIVE DIRECTOR'S UPDATE

Ohio Retirement Study Council

Executive Director Richard Stensrud reported that at the October 12th ORSC meeting, RVK presented the Investment Performance Report on the five statewide retirement systems. Mr. Stensrud noted that several other standard reports were presented, including the annual disabilities report. With respect to both SERS and STRS, it was observed that there was an uptick in oncological-based disabilities. It is unclear as to why this has occurred. Mr. Stensrud also noted that he provided the ORSC with a brief update on the Board's recent decisions regarding the COLA plan.

COLA Communications

Mr. Stensrud reported that following the Special Board meeting on October 9th, staff widely distributed news and information regarding the Board's decision on the COLA plan, noting that a front-page article was added to the website, and the *Board Meeting Highlights* was emailed to 6,000 people, posted to the *Board* page of the SERS website and to SERS' Facebook page.

Mr. Stensrud stated that staff is currently working on a one-page "special update" mailing that will reach 100% of SERS retirees/benefit recipients. The goal is to get the word out to those who will be directly and immediately impacted. Mr. Stensrud noted that COLA information will also be included in the December issue of the *Focus* newsletter for retirees, the Winter issue of *Future Matters* newsletter for active members and, the *Employer Bulletin* for all 1,000 plus school employers. Mr. Stensrud also noted that staff has begun the process of SMART testing to implement the change.

Mr. Stensrud noted that SERS is not alone in addressing COLAs and that all Ohio systems recognize that this is an area where you have the opportunity to most improve the plans' funded status. Mr. Stensrud noted that SERS has endeavored to do it in a way that provides the right degree of adjustment. Mr. Stensrud stated that during their October Board meeting, the OPERS Board made a decision regarding their proposed plan for COLA changes, which includes a delay in the commencement of COLAs, a reduction in the CPI-W cap, and also a mechanism for a zero COLA in certain situations. OPERS will need to go back to the legislature to get the authority to implement the plan.

Mr. Stensrud noted that staff continues to pursue legislation to obtain the authority to delay the start of the COLA for future retirees until the fourth anniversary of their retirement so as to maintain equity between current and future retirees. Mr. Stensrud will continue to keep the Board informed of developments.

Investors for Opioid Accountability

Mr. Stensrud noted that in its capacity as a shareholder, SERS has joined a group of institutional investors, representing public sector funds, Taft-Hartley plans, faith-based investors and sustainability funds, who are seeking to engage with public companies associated with the opioid crisis to encourage corporate governance reforms that include increased oversight and transparency, and to encourage change around the problems surrounding opioids.

Mr. Stensrud stated that a press release would be issued next week regarding the efforts of this group, named the Investors for Opioid Accountability (IOA) Group. SERS has co-signed three letters thus far, to Cardinal Health (opioid distributor), Johnson & Johnson (opioid manufacturer), and Pfizer (naloxone distributor through its subsidiary, Hospira). The goal is to try to encourage these companies to take the necessary steps to make sure they are monitoring, managing and fixing these problems. The Ohio Federation of Teachers is very interested in this effort and has saluted SERS' engagement on the issue.

Health Care

Mr. Stensrud noted that Health Care Director Anne Jewel and the Government Relations team continue to work with the three federal agencies that have jurisdiction on rules that permit SERS' Marketplace Wraparound Plan. Mr. Stensrud stated that the goal is to extend the three-year pilot period currently authorized by those rules. The Ohio Office of Health Transformation may be able to help by including our request with the state's waiver application to the federal government.

Mr. Stensrud stated that a letter of support was sent to the Controlling Board to approve the Office of Health Transformation's already-budgeted Medicaid Expansion funds.

Mr. Stensrud noted that SERS has not taken a position for or against the Drug Price Relief Act (Issue 2), as we are not sure whether and/or how this ballot measure would apply to SERS members and retirees.

As members contact us and ask questions, we note that we have not taken a position but we do have concerns.

Federal Legislation

Mr. Stensrud reported that SERS continues to participate in the effort by Ohio's public employee interested parties to oppose the mandatory "Rothification" of retirement savings being discussed as a potential element of federal tax reform. Participants in the coalition include Nationwide Insurance, the National Association of Government Defined Contribution Administrators, Ohio Deferred Compensation, OPERS, STRS, and SERS.

Last month, staff met with Senator Brown's staff, and this month staff will meet with Senator Portman's staff. Mr. Stensrud also noted that staff will continue to monitor this closely.

Upcoming Audit and Actuarial Valuation Reports

Mr. Stensrud informed the Board that SERS' annual audit is proceeding on track, with no issues identified to-date. Also, at the November Board Meeting SERS' actuaries, Cavanaugh Macdonald will present the annual actuarial valuation. Mr. Stensrud noted that the components of the COLA plan will be incorporated in the valuation.

Cybersecurity

Mr. Stensrud discussed the recently discovered security hack named KRACK Attack. Mr. Stensrud noted that SERS' systems were not vulnerable to the hack but that SERS' Information Security and IT teams were advising staff on how to protect themselves on their personal devices.

MAS Consultant

Mr. Stensrud stated that staff had completed interviews with a short list of finalists for the MAS consultant engagement. Mr. Stensrud inquired of the Board if they would like the two finalists to come in and make a presentation. Following a discussion, the Board chose collectively to bring both firms in for a presentation.

SERS Culture

Mr. Stensrud reported that SERS staff delivered 45 backpacks for this year's back-to-school program. Also, staff raised \$23,049 for the Central Ohio United Way campaign.

LEGISLATIVE REPORT

**STATE LEGISLATION BOARD REPORT
132nd General Assembly
(Prepared by Laurel Johnson as of October 6, 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 October 6, 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. Companion bill to H.R. 1205.

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

H.R. 1205

SPONSOR: Rep. Rodney Davis (R-IL)

LAST ACTIONS: 03/06/2017 - Referred to the 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: H.R. 1205 has one hundred and forty-eight co-sponsors including six Ohioans: Beatty, Fudge, Joyce, Kaptur, Ryan and Turner.

MEMORANDUM

To: Laurel Johnson, Senior Government Relations Officer

From: Carol Nolan Drake, Federal Liaison

Date: October 4, 2017

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

OVERVIEW

Highlights for September and early October include: the final effort in the Senate by the end of the federal fiscal year to pass health care legislation; disaster aid for states and Puerto Rico hit by multiple hurricanes; and the introduction of a comprehensive tax reform blueprint. Rep. Steve Scalise, the House Majority Whip, who was shot and severely injured during a Congressional baseball practice in June, returned to the House on September 28. The Securities and Exchange Commission announced that its premier system of secure corporate filings, EDGAR, was hacked.

The Congress was in session during September. The House has scheduled 14 days in October for session and five days for district work periods. The Senate has 17 days in session on the October calendar with five district work days on October 9-13.

HEALTH CARE

The reconciliation provisions for health care legislation were set to expire on September 30, the end of the federal fiscal year. In a rather surprise move, **Senators Lindsey Graham (R-SC), Bill Cassidy (R-LA), Dean Heller (R-NV) and Ron Johnson (R-WI) announced the Graham-Cassidy-Heller-Johnson Amendment (Amendment) to H.R. 1628, the House-passed health care legislation.** The Amendment gained support from most Senate Republicans, but not all of them. The Senate Majority Whip, Senator John Cornyn (R-TX) began whipping the necessary 50 votes to pass the measure, with the 51st vote coming from Vice President Mike Pence. Republican Senators John McCain (R-AZ), Susan Collins (R-ME), Rand Paul (R-KY), Ted Cruz (R-TX) and Lisa Murkowski (R-AK) were undecided on their votes.

SERS was concerned with the amendment language and sent a letter to each of the members on the Senate Finance Committee, chaired by Senator Orrin Hatch (R-UT) to notify them of SERS' opposition to the last-minute attempt to pass legislation without bipartisan support. On behalf of SERS, I sent out 28 letters to the members of the Senate Finance Committee and other Senators that were undecided, from Executive Director, Richard Stensrud. Governor John Kasich (R-OH) and nine other governors also wrote to the Senate Finance Committee members, asking them to pursue a bipartisan solution that would benefit the citizens of their states.

During the push for the Amendment, **more than 300 health care advocacy groups opposed the Amendment, including AARP, AHIP, American Medical Association, Blue Cross Blue Shield Association, American Cancer Society, other national hospital and doctors' organizations, and patient advocacy groups.** Senator Lamar Alexander (R-TN), Chairman of the Senate Health, Education, Labor and Pension Committee (HELP) and Senator Patty Murray (D-WA), Ranking Member, decided to stop further bipartisan hearings after two weeks of successful hearings which were conducted earlier in the month.

A contentious Senate Finance Committee hearing was held on Monday, September 25 in the Dirksen Senate Office Building. I was hoping to sit in on the hearing, however, advocates began to line up for the hearing in the early morning hours. The line quickly filled the hallways of Dirksen and spilled into the Hart Senate Office Building. At the start of the 2:00 pm hearing, Chairman Hatch attempted to gain control of the audience, however, many of the disabled advocates began to shout, asking the Committee to save vital Medicaid resources that they need for survival. The advocates were removed by

Capitol police and the hearing progressed shortly thereafter. Senators Lindsey Graham and Bill Cassidy, two of the sponsors of the Amendment, testified. As co-sponsors, they spoke of the unique way in which the Amendment would authorize block grants to the states, provide for the continuation of pre-existing conditions at the state level, and would put Medicaid spending on a sustainable path for the future. Taxes to fund health care would remain in place, however the individual and employer mandates would end.

Senator Mazie Hirono (D-HI) also testified. Senator Hirono has been diagnosed with Stage 4 kidney cancer and has undergone treatment. She urged the Senate to craft a bipartisan solution. Senators Portman and Brown (who both serve on the Finance Committee) asked questions of the witnesses. **Senator Portman commented on the high increase of premiums in Ohio, up 34% in some areas since Obamacare was implemented. He asked how the block grant model might help the states.** One of the witnesses, Dennis Smith, Senior Advisor for Medicaid and Health Care Reform, Arkansas Department of Human Services, responded with the example of the dollars from the Children's Health Insurance Program (CHIP) that are appropriated for states. **Senator Brown mentioned all the letters and emails that he had received expressing concerns with the Amendment. He asked that they be entered into the record of the hearing. Senator Brown asked about opioid treatment dollars and whether the sponsors had included funding for it.** Senator Cassidy responded that states will be able to use the block grant dollars as they need to, including treatment for opioid addiction. Senator Brown asked if the cuts to Medicaid would cause people to die. Witness Teresa Miller, acting secretary, Department of Human Services, Commonwealth of Pennsylvania, responded that the governors will need to make difficult decisions on health care benefits, Medicaid, and other necessary treatments. She said that there will not be enough money available for every priority.

After the testimony of all the witnesses, including representatives from state programs, and questions from Senators, the hearing concluded at 7:09 pm.

That evening, Senators Graham and Cassidy, representing the Republican side, and Senators Amy Klobuchar (D-MN) and Bernie Sanders (I-VT), representing the Democratic side, appeared for a CNN-sponsored town hall to discuss health care. During the town hall meeting, Senator Sanders mentioned the universal health care bill that he had introduced earlier in the month with the support of 15 Democratic Senators.

In his press release in September, Senator Sanders said his bill will provide "Medicare for all" and deliver billions of dollars in cost savings due to a streamlined federal approach. Higher taxes for the wealthy would help pay for the transformation and would be addressed in a separate bill. He said, "I think the American people are sick and tired of filling out forms. Your income went up — you can't get this. Your income went down — you can't get that. You've got to argue with insurance companies about what you thought you were getting. Doctors are spending an enormous amount of time arguing with insurers." While the bill is another noble attempt to provide a comprehensive health care solution, Republicans have already said the bill has a zero chance to pass.

After a flurry of activity in late September, the Amendment failed. **Senators McCain, Paul, and Collins all came out in advance of the final vote to nix the Amendment.** Senator Mitch McConnell decided not to call for an on-the-record vote, and the fiscal year ended without a health care repeal and replace bill passing in the Senate. Congress did not act by the end of the federal fiscal year **on CHIP and community health care centers' funding either.** While the state of Ohio has a few months of funding left, the issues need to be addressed.

That doesn't mean that the Senate won't try again. When I had appointments with Congressional staffers during the last week of September, they discussed an early 2017 timeline. The Senate will have a new member from Alabama and could work through the process concerns that were raised by Senator McCain, prompting his "No" vote. The question to be answered was **whether the Senate Budget Committee would release reconciliation instructions that can attach to a budget bill for another health care attempt.** We had heard that the 2018 reconciliation effort would be used for tax reform so Republicans could use the reconciliation process. This would mean that the Republicans could pass tax reform with 51 votes.

At the beginning of October, the Senate Budget Committee released its reconciliation instructions for \$5.1 trillion in spending reductions. The Budget Committee also charged the Senate Finance Committee to work on spurring economic growth through \$1.5 trillion in comprehensive tax reform changes over ten years, and for the Senate Energy and Natural Resources Committee to adopt \$1 trillion in deficit reduction over ten years. The instructions did include long-standing language that Social Security funding will remain in off-budget status. **The resolution includes deficit-neutral reserve funds for legislation that would allow Congress to address Obamacare with legislation to repeal or replace the program and extend the State Children’s Health Insurance Program (CHIP), and address the opioid epidemic, among other areas.** That answered our question – health care changes that fit these instructions could occur with a minimum of 51 votes. The Committee will hold hearings on October 4 and 5 on the budget resolution and CHIP funding is on the agenda. **On October 3, the Senate announced it may also include a roll-back of financial regulations that it could accomplish in lieu of passing a similar version to the House’s Financial CHOICE Act.**

As an added area of interest for SERS, the budget resolution also contains language dealing with education programs. According to the summary, **it will promote innovative educational and nutritional models and systems for American students — including amending the Higher Education Act, ensuring state flexibility in education, enhancing job training, and reforming child nutrition programs.**

A summary of the proposed Senate budget resolution can be viewed here:
<https://www.budget.senate.gov/imo/media/doc/FY18%20Budget%20Res%20-%20Title%20By%20Title%20Summary.pdf>

The bipartisan efforts that are being led by Senator Lamar Alexander (R-TN), Chairman of the Senate HELP Committee, and Patty Murray (D-WA), Ranking Member, picked up again after the Senate was unable to advance the Graham-Cassidy, et al. Amendment. **As of October 3, the Committee is working on a deal to continue the cost-sharing reduction subsidies for two years.** The potential spike in premiums under Obamacare has been predicted to rise as much as 25% in 2018. President Trump has committed to making the payments on a monthly basis, which has led large insurers to ask for more certainty moving into the new year.

MEDICARE

On October 4, the House Ways and Means Committee will begin the markup of H.R. 849, the **“Protecting Seniors’ Access to Medicare Act of 2017.”** The bill would repeal the ACA’s provisions providing for the Independent Payment Advisory Board (IPAB). The Independent Payment Advisory Board was created under the ACA in 2010 as a fifteen-member U.S. government agency to achieve specified savings in Medicare without affecting coverage or quality. In the early days of legislation to pass Obamacare, the panel was called, the Death Panel, due to its review authority for end of life expenses for Medicare recipients. The American Medical Association and other national groups have called for an end to the IPAB because they generally object to the payment cuts to physicians and other providers.

The Senate passed S. 870 on September 26, a bill to improve care for Medicare beneficiaries with chronic conditions. The “Creating High Quality Results and Outcomes Necessary to Improve Chronic Care Act of 2017” has been sent to the House for its consideration. The legislation was supported by the Public Sector HealthCare Roundtable and includes provisions for V-BID and home-based primary care support.

SERS’ MARKETPLACE WRAPAROUND PROGRAM

The SERS Wraparound Program was one of the agenda items for my Hill visits at the end of September. I wanted to discuss the success of the Wraparound Program with the legislative aides who handle health care for Ohio House and Senate members. During my meetings, I received good feedback on our interest in garnering letters of support from the delegation to send to the three regulatory agencies. The staffers asked that we provide more robust data, if possible, including one-year enrollment numbers

and the amount of money that the Wraparound Program has helped provide to retirees in their effort to control out-of-pocket costs. I will work with Anne Jewel and Laurel Johnson to address their data requests. We also know that the Congressional members can help us connect with the cabinet heads of IRS, HHS and the DOL.

OUT-OF-POCKET MEDICAL COSTS

At the beginning of October, the Center for Retirement Research (CRR) released a working paper, entitled, **“How Much Does Out-of-Pocket (OOP) Medical Spending Eat Away at Retirement Income?”** The CRR studied medical out-of-pocket costs for a sampling of retirees who receive Social Security benefits and other retirement income sources. In the paper, the researcher said, “The adequacy of retirement income – from Social Security benefits and other sources – is substantially reduced by Medicare’s high out-of-pocket (OOP) costs.”

The paper found that:

- Average OOP spending (excluding long-term care) in 2014 was \$4,274, with approximately two-thirds (\$2,965) spent on premiums.
- **In 2014, the average retiree had only 65.7 percent of his/her Social Security benefits remaining after OOP spending and only 82.2 percent of total income.**
- Nearly one-fifth (18 percent) of retirees had less than 50 percent of their 2014 Social Security income remaining after OOP spending, with 6 percent of retirees falling below 50 percent of total income.
- Post-OOP benefit ratios increased concurrently with the introduction of Medicare Part D for retirees who lacked prescription drug coverage prior to 2006. This group also saw a small increase after the donut hole began closing in 2010.

The policy implications of the findings are:

- With less than two-thirds of their Social Security benefits available for non-medical consumption, and limited income outside of Social Security for much of the elderly population, **many retirees likely feel that making ends meet is difficult.**
- Medicare spending per beneficiary is expected to resume its decades-long rise by the end of the decade which will put even more pressure on retirees’ budgets.

The full paper can be read here: <http://crr.bc.edu/working-papers/how-much-does-out-of-pocket-medical-spending-eat-away-at-retirement-income/>

PRESIDENT’S BUDGET

The House and Senate passed a **Continuing Resolution (“CR”) to tide them over until December 8, 2017**, a three-month window, which gives them a chance to take up the remaining budget issues a bit later in the new fiscal year. Funding for emergency relief for Hurricane Harvey and language which suspended the debt ceiling were included in the CR. President Trump actually worked with House Minority Leader Nancy Pelosi (D-CA) and Senate Minority Leader Chuck Schumer (D-NY) to cut the three-month deal. Later this fall, the House and Senate will need to determine whether another CR needs to be passed if they are not able to pass a budget bill that include debt ceiling relief.

TAX REFORM

The President released a nine-page framework on September 27. The blueprint provides more information on the Republican leadership and President Trump’s plan to reduce taxes on the middle class and spur economic growth through corporate tax reductions. In his speech to the country, President Trump said that the tax rates would be simplified, to 12%, 25% and 35%, depending on income. The plan doubles the standard deduction to \$24,000 for married couples and \$12,000 for single people. It offers a higher child tax credit but drops some important tax deductions, including the state and local tax deduction. It also eliminates personal exemptions that have helped families. The framework recommends that Congress maintain popular tax incentives for home ownership, retirement savings, charitable giving

and higher education. They also would like to cut the corporate tax rate from 35% to 20%, a big task because it could cost \$1.5 trillion over five to ten years. The money will need to be found in other areas.

A copy of the nine-page framework can be viewed here:

<https://www.speaker.gov/sites/speaker.house.gov/files/Tax%20Framework.pdf>

RETIREMENT SECURITY AND “ROTHIFICATION” IN TAX REFORM

Members of the SERS coalition on retirement security met with John Ryan, state director for Senator Sherrod Brown (D-OH) on September 7 at SERS. The coalition members include representatives from SERS, STRS, OPERS, Ohio Deferred Compensation, Nationwide, and NAGDCA (the National Association of Government Deferred Compensation Administrators). Gideon Bragin, legislative aide for Senator Brown, called in for the meeting. 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.

Our scheduled meeting with Rep. Pat Tiberi (R-OH) was cancelled due to the sudden death of his mother. We will ask to reschedule the meeting.

The questions remain whether the President and Congress will make changes to the pre-tax retirement savings vehicles that workers rely on to boost retirement savings. We will continue our efforts to educate the delegation on the need for SERS and its members to have full access to pre- and post-tax retirement savings opportunities.

SOCIAL SECURITY

H.R. 1205, the “Social Security Fairness Act of 2017,” which would repeal GPO and WEP, now has 148 co-sponsors. Representatives from Ohio that are co-sponsors include Representatives Michael Turner (R-OH), David Joyce (R-OH), Tim Ryan (D-OH), Joyce Beatty (D-OH), Marcia Fudge (D-OH) and Marcy Kaptur (D-OH). The bill has been referred to the House Ways and Means Subcommittee on Social Security.

The **Windfall Elimination Provision (WEP) 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. These two issues, GPO and WEP, are of major concern to public employees.

On September 5, the Social Security Administration issued a press release from Nancy A. Berryhill, Acting Commissioner of Social Security, that **three new Compassionate Allowances conditions will be recognized: CACH – Vanishing White Matter Disease-Infantile and Childhood Onset Forms, Congenital Myotonic Dystrophy, and Kleefstra Syndrome.** A list of Compassionate Allowances provides a way for SSA to quickly identify serious medical conditions that meet Social Security's standards for disability benefits. Social Security has faced a backlog of claims for disability benefits.

In the release, Commissioner Berryhill said, “Social Security is committed – now and in the future – to continue to identify and fast-track diseases that are certain or near-certain to be approved for disability benefits. **The Compassionate Allowances program identifies claims where the applicant’s disease or condition clearly meets Social Security’s statutory standard for disability.** Many of these claims are allowed based on medical confirmation of the diagnosis alone, for example pancreatic cancer, amyotrophic lateral sclerosis (ALS), and acute leukemia. To date, almost 500,000 people with severe disabilities have been approved through this fast-track policy-compliant disability process, which has grown to a total of 228 conditions.”

More information about Compassionate Allowances may be viewed here:

www.socialsecurity.gov/compassionateallowances

SUPREME COURT

The new term for the U.S. Supreme Court began on Monday, October 2. According to its website, the October 2017 Term marks the 100th anniversary of the Court opening on the First Monday in October, as determined by Congress. This year also marks the 50th anniversary of Associate Justice Thurgood Marshall joining the Court.

The Court has a full docket with 7,000 to 8,000 cases filed each year. Very few make it through the process for the Court's review. One case, **Janus vs. AFSCME, will determine whether fair-share fees can be assessed by labor organizations.** After the death of former Justice Antonin Scalia, the Court deadlocked on a 4-4 vote on the issue whether public sector workers have a First Amendment right to refuse to pay union dues or fair-share fees. Now that the Court has a full bench, with the confirmation of Justice Neil Gorsuch, the Court will have nine Justices to deliberate, thereby alleviating a tie.

SECURITIES AND EXCHANGE COMMISSION

On September 20, Chairman Jay Clayton issued a statement "highlighting the importance of cybersecurity measures to the agency and market participants, and detailing the agency's approach to cybersecurity as an organization and as a regulatory body." In the statement, Chairman Clayton said:

Like many other governmental agencies, financial market participants and other private sector entities, **we are the subject of frequent attempts by unauthorized actors to disrupt access to our public-facing systems, access our data, or otherwise cause damage to our technology infrastructure, including through the use of phishing, malware, and other attack vectors.** For example, with respect to our EDGAR system, we face the risks of cyber threat actors attempting to compromise the credentials of authorized users, gain unauthorized access to filings data, place fraudulent filings on the system, and prevent the public from accessing our system through denial of service attacks. We also face the risks of actors attempting to access nonpublic data relating to our oversight of, or enforcement actions against, market participants, which could then be used to obtain illicit trading profits.

Chairman Clayton was referring to the hacking announcement that came from the SEC on September 20. In his remarks, Chairman Clayton acknowledged that the **SEC learned in August that there was a cyber incident in 2016 that "may have provided the basis for illicit gain through trading,"** he said. The internal system called the Electronic Data Gathering, Analysis and Retrieval system (EDGAR), is the repository for over 21 million filings since its creation in 1984, some of which are submitted confidentially. The hacking incident apparently exposed information on at least two individuals. The Senate Committee on Banking asked Chairman Clayton to testify on the 2016 hack. The hackers may have accessed confidential records or market-sensitive disclosures to engage in illegal insider trading. Senators used the opportunity to ask him about the Equifax data breach. **Chairman Clayton declined to comment whether the SEC was investigating executives from Equifax who sold shares of stock prior to the announcement of the data breach of 143 million people's credit reports maintained by Equifax.**

On September 21, the SEC issued guidance on the pay ratio disclosure requirements required under law. This was the first time that the SEC has issued guidance on pay ratio disclosures by companies. The release indicates that the guidance provides an explanation and a few illustrations how reasonable estimates, statistical sampling and internal records may be used to determine the pay ratio. The guidance clarifies that the SEC interprets the pay ratio rule to offer **broad flexibility** in the identification of the median employee, which the SEC believes will ease the burden on registrants as they prepare to comply with the pay ratio rule.

Some institutional investors are concerned that the Trump administration and Congress will work to delay, water down, or repeal the pay ratio disclosure requirement. **The SEC guidance gives companies and other registrants a clear signal that they should review the examples and be ready to provide pay ratio disclosures in 2018 with their new filings.**

On September 25, the SEC announced the creation of a new unit within its Enforcement Division. According to the press release, **the SEC has commenced “two new initiatives that will build on its Enforcement Division’s ongoing efforts to address cyber-based threats and protect retail investors.** The creation of a Cyber Unit that will focus on targeting cyber-related misconduct and the establishment of a retail strategy task force that will implement initiatives that directly affect retail investors reflect SEC Chairman Jay Clayton’s priorities in these important areas.” **The SEC will also look into market manipulation and hacking threats that impact investors and companies.**

On October 12, the Investor Advisory Committee (IAC) will meet at the SEC offices. On the agenda are the following topics: three panel discussions covering blockchain technology and implications for securities markets; law school clinic advocacy efforts on behalf of retail investors; and electronic delivery of information to retail investors, which may include a Recommendation of the Investor as Purchaser Subcommittee. The meeting will be webcast and is open to the public.

A Human Capital Disclosures Petition was filed with the SEC by the Human Capital Management Coalition. The Coalition is made up of institutional investors that represent \$2.8 trillion AUM. While the petition was filed in July 2017, it was discussed at the CII meeting in September. In the letter supporting the petition, Meredith Miller, Senior Corporate Governance Officer for the UAW Medical Benefits Trust, said that the Coalition investors request that the Commission adopt new rules, or amend existing rules, to require issuers to disclose information about their human capital management policies, practices and performance.

CORPORATE GOVERNANCE

The Council of Institutional Investors (CII) fall meeting was held in San Diego, CA, from September 13-15. Topics that were offered during the plenary and breakout sessions included: Public Companies: An Endangered Species?; Diversifying Diversity: Exploring the Dimensions of a Truly Diversified Board; the Intersection of Climate Change and Shareholder Votes; Index Providers Speak: Policy Process and Voting Rights; Human Capital: How to Value, How to Disclose; and Shifting Investor Perspectives on Climate Risk and Board Climate Competency. I attended to hear the discussion in these sessions and the interview with William Hinman, the director of Corporation Finance, U.S. Securities and Exchange Commission.

DELEGATION LEGISLATION

On September 7, Senator Sherrod Brown (D-OH) introduced S.1777, the “Corporate Responsibility Fee Act of 2017,” a bill to amend the Internal Revenue Code of 1986 **to impose an excise tax on employers with low-wage employees.**

On September 7, Rep. Marcia L. Fudge (D-OH) introduced the “Farm to School Act of 2017.” The bipartisan legislation expands participation in the U.S. Department of Agriculture Farm to School program to preschools, after-school programs, and summer food service sites, and increases annual funding from \$5 to \$15 million. According to the press release issued by Rep. Fudge, “Farm to School is a win-win for our nation’s producers and school children. **The increased use of locally-sourced food in schools provides new opportunities for farmers and improved nutrition for our students.** Expanding the program to reach more students is a logical next step and will help reduce the prevalence of childhood obesity and its associated health risks, such as diabetes and heart disease. With the national childhood obesity rate at 17%, it is important we act quickly to improve children’s health.”

On September 8, Rep. Pat Tiberi introduced H.R. 3725, a bill to amend the Internal Revenue Code to **repeal, after 2017, the requirement that individuals maintain minimum essential health care coverage** (commonly referred to as the individual mandate).

On September 11, Rep. David Joyce (R-OH) introduced H.R. 3735, the **“No Knives on Planes Act of 2017,”** a bill to prohibit the implementation of a policy change to permit small, non-locking knives on aircraft.

On September 25, Rep. Warren Davidson (R-OH) introduced H.R. 3822, the “CBO Show Your Work Act,” a bill to require that the **CBO make publicly available the fiscal and mathematical models, data, and other details of computations used in cost analysis and scoring.**

On September 26, Rep. Tim Ryan (D-OH) introduced H.R. 3842, the “**Healthy Start Reauthorization Act of 2017.**” The bill has two other sponsors and included language to reauthorize the Healthy Start for Infants Program.

ACTIVITIES:

1. Trip to Washington, D.C. from September 25-27 for Ohio delegation visits. Information was shared with delegation offices. Visits were made to the offices of Rep. Tiberi, Latta, Kaptur, Turner, Fudge, Gibbs, Wenstrup, Chabot, Senators Brown and Portman.
2. In attendance at Senate Finance Committee hearing on September 25.
3. Discussion with SERS on letters to the Senate Finance Committee and the distribution of letters to Senators on the Committee and Senators that were undecided.
4. Registration and participation in the NCPERS webinar on public pension funding and actuarial standards.
5. Setting up and attending a meeting with John Ryan, state director for Senator Sherrod Brown at SERS. Mr. Gideon Bragin, legislative representative for Senator Brown, called in for the meeting to discuss retirement security and tax reform.
6. Request for meeting with Greg Moody, head of Governor Kasich’s Office of Health Transformation to discuss health care issues at the state level.
7. Discussion with NCPERS to develop a proposal for a presentation on SERS’ Marketplace Wraparound Program at the NCPERS annual meeting in May 2018.
8. Monitoring bills relating to health care, the federal budget, prescription drugs, and Social Security. Review of introduced bills by members of the Ohio delegation or other members on issues that could impact SERS.
9. Calls, meetings, and emails with representatives of SERS during September.
10. Monitoring relevant House and Senate Committees, Committee hearings, review of public notices or rules from the SEC, CMS, and FDA.
11. 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.
12. 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.
13. Attendance at the CII conference for regulatory and federal legislative issues of importance to institutional investors.
14. Follow-up calls with delegation offices to set up meetings on tax reform, health care, and federal issues.
15. Preparation of monthly Federal Update.

EXECUTIVE SESSION

At 11:48 a.m., Catherine Moss moved and Beverly Woolridge seconded the motion that the Board go into Executive Session pursuant to section 121.22 (G)(5) of the Ohio Revised Code to review applications for Disability Retirement Benefits. Upon roll call, the vote was as follows: Yea: James Rossler, Jeffrey DeLeone, James Haller, Christine Holland, Catherine Moss, Barbra Phillips, Beverly Woolridge and Daniel Wilson. The motion carried.

The Board returned to open session at 11:51 a.m.

Concluding the Disability Report, the Board recessed at 11:59 a.m. and reconvened at 1:01 p.m.

EXECUTIVE SESSION

At 1:01 p.m., Beverly Woolridge moved and Catherine Moss seconded the motion that the Board convene in Executive Session pursuant to R.C. 121.22 (G)(1) of the Ohio Revised Code to discuss the appointment of a public official. Upon roll call, the vote was as follows: Yea: James Rossler, Jeffrey DeLeone, James Haller, Christine Holland, Catherine Moss, Barbra Phillips, Beverly Woolridge and Daniel Wilson. The motion carried.

The Board returned to open session at 2:24 p.m.

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

	<u>Sally Clemmer.</u>			<u>Hugh Garside, Jr.</u>		
	1 st	2 nd	3 rd	1 st	2 nd	3 rd
James Rossler				x		
Jeffrey DeLeone				x		
James Haller	x					
Christine Holland	x					
Catherine Moss				x		
Barbra Phillips	x					
Beverly Woolridge				x		
Daniel Wilson				x		

DECLARATION OF ELECTION OF EMPLOYEE MEMBER

I, Daniel Wilson, Chairman of the Board, declare Hugh Garside, Jr. elected to fill the employee member seat for the term ending June 30, 2019.

CERTIFICATION OF ELECTION RESULTS BY THE SECRETARY OF STATE'S OFFICE

I, Robin Fields, as election judge, monitored the election by the School Employees Retirement System Board held on October 19, 2017 to fill the vacancy in the employee member seat on the Board. I hereby certify that Hugh Garside, Jr. was duly elected by the Board to fill the vacancy.



Name
Secretary of State's Office

10/19/17

Date

COMPENSATION COMMITTEE UPDATE

Catherine Moss, Chairperson of the Compensation Committee, provided a brief update to the Board and asked that Executive Director Richard Stensrud's goals be provided to all Board members. Ms. Moss also thanked Mr. Stensrud for providing the goals.

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

CALENDAR DATES FOR FUTURE BOARD MEETINGS

2017

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*.**

BOARD INFORMATION REQUESTS AND FOLLOW-UP ITEMS

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

ADJOURNMENT

Daniel Wilson moved that the Board adjourn to meet on Thursday, November 16, 2017 for their regularly scheduled meeting. The meeting adjourned at 2:36 p.m.

Daniel Wilson, Board Chair

Richard Stensrud, Secretary