

**February 15, 2018**

The nine hundredth and seven 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, February 15, 2018. The meeting convened in open session at 8:30 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, Hugh Garside, James Haller, Christine Holland, Barbra Phillips and James Rossler. Daniel Wilson excused the absence of Catherine Moss. 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  
December 21, 2017**

Hugh Garside moved and James Haller seconded the motion to approve the minutes of the Retirement Board meeting held on Thursday, December 21, 2017. Upon roll call, the vote was as follows: Yea: James Rossler, Jeffrey DeLeone, Hugh Garside, James Haller, Christine Holland, Barbra Phillips and Daniel Wilson. The motion carried.

Board member Beverly Woolridge arrived at 8:35a.m.

**INVESTMENT REPORT**

**Annual Portfolio Review – Fixed Income**

Investment Officers Judi Masri and Jason Naber presented the annual review of the Fixed Income portfolio. Mr. Naber provided updates on the portfolio structure, characteristics, sector exposures, net of fee performance and risk and return information. Ms. Masri discussed historical spreads, market valuations, and the effects of rising interest rates on fixed income returns. Ms. Masri provided a market outlook and the likely impacts on the fixed income portfolio followed by an update on FY2018 goals. Following comments, the Board thanked Ms. Masri and Mr. Naber for the presentation.

**Wilshire Associates Quarterly Performance Report**

David Lindberg and Felicia Bennett of Wilshire Associates presented the performance report for the quarter ended December 31, 2017 including economic and capital market highlights and SERS' Total Fund and asset class performance. Mr. Lindberg commented that SERS returns for one, three and five years were strong relative to its own benchmark and the peer universe, ranking in the top quartile. He continued with an update on capital market assumptions with expected returns for each asset class over the next ten year period, which decreased slightly. Following the discussion, the Board thanked Mr. Lindberg and Ms. Bennett for their comments.

**Quarterly Investment Report**

Chief Investment Officer Farouki Majeed provided an economic update and discussed the Investment report for the quarter ending December 31, 2017. The preliminary performance report as of January 31, 2018 was provided to the Board for their information. Mr. Majeed informed the Board the Fund is currently \$14.275 billion with a FYTD return of 7.61%. Following questions and answers, the Board thanked Mr. Majeed for the presentation.

## SUMMARY OF INVESTMENT TRANSACTIONS

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

### A. PURCHASES

Asset Class	Approximate Cost (in millions)
US Equities	\$147.4
Non-US Equities	118.8
Fixed Income	406.5
Multi-Asset Strategies	n/a
Private Equity Capital Calls	29.9
Real Asset Capital Calls	17.1
Opportunistic	3.2
Cash Equivalents	222.2

### B. SALES

Asset Class	Approximate Net Proceeds (in millions)	Approximate Gain/(Loss) (in millions)
US Equities	\$ 147.9	\$ 17.8
Non-US Equities	110.7	10.6
Fixed Income	437.5	2.1
Multi-Asset Strategies	10.1	(0.9)
Private Equity distributions	22.9	n/a
Real Asset distributions	2.4	n/a
Opportunistic	15.5	0.4
Cash Equivalents	182.8	n/a

## **SUMMARY OF INVESTMENT TRANSACTIONS**

Christine Holland 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 **December 1, 2017** through **December 31, 2017** hereby be approved. Upon roll call, the vote was as follows: Yea: James Rossler, Jeffrey DeLeone, Hugh Garside, James Haller, Christine Holland, Barbra Phillips, Beverly Woolridge and Daniel Wilson. The motion carried.

### **B. PURCHASES**

<b>Asset Class</b>	<b>Approximate Cost (in millions)</b>
US Equities	\$142.2
Non-US Equities	107.1
Fixed Income	374.4
Multi-Asset Strategies	n/a
Private Equity Capital Calls	61.1
Real Asset Capital Calls	13.3
Opportunistic	11.6
Cash Equivalents	668.5

### **C. SALES**

<b>Asset Class</b>	<b>Approximate Net Proceeds (in millions)</b>	<b>Approximate Gain/(Loss) (in millions)</b>
US Equities	\$ 247.5	\$ 22.4
Non-US Equities	139.9	19.4
Fixed Income	373.9	1.6
Multi-Asset Strategies	0.7	(0.2)
Private Equity distributions	42.0	n/a
Real Asset distributions	17.8	n/a
Opportunistic	1.4	(0.1)
Cash Equivalents	478.9	n/a

The Board took a break at 10:34 a.m., and reconvened at 10:50 a.m.

## **EXECUTIVE SESSION**

At 10:50 a.m. Beverly Woolridge moved and James Rossler seconded the motion that the Board convene in Executive Session pursuant to section 121.22 (G)(3) of the Ohio Revised Code to confer with legal counsel regarding pending litigation. Upon roll call, the vote was as follows: Yea: James Rossler, Jeffrey DeLeone, Hugh Garside, James Haller, Christine Holland, Barbra Phillips, Beverly Woolridge and Daniel Wilson. The motion carried.

The Board returned to open session at 11:19 a.m.

## **EXECUTIVE DIRECTOR'S UPDATE**

### ***COLA Delay Legislation***

Executive Director Richard Stensrud noted that the effective date of the legislation authorizing the Board to establish a delay in the receipt of the first COLA by new retirees (Senate Bill 8) has been assigned as March 23<sup>rd</sup>. He further stated that staff is moving forward with promulgation of the rule to make the provisions fully operational effective March 23<sup>rd</sup>.

### ***Marketplace Wraparound Program Comment Period***

Mr. Stensrud stated that The Center for Medicare and Medicaid Services (CMS) within the federal Department of Health and Human Services (HHS) recently opened a comment period regarding the Marketplace Wraparound Coverage (Wrap Coverage) authorized by regulations under the Affordable Care Act. Mr. Stensrud noted that SERS offers Wrap Coverage when under-65 retirees sign up for a marketplace health care plan to provide a cost effective way to improve the overall benefits. Mr. Stensrud reported that more than 500 SERS retirees are currently enrolled and receiving our Wrap Coverage benefits. Mr. Stensrud explained that currently, the ability to provide Wrap Coverage is scheduled to sunset in 2019 but SERS' Health Care and Government Relations staff had been working hard to educate both the regulatory agencies and the health care plan sponsor community on the value of Wrap Coverage, particularly for lower income retirees. Mr. Stensrud noted that as a result of these efforts, more than a dozen organizations had joined SERS in submitting letters of support to CMS requesting to extend the pilot program opportunity from three to ten years, or make it permanent. Mr. Stensrud thanked SERS' Health Care and Government Relations staff for their work on this initiative.

### ***Ohio Retirement Study Council***

Mr. Stensrud stated that the January ORSC meeting was cancelled, but that he and staff had met with Council staff to review SERS' CAFR, SAFR, and actuarial valuations.

### ***Stakeholder Meetings***

Mr. Stensrud reported that stakeholder meetings are ongoing. Mr. Stensrud noted that the Pension and Health Care Roundtable meeting of January 26<sup>th</sup> went very well. There were approximately 20 representatives from 13 different advocacy groups who joined in the discussion, as well as several SERS Board members. Mr. Stensrud further stated that he has been invited to speak to the Ohio Federation of Teachers (OFT) retiree leadership during a day-long event at STRS.

### ***Mandatory Staff Training***

Mr. Stensrud reported to the Board that each year, staff is required to participate in various training programs aimed at keeping us safe, informed, and compliant with regulations. This year's required training was "Workplace Diversity and Civility Training." Mr. Stensrud stated that the training was a very good program, and was successful in raising awareness for staff regarding the desired level of professionalism in the work environment. Mr. Stensrud noted that staff will have mandatory ethics and public records training this spring.

### ***FY2019 Budget Process***

Mr. Stensrud provided an update on the FY2019 budgeting process, noting that staff is in the midst of the planning process. Mr. Stensrud stated that the first draft of the budget will be presented to the Board during the April Board meeting in the ORSC required format. Mr. Stensrud further noted that the full budget will be presented to the Board for consideration during the May Board meeting, with a resolution scheduled for the June Board meeting.

### ***Business Continuity***

Mr. Stensrud noted that on Tuesday, March 6<sup>th</sup>, he and staff will be conducting a tabletop exercise of our disaster recovery and business continuity plan at the SERS Hot Site.

### **Bridgewater Associates CIO Discussion**

Mr. Stensrud stated that he and Chief Investment Officer Farouki Majeed attended a discussion at OPERS presented by Bridgewater Associates on the current economic outlook and the implications for investors. Following the presentation, Mr. Stensrud and Mr. Majeed participated in a roundtable discussion with staff from several of the Ohio retirement systems.

### **OTHER**

Mr. Stensrud informed the Board that he will be attending the NASRA/NCTR/NIRS Conferences from February 24-28 in Washington, D.C. These programs will provide opportunities for the discussion of issues and developments that are common to all public pension systems.

### **Quarterly Financials**

Mr. Stensrud asked Tracy Valentino, Chief Financial Officer, to present SERS' quarterly financials.

Ms. Valentino presented highlights of the quarterly financials:

- Employer and Employee contributions are down 2%.
- Health Care premiums and drug subsidies (federal subsidies) are \$19M higher due to receipt of a Medicare prescription true-up payment for 2016. This will level out going forward.
- Expenses: 8% increase in benefit payments – to be expected as there were more retirees and the COLA adjustment. We will continue to see the benefits side go up year-to-year; however, the COLA will help temper the increase.
- Health care expenses are 17% lower; this is a result of the suspension of the Health Insurer Fee that was enacted with the ACA, a contractual decrease in per participant premiums, the receipt of Medicare reinsurance reimbursements being received monthly rather than in a lump sum, and a decrease in administrative expenses.
- Refunds and transfers. It is often difficult to project. The numbers go up and down every year based on member activity.
- Administrative expenses are consistent with prior years. Being halfway through the fiscal year, we are on target.
- Increase in surcharge; payroll was slightly higher. It was still capped at the school level. Statewide, payroll was a slightly higher.
- Statement of changes in net position. Receivables are about 50% less than last year. This is a result of moving to a per-pay reporting cycle versus a monthly cycle. We are using this information to improve cash flow projections.

**LEGISLATIVE REPORT**

**STATE LEGISLATION BOARD REPORT**

**132<sup>nd</sup> General Assembly**

**(Prepared by Laurel Johnson as of February 2, 2018)**

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**HB362** HIGHWAY PATROL RETIREMENT Rick Carfagna (H68-R-Westerville), Dan Ramos (H56-D-Lorain) To revise the law governing the State Highway Patrol Retirement System.

Current Status: 1/30/2018 Passed by the Senate

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**HB413** PERS ADJUSTMENT-DEVELOPMENTAL DISABILITIES EMPLOYEES Gary Scherer (H92-R-Circleville) Regarding Public Employees Retirement System (PERS) annual cost-of-living adjustments granted to allowance and benefit recipients and PERS service credit for services as a nonteaching school employee of a county board of developmental disabilities.

Current Status: 12/13/2017 House Aging and Long Term Care, (Second Hearing)

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

Current Status: Eff. 3/23/2018

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**SB247** PERS-SPOUSAL BENEFITS Matt Dolan (S24-R-Chagrin Falls) To require the Public Employees Retirement System to permit certain spouses of retired or deceased members to continue receiving allowances to pay for health care expenses under the System's group health care plans.

Current Status: 01/17/2018 Referred to Insurance and Financial Institutions Committee

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**FEDERAL LEGISLATION BOARD REPORT**  
**115<sup>th</sup> United States Congress**  
**(Prepared by Laurel Johnson as of February 2, 2018)**

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**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 18 co-sponsors.

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**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 169 co-sponsors including seven Ohioans: Beatty, Fudge, Joyce, Kaptur, Ryan, Stivers and Turner.

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## MEMORANDUM

To: Laurel Johnson, Senior Government Relations Officer

From: Carol Nolan Drake, Federal Liaison

Date: January 31, 2018

Re: Federal Legislative and Regulatory Report for January

### OVERVIEW

**Highlights for December 2017 and January 2018 included:** a major tax reform bill passed in the House of Representatives and Senate; the shutdown of the federal government in January; the passage of a Continuing Resolution (CR) which funded the government until Feb. 8; the President's first State of the Union address; the ongoing discussion on immigration and DACA recipients, or "Dreamers;" and advocacy on the request for comment letters to support the SERS Wraparound Program.

**The Congress was in session during January.** The 2018 calendars for the House and Senate have been released. The House has scheduled ten days for session in February. The House and Senate Republicans will attend the House Republicans Issues Conference on February 1-2. You may have noticed the news stories on January 31 which reported a garbage truck being hit by the Amtrak train that members reserved to take them to the retreat. Rep. Brad Wenstrup (R-OH) was one of the doctors that helped treat the injured people. While no members were seriously injured, one man who was in the garbage truck died.

The House and Senate Democrats will attend the House Democrats Issues Conference on February 8-9. The House has scheduled a district work week right after the Presidents' Day holiday on February 19 until February 23. The House has also scheduled their usual hiatus from Washington with Ohio district days only for the entire month of August.

**The Senate will be in session, except for its state work period from February 19-23.** The Senate is expected to be in session each month and has targeted December 14 as the date for sine die adjournment.

### SERS WRAPAROUND PROGRAM ADVOCACY

**Anne Jewel, Director of SERS Health Care; Laurel Johnson, Senior Government Relations Officer; and I have been working closely together to seek comment letters from national organizations, stakeholder groups, and members of the Ohio delegation on wraparound programs.**

The opportunity for SERS to provide its Limited Wraparound Program offering "excepted benefits" was created under rules promulgated by three regulatory agencies, DOL, IRS, and HHS/CMS in May 2015. **A Notice and Request to Comment on these programs was issued on December 12, 2017 by these agencies. Comments are due by February 13, 2018.** The exciting part of the Notice is that the agencies have asked for comments on whether the Wraparound Program should be made permanent, not just for comments on the reporting form itself. You will recall that the SERS Program was developed under the regulations which included a short three-year pilot program.

Even with the limited time frame to create and administer a Wraparound Program to offer "excepted benefits" under the ACA, SERS was able to develop a program that has been quite successful. **Over 500 under-65 retirees have signed on to the Program since January 2017.** The three-year pilot timeline means that SERS will only be able to offer the Wraparound Program until 2020 unless the regulations are modified to extend the pilot program or provide permanent authority for it.

We are hoping that all the members of the Ohio delegation and national organizations such as the Public Sector HealthCare Roundtable, AFSCME, Teamsters, American Benefits Council, AHIP, BCBS Association, AARP, the Ohio Department of Insurance, and other groups and stakeholders will support the Wraparound Program by responding to the Notice for Comment. We have shared draft letters for their review and updated information on the SERS' Wraparound Program. **We are asking these groups to submit their comment letters supporting either a permanent authority for limited wraparound programs or the extension of the pilot program for ten years.**

## **CONTINUING RESOLUTION**

**The Continuing Resolution (CR) to fund the federal government, H.R. 195, was passed by Congress and signed by President Trump late on Monday, January 22.** The lack of agreement caused a three-day government shutdown. Senator Susan Collins (R-ME) offered her office as a neutral place for Senators of both parties to discuss issues and work to find agreement. By the end of the weekend, Senator Collins' office was dubbed "Switzerland." A Common-Sense Caucus arose from the dialogue and several Senators joined Senator Collins to help break the stalemate.

While the funding levels were only appropriated until February 8, there were several health care provisions of interest:

- **Children's Health Insurance Program (CHIP) funding was authorized for six years;**
- **The Excise Tax on high-cost health plans, also called the "Cadillac Tax," was delayed another two years, extending its application until 2022;**
- **The Medical Device Tax, a 2.3 percent tax on medical devices, was suspended another two years, to be applied after December 31, 2019; and**
- **The Health Insurance Tax, which is an annual fee on health insurance providers, was delayed until 2020.**

**The repeal of the Individual Mandate was also in the bill.** The Employer Mandate was not included and remains a requirement under the ACA provisions.

**The stop-gap funding measure only gave Congress a few more weeks to find a bipartisan agreement before February 8.** Thus far, no resolution of immigration status for the Dreamers has been palatable. Other health care extenders, including funding for community health centers, are on the table. Funding for the border wall, defense programs, and the military also hang in the balance. Compounding these issues is the fact that the debt ceiling will need to be addressed earlier than previously noted. The Tax Cuts and Jobs Act is expected to bring in less revenue for the federal government and therefore, Treasury will have less money than previously expected. Republicans are negotiating for a longer-term CR, which would take the issue past the November 2018 elections. Democrats are unwilling to negotiate a longer-term CR if immigration issues, funding for health care, and domestic programs are not included.

## **STATE OF THE UNION**

**President Trump gave his first "State of the Union" address on Tuesday evening, January 30,** to a packed audience at the Capitol. The lengthy speech included several goals of the Administration that are of interest. The President:

- Mentioned the repeal of the tax penalty which individuals were required to pay under the ACA if they did not have health insurance.
- Recognized Steve Staub, Sandy Keplinger, and Corey Adams who work at Staub Manufacturing, a small business in Ohio. He said that the tax reform bill has allowed them to give raises to employees, hire more employees, and expand their business.
- Reported that to speed access to breakthrough cures and affordable generic drugs, last year, the FDA approved more new and generic drugs and medical devices than ever before.
- Directed his administration to make fixing the injustice of high drug prices one of his top priorities for the year.

- Called on a bipartisan Congress to produce a bill that “generates at least \$1.5 trillion for new infrastructure investment that our country so desperately needs. Every federal dollar should be leveraged by partnering with state and local governments, and, where appropriate, tapping into private sector investment, to permanently fix the infrastructure deficit.”
- Supported the creation of paid family leave for working families.
- Suggested an immigration reform package to provide a path to citizenship for the Dreamers, or DACA recipients, and funding for the wall between Mexico and the United States.
- Committed to fighting the drug epidemic and providing treatment to those in need, including greater penalties for drug dealers.
- Recognized Fred and Cindy Warmbier, the parents of Otto Warmbier, along with Otto’s brother and sister, who live in the Cincinnati area. Otto was arrested while visiting North Korea and died shortly after arriving home with severe brain damage.

**Representative Joseph Kennedy III (D-MA) provided the Democratic response.** He is a three-term member of Congress and the grandson of Robert F. Kennedy, former U.S. Attorney General. In his rebuttal, Representative Kennedy said that last year was “chaos,” with politics and partisanship forcing a government shutdown, hurting families to boost up corporations’ profits, and efforts to harm the health care system. He said that Democrats “choose pensions that are solvent... and a good education you can afford.”

### **“ENTITLEMENT REFORM”**

**Speaker Paul Ryan (R-WI) has repeatedly expressed a desire for the House of Representatives to take up reform for both Medicare and Medicaid during the second session.** The early discussions have encompassed the need to provide states with the flexibility they need to impose work requirements on able-bodied recipients of Medicaid.

During a December 2017 interview, Speaker Ryan said, "We're going to have to get back next year at entitlement reform, which is how you tackle the debt and the deficit...**Frankly, it's the health care entitlements that are the big drivers of our debt,** so we spend more time on the health care entitlements - because that's really where the problem lies, fiscally speaking."

**President Trump, on the other hand, campaigned in 2016 on a platform that he would not advocate to change Social Security, Medicare, or Medicaid.** The reason that Speaker Ryan’s comments could gain traction this year, even in an election year, is because the tax cuts are expected to cost up to \$1.5 trillion over the next ten years. By reforming Medicare and Medicaid, the House would potentially be able to find additional dollars to pay for tax cuts and other programs they would like to fund. The President has repeatedly called for funding for infrastructure and the border wall.

**The Senate, however, has been cool to the idea of full entitlement reform.** Senate President Mitch McConnell was quoted, saying that the Senate would have other priorities. If Social Security would be one of the programs under legislative scrutiny, the Byrd Rule would apply, meaning that a reconciliation package, with a simple majority vote, would not be allowed. The Byrd Rule requires that any changes to Social Security must be made after a 60-member vote to advance a bill. This would mean that at least 9 Democrats would need to support the Social Security bill, since the Republicans have a slim 51-49 member majority.

### **HEALTH CARE**

**Senator Susan Collins (R-ME) was very involved at the end of 2017, working with fellow Senators Lamar Alexander (R-TN) and Patty Murray (D-WA) to address the cost-saving reduction (CSR) subsidies in the December stop-gap spending bill.** Senate President McConnell promised Senator Collins that he would allow the issue to be considered in the Senate during the early part of 2018, if she would support the tax reform bill. Senator Collins did, indeed, vote for the Tax Cuts and Jobs Act. She said that she believes that Senate President McConnell will "uphold his commitment" to bring

the "**Bipartisan Health Care Stabilization Act of 2017**," sponsored by Senators Alexander and Murray, up for a vote. Thus far, the bill has not been considered in the Senate.

**On January 31, Amazon, JP Morgan Chase, and Berkshire Hathaway announced a joint initiative to address health care costs and employee satisfaction.** The press release is below:

Amazon (NASDAQ: AMZN), Berkshire Hathaway (NYSE: BRK.A, BRK.B) and JPMorgan Chase & Co. (NYSE: JPM) announced today that **they are partnering on ways to address healthcare for their U.S. employees, with the aim of improving employee satisfaction and reducing costs.** The three companies, which bring their scale and complementary expertise to this long-term effort, **will pursue this objective through an independent company that is free from profit-making incentives and constraints.** The initial focus of the new company will be on technology solutions that will provide U.S. employees and their families with simplified, high-quality, and transparent healthcare at a reasonable cost.

Tackling the enormous challenges of healthcare and harnessing its full benefits are among the issues facing society today. By bringing together three of the world's leading organizations into this new and innovative construct, the group hopes to draw on its combined capabilities and resources to take a fresh approach to these critical matters.

"The ballooning costs of healthcare act as a hungry tapeworm on the American economy. Our group does not come to this problem with answers. But we also do not accept it as inevitable. Rather, **we share the belief that putting our collective resources behind the country's best talent can, in time, check the rise in health costs while concurrently enhancing patient satisfaction and outcomes,**" said Berkshire Hathaway Chairman and CEO, Warren Buffett.

"The healthcare system is complex, and we enter into this challenge open-eyed about the degree of difficulty," said **Jeff Bezos, Amazon founder and CEO.** **"Hard as it might be, reducing healthcare's burden on the economy while improving outcomes for employees and their families would be worth the effort.** Success is going to require talented experts, a beginner's mind, and a long-term orientation."

"Our people want transparency, knowledge, and control when it comes to managing their healthcare," said **Jamie Dimon, Chairman and CEO of JPMorgan Chase.** **"The three of our companies have extraordinary resources, and our goal is to create solutions that benefit our U.S. employees, their families, and potentially all Americans,"** he added.

**The effort announced today is in its early planning stages,** with the initial formation of the company jointly spearheaded by Todd Combs, an investment officer of Berkshire Hathaway; Marvella Sullivan Berchtold, a Managing Director of JPMorgan Chase; and Beth Galetti, a Senior Vice President at Amazon. The longer-term management team, headquarters location, and key operational details will be communicated in due course.

## **STATE INNOVATION WAIVER**

**While SERS is pursuing advocacy before the federal agencies asking for comment on wraparound programs, we also are keeping other options open. The state of Ohio's 1332 innovation waiver application could be another opportunity for the SERS Wraparound Program to continue beyond the three-year pilot timeline.** Director Jillian Froment, Ohio Department of Insurance (ODI), spoke to me in January and agreed that the information on the Wraparound Program provided a colorable argument to be included in a separate waiver if SERS chose to pursue it. ODI also said it would provide a letter of support for the SERS program. I discussed Director Froment's remarks with Anne Jewel and Laurel Johnson. I will follow up with Director Froment this week to finalize the comment letter and find out the status of their innovation waiver.

## HHS/CMS

**Alex Azar was sworn in on January 29 as the Secretary of Health and Human Services (HHS).** Mr. Azar was confirmed by the Senate earlier in January. Secretary Azar said his priorities for HHS include working to address the high cost of prescription drugs, finding ways to make health insurance more affordable and available to more Americans, and addressing the opioid addiction epidemic.

## OPIOID ACTIVITY

**“The Interdict Act,” H.R. 2142, a bill to improve the ability of U.S. Customs and Border Protection to interdict fentanyl, other synthetic opioids, and other narcotics and psychoactive substances that are illegally imported into the United States, passed the House and Senate.** The bill was signed by President Trump on January 10, 2018 and became law. Representative Tim Ryan (D-OH) was a co-sponsor of the House bill. Senators Sherrod Brown (D-OH) and Rob Portman (R-OH) were co-sponsors of the Senate version.

## TAX REFORM ISSUES

**There were no extensive changes to retirement savings plans in the Tax Cuts and Jobs Act bill that was passed late last year.** Chairman Kevin Brady (R-TX) said that the Ways and Means Committee did not intend to reduce the pre-tax contributions that members can make to retirement savings programs or disturb catch-up provisions. **Chairman Brady, however, commented recently that the issue of “streamlining” may be looked into this spring by the Committee.** The term “streamlining” refers to an idea to simplify retirement savings vehicles for participants. When this issue has been raised in the past, the industry, which includes deferred compensation administrators, has expressed some concerns with streamlining. Participants may select a number of options to save for retirement depending on the plans offered by their employers. Some employees pay into 401(k) plans; others may take advantage of government 457 or school 403(b) plans. Consolidating plan choices into after-tax Roth accounts would help raise revenue, however, it could limit the ability of employees to save money in pre-tax dollars through a deferred compensation plan.

Another issue, which SERS and many like-minded advocates in the public pension, non-profit, and university arenas were successful in keeping out of tax legislation, is the unrelated business income tax, or “UBIT.” **We have been informed that we should be vigilant on our UBIT advocacy this spring because Congress is interested in making more changes to the tax code.** The UBIT changes offered a pay-for of over \$1 billion, thereby keeping it on the list as Congress looks for revenue. And, we have heard again that the tax staff from the House Ways and Means Committee believe that this is just a correction because pension funds should already be subject to UBIT. We disagree with their interpretation, as does NASRA, NCTR, NCPERS, CII, and our public pension fund peers.

**The changes to the state and local tax deduction, or “SALT,” may cause public pension funds concern, along with some of their members and retirees.** Under the tax bill, the SALT deduction will be capped at \$10,000. NCTR has reported that some state and local governmental authorities are concerned that the anticipated lower revenues due to the SALT deduction cap may cause public employers to question their ability to make pension contributions.

We will continue to monitor any new tax legislation for these and any new tax issues.

## SOCIAL SECURITY

**H.R. 1205, the “Social Security Fairness Act of 2017,” which would repeal GPO and WEP, now has 171 co-sponsors as of January 30.** Representatives from Ohio who 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 was referred to the House Ways and Means Subcommittee on Social Security.

Chairman Kevin Brady (R-TX), House Ways and Means Committee, recently indicated that he is continuing to explore a path forward for **H.R. 711, the Windfall Elimination Provision (WEP) bill he introduced last session.** Last year, Chairman Brady said that the passage of the Tax Cuts and Jobs Act was a start in the effort to overhaul the U.S. tax system. He could use another bill as a vehicle for changes to the WEP formula, however, the question remains how Congress will pay for any changes.

### **SECURITIES AND EXCHANGE COMMISSION (SEC)**

**On January 11, two new Commissioners were sworn in, filling all the seats for the five-person SEC. Hester Peirce and Robert Jackson were sworn in by Chairman Jay Clayton.**

A copy of the press release may be read here: <https://www.sec.gov/news/press-release/2018-5>

### **DELEGATION LEGISLATION**

**On January 23, Senator Rob Portman (R-OH) and a bipartisan Senate coalition introduced S. 2330, The Earmark Elimination Act.** The bill would make permanent the temporary moratorium on congressional earmarks, which has been in effect since 2010. It would create a point of order against any provision contained within a bill that matches the definition of an “earmark, providing, authorizing, or recommending a specific amount of discretionary budget authority, credit authority, or other spending authority for a contract, loan, loan guarantee, grant, loan authority, or other expenditure with or to an entity, or targeted to a specific State, locality or Congressional district, other than through a statutory or administrative formula-driven or competitive award process; that—

(i) provides a Federal tax deduction, credit, exclusion, or preference to a particular beneficiary or limited group of beneficiaries under the Internal Revenue Code of 1986; and

(ii) contains eligibility criteria that are not uniform in application with respect to potential beneficiaries of such provision; or modifying the Harmonized Tariff Schedule of the United States in a manner that benefits ten or fewer entities.” This point of order would only apply to the earmark, not the entire bill. If the point of order is raised, the earmark would be stricken unless a two-thirds vote of the Senate waived the earmark point of order.

**Senator Sherrod Brown (D-OH) is a co-sponsor of S. 2327, a bill that prohibits paying members of Congress during periods when a government shutdown is in effect.** The bill is entitled, “The No Government No Pay Act of 2018,” and has nine co-sponsors, all Democrats. The bill was introduced on January 19.

**Senator Brown also co-sponsored S. 2318, The Pension Stability Act, a bill introduced on January 17.** The bill requires the payment of user fees by qualified asset managers seeking an individual exemption from certain requirements.

**On January 30, a hearing was held in the Senate Health, Education, Labor and Pensions Committee (HELP) on S. 2147, the “Butch Lewis Act.”** The bill was introduced in November 2017; however, this was its first hearing. The bill would create a Pension Rehabilitation Trust Fund and establish a Pension Rehabilitation Administration within the Department of Treasury to make loans to multi-employer defined benefit plans. Senator Sherrod Brown introduced the bill, which now has 16 co-sponsors, all Democrats.

**On January 22, Rep. David Joyce (R-OH) co-sponsored H.R. 4852, a bill to make appropriations for military pay in the event of a government shutdown and to reduce the pay for members of Congress during a shutdown.** Rep. Bob Latta (R-OH) is also a co-sponsor.

**Several Ohio Republican members have signed on as co-sponsors of H.R. 4886, a bill to make permanent the tax cuts in Public Law 115-97, the Tax Cuts and Jobs Act.** The tax cuts for Americans under the bill would become permanent after ten years, rather than expire. Reps. Joyce, Latta, Renacci,

Turner, Gibbs, Johnson, and Stivers have also become co-sponsors of the bill, which was introduced on January 29.

### **OTHER MATTERS OF INTEREST**

**U.S. Representative Pat Tiberi (R-OH) resigned from office after serving the constituents of the Twelfth Congressional District since 2001.** He resigned effective January 15, 2018. The primary election will occur on Tuesday, May 8, for Republicans and Democrats running for the seat. The general election will be held on Tuesday, August 7, to fill the seat for the remainder of the term. Several staff members have left the office or are leaving soon. A few staff members will remain to help respond to constituent matters during the vacancy, per the announcement below.

**If members or retirees of SERS, who reside in the Twelfth District, have federal issues, the staff will be available to respond to constituent matters.** According to a statement on the Office of the House Clerk's website:

By federal law and the Rules of the House of Representatives, the employees of the former Representative continue to staff the offices of the congressional district under the supervision of the Clerk of the House of Representatives. This interim vacant status continues until a new Representative is elected to fill the unexpired term. Currently, the congressional district does not have voting representation. Although the scope of the vacant congressional office is limited, constituents of the district are invited to contact this interim office for information and assistance.

**Janet Yellen, Chair of the Federal Reserve since February 2014, will leave office on Saturday, February 3.** Jerome Powell had previously been named by President Trump to the Federal Reserve and was confirmed by the Senate on January 23. Due to the upcoming departure of Chair Yellen, the Federal Open Market Committee selected Mr. Powell to become the next Chairman. He will be sworn in on Monday, February 5.

**Efforts to find a path forward on Ohio's redistricting plan are continuing.** Governor Kasich indicated that he is supportive of the effort by the Ohio General Assembly to address Ohio's districts. The deadline for placing a proposal on the November ballot is February 7. The Fair Districts=Fair Elections coalition, formed by the League of Women Voters and Common Cause Ohio has collected thousands of signatures to put their proposal on the November ballot. Senator Matt Huffman (R-Lima) is leading the Republican effort. Republicans and Democrats are part of a House and Senate working group that has been meeting to discuss a viable solution. You will remember that 71% of Ohio voters supported an initiative to redraw state district lines in 2015. Several lawsuits are pending in other states because those plaintiffs believe that the gerrymandered districts do not result in "fair representation."

### **NCPERS**

**The Legislative Conference for NCPERS was held in Washington, D.C. from January 28-30.**

Attendees included public pension fund representatives from New York, California, Virginia, Colorado, Pennsylvania, Michigan, Georgia, Maryland, Texas, Connecticut, Ohio, Illinois, Florida, and Massachusetts, to name the mid-to-larger funds. On the first day, members heard speakers on topics including: What to Expect in the 2018 Midterm Elections; Employee Benefits Landscape; Suggestions for Public Pensions in a Hyper-Partisan Washington; An Update on State-Run IRAs; Department of Treasury's Pension Activities for 2018; House and Senate Tax & Pensions Agenda for 2018; Trends in Securities Litigation and Class Action; Massachusetts Public Pension Guidance Overview; and the NCPERS Legislative Agenda for the 115<sup>th</sup> Congress, Second Session. I was pleased to be in attendance for SERS.

**NCPERS prepared a Legislative packet for attendees to hand out during visits to their delegation members.** The packet contained a summary of the policy positions that the NCPERS Board has adopted on issues such as mandatory Social Security Coverage, GPO-WEP, UBIT, Early-age Medicare Buy-in,

Medicare, Medicaid, PEPTA, and several other federal issues. Attendees were encouraged to discuss the issues during their delegation visits.

**Speakers at the conference included Rep. Ted Poe (R-TX); former Senator John Breaux (D-LA); Wendy Carter, Segal Group; Drew Crouch, Senior Tax and ERISA Counsel, Senate Finance Committee;** David Damschen, Utah State Treasurer; Lanny Davis, Lawyer and Media/Crisis Management Expert; Robert Neis, Benefits Tax Counsel, U.S. Treasury Department; Cal Thomas, Political Commentator; Sally Wineman, Compliance Counsel, Arthur J. Gallagher & Co.; and Don Heilman, Senior Vice President, Gallagher Benefits Services, Inc.

**NCPERS arranged four separate meetings with House and Senate Committee staff for January 30.**

I was asked to attend the meeting with staff from the Senate Special Committee on Aging. Senator Susan Collins (R-ME) is the Chair, and Senator Robert Casey (D-PA) is the Ranking Member. Two staff members welcomed us to the Committee office and provided an overview of the Select Committee's hearing activity from 2017 and plans for 2018. We discussed health care issues and concerns, including early-age Medicare for safety forces, high prescription drug costs, the SERS Wraparound Program and comment period, deductibility of additional health care expenses for retirees, and issues relating to marketplace stability. Both staff members asked for information on the SERS Wraparound Program and showed interest in commenting before February 13. I followed up on January 31 and sent them the information they requested.

**ACTIVITIES:**

1. Attendance at NCPERS Legislative Conference in Washington, D.C. from January 28-30. Meetings with members of the Senate Select Committee on Aging, Rep. Tom Poe (R-TX) and Hill visits.
2. Phone calls and email discussions with the offices of Senators Portman and Brown, and all members of the House delegation to seek their signatures on a joint letter on the SERS Wraparound Program.
3. Discussion with representatives from ABC, AFSCME, BCBSA, and other national groups on submitting a comment letter for the SERS Wraparound Program.
4. Discussion with Director Froment, Ohio Department of Insurance, on the SERS Wraparound Program and their interest in writing a letter of support.
5. Monitoring of bills relating to public pensions, health care, the federal budget, tax reform, opioid treatment, and Social Security.
6. Review of introduced bills by members of the Ohio delegation or other members on issues that could impact SERS, retirement security and/or health care.
7. Calls, meetings, and emails with representatives from SERS during December and January.
8. Monitoring relevant House and Senate Committees, Committee hearings,
9. Reviewing public notices or proposed rules from the SEC, HHS/CMS, and FDA.
10. Monitoring news organizations and websites such as the Social Security Administration, AHIP, ABC, AARP and other organizations for pension, investment, and health-related issues.
11. Reviewing reports and newsletters from interested party representatives from organizations such as CII, ICGN, NASRA, NCTR, NCPERS, the Public Sector Healthcare Roundtable, and similar organizations.
12. Preparing for Hill visits on February 8-9 to finalize signatures for the Wraparound comment letter.
13. Preparing the monthly Federal Update and draft letters for SERS.

## **EXECUTIVE SESSION**

At 12:00 p.m., Christine Holland moved and James Haller 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, Hugh Garside, James Haller, Christine Holland, Barbra Phillips, Beverly Woolridge and Daniel Wilson. The motion carried.

The Board returned to open session at 12:03 p.m.

The Board continued with the review of calendar dates and future Board meetings. Board member Barbra Phillips identified a conflict with the currently scheduled May Board meeting, noting that three Board members will be attending an out-of-state conference during that time. Following a brief discussion, the Board moved to change the May 17-18, 2018 Board meeting to May 24, 2018.

## **CALENDAR DATES FOR FUTURE BOARD MEETINGS**

### **2018**

March 15 and 16 (Thurs. and Fri.)  
April 19 and 20 (Thurs. and Fri.)  
May 24 and 25 (Thurs. and Fri.) - **NEW**  
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, March 15, 2018 for their regularly scheduled meeting. The meeting adjourned at 12:10 p.m.

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Daniel Wilson, Board Chair

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Richard Stensrud, Secretary