

May 24, 2018

The nine hundredth and ten 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, May 24, 2018. The meeting convened in open session at 8:38 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, Beverly Woolridge and James Rossler. Daniel Wilson excused the absence of Catherine Moss. Also in attendance was Mary Therese Bridge, representative of the Attorney General, various members of the SERS staff, and members of the public.

Chairman Wilson acknowledged a request from OAPSE Representative Larry Malone for permission to speak during the presentation of the SERS FY2019 Administrative Budget. Mr. Wilson granted the request and asked that the discussion be limited to no more than two persons, for up to five minutes each.

**APPROVAL OF MINUTES OF THE RETIREMENT BOARD MEETING HELD ON
April 19, 2018**

Beverly Woolridge moved and Christine Holland seconded the motion to approve the minutes of the Retirement Board meeting held on Thursday, April 19, 2018. Upon roll call, the vote was as follows: James Rossler, Jeffrey DeLeone, Hugh Garside, James Haller, Christine Holland, Barbra Phillips, Beverly Woolridge and Daniel Wilson. The motion carried.

APPROVAL OF OUT-OF-STATE BOARD TRAVEL

Barbra Phillips moved and Beverly Woolridge 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: James Rossler, Jeffrey DeLeone, Hugh Garside, James Haller, Christine Holland, Barbra Phillips, Beverly Woolridge and Daniel Wilson. The motion carried.

| Conference | Attendee | Conference Dates | Conference Location | Estimate of Expenses |
|---|-----------------|-------------------------|----------------------------|-----------------------------|
| IFEBP Annual Employee Benefits Conference | Catherine Moss | October 13-17, 2018 | New Orleans, LA | \$ 3,547.47 |

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

INVESTMENT REPORT

Board Education – Russell Investments: Tactical Asset Allocation Overlay

Mr. Majeed began the introduction of Russell Investments by explaining the nature of SERS' overlay program that was adopted three years ago. Graham Seagraves and Doug Gordon of Russell Investments presented an educational session on their Enhanced Asset Allocation (EAA) strategy. EAA is a tactical asset allocation that is designed to add incremental return to the Total-Fund with long/short trades in equities and bonds. Mr. Gordon went on to explain the principles of EAA and the complimentary structure to SERS' existing strategic asset allocation and active management. They then discussed the quantitative input to the EAA process and provided a summary of SERS' EAA results since inception (December 2014) showing added value. Mr. Gordon then presented an example of a recent EAA trade to the Board

for their understanding. Following comments, the Board thanked Mr. Seagraves and Mr. Gordon for their presentation.

Wilshire Associates Quarterly Performance Report

David Lindberg and Joanna Bewick of Wilshire Associates presented the performance report for the quarter ended March 31, 2018. They discussed economic and capital market highlights along with SERS' Total Fund and asset class performance. Asset returns in the first quarter were not impressive, as volatility returned to the market. However, SERS had a positive return for the quarter. Over the medium term time period (3 and 5 years), SERS' performance ranks in the top quartile relative to other US public pension plans. Following questions the Board thanked Mr. Lindberg and Ms. Bewick for their presentation.

Quarterly Investment Report

Mr. Majeed provided an economic update and discussed the Investment report for the quarter ending March 31, 2018. The preliminary performance report as of April 30, 2018 was provided to the Board for their information. Mr. Majeed informed the Board the Fund is currently \$14.32 billion with a FYTD return of 8.76%. Following questions and answers, the Board thanked Mr. Majeed for the presentation.

Draft Annual Investment Plan

Mr. Majeed highlighted the draft FY2019 Annual Investment Plan (AIP) along with proposed changes to the Implementation Guidelines for asset class portfolios. Mr. Majeed requested that Board members offer any changes or suggestions prior to the June meeting. The AIP will be presented again for final review and approval during the June 2018 Board meeting.

Investment Department Incentive Plan

Enterprise Risk Management Officer Julie Deisler presented the Investment Department Incentive Compensation Plan for FY2019 and discussed the changes that have been proposed.

INVESTMENT DEPARTMENT INCENTIVE PLAN FISCAL YEAR 2019

Jeffrey DeLeone moved and Barbra Phillips seconded the motion to approve the Investment Department Incentive Plan for fiscal year ending June 30, 2019 which replaces the Fiscal Year 2018 Investment Department Incentive Plan approved May 18, 2017. Upon roll call, the vote was as follows: James Rossler, Jeffrey DeLeone, Hugh Garside, James Haller, Christine Holland, Barbra Phillips, Beverly Woolridge and Daniel Wilson. The motion carried.

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 **March 1, 2018** through **March 31, 2018** hereby be approved. Upon roll call, the vote was as follows: 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 | \$ 60.5 |
| Non-US Equities | 164.6 |
| Fixed Income | 338.6 |

| | |
|------------------------------|-------|
| Multi-Asset Strategies | 15.0 |
| Private Equity Capital Calls | 41.3 |
| Real Asset Capital Calls | 5.4 |
| Opportunistic | 9.0 |
| Cash Equivalents | 404.8 |

B. SALES

| Asset Class | Approximate Net Proceeds (in millions) | Approximate Gain/(Loss) (in millions) |
|------------------------------|--|---------------------------------------|
| US Equities | \$ 62.7 | \$ 14.7 |
| Non-US Equities | 207.2 | 26.7 |
| Fixed Income | 341.8 | (1.4) |
| Multi-Asset Strategies | 50.6 | 24.4 |
| Private Equity distributions | 26.1 | n/a |
| Real Asset distributions | 11.5 | n/a |
| Opportunistic | 0.5 | (0.1) |
| Cash Equivalents | 283.4 | n/a |

Following the Investment Report, the Board took a break at 10:39 a.m. and reconvened at 10:55 a.m.

EXECUTIVE DIRECTOR'S UPDATE

Ohio Retirement Study Council

Executive Director Richard Stensrud noted that the May ORSC meeting agenda included draft budget presentations by SERS, STRS, and the Council. Mr. Stensrud stated Chief Financial Officer Tracy Valentino presented SERS draft budget and Mr. Stensrud gave brief remarks about SERS' annual internal audit report and communications plan.

May Stakeholder Meetings

Mr. Stensrud stated there were two well-attended advocacy group meetings this month: The annual SERS/OASBO joint Legislative and School Finance Committees' meeting, which was held at SERS on May 4. Board member Hugh Garside joined other OASBO members at the meeting. Board members Catherine Moss and Beverly Woolridge attended the SERO Annual Meeting held on May 8. Many Directors and staff presented or worked during these two events.

Pension Sustainability:

Mr. Stensrud and the Board of Trustees discussed using a facilitator with knowledge of public employee retirement systems in a series of sessions intended to identify and assess possible measures to strengthen the sustainability of the pension fund.

Marketplace Wraparound Plan Promotion

Mr. Stensrud stated that a second notice to comment on the pilot Marketplace Wraparound Program was published, and SERS used this as another opportunity to drive supportive letters from its association contacts. Mr. Stensrud noted that the majority of SERS's previous letter-writers responded again, however, the highlight was four new letters were written from Congressman Steve Stivers, the American Benefits Council, Ohio Public Employees Retirement System, State Teachers Retirement System and Ohio Police & Fire.

Mr. Stensrud also stated that Health Care Director Anne Jewel has been providing education regarding the program at several conferences recently, including the NCPERS' Annual Conference and Exhibition, where several Board members were also in attendance; SALGBA – the State and Local Government Benefits Association; Blue Cross/Blue Shield National Labor Organizations; and the Public Sector HealthCare Roundtable.

Mr. Stensrud noted that in June, SERS Health Care and Government Relations staff will be working Capital Hill during the Health Care Roundtable's lobbying days.

AEP Ohio Recognition for SERS

Mr. Stensrud informed the Board that SERS's Building Services Team received a certificate of recognition from AEP Ohio recognizing SERS' commitment to energy efficiency and the environment. Building Services staff converted approximately 250 parking garage lights from 175-watt metal halide bulbs, to 30-watt LED bulbs. AEP noted SERS will save 400,288 kWh, or 306.9 Tons of CO2 annually, which is equivalent to 66 cars off the road for a year, the annual CO2 generation of 33 single-family homes, and 7,948 tree seedlings grown for ten years.

May Staff Activities

Mr. Stensrud stated that staff are currently undergoing their annual Performance Management Reviews.

Additionally, staff led a highly successful annual Operation Feed Campaign, resulting in 516 pounds of Canned Fruit donated and \$1,558 raised, which will provide more than 6,232 meals.

Mr. Stensrud also reported that staff recently completed a culture survey, noting that the culture here at SERS is a very important factor for the employees.

Quarterly Financials

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

Ms. Valentino presented highlights of the quarterly financials as follows:

- SERS' funding contributions levels remain consistent increasing slightly;
- Health Care premiums and Drug Subsidies increased, primarily due to a rebate of risk sharing reimbursement SERS received in FY 2017;
- Retirement and disability has gone up by 8%; the number of retirees, the increase in average pension amounts and COLA benefits are driving the increase;
- Health Care expenses are down by 18% as a result of the work of health care staff regarding the Wraparound Program and early Medicare program;
- Refunds and transfers; it is often difficult to project. The numbers go up and down every year based on member activity;
- Health Care fund had a 40% increase in employer contributions due to allocation of additional contributions consistent with the funding policy;
- Administrative budget is on target with approximately 73% of budget, given we are 75% of fiscal year;
- Communications expenses are low; driven by competitive bidding and no election materials;
- Training and transportation travel budget is under; staff participating in more in-state conferences and seminars versus than out-of-state; and
- Overall, the year-to-date financials is on budget.

LEGISLATIVE REPORT

**STATE LEGISLATION BOARD REPORT
132nd General Assembly
(Prepared by Laurel Johnson as of May 11, 2018)**

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

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

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

Current Status: Eff. 3/23/2018

**FEDERAL LEGISLATION BOARD REPORT
115th United States Congress
(Prepared by Laurel Johnson as of May 11, 2018)**

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 24 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 180 co-sponsors including seven Ohioans: Beatty, Fudge, Joyce, Kaptur, Ryan, Stivers and Turner.

MEMORANDUM

To: Laurel Johnson, Senior Government Relations Officer

From: Carol Nolan Drake, Federal Liaison

Date: May 10, 2018

Re: Federal Legislative and Regulatory Report for May

OVERVIEW

Highlights for April included: Continued changes to the Cabinet, including the Senate approval for Mike Pompeo as the new Secretary of State; the Trump administration's continued discussion on tariffs with China and the implications of a trade war, immigration, the Iran nuclear deal and upcoming talks with North Korea; Speaker Ryan's announcement that he will resign at the end of his term; testimony in the House and Senate by Mark Zuckerberg, founder and head of Facebook; federal spending talks; a second hearing on multiemployer pension plans; continued campaigning for primaries on May 8; teacher strikes in other states; and advocacy for letters to support the SERS' Wraparound Program.

The Congress was in session during most of April. The House has twelve days scheduled for session during this month, commencing on May 7. The next district work period will begin on Monday, May 28 and continue until Monday, June 4. The Senate also returned to session on May 7, and has planned session until the Memorial Day recess, May 28 through Friday, June 1.

On April 11, Speaker Paul Ryan announced that he would resign at the end of his term. The announcement was made at this time, he said, to allow the House to continue its work up until the end of the year. Speaker Ryan said that he did not want to remain a weekend Dad for his children, who are growing up in Janesville, Wisconsin as he spends the bulk of his time in Washington, D.C. Majority House Leader Kevin McCarthy (R-CA) has been an early frontrunner for Speaker of the House, however, other names have surfaced, including Rep. Jim Jordan (R-OH).

FEDERAL SPENDING TALKS

The House has commenced a more serious discussion on supporting a \$15 billion spending reduction bill, to help offset the \$1.3 trillion cost associated with the Omnibus bill. NCTR reminded us to remain vigilant to ensure that UBIT does not come up as a "pay for." In a federal budget process called "rescission," Congress could pass legislation to draw back money that was already authorized. President Trump has expressed support for the action. According to reports, about half of the cuts would come from funds in the accounts of the Children's Health Insurance Program (CHIP) that expired last year or will not be used for the remainder of this fiscal year. Other money includes about \$800 million from money appropriated under the ACA to test innovative payment and service delivery models.

Other programs will be evaluated to rescind some or all of the funds to make up the final \$15 billion total. Democrats have expressed outrage over this idea because the negotiation for the Omnibus bill included several tradeoffs to garner their support. Only a simple majority vote is needed to activate the cuts. Several more conservative Republican members have indicated that the budget reductions are necessary going into the fall election cycle. Critics have pointed out that the total cuts would be less than 0.5 percent of the Omnibus and related spending bills already passed.

In the Senate, Senator Susan Collins (R-ME) expressed concern with cuts to CHIP because she was one of the co-authors of the program several years ago. Senate President Mitch McConnell (R-KY) indicated that he would need to consider the idea further, given the bipartisan negotiation that led to the Omnibus bill passing with some Democratic support. The Trump Administration countered that none of these cuts will come from the \$1.3 trillion deal; rather these are funds from previous spending deals that remain unspent. All in all, Republicans are hoping to find approximately \$25 billion in cuts before the November elections.

BALANCED BUDGET AMENDMENT

After the passage of the \$1.3 trillion Omnibus bill, some of the more conservative Republican members of the House expressed concern with the ballooning debt for the country. A balanced budget amendment, H.J. Res. 2, was proposed by Rep. Bob Goodlatte (R-VA), Chairman of the Judiciary Committee. The amendment included a restriction that Congress could not spend more than the federal government receives unless three-fifths of the House and Senate vote to allow additional spending. The language also required a three-fifths majority to raise the debt limit. The final vote was 233-184 in favor, however, to pass a constitutional amendment, it needed two-thirds of the House to vote for its adoption. The amendment never made it to the Senate. Ohio delegation members that supported the amendment included: Gibbs, Johnson, Turner, Stivers, Wenstrup, Joyce, Latta, Jordan, Renacci, Chabot, and Davidson. Ohio delegation members that voted against it were: Beatty, Fudge, Kaptur, and Ryan.

ISSUE 1

Issue 1 was the only issue on the May 8 ballot in Ohio. Issue 1 was supported by Republicans and Democrats, the League of Women Voters, and several stakeholder groups after a significant number of meetings with members of the state legislature. It passed by an overwhelming amount, with 74.9 percent of voters supporting a **bipartisan, public process for drawing districts commencing after the 2020 census.**

U.S. SENATE RACE

Rep. Jim Renacci (R-OH) prevailed in the primary election as the Republican to run against Senator Sherrod Brown (D-OH) in November, who was uncontested in the primary.

12th CONGRESSIONAL DISTRICT ELECTION

The primary election for the vacant 12th Congressional District was held. On the Democratic side, Danny O'Connor was the candidate that emerged with the most votes in his party. On the Republican side, Troy Balderson received the most votes in his party, although the results are unofficial. The special election to actually elect the next Representative will be held on Tuesday, August 7. The winner will serve until January 3, 2019, which is the remainder of Rep. Pat Tiberi's term. Then, the winner of the general election, scheduled for Tuesday, November 6, will commence a term of office from January 3, 2019 until January 2021. The field for the May election included ten Republicans and seven Democrats. One Green Party candidate and one Independent candidate will run in the general election.

16th CONGRESSIONAL DISTRICT ELECTION

A potential vacancy occurred when Rep. Jim Renacci decided to run for the U.S. Senate instead of running again in this House district. **On Tuesday, Anthony Gonzalez won the Republican primary and Susan Moran Palmer won the Democratic primary.**

REMAINING U.S. HOUSE DISTRICTS

All incumbent members of the Ohio delegation prevailed in Tuesday's elections. Members who faced contested elections for their party's nomination included: Steve Chabot (R), Jim Jordan (R), Bob Latta (R), Bill Johnson (R), Bob Gibbs (R), Marcy Kaptur (D), Michael Turner (R), and Tim Ryan (D). Several House members were uncontested in their respective parties, including Brad Wenstrup (R), Joyce Beatty (D), Warren Davidson (R), Marcia Fudge (D), David Joyce (R), and Steve Stivers (R).

PRIVATE MULTI-EMPLOYER PENSION PLANS

The second hearing of the Joint Select Committee on Solvency of Multiemployer Pension Plans was held on April 18. The co-chairs, Senator Orrin Hatch (R-UT) and Senator Sherrod Brown (D-OH), opened the hearing with their statements. In his remarks, Senator Brown said, "Failure is not an option. Failure would wipe out the retirement of 10.1 million American workers and retirees, and force American businesses to file bankruptcy, lay off workers, and close their doors. The problem only gets more and more expensive to fix the longer we wait." He also said, "Groups as diverse as the Chamber of Commerce and labor unions and the AARP are all pushing for a solution, because they know what is at stake." Senator Brown's statement can be read in full here:

<https://www.pensions.senate.gov/sites/default/files/Brown%20Hearing%20Opening%20Statement%204.18.2018.pdf>

Senator Hatch said, “Information and insights, from both the public and private sectors, will be useful to the committee as it analyzes the challenges plaguing the current multiemployer pension system and works to develop solutions to strengthen retirement security for Americans across the country.” The full statement from Senator Hatch can be read here:

<https://www.pensions.senate.gov/content/hatch-opening-statement-joint-committee-hearing-examining-multiemployer-pension-system>

Stakeholders have been invited to comment and can submit input to the Joint Select Committee’s mailbox at JSCSMPP@finance.senate.gov. The deadline to respond is Sept. 30, 2018. The Joint Select Committee is still expected to report its findings before the last week of November.

The two witnesses who testified on April 18 were Thomas Barthold, Joint Committee on Taxation, and Ted Goldman, Senior Pension Fellow at the American Academy of Actuaries. The Committee’s new website can be viewed here for updates:

<https://www.pensions.senate.gov/HomePage>

SERS WRAPAROUND PLAN

On March 27, HHS/CMS issued a Second Notice for Comment regarding the “*proposed reporting form and the impact that an extension of the limited wraparound pilot program would have on the number of employers/sponsors participating in the limited wraparound pilot program. In addition, if HHS extends the limited wraparound pilot program, we seek comment on when the limited wraparound pilot program should sunset, or whether the limited wraparound pilot program should be made permanent.*” The comment period ended on April 26. Once again, SERS ramped up its advocacy to seek comment letters to respond to the second notice.

On April 17-18, I scheduled meetings in Washington, D.C. to discuss a second round of comment letters on wraparound programs. I met with representatives from the American Benefits Council, AARP, and dropped off information to delegation offices on the benefits that SERS and enrolled retirees have received due to the Wraparound Plan.

By the April 26 deadline, twelve letters of support had been submitted to the CMS Desk Officer from the National Conference on Public Employee Retirement Systems (NCPERS), Public Sector HealthCare Roundtable, Ohio Department of Insurance, a joint letter from State Teachers Retirement System and Ohio Police & Fire Pension Fund, Ohio Public Employees Retirement System, Kentucky Teachers Retirement System, National Coordinating Committee for Multiemployer Plans (NCCMP), American Benefits Council (ABC), HealthSCOPE Benefits, the International Brotherhood of Teamsters, and American Federation of State, County and Municipal Employees (AFSCME). The State and Local Government Benefits Administration (SALGBA) once again sent out a notice to its membership, letting them know of the second opportunity to comment. SERS provided another comment letter on the value that your unique program offers to the enrolled retirees and the pension fund. Rep. Steve Stivers has expressed interest in submitting a letter supporting an extension of the pilot program.

SERS and I had questions on the reason that the second notice was issued, whether the first set of comment letters needed to be resubmitted, the process in which HHS/CMS, IRS and DOL will consider the comment letters, data submitted from plan sponsors utilizing the revised form, and the timeline for these decisions. I talked to the individual from CMS who was listed in the Notice for Comments. Ms. Usree Bandyopadhyay told me that the proposed form was slightly revised and therefore, CMS needed to issue a thirty-day notice for final comments on the form. In addition, CMS asked for comments again from plan sponsors on wraparound programs. She said that the comment letters from the first round are being reviewed and the second notice gave people another chance to comment.

The next steps in the process will be for the Office of Management and Budget to approve the form and post it on their website. Ms. Bandyopadhyay said that the regulatory agencies will review the

data submitted by plan sponsors offering limited wraparound programs before they make any decisions. I asked her how much weight the agencies will put on data submitted, given that SERS may have one of the only wraparound programs in place. She said that while more data will be helpful, sheer numbers of programs will not necessarily drive their decisions. They are taking the comments received very seriously. Once OMB approves the final form, we will know when SERS should submit information on the program. Our advocacy at the regulatory agencies, especially CMS, will continue.

FINANCIAL REGULATORY REFORM

On May 8, Speaker Ryan announced that a deal had been reached between the House and Senate to roll back several of the Dodd-Frank Act provisions to help community, credit unions and mid-sized banks. Rep. Jeb Hensarling (R-TX), the outgoing Chairman of the House Financial Services Committee, said that he was confident the House would consider the bipartisan Senate-passed version that was passed in March. The Senate bill did not contain all the repeal provisions that Chairman Hensarling was seeking, however, he said that the Senate has agreed to take up further House bills to address other regulatory changes.

Institutional investors and the Council of Institutional Investors (CII) have expressed concerns with the repeal of some of the Dodd-Frank requirements imposed on financial institutions after the Great Recession hit in 2008. Investors continue to educate Congress on their use of proxy advisors to help vote their shares in an informative way, the need for reporting transparency, and a full analysis of risks by banks.

In a related development, in April, Wells Fargo was assessed a \$1 billion fine by U.S. Departments of Justice and Treasury, due to its fraudulent activity against customers by using layered insurance products, charging excessive fees and account activity. The bank joined Bank of America, the Royal Bank of Scotland and other financial institutions that have settled claims in recent months.

FARM BILL AND SNAP WORK REQUIREMENTS

The House is considering provisions within the Farm Bill that will place additional work requirements on recipients of Supplemental Nutrition Assistance Program (SNAP) benefits. President Trump has insisted that he will veto any bill that does not contain additional work requirements. Reports show that at least 42 million Americans receive food stamps and the bulk of the Farm bill covers nutrition programs. The House is also considering a cut of \$20 billion to SNAP programs.

The \$100 billion legislation needs to have bipartisan support in the Senate to pass the 60-vote requirement and given the level of work requirements, it may be a non-starter for Senate Democrats.

The current requirements for able-bodied but jobless adults without children or a disability must either be working or participating in a job training program at least 20 hours per week, or an average of 80 hours per month. The House bill would extend the work requirements for people up to age 59 beginning in 2021 and ask for proof for people working at least 20 hours a week monthly. The minimum work requirement would also be increased to 25 hours by 2026. There are exemptions for people who are mentally or physically unable to work, in drug or alcohol treatment programs, victims of domestic violence, students who are enrolled in school at least half time, caring for an ill or incapacitated household member or relative, etc.

TERM LIMITS

On May 5, The Hill reported that several freshman members of Congress have proposed term limits for members of Congress. President Trump tweeted that he supported the effort. The lawmakers, all 50 years old or younger, support limiting Senators to two six-year terms and Representatives to six terms, for a total of 12 years each. They believe that the proposal will help end a political system that rewards seniority and will ensure that new candidates will have an opportunity to run for office.

Under their proposal, the new system would grandfather in any current House and Senate members, except for the newly elected freshman class. While some members of Congress may be

interested in the concept, the U.S. Constitution would need to be amended. The procedure to amend the Constitution requires a two-thirds vote of support for the bill in the House and Senate, and ratification by the three-fourths of the states.

HEALTH CARE

On April 27, the Centers for Medicare and Medicaid (CMS) issued a press release detailing changes to the payment systems for services furnished by a range of medical facilities. According to the release, the agency's "proposed payment rules also set out to continue to modernize Medicare through innovation in skilled nursing facility payment to drive value, advance meaningful quality measure reporting, and reduce paperwork and administrative costs."
<https://www.cms.gov/Newsroom/MediaReleaseDatabase/Press-releases/2018-Press-releases-items/2018-04-27.html>

Then, on May 7, CMS Administrator Seema Verma announced that the agency would be taking steps to "reduce the high level of administrative burden and excessive reporting requirements detracting from clinicians' ability to focus on patient care." Administrator Verma was speaking at the American Hospital Association's Annual Meeting in Washington, D.C. She announced that CMS will hold a listening session to gain feedback on the effectiveness of its "[Patients Over Paperwork](#)" initiative in reducing the administrative burden for providers. She said, "Perhaps the best visual was when I was in Cleveland. I met hospital administrators who led me to a basement room where 18 people did nothing but compliance paperwork all day." She indicated that ensuring that patients are able to maintain control over their health data is one of the keys to putting patients first. "Patients must be at the center of cost and quality decisions, empowered with the information they need to make the best choices for themselves and their families," she said.

1332 INNOVATION WAIVER SUBMITTED

The state of Ohio, through the Ohio Department of Insurance (ODI) submitted its 1332 innovation waiver request for approval to waive the ACA's Individual Mandate. The waiver request was sent to HHS on April 4. ODI was required to hold a public hearing on the proposal prior to submission. According to media reports, the comments from the public were mixed.

As you will recall, the state's biennial budget bill, HB 49, required ODI to submit 1332 innovation waiver requests for both the individual and employer health coverage mandates in the federal Affordable Care Act. In its application, ODI concluded that there will not be negative consequences for Ohio's health care market with the approval of a waiver, based upon the actuarial analysis conducted by the Oliver Wyman firm. The comprehensive federal tax reform bill, passed in December, eliminated the penalty for individuals who do not carry coverage. The law did not, however, eliminate the individual mandate.

ODI expects to submit another 1332 innovation waiver later this year to request approval to waive the employer mandate. Ohio's waiver application is available at:
<http://insurance.ohio.gov/Consumer/Pages/Waiver.aspx>

In related matters, Ohio state officials submitted a Medicaid waiver on April 30, for imposing a work and community engagement requirement for enrollees in the Medicaid expansion program. President Trump refused to approve a lifetime limit on Medicaid benefits in Kansas.

SOCIAL SECURITY

The Social Security Administration released its annual performance report for Fiscal Years 2017-2019. Two key initiatives for FY 2019 include 1.) continued efforts to allow individuals to file claims for retirement, disability, Medicare, and SSI benefits using "My Social Security," to securely access personal information already on file, reducing the need to provide the same information multiple times, and 2.) modernizing the Social Security Statement to make it a more effective tool so "the individual information and projections will be more relevant to the plans and decisions that workers need to make at their stage of and situation in life."

H.R. 1205, the “Social Security Fairness Act of 2017,” which repeals GPO and WEP, has 180 co-sponsors as of May 3. Seven representatives from Ohio are co-sponsors, including Representatives Michael Turner (R-OH), David Joyce (R-OH), Tim Ryan (D-OH), Joyce Beatty (D-OH), Marcia Fudge (D-OH), Steve Stivers (R-OH) and Marcy Kaptur (D-OH). The bill was referred to the House Ways and Means Subcommittee on Social Security. The bill was referred to the Subcommittee on Social Security on March 6, 2017 and has not advanced.

During my mid-April trip, I met with a staff member from the House Ways and Means Committee’s Subcommittee on Social Security, to discuss Chairman Brady’s plan on the WEP bill, HR 711. Ms. Lara Rosner said that **Chairman Brady still is committed to finding a solution to the Windfall Elimination Provision.** Now that the major activity around tax reform has been completed, she said that the Chairman will be looking for an opportunity to advance the bill.

As previously reported, Senator Sherrod Brown (D-OH) introduced S. 915 on April 24, 2017, the Senate version of the “Social Security Fairness Act of 2017,” a bill to amend Title II of the Social Security Act and repeal GPO and WEP. Thus far, there are 23 cosponsors of the bill, as of May 3, including four Senate Republicans: Susan Collins (ME), Lisa Murkowski (AK), Dean Heller (NV) and John Kennedy (LA). Senator Rob Portman (R-OH) is not one of them. The bill has been referred to the Committee on Finance, however, it has not advanced out of Committee.

RETIREMENT SECURITY

As reported, Senator Orrin Hatch (R-UT) introduced S. 2526, the “Retirement Enhancement and Savings Act of 2018,” also called “RESA.” Senator Ron Wyden (D-OR) is the co-sponsor, indicating that the bill is a bipartisan piece of legislation to amend the “Internal Revenue Code of 1986 to encourage retirement savings, and for other purposes.” Senators Portman and Brown have not become co-sponsors. H.R. 5282 is the companion bill in the House. As of May 3, Rep. Bob Gibbs (R-OH) is the only Ohio co-sponsor on the House bill, H.R. 5282.

On May 4, the Office of Personnel Management (OPM) submitted a proposal to Congress that would require federal employees to pay a larger share of their salaries toward retirement benefits and eliminate cost-of-living adjustments. OPM Director Jeff Pon said that the proposed changes would bring the federal government more in line with the private sector.

SECURE CHOICE UPDATE

On April 10, NCPERS and Angela Antonelli, Executive Director of the Center for Retirement Initiatives McCourt School of Public Policy, Georgetown University, offered a webinar to update members on the progress across the country to offer secure choice plans that allow private sector employers, who do not offer retirement plans, to set up a low-cost plan for their employees. During the webinar, we learned that over forty states have enacted or considered programs with a variety of models. There are several programs thus far that have adopted either mandatory auto-IRAs or are structured as a 401(k)-investment vehicle. Plans with mandatory auto-IRAs include: California, Connecticut, Illinois, Maryland, Oregon, and Seattle. Others have developed 401(k) multiemployer plans: Vermont and Massachusetts. Washington state and New Jersey are offering a Marketplace that includes both IRAs and 401(k)s. New York State is pursuing a voluntary IRA.

Oregon Saves is open for business and is overseen by the Oregon Retirement Savings Board. The slogan is “Work hard. Save easy.” The early results are promising. The first wave of registrations was for employers with 100 or more employees. By May 15, the registrations for employers with 50-99 employees will be complete. The remaining registrations for employers with smaller numbers of employees will continue until May 2020. As of April, 492 employers have registered for the program, which triggers the ability of their employees to begin saving. Oregon Saves reported that only twenty percent of eligible employees have opted out of the savings program. The average savings is about \$100 per month. The program offers an auto-escalation feature and has low cost fees to maximize savings. More information can be viewed here: <https://www.oregonsaves.com/>

OPIOID ACTIVITY

On May 8, the House Energy and Commerce Committee, Subcommittee on Oversight and Investigations, chaired by Rep. Gregg Harper (R-MS), held a hearing on “Combating the Opioid Epidemic: Examining Concerns About Distribution and Diversion.” Witnesses invited were: George Barrett, Executive Chairman of the Board, Cardinal Health, Inc. (headquartered in Dublin, OH); Steven Collis, Chairman, President, and CEO, AmerisourceBergen Corporation; John Hammergren, Chairman, President, and CEO, McKesson Corporation; Joseph Mastandrea, Chairman of the Board, Miami-Luken, Inc.; and J. Christopher Smith, Former President and CEO, H.D. Smith Wholesale Drug Company. Reps. Bill Johnson (R-OH) and Bob Latta (R-OH) serve on the Committee. Rep. Johnson attended the hearing and asked several questions of the witnesses. He mentioned that his district, which encompasses eastern and southeastern Ohio, has been hard hit by opioid overdoses and deaths.

Walmart announced on May 7 that the company will institute new restrictions on opioid prescriptions this summer at all locations, including membership-based Sam’s Club stores. The new regulations will also require e-prescriptions for all opioids by the year 2020. The company says e-prescriptions can’t be altered or copied and are less prone to errors. Walmart and Sam’s Club will restrict initial acute opioid prescriptions to no more than a seven-day supply within the next 60 days. It also will follow laws in states that require acute opioid prescriptions for less than seven days.

OWNERSHIP OF GUNS STOCKS

BlackRock announced on April 5 that it will be starting a gun-free fund for retirement plans. After a series of school shootings, BlackRock decided to introduce investment funds that will exclude companies that manufacture or sell guns. It has been reported that BlackRock is the largest shareholder for Sturm Ruger and other gun manufacturers and retailers. Due to client demand, BlackRock decided to offer clients the opportunity to invest in gun-free funds.

Both CalPERS and CalSTRS have been called upon to divest from gun manufacturers and businesses that sell guns and gun-related accessories.

TEACHER STRIKES

Near the end of April, teachers in Arizona began a state-wide strike to boost their salaries and benefits. After a week of protests, with schools shut down, Governor Doug Ducey signed a bill to give teachers a 19% raise over three years. Teachers in West Virginia, Oklahoma, and Kentucky recently protested low salaries and gained concessions from state leadership. One article called it the “Teachers’ Spring.” The *LA Times* reported that the Arizona teachers are “among the lowest paid in the country.” The increases in pay will cost the state of Arizona approximately \$300 million in one year. Other issues remain unresolved, including higher spending per students, raises for support staff and a lower student ratio. It was reported that over the past ten years, education programs were cut back by almost \$400 million. Talks will continue to address other concerns and the schools will reopen.

On April 30, Andrew G. Biggs and Jason Richwine published an article, “No, Teachers Are Not Underpaid: Salaries lag in some states, but nationally, wages and benefits outpace the private sector.” In the article, they acknowledge that “It’s true that teacher salaries in several states are lagging. Teachers in Arizona, West Virginia, and Oklahoma have good reason to be dissatisfied: their salaries rank near the bottom nationally, even after controlling for cost of living. Even in these seemingly underpaying states, though, pensions can more than make up the difference. Oklahoma teachers accrue new pension benefits each year, with a present value equal to 30 percent of their annual salaries.

They suggest alternative reforms to more expensive defined benefit systems, “States could offer newly hired teachers higher pay, coupled with switching those teachers to a generous, well-designed 401(k)-type retirement plan. In Oklahoma, for instance, the state could give new teachers an 11 percent raise — costless to the taxpayer — by providing a 401(k) plan with an employer contribution, which would still be four times greater than private-sector levels. For areas with legitimate teaching shortages — such as in STEM fields or special education — districts could offer targeted salary increases. A strategic approach to filling teacher shortages is particularly important to poorer states such as West Virginia and Oklahoma, where resources are limited.”

SECURITIES AND EXCHANGE COMMISSION

Dr. Michael S. Piwowar, Commissioner, announced on May 7, that he intends to step down after his term ends in July 2018. Commissioner Piwowar served for five years and was the interim Chairman in early 2017.

On May 9, the SEC announced that it has charged a registered municipal advisor and its owner with defrauding a south Texas school district in connection with multiple municipal bond offerings. According to the announcement, the SEC “found that in connection with three municipal bond offerings between January 2013 and December 2014, Mario Hinojosa and his wholly-owned municipal advisor, Barcelona Strategies LLC, misrepresented their municipal advisory experience and failed to disclose conflicts of interests to their client, a local school district in South Texas.”

OTHER MATTERS OF INTEREST

In the continuing story of the Commonwealth of Puerto Rico’s financial crisis, protestors in San Juan converged on May 1 to protest the proposed cuts to pensions that could commence in 2020. The board overseeing the debt restructuring recommended at least a ten percent cut in pension benefits. Governor Rosello has rejected any cuts or movement to a defined contribution plan.

In a surprise move, the Chairman of the Natural Resources Committee, Rep. Rob Bishop (R-UT) said that he would support statehood for Puerto Rico if certain conditions to its economic recovery are met.

ACTIVITIES:

1. Scheduled Hill and stakeholder visits prior to trip to Washington, D.C. on April 17-18. Met with individuals on the SERS Wraparound Plan and WEP bill.
2. Sent out follow up emails and made calls to Ohio delegation staff members to remind them that the deadline for public comments is April 26.
3. Sent out emails and made calls to remind peers and stakeholders of the deadline for submitting letters of support on wraparound programs.
4. Drafted thank you letters to organizations that commented on wraparound plans.
5. Watched the hearing held by the Joint Committee on Solvency of Multiemployer Pension Plans.
6. Participated on the monthly call with the Government Relations Network members to discuss federal and state issues that impact public pensions.
7. Monitored bills relating to public pensions, health care, opioid issues and Social Security.
8. Reviewed bills that were introduced by members of the Ohio delegation or other House/Senate members on issues that could impact SERS, retirement security and/or health care.
9. Made calls and sent/responded to emails with representatives from SERS.
10. Monitored relevant House and Senate Committee hearings, particularly when an Ohio delegation member serves on the Committee or Subcommittee.
11. Reviewed public notices or proposed rules from the SEC and HHS/CMS.
12. Monitored organizations, such as the Social Security Administration, ABC, AARP, and other entities that have policies on pension, investment, and/or health-related issues.
13. Reviewed reports and newsletters from organizations such as CII, ICGN, NASRA, NCTR, NCPERS, and Public Sector HealthCare Roundtable.
14. Prepared the monthly Federal Update for SERS.

EXECUTIVE SESSION

At 11:47 a.m., Hugh Garside moved and Christine Holland seconded the motion that the Board go into Executive Session pursuant to R.C. 121.22 (G)(1) to discuss the employment of a public employee. 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 Executive Session at 12:05 p.m.

The Board recessed at 12:06 p.m. and reconvened at 1:00 p.m.

FINAL FILING OF PROPOSED AMENDED ADMINISTRATIVE RULE

Legal Counsel discussed with the Retirement Board final filing with JCARR the following proposed amended rule 3309-1-30, Eligibility for retirement that has been reviewed by JCARR and is ready for final adoption by the Board.

James Rossler moved and Christine Holland seconded that proposed amended rule 3309-1-30 be adopted. 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.

3309-1-30 Eligibility for retirement.

- (A) This rule amplifies division (A)(1) of section 3309.34 of the Revised Code.
- (B) For purposes of division (A) of section 3309.34 of the Revised Code and this rule:
 - (1) "Total service credit" means all service credit earned in the public employees retirement system, state teachers retirement system, or school employees retirement system, except credit for service subject to section 3309.341 of the Revised Code. Total service credit shall not exceed one year of credit for any twelve-month period.
 - (2) "Buy-up" means to pay an additional voluntary contribution in an amount equal to the additional actuarial liability to the school employees retirement system of retiring under the retirement eligibility criteria contained in division (A)(1)(a) of section 3309.34 of the Revised Code.
- (C)
 - (1) SERS administrative staff shall provide a cost estimate of a member's buy-up amount to any member or their designee upon request. A member who wishes to buy-up after receiving a cost estimate shall submit a written request for an actuarial cost calculation.
 - (2) The actuarial cost calculation of the additional liability shall be performed by the school employees retirement system actuary based on factors recommended by the actuary and approved by the retirement board. The factors used in calculating the additional liability will be revised no more than once annually and shall apply only to payments made after such revision is approved by the school employees retirement board.
 - (a) SERS will send notice of the actuarial cost calculation to the member upon receipt from the actuary.

- (b) The buy-up payment shall be made in a lump sum payment and shall be received by SERS within ninety days following the date of the notice or by August 1, 2017, whichever is earlier. If SERS does not receive the payment within ninety days of the notice, a new cost calculation is required.
- (c) Members can request no more than four actuarial cost calculations in any calendar year.
- (3) The amount of any buy-up payment cannot exceed the limitations set forth in Internal Revenue Code section 415. If the cost of the additional liability exceeds the limitations set forth in the Internal Revenue Code, the member is not eligible to retire under division (A)(1)(a) of section 3309.34 of the Revised Code.
- (4) Buy-up payments shall be treated as part of a member's accumulated contributions as defined in division (J) of section 3309.01 of the Revised Code. Contributions paid by a member pursuant to this rule shall be credited to the employees' savings fund.
- (D) Except as provided in division (A)(1)(c) of section 3309.34 of the Revised Code, to retire under division (A)(1)(a)(i) of section 3309.34 of the Revised Code, a member must meet the following requirements:
 - (1) Have at least five years of total service credit and have attained at least sixty years of age before August 1, 2017;
 - (2) File with the retirement board a proper and complete application for retirement before August 1, 2017; and
 - (3) Have a retirement effective date that is no later than August 1, 2017.
- (E) For purposes of division (A)(1)(b) of section 3309.34 of the Revised Code:
 - (1) Periods of compulsory service that occurred before August 1, 2017 for which the employer did not deduct and transmit contributions and for which SERS receives required contributions and interest after August 1, 2017 pursuant to section 3309.47 of the Revised Code, shall be credited to the member's account effective the dates of the service.
 - (2) A period of reinstatement with back wages that preceded August 1, 2017 and for which SERS receives required contributions after August 1, 2017, shall be credited to the member's account effective as of the dates of the reinstatement period identified under the final order or final settlement awarding back wages.

Executive Director Richard Stensrud asked Chief Financial Officer Tracy Valentino to present the FY2019 Administrative Budget. Mr. Stensrud commended Ms. Valentino and her staff, as well as all directors in their efforts to be fiscally responsible in developing the FY 2019 budget.

REVIEW SERS FY 2019 ADMINISTRATIVE BUDGET

Ms. Valentino presented highlights of the FY 2019 Administrative Budget, noting that the budget reflects a 3.14% increase over the FY 2018 budget and a 6.86% increase over FY2018 projected expenses.

Ms. Valentino stated that key highlights of the budget include:

- A change in the accounting methodology used to recognize costs associated with accrued leave expenses in preparation for SERS' employees approaching retirement age;
- Ongoing computer support services for the SERS Member and Retiree Tracking (SMART) system;
- An increase in custodial banking, master recordkeeper, and performance analytics fees in support of the realized and anticipated increase in the value of the SERS' investment portfolio;
- Three percent merit increase approved by the Compensation Committee for SERS employees;
- Procurement of record management software that will assist with ensuring compliance with electronic record retention requirements and improve management of documents enterprise-wide;
- Improvement to the information security framework;
- Software to strengthen controls over financial reporting and increased efficiencies; and
- Additional reporting responsibilities under GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions that require additional work by SERS' actuaries and external auditors.

Ms. Valentino stated that these initiatives and many others reflect SERS' commitment to operating an effective and efficient pension system for our members and employers. Ms. Valentino further added that staff is continuing to evaluate FY 2019 initiatives and activities and anticipates that certain costs will be trimmed when the final budget is presented during the June Board meeting for approval. The Board thanked Ms. Valentino for her presentation.

Following, Chairman Dan Wilson noted that the request for permission to speak during the presentation of the SERS FY 2019 Administrative Budget by OAPSE Representative Larry Malone had been withdrawn.

SERS' WEBSITE REDESIGN PRESENTATION

Executive Director Richard Stensrud asked Communications Manager Nikki Whitacre to present on SERS' new website redesign. Ms. Whitacre presented a demonstration of the newly redesigned website.

HEALTH CARE REPORT

Health Care Director Anne Jewel introduced Alisa Bennett, FSA, Principal and Consulting Actuary from Cavanaugh McDonald, to present the proposed 2019 health care rates for SERS' self-insured medical plans and prescription drug coverage.

Ms. Bennett first reviewed the data and assumptions used to calculate 2019 base rates for the non-Medicare medical plan and prescription drug plans. When adjusted for 2019 plan design changes, she projected a 4.7% rate decrease for the non-Medicare medical plan.

Ms. Bennett discussed the impact on the proposed rates of various recommendations for benefit changes. She also suggested that the Marketplace Wraparound and early Medicare programs initiated by the Health Care Department, along with the prescription drug market check and favorable Medicare Advantage rates likely will lower premiums and bring health care costs down in the coming year.

Ms. Anne Jewel followed Ms. Bennett's presentation. Ms. Jewel noted that staff continues to work with outside consultants to evaluate responses to the prescription drug contract re-bid. The current contract with ESI will remain in place for 2019, and the new pharmacy contract is scheduled to begin in 2020.

Ms. Jewel stated that negotiations with the regional plan carriers have been positive. Final rates have yet to be submitted, but they are expected to be competitive.

Regarding plan benefit changes, the Medicare plan recommendations are to lower the specialist office visit co-pay to \$30, increase the chiropractic co-pay to the CMS-approved amount of \$20, and change the ambulance cost sharing to an \$80 co-pay, rather than 20% coinsurance.

On the non-Medicare side, the single recommendation is to make an emergency room visit a \$150 co-pay rather than 20% coinsurance.

Ms. Jewel noted that multi-year contracts were signed with Delta Dental and VSP Vision Care last year. Delta Dental's 1% rate increase for 2019 is well under the capped amount in the contract. VSP rates will remain the same for 2019.

The Board thanked Ms. Jewel and Ms. Bennett for their presentations.

EXECUTIVE SESSION

At 1:59 p.m., Beverly Woolridge moved and James Haller seconded the motion that the Board go into Executive Session pursuant to R.C. 121.22 (G)(5) to review applications for Disability Retirement Benefits. Upon roll call, the vote was as follows: 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 2:07 p.m.

The Board continued with the review of calendar dates and future Board meetings. Board member Barbra Phillips stated that she would not be available during the June Board meeting. Board members Jeffrey DeLeone and James Haller stated that they would not be present during the July Board meeting, and Board member Daniel Wilson noted that he would not be available during the October Board meeting.

CALENDAR DATES FOR FUTURE BOARD MEETINGS

2018

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.

Board members James Rossler and Barbra Phillips provided highlights of the NCPERS Annual Conference. Mr. Rossler noted that he, Barbra Phillips and Catherine Moss were in attendance. Mr. Rossler stated that this was an outstanding conference, and that he and other members of the Board had an opportunity to participate in Module 1 and Module 2, which included governance and the role of board members. Mr. Rossler and Ms. Phillips acknowledged the outstanding presentations given by SERS staff members, Chief Investment Officer Farouki Majeed and Health Care Director, Anne Jewel, during the conference.

ADJOURNMENT

Daniel Wilson moved that the Board adjourn to meet on Thursday, June 21, 2018 for their regularly scheduled meeting. The meeting adjourned at 2:28 p.m.

Daniel Wilson– Board Chair

Richard Stensrud – Secretary