November 15, 2018

The nine hundredth and fifteen 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, November 15, 2018. The meeting convened in open session at 8:31 a.m. and continued with the Pledge of Allegiance. Following the Pledge of Allegiance, the roll call was as follows: James Rossler, Chairperson, Jeffrey DeLeone, Hugh Garside, James Haller, Christine Holland, Barbra Phillips, Daniel Wilson, Beverly Woolridge and 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.

APPROVAL OF MINUTES OF THE RETIREMENT BOARD MEETING HELD ON
October 18, 2018

Catherine Moss moved and Hugh Garside seconded the motion to approve the minutes of the Retirement Board meeting held on Thursday, October 18, 2018. Upon roll call, the vote was as follows: Yea: Catherine Moss, Jeffrey DeLeone, Hugh Garside, James Haller, Christine Holland, Barbra Phillips, Beverly Woolridge and James Rossler. Abstain: Daniel Wilson. The motion carried.

Executive Director Richard Stensrud informed the Board that Chief Investment Officer Farouki Majeed would be arriving shortly as a result of a flight delay related to weather conditions.

Board Chair James Rossler asked Assistant Director of Investments Nancy Turner to present the Investment Report.

INVESTMENT REPORT

Annual Portfolio Review – Multi-Asset Strategies
Investment Officers Jason Naber and Judi Masri presented the annual Multi-Asset Strategies portfolio review. Mr. Naber discussed the MAS sectors and structure of the portfolio. The role of the portfolio is to generate absolute returns with managed volatility and provide risk diversification to the Total Fund. The portfolio was 8.4% of the Total Fund below the target allocation of 10%. Staff is making changes to the sector allocations to be aligned with the new range of 10% - 30% for each sector. Ms. Masri commented management fees have been reduced by 10% in the last year and incentive fees have been reduced by 15%. Returns have exceeded the benchmark for over seven-years and since inception time period, but the one year return underperformed due to having lower equity exposure than the benchmark. Objectives for FY2019 include funding new multi-strategy managers, evaluating the existing MAS benchmarks, perform a sector analysis to ensure proper portfolio alignment with the benchmark and monitoring the portfolio to ensure appropriate risk and return. Following questions and answers, the Board thanked Mr. Naber and Ms. Masri for their presentation.

Wilshire Associates Quarterly Performance Report
David Lindberg of Wilshire Associates presented the performance report for the quarter ending September 30, 2018. Mr. Lindberg discussed economic and capital market highlights along with SERS' Total Fund and asset class performance. The Total Fund returns exceed the benchmark over all periods up to five years and rank in the top decile in the universe of public funds. Following discussions, the Board thanked Mr. Lindberg for his presentation.

Quarterly Investment Report
Chief Investment Officer Farouki Majeed discussed the Investment report for the period ending September 30, 2018. The preliminary performance report as October 31, 2018 was handed out to the Board for their information. As of October 31, 2018, the Fund was $13.9 billion with a FYTD return of (1.2%). Following questions and answers, the Board thanked Mr. Majeed for the presentation.

SUMMARY OF INVESTMENT TRANSACTIONS

Catherine Moss moved and Barbra Phillips seconded that the following summary of investment transactions made in compliance with the Ohio Revised Code Section 3309.15 during the period of **September 1, 2018** through **September 30, 2018** hereby be approved. Upon roll call, the vote was as follows: Yea: Catherine Moss, Jeffrey DeLeone, Hugh Garside, James Haller, Christine Holland, Barbra Phillips, Daniel Wilson, Beverly Woolridge and James Rossler. The motion carried.

A. PURCHASES

Asset Class	Approximate Cost (in millions)
US Equities	$ 60.6
Non-US Equities	114.3
Fixed Income	292.1
Multi-Asset Strategies	n/a
Private Equity Capital Calls	48.3
Real Asset Capital Calls	55.0
Opportunistic	9.8
Cash Equivalents	180.1

B. SALES

Asset Class	Approximate Net Proceeds (in millions)	Approximate Gain/(Loss) (in millions)
US Equities	$ 37.6	$ 4.2
Non-US Equities	108.9	(2.2)
Fixed Income	279.0	(1.0)
Multi-Asset Strategies	n/a	n/a
Private Equity distributions	38.5	n/a
Real Asset distributions	13.4	n/a
Opportunistic	2.8	0.1
Cash Equivalents	322.5	n/a

The Board took a break at 10:28 a.m., and reconvened at 10:41 a.m.

EXECUTIVE DIRECTOR'S UPDATE

Ohio Retirement Study Council
Executive Director Richard Stensrud informed the Board that the November ORSC meeting has been rescheduled to November 27th. Mr. Stensrud further stated that in every two-year General Assembly, the Chairman of the ORSC offers the pension systems an opportunity to participate in a technical "clean-up" legislation. SERS has submitted a few minor items, including: Changing citations; adding a definition; removing obsolete references; and clarifying who SERS may share information with.

Advocacy Groups
Mr. Stensrud and staff traveled to the Delaware campus of Columbus State Community College to speak at the annual Ohio Association of Community Colleges' HR Committee meeting. Additionally, Mr. Stensrud welcomed Employer Services' first "Employer Relations Panel" here at SERS.

Marketplace Wraparound Plan
Mr. Stensrud noted that advocacy continues from members of the Ohio delegation on SERS' behalf for a decision from HHS/CMS supporting an extension of the pilot period for the Marketplace Wraparound Plan. Mr. Stensrud further noted that staff is considering the feasibility of extending availability of the Wraparound Plan through legislation.

Staff Charity Activity
Mr. Stensrud noted staff participation in the following charitable activities:

- United Way Campaign – 71% of our staff participated, and raised almost $17,000.
- Operation Gratitude – Staff again participated in this after-Halloween service project to show appreciation to our actively deployed troops and veterans. Staff donated 76 pounds of candy, along with 46 tubes of toothpaste, 49 containers of dental flosses, and 24 toothbrushes. One staff member's stepdaughter created six homemade cards, and staff had the opportunity to sign them.

Information Security Awareness Training
Mr. Stensrud stated that information security awareness training was conducted with the whole staff. This training is mandatory for all staff to ensure that everyone is aware of security threats that may impact their work-life and personal life.

Global ARC
Mr. Stensrud reported on his participation in the recent Global Absolute Return Congress (Global ARC) program. Mr. Stensrud noted that the participants in the program included public and corporate retirement systems, foundations, endowments, sovereign wealth funds, and other institutional investors from around the world.

Quarterly Financials Update
Chief Financial Officer Tracy Valentino provided a quarterly financial update to the Board:

- Employer and Employee contributions are up; this is a result of a slight increase in the number of active members and an increase in payroll.
- Benefits have stayed flat from last year. This is a result of the COLA delay and no significant change in the number of retirees.
- Health Care contributions will change slightly should the Board pass the actuary valuations. A portion of the employer contribution (0.50% of the 14%) will go into health care.
- SERS is experiencing more transfers into the system than out of the system.
- Implemented GASB 75. Reported liability of our proportionate share of OPEB.
- Receivable balance higher in September. There was a small issue with the system but a fix is now in place.
- Administrative budget is 27% of budget and on target.

SERS OPERATIONAL STRATEGIC PLANNING DISCUSSION

Executive Director Richard Stensrud introduced Mo Wright of RAMA Consulting. RAMA Consulting has been selected to facilitate SERS strategic planning process and exercise. Mr. Wright presented an overview of the process, as well as a timeline, which will assist the SERS staff in the creation of an operational plan to guide the organization for the next three to five years.

Mr. Wright stated that by combining employee engagement with community and stakeholder engagement, RAMA hopes to help staff develop sustainable solutions for the organization. Mr. Wright further discussed that representatives of RAMA will be scheduling interviews with Board members, conducting a staff survey, reaching out to advocacy group leaders, and coordinating a Leadership Team Retreat. Also, RAMA will be leading a Staff Tactical Planning Workshop, as well as a Leadership Team Planning Workshop. The Board thanked Mr. Wright for his presentation.

EXECUTIVE DIRECTOR'S REPORT (continued)

Continued Discussion of Compensation Rule 3309-1-02
Interim Deputy Executive Director Joe Marotta and Associate General Counsel Susan Russell continued with the discussion and review of Compensation Rule 3309-1-02.

In response to discussions occurring at the September Board Meeting, members of the SERS Legal staff provided information regarding evolving employer payment practices and possible amendments to the compensation rule. Further discussion also focused on a review of the definition of compensation along with examples illustrating how compensation is structured differently in varying districts.

With feedback from the Board on how to align the definition of compensation with compensation trends, more discussions concerning the matter will continue at the December Board Meeting.

LEGISLATIVE REPORT

STATE LEGISLATION BOARD REPORT
132nd General Assembly
(Prepared by Laurel Johnson as of November 2, 2018)

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

Current Status: SERS' COLA-authority provisions, effective 09/29/2017

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

Current Status: SERS' COLA-delay provisions, effective 3/23/2018

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

Current Status: 6/20/2018 Introduced

HB572 PERS- DEVELOPMENTAL DISABILITIES SCHOOL EMPLOYEE Gary Scherer (H92-R-Circleville), Stephanie Howse (H11-D-Cleveland) Regarding Public Employees Retirement System service credit for services as a nonteaching school employee of a county board of developmental disabilities.

Current Status: 9/25/2018 Referred to Insurance and Financial Institutions Committee

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FEDERAL LEGISLATION BOARD REPORT
115th United States Congress
(Prepared by Laurel Johnson as of November 2, 2018)

S. 915
SPONSOR: Sen. Sherrod Brown (D-OH)
LAST ACTIONS: 04/24/2017 - Referred to the Senate Committee on Finance
CAPTION: Amends title II of the Social Security Act to repeal the Government Pension Offset and Windfall Elimination Provisions. Companion bill to H.R. 1205.

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

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

COMMENT: The Social Security Fairness Act of 2017. Repeals the GPO and WEP. Has 193 co-sponsors, including seven Ohioans: Beatty, Fudge, Joyce, Kaptur, Ryan, Stivers and Turner.

H.R. 6290
SPONSOR: Rep. Devin Nunes (R-CA)
LAST ACTIONS: 06/28/2018 - Referred to the House Committee on Ways and Means
CAPTION: To amend the Internal Revenue Code of 1986 to provide for reporting and disclosure by State and local public employee retirement pension plans.

COMMENT: The Public Employee Pension Transparency Act (PEPTA). Requires state and local public pension systems to value their liabilities using a "risk-free" rate of return and report that figure to Treasury for a public database; non-compliant States would lose their ability to issue tax-exempt bonds. Currently has four co-sponsors with none from Ohio.

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

COMMENT: The Equal Treatment of Public Servants Act. Replaces the current arbitrary WEP with a new proportional formula and includes a rebate for current retirees. Has 33 co-sponsors, including two Ohioans: Latta and Turner.

MEMORANDUM

To: Laurel Johnson, Senior Government Relations Officer

From: Carol Nolan Drake, Federal Liaison

Date: October 31, 2018

Re: Federal Legislative and Regulatory Report

OVERVIEW

Highlights for October included: the Senate vote to confirm the nomination of Judge Brett Kavanaugh for the vacant position on the U.S. Supreme Court**;** upcoming appropriation bills that will be needed to keep the government open after December 7; the upcoming midterm elections; a strong U.S. economy; entitlement reform commentary; and advocacy for the SERS Wraparound Program.

The House was not in session in October, as members running for re-election used the month to campaign in their respective districts. The House will return on Tuesday, November 13 after the mid-term elections on November 6. They will remain until Friday, November 16 and recess over the Thanksgiving holiday. The House will be back in session from November 27-30. The Senate is scheduled to be back in session on Tuesday, November 13 and will break for the Thanksgiving holiday from November 19-23. The Senate has targeted December 14 for sine die adjournment.

The Senate voted 50-48 to confirm the nomination of Judge Brett Kavanaugh to the U.S. Supreme Court. After contentious hearings, Judge Kavanaugh was sworn in as a Supreme Court Justice on October 9.

While Congress made progress on passing key appropriation bills before adjournment, several spending bills for fiscal year 2019 will need to be considered when they return in November, including the need to pass a bill or another continuing resolution to fund the federal government after December 7. The departments of Treasury, Commerce, Justice, Agriculture, State, Interior, Transportation, Housing and Urban Development, Homeland Security, Environmental Protection Agency, the Office of Personnel Management and General Services Administration all need additional funding to continue operations.

President Trump surprised his own party in late October when he told reporters that his administration was working with House Republicans on a new tax cut package for middle class Americans before the November election. Later, he clarified his comment by saying that a “resolution” would be introduced in the next two weeks. Both houses of Congress will not return until after the elections.

MIDTERM ELECTIONS

The midterm elections for all House seats and 34 seats in the Senate will occur on Tuesday, November 6, only days away. The predictions of a Blue or Red Wave, for Democratic or Republican candidates, continue to change regularly.

Rep. Jim Jordan (R-OH) has expressed a desire to become the next Speaker of the House if Republicans retain control. Speaker Paul Ryan (R-WI) is leaving the House at the end of session. House Majority Leader Kevin McCarthy (R-CA) is considered the frontrunner, with some degree of support from President Trump.

House Minority Leader Nancy Pelosi (D-CA) has expressed a desire to return as Speaker for at least one House session if the Democrats obtain a majority. She has indicated that infrastructure and some type of jobs bill would be a priority for Democrats if they gain more than 23 seats in the election.

U.S. ECONOMY

The U.S. economy has continued to exceed expectations, although the stock market has been down several days in late October. According to the White House, for the first time since 2008, the U.S. obtained the No. 1 spot in the World Economic Forum's global competitiveness index, which uses 98 different indicators to rank 140 different economies. The next nine counties were: Singapore, Germany, Switzerland, Japan, The Netherlands, Hong Kong, United Kingdom, Sweden and Denmark. The report is here: https://www.weforum.org/reports/the-global-competitveness-report-2018

ENTITLEMENT REFORM

Senate Majority Leader Mitch McConnell (R-KY) made remarks recently that were interpreted by some people that Republicans would be supporting plans in 2019 for Social Security, Medicare and Medicaid reform. He referred to these entitlement programs as the major causes of rising deficits not the Congressionally-passed tax reform packages. Senator McConnell clarified his remarks to say that Republicans would be hard pressed to pursue entitlement reform on their own, due to the political consequences. Cooperation by Democrats will be necessary before any legislation could pass impacting benefits. Even President Trump President Trump suggested during his 2016 campaign that he would not harm Social Security benefits for existing recipients or impact Medicare. The President did let the Cabinet Secretaries know that their agencies should work to submit a five percent cut in upcoming budget discussions.

SERS WRAPAROUND PLAN

SERS and I have continued our advocacy on the Wraparound Plan. Executive Director Richard Stensrud sent letters to Reps. Davidson, Joyce, Jordan and Latta, asking them to contact CMS on our behalf. In the most recent round of outreach in late October to CMS, the offices of Rep. Turner, Joyce, Latta, Stivers, Ryan, Johnson, Gibbs, Wenstrup, and Renacci have contacted or agreed to contact HHS/CMS officials on SERS' behalf. Other offices and some of these offices have already reached out to CMS this year. Several staff members are not in the offices due to campaign schedules. At this point, only Rep. Davidson's office has declined to engage with CMS on our issue.

We were told that CMS is still deliberating and barred from releasing any information until the rules are promulgated. The delegation members, that have agreed to contact CMS, have expressed support for a multiyear extension that would provide SERS and the enrolled retirees with the opportunity to continue the Plan after December 2019. I will continue to reach out to the regulatory agencies to maintain contact and seek their support for an extension.

I had a good conversation a few days ago with Ohio AARP's manager of Advocacy and Communication, Luke Russell, to discuss AARP's support for the Wraparound Plan. Mr. Russell indicated that the national AARP health care focus is to maintain essential provisions in the Affordable Care Act, preserve Medicare and Medicaid. This call was a follow up to the meeting with Brendan Rose, National AARP health care advocate, on September 20 to discuss support by AARP for the SERS Wraparound Program.

Mr. Russell mentioned that the U.S. Department of Treasury and HHS/CMS had just released a rule, that according to them, was to provide "greater flexibility to states to use Section 1332 waivers to expand access to short-term (skinny) plans and association health plans (AHPs)." He told me that AARP has filed a brief in a recent lawsuit filed against the Skinny Plan Rule. AARP also has issued a statement that short term plans equate to higher premiums for consumers and are no longer going to be offered in the short-term. SERS is reviewing the language in the Guidance related to Section 1332 state waivers.

WINDFALL ELIMINATION PROVISION

H.R. 6933, the bipartisan bill introduced by Chairman of the House Ways and Means Committee, Kevin Brady (R-TX) and Ranking Member Richard Neal (D-MA.) The bill, called the "Equal Treatment of Public Servants Act of 2018," would "amend title II of the Social Security Act to replace the windfall elimination provision with a formula equalizing benefits for certain individuals with non-covered employment, and for other purposes." There are 33 co-sponsors as of October 30, with Reps. Bob Latta (R-OH) and Michael Turner (R-OH) among them.

The current bill provides a proportional formula for future Social Security recipients subject to WEP, a "rebate" feature for current recipients impacted by the WEP, an annual COLA adjustment, an amount which is half of the rebate for qualified surviving spouses, and a phase-in period to address some of the stakeholder concerns with previous bills. There are also provisions dealing with reporting and cooperative actions between Social Security and public pension funds. Senator Ted Cruz (R-TX) has sponsored the companion bill in the Senate, S. 3526, which has no cosponsors thus far.

Stakeholders are encouraged to send feedback to: WEP.feedback@mail.house.gov. The Committee will consider all feedback when the House returns after the November elections.

SOCIAL SECURITY

The Social Security Administration announced that "Social Security and Supplemental Security Income (SSI) benefits for more than 67 million Americans will increase 2.8 percent in 2019. The 2.8 percent cost-of-living adjustment (COLA) will begin with benefits payable to more than 62 million Social Security beneficiaries in January 2019. Increased payments to more than 8 million SSI beneficiaries will begin on December 31, 2018." Information about Medicare changes for 2019, when announced, will be available at www.medicare.gov.

AARP launched the Social Security Resource Center, a one-stop place for consumers to have their Social Security retirement questions answered, including when to claim. Consumers can find more at www.aarp.org/socialsecurity.

AARP also announced research which determined that slightly over 4 in 10 beneficiaries (43 percent) started exploring their Social Security options less than a year before making their first claim. Earlier research found that almost 9 in 10 (86 percent) people indicated that it is very or somewhat important that Social Security be there for them when they retire. The surveyed population that responded broke down to 78 percent of Millennials, 89 percent of Gen Xers, and 95 percent of Baby Boomers.

H.R. 1205, the "Social Security Fairness Act of 2017," which would repeal the GPO and WEP, has a few more sponsors now. The bill has a total of 193 co-sponsors as of October 30. There are still seven representatives from Ohio who are co-sponsors: Representatives Michael Turner (R-OH), David Joyce (R-OH), Tim Ryan (D-OH), Joyce Beatty (D-OH), Marcia Fudge (D-OH), Steve Stivers (R-OH) and Marcy Kaptur (D-OH). The bill was referred to the House Ways and Means Subcommittee on Social Security on March 6, 2017 and has not advanced.

Senator Sherrod Brown's (D-OH) bill, S. 915, the Senate version of the "Social Security Fairness Act of 2017," to amend Title II of the Social Security Act and repeal GPO and WEP has not moved out of the Committee on Finance. There are still 27 cosponsors of the bill as of October 30, however, Senator Rob Portman (R-OH) is not one of them.

PRIVATE MULTI-EMPLOYER PENSION PLANS

The Joint Select Committee on Solvency of Multiemployer Pension Plans has not scheduled any further hearings to date. The report is expected in late November, after the elections. Both Ohio Senators Brown and Portman serve on the Joint Select Committee.

PEPTA

No new co-sponsors have signed on to H.R. 6290, the "PEPTA bill," as reintroduced by Rep. Devin Nunes (R-CA) on June 28. The bill would "amend the Internal Revenue Code of 1986 to provide for reporting and disclosure by State and local public employee retirement pension plans." There are still no Ohio co-sponsors as of October 30. We will continue to monitor the appropriation bills and any other lame duck legislation that could include PEPTA language.

EDUCATION

The month of October was National Principals Month. I have deep regard for the principals that led the schools I attended as a student in the Findlay city public schools. #ThankAPrincipal was the hashtag trending on social media.

A report was released by the National Center for Education Statistics (NCES) on October 2, with statistics from the 2015-16 school year. According to the report, "there were approximately 90,400 principals and 3,827,100 teachers in public elementary and secondary schools in the United States. Knowledge about the characteristics and experiences of these key school staff can help inform decisions about education." The National Teacher and Principal Survey (NTPS) provided data on a variety of topics from the perspective of teachers, principals and other school staff. Results from these questionnaires provided this information:

- **Principals' education.** Among public schools, a majority of principals held a master's degree (61 percent) as their highest degree, compared to an education specialist/professional diploma at least one year beyond the master's level (27 percent), a doctorate/first professional degree (10 percent), or a bachelor's degree or less (2 percent).
- **Hours worked by teachers.** On average, regular full-time teachers in public schools spent 53 hours per week on all school-related activities. That includes 27 hours that they were paid to deliver instruction to students during a typical full week. Public school teachers were required to work an average of 38 hours per week to receive their base pay.

The full report is here: http://nces.ed.gov/blogs/nces/post/learning-about-schools-from-teachers-and-principals

The National Center for Education Statistics released another report on October 30, entitled, "Measuring School Climate Using the 2015 School Crime Supplement." According to the Executive Summary:

> This report focuses on the construction, assessment, and analysis of school climate scores using items from the 2015 School Crime Supplement (SCS) to the National Crime Victimization Survey (NCVS). Since 1989, the student-reported data from the SCS have been used to generate national estimates of criminal and bullying victimization in schools and to evaluate differences in the prevalence of victimization over time and among different student groups. However, there also is a wide array of questions in the SCS that address student perceptions of school climate, including indicators of safety and disorder (e.g., presence of security guards, presence of gangs), quality of relationships at school (e.g., feeling that an adult or peer at school really cares about you), and student engagement in school (e.g., participation in extracurricular activities, future plans for education). Because the SCS is a primary source of national information on student criminal and bullying victimization, it is a unique resource for studying the relationships between school victimization and school climate.
> https://nces.ed.gov/pubs2018/2018098.pdf

HEALTH CARE

Open enrollment for the federal Health Care Marketplace begins on Thursday, November 1 and runs until Saturday, December 15. The Trump administration has continued to cut funding available for insurance counselors and advertising, so it is important to help spread the word to retirees. Almost 80 percent of the funds have been reduced as the administration continues to decrease support for the ACA. The website has information on available plans and prices here: https://www.healthcare.gov/

On October 19, CMS issued a press release that informed the public that the direct enrollment for agents and brokers portal for HealthCare.gov had been hacked, potentially compromising the data of an estimated 75,000 individuals. https://www.cms.gov/newsroom/press-releases/cms-responding-suspicious-activity-agent-and-broker-exchanges-portal

The lawsuit, Texas v. United States, challenging the Affordable Care Act has been a focus by Democratic candidates as the election date approaches. The lawsuit is viewed as an attempt to end coverage for pre-existing conditions, a key message that Democrats are using against Republicans. The lawsuit, led by Texas Attorney General Ken Paxton (R) and Wisconsin Attorney General Brad Schimel (R), and 18 other states, was filed to obtain a decision that the ACA is now unconstitutional. Congress eliminated the individual mandate in a provision in last year's tax reform package, a major piece of the ACA. The first round of arguments took place last month.

President Trump, however, said, "We will always protect Americans with pre-existing conditions," at an event in Philadelphia. The Kaiser Family Foundation's research showed that for 14 percent of Americans, it is the "single most important" factor in their vote this November.

The platform for single payer health care, or Medicare for all, has picked up again. According to an article in The Hill, seventy percent of respondents said they supported providing "Medicare for all," also known as single-payer health care, for Americans, according to a new American Barometer survey. The poll, conducted by Hill.TV and the HarrisX polling company, found that 42 percent of respondents said they "strongly" supported the proposal, while 28 percent said they "somewhat" supported it. Fifteen percent said they "somewhat" opposed the measure, while another 15 percent said they "strongly" opposed it. The results mirrored a Reuters-Ipsos poll released in August, which also found that 70 percent of Americans supported "Medicare for all."

The Alliance to Fight the 40 Percent issued a press release on October 19, noting that a recent poll found that 4 out of 5 voters are concerned that the 40% tax on employer-provided health care coverage, i.e., the "Cadillac Tax," could negatively impact small business job creation and health care coverage for employees. In addition, 2 out of 3 voters support bipartisan efforts in Congress to repeal the "Cadillac Tax." The Alliance believes that Congressional members of both parties should work together to protect the health care market in the United States. In their view, the "Cadillac Tax" will weaken the employer-provided health care system and continue to drive up health care costs for millions of Americans and their families.

There is still only one Ohio co-sponsor, Rep. Steve Stivers (R-OH), on H.R. 5963, **the "Health Insurance Premium Reduction Act," to delay the reimposition of the Health Insurance Tax (HIT) annual fee on health insurance providers until after 2020.** The legislation was introduced by Rep. Kristi Noem (R-SD) to suspend the HIT. SERS is one of the providers that is subject to the tax in 2018.

PRESCRIPTION DRUGS AND OPIOIDS

The Senate passed a major piece of bipartisan legislation, the "Support for Patients and Communities Act," on October 3. The bill passed 98 to one, with Senator Mike Lee (R-UT) voting "no" and Senator Ted Cruz (R-TX) absent. The House passed the bill earlier with another overwhelming vote of 393-8. The President signed the bill on October 24 during a bill-signing ceremony.

Drug companies have continued to lobby Congress to address the consequences to them from the bipartisan budget bill passed in February. In that bill, drug makers were included in the legislation to help close the $11.8 billion in costs over ten years of the Medicare "doughnut hole." They were required to offer deeper discounts to Medicare beneficiaries who were caught in the doughnut hole gap. Lobbyists were working hard to have the Senate include an amendment in the opioid bill to lessen the cost by approximately $4 billion. The drug lobbyists explained that the Congressional Budget Office (CBO) initially estimated the February action would save the government $7.7 billion over 10 years for senior drug prescriptions. According to media sources, "shortly after the law was enacted, CBO learned of new data on prescription drug spending that changed its estimate of government savings to $11.8 billion." The discount, which is currently 50 percent on brand-name drugs, is set to rise to 70 percent next year.

The most likely vehicle for PhRMA and their lobbyists to focus on is the continuing resolution which expires as I mentioned on December 7. Organizations, such as AARP, opposed to the change will be poised to prevent PhRMA from being successful.

Other bills are pending to address high prescription drugs, including the CREATES Act, which would speed generic competition to branded medicines by preventing brand drug companies from abusing FDA-mandated safety programs. President Trump has made several comments about

the high cost of prescription drugs and what his administration is doing about it. He spoke in late October on the topic. Energy and Commerce Chairman Greg Walden (R-OR) and Subcommittee on Health Chairman Michael C. Burgess, M.D. (R-TX) released a statement after President Trump signed two bills on October 10, including S. 2553, the “Know the Lowest Price Act of 2018,” and S. 2554, the “Patient Right to Know Drug Prices Act.” They also issued a press release on October 25 after the President’s speech on drug pricing.
https://energycommerce.house.gov/news/press-release/walden-and-brady-on-president-trumps-drug-pricing-speech/

RETIREMENT SECURITY

The Department of Labor posted a proposed rule on October 23 to clarify the statutory definition of employer. The definition includes employers "and any other person acting indirectly in the interest of the employer in relation to an employee benefit plan, including a group or association acting for an employer in such a capacity." The public comment period runs until December 24, 2018. The rule filing can be viewed here: https://www.federalregister.gov/documents/2018/10/23/2018-23065/definition-of-employer-under-section-35-of-erisa-association-retirement-plans-and-other

The Department has also expressed a desire to review the vacated fiduciary rule by the fall of 2019. In March, the 5th Circuit Court of Appeals vacated the rule in a 2-1 decision, saying it represented regulatory overreach. The DOL declined to challenge the court ruling.

As of October 30, Reps. Bob Gibbs (R-OH), Bob Latta (R-OH) and Michael Turner (R-OH) are the only Ohio co-sponsors of H.R. 5282, the companion bill to S. 2526, the “Retirement Enhancement and Savings Act of 2018, or RESA,” a bill introduced on March 8 by Senator Orrin Hatch (R-UT). There are 85 co-sponsors on the House bill now. Senator Ron Wyden (D-OR) is the only co-sponsor on the Senate bill to amend the “Internal Revenue Code of 1986 to encourage retirement savings, and for other purposes.” Senators Portman and Brown have not become co-sponsors as of October 3.

SECURITIES AND EXCHANGE COMMISSION (SEC)

On October 19, the U.S. Securities and Exchange Commission (SEC) said that it will consider seeking public comment on ways to ease the quarterly reporting burden on publicly listed companies. According to media sources, the Division of Corporation Finance will be considering "recommending that the commission seek public comment on ways to ease companies' compliance burdens while maintaining appropriate levels of disclosure and investor protection."

"This subject is something the staff has been considering, even before the President tweeted about it," a SEC spokeswoman said. In later remarks, SEC Chairman Jay Clayton said that they were in no rush to change quarterly reporting requirements for large publicly-traded companies.

The SEC also announced it is partnering with the National Center for the Middle Market at The Ohio State University Max M. Fisher College of Business, Fawcett Center, to host the SEC’s annual Government-Business Forum on Small Business Capital Formation on Dec. 12 at 9:00 am EST. The annual forum is open to the public and will highlight additional measures to improve small business capital formation. Chairman Jay Clayton said, in the press release:

> We have made it a priority to reach out to small businesses across the country. Holding this event in Columbus, one of the top five best cities for entrepreneurs and startups, will give us the opportunity to hear directly from small businesses and their investors on ways to improve our regulatory system.

The press release mentioned that the “morning session will feature a panel discussion exploring how capital formation options are working for small businesses, such as those in the Midwest. Participants will then work in groups to formulate specific policy recommendations. Information on the panel participants and the full agenda will be announced in the coming weeks and will be available on the forum webpage.”

The opening remarks and panel discussion will be webcast live. The breakout group sessions will not be webcast but will be accessible by teleconference for those not attending in person. Anyone wishing to participate in a breakout group either in person or by teleconference must register online by Dec. 7.

The Investor Advisory Committee will host its next meeting via telephone on November 7, 2018. On the agenda is a discussion on the SEC's Proposed Regulation Best Interest and Form CRS Relationship Summary (which may include a Recommendation of the Investor as Purchaser Subcommittee). The public may dial in to the meeting toll-free by calling (800) 260-0702 in the United States.

REPORTS

A report from the Center for Retirement Research at Boston College was released on October 30, 2018. The authors of the brief, "Stability in Overall Pension Plan Funding Masks a Growing Divide," researched the funding of #PublicPensions using data from fiscal year 2017.

According to the researchers, "The majority of plans use their assumed return for valuing all liabilities, as they anticipate having sufficient assets and contributions to cover benefits. Table A1 lists the plans that currently use a blended discount rate that is more than 1 percentage point below their assumed return." The plans adopting a significantly lower GASB 67 blended discount rate for FY 2017 were: New Jersey PERS, New Jersey Teachers, Texas ERS, Colorado School, Minnesota Teachers, Kentucky Teachers, Colorado State, New Mexico Educational, Minnesota State Employees, Cook County ERS, North Dakota PERS, Dallas Police and Fire, Birmingham RRS, Texas Law Enforcement Custodial Officers System (LECOS) and Charlotte Firefighters' RS.

The brief's key findings are:

- Under traditional accounting rules, the aggregate funded ratio for state and local pension plans in 2017 was 72 percent, largely unchanged from recent years.
- This overall stability, however, masks a growing gap among plans: the average funded ratio was 90 percent for the top third but just 55 percent for the bottom third.
- The plans in the bottom third are in worse shape because, on average, they receive lower long-term investment returns and pay less of their required contributions.
- In addition, all plans face the possibility of a market downturn, which could set back funding for several years.

The full brief may be read here: http://crr.bc.edu/wp-content/uploads/2018/10/slp_62.pdf

The Center for Retirement Research issued another brief in October as an update on Medicare's finances. In the introduction, the authors said:

> The headline from the 2018 Medicare Trustees Report was that the program's Hospital Insurance trust fund will run out of money in 2026, three years earlier than was estimated last year. That headline suggests that Medicare is facing increasing financial troubles. **In fact, the outlook for program costs is considerably more favorable than it was a decade ago**, and that picture persists even under an alternative scenario in the Trustees Report that assumes that Congress phases out some of the cost controls in recent legislation. (Emphasis added.)

The full brief may be read here: http://crr.bc.edu/wp-content/uploads/2018/10/IB18-19.pdf

OTHER MATTERS OF INTEREST

The $69 billion merger between Aetna and CVS Health was approved by the U.S. Department of Justice with certain conditions on October 10. Larry J. Merlo, chief executive of CVS Health, said that the approval "is an important step toward bringing together the strengths and capabilities of our two companies to improve the consumer health care experience." The press release can be read here:

https://cvshealth.com/newsroom/press-releases/cvs-health-acquisition-aetna-moving-forward-agreement-us-department-justice

Rep. Sean Duffy (R-WI) introduced H.R. 4015, the "Corporate Governance Reform and Transparency Act of 2017," on October 11, 2017, which passed the House in December 2017. Rep. Duffy is now a cosponsor of another bill introduced, which is H.R. 5756, a bill to "require the Securities and Exchange Commission to adjust certain resubmission thresholds for shareholder proposals higher in each succeeding year." There are no Ohio cosponsors as of October 30.

Sears Holding Corp. (Sears) filed for Chapter 11 bankruptcy protection on Monday, October 15. Because Sears offered pension benefits to retirees who worked at the company over the course of many years, the Pension Benefit Guaranty Corp. (PBGC) could become involved in determining the fall out for participants in two defined benefit plans sponsored by Sears. In a statement after the filing, PBGC said that the agency "has been working with Sears for several years to improve the funding of the company's two defined benefit pension plans" that are underfunded by an estimated $1.5 billion. "If circumstances require, we are prepared to step in and provide PBGC-guaranteed benefits," the agency said. https://www.pbgc.gov/news/press/releases/pbgc-statement-on-sears-bankruptcy-filing

As reported in the news, as of November 2017, Sears Pension Plan 1 had assets of $1.84 billion and Sears Pension Plan 2 had assets of $778.7 million, with liabilities over $1.5 billion. The plans together cover over 90,000 participants. If either plan is terminated by the Company and the responsibility transferred to the PBGC, retirees already receiving a Sears pension would be paid without a reduction in benefits. Future retirees would be paid when they become eligible and apply to the PBGC to begin benefit payments.

Prudential was one of a handful of financial companies that were subjected to stricter federal oversight after the Great Recession. On October 19, federal regulators removed the designation that Prudential is a "systemically important financial institution." After the financial crisis, the federal government designated certain companies that were "too big to fail" and required that they meet stringent requirements from the Federal Reserve.

<u>ACTIVITIES:</u>

1. Preparation for trip to Washington, D.C. on November 7-9 for the Public Sector HealthCare Roundtable and Hill visits to discuss the SERS Wraparound Plan.
2. Preparation for trip to Washington, D.C., from November 15-16, to discuss the SERS Wraparound Plan, Windfall Elimination Provision legislation, PEPTA and other post-election Congressional activity.
3. Discussion with colleagues on SEC regulatory matters.
4. Drafted and sent out messages on four letters from Executive Director Stensrud to Reps. Joyce, Jordan, Latta and Davidson on the SERS Wraparound Plan.
5. Discussion with Ohio AARP representative to discuss advocacy for the SERS Wraparound Plan.
6. Participated in the CII Fall Conference in New York City from October 23-25.
7. Monitored bills relating to public pensions, health care, prescription drugs 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. Monitored relevant House and Senate Committee hearings.
10. Reviewed public notices or proposed rules from the SEC and HHS/CMS.
11. Monitored organizations, such as the Social Security Administration, American Benefits Council, AARP and other entities that have policies on pension, investment, and/or health-related issues.
12. Reviewed reports and newsletters from CII, ICGN, NASRA, NCTR, NCPERS, and the Public Sector HealthCare Roundtable.
13. Made calls and sent/responded to emails with representatives from SERS, drafted letters and prepared the monthly Federal Update.

EXECUTIVE SESSION

At 12:16 p.m., Catherine Moss moved and James Haller seconded the motion that the Board go into Executive Session pursuant to R.C. 121.22 (G)(1) to consider the employment of a public employee. Upon roll call, the vote is as follows: Yea: Catherine Moss, Jeffrey DeLeone, Hugh Garside, James Haller, Christine Holland, Barbra Phillips, Daniel Wilson, Beverly Woolridge and James Rossler. The motion carried.

The Board returned to open session at 12:26 p.m.

The Board took a break at 12:27 p.m. and reconvened at 1:30 p.m.

EXECUTIVE SESSION

At 1:30 p.m., James Haller moved and Beverly Woolridge 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 is as follows: Yea: Catherine Moss, Jeffrey DeLeone, Hugh Garside, James Haller, Christine Holland, Barbra Phillips, Daniel Wilson, Beverly Woolridge and James Rossler. The motion carried.

The Board returned to open session at 1:58 p.m.

The Board continued with the review of calendar dates. Board member Catherine Moss noted that she would not be in attendance during the February 2019 Board meeting.

CALENDAR DATES FOR FUTURE BOARD MEETINGS

2018

December 20 and 21 (Thurs and Fri.)

2019

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

NOTE: The above dates are **tentative.

BOARD INFORMATION REQUESTS AND FOLLOW-UP ITEMS

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

Board members Barbra Phillips and James Rossler provided an update on a recently attended conference through NCPERS. The conference is a certification on fiduciary responsibilities and having good governance and policies in place. Ms. Phillips and Mr. Rossler concurred that this particular conference is one that all Board members should attend. Continuing, Mr. Rossler credited SERS staff on their performance and the training they have provided to the Board over the years.

Board member Daniel Wilson asked to be excused from Friday’s continuation of the Board meeting.

The Board recessed at 2:13 p.m.

November 16, 2018

The Board reconvened at 8:31 a.m.

Board Chair James Rossler excused Daniel Wilson from the meeting. Mr. Rossler asked Executive Director Richard Stensrud to introduce the actuaries.

Executive Director Richard Stensrud introduced John Garrett, Todd Green, and Alisa Bennett from Cavanaugh Macdonald to present the results of the Annual Basic Benefits Valuation and the Retiree Health Care Benefits Valuation as of June 30, 2018.

PENSION AND HEALTH CARE ANNUAL ACTUARIAL VALUATIONS

Mr. Garrett began the discussion by highlighting the annual basic benefit valuation. Mr. Garrett discussed key findings of the valuation, stating that SERS' funded status improved slightly to 70.07%, and the amortization period decreased from 27 years to 26 years.

Continuing, Mr. Green stated that although investment returns exceeded the 7.5% assumed rate of return, prior losses of $207.8 million were recognized in FY2018 under SERS' asset smoothing methodology, which recognizes investment gains and losses equally over a four-year period. In addition, there were actuarial experience losses due to a smaller than expected number of members terminating employment and withdrawing their contributions. Mr. Green further stated the cost-of-living adjustment (COLA) changes implemented earlier this year helped to offset those losses, resulting in a slight gain in the funded ratio. Mr. Green noted that but for the COLA changes, the funded status would be below 70%, foreclosing the option of providing additional support for the health care fund. Mr. Green stated that if the current weak investment performance continues through the remainder of the fiscal year, the funding ratio is expected to decline slightly over the next three years.

Mr. Green noted that the actuarially determined contribution rate decreased from 10.84% to 10.71% for basic benefits. The average salary increased from $20,906 to $21,045. Mr. Green stated that there was an increase in payroll, and that the average age of service remained roughly the same – 46.8 years.

Mr. Stensrud noted that while the COLA changes were difficult, they had accomplished their goal of improving the funded status and creating a buffer against negative actuarial experience. Mr. Stensrud further noted, however, that negative actuarial experience resulting from falling short of actuarial assumptions is an ongoing risk, and past measures to improve the funded status do not guarantee that future measures will not be necessary to maintain the sustainability of the pension fund.

Ms. Bennett continued with the review of the OPEB valuation. Ms. Bennett stated that because the funded ratio of the pension fund is greater than 70% but less than 80%, the System's funding policy allows the Board to put up to 0.50% of the 14% employer contribution toward health care. Ms. Bennett further noted that if the Health Care Fund receives all of the 0.50%, the Health Care Fund is projected to remain solvent through year 2035. Ms. Bennett recommended for the 2019-2020 fiscal year, the Board set the minimum compensation amount of $19,600 for determination of the health care surcharge.

Board Chair James Rossler reminded the Board that while SERS' funding policy permitted the Board to allocate up to 0.50% of the employer contribution toward health care, the Board has the discretion to allocate the full amount, a lesser amount, or make no allocation at all. Mr. Rossler invited comments from the Board as to what allocation to health care should be made this year. Discussion followed regarding the possibility that the funded status of the pension fund could fall below 70% in the foreseeable future; what that could mean for the pension fund and the mandatory funding period; what that would mean for possible future allocations to the health care fund; the additional funding that flows to the health care fund from the employer contribution and its impact on funded status of the health care fund; and whether allocating the full 0.50%, a lesser amount or no allocation at all this year would assure that the pension fund would remain over 70% funded next year.

Concluding, Mr. Green discussed the applicable Actuarial Standards of Practice (ASOPs). Mr. Green stated that there are several ASOPs actuaries have to follow. The newest ASOP, #51, is an assessment and disclosure of risk. It's effective for any actuarial work product with a measurement date on or after November 1, 2018, and applies to funding valuations, projections and pricing of proposed plan changes.

The Board thanked Mr. Garrett, Mr. Green, and Ms. Bennett for their presentation.

Board Chair James Rossler excused Board member Catherine Moss from the meeting at 9:31 a.m.

ALLOCATION OF EMPLOYER CONTRIBUTIONS

Barbra Phillips moved and Jeffrey DeLeone seconded that after review and discussion of the actuary's *Report on the Annual Basic Benefits Valuation of the School Employees Retirement System of Ohio* (prepared as of June 30, 2018) at the November 2018 Board meeting, the Board accept the actuary's recommended allocation of the 14% employer contribution for fiscal year 2019 as follows: Pension Fund (10.00%), Death Benefit Fund (.05%), Medicare B Fund (.66%) and Health Care Fund (.50%). The remainder (2.79%) will also be allocated proportionately to the Pension Fund, Death Benefit Fund and Medicare B Fund in accordance with the funding policy approved by the Board on June 18, 2015.

Upon roll call, the vote is as follows: Yea: Jeffrey DeLeone, Hugh Garside, James Haller, Christine Holland, Barbra Phillips and James Rossler. Nay: Beverly Woolridge. The motion carried.

HEALTH CARE SURCHARGE

Barbra Phillips moved and James Haller seconded the motion to accept the recommendation of SERS's actuary, Cavanaugh Macdonald Consulting, LLC, and establish $19,600 as the minimum compensation amount for purposes of the fiscal year 2020 Health Care surcharge. Upon roll call, the vote is as follows: Yea: Jeffrey DeLeone, Hugh Garside, James Haller, Christine Holland, Barbra Phillips, Beverly Woolridge and James Rossler. The motion carried.

ADJOURNMENT

James Rossler moved that the Board adjourn to meet on Thursday, December 20, 2018 for their regularly scheduled meeting. The meeting adjourned at 9:40 a.m.

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James Rossler, Board Chair

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Richard Stensrud, Secretary