

**Ohio Retirement Study Council
88 East Broad Street, Suite 1175
Columbus, Ohio 43215**

**Minutes
May 11, 2017**

The meeting was called to order by Chairman Schuring at approximately 10:00 a.m. in room 122, the Statehouse, Columbus, Ohio.

The following members attended the meeting:

Voting members

Edna Brown
Rick Carfagna
Lora Miller
Dr. Thomas Pascarella
Kirk Schuring
Steve Wilson

Non-voting members

Mark Atkeson
Karen Carraher
John Gallagher
Mike Nehf
Helen Ninos
Kari Hertel

Absent

Jay Hottinger
Dan Ramos

Staff

Jeff Bernard
Bethany Rhodes
Ali Yogmour

With a quorum present, Chairman Schuring moved that the minutes of the previous meeting be approved and Vice-Chairman Wilson seconded the motion. The minutes were approved without objection.

Chairman Schuring asked Jim Voytko from RVK to give an overview of the Capital Markets Review and Investment Performance Review.

Senator Brown entered the room at approximately 10:04 am.

Sen. Brown exited the room at approximately 10:05 am.

Vice-Chairman Wilson commended RVK on their well-respected ability to make predictions and asked about their expectations for returns. Mr. Voytko responded to Vice-Chairman Wilson by noting that RVK does is not comprised of economic forecasters, but they have shaved returns by roughly 25 basis points in several areas. Mr. Voytko also added that a document on forward looking expectations on returns and risks is available. Ms. Lora Miller inquired about what they thought the economic impact

of the proposed Border Adjustment Tax would. Mr. Voytko said there was a great debate on that issue and then RVK honestly didn't know the answer to that.

Chairman Schuring appreciated the market review and requested Mr. Voytko review the RVK Executive Summary for the Fourth Quarter. No questions were asked.

Chairman Schuring asked Funston Advisory Services (FAS) to present the SERS 10-Year Fiduciary Audit Review. Mr. Rick Funston began with the presentation from FAS. Mr. Funston noted that SERS' system is well-run all-around. He highlighted leading practices and prevailing practices in the report. He said there were no red flags but some recommendations were made. Mr. Randy Miller reviewed board governance and administration as part of the FAS report.

He noted that SERS should consider automating its budgeting process. He then reviewed SERS' organizational structure and staffing and noted that the organization appears to function effectively. Mr. Miller continued with an overview of SERS' investment policy and oversight. He commended SERS on their continual approval and leading practices. He noted that SERS' policies and practices are very sound. Mr. Keith Johnson from FAS then reviewed SERS legal compliance. He noted that SERS met all of the legal and policy standards. Mr. Johnson then mentioned that SERS could improve on and seemed to have some difficulty in maintaining confidentiality. Chairman Schuring asked Mr. Miller to include that information in his presentation handout moving forward. Additionally, Mr. Miller reviewed SERS' risk management and controls and IT Operations.

Vice-Chairman Wilson referred to page twelve of the FAS report and inquired further in regards to the risk management contract monitoring. He wanted to know if this was a major concern of FAS. Mr. Miller responded that this was not a major concern for them, but he did not that SERS does not have the tools at the moment to properly monitor the process.

Mr. Miller continued with a review of SERS' statutory recommendations, one of which was to increase utilization of Ohio-qualified brokers, saying that he did not believe it to be a productive requirement and creates the possibility of fraud. Mr. Miller continued to describe the second concern with the Treasurer being the custodian. Chairman Schuring asked FAS for more information on this as this has been a matter of interest to him for some time. Chairman Schuring noted his interest in working with the firm on how to make some statutory changes. Mr. Miller responded to Chairman Schuring by stating that Ohio is one of the last two states to make the Treasurer the custodian of pension assets after New Mexico and South Carolina recently reformed their custodial model to remove the Treasurer as the pension system's custodian. Chairman Schuring asked which state would be a model for Ohio. Mr. Miller said that he would get back with him on that recommendation, noting that the Ohio process is at least 50% more costly for SERS and added unnecessary complexity to the custodial process. Lastly, Mr. Funston closed with a summary of the report and pledged to expand on the document to reference confidentiality of Board self-assessments.

Chairman Schuring asked OPERS to give an update on their Iran/Sudan report. Director Karen Carraher reviewed the report and no questions were asked.

Chairman Schuring asked STRS to give an update on their Iran/Sudan report. Director Mike Nehf reviewed the report and no questions were asked.

Chairman Schuring asked SERS to give an update on their Iran/Sudan report. Julie Deisler from SERS reviewed the report and no questions were asked.

Chairman Schuring asked OP&F to give an update on their Iran/Sudan report. Director John Gallagher reviewed the report and no questions were asked.

Chairman Schuring asked SHPRS to give an update on their Iran/Sudan report. Director Mark Atkeson reviewed the report and no questions were asked.

Chairman Schuring then asked Tracy Valentino from SERS to review their budget. Ms. Valentino reviewed their budget and no questions were asked.

Chairman Schuring asked Paul Snyder, Deputy Director of Finance at STRS, to review their budget. Mr. Snyder began by explaining the reason for their 2.8% increase in their budget, noting there had been an increase in their custodial fees, a 3% merit based increase for associates, and that retirement volumes have increased. Mr. Snyder also explained a slight increase for their capital budget, noting their member/employer system software was in need of an upgrade. Mr. Snyder also mentioned that STRS was managing more money internally and he highlighted the board member expenses and staff training and travel expenses sections in the report.

Dr. Pascarella asked Mr. Snyder to clarify the line item for OPERS contributions. Mr. Snyder responded that all system employees belong to OPERS. Director Carraher noted that all of the system's employees were members of OPERS. Dr. Pascarella then inquired about the reduction in health insurance. Mr. Snyder explained that STRS is facing dramatic increases in healthcare costs and reformed their insurance program to require a surcharge for spouses. This resulted in a number of individuals leaving STRS health insurance and added funds from the surcharge.

Chairman Schuring asked Director Ninos to give an overview of the SERS Audit Report. No questions were asked.

Chairman Schuring asked Director Nehf to give an overview of the STRS Audit Report. No questions were asked.

Chairman Schuring asked Director Nehf to give an overview of the STRS COLA changes. Director Nehf noted this was necessitated by the quinquennial review that occurred earlier in the year. He noted the adjustments to the mortality tables, the reduction in the assumed rate of returns from 7.75% to 7.45%, as well as reduction in

the payroll growth assumptions caused the system to go beyond the statutory 30-year funding period. A result of the changes made STRS at about 50-years.

Chairman Schuring asked if STRS evaluated more options than eliminating the COLA entirely. Director Nehf responded that STRS did look at all of their options, including reducing the COLA, increasing member contributions and adjusting minimum age and service requirements. He noted that they had already used all other levers provided to STRS under pension reform with the exception of reducing the COLA. Chairman Schuring asked if there had been a comparative analysis on the elimination as opposed to a reduction and how effective the COLA change would be. Director Nehf said that the board looked at all opportunities and none of the other options came close to impacting the numbers like the COLA change did. He responded that eliminating the COLA would take them to 20 years funding after about five years and that he was not sure what funding would be at if they had reduced it to 1%. Chairman Schuring reiterated his concerns for the complete elimination rather than a reduction, noting that he was simply expressing the concerns that had been voiced to many members of the General Assembly by STRS members. Director Nehf responded that the COLA is a very expensive benefit, noting that a one year elimination eliminates \$1.5 Billion of liabilities, but he would consult with staff and report to the Council what a 1% COLA would provide as far as funding levels.

Chairman Schuring asked ORSC Staff to give an overview of the Issue Brief for the WEP. ORSC Staff highlighted the reduction of Social Security as well as the amount of people that would be effected by the provisions. Mr. Bernard then asked if the Council had any preferences for the next Issue Brief. Chairman Schuring said that, considering the conversation on COLAs that a brief on that issue and why it is so expensive would be helpful.

Chairman Schuring asked ORSC Staff to review Senate Bill 118 and House Bill 161. ORSC Staff noted that they would not be providing an analysis as these bills have been determined to not affect the systems, but that, should the bills be changed to affect the systems then staff would analyze them.

Chairman Schuring announced that the next meeting would be June 8, 2017, at 10:00 am.

The meeting adjourned at approximately 11:36 a.m.

Date Approved

Kirk Schuring, Chairman

Bethany Rhodes, Secretary

Steve Wilson, Vice-Chairman