

**Ohio Retirement Study Council
30 East Broad Street, 2nd Floor
Columbus, Ohio 43215**

**Minutes
November 14, 2019**

The meeting was called to order by Chairman Schuring at approximately 10:00 a.m. in room 121, the Statehouse, Columbus, Ohio.

The following members attended the meeting:

Voting members

Rick Carfagna, Vice-Chair
Hearcel Craig
Jay Hottinger
Derek Merrin
Lora Miller
Kirk Schuring, Chair

Non-voting members

Mark Atkeson, HPRS
Karen Carraher, PERS
John Gallagher, OP&F
Jahan Karamali, Attorney General
Mike Nehf, STRS
Richard Stensrud, SERS

Absent

Jack Cera, Excused
Angel Mumma, Excused

Staff

Jeff Bernard
Bethany Rhodes
Ali Yogmour

A quorum not being present, Chairman Schuring asked Jim Voytko and Christian Eicher from RVK to provide the investment performance review for the period ended June 30, 2019.

Senator Hottinger arrived at 10:03 a.m.

Mr. Voytko provided an overview of the structure of the analysis for the six pension plans. Mr. Eicher provided a comparison summary of each plan's performance. He cautioned ORSC members to not take too positively that the plans have all outperformed their current actuarial assumed rates of return over the 10-year period. Mr. Voytko stated that over the past decade, all of the plans have outperformed their current actuarial assumptions, although they have not all beaten the assumptions they had in 2009 [*Editor's note: all of the retirement systems' 10-year annual returns for the period ending June 3, 2019, exceeded their actuarial assumption as of 2009*]

Representative Carfagna arrived at 10:11 a.m.

Mr. Eicher noted that hedge funds are often added to plans asset allocations for diversification purposes and their risk is within normal risk levels. Mr. Voytko wrapped up the summary and told members RVK would be available for questions after the meeting and that they are in town often and would happy to meet with members to answer questions whenever they are in town.

With a quorum then present, Chairman Schuring moved that the minutes of the previous meeting be approved. The minutes were approved without objection.

Chairman Schuring asked AON Hewitt to present the PERS Fiduciary Audit. Jeanna Cullins from AON Hewitt introduced herself as well as Rian Akey, Greg Korte, and Mike McCormick from AON.

Ms. Cullins told the ORSC there were six primary areas that AON reviewed and they had about 56 recommendations within those areas. She noted that the majority of AON's recommendations could be seen as "fine-tweaking" and AON feels, overall, PERS operates within best practices and leading practices. Ms. Cullins reviewed Board Governance and Administrations and highlighted AON's recommendation for expanding the expertise requirement to require that one of the PERS Board appointees have financial audit or internal controls expertise. Ms. Cullins went on to review the governing statutes limitations and AON's recommendation to amend the governing statutes to grant PERS exclusive authority and control over the selection of its legal advisors and its financial advisors.

Chairman Schuring asked all presenters to speak into the microphone moving forward and reminded the presenters of their time limit for presenting.

Mr. Korte said that there were two top issues that AON found: The most significant issues were PERS's inability to select their custodian and that the custodian be an Ohio firm. He noted that with modern technology, there was no other state in the nation, other than Pennsylvania, that requires the custodian to be state-based.

Ms. Cullins highlighted AON's recommendation to amend Ohio law to remove the Treasurer of State as the legal custodian. Ms. Cullins continued with the review of PERS's governance documentation, communication, education, and staffing. She said these areas were found to be best practices. Ms. Cullins mentioned that turnover was high and that AON recommended PERS explore ways to diminish turnover.

Mr. McCormick stated that PERS investment policies and evaluation of performance for managers and fees was in line with peers and found to be a best practice. He noted AON's recommendation for performing a fee analysis on each asset class and that PERS should engage its external consultant to conduct detailed operational due diligence for each mandate.

Mr. Akey spoke to AON's recommendations for public and private market risk. He noted AON's recommendation for PERS to implement an investment manager review

schedule to ensure all external managers for its external public markets programs are reviewed onsite on a periodic basis to update its operational due diligence. AON also recommended that PERS Risk Management Team perform operational due diligence independently of the investment team for its private market program. Mr. Akey stated that PERS legal compliance was a best practice. He also highlighted AON's recommendation for risk management and controls to expand the expertise requirement to require that one of the PERS Board appointees have financial audit or internal controls expertise. He noted that PERS's enterprise risk approach was leading edge. Mr. Akey said that PERS information technology operations were in line with best practices.

Ms. Cullins told the Council that AON was prepared to answer any questions from the members.

Senator Craig asked what safe guards were put in place to limit any conflicts of interest. Ms. Cullins said AON had two individuals that provide primarily educational information from AON to PERS. She stated that these individuals were not involved in any way with the audit and did not have access to the audit at any time with files on lockdown. She said those two individuals were also not permitted to interact with the PERS fiduciary audit team, similar to the practices used in lawfirms.

Chairman Schuring asked Director Carraher to give an overview of the PERS 2020 Budget. Director Carraher noted that the .9% increase related mostly to anticipated plan design changes and health care plan changes. She also highlighted the \$0.6 million in savings from seven vacant positions, a 3% merit increase, and reviewed capital budget expenses. There were no questions.

Chairman Schuring asked Director Gallagher to provide the OP&F 2020 Budget. Scott Miller, OP&F Deputy Executive Director, presented the OP&F budget review, highlighting the \$27.1 million total operating budget cost and noted 3% merit increases. He also mentioned projected increases in healthcare costs and he reviewed consulting expenses. He added that OP&F had some carry over from the 2019 budget and that OP&F planned to use this carry over for the expected fiduciary audit for 2020. He finished by reviewing the capital budget, board expenses, and noted education for three new trustees. There were no questions.

Chairman Schuring asked Director Atkeson to provide the HPRS 2020 Budget. Brian Fike, HPRS Finance Director, noted HPRS' budget for 2020 reflects an increase of 8.94% and stated that the primary drivers for this increase are the projected five-year actuarial experience study, the projected ORSC actuarial audit, and Director Atkeson's expected unused leave payout upon retirement. He also reviewed the capital expenditures and noted that board and travel costs remained flat.

Representative Carfagna asked if the actuarial audit occurred was the once every ten year audit. Mr. Fike said yes, this was a once every ten year audit.

Chairman Schuring asked Director Gallagher to provide the OP&F 2018 Valuation. Director Gallagher highlighted that the funding period was at 29 years, he praised the DROP program, and noted that the system was still recovering from the financial crisis, but that he remained optimistic. He corrected a verbal error made by RVK's presentation, noting that he can't speak for the other systems but that OP&F's 10-year investment performance did exceed its assumption rate as of 2009. Director Gallagher also mentioned the upcoming actuarial evaluation.

Chairman Schuring reprimanded the John Damschroder/Marc Dann camera crew on their disruption of committee and Director Gallagher's presentation.

Director Gallagher asked ORSC to review the 5-year smoothing mechanism and noted that the fixed contribution rate was a challenge for OP&F. He finished by reviewing the healthcare solvency fund and the plan's recent switch to the public markets.

Senator Hottinger exited at 10:52 a.m.

Chairman Schuring asked Director Gallagher to forgo any further comments on OP&F's 30-year funding status since he had already made those comments during the valuation presentation. There were no further questions.

Chairman Schuring asked Director Gallagher to provide OP&F's 2019 Communications plan. Director Gallagher reviewed the plan and there were no questions.

Chairman Schuring asked Director Atkeson to provide the HPRS 2020 employee contribution rate change. Director Atkeson noted that the HPRS Board approved the employee contribution rate to 14% for 2020 and also noted a 0% COLA and 0% contribution to health care for 2020. There were no questions.

Chairman Schuring asked Director Stensrud to review the SERS updated Ethics Policy. Director Stensrud provided the report and there were no questions.

Chairman Schuring asked ORSC staff to review the memo on S.B. 10. Ms. Yogmour said that although the bill increases penalties for theft in office, the provisions surrounding forfeiture of retirement benefits are unaffected by the bill and that it would not require review from the ORSC. There were no questions.

Chairman Schuring asked ORSC staff to provide the Rules report. Mr. Bernard said that the rules were in compliance with the Revised Code and had no further comments.

Chairman Schuring announced that the next meeting would be December 12, 2019, at 10:00 a.m. or at the call of the Chairman.

The meeting adjourned at approximately 10:58 a.m.

Date Approved

Kirk Schuring, Chair

Bethany Rhodes, Secretary

Rick Carfagna, Vice Chair