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

Minutes
May 12, 2022

The meeting was called to order by Chairman Plummer at approximately 10:02 a.m. in Room 017, the Statehouse, Columbus, Ohio.

The following members attended the meeting:

Voting members

Adam Bird
Hearcel Craig
Jay Hottinger
Mary Lightbody
Phil Plummer, Chair
Dr. Anthony Podojil

Non-voting members

Gordon Gatien, PERS
Charles Carter, Attorney General
Mary Beth Foley, OP&F
William Neville, STRS
Carl Roark, HPRS
Richard Stensrud, SERS

Absent

Jay Hottinger, Excused
Lora Miller, Excused
Kirk Schuring, Vice Chair, Excused

Staff

Jeff Bernard
Bethany Rhodes

With a quorum present, the meeting was called to order at 10:02 a.m.

Chairman Plummer recognized Director Rhodes, who stated that all members had been duly qualified and sworn.

Chairman Plummer welcomed Representative Lightbody to the ORSC. Representative Lightbody thanked the Council for the welcome and looked forward to working with the Council.

Chairman Plummer moved to the April 14, 2022, ORSC minutes. Without objection, the minutes were approved.

Chairman Plummer welcomed Jim Voytko from RVK to the Council and asked him to present the investment performance review for the period ending December 31, 2021. Mr. Voytko began by remarking that the markets have moved substantially since the data that is in the current report and wanted the members to keep that in mind when reviewing this report. Mr. Voytko reviewed the report.

Representative Lightbody asked where the 58 rating was on page 19. Mr. Voytko explained more on the liquidity issue and pointed out where the rating was. Dr. Podojil asked about the rating in the liquidity difference between the STRS and OP&F numbers, even though they appeared very similar. Mr. Voytko stated that the exercise that would create these numbers is a question about how many days it would take a system to raise a certain amount of cash. He said that the objective on page 19 was to provide a comparison for review, but not whether they represented an issue of concern.

Representative Bird remarked on the importance of performance after fees and asked Mr. Voytko for the page that remarked on that. Mr. Voytko reviewed page 14 that contained that information. Representative Bird compared page 13 and 14 and noted that the benchmarks are the same and so the benchmark included the fees. Mr. Voytko remarked that most assets classes have a public benchmark so they are the same. He remarked that private equity is a bit different and reviewed how benchmarks may be set by the board as there is no perfect benchmark.

Chairman Plummer remarked that he heard many comments that STRS was a poor performer and that it was the worst system in the country and asked Mr. Voytko for his expert opinion. Mr. Voytko remarked that this was astonishing for him to hear and he would like to hear that analysis as that there was no number on his report that suggested that was the case.

Representative Bird asked about ranking of the systems on page 13. Mr. Voytko remarked that the ranking was against the whole universe of funds that had over a billion dollars. He also explained the use of the statistically robust group of funds over a billion dollars. Dr. Podojil asked about the rankings not matching up over time. Mr. Voytko remarked that it shouldn't be the same, as they reflected rankings over a period of time and so the ranking will vary across time. Dr. Podojil asked about the ranking for 2020 and Mr. Voytko remarked on some of the math done to figure that ranking. Dr. Podojil asked if these were all types of retirement plans and Mr. Voytko remarked that RVK tended to put less emphasis on the rankings because of the differences in plans.

Senator Craig asked how often these liability studies and asset allocations are done. Mr. Voytko said that each plan will set its own study periods and he said there was variation between every year, three years, or five years. He remarked that changing asset allocations can be very expensive to reconfigure a fund so it is a trade off on repositioning a fund and the cost of that repositioning.

Director Neville asked about page 13 and the ranking figure to make sure he is reading correctly that a ranking of eight means that STRS outperformed 92% of the funds in the universe. Mr. Voytko said that yes, Director Neville was correct. Director Neville clarified that being eight is a good thing, not a bad thing. Mr. Voytko remarked that, yes, this was correct.

Representative Bird clarified that a ranking of eight was a percentile rank and that the gross of fees information on page 14 does not have that ranking. Mr. Voytko noted that RVK cannot provide that ranking because that data does not exist from the wider pension universe.

Director Rhodes asked if Mr. Voytko would be able to provide some explanation of fees and why some information is not available. Mr. Voytko remarked that he would be happy to do so and he would just need a specific list of things to review.

Representative Lightbody asked when the STRS COLA changes and salary changes would be included in the STRS data. Mr. Voytko remarked that the funding question would be in the data provided by the actuary, not in this report. He remarked that this report only deals with the investable funds of the plan, not the liability. Representative Lightbody asked that if at some point wouldn't that appear in this report. Mr. Voytko said yes, any money that flows outside the fund will not be available for investment. He also remarked that liability changes can directly affect the investment strategy of the fund.

Chairman Plummer moved to the disability reports. Gordon Gatien, PERS Director of Governmental Relations, reviewed the PERS disability report. There were no questions.

Director Foley reviewed the OP&F disability report. Representative Lightbody asked where a brain injury would appear on the disability report. Director Foley remarked that a traumatic brain injury (TBI) would appear in psychiatric. There were no further questions.

Director Roark reviewed the HPRS disability report. Representative Lightbody asked how many of the disability rates are the result of car crashes and remarked that a bill in the general assembly could potentially reduce those. Director Roark remarked that he wasn't in a position to comment on that.

Chairman Plummer moved to the system budgets, remarking that ORSC was able to hear, discuss, and review a budget but did not have the authority to amend, approve, or disapprove a budget. Lynn Hover, STRS Deputy Executive Director, Finance, presented the STRS budget.

Chairman Plummer indicated that he had a number of questions that he wanted to ask the STRS director and ORSC staff since the ORSC staff is independent of the systems. He first asked ORSC staff that he kept hearing that STRS members only get 77 cents for each dollar they contribute to the system. He asked Mr. Bernard if that was correct. Mr. Bernard said this was incorrect and verifiably wrong. He noted that, no matter what retiree cohort you looked at, it could be disproven. He noted that for the 1991, 2001, and 2011 cohort, payouts in benefits exceeded employee contributions after about two years, and after about three years for those who retired in 2021. He noted that the claim that actives paying a dollar and only receiving 77 cents in benefits when they retire was verifiably false.

Chairman Plummer followed to ask whether it was true that a memo written by Mr. Bernard supported this claim? Mr. Bernard began by explaining that in ORSC staff analyses there is frequent mention of the concept of "intergenerational equity." He explained that last year, a previous Chairman had asked staff to provide a memo that would give a greater explanation of the term and how it is used in analyses. He noted that staff were also asked to explain how this concept would be applied to STRS and he noted that it was true that the memo discussed ORSC staff's concern with normal cost in STRS being lower that contributions of active teachers. However, he stated that taking normal cost and trying to say that it represented a value of the STRS benefit was a complete misunderstanding of normal cost and a real distortion of the point of that memo. He indicated that the larger point of that memo was to indicate a preference—from the ORSC staff perspective--that, should enhanced benefits be provided, that they should probably be directed toward the active population to balance out the current normal cost concerns. He further explained that normal cost was an actuarial term used to indicate how much should be made in contributions necessary to fund a benefit, and that it was not at all an expression of value. In fact, he expected that should an active member attempt to replicate the STRS benefit in the private annuity markets with the STRS normal cost, they would be in for quite a shock not only for the cost of replicating the STRS retirement benefit but also for funding a life insurance policy for survivors and disability benefit that is also provided by STRS. He noted that he had seen this use of the memo to support this 77 cent claim and indicated that it was a very inappropriate use of the memo and that it was not what the memo was about.

Chairman Plummer additionally asked about the "skip week" referred to by Ms. Hoover and asked Mr. Bernard to elaborate on this. Mr. Bernard noted that the issue is that a year has 365 days, but that there are only 364 days in 26 weeks. Entities that pay biweekly, then, have an extra day buildup. He remarked that because of this, it just so happens that periodically, there will be an extra pay in a fiscal year. He noted there was nothing nefarious about this, it just is math and how a calendar works. He noted that there are many ways to deal with this, but for those who are paid hourly, as ORSC staff and many in the private sector, pay is calculated biweekly. He noted that it is not a pay raise to pay those people for the work they have done; they have worked those hours and they should be paid—it just so happens that periodically an extra pay day is in a fiscal year and this is perfectly normal. He explained that he was not surprised that there was some confusion over this as, from his understanding, teachers are paid by contract for the school year, so this issue doesn't apply for them as they aren't paid hourly and there could be misunderstanding about how hourly employees are paid.

Chairman Plummer then asked Mr. Bernard about a claim that STRS has been told not to use actual return in a benchmark in a 2006 ORSC audit. Mr. Bernard remarked that in a previous ORSC fiduciary audit, there was a recommendation that STRS not use actual returns when benchmarking their alternative returns. He noted that IFS, the firm contracted to conduct the audit, was not criticizing STRS, but in fact found that STRS was using reasonable methodology and additionally offered another alternative to consider. He mentioned that the recommendation applied only in the context of the alternative benchmark usage in the total fund return, so it was very specific. He noted that STRS reviewed this recommendation and simply disagreed that that would be a proper change, and again IFS provided a recommendation rather than a command to change that benchmark. He also noted that this way of benchmarking is no longer in use as of July 1, 2021, where a unanimously approved board motion changed those benchmarks. He noted that this makes sense as private equity benchmarks that are available now simply weren't available 20 years ago.

Chairman Plummer referred back to his question asked of Mr. Voytko about the claim that STRS is the worst performing pension fund and Mr. Voytko's response that this was clearly not supported in the data. He asked Mr. Bernard where this is coming from? Mr. Bernard remarked that he was very puzzled by this. He noted that in the past year, he had received numerous calls and emails on this claim and that it did take staff time to run these claims down and try to understand them to provide ORSC oversight function. He remarked that, with the verifiable data he was able to see, he didn't see STRS as a poor performer. He noted that he had asked individuals who made this claim to provide information that supports their claim because he simply didn't see what they were claiming. He had asked these individuals that if there was verifiable data he would love to see it, but hasn't been provided with a response. He remarked that ORSC staff had attempted to understand the claim, that he didn't really know where it was coming from, but it didn't appear to be true.

Chairman Plummer noted that several weeks ago, a STRS Board Member had emailed him that STRS had manipulated data to exclude dividends in an analysis in to manipulate STRS return data. He noted that if this were true, it is outrageous. Mr. Bernard noted that in the social media space a claim that, as he understood it, had been raised that if STRS had just passively indexed their investing they would have been better off that their investments. As a result, at the last STRS meeting, Director Neville had asked his staff to model that—what would have happened had STRS invested passively, particularly considering their cash flow and benefit payments—they provide $7 billion a year in benefits—had they invested passively. He noted this is a key part of the analysis, as Mr. Voytko was noting that the asset liability part and the large amount of money going out as benefits have to be managed. According to his research and the email sent out by the board member, the member stated that STRS had excluded dividend payments in that analysis. The excel data was provided later that day or the next morning demonstrating that this was not the case, that in fact dividend payments had been included in that analysis. And he agreed that not including dividend payments would have been a problem in that analysis.

Chairman Plummer asked if they acknowledged this error on social media as he does not believe that he received a recalled report. Mr. Bernard said that yes, the report did come off social media in a couple days. Chairman Plummer followed with a question about the time period selected by STRS, that this was also supposed manipulation. Was this true? Mr. Bernard noted that the time period of the excel sheet was 1998 or 1999 and looked to Director Neville, who stated that the time period was STRS fiscal year 1999 through STRS fiscal year 2021. Mr. Bernard noted that anytime you have to draw a line you have to choose it somewhere, and so the real question is what is an appropriate line. He noted also that it depends on the question being asked, and in this case, the longest time period available would be logical. He also noted that full investment authority was not provided to STRS until roughly 1997, so starting around that time made perfectly logical sense to him. He further noted that the key to a time period line would be to capture a full market cycle of STRS during an up and down market, noting again that STRS must provide benefits, so seeing the performance of the fund during both an up and down market would be critical in that analysis.

Chairman Plummer then asked Director Neville about claims that STRS was not transparent. Director Neville asked to approach the question in three components. Regarding public records, he noted that the State Auditor has its highest award for openness and transparency and that STRS had received that award in these first two years that it has been in existence. Looking at open meetings, he noted that STRS board meetings have been streamed since 2020 and that since 2021, they have been recorded and made available on the STRS website. Moving to investments, he noted that he assumes this is in regard to the alternative investments space, and said that in any number provided by STRS in their gross returns, carried interest or management expenses have already been removed from that number. He noted that internally, STRS staff and been working on providing what those expenses are even though they have been removed from returns. He noted that STRS is part of a wider movement of pension funds that are trying to get more transparency on the fees in private equity. Additionally, STRS is part of a larger group attempting to get the SEC to promulgate rules on transparency for private fund advisors. He summarized that STRS does a good job with public records, they have open meetings, and that STRS is in the vanguard of public funds regarding disclosure of fees and expenses.

Chairman Plummer further remarked that he was receiving emails that STRS was providing 6% raises, could he comment on that. Director Neville noted that the STRS fiscal year had a 27th pay period that was expounded on by Mr. Bernard and explained by Ms. Hoover. He said that the budget to budget raise of 3%--noting that STRS does not provide across the board raises and does not provide COLAs so these are merit raises—that 3% includes both merit raises and promotions. He concluded that the whole raise pool was 3% budget to budget. Chairman Plummer asked if this raise was based off of a compensation study of some kind. Director Neville said that STRS does a compensation study approximately every five years but that each year, the HR staff subscribe to a number of surveys that are used primarily to slot new hires and for promotions. The raise pool uses a number of surveys and consultants ranging somewhere between 3%-4% and STRS has gone on the low end of those reports in its raise pool.

There were no further questions on the STRS budget.

Chairman Plummer moved to the SERS budget. Director Stensrud reviewed the SERS budget. Representative Lightbody asked about servers located in Columbus and asked if those were used in their project. Director Stensrud remarked that there was an RFP issued for that project. Chairman Plummer asked if it was correct that there was a 3.2% raise based off of a compensation study. Director Stensrud noted that was correct.

Chairman Plummer asked Mr. Gatien what pay raise did PERS give last year. Mr. Gatien stated that PERS provided a 3% merit raise. Chairman Plummer asked if that was based off of a compensation study. Mr. Gatien responded that, yes, the raise was a direct result of a compensation study.

Chairman Plummer moved to OP&F and asked Director Foley about the OP&F raises. Director Foley noted that OP&F is on a calendar year, and that that budget likewise had a 3% merit pool. She noted that was not an automatic raise but that the person's evaluation had to merit that you were entitled to that increase up to 3%.

Chairman Plummer asked for an update from HPRS. Director Roark noted that HPRS does not do a compensation study as they had 8 staff, but that they did a comparison as best they could and that there was a merit increase that averaged around 3.25%.

There were no further questions. Chairman Plummer noted that the issue of raises is very important to the members of the five systems and they should know that the ORSC is watching. He, therefore, asked each of the systems to provide their most recent compensation study reports and all relevant presentations to the ORSC by no later than 5:00 p.m. on May 20th. Director Foley asked that as OP&F had already sent the report they had already complied? Chairman Plummer clarified that ORSC had received that power point presentation and that they were asking for the actual compensation study report itself.

Chairman Plummer moved to the rules. Mr. Bernard stated that the ORSC staff had reviewed the rules, that they were in compliance with the Revised Code, and had no further comments.

The Chairman said that the next meeting is scheduled for Thursday, June 9, 2022, or at the call of the Chair.

The meeting adjourned at approximately 12:10 p.m.

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Date Approved	Phil Plummer, Chair
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Bethany Rhodes, Secretary	Kirk Schuring, Vice Chair