

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

**Minutes
March 8, 2018**

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

Edna Brown
Rick Carfagna
Jay Hottinger
Lora Miller
Dr. Thomas Pascarella
Christopher Potts
Dan Ramos
Kirk Schuring

Non-voting members

Mark Atkeson
Karen Carraher
John Gallagher
Mike Nehf
Richard Stensrud
Kari Hertel

Absent

Steve Wilson

Staff

Jeff Bernard
Bethany Rhodes
Ali Yogmour

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

Senator Hottinger arrived at 10:01am

Chairman Schuring asked Director Rhodes to give an overview of the Auditor of State Letter regarding the five retirement system's assumed rate of returns and frequency of reevaluation. Director Rhodes explained the letter and explained that she believed the five year experience study was the best way to measure the system's rate of return. She remarked that a five-year period is a short term duration when thinking about the retirement systems and matched the standards set for the smoothing of assets. She thought that more frequent studies would result in knee-jerk reactions. She noted that she would be interested to hear from each of the systems' Directors.

Ms. Hertel arrived at 10:07am

Director Carraher said that OPERS responded to the Auditor and agreed with Director Rhodes that the five year experience study was best suited to determine the assumed rate of return. She noted that the OPERS actuaries said it was a best practice. She noted that the assumed rate of return is looked at closely and that assumptions don't last forever, remarking that she believes that OPERS will move to a 7% assumed rate of return based on the information provided to them by the actuaries at their last experience study.

Representative Ramos arrived at 10:10am

Director Nehf also said that STRS had responded last year to the Auditor and noted the employment of actuaries by STRS and that they have recently lowered their rate of return two times in response to those actuary's recommendations.

Director Strensrud said that SERS also responded to the Auditor and concurred with his concerns and the importance of the issue but stated that the actuaries abide by a set of standards and noted that SERS recently lowered their investment return assumptions. He noted that to shorten the review period SERS would both be making decisions based on less information and that it may result in the system think in shorter period of time, which is not beneficial to a long term retirement system. He believes that the current study is best for and fair across generations.

Director Gallagher took note of OP&F's highest assumed rate of return among the systems. He stated that they work with their actuaries and internal auditor to try to strike a balance between the plan's funding objectives and that they are comfortable with 8%. He stated he would be surprised if OP&F ever lowered their return assumption again. Director Gallagher continued that long term investing is always the best way to measure and that OP&F is following best practices. He said that OP&F will find those returns here in the United States or overseas. He also noted that the auditor appointed is comfortable with their numbers. He indicated that he will be sending an official explanation to both the Council and Auditor.

Director Atkeson agreed with the other Directors and said he supported Director Rhodes statements as well. Chairman Schuring asked that the Directors send copies of their letters to the Auditor to the ORSC.

Chairman Schuring asked Mr. Bernard to provide an update on the 2017 and 2018 staff updates. Mr. Bernard gave a brief overview of the 2017 staff updates and informed the council on what they could expect for 2018 as well as some notes on plans for 2019. He noted that staff and the Council have been busy over the past few years catching up with late fiduciary and actuarial audits, and that we are now effectively caught up. He noted that the staff plan was to begin a 10-year rotation in which each year the Council did either one fiduciary or one actuarial audit, beginning with a fiduciary audit of OP&F in 2019.

Chairman Schuring asked Director Rhodes to review the ORSC Actuary and Performance contracts. Director Rhodes said that she had discussed the contracts with the Assistant Attorney General and was looking to the council on whether to extend or bid out the contracts. Chairman Schuring stated that the current contracts are efficient and professional and asked for a motion to extend. Representative Ramos moved to extend the contracts. Representative Carfagna seconded the motion. A roll call vote was taken, and the motion passed 8-0.

Chairman Schuring asked Director Carraher to give the OPERS update on the Iran/Sudan Reports. Director Carraher reviewed the reduction in holdings for the current reporting period and noted there were now only two companies on the list. Representative Ramos noted the Russian company Gazprom and asked what the effect would be on the system if there were to be a sanction on other countries besides Iran and Sudan, such as Russia. Director Carraher noted that sometimes international holdings are necessary to get the returns they need but they will invest in other options when there are alternatives, but she would need to do an analysis to get the numbers for any effect. Representative Ramos said he would suspect that any other sanctions would be treated like Iran and Sudan and the systems would not be asked to immediately stop their investing and give them time to find alternatives. Director Carraher reinstated that OPERS would need to do an analysis to determine the effects.

Chairman Schuring asked Director Nehf to give the STRS update on the Iran/Sudan Reports. Director Nehf gave an overview of the system's investments and reductions for the reporting period.

Chairman Schuring asked Director Stensrud to give the SERS update on the Iran/Sudan Reports. Director Stensrud noted the percentage drop for the reporting period and said that five companies remain on the SERS list.

Chairman Schuring asked Director Gallagher to give the OP&F update on the Iran/Sudan Reports. Director Gallagher said that OP&F invests less than one million dollars and is down to one company and that he expects that one company may drop off soon.

Chairman Schuring asked Director Atkeson to give the HPRS update on the Iran/Sudan Reports. Director Atkeson stated that because of their smaller size and use of comingled funds, HPRS had no direct investments with ties to Iran/Sudan.

Chairman Schuring asked Director Gallagher to review OP&F's Actuarial Valuation. Director Gallagher gave an overview of the valuation and noted OP&F's changed assumptions and mortality tables. He stated that the system was gaining strength and was at 28 years solvency.

Chairman Schuring asked to deviate from the agenda and for Director Gallagher to also review OP&F's DROP Program and Disability Experience. Director Gallagher stated

that there had been very little changes in the DROP program and gave a brief overview of the Disability Experience report as well.

Chairman Schuring asked Director Atkeson to review HPRS' Actuarial Experience. Director Atkeson gave a brief overview and noted that HPRS was now at 29 years.

Chairman Schuring asked Director Stensrud to review SERS' Actuarial Experience. Director Stensrud gave a brief overview and noted the COLA legislation changes for 2018, 2019, and 2020. He said these changes will extend the solvency for the health care fund. He also explained the smoothing process despite a good year of returns. He said that SERS' amortization period is at 27 years.

Chairman Schuring asked Director Nehf to review STRS' Actuarial Experience. Director Nehf gave a brief overview of the pension evaluation and noted actuarial assumptions that were updated to 7.45% as well as STRS' updated mortality tables. He noted that without the STRS Board action to suspend the COLA, STRS would be well over the 30-year requirement, but with the suspension their funding period was 18 years.

Chairman Schuring asked Director Nehf to continue with the STRS Healthcare Report. Director Nehf gave an overview of the STRS Healthcare report.

Chairman Schuring asked Director Stensrud to review the SERS HealthCare Report. Director Stensrud noted the changes from the COLA legislation and the extension of the solvency period to 16 years.

Chairman Schuring then asked Director Carraher to review the OPERS Disability Report. Director Carraher gave a brief overview and noted a slight decline in applications and also mentioned the system's focus on rehabilitative processes with the goal of getting people back to work.

Chairman Schuring asked Director Atkeson to review the HPRS Disability Report. Director Atkeson noted six new disability reports for last year and 135 total on disability. He also reviewed the changes from House Bill 362.

Chairman Schuring asked Director Carraher to review the OPERS Budget. Director Carraher gave an overview of the OPERS Budget and noted a decrease in personnel due to investments in technology, which led to a decrease in the OPERS budget.

Upon Chairman Schuring's request, Director Nehf gave a brief overview of the STRS Travel Report.

Chairman Schuring asked Director Gallagher to review the 2017 OP&F Communication Plan. Director Gallagher gave a brief overview and noted that OP&F would be focusing on the healthcare changes that will be decided upon this year.

Chairman Schuring asked ORSC staff to provide the Rules report.

Mr. Bernard said that all the rules were in compliance with the Revised Code, but he did want to note an existing inconsistency in the Code, which the Council has previously asked be brought to their attention when found. He noted that, in regards to penalties assessed by the five systems for failure to report employee and employer contributions, PERS, OP&F, and SERS have statutory caps on their penalties, STRS is allowed to assess penalties but has no cap, and HPRS is not permitted to assess penalties at all. Chairman Schuring asked if staff was questioning whether there should be a statutory cap. Mr. Bernard responded yes. Representative Carfagna asked who would pay a school fine. Paul Snyder, STRS Deputy Executive Director, said that the school district would be fined. Chairman Schuring asked that staff make a recommendation during the next meeting on whether a cap should be put in place and to work closely with STRS on the recommendation. Representative Ramos also asked that staff do a comparison document of the caps for the other systems.

Chairman Schuring announced that the next meeting would be April 12, 2017 at 10:00am.

The meeting adjourned at approximately 11:00 a.m.

Date Approved

Kirk Schuring, Chair

Bethany Rhodes, Secretary

Steve Wilson, Vice Chair