

Minutes of the

OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM

The monthly meeting of the Ohio Public Employees Retirement Board was held in the offices of the Board, Ohio Public Employees Retirement System building, 277 East Town Street, Columbus, Ohio at 1:15 p.m., Wednesday, June 20, 2007.

Members present: Mr. Robert Smith; Ms. Sharon Downs; Mr. Warren Tyler; Ms. Cinthia Sledz; Mr. John Maurer; Ms. Helen Youngblood; Ms. Kimberly Russell; and Mr. Ken Thomas. (Mr. Ronald Alexander and Mr. Jim Tilling entered the meeting later.)

Member absent: Mr. Hugh Quill, Director, Department of Administrative Services.

Also present: Mr. Chris DeRose, Executive Director; Ms. Julie Becker, General Counsel; Ms. Karen Carraher, Director, Finance; Ms. Jenny Hom, Chief Investment Officer; Mr. Chuck Quinlan, Director, Information Technology; Ms. Julie Reneau, Director, Benefits; Mr. Scott Streator, Director, Health Care; Mr. Blake Sherry, Chief Operating Officer; and Ms. Laura Erebia Parsons, Attorney General's Office.

Mr. Smith moved, Mr. Maurer seconding, to approve the minutes of the meeting held May 16, 2007 and the disability report (see Appendix to the Minutes for report).

Roll call vote was taken as follows: Mr. Smith, aye; Ms. Downs, aye; Mr. Tyler, aye; Ms. Sledz, aye; Mr. Maurer, aye; Ms. Youngblood, aye; Ms. Russell, aye; Mr. Thomas, aye.

The motion passed with all ayes.

The Investment Committee Chair thanked the Investment staff for a very successful Investment Forum.

(Mr. Alexander and Mr. Tilling entered the meeting.)

Chair Thomas asked for the report of the Audit Committee.

The Board reviewed the following report from the Audit Committee Meeting:

Audit Committee Report

May 16, 2007

The meeting of the Ohio Public Employees Retirement Board Audit Committee was held in the offices of the Board, Ohio Public Employees Retirement System building, 277 East Town Street, Columbus, Ohio at 1:25 p.m., Wednesday, May 16, 2007.

Members present: Mr. John Maurer; Mr. Warren Tyler; and Mr. Ken Thomas. (Ms. Helen Youngblood entered the meeting after roll call.)

Member absent: Mr. Hugh Quill.

Also present: Ms. Cinthia Sledz; Ms. Karen Carraher, Director, Finance; Mr. Chris DeRose, Executive Director; Mr. Greg Januszewski, Internal Audit Director; and Mr. Blake Sherry, Chief Operating Officer.

The Committee Chair called the meeting.

Mr. Tom Heseltine of Clifton Gunderson reviewed the results of the 2006 financial audit. He also discussed the management letter comments and internal controls.

Several committee members requested that the external auditors meet with the committee prior to the start of the audit to review the scope. They also requested that the Audit Committee meet immediately preceding the board meeting in which the audit results and management letter are provided.

Included in the committee meeting material as an FYI was the status of significant audit issues.

Mr. Thomas moved, Mr. Tyler seconding, to adjourn the committee meeting.

The motion passed without dissent.

The meeting adjourned at 1:40 p.m.

Chair Thomas asked for the report of the Proxy Policy and Corporate Governance Committee.

The Board reviewed the following report from the Proxy Policy and Corporate Governance Committee Meeting:

Proxy Policy & Corporate Governance Committee Minutes
June 20, 2007

The meeting of the Ohio Public Employees Retirement Board Proxy Policy & Corporate Governance Committee was held in the offices of the Board, Ohio Public Employees Retirement System building, 277 East Town Street, Columbus, Ohio at 8:45 a.m., Wednesday, June 20, 2007.

Members present: Mr. Ronald Alexander; Mr. Jim Tilling; and Ms. Cinthia Sledz. (Mr. Ken Thomas entered the meeting during the presentation.)

Member absent: Mr. Robert Smith.

Also present: Mr. John Maurer; Mr. Chris DeRose, Executive Director; Ms. Julie Becker, General Counsel; Ms. Karen Carraher, Director, Finance; Mr. Blake Sherry, Chief Operating Officer; and Ms. Laura Erebia Parsons, Attorney General's Office. (Ms. Kimberly Russell, Mr. Warren Tyler, Ms. Sharon Downs, and Ms. Helen Youngblood entered the meeting during the presentation.)

The Committee Chair called the meeting to order.

Ms. Sledz introduced Mr. Chirag Mehta from Service Employees International Union (SEIU) and Mr. Richard Clayton from Change to Win (CtW) to make a presentation on mergers and acquisitions to benefit long-term shareholders.

Mr. Clayton provided a brief introduction about the CtW investment group. CtW promotes retirement security of their members in pension funds with over \$1.5 trillion in assets and represent several union organizations. The group supports active ownership initiatives by affiliate-sponsored funds and provides specialized expertise on mergers and acquisitions. They reviewed in some detail the rationale for their focus and discussed recent initiatives by the group.

(Mr. Thomas entered the meeting during the presentation.)

Several news articles pertaining to corporate governance issues were provided to the committee.

Mr. Alexander moved, Mr. Tilling seconding, to adjourn the committee meeting.

The motion passed without dissent.

The committee meeting was adjourned at 9:20 a.m.

Chair Thomas asked for the report of the Health Care Committee.

The Board reviewed the following report from the Health Care Committee Meeting:

Health Care Committee Minutes
June 20, 2007

The meeting of the Ohio Public Employees Retirement Board Health Care Committee was held in the offices of the Board, Ohio Public Employees Retirement System building, 277 East Town Street, Columbus, Ohio at 9:35 a.m., Wednesday, June 20, 2007.

Members present: Mr. Robert Smith; Ms. Sharon Downs; Mr. Warren Tyler; Ms. Cinthia Sledz; Mr. John Maurer; Mr. Jim Tilling; Ms. Helen Youngblood; Ms. Kimberly Russell; Mr. Ken Thomas; and Mr. Ronald Alexander.

Member absent: Mr. Hugh Quill, Director, Department of Administrative Services.

Also present: Mr. Chris DeRose, Executive Director; Ms. Julie Becker, General Counsel; Ms. Karen Carraher, Director, Finance; Ms. Julie Reneau, Director, Benefits; Mr. Scott Streator, Director, Health Care; Mr. Blake Sherry, Chief Operating Officer; and Ms. Laura Erebia Parsons, Attorney General's Office.

The Committee Chair called the meeting to order.

I. Action Items:

- A. Mr. Streator and Ms. Carraher discussed the Health Care Preservation Plan (HCPP) 2.0. At the May meeting, the board was presented with three variations of "option 2" as requested. Based on the board's feedback, staff was asked to combine various aspects of package "2C" and "2A" and calculate the impact of the modified version for the board to review and those changes were discussed with the committee.

Staff continued to focus on developing eight areas: Disease prevention, Medicare program changes, Rx Ohio Collaboration, targeted cost sharing up to 20%, spousal eligibility for health care, legislative changes, disability program updates/enhancements and the design of a health care purchasing pool.

Additionally, staff recommends increasing the portion of the contribution rate currently used to fund health

care by an additional 1% for the remaining six months of 2007 and an additional 1% for calendar year 2008. In conjunction with the results of the health care asset liability study, staff recommends modifying the asset allocation on the health care portfolio from the present 50% bonds/50% equities to a 60% equities/40% bonds with an element of private markets. Both of these changes would serve to increase the funding going into the health care portfolio.

After discussion, Mr. Maurer moved, Mr. Thomas seconding, to recommend approval to the full board the adoption of the Health Care Preservation Plan (HCPP) 2.0 as reviewed and discussed with staff.

Roll call vote was taken as follows: Mr. Smith, aye; Ms. Downs, aye; Mr. Tyler, aye; Ms. Sledz, aye; Mr. Maurer, aye; Mr. Tilling, aye; Ms. Youngblood, aye; Ms. Russell, aye; Mr. Thomas, aye; Mr. Alexander, aye.

The motion passed with all ayes.

- B. Ms. Lynne Hamilton, from the Health Care Department, discussed the health care plans and rates for 2008. She reviewed the process used to establish health care rates and reviewed the plan design changes. She reviewed the self-supporting rates for under 65, Medicare eligible and Medicare B only, and the rates for Aetna and Medical Mutual as cost administrators.

The HMO rates were also discussed for Kaiser and AultCare. HMO's can dictate plan design and plan changes from year to year, although they try to bid with a plan design prescribed by OPERS for the sake of consistency among the plans offered.

For 2008, premiums for the HMO-only carriers will increase between 11% and 15%. To alleviate the requested 2008 increases and to bring the plans more in line with the OPERS Health Care Plan, staff recommends plan changes to Kaiser and AultCare and those changes were discussed with the committee.

The base 2008 dental rates from Aetna represent a premium decrease of 1.7%, while base vision rates will increase 1.31%.

Mr. Streator and Ms. Hamilton discussed possible plan changes including the Medicare Advantage Plan offered by Aetna.

Staff presented recommended and necessary adjustments if OPERS is to keep in step with the HCPP and the board's stated preference for a five-year phase-in of member cost share between 10% and 20%. The 2008 Enhanced Benefit Plan Design includes:

- Current deductibles and out-of-pockets will not change.
- Physician office co-pays, ER co-pays, hospital deductibles will not change.
- The Income Based Discount will continue to be available.
- Consistent with the HCPP, passing on inflation in member's premium is not applicable for 2008 as a result of favorable claims experience and proposed plan design changes.
- The scheduled phase-in will continue as planned for Group 2 retirees.
- The preventive benefits continue to expand with the available \$100 per person/per year incentive.
- As a result of the anticipated savings and strategic alignment with the Rx Ohio Collaborative, the generic co-payments can be decreased. The overall brand/non-formulary prescription co-pays will change as follows:

<u>Prescription Drug</u>	<u>Retail</u>	<u>Mail Order</u>
Generic	\$3.00	\$9.00
Brand Formulary	\$15.00	\$45.00
Brand Non-Formulary	\$50.00	\$150.00

Based on the principles of HCPP and the positive experience results received from Gabriel, Roeder Smith & Company, staff recommends the implementation of the prescription drug co-pay changes effective January 1, 2008 and delay the implementation of the medical plan changes until January 1, 2009. The following are recommendations for 2009:

- 1) Increase the single deductible from \$250 to \$350
- 2) and the family deductible from \$400 to \$700.
- 3) Increase the single maximum out-of-pocket from \$850 to \$1,000 and the family out-of-pocket from \$1,600 to \$2,000.

Mr. Maurer moved, Mr. Tilling seconding, to recommend approval to the full board the 2008 rates and Plan designs in accordance with the Health Care Preservation Plan as discussed and reviewed with staff.

Roll call vote was taken as follows: Mr. Smith, aye; Ms. Downs, aye; Mr. Tyler, aye; Ms. Sledz, aye; Mr. Maurer, aye; Mr. Tilling, aye; Ms. Youngblood, aye; Ms. Russell, aye; Mr. Thomas, aye; Mr. Alexander, aye.

The motion passed with all ayes.

Mr. Thomas moved, Mr. Maurer seconding, to recommend approval to the full board the specific changes to the Plan design as presented and discussed with staff, reflecting a five-year phase-in of a 20% cost share with a yearly review by the board.

Roll call vote was taken as follows: Mr. Smith, aye; Ms. Downs, aye; Mr. Tyler, aye; Ms. Sledz, aye; Mr. Maurer, aye; Mr. Tilling, aye; Ms. Youngblood, aye; Ms. Russell, aye; Mr. Thomas, aye; Mr. Alexander, aye.

The motion passed with all ayes.

II. Discussion Item:

- A. Mr. Streator, Mr. Brian Pack and Ms. Lynne Hamilton from the Health Care Department discussed the Pharmacy Benefit Manager selection.

OPERS, State Teachers Retirement System of Ohio and School Employees Retirement System of Ohio joined efforts, under the name Rx Ohio Collaboration (ROC), to explore and implement innovative, cost-effective approaches to maximize the value of their health care and pharmacy benefit programs and improve health outcomes of their collective 350,000 retiree population. The systems worked together through a request for proposal (RFP) to select Buck Consultants as its pharmacy benefit consultant and to share the cost of the consultant. An RFP was issued to 25 vendors and the ROC recently completed their analysis and selection of the top finalists.

Mr. Streator discussed the benefits of a Pharmacy Benefit Manager, the ROC vision, the RFP process, the consultant's report and projected savings to OPERS.

The finalists were Catalyst Rx, Caremark, Express Scripts, Medco and MedMetrics. Three finalists were invited back for presentations and subsequent site visits were conducted at two of the finalists operations. As a result of the best strategy/innovation weighting to optimize

pharmaceutical expenditure, service/operational capabilities, and best financial/pricing value, the ROC and OPERS staff recommends the committee authorize staff to enter into contract negotiations to execute final contract with Express Scripts.

Mr. Tyler expressed his concern that the committee needs a better understanding of the litigation and claims history on the finalist. He also asked to see a copy of the Buck report and will address his questions to staff to obtain a better understanding of the vendor.

After discussion, Mr. Tyler moved, Mr. Thomas seconding, to postpone the recommendation of the Pharmacy Benefit Manager until next month in order for the committee to review the litigation and claims history on the finalist. Also, this will provide the committee with an opportunity to review the Buck report and for Mr. Tyler to provide his questions to the staff.

Roll call vote was taken as follows: Mr. Smith, nay; Ms. Downs, nay; Mr. Tyler, aye; Ms. Sledz, nay; Mr. Maurer, nay; Mr. Tilling, aye; Ms. Youngblood, nay; Ms. Russell, aye; Mr. Thomas, aye; Mr. Alexander, aye.

The motion failed with five ayes and five nays.

Ms. Youngblood moved, Ms. Sledz seconding, to recommend approval to the full board for staff to enter contract negotiations for Express Scripts as the Pharmacy Benefit Manager.

Roll call vote was taken as follows: Mr. Smith, aye; Ms. Downs, aye; Mr. Tyler, nay; Ms. Sledz, aye; Mr. Maurer, aye; Mr. Tilling, nay; Ms. Youngblood, aye; Ms. Russell, aye; Mr. Thomas, aye; Mr. Alexander, nay.

The motion passed with seven ayes and three nays.

Ms. Downs moved, Mr. Maurer seconding, to adjourn the committee meeting.

The motion passed without dissent.

The committee meeting was adjourned at 12:50 p.m.

Mr. Alexander moved, Mr. Maurer seconding, to adopt the Health Care Preservation Plan (HCPP) 2.0 as reviewed and recommended by the Health Care Committee report.

Roll call vote was taken as follows: Mr. Smith, aye; Ms. Downs, aye; Mr. Alexander, aye; Mr. Tyler, aye; Ms. Sledz, aye; Mr. Maurer, aye; Mr. Tilling, aye; Ms. Youngblood, aye; Ms. Russell, aye; Mr. Thomas, aye.

The motion passed with all ayes.

Mr. Alexander moved, Mr. Maurer seconding, to approve the 2008 rates and Plan designs in accordance with the HCPP as reviewed and recommended by the Health Care Committee report.

Roll call vote was taken as follows; Mr. Smith, aye; Ms. Downs, aye; Mr. Alexander, aye; Mr. Tyler, aye; Ms. Sledz, aye; Mr. Maurer, aye; Mr. Tilling, aye; Ms. Youngblood, aye; Ms. Russell, aye; Mr. Thomas, aye.

The motion passed with all ayes.

Mr. Alexander moved, Ms. Downs seconding, to authorize staff to enter contract negotiations for Express Scripts as the Pharmacy Benefit Manager as reviewed and recommended by the Health Care Committee report.

Roll call vote was taken as follows: Mr. Smith, aye; Ms. Downs, aye; Mr. Alexander, nay; Mr. Tyler, nay; Ms. Sledz, aye; Mr. Maurer, aye; Mr. Tilling, aye; Ms. Youngblood, aye; Ms. Russell, aye; Mr. Thomas, aye.

The motion passed with eight ayes and two nays.

Mr. Alexander moved, Mr. Maurer seconding, to approve the specific changes to the Plan design as presented and discussed with staff, reflecting a five-year phase-in of a 20% cost share with a yearly review by the board as reviewed and recommended by the Health Care Committee report.

Roll call vote was taken as follows: Mr. Smith, aye; Ms. Downs, aye; Mr. Alexander, aye; Mr. Tyler, aye; Ms. Sledz, aye; Mr. Maurer, aye; Mr. Tilling, aye; Ms. Youngblood, aye; Ms. Russell, aye; Mr. Thomas, aye.

The motion passed with all ayes.

Chair Thomas asked for the report of the Personnel and Salary Review Committee.

The Board reviewed the following report from the Personnel and Salary Review Committee Meeting:

Personnel and Salary Review Committee Minutes
May 16, 2007

The meeting of the Ohio Public Employees Retirement Board Personnel and Salary Review Committee was held in the offices of the Board, Ohio Public Employees Retirement System building, 277 East Town Street, Columbus, Ohio at 1:50 p.m., Wednesday, May 16, 2007.

Members present: Ms. Sharon Downs; Ms. Kimberly Russell; Ms. Cinthia Sledz; Mr. Warren Tyler; and Ms. Helen Youngblood.

Also present: Mr. John Maurer and Ms. Shelley Wilson, Human Resources Director.

The Committee Chair called the meeting to order.

Ms. Youngblood discussed the materials for the board to conduct the Executive Director's six-month performance evaluation. Ms. Youngblood asked that all board members complete an evaluation and forward to Ms. Downs by June 11, 2007. The evaluation will be discussed at the June meeting.

Mr. Tyler moved, Ms. Downs seconding, to adjourn the committee meeting.

The motion passed without dissent.

The committee meeting was adjourned at 2:15 p.m.

Ms. Youngblood moved, Mr. Alexander seconding, to enter executive session to discuss personnel issues.

Roll call vote was taken as follows: Mr. Smith, aye; Ms. Downs, aye; Mr. Alexander, aye; Mr. Tyler, aye; Ms. Sledz, aye; Mr. Maurer, aye; Mr. Tilling, aye; Ms. Youngblood, aye; Ms. Russell, aye; Mr. Thomas, aye.

The motion passed with all ayes.

All staff left the meeting.

Mr. Smith moved, Mr. Maurer seconding, to come out of executive session.

The motion passed without dissent.

All staff reentered the meeting.

Ms. Youngblood reported that the board discussed the six-month performance evaluation of the Executive Director. Ms. Youngblood and Ms. Downs, Chair and Vice-Chair of the Personnel and Salary Review Committee, will meet with the Executive Director and review the evaluation.

The Chair called on Ms. Parsons to report on the membership determination appeal for Peter Neiheisel v. Columbiana County, Ohio and Columbiana County, Ohio v. Jerry Foreman, Melvin Jordan, Gene St. John and Joe Weston. The board is being asked to determine whether Peter Neiheisel, Jerry Foreman, Melvin Jordan, Gene St. John and Joe Weston were carryover public employees of Columbiana County for their service with CiviGenics, Inc., a private contractor. R.C. 145.01(A)(2) provides that a person who is a public employee will maintain their public employee status if they continue "to perform the same or similar duties under the direction of a contractor who has contracted to take over what before the date of the contract was a publicly operated function." After an administrative hearing on this issue, the hearing examiner prepared a Report and Recommendation to the board with findings of fact and conclusions of law, recommending that the board find that Peter Neiheisel, Jerry Foreman, Gene St. John and Joe Weston are carryover public employees of Columbiana County and are therefore eligible for OPERS membership for their service with CiviGenics. The hearing examiner concluded that the period in which these individuals were laid off did not amount to a break in employment. With respect to Melvin Jordan, the hearing examiner recommended that the board find that Mr. Jordan was not a carryover public employee because he had intervening employment between the date he was laid off and the date he was hired by CiviGenics.

Mr. James Melle representing Peter Neiheisel, Jerry Foreman, Melvin Jordan, Gene St. John and Joe Weston was present and addressed the board. Mr. Andrew Owen representing Columbiana County was also present and addressed the board.

The board discussed remanding the case back to the hearing examiner for additional information, which staff will communicate to the hearing examiner.

Mr. Maurer moved, Mr. Alexander seconding, to enter executive session to discuss pending litigation.

Roll call vote was taken as follows: Mr. Smith, aye; Ms. Downs, aye; Mr. Alexander, aye; Mr. Tyler, aye; Ms. Sledz, aye; Mr. Maurer, aye; Mr. Tilling, aye; Ms. Youngblood, aye; Ms. Russell, aye; Mr. Thomas, aye.

The motion passed with all ayes.

Mr. Smith moved, Mr. Alexander seconding, to come out of executive session.

The motion passed without dissent.

Mr. Smith moved, Mr. Tilling seconding, to authorize special counsel to proceed in filing an appeal in CCI v. OPERS and to take any action to further the strategies as discussed and outlined in executive session.

Roll call vote was taken as follows: Mr. Smith, aye; Ms. Downs, aye; Mr. Alexander, aye; Mr. Tyler, aye; Ms. Sledz, aye; Mr. Maurer, aye; Mr. Tilling, aye; Ms. Youngblood, aye; Ms. Russell, aye; Mr. Thomas, aye.

The motion passed with all ayes.

Mr. Thomas outlined that one of his goals as Chair was to transform the board website into a tool that every board member would find useful, efficient and enjoyable to use. Mr. Thomas asked staff to give some thought and revamp the site into a more user-friendly site. Mr. Quinlan provided a demo on the updated board website based on the direction of the Chair. The board is encouraged to visit the website and provide feedback to staff to grow the site into an even more valuable tool with expanded features.

The monthly legislative update was included in the board packet.

Mr. Thomas Sherman gave a status update on Sub. H.B. 151. Sub. H.B. 151 is currently pending in the House Rules and Reference committee. OPERS has testified in opposition to the proposed divestment legislation on several occasions.

Although there are financial and administrative concerns, the greatest concern is the mandatory call for divestment and the abrogation of the board's fiduciary duty.

OPERS has suggested that the bill be amended along the lines of S.B. 133 and require that the board be directed to adopt a policy to address divestiture from certain companies doing business in Iran and Sudan, and report through the Ohio Retirement Study Council. In this way, OPERS can meet its fiduciary duty to act solely in the best interest of the participants and beneficiaries of the system when making investment decisions.

The Executive Directors of all five retirement systems recently met with the Speaker of the House to continue discussions on Sub. H.B. 151. In that meeting, it was noted that the Ohio Police and Fire Pension Fund changed their position on the bill from neutral to oppose by adopting a formal resolution, and the STRS board also adopted a formal position. Staff recommends that the OPERS board consider making the same statement, so the systems remain united in formal opposition.

At a meeting in early June with the Speaker, the Speaker asked if the retirement systems would agree to voluntarily divest 50% of active, direct holdings in companies as defined by the bill by the end of the year. In response, the Executive Directors from the five systems signed a letter indicating that the Directors would commit to work with their boards to develop an investment policy consistent with the boards' fiduciary duties with the intent of divesting as set forth in the letter.

Staff was seeking direction from the board to direct staff to draft an investment policy addressing investments in Iran and Sudan and bring the policy back for the board's consideration next month.

Ms. Sledz moved, Mr. Smith seconding, to oppose any mandatory divestiture of holdings in companies as provided in the current version of Sub. H. B. 151, or any similar legislation, as such mandatory divestment is inconsistent with the board's fiduciary duties to the membership.

Roll call vote was taken as follows: Mr. Smith, aye; Ms. Downs, aye; Mr. Alexander, aye; Mr. Tyler, aye; Ms. Sledz, aye; Mr. Maurer, aye; Mr. Tilling, aye; Ms. Youngblood, aye; Ms. Russell, aye; Mr. Thomas, aye.

The motion passed with all ayes.

Mr. Tilling moved, Mr. Maurer seconding, to direct staff to draft a policy addressing investments in companies doing business in the countries of Iran and Sudan and any other countries that might be involved in terrorist activities for the board's consideration.

Roll call vote was taken as follows: Mr. Smith, aye; Ms. Downs, nay; Mr. Alexander, aye; Mr. Tyler, aye; Ms. Sledz, aye; Mr. Maurer, aye; Mr. Tilling, aye; Ms. Youngblood, aye; Ms. Russell, aye; Mr. Thomas, aye.

The motion passed with nine ayes and one nay.

The Executive Director's monthly report was included in the board packet.

Mr. Alexander moved, Mr. Tilling seconding, the meeting be adjourned until the next regular meeting to be held Wednesday, July 18, 2007 at 9:00 a.m. in the offices of the Board.

The motion passed without dissent.

The meeting adjourned at 3:35 p.m.