



STATE TEACHERS
RETIREMENT SYSTEM
OF OHIO

Board Policies

State Teachers Retirement System of Ohio

**BOARD POLICIES
March 2005**

INDEX

	<u>Page</u>
Policy Type: Ends	
<i>Purpose</i>	1-2
<i>Investments</i>	3-7
<i>Member Benefits</i>	8-10
<i>Actuarial Condition</i>	11
Policy Type: Governance Process	
<i>Governing Style</i>	12
<i>Board Member Education</i>	13-15
<i>Board Member Travel and Expenses</i>	16-18
<i>Board Job Description</i>	19
<i>Board Attendance</i>	20
<i>Officers, Term of Office, Duties</i>	21-23
<i>Committee Principles</i>	24-25
<i>Committee Charters</i>	26-32
<i>Retirement Board Elections</i>	33
<i>Actuarial Soundness</i>	34
<i>Public Participation at Board Meetings</i>	35
<i>Board Members' Code of Conduct</i>	36
<i>Board Self-Evaluation</i>	37
Policy Type: Board-Executive Director Relationship	
<i>Delegation to the Executive Director</i>	38
<i>Executive Director's Job Description</i>	39
<i>Employment of Executive Director</i>	40
<i>Executive Director Evaluation</i>	41
<i>Monitoring Executive Performance</i>	42-43
Policy Type: Executive Director Limitations	
<i>Operational Financial Planning</i>	44
<i>Operational Financial Condition</i>	45
<i>Operational Asset Protection</i>	46
<i>Investment Asset Protection</i>	47
<i>Business Continuity Planning</i>	48
<i>Communication and Counsel to the Board</i>	49
<i>Emergency Executive Succession</i>	50
<i>Compensation and Benefits</i>	51
<i>Staff Treatment</i>	52
<i>General Executive Constraints</i>	53
<i>Code of Ethics</i>	54
Appendix	
Ohio Retirement System Ethics Policy	56

POLICY TYPE: ENDS**POLICY TITLE: PURPOSE**

The purpose of the Retirement Board is to ensure current and long-term retirement benefits as statutorily defined, health care coverage, and related services for Ohio teachers and their beneficiaries.

The mission of STRS Ohio is: To partner with STRS Ohio members in providing financial performance and member service that assures financial security for current and future retirees.

The vision of STRS Ohio is: To be a premier retirement system as evidenced by:

Comprehensive member benefits: Providing retirement planning, benefits and health care coverage to enhance the quality of life for members, and

Quality service: Striving to exceed the service expectations of members, employers and associates,

through

Fiduciary responsibility: Safeguarding members' financial retirement security using ethical and professional business practices, and

Financial performance: Improving funding through prudent investments and resource management,

by

Empowerment of associates: Enabling associates to act through the delegation of authority and the acceptance of accountability, and

Organizational renewal: Enhancing STRS Ohio's future by continually acquiring, sharing and implementing new knowledge.

Guiding Principles:

To achieve our mission and vision, we will:

1. Make decisions that produce the greatest possible net benefit for members.
2. Be proactive rather than reactive by anticipating and dealing with change and growth.
3. Attract, develop and retain a highly competent and motivated workforce.
4. Build an organizational culture that inspires a high level of professionalism and performance — distinguishing STRS Ohio as a workplace now and in the future.

(Rev. 3-99; 3-05)

5. Provide an open environment for associates to generate new methods or practices to achieve our vision.
6. Provide associates with authority commensurate with their responsibilities for efficiency in decision-making and leadership development.
7. Continually improve through research, development and evaluation.

POLICY TYPE: ENDS**POLICY TITLE: INVESTMENTS**

Based on the STRS Ohio performance benchmarks and ratings recommended by the Board's consultants and approved by the Board Investment Committee, and the Statement of Investment Objectives and Policy and the Statement of Fund Governance adopted Jan. 16, 2004, the ends to be achieved regarding the investment of funds are as follows:

- Total Fund** The STRS Ohio investment portfolio includes fixed income, stocks, real estate, international, alternative and liquidity reserve investments.
- Benchmarks:**
- The actuarial rate of return — currently 8.0% (Fiscal Year)
 - The long-term policy objectives — currently 8%
 - The total return on a fiscal-year basis of a hybrid benchmark index composed of 1% 90-day Treasury Bills, 23% of the Lehman Universal Index, 45% of the Russell 3000, 9% of the Real Estate Composite Index Benchmark, 2% Alternative Investment Return and 20% of the International Hybrid Index. The above weights of the benchmark index are for fiscal 2003 and future years. The weights for previous years were based on Board policies and legal restrictions in effect at the time.
- Ratings:**
- Exceeded Objective — exceeding any two of the three benchmarks
- Met Objective — exceeding any one of the three benchmarks
- Below Objective — trailing all three benchmarks
- Time Period:** As the total fund has a long-term time horizon to fund the pension liabilities, the emphasis for evaluating results is as follows: 10-year period is weighted 25%, five-year period is 35%, three-year period is 30% and one-year period is 10%. The weighted sum is the overall rating.
- Expectations:** Total return ratings will be at least in the “met” category for the preceding three-, five- and 10-year periods.

Fixed Income

Benchmark:	Lehman Universal Index	
Ratings:	Exceeded Objective	— exceeding the benchmark within a range of 0.35% (35 basis points) to more than 0.05% (5 basis points) on an annualized basis
	Met Objective	— within a range of 0.05% (5 basis points) to more than 0.00% (0 basis points) on an annualized basis
	Below Objective	— at or below the benchmark
Time Period:	As the total fund has a long-term time horizon to fund the pension liabilities, the emphasis for evaluating results is as follows: 10-year period is weighted 25%, five-year period is 35%, three-year period is 30% and one-year period is 10%. The weighted sum is the overall rating.	
Expectation:	The fixed income return will be at least in the “met objective” category for the preceding three-, five- and 10-year periods.	



Domestic Equity Portfolio

Benchmark:	Russell 3000
Ratings:	<p>Exceeded Objective — exceeding the benchmark by 0.35% (35 basis points) to more than 0.05% (5 basis points) on an annualized basis</p> <p>Met Objective — within a range of 0.05% (5 basis points) to more than 0.00 (0 basis points) on an annualized basis</p> <p>Below Objective — at or below the benchmark</p>
Time Period:	As the total fund has a long-term time horizon to fund the pension liabilities, the emphasis for evaluating results is as follows: 10-year period is weighted 25%, five-year period is 35%, three-year period is 30% and one-year period is 10%. The weighted sum is the overall rating.
Expectation:	The equity return will be at least in the “met objective” category for the preceding three-, five- and 10-year periods.

Real Estate Portfolio

Benchmark:	Real Estate Composite Index*	
Ratings:	Exceeded Objective	— exceeding the benchmark by 0.75% (75 basis points) to more than 0.10% (10 basis points) on an annualized basis
	Met Objective	— within a range of 0.10% (10 basis points) to more than 0.00% (0 basis points) on an annualized basis
	Below Objective	— at or below the benchmark
Time Period:	As the total fund has a long-term time horizon to fund the pension liabilities, the emphasis for evaluating results is as follows: 10-year period is weighted 25%, five-year period is 35%, three-year period is 30% and one-year period is 10%. The weighted sum is the overall rating.	
Expectation:	The real estate return will be at least in the “met objective” category for the preceding three-, five- and 10-year periods.	

**A composite index consisting of 80% of the NCREIF Property Index, 10% of the NCREIF Timberland Index and 10% of the Wilshire REIT Index.*

(Rev. 3-99; 2-03)

International Equity Portfolio

Benchmark:	A composite index consisting of 75% of the Morgan Stanley Capital International (MSCI) World ex USA Index (50% hedged) and 25% of the Morgan Stanley Capital International (MSCI) Emerging Markets Free (EMF) Index.	
Ratings:	Exceeded Objective	— exceeding the benchmark by 1% (100 basis points) to more than 0.15% (15 basis points) on annualized basis
	Met Objective	— within a range of 0.15% (15 basis points) to more than 0.00% (0 basis points) on an annualized basis
	Below Objective	— at or below the benchmark
Time Period:	As the total fund has a long-term time horizon to fund the pension liabilities, the emphasis for evaluating results is as follows: five-year period is 40%, three-year period is 50% and one-year period is 10%. The weighted sum is the overall rating. When applicable, the emphasis for evaluating results will change to: 10-year period is weighted 25%, five-year period is 35%, three-year period is 30% and one-year period is 10%.	
Expectation:	The international equity return will be at least in the “met objective” category for the preceding three-, five- and 10-year periods.	

POLICY TYPE: ENDS**POLICY TITLE: *MEMBER BENEFITS***

The ends to be achieved regarding member benefits are as follows:

Retirement Benefits

When compared with the 12 non-Social Security statewide public retirement systems that include teachers, benefits will be within the top quartile when measured as to:

- Relation of percent of benefit to final average salary at 10, 20, 30 and 40 years of service
- Benefits/service retirement recipient
- Minimum age requirements for unreduced benefits with 25, 30 and 35 years of service
- Vesting requirements for normal retirement
- Number of years to determine final average salary
- Disability benefits/recipient
- Survivor benefits/recipient
- Cost-of-living adjustment (COLA)
- Death benefits
- Portability
- Retirement plan of payment options
- Annual Statement

Options

When compared with the 12 non-Social Security statewide public retirement systems that include teachers, options will be within the top quartile when measured as to:

- Health care coverage
 - Long-term care
 - Dental care
 - Vision care
-

Services

- Accuracy:** To evidence progress in achieving zero errors in all factual information provided to members and benefit recipients.
- Promptness:** To acknowledge receipt of correspondence within 24 hours unless answer can be provided in five days or less.
- To evidence progress in replying to all correspondence or telephone inquiries within 10 work days.
- To answer telephone inquiries from members and benefit recipients such that at least 90% will respond that the timeliness of the response met or exceeded their expectations.
- To evidence progress toward ensuring that 100% of benefit recipients receive their monthly benefit payment on the first day of the month (or the day thereafter if the first is a Sunday or a holiday).
- To evidence progress toward ensuring that 100% of benefit recipients receive a benefit payment on the first day of retirement (provided application has been made at least 30 days in advance and it is not a joint retirement).
- Courtesy:** At least 90% of members and benefit recipients will respond that the courtesy extended them met or exceeded their expectations.
- Assistance:** At least 90% of members and benefit recipients will respond that the information they requested was provided.
- At least 90% of members and benefit recipients will respond that STRS Ohio communications met or exceeded their expectations.
- At least 90% of members and benefit recipients will respond that information provided by STRS Ohio prior to retirement enabled them to make informed choices.
- At least 90% of members and benefit recipients will respond that the following met or exceeded their expectations:
- Individual Meetings
 - Group Meetings

Member Notice

- Within six months of commencing participation in STRS Ohio, new members shall receive a written summary of the provisions of the Retirement System, including information as to contribution rates, how service credit is earned, and specific benefit provisions including service retirement, disability retirement, survivor benefits, eligibility for such benefits and information on how to make application. All members will be notified of significant changes within one year following adoption and will be provided with a revised copy of the summary plan description.
- All such notification shall be made through the postal service to the individual home mailing address of the member.
- Within six months of the end of the fiscal year, each member participating in the Defined Benefit Plan and the Combined Plan shall be provided with an annual statement which includes the member's identification, accrued service credit and employee contributions. The annual statement will be distributed through the postal service to the individual home mailing address to promote confidentiality. Statements will also be available in the secure area of the system Web site.
- Each member participating in the Defined Contribution Plan and the Combined Plan will be mailed a quarterly statement of his/her defined contribution account by the 20th business day of the month following the end of a quarter.
- All inactive, vested members shall be provided with a benefit eligibility statement within one year of termination of their status as a contributing member. Such statement shall include the member's identification, date of birth, accrued service credit at the time of termination, and estimated benefit based on final average salary, years of service and age. Such statement shall be mailed to the member's last known address.
- Within six months of the end of the fiscal year, an annual financial report shall be prepared, published and made available to each member, benefit recipient and public employers covered by the plan. Such report shall include the auditor's opinion letter; the general purpose financial statements and required supplementary information; the actuary's certification letter; a summary of the actuarial assumptions and methods; the valuation results; and an investment report which includes the investment performance results and a summary of investment activity during the fiscal year.

POLICY TYPE: ENDS**POLICY TITLE: *ACTUARIAL CONDITION***

The ends to be maintained from an actuarial standpoint are as follows:

Unless affected by an explicit policy decision of the Retirement Board, the actuarial funding ratio shall increase or remain the same from one year to the next, and the funding period shall decrease or remain the same from one year to the next.

Evidence of actuarial soundness shall be verified through:

- An annual actuarial valuation, prepared by an actuary, of the pension assets, liabilities and funding requirements of the system, pursuant to Chapter 3307, Ohio Revised Code. Such valuation study shall meet all requirements of Section 3307.51(A).
- A quinquennial actuarial review, prepared by an actuary, of the mortality, service and other experience of the members, retirees and beneficiaries of the system in order to update the actuarial assumptions used in the annual actuarial valuation study.
- An actuarial review of the actuarial valuation study conducted to produce an opinion as to the reasonableness of the actuarial assumptions, actuarial cost methods, valuation results, statutory contribution rates and certification. Such review shall be conducted by an independent actuary at least once every 10 years.

POLICY TYPE: GOVERNANCE PROCESS**POLICY TITLE: *GOVERNING STYLE***

The Board will approach its task with a style that emphasizes outward vision rather than an internal preoccupation, encouragement of diversity in viewpoints, strategic leadership more than administrative detail, clear distinction of Board and staff roles, future rather than past or present, and proactivity rather than reactivity, using the Carver model of governance as its guide.

In this spirit, the Board will:

- A. Focus chiefly on intended long-term impacts on members and benefit recipients (Ends), not on the administrative or programmatic means of attaining those effects.
- B. Direct, control and inspire the Retirement System through careful establishment of the broadest organizational values and perspectives (policies).
- C. Enforce upon itself and its members whatever discipline is needed to govern with excellence. Discipline will apply to matters such as attendance, policy-making principles, respect of clarified roles, speaking with one voice, and self-policing any tendency to stray from governance adopted in Board policies.
- D. Be accountable to members and benefit recipients for competent, conscientious and effective accomplishment of its obligations as a public trust. It will allow no officer, individual or committee of the Board to usurp this role or hinder this commitment.
- E. Monitor and regularly discuss the Board's own process and performance. Ensure the continuity of its governance capability by retraining and redevelopment.
- F. Be an initiator of policy, not merely a reactor to staff initiatives. The Board, not the staff, will be responsible for Board performance.

The members of the Retirement Board of the State Teachers Retirement System of Ohio are dedicated to promoting and protecting the benefits and general well-being of all members of the system and to that end, adhere to the following guiding principles:

Members of the Retirement Board:

- Honor and support the values, vision and mission of STRS Ohio.
- Deliberate in a proactive manner in order to anticipate and prepare for change and growth.
- Encourage and respect diversity of opinions during deliberations, but speak with one voice once decisions are made.
- Ensure that STRS Ohio initiatives are charted through collective Board action.
- Conduct their business in a courteous manner toward fellow Board members, STRS Ohio members and staff.

(Rev. 3-99; 2-03)

POLICY TYPE: GOVERNANCE PROCESS**POLICY TITLE: BOARD MEMBER EDUCATION**

- A. Section 3307.15 of the Revised Code mandates that the Retirement Board and other fiduciaries of the fund will discharge their duties with care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims; and by diversifying the investments of the Retirement System so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.
1. Both continuing education in the topics vital for pension trustees and participation in state and national pension organizations are essential to successfully carrying out these fiduciary duties.
 2. Each Board member has an ongoing obligation to make every effort to attend and participate in the Board's meetings with its policy and investment advisors; to represent the Retirement System in such national and state organizations as the Board determines are beneficial to its interests.
 3. Each Board member shall select such methods of continuing education as will best enable them to acquire the information and skills needed. However, each Board member also has the responsibility to ensure that the expenses incurred are both reasonable and necessary, and that attendance at meetings does not compromise the integrity of the Retirement System or further a personal financial gain.
 4. Each Board member attending a conference or meeting shall make a report to the Board at a following Board meeting.
- B. The Board shall identify subjects for continuing education and the information needed in those subjects. In general, the topics Board members need to be knowledgeable about include, but are not limited to, the following substantive areas. Other areas may be deemed appropriate as well. Individual Board members may be expected to have different types or levels of expertise.
1. Obligations and liabilities of Retirement Board members;
 2. Legal framework of the Retirement System;
 3. Operation and administrative practices of the Retirement System;
 4. Benefits policies, including health care, of the Retirement System;
 5. Financing of the Retirement System.
 - a. General knowledge of financial markets and economics;

- b. Public and corporate finance;
- c. Macroeconomic trends affecting assets and liabilities;
- d. Relationship between assets and liabilities;
- e. Estimated total fund return and costs of achieving return;
- f. Asset allocation, including:
 - i. Asset class-specific assumptions and management;
 - ii. Comparative costs of different ways of managing same asset mix;
 - iii. Comparative costs of other investment approaches;
 - iv. Comparison of returns and costs to benchmarks;
 - v. Selection of appropriate benchmarks.

6. Development and oversight of investment policy.

Each member of the Board who has served a year or longer as a Board member shall, not less than twice each year, attend one or more programs that are part of the continuing education component of the Retirement Board Member Education Program established under Section 171.50 of the Revised Code. Subject matter shall include: board member duties and responsibilities; retirement system member benefits and health care management; ethics; governance processes and procedures; actuarial soundness; investments; and any other subject matter the boards believe is reasonably related to the duties of a board member. All program sessions, classes and other events shall be held in Ohio.

C. New Board member orientation:

Effective orientation of a new Board member is essential to the Board's ability to maintain integrity of the system and fulfill the fiduciary duties of managing such a system. The Board has responsibility for ascertaining the requisite skills and knowledge of a newly elected/appointed Board member and facilitating the member's development as an independent fiduciary. To that end, the Board will conduct an annual audit of key Board issues and policies. The results will be used to determine key skills and knowledge areas necessary to function as an effective Board member.

In addition, one member of the Board will be designated by the Chair as lead mentor to a new member for a period of one year. New member orientation to the Retirement System will be arranged by the Executive Assistant to the Board and conducted by the Executive Director and appropriate staff.

Also, each newly elected member of the Retirement Board and each individual appointed to fill a vacancy on the Board shall, not later than 90 days after commencing service as a Board

member, complete the orientation program component of the Retirement Board Member Education Program established under Section 171.50 of the Revised Code. This program shall be jointly developed and paid for by all five retirement systems. All program sessions, classes and other events shall be held in Ohio.

D. Cooperative and video presentations:

It is the policy of the Board to encourage cooperative planning and presentation of training activities with the other Ohio public retirement systems and to utilize local training resources as appropriate and to expand the use of video-conferences where suitable and cost effective.

POLICY TYPE: GOVERNANCE PROCESS**POLICY TITLE: BOARD MEMBER TRAVEL AND EXPENSES**

A. Travel:

1. A Board member who is a participant or designated speaker at any Retirement Board meeting, committee meeting or event sponsored by the Retirement System or an organization with which the Retirement System is affiliated for the purpose of exchanging information pertaining specifically to the system shall be reimbursed for incurred expenses.
2. Except to the extent authorized or directed otherwise by a vote of the Board and subject to the other provisions and limitations of this rule, each Board member may be reimbursed up to a maximum of \$6,000 for the expenses of actual and necessary travel outside Ohio, exclusive of tuition or registration fee, for a maximum of three trips per year to: participate in conferences, seminars or programs for continuing education; represent the system in the organizations to which it belongs; or attend meetings with the Board's investment advisors and consultants and meetings to oversee investment assets and properties as herein provided.
3. Except to the extent authorized or directed otherwise by a vote of the Board, a maximum of three members will be reimbursed for travel expenses unrelated to a Board meeting incurred to attend any one conference or meeting.
4. Out-of-state travel shall be subject to approval in advance by a vote of the members at a regular Board meeting. The Board Chair is authorized to grant emergency exceptions to the requirement of prior approval; however, the emergency approval shall be announced at the next regular Board meeting.
5. Each member shall submit a conference evaluation form completed online or on paper as a part of any request for reimbursement of travel expenses. Further, Board members attending a conference or meeting shall make a report to the Board at a following Board meeting.

B. Eligible reimbursable expenses:

1. Actual and necessary expenses incurred, whether within Ohio or out of state, in connection with approved travel on business related to the Retirement System may be reimbursed up to the maximums herein provided. Such expenses shall include, but are not limited to, reasonable charges for lodging, meals, transportation, telephone calls, registration fees, gratuities and related expenses.
2. Out-of-state travel expenses are limited to those incurred not more than one day before, during the event, and one day after.

3. All expenses for lodging shall be supported by paid bills or receipts.
 - a. Board members may be reimbursed for actual in-state hotel room costs up to \$125 plus applicable taxes per night.
 - b. Board members may be reimbursed for actual out-of-state hotel room costs, exclusive of taxes, up to \$225 per night in New York City, Boston, Washington, D.C., Atlanta, Chicago, San Francisco and Los Angeles and up to \$150 per night in all other cities.
 - c. Lodging at a conference site or lodging at a hotel identified in the conference registration materials as one of the conference hotels will be reimbursed at actual costs with prior approval of the Retirement Board.
 - d. Any costs incurred by any person or persons staying with a Board member are to be paid by the Board member. The Board member shall reimburse the Retirement System for any difference between the double and single room rate.
4. Board members may be reimbursed for actual and reasonable meal expenses up to a maximum rate of \$60 per day per person. The amount may be allocated among breakfast, lunch and dinner any way the Board member chooses. If meals are provided by the conference as a part of the registration fee, the Board member will not be reimbursed for those same meals if purchased elsewhere.
5. Transportation:
 - a. Airfare will be purchased as early as possible and at the lowest price coach class available.
 - b. Upgrades using frequent flyer coupons are permitted.
 - c. Automobile mileage for business usage of personal cars shall be reimbursed based on actual miles traveled at a rate per mile that conforms to Internal Revenue Service allowance for business travel.
 - d. Expenses in connection with use of a personal automobile in lieu of air transportation will be reimbursed at not more than the cost of coach class airfare based on price at the time attendance at the out-of-state meeting is approved by the Board.
 - e. Use of rental or leased automobiles is authorized for both in-state and out-of-state travel when other forms of transportation are not available, are more expensive, or an automobile is more reasonable.

6. Miscellaneous expenses:

Reimbursement may be allowed for small group meal expenses or taxi rides shared with others who have a relationship to the Retirement System when incurred during or incidental to conducting the business of the Retirement System.

7. Ineligible expenses:

A Board member shall reimburse the Retirement System for any additional costs incurred by a person who accompanies a Board member to an event sponsored by the system or for expenses not eligible for reimbursement under this rule.

H. Prohibitions:

1. A Board member may not accept travel expenses, including transportation, lodging, food or beverages of any type, or accept direct or indirect payment for lodging; or transportation of any type from any source other than the expense fund.
2. Soft dollars available to the Retirement System as a result of purchases and sales of securities may not be used to pay for Board member expenses.
3. Reimbursement will not be made for personal purchases, alcoholic beverages, valet services (except use of valet parking when reasonable self-park facilities are not available), laundry and dry cleaning, personal grooming, entertainment or similar goods and services not directly related to the duties of a Board member.

I. Expense reporting:

All eligible expenses exceeding \$15 must be documented with a receipt to be reimbursed.

J. Board action:

The Board may act on any requests for exceptions to the policy and limits herein established only by a vote in a public meeting.

K. Audits:

An inquiry shall be made into whether Board members have complied with the requirements of this rule as a regular part of the audit process.

POLICY TYPE: GOVERNANCE PROCESS**POLICY TITLE: BOARD JOB DESCRIPTION**

The function of the Board is to make certain contributions that lead the Retirement System toward the desired performance and ensure that it occurs. The Board's specific contributions are unique to its trusteeship role and *necessary* for proper governance and management.

Consequently, the "products" or contributions of the Board shall be:

- A. The link between the Retirement System and its members and benefit recipients.
- B. Written governing policies that, at the broadest levels, address:
 - 1. *Ends*: Retirement System products, impacts, benefits and outcomes (what good for which needs at what cost).
 - 2. *Executive Director Limitations*: Constraints on executive authority that establish the prudence and ethics boundaries within which lies the acceptable arena of executive activity, decisions and organizational circumstances.
 - 3. *Governance Process*: Specification of how the Board conceives, carries out and monitors its own task.
 - 4. *Board-Executive Director Relationship*: How power is delegated and its proper use monitored.
- C. The assurance of Executive Director performance (against policies in B1 and B2).

POLICY TYPE: GOVERNANCE PROCESS**POLICY TITLE: *BOARD ATTENDANCE***

Board attendance shall be taken whenever a meeting of the Retirement Board is convened. Any Board member not able to be present may submit a request to be excused with accompanying reason to the Chair. A request to be excused shall be moved by the Chair and voted on by the Board. This policy corresponds to Section 3307.06, R.C., which states in part, "... if such a member fails to attend the meetings of the board for four months or longer, without being excused, the member's position on the board shall be considered vacant, and a successor member shall be elected,"

POLICY TYPE: GOVERNANCE PROCESS**POLICY TITLE: OFFICERS, TERM OF OFFICE, DUTIES**

Organization – In September of each year, the Board will elect a Vice Chair. This Board member will rotate into the position of Chair the following September.

Terms of Office – Terms of office for the Chair and Vice Chair shall be for one year from the date elected.

Eligibility for Office – To be eligible for election to the position of Vice Chair, a Board member must have served at least one full year as a member of the Board and have at least two years remaining in his or her term. In addition, the Board member must be serving in an elected position on the Board. (This latter requirement will be reviewed by the Board within one year upon adoption of this policy.)

Procedure for Electing Officers – Nominations will be taken from the floor for the position of Vice Chair. Upon the close of nominations, a vote will be taken. If more than one individual has been nominated, the following procedures shall be followed:

- A. Ballot No. 1 and envelope shall be distributed to the Board members with instructions to vote for only one candidate from among those nominated. Marked ballot is to be placed in envelope and sealed.
- B. Sealed ballot envelopes shall be gathered and counted by a Deputy Executive Director and General Counsel.
- C. The winner must have a majority of the statutorily constituted Board. The Deputy Executive Director and General Counsel shall certify to the Secretary to the Board that the ballots have been reviewed and counted, and the winner has been determined and elected. The Secretary to the Board will announce the vote tally and result.
- D. After counting the ballots, if it is determined that no nominee has been elected by a clear majority, another election will be held between the two nominees receiving the highest number of votes. In this event, ballot No. 2 and envelope will be distributed to the Board members with instructions to vote for only one of the two candidates with the highest number of votes during the first election. Counting and certification will be the same as stated in B and C above.

Duties of the Chair — The duty of the Chair is, primarily, to ensure the integrity of the Board's process and, secondarily, occasional representation of the Board to outside parties. The Chair is the only Board member authorized to speak for the Board, other than in rare and specifically authorized instances.

- A. The duty of the Chair is to see that the Board operates consistent with its own rules and those legitimately imposed on it from outside the Retirement System.

1. Meeting discussion content will be only those issues that, according to Board policy, clearly belong to the Board to decide, not the Executive Director.
 2. Deliberation will be timely, fair, orderly and thorough; but also efficient, limited in time and kept to the point.
 3. Roberts' Rules are observed except where the Board has superseded them.
- B. The authority of the Chair consists only of making decisions on behalf of the Board that fall within and are consistent with Board policies on *Governance Process* and on the *Board-Executive Director Relationship*.
1. The Chair is empowered to chair Board meetings with all the commonly accepted power of that position (e.g., ruling, recognizing, etc.).
 2. The Chair will welcome input from fellow Board members regarding the Board's agenda for each meeting.
 3. The Chair has no authority to make decisions beyond policies created by the Board within Ends and Executive Director Limitations policy areas. Therefore, the Chair has no authority to supervise or direct the Executive Director.
 4. The Chair may represent the Board to outside parties either in simply announcing Board-stated positions or in stating Chair decisions and interpretations within the area delegated to him or her (*Governance Process* and *Board-Executive Director Relationship* policy areas, consistent with Board policies therein).
 5. The Chair may also:
 - a. Convene meetings of the Board, or any part thereof, as prescribed in Section 3307.10 of the Revised Code.
 - b. When required, certify any actions taken by the Board.
 - c. Co-sign instruments for all disbursements authorized under Chapter 3307 of the Revised Code, and issued by the Treasurer of State.
 - d. Each October, name Retirement Board members to committees and appoint the chair of each committee.
 - e. Establish ad hoc committees as needed. The composition of such committees will be determined by the Chair.
 - f. Appoint Board liaisons to work with the Deputy Executive Director — Member Benefits in reviewing health care and benefits topics for possible presentation and/or action by the Retirement Board.

- g. Ensure appropriate voting procedures are followed at all Board meetings.
 - A Board member may listen to a meeting via telephone or video conference, but cannot vote, will not be counted in attendance, and cannot participate in the meeting in any way.
- h. All other duties specifically requested from time to time that are deemed necessary and appropriate for the Board to fulfill its duties and responsibilities under Chapter 3307 of the Revised Code.

Duties of the Vice Chair — The duties of the Vice Chair are to (1) serve as chair of the Disability Committee, (2) act as temporary chair in the absence of the regular chair, and (3) develop, in consultation with the Board, an annual plan to be followed during the year he or she serves as chair of the Board. The Vice Chair will also develop the evaluation instrument to be used in conducting the Board's self-evaluation and the methodology to be used in administering the evaluation and reporting the results.

POLICY TYPE: GOVERNANCE PROCESS**POLICY TITLE: COMMITTEE PRINCIPLES**

The Board may establish committees to help carry out its responsibilities. To preserve Board holism, committees will be used sparingly, only when other methods are deemed inadequate. Committees will be used so as to minimally interfere with the wholeness of the Board's job, and so as never to interfere with delegation from Board to Executive Director.

- A. Board committees may speak or act for the Board when formally given such authority for specific and time-limited purposes. Expectations and authority will be carefully stated in order not to conflict with authority delegated to the Executive Director.
- B. Board committees are to help the Board do its job. Committees ordinarily will assist the Board by preparing policy alternatives and implications for Board deliberation. Board committees are not to be created by the Board to advise staff.
- C. Board committees are to avoid over-identification with parts of the Retirement System rather than the whole. Therefore, a Board committee that has helped the Board create policy on some topic will not be used to monitor organizational performance on that same subject.
- D. Board committees cannot exercise authority over associates. In keeping with the Board's broader focus, Board committees normally will not have direct dealings with current staff operations. Because the Executive Director works for the full Board, he or she will not be required to obtain approval of a Board committee before an executive action.
- E. Committee work can take place when a quorum of the committee is present. All members of the Retirement Board shall be notified as to the time and place of all committee meetings. Retirement Board members may attend any committee meetings regardless of whether or not they are a member of the committee. However, if a committee is composed of five or fewer Board members, only committee members may vote on any actions before the committee.
- F. Each committee meeting agenda is set by the committee chair in conjunction with appropriate staff.
- G. This policy applies only to committees formed by Board action, whether or not the committees include non-Board members.

Board committees and composition under this policy are as follows:

Committee	Composition*
Audit	One retired member, one contributing member and one appointed member
Disability	Committee-of-the-whole
Final Average Salary	Committee-of-the-whole
Investment	Four investment experts and Board Chair
Staff Benefits	Committee-of-the-whole

*Members of the Retirement Board may attend any committee meeting; however, if a committee is composed of five or fewer Board members, only committee members may vote.

POLICY TYPE: GOVERNANCE PROCESS**POLICY TITLE: *COMMITTEE CHARTERS***

Committees established by the Board shall operate pursuant to a charter adopted by the Board. Charters approved by the Board are as follows:

- A. Audit Committee
- B. Disability Committee
- C. Final Average Salary Committee
- D. Investment Committee
- E. Staff Benefits Committee

POLICY TYPE: GOVERNANCE PROCESS**POLICY TITLE: *AUDIT COMMITTEE CHARTER***

Purpose

The purpose of the Audit Committee is to ensure, through the internal auditor and the independent public accountant, that the records of the State Teachers Retirement System of Ohio properly reflect the transactions and conditions of the system in accordance with the laws of the State of Ohio, and are consistent with the policies of the State Teachers Retirement Board.

Function

The Audit Committee will normally meet with the Executive Director, Deputy Executive Director — Finance and the internal auditor in exercising its responsibilities. However, the internal auditor or the independent public accountant may request to meet privately with the Audit Committee if there are material weaknesses involving the office of the Executive Director or any other part of the organization, or if the Executive Director has failed to respond to recommendations of either the internal auditor or the independent public accountant. The work of the Audit Committee shall be confidential to the extent allowed by law, except for reports of the State Teachers Retirement Board.

Authority

The Audit Committee has the authority to conduct or authorize investigations into any matters within its scope of responsibility. This includes the authority to retain independent counsel, accountants or other specialists to advise the committee or assist in the conduct of an investigation.

Responsibilities

The responsibilities of the Audit Committee are:

- Meet as circumstances require, but at least twice annually (May and December) or at any-time the internal auditor or independent public accountant feels it is necessary.
- Review the audit plans of the internal auditor and independent public accountant with specific inquiry as to the extent to which planned audit scope can be relied on to detect any weakness in the internal controls. This review includes the annual risk assessment included in the annual internal audit plan.
- Review the quarterly and year-end internal audit summaries of findings and recommendations. Ensure there are no unjustified restrictions or limitations on the functioning of the Internal Audit Department.

- Receive and review all internal audit reports and subsequent management responses. Ensure appropriate action is taken on audit findings.
- Appoint and provide oversight feedback on the performance evaluation of the internal auditor. In addition, the committee will review all performance evaluations and/or disciplinary actions as suggested for the internal audit position.
- Meet with the independent public accountant to review examination results. Review significant accounting and reporting issues, including complex or unusual transactions, and recent and regulatory pronouncements and understand their impact on the financial statements. Ensure appropriate action is taken on audit findings.
- Review the performance of the external auditors, and exercise final approval on the appointment, retention or discharge of the auditors.
- Maintain a strong understanding of risk management, internal controls and the role of the external financial statement auditor.
- Report committee activities, issues and related recommendations to the full Board following each committee meeting.
- Submit an annual report of its actions to the Ohio Retirement Study Council.

Post-Audit Review

- Ask the independent public accountant about the greatest concerns and whether the accountant believes anything should be discussed with the committee that has not been raised or covered elsewhere.
- Discuss with the Executive Director and the independent public accountant the substance of any significant issues raised by counsel concerning litigation, contingencies, claims or assessments.
- Inquire whether any difficulties were encountered in obtaining the management representation letter or any specific representations therein.
- Consider whether the independent public accountant should meet with the entire Board to discuss any matters relative to the financial statements and to answer any questions other Board members may have.
- Discuss with the internal auditor any significant audit findings and recommendations. Particular emphasis should be placed on any identified weaknesses in internal control and the appropriate corrective action required.

POLICY TYPE: GOVERNANCE PROCESS**POLICY TITLE: *DISABILITY COMMITTEE CHARTER***

Purpose

The purpose of the Disability Committee is to review disability cases following recommendations of the Medical Review Board and to provide applicants, or representatives of applicants, an opportunity to present information to the committee relating to the application in accordance with Section 3307.62 of the Ohio Revised Code and the Board Rules that comprise Chapter 3307:1-7 of the Ohio Administrative Code.

Function

The Disability Committee will meet with the Executive Director and Deputy Executive Director — Member Benefits or designee to review medical records and other relevant information provided by the applicant or a representative of the applicant for disability retirement or termination of disability retirement following the recommendation of the Medical Review Board.

Responsibilities

The responsibilities of the Disability Committee are limited to the following:

- Review all medical evidence and information provided by the member or a representative of the member relating to the recommendation for denial of disability retirement by the Medical Review Board. Following the review, make a recommendation to sustain or overrule the recommendation of the Medical Review Board.
- Review all medical evidence and information provided by the member or a representative of the member relating to the recommendation regarding termination of disability retirement by the Medical Review Board. Following the review, make a recommendation to sustain or overrule the recommendation of the Medical Review Board.
- Review all medical evidence and information provided by the applicant or a representative of the applicant for survivor benefits based on disability following a recommendation by the Medical Review Board. Following the review, make a recommendation to sustain or overrule the recommendation of the Medical Review Board.
- Report its activities and make recommendations to the full Board.

POLICY TYPE: GOVERNANCE PROCESS**POLICY TITLE: *FINAL AVERAGE SALARY COMMITTEE CHARTER***

Purpose

The purpose of the Final Average Salary Committee is to consider and make recommendations to the full Board on matters related to final average salaries of retiring teachers.

Function

The Final Average Salary Committee will meet with the Deputy Executive Director — Finance or designee and Deputy Executive Director — Member Benefits or designee as needed to hear appeals of retiring members regarding final average salaries.

Responsibilities

The responsibilities of the Final Average Salary Committee shall be limited to the following:

- Develop procedures for appeals of compensation excluded from final average salary pursuant to Section 3307.501, Revised Code.
- Review materials and hear appeals of compensation excluded from final average salary pursuant to Section 3307.501, Revised Code. Make recommendations to the full Board for including additional compensation up to a maximum of \$7,500.
- Advise the Executive Director on final average salary matters.
- Report its activities and make recommendations to the full Board.

POLICY TYPE: GOVERNANCE PROCESS**POLICY TITLE: *INVESTMENT COMMITTEE CHARTER***

Purpose

The purpose of the Investment Committee is to ensure that the assets of the State Teachers Retirement System of Ohio are effectively managed in accordance with the laws of the State of Ohio and the Statement of Investment Objectives and Policy and the Statement of Fund Governance adopted by the State Teachers Retirement Board.

Function

The Investment Committee normally will meet monthly with the Executive Director, Deputy Executive Director — Investments, and appropriate investment department associates. In addition, the Board's investment consultants and actuary will report to the committee as needed to provide investment expertise to enable the committee to perform its responsibilities.

Responsibilities

- Review the current Statement of Investment Objectives and Policy and the Statement of Fund Governance and recommend changes to the Board.
- Review the annual investment plan prepared by the staff. As conditions warrant, revise the annual investment plan as the year progresses.
- Monitor the monthly investment activity and review transactions as executed by the staff, determining their adherence to the strategy outlined in the annual investment plan.
- Review the overall performance return for the assets to determine whether it meets the benchmarks established by the Board.
- Review various documents or lists prescribed in the Statement of Investment Objectives and Policy including, but not limited to, the broker evaluation, derivative exposure, proxy voting policy and real estate transactions.
- Meet at least annually with the investment consultants for a general educational seminar on investment topics.
- Report its activities and make recommendations to the full Board following each committee meeting.

POLICY TYPE: GOVERNANCE PROCESS**POLICY TITLE: *STAFF BENEFITS COMMITTEE CHARTER***

Purpose

The purpose of the Staff Benefits Committee is to provide counsel to the Executive Director regarding the nature and scope of staff benefits that should be provided.

Function

The Staff Benefits Committee normally will meet at least every two years with the Executive Director and appropriate staff in exercising its responsibilities.

Responsibilities

The responsibilities of the Staff Benefits Committee are limited to the following:

- Review the salary structure and benefits provided by STRS Ohio, compare them with the competitive marketplace, and recommend modifications where deemed appropriate.
- Review the employment practices of STRS Ohio and suggest modifications where deemed appropriate.
- Adhere to Board policy on the performance-based incentive program for investment exempt associates.
 - The program shall be reviewed and approved on an annual basis by the Board.
 - The program may be interpreted, amended, rescinded and/or terminated at any time by the Board.
 - The program shall establish target incentive awards based on the Retirement System's total fund performance and the individual goals of investment associates.
 - Any and all material modifications to the program, including the determination of program payouts and actual payouts, require the Board's prior approval.
- Report its activities and make recommendations to the full Board following each committee meeting.

POLICY TYPE: GOVERNANCE PROCESS**POLICY TITLE: *RETIREMENT BOARD ELECTIONS***

The State Teachers Retirement Board should ensure that elections for Board seats are conducted in accordance with the laws of the State of Ohio and policies of the State Teachers Retirement Board.

The responsibilities of the Retirement Board are limited to the following:

- Review the proposed schedule of election events and ensure that it complies with applicable law and policies of the Board.
- Review the proposed biographical questionnaire and suggest any modifications deemed appropriate.
- Confirm that candidates for the Board meet the nomination requirements.
- Review the biographical questionnaires as submitted by candidates to ensure that they comply with Board policy.
- Review the proposed ballot and biographical information to be sent to the qualified electors.
- Approve a Board of Tellers.

POLICY TYPE: GOVERNANCE PROCESS**POLICY TITLE: *ACTUARIAL SOUNDNESS***

The State Teachers Retirement Board, in conjunction with the actuarial consultant, shall protect the actuarial soundness of the State Teachers Retirement System of Ohio on a continuing and long-term basis.

The responsibilities of the Retirement Board shall be limited to the following:

- Review results of actuarial valuations.
- Based on actuarial valuations, take actions necessary to preserve the actuarial funding of STRS Ohio.
- Review the five-year experience studies prepared by the actuarial consultant. Make any necessary changes in actuarial assumptions or contribution rates.
- Review actuarial effects of proposed benefit changes.
- Upon advice of the actuarial consultant, make changes for retirement incentive plan credit and other purchased service credit.

POLICY TYPE: GOVERNANCE PROCESS**POLICY TITLE: *PUBLIC PARTICIPATION AT BOARD MEETINGS***

The Retirement Board serves as the link between the Retirement System and its members and benefit recipients. Toward this end, all meetings of the Board are open to the public. Further, the Board sets aside a portion of every regular meeting for the purpose of public participation.

Anyone wishing to address the Board must personally sign up to speak on the day of the Board meeting, before the meeting begins. Speakers who are not able to appear in person may submit a written version of their statement to the Board.

For the Board to fulfill its obligation to complete the planned agenda in an effective and efficient manner, a maximum of 15 speakers may be permitted at each Retirement Board meeting. The period of public participation may be extended by the Board chair.

Individuals addressing the Board shall give their full name; years of service and membership status if applicable; and, if representing an organization, the name of that group. Speakers may not deliver another individual's remarks. Each speaker is allotted three minutes. The names of individuals shall not be used as part of a complaint or concern being stated to the Board during public participation. Undue interruption or other interference with the orderly conduct of Board business cannot be allowed. Defamatory or abusive remarks are always out of order. The Board chair may terminate the speaker's address if, after being called to order, the speaker persists in improper conduct or remarks.

Following the completion of this portion of the Retirement Board meeting, the Chair will provide the Executive Director with the opportunity to offer points of clarification at that time or during a subsequent Executive Director's Report in response to any speaker misstatements. The Executive Director will also answer all pertinent questions verbally or in writing at a later time. To facilitate this process, speakers are encouraged to submit a copy of their statement to the Board.

Agendas will be available to those who attend Board meetings. Each agenda will include a designated section for public participation and a short paragraph outlining the Board's policy on such participation.

POLICY TYPE: GOVERNANCE PROCESS**POLICY TITLE: *BOARD MEMBERS' CODE OF CONDUCT***

The Board expects of itself and its members ethical and businesslike conduct.

- A. Board members, as fiduciaries, shall discharge their duties solely in the interest of the participants and beneficiaries for the exclusive purpose of providing benefits to participants and their beneficiaries. Board members are responsible for preparing themselves for Board work.
- B. Board members must avoid any conflict of interest with respect to their fiduciary responsibility.
 - 1. Board members must abide by protections to the public embodied in Ohio's ethics laws and the Ohio Retirement System Ethics Policy contained in the appendix.
 - 2. Board members must not use their positions to obtain for themselves, family members or close associates employment within the Retirement System.
 - 3. Should a Board member be considered for employment within the Retirement System, he or she must not be a member of the Board for at least one year prior to the date of such employment.
- C. Board members may not attempt to exercise individual authority over the Retirement System except as explicitly set forth in Board policies.
 - 1. Board members' interaction with the Executive Director or with associates must recognize the lack of authority in any individual Board member or group of Board members except as noted above.
 - 2. Board members' interaction with the public, press or other entities must recognize the same limitation and the similar inability of any Board member or Board members to speak for the Board.

POLICY TYPE: GOVERNANCE PROCESS**POLICY TITLE: BOARD SELF-EVALUATION**

The Retirement Board will regularly evaluate its own performance, taking whatever action is necessary to govern with excellence. Board performance will be assessed against the criteria established in *Governance Process* policies and in *Board-Executive Director Relationship* policies. At least annually the Board will review these policies, discussing the degree to which it complies.

- B. The following policies will be monitored periodically.
1. Governing Style
 2. Board Job Description
 3. Delegation to the Executive Director

POLICY TYPE: BOARD-EXECUTIVE DIRECTOR RELATIONSHIP**POLICY TITLE: *DELEGATION TO THE EXECUTIVE DIRECTOR***

While the Board job is generally confined to establishing the broadest policies, implementation and subsidiary policy development is delegated to the Executive Director.

- A. All Board authority delegated to associates is delegated through the Executive Director, so that all authority and accountability of associates — as far as the Board is concerned — is considered to be the authority and accountability of the Executive Director.
- B. Ends policies direct the Executive Director to achieve certain results; *Executive Director Limitations* policies constrain the Executive Director to act according to law and within acceptable boundaries of prudence and ethics. With respect to *Ends* and *Executive Director Limitations*, the Executive Director is authorized to establish all further policies, make all decisions, take all actions and develop all activities as long as they are consistent with a *reasonable interpretation* of the Board's policies.
- C. The Board may change its policies, thereby shifting the boundary between Board and Executive Director domains. Consequently, the Board may change the latitude of choice given to the Executive Director, but so long as any particular delegation is in place, the Board and its members will respect and support the Executive Director's choices. This does not prevent the Board from obtaining information in the delegated areas.
- D. No Board member or officer has authority over the Executive Director, except Board committees working within the scope of their respective charters. Information may be requested by these individuals or groups. However, if such request — in the Executive Director's judgment — requires a material amount of staff time or funds or is disruptive, it may be refused.

POLICY TYPE: BOARD-EXECUTIVE DIRECTOR RELATIONSHIP**POLICY TITLE: *EXECUTIVE DIRECTOR'S JOB DESCRIPTION***

As the Board's single official link to the operating organization, the Executive Director is accountable for all organizational performance and exercises all authority transmitted into the organization by the Board.

The Executive Director's job contributions can be stated as performance in these areas:

- A. Organizational accomplishment of the provisions of Board policies on *Ends*.
- B. Organizational operation within the boundaries of prudence and ethics established in Board policies on *Executive Director Limitations*.
- C. Serving as Secretary to the Retirement Board and maintaining an accurate record of its proceedings. (Such a record is to contain only the action of the Board, information required by case law and the vote thereon.)

POLICY TYPE: BOARD-EXECUTIVE DIRECTOR RELATIONSHIP**POLICY TITLE: *EMPLOYMENT OF EXECUTIVE DIRECTOR***

Employment of the Executive Director will be by the Retirement Board. The terms of employment for the Executive Director will be by contract.

- A. Employment will be based on the Board's judgment that a candidate's knowledge, skill and character offer reasonable assurance of excellent performance.

Criteria will be based on:

1. General characteristics set forth by the Board to predict successful Executive Director performance, and
 2. Specific characteristics set forth by the Board to predict successful Executive Director performance in view of the Retirement System's strategic challenges in the impending, long-range period.
- B. In the selection of an Executive Director, the Board will make explicit provisions for (1) providing notice of the vacancy, (2) the process for screening nominations or applications and (3) the selection process.

POLICY TYPE: BOARD-EXECUTIVE DIRECTOR RELATIONSHIP**POLICY TITLE: *EXECUTIVE DIRECTOR EVALUATION***

Evaluation of the Executive Director will be conducted by the Retirement Board. The Board will develop the evaluation instrument to be used in conducting the Board's annual evaluation of the Executive Director and the methodology to be used in administering the evaluation and reporting the results.

POLICY TYPE: BOARD-EXECUTIVE DIRECTOR RELATIONSHIP**POLICY TITLE: *MONITORING EXECUTIVE PERFORMANCE***

Monitoring executive performance is synonymous with monitoring organizational performance against Board policies on *Ends* and on *Executive Director Limitations*. Any evaluation of Executive Director performance, formal or informal, may be derived only from these monitoring data.

- A. The purpose of monitoring is simply to determine the degree to which Board policies are being fulfilled. Information that does not meet this purpose will not be considered to be monitoring. Monitoring will be as automatic as possible, using a minimum of Board time so that meetings can be used to create the future rather than to review the past.
 - B. A given policy may be monitored in one or more of three ways:
 - 1. Internal report: Disclosure of compliance information to the Board from the Executive Director.
 - 2. External report: Discovery of compliance information by a disinterested, external auditor, inspector or consultant who is selected by and reports directly to the Board. Such reports must assess executive performance only against policies of the Board, not those of the external party unless the Board has previously indicated that party's opinion to be the standard.
 - 3. Direct Board inspection: Discovery of compliance information by a Board member, a committee or the Board as a whole. This is a Board inspection of documents, activities or circumstances directed by the Board that allows a "prudent person" test of policy compliance.
 - C. Upon the choice of the Board, any policy can be monitored by any method at any time. For regular monitoring, however, each *Ends* and *Executive Director Limitations* policy will be classified by the Board according to the following frequency and method:
-

Policy	Method	Responsibility	Frequency
Ends			
Investments	External Report	Independent Consultant	Annual
Member Benefits	External Report	Independent Consultant	Annual
Actuarial Condition	External Report	Actuary	Annual*
Executive Director Limitations			
General Executive Constraints	Internal Report	Executive Director	Annual
Operational Financial Planning	Internal Report	Executive Director	Annual
Operational Financial Condition	Internal Report	Internal Auditor	Annual
Operational Asset Protection	External Report	Internal Auditor	Annual
Investment Asset Protection	External Report	Internal Auditor	Annual
Business Continuity Planning	Internal	Executive Director	Annual
Communication and Counsel to the Board	Direct Board Inspection	Board	Annual
Emergency Executive Succession	Internal Report	Executive Director	Annual
Compensation and Benefits	Internal Report	Executive Director	Biennial
Staff Treatment	Internal	Executive Director	Annual
Code of Ethics	Internal	Executive Director	Annual

The Ohio Retirement Study Council will conduct a fiduciary performance audit of the system once every 10 years. (The first review is being conducted in 2004–2005.)

*Every 10 years the actuarial soundness of the system will be reviewed by another independent actuary. (Last review conducted for FY 1995 and reported 9/96.)

(Rev. 3-99; 2-03; 3-05)

POLICY TYPE: EXECUTIVE DIRECTOR LIMITATIONS**POLICY TITLE: *OPERATIONAL FINANCIAL PLANNING***

Budgeting for any fiscal period or the remaining part of any fiscal period shall not deviate materially from Board *Ends* priorities, risk fiscal jeopardy, or fail to show a generally acceptable level of foresight.

Accordingly, the Executive Director may not cause or allow budgeting that:

- A. Contains too little detail to enable accurate projection of revenues and expenses, separation of capital and operational items, cash flow and subsequent audit trails, and disclosure of planning assumptions.
- B. Does not provide for Board prerogatives and Board development during the year.
- C. Deviates materially from Board-stated priorities (see *Ends* policies) in its allocation among competing budgetary needs.
- D. Is not derived from a long-term administrative plan.

The Executive Director will provide the proposed annual operating budget, including the administrative budget for the Board, to the Ohio Retirement Study Council at least 60 days before adoption by the Board.

POLICY TYPE: EXECUTIVE DIRECTOR LIMITATIONS**POLICY TITLE: *OPERATIONAL FINANCIAL CONDITION***

With respect to the actual, ongoing condition of the Retirement System's operating budget, the Executive Director may not cause or allow the development of financial jeopardy.

Accordingly, he or she may not:

- A. Allow tax payments or other government-ordered payments or filings to be overdue or inaccurately filed.
- B. Allow actual operating budget allocations to deviate materially from Board priorities in *Ends* policies.
- C. Allow untimely collections of contributions.
- D. Fail to maintain fiduciary insurance coverage.
- E. Fail to establish and maintain a system of internal controls designed to assure that assets belonging to STRS Ohio are properly received, are protected while in the custody of STRS Ohio, are used only for appropriate purposes, and reduce the opportunity for errors and dishonesty. An examination of the effectiveness of the system's internal controls will be conducted by a qualified auditor at least every five years. The external auditor responsible for auditing the adequacy of the annual financial statement shall not be eligible for this examination.

POLICY TYPE: EXECUTIVE DIRECTOR LIMITATIONS**POLICY TITLE: *OPERATIONAL ASSET PROTECTION***

The Executive Director may not allow assets to be unprotected, inadequately maintained or unnecessarily risked as would be determined by a prudent person:

Accordingly, he or she may not:

- A. Fail to insure against theft and casualty losses and against liability losses to Board members, associates or the Retirement System itself beyond the minimally acceptable prudent level.
- B. Allow uninsured personnel access to material amounts of funds.
- C. Subject plant and equipment to improper wear and tear or insufficient maintenance.
- D. Unnecessarily expose the Retirement System, its Board or associates to claims of liability.
- E. Make any purchase of goods for \$50,000 or more without sealed bids, or any purchase of goods for \$25,000 or more without a written record of competitive prices, or any purchase wherein normally prudent protection has not been given against conflict of interest. Economic lot sizes or normal orders shall not be reduced to avoid compliance with these provisions.
- F. Make any purchase of service for \$50,000 or more without a request for qualifications submitted to at least three potential service providers and a determination made, with or without interviews, of the most qualified provider of the service needed.
- G. Receive, process or disburse funds under controls insufficient to meet the Board-appointed auditor's standards.
- H. Acquire, encumber or dispose of real property.

POLICY TYPE: EXECUTIVE DIRECTOR LIMITATIONS**POLICY TITLE: *INVESTMENT ASSET PROTECTION***

The Executive Director may not allow investment assets to be unprotected. Such protection shall include:

- Timely deposit of cash as provided for by law and Board.
- Transfer of securities to the State Treasurer or the Treasurer's designated sub-custodian for safekeeping.
- Deposit of defined contribution account funds in member accounts within three days of receipt by STRS Ohio.
- Appropriate insurance coverage on investment real estate.

In addition, the Executive Director may not allow investment assets to be unprotected through the failure to have a well-qualified and trained staff.

POLICY TYPE: EXECUTIVE DIRECTOR LIMITATIONS**POLICY TITLE: *BUSINESS CONTINUITY PLANNING***

The Executive Director may not fail to have a Business Continuity Plan, in place and tested, to assure that the critical business processes of the Retirement System (i.e., the payment of monthly benefits and the investment and protection of assets) can continue notwithstanding the loss of use of all or part of the home office or computer facilities.

POLICY TYPE: EXECUTIVE DIRECTOR LIMITATIONS**POLICY TITLE: *COMMUNICATION AND COUNSEL TO THE BOARD***

With respect to providing information and counsel to the Board, the Executive Director may not permit the Board to be uninformed. Accordingly, he or she may not:

- A. Let the Board be unaware of relevant trends, anticipated adverse media coverage, and material external and internal changes, particularly changes in the assumptions upon which any Board policy has previously been established.
- B. Fail to submit the required monitoring data (see policy on Monitoring Executive Performance) in a timely, accurate and understandable fashion, directly addressing provisions of the Board policies being monitored.
- C. Fail to marshal as many associates' and external points of view, issues and options as needed for fully informed Board choices.
- D. Present information in unnecessarily complex or lengthy form.
- E. Fail to provide a mechanism for official Board, officer or committee communications.
- F. Except for fulfilling individual requests for information, fail to deal with the Board as a whole.
- G. Fail to report actual or anticipated noncompliance with any policy of the Board.

POLICY TYPE: EXECUTIVE DIRECTOR LIMITATIONS**POLICY TITLE: *EMERGENCY EXECUTIVE SUCCESSION***

To protect the Board from sudden loss of Executive Director services, the Executive Director may not have fewer than two deputy executive directors familiar with Board and Executive Director issues and processes.

POLICY TYPE: EXECUTIVE DIRECTOR LIMITATIONS**POLICY TITLE: *COMPENSATION AND BENEFITS***

With respect to employment, compensation and benefits to associates, consultants, contract workers and volunteers, the Executive Director may not cause or allow jeopardy to fiscal integrity or public image.

Accordingly, he or she may not:

- A. Change his or her own compensation and benefits.
- B. Promise or imply permanent or guaranteed employment.
- C. Establish current compensation or benefits that are not within Board-approved salary schedules or benefit provisions.
- D. In the selection of a Deputy Executive Director or the Executive Assistant to the Board, fail to involve the Board in determining the qualifications and expectations for the position. The Executive Director will then make the employment decision, keeping the Board informed throughout the process.

POLICY TYPE: EXECUTIVE DIRECTOR LIMITATIONS**POLICY TITLE: *STAFF TREATMENT***

With respect to treatment of associates the Executive Director may not cause or allow conditions that are inhumane, unfair or undignified.

Accordingly, he or she may not:

- A. Discriminate among associates on other than clearly job-related, individual performance or qualifications.
- B. Employ or promote a family member or a person with whom he or she has had a preexisting business relationship.
- C. Adversely affect the stability of the staff or terminate senior staff officers without previous discussion with the Board.
- D. Fail to take reasonable steps to protect associates from unsafe or unhealthy conditions.
- E. Withhold from associates a due process grievance procedure, able to be used without bias.
- F. Fail to acquaint associates with their rights under this policy.

POLICY TYPE: EXECUTIVE DIRECTOR LIMITATIONS**POLICY TITLE: *GENERAL EXECUTIVE CONSTRAINTS***

The Executive Director shall not cause nor allow any act, decision, activity or circumstance that is imprudent, in violation of commonly accepted business and professional ethics, or a breach of fiduciary responsibility.

POLICY TYPE: EXECUTIVE DIRECTOR LIMITATIONS**POLICY TITLE: *CODE OF ETHICS***

The Executive Director may not fail to require associates of the Retirement System to adhere to an appropriate code of ethics that will assure:

- A. Confidentiality of member and benefit recipient records.
- B. No conflict of interest, or appearance thereof, with respect to his or her fiduciary responsibilities.
- C. Adherence to an applicable professional code of ethics and standard of professional conduct.
- D. Approval by the designated administrator for the personal purchase or sale of securities, and the periodic reporting of personally held securities.
- E. No solicitation of gifts, favors or other items of value from persons with whom STRS Ohio transacts business or companies in which STRS Ohio may invest.
- F. No acceptance of unsolicited items of value that are of such character as to manifest, or appear to manifest, influence upon an associate in carrying out his or her fiduciary responsibilities.
- G. Compliance with the Ohio Retirement System Ethics Policy contained in the appendix.
- H. No associate of STRS Ohio shall:
 - 1. Publicly endorse the candidacy of any contributing or retired member for election to the Board through any media (whether electronic or printed), or permit his or her name to be used in any way to promote any such candidacy;
 - 2. Use his or her official authority or influence for the purpose of interfering with or affecting the result of a Board election or a nomination for a position as a Board member or officer of the Board;
 - 3. Directly or indirectly coerce, attempt to coerce, command or advise any STRS Ohio associate or member to contribute anything of value to a candidate for election to the Board, or to any committee, organization, agency, group or person promoting the candidacy of anyone for a position or seat on the Board; and
 - 4. Participate in any activities which promote the candidacy of any person for a position as a Board member or officer of the Board, other than the oral expression of opinions related to a candidate or an election.

Appendix

Ohio Retirement System Ethics Policy

OHIO RETIREMENT SYSTEM ETHICS POLICY

Policy Statement

It is the policy of this Ohio Retirement System Board to carry out its mission in accordance with the strictest ethical guidelines and to ensure that Board Members [Trustees] and employees conduct themselves in a manner that fosters public confidence in the integrity of the Retirement System, its processes, and its accomplishments.

General Standards of Ethical Conduct

Ohio Retirement System Board Members [Trustees] and employees must, at all times, abide by protections to the public embodied in Ohio's ethics laws, as found in Chapters 102. and 2921. of the Ohio Revised Code, and as interpreted by the Ohio Ethics Commission and Ohio courts. (A copy of these laws is provided by the Retirement System, and receipt acknowledged, as required in R.C. 102.09(D)). Board Members [Trustees] and employees must conduct themselves, at all times, in a manner that avoids favoritism, bias, and the appearance of impropriety.

A general summary of the restraints upon the conduct of all Board Members [Trustees] and employees includes, but is not limited to, those listed below. No Board Member [Trustee] or employee shall:

- Solicit or accept anything of value from anyone doing business with the Board or System;
- Solicit or accept employment from anyone doing business with the Board or System, unless the Board Member [Trustee] or employee completely withdraws from any Board and System discretionary or decision-making activity regarding the party offering employment, and the Board approves the withdrawal in the case of a Board Member [Trustee] or the Executive Director of the System, and the Executive Director approves the withdrawal in the case of another employee;
- Use his or her public position to obtain benefits for the Board Member [Trustee] or employee, a family member, or anyone with whom the Board Member [Trustee] or employee has a business or employment relationship;
- Be paid or accept any form of compensation for personal services rendered on a matter before, or sell goods or services to, the Board or System;
- Be paid or accept any form of compensation for personal services rendered on a matter before, or sell (except by competitive bid) goods or services to, any state agency other than the Board or System, unless the Board Member [Trustee] or employee first discloses the services or sales and withdraws from matters before the Board or System that directly affect officials and employees of the other state agency, as directed in R.C. 102.04;
- Hold or benefit from a contract with, authorized by, or approved by, the Board or System (the Ethics Law does except some limited stockholdings, and some contracts objectively shown as the lowest cost services, where all criteria under R.C. 2921.42 are met);

- Vote, authorize, recommend, or in any other way use his or her position to secure approval of a Board or System contract (including employment or personal services) in which the Board Member [Trustee] or employee, a family member, or anyone with whom the Board Member [Trustee] or employee has a business or employment relationship, has an interest;
- Solicit or accept honoraria (see R.C. 102.01(H) and 102.03(H)), except that employees who are not financial disclosure filers may receive an honorarium only if the honorarium is paid in recognition of a demonstrable business, professional, or esthetic interest of the employee that exists apart from public office or employment, and is not paid by any person or other entity, or by a representative or association of those persons or entities, doing business with the Board or System;
- During public service, and for one year after leaving public service, represent any person, in any fashion, before any public agency, with respect to a matter in which the Board Member [Trustee] or employee personally participated while serving with the Board or System.
- Use or disclose confidential information protected by law, unless appropriately authorized;
- Use, or authorize the use of, his or her title, the name of the Retirement Board or System, or the Board's or System's logo in a manner that suggests impropriety, favoritism, or bias by the Board or System, or the Board Member [Trustee] or employee;
- Solicit or accept any compensation, except as allowed by law, to perform his or her official duties or any act or service in his or her official capacity; and
- Solicit or accept from any person, including a partnership of which the System is a partner, payment of actual travel expenses, including expenses incurred with the travel for lodging, meals, food, and beverages.

In addition to complying with the restrictions in the Ethics Law and related statutes, no Board Member [Trustee] of the Ohio Retirement System who is running for a position on the System Board shall:

- Solicit or accept campaign contributions, from any person or entity that has a contract related to investment of the System's funds, and any person marketing or otherwise attempting to secure business involving the System's funds, or their agents or those acting on their behalf, including contributions made to a campaign committee, political party, legislative campaign fund, political action committee, or political contributing entity on behalf of the Board Member [Trustee].

For purposes of this policy:

- "Anything of value" includes anything of monetary value, including, but not limited to, money, loans, gifts, food or beverages, social event tickets and expenses, travel expenses, golf outings, consulting fees, compensation, or employment. "Value" means worth greater than de minimis or nominal.

- “Anyone doing business with the Board or System” includes, but is not limited to, any person, corporation, or other party that is doing or seeking to do business with, regulated by, or has interests before the Board or System, their agents or those acting on their behalf, including any partnership of which the system is a partner, any person or entity that has a contract related to investment of the System’s funds, and any person marketing or otherwise attempting to secure business involving the System’s funds.

Financial Disclosure

Every Board Member [Trustee] or employee required to file a financial disclosure statement must file a complete and accurate statement with the Ethics Commission by April 15 of each year. Any Board Member [Trustee] or employee appointed, or employed to a filing position after February 15 and required to file a financial disclosure statement must file a statement within ninety days of appointment or employment.

Assistance

The Ethics Commission is available to provide advice and assistance regarding the application of the Ethics Laws and related statutes. The Commission can be contacted at (614) 466-7090. The Commission’s web site address is: www.ethics.ohio.gov. Ohio Retirement System counsel are available to answer questions regarding this policy.

Penalties

Failure of any Board Member [Trustee] or employee to abide by this Ethics policy, or to comply with the Ethics Laws and related statutes, will result in discipline, which may include dismissal, as well as any potential civil or criminal sanctions under the law.

Evaluation and Changes

This policy shall be evaluated for effectiveness by the Board of the Ohio Retirement System no less than biennially. The policy may be changed only by a majority vote of the Board, after approval by the Ethics Commission and review by the Ohio Retirement Study Council.

STATE TEACHERS RETIREMENT SYSTEM OF OHIO

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