

# September 2016



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

## Board Reaches Decision on Pension Reform

SERS' Board of Trustees approved the following changes to SERS' Cost of Living Adjustment (COLA):

1. COLA - Indexed to the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) not greater than 2.5% with a floor of 0%.
2. Retirement allowances or benefits that begin on or after Jan. 1, 2018 shall receive a COLA, with the first COLA applied on the fourth anniversary date following the beginning of the retirement allowance or benefit. In no case shall a person miss more than three cost-of-living adjustments in total.
3. No COLA shall be applied to a retirement allowance or benefit that commenced before Jan. 1, 2018 for three consecutive years, with such suspension beginning Jan. 1, 2018, and payment of cost-of-living adjustments resuming on anniversary dates on and after Jan. 1, 2021.

"I believe I speak for the entire Board when I say this was the toughest decision we've ever had to make," said Board Chair Barbra Phillips. "After discussing every option available, in the end, the COLA changes address the financial challenges SERS faces and equally and fairly affect active members and retirees."

The Board consciously avoided COLA cuts in 2012 when the economy was weak and everyone was worried about their finances, and instead made age and service eligibility changes that only affected active members.

For more information about the need for the COLA changes, [click here](#) to read the *COLA Changes - What You Need to Know* handout.

If you would like to contact the Board regarding your COLA concerns, you can send an email to [pensionreform@ohsers.org](mailto:pensionreform@ohsers.org). If you have questions about the COLA changes that are not covered in the handout, you can call SERS' Member Services Department toll-free at 866-280-7377.

## SERS Executive Director to Retire; Search Underway for New Executive Director

Lisa Morris, SERS' executive director since 2010, announced her intention to retire effective Oct. 31. The Board accepted her resignation and authorized Hudepohl & Associates, an executive search firm, to begin a national search for SERS' next executive director.

The Board appointed Deputy Director Helen Ninos to serve as interim executive director effective Nov. 1, 2016, until a new executive director is officially appointed by the Board.

"Lisa provided SERS with steady leadership during the Great Recession and pension reform, and she leaves the pension system on solid financial ground," said Barbra Phillips, Chair of the SERS Retirement Board. "The best interests of the members and retirees always guided her actions and we are grateful that the staff she assembled reflects that same professionalism. On behalf of the entire Board, I thank her for all she's done and wish her well in retirement. She will be missed."

More details on Lisa's career and accomplishments are included in our [press release](#).

## Total Fund Update

<b>TOTAL FUND BALANCE</b>		
<b>June 30</b>	<b>July 31</b>	<b>Difference</b>
\$12.46 billion	\$12.70 billion	▲ \$240 million
<b>TOTAL FUND RETURN (net of fees)</b>		
<b>Fiscal Year</b>	<b>Calendar Year</b>	<b>3-Year</b>
▲ 2.29%	▲ 5.07%	▲ 7.20%
<b>TOTAL FUND RETURN vs. BENCHMARK</b>		
<b>Fiscal Year</b>	<b>Calendar Year</b>	<b>3-Year</b>
▲ 0.01%	▲ 0.33%	▲ 0.63%

## Investment Consultant Gives Quarterly, Year-End Reports

David Lindberg, CFA, Felicia Bennett, and Calvin Born, Jr. of Wilshire Associates, SERS' general investment consultant, updated the SERS Board on the quarterly and FY2016 year-end investment performance.

The total fund returned 1.79% during the quarter and outperformed the benchmark by 0.49%. This return ranked SERS in the 2nd quartile of similar-sized U.S. pension funds.

For the fiscal year (July 1, 2015 - June 30, 2016), the fund returned 1.38% net of fees and outperformed the benchmark by 0.45%. Real assets had the strongest return at 12.33% followed by private equity at 11.40%. The biggest detractor was non-US equity which returned -8.38%. The fund's net one-year return and three-year return of 7.29% ranked SERS in the top quartile of public funds over \$1 billion according to the BNY Mellon U.S. Master Trust Universe.

## SERS Commits to Private Equity and Real Assets Investments

The SERS Staff Investment Committee approved two investments within the System's private equity portfolio and one within the real assets portfolio.

The private equity investments include a \$40 million commitment to Kohlberg Investors VIII, a middle-market buyout fund, and a \$25 million commitment to Swander Pace Capital VI, a lower middle-market buyout fund.

In the real assets portfolio, the committee approved a \$50 million commitment to AMP Capital Global Infrastructure Fund.

Funding for the private equity and real assets investments came from cash reserves.

## Asset Allocation and Capital Market Assumptions Discussion

SERS' investment staff and Wilshire Associates led a discussion on the role of asset allocation and capital market assumption methodology.

The role of asset allocation within SERS' portfolio is to maximize returns while minimizing risk.

Capital market assumptions help guide asset allocation decisions by taking into consideration current economic conditions, then setting realistic return and risk expectations.

To ensure that SERS' assets are appropriately allocated, SERS will conduct an asset allocation study this year with the goal of adopting the updated asset allocation policy targets in December 2016.

## Executive Director's Update

### ***ORSC Selects Funston to Conduct Fiduciary Audit***

At its August meeting, the Ohio Retirement Study Council (ORSC) approved the selection of Funston Advisory Services for SERS' 10-year fiduciary performance audit. The process, which is underway, is estimated to continue through the end of February 2017.

### ***Omnibus Bill Amendments to be Reviewed in October***

The ORSC plans to review final amendments to the omnibus pension bill, or H.B. 520, at its October meeting. The bill, which contained general statutory cleanup language for all five statewide pension systems, is expected to be referred to the full House for consideration in early November.

### ***SERS Opposes H.R. 5311***

SERS joins more than 30 Council of Institutional Investors and other organizations, including SERS and OPERS, in opposing H.R. 5311. The bill, if passed, would weaken U.S. corporate governance, and undercut proxy firms' ability to meet their fiduciary obligations.

## ***New NIRS Report Finds Pension Spending Provides Significant Economic Gains***

The National Institute on Retirement Security (NIRS) recently released a report, titled *Pensionomics 2016*, which finds that retiree spending from pension income in 2014 generated approximately \$1.2 trillion in economic output, and supported 7.1 million jobs throughout the country. To break it down even further, researchers estimate that each dollar paid out in pension benefits supported \$2.21 in total economic output nationally.

Defined benefit plans not only provide a stable source of income to retirees, but also to local economies where pension payments are spent. [Click here](#) to read the full report.

## ***Health Care Update***

### ***Prescription Contract Extension Approved***

As part of the RxOC group, SERS negotiated a three-year extension of its contract with Express Scripts, Inc. (ESI), its pharmacy benefit manager for Medicare and non-Medicare health care plan participants. The extension negotiations resulted in a projected savings of \$15.5 million when compared to the terms of the current contract. Among the items renegotiated for additional savings, the extended contract will guarantee improved brand and generic drug average wholesale price discounts in 2017 through 2019, and improved rebates on traditional and specialty drugs at retail, mail, and Accredo specialty pharmacy.

The Board approved the extension of the ESI contract for a three-year period.

### ***Wraparound Plan Generates Interest***

Since SERS introduced its Marketplace Wraparound Plan coverage in late August, HealthSCOPE, its third-party administrator managing the plan, has been talking to members about the plan. In the first week following the initial mailing, HealthSCOPE received more than 200 calls from interested members. The Marketplace Wraparound Plan is available to SERS' health care participants who are not eligible for Medicare and not enrolled in Medicaid.

We anticipate the conversation and interest regarding the SERS Marketplace Wraparound Plan to continue at the Open Enrollment Meetings, which begin Sept. 20.

## **Monthly Retirement and Survivor Benefit Transactions**

For September, the SERS Board approved 888 active members for service retirements, and 38 survivor benefits for spouses and/or dependents.

## October Meeting Dates

The next Board meeting will take place Thursday, October 20, and Friday, October 21 (if necessary) at 8:30 a.m.

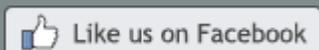
The *Board Highlights* are a high-level summary of select information discussed during SERS' Board meetings. Details of all Board discussions are contained in the *Board Meeting Minutes*.

Previous *Highlights* and *Minutes* can be accessed on our website at: [www.ohsers.org/board-of-trustees](http://www.ohsers.org/board-of-trustees).

[Click here](#) to view and download a printer-friendly version of this month's *Board Highlights*.

Retiring in the next 12 months? [Click here](#) to register for a *Retiring with SERS* webinar.

**CALL** toll-free 800-878-5853 / **VISIT** [www.ohsers.org](http://www.ohsers.org)



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Christine D. Holland, *Employee-Member*

Catherine D. Moss, *Retiree-Member*

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Beverly A. Woolridge, *Retiree-Member*

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