

Art by Nikita D., Logan Hocking Middle School



School Employees Retirement System of Ohio

SUMMARY ANNUAL FINANCIAL REPORT

For the fiscal year ended June 30, 2012

Serving the People Who Serve Our Schools®

INTRODUCTION

On behalf of the Board and staff of the School Employees Retirement System of Ohio (SERS), I am pleased to share with you this *Summary Annual Financial Report (SAFR)*.

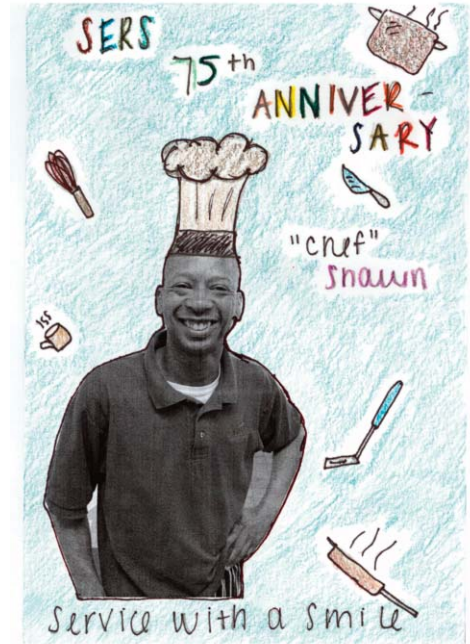
Our mission at SERS is to “provide our members, retirees, and beneficiaries with pension benefit programs and services that are soundly financed, prudently administered, and delivered with understanding and responsiveness.” We developed this publication to provide an overview of the financial health, investment performance, demographics, and key accomplishments of the last fiscal year. All of the financial information summarized in this publication can be found in more detail in our *Comprehensive Annual Financial Report (CAFR)*, which can be viewed on our website at www.ohsers.org.

The key accomplishment of fiscal year 2012 (FY2012) was the passage of Senate Bill 341, SERS’ pension reform bill. After nearly four years of working with legislators to adjust age and service requirements for retirement, the Ohio legislature unanimously passed the bill on Sept. 12, 2012. Because life expectancy rates increased nine years since 1960, more and more people are living longer in retirement than they worked and contributed to SERS. The pension system was not designed to handle this imbalance. These changes were necessary to restore the work/retirement balance, which will help keep SERS financially sound well into the future.

Other important accomplishments include:

- Implementing an information security program to keep SERS’ confidential information secure
- Saving money by partnering with other retirement systems on the purchase of liability insurance as well as sharing data to better manage combined accounts
- Keeping health care premiums for retirees the same despite rising health care costs
- Upgrading the System’s member benefits computer system to better suit the needs of SERS’ membership
- Implementing a social media program as a way to communicate with more members and retirees

Finally, during 2012, SERS celebrated its 75th anniversary. As a tribute to the people who serve our schools, children from across the state created artwork depicting their favorite school employees. We are pleased to share some of that artwork in this publication.



Art by Hannah J., Canal Winchester High School



Lisa J. Morris

Lisa J. Morris
Executive Director

“The mission of SERS is to provide our members, retirees, and beneficiaries with pension benefit programs and services that are soundly financed, prudently administered, and delivered with understanding and responsiveness.”

INVESTMENTS

The main goal of SERS' Investment Department is to ensure that the System's assets are invested wisely. This is necessary so that pension benefits required by law and other benefits authorized by the Board, such as health care, are properly funded. SERS' investment portfolio is diversified. This means that money in the fund is divided among many different investment types. This is important because different kinds of investments perform differently depending on the economic conditions. Diversification helps protect assets in bad economic conditions and increase assets during good economic conditions.

In FY2012, SERS' investment return was 0.9%.

SERS makes investments in five different asset classes: global equity, global fixed income, hedge funds, global private equity, and global real estate.

Global Equity — SERS invests in equities all around the world. Equities are investments in company stock. Equity investments usually increase or decrease in price depending on the company's financial performance. SERS' target allocation to Global Equities currently stands at 45% and is split evenly between US and non-US investments.

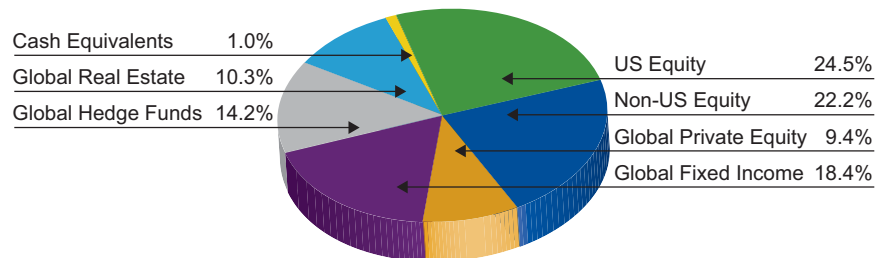
Global Fixed Income — The role of fixed income in SERS' investment portfolio is to provide stable income with returns above US Treasuries. The fixed income portfolio consists of about 40% core assets (Treasuries, corporate bonds, and mortgages) and 60% core plus assets (below investment grade corporate bonds, non-US debt, and emerging market debt).

Hedge Funds — The role of SERS' hedge fund portfolio is to reduce risk and protect assets in bad economic conditions.

Global Private Equity — Private equity investments are usually direct investments in private companies that are reorganizing or growing, or situations where one company is buying another. Private equity investments often require long holding periods to allow for a turnaround of a distressed company or the sale of a company to another buyer. In 2012, 73% of SERS' private equity portfolio was dedicated to buyout strategies, with 17% in special situations and 10% in venture capital.

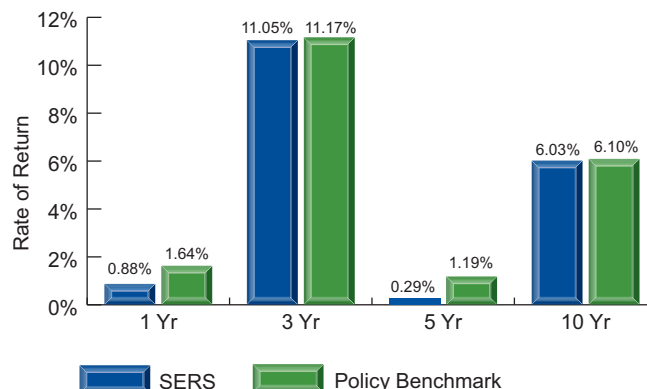
Global Real Estate — SERS' global real estate portfolio is divided into core strategies (properties that produce income through rents like well-leased office buildings and shopping malls) and non-core strategies (those that increase in value over time such as development projects and office buildings with minimal tenants).

Asset Allocation – Total Fund as of June 30, 2012



Total Fund Rates of Return vs. Policy Benchmark

(Gross of Fees)



FINANCIALS

SERS is a defined benefit public pension plan. This means that SERS promises a specific, lifetime pension benefit based on a member's age, amount of service time, and average of their highest three years of salary. SERS works with an actuary to calculate the future costs of these promises when the member retires. The actuary also calculates how much of the employer contributions must be dedicated to pensions before health care is funded.

In FY2012, 13.45% of the employer contribution rate was necessary to cover the normal costs of pensions and the remaining 0.55% was devoted to health care.

The graphs and charts in this section detail the money coming into SERS, and the amount being paid out in benefits and administrative expenses over the last two fiscal years.

SERS has five main sources of income each year: employer contributions, member contributions, investment income, health care premiums, and Medicare subsidies for retiree prescription drugs.

In 2012, the largest addition to the fund came from employer contributions.

Deductions from plan net assets refer to the expenses SERS covers each year. The main expenses are pension benefit payments, health care coverage, Medicare Part B reimbursements, refunds of employee contributions to members who leave the System, and administrative expenses.

FY2012 financial highlights include:

- Total additions to SERS' assets were \$870.3 million; \$908.2 million from contributions and a net investment loss of \$37.9 million
- Total deductions were \$1.2 billion, an increase of 5% from FY2011
- The decrease in net assets totaled \$288.1 million, compared to \$1.6 billion in FY2011

FY2012 Employer Contribution Allocations	
Pension	12.65%
Medicare B	0.75
Death Benefit	0.05
Total Benefits	13.45
Health Care	0.55
Employer Contribution Rate	14.00%

CONDENSED SUMMARY OF TOTAL PLAN NET ASSETS

(in millions)

	2012	2011	Change	
			Amount	Percent
ASSETS				
Cash	\$ 411.4	\$ 478.8	\$ (67.4)	(14.1)%
Receivables	400.3	422.8	(22.5)	(5.3)
Investments	10,653.6	10,753.4	(99.8)	(0.9)
Capital Assets, Net	48.5	44.2	4.3	9.7
Other Assets	52.8	-	52.8	100.0
Total Assets	11,566.6	11,699.2	(132.6)	(1.1)
LIABILITIES				
Benefits & Accounts Payable	14.3	12.0	2.3	19.2
Other Liabilities	865.4	712.2	153.2	21.5
Total Liabilities	879.7	724.2	155.5	21.5
Net Assets Held in Trust	\$10,686.9	\$10,975.0	\$ (288.1)	(2.6)%

This table depicts a summary presentation of the assets and liabilities of SERS as of June 30, 2012 and 2011. The Plan Net Assets shown are available for future payments of benefits to retirees, beneficiaries and members of SERS.

CONDENSED SUMMARY OF CHANGES IN TOTAL PLAN NET ASSETS

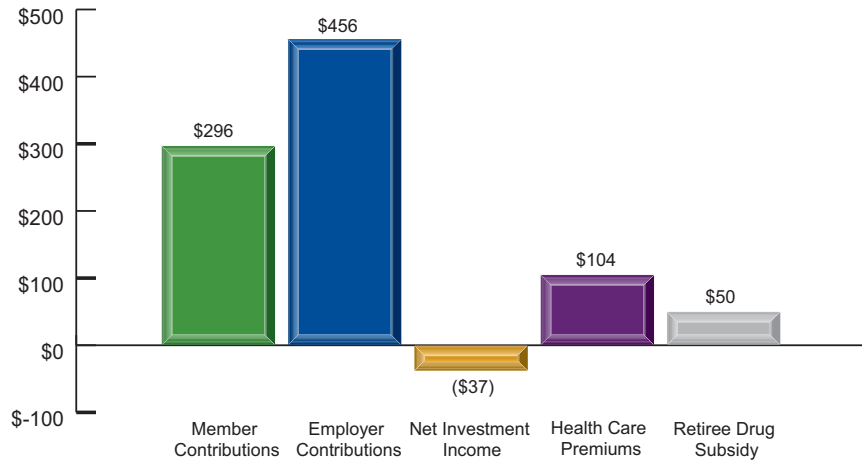
(in millions)

	2012	2011	Change	
			Amount	Percent
ADDITIONS				
Contributions	\$ 908.2	\$ 891.7	\$ 16.5	1.9%
Net Investment Income/(Loss)	(37.9)	1,789.9	(1,827.8)	(102.1)
Total Additions	870.3	2,681.6	(1,811.3)	(67.5)
DEDUCTIONS				
Benefits	1,083.9	1,033.8	50.1	4.8
Refunds & Transfers	52.9	48.6	4.3	8.8
Admin. Expenses	21.6	21.2	0.4	1.9
Total Deductions	1,158.4	1,103.6	54.8	5.0
Net Increase/(Decrease)	(288.1)	1,578.0	(1,866.1)	(118.3)
Balance, Beginning of Year	10,975.0	9,397.0	1,578.0	16.8
Balance, End of Year	\$10,686.9	\$10,975.0	\$ (288.1)	(2.6)%

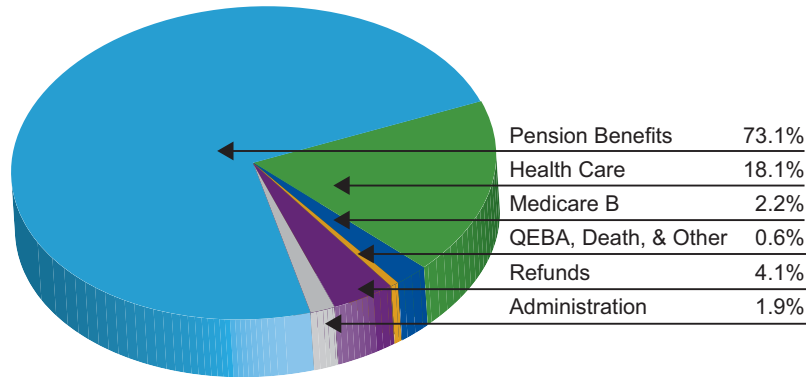
This table presents the additions and deductions to the net assets for FY2012 versus FY2011.

ADDITIONS TO PLAN NET ASSETS FY2012

(in millions)



DEDUCTIONS FROM PLAN NET ASSETS FY2012



TOTAL NET ASSETS FY2012 (in millions)



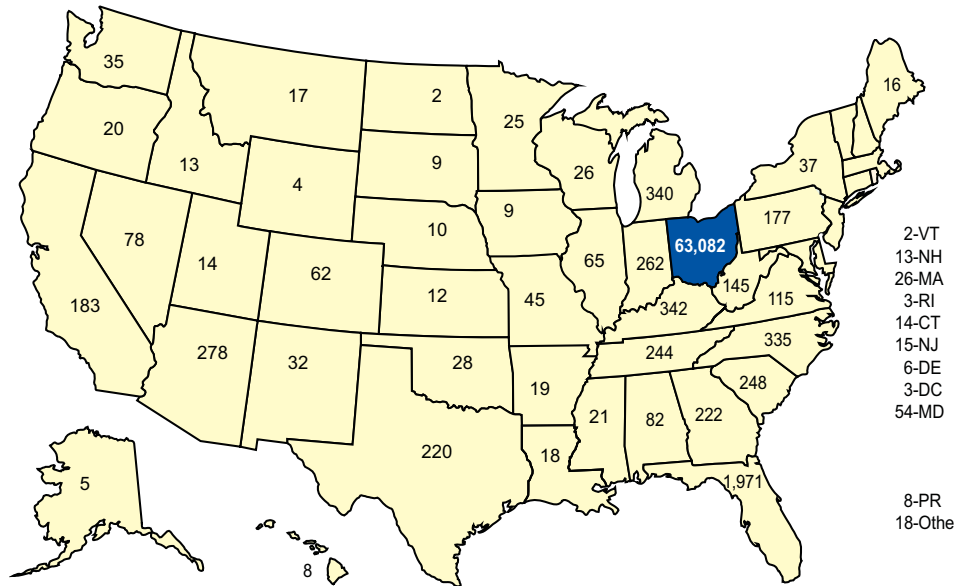
MEMBERSHIP

SERS members are administrative assistants, bus drivers, food service workers, librarians, maintenance personnel, educational aides, treasurers, and other non-teaching school employees who are vital to the operation of Ohio's schools. Our demographics are quite different from those of the other Ohio public retirement systems. SERS's members are predominantly women who begin their public employment at a later age, retire at an older age, and receive modest wages while working. These membership demographics drive the decisions the Board makes regarding pension design, benefits, vesting, contributions, investment, health care, and funding policies.

Retired Members by Type of Benefit

Amount of Monthly Benefit	Service	Disability	Survivor	Total
\$ 1 - \$ 250	10,862	121	1,077	12,060
251 - 500	10,093	645	1,289	12,027
501 - 750	8,746	855	839	10,440
751 - 1000	6,811	828	509	8,148
1001 - 1500	9,449	1,275	401	11,125
1501 - 2000	5,231	774	150	6,155
over 2000	<u>7,750</u>	<u>842</u>	<u>147</u>	<u>8,739</u>
	58,942	5,340	4,412	68,694
Average Monthly Benefit	\$1,023	\$1,259	\$624	
Average Age	74.5	64.8	71.2	

Retired Members And Beneficiaries By State



Gender Distribution	
RETIRED MEMBERS	
Female	74%
Male	26%

Gender Distribution	
ACTIVE MEMBERS	
Female	70%
Male	30%

2012 Average	
ACTIVE MEMBERS	
Age	48.7 years
Service	10.1 years
Annual Salary	\$22,889

Employee Membership Data (as of June 30, 2012)

Employee Members and Retirees

Retirees and beneficiaries currently receiving benefits	69,038
Terminated employees entitled to but not yet receiving benefits . .	<u>12,610</u>
Total	81,648

Active Employees

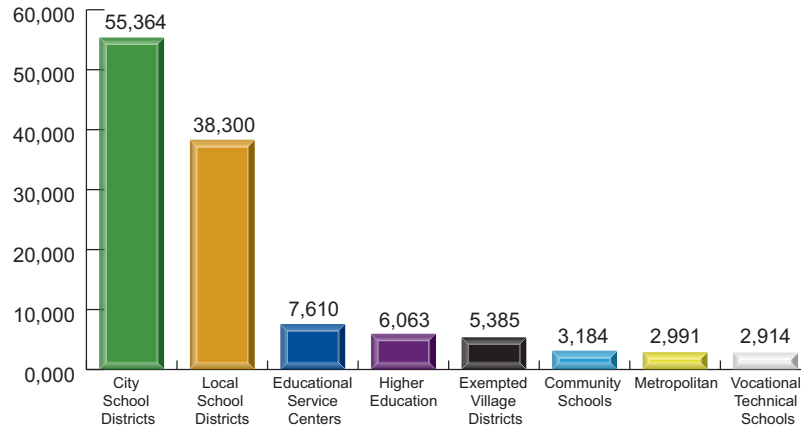
Vested active employees	78,102
Non-vested active employees	<u>43,709</u>
Total	121,811

EMPLOYERS

Nearly 1,000 public schools within the state's cities, villages, and counties as well as local school districts, vocational and technical schools, community schools, and The University of Akron employ all of SERS' active members. Employers are responsible for creating membership records, reporting payroll, and processing employer, employee, and health care surcharge contributions.

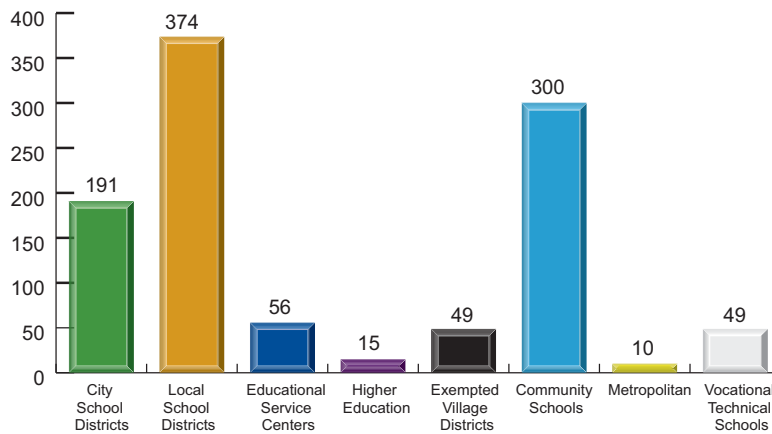
Principal Participating Employers

COVERED EMPLOYEE MEMBERS



As of June 30, 2012, there were 121,811 covered employee members. The majority of the members are employed at city and local school districts.

NUMBER OF SCHOOL DISTRICTS



As of June 30, 2012, there were 1,044 school districts with covered members.

	Fiscal Year 2012		
	Covered Employee Members	Rank	Percentage of Total System
Participating Schools			
Columbus City Schools	3,564	1	2.93%
Cleveland Metropolitan School District	2,684	2	2.20
Cincinnati Public Schools	2,649	3	2.17
The University of Akron	2,413	4	1.98
Akron Public Schools	1,507	5	1.24
Toledo Public Schools	1,344	6	1.10
Dayton City Schools	1,130	7	0.93
South-Western City Schools	1,110	8	0.91
Columbus State Community College	1,053	9	0.86
Parma City Schools	985	10	0.81
All Other	103,372		84.87
Total	121,811		100.00%

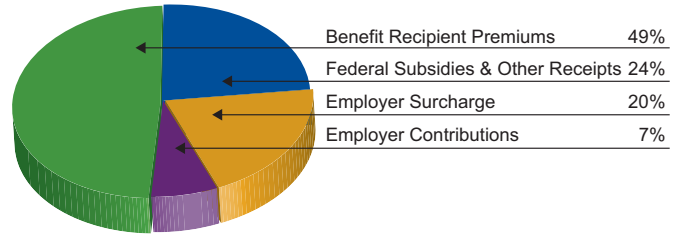
HEALTH CARE

At SERS, we know that to many of our retirees, a secure retirement means more than a pension alone. Since 1974, SERS has worked to provide retirees access to group health care coverage.

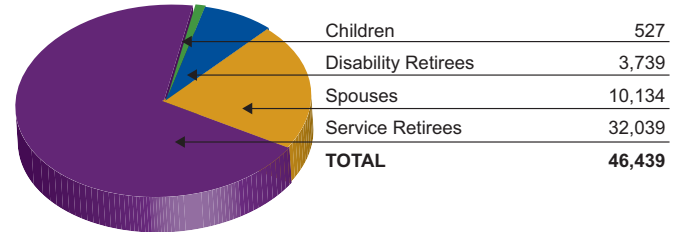
Despite a large decline in the amount of funding available to health care, we have preserved the existing health care fund (about \$355 million) and will use investment returns generated on this amount to supplement health care. This, along with premiums, SERS' 1.5% employer surcharge for low-wage salaries, and Medicare reimbursements will fund the health care program for the foreseeable future.

Currently, SERS' health care is on a pay-as-you-go basis, meaning coverage and premiums are adjusted annually based on the amount of income available. This approach preserves the money already in the health care fund. SERS' health care fund is projected to remain solvent until 2020.

FY2012 Health Care Fund Income



FY2012 Health Care Participants



BY THE NUMBERS

SERS' staff members provide a variety of necessary services that are delivered efficiently and in a timely manner. The graphs on this page summarize some of the services staff provides, and the volume of those services during FY2012.

Member Services

100,157	Calls Received
6,379	New Service and Disability Retirees
228	New Survivor Benefits
9,217	Refunds
34,023	Benefit Estimates
4,803	Members Counseled in Office

Health Care Services

33,024	Calls Received
11,664	Mail Processed
30,310	Cases Processed
167	Members Counseled in Office

SERS Website

116,341	Visits to www.ohsers.org
6,012	New Member Account Registrations
38,202	Member Statements Requested
29,873	Member Estimates Requested

Imaging Project

636,000	Member Files Converted
13.7	Million Images

Taxes and Tax Forms

86,267	1099R Forms Printed
\$60.7	Million Withheld in Federal Income Taxes
\$8.6	Million Withheld in Ohio Income Taxes

Automated Debit Transactions

2,538	Individual Transactions
692	Average Number of Employers
92.9%	Average Frequency

Member Enrollment

20,241	Processed Manually
8,924	Processed Electronically
29,165	Total Processed
41.6%	Electronic Enrollment

Social Media

1,427	People "Liked" Us on Facebook
108	Stories Posted on Facebook
55	Questions Responded To on Facebook
146	Followers on Twitter

Mailroom

150,773	Incoming Pieces of Mail Processed
1,414,390	Outgoing Pieces of Mail Processed