



# *SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO*

## **BOARD MEETING HIGHLIGHTS**

### **SEPTEMBER 2020**

#### **Board Approves 2021 COLA**

At its September meeting, the Board unanimously voted to approve a 0.5% cost-of-living adjustment (COLA) increase for eligible retirees and beneficiaries in 2021. Previously, COLAs were suspended from 2018 through 2020.

As a result of HB 49, passed in 2017, the COLA is now based on the year-to-year change in the Consumer Price Index for Urban Wage Earners (CPI-W), with a range of 0% to 2.5%, unless the Board chooses to adjust the COLA above or below the CPI-W. However, any adjustment can only be enacted if the System's actuary determines it will not materially impair the fiscal integrity of the system or is necessary to preserve the fiscal integrity of the system.

Benefit recipients whose benefit effective date is on or after April 1, 2018, must wait until the fourth anniversary of their allowance or benefit before receiving a COLA.

#### **Investments Quarterly Report**

David Lindberg and Joanna Bewick of Wilshire Associates provided the Board with an update of current global market conditions, as well as SERS' fourth quarter (April-June) investment results for FY2020.

During the quarter, the U.S. stock market was up 21.4%, effectively wiping out losses sustained in March due to COVID-19. Still for the calendar year, the stock market was down -3.3%.

Economic growth is still at -5% with unemployment trending at around 10%; however, solid employment gains since May indicate that a recovery is underway. Unemployment claims are moderating, which indicates that the federal stimulus programs for individuals and businesses are working.

One concern Lindberg noted is that fixed income returns could be challenged over the next 2-3 years because of the Federal Reserve's recent announcement that it expects to hold interest rates near 0% through 2023.

Bewick reviewed SERS' quarterly results and discussed comparisons to other U.S. public pension funds. Over the last five years, when compared to a universe of other U.S. pension funds, SERS' total fund performance was in the top quartile 80% of the time and in the second quartile 20% of the time. In addition, SERS had been achieving higher returns with less risk than the majority of U.S. pension funds.

For the quarter, SERS' returns were 0.11 basis points higher than the benchmark. The total fund also has outperformed the benchmark for the 3-, 5-, and 10-year periods.

For FY2020, SERS' total fund investment return net of fees was 2.96%, 0.77 basis points below the benchmark. The fixed income portfolio returned 8.59%, followed by real assets at 4.23%, global equities at 2.65%, and private equity at 2.57%. The opportunistic portfolio and multi-asset strategies portfolios both posted losses for the fiscal year.

#### **Investment Committee Approves Three Investments**

The SERS Staff Investment Committee approved a \$40 million commitment to GoldenTree Distressed III Co-Investment, a distressed investments strategy within the opportunistic portfolio, a \$10 million commitment to

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#### RETIREMENT BOARD

HUGH W. GARSIDE, JR.  
*Chair, Employee-Member*

BARBARA M. PHILLIPS  
*Vice-Chair, Employee-Member*

JEFFREY T. DELEONE  
*Appointed Member*

JAMES HALLER  
*Employee-Member*

MATTHEW KING  
*Employee-Member*

CATHERINE P. MOSS  
*Retiree-Member*

JAMES A. ROSSLER, JR.  
*Appointed Member*

FRANK A. WEGLARZ  
*Retiree-Member*

DANIEL L. WILSON  
*Appointed Member*

Francisco Partners V Logan Co-Investment, a co-investment buyout strategy within the private equity portfolio, and a \$50 million commitment to Invesco Credit Partners Fund II, a distressed debt strategy within the private credit portfolio.

These investments will be funded from cash reserves.

### Total Fund Update

TOTAL FUND BALANCE		
June 30	July 31	Difference
\$14.54 billion	\$14.95 billion	▲ \$410 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▲ 3.16%	▲ 0.07%	▲ 6.77%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▲ 0.48%	▼ 0.85%	▲ 0.15%

### Budget Policy Review Presented

Staff presented the proposed revisions to the existing Budget Policy in response to discussions with the Board.

The proposed revisions outlined additional processes to address budget changes, clarification of roles and responsibilities, and changes to incorporate the use of a new budget reporting tool.

In order to ensure that the Budget Policy accurately reflects current processes and procedures, as well as to provide additional transparency and accountability in the budget process, proposed policy changes include clearly marked indications when and how budget information is presented to the Board; that expenditures between the capital and administrative budgets be approved by the Board rather than the executive director; and, further clarity on how the information regarding external manager fees is reported.

Additional proposed policy revisions include that projects/items in the budget that exceed a determined threshold will be presented to the Retirement Board on the *Quarterly Board Expense to Budget Reporting*. Unbudgeted items exceeding a determined amount approved by the executive director also are to be included in this report.

### Executive Director's Update

#### **Household Income Discussion**

The Board continued its discussion of collecting household income data for retirees.

This information is already required for retirees who apply for SERS' health care premium discount program. Staff has agreed to generate more research of recommended methods for collecting this information.

#### **Medicare Part D Reform**

In August, SERS sent a letter to Health and Human Services (HHS) Secretary Alex Azar, as well as the Ohio congressional delegation, expressing the System's concerns regarding President Trump's recent executive order on Medicare Part D rebates.

The new executive order seeks to lower drug prices in the U.S. by linking them to those of other countries. However, the proposed rules as described would cost SERS approximately \$20 million in rebates, which would cause SERS' health care premiums to increase by \$45 per member, per month.

The order includes a provision to ensure any action by HHS should not lead to an increase in Medicare beneficiary premiums, so SERS remains hopeful that alternative ways to achieve the administration's goals will be pursued.

### ***SERS Transitioning to a New Domestic Custodian***

By law, the Ohio Treasurer of State (TOS) is SERS' investment custodian. Every three to five years, the TOS issues requests for proposals (RFPs) to subcontract the domestic and international custodial duties of Ohio's retirement systems.

As a result of the latest RFP process, the TOS has assigned Fifth Third Bank as SERS' domestic custodian. BNY Mellon remains the international custodian.

### ***Multiemployer Pensions are Not the Same as Public Pensions***

The possible collapse of some private sector multiemployer pension plans is making headlines as federal legislators debate how to prevent thousands of workers and retirees from losing their retirement benefits. These pension plans are different from public pension plans like SERS. To learn more about the differences between public pension plans and multiemployer pension plans, read the article titled [Public Pensions are Not the Same as Multiemployer Pensions](#) on our website.

### ***Three Full-Time Board Seats Up for Election***

Two employee-member seats and one retiree-member seat are up for election with the terms beginning July 1, 2021, and ending June 30, 2025. Any member of SERS, other than a disability benefit recipient, is eligible to run for an employee-member seat, and any SERS disability or service retiree is eligible to run for a retiree-member seat. For more details on election requirements or to download petition or certification forms, visit the the SERS website at [www.ohsers.org/about-sers/board-of-trustees/board-election](http://www.ohsers.org/about-sers/board-of-trustees/board-election).

Because of the ongoing state restrictions on large gatherings and efforts to maintain social distancing to reduce the spread of COVID-19, SERS is allowing petition signatures to be collected electronically through the SERS website. Those interested in running for one of the open active member Board seats must contact Tim Barbour (tbarbour@ohsers.org) to have an electronic form on the SERS website created with their name.

### **Board Approves Filing of Proposed Amended Membership Rule**

The Board approved an amendment to Administrative Rule 3309-1-11 which clarifies that an individual employed in a position that would contribute to STRS if employed directly by the school is not an employee for purposes of SERS membership when employed by a contractor to work in the position. The amendment promotes consistency in membership between SERS and STRS.

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

For September, the SERS Board approved 667 active members for service retirements, and 58 survivor benefits for spouses and/or dependents.

### **October Meeting Dates**

The next regular Board meeting will take place Thursday, October 15 at 8:30 a.m., and Friday, October 16 at 8:30 a.m. (if necessary).