



**SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO**  
**BOARD MEETING HIGHLIGHTS**  
**APRIL 2021**

**Board Approves Actuarial Assumption Changes; Lowers Assumed Rate to 7.00%**

Todd Green and Alisa Bennett, presidents and consulting actuaries, and John Garrett, principal consulting actuary, with Cavanaugh Macdonald, provided the Board with an overview of the proposed actuarial assumption changes contained in the [Experience Study for the 5-year Period Ending June 30, 2020 report](#). The actuaries reviewed economic and demographic assumptions for pensions and health care.

The economic assumptions reviewed included price inflation, investment return, wage inflation, and cost-of-living adjustments. The combination of price inflation and real rate of return were the basis for the investment rate of return assumption, and the combination of price inflation and real wage growth generated the wage inflation assumption.

The actuaries proposed lowering the price inflation assumption from 3.00% to 2.40% based on projections from the *2020 OASDI Trustees Report*. They also proposed moving the real rate of return from 4.50% to 4.60% based on the average of the mean real return of 4.38% calculated by Wilshire, SERS' independent investment consultant, and the 50<sup>th</sup> percentile projected real return of 5.26% from the *2020 Survey of Capital Market Assumptions* minus 0.22 for expenses.

Based on the changes to the real rate of return and price inflation, Cavanaugh proposed lowering SERS' investment return rate from 7.50% to 7.00%. While the change added nearly \$185 million to SERS' unfunded liabilities, the System's funded status dropped only slightly to 70.87% funded over 26 years and remained within the state's 30-year funding window.

The actuaries also proposed increasing SERS' real wage growth from 0.50% to 0.85%. For this assumption, they recommended a slightly lower rate than Social Security's 75-year projection of national wage growth assumption of 1.14%. Combining the price inflation rate of 2.40% and the 0.85% proposed real wage inflation rate sets the proposed wage inflation at 3.25%, which was 0.25% lower than the previous assumption. Similarly, they recommended a decrease in the payroll growth assumption from 3.50% to 1.75% to reflect recent experience.

Item	Current	Proposed
Price Inflation	3.00%	2.40%
Real Rate of Return	<u>4.50%</u>	<u>4.60%</u>
Investment Return	7.50%	7.00%
Price Inflation	3.00%	2.40%
Real Wage Growth	<u>0.50%</u>	<u>0.85%</u>
Wage Inflation	3.50%	3.25%
Payroll Growth	3.50%	1.75%
COLAs	2.50%	2.00%

RETIREMENT BOARD

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DANIEL L. WILSON  
*Appointed Member*

The final economic assumption change proposed by the actuary was the reduction of SERS' cost-of-living adjustment (COLA) assumption from 2.5% to 2.0%. Even though SERS could pay COLAs up to 2.5% annually based on CPI-W, the actuary's modeling indicated that the average COLA over the next 30 years will be under 2%, so the new assumption would be closer to expected experience.

Cavanaugh Macdonald also proposed demographic assumption changes to rates of withdrawal, rates of pre-retirement mortality, rates of disability retirement, rates of retirement, rates of post-retirement mortality, and rates of salary increase. All of these changes were recommended based on SERS' experience over the last 15 years.

Because of changes to the pension assumptions, Cavanaugh proposed using 7.00% for the health care rate of return, up from 5.25% previously, and 3.25% for the wage growth assumption. These changes reduced the Health Care Fund's unfunded liabilities by \$534 million and increased the funded status to 38.23% from 26.86% previously. In addition, the actuaries proposed adjustments to assumptions for service retirements and disability assumptions based on actual experience.

SERS' Board unanimously approved all of the proposed changes.

### **Global Private Credit Portfolio Review**

Investment staff gave the Board an overview of SERS' global private credit portfolio.

Global private credit, a relatively new asset allocation, was implemented on July 1, 2020 following the recommendation of the SERS staff and its general investment consultant, Wilshire Associates. Although not previously its own asset allocation, private credit was a strategy that SERS had formerly employed through its opportunistic portfolio. In the opportunistic portfolio, 2% of SERS' total assets were invested with private credit managers.

As an asset allocation, the global private credit portfolio now has a target allocation of 3% by the end of FY2021 and 5% by the end of FY2022.

The role of private credit in the Total Fund is to provide risk-adjusted returns in excess of those provided by publicly traded fixed income securities, and to generate a consistent stream of income. Its performance objective is to provide returns in excess of the three-month London Interbank Offered Rate (LIBOR), plus 4.5% net of fees.

As of December 31, 2020, the global private credit portfolio had a market value of \$273.4 million, and its allocation was 1.65% of the Total Fund.

Before private credit became an asset class, SERS staff and Wilshire Associates estimated the portfolio to produce a distribution yield near 6%, which was higher than expected yields for all other asset classes. In the short performance timeframe since its inception, the portfolio returned 7.8% net of fees, which exceeded the policy benchmark by 5.4%.

There are several strategies within private credit investments, each with different risk and return parameters. SERS' private credit portfolio is made up of four different strategies: direct lending, with a target allocation of 80%; stressed/distressed debt, with a target allocation of 10%; structured credit/other, with a target allocation of 10%; and mezzanine, which does not have a target allocation at this time.

The direct lending strategy consists of senior secured loans to middle market companies. Stressed/distressed debt includes companies undergoing operational challenges or operating in out-of-favor industries (i.e. energy and retail). Structured credit/other is comprised of investments in commercial mortgage-backed real estate and other securities. Finally, mezzanine consists of subordinated debt, with little structural protections in place for the lender.

For FY2021, staff is focused on increasing the allocation to 3% by making new investments that fit within SERS' investment policy and making new investments that generate consistent income for the Total Fund.

## SERS Keeps Current with Proxy Voting Issues

Chris Collins, SERS' government relations officer, provided the Board with an overview of new and/or updated proxy issues for 2021.

Because SERS owns stock in public companies, the System is responsible for voting on a number of shareholder issues. To keep pace with the volume of issues that require a vote each quarter, SERS uses the proxy voting services of Institutional Shareholder Services (ISS) to vote on the System's behalf according to SERS' proxy voting policy and our custom guidelines.

Ahead of the upcoming proxy season, SERS' internal proxy voting committee reviewed 42 issues that ISS expects to appear on proxy ballots in 2021. The committee relied upon guidance from the Board-adopted Corporate Governance Principles in deciding how SERS will vote.

To promote diversity on corporate boards, SERS continues to participate in the Midwest Investors Diversity Initiative, a group of institutional investors in the Midwest that engages public companies that also are located in the Midwest with the goal of encouraging diversity on their board of directors. Over the past year, the group has participated in a number of successful engagements with companies that have agreed to adopt a diverse director search policy.

SERS also remains involved in the Investors for Opioid and Pharmaceutical Accountability (IOPA) Group. The IOPA is a group of institutional investors that engages with public companies associated with the opioid crisis and pharmaceutical pricing. Its objective is to encourage corporate governance reforms that include increased oversight and transparency.

SERS is also a part of the Investor Stewardship Group (ISG), which is a nationwide initiative that developed a Framework for U.S. Stewardship and Governance best practices. The ISG Framework has been recognized as the definitive corporate governance code in the United States, and includes basic investment stewardship and corporate governance standards for U.S. institutional investors and boardroom conduct. SERS is a signatory to the ISG Framework and continues to support the group's efforts.

Finally, SERS continues to be an active member of the Council for Institutional Investors (CII), and is supportive of its advocacy at the federal level.

## Total Fund Update

TOTAL FUND BALANCE		
January 31	February 28	Difference
\$16.42 billion	\$16.58 billion	▲ \$160 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▲ 16.93%	▲ 0.91%	▲ 9.05%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▲ 2.27%	▲ 0.08%	▲ 0.56%

## Executive Director's Update

### *"Return to Office" Plan Continues*

While a number of SERS staff members have been physically in the office building working throughout the duration of the pandemic, other staff members are periodically being brought back into the office in shifts during April, May, and June. SERS plans to have all employees working on-site in the SERS office building by July 6, 2021.

**Limited In-person Counseling Sessions Resume in May**

SERS will begin offering limited in-person retirement counseling sessions starting May 17. These sessions are by appointment ONLY. Members within a year of retirement will be given priority.

Members will still have the option to schedule a phone or Zoom counseling session.

**Ohio Retirement Study Council (ORSC)**

The ORSC met on March 25. It was the first ORSC meeting to be broadcast on the [Ohio Channel website](#). Rep. Phil Plummer (R-Dayton) was sworn in. SERS provided summaries of its 2019 and 2020 Iran/Sudan reports, 2020 Health Care report, 2020 Actuarial Valuation, and the 2020 Disability Report.

The next scheduled meeting is May 13.

**Advocacy Groups**

SERS acknowledged the loss of advocacy group School Employee Retirees of Ohio (SERO) president Joan Owen who died on February 25. Owen retired from Allen East School District, where she was a bus driver. She began her work with SERO in 2006 as Lima Chapter Leader.

**Ohio General Assembly**

SERS has been sharing the latest SERS statistics and information with new legislators in the Ohio General Assembly. SERS also met with Rep. Plummer, the newest member of the ORSC.

**Federal Legislation**

SERS continues to work with members of the Ohio delegation on language to be included in federal appropriations bills regarding the Wraparound HRA program.

**Monthly Retirement and Survivor Benefit Transactions**

For April, the SERS Board approved 333 active members for service retirements, and 38 survivor benefits for spouses and/or dependents.

**May Meeting Dates**

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