WHAT IS SERS?

School Employees Retirement System of Ohio | Employer Services

History

In 1927, a group of Cleveland custodians sponsored legislation known as the School Custodians' Pension Act. The act made it possible for local boards of education to create pension funds in their own districts for their non-teaching employees. State history indicates that Cleveland was the only board of education to establish such a fund for their custodians.

In 1933, in the midst of the Great Depression, a group called the Cleveland Board of Education Employe (sic) Welfare Association was formed through the efforts of an attendance worker for Cleveland City Schools. The group expanded the guidelines of the custodians' fund, and included plans for retirement allowances for all non-teaching employees in Ohio's public schools.

By 1936, the Ohio Association of School Business Officials had been formed and it decided to join the effort to promote a statewide retirement system for non-teaching school employees. Representatives of the State Teachers Retirement System of Ohio (STRS, created in 1920) and the Public Employees Retirement System of Ohio (OPERS, created in 1935) were consulted to help draft legislation to present to the 1937 legislature.

The bill was sponsored by Cuyahoga County Representative Hiram H. Cully, and introduced in the Ohio House of Representatives on Feb. 3, 1937 as House Bill 217. The bill was passed by both chambers and signed into law on April 13, 1937 by Governor Martin L. Davey.

The state provided $5,000 in initial start-up money, and the system began operating on Sept. 1, 1937.

What is SERS?

SERS is a defined benefit (DB) public employee retirement system and a qualified plan under Section 401(a) of the Internal Revenue Code.

As a DB plan, SERS provides pensions, disability benefits, and survivor benefits in a specified amount based upon three factors: age, final average salary, and years of service.

SERS' statutes require that it provide pensions, disability benefits, and survivor benefits to non-teaching employees of Ohio's public schools (including community schools), vocational and technical schools, and community colleges. By statute, retiree health care is discretionary.

A DB pension plan is a pooled retirement plan that offers a monthly benefit amount for life after a person retires. Most employees in public sector jobs are covered by DB plans for their retirement security. In a DB plan, all eligible employees are automatically enrolled in the pension plan and the plan assumes all of the investment risk. DB plans are pre-funded, meaning that each person funds their own retirement over the course of their career. These retirement benefits are financed through a combination of employee and employer contributions and investment earnings on these contributions.

Conversely, most private sector employers help employees fund their retirements with defined contribution (DC) plans. A DC plan is a retirement plan in which employees contribute a fixed amount or a percentage of their paychecks into a personalized retirement account. The most common types of DC plans are 401k and 403b plans. Generally, the sponsor company offers several approved plans that have different structures and risk profiles from which employees can choose. As an added benefit,

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the sponsor company may offer employees matching contributions up to a certain percentage of their salary. DC plans allow pre-tax dollars to be contributed while investment increases grow tax-free until withdrawals begin after age 59-1/2. Unlike DB plans, employees with access to DC plans are not required to participate in them and the retirement benefits of a DC plan are not fixed or predetermined. Each employee's benefit at retirement depends on the performance of the investment account and the amounts contributed to the DC plan.

Ohio Public Employees Do Not Pay into Social Security

Ohio is classified as a non-Social Security state. This means that public employees do not pay into Social Security while employed in their public jobs and do not earn qualified service toward Social Security benefits.

Because Ohio's public employees do not have access to Social Security's safety net, Ohio's DB plans are required to provide retirement benefits that meet or exceed those of old age Social Security to maintain their FICA-replacement plan status.

Nationwide, 25% of public sector workers, approximately 5 million workers, are not covered by Social Security and the majority of those workers reside in 15 states: Alaska, California, Colorado, Connecticut, Georgia (certain local governments), Illinois, Louisiana, Kentucky (certain local governments), Maine, Massachusetts, Missouri, Nevada, Ohio, Rhode Island, and Texas. Ohio is one of only two states in which fewer than 5% of state and local government employees work in positions covered by Social Security. The other is Massachusetts.

Any public employee who becomes vested in a public pension and is entitled to Social Security benefits due to their work history, or a spouse's work history, in the private sector will be subjected to the Windfall Elimination Policy and the Government Pension Offset penalties. Based on the amount of their public pension, any Social Security benefit they earned through their own private sector work or through the work of their spouse will be reduced or eliminated.

Governance

SERS' Retirement Board consists of nine members: four elected active member seats, two elected retiree seats, and three state-appointed seats one each from the Governor, State Treasurer, and Ohio General Assembly. Board members receive no compensation for their services other than the reimbursement of personal expenses.

SERS is governed by Chapter 3309 of the Ohio Revised Code and Ohio Administrative Rules.

SERS Statutes – ORC Chapter 3309

SERS Rules – OAC Chapter 3309-1

Oversight and Transparency

The Ohio General Assembly established the Ohio Retirement Study Council (ORSC) to oversee the Ohio public retirement systems. The ORSC is composed of 14 members: three members of the House; three members of the Senate; three members appointed by the Governor, one representing the state, another representing local governments, and the third representing public education institutions; and the five executive directors of the state retirement systems, who are nonvoting members.

The general purpose of the ORSC is to provide legislative oversight as well as to advise and inform the state legislature on all matters relating to the benefits, funding, investment, and administration of the five state retirement systems in Ohio. The responsibilities of the ORSC include reviewing and recommending changes to existing state laws that govern the retirement systems, studying all proposed changes to state laws that could affect the retirement systems, independently reviewing the investment programs of the retirement systems twice each year, coordinating an independent actuarial review of each system every 10 years, conducting a fiduciary performance audit of each system every 10 years, and monitoring each system's funding annually.

This oversight is in addition to the retirement systems' annual pension valuations, annual health care valuations, annual financial audits, internal operational audits, and 5-year investment experience studies.

Benefit Structure

Age and Service Retirement

Members who had at least 25 years of service credit on or before August 1, 2017 are eligible for retirement benefits based upon the following age and service credit schedule: age 60 with 5 years of service; age 55 with 25 years of service; or any age with 30 years of service. Members who did not have 25 years of service credit on or before August 1, 2017 are eligible at age 62 with 10 years of service; age 60 with 25 years of service; or age 57 with 30 years of service.

Reemployed Retirees

Retirees of any of the five state retirement systems must contribute to SERS if they are reemployed in a non-certificated position in the public schools. These contributions are credited to a separate money purchase annuity payable at age 65 in either monthly payments (if the monthly amount is $25 or more) or in a lump sum. A refund of the reemployed retiree's contributions, without employer contributions or interest, is available for those who stop working and receive payment before age 65.

Reemployed retirees are sometimes referred to as "double-dippers" because they receive their pension and a paycheck from a public employer at the same time. Once a person meets SERS' age and service requirements to retire, they can apply for their pension. Sometimes locking in lower pension amount at an earlier age is better than working longer for a higher pension amount. Generally, most of the reemployed retirees who receive a SERS pension become reemployed in a similar position with another school or take an unrelated part-time position such as a substitute bus driver. The advantages of rehiring a retiree is that they can hire highly skilled people often at a lower salary.

Disability

To be eligible to apply for disability, a member must have at least five years of total service credit and submit their application within two years of working in a SERS-covered position. The basis of the disability application must have existed while they were still employed by a school.

Members whose disability was granted on or after January 7, 2013, are considered to be on administrative leave from their school employment for three to five years depending on the details of their disability. If their disability is terminated while they are still on administrative leave, even if they had resigned from their school job, the school employer is required to take the individual back in the same or a similar position. During the three-to-five-year period when they are on administrative leave, their eligibility for disability continues as long as they are disabled from their last school job. At the end of this period, their continued eligibility for disability depends on whether they are disabled from "Any Occupation" as defined in SERS' laws.

Employers

All K-12 public schools, including community schools, are contributing employers. In addition, the system serves 13 community and technical colleges and Akron University*, bringing the total number of contributing employers to over 1,000. The current employer contribution rate is 14% of pay, plus a health care surcharge for low-wage workers which may not exceed 2% of a district's payroll, averaging 1.5% statewide.

*New employees hired at Akron University after 9/28/2016, will be covered by the Ohio Public Employees Retirement System.

Membership

SERS' members are individuals who work for a public or community school or school system in a non-teaching position. They range from treasurers and business administrators, including business managers, to bus drivers, custodians, administrative assistants, food service providers, and educational aides.

Employees who are not required to have a certificate or license covered under Sections 3319.22 – 3319.31 of the Ohio Revised Code and issued by the Ohio Department of Education (ODE) are SERS' members.

This also includes contract companies and their employees.

Membership Breakdown

Paragraphs (B)(1), (B)(2), and (B)(3) of section 3309.01 (B) describe three separate definitions of "employee" for SERS-covered members.

Paragraph (B)(1) "Common law" employee	▪ Any person "employed by a public employer" in a non-teaching position that does not require a license under Ohio law ▪ Refers to an employee-employer relationship, also called a "common law" employee-employer relationship ▪ Applies when the district contracts directly with an individual for services
Paragraph (B)(2) Statutory employee	▪ If the person performs a "service common to the normal daily operation" of a school even though the person is employed and paid by one who has contracted with an employer to perform the service ▪ Applies when a school contracts with a contractor for the provision of services by the employees of the contractor
Paragraph (B)(3) Post secondary school employees	▪ Employees employed in a non-faculty position in a school, college, or other institution - wholly controlled and managed - and wholly or partly supported by the state or any political subdivision

If the overall facts of the situation indicate an employer-employee relationship between you and the employee, membership in SERS is required.

Funding

As a public retirement system in Ohio, SERS funds retirement benefits on a budget. For SERS, state law limits employer contributions to 14% of pay and employee contributions to 10% of pay. Contributions, along with investment returns on the contributions, must fund current and future benefits. Historically, 60% of funding comes from investment returns, 28% comes from employer contributions, and 12% comes from employee contributions. Ohio's public retirement systems are somewhat unique among other U.S. public systems because contribution rates are fixed in state law. Many other U.S. public systems fund their benefits on the actuarially required contribution (ARC) method in which they change their employer contributions annually to meet their normal cost funding needs. By having fixed contribution rates, employers can accurately calculate their future retirement funding costs and those costs do not rise dramatically during economic downturns.

To assist public pension systems in reporting funding progress using the same rules, the Governmental Accounting Standards Board (GASB) issues statements that must be followed during actuarial valuations. These standards address financial accounting and reporting, and are not intended to be funding policies. Recent changes to reporting of pension system liabilities in GASB Statements No. 67 and No. 68 have mandated that each public employer's proportionate share of SERS' liabilities be included on their annual financial statements. While this change makes sense for public retirement systems that use the ARC funding method, it can create confusion for pension systems like SERS that operate on a fixed contribution method. SERS is responsible for developing a funding policy to pay for pension liabilities (current and future benefits) through a combination of contributions and investment earnings. Public employers are not responsible for paying that liability.

The Great Recession (2007-2009) impacted SERS' ability to fund benefits. To get the system on more solid financial footing, SERS increased age and service levels for active members in 2012 and made changes to the cost-of-living adjustments for current and future retirees in 2018. Additionally, the Board is monitoring membership and retirement trends, investment experience, and negative cash flow (the difference between contributions received and benefits paid) to make sure SERS' financial resources continue to be available to provide a solid foundation of retirement security for all members who have earned it.

Even though health care is not a guaranteed benefit, SERS has a funding policy in place that allows employer contributions to be used to fund health care when the pension fund is at or above 70% funded.

Financial Status

In FY2022, SERS was 75.48% funded for pensions over a 22-year period, which is within the state's 30-year funding recommendations. Since the 30-year window was implemented in 1996, SERS has always been within that standard.

Statewide Economic Impact

In FY2022, for every $1 in employer contributions invested in SERS' pensions, $2.61 was returned to local economies.

In total, SERS paid out more than $1.5 billion through pension payments and health care spending and because 91% of SERS' benefit recipients live in Ohio, more than $1.4 billion of that stayed in the state.

SERS Stats

In FY2022, SERS' pension assets totaled $17.9 billion. Based on this value, SERS was the 62nd largest public pension fund in the U.S. and 158th largest retirement fund including both public and private retirement funds.

SERS realized a gross-of-fees investment return of 0.20%, exceeding the benchmark by 3.80%. When measured against a peer group of U.S. pension funds, SERS' 1-year return ranked in the 4th percentile, its 3-year return of 9.76% ranked in the top 4%, its 5-year return of 9.29% ranked in the top 3%, and its 10-year return of 9.78% ranked in the top 2%.

SERS had 155,063 active, contributing members and 81,151 benefit recipients. Women made up 69% of active members and 74% of retired members and beneficiaries. SERS' average new retiree in FY2022 was 65.2 years old with 24.8 years of service credit, a final average salary of $38,250, and a monthly pension of $1,581.

For all 81,151 retirees, disability recipients, and survivors, the average benefit recipient was 75 years old with a monthly pension of $1,330.

SERS' active members are the lowest paid of all five Ohio pension systems. Based on all 155,063 active members, SERS' average member was 47.2 years old, with 7.6 years of service credit, and an annual salary of $25,761.

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