



# *SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO*

## **BOARD WORKSHOP HIGHLIGHTS**

### **FEBRUARY 2026**

### **Educational Session on Current U.S. Economic Conditions**

Dr. Anirban Basu, Chairman and CEO of Sage Policy Group, Inc., provided an overview of the current economic conditions in the U.S. and Ohio.

Dr. Basu adds an element of humor to his presentations by choosing a popular actor and using the titles of his or her films, or slight variations of those titles, to portray what is happening in the economy. His choice for this presentation was Sylvester Stallone and he began with the movie “Judge Dredd” (*Judge Dredd*) as a lead-in to current economic conditions.

According to the University of Michigan Consumer Sentiment Index, consumer confidence in business climate, personal finance, and spending are near all-time lows reached during the Great Financial Crisis in 2008-2009. Since May of 2020, energy is up 56.3%, transportation services is up 55%, used cars and trucks are up 31.4%, shelter is up 29.8%, and food is up 28.8%. Consumers are having a difficult time keeping up with price increases. He said it is the food bill that raises the ire of consumers the most. High prices are also a bad sign for incumbents during an election year. Another Michigan index indicates that more consumers blame high prices for their poor personal finances than at any time since 1992.

Using the film *Over the Top*, Dr. Basu said the part of the economy working well is Big Tech’s spending spree on artificial intelligence (AI), especially computer chips and data centers. Consumer spending also has remained strong despite the low consumer sentiment. The downside is that data indicates 40% of the spending is being done by the top 20% of earners.

In his section titled “The Spendables” (*The Expendables*), data indicates that retail sales continue to grow. The Gross Domestic Product (GDP) is expected to be about 2.1% for 2025, which is in line with the Federal Reserve’s goals. One concern is that hiring only averaged 16,000 per month during the year. While not many people are losing their jobs, not many are getting hired either. Ohio was one of the bright spots in the nation as it added more non-farm jobs than the national average. Basu stated that this is rare for a northern state. Columbus generated more job growth than any other area of the state.

In the “A Little Rocky” section he identified the following economic drags:

- *Rocky I* – loan delinquency is surging
- *Rocky II* – real estate: mortgage rates are still high keeping home sales low; permits for single-family and multi-family residences are declining due to lower rents, tariffs on building supplies, and a reduction in construction labor force due to illegal immigration enforcement
- *Rocky III* – office vacancy rates are still high
- *Rocky IV* – cities are under fiscal stress, which is limiting their spending

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#### RETIREMENT BOARD

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Finally in *Cliffhanger*, Dr. Basu said the probability of a recession is growing because the current economic expansion is relying on four elements: AI tech spending, infrastructure spending, corporate earnings, and spending by the top 20% of earners. If one of these buckles, he believes the economy will likely go into recession.

## Institutional Asset Allocation Update

Jared Gross, managing director and head of institutional portfolio strategy with J.P. Morgan Asset Management, provided institutional asset allocation insights and trends for the Board's consideration during SERS' upcoming asset allocation study.

Gross remarked that asset allocation is a continuous process of defining objectives, identifying long term capital market assumptions, making strategic allocations, deploying capital, making portfolio enhancements, and finally, monitoring and adjusting allocations as needed. The key is to find a repeatable process that can be used year after year.

When looking at long-term capital market assumptions, there are three themes driving performance:

- **Economic Nationalism:** A decline in both free trade and cross-border migration will produce slower growth and higher inflation.
- **Fiscal Stimulus:** Prior to the COVID-19 pandemic, monetary policy was the primary driver of the economy. Post-pandemic, fiscal policy became the primary driver, with an emphasis on employment and more of a tax-based stimulus program. This has become an incremental source of growth, and growing deficits.
- **Capital Investment:** With the rise of AI and data centers, the U.S. will see a capital investment boom. This will likely create opportunities and distortions across major markets. AI investment will generate a more productive economy in 5-10 years; however, the "fly in the ointment" will be debt, as a majority of data centers and the fiscal stimulus are primarily debt financed.

Gross commented that high U.S. equity valuations pose a significant drag on future returns; however, strong earnings growth provides an offset, particularly due to the "Magnificent 7" stocks.

In terms of fixed income, prior to the pandemic, interest rates were very low. As the Federal Reserve adjusted to inflation, interest rates shifted higher, resulting in an inverted yield curve due to investor pessimism. Fixed income returns were supported by higher yields and steeper returns during this period.

Now, the Fed is in a "sweet spot," with a yield rate that looks as it should. Interest rates are high enough that in the event of a market downturn, they will have room to cut them if needed.

While the U.S. dollar is still very strong, it is expected to decline over the forecast horizon. This will drive global returns higher, as foreign markets are cheaper and less concentrated.

Gross noted that alternative investments offer a source of diversification, returns, and income.

The traditional 60% stock/40% bond portfolio worked well for a long time because interest rates were falling and, when there was a sell-off in equities, bonds picked up the slack. However, when inflation shock occurred in 2022, that correlation did not come to the rescue. Alternative investments such as commodities, timber, transportation, infrastructure, and real estate did well, producing returns and diversifying against inflation. Inflation remains sticky but it is anticipated to decline slowly.

Looking forward, the search for yield will extend beyond traditional fixed income. Stocks remain historically expensive and international equities are cheap. A well-diversified portfolio remains key to reducing risk and increasing long-term returns.

## **SERS Asset Allocation Update**

Farouki Majeed, SERS' chief investment officer, and Joanna Bewick and Chris Tessman, both of Wilshire Associates, provided an update on SERS' current asset allocation model.

Historically, assets with higher risks produced higher returns. For instance, over the last 10 years, global equity was nearly 95% correlated with Total Fund returns. Typically, this model works well, but sometimes the model gets flipped, as happened in the early 2000s when equity returns were negative and bond returns were positive.

Majeed commented that equities and bonds offer good diversification because of their negative correlation. However, we need to be careful of that assumption as the correlation can spike in crisis periods, as it did between 2022 and 2025.

A portfolio with a higher allocation to risky assets will perform well in certain economic environments; however, it will fall short of expectations in recessionary, inflationary, or deflationary periods.

Majeed emphasized that asset allocation and risk allocation are not the same. A stable portfolio requires other asset classes that will moderate the level of risk that equities possess. Fixed income and cash are reliable diversifying asset classes, as they are low risk.

Since 2012, SERS has made several asset allocation changes that have added value to the portfolio, while moderating the level of risk taken. These changes included:

- Reducing hedge funds from 15% in 2012 to 0% in 2020
- Increasing real assets from 10% in 2012 to 13% in 2025
- Including infrastructure in the real assets portfolio in 2024, with a target of 7%
- Increasing private credit from 0% to 5% in 2020
- Changing the global equities portfolio from having specific targets to U.S. and non-US markets to managing it relative to the MSCI ACWI global benchmark
- Decreasing global equities from 45% in 2020 to 40% in 2023
- Decreasing fixed income from 19% in 2020 to 18% in 2023
- Increasing cash from 1% in 2012 to 3% in 2023

Bewick discussed the timeline for the upcoming asset liability study.

In March, Wilshire will review asset-only optimization with the Board. This will serve as a useful tool in comparing risk/return trade-off among various alternative policy portfolios. Wilshire and Staff will introduce SERS' liability information to the modeling process and finalize a recommendation to the Board in April.

During this presentation, Wilshire offered a preview of some of the concepts the Board will see in the upcoming study.

Bewick noted that one term the Board will hear often is “efficient frontier.” An efficient frontier is when a portfolio receives the highest expected return for a certain level of risk. Portfolios that produce the largest returns are mapped on an efficient frontier. When portfolios start to veer too far from the “sweet spot,” returns will likely suffer.

Tessman introduced what Wilshire calls their “bucketing approach,” which will be used in the study. With this approach, they try to lump asset classes together that behave similarly.

- **Growth Bucket:** U.S. equity, international equity, and private equity
- **Defensive Growth Bucket:** High yield bonds, bank loans, and private credit
- **Interest Rate Sensitive Bucket:** Core fixed income and cash
- **Inflation-sensitive Bucket:** Real estate, infrastructure, and other real assets

Using this method and other differentiators such as factor exposures (how a portfolio responds to inflation and growth), liquidity metrics (the tradability of assets in low- and high-stress environments/markets), and regime modeling (how assets are expected to perform over various periods of growth), Wilshire will produce a practical output showing the range of liability consequences for each portfolio. This model will be presented to the Board in March and April.

## Risk Analysis Educational Session

Todd Green, president and consulting actuary with CavMac, provided a risk analysis of SERS’ defined benefit plan. This session was scheduled as part of the Board’s ongoing commitment to review the System’s sustainability metrics at least once per year.

Using Actuarial Standard of Practice No. 51, *Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions*, as a guide, Green’s analysis of SERS’ sustainability focused on three areas: the maturity level of the pension plan, qualitative characteristics of the plan, and quantitative assessment.

Considering that SERS is nearly 90 years old, risks change as the plan matures. Ways to assess maturity include analyzing historical member-to-retiree ratios, monitoring the asset volatility ratio, analyzing historical cash flows, and looking at the historical retiree percentage of the total accrued liability of the plan. All of these are in favorable ranges for SERS.

In the qualitative analysis, the actuaries also look for changes to the active membership, especially in the area of payroll growth assumption. System funding could be affected if payroll growth is lower than the assumption. In addition, cost-of-living adjustments (COLAs) are regularly monitored. For several years, SERS’ COLA has exceeded the 2% assumption due to higher U.S. inflation. The Board and actuaries are watching this closely as it has a negative effect on the System’s funding level.

Other important observations include analysis of the Board’s Funding Policy and Amortization Policy. CavMac estimates that the Funding Policy has accelerated funding of basic benefits by \$1.1 billion over the last 10 years. The Board has been diligent in paying down unfunded pension liabilities with the remaining employer contributions after funding normal cost obligations.

In the quantitative analysis, Green provided observations on the following:

1. Demographic risks such as mortality, payroll growth, aging population, and retirement ages

2. Economic risks such as investment return and inflation
3. Contribution risk – rates too high for employers to pay
4. External risks like regulatory requirements and political environment

Due to Ohio's voucher program and the possibility of Ohio eliminating property taxes that fund public schools, CavMac ran a stress test on the pension fund, modeling 5%, 10%, 15% reductions in active members and what would happen if the pension fund had to close to new members. The fund would survive all of the modeled active member declines with only minor delays to get to full funding. Closing the fund to new members would delay full funding until at least 2055.

Overall, Green said the risk profile of SERS improved over last year due to actions taken by the Board and positive investment performance, but he stressed that it is important to continue to monitor the risks so any problems can be identified and rectified before they get too big.

## **Mandatory Social Security Discussion**

As the Social Security Trust Funds creep closer to running out of money in 2032, all ideas to shore up the funds are on the table. While Social Security will still have money coming in from contributions, it is estimated that Social Security benefits will have to be reduced by 24-28% to balance payouts with income.

While numerous proposals are emerging that address Social Security's looming fiscal emergency, there is one that has the potential to financially ruin Ohio's public pension plans: requiring all public employees in Ohio to pay into Social Security, which is commonly called Mandatory Social Security.

Tom Lussier, Administrator of the Coalition to Preserve Retirement Security (CPRS), addressed how that proposal came about and why it hurts not only Ohio's public pension systems but the public employees who pay into those systems.

Over the last few decades, the topic of Mandatory Social Security would occasionally surface, and CPRS successfully kept the subject off the table for legislative discussion. Recently, however, the topic gained new traction due to the passage of the Social Security Fairness Act in 2025.

While the passage of the Social Security Fairness Act was a great victory for public employees as it repealed the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO) Social Security penalties, it came with a cost:

1. Repeal of the WEP/GPO shortened the solvency of Social Security by six months
2. Public employees could no longer say the penalties were unfair
3. Mandatory Social Security was now back on the table as a way to help stabilize the Social Security Trust Fund

While there are public employees in every state who do not pay into Social Security, the effect would be most pronounced in California, Nevada, Texas, Louisiana, Colorado, Illinois, Ohio, and Maryland. Forcing these states' public employees into Social Security would be an unfunded mandate since employers and employees would be responsible for paying an additional 6.2% of pay each into Social Security.

The effect on pension plans would be that:

1. Employers would have to come up with 6.2% more in contributions to fund Social Security benefits, most likely removing that from the current employer contribution that goes to the pension plans
2. Plans would have to reduce benefits because of fewer contributions
3. Pension plan financial stability would weaken

The effect on members would be that:

1. Employees would have to contribute 6.2% of pay to Social Security on top of the 10% they pay into SERS
2. Their retirement benefit would likely go down. SERS has calculated that the Social Security benefit of the average retiree would be about 40% less than their SERS benefit. It is also unlikely that a reduced SERS benefit would be enough to make up the difference.
3. A possible reduction in Social Security benefits would make the benefit even less.

In the end, moving all public employees into Social Security would only minimally address the underfunding situation, but it has the potential to reduce the retirement security of public employees, cost them more in contributions, and weaken the public pension plans that provide better retirement security than a combination of Social Security and reduced pension plan benefits.