

2018 SAFR

*For the year ended
June 30, 2018*

Summary Annual Financial Report

BARRETT SCHOOL



*School Employees Retirement System of Ohio
Serving the People Who Serve Our Schools®*

Summary Annual Financial Report

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)*.

This publication summarizes SERS' organizational accomplishments and financial highlights for the period of July 1, 2017 through June 30, 2018. For more detail on the information contained in this publication, please read our *Comprehensive Annual Financial Report (CAFR)*, which is available on our website at www.ohsers.org.

Noteworthy organizational accomplishments achieved during the fiscal year include:

- Finalizing the cost-of-living adjustment (COLA) changes by suspending COLAs for current retirees in 2018, 2019, and 2020, and implementing a four-year waiting period for the start of a COLA for future retirees using the Board authority provided in SB 8 that was passed by the Ohio legislature on November 29, 2017
- Strengthening the security of SERS' online member portal following the discovery that personal information for 21 SERS retirees, which was stolen during data breaches of other companies, was fraudulently used to establish online accounts in an attempt to redirect pension payments to unauthorized bank accounts
- Redesigning the SERS website to improve navigation, make searching more intuitive, and improve functionality on both desktop and mobile platforms; and provide guidance on the critical topic of retirement security in a section titled "Invest in Yourself"
- Reducing health care costs for SERS retirees who are under age 65 by growing enrollment in the federal Marketplace Wraparound Plan by 61%, and increasing outreach to retirees who are eligible for early Medicare due to disabilities
- Expanding employer education at organizational meetings held by the Ohio Association of School Business Officials, Information Technology Centers, and other regional school groups; and increasing online employer educational opportunities through webinars and training videos available on SERS' website.

"Serving the People Who Serve our Schools" is more than a tagline, it's the driving force behind our daily work. While most members and retirees only interact with our Member Services and Health Care Services staff by phone and in person at retirement conferences and counseling sessions, there are many others who work behind the scenes in finance, investments, government relations, employer services, information technology, legal, and communications to keep SERS running smoothly and financially strong.

To increase awareness of the important work we do and detail our efforts to improve the retirement security of our membership, we've created a series of graphics that illustrate the ways we are working for you. The "Get to Know SERS" messages run regularly on our Facebook and Twitter accounts and can be found on the "Get to Know SERS" page of our website at <https://ohsers.org/get-to-know-sers/>. We hope you'll check them out.

Finally, no matter when you can retire, we encourage you to interact with SERS regularly through our social media accounts and website. At every stage of your career, there are actions you can take to improve your retirement security, and we regularly post information that may make a difference for you.



Richard Strensrud
Executive Director

MISSION - VISION - VALUES

Mission - To provide our membership with valuable lifetime pension benefit programs and services

Vision - Through the continuous pursuit of excellence and innovative solutions, we will partner with our stakeholders so that our membership will understand and achieve security in retirement

Values - Focus, Accountability, Communication, Collaboration, Innovation



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Presented to

School Employees Retirement System
Of Ohio

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO - RETIREMENT BOARD

Daniel L. Wilson <i>Chair, Appointed Member</i>	James A. Rossler, Jr. <i>Vice-Chair, Appointed Member</i>	Jeffrey T. DeLeone <i>Appointed Member</i>	Hugh W. Garside, Jr. <i>Employee-Member</i>
James Haller <i>Employee-Member</i>	Christine D. Holland <i>Employee-Member</i>	Catherine P. Moss <i>Retiree-Member</i>	Barbra M. Phillips <i>Employee-Member</i>
			Beverly A. Woolridge <i>Retiree-Member</i>

Financials

SERS is a defined benefit public pension plan. This means that SERS provides a specific, lifetime pension benefit based on a member's age, amount of service credit, and average of the member's highest three years of salary. SERS works with an actuary to calculate the future costs of these benefits when the member retires. The actuary also calculates how much of the employer contributions must be dedicated to pension benefits before health care benefits are funded. In FY2018, 13.5% of the regular 14% employer payroll contributions were allocated to the basic benefits in accordance with our funding policy. The remaining 0.5% was allocated to the health care fund. A health care surcharge that is capped at 1.5% of statewide employer payroll was also directed to the health care fund.

SERS has five main sources of income: employer contributions, member contributions, investment income, health care premiums, and Medicare subsidies. In FY2018, the largest addition to the fund came from Net Investment Income. 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 SERS, and administrative expenses.

FY2018 financial highlights include:

- Total additions to SERS' net position \$2.2 billion; \$941 million from contributions and net investment income of \$1,270 million.
- Total deductions were \$1.5 billion, an increase of 3.7% from FY2017.
- The increase in net position totaled \$721 million, compared to a \$1.2 billion net increase in FY2017.

CONDENSED SUMMARY OF TOTAL FIDUCIARY NET POSITION				
(\$ in millions)				
ASSETS	2018	2017	Change	
			Amount	Percent
Cash	\$ 1,235.4	\$ 610.7	\$ 624.7	102.3%
Receivables	162.0	239.1	(77.1)	(32.2)
Investments	13,473.4	13,365.6	107.8	0.8
Capital Assets, Net	68.5	70.4	(1.9)	(2.7)
Other Assets	85.3	80.0	5.3	6.6
Total Assets	15,024.6	14,365.8	658.8	4.6
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows	6.1	7.8	(1.7)	(21.8)
LIABILITIES				
Benefits & Accounts Payable	44.9	51.9	(7.0)	(13.5)
Other Liabilities	272.7	336.0	(63.3)	(18.8)
Total Liabilities	317.6	387.9	(70.3)	(18.1)
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows	6.7	0.2	6.5	3,250.0
Net Position	\$14,706.4	\$13,985.5	\$ 720.9	5.2%

This table depicts a summary presentation of the assets and liabilities of SERS as of June 30, 2018 and 2017. The Net Position shown is available for future payments of benefits to retirees, beneficiaries, and members of SERS. These figures are presented in conformity with Generally Accepted Accounting Principles (GAAP).

Investments

The main goal of SERS' Investment Department is to ensure that 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; meaning that money in the fund is divided among many different investment types. This is important because different kinds of investments perform

CONDENSED SUMMARY OF CHANGES IN TOTAL FIDUCIARY NET POSITION				
(\$ in millions)				
ADDITIONS	2018	2017	Change	
			Amount	Percent
Contributions	\$ 940.8	\$ 950.7	\$ (9.9)	(1.0)%
Net Investment Income	1,270.2	1,649.1	(378.9)	(23.0)
Total Additions	2,211.0	2,599.8	(388.8)	(15.0)
DEDUCTIONS				
Benefits	1,407.7	1,341.3	66.4	5.0
Refunds & Transfers	52.8	57.6	(4.8)	(8.3)
Admin. Expenses	29.6	37.5	(7.9)	(21.1)
Total Deductions	1,490.1	1,436.4	53.7	3.7
Net Increase (Decrease)	720.9	1,163.4	(442.5)	(38.0)
Balance, Beginning of Year*	13,985.5	12,822.1	1,163.4	9.1
Balance, End of Year	\$14,706.4	\$13,985.5	\$ 720.9	5.2 %

*FY2017 was restated to reflect implementation of GASB Statement No. 75.

differently depending on the economic conditions. Diversification helps protect assets in bad economic conditions and increase assets during good economic conditions.

SERS' portfolio generated positive performance in FY2018 in both absolute and relative terms. The Total Fund return of 9.2% (net) for FY2018 exceeded the policy benchmark by 0.9% and the 7.5% actuarial rate. All asset classes generated positive

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returns with Global Private Equity recording the highest return at 19.8%, followed by US Equity at 14.8%.

SERS makes investments in seven different asset classes: Global Equity, Global Fixed Income, Global Private Equity, Global Real Assets, Multi-Asset Strategies (MAS), Opportunistic, and Cash Equivalents.

Global Equities - Equities are investments in company stock. Equity investments usually increase or decrease in price depending on the company's financial performance. SERS' global equity allocation is split equally between US and non-US investments.

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.

Global Fixed Income - SERS' global fixed income portfolio consists of core assets (Treasuries, corporate bonds, and mortgages), core plus assets (below investment grade corporate bonds, non-US debt, and emerging market debt), and emerging

market debt assets (bonds issued by less developed countries).

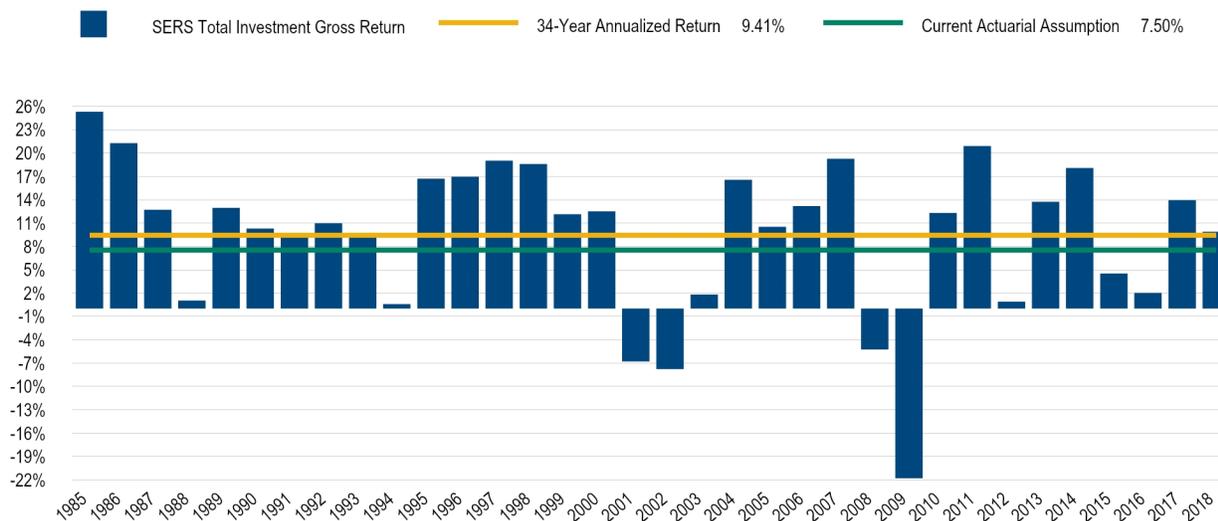
Multi-Asset Strategies (MAS) - Currently, about 90% of the MAS portfolio is comprised of hedge funds with the other 10% made up of multi-asset/multi-strategy investments (stocks in companies or bonds issued by government entities that are experiencing financial or operational distress, default, or are under bankruptcy).

Global Real Assets - SERS' global real assets portfolio is made up of a majority of real estate investments and some infrastructure investments. Real estate is divided into core strategies (properties that produce income through rents) and non-core strategies (those that appreciate in value over time).

Opportunistic - This asset class allows SERS to invest in short-term, nontraditional opportunities (such as direct lending) that do not fit within any of the other asset classes.

Cash Equivalents - This portfolio is a combination of Short-Term Cash and an Overlay Program. Short-Term Cash provides liquidity for the Total Fund while the Overlay Program is intended to add value by taking active positions in the broad asset classes and foreign exchange markets, with a tight risk budget.

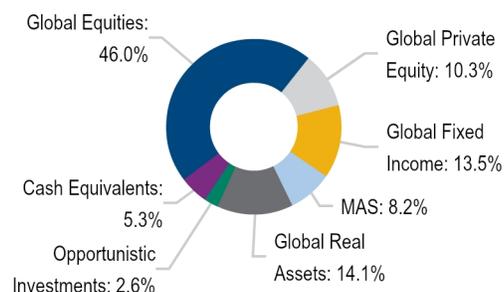
SERS TOTAL INVESTMENT RETURN (Gross of Fees)



INVESTMENT SUMMARY AS OF JUNE 30, 2018

	Fair Value	% of Fair Value	Policy	Range
Global Equities	\$ 6,643,696,451	46.0%	45.0%	35% - 55%
Global Private Equity	1,486,215,604	10.3	10.0	5 - 15
Global Fixed Income	1,949,529,904	13.5	19.0	12 - 26
Multi-Asset Strategies	1,183,619,761	8.2	10.0	5 - 15
Global Real Assets	2,044,857,442	14.1	15.0	10 - 20
Opportunistic Investments	380,727,423	2.6	0.0	0 - 5
Cash Equivalents	769,649,520	5.3	1.0	0 - 5
Total Portfolio	\$14,458,296,105	100.0%	100.0%	

ASSET ALLOCATION



Pension Funding

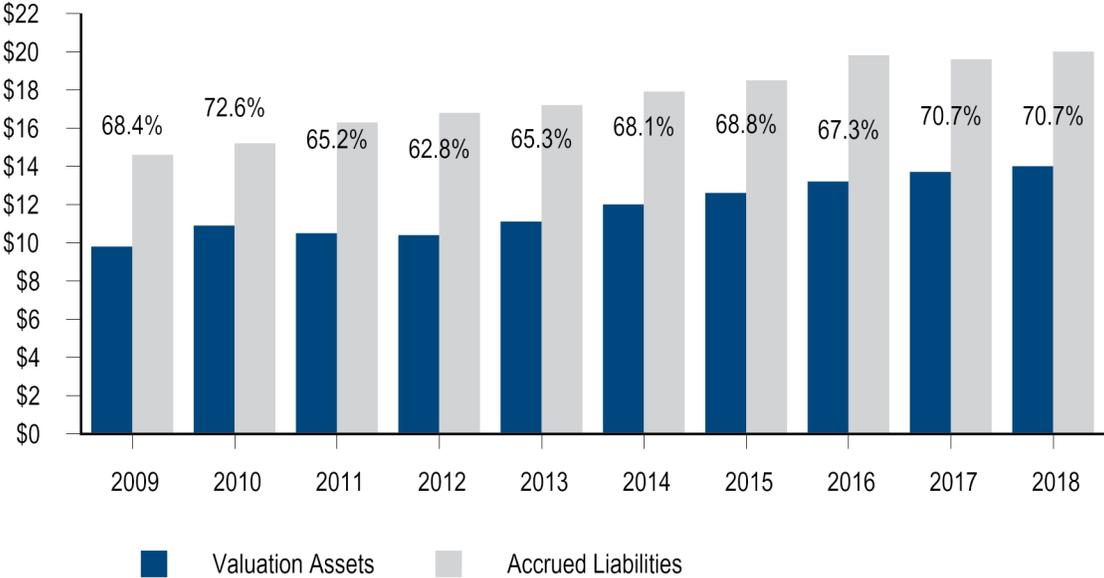
SERS' retirement benefits are funded with member contributions (10% of pay), employer contributions (14% of pay), and income earned from investment returns on those contributions.

The Pension Funding chart shows the available assets according to actuarial calculations to pay for accrued pension liabilities. The accrued pension liabilities are the estimated cost

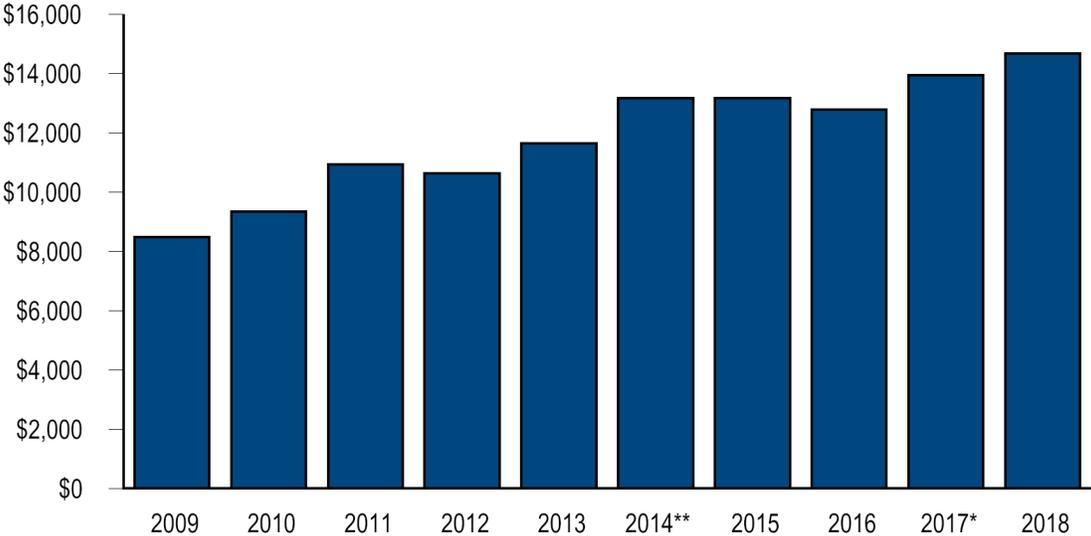
of providing all the benefits to current and future retirees. The percentages in the chart show SERS' funded status (ratio of assets to liabilities) in a given year. By Ohio law, SERS must be able to pay its liabilities within 30 years and is at 26 years as of June 30, 2018.

Through a history of reasonable benefit levels and prudent investments, SERS continues to be financially sound.

Pension Funding (\$ in billions)



Total Net Position Last 10 Fiscal Years (\$ in millions)



* Net Position was restated due to the implementation of GASB 75 during FY2018.
 ** Net Position was restated due to the implementation of GASB 68 during FY2015.

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Membership

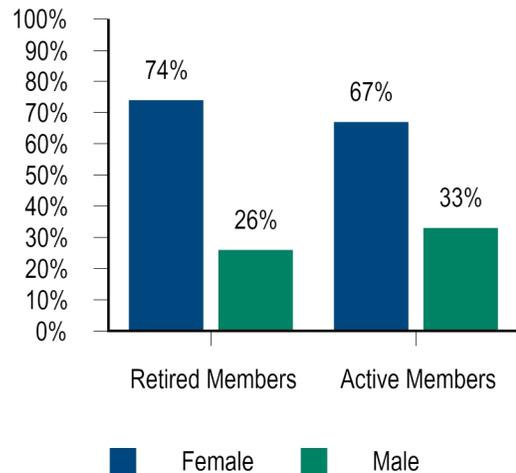
SERS' members include administrative personnel, bus drivers, food service workers, maintenance personnel, educational aides, treasurers, and other non-certified school employees who are vital to the operation of Ohio's schools. Our demographics are quite different from those of the other Ohio public retirement systems. SERS' 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, investments, health care, and fund policies.

Retired Members by Type of Benefit			
	Service	Disability	Survivor
Average Monthly Benefit	\$1,242	\$1,595	\$751
Average Age	74.4	65.7	72.4

Average Active Member Statistics		
Age	Service	Annual Salary
46.8 years	7.4 years	\$21,045

Employee Membership Data (as of June 30)			
	2018	2017	2016
Terminated employees eligible but not yet receiving, and retirees and beneficiaries receiving benefits	86,423	83,892	83,099
Active employees	158,343	157,981	124,540

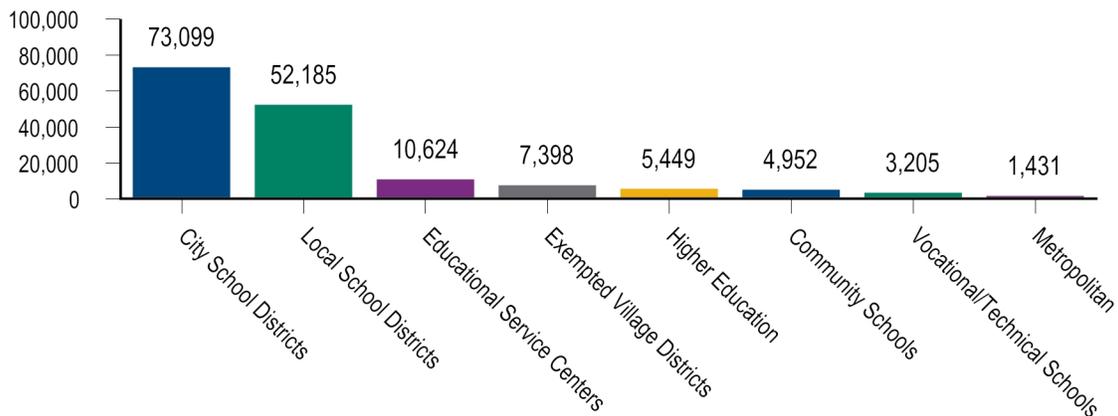
Gender Distribution



Employer

More than 1,000 public schools within the state's cities, villages, and counties, as well as local school districts, vocational and technical schools, community schools, community colleges, and the University of Akron, employ SERS' active members. Employers are responsible for creating member enrollments for all SERS members, reporting contribution detail for each member, submitting employee contributions, and processing all contributions.

Covered Employee Members



As of June 30, 2018, there were 158,343 covered employee members.

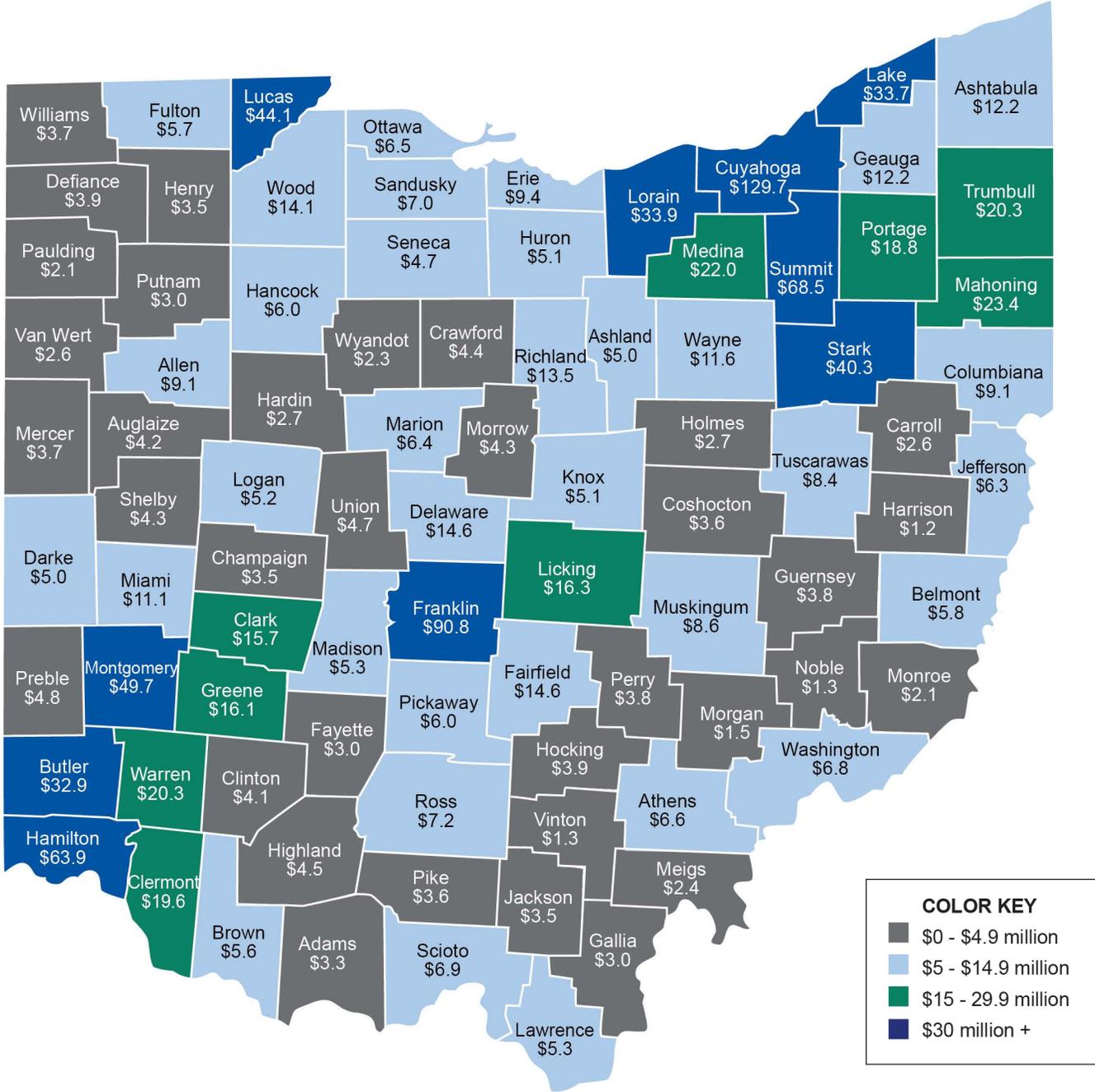
Economic Impact

Public pensions positively impact Ohio's economy. Of the 81,332 individuals receiving pension benefits from SERS, 93% live in Ohio.

In FY2018 alone, benefit payments of more than \$1.2 billion were distributed among Ohio's 88 counties, positively impacting the state's economy. For every dollar in employer contributions invested in SERS' pensions last year, \$2.75 was returned to local economies.

Pension Benefits by County FY2018

(\$ in millions)



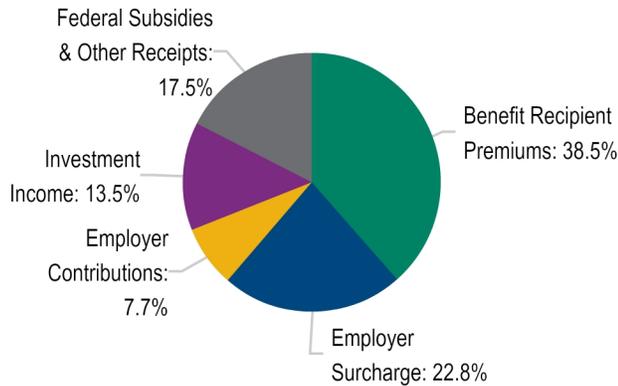
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Health Care

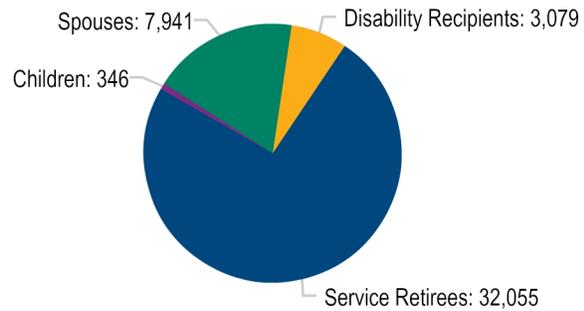
We know for many of our retirees that a secure retirement means more than a pension. Since 1974, SERS has worked to provide retirees access to group health care coverage.

The Health Care Fund balance was \$436 million at June 30, 2018. This was an increase of \$54 million from the prior year. SERS funds health care through a combination of investment income generated on the Health Care Fund, federal subsidies, premiums, and employer contributions including a separate health care surcharge to compensate for low-wage salaries.

FY2018 Health Care Fund Income



FY2018 Health Care Participants



About SERS

Established in 1937, SERS provides retirement security through defined benefit pensions and health care coverage for the people who serve Ohio schools. Protecting and growing the retirement contributions of our members and their employers is our priority. SERS is governed by a nine-member Retirement Board consisting of four elected employee members, two elected retiree members, and three appointed investment expert members. One investment expert is appointed by the Governor, a second one by the State Treasurer, and the third on jointly by the Speaker of the House and President of the Senate. They meet monthly, except January and August, to discuss and act on SERS business.

This *Summary Annual Financial Report* (SAFR) is produced with information contained in SERS' *Comprehensive Annual Financial Report* (CAFR). All financial information contained in the SAFR conforms with Generally Accepted Accounting Principles (GAAP). SERS' CAFR contains more extensive information and is available on our website at: www.ohsers.org.

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