

**The  
SCHOOL  
EMPLOYEES  
RETIREMENT  
SYSTEM  
of Ohio**

**Annual Financial Report  
June 30, 1983**





**SCHOOL EMPLOYEES RETIREMENT SYSTEM  
OF OHIO**

45 NORTH FOURTH STREET  
COLUMBUS, OHIO 43215

**ANNUAL  
FINANCIAL REPORT**

For The  
Year Ended June 30, 1983



THE SCHOOL EMPLOYEES RETIREMENT BOARD OF OHIO



**GEORGE J. MAZZARO**

President  
Cleveland City School District  
Cleveland, Ohio  
Term expires June 30, 1983



**ANTHONY J. CELEBREEZE, JR.**

Attorney General  
Ex Officio Member



**MARY E. KASUNIC**

President Elect  
Wickliffe City School District  
Wickliffe, Ohio  
Term expires June 30, 1985



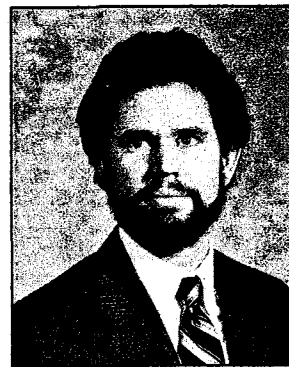
**THOMAS E. FERGUSON**

Auditor of State  
Ex Officio Member



**ORRIS E. FIELDS**

Vice President Elect  
Wilmington City School District  
Wilmington, Ohio  
Term expires June 30, 1987



**THOMAS R. ANDERSON**

Executive Director



**LOWELL B. DAVIS**

Member  
Euclid City School District  
Euclid, Ohio  
Term expires June 30, 1989

Assistant Directors

**R. JACK COOPER**

Investments

**RICHARD C. REGAN**

Retirement Services

**DALE D. McINTYRE**

Information Services

**THOMAS R. SKIPTON**

Office Services

**STEPHEN J. PUSKAC**

Membership-Accounting

**RITA M. VOLPI**

Planning / Human Resources

**C. DOUGLAS WILSON**

Data Processing

ORGANIZATIONAL CHART

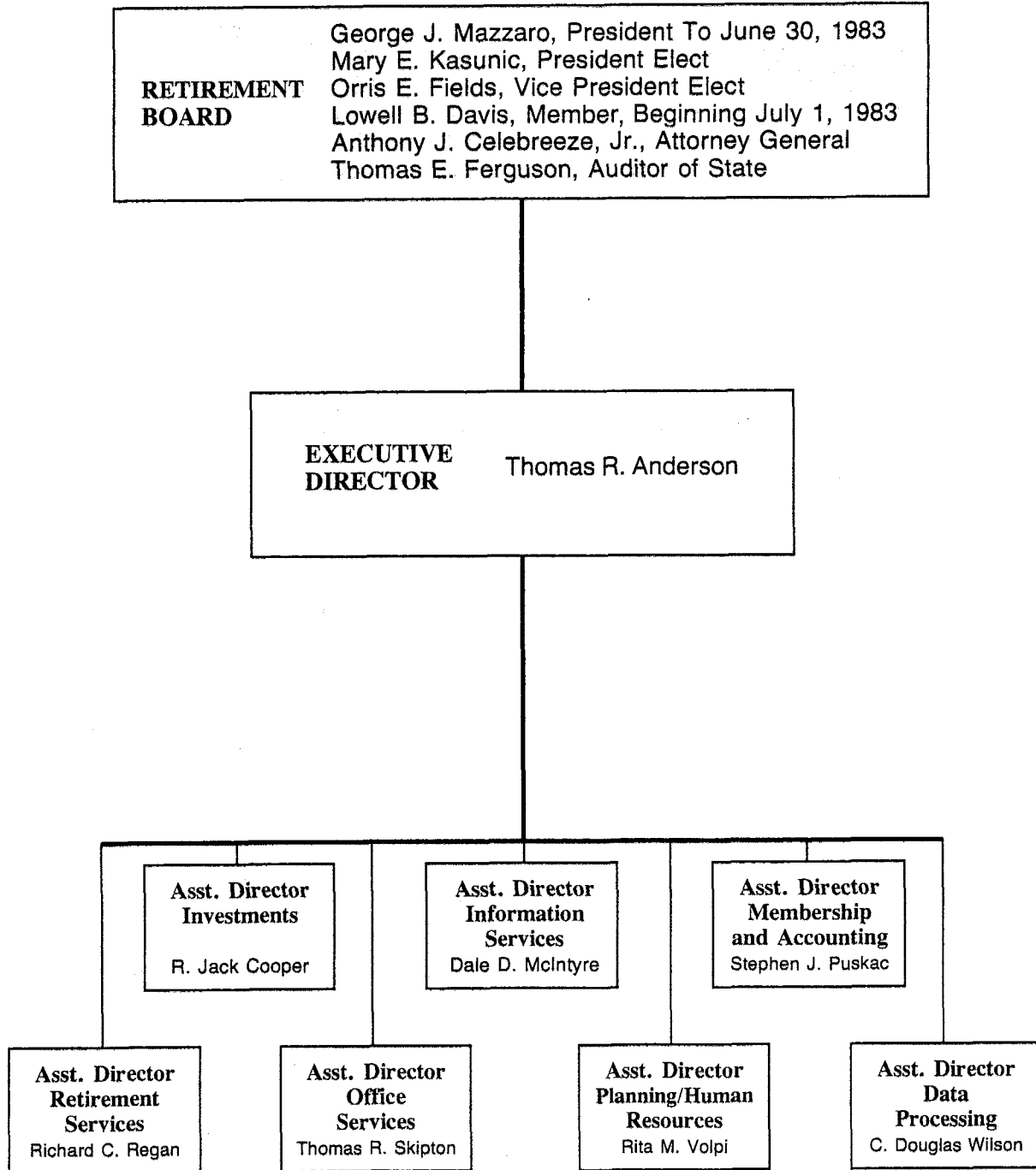


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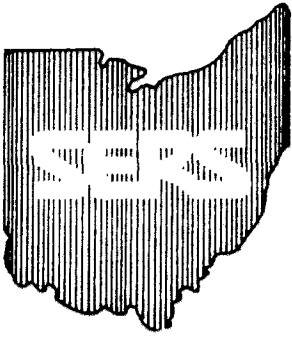
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**Annual Financial Report  
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**46 YEARS  
1937 - 1983**





## SCHOOL EMPLOYEES RETIREMENT SYSTEM

45 NORTH FOURTH STREET, COLUMBUS, OHIO 43215-3634 \* TELEPHONE (614) 221-5853

### To The Members of the Board:

The Annual Report of the School Employees Retirement System for the fiscal year ended June 30, 1983 is submitted herewith. The report includes the financial statements, footnotes, schedules, statistical tables, investment portfolio, and a plan summary. This report also contains important actuarial information and data as of June 30, 1982.

### Accounting System and Reports

The accrual basis of accounting is used in maintaining the records of the School Employees Retirement System. Revenues of the System are recorded when earned, regardless of the date of collection. Expenses are recorded when the corresponding liabilities are incurred, without regard to the date of payment. Bond premium and discount are amortized over the life of the security. Actuarial reserves are funded on an annual basis for current liabilities and prior years' unfunded actuarial liabilities. The statutory deficiency is funded over 20 years and the balance, as of June 30, 1982, over a period of 49 years.

In order to adequately inform interested individuals and groups, the following statements and schedules have been prepared in conformity with guidelines established by the National Council on Governmental Accounting Statement 1.

### Revenues

The School Employees Retirement System was established by law to pay retirement plan benefits and to accumulate the resources necessary to pay these benefits. Resources are obtained through member contributions, employer contributions, and from income earned on invested contributions. For the fiscal year ended June 30, 1983, member and employer contributions totaled \$148,246,346 and \$105,975,117 was provided by income from investments. Miscellaneous sources, including transfers from other retirement systems, accounted

for an additional \$1,659,544. Revenue for 1983 totaled \$255.9 million, an increase of 10.1% over 1982.

### Expenses

Expenses are incurred primarily for the purpose for which the Retirement System was created; namely, the payment of benefits. Included in the total expenses for fiscal 1983 were benefit payments, refunds of contributions due to member termination or death, transfers of contributions to other Ohio systems to provide benefits for those members who hold membership in more than one system, and administrative expenses. Expenses for fiscal 1983 totaled \$131.2 million, an increase of 12.6% over 1982 expenses. Increases in both the number of benefit recipients and the average benefit paid combined to increase benefit expense by \$15.1 million; this \$15.1 million accounted for nearly all of the increase in total System expenses for the fiscal year.

### Reserves (Funds)

The \$993,700,976 shown in the Annuity and Pension Reserve Fund represents the estimated amount necessary to provide benefits to those members who have filed for retirement prior to June 30, 1983. The accumulated contributions by members who have not yet retired amounted to \$351,781,439 and are shown in the Employees' Savings Fund. The Employers' Trust Fund accumulates funds in order to provide retirement benefits to those members not yet retired. The Balance Sheet as of June 30, 1983 discloses an Unreserved Fund Balance (Debit) of (\$141,117,819). This balance is a restriction of the Employers' Trust Fund and represents the amortized statutory fund deficiency which existed at June 30, 1983. This Unreserved Fund Balance was established on March 16, 1981 by the Retirement Board, and follows the recommendation by our actuaries in their report dated December 17, 1980. The unreserved balance is being amortized over 20

years and is funded by both the state appropriations for House Bills 204 and 284 and revenues from investments. The unfunded actuarial liability as of June 30, 1982 was \$1,054,667,519.

## Investments

The School Employees Retirement System invests the previously mentioned funds in order to maximize both current income yield and long-term appreciation. For the fiscal year ended June 30, 1983, investments provided 41.4% of the System's total revenues; employee and employer contributions provided 22.4% and 35.6%, respectively; and other sources accounted for the remaining 0.6%.

Investments are reported at cost, net of amortized premium and discount; these premiums and discounts are amortized over the life of the investment. Gains and losses on the exchange of fixed-income securities are recognized using the completed transaction method of accounting. At June 30, 1983, our investment portfolio was structured as follows; 61.6% in debt securities; 21.6% in equity securities; 8.1% in short-term commercial paper; and 8.7% in real estate. The portfolio yield for fiscal 1983 was 9.79% on a cash basis.

Portfolio composition, rates of return, an analysis of significant economic conditions, and additional information concerning the investment function of SERS is provided in a separate section of this annual report.

## Professional Services

In order to operate the School Employees Retirement System in the most effective and efficient manner, several professional consultants are appointed by the Retirement Board to provide information and advice essential to the fulfillment of our fiduciary responsibility. The System employs the services of an investment advisor, Bankers Trust Company, to assist our in-house investment staff and furnish expert economic advice on a continuing basis, including portfolio recommendations with respect to equity selection, and market and credit information on fixed-income securities. Gabriel, Roeder, and Smith, our actuaries, provide the necessary data used in determining the contributions required to provide for present and anticipated benefits. The actuaries also advise the Board regarding the assumptions which are made in conjunction with the more complex calculations involved in determining the funding requirements.

The Attorney General of the State of Ohio is the legal advisor of the School Employees Retirement Board. The Auditor of the State of Ohio annually examines the financial records of the Retirement System.

The Treasurer of the State of Ohio is the custodian of the funds of the School Employees Retirement System. Disbursements of these funds are authorized by the School Employees Retirement Board and are made on vouchers which bear the names of the Board members and the signatures of the President and Secretary of the Board.

## Reports to the Membership

Annual Statements were mailed to the members of the System during the week of November 7, 1983. These statements report the amount of contributions and service credited to each individual account as of June 30, 1983.

## Acknowledgements

The preparation of this report is the result of the combined effort of the System's staff under the direction of the Retirement Board. It is intended to provide complete and reliable information as a basis for making management decisions, to disclose compliance with legal provisions, and as a means of determining responsible stewardship for the assets contributed by the members and their employers.

This report is being mailed to all employer members of the System and other interested parties.

Respectfully submitted,



Thomas R. Anderson  
Executive Director



Stephen J. Puskac  
Assistant Director,  
Membership & Accounting

## HIGHLIGHTS OF 1983

### Earnings Hit All-Time High

It was a banner year for SERS investments. For the first time, net investment income exceeded the year's contributions from SERS employers, reaching \$105,975,117 at the June 30 fiscal close.

This compared with \$90.9 million in employer contributions for the same period. In the previous year net investment income was \$83.7 million and employer contributions \$87.9 million.

### Health Care Costs Still Mount

Health care costs continued an upward spiral, but with the first possible signs of slackening in pace after "cost containment" moves by the Retirement Board. Outlays for health care coverage of System retirants and beneficiaries rose to \$26.4 million. However, the \$3 million increase was half that of fiscal 1981.

In an attempt to gain some control over these costs, the System surveyed retirants and instituted a new, yearly \$100 deductible for everyone using the program. Some changes also were made in internal financing. It was hoped that these, plus the ten-year service credit requirement for health care starting for new retirants in 1986, would be sufficient to head off further "containment" measures.

### Contribution Rates And Interest Raised

In another move to meet benefit demands, the Retirement Board adopted at mid-year new contribution rates for members and their employers effective July 1, 1983. The employer rate was raised to 14 percent, the maximum allowed. Member contributions were hiked from 8 percent of pay to 8.75 percent.

At the same time, the Board decided that the interest charged on various forms of service credit purchases should be raised July 1, 1983 to 7.5 percent. This had the effect of almost doubling the interest charged on buying credit for military service, which enjoyed a specially low four percent rate. The announcement touched off a rush to buy service credit, particularly military, before the July deadline. Generally, interest before then was at 5.5 percent.

It also was on July 1, 1983 that the System put into force newly revised and updated option tables setting the amount of benefit payable when a retirant makes a provision for a surviving beneficiary to share in pension payments.

### Board Reorganized And Expanded

Long pending legislation finally was enacted to expand the Retirement Board in 1984 to seven members. One new seat is to be exclusively for a retired member, providing the retirants with an official voice in System affairs. The other new seat is to be for a fourth employee-member of the Board.

Euclid schools Treasurer Lowell B. Davis was elected to the Board, replacing George J. Mazzaro who retired after 12 years as a Board member. Taking over as president in Mr. Mazzaro's stead was another member, Mary E. Kasunic. Orris E. Fields was elected vice president.

### Employer "Pickup" Of Employee Contributions

After clarifying opinions from the Ohio Attorney General's office, the Retirement System, with a careful eye to I.R.S. rules and regulations, offered all employers participation in the "pickup" plan of their choice. Noting the variety of partial pickups already in operation, the System went on record as recommending that the pickup be for the full amount of employee contributions since cost seldom was a factor. Three categories of employment were established for application of a pickup: business managers, treasurers, and non-teaching personnel.

### Pension Withholding Of Income Taxes

A provision of the Tax Equity and Fiscal Responsibility Act required the System to individually offer retirants and beneficiaries withholding of federal income taxes from pensions. Retirants were not forced to comply or could name any amount of withholding they desired. But the System was required to start deducting taxes in the absence of any other instructions. No withholding was indicated in cases where contributions had not yet been recovered in benefits or where pensions were below \$5400 yearly.

### Effects Of Social Security Compromise

The great Social Security compromise in Congress left the SERS membership unscathed despite reports that school employees might be absorbed into Social Security as a fund-raising tactic. Such was the case for non-profit groups and new federal employees, despite the resistance of the latter group.

A similar struggle appeared in the offing for 1984 over funding of Medicare, which ties in with SERS health coverage.

But for many school employees planning two pensions, one from Social Security and one from SERS, the compromise represented a setback. Congress granted no further delay in the July 1 deadline extension for women to reach SERS pension eligibility to avoid a later reduction in S.S. spouse benefits based on benefits from SERS.

Also, Congress enacted a new "windfall" penalty starting in 1986 for anyone who has paid into both SERS and Social Security in the expectation of getting two pensions. Again, however, eligibility for retirement could provide an escape. Anyone who could start either pension before then would not be affected.



# **Financial Statements**

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and Expense**

**Statement of Changes  
in Funds**

**Statement of Changes  
in Financial  
Position**

**Notes to  
Financial  
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