



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

BOARD MEETING HIGHLIGHTS

SEPTEMBER 2023

Board Approves COLA for 2024

At its September meeting, the Board unanimously voted to approve a 2.5% cost-of-living adjustment (COLA) increase for eligible benefit recipients in 2024.

By statute, SERS' COLA is based on the year-to-year change in the Consumer Price Index (June 2022 to June 2023) for Urban Wage Earners (CPI-W), with a floor of 0% and a cap of 2.5%.

This year's CPI-W was 2.3%. With input from SERS' actuary, Cavanaugh MacDonald, the Board approved the statutory maximum of 2.5%.

According to Cavanaugh Macdonald, the higher COLA amount will not materially impair SERS' funded status.

The 2024 COLA takes effect on the benefit anniversary of the recipient's effective date of retirement.

Benefit recipients whose benefit effective date is on or after April 1, 2018, must wait until the fourth anniversary of their allowance or benefit before receiving a COLA.

CBBC Update

The Board continued its discussions of the implementation of SERS' Contribution Based Benefit Cap (CBBC).

Effective for retirement allowances August 1, 2024, or later, the CBBC is a tool SERS will use to identify and prevent benefit inflation. While it is uncommon at SERS, when it does occur, the pension fund must subsidize those pensions, which is unfair to a majority of members whose career salary and contributions followed a normal trajectory.

The CBBC does **NOT** affect or change the Final Average Salary calculation (average of the highest three years of salary) used in the traditional formula calculation. It also will **NOT** be applied to a disability conversion retirement allowance that is capped at 45% of the member's FAS.

At this month's meeting, the Board acknowledged that it will not approve a CBBC factor below 5.5.

The CBBC factor is a number that reflects the Board's determination of how much greater a member's formula benefit (the benefit calculated pursuant to statute) can be from a single life annuity that is the actuarial equivalent of the employee's contributions.

The lower of the two calculations will be used. The traditional formula benefit will be used in the majority of pension calculations and **only a few situations each year will trigger a CBBC reduction.**

RETIREMENT BOARD

FRANK A. WEGLARZ
Chair, Retiree-Member

MATTHEW KING
Vice-Chair, Employee-Member

JEFFREY T. DELEONE
Appointed Member

JAMES HALLER
Employee-Member

CATHERINE P. MOSS
Retiree-Member

BARBRA M. PHILLIPS
Employee-Member

JAMES A. ROSSLER, JR.
Appointed Member

AIMEE RUSSELL
Employee-Member

DANIEL L. WILSON
Appointed Member

The Board will continue the CBBC factor discussion at the October Board meeting.

Quarterly Risk Report

On a quarterly basis, SERS' investment staff provides the Board with a risk analysis report that summarizes the current risk levels of the Total Fund and individual asset classes. It also provides trend data that compares current risk levels with other time periods. Staff uses the BarraOne risk tool to aid in its analysis.

While this report is usually submitted in paper format, staff chose to provide a Board education presentation this month for new members and as a refresher for tenured members.

In June 2023, the Total Fund's expected risk was 12.6%, which decreased from the previous quarter and a year ago by 0.8% and 0.6%, respectively. The current risk level remained elevated compared to the historical average, reflecting relatively high volatility in the equity, interest rate, and credit markets.

The largest risk contribution came from the global equity portfolio at 54.0%, followed by the private equity portfolio at 21.8%. Together, the two equity portfolios contributed 75.8% of the Total Fund risk while their combined capital allocation was only 54.9%. Equities have higher risk but are also expected to generate higher returns relative to other asset classes in the long term. The risk contribution of the real asset portfolio was 19.1% while its asset allocation was 20.3%; therefore, this portfolio's risk contribution was close to neutral. The Total Fund's risk diversification came from the fixed income, private credit, and opportunistic portfolios due to their lower risk compared to equity, private equity, and real assets. The risk contributions of these portfolios were much lower than their capital allocations. In addition, SERS' overlay program reduced Total Fund risk by another 1.9%.

SERS has been able to generate the same or better returns than its peers with lower risk. In FY2023, SERS' Sharpe Ratio, or risk-to-return comparison, ranked in the 16th percentile of Wilshire's public pension database, and its 3-year and 5-year numbers ranked 3rd and 2nd respectively.

Investments Quarterly Report

Joanna Bewick of Wilshire Associates provided the Board with a 10-year return forecast for investments, an update of current global market conditions, as well as SERS' FY2023 year-end investment results.

Looking into the future, Bewick noted that Wilshire forecasts strong private equity (9.0%) and private credit (8.35%) returns over the next 10 years, while U.S. equity returns could average about 5.5%. She noted that the difference between the forecasted U.S. equity and fixed income returns (4.9%) is slim, which means investors should exercise caution when investing in equities.

During the quarter, Bewick noted that the U.S. stock market was up 8.4%, and up 19.0% for the past 12 months. Large cap stocks outperformed small cap stocks and growth significantly outperformed value.

The U.S. economy was still performing well with a gross domestic product (GDP) of 2.0, solid job creation statistics, and an increase in consumer spending. Bewick said there are early indications of an economic slowdown on the horizon based on rising jobless claims and a decline in the average hours worked per employee. In addition, the U.S. manufacturing sector contracted while the services sector expanded.

For the fiscal year, SERS posted an investment gain of 7.39% (net) and 8.14% (gross). The gross return ranked in the 60th percentile of Wilshire’s public pension universe, mainly because of SERS’ reduced exposure to equities, which posted double-digit gains. Funds with more exposure to equities posted bigger returns. However, SERS’ 3-year return of 11.4% ranked in the 4th percentile and its 5-year return of 8.9% and 10-year return of 9.2% ranked in the 2nd percentile.

Investment Committee Approves Two Investments

The SERS Staff Investment Committee approved a \$20 million commitment to Brookfield BSIP Co-Investment Fund, an infrastructure strategy within the real assets portfolio, and a \$50 million commitment to Invesco ICP III, a stressed/distressed debt strategy within the private credit portfolio.

These investments will be funded from cash reserves.

Total Fund Update

TOTAL FUND BALANCE		
June 30	July 31	Difference
\$17.83 billion	\$18.04 billion	▲ \$210 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▲ 1.46%	▲ 7.27%	▲ 10.04%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▼ 0.04%	▼ 0.52%	▲ 1.81%

Board Approves Filing and Final Filing of Amended Administrative Rules

The Board approved filing of an amended administrative rule regarding health care with the Joint Committee on Agency Rule Review (JCARR).

The changes to this rule reflect the Board’s decision from the March 2023 meeting to make non-Medicare disability health care subsidy eligibility equal to that of service retirees by years of service, effective January 1, 2024.

The Board also approved the final filing of two amended administrative rules concerning the Board election process and contribution and surcharge payments.

The first rule concerns the process for conducting Board elections. The amended rule permits SERS to provide nominating petitions in an electronic format, in addition to paper. The amendments permit the use of electronic signatures for the electronic petitions.

The second rule addresses contribution and surcharge payments. The amended rule clarifies that the contribution payment deadline is the date SERS receives the payment, not the date the payment is remitted.

Several minor technical amendments also were made to the rule.

Myths and Misconceptions: Public Pensions “Chase Returns” with Alternative Investments

SERS’ Executive Director Richard Stensrud addressed a misconception about investment returns that gets perpetuated online and in print: that pension systems and other investors ignore risk and “chase

returns” by investing in alternative investments like private equity, real estate, private credit, and opportunistic funds, while ignoring “safer” assets like fixed income and public equities.

This is short-sighted for several reasons.

Surely there are some investors who chase returns by sinking capital into assets that are registering good returns under current market conditions, rather than building a diversified portfolio that performs well under *all* market conditions. It is impossible to time the market and react to market conditions as they change without losing money. SERS’ return ranks high among peers over longer periods of time *because* the System has assembled a diversified portfolio, rather than chasing returns.

Public equities are generally considered “transparent” because they are valued by the hundreds and thousands of people and entities that buy them. However, public equities add the most risk to SERS’ investment portfolio.

By contrast, investments like private equity are generally considered “opaque” because values are reported by the manager that owns the assets. As mentioned in the quarterly risk report, the risk provided by private equity is *lower than the risk associated with* the global equity portfolio.

SERS takes great pride in maintaining a diversified investment portfolio with as little risk as possible *and* it gets returns that are comparable to the best returning pension funds in the nation. Alternatives are a vital part of the portfolio and they do not represent the riskiest part of our holdings.

Executive Director’s Update

Board Allocates 0% to Health Care Fund

With the Health Care Fund in solid standing, the Board elected not to allocate any of the 14.00% employer pension contributions to that fund. Under the terms of SERS’ funding policy, the Board could have contributed up to 0.50% of employer contributions to the Health Care Fund.

Board Updates Health Care Surcharge

SERS’ health care is funded on a pay-as-you-go basis. 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 earners. The surcharge is levied against employers whose employees earn less than a specified minimum salary. It is an important source of health care revenue and avoids shifting a financial burden to members and retirees.

At the recommendation of SERS’ actuary, the Board amended the minimum compensation amount from \$25,000 to \$30,000 for purposes of the FY2024 Health Care surcharge and set \$30,000 as the minimum compensation amount for the FY2025 Health Care surcharge.

ORSC Update

At the September Ohio Retirement Study Council (ORSC) meeting, SERS presented its annual disability and internal audit reports.

State Legislation

Staff recently met with Rep. Adam Mathews, the newly appointed chair of the House Pensions Committee, and briefed him on SERS’ similarities and differences to the other Ohio retirement systems.

SERS continues to communicate regularly with legislators and stakeholders regarding topics such as SERS' annual cost-of-living adjustment (COLA) and the Contribution Based Benefit Cap (CBBC), as well as the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO).

WEP/GPO Update

Rep. John Larson and Rep. Jahana Hayes, both of Connecticut, recently introduced a comprehensive Social Security bill that, if passed, would completely repeal the WEP and GPO.

Although the bill is unlikely to gain much traction in the House, SERS will continue to educate legislators on the importance of a permanent equitable solution.

Member and Employer Outreach

SERS' Member Services and Employer Services departments regularly host educational opportunities intended to help members prepare for retirement and employers to better understand their role at SERS.

Since July, Member Services hosted two *Lunch Break* webinars, a half-hour educational session that focuses on a few select topics that are important for SERS members to know, such as the importance of saving for retirement. These webinars yielded a total of 92 members in attendance.

During these sessions, members also have a short opportunity to ask questions. Each *Lunch Break* webinar is recorded so members may watch at their convenience if they are unable to attend a live session.

Member Services also hosted a *Retiring with SERS* webinar, designed for members within one year of retirement, with 80 attendees.

Finally, staff facilitated the first virtual retirement conference of the season with 185 people in attendance.

Cameron Vaughn, SERS' member education coordinator, addressed 314 people at six benefit fairs and 379 members at five member meetings throughout the state.

Over the last two months, the Employer Services team actively engaged with employers via the following events:

- *Sound Bite* Webinars: Quick sessions that cover trending topics in 20 minutes or less
- *Employer Education* Webinars: Sessions that cover topics from the Employer 101 Workshop based on demand
- eSERS Demo: Two-hour webinar that covers all aspects of eSERS from File Uploads to Wage Certifications
- Employer One-on-One: Personalized training based on a district's needs
- Employer Relations Panel: Sounding board that allows employers to provide feedback on SERS-related topics and the Employer Services team to update employers on upcoming initiatives

In addition, the team handled nearly 2,000 calls over the last month.

Staff Gives Back to Charity

SERS once again partnered with Volunteers of America to participate in the Operation Backpack program, which aids students who our members serve.

Backpacks filled with school supplies were distributed to homeless and at-risk children throughout the Greater Columbus area.

This year, staff donated 150 backpacks to the program.

Monthly Retirement and Survivor Benefit Transactions

For September, the SERS Board approved 575 active members for service retirements, and 41 survivor benefits for spouses and/or dependents.

October Meeting Dates

The next Board meeting will take place Thursday, October 19, and Friday, October 20, at 8:30 a.m. (if necessary).