

SERS Retirement Board Meeting Minutes

September 21, 2023

The nine hundredth and sixty-second meeting of the Retirement Board of the School Employees Retirement System was held in the boardroom at 300 E. Broad Street, Columbus, Ohio, and streamed via Zoom videoconferencing on Thursday, September 21, 2023.

Pledge of Allegiance

The SERS Retirement Board meeting convened at 8:30 a.m. with the Pledge of Allegiance.

Roll Call

Following the Pledge of Allegiance, the roll call was as follows: Frank Weglarz, Matthew King, Jeffrey DeLeone, James Haller, Catherine Moss, James Rossler, Aimee Russell, and Daniel Wilson. Absent: Barbra Phillips. Also attending in person was Lisa Reid, representative of the Ohio Attorney General's Office and various members of the SERS staff. Several SERS staff members and members of the public attended virtually.

Consent Agenda

The consent agenda for **September 21, 2023**, included:

- Minutes of the July 20, 2023, Retirement Board meeting
- Summary of Investment Transactions for the period of June 1, 2023, to June 30, 2023 and July 1, 2023 to July 31, 2023
- Retirement Report – Superannuations, Survivor Benefits, and Transfers
- Disability Report – Approval of Disability Benefits, Disapproval of Disability Benefits, Termination of Disability Benefits – Any Occupation, Approval of Appeal of Termination – Any Occupation,

Catherine Moss moved and James Haller seconded the motion to approve the Consent Agenda of the Retirement Board meeting held on Thursday, September 21, 2023. Upon roll call, the vote was as follows: Yea: Matthew King, Jeffrey DeLeone, James Haller, Catherine Moss, James Rossler, Aimee Russell, Daniel Wilson, and Frank Weglarz. Absent: Barbra Phillips. The motion carried.

Investment Report

Quarterly Performance Report

Joanna Bewick of Wilshire Associates provided an update on the SERS investment performance as of June 30, 2023. Ms. Bewick reported the U.S. stock market was up for the second quarter and is up 19.03% for the past 12 months. The best performing sectors were information technology. Ms. Bewick stated that just a few stocks, Amazon, Apple, Google and Meta, are contributing a vast majority of the overall market return through June. Ms. Bewick noted that these companies are highly dependent on the consumer's ability to spend. U.S. real personal consumption's steady growth during the past 1.5 years will need to continue to support not just economic growth but also current stock prices. Ms. Bewick also reported that we need to prepare for a modest return for the rest of 2023. However, strong returns are expected in the next 10 years.

Ms. Bewick continued, stating that the US equity market is shared by a narrow group of investors while developed markets are outperforming emerging markets. China's market is down almost 10% and equity markets are not performing well, which is dragging down emerging markets.

Ms. Bewick also reported for fiscal year 2023, SERS posted an investment gain of 7.39% (net) and 8.14% (gross). After several questions, the board thanked Ms. Bewick for her report.

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Quarterly Investment Report & Monthly Investment Report – Periods Ending: June 30 & July 31, 2023

Chief Investment Officer, Farouki Majeed, provided an update on the investment fund status for the month ending July 31, 2023, and for the quarter ending June 30, 2023. Mr. Majeed stated US growth slowed but remained resilient. Mr. Majeed expects that an economic slowdown will accelerate by the end of the year and in early 2024. The US labor market remained resilient, adding 187,000 jobs in August but the unemployment rate rose slightly to 3.8%. Mr. Majeed continued, stating inflation continues to decline and interest rates remained steady at 5%.

After answering several questions and a robust discussion, the board thanked Mr. Majeed for his report.

Quarterly Risk Report

Mr. Majeed introduced investment staff member Chris Hyland, Associate Investment Officer – Risk Management and Analytics. Mr. Hyland provided the Board with a quarterly risk analysis report that summarizes the current risk levels of the SERS retirement fund and individual asset classes. It also provides trend data that compares current risk levels with other time periods.

Mr. Hyland provided a presentation to the board to educate new members and refresh the knowledge base for tenured members. In June 2023, the Total Fund's expected risk was 12.6%, which decreased from the previous quarter by 0.8% and a year ago by 0.6%. The current risk level remained elevated compared to the historical average and 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%.

Mr. Majeed chimed in, adding equities have higher risk but are also expected to generate higher returns relative to other asset classes in the long term. SERS has been able to generate the same or better returns than its peers with lower risk.

Following a few questions, the board thanked Mr. Majeed and Mr. Hyland for the update.

Executive Director's Report

SERS Executive Director, Richard Stensrud, opened his report stating that SERS does not chase returns, but rather, makes calculated risks when investing. SERS is a low-risk taker compared to our peers, yet SERS continues to earn higher returns.

Ohio Retirement Study Council (ORSC)

Mr. Stensrud continued, stating the August ORSC meeting was cancelled. The ORSC met on September 14 and SERS presented its FY2023 Disability Report. SERS also reported on the most recent internal audit activity. There were no concerns regarding the information SERS provided to the ORSC.

State Legislative Activity

Mr. Stensrud continued, reporting that he and SERS staff met with Representative Adam Matthews, who is serving his first term in the Ohio House of Representatives as the Chair of the House Pension Committee. Mr. Stensrud met with Representative Matthews to discuss how SERS is similar to other systems but more importantly, distinguish how SERS is different from other pension systems. The meeting went well, and SERS staff look forward to more collaborative meetings in the future.

Federal Legislative Activity

Mr. Stensrud continued his report, stating that SERS leadership continues to communicate regularly with stakeholder groups to provide system updates and to discuss the Contribution Based Benefit Cap (CBBC), the SERS cost of living adjustment (COLA), the Windfall Elimination Provision (WEP), and other related

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issues. Regrettably, Mr. Stensrud noted, no progress is being made on the WEP front. Senator Larson introduced his Social Security bill which calls for a complete repeal of WEP. There continues to be disagreements between repealing vs. reforming WEP and it's not likely that the bill will make it through the Senate. There will likely be no reform until Social Security is reformed. SERS leadership will continue to monitor any WEP activity.

Stakeholders and Advocacy Groups

Mr. Stensrud reported SERS Member Services recently hosted 2 in-person workshops with employers and one webinar to help them be more effective with their engagement with SERS. Mr. Stensrud also reported that a Retiring with SERS webinar, designed for members within one year of retirement, was held with 80 attendees. Staff also convened the first virtual retirement conference of the season with 185 people in attendance. Also, SERS' member education coordinator, Cameron Vaughn, addressed 314 people at several benefit fairs and 379 members were engaged at five member meetings hosted throughout the state. SERS Member Service's team also took over 2,000 calls from members and employers.

Operation Backpack Results

Mr. Stensrud reported this July, staff donated more than 150 backpacks plus miscellaneous supplies during SERS annual Operation Backpack donation drive. Items collected were given to central Ohio families who need a little help giving their kids the tools they need to succeed in school.

Cristo Rey Intern

Mr. Stensrud continued, stating SERS is pleased to have a new Cristo Rey High School student intern who began working with us earlier this month. The student will work one to two days a week in the Print Shop. The money the student earns will go directly to the school to help pay for education expenses.

Cost of Living Adjustment (COLA) Discussion

Mr. Stensrud continued his report and provided the board with a handout that shows the possible COLA levels and impact of what the COLA decision will be. The board discussed several levels up to 2.5%. SERS actuary Cavanaugh Macdonald advised that selecting a 2.5% COLA would not materially impair the SERS funded status.

It was moved by Jeffrey DeLeone and seconded by Catherine Moss that eligible SERS allowances, pensions and benefits shall receive a 2.50% cost-of-living adjustment (COLA) in calendar year 2024 as SERS' actuary, Cavanaugh Macdonald, has determined pursuant to R.C. 3309.374(G) that a 2.50% COLA does not materially impair the fiscal integrity of the retirement system. Upon roll call, the vote was as follows: Yea: Matthew King, Jeffrey DeLeone, James Haller, Catherine Moss, James Rossler, Aimee Russell, Daniel Wilson, and Frank Weglarz. Absent: Barbra Phillips. The motion carried.

Actuarial Valuation Report – Allocation of Employer Contributions – Health Care Fund

Mr. Stensrud continued his report and provided the board with an opportunity to ask questions of SERS actuary, Alisa Bennett of Cavanaugh Macdonald, regarding the allocation of employer contributions to the health care fund. With no questions from the board, Jeffrey DeLeone moved and James Haller seconded that after discussion with SERS' actuary, Cavanaugh Macdonald, regarding the preliminary results of the annual basic benefits valuation (to be prepared as of June 30, 2023) at the September 2023 Board meeting, the Board elects to allocate 0% (zero percent) of the 14% employer contribution to the Health Care Fund for fiscal year 2024 in accordance with the funding policy approved by the Board on June 18, 2015. Upon roll call, the vote was as follows: Yea: Matthew King, Jeffrey DeLeone, James Haller, Catherine Moss, James Rossler, Aimee Russell, Daniel Wilson, and Frank Weglarz. Absent: Barbra Phillips. The motion carried.

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Amended Health Care Surcharge Minimum Compensation Amount for FY2024

Alisa Bennett of Cavanaugh Macdonald continued and provided additional information regarding the employer health care surcharge minimum compensation amount. At the November 2022 Board meeting, the Board approved a resolution accepting the recommendation of SERS's actuary, Cavanaugh Macdonald Consulting, LLC, to establish \$25,000 as the minimum compensation amount for purposes of the fiscal year 2024 Employer Health Care surcharge. After reviewing the fiscal year 2023 surcharge file projected forward to 2024, the actuary is recommending that SERS increase the 2023-2024 fiscal year minimum compensation amount to \$30,000. In addition, they are recommended \$30,000 as the minimum compensation amount for the fiscal year 2025 Health Care surcharge.

The recommendation is based on:

- Current Board discussions regarding SERS compensation rules.
- Compensation increases by employers to remain competitive in the job market.
- Revised data after uncertainties in 2022 coming off the COVID-19 pandemic.

After several questions, Jeffrey DeLeone moved and James Haller seconded to amend the resolution passed at the November 2022 Board Meeting that established \$25,000 as the minimum compensation amount for purposes of the fiscal year 2024 Health Care surcharge and instead set forth \$30,000 as the minimum compensation amount for purposes of the Fiscal Year 2024 Health Care surcharge. The amended minimum compensation amount is recommended by SERS' actuary, Cavanaugh Macdonald, and in approving the amended minimum compensation amount the Board accepts the actuary's recommendation. Upon roll call, the vote was as follows: Yea: Matthew King, Jeffrey DeLeone, James Haller, Catherine Moss, James Rossler, Aimee Russell, Daniel Wilson, and Frank Weglarz. Absent: Barbra Phillips. The motion carried.

Health Care Surcharge Minimum Compensation Amount for FY2025

Matthew King moved and Catherine Moss seconded the motion to accept the recommendation of SERS's actuary, Cavanaugh Macdonald, and establish \$30,000 as the minimum compensation amount for purposes of the Fiscal Year 2025 Health Care surcharge. Upon roll call, the vote was as follows: Yea: Matthew King, Jeffrey DeLeone, James Haller, Catherine Moss, James Rossler, Aimee Russell, Daniel Wilson, and Frank Weglarz. Absent: Barbra Phillips. The motion carried.

Year End Budget To Actual Report and Administrative Expenses

Marni Hall, SERS Chief Financial Officer, provided an update on the administrative expenses. SERS spent 94% of the FY2023 budget and all major line items came in under budget. Board member Daniel Wilson questioned why the personnel line item was over budget and Ms. Hall explained that this fiscal year was a 27 pay budget, not the normal 26 pay periods and that was missed when planning the FY2023 budget. Ms. Hall also reported that money was budgeted for new tenant renovations that were not needed. Following a brief discussion, the board thanked Ms. Hall for her report.

Filing of Proposed Amended Administrative Rule

SERS Legal Counsel presented two categories of resolutions on administrative rules. The first is request is approval to file with JCARR the following proposed amended rule: 3309-1-35 Health Care. The proposed amendments to this rule reflect the Board's decision from March 2023 to change the non-Medicare disability health care subsidy amounts to equal that of service retirees by years of service, effective January 1, 2024. As discussed at that time, the proposed amendments to Ohio Administrative Code rule 3309-1-35 are necessary to give effect to those changes and will also be effective January 1, 2024.

Legal Counsel discussed with the Retirement Board filing with JCARR the following proposed amended rule: 3309-1-35 Health care. Jeffrey DeLeone moved and Catherine Moss seconded that proposed amended rule 3309-1-35 be filed with JCARR as discussed. Upon roll call, the vote was as follows: Yea: Matthew King, Jeffrey DeLeone,

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James Haller, Catherine Moss, James Rossler, Aimee Russell, Daniel Wilson, and Frank Weglarz. Absent: Barbra Phillips. The motion carried.

Final Filing of Proposed Amended Administrative Rules

The Board approved filing rules 309-1-04, 3309-1-18 as proposed rules at its June Board meeting. These rules have been reviewed by JCARR and are ready for final adoption. Legal Counsel discussed with the Retirement Board the following proposed amended rules: 3309-1-04 Election of retirement board members and 3309-1-18 Payment of contributions, that have been reviewed by JCARR and are ready for final adoption by the Board. Jeffrey DeLeone moved and Catherine Moss seconded that proposed amended rules 3309-1-04 and 3309-1-18 be adopted. Upon roll call, the vote was as follows: Yea: Matthew King, Jeffrey DeLeone, James Haller, Catherine Moss, James Rossler, Aimee Russell, Daniel Wilson, and Frank Weglarz. Absent: Barbra Phillips. The motion carried.

Cincinnati Retirement System – Transfer of Service Credit Agreement

SERS Legal Counsel updated the board of the status of the Cincinnati Retirement System. SERS' statute governing the transfer of service credit between SERS and Cincinnati Retirement System (R.C. 3309.74) includes a condition that SERS, through the Retirement Board, enter into an agreement that is consistent with the requirements of R.C. 3309.75, Transfer of credit from Cincinnati Retirement System, and R.C. 3309.76, Transfer of SERS credit to the Cincinnati Retirement System.

In accordance with this condition SERS and CRS entered into a Transfer of Services Credit Agreement in 2001. The proposed Transfer of Service Credit Agreement has been amended to reflect amendments to the relevant statutes. Notable amendments add the following conditions: In order to transfer credits an eligible member must be eligible to retire, agree to retire within ninety days of the transfer and must have more credit in the system receiving the transferred credit.

It was moved by Catherine Moss and seconded by Jeffrey DeLeone that the Executive Director be authorized to negotiate and execute a Transfer of Service Agreement between SERS and the City of Cincinnati on behalf of the Board of Trustees of the Cincinnati Retirement System, as authorized by sections 3309.74 – 3309.76 of the Ohio Revised Code, that amends and replaces the Transfer of Service Credit Agreement entered into by the parties on December 3, 2001. The effective date of the new agreement is October 1, 2023. Upon roll call, the vote was as follows: Yea: Matthew King, Jeffrey DeLeone, James Haller, Catherine Moss, James Rossler, Aimee Russell, Daniel Wilson, and Frank Weglarz. Absent: Barbra Phillips. The motion carried.

CBBC Factor

Mr. Stensrud continued his report with a discussion of the Contribution Based Benefit Cap. In order to move forward on implementation of the Contribution Based Benefit Cap (CBBC), the Board will need to adopt the 'factor' that will be used as the multiplier of the employee contribution annuity that is compared to the formula benefit. This multiplier/factor establishes the 'outer limit' of the acceptable gap between the formula benefit and the contribution-funding benefit.

To assist with the assessment of what the factor should be, the Board has been provided with the following information:

- An analysis of the retirements in 2023 that shows how many retirees would have been impacted if the factor was set at 3, 4, 5, 5.5 and 6 or above. With this data set, of the nearly 3,000 retirements in 2023, only 22 people would have been impacted by the CBBC if the factor was set at 5.5 and only 10 people would have been impacted if the factor was set at 6. The board was also provided with information regarding the career profile of the people who would have been impacted to help identify the elements that would have triggered application of the CBBC.
- Scenarios drawn from actual retirements that show how/whether a CBBC with a factor of 5 or 6 would impact retirees with different career patterns and compensation history and a summary of the scenarios.

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Mr. Stensrud advised the board that deciding on the CBBC factor sooner rather than later is important because it will allow SERS staff to counsel, communicate with, and assist members in determining whether the CBBC will impact them, and if so, what the impact will be.

Mr. Stensrud continued, stating that SERS has had extreme cases of benefit inflation and the CBBC is designed to minimize those losses. After a robust discussion, it was decided to delay voting on a CBBC factor until all nine board members are present to participate in the vote. The board hopes to make a final decision on the CBBC factor at the October board meeting.

Retirement Report

There was no executive session for the retirement report.

Compensation Appeal – Affirm Final Staff Determination

The board recessed at 12:00 p.m.

The board reconvened at 12:16 p.m.

Catherine Moss moved and Aimee Russell seconded to affirm the June 14, 2023 Final Staff Determination that a lump sum payment of \$6,000.00 for obtaining an Associates' degree does not meet SERS' definition of compensation. Upon roll call, the vote was as follows: Yea: Matthew King, Jeffrey DeLeone, James Haller, Catherine Moss, James Rossler, Aimee Russell, Daniel Wilson, and Frank Weglarz. Absent: Barbra Phillips. The motion carried.

Audit Committee Report

Audit Committee Update

SERS Chief Audit Officer, Jeff Davis, provided an update on the audits that have been completed so far in FY2024, which include the Undue Influence, Investment Incentive Compensation, and Conflict of Interest audits. Mr. Davis advised that all FY2024 audits are moving according to schedule and there have been no unusual findings. The board thanked Mr. Davis for his update.

Audit Committee Charter Amendment

Catherine Moss moved and Matthew King seconded to accept the recommendation of the SERS Audit Committee to amend the Audit Committee Charter. Specifically, language in section 1.4 of the Charter that reads "Review the Comprehensive Annual Financial Report" will be amended to state "Review the Annual Comprehensive Financial Report". Upon roll call, the vote was as follows: Yea: Matthew King, Jeffrey DeLeone, James Haller, Catherine Moss, James Rossler, Aimee Russell, Daniel Wilson, and Frank Weglarz. Absent: Barbra Phillips. The motion carried.

Compensation Committee Report

Compensation Committee Chair, Daniel Wilson, provided an update on the work of the Compensation Committee. Mr. Wilson reported that the committee conducted a quarterly review of the Executive Director's goals and progress made to date on each goal. Mr. Wilson stated the meeting was positive and productive.

Board Communication and Policy Issues

Board Information Request & Follow Up Items

There were no requests for board information or follow-up items.

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Calendar Dates for Future Board Meetings

The board reviewed the meeting dates for 2023 and 2024.

CALENDAR DATES FOR SERS BOARD AND COMMITTEE MEETINGS FOR 2023

AUDIT COMMITTEE MEETINGS

December 20, 2023 – 2:30 p.m. (Weds.)

COMPENSATION COMMITTEE MEETINGS

December 21, 2023 – 7:30 a.m. (Thurs.)

TECHNOLOGY COMMITTEE MEETINGS

December 21, 2023 – 12:30 p.m. (Thurs.)

BOARD MEETINGS

October 19 – 20, 2023 - 8:30 a.m. (Thurs. and Fri.)

November 16 – 17, 2023 - 8:30 a.m. (Thurs. and Fri.)

December 21 – 22, 2023 - 8:30 a.m. (Thurs. and Fri.)

CALENDAR DATES FOR SERS BOARD AND COMMITTEE MEETINGS FOR 2024 **

AUDIT COMMITTEE MEETINGS

March 20, 2024 – 2:30 p.m. (Weds.)

June 19, 2024 – 2:30 p.m. (Weds.)

September 18, 2024 - 2:30 p.m. (Weds.)

December 18, 2024 – 2:30 p.m. (Weds.)

COMPENSATION COMMITTEE MEETINGS

March 21, 2024 – 7:30 a.m. (Thurs.)

June 20, 2024 – 7:30 a.m. (Thurs.)

July 18, 2024 – 7:30 a.m. (Thurs.) * **Special Meeting** *

September 19, 2024 – 7:30 a.m. (Thurs.)

December 19, 2024 – 7:30 a.m. (Thurs.)

TECHNOLOGY COMMITTEE MEETINGS

March 21, 2024 – 12:30 p.m. (Thurs.)

June 20, 2024 – 12:30 p.m. (Thurs.)

September 19, 2024 – 12:30 p.m. (Thurs.)

December 19, 2024 – 12:30 p.m. (Thurs.)

BOARD MEETINGS

February 15 - 16, 2024 - 8:30 a.m. (Thurs. and Fri.)

March 21 - 22, 2024 – 8:30 a.m. (Thurs. and Fri.)

April 18 – 19, 2024 - 8:30 a.m. (Thurs. and Fri.)

May 16 – 17, 2024 – 8:30 a.m. (Thurs. and Fri.)

June 20 - 21, 2024 - 8:30 a.m. (Thurs. and Fri.)

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July 18 – 19, 2024 – 8:30 a.m. (Thurs. and Fri.)
September 19 – 20, 2024 – 8:30 a.m. (Thurs. and Fri.)
October 17 – 18, 2024 – 8:30 a.m. (Thurs. and Fri.)
November 21 – 22, 2024 – 8:30 a.m. (Thurs. and Fri.)
December 19 – 20, 2024 – 8:30 a.m. (Thurs. and Fri.)

**** Please note that these dates and times are tentative.**

Adjournment

Board Chair, Frank Weglarz, moved to adjourn to meet on Thursday, October 19, 2023, at 8:30 a.m. for the next SERS regularly scheduled Retirement Board meeting.

The SERS board meeting adjourned at 12:22 p.m.

Frank Weglarz, Board Chair

Richard Stensrud, Secretary