



SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

BOARD MEETING HIGHLIGHTS

OCTOBER 2023

Board Sets CBBC Factor

After more than two years of analysis and discussion, at the October meeting, the SERS Board approved the ‘factor’ that will be used under the Contribution Based Benefit Cap (CBBC) analysis for retirements with an effective date on or after August 1, 2024.

The purpose of the CBBC analysis is to assure that the pension benefit is sufficiently supported by the contributions made by a member over the course of their working career. The CBBC factor is the multiplier for an annuity based on the member’s contributions that will be compared to the standard formula benefit.

The factor approved by the Board is 6.25.

If the standard formula benefit exceeds the multiplied annuity amount determined by the CBBC calculation, then the retirement allowance will be based on the multiplied annuity. If the standard formula benefit is less than the multiplied annuity, then the retirement allowance will be based on the standard formula benefit.

The multiplier/factor reflects the Board’s determination of the outer limit of the acceptable gap between the standard formula benefit and the contribution-funded benefit. Assuring that the contributed funding is sufficient to support the benefit is important for the long-term sustainability of the pension fund and is also important for maintaining fairness for all SERS members. Any shortfall in funding an individual benefit is subsidized by all members.

The Board considered extensive data in determining that the factor will be 6.25, including analysis of actual retirements from 2020 to 2021 and 2022 to 2023. The analysis showed that, in the vast majority of cases, the standard formula benefit will continue to be the basis of the retirement allowance. For example, of the nearly 3,000 retirements in the 2022 to 2023 time period, a CBBC with a factor of 6.25 would have impacted only eight retirements.

Whether a retirement will be impacted by the CBBC will be strictly data based and is intended to fix a flaw in the plan that, in a small number of cases, has allowed for a lifetime retirement allowance that is not sufficiently supported by the contribution funding provided over the member’s entire career.

For more information, as well as the materials reviewed by the Board in making this decision, visit the [CBBC Explained](#) and [Sustainability](#) pages on the SERS website.

Global Private Equity Portfolio Review

Staff provided the Board with an overview of SERS’ \$2.3 billion Global Private Equity (PE) portfolio.

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

Currently, the portfolio consists of 28 general partners that manage 63 funds. SERS also is a participant in 10 co-investments.

The role of a broadly diversified portfolio is to provide risk-adjusted returns in excess of those provided by publicly traded equities. The PE portfolio is currently 13% of the Total Fund, which is 1% below the policy target of 14%.

In FY2023, the PE portfolio generated a 2.54% net-of-fees return, outperforming the benchmark by 6.57%. Longer term, SERS' PE portfolio generated 26.17% over a 3-year period, 18.66% over a 5-year period, and 18.37% over a 10-year period.

In FY2023, SERS committed \$223 million to new investments in four broadly diversified funds and three co-investment vehicles. One new manager was added.

The portfolio strategy consists of 79% buyouts, 11% special situations, 5% venture, and 5% co-investments. Geographically, SERS' portfolio is 81% invested in North America, 17% in Europe, and 2% in emerging markets.

In FY2024, SERS is seeking to expand the co-investments strategy. Co-investments have yielded returns of 25.57% over three years and 18.06% over five years. Co-investments are attractive because they provide an opportunity for fund investors to participate in specific investments that provide diversification and additional return potential, and do not incur additional management fees.

The current economic conditions of rising interest rates and slowing growth have caused acquisition prices of private equity positions to be higher than they were over the last 5-10 years.

Despite those headwinds, staff will review the entire portfolio strategy and structure, and develop a plan to improve the risk and return characteristics of the portfolio, achieve fee reductions, and optimize manager count. In addition, staff will be looking to identify new and innovative investment opportunities and evaluate their return and diversification potential for possible inclusion in the portfolio.

Board Approves Interim Targets for Private Equity, Global Equities

In April, the Board approved a new asset allocation for SERS' Total Fund that included increasing the private equity allocation from 12% to 14% and a corresponding reduction to global equities from 42% to 40%.

Due to the time it takes to make these changes in both portfolios, the Board approved staff's recommendation to implement interim targets of 41% for global equities and 13% for private equity until the end of 2024, with full implementation accomplished by January 1, 2025.

Investment Committee Approves Private Equity Investment

The SERS Staff Investment Committee approved a \$50 million commitment to FS Equity Partners IX, a middle market buyout strategy within the private equity portfolio.

This investment will be funded from cash reserves.

Total Fund Update

TOTAL FUND BALANCE		
July 31	August 31	Difference
\$18.04 billion	\$17.81 billion	▼ \$230 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▲ 0.43%	▲ 6.18%	▲ 8.60%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▲ 0.13%	▼ 0.34%	▲ 1.69%

Executive Director's Update

SERS Does Not Intend to Increase Contribution Rates

Recently, the Ohio Police & Fire Pension System (OP&F), State Teachers Retirement System of Ohio (STRS), and Ohio Public Employee Retirement System of Ohio (OPERS) announced plans to pursue legislation to increase employer contributions to address funding challenges.

While SERS is the third largest Ohio pension system, with \$17.81 billion in assets as of August 31, 2023, the Board reaffirmed that SERS does **not** intend to increase contribution rates for its employers or members. The existing contribution rate structure continues to adequately support SERS' long-term sustainability, as confirmed by the System's actuary, Cavanaugh Macdonald.

ORSC Update

Long-standing member Sen. Kirk Schuring has stepped down from the Ohio Retirement Study Council (ORSC).

Schuring served as a consistent champion and advocate of Ohio's retirement systems, ensuring that colleagues and legislature committees understand the unique role defined benefit plans such as SERS play in local and state economies. Sen. Mark Romanchuk replaced Schuring on the ORSC. Rep. Phil Plummer will continue to serve as vice-chair and a new chair will be elected at the Council's next meeting.

State Legislation

The House Government Oversight Committee recently heard sponsor testimony regarding HB257, which would provide authority for certain public bodies to hold and participate in meetings virtually.

SERS is supportive of the legislation and staff is preparing proponent testimony for the committee's next hearing regarding the bill.

WEP/GPO Update

HR82, which would fully repeal the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO), has gained wide bipartisan support and exceeds 290 cosponsors.

S597, introduced by Sen. Sherrod Brown (D-OH), also aimed to fully repeal the WEP and GPO. In addition to 45 others, Sen. J.D. Vance (R-OH) recently signed on as a co-sponsor.

While the bills are unlikely to gain much traction in the House and Senate, SERS will continue to educate legislators on the importance of a permanent equitable solution.

Drilling Down Retiree Data

In response to a recent Legislative Services Commission (LSC) request regarding how many SERS retirees receive more than \$40,000 annually, the System provided the following data:

- 93% of retirees receive less than \$40,000 per year
- 67% of retirees receive less than \$18,000 per year
- Nearly 50% of retirees receive less than \$12,000 per year

While a SERS pension is a valuable lifetime benefit, misconceptions arise from time to time that mischaracterize SERS' members as retiring young and receiving lavish benefits. These mischaracterizations unfairly depict the financial reality of the hardworking people who serve our schools.

Board Confirms IEP Services is SERS-covered Employment

The Board agreed with a Final Staff finding that 1:1 nursing services provided to a student under an Individualized Education Plan (IEP) are common to the normal daily operation of a school. Accordingly, the Board upheld the Final Staff decision that nurses provided by Maxim Healthcare to provide the 1:1 nursing services were required to contribute to SERS.

Board Continues Discussions on Compensation

This month, SERS' Board continued its discussions regarding the definition of pensionable compensation. Perspectives were shared on how compensation is changing, and, while no consensus was reached on a final definition, the Board agreed the definition should be clear and treat similar compensation elements the same across all SERS-covered positions. The Board asked staff to research other similar-sized pension funds and, at the November meeting, share examples of other compensation definitions.

Monthly Retirement and Survivor Benefit Transactions

For October, the SERS Board approved 593 active members for service retirements, and 13 survivor benefits for spouses and/or dependents.

November Meeting Dates

The next Board meeting will take place Thursday, November 16, and Friday, November 17, at 8:30 a.m. (if necessary).