

# **SERS Retirement Board Meeting Minutes**

**October 19, 2023**

The nine hundredth and sixty-third 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, October 19, 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, Barbra Phillips, James Rossler, Aimee Russell, and Daniel Wilson. 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 **October 19, 2023**, included:

- Minutes of the September 21, 2023, Retirement Board meeting
- Summary of Investment Transactions for the period of August 1, 2023, to August 31, 2023
- Retirement Report – Superannuations, Survivor Benefits, and Transfers
- Disability Report – Approval of Disability Benefits, Disapproval of Disability Benefits, Disapproval of Appeal of Termination – Any Occupation

James Haller moved and Catherine Moss seconded the motion to approve the Consent Agenda of the Retirement Board meeting held on Thursday, October 19, 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. Abstain: Barbra Phillips. The motion carried.

## **Investment Report**

### **Annual Portfolio Review – Private Equity**

SERS Investment staff Steve Price and Phil Sisson provided an update on the Private Equity portfolio. Mr. Price reported the Private Equity portfolio has a market value of \$2.3 billion with 28 general partners, 63 funds, and 10 co-investments. SERS maintains a diverse private equity portfolio to provide returns that can be adjusted based on risk. The private equity portfolio is currently 13% of the SERS total fund, which is below the 14% target.

Mr. Price stated the goal for FY2024 is to expand the co-investment strategy. Co-investments are attractive because they limit the partner's fund exposure, 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. SERS 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.

With no questions, the board thanked Mr. Price and Mr. Sisson for the report.

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## Monthly Investment Report – Period Ending: August 31, 2023

Chief Investment Officer, Farouki Majeed, provided an update on the investment fund status for the month ending August 31, 2023. Mr. Majeed stated US growth slowed but remained resilient. Mr. Majeed expects that an economic slowdown will stabilize by the end of the year. The US labor market remained resilient, adding 187,000 jobs in August. Consumers are still spending and payroll continues to grow at a healthy rate. After answering several questions and having a robust discussion, the board thanked Mr. Majeed for his report.

## Interim Asset Allocation Targets – Global Equities and Private Equity

Mr. Majeed stated that the board approved revised asset allocation targets and ranges for the SERS Total Fund at the April 20, 2023 meeting increasing the Private Equity target from 12% to 14%, effective July 1, 2023. Since time is needed to implement the new Private Equity target, Staff recommends the Board approve interim targets for Private Equity and Global Equities over the period October 1, 2023 through December 31, 2024. To compensate for the reduction in Private Equity by 1%, Global Equities interim target will be increased by 1% to 41%. The policy targets for Global Equities and Private Equity will revert to 40% and 14% respectively effective January 1, 2025.

As discussed during the October 19, Board meeting, Jeffrey DeLeone moved and Barbra Phillips seconded the motion to approve interim Global Equities and Private Equity Asset Allocation targets over the period October 1, 2023, through December 31, 2024.

ASSET CLASS	Policy Targets	Policy Range	Interim Targets
<b>Equity</b>	<b>54%</b>	<b>44% -- 64%</b>	<b>54%</b>
Global Equities	40%	35% - 45%	41%
Global Private Equities	14%	11% - 17%	13%
<b>Income</b>	<b>46%</b>	<b>41% - 51%</b>	<b>46%</b>
Global Fixed Income	18%	13% - 23%	18%
Global Private Credit	5%	3% - 7%	5%
Global Real Assets	20%	17% - 22%	20%
Cash	3%	1% - 5%	3%
<b>Strategy</b>			
Opportunistic & Tactical	0%	0% - 5%	0%
<b>Total Assets</b>			
<b>Leverage</b>	<b>100%</b>		<b>100%</b>
<b>Total Notional Exposure (Including Leverage)</b>	<b>0%</b>	<b>0% - 10%</b>	<b>0%</b>

Upon roll call, the vote was as follows: Yea: Matthew King, Jeffrey DeLeone, James Haller, Catherine Moss, Barbra Phillips, James Rossler, Aimee Russell, Daniel Wilson, and Frank Weglarz. The motion carried.

## Recess for Membership Appeal

The board took a recess at 10:00 a.m. to discuss the membership appeal.

The board returned to open session at 10:35 a.m.

Catherine Moss moved and Barbra Phillips seconded to affirm the August 14, 2023, Revised Final Staff Determination that individuals providing IEP-required nursing services under Maxim contracts with West Clermont Local Schools and Ridgedale Local Schools were providing a service common to the normal daily operation of the schools and should therefore contribute to SERS. Upon roll call, the vote was as follows: Yea: Matthew King, Jeffrey DeLeone, James Haller, Catherine Moss, Barbra Phillips, James Rossler, Aimee Russell, Daniel Wilson, and Frank Weglarz. The motion carried.

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The board took a break at 10:37 a.m.

The board reconvened at 10:52 a.m.

## **Executive Director's Report**

### **Ohio Retirement Study Council (ORSC)**

Mr. Stensrud opened his report stating the October ORSC meeting was cancelled. The next meeting is scheduled for November 9, 2023, or at the call of the ORSC Chair.

Mr. Stensrud continued, alerting the board that Senator Schuring will no longer be serving on the ORSC and has been replaced by Senator Mark Romanchuk. Representative Plummer will serve as Chair in the interim until a final selection has been made. Senator Schuring has been a longtime advocate of the public pension systems and he will be missed on the ORSC but will continue to serve in the Senate. Board member Jeffrey DeLeone added that Senator Romanchuk's addition to the ORSC will be beneficial.

### **State Legislative Activity**

Mr. Stensrud reported that sponsor testimony was heard in the House Government Oversight committee on HB 257 which would provide the authority for certain public bodies to meet virtually. The bill includes provisions, similar to what STRS was granted in the last General Assembly, to allow the other retirement systems to create a policy for Board Members to participate in meetings remotely under certain conditions. Similar authority was provided to all the systems on a short-term basis during the pandemic but has since lapsed. The goal of the bill is to extend the authority to the other retirement systems. Mr. Stensrud reported SERS is in support of HB257 and will provide proponent testimony.

Mr. Stensrud continued, stating that the OPERS Board has directed its staff to pursue legislation to increase the general member employer contribution rate from 14% to 18% and to have the law enforcement employer rate tied to the rate at OP&F, which is also seeking an increase in its employer contribution rate. Mr. Stensrud reported that OPERS offered several reasons for increasing the employer contribution rates, including that rates haven't increased in over 50 years, benefit expenditures have increased, and funding will become more dependent on investment returns at a time when returns are projected to be lower.

Mr. Stensrud noted that the SERS Board regularly assesses the long-term sustainability of the pension fund and that SERS' actuary, Cavanaugh Macdonald, reports that SERS continues to be sustainable with current contribution rates. Accordingly, Mr. Stensrud noted that at this time SERS does not need and does not intend to seek an increase in the contribution rates. That view was endorsed by all Board Members, who further encouraged Mr. Stensrud to take steps to make sure that was understood by policy makers and stakeholders.

Mr. Stensrud reported that the Ohio Legislative Service Commission (LSC) made a data request regarding SERS retirees. The LSC requested a summary of 2022 retirees who had monthly benefits equal or less than \$3,345 and those receiving payments more than \$3,345. SERS staff promptly provided that information. Mr. Stensrud reported that 93% of SERS' retirees made less 3,345 per month (\$40,140 per year), and further amplified that 67% receive a benefit of \$18,000 or less per year, and 49.5% get a benefit of \$12,000 or less per year. Mr. Stensrud further noted that 91% of those benefit dollars are paid to retirees living in Ohio, meaning that those funds are being spent in local communities supporting local economies.

### **Waiver of Recourse**

In response to a Board inquiry, Mr. Stensrud explained what Waiver of Recourse insurance coverage was and why it was not necessary or required for Board Members in Ohio.

### **Federal Legislative Activity**

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Mr. Stensrud reported that WEP/GPO repeal legislation in the House of Representatives (HR 82) has exceeded 290 cosponsors and that Senator Vance has become a cosponsor of Senator Brown's WEP/GPO repeal bill (S 597) in the Senate. Mr. Stensrud also noted that WEP/GPO reform legislation has been introduced in the House. Mr. Stensrud reported that despite broad support, it was unlikely that any action will be taken until there is bi-partisan interest and support for broader Social Security reform.

## **Administrative Expenses**

Marni Hall, SERS Chief Financial Officer, provided an update on the administrative expenses. Following a brief discussion, the Board thanked Ms. Hall for her report.

## **Contribution Based Benefit Cap (CBBC)**

Mr. Stensrud initiated continuation of the Board's discussion regarding the factor that will be used in determination of the CBBC. The purpose of the CBBC analysis is to assure that the lifetime pension benefit received by the member is sufficiently supported by the contributions made over the course of the member's working career. The factor is the multiplier for an annuity based on the member's contributions that will be compared to the standard formula benefit. If the standard formula benefit exceeds the multiplied annuity, 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.

Mr. Stensrud noted the multiplier/factor will reflect 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 because any shortfall in funding an individual benefit is subsidized by all the members.

Mr. Stensrud noted that through back-testing the Board had been provided with extensive data showing how different possible CBBC factor levels would have impacted actual retirements in 2020/2021 and 2022/2023. Mr. Stensrud noted that last month, after assessing that data, the Board had determined that the factor would be no lower than 5.5. Mr. Stensrud reported that for the current discussion the Board had also been provided with information regarding the career profile of the people who would have been impacted at a factor of 5.5 or above to help identify the elements that would have triggered application of the CBBC.

Mr. Stensrud noted that the data 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 2022/2023, 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. A similar number, and percentage of retirees, would have been impacted by a factor of 5.5 or above in the more than 3,400 retirements in 2020/2021. And in all of the impacted cases, there was a substantial difference between the three years used to determine the standard formula benefit and the rest of the career such that the contributions over the course of the career fell short of the levels necessary to support the standard formula benefit.

Robust discussion by the Board followed, including consideration of what the CBBC is intended to address and whether it would impact people with an earned promotion at the end of their career. With respect to the former topic, it was noted that 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 whole career. With respect to the latter topic, the Board was provided with data showing that an increase in salary of 15% in the last part of a member's career would not, in itself, trigger application of the CBBC.

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It was moved by James Rossler and seconded by Daniel Wilson that based on the advice of SERS' actuary, Cavanaugh Macdonald, and in accordance with R.C. 3309.363(B), the SERS Board selects 5.5 as the CBBC factor. Upon roll call the vote was as follows: Yea: Jeffrey DeLeone, James Rossler, and Daniel Wilson. Nay: Matthew King, James Haller, Catherine Moss, Aimee Russell, and Frank Weglarz. Abstain: Barbra Phillips. The motion was rejected.

Following further discussion, it was moved by Frank Weglarz and seconded by Daniel Wilson that based on the advice of SERS' actuary, Cavanaugh Macdonald, and in accordance with R.C. 3309.363(B), the SERS Board selects 6.25 as the CBBC factor. Upon roll call the vote was as follows: Yea: Matthew King, Jeffrey DeLeone, James Haller, Catherine Moss, Barbra Phillips, Aimee Russell, Daniel Wilson and Frank Weglarz. Nay: James Rossler. The motion carried.

Mr. Stensrud noted that the effective date for implementation of the CBBC would be August 1, 2024, but that substantial efforts would be made before that date to communicate with members about how the CBBC could potentially affect the member's retirement benefits. Mr. Stensrud noted that those efforts would include an online calculator, information in requested benefit estimates, annual member statements, newsletters, social media, and retirement planning seminars and other public presentations.

The Board took a lunch break at 12:43 p.m.

The Board reconvened after lunch at 1:35 p.m.

## **Definition of Compensation Discussion**

Mr. Stensrud outlined some information to assist in the Board's ongoing discussions regarding what should qualify as pensionable compensation. The information was intended to pull together key elements of the past discussions, suggest proposed objectives/premises in developing a definition of what constitutes pensionable compensation, and elements the Board may want to consider in assessing how a more expansive definition of pensionable compensation might impact the financial condition of the pension fund.

Mr. Stensrud noted that the current pensionable compensation parameters are set in statute and by administrative rule. The parameters can be confusing for employers and members, and can be challenging for Staff to administer. Compensation practices have evolved over time with employers now offering different pay elements beyond straight salary. Some are pensionable under current parameters and some are not. Because compensation reporting does not feature specific pay codes, it is difficult to determine if employers are reporting compensation elements correctly.

With that in mind, Mr. Stensrud suggested the Board may want to consider the following proposed objectives: (1) Simplify the definition of what counts as pensionable compensation so that it is easier for members and employers to understand and easier to administer; (2) Treat similar pay elements the same across all positions; (3) Broaden the definition of what counts as pensionable compensation to cover more elements that are paid for 'doing your job;' and (4) Understand how expanding what counts as pensionable compensation will impact the financial condition of the pension fund.

Robust discussion followed across all the proposed objectives. To help advance the discussion, the Board requested that Staff obtain information from other comparable retirement systems regarding how they define pensionable compensation. Board discussion will continue at the November meeting.

## **Compensation Committee Report**

Catherine Moss moved and Aimee Russell seconded the motion that the Board convene in Executive Session pursuant to R.C. 121.22 (G)(1) to discuss the employment and compensation of a public employee. Upon roll call, the vote was as follows: Yea: Matthew King, Jeffrey DeLeone, James Haller, Catherine Moss, Barbra Phillips, James Rossler, Aimee Russell, Daniel Wilson, and Frank Weglarz. The motion carried.

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The board convened in executive session at 2:20 p.m.

The board reconvened in open session at 2:29 p.m.

On behalf of the Board, Compensation Committee Chair Daniel Wilson made the following statement and motion:

It is SERS' compensation policy that to fulfill the system's mission and provide the best service to its members, retirees, and employers, SERS must attract, retain, and motivate employees. It is SERS' objective to have a compensation program that supports a high-performance culture, the organization's values, and strategic goals, and pays competitively and equitably. Accordingly, recognizing Executive Director Richard Stensrud's years of excellent service to SERS, his importance to the organization, and the Board's desire to retain Mr. Stensrud in his position so that he will continue to serve SERS and its stakeholders, Daniel Wilson moved, and Barbra Phillips seconded that Mr. Stensrud's employment letter and addendum be amended as follows:

- In calendar year 2024, provided Mr. Stensrud is still employed in good standing at SERS on the last pay date of the calendar year, an additional 56 hours of vacation leave will be granted to Mr. Stensrud. In calendar year 2025, provided Mr. Stensrud is still employed in good standing on the last pay date of the calendar year, an additional 72 hours of vacation leave will be granted to Mr. Stensrud.
- Paragraphs pertaining to notice of voluntary termination of employment will be amended accordingly to address the 56 and 72 hours of additional vacation leave referenced above.

Upon roll call, the vote was as follows: Yea: Matthew King, Jeffrey DeLeone, James Haller, Catherine Moss, Barbra Phillips, James Rossler, Aimee Russell, Daniel Wilson, and Frank Weglarz. The motion carried.

## **Technology Committee Report**

Technology Committee Chair, Matthew King, provided a brief update on the work being done in the Technology Committee. Mr. King stated that SERS staff continue to work on the SMART system upgrades and remains focused on IT infrastructure and security measures. The committee is also discussing Artificial Intelligence (AI) and enhancement to SERS IT security for the organization. With no further questions, the board thanked Mr. King for his report.

## **Retirement Report**

There was no executive session for the retirement report.

## **Board Communication and Policy Issues**

### **Board Information Request & Follow Up Items**

The board requested that a calculator be created to allow SERS members to determine how the new CBBC factor would affect their retirement benefits. The board also requested additional compensation information from pension systems in other states to help determine the definition of pensionable compensation.

### **Calendar Dates for Future Board Meetings**

The board reviewed the meeting dates for 2023 and 2024.

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## 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

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.)

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.)

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

## **Adjournment**

Board Chair, Frank Weglarz, moved to adjourn to meet on Thursday, November 16, 2023, at 8:30 a.m. for the next SERS regularly scheduled Retirement Board meeting.

The SERS board meeting adjourned at 2:45 p.m.

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Frank Weglarz, Board Chair

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Richard Stensrud, Secretary