



# *SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO*

## **BOARD MEETING HIGHLIGHTS**

### **NOVEMBER 2023**

#### **SERS Honors Tuscarawas Valley Community**

At the beginning of the meeting, the Board held a moment of silence for Tuscarawas Valley Local Schools and the Tuscarawas Valley community in remembrance of those involved in the tragic accident last week.

Our thoughts are with the entire Tusky Valley community.

#### **Actuary Presents Pension and Health Care Valuations**

SERS' actuary, Cavanaugh Macdonald Consulting, LLC, presented the results of the FY2023 pension and health care actuarial valuations to the Board.

In FY2023, SERS' funded status for Basic Benefits (Pension, Death Benefit, and Medicare B Funds) increased from 75.48% to 76.61%, and the amortization period (the amount of time it takes to pay off all pension liabilities) of the unfunded actuarial accrued liability decreased from 22 years to 21 years.

Although investment performance in FY2023 was below the assumed rate of return of 7.0%, the actuarial value of the assets increased due to the four-year smoothing method SERS uses for investment gains and losses. Under the smoothing process, gains and losses were divided into four equal amounts and recognized over a four-year period. Because the unrecognized gains from the previous three years were greater than this year's one-fourth loss, SERS' actuarial value increased.

The remaining three-fourths of the investment losses from FY2023 will be phased into the actuarial value of assets over the next three years.

Although health care is not funded on an actuarial basis, an annual valuation is performed to fulfill the requirements of GASB 74 and 75. The valuation reports that health care experienced a slight increase in the funded ratio from 45.36% to 46.14%, primarily due to demographic, asset, and claims experience and change due to disability subsidization and assumed Wraparound Plan participation. The Health Care Fund is projected to remain solvent for another 39 years, until 2062.

As a point of reference, the funded ratio in 2012 and 2013 was approximately 13%, and the solvency period from 2017 to 2019 was approximately 15 to 17 years.

The System's funding policy allows the Board to allocate up to 0.50% of the 14% employer contribution toward health care if the funded ratio of the pension fund is greater than 70% but less than 80%.

At the September Board meeting, the Board voted to allocate 0% of the employer contribution toward health care in FY2024, preferring instead to enhance the funding level for Basic Benefits.

At the recommendation of SERS' actuary, the Board allocated the 14% employer contribution for FY2024 with 10.06% to the Pension Fund, 0.04% to the Death Benefit Fund, 0.47% to the Medicare B

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#### 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*

Fund, and 0.00% to the Health Care Fund. The remaining 3.43% of the employer contribution will be allocated proportionately to the Pension Fund, Death Benefit Fund, and Medicare B Fund.

### **Fixed Income Annual Portfolio Review**

Staff presented a review of the fixed income portfolio's structure and provided details on a new initiative.

Currently, SERS' fixed income portfolio has a market value of \$2.2 billion and is 5.2% below its 18% target. Over the last year, staff has strategically underweighted fixed income due to the Federal Reserve's aggressive increase in interest rates to combat historically high inflation. However, now that interest rates have stabilized, staff has begun to take advantage of opportunities that will get the portfolio closer to its target.

For the first time in SERS' history, staff is now managing U.S. Treasury Exchange Traded Funds (ETFs) in house. SERS' external fixed income portfolio is underweight government securities, so these new ETFs provide diversification.

The fixed income portfolio contains investments in three sectors: 48% in core (Treasuries, corporate bonds, and mortgages); 40% in core plus (core securities plus high yield and non-US debt); and 12% in tactical and diversifying (emerging market debt, high yield, and dislocation strategies). Sector exposure includes 25.3% in mortgages, 24.1% in government bonds, 24.1% in investment grade corporate, 7.5% in emerging market debt, and 6.4% in high-yield bonds, with the remaining 12.6% allocated to asset-backed securities, commercial mortgage-backed securities, non-US developed, and other/cash.

Over the last 12 months, this portfolio has realized a net return of 2.12%, which was 1.48% higher than the Bloomberg U.S. Aggregate Bond Index benchmark. The long-term net asset returns over the 3-, 5-, and 10-year periods are all positive.

### **Investments Quarterly Report**

Joanna Bewick of Wilshire Associates provided the Board with an updated 10-year return forecast for investments, an update of current U.S. economic conditions, and SERS' July-September 2023 quarterly results.

Looking into the future, Bewick noted that the two highest returning portfolios over the next 10 years are expected to be private equity (9.65%) and private credit (8.95%). U.S. equity returns could average about 6.0%, real assets are projected to return 7.05%, and the different types of fixed income could average between 4.25% and 6.85%.

During the quarter, Bewick noted that the U.S. stock market was down 3.3%, but up 20.5% for the past 12 months. Large cap stocks outperformed small cap stocks and value outperformed growth.

The U.S. economy was still performing well with a gross domestic product (GDP) of 2.1, solid job creation statistics, and continued consumer spending. Despite the reduction in inflation pressures, consumer sentiment about the economy remained below the 10-year average.

For the quarter, SERS posted a net investment loss of 1.27%, which was 0.72% higher than the benchmark. Global equities, global fixed income, and global real assets posted losses for the quarter while the global private equity, global private credit, and opportunistic and tactical portfolios registered gains.

SERS continues to compare favorably with other U.S. pension plans in terms of gross returns over the 3-year (4<sup>th</sup>) and 5-year (2<sup>nd</sup>) periods and doing so with less risk.

### Investment Committee Approves Three Investments

The SERS Staff Investment Committee approved a \$75 million commitment to Barings EPLF IV, a direct lending strategy within the private credit portfolio; a \$50 million commitment to Pinnacle Natural Resources, a long/short commodities strategy within the opportunistic portfolio; and a \$100 million commitment to a fixed income ETF trading account within the fixed income portfolio.

These investments will be funded from cash reserves.

### Total Fund Update

TOTAL FUND BALANCE		
August 31	September 30	Difference
\$17.81 billion	\$17.46 billion	▼ \$350 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▼ 1.27%	▲ 4.38%	▲ 8.23%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▲ 0.72%	▲ 0.25%	▲ 1.94%

### Executive Director's Update

#### ORSC Update and State Legislation

At the Ohio Retirement Study Council (ORSC)'s November meeting, Sen. Mark Romanchuk was elected chair.

The ORSC reviewed current pension-related legislation, including HB 257, the bill that would permit retirement systems to create a policy allowing remote participation by Board members in virtual meetings.

SERS provided proponent testimony in late October before the House Government Oversight Committee on HB 257. The bill was passed out of the committee earlier this month and is headed to the House floor for action.

Also at the meeting, ORSC members requested historical data regarding the evolution of key pension system metrics. SERS researched and compiled this data during the Board's sustainability discussions several years ago.

Many documents, including timelines and handouts outlining SERS' financial, demographic, and health care information for each decade, are available on [SERS' website](#).

SERS staff recently met with Sen. Romanchuk to share an overview of SERS. Staff provided these historical documents, as well as a summary of the sustainability work and analysis conducted by the Board.

As mentioned in [last month's Board Meeting Highlights](#), the Ohio Police & Fire Pension System (OP&F), State Teachers Retirement System of Ohio (STRS), and Ohio Public Employee Retirement System of Ohio (OPERS) recently announced plans to pursue legislation to increase employer contributions to address funding challenges.

Staff reiterated to Sen. Romanchuk that SERS is not seeking to increase contribution rates for its employers or members.

Earlier this month, sponsor testimony was held on HB 4, the anti-ESG bill that was introduced in the House. Prior to the sponsor testimony, the House Financial Institutions Committee adopted a substitute version that is far-reaching.

The fundamental focus of SERS' investment program is to generate the best returns with a reasonable amount of risk. While SERS does not have mandatory ESG investment strategies, this legislation could have a substantial impact on the proxy voting side.

Executive Director Richard Stensrud has previously expressed caution regarding broad anti-ESG provisions as they could hinder the ability to make prudent fiduciary decisions.

### **A Closer Look at Member and Retiree Data**

Stensrud addressed some key data that was presented in the [FY2023 Annual Actuarial Valuation](#).

SERS members are the lowest paid of all five Ohio retirement systems:

- 80% of members make less than \$40,000 per year
- 48% of members make less than \$20,000 per year
- 28% of members make less than \$10,000 per year

SERS members are working long careers:

- 73% of 2023 retirees had 20 years or more of service
- 52% of 2023 retirees had 25 years or more of service
- 29% of 2023 retirees had 30 years or more of service

Finally, 57% of 2023 retirees were age 65 or older at retirement.

While a SERS pension is a valuable lifetime benefit, its members are not retiring young and receiving lavish benefits. The recent actuarial valuation shows the financial reality of the hardworking people who serve our schools.

### **Board Continues Discussions on Compensation**

At the request of the Board, SERS' staff presented research findings of how the State Teachers Retirement System of Ohio (STRS) and four pension funds in other states with membership like SERS define pensionable compensation.

The Board asked staff to draft amendments to the compensation rule for further discussion at an upcoming Board meeting.

**Monthly Retirement and Survivor Benefit Transactions**

For November, the SERS Board approved 652 active members for service retirements, and 8 survivor benefits for spouses and/or dependents.

**December Meeting Dates**

The next Board meeting will take place Thursday, December 21, and Friday, December 22, at 8:30 a.m. (if necessary).