

SERS Retirement Board Meeting Minutes

November 16, 2023

The nine hundredth and sixty-fourth 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, November 16, 2023.

Pledge of Allegiance

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

Moment of Silence

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 earlier this week.

Roll Call

Following the Moment of Silence, 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 via Zoom was Lisa Reid, representative of the Ohio Attorney General's Office. Various members of the SERS staff and the public attended in person. Several SERS staff members and members of the public attended virtually.

Approval of Out-of-State Board Travel

Barbra Phillips moved and Catherine Moss seconded the motion that the travel request by a Board Member to travel and receive reimbursement for the following out-of-state conference and meeting expenses be approved.

Conference	Attendee	Conference Date(s)	Conference Location	Estimate of Expenses
IFEBP Health Care Management Conference	James Rossler	March 3 – March 5, 2024	Rancho Mirage, CA	\$3488.73
IFEBP Investments Institute	James Rossler	March 6 – March 7, 2024	Rancho Mirage, CA	\$2511.27

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.

Consent Agenda

The consent agenda for **November 16, 2023**, included:

- Minutes of the October 19, 2023, Retirement Board meeting
- Summary of Investment Transactions for the period of September 1, 2023, to September 30, 2023
- Retirement Report – Superannuations, Survivor Benefits, and Transfers
- Disability Report – Approval of Disability Benefits, Termination of Disability Benefits - Any Occupation

Catherine Moss moved and James Haller seconded the motion to approve the Consent Agenda of the Retirement Board meeting held on Thursday, November 16, 2023. 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.

SERS Retirement Board Meeting Minutes

November 16, 2023

Executive Director's Report

Pension and Health Care Annual Actuarial Valuations

John Garrett, Todd Green and Alisa Bennett from Cavanaugh Macdonald Consulting, LLC provided the board with a presentation of the results of the FY2023 Pension and Health Care Actuarial Valuations. Mr. Green explained that the SERS pension plan has an actuary to develop a strategy to systematically fund the promised benefits of the system, measure assets and liabilities (future benefit payments), determine actuarial contribution rates, analyze experience (actual vs. expected), and report on trends, risks, accounting, etc. Ms. Bennett continued, stating that for a defined benefit pension plan, the ultimate value of future cash flows cannot be predicted with certainty. To estimate the probability and the likely cost of a future event such as disability, retirement, or death, actuaries need to make assumptions about turnover, retirement, and mortality.

Mr. Green continued, reporting while the investment performance in FY 22-23 was slightly below the investment return, assumption, due to the continued phase-in of the strong investment performance in FY 20-21, the actuarial value of assets is greater than the market value of assets by \$126.9 million as of June 30, 2023. As a result, the funded ratio based on the actuarial value of assets is 76.61%, which is higher than the 76.06% funded ratio based on the market value of assets.

Mr. Green also noted several key findings:

- Funded status for Basic Benefits increased from 75.48% to 76.61%.
- The actuarially determined contribution rate decreased from 11.22% to 10.57% for Basic Benefits.
- The board-adopted funding policy requires at least a 13.50% employer contribution rate for funding of Basic Benefits since funded ratio is greater than 70%, but less than 80%.
- Based on a board resolution dated September 21, 2023, the entire employer contribution of 14% will be allocated to Basic Benefits.
- Based on Board Resolution, 2.50% COLA has been adopted for calendar year 2024
- Health Care Fund will receive the 1.50% employer surcharge, with no additional contribution from employers.

Ms. Bennett continued, noting that the impact of the COVID-19 pandemic and the Inflation Reduction Act were considered in this valuation and no specific adjustments were made other than healthcare trend assumption. The morbidity assumption recognizes that healthcare costs, on average, increase with age and this assumption was updated to a newer study with sex-distinct rates. New morbidity factors were updated based on the Society of Actuaries' research report and the American Academy of Actuaries ASOP 6 practice note.

Ms. Bennett reported the Inflation Reduction Act reforms primarily impact those who have Medicare coverage. The Inflation Reduction Act allows the Secretary of Health and Human Services to negotiate the prices of certain Medicare drugs each year. The negotiations will take effect in 2026 for 10 drugs covered by Medicare, increasing to 20 drugs in 2029. Beginning in 2023, the cost of insulin will be capped at \$35 per month for people with diabetes enrolled in Medicare and it is anticipated that there will be changes to cost of insulin for active and pre-Medicare retirees in the commercial market.

Ms. Bennett also noted that beginning in 2025, out-of-pocket prescription drug costs will be capped at \$2,000 per year for Medicare beneficiaries. The bill also implements a three-year extension on increased health insurance subsidies for coverage purchased through Marketplace Exchange. These enhanced subsidies were originally provided as part of the American Rescue Plan Act, a COVID-19 relief bill, and were set to expire at the end of 2022. Ms. Bennett also reported the funded ratio for the healthcare fund was 45.36% as of June 30, 2022, and funded ratio is 46.14% as of June 30, 2023. The increase was due to demographic, asset and claims experience and change to disability subsidization and assumed Wraparound Plan participation.

Following several questions and a robust discussion, the board thanked the actuaries for their presentation.

SERS Retirement Board Meeting Minutes

November 16, 2023

Allocation of Employer Contributions

Barbra Phillips moved and James Haller seconded that after review and discussion of the actuary's Report on the Annual Basic Benefits Valuation of the School Employees Retirement System of Ohio (prepared as of June 30, 2023) at the November 2023 Board meeting, the Board accept the actuary's recommended allocation of the 14% employer contribution for fiscal year 2024 as follows: Pension Fund (10.06%), Death Benefit Fund (0.04%), Medicare B Fund (0.47%) and Health Care Fund (0.00%). The Board decided at the September 2023 Board meeting that no allocation from the 14% employer contribution should be made to the Health Care Fund in fiscal year 2024, preferring instead to enhance the funding levels for Basic Benefits. The remainder (3.43%) of the 14% employer contribution will be allocated proportionately to the Pension Fund, Death Benefit Fund and Medicare B Fund 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, Barbra Phillips, James Rossler, Aimee Russell, Daniel Wilson, and Frank Weglarz. The motion carried.

Amended SERS Solicitation to Employees Policy

SERS Human Resources Director, Michelle Miller, reviewed the Solicitation to Employees Policy ("Solicitation Policy") with the board. The Solicitation Policy is jointly owned by the Board and Human Resources and sets forth appropriate instances for solicitation to employees. Proposed amendments (which have been reviewed by SERS' outside employment counsel) include more detailed examples of approved charitable solicitations by staff, the addition of electronic bulletin board posting parameters, and the addition of corrective action for violating the policy. The essence of the Solicitation Policy has not changed.

Board member Daniel Wilson asked that the word "PTA" be changed to reflect the current term, "PTO", which is more commonly used. SERS staff agreed to make the requested change.

It was moved by Jeffrey DeLeone and seconded by Catherine Moss to amend the SERS Solicitation to Employees Policy as recommended by staff and discussed at the November 2023 Board meeting. The effective date for the amended SERS Solicitation to Employees Policy is November 16, 2023.

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.

Ethics Policy Review

SERS General Counsel Joe Marotta reviewed the SERS Ethics Policy, which is reviewed on a biennial basis. It was last reviewed in December 2021 and last amended in December 2019 with the assistance of the Ohio Ethics Commission and following review by the Ohio Retirement Study Council. At this time, staff has no proposed edits for the Ethics Policy, therefore no formal action is necessary.

The board took a break at 9:55 a.m.

The board reconvened at 10:12 a.m.

Executive Director's Update

SERS Executive Director, Richard Stensrud, provided an update on the recent publications and communications provided to employers by the SERS Communications team. Staff communicates with employers about board decisions and policies that affect employer contributions to ensure everyone understands how the changes will be executed.

SERS Retirement Board Meeting Minutes

November 16, 2023

ORSC

Mr. Stensrud continued his report, stating that the ORSC met on November 9. Senator Romanchuk, the newly elected Chair, expressed hope that Senator Schuring might return to the role in the future. Also, during the meeting, several systems presented their budgets. There was also a review of current pension-related legislation, including HB 257, which would allow remote meeting participation for system board members. Mr. Stensrud also reported that he and other SERS staff met with Senator Romanchuk to share SERS pension sustainability information, such as charts and data provided in past board meetings. Senator Romanchuk was impressed and thinks SERS is doing great work by providing information and data about the past to better understand where SERS is going in the future. Board member Catherine Moss expressed her gratitude for the data and appreciates it being readily available for anyone who has questions.

State Legislation Activity

Mr. Stensrud continued his report stating that HB296 was introduced to increase the employer contributions for OP&F. During the hearings, several questions were asked, including the question about how the increased costs would impact the fund. This bill will continue to be an element of discussion going forward. Mr. Stensrud advised Sen. Romanchuk at their meeting that SERS is not looking for an increase and is comfortable with the current employer contribution rates.

Senator Schuring introduced HB4, which was introduced last year in a placeholder format. It is far ranging Anti-ESG legislation. Mr. Stensrud stated this bill requires SERS staff to get a better understanding as to what the bill would require or what the bill would prohibit. This bill, if passed, would not affect how SERS currently invests (we don't have ESG guidelines) but the bill could affect who we invest with. Mr. Stensrud also reported that this bill could affect the proxy voting side. Mr. Stensrud assured the board that staff will continue to learn about the possible outcome of this bill passing and will keep the board updated.

Mr. Stensrud continued, reporting that SERS provided proponent testimony on October 24th before the House Government Oversight Committee on HB 257, a bill that would permit retirement systems to create a policy allowing remote participation by board members. The bill also includes authority for virtual meetings for several other public entities. There has been no opposition to the legislation so far and the ORSC is supportive of the legislation. The bill was voted out of committee earlier this week and Mr. Stensrud will keep the board updated on the progress of the bill.

Executive Session

Matthew King moved and James Haller seconded the motion that the Board convene in Executive Session pursuant to R.C. 121.22 (G)(5) to discuss a matter required to be kept confidential by law.

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.

The board convened in executive session at 10:26 a.m.

The board reconvened in open session at 11:43 a.m.

Member Services and Employer Services Activities

Mr. Stensrud continued his report, stating that SERS staff continue to reach out to members and employers to provide information and training. SERS staff host monthly webinars and training to remain actively engaged with members and employers and continue to provide the best possible service.

SERS Retirement Board Meeting Minutes

November 16, 2023

Actuarial Valuation

Mr. Stensrud continued his report by providing some additional context around the data presented in the actuarial valuation. Mr. Stensrud stated SERS retirees are the lowest paid of all five Ohio retirement systems. In addition, Mr. Stensrud provided the following data points:

- 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
- 28% of retirees receive less than \$10,000 per year

Mr. Stensrud also reported 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

Mr. Stensrud reported 57% of 2023 retirees were age 65 or older at retirement.

Mr. Stensrud continued, stating that the Health Care fund is at \$705M, which is the highest level ever for the Health Care fund. Mr. Stensrud thanked the board for making such prudent decisions over the years.

Administrative Expenses

SERS Chief Financial Officer, Marni Hall, provided a review of the first quarter budget-to-actual administrative expenses for SERS. Ms. Hall stated SERS is on track to being on or under budget. Ms. Hall also noted there will be an audit update at the December board meeting. With no questions, the board thanked Ms. Hall for her report.

Executive Session

James Rossler motioned and Catherine Moss seconded the motion that the Committee convene in Executive Session pursuant to R.C. 121.22 (G)(2) to discuss the sale of property.

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.

The board convened in executive session at 11:56 a.m.

The board reconvened in open session at 12:30 p.m.

The board took a lunch break at 12:30 p.m.

The board reconvened after lunch at 1:05 p.m.

Investment Report

Annual Portfolio Review - Fixed Income

SERS Chief Investment Officer, Farouki Majeed, provided an update of the fixed income portfolio's structure and performance, and provided details on a new initiative.

Mr. Majeed reported SERS' fixed income portfolio currently 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

SERS Retirement Board Meeting Minutes

November 16, 2023

interest rates have stabilized, staff has begun to take advantage of opportunities that will get the portfolio closer to its target.

Mr. Majeed stated for the first time in SERS' history, staff is now managing Exchange Traded Funds (ETFs) in house. SERS Investment Staff is managing three ETFs with a value of approximately \$13 million. These funds are comprised of government Treasuries. All of SERS' external fixed income managers are short on government assets, so these new ETFs provide some diversification in the fixed income assets.

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 (market debt, high yield, dislocation strategies, and fixed income relative value). 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. Following the presentation, the board thanked Mr. Majeed and the Investment Staff for their report and continued hard work.

Wilshire Quarterly Performance Report as of September 30, 2023

Joanna Bewick of Wilshire Associates provided a quarterly performance update. Ms. Bewick reported during the last quarter, the U.S. stock market was down 3.3%, but up 20.5% for the past 12 months and large cap stocks outperformed small cap stocks and value outperformed growth.

Ms. Bewick continued, stating that 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.

Ms. Bewick also reported SERS continues to compare favorably with other U.S. pension plans in terms of gross returns over the 3-year (4th) and 5-year (2nd) periods and continues to do so without taking on more risk. Following several questions and a robust discussion, the board thanked Ms. Bewick for her report.

Quarterly Investment Report as of September 30, 2023

Mr. Majeed provided a brief presentation on the quarterly investment report, adding more detail to the Wilshire report. Mr. Majeed reported that this year, SERS has had strong returns but October returns were negative, down by 1.46%. However, for the fiscal year, the fund is ahead of the benchmark by 2 basis points. Following his report and several questions, the board thanked Mr. Majeed for his presentation.

Definition of Compensation Discussion

Mr. Stensrud opened the discussion with a review of previous requests. The board asked SERS staff to look into and provide information on how other pension systems in other states define compensation.

Joe Marotta, SERS General Counsel, stated per the board's directive, SERS legal staff spent time looking at other systems to see how they define compensation. Legal staff selected several systems of interest, including STRS, and 2 regional systems with non-teaching jobs from Michigan and some in Louisiana, who have mostly non-social security employees.

SERS Retirement Board Meeting Minutes

November 16, 2023

Susan Russell, SERS Associate General Counsel, reviewed the definition of compensation and provided the current definition of compensation. She also noted some definitions are rules and others are statutory.

Compensation is defined in R.C.3309.01(V) and O.A.C. 3309-1-02 and includes:

- Salary, wages, and other earnings as set forth in rule by the retirement board (statute)
- Payments to an eligible retirement plan (deferred compensation) (rule)
- Back wages (rule)
- Differential wage payments (school earnings v. military pay) (rule)
- Longevity payments (rule)
- One time or lump sum payment to all persons in a class of employees in lieu of salary or wage increase per a written contract (rule)
- One time or lump sum payment for additional services (rule)

Ms. Russell continued, stating compensation does not include:

- Unused leave pay (statute)
- Concurrent vacation pay (statute)
- Unused compensatory time (rule)
- Amounts paid by employer for insurance (statute)
- Incidentals (lodging, food, parking, laundry, use of employer's property or equipment, reimbursement of expenses) (statute)
- Payments in excess of IRC 401(a)(17) annual limits (statute)
- Leave of absence pay for military service (statute)
- Payments paid in consideration of retirement (statute and rule)
- One-time or lump sum payment not based on rate of pay (rule)

Ms. Russell noted the Legal team reviewed systems in 20 states plus Ohio. Some key takeaways from the reviewed systems are:

- Many systems include performance-based incentive payments when based on contract terms setting forth objective standards.
- Most systems do not include unused vacation, sick, or personal leave cash outs.
- There is a wide range of pensionable compensation definitions.

Following a robust discussion, the board asked legal staff to provide a revision to the rule to be voted on at the next meeting. Legal will provide a new rule for consideration at the next meeting and from there, the board can work on additional details. The board thanked the legal staff for their presentation and hard work.

Board Communication and Policy Issues

Board Information Request & Follow Up Items

The board requested that a new rule for allowed pensionable compensation be provided at the next board meeting.

Calendar Dates for Future Board Meetings

Mr. Stensrud reported that the SERS annual board retreat is scheduled for Friday, February 16, 2024, and Dr. Basu will be attending again, as he was very well received at last year's retreat.

Mr. Stensrud also advised the board that the Juneteenth holiday, which falls on Wednesday, June 19, 2024, conflicts with the quarterly Audit Committee meeting. The board agreed to have the Audit and Technology Committee meetings on Thursday, June 20, 2024, and have the Compensation Committee meeting and the Board meeting on Friday, June 21, 2024.

The board reviewed the meeting dates for 2024.

SERS Retirement Board Meeting Minutes

November 16, 2023

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.)

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

Adjournment

Board Chair, Frank Weglarz, moved to adjourn to meet on Thursday, December 21, 2023, at 8:30 a.m. for the next SERS regularly scheduled Retirement Board meeting.

The SERS board meeting adjourned at 3:19 p.m.

Frank Weglarz, Board Chair

Richard Stensrud, Secretary