



# SERS UPDATE:

## SUSTAINABILITY EDITION

FOR MEMBERS AND RETIREES

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

DECEMBER 2019

## PENSION FUND SUSTAINABILITY: WHAT DOES IT MEAN?

### Keeping Finances Strong

Keeping SERS financially strong is the Board's fiduciary duty and number one priority. You expect that SERS will protect and grow your contributions so you can receive a retirement benefit that is proportional to your school service. We expect to remain financially strong for future members and retirees too. To meet these expectations, this sustainability initiative is designed to make sure SERS' financial resources continue to be available to provide a solid foundation of retirement security for all SERS members who have earned it.

### SERS is Financially Stable

Working from the position of a healthy pension fund, the Board wants to take the time to be prepared to strengthen the system before financial or legal mandates would require them to act. There is no preconceived outcome associated with these sustainability discussions.

We recognize and appreciate the sacrifices made by SERS' membership following the Great Recession. Changes to age and service requirements and the cost-of-living adjustment were necessary and effective in keeping SERS financially stable in an uncertain economic environment. We are proud of our history of being transparent and inclusive when discussing System changes and this process will be no different. Regular sustainability progress updates will be available on our website and stakeholder input will be an essential element of the discussions.

### Sustainable and Adaptable

To maintain sustainability and adaptability of the System, the Board has begun regular discussions on plan design to make sure SERS is in position to withstand changes in member demographics, investment experience, and financial pressures. At the core of these discussions, the Board is scrutinizing

SERS' plan design to make sure the benefits SERS provides – pensions, health care, disability, survivor benefits, death benefits, etc. – are still working as they should in relation to the current demographics of the membership. They are also looking for operational efficiencies that could benefit the System financially and monitoring membership and retirement trends that could impact the future financial stability of the System.

### Pensions and Health Care are Important

The Board is engaging in discussions on pension and health care sustainability simultaneously because SERS' funding policy is structured so that funding for health care increases as the pension system becomes better funded. No timetable has been set for the completion of these discussions.

The importance of this sustainability initiative is detailed in SERS' recently completed Strategic Plan FY2020-FY2024, which is available on our website at [www.ohsers.org/about-sers/mission-core-values/](http://www.ohsers.org/about-sers/mission-core-values/).

### Working for You

Did you know that for **every \$1** in employer contributions SERS received in FY2019, **\$2.43** was returned to local economies?

Defined benefit payments matter.

### GET TO KNOW SERS



## SERS' INVESTMENTS ARE PRUDENTLY MANAGED

SERS' investment performance over the last decade ranks in the top 25% of all U.S. funds with \$1 billion or more in total assets according to an independent report issued by RVK, the Ohio Retirement Study Council's investment consultant. SERS' gross of fees returns for the Total Fund ranked 20th over one year, 8th over three years, 2nd over five years, 4th over seven years and 20th over ten years. This report for the period ended 9/30/2019 can be found on the ORSC's website at [www.orsc.org](http://www.orsc.org) under ORSC Reports/ Investment Performance.

Similarly, Wilshire Consulting, SERS' independent investment consultant, measured SERS' Total Fund investment performance against the entire population of U.S. public pension plans and found that SERS' investment returns ranked 23rd over one year, 6th over three years, 4th over five years, and 9th over 10 years.

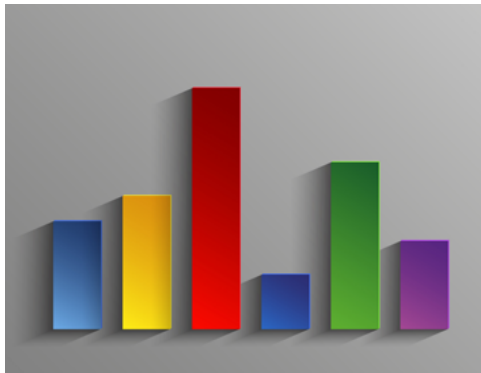


Get to Know



### SERS' Investment Staff is *Working for You*

Over the last five years, staff has **reduced** investment fees by 17%, **saving** SERS **more than \$61 million.**



### *SERS' Investment Staff is Working for You*

An American Investment Council survey ranked SERS **#2 in the nation** for private equity returns over 10 years with a **return of 13.1%**. The median for all U.S. pension funds was 8.6%.

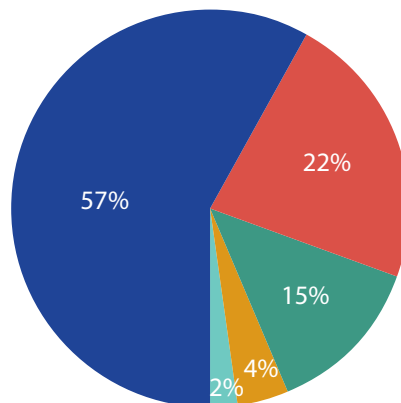
## WHERE PUBLIC PENSION FUNDING COMES FROM

SERS Sources of Revenue, FY2018

### SERS Contribution Rates

10% Employee

14% Employer



- Investment Returns
- Employer Contributions
- Employee Contributions
- Health Care Premiums
- Other

## HEALTH CARE FUNDING CONTINUES TO GROW

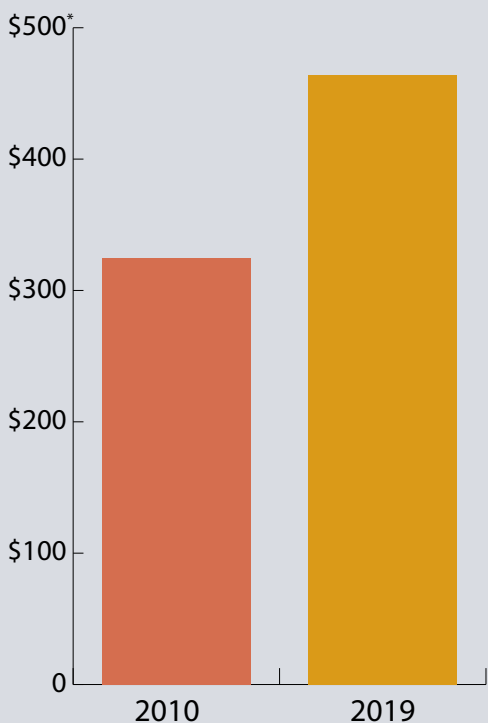
With only 0.5% of the 14% funding from employer contributions in FY2018 and FY2019 and 0% in FY2016 and FY2017, SERS' health care staff has been able to manage premiums and negotiate prescription drug costs so that the health care fund is projected to remain funded through 2034. In addition, the health care fund balance has increased from \$325 million in 2010 to \$464 million in 2019.



# 2034

YEAR THE HEALTH CARE FUND  
IS PROJECTED TO REMAIN  
FUNDED THROUGH

### HEALTH CARE FUND BALANCE



\*Dollars in Millions



## UNDERSTANDING DEMOGRAPHICS

During the sustainability initiative, the Board has expressed interest in gaining deeper insight into all of SERS' participant populations: active members, retired members, inactive members, disability recipients, survivors, and beneficiaries.

SERS' active member population has generally increased over time, but a decline of nearly 4% between 2010 and 2014 captured the attention of the SERS Board. Was this a delayed effect from temporary belt-tightening caused by the Great Recession (2007-2009)? Was this the beginning of a permanent contraction trend brought about by cost-saving consolidation within school districts? Was technology responsible for replacing human jobs with automation? These are some of the questions the Board expects to address during the sustainability discussions. Since 2014, SERS' active member population has continued to grow, albeit gradually. Over the last three years, active membership has grown, but only by 0.01%.

For the retiree population which includes disability retirees, the Board is digging deeper on age and service time at the time of retirement and how recent experience compares to past decades.

Another subgroup that the Board is interested in monitoring more closely is inactive members. These are people who have contributions in the retirement system but have not paid in for more than 12 months. SERS has nearly 242,000 inactive members. Nearly 88% have not contributed to SERS for more than five years. The Board is interested in learning more about how many inactive members have enough service time to receive a benefit and at what ages inactive members are most likely to refund their contributions.

## EVEN THOUGH SERS IS FINANCIALLY STRONG...



**Increasing SERS' funded level is a priority.** While SERS' funded level has increased from 63% in FY2012 to 70.7% in FY2019, the Board is looking for ways to accelerate this improvement. At 70%, the funded status is at the lowest level at which some employer contributions may be used to support health care per the SERS Funding Policy. The Board has set 90% funded as the goal at which the greatest percentage of employer contributions may be used to fund health care. The better funded the System is, the easier it will be to withstand an economic downturn or unexpected negative investment experience.



**SERS' demographics are changing.** The Board is examining the financial impact of the following demographic trends:

- a. Currently, more than 19% of SERS' retiree population has lived longer in retirement than they contributed to the System
- b. 57% of SERS' retirees since 2010 have retired with 20 or more years of service credit, more than twice as much as retirees in the 1970s
- c. In FY2019, SERS had 150 retirees age 100 or older compared to 67 in 2010



**Investment returns are projected to be lower over the next 5-10 years.** SERS' investment consultants have indicated that the U.S. economy is in the final stages of the current business cycle, which could lead to lower investment returns.