



*SCHOOL EMPLOYEES
RETIREMENT SYSTEM OF OHIO*

***SUMMARY
ANNUAL
FINANCIAL
REPORT***

*FOR THE YEAR ENDED
JUNE 30, 2014*

Serving the People Who Serve Our Schools®

INTRODUCTION

On behalf of the Board and staff of the School Employees Retirement System of Ohio (SERS), I am pleased to share with you this *Summary Annual Financial Report* (SAFR).

We developed this publication to provide an overview of the financial health, investment performance, demographics, and key accomplishments of the last fiscal year. All of the financial information summarized in this publication can be found in more detail in our *Comprehensive Annual Financial Report* (CAFR), which can be viewed on our website at www.ohsers.org.

Important accomplishments include:

- Implementation of the Retiree Estimated Payments program, which shortens the delay between a member's last day of work and their first pension payment
- Outreach to SERS' higher need health care benefit recipients to help them determine if any of the new Marketplace and Medicaid coverage options better fit their needs and budget
- Implementation of a remote counseling program that allows members to schedule counseling appointments at sites closer to their homes instead of having to travel to Columbus
- Addition of vision coverage for 2014 in which 9,299 retirees enrolled
- Preparation of educational materials for media and legislators about the potential effects the Governmental Accounting Standards Board (GASB) statements 67 and 68 will have on communities
- SERS applied for and received a Leadership in Energy and Environmental Design for Existing Buildings (LEED-EB®) award from the U.S. Green Building Council (USGBC), and the SERS building became the 5th LEED-EB certified building in Columbus and the 32nd in Ohio
- Completion of an independent actuarial study by Pension Trust Advisors and KMS Actuaries, LLC, which confirmed that SERS' actuarial operations are "reasonable, consistent, and accurate"

SERS has established a reputation for providing retirement security to its members in a fiscally responsible way. We remain dedicated to delivering high quality service by phone, in written communications, and in person.



Lisa J. Morris, *Executive Director*

“The mission of SERS is to provide our members, retirees, and beneficiaries with pension benefit programs and services that are soundly financed, prudently administered, and delivered with understanding and responsiveness.”

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO RETIREMENT BOARD

JAMES A. ROSSLER, JR
Chair, Appointed Member

DANIEL L. WILSON
Vice-Chair, Appointed Member

DEBRA J. BASHAM
Employee-Member

NANCY D. EDWARDS
Appointed Member

MADONNA D. FARAGHER
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CHRISTINE D. HOLLAND
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CATHERINE P. MOSS
Retiree-Member

BARBRA M. PHILLIPS
Employee-Member

FRANK A. WEGLARZ
Retiree-Member



Government Finance Officers Association

Award for Outstanding Achievement in Popular Annual Financial Reporting

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School Employees Retirement System of Ohio

FINANCIALS

SERS is a defined benefit public pension plan. This means that SERS provides a specific, lifetime pension benefit based on a member's age, amount of service credit, and average of the member's highest three years of salary. SERS works with an actuary to calculate the future costs of these benefits when the member retires. The actuary also calculates how much of the employer contributions must be dedicated to pension benefits before health care benefits are funded. In FY2014, 13.86% of the 14% employer contribution rate was necessary to cover the costs of pensions and the remaining 0.14% was devoted to health care.

SERS has five main sources of income: employer contributions, member contributions, investment income, health care premiums, and Medicare subsidies for retiree prescription drugs.

In 2014, the largest addition to the fund came from net investment income.

Deductions from plan net assets refer to the expenses SERS covers each year. The main expenses are pension benefit payments, health care coverage, Medicare Part B reimbursements, refunds of employee contributions to members who leave SERS, and administrative expenses.

FY2014 financial highlights include:

- Total additions to SERS' assets were \$2.8 billion; \$875 million from contributions and a net investment gain of \$1.9 billion
- Total deductions were \$1.3 billion, an increase of 3.8% from FY2013
- The increase in net assets totaled \$1.6 billion, compared to \$993 million in FY2013

CONDENSED SUMMARY OF TOTAL FIDUCIARY NET POSITION (in millions)				
			Change	
	2014	2013	Amount	Percent
ASSETS				
Cash	\$ 738.4	\$ 502.5	\$ 235.9	46.9%
Receivables	278.3	275.7	2.6	0.9
Investments	12,760.5	11,459.9	1,300.6	11.3
Capital Assets, Net	55.9	51.8	4.1	7.9
Other Assets	0.2	0.1	0.1	100.0
Total Assets	<u>13,833.3</u>	<u>12,290.0</u>	<u>1,543.3</u>	<u>12.6</u>
LIABILITIES				
Benefits & Accounts Payable	15.0	17.1	(2.1)	(12.3)
Other Liabilities	583.4	593.1	(9.7)	(1.6)
Total Liabilities	<u>598.4</u>	<u>610.2</u>	<u>(11.8)</u>	<u>(1.9)</u>
Net Position	<u>\$ 13,234.9</u>	<u>\$ 11,679.8</u>	<u>\$ 1,555.1</u>	<u>13.3%</u>

This table depicts a summary presentation of the assets and liabilities of SERS as of June 30, 2014 and 2013. The Net Position shown is available for future payments of benefits to retirees, beneficiaries, and members of SERS.

CONDENSED SUMMARY OF CHANGES IN TOTAL FIDUCIARY NET POSITION (in millions)				
			Change	
	2014	2013	Amount	Percent
ADDITIONS				
Contributions	\$ 874.9	\$ 876.6	\$ (1.7)	(0.2)%
Net Investment Income	1,939.3	1,329.5	609.8	45.9
Total Additions	<u>2,814.2</u>	<u>2,206.1</u>	<u>608.1</u>	<u>27.6</u>
DEDUCTIONS				
Benefits	1,174.1	1,120.4	53.7	4.8
Refunds & Transfers	63.2	71.3	(8.1)	(11.4)
Admin. Expenses	21.8	21.5	0.3	1.4
Total Deductions	<u>1,259.1</u>	<u>1,213.2</u>	<u>45.9</u>	<u>3.8</u>
Net Increase	1,555.1	992.9	562.2	56.6
Balance, Beginning of Year	11,679.8	10,686.9	992.9	9.3
Balance, End of Year	<u>\$ 13,234.9</u>	<u>\$ 11,679.8</u>	<u>\$ 1,555.1</u>	<u>13.3%</u>

This table presents the additions and deductions to the net assets for FY2014 versus FY2013.

INVESTMENTS

The main goal of SERS' Investment Department is to ensure that assets are invested wisely. This is necessary so that pension benefits required by law and other benefits authorized by the Board, such as health care, are properly funded. SERS' investment portfolio is diversified; meaning that money in the fund is divided among many different investment types. This is important because different kinds of investments perform differently depending on the economic conditions. Diversification helps protect assets in bad economic conditions and increase assets during good economic conditions.

SERS' portfolio generated strong performance in FY2014. The Total Fund return of 17.28% (net) exceeded the benchmark by 1.71%. Over the last 30 years, SERS' investment returns have averaged 9.34%. All asset classes, except Non US Equity, outperformed their respective benchmarks. The opportunistic program, which launched last year, registered its first full year return of 11.43%.

SERS makes investments in six different asset classes: global equity, global fixed income, global private equity, global real assets, multi-asset strategies (MAS), and opportunistic.

Global Equity –Equities are investments in company stock. Equity investments usually increase or decrease in price depending on the company's financial performance. SERS' global equity allocation is split equally between US and non-US investments.

Global Fixed Income – SERS' global fixed income portfolio consists of 41% core assets (Treasuries, corporate bonds, and mortgages), 55% core plus assets (below investment grade corporate bonds, non-US debt, and emerging market debt), and 4% emerging market debt assets (bonds issued by less developed countries).

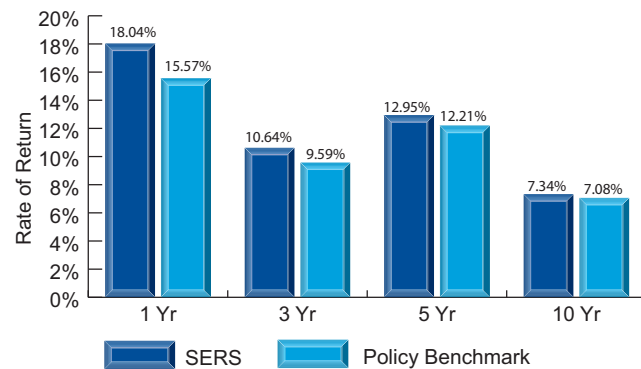
Global Private Equity – Private equity investments are usually direct investment in private companies that are reorganizing or growing, or situations where one company is buying another. Private equity investments often require long holding periods to allow for a turnaround of a distressed company or the sale of a company to another buyer.

Global Real Assets – SERS' global real assets portfolio is made up of a majority of real estate investments and some infrastructure investments. Real estate is divided into core strategies (properties that produce income through rents) and non-core strategies (those that appreciate in value over time).

Multi-Asset Strategies – Currently, about 90% of the MAS portfolio is comprised of hedge funds with the other 10% made up of multi-asset/multi-strategy investments (stocks in companies or bonds issued by government entities that are experiencing financial or operational distress, default, or are under bankruptcy).

Opportunistic – This asset class allows SERS to invest in short-term, non-traditional opportunities (such as direct lending) that do not fit within any of the other asset classes.

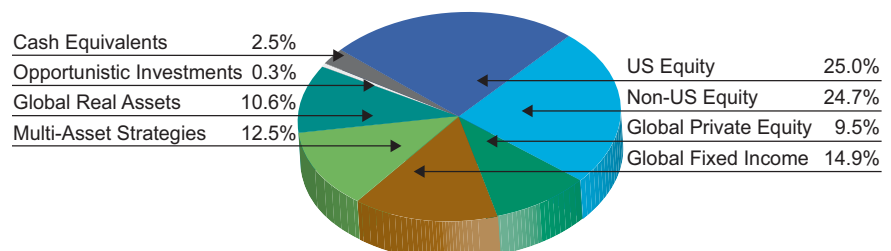
Total Fund Rates of Return vs. Policy Benchmark
(Gross of Fees)



Investment Summary as of June 30, 2014

	Fair Value
US Equity	\$ 3,214,456,856
Non-US Equity	3,163,552,975
Global Private Equity	1,228,657,176
Global Fixed Income	1,915,622,085
Multi-Asset Strategies	1,613,417,202
Global Real Assets	1,365,654,843
Opportunistic Investments	45,000,036
Cash Equivalents	321,071,177
Net Portfolio Value	\$ 12,867,432,350

Asset Allocation



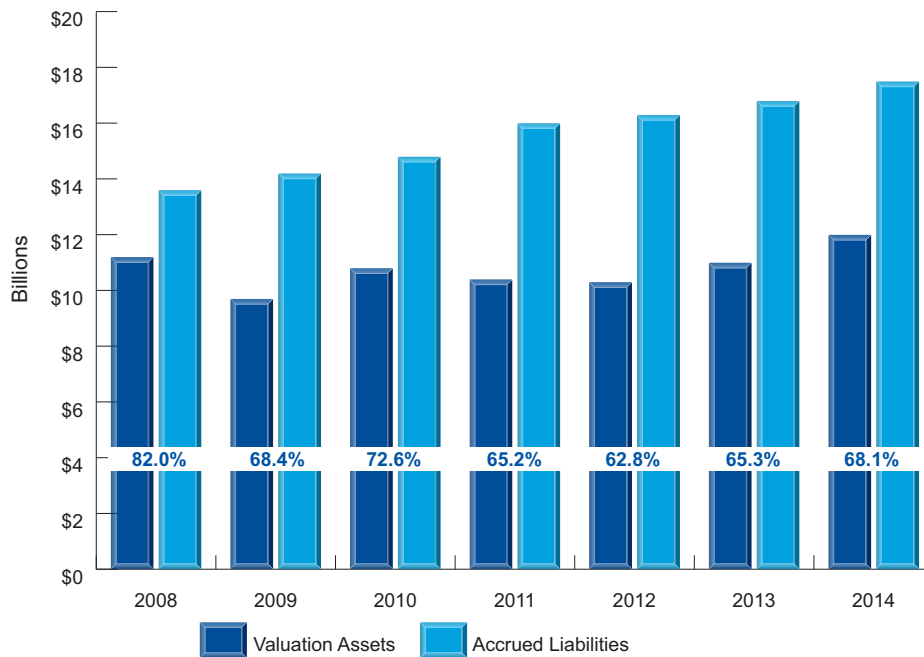
PENSION FUNDING

SERS' retirement benefits are funded with member contributions (10% of pay), employer contributions (14% of pay), and income earned from investment returns on those contributions.

The Pension Funding chart shows the available assets according to actuarial calculations to pay for accrued pension liabilities. The accrued pension liabilities are the estimated cost of providing all the benefits to current and future retirees. The percentages in the chart show SERS' funded status (ratio of assets to liabilities) in a given year. By Ohio law, SERS must be able to pay its liabilities within 30 years and currently is within that period.

Through a history of reasonable benefit levels and prudent investments, SERS continues to be financially sound.

Pension Funding



Total Net Position Last 10 Fiscal Years (in millions)

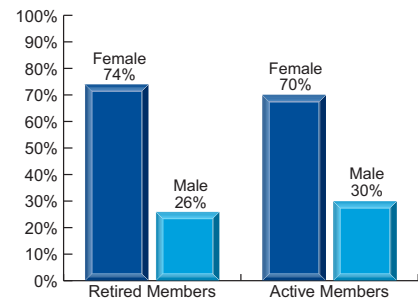


MEMBERSHIP

SERS' members include administrative personnel, bus drivers, food service workers, maintenance personnel, educational aides, treasurers, and other non-certified school employees who are vital to the operation of Ohio's schools. Our demographics are quite different from those of the other Ohio public retirement systems. SERS' members are predominantly women who begin their public employment at a later age, retire at an older age, and receive modest wages while working. These membership demographics drive the decisions the Board makes regarding pension design, benefits, vesting, contributions, investment, health care, and funding policies.

Retired Members by Type of Benefit			
	Service	Disability	Survivor
Average Monthly Benefit	\$1,116	\$1,333	\$669
Average Age	74.3	65.1	71.7

Gender Distribution



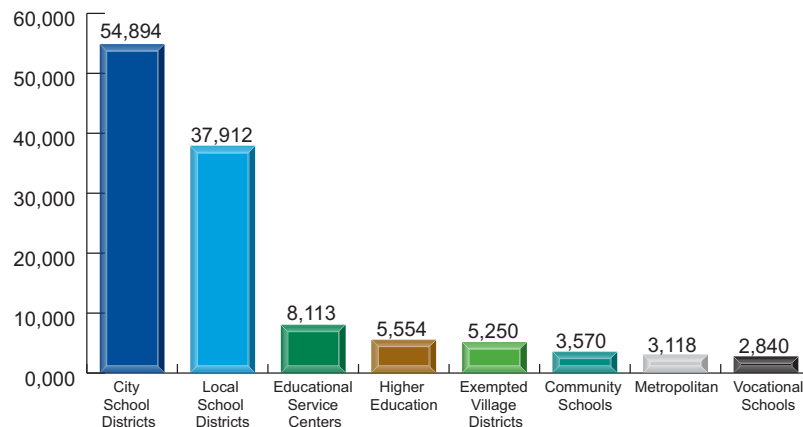
Average Active Member Statistics		
Age	Service	Annual Salary
48.6 years	10.0 years	\$22,757

Employee Membership Data (as of June 30)			
	2014	2013	2012
Terminated employees eligible but not yet receiving, and retirees and beneficiaries receiving benefits	79,654	78,017	81,648
Active employees	121,251	121,642	121,811

EMPLOYERS

More than 1,000 public schools within the state's cities, villages, and counties, as well as local school districts, vocational and technical schools, community schools, and the University of Akron, employ SERS' active members. Employers are responsible for creating membership records for all SERS members, reporting payroll, and processing employer, employee, and health care surcharge contributions.

Covered Employee Members



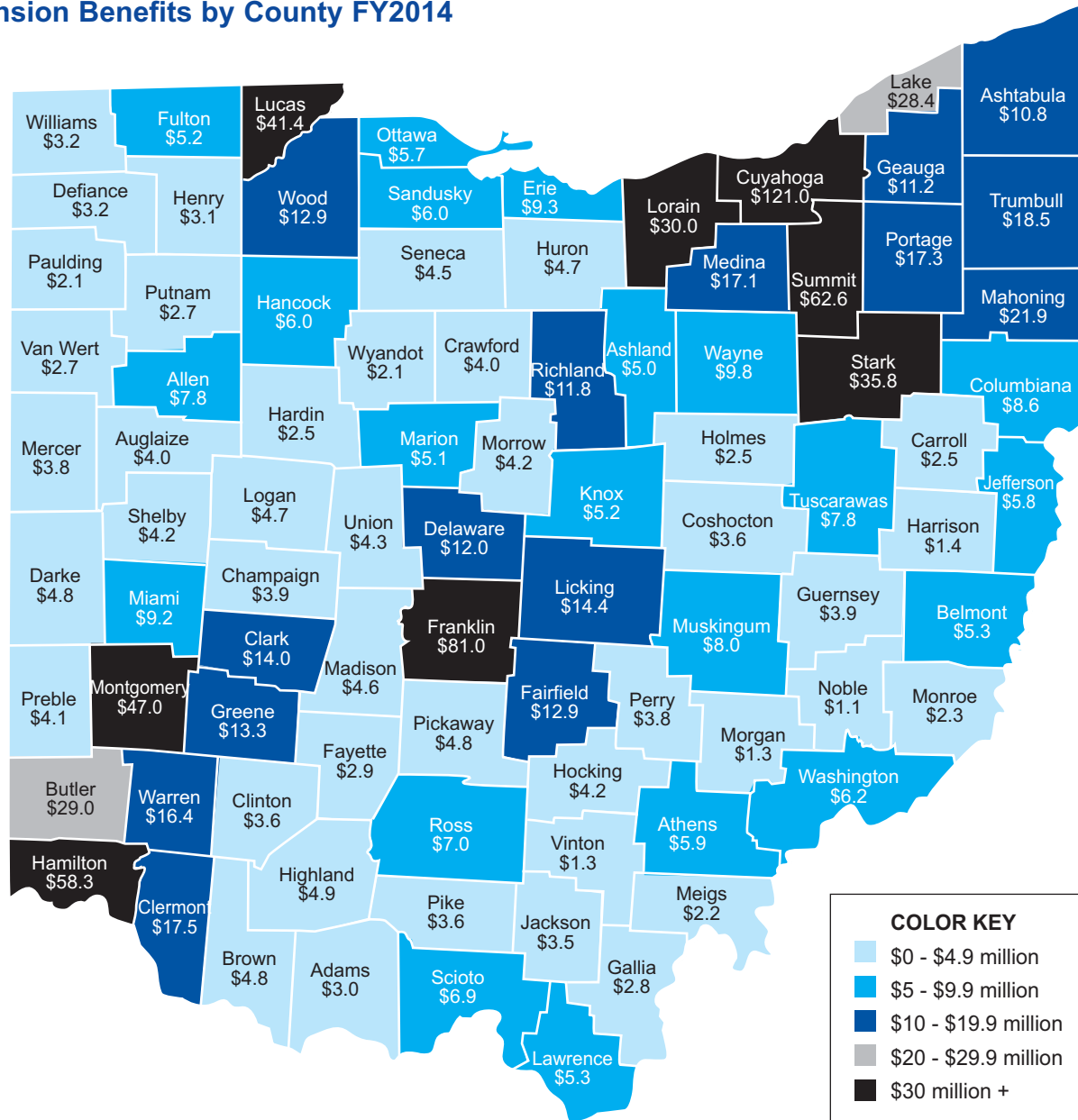
As of June 30, 2014, there were 121,251 covered employee members.

ECONOMIC IMPACT

Public pensions positively impact Ohio's economy. Of the 72,605 individuals receiving pension benefits from SERS, 92% live in Ohio.

In FY2014 alone, benefit payments of more than \$1 billion were distributed among Ohio's 88 counties, positively impacting the state's economy. For every dollar in taxpayer money invested in SERS' pensions last year, \$2.51 was returned to local economies.

Pension Benefits by County FY2014

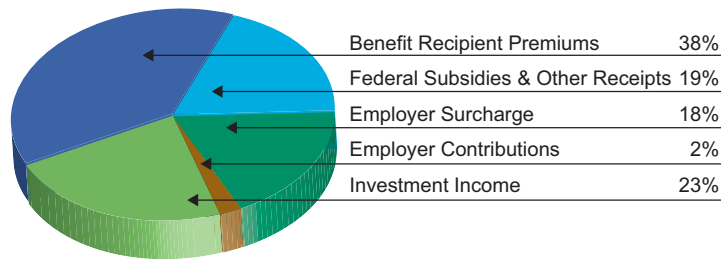


HEALTH CARE

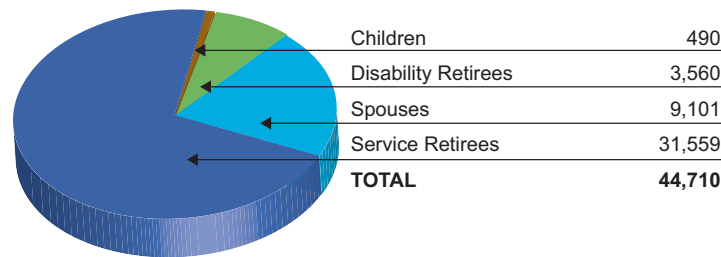
We know for many of our retirees that a secure retirement means more than a pension. Since 1974, SERS has worked to provide retirees access to group health care coverage.

The health care fund grew to \$414 million during the fiscal year. This was an increase of \$35 million. To fund health care, SERS uses investment income generated on the health care fund, employer contributions including a health care surcharge to compensate for low-wage salaries, and premiums. In FY2014, premiums remained the same or were lowered for most health care enrollees.

FY2014 Health Care Fund Income



FY2014 Health Care Participants



ABOUT SERS

Established in 1937, SERS provides pensions and access to health care coverage for the people who served Ohio schools. Our members are bus drivers, custodians, administrators, administrative assistants, food service providers, and educational aides – anyone who works for a school or school system in a nonteaching position. Our employers include public K-12 school districts, vocational, technical, and community schools, community colleges, and the University of Akron. Protecting and growing the retirement contributions of our members and their employers is our priority.

This *Summary Annual Financial Report* (SAFR) is produced from information contained in SERS' *Comprehensive Annual Financial Report* (CAFR). All financial information contained in the SAFR conforms with Generally Accepted Accounting Principles (GAAP). SERS' CAFR, however, contains more extensive information and is available on our website at www.ohsers.org.

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