# 2019 SAFR

School Employees Retirement System of Ohio

**Summary Annual Financial Report**
For the Year Ended June 30, 2019

School Employees Retirement System of Ohio
*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).

This publication summarizes SERS' organizational accomplishments and financial highlights for the period of July 1, 2018 through June 30, 2019. For more detail on the information contained in this publication, please read our *Comprehensive Annual Financial Report* (CAFR), which is available on our website at www.ohsers.org/about-sers/by-the-numbers/financial-reports/.

Noteworthy organizational accomplishments achieved during the fiscal year include:

- **Completing the five-year strategic planning exercise aimed at anticipating the future needs of members and retirees.** Staff efforts will be focused on six key areas: pension fund sustainability; health care sustainability; service delivery to members and retirees; operational efficiency; staff culture; and communications and stakeholder engagement.

- **Building a foundation for the Board's pension and health care sustainability discussions by collecting historical demographic data and organizing it into handouts and informational timelines.** The handouts contain information such as fund size, unfunded liabilities, membership statistics, contribution rates, age and service eligibility, retirement ages, final average salary, investment returns, health care statistics, and changes to SERS' benefit structure, while the timelines focus on member demographic changes, retiree demographic changes, health care changes, the point in time when SERS was 100% funded (1996), and the point in time when SERS began paying out more in benefits than it received in contributions (2000).

- **Engaging in federal advocacy to extend SERS' health care Wraparound Plan for retirees under age 65.** The advocacy included interactions with federal legislators, House and Senate committees, and personnel at the Centers for Medicare and Medicaid Services; and coordination of a grassroots effort to engage retirees in an email campaign that resulted in more than 1,600 emails being sent to 40 senate offices advocating for an extension to the Wraparound program.

- **Improving the performance of SERS' computer systems and security of electronic data.** Staff migrated SERS' email system to the cloud to reduce administrative maintenance, onsite storage demands, and infrastructure resources; upgraded security software on individual workstations; and completed a hardware and technology upgrade on SERS' Virtual Data Center.

- **Expanding employer education.** Staff produced fourteen videos on the topics of creating payroll schedules and contribution reporting that employers can use to train their employees on the operation of the eSERS computer system.

- **Controlling health care costs**. By implementing the Health Care Data Warehouse in 2019, staff can access critical information about both the costs and types of health services used, enabling SERS to evaluate strategies to control health care costs. The Board also approved an extension of the Express Scripts Pharmacy Benefits Manager (PBM) contract, reducing the overall cost to SERS.

- **Managing risks throughout the organization.** To expand our risk mitigation capabilities across the organization, SERS added a Chief Risk Officer (CRO) as a key management position. The CRO will work with IT staff to incorporate information security controls, and work closely with the Chief Audit Officer to identify and manage risks in other departments including investment volatility, impact of changing demographics on the funds, and changes to actuarial standards that could affect future valuations.

The heart and soul of every top-notch organization is its staff. SERS is no different. Our members and retirees are our top priority, and staff in all departments work together to provide retirement security for current and future SERS retirees. Call us. We're here to help.

While a SERS pension provides a solid foundation for retirement, it will not completely replace pre-retirement income. To maintain a pre-retirement lifestyle, personal retirement savings must be a part of the plan. At every stage of your career, there are actions you can take to improve your retirement security, and we regularly post information on our website, in our newsletters, and on our Facebook and Twitter accounts that may make a difference for you. Start following us today.

Finally, as mentioned above, the SERS Board will be engaging in monthly discussions regarding pension and health care sustainability. The goal is to ensure the System is in position to withstand changes in member demographics, investment experience, and financial pressures. We have created a sustainability page on our website at www.ohsers.org/about-sers/ that contains the results of the Board's discussions along with links to supporting materials, and we encourage members to visit often to stay informed as the Board makes governance decisions.



Richard Strensrud
*Executive Director*

# 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 FY2019, 13.5% of the regular 14% employer payroll contributions were allocated to the basic benefits in accordance with our funding policy. The remaining 0.5% was allocated to the health care fund. A health care surcharge that is capped at 1.5% of statewide employer payroll was also directed to the health care fund.

SERS has five main sources of income: employer contributions, member contributions, investment income, health care premiums, and Medicare subsidies. In FY2019, the largest addition to the fund came from contributions. 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.

FY2019 financial highlights include:

- Total additions to SERS' fiduciary net position $1.8 billion; $964 million from contributions and net investment income of $854 million.

- Total deductions were $1.5 billion, an increase of 1.7% from FY2018.

- The increase in fiduciary net position totaled $302 million, compared to a $721 million net increase in FY2018.

**CONDENSED SUMMARY OF TOTAL FIDUCIARY NET POSITION**

| ($ in millions) | | | Change | |
|---|---|---|---|---|
| ASSETS | 2019 | 2018 | Amount | Percent |
| Cash | $ 837.8 | $ 1,235.4 | $ (397.6) | (32.2)% |
| Receivables | 257.1 | 162.0 | 95.1 | 58.7 |
| Investments | 14,276.5 | 13,473.4 | 803.1 | 6.0 |
| Capital Assets, Net | 65.2 | 68.5 | (3.3) | (4.8) |
| Other Assets | 0.6 | 85.3 | (84.7) | (99.3) |
| Total Assets | 15,437.2 | 15,024.6 | 412.6 | 2.7 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | |
| Deferred Outflows | 8.1 | 6.1 | 2.0 | 32.8 |
| LIABILITIES | | | | |
| Benefits & Accounts Payable | 55.9 | 44.9 | 11.0 | 24.5 |
| Other Liabilities | 380.6 | 272.7 | 107.9 | 39.6 |
| Total Liabilities | 436.5 | 317.6 | 118.9 | 37.4 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Deferred Inflows | 0.7 | 6.7 | (6) | (89.6) |
| Fiduciary Net Position | $15,008.1 | $14,706.4 | $ 301.7 | 2.1 % |

This table depicts a summary presentation of the assets and liabilities of SERS as of June 30, 2019 and 2018. The Fiduciary Net Position shown is available for future payments of benefits to retirees, beneficiaries, and members of SERS. These figures are presented in conformity with Generally Accepted Accounting Principles (GAAP).

**CONDENSED SUMMARY OF CHANGES IN TOTAL FIDUCIARY NET POSITION**

| ($ in millions) | | | Change | |
|---|---|---|---|---|
| ADDITIONS | 2019 | 2018 | Amount | Percent |
| Contributions | $ 964.1 | $ 940.8 | $ 23.3 | 2.5% |
| Net Investment Income | 853.6 | 1,270.2 | (416.6) | (32.8) |
| Total Additions | 1,817.7 | 2,211.0 | (393.3) | (17.8) |
| DEDUCTIONS | | | | |
| Benefits | 1,404.6 | 1,407.7 | (3.1) | (0.2) |
| Refunds & Transfers | 77 | 52.8 | 24.2 | 45.8 |
| Admin. Expenses | 34.4 | 29.6 | 4.8 | 16.2 |
| Total Deductions | 1,516.0 | 1,490.1 | 25.9 | 1.7 |
| Net Increase (Decrease) | 301.7 | 720.9 | (419.2) | (58.1) |
| Balance, Beginning of Year | 14,706.4 | 13,985.5 | 720.9 | 5.2 |
| Balance, End of Year | $15,008.1 | $14,706.4 | $ 301.7 | 2.1% |

# 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 positive performance in FY2019 in both absolute and relative terms. The Total Fund return of 6.6% (net) for FY2019 exceeded the policy benchmark by 0.1%, but trailed the 7.5% actuarial rate. Global Private Equity recorded the highest return at 15.2% (net), followed by Real Assets at 9.3% (net), and US Equity at 7.6% (net). SERS' five-year gross return ranks in the top decile of the public fund peer universe.

SERS makes investments in seven different asset classes and strategies: Global Equity, Global Private Equity, Global Fixed

## Summary Annual Financial Report

Income, Multi-Asset Strategies (MAS), Global Real Assets, Opportunistic Investments, and Cash Equivalents.

**Global Equities** - 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 Private Equity** - Private equity investments are usually direct investments 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 Fixed Income** - SERS' global fixed income portfolio consists of core assets (Treasuries, corporate bonds, and mortgages), core plus assets (below investment grade corporate bonds, non-US debt, and emerging market debt), and emerging market debt assets (bonds issued by less developed countries).

**Multi-Asset Strategies (MAS)** - 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).

**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).

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

**Cash Equivalents** - This portfolio consists primarily of short-term cash and any gains or losses of the overlay program. Short-term cash provides liquidity for the Total Fund while the overlay program is intended to add value by taking active positions in the broad asset classes and foreign exchange markets, with a tight risk budget.

## SERS TOTAL INVESTMENT RETURN (Gross of Fees)



Legend: SERS Total Investment Gross Return | 35-Year Annualized Return 9.07% | Current Actuarial Assumption 7.50%
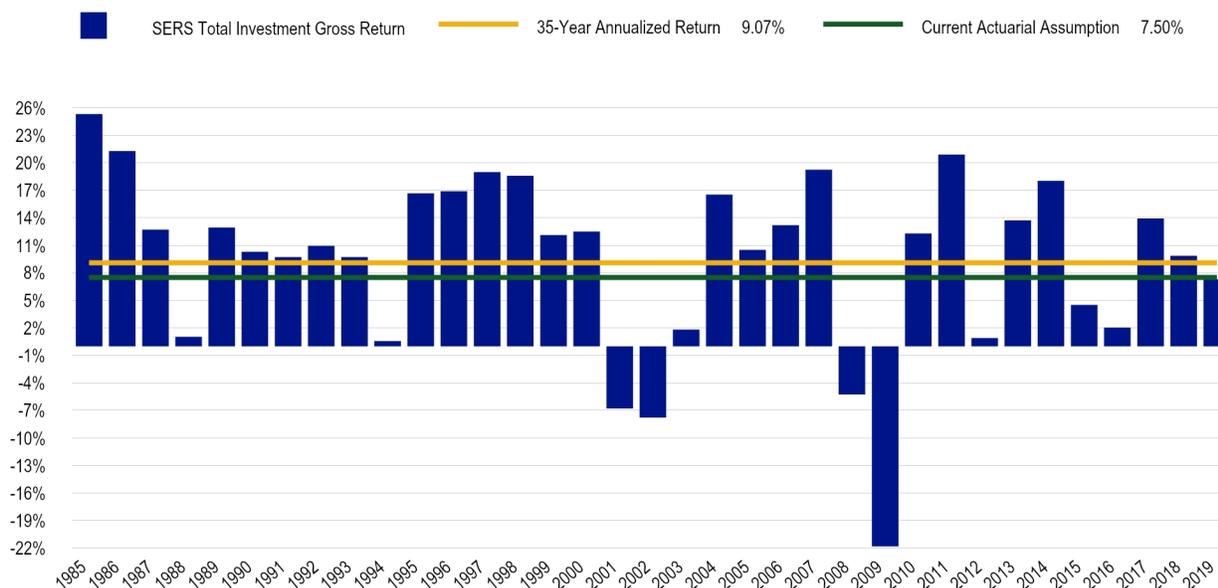
## INVESTMENT SUMMARY AS OF JUNE 30, 2019

| | Fair Value | % of Fair Value | Policy | Range |
|---|---|---|---|---|
| Global Equities | $ 6,730,467,871 | 45.7% | 45.0% | 35% - 55% |
| Global Private Equity | 1,489,410,467 | 10.1 | 10.0 | 5 - 15 |
| Global Fixed Income | 2,274,304,349 | 15.4 | 19.0 | 12 - 26 |
| Multi-Asset Strategies | 1,193,194,032 | 8.1 | 10.0 | 5 - 15 |
| Global Real Assets | 2,219,360,239 | 15.0 | 15.0 | 10 - 20 |
| Opportunistic Investments | 371,763,673 | 2.5 | 0.0 | 0 - 5 |
| Cash Equivalents | 472,129,774 | 3.2 | 1.0 | 0 - 5 |
| **Total Portfolio** | **$14,750,630,405** | **100.0%** | **100.0%** | |

## ASSET ALLOCATION



Cash Equivalents: 3.2%
Global Fixed Income: 15.4%
Global Equities: 45.7%
Global Real Assets: 15.0%
Global Private Equity: 10.1%
Opportunistic Investments: 2.5%
Multi-Asset Strategies: 8.1%
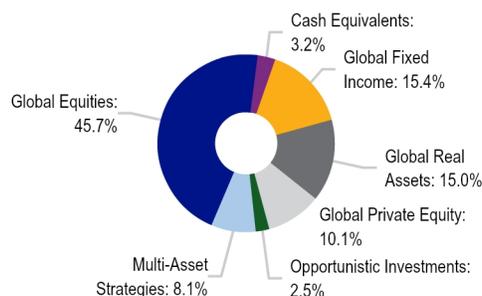
# Pension Funding

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 is at 25 years as of June 30, 2019.

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

## Pension Funding *($ in billions)*
Last 10 fiscal years

| Year | Valuation Assets | Accrued Liabilities | Funded Status |
|------|------------------|---------------------|---------------|
| 2010 | $11.0 | $15.2 | 72.6% |
| 2011 | $10.5 | $16.3 | 65.2% |
| 2012 | $10.4 | $16.8 | 62.8% |
| 2013 | $11.1 | $17.2 | 65.3% |
| 2014 | $12.0 | $17.9 | 68.1% |
| 2015 | $12.6 | $18.5 | 68.8% |
| 2016 | $13.2 | $19.8 | 67.3% |
| 2017 | $13.7 | $19.6 | 70.7% |
| 2018 | $14.0 | $20.0 | 70.7% |
| 2019 | $14.5 | $20.5 | 71.0% |

■ Valuation Assets  ☐ Accrued Liabilities
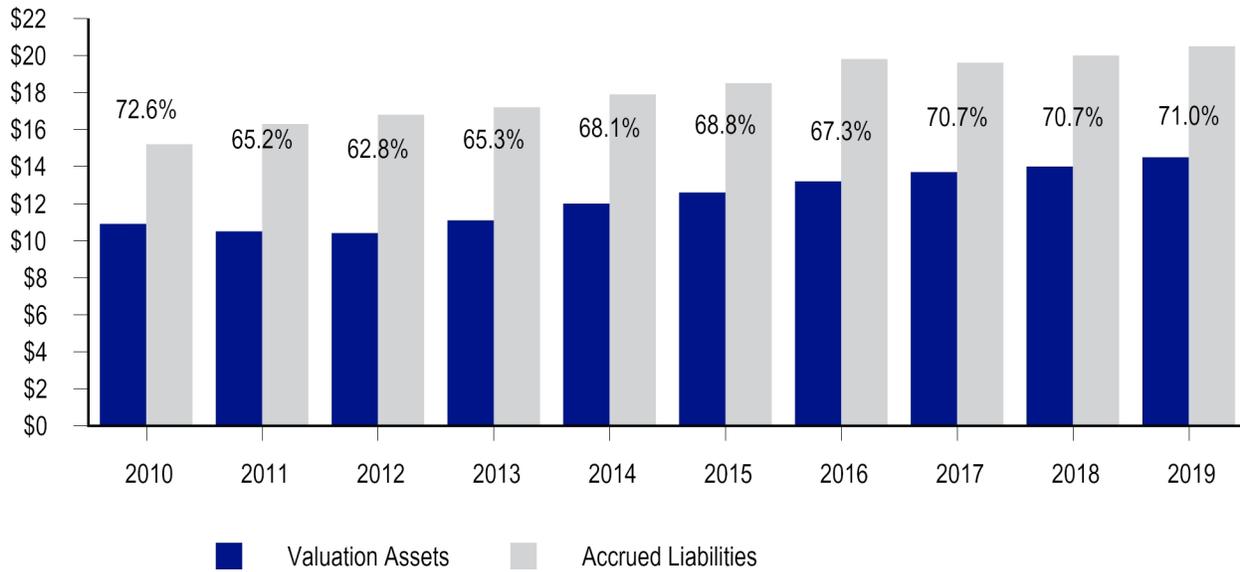
## Total Fiduciary Net Position *($ in millions)*
Last 10 Fiscal Years

| Year | Total Fiduciary Net Position |
|------|------------------------------|
| 2010 | $9,400 |
| 2011 | $10,950 |
| 2012 | $10,650 |
| 2013 | $11,650 |
| 2014** | $13,200 |
| 2015 | $13,200 |
| 2016 | $12,800 |
| 2017* | $13,950 |
| 2018 | $14,700 |
| 2019 | $15,000 |
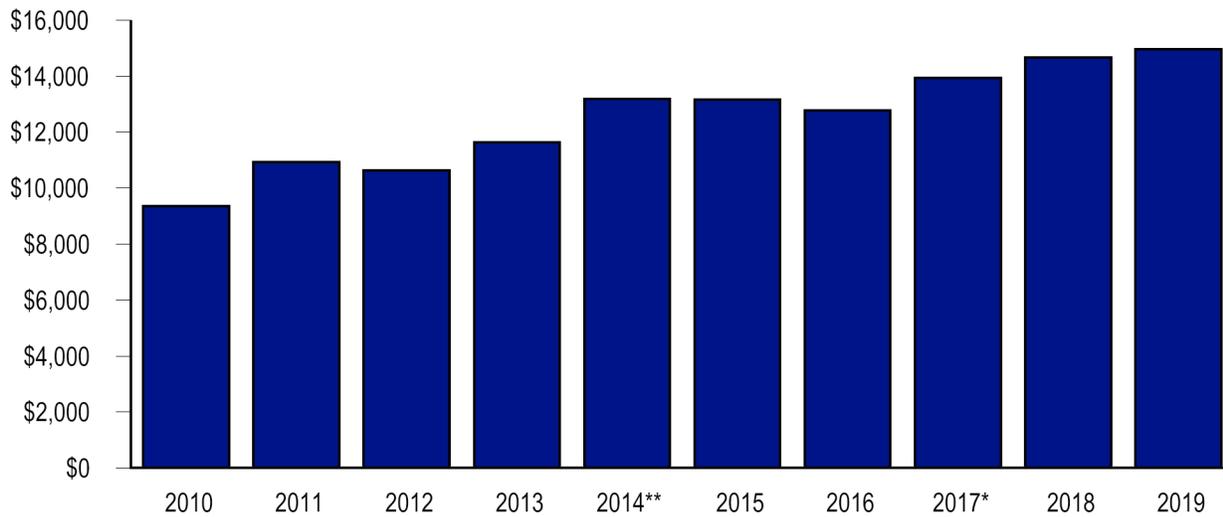
\* Fiduciary Net Position was restated due to the implementation of GASB 75 during FY2018.

\*\* Fiduciary Net Position was restated due to the implementation of GASB 68 during FY2015.

## 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, investments, health care, and fund policies.

| Retired Members by Type of Benefit | | | |
|---|---|---|---|
| | **Service** | **Disability** | **Survivor** |
| Average Monthly Benefit | $1,264 | $1,475 | $762 |
| Average Age | 74.7 | 66.0 | 72.6 |

| Average Active Member Statistics | | |
|---|---|---|
| **Age** | **Service** | **Annual Salary** |
| 47.1 years | 7.5 years | $21,727 |

| Employee Membership Data (as of June 30) | | | |
|---|---|---|---|
| | **2019** | **2018** | **2017** |
| Terminated employees eligible but not yet receiving, and retirees and beneficiaries receiving benefits | 86,488 | 86,423 | 83,892 |
| Active employees | 159,363 | 158,343 | 157,981 |

### Gender Distribution
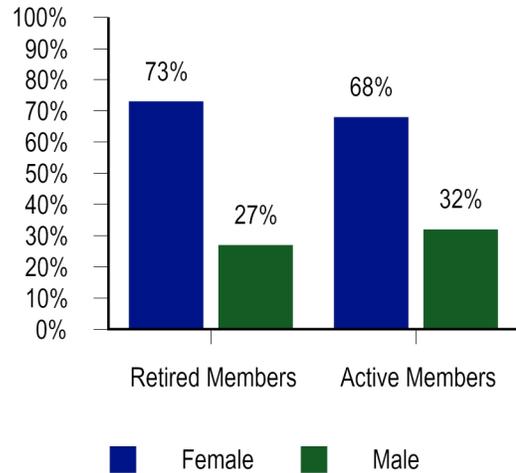


## Employers

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, community colleges, and the University of Akron, employ SERS' active members. Employers are responsible for creating member enrollments for all SERS members, reporting contribution detail for each member, submitting employee contributions, and processing all contributions.

### Covered Employee Members
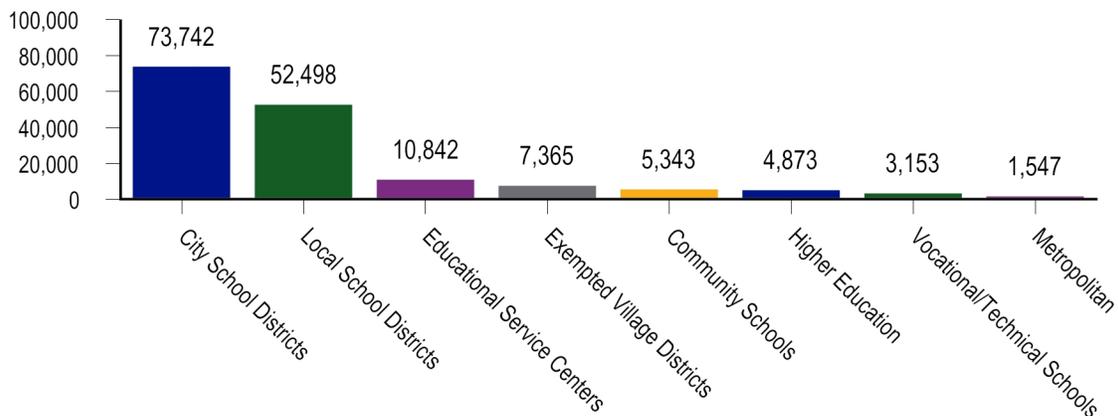


*As of June 30, 2019, there were 159,363 covered employee members.*

## Economic Impact

Public pensions positively impact Ohio's economy.  Of the 81,024 individuals receiving pension benefits from SERS, 91% live in Ohio.

In FY2019 alone, benefit payments of more than $1.2 billion were distributed among Ohio's 88 counties, positively impacting the state's economy. For every dollar in employer contributions invested in SERS' pensions last year, $2.48 was returned to local economies.

## Pension Benefits by County FY2019
*($ in millions)*



Map of Ohio showing Pension Benefits by County FY2019:

- Williams $3.7
- Fulton $5.8
- Lucas $43.9
- Ottawa $6.6
- Lake $34.1
- Ashtabula $12.3
- Defiance $3.9
- Henry $3.5
- Wood $14.2
- Sandusky $7.1
- Erie $9.6
- Cuyahoga $127.9
- Geauga $12.3
- Trumbull $20.4
- Paulding $2.1
- Putnam $3.2
- Hancock $6.0
- Seneca $4.8
- Huron $5.0
- Lorain $34.8
- Medina $22.4
- Summit $68.0
- Portage $18.9
- Mahoning $23.7
- Van Wert $2.7
- Allen $9.0
- Wyandot $2.3
- Crawford $4.6
- Richland $13.9
- Ashland $5.1
- Wayne $11.7
- Stark $41.0
- Columbiana $9.2
- Mercer $3.9
- Auglaize $4.1
- Hardin $2.7
- Marion $6.3
- Morrow $4.3
- Holmes $2.9
- Carroll $2.6
- Tuscarawas $8.5
- Jefferson $6.3
- Shelby $4.4
- Logan $5.4
- Union $4.9
- Delaware $15.4
- Knox $5.2
- Coshocton $3.6
- Harrison $1.2
- Darke $4.7
- Miami $11.1
- Champaign $3.5
- Licking $16.3
- Guernsey $4.0
- Belmont $5.9
- Clark $15.9
- Madison $5.1
- Franklin $92.1
- Muskingum $8.7
- Preble $4.9
- Montgomery $49.6
- Greene $16.2
- Fairfield $14.9
- Perry $4.0
- Noble $1.3
- Monroe $2.2
- Fayette $2.9
- Pickaway $6.2
- Morgan $1.6
- Washington $6.7
- Butler $33.2
- Warren $20.5
- Clinton $4.3
- Hocking $3.8
- Hamilton $63.7
- Ross $7.1
- Vinton $1.4
- Athens $6.8
- Clermont $20.2
- Highland $4.5
- Pike $3.7
- Jackson $3.4
- Meigs $2.3
- Brown $5.8
- Adams $3.3
- Scioto $7.0
- Gallia $3.0
- Lawrence $5.3

**COLOR KEY**
- $0 - $4.9 million
- $5 - $14.9 million
- $15 - 29.9 million
- $30 million +

## 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 balance was $464 million at June 30, 2019. This was an increase of $28 million from the prior year. SERS funds health care through a combination of investment income generated on the Health Care Fund, federal subsidies, premiums, and employer contributions including a separate health care surcharge to compensate for low-wage salaries.

### FY2019 Health Care Fund Income

Employer Surcharge: 28.1%
Employer Contributions: 9.4%
Investment Income: 12.5%
Federal Subsidies & Other Receipts: 9.1%
Benefit Recipient Premiums: 40.9%
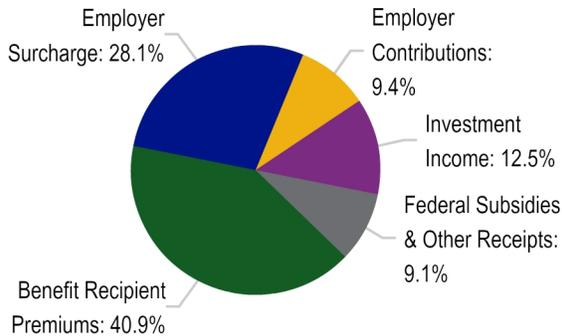
### FY2019 Health Care Participants

Spouses: 7,657
Disability Recipients: 2,955
Children: 330
Service Retirees: 31,605
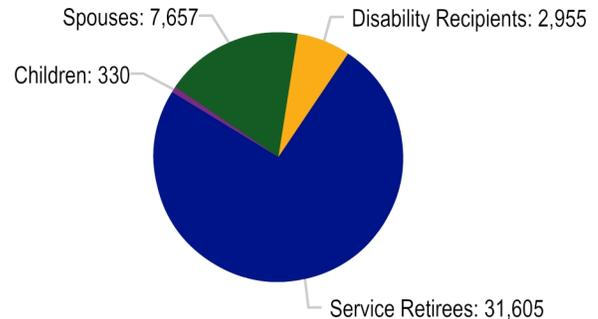
## About SERS

Established in 1937, SERS provides retirement security through defined benefit pensions and health care coverage for the people who serve Ohio schools. Protecting and growing the retirement contributions of our members and their employers is our priority. SERS is governed by a nine-member Retirement Board consisting of four elected employee members, two elected retiree members, and three appointed investment expert members. One investment expert is appointed by the Governor, a second one by the State Treasurer, and the third on jointly by the Speaker of the House and President of the Senate. They meet monthly, except January and August, to discuss and act on SERS business.

This *Summary Annual Financial Report* (SAFR) is produced with 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 contains more extensive information and is available on our website at www.ohsers.org.

School Employees Retirement System of Ohio

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614-222-5853

### MISSION - VISION - VALUES

**Mission** - To provide our membership with valuable lifetime pension benefit programs and services

**Vision** - Through the continuous pursuit of excellence and innovative solutions, we will partner with our stakeholders so that our membership will understand and achieve security in retirement

**Values** - Focus, Accountability, Communication, Collaboration, Innovation

Government Finance Officers Association
Award for Outstanding Achievement in Popular Annual Financial Reporting
Presented to
**School Employees Retirement System Of Ohio**
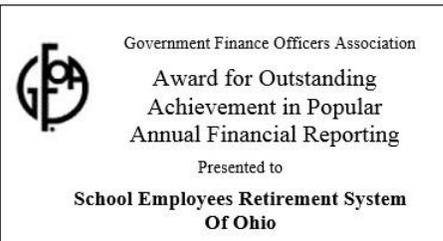
### SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO - RETIREMENT BOARD

| James A. Rossler, Jr. | Catherine P. Moss | Jeffrey T. DeLeone | Hugh W. Garside, Jr. | |
| --- | --- | --- | --- | --- |
| *Chair, Appointed Member* | *Vice-Chair, Retiree-Member* | *Appointed Member* | *Employee-Member* | |
| James Haller | Christine D. Holland | Barbra M. Phillips | Daniel L. Wilson | Beverly A. Woolridge |
| *Employee-Member* | *Employee-Member* | *Employee-Member* | *Appointed Member* | *Retiree-Member* |