

# 2020 SAFR

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Summary Annual Financial Report  
For the Year Ended June 30, 2020

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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, 2019 through June 30, 2020. 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/](http://www.ohsers.org/about-sers/by-the-numbers/financial-reports/).

During FY2020, SERS addressed the following organizational challenges:

- **Adjusting SERS' Service Model Due to COVID-19 Pandemic.** After Ohio Governor Mike DeWine issued a stay-at-home order to all state residents on March 23, 2020, to reduce the spread of COVID-19, SERS immediately closed its Headquarters building to staff and visitors and implemented a work-from-home business model for the majority of staff. As we transitioned to a remote customer service model on short notice, the innovation, ingenuity, and adaptability of our staff was commendable. Our IT Services Department deployed cell phones and laptops to staff who needed them, transitioned our phone capabilities to voice over internet protocol to improve customer service, and assisted others in setting up personal electronic devices so they could securely access SERS' information systems. The entire staff learned to effectively use new technology tools to keep workflow moving in a consistent and efficient manner.
- **Keeping the Pension Fund Sustainable.** In July, the SERS Board began discussing the future financial sustainability of the System. The goal of these discussions was to make sure SERS can withstand changes in member demographics and investment experience, and be able to address unexpected financial pressures. The following topics were discussed in FY2020: the impact of technology on education; SERS' purpose; the definition of a career member; the calculation of service and disability pensions; benefit levels; benefit eligibility; vesting requirements; retirement formula; health care, disability, and survivor benefit levels; the point at which retirees' pensions exceed their final average salary; the calculation of final average salary; the length of a work day and work year; refunds; and the effect of negative cash flow (paying out more in benefits than receiving in contributions) on SERS' finances.
- **Pivoting from the Health Care Wraparound Plan to a Health Reimbursement Arrangement.** Although no legislative solution could be found in time to extend SERS' Health Care Wraparound Plan in 2020, the Health Care Department was able to develop a Health Reimbursement Arrangement (HRA) for 2020 that is similar to the Wraparound Plan. This HRA provides reimbursement for the same types of expenses that were provided by the SERS Wraparound Plan, except for the elimination of the hearing aid benefit. SERS will continue to partner with HealthSCOPE to assist retirees in choosing a Marketplace health care plan that meets their physical and financial needs, and filling out the necessary enrollment application.
- **Reorganizing to Improve Efficiency.** To expand our focus on risk awareness and risk mitigation, the Enterprise Risk Management (ERM) Department was expanded. This team consists of information security staff that monitors SERS' security defenses and implements new technology to combat emerging cybersecurity threats, and staff that identifies areas of risk within the organization, assesses the severity of those risks, and works on ways to reduce those risks. The other new department is Information Governance, which is tasked with automating the retention of business-critical information, and disposing of hard copy and digital records that no longer meet a business need.

Finally, I want to thank SERS members and retirees, employers, and other stakeholders for their patience and understanding as we've negotiated our way through business changes brought about by the COVID-19 pandemic. Although our Board meetings are hosted electronically, public participation has increased during this period.

I want to commend our staff for their innovation, ingenuity, and adaptability as we transitioned to a remote customer service model. We were able to quickly get back to maintaining our regular workflow and providing quality customer service to our membership.

While we've gotten used to attending meetings remotely from our living rooms, basements, guest rooms, closets, porches, and any other spaces that afford some privacy from other work-from-home family members, we look forward to resuming in-person retirement conferences, counseling sessions, Board meetings, and employer education sessions as soon as it is safe to do so.



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 FY2020, the Board voted to devote all 14% of the employer contribution rate to cover the costs of pensions with none going to fund health care.

SERS has five main sources of income: employer contributions, member contributions, investment income, health care premiums, and Medicare subsidies. In FY2020, the largest addition to the fund came from employer 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.

FY2020 financial highlights include:

- Total additions to SERS' assets were \$1.4 billion; \$990 million from contributions and a net investment gain of \$424 million.
- Total deductions were \$1.5 billion, an increase of 0.3% from FY2019.
- The decrease in fiduciary net position totaled \$106 million, compared to a \$302 million net increase in FY2019.

| CONDENSED SUMMARY OF TOTAL FIDUCIARY NET POSITION |                   |                   |                   |               |
|---|-------------------|-------------------|-------------------|---------------|
| ASSETS  | (\$ in millions)  |                   | Change            |               |
|   | 2020              | 2019              | Amount            | Percent       |
| Cash  | \$ 664.3          | \$ 837.8          | \$ (173.5)        | (20.7)%       |
| Receivables                                       | \$ 196.9          | 257.1             | \$ (60.2)         | (23.4)        |
| Investments                                       | \$14,310.1        | 14,276.5          | \$ 33.6           | 0.2           |
| Capital Assets, Net                               | \$ 62.3           | 65.2              | \$ (2.9)          | (4.4)         |
| Other Assets                                      | \$ 0.9            | 0.6               | \$ 0.3            | 50.0          |
| <b>Total Assets</b>                               | <b>15,234.5</b>   | <b>15,437.2</b>   | <b>(202.7)</b>    | <b>(1.3)</b>  |
| DEFERRED OUTFLOWS OF RESOURCES                    |                   |                   |                   |               |
| Deferred Outflows                                 | 6.5               | 8.1               | (1.6)             | (19.8)        |
| LIABILITIES                                       |                   |                   |                   |               |
| Benefits & Accounts Payable                       | 42.5              | 55.9              | (13.4)            | (24.0)        |
| Other Liabilities                                 | 282.5             | 380.6             | (98.1)            | (25.8)        |
| <b>Total Liabilities</b>                          | <b>325.0</b>      | <b>436.5</b>      | <b>(111.5)</b>    | <b>(25.5)</b> |
| DEFERRED INFLOWS OF RESOURCES                     |                   |                   |                   |               |
| Deferred Inflows                                  | 13.6              | 0.7               | 12.9              | 1,842.9       |
| <b>Fiduciary Net Position</b>                     | <b>\$14,902.4</b> | <b>\$15,008.1</b> | <b>\$ (105.7)</b> | <b>(0.7)%</b> |

This table depicts a summary presentation of the assets and liabilities of SERS as of June 30, 2020 and 2019. 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).

## 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.

In FY2020, SERS' portfolio generated a positive net-of-fees performance of 3.0%, which underperformed the benchmark by 77 basis points. Even though this return was positive, it was lower than the 7.5% assumed rate of return, which means SERS experienced an actuarial loss for the fiscal year. Global Fixed Income recorded the highest return at 8.6% (net), followed by U.S. Equity at 7.6% (net), and Global Real Assets at 4.2% (net).

SERS makes investments in seven different asset classes and strategies: Global Equity, Global Private Equity, Global Fixed Income, Multi-Asset Strategies (MAS), Global Real Assets, Opportunistic Investments, and Cash Equivalents.

| CONDENSED SUMMARY OF CHANGES IN TOTAL FIDUCIARY NET POSITION |                   |                   |                   |                |
|--|-------------------|-------------------|-------------------|----------------|
| ADDITIONS  | (\$ in millions)  |                   | Change            |                |
|  | 2020              | 2019              | Amount            | Percent        |
| Contributions  | \$ 989.8          | \$ 964.1          | \$ 25.7           | 2.7 %          |
| Net Investment Income  | 424.2             | 853.6             | (429.4)           | (50.3)         |
| <b>Total Additions</b>                                       | <b>1,414.0</b>    | <b>1,817.7</b>    | <b>(403.7)</b>    | <b>(22.2)</b>  |
| DEDUCTIONS   |                   |                   |                   |                |
| Benefits   | 1,412.8           | 1,404.6           | 8.2               | 0.6            |
| Refunds & Transfers  | 76.3              | 77.0              | (0.7)             | (0.9)          |
| Admin. Expenses  | 30.9              | 34.4              | (3.5)             | (10.2)         |
| <b>Total Deductions</b>                                      | <b>1,520.0</b>    | <b>1,516.0</b>    | <b>4.0</b>        | <b>0.3</b>     |
| <b>Net Increase (Decrease)</b>                               | <b>(106.0)</b>    | <b>301.7</b>      | <b>(407.7)</b>    | <b>(135.1)</b> |
| Balance, Beginning of Year*                                  | 15,008.4          | 14,706.4          | 302.0             | 2.1            |
| <b>Balance, End of Year</b>                                  | <b>\$14,902.4</b> | <b>\$15,008.1</b> | <b>\$ (105.7)</b> | <b>(0.7)%</b>  |

\*FY2019 was restated to reflect GASB 87 implementation.

## Summary Annual Financial Report

**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).

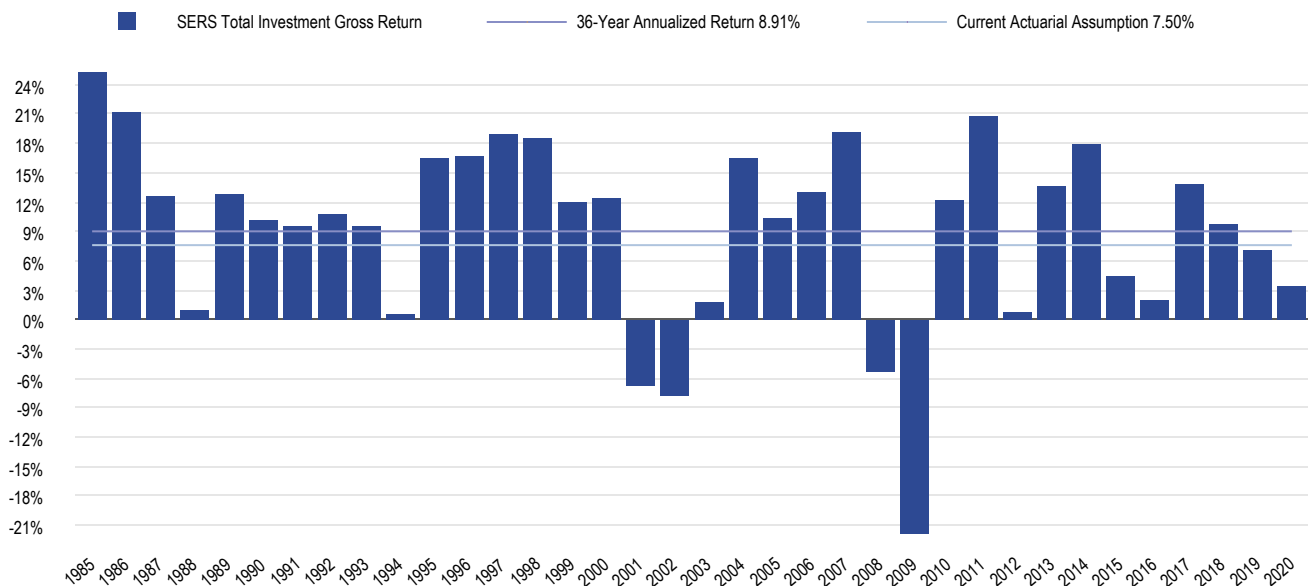
**Multi-Asset Strategies (MAS)** - About 75% of the MAS portfolio is comprised of hedge funds with the other 25% made up of multi-asset/multi-strategy investments (stocks in companies or bonds issued by government entities that are experiencing financial or operational distress, default, or are under bankruptcy). This asset class will be phased out by June 30, 2022, as recommended in the recent asset allocation study. Exposure will be reduced from 10% of the Total Fund to 4% by June 30, 2021.

**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.

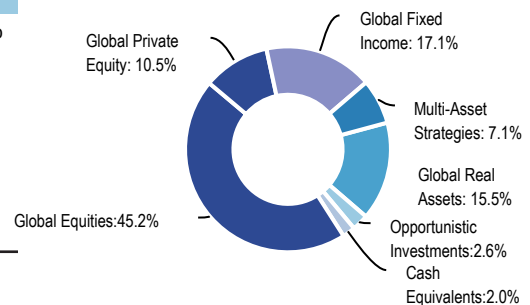
### SERS TOTAL INVESTMENT RETURN (Gross of Fees)



### INVESTMENT SUMMARY AS OF JUNE 30, 2020

|                           | Fair Value              | % of Fair Value | Policy         | Range     |
|---------------------------|-------------------------|-----------------|----------------|-----------|
| Global Equities           | \$ 6,616,651,223        | 45.2 %          | 45.0 %         | 35% - 55% |
| Global Private Equity     | 1,539,531,294           | 10.5            | 10.0           | 5 - 15    |
| Global Fixed Income       | 2,508,339,669           | 17.1            | 19.0           | 12 - 26   |
| Multi-Asset Strategies    | 1,043,784,599           | 7.1             | 10.0           | 5 - 15    |
| Global Real Assets        | 2,271,514,190           | 15.5            | 15.0           | 10 - 20   |
| Opportunistic Investments | 374,380,293             | 2.6             | 0.0            | 0 - 5     |
| Cash Equivalents          | 298,919,649             | 2.0             | 1.0            | 0 - 5     |
| <b>Total Portfolio</b>    | <b>\$14,653,120,917</b> | <b>100.0 %</b>  | <b>100.0 %</b> |           |

### ASSET ALLOCATION



## Pension Funding

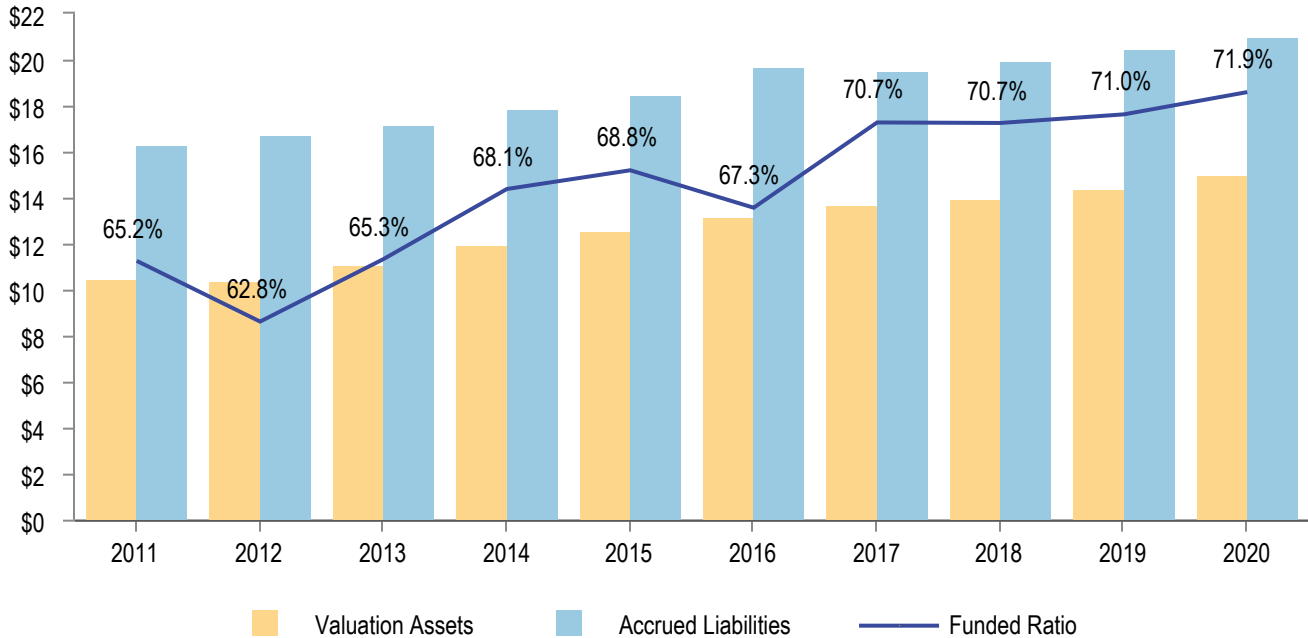
SERS' retirement benefits are funded with member contributions (10% of pay), employer contributions (14% of pay), and income earned from investment returns on those contributions.

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 is at 24 years as of June 30, 2020.

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

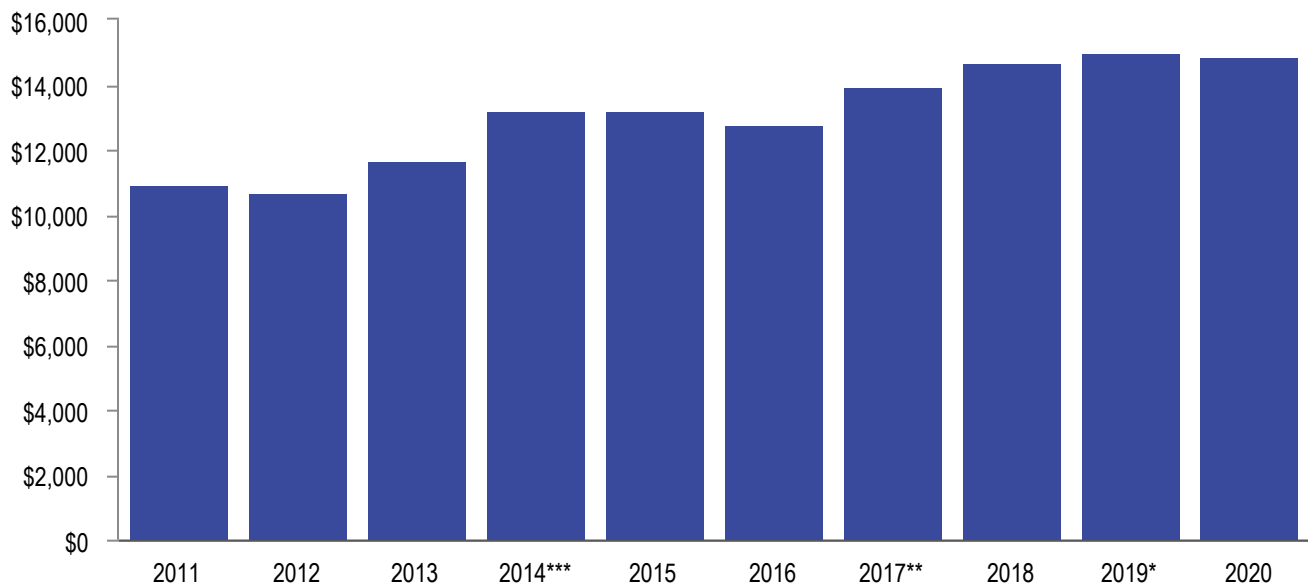
### Pension Funding (\$ in billions)

Last 10 fiscal years



### Total Fiduciary Net Position (\$ in millions)

Last 10 Fiscal Years



\* Fiduciary Net Position was restated due to the implementation of GASB 87 during FY2020.

\*\* 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.

# Summary Annual Financial Report

## 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 | \$1,288 | \$1,487    | \$778    |
| Average Age             | 74.9    | 66.5       | 72.7     |

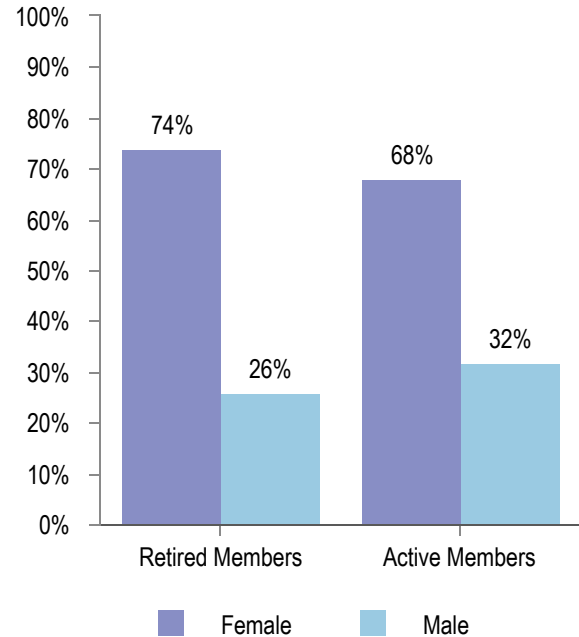
### Average Active Member Statistics

| Age        | Service   | Annual Salary |
|------------|-----------|---------------|
| 47.5 years | 7.7 years | \$22,210      |

### Employee Membership Data (as of June 30)

|  | 2020    | 2019    |
|--|---------|---------|
| Terminated employees eligible but not yet receiving, and retirees and beneficiaries receiving benefits | 86,505  | 86,488  |
| Active employees   | 156,579 | 159,363 |
| Total Employees  | 243,084 | 245,851 |

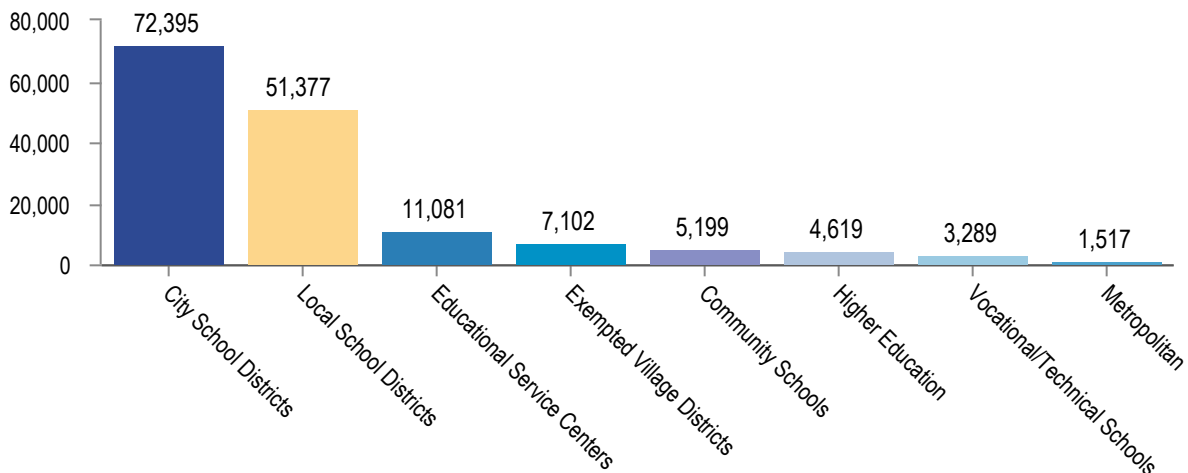
### Gender Distribution



## 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, 2020, there were 156,579 covered employee members.



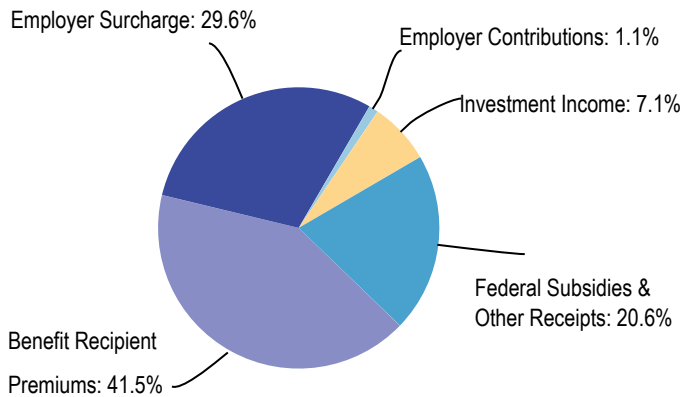
# Summary Annual Financial Report

## Health Care

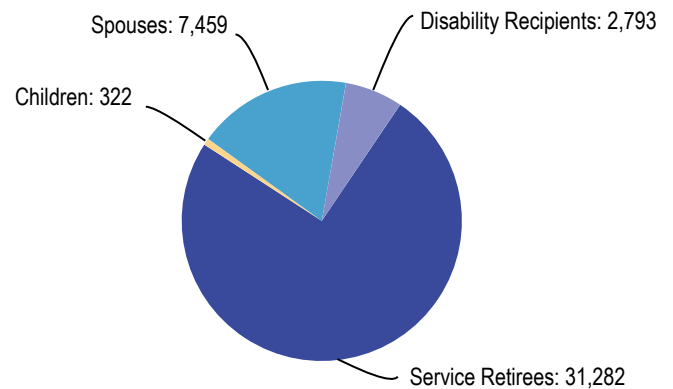
We know for many of our retirees that a secure retirement means more than a pension. Since 1974, SERS has worked to provide retirees access to group health care coverage.

The Health Care Fund balance was \$483 million at June 30, 2020. This was an increase of \$19 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 (when permitted by SERS' funding policy), and a separate employer-funded health care surcharge to compensate for low-wage salaries. The Health Care Fund is projected to remain solvent through 2054.

**FY2020 Health Care Fund Income**



**FY2020 Health Care Participants**



## 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 one 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](http://www.ohsers.org).

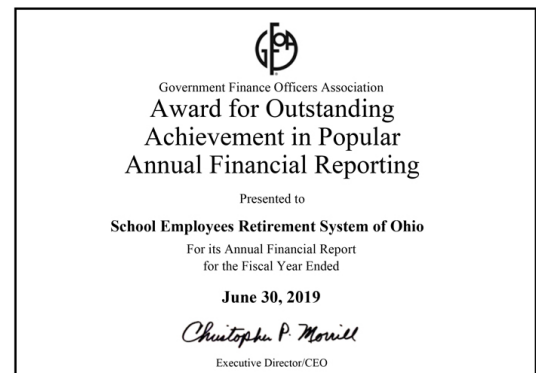
School Employees Retirement System of Ohio  
 300 E. Broad Street, Suite 100  
 Columbus, Ohio 43215-3746  
 614-222-5853

### 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



### SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO - RETIREMENT BOARD

|   |   |   |   |
|---|---|---|---|
| Catherine P. Moss<br><i>Chair, Retiree-Member</i> | Hugh W Garside Jr.<br><i>Vice-Chair, Appointed Member</i> | Jeffrey T. DeLeone<br><i>Appointed Member</i> | James Haller<br><i>Employee-Member</i>      |
| Matthew King<br><i>Employee-Member</i>            | Barbra M. Phillips<br><i>Employee-Member</i>              | James Rossler Jr.<br><i>Appointed Member</i>  | Frank Weglarz<br><i>Retiree-Member</i>      |
|   |   |   | Daniel L. Wilson<br><i>Appointed Member</i> |