

SERS Retirement Board Meeting Minutes

October 21, 2021

The nine hundredth and forty-third 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, October 21, 2021.

Pledge of Allegiance

The SERS Retirement Board meeting convened at 8:36 a.m. with the Pledge of Allegiance.

Roll Call

Following the Pledge of Allegiance, the roll call was as follows: Barbra Phillips, Hugh Garside, James Haller, Matthew King, Catherine Moss, James Rossler, Frank Weglarz, and Daniel Wilson. Also attending in person was Lisa Reid, representative of the Ohio Attorney General's Office and various members of the SERS staff. Attending virtually was Joanna Bewick and David Lindberg of Wilshire Associates, along with other members of the public in person and viz Zoom.

Consent Agenda

The consent agenda for October 21, 2021, included:

- Minutes from the **September 16 and 17, 2021**, board meeting
- Summary of Investment Transactions for the period of **August 1, 2021**, through **August 31, 2021**
- Retirement Report – Superannuation and Survivor Benefits and Special Cases
- Disability Report – Approval of Disability Benefits, Disapproval of Disability Benefits, Disapproval of Appeal of Termination – Any Occupation, and additions (including Disapproval of Disability Benefits, Disapproval of Appeal on Personal Appearance – Any Occupation, and Disapproval of Appeal of Termination – Any Occupation)

Jeffrey DeLeone moved and Hugh Garside seconded the motion to approve the Consent Agenda of the Retirement Board meeting held on Thursday, September 16, 2021. Upon roll call, the vote was as follows: Yea: Jeffrey DeLeone, Hugh Garside, James Haller, Matthew King, Catherine Moss, James Rossler, Frank Weglarz, Daniel Wilson, and Barbra Phillips. The motion carried.

Investment Report

Annual Portfolio Review

SERS Staff provided an overview of SERS \$1.9 billion global private equity portfolio. Since 2013, SERS' global private equity portfolio has matured to the point that it is self-sufficient, meaning it has provided positive cash flow to the portfolio. Staff is preparing to completely exit the fund of funds space due to the higher fees associated with that type of investment and reduce exposure to Special Situations because there are better value options elsewhere. They also plan to increase exposure to co-investments in FY2022. Also, in FY2022, staff will begin looking for opportunities to make direct investments in venture capital managers.

Education Session under R.C. 171.50 and 3309.051 – Total Fund Leverage

Joanna Bewick and David Lindberg of Wilshire Advisors, SERS' independent investment consultant, provided an education session on using leverage to reduce risks and enhance returns in an investment portfolio. They reported on two types of leverage: accounting leverage, where total assets are greater than net assets through the use of borrowed capital like a home mortgage; and economic leverage, where additional market exposure is gained synthetically using the difference between the market value of a security (its current price) and the notional value (its future value based on a futures contract).

Wilshire's research focused on using economic leverage in SERS' total fund portfolio. The board asked several questions and after a robust discussion, the board thanked Wilshire Advisors for their presentation.

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Monthly Investment Report

Farouki Majeed, SERS Chief Investment Officer, provided a summary of the Investment report for the periods ending August 2021. Mr. Majeed reported the total fund as of July 31, 2021, was \$17.81 billion and as of August 31, 2021 was \$17.97 billion. As of August 31, 2021, the FYTD return was 1.70%. Following comments, the Board thanked Mr. Majeed and his team for their presentations.

Following the investment report, the board took a break at 10:30 a.m.

Executive Director's Report

COVID-19 Health Care Report

Richard Stensrud, SERS Executive Director, reported that there have been 3,543 COVID-19 cases to-date in SERS' Pre-Medicare plan. The vaccination rate for Pre-Medicare plan members is 52%. This does not include the members who may have been vaccinated by public health agencies.

Mr. Stensrud noted there were 24 more Covid-19 related deaths in the Medicare plan, bringing the total to 313.

Ohio Retirement Study Council

Mr. Stensrud reported the ORSC met on September 23, 2021, and the actuarial reports submitted by OPERS and HPRS were reviewed. The ORSC also discussed retiree health care challenges at the Highway Patrol Retirement System. One of the more notable challenges discussed was that the mandatory retirement age is before Medicare eligibility.

Mr. Stensrud noted that he provided a summary of SERS' FY21 Disability Report, which was submitted to the Governor, ORSC, and relevant House and Senate committee chairs.

Mr. Stensrud reported that the ORSC met again on October 14th. At that meeting, the ORSC received an investment report from the Council's investment consultant RVK.

The next ORSC meeting is scheduled for November 11th subject to the call of the chairman. Meetings are streamed on the Ohio channel.

Advocacy Groups

Mr. Stensrud reported that staff will be creating a series of informational videos about key topics to share with stakeholders. These videos will be particularly helpful given the cancellation of numerous in-person stakeholder events due to the ongoing effects of the pandemic. The first video will be on the Board's decision to provide a retiree COLA of 2.5% in 2022.

Federal Legislative Activity

Mr. Stensrud reported SERS continues to monitor congressional negotiations over the contents of the potential reconciliation legislative package as well as increasing the debt ceiling and funding federal agencies past December 3rd. Mr. Stensrud also stated SERS will continue to work with other plan sponsors, industry organizations and providers to educate Congress on Employer Group Waiver Plans (EGWP) like the health care plan administered by SERS and how such plans could be adversely affected by Medicare Part D changes being considered. SERS will also continue to work through the Public Sector HealthCare Roundtable to find opportunities to address the high cost of prescription drugs.

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Employee Charitable Initiatives

Mr. Stensrud reported on staff participation in the annual United Way campaign. SERS staff participated through online pledges as well as fun fundraising activities. SERS has already raised \$2,000 more than last year's total.

Results From Member Service Surveys

Mr. Stensrud reported on the results of recent customer service surveys.

The response to the survey of members who received Counseling services, showed 74% met a counselor in person, 10% met via the telephone, and 7% met via Zoom. When asked about their satisfaction with their counseling appointment, 95% rated 5 out of 5 and 98% felt their counselor answered their questions and was helpful.

Mr. Stensrud reported that for the month of September, the average quality monitoring score for members who interfaced with the Member Service Team (MST) was 98.58 out of 100.

Mr. Stensrud also reported SERS' benefits processing team received the 3rd highest customer service score of 17 peers in a survey group, with a 92 out of 100.

Board member Frank Weglarz thanked the Member Services staff for their continued hard work.

Communication With Stakeholders

Mr. Stensrud commented on several topics that had recently been addressed in news articles but were not correct with respect to SERS. Mr. Stensrud noted that the suggestion that some retirement systems were taking on greater investment risk in pursuit of returns was not true at SERS and pointed to recent report by RVK to the ORSC which showed that SERS has the lowest standard deviation/return volatility, a common measure of risk, and highest Sharpe ratio, the measure of return per unit of risk, of all the Ohio retirement systems. Mr. Stensrud further noted that per the discussion in the investment segment of the meeting, the largest source of risk in the investment portfolio is equity risk exposure and that SERS had reduced that risk and had moved closer to true risk diversification. Mr. Stensrud also noted that unlike in some other states, SERS' participating employers had made their retirement contributions in full and on schedule. Finally, he noted that the SERS Board was not relying solely on investment returns to assure the pension fund was sustainable but had taken proactive steps to strengthen sustainability by pursuing adjustments in the benefit structure.

Board members concurred with those comments and suggested that this would be good information for a video to document how prudent SERS is when it comes to investing.

Actuarial Valuation Report - Allocation of Employer Contributions – Health Care Fund

Mr. Stensrud provided information to the Board regarding their discretionary decision on whether to allocate funding to the Health Care Fund from the employer pension contribution. Pursuant to SERS' funding policy, if the funded ratio of the Pension Fund is above 70%, but less than 80% as of the preceding June 30th, the Board has the discretion to allocate between 0% and .50% of the 14% employer pension contribution to the Health Care Fund in the following calendar year. Mr. Stensrud noted that while the official actuarial valuation will be presented to the Board in November, preliminary results of the valuation are typically provided in October to assist the Board in determining whether to make an allocation.

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Mr. Stensrud reported that Cavanaugh MacDonald, SERS' actuary, is advising that the funded status of the Pension Fund as of June 30, 2021 will be approximately 74.46%, up from 71.49% as of June 30, 2020. Accordingly, the Board will have the opportunity to exercise its discretion on whether to allocate between 0% and .50% of the 14% employer contribution to the Health Care Fund in 2022.

Mr. Stensrud provided some information the Board may want to consider in making its decision:

The projected balance of the Health Care Fund as of June 30, 2021 is \$600,333,188, up from \$482,611,478 as of June 30, 2020. This represents a new high in the balance in the fund.

The projected funded ratio of the Health Care Fund as of June 30, 2021, is 46.56%, up from 26.86% as of June 30, 2020. This is a new funded ratio high. As a point of reference, the funded ratio in 2012 and 2013 was approximately 13%.

The projected solvency period of the Health Care Fund as of June 30, 2021, is 36 years, up from 34 years as of June 30, 2020. This is the longest solvency period for the Health Care Fund to-date. As a point of reference, during the 2017 to 2019 period, the solvency period was approximately 15-17 years, which itself was a marked improvement from previous periods.

The improvement in the fiscal condition of the Health Care Fund has largely been achieved through factors other than an allocation from the employer pension contribution. Since the adoption of the funding policy in 2016, a 0.5% allocation was provided in only 2018 and 2019. The primary drivers of the improved fiscal condition have been increased federal reimbursements; the employer health care surcharge; plan design changes; changes in ACA-based taxes; investment returns; and plan experience.

The full 1.5% employer health care surcharge, totaling approximately \$49.6 million, has been collected.

The previously noted improvement in the funded status of the Pension Fund was largely based on strong investment performance for the year (approximately 27%). The positive impact of that investment performance will continue to be felt over the next three years via the smoothing of investment returns, with approximately \$743.7 million in deferred gains being recognized in each of those years.

While the phasing-in of substantial deferred gains over the next three years will help support and/or improve the funded ratio of the Pension Fund in that period, the funded ratio will also be impacted by future investment experience and possible negative actuarial experience relative to assumptions (e.g., COLAs higher than assumed).

The fiscal year to-date investment experience is approximately 2.93%.

Mr. Stensrud answered the board's questions about the information presented following a robust discussion.

James Rossler moved and Matthew King seconded that after a discussion with Cavanaugh Macdonald regarding the preliminary results of the annual basic benefits valuation (to be prepared as of June 30, 2021) at the October 2021 Board meeting, the Board elects to allocate 0.00% of the 14% employer contribution to the Health Care Fund for fiscal year 2022 in accordance with the funding policy approved by the Board on June 18, 2015. Upon roll call, the vote was as follows: Yea: Jeffrey DeLeone, Hugh Garside, James Haller, Matthew King, Catherine Moss, James Rossler, Frank Weglarz, Daniel Wilson, and Barbra Phillips. The motion carried.

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Member Appeal

Jeffrey DeLeone 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: Jeffrey DeLeone, Hugh Garside, James Haller, Matthew King, Catherine Moss, James Rossler, Frank Weglarz, Daniel Wilson, and Barbra Phillips. The motion carried.

The board convened in executive session at 11:15 a.m.

The board reconvened in open session at 11:30 a.m.

Member Appeal – Affirm Final Staff Determination

Catherine Moss moved and Jeffrey DeLeone seconded the motion to affirm the Final Staff Determination to not permit the purchase of service credit as specified in the Resignation Agreement between Benjamin Local Schools and a former school employee. Upon roll call, the vote was as follows: Yea: Jeffrey DeLeone, Hugh Garside, James Haller, Matthew King, Catherine Moss, James Rossler, Frank Weglarz, Daniel Wilson, and Barbra Phillips. The motion carried.

Compensation Committee Report

Daniel Wilson, Chair of the SERS Compensation Committee, provided an update on the work of the committee. Mr. Wilson updated the board on the work being done on the SERS Compensation Study. Mr. Wilson stated the Compensation Study working group is working to identify the most appropriate peer groups for comparison. The study is moving forward, and the Compensation Committee is comfortable with the groups presented. The Compensation Study is on target and working towards a positive outcome. The board thanked Mr. Wilson for his report.

Technology Committee Report

Matthew King, Chair of the SERS Technology Committee, provided an update on the work of the committee. The last Technology Committee meeting was held on September 16, 2021 and covered the SERS disaster recovery plan and timelines for the requests for proposals for the cloud migration. Mr. King also provided an update on the Cyber-Response table-top exercise that took place October 5 and 6, 2021. Mr. King reported the table-top exercise went well and was very productive. More detail would be shared in the Technology Committee meeting scheduled for later today. Mr. King also reminded the board that there is a Technology Committee repository of information available in Diligent Board Books with articles related to technology issues. Mr. King invited available board members to sit in on this afternoon's Technology Committee meeting to learn more. The board thanked Mr. King for his report.

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Board Communication and Policy Issues

CALENDAR DATES FOR SERS BOARD MEETINGS FOR 2021 - 2022

REMAINING CALENDAR DATES FOR 2021

AUDIT COMMITTEE MEETINGS

December 15, 2021 - 2:30 p.m. (Weds.)

COMPENSATION COMMITTEE MEETINGS

December 16, 2021 - 7:30 a.m. (Thurs.)

TECHNOLOGY COMMITTEE MEETINGS

December 16, 2021 – 1:00 p.m. (Thurs.) or immediately following the board meeting

BOARD MEETINGS

November 18 and 19, 2021 - 8:30 a.m. (Thurs. and Fri.)

December 16 and 17, 2021 - 8:30 a.m. (Thurs. and Fri.)

****NOTE: The above dates are tentative.**

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CALENDAR DATES FOR SERS BOARD MEETINGS FOR 2022 **

AUDIT COMMITTEE MEETINGS

March 16, 2022 - 2:30 p.m. (Weds.)
June 15, 2022 - 2:30 p.m. (Weds.)
September 14, 2022 - 2:30 p.m. (Weds.)
December 14, 2022 - 2:30 p.m. (Weds.)

COMPENSATION COMMITTEE MEETINGS

March 17, 2022 - 7:30 a.m. (Thurs.)
June 16, 2022 - 7:30 a.m. (Thurs.)
September 15, 2022 - 7:30 a.m. (Thurs.)
December 15, 2022 - 7:30 a.m. (Thurs.)

TECHNOLOGY COMMITTEE MEETINGS

March 17, 2022 - 1:00 p.m. (Thurs.)
June 16, 2022 - 1:00 p.m. (Thurs.)
September 15, 2022 - 1:00 p.m. (Thurs.)
December 15, 2022 - 1:00 p.m. (Thurs.)

BOARD MEETINGS

February 17-18, 2022 - 8:30 a.m. (Thurs. and Fri.)
March 17-18, 2022 - 8:30 a.m. (Thurs. and Fri.)
April 21-22, 2022 - 8:30 a.m. (Thurs. and Fri.)
May 19-20, 2022 - 8:30 a.m. (Thurs. and Fri.)
June 16-17, 2022 - 8:30 a.m. (Thurs. and Fri.)
July 21-22, 2022 - 8:30 a.m. (Thurs. and Fri.)
September 15-16, 2022 - 8:30 a.m. (Thurs. and Fri.)
October 20-21, 2022 - 8:30 a.m. (Thurs. and Fri.)
November 17-18, 2022 - 8:30 a.m. (Thurs. and Fri.)
December 15-16, 2022 - 8:30 a.m. (Thurs. and Fri.)

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Continued or New Business

The Board continued with the review of continued or new business.

Adjournment

Jeffrey DeLeone moved to adjourn to meet on Thursday, November 18, 2021, at 8:30 a.m. for the SERS regularly scheduled Retirement Board meeting. The SERS board meeting adjourned at 12:15 p.m.

Barbra Phillips, Chairperson

Richard Stensrud, Secretary