



School Employees Retirement System of Ohio
Serving the People Who Serve Our Schools®



2021

Summary Annual Financial Report
FOR THE YEAR ENDED JUNE 30, 2021

Summary Annual Financial Report

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, 2020 through June 30, 2021. For more detail on the information contained in this publication, please read our *Annual Comprehensive Financial Report (ACFR)*, which is available on our website at www.ohsers.org/about-sers/by-the-numbers/financial-reports/.

What a difference a year makes.

As we ended FY2020, the pandemic was in full swing, touching the lives of every Ohioan either through the disease itself or the changes in daily routines brought about by measures enacted to control the spread of the virus. Our active members adapted to changing school schedules and our employees adjusted to working from home. Fast forward to the end of FY2021 and normalcy began to return: shutdowns expired, most schools returned to in-person learning, and our employees returned to the headquarters at 300 East Broad Street.

While we're still wearing masks, face-to-face interactions like retirement counseling sessions and Board meetings have resumed.

Financially, FY2021 was a banner year for investments. SERS' investment portfolio realized a 26.76% net return which was the highest return since at least 1985. All of the portfolios registered positive returns led by Private Equity at 45.80% and Global Equities at 41.56%. Overall, SERS' investment portfolio increased by \$4.1 billion.

Significant organizational achievements in FY2021 included:

- Completing a five-year actuarial experience study that modified several economic and demographic assumptions that ultimately led to the reduction of SERS' assumed rate of investment return from 7.5% to 7.0%
- Improving customer service in the disability application process and counseling experience using feedback from newly implemented surveys
- Protecting SERS' critical processes by updating business continuity and disaster recovery plans and improving data backup operations
- Implementing new digital and virtual tools including Zoom, Microsoft Teams, and Voice Over Internet Protocol (VOIP) technology to allow staff to maintain work efficiency while they worked remotely during the pandemic shutdown
- Resuming cost-of-living adjustments (COLAs) for retirees based on the year-over-year change in the Bureau of Labor Statistic's Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) following a three-year suspension

Finally, I would like to thank SERS members, retirees, employers, and stakeholders for all of their work and support throughout the year.



Richard Strensrud
Executive Director

Summary Annual Financial Report

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 FY2021, 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 FY2021, the largest addition to the fund came from 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.

FY2021 financial highlights include:

- Total assets at June 30, 2021 were \$18.8 billion, an increase of \$3.5 billion, or 23.1% compared to FY2020 assets. Cash and Short Term Investments are 76.8% higher than FY2020. Investments had a very strong year which accounted for the majority of the increases in assets.
- Total liabilities at June 30, 2021 were \$298.5 million, a decrease of \$26.5 million, or, (8.2)% compared to FY2020. The decrease is due to the timing of investment transactions resulting in a lower Investment Payable balance at year end.
- Total additions to SERS' assets were \$5.1 billion; \$969 million from contributions and other income, and a net investment gain of \$4.1 billion. Investment earnings were approximately 863.8% of the prior year's income. The markets recovered in FY2021, despite the ongoing pandemic, with strong investment returns in FY2021.
- Total deductions were \$1.5 billion, a decrease of 0.1% from FY2020. Small increases in benefit payments were offset by a significant reduction in administrative expenses resulting from SERS recognizing their portion of OPERS' pension income and OPEB income, \$3.3 million and \$10.1 million respectively.
- The increase in fiduciary net position totaled \$3.5 billion, compared to a \$106 million net decrease in FY2020. The majority of the variance is due to strong investment earnings in FY2021.

CONDENSED SUMMARY OF TOTAL FIDUCIARY NET POSITION				
(\$ in millions)				
ASSETS	2021	2020	Change	
			Amount	Percent
Cash	\$ 1,174.2	\$ 664.3	\$ 509.9	76.8 %
Receivables	163.4	196.9	(33.5)	(17.0)
Investments	17,352.6	14,310.1	3,042.5	21.3
Capital Assets, Net	59.0	62.3	(3.3)	(5.3)
Other Assets	3.3	0.9	2.4	266.7
Total Assets	18,752.5	15,234.5	3,518.0	23.1
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows	2.0	6.5	(4.5)	(69.2)
LIABILITIES				
Benefits & Accounts Payable	41.4	42.5	(1.1)	(2.6)
Other Liabilities	257.1	282.5	(25.4)	(9.0)
Total Liabilities	298.5	325.0	(26.5)	(8.2)
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows	15.4	13.6	1.8	13.2
Fiduciary Net Position	\$18,440.6	\$14,902.4	\$3,538.2	23.7 %

This table depicts a summary presentation of the assets and liabilities of SERS as of June 30, 2021 and 2020. 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)				
ADDITIONS	2021	2020	Change	
			Amount	Percent
Contributions	\$ 884.5	\$ 892.4	\$ (7.9)	(0.9)%
Other Income	84.1	97.4	(13.3)	(13.7)%
Net Investment Income	4,088.6	424.2	\$ 3,664.4	863.8
Total Additions	5,057.2	1,414.0	3,643.2	257.7
DEDUCTIONS				
Benefits	1,425.1	1,412.8	12.3	0.9
Refunds & Transfers	77.8	76.3	1.5	2.0
Admin. Expenses	16.1	30.9	(14.8)	(47.9)
Total Deductions	1,519.0	1,520.0	(1.0)	(0.1)
Net Increase (Decrease)	3,538.2	(106.0)	3,644.2	(3,437.9)
Balance, Beginning of Year	14,902.4	15,008.4	(106.0)	(0.7)
Balance, End of Year	\$18,440.6	\$14,902.4	\$ 3,538.2	23.7 %

Summary Annual Financial Report

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 FY2021, SERS' portfolio generated a positive net-of-fees performance of 26.8%, exceeding the policy benchmark by 3.2%. Implementation of the investment program added value to the fund over five and ten-year periods relative to the total fund benchmark and also exceeded the actuarial rate of 7.5%. Private Equity recorded the highest return at 45.8% (net), followed by Global Equities at 41.6% (net), and Opportunistic at 25.8% (net).

Strategies

SERS makes investments in eight different asset classes and strategies: Global Equity, Global Private Equity, Global Fixed Income, Multi-Asset Strategies (MAS), Global Private Credit, Global Real Assets, Opportunistic and Tactical 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) - 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 was reduced from 10% of the Total Fund to 4% by June 30, 2021.

Global Private Credit - Broadly defined as strategies that provide loans and financing to middle market companies in lieu of bank financing. Strategies can have objectives of either preserving capital, with return coming primarily from current pay coupon and fees or maximizing appreciation of more subordinated loans. SERS invests in direct lending, stressed/distressed debt, structured credit, and mezzanine strategies.

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 and Tactical 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.

Diversification

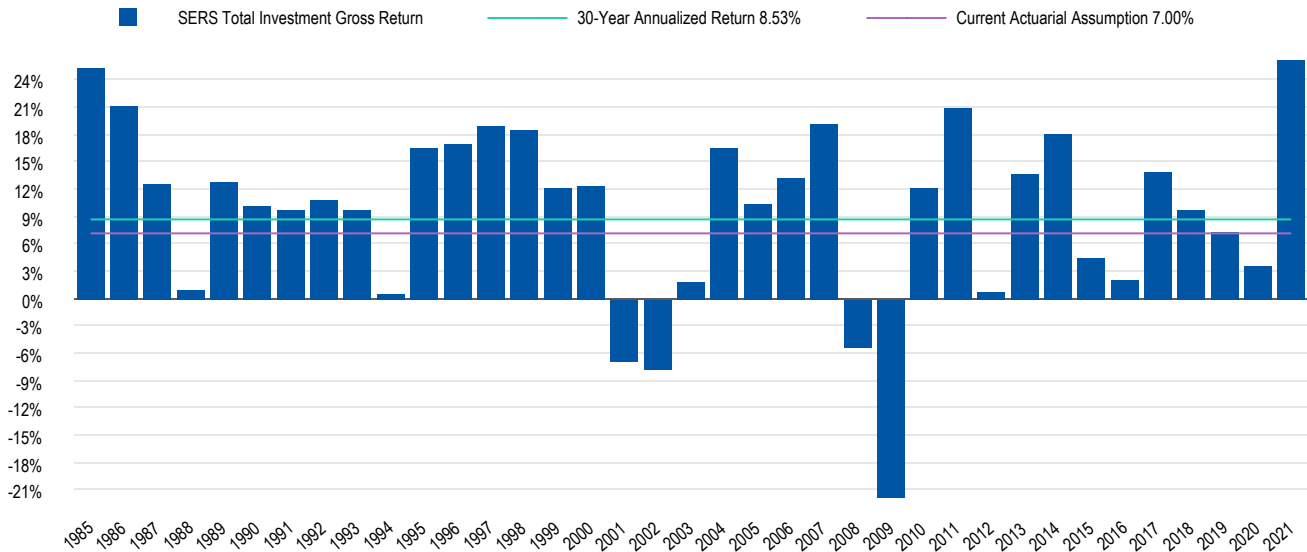
Broad diversification within an investment portfolio is used to control the level of risk and volatility within the portfolio over the long term. SERS has adopted a broadly diversified asset allocation policy, and the strategies used within each asset class also have been diversified.

Besides the broad diversification of assets and strategies within SERS' portfolio, SERS also employs a diverse group of investment managers with the goal of outperforming the respective benchmark while managing relative risks.

Wilshire Associates, Inc., SERS' general investment consultant, assists the Board on matters of investment policy and asset allocation recommendations. Wilshire also reports to the Board on quarterly performance reviews of the Fund and each portfolio.

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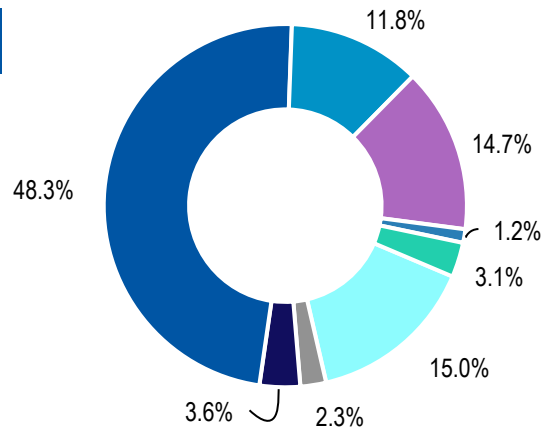
SERS Total Investment Return (Gross of Fees)



Investment Summary as of June 30, 2021

	Fair Value	% of Fair Value	Policy	Range
Global Equities	\$ 8,751,893,637	48.3 %	45.0 %	35% - 55%
Global Private Equity	2,147,918,916	11.8	11.0	8 - 16
Global Fixed Income	2,674,655,067	14.7	19.0	12 - 26
Multi-Asset Strategies	221,496,023	1.2	4.0	0 - 0
Global Real Assets	2,723,556,505	15.0	16.0	14 - 20
Opportunistic and Tactical Investments	566,406,161	3.1	0.0	0 - 5
Global Private Credit	408,697,444	2.3	3.0	3 - 7
Cash Equivalents	653,364,390	3.6	2.0	0 - 5
Total Portfolio	\$18,147,988,143	100.0 %	100.0 %	

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.

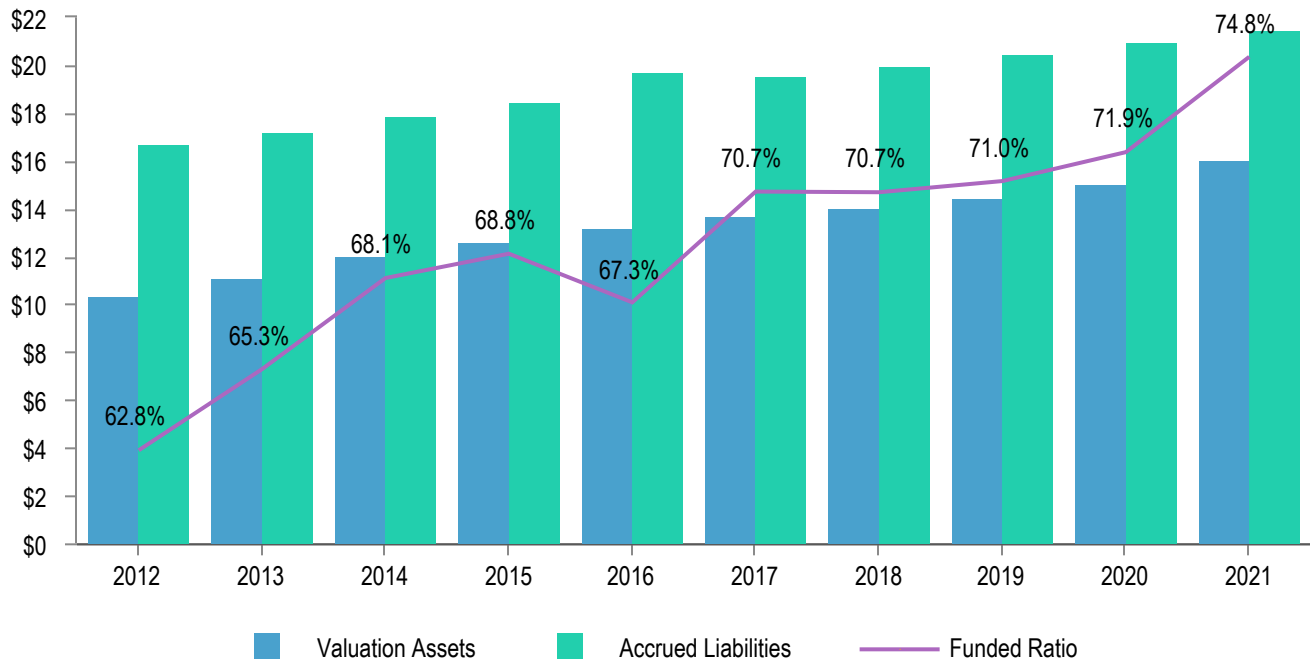
The Pension Funding chart on the following page shows the available assets according to actuarial calculations to pay for accrued pension liabilities. The accrued pension liabilities are the estimated cost of providing all the benefits to current and future retirees. The percentages in the chart show 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 23 years as of June 30, 2021.

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

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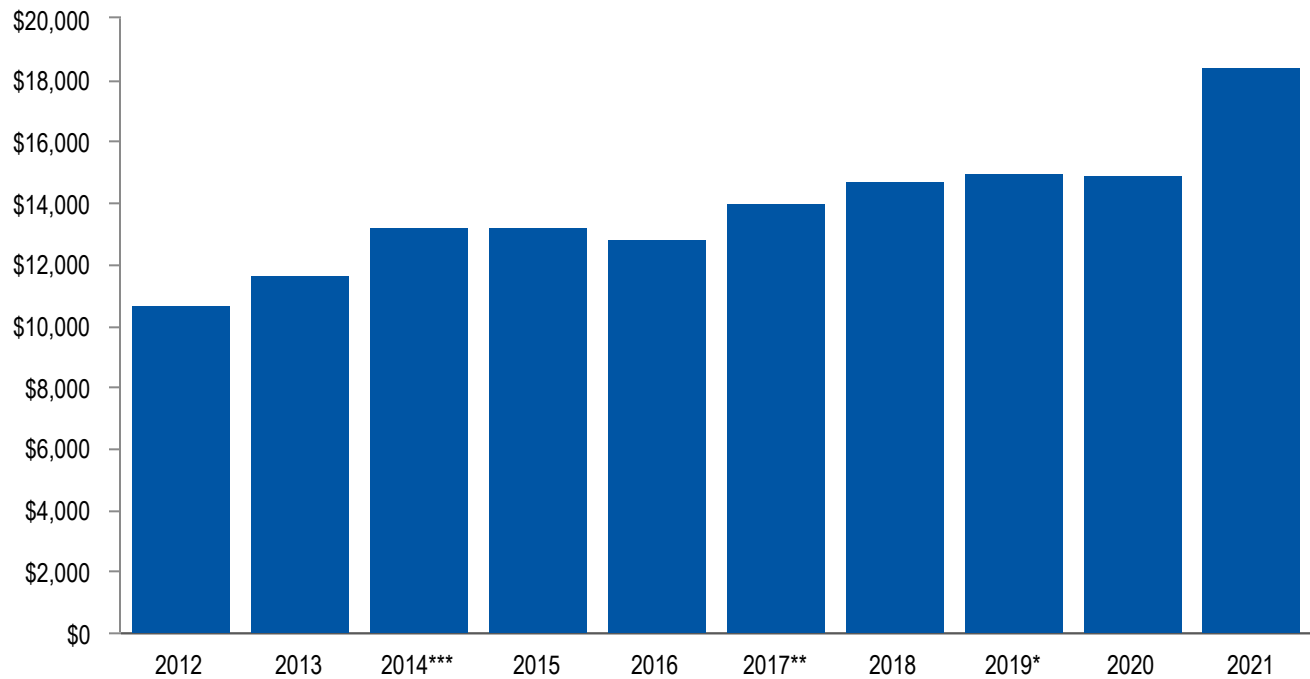
Pension Funding (*\$ in billions*)

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.

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Membership

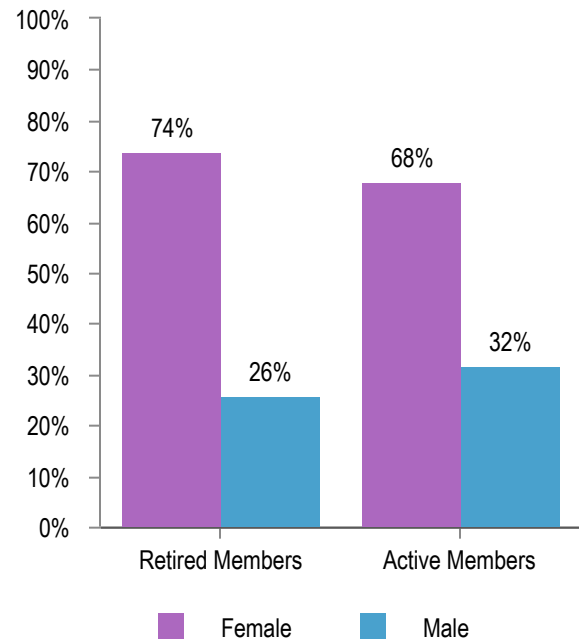
SERS' members include administrative personnel, bus drivers, food service workers, maintenance personnel, educational aides, business officials, and other non-certified school employees who are vital to the operation of Ohio's schools. Our demographics are quite different from those of the other Ohio 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	\$1,313	\$1,502	\$794
Average Age	74.6	66.2	76.8

Average Active Member Statistics		
Age	Service	Annual Salary
47.7	8.1	\$24,700

Employee Membership Data (as of June 30)		
	2021	2020
Terminated employees eligible but not yet receiving, and retirees and beneficiaries receiving benefits	86,693	86,505
Active employees	146,646	156,579
Total Employees	233,339	243,084

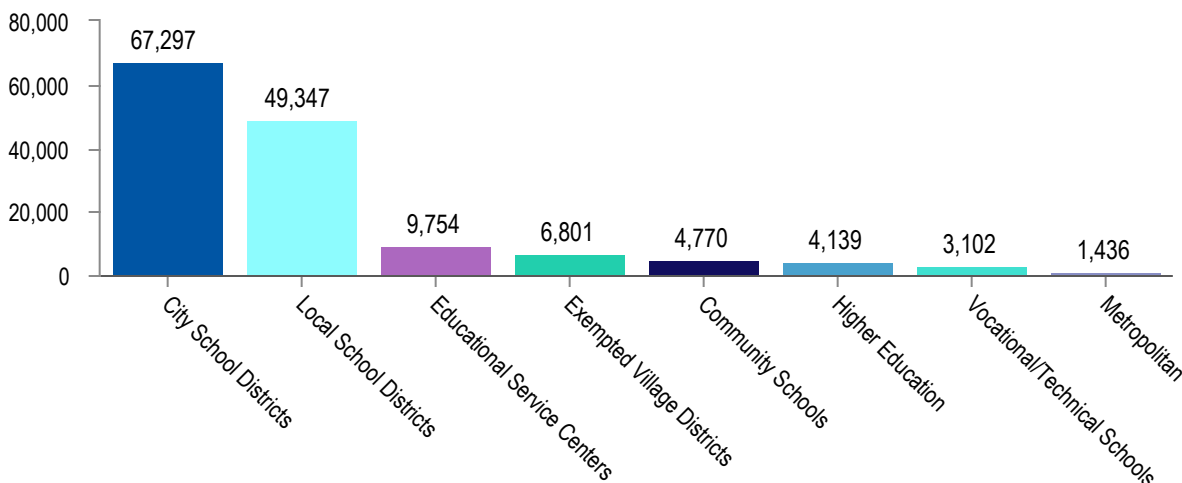
Gender Distribution



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, 2021, there were 146,646 covered employee members.

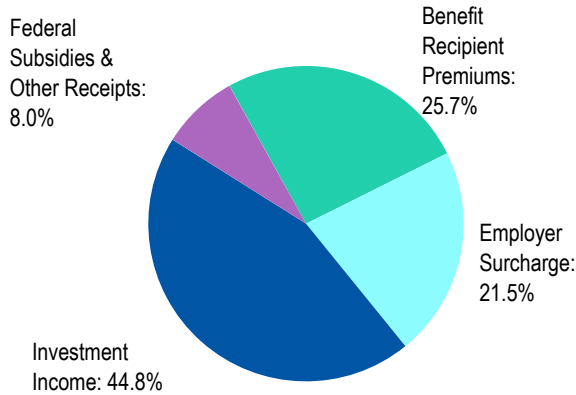
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Health Care

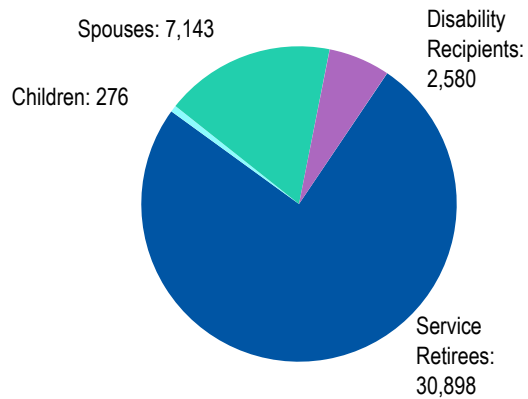
We know for many of our retirees that a secure retirement means more than a pension. Since 1974, SERS has worked to provide retirees access to group health care coverage.

The Health Care Fund balance was \$600 million at June 30, 2021. This was an increase of \$118 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 2058.

FY2021 Health Care Fund Income



FY2021 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' *Annual Comprehensive Financial Report (ACFR)*. All financial information contained in the SAFR conforms with Generally Accepted Accounting Principles (GAAP). SERS' ACFR contains more extensive information and is available on our website at www.ohsers.org.

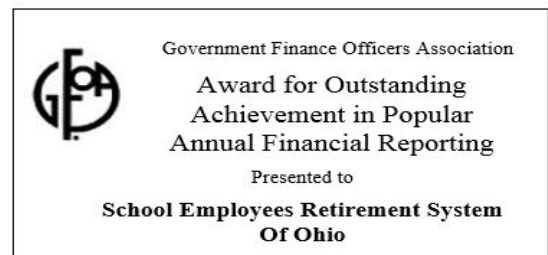
School Employees Retirement System of Ohio
 300 E. Broad Street, Suite 100
 Columbus, Ohio 43215-3746
 614-222-5853

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

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