

# **SERS Retirement Board Meeting Minutes**

**November 17 and 18, 2022**

The nine hundredth and fifty-fourth 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, November 17, 2022.

## **Pledge of Allegiance**

The SERS Retirement Board meeting convened at 8:30 a.m. with the Pledge of Allegiance.

## **Roll Call**

Following the Pledge of Allegiance, the roll call was as follows: Jeffrey DeLeone, Hugh Garside, James Haller, Matthew King, Catherine Moss, Barbra Phillips, James Rossler, and Daniel Wilson were present. Frank Weglarz was absent. Also attending in person was Lisa Reid, representative of the Ohio Attorney General's Office and various members of the SERS staff. Several SERS staff members and members of the public attended virtually.

## **Consent Agenda**

The consent agenda for November 17 and 18, 2022, included:

- Minutes from the **October 20, 2022**, Board Meeting
- Summary of Investment Transactions for the period of **September 1, 2022, through September 31, 2022**.
- Retirement Report – Superannuation and Survivor Benefits, Special Cases, and Transfers
- Disability Report - Approval of Disability Benefits, Disapproval of Disability Benefits, Disapproval of Appeal of Termination – Any Occupation

Barbra Phillips moved, and Catherine Moss seconded the motion to approve the Consent Agenda of the Retirement Board meeting held on Thursday, November 17, 2022. Upon roll call, the vote was as follows: Yea: Hugh Garside, James Haller, Matthew King, Catherine Moss, Barbra Phillips, James Rossler, Daniel Wilson, and Jeffrey DeLeone. Absent: Frank Weglarz. The motion carried.

## **Executive Director's Report**

Richard Stensrud, SERS Executive Director, introduced the actuaries from Cavanaugh Macdonald Consulting, LLC (CavMac), who provided a report on the SERS pension and health care valuations as of June 30, 2022.

John Garrett of CavMac began the presentation by discussing the fundamental principle of pension funding that contributions plus investment returns must be sufficient to offset benefit payments plus expenses. Mr. Garrett introduced his colleagues, Todd Green who discussed pension fund results and Alisa Bennett who discussed health care fund results.

Mr. Green reported that the funded status for Basic Benefits (pension, death benefits, and Medicare B funds) increased from 74.46% to 75.48% and the amortization period of the unfunded actuarial accrued liability decreased to 22 years. Mr. Green noted that while the fiscal year investment earnings were below the assumed rate of return of 7.0%, the actuarial value of the assets increased due to the smoothing methodology, under which investment experience is smoothed over a four-year period. Mr. Green explained that under the smoothing process the strong investment performance in previous years, particularly in FY 20-21, would provide deferred gains for the next few years that would help counter the weak performance in the most recent fiscal year, but there would be downward pressure on the funded status after that unless the future investment experience exceeded the investment return assumption.

Mr. Green and Mr. Garrett also reported that the valuation included the impact of the SERS Board decision in September that the entire employer contribution of 14% be allocated to Basic Benefits to enhance the

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sustainability of the pension fund, as well as the SERS Board decisions to provide a 2.50% COLA in calendar years 2022 and 2023.

Ms. Bennett reported that balance of the Health Care Fund as of June 30, 2022 was \$611,574,409, up from \$600,330,188 as of June 30, 2021. This represents a new high in the balance in the Health Care Fund. Ms. Bennett further reported that the funded ratio of the Health Care Fund as of June 30, 2022 was 45.36%, down slightly from 46.56% as of June 30, 2021, however the solvency period of the Health Care Fund as of June 30, 2022 was 38 years, up from 36 years as of June 30, 2021. Ms. Bennett explained that the solvency period increased while the funded ratio decreased due to higher-than-expected salary growth coupled with lower-than-expected claims. Ms. Bennett noted that this is the longest solvency period for the Health Care Fund to date.

Hugh Garside moved and Barbra Phillips seconded that after review and discussion of the actuary's Report on the Annual Basic Benefits Valuation of the School Employees Retirement System of Ohio (prepared as of June 30, 2022), the Board accept the actuary's recommended allocation of the 14% employer contribution for fiscal year 2023 as follows: Pension Fund (10.64%), Death Benefit Fund (0.04%), Medicare B Fund (0.54%) and Health Care Fund (0.00%). The remainder (2.78%) will be allocated proportionately to the Pension Fund, Death Benefit Fund and Medicare B Fund in accordance with the funding policy approved by the Board on June 18, 2015. Upon roll call the vote was as follows: Yea: Hugh Garside, James Haller, Matthew King, Catherine Moss, Barbra Phillips, James Rossler, Daniel Wilson, and Jeffrey DeLeone. Absent: Frank Weglarz. The motion carried.

### **Healthcare Surcharge Level for FY2024**

Mr. Stensrud advised the Board that Cavanaugh Macdonald was recommending the minimum salary level for purposes of determining the FY 2024 employer health care surcharge be set at \$25,000. After discussion, Catherine Moss moved and Matthew King seconded the motion to accept the recommendation of SERS's actuary to establish \$25,000 as the minimum compensation amount for purposes of the fiscal year 2024 Health Care surcharge. Upon roll call the vote was as follows: Yea: Hugh Garside, James Haller, Matthew King, Catherine Moss, Barbra Phillips, James Rossler, Daniel Wilson, and Jeffrey DeLeone. Absent: Frank Weglarz. The motion carried.

The Board thanked Cavanaugh Macdonald for their reports and recommendations.

## **Investment Report**

### **Annual Portfolio Review – Fixed Income**

SERS Chief Investment Officer, Farouki Majeed, introduced SERS Investment Staff member Jason Naber who provided a Fixed Income Portfolio review. Mr. Naber began his presentation by summarizing the SERS fixed income portfolio which currently has a market value of \$2.1 billion and is 6.4% below its 19% target. SERS staff has strategically underweighted fixed income due to the Federal Reserve's aggressive increase in interest rates to combat historically high inflation. Mr. Naber reported despite a -14.2% loss over the last 12 months, this portfolio has outperformed the benchmark over one year by 0.36%, three years by 1.38%, five years by 0.88%, and ten years by 0.86%.

Mr. Naber continued, stating as we look ahead, most of the conditions that caused fixed income investments to drop should ease in 2023. The Federal Reserve is expected to slow or stop the interest rate increases in 2023, and interest payments should provide higher fixed income returns going forward. Staff expects fixed income returns to be closer to the current portfolio yield of 5.05%.

After a brief discussion, the board thanked Mr. Naber for his report.

### **Wilshire Quarterly Investment Report**

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David Lindberg of Wilshire Associates provided the Board with an update of current global market conditions, as well as SERS' FY2023 first quarter (July-September) investment results. During the quarter, Lindberg noted that the U.S. stock market experienced a drop of 4.4%, now down 24.4% for the 2022 calendar year. Most sectors experienced negative returns, with the communication services, real estate, and materials sectors performing the worst.

Mr. Lindberg also reported inflation remains high and U.S. interest rates continue to increase. As inflation persists, the odds of a "soft landing," or a gradual slowdown in economic growth or spending that would avoid recession, are diminishing. As the Federal Reserve is pressured to decrease inflation aggressively, Lindberg noted that the result may be somewhere between a hard and a soft landing.

Mr. Lindberg continued his report stating the SERS portfolio is currently underweight in global equity and fixed income and overweight in real assets and opportunistic, which has helped with overall returns. Due to this asset allocation, the total fund outperformed the benchmark by 3.3% for the one-year period.

After several questions, the board thanked Mr. Lindberg for his report.

The board took a break at 10:13 a.m.

The board reconvened at 10:28 a.m.

## **SERS Monthly Investment Report**

SERS Chief Investment Officer, Farouki Majeed, provided an update stating the US labor market is still strong, however, leading economic indicators have been trending down over the last few months, indicating a possible recession. The total fund balance as of September 30 is \$16.53B, down \$790M for the fiscal year. After a robust discussion and several questions, the board thanked Mr. Majeed for his report.

## **Executive Director's Report (cont.)**

Richard Stensrud, SERS Executive Director, continued his report following the investment items.

### **Additional Pension Valuation Information of Note**

Mr. Stensrud provided some additional information from the actuarial valuation that highlights the features of the membership SERS serves.

- 49.5% of current service retirees receive an annual benefit of \$12,000 or less. 67.0% of current service retirees receive an annual benefit of \$18,000 or less.
- 90.9% of current service retirees are age 65 or older. 28.5% of current service retirees are age 80 or older. 14.9% of current service retirees are age 85 or older. 4,309 (6%) of current service retirees are age 90 or older. Nine (9) current benefit recipients are age 105 or older.
- 73.8% of current benefit recipients are female, 26.2% are male.
- 49.7% of current active members make less than \$20,000 annually. 81.4% make less than \$40,000 annually.
- 73.7% of service retirees in 2022 had 20 years or more of service. 53.6% of service retirees in 2022 had 25 or more years of service. 33.1% had 30 or more years of service. This illustrates that SERS' retirees are long-serving career employees.
- 57.4% of service retirees in 2022 were age 65 or older at retirement.

### **Ohio Retirement Study Council (ORSC)**

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Mr. Stensrud reported that the November meeting had been cancelled and that the next scheduled meeting was December 8<sup>th</sup>.

## **State Legislative Update**

Mr. Stensrud summarized the impact of the recent election results on the composition of the General Assembly. Mr. Stensrud discussed and answered questions from the Board on the likelihood of action on retirement system-related legislation during the 'lame duck' period. Mr. Stensrud noted that there would be a limited number of legislative sessions in the lame duck period which reduced the chances that action would be taken on retirement system legislation but that SERS would continue to look for opportunities to secure passage of SERS' Compensation Based Benefit Cap authorization (CBBC) proposal.

## **Federal Legislative Update**

Mr. Stensrud reported that there has been no progress on the WEP and/or GPO legislation. Mr. Stensrud noted that cautious optimism remained that the leaders of the House Ways and Means committee can come together to move things forward on WEP reform and SERS will continue to lobby in support of those efforts.

## **Stakeholder, Member and Employer Engagement**

Mr. Stensrud reported that SERS continues to engage with and keep stakeholders informed on issues of interest, including the CBBC proposal and pension and health care fund sustainability.

Mr. Stensrud reported that Staff had conducted a number of education, training and retirement preparation sessions with active members and employers. Mr. Stensrud noted that a new 'lunch and learn' session had been introduced to help active members learn about the fundamentals of SERS and their retirement plan. Mr. Stensrud noted that SERS would continue to explore opportunities to engage with members through virtual programs while maintaining its commitment to provide information in person.

## **Joint Trustee Training Session Recap**

Mr. Stensrud reported there was a Joint Trustee Training program held at OPERS on November 9. Several Board Members and members of SERS staff attended the meeting along with participants from the other Ohio public pension systems.

## **Health Care Sustainability**

Mr. Stensrud noted that the Board would have a Health Care Fund sustainability session on Friday, November 18<sup>th</sup>. Mr. Stensrud noted that no decisions would be made and that the purpose was to begin discussion of potential options for enhancing sustainability of the Health Care Fund and the benefits provided through the Fund. Mr. Stensrud noted that as reported by the actuary, the Health Care Fund continues to strengthen but that the Board believes it is prudent to continue to consider ways to further improve its sustainability.

## **Investment Performance Compensation**

Mr. Stensrud reported that the topic of staff investment performance compensation continues to draw attention. Mr. Stensrud noted the importance of investment performance for maintaining sustainability of the pension fund, with approximately two thirds of benefits funded by investment returns. Mr. Stensrud noted that maintaining that level of funding requires attracting and retaining a staff with a high level of expertise. Mr. Stensrud noted that investment performance compensation is only paid when the performance exceeds investment market benchmarks, and that out-performance is even more important in down markets because it minimizes investment shortfall and provides a larger base of assets to invest when markets improve. Mr. Stensrud stated that SERS receives tremendous value for any performance compensation paid and supported that statement by noting: (1) The performance compensation paid in the previous fiscal year

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equates to 0.00049% of assets under management (AUM); (2) SERS outperformed the relevant benchmarks by 3.11%; (3) That means nearly \$573.5 million more is in the pension and health care funds due to the investment decisions made by the investment staff; (4) That additional funding equates to a 68.79 times multiple of the performance compensation paid; and (5) The additional funding represents a 687% return on the performance compensation paid.

## Final Filing of Proposed Amended Administrative Rule

Mr. Stensrud introduced Joe Marotta, SERS Chief Legal Counsel, who outlined the proposed administrative rule change. Mr. Marotta discussed filing with JCARR the following proposed amended rule: 3309-1-2, Determination of beneficiary that has been reviewed by JCARR and is ready for final adoption by the board.

Barbra Phillips moved and Catherine Moss seconded that the proposed amended rule 3309-1-26 be adopted:

### 3309-1-26 Determination of **statutory** beneficiary.

- (A) This rule amplifies divisions (B), (C) and (D) of section 3309.44 and section 3309.50 of the Revised Code.
- (B) An individual who does not survive a member or retiree by one hundred twenty hours will be deemed to have predeceased the member or retiree.
- (C) For purposes of division (B) of section 3309.44 of the Revised Code, when a designated beneficiary dies more than one hundred twenty hours after the member, but before receiving payment, the payment shall be paid to the estate of the designated beneficiary.
- (D) For purposes of divisions (C) and (D) of section 3309.44 and section 3309.50 of the Revised Code, a person is considered "not located" and ceases to qualify as beneficiary if:
  - (1) No valid mailing address can reasonably be determined for the person; or
  - (2) The person fails to file an application for payment within one hundred eighty days from the date the school employees retirement system first notifies the person of beneficiary status.

History: 7/27/15  
Promulgated Under: 111.15  
Statutory Authority: 3309.04  
Rule Amplifies: 3309.44, 3309.50  
Review Date: 2/1/24

Upon roll call, the vote was as follows: Yea: Hugh Garside, James Haller, Matthew King, Catherine Moss, Barbra Phillips, James Rossler, Daniel Wilson, and Jeffrey DeLeone. Absent: Frank Weglarz. The motion carried.

## Executive Session

Catherine Moss moved and Matthew King seconded the motion that the board convene in executive session pursuant to R.C. 121.22 (G)(2) to discuss the purchase of property. Upon roll call, the vote was as follows: Yea: Hugh Garside, James Haller, Matthew King, Catherine Moss, Barbra Phillips, James Rossler, Daniel Wilson, and Jeffrey DeLeone. Absent: Frank Weglarz. The motion carried.

The board convened in executive session at 11:39 a.m.

The board reconvened in open session at 11:59 a.m.

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### Retirement Report

There was no retirement report.

### Board Communication and Policy Issues

The board reviewed the meeting dates for the remainder of 2022 and for 2023.

#### AUDIT COMMITTEE MEETINGS

December 14, 2022 - 2:30 p.m. (Weds.)

#### COMPENSATION COMMITTEE MEETINGS

December 15, 2022 - 7:30 a.m. (Thurs.)

#### TECHNOLOGY COMMITTEE MEETINGS

December 15, 2022 – 12:30 p.m. (Thurs.)

#### BOARD MEETINGS

December 15-16, 2022 – 8:30 a.m. (Thurs. and Fri.)

### CALENDAR DATES FOR SERS BOARD MEETINGS FOR 2023

#### AUDIT COMMITTEE MEETINGS

March 15, 2023 – 2:30 p.m. (Weds.)  
June 14, 2023 – 2:30 p.m. (Weds.)  
September 20, 2023 - 2:30 p.m. (Weds.)  
December 20, 2023 – 2:30 p.m. (Weds.)

#### COMPENSATION COMMITTEE MEETINGS

March 16, 2023 – 7:30 a.m. (Thurs.)  
June 15, 2023 – 7:30 a.m. (Thurs.)  
July 20, 2023 – 7:30 a.m. (Thurs.) \* **Special Meeting** \*  
September 21, 2023 – 7:30 a.m. (Thurs.)  
December 21, 2023 – 7:30 a.m. (Thurs.)

#### TECHNOLOGY COMMITTEE MEETINGS

March 16, 2023 – 12:30 p.m. (Thurs.)  
June 15, 2023 – 12:30 p.m. (Thurs.)  
September 21, 2023 – 12:30 p.m. (Thurs.)  
December 21, 2023 – 12:30 p.m. (Thurs.)

#### BOARD MEETINGS

February 16 – 17, 2023 - 8:30 a.m. (Thurs. and Fri.)  
March 16 – 17, 2023 - 8:30 a.m. (Thurs. and Fri.)

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April 20 – 21, 2023 - 8:30 a.m. (Thurs. and Fri.)  
May 18 – 19, 2023 - 8:30 a.m. (Thurs. and Fri.)  
June 15 – 16, 2023 - 8:30 a.m. (Thurs. and Fri.)  
July 20 – 21, 2023 - 8:30 a.m. (Thurs. and Fri.)  
September 21 – 22, 2023 - 8:30 a.m. (Thurs. and Fri.)  
October 19 – 20, 2023 - 8:30 a.m. (Thurs. and Fri.)  
November 16 – 17, 2023 - 8:30 a.m. (Thurs. and Fri.)  
December 21 – 22, 2023 - 8:30 a.m. (Thurs. and Fri.)

### **Continued or New Business**

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

### **Recess**

Board Chair, Jeffrey DeLeone, recessed the meeting until Friday, November 18, 2022, at 8:30 a.m. for the SERS Healthcare Sustainability discussion. The meeting recessed at 12:19 p.m.

### **Healthcare Sustainability Session**

The SERS Board reconvened at 8:35 a.m. on Friday, November 18, 2022, for a Healthcare Sustainability discussion. SERS Executive Director Richard Stensrud noted that the Health Care Fund is stronger than it's ever been which provides an opportune time to review the state of the Fund to ensure that the Fund remains strong. Mr. Stensrud noted that it was expected that this would be the first of several discussions on Health Care Fund sustainability and that no decisions were anticipated at this first discussion.

Mr. Stensrud outlined the topics to be covered including:

- Review of the sustainability of the SERS' Medicare plan.
- Review of the sustainability of SERS' non-Medicare plan.
- Review of the costs and benefits of SERS' marketplace/Wraparound HRA program compared to the costs and benefits of SERS' non-Medicare plan.
- Potential options for encouraging enrollment in the marketplace/Wraparound HRA program rather than the non-Medicare plan when it is advantageous for the participant.

Members of SERS' health care staff presented the information to and answered questions by the Board. There was robust discussion that noted, among other things, the importance of drawing upon SERS' credibility with its members to help facilitate informed decision making.

The Board and Mr. Stensrud commended Health Care Services Director Christi Pepe and her team for their hard work and the information they provided.

### **Adjournment**

Board Chair Jeffrey DeLeone adjourned the meeting with the Board reconvening on Thursday, December 15, 2022, at 8:30 a.m. for the SERS regularly scheduled Retirement Board meeting.

The SERS board meeting adjourned at 10:25 a.m.

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Jeffrey DeLeone, Board Chair

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Richard Stensrud, Secretary