



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



2023

SUMMARY ANNUAL FINANCIAL REPORT

For the Year Ended
June 30, 2023



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, 2022 through June 30, 2023. For more detail on the information contained in this publication, please read our *FY2023 Annual Comprehensive Financial Report (ACFR)*, which is available on our website at www.ohsers.org/about-sers/by-the-numbers/financial-reports/.

In FY2023, SERS posted a time weighted investment return of 7.39% (net), exceeding the benchmark by 0.30%. SERS was able to outperform its benchmark mainly due to strong returns in global equities (15.60%), and private credit (6.07%). The Total Fund return also exceeded the actuarial rate of return, which is currently 7.00%. Net investment income was \$1.2 billion compared to a net investment loss of \$0.3 billion in FY2022.

Significant organizational achievements in FY2023 included:

- Board and legislative approval to implement a benefit inflation control (anti-spiking) tool called the Contribution Based Benefit Cap (CBBC) beginning August 1, 2024. This tool ensures that a member's career contributions support their pension benefits.
- The implementation of direct deposit for all benefit recipients beginning July 1, 2022. This eliminates risks such as theft and fraud to benefit recipients and greatly reduces SERS' costs associated with providing paper checks and reissuing checks that are lost or stolen.
- Equalizing the health care premium subsidy rates for non-Medicare disability recipients and service retirees based on years of service. This change takes effect January 1, 2024. With expanded Marketplace plan subsidies and SERS' Wraparound Health Reimbursement Arrangement, non-Medicare recipients have access to coverage and affordability that meets or exceeds that offered by SERS.
- The requirement that new retirees and disability benefit recipients who are not eligible for Medicare must receive Marketplace counseling before enrolling in SERS' health care coverage. Counseling will be provided by SERS' vendor, UMR (previously HealthSCOPE Benefits) whose staff is licensed to enroll individuals in federal Marketplace plans.
- Increasing outreach to members and employers around the state using virtual technology tools such as Zoom. In August, Employer Services debuted *Sound Bite Wednesdays*, which is a once-a-month, 20-minute lunchtime webinar that focuses on one employer topic. In November, Member Services kicked off a new virtual series called *Lunch Break* targeted toward members with less than 10 years of service.
- Reducing SERS' digital storage footprint and implementing new tools and policies that will reduce future retention of transitory data files and email.

On September 1, 2022, SERS celebrated its 85th anniversary. Staff chose the theme of "gratitude for where we've been and what's to come" to engage with members via social media throughout the month. At least twice a week, staff posted trivia questions about SERS' past, shared historical photos, and provided insight into SERS' operations through its social media accounts. We appreciate the work all of our members, retirees, and employers have done in their communities throughout the state, and are confident that our stable financial foundation will continue to provide retirement security for the next 85 years and beyond.



Richard Stensrud
Executive Director

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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 on Service
- Be Accountable
- Support Collaboration
- Respect Differences and Practice Inclusion
- Remain Resourceful and Embrace Change

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 FY2023, the Board passed a resolution 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 federal subsidies. In FY2023, the largest addition to the fund came from net 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.

FY2023 financial highlights include:

- SERS' total assets at June 30, 2023 were \$18.5 billion, an increase of \$0.6 billion, or 3.2%, compared to FY2022 assets. Cash and Short Term Investments were 19.3% lower than FY2022. Investments increased by \$0.7 billion, or a 4.1% increase. Prepaid and Other Assets increased by \$96.3 million in FY2023 after the July 1, 2023 benefit payments were prepaid due to July 1, 2023 falling on a weekend.
- Deferred outflows from SERS' participation in Ohio Public Employees Retirement System (OPERS) increased from FY2022 to FY2023. Deferred outflows from Pensions increased \$7.2 million and deferred outflows from Other Post Employment Benefits (OPEB) increased \$1.9 million. These deferred outflows increases resulted from OPERS' investments experiencing a loss in FY2022 compared to the 6.9% assumed rate of return.
- SERS' total liabilities at June 30, 2023 were \$197.5 million, a decrease of \$102.8 million, or 34.2%, compared to FY2022 liabilities. The decrease is attributed to a decrease in investments payable, which fluctuate due to the timing of investment purchases.
- Deferred inflows decreased from FY2022 to FY2023 from SERS' participation in OPERS and Governmental Accounting Standards Board Statement No. 87, Leases. Deferred inflows from pensions decreased by \$9.7 million and deferred inflows from OPEB decreased by \$3.1 million. The decrease in deferred inflows is primarily due to the difference between the OPERS projected 6.9% investment rate of return and the OPERS actual FY2022 investment losses. This difference transitioned the balance to a net deferred outflow as noted above. Deferred inflows from tenant leases decreased by \$0.3 million due to lease amendments.
- Total additions to plan net position were \$2.3 billion, comprised of contributions of \$1.0 billion, \$0.1 billion of other income and net investment income of \$1.2 billion. This was an increase of \$1.5 billion in net investment income from FY2022 to FY2023. Investments experienced a 7.39% net return in FY2023 compared to a 0.49% net loss in FY2022.
- Total deductions from plan net position for FY2023 totaled \$1.6 billion, including benefits payments of \$1.5 billion and administrative expenses of \$33.2 million, an increase of 4.3% from FY2022 deductions. Included in administrative expenses are personnel, professional, communication, computer support, facility expenses, and depreciation.
- The net increase in plan net position was \$691.4 million compared to a net decrease of \$866.3 million in FY2022. The

majority of the variance is due to strong investment earnings in FY2023 and a volatile market in FY2022.

CONDENSED SUMMARY OF TOTAL FIDUCIARY NET POSITION				
(\$ in millions)				
ASSETS	2023	2022	Change	
			Amount	Percent
Cash	\$774.7	\$959.4	(\$184.7)	(19.3%)
Receivables	196.3	217.8	(21.5)	(9.9)
Investments	17,329.9	16,650.0	679.9	4.1
Capital Assets, Net	51.6	55.2	(3.6)	(6.5)
Other Assets	101.1	4.8	96.3	2,006.3
Total Assets	18,453.6	17,887.2	566.4	3.2
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows	11.6	2.5	9.1	364.0
LIABILITIES				
Benefits & Accounts Payable	40.8	25.6	15.2	59.4
Other Liabilities	156.7	274.7	(118.0)	(43.0)
Total Liabilities	197.5	300.3	(102.8)	(34.2)
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows	2.0	15.1	(13.1)	(86.8)
Fiduciary Net Position	\$18,265.7	\$17,574.3	\$691.4	3.9%

This table depicts a summary presentation of the assets and liabilities of SERS as of June 30, 2023 and 2022. 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	2023	2022	Change	
			Amount	Percent
Contributions	\$1,013.4	\$954.1	\$59.3	6.2%
Other Income	134.3	97.4	36.9	37.9
Net Investment Income (Loss)	1,183.0	(346.4)	1,529.4	441.5
Total Additions	2,330.7	705.1	1,625.6	230.5
DEDUCTIONS				
Benefits	1,498.6	1,456.6	42.0	2.9
Refunds & Transfers	107.5	90.2	17.3	19.2
Admin. Expenses	33.2	24.6	8.6	35.0
Total Deductions	1,639.3	1,571.4	67.9	4.3
Net Increase (Decrease)	691.4	(866.3)	1,557.7	(179.8)
Balance, Beginning of Year	17,574.3	18,440.6	(866.3)	(4.7)
Balance, End of Year	\$18,265.7	\$17,574.3	\$691.4	3.9%

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' Total Fund generated a net of fees return of 7.4% in FY2023, exceeding the policy benchmark by 0.3%. The total return was helped by strong return(s) of 15.6% net of fees from Global Equity while returns for all other asset classes were below the total fund return. Positive excess return of total fund was contributed by strong excess returns in Private Equity at 6.6% followed by Real Assets at 2.9%, Fixed Income at 1.7%, and Opportunistic at 1.6%. The Total Fund five-year return of 8.3% net of fees exceeded the policy benchmark by 1.1%, while the ten-year return of 8.5% net of fees exceeded the benchmark by 0.9%. Implementation of the investment program has added value to the fund over one-, three-, five-, ten-, and twenty-year periods relative to the Total Fund benchmark, and exceeded the actuarial rate of 7.0%. SERS returns ranked in the top decile (10%) in Wilshire's public fund universe on a gross of fee basis for the three-, five-, and ten-year periods.

Strategies

SERS makes investments in seven different asset classes and strategies: Global Equity, Global Private Equity, Global Fixed Income, Global Private Credit, Global Real Assets, Opportunistic and Tactical Investments, and Cash Equivalents.

Global Equities - SERS invests in equity securities to earn a premium over government treasury bonds, which is compensation for assuming the relatively higher risk inherent in public equity securities. A sizeable allocation to Global Equities is necessary to meet the long-term return goal.

Global Private Equity - SERS invests in private equity to provide risk-adjusted returns in excess of those provided by publicly traded equities.

Global Fixed Income - SERS invests in fixed income assets for the primary purpose of risk diversification and decreasing the overall risk of the investment plan. Fixed income assets may include sovereign debt securities, global corporates, securitized securities, private placements, convertibles, derivatives, and currency.

Global Private Credit - SERS invests in private credit to provide risk adjusted returns in excess of those offered by publicly traded fixed income securities and to generate a consistent stream of income.

Global Real Assets - The role of SERS' Global Real Assets portfolio is to provide a stable income return from tangible assets, to be a partial inflation hedge over the long term, and to provide low correlation to equities.

Opportunistic and Tactical Investments - SERS invests in opportunistic investments for the purpose of earning returns greater than the Bloomberg US Aggregate Bond Index + 2% for investments that do not fit within the existing asset classes. The investments are defined as tactical or non-traditional investment opportunities. Such investments may involve capitalizing on short-term market dislocations or other unique situations or innovative strategies including tactical allocation.

Cash Equivalents - SERS invests in cash equivalents for the purpose of earning market returns on cash held for benefits and expenses and to provide short-term cash needed to fund other asset classes. Cash Equivalents are fixed income assets with maturities of less than 270 days and may include US government, asset-backed, corporate, and high quality money market-type securities.

Diversification

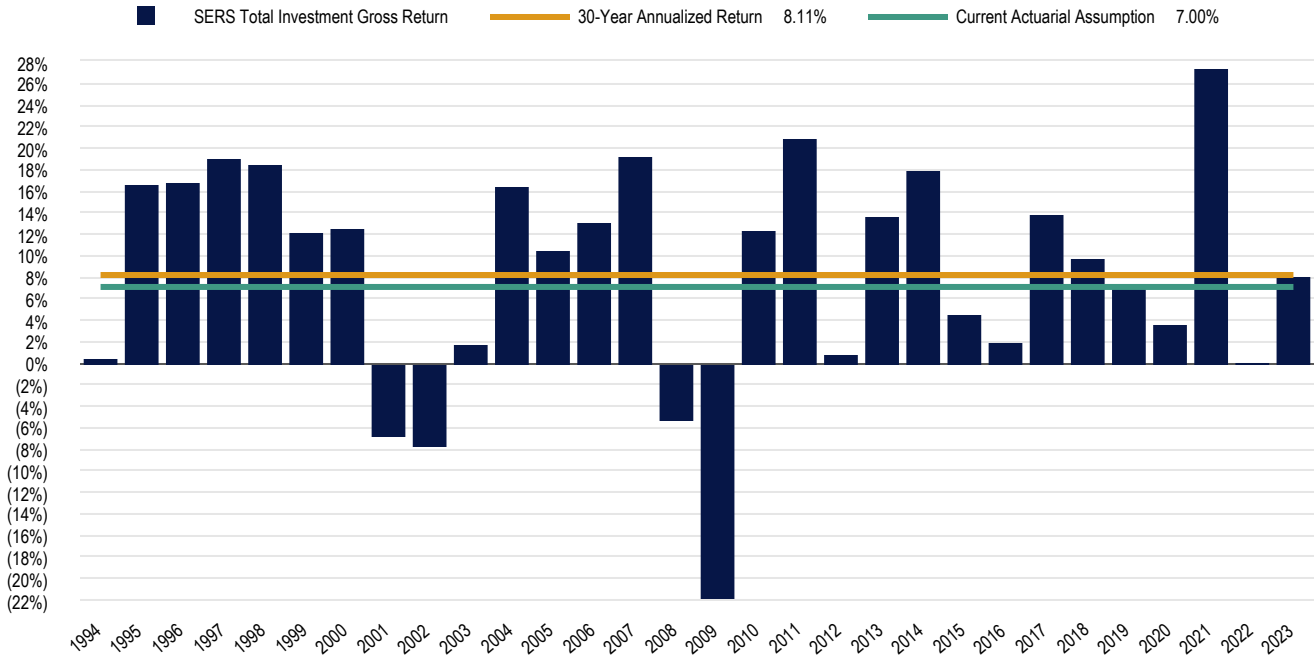
Broad diversification within an investment portfolio is used to control the level of risk and volatility within the portfolio over the long-term. SERS has adopted a broadly diversified asset allocation policy, and the strategies used within each asset class also have been diversified.

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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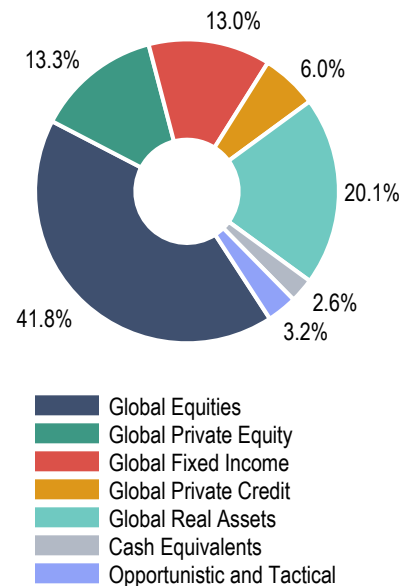
SERS Total Investment Return (Gross of Fees)



Investment Summary as of June 30, 2023

	Fair Value	% of Fair Value	Policy	Range
Global Equities	\$7,492,526,497	41.8%	45.0%	35% - 55%
Global Private Equity	2,373,409,512	13.3	12.0	8 - 16
Global Fixed Income	2,318,371,725	13.0	19.0	12 - 26
Global Private Credit	1,074,493,283	6.0	5.0	3 - 7
Global Real Assets	3,593,736,459	20.1	17.0	14 - 20
Cash Equivalents	469,694,333	2.6	2.0	0 - 7
Opportunistic and Tactical	572,882,795	3.2	0.0	0 - 5
Total Portfolio	\$17,895,114,604	100.0%	100.0%	

Asset Allocation



Pension Funding

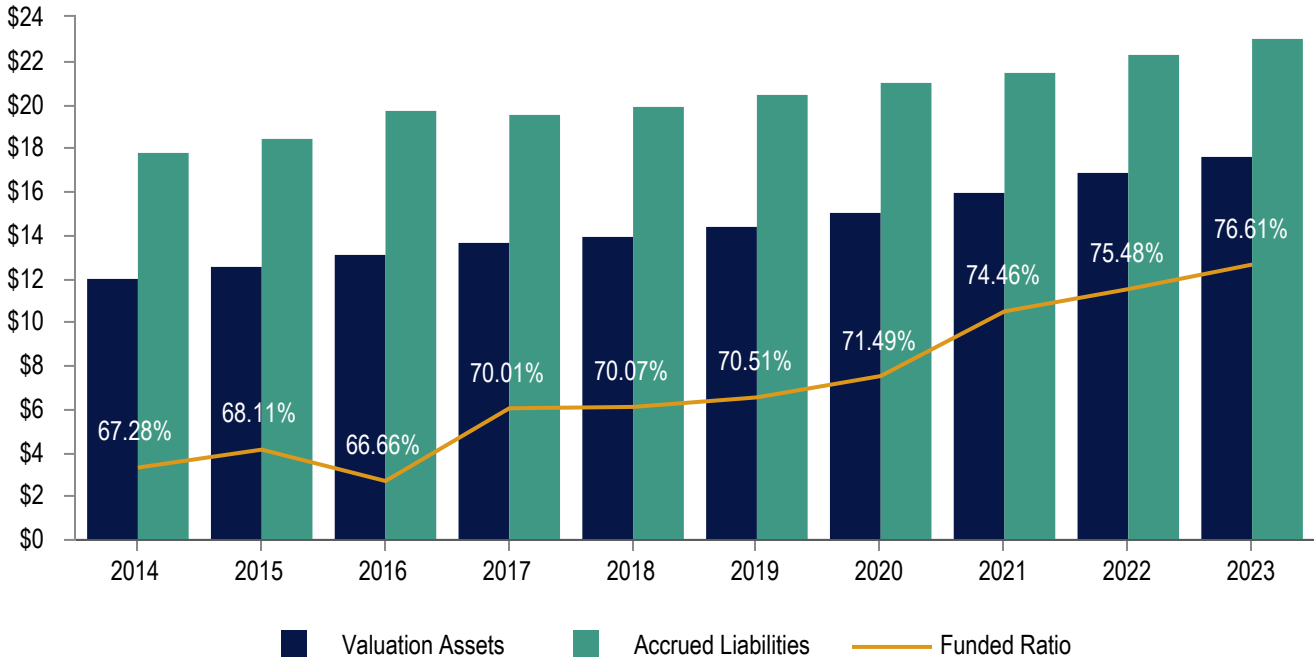
SERS' retirement benefits are funded with member contributions (10% of pay), employer contributions (14% of pay), and income earned from investment returns on those contributions.

The Basic Pension Funding chart, which includes pension, Medicare B, and death benefits, 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 was at 21 years as of June 30, 2023.

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

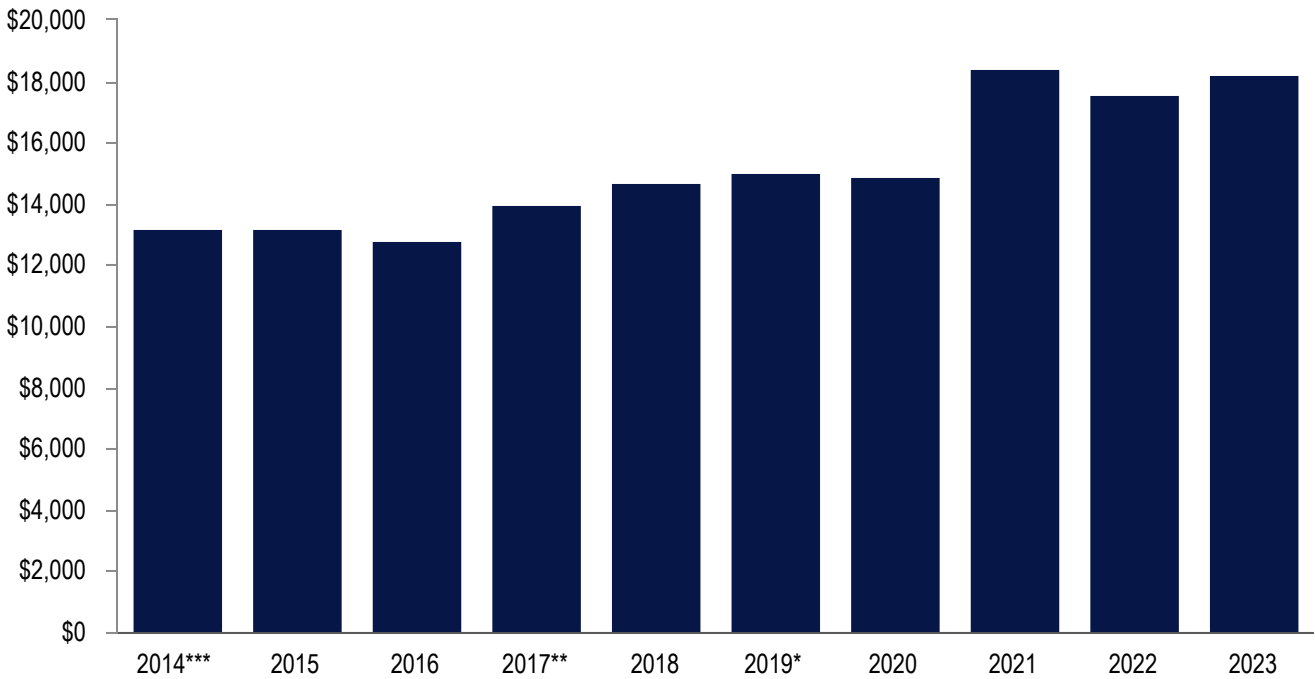
Basic Pension Funding (\$ in billions)

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

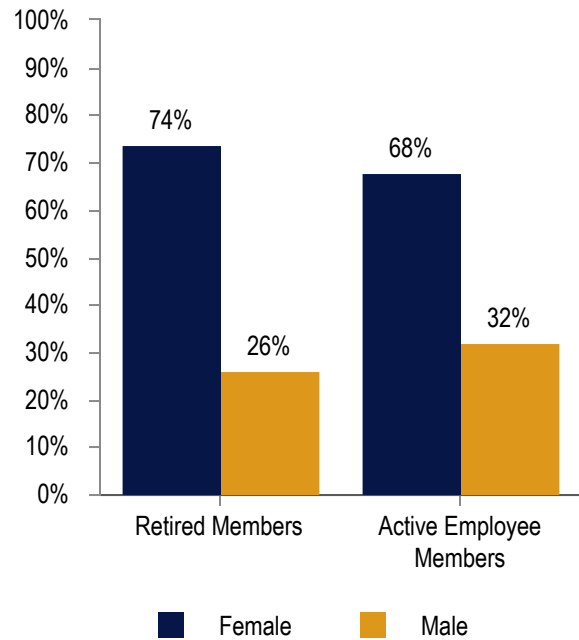
SERS' members include administrative personnel, bus drivers, food service workers, maintenance personnel, educational aides, business officials, and other non-certified school employees who are vital to the operation of Ohio's schools. Our demographics are quite different from those of the other Ohio 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	\$1,390	\$1,442	\$831
Average Age	75.4	68.4	72.7

Average Active Employee Member Statistics		
Age	Service	Annual Salary
46.9	7.3	\$26,888

Membership Data (as of June 30)		
	2023	2022
Retirees and beneficiaries currently receiving benefits	81,833	81,151
Inactive employee members entitled to but not yet receiving benefits	6,413	6,118
Active employee members	159,873	155,063
Total Retirees and Employee Members	248,119	242,332

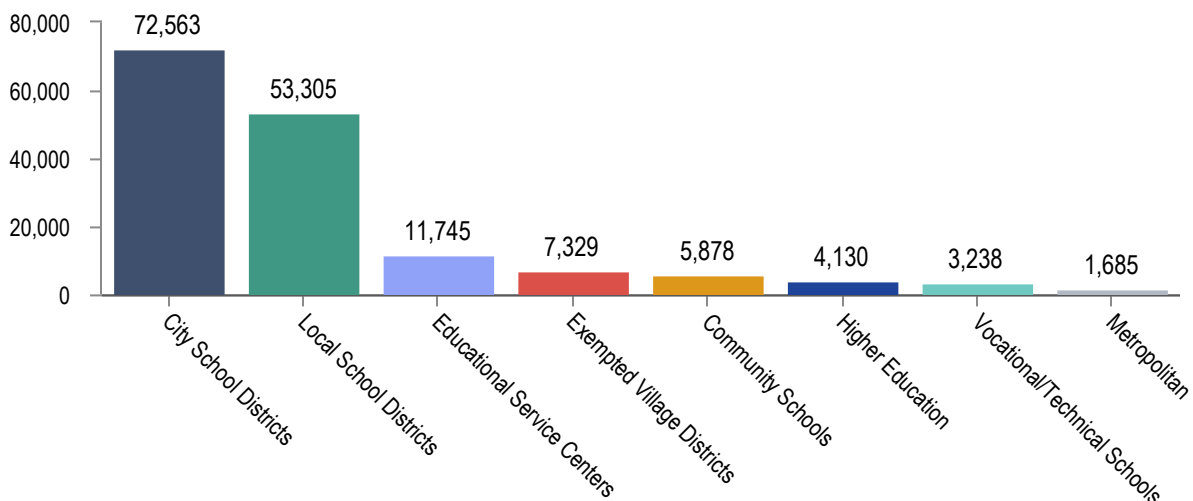
Gender Distribution



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 employee members, reporting contribution detail for each employee member, submitting employee member contributions, and processing all contributions.

Covered Employee Members



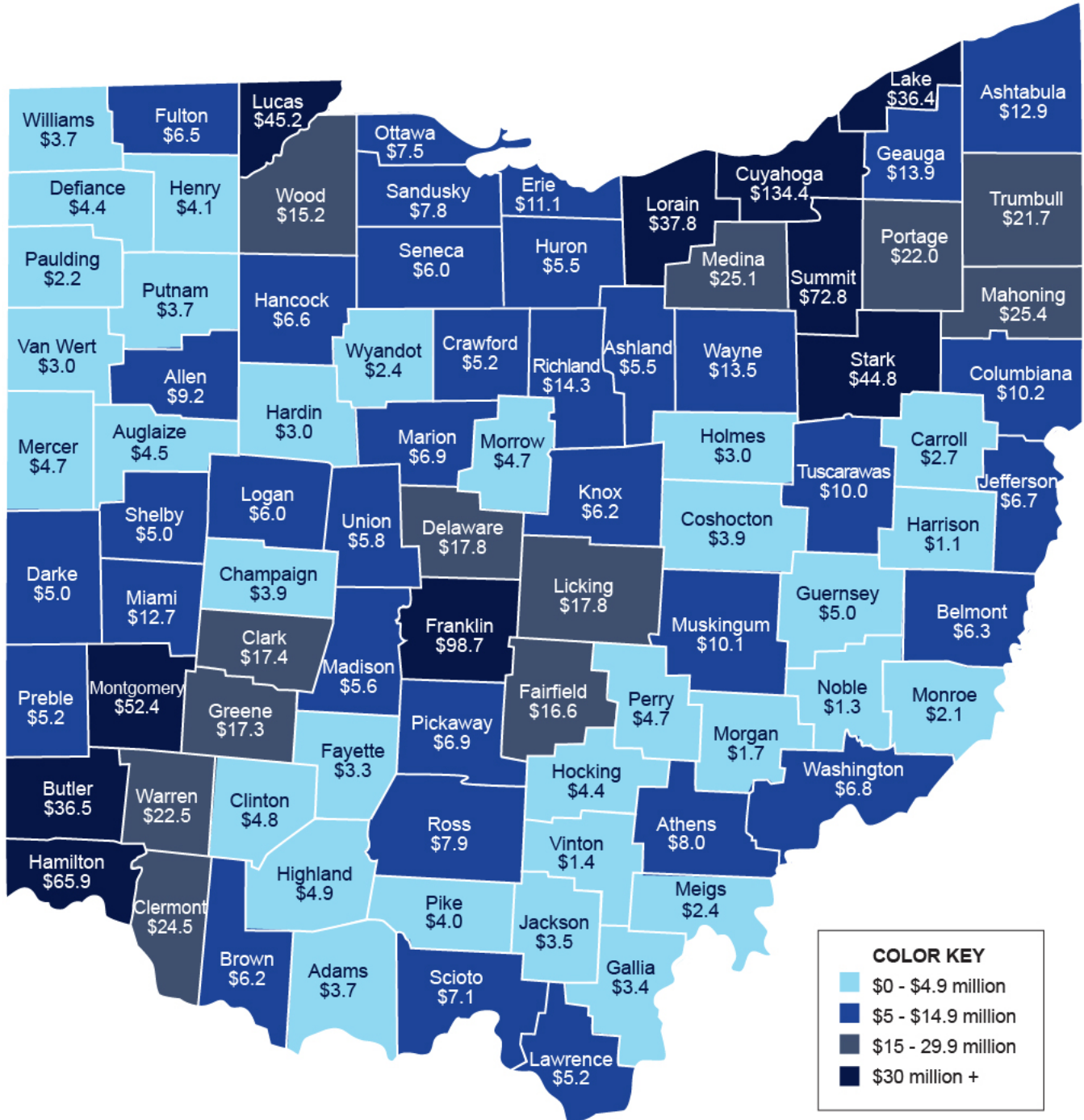
As of June 30, 2023, there were 159,873 covered employee members.

Economic Impact

Public pensions positively impact Ohio's economy. Of the 81,833 individuals receiving pension benefits from SERS, nearly 91% live in Ohio.

In FY2023 alone, benefit payments of approximately \$1.25 billion were distributed among Ohio's 88 counties, positively impacting the state's economy. For every dollar in employer contributions invested in SERS' retirement benefits last year, \$2.45 was returned to local economies.

Pension Benefits by County FY2023 (\$ in millions)



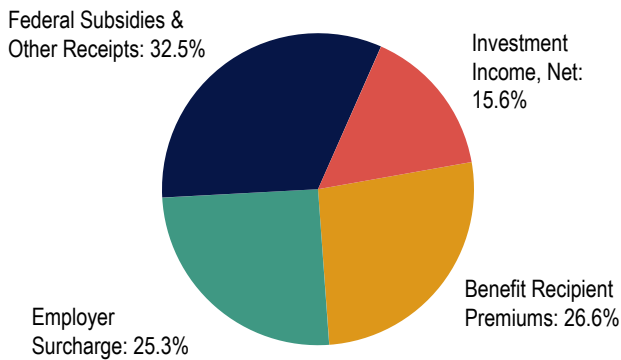
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Health Care

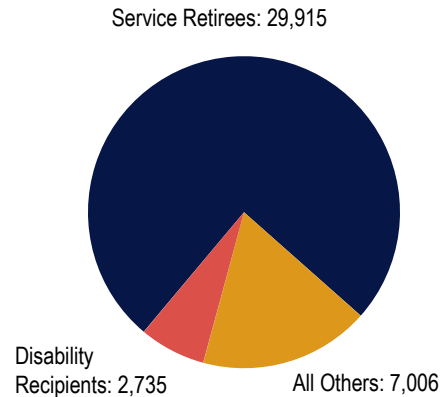
We know for many of our retirees that a secure retirement means more than a pension. Since 1974, SERS has worked to provide retirees access to group health care coverage.

The Health Care Fund balance was \$706.8 million at June 30, 2023. This was an increase of \$95.2 million from the prior year. SERS funds health care through a combination of investment income generated on the Health Care Fund, federal subsidies, premiums, employer contributions (when permitted by SERS' funding policy), and a separate employer-funded health care surcharge to compensate for low-wage salaries. If the health care surcharge, which is capped at 1.5% of statewide employer payroll, is received and all other actuarial assumptions are met, the Health Care Fund is projected to remain solvent through 2062, or a 39-year solvency period, as of June 30, 2023.

FY2023 Health Care Fund Income



FY2023 Health Care Participants

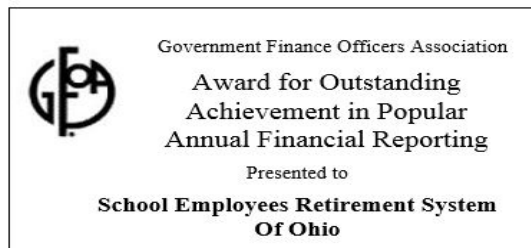


About SERS

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.

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SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO - RETIREMENT BOARD as of June 30, 2023

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



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