

# **SERS Retirement Board Annual Retreat Meeting Minutes**

**February 16, 2024**

## **Introduction**

SERS Executive Director, Richard Stensrud, introduced the first retreat presenter, Dr. Anirban Basu. Dr. Basu has presented to SERS in the past and is Chairman & CEO of Sage Policy Group, Inc., an economic and policy consulting firm headquartered in Baltimore, Maryland with an office in Orlando, Florida.

The second presenters were from KKR, a leading global investment firm. David McNellis serves as Head of Research and U.S. Macro for KKR's Global Macro, Balance Sheet and Risk team and Ari Barkan is a Managing Director in Global Client Solutions. He serves as the Head of the U.S. Central Region for Institutional Client Solutions.

The third presenter, Nate Haws, is the Associate Principal Consultant and AI Researcher at Linea Solutions. Mr. Haws has over 20 years of experience working with public and private sector retirement plan administration and Mr. Haws provided an AI (Artificial Intelligence) demo.

Lastly, Mr. Stensrud stated Todd Green and John Garrett from Cavanaugh Macdonald would provide the board with a risk assessment and an update on the sustainability of the fund.

## **Educational Session on Current U.S. Economic Conditions – Dr. Basu**

Dr. Anirban Basu, Chairman and CEO of Sage Policy Group, Inc., provided a presentation titled “The Good, the Bad, and the Ugly” that focused on the current economic conditions in the U.S. and Ohio. Dr. Basu advised that his goal is to spot issues in the economy and report them so SERS can create its own forecast.

Dr. Basu stated that money supply is at the heart of all things. When the money supply is abundant, everything is good. Dr. Basu reported that consumer spending is at an all-time high with the highest amounts being spent on travel, concerts, experiences, and other consumer goods. Although American spending is at an all-time high, many people are living paycheck to paycheck.

Dr. Basu continued his presentation with a discussion about the current unemployment rates, the drawdown of personal savings, the consumer price index, and the real estate market. Dr. Basu closed his presentation by stating that we are a deeply indebted society currently facing high borrowing costs & for this reason, Dr. Basu is pessimistic about the near-term outlook. Dr. continued, stating that it will come nearly a year after initially anticipated, but recession is coming in 2024.

After several questions and a robust discussion, the board thanked Dr. Basu for his entertaining and informative presentation.

## **Roll Call**

The SERS Annual Board Retreat roll call was as follows: Frank Weglarz, Jeffrey DeLeone, James Haller, Matthew King, Catherine Moss, Barbra Phillips, James Rossler, Aimee Russell, and Daniel Wilson. Also attending in person stakeholders and various members of the SERS staff. Members of the public attended virtually.

Following the roll call, the board took a break at 9:52 a.m.

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Board member Matthew King excused himself from the retreat during the break.

The board reconvened at 10:05 a.m.

## **Educational Session on Current U.S. Economic Conditions - KKR**

David McNellis of KKR introduced himself and his colleague Ari Barkan & opened their presentation with an executive summary. Mr. McNellis' forecast of the economy is "Glass Half Full", as indicated by the title of the presentation. Mr. McNellis reported that he still thinks we are in a good environment for risk assets, including areas beyond large capitalization growth stocks. Mr. McNellis also reported that investors are likely too defensively positioned; at the same time, central bank balance sheets are still quite accommodative, which is important for all valuations. Also, lack of central bank tightening should allow the cost of capital to become more definable in 2024, which should accelerate capital markets and M&A activity.

Mr. McNellis continued, stating he does not believe in the "hard landing" thesis where a recession will come as the economy sharply declines and unemployment rapidly rises. Instead, he believes a recession will come but slowly and at the end of 2024. Mr. McNellis suggests a diversified portfolio will perform better in the future when it comes to asset class expectations. Following slides about inflation and the labor market, the board asked several questions then thanked Mr. McNellis and Mr. Barkan for their presentation.

The board took a break for lunch at 11:10 a.m.

The board reconvened after lunch at 12:15 p.m.

## **Educational Session on Artificial Intelligence – Linea Solutions, Inc.**

Following the lunch break, Mr. Stensrud introduced Nate Haws of Linea Solutions, Inc. Mr. Haws has over 20 years of experience working with public and private sector retirement plan administration. He has worked on multiple large-scale information technology projects as a business analyst, project manager and many other roles. He has worked on Pension Administration System implementation projects from the research/feasibility phases to the implementation phases and is currently working with SERS to utilize Artificial Intelligence to enhance our business operations.

Mr. Haws opened his presentation by describing the concept of digital debt. Microsoft describes *Digital Debt* as the circumstance we have where we are no longer able to keep up with the administration of our lives, and we spend more time in each of our days in meetings, answering emails, answering calls and texts, and less time producing or creating. Mr. Haws defined Artificial Intelligence as computer systems' ability to perform tasks normally requiring human intelligence. This concept has been around for years and is used by such things as Siri, Netflix recommendations, and autocorrect.

Mr. Haws continued his presentation, reporting that by 2025, 70% of enterprises will identify the sustainable and ethical use of AI among their top concerns and 35% of large organizations will have a chief AI officer who reports to the CEO or COO. More importantly, Mr. Haws stated that through 2026, despite all of the advancements in AI, the impact on global jobs will be neutral – meaning there will not be a net decrease or increase.

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Mr. Haws reported on how SERS is carefully adopting AI right now. SERS will set guidelines to protect our data, mitigate risks & use AI responsibly and will work with industry peers and consultants to create the AI policy using best practices. SERS intends to create an AI committee. This governing body will ensure that SERS values are protected and will be responsible for AI-related decisions and use case approvals with representation from Legal, IT, Security, and Operations. All AI tools will be evaluated on consistent parameters such as cost, benefits, security standards, etc.

Mr. Haws provided a real-time AI demonstration for the board to display the features available. Mr. Haws reiterated that with proper guidelines for responsible use, AI provides many business benefits and meets security requirements.

After a robust discussion, the board thanked Mr. Haws for an informative presentation.

The board took a break at 1:30 p.m.

The board reconvened at 1:45 p.m.

## **Educational Session on Pension Sustainability – Cavanaugh Macdonald**

Mr. Stensrud welcomed the board back into open session and introduced Todd Green and John Garrett of Cavanaugh Macdonald, who provided the annual pension sustainability presentation. Todd Green reported as SERS' actuary, one of Cavanaugh Macdonald's roles is to identify risks that could impact the System's future financial condition. The primary types of risk that could affect funding are:

- **Investment risk:** Investment return is different than expected.
- **Longevity risk:** Mortality experience is different than expected.
- **Covered payroll risk:** Covered payroll will not increase as assumed.
- **Active population risk:** Number of active members decline.
- **Contribution rate risk:** Contribution rates are too high for the employer to pay.

Actuaries assess these risks through a series of plan maturity measurements, such as comparing the number of actives to retirees; retired liability to total liability; net cash flow to market value of assets; and market value of assets to payroll.

Cavanaugh Macdonald began its qualitative risk assessment by examining SERS' funding and amortization policies; the size of active membership compared to growth in total covered payroll; and the effect of annual cost-of-living adjustments (COLAs).

Mr. Green continued, stating currently, employers are required to pay a contribution rate of 14% and members are required to pay 10%. Employer contributions exceeding those required to pay basic benefits may be allocated to the Health Care Fund.

In keeping with SERS' objective of maintaining a closed amortization period, the Board approved a change to the System's funding policy in 2015. If the funded ratio of the pension fund is below 70%, all 14% of the employer contribution must be allocated to SERS' basic benefits; if the funded ratio is at least 70%, but less than 80%, the Board can allocate up to 0.50% of the 14% employer contribution toward health care; if the funded ratio is at least 80%,

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but less than 90%, the Board can allocate up to 0.75% to basic benefits; and if the funded ratio is 90% or greater, the Health Care Fund may receive any portion of the employer contribution that is not needed for basic benefits. Mr. Green noted that SERS' funding policy is a positive factor as it has accelerated the funding of the pension plan by \$600 million.

The System's amortization policy is that SERS' unfunded actuarial accrued pension liability must be amortized, or paid off, within thirty years. Mr. Green remarked that this is also a positive factor. When evaluating the size of SERS' active membership to the total covered payroll, the assessment found that this factor presents a limited risk due to increased active membership.

Mr. Green continued, stating that a reduction in population will result in a reduction in covered payroll which will reduce the funding available to the System since employer contributions are limited to 14% of payroll which will ultimately increase the amount of time necessary to completely amortize the unfunded liability.

As far as mortality risk is concerned, small, continuous improvements in mortality are anticipated. Mr. Green stated that recent experience represents approximately a 1% improvement per year. This presents a slight risk as retirees will be receiving a benefit for longer periods of time and there is the possibility in a sudden shift in life expectancy due to major medical advancements.

Finally, Mr. Green discussed investment risk. After performing a stress test, or an analysis used to determine the ability of a financial institution to manage an economic crisis, it was determined that SERS could sustain a single "shock" return like the one experienced in FY2009, but it would likely require more Board action to maintain pension sustainability. Therefore, this presents a slight risk to the System.

In conclusion, Green and Garrett stated SERS' risk profile has improved since the 2022 due to the following factors:

- Investment performance since June 30, 2022
- The Board's funding policy has accelerated funding of Basic Benefits by \$874 million
- Since June 30, 2022, covered payroll grew by 7.6% compared to the assumed rate of 1.75%

Mr. Green concluded that this assessment is primarily due to investment performance and the Board's funding policy. However, the Board needs to continue to monitor risks and adjust as necessary. Following a robust discussion, the board thanked Mr. Green and Mr. Garrett for their presentation.

Mr. Stensrud offered closing remarks and thanked everyone for their attendance and participation.

Board Chair Frank Weglarz also thanked everyone for coming and appreciated the great discussion.

The meeting adjourned at 2:32 p.m.

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Frank Weglarz, Board Chair

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Richard Stensrud, Secretary