

School Employees Retirement System of Ohio
SUMMARY ANNUAL FINANCIAL REPORT

For the year ended June 30, 2015
Serving the People Who Serve Our Schools®



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 provides an overview of SERS' financial health, investment performance, and demographics for fiscal year 2015 (July 1, 2014-June 30, 2015). All of the information summarized in this publication can be found in more detail in our *Comprehensive Annual Financial Report* (CAFR), which can be viewed on our website at www.ohsers.org/financial-reports-1.

Important organizational accomplishments made during the fiscal year include:

- Collaborating with the other Ohio pension systems to preserve joint retirement so public employees with service time in two or more public pension funds can combine service into one meaningful benefit
- Early support for HR 711, Equal Treatment of Public Servants Act, federal legislation that would replace the Windfall Elimination Provision (WEP) with a fairer formula based on each individual's Social Security contributions
- Assisting 145 retirees in restoring their Medicare Part B coverage
- Being named the Ohio Senior Health Insurance Information Program's Partner of the Year for our collaboration with them on educating members about Medicare eligibility and enrollment
- Participating in the Ohio Institutional Investors Forum in five different sessions
- Conducting educational meetings for members through their professional organizations to focus on the unique needs of those members
- Providing more education, counseling, and services around the state to assist members and retirees

Our motto is "serving the people who serve our schools" and we take great pride in providing exceptional customer service. During FY2015, staff answered nearly 550 member/retiree phone calls per business day, and initiated thousands more interactions while conducting webinars, providing one-on-one and group counseling sessions, processing retirement applications, and preparing benefit estimates and refund applications. To measure the quality of our service, we conducted quarterly customer service surveys with members and retirees who contacted SERS by phone or email. While the results consistently showed a high level of customer satisfaction, we'll keep working to make every interaction with SERS a positive one.



Lisa J. Morris, *Executive Director*

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

DANIEL L. WILSON
Chair, Appointed Member

CATHERINE P. MOSS
Vice-Chair, Retiree-Member

DEBRA J. BASHAM
Employee-Member

NANCY D. EDWARDS
Appointed Member

MADONNA D. FARAGHER
Employee-Member

CHRISTINE D. HOLLAND
Employee-Member

BARBRA M. PHILLIPS
Employee-Member

JAMES A. ROSSLER, JR
Appointed Member

FRANK A. WEGLARZ
Retiree-Member



Government Finance Officers Association

Award for
Outstanding
Achievement in
Popular Annual
Financial Reporting

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School Employees Retirement System
of Ohio

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 FY2015, 13.18% of the 14% employer contribution rate was necessary to cover the costs of pensions and the remaining 0.82% was devoted to health care.

SERS has five main sources of income: employer contributions, member contributions, investment income, health care premiums, and Medicare subsidies for retiree prescription drugs.

In 2015, the largest addition to the fund came from employer contributions.

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.

FY2015 financial highlights include:

- Total additions to SERS' net assets were \$1.3 billion; \$887 million from contributions and net investment income of \$453 million.
- Total deductions were \$1.4 billion, an increase of 7.0% from FY2014
- The decrease in net position totaled \$19 million, compared to a \$1.6 billion net increase in FY2014.

CONDENSED SUMMARY OF TOTAL FIDUCIARY NET POSITION				
<i>(\$ in millions)</i>				
	2015	2014	Change	
			Amount	Percent
ASSETS				
Cash	\$ 738.1	\$ 738.4	\$ (0.3)	0.0%
Receivables	396.5	278.3	118.2	42.5
Investments	12,513.4	12,760.5	(247.1)	(1.9)
Capital Assets, Net	62.7	55.8	6.9	12.4
Other Assets	<u>0.2</u>	<u>0.3</u>	<u>(0.1)</u>	<u>(33.3)</u>
Total Assets	<u>13,710.9</u>	<u>13,833.3</u>	<u>(122.4)</u>	<u>(0.9)</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows - Pension	<u>1.3</u>	<u>-</u>	<u>1.3</u>	<u>-</u>
LIABILITIES				
Benefits & Accounts Payable	34.1	25.3	8.8	34.9
Other Liabilities	<u>472.2</u>	<u>583.4</u>	<u>(111.2)</u>	<u>(19.1)</u>
Total Liabilities	506.3	608.7	(102.4)	(16.8)
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows - Pension	<u>0.2</u>	<u>-</u>	<u>0.2</u>	<u>-</u>
Net Position	<u>\$ 13,205.7</u>	<u>\$ 13,224.6</u>	<u>\$ (18.9)</u>	<u>(0.1)%</u>

This table depicts a summary presentation of the assets and liabilities of SERS as of June 30, 2015 and 2014. The Net Position shown is available for future payments of benefits to retirees, beneficiaries, and members of SERS.

CONDENSED SUMMARY OF CHANGES IN TOTAL FIDUCIARY NET POSITION				
<i>(\$ in millions)</i>				
	2015	2014	Change	
			Amount	Percent
ADDITIONS				
Contributions	\$ 887.3	\$ 874.9	\$ 12.4	1.4%
Net Investment Income (Loss)	<u>452.6</u>	<u>1,939.3</u>	<u>(1,486.7)</u>	<u>(76.7)</u>
Total Additions	<u>1,339.9</u>	<u>2,814.2</u>	<u>(1,474.3)</u>	<u>(52.4)</u>
DEDUCTIONS				
Benefits	1,248.4	1,174.1	74.3	6.3
Refunds & Transfers	88.8	63.2	25.6	40.5
Admin. Expenses	<u>21.6</u>	<u>32.1</u>	<u>(10.5)</u>	<u>(32.7)</u>
Total Deductions	<u>1,358.8</u>	<u>1,269.4</u>	<u>89.4</u>	<u>7.0</u>
Net Increase (Decrease)	(18.9)	1,554.8	(1,563.7)	(101.2)
Balance, Beginning of Year	<u>13,224.6</u>	<u>11,679.8</u>	<u>1,544.8</u>	<u>13.2</u>
Balance, End of Year	<u>\$ 13,205.7</u>	<u>\$13,224.6</u>	<u>\$ (18.9)</u>	<u>(0.1)%</u>

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' portfolio generated positive performance in FY2015, though much lower than the 17.28% return in the prior year. As noted in the last report, asset returns, particularly equities, have begun to moderate. The Total Fund return of 3.87% (net) for FY2015 exceeded the benchmark by 0.01%. Global Equities, Global Private Equity, and Opportunistic outperformed their respective benchmarks. The three-year Total Fund return of 11.21% (net) also exceeded the policy benchmark return of 10.42% and the actuarial rate of 7.75%.

SERS makes investments in six different asset classes: Global Equity, Global Fixed Income, Global Private Equity, Global Real Assets, Multi-Asset Strategies (MAS), and Opportunistic.

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 investment 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.

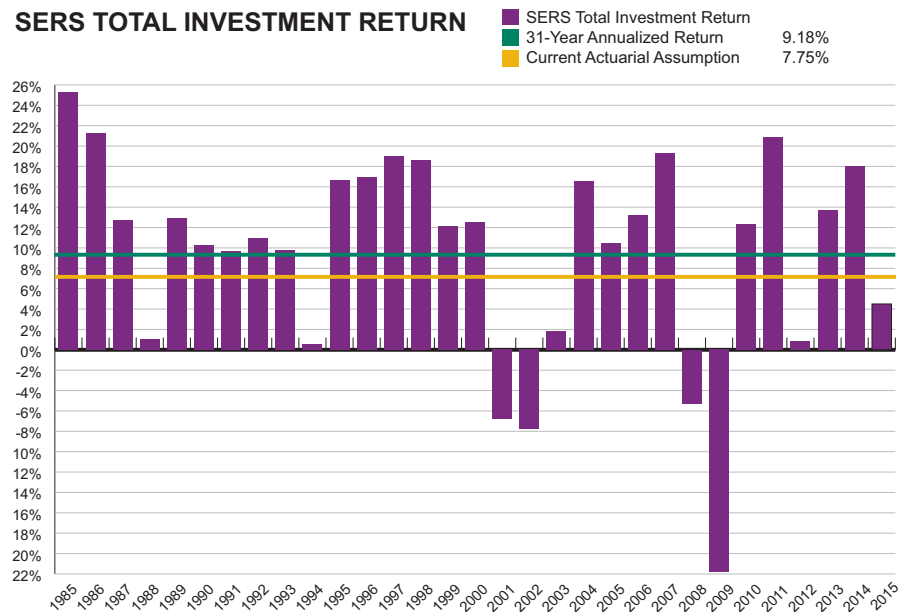
Global Fixed Income – SERS' global fixed income portfolio consists of core assets (Treasuries, corporate bonds, and mortgages), core plus assets (below investment grade corporate bonds, non-US debt, and emerging market debt), and emerging market debt assets (bonds issued by less developed countries).

Multi-Asset Strategies (MAS) – Currently, about 90% of the MAS portfolio is comprised of hedge funds with the other 10% 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).

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 – This asset class allows SERS to invest in short-term, non-traditional opportunities (such as direct lending) that do not fit within any of the other asset classes.

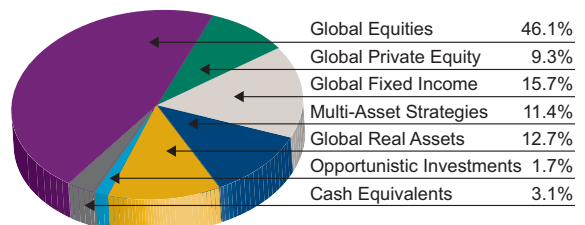
SERS TOTAL INVESTMENT RETURN



INVESTMENT SUMMARY AS OF JUNE 30, 2015

	Fair Value	% of Fair Value	Policy	Range
Global Equities	\$ 5,957,848,233	46.1%	45.0%	35% - 55%
Global Private Equity	1,204,104,271	9.3	10.0	5 - 15
Global Fixed Income	2,028,162,861	15.7	19.0	14 - 24
Multi-Asset Strategies	1,476,416,935	11.4	10.0	5 - 15
Global Real Assets	1,637,297,966	12.7	15.0	10 - 20
Opportunistic Investments	225,700,580	1.7	0.0	0 - 5
Cash Equivalents	404,346,123	3.1	1.0	0 - 5
Total Portfolio	\$ 12,933,876,969	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 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 27 years as of June 30, 2015.

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

Pension Funding



Total Net Position Last 10 Fiscal Years (\$ in millions)



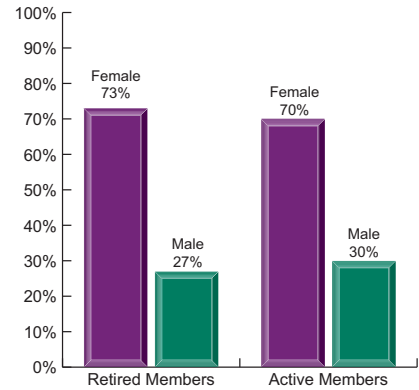
Membership

SERS' members include administrative personnel, bus drivers, food service workers, maintenance personnel, educational aides, treasurers, 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, investment, health care, and funding policies.

Retired Members by Type of Benefit			
	Service	Disability	Survivor
Average Monthly Benefit	\$1,162	\$1,371	\$688
Average Age	74.2	65.1	71.7

Average Active Member Statistics		
Age	Service	Annual Salary
48.5 years	9.7 years	\$23,161

Gender Distribution



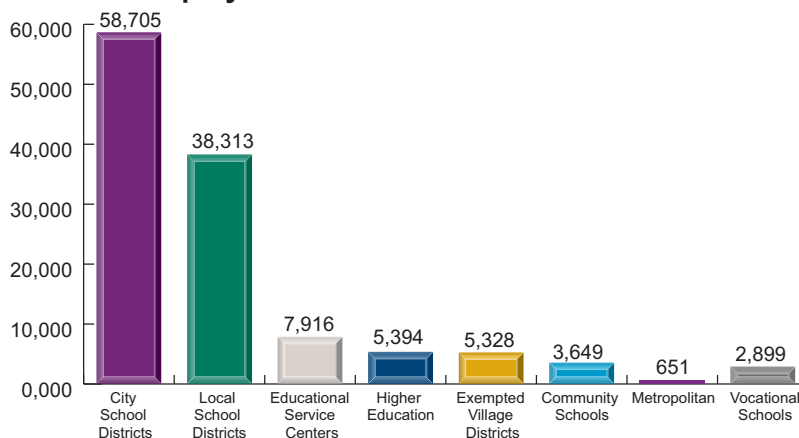
Employee Membership Data (as of June 30)			
	2015*	2014	2013
Terminated employees eligible but not yet receiving, and retirees and beneficiaries receiving benefits	81,235	79,654	78,017
Active employees	122,855	121,251	121,642

* Does not include 29,267 members with less than .25 years of service and 11,616 reemployed retirees.

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, 2015, there were 122,855 covered employee members.

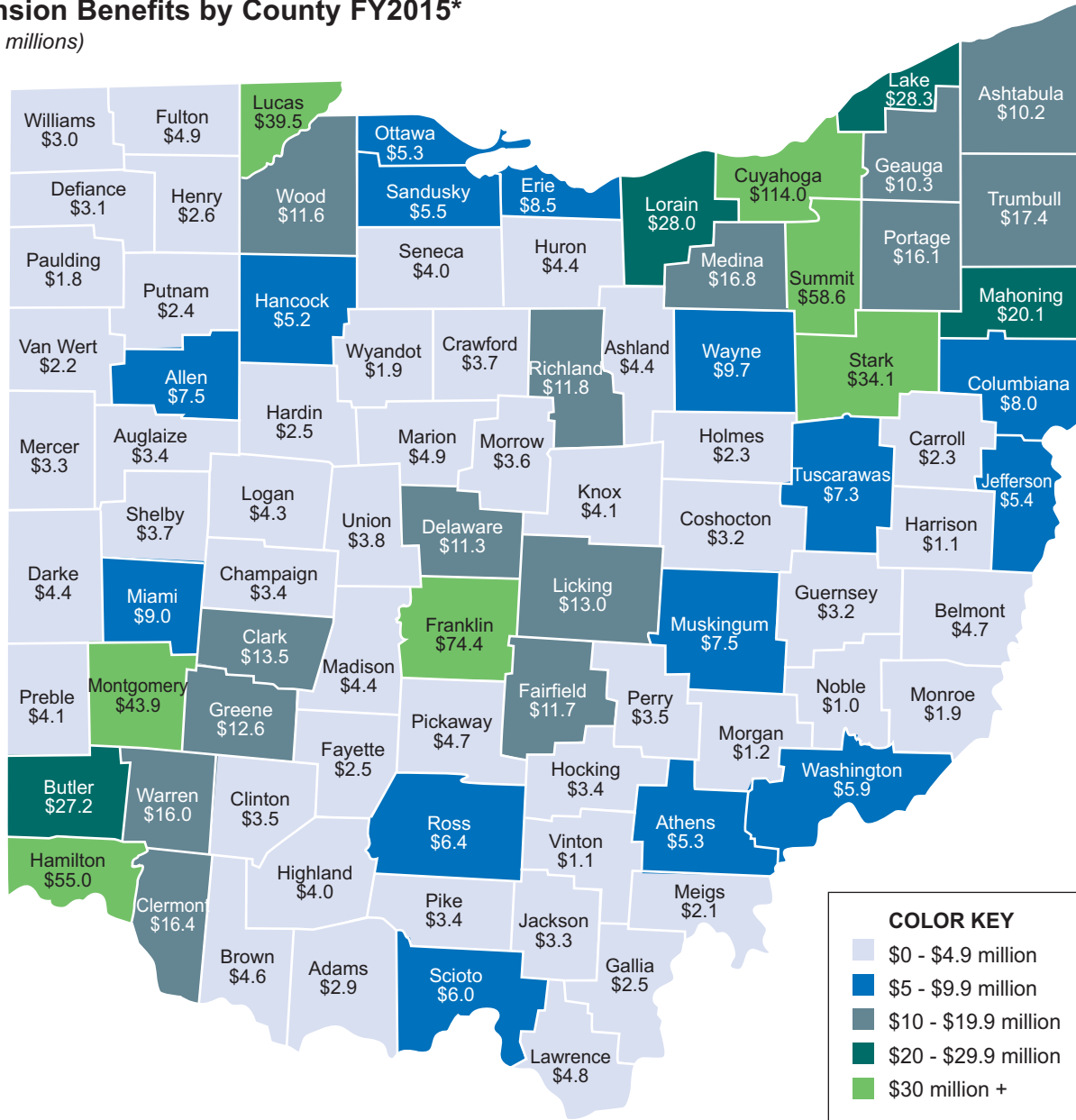
Economic Impact

Public pensions positively impact Ohio's economy. Of the 74,372 individuals receiving pension benefits from SERS, 91% live in Ohio.

In FY2015 alone, benefit payments of approximately \$1 billion were distributed among Ohio's 88 counties, positively impacting the state's economy. For every dollar in employer contributions invested in SERS' pensions last year, \$2.66 was returned to local economies.

Pension Benefits by County FY2015*

(\$ in millions)



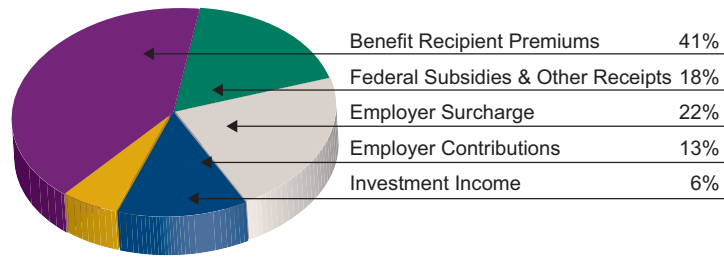
*Does not include 11,616 reemployed retirees.

Health Care

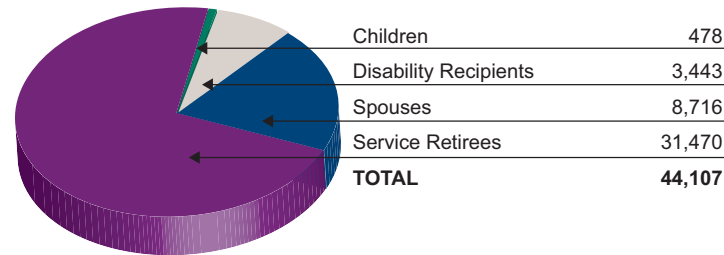
We know for many of our retirees that a secure retirement means more than a pension. Since 1974, SERS has worked to provide retirees access to group health care coverage.

The Health Care Fund balance was \$408 million at June 30, 2015. This was a decrease of \$5 million from the prior year. To fund health care, SERS uses investment income generated on the Health Care Fund, employer contributions, including a health care surcharge to compensate for low-wage salaries, and premiums. In FY2015, premiums remained the same for most health care enrollees.

FY2015 Health Care Fund Income



FY2015 Health Care Participants



About SERS

Established in 1937, SERS provides pensions and access to health care coverage for the people who served Ohio schools. Our members are bus drivers, custodians, administrators, administrative assistants, food service providers, and educational aides – anyone who works for a school or school system in a nonteaching position. Our employers include public K-12 school districts, vocational, technical, and community schools, community colleges, and the University of Akron. Protecting and growing the retirement contributions of our members and their employers is our priority.

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

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