



Summary Annual Financial Report

For the year ended June 30, 2016



School Employees Retirement System of Ohio
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 a concise overview of SERS' organizational accomplishments and financial highlights for the period of July 1, 2015 through June 30, 2016. For more detail on the information contained in this publication, please read our *Comprehensive Annual Financial Report* (CAFR), which is available on our website at www.ohsers.org/financial-reports-1.

Important organizational accomplishments made during the fiscal year include:

- Completing a Five-Year Experience Study that led to Board approval of several economic and demographic assumption changes and reduction of the assumed rate of investment return to 7.5%
- Coordinating a grassroots effort to mobilize SERS retirees against a 52% Medicare Part B increase; more than 9,000 SERS retirees contacted their legislators and the increase was reduced to 16%
- Completing an independent private equity portfolio review, which confirmed that private equity managers were charging fees in accordance with private equity funds' governing documents and that staff was properly monitoring fee calculations
- Participating in the Visionary Circle Committee of the National Institute on Retirement Security, which initiated a national study on pension portability to debunk the myth that defined benefit plans only are beneficial to career members
- Engaging Human Arc to assist non-Medicare retirees, who may be eligible for Medicare before age 65, with the Social Security Disability application process

In our continued efforts to provide exceptional customer service, we began posting online help videos for members and employers. The member eligibility videos cover important retirement topics with a length of approximately 2-3 minutes each. The employer videos explain how to complete forms that are critical to the retirement process.

Our website is constantly being updated with new information. We invite you to visit it often to see what is new.



Helen M. Ninos
Interim Executive Director

**SCHOOL EMPLOYEES
RETIREMENT SYSTEM OF OHIO
RETIREMENT BOARD**

BARBRA M. PHILLIPS
Chair, Employee-Member

MADONNA D. FARAGHER
Vice-Chair, Employee-Member

JAMES H. HALLER
Employee-Member

CHRISTINE D. HOLLAND
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CATHERINE D. MOSS
Retiree-Member

JAMES A. ROSSLER, JR
Appointed Member

DANIEL L. WILSON
Appointed Member

BEVERLY A. WOOLRIDGE
Retiree-Member

VACANT
Appointed Member

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



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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 FY2016, 9.11% of the employer contribution rate was allocated to the basic pension benefits, in accordance with a new funding policy intended to strengthen the funded ratio of the pension.

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

In 2016, 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.

FY2016 financial highlights include:

- Total additions to SERS' net position were \$1.0 billion; \$910 million from contributions and net investment income of \$109 million.
- Total deductions were \$1.4 billion, an increase of 3.2% from FY2015.
- The decrease in net position totaled \$384 million, compared to a \$19 million net decrease in FY2015.

CONDENSED SUMMARY OF TOTAL FIDUCIARY NET POSITION				
(\$ in millions)				
ASSETS	2016	2015	Change	
			Amount	Percent
Cash	\$ 658.9	\$ 738.1	\$ (79.2)	(10.7)%
Receivables	206.6	396.5	(189.9)	(47.9)
Investments	12,271.1	12,513.4	(242.3)	(1.9)
Capital Assets, Net	64.5	62.7	1.8	2.9
Other Assets	0.4	0.2	0.2	100.0
Total Assets	13,201.5	13,710.9	(509.4)	(3.7)
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows - Pension	5.7	1.3	4.4	338.5
LIABILITIES				
Benefits & Accounts Payable	38.2	34.1	4.1	12.0
Other Liabilities	346.5	472.2	(125.7)	(26.6)
Total Liabilities	384.7	506.3	(121.6)	(24.0)
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows - Pension	0.4	0.2	0.2	100.0
Net Position	\$12,822.1	\$13,205.7	\$ (383.6)	(2.9)%

This table depicts a summary presentation of the assets and liabilities of SERS as of June 30, 2016 and 2015. The 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 Principals (GAAP).

CONDENSED SUMMARY OF CHANGES IN TOTAL FIDUCIARY NET POSITION				
(\$ in millions)				
ADDITIONS	2016	2015	Change	
			Amount	Percent
Contributions	\$ 909.9	\$ 887.3	\$ 22.6	2.5%
Net Investment Income (Loss)	108.8	452.6	(343.8)	(76.0)
Total Additions	1,018.7	1,339.9	(321.2)	(24.0)
DEDUCTIONS				
Benefits	1,309.7	1,248.4	61.3	4.9
Refunds & Transfers	68.1	88.8	(20.7)	(23.3)
Admin. Expenses	24.5	21.6	2.9	13.4
Total Deductions	1,402.3	1,358.8	43.5	3.2
Net Increase (Decrease)	(383.6)	(18.9)	(364.7)	(1,929.6)
Balance, Beginning of Year	13,205.7	13,224.6	(18.9)	(0.1)
Balance, End of Year	\$12,822.1	\$13,205.7	\$ (383.6)	(2.9)%

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 FY2016, in a very challenging market environment. The Total Fund return of 1.38% (net) for FY2016 exceeded the benchmark by 0.45%. The three-year Total Fund return of 7.29% (net) also exceeded the policy benchmark return of 6.68%. The current environment of low interest rates, low inflation, and low growth portends a period of lower returns.

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 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).

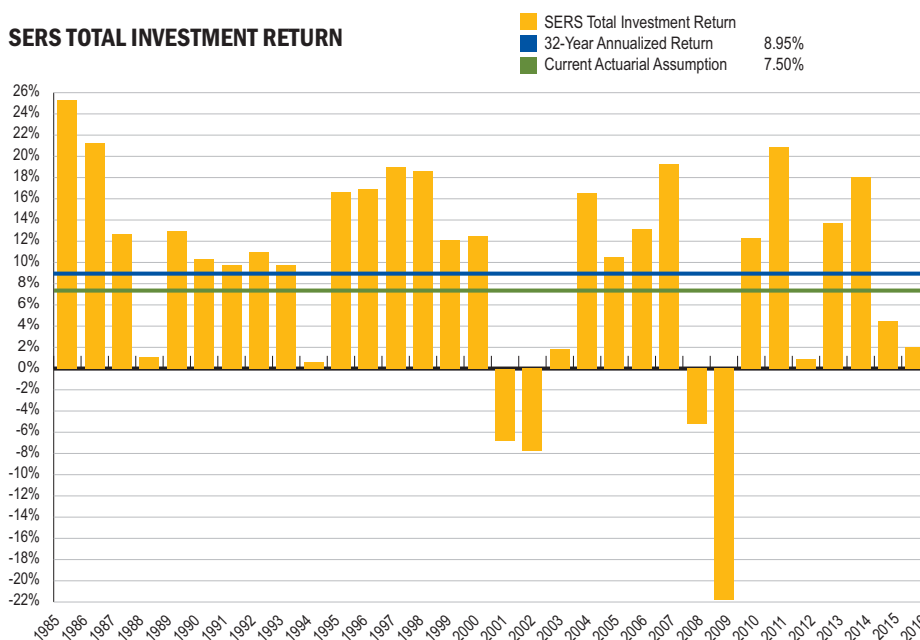
Multi-Asset Strategies (MAS) – Currently, about 90% of the MAS portfolio is comprised of hedge funds with the other 10% made up of multi-

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.

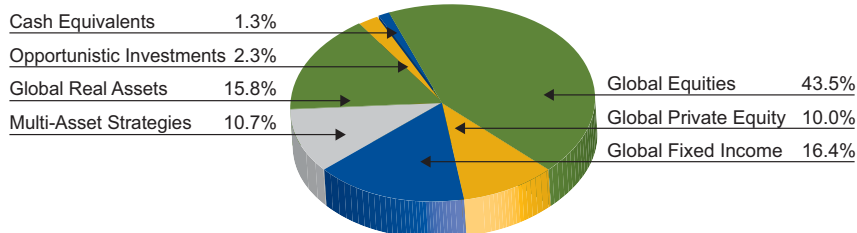
SERS TOTAL INVESTMENT RETURN



INVESTMENT SUMMARY AS OF JUNE 30, 2016

	Fair Value	% of Fair Value	Investment Policy	Target Investment Range
Global Equities	\$ 5,450,144,986	43.5%	45.0%	35% - 55%
Global Private Equity	1,247,290,934	10.0	10.0	5 - 15
Global Fixed Income	2,052,509,377	16.4	19.0	12 - 26
Multi-Asset Strategies	1,346,427,579	10.7	10.0	5 - 15
Global Real Assets	1,978,239,418	15.8	15.0	10 - 20
Opportunistic Investments	293,311,379	2.3	0.0	0 - 5
Cash Equivalents	168,590,680	1.3	1.0	0 - 5
Total Portfolio	\$ 12,536,514,353	100.0%	100.0%	

ASSET ALLOCATION



Pension Funding

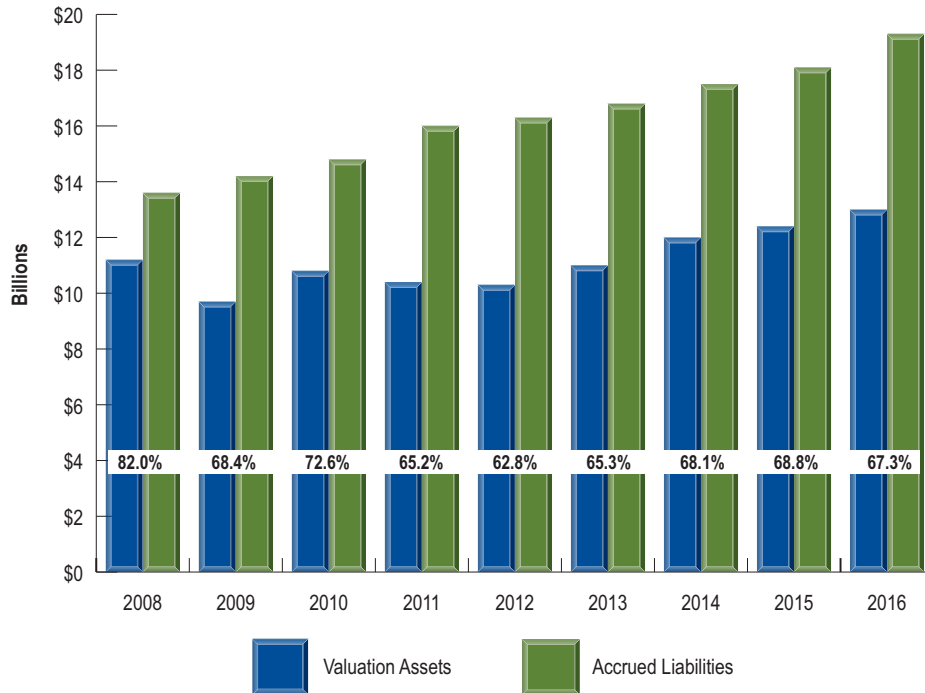
SERS' retirement benefits are funded with member contributions (10% of pay), employer contributions (14% of pay), and income earned from investment returns on those contributions.

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 28 years as of June 30, 2016.

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	\$1,202	\$1,414	\$710
Average Age	74.2	65.3	72.0

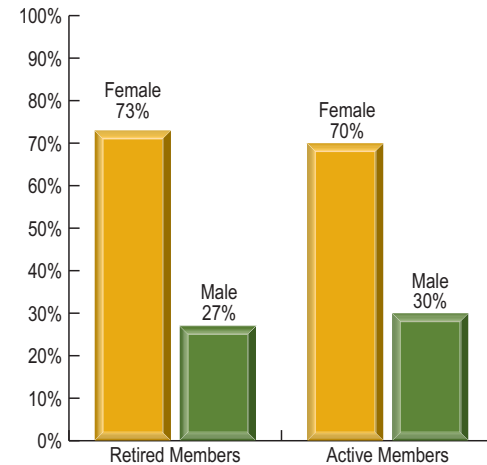
Average Active Member Statistics

Age	Service	Annual Salary
48.4 years	9.5 years	\$23,545

Employee Membership Data (as of June 30)

	2016	2015	2014
Terminated employees eligible but not yet receiving, and retirees and beneficiaries receiving benefits	83,099	81,235	79,654
Active employees	124,540	122,855	121,251

Gender Distribution

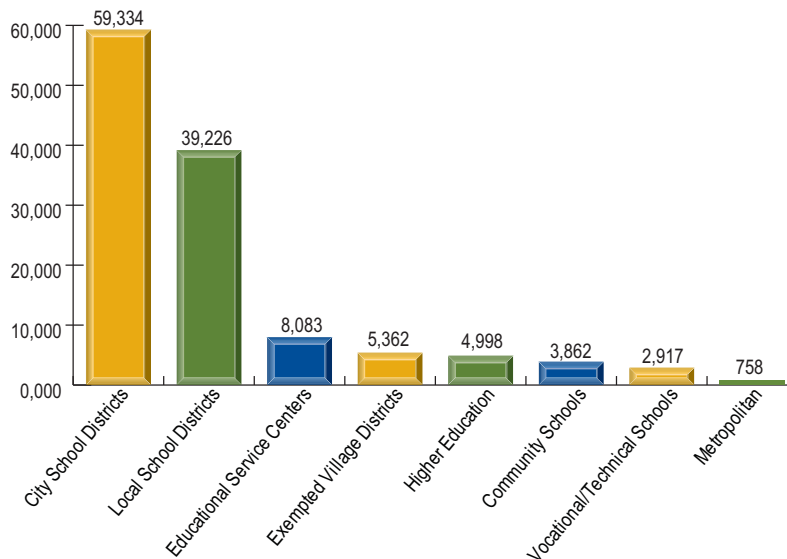


Employers

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, 2016, there were 124,540 covered employee members.

Economic Impact

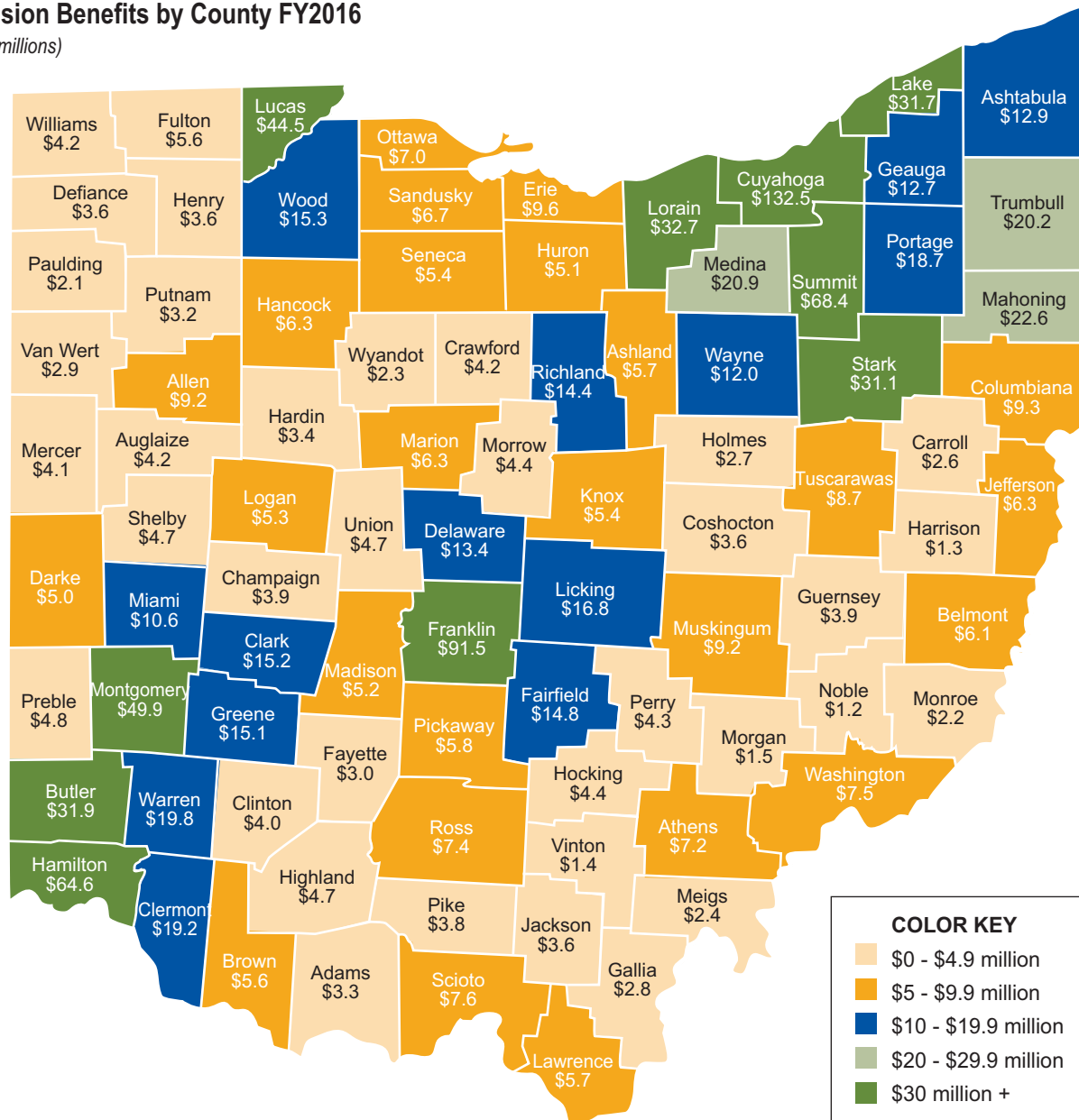
Public pensions positively impact Ohio's economy. Of the 76,280 individuals receiving pension benefits from SERS, 91% live in Ohio.

In FY2016 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 FY2016

(\$ in millions)



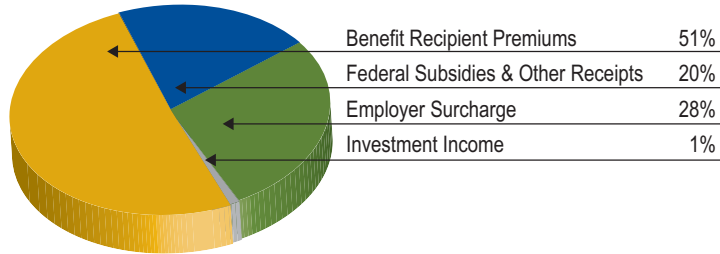
Health Care

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.

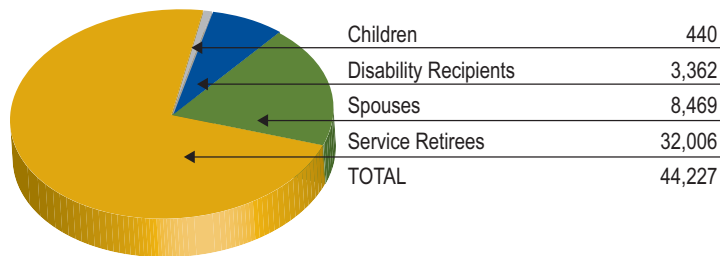
The Health Care Fund balance was \$370 million at June 30, 2016. This was a decrease of \$38 million from the prior year.

SERS funds health care through a combination of investment income generated on the Health Care Fund, federal subsidies, premiums, and employer contributions including a separate health care surcharge to compensate for low-wage salaries.

FY2016 Health Care Fund Income



FY2016 Health Care Participants



About SERS

Established in 1937, SERS provides retirement security through defined benefit pensions and health care coverage for the people who served 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 investment expert members. One investment expert is appointed by the governor, a second one by the treasurer of state, 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 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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