



**SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
SUMMARY ANNUAL FINANCIAL REPORT
For the year ended June 30, 2017**

Serving the People Who Serve Our Schools®

Summary Annual Financial Report

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, 2016 through June 30, 2017. 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:

- Receiving legislative approval to change SERS' cost-of-living adjustment (COLA) from 3% fixed to a COLA based on the Consumer Price Index with a cap of 2.5% and a floor of 0%, and the Board authority to suspend COLA increases for benefit recipients in 2018, 2019, and 2020
- Working with an independent auditor hired by the Ohio Retirement Study Council to complete a Fiduciary Audit Report. This assessment is required every 10 years. Results of the report emphasized that there were no glaring deficiencies in the area of board governance, organizational structure, investment oversight, legal compliance, risk management, and information technology. The independent auditor labelled SERS as a "well-run organization" and noted that SERS was setting national standards in some areas like investment operations.
- Rallying support from SERS retirees to oppose federal health care changes that would have caused lower income retirees to lose coverage through Medicaid and cause others to lose affordable health insurance on the health care exchanges
- Introducing the Marketplace Wraparound Plan, which allows SERS retirees to choose any plan in the federal Health Insurance Marketplace along with additional benefits provided by SERS that wrap around those benefits. The SERS Wraparound benefits help pay for deductibles, co-pays, and co-insurance.

Exceptional customer service remains SERS' utmost priority and in February, staff began using a new state-of-the-art benefits computer system designed specifically for SERS' current and future pension administration needs.

For members and retirees, the installation of the new system includes numerous new self-service options available from the SERS website. From the account login portal, members can review account balances and see contributions and service time, apply for disability or retirement online, update personal information, change beneficiaries, and schedule counseling appointments. Retirees can change their tax withholding, update their direct deposit, and look at pay stubs and 1099s.

In closing, we recognize that our strength is a reflection of the quality of our staff. We value their efforts that enable us to maintain effective internal controls while at the same time deliver high quality service to our members, retirees, and employers.



Richard Stensrud
Executive Director

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**

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO - RETIREMENT BOARD

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Jeffrey DeLeone
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James Haller
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Christine D. Holland
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Catherine P. Moss
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Beverly Woolridge
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Daniel L. Wilson
Appointed Member

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 FY2017 all of the regular employer payroll contributions, 14%, were allocated to the basic benefits in accordance with our funding policy. But a health care surcharge is in place that is directed to the health care fund that is capped at 1.5% of statewide employer payroll.

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

In 2017, 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.

FY2017 financial highlights include:

- Total additions to SERS' net position were \$2.6 billion; \$951 million from contributions and net investment income of \$1,649 million.
- Total deductions were \$1.4 billion, an increase of 1.7% from FY2016.
- The increase in net position totaled \$1,174 million, compared to a \$384 million net decrease in FY2016.

CONDENSED SUMMARY OF TOTAL FIDUCIARY NET POSITION

(\$ in millions)			Change	
	2017	2016	Amount	Percent
ASSETS				
Cash	\$ 610.7	\$ 658.9	\$ (48.2)	(7.3)%
Receivables	239.1	206.6	32.5	15.7
Investments	13,365.6	12,271.1	1,094.5	8.9
Capital Assets, Net	70.4	64.5	5.9	9.1
Other Assets	80.0	0.4	79.6	19,900.0
Total Assets	14,365.8	13,201.5	1,164.3	8.8
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows - Pension	7.8	5.7	2.1	36.8
LIABILITIES				
Benefits & Accounts Payable	41.4	38.2	3.2	8.4
Other Liabilities	336.0	346.5	(10.5)	(3.0)
Total Liabilities	377.4	384.7	(7.3)	(1.9)
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows - Pension	0.2	0.4	(0.2)	(50.0)
Net Position	\$13,996.0	\$12,822.1	\$ 1,173.9	9.2%

This table depicts a summary presentation of the assets and liabilities of SERS as of June 30, 2017 and 2016. 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)			Change	
	2017	2016	Amount	Percent
ADDITIONS				
Contributions	\$ 950.7	\$ 909.9	\$ 40.8	4.5%
Net Investment Income	1,649.1	108.8	1,540.3	1,415.7
Total Additions	2,599.8	1,018.7	1,581.1	155.2
DEDUCTIONS				
Benefits	1,341.3	1,309.7	31.6	2.4
Refunds & Transfers	57.6	68.1	(10.5)	(15.4)
Admin. Expenses	27.0	24.5	2.5	10.2
Total Deductions	1,425.9	1,402.3	23.6	1.7
Net Increase (Decrease)	1,173.9	(383.6)	1,557.5	406.0
Balance, Beginning of Year	12,822.1	13,205.7	(383.6)	(2.9)
Balance, End of Year	\$13,996.0	\$12,822.1	\$ 1,173.9	9.2%

Summary Annual Financial Report

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 FY2017 in both absolute and relative terms. The Total Fund return of 13.20% (net) for FY2017 exceeded the policy benchmark by 1.66% and the 7.50% actuarial rate. All asset classes generated positive net returns with the Opportunistic Investment Strategy recording the highest return at 20.30%, followed by Global Equities at 19.91%.

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),

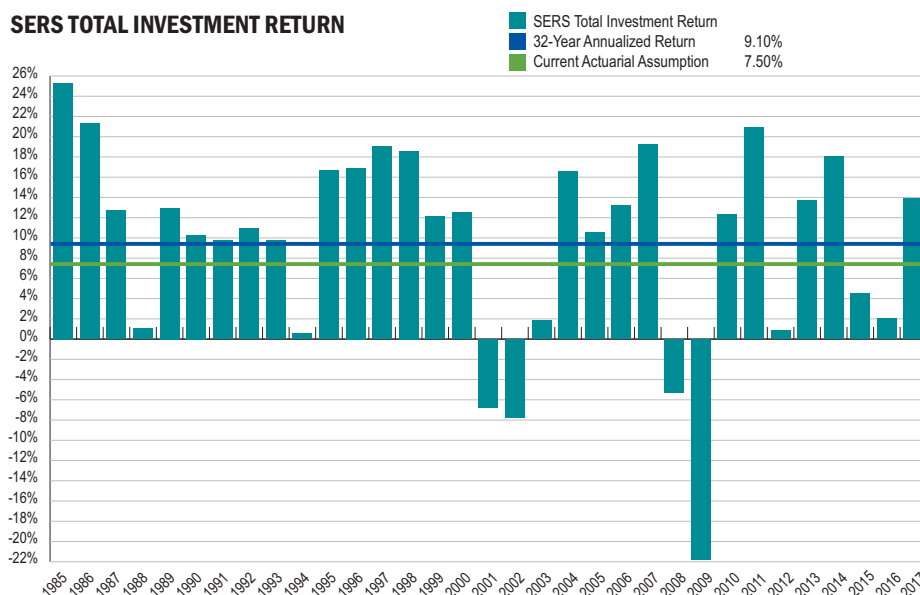
and emerging market debt assets (bonds issued by less developed countries).

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.

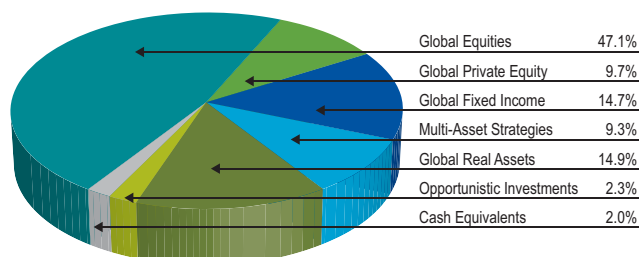
SERS TOTAL INVESTMENT RETURN



INVESTMENT SUMMARY AS OF JUNE 30, 2017

	Fair Value	% of Fair Value	Policy	Range
Global Equities	\$ 6,448,028,378	47.1%	45.0%	35% - 55%
Global Private Equity	1,331,560,902	9.7	10.0	5 - 15
Global Fixed Income	2,010,352,446	14.7	19.0	12 - 26
Multi-Asset Strategies	1,270,060,288	9.3	10.0	5 - 15
Global Real Assets	2,040,139,870	14.9	15.0	10 - 20
Opportunistic Investments	321,712,483	2.3	0.0	0 - 5
Cash Equivalents	280,899,616	2.0	1.0	0 - 5
Total Portfolio	\$ 13,702,753,983	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

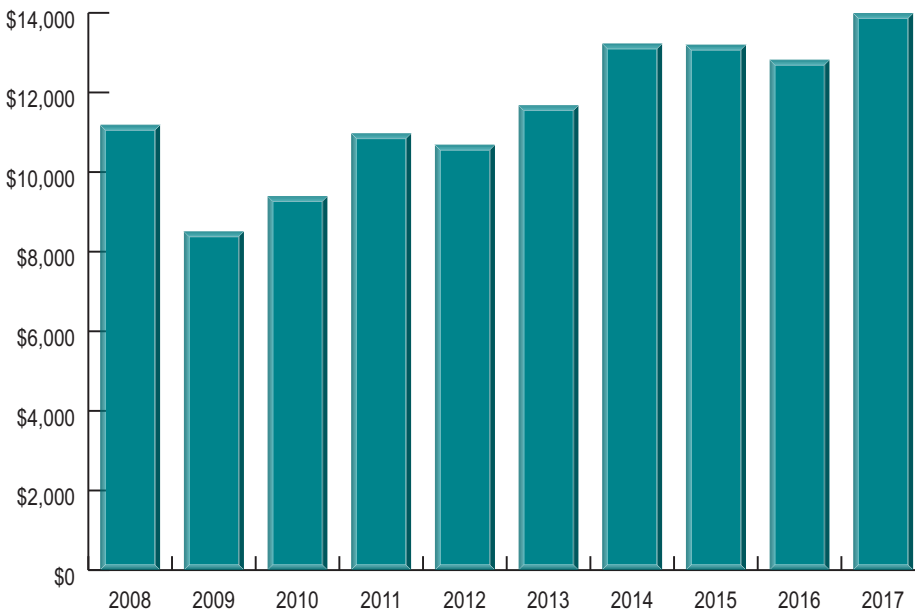
cost of providing all the benefits to current and future retirees. The percentages in the chart show SERS' funded status (ratio of assets to liabilities) in a given year. By Ohio law, SERS must be able to pay its liabilities within 30 years and is at 27 years as of June 30, 2017.

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

Pension Funding (\$ in billions)



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



Summary Annual Financial Report

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	\$1,232	\$1,464	\$742
Average Age	73.9	65.5	72.2

Average Active Member Statistics

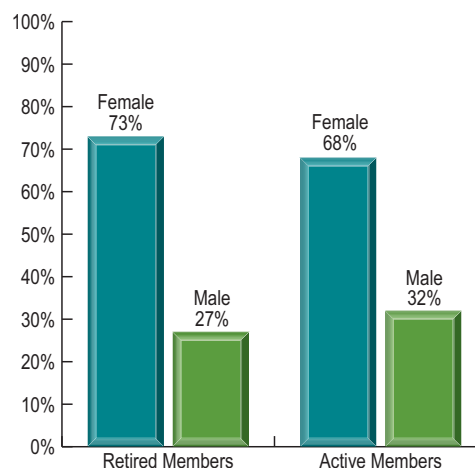
Age	Service	Annual Salary
46.7 years	7.5 years	\$20,906

Employee Membership Data (as of June 30)

	2017	2016	2015
Terminated employees eligible but not yet receiving, and retirees and beneficiaries receiving benefits	83,892	83,099	81,235
Active employees	157,981*	124,540	122,855

*The active member headcount at June 30, 2017 reflects an increase of 32,641 members who have been reclassified from inactive to active status. The group earned 0.25 or less of a year of service during fiscal year ended 2017.

Gender Distribution

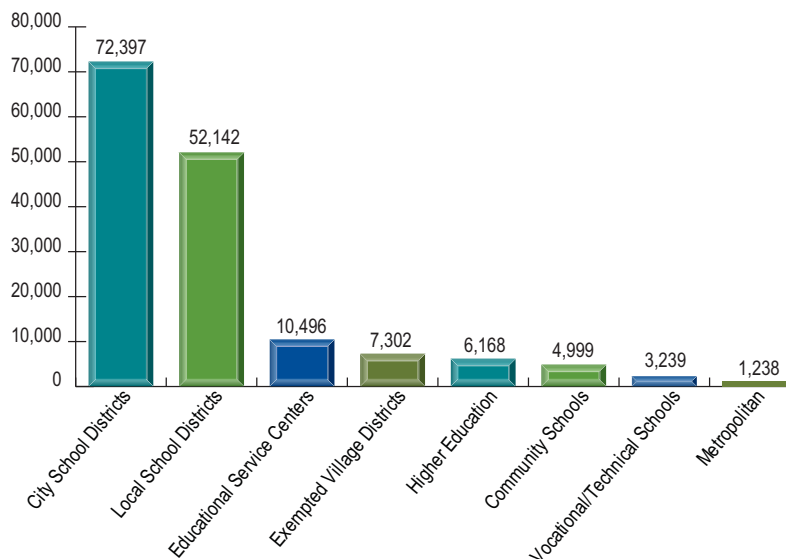


Employers

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, 2017, there were 157,981 covered employee members.

Economic Impact

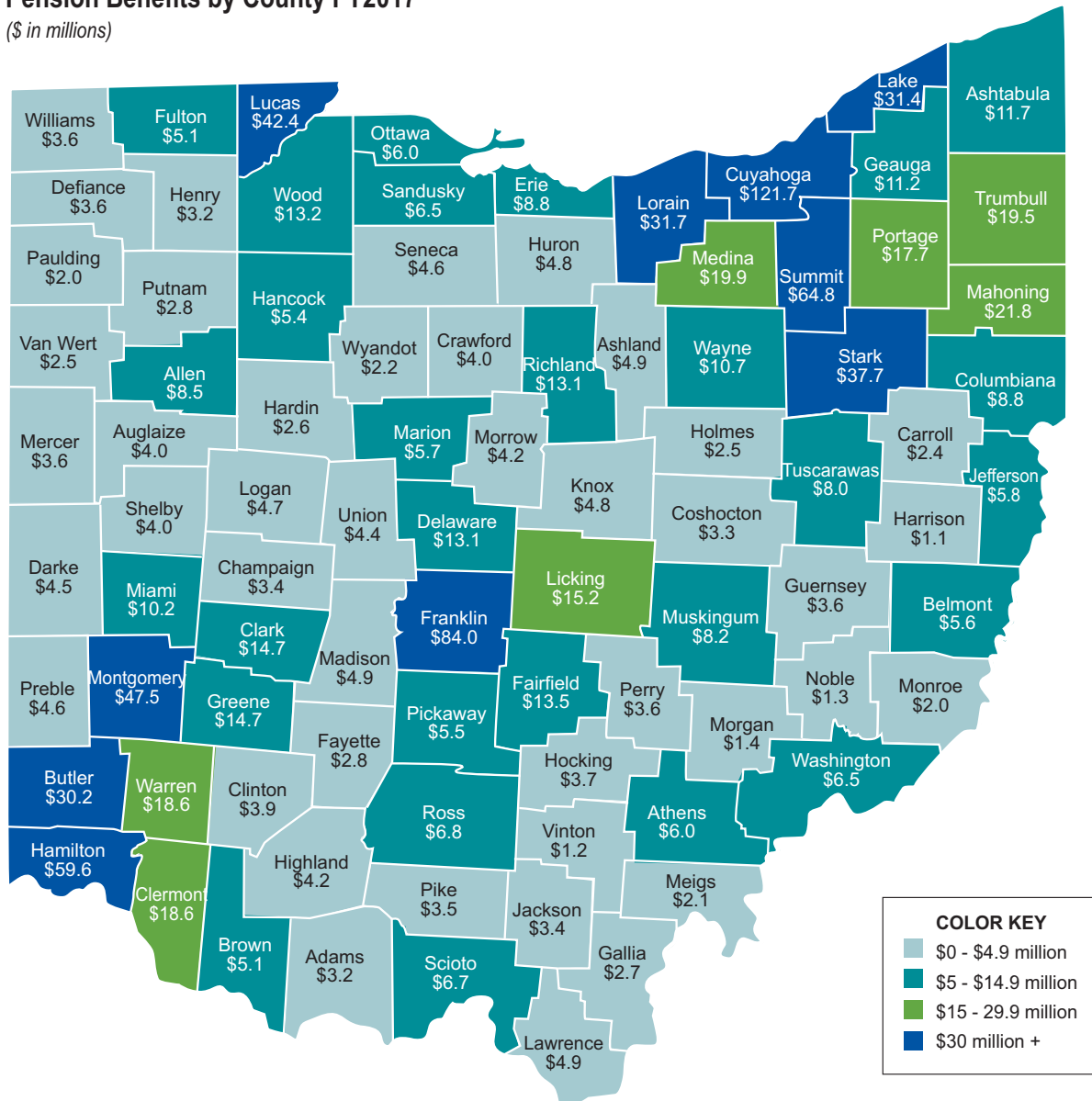
Public pensions positively impact Ohio's economy. Of the 79,157 individuals receiving pension benefits from SERS, 91% live in Ohio.

In FY2017 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, \$2.57 was returned to local economies.

Pension Benefits by County FY2017

(\$ in millions)



Summary Annual Financial Report

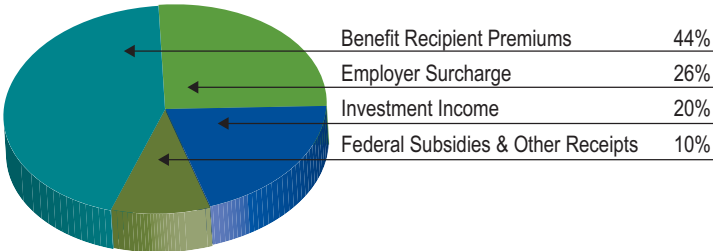
Health Care

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.

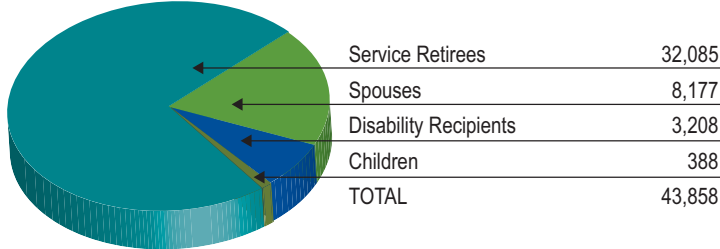
The Health Care Fund balance was \$382 million at June 30, 2017. This was an increase of \$12 million from the prior year.

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.

FY2017 Health Care Fund Income



FY2017 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/financial-reports-1.

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