

Danielle Massie, Akron City Schools, SERS Member



School Employees Retirement System of Ohio

# Summary Annual Financial Report

For the year ended June 30, 2013

*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)*.

Our mission at SERS is to “provide our members, retirees, and beneficiaries with pension benefit programs and services that are soundly financed, prudently administered, and delivered with understanding and responsiveness.” We developed this publication to provide an overview of the financial health, investment performance, demographics, and key accomplishments of the last fiscal year. All of the financial 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](http://www.ohsers.org).

They key accomplishment of fiscal year 2013 (FY2013) was the completion of a fiduciary audit of SERS’ investment operations. It had been eight years since the last fiduciary audit was performed. SERS initiated this audit to give the new CIO an accurate performance baseline from which to assess the investment department’s operations.

The results of the audit were complimentary of SERS’ investment operations. Even in areas where improvement was suggested, SERS had already identified those areas and was making appropriate changes. In several areas, SERS’ operations were given best-practice or leading-practice status.

A staff team has examined the results of the audit, and created a monitoring mechanism for review and implementation of the recommendations. Progress on implementing these recommendations will be reported to the Board each month.

Other important accomplishments include:

- Negotiating lower health care premiums for most retirees with Aetna coverage and adding vision coverage for all retirees
- Improving customer service to active members and retirees by beginning a remote counseling program where SERS counselors travel around the state to meet with members who are close to retirement
- Developing a new model for delivering communications to SERS’ diverse active member population based on age and service level
- Implementing an information security program that complies with the Health Insurance Portability and Accountability Act (HIPAA) of 1996 and the related Health Information Technology for Economic and Clinical Health (HITECH)
- Taking steps to lower operating costs and reduce environmental impacts associated with SERS’ building during the preparation for Leadership in Energy and Environmental Design for Existing Buildings (LEED-EB) certification



Lisa J. Morris, *Executive Director*



John Langdon, Mentor Public Schools, SERS Member

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**“The mission of SERS is to provide our members, retirees, and beneficiaries with pension benefit programs and services that are soundly financed, prudently administered, and delivered with understanding and responsiveness.”**

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## Investments

The main goal of SERS' Investment Department is to ensure that the System's 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. This means 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.

In FY2013, SERS' investment return net of fees was 12.9%.

SERS makes investments in five different asset classes: global equity, global fixed income, hedge funds, global private equity, and global real estate.

**Global Equity** — SERS invests in equities all around the world. Equities are investments in company stock. Equity investments usually increase or decrease in price depending on the company's financial performance. SERS' target allocation to Global Equities currently stands at 45% and is split evenly between US and non-US investments.

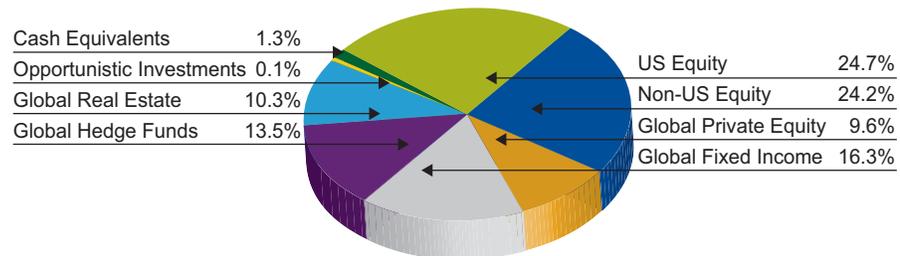
**Global Fixed Income** — The role of fixed income in SERS' investment portfolio is to provide stable income with returns above US Treasuries. The fixed income portfolio consists of about 40% core assets (Treasuries, corporate bonds, and mortgages) and 60% core plus assets (below investment grade corporate bonds, non-US debt, and emerging market debt).

**Hedge Funds** — SERS invests in hedge funds for the purposes of diversification, risk reduction, and return enhancement.

**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. In 2013, 78.3% of SERS' private equity portfolio was dedicated to buyout strategies, with 16.7% in special situations and 5% in venture capital.

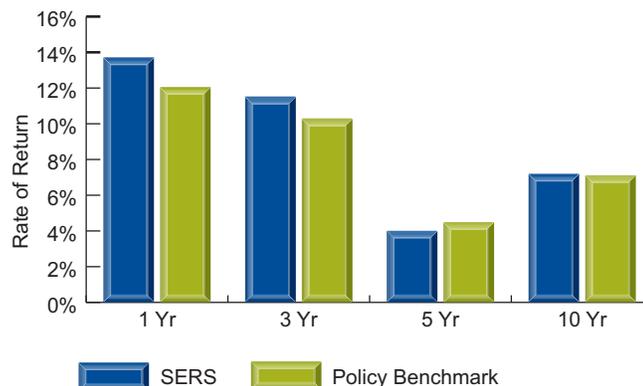
**Global Real Estate** — SERS' global real estate portfolio is divided into core strategies (properties that produce income through rents like well-leased office buildings and shopping malls) and non-core strategies (those that increase in value over time such as development projects and office buildings with minimal tenants).

### Asset Allocation – Total Fund as of June 30, 2013



### Total Fund Rates of Return vs. Policy Benchmark

(Gross of Fees)



## Financials

SERS is a defined benefit public pension plan. This means that SERS promises a specific, lifetime pension benefit based on a member's age, amount of service time, and average of their highest three years of salary. SERS works with an actuary to calculate the future costs of these promises when the member retires. The actuary also calculates how much of the employer contributions must be dedicated to pensions before health care is funded.

In FY2013, 13.84% of the 14% employer contribution rate was necessary to cover the costs of pensions and the remaining 0.16% was devoted to health care.

The graphs and charts in this section detail the money coming into SERS, and the amount being paid out in benefits and administrative expenses over the last two fiscal years.

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

In FY2013, 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 the System, and administrative expenses.

FY2013 Employer Contribution Allocations	
Pension	13.05%
Medicare B	0.74
Death Benefit	0.05
Total Benefits	13.84
Health Care	0.16
<b>Employer Contribution Rate</b>	<b>14.00%</b>

### CONDENSED SUMMARY OF TOTAL NET POSITION

(in millions)

	2013	2012	Change	
			Amount	Percent
<b>ASSETS</b>				
Cash	\$ 502.5	\$ 411.4	\$ 91.1	22.1%
Receivables	275.7	400.3	(124.6)	(31.1)
Investments	11,459.9	10,653.6	806.3	7.6
Capital Assets, Net	51.8	48.5	3.3	6.8
Other Assets	0.1	52.8	(52.7)	(99.8)
Total Assets	<u>12,290.0</u>	<u>11,566.6</u>	<u>723.4</u>	<u>6.3</u>
<b>LIABILITIES</b>				
Benefits & Accounts Payable	17.1	14.3	2.8	19.6
Other Liabilities	593.1	865.4	(272.3)	(31.5)
Total Liabilities	<u>610.2</u>	<u>879.7</u>	<u>(269.5)</u>	<u>(30.6)</u>
Net Position Held in Trust	<u>\$11,679.8</u>	<u>\$10,686.9</u>	<u>\$ 992.9</u>	<u>9.3%</u>

*This table depicts a summary presentation of the assets and liabilities of SERS as of June 30, 2013 and 2012. The Net Position shown is available for future payments of benefits to retirees, beneficiaries, and members of SERS.*

FY2013 financial highlights include:

- Total additions to SERS' assets were \$2,206.1 million; \$876.6 million from contributions and net investment income of \$1,329.5 million
- Total deductions were \$1,213.2 million, an increase of 5% from FY2012
- The increase in net assets totaled \$992.9 million, compared to a \$288.1 million decrease in FY2012

### CONDENSED SUMMARY OF CHANGES IN TOTAL NET POSITION

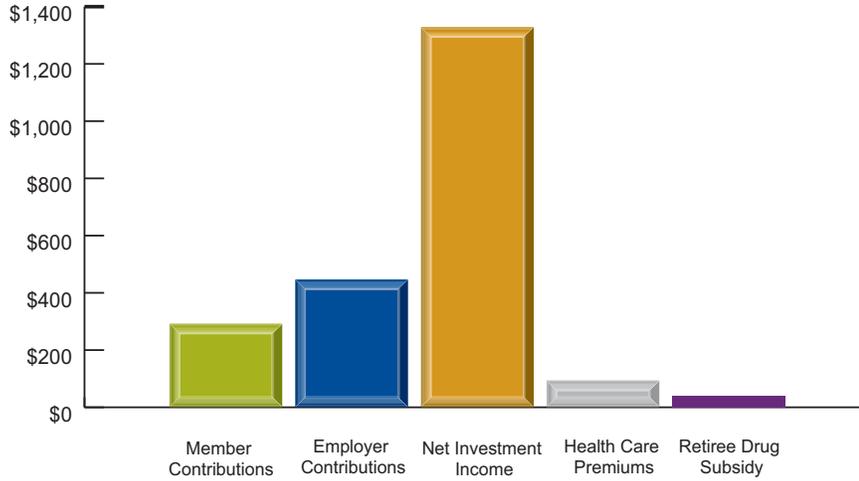
(in millions)

	2013	2012	Change	
			Amount	Percent
<b>ADDITIONS</b>				
Contributions	\$ 876.6	\$ 908.2	\$ (31.6)	(3.5)%
Net Investment Income/(Loss)	1,329.5	(37.9)	1,367.4	3,607.9
Total Additions	<u>2,206.1</u>	<u>870.3</u>	<u>1,335.8</u>	<u>153.5</u>
<b>DEDUCTIONS</b>				
Benefits	1,120.4	1,083.9	36.5	3.4
Refunds & Transfers	71.3	52.9	18.4	34.8
Admin. Expenses	21.5	21.6	(0.1)	(0.5)
Total Deductions	<u>1,213.2</u>	<u>1,158.4</u>	<u>54.8</u>	<u>4.7</u>
Net Increase/(Decrease)	992.9	(288.1)	1,281.0	444.6
Balance, Beginning of Year	<u>10,686.9</u>	<u>10,975.0</u>	<u>(288.1)</u>	<u>(2.6)</u>
Balance, End of Year	<u>\$11,679.8</u>	<u>\$10,686.9</u>	<u>\$ 992.9</u>	<u>9.3%</u>

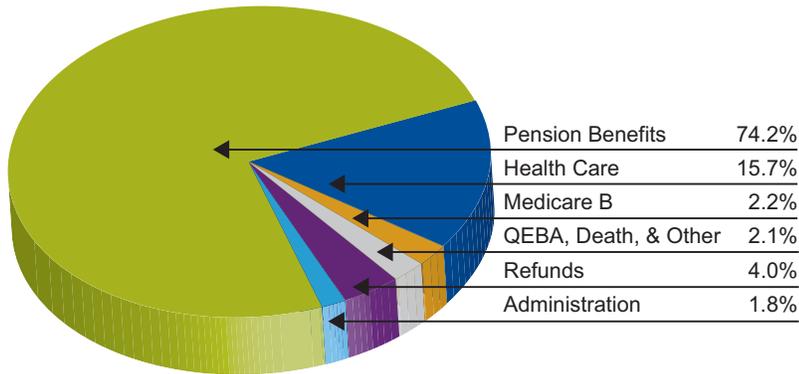
*This table presents the additions and deductions to the net assets for FY2013 versus FY2012.*

**ADDITIONS TO PLAN NET POSITION FY2013**

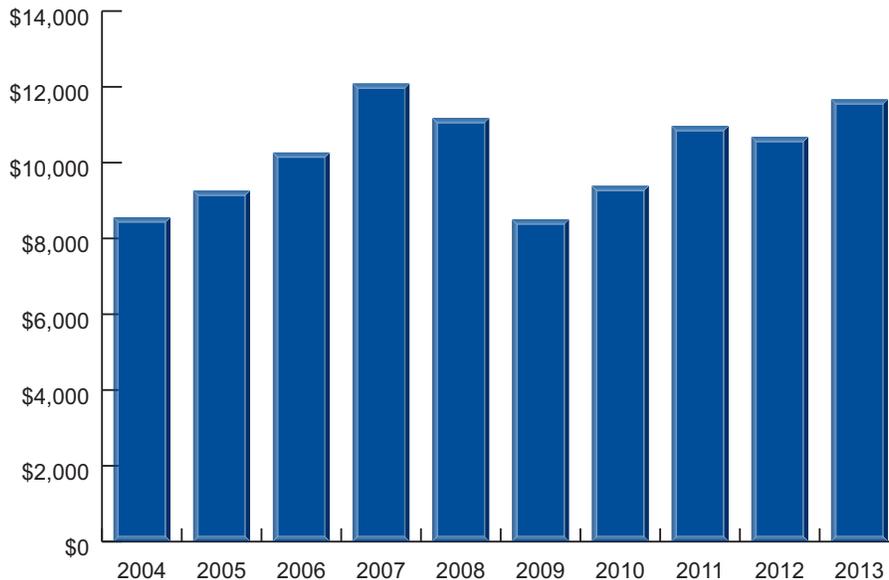
(in millions)



**DEDUCTIONS FROM PLAN NET POSITION FY2013**



**TOTAL NET POSITION LAST 10 FISCAL YEARS (in millions)**



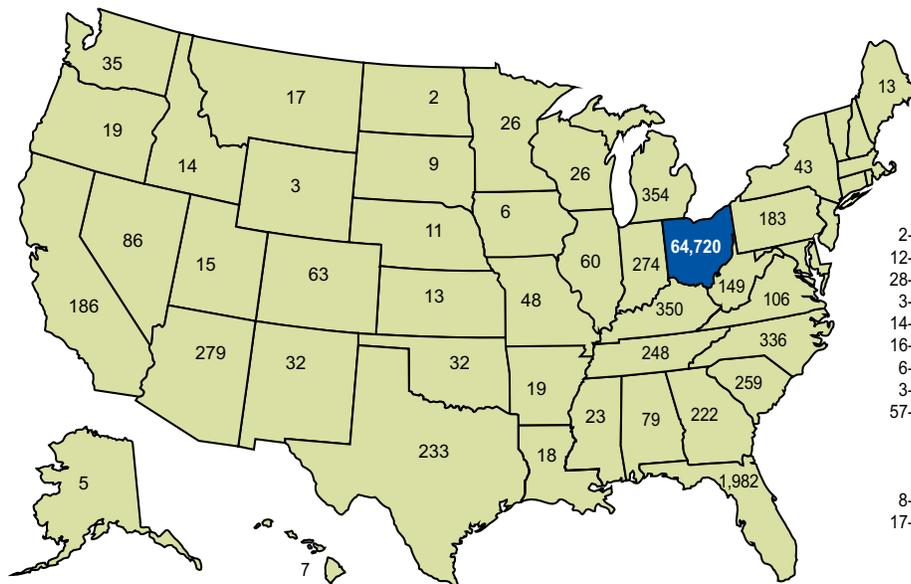
## Membership

SERS members are administrative assistants, bus drivers, food service workers, librarians, maintenance personnel, educational aides, treasurers, and other non-teaching 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's 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

Amount of Monthly Benefit	Total	Service	Disability	Survivor
\$ 1 - \$ 250	11,633	10,513	108	1,012
251 - 500	11,824	9,944	602	1,278
501 - 750	10,525	8,838	845	842
751 - 1,000	8,368	6,992	856	520
1,001 - 1,500	11,570	9,853	1,304	413
1,501 - 2,000	6,621	5,644	810	167
over 2,000	<u>9,834</u>	<u>8,764</u>	<u>913</u>	<u>157</u>
	<b>70,375</b>	<b>60,548</b>	<b>5,438</b>	<b>4,389</b>
Average Monthly Benefit		\$1,072	\$1,294	\$644
Average Age		74.4	64.9	71.5

### Retired Members And Beneficiaries By State



Gender Distribution	
RETIRED MEMBERS	
Female	74%
Male	26%

Gender Distribution	
ACTIVE MEMBERS	
Female	70%
Male	30%

2013 Average	
ACTIVE MEMBERS	
Age	48.6 years
Service	10.0 years
Annual Salary	\$22,581

### Employee Membership Data (as of June 30, 2013)

#### Employee Members and Retirees

Retirees and beneficiaries currently receiving benefits . . . . .	70,771
Terminated employees entitled to but not yet receiving benefits . .	<u>7,246</u>
<b>Total . . . . .</b>	<b>78,017</b>

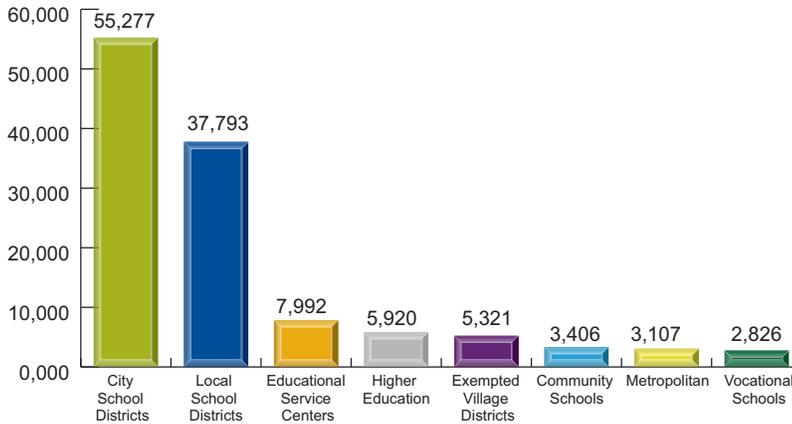
#### Active Employees

Vested active employees . . . . .	58,818
Non-vested active employees . . . . .	<u>62,824</u>
<b>Total . . . . .</b>	<b>121,642</b>

## Employers

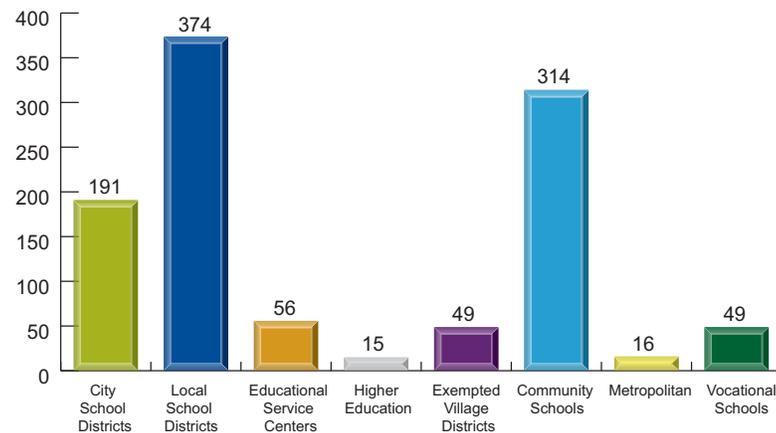
Over 1,000 public schools within the state's cities, villages, and counties as well as local school districts, vocational and technical schools, community schools, and The University of Akron employ all of SERS' active members. Employers are responsible for creating membership records, reporting payroll, and processing employer, employee, and health care surcharge contributions.

### COVERED EMPLOYEE MEMBERS



As of June 30, 2013, there were 121,642 covered employee members. The majority of the members are employed at city and local school districts.

### NUMBER OF SCHOOL DISTRICTS



As of June 30, 2013, there were 1,064 school districts with covered members.

## Principal Participating Employers

Participating School's Name	Fiscal Year 2013		
	Covered Employee Members	Rank	Percentage of Total System
Columbus City Schools	3,556	1	2.92%
Cleveland Metropolitan School District	2,633	2	2.16
Cincinnati Public Schools	2,531	3	2.08
University Of Akron	2,393	4	1.97
Akron Public Schools	1,496	5	1.23
Toledo Public Schools	1,397	6	1.15
Dayton City Schools	1,156	7	0.95
South-Western City Schools	1,142	8	0.94
Educational Service Center Council of Governments	1,114	9	0.92
Columbus State Community College	974	10	0.80
All Other	<u>103,250</u>		<u>84.88</u>
<b>Total</b>	<b>121,642</b>		<b>100.00%</b>

## Health Care

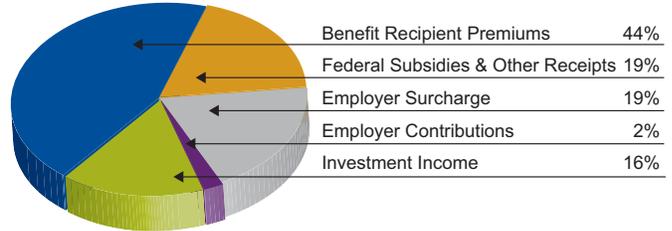
We know for many of our retirees that a secure retirement means more than a pension. Since 1974, SERS has worked to provide retirees access to group health care coverage. It is our intention to continue to provide this coverage.

This year, higher earnings on investments made it possible to roll back premium surcharges. These were added in 2010 due to the economic downturn to help preserve the health care fund.

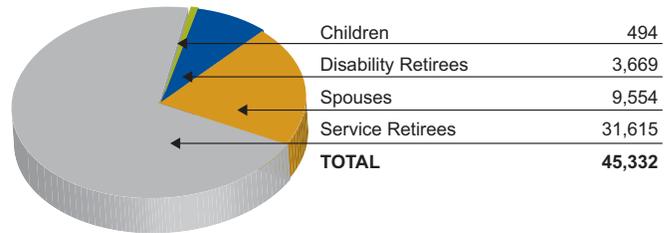
In 2013, income from premiums, Medicare reimbursements, and employer contributions declined. These decreases were offset by lower health care expenses and higher investment revenue.

The health care fund grew to \$379 million during the fiscal year. This was an increase of \$24 million. Premiums remained the same or were lowered for most health care enrollees.

### FY2013 Health Care Fund Income



### FY2013 Health Care Participants



Kathryn Fink, Lakeland Community College, SERS Member



## By the Numbers

**125,435** Number of calls received by Member Services and Health Care departments.

Members, retirees and beneficiaries requested assistance with benefits, appointments for retirement counseling and health care enrollment questions.

**30,182** Members enrolled during FY2013

**120,691** Unique visits to SERS' website [www.OHSERS.org](http://www.OHSERS.org)

**1,634** People "Liked" us on Facebook SERSofOhio

**128** Stories posted on Facebook

**224** Followers on Twitter SERSofOhio

**161** Staff Tweets