



# *SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO*

## **BOARD MEETING HIGHLIGHTS**

### **MAY 2022**

#### **Investments Quarterly Report**

Joanna Bewick and Barbara Balzarini of Wilshire Associates provided the Board with an update of current global market conditions, as well as SERS' FY2022 third quarter (January-March) investment results.

During the quarter, Bewick noted that the Russian invasion of Ukraine caused enormous humanitarian and global economic turmoil. In the U.S., the economic impact of the invasion exacerbated rising inflationary pressures and caused the Federal Reserve to boost interest rates.

Inflation is hitting every sector of the economy, causing consumer sentiment to nosedive. A slowdown in business activity and rising retail prices are causing additional economic concerns.

The U.S. stock market experienced a 4.9% decline during the quarter. Large cap stocks outperformed small cap, and value stocks began to outperform growth stocks. The energy, utilities, and commodities sectors experienced positive returns, while the communication services, consumer discretionary, and technology sectors registered steep declines.

China's COVID lockdown in Shanghai at the end of the first quarter added more pressure to an already unstable supply chain.

China stocks make up about one-third of the emerging equities market, and there are expectations that China will implement stimulus programs to boost its economy.

Despite the -1.50% investment performance for the quarter, SERS' portfolio performance against its benchmark was positive. Bewick noted SERS' consistency of performance over the last 20 quarters in which there were only three that were below the benchmark. Bewick also said that SERS' diversified portfolio was well positioned to counter the effects of inflation. Over the last year, staff reduced exposure to equities and increased exposure to private equity, private credit, commodities, and real assets, all of which perform better during inflationary periods.

In response to Board questions about what staff could do to further position the portfolio to withstand inflationary pressures, Bewick said SERS' policy allocation remains good with exposure to equities below that of its peers, and it has significant cash available to purchase equities if opportunities arise. CIO Farouki Majeed also noted that staff will continue to "work the edges" of its portfolio allocations but that big changes are not necessary.

SERS' historical Total Fund returns continue to rank in the top 10% of peer groups over the 1-, 3-, 5-, and 10-year periods. Over one year, SERS ranked 6th; over three years, SERS ranked 6th; over five years, SERS ranked 3rd, and over 10 years, SERS ranked 2nd.

#### **Overlay Program Review**

Investment staff gave the Board an overview of SERS' overlay program.

The overlay program does not have a specific asset allocation but is run as an active long/short strategy with a net zero asset exposure. Its performance objective is to add 10 to 20 basis points to Total Fund performance over the three- and five-year periods.

The program consists of two sub-programs: active currency and tactical asset allocation (TAA).

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#### RETIREMENT BOARD

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JEFFREY T. DELEONE  
*Vice-Chair, Appointed Member*

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*Employee-Member*

AMES HALLER  
*Employee-Member*

MATTHEW KING  
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CATHERINE P. MOSS  
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JAMES A. ROSSLER, JR.  
*Appointed Member*

FRANK A. WEGLARZ  
*Retiree-Member*

DANIEL L. WILSON  
*Appointed Member*

The active currency program aims to add value and reduce the currency risk of the Total Fund. The program is implemented through long and short forward currency contracts in designated currencies on an unfunded basis.

The program currently utilizes one manager. While the active currency program has realized a net loss of \$16.6 million since inception due to two legacy mandates, the current manager's fiscal year-to-date performance is a positive \$24.2 million, with the long U.S. dollar and short euro position generating most of the gains.

The TAA program invests in a strategy which actively allocates exposures across U.S. fixed income, U.S. equity, and non-U.S. equity markets by going long or short based on macroeconomic and market systematic signals. The program is implemented by two managers.

As of March 31, 2022, the TAA program has added six basis points annually and \$66 million in excess returns to the total fund since inception.

Cumulative gains of the overlay program are \$49.1 million since inception.

### All Benefit Recipients Must Switch to Direct Deposit by June 15, 2022

The Board approved the final filing of an amended administrative rule requiring all payments from SERS be issued by direct deposit, beginning July 1, 2022.

In 2013, SERS initiated a mandatory direct deposit requirement for all new monthly benefit recipients. This approach was an effective mechanism for delivering timely and secure payments, as well more cost effective than providing paper checks.

The direct deposit requirement is being expanded to all benefit payments, including lump sum payments and monthly benefit payments made to benefit recipients currently receiving paper checks. Since this information was first communicated to retirees, SERS has successfully reduced the number of paper checks sent monthly from 1,600 to 600.

This requirement not only saves the System money but provides SERS retirees with peace of mind and certainty that their benefit will be in their account by the first business day of the month.

Retirees who have not yet enrolled in direct deposit may do so by accessing their [Account Login](#) on SERS' website.

### Total Fund Update

TOTAL FUND BALANCE		
February 28	March 31	Difference
\$17.86 billion	\$18.25 billion	▲ \$390 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▲ 5.32%	▼ 1.63%	▲ 12.33%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▲ 1.74%	▲ 0.36%	▲ 1.20%

### Health Care Update

Alisa Bennett, president and consulting actuary with Cavanaugh Macdonald, presented the 2023 proposed rates for SERS' self-insured medical plans and prescription drug coverage.

Of note, the 2023 non-Medicare medical plan remained the same as 2022, and the projected monthly Medicare-eligible drug costs went from \$152 to \$159 for retirees, spouses, and children. The self-funded Medicare

Traditional Choice monthly per- retiree rate went to \$400 for medical and \$159 for prescription drug, with a total rate of \$559, which was lower than the 2022 projected rate of \$652.

Christi Pepe, SERS' health care services director, reviewed the health care program status, discussed 2023 rates, expectations, and program considerations, and presented 2023 recommendations for program and plan design changes. She noted that as of May 2022, non-Medicare enrollment was at 3,908; Medicare enrollment was at 36,520; optional dental coverage was at 42,456; and optional vision coverage was at 32,901.

She highlighted that both Delta Dental and VSP Vision 2023 premiums were expected to remain the same as the previous year.

While there were no proposed 2023 benefit changes for recipients with non-Medicare Aetna Choice, proposed benefit changes for recipients with the non-Medicare Wraparound HRA included an increased benefit limit to the federally authorized amount of \$1,950. Proposed benefit changes for recipients with Aetna Medicare Advantage included a lower primary care provider co-pay and lower PT/OT/ST co-pay. She also noted that the proposed 2023 full premium for AultCare PPO non-Medicare recipients was \$1,106.

Pepe also discussed the 2022 Premium Discount Program, which provided a 25% premium reduction, and included qualifying income at 150% Federal Poverty Level (FPL). She noted that a change in the FLP added 110 new enrollees and the total program cost was \$301,000. Out of 995 total enrollees, 750 enrollees received a federal Low-Income Subsidy, preapproving them for SERS' Premium Discount.

Last year, the Board approved 2021 eligibility for 2022 without reapplication. A review of findings included that 98% of enrollees remain eligible year after year, and that there was only a 2% ineligibility following eligibility. For the 2023 Premium Discount Program, Pepe suggested consideration for allowing approved applications to continue year after year without reapplication. Pepe also recommended expanding the program to include qualified income up to 175% of the Federal Poverty Level vs. the current 150%.

Pepe requested the Board's feedback for the recommended changes.

The Board will approve 2023 health care premium amounts and plan changes at the upcoming June Board Meeting.

## **Executive Director's Update**

### ***Advocacy Group Support***

On May 6, SERS virtually hosted the annual Ohio Association of School Business Officials (OASBO)/SERS update with OASBO's Legislative and Education Finance Committees. Several SERS staff members gave presentations on staff initiatives, finance, membership, investments, and health care to the 53 OASBO members in attendance. Board members Jamie Rossler and Matt King also were in attendance.

In addition, on May 10, several SERS staff members participated in the School Employee Retirees of Ohio SERO Annual Meeting held in Columbus. SERS staff provided attendees with an update on investments, health care, demographics, and financial status. Board member Frank Weglarz was in attendance.

### ***SERS Continues to Offer Member and Employer Educational Opportunities***

SERS' Member Services and Employer Services departments regularly host educational opportunities intended to help members prepare for retirement and employers to better understand their role at SERS.

In April and May, the Member Services Department hosted virtual retirement conferences, which are for members within two years of retirement, and "Retiring with SERS" webinars, which are for members within one year of retirement. Both yielded high attendance rates.

Following each educational session, SERS requested feedback to help better serve its members. One

attendee noted, “Thank you for doing this. My wife attended with me. She said she wished her company would have done something like this when she retired. They were on their own.”

In addition, a number of employer programs are rolling out over the next several months, including Employer 101 Workshops, eSERS demos, Sound Bite Wednesday, and the Employer Education Series. The series covers topics such as pick-up plans, covered membership, membership enrollment, employer reporting detail lookup, and disability benefits.

A full list of upcoming webinar and conference dates is available on [SERS' website](#).

### ***SERS to Respond to FTC Request for PBM Practice Feedback***

The Federal Trade Commission (FTC) has requested public comment on a range of issues related to Pharmacy Benefit Managers (PBMs) by May 25, 2022.

The FTC states the feedback will “enable agency staff to study a wide array of PBM business practices and issues and will help inform the agency’s policy and enforcement work.”

The System has prepared comments for submission to the FTC that focus on the way PBMs have helped facilitate the prescription drug coverage plan and added value to SERS’ program.

### ***Myths and Misconceptions: Investment Staff Compensation***

Investment returns are crucial to SERS’ ability to provide pension and health care benefits to current and future retirees. Approximately 70% of the funding for retiree benefits comes from investment returns on the employee and employer contributions received by SERS. Typically, a retiree exhausts their employee contributions and the employer contributions made on the retiree’s behalf in just four to six years of retirement. The remainder is covered by investment returns.

SERS regularly receives independent investment performance calculations from its investment consultant, Wilshire, and biannual reviews from the Ohio Retirement Study Council’s independent investment consultant.

The most recent calculations from Wilshire for the quarter ended March 2022 indicated SERS’ 1-, 3-, 5-, and 10-year Total Fund returns were all in the top 10% when compared with all other U.S. pension system returns.

This ranking reflects the positive performance of the SERS’ investment team. To incentivize and reward members of the investment staff for performance, pursuant to a performance-based investment plan that is annually reviewed and approved by the SERS Board, they have the ability to earn annual bonuses in addition to their salary. Whether performance compensation is earned is not determined by the investment staff themselves, rather, the bonuses are based on their portfolio’s performance against investment market benchmarks (independent calculations based on the returns of a similar mix of assets), which SERS’ Board of Trustees approved. Most other pension systems also use a mix of salary and bonuses to compensate investment staff for performance.

The SERS Investment Department Incentive Plan is regularly compared to other U.S. pension system policies. The annual bonuses are calculated by an independent, third-party auditor and reviewed by SERS’ Internal Audit Officer, who reports directly to the Board.

Occasionally, these bonuses face misinformed criticism from some members, retirees, media, and other defined benefit pension critics who believe such payouts are excessive. This criticism is especially notable when benefit adjustments are needed or investment returns are low.

Even in low-return scenarios, investment staff can enhance performance by keeping returns above the benchmark. A portfolio return that is only marginally above the benchmark could earn the system

hundreds of thousands of dollars. In addition, overperformance in low return scenarios helps position the portfolio for greater returns when economic conditions improve.

Good investment returns are not guaranteed. It takes expertise in assembling and maintaining a diversified portfolio and choosing good investment managers, and SERS' Investment Department Incentive Plan fairly rewards the investment team for generating top-tier returns.

**Monthly Retirement and Survivor Benefit Transactions**

For May, the SERS Board approved 207 active members for service retirements, and 36 survivor benefits for spouses and/or dependents.

**June Meeting Dates**

The next Board meeting will take place Thursday, June 16, and Friday, June 17 (if necessary), at 8:30 a.m.