



# *SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO*

## **BOARD MEETING HIGHLIGHTS**

### **MAY 2023**

#### **Investments Quarterly Report**

Joanna Bewick of Wilshire Associates provided the Board with an update of current global market conditions, as well as SERS' FY2023 third quarter (January-March) investment results.

During the quarter, Bewick noted that the U.S. stock market was up 7.3%, but down 8.6% for the past 12 months.

A week after the Silicon Valley Bank (SVB) collapse, the Federal Reserve, indicating that the problems in the banking system could result in tighter credit conditions for consumers and businesses, raised interest rates 25 basis points. The Federal Open Market Committee (FOMC) is signaling another 25-basis-point increase before the end of 2023, while the open market indicates rates could decrease 50 basis points.

While inflation has come down, it is still high. Economic growth is slowing but not enough for the Federal Reserve to cut rates. Consumer spending remains resilient, growing at the fastest rate in two years.

The U.S. yield curve, perhaps the strongest predictor of a recession, is at its lowest inversion since the 1980s. The Fed estimates the probability of a recession in the next 12 months to be around 62%.

Bewick observed that SERS' total fund return was only down 60 basis points for the one year, which signified that SERS had a defensive portfolio, placing the System in the top 5th percentile. SERS placed in the bottom quartile for risk, meaning it took less risk compared to most of its peers. In terms of the Sharpe ratio, or investment performance compared to risk taken, SERS ranked in the top decile for all periods.

When compared with more than 300 other US. pension funds, SERS' 1-year return of -0.58% and 3-year return of 13.58% ranked 5th; its 5-year return of 8.49% ranked 3rd; and its 10-year return of 8.90% 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 low net 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).

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.

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#### RETIREMENT BOARD

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*Vice-Chair, Retiree-Member*

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*Employee-Member*

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*Appointed Member*

DANIEL L. WILSON  
*Appointed Member*

The program currently utilizes one manager. While the active currency program has \$7.5 million in losses for the fiscal year, it had gains of \$51.3 million over the last 12 months and \$53.2 million since inception.

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 was implemented by two managers. As of March 31, 2023, the TAA program lost \$5.2 million for the fiscal year, but has added \$63 million in excess returns to the total fund since inception.

Cumulative gains of the overlay program are \$95.1 million since inception.

### Investment Committee Approves Real Asset Investment

The SERS Staff Investment Committee approved a \$15 million commitment to CBRE Storage Etc. Co-investment, a real estate core strategy within the real assets portfolio.

This investment will be funded from cash reserves.

### Board Approves Amended Statement of Investment Policy

The Board approved amendments to SERS' *Statement of Investment Policy*, a document that contains SERS' investment philosophy, objectives, asset allocation, and governance responsibilities.

The changes included the new asset allocation targets approved at the [April Board meeting](#) and a clarification, that in addition to other duties, the chief investment officer is responsible for conducting Investment Committee meetings as the chair and ensuring appropriate due diligence prior to investment decisions.

### Total Fund Update

TOTAL FUND BALANCE		
February 28	March 31	Difference
\$17.30 billion	\$17.49 billion	▲ \$190 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▲ 4.41%	▲ 2.80%	▲ 12.88%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▲ 0.01%	▼ 0.72%	▲ 2.03%

### Health Care Update

Alisa Bennett, president and consulting actuary with Cavanaugh Macdonald, presented the 2024 proposed rates for SERS' self-insured medical plans and prescription drug coverage.

Of note, the 2024 non-Medicare medical plan projection was slightly lower than 2023, and the actuary provided alternative rates for lowered specialist and primary care copayments. The projected monthly Medicare-eligible drug costs went from \$159 to \$154 for retirees, spouses, and children. The self-funded

Medicare Traditional Choice monthly per-retiree projected rate went to \$350 for medical and \$154 for prescription drug, with a total rate of \$504, which was lower than the 2023 projected rate.

Christi Pepe, SERS' health care services director, reviewed the health care program status, discussed 2024 rates, expectations, and presented 2024 recommendations for program and plan design changes. She noted that as of May 2023, non-Medicare enrollment was at 3,499; Medicare enrollment was at 36,380; optional dental coverage was at 43,966; and optional vision coverage was at 34,966.

Pepe highlighted that Delta Dental 2024-2025 premiums will rise slightly, but VSP Vision 2024-2025 premiums will remain the same as the previous year.

While there were no proposed 2024 premium changes for recipients with Aetna Medicare Plan (PPO) and Aetna Choice POS II, recipients with AultCare PPO can expect an approximate 4% increase to premiums; those with Aetna Traditional Choice will be recommended to follow the actuary's recommendation to lower the rate.

Proposed benefit changes for recipients with the non-Medicare Wraparound HRA included an increase to the federally-authorized reimbursement amount and an expanded reimbursement to any out-of-pocket expense for a covered service.

Proposed benefit changes for recipients with Aetna Choice POS II included a reduced primary care physician co-pay from \$20 to \$10 as well as a reduced specialist office visit co-pay from \$40 to \$25.

Proposed benefit changes for recipients with Aetna Medicare Plan (PPO) included a reduced specialist office visit co-pay from \$30 to \$20 and an additional \$60 per quarter over-the-counter drug benefit, as well as a CMS-required Express Scripts pharmacy network change.

Pepe also discussed the 2023 Premium Discount Program, which provided a 25% premium reduction, and included qualifying income at 175% Federal Poverty Level (FPL), which was at or below \$25,515 for an annual single income. Total enrollees were 1,490. No premium discount changes were recommended for 2024.

The Board offered no concerns about Pepe's recommendations, and will approve the 2024 health care premium amounts and plan changes at the upcoming June Board Meeting.

### **Board Approves Final Filing of Amended Administrative Rules**

The Board approved the final filing of two amended administrative rules that were reviewed by the Joint Committee on Agency Rule Review (JCARR).

The first rule concerned federal taxation. In response to the SECURE 2.0 Act, which was enacted on December 29, 2022, rule 3309-1-09 will be amended to change the required minimum distribution age from 72 to 73.

The second rule, rule 3309-1-35, reflects the Board's desire to require new benefit recipients who are eligible for SERS health care, but who are not eligible for Medicare, to receive Marketplace counseling in order to maintain eligibility. Counseling will be provided by SERS' vendor, HealthSCOPE Benefits, whose staff is licensed to enroll individuals in federal Marketplace plans. This requirement applies to individuals with a benefit effective date beginning June 1, 2023, and to those who have previously waived SERS' coverage but wish to enroll on or after that date due to a qualifying event.

## **Executive Director's Update**

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

On May 5, 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 nearly 100 OASBO members in attendance. Board members Jamie Rossler and Dan Wilson also were in attendance.

### ***State Legislation***

Earlier this month, SERS alongside the Ohio Public Employees Retirement System and the State Teachers Retirement System of Ohio, voiced its support of House Concurrent Resolution (HCR) 6. HCR 6 urges a full repeal of the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO).

Executive Director Richard Stensrud provided [proponent testimony](#) to the House Pensions Committee, urging Congress to find a permanent solution for SERS' retirees and members.

SERS continues to pursue its Contribution Based Benefit Cap (CBBC) legislation.

Last week, the House Pensions Committee passed House Bill 146, which would establish a CBBC in calculating a SERS member's retirement benefit.

The bill is now with the House for further consideration.

In addition, Senate Bill 6, the anti-environmental, social, and governance (ESG) bill introduced by Sen. Kirk Schuring, passed the Senate on a party-line vote but presents little to no impact for SERS.

### ***Investment Transparency***

Beginning this month and on a quarterly basis, SERS will post reporting to our [website](#) that provides total fund and asset class net-of-fee time-weighted returns, along with details of the alternative investments within SERS' investment portfolio.

### ***Board Self-Evaluation***

At the June meeting, the Board will conduct a self-evaluation session. Through this self-assessment process of examining strengths and weaknesses, the Board will advance its objective of continuous improvement, accountability, and operational success.

## **Monthly Retirement and Survivor Benefit Transactions**

For May, the SERS Board approved 487 active members for service retirements, and 18 survivor benefits for spouses and/or dependents.

## **June Meeting Dates**

The next Board meeting will take place Thursday, June 15, and Friday, June 16, at 8:30 a.m. (if necessary).