



# *SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO*

## **BOARD MEETING HIGHLIGHTS**

### **NOVEMBER 2021**

#### **Actuary Presents Pension and Health Care Valuations**

SERS' actuary, Cavanaugh Macdonald Consulting, LLC, presented the results of the FY2021 pension and health care actuarial valuations to the Board.

In FY2021, SERS' funded status for Basic Benefits (Pension, Death Benefit, and Medicare B Funds) increased from 71.49% to 74.46%, and the amortization period (the amount of time it takes to pay off all pension liabilities) of the unfunded actuarial accrued liability decreased from 24 years to 23 years.

Due to investment performance in FY2021, the market value of assets is greater than the actuarial value of assets by \$1.808 billion. The funded ratio based on the market value of assets is 82.86%, which is higher than the 74.46% funded ratio based on the actuarial value of assets. If all the deferred gains and losses currently in the four-year smoothing process were recognized immediately, the pension fund would be 82.86% funded.

Under the smoothing process, the remaining three-fourths of the investment gains from FY20-21 will be phased into the actuarial value of assets over the next three years.

Although health care is not funded on an actuarial basis, an annual valuation is performed to fulfill the requirements of GASB 74 and 75. The valuation reports that, even with no allocation of the employer contribution in 2021, health care experienced an increase in the funded ratio, extending the projected solvency of the fund to 2058.

The System's funding policy allows the Board to allocate up to 0.50% of the 14% employer contribution toward health care if the funded ratio of the pension fund is greater than 70% but less than 80%. At the October Board meeting, the Board voted to allocate 0% of the employer contribution toward health care in FY2022, preferring instead to enhance the funding level for Basic Benefits.

At the recommendation of SERS' actuary, the Board allocated the 14% employer contribution for FY2022 with 11.82% to the Pension Fund, 0.05% to the Death Benefit Fund, 0.63% to the Medicare B Fund, and 0.00% to the Health Care Fund. In accordance with SERS' funding policy, the Board allocated the remaining 1.50% proportionately to the Pension Fund, Death Benefit Fund, and Medicare B Fund.

The Board also set the minimum compensation amount of \$25,000 for determination of the FY2023 health care surcharge.

#### **Investments Quarterly Report**

David Lindberg of Wilshire Associates provided the Board with an update of current global market conditions, as well as SERS' FY2022 first quarter (July-September) investment results.

During the quarter, the U.S. stock market was up 0.1% with 6 of the 11 sectors registering positive returns. Large cap growth stocks were the only segment that registered positive returns during the quarter. Lindberg noted that consumer sentiment fell to its lowest point in more than 10 years. This drop coincided with a preceding six-month period where headline inflation, an inflation measurement that includes commodities such as food and energy, surged 7.8% which was the highest increase in 30 years.

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#### RETIREMENT BOARD

BARBRA M. PHILLIPS  
*Chair, Employee-Member*

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

HUGH W. GARSIDE, JR.  
*Employee-Member*

JAMES HALLER  
*Employee-Member*

MATTHEW KING  
*Employee-Member*

CATHERINE P. MOSS  
*Retiree-Member*

JAMES A. ROSSLER, JR.  
*Appointed Member*

FRANK A. WEGLARZ  
*Retiree-Member*

DANIEL L. WILSON  
*Appointed Member*

In Europe, economic conditions in the United Kingdom were rapidly deteriorating due to supply chain issues and increasing COVID infections. The UK was also dealing with inflation issues similar to that of the U.S.

When compared with more than 400 other U.S. pension funds, SERS' Total Fund investment performance continued to rank favorably over all periods. During the quarter, SERS' 2.05% return ranked 6<sup>th</sup>; the 1-year return of 23.11% ranked 19<sup>th</sup>; the 3-year return of 11.91% ranked 15<sup>th</sup>; and the 5-year return of 11.73% and 10-year return of 11.14% both ranked 10<sup>th</sup>.

Lindberg said that SERS' diversification is the reason for the solid performance. Despite having a lower allocation to riskier U.S. equity than the majority of peer system funds, SERS' Total Fund has been able to keep pace with those funds with good performance from non-U.S. equity, real estate, and other alternative investments. In addition, SERS has been achieving higher returns with less risk than most U.S. pension funds.

### Fixed Income Annual Portfolio Review

Staff presented a review of the fixed income portfolio's structure and performance, as well as FY2022 expectations.

Currently, SERS' fixed income portfolio has a market value of \$2.64 billion and is 4.3% below its 19% target. Staff has strategically underweighted fixed income due to the risk of near-term interest rates increasing and rising inflation, which could lead to lower future returns.

This portfolio contains investments in three sectors: 44% in core (Treasuries, corporate bonds, and mortgages); 42% in core plus (core securities plus high yield and non-US debt); and 14% in tactical and diversifying (emerging market debt, high yield, dislocation strategies, and fixed income relative value).

Sector exposure includes 24.7% in investment grade corporate, 24.4% in government bonds, 21.1% in mortgages, 8.3% in emerging market debt, 6.7% in high-yield bonds with the remaining 14.8% allocated to asset-backed securities, commercial mortgage-backed securities, non-US developed, and other/cash.

While the fixed income portfolio has not been one of SERS' highest returning portfolios, it has been important in terms of reducing and diversifying the risk of the Total Fund. In addition, this portfolio has generated positive excess returns of 2.87% over 1 year, 1.34% over 3 years, 1.15% over 5 years, and 1.24% over 10 years.

Looking ahead, the fixed income portfolio is expected to be negatively impacted in the long term by rising interest rates and rising inflation. The long-term expected return for fixed income generally is around 1.85%.

### Total Fund Update

TOTAL FUND BALANCE		
August 31	September 30	Difference
\$17.97 billion	\$17.96 billion	▼ \$10 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	Calendar Year	3-Year
▲ 1.93%	▲ 11.52%	▲ 11.26%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	Calendar Year	3-Year
▲ 0.81%	▲ 1.55%	▲ 0.74%

### Investment Committee Approves Three Investments

The SERS Investment Committee approved a \$40 million commitment to Marathon Healthcare Finance Fund, a health care royalty strategy within the opportunistic portfolio.

In addition, the committee approved a \$50 million commitment to KKR Opportunities Fund II, a stressed/distressed debt strategy within the private credit portfolio.

Finally, the committee approved a \$10 million commitment to Levine Leichtman Lower Middle Market III IPM Co-investment, a lower middle market co-investment strategy within the private equity portfolio.

These investments will be funded from cash reserves.

### **Executive Director's Update**

#### ***SERS Says Goodbye to Pension Advocate***

Bill Winegarner, director of Protect Ohio Pensions, Inc. (POP5), passed away earlier this month. Mr. Winegarner held a strong belief that public pension plans are valuable to our members and communities.

Executive Director Richard Stensrud said that Mr. Winegarner was fearless and a fervent defender of the integrity of pension systems.

He will be greatly missed.

#### ***New WEP Reform Bill in the Works***

Rep. Kevin Brady (R-TX) and Ways and Means Chairman Richard Neal (D-MA) have each introduced a bill with the purpose of reforming of the Windfall Elimination Provision (WEP). Both bills propose a new proportional formula for calculating the WEP; however, a bipartisan solution will need to be found before WEP reform is likely to move forward.

#### ***SERS' First Virtual Retirement Conference Considered a Success***

In October, SERS held its first retirement conference for members who are generally within two years of retirement. Of the 82 members in attendance, 69% indicated that they prefer a virtual conference rather than an in-person meeting, and 78% would recommend the conference to others.

Another virtual retirement conference will be held in November. Any additional dates will be announced on [SERS' website](#) and [Facebook page](#).

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

For November, the SERS Board approved 512 active members for service retirements, and 19 survivor benefits for spouses and/or dependents.

### **December Meeting Dates**

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