

SERS Retirement Board Meeting Minutes

May 16, 2024

The nine hundredth and sixty-seventh meeting of the Retirement Board of the School Employees Retirement System was held in the boardroom at 300 E. Broad Street, Columbus, Ohio, and streamed via Zoom videoconferencing on Thursday, May 16, 2024.

Pledge of Allegiance

The SERS Retirement Board meeting convened at 8:30 a.m. with the Pledge of Allegiance. Matthew King served as Acting Chair in Frank Weglarz's absence.

Roll Call

The roll call was as follows: Matthew King, Jeffrey DeLeone, James Haller, Catherine Moss, Barbra Phillips, James Rossler, Aimee Russell, and Daniel Wilson. Absent: Frank Weglarz. Also attending was Lisa Reid, representative of the Ohio Attorney General's Office. Various members of the SERS staff attended in person. Several SERS staff members and members of the public attended virtually.

Consent Agenda

The consent agenda for **May 16, 2024**, included:

- Minutes of the **April 18, 2024**, Retirement Board meeting
- Summary of Investment Transactions for the period of **March 1, 2024**, to **March 31, 2024**
- Retirement Report – Superannuations, Survivor Benefits, and Transfers
- Disability Report – Approval of Disability Benefits, Disapproval of Disability Benefits, Termination of Disability Benefits – Any Occupation, and Disapproval of Appeal for Disability on Personal Appearance

Barbra Phillips moved and James Rossler seconded the motion to approve the Consent Agenda of the Retirement Board meeting held on Thursday, May 16, 2024. Upon roll call, the vote was as follows: Yea: Matthew King, Jeffrey DeLeone, James Haller, Catherine Moss, Barbra Phillips, James Rossler, Aimee Russell, and Daniel Wilson. Absent: Frank Weglarz. The motion carried.

Investment Report

Asset Class Benchmark Review – Presented by Wilshire Associates

Joanna Bewick of Wilshire Associates introduced her new colleague, Chris Tessman, who will be working with her on the SERS retirement fund. Ms. Bewick then began her presentation stating that the purpose of benchmarking is to serve as a clear and objective means of evaluating performance. Benchmarks provide investors with a realistic and achievable starting point.

Ms. Bewick summarized benchmarking as:

- **Performance Attribution** - Decomposition of sources of return, such as asset allocation, active vs. passive management, manager skill, etc.
- **Insight on Risks/Returns** - Insight into the level of risk being taken to generate return and the volatility of return over time.
- **Manager Evaluation** - Measure against which manager performance can be evaluated to assist in retention/termination decisions.

Ms. Bewick continued, stating that the appropriate benchmark is a function of the return and risk characteristics of the asset class or portfolio being measured. According to the CFA Institute, a valid benchmark should possess the following characteristics, aligning the benchmark's style and risk with the asset class or manager:

- **Specified in advance:** The benchmark should be known at the start of the period.
- **Appropriate/Relevant:** The benchmark should be consistent with the investment approach and style.
- **Measurable:** Its value and return can be determined on a reasonably frequent basis.

SERS Retirement Board Meeting Minutes

May 16, 2024

- **Unambiguous:** Clearly defined identities and weights of securities constituting the benchmark.
- **Reflective of the current investment options:** The managers have current knowledge and expertise of the securities in the benchmark.
- **Accountable:** The manager(s) should accept the applicability of the benchmark and agree to accept differences in performance between the portfolio and benchmark as caused only by active management.
- **Investable:** The benchmark should be possible to replicate and forgo active management.

Ms. Bewick continued, providing an overview of each type of asset class and the benchmarks used for each one. SERS' asset classes are Global Equity, Global Private Equity, Global Fixed Income, Global Private Credit, Real Estate, Infrastructure, Opportunistic and Tactical, and Cash Equivalents. After a robust discussion and several questions, the board thanked Ms. Bewick for her report.

Quarterly Performance Report - Presented by Wilshire Associates

Ms. Bewick continued with a quarterly performance report. Ms. Bewick reported that the U.S. stock market was up 9.9% for the first quarter and is up 29.3% for the past year. Nearly every sector was positive with the best performing being communication services and energy. The worst performing and only negative sector was real estate.

Ms. Bewick also reported that the European economy remains weak with consumers hesitant to spend, fewer exports and lower investment, all reflecting diminished economic demand. Ms. Bewick also reported the stock market has been great for the past 5-10 years and returns were great in the immediate past. However, it is likely that returns will be much more modest looking forward.

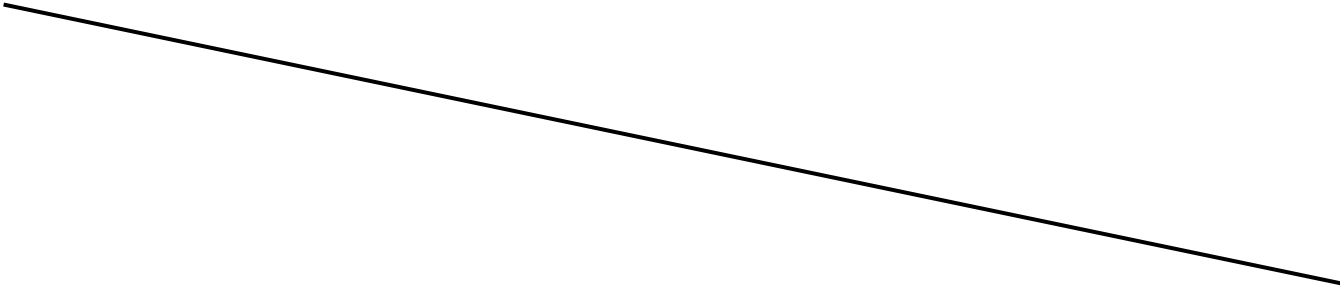
Quarterly Investment Report

SERS Chief Investment Officer, Farouki Majeed, followed up and provided a quarterly investment presentation. Mr. Majeed reported that US inflation is flat at 3% and the fed has held interest rates steady for the last few months. Mr. Majeed reported that the investment staff is continuing to review and find ways to grow the retirement fund even when the economy is declining and there remains a risk of recession. Following several questions and a robust discussion, the board thanked Mr. Majeed and his staff for all their hard work.

Annual Investment Plan Discussion – FY25 Draft (Possible Vote)

Mr. Majeed continued his investment report by introducing the FY2025 Annual Investment Plan. Mr. Majeed stated that the SERS Annual Investment Plan is a roadmap for the next year after reviewing the FY2024 plan and determining what needs to be adjusted. The major strategic goals remain unchanged. The focus of the FY2025 Annual Investment Plan will continue to be value added performance, risk management, cost effectiveness and maintenance of an investment program that meets or exceeds investment objectives over the long-term. Another FY2025 objective is to implement the asset allocation framework and targets approved by the Board in December 2023. The final goal is to continue to develop and engage the Investment team by adding a new Administrative Assistant due to the retirement of the Operations Manager.

Mr. Majeed reported that the economic outlook and portfolio strategies remained the same. The changes center around implementation guidelines. There will also be newly proposed targets for excess returns. Also, Real Assets will be split into two classes with specific targets for each new category. Following a brief discussion, Mr. Majeed advised the board that the policy would be brought in front of the board for approval at the June meeting. The board thanked Mr. Majeed for his presentation.



SERS Retirement Board Meeting Minutes

May 16, 2024

Investment Department Incentive Program – Draft (Discussion)

Mr. Majeed proposed changes to the SERS Investment Department Incentive Program. Changes to the program will target excess returns for each asset class and the total fund for the purpose of calculating incentive payments effective FY 2025. Currently, the target for each asset class and the total fund is uniformly 0.50%.

Mr. Majeed continued, stating a review of the excess returns of the asset classes and total fund over the last 10 fiscal years shown in attached table indicates that excess returns across asset classes differ on account of the potential of the respective asset classes to generate excess returns over their benchmarks. For example, the average of the 1-year excess returns over the last 10 years ranges from a low of 0.41% for Global Equity to a high of 3.77% for Private Equity. Similarly, the 3-year excess return ranges from a low of 0.44% for Global Equity to a high of 3.01% for Private Equity. It has been much easier to meet the current target of 0.50% in Private Equity than in Global Equity due to the efficiency of the public equity markets and the precision of the benchmarks. In view of this about 40% of Global equity is indexed to benchmarks, such that excess returns could be earned only from the remaining 60% that is actively managed. Private Equity can generate a higher excess return since it is 100% actively managed with control over management, the use of higher levels of leverage, and the benchmark is less precise than in public equities.

Mr. Majeed stated that SERS experience shows that the private asset classes (Private Equity, Real Assets, Private Credit) have consistently generated higher excess returns than the public asset classes (Global Equity, Global Fixed Income). Hence, having a uniform target excess return for all asset classes does not serve the purpose of fair incentive payment for achieving excess returns.

Mr. Majeed continued, reporting SERS total fund excess returns have increased over the last ten years with a 1-yr average of 0.94% and 3-yr average of 0.79%, well exceeding the current 0.50% target. In view of the above staff is proposing new excess return targets as follows:

	Proposed	Current
Global Equity	0.40% or 40 b.p.	50 b.p.
Private Equity	1.5% or 150 b.p.	50 b.p.
Global Fixed Income	0.60% or 60 b.p.	50 b.p.
Real Estate	1.0% or 100 b.p.	50 b.p.
Infrastructure	1.0% or 100 b.p.	50 b.p.
Private Credit	1.0% or 100 b.p.	50 b.p.
Opportunistic	1.0% or 100 b.p.	

Following a robust discussion, James Rossler moved and Barbra Phillips seconded the motion to approve the Investment Department Incentive Plan for fiscal year ending June 30, 2025, which replaces the Fiscal Year 2024 Investment Department Incentive Plan approved May 18, 2023. Upon roll call, the vote was as follows: Yea: Matthew King, Jeffrey DeLeone, James Haller, Catherine Moss, Barbra Phillips, James Rossler, Aimee Russell, and Daniel Wilson. Absent: Frank Weglarz. The motion carried.

The board took a break at 10:10 a.m.

The board reconvened at 10:23 a.m.

Health Care Report

Presentation of FY2025 Self-Insured Rates

Alisa Bennett of Cavanaugh Macdonald provided an update on the preliminary plan for Health Insurance Cost Estimates for Self-Funded Plans for 2025. Ms. Bennett reported that Cavanaugh Macdonald used 2022 and 2023 medical data to set 2025 rates. Ms. Bennett also reported that there will be dramatic changes to Medicare Part D in 2025.

SERS Retirement Board Meeting Minutes

May 16, 2024

Ms. Bennett stated industry projections suggest that projected medical plan cost increases for 2024 will be similar to pre-pandemic levels. It is also projected that double-digit increases in specialty prescription costs, mostly driven by price increases and new specialty drugs and biologics. It is also projected that health plan costs continue to significantly outpace general inflation and average wage increases.

Ms. Bennett also reported the marketplace Wraparound HRA Plan allows participants to choose insurance from any insurer offering coverage in the federal Marketplace, and if eligible, receive a federal subsidy to lower the premium and cost-sharing amounts. The SERS Marketplace Wraparound HRA Plan offers additional benefits to help pay for deductibles, co-pays, and other costs. There is no additional premium for the SERS Wraparound Plan. Reimbursement is capped at \$2,100 per participating family per calendar year in accordance with federal limits. This amount will index with inflation for future years and Ms. Bennett noted that 2019 through 2023 claims have been well below cost threshold. Also noted, the American Rescue Plan Act of 2021 (COVID-19 relief) law passed in March 2021 expanded Marketplace subsidies. The expansion was extended by the Inflation Reduction Act through 2025. This could make the SERS Wraparound HRA plan more attractive to members, creating cost savings for SERS.

Ms. Bennett continued her report, stating that Medicare Part D will undergo dramatic changes in 2025 due to the Inflation Reduction Act and out of pocket maximums will be capped at \$2000. Ms. Bennett closed her presentation with a summary of current and projected healthcare costs. Following several questions and a robust discussion, the board thanked Ms. Bennett for her presentation.

2025 Health Care Review and Benefit Considerations

Christi Pepe, SERS Director of Health Care Services, provided an update on the SERS health care services. Ms. Pepe reported that since the mandate for counseling before enrollment was implemented, Wraparound elections have increased. While there are no proposed 2025 premium changes for recipients with Aetna Medicare Plan (PPO) and Aetna Traditional Choice, benefit recipients with Aetna Choice POS II can expect an approximate 7% increase to premiums, and increased child and spouse base premiums consistent with the actuary's recommendation. Benefit recipients with AultCare PPO can expect an approximate 3% increase to premiums.

Ms. Pepe continued, stating proposed benefit changes for recipients with Aetna Choice POS II included an ambulance co-pay of \$150 due to the Mental Health Parity and Addiction Equity Act.

Another proposed benefit change for benefit recipients with the non-Medicare Wraparound HRA includes an increase of the federally authorized reimbursement amount to \$2,150.

Another proposed benefit change for benefit recipients with the Aetna Medicare Plan (PPO) includes a reduction in the primary care office visit co-pay to \$0 to align with the individual market.

Ms. Pepe then introduced Michael Steiner, SERS Assistant Director of Health Care Services, who provided an update on the SERS Medicare Advantage Plan, which covered 36,000 enrollees and had overall high member satisfaction. Mr. Steiner reported that over time, SERS maximized improvements on common out-of-pocket expenses, including primary care provider, specialist, and rehabilitative co-pays and over-the counter pharmacy benefits. Additionally, Medicare Advantage revenue continued to improve and offset pharmacy expenses.

Mr. Steiner stated that the 2025 recommendation for the SERS Medicare Advantage Plan is to continue reducing out-of-pocket expenses while keeping the premiums the same, along with analyzing the actual Part D claims and revenue experience during the plan year 2025 as well as conducting a survey to identify the primary reason retirees select other plans.

The Board discussed the proposed recommendations and SERS staff will request approval at the June board meeting. Following a robust discussion, the board thanked Ms. Pepe and Mr. Steiner for their reports.

SERS Retirement Board Meeting Minutes

May 16, 2024

PBM Contract Renewal

Ms. Pepe reported that at the April 21, 2022, Retirement Board meeting, the Board granted staff authority to negotiate a new Express Scripts contract for a three-year term beginning January 1, 2023, with two optional one-year renewals for calendar years 2026 and 2027. SERS' PBM consultant, Buck, recommends that SERS negotiate a three-year term to begin on January 1, 2026, and end on December 31, 2028, to achieve improved pricing terms.

Catherine Moss moved and James Haller seconded the motion to authorize staff to negotiate renewal of the current contract with Express Scripts to provide pharmacy benefit management services to eligible SERS participants. The renewal shall be for a term of three years beginning January 1, 2026, and ending December 31, 2028. The Executive Director or Deputy Executive Director shall have the authority to execute any documents necessary to secure these services, subject to documentation satisfactory to legal counsel. Upon roll call, the vote was as follows: Yea: Matthew King, Jeffrey DeLeone, James Haller, Catherine Moss, Barbra Phillips, James Rossler, Aimee Russell, and Daniel Wilson. Absent: Frank Weglarz. The motion carried.

Executive Director's Report

Ohio Retirement Study Council

SERS Executive Director, Richard Stensrud, began his report stating the ORSC met on May 9. The next regularly scheduled meeting is Thursday, June 13, subject to the call of the chair. At the May meeting, Mr. Stensrud presented a draft FY2025 budget to the Council. ORSC had no concerns but asked about the increased actuarial costs. SERS leadership advised that the additional costs were due to the ORSC commissioned audit that will happen in FY2025. SERS leadership was also asked about the EV charging station update and what is involved. The ORSC was provided with additional information on this topic. Other topics discussed at the May meeting included the ORSC budget, the STRS budget, an OP&F solvency update, and a quarterly investment review by RVK, the ORSC's independent investment consultant. RVK reported SERS investment numbers continue to look good. Also discussed were the recent developments at STRS.

School Teachers Retirement System (STRS) Board Governance Issues

Mr. Stensrud continued his report, stating STRS has been in the headlines recently with several governance issues. Their risk consultant, AON, sent a letter of resignation to the pension system and there is an ongoing investigation into violations of fiduciary duty being initiated by Ohio Attorney General Yost. Mr. Stensrud wanted to remind the board and the public that SERS is committed to accountability and sustainability. SERS staff will continue to work to differentiate the work we do from the other Ohio pension systems.

Advocacy Groups

Mr. Stensrud continued his report stating that SERS staff attended the annual OASBO/SERS update meeting that was held virtually on May 3. Nearly 100 OASBO members attended the virtual meeting as well as several board members. SERS staff provided an overview and an update about current issues and future challenges and opportunities. Several board members attended and thought the meeting went very well.

Mr. Stensrud also reported that SERO had its annual meeting on May 7 at Villa Milano. SERS staff provided a system update and health care program review. Approximately 25 SERO members were in attendance.

Ohio General Assembly

Mr. Stensrud continued his report stating the House Pension committee has changed its chairman again. The seat remains vacant for now. SERS staff will continue to follow these developments.

Mr. Stensrud also stated HB491 was introduced and will require Ohio pension systems to participate in the checkbook kept by the state. The checkbook lists publicly salaries earned by Ohio public employees. SERS staff will continue to monitor this bill and its progress.

SERS Retirement Board Meeting Minutes

May 16, 2024

Federal Legislative Activity

Mr. Stensrud reported a WEP/GPO hearing was held. Expert witnesses were invited to Capitol Hill to discuss the pros and cons of repeal vs. reform. Repeal legislation continues to gain co-sponsors, but WEP/GPO reform is not likely to be addressed until more comprehensive Social Security reform happens.

Upcoming Webinars and Board Trainings

Mr. Stensrud continued his report stating that several programs are upcoming, including workshops and webinars for employers and retirees. There were also several programs for members last month. SERS remains committed to engaging with employers, members, and retirees and strives to provide the best possible service.

Board Governance Activities

Mr. Stensrud continued his report stating the annual board self-evaluation will occur at the June meeting. Self-evaluation is an ongoing effort to identify ways for the board to improve. SERS staff will continue work to create a governance charter by putting board activities into categories and putting them into a calendar that will provide a "year at-a-glance" view of SERS board activities. This calendar will be provided at the June meeting.

Collections Actions

Mr. Stensrud posed the following question to the board: Should SERS members be collected against when they underpay for the SERS health care plan premiums and it is SERS fault they underpaid, meaning they had no idea they were underpaying. Several board members provided their opinions about the possibility of collections. After a robust discussion, the board agreed to update the premium payment amounts, so they are billed correctly moving forward. The board also requested additional information before deciding on whether or not to create a new rule and exceptions around collections.

Retire/Rehire Policy

The retire/rehire draft policy has been an ongoing discussion in the Compensation Committee. Compensation Committee Chair Daniel Wilson stated that the committee determined that this is something that will benefit SERS and should be socialized by the full board. Mr. Stensrud added that this is not succession planning but is a complement to succession planning. This policy would be used only for critical positions, but not all positions. Following a robust discussion, Mr. Wilson requested that a draft policy be submitted to the Compensation Committee for review. Once approved by the Compensation Committee, the draft policy will then be reviewed by the full board.

The board took a lunch break at 12:56 p.m.

The board reconvened following lunch at 1:34 p.m.

Review of Administrative Expenses

SERS Chief Financial Officer, Marni Hall, provided a report of administrative expenses for this fiscal year and stated SERS should end the fiscal year under budget.

SERS FY2025 Administrative Budget Review

Ms. Hall provided a report on the FY2025 SERS Administrative Budget. Ms. Hall stated that there is no action required today, this is simply a review of the draft budget. Ms. Hall restated the board's responsibility to approve a budget before July 1 of each year. The budget process starts with a zero-based budget. The budget is monitored throughout the year by finance staff, SERS leadership, and the board. Following a robust discussion, the board thanked Ms. Hall for her presentation.

SERS Retirement Board Meeting Minutes

May 16, 2024

Pensionable Compensation Discussion

SERS Legal Counsel revisited the pensionable compensation topic with the board. SERS Legal Counsel requested clarification on several types of compensation that could potentially be pensionable. Following a robust discussion, legal counsel agreed that once the board determined what compensation types would be included, the actuaries will be asked to calculate how these compensation changes would potentially affect the retirement fund. SERS Legal Counsel will create a draft rule for the board to consider at the next board meeting.

Retirement Report

There was no executive session for the retirement report.

Board Communication and Policy Issues

Board Information Request & Follow Up Items

The board requested a draft rule to address additional pensionable compensation.

Calendar Dates for Future Board Meetings

The board reviewed the meeting dates for 2024 and noted the June meeting schedule has been adjusted due to the holiday.

CALENDAR DATES FOR SERS BOARD AND COMMITTEE MEETINGS FOR 2024 **

AUDIT COMMITTEE MEETINGS

June 20, 2024 – 2:30 p.m. **(Thurs.) ** New Date ****
September 18, 2024 - 2:30 p.m. (Weds.)
December 18, 2024 – 2:30 p.m. (Weds.)

COMPENSATION COMMITTEE MEETINGS

June 21, 2024 – 7:30 a.m. **(Fri.) ** New Date ****
July 18, 2024 – 7:30 a.m. (Thurs.) * **Special Meeting ***
September 19, 2024 – 7:30 a.m. (Thurs.)
December 19, 2024 – 7:30 a.m. (Thurs.)

TECHNOLOGY COMMITTEE MEETINGS

June 20, 2024 – 1:30 p.m. **(Thurs.) ** New Time ****
September 19, 2024 – 12:30 p.m. (Thurs.)
December 19, 2024 – 12:30 p.m. (Thurs.)

BOARD MEETINGS

June 21, 2024 - 8:30 a.m. **(Fri.) ** New Date ****
July 18 – 19, 2024 – 8:30 a.m. (Thurs. and Fri.)
September 19 – 20, 2024 – 8:30 a.m. (Thurs. and Fri.)
October 17 – 18, 2024 – 8:30 a.m. (Thurs. and Fri.)
November 21 – 22, 2024 – 8:30 a.m. (Thurs. and Fri.)
December 19 – 20, 2024 – 8:30 a.m. (Thurs. and Fri.)
**** Please note that these dates and times are tentative.**

Adjournment

Board Vice Chair, Matthew King, moved to adjourn to meet on Thursday, June 20, 2024, at 8:30 a.m. for the next SERS regularly scheduled Retirement Board meeting.

SERS Retirement Board Meeting Minutes

May 16, 2024

The SERS board meeting adjourned at 2:34 p.m.

Matthew King, Board Vice Chair
(Acting Chair on 5/16/2024)

Richard Stensrud, Secretary