School Employees Retirement System of Ohio
Board Meeting Highlights
November 2024

Candidate Chosen for Open Employee-Member Seat
In accordance with the rules of a Vacancy Board Election, Jeanine Alexander was chosen to fill the open employee-member Board seat.

Alexander is the treasury services assistant at Rossford Exempted Village Schools, where she has worked since 2015.

The term for this seat runs through June 30, 2025.

Actuary Presents Pension and Health Care Valuations
SERS' actuary, CavMac Actuarial Consulting Services, presented the results of the FY2024 pension and health care actuarial valuations to the Board.

In FY2024, SERS' funded status for Basic Benefits (Pension, Death Benefit, and Medicare B Funds) increased from 76.61% to 78.99%, and the amortization period (the amount of time it takes to pay off all pension liabilities) of the unfunded actuarial accrued liability decreased from 21 years to 20 years.

The FY2024 investment return of 9.69% net of fees exceeded the assumed rate of return of 7.0%.

Under the four-year smoothing method SERS uses, investment gains and losses are divided into four equal amounts and recognized over a four-year period. When the unrecognized gains from the previous three years are added to this year's one-fourth gain, SERS' actuarial value increased.

The remaining three-fourths of the investment gains in FY2024, two-thirds of the losses from FY2023, and one-third of the losses from FY2022 will be phased into the actuarial value of assets over the next three years.

With the deferred gains from FY2021 dropping off, the continued recognition of the deferred losses from FY2022 and FY2023 will result in downward pressure on the funded status in FY2025. Downward pressure will continue if the investment performance falls short of the 7% actuarial investment return assumption in the next few years. See page 27 of the Annual Basic Benefits Valuation for more information.

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 health care experienced an increase in the funded ratio from 46.14% to 61.59%, primarily due to investment earnings along with lower Medicare costs due to increased federal subsidies.

The Health Care Fund is projected to remain solvent for another 45 years, until 2069. As a point of reference, the funded ratio in 2012 and 2013 was approximately 13%, and the solvency period from 2017 to 2019 was approximately 15 to 17 years.

At the September Board meeting, the Board voted to allocate 0% of the employer contribution toward health care in FY2025, preferring instead to enhance the funding level for Basic Benefits. At the recommendation of SERS' actuary, the Board allocated the 14% employer contribution for FY2025 with 9.13% to the Pension Fund, 0.03% to the Death Benefit Fund, 0.40% to the Medicare B Fund, and 0.00% to the Health Care Fund.

The remaining 4.44% of the employer contribution will be allocated proportionately to the Pension Fund, Death Benefit Fund, and Medicare B Fund.

Finally, Director Richard Stensrud congratulated John Garrett, principal and consulting actuary with CavMac, on his upcoming retirement. Garrett holds over 30 years of public sector actuarial and consulting experience, including 16 years as SERS' actuarial consultant. His recommendations, along with the rest of the CavMac team, have contributed to the System's increased funded status and reduced amortization period seen today. Garrett is known for delivering his analysis in easy-to-understand terms to increase Board engagement and comprehension.

The Board individually and collectively thanked Garrett for his work on behalf of SERS' members and retirees and wished him the best in retirement.

Quarterly Investment Report and Overview of U.S. Economic Conditions
Joanna Bewick of Wilshire Associates provided the Board with an economic update and a quarterly (July-September 2024) review of SERS' portfolio.

Bewick said that Wilshire continues to forecast lower expectations for equity returns over the next few years with returns coming in lower than core bonds. Stock valuations are currently high which dampens future returns.

During the quarter, the stock market was up 6.2%. The only sector to report a loss was the energy sector at -3.0%. The best-performing sectors were utilities at 18.7% and real estate at 17.2%.

Worsening employment conditions at the end of September led to a 25-basis point cut in interest rates by the Federal Reserve (Fed) in November, which was lower than anticipated. A decline in consumer confidence is also clouding the certainty of future rates cuts.

The yield curve, which is the difference between the yields of the two- and ten-year U.S. Treasuries, remains inverted but less so than it was the previous quarter. While the inverted yield curve was historically an indicator of a coming recession, the U.S. has avoided that this time so far.

Another recession indicator that emerged last quarter was a significant increase in employment. While this seems like a positive development, the Sahm Rule indicates that when employment increases rapidly, 0.5% or more during a quarter when compared to the most recent low, based on past experience, a recession is likely to occur. Bewick noted that there was a 0.57% increase during the quarter.

When looking at SERS' portfolio performance over the quarter, SERS returned 4.14% gross of fees during the quarter which was 14 basis points above the benchmark. Notably, SERS' portfolio had outperformed the benchmark in all periods, which includes both up and down markets.

Compared to Wilshire's universe of public pension funds, SERS' returns compare favorably. With the exception of the one-year gross of fees return of 16.32% which ranks in the 83rd percentile, the 3-, 5-, and 10-year returns all rank in the top 6th percentile. Since SERS has a lower allocation to public equities, SERS' returns will lag other funds that have more equity exposure in times when the U.S. stock market realizes big gains.

One area where SERS' portfolio leads Wilshire's universe is in risk/return. SERS' portfolio has higher returns per unit of risk than all other funds.

With the exception of cash equivalents (-4.94%) and real estate (-0.35%), all of SERS' portfolios registered net-of-fees gains for the quarter. Global equity at 6.15% and global fixed income at 5.24% led the way.

SERS' Chief Investment Officer Farouki Majeed also discussed the difficulty of predicting economic conditions with the uncertainty of a new presidential administration and Congress starting in January.

The prospect of increased tariffs could impact the Gross Domestic Product and deportations could impact the labor market and disrupt supply chains. Deficit spending is expected to continue increasing the Federal debt, which may cause interest rates to stay high and pose a risk to the economy. Current indications show that manufacturing is already in contraction as output has dropped but the service sector and housing are still strong. Stock valuations are currently high which indicates that investment returns will be modest going forward.

Despite these headwinds, Majeed believes that SERS' investment portfolio is well positioned to be able to withstand market fluctuations caused by economic and geopolitical risks.

Fixed Income Portfolio Review
Staff presented a review of the fixed income portfolio's structure and provided an update on a new initiative.

The fixed income portfolio contains investments in three sectors: 48% in core (Treasuries, corporate bonds, and mortgages); 40% in core plus (core securities plus high yield and non-US debt); and 12% in tactical and diversifying (emerging market debt, high yield, and dislocation strategies).

Currently, SERS' fixed income portfolio has a market value of $2.6 billion and is 4.7% below its 18% target, a 1% increase from last year's allocation.

Over the last 12 months, this portfolio has realized a net return of 12.6%, which was 1% higher than the Bloomberg U.S. Aggregate Bond Index benchmark. The long-term net asset returns over the 3-, 5-, and 10-year periods are all positive. Interest income of $80 million was transferred to pay benefits, which was an increase of 18%, or $12 million, over the last year.

Effective July 1, 2024, SERS' global fixed income benchmark changed from the Bloomberg U.S. Aggregate Index to the Bloomberg U.S. Universal Index. Wilshire Associate's benchmark review showed that the Bloomberg U.S. Universal Index has a lower tracking error and outperformed the Bloomberg U.S. Aggregate Index across the 1-, 3-, 5-, and 10-year periods.

For the first time in SERS' history, staff is now managing U.S. Treasury Exchange Traded Funds (ETFs) in house. The ability to make direct allocations to U.S. Treasuries helps to reduce risk and increase the portfolio's allocation relative to the benchmark. It also provides investment staff with the opportunity to capture market opportunities quickly, often on a same-day basis, with no account level fees – only the underlying ETF fees. This account also offers a more conservative portfolio positioning in the event of an economic downturn or market stress.

Since implementation, ETFs have outperformed the benchmark by 0.60%.

Total Fund Update

TOTAL FUND BALANCE		
August 31	**September 30**	**Difference**
$19.37 billion	$19.61 billion	▲$240 million
TOTAL FUND RETURN (net of fees)		
Fiscal Year	**Calendar Year**	**3-Year**
▲3.96%	▲9.71%	▲6.13%
TOTAL FUND RETURN vs. BENCHMARK		
Fiscal Year	**Calendar Year**	**3-Year**
▼0.04%	▲0.44%	▲1.25%

Board Approves Final Filing of New and Amended Administrative Rules
The Board approved the final filing of a new rule on the definition of compensation.

The definition of compensation for SERS has been modernized to align with current compensation practices in Ohio's public schools. It has an effective date of July 1, 2025.

To see what types of compensation will and will not be counted as pensionable compensation, see page 209 of the July 19, 2024, Board materials.

Additionally, the Board approved the final filing of 3309-1-51, a new rule regarding the recovery of overpayments.

This rule addresses situations where new or revised information requires a correction in the calculation of a benefit payment and specifies that in the event a recalculation results in an increased payment, SERS will provide the recipient a lump sum payment to make up for any underpayment(s) before the recalculation.

In the event a recalculation results in downward adjustment of the benefit payment, the rule specifies that SERS will look to recoup the amount of the cumulative underpaid amount but includes protections to prevent undue hardship when the recipient was not the source of the incorrect information that caused an overpayment. In those cases, repayments will be limited to two years back from the time the error was discovered, with the first $200 waived.

Finally, the Board approved the final filing of two amended rules.

The health care rule amendments include adding a definition of "qualified service credit" and provisions regarding the recovery of underpaid premium amounts and refund of overpaid premium amounts.

Amendments to the appeals for denial and termination of disability benefits rule include extending the time period for filing a notice of appeal from 15 days to 30 days, permitting a virtual personal appearance before the Board, and clarifying that when a member returns to work pending the appeal of a termination of benefits and the appeal is granted, benefits resume the first day of the month following the last day for which compensation was paid.

Executive Director's Update

WEP/GPO Update

The U.S. House of Representatives recently voted in favor of H.R. 82, the Social Security Fairness Act of 2023, which would completely repeal the Windfall Elimination Provision (WEP) and Government Pension Offset (GPO). The bill passed with a vote of 327-75.

These penalties may reduce the amount of Social Security benefits that SERS retirees and other public employees receive. Now the bill is headed to the Senate.

Earlier this week, SERS activated the grassroots tool on its website to request that the Senate vote to repeal these penalties before Congress leaves for the year. Since SERS published the call to action, constituents in 42 states sent 1,665 letters to their senators, including 423 letters each to Sen. Sherrod Brown and Sen. JD Vance.

Sen. Sherrod Brown is sponsoring S. 597, the Senate companion bill, and Sen. JD Vance is one of its 62 cosponsors.

A Closer Look at Member and Retiree Data

Director Richard Stensrud addressed some key data that was presented in the FY2024 *Annual Actuarial Valuation*.

SERS members are the lowest paid of all five Ohio retirement systems:

- 78% of members make less than $40,000 per year
- 46% of members make less than $20,000 per year
- 28% of members make less than $10,000 per year

SERS retirees receive modest benefits:

- 47% of retirees receive an annual benefit of $12,000 or less
- 65% of retirees receive an annual benefit of $18,000 or less
- 77% of retirees receive an annual benefit of $24,000 or less

Finally, 26% of active members are currently vested with 10 years of service credit.

While a SERS pension is a valuable lifetime benefit, the recent actuarial valuation shows the financial reality of the hardworking people who serve our schools.

Monthly Retirement and Survivor Benefit Transactions

For November, the SERS Board approved 708 active members for service retirements, and 11 survivor benefits for spouses and/or dependents.

December Meeting Dates

The next Board meeting will take place Thursday, December 19, and Friday, December 20, at 8:30 a.m. (if necessary).