Brief History
School Employees Retirement System of Ohio (SERS)
70 Years of
“Serving the People Who Serve Our Schools”

Founded in 1937
In late 1927, a group of Cleveland custodians sponsored legislation known as the School Custodians’ Pension Act. The act made it possible for local boards of education to create pension funds in their own districts for their non-teaching employees. State history indicates that Cleveland was the only board of education to establish such a fund for their custodians.

In 1933, in the midst of the Great Depression, a group called the Cleveland Board of Education Employe (sic) Welfare Association was formed through the efforts of Theodore J. Deringer, an attendance worker for Cleveland City Schools. The group expanded the guidelines of the custodians’ fund, and included plans for retirement allowances for all non-teaching employees in Ohio’s public schools.

By 1936, the Ohio Association of School Business Officials had been formed and it decided to join the effort to promote a statewide retirement system for non-teaching school employees. Representatives of the State Teachers Retirement System of Ohio (STRS, created in 1920) and the Public Employees Retirement System of Ohio (OPERS, created in 1935) were consulted to help draft legislation to present to the 1937 legislature.

The bill was sponsored by Cuyahoga County Representative Hiram H. Cully, and introduced in the Ohio House of Representatives on Feb. 3, 1937 as House Bill 217. The bill was passed by both chambers and signed into law on April 13, 1937 by Governor Martin L. Davey.

The state provided $5,000 in initial start-up money, and the system began operating on Sept. 1, 1937.

Executive Leadership
The first person to hold the title “Executive Secretary” was a woman named S. Eleanor Cain. However, she did not have the same authority and responsibilities as those to follow. She performed secretarial duties for the first Retirement Board. The first real “Executive Secretary” (now known as the Executive Director) was Thomas G. O’Keefe. Mr. O’Keefe held the post for 10 years, from 1937 to 1947. He provided the strong leadership necessary for the new pension fund, establishing many of the basic principles that continue today. In 1938, when the system merged with the Cleveland Custodians Pension Fund, total membership rose to 10,268, and assets reached $1.1 million. The first benefits paid in 1938 were disability payments totaling $827.88 for 16 members.

The second Executive Director of the system was Ward Ashman, who served from 1947 to 1969. Mr. Ashman was instrumental in changing the landscape of downtown Columbus, Ohio, during his 22 years at SERS. The system organized the construction of 88 East Broad Street and what is now the Columbus Renaissance hotel at 50 North Third Street, at that time the first two high-rise buildings in the downtown area in over 40 years. SERS experienced tremendous growth while Mr. Ashman was the Executive Director. Membership grew from just 19,000 members to more than 100,000. Assets rose from $10 million to more than $220 million. Several new benefit programs such as survivor payments were enacted during his tenure.
The third Executive Director was James O. Brennan. Mr. Brennan served from 1969 to 1979. He implemented major benefit improvements at SERS during his 10 years as Executive Director, including the annual cost-of-living raise, health insurance, the death benefit payment, and the Medicare Part B reimbursement. The system had 11,809 retirees and assets of $257 million when Mr. Brennan took the helm. Under his leadership, assets broke the $1 billion threshold.

The fourth Executive Director was Thomas R. Anderson. Mr. Anderson served from 1979 to 2003. He was initially the Ohio Attorney General’s representative to the Retirement Board, and then Staff Counsel prior to being appointed Executive Director. During Mr. Anderson’s 24 years guiding the system, many benefit improvements were enacted, and he positioned the system for future growth through the construction of two system office buildings: 45 North Fourth Street and 300 East Broad Street in downtown Columbus. The size of the fund grew from $1 billion to $7.7 billion, and the number of retirees more than doubled. When Mr. Anderson took office, annual benefit payments were $67 million, and when he retired, they were $635 million.

The fifth and current Executive Director is James R. Winfree, who took the helm in 2004. Mr. Winfree also served as the Ohio Attorney General’s representative to the Retirement Board for six years prior to his appointment as Executive Director. Under his leadership, and as the system celebrated its 70th anniversary in September 2007, assets had grown from $7.7 billion to $11.6 billion. Members and benefit recipients numbered 186,000. Mr. Winfree’s strategic vision for the future includes a strong focus on strengthening the pension fund and improving services to members and retirees, preserving retiree health care benefits, and developing an organizational culture to support success.

Governance

In 1937, the first Retirement Board consisted of two elected members, W.V. Drake and Theodore J. Deringer, and three ex-officio members: the Ohio Attorney General, State Auditor, and the head of the State Teachers Retirement System. Over its 70-year history, the structure and composition of the Retirement Board have changed many times, as have the terms of office. At least 39 individuals have served elected terms.

In 1984, the O’Keefe family registered another “first” for the system, as Mr. O’Keefe’s wife, Agnes, lobbied for addition of a retiree seat on the Board, and then was elected to it. She served two terms, from 1984 to 1992.

In 2004, the Retirement Board was expanded to its current nine-member structure: a second retiree seat was added, the Attorney General and State Auditor were removed, and three appointed investment experts were added – one each from the Governor, State Treasurer, and Ohio General Assembly. Board members receive no compensation for their services other than the reimbursement of personal expenses.

Contributing Members

All public school employees who do not possess a certificate to perform their duties are required to participate in the system. These positions include bus drivers, cafeteria workers, custodians, teacher's aides, secretaries, administrative support staff, business managers, treasurers, and school board members. As of FY 2007, the system had approximately 186,500 active and retired members. Of those, 123,000 were active contributors and 63,500 were benefit recipients.
SERS’ demographic characteristics are quite different from those of the other Ohio public retirement systems. The system’s members are mostly women who begin their public employment at a later age, retire at an older age, and are paid significantly less while working. Thus, the demographics of the membership drive the architecture and focus of system's design, benefits, vesting, contributions, investment, and funding policies.

In FY 2007, the average active member was 47.5 years old, earned $21,163 that year, and had 9.4 years of service credit. The employee contribution rate is 10% of pay. The average new retiree that year was 62.6 years old, had a final average salary of $27,827, and service credit of 22.1 years. The resulting average monthly pension was $1,109.

Like Ohio’s other public employees, SERS’ members are exempt from Social Security and rely upon the system to provide a guaranteed service retirement benefit, disability protection, and survivor benefits.

### Growth of Membership (selected)

<table>
<thead>
<tr>
<th>Year</th>
<th>Members</th>
<th>Retirees</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1940</td>
<td>12,561</td>
<td>791</td>
<td>13,352</td>
</tr>
<tr>
<td>1947</td>
<td>21,744</td>
<td>1,807</td>
<td>23,551</td>
</tr>
<tr>
<td>1957</td>
<td>39,875</td>
<td>4,023</td>
<td>43,898</td>
</tr>
<tr>
<td>1967</td>
<td>90,140</td>
<td>10,046</td>
<td>100,186</td>
</tr>
<tr>
<td>1977</td>
<td>96,140</td>
<td>23,340</td>
<td>119,480</td>
</tr>
<tr>
<td>1987</td>
<td>93,147</td>
<td>42,670</td>
<td>135,817</td>
</tr>
<tr>
<td>1997</td>
<td>103,739</td>
<td>59,349</td>
<td>163,088</td>
</tr>
<tr>
<td>2007</td>
<td>123,013</td>
<td>63,529</td>
<td>186,542</td>
</tr>
</tbody>
</table>

### Employers

All K-12 public schools, including charter schools, are contributing employers. In addition, the system serves 14 community and technical colleges and one four-year university, bringing the total number of contributing employers to nearly 1,000. The current employer contribution rate is 14% of pay, plus a health care surcharge for low-wage workers which may not exceed 2% of a district’s payroll, averaging 1.5% statewide.

### Benefit Structure

SERS is a cost-sharing, multiple-employer defined benefit public employee retirement system totally separate from Social Security. By statute, pensions are guaranteed; retiree health care is discretionary. Members who joined SERS before May 14, 2008 are eligible for retirement benefits based upon the following age and service credit schedule: age 60 with 5 years of service; age 55 with 25 years of service; or any age with 30 years of service. Members who joined SERS on or after May 14, 2008 are eligible at age 62 with 10 years of service; age 60 with 25 years of service; or age 55 with 30 years of service.

The benefit is equal to 2.2% of the member’s final average salary, or a minimum of $86, multiplied by the number of years of credited service. Members retiring with more than 30 years of service credit receive an increased benefit multiplier of 2.5% for each year of earned service in excess of 30 years. Death benefits of $1,000 are payable upon the death of a retiree to a beneficiary. Members are eligible for disability benefits after completion of 5 years of service. Qualified dependents of a deceased member are eligible for monthly survivor benefits. Qualified benefit recipients who pay Medicare Part B premiums may apply for and receive a
monthly reimbursement from SERS. The current reimbursement amount is $45.50. A SERS member who is also a member of STRS or OPERS may have all deposits, salary, and service credit combined for the purpose of determining a greater benefit and earlier eligibility. The system in which the member has the greatest service will calculate the benefit. However, members cannot receive more than one year of total credit for all employment during a 12-month period.

Retirees of any of the five state retirement systems must contribute to SERS if they are reemployed in a non-certificated position in the public schools. These contributions are credited to a separate money purchase annuity payable at age 65 in either monthly payments (if the monthly amount is $25 or more) or in a lump sum. A refund of the reemployed retiree’s contributions, without employer contributions or interest, is available for those who stop working before age 65.

**Pension and Health Care Milestones**

SERS began life in 1937 as a defined contribution plan, with a 4% member and employer contribution rate on the first $2,000. Accounts earned 4% annual interest, and members paid a $2 annual membership fee. Retirement was at age 60 with 5 years of service. The benefit was two times the member’s own contributions plus interest, with an extra benefit for service before 1937. Refunds were forced if a member had been inactive for 10 years, with an interest rate of 3%. Retirement was mandatory at age 70. The annuity tables were gender-based, meaning a woman’s retirement benefit was lower because women lived longer than men. There were no survivor benefits until 1951. Full (unreduced) retirement benefits were at age 65 or with 40 years of service.

In 1944, retirement at age 55 with 30 years of service was added, and in 1946, the first member contribution rate increase took place, to 5% of pay.

In 1955, SERS became a defined benefit plan. The pension formula was established at 1.5% multiplied by the final average salary (FAS, which was the highest five years within the last 10 years with a $15,000 limit), multiplied by years of service. Monthly benefits were increased for working beyond age 65. Minimum benefits were provided for attained age or years of service. Benefits were limited to 75% of FAS. An optional Defined Contribution Plan was retained as a money purchase formula.

In 1962, retiree health care was first offered. It was a Blue Cross/Blue Shield Plan and was paid by the retiree.

In 1974, the system began subsidized retiree health care, and the retiree premium was initially free. Also in 1974, FAS was changed to the highest three years, and benefits were limited to 90% of FAS. In 1976, the “bonus” for working beyond age 65 was eliminated. Also in 1976, retirement eligibility was changed to 30 years of service at any age. In 1977, a year of service was redefined from 9 months to 120 working days. Also in 1977, the Medicare Part B reimbursement began, at 100% of the premium.

In 1986, 10 years of service were required for access to retiree health care. In 1988, the Medicare Part B premium was capped at that year’s rate ($24.80/month), with SERS required to ask the legislature for approval to increase it. This limitation was made in exchange for the authority to collect a health care surcharge from employers for low-wage workers. Retiree health care premiums were restructured based on years of service.

In 1998, the Board adopted a policy that 150% of projected annual health care expenses constituted a minimum reserve.
Many changes came with the new century. In 2001, the pension formula was changed to 2.2% from 2.1%, with 2.5% for years over 30. The benefit limit was increased to 100% of FAS. The Medicare Part B reimbursement was increased to that year’s rate ($45.50), with a lump sum catch-up payment back to 1993. The health care surcharge was capped at 2% of payroll per district and 1.5% of payroll statewide. In 2002, the partial lump-sum option plan (PLOP) was authorized, and the annual cost-of-living increase was fixed at 3%. In 2003, the system increased the member contribution rate to its statutory limit of 10%. In 2004, the system set its maximum health care premium subsidy at 85%, eliminating all zero retiree premiums. Also in 2004, a new premium contribution discount program (Safety Net) for low-income retirees was established that was based on qualifying household income. In 2006, the maximum health care premium subsidy was reduced to 82.5%.

In 2008, SERS requested and received legislative approval to adjust the retirement eligibility for all new members of the system. It was the first such change in 50 years, creating a second tier of benefits for all new members on or after May 14, 2008. In addition, the early retirement reduction factors used in those new members’ benefit calculations would be actuarially determined, rather than by the fixed rate set in statute for earlier members. These changes were sought to address increasing member longevity and negative impact on the defined benefits structure.

Also in 2008, the Retirement Board approved a funding policy for the system’s health care fund with a target solvency rate of 20 years.

**Investment Authority**

The system is mandated to find secure and profitable investments to provide for the lifetime pension of its retirees, continually balancing safety with profit potential. Over the years, SERS has diversified and expanded its portfolio based upon the investment authority granted it by the Ohio General Assembly. Key events in the evolution of SERS’ investment authority include:

- **1937-1956** Investments restricted to government bonds, savings accounts, and real estate.
- **1957** Expanded authority to invest in corporate bonds, and preferred and common stock.
- **1976** Authorized investments in Canadian debt obligations.
- **1981** Added exclusive benefit, prudent man, and consideration to Ohio investments; permitted Ohio private equity.
- **1983** Permitted Ohio venture capital.
- **1993** Authorized investment in foreign issues; increased domestic equity limit from 35% to 50%, and expanded eligible domestic equity to any stock on New York or American exchange.
- **1997** Abolished Legal Lists; instituted prudent person; and eliminated percentage limitations
- **2004** Added a discretionary preference for Ohio-qualified agents and investment managers.

**Growth of Assets (selected)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Fund Value</th>
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<tbody>
<tr>
<td>1940</td>
<td>$2.8 million</td>
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1947   $10.8 million
1957   $52.2 million
1967   $189.0 million
1977   $709.0 million
1987   $2.4 billion
1997   $6.3 billion
2007   $12.1 billion

Offices in Downtown Columbus, Ohio

Over the years, SERS’ administrative staff has occupied six different locations in
downtown Columbus. The system’s first offices in 1937 were at 85 East Gay Street. Later,
SERS moved to 12 North Third Street, which no longer exists and is the current site of a high-
rise bank building. SERS then temporarily moved into the Beggs Building on State Street.

In 1964, the system built 88 East Broad Street. Staff moved into two floors and part of
the basement of this modern, high-rise building, and SERS leased the remainder to tenants.
Finally, after 44 years of sharing space with other businesses, SERS built its first true home for
itself. In 1981, it completed work and moved into 45 North Fourth Street where it remained for
20 years.

In 2001, SERS finished work at 300 East Broad Street, initially occupying six of nine
floors and the basement. The current facility is expected to serve the system’s space needs for
many years to come.

(Compiled in August 2008)