



## SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

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RICHARD STENSRUD  
*Executive Director*

HELEN M. NINOS  
*Deputy Executive Director*

August 2, 2017

The Honorable Dave Yost  
Auditor of State  
88 East Broad Street  
Columbus, Ohio 43215

Dear Auditor Yost,

On behalf of the School Employees Retirement System of Ohio (SERS), I am responding to your recent letter regarding the decision by Fitch Ratings to lower the 'discount rate' they will use to calculate public pension plan liabilities for the purpose of assessing the future pension costs of the governmental entities that sponsor those plans, and your inquiry regarding SERS' plans and process for establishing a reasonable discount rate/investment return assumption for the SERS pension plan.

SERS concurs it is imperative to fairly and accurately present the financial condition of the pension plan, and that it is essential to utilize a reasonable and prudent investment return assumption when making that assessment. To that end, in accordance with the requirements of Section 3309.21 of the Ohio Revised Code (ORC), on an annual basis SERS has an independent actuary perform an actuarial valuation of the projected assets, liabilities and funding requirements of the pension fund. In addition, at least once in every quinquennial period SERS has an actuarial review performed in accordance with the requirements of ORC Section 3309.21 for the purpose of assessing the reasonableness of the actuarial assumptions used in the annual valuations.

The actuaries who perform these analyses are required to do so in accordance with generally accepted actuarial principles prescribed by the Actuarial Standards Board and the American Academy of Actuaries, as well as the relevant rules established by the Governmental Accounting Standards Board (GASB). Pursuant to these standards, the annual determination of the funded status of SERS, and the investment return assumption used in making that assessment, is based on the expected future investment returns of SERS given the specific components of SERS' investment program. In addition, because the actuarial valuation measures the present value of several decades of expected benefit payments, it is important that the investment return assumption reflects the projected long term compound average investment return, and not simply what may be projected for a near term period.

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### RETIREMENT BOARD

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With guidance from SERS' actuary, the SERS Board of Trustees has been proactive in establishing a reasonable and prudent investment return assumption for determining the financial condition of the pension plan as reflected by the decision to reduce the investment return assumption from 7.75% to 7.50% in 2016. Consistent with their fiduciary duty, going forward the SERS Board will continue to monitor both the actual and projected investment experience, and if and when circumstances call into question the investment return assumption, the SERS Board will adjust the assumption to better reflect future return expectations.

I hope this information is helpful. I will be happy to answer any questions you might have.

Respectfully,

A handwritten signature in black ink, appearing to read "Richard Stensrud". The signature is written in a cursive style with a large, prominent initial "R".

Richard Stensrud  
Executive Director