

COMPREHENSIVE ANNUAL FINANCIAL REPORT JUNE 30, 1984

SERS

**SCHOOL EMPLOYEES
RETIREMENT SYSTEM**

**SCHOOL EMPLOYEES RETIREMENT SYSTEM
OF OHIO**

45 NORTH FOURTH STREET
COLUMBUS, OHIO 43215

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

For The
Year Ended June 30, 1984

THE SCHOOL EMPLOYEES RETIREMENT BOARD OF OHIO



MARY E. KASUNIC

President
Wickliffe City School District
Wickliffe, Ohio
Term expires June 30, 1985



ANTHONY J. CELEBREZZE

Attorney General
Ex Officio Member



ORRIS E. FIELDS

Vice President
Wilmington City School District
Wilmington, Ohio
Term expires June 30, 1987



THOMAS E. FERGUSON

Auditor of State
Ex Officio Member



LOWELL B. DAVIS

Employee-Member
Euclid City School District
Euclid, Ohio
Term expires June 30, 1989



THOMAS R. ANDERSON

Executive Director



WILLIAM A. GUY

Employee-Member
Columbus City School District
Columbus, Ohio
Term expires June 30, 1988



AGNES F. O'KEEFE

Retiree-Member
Westerville, Ohio
Term expires June 30, 1988

ASSISTANT DIRECTORS

R. JACK COOPER
Investments

RICHARD C. REGAN
Retirement Services

DALE D. McINTYRE
Information Services

THOMAS R. SKIPTON
Office Services

STEPHEN J. PUSKAC
Membership-Accounting

RITA M. VOLPI
Planning / Human Resources

C. DOUGLAS WILSON
Data Processing

ORGANIZATIONAL CHART

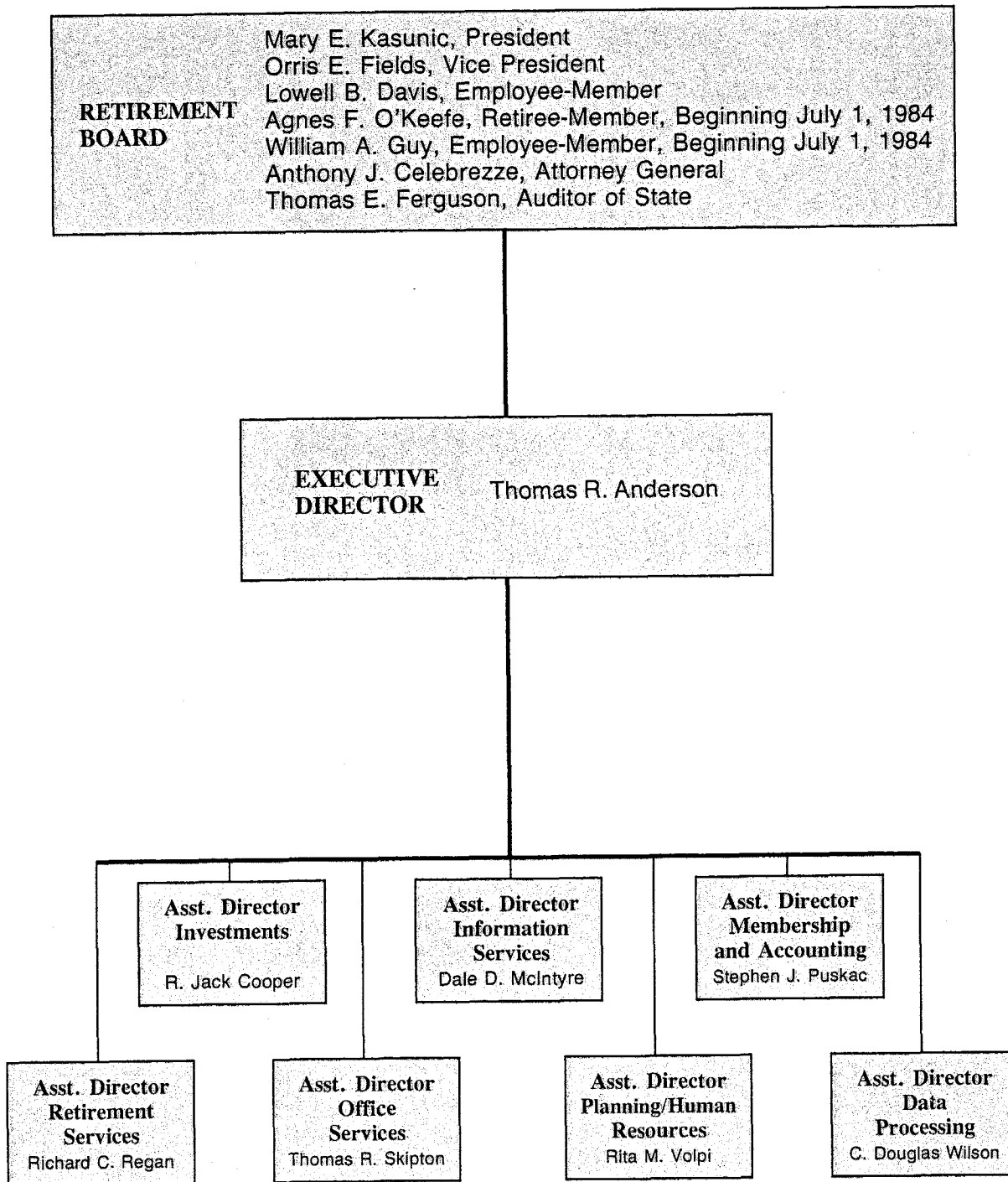


TABLE OF CONTENTS

	Pages
LETTER OF TRANSMITTAL	1-2
HIGHLIGHTS OF 1984	3
NUMBER OF PARTICIPATING EMPLOYERS AND EMPLOYEES	4
FINANCIAL STATEMENTS:	
Auditor's Opinion	6
Exhibits	
A Balance Sheet	8
B Statement of Revenue and Expense	9
C Statement of Changes in Funds	10-11
D Statement of Changes in Financial Position	12
Notes to Financial Statements	13-15
Schedules	
1 Cash Receipts and Disbursements	17
2 Administrative Expenses	18
Auditor of State's Opinion	19
ACTUARY LETTER AND REPORT	20-22
STATISTICAL TABLES:	
I Revenues By Source	24
II Expenses By Type	24
III Number of Participating Members	25
IV Number of Participating Employers	25
V Member — Employer Contribution Rates	25
VI Number of Refunds	25
VII Benefit Expenses By Type	26-27
VIII Number of Benefit Payments	26
IX Retirement Averages — Service	27
X Retirement Averages — Disability	27
XI New Benefit Payments — By Year — Service	28-29
XII New Benefit Payments — By Year — Survivor	30-31
XIII New Benefit Payments — By Year — Disability	32
INVESTMENTS:	
Report by Investment Manager	34
Schedules	
I Portfolio Summary	35
II Rates of Return	36
III Investment Activity	36
IV Quality of Stocks	37
V Diversification of Stocks	37
VI Dividend Growth from Stocks	37
VII Diversification of the Real Estate Investments	37
Exhibits	
1 Fixed Income Portfolio by Maturity	38
2 Fixed Income Portfolio by Interest Rates	38
3 Bond Portfolio Quality Ratings by Moody's	39
4 Distribution of 1984 Mortgage Portfolio	39
Investment Listing	40-48
Investment Policy	49-51
PLAN SUMMARY	53-56

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SERS

SCHOOL EMPLOYEES
RETIREMENT SYSTEM



SCHOOL EMPLOYEES RETIREMENT SYSTEM

45 NORTH FOURTH STREET, COLUMBUS, OHIO 43215 * TELEPHONE (614) 221-5853

To The Members of the Board:

The Annual Report of the School Employees Retirement System for the fiscal year ended June 30, 1984 is submitted herewith. The report includes the financial statements, footnotes, schedules, statistical tables, investment portfolio, and a plan summary. This report also contains important actuarial information and data as of June 30, 1984.

Accounting System and Reports

The accrual basis of accounting is used in maintaining the records of the School Employees Retirement System. Revenues of the System are recorded when earned, regardless of the date of collection. Expenses are recorded when the corresponding liabilities are incurred, without regard to the date of payment. Investments are recorded at cost; bonds and mortgages are disclosed on the Balance Sheet at amortized book value; fixed assets are recorded at cost less accumulated depreciation. Actuarial reserves are funded on an annual basis for current liabilities and prior years' unfunded actuarial liabilities.

In order to adequately inform interested individuals and groups, the following statements and schedules have been prepared in conformity with guidelines established by the National Council on Governmental Accounting Statements 1 and 6.

Revenues

The School Employees Retirement System was established by law to pay retirement plan benefits and to accumulate the resources necessary to pay these benefits. Resources are obtained through member contributions, employer contributions, and from income earned on invested assets. For the fiscal year ended June 30, 1984, member and employer contributions totaled \$176,110,601, and \$145,215,463 was provided by income from investments. Transfers from other retirement systems accounted for an additional \$1,224,116. Revenue for 1984 totaled \$322.6 million, an increase of 26.5% over 1983.

Expenses

Expenses are incurred primarily for the purpose for which the Retirement System was created; namely, the payment of benefits. Included in the total expenses for fiscal 1984 were benefit payments, refunds of contributions due to member termination or death, transfers of contributions to other Ohio systems to provide benefits for those members who hold membership in more than one system, and administrative expenses. Expenses for fiscal 1984 totaled \$146.4 million, an increase of 9.5% over 1983 expenses. Increases in both the number of benefit recipients and the average benefit paid combined to increase benefit expense by \$12 million, accounting for nearly all of the increase in total System expenses for the fiscal year.

Reserves (Funds)

The \$1,279,974,018 shown in the Annuity and Pension Reserve Fund and the \$91,188,350 shown in the Survivors' Benefit Fund represent the estimated amounts necessary to provide benefits to those members and survivors who have filed for benefits prior to June 30, 1984. The accumulated contributions by members who have not yet retired amounted to \$396,230,502 and are shown in the Employees' Savings Fund. The Employers' Trust Fund accumulates funds in order to provide retirement benefits to those members not yet retired. The debit balance of (\$278,542,393) reflected in this fund represents a restriction of the Employers' Trust Fund and a statutory fund deficiency that existed at June 30, 1984. The unfunded actuarial present value of benefits payable at June 30, 1984 was \$1,147,389,986. This value was determined using the unit credit actuarial cost method and represents the excess of the actuarial accrued liability for benefits payable at June 30, 1984 over the actuarial accrued assets at that date.

The management of the System believes that the entry age normal actuarial cost method is more appropriate in determining funding requirements than the unit credit actuarial cost method required for financial disclosure. The unfunded actuarial pres-

ent value of credited projected benefits payable at June 30, 1984 using the entry age normal actuarial cost method was determined to be \$1,294,874,610, and the amortization period determined by our actuary using this cost method has been calculated to be 37 years.

Investments

The School Employees Retirement System invests the previously mentioned funds in order to maximize both current income yield and long-term appreciation. For the fiscal year ended June 30, 1984, investments provided 45% of the System's total revenues; employee and employer contributions provided 20.9% and 33.7%, respectively; and other sources accounted for the remaining 0.4%.

Investments are reported at cost, net of amortized premium and discount; these premiums and discounts are amortized over the life of the investment. Gains and losses on the exchange of fixed-income securities are recognized using the completed transaction method of accounting. At June 30, 1984, our investment portfolio was structured as follows; 56.1% in debt securities; 25.2% in equity securities; 9.3% in short-term commercial paper; and 9.4% in real estate. The portfolio yield for fiscal 1984 was 9.6% on a cash basis.

Portfolio composition, rates of return, an analysis of significant economic conditions, and additional information concerning the investment function of SERS is provided in a separate section of this annual report.

Professional Services

In order to operate the School Employees Retirement System in the most effective and efficient manner, several professional consultants are appointed by the Retirement Board to provide information and advice essential to the fulfillment of our fiduciary responsibility. The System employs the services of an investment advisor, Bankers Trust Company, to assist our in-house investment staff and furnish expert economic advice on a continuing basis. In addition to general investment advice, our advisor also supplies portfolio recommendations with respect to equity selection and market and credit information on fixed-income securities. Gabriel, Roeder, and Smith, our actuaries, provide the necessary data used in determining the contributions required to provide for present and anticipated benefits. The actuaries also advise the Board regarding the assumptions which are made in conjunction with the more complex calculations involved in determining the funding requirements.

The Attorney General of the State of Ohio is the

legal advisor of the School Employees Retirement Board. The Auditor of the State of Ohio annually examines the financial records of the Retirement System.

For the fiscal year ended June 30, 1984, The Auditor of State has determined that he will accept the financial and compliance audit of the System by an independent public accountant in lieu of his statutory audit requirement. We have therefore engaged Peat, Marwick, Mitchell & Co. to perform that audit for the fiscal year ended June 30, 1984. A letter of their findings is reproduced within this report.

The Treasurer of the State of Ohio is the custodian of the funds of the School Employees Retirement System. Disbursements of these funds are authorized by the School Employees Retirement Board and are made on vouchers which bear the names of the Board members and the signatures of the President and Secretary of the Board.

Reports to the Membership

Annual Statements were mailed to the members of the System during the week of November 9, 1984. These statements reported the amount of contributions and service credited to each individual account as of June 30, 1984.


Acknowledgements

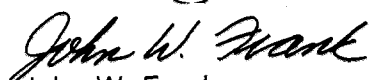
The preparation of this report is the result of the combined effort of the System's staff under the direction of the Retirement Board. It is intended to provide complete and reliable information as a basis for making management decisions, to disclose compliance with legal provisions, and as a means of determining responsible stewardship for the assets contributed by the members and their employers.

This report is being mailed to all employer members of the System and other interested parties.

Respectfully submitted,


Thomas R. Anderson, Executive Director


Stephen J. Puskac
Assistant Director, Membership & Accounting


John W. Frank
Chief Accounting Officer

HIGHLIGHTS OF 1984

New Members Join Board

Two new members joined the Retirement Board in 1984. For the first time, the seven-member Board includes a retired school employee elected by retired members. Agnes F. O'Keefe, a retired school nurse from Westerville, was elected to the four-year term.

Joining Mrs. O'Keefe on the Board was William A. Guy, Columbus City Schools treasurer. Mr. Guy won election to the new employee seat for a term that also expires in 1988.

Task Force Studies Health Care

A special task force comprised of representatives of member and employer organizations, health care providers, actuaries and accountants met in May to study the System's increasing health care costs. Faced with estimates that the health care program for retirees could likely triple in expenditures within 10 years, the 30-member task force was asked for suggestions on containment measures.

Actuaries presented the panel with predictions that the current \$30 million health care price tag would increase to \$103.5 million by 1992 unless the pattern of rising costs is changed. Health insurance costs now consume 22% of all benefit payments.

A questionnaire was distributed to the task force participants asking for their opinions and suggestions. Proposed solutions included tightening eligibility requirements and asking retirees to share more of the expense. Several of the suggestions are being studied for both short and long-term solutions to providing adequate health care within financial means.

In a related move, the Retirement Board raised health care dependent premiums charged retirees. Effective March 1, retirees were charged \$55 per month for a dependent under 65 enrolled in the Aetna program and \$16 per month for a spouse 65 and older.

Court Rules On Social Security Offset

A challenge to the grace period allowed mainly women under the Social Security offset law was denied by the U.S. Supreme Court. The original law reducing S.S. spouse benefits for persons who draw their own public pension granted a 5-year grace period that affected mainly women. The constitutionality of this grace period was challenged

in a suit brought by a male federal employee whose S.S. spouse benefit was reduced.

The Court ruled that the grace period was not discriminatory. Thus, a person not eligible to retire under a public pension plan by July 1, 1983, may be subject to a reduction in a S.S. spouse benefit.

Legislature Grants Benefit Hike

Retirees and other benefit recipients on the payment rolls at least a year received a five percent increase in February after approval by the Ohio legislature.

Supplemental checks covering the five percent raise were mailed to all eligible recipients in March, with subsequent regular payment checks reflecting the increase. Nearly 34,000 retirees and others received the increase estimated to cost the System \$4.3 million in 1984.

Early Retirement Gains Momentum

Late 1983 legislation authorizing employers to purchase retirement service credit for their school employees gained popularity in 1984. Some 60 school districts adopted "Early Retirement Incentive" plans to enable their employees to retire early with the purchased service.

A total of 305 school employees retired with the benefit of one to five years of added service credit paid for entirely by the employer.

Congress Considers Pension Reporting Act

Legislation requiring public pension plan reporting and fiduciary standards of conduct was voted out of the U.S. House Labor and Education Committee and awaited action by the full House. Termed "PEPPRA", the Public Employee Pension Plan Reporting and Accountability Act would require public pension plans to meet certain standards and publicly report their finances.

TEFRA Limits Amended

Amendments to the federal Tax Equity and Fiscal Responsibility Act forestalled limits on survivor benefit payments by SERS and other retirement systems. Original provisions would have canceled benefit payments to "non-spouse" family members of deceased System members after five years duration. System officials testified that the provision would seriously affect children of our deceased members, who can draw survivor benefits until age 22.

Financial Statements

Balance Sheet

**Statement of Revenue
and Expense**

**Statement of Changes
in Funds**

**Statement of Changes
in Financial
Position**

**Notes to
Financial
Statements**



Peat, Marwick, Mitchell & Co.
Certified Public Accountants
Two Nationwide Plaza
Columbus, Ohio 43215

Honorable Thomas E. Ferguson
Auditor of State
State of Ohio

The Retirement Board
School Employees Retirement System of Ohio

We have examined the balance sheets of the School Employees Retirement System of Ohio as of June 30, 1984 and 1983 and the related statements of revenues and expenses, changes in fund balance and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of the School Employees Retirement System of Ohio at June 30, 1984 and 1983 and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Peat, Marwick, Mitchell & Co.

January 11, 1985

ASSETS

Year	Assets (\$)
1984	\$ 1,518,304,816
1983	\$ 1,346,302,294
1982	\$ 1,213,246,222
1981	\$ 1,082,503,720
1980	\$ 991,086,356
1979	\$ 864,874,560
1978	\$ 787,187,523
1977	\$ 707,434,278
1976	\$ 639,476,743
1975	\$ 572,354,953
1974	\$ 512,819,826

BALANCE SHEET

June 30, 1984 and 1983

ASSETS	1984	1983
Cash	\$ 683,162	\$ 249,249
Receivables:		
Contributions:		
Employers	51,586,334	41,359,743
Employees	7,094,695	5,179,305
State of Ohio subsidies	1,720,156	1,870,176
Investment income receivable	19,650,351	17,158,694
Investment sale proceeds	17,536,058	
Total receivables	\$ 97,587,594	\$ 65,567,918
Investments, at cost (note 4):		
Corporate and government bonds and obligations	455,203,963	454,148,602
First mortgage loans	337,404,764	324,718,518
Common stocks	353,050,885	272,728,121
Short-term investments	131,049,491	101,894,517
Real estate (note 5)	101,125,666	89,431,579
Insurance company separate account	32,002,965	29,455,012
Limited partnership	3,500,000	1,250,000
Total investments	\$ 1,413,337,734	\$ 1,273,626,349
Property and equipment, at cost (note 6)	7,587,796	8,179,170
Less accumulated depreciation	1,049,083	1,434,951
Net property and equipment	\$ 6,538,713	\$ 6,744,219
Other assets	157,613	114,559
Total assets	\$ 1,518,304,816	\$ 1,346,302,294
LIABILITIES AND FUND BALANCE		
Accounts payable and accrued expenses	\$ 358,690	\$ 232,150
Investment commitments payable	14,739,562	22,974,541
Accrued health care benefits payable	9,879,069	8,956,097
Notes payable	4,398,245	1,102,759
Other liabilities	78,773	341,113
Total liabilities	\$ 29,454,339	\$ 33,606,660
Fund balance (notes 7 and 8):		
Actuarial present value of credited projected benefits payable	2,636,240,463	2,388,265,167
Unfunded actuarial present value of credited projected benefits payable	(1,147,389,986)	(1,075,569,533)
Net fund balance	\$ 1,488,850,477	\$ 1,312,695,634
Total liabilities and fund balance	\$ 1,518,304,816	\$ 1,346,302,294

See accompanying notes to financial statements.

STATEMENT OF REVENUES AND EXPENSES

Years Ended June 30, 1984 and 1983

	1984	1983
REVENUES:		
Contributions:		
Employers	\$ 106,886,556	\$ 86,862,611
Employees	67,503,890	57,302,477
State of Ohio subsidies	1,720,155	1,870,176
Transfer from other Ohio systems	1,224,116	1,618,964
	\$ 177,334,717	\$ 147,654,228
Investment income (loss):		
Interest and dividends	117,932,778	107,064,312
Real estate income, net of depreciation expense of \$1,752,462 in 1984 and \$1,753,632 in 1983	10,401,237	7,857,322
Net realized gain (loss) on sale of investments	14,076,319	(7,505,067)
Option income, net of option expense of \$2,212,774 in 1984	2,805,129	
	\$ 145,215,463	\$ 107,416,567
Total revenues	\$ 322,550,180	\$ 255,070,795
 EXPENSES:		
Benefits:		
Retirement	\$ 85,444,144	\$ 75,497,557
Disability	9,270,155	8,076,576
Survivor	7,389,851	6,756,619
Health care	29,153,910	28,959,381
Death	590,375	541,500
	\$ 131,848,435	\$ 119,831,633
Refund of employee contributions	7,827,632	8,619,474
Administrative expenses	4,658,760	4,051,778
Transfer to other Ohio systems	1,181,012	1,215,546
Loss on disposal of fixed assets	879,498	
	\$ 14,546,902	\$ 13,886,798
Total expenses	\$ 146,395,337	\$ 133,718,431
Excess of revenues over expenses (note 8)	\$ 176,154,843	\$ 121,352,364

See accompanying notes to financial statements.

FINANCIAL STATEMENTS

**STATEMENT OF
YEAR ENDED**

	Employees' Savings Fund	Employer's Trust Fund
Fund balance at beginning of year	\$ 356,397,208	\$ (257,390,366)
Changes for the year:		
Contributions:		
Employers		106,886,556
Employees	67,503,890	
State of Ohio subsidies		1,720,155
Investment income		
Transfer from other Ohio systems		
Benefits:		
Retirement		
Disability		
Survivor		
Health care		
Death		
Refunds of employee contributions	(7,827,632)	
Administrative expenses		
Transfers to other Ohio systems		
Loss on disposal of fixed assets		
Other transfers (note 3)	(19,842,964)	(129,758,738)
Net changes	\$ 39,833,294	\$ (21,152,027)
Fund balance at end of year	<u>\$ 396,230,502</u>	<u>\$ (278,542,393)</u>

See accompanying notes to financial statements.

		YEAR ENDED
Fund balance at beginning of year, as previously reported	\$ 324,180,388	\$ (76,180,538)
Prior period adjustments (note 8):		
Investments		6,473,999
Health care benefits		1,591,163
Receivables	4,638,290	(141,088,312)
Fund balance		
Fund balance at beginning of year, as adjusted	<u>\$ 328,818,678</u>	<u>\$ (209,203,688)</u>
Changes for the year:		
Contributions:		
Employers		86,862,611
Employees	57,302,477	
State of Ohio subsidies		
Investment income		
Transfers from other Ohio systems		
Benefits:		
Retirement		
Disability		
Survivor		
Health care		
Death		
Refunds of employee contributions	(8,619,474)	
Administrative expenses		
Transfers to other Ohio systems		
Other transfers (note 3)	(21,104,473)	(135,049,289)
Net changes	\$ 27,578,530	\$ (48,186,678)
Fund balance at end of year	<u>\$ 356,397,208</u>	<u>\$ (257,390,366)</u>

See accompanying notes to financial statements.

FINANCIAL STATEMENTS

Exhibit C

CHANGES IN FUNDS

June 30, 1984

Annuity and Pension Reserve Fund	Survivors' Benefit Fund	Guarantee Fund	Expense Fund	Total
\$ 1,123,829,345	\$ 89,859,447			\$ 1,312,695,634
				106,886,556
				67,503,890
				1,720,155
		145,215,463		145,215,463
1,158,601	65,515			1,224,116
(85,444,144)				(85,444,144)
(9,270,155)				(9,270,155)
	(7,389,851)			(7,389,851)
(29,153,910)				(29,153,910)
(590,375)				(590,375)
				(7,827,632)
			(4,658,760)	(4,658,760)
(1,128,830)	(52,182)			(1,181,012)
			(879,498)	(879,498)
280,573,486	8,705,421	(145,215,463)	5,538,258	
<u>\$ 156,144,673</u>	<u>\$ 1,328,903</u>			<u>\$ 176,154,843</u>
<u>\$ 1,279,974,018</u>	<u>\$ 91,188,350</u>			<u>\$ 1,488,850,477</u>

JUNE 30, 1983

\$ 862,078,233	\$ 79,314,536			\$ 1,189,392,619
				6,473,999
				(6,114,511)
				1,591,163
(6,114,511)				
147,525,085	(11,075,063)			
<u>\$ 1,003,488,807</u>	<u>\$ 68,239,473</u>			<u>\$ 1,191,343,270</u>
				86,862,611
				57,302,477
				1,870,176
1,870,176				107,416,567
		107,416,567		1,618,964
1,590,241	28,723			
				(75,497,557)
(75,497,557)				(8,076,576)
(8,076,576)				(6,756,619)
	(6,756,619)			(28,959,381)
(28,959,381)				(541,500)
(541,500)				(8,619,474)
				(4,051,778)
(1,201,499)	(14,047)		\$ (4,051,778)	(1,215,546)
231,156,634	28,361,917	(107,416,567)	4,051,778	
<u>\$ 120,340,538</u>	<u>\$ 21,619,974</u>			<u>\$ 121,352,364</u>
<u>\$ 1,123,829,345</u>	<u>\$ 89,859,447</u>			<u>\$ 1,312,695,634</u>

STATEMENT OF CHANGES IN FINANCIAL POSITION

Years Ended June 30, 1984 and 1983

	1984	1983
Sources of working capital:		
Excess of revenues over expenses	\$ 176,154,843	\$ 121,352,364
Items which do not use working capital -		
Depreciation	382,692	446,431
Loss on disposal of property and equipment	879,498	
Working capital provided by operations	177,417,033	121,798,795
Decrease in other assets		18,875
Proceeds from disposal of property and equipment	90,804	
Proceeds from notes payable	3,391,913	
	\$ 180,899,750	\$ 121,817,670
Uses of working capital:		
Additions to property and equipment	1,049,069	397,615
Increase in other assets	43,054	
Repayment of notes payable	194,846	
Net increase in working capital	179,612,781	121,420,055
	\$ 180,899,750	\$ 121,817,670
Changes in components of working capital:		
Increase (decrease) in current assets:		
Cash	433,913	20,254
Receivables	32,019,676	(432,276)
Investments	139,711,385	125,470,623
	\$ 172,164,974	\$ 125,058,601
Increase (decrease) in current liabilities:		
Accounts payable and accrued expenses	126,540	80,840
Investment commitments payable	(8,234,979)	1,152,299
Accrued health care benefits payable	922,972	2,429,670
Other liabilities	(262,340)	(24,263)
	\$ (7,447,807)	\$ 3,638,546
Net increase in working capital	\$ 179,612,781	\$ 121,420,055

See accompanying notes to financial statements.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1984 and 1983

(1) Description of the System

(A) Organization - The School Employees Retirement System of Ohio (SERS) was established by the Ohio General Assembly in 1937 to provide retirement benefits to employees of Ohio public schools who are not required to possess a certificate in order to perform their duties. Responsibility for the organization and administration of SERS is vested in the Retirement Board.

(B) Benefits - Members are eligible for normal retirement benefits upon reaching age 65 and earning 30 years of service credit. The benefit is equal to 2% of the member's final average salary, as defined, multiplied by the number of years of credited service. Early retirement with reduced benefits is available upon reaching (a) age 55 and 25 years of service credit or (b) age 60 and 5 years of service credit.

In addition to retirement benefits, SERS also provides for disability benefits, survivor benefits, death benefits and health care benefits. Members are eligible for disability benefits after completion of 5 years of eligible service. Qualified dependents of a deceased member are eligible for monthly survivor benefits. Death benefits of \$500 are payable upon the death of an active retiree to a designated beneficiary. All members receiving a benefit from SERS are eligible to receive free medical insurance. Members who retire after July 1, 1986 must have at least 10 or more years of service credit to qualify for the health care benefits.

Members with credited service in the State Teachers Retirement System (STRS) or Public Employees Retirement System (PERS) are eligible to receive transferred credit from either or both of those systems. Any service which is not concurrent with service within SERS will be included in the determination of retirement benefits. Similarly, a member with credited service in SERS may transfer such service to STRS or PERS upon becoming a member of that system.

Upon termination of a member's school employment, the member's accumulated contribution, without interest, is refundable.

(C) Contributions - The Ohio Revised Code requires contributions by active members and their employers. Contribution rates are established by the Retirement Board within the allowable rates established by the Ohio Revised Code. For the year ended June 30, 1983, active members and their employers were required to contribute 8% and 12.5%, respectively, of active member payroll. Effective July 1, 1983, the employee and employer rates were increased to 8.75% and 14%, respectively. Based on the most recent actuarial valuation at June 30, 1984, the rates effective July 1, 1983 are sufficient to fund normal costs as accrued and the unfunded actuarial liability as of June 30, 1984 over 37 years (see note 7).

(2) Summary of Significant Accounting Policies

The following are the significant accounting policies followed by SERS.

(A) Investments - Income on all investments is recognized on the accrual basis.

Corporate and government bonds and obligations with fixed maturities are reported at cost (as of the trade date) adjusted for amortization of premiums and accretion of discounts.

Investments in residential mortgage-backed securities are carried at the amount of unpaid principal balance of the securities, adjusted for accretion of discounts.

Investments in first mortgage loans are carried at the amount of unpaid principal balance of the loan.

Investments in common and preferred stocks are carried at cost. Gains and losses on stock sales are recognized on the basis of the average cost of the stocks sold. Net option income is earned from premiums received on options sold on stock owned net of the cost of repurchasing options.

Investments in short-term obligations, principally certificates of deposit, commercial paper, U.S. Treasury bills and bank repurchase agreements are carried at cost, which approximates market value.

Investments in real estate are carried at cost. Depreciation on buildings is provided using the straight-line method over the estimated useful lives of the property (40 to 45 years).

(B) Depreciation (Non-Investment) - Depreciation is provided using the straight-line method over the estimated useful lives of the related assets.

(C) Federal Income Tax Status - During the years ended June 30, 1984 and 1983 SERS qualified under the provision of the Internal Revenue Code and was exempt from Federal income taxes.

(D) Accrued Health Care Benefits Payable - Amounts accrued for health care benefits payable are based upon estimates furnished by the claims administrator. Such estimates have been developed from prior claims experience.

(E) Reclassifications - Certain reclassifications have been made in the previously issued 1983 financial statements to conform to presentation herein.

(3) Description of Funds (Accounts)

Chapter 3309 of the Ohio Revised Code requires the following funds to be maintained by SERS:

(A) Employees' Savings Fund - The Employees' Savings Fund accumulates the contributions deducted from the compensation of members. Contributions may be refunded to a member who withdraws from SERS or to the member's beneficiary, following the member's death. Upon retirement, a member's accumulated contributions are transferred to the Annuity and Pension Reserve Fund.

(B) Employers' Trust Fund - The Employers' Trust Fund is the depository for employer contributions.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Based on actuarial valuations, amounts are transferred out of this fund into the Annuity and Pension Fund and the Survivors' Benefit Fund.

(C) Annuity and Pension Reserve Fund - The Annuity and Pension Reserve Fund is the fund from which all retirement, health care and death benefits are paid. Funds are transferred into the Annuity and Pension Reserve Fund from the Employees' Savings Fund and Employers' Trust Fund. In addition, contributions by the State of Ohio for supplemental annuities are recorded in this fund.

(D) Survivors' Benefit Fund - The Survivors' Benefit

Fund represents amounts transferred from the Employees' Savings Fund and the Employers' Trust Fund for the payment of survivors' benefits.

(E) Guarantee Fund - The Guarantee Fund records all investment earnings of SERS. Annually, investment earnings are transferred to the Annuity and Pension Reserve Fund, the Survivors' Benefit Fund, and the Expense Fund.

(F) Expense Fund - The Expense Fund is used to record all expenses for the administration and management of SERS. Annually, funds are transferred from the Guarantee Fund to cover expenses incurred.

(4) Investments

A summary of investments as of each June 30 follows:

	1984		1983	
	Carrying Value	Market Value	Carrying Value	Market Value
Corporate and government bonds and obligations:				
Corporate bonds	\$ 102,030,849	\$ 80,087,456	\$ 103,818,740	\$ 92,861,212
Utility bonds	218,140,982	162,788,324	230,074,549	201,679,077
United States Government and Agency obligations	125,142,359	118,347,977	110,414,934	113,609,495
Canadian Government obligations	9,889,773	8,870,658	9,840,379	9,237,613
	<u>\$ 455,203,963</u>	<u>\$ 370,094,415</u>	<u>\$ 454,148,602</u>	<u>\$ 417,387,397</u>
First mortgage loans:				
GNMA modified pass-through mortgage-backed securities	171,428,594	143,160,754	157,109,376	148,564,115
FHLMC mortgage-backed participation certificates	109,455,487	97,529,578	128,372,629	126,701,272
FHA/VA guaranteed single-family mortgages	598,747	412,711	659,688	481,595
HUD guaranteed mortgages	2,954,659	2,436,912	3,565,892	3,215,577
FHA guaranteed project mortgage	3,573,395	1,733,097	3,634,044	1,994,182
Commercial and industrial mortgages	49,393,882	53,090,982	31,376,889	35,016,672
	<u>\$ 337,404,764</u>	<u>\$ 298,364,034</u>	<u>\$ 324,718,518</u>	<u>\$ 315,973,413</u>
Common Stocks	<u>\$ 353,050,885</u>	<u>\$ 364,788,446</u>	<u>\$ 272,728,121</u>	<u>\$ 344,973,413</u>
Short-term investments:				
Commercial paper	106,287,996	106,790,665	96,458,856	96,759,701
Certificates of deposit	5,000,000	5,000,000	3,450,000	3,473,654
Bankers acceptances	19,761,495	19,840,519	1,985,661	1,997,033
	<u>\$ 131,049,491</u>	<u>\$ 131,631,184</u>	<u>\$ 101,894,517</u>	<u>\$ 102,230,388</u>
Real estate, land and buildings	101,125,666	118,094,000	89,431,579	102,690,000
Insurance company separate account	32,002,965	39,773,209	29,445,012	35,113,319
Capital development fund — limited partnership	3,500,000	3,496,875	1,250,000	1,250,000
Total investments	<u>\$ 1,413,337,734</u>	<u>\$ 1,326,242,163</u>	<u>\$ 1,273,626,349</u>	<u>\$ 1,319,617,930</u>

NOTE: Market values of securities are based primarily on quotations from national security exchanges. Market value of real estate is based upon appraisals. Market value of the investment in the insurance company separate account is based on information provided by the insurance company.

(5) Leases

SERS investment in real estate as of June 30 consists of:

	1984	1983
Land	\$ 18,413,656	\$ 17,828,656
Buildings	88,843,346	75,981,797
	<u>107,257,002</u>	<u>93,810,453</u>
Less accumulated depreciation	6,131,336	4,378,874
	<u>\$ 101,125,666</u>	<u>\$ 89,431,579</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(5) Leases (Continued)

The following is a summary of minimum future lease payments on noncancellable operating leases related to SERS investment in real estate as of June 30, 1984:

Year ending June 30	
1985	\$ 11,551,259
1986	9,448,435
1987	8,676,457
1988	8,060,587
1989	7,715,700
Later years	<u>113,268,198</u>
Total minimum future lease payments	<u>\$ 158,720,636</u>

(6) Property and Equipment

A summary of property and equipment at June 30 follows:

	<u>1984</u>	<u>1983</u>
Land	\$ 1,178,055	\$ 1,178,055
Building and improvements	3,703,893	3,697,571
Furniture and equipment	<u>2,705,848</u>	<u>3,303,544</u>
	7,587,796	8,179,170
Less accumulated depreciation	<u>1,049,083</u>	<u>1,434,951</u>
	<u>\$ 6,538,713</u>	<u>\$ 6,744,219</u>

(7) Actuarial Cost Method and Assumptions

The most recent actuarial valuation was made June 30, 1984 by Gabriel, Roeder, Smith & Co. using the entry age normal actuarial cost method.

The following significant assumptions were used in the actuarial valuations as of June 30, 1984 and 1983: (1) a rate of return on the investments of 7.5% compounded annually; (2) projected salary increases of 4.5%, compounded annually, attributable to inflation; (3) additional projected salary increases ranging from .5% to 3% per year attributable to seniority and merit; (4) post-retirement mortality life expectancies of participants based on the 1955 American Annuity Table; (5) rates of withdrawal from active service before retirement for reasons other than death, rates of disability and expected retirement ages developed on the basis of actual plan experience; (6) health care premiums are assumed to increase 4.5% annually with 25% of eligible retirants electing a joint survivor form of payment and 25% of eligible retirants electing to cover spouses for health care; and (7) all health care benefit recipients are assumed to be eligible for Medicare on attainment of age 65.

The actuarial present value of credited projected benefits, calculated in accordance with NCGA Statement 6, at June 30 follows:

	<u>1984</u>	<u>1983</u>
Actuarial present value of credited projected benefits for:		
Current retirants and beneficiaries	\$ 1,371,162,368	\$ 1,213,688,792
Present in-active members	101,847,922	95,995,822
Active members	<u>1,163,230,173</u>	<u>1,078,580,553</u>
Total actuarial present value of credited projected benefits	<u>\$ 2,636,240,463</u>	<u>\$ 2,388,265,167</u>

(8) Fund Balance

The Annuity and Pension Reserve Fund, the Survivors' Benefit Fund, the Employers' Trust Fund and the Employees' Trust Fund balances were adjusted as of June 30, 1982 to correct amounts previously reported for investments, accrued health care benefits payable, and receivables. SERS published its Annual Financial Report for the year ended June 30, 1983 and those included in the accompanying audited financial statements, as adjusted, are reconciled below:

	<u>1983</u>
Fund balance as of June 30, 1982, as reported in the Annual Financial Report, June 30, 1983	\$ 1,189,392,619
Increase (decrease):	
Investments	6,473,999
Health care benefits	(6,114,511)
Receivables	<u>1,591,163</u>
Fund balance as adjusted, as of June 30, 1982	<u>\$ 1,191,343,270</u>
Excess of revenues over expenses for 1983 as reported in the Annual Financial Report, June 30, 1983	124,660,197
Increase (decrease):	
Investments	1,441,450
Health care benefits	(2,497,621)
Receivables	<u>(2,251,662)</u>
Excess of revenues over expenses for 1983, as adjusted	<u>\$ 121,352,364</u>
Fund balance as of June 30, 1983, as adjusted	<u>\$ 1,312,695,634</u>

Schedules

**Cash Receipts and
Disbursements**

Administrative Expense

CASH RECEIPTS AND DISBURSEMENTS

Year ended June 30,	1984	1983
Cash Balance at Beginning of Year	\$ 249,249	\$ 228,995
Receipts		
Member Contributions	65,585,636	56,483,242
Employer Contributions	96,660,461	87,666,700
State Subsidies	1,891,759	3,023,770
Investments Matured and Sold	1,630,374,126	1,650,398,790
Investment Income	119,837,256	105,465,921
Reimbursement of Health Care Premium	87,805	
Transfers from Ohio Retirement Systems	1,224,117	1,618,964
Miscellaneous	121,169	90,181
Total Receipts	<u>\$1,915,782,329</u>	<u>\$1,904,747,568</u>
Disbursements		
Refunds		
Member	\$ 7,410,069	\$ 8,199,121
Beneficiary	418,971	421,177
Employer	2,350	
Total Refunds	<u>\$ 7,831,390</u>	<u>\$ 8,620,298</u>
Benefits		
Age and Service	85,550,575	75,522,309
Disability	9,276,062	8,081,458
Survivor	7,395,675	6,773,748
Health Care	28,233,028	26,544,641
Death Benefit	567,000	532,875
Total Benefits	<u>\$ 131,022,340</u>	<u>\$ 117,455,031</u>
Administrative Expense	4,660,100	4,081,166
Investments Purchased	1,770,653,574	1,773,354,760
Transfers to Ohio Retirement Systems	1,181,012	1,215,546
Construction Cost-Home Office Building		513
Total Disbursements	<u>\$1,915,348,416</u>	<u>\$1,904,727,314</u>
Cash Balance at End of Year (Exhibit A)	<u>\$ 683,162</u>	<u>\$ 249,249</u>

ADMINISTRATIVE EXPENSES

Year ended June 30,	1984	1983
Personal Services		
Office Salaries	\$ 2,034,493	\$ 1,775,222
Retirement Contributions	277,519	241,744
Insurance	149,245	133,068
Bureau of Employment Services	200	1,172
Total Personal Services	2,461,457	2,151,206
Professional Services		
Actuarial and Technical	78,929	66,595
Investment Counsel	383,255	198,746
Medical	130,358	117,571
Special Legal Counsel	122	1,948
Auditing		4,099
Employee Training	12,846	9,777
Total Professional Services	605,510	398,736
Communications		
Printing and Publications	19,146	53,736
Telephone	36,550	29,005
Postage	215,215	198,999
Retirement Counselling Services	20,943	11,354
Total Communications	291,854	293,094
Rentals		
Records Storage	1,303	1,385
Equipment	80,434	76,867
Total Rentals	81,737	78,252
Other Services and Charges		
Transportation and Travel	83,102	62,809
Memberships and Subscriptions	18,384	14,414
Surety Bonds and Insurance	21,420	18,876
Equipment Repairs and Maintenance	209,788	208,051
Supplies	138,791	96,042
Retirement Study Commission	14,767	14,077
Interest on Long-Term Debt	145,333	86,342
Miscellaneous	7,875	7,013
Building Occupancy and Maintenance	196,048	175,429
Total Other Services and Charges	835,508	683,053
	\$ 4,276,066	\$ 3,604,341
Depreciation		
Building	\$ 92,620	\$ 92,451
Furniture and Equipment	290,074	354,986
Total Depreciation	\$ 382,694	\$ 447,437
Total Administrative Expenses (Exhibit B)	\$ 4,658,760	\$ 4,051,778



THOMAS E. FERGUSON

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School Employees Retirement System
45 North Fourth Street
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We have reviewed the report of examination of the School Employees Retirement System prepared by Peat, Marwick, and Mitchell, Certified Public Accountants. Based upon this review, we have accepted this report in lieu of the examination required by Section 117.09, Revised Code. The Auditor of State has not examined the accompanying financial statements, and accordingly, we are unable to express, and do not express, an opinion on them.

Thomas E. Ferguson
THOMAS E. FERGUSON
Auditor of State

March 5, 1985

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ACTUARIES & CONSULTANTS
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Detroit, Michigan 48226
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February 11, 1985

The Retirement Board
School Employees Retirement System of Ohio
Columbus, Ohio

The basic financial objective of SERS is to establish and receive contributions which, expressed as percents of active member payroll, will remain approximately level from generation to generation of Ohio citizens.

In order to determine SERS present financial position and level contribution rates for the future, annual actuarial valuations are made.

The latest completed actuarial valuation is based upon data and assumptions as of June 30, 1984. Conditions and results are shown in our reports.

Assumptions concerning future financial experiences are needed for an actuarial valuation. We believe the assumptions used in the regular annual valuations produce results which are reasonable.

On the basis of the 1984 valuation and the benefits and contribution rates then in effect, it is our opinion that SERS is in sound condition in accordance with actuarial principles of level cost financing.

In the last decade two economic assumptions were trouble spots.

The investment return rate did not exceed the inflation rate by a reasonable amount (3% annually is the current assumed margin for the future).

Increases in retired life health care costs substantially exceeded overall inflation increases. Health care costs, expressed as a percent of employee payroll, are higher for SERS than for most other retirement systems, because of a relatively low average employee pay in SERS.

A program of annual actuarial gain/loss analysis has begun; this analysis determines the relationship between assumed financial experience and actual experience, for each major risk area.

Respectfully submitted,


Gerald B. Sonnenschein


Richard G. Roeder

RGR:ct

Statement of Actuary

(VALUATION AS OF JUNE 30, 1984)

The assumptions used for the actuarial valuation were adopted by the Retirement Board after consulting with the actuary, and a summary follows.

The non-economic assumptions are from the June 30, 1980 revised actuarial valuation and the economic assumptions were established for the June 30, 1981 actuarial valuation.

1) The investment return rate used in making the valuation was 7.5 percent per year, compounded annually (net after administrative expenses). The real rate of return is the portion of total investment return which is more than the inflation rate. Considering inflation recognition of 4.5 percent, the 7.5 percent investment return rate translates to an assumed real rate of return of 3 percent.

2) Pay increase assumptions for individual active members are shown for sample ages in the table below. Part of the assumptions for each age is for merit and/or seniority increase, and the other 4.5 percent recognizes inflation.

INCREASE NEXT YEAR

Sample Age	Merit & Seniority	Base (Economy)	Total
20	3.0%	4.5%	7.5%
30	2.3	4.5	6.8
40	1.8	4.5	6.3
50	1.0	4.5	5.5
60	0.0	4.5	4.5

3) Total active member payroll is assumed to increase 4.5 percent annually, which is the portion of the individual pay increase assumptions attributable to inflation. The number of active members is assumed to continue at the present number.

Additional schedules of assumed probabilities, adopted by the Retirement Board, for the risk areas set forth below are used by the actuary and are on file at the School Employees Retirement System.

- 4) Retirement ages for age and service retirement
- 5) Disability retirement
- 6) Death after retirement
- 7) Death before retirement
- 8) Health care coverage
- 9) Withdrawal from service
- 10) Funding method - entry age normal actuarial cost method used in determining liabilities and normal cost.

ACTUARIAL ACCRUED LIABILITIES

Accrued liabilities are the present value of plan promises to pay benefits in the future, based upon service already rendered. A liability has been established ("accrued") because the service has been rendered, but the resulting monthly cash benefit may not be payable until years in the future. Accrued liabilities are the result of complex mathematical calculations, which are made annually by the plan's actuary—the specialist who makes such calculations. The results of the computed actuarial accrued liabilities are listed in the following schedule.

ACTUARIAL ACCRUED LIABILITIES JUNE 30, 1984

Present Value Of	Actuarial Accrued Liabilities	
	Health Care	Total
Future monthly benefits and death benefits to present retirants and survivors	\$360,526,621	\$1,371,162,368
Monthly benefits and refunds to present inactive members	40,417,317	101,847,922
Service allowances and health care benefits to present active members	225,584,352	1,257,180,098
Disability allowances to present active members		22,471,624
Death-after-retirement benefit (\$500) on behalf of present active members		1,290,959
Survivor benefits on behalf of present active members who die before retiring ...		29,032,516
Refunds of member contributions of present active members		9,996,494
Benefits for present active members	225,584,352	1,319,971,691
Benefits For Present Covered Persons	\$626,528,290	\$2,792,981,981

UNFUNDED ACCRUED LIABILITIES

Each time a plan adds a new benefit which applies to service already rendered, an "accrued liability" is created, which is also an "unfunded accrued liability" because the plan can't print instant cash to cover the accrued liability. Payment for such unfunded accrued liabilities is spread over a period of years, commonly in the 25-60 year range.

Unfunded accrued liabilities can occur in another way: If actual financial experience is less favorable than assumed financial experience, the difference is added to unfunded accrued liabilities. In some plans the benefits are direct-

ly related to an employee's pay near time of retirement (a common plan provision) rather than the average pay throughout the working career. For such plans unfunded accrued liabilities have been increasing in recent years because unexpected rates of pay increase have created additional accrued liabilities which could not be matched by reasonable investment results. Some of these unexpected pay increases are the direct result of inflation, which is a very destructive force on financial stability.

If "accrued liabilities" at any time exceed the plan's

ACTUARY'S REPORT

accrued assets (cash and investments), the difference is "unfunded accrued liabilities." This is the common condition. If the plan's assets equalled the plan's "accrued liabilities," the plan would be termed "fully funded." This is a rare condition. The computed and unfunded actuarial accrued liabilities are listed in the following schedule.

**ACTUARIAL ACCRUED LIABILITIES:
COMPUTED & UNFUNDED**

	Basic Benefits	Health Care	Total
Computed Accrued Liabilities	\$2,166,453,691	\$ 626,528,290	\$2,792,981,981
Reported Assets	<u>1,390,205,720</u>	<u>107,901,651</u>	<u>1,498,107,371</u>
Unfunded Accrued Liabilities	<u>\$ 776,247,971</u>	<u>\$ 518,626,639</u>	<u>\$1,294,874,610</u>

Unfunded actuarial liabilities, \$1,294,874,610, were amortized over a period of years sufficient to produce the Employer Contribution Rate of 14.00 percent of

payroll. The amortization period was computed to be 37 years (next whole year).

**RATIO OF UNFUNDED LIABILITIES
TO ACTIVE MEMBER PAYROLL**

Unfunded liabilities are created each time the plan adopts a higher level of benefits. Level-contribution financing requires that these additional liabilities be financed systematically over a period of future years.

In an inflationary economy the value of dollars is decreasing. This environment results in employee pays increasing in dollar amounts, retirement benefits increasing in dollar amounts, and then unfunded accrued liabilities increasing in dollar amounts, all at a time when the actual substance of these items may be decreasing. Looking at just the dollar amounts of unfunded accrued liabilities can be misleading. Unfunded accrued liability dollars divided by active employee payroll provides an index which helps understanding. The smaller the ratio of unfunded liabilities to active member payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker.

RATIO OF UNFUNDED LIABILITIES TO ACTIVE MEMBER PAYROLL

June 30	Computed Actuarial Accrued Liabilities	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Active Member Payroll	UAAL AS % OF ACTIVE MEMBER PAYROLL
1982	2,256,513,146	1,201,845,627	1,054,667,519	652,224,795	162
1983	2,526,633,147	1,324,434,134	1,202,199,013	682,882,779	176
1984	2,792,981,981	1,498,107,371	1,294,874,610	737,347,635	176

Revised method of determining active members and related payroll. Previous method would have produced a percent of 158.

SHORT CONDITION TEST

If the contributions to SERS are level in concept and soundly executed, the System will pay all promised benefits when due—the ultimate test of financial soundness. Testing for level contribution rates is the long term test.

A short condition test is one means of checking a system's progress under its funding program. In a short condition test, the plan's present assets (cash and investments) are compared with: 1) Member contributions on deposit; 2) The liabilities for future benefits to present retired lives; and 3) The liabilities for service

already rendered by members.

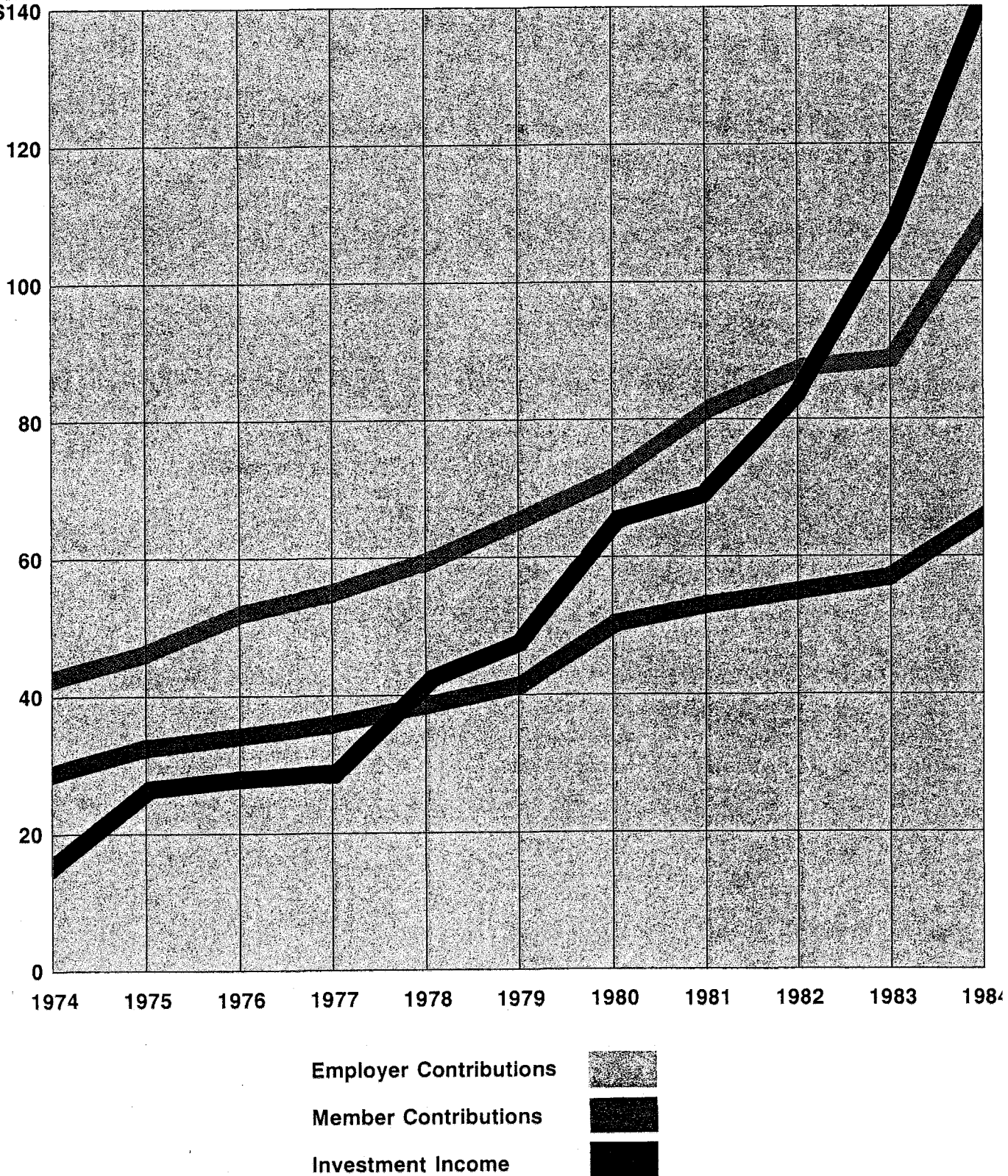
In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by members (liability 3) will be partially covered by the remainder of present assets. The larger the funded portion of liability 3, the stronger the condition of the System. Liability 3 being fully funded is rare. The short condition test is presented in the following schedule.

**SHORT CONDITION TEST
Computed Actuarial Accrued Liabilities**

June 30	(1) Member Contributions	(2) Retired Lives	(3) Present Members (Employer Financed Portion)	Valuation Assets	Portion Of Accrued Liabilities Covered By Assets		
					(1)	(2)	(3)
1982	\$ 324,180,388	\$ 1,071,728,280	\$ 860,604,478	\$ 1,201,845,627	100%	82%	0%
1983	356,397,208	1,213,688,792	939,027,699	1,324,434,134	100	78	0
1984	396,230,502	1,371,162,368	1,025,589,111	1,498,107,371	100	80	0

Statistical
Tables
Millions
\$140

REVENUES BY SOURCE



REVENUES BY SOURCE
Last Ten Years

Table I

Year Ending June 30	Member Contributions	Employer Contributions	Investment Income	Other	Total
1975	\$ 31,062,856	\$ 46,797,580	\$ 27,703,478	\$ 1,470,824	\$ 107,034,738
1976	33,716,679	51,370,939	29,652,983	1,909,999	116,650,600
1977	36,378,039	55,681,997	29,735,598	1,011,850	122,807,484
1978	38,912,883	59,693,632	43,129,863	912,035	142,648,413
1979	41,971,918	64,183,954	47,220,797	1,184,656	154,561,325
1980	50,486,674	72,574,779	66,965,956	2,659,240	192,686,649
1981	52,469,568	81,353,991	69,572,728	1,030,754	204,427,041
1982	54,543,053	87,988,507	83,719,002	6,151,973	232,402,535
1983	57,302,477	88,732,787	107,416,567	1,618,964	255,070,795
1984	67,503,890	108,606,711	145,215,463	1,224,116	322,550,180

EXPENSES BY TYPE
Last Ten Years

Table II

Year Ending June 30	Aggregate Benefit Payments	Administrative Expenses	Transfers to Ohio Retirement Systems	Other	Total
1975	\$ 44,266,634	\$ 1,489,285	\$ 3,288,997	\$ 45,630	\$ 49,090,546
1976	47,699,699	1,660,095	3,127,491	8,475	52,495,760
1977	53,821,330	1,843,181	617,525	8,822	56,290,858
1978	62,995,337	1,934,825	743,655	15,947	65,689,764
1979	76,380,937	2,232,180	912,031	13,154	79,538,302
1980	86,590,668	2,367,777	764,675	15,970	89,739,090
1981	93,005,719	3,092,593	844,547	22,950	96,965,809
1982	112,044,340	3,425,836	1,006,803		116,476,979
1983	128,451,107	4,051,778	1,215,546		133,718,431
1984	139,676,067	4,658,760	1,181,012	879,498	146,395,337

STATISTICAL TABLES

NUMBER OF PARTICIPATING MEMBERS

Table III

Active and Inactive
Last Ten Years

Year Ending June 30	ACTIVE		INACTIVE		Total
	Male	Female	Male	Female	
1975	29,628	68,452	23,538	36,553	158,171
1976	28,339	67,186	24,505	39,252	159,282
1977	27,815	68,325	25,902	42,592	164,634
1978	29,228	71,513	27,230	46,137	174,108
1979	28,789	72,288	29,181	50,771	181,029
1980	29,298	74,833	30,998	55,171	190,300
1981	29,000	73,876	32,861	59,559	195,296
1982	28,312	69,009	34,559	64,968	196,848
1983	31,648	72,313	34,622	66,278	204,861
1984	32,787	72,894	36,310	69,622	211,613

NUMBER OF PARTICIPATING EMPLOYERS

Table IV

Year Ending June 30

Year	Total	Counties	Local	City	Village	Colleges	Technical	Vocational	Other
1975	771	87	386	183	49	2	14	49	1
1976	770	87	386	183	49	2	13	49	1
1977	769	87	384	184	49	2	13	49	1
1978	769	87	381	187	49	2	13	49	1
1979	768	86	381	187	49	2	13	49	1
1980	768	86	378	189	49	2	13	50	1
1981	769	86	378	189	49	2	13	51	1
1982	769	87	376	191	49	2	13	50	1
1983	769	87	375	192	49	2	13	50	1
1984	769	87	376	192	49	2	13	49	1

CONTRIBUTION RATES

Table V

Member and Employer
Last Ten Years

Year Ending June 30	RATES		
	Member	Employer	Total
1975	8.00	12.50	20.50
1976	8.00	12.50	20.50
1977	8.00	12.50	20.50
1978	8.00	12.50	20.50
1979	8.00	12.50	20.50
1980	8.00	12.50	20.50
1981	8.00	12.50	20.50
1982	8.00	12.50	20.50
1983	8.00	12.50	20.50
1984	8.75	14.00	22.75

**WITHDRAWAL
OF SERVICE CREDIT
BY REFUND**

Table VI

Last Ten Years

Year Ending June 30	Number
1975	9,001
1976	8,126
1977	8,119
1978	9,338
1979	11,296
1980	10,457
1981	9,482
1982	10,065
1983	7,917
1984	6,868

STATISTICAL TABLES

BENEFIT EXPENSES BY TYPE

Last Ten Years

Table VII

Year Ending June 30	BENEFITS			Health Care
	Service	Disability	Survivor	
1975	\$ 27,398,816	\$ 2,416,467	\$ 3,582,618	\$ 5,189,645
1976	30,872,861	2,750,166	3,857,886	5,322,100
1977	35,223,220	3,306,082	4,129,714	5,277,046
1978	39,821,999	3,958,026	4,500,933	6,772,412
1979	44,834,588	4,743,472	4,855,008	11,290,894
1980	49,938,156	5,619,031	5,221,125	15,809,333
1981	55,597,625	6,328,456	5,567,213	17,084,324
1982	64,708,104	7,294,601	6,240,292	23,460,414
1983	75,497,557	8,076,576	6,756,619	28,959,381
1984	85,444,144	9,270,155	7,389,851	29,153,910

Table VIII

NUMBER OF BENEFIT PAYMENTS

By Type

Last Ten Years

At Year Ending June 30	Service	Disability	Survivor	Total
1975	16,998	1,143	1,858	19,999
1976	18,296	1,334	1,961	21,591
1977	19,774	1,510	2,056	23,340
1978	21,233	1,716	2,144	25,093
1979	22,869	1,867	2,259	26,995
1980	24,539	2,083	2,370	28,992
1981	26,120	2,237	2,477	30,834
1982	27,955	2,343	2,565	32,863
1983	29,839	2,473	2,658	34,970
1984	31,467	2,602	2,731	36,800

STATISTICAL TABLES

Table VII
(continued)

REFUNDS

Death	Separation	Beneficiaries	Employer	Total
\$ 340,500	\$ 4,826,558	\$ 284,804	\$ 227,226	\$ 44,266,634
357,000	4,261,542	237,616	40,528	47,699,699
430,000	5,119,935	277,128	58,205	53,821,330
409,708	7,231,287	288,093	12,879	62,995,337
432,500	9,943,847	278,477	2,151	76,380,937
508,375	9,155,406	339,047	195	86,590,668
508,917	7,552,804	361,634	4,746	93,005,719
519,000	9,422,511	399,312	106	112,044,340
541,500	8,199,121	420,353		128,451,107
590,375	7,407,971	418,382	1,279	139,676,067

Table IX

RETIREMENT AVERAGES

Last Ten Years

SERVICE RETIREMENT

Year Ending June 30	Service Credit	Monthly Amount	Age	Salary
1975	15.150	\$ 146.16	63.72	\$ 5,085.90
1976	15.486	158.40	63.87	5,577.98
1977	15.672	174.21	63.64	5,974.37
1978	15.969	184.01	63.40	6,265.35
1979	16.495	200.63	63.28	6,821.83
1980	16.326	209.82	63.32	7,221.61
1981	16.626	218.08	63.22	7,495.31
1982	16.578	229.24	63.25	8,069.35
1983	16.617	250.60	63.14	8,603.00
1984	17.427	292.43	63.85	9,939.34

Table X

DISABILITY RETIREMENT

Year Ending June 30	Service Credit	Monthly Amount	Age	Salary
1975	11.774	\$ 189.73	55.05	\$ 5,077.91
1976	12.252	222.72	52.01	5,742.16
1977	12.026	210.87	52.99	5,559.93
1978	12.239	243.79	52.63	6,373.75
1979	12.963	282.13	52.79	7,185.03
1980	13.381	297.37	52.83	7,566.03
1981	12.610	275.07	52.52	7,162.84
1982	13.854	324.63	53.00	8,473.21
1983	13.035	323.05	52.29	8,166.18
1984	14.128	426.96	53.20	10,803.67

STATISTICAL TABLES

Table XI

NEW BENEFIT PAYMENTS BY YEAR
Last Ten Years

Year Ending June 30	SERVICE RETIREMENT			
	Years of Service Credit	5-9	10-14	15-19
1975	Male	242	186	169
	Female	316	259	224
	Total	558	445	393
	Average Monthly Payment	\$ 54.54	\$ 103.11	\$ 158.09
1976	Male	275	176	154
	Female	287	282	261
	Total	562	458	415
	Average Monthly Payment	\$ 61.47	\$ 106.22	\$ 160.47
1977	Male	234	191	160
	Female	323	333	260
	Total	557	524	420
	Average Monthly Payment	\$ 64.59	\$ 113.91	\$ 174.97
1978	Male	217	168	162
	Female	345	333	270
	Total	562	501	432
	Average Monthly Payment	\$ 64.78	\$ 112.98	\$ 179.01
1979	Male	230	205	172
	Female	319	409	312
	Total	549	614	484
	Average Monthly Payment	\$ 66.94	\$ 118.39	\$ 176.83
1980	Male	197	229	151
	Female	312	403	346
	Total	509	632	497
	Average Monthly Payment	\$ 65.82	\$ 124.88	\$ 192.23
1981	Male	178	178	151
	Female	303	402	324
	Total	481	580	475
	Average Monthly Payment	\$ 68.37	\$ 129.03	\$ 199.33
1982	Male	186	217	144
	Female	309	484	419
	Total	495	701	563
	Average Monthly Payment	\$ 74.89	\$ 139.35	\$ 211.85
1983	Male	204	207	158
	Female	342	525	485
	Total	546	732	643
	Average Monthly Payment	\$ 77.58	\$ 138.51	\$ 219.45
1984	Male	143	165	126
	Female	212	399	351
	Total	355	564	477
	Average Monthly Payment	\$ 74.68	\$ 150.62	\$ 234.19

STATISTICAL TABLES

Table XI
(continued)

SERVICE RETIREMENT

20-24	25-29	30-34	35-39	40-44	45 & Over	Total
88	66	41	20	4	3	819
126	53	23	10	—	3	1,014
214	119	64	30	4	6	1,833
\$ 207.22	\$ 283.66	\$ 431.38	\$ 519.11	\$ 843.97	\$ 800.04	\$ 146.16
104	68	54	15	9	5	860
128	60	23	7	5	3	1,056
232	128	77	22	14	8	1,916
\$ 225.86	\$ 293.09	\$ 462.44	\$ 647.16	\$ 544.07	\$ 790.65	\$ 158.40
100	61	71	21	10	2	850
168	64	31	11	3	—	1,193
268	125	102	32	13	2	2,043
\$ 239.00	\$ 327.89	\$ 496.88	\$ 631.06	\$ 771.07	\$ 406.47	\$ 174.21
127	81	88	26	5	—	874
166	78	27	7	1	3	1,230
293	159	115	33	6	3	2,104
\$ 244.79	\$ 323.15	\$ 554.54	\$ 723.37	\$ 632.88	\$ 756.41	\$ 184.01
124	99	102	23	6	1	962
214	126	49	7	4	1	1,441
338	225	151	30	10	2	2,403
\$ 258.00	\$ 340.79	\$ 603.66	\$ 670.05	\$ 981.88	\$ 1,058.60	\$ 200.63
121	74	80	28	5	2	887
211	110	44	10	2	2	1,440
332	184	124	38	7	4	2,327
\$ 283.69	\$ 360.26	\$ 616.92	\$ 808.67	\$ 1,151.25	\$ 1,133.82	\$ 209.82
98	83	83	15	7	1	794
241	130	32	18	3	2	1,455
339	213	115	33	10	3	2,249
\$ 282.32	\$ 386.68	\$ 625.14	\$ 810.92	\$ 885.81	\$ 828.51	\$ 218.08
110	95	73	22	8	1	856
267	142	42	10	2	0	1,675
377	237	115	32	10	1	2,531
\$ 293.51	\$ 396.19	\$ 706.08	\$ 905.12	\$ 1,051.35	\$ 959.52	\$ 229.24
123	88	94	29	8	1	912
303	148	51	11	1	4	1,870
426	236	145	40	9	5	2,782
\$ 327.77	\$ 458.71	\$ 749.48	\$ 993.77	\$ 1,224.89	\$ 994.64	\$ 250.60
95	103	109	20	7	1	769
259	111	50	9	3		1,394
354	214	159	29	10	1	2,163
\$ 354.97	\$ 516.15	\$ 798.80	\$ 1,149.92	\$ 1,256.33	\$ 323.46	\$ 292.43

Table XII

NEW BENEFIT PAYMENTS BY YEAR
Last Ten Years

SURVIVOR BENEFITS

Year Ending June 30	1975		1976	
	Number	Avg. Monthly Payment	Number	Avg. Monthly Payment
Benefit				
Joint Survivor Annuity	403	\$ 138.85	408	\$ 179.60
Spouse — Age 65	102	101.84	75	114.35
Spouse — Age 62	485	103.46	588	131.15
Spouse — Age 50	294	129.36	420	152.15
Spouse with Children	527	180.87	354	239.71
Unmarried Children	40	136.75	83	161.00
Dependent Parents	10	111.57	10	138.81
Other	4	110.42	24	126.23
Total	1,865		1,962	

Year Ending June 30	1980		1981	
	Number	Avg. Monthly Payment	Number	Avg. Monthly Payment
Benefit				
Joint Survivor Annuity	469	\$ 217.18	485	\$ 235.40
Spouse — Age 65	106	121.81	113	126.69
Spouse — Age 62	678	144.00	699	151.76
Spouse — Age 50	621	172.03	665	179.83
Spouse with Children	386	255.12	370	267.46
Unmarried Children	65	175.46	112	172.40
Dependent Parents	4	148.85	3	165.76
Other	27	139.92	26	148.05
Total	2,356		2,473	

Table XII
(Continued)

SURVIVOR BENEFITS

1977		1978		1979	
Number	Avg. Monthly Payment	Number	Avg. Monthly Payment	Number	Avg. Monthly Payment
428	\$ 188.51	448	\$ 199.30	455	\$ 204.70
88	117.81	91	117.89	110	119.28
608	137.65	624	137.51	660	139.21
459	159.28	493	161.95	558	165.52
363	240.41	379	246.91	374	252.08
85	158.50	75	171.48	68	169.37
8	143.28	7	144.46	6	145.68
28	136.33	28	136.17	28	136.61
<hr/>		<hr/>		<hr/>	
2,067		2,145		2,259	
1982		1983		1984	
Number	Avg. Monthly Payment	Number	Avg. Monthly Payment	Number	Avg. Monthly Payment
502	\$ 253.11	533	\$ 267.70	558	\$ 286.41
124	135.87	127	138.74	201	159.16
735	164.24	752	170.71	401	163.22
690	193.64	729	198.83	787	203.74
378	295.74	403	294.54	639	264.12
97	175.28	91	183.67	143	224.30
3	179.48	3	188.35	2	171.20
27	159.73	23	164.79		
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2,556		2,661		2,731	

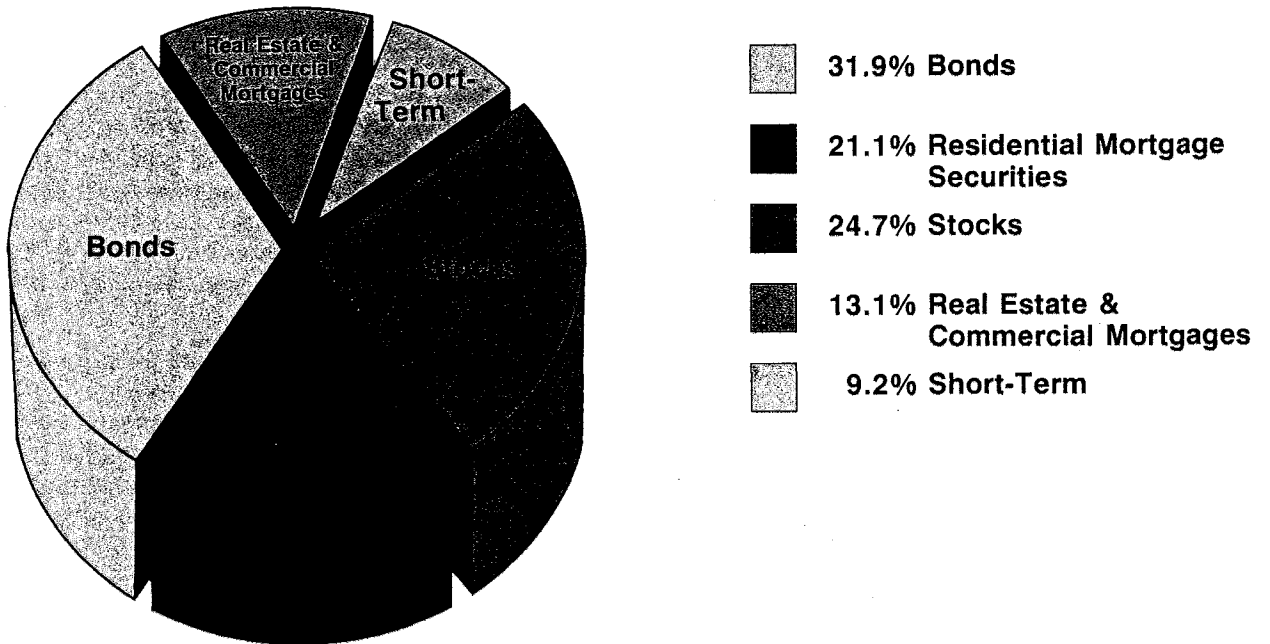
NEW BENEFIT PAYMENTS BY YEAR
Last Ten Years

DISABILITY RETIREMENT

Year Ending June 30	Years of Service Credit	5-9	10-14	15-19	20-24	Total
1975	Male	29	19	16	8	72
	Female	43	23	15	4	85
	Total	72	42	31	12	157
	Average Monthly Payment	\$ 160.19	\$ 174.88	\$ 241.50	\$ 285.14	\$ 189.73
1976	Male	51	36	25	14	126
	Female	60	39	24	14	137
	Total	111	75	49	28	263
	Average Monthly Payment	\$ 158.71	\$ 224.75	\$ 281.27	\$ 368.53	\$ 222.72
1977	Male	41	20	18	20	99
	Female	69	51	20	9	149
	Total	110	71	38	29	248
	Average Monthly Payment	\$ 163.94	\$ 175.88	\$ 316.70	\$ 335.87	\$ 210.87
1978	Male	56	25	15	24	120
	Female	61	64	19	12	156
	Total	117	89	34	36	276
	Average Monthly Payment	\$ 209.80	\$ 199.39	\$ 297.86	\$ 412.95	\$ 243.79
1979	Male	47	26	22	33	128
	Female	75	54	25	15	169
	Total	122	80	47	48	297
	Average Monthly Payment	\$ 193.89	\$ 247.77	\$ 290.66	\$ 555.32	\$ 282.13
1980	Male	29	23	23	34	109
	Female	71	62	18	18	169
	Total	100	85	41	52	278
	Average Monthly Payment	\$ 201.20	\$ 236.28	\$ 403.35	\$ 498.62	\$ 297.37
1981	Male	35	22	17	18	92
	Female	70	66	20	20	176
	Total	105	88	37	38	268
	Average Monthly Payment	\$ 196.78	\$ 257.76	\$ 357.68	\$ 451.03	\$ 275.07
1982	Male	19	22	13	23	77
	Female	48	50	34	13	145
	Total	67	72	47	36	222
	Average Monthly Payment	\$ 230.60	\$ 265.90	\$ 311.38	\$ 634.37	\$ 324.63
1983	Male	18	23	13	15	69
	Female	55	67	32	10	164
	Total	73	90	45	25	233
	Average Monthly Payment	\$ 246.74	\$ 283.07	\$ 383.42	\$ 581.13	\$ 323.05
1984	Male	23	21	19	19	82
	Female	29	35	30	14	108
	Total	52	56	49	33	190
	Average Monthly Payment	\$ 285.21	\$ 350.50	\$ 460.20	\$ 726.78	\$ 426.96

Investments

PORTFOLIO DISTRIBUTION June 30, 1984



Investment Report

The past year developed much as was expected in our last annual report. The economy continued to recover at a strong pace, and for the year ended June 30, 1984 the GNP in constant dollars rose 7.6% over the previous year. As would be expected in a strong economy, the unemployment rate continued to fall from 10.0% at the beginning of the Fiscal Year to 7.5% by the Fiscal Year-end. Another anticipated occurrence during the past year was the lack of action by the Administration or Congress on the huge spending deficits being incurred by the U.S. government. The only contradiction to last year's forecast was that the inflation rate remained low at approximately 4.5%, which was the result of increased productivity growth during the fiscal year.

Both the bond and stock markets experienced a great amount of volatility during the past year. Interest rates remained high during the year which confirmed our previous strategy of shortening the maturity of our fixed-income portfolio and reducing the percentage of assets invested in fixed-income securities. With the expected growth in the U.S. economy, the percentage of assets invested in common stocks was increased during the year; and the Fund is currently positioned to take advantage of expected rallies in the stock market.

For the coming Fiscal Year it is expected that the U.S. economy will continue to grow, but at a more modest pace closer to 4% rather than last year's 7.6%. It is expected that the inflation rate will increase modestly again this year as it did last year to between 5% and 6%. Unemployment should continue to decline to about 7% from the 7.5% indicated presently. A recession is not anticipated until late 1985 or early 1986. These economic forecasts seem to indicate a fairly positive atmosphere for both the fixed-income and the stock markets. However, because of the large government spending deficits and the uncertainty as to how, when or if they will be reduced, interest rates will probably remain high and very volatile for the coming year. The stock market should do somewhat better in the second half of 1985 if it becomes apparent that inflation will stay relatively low and some progress is being made on the budget deficits. It is expected that stock prices, like bond and mortgage-backed security prices, will remain volatile during the coming year.

During the past year, most of the new money coming into the Fund was invested in common stock, real estate and commercial mortgages. Currently the Fund has 37.8% of assets invested in the above types of assets as compared to 32.5% at this time last year. The fixed-income portion of the Fund has continued to decline in size and currently represents 53% of the assets as compared to 59.6% last year. Because of the expected economic outlook for the coming year, it is anticipated that much of this year's cash flow will again be invested

in common stocks or real estate.

The majority of the funds invested in real estate and commercial and industrial mortgages during the past year resulted from the funding of commitments made in previous years. These commitments were made on very favorable terms to the Fund. During the past year, terms on real estate offerings were not quite as favorable to the Fund; and the Fund did not make commitments for many new real estate projects during this period. The real estate and commercial mortgages in the Fund are well diversified by type and location, and they are all of very high quality. Real estate has grown to be a significant investment by the Fund and it will continue to grow, but at a somewhat slower pace than experienced during the last two years. As good real estate projects become available during the coming year, the Fund will continue to invest in them; so that real estate will probably increase to approximately 18% of the total Fund by next year-end.

The Common Stock Portfolio increased in size from 21.3% of the portfolio to 24.7% during the past year. Based on our expectations of continued growth in the economy and a relatively low rate of inflation, corporate profits should continue to grow and common stocks should continue to increase in value. Because of this, we anticipate increasing again the percentage of total assets held in common stocks from 24.7% to approximately 28% of total assets by the end of the next fiscal year.

Because of the continued rapid growth of the real estate portfolio and the common stock portfolio during the past year, the percentage of total assets held in the bond portfolio decreased from 35% at last year-end to approximately 32% at the year-end. With the expected emphasis on common stocks and real estate during the coming year, it is anticipated that the percentage of bonds will again decrease; and by year-end bonds will probably represent only 30% of the total assets of the Fund.

The mortgage portfolio also decreased in size as a result of the emphasis on real estate and common stocks. Mortgages now represent approximately 21% of the total assets of the Fund as compared to 24% this time last year. However, with the superior returns historically received on mortgages, and with their high quality and marketability, it is anticipated that mortgages will remain approximately 21% of the Fund during the coming year.

The yields on the bond and mortgage portfolios are still very high and contribute a significant amount of income to the Fund each year. The yield on the bond portfolio increased again this year to 11.15% from 11.10% at last year-end. The yield on the mortgage portfolio is still at a very high 12.10% as compared to 12.11% last year at this time.

PORTFOLIO SUMMARY

Investment Category	June 30, 1984		June 30, 1983	June 30, 1982	June 30, 1981	June 30, 1980
	Par Value	Percent	Par Value	Par Value	Par Value	Par Value
U.S. Government & Agency Bonds	\$ 124,382,500	8.6%	\$ 109,692,500	\$ 102,336,500	\$ 100,748,000	\$ 37,800,000
Corporate Bonds	325,700,000	22.6	339,900,000	312,750,000	306,920,000	365,770,000
Canadian Bonds	10,000,000	0.7	10,000,000	54,300,000	55,300,000	63,300,000
G.N.M.A. Mortgage-Backed Pass - Thru	178,061,964	12.4	163,897,360	138,187,746	132,285,163	126,660,913
F.H.L.M.C. Mortgage-Backed Pass - Thru	117,636,136	8.2	137,942,239	125,860,669	117,462,257	110,783,826
F.H.A., V.A. & H.U.D. Mortgages	7,126,801	0.5	7,859,624	8,563,389	9,774,938	10,348,539
Common and Preferred Stocks	331,759,212	23.0	264,562,149	246,055,095	199,093,353	180,783,324
Growth & Development Capital	24,791,672	1.7	9,415,972	—	—	—
Investment Real Estate	139,259,967	9.7	113,810,453	57,957,435	23,683,003	12,592,174
Commercial & Industrial Mortgages	49,393,882	3.4	31,376,889	18,552,990	—	—
Short-Term Investments	132,150,000	9.2	102,500,000	104,350,000	81,449,359	33,650,000
	<u>\$ 1,440,262,134</u>	<u>100.0%</u>	<u>\$ 1,290,957,186</u>	<u>\$ 1,168,913,824</u>	<u>\$ 1,026,716,073</u>	<u>\$ 941,688,776</u>

INVESTMENTS

Schedule II

PORTFOLIO RATES OF RETURN

For Years Ended

ASSET CATEGORY	June 30 1984	June 30 1983	June 30 1982	June 30 1981	June 30 1980
Bond Portfolio	11.15%	11.10%	10.93%	10.23%	9.55%
Residential Mortgage Portfolio	12.10	12.11	11.97	10.47	10.13
Total Fixed-Income Investment	11.53%	11.50%	11.31%	10.32%	9.74%
Equity Portfolio	(6.51%)	60.50%	(7.00%)	22.06%	17.06%
Investment Real Estate Portfolio	15.13%	12.94%	11.31%	--*	--*
New Investment Return Rate (New Long-Term, Fixed- Income Investments)	12.23	12.28	15.43	13.46	12.17
Short-Term Investments	9.65	9.17	14.00	13.83	10.80

*NOTE: Due to the relatively small size of the real estate holdings in the fund from 1980 to 1981, real estate performance was included in the equity portfolio return.

Schedule III

INVESTMENT ACTIVITY

For the year ended June 30, 1984

PRINCIPAL BALANCE AS OF JUNE 30, 1983 (Accrual Basis)	\$1,290,957,186
Increases in Par Value:	
U.S. Government & Agency Bonds	\$ 20,000,000
F.H.L.M.C. Mortgage-Backed Pass-Thru	6,035,316
G.N.M.A. Mortgage-Backed Pass-Thru	24,438,599
Commercial & Industrial Mortgages	18,386,006
Common and Preferred Stocks	143,882,785
Investment Real Estate	25,478,163
Short-Term Investments (net)	29,650,000
Total Increases	<u>\$ 267,870,869</u>
Decreases in Par Value:	
U.S. Government & Agency Bonds	\$ 5,310,000
Corporate Bonds	14,200,000
F.H.L.M.C. Mortgage-Backed Pass-Thru	26,341,419
G.N.M.A. Mortgage-Backed Pass-Thru	10,273,995
F.H.A., V.A. & H.U.D. Mortgages	732,823
Commercial & Industrial Mortgages	369,013
Common and Preferred Stocks	61,310,022
Investment Real Estate	28,649
Total Decreases	<u>\$ 118,565,921</u>
Net Increases to Portfolio	<u>149,304,948</u>
PRINCIPAL BALANCE AS OF JUNE 30, 1984 (Accrual Basis)	<u><u>\$ 1,440,262,134</u></u>

Quality Rating	Percent of Stock
A +	26.3%
A	21.1
A -	29.0
B +	18.4
B	2.6
B -	1.3
C	--
D	--
Not Rated	1.3

QUALITY OF STOCKS

Of the stocks owned by the System, the majority fall within the top four quality grades as rated by Standard and Poor's Corporation with respect to the relative stability and growth of earnings and dividends. The 1.3 percent in the non-rated category are banks and insurance companies which are not rated by Standard and Poor's as a matter of policy.

A + Highest	B Below Average
A High	B - Low
A - Above Average	C Lowest
B + Average	D In Reorganization

Category	Percent
Credit Sensitive	15.4%
Growth Consumer	16.3
Consumer Staple	7.0
Consumer Cyclical	9.4
Intermediate Goods and Services	22.5
Capital Goods	29.4

DIVERSIFICATION OF STOCKS

The System's stocks are diversified by industry to reduce risk and to enable the portfolio to participate in upswings in various sectors of the economy as they arise.

DIVIDEND GROWTH FROM STOCKS

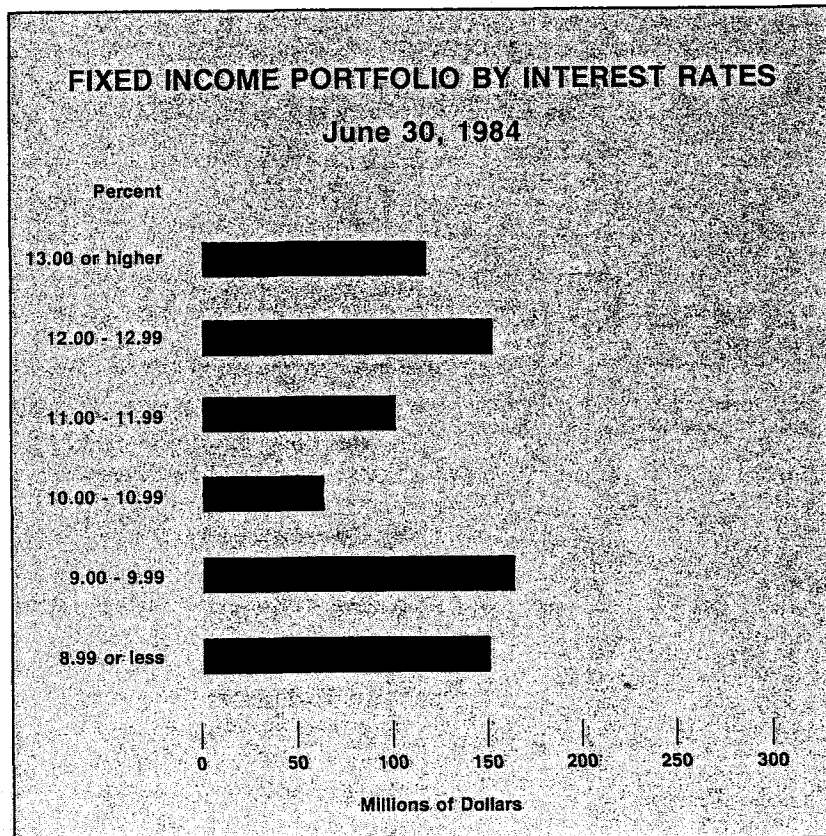
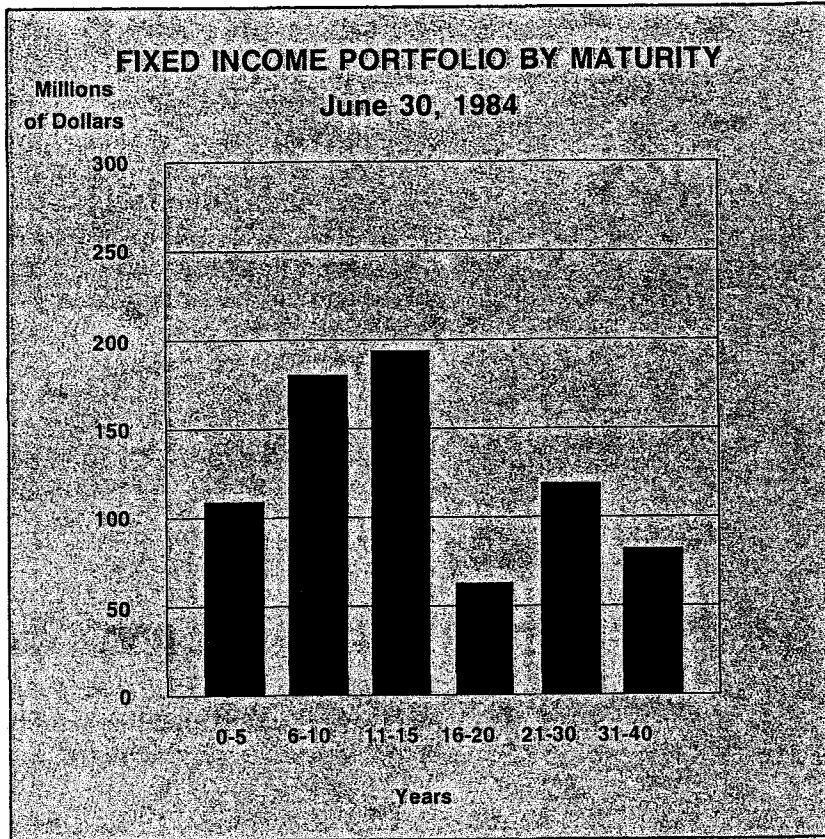
Fiscal Year Ended	Dividends Received*	% Increase	Yield on Cost
June 1984	\$ 14,845,987	+ 12.6%	4.92%
June 1983	13,187,649	+ 19.7	4.85
June 1982	11,019,698	+ 20.5	5.26
June 1981	9,146,619	+ 20.1	4.62
June 1980	7,612,723	+ 22.1	4.16

* Cash Basis

DIVERSIFICATION OF REAL ESTATE and COMMERCIAL AND INDUSTRIAL MORTGAGES

Type of property	Percent
Office Buildings	34.7%
Warehouse - Industrial	4.0
Department Stores	9.5
Discount Stores	15.6
Grocery Stores	19.2
Commingled Fund	17.0

The System's real estate portfolio is diversified by type and by form of ownership, in that the System has participating mortgages on several properties in addition to owning many other properties outright. The interest earned on the mortgages and the rental income earned from owned properties provide a stable income base for the System. In addition to this steady cash flow, the System participates in the appreciation in value of the property or the System earns additional income based on the sales generated by the tenant of the property; and in many cases the System participates in the appreciation of value of the property, as well as receiving a percentage of the sales of the tenant.

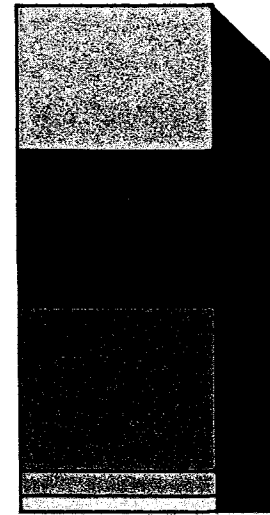


BOND PORTFOLIO QUALITY RATINGS BY MOODY'S

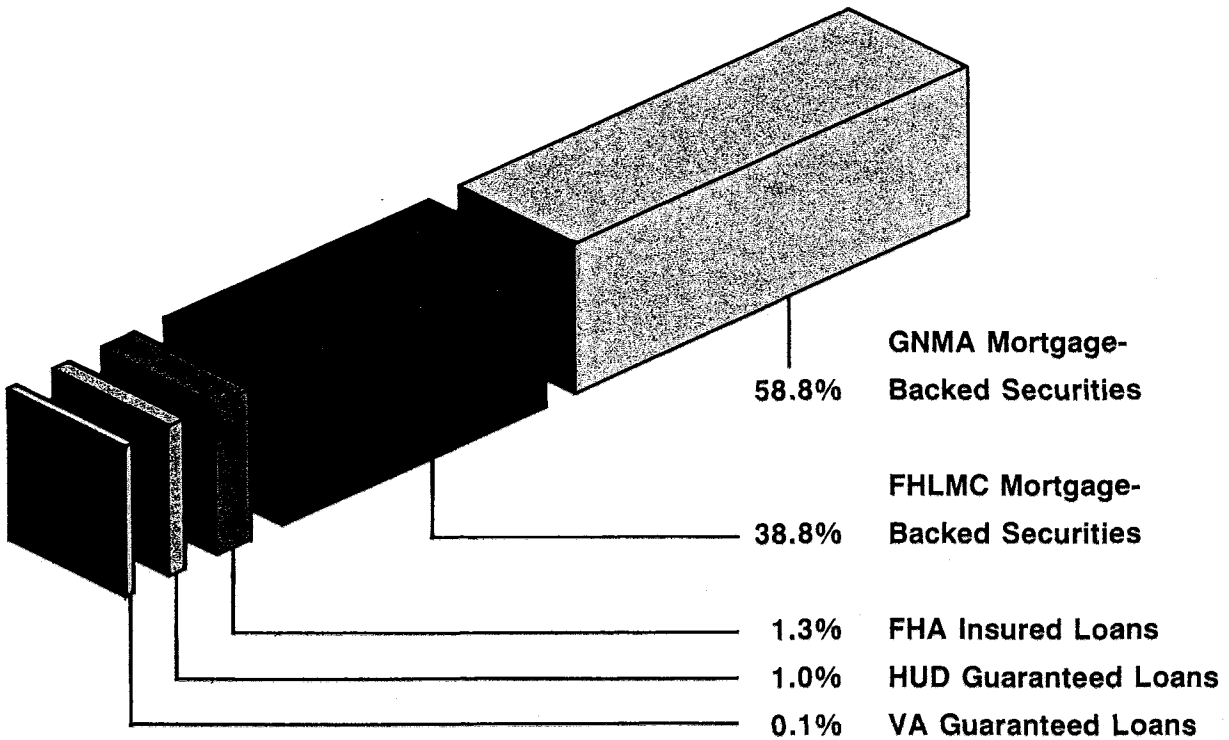
June 30, 1984

Most of the bonds in the portfolio fall within the top three grades of the nine bond quality ratings established by Moody's Investors Services, Inc.

29.8%	Aaa
30.4%	Aa
33.4%	A
4.4%	Baa
2.0%	Ba to B



DISTRIBUTION OF 1984 GOVERNMENT INSURED OR GUARANTEED MORTGAGE PORTFOLIO



INVESTMENTS

LIST OF INVESTMENTS

JUNE 30, 1984

FIXED-INCOME

	<u>Interest Rate</u>	<u>Maturity</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Market Value</u>
SHORT-TERM INVESTMENTS					
Bankers Acceptances					
AmeriTrust Co.		7-06-84	\$ 700,000	\$ 694,283	\$ 698,817
BancOhio National Bank		7-05-84	3,000,000	2,973,133	2,995,667
BancOhio National Bank		7-16-84	1,750,000	1,735,300	1,741,600
BancOhio National Bank		7-27-84	3,000,000	2,970,938	2,974,687
BancOhio National Bank		8-02-84	6,000,000	5,936,250	5,940,000
Morgan Guaranty Trust Co.		7-02-84	2,500,000	2,479,778	2,498,556
Morgan Guaranty Trust Co.		7-10-84	3,000,000	2,971,813	2,991,192
			<u>\$ 19,950,000</u>	<u>\$ 19,761,495</u>	<u>\$ 19,840,519</u>
Certificates of Deposit					
Huntington National Bank	10.80%	7-12-84	\$ 4,000,000	\$ 4,000,000	\$ 4,000,000
Huntington National Bank	10.90	7-19-84	1,000,000	1,000,000	1,000,000
			<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>
Commercial Paper					
Ford Motor Credit Co.		7-02-84	\$ 4,000,000	\$ 3,992,700	\$ 3,997,567
Ford Motor Credit Co.		7-02-84	3,200,000	3,193,156	3,198,044
Ford Motor Credit Co.		7-12-84	1,000,000	993,379	996,217
Ford Motor Credit Co.		7-18-84	5,000,000	4,955,896	4,972,625
General Electric Credit Corp.		7-12-84	1,400,000	1,384,892	1,395,100
General Electric Credit Corp.		7-16-84	900,000	892,659	895,650
General Electric Credit Corp.		7-18-84	3,000,000	2,973,000	2,983,800
General Electric Credit Corp.		7-30-84	4,600,000	4,554,511	4,557,354
General Motors Accept. Corp.		7-06-84	6,000,000	5,956,800	5,989,200
General Motors Accept. Corp.		7-13-84	6,500,000	6,445,400	6,474,650
General Motors Accept. Corp.		7-24-84	4,300,000	4,257,956	4,268,467
General Motors Accept. Corp.		7-25-84	500,000	496,010	496,163
General Motors Accept. Corp.		7-26-84	2,100,000	2,080,663	2,083,241
General Motors Accept. Corp.		7-31-84	3,800,000	3,762,422	3,763,596
McDonald's Corp.		7-13-84	2,400,000	2,374,223	2,390,943
McDonald's Corp.		7-20-84	3,900,000	3,865,599	3,876,275
J.C. Penney Financial Corp.		7-03-84	4,000,000	3,960,139	3,996,583
J.C. Penney Financial Corp.		7-06-84	4,200,000	4,154,558	4,192,825
J.C. Penney Financial Corp.		7-11-84	5,000,000	4,948,000	4,984,111
Pfizer Inc.		7-05-84	1,000,000	989,800	998,583
Sears Roebuck Acceptance Corp.		7-02-84	4,600,000	4,550,231	4,597,381
Sears Roebuck Acceptance Corp.		7-10-84	1,900,000	1,878,593	1,894,511
Shell Oil Co.		7-17-84	5,000,000	4,956,701	4,974,618
Shell Oil Co.		7-23-84	3,800,000	3,752,563	3,774,023
Southern Bell Telephone Co.		7-19-84	1,200,000	1,191,970	1,193,065
Standard Oil Co. of Ohio		7-05-84	3,300,000	3,260,730	3,295,325
Texas Utilities Co.		7-11-84	7,900,000	7,851,942	7,873,568
Tuscon Electric Power Co.		7-03-84	5,900,000	5,889,380	5,894,690
Xerox Corp.		7-09-84	6,800,000	6,724,123	6,782,490
			<u>\$ 107,200,000</u>	<u>\$ 106,287,996</u>	<u>\$ 106,790,665</u>
Total Short-Term			<u>\$ 132,150,000</u>	<u>\$ 131,049,491</u>	<u>\$ 131,631,184</u>

LIST OF INVESTMENTS

JUNE 30, 1984 (Continued)

	<u>Interest Rate</u>	<u>Maturity</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Market Value</u>
U.S. GOVERNMENT & AGENCY BONDS					
U.S. Treasury					
U.S. Treasury Notes	11.375%	8-15-86	\$ 10,000,000	\$ 9,974,553	\$ 9,684,400
U.S. Treasury Notes	12.625	11-15-87	10,000,000	9,985,300	9,778,100
U.S. Treasury Notes	11.875	10-15-89	10,000,000	10,310,603	9,312,500
			<u>\$ 30,000,000</u>	<u>\$ 30,270,456</u>	<u>\$ 28,775,000</u>
Agency Bonds					
Federal Farm Credit Bank	12.400%	3-02-87	\$ 10,000,000	\$ 10,262,500	\$ 9,778,100
Federal Farm Credit Bank	11.700	7-20-88	10,000,000	10,260,563	9,362,500
Federal Farm Credit Bank	13.050	1-23-89	10,000,000	10,659,091	9,731,200
Federal Farm Credit Bank	12.500	9-04-90	10,000,000	10,507,813	9,400,000
Federal Home Loan Bank	16.400	9-25-84	5,000,000	5,000,000	5,056,250
Federal Home Loan Bank	14.550	9-25-89	11,000,000	10,950,958	11,254,320
Federal Home Loan Mtg. Corp.	9.400	9-15-08	2,622,000	2,327,337	2,151,666
Federal Home Loan Mtg. Corp.	9.875	3-15-09	456,000	411,019	381,043
Federal Home Loan Mtg. Corp.	12.450	9-15-09	35,304,500	34,492,622	32,457,898
			<u>\$ 94,382,500</u>	<u>\$ 94,871,903</u>	<u>\$ 89,572,977</u>
Total U.S. Government and Agency Bonds			<u>\$ 124,382,500</u>	<u>\$ 125,142,359</u>	<u>\$ 118,347,977</u>
CORPORATE BONDS					
Industrial Bonds					
American Brands Inc.	11.125%	10-15-89	\$ 10,000,000	\$ 9,952,857	\$ 8,949,600
Cities Service Co.	9.750	10-01-00	6,500,000	6,515,829	4,657,055
Continental Oil Co.	9.125	11-01-99	9,500,000	9,629,016	6,647,435
Continental Oil Co.	8.875	6-01-01	1,000,000	968,418	673,340
Continental Oil Co.	9.375	4-01-09	3,000,000	2,953,125	2,051,040
Dana Corp.	8.875	11-15-08	1,250,000	1,234,669	794,963
Diamond Shamrock Corp.	9.000	4-01-99	1,000,000	1,007,143	679,460
Diamond Shamrock Corp.	9.125	11-15-00	5,000,000	5,071,683	3,381,250
Diamond Shamrock Corp.	8.500	4-01-08	2,600,000	2,583,434	1,567,228
Dow Chemical Co.	11.250	7-15-10	11,750,000	11,532,203	9,235,735
Ford Motor Co.	9.250	7-15-94	3,000,000	3,009,645	2,237,130
General Mills Inc.	9.375	3-01-09	8,500,000	8,492,708	5,791,645
Halliburton Co.	16.000	10-01-88	5,000,000	5,000,000	5,249,750
McDonald's Corp.	9.000	5-01-85	5,000,000	4,941,474	4,855,150
Mobil Corp.	10.875	11-01-92	5,000,000	4,973,437	4,245,050
Philip Morris, Inc.	9.550	6-01-86	6,000,000	5,889,832	5,586,600
Philip Morris, Inc.	9.125	7-15-03	3,500,000	3,443,862	2,357,285
Philip Morris, Inc.	8.875	6-01-04	3,750,000	3,648,201	2,461,125
Standard Brands, Inc.	9.500	12-15-04	2,500,000	2,543,127	1,764,250
Standard Oil Co. of Indiana	9.200	7-15-04	5,750,000	5,673,266	4,008,325
Union Oil Co. of California	8.375	6-01-85	3,000,000	2,966,920	2,894,040
			<u>\$ 102,600,000</u>	<u>\$ 102,030,849</u>	<u>\$ 80,087,456</u>

INVESTMENTS

LIST OF INVESTMENTS

JUNE 30, 1984 (Continued)

	Interest Rate	Maturity	Par Value	Book Value	Market Value
Telephone Bonds					
American Tel. & Tel. Co.	10.375%	6-01-90	\$ 3,000,000	\$ 3,009,000	\$ 2,586,780
Bell Tel. Co. of Pennsylvania	11.875	4-15-20	9,000,000	8,989,152	7,401,960
Chesapeake & Potomac Tel. Co. of Maryland	8.875	6-01-09	3,000,000	2,684,401	1,871,760
Chesapeake & Potomac Tel. Co. of Virginia	8.625	4-01-09	4,000,000	4,110,230	2,455,840
Chesapeake & Potomac Tel. Co. of West Virginia	9.000	5-15-15	1,000,000	1,018,030	625,720
General Tel. Co. of Florida	10.750	7-01-04	3,000,000	2,831,415	2,233,650
General Tel. Co. of Florida	9.375	3-01-05	1,500,000	1,161,103	992,340
General Tel. Co. of Florida	13.375	9-01-10	7,500,000	7,328,563	6,772,575
General Tel. Co. of Indiana	14.000	12-01-10	1,000,000	915,044	950,340
General Tel. Co. of Northwest	9.375	7-01-08	1,850,000	1,585,736	1,202,093
General Tel. Co. of Northwest	12.125	7-01-10	5,000,000	4,973,508	4,090,950
General Tel. Co. of Ohio	10.250	12-01-04	1,000,000	893,618	709,220
General Tel. Co. of Ohio	9.000	6-01-06	2,000,000	1,980,750	1,263,440
General Tel. Co. of Ohio	16.625	5-01-11	3,000,000	2,946,000	3,265,260
General Tel. Co. of Pennsylvania	12.000	6-01-10	5,000,000	5,000,000	4,050,300
General Tel. Co. of Southwest	9.875	12-01-05	1,000,000	1,001,648	678,270
General Tel. Co. of Upstate New York	9.125	4-01-04	1,000,000	998,300	618,340
General Tel. Co. of Wisconsin	14.375	4-01-10	4,000,000	3,753,791	3,888,040
Illinois Bell Tel. Co.	12.250	8-05-17	6,000,000	5,997,607	5,060,640
Michigan Bell Tel. Co.	7.750	6-01-11	1,000,000	1,007,993	545,230
Mountain States Tel. & Tel. Co.	8.625	4-01-18	3,000,000	2,943,951	1,801,560
New York Tel. Co.	8.625	6-15-16	1,000,000	1,036,456	603,670
New York Tel. Co.	15.625	7-15-21	18,000,000	17,376,625	18,746,460
Northwestern Bell Tel. Co.	8.625	6-15-12	12,000,000	12,157,909	7,337,880
Ohio Bell Tel. Co.	7.875	10-01-13	2,000,000	1,829,147	1,101,420
South Central Bell Tel. Co.	12.875	10-01-20	8,000,000	7,041,147	6,955,920
Southern Bell Tel. & Tel. Co.	8.250	4-15-16	6,000,000	5,890,450	3,456,120
Southern Bell Tel. & Tel. Co.	12.875	10-05-20	7,000,000	6,047,073	6,086,430
Southwestern Bell Tel. Co.	8.500	3-15-16	12,000,000	12,274,430	7,168,440
Southwestern Bell Tel. Co.	11.375	1-15-20	9,000,000	8,596,489	6,996,510
Southwestern Bell Tel. Co.	14.250	12-10-20	6,000,000	5,487,942	5,778,240
			<u>\$ 147,850,000</u>	<u>\$ 142,867,508</u>	<u>\$ 117,295,398</u>

Power & Light Bonds

Central Illinois Public Service Co.	8.500%	3-01-04	\$ 2,000,000	\$ 1,928,400	\$ 1,238,040
Central Power & Light Co.	9.375	6-01-04	1,500,000	1,498,260	992,205
Duke Power Co.	8.125	9-01-07	4,000,000	3,951,699	2,326,440
El Paso Electric Co.	8.500	4-01-07	2,500,000	2,480,833	1,482,225
Illinois Power Co.	9.000	11-01-00	1,500,000	1,500,000	950,205
Indianapolis Power & Light Co.	9.300	6-01-06	2,650,000	2,659,890	1,755,969
Iowa Power & Light Co.	8.750	3-01-06	1,000,000	1,037,713	622,540
Iowa Public Service Co.	9.000	5-01-06	2,500,000	2,615,265	1,601,875

LIST OF INVESTMENTS

JUNE 30, 1984 (Continued)

	<u>Interest Rate</u>	<u>Maturity</u>	<u>Par Value</u>	<u>Book Value</u>	<u>Market Value</u>
Power & Light Bonds (Continued)					
Kansas Gas & Electric Co.	8.125%	5-01-01	\$ 1,000,000	\$ 929,075	\$ 546,430
Kansas Gas & Electric Co.	8.375	9-01-06	500,000	507,688	268,700
Kansas Gas & Electric Co.	8.875	3-15-08	1,000,000	1,002,088	562,660
Kansas Power & Light Co.	8.750	9-01-00	1,000,000	1,028,085	649,040
Kansas Power & Light Co.	8.625	5-01-06	2,000,000	2,065,697	1,236,400
Metropolitan Edison Co.	9.000	9-01-08	3,000,000	2,914,397	1,724,790
New England Power Co.	8.625	8-01-03	2,000,000	2,022,750	1,216,060
Pacific Gas & Electric Co.	7.500	12-01-03	6,000,000	5,860,645	3,248,160
Philadelphia Electric Co.	8.250	8-01-96	2,500,000	2,538,519	1,451,050
Philadelphia Electric Co.	8.625	7-15-03	3,000,000	3,002,811	1,664,130
Philadelphia Electric Co.	8.500	1-15-04	4,500,000	4,473,852	2,455,110
Philadelphia Electric Co.	8.625	3-15-07	4,000,000	3,990,225	2,170,200
Public Service Electric & Gas Co.	8.500	3-01-04	1,500,000	1,532,011	915,645
Public Service Electric & Gas Co.	8.750	4-01-06	4,500,000	4,496,862	2,780,955
Public Service Electric & Gas Co.	8.250	6-01-07	2,000,000	1,995,208	1,168,640
Public Service Co. of Colorado	7.250	2-01-01	500,000	435,743	268,810
Southern California Edison Co.	8.875	3-01-00	3,500,000	3,556,753	2,301,285
Southern California Edison Co.	8.875	3-15-01	2,000,000	2,063,750	1,303,340
Southwestern Public Service Co.	10.900	6-01-90	2,000,000	1,988,495	1,745,060
Southwestern Public Service Co.	8.800	2-01-05	1,000,000	1,045,238	628,920
Southwestern Public Service Co.	8.750	3-01-08	500,000	501,000	308,935
Union Electric Co.	8.875	9-01-06	3,500,000	3,559,194	2,045,155
Utah Power & Light Co.	8.375	9-01-06	600,000	605,720	360,462
West Penn Power Co.	7.625	6-01-02	1,000,000	912,957	570,460
Wisconsin Power & Light Co.	8.875	4-01-04	2,500,000	2,581,818	1,636,350
Wisconsin Power & Light Co.	8.875	5-01-06	2,000,000	1,990,833	1,296,680
			<u>\$ 75,250,000</u>	<u>\$ 75,273,474</u>	<u>\$ 45,492,926</u>
Total Corporate Bonds			<u>\$ 325,700,000</u>	<u>\$ 320,171,831</u>	<u>\$ 242,875,780</u>

CANADIAN BONDS

Authority, Board, Commission

Alberta Government Tel. Comm.	6.250%	10-01-92	\$ 1,000,000	\$ 947,725	\$ 616,360
Alberta Government Tel. Comm.	7.875	9-01-96	1,300,000	1,307,856	865,917
Manitoba Hydro Electric Board	9.500	10-01-85	7,700,000	7,634,192	7,388,381
Total Canadian Bonds			<u>\$ 10,000,000</u>	<u>\$ 9,889,773</u>	<u>\$ 8,870,658</u>
Total Bonds			<u>\$ 460,082,500</u>	<u>\$ 455,203,963</u>	<u>\$ 370,094,415</u>

INVESTMENTS

LIST OF INVESTMENTS

JUNE 30, 1984 (Continued)

	Interest Rate	Maturity	Par Value	Book Value	Market Value
MORTGAGE SECURITIES					
GNMA Modified Pass-Through Mortgage-Backed Securities					
Level Payment	7.500%	2006	\$ 2,321,115	\$ 2,287,390	\$ 1,505,823
Level Payment	8.000	2005-08	14,919,300	14,839,484	9,958,633
Level Payment	8.250	2006-08	6,267,061	6,183,873	4,230,266
Level and Graduated Payment	9.000	2008-09	19,388,405	19,111,785	13,700,715
Level and Graduated Payment	9.500	2009	22,647,743	22,241,752	16,549,508
Level and Graduated Payment	10.000	2009	3,646,022	3,545,120	2,738,983
Level Payment	10.500	2016	6,577,210	5,184,810	4,928,961
Level and Graduated Payment	11.000	2010-13	27,856,834	26,761,351	22,483,874
Level Payment	11.500	2010-13	12,657,044	12,281,492	10,663,560
Level and Graduated Payment	12.000	2012-14	25,915,429	25,305,048	22,537,139
Level and Graduated Payment	12.500	2010-13	10,879,721	10,491,279	9,680,499
Level Payment	13.000	2012-13	10,379,574	9,708,834	9,594,134
Level Payment	13.500	2010	1,753,670	1,743,471	1,665,986
Level and Graduated Payment	14.000	2011-12	5,927,014	5,335,670	5,772,824
Level and Graduated Payment	15.000	2011-12	3,928,392	3,600,067	4,001,498
Graduated Payment	15.500	2011	910,500	815,095	930,987
Level Payment	16.000	2011-12	2,086,930	1,992,073	2,217,364
			\$ 178,061,964	\$ 171,428,594	\$ 143,160,754
FHLMC Mortgage-Backed Participation Certificates					
Issue Date 1978	9.000 %	2008	\$ 8,491,580	\$ 8,340,786	\$ 6,230,696
Issue Date 1978	9.250	2008	18,625,681	18,452,179	13,852,850
Issue Date 1978	9.750	2008	5,669,235	4,208,349	4,322,791
Issue Date 1979	10.000	2009-11	36,153,401	33,146,724	28,064,078
Issue Date 1979	10.750	2009	5,104,064	3,972,772	4,102,392
Issue Date 1980	11.250	2010	1,691,400	1,303,931	1,405,976
Issue Date 1979-80	12.000	2009-13	9,853,509	8,414,765	8,523,285
Issue Date 1983	12.500	2012-13	7,420,494	7,170,323	6,622,791
Issue Date 1982	14.000	2012	12,571,006	12,571,006	12,256,731
Issue Date 1980	14.750	2010	6,863,646	6,813,230	6,855,479
Issue Date 1981	15.000	2011	3,206,657	3,196,153	3,234,716
Issue Date 1981	16.250	2011	1,985,463	1,865,269	2,057,793
			\$ 117,636,136	\$ 109,455,487	\$ 97,529,578
FHA Insured Mortgages					
Single Family	5.000%	Various	\$ 15,704	\$ 15,704	\$ 9,256
Single Family	5.250	Various	166,889	166,889	116,789
Single Family	5.500	Various	31,488	31,488	23,434
Single Family	5.750	Various	27,640	27,640	21,264
Single Family	6.000	Various	27,180	27,180	17,678
Single Family	6.750	Various	42,263	42,263	27,991
FHA PROJECT - Section 231	5.500	5-01-10	3,573,395	3,573,395	1,733,097
			\$ 3,884,559	\$ 3,884,559	\$ 1,949,509

INVESTMENTS

LIST OF INVESTMENTS

JUNE 30, 1984 (Continued)

	Interest Rate	Maturity	Par Value	Book Value	Market Value
VA Guaranteed Mortgages					
Single Family	4.500%	Various	\$ 6,098	\$ 6,098	\$ 5,274
Single Family	5.250	Various	161,322	161,322	111,457
Single Family	5.500	Various	11,196	11,196	7,232
Single Family	5.750	Various	28,385	28,385	19,319
Single Family	6.000	Various	65,174	65,174	42,812
Single Family	6.750	Various	15,408	15,408	10,205
			<u>\$ 287,583</u>	<u>\$ 287,583</u>	<u>\$ 196,299</u>
HUD Guaranteed Mortgages					
Section 8	7.50-10.00%	1985-91	\$ 1,657,170	\$ 1,657,170	\$ 1,416,602
Section 23	7.75-8.75	1990	1,297,489	1,297,489	1,020,310
			<u>\$ 2,954,659</u>	<u>\$ 2,954,659</u>	<u>\$ 2,436,912</u>
Total Residential Mortgages			<u>\$ 302,824,901</u>	<u>\$ 288,010,882</u>	<u>\$ 245,273,052</u>
Total Bonds & Residential Mortgages			<u>\$ 762,907,401</u>	<u>\$ 743,214,845</u>	<u>\$ 615,367,467</u>

REAL ESTATE and COMMERCIAL AND INDUSTRIAL MORTGAGES

Commercial And Industrial First Mortgages (Participating)

Construction Development Co. Dillard's, Austin, TX	12.500%	10-01-07	\$ 7,218,653	\$ 7,218,653	\$ 7,796,867
Construction Development Co. Dillard's, Memphis, TN	12.500	10-01-07	7,188,026	7,188,026	7,763,787
Crow Childress Harrod Ltd.	12.500	8-30-12	8,446,184	8,446,184	9,145,528
Four CPS Co. Ltd.	12.000	9-12-03	11,445,230	11,445,230	12,319,645
Hines/Farmers Branch Assoc. Ltd.	12.500	9-29-02	6,825,888	6,825,888	7,339,195
Marion Steel Co.	18.000	12-01-91	2,354,741	2,354,741	2,354,741
One Prestige Plaza	11.500	1-01-04	5,915,160	5,915,160	6,371,219
Total Commercial & Industrial Mortgages			<u>\$ 49,393,882</u>	<u>\$ 49,393,882</u>	<u>\$ 53,090,982</u>

Land and Buildings	Par Value	Book Value	Market Value
Office Building, Columbus, OH	\$ 16,251,995	\$ 13,292,477	\$ 22,200,000
Office Building, Dublin, OH	6,894,588	6,612,328	8,300,000
Office Building, Oklahoma City, OKLA	9,617,153	9,250,990	11,362,000
Warehouse, San Antonio, TX	3,800,000	3,662,027	4,250,000
Warehouse, Sharonville, OH	1,473,837	1,399,129	1,600,000
J.C. Penney Store, Cape Girardeau, MO	3,500,000	3,377,239	3,500,000
K-Mart Store, Edinburg, TX	2,182,000	2,054,586	2,200,000
K-Mart Store, Gallatin, TN	2,222,000	2,089,389	2,222,000
K-Mart Store, Miami, FLA	3,350,000	3,284,862	3,500,000
K-Mart Store, Midland, TX	2,829,500	2,667,611	2,900,000
K-Mart Store, Port St. Lucie, FLA	3,667,000	3,507,046	3,675,000
K-Mart Store, Portland, TX	2,388,500	2,252,901	2,500,000

INVESTMENTS

LIST OF INVESTMENTS

JUNE 30, 1984 (Continued)

REAL ESTATE and COMMERCIAL AND INDUSTRIAL MORTGAGES (Continued)

Land and Buildings	Par Value	Book Value	Market Value
Wal-Mart Store, Bixby, OKLA	\$ 1,060,000	\$ 1,026,459	\$ 1,100,000
Wal-Mart Store, Center, TX	1,320,000	1,272,067	1,550,000
Wal-Mart Store, Fort Smith, ARK	2,550,000	2,482,520	2,800,000
Wal-Mart Store, Groves, TX	2,300,000	2,249,189	2,500,000
Wal-Mart Store, Silsby, TX	1,520,000	1,462,562	1,600,000
Wal-Mart Store, Vidor, TX	2,515,000	2,488,461	2,700,000
Wal-Mart Store, Weatherford, OKLA	1,582,000	1,538,594	1,600,000
Kroger Supermarket, Charlotte, N. Car.	2,865,745	2,795,731	2,850,000
Kroger Supermarket, Charlotte, N. Car.	2,814,320	2,752,359	2,800,000
Kroger Supermarket, Cincinnati, OH	2,078,440	2,005,491	2,075,000
Kroger Supermarket, Columbus, OH	2,187,129	2,093,500	2,175,000
Kroger/Super X, Gallatin, TN	1,750,000	1,642,538	1,750,000
Kroger Supermarket, Plano, TX	2,346,534	2,256,666	2,350,000
Kroger Supermarket, Roswell, GA	3,560,612	3,544,080	3,400,000
Kroger/Super X, Smyrna, TN	2,699,649	2,590,468	2,685,000
Safeway Supermarket, Arlington, TX	3,300,000	3,203,742	3,300,000
Safeway Supermarket, Broken Arrow, OK	2,700,000	2,616,919	2,700,000
Safeway Supermarket, Clute, TX	2,481,000	2,401,043	2,500,000
Safeway Supermarket, Escondido, CA	2,900,000	2,822,097	2,900,000
Safeway Supermarket, Glendale, AZ	1,900,000	1,852,663	1,900,000
Safeway Supermarket, Tulsa, OKLA	2,650,000	2,577,932	2,650,000
Prudential Property Investment Separate Account (PRISA)	32,002,965	32,002,965	39,773,209
Total Land and Buildings	\$ 139,259,967	\$ 133,128,631	\$ 157,867,209
Total Real Estate and Commercial And Industrial Mortgages	\$ 188,653,849	\$ 182,522,513	\$ 210,958,191

GROWTH AND DEVELOPMENT CAPITAL

Shares		Book Value	Market Value
40,000	Alltel Corp.	\$ 971,866	\$ 855,000
30,000	Baxter Travenol Labs, Inc.	519,025	461,250
20,000	Briggs & Stratton Corp.	619,388	540,000
25,000	Cleveland Cliffs Iron Co.	553,375	487,500
10,000	Deluxe Check Printers, Inc.	403,062	415,000
25,000	Eaton Corp.	1,172,225	1,025,000
20,000	Ft. Howard Paper Co.	1,039,650	1,092,500
35,000	Kellogg Co.	1,038,463	1,098,125
50,000	Kroger Co.	1,725,675	1,656,250
50,000	Lancaster Colony Corp.	959,050	850,000
80,000	Lubrizol Corp.	1,689,425	1,740,000
30,000	Mellon National Corp.	1,168,525	1,125,000
20,000	Nordson Corp.	358,540	332,500
40,000	Owens-Illinois, Inc.	1,381,662	1,480,000
25,000	Parker Hannifin Corp.	813,363	753,125
10,000	Pioneer Hi-Bred International, Inc.	252,500	260,000
33,400	Premier Industrial Corp.	1,024,713	1,031,225

LIST OF INVESTMENTS

JUNE 30, 1984 (Continued)

**GROWTH AND DEVELOPMENT CAPITAL
(Continued)**

Shares		Book Value	Market Value
15,000	Ranco Inc.	\$ 289,563	\$ 266,250
55,000	Roadway Services Inc.	1,694,975	1,416,250
20,000	Ryan Homes, Inc.	459,262	380,000
35,000	Society Corp.	1,002,375	1,023,750
30,000	Southern Indiana Gas & Electric Co.	839,200	791,250
15,000	Timken Co.	917,915	795,000
20,000	Worthington Industries, Inc.	397,875	412,500
—	Cardinal Capital Development Fund Limited Partnership	2,500,000	2,496,875
—	Primus Capital Fund Limited Partnership	1,000,000	1,000,000
	Total Growth & Development Capital	\$ 24,791,672	\$ 23,784,350

COMMON STOCKS

Shares		Book Value	Market Value
200,000	Amerada Hess Corp	\$ 5,946,962	\$ 5,625,000
90,000	American Express Co.	1,495,750	2,587,500
120,000	American Home Products Corp.	4,888,047	6,360,000
175,000	American Telephone & Telegraph Co.	2,917,486	3,018,750
77,500	Ameritech Corp.	4,959,789	5,037,500
150,000	Arkla, Inc.	2,425,672	2,962,500
120,000	Atlantic Richfield Co.	5,670,887	5,460,000
70,000	Avon Products Inc.	5,139,234	1,540,000
112,500	BellSouth Corp.	3,269,464	3,121,875
110,000	Big Three Industries, Inc.	2,087,687	2,557,500
160,000	Black & Decker Manufacturing Co.	3,646,530	3,620,000
160,000	Bristol Myers Co.	3,297,525	7,520,000
40,000	CBS, Inc.	1,989,563	3,130,000
270,000	CSX Corp.	5,228,337	5,602,500
40,000	Caterpillar Tractor Co.	1,830,587	1,500,000
130,068	Cigna Corp.	5,698,880	4,080,883
175,500	Cincinnati Milacron Inc.	4,470,230	4,541,063
125,000	Coca Cola Co.	6,353,732	7,203,125
170,000	Control Data Corp.	5,871,788	5,248,750
60,000	Corning Glass Works	3,876,725	3,825,000
60,000	Dart & Kraft, Inc.	2,756,340	4,732,500
100,000	Dayton-Hudson Corp.	2,214,638	3,137,500
39,600	Diebold, Inc.	2,732,629	3,316,500
80,000	Dreyfus Corp.	2,054,061	2,150,000
74,000	DuPont (E.I.) de Nemours & Co.	3,493,596	3,376,250
100,000	Eastman Kodak Co.	8,943,108	6,925,000
150,800	Exxon Corp.	3,470,726	6,145,100
150,000	Federated Department Stores, Inc.	6,667,540	7,200,000
90,000	First Bank Systems, Inc.	2,214,625	2,081,250
45,000	Fischbach Corp.	2,386,250	2,255,625
80,000	Florida Power & Light Co.	2,754,475	2,900,000

INVESTMENTS

LIST OF INVESTMENTS

JUNE 30, 1984 (Continued)

COMMON STOCKS

(Continued)

Shares		Book Value	Market Value
60,000	Florida Progress Corp.	\$ 1,176,975	\$ 1,155,000
100,000	General Electric Co.	2,465,127	5,250,000
110,000	General Instrument Corp.	5,180,950	2,337,500
170,000	Goodyear Tire & Rubber Co.	4,901,000	4,377,500
110,000	Halliburton Co.	4,498,750	3,698,750
100,000	Hercules, Inc.	2,157,775	2,987,500
160,000	Hewlett Packard Co.	6,007,913	5,840,000
120,000	ITT Corp.	5,054,946	3,765,000
190,000	International Business Machines Corp.	14,817,850	20,092,500
168,500	Johnson & Johnson	6,139,600	5,055,000
100,000	K-Mart Corp.	3,778,233	3,100,000
120,000	McDonald's Corp.	5,064,087	8,235,000
65,000	Merck & Company, Inc.	5,968,801	6,012,500
110,000	Minnesota Mining & Mfg. Co.	7,471,480	8,483,750
80,000	Mobil Corp.	1,745,763	2,120,000
180,000	Monsanto Co.	8,397,200	7,785,000
80,000	Morgan (J.P.) & Co., Inc.	4,672,462	4,970,000
185,700	Motorola, Inc.	4,450,128	6,197,738
300,000	NCR Corp.	7,697,775	7,350,000
70,000	NL Industries, Inc.	1,245,613	936,250
50,000	National Medical Enterprises, Inc.	1,027,038	1,043,750
70,000	Norfolk Southern Corp.	3,535,900	3,570,000
95,000	Northwest Airlines, Inc.	3,346,281	3,503,125
17,500	Pacific Telesis Group	908,858	951,562
125,000	Penney (J.C.) Co., Inc.	5,805,873	6,343,750
80,000	Phibro-Salomon Inc.	2,261,087	2,140,000
200,000	Pillsbury Co.	7,984,212	7,450,000
60,000	Polaroid Corp.	2,755,070	1,635,000
100,000	Potomac Electric Power Co.	1,503,037	2,050,000
120,000	Procter & Gamble Co.	5,425,279	6,285,000
150,000	RCA Corp.	3,308,538	4,743,750
100,000	Sears, Roebuck & Co.	4,575,352	3,150,000
150,000	SmithKline Beckman Corp.	9,823,863	8,493,750
60,000	Southeast Banking Corp.	1,809,086	1,327,500
160,000	Standard Oil Co. of Indiana	8,799,537	9,140,000
80,000	Standard Oil Co. of Ohio	2,151,857	3,490,000
60,000	Tektronix, Inc.	2,823,050	3,405,000
135,000	Texaco Inc.	5,170,050	4,556,250
80,000	Union Carbide Corp.	4,313,113	4,080,000
50,000	Union Pacific Corp.	2,320,875	1,937,500
220,000	United Technologies Corp.	7,090,313	7,150,000
97,500	U. S. West, Inc.	5,714,197	5,630,625
150,000	Wang Laboratories, Inc. Class B	3,858,775	4,237,500
110,000	Whirlpool Corp.	3,732,440	4,303,750
140,000	Xerox Corp.	8,070,240	5,372,500
	Total Common Stocks	\$ 331,759,212	\$ 344,500,971
	Total Portfolio	Par Value \$1,440,262,134	\$1,326,242,163

Investment Policy

OBJECTIVE

The objective of the Retirement Board's investment policy is to provide the maximum long-term benefits to members of the System by maximizing the total rate of return, within prudent parameters of risk for a retirement fund of this type. In line with this objective, due consideration is given by professional staff and portfolio advisers to the actuarial requirements of the System and changes thereto. Safety of principal is the primary consideration and is maintained by the purchase of quality investments, but investment income is also an important element commanding major consideration in the appraisal of various investment alternatives. The Board's policy provides for the utilization of all suitable and prudent avenues of investment authorized under the Ohio Revised Code to maintain a high-quality, diversified portfolio of investments in conservatively financed companies the prospects of which are continually reviewed and assessed in the varying economic climate. While the Board generally invests with the long-term in mind, the changing economic and investment conditions dictate that short-term factors also be considered in the timing of purchases or sales of any investment. Flexibility and market timing are important elements in the Board's policy, and consistency of performance with respect to the total portfolio is emphasized.

DIVERSIFICATION

Diversification of the portfolio is in respect to types of assets, types of industries, companies within industries, quality of the investments, maturities, geographical areas, etc., and is an important element in the limitation of risk. All such diversification parameters are considered within the context of the requirements of the Ohio Revised Code and of the economic climate at varying times to assure the maintenance of a diversified portfolio responsive to changing economic conditions. Diversification by asset types requires that the Board consider investments in the fixed-income area, mainly bonds and mortgages of various types, and equity investments, including high-quality stocks, convertible bonds and real estate. In respect to geographical diversification careful consideration is given to Ohio investments where the quality, return and safety are comparable to that of other investments available to the board.

FIXED-INCOME INVESTMENTS

The Board's fixed-income investments are made up of both bonds and mortgages of various types

carefully selected on the basis of rate of return, maturity, quality, marketability and overall suitability to the Board's portfolio. The fixed-income portfolio is intended to provide the steady, high-level, current income for use in making benefit payments to members of the System. While such fixed-income assets do fluctuate in market value, they are legal contracts having definitely defined characteristics and maturity values which provide a degree of stability to the investment return of the portfolio.

Bonds - The Board's policy provides for bonds to represent an important part of the total portfolio, varying somewhat depending upon economic conditions, interest rates and relative attractiveness of other avenues of investment. The Board requires that its bond portfolio be of high quality and chosen with respect to maturity ranges, coupon levels, refunding characteristics and marketability. Diversification is further provided by inclusion of industrial, utility, telephone, governmental and governmental agency bonds of various types. Active management of bonds is encouraged to continually improve the System's portfolio in terms of quality, marketability, income, refunding protection, etc.

Mortgages - The Board's high-quality diversified mortgage portfolio varies in size dependent upon mortgage interest rates, yields available on other types of investments, and the quality of loans available. The Ohio Revised Code provides for inclusion of mortgage instruments on single-family and multi-family units on a government or government agency insured or guaranteed basis. It also provides for instruments collateralized by, or pass-through securities including, pools of mortgages on single or one-to-four family Ohio dwellings. Mortgage-backed bonds must be collateralized at all times in an amount satisfactory to this Board and acceptable to the market place, and they must mature no later than the maturity of the underlying collateral. Mortgage-backed bonds and pass-through securities must be supported by mortgages which when originated conformed to underwriting guidelines set by FHA, VA, FHLMC or FNMA, since these standards will give the securities an added degree of marketability. The Board will examine the loan-to-value ratio of the mortgage loans, the credit history of the borrowers, the condition of the property, the expertise and qualifications of the financial institution originating the loans, etc. to determine whether or not the mortgages meet its high quality standards. In addition the financial statement of the issuer of the security must be submitted to the Board for review.

Board policy provides for investing in first mortgage loans on commercial real property either in a whole loan form or in the form of a pass-through security. In the investment in commercial loans, the Board will consider such things as the credit history and current financial condition of the borrower, the condition, use and location of the property and the loan-to-value ratio. Board policy provides for the structuring of commercial loans in the conventional manner or to include participation in the cash flow or the equity of the property.

In order to preserve the ability of the Fund to take advantage of all market conditions in response to a changing economy, the Board requires that all mortgage investments be highly marketable, thereby enabling these investments to be easily bought or sold if market conditions dictate such action. Since a mortgage portfolio involves some additional administration over other fixed-income investments, the Board considers mortgage investments in those situations where the mortgage investment provides sufficient additional yield over a comparable investment in the bond market. The mortgage portfolio, like the bond portfolio, is intended to provide a high-quality income stream which will provide a degree of stability during changing economic conditions over other types of investments.

The investment policy of the Board provides for a significant contribution to the portfolio by the use of Ohio mortgage loans to the extent permitted by prudent requirements of diversification.

EQUITY INVESTMENTS

Since fixed-income investments, such as bonds and mortgages, provide only for a current income stream and make no provision for a hedge with respect to inflation, the Ohio Revised Code and the Board's policy provide that such a long-term inflation hedge be obtained by the use of equity investments in stocks, convertible bonds and real estate. The Board's policy provides for flexibility in changing economic conditions and allows maximization of total return from judicious use of a combination of both fixed-income and equity investments.

Real Estate - The Board's investment policy provides for the investment in any interests in real property located within the United States, prudently diversified by type and location as permitted by the Ohio Revised Code, with all interests structured so as to limit the Board's liability to the amount invested. The portfolio will consist of marketable,

high-quality interests in real estate where projected income returns and capital appreciation are comparable to returns from other forms of investments commensurate with such risk. Incremental increases in lease rentals are provided where possible as a means of offsetting inflation in the economy and improving return. Control over the investment will not be relinquished by the Board through participation with other investors except through the use of commingled funds, and the use of leverage will be employed only in those cases where it facilitates the acquisition of the property and is already in place. Selection of well-qualified managers and prime tenants is inherent in the Board's policy.

The Board's policy does not permit real estate investments in situations where the following circumstances exist; the asset is too large to permit adequate diversification of the real estate portfolio or too small to invest in economically; the credit of the tenant or tenants is weak; control of the investment by the Board must be relinquished to other investors; little upside potential of the real estate exists; undeveloped land; properties requiring extensive remodeling; or special or single use buildings.

Common Stocks - The Board's investment in common stocks is an important and flexible element in providing for a long-term inflation hedge. The Board's policy emphasizes the total return concept, dividend yield and market appreciation, and provides for investment in selected stocks of conservatively financed companies, as evidenced by debt to equity ratios, internal cash flow, etc. Such companies are usually leaders in their particular industry, have proven management, and are capable of substantial flexibility in pricing and competition with respect to their products. Such quality stocks are selected on the basis of value, considering the magnitude, stability and growth of dividends, or on the basis of growth of profits and dividends in excess of the growth rate for the economy.

Over a long period of time, it is anticipated that the stock portfolio will achieve a total return, including income and market appreciation, greater than that available from the fixed-income portions of the portfolio and that such return will compare favorably with recognized, representative market indexes and the results obtained by other funds of comparable size and character. Consideration is given to the fact that portfolios perform differently in up and down cycles of the market and that complete restructuring of the portfolio with respect to

anticipated short-term movements in the market involves considerable risk and expense. Therefore, these performance goals of investment policy apply only to the long term.

Realized losses are minimized by careful selection of companies, attention to market timing and diversification of risk. The Board's policy provides that, generally, losses may be taken in circumstances where the fundamental outlook for the industry or the company, or the financial condition of the company, is deteriorating or in the case of a generally declining market.

The Board's investment policy provides for the writing of covered call options on eligible common stock holdings. The options program is designed to meet the objectives of providing additional income from the equity investments and some downside protection in the market price of those securities by collection of the option premium. Options are used in a manner that is consistent with the Board's obligation to exercise prudent judgment in the conservative management of its assets. This activity is of a limited nature relative to the size of the common stock holdings and is considered supplemental to the primary goal of supervision of the common stock portfolio.

GROWTH AND DEVELOPMENT CAPITAL INVESTMENTS

The Board's policy provides for the investment of funds to supply both growth and development capital. The policy provides for the development capital to be invested preferably on a commingled basis in private business development companies which have strong management resources and expertise in investing such funds in individual venture capital opportunities. It is anticipated that such private business development companies will invest such funds where quality of the investment is evident, the principals have expertise, financial resources are adequate to permit the venture to succeed, prospects for the venture are good and the product or service has a growth market. In such investments in private business development companies the Board's liability must be limited to the amount of its investment.

The investment policy provides that growth capital may be invested in businesses where more than one-half of their assets, more than one-half of their employees or their principal office must be located within this state, provided that the Board's liability is limited to the amount of its investment.

Such investments may take the form of debt or equity interests in publicly owned companies traded over-the-counter or on a national exchange but where size is usually smaller than that of more mature companies. Such firms should have quality management, an adequate history of financial strength and growth and prospects for continuing growth of sales and earnings for the longer term. Such growth capital investments will be diversified through different types of business and shall be limited to three percent of the Board's total investment portfolio. The performance of such companies over the long term is expected to be equal to or greater than that of larger and more mature companies.

SHORT-TERM INVESTMENTS

The Board's investment policy provides for the use of short-term investments in accordance with the Ohio Revised Code in order to maximize earnings of the System and to allow for flexibility in respect to market timing of other long-term investments. Such short-term investments are selected within prescribed quality limitations and include the use of U.S. Government securities, banker's acceptances, certificates of deposit and prime commercial paper bearing a quality rating of P-1 or P-2 by Moody's Investors Service, Inc.

IMPLEMENTATION

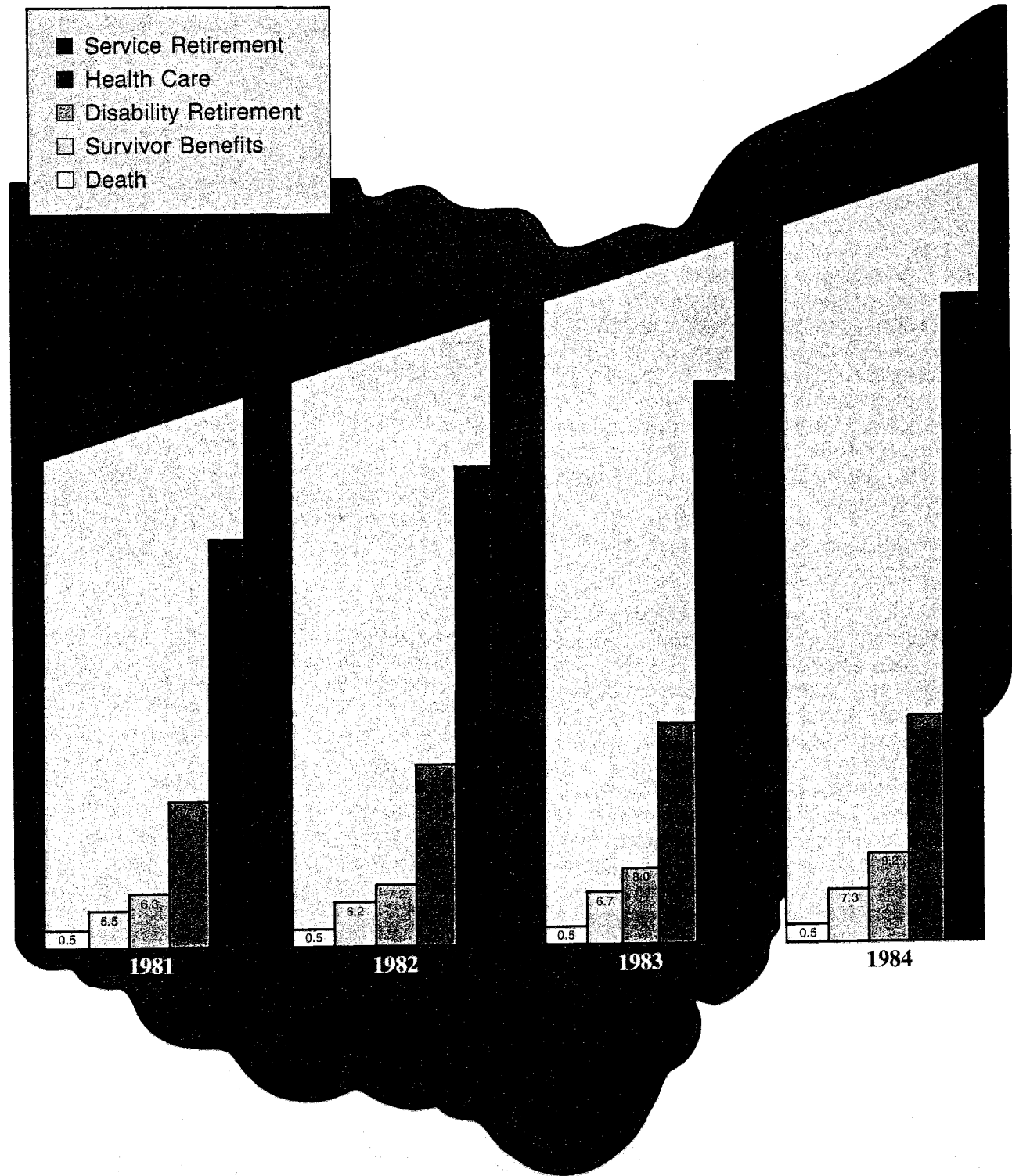
In order to implement its investment policy, the Board employs the services of one or more investment counselors or consultants in addition to its own staff. Investment asset diversification ranges are formulated annually and reviewed at least quarterly with the investment counselor and staff to provide portfolio diversification ranges appropriate to current economic conditions. Monthly reports are made to the Board by staff with respect to implementation of investment policy, and performance of equity investments is measured internally and by such performance measurement specialists as the Board may retain.

Consideration is also given to investments that enhance the welfare of the state and its citizens where such investments offer quality, return and safety comparable to other investments currently available.

Legal opinions are requested as needed from the Attorney General of Ohio regarding the legal eligibility of investments under the Ohio Revised Code.

Plan
Summary

BENEFIT EXPENSES BY TYPE
(In Millions Of Dollars)



PURPOSE

The School Employees Retirement System of Ohio was established in 1937 by the state legislature to provide retirement and disability benefits for all non-certificated persons employed by the state's 769 school districts. This purpose is sustained by the member and employer contributions and the income realized from investments from those contributions.

ADMINISTRATION

The functioning of SERS is supervised by a seven member Board which works in conjunction with the System's Executive Director. Four of the seven Board members are elected by the general membership (those who contribute to SERS) and one is elected by retirants. The Ohio Attorney General and State Auditor, by virtue of their elected office, serve as the remaining two Board members in an ex-officio capacity.

The Executive Director is appointed by the Board. This person oversees the administrative operation of the System, and is aided by seven assistant directors. Their areas of responsibility are accounting/membership, investments, office services, retirement services, information services, data processing, and planning/human resources.

EMPLOYER PARTICIPATION

The school employers served by SERS include public schools within the state's cities, villages and counties, as well as local districts, vocational and technical schools, and The University of Akron.

Employers contribute to SERS at the rate of 14.0% of payroll. Some employers pay the System directly on a monthly, quarterly, or annual basis, while others make payments through participation in the Ohio Department of Education's School Foundation Fund.

In addition to forwarding appropriate contribution amounts to SERS, it is the responsibility of the employers to supply SERS with new membership records, members' contribution information, and any data needed at the time of a member's application for benefits or refund of deposits on termination of employment.

EMPLOYEE PARTICIPATION

Membership in SERS is divided into several groups based on the activity of a member's SERS account. Member groups are:

- A. **ACTIVE MEMBERS** — These are persons currently employed by a school employer. Membership is required for anyone working in a position which does not require certification by the Ohio Department of Education. These persons include clerical workers, maintenance personnel, bus drivers, food service workers, playground supervisors, data processing personnel, etc. There are two exceptions to the membership requirements: (1) Persons with student status within a school district may or may not choose to become members of SERS. (2) Persons retired from one of the other Ohio state retirement systems may not become members of SERS. A retired member may not be employed in the schools for 60 calendar days following the effective date of retirement. Thereafter, employment in the school cannot exceed 59 days of the fiscal year, beginning July 1. Active members have an amount equal to 8.75% of their earnings deducted from their gross salaries for each payroll period. These amounts are then forwarded to SERS by the payroll officer, and applied to the member's account at SERS.
- B. **INACTIVE MEMBERS** — These are persons who have contributions on deposit with SERS, but who are not currently employed by a school district in the state of Ohio.
- C. **RETIRED/DISABLED MEMBERS** — These are persons who have either (1) met the age and service requirements for retirement from service; or (2) become eligible to receive benefits as a result of an injury or illness which prevents the member from performing regularly assigned duties.
- D. **MEMBERS' SURVIVORS** — When a member dies before retirement, the qualified beneficiaries become eligible for monthly benefits from SERS.

REFUND OF CONTRIBUTIONS

A member is entitled to a full refund of contributions with SERS upon termination of school employment. Only the money which the member has contributed is refundable. In accordance with Ohio Revised Code, there is a 90-day waiting period after the member's last day of service before the refund can be paid. A refund cancels any claim to benefits offered by SERS.

The refunded amount, plus interest, may be redeposited if, at some later date, the member returns to school service or to any other public service with the state of Ohio. This purchase may be made after the member has been credited with 1.5 years of contributing service.

SERVICE RETIREMENT

Members may retire from school employment if they have attained one of three combinations of age or service:

1. Five years of service and age 60, or
2. Twenty-five years of service and age 55-60, or
3. Thirty years of service at any age.

A member's age is defined to be the actual age a person has reached on the day of retirement. Any change of the date of birth on our records must be substantiated by submitting proof of date of birth to the System.

SERVICE CREDIT

Service credit is the actual number of years or fraction thereof which a person worked within a school district or districts in Ohio schools, plus any other free or purchasable service which the System recognizes.

Free service is service for which no contributions are required. This includes military service performed while on leave from the school district; service with a school system before establishment of SERS in 1937; or service granted for a period (three years or less) spent off the district's payroll while drawing state worker's compensation for a school job-related accident.

Purchased service is service for which payment plus interest is required. The interest rate is 7.5%. Service must be purchased before the date of retirement if it is to be considered in calculating the member's benefits. Payment may be made in a lump sum or in multiples of one month or more so long as the complete amount due is tendered before retirement. The types of service which can be purchased are:

MILITARY — For service with the armed forces of the U.S. before July 1, 1973, a member may purchase up to 5 years of credit for time spent before working for a school employer or after leaving that employment. There is no restriction placed on the time elapsed between school employment and the time spent in the military. A member may purchase additional service credit if the military service includes prisoner of war time. Purchased credit may not be greater than the member's actual Ohio school employment credit.

FEDERAL, OTHER STATE, OR PRIVATE SERVICE — The member may purchase credit for service rendered in a school or government position other than the State of Ohio. The amount of service cannot be greater than the member's SERS service nor can it exceed 5 years.

REFUNDED SERVICE — Service lost due to the payment of a refund may be restored after the member has returned to work and accrued 1.5 years of service covered by SERS, STRS, PERS, PFDPF, or SHPRS. An interest charge is payable in addition to the restored funds.

COMPULSORY SERVICE — This is service which the member should have made while working, but did not, for whatever reason. The full amount, plus interest, must be paid before retirement benefits are granted.

OPTIONAL SERVICE — This is service during a period when the member was given a choice of contributing or refraining from doing so. In order for the member to purchase this credit in this instance, the employer-school district must likewise make its contribution, and the employer is under no obligation to do so.

LEAVE OF ABSENCE — A member returning to work after a period of authorized leave may purchase service credit for the period involved. As with optional service, an employer contribution is required for this service to be granted, but the employer is under no obligation to make payment.

A member who has contributions not only at SERS, but also at State Teachers (STRS) or Public Employees (PERS) Retirement Systems is eligible to receive transferred credit from either or both of those systems. Any service which is not concurrent with (served at the same time as) SERS service will be included in determination of retirement benefits.

EARLY RETIREMENT CREDIT

Employers may purchase up to five years of service credit for their eligible employees under an early retirement incentive plan authorized by 1983 legislation. Adoption of a plan is optional and only employers may purchase such credit.

BENEFIT CALCULATION

The final average salary is the average of the member's highest three years of earnings while in the school service.

The benefit amount is calculated in this way:

The final average salary amount is multiplied by 2% to determine the value of a year of service credit. This value cannot be less than \$86.00. If it is, \$86.00 is used. The value is then multiplied by the number of years of service credit. This calculation yields the annual retirement benefit amount for a person who has reached age 65 or who has 30 years of service at retirement time.

For "early retirement" (the member is under age 65 or has less than 30 years of service) there is a corresponding percentage of decrease in the required benefit amount to allow for an extended period of retirement. Reduction factors are required by Ohio state law and set by the Board as recommended by the actuary.

RETIREMENT OPTIONS

Should the retiring member wish to provide a benefit amount for a beneficiary, this may be done by the selection of one of the optional retirement plans provided for this purpose. Optional plans may be altered by the retired member should the beneficiary die before the retirant or in the event of a divorce.

DISABILITY RETIREMENT

A member prevented from performing regular duties on the job after incurring an injury or illness and before reaching age 60 may apply for monthly disability benefits. To qualify, the member must have at least 5 years service credit. In addition to

the age and service requirements, the member must:

- Have developed the disabling illness or injury after last becoming a member of SERS;
- Have been recommended for approval by a SERS-sponsored medical review board;
- Have applied for benefits within 2 years of the last day of service with the school district.

The benefit is calculated in the same way as a regular service retirement benefit, except that no reduction is made for being under 65 years of age. SERS grants free credit for each year between the member's date of disability retirement and age 60. Benefits range from a minimum of 30% of final average salary to a maximum of 75% and are granted as long as the member remains disabled (subject to re-examination) or until death.

DEATH BENEFITS

The designated beneficiary of any SERS retirant will receive a \$500 lump sum payment upon the retirant's death. If there is no beneficiary, payment is made to the person responsible for the burial expenses or to the retirant's estate.

SURVIVOR BENEFITS

Qualified dependents of a deceased member may apply for monthly survivor benefits. Such benefits are payable if the member had at least 18 months of Ohio service credit, three of which were served in the 2.5 years prior to the member's death, or if the member was receiving a disability benefit.

If the member was eligible for service retirement but had not yet applied for benefits, the surviving spouse or other single dependent beneficiary of any age can draw a monthly lifetime benefit known as the joint survivor option. Duration of survivor benefits depends primarily on the age and marital status of the dependent(s).

HEALTH CARE AND OTHER BENEFITS

Any person receiving a benefit from SERS is entitled to receive free medical insurance. Coverage for a spouse and/or dependent children can be provided by means of a monthly deduction from the benefit. Coverage is offered by the selection of either the Aetna insurance company, or for those persons in the Cleveland area, the Kaiser health plan.

If the benefit recipient participates in Medicare B, the premium is paid by SERS and is added to the monthly benefit.

An optional prescription drug program is available to all benefit recipients of SERS and their dependents who are covered under the Aetna health care plan. Participants may either choose to obtain prescription drugs from their local pharmacy and receive reimbursement from the Aetna health care plan or they may elect to receive the drugs by mail from a licensed mail order pharmacy for a minimal fee per medication.

Members who retire on or after June 1, 1986 must have at least 10 or more years of service credit to qualify for the health care benefits.

COST OF LIVING INCREASES

After 12 months on the benefit rolls, SERS retirants are entitled to an automatic cost of living of 3%. This automatic increase will be paid each year by the Retirement System until the accumulated excess cost of living points fall below 3%. In addition, the legislature has granted several permanent ad hoc increases to SERS retirees, the last such increase being in 1984.

SERVICE TO THE MEMBERSHIP

The reason for the existence of SERS is service to members and retirants. Some special examples of this are:

REMOTE COUNSELLING AND INFORMATION MEETINGS IN THE VARIOUS REGIONS OF THE STATE — These meetings allow those who are nearing retirement age to speak to representatives from SERS and receive pertinent advice on pending benefits. Through the use of portable electronic data terminals, prospective retirants can receive on-the-spot estimates of their retirement benefits.

IN-OFFICE COUNSELLING — Members may come directly to the SERS office in Columbus

any time during business hours and receive counselling regarding their retirement benefits.

ANNUAL STATEMENTS — At the end of each fiscal year, the members receive notification of their individual service credit to date, as well as verification of contributions on deposit with SERS.

HEALTH INSURANCE INFORMATION — Retired members and others receiving health insurance coverage may contact SERS for information on their entitlements under either of the two health plans.

TAX INFORMATION — Each January retired members and others receiving monthly allowances are sent a detailed statement showing benefits received during the year.

In addition, as required by federal tax law, SERS sends each benefit recipient a W2P statement for use in preparing federal and state tax returns. Federal tax law requires SERS to withhold federal taxes from all benefit checks unless the benefit recipient instructs SERS not to withhold these taxes.

PUBLICATIONS — SERS publishes a monthly newsletter which is sent to each person receiving a benefit. This newsletter keeps the retirants and others up to date on events which may affect them, whether in the national news or in the state legislature. The general membership is sent the SERS news report — "News and Views" — four times a year.

In addition to these two pieces of literature, SERS prints many pamphlets on various topics of interest to the general membership. These publications are available on request.

TOLL-FREE PHONE SERVICE — A special service for our **monthly benefit recipients** was installed in December, 1981. It allows a 24-hour WATS line contact with SERS from anywhere in Ohio, toll-free. This service applies only to calls to SERS originating in Ohio from our retirants.

