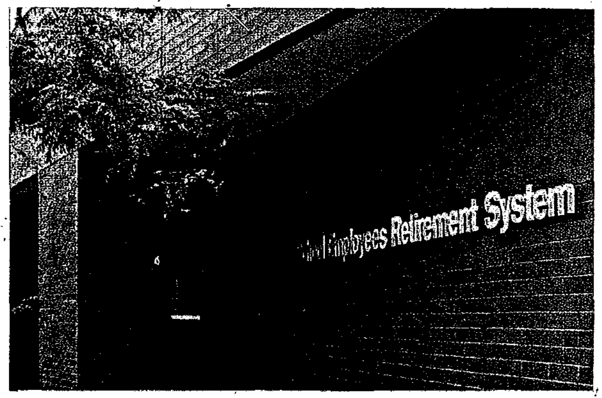
School Employees Retirement System

of Ohio



COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the year

ended

JUNE 30, 1991

School Employees Retirement System

of Ohio

COMPREHENSIVE ANNUAL FINANCIAL REPORT

for the year ended JUNE 30, 1991

Prepared by SERS Staff

Thomas R. Anderson
Executive Director

Joel E. Sofranko
Director of Finance

Seated, left to right: Agnes F. O'Keefe, Loren L. Braverman (Attorney General representative), William A. Guy. Standing, left to right: Orris E. Fields, Jr., Lowell B. Davis, Thomas R. Anderson, Judy Kelley, McCullough Williams II (State Auditor representative).

President: *William A. Guy, Columbus, Ohio*
Term expires June 30, 1992

Vice President: *Orris E. Fields, Jr., Wilmington, Ohio*
Term expires June 30, 1991

Retiree-Member: *Agnes R. O'Keefe, Westerville, Ohio*
Term expires June 30, 1992

Employee-Member: *Lowell B. Davis, Euclid, Ohio*
Term expires June 30, 1993

Employee-Member: *Judy Kelley, Akron, Ohio*
Term expires June 30, 1993

ExOfficio Member: *Lee Fisher*
Attorney General

ExOfficio Member: *Thomas E. Ferguson*
Auditor of State

Thomas R. Anderson
Executive Director

Directors

Robert E. Hartsook
Deputy Director
Member Services

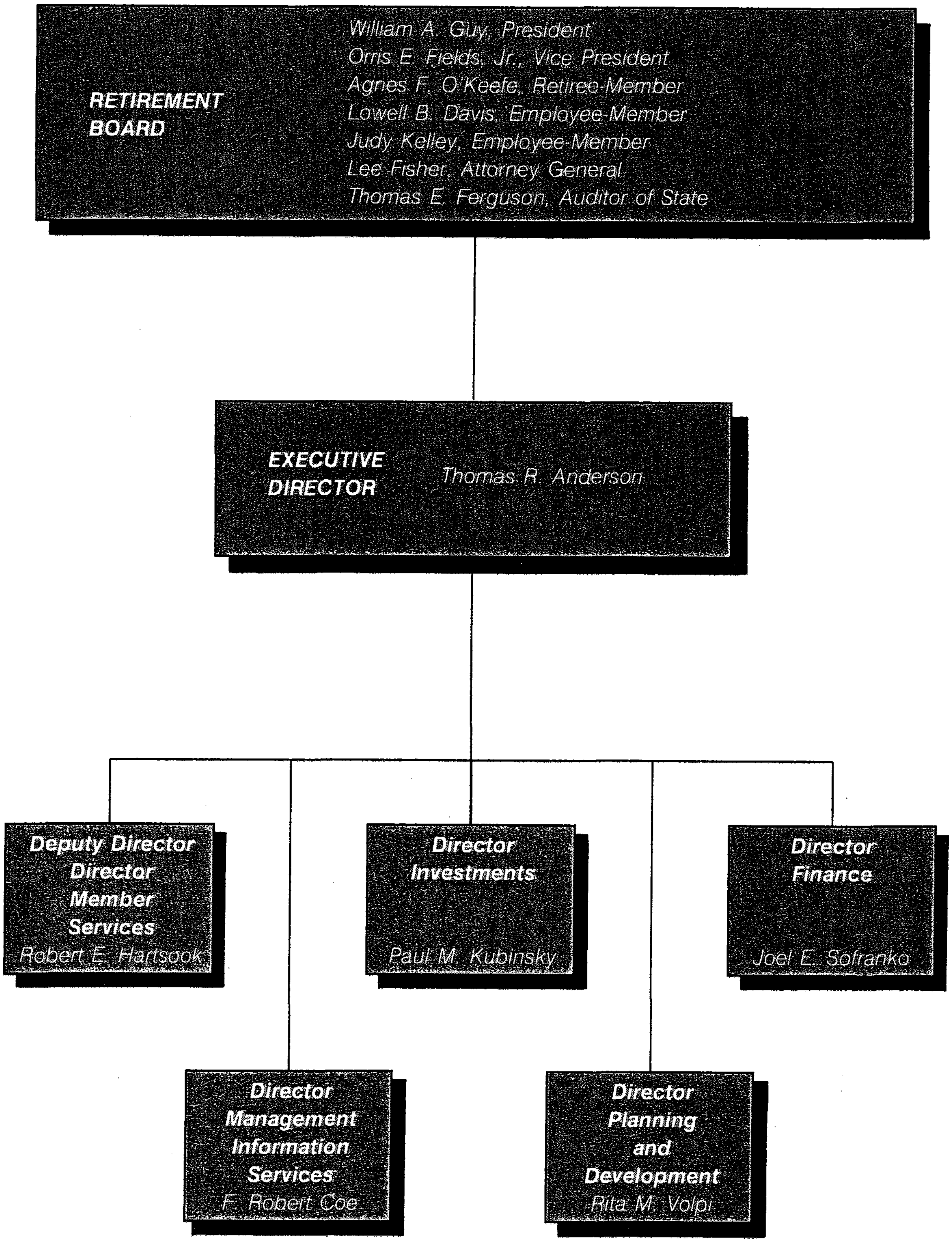
F. Robert Coe
Management Information Services

Paul M. Kubinsky
Investments

Joel E. Sofranko
Finance

Rita M. Volpi
Planning and Development

Organizational Chart



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Certificate of Achievement for Excellence in Financial Reporting

Presented to

School Employees Retirement System of Ohio

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1990

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFR's) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

SCHOOL EMPLOYEES RETIREMENT SYSTEM
45 North Fourth Street • Columbus, Ohio 43215-3634 • Telephone (614) 222-5853

December 6, 1991

President and Members of the Retirement Board:

Dear President and Members:

We are pleased to submit to you the comprehensive annual financial report of the School Employees Retirement System of Ohio (SERS) for the fiscal year ended June 30, 1991.

The report is divided into six sections: an Introductory Section which contains a Letter of Transmittal, along with the identification of the administrative organization and the Certificate of Achievement for Excellence in Financial Reporting, a summary of federal and state legislation affecting the System over the past year and a summary of health care benefit cost control and savings measures implemented by the System; a Financial Section which contains an independent auditors' report from our certified public accountants, Deloitte & Touche, and the financial statements of the System; an Actuarial Section which contains a letter expressing the opinion of our consulting actuaries, Gabriel, Roeder, Smith & Co. and results of their annual actuarial valuation; a Statistical Section which includes significant data pertaining to the System; an Investment Section which includes the investment report and schedules of portfolio activity for the past year; and a Plan Summary Section which provides a concise explanation of the various benefit plans which we provide to our members.

SERS is a cost-sharing multiple-employer public employee retirement system 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. Benefits provided to participants in SERS include age and service retirement, disability benefits, survivor benefits, death benefits and health care benefits. From 1937 to the present SERS has experienced continuous growth, and when possible, provided benefit enhancements. For a more complete description of employees eligible for membership in SERS as well as benefits provided upon retirement, disability or death, please see the Plan Summary section on page 61.

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to SERS for its comprehensive annual financial report for the fiscal year ended June 30, 1990.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. SERS has received a Certificate of Achievement for the last six consecutive years (fiscal years ended 1985-1990). We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Economic Environment

During the first quarter of the fiscal year ended June 30, 1991, eight years of continuous expansion in the United States economy came to an end, and the economy entered a recession that lasted through the end of the fiscal year. Several economists contend that this recession continues currently. Overall inflation eased during the fiscal year, however, the medical care component of the Consumer Price Index continues to outpace general price inflation. The continued double-digit inflation in the health care industry shows no sign of relenting, which will place even more pressure on our ability to fund our post-retirement health care program. The Federal Reserve, in trying to fuel economic growth, significantly reduced short-term interest rates during fiscal 1991 as well as subsequent to year end. As a result, segments of our investment portfolio subject to short-term investing will earn lower amounts of interest entering into fiscal 1992.

On a statewide level, citizens are feeling the pinch as the economy contracts. Coupled with their dissatisfaction with the actions of Congress and the Executive Branch, voters in many localities are defeating local school levies that will raise their taxes. Many school district employers across the state are under severe budget stress which may affect levels of membership and related contributions to the System.

In spite of high medical care inflation rates and hopefully, temporarily reduced interest rates and moderating general inflation rates, SERS' investment portfolio emphasizes high quality assets representing excellent long term value which will protect pension and health care benefits funding well into the future. Regardless of the external pressures placed upon the System, SERS will never lose sight of its mission to provide the best possible benefits and services to all SERS members, retirees and beneficiaries.

Accounting System and Reports

These financial statements were prepared in accordance with generally accepted accounting principles of governmental accounting and reporting as pronounced by the American Institute of Certified Public Accountants and the Governmental Accounting Standards Board. The financial statements are the responsibility of SERS' management. Our internal accounting controls are designed to ensure the security of member and employer contributions, to assure responsible safeguarding of our assets and to provide a degree of reliability to all our financial records.

The principles promulgated by Statement No. 6 of the National Council on Governmental Accounting are used in the System's accounting and subsequent reporting of financial activities. The accrual basis of accounting is used to record all financial transactions. Gains and losses on sales and exchanges of investments are recognized on the transaction date. Investments in fixed-income securities are reported at amortized cost; discounts and premiums are amortized using the interest method. All other assets are reported at cost, except for real estate investments, which are reported at cost less accumulated depreciation. All investments are subject to adjustment for market declines determined to be other than temporary.

Major Initiatives and Financial Highlights

In a continuing effort to manage health care costs, SERS introduced several new programs during the last fiscal year.

SERS is the first Ohio retirement system to provide an incentive to retirees to use lower cost generic prescription drugs. With prescription costs now consuming approximately 26% of total health care expenses, the prescription plans were a target of our management efforts. Under the mail-order program, retirees who order generic drugs receive their medication at no cost. Brand name drugs carry a $10 co-payment. By increasing the utilization of generic drugs, which cost an average of one-fifth of the brand name counterpart, we expect to hold down the plan's overall cost.

SERS also introduced a preferred pharmacy network in conjunction with our health insurance plan administrator. This nationwide network of participating pharmacies allows retirees to obtain short-term prescription needs without the inconvenience of claim forms and allows the System to negotiate the best possible drug prices.

During our next fiscal year we will be busy investigating and implementing new cost-savings measures in the managed health care areas of hospital and physician providers which will further allow us to maintain our excellent health care program. Methods to curb rising health care costs are an object of universal concern. Cost containment and managed care go hand in hand. SERS has and will continue to aggressively pursue new ways to control ever-rising health care costs and to continue to protect and fund the health care benefits (see summary of health care benefit cost controls and savings on page 13).

Several laws passed by Congress have necessitated modification to our benefits. The disability age discrimination law, commonly called the "Betts Bill", will require major changes in disability retirement eligibility and benefits. Also, pension limitations have been imposed under Section 415 of the Internal Revenue Code. In addition, Congress has required that individuals who are covered by a state or local government retirement system, but who do not participate in that system, shall be covered by Social Security. This latter requirement caused the Ohio legislature to pass H.B. 382, which requires all nonparticipants to become contributing members in their respective Ohio pension system.

SERS has been in the forefront of the struggle to mitigate the damages of the Social Security windfall and government pension offset penalties on the pensions of our retirees. Other federal and state developments are continuous cause for concern and SERS does monitor them for effects on the System.

A study of our actuarial assumptions as compared to actual results was completed during the fiscal year for the five years ended June 30, 1990. Several changes were recommended and incorporated in our actuarial assumptions for the annual actuarial valuation done as of June 30, 1991. A summary of these changes is on page 21. These updated actuarial assumptions should continue SERS on a solid foundation with respect to funding and protecting pension benefits in the future.

Revenues:

The financing of retirement and health care benefits is derived from employee and employer contributions and through investment earnings. Revenues from employee and employer contributions were $109.3 million and $188.5 million respectively, while income from investments totaled $201.8 million. The employee and employer contribution rates during fiscal 1991 remained unchanged from the prior year at 9% and 14% respectively. Overall revenues increased 3.7% over those of the prior year primarily due to increased investment earnings, increased employer health care surcharge contributions, and increased employer and employee payroll contributions resulting from higher levels of gross payrolls of active members.

Operating Revenue

(Expressed in Millions)

	1991	1990	Increase Amount	Increase Percentage
Member Contributions	$109.3	$104.1	$ 5.2	5.0%
Employer Contributions	188.5	180.5	8.0	4.4
Investment Earnings	201.8	196.5	5.3	2.7
Other	2.0	2.6	(0.6)	(23.1)
Total	$501.6	$483.7	$17.9	3.7%

Expenses:

Expenses are incurred primarily for the purpose for which SERS was created: namely, the payment of benefits. Included in the total expenses for fiscal 1991 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 1991 totaled $299.8 million, an increase of 7.9% over 1990 expenses. Increases in the number of benefit recipients and increased health care expense were the primary reasons for the increase in total System expenses for the fiscal year.

Operating Expenses

(Expressed in Millions)

	1991	1990	Increase Amount	Increase Percentage
Retirement Payments	$205.4	$192.6	$12.8	6.6%
Health Care Payments	71.6	62.7	8.9	14.2
Refunds	12.3	12.5	(0.2)	(1.6)
Administrative Expenses	8.3	7.9	0.4	5.1
Other	2.2	2.0	0.2	10.0
Total	$299.8	$277.7	$22.1	7.9%

Funding and Reserves:

Funds are derived from the excess of revenues over expenses, and are accumulated by SERS in order to meet current and future benefit obligations to retirees and beneficiaries. The higher the level of funding, the larger the accumulation of assets and the greater the investment income potential. Net income for the fiscal year 1991 resulted in an increase in the fund balance of $201.8 million.

The actuarial valuation for funding purposes, dated June 30, 1991, reflects an unfunded accrued liability for basic benefits of $1,331 million and for health care benefits of $1,154 million. These liabilities represent the difference between the computed actuarial accrued liability to be paid members and retirants and total valuation assets for basic benefits ($4,346 million and $3,015 million) and health care ($1,311 million and $157 million). The unfunded accrued liabilities are being amortized in an orderly fashion over future years. The pension benefit obligation, a standardized disclosure measure of the actuarial present value of credited projected benefits, for basic benefits and health care benefits was $4,214 million and $1,241 million, respectively as of June 30, 1991. The employer contribution rate of 14% is allocated by Board policy between basic benefits and health care. In addition to the 14%, employers pay a surcharge for any member whose salary is less than a minimum pay. The employer contributions from the basic 14% employer rate plus the surcharge accomplish the goal of putting benefits and health care benefits on a level cost funding basis.

Additional information regarding funding is provided within the Actuarial Section (pages 34 to 39) of this report.

Investments

SERS invests the accumulated funds in order to maximize both current income yield and long-term appreciation. For the fiscal year ended June 30, 1991, investments provided 40.2% of the System's total revenues while employee and employer contributions provided 21.8% and 37.6%, respectively; other sources accounted for the remaining .4%.

The market value of the investments of the System was $3.226 billion at June 30, 1991, an increase of $270.5 million from the previous year. For the last ten years, SERS has experienced an average annualized return of 13.3%. At June 30, 1991, our investment portfolio was structured as follows: 49.6% in debt securities; 34.8% in equity securities; 4.3% in short-term investments; and 11.3% in real estate.

The primary objective of our investment policy is to assure that the System meets its responsibilities for providing retirement and other benefits. The portfolio is diversified to provide adequate cash flow and the highest possible total return on System assets with the least possible exposure to risk. Statutory provisions also serve to limit risk (and return) within respective investment portfolios. Details of portfolio composition, rates of return, analysis of significant economic conditions, and additional information concerning our investment policy and operations are provided on pages 46 to 60 of this report.

Cash Management

SERS' investment guidelines included an allocation to short-term investments approximating 5% of the total portfolio based on book value. The short-term portion of the portfolio is primarily invested in commercial paper and returned 7.5% for fiscal 1991.

SERS' bank deposits at year-end were entirely covered by federal depository insurance or collateral held in the name of SERS' custodian. Of $3.2 billion in investments at market value at June 30, 1991, none of the System's investments were in the lowest risk categories as defined by the Governmental Accounting Standards Board.

Future Prospects

As certified by our actuary in this report, SERS is being maintained on a financially sound basis, thus providing protected future benefits for participants. We anticipate that investment earnings on System assets will continue to meet or exceed actuarially assumed earnings rates. The System's goal is attainment of a fully funded position, while keeping member and employer contributions level.

System employees are dedicated to the prudent investment and protection of System assets; to excellence in service to members and retirees, and to reduction of System costs where applicable. These directives have been and will remain our highest priorities.

When possible, SERS will explore enhancements to our existing benefits and provide new benefits. In spite of the volatility of health care costs, we will continue to meet the challenges of providing the best possible and affordable post-retirement health care coverage.

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 to serve as a means of exhibiting responsible stewardship for the assets contributed by the members and their employers.

This report will be mailed to all employer members of SERS and other interested parties.

Respectfully submitted,

Thomas R. Anderson
Thomas R. Anderson
Executive Director

Joel E. Sofranko
Joel E. Sofranko, CPA
Director of Finance

State Legislation

During the past year the Ohio General Assembly has considered various pieces of legislation which would impact SERS. The following significant legislation was passed:

■ ***H.B.382*** *eff. 6/30/91*

This legislation, also known as the Public Employee Retirement Protection Act, was enacted in response to legislation passed by Congress that requires all public employees not contributing to a public retirement system to begin contributing to Social Security as of July 1, 1991. Effective July 1, 1991, all non-certificated public school employees, with the exception of students employed by the district in which they are enrolled as students, temporary employees serving in the event of an emergency such as fire or flood, and individuals employed in programs under the federal "Job Training Partnership Act", must contribute to SERS. Retirants of SERS or any of the other four state retirement systems will now contribute to SERS upon reemployment in non-certificated positions in public schools. Reemployed retirants' contributions will be credited toward a separate money purchase annuity, payable after age 65 in either a lump sum or in monthly payments if such would equal $25.00 per month or more. SERS retirants will no longer be subject to any limitation on the number of days that they may work upon reemployment, H.B. 382 also provides for school board members to elect to contribute to SERS and to purchase credit in SERS, PERS or STRS, if membership is already established, for service between 9/1/37 and 6/30/91 as a school board member.

■ ***H.B. 104*** *eff.10/31/91*

This legislation which originated in the House as a municipal tax assessment bill, was amended in the Senate to require state school district income tax to be paid on retirement benefits received from SERS and the other four state retirement systems. These benefits were previously exempt from such taxation. The provision is effective for tax years 1991 and thereafter.

■ ***H.B. 180*** *eff. 10/29/91*

This legislation, which was introduced to clarify the calculation of final average salary under STRS statutes, was amended to provide that SERS, as well as STRS, may establish programs under which members and their employers may participate in long-term care programs adopted by the retirement systems.

■ ***S.B. 3*** *eff. 4/17/91*

This legislation was introduced to provide benefits for those Ohio public employees serving in the military in "Desert Shield" and "Desert Storm". The laws of the five state retirement systems were amended to entitle veterans of these military operations to service credit in the state retirement systems on the same basis as veterans of prior wars.

Federal Legislation

The impact of Congressional and federal regulatory activities upon SERS has increased during recent years. SERS monitors activities on the federal level and when necessary contacts appropriate Congressional representatives and regulatory agencies in an effort to educate them as to the impact of their activities on SERS and its members and beneficiaries. Significant activities on the federal level over the past year include the following:

■ ***Betts Legislation***

Legislation (S.B. 1511) was enacted in October, 1990 to clarify that the Age Discrimination in Employment Act applies to benefit plans. Public plans have until October, 1992 to comply with the federal requirements. SERS will have to amend its disability retirement program which currently excludes applicants who are age 60 or older. SERS is awaiting promulgation of regulations by the federal agencies responsible for carrying out the intent of this legislation.

■ ***Social Security***

The 1990 Omnibus Budget Reconciliation Act extended Social Social Security Coverage to those public employees not contributing to a public

Federal Legislation

retirement plan and authorized IRS to promulgate regulations to effectuate the intent of the legislation. In April, 1991, the IRS released proposed rules which, if they had become final, would have required the majority of SERS members working twenty hours or less per week to contribute to Social Security. SERS actively opposed the proposed rules through contacts with the Ohio Congressional delegation and testimony before the IRS. The final regulations issued in June, 1991 were substantially different than those originally proposed. SERS is in the process of reviewing the final regulations to determine any changes in plan design that may be necessary to ensure that SERS members do not have to contribute to Social Security.

Windfall/Offset

Legislation to amend or repeal the Social Security Offset provision has again been introduced. H.R. 53, introduced by Congresswoman Oakar, would repeal the Offset. H.R. 1791, introduced by Congressman Donnelly, would eliminate the Offset for incomes of less than $300.00 per month and reduce the Offset for incomes between $300.00 and $900.00 per month.

Section 415

Legislation to amend Section 415 of the Internal Revenue Code to lessen its impact on public retirement systems, such as SERS, has been introduced in both Houses of Congress. The leading bills are H.R. 1348, introduced by Congressman Matsui, and S. 1364, introduced by Senator Pryor and cosponsored by Senator Bentsen. Section 415 provides that no retirement benefit can be paid which is in excess of either a set dollar amount that is adjusted annually for inflation or 100% of compensation. The current definition of "compensation" does not include deferred income such as that under Section 414(h) pick-up plans or Section 457 deferred compensation plans. The proposed legislation includes deferred income in the definition of "compensation", exempts public pension plan benefits from the 100% limitation and provides that public plan disability retirement and survivor benefits are not subject to Section 415.

HISTORY OF HEALTH CARE COST CONTROLS AND SAVINGS

In 1974, the School Employees Retirement System was given discretionary authority to make health care benefits available to retirees and their dependents. Today, SERS offers three hospital-medical plans to our 59,000 retirees and covered dependents, including two health maintenance organizations. Benefit recipients under the SERS/Aetna hospital-medical plan also have a mail order drug program available to meet their long-term prescription drug needs.

Initially, 0.75 percent was the contribution rate established for funding health care benefits and was included in the employer rate. Any institution, public or private, providing post-retirement health care benefits is very much aware that health care costs have increased substantially more than overall inflation.

In the early 1980's, SERS recognized the inflationary pressures health care was placing on the System's ability to fund benefits into the future. By law, any costs borne by the System are required to be financed out of the employer contribution rate. Higher rates of contribution were required to finance health care costs and SERS had no flexibility to increase the employer contribution rate because it was fixed by statute.

Through the most common methods of cost containment and cost shifting, SERS introduced deductibles, premium charges for spouse and dependent coverage, individual case management, and the investigation of potential cases of fraud identified through claim processors, complaints, government agencies, audits, employers and other sources. Also, in 1981, House Bill 126 changed the requirement to qualify for health insurance from five years of service credit to ten years, with an implementation date of June, 1986.

One of the most significant moves made by SERS was the disclosure of health care liabilities. In December, 1982, SERS became the first Ohio retirement system to publicly disclose long-term actuarial accrued liabilities of retiree health care. Also, the employer contribution rate required for health care funding was determined by the System's actuary and an annual transfer of assets, based on this actuarially determined rate, to a health care reserve account was initiated.

In September of 1984, SERS organized a special health care task force. Representatives from member and employer organizations, the Ohio Retirement Study Commission, health care providers, and actuaries and accountants met to study SERS' increasing health care costs. Panel members were given actuarial estimates of the potential tripling of health care costs by 1992 if effective cost containment measures or changes in the design of the program were not implemented. As a result of this meeting, many suggestions and recommendations were considered.

SERS continued to implement cost containment provisions such as enforcement of reasonable and customary fees, increased deductibles and co-payments and introduced a hospital admission charge for retirees. In spite of these actions, the SERS Retirement Board, in March of 1986, was informed that the health care program costs could no longer be funded on a level cost basis with the current employer contribution rate and that continued level cost funding of basic retirement benefits was in peril.

In December, 1987, the SERS Retirement Board adopted Governmental Accounting Standards Board Statement No. 5. Although not required to do so, SERS chose to disclose health care liabilities as part of pension benefit obligations to draw attention to the long-term nature of the health care financing problem. This segregation of assets and liabilities began appearing in the annual actuarial valuation report and the comprehensive annual financial report.

The Board also authorized the engagement of an independent actuarial firm to project health care costs and propose alternative courses of action to contain future costs. The Board undertook aggressive action to correct the financial problem. Legislative changes were sought and in June of 1988, House Bill 290 became law. Coupled with Board action, the following changes were made:

- *Career vesting of health care benefits was established. Members retiring with at least 10* *years but less than 25 years of service credit are required to pay a portion of the health care premium as follows: 10-14 years: 75%; 15-19 years: 50%; and 20-24 years: 25%.*

- *The System's subsidy of dependent health care premiums was reduced from 50% to 30%.*
- *The System's reimbursement to retirees for Medicare Part B coverage was frozen at $24.80 per month.*
- *An 80/20 relationship between the System's costs and retiree costs of the mail order prescription drug plan was implemented.*
- *An employer surcharge on the salaries of members who earn less than an actuarially-determined amount was established.*

Changes and modifications to programs continue to be made, especially in the area of managed care. SERS developed and implemented a retail prescription drug program which allows retirees to obtain their prescriptions at local pharmacies at significant discounts. This program, which is nationwide, also electronically submits all claims, which reduces administrative claim processing costs. By utilizing technology, the program will provide prospective, rather than retrospective review and integrate the data from the mail order prescription program in the review.

Furthermore, SERS is being very aggressive in obtaining discounts from hospitals. By June of 1993, SERS anticipates having a network of doctors and hospitals under contract to provide high quality, cost effective health care.

The actions of the Retirement Board have already realized substantial savings to the System for the year ended June 30, 1991. SERS would have spent over $29 million more if no action had been taken over the years in altering the plan design and implementing cost containment programs.

SERS will continue to be a leader in the area of unique and timely approaches to health care cost management in order to maintain our retirees' well-being and peace of mind.

Financial Section

INDEPENDENT AUDITORS' REPORT

Deloitte & Touche

155 East Broad Street
Columbus, Ohio 43215-3650
Telephone: (614) 221-1000
Facsimile: (614) 229-4647

INDEPENDENT AUDITORS' REPORT

Members of the Retirement Board
School Employees Retirement System of Ohio
Columbus, Ohio

We have audited the accompanying balance sheets of the School Employees Retirement System of Ohio as of June 30, 1991 and 1990, and the related statements of revenues, expenses and changes in fund balances and of cash flows for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of School Employees Retirement System of Ohio as of June 30, 1991 and 1990, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial section schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of the System's management. Such schedules as of and for the years ended June 30, 1988, 1989, 1990 and 1991 have been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole. The schedules as of and for the years ended June 30, 1983 through 1987 were reported upon by other auditors whose reports stated that the schedules were fairly stated when considered in relation to the basic financial statements.

Deloitte & Touche

November 25, 1991

Member
DRT International

BALANCE SHEETS

June 30, 1991 and 1990

	1991	1990
Assets:		
Cash (note 5)	$ 3,004,786	$ 1,464,905
Receivables:		
Contributions:		
Employers (note 4)	107,700,462	104,384,126
Employees (note 4)	7,720,510	9,014,900
State of Ohio subsidies	887,013	983,082
Accrued investment income	31,805,131	27,993,850
Investment sale proceeds	6,634,058	16,273,015
Total receivables	154,747,174	158,648,973
Collateral held under securities lending program (note 5)	251,793,903	90,566,742
Investments, at cost (market $3,225,957,813 and $2,955,412,276, respectively) (notes 5 and 6)	2,719,071,961	2,515,833,425
Property and equipment, at cost (note 7)	10,831,805	10,076,987
Less accumulated depreciation	4,289,445	3,338,976
Net property and equipment	6,542,360	6,738,011
Other assets (note 9)	4,765,548	9,574,198
Total assets	3,139,925,732	2,782,826,254
Liabilities:		
Accounts payable and accrued expenses	761,419	743,812
Investment commitments payable	5,903,132	8,766,875
Health care benefits incurred and unpaid	17,169,695	17,329,503
Notes payable (note 8)	—	3,054,290
Other liabilities (note 9)	942,222	767,480
Obligations under securities lending program (note 5)	251,793,903	90,566,742
Total liabilities	276,570,371	121,228,702
Net assets available for benefits	**$ 2,863,355,361**	**$ 2,661,597,552**
Fund balance (note 3):		
Pension benefit obligation:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 2,828,887,430	$ 2,650,101,948
Current employees:		
Accumulated employee contributions, including allocated investment income	748,783,498	683,812,888
Employer financed portion	1,877,265,447	1,463,293,974
Total pension benefit obligation	5,454,936,375	4,797,208,810
Unfunded pension benefit obligation payable	(2,591,581,014)	(2,135,611,258)
Total fund balance	**$ 2,863,355,361**	**$ 2,661,597,552**

See accompanying notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE

Years ended June 30, 1991 and 1990

	1991	1990
Revenues:		
Contributions:		
Employers (note 4)	$ 188,465,132	$ 180,544,371
Employees (note 4)	109,310,197	104,105,361
State of Ohio subsidies	886,853	983,082
Transfers from other Ohio systems	1,094,896	1,586,700
	299,757,078	287,219,514
Investment income:		
Interest and dividends	173,598,254	166,326,782
Real estate income, net (notes 6 and 8)	12,676,390	14,056,231
Net realized gain on sale of investments	15,545,835	16,144,030
	201,820,479	196,527,043
Total revenues	501,577,557	483,746,557
Expenses:		
Benefits:		
Retirement	173,348,030	162,866,492
Disability	19,854,430	18,077,033
Survivor	11,358,736	10,886,380
Health care	71,633,065	62,746,014
Death	730,838	709,708
	276,925,099	255,285,627
Refund of employee contributions	12,345,363	12,532,925
Administrative expenses	8,346,903	7,942,036
Transfers to other Ohio systems	2,202,383	1,983,908
Total expenses	299,819,748	277,744,496
Net income	201,757,809	206,002,061
Fund balance, beginning of year	2,661,597,552	2,455,595,491
Fund balance, end of year	**$ 2,863,355,361**	**$ 2,661,597,552**

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOW

Years ended June 30, 1991 and 1990

	1991	1990
Cash flows from operating activities:		
Contributions received	$ 297,831,201	$ 273,997,854
Investment income, net of investment expenses	186,044,021	179,968,464
Benefits paid	(271,614,849)	(254,846,392)
Refunds of employee contributions	(12,345,363)	(12,532,925)
Administrative expenses paid	(7,761,806)	(8,945,687)
Transfers to other Ohio systems	(2,202,383)	(1,983,908)
Net cash provided by operating activities	189,950,821	175,657,406
Cash flows from investing activities:		
Proceeds from investments sold	3,018,124,267	3,310,507,558
Purchase of investments	(3,202,622,412)	(3,487,687,677)
Net cash used in investing activities	(184,498,145)	(177,180,119)
Cash flows from financing activities:		
Repayment of notes payable	(3,054,290)	(1,263,161)
Net additions to property and equipment	(858,505)	(527,789)
Increase in collateral held under securities lending program	(161,227,161)	(90,566,742)
Increase in obligations under securities lending program	161,227,161	90,566,742
Cash used by financing activities	(3,912,795)	(1,790,950)
Net increase (decrease) in cash	1,539,881	(3,313,663)
Cash at beginning of year	1,464,905	4,778,568
Cash at end of year	**$ 3,004,786**	**$ 1,464,905**
Reconciliation of net income to net cash provided by operating activities:		
Net income	$ 201,757,809	$ 206,002,061
Adjustments to reconcile net income to net cash provided by operating activities:		
Increase in contributions receivable	(1,925,877)	(13,221,660)
Net realized gain on sale of investments	(15,545,835)	(16,144,030)
Increase in accrued investment income	(3,811,281)	(3,208,261)
Depreciation and amortization (investment), net	3,580,658	2,793,712
Depreciation (non-investment)	1,054,156	853,110
Decrease (increase) in other assets	4,808,650	(3,033,333)
Increase (decrease) in accounts payable and accrued expenses	17,607	(5,842)
Increase (decrease) in health care benefits incurred and unpaid	(159,808)	1,450,044
Increase in other liabilities	174,742	171,605
Total adjustments	(11,806,988)	(30,344,655)
Net cash provided by operating activities	**$ 189,950,821**	**$ 175,657,406**

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
June 30, 1991 and 1990

(1) Description of the System

(A) Organization — The School Employees Retirement System of Ohio (SERS) is a cost-sharing multiple-employer public employee retirement system 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. SERS is not considered part of the State of Ohio financial reporting entity. There is no financial interdependency with the State of Ohio, nor does the State of Ohio provide oversight authority for the System. The Retirement Board is the governing body of SERS, it is comprised of four elected employee-members, one elected retiree-member and two statutory members.

Employer and employee membership data as of June 30 follows:

Employer Members	**1991**	**1990**
Local	372	373
City	193	192
County	84	84
Village	49	49
Vocational	51	51
Technical	11	11
College	2	2
Other	4	4
	766	766
Employee Members		
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	56,203	54,256
Current employees		
Vested	56,148	56,023
Nonvested	37,426	37,124
Total	93,574	93,147

(B) Benefits — Members are eligible for retirement benefits based upon age and service credit as follows: age 60 and earning 5 years of service credit; between ages 55 and 60 and earning 25 years of service credit; or earning 30 years of service credit at any age. The benefit is equal to 2.1% of the member's final average salary, or a minimum of $86, multiplied by the number of years of credited service.

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 service. Qualified dependents of a deceased member are eligible for monthly survivor benefits. Death benefits of $500 are payable upon the death of a retirant to a designated beneficiary.

Prior to July 1, 1986, all members receiving a benefit from SERS were eligible to receive health care benefits. Members who retire effective July 1, 1986 or later must have at least 10 or more years of service credit to qualify for the health care benefits. Effective July 1, 1989, 1) members retiring with more than 10 but less than 25 years of service credit were required to pay from 25% to 75% of the health insurance premium phased in over a period of five years and 2) the SERS portion of spouse and dependent health insurance premiums was reduced from 50% to 30%, over a five-year period.

Members with credited service in the State Teachers Retirement System (STRS) or Public Employees Retirement System (PERS) are eligible to receive transferred credited service and funds 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 and funds in SERS may transfer such service to STRS or PERS upon retirement.

(2) Summary of Significant Accounting Policies

SERS' financial statements are prepared using the accrual basis of accounting. The following are the significant accounting policies followed by SERS:

(A) Investments — Income on all investments is recognized on the accrual basis. Gains and losses on sales and exchanges of investments are recognized on the transaction date. All investments are subject to adjustment for market declines determined to be other than temporary.

Investments in fixed-income securities and mortgage loans are reported at amortized cost with discounts or premiums amortized using the interest method.

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.

Investments in short-term obligations, principally certificates of deposit, commercial paper and U.S. Treasury bills, are carried at cost, which appro-

NOTES TO FINANCIAL STATEMENTS (Continued)

imates market value.

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

Investments in venture capital are accounted for at the pro-rata share of underlying equity.

(B) Property and Equipment (Non-Investment Assets) — Property and equipment are stated at cost. Depreciation has been provided using the straight-line method over the following useful lives:

Description	Estimated Lives (years)
Automobiles	3
Equipment and furniture	3-10
Building	40

(C) Federal Income Tax Status — During the years ended June 30, 1991 and 1990 SERS qualified under Section 501(a) of the Internal Revenue Code and was exempt from Federal income taxes.

(D) Health Care Benefits Incurred and Unpaid — 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) Reclassification — Certain 1990 balances have been reclassified to conform with 1991 presentation.

(3) Funding Status and Progress

The amount shown as the "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess SERS' funding status on a going-concern basis, assess progress being made in accumulating sufficient assets to pay benefits when due, and allow for comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to SERS.

The pension benefit obligation was determined as part of an actuarial valuation of the plan as of June 30, 1991 and 1990. As a result of the five-year study of actuarial assumptions, changes were made for the actuarial valuation as of June 30, 1991. The following significant assumptions were used in the actuarial valuations as of June 30, 1991 and 1990:

Actuarial Assumption	1991	1990
Rate of return on investments	7.75% compounded annually.	7.5% compounded annually, increased to 9.5% rate of return annually for the period July 1, 1988 through June 30, 1990.
Projected salary increases	4.75% compounded annually, attributable to inflation; additional increases ranging from 0% to 3% per year attributable to seniority and merit.	4.5% compounded annually, attributable to inflation; additional increases ranging from 0% to 3% per year attributable to seniority and merit.
Post-retirement mortality	1971 Group Annuity Table projected to 1984 set back 1 year for women and men.	1971 Group Annuity Table projected to 1984 for men and women, set back 1 year for women.
Rates of withdrawal from active service for reasons other than death, rates of disability and expected retirement ages	Developed on basis of actual plan experience.	Developed on basis of actual plan experience.
Health care premiums	4.75% annual increase with 25% of eligible female retirants and 60% of eligible male retirants electing joint survivor form of payment and 25% of eligible female retirants and 50% of eligible male retirants electing to cover spouse for health care.	4.5% annual increase with 25% of eligible female retirants and 60% of eligible male retirants electing joint survivor form of payment and 25% of eligible female retirants and 50% of eligible male retirants electing to cover spouse for health care.
Medicare	All recipients are eligible for Medicare on attainment of age 65 or immediately if retired for disability.	All recipients are eligible for Medicare on attainment of age 65 or immediately if retired for disability.

NOTES TO FINANCIAL STATEMENTS (Continued)

At June 30, 1991 the unfunded pension benefit obligation was $2,591,581,014 as follows:

	Basic Retirement Benefits	Health Care Benefits	Total
Pension benefit obligation:			
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 2,048,184,604	$ 780,702,826	$ 2,828,887,430
Current employees:			
Accumulated employee contributions including allocated investment income	748,783,498	—	748,783,498
Employer financed — vested	1,253,297,217	442,474,951	1,695,772,168
Employer financed — non-vested	163,365,457	18,127,822	181,493,279
Total pension benefit obligation	4,213,630,776	1,241,305,599	5,454,936,375
Net assets available for benefits, at cost (market $3,370,241,213)	2,721,806,370	141,548,991	2,863,355,361
Unfunded pension benefit obligation	$ 1,491,824,406	$ 1,099,756,608	$ 2,591,581,014

At June 30, 1990 the unfunded pension benefit obligation was $2,135,611,258 as follows:

	Basic Retirement Benefits	Health Care Benefits	Total
Pension benefit obligation:			
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 1,926,981,136	$ 723,120,812	$ 2,650,101,948
Current employees:			
Accumulated employee contributions including allocated investment income	683,812,888	—	683,812,888
Employer financed — vested	996,967,870	397,084,384	1,394,052,254
Employer financed — non-vested	54,469,406	14,772,314	69,241,720
Total pension benefit obligation	3,662,231,300	1,134,977,510	4,797,208,810
Net assets available for benefits, at cost (market $3,101,176,403)	2,513,075,934	148,521,618	2,661,597,552
Unfunded pension benefit obligation	$ 1,149,155,366	$ 986,455,892	$ 2,135,611,258

During the year ended June 30, 1991, the plan experienced a net change in the total pension benefit obligation of $657,727,565 ($551,399,476 for basic retirement benefits and $106,328,089 for health care benefits). Of that change, $0 was attributable to plan amendments and approximately $56,524,000 ($49,501,000 for basic benefits and $7,023,000 for health care benefits) was attributable to changes in assumptions.

NOTES TO FINANCIAL STATEMENTS (Continued)

(4) 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. Active members and their employers are required to contribute 9% and 14%, respectively, of active member payroll. The current employer contribution rate is allocated to basic retirement benefits and health care by the Retirement Board. For fiscal year 1991 the allocation of the employer contribution rate to basic retirement benefits has been established as the rate necessary to cover normal cost, plus an amortization of the unfunded actuarial accrued liabilities over a 40-year period. Based on this decision, the current employer contribution rate (14%) is allocated 9.63% to basic benefits and the remaining 4.37% is allocated to health care benefits. The contribution rate allocated to health care, plus the additional rate of contribution provided by the health care surcharge is sufficient to cover normal cost and provide level cost financing of the unfunded actuarial accrued liabilities. The adequacy of employer contribution rates is determined annually using the entry age normal cost method.

Significant actuarial assumptions used to determine the adequacy of contribution rates were the same as those used to compute the standardized measure of the pension benefit obligation.

Employer and employee contributions required and made represented 14% and 9%, respectively, of active member payroll and amounted to $167,991,000 and $107,994,000, respectively in 1991. The employer contribution consisted of $87,033,074 for normal cost and $80,957,926 for amortization of the unfunded actuarial accrued liability.

The health care surcharge on employers is collected for employees earning less than an actuarially determined minimum pay, pro-rated according to service credit earned (for fiscal years 1991 and 1992 the minimum has been established as $9,100 and $9,900 respectively). The amount of the surcharge accrued for fiscal years 1991 and 1990 and included in contribution revenue from employers in the Statements of Revenues. Expenses and Changes in Fund Balance is $17,000,000 and $15,217,909 respectively.

Employee contributions may be refunded, without interest, to a member who withdraws from SERS or to the member's beneficiary following the member's death.

(5) Cash Deposits and Investments

SERS' bank deposits at year-end were entirely covered by federal depository insurance or by collateral held in the name of SERS' custodian, the Treasurer, State of Ohio, as required by statute. The carrying amount of the System's deposits as of June 30, 1991 was $3,004,786 and the bank balance was $5,697,968. SERS' deposits covered by federal depository insurance and collateral held in the name of SERS' custodian amounted to $296,249 and $5,401,719 respectively at June 30, 1991.

SERS is authorized to invest in bonds, notes, certificates of indebtedness, mortgage notes, real estate, stocks, shares, debentures, or other obligations or securities as set forth in the Ohio Revised Code. In accordance with Statement No. 3 of the Governmental Accounting Standards Board, SERS' investments are categorized to give an indication of the level of risk assumed by SERS at year-end. Category 1 includes investments that are insured or registered or held by SERS, or the Treasurer, State of Ohio, or custodial agent bank in SERS' name. Category 2 includes uninsured and unregistered investments for which the securities are held by the Treasurer, State of Ohio in SERS' name. Category 3 includes uninsured and unregistered investments for which the securities are held by the Treasurer, State of Ohio but not in SERS' name. In accordance with a contractual relationship between the Treasurer, State of Ohio and a custodial agent bank, all securities subject to categorization are Category 1 investments held in book entry form in a unique account so as to be identified at all times as the possession of the System.

The System participates in a security lending program, administered by the custodial agent bank, whereby certain securities are transferred to an independent broker/dealer (borrower) in exchange for collateral equal to no less than 102% of the market value of the loaned securities. The System has minimized its exposure to credit risk due to borrower default by having the custodial agent bank determine daily that required collateral meets 100% of the market value of securities on loan. The System has not experienced any losses due to credit or market risk on security lending activity since implementation of the program. The market value of collateral loaned to brokers/dealers at June 30, 1991 totaled $251.8 million. Security lending income totaled $264,332 for the year ended June 30, 1991.

Securities under loan are maintained on the System's financial records and are included with first mortgage

NOTES TO FINANCIAL STATEMENTS (Continued)

(5) Cash Deposits and Investments (continued)

loans, real estate, commingled real estate funds, and venture capital funds as investments which by their nature are not required to be categorized for level of risk purposes.

Market values of securities are based primarily on quotations from national security exchanges. Market values of real estate are based upon appraisals. Market values of investments in the commingled real estate and venture capital funds are based on information provided by the fund managers.

A summary of investments as of each June 30 follows:

	1991		1990	
	Carrying Value	Market Value	Carrying Value	Market Value
Corporate and government bonds and obligations	$ 708,033,657	$ 732,463,940	$ 615,720,281	$ 624,347,959
First mortgage loans and mortgage-backed securities	641,199,455	673,120,143	600,815,699	623,682,077
Common and preferred stocks	918,987,320	1,361,391,374	804,941,388	1,192,193,415
Short term investments	115,540,723	115,540,723	163,974,710	163,974,710
Real estate	308,517,593	318,149,920	304,663,884	326,461,902
Venture capital investments	26,793,213	25,291,713	25,717,463	24,752,213
Total investments	**$ 2,719,071,961**	**$ 3,225,957,813**	**$ 2,515,833,425**	**$ 2,955,412,276**

(6) Real Estate and Leases

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

	1991	1990
Land	$ 26,379,091	$ 25,534,332
Buildings	149,458,643	144,795,769
Commingled real estate funds	161,552,281	158,614,857
	337,390,015	328,944,958
Less accumulated depreciation	28,872,422	24,281,074
	$ 308,517,593	$ 304,663,884

The following is a summary of minimum future lease revenues on noncancellable operating leases related to SERS' investment in real estate as of June 30, 1991:

Year ending June 30,	
1992	$ 14,779,769
1993	12,083,186
1994	8,973,427
1995	7,599,181
1996	6,201,056
Thereafter	42,255,306
Total minimum future lease revenues	$ 91,891,925

Depreciation expense on the above real estate aggregated $5,400,773 and $4,687,204 in 1991 and 1990, respectively and is included in net real estate income.

(7) Property and Equipment (Non-Investment Assets)

A summary of property and equipment at June 30 follows:

	1991	1990
Land	$ 1,178,055	$ 1,178,055
Building and improvements	3,959,106	3,945,326
Furniture and equipment	5,694,644	4,953,606
	10,831,805	10,076,987
Less accumulated depreciation	4,289,445	3,338,976
	$ 6,542,360	$ 6,738,011

(8) Notes Payable

Notes payable at June 30, consist of the following:	1991	1990
10% unsecured notes payable, interest due quarterly with principal due May 31, 1991, net of discount of $108,237 in 1990	$ 0	$ 3,054,290

Total interest expense on the above notes aggregated $389,135 and $454,030 in 1991 and 1990, respectively and is included in net real estate income.

NOTES TO FINANCIAL STATEMENTS (Continued)

(9) Deferred Compensation

Employees of SERS may elect to participate in the Ohio Public Employees Deferred Compensation Program (Program), created in accordance with Internal Revenue Code Section 457. Under the Program, employees may elect to defer a portion of their pay until a later date, usually after retirement. The deferred pay and any income earned thereon is not subject to income taxes until actually received by the employee.

As of June 30, 1991, market value of investments in the Program totaled $942,222. Under the terms of the Program agreement, these monies are subject to the claims of SERS' general creditors. Accordingly, this amount is reflected as an asset along with a corresponding liability to the employees participating in the Program. Participating employees are general creditors of SERS with no preferential claim to the deferred funds. Investments in the Program are held by the Program's agent in SERS' name.

(10) Defined Benefit Pension Plan

Substantially all SERS full-time employees participate in the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer public employee retirement system. The payroll for employees covered by PERS for the year ended June 30, 1991 was $3,368,867; SERS' total payroll was $3,726,967.

All SERS full-time employees are eligible to participate in PERS. Employees are eligible for retirement benefits at age 60 with 5 or more years of service credit or at any age with 30 or more years of service. The benefit is based on 2.1% of final average salary multiplied by the years of service credit for the first 30 years of credited service and 2.5% for each additional year of credited service up to a maximum of 100% of final average salary or the limits under Internal Revenue Code Section 415. Employees retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit amounts. PERS also provides disability and survivor benefits. Benefits are established by state statute.

SERS and employee contributions for the year ended June 30, 1991 were $469,957 and $286,354, respectively; these contributions represented 13.95% and 8.5% of covered employee payroll, respectively, as required by State statute. Rates are established by the retirement board upon recommendation by the actuary. During the most recent actuarial study (December 31, 1989) there were no changes in actuarial assumptions, benefit provisions, actuarial funding methods or other significant factors except for increasing the assumed rate of return on investments from 7.50% to 7.75%. During the fiscal year 1991 the contribution rates established by the retirement board and those computed by the actuary were the same.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits, excluding health care benefits, and is intended to help users assess PERS' funding status on a going-concern basis, assess progress being made in accumulating sufficient assets to pay benefits when due, and allow for comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to PERS.

PERS does not make separate measurements of assets and pension benefit obligation for individual employers. The pension benefit obligation as of December 31, 1989, the date of the most recent actuarial valuation, for PERS as a whole was $16.7 billion. PERS' net assets available for benefits (excluding amounts allocated to health care costs) on that date were $14.7 billion, leaving an unfunded pension benefit obligation of $2.0 billion. PERS does not hold any securities in the form of notes, bonds or other instruments of any of the entities contributing to PERS. SERS' contribution represented less than 1 percent of total contributions required of all participating entities.

PERS' Comprehensive Annual Financial Report for the year ended December 31, 1990 contains historical trend information for four years only.

In addition to pension benefits, PERS provides post-retirement health care benefits to all employees who have at leat 10 years of Ohio service credit and offers coverage to their dependents on a co-pay basis. In 1974, PERS was given discretionary authority to make health care benefits available to retirees and their dependents. Coverage includes hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare Part B premiums. PERS determines the amount, if any, of the associated health care costs that will be absorbed by PERS.

For the year ended December 31, 1990, PERS reported $225.6 million for postretirement health care expense. Of the 13.95% employer contribution rate, 8.53% is allocated for basic benefits, the remainder is allocated for health care.

NOTES TO FINANCIAL STATEMENTS (Continued)

(11) Contingent Liabilities

SERS is a party in various litigation. While the final outcome cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material adverse effect on SERS' financial position.

(12) Historical Trend Information

Historical trend information designed to provide information about SERS' progress made in accumulating sufficient assets to pay benefits when due is presented immediately following the notes to the financial statements.

ANALYSIS OF FUNDING PROGRESS

GASB Statement No. 5 requires the presentation of ten years of comparative actuarial statistical data, disclosing the progress made in accumulating assets to pay benefits when due. Schedule I presents seven years and Schedule II presents nine years of data, since ten years are not available.

Schedule I

Basic Retirement Benefits
($ Amounts in Millions)

Fiscal Year	(1) Net Assets Available for Benefits	(2) Pension Benefit Obligation	(3) Percentage Funded (1) divided by (2)	(4) Unfunded Pension Benefit Obligation (2) minus (1)	(5) Covered Payroll	(6) Unfunded Pension Benefit Obligation as a Percent of Covered Payroll (4) divided by (5)
1985	$ 1,556	$ 2,257	68.9%	$ 701	$ 804	87.2%
1986	1,747	2,511	69.6	764	869	87.9
1987	1,930	2,646	72.9	716	931	76.9
1988*	2,107	3,017	69.9	910	982	92.6
1989	2,311	3,346	69.1	1,035	1,055	98.1
1990	2,513	3,662	68.6	1,149	1,119	102.7
1991**	2,722	4,214	64.6	1,492	1,176	126.8

Health Care Benefits
($ Amounts in Millions)

Fiscal Year	(1)	(2)	(3)	(4)	(5)	(6)
1985	$ 120	$ 656	18.3%	$ 536	$ 804	66.7%
1986	129	830	15.5	701	869	80.7
1987	133	1,006	13.2	873	931	93.8
1988*	133	991	13.4	858	982	87.4
1989	144	1,065	13.5	921	1,055	87.3
1990	149	1,135	13.1	986	1,119	88.1
1991**	141	1,241	11.4	1,100	1,176	93.5

Analysis of the dollar amounts of net assets available for benefits, pension benefit obligation (both basic retirement and health care benefits), and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of SERS' funding status on a going-concern basis. Analysis of this percentage over time indicates whether SERS is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger SERS is. Trends in unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of SERS' progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger SERS is.

The actuarial assumptions for investment return, post-retirement mortality, and participation in health care premiums are revised periodically based on SERS' experience.

** In fiscal 1988, plan benefit provisions were amended. The amendments had the effect of increasing the pension benefit obligation for basic benefits by $119.8 million, and decreasing the pension benefit obligation for health care by $199.3 million.*

*** Changes to actuarial assumptions for fiscal 1991 increased the pension benefit obligation for basic benefits by $49.5 million and for health care by $7.0 million.*

See accompanying independent auditors' report.

Schedule II

Revenues By Source

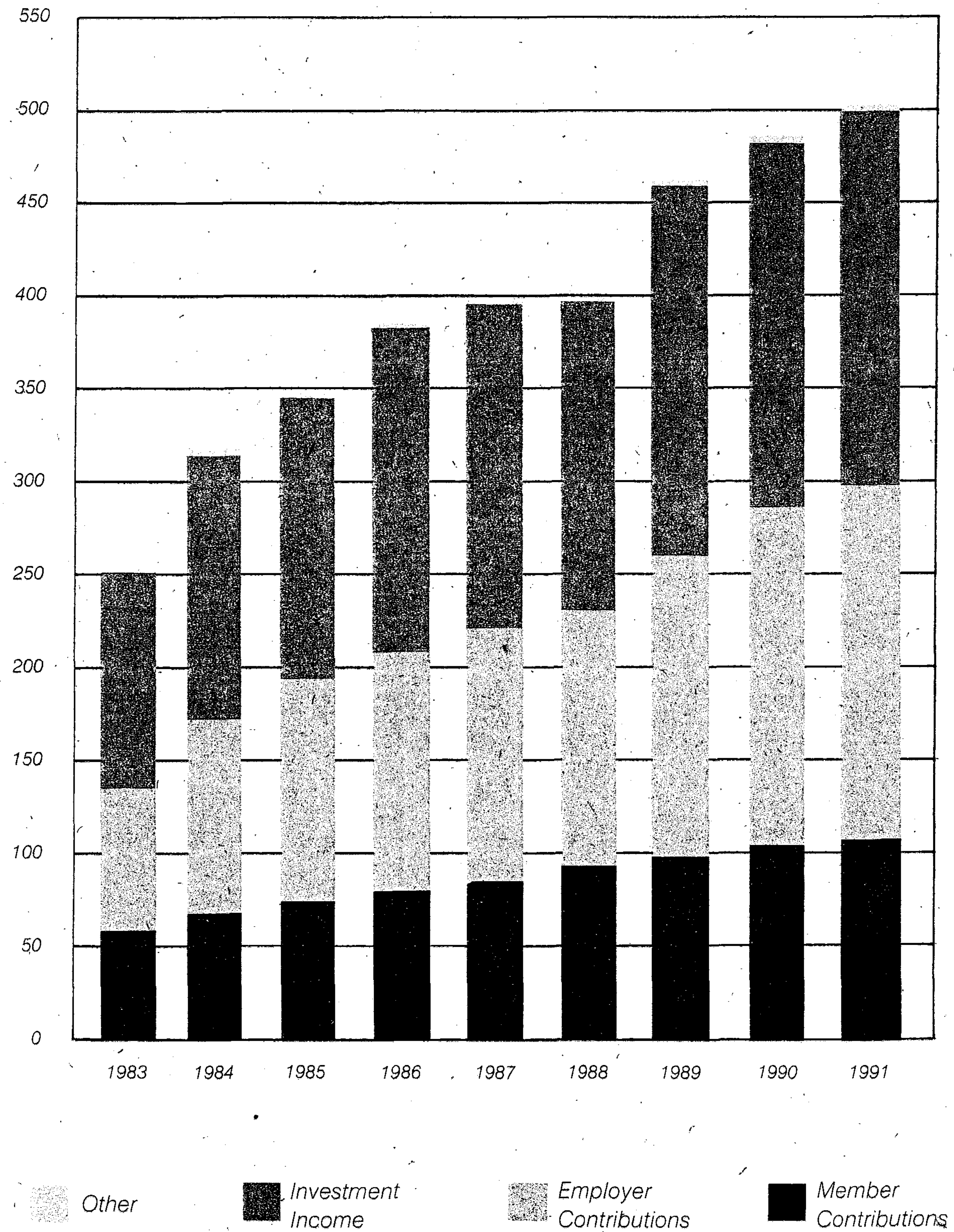
Fiscal Year	Member Contributions	Employer Contributions	Investment Income	Other Revenues	Total	Employer Contribution Rate as a Percent of Covered Payroll
1983	$ 57,302,477	$ 86,862,611	$107,416,567	$3,489,140	$255,070,795	12.5%
1984	67,503,890	106,886,556	145,215,463	2,944,271	322,550,180	14.0
1985	73,117,682	119,145,737	153,934,029	3,004,376	349,201,824	14.0
1986	78,979,863	130,507,996	171,115,676	3,333,819	383,937,354	14.0
1987	84,848,170	135,032,693	175,493,200	2,521,825	397,895,888	14.0
1988	89,667,853	145,784,980	161,724,032	2,280,893	399,457,758	14.0
1989	96,422,050	171,094,710	193,830,887	2,448,403	463,796,050	14.0
1990	104,105,361	180,544,371	196,527,043	2,569,782	483,746,557	14.0
1991	109,310,197	188,465,132	201,820,479	1,981,749	501,577,557	14.0

Expenses By Type

Fiscal year	Benefits	Administrative Expenses	Transfers to other Ohio Retirement Systems	Refunds	Other	Total
1983	$119,831,633	$4,051,778	$1,215,546	$ 8,619,474	—	$ 133,718,431
1984	131,848,435	4,658,760	1,181,012	7,827,632	$ 879,498	146,395,337
1985	146,785,150	5,673,205	1,486,990	8,373,795	—	162,319,140
1986	166,606,773	5,863,596	1,901,100	9,058,221	—	183,429,690
1987	192,787,851	6,599,526	1,498,114	10,267,756	—	211,153,247
1988	204,178,239	6,689,009	2,131,150	9,791,762	—	222,790,160
1989	227,333,363	7,419,675	1,630,410	11,468,175	—	247,851,623
1990	255,285,627	7,942,036	1,983,908	12,532,925	—	277,744,496
1991	276,925,099	8,346,903	2,202,383	12,345,363	—	299,819,748

See accompanying independent auditors' report.

Revenues By Source
(Millions of Dollars)



ADMINISTRATIVE EXPENSES

Schedule III

Years ended June 30, 1991 and 1990	1991	1990
Personnel services:		
Salaries and wages	$ 3,726,967	$ 3,746,576
Retirement contributions	469,957	469,847
Insurance	416,992	368,608
Total personnel services	4,613,916	4,585,031
Professional services:		
Technical and actuarial	293,638	389,726
Medical	241,093	194,815
Auditing	57,635	62,550
Employee training	46,729	77,215
Total professional services	639,095	724,306
Communications:		
Postage	330,757	251,591
Printing and publications	164,293	59,455
Telephone	54,114	49,609
Retirement counseling services	10,449	11,590
Total communications	559,613	372,245
Other services and charges:		
Computer support services	630,205	549,893
Building occupancy and maintenance	260,695	235,264
Transportation and travel	185,789	131,201
Supplies	89,766	70,996
Equipment rental	89,294	109,915
Surety bonds and insurance	79,976	81,335
Memberships and subscriptions	44,208	52,317
Equipment repairs and maintenance	34,730	43,568
Retirement study commission	28,567	22,779
Miscellaneous	36,893	110,076
Total other services and charges	1,480,123	1,407,344
	7,292,747	7,088,926
Depreciation (non-investment):		
Furniture and equipment	954,055	753,459
Building	100,101	99,651
Total depreciation	1,054,156	853,110
Total administrative expenses	**$ 8,346,903**	**$ 7,942,036**

See accompanying independent auditors' report.

INVESTMENT SUMMARY
Schedule IV

Year ended June 30, 1991

	1990 Carrying Value	1990 Market Value	Purchases and Accretions	Sales, Redemptions and Accruals	1991 Carrying Value	1991 Market Value	% of Total Market Value
Corporate and government bonds and obligations	$ 615,720,281	$ 624,347,959	$ 407,654,504	$ (315,341,128)	$ 708,033,657	$ 732,463,940	22.7%
First mortgage loans and mortgage-backed securities	600,815,699	623,682,077	168,503,847	(128,120,091)	641,199,455	673,120,143	20.9
Common and preferred stocks	804,941,388	1,192,193,415	195,689,431	(81,643,499)	918,987,320	1,361,391,374	42.2
Short-term investments	163,974,710	163,974,710	2,402,317,297	(2,450,751,284)	115,540,723	115,540,723	3.6
Real estate	304,663,884	326,461,902	17,335,051	(13,481,342)	308,517,593	318,149,920	9.8
Venture capital investments	25,717,463	24,752,213	5,250,000	(4,174,250)	26,793,213	25,291,713	0.8
Total investments	**$2,515,833,425**	**$2,955,412,276**	**$3,196,750,130**	**$(2,993,511,594)**	**$2,719,071,961**	**$3,225,957,813**	**100.0%**

Year ended June 30, 1990

	1989 Carrying Value	1989 Market Value	Purchases and Accretions	Sales, Redemptions and Accruals	1990 Carrying Value	1990 Market Value	% of Total Market Value
Corporate and government bonds and obligations	$ 545,589,142	$ 564,262,201	$ 358,629,785	$ (288,498,646)	$ 615,720,281	$ 624,347,959	21.1%
First mortgage loans and mortgage-backed securities	613,885,268	639,618,675	121,778,009	(134,847,578)	600,815,699	623,682,077	21.1
Common and preferred stocks	699,578,406	986,297,469	179,667,665	(74,304,683)	804,941,388	1,192,193,415	40.3
Short-term investments	183,876,243	184,386,827	2,777,591,467	(2,797,493,000)	163,974,710	163,974,710	5.6
Real estate	263,896,685	292,019,167	46,079,689	(5,312,490)	304,663,884	326,461,902	11.1
Venture capital investments	26,661,962	26,661,962	3,881,615	(4,826,114)	25,717,463	24,752,213	0.8
Total investments	**$2,333,487,706**	**$2,693,246,301**	**$3,487,628,230**	**$(3,305,282,511)**	**$2,515,833,425**	**$2,955,412,276**	**100.0%**

See accompanying independent auditors' report.

FUND BALANCE ACCOUNTS

Schedule V

Description of Accounts (Funds)

Chapter 3309 of the Ohio Revised Code requires the establishment and maintenance of specific funds. These funds are classified as accounts for financial reporting purposes and are noted as follows:

(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. Based on actuarial valuations, amounts are transferred out of this fund into the Annuity and Pension Reserve 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 benefits 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.

A summary of the fund balance accounts follows:

Year ended June 30, 1991

	Employees' Savings Fund	Employers' Trust Fund	Annuity and Pension Reserve Fund	Survivors' Benefit Fund	Guarantee Fund	Expense Fund	Total 1991	Total 1990
Fund balance at beginning of year	$ 683,812,888	$ (579,851,401)	$ 2,423,360,341	$ 134,275,724	—	—	$ 2,661,597,552	$ 2,455,595,491
Changes for the year:								
Contributions:								
Employers	—	188,465,132	—	—	—	—	188,465,132	180,544,371
Employees	109,310,197	—	—	—	—	—	109,310,197	104,105,361
State of Ohio subsidies	—	886,853	—	—	—	—	886,853	983,082
Investment income	—	—	—	—	201,820,479	—	201,820,479	196,527,043
Transfers from other Ohio systems	—	—	1,043,358	51,538	—	—	1,094,896	1,586,700
Benefits:								
Retirement	—	—	(173,348,030)	—	—	—	(173,348,030)	(162,866,492)
Disability	—	—	(19,854,430)	—	—	—	(19,854,430)	(18,077,033)
Survivor	—	—	—	(11,358,736)	—	—	(11,358,736)	(10,886,380)
Health care	—	—	(71,633,065)	—	—	—	(71,633,065)	(62,746,014)
Death	—	—	(730,838)	—	—	—	(730,838)	(709,708)
Refunds of employee contributions	(12,345,363)	—	—	—	—	—	(12,345,363)	(12,532,925)
Administrative expenses	—	—	—	—	—	(8,346,903)	(8,346,903)	(7,942,036)
Transfers to other Ohio systems	—	—	(2,104,524)	(97,859)	—	—	(2,202,383)	(1,983,908)
Other transfers	(31,994,224)	(192,802,942)	399,607,316	18,663,426	(201,820,479)	8,346,903	—	—
Net changes	64,970,610	(3,450,957)	132,979,787	7,258,369	—	—	201,757,809	206,002,061
Fund balance at end of year	**$ 748,783,498**	**$ (583,302,358)**	**$ 2,556,340,128**	**$ 141,534,093**	**—**	**—**	**$2,863,355,361**	**$2,661,597,552**

See accompanying independent auditors' report.

AUDITOR OF STATE'S LETTER

THOMAS E. FERGUSON
AUDITOR OF STATE
P.O. Box 1140 • Columbus, Ohio 43266-0040 • (614) 466-4514

Members of the Retirement Board
School Employees Retirement System of Ohio
Columbus, Ohio

We have reviewed the report of the audit of the Balance Sheet, (With Independent Auditors Report Thereon), and the related statements of Revenues, Expenses, and Changes In Fund Balances, and of Cash Flows, of the School Employee's Retirement System for the Year Ended June 30, 1991, as prepared by Deloitte & Touche, Certified Public Accountants. Based upon this review, we have accepted this report in lieu of the examination required by Section 117.43 of the Revised Code. The Auditor of State has not examined the documentation supporting the financial statements and reports, and accordingly, is unable to express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria as reflected by the Ohio Constitution; the Revised Code; policies, procedures and guidelines of the Auditor of State; and local resolutions/ ordinances.

THOMAS E. FERGUSON
Auditor of State

December 5, 1991

Information Line toll free 1-800-282-0370

Actuarial Section

ACTUARY'S LETTER

GABRIEL, ROEDER, SMITH & COMPANY
Actuaries & Consultants
24 Woodbine Avenue • Northport, New York 11768 • 516-757-0047

November 11, 1991

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, 1991. Conditions and results are shown in our reports.

Assumptions concerning future financial experiences are needed for an actuarial valuation. These assumptions are established by the Board after consulting with the actuary.

A program of annual actuarial gain/loss analysis is in operation; these analyses determine the relationship between assumed financial experience and actual experience, for each major risk area.

These actuarial gain/loss findings led to the adoption of substantial revised assumptions for the June 30, 1991 actuarial valuation. The assumed premiums for health care coverages are changed annually as premiums are changed by health care providers.

The statutory employer contribution rate is 14% of pay. An SERS policy decision now provides the following allocations: to basic benefits, the portion which will pay normal cost and 40 year amortization for unfunded actuarial accrued liabilities; and to health care benefits, the remainder of employer contributions.

On the basis of the 1991 valuation and the basic benefits and allocated contribution rates then in effect, it is our opinion that the basic benefits portion of SERS is in sound condition in accordance with actuarial principles of level cost financing.

The financial condition of health care benefits is different, and is being significantly affected by the provisions of Act 290 of 1988. Act 290 established a health care surcharge, a program to determine a minimum annual pay for use in calculating employer contribution dollars.

On the basis of the 1991 valuation and the health care benefits and allocated contribution rates then in effect, the allocated contributions are sufficient to provide level percent financing of the health care benefits if future health care cost inflation does not exceed future general price inflation.

Respectfully submitted,

Thomas J. Cavanaugh   Richard G. Roeder

TJC/kq

STATEMENT OF ACTUARY
(Valuation as of June 30, 1991)

Actuarial Cost Method and Assumptions

Basic Retirement Benefits

Employer contribution rates for basic benefits are determined using the entry age normal actuarial cost method. This method produces an employer contribution rate consisting of (1) an amount for normal cost (the estimated amount necessary to finance benefits earned by employees during the current service year), and (2) the amount for amortization of the unfunded actuarial accrued liability. The maximum statutory rate is 14%.

The present employer contribution rate of 14% is allocated between basic benefits and health care on the basis of SERS policy decision. The current policy requires the determination of a rate for basic benefits which will amortize the unfunded actuarial accrued liabilities over a 40-year period, with the remainder of the employer contribution rate allocated to providing health care benefits. At June 30, 1991, the rate thus determined for the funding of basic retirement benefits is 9.63%.

Health Care Benefits

Initially, beginning in 1974, the contribution rate for health care benefits was established at 0.75%, included in a total employer contribution rate of 12.5%. Health care contribution rates have been increased at various times since 1974, and the total employer contribution rate has been increased to the statutory 14% maximum. The portion of the employer contribution rate allocated to health care currently is 4.37%, which is insufficient by itself to provide level cost financing of the unfunded actuaril accrued health care liabilities. This is primarily due to the relatively low average salaries of the SERS contributing members.

Recent Ohio legislation, Act 290 of 1988, provided for an employer contribution surcharge to fund health care benefits. The surcharge is equal to 14% of the difference between the minimum pay and the member's pay, pro-rated for partial service credit. For the fiscal years 1991 and 1992, the minimum pay has been established as $9,100 and $9,900 respectively. The surcharge rate, added to the unallocated portion of the 14% employer contribution rate, results in a total health care contribution rate of 5.81%. This rate is sufficient to provide level cost financing of the unfunded actuarial accrued liabilities for health care benefits assuming future health care cost inflation does not exceed future general price inflation.

Actuarial Assumptions

The assumptions used for the actuarial valuation were adopted by the Retirement Board after consulting with the actuary. Differences between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial accrued liabilities. When these differences between assumed and actual experience have been observed to be sizeable and persistent a change is made to the actuarial assumptions.

The valuation assets as of June 30, 1991 were determined on a market related basis. The method used recognizes 20% of the previously unrecognized gains and losses (both realized and unrealized). To this was added the present value of expected future payments for House Bills 284 and 204, or $4,002,160.

The following significant assumptions were used in the actuarial valuations as of June 30, 1991:

(1) a rate of return on the investments of 7.75% 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 4.75 percent, the 7.75 percent investment return rate translates to an assumed real rate of return of 3 percent.

(2) projected salary increases of 4.75%, compounded annually, attributable to inflation;

(3) additional projected salary increases ranging from 0% to 3% per year attributable to seniority and merit. Pay increase assumptions for individual active members are shown for sample

STATEMENT OF ACTUARY (Continued)
(Valuation as of June 30, 1991)

ages in the following table.

Sample Age	Merit & Seniority	Base (Economy)	Total
	Increase Next Year		
20	3.0%	4.75%	7.75%
30	2.3	4.75	7.05
40	1.8	4.75	6.55
50	1.0	4.75	5.75
60	0.0	4.75	4.75

(4) eligibility for age and service retirement was assumed to be: age 50 with 30 or more years of service; or age 55 with 25 or more years of service, or age 60 with 5 or more years of service. Probabilities of retirement with an age and service allowance are shown in the following table for sample ages.

Probabilities of Age & Service Retirement

Percent of Eligible Active Members Retiring within Next Year

Sample Ages	Men	Women
50	15%	12%
55	10	18
60	10	25
65	40	35
70	50	50
75	100	100

(5) mortality of participants based on the 1971 Group Annuity Mortality Table projected to 1984 set back one year for women and men.

(6) rates of separation from active service before retirement are developed on the basis of actual plan experience. Probabilities of separation for sample ages are shown in the following table.

Probabilities of Separation from Active Employment before Age & Service Retirement

(Percent of Active Members Separating within the Next Year)

Men

Sample Ages	Death	Disability	Other
20	0.02%	0.00%	6.09%
30	0.04	0.06	4.60
40	0.08	0.36	3.42
50	0.24	0.80	3.06
60	0.60	—	2.20

Probabilities of Separation from Active Employment before Age & Service Retirement

(Percent of Active Members Separating within the Next Year)

Women

Sample Ages	Death	Disability	Other
20	0.01%	0.00%	8.04%
30	0.02	0.00	6.31
40	0.04	0.14	3.95
50	0.08	0.32	2.67
60	0.21	—	2.66

(7) health care premium increases of 4.75% annually with 25% of eligible female retirants and 60% of eligible male retirants electing a joint and survivor form of payment and 25% of eligible female retirants and 50% of eligible male retirants electing to cover spouses for health care; and

(8) eligibility of all health care benefit recipients for Medicare on attainment of age 65, or immediately if retired for disability.

Health Care Premium Rates:

Status	Monthly Rates Reported 1991	1990
Benefit recipient below age 65	$ 297.12	$ 248.10
Spouse below age 65*	53.25	47.23
Benefit recipient above age 65 and eligible for Medicare	53.18	44.88
Spouse above age 65 and eligible for Medicare*	15.98	13.97
Mail order prescription service	30.92	29.61

* System portion.

Medicare Part B Premium: $24.80 per month. (This premium is paid by the System.)

The actuarial assumptions used in making the valuation were revised as set forth in the Gabriel, Roeder, Smith & Company Investigation Report dated June 3, 1991 for the period from July 1, 1985 through June 30, 1990.

STATEMENT OF ACTUARY (Continued)
(Valuation as of June 30, 1991)

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 performed, but the resulting monthly cash benefit may not be payable until years in the future. Accrued liabilities are the result of complex mathematical calculations performed by a group of specialists, the plan's actuaries. The results of the computed actuarial accrued liabilities, using the entry age normal actuarial cost method, are disclosed in the following schedule.

Actuarial Accrued Liabilities June 30, 1991

Present Value Of	Actuarial Accrued Liabilities: Health Care	Actuarial Accrued Liabilities: Basic Benefits
Future monthly benefits and death benefits to present retirants and survivors	$ 725,195,310	$ 1,972,678,911
Monthly benefits and refunds to present inactive members	55,507,516	75,505,693
Service allowances and health care benefits to present active members	515,135,677	2,149,483,506
Disability allowances and health care benefits to present active members	6,789,897	87,803,195
Death-after-retirement benefit ($500) on behalf of present active members	—	1,254,908
Survivor benefits on behalf of present active members who die before retiring	8,428,965	27,774,930
Refunds of member contributions of present active members	—	31,626,380
Benefits for present active members	530,354,539	2,297,942,919
Benefits for present covered persons	$ 1,311,057,365	$ 4,346,127,523

Membership Data

Information regarding active, inactive, and retired members is obtained from computer tapes provided by the retirement system. Membership data contained on the computer tapes is examined and tested for reasonableness.

Active Member Valuation Data, 1982 to 1991

Actuarial Valuation as of June 30	Number of Active Members	Annual Payroll (millions)	Average Annual Salary
1982	85,883	$ 652.2	$ 7,594
1983	85,186	682.9	8,017
1984	84,761	737.3	8,699
1985	86,838	804.2	9,261
1986	88,310	869.1	9,842
1987	89,534	931.4	10,403
1988	90,418	981.8	10,858
1989	91,778	1,055.4	11,500
1990	93,147	1,118.7	12,010
1991	93,574	1,176.2	12,570

Retirants and Beneficiaries Added To and Removed From Rolls, 1982 to 1991

Fiscal Year Ended June 30	Additions During Year	Deletions During Year	Number at End of Year
1982	2,953	924	32,863
1983	3,215	1,108	34,970
1984	3,145	1,315	36,800
1985	3,233	1,325	38,708
1986	3,807	1,478	41,037
1987	3,155	1,522	42,670
1988	3,512	2,215	43,967
1989	3,140	1,432	45,675
1990	3,714	2,072	47,317
1991	3,534	2,384	48,467

SUMMARY OF UNFUNDED ACCRUED LIABILITIES

Each time a new benefit is added which applies to service already rendered, an "unfunded accrued liability" is created. Laws governing the System require that these "unfunded accrued liabilities" be financed systematically over a period of future years. Also, if actual financial experiences are less favorable than assumed financial experiences, the difference is added to unfunded accrued liabilities.

In an inflationary economy, the value of the dollar is decreasing. This environment results in employee pay 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 liabilities divided by active employee payroll provides an index which clarifies 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.

BASIC BENEFITS ($ In Millions)

Valuation Year	Actuarial Accrued Liabilties (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
1982	$ 1,821	$ 1,116	$ 705	61%	$ 652	108%
1983	1,987	1,221	766	61	683	112
1984	2,166	1,390	776	64	737	105
1985	2,405	1,564	841	65	804	105
1985*	2,422	1,564	858	65	804	107
1986	2,670	1,781	889	67	869	102
1987	2,899	2,007	892	69	931	96
1988#	3,307	2,204	1,103	67	982	112
1989	3,658	2,438	1,220	67	1,055	116
1990	4,003	2,686	1,317	67	1,119	118
1991	4,265	3,015	1,250	71	1,176	106
1991*	4,346	3,015	1,331	69	1,176	113

HEALTH CARE BENEFITS ($ In Millions)

Valuation Year	Actuarial Accrued Liabilties (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
1982	$ 436	$ 86	$ 350	20%	$ 652	54%
1983	539	103	436	19	683	64
1984	627	108	519	17	737	70
1985	681	120	561	18	804	70
1985*	760	120	640	16	804	80
1986	865	131	734	15	869	85
1987	1,051	137	914	13	931	98
1988#	1,051	139	912	13	982	93
1989	1,128	152	976	14	1,055	93
1990	1,205	158	1,047	13	1,119	94
1991	1,295	157	1,138	12	1,176	97
1991*	1,311	157	1,154	12	1,176	98

* Revised Assumptions
# Legislated Benefit Increases

STATEMENT OF ACTUARY (Continued)
(Valuation as of June 30, 1991)

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) *Active member contributions on deposit;*
2) *The liabilities for future benefits to present retired lives;*
3) *The liabilities for service already rendered by active 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 active 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.

BASIC BENEFITS ($ In Millions)

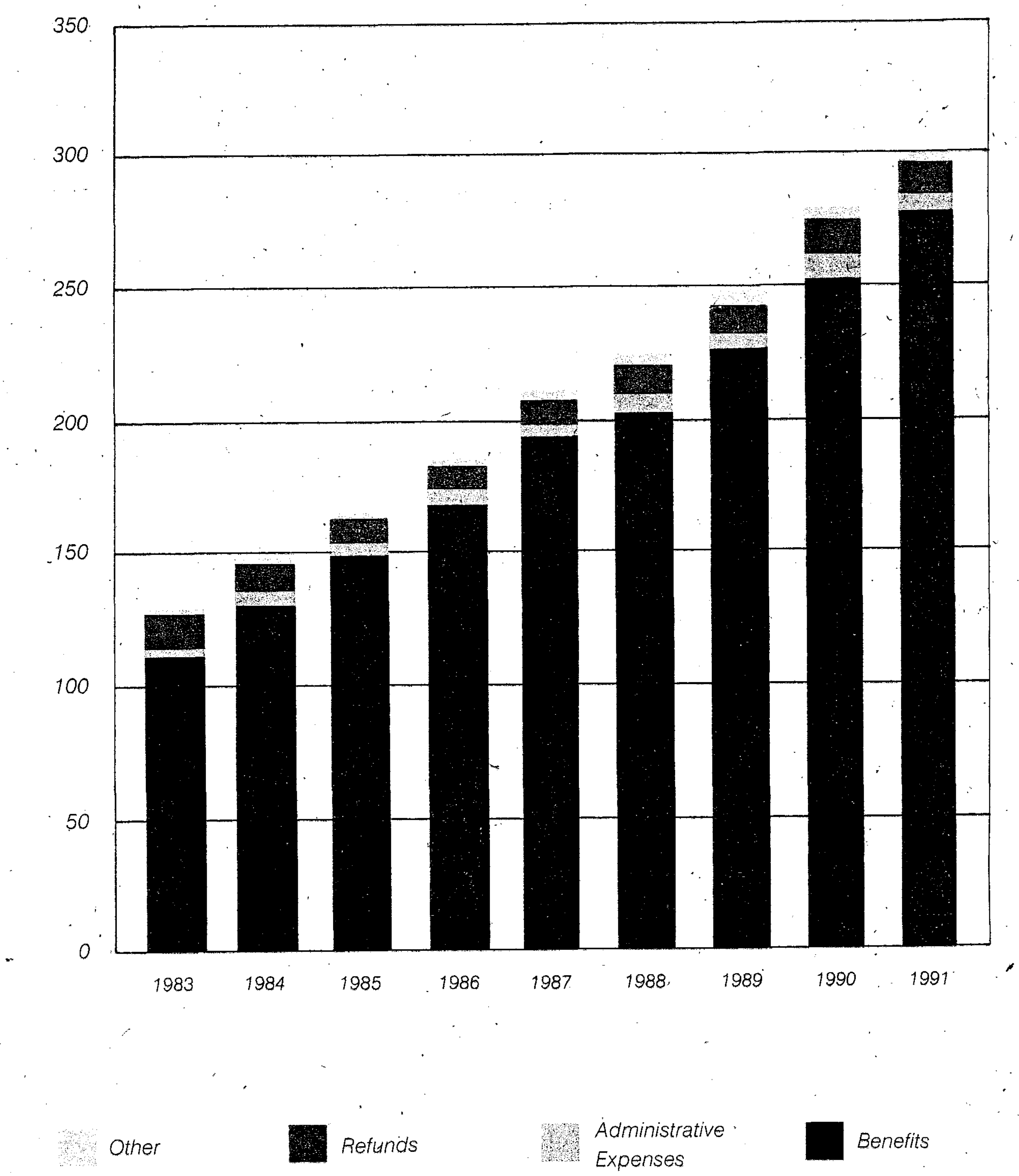
June 30	(1) Member Contributions	(2) Retired Lives	(3) Present Members (Employer Portion)	(4) Valuation Assets	Portion of Accrued Liabilities Covered by Assets (1)	(2)	(3)
1982	$ 324	$ 829	$ 668	$1,116	100%	96%	0%
1983	352	909	726	1,221	100	96	0
1984	396	1,011	759	1,390	100	98	0
1985	433	1,126	846	1,564	100	100	1
1985*	433	1,101	888	1,564	100	100	3
1986	475	1,228	967	1,781	100	100	8
1987	524	1,341	1,034	2,007	100	100	14
1988#	577	1,513	1,217	2,204	100	100	9
1989	627	1,696	1,335	2,438	100	100	9
1990	684	1,872	1,447	2,686	100	100	9
1991	749	2,025	1,491	3,015	100	100	16
1991*	749	1,973	1,624	3,015	100	100	16

HEALTH CARE BENEFITS ($ In Millions)

June 30	(1) Member Contributions	(2) Retired Lives	(3) Present Members (Employer Portion)	(4) Valuation Assets	Portion of Accrued Liabilities Covered by Assets (1)	(2)	(3)
1982	—	$ 243	$ 193	$ 86	—	35%	0%
1983	—	304	235	103	—	34	0
1984	—	361	266	108	—	30	0
1985	—	386	295	120	—	31	0
1985*	—	391	369	120	—	31	0
1986	—	461	404	131	—	28	0
1987	—	562	489	137	—	24	0
1988#	—	584	467	139	—	24	0
1989	—	640	488	152	—	24	0
1990	—	686	519	158	—	23	0
1991	—	731	564	157	—	21	0
1991*	—	725	586	157	—	22	0

* Revised Assumptions
# Legislated Benefit Increases

Expenses By Type
(Millions of Dollars)



Statistical Section

- *Asset Coverage of Accrued Liabilities*
- *Benefit Expenses By Type*
- *Number of Benefit Recipients By Type*
- *Number of Participating Employers*
- *Retirement Averages*

COMPARATIVE SUMMARY OF ACCRUED LIABILITIES AND PERCENTAGE COVERED BY NET ASSETS AVAILABLE FOR BENEFITS

Table I

Computed Actuarial Accrued Liabilities

Fiscal Year	Member Contributions	Current Retirants and Beneficiaries	Active Members, Employer Financed Portion	Net Assets Available for Benefits	Percentage of Accrued Liabilities Covered by Net Assets Available for Benefits (1)	(2)	(3)
1982	$ 324,180,388	$ 1,071,728,280	$ 860,604,478	$ 1,189,392,619	100	81	0
1983	351,781,439	1,213,688,792	961,162,916	1,314,052,816	100	79	0
1984	396,230,502	1,371,162,368	1,025,589,111	1,488,850,477	100	80	0
1985	432,528,863	1,511,799,217	1,141,424,734	1,675,733,161	100	82	0
1986	475,218,163	1,688,209,450	1,371,411,464	1,876,240,825	100	83	0
1987	524,262,202	1,903,559,908	1,522,516,727	2,062,983,466	100	81	0
1988	577,028,334	2,096,925,418	1,684,513,116	2,239,651,064	100	79	0
1989	627,076,019	2,336,503,192	1,821,748,962	2,455,595,491	100	78	0
1990	683,812,888	2,557,636,065	1,967,248,110	2,661,597,552	100	77	0
1991	748,783,498	2,697,874,221	2,210,527,169	2,863,355,361	100	78	0

NOTE: *The ultimate test of financial soundness is the System's ability to pay all promised benefits when due. The System's progress in accumulating assets to pay all promised benefits can be measured by comparing the present assets of the System with (1) member contributions, (2) the liability for future benefits payable to current retirants and beneficiaries, and (3) the employer-financed portion of the liability for benefits payable to active plan participants.*

In a System that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (1) and the liabilities for future benefits to present retired lives (2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (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.

In Table I the entry age normal actuarial cost method was used to determine the actuarial liability. The entry age normal actuarial cost method is the same method used to determine employer and employee contribution rates.

BENEFIT EXPENSES BY TYPE
Last Ten Years
Table II

Year Ending June 30	Service	Disability	Survivor	Health Care	Death Benefits and Refunds	Total
			BENEFITS			
1982	$ 64,708,104	$ 7,294,601	$ 6,240,292	$ 23,460,414	$ 10,340,929	$ 112,044,340
1983	75,497,557	8,076,576	6,756,619	28,959,381	9,160,974	128,451,107
1984	85,444,144	9,270,155	7,389,851	29,153,910	8,418,007	139,676,067
1985	96,910,985	10,527,898	8,004,136	30,778,698	8,937,228	155,158,945
1986	108,321,454	11,785,441	8,360,152	37,499,209	9,698,738	175,664,994
1987	118,726,020	12,780,695	8,958,365	51,728,280	10,862,247	203,055,607
1988	129,330,510	14,138,302	9,479,476	50,568,576	10,453,137	213,970,001
1989	144,870,006	15,968,925	10,154,865	55,688,417	12,119,325	238,801,538
1990	162,866,492	18,077,033	10,886,380	62,746,014	13,242,633	267,818,552
1991	173,348,030	19,854,430	11,358,736	71,633,065	13,076,201	289,270,462

NUMBER OF BENEFIT RECIPIENTS BY TYPE
Last Ten Years
Table III

Year Ending June 30	Service	Disability	Survivor	Total
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
1985	33,145	2,754	2,809	38,708
1986	35,266	2,898	2,873	41,037
1987	36,750	2,977	2,943	42,670
1988	37,877	3,084	3,006	43,967
1989	39,408	3,204	3,063	45,675
1990	40,856	3,349	3,112	47,317
1991	41,773	3,518	3,176	48,467

NUMBER OF PARTICIPATING EMPLOYERS
Last Ten Years
Table IV

Year	Total	Counties	Locals	Cities	Villages	Colleges	Technical	Vocational	Other
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
1985	768	86	376	192	49	2	13	49	1
1986	769	86	376	192	49	2	13	49	2
1987	769	86	376	192	49	2	13	49	2
1988	768	84	376	192	49	2	13	49	3
1989	766	84	373	192	49	2	11	51	4
1990	766	84	373	192	49	2	11	51	4
1991	766	84	372	193	49	2	11	51	4

RETIREMENT AVERAGES
Last Ten Years

Table V

Service Retirement

Year Ending June 30	Service Credit	Monthly Amount	Age	Salary
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
1985	17.821	315.79	63.82	10,525.29
1986	16.846	304.73	63.64	10,292.51
1987	17.635	328.76	63.77	10,458.45
1988	19.019	378.29	62.13	11,989.48
1989	19.231	431.17	61.40	13,015.82
1990	18.734	424.85	60.75	13,034.93
1991	18.909	447.56	63.35	13,352.91

Disability Retirement

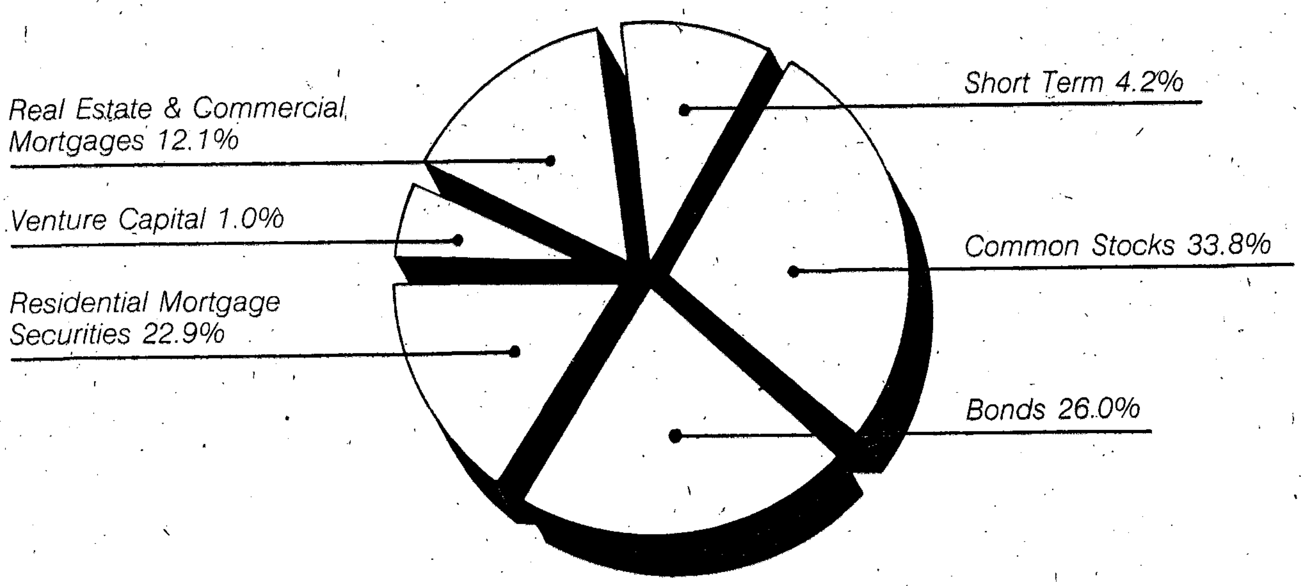
Year Ending June 30	Service Credit	Monthly Amount	Age	Salary
1982	13.854	$324.63	53.00	$ 8,473.21
1983	13.035	323.05	52.29	8,166.18
1984	14.128	426.96	53.20	10,803.67
1985	12.362	402.31	56.69	10,917.61
1986	13.339	431.18	56.20	10,872.24
1987	13.484	466.02	57.42	12,184.23
1988	13.086	509.27	54.64	13,060.46
1989	14.821	562.42	54.31	13,433.88
1990	14.018	551.12	53.51	13,539.55
1991	14.517	598.58	55.56	14,414.75

Investment Section

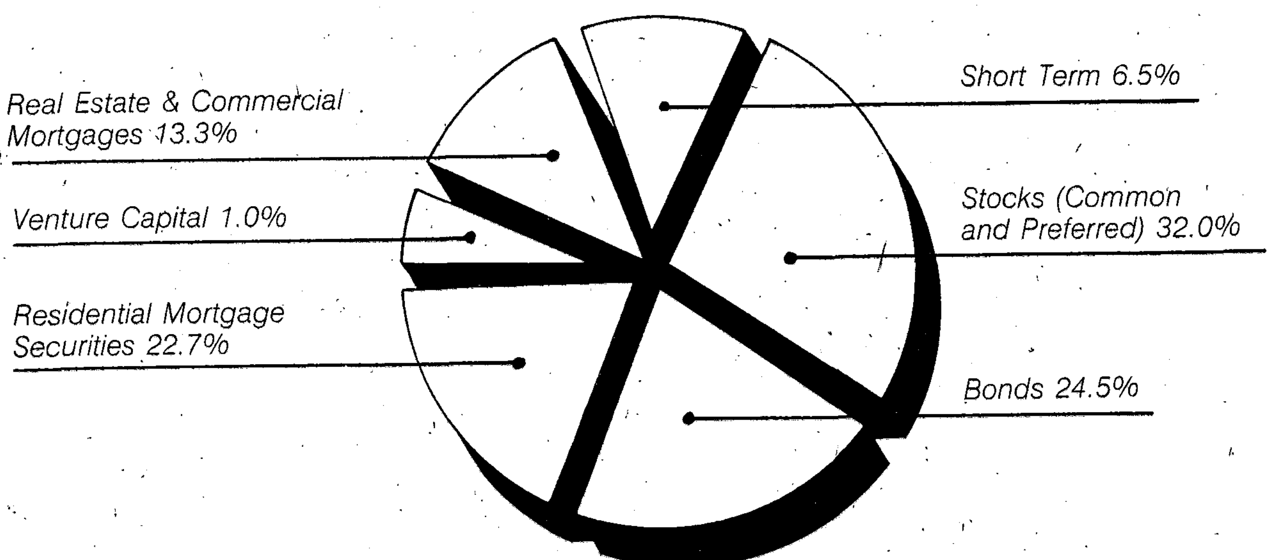
- *Investment Portfolio Distribution*
- *Investment Report*
- *Portfolio Summary*
- *Schedules*
- *Exhibits*
- *Investment Policy*

INVESTMENT PORTFOLIO DISTRIBUTION (By Book Value)

June 30, 1991



June 30, 1990



INVESTMENT REPORT

The U.S. economy entered a recession during the third quarter of 1990. This ended an expansionary period in the U.S. that had lasted almost eight years. The U.S. experienced negative GNP growth during the final quarter of 1990 and the first two quarters of 1991. However, by late in the second quarter of 1991, the economy seemed to be on a slow growth path once again. The inflation rate as measured by the Consumer Price Index (CPI) slowed dramatically as the recession unfolded. Before the recession started inflation was running at a 6% to 7% rate, but as the recession ended the rate had been reduced to 3.5% to 4%. For the fiscal year the CPI was up 4.6%, approximately the same amount as last fiscal year.

The strongest sector of the U.S. economy during the recession was our exporting industries. Because of this strength the U.S. Trade Deficit was substantially lower than the levels realized in our last fiscal year. For the coming fiscal year, we expect the Trade Deficit to remain near the levels experienced during the fiscal year just ended. The U.S. Budget Deficit, however, continues to increase and will probably increase again during the coming fiscal year. This continued demand for money by the Federal Government to finance the Budget Deficit should put pressure on long-term Treasuries to remain around the 7.5% to 8% level.

The market value of the Fund increased from $2.96 billion at the end of our last fiscal year to $3.23 billion at this fiscal year-end. Schedule VI demonstrates the growth of SERS over the last ten years as compared to the CPI and the CPI-Medical Care. $1 invested in SERS' Fund at the beginning of the period would be worth $3.49 as of June 30, 1991. Investment income earned by the Fund increased to $201.8 million versus $196.5 million for our last fiscal year. On June 30, 1991, the percent of the Fund invested in equities, based on book value, had increased to 33.8% from 32% last year at this time. The percent invested in fixed-income securities also increased modestly to 48.9% from 47.2%. The percent of the Fund invested in real estate and short-term securities decreased somewhat during the fiscal year. Real estate declined to 12.1% from 13.3% and short-term assets declined from 6.5% to 4.2%.

The stock market had a mediocre year through June 30, 1991, increasing only 7.4% as measured by the S&P 500. Fixed-income securities had a better year returning 10.2% as measured by the Shearson Govt/Corp. Index. The fixed-income and equity portfolios of SERS performed better during the fiscal year than these indices. The fixed-income portfolios returned 12.2% for the fiscal year and have returned 14.6% annually for the last ten years. We continue to emphasize high quality bonds and mortgage-backed securities in the fixed-income portfolio.

SERS' common stock return for the fiscal year was 8.7% which was higher than the S&P 500's return of 7.4%. The common stock portfolio has returned 14.9% annually for the last ten years. We continue to increase the percentage of the Fund invested in common stock as can be seen in Schedule V. We hope to be at our legally legislated limit of 35%, on a book value basis, in common stock by the end of this fiscal year.

Real estate values nationwide seem to be stabilizing although values are not expected to increase over the coming months. We have been very cautious over the last few years in our real estate program and have been very conservative about committing new cash to this asset class. As mentioned earlier, real estate assets declined as a percentage of the portfolio during the last fiscal year and for the last five years this asset class has declined from 14.7% of the Fund to the current 12.1%, based on book value. Our real estate portfolio has returned 7.9% annually over the last ten years.

The return for the Total Fund for the year ended June 30, 1991, was 9.7% and for the last ten years our return for the Total Fund has been 13.3% annually.

We expect the U.S. economy to grow slowly during the coming fiscal year, probably around 2.5%. The lower inflation rates experienced during the second half of the fiscal year just ended should prevail during much of the coming fiscal year. The dismantling of the Soviet Union, the absorption of East Germany by West Germany, the possibility of an Arab/Israeli peace initiative all provide the potential for great expectations, but they also provide for a lot of uncertainty in the coming months. Uncertainty breeds volatility in the financial markets and the volatility experienced during the last few years is expected to continue in the coming year. We will continue to emphasize high quality assets which seem to represent good long-term value.

We anticipate that by June 30, 1992, the Fund, based on book value, will be invested in the following manner: 49% in fixed-income, 35% in equities, 12% in real estate, 3% in short-term investments, and 1% in venture capital.

PORTFOLIO SUMMARY

Schedule I

Investment Category	Par Value	June 30, 1991 Book Value	Market Value	June 30, 1990 Market Value	June 30, 1989 Market Value
U.S. Government & Agency Bonds	$ 347,526,437	$ 347,942,474	$ 362,638,145	$ 352,299,119	$ 313,443,840
Corporate Bonds	280,500,000	278,881,476	284,740,100	177,246,710	129,102,000
Canadian Bonds	80,500,000	81,209,707	85,085,695	94,802,130	99,928,750
GNMA/FHLMC/FHA VA/HUD Mortgages & Mortgage-Backed Pass-Thrus	624,593,274	621,272,160	645,555,143	588,047,077	595,563,608
Common and Preferred Stocks & Convertible Securities	918,987,320	918,987,320	1,361,391,374	1,192,193,415	1,008,085,081
Investment Real Estate (Including Equity Participating Mortgages)	344,093,883	315,221,461	328,594,920	344,976,902	318,174,233
Commercial & Industrial Mortgages	13,223,427	13,223,427	17,120,000	17,120,000	17,900,000
Venture Capital	26,793,213	26,793,213	25,291,713	24,752,213	26,661,962
Short Term Investments	115,761,000	115,540,723	115,540,723	163,974,710	184,386,827
	$ 2,751,978,554	**$ 2,719,071,961**	**$ 3,225,957,813**	**$ 2,955,412,276**	**$ 2,693,246,301**

PORTFOLIO RATES OF RETURN
(Average annual total rate of return for the periods ended June 30)

Schedule II

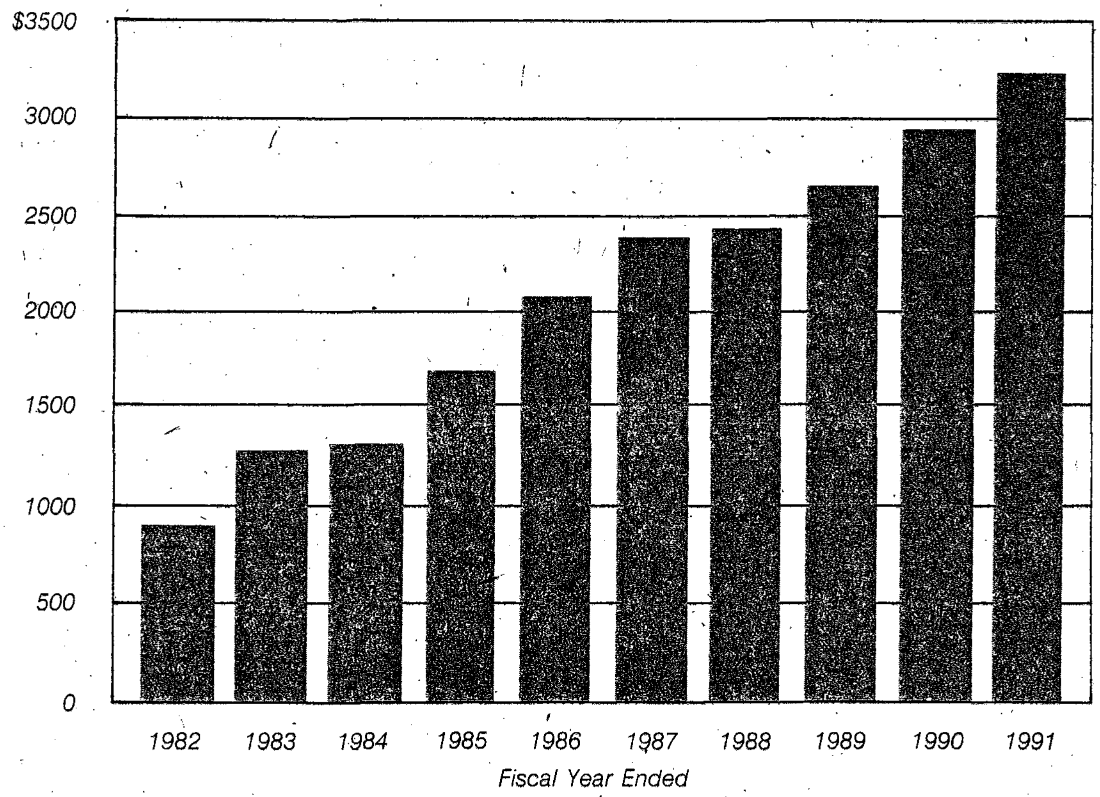
Asset Category	One Year 1991	Three Years 1988-1991	Five Years 1986-1991	Ten Years 1981-1991
Equity Portfolios	8.4%	13.9%	11.0%	14.6%
Fixed Income Portfolios	12.2	11.2	9.4	14.6
Short-Term Investment Portfolio	7.5	8.6	7.9	9.1
Total Fund	**9.7%**	**11.0%**	**9.3%**	**13.3%**
S & P 500 Index	7.4%	14.6%	11.9%	15.5%
Shearson Govt/Corp Index	10.2%	9.9%	8.3%	13.2%
Consumer Price Index	4.6%	4.8%	4.5%	4.1%

NOTE: Real Estate Portfolio returns are included in the total return of the Fund for each period; and for the last ten years these assets have returned 7.9% annually. Venture Capital returns are included in the Equity Portfolios return.

Performance returns calculated by Ronald A. Karp Assoc.

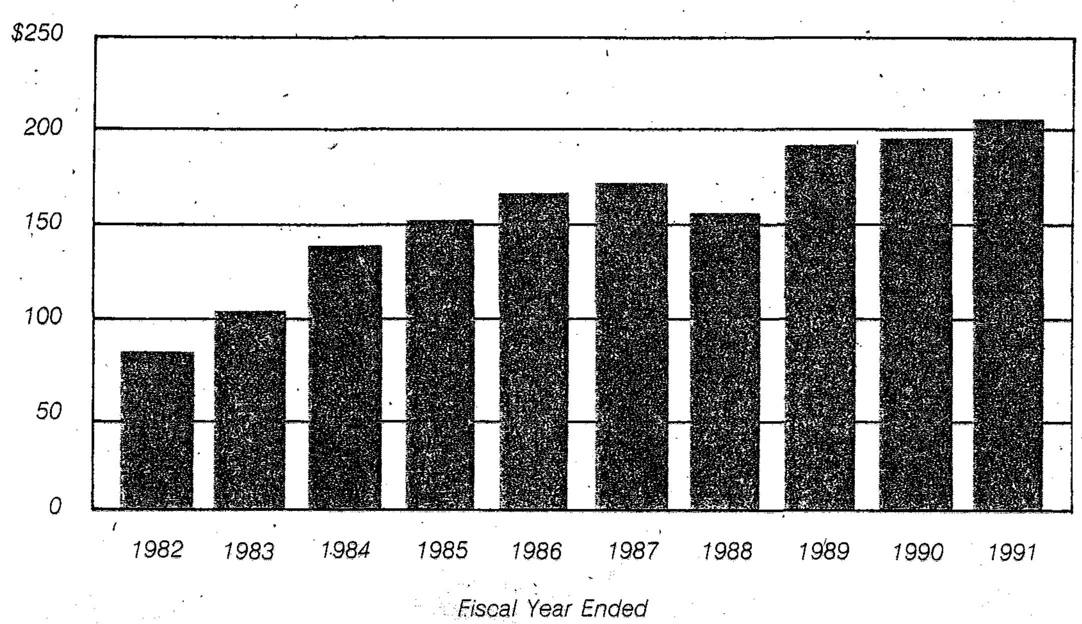
GROWTH OF INVESTMENT PORTFOLIO (By Market Value)

Schedule III
(Millions of Dollars)



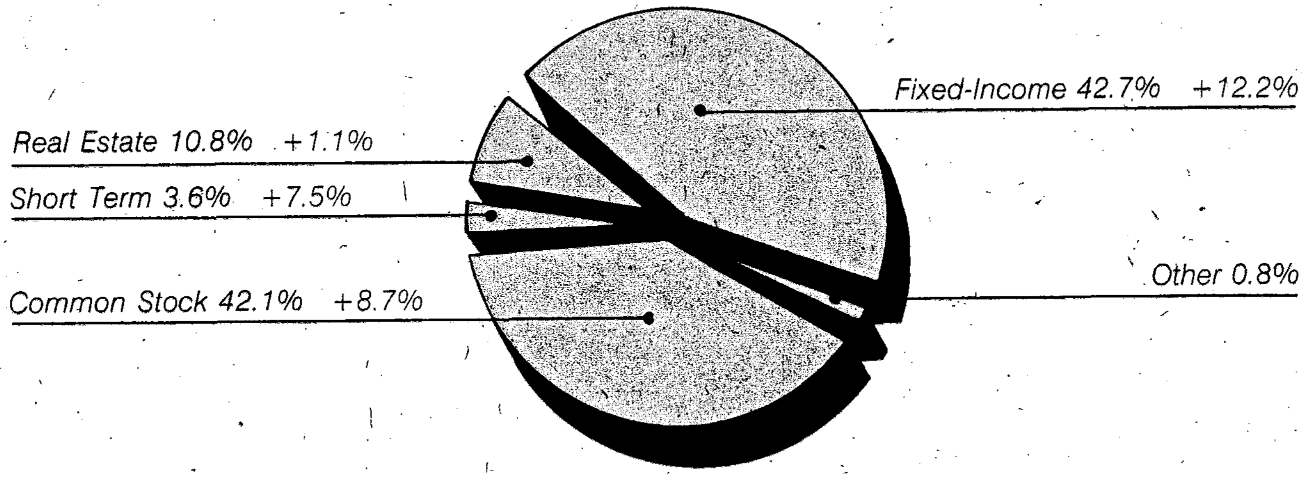
GROWTH OF INVESTMENT INCOME (Including Realized Security Gains And Losses)

Schedule IV
(Values in Millions)

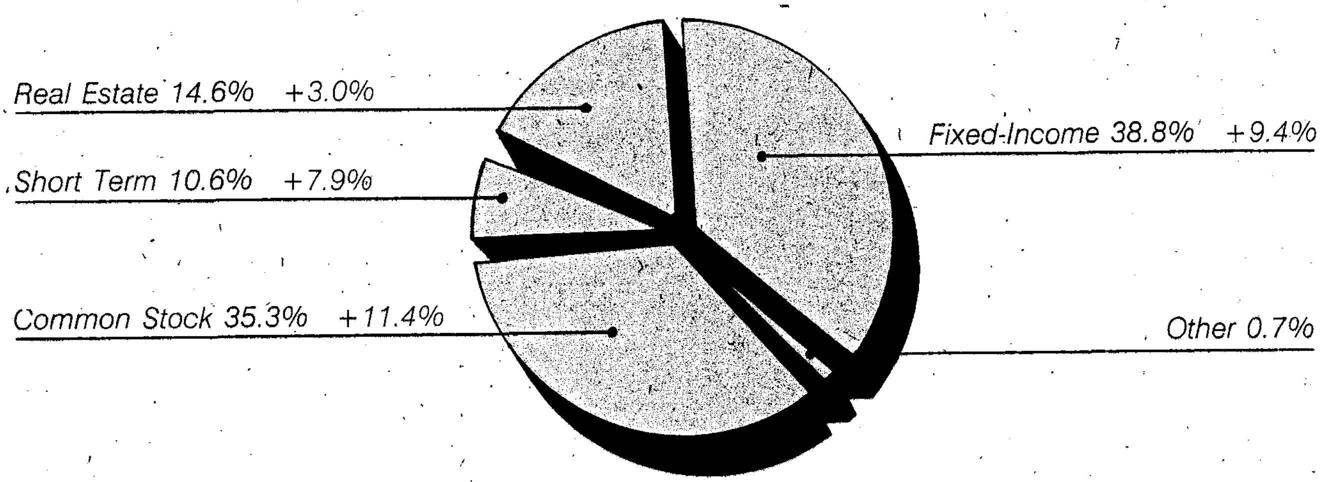


Schedule V

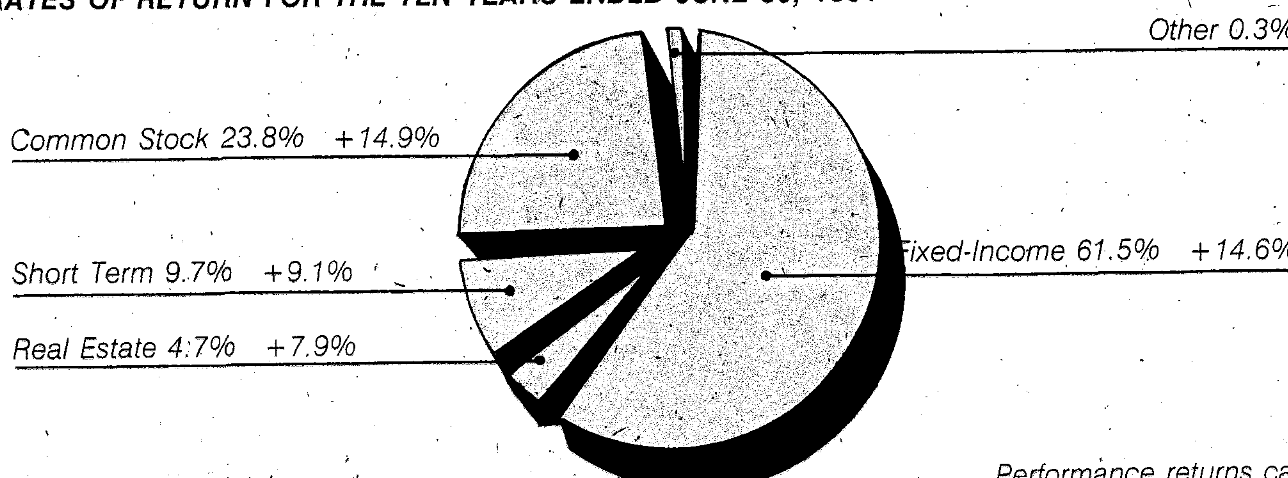
DISTRIBUTION OF PORTFOLIO AS OF JUNE 30, 1991 (Market Value); RATES OF RETURN FOR THE YEAR ENDED JUNE 30, 1991



DISTRIBUTION OF PORTFOLIO AS OF JUNE 30, 1986 (Market Value); RATES OF RETURN FOR THE FIVE YEARS ENDED JUNE 30, 1991



DISTRIBUTION OF PORTFOLIO AS OF JUNE 30, 1981 (Market Value); RATES OF RETURN FOR THE TEN YEARS ENDED JUNE 30, 1991

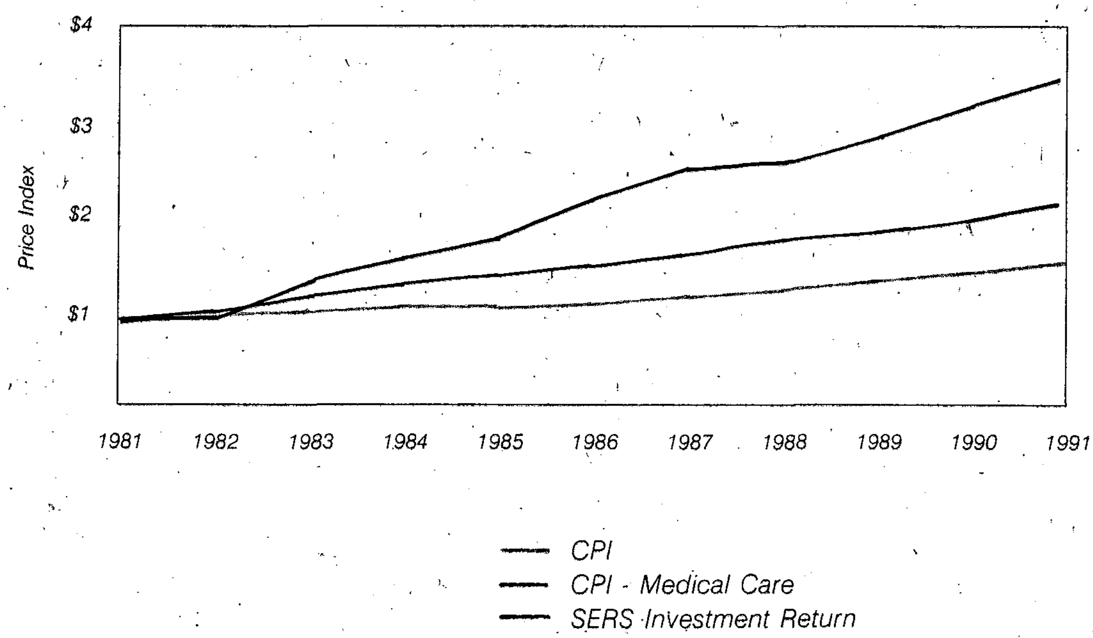


(Colored amounts are total annual rates of return for that asset class)

Performance returns calculated by Ronald A. Karp Assoc.

TOTAL FUND RETURN VS. HEALTH CARE & CONSUMER PRICES (June 1981 thru June 1991)

Schedule VI



QUALITY OF COMMON STOCKS (By Market Value), JUNE 30, 1991

Exhibit I

Quality Rating	Percent Of Stock
A+	29.1%
A	22.5
A−	21.3
B+	13.3
B	7.5
B−	4.0
C	0.2
D	0.0
Not Rated	2.1

Of the stocks owned by the System, the majority fall within the top three quality grades as rated by Standard and Poor's Corporation with respect to the relative stability and growth of earnings and dividends. The 2.1 percent in the non-rated category are companies which are not rated by Standard and Poor's as a matter of policy or because there is insufficient data.

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

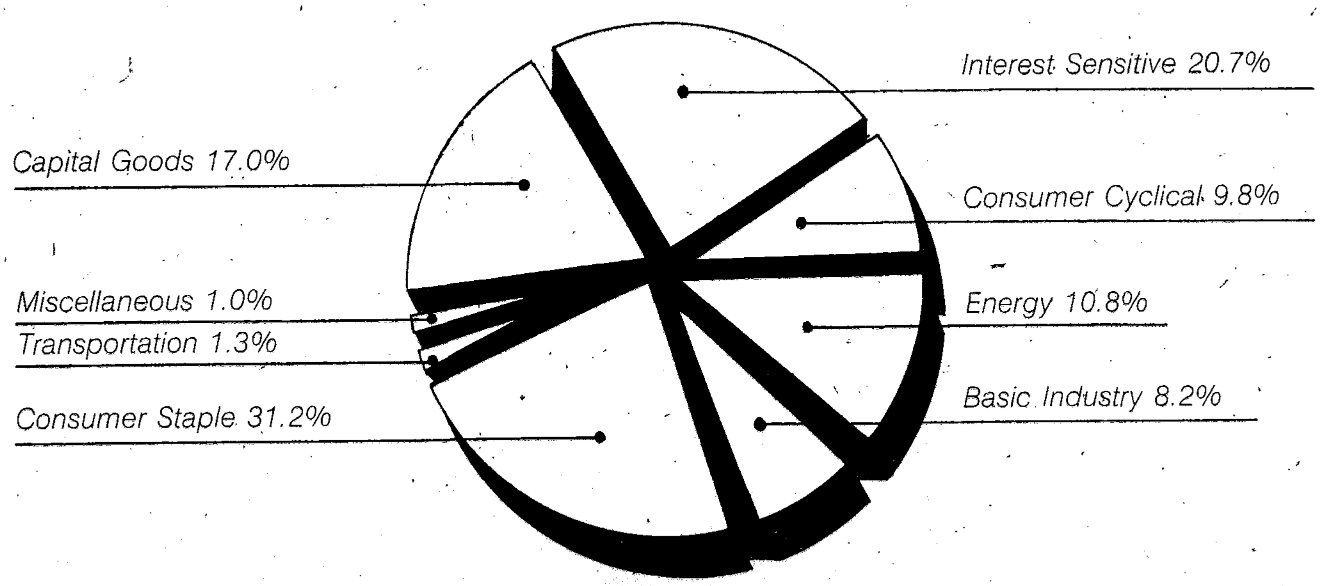
TWENTY LARGEST COMMON STOCK HOLDINGS (By Market Value), JUNE 30, 1991

Exhibit II

Company	Shares	Market Value	% Of Stock Portfolio
Exxon Corp.	703,200	$ 40,873,500	3.00%
General Electric Co.	490,000	36,260,000	2.66
International Business Machines Corp.	314,200	30,516,675	2.24
Phillip Morris Co.	429,400	27,266,900	2.00
Wal-Mart Stores, Inc.	511,400	21,862,350	1.61
du Pont (E.I.) de Nemours & Co.	458,100	21,015,338	1.54
Merck & Co.	174,800	20,298,650	1.49
Mobil Corp.	292,100	18,767,425	1.38
Bristol-Myers Squibb Co.	237,280	18,448,520	1.36
American Telephone & Telegraph Co.	477,000	18,245,250	1.34
Johnson & Johnson	213,600	17,835,600	1.31
Chevron Corp.	253,200	17,818,950	1.31
Coca-Cola Co.	317,000	17,276,500	1.27
American Home Products Corp.	256,200	15,275,925	1.12
Minnesota Mining and Mfg. Co.	155,500	14,558,688	1.07
Amoco Corp.	263,400	13,334,625	0.98
American International Group, Inc.	154,625	13,027,156	0.96
Procter & Gamble Co.	156,273	12,091,623	0.89
Hewlett-Packard Co.	237,800	12,068,350	0.89
Ameritech Corp.	199,500	12,019,875	0.88

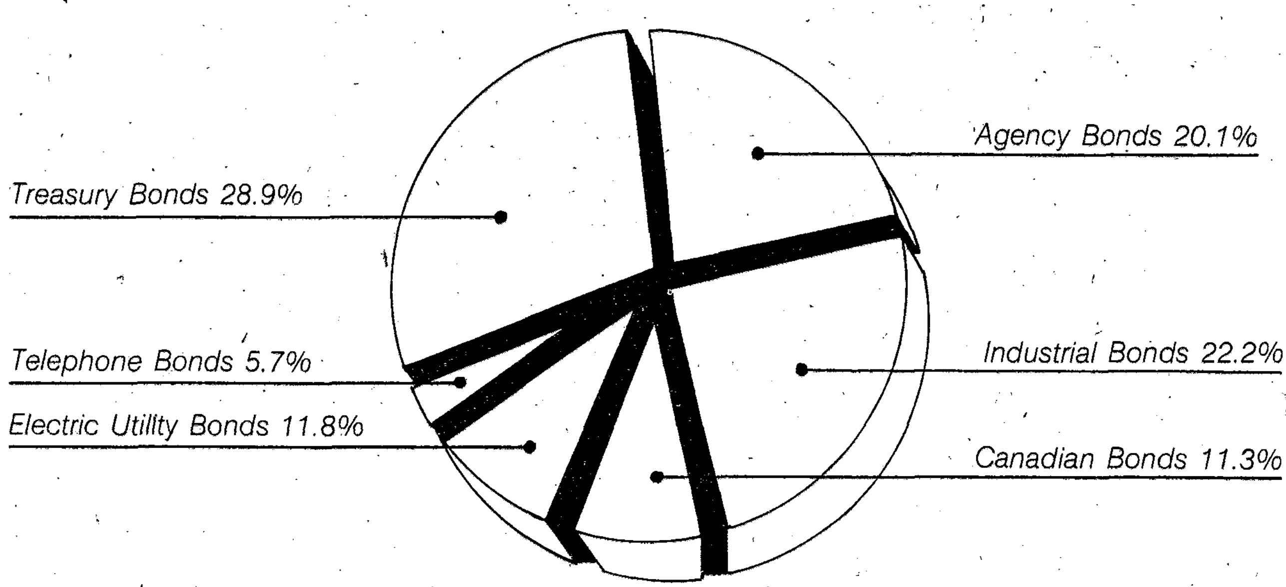
DIVERSIFICATION OF COMMON STOCKS (By Market Value), JUNE 30, 1991

Exhibit III



BOND PORTFOLIO BY SECTOR (By Par Value), JUNE 30, 1991

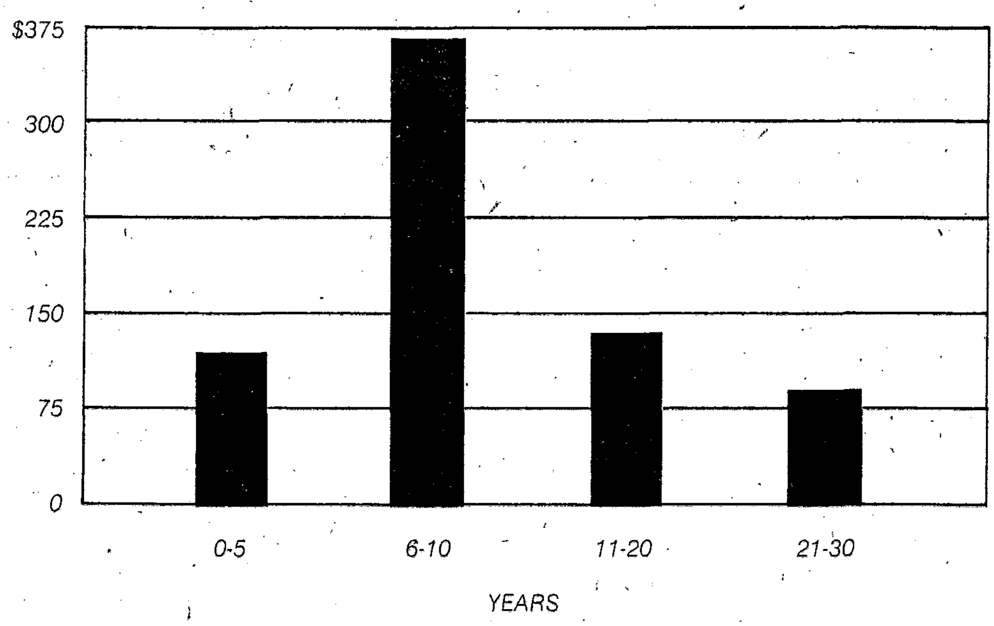
Exhibit IV



BOND PORTFOLIO BY MATURITY (By Par Value), JUNE 30, 1991

Exhibit V

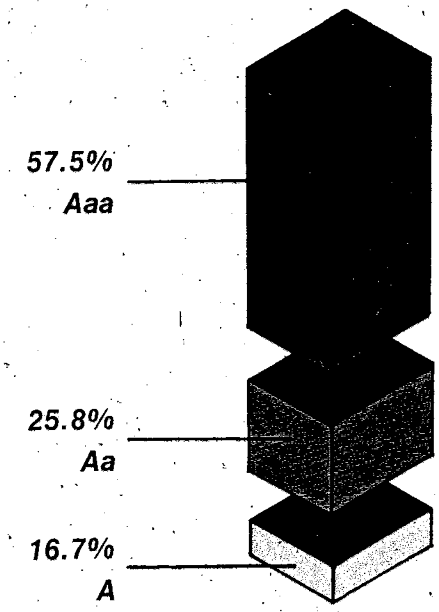
(Millions of Dollars)



BOND PORTFOLIO QUALITY RATINGS BY MOODY'S (By Par Value), JUNE 30, 1991

Exhibit VI

All 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.



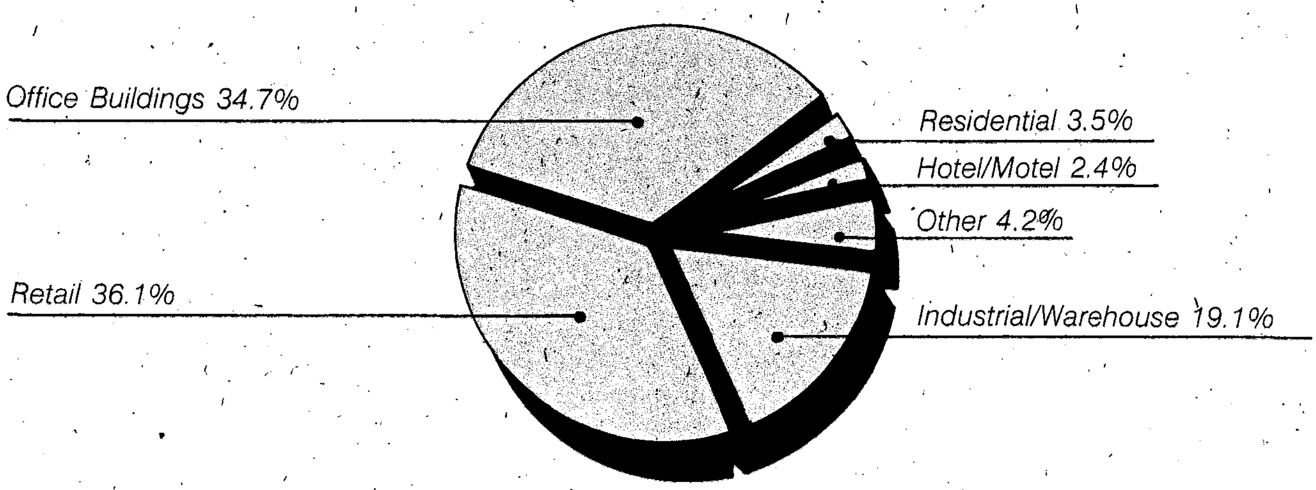
TWENTY LARGEST FIXED INCOME HOLDINGS (By Market Value), JUNE 30, 1991

Exhibit VII

Security	Par Value	Market Value	% Of Fixed Portfolio
FHLMC Multifamily 9.00% 5-1-97	$ 27,718,030	$ 28,618,866	2.1%
U.S. Treasury Notes 8.50% 5-15-97	25,000,000	25,562,500	1.9
Duke Power 10.125% 5-01-20	21,000,000	22,312,500	1.6
FHLMC Series 20B 9.49% 6-15-09	19,940,000	21,310,875	1.5
FHLMC CMO M-5 8.65% 6-1-05	20,000,000	21,200,000	1.5
U.S. Treasury Notes 9.25% 8-15-98	20,000,000	21,118,750	1.5
U.S. Treasury Notes 8.875% 7-15-95	20,000,000	20,800,000	1.5
U.S. Treasury Notes 8.875% 2-15-96	20,000,000	20,800,000	1.5
FHLMC Cap Deb 8.80% 10-27-99	20,000,000	20,750,000	1.5
U.S. Treasury Notes 8.875% 11-15-97	20,000,000	20,731,250	1.5
U.S. Treasury Notes 8.875% 5-15-00	20,000,000	20,681,200	1.5
Associates Corp. 8.625% 6-15-97	20,000,000	20,050,000	1.4
U.S. Treasury Notes 8.00% 10-15-96	20,000,000	20,018,750	1.4
U.S. Treasury Notes 7.875% 7-15-96	20,000,000	19,943,750	1.4
FHLMC Multifamily 9.00% 6-15-97	18,217,242	18,809,302	1.3
FHLMC Series 21D 9.25% 6-15-07	18,000,000	18,720,000	1.3
Hydro-Quebec 10.00% 2-1-09	17,000,000	18,110,312	1.3
FHLMC Part Ctf 10 00% 10-1-09	17,137,574	17,715,967	1.2
FHLMC Part Ctf 10 50% 2-1-19	16,791,746	17,589,353	1.2
FHLMC GMC 12.45% 9-15-09	13,744,500	17,455,515	1.2

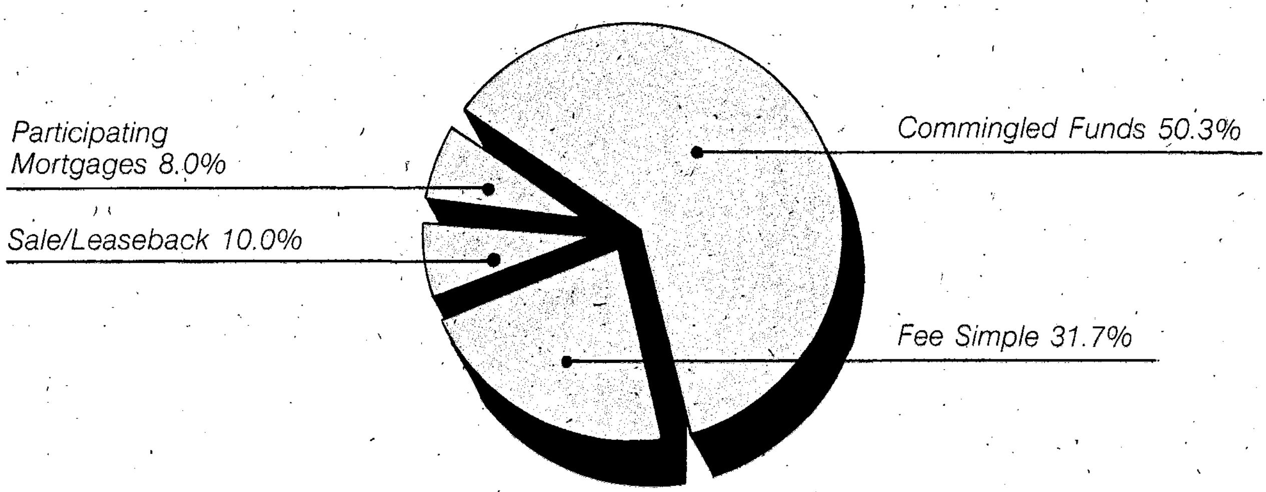
REAL ESTATE PORTFOLIO BY PROPERTY TYPE (Including Commingled Funds), JUNE 30, 1991

Exhibit VIII



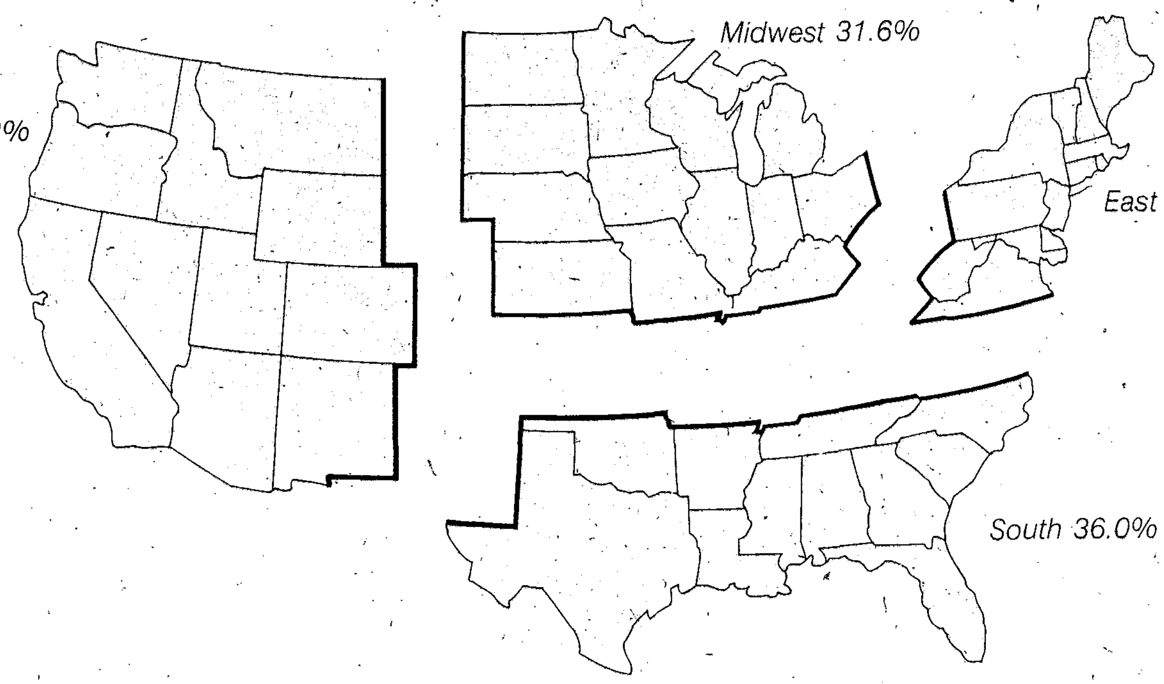
REAL ESTATE PORTFOLIO BY TYPE OF OWNERSHIP, JUNE 30, 1991

Exhibit IX



PERCENT OF REAL ESTATE PORTFOLIO BY GEOGRAPHICAL LOCATION (Including Commingled Funds), JUNE 30, 1991

Exhibit X.



TEN LARGEST REAL ESTATE HOLDINGS (By Market Value), JUNE 30, 1991

Exhibit XI

Property	Location	Estimated Market Value	% Of Real Estate Portfolio
Prudential Realty Group-PRISA	Nationwide	$ 54,162,110	15.7%
NCNB-Real Estate Fund	Southeast	35,300,017	10.2
Equitable Real Estate-Hawaiian Properties	Hawaii	25,709,232	7.4
Equitable Real Estate-Prime Properties Fd.	Nationwide	25,416,242	7.4
Morgan Guaranty Real Estate Fund	Nationwide	23,464,295	6.8
88 East Broad Building	Columbus, OH	21,200,000	6.1
Tech Park & Shadyview Warehouses	Eden Prairie, MN	20,090,000	5.8
Metro Center V	Dublin, OH	16,400,000	4.7
Prestige Plaza	Dayton, OH	10,445,000	3.0
Prudential Realty Group-PRISA II	Nationwide	9,922,830	2.9

INVESTMENT POLICY

This Investment Policy was adopted by the School Employees Retirement Board Of Ohio at its August 2, 1985 meeting and revised on April 7, 1989.

A. Purpose

The purpose of this Statement of Investment Policy is to define the Retirement Board's investment philosophy and objectives for the School Employees Retirement System of Ohio. This statement sets forth policies and describes the organization and division of responsibilities to prudently implement the Board's philosophy and objectives in accordance with Section 3309.15 of the Ohio Revised Code. It also establishes the framework and specific objectives to monitor investment performance and promote effective communication between the Board and the Investment Staff and Investment Managers.

The contents of this Statement of Investment Policy and the associated Guidelines and Objectives are subject to change at any time by the Board. The Statement will be reviewed and revised periodically to assure that it continues to reflect the attitudes, expectations and objectives of the Board.

B. Background

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

The System is governed by a seven member board, including the Ohio Attorney General and State Auditor, with responsibility for the investment function as set forth in the Ohio Revised Code. In addition to the investment function, the Ohio Revised Code also sets forth the fiduciary responsibility of the Board and of other fiduciaries in discharging their duties with respect to the fund. This Statement of Investment Policy incorporates and is subject to all restrictions, guidelines and obligations set forth by the Ohio Revised Code.

C. Investment Philosophy

Risk Posture

The Board realizes that its primary objective is to assure that the Plan meet its responsibilities for providing retirement and other benefits. Therefore, it shall always act to assure that the level of investment risk in the portfolio shall be prudent and shall not jeopardize that primary objective.

Return

The Board believes, however, that over the long-term there exists a relationship between the level of investment risk taken and rate of investment return realized. The Board feels that assumption of a moderate level of risk associated with investments is reasonable and justified in order to enhance potential long-term investment results.

Diversification

The Board seeks diversification by asset class and by investment approach and individual investments within asset classes to reduce overall portfolio risk.

Liquidity Requirements

The System anticipates positive cash flow over the near-term and intermediate-term. Liquidity, for the purpose of immediate and intermediate-term benefit payments, is therefore not a major consideration in the investment of funds for the foreseeable future.

D. Investment Objectives

In defining investment objectives the Board seeks to enhance the investment returns of the fund in order to permit higher benefits and to achieve lower costs. Therefore, it adopts the following general investment objectives:

Performance Objectives

A. Maximize Total Return on Assets: Recognizing the System's obligations will increase as a result of inflation, to maximize the total return on assets available for the provision of benefits while operating in accordance with applicable regulatory restrictions and within prudent parameters of risk.

B. Preservation of Principal: To protect the System from severe depreciation in asset value during

INVESTMENT POLICY (Continued)

D. Investment Objectives (Continued)

Performance Objectives (Continued)

adverse market conditions. This objective shall be attained by broad diversification of assets and by careful review of risks.

C. Competitive Results: To achieve investment results competitive with those of the broad market and of similar funds. Long-term results shall be emphasized.

Risk

A. Stability: While the Board seeks higher long-term investment results, it also seeks to avoid major fluctuations in year-to-year results.

B. Risk Level: The Board seeks to maintain a reasonable degree of total portfolio risk, defined as that which would be experienced by similar retirement systems.

Other Objectives

Ohio Investments: Where investment characteristics, including return, risk and liquidity, are equivalent, the Board will give careful consideration to investments which will have a positive impact on the economy of Ohio.

E. Implementation Approach

In order to monitor and control the activities within the investment function, the Board has reserved certain responsibilities for itself. It has also delegated certain responsibilities to the Investment Staff, to organizations serving as Investment Managers and, from time to time, to other consultants or advisors. These are enumerated in Section F, Investment Organization and Responsibilities.

In fulfulling its fiduciary duties, the Retirement Board employs a competent and qualified Investment Staff for the management of the major portion of portfolio assets. In those areas where specialized expertise is required, the Retirement Board employs the services of outside Investment Managers.

The Board has also established a reporting process for regular and timely review and evaluation of investment results. This is described in Section G, Review and Evaluation. Finally, the Board has adopted Investment Guidelines and Objectives for each asset class and each investment management accountability unit within those asset classes. These guidelines also specify long-term target ratios for asset allocations, as well as permissible ranges related to those target allocations. These guidelines and objectives are regularly evaluated and updated based on market conditions, investment results and the recommendations of the Investment Staff, Investment Managers and other consultants or advisors.

F. Investment Organization and Responsibilities

Responsibilities of the Retirement Board

The Retirement Board recognizes its responsibility to ensure that the assets of the Plan are managed effectively and prudently, in full compliance with all applicable laws, and for the exclusive benefit of participants and beneficiaries. The Board believes it can best manage those responsibilities by delegating certain specific duties to others, as described below. In addition, the Board may designate certain of its members to act as an Investment Committee or a Subcommittee from time to time, and may delegate certain decision-making or fact-finding responsibilities to that committee or subcommittee.

Specific responsibilities of the Retirement Board or its Investment Committee or Subcommittee are as follows:

A. Ensure that all fiduciaries comply with the Ohio Revised Code and any other applicable regulations and legislation.

B. Establish investment policies, guidelines and objectives for the assets of the Plan and communicate them to the Investment Staff and Investment Managers.

C. Appoint and discharge those with responsibility for managing the Plan's assets, including investment managers, consultants and any others involved.

D. Request, receive and review reports from the Investment Staff and Investment Managers.

INVESTMENT POLICY (Continued)

F. Investment Organization and Responsibilities (Continued)

Responsibilities of the Investment Staff

The Investment Staff, headed by the Executive Director and the Assistant Director for Investments, shall accept the following responsibilities. The Executive Director shall:

A. Obtain necessary reports on the investment results of the Plan's assets on a timely basis as specified in Section G, Review and Evaluation.

B. Retain any consultants or advisors deemed necessary or desirable for assistance in the investment of Plan assets, and for meeting his responsibilities.

C. Oversee the investment function.

The Assistant Director for Investments shall accept the following responsibilities:

A. Administer the policies, guidelines and objectives adopted by the Retirement Board of the School Employees Retirement System of Ohio in compliance with the relevant sections of the Ohio Revised Code.

B. Inform and communicate to other Plan fiduciaries, including all Investment Managers, the requirements of the Ohio Revised Code and the policies, guidelines and objectives adopted by the Retirement Board, and monitor their compliance.

C. Prepare annually an Annual Plan for the investment of the Plan's assets with recognition of the target asset mix ratios and the permissible ranges for asset allocation established by the Board.

D. Implement the Annual Plan, exercising the judgments allowed by the Board as to the asset allocation ranges for that year.

E. Report to the Board or its Investment Committee any intra-year changes in the Annual Plan or in the policy, guidelines or objectives which the Investment Staff deems desirable or which are recommended by an Investment Manager or other consultants or advisors.

F. Oversee the activities of the Investment Staff.

Responsibilities of the Investment Managers

Each Investment Manager, including Investment Staff with respect to internally managed assets, shall accept the following responsibilities for the specified investment management accountability unit which it manages.

A. Manage the assets within its control in compliance with the relevant sections of the Ohio Revised Code and with the policies, guidelines and objectives adopted by the Retirement Board.

B. Exercise investment discretion within the guidelines and objectives specified, including decisions to buy, hold or sell securities based on the manager's current investment strategy and outlook and compatible with such objectives.

C. Inform the Retirement Board or the Investment Committee of any substantial changes in investment strategy, portfolio structure, value of assets, and of any organizational changes, including that of ownership, affiliation, organizational structure, financial condition, or changes in professional personnel staffing the investment management organization.

D. Prepare reports for the Board or Investment Committee prior to any scheduled meetings but at least on a quarterly basis.

E. Recommend to the Board or Investment Committee any changes in policy, guidelines or objectives which the Investment Manager believes to be desirable.

G. Review and Evaluation

The Board shall review and evaluate periodic reports on the investment results of the Plan's assets, as described below, obtained by the Executive Director. In addition, the Board shall review the periodic reports of each Investment Manager. In these reviews, it is intended that greater emphasis shall be given to long-term results than to short-term results. Following is the intended frequency for the review and evaluation, although these may be altered by the Board as deemed necessary:

INVESTMENT POLICY (Continued)

G. Review and Evaluation (Continued)

Quarterly

Summary Investment Reports — including highlights and commentary of investment performance, asset composition and holdings for each asset class and each investment management accountability unit. These reports shall identify any results which require the attention of the Board.

Investment Manager Reports — prepared by the manager of each investment management accountability unit, reporting on the results of the most recent period.

Annually

Detailed annual investment reports — these reports will include the contents of the quarterly summary reports, as well as additional detail regarding the investment results for each investment management accountability unit.

Written and/or verbal reports presented by the manager of each investment management accountability unit. These shall be scheduled on a staggered basis throughout the year, as determined appropriate by the Board.

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 766 school districts. This purpose is sustained by the member and employer contributions and the income realized from investment of 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 five directors. Their areas of responsibility are finance, investments, member services, planning and development, and management information services.

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 most employees working in a position that 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. Two exceptions to the membership requirements are: (1) Persons with student status within a school district may choose to become members of SERS. (2) Persons retired from one of the other Ohio state retirement systems may not become members of SERS. Active members have an amount equal to 9.0% 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 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 that 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 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, 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 a person worked within a school district or districts in Ohio schools, plus any other free or purchased service 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 that can be purchased are:

Military — *A member may purchase up to five years of credit in SERS for active service in the armed forces of the U.S. There is no restriction placed on 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 School Service — *The member may purchase credit for service rendered in a school or government position outside the State of Ohio. The service cannot be greater than the member's SERS service nor can it exceed five 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 for which the member should have made contributions 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, the employer-school district must likewise make its contribution, and the employer is under no obligation to make payment.*

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 2.1% to determine the value of a year of service credit. This value cannot be less than $86. If it is, $86 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 upon the retiree's death, 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, with consent of the ex-spouse.

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 of 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;*
- *Not have withdrawn contributions or retired on service retirement.*

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

Eligible benefit recipients receive medical insurance from SERS. 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 the Aetna insurance company, for those persons in the Cleveland area, the Kaiser health plan, or for those in the Marion area, HealthOhio, Inc., or for those in the Central Ohio area, United Health Plan.

If the benefit recipient participates in Medicare B, SERS reimburses the recipient $24.80 per month.

An optional prescription drug program is available to *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 retiring after June 1, 1986 must have 10 or more years of service credit to qualify for the health care benefits.

Members retiring on and after August 1, 1989 with less than 25 years of qualified service credit pay a portion of their premium for health care. The portion is based on years of service up to a maximum of 75% of the premium.

Cost of Living Increases

After 12 months on the benefit rolls, and each year thereafter, SERS retirants are entitled to an automatic cost of living increase of 3%, provided the Consumer Price Index shows a 3% gain over the previous year. This 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 1988.