

comprehensive annual

Financial Report

for the year ended June 30, 1992

School Employees Retirement System of Ohio

Comprehensive Annual

Financial Report

for the year ended June 30, 1992

Prepared by SERS Staff

Thomas R. Anderson
Executive Director

Joel E. Sofranko
Director of Finance

The School Employees Retirement Board of Ohio



Seated, left to right: Agnes F. O'Keefe, Thomas R. Anderson, Lee Fisher. Standing, left to right: Jeannie Knox, William A. Guy, Lowell B. Davis, Thomas E. Ferguson, Judy Kelley.

President: Agnes F. O'Keefe, Westerville, Ohio
Term expires June 30, 1992

Vice President: Lowell B. Davis, Euclid, Ohio
Term expires June 30, 1993

Employee-Member: William A. Guy, Columbus, Ohio
Term expires June 30, 1992

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

Employee-Member: Jeannie Knox, Cincinnati, Ohio
Term expires June 30, 1995

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

Organizational Chart

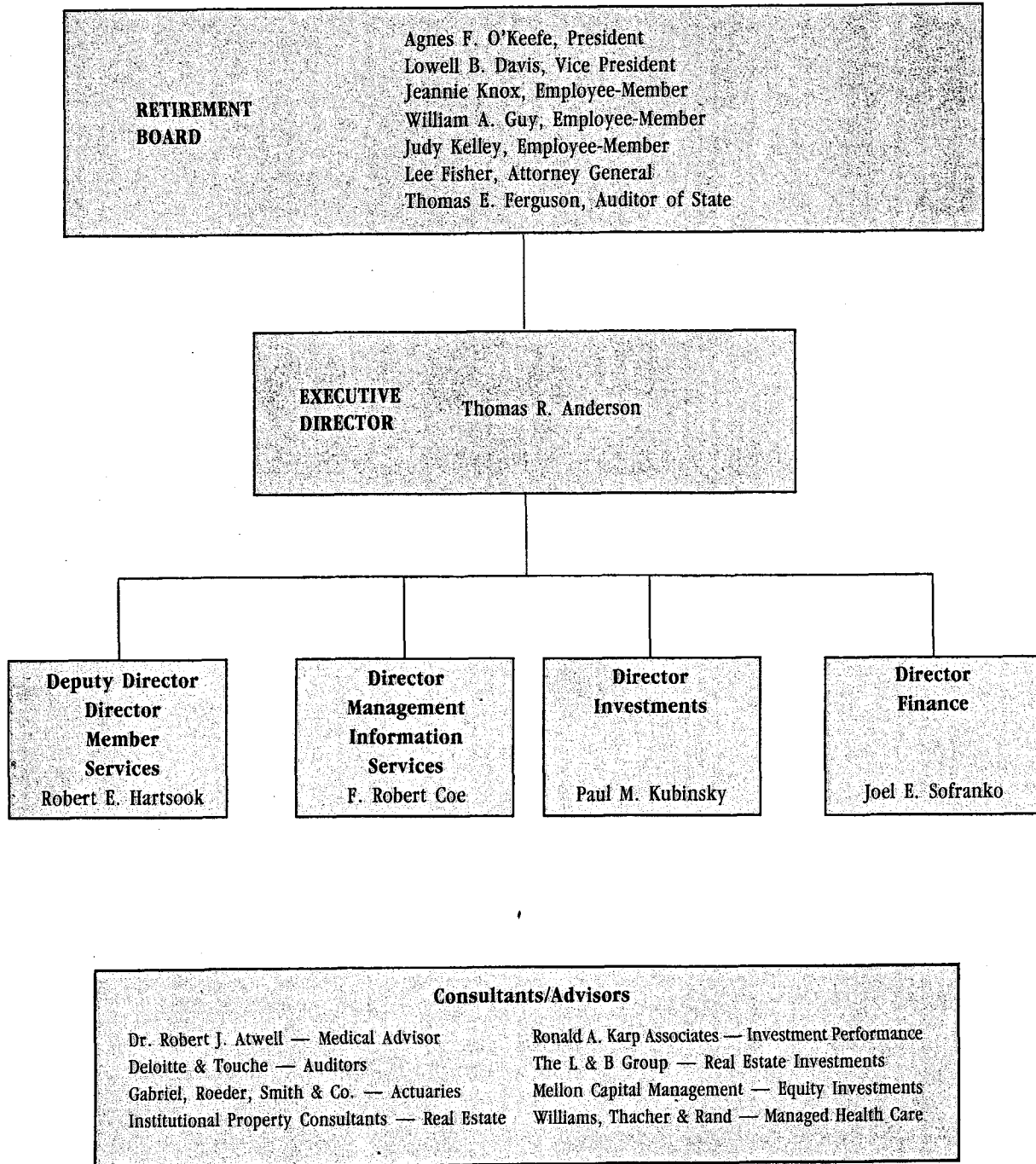


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Certificate of Achievement for Excellence in Financial Reporting

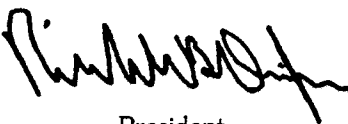
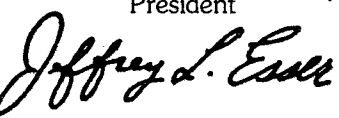
Presented to

School Employees Retirement System of Ohio

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1991

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 (CAFRs) achieve the highest standards in government accounting and financial reporting.




President

Executive Director



SCHOOL EMPLOYEES RETIREMENT SYSTEM

45 North Fourth Street * Columbus, Ohio 43215-3634 * Telephone (614) 222-5853

December 7, 1992

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, 1992.

The report is divided into six sections: an Introductory Section which contains a Letter of Transmittal, along with the identification of the administrative organization, Certificate of Achievement for Excellence in Financial Reporting and a summary of federal and state legislation affecting the System over the past year; 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 57.

Economic Environment

During the fiscal year ended June 30, 1992, the economy was in a transition mode, moving from recession to recovery. In the fourth quarter of 1991, persistent signs of economic weakness led the Federal Reserve to aggressively lower interest rates. Mounting unemployment lines, declining auto and retail sales, and pessimistic consumer sentiment appear to have been among the key reasons prompting the emphatic action by the Federal Reserve.

As 1992 began, so did a change in business activity. Unemployment gains slowed, housing construction continued strong, and retailers reported an improvement. Additionally, personal income adjusted for inflation progressed positively during the first quarter. Accordingly, the attitude of the American consumer has improved from the lows of the fourth quarter of 1991. With this improvement in place, the recovery has continued, albeit at the grudgingly slow pace.

Inflation and interest rates should remain

low for the foreseeable future. The outlook for the economy is for this recovery to continue at a slow pace which is both more prudent and sustainable than a booming expansion. Lower interest rates will place pressure on SERS' fixed income and short-term portfolio as paydowns and net new funds will have to be invested in instruments carrying significantly reduced rates. SERS' investment portfolio will continue to emphasize high quality assets, representing excellent long term value which will protect pension and health care benefits well into the future.

Major Initiatives and Financial Highlights

Two major initiatives dominated SERS' activities during the current fiscal year. The first involved a coordinated effort by Ohio's pension funds to combat Social Security's intrusion into Ohio's public sector.

In the fall of 1990, Congress passed mandatory Social Security coverage for public employees not covered by a public pension plan. Ohio was thus faced with a choice of having some of its public employees covered by Social Security for the first time, or amending state statutes and administrative rules to bring all public employees under the state systems.

The choice was made and legislation was passed in late June of 1991. H.B. 382 made significant changes in SERS' membership requirements and brought new groups of employees into the pension plan. The two largest groups of new members are retired public employees who return to non-certificated school positions, and

school board members, who may select coverage by SERS or Social Security.

SERS was busy during fiscal 1992 implementing all the provisions of H.B. 382, which requires the establishment of a separate annuity program for reemployed retirees.

The other major initiative during the current fiscal year concerned our ongoing attempts to find cost effective ways to provide post-retirement health care. Over the past number of years, SERS has adopted several cost sharing and cost containment measures designed to hold down health care costs while maintaining high quality benefits.

SERS continued these efforts with the introduction of a hospital discount program, expansion of the retail pharmacy network, expansion of the Medicare cross-over program and implementation of a managed second surgical opinion program. We were able to hold the line on retiree co-payments for mail-order prescriptions due to our incentive plan for the use of generic drugs.

Another key component of controlling health care costs will be implementing managed health care for hospital and doctor expenses. Our focus on managed care will be on the quality of care provided and the ability to measure outcomes. In this way we will be better positioned to manage cost rather than attempt to control the price of health care.

Work has begun on this project in fiscal 1993 and we expect to implement a managed care network for hospitals and doctors in the summer of 1993. SERS re-

mains committed to maintaining our excellent benefits in the face of inflationary pressures.

Awards: Certificate of Achievement for Excellence in Financial Reporting and Award for Excellence in Retirement Administration

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, 1991.

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 seven consecutive years (fiscal years ended 1985-1991). 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.

In addition to the Certificate of Achievement, SERS was the recipient of GFOA's Award for Excellence in the public retirement administration category at the GFOA annual meeting in June, 1992. The Award for Excellence program annually recognizes members' outstanding contributions to the

practice of government finance. SERS' submission, Preferred Pharmacy Program: A Prescription for the Future of Health Care, explains SERS' actions to control the prescription drug cost component of the post-retirement health care program provided to benefit recipients. At a time when overall health care costs are increasing at a staggering rate, this new program that saves retirees and their pension fund more than \$2 million a year is a significant victory in the cost containment battle:

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.

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, 1992, investments provided 42.5% of the System's total revenues while employee and employer contributions provided 22.2% and 38.4%, respectively; other sources accounted for the remaining (3.1)%.

The market value of the investments of the System was \$3.577 billion at June 30, 1992, an increase of \$351.0 million from the previous year. For the last ten years, SERS has experienced an average annualized return of 13.7%. At June 30, 1992, the carrying value of our investment portfolio was structured as follows: 47.9% in debt securities; 35.6% in equity securities; 7.2% in short-term investments; and 9.3% 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 invest-

ment policy and operations are provided on pages 44 to 56 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.

SERS' bank deposits at year-end were entirely covered by federal depository insurance or collateral held in the name of SERS' custodian. Of \$3.6 billion in investments at market value at June 30, 1992, none of the System's investments were in the lowest risk categories as defined by the Governmental Accounting Standards Board.

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 \$117.3 million and \$202.4 million respectively, while income from investments totaled \$224.2 million. The employee and employer contribution rates during fiscal 1992 remained unchanged from the prior year at 9% and 14% respectively. Overall revenues increased 5.2% 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)		Increase Amount	Increase Percentage
	1992	1991		
Member Contributions	\$ 117.3	\$109.3	\$ 8.0	7.3%
Employer Contributions	202.4	188.5	13.9	7.4
Investment Earnings	224.2	201.8	22.4	11.1
Other	(16.1)	2.0	(18.1)	(905.0)
Total	\$527.8	\$501.6	\$ 26.2	5.2%

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 1992 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 1992 totaled \$325.5 million, an increase of 8.6% over 1991 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.

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 \$4,546 million and \$1,436 million, respectively as of June 30, 1992. The employer contribution rate of 14% is allocated by Board policy between basic benefits and health care. In

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.

Operating Expenses
(Expressed in Millions)

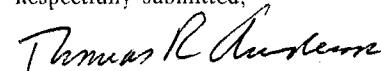
	1992	1991	Increase Amount	Increase Percentage
Retirement Payments	\$220.5	\$205.4	\$15.1	7.4%
Health Care Payments	81.9	71.6	10.3	14.4
Refunds	12.8	12.3	.5	4.1
Administrative Expenses	8.6	8.3	0.3	3.6
Other	1.7	2.2	(.5)	(22.7)
Total	\$325.5	\$299.8	\$25.7	8.6%

Acknowledgements

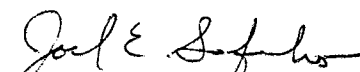
The preparation of this report is the result of the combined effort of the System's staff under the direction of the Retirement Board. It is intended to provide complete and reliable information as a basis for making management decisions, to disclose compliance with legal provisions, and to serve as a means of exhibiting responsible stewardship of 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
Executive Director



Joel E. Sofranko, CPA
Director of Finance

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 1992 resulted in an increase in the fund balance of \$202.3 million.

The actuarial valuation for funding purposes, dated June 30, 1992, reflects an unfunded accrued liability for basic benefits of \$1,363 million and for health care benefits of \$1,364 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 (\$4,693 million and \$3,330 million) and health care (\$1,518 million and \$154 million).

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 basic benefits and health care benefits on a level cost funding basis.

Additional information regarding funding is provided within the Actuarial Section (pages 32 to 37) of this report.

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

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 for prior service as a board member.

H.B. 383 eff. 5/4/92

This legislation was enacted to allow a member of SERS, PERS, or STRS with a total of 18 months of contributing service credit in the three systems to purchase service credit for periods during which the member had exempted himself, under then-existing law, from contributing to SERS, PERS or STRS. The credit is purchased through the system in which the member has the most service credit at the time of purchase. The service credit purchased is not counted in determining eligibility for retiree health care benefits.

H.B. 346 eff. 7/29/92

This legislation was enacted to conform SERS' disability statutes to the requirements of the federal Older Workers Benefit Protection Act, commonly known as the "Betts' Legislation". The Betts' Legislation clarified that the Age Discrimination in Employment Act (ADEA) applies to benefit plans such as disability benefits and required public plans to comply with its provisions by October, 1992. SERS' statutes were amended to comply with the Betts' Legislation and now provide two disability programs. The program in existence prior to 7/29/92 that requires members to be under age 60 to apply, now covers only those persons who were SERS members as of 7/29/92 and who elect to remain under such program. The new program that allows members to apply at any age, covers all persons who become SERS members after 7/29/92 and all members as of 7/29/92 who do not

elect to remain under the former program.

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:

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 provide a graduated exemption from the Offset based on total monthly benefits. Hearings, at which SERS testified, were held before House Committees. However, no action was taken by Congress.

Section 415

Legislation to amend Section 415 of the Internal Revenue Code to lessen its impact on public retirement systems, such as SERS, was again introduced in Congress. Section 415 provides that no

Legislative Summary

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 legislation introduced included a uniform definition of "compensation", exempted governmental plan benefits from the 100% limitation, authorized governmental plans to establish excess plans and provided that governmental plans to establish excess plans and provided that governmental plan disability retirement and survivor benefits are not subject to Section 415. Such legislation was included first in H.R. 4210, the tax package vetoed by the President in March, 1992, and subsequently in H.R. 11, the tax package vetoed by the President in November, 1992. Similar legislation probably will be introduced again early next year.

Withholding Tax On Lump Sum Distributions

Legislation (H.R. 5260) was enacted requiring a 20 percent withholding tax on lump sum pension distributions paid after 12/31/92 that are not rolled over directly into another qualified pension plan or IRA. The withholding is applicable to SERS refunds in excess of \$200.00 paid on or after January 1, 1993.

Financial Section

- *INDEPENDENT AUDITORS' REPORT*
 - *BALANCE SHEETS*
 - *STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN FUND BALANCE*
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 - FUND BALANCE ACCOUNTS*
-

INDEPENDENT AUDITORS' REPORT

**Deloitte &
Touche**



155 East Broad Street Telephone: (614) 221-1000
Columbus, Ohio 43215-3650 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, 1992 and 1991, 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, 1992 and 1991, 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 through 1992 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

December 4, 1992

**Deloitte Touche
Tohmatsu
International**

BALANCE SHEETS

June 30, 1992 and 1991

	1992	1991
Assets:		
Cash (note 5)	\$ 5,789,898	\$ 3,004,786
Receivables:		
Contributions:		
Employers (note 4)	114,164,777	107,700,462
Employees (note 4)	8,688,530	7,720,510
State of Ohio subsidies	794,464	887,013
Accrued investment income	28,043,402	28,008,754
Investment sale proceeds	26,479,200	10,430,435
Total receivables	<u>178,170,373</u>	<u>154,747,174</u>
Collateral held under securities lending program (note 5)	<u>253,530,122</u>	<u>251,793,903</u>
Investments, at cost (market \$3,576,978,461 and \$3,225,957,813, respectively) (notes 5 and 6)	<u>2,913,435,808</u>	<u>2,719,071,961</u>
Property and equipment, at cost (note 7)	11,158,428	10,831,805
Less accumulated depreciation	<u>5,235,575</u>	<u>4,289,445</u>
Net property and equipment	<u>5,922,853</u>	<u>6,542,360</u>
Other assets (note 9)	<u>7,410,499</u>	<u>4,765,548</u>
Total assets	<u>3,364,259,553</u>	<u>3,139,925,732</u>
Liabilities:		
Accounts payable and accrued expenses	566,575	761,419
Investment commitments payable	24,376,926	5,903,132
Health care benefits incurred and unpaid	19,020,746	17,169,695
Other liabilities (note 9)	1,120,246	942,222
Obligations under securities lending program (note 5)	<u>253,530,122</u>	<u>251,793,903</u>
Total liabilities	<u>298,614,615</u>	<u>276,570,371</u>
Net assets available for benefits	<u>\$ 3,065,644,938</u>	<u>\$ 2,863,355,361</u>
Fund balance (note 3):		
Pension benefit obligation:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$ 3,120,694,137	\$ 2,828,887,430
Current employees:		
Accumulated employee contributions, including allocated investment income	816,328,094	748,783,498
Employer financed portion	<u>2,044,586,484</u>	<u>1,877,265,447</u>
Total pension benefit obligation	5,981,608,715	5,454,936,375
Unfunded pension benefit obligation payable	<u>(2,915,963,777)</u>	<u>(2,591,581,014)</u>
Total fund balance	<u>\$ 3,065,644,938</u>	<u>\$ 2,863,355,361</u>

See accompanying notes to financial statements.

Financial Section

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE

Years ended June 30, 1992 and 1991

	1992	1991
Revenues:		
Contributions:		
Employers (note 4)	\$ 202,421,912	188,465,132
Employees (note 4)	117,331,597	109,310,197
State of Ohio subsidies	794,224	886,853
Transfers from other Ohio systems	1,489,451	1,094,896
	322,037,184	299,757,078
Investment income:		
Interest and dividends	182,634,634	173,598,254
Real estate income, net (note 6)	8,869,551	12,676,390
Net realized gain on sale of investments	32,653,943	15,545,835
	224,158,128	201,820,479
Adjustment to real estate carrying values (note 8)	(18,418,242)	—
Total revenues	527,777,070	501,577,557
Expenses:		
Benefits:		
Retirement	185,750,980	173,348,030
Disability	22,258,565	19,854,430
Survivor	11,814,421	11,358,736
Health care	81,851,492	71,633,065
Death	746,620	730,838
	302,422,078	276,925,099
Refund of employee contributions	12,751,491	12,345,363
Administrative expenses	8,572,287	8,346,903
Transfers to other Ohio systems	1,741,637	2,202,383
Total expenses	325,487,493	299,819,748
Net income	202,289,577	201,757,809
Fund balance, beginning of year	2,863,355,361	2,661,597,552
Fund balance, end of year	\$ 3,065,644,938	\$ 2,863,355,361

6.9%
7.3%

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOW

Years ended June 30, 1992 and 1991

	1992	1991
Cash flows from operating activities:		
Contributions received	\$ 314,697,398	\$ 297,831,201
Benefits paid	(300,571,027)	(271,614,849)
Refunds of employee contributions	(12,751,491)	(12,345,363)
Administrative expenses paid	(10,185,036)	(7,761,806)
Transfers to other Ohio systems	(1,741,637)	(2,202,383)
Net cash provided by (used in) operating activities	(10,551,793)	3,906,800
Cash flows from investing activities:		
Proceeds from investments sold	2,669,062,271	3,018,124,267
Purchase of investments	(2,852,590,484)	(3,202,622,412)
Investment income, net of investment expenses	197,294,633	186,044,021
Net cash provided by investing activities	13,766,420	1,545,876
Cash flows from capital and related financing activities:		
Repayment of notes payable	—	(3,054,290)
Additions to property and equipment	(429,515)	(858,505)
Collateral held under securities lending program	(1,736,219)	(161,227,161)
Obligations under securities lending program	1,736,219	161,227,161
Net cash used for capital and financing activities	(429,515)	(3,912,795)
Net increase in cash	2,785,112	1,539,881
Cash at beginning of year	3,004,786	1,464,905
Cash at end of year	\$ 5,789,898	\$ 3,004,786
Reconciliation of operating income to net cash provided by operating activities:		
Net income	\$ 202,289,577	\$ 201,757,809
Adjustments to reconcile operating income to net cash provided by operating activities:		
Investment income, net of investment expenses	(224,158,128)	(201,820,479)
Adjustment to real estate carrying value	18,418,242	—
Increase in contributions receivable	(7,339,786)	(1,925,877)
Depreciation (non-investment)	1,049,022	1,054,156
Decrease (increase) in other assets	(2,644,951)	4,808,650
Increase (decrease) in accounts payable and accrued expenses	(194,844)	17,607
Increase (decrease) in health care benefits incurred and unpaid	1,851,051	(159,808)
Increase in other liabilities	178,024	174,742
Total adjustments	(212,841,370)	(197,851,009)
Net cash provided by (used in) operating activities	\$ (10,551,793)	\$ 3,906,800

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS June 30, 1992 and 1991

(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	1992	1991
Local	371	372
City	194	193
County	84	84
Village	49	49
Vocational	51	51
Technical	11	11
College	2	2
Other	4	4
	<u>766</u>	<u>766</u>

Employee Members	1992	1991
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them.....	<u>57,300</u>	<u>56,203</u>
Current employees		
Vested	57,848	56,148
Nonvested	39,649	37,426
Total	<u>97,497</u>	<u>93,574</u>

(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.

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.

Effective July 1, 1991, retirants of any of the five state retirement systems must contribute to SERS if they are employed in a non-certificated position in the public schools. These contributions are credited to a separate money purchase annuity payable after age 65 in either monthly payments if the monthly amount is \$25 or more, or in a lump sum.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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 approximates 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 the 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 — SERS is a qualified entity under Section 501(a) of the Internal Revenue Code and is therefore 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 1991 balances have been reclassified to conform with 1992 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, 1992 and 1991. There were no changes in actuarial assumptions or in actuarial funding methods used in the actuarial valuation of June 30, 1992 as compared to the assumptions used as of June 30, 1991. The following significant assumptions were used in the actuarial valuations as of June 30, 1992 and 1991:

Actuarial Assumption

Rate of return on investments	7.75 % compounded annually.
Projected salary increases	4.75 % 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.
Rates of withdrawal from active service	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.
Medicare	All recipients are eligible for Medicare on attainment of age 65 or immediately if retired for disability.

Financial Section

NOTES TO FINANCIAL STATEMENTS (Continued)

At June 30, 1992 the unfunded pension benefit obligation was \$2,915,963,777 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	\$ 2,222,708,335	\$ 897,985,802	\$ 3,120,694,137
Current employees:			
Accumulated employee contributions including allocated investment income	816,328,094	—	816,328,094
Employer financed — vested	1,338,490,167	517,506,562	1,855,996,729
Employer financed — non-vested	168,133,540	20,456,215	188,589,755
Total pension benefit obligation	4,545,660,136	1,435,948,579	5,981,608,715
Net assets available for benefits, at cost (market \$3,480,872,390).....	2,930,090,957	135,553,981	3,065,644,938
Unfunded pension benefit obligation	<u>\$ 1,615,569,179</u>	<u>\$ 1,300,394,598</u>	<u>\$ 2,915,963,777</u>

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	<u>\$ 1,491,824,406</u>	<u>\$ 1,099,756,608</u>	<u>\$ 2,591,581,014</u>

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 1992 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 9.48% to basic benefits and the remaining 4.52% 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 \$180,793,000

and \$116,224,000, respectively in 1992. The employer contribution consisted of \$93,508,123 for normal cost and \$87,284,877 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 1992 and 1991 the minimum has been established as \$9,900 and \$9100). The amount of the surcharge accrued for fiscal years 1992 and 1991 and included in contribution revenue from employers in the Statements of Revenues, Expenses and Changes in Fund Balance is \$21,000,000 and \$17,000,000 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, 1992 was \$5,789,898 and the bank balance was \$6,794,977. SERS' deposits covered by federal depository insurance and collateral held in the name of SERS' custodian amounted to \$313,088 and \$6,481,889 respectively at June 30, 1992.

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. Direct mortgage loans, real estate, commingled real estate funds, and venture capital funds are investments which by their nature do not require categorization for level of risk purposes.

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.

Financial Section

NOTES TO FINANCIAL STATEMENTS (Continued)

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, 1992 totaled \$253.5 million. Security lending income totaled \$530,528 for the year ended June 30, 1992.

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.

The following investment summary identifies the level of risk assumed by SERS:

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Total</u>	<u>Market Value</u>
U.S. government obligations and U.S. government agency obligations	\$ 336,357,880			\$ 336,357,880	\$ 354,790,316
FHLMC & GNMA mortgage- backed securities	683,736,857			683,736,857	741,439,927
Corporate bonds and notes	269,982,454			269,982,454	285,020,150
Canadian bonds	86,230,264			86,230,264	96,222,500
Common and preferred stock	1,006,146,918			1,006,146,918	1,570,206,304
Commercial paper	209,791,151			209,791,151	209,791,151
Total	<u>\$2,592,245,524</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$2,592,245,524</u>	<u>\$3,257,470,348</u>
Real estate				271,917,153	263,558,486
Direct mortgage loans				19,684,413	26,360,909
Venture capital investments				29,588,718	29,588,718
Total				<u>\$2,913,435,808</u>	<u>\$3,576,978,461</u>

(6) Real Estate and Leases

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

	1992	1991
Land	\$ 22,409,932	\$ 26,379,091
Buildings	118,218,343	149,458,643
Commingled real estate funds	162,782,066	161,552,281
	<u>303,410,341</u>	<u>337,390,015</u>
Less accumulated depreciation	31,493,188	28,872,422
	<u>\$ 271,917,153</u>	<u>\$ 308,517,593</u>

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, 1992:

Year ending June 30,	
1993	\$ 14,399,497
1994	12,206,689
1995	10,582,311
1996	8,704,313
1997	6,172,316
Thereafter	<u>19,523,273</u>
Total minimum future lease revenues	<u>\$ 71,588,399</u>

Depreciation expense on the above real estate aggregated \$6,018,043 and \$5,400,773 in 1992 and 1991, 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:

	1992	1991
Land	\$ 1,178,055	\$ 1,178,055
Building and improvements	3,976,480	3,959,106
Furniture and equipment	6,003,893	5,694,644
	<u>11,158,428</u>	<u>10,831,805</u>
Less accumulated depreciation	5,235,575	4,289,445
	<u>\$ 5,922,853</u>	<u>\$ 6,542,360</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

(8) Adjustment to Investment Real Estate

At June 30, 1992, SERS adjusted the carrying values of certain real estate investment properties for market declines determined to be other than temporary. The adjusted values more closely reflect the current market values of these properties determined by an independent real estate appraisal process. The net adjustment resulted in a writedown of \$18,418,242 which is charged to income in the current fiscal year ended June 30, 1992.

(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, 1992, market value of investments in the Program totaled \$1,120,246 and have been included in other assets. 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

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, 1992 was \$3,515,262; SERS' total payroll was \$3,574,930.

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 annual 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, 1992 were \$476,318 and \$298,797, respectively; these contributions represented 13.55% and 8.5% of covered employee payroll, respectively, as required by State statute. Prior to July 1, 1991, the employer contribution rate was 13.95%. Rates are established by the retirement board upon recommendation by the actuary. During the most recent actuarial study (December 31, 1990) there were no changes in actuarial assumptions, benefit provisions, actuarial funding methods or other significant factors. During the fiscal year 1992 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, 1990, the date of the most recent actuarial valuation, for PERS as a whole was \$18.0 billion. PERS' net assets available for benefits (excluding amounts allocated to health care costs) on that date were \$16.4 billion, leaving an unfunded pension benefit obligation of \$1.6 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, 1991 contains historical trend information for five years only.

In addition to pension benefits, PERS provides postemployment health care benefits, in accordance with state statutes, to all employees who retire with 10 or more years of qualifying Ohio service credit and to disability recipients. At December 31, 1991 the plan had approximately 330,000 participants.

A portion of each employer's contribution to PERS is set aside for the advanced funding of postemployment health care. Of the 13.55% of employee payroll contributed by SERS to PERS, 5.26% or approximately \$185,000 was the portion used to fund health care. Statutory rates equal the actuarially determined contribution requirements.

NOTES TO FINANCIAL STATEMENTS (Continued)

The actuarial present value of accrued postemployment benefits was determined based on the entry age normal method of funding. Significant actuarial assumptions used in the December 31, 1990 valuation (most recent available) were (a) investment rate of return of 7.75%, (b) investments valued at cost or amortized cost, adjusted to reflect 20% of unrealized market appreciation or depreciation on investment assets, (c) no change in the number of active employees, (d) base pay rate increases of 5.5% and annual pay increases over

and above the 5.5% base increase ranging from 0% to 4% and (e) health care increases of 5.5% annually.

The total PERS' actuarial present value of accrued postemployment benefits as of December 31, 1990 was \$6.07 billion, the net assets available for these benefits at that date were \$4.41 billion.

(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 eight years since ten years are not available.

Schedule I

Fiscal Year	Basic Retirement Benefits (\$ Amounts in Millions)					(6) Unfunded Pension Benefit Obligation as a Percent of Covered Payroll (4) divided by (5)
	(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	
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
1992	2,930	4,546	64.5	1,616	1,244	129.9
Health Care Benefits (\$ Amounts in Millions)						
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
1992	136	1,436	9.5	1,300	1,244	104.5

* 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 I (Continued)

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.

See accompanying independent auditors' report.

Schedule II

Fiscal Year	Revenues By Source					Employer Contribution Rate as a Percent of Covered Payroll
	Member Contributions	Employer Contributions	Investment Income	Other Revenues	Total	
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
1992	117,331,597	202,421,912	224,158,128	(16,134,567)	527,777,070	14.0

Expenses By Type

Fiscal year	Transfers to other Ohio Retirement Systems					Total
	Benefits	Administrative Expenses	Refunds	Other		
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
1992	302,422,078	8,572,287	1,741,637	12,751,491	—	325,487,493

See accompanying independent auditors' report.

Financial Section

ADMINISTRATIVE EXPENSES

Schedule III

Years ended June 30, 1992 and 1991

	1992	1991
Personnel services:		
Salaries and wages	\$ 3,574,930	\$ 3,726,967
Retirement contributions	476,318	469,957
Insurance	436,274	416,992
Total personnel services	<u>4,487,522</u>	<u>4,613,916</u>
Professional services:		
Technical and actuarial	436,970	293,638
Medical	248,207	241,093
Auditing	60,000	57,635
Employee training	29,940	46,729
Total professional services	<u>775,117</u>	<u>639,095</u>
Communications:		
Postage	394,634	330,757
Printing and publications	116,906	164,293
Telephone	55,911	54,114
Retirement counseling services	10,321	10,449
Total communications	<u>577,772</u>	<u>559,613</u>
Other services and charges:		
Computer support services	798,428	630,205
Building occupancy and maintenance	295,473	260,695
Transportation and travel	141,485	185,789
Supplies	94,267	89,766
Equipment rental	92,613	89,294
Surety bonds and insurance	98,098	79,976
Memberships and subscriptions	52,039	44,208
Equipment repairs and maintenance	41,864	34,730
Retirement study commission	25,546	28,567
Miscellaneous	43,041	36,893
Total other services and charges	<u>1,682,854</u>	<u>1,480,123</u>
	<u>7,523,265</u>	<u>7,292,747</u>
Depreciation (non-investment):		
Furniture and equipment	947,939	954,055
Building	101,083	100,101
Total depreciation	<u>1,049,022</u>	<u>1,054,156</u>
Total administrative expenses	<u><u>\$ 8,572,287</u></u>	<u><u>\$ 8,346,903</u></u>

See accompanying independent auditors' report.

INVESTMENT SUMMARY

Schedule IV

	Year ended June 30, 1992							
	1991					1992		% of Total Market Value
	Carrying Value	Market Value	Purchases and Accretions	Sales, Redemptions and Accruals	Carrying Value	Market Value		
Corporate and government bonds and obligations	\$ 648,153,828	\$ 664,747,620	\$ 349,971,985	\$ (305,555,215)	\$ 692,570,598	\$ 736,032,966	20.5%	
First mortgage loans and mortgage-backed securities	701,079,284	740,836,463	183,163,746	(180,821,760)	703,421,270	767,800,836	21.5	
Common and preferred stocks	918,987,320	1,361,391,374	122,215,266	(35,055,668)	1,006,146,918	1,570,206,304	43.9	
Short-term investments	115,540,723	115,540,723	2,192,866,395	(2,098,615,967)	209,791,151	209,791,151	5.9	
Real estate	308,517,593	318,149,920	12,892,537	(49,492,977)	271,917,153	263,558,486	7.4	
Venture capital investments	26,793,213	25,291,713	5,447,625	(2,652,120)	29,588,718	29,588,718	0.8	
Total investments	\$ 2,719,071,961	\$ 3,225,957,813	\$ 2,866,557,554	\$ (2,672,193,707)	\$ 2,913,435,808	\$ 3,576,978,461	100.0%	

	Year ended June 30, 1991							
	1990					1991		% of Total Market Value
	Carrying Value	Market Value	Purchases and Accretions	Sales, Redemptions and Accruals	Carrying Value	Market Value		
Corporate and government bonds and obligations	\$ 551,417,761	\$ 555,552,192	\$ 407,592,669	\$ (310,856,602)	\$ 648,153,828	\$ 664,747,620	20.6%	
First mortgage loans and mortgage-backed securities	665,118,219	692,477,844	168,565,682	(132,604,617)	701,079,284	740,836,463	23.0	
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%	

See accompanying independent auditors' report.

Financial Section

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, 1992

	Employees'	Employers'	Annuity and	Survivors'	Guarantee	Expense	Total	
	Savings Fund	Trust Fund	Pension Reserve Fund	Benefit Fund	Fund	Fund	1992	1991
Fund balance at beginning of year	\$ 748,783,498	\$ (583,302,358)	\$ 2,556,340,128	\$ 141,534,093	—	—	\$ 2,863,355,361	\$ 2,661,597,552
Changes for the year:								
Contributions:								
Employers	—	202,421,912	—	—	—	—	202,421,912	188,465,132
Employees	117,331,597	—	—	—	—	—	117,331,597	109,310,197
State of Ohio subsidies	—	794,224	—	—	—	—	794,224	886,853
Investment income	—	—	—	—	224,158,128	—	224,158,128	201,820,479
Adjustment to investment real estate	—	—	—	—	(18,418,242)	—	(18,418,242)	—
Transfer from other Ohio systems	—	—	1,482,944	6,507	—	—	1,489,451	1,094,896
Benefits:								
Retirement	—	—	(185,750,980)	—	—	—	(185,750,980)	(173,348,030)
Disability	—	—	(22,258,565)	—	—	—	(22,258,565)	(19,854,430)
Survivor	—	—	—	(11,814,421)	—	—	(11,814,421)	(11,358,736)
Health care	—	—	(81,851,492)	—	—	—	(81,851,492)	(71,633,065)
Death	—	—	(746,620)	—	—	—	(746,620)	(730,838)
Refunds of employee contributions	(12,737,218)	—	(14,273)	—	—	—	(12,751,491)	(12,345,363)
Administrative expenses	—	—	—	—	—	(8,572,287)	(8,572,287)	(8,346,903)
Transfer to other Ohio systems	—	—	(1,660,078)	(81,559)	—	—	(1,741,637)	(2,202,383)
Other transfers	(37,049,783)	(327,247,974)	534,740,472	26,724,884	(205,739,886)	8,572,287	—	—
Net changes	67,544,596	(124,031,838)	243,941,408	14,835,411	—	—	202,289,577	201,757,809
Fund balance at end of year	\$816,328,094	\$ (707,334,196)	\$ 2,800,281,536	\$ 156,369,504	—	—	\$ 3,065,644,938	\$ 2,863,355,361

See accompanying independent auditors' report.

Actuarial Section

■ *ACTUARY'S LETTER*

■ *STATEMENT OF ACTUARY*

ACTUARY'S LETTER

GABRIEL, ROEDER, SMITH & COMPANY

Actuaries & Consultants

24 Woodbine Avenue • Northport, New York 11768 • 516-757-0047

November 6, 1992

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, 1992. 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.

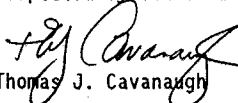

The statutory employer contribution rate is 14% of pay. An SERS policy decision now provides the following allocations: to basic benefits, the portion which will pay normal cost and 40 year amortization for unfunded actuarial accrued liabilities; and to health care benefits, the remainder of employer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

On the basis of the 1992 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 1992 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, 1992)

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, 1992, the rate thus determined for the funding of basic retirement benefits is 9.48%.

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% max-

imum. The portion of the employer contribution rate allocated to health care currently is 4.52%, which is insufficient by itself to provide level cost financing of the unfunded actuarial 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 1992 and 1993, the minimum pay has been established as \$9,900. The surcharge rate, added to the unallocated portion of the 14% employer contribution rate, results in a total health care contribution rate of 5.75%. 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, 1992 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 \$3,510,696.

The following significant assumptions were used in the actuarial valuations as of June 30, 1992:

- (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 age in the following table:

Actuarial Section

STATEMENT OF ACTUARY (Continued) (Valuation as of June 30, 1992)

Increase Next Year			
Sample Age	Merit & Seniority	Base (Economy)	Total
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	

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	
	1992	1991
Benefit recipient below age 65	\$ 337.65	\$ 297.12
Spouse below age 65*	57.73	53.25
Benefit recipient above age 65 and eligible for Medicare	60.33	53.18
Spouse above age 65 and eligible for Medicare*	17.27	15.98
Mail order prescription service	37.07	30.92

* 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, 1992)

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, 1992

Present Value Of	Actuarial Accrued Liabilities	
	Health Care	Basic Benefits
Future monthly benefits and death benefits to present retirants and survivors	\$ 833,415,683	\$ 2,123,235,357
Monthly benefits and refunds to present inactive members	64,570,119	99,472,978
Service allowances and health care benefits to present active members	601,820,556	2,311,814,418
Disability allowances and health care benefits to present active members	10,398,679	93,126,595
Death-after-retirement benefit (\$500) on behalf of present active members	—	1,259,360
Survivor benefits on behalf of present active members who die before retiring	8,060,411	29,536,586
Refunds of member contributions of present active members	—	34,838,602
Benefits for present active members	620,279,646	2,470,575,561
Benefits for present covered persons	\$ 1,518,265,448	\$ 4,693,283,896

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, 1983 to 1992

Actuarial Valuation as of June 30	Number of Active Members	Annual Payroll (millions)	Average Annual Salary
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
1992	97,497	1,244.3	12,762

**Retirants and Beneficiaries Added To
and Removed From Rolls, 1983 to 1992**

Fiscal Year Ended June 30	Additions During Year	Deletions During Year	Number at End of Year
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
1992	3,488	2,360	49,595

Actuarial Section

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 Liabilities (AAL)	Valuation Assets	Unfunded Actuarial Accrued Liabilities (UAAL)	Ratio of Assets to AAL	Active Member Payroll	UAAL as a % of Active Member Payroll
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
1992	4,693	3,330	1,363	71	1,244	110

HEALTH CARE BENEFITS (\$ In Millions)

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
1992	1,518	154	1,364	10	1,244	110

* Revised Assumptions
- Legislated Benefit Increases

STATEMENT OF ACTUARY (Continued)
(Valuation as of June 30, 1992)

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 in-

vestments) 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 finan-

cing, 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)					Portion of Accrued Liabilities Covered by Assets		
June 30	(1) Member Contributions	(2) Retired Lives	(3) Present Members (Employer Portion)	(4) Valuation Assets	(1)	(2)	(3)
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
1992	816	2,123	1,754	3,330	100	100	22

HEALTH CARE BENEFITS (\$ In Millions)					Portion of Accrued Liabilities Covered by Assets		
June 30	(1) Member Contributions	(2) Retired Lives	(3) Present Members (Employer Portion)	(4) Valuation Assets	(1)	(2)	(3)
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
1992	—	833	685	154	—	18	0

* Revised Assumptions
 - Legislated Benefit Increases

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)
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
1992	816,328,094	2,956,651,040	2,438,570,210	3,065,644,938	100	76	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

BENEFITS

Table II

Year Ending June 30	Service	Disability	Survivor	Health Care	Death Benefits and Refunds	Total
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
1992	185,750,980	22,258,565	11,814,421	81,851,492	13,498,111	315,173,569

NUMBER OF BENEFIT RECIPIENTS BY TYPE

Last Ten Years

Table III

Year Ending June 30	Service	Disability	Survivor	Total
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
1992	42,690	3,661	3,244	49,595

NUMBER OF PARTICIPATING EMPLOYERS

Last Ten Years

Table IV

Year	Total	Counties	Locals	Cities	Villages	Colleges	Technical	Vocational	Other
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
1992	766	84	371	194	49	2	11	51	4

Statistical Section

RETIREMENT AVERAGES

Last Ten Years

Table V

Service Retirement

Year Ending June 30	Service Credit	Monthly Amount	Age	Salary
1983	16.617	\$250.60	63.14	\$ 8,603
1984	17.427	292.43	63.85	9,939
1985	17.821	315.79	63.82	10,525
1986	16.846	304.73	63.64	10,292
1987	17.635	328.76	63.77	10,458
1988	19.019	378.29	62.13	11,989
1989	19.231	431.17	61.40	13,015
1990	18.734	424.85	60.75	13,034
1991	18.909	447.56	63.35	13,352
1992	19.528	517.85	63.21	15,298

Disability Retirement

Year Ending June 30	Service Credit	Monthly Amount	Age	Salary
1983	13.035	\$323.05	52.29	\$ 8,166
1984	14.128	426.96	53.20	10,803
1985	12.362	402.31	56.69	10,917
1986	13.339	431.18	56.20	10,872
1987	13.484	466.02	57.42	12,184
1988	13.086	509.27	54.64	13,060
1989	14.821	562.42	54.31	13,433
1990	14.018	551.12	53.51	13,539
1991	14.517	598.58	55.56	14,414
1992	14.595	674.50	54.80	15,644

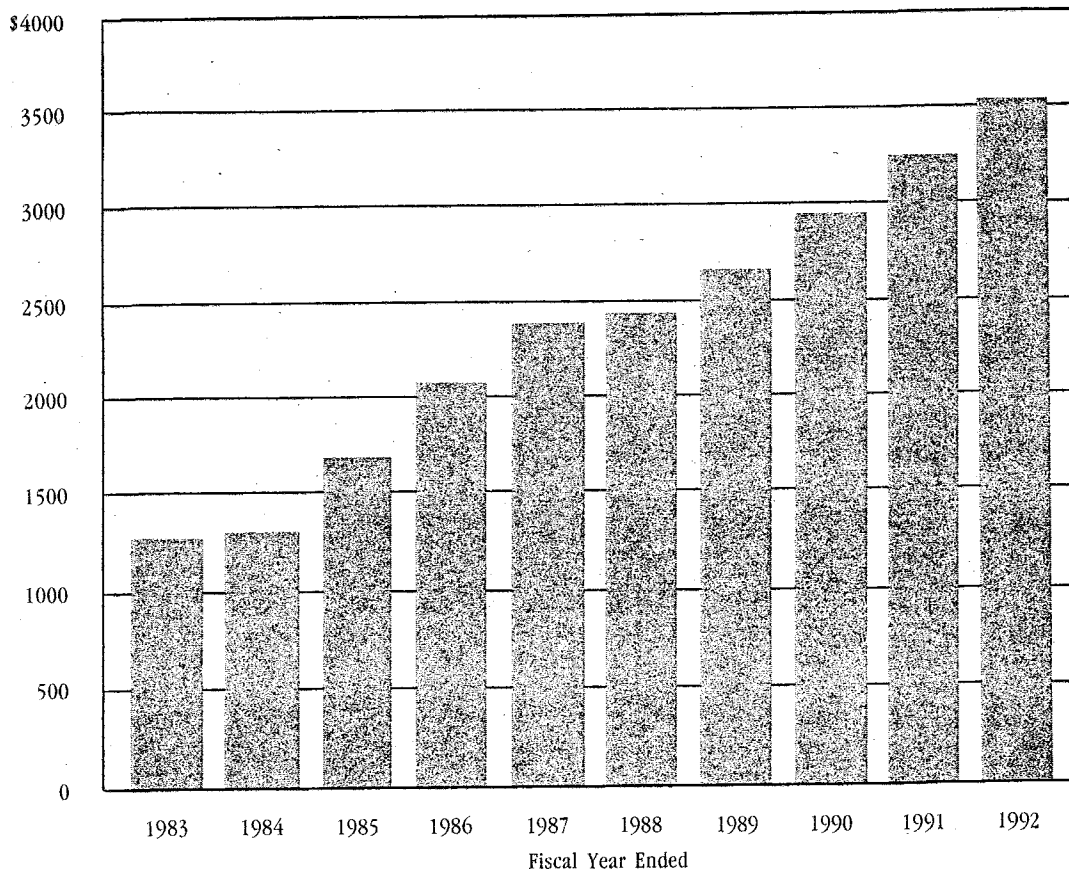
Investment Section

- *GROWTH OF INVESTMENT PORTFOLIO AND INCOME*
 - *INVESTMENT REPORT*
 - *EXHIBITS*
 - *INVESTMENT PORTFOLIO*
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Investment Section

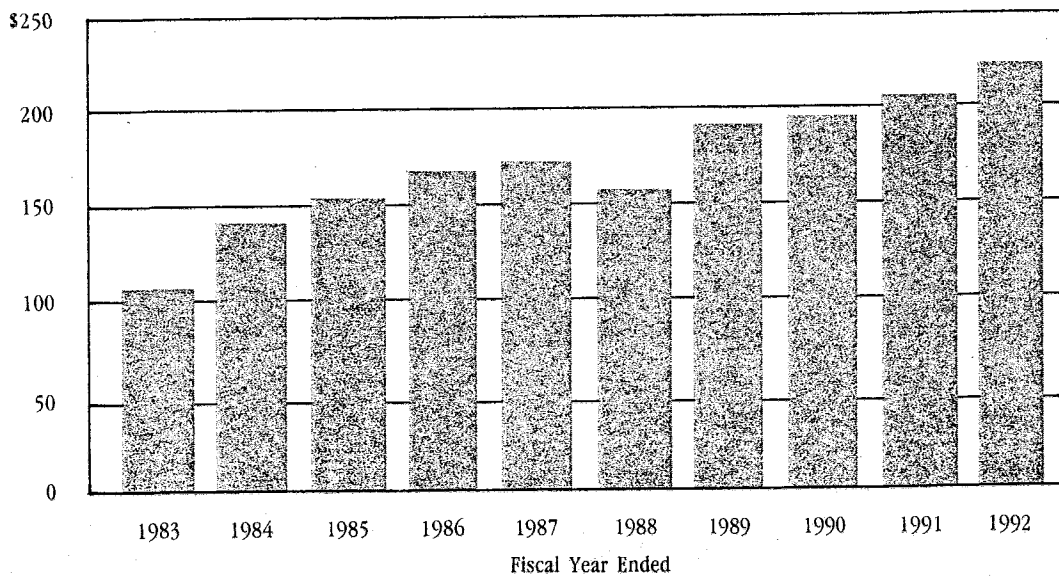
GROWTH OF INVESTMENT PORTFOLIO (By Market Value)

(Millions of Dollars)



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

(Millions of Dollars)



INVESTMENT REPORT

Introduction

The investment program of SERS is governed by state statute and by Board adopted policies. Besides limiting the amount of monies which can be invested in specific asset classes such as equities, real estate and venture capital, the state statutes also establish financial standards for each asset owned by the System. Furthermore, statutes require that SERS' Board and its fiduciaries discharge their duties solely in the interest of the participants and beneficiaries. And finally, state statutes and Board Policy require the prudent diversification of the System's assets.

Board Policy defines further the risk levels, return requirements and diversification methods that SERS' fiduciaries should adhere to as they manage the System's Investment Portfolio. Board Policy has charged SERS' fiduciaries with accepting a moderate amount of risk, diversifying the assets of the portfolio by asset class and by investment style, and achieving competitive investment returns within each asset class.

Asset Allocation

During the fiscal year, the Board retained a consultant to review the assets and the liabilities of the System and to determine an appropriate asset allocation plan. The Board's consultant determined that under current state statutes the System should be invested 44% in equities, 2% in venture capital, 15% in real estate, 37% in fixed income and 2% in cash equivalents, valued at market. SERS intends to approximate this portfolio mix as long as the current statutes are in force.

Fund Performance Evaluation

The stock market as measured by the S&P 500 had a much better return this fiscal year than last, 13.4% versus 7.4%. SERS'

common stock portfolios returned 13.0% for the fiscal year, slightly below the return of the S&P 500. For the last ten years SERS' common stock portfolios have returned 17.3% versus the S&P 500's return of 18.4%. We remain optimistic longer term about the common stock market and expect to remain near our legally legislated limit in common stocks during the coming fiscal year.

The fixed-income markets also performed quite well during the fiscal year with the Shearson Government/Corporate Index up 14.2%. SERS' fixed-income portfolios continue to perform better than the fixed-income benchmark. For the last fiscal year the fixed-income portfolios returned 14.9% and for the last ten years the portfolios have averaged 14.9% per year. As in years past we continue to emphasize high quality bonds and mortgage-backed securities in our fixed-income portfolios. With interest rates at their lowest levels in years and continued economic and political uncertainty, we will continue to invest in high quality bonds and mortgage-backed securities with an intermediate maturity structure.

Real estate values nationwide are likely at or near their historic lows after a long decline which began early in 1990. We feel that real estate values should stabilize near current levels and begin a slow recovery. Some overbuilt asset types such as office buildings will probably recover in value more slowly than other asset types. We remained very cautious regarding real estate during the last fiscal year; as a result, real estate allocation declined again this fiscal year from 12.1% of the Fund to 10.6%. We continue to review new real estate investments very carefully and anticipate making a few selective investments in the coming fiscal year. Our real estate Portfolio has returned 6.1% annually over the last ten years.

The Total Fund returned 11% for the year

ended June 30, 1992; and for the last ten years the Fund has returned 13.7% annually. These excellent returns exceeded the 3.2% level of the CPI for the fiscal year and 3.8% annual inflation rate for the last ten years. The returns of the Total Fund also exceeded our actuarial assumption of 7.75% for both periods.

Conclusion

We anticipate that by June 30, 1993, the Fund, based on book value, will be invested in the following manner: 46% in fixed-income, 35% in equities, 15% in real estate, 3% in short-term investments and 1% in venture capital. However, we are currently working with other Ohio pension funds to introduce legislation allowing all the Systems to invest a greater percentage of their assets in equities and to invest internationally. If this legislation is passed this fiscal year, we will likely have greater than 35% in equities and less than 46% in fixed-income by June 30, 1993.

As always, we expect the financial markets to remain volatile during the coming year; and we will continue to emphasize high quality, liquid and diversified investments which have good long term value.

Investment Section

TEN YEAR INVESTMENT PORTFOLIO SUMMARY

Years ended June 30

Dollars In Millions

	Short Term Securities			Bonds			Mortgage Backed Securities			Venture Capital		
	Market Value	% of Market Value	Rate of Return	Market Value	% of Market Value	Rate of Return	Market Value	% of Market Value	Rate of Return	Market Value	% of Market Value	Rate of Return
1983	\$102.2	7.7%	9.2%	\$417.4	31.7%	40.2%	\$281.0	21.3%	38.0%	\$ 1.3	0.1%	0.0%
1984	131.6	9.9	10.0	370.1	27.9	(0.8)	245.3	18.5	1.5	3.5	0.3	0.4
1985	204.5	12.0	9.5	441.0	26.0	34.5	305.3	18.0	35.5	12.0	0.7	(0.3)
1986	219.8	10.6	7.9	457.7	22.1	19.4	347.8	16.8	16.5	14.7	0.7	0.0
1987	242.7	10.2	6.4	472.8	19.9	4.2	324.2	13.7	9.0	19.8	0.8	0.4
1988	286.8	11.9	7.2	424.2	17.7	7.6	504.0	21.0	7.9	21.8	0.9	(4.6)
1989	184.4	6.8	9.4	542.5	20.1	13.5	595.5	22.1	11.9	26.6	1.0	17.1
1990	164.0	5.6	8.8	555.6	18.8	8.0	656.7	22.2	9.8	24.8	0.8	(11.9)
1991	115.5	3.6	7.5	664.8	20.6	12.2	713.3	22.1	12.2	25.3	0.8	(7.4)
1992	209.8	5.9	4.9	736.0	20.6	15.5	741.4	20.7	14.3	29.6	0.8	4.1

	Real Estate			Equities			Other ¹			Total Investment Portfolio		
	Market Value	% of Market Value	Rate of Return	Market Value	% of Market Value	Rate of Return	Market Value	% of Market Value	Rate of Return	Market Value	% of Market Value	Rate of Return
1983	\$172.8	13.1%	16.4%	\$ 344.1	26.1%	60.1%	—	—	—	\$1,318.8	100.0%	38.0%
1984	210.9	15.9	12.4	364.8	27.5	(7.2)	—	—	—	1,326.2	100.0	0.1
1985	296.9	17.5	13.7	438.2	25.8	24.5	—	—	—	1,697.9	100.0	25.3
1986	299.5	14.4	11.8	732.1	35.3	37.6	\$ 1.9	0.1%	—	2,073.5	100.0	21.3
1987	335.3	14.2	6.9	965.2	40.7	23.3	12.1	0.5	—	2,372.1	100.0	12.7
1988	313.4	13.0	(0.5)	831.8	34.6	(7.1)	21.7	0.9	(11.0)%	2,403.7	100.0	0.9
1989	336.1	12.5	4.5	985.0	36.6	19.4	23.1	0.9	8.4	2,693.2	100.0	12.9
1990	362.1	12.3	2.8	1,192.2	40.3	15.5	—	—	—	2,955.4	100.0	10.3
1991	345.7	10.7	1.1	1,361.4	42.2	8.7	—	—	—	3,226.0	100.0	9.7
1992	289.9	8.1	(5.8)	1,570.2	43.9	13.0	—	—	—	3,576.9	100.0	11.0

(1) Includes returns on convertible bonds and common stock options used at various times during the periods.

ANNUAL RATES OF RETURN¹

(For the years ended June 30)

	<u>1992</u>	<u>1991</u>	<u>1990</u>	<u>1989</u>	<u>1988</u>	<u>3-Year</u>	<u>Annualized 5-Year</u>	<u>10-Year</u>
Total Portfolio:								
SERS	11.0%	9.7%	10.3%	12.9%	0.9%	10.3%	8.9%	13.7%
Balanced Index ²	9.3	6.8	10.3	14.2	2.1	8.9	8.6	13.6
Common Stocks:								
SERS	13.0	8.7	15.5	19.4	(7.1)	12.3	9.5	17.3
Standard & Poor's 500	13.4	7.4	16.4	20.5	(6.9)	12.4	9.7	18.4
Venture Capital:								
SERS	4.1	(7.4)	(11.9)	17.1	(4.6)	(5.3)	(1.1)	(0.5)
Fixed Income (Long-Term):								
SERS	14.9	12.2	8.9	12.7	7.7	12.0	11.2	14.9
Shearson Lehman Govt/Corp Index	14.2	10.2	7.1	12.4	7.5	10.5	10.2	13.3
Real Estate/Participating Mortgages:								
SERS	(5.8)	1.1	2.8	4.5	(0.5)	(0.7)	0.4	6.1
Russell—NCREIF Property Index ...	(7.1)	(1.1)	5.4	7.0	7.0	(1.1)	2.1	5.8
Short Term:								
SERS	4.9	7.5	8.8	9.4	7.2	7.1	7.6	8.1
U.S. Treasury Bills	4.4	6.6	7.7	7.6	5.4	6.2	6.3	7.0
Other³:								
SERS	—	—	0.0	8.4	(11.0)	—	—	—

(¹) Source: Ronald A. Karp Assoc., Inc.

(²) Balanced Index: (35 % of S&P 500 return; 40 % of Shearson Return; 20 % of Russell-NCREIF return; 5 % of Treasury Bill return)

(³) Includes returns on convertible bonds and common stock options used at various times during the periods.

OHIO INVESTMENT PROFILE

SERS continues to seek out high-quality Ohio investments. Total SERS investments in Ohio are valued at more than \$357 million which represents approximately 10 % of the market value of the total fund.

Mortgage-backed securities on Ohio properties	\$130,799,370
Common stock of companies headquartered in Ohio	70,563,883
Corporate bonds and notes of companies headquartered in Ohio	62,476,566
Real estate in Ohio	47,570,000
Commercial mortgages on Ohio properties	10,020,000
Funds under management of Ohio companies (Venture Capital)	28,285,214
Committed to future funding (Venture Capital)	7,500,000
Total	\$357,215,033

Investment Section

INVESTMENT PORTFOLIO

As of June 30, 1992

TOTAL FIXED-INCOME PORTFOLIO

DESCRIPTION	RATING	COUPON	MATURITY	PAR VALUE	BOOK VALUE	MARKET VALUE
CANADIAN BONDS:						
Ontario Hydro	AAA	9.250	05/01/95	\$ 5,000,000	\$ 5,000,000	\$ 5,468,750
Ontario Province	AAA	9.750	03/01/09	10,000,000	10,144,650	11,325,000
Ontario Province	AAA	9.375	06/01/08	5,000,000	4,924,387	5,506,250
Ontario Province	AAA	9.875	09/20/09	14,500,000	14,869,633	16,530,000
Ontario Province	AA +	8.000	10/17/01	10,000,000	10,000,000	10,300,000
Quebec Hydro	AA-	10.000	02/01/09	17,000,000	16,886,990	19,507,500
Quebec Hydro	AA-	10.125	06/15/09	12,000,000	12,080,157	13,785,000
Quebec Hydro	AA-	10.700	10/15/07	12,000,000	12,324,447	13,800,000
TOTAL				\$85,500,000	\$86,230,264	\$96,222,500
CORPORATE BONDS:						
Alltel Corp.	A +	10.375	04/01/09	\$13,000,000	\$12,933,955	\$14,787,500
Anheuser Busch Cos.	AA-	9.000	12/01/09	20,000,000	21,348,736	22,040,800
Associates Corp.	AA-	8.800	08/01/98	20,000,000	21,149,867	21,493,000
BellSouth Cap Funding	AAA	9.250	01/15/98	5,000,000	5,031,700	5,515,800
BP America Inc.	AA-	8.750	02/01/03	22,000,000	22,983,703	23,558,700
Cincinnati Bell	A	9.100	06/15/00	10,000,000	10,317,966	10,936,100
Coca-Cola Company	AA	7.875	09/15/98	5,000,000	5,053,911	5,175,000
Duke Power	AA-	10.125	05/01/20	21,000,000	21,461,273	24,202,500
Ford Holdings	A	9.250	03/01/00	10,000,000	9,794,800	10,811,900
Iowa Electric L&P	A	8.625	05/15/01	5,000,000	4,967,173	5,243,100
Limited Inc.	A	9.125	02/01/01	15,000,000	15,487,990	16,575,000
Merck & Co.	AAA	7.750	05/01/96	3,000,000	3,140,617	3,150,000
Northern States Power	AA-	9.375	06/01/20	10,000,000	9,876,046	10,750,000
Pennsylvania P&L	A	9.250	10/01/19	12,000,000	12,013,029	12,960,000
Philip Morris	A	9.000	01/01/01	15,000,000	15,627,325	16,387,500
Philip Morris	A	8.750	06/01/01	5,000,000	5,158,241	5,264,750
Public Service E&G	A	7.125	11/01/97	10,000,000	10,071,169	10,125,000
Sara Lee	AA-	9.700	09/01/00	10,000,000	10,002,085	11,100,000
Shell Oil Company	AAA	7.700	02/01/96	15,000,000	15,545,295	15,769,500
South Carolina E&G	A	8.875	08/15/21	7,000,000	7,132,405	7,210,000
Wal-Mart Stores	AA	8.625	04/01/01	20,000,000	20,865,494	21,450,000
Waste Management Inc.	AA	7.875	08/15/96	10,000,000	10,019,673	10,514,000
TOTAL				\$263,000,000	\$269,982,454	\$285,020,150
U.S. GOVERNMENT & AGENCY BONDS:						
Federal Home Loan Bank	AAA	9.200	08/25/97	\$13,000,000	\$13,447,093	\$14,527,500
FHLMC Cap Debenture	AAA	11.400	05/01/95	10,000,000	10,161,678	11,600,000
FHLMC Cap Debenture	AAA	8.125	09/30/96	8,000,000	7,599,669	8,560,000
FHLMC Cap Debenture	AAA	8.800	10/27/99	20,000,000	19,762,569	21,593,750

TOTAL FIXED-INCOME PORTFOLIO (Continued)

DESCRIPTION	RATING	COUPON	MATURITY	PAR VALUE	BOOK VALUE	MARKET VALUE
U.S. GOVERNMENT & AGENCY BONDS (Continued)						
Government Loan Trusts	AAA	7.750	04/01/98	\$ 8,875,845	\$ 8,857,920	\$ 9,874,378
Treasury Bond	AAA	8.000	11/15/21	10,000,000	10,380,249	10,287,500
Treasury Note	AAA	8.500	05/15/97	25,000,000	25,349,655	27,500,000
Treasury Note	AAA	8.875	11/15/97	20,000,000	20,318,049	22,193,750
Treasury Note	AAA	8.875	05/15/00	20,000,000	20,257,398	22,262,500
Treasury Note	AAA	9.125	05/15/99	10,000,000	10,279,240	11,250,000
Treasury Note	AAA	9.000	05/15/98	10,000,000	10,119,953	11,175,000
Treasury Note	AAA	9.250	08/15/98	20,000,000	20,601,499	22,600,000
Treasury Note	AAA	8.000	10/15/96	20,000,000	20,089,898	21,406,250
Treasury Note	AAA	7.875	11/15/99	21,000,000	21,892,638	22,187,813
Treasury Note	AAA	8.000	08/15/99	20,000,000	20,745,486	21,293,750
Treasury Note	AAA	8.000	01/15/97	20,000,000	21,501,492	21,418,750
Treasury Note	AAA	8.125	02/15/98	20,000,000	21,668,276	21,506,250
Treasury Note	AAA	7.750	02/15/01	20,000,000	20,806,344	20,831,250
Treasury Note	AAA	8.500	02/15/00	10,000,000	10,848,991	10,915,625
Treasury Note	AAA	8.500	11/15/00	20,000,000	21,669,787	21,806,250
TOTAL				\$325,875,845	\$336,357,880	\$354,790,316

MORTGAGE PASSTHROUGHS:

FHLMC CMO SER L-5	AAA	7.900	05/01/01	\$13,300,000	\$12,615,960	\$14,962,500
FHLMC CMO SER M-5	AAA	8.650	06/01/05	20,000,000	19,941,384	23,100,000
FHLMC CMO SER M-6	AAA	8.800	12/01/15	12,000,000	11,673,012	13,980,000
FHLMC GMC SER D-1979	AAA	12.450	09/15/09	12,235,300	11,838,938	16,272,949
FHLMC SERIES 1-A	AAA	10.150	04/15/06	6,961,045	6,951,171	8,040,008
FHLMC SERIES 21D	AAA	9.250	06/15/07	12,623,729	12,589,340	14,485,729
FHLMC SERIES 20C	AAA	9.190	11/15/10	9,505,000	9,505,000	10,906,988
FHLMC SERIES 21F	AAA	9.450	09/15/11	9,000,000	8,993,971	10,080,000
FHLMC SERIES 2C	AAA	9.450	05/15/13	9,000,000	8,916,407	10,080,000
FHLMC SERIES 1C	AAA	9.250	08/15/13	12,750,000	12,630,680	14,280,000
FHLMC SERIES 26D	AAA	9.500	04/15/14	10,000,000	9,799,413	11,200,000
FHLMC SERIES 23D	AAA	9.600	11/15/17	5,000,000	4,983,678	5,425,000
FHLMC SERIES 75F	AAA	8.800	09/15/19	1,379,955	1,368,897	1,421,353
FHLMC SERIES 12A	AAA	9.250	11/15/19	12,195,204	12,109,589	14,146,437
FHLMC SERIES 57A	AAA	9.500	07/15/20	706,984	704,035	706,984
FNMA 166361	AAA	8.000	06/01/22	8,324,560	8,363,779	8,386,995
FREDDIE MAC PC	AAA	7.500	Various	7,034,762	6,760,171	7,034,762
FREDDIE MAC PC	AAA	7.900	Various	20,000,000	20,005,964	20,700,000
FREDDIE MAC PC	AAA	8.000	Various	25,629,527	25,347,804	26,041,947
FREDDIE MAC PC	AAA	9.000	Various	49,090,498	49,024,774	51,729,113
FREDDIE MAC PC	AAA	9.250	Various	21,225,214	20,929,330	22,545,934
FREDDIE MAC PC	AAA	9.500	Various	21,755,473	21,649,480	23,047,204
FREDDIE MAC PC	AAA	10.000	Various	27,991,225	27,966,950	30,851,213
FREDDIE MAC PC	AAA	10.500	Various	13,522,412	13,485,045	14,748,731

Investment Section

TOTAL FIXED-INCOME PORTFOLIO (Continued)

DESCRIPTION	RATING	COUPON	MATURITY	PAR VALUE	BOOK VALUE	MARKET VALUE
MORTGAGE PASSTHROUGHS (Continued):						
FREDDIE MAC PC	AAA	12.000	Various	\$ 1,928,813	\$ 1,928,812	\$ 2,164,490
FREDDIE MAC PC	AAA	12.500	Various	806,039	804,226	909,060
FREDDIE MAC PC	AAA	13.000	Various	78,313	78,313	88,762
FREDDIE MAC PC	AAA	14.000	Various	219,260	219,260	250,916
FREDDIE MAC PC	AAA	14.750	Various	1,263,280	1,263,280	1,455,930
FREDDIE MAC PC	AAA	15.000	Various	171,358	171,358	197,972
FREDDIE MAC PC	AAA	16.250	Various	60,842	60,842	70,861
GNMA I	AAA	8.000	Various	82,597,346	82,059,973	84,042,800
GNMA I	AAA	8.500	Various	36,781,356	36,561,773	38,229,622
GNMA I	AAA	9.000	Various	90,823,564	90,532,324	95,955,866
GNMA I	AAA	9.500	Various	34,744,622	34,690,899	37,245,346
GNMA I	AAA	10.000	Various	17,663,046	17,359,398	19,220,070
GNMA I	AAA	11.000	Various	6,659,647	6,647,216	7,400,465
GNMA I	AAA	11.500	Various	2,628,740	2,620,173	3,013,193
GNMA I	AAA	12.000	Various	2,268,613	2,258,180	2,629,886
GNMA I	AAA	12.500	Various	1,467,451	1,466,692	1,706,074
GNMA I	AAA	13.000	Various	538,485	535,298	635,412
GNMA I	AAA	13.500	Various	529,127	529,127	628,338
GNMA I	AAA	14.000	Various	160,896	160,896	189,858
GNMA I	AAA	15.000	Various	292,786	292,786	350,428
GNMA I	AAA	16.000	Various	298,086	298,086	356,958
GNMA II	AAA	9.000	Various	25,545,743	25,448,831	26,926,810
GNMA II	AAA	9.500	Various	4,027,866	3,981,493	4,309,816
GNMA II	AAA	10.000	Various	18,102,675	18,110,456	19,590,488
GNMA II	AAA	10.500	Various	7,898,433	7,857,065	8,626,570
GNMA II	AAA	11.000	Various	1,002,705	991,824	1,108,302
GNMA II	AAA	11.500	Various	2,731,839	2,725,397	3,097,222
GNMA II	AAA	12.000	Various	1,436,451	1,428,192	1,646,532
GNMA II	AAA	12.500	Various	4,104,599	4,095,487	4,745,943
GNMA II	AAA	13.000	Various	406,100	404,430	472,091
TOTAL				\$688,468,966	\$683,736,857	\$741,439,927
FHA/VA MORTGAGES:						
FHA	AAA	Various	Various	\$40,936	\$40,936	\$39,203
VA	AAA	Various	Various	43,590	43,590	41,706
TOTAL				\$84,526	\$84,526	\$80,909
GRAND TOTAL FIXED-INCOME				\$1,362,929,337	\$1,376,391,981	\$1,477,553,802
COMMERCIAL PAPER PORTFOLIO						
TOTAL	PI	Various	Various	\$210,105,000	\$209,791,151	\$209,791,151

TOTAL STOCK PORTFOLIO

DESCRIPTION	SHARES	BOOK VALUE	MARKET VALUE	DESCRIPTION	SHARES	BOOK VALUE	MARKET VALUE
ABBOTT LABORATORIES	427,600	\$3,867,520	\$12,721,100	BARNETT BANKS INC	27,675	\$ 661,850	\$ 1,027,434
ACME-CLEVELAND CORP	4,700	66,778	28,788	BAUSCH & LOMB INC	122,000	3,050,003	5,825,500
ADVANCED MICRO DEVICES	37,000	739,001	323,750	BAXTER INTERNATIONAL INC	139,100	3,395,959	5,059,763
AETNA LIFE & CASUALTY CO	57,700	2,546,702	2,387,338	BECTON DICKINSON & CO	17,400	780,643	1,296,300
AHMANSON (H F) & CO.	50,000	919,289	837,500	BELL ATLANTIC CORP	179,500	5,585,107	7,987,750
AIR PRODUCTS & CHEMICALS	61,200	865,443	2,601,000	BELLSOUTH CORP	223,250	6,810,443	11,022,969
ALBERTO-CULVER CO -CL B	11,400	51,894	247,950	BEMIS CO	32,800	129,909	799,500
ALBERTSON'S INC	60,200	1,484,854	2,513,350	BENEFICIAL CORPORATION	11,400	699,180	665,475
ALCO STANDARD CORP	157,516	3,985,089	5,887,161	BETHLEHEM STEEL CORP	34,200	406,809	517,275
ALEXANDER & ALEXANDER SERV.	15,000	299,745	322,500	BEVERLY ENTERPRISES	20,000	183,100	157,500
ALLERGAN INC	30,400	671,759	668,800	BIOMET INCORPORATED	40,000	425,600	685,000
ALLIED SIGNAL INC	69,400	2,471,600	3,730,250	BLACK & DECKER CORP	32,300	705,653	722,713
ALUMINUM CO OF AMERICA	42,900	1,467,606	3,255,038	BLOCK H & R INC	149,200	1,637,671	5,091,450
ALZA CORPORATION CLASS A	31,800	953,335	1,450,875	BLOCKBUSTER ENTERTAINMENT	34,000	472,192	446,250
AMAX INCORPORATED	30,000	772,920	645,000	BOATMEN'S BANCSHARES	8,300	354,662	416,038
AMDAHL CORP	50,400	602,644	888,300	BOEING CO	168,925	3,514,960	6,735,884
AMERADA HESS CORP	56,800	1,788,810	2,570,200	BOISE CASCADE CORP	25,167	751,024	459,298
AMERICAN BRANDS INC	89,600	1,821,916	3,987,200	BORDEN INC	228,000	5,682,231	6,954,000
AMERICAN CYANAMID CO	49,800	1,277,335	2,770,125	BOWNE & CO INC	150,000	1,823,999	2,231,250
AMERICAN ELECTRIC POWER	101,000	2,169,864	3,219,375	BRIGGS & STRATTON	8,900	258,255	399,388
AMERICAN EXPRESS COMPANY	208,600	4,954,181	4,849,950	BRISTOL MYERS SQUIBB	237,280	5,083,205	15,630,820
AMERICAN GENERAL CORP	65,000	2,292,153	3,185,000	BROWN FORMAN CORP -CL B	14,000	1,089,432	1,095,500
AMERICAN GREETINGS CORP CL A	17,000	615,184	728,875	BROWN GROUP INC	13,000	411,359	295,750
AMERICAN HOME PRODUCTS CORP	256,200	9,001,360	18,318,300	BROWNING-FERRIS INDS	75,700	1,001,546	1,665,400
AMERICAN INTERNATIONAL GP	164,625	9,868,930	14,589,891	BRUNO'S INC.	36,000	531,581	486,000
AMERICAN STORES CO	31,300	819,449	1,064,200	BRUNSWICK CORP	29,200	386,137	427,050
AMERICAN TELE & TELEGRAPH	618,886	13,795,836	26,612,098	BURLINGTON NORTHERN INC	44,200	790,728	1,651,975
AMERITECH CORP	125,000	4,106,029	7,859,375	CAMPBELL SOUP CO	159,200	1,460,348	5,751,100
AMGEN INC.	44,000	3,001,129	2,678,500	CAPITAL CITIES/ABC INC	7,700	1,862,685	3,516,975
AMOCO CORP	287,400	10,410,889	13,723,350	CAPITAL HOLDING CORP	31,200	754,303	1,864,200
AMP INC	51,900	1,906,132	2,796,113	CAROLINA POWER & LIGHT CO.	35,000	1,611,050	1,767,500
AMR CORPORATION	30,300	1,556,436	1,958,138	CATERPILLAR INC	40,000	1,830,588	2,150,000
ANGELICA CORP	130,000	3,584,978	3,867,500	CBS INC	4,190	524,962	808,670
ANHEUSER-BUSCH COS INC	132,616	3,211,952	7,360,188	CENTEX CORP	13,500	370,838	588,938
APPLE COMPUTER INC	60,000	2,059,200	2,880,000	CENTRAL & SOUTH WEST CORP	81,800	1,408,514	2,310,850
ARCHER-DANIELS-MIDLAND CO	172,794	1,271,895	4,082,258	CERIDIAN CORPORATION	19,200	254,496	266,400
ARKLA INC.	37,000	850,889	337,625	CHAMPION INTERNATIONAL CORP	31,000	982,200	852,500
ARMCO INC	66,600	645,088	466,200	CHARMING SHOPPES	38,100	1,229,243	1,095,375
ARMSTRONG WORLD INDS INC	19,600	375,841	585,550	CHASE MANHATTAN CORP	144,600	3,900,381	3,994,575
ASARCO INCORPORATED	18,700	497,274	565,675	CHEMICAL BANKING	108,600	3,689,283	4,031,775
ASHLAND OIL INC.	33,000	1,250,205	878,625	CHEVRON CORP	278,800	15,472,891	18,679,600
ATLANTIC RICHFIELD CO	98,100	6,713,257	10,570,275	CHRYSLER CORP	70,000	1,757,630	1,478,750
AUTODESK INC.	10,000	473,000	383,750	CHUBB CORP	41,100	1,002,002	2,918,100
AUTOMATIC DATA PROCESSING	85,800	1,115,995	3,667,950	CIGNA CORP	29,800	1,595,523	1,661,350
AVERY DENNISON CORP.	174,000	3,819,069	4,654,500	CINCINNATI MILACRON INC	41,100	1,054,024	595,950
AVON PRODUCTS	27,500	813,862	1,409,375	CITICORP	147,200	3,803,114	3,128,000
BAKER-HUGHES INC	65,200	969,566	1,320,300	CLOROX CO	34,400	699,916	1,560,900
BALL CORP	5,400	127,659	189,675	CNA FINANCIAL CORP	27,800	2,159,693	2,349,100
BALTIMORE GAS & ELECTRIC	56,400	1,128,716	1,254,900	COASTAL CORPORATION	46,400	1,677,552	1,154,200
BANC ONE CORP	87,760	2,287,980	4,004,050	COCA-COLA CO	645,600	5,950,764	25,824,000
BANK OF BOSTON CORP	47,400	1,009,653	1,167,225	COLGATE-PALMOLIVE CO	59,200	1,226,583	3,063,600
BANKAMERICA CORP	154,324	5,300,449	6,848,128	COLUMBIA GAS SYSTEM	25,900	796,391	440,300
BANKERS TRUST NEW YORK CORP	40,600	1,458,019	2,385,250	COMCAST CORPORATION CLASS A	44,000	605,590	770,000
BARD (C.R.) INC	44,600	396,716	1,103,850	COMMONWEALTH EDISON	98,700	3,105,723	2,627,888

Investment Section

TOTAL STOCK PORTFOLIO (Continued)

DESCRIPTION	SHARES	BOOK VALUE	MARKET VALUE	DESCRIPTION	SHARES	BOOK VALUE	MARKET VALUE
COMMUNITY PSYCHIATRIC CNTRS	19,000	\$ 580,195	\$ 218,500	ENTERGY CORP	106,100	\$1,320,264	\$2,997,325
COMPAQ COMPUTER CORP	30,400	1,795,992	756,200	ETHYL CORP.	62,000	1,694,758	1,643,000
COMPUTER ASSOCIATES INTL	41,700	399,590	479,550	EXXON CORP	711,600	18,747,202	44,030,250
COMPUTER SCIENCES CORP.	7,200	432,216	451,800	FEDERAL EXPRESS CORPORATION	11,800	403,906	532,475
CONAGRA INC	91,050	1,266,845	2,378,681	FEDERAL HOME LOAN MORTGAGE	70,200	2,841,877	2,790,450
CONSOLIDATED EDISON OF NY	102,700	1,840,038	2,875,600	FEDERAL NATIONAL MORT. ASSN.	122,500	4,510,276	7,472,500
CONSOLIDATED FREIGHTWAYS	9,600	282,259	123,600	FEDERAL PAPER BOARD INC.	17,800	485,584	525,100
CONSOLIDATED NATURAL GAS CO	46,500	1,091,674	1,970,438	FIRST CHICAGO CORP	28,600	661,657	1,011,725
CONSOLIDATED RAIL CORP.	13,500	662,378	1,220,063	FIRST FIDELITY BANCORPORATION	33,000	756,745	1,249,875
CONTINENTAL CORP	29,500	1,299,210	829,688	FIRST INTERSTATE BANCORP	20,200	961,790	830,725
COOPER INDUSTRIES INC	54,800	1,038,978	2,527,650	FIRST MISSISSIPPI CORP	13,200	117,918	150,150
COOPER TIRE & RUBBER CO.	18,500	407,006	885,688	FIRST UNION CORP (N.C.)	58,100	1,745,082	2,200,538
COORS (ADOLPH) -CL B	22,800	411,685	447,450	FLEET FINANCIAL GROUP	36,500	1,045,908	1,081,313
CORESTATES FINANCIAL CORP	109,300	4,222,640	5,383,025	FLEETWOOD ENTERPRISES	14,400	276,440	410,400
CORNING INC	104,800	1,123,819	3,943,100	FLEMING COMPANIES INC	14,000	477,670	481,250
CPC INTERNATIONAL INC	70,400	809,724	3,247,200	FLUOR CORPORATION	27,000	1,062,806	1,080,000
CRANE COMPANY	28,000	675,780	644,000	FMC CORP	16,600	216,281	825,850
CRAY RESEARCH INC.	12,100	355,498	346,363	FORD MOTOR CO	219,000	7,541,058	10,046,625
CROWN CORK & SEAL INC	39,000	752,627	1,209,000	FOSTER WHEELER CORP	21,200	277,996	537,950
CSX CORP	39,997	898,054	2,534,810	FPL GROUP INC	64,000	1,968,612	2,232,000
CUMMINS ENGINE INC.	7,600	517,902	520,600	GANNETT CO	213,100	7,505,518	9,456,313
CYPRUS MINERALS CO.	17,600	370,640	501,600	GAP INC	75,600	1,408,244	2,608,200
DANA CORP	18,500	523,768	807,063	GENERAL CINEMA CORP	50,661	1,055,893	1,209,531
DAYTON-HUDSON CORP	30,826	982,900	2,065,342	GENERAL DYNAMICS CORP	19,000	1,434,225	1,356,125
DEERE & COMPANY	27,000	1,694,303	1,150,875	GENERAL ELECTRIC CO	450,000	18,636,065	34,987,500
DELTA AIR LINES INC	25,000	1,798,435	1,356,250	GENERAL MILLS INC	77,800	1,237,305	5,222,325
DELUXE CORP	157,900	4,499,180	6,710,750	GENERAL MOTORS CORP	313,500	12,085,505	13,794,000
DETROIT EDISON CO	76,000	1,294,332	2,375,000	GENERAL RE CORP	42,000	2,352,449	3,559,500
DIAL CORPORATION	8,500	242,500	302,813	GENERAL SIGNAL CORP	8,414	355,555	485,909
DIGITAL EQUIPMENT	53,600	3,004,606	1,855,900	GENUINE PARTS CO	195,000	4,377,274	6,240,000
DILLARD DEPT STORES -CL A	54,900	798,591	2,024,438	GEORGIA-PACIFIC CORP	36,400	841,460	2,229,500
DISNEY (WALT) COMPANY	257,600	1,368,015	9,305,800	GERBER PRODUCTS CO	26,400	398,654	1,755,600
DOMINION RESOURCES INC	69,300	1,428,336	2,650,725	GIANT FOOD INC CL- A	20,000	505,882	412,500
DONNELLEY (R.R.) & SONS CO	162,200	5,977,833	8,779,075	GIBSON GREETINGS INC.	100,000	2,737,648	2,462,500
DOVER CORP	14,400	326,030	581,400	GILLETTE CO	96,086	2,000,129	4,576,096
DOW CHEMICAL	125,800	3,389,953	7,249,225	GOLDEN WEST FINANCIAL CORP	35,000	942,130	1,605,625
DOW JONES & CO Class B	18,550	567,763	595,919	GOODRICH (B.F.) CO	11,200	369,128	530,600
DOW JONES & CO INC	37,100	1,135,526	1,191,838	GOODYEAR TIRE & RUBBER CO	34,183	985,443	2,345,808
DRESSER INDUSTRIES INC.	65,400	1,712,370	1,365,225	GRACE (W.R.) & CO	37,800	833,193	1,285,200
DREYFUS CORP	85,000	2,372,845	3,208,750	GRAINGER (W.W.) INC	31,800	524,319	1,466,775
DU PONT (E.I.) DE NEMOURS	464,100	10,870,971	23,437,050	GREAT ATLANTIC & PACIFIC TEA	10,000	593,930	270,000
DUKE POWER CO	91,100	1,887,433	3,120,175	GREAT LAKES CHEMICAL CORP.	8,000	499,944	496,000
DUN & BRADSTREET CORP	199,600	9,511,643	11,302,350	GREAT WESTERN FINANCIAL CORP	50,000	1,001,850	843,750
E-SYSTEMS INC	85,400	2,916,275	2,818,200	GRUMMAN CORP	10,000	284,916	226,250
EASTERN ENTERPRISES	10,500	260,878	288,750	GTE CORP	423,800	9,331,238	13,508,625
EASTMAN KODAK CO	161,000	6,058,943	6,460,125	HALLIBURTON CO	84,200	3,507,434	2,241,825
EATON CORP	23,150	824,718	1,849,106	HANDLEMAN CO	18,900	201,171	250,425
ECHLIN INC	27,100	351,176	508,125	HARLAND JOHN H. CO.	61,800	1,411,881	1,274,625
ECOLAB, INC.	20,000	568,920	652,500	HARNISCHFEGGER INDUSTRIES INC.	13,500	265,343	266,625
EG&G INC	325,000	5,593,386	7,475,000	HARRIS CORP	26,200	706,011	720,500
EMERSON ELECTRIC CO	104,500	3,012,642	5,094,375	HARTMARX CORP	12,300	277,800	69,188
ENGELHARD CORP	24,300	454,056	984,150	HASBRO INC	60,150	747,343	1,699,238
ENRON CORP	53,400	1,276,303	2,236,125	HEINZ (H.J.) CO	250,900	5,534,971	9,628,288
ENSERCH CORP.	25,000	414,438	375,000	HELMERICH & PAYNE INC.	25,000	787,973	578,125

TOTAL STOCK PORTFOLIO (Continued)

DESCRIPTION	SHARES	BOOK VALUE	MARKET VALUE	DESCRIPTION	SHARES	BOOK VALUE	MARKET VALUE
HERCULES INC	28,200	\$ 720,507	\$1,487,550	MASCO CORP	219,800	\$5,020,930	\$5,714,800
HERSHEY FOODS CORP	57,300	769,671	2,406,600	MATTEL INC.	40,312	593,016	1,017,878
HEWLETT-PACKARD CO	247,800	9,561,714	17,067,225	MAXUS ENERGY CORPORATION	154,700	1,252,343	928,200
HILTON HOTELS CORP	16,000	1,580,560	734,000	MAY DEPARTMENT STORES CO	54,615	1,272,176	3,024,306
HOME DEPOT INCORPORATED	99,150	3,709,497	6,667,838	MAYTAG CORP	62,600	1,292,967	1,032,900
HOMESTAKE MINING	68,600	892,083	900,375	MBNA CORPORATION	22,300	814,173	886,425
HONEYWELL INC	48,000	1,489,505	3,360,000	MCDONALD'S CORP	226,700	4,624,255	10,428,200
HOUSEHOLD INTERNATIONAL INC.	17,100	1,008,450	859,275	MCDONNELL DOUGLAS CORP	21,800	1,766,299	850,200
HOUSTON INDUSTRIES INC	58,200	1,957,986	2,553,525	MCGRAW-HILL INC	21,600	1,162,590	1,250,100
HUBBELL (HARVEY) -CL B	95,000	2,989,768	4,738,125	MCI COMMUNICATIONS CORP	113,400	3,217,988	3,642,975
HUMANA INC	233,850	6,226,812	4,940,081	MCKESSON CORP	158,000	4,815,354	5,016,500
ILLINOIS TOOL WORKS	24,200	643,964	1,473,175	MEAD CORP	38,200	826,621	1,346,550
IMCERA GROUP INC.	41,100	558,479	1,310,063	MEDTRONIC INC	42,000	924,025	3,433,500
INGERSOLL-RAND COMPANY	40,000	883,440	1,100,000	MELVILLE CORP	163,000	5,149,810	7,416,500
INLAND STEEL INDUSTRIES INC	14,700	425,608	382,200	MERCANTILE STORES CO INC	10,250	275,020	347,219
INTEL CORPORATION	89,100	3,671,050	5,078,700	MERCK & CO	530,800	6,785,003	25,876,500
INTERGRAPH CORP.	21,500	416,993	282,188	MEREDITH CORP	12,200	432,819	333,975
INTERLAKE CORP	8,500	217,855	36,125	MERRILL LYNCH & CO. INC.	45,800	1,480,942	2,312,900
INTL BUSINESS MACHINES CORP	307,700	30,824,965	30,116,138	MILLIPORE CORP	97,000	3,544,037	3,213,125
INTL FLAVORS & FRAGRANCES	16,200	482,522	1,569,375	MINNESOTA MINING & MFG CO	165,500	10,801,038	16,053,500
INTL PAPER CO	49,200	1,209,253	3,437,850	MOBIL CORP	317,100	13,648,587	19,501,650
ITT CORP	54,600	2,300,014	3,535,350	MONARCH MACHINE TOOL CO	2,300	38,092	23,288
JAMES RIVER CORP OF VA	35,800	1,007,321	733,900	MONSANTO CO	73,800	1,721,563	4,068,225
JEFFERSON-PILOT CORP	115,800	3,785,337	4,849,125	MORGAN (J.P.) & CO	85,700	2,249,727	4,809,913
JOHNSON & JOHNSON	404,200	7,838,997	18,087,950	MORRISON KNUDSEN CORP.	12,900	253,885	264,450
JOHNSON CONTROLS	8,500	272,255	333,625	MORTON INTERNATIONAL INC.	21,600	889,761	1,174,500
JOSTENS INC.	9,000	287,886	222,750	MOTOROLA INC	59,100	1,567,642	4,528,538
JWP INC.	16,900	379,532	207,025	NACCO INDUSTRIES -CL A	6,000	105,546	253,500
K MART CORP	170,800	2,366,697	3,928,400	NALCO CHEMICAL COMPANY	32,000	820,730	1,148,000
KELLOGG CO	141,800	2,217,076	9,411,975	NATIONAL CITY CORP	105,000	3,505,955	4,777,500
KERR-MCGEE CORP.	22,700	1,167,566	908,000	NATIONAL MEDICAL ENTERPRISE	98,400	1,409,343	1,414,500
KIMBERLY-CLARK CORP	81,200	1,181,727	4,750,200	NATIONAL SEMICONDUCTOR	46,900	432,961	463,138
KNIGHT-RIDDER INC	21,500	714,007	1,255,063	NATIONAL SERVICE IND. INC.	11,000	264,172	264,000
KROGER CO	9,600	217,359	142,800	NATIONSBANK CORP.	85,740	3,668,740	4,083,368
LEGGETT & PLATT INC	190,000	2,362,434	4,560,000	NAVISTAR INTERNATIONAL CORP.	30,000	107,475	78,750
LILLY (ELI) & CO	214,100	10,474,450	13,943,263	NBD BANCORP INC	65,325	1,076,135	1,869,928
LIMITED INC	323,500	4,811,244	7,359,625	NEW YORK TIMES CO -CL A	55,200	1,344,618	1,545,600
LINCOLN NATIONAL CORP	24,900	1,003,431	1,531,350	NEWELL COMPANIES	14,000	370,272	500,500
LITTON INDUSTRIES INC	18,212	689,913	851,411	NEWMONT MINING CORP	39,400	34,656	1,910,900
LIZ CLAIBORNE INC	200,800	4,785,156	7,078,200	NIAGARA MOHAWK POWER	80,000	1,562,486	1,520,000
LOCKHEED CORP	26,000	1,149,278	1,147,250	NICOR INC.	6,400	274,592	287,200
LONGS DRUG STORES CORP.	101,000	4,022,733	3,370,875	NIKE, INC -CL B	34,200	1,040,117	2,124,675
LORAL CORP	17,500	560,852	564,375	NL INDUSTRIES	28,595	319,284	239,483
LOTUS DEVELOPMENT CORP.	19,100	432,520	355,738	NORDSTROM INC	37,000	1,399,506	1,045,250
LOUISIANA LAND & EXPLOR	27,600	751,091	938,400	NORFOLK SOUTHERN CORP	65,400	1,435,845	4,161,075
LOUISIANA-PACIFIC CORP	34,850	481,608	1,611,789	NORTHERN STATES POWER CO	12,200	279,135	506,300
LOWE'S COS	57,400	790,784	1,126,475	NORTHROP CORP	13,500	734,157	354,375
LUBRIZOL CORP.	50,000	2,661,950	3,456,250	NORWEST CORP	56,900	1,120,752	2,162,200
LUBY'S CAFETERIAS INC	66,875	1,176,289	1,128,516	NOVELL INC.	32,000	2,038,720	1,704,000
M/A-COM INC	32,200	671,975	165,025	NUCOR CORP	32,200	458,292	1,666,350
MANOR CARE INC.	15,000	167,800	275,625	NYNEX CORP	89,600	4,866,578	7,067,200
MARRIOTT CORP	67,300	1,325,221	1,085,213	OCCIDENTAL PETROLEUM CORP	163,700	3,709,865	3,212,613
MARSH & MCLENNAN CO.	29,000	2,127,528	2,247,500	OGDEN CORP.	19,200	443,184	376,800
MARTIN MARIETTA CORP	129,150	5,628,495	6,764,231	OHIO EDISON CO	86,200	1,716,897	1,799,425

Investment Section

TOTAL STOCK PORTFOLIO (Continued)

DESCRIPTION	SHARES	BOOK VALUE	MARKET VALUE	DESCRIPTION	SHARES	BOOK VALUE	MARKET VALUE
ONEOK INC	16,400	\$ 267,401	\$ 278,800	RUBBERMAID INC	68,800	\$1,129,378	\$2,021,000
ORACLE SYSTEMS	15,000	208,125	228,750	RUSSELL CORP	154,200	2,699,687	4,818,750
ORYX ENERGY CO	47,300	1,353,927	827,750	RYDER SYSTEM INC.	33,300	733,599	857,475
OUTBOARD MARINE CORP	10,200	229,052	178,500	SAFECO CORP	160,800	4,500,003	8,321,400
OWENS CORNING FIBRGLAS	11,800	61,217	356,950	SAFETY-KLEEN CORP	21,000	400,945	582,750
PACCAR INC	16,000	683,200	932,000	SALOMON INC	58,000	2,529,083	1,957,500
PACIFIC ENTERPRISES	18,800	757,268	357,200	SANTA FE ENERGY RESOURCES	114,670	1,734,699	931,694
PACIFIC GAS & ELECTRIC	204,800	3,720,889	6,604,800	SANTA FE PACIFIC CORP	104,185	1,237,692	1,263,243
PACIFIC TELESIS GROUP	188,400	4,899,167	7,559,550	SARA LEE CORP	168,800	2,636,970	8,693,200
PACIFICORP	117,200	2,410,776	2,607,700	SCECORP	101,400	3,031,849	4,486,950
PALL CORP	36,000	452,018	936,000	SCHERING-PLOUGH	104,000	2,244,599	5,707,000
PANHANDLE EASTERN CORP	27,000	570,726	421,875	SCIENTIFIC-ATLANTA INC	17,200	159,628	408,500
PARAMOUNT COMMUNICATIONS	42,900	2,438,287	1,946,588	SCOTT PAPER CO	33,200	613,219	1,269,900
PARKER-HANNIFIN CORP	18,900	479,020	550,463	SEARS ROEBUCK & CO	155,200	6,737,832	6,169,200
PENNEY (J.C.) CO	141,600	6,289,481	10,000,500	SERVICE CORP. INTERNATIONAL	15,000	379,200	384,375
PENNZOIL CO	28,500	1,215,878	1,275,375	SHARED MEDICAL SYSTEMS CORP	16,200	501,688	297,675
PEOPLES ENERGY CORP	16,500	279,913	433,125	SHAWMUT NATIONAL CORP.	40,000	866,200	725,000
PEPSICO INC	381,500	3,845,504	13,304,813	SHERWIN-WILLIAMS CO	42,400	398,899	1,166,000
PERKIN-ELMER CORP	25,400	621,266	762,000	SHONEYS INC	24,000	268,060	489,000
PET INC.	23,000	306,293	359,375	SKYLINE CORP	8,200	123,564	117,875
PFIZER INC	163,600	3,952,014	11,942,800	SNAP-ON TOOLS CORP	146,600	4,060,192	4,562,925
PHELPS DODGE CORPORATION	31,200	1,027,464	1,513,200	SONAT INC	24,900	868,562	933,750
PHILADELPHIA ELECTRIC CO	82,100	1,811,986	2,165,388	SONOCO PRODUCTS CO	110,000	3,308,913	4,372,500
PHILIP MORRIS COS INC	432,200	9,176,201	31,766,700	SOUTHERN CO	140,400	3,098,122	4,896,450
PHILLIPS PETROLEUM CO	141,700	2,648,216	3,436,225	SOUTHWESTERN BELL CORP	138,800	4,808,380	8,466,800
PHM CORP	17,400	278,798	300,150	SPRINGS INDUSTRIES -CL A	6,200	141,928	226,300
PIONEER HI-BRED INT'L	100,000	3,490,232	8,000,000	SPRINT CORPORATION	84,500	2,041,409	1,837,875
PITNEY-BOWES INC	318,400	5,128,662	9,193,800	SPX CORP	7,500	202,091	161,250
PITTSTON COMPANY	16,800	310,679	262,500	ST JUDE MEDICAL INCORPORATED	11,000	376,600	415,250
PNC FINANCIAL CORP	37,000	1,556,771	1,998,000	ST PAUL COS	24,800	872,029	1,987,100
POLAROID CORP	20,000	459,070	547,500	STANHOME INC	130,000	2,791,970	4,273,750
POTLATCH CORP	14,600	409,507	646,050	STANLEY WORKS	25,350	506,772	1,007,663
PPG INDUSTRIES INC	137,000	4,953,838	8,973,500	STONE CONTAINER	26,600	532,799	668,325
PREMARK INTERNATIONAL INC.	15,000	469,163	526,875	STRIDE RITE CORPORATION	23,000	421,920	474,375
PRICE CO.	21,500	1,073,680	709,500	SUN CO INC	54,300	1,653,433	1,391,438
PRIMERICA CORP	37,000	1,002,844	1,419,875	SUNTRUST BANKS INC	56,000	1,192,519	2,268,000
PROCTER & GAMBLE CO	455,046	11,033,504	20,932,116	SUPER VALU INC	25,900	502,667	621,600
PROMUS COMPANIES INC	15,100	754,048	430,350	SYSCO CORP	73,600	924,328	1,821,600
PSI RESOURCES INC.	24,500	430,771	413,438	TANDEM COMPUTERS	40,000	503,152	475,000
PUBLIC SERVICE ENTRP	94,600	2,086,529	2,613,325	TANDY CORP	28,774	937,716	704,963
QUAKER OATS CO	34,300	1,409,596	1,946,525	TEKTRONIX INC	31,800	748,145	556,500
QUANTUM CHEMICAL CORP	24,211	531,385	438,824	TELE COMMUNICATIONS INC.	130,600	1,878,273	2,563,025
QUESTAR CORP	200,000	3,704,611	4,550,000	TELEDYNE INC.	25,000	482,000	471,875
RALSTON PURINA CO	45,600	1,083,602	2,120,400	TEMPLE INLAND INC	26,000	840,428	1,261,000
RAYCHEM CORP	15,000	560,450	478,125	TENNECO INC	72,409	2,993,802	2,679,133
RAYTHEON CO	73,400	1,712,826	3,229,600	TEXACO INCORPORATED	169,200	10,578,402	10,448,100
REEBOK INTERNATIONAL LTD.	165,000	4,539,311	3,980,625	TEXAS INSTRUMENTS INC.	35,000	1,046,675	1,229,375
REYNOLDS METALS CO	30,000	1,683,142	1,736,250	TEXAS UTILITIES CO	82,900	2,504,730	3,243,463
RITE AID CORP	39,700	501,352	789,038	TEXTRON INC	44,200	1,195,695	1,651,975
ROADWAY SERVICES INC	24,600	758,172	1,568,250	THOMAS & BETTS CORP	9,600	363,711	571,200
ROCKWELL INT'L CORP	264,000	5,682,463	6,105,000	TIME WARNER INC.	47,520	3,170,123	5,274,720
ROHM & HAAS CO	45,000	972,379	2,486,250	TIMES MIRROR CO	68,200	1,711,591	2,284,700
ROWAN COS. INC.	32,600	514,428	195,600	TIMKEN CO	8,400	179,457	229,950
RPM INC.	150,000	2,479,906	3,543,750	TJX COMPANIES INC.	43,200	998,563	810,000

TOTAL STOCK PORTFOLIO (Continued)

DESCRIPTION	SHARES	BOOK VALUE	MARKET VALUE
TORCHMARK CORP	15,000	\$ 706,200	\$1,018,125
TOYS	128,500	3,494,715	4,433,250
TRANSAMERICA CORP	40,000	1,413,725	1,775,000
TRAVELERS CORP	49,900	2,130,416	1,029,188
TRIBUNE CO (NEW)	23,200	820,831	951,200
TRINOVA CORP	12,700	275,019	288,925
TRW INC	33,800	1,494,714	1,816,750
TYCO LABS INC.	19,000	992,154	646,000
U S WEST INC	176,500	3,678,850	6,442,250
UAL CORP	11,000	2,355,078	1,276,000
UNION CAMP CORP	25,500	802,051	1,185,750
UNION CARBIDE CORP	193,000	3,869,482	5,235,125
UNION ELECTRIC CO.	20,000	692,626	717,500
UNION PACIFIC CORP	99,600	2,434,199	4,992,450
UNISYS CORP	80,700	1,473,211	726,300
UNITED TECHNOLOGIES CORP	62,600	2,302,631	3,270,850
UNOCAL CORP	135,292	2,165,359	3,449,946
UPJOHN CO	132,200	3,747,974	4,230,400
US BANCORP	42,900	836,701	1,034,963
USAIR GROUP	28,600	1,308,615	364,650
USF&G CORP	13,900	541,776	198,075
USLIFE CORP	14,400	596,646	730,800
UST INC	95,200	1,212,743	2,665,600
USX MARATHON GROUP	154,100	3,991,190	3,351,675
USX U.S. STEEL GROUP INC	22,940	514,511	653,790
VF CORP	31,771	610,570	1,397,924
WAL-MART STORES	518,400	3,661,785	27,864,000
WALGREEN CO	55,600	719,443	1,883,450
WALLACE COMPUTER SERVICES	150,000	3,764,785	3,431,250
WANG LABORATORIES -CL B	200,000	5,164,817	725,000
WARNER-LAMBERT CO	71,000	1,508,358	4,331,000
WASHINGTON POST CO. CL-B	20,400	4,641,164	4,426,800
WASTE MANAGEMENT INC	220,300	2,125,882	7,407,588
WELLS FARGO	29,000	2,226,267	2,164,125
WENDY'S INTERNATIONAL INC	59,624	822,238	655,864
WESTINGHOUSE ELECTRIC CORP	136,700	2,402,439	2,409,338
WESTMORELAND COAL COMPANY	5,000	94,688	58,750
WESTVACO CORP	38,925	659,082	1,493,747
WETTERAU INC.	9,600	292,296	249,600
WEYERHAEUSER CO	85,100	1,915,657	2,914,675
WHIRLPOOL CORP	43,300	1,075,136	1,612,925
WHITMAN CORPORATION	23,000	236,898	307,625
WILLIAMS COS. INC.	18,600	480,264	539,400
WINN-DIXIE STORES INC	27,400	522,409	1,226,150
WOOLWORTH CORP.	112,000	3,128,508	3,038,000
WORTHINGTON INDUSTRIES	175,500	1,838,365	4,036,500
WRIGLEY (WM.) JR CO	27,600	333,289	2,083,800
XEROX CORP	44,361	2,480,733	3,094,180
YELLOW FREIGHT SYSTEM INC	12,600	382,778	343,350
ZENITH ELECTRONICS CORP	15,000	307,930	106,875
ZURN INDUSTRIES INC	7,000	118,876	196,000
TOTAL STOCK PORTFOLIO		\$ 1,006,146,918	\$ 1,570,206,304

Investment Section

REAL ESTATE PORTFOLIO

DESCRIPTION		BOOK VALUE	MARKET VALUE
88 East Broad Street	Columbus, OH	\$ 17,400,000	\$ 17,400,000
East Rittiman	San Antonio, TX	3,148,698	2,380,000
Eden Prairie Complex	Eden Prairie, MN	17,700,000	17,700,000
Florence Plaza	Florence, KY	10,400,000	10,400,000
Interwest Business Center	San Antonio, TX	4,240,000	4,240,000
Metro Center IV	Dublin, OH	4,100,000	4,100,000
Metro Center V	Dublin, OH	15,400,000	15,400,000
Northport Plaza	Tampa, FL	5,450,000	5,450,000
Paragon Building	Oklahoma City, OK	4,400,000	4,400,000
Plaza Tower	New Orleans, LA	2,300,000	2,300,000
President's Plaza	Tampa, FL	3,890,000	3,890,000
Washington Square	Dayton, OH	9,070,000	9,070,000
K Mart Store	Edinburg, TX	2,000,000	2,000,000
K Mart Store	Gallatin, TN	1,900,000	1,900,000
K Mart Store	Port St. Lucie, FL	2,600,000	2,600,000
K Mart Store	Portland, TX	2,175,000	2,175,000
Kroger Store	Cincinnati, OH	1,600,000	1,600,000
Kroger Store/Super-X	Gallatin, TN	1,361,389	1,580,000
Equitable Hawaiian Properties Fund	Commingled Fund	22,079,800	27,094,735
Equitable Prime Property Fund	Commingled Fund	25,382,374	22,295,527
Morgan Guaranty Trust Co of NY	Commingled Fund	24,990,207	18,692,385
NationsBank	Commingled Fund	30,842,830	30,250,265
Prudential Insurance Sep Account I	Commingled Fund	49,369,197	47,844,147
Prudential Insurance Sep Account II	Commingled Fund	10,117,658	8,796,428
Dillard's Comm Mrtg Loan 12.50 %	Austin, TX	6,491,698	8,350,000
Dillard's Comm Mrtg Loan 12.50 %	Memphis, TN	6,464,155	7,910,000
Prestige Plaza Comm Mrtg Loan 11.50 %	Dayton, OH	6,644,033	10,020,000
TOTAL		\$ 291,517,040	\$ 289,838,486

VENTURE CAPITAL PORTFOLIO

DESCRIPTION		BOOK VALUE	MARKET VALUE
Cardinal Development Fund I		\$ 1,486,530	\$ 1,486,530
Morgenthaler Venture Partners II		9,418,632	9,418,632
Morgenthaler Venture Partners III		5,218,675	5,218,675
Primus Capital Fund		3,019,867	3,019,867
Primus Capital Fund II		10,445,014	10,445,014
TOTAL		\$ 29,588,718	\$ 29,588,718
TOTAL INVESTMENT PORTFOLIO		\$ 2,913,435,808	\$ 3,576,978,461

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 four directors. Their areas of responsibility are finance, investments, member services, 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) Temporary employees for emergency purposes. 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.

Exempted Service — This is service during a period when the member was given a choice of contributing or refraining from doing so. The member must pay the entire

cost, which is based on a percentage of current salary.

Leave Of Absence — A member returning to work after a period of authorized leave may purchase service credit for the period involved. 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 can-

not 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.

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

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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 retirees 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.

Re-Employed Retirees' Annuity

Ohio public system retirees who work in a SERS covered position are entitled to an annuity at age 65. The annuity is based on a money purchase formula and may be paid in monthly payments if the monthly amount is \$25 or more. If the monthly amount is less than \$25, the annuity will be paid in a lump sum.