Comprehensive Annual Financial Report

For the Year Ended June 30, 1995

SERS

School Employees Retirement System of Ohio

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO

Comprehensive Annual

FINANCIAL REPORT

for the year ended June 30, 1995

Prepared by SERS Staff

Thomas R. Anderson
Executive Director

Joel E. Sofranko
Director of Finance

THE SCHOOL EMPLOYEES RETIREMENT BOARD OF OHIO

Seated: Jeannie Knox and RuthAnna Spears. **Standing, Left To Right:** Barbara Overholser, Daniel Wilson, Jim Petro (State Auditor), Tom Anderson, and Judy Kelley.

PRESIDENT: *JEANNIE KNOX, CINCINNATI, OHIO*
Term Expires June 30, 1995

VICE-PRESIDENT: *RUTHANNA SPEARS, KETTERING, OHIO*
Term Expires June 30, 1996

EMPLOYEE-MEMBER: *DANIEL WILSON, SHAKER HEIGHTS, OHIO*
Term Expires June 30, 1996

EMPLOYEE-MEMBER: *BARBARA OVERHOLSER, COLUMBUS, OHIO*
Term Expires June 30, 1997

EMPLOYEE-MEMBER: *JUDY KELLEY, AKRON, OHIO*
Term Expires June 30, 1997

EXOFFICIO MEMBER: *BETTY MONTGOMERY*
Attorney General

EXOFFICIO MEMBER: *JIM PETRO*
Auditor of State

Thomas R. Anderson
Executive Director

Directors

ROBERT E. HARTSOOK
Deputy Director / Member Services

TERESA R. WOOLLEY
Management Information Services

PAUL M. KUBINSKY
Investments

JOEL E. SOFRANKO
Finance

RETIREMENT BOARD
Jeannie Knox, *President*
RuthAnna Spears, *Vice President*
Barbara Overholser, *Employee-Member*
Daniel Wilson, *Employee-Member*
Judy Kelley, *Employee-Member*
Betty Montgomery, *Attorney General*
Jim Petro, *Auditor of State*

EXECUTIVE DIRECTOR
Thomas R. Anderson

DEPUTY DIRECTOR/ DIRECTOR MEMBER SERVICES
Robert E. Hartsook

DIRECTOR MANAGEMENT INFORMATION SERVICES
Teresa R. Woolley

DIRECTOR INVESTMENTS
Paul M. Kubinsky

DIRECTOR FINANCE
Joel E. Sofranko

CONSULTANTS/ADVISORS

Dr. Robert J. Atwell - Medical Advisor
Coopers & Lybrand, L.L.P. - Independent Accountants
Gabriel, Roeder, Smith & Co. - Actuaries
The L & B Group - Real Estate Investments
Frank Russell Company - Investment Consultants

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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, 1994

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.

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

President

Jeffrey L. Esser

Executive Director

SCHOOL EMPLOYEES RETIREMENT SYSTEM

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

December 20, 1995

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, 1995.

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 accountants' report from our certified public accountants, Coopers & Lybrand, L.L.P., and the financial statements of the System; an Actuarial Section which contains a letter expressing the opinion of our consulting actuaries, Gabriel, Roeder, Smith & Company 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 the 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 post-retirement health care benefits. 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 58.

ECONOMIC ENVIRONMENT

The financial markets were a study in contrasts during SERS' fiscal year. For the first six months we saw rising indicators followed by slight corrections as analysts and investors worried about Federal Reserve actions, inflation, recession and soft landings. Then, attention turned to the Dow Jones Industrial Average (DJIA), which after several flirtations closed above 4000 on February 23. From there it seemed that nothing could stop the stock market, as it closed at 4556.10 on June 30, 25% above its close on June 30, 1994. The rally has been fueled by technology stocks, followed by banks, insurance companies and securities firms which have benefited from falling interest rates. It took nearly four years for the DJIA to rise from 3000 to 4000; nine months later it had risen to 5000. The bond market also rallied from a dismal 1994 when interest rates, after peaking in November, began to decline. These strong markets have provided SERS with an excellent rate of return for 1995, strengthening our asset base and enabling us to make progress toward reducing our funding period.

MAJOR INITIATIVES

After an extensive asset allocation study last year, the Board in September authorized certain changes to SERS' investment policy. The changes are intended to enhance the long term return of the portfolio in line with changes authorized last year by the Ohio General Assembly. Policy changes include increasing domestic equity allocation to 45% of the portfolio, adding a 10% allocation to international securities, and reducing the fixed income allocation to 28%. In addition, the long term performance objectives for each asset class were adjusted. For instance, the equity benchmark is now the Russell 3000 instead of the S&P 500. To this end, we converted our equity portfolio in November to passively managed commingled equity funds chosen to replicate the Russell 3000.

During fiscal year 1996, we will retain active managers for the equity and fixed income portfolios to add value and diversification to SERS' total fund. We will also seek to reduce our fixed income investments and increase real estate to enable us to attain the long-term target ratios adopted by the Board in 1994.

The project to develop a new automated benefit payment system continued in 1995 and based on our survey of public employee retirement systems nationwide, we visited two as part of our evaluation to make or purchase an automated benefit system. Although we found a close match in one system, we have decided to develop our own application.

Our health care program for retirees has been under constant scrutiny for the past ten years. We have made many changes to it along the way: increasing employer contributions for funding, raising deductibles, requiring that retirees pay part of their insurance premium and setting up a managed care program. Although expenses have moderated from the double digit increases of the past, it was clear that we could not continue to fund health care on a level cost basis in the future. Thus the Retirement Board decided to institute pay-as-you-go financing with the target level of the health care fund to be maintained at or above 125 per cent of health care expenses. Financing of the health care fund comes from the remainder of the employer contributions after the level funding of basic benefits and the health care surcharge collected from employers for employees earning less than an actuarially determined minimum salary.

Awards

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, 1994. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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 ten consecutive years (fiscal years ended 1985-1994). 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.

SERS received the Public Pension Principles Achievement Award from the Public Pension Coordinating Council for 1994. The purpose of the Achievement Award is to promote high professional standards for public employee retirement systems. It is based on compliance with twenty specific principles that underline retirement system achievements in the areas of benefits, actuarial valuations, financial reporting, investing and disclosure to members. The award remains in effect for one year.

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 constant yield method. All other assets are reported at cost. All investments are subject to adjustment for market declines determined to be other than temporary.

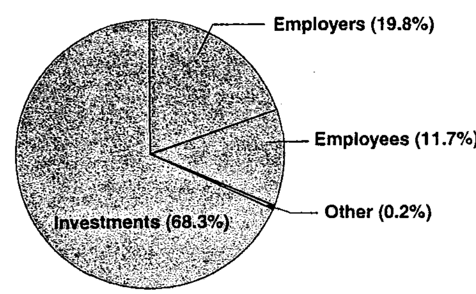
Financial Highlights

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 $133.9 million and $227.7 million, respectively, while income from investments totaled $786 million. The employee and employer contribution rates during fiscal 1995 remained unchanged from the prior year at 9% and 14%, respectively. As noted above, SERS' equity portfolio was liquidated in November; the net gain realized was $578.6 million.

Operating Revenue (Expressed in Millions)

	1995	1994	Increase Amount	Increase Percentage
Member Contributions	133.9	$128.2	$5.7	4.4%
Employer Contributions	227.7	216.4	11.3	5.2
Investment Earnings	786.0	300.4	485.6	161.7
Other	2.7	2.0	.7	35.0
Total	$1,150.3	$647.0	$503.3	77.8%

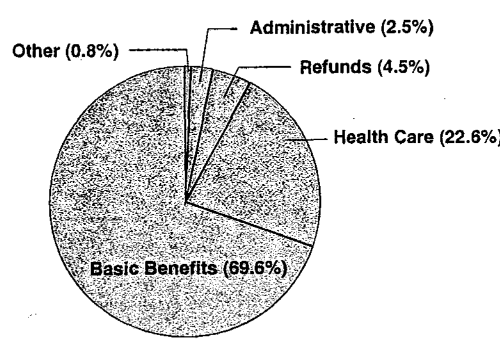
1995 Revenue



Operating Expenses (Expressed in Millions)

	1995	1994	Increase Amount	Increase Percentage
Retirement Payments	$272.7	$253.7	$19.0	7.5%
Health Care Payments	88.3	85.5	2.8	3.3
Refunds	17.7	13.9	3.8	27.3
Administrative Expenses	9.9	10.0	(.1)	(1.0)
Other	2.9	2.7	.2	7.4
Total	$391.5	$365.8	$25.7	7.0%

1995 Expenses



Expenses are incurred primarily for the purpose for which SERS was created, the payment of benefits. Included in the total expenses for fiscal 1995 were benefit payments, refunds of contributions due to member terminations or deaths, transfers of contributions to other Ohio Systems to provide benefits for those members who had membership in more than one system, and administrative expenses. Health care expense increased 3.3% versus last year's decrease of 1.8%. While claims paid by our primary carrier fell, they were offset by the rise in payments to our mail order prescription provider. Refunds grew 27.5% versus the 1994 increase of just 3.0%. This represents increases in both the number and dollar amounts of refunds paid. The increase in retirement payments resulted from the growth in the number of benefit recipients.

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 1995 resulted in an increase in the fund balance of $758.8 million.

The actuarial valuation for funding purposes, dated June 30, 1995, reflects an unfunded accrued liability for benefits of $1,529 million. This liability represents the difference between the computed actuarial accrued liability to be paid members and retirees and total valuation assets for basic benefits. The unfunded accrued liability is 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, was $5,755 million for basic benefits as of June 30, 1995. The employer contribution rate of 14% is allocated by Board policy between basic benefits and health care. To provide additional funding for post-retirement health care benefits, employers pay a surcharge for members whose salary is less than a minimum amount.

Additional information regarding funding is provided within the Actuarial Section (pages 32 to 38) of this report.

Investments

SERS invests the accumulated funds in order to maximize both current income yield and long-term appreciation. For the fiscal year ended June 30, 1995, investments provided 68.3% of the System's total revenues while employee and employer contributions provided 11.7% and 19.8%, respectively; other sources accounted for the remaining .2%.

The market value of the investments of the System was $4.531 billion at June 30, 1995, an increase of $617 million from the previous year. For the last ten years, SERS has experienced an average annualized return of 10.4%. At June 30, 1995, the carrying value of our investment portfolio was structured as follows: 34.7% in debt securities; 52.4% in equity securities; 7.6% in short-term investments; and 5.3% 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 asset classifications. Details of portfolio composition, rates of return, and additional information concerning our investment policy and operations are provided on pages 44 through 57 of this report.

Future Prospects

As certified by our actuary in this report, SERS is being maintained on a financially sound basis, thus protecting 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 to maintain contribution rates, expressed as a percentage of payroll, on a level basis and provide for the amortization of unfunded accrued liabilities over a reasonable period.

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

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

Acknowledgements

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

STATE LEGISLATION

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

H. B. 197 EFFECTIVE 10/11/94

This legislation was enacted to give SERS permanent authority to invest in venture capital companies. Prior legislation granting such authority had been temporary and had expired as of December, 1993.

H. B. 226

This legislation was enacted to give newly elected or appointed school board members thirty days from taking office to make an irrevocable election whether to join SERS and to give current school board members ninety days to elect to opt in/out of SERS. The bill further requires state retirement boards to adopt policies on board travel and requires that travel expenses be approved by the retirement board and be audited. The effective date of this bill is August 25, 1995, except for the school board member provision, which is effective November 24, 1995.

In addition to these enacted bills, SERS has been monitoring the following pending bills:

H. B. 123

This legislation would allow certain spouses of deceased members of SERS, PERS, STRS and SHPRS to continue to receive survivor benefits despite remarriage if the remarriage occurs after age fifty-five. Under current law, survivor benefits terminate if the spouse remarries prior to age sixty-two. On July 16, 1995, the bill was passed by the House and is presently before the Senate Education and Retirement Committee.

H. B. 365

This legislation would change the cost of living adjustment (COLA) calculation. Under current law, a 3% COLA is granted in those years when the increase in the CPI (plus the retiree's banked points) equals or exceeds 3%. Under the proposed legislation, a COLA equal to any increase in the CPI for the year (plus the retiree's banked points) not to exceed 3% would be granted each year.

H. B. 482

This legislation would establish an alternative retirement program for the purpose of providing academic/administrative employees of public institutions of higher education two or more retirement plans as an alternative to participating in a state retirement system. Under the proposed legislation, an employee of a public institution of higher education may, not later than ninety days after the date of employment or commencement of the alternative retirement program, make an irrevocable election to participate in an alternative retirement plan offered by the public institution of higher education. Each public institution of higher education who employs an electing employee shall contribute to the applicable state retirement system, on behalf of the employee, an amount equal to 3% of the employee's compensation to lessen any negative financial impact caused by the alternative retirement plan upon the state retirement system.

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:

SOCIAL SECURITY OFFSET

H. R. 2167, introduced on August 2, 1995 by Rep. Jefferson would change the formula for calculation of the offset. The legislation provides that the reduction in Social Security benefits that is required in the case of spouses and surviving spouses who are also receiving certain government pensions shall be equal to the amount by which the total amount of the combined monthly benefits before reduction exceeds $1,200. Where combined SERS and

Social Security benefits are $1,200 or less, there would be no reduction in the retiree's Social Security benefit. The bill has been referred to the House Ways & Means Committee.

SOCIAL SECURITY:

S. 825, introduced on May 18, 1995 by Sen. Kerrey, would require that all state and local employees hired after December 31, 1995 contribute to Social Security.

PUBLIC EMPLOYEE PENSION PLAN LIABILITY ACT OF 1995

H. R. 1683, introduced on May 23, 1995 by Rep. Andrews, which is a new version of PEPPRA or PERISA, would establish a federal cause of action for failure of state/local employee pension plans to meet the terms of their plans. The bill would also create a Qualified Review Board to evaluate changes in employer contributions and other changes which affect pension plans.

TAXATION: SECTION 415

Both the House Budget Reconciliation Bill and the Senate Budget Reconciliation Bill contain language to amend Section 415 of the Internal Revenue Code to lessen its impact on public retirement systems. Section 415 provides that no retirement benefit can be paid which is in excess of either a set dollar amount that is adjusted annually for inflation or 100% of compensation. The current definition of "compensation" does not include deferred income such as that under Section 414(h) pick up plans or Section 457 deferred compensation plans. These bills include a uniform definition of "compensation", exempt governmental plans from the 100% limitation, authorize governmental plans to establish excess plans and provide that Section 415 would not apply to governmental plan disability retirement and survivor benefits.

Financial Section

REPORT OF INDEPENDENT ACCOUNTANTS

Coopers & Lybrand

Coopers & Lybrand L.L.P.

a professional services firm

Report of Independent Accountants

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

We have audited the accompanying balance sheets of School Employees Retirement System of Ohio as of June 30, 1995 and 1994, and the related statements of revenues, expenses and changes in fund balances and 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 and *Government Auditing Standards,* issued by the Comptroller General of the United States. 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, 1995 and 1994, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 4, School Employees Retirement System of Ohio has changed its method of funding healthcare benefits from advance-funding on an actuarially determined basis to a pay-as-you-go basis.

In accordance with *Government Auditing Standards,* we have also issued a report dated December 8, 1995 on our consideration of the System's internal control structure and a report dated December 8, 1995 on its compliance with laws and regulations.

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. Such schedules as of and for the years ended June 30, 1993 through 1995 have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The schedules as of and for the year ended June 30, 1986 through 1992 were reported upon by other auditors, whose reports stated that the schedules were fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Coopers & Lybrand L.L.P.

Columbus, Ohio
December 8, 1995

BALANCE SHEETS
JUNE 30, 1995 AND 1994

	1995	1994
Assets:		
Cash (note 5)	$ 982,697	$ 1,261,655
Receivables:		
Contributions:		
Employers (note 4)	125,997,671	119,107,002
Employees (note 4)	13,375,258	9,708,016
State of Ohio subsidies	558,295	634,297
Accrued investment income	20,830,188	28,367,586
Investment sale proceeds	6,790,273	14,431,122
Total receivables	167,551,685	172,248,023
Investments, at cost (market $4,531,257,072 and $3,914,623,193, respectively) (note 5)	4,169,809,429	3,422,811,566
Property and equipment, at cost (note 6)	12,560,838	12,335,090
Less accumulated depreciation	7,401,631	6,754,353
Net property and equipment	5,159,207	5,580,737
Other assets (note 7)	11,792,304	1,613,213
Total assets	4,355,295,322	3,603,515,194
Liabilities:		
Accounts payable and accrued expenses (note 9)	1,226,352	1,091,276
Investment commitments payable	244,504	6,257,223
Health care benefits incurred and unpaid	17,377,136	18,735,917
Other liabilities (note 7)	1,751,231	1,490,803
Total liabilities	20,599,223	27,575,219
Net assets available for benefits	**$ 4,334,696,099**	**$ 3,575,939,975**

Fund balance (note 3):		
Pension benefit obligation:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 2,831,057,704	$ 3,440,013,345
Current employees:		
Accumulated employee contributions, including allocated investment income	1,034,417,049	961,669,425
Employer financed portion	1,889,130,193	2,356,358,448
Total pension benefit obligation	5,754,604,946	6,758,041,218
Unfunded pension benefit obligation payable	(1,558,118,841)	(3,182,101,243)
Health care reserves	138,209,994	-
Total fund balance	**$ 4,334,696,099**	**$ 3,575,939,975**

See accompanying notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
YEARS ENDED JUNE 30, 1995 AND 1994

	1995	1994
Revenues:		
Contributions:		
Employers (note 4)	$ 227,703,212	$ 216,383,274
Employees (note 4)	133,907,577	128,246,355
State of Ohio subsidies	558,865	635,159
Transfers from other Ohio systems	2,104,026	1,409,907
	364,273,680	346,674,695
Investment income:		
Interest and dividends	171,873,344	188,047,919
Real estate income, net	16,304,595	18,859,215
Net gain on sale of investments	597,813,359	93,501,571
	785,991,298	300,408,705
Total revenues	1,150,264,978	647,083,400
Expenses:		
Benefits:		
Retirement	226,834,067	212,437,443
Disability	31,129,681	27,367,790
Survivor	13,854,968	13,067,061
Health care	88,340,780	85,496,108
Death	890,783	805,186
	361,050,279	339,173,588
Refund of employee contributions	17,730,959	13,908,639
Administrative expenses	9,869,845	10,037,313
Transfers to other Ohio systems	2,857,771	2,665,192
Total expenses	391,508,854	365,784,732
Net income	758,756,124	281,298,668
Fund balance, beginning of year	3,575,939,975	3,294,641,307
Fund balance, end of year	**$ 4,334,696,099**	**$ 3,575,939,975**

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 1995 AND 1994

	1995	1994
Cash flows from operating activities:		
Contributions received	$ 353,791,772	$ 345,217,623
Benefits paid	(362,409,018)	(341,291,508)
Refunds of employee contributions	(17,730,959)	(13,908,639)
Administrative expenses paid	(18,915,069)	(4,278,118)
Transfers to other Ohio systems	(2,857,771)	(2,665,191)
Net cash used in operating activities	(48,121,045)	(16,925,833)
Cash flows from investing activities:		
Proceeds from investments sold	6,137,415,637	3,465,406,559
Purchase of investments	(6,289,016,327)	(3,657,413,638)
Investment income, net of investment expenses	199,759,652	209,370,926
Net cash provided by investing activities	48,158,962	17,363,847
Cash flows from capital and related financing activities:		
Additions to property and equipment	(316,875)	(988,185)
Net cash used for capital and financing activities	(316,875)	(988,185)
Net decrease in cash	(278,958)	(550,171)
Cash at beginning of year	1,261,655	1,811,826
Cash at end of year	**$ 982,697**	**$ 1,261,655**
Reconciliation of operating income to net cash used in operating activities:		
Net income	$ 758,756,124	$ 281,298,668
Adjustments to reconcile operating income to net cash provided by operating activities:		
Investment income, net of investment expenses	(785,991,298)	(300,408,705)
Increase in contributions receivable	(10,481,908)	(1,457,071)
Depreciation (non-investment)	738,406	779,640
Decrease (increase) in other assets	(10,179,092)	4,686,202
Increase in accounts payable and accrued expenses	135,077	135,247
Decrease in health care benefits incurred and unpaid	(1,358,781)	(2,117,920)
Increase in other liabilities	260,427	158,106
Total adjustments	(806,877,169)	(298,224,501)
Net cash used in operating activities	**$ (48,121,045)**	**$ (16,925,833)**

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1995 AND 1994

1. DESCRIPTION OF THE SYSTEM

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.

The accompanying financial statements comply with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity.* This statement requires that financial statements of the reporting entity include all of the organizations, activities, functions and component units for which the reporting entity is financially accountable. Financial accountability is defined as the appointment of a voting majority of the component unit's board and either (1) the reporting entity's ability to impose its will over the component unit, or (2) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the reporting entity. SERS does not have financial accountability over any entities. 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	1995	1994
Local	371	372
City	193	192
County	83	83
Village	49	49
Vocational	49	49
Technical	13	13
College	2	2
Other	6	5
Total	766	765

Employee Members	1995	1994
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	58,838	57,734

Current Employees	1995	1994
Vested	62,763	62,178
Non-vested	38,021	37,740
Total	100,784	99,918

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 retiree to a designated beneficiary.

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.

Retirees of any of the five state retirement systems must contribute to SERS if they are employed in a non-certificated position in the pub-

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

lic 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.

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 ten or more years of service credit to qualify for the health care benefits. Effective August 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 and 2) the SERS portion of spouse and dependent health insurance premiums was reduced from 50% to 30%.

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:

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

Investments in real estate funds are carried at cost or adjusted cost.

Investments in venture capital are accounted for using the equity method.

Investments in fixed-income securities and mortgage loans are reported at amortized cost with discounts or premiums amortized using the constant yield method. Gains and losses on fixed-income securities are recognized using the FIFO 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.

Investments in short-term obligations, principally commercial paper and U.S. Treasury bills, are carried at amortized cost, which approximates market value.

Gains and losses from foreign currency contracts are netted against the basis of the underlying investments.

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)
Furniture and equipment	3-10
Building and improvements	40

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.

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.

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,

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1995 and 1994. There were no changes in actuarial assumptions or in actuarial funding methods used in the actuarial valuation of June 30, 1995 as compared to the assumptions used as of June 30, 1994. The following significant assumptions were used in the actuarial valuations as of June 30, 1995 and 1994:

Rate of return on investments	7.75% compounded annually (net of administrative expenses).
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.

At June 30, 1995 and 1994 the unfunded pension benefit obligation for basic retirement benefits was $ 1,558,118,841 and $ 1,764,246,592 as follows:

	1995	1994
Pension benefit obligation:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 2,831,057,704	$ 2,538,488,662
Current employees:		
Accumulated employee contributions including allocated investment income	1,034,417,049	961,669,425
Employer financed - vested	1,713,890,455	1,551,751,354
Employer financed - non-vested	175,239,738	165,119,412
Total pension benefit obligation	5,754,604,946	5,217,028,853
Net assets available for benefits, at cost (market $4,310,486,781 and $3,949,220,068, respectively) excluding health care reserve	4,196,486,105	3,452,782,261
Unfunded pension benefit obligation	$ 1,558,118,841	$ 1,764,246,592

At June 30, 1994, prior to the Board's adoption of pay-as-you-go funding of health care, the total pension benefit obligation for health care benefits was $1,541,012,365; net assets available, at cost, were $123,157,714 and the unfunded pension benefit obligation was $1,417,854,651.

During the year ended June 30, 1995 the plan experienced a net increase of $537,576,093 in the basic benefits pension benefit obligation. Of that change, $152,562,119 was attributable to amendments and $0 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. The adequacy of employer contribution rates is determined annually by actuarial valuation using the entry age normal cost method. 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 1995, 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 35-year period. The employer contribution rate (14%) is allocated 9.45% to basic benefits and the remaining 4.55% is allocated to health care benefits. 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.

During fiscal year 1995, the Retirement Board decided to discontinue advance-funding of health care benefits on an actuarially-determined basis. Starting with fiscal year 1995, the Board adopted pay-as-you-go funding of health care by targeting a reserve for health care benefits equal to 125 percent of annual health care expenses. Thus the target level for 1995 is $110.4 million, but the actual balance is $138.2 million as follows:

July 1, 1994 balance	$ 128.8
Additions	128.2
Reductions	(118.8)
June 30, 1995 balance	$ 138.2

Employer and employee contributions required and made represented 14% and 9%, respectively, of active member payroll and amounted to $204.5 million and $131.5 million, respectively, in 1995. For basic benefits, the employer contributions consisted of $64.4 million for normal cost and $76.5 million for amortization of the unfunded actuarial accrued liability. Employee contributions are applied to normal cost.

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 1995 and 1994, the minimum has been established as $11,200 and $10,400, respectively. The surcharge accrued for fiscal years 1995 and 1994 and included in contribution revenue from employers in the Statements of Revenues, Expenses and Changes in Fund Balance is $21.8 million and $21.5 million, respectively.

5. CASH DEPOSITS, INVESTMENTS AND SECURITIES LENDING

Cash Deposits - By statute, the Treasurer of the State of Ohio (Treasurer) serves as custodian for all SERS deposits. Deposits are classified into three categories of credit risk to give an indication of the level of risk assumed by SERS. Category 1 includes deposits insured or collateralized with securities held by SERS or its agent in the name of SERS. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the name of the Treasurer. Category 3 includes deposits which are uncollateralized.

As of June 30, 1995, the carrying amount of the SERS' deposits was $982,697 and the bank balance was $3,396,029. The carrying amount of deposits is separately displayed on the balance sheet as "Cash". Balances held in each category are as follows:

	Carrying Amount	Bank Balance
Insured (FDIC)	$100,000	$ 100,000
Uncollateralized	882,697	3,296,029
Total Deposits	$982,697	$3,396,029

Investments - 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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, with securities held by the Treasurer or custodial agent bank in SERS' name. Category 2 includes uninsured and unregistered investments, with securities held by the counterparty's trust department or agent in SERS' name. Category 3 includes uninsured and unregistered investments, with securities held by the counterparty, or by its trust department or agent, but not in SERS' name.

In accordance with a contractual relationship between the Treasurer 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 SERS. Direct mortgage loans, securities on loan contracts, real estate funds, and venture capital funds are investments which by their nature are not categorized for level of risk purposes.

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

	Category 1	Category 2	Category 3	Carrying Value	Market Value
U.S. government obligations and U.S. government agency obligations	$ 560,489,652			$ 560,489,652	$ 571,637,902
Corporate bonds and notes	372,304,838			372,304,838	373,194,850
Canadian bonds	69,855,089			69,855,089	69,200,077
Commercial paper	317,869,973			317,869,973	317,869,973
Total	$1,320,519,552	$0	$0	1,320,519,552	1,331,902,802
Securities on loan contracts				417,019,929	434,249,114
Real estate funds				218,931,221	199,588,034
Commingled stock funds				2,152,687,406	2,504,865,801
Direct mortgage loans				25,790,524	25,790,524
Venture capital investments				34,860,797	34,860,797
Total				$4,169,809,429	$4,531,257,072

Securities Lending - 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.

Securities under loan are maintained in SERS' financial records. As SERS does not trade or sell the collateral received under the lending program, such collateral is not considered an asset of the System and a corresponding liability is not required on the balance sheet.

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 securities loaned at June 30, 1995 totaled $434.2 million. Security lending income totaled $905,998 and $977,080, for the years ended June 30, 1995 and 1994, respectively.

Foreign Currency Contracts - Forward currency contracts are legal agreements between two parties to purchase and sell a foreign currency, for a price specified at the contract date, with delivery and settlement in the future. SERS enters into foreign currency contracts to hedge the foreign currency movements of assets held in the MSCI-EAFE fund. The System hedges 50% of the value of its assets in the MSCI-EAFE fund to minimize the volatility of the underlying currency movements. As of June 30, 1995, SERS had outstanding contracts in the amount of $185,388,242 which had a maturity date of September 22, 1995 and net losses on rejoined contracts for the year of $8,236,033. The System is exposed to credit loss in the event of non-performance by the other party to the contracts, however, the System does not anticipate non-performance by the counterparty.

6. PROPERTY AND EQUIPMENT (NON-INVESTMENT ASSETS)

A summary of property and equipment at June 30 follows:

	1995	1994
Land	$1,178,055	$1,178,055
Building and improvements	4,161,499	4,148,281
Furniture and equipment	7,221,284	7,008,754
	12,560,838	12,335,090
Less accumulated depreciation	7,401,631	6,754,353
	$5,159,207	$5,580,737

7. 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, 1995, market value of investments in the Program totaled $1,751,231 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.

8. DEFINED BENEFIT PENSION PLAN

SERS contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple-employer defined benefit plan. Under the authority granted by Section 145 of the Ohio Revised Code, PERS provides retirement, disability and survivor benefits for the public employees of Ohio. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing PERS, 277 East Town Street, Columbus, Ohio 43215.

Plan members are required to contribute 8.5% of earnable salary and employers are required to contribute at an actuarially determined rate. The current rate for miscellaneous employers is 13.55% of annual covered payroll. The contribution requirements for employees and employers are established and may be amended within statutory limits by the PERS Board. The payroll for employees covered by PERS for the year ended June 30, 1995 was $4,167,218; SERS' total payroll was $4,267,139. SERS' contributions to PERS for the years ending June 30, 1995, 1994 and 1993 were $564,658, $552,799 and $516,690, respectively, equal to the required contributions for each year.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

In addition to pension benefits, PERS provides post-employment 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, 1994, the plan had approximately 358,000 active participants.

A portion of each employer's contribution to PERS is set aside for the advanced funding of post-employment health care. Of the 13.55% of employee payroll contributed by SERS to PERS, 5.11%, or approximately $213,000, was the portion used to fund health care. Statutory rates equal the actuarially determined contribution requirements.

The actuarial present value of accrued post-employment benefits was determined based on the entry age normal method of funding. Significant actuarial assumptions used in the December 31, 1993 valuation (most recent available) were (a) investment rate of return of 7.75%, (b) investments valued at book value plus or minus realized or unrealized investment gains and losses amortized at 25% per annum over a four-year period. (c) no change in the number of active employees, (d) base pay rate increases of 5.25% and annual pay increases over and above the 5.25% base increase ranging from 0% to 5.1%, and (e) health care increases of 5.25% annually.

Net assets held in trust at December 31, 1994 for post-employment health care benefits were $6.3 billion. Unfunded actuarial accrual liabilities for local and miscellaneous employers are amortized over a period of 35 years for 1993 (the most recent valuation).

9. COMPENSATED ABSENCES

As of June 30, 1995 and 1994, $314,028 and $295,116, respectively, was accrued for unused vacation and sick leave for SERS' employees. Employees who retire or resign are entitled to full compensation for all earned unused vacation. Unused sick leave pay is forfeited upon termination. However, employees who retire, become disabled or deceased after five years of service are entitled to receive payment for a percentage of unused sick leave.

10. 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.

11. 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.

12. ACCOUNTING POLICIES

The Governmental Accounting Standards Board (GASB) has issued Statement 25 *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement 26 *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*. The requirements for both statements are effective for periods beginning after June 15, 1996. SERS expects to implement these statements no later than fiscal year 1997.

SCHEDULE I
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. (Dollar amounts are expressed in millions.)

BASIC RETIREMENT BENEFITS

Fiscal Year	(1) Net Assets Available for Benefits	(2) Pension Benefit Obligation	(3) Percentage Funded (1) divided by (2)	(4) Unfunded Pension Benefit Obligation (2) minus (1)	(5) Covered Payroll	(6) Unfunded Pension Benefit Obligation as a Percent of Covered Payroll (4) divided by (5)
1986	$1,747	$2,511	69.9%	$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
1993	3,172	4,901	64.7	1,729	1,313	131.7
1994	3,453	5,217	66.2	1,764	1,361	129.6
1995	4,196	5,755	72.9	1,558	1,430	109.0

HEALTH CARE BENEFITS

Fiscal Year	(1) Net Assets Available for Benefits	(2) Pension Benefit Obligation	(3) Percentage Funded (1) divided by (2)	(4) Unfunded Pension Benefit Obligation (2) minus (1)	(5) Covered Payroll	(6) Unfunded Pension Benefit Obligation as a Percent of Covered Payroll (4) divided by (5)
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
1993	122	1,517	8.0	1,395	1,313	106.2
1994	123	1,541	8.0	1,418	1,361	104.2

* 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 $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.

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

REVENUES BY SOURCE

Fiscal Year	Member Contributions	Employer Contributions	Investment Income	Other Revenues	Total	Employer Contribution Rate as a Percent of Covered Payroll
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	205,739,886	2,283,675	527,777,070	14.0
1993	123,270,559	210,429,351	243,539,163	2,363,874	579,602,947	14.0
1994	128,246,355	216,383,274	300,408,705	2,045,066	647,083,400	14.0
1995	133,907,577	227,703,212	785,991,298	2,662,891	1,150,264,978	14.0

EXPENSES BY TYPE

Fiscal Year	Benefits	Administrative Expenses	Transfers to other Ohio Retirement Systems	Refunds	Total
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	8,565,124	2,202,383	12,345,363	300,037,969
1992	302,422,078	8,586,487	1,741,637	12,751,491	325,501,693
1993	324,386,556	9,726,019	2,747,590	13,513,992	350,374,157
1994	339,173,588	10,037,313	2,665,192	13,908,639	365,784,732
1995	361,050,279	9,869,845	2,857,771	17,730,959	391,508,854

See accompanying independent auditors' report.

Schedule III

Administrative Expenses

Years ended June 30, 1995 and 1994	1995	1994
Personnel services:		
Salaries and wages	$ 4,267,139	$ 4,177,483
Retirement contributions	564,658	552,799
Insurance	508,061	517,361
Total personnel services	5,339,858	5,247,643
Professional services:		
Technical and actuarial	406,077	612,294
Medical	441,354	357,925
Auditing	39,440	79,892
Employee training	97,571	42,679
Total professional services	984,442	1,092,790
Communications:		
Postage	440,520	408,667
Printing and publications	141,231	166,951
Telephone	52,722	51,932
Retirement counseling services	7,329	11,987
Total communications	641,802	639,537
Other services and charges:		
Computer support services	1,198,153	1,209,703
Building occupancy and maintenance	306,177	415,682
Transportation and travel	185,541	175,005
Supplies	83,745	95,995
Equipment rental	114,137	100,041
Surety bonds and insurance	99,752	121,866
Memberships and subscriptions	56,493	41,178
Equipment repairs and maintenance	33,725	26,817
Retirement study commission	19,905	23,347
Miscellaneous	67,709	68,069
Total other services and charges	2,165,337	2,277,703
	9,131,439	9,257,673
Depreciation (non-investment):		
Furniture and equipment	634,473	676,906
Building	103,933	102,734
Total depreciation	738,406	779,640
Total administrative expenses	**$ 9,869,845**	**$ 10,037,313**

See accompanying independent auditors' report.

SCHEDULE IV

INVESTMENT SUMMARY

YEAR ENDED JUNE 30, 1995

	1994 Carrying Value	1994 Market Value	Purchases and Accretions	Sales, Redemptions and Accruals	1995 Carrying Value	1995 Market Value	% of Total Market Value
Corporate and government bonds and obligations	$1,093,675,781	$1,023,337,070	$ 356,050,780	$ (585,307,446)	$ 864,419,115	$ 882,010,730	19.5%
First mortgage loans and mortgage-backed securities	586,484,498	587,737,078	90,732,390	(96,175,970)	581,040,918	592,061,737	13.0%
Common and preferred stocks (domestic)	1,146,731,377	1,742,160,649	2,357,476,932	(1,737,756,211)	1,766,452,098	2,118,831,723	46.8%
Common and preferred stock (international)	0	0	386,236,033	(725)	386,235,308	386,034,078	8.5%
Short-term investments	269,913,071	269,913,071	3,058,777,956	(3,010,821,054)	317,869,973	317,869,973	7.0%
Real estate funds	303,650,978	269,119,464	18,860,230	(103,579,988)	218,931,220	199,588,034	4.4%
Venture capital investments	22,355,861	22,355,861	16,630,500	(4,125,564)	34,860,797	34,860,797	0.8%
Total investments	$3,422,811,566	$3,914,623,193	$6,284,764,821	$(5,537,766,958)	$4,169,809,429	$4,531,257,072	100.0%

YEAR ENDED JUNE 30, 1994

	1993 Carrying Value	1993 Market Value	Purchases and Accretions	Sales, Redemptions and Accruals	1994 Carrying Value	1994 Market Value	% of Total Market Value
Corporate and government bonds and obligations	$ 829,785,128	$ 886,762,868	$ 665,332,275	$ (401,441,622)	$1,093,675,781	$1,023,337,070	26.1%
First mortgage loans and mortgage-backed securities	592,467,884	641,376,962	211,861,234	(217,844,620)	586,484,498	587,737,078	15.0
Common and preferred stocks (domestic)	1,085,158,014	1,783,134,287	224,493,189	(162,919,826)	1,146,731,377	1,742,160,649	44.5
Short-term investments	299,537,730	299,537,730	2,475,206,236	(2,504,830,895)	269,913,071	269,913,071	6.9
Real estate funds	284,013,244	251,121,025	61,074,952	(41,437,218)	303,650,978	269,119,464	6.9
Venture capital investments	29,495,058	29,495,058	13,388,174	(20,527,371)	22,355,861	22,355,861	0.6
Total investments	$3,120,457,058	$3,891,427,930	$3,651,356,060	$(3,349,001,552)	3,422,811,566	$3,914,623,193	100.0%

See accompanying independent auditors' report.

SCHEDULE V
FUND BALANCE ACCOUNTS

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:

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.

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.

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 the Employers' Trust Fund.

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.

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.

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, 1995

	Employees' Savings Fund	Employers' Trust Fund	Annuity and Pension Reserve Fund	Survivors' Benefit Fund	Guarantee Fund	Expense Fund	Total 1995	Total 1994
Fund balance at beginning of year	$ 961,669,425	(664,418,442)	3,103,697,075	174,991,917	0	0	3,575,939,975	$3,294,641,307
Changes for the year:								
Contributions:								
Employers	-	227,703,212	-	-	-	-	227,703,212	216,383,274
Employees	133,907,577	-	-	-	-	-	133,907,577	128,246,355
State of Ohio subsidies	-	-	524,717	34,148	-	-	558,865	635,159
Investment income	-	-	-	-	785,991,298	-	785,991,298	300,408,705
Transfers from other Ohio systems	-	-	2,063,560	40,466	-	-	2,104,026	1,409,907
Benefits:								
Retirement	-	-	(226,834,067)	-	-	-	(226,834,067)	(212,437,443)
Disability	-	-	(31,129,681)	-	-	-	(31,129,681)	(27,367,790)
Survivor	-	-	-	(13,854,968)	-	-	(13,854,968)	(13,067,061)
Health care	-	-	(88,340,780)	-	-	-	(88,340,780)	(85,496,108)
Death	-	-	(890,783)	-	-	-	(890,783)	(805,186)
Refunds of employee contributions	(17,248,845)	-	(482,114)	-	-	-	(17,730,959)	(13,908,639)
Administrative expenses	-	-	-	-	-	(9,869,845)	(9,869,845)	(10,037,313)
Transfers to other Ohio systems	-	-	(2,784,499)	(73,272)	-	-	(2,857,771)	(2,665,192)
Other transfers	(43,911,108)	1,036,518,409	(163,865,107)	(52,620,741)	(785,991,298)	9,869,845	-	-
Net changes	72,747,624	1,264,221,621	(511,738,754)	(66,474,367)	-	-	758,756,124	281,298,668
Fund balance at end of year	$1,034,417,049	$ 599,803,179	2,591,958,321	$ 108,517,550	-	-	4,334,696,099	$3,575,939,975

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 3, 1995

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, 1995. The data was supplied by System staff. While not verifying the data at the source, tests were performed for consistency and reasonability. 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 statutory employer contribution rate is 14% of pay. An SERS policy decision now provides the following allocations: to basic benefits including beginning in 1995 the Medicare Part-B supplement, the portion which will pay normal cost and 34 year amortization for unfunded actuarial accrued liabilities; and to health care benefits, the remainder of employer contributions.

On the basis of the 1995 valuation and the basic benefits, excluding the Medicare Part-B supplement, 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 1995 valuation and the health care benefits, excluding the Medicare Part-B supplement, and allocated contribution rates then in effect, the allocated contributions are sufficient to provide for a health care reserve equal to 125% of estimated annual claim costs, the funding target established by the Board in 1995.

Respectfully submitted,

Thomas J. Cavanaugh, F.S.A.

TJC/ks

STATEMENT OF ACTUARY
VALUATION AS OF JUNE 30, 1995

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. For the year ended June 30, 1995, the policy required the determination of a rate for basic benefits which will amortize the unfunded actuarial accrued liabilities over a 35-year period, with the remainder of the employer contribution rate allocated to providing health care benefits. The rate determined for the funding of basic retirement benefits for the year ended June 30, 1995 is 9.45%.

HEALTH CARE BENEFITS

Initially, beginning in 1974, the contribution rate for health care benefits was established at 0.75%, included in a total employer contribution rate of 12.5%. Health care contribution rates have been increased at various times since 1974, and the total employer contribution rate has been increased to the statutory 14% maximum. The portion of the employer contribution rate allocated to health care for the year ended June 30, 1995 is 4.55%. Effective with the 1995 fiscal year the Retirement Board decided to replace the level cost financing of health care with pay-as-you-go financing. To provide program security and stability, the asset target level for the health care fund is 125 per cent of annual health care. For 1995, this resulted in a health care reserve of $138.2 million versus a targeted level of $110.4 million.

In 1988, House Bill 290 provided for an employer contribution surcharge as an additional source of funding for health care. 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 1994 and 1995, the minimum pay has been established as $10,400 and $11,200, respectively. The surcharge rate, added to the unallocated portion of the 14% employer contribution rate, results in a total health care contribution rate of 5.81%.

ACTUARIAL ASSUMPTIONS

The assumptions used for the actuarial valuation were adopted by the Retirement Board after consulting with the actuary. 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, and were adopted as of the June 30, 1991 valuation. 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 sizable and persistent, a change is made to the actuarial assumptions.

The valuation assets as of June 30, 1995 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 $2,233,251.

The following significant assumptions were used in the actuarial valuations as of June 30,1995:

(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.

STATEMENT OF ACTUARY (CONTINUED)

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 ages in the following table.

Increase Next Year

Sample Ages	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; age 55 with 25 or more years of service, or age 60 with 5 or more years of service. Probabilities of retirement with 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 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) 25% of eligible female retirants and 60% of eligible male retirants are assumed to elect a joint and survivor form of payment.

STATEMENT OF ACTUARY (CONTINUED)

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, 1995

Present Value of	Basic Benefits
Future monthly benefits and death benefits to present retirees and survivors	$ 2,700,475,871
Monthly benefits and refunds to present inactive members	130,581,833
Service allowances and health care benefits to present active members	2,870,095,520
Disability allowances and health care benefits to present active members	112,869,613
Death-after-retirement benefit ($500) on behalf of present active members	1,314,868
Survivor benefits on behalf of present active members who die before retiring	36,874,029
Medicare Part B supplement	38,118,093
Refunds of member contributions of present active members	(51,302,384)
Benefits for present active members	$ 3,007,969,739
Benefits for present covered persons	$ 5,839,027,443

STATEMENT OF ACTUARY (CONTINUED)

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, 1986 TO 1995

Actuarial Valuation as of June 30	Number of Active Members	Annual Payroll (millions)	Average Annual Salary
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
1993	99,135	1,312.7	13,242
1994	99,918	1,360.9	13,620
1995	100,784	1,429.6	14,184

RETIRANTS AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS, 1986 TO 1995

Fiscal Year Ended June 30	Additions During Year	Deletions During Year	Number at End of Year
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
1993	3,303	2,493	50,405
1994	4,055	2,981	51,479
1995	3,532	2,598	52,413

STATEMENT OF ACTUARY (CONTINUED)

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 the 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
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
1993	5,052	3,673	1,379	73	1,313	105
1994	5,381	3,952	1,429	73	1,361	105
1995	5,839	4,310	1,529	74	1,430	107

HEALTH CARE 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
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
1993	1,801	141	1,660	8	1,313	126
1994	1,834	141	1,693	8	1,361	124

* Revised Assumptions
# Legislated Benefit Increases

STATEMENT OF ACTUARY (CONTINUED)

SHORT CONDITION TEST

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

A short condition test is one means of checking a system's progress under its funding program. In a short condition test, the plan's present assets (cash and investments) are compared with:

1) Active member contributions on deposit;

2) The liabilities for future benefits to present retired lives;

3) The liabilities for service already rendered by active members.

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

BASIC BENEFITS ($ IN MILLIONS)

					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)
1986	$475	$1,228	$ 967	$1,781	100%	100%	8%
1987	524	1,341	1,034	2,007	100	100	14
1988	577	1,462	1,134	2,205	100	100	15
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	18
1992	816	2,123	1,754	3,330	100	100	22
1993	889	2,261	1,902	3,673	100	100	27
1994	962	2,426	1,994	3,952	100	100	28
1995	1,034	2,700	2,105	4,310	100	100	27

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)
1986	-	$ 461	$ 404	$131	-	28%	0%
1987	-	562	489	137	-	24	0
1988	-	623	569	139	-	22	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	153	-	18	0
1993	-	852	949	141	-	17	0
1994	-	853	981	141	-	17	0

* Revised Assumptions

\# Legislated Benefit Increase

STATISTICAL SECTION

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

TABLE I

	Computed Actuarial Accrued Liabilities				Percentage of Accrued Liabilities Covered By Net Assets Available For Benefits		
June 30	Member Contributions	Current Retirants and Beneficiaries	Active Members, Employer Financed Portion	Net Assets Available for Benefits	(1)	(2)	(3)
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	2,863,137,140	100	78	0
1992	816,328,094	2,956,651,040	2,438,570,210	3,065,412,517	100	76	0
1993	889,126,855	3,112,877,210	2,850,184,218	3,294,641,307	100	77	0
1994	961,669,425	3,278,688,992	2,975,328,745	3,575,939,975	100	80	0
1995	1,034,417,049	2,700,475,871	2,104,134,523	4,196,486,105	100	100	22

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

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

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

BENEFIT EXPENSES BY TYPE
LAST TEN YEARS

TABLE II

Year Ending June 30	Service	Disability	Survivor	Health Care	Death Benefits and Refunds	Total
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
1993	198,878,409	24,987,872	12,666,260	87,079,286	14,288,721	337,900,548
1994	212,437,443	27,367,790	13,067,061	85,496,108	14,713,825	353,082,227
1995	226,834,067	31,129,681	13,854,968	88,340,780	18,621,742	378,781,238

NUMBER OF BENEFIT RECIPIENTS BY TYPE
LAST TEN YEARS

TABLE III

Year Ending June 30	Service	Disability	Survivor	Total
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
1993	43,166	3,960	3,279	50,405
1994	44,024	4,081	3,374	51,479
1995	44,732	4,285	3,396	52,413

NUMBER OF PARTICIPATING EMPLOYERS
LAST TEN YEARS

TABLE IV

Year	Total	Counties	Locals	Cities	Villages	Colleges	Technical	Vocational	Other
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	13	49	4
1990	766	84	373	192	49	2	13	49	4
1991	765	84	372	192	49	2	13	49	4
1992	764	84	371	192	49	2	13	49	4
1993	764	84	371	192	49	2	13	49	4
1994	765	83	372	192	49	2	13	49	5
1995	766	83	371	193	49	2	13	49	6

RETIREMENT AVERAGES
LAST TEN YEARS

TABLE V

SERVICE RETIREMENT

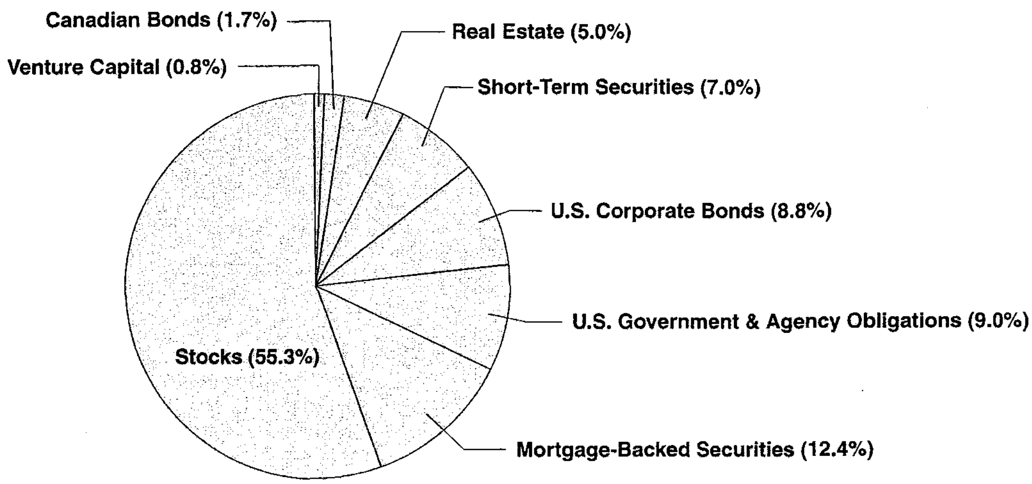
Year Ending June 30	Service Credit	Monthly Amount	Age	Salary
1986	16.846	$304.73	63.64	$10,292
1987	17.635	328.76	63.77	10,458
1988	19.019	378.29	62.13	11,989
1989	19.231	431.17	61.40	13,015
1990	18.734	424.85	60.75	13,034
1991	18.909	447.56	63.35	13,352
1992	19.528	517.85	63.21	15,298
1993	20.211	549.01	63.45	15,984
1994	20.551	589.07	63.34	16,704
1995	20.201	587.84	63.50	16,935

DISABILITY RETIREMENT

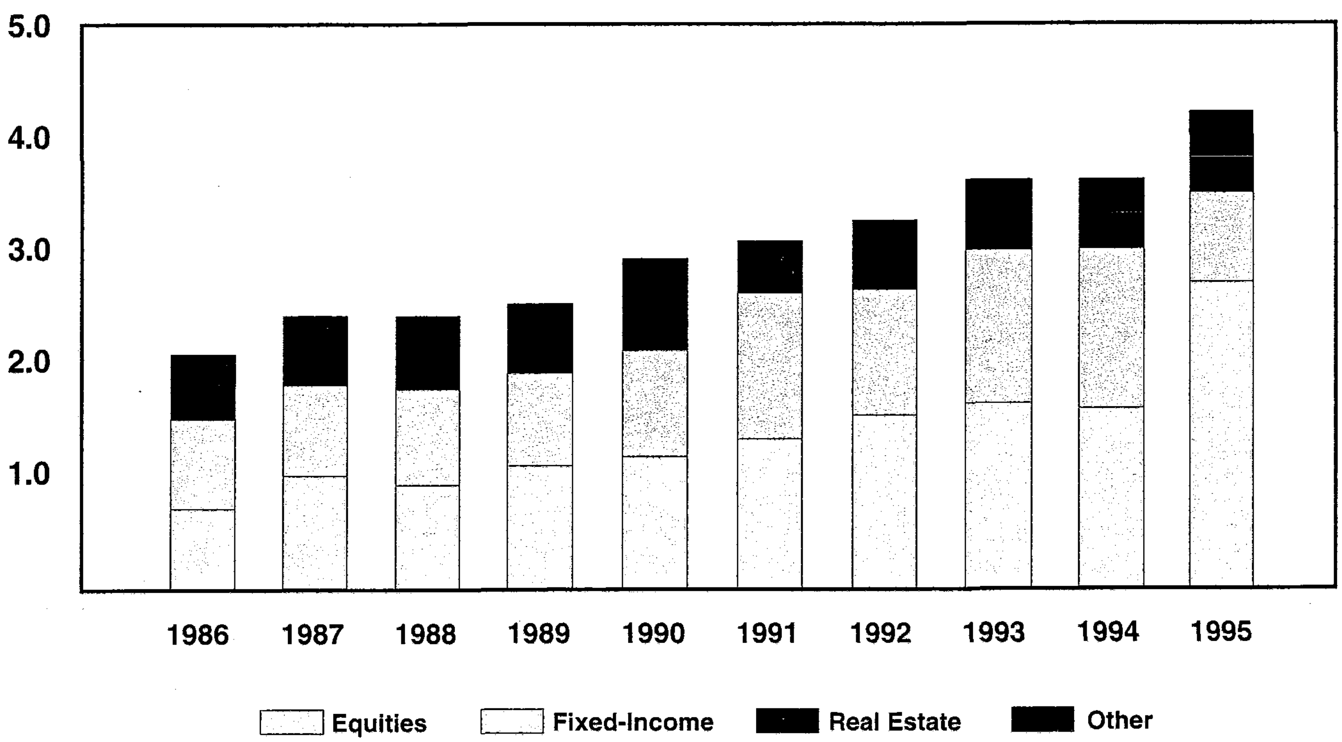
Year Ending June 30	Service Credit	Monthly Amount	Age	Salary
1986	13.339	$431.18	56.20	$10,872
1987	13.484	466.02	57.42	12,184
1988	13.086	509.27	54.64	13,060
1989	14.821	562.42	54.31	13,433
1990	14.018	551.12	53.51	13,539
1991	14.517	598.58	55.56	14,414
1992	14.595	674.50	54.80	15,644
1993	15.123	709.53	56.42	16,652
1994	15.148	738.03	58.20	17,370
1995	15.208	790.66	57.04	18,282

INVESTMENT SECTION

INVESTMENT DISTRIBUTION BY MARKET VALUE AS OF JUNE 30, 1995



TEN YEAR INVESTMENT COMPARISON AT MARKET VALUE (IN BILLIONS)



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, state 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 year ended June 30, SERS's staff, investment consultant and Board have been involved in the attainment of the asset class targets adopted by the Board in May of 1994. As of June 30, 1995, SERS's Total Fund was diversified in the following manner:

- Domestic equities were 46.8% of the Fund versus our target of 45%.
- International Equities were 8.5% of the Fund versus our target of 10%.
- Domestic Fixed Income was 32.0% of the Fund versus our target of 30%.
- Real Estate was 5.0% of the Fund versus our target of 10%.
- Cash Equivalents were 7.0% of the Fund versus our target of 5%.

As can be seen from the above, the SERS' Total Fund is very close to its recommended targets. During the coming fiscal year SERS' staff, investment consultant and Board will concentrate their efforts in bringing the Total Fund even closer to the long-term target for each asset class. In addition to the effort to attain SERS' long-term goals, SERS' staff, investment consultant and Board will endeavor to further refine the composition of each asset class through the addition of multiple money managers with different management styles, philosophies and strategies. These managers will be expected to increase the overall diversification and the total return of SERS' Total Fund.

FUND PERFORMANCE

Major asset class returns for the fiscal year ended June 30 were very attractive for all asset classes except international equities. Returns ranged from 24.9% for the Russell 3000 Index domestic equities to 1.9% for MSCI-EAFE Index international equities.

The return for SERS' Total Fund for the year ended June 30 was 16.6% versus 16% for the Total Fund's benchmark. For the ten years ended June 30, the return for the Total Fund was 10.4% versus 10.3% for the Total Fund's benchmark.

As mentioned previously, domestic equities was the best performing asset class. SERS' domestic equity portfolio returned 24.8% and 14.3% for the one- and ten-year periods ended June 30. This compared quite well to the Russell 3000 one- and ten-year returns of 24.9% and 14.1%, respectively.

Fixed income was the second best performing asset class. SERS' fixed income portfolio returned 11.3% and 9.8% for the one-and ten-year periods. The Lehman Brothers Aggregate Bond Index returned 12.5% and 10.0% for the same periods. The fixed income portfolio underperformed its benchmark in the year ended June 30 because of its heavy weighting in mortgage-backed securities.

SERS' real estate portfolio continued to meet or exceed its benchmark.

INVESTMENT REPORT (CONTINUED)

SERS' real estate portfolio returned 10.6% for the year versus 7.9% for the NCREIF Classic Property Index. For the ten years ended June 30 SERS' real estate portfolio and the NCREIF Classic Property Index both returned 3.3%.

A new asset class introduced into SERS' Total Fund during the last fiscal year was international equities. SERS did not start investing in international equities until December, 1994, so one year results were not available on June 30, 1995.

FUND STRATEGY

SERS' Investment Staff and investment consultant will be working during the coming fiscal year to further refine the composition of each asset class within SERS' Total Fund. Currently SERS' domestic equity and international equity portfolios are passively managed to replicate the performance of their respective benchmark. During the coming year SERS' staff and investment consultant will retain several active managers for domestic equities and international equities. Each of these managers will employ diverse, active management styles which should add value to the equity portfolio during the coming years. During the year ahead, the Investment Staff and consultant also intend to expand the number of active fixed income managers employed by SERS. These managers should also add return and diversification to SERS' Total Fund.

SERS' Investment Staff expects to attain all of the asset allocation targets established by the Board by June 30, 1996. The attainment of the real estate target will depend upon the availability of good quality, suitable, institutional grade investments at a reasonable price. In addition to attaining the targets for each asset class, the Investment Staff expects to have each asset class fully diversified by management style by June 30,1996.

TIME-WEIGHTED RATES OF RETURN FOR THE YEAR ENDED JUNE 30

	1995	1994	1993	Annualized Rate of Return 3-Year	5-Year	10-Year
Common stocks						
SERS	24.8%	1.3%	12.7%	12.5%	11.8%	14.3%
Standard & Poor's 500	26.1	1.4	13.6	13.2	12.1	14.6
Russell 3000	24.9	1.0	16.0	13.5	12.5	14.1
Fixed-income						
SERS	11.3	(2.5)	10.4	6.2	9.1	9.8
Lehman Bros. Aggregate Bond	12.5	(1.3)	11.8	7.5	9.4	10.0
Real estate/Participating mortgages						
SERS	10.6	7.2	(3.9)	4.4	1.6	3.3
NCREIF	7.9	4.5	(3.3)	2.7	(0.1)	3.3
Short-term						
SERS	5.5	3.5	3.3	4.1	4.9	6.4
U.S. Treasury Bills	4.8	3.1	2.9	3.6	4.2	5.3
Venture capital						
SERS	64.3	49.9	20.6	43.7	22.7	10.6
Total portfolio						
SERS	16.6%	0.6%	9.7%	8.8%	9.4%	10.4%
*Policy Benchmark	16.0	1.0	9.4	8.7	8.3	10.3

Source: Frank Russell Company

All returns are reported gross of fees. Long-term Performance objectives for equities and fixed-income were revised in September 1994.

*Policy Benchmark (45% of S&P 500, 5% MSCI-EAFE Hedged, 5% MSCI-EAFE Unhedged, 30% Merrill Lynch Domestic Master, 10% NCREIF (one quarter in arrears), 5% Salomon Bros. 30 day T-bill)

OHIO INVESTMENT PROFILE AS OF JUNE 30, 1995

SERS continues to seek out high-quality Ohio investments. Total SERS investments in Ohio are valued at more than $300 million which represents 6.6% of the market value of the Total Fund.

Mortgage-backed securities on Ohio properties	$ 80,837,919
Common stock of companies headquartered in Ohio	72,096,974
Corporate bonds and notes of companies headquartered in Ohio	30,534,300
Commercial paper of companies headquartered in Ohio	31,246,468
Real estate in Ohio	51,000,000
Venture capital funds managed by Ohio firms	34,860,797
Total	$ 300,576,458

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
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
1993	299.5	7.7	3.3	886.8	22.8	12.3	615.6	15.8	7.8	29.5	0.8	20.6
1994	269.9	6.9	3.5	1,023.3	26.1	(3.5)	562.0	14.4	(0.2)	22.4	0.6	49.9
1995	317.9	7.0	5.5	882.0	19.5	12.3	566.2	12.4	9.6	34.9	0.8	64.3

	Real Estate			Equities			Other*			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
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
1993	276.9	7.1	(3.9)	1,783.1	45.8	12.7	-	-	-	3,891.4	100.0	9.7
1994	294.8	7.5	7.2	1,742.2	44.5	1.3	-	-	-	3,914.6	100.0	0.6
1995	225.4	5.0	10.6	2,504.9	55.3	24.8	-	-	-	4,531.3	100.0	16.6

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

INVESTMENT PORTFOLIO
AS OF JUNE 30, 1995

FIXED-INCOME PORTFOLIO

DESCRIPTION	RATING	COUPON	MATURE DATE	PAR VALUE	BOOK VALUE	MARKET VALUE
Canadian Bonds:						
Ontario Hydro	A-	5.800	03/31/98	$ 20,000,000	$ 19,852,932	$ 19,769,800
Ontario Province	A-	5.700	10/01/97	35,000,000	34,813,181	34,615,000
Ontario Province	A-	8.000	10/17/01	20,000,000	21,837,767	21,425,000
TOTAL				$ 75,000,000	$ 76,503,880	$ 75,809,800

DESCRIPTION	RATING	COUPON	MATURE DATE	PAR VALUE	BOOK VALUE	MARKET VALUE
Corporate Bonds:						
Anheuser Busch Cos.	A-	8.750	12/01/99	$ 20,000,000	$ 20,916,245	$ 21,868,200
Archer Daniels Midland Co.	A-	6.250	05/15/03	32,000,000	30,927,304	31,124,800
Associates Corporation	A-	5.750	10/15/03	10,000,000	9,691,481	9,363,100
Associates Corporation	A-	6.875	02/01/03	5,000,000	5,198,494	4,975,100
Associates Corporation	A-	7.600	12/17/02	15,000,000	15,000,000	15,897,600
Associates Corporation	A-	7.650	12/23/02	5,000,000	5,000,000	5,314,950
BP America Inc.	A-	8.750	02/01/03	22,000,000	22,780,803	24,722,940
Bank One Corporation	A+	7.250	08/01/02	30,000,000	30,974,886	30,534,300
Bellsouth Telecommunications	AA	5.875	01/15/09	5,000,000	5,005,855	4,563,750
Coca-Cola Company	AA	6.000	07/15/03	20,000,000	18,318,685	19,156,200
Coca-Cola Company	AA	7.875	09/15/98	32,000,000	33,193,668	33,425,280
Ford Holdings	A	9.250	03/01/00	10,000,000	9,857,303	10,984,500
Ford Motor Company	A	5.200	01/01/97	6,300,000	6,076,144	6,142,500
Ford Motor Credit Company	A+	8.000	10/01/96	5,900,000	5,930,776	6,022,484
J.C. Penney & Company	A+	5.375	11/15/98	15,000,000	14,661,255	14,558,400
Johnson & Johnson	AA	7.375	06/29/02	13,000,000	13,886,285	13,534,430
Pepsico Incorporated	A	7.625	11/01/98	24,000,000	24,576,820	24,929,520
Pepsico Incorporated	A	7.750	10/01/98	20,000,000	20,891,659	20,786,200
Shell Oil Company	AA	6.700	08/15/02	5,000,000	5,268,091	5,025,950
Union Electric Company	A-	6.875	08/01/04	8,000,000	8,635,334	8,088,320
Union Electric Company	A-	7.650	07/15/03	17,000,000	18,333,890	17,880,260
Wal-Mart Stores	AA	5.875	10/15/03	5,000,000	4,982,323	4,674,100
Wal-Mart Stores	AA	6.500	06/01/03	25,000,000	26,034,623	24,694,250
Wal-Mart Stores	AA	8.625	04/01/01	10,000,000	10,454,394	10,981,800
Walt Disney Company	A+	5.800	10/27/08	13,000,000	13,000,000	11,836,240
Wisconsin Electric Power	A+	7.250	08/01/04	10,000,000	9,965,671	10,323,500
Wisconsin Public Service	A+	6.800	02/01/03	5,000,000	5,321,944	5,026,150
TOTAL				$388,200,000	$394,883,933	$396,434,824

INVESTMENT PORTFOLIO (CONTINUED)

FIXED-INCOME PORTFOLIO (CONTINUED)

DESCRIPTION	RATING	COUPON	MATURE DATE	PAR VALUE	BOOK VALUE	MARKET VALUE
U.S. Government & Agency Bonds:						
Treasury Bond	AAA	7.125	02/15/23	$ 84,000,000	$ 85,169,519	$ 88,501,560
Treasury Bond	AAA	7.500	11/15/16	10,000,000	9,521,149	10,887,500
Treasury Note	AAA	7.000	04/15/99	25,000,000	25,810,836	25,863,250
Treasury Note	AAA	7.500	11/15/01	43,000,000	42,216,672	46,157,920
Treasury Note	AAA	7.500	05/15/02	40,000,000	43,299,867	43,062,400
Treasury Note	AAA	7.875	08/15/01	27,000,000	28,990,156	29,476,440
Treasury Note	AAA	7.875	11/15/04	30,400,000	31,038,267	33,858,000
Treasury Note	AAA	8.000	05/15/01	25,000,000	26,725,305	27,398,500
Treasury Note	AAA	8.125	02/15/98	20,000,000	20,850,741	21,071,800
Treasury Note	AAA	8.500	04/15/97	20,000,000	20,678,755	20,887,400
Treasury Note	AAA	9.000	05/15/98	10,000,000	10,065,394	10,803,100
Treasury Note	AAA	9.125	05/15/99	10,000,000	10,176,182	11,068,700
Treasury Note	AAA	9.250	08/15/98	20,000,000	20,343,942	21,871,800
Treasury Note	AAA	9.200	08/25/97	13,000,000	13,208,538	13,812,500
Treasury Note	AAA	7.750	04/01/98	4,941,901	4,935,979	5,045,236
TOTAL				$382,341,901	$393,031,302	$409,766,106

DESCRIPTION	RATING	COUPON	MATURE DATE	PAR VALUE	BOOK VALUE	MARKET VALUE
Mortgage Passthroughs:						
FHLMC-ARM 846008	AAA	5.844	12/01/24	$ 6,941,169	$ 7,043,785	$ 7,093,007
FHLMC-ARM 845495	AAA	5.891	09/01/23	7,994,106	8,056,410	8,148,992
FHLMC CMO Series L-5	AAA	7.900	05/01/01	3,449,883	3,390,381	3,459,584
FHLMC CMO Series M-6	AAA	8.800	12/01/15	5,418,602	5,309,274	5,821,611
FHLMC PC 218421	AAA	9.000	07/01/02	554,383	554,383	575,345
FHLMC PC 282425	AAA	9.000	12/01/16	614,957	610,194	642,993
FHLMC PC 280327	AAA	9.000	09/01/16	392,853	389,808	410,810
FHLMC PC 170192	AAA	9.000	09/01/16	2,080,976	2,087,164	2,174,224
FHLMC PC 186771	AAA	9.250	06/01/11	2,027,794	2,024,247	2,123,587
FHLMC PC 290357	AAA	9.500	01/01/17	1,490,949	1,490,424	1,568,523
FHLMC PC 544135	AAA	9.500	12/01/19	808,627	798,641	842,484
FHLMC PC 553463	AAA	9.500	10/01/20	782,503	780,509	823,115
FHLMC PC 360011	AAA	10.000	09/01/17	3,154,285	3,157,101	3,412,431
FHLMC PC 360015	AAA	10.000	11/01/17	1,701,762	1,696,651	1,841,035
FHLMC PC 541141	AAA	10.000	01/01/20	505,563	504,805	546,686
FHLMC PC 550798	AAA	10.000	07/01/20	161,565	161,502	173,783
FHLMC PC 160080	AAA	10.500	05/01/09	53,537	53,544	57,745
FHLMC PC 160088	AAA	10.500	09/01/09	79,946	79,956	86,230
FHLMC PC 306937	AAA	10.500	10/01/09	551,208	551,208	593,684
FHLMC PC 531636	AAA	10.500	02/01/19	4,480,940	4,474,293	4,842,193
FHLMC PC 160093	AAA	12.000	10/01/09	672,756	672,756	730,761
FHLMC PC 170034	AAA	12.000	07/01/10	10,656	10,656	11,575
FHLMC PC 181137	AAA	12.000	01/01/12	8,003	8,003	8,693
FHLMC PC 184208	AAA	12.000	04/01/13	33,113	33,113	36,010
FHLMC PC 255385	AAA	12.000	07/01/15	5,022	5,022	5,464
FHLMC GMC Series D-1979	AAA	12.450	09/15/09	4,001,086	3,872,096	4,301,168

INVESTMENT PORTFOLIO (CONTINUED)

FIXED-INCOME PORTFOLIO (CONTINUED)

DESCRIPTION	RATING	COUPON	MATURE DATE	PAR VALUE	BOOK VALUE	MARKET VALUE
Mortgage Passthroughs (Continued)						
FHLMC PC 170071	AAA	12.500	12/01/12	$ 59,154	$ 59,154	$ 65,828
FHLMC PC 170068	AAA	12.500	10/01/12	7,520	7,520	8,368
FHLMC PC 170073	AAA	12.500	01/01/13	1,440	1,440	1,602
FHLMC PC 170086	AAA	12.500	09/01/13	71,186	71,186	79,217
FHLMC PC 184548	AAA	12.500	02/01/13	22,308	22,308	24,825
FHLMC PC 185489	AAA	12.500	07/01/13	30,076	30,076	33,469
FHLMC PC 170074	AAA	12.500	02/01/13	9,965	9,965	11,089
FHLMC PC 170077	AAA	12.500	04/01/13	11,350	11,350	12,631
FHLMC PC 170107	AAA	12.500	12/01/14	14,015	14,015	15,596
FHLMC PC 170091	AAA	12.500	01/01/14	4,153	4,153	4,621
FHLMC PC 170111	AAA	12.500	01/01/15	41,626	41,626	46,322
FHLMC PC 252864	AAA	12.500	03/01/15	17,870	17,870	19,886
FHLMC PC 181528	AAA	13.000	08/01/10	23,029	23,029	25,721
FHLMC PC 170096	AAA	13.000	06/01/14	3,270	3,270	3,652
FHLMC PC 170072	AAA	14.000	12/01/12	73,434	73,434	82,613
FHLMC PC 170027	AAA	14.750	03/01/10	431,306	431,306	485,219
FHLMC PC 170045	AAA	15.000	03/01/11	70,484	70,484	79,294
FHLMC PC 170052	AAA	16.250	07/01/11	24,738	24,738	27,978
FHLMC GOLD C90041	AAA	6.500	11/01/13	5,016,609	5,062,828	4,825,326
FHLMC GOLD D1-6930	AAA	7.500	03/01/22	2,652,789	2,580,845	2,661,065
FHLMC GOLD D2-6815	AAA	7.500	06/01/22	6,275,759	6,237,888	6,295,339
FHLMC SER 1166-PF	AAA	7.900	10/15/17	195,442	195,577	195,075
FHLMC 1261-I	AAA	8.000	09/15/20	20,621,000	20,407,143	21,548,945
FHLMC GOLD D1-9553	AAA	8.000	05/01/22	1,500,959	1,505,618	1,530,288
FHLMC GOLD D2-1672	AAA	8.000	06/01/22	4,281,678	4,318,802	4,361,959
FHLMC GOLD C80003	AAA	8.000	11/01/22	9,362,554	9,453,415	9,538,101
FHLMC MUL-FAM 220022	AAA	9.250	06/01/02	10,579,667	10,489,669	11,419,386
FHLMC SER 12A	AAA	9.250	11/15/19	5,347,522	5,328,760	5,731,848
FHLMC MUL-FAM 490011	AAA	10.000	09/01/97	3,189,078	3,189,956	3,428,259
FHLMC SER 1A	AAA	10.150	04/15/06	2,466,400	2,466,400	2,519,582
FNMA-ARM 233671	AAA	5.939	09/01/23	9,030,821	9,136,628	9,248,126
GNMA I	AAA	6.500	Various	80,441,984	80,134,501	77,274,179
GNMA I	AAA	7.000	Various	68,089,508	69,144,454	67,004,161
GNMA I	AAA	7.500	Various	93,412,243	92,536,905	93,879,305
GNMA I	AAA	8.000	Various	60,562,680	60,200,549	62,246,883
GNMA I	AAA	8.500	Various	17,768,618	17,700,158	18,568,706
GNMA I	AAA	9.000	Various	32,484,748	32,416,137	34,322,075
GNMA I	AAA	9.500	Various	14,177,927	14,161,858	15,146,984
GNMA I	AAA	10.000	Various	4,634,619	4,591,640	5,045,036
GNMA I	AAA	11.000	Various	2,267,348	2,267,348	2,513,999
GNMA I	AAA	11.500	Various	977,465	977,465	1,094,604
GNMA I	AAA	12.000	Various	793,613	793,613	892,664

INVESTMENT PORTFOLIO (CONTINUED)

FIXED INCOME PORTFOLIO (CONTINUED)

DESCRIPTION	RATING	COUPON	MATURE DATE	PAR VALUE	BOOK VALUE	MARKET VALUE
Mortgage Passthroughs (Continued)						
GNMA I	AAA	12.500	Various	$ 499,145	$ 499,145	$ 563,373
GNMA I	AAA	13.000	Various	178,473	178,473	201,785
GNMA I	AAA	13.500	Various	264,172	264,172	298,515
GNMA I	AAA	14.000	Various	111,137	111,137	124,666
GNMA I	AAA	15.000	Various	170,449	170,449	196,868
GNMA I	AAA	16.000	Various	157,690	157,690	182,920
GNMA II	AAA	9.000	Various	39,319,134	39,646,025	41,037,170
GNMA II	AAA	9.500	Various	849,251	843,619	891,195
GNMA II	AAA	10.000	Various	4,517,247	4,517,876	4,829,122
GNMA II	AAA	10.500	Various	1,697,743	1,693,372	1,836,209
GNMA II	AAA	11.000	Various	195,280	195,036	211,939
GNMA II	AAA	11.500	Various	817,772	817,697	895,714
GNMA II	AAA	12.000	Various	489,705	489,705	538,980
GNMA II	AAA	12.500	Various	1,477,359	1,477,335	1,638,436
GNMA II	AAA	13.000	Various	146,869	146,869	162,381
TOTAL				$ 555,915,625	$ 555,239,607	$ 566,260,832

FHA/VA Mortgages

FHA	AAA	Various	Various	$ 1,812	$ 1,812	$ 1,749
VA	AAA	Various	Various	8,976	8,976	8,632
TOTAL				$ 10,788	$ 10,788	$ 10,381
TOTAL FIXED-INCOME PORTFOLIO				$1,401,468,314	$1,419,669,510	$1,448,281,943

SHORT-TERM PORTFOLIO

DESCRIPTION	RATING	COUPON	MATURE DATE	PAR VALUE	BOOK VALUE	MARKET VALUE
Commercial Paper	P-1	Various	Various	$ 319,079,000	$ 317,869,973	$ 317,869,973

REAL ESTATE PORTFOLIO

DESCRIPTION	TYPE	BOOK VALUE	MARKET VALUE
Equitable Hawaiian Properties Fund	Commingled	$ 96,769	$ 83,661
L&B SERBO Trust Fund	Commingled	132,098,910	130,277,394
Morgan Guaranty Trust Co. of NY	Commingled	28,905,030	23,196,137
Nationsbank	Commingled	15,905,227	10,345,257
Phoenix Homelife/Casa Grp LLC	Commingled	14,404,440	15,003,343
Prudential Insurance Sep Account I	Commingled	27,520,843	20,682,242
Monroeville Mall Mortgage Loan 8%	Commercial Mortgage	25,790,524	25,790,524
TOTAL REAL ESTATE PORTFOLIO		$ 244,721,743	$ 225,378,558

INVESTMENT PORTFOLIO (CONTINUED)

VENTURE CAPITAL PORTFOLIO

DESCRIPTION	BOOK VALUE	MARKET VALUE
Alpha Capital Fund II	$ 145,736	$ 145,736
Brantley II	689,698	689,698
Cardinal Development Fund I	460,745	460,745
Morgenthaler Venture Partners II	5,105,394	5,105,394
Morgenthaler Venture Partners III	23,059,619	23,059,619
Primus Capital Fund	531,192	531,192
Primus Capital Fund II	4,868,413	4,868,413
TOTAL VENTURE CAPITAL PORTFOLIO	$ 34,860,797	$ 34,860,797

STOCK PORTFOLIO

DESCRIPTION	FUND UNITS	BOOK VALUE	MARKET VALUE
S&P 500 Flagship Commingled Fund	20,989,455	$1,461,171,292	$1,780,136,675
Russell Special Small Co. Commingled Fund	28,978,016	305,280,806	338,695,048
MSCI-EAFE Commingled Fund	13,199,551	386,235,308	386,034,078
TOTAL STOCK PORTFOLIO	63,167,022	$2,152,687,406	$2,504,865,801
TOTAL SERS PORTFOLIOS		$4,169,809,429	$4,531,257,072

INVESTMENT POLICY

A. PURPOSE.

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

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

B. BACKGROUND.

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

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

C. INVESTMENT PHILOSOPHY.

1. Risk Posture.

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

2. Return.

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

3. Diversification.

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

4. Liquidity Requirements.

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

D. INVESTMENT OBJECTIVES.

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

1. Performance Objectives.

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

   b. Preservation of Principal: To protect the System from severe depreciation in asset value during adverse market conditions.

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

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

2. Risk.

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

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

3. Other Objectives.

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

E. Implementation Approach.

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

In fulfilling its fiduciary duties, the Retirement Board employs a competent and qualified Investment Staff for the management of the major portion of portfolio assets. In those areas where specialized expertise is required, the Retirement Board employs the services of outside Investment Managers. Criteria to be used in the selection of such Investment Managers are also enumerated in Section F.

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

F. Investment Organization and Responsibilities.

1. Responsibilities of the Retirement Board.

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

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

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

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

c. Appoint and discharge those with responsibility for managing the Plan's assets, including Investment Managers, consultants and any others involved.

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

2. Responsibilities of the Investment Staff.

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

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

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

c. Oversee the investment function.

The Director of Investments shall accept the following responsibilities:

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

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

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

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

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

f. Oversee the activities of the Investment Staff.

3. Responsibilities of the Investment Managers.

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

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

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

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

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

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

4. Criteria For Investment Managers.

In instances where the Retirement Board has determined it is desirable to employ the services of an outside Investment Manager, the following criteria shall be used in the selection of such firms:

a. Organizational Qualifications: To be selected, the organization shall be qualified to serve as a fiduciary to the System, shall comply with all applicable nondiscrimination and affirmative action requirements, shall adequately address potential conflicts of interest and shall have a history of professionalism and ethical performance.

b. Investment Approach: The approach utilized by the organization shall be compatible with the System's objectives and guidelines. It shall also be complementary to the System's other Investment Managers.

c. Personnel: The organization shall have an experienced professional staff with adequate research and support personnel and a credible program or history demonstrating the ability to retain key personnel.

d. Performance: The organization and/or its personnel shall have demonstrated the ability to achieve above average performance in implementing the investment approach for which it is being considered. Satisfactory client references shall also be available.

G. Review and Evaluation.

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

1. Quarterly.

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

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

2. Annually.

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

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

PURPOSE

The School Employees Retirement System of Ohio was established in 1937 by the state legislature to provide retirement and disability benefits for all non-certificated persons employed by the state's 766 school districts. This purpose is sustained by the member and employer contributions and the income realized from investment of those contributions.

ADMINISTRATION

The functioning of SERS is supervised by a seven member Board which works in conjunction with the System's Executive Director. Four of the seven Board members are elected by the general membership (those who contribute to SERS) and one is elected by retirees. 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; and (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. **Member's 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 the Ohio Revised Code, there is a 90-day waiting period after the member's last day of service before the refund can be paid. A refund cancels any claim to benefits offered by SERS.

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

SERVICE RETIREMENT

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

1. Five years of service and age 60, or
2. Twenty-five years of service and age 55; or

3. Thirty years of service at any age.

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

SERVICE CREDIT

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

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

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

Military - A member may purchase up to five years of credit in SERS for active service in the armed forces of the U.S. There is no restriction placed on time elapsed between school employment and the time spent in the military. A member may purchase additional service credit if the military service includes prisoner of war time. Purchased credit may not be greater than the member's actual Ohio school employment credit.

Federal, Other State, or School Service - The member may purchase credit for service rendered in a school or government position outside the State of Ohio. The service cannot be greater than the member's SERS service nor can it exceed five years.

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

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

Optional Service - This is service during a period when the member was given a choice of contributing or refraining from doing so. The member must pay back contributions and may be responsible for the employer's share.

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 up to five years of such credit.

BENEFIT CALCULATION

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

The benefit amount is calculated in this way:

The final average salary amount is multiplied by 2.1% to determine the value of a year of service credit. This value cannot be less than $86. If it is, $86 is used. The value is then multiplied by the number of years of service credit. This calculation yields the annual retirement benefit amount for a person who has 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 retiree 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 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.

There are two disability plans with differing benefits. All new members are under the new plan. Benefits range from 30% of final average salary to 75%. Benefits are lifetime under the old plan, subject to re-examination, and may be converted to service retirement under the new plan.

DEATH BENEFITS

The designated beneficiary of any SERS retirees will receive a $500 lump sum payment upon the retiree's death. If there is no beneficiary, payment is made to the person responsible for the burial expenses or to the retiree'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 central Ohio area, HealthFirst, 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 plan. Participants may either choose to obtain prescription drugs from a participating local pharmacy and pay 20% of the cost or they may elect to receive the drugs by mail from a licensed mail order pharmacy for a minimal fee per medication.

Members retiring after June 1, 1986 must have 10 or more years of service credit to qualify for the health care benefits.

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

COST OF LIVING INCREASES

After 12 months on the benefit rolls, and each year thereafter, SERS 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.