





School Employees Retirement System of Ohio
Comprehensive Annual

FINANCIAL REPORT

For the year ended June 30, 2012

Serving the People Who Serve Our Schools®

Art by Trinity R., Winton Montessori

School Employees Retirement System of Ohio
Comprehensive Annual

FINANCIAL REPORT

For the year ended June 30, 2012

Prepared by SERS Staff
Lisa J. Morris, Executive Director
300 E. Broad St., Suite 100, Columbus, Ohio 43215-3746
www.ohsers.org

Serving the People Who Serve Our Schools®

“The mission of SERS is to provide our members, retirees, and beneficiaries
with pension benefit programs and services
that are soundly financed, prudently administered, and delivered
with understanding and responsiveness.”

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In 2012, SERS celebrated 75 years of "Serving the People Who Serve Our Schools®."

We asked Ohio's school children to help us honor their bus drivers, custodians, librarians, office workers, cafeteria staff, and educational aides by commemorating them through original works of art.

Please enjoy these examples of their creative artwork.

Artwork pictured on the cover

Left to right, top row:
Mia C., Roosevelt Elementary School; Nicholas R., Blacklick Elementary School; Sarah H., Teays Valley Middle School.

Left to right, second row:
Hannah J., Canal Winchester High School; Elisa Z., Independence Middle School; Capri K., Amelia High School.

Left to right, third row:
Kate B., Put-In-Bay School, Nolan B., Strasburg Elementary School; Mallory G., Hubbard Elementary School.

Art by Phallon P., Strasburg Schools

SERS 1937 75 2012

INTRODUCTORY SECTION

SERS Retirement Board

Left to right: Standing – Lisa Morris, Richard Sensenbrenner, Beverly Woolridge, Nancy Edwards, Catherine Moss, Mary Ann Howell, James Rossler
Seated – Barbra Phillips, Madonna Faragher, Mark Anderson

Chair:
Madonna D. Faragher
Term Expires June 30, 2015

Vice-Chair:
Mark E. Anderson
Term Expires June 30, 2012

Appointed Member:
Nancy D. Edwards
Term Expires Dec. 2, 2012

Retiree Member:
Mary Ann Howell
Term Expires June 30, 2013

Retiree Member:
Catherine P. Moss
Term Expires June 30, 2012

Employee Member:
Barbra M. Phillips
Term Expires June 30, 2013

Appointed Member:
James A. Rossler, Jr.
Term Expires Nov. 4, 2012

Appointed Member:
Richard W. Sensenbrenner
Term Expires Sept. 28, 2012

Employee Member:
Beverly A. Woolridge
Term Expires June 30, 2013

Advisors

Independent Auditor
CliftonLarsonAllen - Toledo, Ohio

Actuary
Cavanaugh Macdonald Consulting, LLC - Kennesaw, Georgia

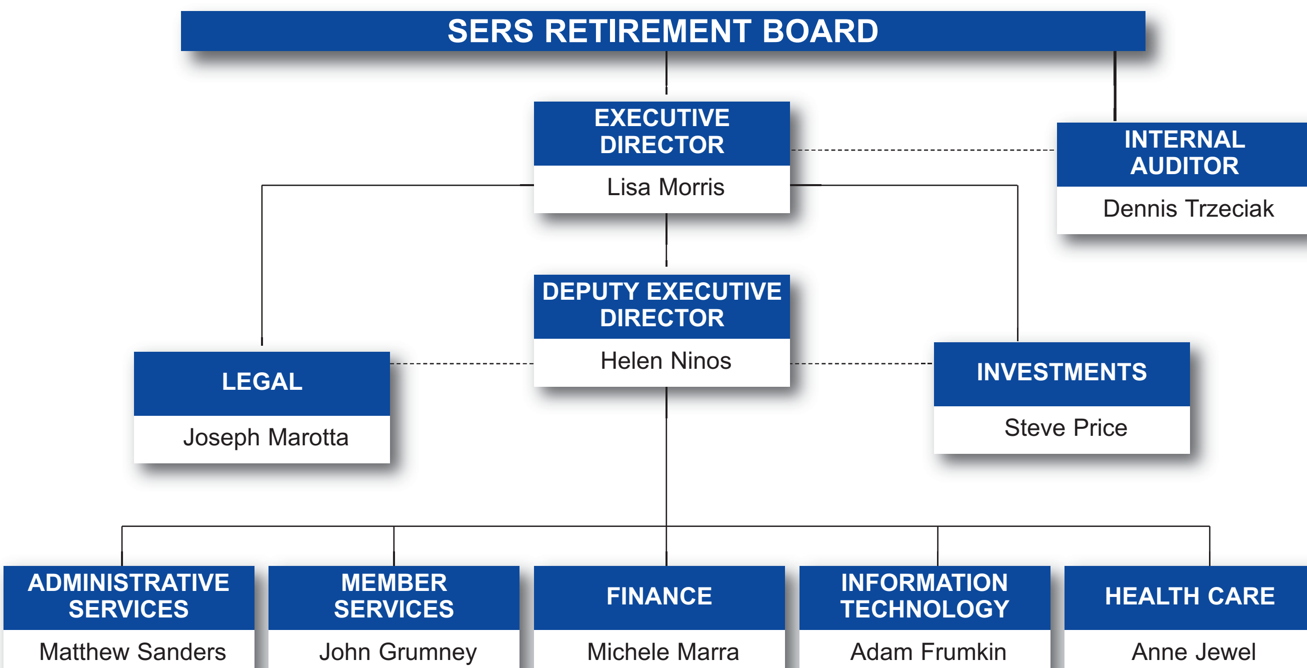
Investment Consultant
Summit Strategies Group - St. Louis, Missouri

Hedge Fund Consultant
Aksia LLC - New York, New York

Medical Advisor
Dr. Edwin H. Season - Columbus, Ohio

Investment Consultants and Investment Managers and Brokers' Fees - see pages 50-52

Clockwise, beginning at the lower left: Lisa Morris, Helen Ninos, Anne Jewel, Matthew Sanders, John Grumney, Steve Price, Adam Frumkin, Joe Marotta, Michele Marra



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, 2011

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

Linda C. Davison

President

Jeffrey R. Esser

Executive Director

PPC

Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2012

Presented to

School Employees Retirement System of Ohio

In recognition of meeting professional standards for plan funding and administration as set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle

Alan H. Winkle
Program Administrator

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
300 EAST BROAD ST., SUITE 100 • COLUMBUS, OHIO 43215-3746 • 614-222-5853
Toll-Free 866-280-7377 • www.ohsers.org

LISA J. MORRIS
Executive Director

HELEN M. NINOS
Deputy Executive Director

December 14, 2012

Dear Chair and Members of the Retirement Board:

We are pleased to submit the Comprehensive Annual Financial Report of the School Employees Retirement System of Ohio (SERS) for the fiscal year ended June 30, 2012. Established in 1937 by an act of the Ohio General Assembly, SERS provides pensions and benefits to public and charter school employees who are not required to possess a certificate in order to perform their duties. By statute, benefit plans include retirement for age and service, disability benefits, and survivor benefits that are paid upon the death of a member before retirement. A post-retirement health care program is also provided, although it is not required by law.

MAJOR INITIATIVES AND HIGHLIGHTS

Ohio Legislature Completes Pension Reform After nearly four years of working on pension reform, the Ohio legislature unanimously passed on September 12, 2012 Senate Bill 341, SERS' Board-approved plan. Gov. John Kasich signed the bill on September 26, 2012.

In November 2011, after the Ohio Retirement Study Council (ORSC) approved funding for an independent actuary to review the pension reform plans of all five Ohio retirement systems, there was little expectation that pension reform would be debated in the legislature before the report was received in July. However, in May, the Senate introduced bills for each of the five pension systems based on their Board-approved plans. After three hearings in the Senate Insurance, Commerce and Labor Committee, the bills were passed and sent to the House.

After the independent actuary delivered its report to the ORSC in July – a report that verified that the systems' pension reform plans did resolve the problems of each pension system – the House went to work on the Senate bills. In July and September SERS testified three times in support of S.B. 341 and after eight public hearings that demonstrated broad stakeholder support for our bill, the House also passed pension reform.

Media Outreach in Support of Pension Reform To counter negative and inaccurate information about SERS and public pensions in general, SERS' staff developed a print and broadcast media strategy designed to educate the public about retirement security and SERS' pension reform plan. SERS representatives met with 15 newspaper editorial boards, which resulted in four favorable editorials.

A key strategic initiative for SERS this year was to attract a national speaker to Ohio to elevate the public discussion about defined benefit pensions and their importance to individual retirement security and Ohio's economy. As a result, SERS was pleased to sponsor Diane Oakley, executive director of the National Institute on Retirement Security (NIRS), for a speaking engagement on April 4 with the Columbus Metropolitan Club. SERS' staff arranged several media opportunities for Oakley while she was in the capital city, including an appearance on a local public radio program and interviews with Hannah News, the Statehouse News Bureau, and the Associated Press, at which she was joined by SERS' Executive Director.

Positive coverage continued when Executive Director Lisa Morris appeared as a guest on the public television show. Morris discussed the sustainability of Ohio's public pension systems, their importance in keeping public employees off public assistance, and the economic benefits of pension payments to local economies.

Taking Precautions to Keep Sensitive Information Secure In a world where data security breaches continue to make headlines, SERS is committed to building and maintaining an information security program that will keep member and retiree records secure. In FY2012, SERS achieved several important information security milestones.

In the fall, SERS hired an external consulting firm to conduct a security audit focusing on four key areas: organizational security awareness, confidential data loss prevention, firewall architecture and policy review, and endpoint security. Based on the results of the survey, SERS hired an information security and privacy officer to develop SERS' information security program. Industry standards are being used to build business practices for securing sensitive information, and staff developed a scoring process that will be used annually to compare SERS' security measures with those at similar organizations.

Partnerships That Benefit SERS and Its Members As a way to save money and provide more services to our members, SERS forged partnerships with several state and local organizations in FY2012.

Because public service time earned in different public pension systems in Ohio can be combined into one pension benefit, SERS, Ohio Public Employees Retirement System (OPERS), and State Teachers Retirement System of Ohio (STRS) joined together to find ways to efficiently share data and manage combined accounts.

SERS, OPERS, and STRS also partnered with the Highway Patrol Retirement System (HPRS) and Ohio Deferred Compensation to group purchase management liability insurance. This lowered the cost of insurance and gained better policy terms and conditions for the systems.

SERS' Health Care Services staff established relationships with the Ohio Department of Insurance Senior Health Information Program (OSHIP) and the Ohio Department of Aging as a way to provide more resources for SERS retirees. OSHIP volunteers and representatives from local Area Agencies on Aging attended SERS' Open Enrollment meetings to promote programs and services that are available to SERS' retirees at little or no cost.

Building a 21st Century Member Benefits Computer System Over the last 10 years, the needs of SERS' membership have changed. Electronic communication is rapidly becoming the preferred method of interaction between SERS and its membership, and the existing member benefits computer system could not be upgraded to meet these changing needs. In FY2012, SERS' Board approved the funding for a state-of-the-art computer system called the SERS Member and Retiree Tracking (SMART) system. Every staff member is involved in meetings with developers to review and streamline processes, clean up and convert existing data, and build enhanced information security measures. When this computer system becomes fully functional in early 2015, we will be able to provide better and faster customer service, and communicate with members in the ways they choose.

SERS Reaches Out to Members and Retirees Via Facebook/Twitter SERS joined the social media revolution in FY2012 when it established a presence on Facebook and Twitter (SERSofOhio). SERS' staff is posting a minimum of two stories per week on each platform, and used Twitter to inform followers about information being discussed at two conferences featuring topics on public pensions.

2013 Health Care Premiums Stay Flat for Third Year in a Row Due to improved claims experience of SERS' retirees in 2011, and the terms of contracts negotiated with health care vendors, premium increases for SERS' health care plans will be minimal in 2013. SERS received a $28 million refund from its primary Medicare Advantage plan provider due to favorable claims experience and greater-than-expected Medicare reimbursement. A portion of this refund will be used to lower 2013 premiums for this plan's enrollees.

INVESTMENTS

The primary objective of our investment policy is to ensure that the System meets its responsibilities for providing statutory retirement benefits and then other permissive benefits as authorized by the Board. The portfolio is diversified by asset class, investment approach, and individual investments within each asset class to reduce overall portfolio risk and volatility. SERS' investment return was 0.9% for the fiscal year versus the benchmark return of 1.6%. The strongest sectors of the portfolio were global private equity and global real estate. For more information on SERS' portfolio performance and investment policy, please turn to the Investment Section of this report.

FUNDING

SERS' objective is to meet long-term benefit promises through contributions that remain, from one generation to the next, approximately level as a percent of member payroll. Historical information related to progress on meeting this objective can be found in the Required Supplementary Information in the Financial Section of this report.

SERS' benefits are separated to comply with various sections of the Internal Revenue Code (IRC), and then reported and valued for funding purposes in accordance with relevant Governmental Accounting Standards Board (GASB) statements.

For FY2012 the funded ratios for all the funds decreased. SERS employs a four-year smoothed market method for the actuarial valuation of assets; therefore SERS is still recognizing a portion of the significant losses realized in 2009. The funding level for pension benefits decreased from 65.2% over a 28-year period to 62.8% over a 30-year period, and the funding level for health care benefits over a 30-year period decreased from 14.8% to 13.2%.

FINANCIAL REPORTING AND INTERNAL CONTROLS

This report is a combined effort of SERS' staff and advisors. We are responsible for the accuracy of the contents, and the completeness and fairness of the presentation, including disclosures. A narrative overview and analysis to accompany the basic financial statements is presented as Management's Discussion and Analysis (MD&A). It can be found immediately following the report of the independent auditor in the Financial Section. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

A system of internal accounting controls ensures the security of member and employer contributions and provides reasonable, but not absolute, assurance that assets are properly safeguarded, transactions are properly executed, and financial statements are reliable. Our independent external auditors have conducted an audit of the basic financial statements in accordance with auditing standards generally accepted in the United States of America. They have full and unrestricted access to the Board to discuss their audit and related findings concerning the integrity of the financial reporting and adequacy of internal controls.

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 (CAFR) for the fiscal year ended June 30, 2011. This was the twenty-seventh consecutive year that SERS has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The Public Pension Coordinating Council (PPCC) awarded the Public Pension Standards Award for 2012 to SERS. Developed by the PPCC to promote excellence in meeting professional standards for plan funding and administration among state and local public retirement systems, the Public Pension Standards are the benchmark for measuring current practices of defined benefit plans. The PPCC is a coalition of three national associations that represent public retirement systems and administrators: the National Association of State Retirement Administrators, the National Council on Teacher Retirement, and the National Conference on Public Employee Retirement Systems. Together, these associations represent more than 500 of the largest pension plans in the United States.

ACKNOWLEDGEMENTS

SERS' roots reach back to the late 1920s when a group of Cleveland custodians sponsored legislation known as the School Custodians' Pension Act. The act made it possible for local boards of education to create pension funds in their own districts for their nonteaching employees. A few years later, with backing of the Ohio Association of School Business Officials and help from State Teachers Retirement System of Ohio and Ohio Public Employees Retirement System, legislation was introduced in the General Assembly in early 1937 to establish a statewide retirement system for all nonteaching employees in Ohio's public schools. Governor Davey signed HB 217 in April and SERS officially began operating on September 1, 1937. In 1938 Cleveland Custodians Pension Fund merged with SERS, and paid its first benefits to 16 disabled members.

There is much more to our history and we encourage the readers of this letter to go to our website to read more about SERS' accomplishments during the past 75 years. Our unique membership drives the architecture and focus of the retirement system's design, benefits, vesting, contributions, and investment and funding policies. From those humble beginnings 75 years ago, we have grown to an organization today of 175 employees who serve over 190,000 members and retirees. Change is inevitable, but our future will reflect our past and build on the present as we continue to carry out our mission and serve the people who serve Ohio's public schools.

Respectfully submitted,

Lisa J. Morris Executive Director	Michele L. Marra Finance Director

Legislative Summary

SERS and its members can be significantly affected by legislation enacted by the Ohio General Assembly and Congress. The impact of legislation and federal regulatory activities on SERS and other public retirement systems has increased in recent years. SERS closely monitors legislative activities, and when appropriate, provides testimony or otherwise educates Ohio legislators, congressional representatives, and regulatory agencies on the impact of these proposals.

State Legislation

From the 129th General Assembly:

HB 202 Limit Retirement Benefit of Reemployed Retiree/No Deferred Retirement (04/12/2011 Referred to House Health and Aging)

This bill limits the retirement benefit of a reemployed retiree of a public retirement system and eliminates the deferred retirement option plan in the Ohio Police and Fire Pension Fund and Highway Patrol Retirement System.

HB 323 Retirement/Disability Benefits-Forfeited For Extortion and Perjury (01/25/2012 Reported out as amended, House Criminal Justice)

This bill adds extortion and perjury to the felonies committed by a public retirement system member while serving in a position of honor, trust, or profit under the law governing the forfeiture of retirement system benefits and the termination of retirement system disability benefits.

HB 388 Public Retiree-Reemployed-Suspend Retirement Benefit While Employed (12/06/2011 Referred to House Health and Aging)

This bill suspends, during the period of employment, the retirement benefit of a public retirement system retiree who returns to public employment.

SB 214 Public Retirement Systems-Compliance with Restitution Withholding Orders (09/20/2011 Referred to Senate Government Oversight & Reform)

This bill modifies when a public retirement system, alternative retirement plan, or deferred compensation program must comply with a withholding order for restitution issued on conviction of a public employee for certain offenses committed in the course of public employment.

SB 341 SERS Benefits (09/26/2012 Signed by Governor)

This bill revises the law governing the School Employees Retirement System of Ohio. It reflects the SERS Board-approved plan to increase the current age and service credit requirements for retirement eligibility for members retiring on or after August 1, 2017. To retire with full benefits, a member must be age 67 with 10 years, or age 57 with 30 years. To retire early with reduced benefits, a member must be age 62 with 10 years, or age 60 with 25 years. Members with 25 years of service credit before August 1, 2017 are grandfathered. Members with fewer than 25 years of service credit as of August 1, 2017 may retire under the previous retirement eligibility requirements if they pay the actuarial difference. The bill also includes changes to SERS' disability program, and other amendments to update SERS' statutes.

Federal Legislation

From the 112th Congress:

HR 567 Public Employee Pension Transparency Act (02/09/2011 Referred to House Committee on Ways and Means)

This bill amends the Internal Revenue Code to deny tax benefits relating to bonds issued by a state or political subdivision during any period in which such state or political subdivision is noncompliant with specified reporting requirements for state or local government employee pension benefit plans.

HR 1332 Social Security Fairness Act of 2011
(04/07/2011 Referred to the Subcommittee on Social Security)

This bill amends Title II of the Social Security Act to repeal government pension offset requirements applicable to husband’s and wife's insurance benefits, widow's and widower's insurance benefits, and mother's and father's insurance benefits with respect to OASDI payments; and windfall elimination requirements with respect to computation of an individual's primary insurance amount.

S 113 Public Servant Retirement Protection Act of 2011
(01/25/2011 Referred to Senate Committee on Finance)

This bill amends Title II of the Social Security Act to repeal the windfall elimination provision and protect the retirement of public servants.

S 347 Public Employee Pension Transparency Act
(02/15/2011 Referred to Senate Committee on Finance)

This bill amends the Internal Revenue Code to deny tax benefits relating to bonds issued by a state or political subdivision during any period in which such state or political subdivision is noncompliant with specified reporting requirements for state or local government employee pension benefit plans.

Art by Xavier M., Arlington High School

FINANCIAL SECTION

CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

Independent Auditors' Report

The Retirement Board
School Employees Retirement System of Ohio
and
The Honorable Dave Yost
Auditor of State:

We have audited the accompanying statement of plan net assets of School Employees Retirement System of Ohio (SERS) as of June 30, 2012, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the management of SERS. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SERS' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of SERS as of June 30, 2012, and the changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 11, 2012, on our consideration of SERS' internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Retirement Board
School Employees Retirement System of Ohio
and
The Honorable Dave Yost

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the schedules of funding progress and employer contributions and related notes, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole The additional information, including the schedules of administrative expenses, investment expenses, and payments to consultants, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The additional information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory, investments, actuarial and statistical sections, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

CliftonLarsonAllen LLP

Toledo, Ohio
December 11, 2012

Management's Discussion and Analysis (Unaudited)

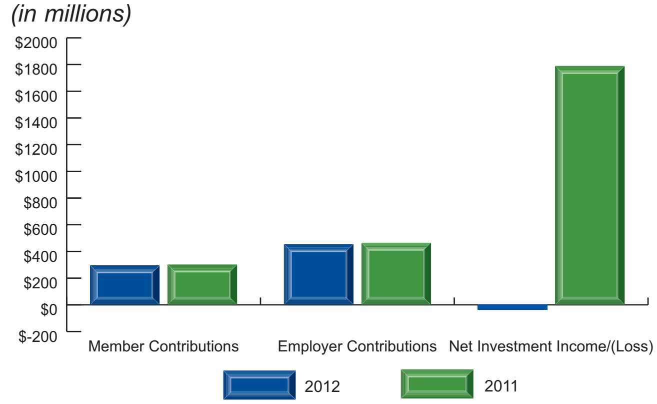
This discussion and analysis of the School Employees Retirement System of Ohio's (SERS) financial performance provides a narrative overview of financial activities for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with the information in our Letter of Transmittal, which is found in the Introductory Section of this report. In addition to historical information, Management's Discussion and Analysis includes certain forward-looking statements which involve certain risks and uncertainties. Actual results, performance, and achievements may differ from those expressed or implied in such forward-looking statements, due to a wide range of factors, including changes in the securities markets, general economic conditions, and legislative changes, as well as other factors.

OVERVIEW OF FINANCIAL STATEMENTS

Following Management's Discussion and Analysis are the basic financial statements. Reviewing these statements, along with the accompanying notes, gives the reader a better understanding of SERS' financial position. *The Statement of Plan Net Assets* provides a view at the fiscal year-end of the amount the plans have accumulated in assets to pay for future benefits and any liabilities that are owed as of the statement date. The *Statement of Changes in Plan Net Assets* presents what has happened to the plans during the fiscal year. If net assets increased, then additions to the plans were greater than the deductions. If net assets decreased, then additions to the plans were less than the deductions from the plans.

The *Notes to Financial Statements* supply additional information that is essential for a full understanding of the data provided in the financial statements. The notes describe the history and purpose of the plans; present information about accounting policies and significant account balances and activities; and disclose material risks, subsequent events, and contingent liabilities, if any, that may significantly impact SERS' financial position. In addition to the financial statements and notes, *Required Supplementary Information* (RSI) is provided. This supplementary information includes data on funding progress and employer contributions, along with other information useful in evaluating the financial condition of SERS. Following the RSI is other supplementary information, including schedules with detailed information on investment and administrative expenses.

Comparative Additions by Source
FY2012 & 2011
(in millions)



FINANCIAL HIGHLIGHTS

- Total additions to plan net assets were $870.3 million, comprised of contributions of $908.2 million and a net investment loss of $37.9 million.
- Total deductions from plan net assets for fiscal year 2012 totaled $1.2 billion, an increase of 5.0% over fiscal year 2011 deductions.
- The net decrease in plan net assets was $288.1 million compared to a net increase of $1.6 billion in 2011.

CONDENSED SUMMARY OF TOTAL PLAN NET ASSETS
(in millions)

			Change	
ASSETS	2012	2011	Amount	Percent
Cash	$ 411.4	$ 478.8	$ (67.4)	(14.1)%
Receivables	400.3	422.8	(22.5)	(5.3)
Investments	10,653.6	10,753.4	(99.8)	(0.9)
Capital Assets, Net	48.5	44.2	4.3	9.7
Other Assets	52.8	-	52.8	100.0
Total Assets	11,566.6	11,699.2	(132.6)	(1.1)
LIABILITIES				
Benefits & Accounts Payable	14.3	12.0	2.3	19.2
Other Liabilities	865.4	712.2	153.2	21.5
Total Liabilities	879.7	724.2	155.5	21.5
Net Assets Held in Trust	$10,686.9	$10,975.0	$ (288.1)	(2.6)%

FINANCIAL ANALYSIS

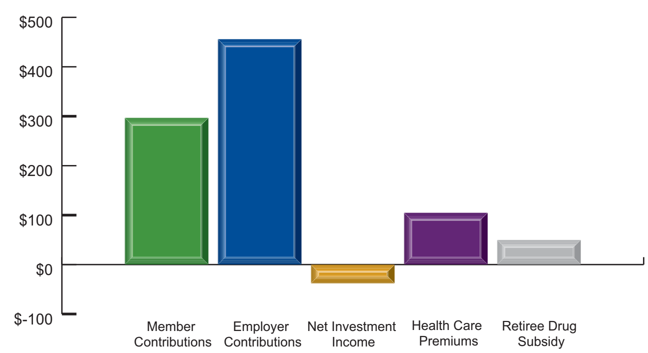
A cost-sharing defined benefit public retirement system, such as SERS, has a long-term perspective on financial activities. Pension benefits are funded on an actuarial basis. Contributions are invested in assets with the highest possible return at an acceptable level of risk that will provide for the lifetime pensions of retirees.

Additions SERS is comprised of five separate plans – the Pension Trust Fund, the Medicare B Fund, the Death Benefit Fund, the Qualified Excess Benefit Arrangement (QEBA) Fund, and the Health Care Fund. Pension benefits are funded through a combination of employee and employer contributions, and investment income. Medicare Part B premium reimbursements and death benefits are funded through employer contributions and investment income. The QEBA, a separate plan under Internal Revenue Code §415, is funded by contributions from the retiree's last employer and invested separately in a short-term investment fund. Funding for the health care program comes from employers, retiree premium payments, the federal government, and investment income. The graph on the next page labeled "Comparison of Additions to Plan Net Assets by Fund" depicts the proportion that each source added to the individual fund's assets during FY2012.

For financial statement purposes, employee contributions consist of 10% of payroll, and member purchases of restored and optional service credits. Employer contributions include 14% of payroll, the employer's share of optional and compulsory purchased service credit, early retirement incentives, and the health care surcharge. Active membership decreased 2.8%, continuing the trend of flat or declining membership numbers that we have experienced for several years. It reflects school budget cuts in personnel due to declining enrollments in both traditional schools and community schools. Total employee and employer contributions followed the downward trend in membership and payroll.

Employer contributions to the Health Care Fund are derived from two sources. The first source is an allocation of the employers' 14% contribution after pension benefits are actuarially funded. This allocation decreased from 1.43% for FY2011 to 0.55% for FY2012. The second is a health care surcharge for members who earn less than an actuarially determined minimum salary, which is established annually by the Board and did not change from the previous year. Regardless of the minimum compensation amount, legislated limits on SERS' surcharge revenue restrict the actual surcharge to 1.5% of statewide payroll, and no employer pays more than 2.0% of the district's payroll. This year, as in the past, most employers paid 1.51% of payroll for the surcharge. Since payroll decreased, the surcharge also decreased from $44.7 million in 2011 to $42.8 million in 2012.

Additions to Plan Net Assets
(in millions)

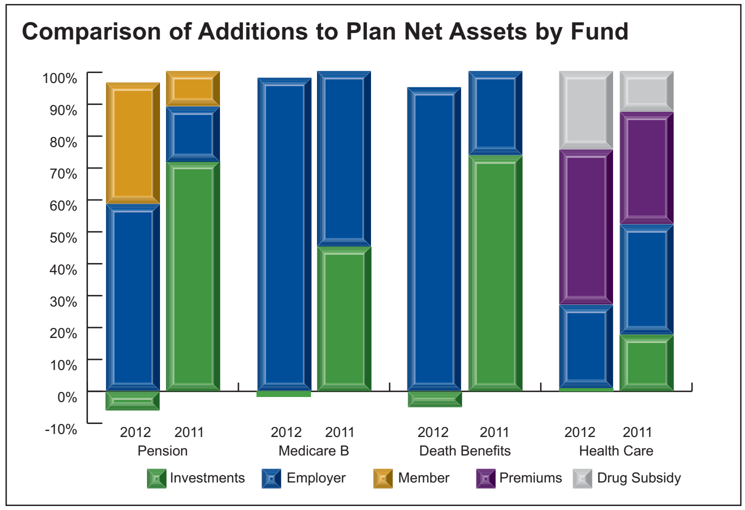


Along with employer contributions and investment income, additions to the Health Care Fund include health care premiums paid by retirees. Premiums increased 15.7% over the previous fiscal year although enrollment declined 3.6% from 48,151 retirees and dependents to 46,439. Both changes can be attributed to the Board-adopted increases in premiums and other plan changes effective January 2011 with the goal of stabilizing the Health Care Fund by matching inflows with expenses. The other source of contributions to the Health Care Fund includes a net

CONDENSED SUMMARY OF CHANGES IN TOTAL PLAN NET ASSETS
(in millions)

			Change	
ADDITIONS	2012	2011	Amount	Percent
Contributions	$ 908.2	$ 891.7	$ 16.5	1.9%
Net Investment Income/(Loss)	(37.9)	1,789.9	(1,827.8)	(102.1)
Total Additions	870.3	2,681.6	(1,811.3)	(67.5)
DEDUCTIONS				
Benefits	1,083.9	1,033.8	50.1	4.8
Refunds & Transfers	52.9	48.6	4.3	8.8
Admin. Expenses	21.6	21.2	0.4	1.9
Total Deductions	1,158.4	1,103.6	54.8	5.0
Net Increase/(Decrease)	(288.1)	1,578.0	(1,866.1)	(118.3)
Balance, Beginning of Year	10,975.0	9,397.0	1,578.0	16.8
Balance, End of Year	$10,686.9	$10,975.0	$ (288.1)	(2.6)%

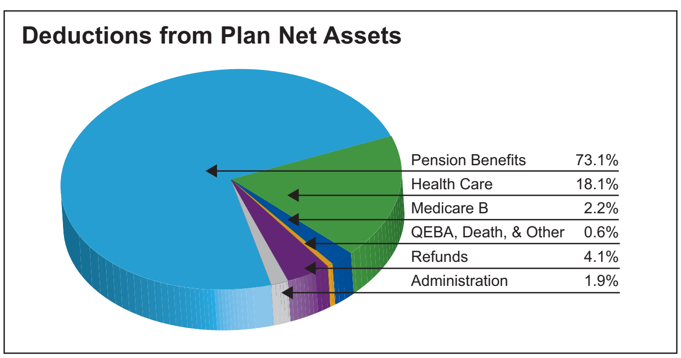
reimbursement of $23.3 million from the federal program for Medicare Part D qualified prescription drug plans (PDP). The net reimbursement decreased 1.0% from the previous fiscal year. In FY2012, SERS also received $28.3 million from its primary Medicare Advantage provider based on a risk-sharing contract effective January 1, 2011. Premiums for this program are estimated at the beginning of the contract and then adjusted at year-end based on actual claims experience and Medicare reimbursements. If experience is favorable, SERS receives a payment for the adjusted premium; however if experience is not favorable, SERS would have to pay an additional premium to the provider. This is the first time that SERS has received a payment under this contract.



Investment income (loss) is allocated, in accordance with the actuary's recommendation, to all funds except the QEBA. Investment net income (loss) is presented net of investment fees and is comprised of interest, dividends, and realized and unrealized investment gains and losses. SERS' investment portfolio, with the exception of cash and short-term investments, is handled by external investment managers. Income from interest and dividends decreased $14.8 million to $225.2 million in FY2012 and overall, SERS had an investment loss of $37.9 million compared to investment income of $1.8 billion in FY2011. Total investment expenses were relatively unchanged, moving from $84.4 million in FY2011 to $84.2 million in FY2012. More information on investment results can be found in the *Investment Section.*

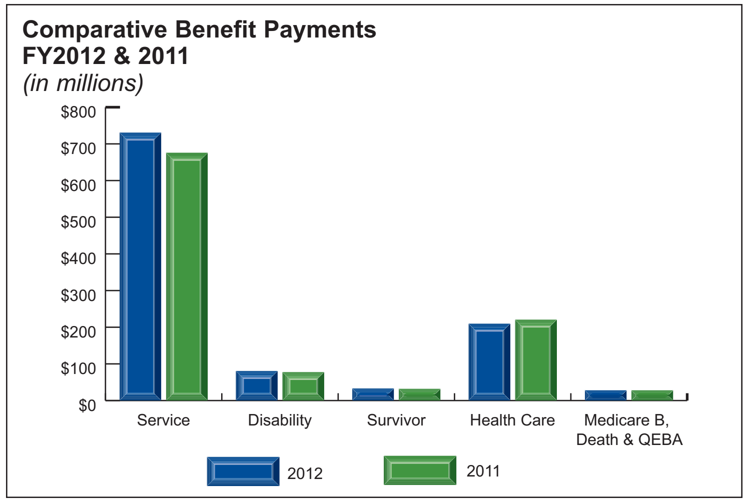
Deductions Expenses are incurred primarily for the purpose for which SERS was created: the payment of benefits to non-teaching Ohio public and community school employees. Included in the deductions from plan assets were benefit payments, refunds of contributions due to member terminations or deaths, net transfers to other Ohio retirement systems to provide benefits for those members who had membership in more than one system, and administrative expenses.

Payments to service, disability, and survivor benefit recipients increased $50.1 million, or 4.8%. Service retirement payments increased 8.0% while disability and survivor benefits payments increased by 4.7% and 4.3%, respectively. Each year, a portion of the increase comes from the 3% cost-of-living allowance calculated on the base benefit amount. In FY2012, the number of new retirees increased 19% over FY2011, while terminations decreased slightly by 2.4%. This increase was due in part to the uncertainty of pension reform legislation that was introduced in 2011. Although the provisions of the proposed reform legislation were not scheduled to take effect until at least August 2015, the proposed legislation led to increases in retirement applications in FY2011 and FY2012. Now that SERS' pension reform bill, that was re-introduced in May 2012, has been signed by Governor Kasich, we expect that the increase in retirements will level off as the age and service credit changes for retirement eligibility will not take effect until August 1, 2017.



Total refunds paid increased 13.5% from FY2011 to FY2012. A lump sum of employee contributions is only distributed to members who have terminated public employment, applied for a refund, and waited for expiration of the 90-day waiting period that begins with the last day of service. SERS' members cannot take partial distributions. Reemployed retirees who are eligible for an annuity may elect a lump sum distribution, which includes the employee's contributions, a portion of the employer's contributions, and interest. A weak economy can have opposing effects on refunds – members are less likely to leave employment when job prospects are slim. However, those who do leave may be more likely to withdraw their contributions for living expenses.

If a member has been employed in a job covered by the State Teachers Retirement System of Ohio (STRS) or the Ohio Public Employees Retirement System (OPERS) as well as in a job covered by SERS, the member may combine the service credit and accounts in all the systems to receive one benefit. The system with the greatest service credit will be the one that calculates and pays the benefit. Generally, a member will have a career position with OPERS or STRS, thus SERS transfers more monies to those systems than it receives. Net transfers to these retirement systems decreased 22.2%. Separating the transfers discloses that both transfers in and out increased in FY2012, but the increase of transfers in to SERS of $4.3 million offset the increase of $2.9 million being transferred out.



SERS reimburses a portion of the Medicare Part B premium to retirees eligible for SERS' health care program who provide proof of enrollment in Medicare Part B. SERS paid $45.50 of the 2012 minimum monthly Medicare Part B premium of $99.90. The reimbursement amount, established by statute, has not changed since 2001; therefore, changes in expenses are driven by eligible retirees' enrollment in Medicare Part B or termination of a benefit. Medicare Part B expenses increased $362,000, or 1.4%, in FY2012.

SERS pays a $1,000 death benefit to the designated beneficiary of service and disability retirees. Death benefit payments increased $55,000, or 2.4%, in FY2012.

The majority of retirees are enrolled in Medicare Advantage plans; however, SERS maintains a traditional, self-insured Preferred Provider Organization (PPO) plan for its non-Medicare retiree population. For both groups, SERS offers a self-insured prescription drug program. Health care expense decreased $11.2 million, or 5.1%, to $210.0 million. Half of this decrease was in the prescription drug program – the result of formulary changes that encourages retirees to use generic drugs. The remainder of the decrease is made up of declining enrollment in all of SERS' health care plans offset by the increased claims payments in self-insured plans for non-Medicare retirees.

Projections as of June 30, 2012 by our actuary indicate that health care funds will run out in FY2020, which is three years earlier than projected at June 30, 2011, due to investment losses that have reduced the employer contributions available for health care. SERS continues to seek solutions that preserve access to health care coverage for current and future retirees, but health care is not mandated by statute. Funding sources are limited to those noted earlier in this analysis.

REQUEST FOR INFORMATION

This financial report is designed to provide the Retirement Board, our membership, employers, and investment managers with a general overview of SERS' finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to:

School Employees Retirement System of Ohio
Finance Department
300 East Broad Street, Suite 100
Columbus, Ohio 43215

Statement of Plan Net Assets as of June 30, 2012

	Pension Trust Fund	Medicare B Fund	Death Benefit Fund
ASSETS			
Cash & Operating Short Term Investments	$ 360,586,784	$ 5,433,062	$ 945,112
Receivables			
Contributions			
Employer	97,710,529	4,301,012	242,683
Employee	16,060,682	-	-
Investments Receivable	210,761,203	2,244,852	382,602
Other Receivables	1,323,319	-	-
Total Receivables	325,855,733	6,545,864	625,285
Investments at Fair Value			
US Equity	3,637,138,892	38,729,456	6,601,319
Non-US Equity	2,362,134,458	25,152,788	4,287,217
Private Equity	934,943,171	9,955,584	1,696,899
Fixed Income	1,800,175,820	19,168,867	3,267,275
Real Estate	1,024,809,190	10,912,506	1,860,004
Total Investments at Fair Value	9,759,201,531	103,919,201	17,712,714
Securities Lending Collateral at Fair Value	489,894,308	5,216,556	889,146
Capital Assets			
Land	3,315,670	-	-
Property & Equipment, at Cost	59,233,338	-	-
Accumulated Depreciation and Amortization	(19,663,405)	-	-
Computer System Under Development	5,551,719	-	-
Capital Assets, Net	48,437,322	-	-
Prepaids and Other Assets	52,779,344	-	-
TOTAL ASSETS	11,036,755,022	121,114,683	20,172,257
LIABILITIES			
Accounts Payable & Accrued Expenses	1,565,824	3,165	2,414
Benefits Payable	1,453,550	46,000	386,435
Investments Payable	345,875,000	3,682,991	627,755
Obligations under Securities Lending	486,674,858	5,182,275	883,303
TOTAL LIABILITIES	835,569,232	8,914,431	1,899,907
NET ASSETS HELD IN TRUST FOR PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS	$ 10,201,185,790	$ 112,200,252	$ 18,272,350

See accompanying notes to the financial statements

QEBA Fund	Health Care Fund	TOTAL
$ 109,140	$ 44,350,451	$ 411,424,549
-	42,528,390	144,782,614
-	-	16,060,682
18	5,696,194	219,084,869
-	19,083,618	20,406,937
18	67,308,202	400,335,102
-	98,215,316	3,780,684,983
-	63,785,791	2,455,360,254
-	25,246,696	971,842,350
-	48,610,966	1,871,222,928
-	27,673,389	1,065,255,089
-	263,532,158	10,144,365,604
-	13,228,839	509,228,849
-	-	3,315,670
-	-	59,233,338
-	-	(19,663,405)
-	-	5,551,719
-	-	48,437,322
-	850	52,780,194
109,158	388,420,500	11,566,571,620
1,281	10,828,370	12,401,054
-	-	1,885,985
-	9,339,820	359,525,566
-	13,141,903	505,882,339
1,281	33,310,093	879,694,944
$ 107,877	$ 355,110,407	$ 10,686,876,676

Statement of Changes in Plan Net Assets
for the year ended June 30, 2012

	Pension Trust Fund	Medicare B Fund	Death Benefit Fund
ADDITIONS			
Contributions			
Employer	$ 376,816,938	$ 21,450,368	$ 1,454,763
Employee	296,974,146	-	-
Other Income			
Health Care Premiums	-	-	-
Federal Subsidies and Other Receipts	-	-	-
	673,791,084	21,450,368	1,454,763
Income from Investment Activity			
Net Depreciation in Fair Value	(179,263,929)	(1,898,212)	(336,589)
Interest and Dividends	216,678,522	2,327,553	400,388
	37,414,593	429,341	63,799
Investment Expenses	(81,018,889)	(867,881)	(149,439)
Net Income (Loss) from Investment Activity	(43,604,296)	(438,540)	(85,640)
Income from Securities Lending Activity			
Gross Income	4,613,368	49,446	8,347
Brokers' Rebates	1,528,438	16,369	2,810
Management Fees	(547,925)	(5,868)	(1,007)
Net Income from Securities Lending Activity	5,593,881	59,947	10,150
Net Investment Income (Loss)	(38,010,415)	(378,593)	(75,490)
TOTAL ADDITIONS	635,780,669	21,071,775	1,379,273
DEDUCTIONS			
Benefits			
Retirement	731,236,350	23,006,643	-
Disability	81,219,934	1,405,443	-
Survivor	33,227,161	1,302,984	-
Death	-	-	2,309,922
Health Care Expenses	-	-	-
	845,683,445	25,715,070	2,309,922
Refunds and Lump Sum Payments	47,920,393	-	-
Net Transfers to Other Ohio Systems	4,976,841	-	-
Administrative Expenses	19,090,214	5,800	46,941
	71,987,448	5,800	46,941
TOTAL DEDUCTIONS	917,670,893	25,720,870	2,356,863
Net Increase (Decrease)	(281,890,224)	(4,649,095)	(977,590)
NET ASSETS HELD IN TRUST FOR PENSIONS AND OTHER POSTEMPLOYMENT BENEFITS			
Balance, Beginning of Year	10,483,076,014	116,849,347	19,249,940
Balance, End of Year	$ 10,201,185,790	$ 112,200,252	$ 18,272,350

See accompanying notes to the financial statements.

QEBA Fund	Health Care Fund	TOTAL
$176,784	$ 56,476,230	$ 456,375,083
-	-	296,974,146
-	104,577,662	104,577,662
-	50,255,131	50,255,131
176,784	211,309,023	908,182,022
-	(3,264,973)	(184,763,703)
149	5,786,508	225,193,120
149	2,521,535	40,429,417
-	(2,129,198)	(84,165,407)
149	392,337	(43,735,990)
-	123,471	4,794,632
-	40,706	1,588,323
-	(14,574)	(569,374)
-	149,603	5,813,581
149	541,940	(37,922,409)
176,933	211,850,963	870,259,613
170,370	-	754,413,363
-	-	82,625,377
-	-	34,530,145
-	-	2,309,922
-	209,965,344	209,965,344
170,370	209,965,344	1,083,844,151
-	-	47,920,393
-	-	4,976,841
1,282	2,480,956	21,625,193
1,282	2,480,956	74,522,427
171,652	212,446,300	1,158,366,578
5,281	(595,337)	(288,106,965)
102,596	355,705,744	10,974,983,641
$107,877	$ 355,110,407	$ 10,686,876,676

Notes to Financial Statements
June 30, 2012

1. Summary of Significant Accounting Policies

Basis of Accounting The financial statements of the School Employees Retirement System of Ohio (SERS) are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Use of Estimates In preparing financial statements in conformity with governmental accounting principles generally accepted in the United States of America, SERS' management makes estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions. Certain SERS investment assets, in particular global real estate and global private equity funds, use estimates in reporting fair value in the financial statements. These estimates are subject to uncertainty in the near term, which could result in changes in the values reported for those assets in the *Statement of Plan Net Assets.*

Employer Contributions Receivable SERS recognized long-term receivables from certain employers whose contributions were deducted from the money paid to them through the School Foundation Program, administered by the Ohio Department of Education. Collection of those contributions was transitioned from a calendar year basis, six months in arrears, to a fiscal year basis effective June 30, 2010. Employers were permitted to spread this six-month catch-up of the arrearage evenly over a six-year period beginning July 2010. All arrearages should be paid by June 2016.

Health Care Expenses Incurred and Unpaid Amounts accrued for health care expenses payable for recipients less than age 65 and for all prescription drug payments in the Health Care Fund are based upon estimates that have been developed from prior claims experience.

Allocation of Expenses to Plans Direct expenses are charged to the plan for which they are incurred. All indirect expenses are paid by the Pension Trust Fund and are reimbursed by the Medicare B, Death Benefit, and Health Care Funds, in proportion to their use of the assets.

Investments Investment purchases and sales are recorded as of the trade date. Dividend income is recognized on the ex-dividend date. Other investment income is recognized when earned.

Investments are reported at fair value. Fair value is the amount reasonably expected to be received for an investment in a current sale between a willing buyer and a willing seller. Fixed income securities, real estate investment trusts (REITs), derivatives, and common and preferred stocks are valued based on published market prices and quotations from national security exchanges and securities pricing services. International stocks are then adjusted to reflect the current exchange rate of the underlying currency. Short-term securities are valued at amortized cost, which approximates fair value. Investments for which no national exchanges or pricing services exist, such as private equity assets, are valued at fair value by the investment partnership based on the valuation methodology outlined in the partnership agreement. Real estate may be valued by the manager or independent appraisers. SERS performs due diligence reviews of the investment pricing, process, and infrastructure of private equity and real estate investments to assure that the asset values provided by the managers are reasonable.

Net appreciation (depreciation) is determined by calculating the change in the fair value of investments between the beginning of the year and the end of the year, less purchases of investments at cost, plus sales of investments at fair value. Investment expenses consist of external expenses directly related to SERS' investment operations, as well as the internal administrative expenses associated with SERS' investment program.

Additional information on investments (including details of the investment policy and asset allocation) is contained within the *Investment Section* of this *Comprehensive Annual Financial Report* (CAFR).

The monies held by the Pension Trust, Medicare B, Death Benefit, and Health Care Funds are pooled for the purpose of the investment of those plans. Each plan holds units of the investment pool, which are adjusted on a monthly basis. The value of one unit of the pool on June 30, 2012 was $1,377.00. The unit holdings and net value of each of the funds at the close of the fiscal year were:

	Units	Value
Pension Trust Fund	7,248,442.66	$9,981,105,187
Medicare B Fund	77,183.81	106,282,104
Death Benefits Fund	13,155.75	18,115,463
Health Care Fund	195,732.99	269,524,323
Total	**7,534,515.21**	**$10,375,027,077**

Office Building, Equipment, and Fixtures (Non-Investment Assets) The cost of equipment and fixtures in excess of $5,000 are capitalized at cost when acquired. Improvements that increase the useful life of the property are capitalized. Maintenance and repairs are charged to expense as incurred. Software costs in excess of $25,000 are also capitalized. Intangible assets, such as internally-developed software, are capitalized in accordance with GASB 51, *Accounting and Financial Reporting for Intangible Assets.* Depreciation and amortization has been provided using the straight-line method over the following useful lives:

Description	Estimated Lives (years)
Furniture, equipment, and software	3-7
Building and improvements	40

Reserves Ohio Revised Code Section 3309.60 establishes various reserves to account for future and current benefit payments. The statute gives these reserves the title of "Funds," but for accounting and reporting purposes they are treated as accounts. These are:

- **The Employees' Savings Account** Accumulated members' contributions are held in trust pending refund or transfer to another account other than the Guarantee Account or Expense Account.
- **The Employers' Trust Account** Accumulated employer contributions are held for future benefit payments.
- **The Annuity and Pension Reserve Account** This reserve contains the monies set aside to pay all annuities and pensions. Money is transferred to this account from the Employees' Savings Account, Employers' Trust Account, and Guarantee Account at the time of retirement.
- **The Survivors' Benefit Account** Monies in this account are set aside to finance payments to beneficiaries of deceased members. Money is transferred to this account from the Employees' Savings Account, Employers' Trust Account, and Guarantee Account in an amount to fund all liabilities at the end of each year.
- **The Guarantee Account** Income derived from the investment pool and any gifts or bequests are accumulated in this account. The balance in this account is transferred to other reserve accounts to aid in the funding of future benefit payments and administrative expenses.
- **The Expense Account** This account provides for the payment of administrative expenses with the necessary money allocated to it from the Guarantee Account.

RESERVE ACCOUNT BALANCES AS OF JUNE 30, 2012

	Pension Trust Fund	Medicare B Fund	Death Benefit Fund	QEBA Fund	Health Care Fund	**Reserve Account Totals**
Employees' Svgs. Acct.	$ 2,981,434,034	$ –	$ –	$ –	$ –	**$ 2,981,434,034**
Employers' Trust Acct.	(1,259,776,635)	–	–	–	355,110,407	**(904,666,228)**
Annuity and Pension Reserve Acct.	8,135,928,230	112,200,252	18,272,350	107,877	–	**8,266,508,709**
Survivors' Benefit Acct.	343,600,161	–	–	–	–	**343,600,161**
Guarantee Acct.	–	–	–	–	–	–
Expense Acct.	–	–	–	–	–	–
Fund Totals	**$10,201,185,790**	**$112,200,252**	**$ 18,272,350**	**$107,877**	**$ 355,110,407**	**$10,686,876,676**

2. Description of the System

Organization SERS is a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system. Established by state law in 1937, SERS provides retirement, disability, and survivor benefits to non-teaching employees of Ohio's public K-12 school districts, vocational, technical, and community schools, community colleges, and the University of Akron.

The Retirement Board is responsible for the general administration and management of the retirement system. As of June 30, 2012, the Board is composed of nine members: four elected employee members; two elected retiree members; and three appointed investment expert members. One investment expert is appointed by the Governor, a second one by the State Treasurer, and the third one jointly by the Speaker of the House and President of the Senate.

Several separate plans comprise the Retirement System. They include the Pension Trust Fund, the Medicare B Fund, the Death Benefit Fund, and the Qualified Excess Benefit Arrangement (QEBA) Fund. The Pension Trust Fund holds the funds to pay the basic retirement, disability and survivor benefits authorized under state law, Ohio Revised Code (ORC) Chapter 3309. The Medicare B Fund reimburses a portion of the Medicare Part B premiums paid by eligible benefit recipients as permitted under ORC Section 3309.69. The current reimbursement is $45.50 per month. The Death Benefit Fund pays $1,000 to a designated beneficiary of a deceased retiree or disability benefit recipient as allowed under ORC Section 3309.50. The QEBA Fund pays benefits as allowed by federal tax law to retirees whose SERS benefits exceed Internal Revenue Code (IRC) 415(b) limits. A fifth plan, the Health Care Fund, provides money for payment of health care expenses under SERS health care coverage for retirees and other benefit recipients.

Pension Benefits A member who became covered by the Retirement System before May 14, 2008, is eligible to retire under Tier 1 if the member has:

- Five (5) years of service credit and is at least 60 years old;
- 25 years of service credit and is at least 55 years old; or
- 30 years of service credit irrespective of age.

A member who is covered by SERS on or after May 14, 2008, is eligible to retire under Tier 2 if the member has:

- 10 years of service credit and is at least 62 years old;
- 25 years of service credit and is at least 60 years old; or
- 30 years of service credit and is at least 55 years old.

EMPLOYER AND EMPLOYEE MEMBERSHIP DATA (as of June 30, 2012)

Employer Members	
Local	374
City	191
Educational Service Center	56
Village	49
Higher Education	15
Vocational/Technical	49
Community Schools	300
Other	10
Total	1,044
Employee Members and Retirees	
Retirees and beneficiaries currently receiving benefits	69,038
Terminated employees entitled to but not yet receiving benefits	12,610
Total	81,648
Active Employees	
Vested active employees	78,102
Non-vested active employees	43,709
Total	121,811

The formula used in calculating an annual retirement benefit is as follows: number of years of service credit up to 30 years x 2.2% of the member's final average salary (FAS) + number of years of service credit over 30 years x 2.5% of FAS. If the member is under 65 or has less than 30 years of credit at the time of retirement, the annual benefit is reduced to cover a longer period of retirement.

If a member has been employed in a job covered by the State Teachers Retirement System of Ohio (STRS) or the Ohio Public Employees Retirement System (OPERS) as well as in a job covered by SERS, at retirement the member may receive a retirement benefit independently from each of the systems, if eligible, or may combine the service credit and accounts in all the systems to receive one benefit. The system with the greatest service credit will be the system that will calculate and pay the benefit. While the salaries in one year will be added together, if the member has service credit in each system for the same year, the member cannot be credited with more than one year of service credit for each 12 months in a year.

If the retiree returns to a SERS-covered position, then employee and employer contributions are required for the new position. The retiree accrues a new benefit in the form of an annuity based on the contributions paid by the retiree and the employer payable at age 65 or termination of employment, whichever is later. This is separate from the original SERS benefit. There are no other benefits available and the retiree does not accrue any additional service credit for the period of reemployment. Prior to age 65 and after termination of employment, a reemployed retiree may request a refund of the employee contributions for the reemployed period.

Disability benefits are available if the member:

- Has at least five (5) years of total service credit
- Files an application no later than two (2) years from the date that contributing service stopped
- Is permanently disabled, either physically or mentally, for work in the SERS-covered position, as determined by a physician appointed by SERS
- Became disabled after becoming a SERS member
- Did not receive a refund of the member's contributions
- Does not receive a service retirement benefit

If a member dies while working, before the member begins receiving a monthly service retirement benefit, or while receiving a disability benefit, the member's qualified survivors may be entitled to monthly benefits.

More information on these benefits may be found in the *Plan Summary.*

Health Care SERS offers medical and prescription health care coverage to qualifying benefit recipients. This coverage is discretionary under state retirement law. The Retirement System is permitted, and reserves the right, to change or discontinue any health care plan or program at any time. The program is funded by employer contributions, benefit recipient premium payments, Medicare Part D subsidy, and investment earnings.

3. Contributions

State retirement law requires contributions by covered employees and their employers, and limits the maximum rate of contributions. The Retirement Board sets contribution rates within the allowable limits. The adequacy of employer contribution rates is determined annually by actuarial valuation using the entry age normal cost method. During FY2012, employees and their employers were required to contribute 10% and 14%, respectively, of active member payroll.

Employer and employee contributions were $410.8 million and $293.1 million, respectively, in 2012. The contribution amounts in the financial statements also include employee contributions for purchased service credit.

The Retirement Board, acting with the advice of the actuary, allocates the current employer contribution rate among the plans of the System. For FY2012, the allocation of the employer contribution rate to pension plan benefits was established as the rate necessary to cover normal cost and amortize the unfunded accrued liability. Of the 14% contribution rate paid by employers, 13.45% was allocated to the pension funds in the following rates:

Pension Trust Fund	12.65%
Medicare B Fund	.75%
Death Benefit Fund	.05%

The portion of the employer contribution not required to actuarially fund the pension plans (Pension Trust Fund, Medicare B Fund, and Death Benefit Fund) is available for the Health Care Fund. During FY2012, the amount of employer contributions directed to the Health Care Fund was .55% of covered payroll, or $13.7 million. An additional health care surcharge on employers is collected for employees earning less than an actuarially determined minimum compensation amount, pro-rated according to service credit earned during the year. Statutes provide that no employer shall pay a health care surcharge greater than 2.0% of that employer's SERS-covered payroll; nor may SERS collect in aggregate more than 1.5% of total statewide SERS-covered payroll for the health care surcharge. For FY2012, the minimum compensation level was established at $35,800. The surcharge accrued for FY2012 and included in employer contributions in the *Statement of Changes in Plan Net Assets* is $42.8 million.

4. Cash Deposits and Investments

Custodial Credit Risk, Deposits Custodial credit risk for deposits is the risk that in the event of a bank failure, SERS' deposits may not be returned. In accordance with state law, the Board of Deposits designates SERS' depository bank, and the Treasurer of State serves as custodian and contracts depository services for all SERS' deposits. Therefore, SERS does not have a policy for custodial credit risk.

At June 30, 2012, the carrying amounts of SERS' operating and investment cash deposits totaled $46,913,518, and the corresponding bank balances totaled $25,008,794. Of the bank balances, the Federal Deposit Insurance Corporation insured $307,063. In accordance with state law, bank balances of $959,608 were collateralized at 102% with securities held in the name of SERS' pledging financial institutions. The remaining bank deposits of $23,742,123 were uninsured and uncollateralized.

Custodial Credit Risk, Investments Custodial credit risk for investments is the risk that in the event of a failure of the counterparty, SERS will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. State law provides that the Treasurer of State is SERS' custodian. Therefore, SERS does not have a policy for investment custodial credit risk.

Credit Risk Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. ORC 3309.15 and the Board's "Statement of Investment Policy" (adopted January 2012) direct that the funds of SERS will be invested following the prudent person standard. This fiduciary standard dictates that the Board consider the probable safety of investments, avoid speculative investments, and invest as persons of prudence, discretion, and intelligence would manage their

INVESTMENTS AND SHORT-TERM HOLDINGS

	Fair Value (in thousands)
Commingled - Bonds	$ 56,784
Commingled - Non-US Equity	731,055
Currency Contract	(7,716)
Foreign Warrants, Rights & Vouchers	2,620
Futures	4,040
Hedge Funds	1,470,233
Mortgage and Asset Backed	95,659
Mutual Fund - Money Market	367,209
Non-US Bonds	138,400
Non-US Common and Preferred	1,629,855
Options	69
Private Equity	971,842
Private Real Estate	951,961
Real Estate Investment Trusts	112,728
Swaps	(858)
US Agency	547,877
US Common & Preferred	1,897,828
US Corporate Bonds	796,940
US Government	232,654
Securities on Loan:	
Non-US Common and Preferred	87,707
Real Estate Investment Trusts	566
US Common & Preferred	410,215
US Corporate Bonds	3,492
Total Investments Fair Value	**$ 10,501,160**
Securities Lending Collateral Pool	**$ 509,229**

FAIR VALUE SUBJECT TO CREDIT RISK

	S&P Credit Quality Rating	***Fair Value (in thousands)***
US Corporate Obligations	AAA	$ 16,064
	AA	59,247
	A	194,008
	BBB	319,115
	BB	99,541
	B	68,486
	CCC	28,287
	CC	4,973
	C	-
	Not rated	10,711
Total		$ 800,432
Mortgage and Asset Backed	AAA	43,096
	AA	10,774
	A	18,490
	BBB	10,585
	BB	4,617
	B	1,869
	CCC	2,356
	CC	788
	C	248
	Not rated	2,836
Total		$ 95,659
Foreign Obligations	AAA	54,942
	AA	15,244
	A	10,464
	BBB	41,476
	BB	11,074
	B	1,384
	CCC	392
	Not rated	3,424
Total		$ 138,400
Commingled - Bonds	AA	6,410
	A	32,506
	BB	17,868
Total		$ 56,784
US Agency	AA	542,803
	A	5,074
Total		$ 547,877
US Government	AA	$ 232,654
Mutual Fund - Money Market	AAA	$ 364,511
Total Debt Securities		**$ 2,236,317**

FAIR VALUE SUBJECT TO INTEREST RATE RISK		
Investment	***Fair Value*** *(in thousands)*	**Option Adjusted Duration** *(in years)*
US Agency	$ 547,877	2.73
US Corporate Obligations	800,432	5.61
Commingled - Bonds	56,784	3.39
US Government	232,654	5.71
Foreign Obligations	138,400	4.85
Mortgage and Asset Backed	95,659	2.23
Mutual Fund - Money Market	364,511	N/A*
Total Debt Securities	**$ 2,236,317**	**3.75**

*Not available from our custodial banks, but impact would be immaterial.

FAIR VALUE SUBJECT TO FOREIGN CURRENCY RISK *(in thousands)*					
Currency	**Cash & Cash Equivalents**	**Fixed Income**	**Non-US Equities**	**Real Estate**	**Private Equity**
Australian Dollar	($55,616)	$ 12,413	$ 81,841	$ –	$ –
Brazilian Real	(54)	15,953	68,210	–	–
British Pound Sterling	(107,852)	470	193,175	8,897	–
Bulgarian Lev	3	–	268	–	–
Canadian Dollar	(46,609)	44,752	51,870	–	–
Chilean Peso	18	761	109	–	–
Chinese Yuan	24	–	–	–	–
Colombian Peso	50	1,492	–	–	–
Czech Koruna	73	–	418	–	–
Danish Krone	(10,424)	–	22,566	–	–
Egyptian Pound	1	–	263	–	–
Euro	(180,961)	10,107	325,382	54,417	83,552
Hong Kong Dollar	(13,698)	–	100,814	–	–
Hungarian Forint	24	–	2,261	–	–
Indian Rupee	108	–	18,995	–	–
Indonesian Rupiah	788	–	17,422	–	–
Israeli Shekel	(2,878)	–	2,374	–	–
Japanese Yen	(128,659)	–	256,944	–	–
Malaysian Ringgit	67	–	13,757	–	–
Mexican Peso	(2,923)	20,461	18,158	–	–
New Zealand Dollar	(1,480)	6,180	3,480	–	–
Norwegian Krone	(3,157)	592	6,760	–	–
Philippines Peso	208	7,072	4,097	–	–
Polish Zloty	675	–	6,962	–	–
Singapore Dollar	(5,249)	–	23,713	–	–
South African Rand	(359)	1,258	44,850	–	–
South Korean Won	746	–	70,023	–	–
Swedish Krona	(13,395)	–	19,917	–	–
Swiss Franc	(42,787)	–	84,781	–	–
Taiwan Dollar	59	–	14,966	–	–
Thailand Baht	42	–	22,509	–	–
Turkish Lira	(369)	–	11,397	–	–
	($613,584)	**$121,511**	**$1,488,282**	**$63,314**	**$83,552**

own affairs. The Board accomplishes this through a combination of internal and external investment professionals.

Concentration of Credit Risk Concentration of credit risk is the risk of loss attributed to the magnitude of a plan's investment in a single issuer. SERS does not hold investments representing 5% or more of plan net assets in any one organization.

Interest Rate Risk Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. SERS does not have a policy for managing interest rate risk.

At June 30, 2012, SERS held interest-only strips that had a total fair value of $8,826,672. These securities are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. SERS also held principal-only strips that had a total fair value of $32,226,791. These principal-only strips are sensitive to interest rate increases that may result in decreasing mortgage prepayments, thus increasing the average maturity of this investment.

Foreign Currency Risk
Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. SERS' exposure to foreign currency risk derives from its positions in foreign currency and foreign currency-denominated investments. SERS' strategy is to hedge 50% of the fair value of its equities in non-US developed countries.

FUTURES CONTRACTS
As of June 30, 2012 and 2011 *(in thousands)*

Contract Type	Number of Contracts 2012	Number of Contracts 2011	Notional Value 2012	Notional Value 2011	Contract Value 2012	Contract Value 2011
Equity Index Futures Long	1,484	902	$ 100,922	$ 82,896	$ 3,834	$ 2,674
Equity Index Futures Short	–	–	–	–	–	–
Fixed Income Index Futures Long	–	33	–	4,240	–	(25)
Eurodollar Futures Long	288	5	71,277	1,230	246	(3)
Eurodollar Futures Short	(220)	(1,271)	(54,193)	(315,101)	(279)	(193)
US Treasury Futures Long	801	949	109,130	156,319	270	(555)
US Treasury Futures Short	(818)	(667)	(112,082)	(83,775)	(31)	(175)

FAIR VALUE OF FORWARD CURRENCY AND HEDGED CONTRACTS
As of June 30, 2012 and 2011 *(in thousands)*

	2012	2011
Forward Currency Purchases	$ 517,769	$ 424,464
Forward Currency Sales	1,110,807	1,097,216
Unrealized gain (loss)	(7,716)	(7,282)

OPTIONS CONTRACTS
As of June 30, 2012 and 2011 (in thousands)

Contract Type	Notional Value 2012	Notional Value 2011	Fair Value 2012	Fair Value 2011
Currency Written Put Options	$ (571)	–	$ (29)	–
Currency Purchased Put Options	571	–	69	–
Fixed Income Written Put Option	4,697	–	29	–

SWAP CONTRACTS
As of June 30, 2012 and 2011 *(in thousands)*

Contract Type	Notional Value 2012	Notional Value 2011	Fair Value 2012	Fair Value 2011
Credit Default	$ 40,444	$ 24,976	$ (211)	$ (113)
Interest Rate	85,500	4,382,594	(647)	661
Total Return	–	5,963	–	12

Derivatives Derivatives are investment instruments whose cash flows or fair values are derived from the value of some other asset or index. SERS uses a variety of derivatives primarily to maximize yields and offset volatility due to interest rate and currency fluctuations. SERS is exposed to various types of credit, market, and legal risks related to these investments. The investment staff continually monitors these types of investments.

Foreign exchange 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 these contracts to hedge the foreign currency movements of assets held in the underlying funds. The contracts do not subject SERS to risk due to exchange rate movements since gains and losses on the contracts offset gains and losses on the transactions being hedged. SERS could be at risk for replacing these contracts at current market rates, should the counterparty default. SERS seeks to control this risk through contracting only with counterparties who meet credit guidelines.

A futures contract is a contract to buy or sell units of an index or financial instrument on a specified future date at a price agreed upon when the contract is originated. SERS uses equity and fixed income futures during the fiscal year to rebalance its asset allocation and overlay its cash exposure in the US and Non-US equity portfolios. Only the most liquid futures are used by SERS to overlay the temporary and transactional cash held, and to rebalance asset allocations between asset classes.

Options give buyers the right, but not the obligation, to buy or sell an asset at a predetermined strike price over a specified period. The option premium is usually a small percentage of the underlying asset's value. When writing an option, SERS receives a premium up front and bears the risk of an unfavorable change in the price of the underlying asset during the option's life. When SERS purchases an option, it pays a premium to a counterparty who bears the risk of an unfavorable change in the price of the underlying asset during the option's life.

Swaps represent an agreement between two or more parties to exchange a sequence of cash flows during a predetermined timeframe. SERS utilizes swaps to manage interest rate fluctuations, default by a borrower, and to gain market exposure without having to actually own the asset.

Securities Lending SERS participates in a securities lending program that directly holds equity and fixed income investments using Goldman Sachs Agency Lending (GSAL) as a third-party lending agent. Securities are loaned to independent broker/dealers in exchange for cash collateral equal to approximately 102% of the market value of domestic securities on loan and 105% of the market value of international securities on loan, with a simultaneous agreement to return the collateral for the same securities in the future. At the same time, SERS records a liability for the collateral held in the securities lending program. Total net proceeds from GSAL were $2,450,945 during FY2012.

At June 30, 2012, SERS had no credit risk exposure on the securities lending collateral because the collateral exceeded the value of the securities loaned. Securities on loan at year-end totaled $505,882,339 and total collateral held for those securities was $509,228,849. Under the terms of the lending agreement, SERS is fully indemnified against losses that might occur in the program due to the failure of a broker to return a security that was borrowed where the collateral is inadequate to replace the security. SERS is also indemnified should the borrower fail to pay distributions of earnings on the securities lent.

Securities on loan can be recalled on demand by SERS or returned by the borrower at any time. There is no matching of the securities lent with the invested cash collateral. The lending agent mitigates risk by focusing on intrinsic value lending, and BNY Mellon reinvests the cash collateral in accordance with contractual investment guidelines that are designed to ensure the safety of principal and obtain a moderate rate of return. Earnings generated from the collateral investments, less the amount of rebates paid to the dealers result in the gross earnings from lending activities, which is then split on an 85%/15% basis with GSAL. SERS is at risk to contribute additional funds should the earnings from the invested SERS collateral not be sufficient to pay the negotiated dealer rebate. At June 30, 2012, the GSAL collateral portfolio had an average weighted maturity of 27 days. SERS receives pro-rated income from participation in the securities lending program of a commingled investment. SERS has no direct responsibility for this program and the collateral held by this securities lending program is not held in SERS' name. Total net direct proceeds from the commingled investment during FY2012 were $122,352.

Commitments As of June 30, 2012, unfunded commitments related to the real estate and private equity investment portfolios totaled $895 million.

5. Capital Assets (Non-Investment Assets)

CAPITAL ASSETS ACTIVITY for the year ended June 30, 2012					
Cost:	**Land**	**Office Building & Improvements**	**Furniture & Equipment**	**Computer System Under Development**	**Total Capital Assets**
Balances, June 30, 2011	$3,315,670	$53,042,629	$6,958,804	$ –	$63,317,103
Additions	–	–	219,683	5,551,719	5,771,402
Disposals	–	(20,519)	(967,259)	–	(987,778)
Balances, June 30, 2012	3,315,670	53,022,110	6,211,228	5,551,719	68,100,727
Accumulated Depreciation :					
Balances, June 30, 2011	–	12,538,175	6,573,521	–	19,111,696
Additions	–	1,339,014	200,473	–	1,539,487
Disposals	–	(20,519)	(967,259)	–	(987,778)
Balances, June 30, 2012	–	13,856,670	5,806,735	–	19,663,405
Net Capital Assets, June 30, 2012	**$3,315,670**	**$39,165,440**	**$ 404,493**	**$ 5,551,719**	**$48,437,322**

6. Pension Plan

For its employees, SERS contributes to Ohio Public Employees Retirement System (OPERS), a cost-sharing, multiple-employer public retirement system comprised of three separate plans: the Traditional Plan (defined benefit plan); the Combined Plan (combination of defined benefit and defined contribution plans); and, the Member Directed Plan (defined contribution plan). OPERS was created by and is governed by Chapter 145 of the Ohio Revised Code. It provides retirement, disability, and survivor benefits for public employees of Ohio. OPERS issues a publicly available financial report for the plans. The report may be obtained by writing OPERS, 277 E. Town St., Columbus, OH 43215 or by visiting OPERS website: www.OPERS.org/investments/cafr.shtml.

Employees covered by OPERS were required to contribute 10% of their salary to the plan and employers were required to contribute 14%. Both rates are at the statutory maximum.

OPERS also provides access to postemployment health care coverage on a subsidized basis to service retirees with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees who are enrolled in either the Traditional or Combined Plans. Health care coverage for disability recipients is also available. The health care coverage provided by the Retirement System is considered an other post-employment benefit (OPEB) as described in GASB Statement 45.

A portion of each employer's contribution to OPERS is set aside for the funding of postemployment health care. The portion of the employer rate set aside for postemployment health care was 4% of covered member payroll for FY2012.

The annual required pension and health care contributions for SERS' employees for the current year, and the two preceding years are shown in the chart to the right.

ANNUAL REQUIRED PENSION AND HEALTH CARE CONTRIBUTIONS TO OPERS FOR SERS EMPLOYEES

	Pension		Health Care	
Year Ended June 30	Annual Required Contribution	Percent Contributed	Annual Required Contribution	Percent Contributed
2012	$1,155,384	100%	$462,155	100%
2011	1,039,424	100	492,358	100
2010	946,525	100	569,555	100

7. Compensated Absences

As of June 30, 2012 and 2011, $1,784,101, and $1,650,272, respectively, were accrued for unused vacation and sick leave for SERS employees. The corresponding long-term portion of these liabilities is estimated at $818,296 and $828,549. The net increase of $133,829 from June 30, 2011 included increases of $1,034,514 from earned vacation and sick leave and decreases of $900,685 from usage of vacation and sick leave. 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 or become disabled after five years of service are entitled to receive payment for a percentage of unused sick leave. If an employee dies after five years of service, the beneficiaries are entitled to receive a percentage of the unused sick leave payment.

8. Self-insured Health Care for Employees of SERS

SERS is self-insured for employee benefits for dental, medical, and hospitalization. A third-party administrator manages the program. SERS holds a stop-loss policy of $200,000 per employee per year.

9. Federal Income Tax Status

The SERS Pension Trust Fund is a qualified plan under Internal Revenue Code (IRC) Section 401(a) and is therefore exempt from federal income taxes. The Medicare B Fund is established pursuant to IRC Section 401(h). The Death Benefit Fund is an insurance fund and is in compliance with IRC Section 101(a). The QEBA Fund is a qualified entity, created in accordance with IRC Section 415(b). The Health Care Fund is structured to meet the requirements of IRC Section 105(e).

10. Risk Management

SERS is exposed to various risks of loss, including theft or destruction of assets, general liability, employee injuries, and legal challenges to fiduciary decisions. SERS self-insures some risks through deductibles and retention, and purchases insurance for the remainder. For the past three years, there has been no reduction in coverage, and no claims have exceeded purchased limits.

11. Contingent Liabilities

On February 1, 2006, a Petition for Damages *(Timothy Ivan Usry, et al. v. Baha Towers Limited Partnership, et al.)* was filed against multiple defendants, including the SERS Retirement Board, in the Civil District Court for the Parish of Orleans, State of Louisiana. For a period of time during his employment with MCI, from 1991-2004, the plaintiff allegedly worked on the premises of Plaza Tower in New Orleans. SERS owned Plaza Tower from 1987 through September 1993. The plaintiff claimed that during his employment in Plaza Tower he was exposed to high levels of toxic substances, including asbestos and mold, and that as a result of this exposure, he contracted mesothelioma. SERS filed its answer on May 26, 2006; discovery began in November 2006 and is ongoing.

On June 3, 2011, SERS was named as a defendant in an action *(Deutsche Bank Trust Company Americas, et al. v. Huntington National Bank, et al.)* brought by Deutsche Bank in the United States District Court, Southern District of Ohio, Western Division. Deutsche Bank claims that SERS and other shareholders benefited from the 2007 leveraged buyout of the Tribune Company while creditors such as Deutsche were harmed and that the leveraged buyout helped cause the Tribune's bankruptcy in 2008. Deutsche has asked for SERS and other shareholders to divulge money received from the leveraged buyout. A Motion to Dismiss was filed by SERS on August 11, 2011. Deutsche filed an Amended Complaint on August 22, 2011. A Motion to Dismiss the Amended Complaint was filed by SERS on September 8, 2011. By court order, the litigation remains stayed while proceedings continue in the bankruptcy court. The case was consolidated in the United States District Court, Southern District of New York. On November 6, 2012 the defendants filed a Motion to Dismiss the individual creditor actions.

SERS is also a defendant in various other cases relating to claims concerning individual benefits and accounts. While the final outcome of these lawsuits cannot be determined at this time, management is of the opinion that the liability, if any, for these legal actions will not have a material adverse effect on SERS' financial position.

12. Funded Status and Funding Progress

The funded status of the Pension Trust, Medicare B, Death Benefit, and Health Care Funds as of June 30, 2012, the most recent actuarial valuation date, is as follows:

FUNDED STATUS OF THE PENSION, MEDICARE B, DEATH BENEFIT, AND HEALTH CARE FUNDS *(in millions)*

Fund	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
Pension	$16,338	$10,266	$6,072	62.8%	$2,788	217.8%
Medicare B	383	113	270	29.5	2,788	9.7
Death Benefit	34	18	16	52.9	2,788	0.6
Health Care	2,691	355	2,336	13.2	2,788	83.8

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include trends and assumptions about future employment, mortality, and health care costs. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future. The *Schedules of Funding Progress* present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. These schedules are presented in the *Required Supplementary Information* section.

The *Schedules of Employer Contributions* on page 35 present trend information about the amounts contributed to the plan by employers in comparison to the Annual Required Contributions (ARC). The ARC is actuarially determined using the parameters of GASB Statement 43 and the assumptions adopted by the Retirement Board. The ARC represents a projected rate (cost) required on an ongoing basis to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Several of the key methods and assumptions used in the latest actuarial valuation are presented in the following table.

KEY METHODS AND ASSUMPTIONS USED IN ACTUARIAL VALUATIONS				
Actuarial Information	**Pension Benefit**	**Death Benefit**	**Medicare B**	**Health Care**
Valuation date	June 30, 2012	June 30, 2012	June 30, 2012	June 30, 2012
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percent closed	Level percent closed	Level percent closed	Level percent open
Remaining amortization period	30 years	30 years	30 years	30 years
Assets valuation method	4-year smoothed market	4-year smoothed market	4-year smoothed market	Market value of assets
Actuarial Assumptions:				
Investment rate of return (includes price inflation at 3.25%)	7.75%	7.75%	7.75%	5.25%
Projected salary increases (includes wage inflation at 4.0%)	4.0%-22.0%	4.0%-22.0%	4.0%-22.0%	4.0%-22.0%
Health Care cost trend rate				
Pre-Medicare	N/A	N/A	N/A	9.0% initial to 5.0% by 2018
Medicare	N/A	N/A	N/A	7.0% initial to 5.0% by 2018

As disclosed previously, health care benefits are not guaranteed and are subject to change at any time. The health care valuation and projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members), and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of the benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

13. Recently Issued Accounting Pronouncements

GASB Statement No. 67, *Financial Reporting for Pension Plans*, is effective for fiscal years beginning after June 15, 2013 and establishes standards for measuring and recognizing liabilities, deferred outflows and inflows of resources, and expenses/expenditures. For defined benefit pensions, Statement No. 67 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements (RSI) about pensions are also addressed in Statement No. 67.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions,* is effective for fiscal years beginning after June 15, 2014. Currently, the pension liability on a government entity's balance sheet is determined based on the difference between the contributions they are required to make to a pension plan in a given year versus what they actually funded. Statement No. 68 reflects the view that pension costs and obligations should be recorded as employees earn them, rather than when the government contributes to a pension plan or when retirees receive benefits. Under Statement No. 68 the pension liability is determined considering various factors including cost-of-living increases, future salary increases, and future service credits. The impact on the net pension liability of differences between expected and actual investment returns will be recognized in pension expense over a closed, five-year period. Statement No. 68 also requires more extensive note disclosures and required supplementary information.

14. Subsequent Events

Legislation Impacting Future Years SERS' pension reform bill passed the House and Senate of the Ohio legislature on September 12, 2012, with most of the provisions becoming effective January 7, 2013. Governor John Kasich signed the bill on September 26, 2012. The bill will improve SERS' funded status by increasing the current age and service credit requirements for retirement eligibility for members retiring on or after August 1, 2017.

To retire with full benefits, the requirements are changing from age 65 with 5 years of service credit or any age with 30 years to age 67 with 10 years or age 57 with 30 years. To retire early with reduced benefits, the requirements are changing from age 60 with 5 years of service credit or age 55 with 25 years to age 62 with 10 years or age 60 with 25 years. These changes will not affect members who have 25 years of service credit before August 1, 2017.

Members who will have fewer than 25 years of service credit as of August 1, 2017, can retire under current retirement eligibility requirements if they pay the actuarial difference between the benefit they would have received under the new requirements and the benefit they may receive under the current requirements. Members who wish to buy-up must complete their one-time payment on or before August 1, 2017.

The impact of this legislation on SERS' funded status has not been determined at the present time.

Custody Transition On March 19, 2012 Ohio Treasurer Joshua Mandel announced that SERS will change global custodians from BNY Mellon to Citi. The tentative date of the transition is January 2013.

Required Supplementary Information

Schedule of Funding Progress *(in millions)*
Pension Benefits

Valuation Date June 30	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
2012	$16,338	$10,266	$6,072	62.8%	$2,788	217.8%
2011	15,910	10,378	5,532	65.2	2,852	194.0
2010	14,823	10,766	4,057	72.6	2,843	142.7
2009	14,190	9,704	4,486	68.4	2,787	161.0
2008	13,674	11,218	2,456	82.0	2,873	85.5
2007#	13,004	10,513	2,562^	80.8	2,603	98.4

^ After change in calculation methods of health care assets, resulting in a $70 million future liability due to the Pension Trust Fund by the Health Care Fund.
# Includes Post-retirement Death Benefits

Schedule of Funding Progress *(in millions)*
Medicare B

Valuation Date June 30	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
2012	$383	$113	$270	29.5%	$2,788	9.7%
2011	382	116	266	30.3	2,852	9.3
2010	367	122	244	33.3	2,843	8.6
2009	361	113	248	31.3	2,787	8.9
2008	358	131	227	36.7	2,873	7.9
2007	299	127	172^	42.5	2,603	6.6

^ After change in calculation methods of health care assets, resulting in a $70 million future liability due to the Pension Trust Fund by the Health Care Fund.

Schedule of Funding Progress *(in millions)*
Post-retirement Death Benefits

Valuation Date June 30	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
2012	$34	$18	$16	52.9%	$2,788	0.6%
2011	33	19	14	57.6	2,852	0.5
2010	32	21	11	65.6	2,843	0.4
2009	31	19	12	61.3	2,787	0.4
2008	30	23	7	76.7	2,873	0.2

Schedule of Funding Progress *(in millions)*
Health Care

Valuation Date	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
06/30/2012	$2,691	$355	$2,336	13.2%	$2,788	83.8%
06/30/2011	2,410	356	2,054	14.8	2,852	72.0
06/30/2010	2,369	325	2,044	13.7	2,843	71.9
06/30/2009	4,280	376	3,904	8.8	2,787	140.1
06/30/2008(1)	4,859	393	4,466	8.1	2,652	168.4
01/01/2008	4,513	391	4,122^	8.7	2,648	155.6

(1) Valuation date changed from January 1 to June 30.
^ After change in calculation methods of health care assets, resulting in a $70 million future liability due to the Pension Trust Fund by the Health Care Fund.

See notes to required supplementary information on page 36.

Schedule of Employer Contributions
Pension Benefits

Year ended June 30	Actuarial Annual Required Contributions	% Contributed
2012	$376,816,938	100%
2011	355,959,304	100
2010	378,201,685	100
2009	268,645,839	100
2008	242,314,851	100
2007[2]	260,779,627	90[1]

Schedule of Employer Contributions
Medicare B

Year ended June 30	Actuarial Annual Required Contributions	% Contributed
2012	$21,450,368	100%
2011	22,172,922	100
2010	22,619,935	100
2009	21,688,294	100
2008	17,519,556	100
2007	17,729,746	104

Schedule of Employer Contributions
Post-retirement Death Benefits

Year ended June 30	Actuarial Annual Required Contributions	% Contributed
2012	$1,454,763	100%
2011	1,166,996	100
2010	1,225,772	100
2009	734,970	100
2008	835,348	100

Schedule of Employer Contributions and Other Contributing Entities
Postemployment Health Care

Year ended June 30	Actuarial Annual Required Contributions	% Contributed by Employers#	Federal Subsidies and Other Receipts	Total % Contributed
2012	$155,857,785	36.2%	$ –	36.2%
2011	169,146,052	51.4	–	51.4
2010	315,535,278	19.1	24,414,855	26.8
2009	373,789,127	43.7	23,504,101	50.0
2008	307,874,094	51.4	21,953,659	58.6
2007	299,379,524	57.1	20,202,965	63.8

(1) The percentage contributed is less than 100% due to contributions made toward the health care adjustment.
(2) Includes Post-retirement Death Benefits
\# The percent contributed by employers indicates the percentage of the ARC that was actually billed to employers (and paid) each year.

Note to Required Supplementary Schedules

Description of Schedule of Funding Progress

Each time a new benefit is added that 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.

The *Schedule of Funding Progress* includes two ratios that provide information about whether the financial strength of the System is improving or deteriorating over time. An improvement is indicated when the funded ratio (assets expressed as a percentage of the actuarial accrued liability) is increasing and the ratio of the unfunded actuarial liability to payroll is decreasing.

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at June 30, 2012.

Additional information as of the latest Pension Trust Fund actuarial valuation follows:

Actuarial cost method:	Entry age normal
Amortization method:	Level percent closed
Remaining amortization period:	30 years
Asset valuation method:	4-year smoothed market, with a limit of actuarial value of assets to a minimum of 80% and a maximum of 120% of the market value of assets
Actuarial assumptions:	Investment rate of return^ of 7.75% Projected salary increases* of 4.00% to 22.00% Cost-of-living adjustments of 3.00%

Additional information as of the latest Medicare B Fund actuarial valuation follows:

Actuarial cost method:	Entry age normal
Amortization method:	Level percent closed
Remaining amortization period:	30 years
Asset valuation method:	4-year smoothed market, with a limit of actuarial value of assets to a minimum of 80% and a maximum of 120% of the market value of assets
Actuarial assumptions:	Investment rate of return^ of 7.75%

Additional information as of the latest Death Benefit Fund actuarial valuation follows:

Actuarial cost method:	Entry age normal
Amortization method:	Level percent closed
Remaining amortization period:	30 years
Asset valuation method:	4-year smoothed market, with a limit of actuarial value of assets to a minimum of 80% and a maximum of 120% of the market value of assets
Actuarial assumptions:	Investment rate of return^ of 7.75% Projected salary increases* of 4.00% to 22.00% Cost-of-living adjustments of 3.00%

Additional information as of the latest Health Care Fund actuarial valuation follows:

Actuarial cost method:	Entry age normal
Amortization method:	Level percent open
Remaining amortization period:	30 years
Asset valuation method:	Market value of assets
Actuarial assumptions:	Investment rate of return^ 5.25% compounded annually Medical Trend Assumption Pre-Medicare - 9% initially, decreasing to 5% by 2018 Medicare - 7% initially, decreasing to 5% by 2018

^ Includes price inflation at 3.25%
* Includes wage inflation at 4.00%

See accompanying independent auditor's report.

Schedule of Administrative Expenses for the year ended June 30, 2012

	General Expenses	Investment Related Expenses	Total
Personnel Services			
Salaries	$ 9,637,645	$ 2,065,791	$ 11,703,436
Retirement Contributions	1,343,964	273,575	1,617,539
Benefits	2,453,444	262,266	2,715,710
Total Personnel Services	13,435,053	2,601,632	16,036,685
Professional Services			
Actuarial Advisors	175,022	-	175,022
Audit Services	174,659	-	174,659
Custodial Banking	-	842,341	842,341
Investment Related	-	2,619,055	2,619,055
Medical	546,430	-	546,430
Technical	899,001	226,297	1,125,298
Total Professional Services	1,795,112	3,687,693	5,482,805
Communications			
Postage	573,000	-	573,000
Telephone	113,201	-	113,201
Member / Employer Education	59,486	-	59,486
Printing and Publication	163,869	-	163,869
Total Communications	909,556	-	909,556
Other Services			
Computer Support Services	638,674	-	638,674
Office Equipment and Supplies	172,152	1,409	173,561
Training	193,842	14,359	208,201
Transportation and Travel	141,661	107,642	249,303
Memberships and Subscriptions	68,992	33,577	102,569
Property and Fiduciary Insurance	390,113	-	390,113
Facilities Expense	744,139	-	744,139
Maintenance	90,000	-	90,000
Administrative Banking Fees	171,553	-	171,553
Ohio Retirement Study Council	32,687	-	32,687
Miscellaneous	35,340	-	35,340
Total Other Services	2,679,153	156,987	2,836,140
Total Administrative Expenses before Depreciation	18,818,874	6,446,312	25,265,186
Depreciation			
Furniture & Equipment	200,473	-	200,473
Building	1,339,014	-	1,339,014
Total Depreciation	1,539,487	-	1,539,487
Total Administrative Expenses	$ 20,358,361	$ 6,446,312	$ 26,804,673
Project Administrative Expenses			
Member File Imaging Project	1,266,832	-	1,266,832
Total Administrative Expenses	$ 21,625,193	$ 6,446,312	$ 28,071,505

See accompanying independent auditor's report.

Schedule of Investment Expenses for the year ended June 30, 2012

Description of Expense	Net Assets Under Management	Direct Fees
US Equity	$ 2,546,151,362	$ 8,963,513
Non-US Equity	2,301,124,437	12,265,822
Global Private Equity	971,842,350	15,359,572
Global Fixed Income	1,903,528,824	4,210,172
Global Hedge Funds	1,474,105,361	23,031,710
Global Real Estate	1,072,790,892	13,888,306
Short-Term	102,138,893	–
Total Investment Management Fees		77,719,095
Custody Service Fees		842,341
Master Recordkeeper Fees		977,074
Investment Consulting and Performance/Analytics Fees		1,470,769
Investment Administrative Expenses		3,156,128
Total Other Investment Expenses (see page 37)		6,446,312
Total Investment Expenses		$ 84,165,407

Schedule of Payments to Consultants

SERS paid the following non-investment related consulting fees in fiscal year 2012:

Actuarial Advisors	$ 175,022
Audit Services	174,659
Legal Counsel	116,826
Medical Consultant	49,618
Disability Exams	513,250
Information Technology Consultants	274,751
Health Care Consultants	152,153
Other Consultants	1,566,756
Total	$3,023,035

See accompanying independent auditor's report.

Art by Kyleigh B., Mapleton Middle School

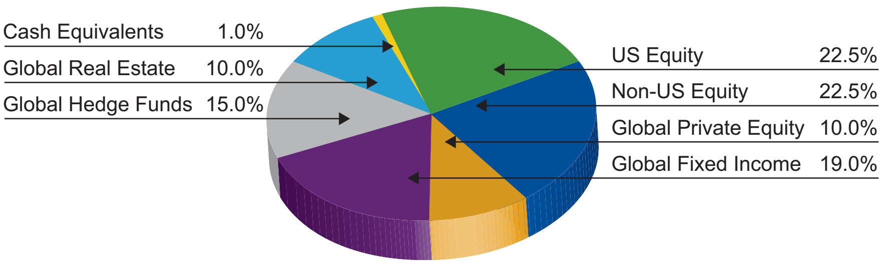
INVESTMENT SECTION

Investment Summary as of June 30, 2012

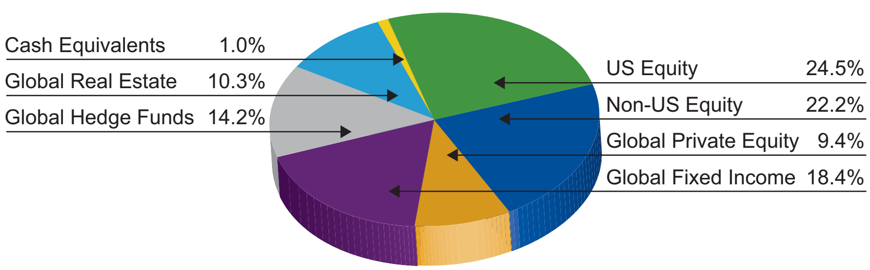
	Fair Value	Actual	Target	Range
US Equity	$ 2,546,151,362	24.5%	22.5%	17.5% - 27.5%
Non-US Equity	2,301,124,437	22.2	22.5	17.5 - 27.5
Global Private Equity	971,842,350	9.4	10.0	5 - 15
Global Fixed Income	1,903,528,824	18.4	19.0	14 - 24
Global Hedge Funds	1,474,105,361	14.2	15.0	10 - 20
Global Real Estate	1,072,790,892	10.3	10.0	5 - 15
Cash Equivalents	102,138,893	1.0	1.0	0 - 5
Net Portfolio Value	**$ 10,371,682,119**	**100.0%**	**100.0%**	

Asset Allocation – Total Fund as of June 30, 2012

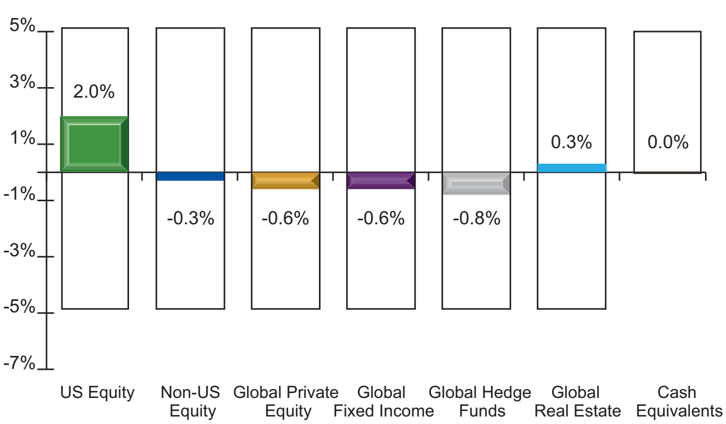
POLICY ALLOCATION



ASSET ALLOCATION



Asset Allocation vs. Policy



Note: Boxes represent permissible ranges around policy target weights.

SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO
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LISA J. MORRIS
Executive Director

HELEN M. NINOS
Deputy Executive Director

December 14, 2012

Retirement Board, Members, Retirees, and Beneficiaries of the Retirement System:

On behalf of the SERS Investment Department, I respectfully submit the Investment Section of the Comprehensive Annual Financial Report for the year ended June 30, 2012. Information in this section was compiled by SERS' Investment and Finance Staff, and BNY Mellon Performance and Risk Analytics. Investment results are based upon a time-weighted rate of return methodology and assets are shown at fair value.

Following the outstanding investment returns of FY2011 which were the Fund's highest since 1986, the returns for FY2012 were met with great disappointment. Although the Total Fund investment return was positive, it failed to beat its benchmark and generated only modest gains. The end of the fiscal year marked a transition in leadership as Bob Cowman, the Director of Investments, retired from SERS after 28 years of service. The new Investment Director, Farouki Majeed, begins his tenure at the start of FY2013 and will seek to transition to an investment model that further manages risk and positions the Fund to take advantage of long-term performance enhancing strategies.

During the fiscal year, the following actions were approved by the Board and Investment Committee:

- Global Equity Managers – hiring a US equity manager.
- Global Real Estate Funds – investing in one fund managed by a current real estate manager.
- Global Private Equity Funds – investing in four new private equity funds managed by existing managers.
- Global Hedge Funds – seven new hedge funds were funded, 12 existing hedge funds received additional fundings, and six hedge funds were terminated.

Details about each portfolio are included on the following pages.

SERS' investment portfolio is diversified by asset class and by manager style within each asset class. This disciplined investment approach should result in attractive long-term returns. The Investment Staff appreciates the opportunity to work for the Retirement Board and SERS' members and retirees. We take the responsibilities of the job very seriously and do our best to maintain the confidence and trust of the Board and SERS' members and retirees.

Respectfully,

Steven J. Price
Interim Director of Investments

Investment Report

Chapter 3309 of the Ohio Revised Code and the Board-adopted Investment Policy govern investment activity at the School Employees Retirement System of Ohio (SERS). The Board is responsible for managing the assets of the Fund effectively, prudently, and for the exclusive benefit of SERS' members and beneficiaries.

INVESTMENT POLICY

The purpose of SERS' Statement of Investment Policy is to define SERS' investment philosophy and objectives. The policy establishes return objectives and risk tolerances within which the Fund is to be managed. The policy also defines the responsibilities of the fiduciaries that implement the strategies and manage SERS' investment portfolio.

INVESTMENT OBJECTIVES

The primary objective of the investment portfolio is to achieve investment returns exceeding the return of our Policy Benchmark within prudent risk parameters. On June 30, 2012, SERS' asset allocation and its corresponding benchmarks were as follows:

Asset Allocation		Benchmark
• 22.5%	US Equities	Russell 3000 Index
• 22.5%	Non-US Equities	MSCI All Country World Free ex-US Index 50% Hedged
• 10.0%	Global Private Equity	S&P 500 Index + 3% (one quarter in arrears)
• 19.0%	Global Fixed Income	Barclays Capital Aggregate Bond Index
• 10.0%	Global Real Estate	NCREIF Property Index (one quarter in arrears)
• 15.0%	Global Hedge Funds	HFRI Fund of Funds Composite Index
• 1.0%	Short-Term	Citigroup 30-Day US Treasury Bill Index

INVESTMENT STRATEGIES

Asset Allocation SERS' general investment consultant, Summit Strategies, performed an asset liability study in calendar year 2008. Based on the results of this study and Summit's recommendation, SERS' Board adopted new asset allocation targets in early 2009. The asset allocation was adjusted once again during fiscal year 2011 when the allocation guidelines for hedge funds was increased from 10% to 15%. No additional changes to the asset allocation were completed in fiscal year 2012.

Diversification Broad diversification within an investment portfolio is used to control the level of risk and volatility within the portfolio over the long term. SERS has broadly diversified the assets within its portfolios, and the strategies used within each portfolio have also been diversified.

Besides the broad diversification of assets and strategies within SERS' portfolio, SERS also employs a diverse group of investment managers. The purpose of employing multiple managers within SERS' portfolio is to further reduce risk and volatility within the portfolio over the long term.

SERS' hedge fund consultant, Aksia LLC, continued to assist the Board and Staff with the construction and diversification of SERS' hedge fund portfolio and the selection of hedge fund managers. Summit Strategies, SERS' general investment consultant, assists the Board with the development of Investment Policy, asset allocation guidelines, and provides quarterly performance measurement of the Fund and each portfolio.

INVESTMENT PERFORMANCE

Long-Term Performance Performance of SERS' Total Fund was positive again this fiscal year. Trailing three-, five- and ten-year Total Fund returns are also positive. The actuarial rate for the Fund was changed from 8.0% to 7.75% in July 2011. FY2010 and FY2011 Total Fund returns exceeded SERS' actuarial rate. Although performance was positive, the Total Fund return did not exceed the actuarial rate in FY2012.

The *Schedule of Investment Results* on the following page summarizes performance gross-of-fees versus benchmark performance for the Total Fund and each portfolio over selected periods. The schedule also reports the Total Fund performance net-of-fees.

Fiscal Year 2012 As previously mentioned, the Total Fund generated positive absolute performance but failed to beat its benchmark. The return for the Total Fund was 0.9% for the fiscal year versus a 1.6% return for the Total Fund Benchmark.

Schedule of Investment Results for the years ended June 30 (Gross of Fees)

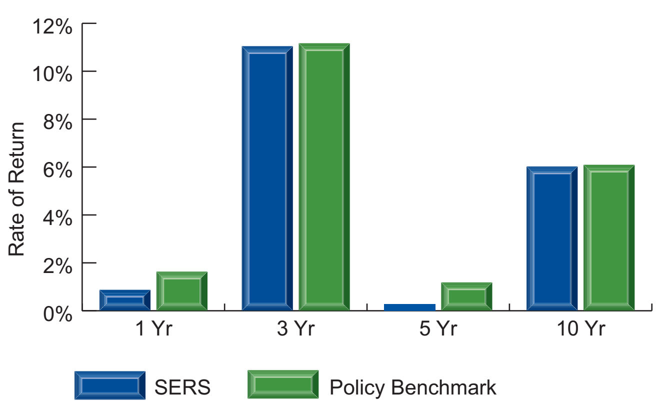
	2012	2011	2010	2009	2008	Annualized Rates of Return 3 Years	5 Years	10 Years
US Equity								
SERS[1]*	1.9%	33.8%	17.2%	(26.8)%	(15.1)%	16.9%	(0.1)%	5.5%
Russell 3000 Index	3.8	32.4	15.7	(26.6)	(12.7)	16.7	0.4	5.8
Non-US Equity								
SERS	(11.6)	25.7	15.4	(29.9)	(9.8)	8.6	(4.1)	7.1
Custom Non-US Equity Benchmark[2]*	(11.9)	24.2	12.1	(27.1)	(10.2)	7.0	(4.3)	6.1
Global Private Equity								
SERS[3]*	16.5	14.7	13.4	(17.2)	19.0	14.8	8.3	8.0
Custom Private Equity Benchmark[4]*	11.5	18.7	52.8	(35.1)	(2.1)	26.5	5.1	7.2
Global Hedge Funds								
SERS	0.8	11.4	14.5	(8.4)	n/a	8.7	n/a	n/a
Custom Hedge Fund Benchmark[5]*	(4.4)	6.7	9.2	(10.1)	(1.3)	3.6	n/a	n/a
Global Fixed Income								
SERS	7.4	8.0	17.0	4.8	3.2	10.7	8.0	6.6
Barclays Aggregate Bond Index	7.5	3.9	9.5	6.1	7.1	6.9	6.8	5.6
Global Real Estate								
SERS[6]*	9.0	25.2	(16.1)	(35.2)	8.3	5.9	(3.7)	5.3
NCREIF[7]*	13.4	16.0	(2.8)	(16.8)	7.8	8.6	2.8	8.7
Short-Term								
SERS	0.2	0.2	0.4	2.8	4.4	0.3	1.6	2.2
Citigroup 30 Day Treasury Bill Index	0.0	0.1	0.1	0.5	3.0	0.1	0.7	1.7
Total Fund *(Gross of Fees)*								
SERS[8]*	0.9	20.9	12.3	(21.8)	(5.3)	11.1	0.3	6.0
Policy Benchmark[9]*	1.6	17.8	14.7	(19.1)	(4.6)	11.2	1.2	6.1
Total Fund *(Net of Fees)*								
SERS[8]*	0.1	19.9	11.5	(22.4)	(5.7)	10.2	(0.4)	5.5
Policy Benchmark[9]*	1.6	17.8	14.7	(19.1)	(4.6)	11.2	1.2	6.1

Source: BNY Mellon Performance and Risk Analytics

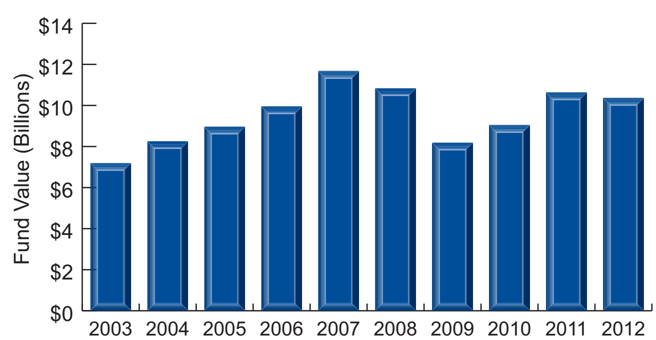
Investment results provided by BNY Mellon Performance and Risk Analytics are based upon a time-weighted rate of return methodology. Market value adjustments made to private equity, real estate and hedge funds as of June 30 will be reflected in the investment returns in the next financial statement.

*See footnotes to table on page 53.

Total Fund Rates of Return vs. Policy Benchmark (Gross of Fees)



Total Fund at Fair Value



US Equity

For the fiscal year ended June 30, 2012, the SERS' US equity portfolio gained 1.9%. The portfolio lagged its benchmark, the Russell 3000 Index, which rose 3.8%, by 1.9%. The relative performance improvement of the previous three years, which resulted from significant portfolio changes, reversed course during fiscal year 2012 as nearly 85% of active managers failed to match the returns of their benchmark for the period. Active managers suffered because macro factors drove returns, correlations between stocks were extremely high, and stock selection was not rewarded. Ten of the twelve active US equity managers in the SERS portfolio underperformed their respective benchmarks for the fiscal year. While US equity portfolio performance continued to outperform its benchmark on an annualized basis for the past three years by 0.2%, the underperformance gap grew for the five-year and ten-year periods. The portfolio trailed its benchmark on an annualized basis for the past five years by 0.5% and for ten years by 0.3%.

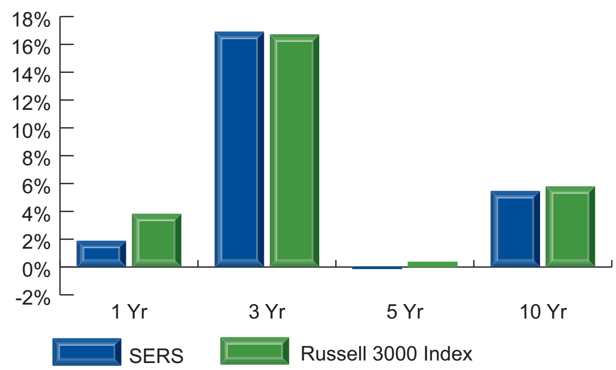
Bigger was consistently better during the fiscal year as the Russell Top 50 (which represents the super mega cap stocks) rose 11.5%, the Russell Top 200 Index (mega cap stocks) rose 7.0%, and the Russell 1000 (large cap stocks) rose 4.4%. The pattern continued as the Russell Midcap Index fell 1.6% and the Russell 2000 (small cap stocks) fell 2.1%. Overall, growth outperformed value as the Russell 3000 Growth Index grew 5.5% compared to the Russell 3000 Value Index, which increased 2.6%. However, results were clearly divided between large cap and smaller cap stocks. Russell mega cap and large cap growth indices outperformed their value counterparts, while Russell mid cap, small cap, and microcap value indices outperformed their growth counterparts.

Despite the relatively subdued return of 3.8% for the Russell 3000 Index for the fiscal year, the market experienced a much more precarious risk-off/risk-on rollercoaster ride. The European sovereign debt crisis and the threat of a synchronized global slowdown provided most of the anxiety throughout the year. Stock market returns were much more dependent on the actions of central bankers, and the ebb and flow of geopolitics than on company fundamentals. The Index plummeted 15% during Q1 as insolvency risks and sovereignty conflicts grew in Europe. The Index ascended 12% during Q2, and climbed an additional 13% during Q3 as the Federal Reserve and the European Central Bank aggressively instituted monetary easing measures to reduce liquidity concerns and attempted to stimulate economic growth. The Russell 3000 Index fell back 3% in Q4 as growth around the globe was again slowing and the central bankers appeared to be running out of ammunition.

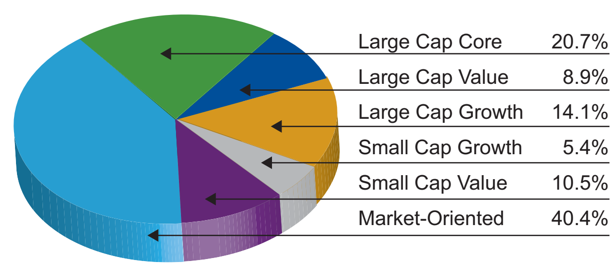
As the fiscal year ended, Europe was mired in recession, the US was showing some signs of a modest recovery, and China appeared to be stabilizing. The US economy was described as the "best house on a bad block." US consumers have been resilient, consumer confidence is improving, households are deleveraging, energy prices have declined, inflation remains under control, the housing market is recovering, and employment is slowly improving.

Upon recommendation from Staff, the Board approved hiring one new US equity manager during the fiscal year. During the year, the target allocation to US equity remained at 22.5%.

US EQUITY RETURNS



US EQUITY ALLOCATIONS



LARGEST INDIVIDUAL US EQUITY HOLDINGS AS OF JUNE 30, 2012

	Description	Shares	Market Price	Fair Value
1	Apple, Inc.	128,273	$ 584.00	$ 74,911,432
2	Exxon Mobil Corp.	409,522	85.57	35,042,798
3	Google, Inc.	58,989	580.07	34,217,749
4	Microsoft Corp.	868,866	30.59	26,578,611
5	Qualcomm, Inc.	465,909	55.68	25,941,813
6	Berkshire Hathaway, Inc.	308,031	83.33	25,668,223
7	Kraft Foods, Inc.	639,481	38.62	24,696,756
8	Wells Fargo & Co.	641,930	33.44	21,466,139
9	Amphenol Corp.	355,961	54.92	19,549,378
10	Mastercard, Inc.	43,162	430.11	18,564,408

All monetary values stated in US dollars.
A complete listing of holdings is available upon request.

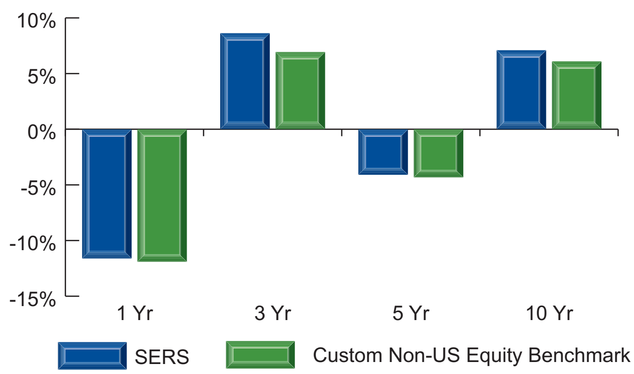
Non-US Equity

For the fiscal year ended June 30, 2012, SERS' Non-US equity portfolio had an investment return of (11.6%) versus the policy benchmark (MSCI All Country World-excluding the US Index with developed countries 50% hedged) of (11.9%), outperforming by 30 basis points. On an annualized basis, SERS' Non-US equity portfolio outperformed over the three-, five-, and ten-year periods by 1.7%, 0.2%, and 1.0%, respectively.

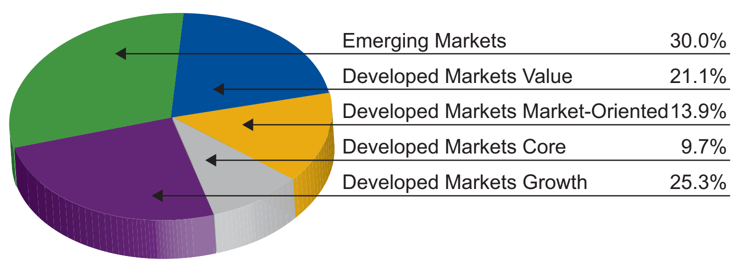
International markets suffered a series of broad declines over the year amid fears of a global recession. In the first six months of the new fiscal year, developed markets were down 16.1% and emerging markets were down 19.0%, ending the calendar year at (11.8%) and (18.2%), respectively. This was the worst performance suffered by International markets since the 2008 financial crises. The first three months of the new year brought renewed hope as investors discovered an appetite for risky assets. Receding inflationary pressures, stimulative monetary policies, and waning fears of a Eurozone collapse enabled investors to move past the pervasive doom and gloom that influenced previous quarters' results enabling global equities to rally 20% over their 2011 lows. Unfortunately, the optimism was short-lived and over the next several months, stocks reverted back in a downward spiral, eroding most of the returns earned from the quarter before. Smaller capitalization stocks fell harder than large capitalization stocks and emerging markets sold off more than developed. Although all broad indices posted negative returns, a late June spike mitigated what could have been an otherwise devastating quarter for international equity markets. As of June 30, 2012, the annual return for developed markets (as measured by MSCI World-Ex U.S. Index) was (13.7%). The Emerging Markets return (as measured by MSCI Emerging Market Index) ended the year at (15.9%).

As of June 30, 2012, the Non-US equity allocation to the Total Fund Portfolio was 22.2% versus the policy target of 22.5%. During the fiscal year, the Investment Committee approved a recommendation to terminate an equity manager. No new Non-US equity investment managers were hired.

NON-US EQUITY RETURNS



NON-US EQUITY ALLOCATIONS



LARGEST INDIVIDUAL NON-US EQUITY HOLDINGS AS OF JUNE 30, 2012

	Description	Country	Shares*	Market Price	Fair Value
1	China Mobile, Ltd.	Hong Kong	2,172,644	$ 10.93	$ 23,737,932
2	Samsung Electronics Co., Ltd.	South Korea	19,265	1,048.59	20,201,054
3	Novo Nordisk, Inc.	Denmark	136,649	144.84	19,792,202
4	Novartis AG	Switzerland	348,744	55.89	19,491,345
5	Sanofi-Aventis U.S. LLC	France	192,791	75.81	14,616,073
6	GlaxoSmithKline PLC	United Kingdom	620,960	22.70	14,092,980
7	Nestle SA	Switzerland	229,956	59.75	13,739,051
8	Vodafone Group PLC	United Kingdom	4,566,463	2.81	12,838,367
9	Tesco PLC	United Kingdom	2,377,842	4.86	11,563,396
10	RWE AG	Germany	270,689	40.83	11,052,688

All monetary values are stated in US dollars.
A complete listing of holdings is available upon request.
**Includes shares owned directly and indirectly via commingled funds.*

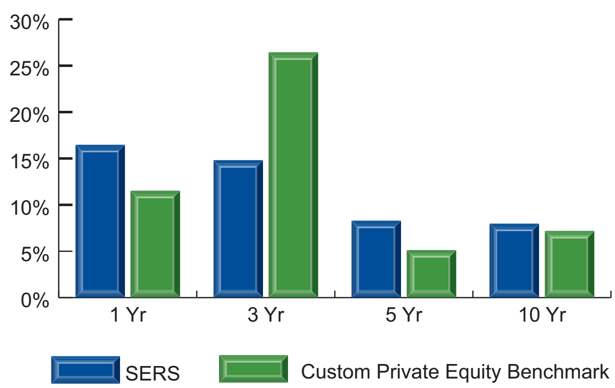
Global Private Equity

Global private equity consists of investments in venture capital, buyout and special situation limited partnerships, and other “non-public” investments in the US and outside the US. Private equity also includes investments in fund-of-funds, which invest in a diversified portfolio of venture capital and buyout limited partnerships, as well as additional public and non-public investments.

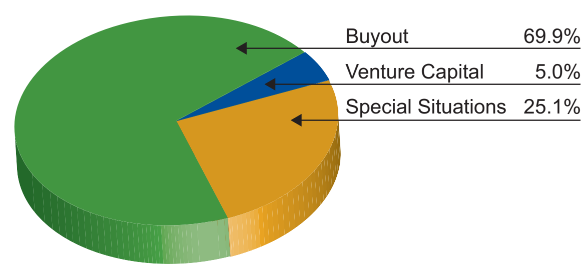
As of June 30, 2012, the market value of SERS’ private equity portfolio was $971.8 million, or 9.4% of the Total Fund. Unfunded commitments to private equity partnerships totaled $845.0 million at fiscal year end. Over the past fiscal year, SERS made commitments to four private equity partnerships totaling $165 million. Of this $165 million, $90 million was approved to two US focused middle market buyout funds, $50 million was approved to a global fund that will be diversified by strategy and asset type, and $25 million was approved to an Ohio-based lower middle market buyout fund.

During the fiscal year, SERS’ private equity portfolio had an investment return of 16.5% versus the custom benchmark return of 11.5%. For the three-, five-, and ten-year periods, the private equity portfolio returned 14.8%, 8.3%, and 8.0% respectively. Private equity returns are reported one quarter in arrears.

GLOBAL PRIVATE EQUITY RETURNS



ALLOCATION BY STRATEGY



LARGEST INDIVIDUAL GLOBAL PRIVATE EQUITY HOLDINGS AS OF JUNE 30, 2012

	Description	Fair Value
1	Warburg Pincus Private Equity X, LP	$ 71,952,657
2	Thomas H. Lee Equity Fund VI, LP	56,477,012
3	Goldman Sachs Distressed Opportunities Fund III, LP	46,697,113
4	Green Equity Investors V, LP	43,036,660
5	The Fourth Cinven Fund, LP	37,920,574
6	Oak Hill Capital Partners III, LP	32,155,804
7	Kohlberg Investors VI, LP	31,049,083
8	Oaktree Principal Fund V, LP	29,873,954
9	Silver Lake Partners III, LP	28,296,495
10	J.P. Morgan European Corporate Finance Institutional Investors III, LP	27,667,616

All monetary values are stated in US dollars.
A complete listing of holdings is available upon request.

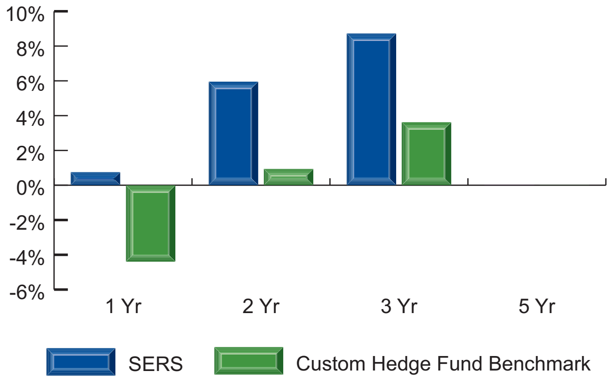
Global Hedge Funds

SERS invests in hedge funds for purposes of diversification, risk reduction, and return enhancement. The global hedge fund portfolio, consisting of 42 funds as of June 30, 2012, is highly diversified across geographical regions, sectors, and strategies, including equity long-short, event-driven, relative value, and tactical trading strategies. Hedge fund assets totaled approximately $1.5 billion on June 30, 2012.

SERS' *Statement of Investment Policy* targets hedge fund investments at 15.0% of total assets. As of June 30, 2012, hedge funds represented 14.2% of total assets. SERS invested $301.5 million in hedge funds and added seven new funds to the portfolio during the fiscal year.

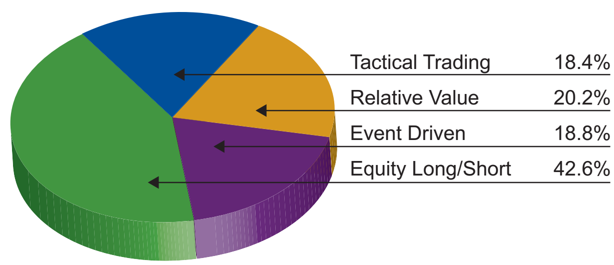
During the fiscal year, SERS' hedge fund portfolio had an investment return of 0.8% versus its benchmark return of (4.4)%. For the three-year period, the hedge fund portfolio produced returns of 8.7% versus 3.6% for the benchmark.

GLOBAL HEDGE FUND RETURNS



Global Hedge Funds were a new investment strategy in fiscal year 2008, thus the five-year return is not available.

ALLOCATION BY STRATEGY



LARGEST INDIVIDUAL GLOBAL HEDGE FUND HOLDINGS
AS OF JUNE 30, 2012

	Description	Fair Value
1	Viking Global Equities III, Ltd.	$ 80,579,937
2	Regiment Capital, Ltd.	68,434,150
3	Caspian Select Credit International, Ltd.	67,987,408
4	King Street Capital, Ltd.	64,123,870
5	Visium Balanced Offshore Fund, Ltd.	61,286,735
6	Bridgewater Pure Alpha Fund I	45,043,561
7	Eminence Fund, Ltd.	44,784,065
8	Taconic Opportunity Offshore Fund, Ltd.	44,252,523
9	BlueCrest Capital International, Ltd.	42,157,743
10	The Tudor BVI Global Fund, Ltd.	41,478,769

All monetary values are stated in US dollars.
A complete listing of holdings is available upon request.

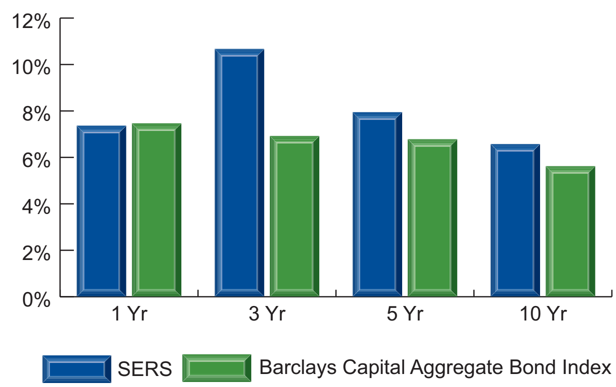
Global Fixed Income

SERS' fixed income portfolio is comprised principally of low-risk, high-quality debt securities. The portfolio is managed by a diverse group of top-tier active bond managers employing proven investment strategies to help SERS meet its goals and objectives.

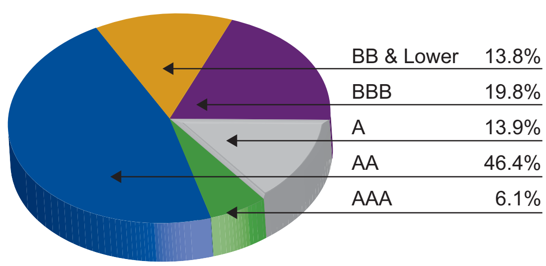
For the fiscal year ended June 30, 2012, SERS' fixed income portfolio underperformed the benchmark - Barclays Capital Aggregate Bond Index - by 10 basis points, returning 7.4% against the index return of 7.5%. Returns were primarily driven by an underweight to US Treasuries and an overweight to both investment-grade and high-yield corporate credit. SERS' investment managers collectively decreased duration from the prior fiscal year to 4.5 years.

The US Treasury market returned 9.0%, agency mortgages gained 5.0%, investment grade corporates yielded 9.7%, emerging market bonds declined 1.5%, and the high-yield market returned 7.3% for the year ended June 30, 2012. The market ran to the safety of US Treasuries during the summer of 2011 and the spring of 2012 fueled by fears of a global economic slowdown and the European debt crisis. Investment grade corporate credit also performed well, given continued good corporate balance sheet governance. The Federal Reserve kept the federal funds rate stable at 0 – 0.25% during the fiscal year to promote growth and US Treasury rates continued to decline with the 30-year moving from 4.4% on June 30, 2011 to 2.75% on June 30, 2012.

GLOBAL FIXED INCOME RETURNS

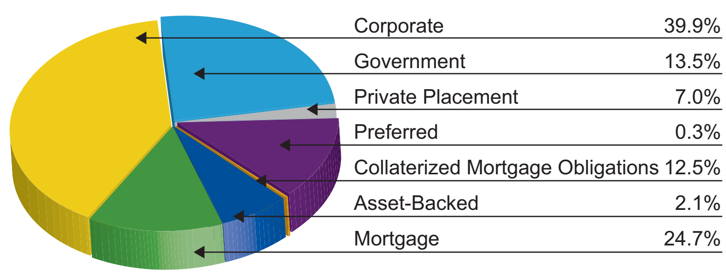


QUALITY DISTRIBUTION



The above quality chart changed from the prior fiscal year due to Standard & Poor's lowering the United States sovereign credit rating to AA+ from AAA in August 2011.

SECTOR DISTRIBUTION



LARGEST INDIVIDUAL GLOBAL FIXED INCOME HOLDINGS AS OF JUNE 30, 2012

	Description	Rating	Par Value	Market Price	Fair Value
1	FNMA TBA 3.5% 08/01/2042	AA+	$ 30,000,000	$1.048	$ 31,448,400
2	FNMA Pool #0AL1934 VRN 04/01/2038	AA+	18,717,999	1.069	20,004,488
3	FNMA TBA 2.5% 07/01/2027	AA+	15,900,000	1.030	16,381,961
4	US Treasury Note 0.25% 04/30/2014	AA+	12,200,000	0.999	12,185,238
5	Government of Canada 3.5% 06/01/2020	AAA	10,650,000	1.123	11,961,013
6	FNMA TBA 3.0% 07/01/2042	AA+	11,200,000	1.025	11,485,264
7	US Treasury Note 0.25% 01/31/2014	AA+	10,000,000	0.999	9,991,000
8	FNMA Pool #0AD0167 5.5% 09/01/2021	AA+	8,479,804	1.095	9,289,031
9	US Treasury Bond 3.125% 02/15/2042	AA+	8,080,000	1.074	8,678,405
10	Brazil Notas Do Tesouro Nacion 10.0% 01/01/2014	BBB	16,985,000	0.509	8,646,425

All monetary values are stated in US dollars.
A complete listing of holdings is available upon request.

Global Real Estate

SERS' global real estate portfolio consists of investments in real estate limited partnerships, commingled funds, and public real estate investment trusts. The underlying return is predominately generated from core, income-producing, commercial properties. Additional return potential is added to the real estate portfolio through value-add, opportunistic, and global real estate security strategies. Investments in the global real estate portfolio are located across the US, Europe, and Asia.

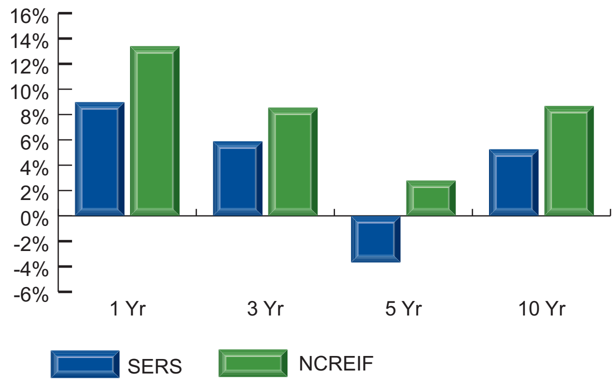
SERS' target allocation to real estate is 10% of the Total Fund with a range of +/-5%. As of June 30, 2012, the real estate portfolio was approximately $1.1 billion, or 10.3% of the Total Fund. Unfunded commitments to real estate funds totaled approximately $180.7 million at fiscal year end. During the past fiscal year, SERS made €25.0 million in additional commitments to an existing real estate manager that will invest in several property types across Europe.

During the fiscal year, SERS' global real estate portfolio produced a total return of 9.0% versus the real estate policy benchmark return of 13.4%. For three-, five-, and ten-year periods, the global real estate portfolio produced returns of 5.9%, (3.7%), and 5.3% respectively. All returns, except global real estate securities, are reported one quarter in arrears.

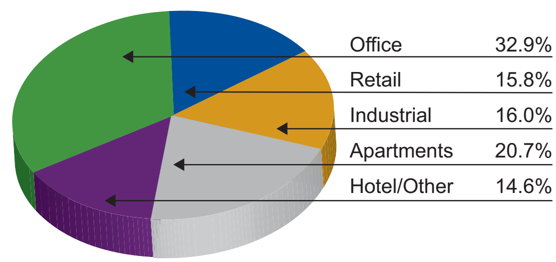
LARGEST INDIVIDUAL GLOBAL REAL ESTATE HOLDINGS AS OF JUNE 30, 2012		
	Description	**Fair Value**
1	JPMCB Strategic Property Fund	$116,316,336
2	UBS Trumbull Property Fund	79,536,338
3	Clarion Lion Properties Fund	77,589,997
4	PRISA II	72,096,236
5	RREEF America REIT II	69,986,478
6	Lion Industrial Trust	50,953,216
7	PRISA	48,581,077
8	Almanac Realty Securities V, LP	38,001,791
9	Carlyle Asia Real Estate Partners II, LP	37,137,410
10	Carlyle Realty Partners V, LP	36,172,557

All monetary values are stated in US dollars.
A complete listing of holdings is available upon request.

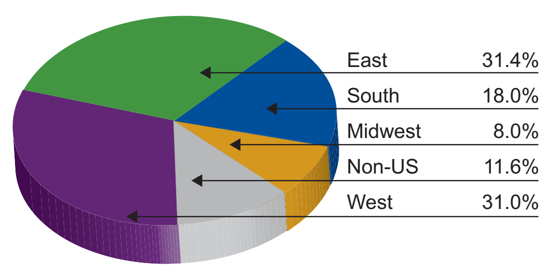
GLOBAL REAL ESTATE RETURNS



PROPERTY TYPE DIVERSIFICATION (excluding REITS)



REGIONAL DIVERSIFICATION (excluding REITS)



Investment Consultants & Investment Managers

Investment Consultants
- Aksia LLC
- Summit Strategies Group

Investment Managers - US Equity
- Brown Capital Management
- Delaware Investments
- DePrince, Race and Zollo
- Donald Smith & Co.
- First Eagle Investment Management
- INTECH Investment Management
- Lord, Abbett & Co.
- Manning & Napier Advisors
- Manulife Asset Management
- Neuberger Berman
- PENN Capital Management
- State Street Global Advisors
- Vaughan Nelson Investment Management

Investment Managers - Non-US Equity
- Acadian Asset Management
- Arrowstreet Capital
- Dimensional Fund Advisors
- Genesis Asset Managers
- GlobeFlex Capital
- Harding Loevner
- Hexam Capital Partners
- Highclere International Investors
- LSV Asset Management
- Mondrian Investment Partners
- State Street Global Advisors
- TT International Investment Management
- Walter Scott & Partners

Investment Manager - Futures
- Russell Implementation Services

Investment Managers - Foreign Currency
- State Street Global Advisors

Securities Lending Agents
- Goldman Sachs Agency Lending

Investment Managers - Private Equity
- Bridgepoint Capital
- Charterhouse Capital Partners
- CID Capital
- Cinven
- Coller Investment Management
- Evergreen Pacific Partners
- FdG Associates
- Francisco Partners
- FS Equity Partners
- Goldman Sachs & Company
- Graham Partners
- J.P. Morgan Investment Management
- Kohlberg & Company
- Leonard Green & Partners
- Linsalata Capital Partners
- Mason Wells Private Equity
- Monomoy Capital Partners
- Oak Hill Capital Partners
- Oaktree Capital Management
- Odyssey Investment Partners
- Peppertree Partners
- Primus Venture Partners
- Quantum Energy Partners
- Silver Lake Partners
- Swander Pace Capital Partners
- Thomas H. Lee Partners
- Transportation Resource Partners
- Warburg Pincus

Investment Managers - Fixed Income
- Artio Global Management
- Dodge & Cox
- Goldman Sachs & Company
- J.P. Morgan Investment Management
- Johnson Investment Counsel
- Loomis, Sayles & Company
- Western Asset Management Company

Investment Managers - Hedge Funds
- Angelo, Gordon & Co.
- Archer Capital Management
- Aristeia Capital
- Astenbeck Capital Management
- BlueCrest Capital Management
- Brevan Howard Asset Management
- Bridgewater Associates
- Brookside Capital Investors
- Caspian Capital
- Cevian Capital
- D.E. Shaw & Company
- Davidson Kempner Capital Management
- Diamondback Capital Management
- Elm Ridge Capital Management
- Eminence Capital
- Glenview Capital Management
- GoldenTree Asset Management
- HealthCor Management
- JAT Capital Management
- Karsch Capital Management
- King Street Capital Management
- Lansdowne Partners
- Linden Advisors
- Manatuck Hill Partners
- Marathon Asset Management
- Meditor Capital Management
- Nephila Capital
- Pacific Investment Management Company
- Pharo Management
- Regiment Capital Management
- Rockhampton
- Samlyn Capital
- Stark Offshore Management
- Taconic Capital Advisors
- Tudor Investment Corporation
- Turiya Capital Management
- ValueAct Capital Management
- Viking Global Investors
- Visium Asset Management
- Yannix Management
- York Capital Management

Investment Managers - Real Estate
- AEW Capital Management
- Almanac Realty Investors
- Beacon Capital Partners
- BlackRock Realty
- CBRE Global Investors
- Clarion Partners
- Colony Capital
- Fillmore Capital Partners
- INVESCO Realty Advisors
- J.P. Morgan Investment Management
- Lubert-Adler Real Estate Funds
- Madison Marquette
- Prudential Real Estate Investors
- Rockspring Property Investment Managers
- RREEF Real Estate Investment Managers
- The Carlyle Group
- UBS Realty Investors

Custodians
- BNY Mellon Asset Servicing
- Huntington National Bank

Master Recordkeeper
- BNY Mellon Asset Servicing

Investment Analytics
- BNY Mellon Performance & Risk Analytics

Summary Schedule of Brokers' Fees for US Equity Transactions for the Year Ended June 30, 2012

Broker Name	Fees Paid	# of Shares Traded	Avg. Commission per Share
J.P. Morgan Securities, Inc.	$ 199,849	13,615,910	$ 0.015
Merrill Lynch Government Securities, Inc.	182,696	9,537,868	0.019
Pershing, LLC	151,733	4,202,924	0.036
Goldman, Sachs & Co.	141,384	8,342,121	0.017
Deutsche Bank Securities, Inc.	123,555	5,851,864	0.021
Instinet, LLC	112,553	5,948,161	0.019
BNY Mellon Capital Markets, LLC	85,992	3,697,195	0.023
Credit Suisse Asset Management Securities, Inc.	80,919	5,237,985	0.015
Morgan Stanley & Co., LLC	76,947	2,749,996	0.028
State Street Global Markets, LLC	74,914	7,578,596	0.010
Citigroup Global Markets, Inc.	70,041	3,343,001	0.021
Sanford C. Bernstein & Co., LLC	66,113	3,739,603	0.018
Barclays Capital, Inc.	65,767	2,505,009	0.026
UBS Securities, LLC	62,786	3,445,706	0.018
National Financial Services, LLC	39,987	1,077,049	0.037
Knight Capital Americas, LP	37,684	2,831,623	0.013
Jefferies & Co., Inc.	37,018	1,859,902	0.020
Cowen and Company, LLC	29,824	1,089,954	0.027
Stifel, Nicolaus & Co., Inc.	28,824	949,816	0.030
Credit Agricole Securities (USA), Inc.	23,662	1,688,902	0.014
Cantor Fitzgerald & Co.	22,954	845,539	0.027
Liquidnet, Inc.	22,338	807,251	0.028
Citation Financial Group, L.P.	21,480	676,955	0.032
Oppenheimer & Co., Inc.	21,380	714,316	0.030
Investment Technology Corp.	20,026	1,647,487	0.012
Penson Financial Services, Inc.	19,537	1,185,271	0.016
Westminster Associates, LLC	18,231	607,700	0.030
RBC Capital Markets, LLC	17,263	566,109	0.030
Brockhouse & Cooper, Inc.	15,996	1,872,391	0.009
Investment Technology Group, Ltd.	15,027	1,261,540	0.012
Wells Fargo Securities, Inc.	14,417	501,633	0.029
Piper Jaffray & Co.	14,080	457,152	0.031
Raymond James & Associates, Inc.	13,539	357,049	0.038
ISI Capital, LLC	13,469	408,828	0.033
Renaissance Capital Investments, Inc.	13,461	574,327	0.023
Weeden & Co., Inc.	12,816	906,730	0.014
Keybanc Capital Markets, Inc.	11,913	440,805	0.027
Loop Capital Markets, LLC	11,846	866,285	0.014
Macquarie Securities, Inc.	11,526	298,338	0.039
VTB Bank Europe, PLC	11,199	693,127	0.016
Keefe, Bruyette & Woods, Inc.	10,856	357,639	0.030
IRD & Warner Securities, Inc.	10,659	546,757	0.019
Simmons & Company International	10,163	338,770	0.030
Suntrust Capital Markets, Inc.	10,000	287,944	0.035
ITAU BBA USA Securities, Inc.	9,620	338,243	0.028
Penserra Securities, LLC	9,393	864,527	0.011
SG Americas Securities, LLC	8,015	1,035,016	0.008
CSI Capital Management, Inc.	7,753	181,334	0.043
Nomura Securities North America, LLC	6,792	172,551	0.039
E. David Stephens Securities, Inc.	6,783	224,361	0.030
Brokers with less than $5,400 (81)	84,896	3,479,553	0.024
Total US	$ 2,189,676	112,808,713	$ 0.019

Summary Schedule of Brokers' Fees for Non-US Equity Transactions for the Year Ended June 30, 2012

Broker Name	Fees Paid	# of Shares Traded	Avg. Commission per Share
State Street Global Markets, LLC	$ 224,892	30,356,395	$ 0.007
J.P. Morgan Securities, LLC	201,188	53,444,833	0.004
Citigroup Global Markets, Inc.	162,585	44,817,403	0.004
Instinet, LLC	159,811	51,108,634	0.003
Credit Suisse Asset Management Securities, Inc.	159,299	31,092,293	0.005
UBS Securities, LLC	126,356	40,705,224	0.003
SG Americas Securities, LLC	96,398	39,083,636	0.002
Merrill Lynch Government Securities, Inc.	92,669	15,578,925	0.006
Nomura Securities North America, LLC	86,141	44,001,658	0.002
Deutsche Bank Securities, Inc.	81,478	10,006,225	0.008
Morgan Stanley & Co., LLC	80,532	6,726,296	0.012
ITG, Inc.	77,450	24,650,343	0.003
Goldman, Sachs & Co.	74,223	21,132,771	0.004
Sanford C. Bernstein & Co., LLC	72,985	25,604,649	0.003
Macquarie Capital (USA), Inc.	39,960	8,473,475	0.005
Jefferies & Company, Inc.	38,449	7,557,032	0.005
HSBC Securities (USA), Inc.	35,446	6,758,919	0.005
Credit Lyonnais Securities, Inc.	27,736	2,254,199	0.012
Barclays Capital, Inc.	23,043	968,388	0.024
Chicago Analytic Trading Company, LLC	22,667	1,110,073	0.020
Bouzet (DU) S A Societe De Bourse	22,043	6,016,688	0.004
ITAU BBA USA Securities, Inc.	21,695	1,021,172	0.021
Daiwa Capital Markets America, Inc.	21,219	2,469,236	0.009
RBS Securities, Inc.	14,104	3,376,145	0.004
Socgen-Crosby Securities, Inc.	13,512	1,340,830	0.010
Factor Advisors, LLC	12,605	1,285,860	0.010
BTG Pactual US Capital, LLC	12,570	1,044,548	0.012
BNP Paribas Securities Corp.	12,130	3,023,078	0.004
Brockhouse & Cooper, Inc.	11,657	2,161,223	0.005
XP Investimentos	11,002	1,268,360	0.009
Redburn Partners (USA), LP	10,783	300,114	0.036
Samsung Securities	10,242	2,812,811	0.004
Mitsubishi Securities, Inc.	9,786	407,241	0.024
Mizuho Securities, Inc.	9,659	339,960	0.028
KEB Asset Management, LLC	9,263	147,509	0.063
RBC Capital Markets, LLC	8,506	543,936	0.016
Unicredit Capital Markets, LLC	8,351	843,417	0.010
Liquidnet, Inc.	8,274	1,452,200	0.006
Exane, Inc.	6,331	123,788	0.051
Interacciones, Ltd.	5,418	3,192,276	0.002
Execution, Ltd.	5,375	924,762	0.006
Renaissance Capital Corp.	5,197	318,094	0.016
Ing Barings Corp.	5,060	230,853	0.022
Credit Agricole Securities (USA), Inc.	4,854	250,970	0.019
China International Capital Corp.	4,682	1,274,600	0.004
Citi International Financial Services, LLC	4,040	1,031,101	0.004
Mainfirst Securities US, Inc.	3,961	158,859	0.025
Bgc Brokers, L.P	3,798	861,040	0.004
Berenberg Bank	3,680	28,829	0.128
Liberum Capital, Inc.	3,665	740,538	0.005
SG Warburg Securities	3,603	436,750	0.008
Brokers with less than $3,600 (67)	66,247	64,640,957	0.001
Total Non-US	$ 2,236,620	569,499,116	$ 0.004

Investment Notes
Investment Summary

Portfolio Type	Fair Value	% of Total Fair Value
US Equity	$ 2,546,151,362	24.5%
Non-US Equity	2,301,124,437	22.2
Global Private Equity	971,842,350	9.4
Global Fixed Income	1,903,528,824	18.4
Global Hedge Funds	1,474,105,361	14.2
Global Real Estate	1,072,790,892	10.3
Short-Term	102,138,893	1.0
Net Portfolio Value	$ 10,371,682,119	100.0%

Reconciliation to Statement of Plan Net Assets	
Net Portfolio Value	$10,371,682,119
Accounts receivable, securities sold	(219,074,992)
Accounts payable, securities purchased	359,525,566
Cash and cash equivalents	(367,767,089)
Investments per Statement of Plan Net Assets	$10,144,365,604

Investment Results

FOOTNOTES TO INVESTMENT RESULTS TABLE ON PAGE 43:

(1) The US equity composite includes cash equitization.

(2) The Custom Non-US Equity Benchmark is the MSCI ACWI ex-US (developed markets 50% hedged).

(3) Private equity returns are reported one quarter in arrears beginning with the quarter ending June 30, 2002, and do not reflect the adjustment to fair market value. To implement quarter in arrears reporting, the returns for private equity were recorded as zero for the quarter ending June 30, 2002.

(4) The Custom Private Equity Benchmark consists of S&P 500 Index plus 300 basis points annualized. The custom benchmark is reported one quarter in arrears from June 30, 2002, through the current period. Methodology change results in a 0% return for the quarter ended June 30, 2002.

(5) Hedge fund investments began in June 2008 and were initially benchmarked to the HFRI Fund Weighted Index. Effective July 2010 the hedge fund benchmark became the HFRI Fund of Funds Index.

(6) The real estate composite returns are reported one quarter in arrears beginning with the quarter ending June 30, 2002, and do not reflect the adjustment to fair market value. To implement quarter in arrears reporting, the returns for private real estate assets were recorded as zero for the quarter ending June 30, 2002. Public Real Estate returns are reported in the current quarter.

(7) From July 2002 to July 2009 the benchmark consisted of 80% NCREIF Property Index (one quarter in arrears) and 20% FTSE EPRA/NAREIT Developed Index. Beginning July 2010, the benchmark consists of 100% NCREIF Property Index (one quarter in arrears).

(8) Real estate and private equity classes are reported one quarter in arrears beginning with the quarter ending June 30, 2002. The Total Fund is impacted beginning June 30, 2002, with real estate and private equity March 31, 2002 market values and also with flows for the quarter ending June 30, 2002.

(9) SERS Policy Benchmark weightings for the past 10 years:

a) Effective July 1, 2010
22.5% Russell 3000 Index
22.5% MSCI ACWI ex-US Index (developed markets 50% hedged)
19.0% Barclays Aggregate Index
10.0% NCREIF
10.0% SERS Custom Private Equity Benchmark
15.0% HFRI Fund of Funds Index
1.0% Citigroup 30 Day T-Bill Index

b) Effective February 1, 2009
27.5% Russell 3000 Index
27.5% MSCI ACWI ex-US Index (developed markets 50% hedged)
24.0% Barclays Aggregate Index
10.0% SERS Custom Real Estate Benchmark
10.0% SERS Custom Private Equity Benchmark
1.0% Citigroup 30 Day T-Bill Index

c) Effective May 31, 2007
29.0% Russell 3000 Index
29.0% MSCI ACWI ex-US Index (developed markets 50% hedged)
24.0% Lehman Brothers Aggregate Index (In 2009 renamed as Barclays Aggregate Index)
10.0% SERS Custom Real Estate Benchmark
7.0% SERS Custom Private Equity Benchmark
1.0% Citigroup 30 Day T-Bill Index

d) Effective October 21, 1994
46.0% Russell 3000 Index
16.0% MSCI ACWI ex-US Index (developed markets 50% hedged)
23.0% Lehman Brothers Aggregate Index (In 2009 renamed as Barclays Aggregate Index)
10.0% SERS Custom Real Estate Benchmark
3.0% SERS Custom Private Equity Benchmark
2.0% Citigroup 30 Day T-Bill Index

Statement of Investment Policy

I. Purpose of Policy Statement

The purpose of this Statement of Investment Policy (Policy Statement) is to set forth the investment philosophy and objectives of the Retirement Board (Board) for the School Employees Retirement System of Ohio (SERS).

This Policy Statement:

A. incorporates and is subject to all restrictions and obligations set forth in Chapter 3309 of the Ohio Revised Code;

B. establishes investment policies and describes the organization and division of responsibilities necessary to implement the Board's philosophy and objectives prudently; and

C. establishes a framework for making investment decisions, and monitoring investment activity, and promotes effective communication between the Board, Staff, and other involved parties.

This Policy Statement is subject to change at any time by the Board. The Board will review the Policy Statement and revise it periodically to assure it continues to reflect the investment philosophy, objectives and strategies of the Board.

II. Investment Philosophy

The Board recognizes the need to prudently manage SERS assets (the Total Fund) to meet its statutory and fiduciary obligations and to achieve or exceed its objectives. The Board's investment philosophy is grounded in fundamental, prudent investment principles, incorporating modern portfolio theory and in-depth analyses and monitoring. The Board believes it can provide consistent, long-term performance at appropriate levels of risk. By delineating responsibilities and defining policy objectives, this Policy Statement reflects the Board's investment philosophy.

III. Investment Objectives

The Investment Objectives of SERS are:

A. to assure that SERS provides statutorily-mandated retirement benefits;

B. to earn a net-of-fees total return that equals or exceeds the Actuarial Assumed Rate approved by the Board over the long-term; and

C. to enhance risk-adjusted investment returns of the Total Fund in a prudent and cost-effective manner.

IV. Risk Management

A. The Board evaluates risk in terms of the probability of not earning the actuarial assumed rate over the long-term. Diversification across asset classes, within asset classes, and across investment styles, sectors and securities will be employed to reduce overall portfolio risk and volatility.

B. Other risks, including but not limited to those such as interest rate risk, credit risk, and liquidity risk, will be managed and carefully monitored by Investment Managers and Investment Staff.

V. Implementation Approach

A. The Board reserves certain responsibilities for itself, while delegating other responsibilities to the Executive Director, the Director of Investments, the Investment Committee, Investment Staff, Investment Managers, Investment Consultants, the Investment Compliance Officer and other Investment Service Providers. These responsibilities are described in this Policy Statement.

B. In fulfilling its fiduciary duties the Board utilizes a competent and qualified Staff to manage daily operations.

C. The Board utilizes Investment Managers or Funds selected by Staff to invest most assets of the Total Fund. The Board recognizes that costs associated with external Investment Managers and Funds are typically higher than costs associated with internal management. However, the Board believes external Investment Managers that act as fiduciaries possess specialized investment expertise and economies of scale, and can generate higher returns on a net-of-fee basis.

D. The Board requires regular reporting on the Total Fund's investment program to ensure compliance with its Policy Statement.

VI. Investment Organization and Responsibilities

A. Responsibilities of the ***Board***

The Board as a fiduciary is responsible for ensuring that Total Fund assets are managed prudently and effectively, in compliance with applicable laws and this Policy Statement, for the exclusive benefit of participants and beneficiaries.

Responsibilities of the Board include:

1. establishing controls and systems to ensure that Total Fund fiduciaries comply with applicable laws;
2. establishing asset allocation and investment policies for SERS assets;
3. appointing and discharging the Executive Director and Board consultants;
4. confirming or rejecting the Executive Director's proposed appointment of a Director of Investments;
5. designating the Director of Investments to be the Chief Investment Officer for SERS and then notifying the Ohio Department of Commerce, Division of Securities in writing of the designation as required by the Ohio Revised Code;
6. monitoring and reviewing investment performance and policy compliance;
7. requesting, receiving and reviewing reports from Investment Staff, Board consultants and other entities, if applicable; and
8. reviewing, approving and revising an Annual Investment Plan (Annual Plan).

B. Responsibilities of ***Staff***

Staff will administer Total Fund assets as fiduciaries, and in accordance with applicable federal and state laws and regulations, this Policy Statement, ethics laws, codes of professional conduct (in particular, the CFA Code of Ethics and Standards of Professional Conduct), and other applicable codes and/or regulations. Staff will establish plans, policies and procedures to carry out these duties.

1. The ***Executive Director*** is responsible for:
   a. ensuring that reports of the Total Fund's investment performance are presented on a timely basis;
   b. retaining vendors, consultants and advisors as necessary to assist Staff;
   c. appointing, discharging and retaining the Director of Investments, and Investment Staff;
   d. overseeing the investment function, and
   e. executing investment documents when necessary.
2. The ***Director of Investments*** is responsible for:
   a. overseeing the Investment Program and keeping the Executive Director advised;
   b. preparing and presenting the Annual Plan to the Board for approval;
   c. implementing the Annual Plan;
   d. investigating and researching new and emerging investment concepts and strategies, and recommending or implementing appropriate strategies;
   e. informing Investment Managers, Investment Consultants and others providing investment services to SERS about the requirements of applicable laws and Board policies, and monitoring their compliance with said laws and policies;
   f. adjusting allocations to Asset Classes, Investment Managers and Funds as needed, subject to any maximum allocation amounts established;
   g. appointing and discharging Investment Managers and approving investments in or redemptions from Funds subject to conditions and guidelines in Section VII.;
   h. activating previously approved Backup Investment Managers;
   i. executing investment documents;
   j. approving Investment Manager style changes and additions;
   k. supervising Investment Staff;
   l. monitoring and evaluating the effectiveness of executed securities transactions and reporting annually to the Board the performance of agents who execute securities transactions on behalf of SERS;
   m. periodically reporting proxy voting activity to the Board; and
   n. regularly reporting the status of the Total Fund and its multi-period performance to the Board. Performance will be calculated on a gross-of-fees basis.

3. The ***Investment Committee*** is responsible for:

   a. ensuring that a procedure is in place defining the Committee's structure and establishing rules for reviewing and approving investments;

   b. reviewing Investment Manager and Fund due diligence; and

   c. approving or discharging Investment Managers or Funds.

4. The ***Investment Staff*** is responsible for:

   a. promptly voting, or instructing Investment Managers to vote, proxies and related actions, and maintaining detailed records of proxy votes and related actions for the Director of Investments;

   b. regularly reporting the status of the Total Fund and its multi-period performance to the Director of Investments;

   c. meeting and speaking with existing or potential Investment Managers periodically to review and assess the quality of their investments and management of assets;

   d. performing ongoing due diligence to evaluate and monitor Investment Manager capabilities relative to managing Total Fund assets;

   e. recommending to the Director of Investments additions or withdrawals from Investment Manager accounts or Funds, or rebalancing of asset class allocations;

   f. recommending to the Director of Investments and the Investment Committee the appointment or discharge of Investment Managers and investments in or redemptions from Funds;

   g. investing assets of the cash equivalents portfolio;

   h. investigating and researching new and emerging investment concepts and strategies, and recommending those strategies to the Director of Investments;

   i. preparing regular periodic reports for the Director of Investments on the performance of agents who execute securities transactions on behalf of SERS; and

   j. maintaining a list of Ohio-qualified Investment Managers and their investment products.

C. Responsibilities of ***Investment Service Providers***

Investment Service Providers who do business or seek to do business with SERS will act in the best interest of SERS when providing services to SERS or the Total Fund. Investment Service Providers will:

1. comply with all applicable federal and state laws and regulations, with this Policy Statement, and with all applicable professional codes and regulations;
2. have established ethics and conflict of interest policies and procedures, and proper internal compliance controls in place if applicable;
3. disclose to Investment Staff any actual or potential conflict of interest at the earliest opportunity;
4. disclose any investigation of, or litigation involving, its operations to Investment Staff as permitted by law; and
5. provide annual or other periodic disclosures as required.

The Director of Investments will adopt procedures as appropriate to implement this section.

D. Responsibilities of ***Investment Managers***

Investment Managers and Investment Staff managing assets internally are responsible for prudently investing Total Fund assets as fiduciaries. In addition to those applicable responsibilities described in VI.C., Investment Managers and internal staff members will:

1. manage assets within their control in compliance with all applicable federal and state laws and regulations, including but not limited to applicable ethics requirements, this Policy Statement, contractual obligations, and applicable professional codes of conduct;
2. inform the Director of Investments and Investment Staff of any substantial changes in investment strategy, portfolio structure, asset value, and of any organizational changes, including that of ownership, affiliation, organizational structure, financial condition, or changes in professional personnel staffing in the investment management organization;

3. present in-depth reports to Investment Staff;
4. recommend to Investment Staff changes to investment guidelines the Investment Manager believes would enhance investment performance on a risk adjusted basis; and
5. select such agents for the execution of transactions, at such prices, and at such commission rates as in the good faith judgment of the Investment Manager will be in the best interest of the Total Fund's assets, taking into consideration in the selection of such agents not only the available prices and rates of brokerage commissions, but also other factors relevant to the transaction.

E. Responsibilities of ***Investment Consultants***

Investment Consultants will:

1. provide services as a fiduciary and in accordance with all applicable federal and state laws and regulations, including but not limited to applicable ethics requirements; in accordance with this Policy Statement; and with all applicable professional codes and/or regulations;
2. provide independent and unbiased research, information and advice to the Board and Staff;
3. assist in the development and amendment of this Policy Statement;
4. assist in the development of investment guidelines as may be requested by Staff;
5. assist in the development of strategic asset allocation targets and ranges;
6. assist in the development of performance measurement standards;
7. monitor and evaluate Investment Manager and Fund performance as appropriate on an ongoing basis;
8. recommend to Staff the retention or discharge of Investment Managers and investment in or redemption from Funds;
9. collaborate with Investment Staff in the due diligence of potential Investment Managers and Funds, and existing Investment Managers and Funds, as requested by Staff;
10. assist in the development of criteria for and procedures to be utilized in the selection of Investment Managers and Funds;
11. provide research, information and advice on investment topics and strategies considered relevant by the Investment Consultant, or when requested by the Board or Investment Staff;
12. provide those services delineated in the Advisory or Consultant Agreement;
13. provide any other advice or services that the Board, Executive Director or Director of Investments determines are necessary, useful or appropriate to fulfill the objectives of this Policy Statement; and
14. regularly report the status of the Total Fund and its multi-period performance to the Board. Performance will be calculated on a net-of-fee basis.

F. Responsibilities of the ***Investment Compliance Officer***

The Investment Compliance Officer is responsible for:

1. monitoring and reporting compliance with this Policy Statement and Board Resolutions;
2. ensuring that investment management agreements and related contracts comply with the Policy Statement;
3. ensuring that Investment Service Providers and Investment Managers comply with Sections VI.C. and D., herein; and
4. identifying and, in concert with Investment Staff, resolving compliance violations by Investment Managers and Investment Staff relative to their respective investment guidelines. Staff will ensure that those accounts with guideline violations are efficiently and effectively brought back into compliance.

VII. Conditions and Guidelines for Making Investments

A. Conditions

1. In cooperation with legal counsel, Staff will endeavor to ensure that the legal structure of each investment limits potential losses to no more than the amount invested;
2. Investments will be of institutional quality;
3. Investments will require the approval of the Director of Investments and the Investment Committee;

4. Investment documents must be approved by SERS' Legal Department and the Investment Compliance Officer;
5. The Investment Committee will develop and implement definitive procedures for approving investments in accordance with this Policy Statement.
6. The Director of Investments or the Executive Director must sign the necessary investment documents when making investments.

B. Guidelines

1. Selected Investment Managers and Funds will have proven track records in the strategy;
2. Monthly reporting by the Fund or Investment Manager is preferred, but there shall be no less than quarterly reporting;
3. The liquidity of an investment will be prudent, both for the strategy and for the Total Fund;
4. The amount invested with an Investment Manager or in a Fund will be prudent for the strategy;
5. Investment limits established by Board resolution remain in effect unless modified or eliminated by the Board.

VIII. Implementation Strategies

A. Asset Allocation

The Board will conduct an asset and liability study every three- to five-years or sooner, if necessary, in order to establish allocation targets and ranges for asset classes within distinct capital markets.

In order to identify the investment horizon of SERS and its cash flow requirements, liability considerations will include but not be limited to current and expected future values of the benefits, contributions and total assets.

After giving due consideration to an asset and liability study conducted by the Investment Consultant, which study meets the requirements of this Policy Statement, the Board hereby recognizes and reaffirms the following asset allocation for SERS:

ASSET CLASS	**TARGET**	**RANGE**
Equity	**55%**	**50% – 60%**
Global Equities	45%	35% – 55%
Global Private Equity	10%	5% – 15%
Fixed Income	**30%**	**25% – 35%**
Global Bonds	19%	14% – 24%
Global Real Estate	10%	5% – 15%
Cash Equivalents	1%	0% – 5%

STRATEGY	**TARGET**	**RANGE**
Global Hedge Funds	15%	10% – 20%

B. Derivatives

The Board authorizes the use of derivatives in the Total Fund and authorizes the Director of Investments, with the advice and assistance of the Investment Consultant, to develop and implement derivatives strategies as needed. The Director of Investments will adopt a derivatives policy setting forth general guidelines for the use of derivatives.

C. Leverage

The Board authorizes the use of leverage in the Total Fund and authorizes the Director of Investments, with the advice and assistance of the Investment Consultant, to develop and implement certain leverage strategies. The Director of Investments will adopt a leverage policy setting forth general guidelines for the use of leverage.

D. Rebalancing

The Director of Investments will adopt a rebalancing strategy for the Total Fund which ensures adherence to the asset allocation strategy in Section VIII.A. The strategy may delegate certain authority to Investment Staff.

E. Currency Hedging

The Board authorizes currency hedging in the Total Fund and authorizes the Director of Investments, with the advice and assistance of the Investment Consultant, to develop and implement currency hedging strategies as needed.

F. Transition Management

The Board authorizes the Executive Director and the Director of Investments to hire Transition Managers as needed.

G. Proxy Voting

The Board authorizes Investment Staff to vote proxies of common stock owned by SERS and to hire proxy services as required to implement this strategy. The Director of Investments will adopt and implement procedures for voting proxies as described in the Proxy Voting Procedures.

H. Securities Lending

The Board authorizes Investment Staff to develop and implement a securities lending program which may involve the appointment or discharge of third party securities lending agents by the Executive Director or the Director of Investments. The Board recognizes that while the practice of securities lending can generate meaningful income for the Total Fund, it is not without investment risk. To mitigate investment risk the securities lending program will focus on intrinsic value lending and use conservative collateral reinvestment guidelines similar to current SEC 2a-7 guidelines. If Staff determines the risk reward relationship of the program is no longer advantageous for the Total Fund, the program will be discontinued.

I. Opportunistic Investments

The Board authorizes Investment Staff to invest up to 5% of Total Assets in Opportunistic Investment Strategies, and these investments will comply with the Opportunistic Investment Policy approved by the Board.

J. Investment Managers and Funds

The Board authorizes the Director of Investments and the Investment Committee to approve and discharge Investment Managers, Funds and Backup Investment Managers based upon recommendations of Investment Staff or Investment Consultants, as may be appropriate, and discussions with Managers. Allocations to approved Investment Managers and Funds will be determined or adjusted by the Director of Investments in accordance Section VI.B.2.f. Allocations and adjustments are subject to any maximum allocation amounts established by the Board.

Investment Managers will adhere to investment guidelines established by Investment Staff, as well as all applicable laws and policies. The Director of Investments is authorized to establish and amend investment guidelines as needed.

It is a goal of the Board to increase the utilization of Ohio-qualified Investment Managers when an Ohio-qualified Investment Manager offers quality, services and safety comparable to other Investment Managers available to the Board, and the use of such Investment Manager is consistent with the Board's fiduciary duties.

The Board will require that a list of Ohio-qualified Investment Managers and their investment products be maintained, and that public notice be given to Ohio-qualified Investment Managers of Investment Manager searches and search criteria.

SERS will give equal consideration to minority owned and controlled firms, and firms owned and controlled by women.

K. Approved Brokers

Brokers (or broker/dealers) who may provide execution of securities transactions for SERS will be evaluated on the basis of financial soundness, underwriting capabilities, research services, execution costs, and any other capabilities necessary in the execution of such transactions. Investment Managers which use such brokers will use their good faith judgment to ensure that said brokers will perform in the best interest of the Total Fund.

It is a goal of the Board to increase its utilization of Ohio-qualified brokers for the execution of domestic equity and domestic fixed income trades when an Ohio-qualified broker offers quality, services, and safety comparable to other brokers available to the Board or its Investment Managers, and the use of such broker is consistent with the Board's fiduciary duties.

SERS will give equal consideration to minority owned and controlled firms, and firms owned and controlled by women.

L. Securities Litigation

SERS will follow the securities litigation policy and procedures as approved by the Board in setting out a course of action that best represents the interests of SERS' participants and beneficiaries.

M. Other

The strategies listed herein are not meant to constrain the Director of Investments from prudently managing the Investment Program. The Director of Investments may develop and implement additional investment strategies as needed.

IX. Performance

A. Performance Measurement Standard

Performance evaluation for the Total Fund will focus on total return, on an accrual accounting basis, including realized and unrealized capital gains and losses, and income. Valuations are to be made at least on a quarterly basis, and period returns are to be geometrically linked. Private market asset returns may be reported one quarter in arrears. Cash and cash equivalents will be included in the portfolio's return. Performance will be calculated on a gross-of-fee and net-of-fee basis.

B. Performance Benchmark – Total Fund

Performance of the Total Fund relative to benchmarks will be examined monthly, and will be reported for multiple time periods as needed. The Board's Investment Consultant will calculate and report performance net-of-fees on a quarterly basis.

The performance benchmark for the Total Fund will be the target-weighted average of the performance benchmark for each asset class and strategy grouping.

C. Performance Benchmarks – Asset Classes and Strategies

The long-term performance benchmark for each asset class is shown below. Performance benchmarks are determined as appropriate for SERS in cooperation with SERS' Investment Consultant. For purposes of this section, long-term refers to rolling three- to five-year periods. Performance in each asset class should meet or exceed the Benchmark measure.

Asset Class	Benchmark Measure
Global Equities	50% Russell 3000 Index; 50% MSCI ACWI ex US Index with a 50% currency hedge for developed countries
Global Private Equity	Standard & Poor's 500 Index plus 300 basis points (one quarter in arrears)
Global Fixed Income	Barclays Capital US Aggregate Bond Index
Global Real Estate	NCREIF Property Index (one quarter in arrears)
Cash Equivalents	Citigroup 30-day T-Bill Index

Strategy	Benchmark Measure
Global Hedge Funds	HFRI Fund of Funds Composite Index

D. Performance Benchmarks – Individual Investment Managers

Investment Staff will establish performance benchmarks for each Investment Manager based on its respective style.

X. Review and Evaluation

The Board will review and evaluate periodic reports on the investment performance of Total Fund assets. Greater emphasis will be placed on three- to five-year results. The intended frequency for review and evaluation, subject to change by the Board, is as follows:

A. Monthly – Investment Report including Total Fund market value, asset allocation, performance of the Total Fund and each asset class, and the Total Fund's compliance with this Policy Statement.

B. Quarterly – Summary Investment Report presented by the Investment Consultant, including highlights and commentary about market conditions, investment performance, asset composition and characteristics for each asset class, and relevant manager level information.

This policy supersedes the policy adopted August 2, 1985 and all revised policies dated 07/21/11; 07/01/10; 02/01/09; 08/01/08; 02/21/08; 10/01/07; 10/20/05; 09/15/00; 10/23/98; 6/19/98; 12/12/97; 7/25/97; 3/21/97; 12/20/96; 11/22/96; 6/21/96; 4/25/96; 9/15/95; 7/28/95; 6/16/95; 3/17/95; 1/20/95; 10/21/94; 5/20/94; 3/06/92; 4/07/89; 9/04/87; 1/09/87.

Art by Faith A., Tarhe Elementary School

ACTUARIAL SECTION

Cavanaugh Macdonald
CONSULTING, LLC
The experience and dedication you deserve

November 27, 2012

Board of Trustees
School Employees Retirement System of Ohio
300 East Broad Street
Columbus, OH 43215

Dear Board Members:

The basic financial objective of the School Employees Retirement System of Ohio (SERS) is to establish and receive contributions which when expressed in terms of percents of active member payroll will remain approximately level from generation to generation of Ohio citizens, and which when combined with present assets and future investment return will be sufficient to meet the present and future financial obligations of SERS.

In order to measure progress toward this fundamental objective, SERS has an actuarial valuation performed each year. The valuation (i) measures present financial position, and (ii) establishes contribution rates that provide for the current cost and level percent of payroll amortization of the unfunded actuarial accrued liability over a reasonable period. The valuation performed as of June 30, 2012 indicates that a contribution rate of 13.84% of payroll for 121,811 school employees meets the basic financial objective.

The statutory employer contribution is 14% of pay. A SERS policy decision now provides the following allocations of the contribution:

- to basic benefits, the post-retirement death benefit and the Medicare Part-B supplement, the portion which will pay normal cost and 30-year amortization of unfunded actuarial accrued liabilities; and
- to health care, the remainder of employer contributions.

The actuarial valuation of the basic benefits, the post-retirement death benefit and the Medicare Part-B supplement are based upon two factors. The first is financial and participant data as of the valuation date and the second is economic and demographic assumptions. Economic assumptions address future rates of investment return and inflation; and demographic assumptions relate to future rates of retirement, turnover, death and disability among SERS members and their beneficiaries. We review the data for internal and year-to-year consistency as well as general reasonableness prior to its use in the actuarial valuations. It is also summarized and tabulated for the purpose of analyzing trends. The assumptions were adopted by the Board of Trustees and were based upon actual experience of SERS during the 2006-2010 fiscal years. Assets are valued according to a method that fully recognizes expected investment return and averages unanticipated market return over a four-year period.

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Board of Trustees
November 27, 2012
Page 2

The assumptions and methods utilized in this valuation, in our opinion, meet the parameters established by Governmental Accounting Standards Board Statements No. 25 and No.43.

The financial condition of health care is different and is being significantly affected by the provisions of Act 290 of 1988 and Act 270 of 2001. Act 290 established a health care surcharge, a program to determine a minimum annual pay for use in calculating employer contribution dollars. Act 270 placed limits on the amount of health care surcharge that can be assessed to each employer and in total.

On the basis of projections of health care fund activity and the surcharge limit established by Act 270, the allocated contributions are insufficient in the long-term to provide for a 20-year solvency period for the health care reserve fund. Such reserve is based on the projected claims and premium contributions for the next twenty years, as is described in the Statement of Funding Policy adopted by the Board on September 19, 2008. Since total claims are projected to exceed total contributions in future years, it is currently anticipated that future reserve fund amounts will be depleted in 2020.

The current benefit structure is outlined in the Plan summary. The benefits were changed for those who are not eligible to retire on or before August 1, 2017. For those members the normal and early retirement eligibilities were changed and the early retirement benefit was actuarially adjusted for benefits commencing before age 67 or 30 years of service. This change reduced the employer contribution rate this year and will reduce overall costs in future years as more members are covered by the new benefit structure.

We provided information used in the schedules of Actuarial Accrued Liabilities, Active Member Valuation Data, Retirees and Beneficiaries Added To and Removed From Rolls, Analysis of Financial Experience, the Schedule of Funding Progress, and the Schedule of Employer Contributions in the Financial Section. For fiscal years prior to June 30, 2008, the information was provided by previous actuaries.

Based upon the results of the valuation of the basic benefits, the post-retirement death benefit and Medicare Part-B supplement, as well as the expected asset losses that will be reflected in the smoothed actuarial value of assets next year, it is our opinion that in order to continue in sound condition in accordance with actuarial principles of level percent of payroll financing the School Employees Retirement System of Ohio may find it necessary in the future to seek benefit reductions and/or contribution rate increases from employers, members or both.

Sincerely,

Thomas J. Cavanaugh

Thomas J. Cavanaugh, FSA, FCA, EA, MAAA
Chief Executive Officer

TJC:kc

PENSION

Summary of Actuarial Assumptions and Methods

The SERS Retirement Board adopted the following actuarial assumptions and methods April 20, 2011, on the recommendation of its actuary. These assumptions were based on an analysis of plan experience for the five-year period July 1, 2005 through June 30, 2010, and were adopted for use in the valuation as of June 30, 2011. All historical information and data shown in this report with a valuation date prior to June 30, 2008, were obtained from the previous actuaries' valuation reports.

Funding Method Basic benefits are determined using the entry age normal actuarial cost method. Under this cost method, projected service retirement, termination, disability, and death benefits are determined for all active members. Cost factors, which are developed to produce level annual costs in each year from the age at hire (entry age) to the assumed retirement age, are applied to the projected benefits to determine the "normal cost." The normal cost is the portion of the total cost of the plan allocated to the current year. The normal cost for contribution refunds is assumed to end in the last year of the assumed eligibility, and is spread over all years of service.

The "actuarial accrued liability" for active members is then calculated as the portion of the total cost of the plan allocated to prior years. The actuarial accrued liability for retirees currently receiving benefits, for active members beyond the assumed retirement age, and for inactive members entitled to future benefits, is equal to the present value of the benefits expected to be paid.

The dollar amount of the total actuarial accrued liability in excess of the value of the plan net assets is called the "unfunded actuarial accrued liability." Funding requirements under the entry age actuarial cost method are determined by adding the normal cost and the cost to amortize the unfunded liability.

Actuarial assumptions are used to determine the projected benefits and cost factors. The effect of differences between these assumptions and the actual experience of the plan is calculated each year when the annual actuarial valuation is performed. These differences produce either actuarial gains or losses that result in an adjustment of the unfunded liability.

Contributions During FY2012, active members and their employers were required to contribute 10% and 14%, respectively, of active member payroll. The Board allocates the employer contribution rate of 14% among basic benefits (pension, Medicare B, and death benefit) and health care in accordance with its funding policy. For the year ended June 30, 2012, the policy required the determination of a rate for basic benefits to cover normal cost and to amortize the unfunded actuarial accrued liabilities over a 30-year period. The remaining portion of the employer contribution was allocated to health care benefits.

Pension Trust Fund	12.65%
Death Benefit Fund	.05
Medicare B Fund	.75
Health Care Fund	.55
	14.00%

The Ohio Revised Code (ORC) also provides for an employer contribution surcharge as an additional source of funding for health care. The surcharge is equal to 14% of the difference between a minimum pay amount and the member's pay, if below that minimum, pro-rated for partial service credit. For FY2012, the minimum pay amount was established at $35,800. The employer surcharge cap is applied at 2.0% of each employer's payroll and at 1.5% of total payroll statewide.

Asset Valuation Method Differences between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial accrued liabilities. When these differences between assumed and actual experience have been observed to be sizeable and persistent, a change is made to the actuarial assumptions.

SERS' Board adopted a method of valuing investment assets that recognizes a "smoothed" market value of those assets. The smoothed value of assets recognizes the difference between actual and expected performance for each year in equal amounts over a four-year period.

Economic Assumptions The following economic assumptions were used in the actuarial valuation as of June 30, 2012.

- **Investment Return** Net after all System expenses, the return on investments is compounded annually at 7.75%.
- **Inflation Rate** The inflation assumption is 3.25% per year. The real rate of return is the portion of total investment return, which is more than the inflation rate. Considering inflation recognition of 3.25%, the 7.75% investment return rate translates to an assumed real rate of return of 4.5%.
- **Benefit increases** Cost-of-living adjustments of 3.0% per year after retirement are assumed.
- **Payroll Growth** Salary increases attributable to payroll growth of 4.0% are projected and compounded annually. Additional projected salary increases ranging from 0.0% to 18.0% per year are attributable to seniority and merit. Pay increase assumptions for individual active members are shown for service durations in the following table:

Years of Service	Merit & Seniority	Salary Inflation	Total
0	18.00%	4.00%	22.00%
1	8.00	4.00	12.00
2	5.50	4.00	9.50
3	4.00	4.00	8.00
4	3.00	4.00	7.00
5	2.00	4.00	6.00
6	1.25	4.00	5.25
7	1.00	4.00	5.00
8	0.50	4.00	4.50
9	0.25	4.00	4.25
10-14	0.00	4.00	4.00
15 & over	0.00	4.00	4.00

Non-Economic Assumptions

- **Retirements** Representative values of the assumed annual rates of service retirement are as follows:

Age	Male	Female
50	28.0%	25.0%
55	20.0	21.0
60	18.0	17.0
62	20.0	20.0
65	25.0	25.0
70	14.0	14.0
75	100.0	100.0

- **Death-in-Service and Disability Benefits** Separation from active service other than retirement or termination of employment assumed rates are:

	Death		Disability	
Age	Male	Female	Male	Female
30	0.020%	0.009%	0.068%	0.026%
40	0.027	0.018	0.210	0.100
50	0.065	0.036	0.410	0.260
60	0.199	0.111	0.550	0.400
70	0.593	0.343	0.550	0.400
74	0.851	0.510	0.550	0.400

- **Death after Retirement** For post-retirement mortality, the table used in evaluating allowances to be paid is the 1994 Group Annuity Mortality Table, set back one year for both men and women. Special mortality tables are used for the period after disability retirement. This assumption is used to measure the probabilities of each benefit payment being made after retirement.
- **Marriage Assumption** Based on prior experience, it is assumed that 80% of retirees are married, with the husband three years older than his wife.

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 or 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 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 AS OF JUNE 30, 2012

Present value of:	Basic Benefits	Medicare B	Death Benefit	Total
Future benefits to present retirees and survivors	$ 8,610,108,869	$ 239,675,724	$ 24,652,774	$ 8,874,437,367
Benefits and refunds to present inactive members	580,061,485	10,848,056	1,741,043	592,650,584
Allowances to present active members				
Service	6,980,269,022	118,577,396	7,137,088	7,105,983,506
Disability	277,031,812	4,602,803	408,775	282,043,390
Survivor benefits	93,683,921	1,654,141	0	95,338,062
Withdrawal	(203,485,476)	7,583,114	15,476	(195,886,886)
Total Active AAL	7,147,499,279	132,417,454	7,561,339	7,287,478,072
Total AAL	$ 16,337,669,633	$ 382,941,234	$ 33,955,156	$ 16,754,566,023

Active Member Valuation Data

Actuarial Valuation as of June 30	Number of Active Members	Annual Payroll *(millions)*	Average Annual Salary	% Increase in Average Salary
2012	121,811	$2,788	$22,889	0.6%
2011	125,337	2,852	22,758	0.9
2010	126,015	2,843	22,558	1.5
2009	125,465	2,787	22,216	4.2
2008	124,370	2,652	21,322	0.8
2007	123,013	2,603	21,163	2.2

Retirees and Beneficiaries Added to and Removed from Rolls

	Added to Rolls		Removed from Rolls		Rolls at end of year		Percent increase	Average
Year	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances	in Annual Allowances	Annual Allowances
2012	4,137	$61,519,329	2,320	$1,353,680	69,038	$838,076,567	7.7%	$12,139
2011	3,472	49,577,810	2,378	1,526,603	67,221	777,910,918	6.6	11,572
2010	2,694	37,351,889	2,324	1,331,166	66,127	729,859,717	5.2	11,037
2009	3,103	41,970,065	2,164	504,642	65,757	693,838,994	6.4	10,552
2008	3,448	46,243,749	2,159	1,256,318	64,818	652,373,571	7.4	10,065
2007	3,596	44,864,781	2,588	4,249,533	63,529	607,386,140	7.2	9,561

Analysis of Financial Experience

Gains and Losses in Accrued Liabilities Resulting from Differences Between Assumed Experience and Actual Experience in the Pension, Medicare B, and Death Benefit Funds

	Gain (Loss) for Year in Millions					
Type of Risk Area	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**
Age and Service Retirements If disability claims are less than assumed, there is a gain. If younger ages, a loss.	$(154.8)	$ (59.2)	$ (40.6)	$ (50.8)	$ (96.1)	$ 13.4
Disability Retirements If disability claims are less than assumed, there is a gain. If more claims, a loss.	(47.7)	(28.1)	(23.4)	(28.7)	(3.5)	0.9
Death-In-Service Benefits If claims costs are less than assumed, there is a gain. If more claims, a loss.	(0.2)	(0.7)	(0.5)	(0.6)	(0.6)	(0.3)
Pay Increases If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	178.7	198.4	182.5	107.5	95.8	121.0
Investment Return If Ithere is greater investment return than assumed, there is a gain. If less return, a loss.	(692.0)	(1,082.9)	390.5	(2,265.2)	(6.6)	504.3
Withdrawal If more liabilities are released by other separations from active membership than assumed, there is a gain. If smaller releases, a loss.	46.5	15.4	11.0	(11.9)	8.1	(73.2)
New Members Additional unfunded accrued liability will produce a loss.	(29.8)	(36.4)	(38.1)	(50.4)	(51.3)	(37.2)
Death after Retirement If retirees live longer than assumed, there is a loss. If not as long, a gain.	51.9	(1.0)	46.5	51.8	72.4	(10.2)
Other Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	(6.2)	(10.0)	(29.6)	200.1	81.2	(1.1)
Non-Recurring Items Adjustments for plan amendments, assumption changes, or method changes.	194.7	(436.2)	0.0	0.0	0.0	0.0
Total Gain (Loss) During Year	$(458.9)	$(1,440.7)	$ 498.3	$(2,048.2)	$ 99.4	$ 517.6

Short-Term Solvency Test

SERS' financing objective is to pay for pension benefits through contributions that remain approximately level from year to year as a percent of member payroll.

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

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the 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.

Under the level percent of payroll financing, liabilities for active member contributions on deposit and the liabilities for future benefits to present retirees and beneficiaries will be fully covered by present assets except in rare circumstances. In addition, liabilities for active member benefits earned or to be earned in the future will be partially covered by the remainder of present assets. Generally, if SERS has been using level cost financing, the funded portion of active member benefits will increase over time.

Solvency Test[1]
($ in Millions)

	Aggregate Accrued Liabilities For				Portion of Accrued Liabilities Covered by Reported Asset		
Valuation Date June 30	(1) Active Member Contributions	(2) Retired Members & Beneficiaries	(3) Active Members (Employer Financed Portion)	Actuarial Value of Assets	(1)	(2)	(3)
BASIC BENEFITS							
2012	$2,826	$9,190	$4,322	$10,266	100%	81%	0%
2011	2,749	8,525	4,636	10,378	100	90	0
2010	2,569	7,850	4,404	10,766	100	100	8
2009	2,470	7,496	4,224	9,704	100	97	0
2008	2,291	7,079	4,334	11,241	100	100	43
2007*	2,180	6,413	4,557	9,542	100	100	21
MEDICARE PART B BENEFITS							
2012	$ 0	$ 251	$ 132	$ 113	100%	45%	0%
2011	0	245	138	116	100	47	0
2010	0	239	128	122	100	51	0
2009	0	239	121	113	100	47	0
POST-RETIREMENT DEATH BENEFITS							
2012	$ 0	$ 26	$ 8	$ 18	100%	70%	0%
2011	0	26	7	19	100	74	0
2010	0	25	7	21	100	84	0
2009	0	24	7	19	100	79	0

* Reported by prior actuarial firm.

[1] Solvency Test combined Pension, Death After Retirement Benefits, and Medicare Part B Benefits for valuations performed prior to 6/30/2009.

HEALTH CARE

Summary of Actuarial Assumptions and Methods

Governmental Accounting Standards Board (GASB) Statements 43 and 45 require actuarial valuations of retiree medical and other postemployment benefit plans.

Funding Method The medical and drug benefits of the plan are determined using the entry age normal actuarial cost method with the normal cost rate determined as a level percentage of payroll. GASB requires the discount rate used to value a plan to be based on the likely return of the assets held in trust to pay benefits. The discount rate used in this valuation is 5.25%.

Contributions Gains and losses are reflected in the unfunded accrued liability that is amortized by regular annual contributions as a level percentage of payroll within a 30-year period, on the assumption that payroll will increase 4.00% annually. The assumptions recommended by the actuary are, in the aggregate, reasonably related to the experience under the plan and to reasonable expectations of anticipated experience under the plan. They also meet the parameters for the disclosures under GASB 43 and 45. The valuation indicates that the Annual Required Contribution (ARC) required to actuarially fund the plan is 6.24% of active payroll payable for the fiscal year ended June 30, 2012. Any net claims or premiums paid for retiree health care are considered contributions toward the ARC.

Year Ended	Annual Required Contribution (ARC) (a)	Employer Contribution (b)	Retiree Drug Subsidy (RDS) Contribution (c)	Total Contribution (d) = (b) + (c)	Percentage of ARC Contributed (d) / (a)
June 30, 2012	$155,857,785	$ 56,476,230	$ 0	$ 56,476,230	36.2%
June 30, 2011	169,146,052	86,908,283	0	86,908,283	51.4
June 30, 2010	315,535,278	60,142,014	24,414,855	84,556,869	26.8
June 30, 2009	373,789,127	163,411,488	23,504,101	186,915,589	50.0
June 30, 2008	307,874,094	158,393,761	21,953,659	180,347,420	58.6
June 30, 2007	299,379,524	170,948,274	20,202,965	191,151,239	63.8

Asset Valuation Method Differences between assumed and actual experience (actuarial gains and losses) become part of unfunded actuarial accrued liabilities. When these differences between assumed and actual experience have been observed to be sizeable and persistent, a change is made to the actuarial assumptions.

Economic Assumptions The following economic assumptions were used in the actuarial valuation as of June 30, 2012.

- **Investment Return** Net after all plan expenses, the return on investments is compounded annually at 5.25%.
- **Inflation Rate** The inflation assumption is 3.25% per year. The real rate of return is the portion of total investment return which is more than the inflation rate. Considering inflation recognition of 3.25%, the 5.25% investment return rate translates to an assumed real rate of return of 2.00%.
- **Health Care Cost Trend Rates** Following is a chart detailing trend assumptions:

Calendar Year	Non-Medicare	Medicare
2012	9.00%	7.00%
2013	8.50	6.75
2014	7.50	6.50
2015	6.50	6.00
2016	6.00	5.50
2017	5.50	5.00
2018 and beyond	5.00	5.00

Non-Economic Assumptions

- **Age-related morbidity** Per capita costs are adjusted to reflect expected cost changes related to age. The increase to the net incurred claims is assumed to be:

Participant Age	Annual increase Medical	Prescription
41 - 45	2.50%	1.25%
46 - 50	2.60	1.30
51 - 55	3.20	1.60
56 - 60	3.40	1.70
61 - 65	3.70	1.85
66 - 70	3.20	1.60
71 - 75	2.40	1.20
76 - 80	1.80	0.90
81 - 85	1.30	0.65

- **Anticipated Plan Participation** 50% of male retirees will choose spousal coverage, while only 40% of female retirees will choose spousal coverage.

Years of Service at Retirement*	Member Participation
10 - 14	25.00%
15 - 19	45.00
20 - 24	70.00
25 - 29	75.00
30 - 34	80.00
35 and over	90.00

*100% of disabled retirees are assumed to participate. 50% of members retiring from inactive status are assumed to participate.

Actuarial Accrued Liabilities

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 AS OF JUNE 30, 2012	
Present value of benefits payable on account of present retired members and beneficiaries	$1,062,337,847
Present value of benefits payable on account of active members	2,563,103,741
Present value of benefits payable on account of deferred vested members	12,152,772
Total liabilities	$3,637,594,360

Art by Dean H., Archbold High School

STATISTICAL SECTION

Statistical Section

The objectives of the statistical section are to provide additional historical perspective, context, and relevant details to assist readers in using information in the financial statements, notes to the financial statements, and required supplementary information in order to understand and assess SERS' overall financial condition.

The schedules and graphs beginning on page 73 show financial trend information about the change in SERS' assets for the past 10 years. These schedules provide detailed information about the trends of key sources of asset additions and deductions, which assist in providing a context framing how SERS' financial position has changed over time. The financial trend schedules presented are:

- Net Assets by Fund
- Changes in Net Assets
- Benefit and Refund Deductions from Net Assets by Type

The schedules beginning on page 80 show demographic and economic information. This information is designed to assist in understanding the environment in which SERS operates. The demographic and economic information and the operating information presented include:

- Employee and Employer Contribution Rates
- Demographics of New Pension Benefit Recipients
- Demographics of Active and Retired Members
- Retired Members by Type of Benefit
- Retirees, Spouses, and Dependents Receiving Health Care Coverage
- Principal Participating Employers
- Average Benefit Payments

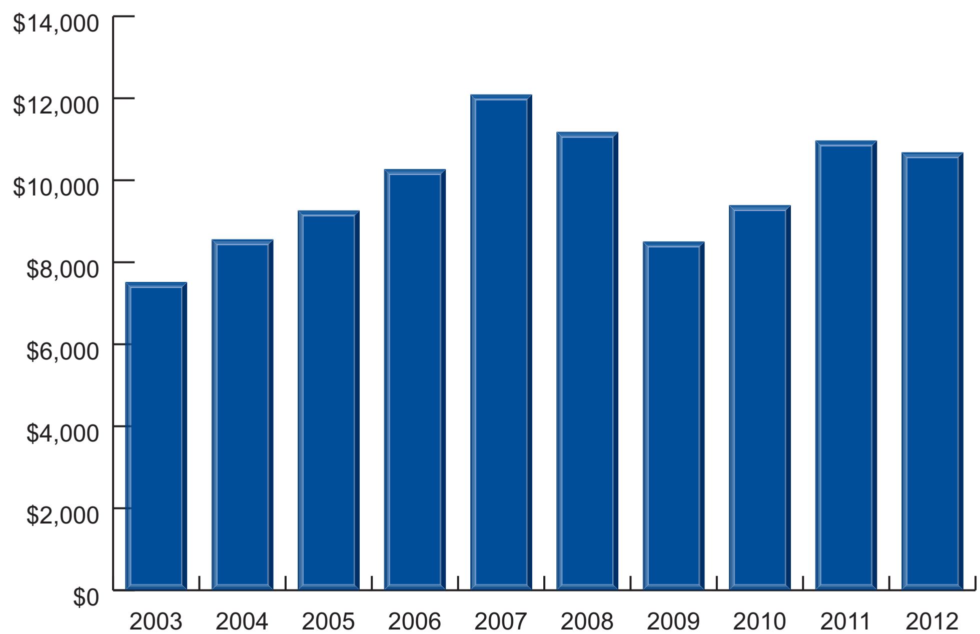
Net Assets by Fund

Last 10 years

June 30	Pension Trust Fund	Medicare B Fund	Death Benefit Fund	QEBA Fund*	Health Care Fund	Total Fund
2012	$ 10,201,185,790	$ 112,200,252	$ 18,272,350	$ 107,877	$ 355,110,407	$ 10,686,876,676
2011	10,483,076,014	116,849,347	19,249,940	102,596	355,705,744	10,974,983,641
2010	8,953,363,488	101,513,452	17,054,072	87,129	325,004,169	9,397,022,310
2009	8,024,889,206	93,243,651	15,974,467	74,585	376,459,222	8,510,641,131
2008	10,646,564,348	124,627,144	22,278,877	69,717	392,680,731	11,186,220,817
2007	11,546,062,014	139,902,535	25,270,739	4,899	386,355,370	12,097,595,557
2006	9,833,948,677	124,178,222	22,076,462	7,429	295,561,933	10,275,772,723
2005	8,866,129,871	114,696,809	20,758,872	36,868	267,482,155	9,269,104,575
2004	8,133,054,479	111,221,576	20,306,868	11,052	300,860,704	8,565,454,679
2003	7,096,479,273	103,481,031	18,897,237		303,556,610	7,522,414,151

* The Qualified Excess Benefit Arrangement (QEBA) Fund was established January 2003; funding commenced November 2003.

Total Net Assets *(in millions)*



Changes in Net Assets

Last 10 fiscal years

ALL FUNDS COMBINED	2012	2011	2010	2009
ADDITIONS				
Employer Contributions	$ 456,375,083	$ 466,365,125	$ 462,322,570	$ 454,596,164
Employee Contributions	296,974,146	303,114,258	301,649,643	295,788,567
Other Income	154,832,793	122,232,090	96,449,404	97,284,347
Total Investment Income (Loss), Net	(37,922,409)	1,789,850,651	1,087,495,208	(2,526,406,966)
TOTAL ADDITIONS	870,259,613	2,681,562,124	1,947,916,825	(1,678,737,888)
DEDUCTIONS				
Benefits	1,083,844,151	1,033,791,708	999,045,882	938,903,072
Refunds and Lump Sum Payments	47,920,393	42,223,739	37,159,685	34,213,067
Net Transfers to other Ohio Systems	4,976,841	6,394,075	5,085,923	3,224,094
Administrative Expenses	21,625,193	21,191,271	20,244,156	20,501,565
TOTAL DEDUCTIONS	1,158,366,578	1,103,600,793	1,061,535,646	996,841,798
Net increase (decrease)	(288,106,965)	1,577,961,331	886,381,179	(2,675,579,686)
Net assets held in trust:				
Balance, Beginning of Year	10,974,983,641	9,397,022,310	8,510,641,131	11,186,220,817
Balance, End of Year	**$ 10,686,876,676**	**$ 10,974,983,641**	**$ 9,397,022,310**	**$ 8,510,641,131**

PENSION TRUST FUND	2012	2011	2010	2009
ADDITIONS				
Employer Contributions	$ 376,816,938	$ 355,959,304	$ 378,201,685	$ 268,645,839
Employee Contributions	296,974,146	303,114,258	301,649,643	295,788,567
Other Income	–	–	–	–
Total Investment Income (Loss), Net	(38,010,415)	1,722,754,363	1,042,542,982	(2,434,825,781)
TOTAL ADDITIONS	635,780,669	2,381,827,925	1,722,394,310	(1,870,391,375)
DEDUCTIONS				
Pension Benefits	845,683,445	784,875,283	734,080,237	696,152,597
Refunds and Lump Sum Payments	47,920,393	42,223,739	37,159,685	34,213,067
Net Transfers to other Ohio Systems	4,976,841	6,394,075	5,085,923	3,224,094
Administrative Expenses	19,090,214	18,622,302	17,594,183	17,694,009
TOTAL DEDUCTIONS	917,670,893	852,115,399	793,920,028	751,283,767
Net increase (decrease)	(281,890,224)	1,529,712,526	928,474,282	(2,621,675,142)
Net assets held in trust:				
Balance, Beginning of Year	10,483,076,014	8,953,363,488	8,024,889,206	10,646,564,348
Balance, End of Year	**$ 10,201,185,790**	**$ 10,483,076,014**	**$ 8,953,363,488**	**$ 8,024,889,206**

HEALTH CARE FUND	2012	2011	2010	2009
ADDITIONS				
Employer Contributions	$ 56,476,230	$ 86,908,283	$ 60,142,014	$ 163,411,488
Other Income	154,832,793	122,232,090	96,449,404	97,284,347
Total Investment Income (Loss), Net	541,940	45,247,242	31,472,744	(58,751,419)
TOTAL ADDITIONS	211,850,963	254,387,615	188,064,162	201,944,416
DEDUCTIONS				
Health Care Expenses	209,965,344	221,167,270	236,915,618	215,409,645
Administrative Expenses	2,480,956	2,518,770	2,603,597	2,756,280
TOTAL DEDUCTIONS	212,446,300	223,686,040	239,519,215	218,165,925
Net increase (decrease)	(595,337)	30,701,575	(51,455,053)	(16,221,509)
Net assets held in trust:				
Balance, Beginning of Year	355,705,744	325,004,169	376,459,222	392,680,731
Balance, End of Year	**$ 355,110,407**	**$ 355,705,744**	**$ 325,004,169**	**$ 376,459,222**

2008	2007	2006	2005	2004	2003
$ 437,173,397	$ 423,398,610	$ 413,911,081	$ 400,519,147	$ 391,440,663	$ 370,314,918
284,910,486	276,759,362	272,615,865	262,265,550	258,131,243	225,014,540
94,660,706	91,823,048	70,831,797	40,595,447	–	–
(759,805,340)	1,939,132,666	1,127,421,565	825,771,210	1,151,401,043	95,819,531
56,939,249	2,731,113,686	1,884,780,308	1,529,151,354	1,800,972,949	691,148,989
904,979,999	853,416,366	824,582,171	779,306,161	714,415,180	687,618,942
38,907,918	33,638,741	31,037,063	27,112,818	22,090,604	19,575,616
4,723,303	2,873,755	3,587,708	155,635	2,244,495	917,730
19,702,769	19,361,990	18,905,218	18,926,844	19,182,142	19,289,261
968,313,989	909,290,852	878,112,160	825,501,458	757,932,421	727,401,549
(911,374,740)	1,821,822,834	1,006,668,148	703,649,896	1,043,040,528	(36,252,560)
12,097,595,557	10,275,772,723	9,269,104,575	8,565,454,679	7,522,414,151	7,558,666,711
$ 11,186,220,817	**$ 12,097,595,557**	**$ 10,275,772,723**	**$ 9,269,104,575**	**$ 8,565,454,679**	**$ 7,522,414,151**

2008	2007	2006	2005	2004	2003
$ 259,394,723	$ 232,846,344	$ 234,875,166	$ 255,633,456	$ 213,736,648	$ 182,919,583
284,910,486	276,759,362	272,615,865	262,265,550	258,131,243	225,014,540
–	–	610,054	–	–	–
(731,527,482)	1,863,226,769	1,080,786,996	793,539,701	1,098,850,856	91,598,224
(187,222,273)	2,372,832,475	1,588,888,081	1,311,438,707	1,570,718,747	499,532,347
650,991,508	606,753,367	569,027,766	533,714,925	492,405,489	456,834,182
38,907,918	33,638,741	31,037,063	27,112,818	22,090,604	19,575,616
4,723,303	2,873,755	3,587,709	155,635	2,244,495	917,730
17,652,664	17,453,275	17,416,737	17,379,937	17,402,953	17,664,721
712,275,393	660,719,138	621,069,275	578,363,315	534,143,541	494,992,249
(899,497,666)	1,712,113,337	967,818,806	733,075,392	1,036,575,206	4,540,098
11,546,062,014	9,833,948,677	8,866,129,871	8,133,054,479	7,096,479,273	7,091,939,175
$ 10,646,564,348	**$ 11,546,062,014**	**$ 9,833,948,677**	**$ 8,866,129,871**	**$ 8,133,054,479**	**$ 7,096,479,273**

2008	2007	2006	2005	2004	2003
$ 158,393,761	$ 170,948,274	$ 157,404,134	$ 126,355,575	$ 159,550,942	$ 171,313,952
94,660,706	91,823,048	70,152,335	40,595,447	27,947,708	15,579,621
(18,289,836)	49,307,490	30,524,217	19,976,256	34,640,957	3,189,950
234,764,631	312,078,812	258,080,686	186,927,278	222,139,607	190,083,523
226,436,827	219,438,662	228,570,748	218,816,560	223,443,805	220,510,358
2,002,443	1,846,713	1,430,160	1,489,267	1,391,708	1,249,598
228,439,270	221,285,375	230,000,908	220,305,827	224,835,513	221,759,956
6,325,361	90,793,437	28,079,778	(33,378,549)	(2,695,906)	(31,676,433)
386,355,370	295,561,933	267,482,155	300,860,704	303,556,610	335,233,043
$ 392,680,731	**$ 386,355,370**	**$ 295,561,933**	**$ 267,482,155**	**$ 300,860,704**	**$ 303,556,610**

Changes in Net Assets (continued)

Last 10 fiscal years

MEDICARE B FUND	2012	2011	2010	2009
ADDITIONS				
Employer Contributions	$ 21,450,368	$ 22,172,922	$ 22,619,935	$21,688,294
Other Income	–	–	–	–
Total Investment Income (Loss), Net	(378,593)	18,521,800	11,348,331	(27,612,707)
TOTAL ADDITIONS	21,071,775	40,694,722	33,968,266	(5,924,413)
DEDUCTIONS				
Pension Benefits	25,715,070	25,353,175	25,694,354	25,449,935
Administrative Expenses	5,800	5,652	4,111	9,145
TOTAL DEDUCTIONS	25,720,870	25,358,827	25,698,465	25,459,080
Net increase (decrease)	(4,649,095)	15,335,895	8,269,801	(31,383,493)
Net assets held in trust:				
Balance, Beginning of Year	116,849,347	101,513,452	93,243,651	124,627,144
Balance, End of Year	**$112,200,252**	**$116,849,347**	**$101,513,452**	**$93,243,651**

DEATH BENEFIT FUND	2012	2011	2010	2009
ADDITIONS				
Employer Contributions	$ 1,454,763	$ 1,166,996	$ 1,225,772	$ 734,970
Other Income	–	–	–	–
Total Investment Income (Loss), Net	(75,490)	3,327,059	2,130,920	(5,218,168)
TOTAL ADDITIONS	1,379,273	4,494,055	3,356,692	(4,483,198)
DEDUCTIONS				
Death Benefits	2,309,922	2,254,894	2,236,215	1,780,430
Administrative Expenses	46,941	43,293	40,872	40,782
TOTAL DEDUCTIONS	2,356,863	2,298,187	2,277,087	1,821,212
Net increase (decrease)	(977,590)	2,195,868	1,079,605	(6,304,410)
Net assets held in trust:				
Balance, Beginning of Year	19,249,940	17,054,072	15,974,467	22,278,877
Balance, End of Year	**$18,272,350**	**$19,249,940**	**$17,054,072**	**$15,974,467**

QEBA FUND*	2012	2011	2010	2009
ADDITIONS				
Employer Contributions	$ 176,784	$ 157,620	$133,164	$115,573
Other Income	–	–	–	–
Total Investment Income, Net	149	187	231	1,109
TOTAL ADDITIONS	176,933	157,807	133,395	116,682
DEDUCTIONS				
Pension Benefits	170,370	141,086	119,458	110,465
Administrative Expenses	1,282	1,254	1,393	1,349
TOTAL DEDUCTIONS	171,652	142,340	120,851	111,814
Net increase (decrease)	5,281	15,467	12,544	4,868
Net assets held in trust:				
Balance, Beginning of Year	102,596	87,129	74,585	69,717
Balance, End of Year	**$ 107,877**	**$ 102,596**	**$ 87,129**	**$ 74,585**

* The Qualified Excess Benefit Arrangement (QEBA) Fund was established January 2003; funding commenced November 2003.

2008	2007	2006	2005	2004	2003
$ 18,337,305	$ 18,450,617	$ 20,535,685	$ 17,735,032	$ 17,390,201	$ 15,609,515
–	–	62,510	–	–	–
(8,388,671)	22,332,826	13,538,975	10,290,424	14,996,522	872,761
9,988,634	40,783,443	34,137,170	28,025,456	32,386,723	16,482,276
25,258,432	25,055,794	24,652,637	24,547,223	24,307,188	23,826,601
5,593	3,336	3,120	3,000	338,990	329,114
25,264,025	25,059,130	24,655,757	24,550,223	24,646,178	24,155,715
(15,275,391)	15,724,313	9,481,413	3,475,233	7,740,545	(7,673,439)
139,902,535	124,178,222	114,696,809	111,221,576	103,481,031	111,154,470
$124,627,144	**$139,902,535**	**$124,178,222**	**$114,696,809**	**$111,221,576**	**$103,481,031**

2008	2007	2006	2005	2004	2003
$ 835,348	$ 1,070,630	$ 1,054,246	$ 759,058	$ 744,272	$ 471,868
–	–	6,889	–	–	–
(1,600,480)	4,265,549	2,571,377	1,964,827	2,912,708	158,596
(765,132)	5,336,179	3,632,512	2,723,885	3,656,980	630,464
2,185,460	2,083,437	2,259,722	2,217,881	2,200,147	2,027,422
41,270	58,465	55,200	54,000	47,202	45,828
2,226,730	2,141,902	2,314,922	2,271,881	2,247,349	2,073,250
(2,991,862)	3,194,277	1,317,590	452,004	1,409,631	(1,442,786)
25,270,739	22,076,462	20,758,872	20,306,868	18,897,237	20,340,023
$22,278,877	**$25,270,739**	**$22,076,462**	**$20,758,872**	**$20,306,868**	**$18,897,237**

2008	2007	2006	2005	2004	2003
$172,260	$ 82,745	$ 41,850	$ 36,026	$ 18,600	
–	–	–	–	–	
1,129	32	9	2	–	
173,389	82,777	41,859	36,028	18,600	
107,772	85,106	71,298	9,572	6,259	
799	201	–	640	1,289	
108,571	85,307	71,298	10,212	7,548	
64,818	(2,530)	(29,439)	25,816	11,052	
4,899	7,429	36,868	11,052	–	
$ 69,717	**$ 4,899**	**$ 7,429**	**$ 36,868**	**$ 11,052**	

Benefit and Refund Deductions from Net Assets by Type

Last 10 fiscal years

PENSION BENEFITS	2012	2011	2010	2009
Service Retirement	$ 731,236,350	$ 675,549,301	$ 629,474,136	$ 595,262,076
Disability Retirement	81,219,934	77,524,938	74,632,571	72,571,590
Survivor Benefits	33,227,161	31,801,044	29,973,530	28,318,931
Total Pension Benefits	$ 845,683,445	$ 784,875,283	$ 734,080,237	$ 696,152,597
Refunds				
Separation	$ 47,272,246	$ 41,753,113	$ 36,344,287	$ 33,499,028
Beneficiaries	648,147	470,626	815,398	714,039
Total Refunds	$ 47,920,393	$ 42,223,739	$ 37,159,685	$ 34,213,067

MEDICARE B REIMBURSEMENT	2012	2011	2010	2009
Service Retirement	$ 23,006,643	$ 22,677,282	$ 23,024,413	$ 22,790,277
Disability Retirement	1,405,443	1,373,592	1,364,728	1,340,431
Survivor Benefits	1,302,984	1,302,301	1,305,213	1,319,227
Total Medicare B Reimbursement	$ 25,715,070	$ 25,353,175	$ 25,694,354	$ 25,449,935

DEATH BENEFITS	2012	2011	2010	2009
Service	$ 2,101,093	$ 2,040,327	$ 1,969,489	$1,538,800
Disability	208,829	214,567	266,726	241,630
Total Death Benefits	$ 2,309,922	$ 2,254,894	$ 2,236,215	$1,780,430

HEALTH CARE EXPENSES	2012	2011	2010	2009
Medical	$ 112,808,198	$ 119,184,041	$ 120,931,746	$ 112,696,150
Prescription	94,731,407	100,474,453	113,971,467	99,283,588
Other	2,415,739	1,508,776	2,012,405	3,429,907
Total Health Care Expenses	$ 209,965,344	$ 221,167,270	$ 236,915,618	$ 215,409,645

2008	2007	2006	2005	2004	2003
$ 554,521,059	$ 514,824,466	$ 481,929,589	$ 450,815,396	$ 413,743,800	$ 382,324,194
69,632,988	66,278,496	62,669,473	59,656,369	56,956,255	53,859,560
26,837,461	25,650,405	24,428,704	23,243,160	21,705,434	20,650,428
$ 650,991,508	$ 606,753,367	$ 569,027,766	$ 533,714,925	$ 492,405,489	$ 456,834,182
$ 38,147,667	$ 33,316,422	$ 29,065,065	$ 26,667,001	$ 21,496,787	$ 19,269,813
760,251	322,319	1,971,998	445,817	593,817	305,803
$ 38,907,918	$ 33,638,741	$ 31,037,063	$ 27,112,818	$ 22,090,604	$ 19,575,616

2008	2007	2006	2005	2004	2003
$ 22,542,191	$ 22,350,668	$ 22,007,666	$ 21,896,392	$ 21,742,514	$ 21,342,363
1,334,470	1,317,953	1,278,217	1,245,341	1,216,754	1,163,920
1,381,771	1,387,173	1,366,754	1,405,490	1,347,920	1,320,318
$ 25,258,432	$ 25,055,794	$ 24,652,637	$ 24,547,223	$ 24,307,188	$ 23,826,601

2008	2007	2006	2005	2004	2003
$ 1,965,949	$ 1,880,256	$ 2,062,198	$ 2,018,318	$ 1,992,963	$ 1,813,287
219,511	203,181	197,524	199,563	207,184	214,135
$ 2,185,460	$ 2,083,437	$ 2,259,722	$ 2,217,881	$ 2,200,147	$ 2,027,422

2008	2007	2006	2005	2004	2003
$ 129,186,181	$ 128,160,112	$ 131,562,641	$ 113,102,587	$ 125,213,303	$ 119,676,586
95,603,763	89,957,159	95,589,547	105,195,298	97,155,916	99,511,288
1,646,883	1,321,391	1,418,560	518,675	1,074,586	1,322,484
$ 226,436,827	$ 219,438,662	$ 228,570,748	$ 218,816,560	$ 223,443,805	$ 220,510,358

Employee and Employer Contribution Rates

Last 10 fiscal years

Fiscal Year	Employee Rate	Employer Rate: Pension	Medicare B	Death Benefit	Health Care	Total
2012	10%	12.65%	0.75%	0.05%	0.55%	14%
2011	10	11.77	0.76	0.04	1.43	14
2010	10	12.74	0.76	0.04	0.46	14
2009	10	9.06	0.75	0.03	4.16	14
2008	10	9.13	0.66	0.03	4.18	14
2007	10	9.96	0.68	0.04	3.32	14
2006	10	9.76	0.78	0.04	3.42	14
2005	10	9.84	0.70	0.03	3.43	14
2004	10	8.36	0.70	0.03	4.91	14
2003	9	7.46	0.69	0.02	5.83	14

Note: The employee contribution rate was increased for all employees on July 1, 2003.

Demographics of New Pension Benefit Recipients

Last 10 fiscal years

Average Service Benefit

Year Ended June 30	Service Credit	Monthly Amount	Age	Final Average Salary
2012	22.9	$ 1,246	63.6	$ 31,600
2011	22.7	1,203	63.4	30,579
2010	23.5	1,159	64.0	29,644
2009	21.9	1,098	62.6	28,211
2008	22.2	1,095	62.5	27,815
2007	22.1	1,109	62.6	27,827
2006	22.3	1,041	63.0	26,007
2005	22.6	1,042	62.6	26,040
2004	22.5	957	62.4	24,132
2003	22.2	916	62.2	22,965

Average Disability Benefit

Year Ended June 30	Service Credit	Monthly Amount	Age	Final Average Salary
2012	16.0	$ 1,249	54.9	$ 29,071
2011	15.4	1,272	55.7	29,417
2010	18.0	1,258	55.4	29,055
2009	16.0	1,306	53.0	29,074
2008	15.0	1,269	53.0	28,538
2007	16.0	1,239	53.0	27,097
2006	16.0	1,252	53.0	27,093
2005	20.4	1,178	53.3	25,960
2004	20.8	1,090	52.5	24,096
2003	21.4	1,127	52.7	24,557

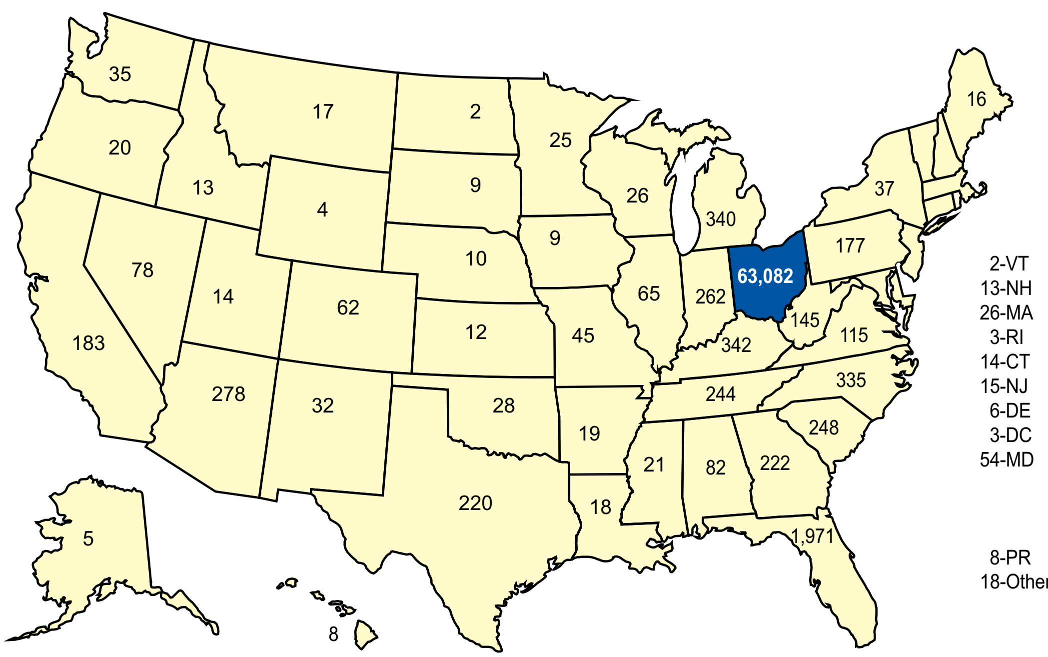
Demographics of Active and Retired Members

Fiscal Year 2012

	Active Members			Percentage of Distribution		
	Male	Female	Total	Male	Female	Total
Under 20	335	279	614	0%	0%	0%
20 to 29	5,376	5,558	10,934	4	5	9
30 to 39	5,736	9,607	15,343	5	8	13
40 to 49	8,437	24,542	32,979	7	20	27
50 to 54	5,314	17,224	22,538	5	14	19
55 to 59	5,131	14,484	19,615	4	12	16
60 to 64	3,611	8,916	12,527	3	7	10
65 to 69	1,713	3,139	4,852	1	3	4
70 and over	933	1,476	2,409	1	1	2
	36,586	85,225	121,811	30%	70%	100%

	Retired Members and Beneficiaries			Percentage of Distribution		
	Male	Female	Total	Male	Female	Total
Under 55	902	1,058	1,960	1%	2%	3%
55 to 59	1,271	1,759	3,030	2	3	5
60 to 64	2,204	5,642	7,846	3	8	11
65 to 69	3,092	8,901	11,993	4	13	17
70 to 74	3,181	9,393	12,574	5	14	19
75 to 79	2,927	8,524	11,451	4	12	16
80 to 84	2,328	7,215	9,543	3	10	13
85 to 89	1,458	5,195	6,653	2	8	10
90 to 94	592	2,605	3,197	1	4	5
95 to 99	98	613	711	0	1	1
100 and over	7	73	80	0	0	0
	18,060	50,978	69,038	26%	74%	100%

Retired Members and Beneficiaries by State



Retired Members by Type of Benefit

Amount of Monthly Benefit	Total	Service	Disability	Survivor
$ 1 - $ 250	12,060	10,862	121	1,077
251 - 500	12,027	10,093	645	1,289
501 - 750	10,440	8,746	855	839
751 - 1000	8,148	6,811	828	509
1001 - 1500	11,125	9,449	1,275	401
1501 - 2000	6,155	5,231	774	150
over 2000	8,739	7,750	842	147
	68,694	58,942	5,340	4,412
Average Monthly Benefit		$1,023	$1,259	$624
Average Age		74.5	64.8	71.2

Retirees, Spouses, and Dependents Receiving Health Care Coverage

Attained Age	Number of Males	Number of Females	Total Number
Under 30	205	219	424
30 - 39	7	7	14
40 - 49	83	100	183
50 - 59	1,068	1,291	2,359
60 - 64	1,122	2,293	3,415
65 - 69	1,705	4,595	6,300
70 - 74	2,745	6,003	8,748
75 - 79	2,769	5,835	8,604
80 - 84	2,142	5,087	7,229
85 - 89	1,386	4,192	5,578
90 - 94	575	2,255	2,830
95 - 99	109	566	675
100 and over	8	72	80
	13,924	32,515	46,439

Principal Participating Employers

Current fiscal year and nine fiscal years ago

	Fiscal Year 2012			Fiscal Year 2003		
	Covered Employee Members	Rank	Percentage of Total System	Covered Employee Members	Rank	Percentage of Total System
Participating School's Name						
Columbus City Schools	3,564	1	2.93%	3,847	2	3.15%
Cleveland Metropolitan School District	2,684	2	2.20	4,211	1	3.44
Cincinnati Public Schools	2,649	3	2.17	2,811	3	2.30
University Of Akron	2,413	4	1.98	1,291	7	1.06
Akron Public Schools	1,507	5	1.24	1,654	5	1.35
Toledo Public Schools	1,344	6	1.10	1,851	4	1.51
Dayton City Schools	1,130	7	0.93	1,625	6	1.33
South-Western City Schools	1,110	8	0.91	1,224	8	1.00
Columbus State Community College	1,053	9	0.86	–		–
Parma City Schools	985	10	0.81	962	9	0.79
Canton City Schools	–		–	861	10	0.70
All Other	103,372		84.87	101,978		83.37
Total	121,811		100.00%	122,315		100.00%

In fiscal year 2012 "All other" consisted of:

	Covered Employee Members	Number of School Districts
Local School Districts	38,300	374
City School Districts	43,075	184
Educational Service Centers	7,610	56
Exempted Village Districts	5,385	49
Higher Education	2,597	13
Vocational/Technical Schools	2,914	49
Community Schools	3,184	300
Other	307	9

Average Benefit Payments - New Retirees

Last 10 fiscal years

Retirement Effective Dates	Years of Credited Service 5-9	10-14	15-19	20-24	25-29	30 +
Period 7/1/11 to 6/30/12						
Average Monthly Benefit	$ 237	$ 475	$ 759	$ 1,066	$ 1,376	$ 2,439
Average Final Average Salary	1,555	2,029	2,342	2,548	2,863	3,136
Number of Retirees	468	557	478	498	643	1,089
Period 7/1/10 to 6/30/11						
Average Monthly Benefit	$ 211	$ 456	$ 706	$ 1,018	$ 1,354	$ 2,490
Average Final Average Salary	1,462	1,998	2,168	2,455	2,782	3,255
Number of Retirees	493	473	315	375	540	901
Period 7/1/09 to 6/30/10						
Average Monthly Benefit	$ 196	$ 427	$ 680	$ 993	$ 1,283	$ 2,216
Average Final Average Salary	1,343	1,848	2,105	2,422	2,681	2,906
Number of Retirees	393	349	275	315	346	725
Period 7/1/08 to 6/30/09						
Average Monthly Benefit	$ 204	$ 419	$ 681	$ 938	$ 1,250	$ 2,178
Average Final Average Salary	1,402	1,802	2,115	2,264	2,504	2,765
Number of Retirees	364	341	379	492	528	732
Period 7/1/07 to 6/30/08						
Average Monthly Benefit	$ 209	$ 373	$ 635	$ 969	$ 1,219	$ 2,122
Average Final Average Salary	1,434	1,648	1,989	2,327	2,426	2,803
Number of Retirees	356	350	424	530	657	811
Period 7/1/06 to 6/30/07						
Average Monthly Benefit	$ 202	$ 415	$ 632	$ 938	$ 1,232	$ 2,082
Average Final Average Salary	1,382	1,751	1,959	2,260	2,449	3,121
Number of Retirees	344	312	364	417	578	722
Period 7/1/05 to 6/30/06						
Average Monthly Benefit	$ 188	$ 368	$ 629	$ 849	$ 1,138	$ 1,947
Average Final Average Salary	1,328	1,569	1,895	2,070	2,267	2,905
Number of Retirees	288	318	328	403	403	675
Period 7/1/04 to 6/30/05						
Average Monthly Benefit	$ 179	$ 363	$ 600	$ 847	$ 1,081	$ 1,949
Average Final Average Salary	1,254	1,585	1,860	2,058	2,201	3,033
Number of Retirees	253	281	352	382	700	674
Period 7/1/03 to 6/30/04						
Average Monthly Benefit	$ 168	$ 370	$ 572	$ 809	$ 1,011	$ 1,731
Average Final Average Salary	1,192	1,611	1,777	1,941	2,037	2,612
Number of Retirees	207	284	336	318	606	613
Period 7/1/02 to 6/30/03						
Average Monthly Benefit	$ 148	$ 317	$ 552	$ 755	$ 983	$ 1,780
Average Final Average Salary	1,015	1,373	1,686	1,811	1,988	2,663
Number of Retirees	204	285	328	346	618	533

Art by Tracy J., Robinwood Lane Elementary School

PLAN SUMMARY

Established by state law in 1937, SERS is a state-wide defined benefit plan that provides retirement, disability, and survivor benefits to non-teaching employees of Ohio's public, vocational, technical, and community schools, community colleges, and the University of Akron.

The Retirement Board is responsible for the general administration and management of the Retirement System. The Board is composed of nine members: four elected employee members: two elected retiree members; and three appointed investment expert members. One investment expert is appointed by the Governor, a second one by the State Treasurer, and the third one jointly by the Speaker of the House and President of the Senate of the General Assembly.

The day-to-day operations are administered by a professional staff led by the Executive Director.

The plan summary in effect at June 30, 2012 is described below. A pension reform bill was signed on September 26, 2012 with most provisions becoming effective January 7, 2013. The bill increased the current age and service credit requirements for retirement eligibility for members retiring on or after August 1, 2017.

COVERED EMPLOYEES

All non-teaching employees of Ohio's public, vocational, technical, and community schools, community colleges, and the University of Akron are required to be members unless their position permits exemption from membership, optional membership, or the position is excluded from membership.

Compulsory or Mandatory Coverage

Compulsory coverage is required for any employee who:

- Is employed in a position for which the person is not required to have a certificate or license issued pursuant to sections 3319.22 to 3319.31 of the Revised Code; or
- Performs a service common to the normal daily operation of an educational unit even though the person is employed and paid by one who has contracted with the school to perform the service.

Exemption from Coverage

The following individuals may choose exemption from coverage by filing a written application with the employer within the first month after being employed:

- A student who is not a member at the time of the student's employment and who is employed by the school, college, or university in which the student is enrolled and regularly attending classes;
- An emergency employee serving on a temporary basis in case of fire, snow, earthquake, flood, or other similar emergency; or
- An individual employed in a program established under the Federal Job Training Partnership Act.

Optional Coverage

A school or governing board member may choose to become a member by making application within thirty (30) days of taking office. A school board member is a member of a city, local, exempted village, or joint vocational school district board of education, and a governing board member is a member of an educational service center governing board.

Exclusion from Coverage

The following employees are excluded from SERS coverage:

- Any person having a license issued by the Ohio Department of Education (ODE) and employed in a public school in this state in an educational position, as determined by the ODE, under programs under federal law and financed in whole or in part from federal funds, but for which no licensure requirements for the position can be made under the provisions of such federal law;
- Any person who participates in an alternative retirement plan (ARP) established by a college or university; and
- University of Akron police officers who are covered by the Ohio Public Employees Retirement System (OPERS).

CONTRIBUTIONS

The employee and employer are required to contribute a percentage of the employee's compensation to SERS to fund the benefits available. Employees contribute 10% of their gross compensation. Employers contribute 14% of the employee's compensation. Members are entitled to a return of their contributions if they meet eligibility requirements, either in the form of monthly benefits, or a single lump-sum payment after termination of employment.

SERVICE CREDIT

The amount of a member's service credit determines:

- Eligibility for retirement or disability benefits
- The amount of a benefit
- Eligibility for health care coverage and the amount of the health care premium

It also determines the eligibility of a member's dependents for survivor benefits, the amount of benefits, and availability of health care coverage.

Service credit is accrued through contributions during school employment, for other periods at no cost, and for other service that may be purchased.

Contributing Service Credit

One year of service credit is granted upon completion of 120 or more days of paid school employment within a fiscal year (July 1 through the following June 30). Any portion of a day constitutes one full day. If service is less than 120 days, a fractional amount of service credit is prorated on the basis of a 180-day school year.

Free Service Credit

Additional service credit up to three years is available at no cost for periods a member received Workers' Compensation. In addition, certain periods of military service may be available at no cost.

Purchased Service Credit

The following additional service credit may be available for purchase:

- Previously refunded SERS service credit
- Employer authorized unpaid leaves of absence
- Any service after July 1, 1991, in a position for which SERS membership was compulsory, but for which a member was permitted to, and did, sign an exemption from membership form
- Any service before July 1, 1991, in a position for which SERS membership was optional, and a member did not choose to become a member
- Up to five years of service with public or private school, college, or university in another state, or operated by the federal government, which has been chartered or accredited by the proper government agency if the service in a comparable position in Ohio would have been covered by an Ohio state retirement system, or an Ohio municipal retirement system except the Cincinnati Retirement System
- Periods of military service
- Up to two years for periods when the member was required to resign because of pregnancy or adoption of a child
- School board member service prior to July 1, 1991
- Cincinnati Retirement System covered service
- Service covered by the Ohio Police & Fire Pension Fund or Ohio Highway Patrol Retirement System if not being used in a benefit under those systems

Other Ohio State Retirement System Service Credit

If a member has been employed in a job covered by the State Teachers Retirement System of Ohio (STRS) or the Ohio Public Employees Retirement System (OPERS) as well as in a job covered by SERS, at retirement the member may receive a retirement benefit independently from each of the systems if eligible, or may combine the service credit and accounts in all the systems to receive one benefit. The system with the greatest service credit will be the system that will calculate and pay the benefit. While the salaries in one year will be added together, if the member has service credit in each system for the same year, the member cannot be credited with more than one year of service credit for each 12 months in a year.

Early Retirement Incentive Program

An employer may establish an Early Retirement Incentive program (ERI), which would allow employees 50 years old to retire early under Tier 1 or employees 55 years old to retire early under Tier 2, or increase the service credit of those employees eligible to retire. Under an ERI, an employer may purchase up to five years of service credit for its eligible employees. If an employer has an ERI, it notifies all eligible employees of the plan and its requirements.

AGE AND SERVICE RETIREMENT

Eligibility

A member who became covered by the retirement system before May 14, 2008, is eligible to retire under **Tier 1** if the member has:

- Five (5) years of service credit and is at least 60 years old
- 25 years of service credit and is at least 55 years old
- 30 years of service credit irrespective of age

A member who is covered by SERS on or after May 14, 2008, is eligible to retire under **Tier 2** if the member has:

- 10 years of service credit and is at least 62 years old
- 25 years of service credit and is at least 60 years old
- 30 years of service credit and is at least 55 years old

Calculating a Benefit

The calculation of a benefit is determined using the member's salary, service credit, and age.

The **salary** used is the Final Average Salary (FAS) which is the average of the three (3) highest years of salary. If a member has more than one covered job, the salaries will be combined.

The **service credit** used is the total service credit at the time of retirement.

The **age** used to calculate a benefit is the member's actual age at the time of retirement.

The formula used in calculating a benefit is as follows:

1. The value of a year of service credit is determined by multiplying the member's FAS by 2.2%, and by 2.5% for each year above 30 years of service credit. If the result is less than $86.00, then $86.00 is the value of each year.
2. The number of years of service credit is then multiplied by this value of each year. The result is the annual retirement benefit for a member with 30 years of credit or who is age 65 at the time of retirement.
3. If the member is under 65 or has less than 30 years of credit at the time of retirement, the annual benefit is reduced to cover a longer period of retirement.

Payment Plans

At retirement, a member must choose a payment plan. There are two categories of plans. One category pays a monthly benefit for the retiree's life with no further payments after the retiree's death; this is Plan B, a single life allowance. The other category pays a monthly benefit to the retiree for life, and after death, provides a continuing benefit to a designated beneficiary. The plans in this category are Plan A, C, D (Joint Life plans), E (Limited Life plan), and F (Multiple Beneficiaries plan). Choosing one of these plans will result in a reduced monthly benefit to the retiree depending on the retiree's age, the beneficiary's age, and the plan chosen.

Partial Lump Sum Option Payment

In addition to selecting a payment plan, a member may take part of a benefit in a one-time partial lump sum option payment (PLOP), which will permanently reduce the lifetime monthly benefit.

Reemployment

A retiree may be reemployed after retirement. A job in the private sector does not affect the retiree's benefit.

However, if the job is in a position covered by SERS, the State Teachers Retirement System of Ohio, the Ohio Public Employees Retirement System, the Ohio Police & Fire Pension Fund, or the Ohio Highway Patrol Retirement System, SERS must be notified. If the retiree returns to work in a job covered by any of these systems before the retiree has received a SERS benefit for two months, the retiree forfeits the benefit payment for each of the two months in which the retiree worked.

If the retiree returns to a SERS-covered position, then employee and employer contributions are required for the new position. The retiree accrues a new benefit in the form of an annuity based on the contributions paid by the retiree and the employer. This is separate from the original SERS benefit. There are no other benefits available, and the retiree does not accrue any additional service credit for the period of reemployment.

DISABILITY BENEFITS

A member is entitled to a benefit under one of two disability plans. A member who became a member on or after July 29, 1992, is covered under the **new disability plan**. A member before July 29, 1992, is covered by the **old disability plan** unless they exercised a one-time election to switch to the new plan.

The following describes the common and different features of both plans.

Eligibility

Under both plans, a member is eligible for disability benefits if the member:

- Has at least five (5) years of total service credit;
- Files an application no later than two (2) years from the date that the contributing service stopped;
- Is permanently disabled, either physically or mentally, for work in a SERS-covered position as determined by a physician appointed by SERS;
- Became disabled after becoming a SERS member;
- Did not receive a refund of the member's contributions;
- Does not receive a service retirement benefit.

Under the old disability plan, a member also must apply before turning 60 years old. Under the new disability plan a member may apply at any age.

Benefit Payment

Old Disability Plan

Under the old disability plan, an annual benefit is calculated by the following formula using total service credit and Final Average Salary (FAS):

1. The value of a year of service credit is determined by multiplying the member's FAS by 2.2%. If the result is less than $86.00, then $86.00 is the value of each year.
2. The number of years of service credit is then multiplied by this value of each year.

Service credit includes all service credit the member has at the time of the benefit effective date plus the number of years between the member's current age and age 60. The benefit cannot be less than 30% of FAS or more than 75%.

New Disability Plan

Under the new disability plan, the amount of an annual benefit is the greater of: 45% of FAS; or total service credit at the time of the application multiplied by 2.2% of FAS. The following chart shows the approximate applicable percentage amounts under this plan.

Total Service Credit	Percentage of the Member's FAS
5-21 years	45.0%
22	48.4
23	50.6
24	52.8
25	55.0
26	57.2
27	59.4
28 or more years	60.0

Termination of Benefits

A disability benefit under either plan stops if any one of the following events occurs:

- A subsequent SERS medical re-examination finds that the member is no longer disabled
- The member returns to a SERS-covered job
- The member's death
- The member requests that benefits end

Under the **new disability plan**, benefits also will end after a specified number of months as shown:

Age at Effective Date	Period Benefits Payable
Younger than 60	Until age 65
60 or 61	60 months
62 or 63	48 months
64 or 65	36 months
66, 67 or 68	24 months
69 or older	12 months

At the end of the period, the member can apply for a service retirement benefit.

DEATH BENEFIT

At death after retirement or receipt of a disability benefit, the retiree's beneficiary or disability benefit recipient's beneficiary is entitled to a one-time lump sum payment of $1,000.

SURVIVOR BENEFITS

Eligibility

If a member dies while working, before the member begins receiving a monthly service retirement benefit, or while receiving a disability benefit, the member's qualified survivors are entitled to certain benefits.

A beneficiary qualifies for benefits in the following order:

1. Person designated in writing by the member on a form provided by SERS
2. If there is no designated beneficiary or the beneficiary died before the member, the statutory order of beneficiaries applies

The statutory order of succession is as follows, the member's:

1. Surviving spouse
2. Surviving children
3. Dependent parent who is age 65 or older
4. Surviving parents
5. Estate

The first qualifying beneficiary is entitled to a one-time, lump-sum payment of only the member's employee contributions to SERS, or monthly benefits if otherwise eligible. However, if the member is survived by children under age 18 or 22, if still in school, or mentally or physically incompetent children, only a monthly benefit is available to the qualifying survivors.

Monthly benefit payments are available if the member:

1. Had at least one and one-half (1½) years of contributing service credit;
2. Had at least one-quarter (¼) year of Ohio service credit earned within two and one-half (2½) years prior to death;
3. Was not receiving a service retirement benefit

The following survivors are eligible for monthly benefits:

1. Surviving spouse at age 62
2. Surviving spouse at any age if the member had 10 or more years of service credit; or if there are qualified children; or has been declared mentally or physically incompetent by a court
3. Children who have never married, are under 18, or 22 if still in school; or have been declared mentally or physically incompetent by a court
4. Dependent parent age 65 or older

Benefit Payments

The amount of the monthly benefit is determined under one of the following schedules, whichever pays the greater benefit.

	SCHEDULE I	SCHEDULE II
Number of Qualified Beneficiaries	**Monthly Benefit Shall Not be Less than**	**As a Percent of the Member's Final Average Salary**
1	$ 96*	25%
2	186	40
3	236	50
4	236	55
5 or more	236	60

*Not less than $106 to spouse if the member had 10 or more years of service credit.

SCHEDULE III

If the member had 20 or more years of service credit, the benefit will be calculated as follows:

Years of Service	As a Percent of the Member's Final Average Salary
20	29%
21	33
22	37
23	41
24	45
25	48
26	51
27	54
28	57
29 or more	60

COST-OF-LIVING ADJUSTMENT

One year after an effective benefit date, a benefit recipient is entitled to a three percent (3%) cost-of-living adjustment (COLA). This same COLA is added each year to the base benefit amount on the anniversary date of the benefit.

HEALTH CARE

Currently, SERS offers medical and prescription health care coverage to qualifying benefit recipients. To the extent that resources permit, SERS intends to continue offering access to health care coverage. However, the Retirement System reserves the right to change or discontinue any plan or program at any time.

Currently a **service retiree** qualifies for health care coverage if the retiree has 10 years of qualified years of service credit at retirement. Qualifying service credit does not include:

- Military other than free or interrupted military service credit
- Other government and school service credit
- Exempted service credit
- Service credit purchased by an employer under an Early Retirement Incentive plan (ERI)

A beneficiary of a deceased service retiree who receives a monthly benefit qualifies for health care coverage if the retiree had qualified for such coverage.

Disability benefit recipients qualify for the SERS health care coverage upon receipt of a disability benefit.

Survivor benefit recipients qualify for health care coverage upon receipt of a survivor benefit.

Long Term Care Insurance

SERS' health care coverage for benefit recipients is limited to hospitalization and skilled treatment in a convalescent facility. It does not cover custodial care.

Members, and benefit recipients, may purchase a separate long-term care (LTC) insurance policy, which can pay a specified amount per day for custodial care to assist with the activities of daily living.

This optional policy is available through the Prudential Insurance Company of America. SERS does not administer or subsidize the cost of this insurance.