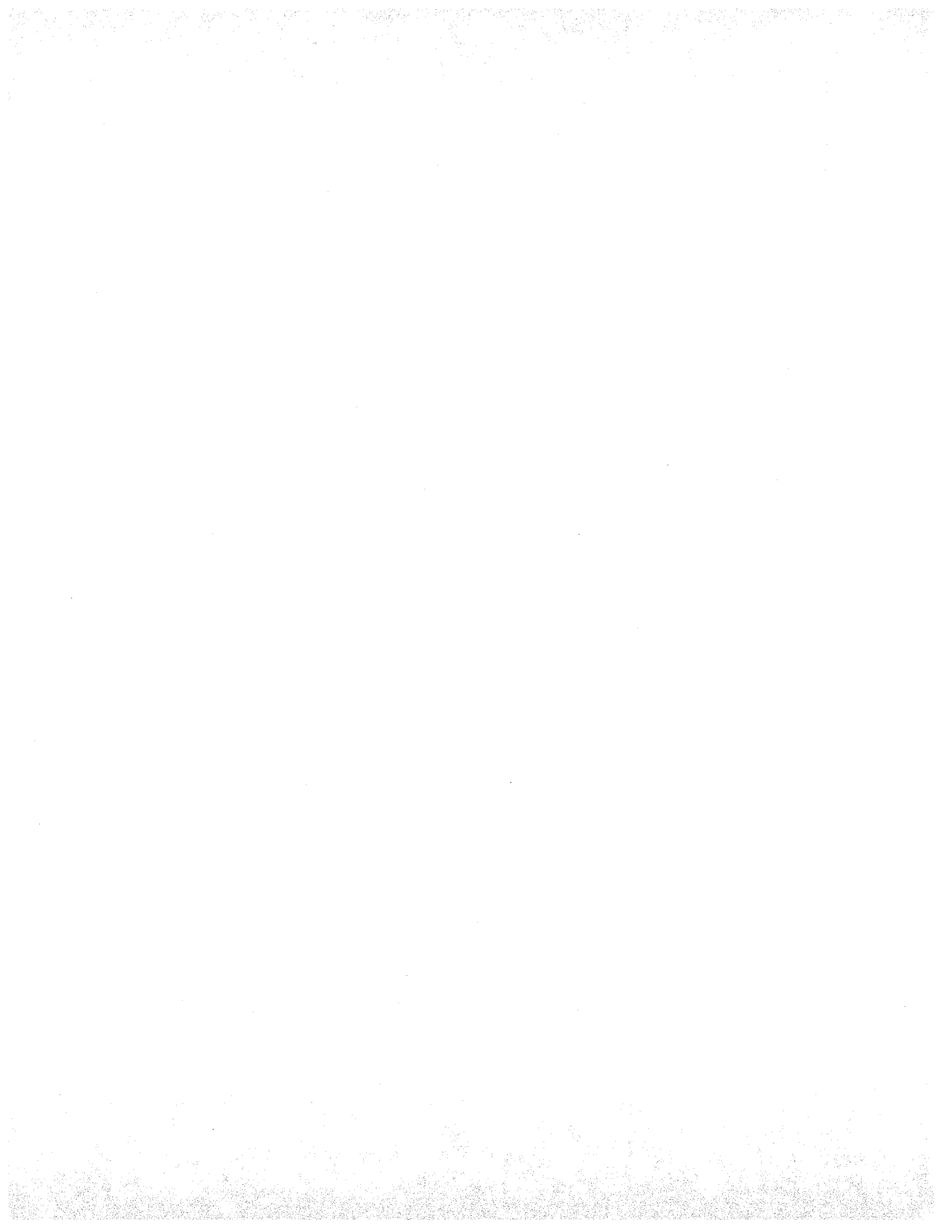


The
**SCHOOL
EMPLOYEES
RETIREMENT
SYSTEM**
of Ohio

Annual Financial Report
June 30, 1982





**SCHOOL EMPLOYEES RETIREMENT SYSTEM
OF OHIO**

45 NORTH FOURTH STREET
COLUMBUS, OHIO 43215

**ANNUAL
FINANCIAL REPORT**

For The
Year Ended June 30, 1982

THE SCHOOL EMPLOYEES RETIREMENT BOARD OF OHIO



GEORGE J. MAZZARO

President
Cleveland City School District
Cleveland, Ohio
Term expires June 30, 1983



MARY E. KASUNIC

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



ORRIS E. FIELDS

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



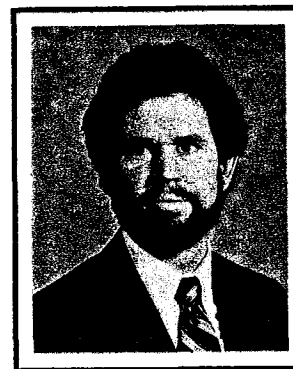
WILLIAM J. BROWN

Attorney General
Ex Officio Member



THOMAS E. FERGUSON

Auditor of State
Ex Officio Member



THOMAS R. ANDERSON

Executive Director

Assistant Directors

R. JACK COOPER
Investments

RICHARD C. REGAN
Retirement Services

DALE D. McINTYRE
Information Services

THOMAS R. SKIPTON
Office Services

STEPHEN J. PUSKAC
Membership-Accounting

C. DOUGLAS WILSON
Data Processing

ORGANIZATIONAL CHART

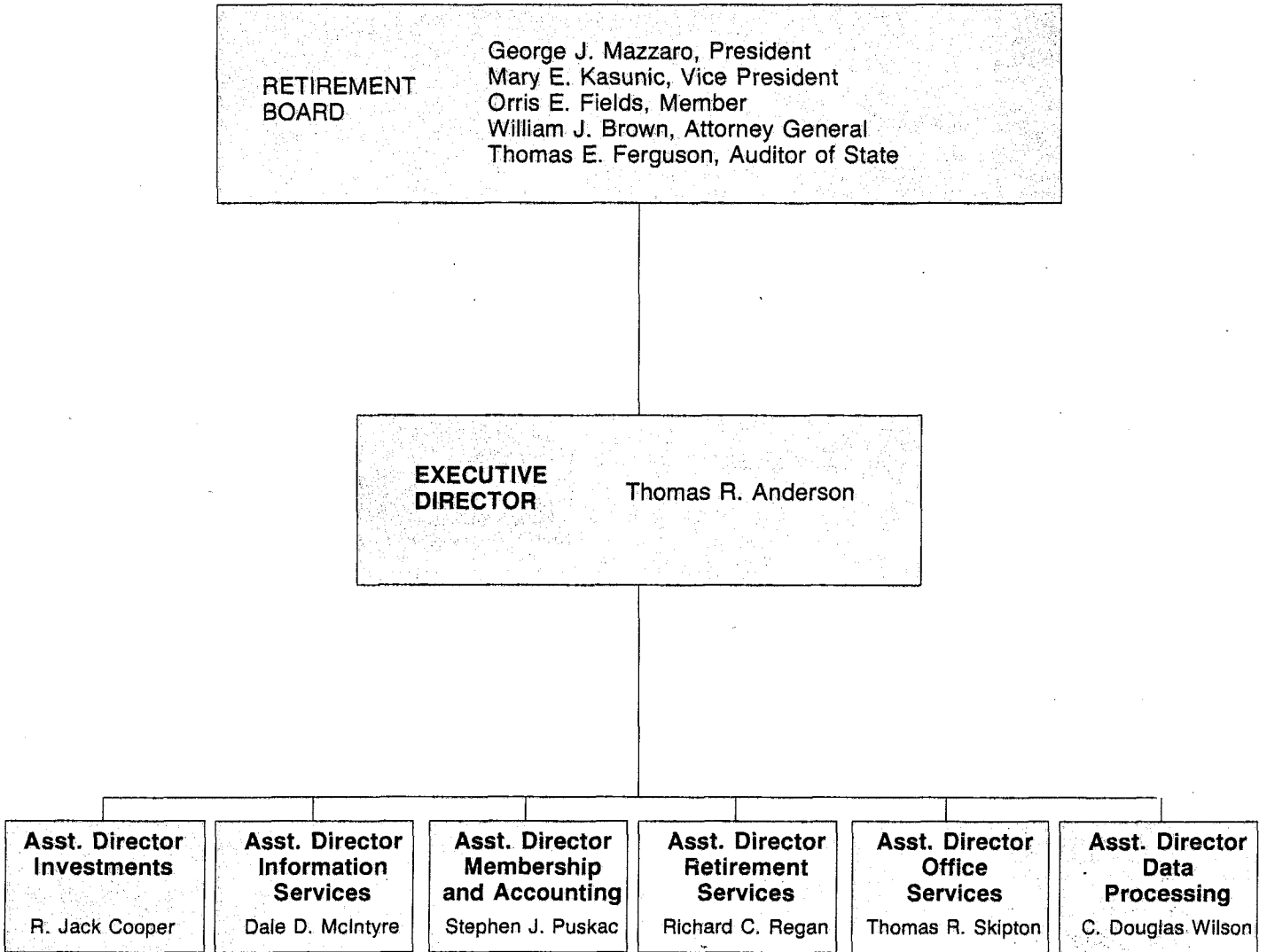


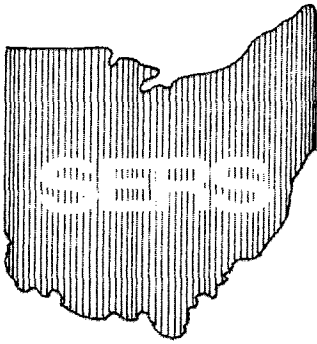
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SERS

1937—1982

45 YEARS



SCHOOL EMPLOYEES RETIREMENT SYSTEM

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

To The Members of the Board:

The Annual Report of the School Employees Retirement System for the fiscal year ended June 30, 1982 is submitted herewith. The report includes the financial statements, footnotes, schedules, statistical tables, investment portfolio, and a plan summary. This report also contains important actuarial information and data as of June 30, 1981.

Accounting System and Reports

The accrual basis of accounting is used in maintaining the records of the School Employees Retirement System. Revenues of the System are recorded when earned, regardless of the date of collection. Expenses are recorded when the corresponding liabilities are incurred, without regard to the date of payment. Bond premium and discount are amortized over the life of the security. Actuarial reserves are funded on an annual basis for current liabilities and prior years' unfunded actuarial liabilities. The statutory deficiency is funded over 20 years and the balance over a period of 43 years.

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

Revenues

The School Employees Retirement System was established by law to pay retirement plan benefits and to accumulate the resources necessary to pay these benefits. Resources are obtained through member contributions, employee contributions, and from income earned on invested contributions. For the fiscal year ended June 30, 1982, member and employer contributions totaled \$142,531,560 and \$83,719,002 was provided by income from invest-

ments. Miscellaneous sources, including transfers from other retirement systems and refunds of health care premiums, accounted for an additional \$6,151,973. Revenue for 1982 totaled \$232.4 million, an increase of 13.7% over 1981.

Expenses

Expenses are incurred primarily for the purpose for which the Retirement System was created; namely, the payment of benefits. Included in the total expenses for fiscal 1982 were benefit payments, refunds of contributions due to member termination or death, transfers of contributions to other Ohio systems to provide benefits for those members who hold membership in more than one system, and administrative expenses. Expenses for fiscal 1982 totaled \$116.5 million, an increase of 20.1% over 1981 expenses. Increases in both the number of benefit recipients and the average benefit paid combined to increase benefit expense by \$17.1 million; this \$17.1 million accounted for 87.6% of the increase in total System expenses for the fiscal year.

Reserves (Funds)

The \$862,078,233 shown in the Annuity and Pension Reserve Fund represents the estimated amount necessary to provide benefits to those members who have filed for retirement prior to June 30, 1982. The accumulated contributions by members who have not yet retired amounted to \$324,180,388 and are shown in the Employees' Savings Fund. The Employers' Trust Fund accumulates funds in order to provide retirement benefits to those members not yet retired. The Balance Sheet as of June 30, 1982 discloses an Unreserved Fund Balance (Debit) of (\$150,739,489). This balance is a restriction of the Employers' Trust Fund and represents the amortized statutory fund deficiency which existed at June 30, 1982. This Unreserved Fund Balance was established on March 16, 1981 by the Retirement Board, and follows the recommendation by our actuaries in their report dated December 17, 1980. The unreserved balance is being amortized over 20

years and is funded by both the state appropriations for House Bills 204 and 284 and revenues from investments. The unfunded actuarial liability as of June 30, 1981 was \$937,252,106.

Investments

The School Employees Retirement System invests the previously mentioned funds in order to maximize both current income yield and long-term appreciation. For the fiscal year ended June 30, 1982, investments provided 36% of the System's total revenues; employee and employer contributions provided 23.5% and 37.9%, respectively; and other sources accounted for the remaining 2.6%.

Investments are reported at cost, net of amortized premium and discount; these premiums and discounts are amortized over the life of the investment. At June 30, 1982, our investment portfolio was structured as follows; 64.6% in debt securities; 21.5% in equity securities; 9% in short-term commercial paper; and 4.9% in real estate. The portfolio yield for fiscal 1982 was 10.09%.

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

Professional Services

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

The Attorney General of the State of Ohio is the legal advisor of the School Employees Retirement Board. The Auditor of the State of Ohio annually

examines the financial records of the retirement system.

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

Reports to the Membership

Annual Statements were mailed to the members of the System during the week of November 1, 1982. These statements report the amount of contributions and service credited to each individual account as of June 30, 1982.

Acknowledgements

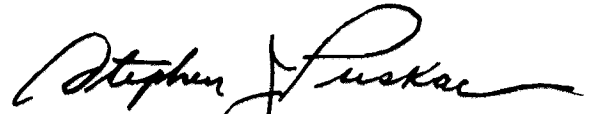
The preparation of this report is the result of the combined effort of the System's staff under the direction of the Retirement Board. It is intended to provide complete and reliable information as a basis for making management decisions, to disclose compliance with legal provisions, and as a means of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

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

Respectfully submitted,



Thomas R. Anderson
Executive Director



Stephen J. Puskac
Assistant Director,
Membership & Accounting

HIGHLIGHTS OF 1982

Actuaries Raise Warning

Maintaining the System's free health care coverage for retirants and beneficiaries became a major cost concern as outlays for that sector of the benefit program approached two million dollars monthly. An increase of almost six million dollars over the previous year was recorded.

Actuaries for the System sounded a warning that "future adjustments to health care benefits and/or contributions are likely" if the Retirement Board was to have the program under better control.

It was noted that the 12.5 percent employer rate in 1974 originally included 0.75 percent earmarked for health care, a portion now grown to 4.22 percent while the overall rate still remains unchanged.

"The more contributions needed for health care, the less contributions available for basic retirement benefits," cautioned the actuaries.

Benefits Reach New Mark

As concern grew over the health care problem, the System fund reached \$1.2 billion at the fiscal close. For the first time, however, yearly benefit costs topped the \$100 million mark at \$101.7 million. There were 32,863 retirants and beneficiaries on the monthly benefit rolls at year's end.

A relatively rare occurrence, total membership declined slightly. There were 196,848 present or former school employees with funds on deposit with the System. Only 97,321, however, were actively employed and contributing during the year.

Refunds for the year were up slightly at \$9.4 million, paid to 10,065 former members.

Investments & Service Changes

Wider investment authority was bestowed upon the System by the legislature in the main areas of real estate, mortgage lending and venture capital. Sought for some time, these changes reflected a considerable degree of SERS thinking, and the System moved quickly to make use of the broader powers. Among early investments was \$2.5 million in direct financial backing to open a steel mini-mill at Marion with a workforce of around 300 persons.

The only major law change affecting benefits was the "POW" amendment on buying SERS service credit for military duty. Former prisoners of war are

now allowed to purchase double credit for years spent in enemy captivity.

To the special services provided for retirants was added a statewide WATS line for their exclusive use in contacting the System. Retired school employees with requests or problems may phone the Retirement System free of charge from anywhere in Ohio, night or day.

The Social Security Impact

Possibly the subject stirring the greatest current interest among SERS members, however, was an ongoing drama played well outside Ohio: the troubled affairs of the Social Security system.

Although SERS itself never was directly involved, a fact not readily understood by many, a number of System members had a heavy stake in the outcome. In many cases they stood to suffer financially from some of the proposals to bail out Social Security.

At one point there were reports, denied officially, that all government employees were about to be drafted into Social Security over their protests. This had been mentioned as a feasible means of quickly pumping badly needed funds into the S.S. coffers.

Public Pension Offset

This was the national scene as the deadline neared for women school employees to reach SERS retirement eligibility and thereby qualify for a full Social Security spouse benefit later. Failure to meet the Dec. 1, 1982 deadline meant the spouse benefit would be "offset" by the amount of any pension paid by SERS.

Only the spouse benefit and not other types of Social Security benefits were affected by the offset provision. But there was considerable confusion, even within S.S. local offices, on the proper application of the offset.

Adding to the jumbled Social Security picture was a federal court decision, now being appealed, that Congress discriminated against males when it gave women the extra deadline to escape the offset. However, instead of extending males the same right, the court said the five-year grace period for women was unconstitutional and ruled it out completely.